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Transcript Exhibit(s)

Docket #(s): W-01583A-09-0589

Exhibit # : A1-A7, S1-S6

Arizona Corporation Commission
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EXHIBIT
A-1
ADMITTED

Exhibit A-1
Thomas J. Bourassa

December 31, 2009 Rate Increase Application

September 28-29, 2010 ACC Hearing
Las Quintas Serenas Water Company
Docket No. W-01583-09-0589

NEW APPLICATION

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DEC 31 2009
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Lawrence V. Robertson, Jr. (Bar No. 001709)
P. O. Box 1448
Tubac, Arizona 85646
Attorney for Las Quintas Serenas Water Co.

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 PLANT AND PROPERTY AND (ii) AN INCREASE IN ITS WATER RATES AND CHARGES FOR WATER UTILITY SERVICE BASED THEREON.	DOCKET NO: W-01583A-09-____ **APPLICATION** W-01583A-09-0589

Las Quintas Serenas Water Co., an Arizona corporation ("LQSWC" or "the Company"), hereby applies for an order of the Commission (i) establishing the fair value of its plant and property used for the provision of water utility service; and, based on such finding, (ii) approving permanent rates and charges for water utility service designed to produce a fair return thereon. In support of its Application, LQSWC states as follows:

1. LQSWC is a public service corporation under Arizona law engaged in providing water and utility service within the municipal boundaries of the Town of Sahuarita, Arizona, pursuant to a certificate of convenience and necessity granted by the Commission. During the test year, LQSWC served approximately 867 water utility service connections, approximately 156 additional standpipe customers, and 4 fire sprinkler service customers.

2. LQSWC's business office is located at 75 W. Calle de las Tiendas, Suite 115B, Green Valley, Arizona 85614, and its telephone number is (520) 625-8040. The Company's primary management contact is Omar Mejia.

3. The following persons are responsible for overseeing and directing the conduct of this rate application: (i) Mr. Mejia; (ii) the Company's rate case consultant,

Thomas Bourassa; and, (iii) the Company's rate case attorney, Lawrence V. Robertson, Jr. Mr. Mejia's mailing address is P.O. Box 68, Sahuarita, Arizona 85629 and his telephone number is (520) 625-8040; his telecopier number is (520) 648-3520, and his e-mail address is lqswater@.com. Mr. Bourassa's mailing address is 139 W. Wood Drive, Phoenix, Arizona 85029, his telephone number is (602) 246-7150; his telecopier number is (602) 246-1040, and his e-mail address is tjb114@cox.net. Mr. Robertson's mailing address is P.O. Box 1448, Tubac, Arizona 85646, his telephone number is (520) 398-0411; his telecopier number is (520) 399-0412, and his email address is Tubaclawyer@aol.com. **All discovery, data requests and other requests for information concerning this Application should be directed to Mr. Mejia, including copies by e-mail, as well as to Mr. Bourassa and Mr. Robertson.**

4. The Company's present rates and charges for utility service were approved by the Commission in Decision No. 67455 (January 4, 2005) using a test year ending September 30, 2003.

5. The revenues from LQSWC's water utility operations are inadequate to provide the Company with a fair rate of return on the fair value of its plant and property devoted to water utility service, which includes significant increases in the Company's water utility plant during the past two (2) years. Operating expenses have also increased significantly since the last test year. These changes since the 2003 test year have caused the revenues produced by the current rates and charges for water utility service to become inadequate to meet operating expenses and provide a fair and reasonable rate of return on plant investment for the Company and its shareholders. Accordingly, the Company requests that certain adjustments to its rates and charges for water utility service be approved by the Commission so that the Company may fully recover its operating expenses and be given an opportunity to earn a fair and reasonable rate of return on the fair value of its property. The Company proposes to use its original cost rate base as its

fair value rate base in this proceeding in order to minimize potential disputes and to reduce rate case expense.

6. Filed concurrently with this Application are the supporting schedules required pursuant to A.A.C. R14-2-103 for rate applications by Class "C" utilities, with the exception of Schedule G. LQSWC has not prepared a cost of service study in connection with the instant request. The test year utilized by the Company in connection with the preparation of such schedules is the 12-month period that ended June 30, 2009. LQSWC requests that the Commission utilize such test year in connection with this Application, together with appropriate adjustments in order to obtain a normal or more realistic relationship between revenues, expenses and rate base during the period in which the rates and charges established in this proceeding will be in effect.

7. During the test year, the Company's adjusted gross revenues from water utility service were $488,268. The adjusted operating income was $47,550. The adjusted fair value rate base was $2,109,537. The resulting rate of return on the Company's water utility operations during the test year was 2.25 percent.

8. The Company submits that the overall rate of return to the Company is inadequate to allow it to pay reasonable dividends, maintain a sound credit rating, and/or enable LQSWC to attract additional capital on reasonable terms in order to continue the investment in utility plant necessary to adequately serve customers.

9. The Company is requesting an increase in water utility revenues equal to $203,528, or an increase in revenues of 41.68 percent. The adjustments to the Company's rates and charges that are proposed herein, when fully implemented, will produce a rate of return on the fair value rate base equal to 9.03 percent.

10. Also filed concurrently in two separate volumes in support of this Application and the accompanying supporting schedules is the Direct Testimony of Mr. Bourassa, which collectively provides an overview of the Company's rate filing. In the

first volume of his Direct Testimony, Mr. Bourassa discusses the subjects of rate base, income statement (revenue and operating expenses), required increase in revenue, rate design, and the proposed new rates and charges for water service. In that regard, he notes that the Company is proposing to eliminate the Arsenic Remediation Surcharge Mechanism ("ARSM") and related surcharge, which were approved by the Commission in Decision Nos. 68716 (June 1, 2006) and 69214 (December 21, 2006), respectively. Revenues related to debt service of the Company's loan from the Water Infrastructure Financing Authority of Arizona ("WIFA"),[1] which were the subject of the ARSM surcharge, would be received prospectively under the Company's proposed base rates as a part of its ongoing revenue requirement. In addition, the Company is also proposing elimination of the special Arsenic Impact Hook-Up Fee tariff, which was approved by the Commission in Decision No. 68863 (July 28, 2006) as a supplemental means for servicing the Company's WIFA loan obligation.

In the second volume of his Direct Testimony, Mr. Bourassa discusses the Company's cost of capital, assuming a capital structure for ratemaking purposes of 26.1 percent equity and 73.9 percent debt; and, he explains how he has calculated a required return on equity of 16 percent, and a weighted cost of capital of 9.03 percent.

11. Attached to this Application as Appendix 3 as supplemental information is a completed water use data sheet for the twelve (12) months ended June 30, 2009.

WHEREFORE, LQSWC requests the following relief:

A. That the Commission, upon proper notice and at the earliest possible time,[2]

---

[1] The WIFA loan proceeds were used by the Company to construct (i) arsenic treatment facilities which were required in order to enable the Company to comply with arsenic concentration regulations promulgated by the United States Environmental Protection Agency; and (ii) an additional storage reservoir and a back-up generator as a part of the Company's capital improvements program to allow the continued provision of adequate and reliable service to its customers. The Commission authorized the Company to incur this debt in Decision No. 68716 (June 1, 2006) and Decision No. 69380 (March 22, 2007), respectively.

[2] In that regard, it should be noted that because the Company's operating revenues under its current rates and charges are inadequate, earlier this year the Company had to request approval from WIFA to suspend payment of the principal portion of the Company's monthly WIFA loan obligation until the Company's revenues could be increased.

conduct a hearing in accordance with A.R.S. § 40-251 and determine the fair value of LQSWC's water utility plant and property devoted to providing water utility service;

B. Based upon such determination, that the Commission approve permanent adjustments to the current rates and charges for water utility service provided by LQSWC, as proposed by the Company herein, or approve such other rates and charges as will produce a just and reasonable rate of return on the fair value of the Company's water utility plant and property; and

C. That the Commission authorize such other and further relief as may be appropriate to ensure that LQSWC has an opportunity to earn a fair and reasonable rate of return on the fair value of its water utility plant and property and as may otherwise be required under Arizona law.

RESPECTFULLY SUBMITTED this 23rd day of December, 2009.

By: Lawrence V. Robertson, Jr.

Lawrence V. Robertson, Jr.
P. O. Box 1448
Tubac, Arizona 85646
Attorney for Las Quintas Serenas Water Co.

The original and thirteen (13) copies of the foregoing, together with the direct testimonies and schedules supporting this application, were delivered this 23rd day of December, 2009, to:

Docket Control
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

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Company's loan principal payments. The suspension period ends in July 2010.

Las Quintas Serenas Water Company

Application for a Determination of the Fair Value of Its Utility Plants and Property and for Increases in Its Water Rates and Charges

December 31, 2009

Application

Attachment 1

Plant Inventory and Water Use Data

WATER USE DATA SHEET FOR TESDT YEAR

NAME OF COMPANY	Las Quintas Serenas Water Company
ADEQ Public Water System Numbe	10064

MONTH/YEAR	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED (Thousands)	GALLONS PURCHASED (Thousands)
Jul. 2008	1,025	18,450	20,095	-
Aug.	1,034	13,619	14,917	-
Sep.	1,032	13,566	14,490	-
Oct.	1,023	13,937	14,503	-
Nov.	1,026	14,173	15,013	-
Dec.	1,028	9,555	9,873	-
Jan. 2009	1,027	8,637	9,578	-
Feb.	1,027	8,521	10,221	-
Mar.	1,034	10,131	9,985	-
Apr.	1,014	11,417	12,653	-
May	1,020	13,069	14,551	-
Jun.	1,023	19,155	20,252	-
Total	N/A	154,233	166,131	-

What is the level of arsenic for each well on your system? _____ mg/l
Well #5 .0081
Well #6 .00115
Wells #7 .0096
Results taken from MAP analysis results 11/16/2007

If system has fire hydrants, what is the fire flow requirement? _____ for ____ hrs. N/A

If system has chlorination treatment, does this treatment system chlorinate continuously?

( ) Yes (X) No

Is the Water Utility located in an Active Management Area ("AMA")?

(X) Yes ( ) No

Does the Company have a Gallons Per Capita Day ("GPCD") requirement?

(X) Yes ( ) No

If Yes, please provide the GPCD amount: 121

COMPANY NAME Las Quintas Serenas Water Company	
Name of System	ADEQ Public Water System Number (if applicable) 10064

WATER COMPANY PLANT DESCRIPTION

WELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (gpm)	Casing Depth (Feet)	Casing Diameter (Inches)	Meter Size (inches)	Year Drilled
#5 – 55608531	40	200	513-805	10" – 8"	6"	1976
#6 – 55608530	75	450	837	12"	6"	1971
#7 – 55566940	150	650-850	910	12"	4"	1998

* *Arizona Department of Water Resources Identification Number*

OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)
N/A		

BOOSTER PUMPS		FIRE HYDRANTS	
Horsepower	Quantity	Quantity Standard	Quantity Other
25 horse power	4	N/A	

STORAGE TANKS		PRESSURE TANKS	
Capacity	Quantity	Capacity	Quantity
30,000 Gallons	1	3,000 Gallons	1
60,000 Gallons	1	5,000 Gallons	5
500,000 gallons	1		

Note: If you are filing for more than one system, please provide separate sheets for each system.

See Accountant's Compilation Report

COMPANY NAME Las Quintas Serenas Water Company	
Name of System	ADEQ Public Water System Number (if applicable) 10064

WATER COMPANY PLANT DESCRIPTION (CONTINUED)

MAINS

Size (in inches)	Material	Length (in feet)
2	Copper	250
3	Transite	240
4	Transite	19,840
5	N/A	N/A
6	Transite	32,487
8	Transite	2,760
10	Transite	420
12	Transite	1,340
2	Plastic	1,550
4	Plastic	5,109
6	Plastic	25,158
8	Plastic	10,610
12	Plastic	1,950
6	Ductile Iron	575

CUSTOMER METERS

Size (in inches)	Quantity
5/8 X ¾	810
3/4	6
1	29
1 1/2	6
2	3
Comp. 3	1
Turbo 3	0
Comp. 4	2
Tubo 4	0
Comp. 6	0
Tubo 6	0
Standpipe	156

For the following three items, list the utility owned assets in each category for each system.

TREATMENT EQUIPMENT:
Arsenic treatment facility including 2 media tanks, 1 backwash tank, 4 -25 h.p. booster pumps, and 2 chlorinator pumps.

STRUCTURES:
Steel portable shed 8' x 20' at Well #5 & Steel portable shed 8' x 40' at Well # 6.

OTHER:

Note: If you are filing for more than one system, please provide separate sheets for each system.

EXHIBIT
A-2
ADMITTED

Exhibit A-2
Thomas J. Bourassa

Prepared Direct Testimony on Rate Base, Income Statement and Rate Design

September 28-29, 2010 ACC Hearing
Las Quintas Serenas Water Company
Docket No. W-01583-09-0589

Las Quintas Serenas Water Company

Application for a Determination of the Fair Value of Its Utility Plants and Property and for Increases in Its Water Rates and Charges

December 31, 2009

Application
Volume I

Rate Base, Income Statement and Rate Design Testimony and Schedules

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 PLANT AND PROPERTY AND (ii) AN INCREASE IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: W-01583A -09-_____

DIRECT TESTIMONY OF

THOMAS J. BOURASSA

(RATE BASE, INCOME STATEMENT AND RATE DESIGN)

December 31, 2009

I. INTRODUCTION, QUALIFICATIONS AND PURPOSE

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. WHAT IS YOUR PROFESSION AND BACKGROUND?

A2. I am a Certified Public Accountant and am self-employed, providing consulting services to utility companies as well as general accounting services. I have a B.S. in Chemistry and Accounting from Northern Arizona University (1980) and an M.B.A. with an emphasis in Finance from the University of Phoenix (1991).

Q3. COULD YOU BRIEFLY SUMMARIZE YOUR PRIOR WORK AND REGULATORY EXPERIENCE?

A3. Yes. Prior to becoming a private consultant, I was employed by High-Tech Institute, Inc., and served as controller and chief financial officer. Prior to working for High-Tech Institute, I worked as a division controller for the Apollo Group, Inc. Before joining the Apollo Group, I was employed at Kozoman & Kermode, CPAs. In that position, I prepared compilations and other write-up work for water and wastewater utilities, as well as tax returns.

In my private practice, I have prepared and/or assisted in the preparation of several water and wastewater utility rate applications before the Arizona Corporation Commission ("Commission"). Attached is a summary of my regulatory work experience.

Q4. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A4. I am testifying in this proceeding on behalf of the applicant, Las Quintas Serenas Water Company ("LQSWC" or the "Company"). LQSWC is seeking changes in its rates and charges for water utility service in its certificated service area, which area is located in Pima County, Arizona.

Q5. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A5. I will testify in support of LQSWC's proposed adjustments to its rates and charges for water utility service. I am sponsoring the direct schedules, which are filed concurrently herewith in support of LQSWC's application. I was responsible for the preparation of these schedules based on my investigation and review of LQSWC's relevant books and records.

For convenience, my direct testimony has been divided into two separate volumes, each with the relevant schedules attached, which are being filed separately in this case. In this volume of my direct testimony, I address the subjects of rate base, income statement (revenue and operating expenses), required increase in revenue, rate design and proposed rates and charges for water service. In that regard, Schedules A through C, E-F and H are attached to this portion of my direct testimony. LQSWC has not prepared a cost of service study. Consequently the G schedules are omitted.

In the second volume of my direct testimony, to which the D schedules are attached, I address cost of capital. LQSWC is requesting a return on common equity of 16.0 percent. As shown on Schedule D-1, LQSWC's capital structure for ratemaking purposes consists of 26.1 percent equity and 73.9 percent debt. The weighted cost of capital is 9.03 percent.

II. OVERVIEW OF LQSWC'S REQUEST FOR RATE RELIEF

Q6. PLEASE SUMMARIZE LQSWC'S APPLICATION.

A6. The test year used by LQSWC is the 12-month period ending June 30, 2009. LQSWC is requesting a 9.03 percent return on its fair value rate base ("FVRB"). LQSWC has also proposed certain pro forma adjustments to take into account known and measurable changes to rate base, expenses and revenues. These pro forma adjustments are consistent with normal ratemaking and are contemplated by

the Commission's rules and regulations governing rate applications. *See* R14-2-103. These adjustments are necessary to obtain a normal or realistic relationship between revenues, expenses and rate base on a going-forward basis.

LQSWC's proposed fair value rate base is $2,109,537. The increase in revenues to provide for recovery of operating expenses and a 9.03 percent return on rate base is approximately $203,529, an increase of approximately 41.68 percent over the adjusted and annualized test year revenues.

Q7. WHY IS LQSWC FILING FOR NEW RATES AT THIS TIME?

A7. LQSWC is not earning a fair return on the fair value of its water plant devoted to service. Operating expenses have increased since the last test year, which was based on the 12 months ended September 30, 2003. For example, the Company's proposed purchased power in the instant case is nearly $44,000 higher than the level included in operating expenses in the last rate case. The Company proposed salaries and wages in the instant case is over $41,000 higher than the level included in operating expenses in the last rate case. In the past year, LQSWC has made substantial investment in plant (over $2.1 million) necessary to serve water customers. The plant investment consists of primarily of arsenic water treatment facilities in order to meet federally mandated arsenic level limits and water storage facilities necessary to provide adequate water storage for its water system. The Company's proposed depreciation expenses is nearly $70,000 greater in the instant case compared to the last rate case. In the end, LQSWC's current rate of return, based on the adjusted test year data, is 2.25 percent.

Q8. WHEN WERE LQSWC'S CURRENT RATE APPSOVED?

A8. The Company's current water rates were approved in 2005 in Decision 67455 (January 4, 2005). In Decision 67455, The Commission recognized that the Company's arsenic levels were well above the new U.S. Environmental Protection

Agency ("EPA") limits for arsenic which were to be effective January 23, 2006.[1] Recognizing this issue, the Commission ordered the Company to submit a detailed arsenic removal plan.[2]

Q9. DID THE COMPANY SUBSEQUENTLY FILE AN APPLICATION FOR FINANCING OF WATER SYSTEM IMPROVEMENTS RELATED TO ARSENIC TREATMENT?

A9. Yes. In November 2006, the Company filed a financing application for authorization to incur long-term debt for water system improvements in order to assure compliance with the new arsenic rules. The Company also requested the approval of an Arsenic Cost Recovery Mechanism ("ACRM") to help the Company meet the debt service requirements for its requested debt financing. Included in the Company's projected costs for water system improvements were storage facilities and a back-up generator. However, the Commission excluded the related costs for storage and back-up generator in Decision 68716 (June 1, 2006) when it approved the Company's financing request, because those facilities were considered to be separate and distinct from the arsenic treatment facilities.[3] The Commission believed that it was important to maintain this distinction, inasmuch as it had re-opened the 2003 rate case for the limited purpose of further addressing the arsenic issue. The mechanism for the arsenic cost recovery surcharge was also approved in the decision[4]. The specific amount of the surcharge was approved in Decision 69214 (December 21, 2006).

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[1] *See* Decision 67455 at 11 and 16.

[2] *Id.* at 15.

[3] *See* Decision 68716 at 16.

[4] *Id.* at 15.

Q10. WHEN WAS THE COMPANY GRANTED AUTHORIZATION TO INCUR LONG TERM DEBT FOR THE STORAGE FACILITIES AND BACK-UP GENERATOR?

A10. In Decision 69380 (March 22, 2007).[5]

Q11. DOES THE COMPANY'S CURRENT REQUEST FOR RATE RELEIF CONTEMPATE THAT THE ARSENIC COST RECOVERY SURCHARGE BE ELIMINATED UPON IMPELENTATION OF NEW RATES?

A11. Yes. The Company proposes to eliminate the surcharge in the instant case. The arsenic treatment facilities are now recognized in the Company's proposed rate base and the related debt is reflected in the Company's proposed cost of capital. As a result, the Company proposed revenue requirement (and water rates) reflect the arsenic treatment debt service costs.

Q12. HAS THE COMPANY EXPERIENCED DIFFICULTIES IN MEETING ITS DEBT SERIVCE IN THE PAST YEAR?

A12. Yes. In fact, earlier this year the Company contacted the Water Infrastructure Financing Authority of Arizona ("WIFA") to request that its principal payments be suspended for the loans financing the arsenic water facilities, storage facilities and back-up generator because of cash flow problems. As a result of that request, the principal payments have been suspended until July 2010.

III. SUMMARY OF SCHEDULES

A. Summary of A, E and F Schedules.

Q13. MR. BOURASSA, LET'S TURN TO LQSWC'S SCHEDULES. PLEASE DESCRIBE THE SCHEDULES LABELED AS A, E, AND F.

[5] *See* Decision 69380 at 6 and 10.

A13. The A-1 Schedule is a summary of the rate base, operating income, current operating margin, required operating margin, operating income deficiency, and the increase in gross revenues. A 9.03 percent return on FVRB is requested. The increase in the revenue requirement is $205,962. Revenues at present and proposed and customer classifications are also shown on this schedule.

The A-2 Schedule is a summary of results of operations for the test year, prior years, and a projected year at present rates and proposed rates.

Schedule A-3 contains LQSWC's capital structure for the test year and the two prior years.

Schedule A-4 contains plant construction, and plant-in-service for the test year and prior years. The projected plant additions are also shown on this schedule.

Schedule A-5 is the summary of LQSWC's changes in financial position (cash flow) for the prior two years, the test year at present rates, and a projected year at present and proposed rates.

The E Schedules are based on LQSWC's actual operating results, as reported by LQSWC in annual reports filed with the Commission. The E-1 Schedule contains the comparative balance sheet data for the years 2007, 2008, and 2009 ending on June 30.

Schedule E-2, page 1, contains the income statement for the years 2007, 2008, and 2009 ending on June 30.

Schedule E-3 contains the statements of changes in LQSWC's financial position for the test year and the two prior years.

Schedule E-4 provides the changes in stockholder equity.

Schedule E-5 contains LQSWC's plant-in-service at the end of the test year, and one year prior to the end of the test year.

Schedule E-7 contains operating statistics for the years ended 2007, 2008, and 2009 ending on June 30.

Schedule E-8 contains the taxes charged to operations.

The accountant's notes to the financial statements and the financial assumptions used in preparing the rate filing schedules are shown on Schedules E-9 and F-4, respectively, in accordance with the Commission's standard filing requirements. LQSWC does not prepare audited financial statements.

Schedule F-1 contains the results of operations at the present rates (actual and adjusted), and at proposed rates.

Schedule F-2 contains the summary of changes in financial position (cash flow) for the prior two years, the test year at present rates, and a projected year at present and proposed rates.

Schedule F-3 shows LQSWC's projected construction requirements for 2010, 2011, and 2012.

Schedule F-4 contains the assumptions used in developing the adjustments and projections contained in the rate filing.

B. <u>Rate Base (B Schedules).</u>

Q14. WOULD YOU EXPLAIN THE RATE BASE SCHEDULES, WHICH ARE LABELED AS THE B SCHEDULES?

A14. Yes. I will start with Schedule B-5, which is the working capital allowance. I used the "formula method" of computing the working capital allowance to reduce costs. However, LQSWC is not requesting a working capital allowance.

Q15. WHY DIDN'T LQSWC PREPARE A LEAD-LAG STUDY AND USE THE RESULTS OF THAT STUDY TO COMPUTE WORKING CAPITAL?

A15. Because the costs to prepare a lead-lag study outweigh the benefits. By way of illustration, in a recent case for Chaparral City Water Company (W-02113A-07-

0551), the Residential Utility Consumer Office prepared a lead-lag study and computed a negative $111,000 of cash working capital. LQSWC is one-twentieth the size in terms of the level of expenses. So, let's assume for argument's sake that a lead-lag study would produce negative working capital of $5,500. If the negative $5,500 were included in rate base, the impact on the revenue requirement would be a negative $787 (-$5,500 times 8.79 percent return times the tax factor of 1.6286). In the meantime, LQSWC would have incurred $5,000 to $10,000 just to have the study prepared. Plus, depending on what components of expenses are included in the calculation working capital, working capital could easily be positive, not negative. In the meantime, LQSWC could incur more than $10,000 in additional expense defending its working capital calculation, which increases rate case expense. This is why I believe the costs far outweigh the benefits, and why I have recommended and LQSWC has accepted seeking no working capital allowance.

Q16. THANK YOU. PLEASE CONTINUE.

A16. LQSWC did not file Schedules B-3 and B-4. To limit issues in dispute and further reduce rate case expense, LQSWC is requesting that its original cost rate base ("OCRB") be used as its FVRB.

Q17. HAVE YOU PREPARED SCHEDULES SHOWING ADJUSTMENTS TO LQSWC'S ORIGINAL COST RATE BASE?

A17. Yes. Schedule B-2 shows adjustments to the OCRB cost rate base proposed by LQSWC. Schedule B-2, pages 2 through 5, provides the supporting information. These adjustments are, in summary:

B-2 adjustment number 1, as shown on Schedule B-2, page 2, adjusts plant-in-service. There are two plant-in-service adjustments included in Adjustment 1. These are shown on Schedule B-2, page 3, and are labeled as adjustment "A" and "B".

Adjustment A of B-2 adjustment number 1 increases plant-in-service for test year capitalized expenses. These costs are related to the repair and replacement of pumping equipment.

Adjustment B of B-2 adjustment number 1 nets to zero and is merely a reclassification of plant.

Q18. PLEASE CONTINUE.

A18. Adjustment 2 shown on Schedule B-2, page 2, adjusts accumulated depreciation. The details of the accumulated depreciation adjustment are shown on Schedule B-2, page 4. There are two adjustments shown on this schedule and they are labeled as adjustment "A" and "B".

Adjustment A of B-2 adjustment 2 reflects the accumulated depreciation related to capitalized test year expenses.

Adjustment B of B-2 adjustment 2 reflects the re-computed amounts per LQSWC's B-2 plant schedule.

Q19. DO THE PLANT AND ACCUMULATED DEPRECIATION SHOWN ON B-2 REFLECT THE LAST COMMISSION RATE ORDER?

A19. Yes. A reconciliation of the starting balances for plant-in-service in the instant case is shown on Schedule B-2, page 3.8.

For accumulated depreciation, a reconciliation of the starting balances for accumulated depreciation in the instant case is shown on Schedule B-2, page 3.9.

The plant shown on Schedule B-2 started with the plant-in-service balances approved in Decision No. 67455 which established the starting values of plant-in-service. Plant additions and retirements have been added to and deducted from total plant shown on Schedule B-2, pages 3.1 to 3.6. Page 3.1 to 3.7of the schedule also show the details for the accumulated depreciation through the end of the test year using the half-year convention for depreciation.

Q20. WHAT DEPRECIATION RATES DID YOU EMPLOY?

A20. The same rates used in the last rate case decision.[6] These are based on Staff's typical and customary depreciation rates.

Q21. THANK YOU. PLEASE CONTINUE.

A21. B-2 adjustment number 3, labeled as 3a and 3b, adjusts contributions in aid of construction ("CIAC") and amortization for CIAC recorded since the since the prior rate case. The detail of LQSWC's proposed CIAC adjustments can be found on Schedule B-2, page 5 and 5.1 to 5.3.

Q22. HOW WAS THE PROPOSED "FAIR VALUE" RATE BASE SHOWN ON A-1 DETERMINED?

A22. As stated, the FVRB shown on Schedule A-1 is based on OCRB, with no adjustment for the current values of LQSWC's plant and property.

C. <u>Income Statement (C Schedules).</u>

Q23. PLEASE EXPLAIN THE ADJUSTMENTS YOU ARE PROPOSING TO THE INCOME STATEMENT AS SHOWN ON SCHEDULES C-1 AND C-2.

A23. The following is a summary of adjustments shown on Schedule C-1:

Adjustment 1 annualizes depreciation expense. The proposed depreciation rate for each component of utility plant is shown on Schedule C-2, page 2. The depreciation rates approved in LQSWC's last rate case were account specific rates. LQSWC proposes to continue to use these rates.

Adjustment 2 increases the property taxes based on proposed revenues. LQSWC has recognized the reduction in the assessment ratio contained in A.R.S. § 42-15001, entitled "Assessed Valuation of Class One Property". By law, the assessment ratio will be reduced through tax year 2011 to 20 percent. LQSWC has

[6] *See* Decision 67455 at 11.

proposed a two-year reduction in the assessment ratio or a reduction from the 22 percent employed for the 2009 property tax year to 20 percent for 2011 property tax year.

Q24. HOW DID YOU COMPUTE THE PROPERTY TAXES AT PROPOSED RATES?

A24. To determine full cash value, I used the method employed by the Arizona Department of Revenue - Centrally Valued Properties ("ADOR" or "the Department"). This method determines full cash value by using twice the average of three years of revenue, plus an addition for CWIP and a deduction for the book value of transportation equipment. In the instant case, I used two times the adjusted revenues for the year ending June 30, 2009, and one year of revenues at proposed rates. The assessed value (20 percent of full cash value) was then multiplied by the property tax rate to determine adjusted property tax expense.

Q25. IS THIS CONSISTENT WITH PRIOR COMMISSION DECISIONS?

A25. Yes. See *Chaparral City Water Company*, Decision No. 68176 (September 30, 2005) at 13, *Rio Rico Utilities Inc.*, Decision No. 67279 (October 5, 2004), *Bella Vista Water Co., Inc.*, Decision No. 65350 (November 2, 2001).

Q26. IS THIS SYNCHRONIZATION OF PROPERTY TAX EXPENSE WITH REVENUES PROPER RATE MAKING?

A26. Yes. Like income taxes, property taxes must be adjusted to ensure that the new rates are sufficient to produce the revenue requirement. For this reason, the Commission has repeatedly approved the use of proposed revenues to determine an appropriate level of property tax expense to be recovered through rates.

Q27. PLEASE CONTINUE WITH YOUR DESCRIPTION OF THE INCOME STATEMENT ADJUSTMENTS.

A27. Adjustment 3 shows estimated rate case expense of $80,000 amortized over 3 years, or $26,667 annually.

Q28. HOW DID YOU ARRIVE AT THESE AMOUNTS?

A28. I estimated $80,000 for a LQSWC rate case based on my experience with rate cases before the Commission, and that of LQSWC's rate case counsel.

Q29. PLEASE EXPLAIN WHY YOU REFER TO THESE AMOUNTS AS "ESTIMATES"?

A29. Because I can't see the future, I can only make some guesses based on my experience. The specifics of who may intervene, what unique issues may come into dispute, what kind of procedural problems we will encounter, and what else will occur during the proceeding, I cannot predict. I know rate cases are lengthy and expensive, but I still have to start with an estimate. If things turn out more complicated than anticipated, LQSWC will modify its request to account for that increased expense. Conversely, if the case proceeds and rate case expense is lower than expected, we would make an appropriate adjustment downward.

Q30. WHAT AMORTIZATION PERIOD ARE YOU RECOMMENDING?

A30. LQSWC proposes that rate case expense be recovered over three years because it believes a three-year cycle for future rate cases is reasonable given this utility's circumstances. The current rates for LQSWC were established approximately 5 years ago and LQSWC intends to file cases on a regular basis moving forward.

Q31. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE INCOME STATEMENT ADJUSTMENTS?

A31. Adjustment 4 annualizes revenues to the year-end number of customers. The annualization of revenues is based on the number of customers at the end of the test year, compared to the actual number of customers during each month of the test year. Average revenues by month were computed for the test year. The average

revenues were then multiplied by the increase (or decrease) in number of customers for each month of the test year.

Adjustment 5 annualizes purchased power expense based on the additional gallons sold from annualizing revenues to the year-end number of customers in Adjustment 4, above. This adjustment is intended to match the additional expense associated with the revenue annualization.

Adjustment 6 annualizes chemicals expense based on the additional gallons sold from annualizing revenues to the year-end number of customers in Adjustment 4, above. This adjustment is intended to match the additional expense associated with the revenue annualization.

Adjustment 7 removes test year capitalized repair and maintenance costs from materials and supplies.

Adjustment 8, labeled as 8a, 8b, and 8c, removes negative expense amounts.

Adjustment number 9, labeled as 9a and 9b, removes other non-utility income and expense to eliminate their impact on income taxes.

Adjustment 10 synchronizes interest expense with rate base.

Adjustment 11 reflects income taxes on taxable income based on the tax rate under proposed revenues.

D. <u>Rate Design (H Schedules).</u>

Q32. WHAT ARE LQSWC'S PRESENT RATES FOR WATER SERVICE?

A32. LQSWC's present rates are:

MONTHLY SERVICE CHARGES

5/8" x 3/4" meters	$10.00
3/4" Meters	$22.40
1" Meters	$25.00
1 1/2" Meters	$55.00

2" Meters		$70.00
3" Meter		$125.00
4" Meters		$225.00
6" Meter		$350.00
Standpipe		$10.10

COMMODITY RATES

5/8" x 3/4" meters	0 to 4,000 gals	$ 0.95
	4,001 to 23,000 gals	$ 1.15
	Over 23,000 gals	$ 1.35
3/4" meters	0 to 4,000 gals	$ 0.95
	4,001 to 23,000 gals	$ 1.15
	Over 23,000 gals	$ 1.35
1" meters	0 to 40,000 gals	$ 1.15
	Over 40,000 gals	$ 1.35
1-1/2" meters	0 to 100,000 gals	$ 1.15
	Over 100,000 gals	$ 1.35
2" meters	0 to 150,000 gals	$ 1.15
	Over 150,000 gals	$ 1.35
4" meters	0 to 400,000 gals	$ 1.15
	Over 400,000 gals	$ 1.35
6" meters	0 to 400,000 gals	$ 1.15
	Over 400,000 gals	$ 1.35
Standpipe	0 to 4,000 gals	$ 0.95
	4,001 to 23,000 gals	$ 1.15
	Over 23,000 gals	$ 1.35

Arsenic Surcharge

5/8" x 3/4" meters	$11.37
3/4" Meters	$17.05
1" Meters	$28.42
1 1/2" Meters	$56.84
2" Meters	$90.94
3" Meter	$170.52
4" Meters	$284.20
6" Meter	$568.40
Standpipe	$11.37

Q33. WHAT ARE LQSWC'S PROPOSED RATES FOR WATER SERVICE?

A33. LQSWC's proposed rates are:

MONTHLY SERVICE CHARGES

5/8" x 3/4" meters	$20.00
3/4" Meters	$30.00
1" Meters	$50.00
1 1/2" Meters	$100.00
2" Meters	$160.00
3" Meters	$320.00
4" Meters	$500.00
6" Meters	$1,000.00
Standpipe	$20.20

COMMODITY RATES

5/8" X ¾" Meters	1 to 4,000 gals	$ 1.90
	4,001 to 10,000 gals	$ 2.40

	Over 10,000 gals	$ 3.00
¾" Meters	1 to 4000 gals	$ 1.90
	4,001 to 10,000 gals	$ 2.40
	Over 10,000 gals	$ 3.00
1" Meters	1 to 25,000 gals	$ 2.40
	Over 25,000 gals	$ 3.00
1 ½" Meters	1 to 50,000	$ 2.40
	Over 50,000	$ 3.00
2" Meters	1 to 80,000	$ 2.40
	Over 80,000	$ 3.00
3" Meters	1 to 160,000	$ 2.40
	Over 160,000	$ 3.00
4" Meters	1 to 250,000	$ 2.40
	Over 250,000	$ 3.00
6" Meters	1 to 500,000	$ 2.40
	Over 500,000	$ 3.00
Standpipe	0 to 4,000 gals	$ 1.90
	4,001 to 23,000 gals	$ 2.40
	Over 23,000 gals	$ 3.00
Arsenic Surcharge	**Eliminated**	

Q34. WHAT METER SIZE ARE THE MAJORITY OF CUSTOMERS ON AND WHAT WAS THE AVERAGE MONTHLY BILL DURING THE TEST YEAR ?

A34. The largest customer class is the 5/8 inch residential class. As shown on Schedule H-2, page 1, the average monthly bill under present rates for a 5/8 inch residential customer using an average 10,768 gallons is $32.95.

Q35. WHAT WILL BE THE AVERAGE 5/8 INCH CUSTOMER AVERAGE MONTHLY BILL UNDER THE NEW RATES?

A35. As shown on Schedule H-2, page 2, the average monthly bill under proposed rates for a 5/8 inch customer using an average 10,768 gallons is $44.30 – a $11.35 increase over the present monthly bill or a 34.44 percent increase.

Q36. IS LQSWC'S RATE DESIGN A CONSERVATION ORIENTED RATE DESIGN?

A36. Yes. Inverted tier rate designs are conservation oriented. The smaller meters (5/8" and 3/4") are on an inverted three-tier rate design and all other meter sizes and classes are on an inverted two-tier design.

Q37. IS LQSWC PROPOSING TO ELIMINATE THE ARSENIC COST RECOVERY SURCHARGE?

A37. Yes. For the reasons discussed earlier in my testimony, the Company proposes to eliminate the arsenic cost recovery surcharge.[7]

Q38. IS LQSWC PROPOSING A CHANGE IN THE OFF-SITE FACILITIES HOOK-UP FEE (HUF)?

A38. Yes. The Company current off-site facilities hook-up fee is $250. The company proposes offsite hook-up fees by meter size as shown on Schedule H-3, page 5.

Q39. IS LQSWC PROPOSING TO ELIMINATE ITS ARSENIC IMPACT HOOK-UP FEE?

[7] The monthly arsenic cost recovery surcharge for a 5/8 inch metered customer is $11.37.

A39. Yes. The Company currently has an arsenic impact hook-up fee which it proposes to eliminate. The Company proposes an off-site facilities hook-up fee in its place.

Q40. IS LQSWC PROPOSING ANY CHANGES TO ITS METER AND SERVICE LINE INSTALLATION CHARGES?

A40. Yes. As shown on Schedule H-3, page 4, LQSWC is proposing meter and service line installation charges be based on typical costs as set forth in Staff Engineering memo dated February 21, 2008.

Q41. IS LQSWC PROPOSING ANY CHANGES TO MISCELLANEOUS SERVICE CHARGES?

A41. No.

Q42. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A42. Yes.

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Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Schedule A-1
Page 1
Witness: Bourassa

Line No.			
1	Fair Value Rate Base	$	2,109,537
2			
3	Adjusted Operating Income		47,550
4			
5	Current Rate of Return		2.25%
6			
7	*Required Operating Income*	$	190,491
8			
9	Required Rate of Return on Fair Value Rate Base		9.03%
10			
11	Operating Income Deficiency	$	142,942
12			
13	Gross Revenue Conversion Factor		1.4239
14			
15	Increase in Gross Revenue Revenue Requirement		203,528
16			
17	Adjusted Test Year Revenues	$	488,270
18	Increase in Gross Revenue Revenue Requirement	$	203,528
19	Proposed Revenue Requirement	$	691,799
20	% Increase		41.68%

	Customer Classification	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
24	5/8 Inch	$ 327,234	$ 455,388	$ 128,153	39.16%
25	3/4 Inch	4,095	4,988	892	21.79%
26	1 Inch	24,612	31,177	6,565	26.67%
27	1.5 Inch	14,756	20,436	5,680	38.49%
28	2 Inch	17,044	28,437	11,393	66.84%
29	4 Inch	19,237	30,888	11,651	60.56%
30	Subtotal	$ 406,979	$ 571,313	$ 164,334	40.38%
31					0.00%
32					0.00%
33	Standpipe	$ 67,100	$ 97,165	$ 30,065	44.81%
34	Fire Sprinkler	480	480	-	0.00%
35	Subtotal	$ 67,580	$ 97,645	$ 30,065	44.49%
36					
37	**Subtotal Revenues before Annualization**	$ 474,558	$ 668,958	$ 194,400	40.96%
38					
39	Revenue Annualization	6,999	15,804	8,806	125.82%
40	Miscellaneous Revenues	6,778	6,778	-	0.00%
41	Reconciling Amount H-1 to C-1	(65)	257	322	-495.38%
42	***Total of Water Revenues***	$ 488,270	$ 691,797	$ 203,528	41.68%

45 SUPPORTING SCHEDULES:
46 B-1
47 C-1
48 C-3
49 H-1

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Summary of Results of Operations

Exhibit
Schedule A-2
Page 1
Witness: Bourassa

Line No.	Description	Prior Years Ended 6/30/2007	Prior Years Ended 6/30/2008	Test Year Actual 6/30/2009	Test Year Adjusted 6/30/2009	Projected Year Present Rates 6/30/2010	Projected Year Proposed Rates 6/30/2010
1	Gross Revenues	$ 470,899	$ 499,592	$ 481,272	$ 488,270	$ 488,270	$ 691,799
3	Revenue Deductions and Operating Expenses	295,569	347,281	373,406	440,721	440,721	501,308
6	Operating Income	$ 175,330	$ 152,311	$ 107,866	$ 47,550	$ 47,550	$ 190,491
8	Other Income and Deductions	6,726	14,854	46,732	-	-	-
11	Interest Expense	-	(7,350)	(67,699)	(103,237)	(103,237)	(103,237)
13	Net Income	$ 182,056	$ 159,815	$ 86,899	$ (55,687)	$ (55,687)	$ 87,254
15	Common Shares	255	255	255	255	255	255
17 18	Earned Per Average Common Share	713.95	626.72	340.78	(218.38)	(218.38)	342.17
20 21	Dividends Per Common Share	-	-	-	-	-	-
23	Payout Ratio	-	-	-	-	-	-
25 26	Return on Average Invested Capital	17.21%	11.06%	3.65%	-3.12%	-3.21%	5.04%
28 29	Return on Year End Capital	16.01%	9.12%	2.89%	-3.12%	-3.31%	5.19%
31 32	Return on Average Common Equity	50.69%	27.26%	11.96%	-8.49%	-8.47%	9.22%
34 35	Return on Year End Common Equity	37.26%	23.36%	11.29%	-8.86%	-10.21%	7.76%
37 38	Times Bond Interest Earned Before Income Taxes	-	27.01	2.10	0.23	0.23	2.20
40 41 42	Times Total Interest and Preferred Dividends Earned After Income Taxes	-	22.74	2.28	1.48	1.48	1.85

45 SUPPORTING SCHEDULES
46 C-1
47 E-2
48 F-1

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

Exhibit
Schedule A-3
Page 1
Witness: Bourassa

Line No.	Description:	Prior Years Ended 6/30/2007	Prior Years Ended 6/30/2008	Test Year 6/30/2009	Projected Year 6/30/2010
3	Short-term Debt	$ -	$ -	$ -	$ -
5	Long-Term Debt	$ -	$ 464,793	$ 1,723,869	$ 1,666,509
7	Total Debt	$ -	$ 464,793	$ 1,723,869	$ 1,666,509
9	Preferred Stock	-	-	-	-
11	Common Equity	4,345,617	4,971,845	601,011	1,124,259
14	Total Capital & Debt	$ 4,345,617	$ 5,436,638	$ 2,324,880	$ 2,790,768
17	Capitalization Ratios:				
19	Short-term Debt	-	-	-	-
21	Long-Term Debt	0.00%	8.55%	74.15%	59.72%
23	Total Debt	0.00%	8.55%	74.15%	59.72%
25	Preferred Stock	-	-	-	-
27	Common Equity	100.00%	91.45%	25.85%	40.28%
30	Total Capital	100.00%	100.00%	100.00%	100.00%
32 33	Weighted Cost of Short-Term Debt	0.00%	0.00%	0.00%	0.00%
35 36	Weighted Cost of Long-Term Debt	0.00%	0.56%	4.89%	3.94%
38 39	Weighted Cost of Senior Capital	0.00%	0.56%	4.89%	3.94%

42 SUPPORTING SCHEDULES:
43 E-1
44 D-1

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Construction Expenditures
and Gross Utility Plant in Service

Exhibit
Schedule A-4
Page 1
Witness: Bourassa

Line No.		Construction Expenditures	Net Plant Placed in Service	Gross Utility Plant in Service
1				
4	Prior Year Ended 6/30/2007	147,280	2,996	1,449,688
5				
6	Prior Year Ended 6/30/2008	415,750	382	1,450,070
7				
8	Test Year Ended 06/30/2009	1,571,758	2,346,991	3,797,061
9				
10	Projected Year Ended 06/30/2010	16,200	16,200	3,813,261
11				
12				
13				
14				
15	SUPPORTING SCHEDULES:			
16	B-2			
17	E-5			
18	F-3			
19				
20				

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Summary Statements of Cash Flows

Exhibit
Schedule A-5
Page 1
Witness: Bourassa

Line No.		Prior Year Ended 6/30/2007	Prior Year Ended 6/30/2008	Test Year Ended 6/30/2009	Projected Year Present Rates 6/30/2010	Projected Year Proposed Rates 6/30/2010
5	Cash Flows from Operating Activities					
6	Net Income	$ 172,562	$ 159,823	$ 84,985	$ (55,687)	$ 87,254
7	Adjustments to reconcile net income to net cash					
8	provided by operating activities:					
9	Depreciation and Amortization	10,197	40,751	3,817	117,586	117,586
10	Provision for Doubtful Accounts	-	-	(8,467)	-	-
11	Other	86,273	35,629	4,478	-	-
12	Changes in Certain Assets and Liabilities:					
13	Accounts Receivable	(8,057)	(40,835)	157	-	-
14	Accounts Receivable, Other	-	-	-	-	-
15	Materials and Supplies Inventory	4,555	(581)	111	-	-
16	Prepaid Expenses	(409)	82	-	-	-
17	Accounts Payable	-	-	-	-	-
18	Intercompany payable	-	-	-	-	-
19	Customer Deposits	(2,059)	(4,885)	(5,027)	-	-
20	Taxes Payable	40,527	1,097	(54,139)	-	-
21	Deferred Income Taxes	(68,490)	(21,131)	21,131	-	-
22	Other assets and liabilities	(8,960)	(31,351)	19,349	-	-
23	Net Cash Flow provided by Operating Activities	$ 226,139	$ 138,599	$ 66,395	$ 61,899	$ 204,840
24	Cash Flow From Investing Activities:					
25	Capital Expenditures	(147,280)	(415,750)	(1,571,758)	(16,200)	(16,200)
26	Plant Held for Future Use	-	-	-	-	-
27	Changes in Short-term Investments	42,454	(8,307)	(36,175)	-	-
28	Net Cash Flows from Investing Activities	$ (104,826)	$ (424,057)	$ (1,607,933)	$ (16,200)	$ (16,200)
29	Cash Flow From Financing Activities					
30	Change in Restricted Cash	-	-	-	(36,174)	(36,174)
31	Net Receipts of Advances-in-Aid of Contruction	(82,862)	(13,901)	(40,175)	-	-
32	Net Receipts of Contributions-in-Aid of Contruction	66,225	13,900	36,352	-	-
33	Repayments of Long-Term Debt	-	464,793	1,259,076	(28,680)	(28,680)
34	Dividends Paid	-	-	-	-	-
35	Deferred Financing Costs	-	-	-	-	-
36	Stock/Paid in Capital	-	-	-	-	-
37	Net Cash Flows Provided by Financing Activities	$ (16,637)	$ 464,792	$ 1,255,253	$ (64,854)	$ (64,854)
38	Increase(decrease) in Cash and Cash Equivalents	104,676	179,334	(286,285)	(19,156)	123,786
39	Cash and Cash Equivalents at Beginning of Year	47,210	151,886	331,220	44,935	44,935
40	Cash and Cash Equivalents at End of Year	$ 151,886	$ 331,220	$ 44,935	$ 25,780	$ 168,721
41						
42						

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

Exhibit
Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 3,828,584	$ 3,828,584
3	Less: Accumulated Depreciation	1,077,428	1,077,428
4			
5	Net Utility Plant in Service	$ 2,751,156	$ 2,751,156
6			
7	Less:		
8	Advances in Aid of		
9	Construction	372,323	372,323
10	Contributions in Aid of		
11	Construction	333,555	333,555
12			
13	Accumulated Amortization of CIAC	(83,901)	(83,901)
14			
15	Customer Meter Deposits	19,641	19,641
16	Deferred Income Taxes & Credits	-	-
17			
18			
19			
20	Plus:		
21	Unamortized Debt Issuance		
22	Costs	-	-
23	Deferred Reg. Assets	-	-
24	Working capital	-	-
25			
26			
27			
28			
29	Total Rate Base	$ 2,109,537	$ 2,109,537
30			
31			
32			
33	SUPPORTING SCHEDULES:		RECAP SCHEDULES:
34	B-2		A-1
35	B-3		
36	B-5		
37	E-1		
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	$ 3,797,061	31,523	$ 3,828,584
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	1,018,223	59,205	1,077,428
7				
8				
9	Net Utility Plant			
10	in Service	$ 2,778,838		$ 2,751,156
11				
12	**Less:**			
13	Advances in Aid of			
14	Construction	372,323	-	372,323
15				
16	Contributions in Aid of			
17	Construction	333,555	-	333,555
18				
19	Accumulated Amort of CIAC	(193,151)	109,250	(83,901)
20				
21	Customer Meter Deposits	19,641	-	19,641
22	Deferred Income Taxes & Credits	-	-	-
23				
24				
25				
26	**Plus:**			
27	Unamortized Debt Issuance			
28	Costs	-		-
29	Deferred Reg. Assets	-	-	-
30	Working capital	-	-	-
31				
32				
33				
34				
35	Total	$ 2,246,470		$ 2,109,537
36				
37				
38				
39	SUPPORTING SCHEDULES:			RECAP SCHEDULES:
40	B-2, pages 2			B-1
41	E-1			
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
Schedule B-2
Page 2
Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Adjustments 1 Plant	2 Accumulated Depr.	3 CIAC	4	Adjusted at end of Test Year
1	Gross Utility						
2	Plant in Service	$ 3,797,061	31,523				$ 3,828,584
3							
4	**Less:**						
5	Accumulated						
6	Depreciation	1,018,223		59,205			1,077,428
7							
8							
9	Net Utility Plant						
10	in Service	$ 2,778,838	$ 31,523	$ (59,205)	$ -	$ -	$ 2,751,156
11							
12	**Less:**						
13	Advances in Aid of						
14	Construction	372,323					372,323
15							
16	Contributions in Aid of						
17	Construction (CIAC)	333,555					333,555
18							
19	Accumulated Amort of CIAC	(193,151)			109,250		(83,901)
20							
21	Customer Meter Deposits	19,641					19,641
22	Deferred Income Taxes & Credits	-					-
23							
24							
25	**Plus:**						
26	Unamortized Finance						
27	Charges	-					-
28							
29	Allowance for Working Capital	-					-
30							
31	Total	$ 2,246,470	$ 31,523	$ (59,205)	$ (109,250)	$ -	$ 2,109,537
32							
33							
34							
35	SUPPORTING SCHEDULES:						
36	B-2, pages 3-6						
37	E-1						

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

Exhibit
Schedule B-2
Page 3
Witness: Bourassa

Line No.	Acct. No.	Description	Per Books Orginal Cost	A Reconciliation of Plant Detail to Amount Booked	B Capitalized Expenses	Adjustments C Intentionally Left Blank	D Intentionally Left Blank	E Intentionally Left Blank	F Intentionally Left Blank	Adjusted Original Cost
1		Plant-in-Service								
5	301	Organization Cost	$ -							$ -
6	302	Franchise Cost	-							-
7	303	Land and Land Rights	217							217
8	304	Structures and Improvements	12,229							12,229
9	305	Collecting and Impounding Res.	-							-
10	306	Lake River and Other Intakes	-							-
11	307	Wells and Springs	309,094							309,094
12	308	Infiltration Galleries and Tunnels	-							-
13	309	Supply Mains	-							-
14	310	Power Generation Equipment	-							-
15	311	Electric Pumping Equipment	119,815		31,523					151,338
16	320	Water Treatment Equipment	910	830						1,740
17	320.1	Water Treatment Plant	2,163,524	(830)						2,162,694
18	320.2	Chemical Solution Feeders	-							-
19	330	Dist. Reservoirs & Standpipe	99,896							99,896
20	330.1	Storage tanks	-							-
21	330.2	Pressure Tanks	-							-
22	331	Trans. and Dist. Mains	924,616							924,616
23	333	Services	2,427							2,427
24	334	Meters	101,418							101,418
25	335	Hydrants	-							-
26	336	Backflow Prevention Devices	1,137							1,137
27	339	Other Plant and Misc. Equip.	-							-
28	340	Office Furniture and Fixtures	28,306							28,306
29	340.1	Computers and Software	-							-
30	341	Transportation Equipment	23,292							23,292
31	342	Stores Equipment	-							-
32	343	Tools and Work Equipment	-							-
33	344	Laboratory Equipment	-							-
34	345	Power Operated Equipment	2,592							2,592
35	346	Communications Equipment	-							-
36	347	Miscellaneous Equipment	7,589	(4,424)						3,165
37	348	Other Tangible Plant	-	4,424						4,424
38										-
39		TOTALS	$ 3,797,062	$ -	$ 31,523	$ -	$ -	$ -	$ -	$ 3,828,585
40										
41		Plant-in-Service per Books								$ 3,797,062
42										
43		Increase (decrease) in Plant-in-Service								$ 31,523
44										
45		Adjustment to Plant-in-Service								$ 31,523
46										
47		SUPPORTING SCHEDULES								
48		B-2, pages 3.1-3.9								

Las Quintas Serenas Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
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Account No.	Description	Prior Deprec. Rate	Current Deprec. Rate	Per Decision 67445 Plant At 9/30/2003	9/30/2003 Accum. Depr.	2004 Plant Additions	2004 Plant Adjustment	2004 Adjusted Plant Additions	2004 Plant Retirements	2004 Salvage A/D Only	September 2004 Plant Balance	2004 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	-	-		-			217	-
304	Structures and Improvements	5.00%	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%	820,492	386,729	78,445		78,445			898,937	42,988
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)
	Plant Held for Future Use											
	TOTAL WATER PLANT			1,480,921	688,486	99,563	-	99,563	(1)	-	1,580,483	75,524
				See B-2, page 3.8	See B-2 page 3.9							

Las Quintas Serenas Water Company
Plant Additions and Retirements

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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%			-			-	-
331	Transmission and Distribution Mains	5.00%	2.00%	4,761		4,761			903,698	18,026
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%			-			-	-
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%	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	59,699

Las Quintas Serenas Water Company
Plant Additions and Retirements

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Account No.	Description	Prior Deprec. Rate	Current Deprec. Rate	2006 Plant Additions	2006 Plant Adjustments	2006 Adjusted Plant Additions	2006 Plant Retirements	2006 Salvage A/D Only	September 2006 Plant Balance	2006 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%	2.50%	-		-			-	-
307	Wells and Springs	5.00%	3.33%	-		-			314,484	10,472
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%	-		-			119,815	14,977
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%	-		-			99,896	2,218
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%	-		-			903,698	18,074
333	Services	5.00%	3.33%	-		-			2,427	81
334	Meters	5.00%	8.33%	808		808			101,418	8,414
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%	-		-			22,618	1,509
340.1	Computers and Software	5.00%	20.00%	-		-			-	-
341	Transportation Equipment	5.00%	20.00%	-		-			27,292	5,458
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%	-		-			3,165	317
348	Other Tangible Plant	5.00%	10.00%	-		-			4,424	442
	Rounding			-		-			-	-
						-			-	-
	Plant Held for Future Use									
	TOTAL WATER PLANT			808	-	808	-	-	1,617,152	62,633
										868,274

Las Quintas Serenas Water Company
Plant Additions and Retirements

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Account No.	Description	Prior Deprec. Rate	Current Deprec. Rate	2007 Plant Additions	2007 Plant Adjustments	2007 Adjusted Plant Additions	2007 Plant Retirements	2007 Salvage A/D Only	September 2007 Plant Balance	2007 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%	2.50%	-		-			-	-
307	Wells and Springs	5.00%	3.33%	-		-			314,484	10,472
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%	-		-			119,815	14,977
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%	-		-			99,896	2,218
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%	-		-			903,698	18,074
333	Services	5.00%	3.33%	-		-			2,427	81
334	Meters	5.00%	8.33%	-		-			101,418	8,446
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%	3,865		3,865			26,483	1,638
340.1	Computers and Software	5.00%	20.00%			-			-	-
341	Transportation Equipment	5.00%	20.00%			-	(500)		26,792	5,408
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%			-			3,165	317
348	Other Tangible Plant	5.00%	10.00%			-			4,424	442
	Rounding					-			-	-
						-			-	-
	Plant Held for Future Use									
	TOTAL WATER PLANT			3,865	-	3,865	(500)	-	1,620,517	62,745
										931,019

Las Quintas Serenas Water Company
Plant Additions and Retirements

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Account No.	Description	Prior Deprec. Rate	Current Deprec. Rate	2008 Plant Additions	2008 Plant Adjustments	2008 Adjusted Plant Additions	2008 Plant Retirements	2008 Salvage 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%	2.50%	-		-			-	-
307	Wells and Springs	5.00%	3.33%	-		-	(5,390)		309,094	10,383
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%	-		-			119,815	14,977
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%	-		-			99,896	2,218
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			924,616	18,283
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	4,604
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%			-			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	-	21,221	(8,890)	-	1,632,848	62,199

Las Quintas Serenas Water Company
Plant Additions and Retirements

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Account No.	Description	Prior Deprec. Rate	Current Deprec. Rate	2009 Plant Additions	2009 Plant Adjustments	2009 Adjusted Plant Additions	2009 Plant Retirements	2009 Salvage A/D Only	June 2009 Plant Balance	2009 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	305
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%	-		-			309,094	7,720
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%	-	31,523	31,523			151,338	12,710
320	Water Treatment Equipment	5.00%	3.33%			-			1,740	43
320.1	Water Treatment Equipment	5.00%	3.33%	2,162,694		2,162,694			2,162,694	27,007
320.2	Chemical Solution Feeders	5.00%	20.00%			-			-	-
330	Distribution Reservoirs & Standpipe	5.00%	2.22%			-			99,896	1,663
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%			-			924,616	13,869
333	Services	5.00%	3.33%			-			2,427	61
334	Meters	5.00%	8.33%			-			101,418	6,336
335	Hydrants	5.00%	2.00%			-			-	-
336	Backflow Prevention Devices	5.00%	6.67%			-			1,137	57
339	Other Plant and Miscellaneous Equipment	5.00%	6.67%			-			-	-
340	Office Furniture and Fixtures	5.00%	6.67%	1,520		1,520			28,306	1,378
340.1	Computers and Software	5.00%	20.00%			-			-	-
341	Transportation Equipment	5.00%	20.00%			-			23,292	3,500
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	97
346	Communications Equipment	5.00%	10.00%			-			-	-
347	Miscellaneous Equipment	5.00%	10.00%			-			3,165	237
348	Other Tangible Plant	5.00%	10.00%			-			4,424	348
	Rounding					-			-	-
						-			-	-
	Plant Held for Future Use									
	TOTAL WATER PLANT			2,164,214	31,523	2,195,737	-	-	3,828,585	75,332

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Plant Additions and Retirements

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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	156,804	166,842	177,314	187,787	192,779	200,499
308	Infiltration Galleries and Tunnels	6.00%	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	113,928	126,638
320	Water Treatment Equipment	5.00%	3.33%	391	433	476	533	591	649	693
320.1	Water Treatment Equipment	5.00%	3.33%	-	-	-	-	-	-	27,007
320.2	Chemical Solution Feeders	5.00%	20.00%	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	5.00%	2.22%	44,682	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	502,173	516,042
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	19,792	23,292
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	1,957
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%	2,086	2,306	2,749	3,191	3,634	4,076	4,424
	Rounding			0	-	-	-	-	-	-
				-	-	-	-	-	-	-
	Plant Held for Future Use			-						
	TOTAL WATER PLANT			688,486	764,010	823,909	886,541	948,787	1,002,096	1,077,428

Las Quintas Serenas Water Company
Plant Reconciliation to Prior Rate Case

Exhibit
Schedule B-2
Page 3.8

Line No.	Account No.	Description	Balance Per Company Per 9/30/2003 Filing Before Adj.	Adjustments: Adopted Staff Adjustments	Adjustments: Intentionally Left Blank	Adjustments: Intentionally Left Blank	Per Decision 67445 Prior Case Adjusted Plant	Blank	Rounding	Initial Balance
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	822,434	(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

Las Quintas Serenas Water Company
A/D Reconciliation to Prior Rate Case

Exhibit
Schedule B-2
Page 3.9

Line No.	Account No.	Description	67445 Per Decision Prior Case Adjusted A/D	Adjustment A/D	Initial Balance
1					
2					
3					
4					
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	Checmical 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
39					
40		TOTAL	688,486	-	688,486
41					

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

Exhibit
Schedule B-2
Page 4
Witness: Bourassa

Line No.	Acct. No.	Description	Per Books Accum. Depr.	A Capitalized Expenses	B Intentionally Left Blank	C Intentionally Left Blank	D Intentionally Left Blank	E Intentionally Left Blank	Adjusted Accum. Depr.
1		Accumulated Depreciation							
5	301	Organization Cost	$ -		$ -				$ -
6	302	Franchise Cost	-		-				-
7	303	Land and Land Rights	-		-				-
8	304	Structures and Improvements	2,372		2,909				5,281
9	305	Collecting and Impounding Res.	-		-				-
10	306	Lake River and Other Intakes	-		-				-
11	307	Wells and Springs	134,526		65,973				200,499
12	308	Infiltration Galleries and Tunnels	-		-				-
13	309	Supply Mains	-		-				-
14	310	Power Generation Equipment	-		-				-
15	311	Electric Pumping Equipment	125,537	1,478	(377)				126,638
16	320	Water Treatment Equipment	973		(280)				693
17	320.1	Water Treatment Plant	-		27,007				27,007
18	320.2	Chemical Solution Feeders	-		-				-
19	330	Dist. Reservoirs & Standpipe	66,043		(6,088)				59,955
20	330.1	Storage tanks	-		-				-
21	330.2	Pressure Tanks	-		-				-
22	331	Trans. and Dist. Mains	539,926		(23,884)				516,042
23	333	Services	769		880				1,649
24	334	Meters	101,418		(8,939)				92,479
25	335	Hydrants	-		-				-
26	336	Backflow Prevention Devices	750		203				953
27	339	Other Plant and Misc. Equip.	-		-				-
28	340	Office Furniture and Fixtures	13,968		1,030				14,998
29	340.1	Computers and Software	-		-				-
30	341	Transportation Equipment	24,283		(991)				23,292
31	342	Stores Equipment	-		-				-
32	343	Tools and Work Equipment	-		-				-
33	344	Laboratory Equipment	-		-				-
34	345	Power Operated Equipment	1,202		765				1,967
35	346	Communications Equipment	-		-				-
36	347	Miscellaneous Equipment	6,456		(4,905)				1,551
37	348	Other Tangible Plant	-		4,424				4,424
38									-
39		TOTALS	$ 1,018,223	$ 1,478	$ 57,727	$ -	$ -	$ -	$ 1,077,428
40									
41		Accumulated Deprecaition per Books							$ 1,018,223
42									
43		Increase (decrease) in Plant-in-Service							$ 59,205
44									
45		Adjustment to Plant-in-Service							$ 59,205
46									
47		SUPPORTING SCHEDULES							
48		B-2, pages 3.1 to 3.9							
49									

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

Exhibit
Schedule B-2
Page 5
Witness: Bourassa

Line No.		Gross CIAC	Accum. Amort.
1	CIAC and Accumulated Amortization		
2			
3			
4			
5	Computed balance at 6/30/2009	$ 333,555	$ 83,901
6			
7	Book balance at 6/30/2009	$ 333,555	$ 193,151
8			
9	Increase (decrease)	$ -	$ (109,250)
10			
11			
12	Adjustment to CIAC	$ -	$ 109,250
13	Label	3a	3b
14			
15			
16			
17			
18			
19	SUPPORTING SCHEDULES		
20	B-2, page 6.1 to 6.3		
21			
22			
23			
24			
25			
26			
27			
28			
29			
30			
31			
32			
33			
34			
35			
36			

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Original Cost Rate Base Proforma Adjustments
Contributions-in-aid of Construction and Amortization
Adjustment 4

Exhibit
Schedule B-2
Page 5.1
Witness: Bourassa

Line No.		Balance at 9/30/2003	2004 Activity	Balance at 9/30/2004	2005 Activity	Balance at 9/30/2005
1						
2						
3						
4	CIAC	104,819	10,760	115,579	41,749	157 328
5						
6						
7	*Amortization*	34,986	5,510	40,496	5,057	45 553
8						
9						
10	Composite Amortization Rate		5.0000%		3.7058%	
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	**Total CIAC Water**	**104,819**		**115,579**		**157,328**
22						
23						
24	**Total Accum Amort.**	**34,986**		**40,496**		**45,553**
25						
26						

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Original Cost Rate Base Proforma Adjustments
Contributions-in-aid of Construction and Amortization
Adjustment 4

Exhibit
Schedule B-2
Page 5.2
Witness: Bourassa

Line No.		2006 Activity	Balance at 9/30/2006	2007 Activity	Balance at 9/30/2007
1					
2					
3					
4	CIAC	125,975	283,303	13,900	297,203
5					
6					
7	Amortization	8,533	54,086	11,238	65,324
8					
9					
10	Composite Amortization Rate	3.8730%		3.8719%	
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	**Total CIAC Water**		**283,303**		**297,203**
22					
23					
24	**Total Accum Amort.**		**54,086**		**65,324**
25					
26					

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Original Cost Rate Base Proforma Adjustments
Contributions-in-aid of Construction and Amortization
Adjustment 4

Exhibit
Schedule B-2
Page 5.3
Witness: Bourassa

Line No.		2008 Activity	Balance at 9/30/2008	9 Months Oct-Jun 2009	Balance at 6/30/2009
1					
2					
3					
4	CIAC	36,352	333,555	-	333,555
5					
6					
7	Amortization	12,014	77,337	6,563	83,901
8					
9					
10	Composite Amortization Rate	3.8092%		1.9676%	
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	**Total CIAC Water**		333,555		333,555
22					
23					
24	**Total Accum Amort.**		77,337		83,901
25					
26					

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Computation of Working Capital

Exhibit
Schedule B-5
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	30,770
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	Prepaids		1,583
7			
8			
9	Total Working Capital Allowance	$	39,677
10			
11			
12	Working Capital Requested	$	-
13			
14			
15	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
16	E-1	B-1	
17			
18			Adjusted
19	Cash Working Capital Detail		Test Year Results
20			
21	Total Operating Expense	$	440,721
22	Less:		
23	Income Tax		(23,603)
24	Property Tax		26,078
25	Depreciation		117,586
26	Purchased Water		-
27	Pumping Power		74,502
28	Allowable Expenses	$	246,158
29	1/8 of allowable expenses	$	30,770
30			
31			

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

Exhibit
Schedule C-1
Page 1
Witness: Bourassa

Line No		Test Year Book Results	Label	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**						
2	Metered Water Revenues	$ 474,494	4	$ 6,999	$ 481,492	$ 203,528	$ 685,021
3	Unmetered Water Revenues	-			-		-
4	Other Water Revenues	6,778			6,778		6,778
5		$ 481,272		$ 6,999	$ 488,270	$ 203,528	$ 691,799
6	**Operating Expenses**						
7	Salaries and Wages	$ 150,775			$ 150,775		$ 150,775
8	Purchased Water	-			-		-
9	Purchased Power	72,256	5	2,246	74,502		74,502
10	Fuel for Power Production	4,217			4,217		4,217
11	Chemicals	742	6	23	765		765
12	Materials & Supplies	53,363	7	(31,523)	21,840		21,840
13	Outside Services	(2,908)	8a	2,908	-		-
14	Outside Services- Legal	(295)	8b	295	-		-
15	Outside Services- Other	6,568			6,568		6,568
16	Water Testing	7,408			7,408		7,408
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	-	3	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	3,817	1	113,769	117,586		117,586
27	Taxes Other Than Income	(1,320)	8c	1,320	-		-
28	Property Taxes	16,497	2	9,581	26,078		26,078
29	Income Tax	34,368	11	(57,972)	(23,603)	60,587	36,983
30	**Total Operating Expenses**	$ 373,406		$ 67,315	$ 440,721	$ 60,587	$ 501,308
31	**Operating Income**	$ 107,866		$ (60,316)	$ 47,550	$ 142,942	$ 190,491
32	**Other Income (Expense)**						
33	Interest Income	-			-		-
34	Other income (loss)	46,732	9a	(46,732)	-		-
35	Interest Expense	(67,699)	10	(35,538)	(103,237)		(103,237)
36	Other Expense	(1,913)	9b	1,913	-		-
37		-			-		-
38	**Total Other Income (Expense)**	$ (22,881)		$ (80,356)	$ (103,237)	$ -	$ (103,237)
39	**Net Profit (Loss)**	$ 84,985		$ (140,672)	$ (55,687)	$ 142,942	$ 87,254
40							
41	SUPPORTING SCHEDULES:					RECAP SCHEDULES:	
42	C-2					A-1	
43	E-2						

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

Exhibit
Schedule C-2
Page 1
Witness: Bourassa

Adjustments to Revenues and Expenses

Line No.		1 Depreciation Expense	2 Property Taxes	3 Rate Case Expense	4 Revenue Annualization	5 Annualize Purch. Power	6 Annualize Chemicals Expense	Subtotal
1								
2								
3	Revenues				6,999			6,999
4								
5	Expenses	113,769	9,581	26,667		2,246	23	152,287
6								
7	Operating							
8	Income	(113,769)	(9,581)	(26,667)	6,999	(2,246)	(23)	(145,288)
9								
10	Interest							
11	Expense							-
12	Other							
13	Income /							-
14	Expense							
15								
16	Net Income	(113,769)	(9,581)	(26,667)	6,999	(2,246)	(23)	(145,288)
17								
18				Adjustments to Revenues and Expenses				
19		7	8	9	10	11	12	Subtotal
20		Capitalized	Remove	Other Income/	Interest	Income		
21		Expenses	Negative Expense	Expense	Synchronization	Taxes	Blank	
22	Revenues							6,999
23								
24	Expenses	(31,523)	4,522			(57,972)		67,315
25								
26	Operating							
27	Income	31,523	(4,522)	-	-	57,972	-	(60,316)
28								
29	Interest							
30	Expense				(35,538)			(35,538)
31	Other							
32	Income /			(44,818)				(44,818)
33	Expense							
34								
35	Net Income	31,523	(4,522)	(44,818)	(35,538)	57,972	-	(140,672)

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

Exhibit
Schedule C-2
Page 2
Witness: Bourassa

Line No.

1 Depreciation Expense

Acct. No.	Description	Adjusted Original Cost	Proposed Rates	Depreciation Expense
301	Organization Cost	-	0.00%	-
302	Franchise Cost	-	0.00%	-
303	Land and Land Rights	217	0.00%	-
304	Structures and Improvements	12,229	3.33%	407
305	Collecting and Impounding Res	-	2.50%	-
306	Lake River and Other Intakes	-	2.50%	-
307	Wells and Springs	309,094	3.33%	10,293
308	Infiltration Galleries and Tunnels	-	6.67%	-
309	Supply Mains	-	2.00%	-
310	Power Generation Equipment	-	5.00%	-
311	Electric Pumping Equipment	119,815	12.50%	14,977
320	Water Treatment Equipment	1,740	3.33%	58
320.1	Water Treatment Plant	2,162,694	3.33%	72,018
320.2	Chemical Solution Feeders	-	20.00%	-
330	Dist. Reservoirs & Standpipe	99,896	2.22%	2,218
330.1	Storage tanks	-	2.22%	-
330.2	Pressure Tanks	-	5.00%	-
331	Trans. and Dist. Mains	924,616	2.00%	18,492
333	Services	2,427	3.33%	81
334	Meters	101,418	8.33%	8,448
335	Hydrants	-	2.00%	-
336	Backflow Prevention Devices	1,137	6.67%	76
339	Other Plant and Misc. Equip.	-	6.67%	-
340	Office Furniture and Fixtures	28,306	6.67%	1,888
340.1	Computers and Software	-	20.00%	-
341	Transportation Equipment	23,292	20.00%	- *
342	Stores Equipment	-	4.00%	-
343	Tools and Work Equipment	-	5.00%	-
344	Laboratory Equipment	-	10.00%	-
345	Power Operated Equipment	2,592	5.00%	130
346	Communications Equipment	-	10.00%	-
347	Miscellaneous Equipment	3,165	10.00%	317
348	Other Tangible Plant	4,424	10.00%	- *
	TOTALS	$ 3,797,062		$ 129,401
	Less: Amortization of Contributions	$ 333,555	3.5423%	$ (11,816)
	Total Depreciation Expense			$ 117,586
	Test Year Depreciation Expense			3,817
	Increase (decrease) in Depreciation Expense			113,769
	Adjustment to Revenues and/or Expenses			$ 113,769

SUPPORTING SCHEDULE
B-2, page 3
B-2, page 6

* Fully Depreciated

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Adjustment to Revenues and Expenses
Adjustment Number 2

Exhibit
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		691,799
6	Average of three year's of revenue	$	556,113
7	Average of three year's of revenue, times 2	$	1,112,226
8	Add:		
9	Construction Work in Progess at 10%	$	-
10	Deduct:		
11	Book Value of Transportation Equipment		23,292
12			
13	Full Cash Value	$	1,088,934
14	Assessment Ratio		21%
15	Assessed Value		228,676
16	*Property Tax Rate*		11.4039%
17			
18	Property Tax		26,078
19	Plus: Tax on Parcels		0
20			
21	Total Property Tax at Proposed Rates	$	26,078
22	Property Taxes recorded during the test year		16,497
23	Change in Property Taxes	$	9,581
24			
25			
26	Adjustment to Revenues and/or Expenses	$	9,581
27			
28			

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

Exhibit
Schedule C-2
Page 4
Witness: Bourassa

Line No.			
1	Rate Case Expense		
2			
3	Estimated Rate Case Expense	$	80,000
4			
5	Rate Case Expense	$	80,000
6			
7	Estimated Amortization Period (in Years)		3.0
8			
9	Annual Rate Case Expense	$	26,667
10			
11	Test Year Rate Case Expense	$	-
12			
13	Increase(decrease) Rate Case Expense	$	26,667
14			
15	Adjustment to Revenue and/or Expense	$	26,667
16			
17			
18			
19			
20			
21			
22			
23			
24			

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

Exhibit
Schedule C-2
Page 5
Witness: Bourassa

Line No.			
1	Revenue Annualization		
2			
3			
4	Revenue Annualization	$	6,999
5			
6			
7			
8	Total Revenue from Annualization	$	6,999
9			
10			
11	Adjustment to Revenue and/or Expense	$	6,999
12			
13	SUPPORTING SCHEDULES		
14	C-2 pages 5.1 to 5.7		
15	H-1		
16			
17			
18			
19			
20			

Las Quintas Serenas Water Company
5/8 Inch
Customers to Year End Levels
Test Year Ended June 30, 2009

Exhibit
Schedule C-2
Page 5.1
Witness: Bourassa

Line No.		Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09
1	Year End Number of Customers	814	814	814	814	814	814	814
2	Actual Customers	817	826	823	818	821	823	824
3	Increase in Number of Customers/Bills	(3)	(12)	(9)	(4)	(7)	(9)	(10)
4	Average Revenue / Present Rates	$ 25.25	$ 21.68	$ 21.66	$ 22.13	$ 23.40	$ 19.12	$ 18.40
5	Revenue Annualization / Present Rates	$ (76)	$ (260)	$ (195)	$ (89)	$ (164)	$ (172)	$ (184)
6								
7	Increase in Number of Customers	(3)	(12)	(9)	(4)	(7)	(9)	(10)
8	Average Revenue / Proposed Rates	$ 53.88	$ 44.57	$ 44.51	$ 45.74	$ 49.06	$ 38.70	$ 37.20
9	Revenue Annualization / Proposed Rates	$ (162)	$ (535)	$ (401)	$ (183)	$ (343)	$ (348)	$ (372)
10	Additional Gallons to be Produced	(41,883)	(130,263)	(97,516)	(44,981)	(86,462)	(77,631)	(79,981)
11								
12								
13		Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09		Total Year
14								
15	Year End Number of Customers	814	814	814	814	814		
16	Actual Customers	823	826	810	813	814		
17	Increase in Number of Customers/Bills	(9)	(12)	4	1	-		(70)
18	Average Revenue / Present Rates	$ 18.03	$ 19.85	$ 21.03	$ 21.87	$ 26.66		
19	Revenue Annualization / Present Rates	$ (162)	$ (238)	$ 84	$ 22	$ -		$ (1,434)
20								
21	Increase in Number of Customers	(9)	(12)	4	1	-		
22	Average Revenue / Proposed Rates	$ 36.43	$ 40.23	$ 42.86	$ 45.05	$ 57.55		
23	Revenue Annualization / Proposed Rates	$ (162)	$ (238)	$ 84	$ 22	$ -		$ (2,938)
24	Additional Gallons to be Produced	(69,101)	(111,129)	41,150	11,017	-		(686,779)

Las Quintas Serenas Water Company
3/4 Inch
Customers to Year End Levels
Test Year Ended June 30, 2009

Exhibit
Schedule C-2
Page 5.2
Witness: Bourassa

Line No.		Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09
1	Year End Number of Customers	6	6	6	6	6	6	6
2	Actual Customers	6	6	6	6	6	6	6
3	Increase in Number of Customers/Bills	-	-	-	-	-	-	-
4	Average Revenue / Present Rates	$ 43.55	$ 37.99	$ 42.02	$ 44.89	$ 45.66	$ 37.61	$ 35.12
5	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6								
7	Increase in Number of Customers	-	-	-	-	-	-	-
8	Average Revenue / Proposed Rates	$ 79.00	$ 64.50	$ 75.00	$ 82.50	$ 84.50	$ 63.50	$ 57.00
9	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ -	$ -
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11								
12								
13								
14		Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09		Total Year
15	Year End Number of Customers	6	6	6	6	6		
16	Actual Customers	6	6	6	6	6		
17	Increase in Number of Customers/Bills	-	-	-	-	-		-
18	Average Revenue / Present Rates	$ 35.31	$ 35.31	$ 36.84	$ 37.80	$ 43.55		
19	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -		$ -
20								
21	Increase in Number of Customers	-	-	-	-	-		
22	Average Revenue / Proposed Rates	$ 57.50	$ 57.50	$ 61.50	$ 64.00	$ 79.00		
23	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -		$ -
24	Additional Gallons to be Produced	-	-	-	-	-		-

Las Quintas Serenas Water Company
1 Inch
Customers to Year End Levels
Test Year Ended June 30, 2009

Exhibit
Schedule C-2
Page 5.3
Witness: Bourassa

Line No.		Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09
1	Year End Number of Customers	29	29	29	29	29	29	29
2	Actual Customers	27	27	28	28	28	27	28
3	Increase in Number of Customers/Bills	2	2	1	1	1	2	1
4	Average Revenue / Present Rates	$ 54.20	$ 50.96	$ 44.82	$ 44.82	$ 46.17	$ 39.89	$ 36.19
5	Revenue Annualization / Present Rates	$ 108	$ 102	$ 45	$ 45	$ 46	$ 80	$ 36
6								
7	Increase in Number of Customers	2	2	1	1	1	2	1
8	Average Revenue / Proposed Rates	$ 111.17	$ 104.18	$ 91.36	$ 91.36	$ 94.19	$ 81.07	$ 73.36
9	Revenue Annualization / Proposed Rates	$ 222	$ 208	$ 91	$ 91	$ 94	$ 162	$ 73
10	*Additional Gallons to be Produced*	50,779	45,149	17,233	17,233	18,411	25,890	9,733
11								
12								
13								
14		Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09		Total Year
15	Year End Number of Customers	29	29	29	29	29		
16	Actual Customers	28	29	29	29	29		
17	Increase in Number of Customers/Bills	1	-	-	-	-		11
18	Average Revenue / Present Rates	$ 36.66	$ 39.44	$ 41.00	$ 45.26	$ 53.37		
19	Revenue Annualization / Present Rates	$ 37	$ -	$ -	$ -	$ -		$ 499
20								
21	Increase in Number of Customers	1	-	-	-	-		
22	Average Revenue / Proposed Rates	$ 74.34	$ 80.13	$ 83.39	$ 92.29	$ 109.21		
23	Revenue Annualization / Proposed Rates	$ 37	$ -	$ -	$ -	$ -		$ 1,017
24	Additional Gallons to be Produced	10,143	-	-	-	-		194,570

Las Quintas Serenas Water Company
1.5 Inch
Customers to Year End Levels
Test Year Ended June 30, 2009

Exhibit
Schedule C-2
Page 5.4
Witness: Bourassa

Line No.		Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09
1	Year End Number of Customers	7	7	7	7	7	7	7
2	Actual Customers	7	7	8	7	7	7	7
3	Increase in Number of Customers/Bills	-	-	(1)	-	-	-	-
4	Average Revenue / Present Rates	$ 140.26	$ 122.60	$ 118.06	$ 126.60	$ 131.51	$ 110.15	$ 104.88
5	Revenue Annualization / Present Rates	$ -	$ -	$ (118)	$ -	$ -	$ -	$ -
6								
7	Increase in Number of Customers	-	-	(1)	-	-	-	-
8	Average Revenue / Proposed Rates	$ 292.43	$ 246.36	$ 234.51	$ 256.77	$ 269.59	$ 215.10	$ 204.09
9	Revenue Annualization / Proposed Rates	$ -	$ -	$ (235)	$ -	$ -	$ -	$ -
10	Additional Gallons to be Produced	-	-	(54,838)	-	-	-	-
11								
12								
13								
14								

Line No.		Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09	Total Year
15	Year End Number of Customers	7	7	7	7	7	
16	Actual Customers	7	7	7	7	7	
17	Increase in Number of Customers/Bills	-	-	-	-	-	(1)
18	Average Revenue / Present Rates	$ 97.06	$ 91.31	$ 103.09	$ 113.12	$ 125.15	
19	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ (118)
20							
21	Increase in Number of Customers	-	-	-	-	-	
22	Average Revenue / Proposed Rates	$ 187.77	$ 175.77	$ 200.36	$ 221.63	$ 253.00	
23	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ (235)
24	Additional Gallons to be Produced	-	-	-	-	-	(54,838)

Las Quintas Serenas Water Company
2 Inch
Customers to Year End Levels
Test Year Ended June 30, 2009

Exhibit
Schedule C-2
Page 5.5
Witness: Bourassa

Line No.		Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09
1	Year End Number of Customers	4	4	4	4	4	4	4
2	Actual Customers	4	4	4	4	4	4	4
3	Increase in Number of Customers/Bills	-	-	-	-	-	-	-
4	Average Revenue / Present Rates	$ 683.48	$ 342.43	$ 306.12	$ 304.77	$ 225.11	$ 102.20	$ 99.90
5	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6								
7	Increase in Number of Customers	-	-	-	-	-	-	-
8	Average Revenue / Proposed Rates	$ 1,541.95	$ 784.08	$ 703.38	$ 700.38	$ 516.63	$ 227.20	$ 222.40
9	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ -	$ -
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11								
12								
13								
14		Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09		Total Year
15	Year End Number of Customers	4	4	4	4	4		
16	Actual Customers	4	4	4	4	4		
17	Increase in Number of Customers/Bills	-	-	-	-	-		-
18	Average Revenue / Present Rates	$ 111.11	$ 118.59	$ 177.67	$ 227.55	$ 371.09		
19	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -		$ -
20								
21	Increase in Number of Customers	-	-	-	-	-		
22	Average Revenue / Proposed Rates	$ 245.80	$ 261.40	$ 392.88	$ 523.00	$ 847.75		
23	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -		$ -
24	Additional Gallons to be Produced	-	-	-	-	-		-

Las Quintas Serenas Water Company
4 Inch
Customers to Year End Levels
Test Year Ended June 30, 2009

Exhibit
Schedule C-2
Page 5.6
Witness: Bourassa

Line No.		Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09
1	Year End Number of Customers	2	2	2	2	2	2	2
2	Actual Customers	1	1	1	1	1	2	2
3	Increase in Number of Customers/Bills	1	1	1	1	1	-	-
4	Average Revenue / Present Rates	$ 2,055.39	$ 1,020.48	$ 1,606.11	$ 1,834.53	$ 1,190.17	$ 313.44	$ 277.04
5	Revenue Annualization / Present Rates	$ 2,055	$ 1,020	$ 1,606	$ 1,834.53	$ 1,190	$ -	$ -
6								
7	Increase in Number of Customers	1	1	1	1	1	-	-
8	Average Revenue / Proposed Rates	$ 4,595.30	$ 2,295.50	$ 3,596.90	$ 4,104.50	$ 2,672.60	$ 684.56	$ 608.60
9	Revenue Annualization / Proposed Rates	$ 4,595	$ 2,296	$ 3,597	$ 4,104.50	$ 2,673	$ -	$ -
10	Additional Gallons to be Produced	1,415,100	648,500	1,082,300	1,251,500	774,200	-	-
11								
12		Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09		Total Year
13								
14								
15	Year End Number of Customers	2	2	2	2	2		
16	Actual Customers	2	2	2	2	2		
17	Increase in Number of Customers/Bills	-	-	-	-	-		5
18	Average Revenue / Present Rates	$ 323.90	$ 276.46	$ 448.10	$ 551.54	$ 818.18		
19	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -		$ 7,707
20								
21	Increase in Number of Customers	-	-	-	-	-		
22	Average Revenue / Proposed Rates	$ 706.40	$ 607.40	$ 965.60	$ 1,201.85	$ 1,845.95		
23	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -		$ 17,265
24	Additional Gallons to be Produced	-	-	-	-	-		5,171,600

Las Quintas Serenas Water Company
Standpipe
Customers to Year End Levels
Test Year Ended June 30, 2009

Exhibit
Schedule C-2
Page 5.7
Witness: Bourassa

Line No.		Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09
1	Year End Number of Customers	157	157	157	157	157	157	157
2	Actual Customers	159	159	158	155	155	155	152
3	Increase in Number of Customers/Bills	(2)	(2)	(1)	2	2	2	5
4	Average Revenue / Present Rates	$ 26.68	$ 23.78	$ 22.05	$ 21.64	$ 21.26	$ 19.85	$ 18.42
5	Revenue Annualization / Present Rates	$ (53)	$ (48)	$ (22)	$ 43	$ 43	$ 40	$ 92
6								
7	*Increase in Number of Customers*	(2)	(2)	(1)	2	2	2	5
8	Average Revenue / Proposed Rates	$ 57.55	$ 49.97	$ 45.45	$ 44.40	$ 43.41	$ 40.23	$ 37.24
9	Revenue Annualization / Proposed Rates	$ (115)	$ (100)	$ (45)	$ 89	$ 87	$ 80	$ 186
10	Additional Gallons to be Produced	(30,234)	(25,183)	(11,083)	21,465	20,807	18,356	39,657
11								
12		Month	Month	Month	Month	Month		Total
13		of	of	of	of	of		Year
14		Feb-09	Mar-09	Apr-09	May-09	Jun-09		
15	Year End Number of Customers	157	157	157	157	157		
16	Actual Customers	153	156	152	155	157		
17	Increase in Number of Customers/Bills	4	1	5	2	-		18
18	Average Revenue / Present Rates	$ 18.90	$ 20.86	$ 21.00	$ 24.49	$ 35.39		
19	Revenue Annualization / Present Rates	$ 76	$ 21	$ 105	$ 49	$ -		$ 345
20								
21	Increase in Number of Customers	4	1	5	2	-		
22	Average Revenue / Proposed Rates	$ 38.22	$ 42.35	$ 42.72	$ 51.83	$ 80.26		
23	Revenue Annualization / Proposed Rates	$ 76	$ 21	$ 105	$ 49	$ -		$ 694
24	Additional Gallons to be Produced	33,374	10,048	50,874	26,420	-		154,502

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

Exhibit
Schedule C-2
Page 6
Witness: Bourassa

Line No.			
1	Annualize Purchase Power Expense		
2			
3	Test Year Purchased Power Expense	$	72,256
4			
5			
6	Total Adjusted Purchased Power Expense	$	72,256
7			
8	Gallon Sold during Test Year (in 1,000's)		154,233
9			
10	Cost per 1,000 gallons	$	0.47
11			
12	Additional Gallons from Revenue Annualization (in 1,000's)		4,779
13			
14			
15	Increase (decrease) in Purchased Power	$	2,246
16			
17	Adjustment to Revenue and/or Expense	$	2,246
18			
19			
20			
21			

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Schedule C-2
Page 7
Witness: Bourassa

Line No.			
1	Annualize Chemicals Expense		
2			
3	Test Year Chemicals Expense	$	742
4			
5	Gallon Sold during Test Year (in 1,000's)		154,233
6			
7	Cost per 1,000 gallons	$	0.0048
8			
9	Additional Gallons from Revenue Annualization		4,779
10			
11			
12	Increase (decrease) in Purchased Power	$	23
13			
14	Adjustment to Revenue and/or Expense	$	23
15			
16			
17			
18			
19			
20			

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Schedule C-2
Page 8
Witness: Bourassa

Line No.			
1	Remove Capitalized Expenses		
2			
3			
4	Gilbert Pump - Bowl assembly replacement/Bail, purge,dip/Bake 50 hp motor	$	(31,523)
5			
6			
7			
8	Increase (decrease) in Materials and Supplies	$	(31,523)
9			
10			
11	Adjustment to Revenue and/or Expense	$	(31,523)
12			
13			
14			
15			
16			
17			
18			
19			
20			

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Adjustment to Revenues and Expenses
Adjustment Number 8

Exhibit
Schedule C-2
Page 9
Witness: Bourassa

Line No.				Label
1	Remove negative expenses			
2				
3				
4	Outside Services	$	2,908	8a
5	Outside Services- Legal		295	8b
6	Taxes Other Than Income		1,320	8c
7				
8				
9				
10				
11				
12	Adjustment to Revenue and/or Expense	$	4,522	
13				
14				
15				
16				
17				
18				
19				
20				

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Adjustment to Revenues and Expenses
Adjustment Number 9

Exhibit
Schedule C-2
Page 11
Witness: Bourassa

Line No.				Label
1	Remove Other Income/Expense to eliminate impact on income taxes			
2				
3				
4	Test Year Other Income	$	(46,732)	8a
5				
6	Test Year Other Expense		1,913	8b
7				
8				
9				
10				
11				
12	Adjustment to Revenue and/or Expense	$	(44,818)	
13				
14				
15				
16				
17				
18				
19				
20				

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Adjustment to Revenues and Expenses
Adjustment Number 10

Exhibit
Schedule C-2
Page 11
Witness: Bourassa

Line No.			
1	Interest Synchronization		
2			
3			
4	Fair Value Rate Base	$ 2,109,537	
5	Weighted Cost of Debt	4.89%	
6	Interest Expense		$ 103,237
7			
8	Test Year Interest Expense		$ 67,699
9			
10	Increase (decrease) in Interest Expense		35,538
11			
12			
13			
14	Adjustment to Revenue and/or Expense		$ (35,538)
15			
16			
17	Weighted Cost of Debt Computation		

18						Weighted
19			Amount	Percent	Cost	Cost
20	Debt	$	1,723,869	74.15%	6.60%	4.89%
21	Equity	$	601,011	25.85%	16.00%	4.14%
22	Total	$	2,324,880	100.00%		9.03%
23						
24						

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Adjustment to Revenues and/or Expenses
Adjustment Number 11

Exhibit
Schedule C-2
Page 12
Witness: Bourassa

Line No.					
1	Income Tax Computation				
2					
3				Adjusted	
4				with Rate	
5				Increase	
6					
7	Taxable Income		$ (79,291)	$ 124,238	
8					
9	Taxable Income		$ (79,291)	$ 124,238	
10					
11					
12					
13	Income Before Taxes			$ 124,238	
14					
15	Arizona Income Before Taxes			$ 124,238	
16					
17	Less Arizona Income Tax			$ 8,657	
18	Rate =	6.97%			
19	Arizona Taxable Income			$ 115,581	
20					
21	Arizona Income Taxes			$ 8,657	
22					
23	Federal Income Before Taxes			$ 124,238	
24					
25	Less Arizona Income Taxes			$ 8,657	
26					
27	Federal Taxable Income			$ 115,581	
28					
29					
30					
31	FEDERAL INCOME TAXES:				
32	15% BRACKET			$ 7,500	
33	25% BRACKET			$ 6,250	
34	34% BRACKET			$ 8,500	Federal
35	39% BRACKET			$ 6,077	Effective
36	34% BRACKET			$ -	Tax
37					Rate
38	Federal Income Taxes			$ 28,327	22.80%
39					
40					
41	Total Income Tax			$ 36,983	
42					
43	Overall Tax Rate			29.77%	
44					
45	Income Tax at Proposed Rates Effective Rate		$ (23,603)		
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.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	22.80%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	29.77%
9		
10	Operating Income % = 100% - Tax Percentage	70.23%
11		
12		
13		
14		
15	1 = Gross Revenue Conversion Factor	
16	Operating Income %	1.4239
17		
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
19		A-1
20		

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

Exhibit
Schedule E-2
Page 1
Witness: Bourassa

Line No.		Test Year Ended 6/30/2009	Prior Year Ended 6/30/2008	Prior Year Ended 6/30/2007
1	**Revenues**			
2	Metered Water Revenues	$ 474,494	$ 487,852	$ 401,754
3	Unmetered Water Revenues		-	-
4	Other Water Revenues	6,778	11,740	69,145
5	**Total Revenues**	$ 481,272	$ 499,592	$ 470,899
6	**Operating Expenses**			
7	Salaries and Wages	$ 150,775	$ 159,662	$ 134,537
8	Purchased Water			
9	Purchased Power	72,256	46,326	37,353
10	Fuel For Power Production	4,217	2,407	3,300
11	Chemicals	742		49
12	Materials and Supplies	53,363	17,227	23,366
13	Outside Services- Engineering	(2,908)	(16,015)	(16,660)
14	Outside Services- Legal	(295)	(13,764)	(3,034)
15	Outside Services- Other	6,568	(1,290)	3,868
16	Water Testing	7,408	1,895	3,650
17	Equipment Rental		73	49
18	Rents - Building and Equipment	11,874	11,635	11,251
19	Transportation Expenses	7,012	7,732	6,873
20	Insurance - General Liability	2,825	2,814	2,446
21	Insurance - Vehicle			
22	Reg. Comm. Exp. - Other			
23	Reg. Comm. Exp. - Rate Case			
24	Miscellaneous Expense	6,177	12,620	
25	Bad Debt Expense	31	34	3,273
26	Depreciation Expense	3,817	40,751	10,197
27	Taxes Other Than Income	(1,320)	13,514	10,211
28	Property Taxes	16,497	15,434	19,107
29	Income Tax	34,368	46,223	45,733
30				
31	**Total Operating Expenses**	$ 373,406	$ 347,281	$ 295,569
32	**Operating Income**	$ 107,866	$ 152,311	$ 175,330
33	**Other Income (Expense)**			
34	Interest Income		8	
35	Other income (loss)	46,732	14,854	6,726
36	Interest Expense	(67,699)	(7,350)	
37	Other Expense	(1,913)		(9,494)
38				
39	**Total Other Income (Expense)**	$ (22,881)	$ 7,512	$ (2,767)
40	**Net Profit (Loss)**	$ 84,985	$ 159,823	$ 172,562
41				
42				
43				
44	SUPPORTING SCHEDULES:		RECAP SCHEDULES:	
45			A-2	
46				
47				
48				
49				
50				

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Comparative Statements of Cash Flows

Exhibit
Schedule E-3
Page 1
Witness: Bourassa

Line No.		Test Year Ended 6/30/2009	Prior Year Ended 6/30/2008	Prior Year Ended 6/30/2007
1				
2				
3	Cash Flows from Operating Activities			
4	Net Income	$ 84,985	$ 159,823	$ 172,562
5	Adjustments to reconcile net income to net cash			
6	provided by operating activities:			
7	Depreciation and Amortization	3,817	40,751	10,197
8	Adjustments to Depreciation and Amortization	(8,467)		
9	Other	4,478	35,629	86,273
10	Changes in Certain Assets and Liabilities:			
11	Accounts Receivable	157	(40,835)	(8,057)
12	Accounts Receivable, Other			
13	Materials and Supplies Inventory	111	(581)	4,555
14	Prepaid Expenses		82	(409)
15	Accounts Payable			
16	Intercompany payable			
17	Customer Meter Deposits	(5,027)	(4,885)	(2,059)
18	Taxes Payable	(54,139)	1,097	40,527
19	Deferred Income Taxes	21,131	(21,131)	(68,490)
20	Other assets and liabilities	19,349	(31,351)	(8,960)
21	Net Cash Flow provided by Operating Activities	$ 66,395	$ 138,599	$ 226,139
22	Cash Flow From Investing Activities:			
23	Capital Expenditures	(1,571,758)	(415,750)	(147,280)
24	Plant Held for Future Use			-
25	Change In Short-term Investments	(36,175)	(8,307)	42,454
26	Net Cash Flows from Investing Activities	$ (1,607,933)	$ (424,057)	$ (104,826)
27	Cash Flow From Financing Activities			
28	Change in Restricted Cash			
29	Net Receipts of Advances-in-Aid of Contruction	(40,175)	(13,901)	(82,862)
30	Net Receipts of Contributions-in-Aid of Contruction	36,352	13,900	66,225
31	Net Proceeds From Long-Term Debt	1,259,076	464,793	
32	Dividends Paid			
33	Deferred Financing Costs			
34	Stock/Paid in Capital			
35	Net Cash Flows Provided by Financing Activities	$ 1,255,253	$ 464,792	$ (16,637)
36	Increase(decrease) in Cash and Cash Equivalents	(286,285)	179,334	104,676
37	Cash and Cash Equivalents at Beginning of Year	331,220	151,886	47,210
38	Cash and Cash Equivalents at End of Year	$ 44,935	$ 331,220	$ 151,886
39				
40	SUPPORTING SCHEDULES:			RECAP SCHEDULES:
41				A-5

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Statement of Changes in Stockholder's Equity

Exhibit
Schedule E-4
Page 1
Witness: Bourassa

Line No.		Common Stock	Paid-In-Capital	Retained Earnings	Total
1					
2					
3					
4	Balance, June 30, 2006	$ 2,550	$ 5,180	$ 222,040	$ 229,770
5	Addnl Paid In Capital		-		-
6	Prior Yr Adjustment			86,274	86,274
7	Dividends			-	-
8	Net Income			172,562	172,562
9	Balance, June 30, 2007	$ 2,550	$ 5,180	$ 480,876	$ 488,606
10	Addnl Paid In Capital		-		-
11	Prior Yr Adjustment			35,628	35,628
12	Dividends			-	-
13	Net Income			159,823	159,823
14	Balance, June 30, 2008	$ 2,550	$ 5,180	$ 676,327	$ 684,057
15	Addnl Paid In Capital		-		-
16	Prior Yr Adjustment			424	424
17	Dividends				-
18	Net Income			84,985	84,985
19	Balance, June 30, 2009	$ 2,550	$ 5,180	$ 761,736	$ 769,466
20					
21					
22					
23					
24					
25					
26	SUPPORTING SCHEDULES:			RECAP SCHEDULES:	

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Detail of Plant in Service

Exhibit
Schedule E-5
Page 1
Witness: Bourassa

Line No.	Acct. No.	Plant Description	Plant Balance at 6/30/2008	Plant Additions, Reclass-ications or or Retirements	Plant Balance at 6/30/2009
1					
2	301	Organization Cost	$ -	$ -	$ -
3	302	Franchise Cost	-	-	-
4	303	Land and Land Rights	217	-	217
5	304	Structures and Improvements	12,229	-	12,229
6	305	Collecting and Impounding Res.	-	-	-
7	306	Lake River and Other Intakes	-	-	-
8	307	Wells and Springs	143,963	165,131	309,094
9	308	Infiltration Galleries and Tunnels	-	-	-
10	309	Supply Mains	-	-	-
11	310	Power Generation Equipment	-	-	-
12	311	Electric Pumping Equipment	119,815	31,522	151,338
13	320	Water Treatment Equipment	1,740	0	1,740
14	320.1	Water Treatment Equipment	-	2,162,694	2,162,694
15	320.2	Checmical Solution Feeders	-	-	-
16	330	Distribution Reservoirs & Standpipe	99,896	0	99,896
17	330.1	Storage tanks	-	-	-
18	330.2	Pressure Tanks	-	-	-
19	331	Transmission and Distribution Mains	903,698	20,918	924,616
20	333	Services	2,427	-	2,427
21	334	Meters	101,418	0	101,418
22	335	Hydrants	-	-	-
23	336	Backflow Prevention Devices	1,137	-	1,137
24	339	Other Plant and Miscellaneous Equipment	-	-	-
25	340	Office Furniture and Fixtures	26,483	1,823	28,306
26	340.1	Computers and Software	-	-	-
27	341	Transportation Equipment	26,792	(3,500)	23,292
28	342	Stores Equipment	-	-	-
29	343	Tools and Work Equipment	-	-	-
30	344	Laboratory Equipment	-	-	-
31	345	Power Operated Equipment	2,592	-	2,592
32	346	Communications Equipment	-	-	-
33	347	Miscellaneous Equipment	7,663	(4,498)	3,165
34	348	Other Tangible Plant	-	4,424	4,424
35		Rounding		-	
36		TOTAL WATER PLANT	$ 1,450,070	$ 2,378,515	$ 3,828,585
37					
38		SUPPORTING SCHEDULES		RECAP SCHEDULES:	
39				A-4	
40				E-1	
41					

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Operating Statistics

Exhibit
Schedule E-7
Page 1
Witness: Bourassa

Line No.		Test Year Ended 6/30/2009	Prior Year Ended 6/30/2008	Prior Year Ended 6/30/2007
1	WATER STATISTICS:			
2				
3				
4				
5	Total Gallons Sold (in Thousands)	154,233	164,489	169,452
6				
7				
8				
9	Water Revenues from Customers	$ 481,272	$ 499,592	$ 470,899
10				
11				
12				
13				
14	Year End Number of Customers	1,023	1,014	1,021
15				
16				
17	Annual Gallons (in Thousands)			
18	Sold Per Year End Customer	151	162	166
19				
20				
21				
22	Annual Revenue per Year End Customer	$ 470.45	$ 492.69	$ 461.21
23				
24	Pumping Cost Per 1,000 Gallons	$ 0.4685	$ 0.2816	$ 0.2204
25	Purchased Water Cost per 1,000 Gallons	$ -	$ -	$ -

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Taxes Charged to Operations

Exhibit
Schedule E-8
Page 1
Witness: Bourassa

Line No.	Description	Test Year Ended 6/30/2009	Prior Year Ended 6/30/2008	Prior Year Ended 6/30/2007
1	Description			
2				
3	Federal Income Taxes*	$ 34,368	$ 32,418	$ 31,107
4	State Income Taxes*	-	13,805	14,626
5	Payroll Taxes	(1,320)	13,514	10,211
6	Property Taxes	16,497	15,434	19,107
7				
8	Totals	$ 49,545	$ 75,171	$ 75,050
9				
10				
11	*Computed			
12				
13				
14				

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Notes To Financial Statements

Exhibit
Schedule E-9
Page 1
Witness: Bourassa

Company does not conduct independent audits

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Projected Income Statements - Present & Proposed Rates

Exhibit
Schedule F-1
Page 1
Witness: Bourassa

Line No.		Test Year Actual Results	At Present Rates Year Ended 6/30/2010	At Proposed Rates Year Ended 6/30/2010
1	**Revenues**			
2	Metered Water Revenues	$ 474,494	$ 481,492	$ 685,021
3	Unmetered Water Revenues	-	-	-
4	Other Water Revenues	6,778	6,778	6,778
5		$ 481,272	$ 488,270	$ 691,799
6	**Operating Expenses**			
7	Salaries and Wages	$ 150,775	$ 150,775	$ 150,775
8	Purchased Water	-	-	-
9	Purchased Power	72,256	74,502	74,502
10	Fuel For Power Production	4,217	4,217	4,217
11	Chemicals	742	765	765
12	Materials and Supplies	53,363	21,840	21,840
13	Outside Services	(2,908)	-	-
14	Outside Services- Other	(295)	-	-
15	Outside Services- Legal	6,568	6,568	6,568
16	Water Testing	7,408	7,408	7,408
17	Equipment Rental	-	-	-
18	Rents - Building	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 - Vehicle	-	-	-
22	Reg. Comm. Exp. - Other	-	-	-
23	Reg. Comm. Exp. - Rate Case	-	26,667	26,667
24	Miscellaneous Expense	6,177	6,177	6,177
25	Bad Debt Expense	31	31	31
26	Depreciation Expense	3,817	117,586	117,586
27	Taxes Other Than Income	(1,320)	-	-
28	Property Taxes	16,497	26,078	26,078
29	Income Tax	34,368	(23,603)	36,983
30				
31	**Total Operating Expenses**	$ 373,406	$ 440,721	$ 501,308
32	**Operating Income**	$ 107,866	$ 47,550	$ 190,491
33	**Other Income (Expense)**			
34	Interest Income	-	-	-
35	Other income	46,732	-	-
36	Interest Expense	(67,699)	(103,237)	(103,237)
37	Other Expense	(1,913)	-	-
38	Gain/Loss Sale of Fixed Assets	-	-	-
39	**Total Other Income (Expense)**	$ (22,881)	$ (103,237)	$ (103,237)
40	**Net Profit (Loss)**	$ 84,985	$ (55,687)	$ 87,254
41				

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Projected Statements of Changes in Financial Position
Present and Proposed Rates

Exhibit
Schedule F-2
Page 1
Witness: Bourassa

Line No.		Test Year Ended 6/30/2009	At Present Rates Year Ended 6/30/2010	At Proposed Rates Year Ended 6/30/2010
1				
2				
3				
4				
5	Cash Flows from Operating Activities			
6	Net Income	$ 84,985	$ (55,687)	$ 87,254
7	Adjustments to reconcile net income to net cash			
8	provided by operating activities:			
9	Depreciation and Amortization	3,817	117,586	117,586
10	Adjustment to Depreciation and Amortization	(8,467)		
11	Other	4,478		
12	Changes in Certain Assets and Liabilities:			
13	Accounts Receivable	157		
14	Accounts Receivable, Other	-		
15	*Materials and Supplies Inventory*	111		
16	Prepaid Expenses	-		
17	Accounts Payable	-		
18	Intercompany payable	-		
19	Customer Deposits	(5,027)		
20	Taxes Payable	(54,139)		
21	Deferred Income Taxes	21,131		
22	Other assets and liabilities	19,349		
23	Net Cash Flow provided by Operating Activities	$ 66,395	$ 61,899	$ 204,840
24	Cash Flow From Investing Activities:			
25	Capital Expenditures	(1,571,758)	(16,200)	(16,200)
26	Plant Held for Future Use	-		
27	Change In Short-term Investments	(36,175)		
28	Net Cash Flows from Investing Activities	$ (1,607,933)	$ (16,200)	$ (16,200)
29	Cash Flow From Financing Activities			
30	Change in Restricted Cash	-	(36,174)	(36,174)
31	Net Receipts of Advances-in-Aid of Contruction	(40,175)		
32	Net Receipts of Contributions-in-Aid of Contruction	36,352		
33	Repayments of Long-Term Debt	1,259,076	(28,680)	(28,680)
34	Dividends Paid	-		
35	Deferred Financing Costs	-		
36	Stock/Paid in Capital	-		
37	Net Cash Flows Provided by Financing Activities	$ 1,255,253	$ (64,854)	$ (64,854)
38	Increase(decrease) in Cash and Cash Equivalents	(286,285)	(19,156)	123,786
39	Cash and Cash Equivalents at Beginning of Year	331,220	44,935	44,935
40	Cash and Cash Equivalents at End of Year	$ 44,935	$ 25,780	$ 168,721
41				

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Projected Construction Requirements

Exhibit
Schedule F-3
Page 1
Witness: Bourassa

Line No.	Account Number	Plant Asset:	2010	2011	2012
1					
2					
3					
4	301	Organization Cost			
5	302	Franchise Cost			
6	303	Land and Land Rights			
7	304	Structures and Improvements			18,000
8	305	Collecting and Impounding Res.			
9	306	Lake River and Other Intakes			
10	307	Wells and Springs		30,000	50,000
11	308	Infiltration Galleries and Tunnels			
12	309	Supply Mains			
13	310	Power Generation Equipment			
14	311	Electric Pumping Equipment			5,000
15	320	Water Treatment Equipment			
16	320.1	Water Treatment Equipment			
17	320.2	Checmical Solution Feeders	500	500	500
18	330	Distribution Reservoirs & Standpipe	2,000	9,600	2,600
19	330.1	Storage tanks			
20	330.2	Pressure Tanks			
21	331	Transmission and Distribution Mains		307,600	307,600
22	333	Services			
23	334	Meters	3,600	3,600	3,600
24	335	Hydrants			
25	336	Backflow Prevention Devices			
26	339	Other Plant and Miscellaneous Equipment			
27	340	Office Furniture and Fixtures			
28	340.1	Computers and Software	8,100	1,800	3,600
29	341	Transportation Equipment			30,000
30	342	Stores Equipment			
31	343	Tools and Work Equipment	2,000	5,800	2,000
32	344	Laboratory Equipment			
33	345	Power Operated Equipment			
34	346	Communications Equipment			
35	347	Miscellaneous Equipment			
36	348	Other Tangible Plant			
37					
38					
39	Total		$ 16,200	$ 358,900	$ 422,900
40					
41					
42					

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Assumptions Used in Rate Filing

Exhibit
Schedule F-4
Page 1
Witness: Bourassa

Line No.	
1	Property Taxes were computed using the method used by the Arizona Department
2	of Revenue
3	
4	Projected construction expenditures are shown on Schedule A-4.
5	
6	Expense adjustments are shown on Schedule C2, and are explained in the testimony.
7	
8	Accumulated depreciation and depreciation expense were computed at Arizona Corporation
9	Commission allowed rated in Prior Commission Decision.
10	
11	Income taxes were computed using statutory state and federal income tax rates.
12	
13	
14	
15	

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

Exhibit
Schedule H-1
Page 1
Witness: Bourassa

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	5/8 Inch	$ 327,234	$ 455,388	$ 128,153	39.16%	67.02%	65.83%
2	3/4 Inch	4,095	4,988	892	21.79%	0.84%	0.72%
3	1 Inch	24,612	31,177	6,565	26.67%	5.04%	4.51%
4	1.5 Inch	14,756	20,436	5,680	38.49%	3.02%	2.95%
5	2 Inch	17,044	28,437	11,393	66.84%	3.49%	4.11%
6	4 Inch	19,237	30,888	11,651	60.56%	3.94%	4.46%
7	Subtotal	$ 406,979	$ 571,313	$ 164,334	40.38%	83.35%	82.58%
8							
9							
10	Standpipe	$ 67,100	$ 97,165	$ 30,065	44.81%	13.74%	14.05%
11	Fire Sprinkler	480	480	-	0.00%	0.10%	0.07%
12	Subtotal	67,580	97,645	30,065	44.49%	13.84%	14.11%
13							
14							
15	Total Revenuers before Annualization	$ 474,558	$ 668,958	$ 194,400	40.96%	97.19%	96.70%
16							

17								
18	Meter	Company Present	Company Proposed	Dollar	Percent	Percent of	Percent of	
19	Size	Revenues	Revenues	Change	Change	Present	Proposed	Schedule
20			Revenue Annualization					
21	5/8 Inch	$ (1,434)	$ (2,938)	$ (1,504)	104.88%	-0.29%	-0.42%	C-2, page 5.1
22	3/4 Inch	-	-	-	0.00%	0.00%	0.00%	C-2, page 5.2
23	1 Inch	499	1,017	519	103.99%	0.10%	0.15%	C-2, page 5.3
24	1.5 Inch	(118)	(235)	(116)	98.63%	-0.02%	-0.03%	C-2, page 5.4
25	2 Inch	-	-	-	0.00%	0.00%	0.00%	C-2, page 5.5
26	4 Inch	7,707	17,265	9,558	124.02%	1.58%	2.50%	C-2, page 5.6
27	Subtotal	$ 6,654	$ 15,110	$ 8,457	127.10%	1.36%	2.18%	
28								
29								
30	Standpipe	345	694	349	101.19%	0.07%	0.10%	C-2, page 5.7
31	Fire Sprinkler	-	-	-	0.00%	0.00%	0.00%	
32								
33	Total Revenue Annualization	$ 6,999	$ 15,804	$ 8,806	125.82%	1.43%	3.24%	
34								
35	Total Revenues with Rev. Annual.	$ 481,557	$ 684,762	$ 203,206	42.20%	98.63%	99.94%	
36								
37	Misc. Serv. Rev.	6,778	6,778	-	0.00%	1.388%	0.980%	
38	Annualization of Misc Service Rev.	-	-	-	0.00%	0.000%	0.000%	
39	Unreconciled Difference to C-1	(65)	257	322	-495.38%	-0.013%	0.037%	
40								
41	Total Revenues	$ 488,270	$ 691,797	$ 203,528	41.68%	100.00%	100.95%	
42								

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

Exhibit
Schedule H-2
Page 1
Witness: Bourassa

Line No.	Meter Size	(a) Average Number of Customers at 6/30/2009	Average Consumption	Revenues: Present Rates	Revenues: Proposed Rates	Proposed Increase: Dollar Amount	Proposed Increase: Percent Amount
1	5/8 Inch	820	10,768	$ 327,234	$ 455,388	$ 128,153	39.16%
2	3/4 Inch	6	15,598	4,095	4,988	892	21.79%
3	1 Inch	28	16,842	24,612	31,177	6,565	26.67%
4	1.5 Inch	7	52,477	14,756	20,436	5,680	38.49%
5	2 Inch	4	153,057	17,044	28,437	11,393	66.84%
6	4 Inch	2	401,611	19,237	30,888	11,651	60.56%
7	Subtotal	867		$ 406,979	$ 571,313	$ 164,334	40.38%
8							
9	Standpipe	156	11,823	$ 67,100	$ 97,165	$ 30,065	44.81%
10	Fire Sprinkler	4	-	480	480	-	0.00%
11	Subtotal	160		$ 67,100	$ 97,165	$ 30,065	44.81%
12							
13	Totals	1,026		$ 474,078	$ 668,478	$ 194,400	41.01%
14							

15 (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
Schedule H-2
Page 2
Witness: Bourassa

Line No.	Meter Size and Class	(a) Average Number of Customers at 6/30/2009	Average Consumption	Average Bill Present Rates	Average Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	5/8 Inch	820	10,768	$ 32.95	$ 44.30	11.35	34.44%
2	3/4 Inch	6	15,598	56.69	68.79	12.11	21.36%
3	1 Inch	28	16,842	72.79	90.42	17.63	24.22%
4	1.5 Inch	7	52,477	172.19	227.43	55.24	32.08%
5	2 Inch	4	153,057	337.57	571.17	233.60	69.20%
6	4 Inch	2	401,611	971.37	1,554.83	583.46	60.07%
7	Subtotal	867					
8							
9							
10	Standpipe	156	11,823	$ 34.27	$ 47.67	13.40	39.11%
11	Fire Sprinkler	4	-	$ 10.00	$ 10.00	-	0.00%
12	Subtotal	160					
13							
14	Totals	1,026					
15							
16							
17	(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.						
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							
30							
31							
32							
33							
34							
35							
36							
37							
38							
39							
40							

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

Exhibit
Schedule H-2
Page 3
Witness: Bourassa

Line No.	Meter Size and Class	(a) Average Number of Customers at 6/30/2009	Average Consumption	Median Bill Present Rates	Median Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	5/8 Inch	820	10,768	$ 30.35	$ 38.40	8.06	26.54%
2	3/4 Inch	6	15,598	55.43	65.50	10.08	18.18%
3	1 Inch	28	16,842	67.80	80.00	12.21	18.00%
4	1.5 Inch	7	52,477	153.82	187.60	33.79	21.96%
5	2 Inch	4	153,057	206.37	254.80	48.44	23.47%
6	4 Inch	2	401,611	911.70	1,400.00	488.30	53.56%
7	Subtotal	867					
8							
9							
10	Standpipe	156	11,823	$ 34.27	$ 47.67	$ 13.40	39.11%
11	Fire Sprinkler	4	-	-	-	-	0.00%
12	Subtotal	160					
13							
14	Totals	1,026					
15							
16							
17	(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.						
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							
30							
31							
32							
33							
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35							
36							
37							
38							
39							
40							

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

Exhibit
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			(Per 1,000 gallons)		
21	**Commodity Rates**		**Present**	**Proposed**	
22	**(Residential, Commercial, Industrial)**	**Block**	**Rate**	**Rate**	
23	5/8 Inch and 3/4 Inch	0 gallons to 4,000 gallons	$ 0.95	N/A	
24		4,001 gallons to 23,000 gallons	$ 1.15	N/A	
25		over 23,000 gallons	$ 1.35	N/A	
26					
27	1 Inch	0 gallons to 40,000 gallons	$ 1.15	N/A	
28		over 40,000 gallons	$ 1.35	N/A	
29					
30	1 1/2 Inch	0 gallons to 100,000 gallons	$ 1.15	N/A	
31		over 100,000 gallons	$ 1.35	N/A	
32					
33	2 Inch	0 gallons to 150,000 gallons	$ 1.15	N/A	
34		over 150,000 gallons	$ 1.35	N/A	
35					

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

Exhibit
Schedule H-3
Page 2
Witness: Bourassa

Line No.	Commodity Rates (Residential, Commercial, Industrial)	Block	(Per 1,000 gallons) Present Rate	Proposed Rate
1				
2	**Commodity Rates**		**Present**	**Proposed**
3	**(Residential, Commercial, Industrial)**	**Block**	**Rate**	**Rate**
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	$ 1.90
16		4,001 to 10,000 gallons	N/A	$ 2.40
17		over 10,000 gallons	N/A	$ 3.00
18				
19	3/4 Inch	0 gallons to 4,000 gallons	N/A	$ 1.90
20		4,001 to 10,000 gallons	N/A	$ 2.40
21		over 10,000 gallons	N/A	$ 3.00
22				
23	1 Inch	0 gallons to 25,000 gallons	N/A	$ 2.40
24		over 25,000 gallons	N/A	$ 3.00
25				
26	1 1/2 Inch	0 gallons to 50,000 gallons	N/A	$ 2.40
27		over 50,000 gallons	N/A	$ 3.00
28				
29	2 Inch	0 gallons to 80,000 gallons	N/A	$ 2.40
30		over 80,000 gallons	N/A	$ 3.00
31				
32	3 Inch	0 gallons to 160,000 gallons	N/A	$ 2.40
33		over 160,000 gallons	N/A	$ 3.00
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	(Per 1,000 gallons) Present Rate	Proposed Rate
1				
2	**Commodity Rates**			
3	**(Residential, Commercial, Industrial)**	**Block**	**Present Rate**	**Proposed Rate**
4				
5	4 Inch	0 gallons to 250,000 gallons	N/A	$ 2.40
6		over 250,000 gallons	N/A	$ 3.00
7				
8	6 Inch	0 gallons to 500,000 gallons	N/A	$ 2.40
9		over 500,000 gallons	N/A	$ 3.00
10				
11	Standpipe	0 gallons to 4,000 gallons	N/A	$ 1.90
12		4,001 gallons to 10,000 gallons	N/A	$ 2.40
13		over 10,000 gallons	N/A	$ 3.00
14				
15				
16				
17	**Arsenic Cost Recovery Surcharge**			
18		**Present Rates**	**Proposed Rates**	**Change**	**Percent Change**
19					
20	Meter Size :				
21	5/8 Inch	$ 11.37	$ -	$ (11.37)	-100.00%
22	3/4 Inch	17.05	-	(17.05)	-100.00%
23	1 Inch	28.42	-	(28.42)	-100.00%
24	1 1/2 Inch	56.84	-	(56.84)	-100.00%
25	2 Inch	90.94	-	(90.94)	-100.00%
26	3 Inch	170.52	-	(170.52)	-100.00%
27	4 Inch	284.20	-	(284.20)	-100.00%
28	6 Inch	568.40	-	(568.40)	-100.00%
29					
30	Standpipe	$ 11.37	$ -	$ (11.37)	-100.00%
31					
32					
33					
34					
35					

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

Exhibit
Schedule H- 3
Page 4
Witness: Bourassa

Line No.	Other Service Charges	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 Facitlities Hook-Up Fee	$ 250.00	See H-3, page 5
19	Arsenic Impact Hook-Up Fee	See H-3 page 5	NT
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
Schedule H-3
Page 5
Witness: Bourassa

Line No.		Total Present Charge	Proposed Service Line Charge*	Proposed Meter Install-ation 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	3,670.00	5,160.00
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
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	$ -
7	3/4 Inch	1,703	-
8	1 Inch	2,838	-
9	1 1/2 Inch	5,675	-
10	2 Inch	9,080	-
11	3 Inch	18,160	-
12	4 Inch	28,375	-
13	6 Inch	56,750	-
14			
15			
16	**Offsite Facilities Hook-up Fee**		
17			
18		Present	Proposed
19		Charge	Charge
20	5/8 x 3/4 Inch	$ -	$ 1,135
21	3/4 Inch	-	1,703
22	1 Inch	-	2,838
23	1 1/2 Inch	-	5,675
24	2 Inch	-	9,080
25	3 Inch	-	18,160
26	4 Inch	-	28,375
27	6 Inch	-	56,750
28			
29			

Las Quintas Serenas Water Company
Bill Comparison Present and Proposed Rates
Meter Size: 5/8 Inch

Exhibit
Schedule H-4
Page 1
Witness: Bourassa

Line No.	Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1					
2					
3	-	$ 21.37	$ 20.00	$ (1.37)	-6.41%
4	1,000	22.32	21.90	(0.42)	-1.88%
5	2,000	23.27	23.80	0.53	2.28%
6	3,000	24.22	25.70	1.48	6.11%
7	4,000	25.17	27.60	2.43	9.65%
8	5,000	26.32	30.00	3.68	13.98%
9	6,000	27.47	32.40	4.93	17.95%
10	7,000	28.62	34.80	6.18	21.59%
11	8,000	29.77	37.20	7.43	24.96%
12	9,000	30.92	39.60	8.68	28.07%
13	10,000	32.07	42.00	9.93	30.96%
14	12,000	34.37	48.00	13.63	39.66%
15	14,000	36.67	54.00	17.33	47.26%
16	16,000	38.97	60.00	21.03	53.96%
17	18,000	41.27	66.00	24.73	59.92%
18	20,000	43.57	72.00	28.43	65.25%
19	25,000	49.72	87.00	37.28	74.98%
20	30,000	56.47	102.00	45.53	80.63%
21	35,000	63.22	117.00	53.78	85.07%
22	40,000	69.97	132.00	62.03	88.65%
23	50,000	83.47	162.00	78.53	94.08%
24	60,000	96.97	192.00	95.03	98.00%
25	70,000	110.47	222.00	111.53	100.96%
26	80,000	123.97	252.00	128.03	103.27%
27	90,000	137.47	282.00	144.53	105.14%
28	100,000	150.97	312.00	161.03	106.66%
29					
30					
31	Average Usage				
32	10,768	$ 32.95	$ 44.30	$ 11.35	34.44%
33	Median Usage				
34	8,500	$ 30.35	$ 38.40	$ 8.06	26.54%

Present Rates:

Monthly Minimum:		$	10.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	4,000	$	0.95
Up to	23,000	$	1.15
Over	23,000	$	1.35
Arsenic Surcharge		$	11.37

Proposed Rates:

Monthly Minimum:		$	20.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	4,000	$	1.90
Up to	10,000	$	2.40
Over	10,000	$	3.00
Arsenic Surcharge		$	-

Las Quintas Serenas Water Company
Bill Comparison Present and Proposed Rates
Meter Size: 3/4 Inch

Exhibit
Schedule H-4
Page 2
Witness: Bourassa

Line No.	Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1					
2					
3	-	$ 39.55	$ 30.00	$ (9.55)	-24.15%
4	1,000	40.50	31.90	(8.60)	-21.23%
5	2,000	41.45	33.80	(7.65)	-18.46%
6	3,000	42.40	35.70	(6.70)	-15.80%
7	4,000	43.35	37.60	(5.75)	-13.26%
8	5,000	44.50	40.00	(4.50)	-10.11%
9	6,000	45.65	42.40	(3.25)	-7.12%
10	7,000	46.80	44.80	(2.00)	-4.27%
11	8,000	47.95	47.20	(0.75)	-1.56%
12	9,000	49.10	49.60	0.50	1.02%
13	10,000	50.25	52.00	1.75	3.48%
14	12,000	52.55	58.00	5.45	10.37%
15	14,000	54.85	64.00	9.15	16.68%
16	16,000	57.15	70.00	12.85	22.48%
17	18,000	59.45	76.00	16.55	27.84%
18	20,000	61.75	82.00	20.25	32.79%
19	25,000	67.90	97.00	29.10	42.86%
20	30,000	74.65	112.00	37.35	50.03%
21	35,000	81.40	127.00	45.60	56.02%
22	40,000	88.15	142.00	53.85	61.09%
23	50,000	101.65	172.00	70.35	69.21%
24	60,000	115.15	202.00	86.85	75.42%
25	70,000	128.65	232.00	103.35	80.33%
26	80,000	142.15	262.00	119.85	84.31%
27	90,000	155.65	292.00	136.35	87.60%
28	100,000	169.15	322.00	152.85	90.36%
29					
30					
31	Average Usage				
32	15,598	$ 56.69	$ 68.79	$ 12.11	21.36%
33	Median Usage				
34	14,500	$ 55.43	$ 65.50	$ 10.08	18.18%

Present Rates:			
Monthly Minimum:		$	22.50
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	4,000	$	0.95
Up to	23,000	$	1.15
Over	23,000	$	1.35
Arsenic Surcharge		$	17.05
Proposed Rates:			
Monthly Minimum:		$	30.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	4,000	$	1.90
Up to	10,000	$	2.40
Over	10,000	$	3.00
Arsenic Surcharge		$	-

Las Quintas Serenas Water Company
Bill Comparison Present and Proposed Rates
Meter Size: 1 Inch

Exhibit
Schedule H-4
Page 3
Witness: Bourassa

Line No.	Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1					
2					
3	-	$ 53.42	$ 50.00	$ (3.42)	-6.40%
4	1,000	54.57	52.40	(2.17)	-3.98%
5	2,000	55.72	54.80	(0.92)	-1.65%
6	3,000	56.87	57.20	0.33	0.58%
7	4,000	58.02	59.60	1.58	2.72%
8	5,000	59.17	62.00	2.83	4.78%
9	6,000	60.32	64.40	4.08	6.76%
10	7,000	61.47	66.80	5.33	8.67%
11	8,000	62.62	69.20	6.58	10.51%
12	9,000	63.77	71.60	7.83	12.28%
13	10,000	64.92	74.00	9.08	13.99%
14	12,000	67.22	78.80	11.58	17.23%
15	14,000	69.52	83.60	14.08	20.25%
16	16,000	71.82	88.40	16.58	23.09%
17	18,000	74.12	93.20	19.08	25.74%
18	20,000	76.42	98.00	21.58	28.24%
19	25,000	82.17	110.00	27.83	33.87%
20	30,000	87.92	125.00	37.08	42.17%
21	35,000	93.67	140.00	46.33	49.46%
22	40,000	99.42	155.00	55.58	55.90%
23	50,000	112.92	185.00	72.08	63.83%
24	60,000	126.42	215.00	88.58	70.07%
25	70,000	139.92	245.00	105.08	75.10%
26	80,000	153.42	275.00	121.58	79.25%
27	90,000	166.92	305.00	138.08	82.72%
28	100,000	180.42	335.00	154.58	85.68%
29					
30					
31	Average Usage				
32	16,842	$ 72.79	$ 90.42	$ 17.63	24.22%
33	Median Usage				
34	12,500	$ 67.80	$ 80.00	$ 12.21	18.00%

Present Rates:

Monthly Minimum:		$	25.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	40,000	$	1.15
Over	40,000	$	1.35
Arsenic Surcharge		$	28.42

Proposed Rates:

Monthly Minimum:		$	50.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	25,000	$	2.40
Over	25,000	$	3.00
Arsenic Surcharge		$	-

Las Quintas Serenas Water Company
Bill Comparison Present and Proposed Rates
Meter Size: 1.5 Inch

Exhibit
Schedule H-4
Page 4
Witness: Bourassa

Line No.	Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1					
2					
3	-	$ 111.84	$ 100.00	$ (11.84)	-10.59%
4	1,000	112.99	102.40	(10.59)	-9.37%
5	2,000	114.14	104.80	(9.34)	-8.18%
6	3,000	115.29	107.20	(8.09)	-7.02%
7	4,000	116.44	109.60	(6.84)	-5.87%
8	5,000	117.59	112.00	(5.59)	-4.75%
9	6,000	118.74	114.40	(4.34)	-3.66%
10	7,000	119.89	116.80	(3.09)	-2.58%
11	8,000	121.04	119.20	(1.84)	-1.52%
12	9,000	122.19	121.60	(0.59)	-0.48%
13	10,000	123.34	124.00	0.66	0.54%
14	12,000	125.64	128.80	3.16	2.52%
15	14,000	127.94	133.60	5.66	4.42%
16	16,000	130.24	138.40	8.16	6.27%
17	18,000	132.54	143.20	10.66	8.04%
18	20,000	134.84	148.00	13.16	9.76%
19	25,000	140.59	160.00	19.41	13.81%
20	30,000	146.34	172.00	25.66	17.53%
21	35,000	152.09	184.00	31.91	20.98%
22	40,000	157.84	196.00	38.16	24.18%
23	50,000	169.34	220.00	50.66	29.92%
24	60,000	180.84	250.00	69.16	38.24%
25	70,000	192.34	280.00	87.66	45.58%
26	80,000	203.84	310.00	106.16	52.08%
27	90,000	215.34	340.00	124.66	57.89%
28	100,000	226.84	370.00	143.16	63.11%
29					
30					
31	Average Usage				
32	52,477	$ 172.19	$ 227.43	$ 55.24	32.08%
33	Median Usage				
34	36,500	$ 153.82	$ 187.60	$ 33.79	21.96%

Present Rates:			
Monthly Minimum:		$	55.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	100,000	$	1.15
Over	100,000	$	1.35
Arsenic Surcharge		$	56.84
Proposed Rates:			
Monthly Minimum:		$	100.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	50,000	$	2.40
Over	50,000	$	3.00
Arsenic Surcharge		$	-

Las Quintas Serenas Water Company
Bill Comparison Present and Proposed Rates
Meter Size: 2 Inch

Exhibit
Schedule H-4
Page 5
Witness: Bourassa

Line No.	Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1					
2					
3	-	$ 160.94	$ 160.00	$ (0.94)	-0.58%
4	1,000	162.09	162.40	0.31	0.19%
5	2,000	163.24	164.80	1.56	0.96%
6	3,000	164.39	167.20	2.81	1.71%
7	4,000	165.54	169.60	4.06	2.45%
8	5,000	166.69	172.00	5.31	3.19%
9	6,000	167.84	174.40	6.56	3.91%
10	7,000	168.99	176.80	7.81	4.62%
11	8,000	170.14	179.20	9.06	5.33%
12	9,000	171.29	181.60	10.31	6.02%
13	10,000	172.44	184.00	11.56	6.70%
14	12,000	174.74	188.80	14.06	8.05%
15	14,000	177.04	193.60	16.56	9.35%
16	16,000	179.34	198.40	19.06	10.63%
17	18,000	181.64	203.20	21.56	11.87%
18	20,000	183.94	208.00	24.06	13.08%
19	25,000	189.69	220.00	30.31	15.98%
20	30,000	195.44	232.00	36.56	18.71%
21	35,000	201.19	244.00	42.81	21.28%
22	40,000	206.94	256.00	49.06	23.71%
23	50,000	218.44	280.00	61.56	28.18%
24	60,000	229.94	304.00	74.06	32.21%
25	70,000	241.44	328.00	86.56	35.85%
26	80,000	252.94	352.00	99.06	39.16%
27	90,000	264.44	382.00	117.56	44.46%
28	100,000	275.94	412.00	136.06	49.31%
29					
30					
31	Average Usage				
32	153,057	$ 337.57	$ 571.17	233.60	69.20%
33	Median Usage				
34	39,500	$ 206.37	$ 254.80	$ 48.44	23.47%

Present Rates:

Monthly Minimum:		$ 70.00
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	150,000	$ 1.15
Over	150,000	$ 1.35
Arsenic Surcharge		$ 90.94

Proposed Rates:

Monthly Minimum:		$ 160.00
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	80,000	$ 2.40
Over	80,000	$ 3.00
Arsenic Surcharge		$ -

Las Quintas Serenas Water Company
Bill Comparison Present and Proposed Rates

Meter Size: 4 Inch

Exhibit
Schedule H-4
Page 6
Witness: Bourassa

Line No.	Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1					
2					
3	-	$ 509.20	$ 500.00	$ (9.20)	-1.81%
4	1,000	510.35	502.40	(7.95)	-1.56%
5	2,000	511.50	504.80	(6.70)	-1.31%
6	3,000	512.65	507.20	(5.45)	-1.06%
7	4,000	513.80	509.60	(4.20)	-0.82%
8	5,000	514.95	512.00	(2.95)	-0.57%
9	6,000	516.10	514.40	(1.70)	-0.33%
10	7,000	517.25	516.80	(0.45)	-0.09%
11	8,000	518.40	519.20	0.80	0.15%
12	9,000	519.55	521.60	2.05	0.39%
13	10,000	520.70	524.00	3.30	0.63%
14	12,000	523.00	528.80	5.80	1.11%
15	14,000	525.30	533.60	8.30	1.58%
16	16,000	527.60	538.40	10.80	2.05%
17	18,000	529.90	543.20	13.30	2.51%
18	20,000	532.20	548.00	15.80	2.97%
19	25,000	537.95	560.00	22.05	4.10%
20	30,000	543.70	572.00	28.30	5.21%
21	35,000	549.45	584.00	34.55	6.29%
22	40,000	555.20	596.00	40.80	7.35%
23	50,000	566.70	620.00	53.30	9.41%
24	60,000	578.20	644.00	65.80	11.38%
25	70,000	589.70	668.00	78.30	13.28%
26	80,000	601.20	692.00	90.80	15.10%
27	90,000	612.70	716.00	103.30	16.86%
28	100,000	624.20	740.00	115.80	18.55%
29					
30					
31	Average Usage				
32	401,611	$ 971.37	$ 1,554.83	$ 583.46	60.07%
33	Median Usage				
34	350,000	$ 911.70	$ 1,400.00	$ 488.30	53.56%

Present Rates:

Monthly Minimum:		$	225.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	400,000	$	1.15
Over	400,000	$	1.35
Arsenic Surcharge		$	284.20

Proposed Rates:

Monthly Minimum:		$	500.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	250,000	$	2.40
Over	250,000	$	3.00
Arsenic Surcharge		$	-

Las Quintas Serenas Water Company
Bill Comparison Present and Proposed Rates
Meter Size: Standpipe

Exhibit
Schedule H-4
Page 7
Witness: Bourassa

Line No.	Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1					
2					
3	-	$ 21.47	$ 20.20	$ (1.27)	-5.92%
4	1,000	22.42	22.10	(0.32)	-1.43%
5	2,000	23.37	24.00	0.63	2.70%
6	3,000	24.32	25.90	1.58	6.50%
7	4,000	25.27	27.80	2.53	10.01%
8	5,000	26.42	30.20	3.78	14.31%
9	6,000	27.57	32.60	5.03	18.24%
10	7,000	28.72	35.00	6.28	21.87%
11	8,000	29.87	37.40	7.53	25.21%
12	9,000	31.02	39.80	8.78	26.30%
13	10,000	32.17	42.20	10.03	31.18%
14	12,000	34.47	48.20	13.73	39.83%
15	14,000	36.77	54.20	17.43	47.40%
16	16,000	39.07	60.20	21.13	54.08%
17	18,000	41.37	66.20	24.83	60.02%
18	20,000	43.67	72.20	28.53	65.33%
19	25,000	49.82	87.20	37.38	75.03%
20	30,000	56.57	102.20	45.63	80.66%
21	35,000	63.32	117.20	53.88	85.09%
22	40,000	70.07	132.20	62.13	88.67%
23	50,000	83.57	162.20	78.63	94.09%
24	60,000	97.07	192.20	95.13	98.00%
25	70,000	110.57	222.20	111.63	100.96%
26	80,000	124.07	252.20	128.13	103.27%
27	90,000	137.57	282.20	144.63	105.13%
28	100,000	151.07	312.20	161.13	106.66%
29					
30					
31	Average Usage				
32	11,823	$ 34.27	$ 47.67	$ 13.40	39.11%
33	Median Usage				
34	3,500	$ 24.80	$ 26.85	$ 2.06	8.29%

Present Rates:			
Monthly Minimum:			$10.10
Gallons in Minimum			-
Charge Per 1,000 Gallons			
	Up to	4,000	$ 0.95
	Up to	23,000	$ 1.15
	Over	23,000	$ 1.35
Arsenic Surcharge			$11.37
Proposed Rates:			
Monthly Minimum:			$20.20
Gallons in Minimum			-
Charge Per 1,000 Gallons			
	Up to	4,000	$ 1.90
	Up to	10,000	$ 2.40
	Over	10,000	$ 3.00
Arsenic Surcharge			$ -

Las Quintas Serenas Water Company
Bill Comparison Present and Proposed Rates
Meter Size: Fire Sprinkler less than 6 Inch

Exhibit
Schedule H-4
Page 8
Witness: Bourassa

Line No.	Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1					
2					
3	-	$ 10.00	$ 10.00	$ -	0.00%
4	1,000	10.00	10.00	-	0.00%
5	2,000	10.00	10.00	-	0.00%
6	3,000	10.00	10.00	-	0.00%
7	4,000	10.00	10.00	-	0.00%
8	5,000	10.00	10.00	-	0.00%
9	6,000	10.00	10.00	-	0.00%
10	7,000	10.00	10.00	-	0.00%
11	8,000	10.00	10.00	-	0.00%
12	9,000	10.00	10.00	-	0.00%
13	10,000	10.00	10.00	-	0.00%
14	12,000	10.00	10.00	-	0.00%
15	14,000	10.00	10.00	-	0.00%
16	16,000	10.00	10.00	-	0.00%
17	18,000	10.00	10.00	-	0.00%
18	20,000	10.00	10.00	-	0.00%
19	25,000	10.00	10.00	-	0.00%
20	30,000	10.00	10.00	-	0.00%
21	35,000	10.00	10.00	-	0.00%
22	40,000	10.00	10.00	-	0.00%
23	50,000	10.00	10.00	-	0.00%
24	60,000	10.00	10.00	-	0.00%
25	70,000	10.00	10.00	-	0.00%
26	80,000	10.00	10.00	-	0.00%
27	90,000	10.00	10.00	-	0.00%
28	100,000	10.00	10.00	-	0.00%
29					
30					
31	Average Usage				
32	-	$ 10.00	$ 10.00	$ -	0.00%
33	Median Usage				
34	-	$ 10.00	$ 10.00	$ -	0.00%

Present Rates:
Monthly Minimum: $10.00

Proposed Rates:
Monthly Minimum: $10.00

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Meter Size: 5/8 Inch

Exhibit
Schedule H-5
Page 1
Witness: Bourassa

Usage From:	Usage To:	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09	Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09	Total Year	Cumulative Billing	Cumulative Gallons
-	-	13	20	28	18	19	20	22	18	18	19	12	17	224	224	-
1	1,000	31	30	24	21	18	26	29	34	27	21	35	28	324	548	162,162
1,001	2,000	22	37	29	28	21	38	39	43	20	27	32	32	368	916	714,346
2,001	3,000	36	53	46	41	39	61	56	68	49	43	36	25	553	1,469	2,097,123
3,001	4,000	30	54	51	54	47	69	91	75	65	54	51	25	666	2,135	4,428,456
4,001	5,000	44	50	58	60	49	76	71	93	70	54	51	26	702	2,837	7,587,807
5,001	6,000	49	58	61	58	50	76	78	90	72	58	48	35	733	3,570	11,619,673
6,001	7,000	35	47	59	54	50	63	72	54	65	69	63	32	663	4,233	15,929,505
7,001	8,000	44	38	50	55	61	69	56	61	70	49	59	41	653	4,886	20,827,331
8,001	9,000	48	59	38	40	36	49	52	48	43	54	44	49	560	5,446	25,587,611
9,001	10,000	29	42	34	44	48	41	36	37	51	45	47	40	492	5,938	30,261,857
10,001	11,000	35	38	39	28	41	42	42	36	41	52	32	38	464	6,402	35,134,089
11,001	12,000	35	33	30	40	33	21	25	20	24	26	33	28	348	6,750	39,136,263
12,001	13,000	28	31	27	33	41	29	35	27	37	24	48	29	389	7,139	43,998,958
13,001	14,000	38	26	35	31	38	21	18	29	27	28	15	41	347	7,486	48,683,631
14,001	15,000	31	22	27	24	22	16	14	13	29	26	21	32	279	7,765	52,729,271
15,001	16,000	23	14	21	18	29	8	18	18	7	19	22	22	219	7,984	56,123,880
16,001	17,000	23	15	25	12	25	24	10	1	20	12	21	18	206	8,190	59,522,983
17,001	18,000	14	18	14	16	13	9	9	6	14	14	22	13	162	8,352	62,358,064
18,001	19,000	17	22	14	16	18	10	3	2	10	16	6	25	159	8,511	65,299,644
19,001	20,000	12	11	11	13	14	9	6	7	8	16	10	14	131	8,642	67,854,209
20,001	21,000	13	12	12	13	5	6	6	2	7	15	12	22	125	8,767	70,416,772
21,001	22,000	16	6	10	13	6	3	7	7	9	6	7	18	108	8,875	72,738,828
22,001	23,000	15	12	8	13	13	1	4	7	2	5	9	8	97	8,972	74,921,374
23,001	24,000	17	10	6	5	8	4	3	3	2	5	6	11	80	9,052	76,801,414
24,001	25,000	13	6	6	11	4	3	2	2	2	2	7	10	68	9,120	78,467,448
25,001	26,000	11	3	5	6	8	3	3	3	4	6	9	13	74	9,194	80,354,485
26,001	27,000	6	6	7	7	3	1	1	-	2	5	6	10	54	9,248	81,785,512
27,001	28,000	14	3	5	3	1	3	-	2	2	2	1	14	50	9,298	83,160,537
28,001	29,000	5	5	4	3	1	2	-	1	5	3	3	12	44	9,342	84,414,559
29,001	30,000	7	7	3	3	7	1	-	1	2	3	3	2	39	9,381	85,565,079
30,001	31,000	4	4	4	2	2	3	1	1	3	2	2	7	35	9,416	86,632,596
31,001	32,000	-	3	1	4	-	-	-	1	2	4	3	5	23	9,439	87,357,108
32,001	33,000	5	4	4	4	2	1	1	2	1	1	1	8	34	9,473	88,462,125
33,001	34,000	1	1	1	1	3	2	-	-	2	3	5	2	21	9,494	89,165,635
34,001	35,000	2	3	1	-	7	1	-	2	1	-	4	4	25	9,519	90,028,148
35,001	36,000	6	2	5	3	4	-	3	2	2	4	1	3	35	9,554	91,270,665
36,001	37,000	5	1	-	1	1	-	3	-	-	1	4	4	20	9,574	92,000,675
37,001	38,000	2	1	4	2	3	-	1	3	-	1	4	-	21	9,595	92,788,186
38,001	39,000	4	2	1	3	2	1	1	-	-	3	-	4	21	9,616	93,596,696
39,001	40,000	1	2	-	-	2	-	-	-	1	1	2	4	13	9,629	94,110,203
40,001	41,000	1	1	1	1	1	1	2	1	1	-	2	3	15	9,644	94,717,710
41,001	42,000	-	3	3	1	-	-	1	-	2	-	-	1	11	9,655	95,174,216
42,001	43,000	4	-	2	2	2	2	-	-	1	2	-	1	16	9,671	95,854,224
43,001	44,000	2	1	1	-	2	-	-	2	1	2	-	1	12	9,683	96,376,230
44,001	45,000	1	-	-	1	2	-	-	-	1	-	2	4	11	9,694	96,865,735
45,001	46,000	-	1	-	1	1	-	-	-	1	-	1	5	10	9,704	97,320,740
46,001	47,000	-	-	-	-	-	-	-	-	-	-	1	2	3	9,707	97,460,242
47,001	48,000	1	-	-	1	-	-	-	-	-	-	1	2	5	9,712	97,697,744
48,001	49,000	1	1	-	-	4	1	-	-	1	1	-	-	9	9,721	98,134,249
49,001	50,000	1	-	-	-	-	-	-	-	-	-	1	-	2	9,723	98,233,250
50,001	51,000	3	-	-	1	-	-	-	-	-	-	-	1	5	9,728	98,485,752

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Meter Size: 5/8 Inch

Exhibit
Schedule H-5
Page 1
Witness: Bourassa

Usage From.	Usage To.	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09	Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09	Total Year	Cumulative Billing	Cumulative Gallons
51,001	52,000	-	2	-	-	2	1	-	-	1	1	1	1	9	9,737	98,949,257
52,001	53,000	1	-	-	-	-	-	-	-	-	1	-	1	3	9,740	99,106,758
53,001	54,000	-	-	1	-	-	1	-	-	-	-	1	1	4	9,744	99,320,760
54,001	55,000	2	-	-	2	-	-	-	-	-	-	2	1	7	9,751	99,702,264
55,001	56,000	-	1	-	1	-	-	-	-	-	-	-	5	7	9,758	100,090,767
56,001	57,000	-	-	1	-	-	-	-	-	-	-	-	2	3	9,761	100,280,269
57,001	58,000	2	-	-	-	2	-	1	-	-	-	1	-	6	9,767	100,605,272
58,001	59,000	2	-	-	-	3	-	-	1	-	-	-	-	6	9,773	100,956,275
59,001	60,000	2	1	-	-	-	-	-	-	-	-	-	1	4	9,777	101,194,277
60,001	61,000	-	-	1	-	1	-	-	-	-	1	-	-	3	9,780	101,375,778
61,001	62,000	-	-	-	1	1	1	-	-	-	-	-	-	3	9,783	101,560,280
62,001	63,000	1	-	1	1	-	-	-	-	-	-	1	-	4	9,787	101,810,282
63,001	64,000	-	-	-	-	-	1	1	-	-	-	-	-	2	9,789	101,937,283
64,001	65,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9,789	101,937,283
65,001	66,000	-	1	-	-	2	-	-	-	-	-	-	-	3	9,792	102,133,784
66,001	67,000	-	-	-	-	-	-	-	-	-	1	-	-	1	9,793	102,200,285
67,001	68,000	1	-	-	-	-	-	1	-	-	-	-	-	2	9,795	102,335,286
68,001	69,000	-	-	1	-	-	-	-	-	-	-	-	-	1	9,796	102,403,786
69,001	70,000	-	-	-	-	-	-	-	-	-	-	-	1	1	9,797	102,473,287
70,001	71,000	-	-	-	-	1	1	-	-	-	-	-	-	2	9,799	102,614,288
71,001	72,000	1	1	-	-	-	-	-	-	-	-	-	-	2	9,801	102,757,289
72,001	73,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9,801	102,757,289
73,001	74,000	1	-	-	-	2	-	-	-	-	1	-	1	5	9,806	103,124,791
74,001	75,000	2	-	-	-	-	1	-	-	-	-	-	1	4	9,810	103,422,793
75,001	76,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9,810	103,422,793
76,001	77,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9,810	103,422,793
77,001	78,000	-	-	1	-	-	-	-	-	-	-	1	-	2	9,812	103,577,794
78,001	79,000	-	1	-	1	-	-	-	-	-	-	-	-	2	9,814	103,734,795
79,001	80,000	-	-	-	-	-	-	-	-	-	-	1	1	2	9,816	103,893,796
80,001	81,000	1	-	-	-	-	1	-	-	1	-	-	1	4	9,820	104,215,798
81,001	82,000	-	-	1	-	-	-	-	-	-	-	-	-	1	9,821	104,297,299
82,001	83,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9,821	104,297,299
83,001	84,000	-	-	-	-	-	-	-	-	-	-	-	1	1	9,822	104,380,799
84,001	85,000	-	-	-	-	1	-	-	-	-	-	-	-	1	9,823	104,465,300
85,001	86,000	-	-	-	-	1	-	-	-	-	-	-	-	1	9,824	104,550,800
86,001	87,000	-	-	-	1	-	-	-	-	-	-	-	-	1	9,825	104,637,301
87,001	88,000	-	1	-	1	-	-	-	-	-	-	-	-	2	9,827	104,812,302
88,001	89,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9,827	104,812,302
89,001	90,000	1	-	-	-	-	-	-	-	-	-	-	-	1	9,828	104,901,802
90,001	91,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9,828	104,901,802
91,001	92,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9,828	104,901,802
92,001	93,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9,828	104,901,802
93,001	94,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9,828	104,901,802
94,001	95,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9,828	104,901,802
95,001	96,000	-	-	-	-	-	-	-	-	-	-	-	1	1	9,829	104,997,303
96,001	97,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9,829	104,997,303
97,001	98,000	-	-	-	-	-	-	-	-	-	-	-	1	1	9,830	105,094,803
98,001	99,000	-	-	-	-	-	-	-	-	-	-	-	1	1	9,831	105,193,304
99,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9,831	105,193,304
103,200	103,200	1	-	-	-	-	-	-	-	-	-	-	-	1	9,832	105,296,504
102,400	102,400	1	-	-	-	-	-	-	-	-	-	-	-	1	9,833	105,398,904
100,900	100,900	-	-	1	-	-	-	-	-	-	-	-	-	1	9,834	105,499,804

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Meter Size: 5/8 Inch

Exhibit
Schedule H-5
Page 1
Witness: Bourassa

Usage From:	Usage To:	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09	Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09	Total Year	Cumul-ative Billing	Cumul-ative Gallons
103,700	103,700	-	-	-	1	-	-	-	-	-	-	-	-	1	9,835	105,803,504
120,900	120,900	-	-	-	-	1	-	-	-	-	-	-	-	1	9,836	105,724,404
106,700	106,700	-	-	-	-	-	-	-	-	-	-	-	1	1	9,837	105,831,104
103,900	103,900	-	-	-	-	-	-	-	-	-	-	-	1	1	9,838	105,935,004
	-													-	9,838	105,935,004
	-													-	9,838	105,935,004
Totals		817	826	823	818	821	823	824	823	826	810	813	814	9,838		

Average Usage	10,768
Median Usage	8,500
Average # Customers	820

Exhibit
Schedule H-5
Page 2
Witness: Bourassa

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

Meter Size: 3/4 Inch

Usage From:	Usage To:	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09	Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09	Total Year	Cumulative Billing	Cumulative Gallons
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1	1,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1,001	2,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2,001	3,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3,001	4,000	-	1	-	-	-	-	-	-	-	-	-	-	1	1	3,501
4,001	5,000	-	-	-	-	1	-	-	-	-	-	-	-	1	2	8,001
5,001	6,000	-	-	1	-	-	-	1	1	-	1	-	-	4	6	30,003
6,001	7,000	1	-	-	-	-	1	1	1	-	-	-	-	4	10	56,005
7,001	8,000	-	1	-	-	-	-	-	-	1	1	-	-	3	13	78,507
8,001	9,000	-	-	-	-	-	-	-	-	1	-	2	-	3	16	104,008
9,001	10,000	-	-	-	1	1	-	-	-	-	-	-	-	2	18	123,009
10,001	11,000	1	-	-	-	-	2	-	-	2	1	1	1	8	26	207,013
11,001	12,000	-	-	1	-	-	-	1	1	-	-	-	-	3	29	241,515
12,001	13,000	1	-	-	1	-	-	-	-	-	-	-	1	3	32	279,016
13,001	14,000	-	-	-	-	-	-	1	-	-	-	-	-	1	33	292,517
14,001	15,000	-	1	-	-	-	-	-	1	1	1	-	1	5	38	365,019
15,001	16,000	-	-	1	-	-	1	1	1	-	-	-	-	4	42	427,021
16,001	17,000	-	-	-	-	-	-	-	-	-	-	1	-	1	43	443,522
17,001	18,000	-	1	-	-	-	-	1	1	-	-	-	-	3	46	496,023
18,001	19,000	-	-	-	-	-	-	-	-	-	1	-	1	2	48	533,024
19,001	20,000	-	-	-	-	-	1	-	-	1	-	1	-	3	51	581,526
20,001	21,000	-	1	1	1	1	1	-	-	-	-	1	-	6	57	714,529
21,001	22,000	-	1	-	2	-	-	-	-	-	-	-	-	3	60	779,030
22,001	23,000	-	-	-	-	-	-	-	-	-	1	-	-	1	61	801,531
23,001	24,000	-	-	-	-	-	-	-	-	-	-	-	-	-	61	801,531
24,001	25,000	1	-	-	-	1	-	-	-	-	-	-	-	2	63	850,532
25,001	26,000	-	-	1	-	-	-	-	-	-	-	-	-	1	64	876,032
26,001	27,000	-	-	-	-	-	-	-	-	-	-	-	-	-	64	876,032
27,001	28,000	1	-	1	-	-	-	-	-	-	-	-	1	3	67	958,534
28,001	29,000	-	-	-	-	-	-	-	-	-	-	-	-	-	67	958,534
29,001	30,000	-	-	-	-	1	-	-	-	-	-	-	-	1	68	988,034
30,001	31,000	-	-	-	-	-	-	-	-	-	-	-	1	1	69	1,018,535
31,001	32,000	-	-	-	-	-	-	-	-	-	-	-	-	-	69	1,018,535
32,001	33,000	1	-	-	-	-	-	-	-	-	-	-	-	1	70	1,051,035
33,001	34,000	-	-	-	-	-	-	-	-	-	-	-	-	-	70	1,051,035
34,001	35,000	-	-	-	-	-	-	-	-	-	-	-	-	-	70	1,051,035
35,001	36,000	-	-	-	1	-	-	-	-	-	-	-	-	1	71	1,086,536
36,001	37,000	-	-	-	-	1	-	-	-	-	-	-	-	1	72	1,123,036
37,001	38,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
38,001	39,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
39,001	40,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
40,001	41,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
41,001	42,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
42,001	43,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
43,001	44,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
44,001	45,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
45,001	46,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
46,001	47,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
47,001	48,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
48,001	49,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036

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

Meter Size: 3/4 Inch

Exhibit
Schedule H-5
Page 2
Witness: Bourassa

Usage From:	Usage To:	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09	Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09	Total Year	Cumulative Billing	Cumulative Gallons
49,001	50,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
50,001	51,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
51,001	52,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
52,001	53,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
53,001	54,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
54,001	55,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
55,001	56,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
56,001	57,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
57,001	58,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
58,001	59,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
59,001	60,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
60,001	61,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
61,001	62,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
62,001	63,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
63,001	64,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
64,001	65,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
65,001	66,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
66,001	67,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
67,001	68,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
68,001	69,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
69,001	70,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
70,001	71,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
71,001	72,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
72,001	73,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
73,001	74,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
74,001	75,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
75,001	76,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
76,001	77,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
77,001	78,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
78,001	79,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
79,001	80,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
80,001	81,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
81,001	82,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
82,001	83,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
83,001	84,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
84,001	85,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
85,001	86,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
86,001	87,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
87,001	88,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
88,001	89,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
89,001	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
90,001	91,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
91,001	92,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
92,001	93,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
93,001	94,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
94,001	95,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
95,001	96,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
96,001	97,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
97,001	98,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
98,001	99,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036

Exhibit
Schedule H-5
Page 2
Witness: Bourassa

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

Meter Size: 3/4 Inch

Usage From:	Usage To:	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09	Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09	Total Year	Cumul-ative Billing	Cumul-ative Gallons
99,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	1,123,036
	-													-	72	1,123,036
	-													-	72	1,123,036
Totals		6	6	6	6	6	6	6	6	6	6	6	6	72		

Average Usage	15,598
Median Usage	14,500
Average # Customers	6

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

Meter Size: 1 Inch

Exhibit
Schedule H-5
Page 3
Witness: Bourassa

Usage From:	Usage To:	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09	Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09	Total Year	Cumulative Billing	Cumulative Gallons
-	-	-	-	1	1	1	2	1	2	1	2	3	2	16	16	-
1	1,000	1	2	2	3	2	1	2	2	2	3	1	1	22	38	11,011
1,001	2,000	-	-	1	-	1	2	2	2	3	-	2	1	14	52	32,018
2,001	3,000	-	1	1	1	-	-	1	-	1	1	1	1	8	60	52,022
3,001	4,000	1	-	-	-	1	1	-	1	-	1	-	-	5	65	69,525
4,001	5,000	-	1	-	-	-	1	1	4	1	-	-	-	8	73	105,529
5,001	6,000	1	2	-	1	1	1	4	-	1	-	1	-	12	85	171,535
6,001	7,000	-	-	2	-	2	-	-	1	1	3	-	2	11	96	243,040
7,001	8,000	1	2	2	2	-	2	6	1	1	2	1	-	20	116	393,050
8,001	9,000	-	2	1	1	1	-	1	2	1	-	-	-	9	125	469,555
9,001	10,000	3	-	1	4	1	1	1	-	1	1	3	2	18	143	640,564
10,001	11,000	1	-	-	1	-	1	1	-	2	3	2	-	11	154	756,069
11,001	12,000	-	1	-	-	-	3	-	2	1	1	-	-	8	162	848,073
12,001	13,000	2	-	1	-	1	-	-	-	1	-	1	2	8	170	948,077
13,001	14,000	-	-	-	-	-	1	1	1	2	1	3	3	12	182	1,110,083
14,001	15,000	1	-	1	-	-	1	-	4	-	2	-	-	9	191	1,240,588
15,001	16,000	-	2	-	1	-	2	3	1	1	1	1	-	12	203	1,426,594
16,001	17,000	-	1	2	1	1	1	-	-	2	-	1	-	9	212	1,575,098
17,001	18,000	-	1	1	2	-	1	-	-	1	-	1	-	7	219	1,697,602
18,001	19,000	-	-	-	1	2	-	-	-	1	-	-	-	4	223	1,771,604
19,001	20,000	1	1	2	-	1	-	-	1	-	1	-	1	8	231	1,927,608
20,001	21,000	2	1	2	-	1	-	-	1	-	-	-	1	8	239	2,091,612
21,001	22,000	2	1	-	1	2	1	-	-	-	-	-	-	7	246	2,242,115
22,001	23,000	-	-	1	-	1	-	-	1	-	1	-	-	4	250	2,332,117
23,001	24,000	-	-	-	-	2	-	-	-	1	1	-	-	4	254	2,426,119
24,001	25,000	-	-	-	-	-	-	1	-	-	-	-	1	2	256	2,475,120
25,001	26,000	2	1	-	1	1	1	1	1	-	-	-	1	9	265	2,704,625
26,001	27,000	-	-	2	-	-	1	-	-	-	1	-	-	4	269	2,810,627
27,001	28,000	1	-	-	-	-	1	1	-	1	-	-	2	6	275	2,975,630
28,001	29,000	-	-	-	1	-	-	1	-	-	-	1	-	3	278	3,061,131
29,001	30,000	-	-	-	-	-	-	-	1	-	-	-	-	1	279	3,090,632
30,001	31,000	-	-	-	-	2	1	-	-	-	-	-	1	4	283	3,212,634
31,001	32,000	-	1	-	1	-	-	-	-	2	-	1	-	5	288	3,370,136
32,001	33,000	-	-	1	-	1	-	-	-	-	-	-	-	2	290	3,435,137
33,001	34,000	-	-	1	1	-	-	-	-	-	1	2	-	5	295	3,602,640
34,001	35,000	1	-	-	-	-	-	-	-	-	-	-	-	1	296	3,637,140
35,001	36,000	-	-	-	-	-	-	-	-	-	-	-	-	-	296	3,637,140
36,001	37,000	-	1	-	-	-	-	-	-	-	-	-	1	2	298	3,710,141
37,001	38,000	-	1	-	-	-	-	-	-	-	-	-	-	1	299	3,747,642
38,001	39,000	-	-	-	1	-	1	-	-	-	-	-	-	2	301	3,824,643
39,001	40,000	-	-	-	-	-	-	-	-	-	1	-	-	1	302	3,864,143
40,001	41,000	-	-	1	-	-	-	-	-	-	-	-	-	1	303	3,904,644
41,001	42,000	-	-	-	-	1	-	-	-	-	1	-	-	2	305	3,987,645
42,001	43,000	-	-	-	-	1	-	-	-	-	-	-	-	1	306	4,030,145
43,001	44,000	-	-	1	1	-	-	-	-	1	-	-	1	4	310	4,204,147
44,001	45,000	1	-	-	-	-	-	-	-	-	1	1	-	3	313	4,337,649
45,001	46,000	2	1	-	1	-	-	-	-	-	-	-	-	4	317	4,519,651
46,001	47,000	-	-	-	-	-	-	-	-	-	-	-	-	-	317	4,519,651

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

Meter Size: 1 Inch

Exhibit
Schedule H-5
Page 3
Witness: Bourassa

Usage From:	Usage To.	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09	Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09	Total Year	Cumul-ative Billing	Cumul-ative Gallons
47,001	48,000	1	-	-	1	-	-	-	-	-	-	-	1	3	320	4,662,152
48,001	49,000	-	1	1	-	-	-	-	-	-	-	1	-	3	323	4,807,654
49,001	50,000	-	1	-	-	-	-	-	-	-	-	-	-	1	324	4,857,154
50,001	51,000	1	-	-	-	-	-	-	-	-	-	-	-	1	325	4,907,655
51,001	52,000	-	-	-	-	1	-	-	-	-	-	-	1	2	327	5,010,656
52,001	53,000	-	-	-	-	-	-	-	-	-	-	-	-	-	327	5,010,656
53,001	54,000	-	-	-	-	-	-	-	-	-	-	-	-	-	327	5,010,656
54,001	55,000	-	-	-	-	-	-	-	-	-	-	-	-	-	327	5,010,656
55,001	56,000	1	-	-	-	-	-	-	-	-	-	1	1	3	330	5,177,157
56,001	57,000	-	-	-	-	-	-	-	-	-	-	-	-	-	330	5,177,157
57,001	58,000	-	-	-	-	-	-	-	-	-	-	-	-	-	330	5,177,157
58,001	59,000	-	-	-	-	-	-	-	-	-	-	-	-	-	330	5,177,157
59,001	60,000	-	-	-	-	-	-	-	-	-	-	-	-	-	330	5,177,157
60,001	61,000	-	-	-	-	-	-	-	-	-	-	-	-	-	330	5,177,157
61,001	62,000	-	-	-	-	-	-	-	-	-	-	-	-	-	330	5,177,157
62,001	63,000	-	-	-	-	-	-	-	-	-	-	-	1	1	331	5,239,658
63,001	64,000	-	-	-	-	-	-	-	-	-	-	-	1	1	332	5,303,158
64,001	65,000	-	-	-	-	-	-	-	-	-	-	1	-	1	333	5,367,659
65,001	66,000	-	1	-	-	-	-	-	-	-	-	-	-	1	334	5,433,159
66,001	67,000	-	-	-	-	-	-	-	-	-	-	-	-	-	334	5,433,159
67,001	68,000	-	-	-	-	-	-	-	-	-	-	-	-	-	334	5,433,159
68,001	69,000	-	-	-	-	-	-	-	-	-	-	-	-	-	334	5,433,159
69,001	70,000	-	-	-	-	-	-	-	-	-	-	-	-	-	334	5,433,159
70,001	71,000	-	-	-	-	-	-	-	-	-	-	-	-	-	334	5,433,159
71,001	72,000	-	-	-	-	-	-	-	-	-	-	-	-	-	334	5,433,159
72,001	73,000	-	-	-	-	-	-	-	-	-	-	-	-	-	334	5,433,159
73,001	74,000	-	-	-	-	-	-	-	-	-	-	-	-	-	334	5,433,159
74,001	75,000	-	-	-	-	-	-	-	-	-	-	-	-	-	334	5,433,159
75,001	76,000	-	-	-	-	-	-	-	-	-	-	-	-	-	334	5,433,159
76,001	77,000	-	-	-	-	-	-	-	-	-	-	-	-	-	334	5,433,159
77,001	78,000	-	-	-	-	-	-	-	-	-	-	-	1	1	335	5,510,660
78,001	79,000	-	-	-	-	-	-	-	-	-	-	-	-	-	335	5,510,660
79,001	80,000	-	-	-	-	-	-	-	-	-	-	-	-	-	335	5,510,660
80,001	81,000	-	1	-	-	-	-	-	-	-	-	-	-	1	336	5,591,160
81,001	82,000	-	-	-	-	-	-	-	-	-	-	-	-	-	336	5,591,160
82,001	83,000	-	-	-	-	-	-	-	-	-	-	-	-	-	336	5,591,160
83,001	84,000	-	-	-	-	-	-	-	-	-	-	-	-	-	336	5,591,160
84,001	85,000	1	-	-	-	-	-	-	-	-	-	-	-	1	337	5,675,661
85,001	86,000	-	-	-	-	-	-	-	-	-	-	-	-	-	337	5,675,661
86,001	87,000	-	-	-	-	-	-	-	-	-	-	-	-	-	337	5,675,661
87,001	88,000	-	-	-	-	-	-	-	-	-	-	-	-	-	337	5,675,661
88,001	89,000	-	-	-	-	-	-	-	-	-	-	-	-	-	337	5,675,661
89,001	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	337	5,675,661
90,001	91,000	-	-	-	-	-	-	-	-	-	-	-	-	-	337	5,675,661
91,001	92,000	-	-	-	-	-	-	-	-	-	-	-	-	-	337	5,675,661
92,001	93,000	-	-	-	-	-	-	-	-	-	-	-	-	-	337	5,675,661
93,001	94,000	-	-	-	-	-	-	-	-	-	-	-	-	-	337	5,675,661
94,001	95,000	-	-	-	-	-	-	-	-	-	-	-	-	-	337	5,675,661

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

Exhibit
Schedule H-5
Page 3
Witness: Bourassa

Meter Size: 1 Inch

Usage From:	Usage To:	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09	Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09	Total Year	Cumulative Billing	Cumulative Gallons
95,001	96,000	-	-	-	-	-	-	-	-	-	-	-	-	-	337	5,675,661
96,001	97,000	-	-	-	-	-	-	-	-	-	-	-	-	-	337	5,675,661
97,001	98,000	-	-	-	-	-	-	-	-	-	-	-	-	-	337	5,675,661
98,001	99,000	-	-	-	-	-	-	-	-	-	-	-	-	-	337	5,675,661
99,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	337	5,675,661
	-													-	337	5,675,661
	-													-	337	5,675,661
	-															
Totals		27	27	28	28	28	27	28	28	29	29	29	29	337		

Average Usage	16,842
Median Usage	12,500
Average # Customers	28

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

Meter Size: 1.5 Inch

Exhibit
Schedule H-5
Page 4
Witness: Bourassa

Usage From:	Usage To:	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09	Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09	Total Year	Cumul-ative Billing	Cumul-ative Gallons
-	-	1	1	2	-	-	1	1	1	1	1	1	-	10	10	-
1	1,000	-	-	-	1	1	-	-	-	-	-	-	-	2	12	1,001
1,001	2,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	1,001
2,001	3,000	-	-	-	1	1	1	1	1	-	-	-	-	5	17	13,504
3,001	4,000	1	1	1	-	-	-	1	-	1	1	1	1	8	25	41,508
4,001	5,000	-	-	-	-	-	1	-	1	-	-	-	-	2	27	50,509
5,001	6,000	-	-	-	-	-	-	-	-	-	-	-	-	-	27	50,509
6,001	7,000	-	-	-	-	-	-	-	-	1	-	-	-	1	28	57,009
7,001	8,000	-	1	-	-	1	-	-	-	-	-	-	-	2	30	72,010
8,001	9,000	-	-	1	-	-	-	-	-	-	2	-	-	3	33	97,512
9,001	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	33	97,512
10,001	11,000	-	-	-	-	-	-	-	-	-	-	-	-	-	33	97,512
11,001	12,000	-	-	-	1	-	-	-	-	-	-	-	-	1	34	109,012
12,001	13,000	-	-	-	-	-	-	-	-	-	-	-	-	-	34	109,012
13,001	14,000	1	-	-	-	-	-	-	-	-	-	-	-	1	35	122,513
14,001	15,000	-	-	-	-	-	-	-	-	-	-	-	-	-	35	122,513
15,001	16,000	-	-	-	-	-	-	-	-	-	-	1	-	1	36	138,013
16,001	17,000	-	-	-	-	-	-	-	-	-	-	-	-	-	36	138,013
17,001	18,000	-	-	-	-	-	-	1	-	-	-	-	-	1	37	155,514
18,001	19,000	-	-	-	-	-	-	-	-	-	-	-	-	-	37	155,514
19,001	20,000	-	-	-	-	-	-	-	-	-	-	-	-	-	37	155,514
20,001	21,000	-	-	-	-	-	-	-	-	-	-	-	-	-	37	155,514
21,001	22,000	-	-	-	-	-	-	-	-	-	-	-	-	-	37	155,514
22,001	23,000	-	-	-	-	-	-	-	-	-	-	-	-	-	37	155,514
23,001	24,000	-	-	-	-	-	-	-	-	-	-	-	-	-	37	155,514
24,001	25,000	-	-	-	-	-	-	-	-	-	-	1	1	2	39	204,515
25,001	26,000	-	-	-	-	-	-	-	-	-	-	-	-	-	39	204,515
26,001	27,000	-	-	-	-	-	-	-	-	-	-	-	-	-	39	204,515
27,001	28,000	-	-	-	-	-	-	-	-	-	-	-	-	-	39	204,515
28,001	29,000	-	-	-	-	-	-	-	-	-	-	-	-	-	39	204,515
29,001	30,000	-	-	-	-	-	-	-	-	-	-	-	-	-	39	204,515
30,001	31,000	-	-	-	-	-	1	-	-	-	-	-	1	2	41	265,516
31,001	32,000	-	-	-	-	-	-	-	-	-	-	-	-	-	41	265,516
32,001	33,000	-	-	-	-	-	-	-	-	-	-	-	-	-	41	265,516
33,001	34,000	-	-	-	-	-	-	-	-	-	-	-	-	-	41	265,516
34,001	35,000	-	-	-	-	-	-	-	-	-	-	-	-	-	41	265,516
35,001	36,000	-	-	-	-	-	-	-	-	1	-	-	-	1	42	301,016
36,001	37,000	-	-	-	-	-	-	1	-	-	-	-	-	1	43	337,517
37,001	38,000	-	-	-	-	-	-	-	-	-	-	-	-	-	43	337,517
38,001	39,000	-	-	-	-	-	-	-	-	-	-	-	1	1	44	376,017
39,001	40,000	-	-	-	-	-	-	-	-	-	-	-	-	-	44	376,017
40,001	41,000	-	-	-	-	-	-	-	1	-	-	-	-	1	45	416,518
41,001	42,000	-	-	-	-	-	-	-	-	-	-	-	-	-	45	416,518
42,001	43,000	-	-	-	-	-	-	-	-	-	-	-	-	-	45	416,518
43,001	44,000	-	-	-	-	-	-	-	1	-	-	-	-	1	46	460,018
44,001	45,000	-	-	-	-	-	-	-	-	-	-	-	-	-	46	460,018
45,001	46,000	-	-	-	-	-	-	-	-	-	-	-	-	-	46	460,018
46,001	47,000	-	-	-	-	-	-	-	-	-	-	-	-	-	46	460,018

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

Meter Size: 1.5 Inch

Exhibit
Schedule H-5
Page 4
Witness: Bourassa

Usage From:	Usage To:	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09	Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09	Total Year	Cumulative Billing	Cumulative Gallons
47,001	48,000	-	-	-	-	-	-	-	-	-	-	-	-	-	46	460,018
48,001	49,000	-	-	-	-	-	-	-	-	-	-	-	-	-	46	460,018
49,001	50,000	-	-	-	-	-	-	-	-	-	-	-	-	-	46	460,018
50,001	51,000	-	-	-	-	-	-	-	-	-	-	-	-	-	46	460,018
51,001	52,000	-	-	-	-	-	-	-	-	1	-	-	-	1	47	511,519
52,001	53,000	-	-	-	-	-	-	-	-	-	-	-	-	-	47	511,519
53,001	54,000	-	-	-	-	-	-	-	-	-	-	-	-	-	47	511,519
54,001	55,000	-	-	-	-	-	-	-	-	-	1	-	-	1	48	566,019
55,001	56,000	-	-	-	-	-	-	-	-	1	-	-	-	1	49	621,520
56,001	57,000	-	-	-	-	-	-	-	-	-	-	-	-	-	49	621,520
57,001	58,000	-	-	-	-	-	-	-	-	-	-	-	-	-	49	621,520
58,001	59,000	-	-	-	-	-	-	-	-	-	-	-	-	-	49	621,520
59,001	60,000	-	-	-	-	-	-	-	-	-	-	-	-	-	49	621,520
60,001	61,000	-	-	-	-	-	1	-	-	-	-	-	-	1	50	682,020
61,001	62,000	-	-	-	-	-	-	-	-	-	-	-	-	-	50	682,020
62,001	63,000	-	-	-	-	-	-	-	-	-	-	1	-	1	51	744,521
63,001	64,000	-	-	-	-	-	-	-	-	-	-	-	-	-	51	744,521
64,001	65,000	-	-	-	-	-	-	-	-	-	-	-	-	-	51	744,521
65,001	66,000	-	-	-	-	-	-	-	-	-	-	-	-	-	51	744,521
66,001	67,000	-	-	-	-	-	-	-	-	-	-	-	-	-	51	744,521
67,001	68,000	-	-	-	-	-	-	-	-	-	-	-	-	-	51	744,521
68,001	69,000	-	-	-	-	-	-	-	-	1	-	-	-	1	52	813,021
69,001	70,000	-	-	-	1	-	-	-	-	-	-	-	-	1	53	882,522
70,001	71,000	-	-	-	-	-	-	-	1	-	-	-	-	1	54	953,022
71,001	72,000	-	-	-	-	-	-	-	-	-	-	-	-	-	54	953,022
72,001	73,000	-	-	-	-	-	-	-	-	-	-	-	-	-	54	953,022
73,001	74,000	-	-	-	-	-	-	-	-	-	-	-	-	-	54	953,022
74,001	75,000	-	1	-	-	-	-	-	-	-	-	-	-	1	55	1,027,523
75,001	76,000	-	-	1	-	-	-	-	-	-	-	-	-	1	56	1,103,023
76,001	77,000	-	-	-	-	-	-	1	-	-	1	-	-	2	58	1,256,024
77,001	78,000	-	-	-	-	-	-	-	-	-	-	-	-	-	58	1,256,024
78,001	79,000	-	-	-	-	-	-	-	-	-	-	-	-	-	58	1,256,024
79,001	80,000	-	-	-	-	-	-	-	-	-	-	-	-	-	58	1,256,024
80,001	81,000	-	-	-	-	-	-	-	-	-	-	-	-	-	58	1,256,024
81,001	82,000	-	-	-	-	1	-	-	-	-	-	-	-	1	59	1,337,525
82,001	83,000	-	-	-	-	-	-	-	-	-	-	-	-	-	59	1,337,525
83,001	84,000	-	-	-	-	-	-	-	-	-	-	-	-	-	59	1,337,525
84,001	85,000	-	-	-	-	-	-	-	-	-	-	-	-	-	59	1,337,525
85,001	86,000	-	-	-	1	-	-	-	-	-	-	-	-	1	60	1,423,025
86,001	87,000	-	-	-	-	1	-	-	-	-	-	-	-	1	61	1,509,526
87,001	88,000	-	-	-	-	-	-	-	-	-	-	-	-	-	61	1,509,526
88,001	89,000	-	-	-	-	-	-	-	-	-	-	-	-	-	61	1,509,526
89,001	90,000	1	-	-	-	-	1	-	-	-	-	-	-	2	63	1,688,527
90,001	91,000	-	-	-	-	-	-	-	-	-	-	-	-	-	63	1,688,527
91,001	92,000	-	-	-	-	-	-	-	-	-	-	-	-	-	63	1,688,527
92,001	93,000	-	1	1	-	-	-	-	-	-	-	-	-	2	65	1,873,528
93,001	94,000	-	-	-	-	-	-	-	-	-	-	-	-	-	65	1,873,528
94,001	95,000	-	-	-	-	-	-	-	1	-	-	-	-	1	66	1,968,028

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

Meter Size: 1.5 Inch

Exhibit
Schedule H-5
Page 4
Witness: Bourassa

Usage From:	Usage To:	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09	Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09	Total Year	Cumul-ative Billing	Cumul-ative Gallons
95,001	96,000	-	-	-	-	-	-	-	-	-	-	-	-	-	66	1,968,028
96,001	97,000	-	-	-	-	-	-	-	-	-	-	1	-	1	67	2,064,529
97,001	98,000	-	-	-	-	-	-	-	-	-	-	-	-	-	67	2,064,529
98,001	99,000	-	1	-	-	-	-	-	-	-	-	-	-	1	68	2,163,029
99,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	68	2,163,029
105,700	105,700	-	-	-	-	-	-	-	-	-	-	-	1	1	69	2,268,729
111,700	111,700	-	-	-	-	-	-	-	-	-	-	-	1	1	70	2,380,429
112,600	112,600	-	-	-	-	-	-	-	-	-	-	-	1	1	71	2,493,029
114,000	114,000	-	-	-	1	-	-	-	-	-	-	-	-	1	72	2,607,029
116,000	116,000	-	-	1	-	-	-	-	-	-	-	-	-	1	73	2,723,029
118,500	118,500	1	-	-	-	-	-	-	-	-	-	-	-	1	74	2,841,529
121,000	121,000	1	-	-	-	-	-	-	-	-	-	-	-	1	75	2,962,529
135,000	135,000	-	1	-	-	-	-	-	-	-	-	-	-	1	76	3,097,529
137,900	137,900	-	-	-	-	1	-	-	-	-	-	-	-	1	77	3,235,429
141,200	141,200	-	-	-	-	-	-	-	-	-	1	-	-	1	78	3,376,629
142,700	142,700	-	-	1	-	-	-	-	-	-	-	-	-	1	79	3,519,329
148,200	148,200	-	-	-	-	-	1	-	-	-	-	-	-	1	80	3,667,529
149,300	149,300	-	-	-	-	1	-	-	-	-	-	-	-	1	81	3,816,829
151,300	151,300	-	-	-	-	-	-	-	-	-	-	1	-	1	82	3,968,129
152,300	152,300	-	-	-	1	-	-	-	-	-	-	-	-	1	83	4,120,429
167,100	167,100	-	-	-	-	-	-	1	-	-	-	-	-	1	84	4,287,529
173,000	173,000	1	-	-	-	-	-	-	-	-	-	-	-	1	85	4,460,529
	-													-	85	4,460,529
	-													-	85	4,460,529
Totals		7	7	8	7	7	7	7	7	7	7	7	7	85		

Average Usage	52,477
Median Usage	36,500
Average # Customers	7

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

Meter Size: 2 Inch

Exhibit
Schedule H-5
Page 5
Witness: Bourassa

Usage From:	Usage To:	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09	Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09	Total Year	Cumulative Billing	Cumulative Gallons
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1	1,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1,001	2,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2,001	3,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3,001	4,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4,001	5,000	-	-	-	-	-	1	1	-	-	-	-	-	2	2	9,001
5,001	6,000	-	-	-	-	-	1	-	-	-	-	-	-	1	3	14,502
6,001	7,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3	14,502
7,001	8,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3	14,502
8,001	9,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3	14,502
9,001	10,000	-	-	-	1	-	-	-	-	-	-	-	-	1	4	24,002
10,001	11,000	-	-	-	-	-	-	-	-	-	-	-	-	-	4	24,002
11,001	12,000	-	-	-	-	-	-	-	1	-	-	-	-	1	5	35,503
12,001	13,000	-	-	-	-	-	-	-	-	-	-	-	-	-	5	35,503
13,001	14,000	-	-	-	-	-	-	1	-	-	-	-	-	1	6	49,003
14,001	15,000	-	1	-	-	-	-	-	-	-	-	-	-	1	7	63,504
15,001	16,000	-	-	-	-	-	-	-	-	1	-	-	-	1	8	79,004
16,001	17,000	-	-	-	-	-	-	-	-	-	1	-	-	1	9	95,505
17,001	18,000	-	-	-	-	-	-	-	-	-	-	1	-	1	10	113,005
18,001	19,000	-	-	-	-	-	-	-	1	-	-	-	-	1	11	131,506
19,001	20,000	-	-	-	-	-	-	-	-	-	-	-	1	1	12	151,006
20,001	21,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	151,006
21,001	22,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	151,006
22,001	23,000	-	-	-	-	1	-	-	1	-	-	-	-	2	14	196,007
23,001	24,000	-	-	1	-	-	-	-	-	-	-	-	-	1	15	219,508
24,001	25,000	-	-	-	-	-	1	-	-	-	-	-	-	1	16	244,008
25,001	26,000	-	-	-	-	-	-	-	-	-	-	-	-	-	16	244,008
26,001	27,000	-	-	-	-	-	-	1	-	-	-	-	-	1	17	270,509
27,001	28,000	-	-	-	-	-	-	-	-	-	-	-	-	-	17	270,509
28,001	29,000	-	-	-	-	-	-	-	-	-	-	-	-	-	17	270,509
29,001	30,000	-	-	-	-	-	-	-	-	-	-	-	-	-	17	270,509
30,001	31,000	1	-	1	-	1	-	-	-	-	-	-	-	3	20	362,010
31,001	32,000	-	-	-	-	-	-	-	-	-	1	-	-	1	21	393,511
32,001	33,000	-	-	-	-	-	-	-	-	-	-	1	-	1	22	426,011
33,001	34,000	-	-	-	-	-	-	-	-	1	-	-	-	1	23	459,512
34,001	35,000	-	-	-	-	-	-	-	-	-	-	-	-	-	23	459,512
35,001	36,000	-	-	-	-	-	-	-	-	-	-	-	-	-	23	459,512
36,001	37,000	-	-	-	-	-	-	-	-	-	-	-	-	-	23	459,512
37,001	38,000	-	-	-	-	-	-	-	-	-	-	-	-	-	23	459,512
38,001	39,000	-	-	-	-	-	-	-	-	-	-	-	-	-	23	459,512
39,001	40,000	-	-	-	-	1	-	-	-	1	-	-	-	2	25	538,513
40,001	41,000	-	-	-	-	-	-	-	-	-	-	-	-	-	25	538,513
41,001	42,000	-	-	1	-	-	-	-	-	-	-	-	1	2	27	621,514
42,001	43,000	-	-	-	-	-	-	-	-	-	-	-	-	-	27	621,514
43,001	44,000	-	-	-	-	-	-	-	-	-	-	-	-	-	27	621,514
44,001	45,000	1	1	-	-	-	-	-	-	-	-	-	-	2	29	710,515
45,001	46,000	-	-	-	2	-	-	-	-	-	-	-	-	2	31	801,516
46,001	47,000	-	-	-	-	-	-	-	-	-	-	-	-	-	31	801,516

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

Meter Size: 2 Inch

Exhibit
Schedule H-5
Page 5
Witness: Bourassa

Usage From:	Usage To:	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09	Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09	Total Year	Cumulative Billing	Cumulative Gallons
47,001	48,000	-	-	-	-	-	-	-	-	-	-	-	-	-	31	801,516
48,001	49,000	-	-	-	-	-	-	-	-	-	-	-	-	-	31	801,516
49,001	50,000	-	-	-	-	-	-	-	-	-	-	-	-	-	31	801,516
50,001	51,000	-	-	-	-	-	-	-	-	-	-	-	-	-	31	801,516
51,001	52,000	-	-	-	-	-	-	-	-	-	-	-	-	-	31	801,516
52,001	53,000	-	-	-	-	-	-	-	-	-	-	-	-	-	31	801,516
53,001	54,000	-	-	-	-	-	-	-	-	-	-	-	-	-	31	801,516
54,001	55,000	-	-	-	-	-	-	-	-	-	-	-	-	-	31	801,516
55,001	56,000	-	-	-	-	-	-	-	-	-	-	-	-	-	31	801,516
56,001	57,000	-	-	-	-	-	-	-	-	-	-	-	-	-	31	801,516
57,001	58,000	-	-	-	-	-	-	-	-	-	-	-	-	-	31	801,516
58,001	59,000	-	-	-	-	-	-	-	-	-	-	-	-	-	31	801,516
59,001	60,000	-	-	-	-	-	-	1	-	-	-	-	-	1	32	861,016
60,001	61,000	-	-	-	-	-	-	-	-	-	-	-	-	-	32	861,016
61,001	62,000	-	-	-	-	-	-	-	-	-	-	-	-	-	32	861,016
62,001	63,000	-	-	-	-	-	-	-	-	-	-	-	-	-	32	861,016
63,001	64,000	-	-	-	-	-	-	-	-	-	-	-	-	-	32	861,016
64,001	65,000	-	-	-	-	-	-	-	-	-	-	-	-	-	32	861,016
65,001	66,000	-	-	-	-	-	-	-	-	-	-	-	-	-	32	861,016
66,001	67,000	-	-	-	-	-	-	-	-	-	-	-	-	-	32	861,016
67,001	68,000	-	-	-	-	-	-	-	-	-	-	-	-	-	32	861,016
68,001	69,000	-	-	-	-	-	-	-	-	-	-	-	-	-	32	861,016
69,001	70,000	-	-	-	-	-	-	-	-	-	-	-	-	-	32	861,016
70,001	71,000	-	-	-	-	-	-	-	-	-	-	-	-	-	32	861,016
71,001	72,000	-	-	-	-	-	-	-	-	-	-	-	-	-	32	861,016
72,001	73,000	-	-	-	-	-	-	-	-	-	-	-	-	-	32	861,016
73,001	74,000	-	-	-	-	-	-	-	-	-	-	-	-	-	32	861,016
74,001	75,000	-	-	-	-	-	-	-	-	-	-	-	-	-	32	861,016
75,001	76,000	-	-	-	-	-	-	-	-	-	-	-	-	-	32	861,016
76,001	77,000	-	-	-	-	-	-	-	-	-	-	-	-	-	32	861,016
77,001	78,000	-	-	-	-	-	1	-	-	-	-	-	-	1	33	938,517
78,001	79,000	-	-	-	-	-	-	-	-	-	-	-	-	-	33	938,517
79,001	80,000	-	-	-	-	-	-	-	-	-	-	-	-	-	33	938,517
80,001	81,000	-	-	-	-	-	-	-	-	1	-	-	-	1	34	1,019,017
81,001	82,000	-	-	-	-	-	-	-	-	-	-	-	-	-	34	1,019,017
82,001	83,000	-	-	-	-	-	-	-	-	-	-	-	-	-	34	1,019,017
83,001	84,000	-	-	-	-	-	-	-	-	-	-	-	-	-	34	1,019,017
84,001	85,000	-	-	-	-	-	-	-	-	-	-	-	-	-	34	1,019,017
85,001	86,000	-	-	-	-	-	-	-	-	-	-	-	-	-	34	1,019,017
86,001	87,000	-	-	-	-	-	-	-	-	-	-	-	-	-	34	1,019,017
87,001	88,000	-	-	-	-	-	-	-	-	-	-	-	-	-	34	1,019,017
88,001	89,000	-	-	-	-	-	-	-	-	-	-	-	-	-	34	1,019,017
89,001	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	34	1,019,017
90,001	91,000	-	-	-	-	-	-	-	1	-	-	-	-	1	35	1,109,518
91,001	92,000	-	-	-	-	-	-	-	-	-	-	-	-	-	35	1,109,518
92,001	93,000	-	-	-	-	-	-	-	-	-	-	-	-	-	35	1,109,518
93,001	94,000	-	-	-	-	-	-	-	-	-	-	-	-	-	35	1,109,518
94,001	95,000	-	-	-	-	-	-	-	-	-	-	-	-	-	35	1,109,518

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

Meter Size: 2 Inch

Exhibit
Schedule H-5
Page 5
Witness: Bourassa

Usage From:	Usage To:	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09	Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09	Total Year	Cumulative Billing	Cumulative Gallons
95,001	96,000	-	-	-	-	-	-	-	-	-	-	-	-	-	35	1,109,518
96,001	97,000	-	-	-	-	-	-	-	-	-	-	-	-	-	35	1,109,518
97,001	98,000	-	-	-	-	-	-	-	-	-	-	-	-	-	35	1,109,518
98,001	99,000	-	-	-	-	-	-	-	-	-	-	-	-	-	35	1,109,518
99,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	35	1,109,518
109,000	109,000	-	-	-	-	-	-	-	-	-	-	1	-	1	36	1,218,518
130,600	130,600	1	-	-	-	-	-	-	-	-	-	-	-	1	37	1,349,118
145,000	145,000	-	-	-	-	-	-	-	-	-	-	-	1	1	38	1,494,118
163,000	163,000	-	-	-	-	-	-	-	-	-	1	-	-	1	39	1,657,118
163,500	163,500	-	-	-	-	-	-	-	-	-	1	-	-	1	40	1,820,618
242,100	242,100	-	1	-	-	-	-	-	-	-	-	-	-	1	41	2,062,718
389,000	389,000	-	-	-	-	-	-	-	-	-	-	1	-	1	42	2,451,718
447,000	447,000	-	-	-	-	1	-	-	-	-	-	-	-	1	43	2,898,718
595,000	595,000	-	1	-	-	-	-	-	-	-	-	-	-	1	44	3,493,718
684,000	684,000	-	-	-	1	-	-	-	-	-	-	-	-	1	45	4,177,718
693,000	693,000	-	-	1	-	-	-	-	-	-	-	-	-	1	46	4,870,718
775,000	775,000	-	-	-	-	-	-	-	-	-	-	-	1	1	47	5,645,718
1,701,000	1,701,000	1	-	-	-	-	-	-	-	-	-	-	-	1	48	7,346,718
	-													-	48	7,346,718
	-													-	48	7,346,718
	-													-	48	7,346,718
Totals		4	4	4	4	4	4	4	4	4	4	4	4	48		

Average Usage	153,057
Median Usage	39,500
Average # Customers	4

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

Meter Size: 4 Inch

Exhibit
Schedule H-5
Page 6
Witness: Bourassa

Usage From:	Usage To:	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09	Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09	Total Year	Cumulative Billing	Cumulative Gallons
-	-	-	-	-	-	-	1	1	1	1	1	1	1	7	7	-
1	1,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
1,001	2,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
2,001	3,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
3,001	4,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
4,001	5,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
5,001	6,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
6,001	7,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
7,001	8,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
8,001	9,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
9,001	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
10,001	11,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
11,001	12,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
12,001	13,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
13,001	14,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
14,001	15,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
15,001	16,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
16,001	17,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
17,001	18,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
18,001	19,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
19,001	20,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
20,001	21,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
21,001	22,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
22,001	23,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
23,001	24,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
24,001	25,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
25,001	26,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
26,001	27,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
27,001	28,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
28,001	29,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
29,001	30,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
30,001	31,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
31,001	32,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
32,001	33,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
33,001	34,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
34,001	35,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
35,001	36,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
36,001	37,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
37,001	38,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
38,001	39,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
39,001	40,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
40,001	41,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
41,001	42,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
42,001	43,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
43,001	44,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
44,001	45,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
45,001	46,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
46,001	47,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
47,001	48,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
48,001	49,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-

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

Meter Size: 4 Inch

Exhibit
Schedule H-5
Page 6
Witness: Bourassa

Usage From:	Usage To:	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09	Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09	Total Year	Cumul-ative Billing	Cumul-ative Gallons
49,001	50,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
50,001	51,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
51,001	52,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
52,001	53,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
53,001	54,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
54,001	55,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
55,001	56,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
56,001	57,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
57,001	58,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
58,001	59,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
59,001	60,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
60,001	61,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
61,001	62,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
62,001	63,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
63,001	64,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
64,001	65,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
65,001	66,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
66,001	67,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
67,001	68,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
68,001	69,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
69,001	70,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
70,001	71,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
71,001	72,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
72,001	73,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
73,001	74,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
74,001	75,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
75,001	76,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
76,001	77,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
77,001	78,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
78,001	79,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
79,001	80,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
80,001	81,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
81,001	82,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
82,001	83,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
83,001	84,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
84,001	85,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
85,001	86,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
86,001	87,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
87,001	88,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
88,001	89,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-
89,001	90,000	-	-	-	-	-	-	-	-	1	-	-	-	1	8	89,501
90,001	91,000	-	-	-	-	-	-	1	-	-	-	-	-	1	9	180,001
91,001	92,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9	180,001
92,001	93,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9	180,001
93,001	94,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9	180,001
94,001	95,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9	180,001
95,001	96,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9	180,001
96,001	97,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9	180,001
97,001	98,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9	180,001
98,001	99,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9	180,001

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

Meter Size: 4 Inch

Exhibit
Schedule H-5
Page 6
Witness: Bourassa

Usage From:	Usage To:	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09	Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09	Total Year	Cumul-ative Billing	Cumul-ative Gallons
99,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	9	180,001
153,800	153,800	-	-	-	-	-	1	-	-	-	-	-	-	1	10	333,801
172,000	172,000	-	-	-	-	-	-	-	1	-	-	-	-	1	11	505,801
388,000	388,000	-	-	-	-	-	-	-	-	-	1	-	-	1	12	893,801
567,900	567,900	-	-	-	-	-	-	-	-	-	-	1	-	1	13	1,461,701
648,500	648,500	-	1	-	-	-	-	-	-	-	-	-	-	1	14	2,110,201
774,200	774,200	-	-	-	-	1	-	-	-	-	-	-	-	1	15	2,884,401
997,300	997,300	-	-	-	-	-	-	-	-	-	-	-	1	1	16	3,881,701
1,082,300	1,082,300	-	-	1	-	-	-	-	-	-	-	-	-	1	17	4,964,001
1,251,500	1,251,500	-	-	-	1	-	-	-	-	-	-	-	-	1	18	6,215,501
1,415,100	1,415,100	1	-	-	-	-	-	-	-	-	-	-	-	1	19	7,630,601
	-													-	19	7,630,601
	-													-	19	7,630,601
	-													-	19	7,630,601
	-													-	19	7,630,601
	-													-	19	7,630,601
	-													-	19	7,630,601
	-													-	19	7,630,601
	-													-	19	7,630,601
	-													-	19	7,630,601
	-													-	19	7,630,601
Totals		1	1	1	1	1	2	2	2	2	2	2	2	19		

Average Usage	401,611
Median Usage	153,800
Average # Customers	2

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Meter Size: Standpipe

Exhibit
Schedule H-5
Page 7
Witness: Bourassa

Usage From:	Usage To:	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09	Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09	Total Year	Cumulative Billing	Cumulative Gallons
-	-	26	40	37	28	30	29	27	29	27	27	29	27	356	356	-
1	1,000	10	9	11	13	11	18	17	14	10	13	10	9	145	501	72,573
1,001	2,000	10	15	9	15	9	18	19	16	11	14	7	9	152	653	300,649
2,001	3,000	13	20	25	17	23	24	26	30	21	20	22	9	250	903	925,774
3,001	4,000	16	22	15	24	19	15	15	17	18	18	23	17	219	1,122	1,692,383
4,001	5,000	11	6	12	6	13	15	9	9	19	10	9	15	134	1,256	2,295,450
5,001	6,000	12	11	9	9	8	4	11	8	12	8	14	9	115	1,371	2,928,008
6,001	7,000	8	6	9	10	4	6	7	7	6	10	7	8	88	1,459	3,500,052
7,001	8,000	7	6	4	7	11	4	3	6	8	5	4	6	71	1,530	4,032,587
8,001	9,000	5	7	6	3	5	6	2	2	1	5	3	4	49	1,579	4,449,112
9,001	10,000	5	3	1	6	3	4	2	2	6	2	6	6	46	1,625	4,886,135
10,001	11,000	4	2	2	3	3	1	-	1	1	4	2	3	26	1,651	5,159,148
11,001	12,000	5	1	4	3	2	2	4	1	2	3	3	4	34	1,685	5,550,165
12,001	13,000	4	1	4	1	-	2	2	4	2	-	1	4	25	1,710	5,862,677
13,001	14,000	1	-	1	-	1	1	-	-	1	1	-	1	7	1,717	5,957,161
14,001	15,000	1	-	1	2	3	-	-	-	1	-	3	2	13	1,730	6,145,687
15,001	16,000	-	-	-	-	1	-	-	1	-	1	-	2	5	1,735	6,223,190
16,001	17,000	2	2	-	-	2	1	-	-	2	-	-	-	9	1,744	6,371,694
17,001	18,000	2	1	1	-	-	-	1	-	-	-	3	1	9	1,753	6,529,199
18,001	19,000	3	-	-	1	1	-	1	-	-	1	1	1	9	1,762	6,695,703
19,001	20,000	-	-	-	-	-	-	1	-	-	1	-	-	2	1,764	6,734,704
20,001	21,000	2	-	-	-	-	-	-	-	-	-	1	1	4	1,768	6,816,706
21,001	22,000	-	1	1	-	-	-	-	-	1	1	-	-	4	1,772	6,902,708
22,001	23,000	1	-	-	-	-	-	-	-	1	2	-	1	5	1,777	7,015,211
23,001	24,000	-	-	-	-	-	-	-	-	-	-	-	2	2	1,779	7,062,212
24,001	25,000	-	-	-	-	-	-	-	-	-	-	1	1	2	1,781	7,111,213
25,001	26,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,781	7,111,213
26,001	27,000	1	-	-	-	-	-	-	-	-	-	-	1	2	1,783	7,164,214
27,001	28,000	-	-	-	-	-	-	-	-	-	-	1	1	2	1,785	7,219,215
28,001	29,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,785	7,219,215
29,001	30,000	1	-	-	-	1	-	-	-	1	1	-	1	5	1,790	7,366,717
30,001	31,000	-	-	-	-	-	-	-	-	-	-	-	1	1	1,791	7,397,218
31,001	32,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,791	7,397,218
32,001	33,000	-	-	-	1	-	-	-	-	-	-	-	1	2	1,793	7,462,219
33,001	34,000	1	-	-	-	-	-	-	-	-	-	-	-	1	1,794	7,495,719
34,001	35,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,794	7,495,719
35,001	36,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,794	7,495,719
36,001	37,000	-	-	-	-	-	-	-	-	-	-	-	1	1	1,795	7,532,220
37,001	38,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,795	7,532,220
38,001	39,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,795	7,532,220
39,001	40,000	1	-	-	-	-	-	-	-	-	-	-	-	1	1,796	7,571,720
40,001	41,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,796	7,571,720
41,001	42,000	-	-	-	-	-	-	-	1	-	-	-	-	1	1,797	7,613,221
42,001	43,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,797	7,613,221
43,001	44,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,797	7,613,221
44,001	45,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,797	7,613,221
45,001	46,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,797	7,613,221

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Meter Size: Standpipe

Exhibit
Schedule H-5
Page 7
Witness: Bourassa

Usage From:	Usage To:	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09	Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09	Total Year	Cumulative Billing	Cumulative Gallons
46,001	47,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,797	7,613,221
47,001	48,000	-	-	-	1	-	-	-	-	-	-	-	-	1	1,798	7,660,721
48,001	49,000	-	-	1	-	-	-	-	-	-	-	-	-	1	1,799	7,709,222
49,001	50,000	-	-	-	-	-	-	-	-	-	1	-	-	1	1,800	7,758,722
50,001	51,000	-	-	-	-	1	-	-	-	-	-	-	-	1	1,801	7,809,223
51,001	52,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,801	7,809,223
52,001	53,000	-	1	-	-	-	-	-	-	-	-	-	-	1	1,802	7,861,723
53,001	54,000	-	-	-	-	-	-	1	-	-	-	-	-	1	1,803	7,915,224
54,001	55,000	-	-	-	-	-	-	-	1	-	-	-	-	1	1,804	7,969,724
55,001	56,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,804	7,969,724
56,001	57,000	1	-	-	-	-	1	-	-	-	-	-	1	3	1,807	8,139,226
57,001	58,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,807	8,139,226
58,001	59,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,807	8,139,226
59,001	60,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,807	8,139,226
60,001	61,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,807	8,139,226
61,001	62,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,807	8,139,226
62,001	63,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,807	8,139,226
63,001	64,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,807	8,139,226
64,001	65,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,807	8,139,226
65,001	66,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,807	8,139,226
66,001	67,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,807	8,139,226
67,001	68,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,807	8,139,226
68,001	69,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,807	8,139,226
69,001	70,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,807	8,139,226
70,001	71,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,807	8,139,226
71,001	72,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,807	8,139,226
72,001	73,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,807	8,139,226
73,001	74,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,807	8,139,226
74,001	75,000	-	-	-	1	-	-	-	-	-	-	-	-	1	1,808	8,213,726
75,001	76,000	-	-	-	-	-	-	-	-	-	-	-	1	1	1,809	8,289,227
76,001	77,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,809	8,289,227
77,001	78,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,809	8,289,227
78,001	79,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,809	8,289,227
79,001	80,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,809	8,289,227
80,001	81,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,809	8,289,227
81,001	82,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,809	8,289,227
82,001	83,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,809	8,289,227
83,001	84,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,809	8,289,227
84,001	85,000	-	-	-	-	-	-	-	1	1	-	-	-	2	1,811	8,458,228
85,001	86,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,811	8,458,228
86,001	87,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,811	8,458,228
87,001	88,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,811	8,458,228
88,001	89,000	-	-	-	-	-	-	1	-	-	-	-	-	1	1,812	8,546,728
89,001	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,812	8,546,728
90,001	91,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,812	8,546,728
91,001	92,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,812	8,546,728
92,001	93,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,812	8,546,728

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Meter Size: Standpipe

Exhibit
Schedule H-5
Page 7
Witness: Bourassa

Usage From:	Usage To:	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09	Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09	Total Year	Cumulative Billing	Cumulative Gallons
93,001	94,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,812	8,546,728
94,001	95,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,812	8,546,728
95,001	96,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,812	8,546,728
96,001	97,000	-	-	-	-	-	1	-	-	-	-	-	-	1	1,813	8,643,229
97,001	98,000	-	-	-	-	-	-	1	-	-	-	-	1	2	1,815	8,838,230
98,001	99,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,815	8,838,230
99,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,815	8,838,230
104,000	104,000	-	1	-	-	-	-	-	-	-	-	-	-	1	1,816	8,942,230
110,000	110,000	-	-	-	-	1	-	-	-	-	-	-	-	1	1,817	9,052,230
111,000	111,000	-	-	-	1	-	-	-	-	-	-	-	-	1	1,818	9,163,230
117,000	117,000	-	-	-	-	-	-	-	-	1	-	-	-	1	1,819	9,280,230
118,000	118,000	-	-	1	-	-	-	-	-	-	-	-	-	1	1,820	9,398,230
120,000	120,000	-	-	-	-	-	-	-	-	-	1	-	-	1	1,821	9,516,230
127,000	127,000	1	-	-	-	-	-	-	-	-	-	-	-	1	1,822	9,645,230
134,000	134,000	-	-	-	-	-	-	-	-	-	-	1	-	1	1,823	9,779,230
136,000	136,000	-	-	1	-	-	-	-	-	-	-	-	-	1	1,824	9,915,230
138,000	138,000	1	-	-	-	-	-	-	-	-	-	-	-	1	1,825	10,053,230
143,000	143,000	-	-	-	-	-	-	-	1	-	-	-	-	1	1,826	10,196,230
146,000	146,000	-	-	-	-	-	1	-	-	-	-	-	-	1	1,827	10,342,230
152,000	152,000	-	-	-	-	1	-	-	-	-	-	-	-	1	1,828	10,494,230
165,000	165,000	-	1	-	1	-	-	-	-	-	-	-	-	2	1,830	10,824,230
171,000	171,000	-	-	1	-	-	-	1	-	1	-	-	-	3	1,833	11,337,230
183,000	183,000	1	-	-	-	-	-	-	-	-	-	-	-	1	1,834	11,520,230
185,000	185,000	-	-	-	-	-	-	-	-	-	1	-	-	1	1,835	11,705,230
190,000	190,000	-	-	-	-	-	-	-	1	-	1	-	-	2	1,837	12,085,230
192,000	192,000	-	-	-	-	-	-	-	-	-	-	1	-	1	1,838	12,277,230
195,000	195,000	-	-	-	-	-	-	-	-	-	-	-	1	1	1,839	12,472,230
202,000	202,000	1	-	-	-	-	-	-	-	-	-	-	-	1	1,840	12,674,230
209,000	209,000	1	-	-	-	-	-	-	-	-	-	-	-	1	1,841	12,883,230
223,000	223,000	-	-	-	-	-	-	-	-	1	-	-	-	1	1,842	13,106,230
229,000	229,000	-	-	-	-	-	-	-	-	-	-	-	1	1	1,843	13,335,230
235,000	235,000	-	-	-	-	-	-	-	-	-	-	1	-	1	1,844	13,570,230
251,000	251,000	-	-	-	-	1	-	-	-	-	-	-	-	1	1,845	13,821,230
263,000	263,000	-	-	-	-	-	1	-	-	-	-	-	-	1	1,846	14,084,230
264,000	264,000	-	-	-	-	-	-	-	-	-	-	-	1	1	1,847	14,348,230
269,000	269,000	-	-	-	1	-	-	-	-	-	-	-	-	1	1,848	14,617,230
299,000	299,000	-	-	-	-	-	-	-	1	-	-	-	-	1	1,849	14,916,230
306,000	306,000	-	-	-	-	-	-	-	-	-	-	-	1	1	1,850	15,222,230
309,000	309,000	-	-	-	-	-	-	1	-	-	-	-	-	1	1,851	15,531,230
310,000	310,000	-	-	1	-	-	-	-	-	-	-	-	-	1	1,852	15,841,230
323,000	323,000	-	-	-	-	-	-	-	-	-	-	1	-	1	1,853	16,164,230
326,000	326,000	-	-	-	-	-	-	-	-	1	-	-	-	1	1,854	16,490,230
367,000	367,000	-	1	-	-	-	-	-	-	-	-	-	-	1	1,855	16,857,230
369,000	369,000	-	-	-	-	-	-	-	-	-	1	-	-	1	1,856	17,226,230
376,000	376,000	-	-	-	-	-	1	-	-	-	-	-	-	1	1,857	17,602,230
387,000	387,000	-	1	-	-	-	-	-	-	-	-	-	-	1	1,858	17,989,230
396,000	396,000	-	1	-	-	-	-	-	-	-	-	-	-	1	1,859	18,385,230

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Meter Size: Standpipe

Exhibit
Schedule H-5
Page 7
Witness: Bourassa

Usage From:	Usage To:	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09	Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09	Total Year	Cumul-ative Billing	Cumul-ative Gallons
397,000	397,000	-	-	1	-	-	-	-	-	-	-	-	-	1	1,860	18,782,230
406,000	406,000	-	-	-	1	-	-	-	-	-	-	-	-	1	1,861	19,188,230
416,000	416,000	-	-	-	-	1	-	-	-	-	-	-	-	1	1,862	19,604,230
480,000	480,000	-	-	-	-	-	-	-	-	-	-	-	1	1	1,863	20,084,230
482,000	482,000	-	-	-	-	-	-	-	-	-	-	1	-	1	1,864	20,566,230
576,000	576,000	1	-	-	-	-	-	-	-	-	-	-	-	1	1,865	21,142,230
919,000	919,000	-	-	-	-	-	-	-	-	-	-	-	1	1	1,866	22,061,230
	-													-	1,866	22,061,230
	-													-	1,866	22,061,230
Totals		159	159	158	155	155	155	152	153	156	152	155	157	1,866		

Average Usage	11,823
Median Usage	3,500
Average # Customers	156

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

Meter Size: Fire Sprinkler less than 6 Inch

Exhibit
Schedule H-5
Page 8
Witness: Bourassa

Usage From:	Usage To:	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09	Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09	Total Year	Cumul-ative Billing	Cumul-ative Gallons
-	-	4	4	4	4	4	4	4	4	4	4	4	4	48	48	-
1	1,000													-	48	-
1,001	2,000													-	48	-
2,001	3,000													-	48	-
3,001	4,000													-	48	-
4,001	5,000													-	48	-
5,001	6,000													-	48	-
6,001	7,000													-	48	-
7,001	8,000													-	48	-
8,001	9,000													-	48	-
9,001	10,000													-	48	-
10,001	11,000													-	48	-
11,001	12,000													-	48	-
12,001	13,000													-	48	-
13,001	14,000													-	48	-
14,001	15,000													-	48	-
15,001	16,000													-	48	-
16,001	17,000													-	48	-
17,001	18,000													-	48	-
18,001	19,000													-	48	-
19,001	20,000													-	48	-
20,001	21,000													-	48	-
21,001	22,000													-	48	-
22,001	23,000													-	48	-
23,001	24,000													-	48	-
24,001	25,000													-	48	-
25,001	26,000													-	48	-
26,001	27,000													-	48	-
27,001	28,000													-	48	-
28,001	29,000													-	48	-
29,001	30,000													-	48	-
30,001	31,000													-	48	-
31,001	32,000													-	48	-
32,001	33,000													-	48	-
33,001	34,000													-	48	-
34,001	35,000													-	48	-
35,001	36,000													-	48	-
36,001	37,000													-	48	-
37,001	38,000													-	48	-
38,001	39,000													-	48	-
39,001	40,000													-	48	-
40,001	41,000													-	48	-
41,001	42,000													-	48	-
42,001	43,000													-	48	-
43,001	44,000													-	48	-
44,001	45,000													-	48	-
45,001	46,000													-	48	-

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

Meter Size: Fire Sprinkler less than 6 Inch

Exhibit
Schedule H-5
Page 8
Witness: Bourassa

Usage From:	Usage To:	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09	Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09	Total Year	Cumul-ative Billing	Cumul-ative Gallons
46,001	47,000													-	48	-
47,001	48,000													-	48	-
48,001	49,000													-	48	-
49,001	50,000													-	48	-
50,001	51,000													-	48	-
51,001	52,000													-	48	-
52,001	53,000													-	48	-
53,001	54,000													-	48	-
54,001	55,000													-	48	-
55,001	56,000													-	48	-
56,001	57,000													-	48	-
57,001	58,000													-	48	-
58,001	59,000													-	48	-
59,001	60,000													-	48	-
60,001	61,000													-	48	-
61,001	62,000													-	48	-
62,001	63,000													-	48	-
63,001	64,000													-	48	-
64,001	65,000													-	48	-
65,001	66,000													-	48	-
66,001	67,000													-	48	-
67,001	68,000													-	48	-
68,001	69,000													-	48	-
69,001	70,000													-	48	-
70,001	71,000													-	48	-
71,001	72,000													-	48	-
72,001	73,000													-	48	-
73,001	74,000													-	48	-
74,001	75,000													-	48	-
75,001	76,000													-	48	-
76,001	77,000													-	48	-
77,001	78,000													-	48	-
78,001	79,000													-	48	-
79,001	80,000													-	48	-
80,001	81,000													-	48	-
81,001	82,000													-	48	-
82,001	83,000													-	48	-
83,001	84,000													-	48	-
84,001	85,000													-	48	-
85,001	86,000													-	48	-
86,001	87,000													-	48	-
87,001	88,000													-	48	-
88,001	89,000													-	48	-
89,001	90,000													-	48	-
90,001	91,000													-	48	-
91,001	92,000													-	48	-
92,001	93,000													-	48	-

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

Meter Size: Fire Sprinkler less than 6 Inch

Exhibit
Schedule H-5
Page 8
Witness: Bourassa

Usage From:	Usage To:	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Month of Jan-09	Month of Feb-09	Month of Mar-09	Month of Apr-09	Month of May-09	Month of Jun-09	Total Year	Cumul-ative Billing	Cumul-ative Gallons
93,001	94,000													-	48	-
94,001	95,000													-	48	-
95,001	96,000													-	48	-
96,001	97,000													-	48	-
97,001	98,000													-	48	-
98,001	99,000													-	48	-
99,001	100,000													-	48	-
	-													-	48	-
Totals		4	4	4	4	4	4	4	4	4	4	4	4	48		

Average Usage	-
Median Usage	-
Average # Customers	4

EXHIBIT
A-3
ADMITTED

Exhibit A-3
Thomas J. Bourassa

Prepared Direct Testimony on Cost of Capital

September 28-29, 2010 ACC Hearing
Las Quintas Serenas Water Company
Docket No. W-01583-09-0589

Las Quintas Serenas Water Company

Application for a Determination of the Fair Value of Its Utility Plants and Property and for Increases in Its Water Rates and Charges

December 31, 2009

Application
Volume II

Cost of Capital
Testimony and Schedules

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 ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: W-01583A-09-_____

DIRECT TESTIMONY OF

THOMAS J. BOURASSA

(COST OF CAPITAL)

December 31, 2009

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I. INTRODUCTION

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. ARE YOU THE SAME THOMAS J. BOURASSA THAT FILED DIRECT TESTIMONY ON RATE BASE, INCOME STATEMENT, REVENUE REQUIREMENT AND RATE DESIGN IN THIS DOCKET ON BEHALF OF LAS QUINTAS SERENAS WATER CO. ("LQSWC")?

A2. Yes, and all of my background information and testimony regarding my qualifications is contained in that portion of my direct testimony.

II. SUMMARY OF TESTIMONY AND THE PROPOSED COST OF CAPITAL FOR LQSWC

Q3. WHAT IS THE PURPOSE OF THIS PORTION OF YOUR DIRECT TESTIMONY?

A3. This portion of my direct testimony will focus on cost of capital issues. I will testify in support of LQSWC's proposed rate of return on its fair value rate base. In that regard, I am sponsoring LQSWC's D Schedules, which are attached to this testimony. As noted above, I am also sponsoring direct testimony that addresses LQSWC's rate base, income statement (revenue and operating expenses), required increase in revenue, and its rate design and proposed rates and charges for service. For the convenience of the Commission and the parties, that testimony and my related schedules are being filed separately in this case.

Q4. HAVE YOU PREPARED ANY SCHEDULES AND ATTACHMENTS TO ACCOMPANY YOUR TESTIMONY ON COST OF CAPITAL?

A4. Yes. I have prepared 16 schedules that support my testimony and 1 attachment.

Q5. PLEASE SUMMARIZE YOUR COST OF CAPITAL TESTIMONY.

A5. I determine LQSWC's cost of equity falls in the range of 14.7 percent to 18.1 percent with the midpoint of the range of 16.4 percent. I am recommending a return on equity ("ROE") of 16.0 percent. My recommendation is based on (i) cost of equity estimates using constant growth and multi-stage growth discounted cash flow ("DCF") models and the capital asset pricing model ("CAPM") for the sample group of publicly traded utilities, (ii) my review of the economic conditions expected to prevail during the period in which new rates will be in effect, (iii) my judgments about the risks associated with small utilities like LQSWC not captured by the market data for publicly traded water utilities used in my study, (iv) the financial risk associated with the level of debt in LQSWC's capital structure, and (v) additional specific business and operational risks faced by LQSWC Company.

Q6. PLEASE SUMMARIZE THE APPROACH YOU USED TO ESTIMATE THE COST OF EQUITY FOR LQSWC.

A6. The cost of equity for LQSWC cannot be estimated directly because LQSWC's common stock is not publicly traded and there is no market data for LQSWC. Consequently, I applied the DCF and CAPM models using data from a sample of water utilities selected from the Value Line Investment Survey. There are six water utilities in my sample: American States Water, Aqua America, California Water, Connecticut Water, Middlesex Water, and SJW Corp. As explained later in my testimony, these companies aren't really comparable to LQSWC, but they are water utilities for which market data are available and because the Commission's Utilities Division Staff has relied on data for these water utilities in a number of recent water and sewer utility rate cases.

My DCF analyses indicate ROE's in the range of 11.1 percent to 12.6 percent with a midpoint of 11.9 percent. The CAPM analysis, again using the

same sample group, indicates ROE's in the range of 10.4 percent to 15.8 percent is appropriate with a midpoint of 13.1 percent. Both the DCF and CAPM ranges are before consideration of company-specific risks.

My ROE estimates after consideration of financial risk and small company risk is in the range of 14.7 percent to 18.1 percent with a midpoint of 16.4 percent. Given LQSWC's relatively small size compared to the large publicly traded utilities used in my sample, the regulatory methods and policies used in this jurisdiction, and other company-specific factors, it is my opinion that at the present time, a cost of equity of no less than 16.0 percent is warranted.

My recommendation of 16.0 percent balances my judgment about the degree of financial and business risk associated with an investment in LQSWC as well as consideration of the current economic environment and the uncertainty of the financial markets. A summary of my cost of equity analysis result is shown on Schedule D-4.1.

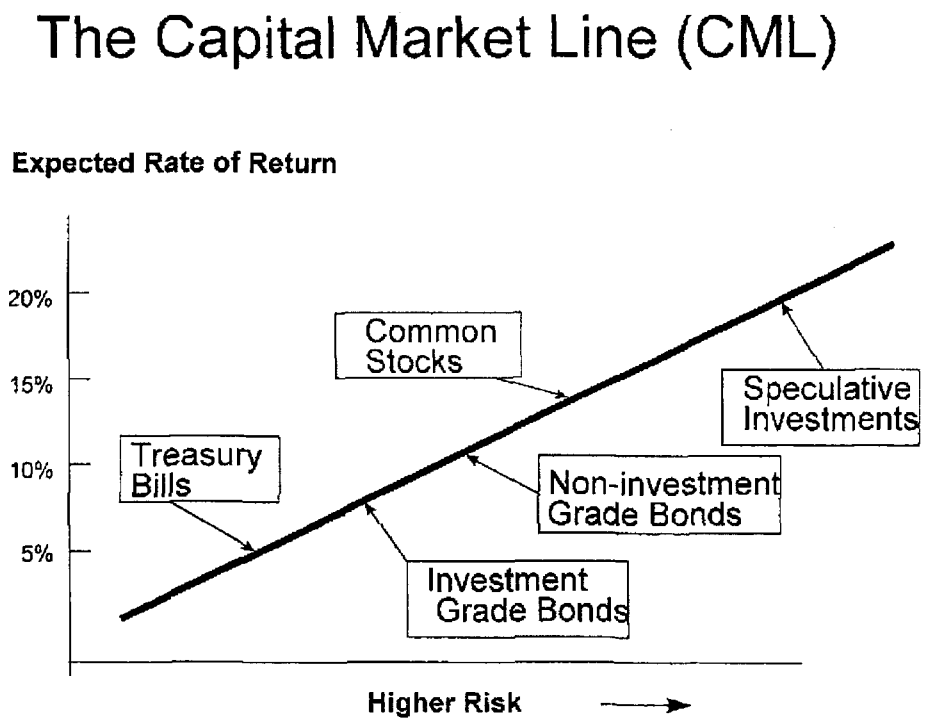
III. OVERVIEW OF THE RELATIONSHIP BETWEEN RISK AND THE EXPECTED RETURN ON AN INVESTMENT

Q7. HOW IS THE COST OF EQUITY TYPICALLY ANALYZED?

A7. The cost of equity is the rate of return that equity investors expect to receive on their investment. Investors can choose to invest in many types of assets, not simply publicly traded stock. Each investment will have varying degrees of risk, ranging from relatively low risk assets such as Treasury securities to somewhat higher risk corporate bonds to even higher risk common stocks. As the level of risk increases, investors require higher returns on their investment. Finance models that are used to estimate the cost of equity often rely on this basic concept.

Q8. CAN YOU ILLUSTRATE THE CAPITAL MARKET RISK-RETURN CONCEPT?

A8. Yes. The following graph depicts the risk-return relationship that has become widely known as the Capital Market Line ("CML"). The CML illustrates in a general way the risk-return relationship.



The CML can be viewed as a continuum of the available investment opportunities for investors. Investment risk increases moving upward and to the right along the CML. Again, the expected return increases with the risk.

Q9. HOW DOES THE RISK-RETURN TRADE-OFF CONCEPT WORK IN THE CAPITAL MARKET?

A9. As already suggested by the CML, the allocation of capital in a free market economy is based upon the perceived relative risk of, and expected return from, an

investment. In general, investors rank investment opportunities in the order of their relative risks. Investment alternatives in which the expected return is commensurate with the perceived risk become viable investment options. If all other factors remain equal, the greater the risk, the higher the rate of return investors will require to compensate investors for the possibility of loss of either the principal amount invested or the expected annual income from such investment.

Short-term Treasury bills provide a high degree of certainty and in nominal terms (after considering inflation) are considered virtually risk free. Long-term bonds and preferred stocks, having priority claims to assets and fixed income payments, are relatively low risk, but are not risk free. The market values of long-term bonds often fluctuate when government policies or other factors cause interest rates to change. Common stocks are higher and to the right on the CML continuum because they are exposed to more risk. Common stock risk includes the nature of the underlying business and financial strength of the issuing corporation as well as market-wide factors, such as general changes in capital costs.

The capital markets reflect investor expectations and requirements each day through market prices. Prices for stocks and bonds change to reflect investor expectations and the relative attractiveness of one investment versus another. While the example provided above seems straightforward, returns on common stocks are not directly observable in advance, in contrast to debt or preferred stocks with fixed payment terms. This means that these returns must be estimated from market data. Estimating the cost of equity capital is a matter of informed judgment about the relative risk of the company in question and the expected rate of return characteristics of other alternative investments.

Q10. HOW IS THE COST OF EQUITY FOR A PARTICULAR UTILITY DETERMINED?

A10. The estimation of a utility's cost of equity is complex. It requires an analysis of the factors influencing the cost of various types of capital, such as interest on long-term debt, dividends on preferred stock, and earnings on common equity. The data for such an analysis comes from highly competitive capital markets, where the firm raises funds by issuing common stock, selling bonds, and by borrowing (both long- and short-term) from banks and other financial institutions. In the capital markets, the cost of capital, whether the capital is in the form of debt or equity, is determined by two important factors:

1) The pure or real rate of interest, often called the risk-free rate of interest; and,

2) The uncertainty or risk premium (the compensation the investor requires over and above the real or pure rate of interest for subjecting his capital to additional risk).

Q11. PLEASE DISCUSS THESE FACTORS IN GREATER DETAIL.

A11. The pure rate of interest essentially reflects both the time preference for and the productivity of capital. From the standpoint of the individual, it is the rate of interest required to induce the individual to forgo present consumption and offer the funds thus saved to others for a specified length of time. Moreover, the pure rate of interest concept is based on the assumption that no uncertainty affects the investment undertaken by the individual, i.e., there is no doubt that the periodic interest payments will be made and the principal returned at the end of the time period. In reality, investments without risk do not exist. Every commitment of funds involves some degree of uncertainty.

Turning to the second factor affecting the cost of capital, it is generally

accepted that the higher the degree of uncertainty, the higher the cost of capital. Investors are regarded as risk adverse and require that the rate of return increase as the risk (uncertainty) associated with an investment increase.

Q12. CAN YOU PROVIDE SOME PERSPECTIVE ON YOUR PREVIOUS DISCUSSION WITH RESPECT TO RETURNS ON COMMON STOCKS?

A12. Yes. Conceptually,

[1]	Required Return for Common Stocks	=	Return on a risk-free asset	+	Risk Premium

where the risk premium investors require for common stocks will be higher than the risk premium they require for investment grade bonds. This relationship is depicted in the graph of the CML above. As I will discuss later in this testimony, this concept is the basis of risk premium methods, such as the CAPM, that are used to estimate the cost of equity.

Q13. WHAT HAS BEEN THE RECENT EXPERIENCE IN THE U.S. CAPITAL MARKETS?

A13. In the past 10 years, inflation and capital market costs have generally declined. Interest rates have been lower than in previous decades. Past inflation, as measured by the Consumer Price Index, has been at relatively low levels in the past 10 years.

The roughly 6 year span of economic expansion after the 2001 recession began to wane in 2007. Year-over-year Gross Domestic Product ("GDP") growth[1] for 2004, 2005, and 2006 was 3.6 percent, 3.1 percent, and 2.7 percent, respectively. GDP growth was, in part, spurred on by low interest rates during this period. The Federal Reserve, having lowered the target Federal Funds rate to 1.0

[1] GDP percentage change based on current dollars (1930-2008).

percent by the end of 2003, began raising interest rates in 2004 to help keep the economy from overheating and to help keep inflation in check. By mid-2006, the Federal Reserve had raised the target Federal Funds rate to 5.25 percent.

The economic expansion was broad, taking in the major consumer and industrial sectors for much of its span. However, economic expansion also brought excesses, particularly in the areas of housing, lending practices, and the financial markets.

Economic growth slowed in 2007. For 2007, the year-over-year GDP growth had dropped to 2.1 percent. The slow economic growth combined with the excesses during the economic expansion of the previous 6 years created turmoil in the credit, financial, and housing markets.

In order to address the weakening economy, the Federal Reserve, starting in September 2007, took a series of rate cut actions (525 aggregate basis points). The reductions in interest rates by the Federal Open Market Committee ("FOMC") were taken in order to promote economic growth and to mitigate risks to economic activity. As a result, the target Federal Funds rate currently stands at zero to .25 percent.

The year-over-year GDP growth for 2008 was 0.4 percent. GDP growth for the first and second quarter of 2009 was negative 6.4 percent and a negative 0.7 percent, respectively. The GDP growth estimate for the third quarter of 2009 is 2.8 percent. The third quarter positive GDP growth estimate is underpinned to a large degree by federal programs to assist the troubled auto and housing industries. But, these programs have or will shortly come to an end. Further, the $800 billion Federal stimulus enacted earlier this year has been said to already have had its greatest impact on economic growth so future positive impact on the economy is not expected to be great.

It is clear that during the past several months, both the economy and the financial markets have improved. Economists now believe the recession has ended, but also see a long, sluggish recovery. The recession was deep, costing millions of job losses across a number of industries. Unemployment now tops 10 percent and is not expected to significantly improve through 2010. Economists expect GDP growth to ease to a 2.0 to 2.5 percent in the fourth quarter of 2009 and then to remain subdued for much of 2010. As Value Line states "the evolving business upturn may be a checkered affair, with a succession of peaks and valleys along the way...Should [an] uneven recovery unfold, the stock market might remain quite volatile."[2]

In that regard, there are several key factors that could cap the strength of economic recovery over the next few years. These include an unusually slow improvement in labor market conditions,[3] only modest gains in consumer spending, tight credit and a desire by households to pare debt, a slow recovery in residential investment due to still rising home foreclosures and persistently high inventories of unsold existing homes, a further pull-back in commercial construction, limited improvement in capital spending resulting from excess capacity that exists in many sectors, and still continued lack of capital available to small and mid-sized businesses.[4]

Q14. WHAT ABOUT THE STATUS OF THE CREDIT MARKETS?

A14. Federal Reserve Chairman Ben Bernanke noted in Congressional testimony late last year that financial markets were under considerable stress and that broader

[2] Value Line Selection and Opinion, October 16, 2009.

[3] The unemployment rate recently jumped to 10.2%, which is higher than the unemployment rate during the 2001 recession.

[4] Blue Chip Financial Forecasts, Vol. 28, No. 10, October 1, 2009.

retrenchment in the willingness of investors to bear risk, troubles in the credit markets and a weaker outlook for economic growth have added to the stresses on economic growth. After the Federal Reserve lowered the target federal funds rate to zero from 25 basis points in late 2008, the three month Treasury bill yields dropped to near zero, and yields on the two, five, ten and thirty year yield treasuries fell to the lowest levels since the Treasury began regular sales of the securities. More recently, however, despite the low target federal funds rate, yields on longer dated Treasury yields have risen to levels that are 70-140 basis points over their December 2008 levels. Some analysts attribute the run up in yields to rising jitters among investors about the tidal wave of Federal debt issued earlier this year, to the expected debt to be issued to fund the massive $800 billion "stimulus" package enacted by Congress and signed by the President earlier this year, and to the expected additional billions of dollars above the already authorized $750 billion Trouble Asset Repurchase Program ("TARP") passed last year to address the weaknesses in the credit markets.

As previously indicated, the continued turmoil in the credit markets, the ballooning federal deficits, and weakness in business and consumer spending will continue to have a significant drag on the economy. And, while the capital markets have improved in recent months, the capital markets continue reflect the uncertainty and relatively low confidence of investors in the financial markets, in the future prospects for strong economic growth, and concerns over higher inflation in the coming years. Naturally, despite relatively low U.S. Treasury yields over the past several years, the premiums required for investors to hold and buy securities is much higher than in the recent past due to this uncertainty.

Q15. IS THERE A RELATIONSHIP BETWEEN THE COST OF EQUITY AND INTEREST RATES?

A15. Yes. All other things being equal, the cost of equity moves in the same direction as interest rates. Lower interest rates on U.S. Treasuries ("risk-free" rate) imply lower equity returns and visa versa. However, as indicated by Equation 1 above, the risk premium required to compensate investors also impacts the cost of equity. Higher risk premiums required by investors imply higher equity costs and vica versa. Risk premiums are impacted by uncertainty in future interest rates, business and economic conditions, expected inflation, and other risk factors including interest rate risk, business risk, regulatory risk, financial risk, construction risk, and liquidity risk.

The flight to quality and low risk investments as the stock market began to tumble last year drove treasury yields to very low levels. But, as noted earlier, the federal government has and is expected to significantly increase its borrowing in order to "stimulate" the economy and address systemic problems in the credit markets. This, in turn, has resulted in increasing yields on Treasuries as investors get jittery about the risks of the massive debt load the federal government is taking on.

Q16. IS LQSWC AFFECTED BY THESE SAME MARKET UNCERTAINTIES AND CONCERNS?

A16. Yes, in general, all investors are impacted by bad economic news, and LQSWC's investors are not immune to uncertainty. In the current economic environment, even large publicly traded companies felt the impact. Investment grade bond (Baa) yields rose to over 9 percent towards the end of last year. Currently investment grade bond yields are 6.3 percent (November 20, 2009). In that regard, utilities are not immune to the higher capital costs of the current economic environment either. The average beta (a measurement of market risk) for the water utility sample companies has risen significantly over the past couple of years.

As discussed above, capital costs have risen significantly over the past year or so. And, smaller utilities like LQSWC generally feel the impact worse because they have a small customer base, resulting in an inability or limited ability to attract capital.

Q17. WHAT ARE THE RECENT DEVELOPMENTS IN THE WATER UTILITY INDUSTRY AFFECTING UTILITY INVESTMENTS AND THE MARKET?

A17. On the whole, the water utility industry is expected to continue to confront increasing infrastructure demand. According to the *Value Line Investment Survey*, many utilities have facilities that are decades old and in need of significant maintenance and, in some cases, massive renovation and/or replacement. In addition, the EPA and state and local regulators continue to impose more stringent environmental quality and operational standards, such as new maximum contaminant levels for public drinking water systems. Additional operational requirements have also been imposed to address the threat of bio-terrorism on U.S. water systems. As infrastructure costs continue to climb, many smaller companies are at a serious disadvantage. Without sufficient resources to fund improvements needed to meet new and more stringent requirements, many smaller companies are being forced to sell to larger utilities, which have greater operational flexibility and resources, as well as access to capital.

Q18. WOULD YOU PLEASE DISCUSS IN MORE DETAIL THE IMPACT OF RISK ON CAPITAL COSTS?

A18. With reference to specific utilities, risk is often discussed as consisting of two separate types of risk: business risk and financial risk.

Business risk, the basic risk associated with any business undertaking, is the uncertainty associated with the enterprise's day-to-day operations. In essence, it is a function of the normal day-to-day business environment, both locally and

nationally. Business risks include the condition of the economy and capital markets, the state of labor markets, regional stability, government regulation, technological obsolescence, and other similar factors that may impact demand for the business product or service and its cost of production. For utilities, business risk also includes the volatility of revenues due to abnormal weather conditions, degree of operational leverage, regulation, and regulatory climate. Regulation, for example, can compound the business risk if it is unpredictable in responding to cost increases both in terms of the time lag for and magnitude of cost recovery allowed. Regulatory lag makes it difficult to earn a reasonable return particularly in an inflationary environment and/or when there is significant lag between the timing of investment in capital projects and its recognition in rates. Put simply, the greater the degree of uncertainty regarding the various factors affecting a company's business, the greater the risk of an investment in a company and the greater the compensation required by the investor.

Financial risk, on the other hand, concerns the distribution of business risk to the various capital investors in the utility. As I discussed earlier, permanent capital is normally divided into three categories: long-term debt, preferred stock, and common equity. Because common equity owners have only a residual claim on earnings after debt and preferred stockholders are paid, financial risk tends to be concentrated in that element of the firm's capital. Thus, a decision by management to raise additional capital by issuing additional debt concentrates even more of the financial risk of the utility in the common equity owners.

An important component of financial risk is construction risk. Construction risk refers to the magnitude of a company's capital budget. If a company has a large construction budget relative to internally generated cash flows it will require external financing. It is important that companies have access to capital funds on

reasonable terms and conditions. In that regard, utilities are more susceptible to construction risk for two reasons. First, utilities generally have high capital requirements to build the necessary plant to serve customers. Second, utilities have a mandated obligation to serve leaving less flexibility both in the timing and discretion of scheduling capital projects. This is compounded by the limited ability to wait for more favorable market conditions to raise the capital necessary to fund the capital projects.

Although often discussed separately, the two types of risks (business and financial) are interrelated. Specifically, a common equity investor may seek to offset exposure to high financial risk by investing in a firm perceived to have a low degree of business risk. In other words, the total risk to an investor would be high if the enterprise was characterized as a high business risk with a large portion of its permanent capital financed with senior debt. To attract capital under these circumstances, the firm would have to offer higher rates of return to its common equity investors.

IV. THE MEANING OF "JUST AND REASONABLE" RATE OF RETURN

Q19. HAVE THE COURTS SET FORTH ANY CRITERIA THAT GOVERN THE RATE OF RETURN THAT A UTILITY'S RATES SHOULD PRODUCE?

A19. Yes. In 1923, the U.S. Supreme Court set forth the following criteria for determining whether a rate of return is reasonable in *Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679, 692-93 (1923):

> A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments on other business undertaking which are attended by corresponding risks and uncertainties .... The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and

> should be adequate, under efficient and economical management to maintain and support its credit and enable it to raise money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market, and business conditions generally.

In summary, under *Bluefield Water Works*:

(1) The rate of return should be similar to the return in businesses with similar or comparable risks;

(2) The return should be sufficient to ensure the confidence in the financial integrity of the utility; and

(3) The return should be sufficient to maintain and support the utility's credit.

Q20. HOW HAVE THESE CRITERIA BEEN APPLIED IN REGULATORY PROCEEDINGS?

A20. Yes, but the application of the "reasonableness" criteria laid down by the Supreme Court has resulted in controversy. The typical method of computing the overall cost of capital is quite straightforward: it is the composite, weighted cost of the various classes of capital (debt, preferred stock, and common equity), used by the utility. The weighting is done by calculating the proportion that each class of capital bears to total capital. However, there is no consensus regarding the best method of estimating the cost of equity capital. The increasing regulatory emphasis on objectivity in determining the rate of return has resulted in a proliferation of market-based finance models that are used in equity return determination. As will be discussed more fully below, however, none of these models are universally accepted as the "correct" means of estimating the ROE.

V. THE ESTIMATED COST OF EQUITY FOR LQSWC

A. The Publicly Traded Utilities That Comprise the Sample Group Used to Estimate LQSWC's Cost of Equity.

Q21. PLEASE BRIEFLY DESCRIBE THE APPROACH YOU FOLLOWED IN YOUR COST OF CAPITAL ANALYSIS FOR LQSWC.

A21. As I have stated, estimating the cost of equity is a matter of informed judgment. The development of an appropriate rate of return for a regulated enterprise involves a determination of the level of risk associated with that enterprise and the determination of an appropriate return for that risk level. Practitioners employ various techniques that provide a link to actual capital market data and assist in defining the various relationships that underlie the equity cost estimation process.

Since LQSWC is not publicly traded, the information required to directly estimate LQSWC's cost of equity is not available. Accordingly, I used a sample group of water utilities as a starting point to develop an appropriate cost of equity for LQSWC. There are six water utilities included in the sample group: American States Water, Aqua America, California Water, Connecticut Water, Middlesex Water, and SJW Corp. All these companies are followed by the *Value Line Investment Survey.*

Q22. ARE THE WATER UTILITIES IN YOUR SAMPLE DIRECTLY COMPARABLE TO LQSWC?

A22. No, but they are utilities for which market data is available. All of them are regulated, they primarily provide water service, although some provide both water and wastewater services, and their primary source of revenues is from regulated services. Therefore, they provide a useful starting point for developing a cost of equity for LQSWC. I emphasized "starting point" because LQSWC is not publicly traded. Additionally, there is no market data available for smaller utilities, like

LQSWC, that can be used to develop cost of equity estimates.

Q23. DOES THE MARKET DATA PROVIDED BY THE WATER UTILITY SAMPLE CAPTURE ALL OF THE MARKET RISKS THAT LQSWC MIGHT FACE IF IT WERE PUBLICLY TRADED?

A23. In my opinion, no. As I stated, there is no comparable market data for utility companies the size of LQSWC. The average revenue of the water utility sample companies is over 388 times that of LQSWC, and the average net plant of the water utility sample companies is over 618 times that of LQSWC. Even the smallest company in the sample group, Connecticut Water, has over 95 times the net plant of LQSWC, and over 135 times the revenues.

Q24. PLEASE PROVIDE A GENERAL DESCRIPTION OF THE WATER UTILITIES IN YOUR SAMPLE.

A24. Schedule D-4.2 lists the operating revenues and net plant for the six water utilities as reported by AUS Utility Reports (formerly C.A. Turner Utility Reports) and LQSWC. In addition, below is a general description of each of the companies:

(1) American States Water (AWR) primarily serves the California market through Golden State Water Company, which provides water services to over 254,000 customers within 75 communities in 10 counties in the State of California, primarily in Los Angeles, San Bernardino, and Orange counties. It has one subsidiary serving the Arizona market with approximately 13,000 customers in Fountain Hills and Scottsdale. AWR also owns an electric utility service provider with over 23,000 customers, but approximately 91 percent of its revenues were derived from commercial and residential water customers. Revenues for American States were $318.7 million in 2008 and net plant nearly $724 million at the end of 2008.

(2) Aqua America (WTR) owns regulated utilities in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, Virginia, Maine, Missouri, New York, and South Carolina, serving over 945,000 customers at the end of 2008. WTR's utility base is diversified among residential water, commercial water, fire protection, industrial water, other water, and wastewater customers. Total revenues for WTR were nearly $627 million in 2008 and net plant was nearly $2.58 billion at the end of 2008.

(3) California Water Service Group (CWT) owns subsidiaries in California, New Mexico, Washington, and Hawaii serving over 180,000 customers. The California operations account for over 95 percent of customers and over 96 percent of operating revenues. Revenues for CWT were over $410 million in 2008 and net plant nearly $1 billion at the end of 2008.

(4) Connecticut Water Services (CTWS) owns subsidiaries in Connecticut and Massachusetts serving over 87,000 customers. Revenues for CTWS were over $61 million in 2008 and net plant over $250 million at the end of 2008.

(5) Middlesex Water (MSEX) owns subsidiaries in New Jersey and Delaware serving over 105,000 customers and provides water service under contract to municipalities in central New Jersey to a population of over 267,000. Revenues for MSEX were over $91 million in 2008 and net plant was over $312 million at the end of 2008.

(6) SJW Corp. (SJW) owns San Jose Water, which provides water service in a 138 square mile area in San Jose, California, and surrounding communities. Revenues for SJW were over $220

million in 2008 and net plant was over $492 million at the end of 2008.

Q25. HOW DOES LQSWC COMPARE TO THE SAMPLE WATER UTILITIES?

A25. It is smaller. At the end of the test year, LQSWC had approximately 1,000 customers, inclusive of standpipe customers. Its revenues totaled approximately $480,000, and its net plant-in-service was approximately $2.7 million. LQSWC is located in a portion of the Town of Sahuarita, Arizona, and has a small service territory compared to the sample water companies.

Q26. ARE THERE OTHER FACTORS OF SMALLER UTILITIES, LIKE LQSWC, WHICH INCREASE RISK?

A26. Yes. Because smaller utilities, like LQSWC, are not publicly traded they have less financial flexibility which in turn increases risk. LQSWC does not have access to the public equity markets and this lack of financial flexibility increases risk because it has no choice but to rely on retained earnings, short-term debt, and privately placed bonds to provide capital for plant improvements and additions necessary to ensure safe and reliable water service to its customers. LQSWC's recent borrowing to fund its arsenic treatment facilities and to increase its storpage capacity has left the Company with a high level of debt making it less financially flexible going forward. LQSWC does not have a market to issue common stock to the public to raise capital so sufficient and stable earnings so that LQSWC can meet its debt service requirements and meet its capital requirements over the coming years is all the more critical.

Water utilities are capital intensive and typically have large construction budgets. LQSWC's construction budget for the next three years is over $800,000. After that, the Company will need to expend $300,000 to $400,000 annually as it

continues to replace 6 to 7 miles of piping[5] that is now over 40 years old. As discussed on page 13 of this testimony, firms with large capital budgets face construction risk (a form of financial risk). The size of a utility's capital budget relative to the size of the utility itself often increases construction risk. Larger utilities may be able to fund large capital budgets from earnings and short-term borrowings. For smaller utilities, like LQSWC, the ability to fund relatively large capital budgets from earnings and short-term debt is difficult to obtain, requiring that additional capital be raised. However, the ability to raise additional capital is in and of itself challenging and compounded by a limited ability to access capital, an obligation to serve, and a limited ability to wait for more favorable market conditions to raise the capital necessary to fund necessary capital projects.

Q27. WHAT OTHER RISK FACTORS DISTINGUISH LQSWC FROM THE LARGER SAMPLE WATER UTILITIES?

A27. There are a number of state specific factors that increase the risk to Arizona water and wastewater utilities.

First, the regulatory environment in which LQSWC operates is much different than that of the sample water utilities. Arizona water and wastewater utilities face legal constraints that limit their ability to obtain rate relief outside of a general rate case in which the "fair value" of the utility's property is determined and used to set rates. The Arizona Constitution, as interpreted in court decisions, limits the ability of Arizona utilities to utilize adjustment mechanisms, advice letter filings and other streamlined procedures to obtain timely recovery of costs outside a general rate case, in contrast to many other jurisdictions.

[5] Current piping is asbestos based and may require additional disposal and handling costs which are not included in the estimated budget. $300,000 assumes replacing approximately ¼ mile of pipe each year.

Second, the Commission requires the use of an historic test year with limitations on the amount of out-of-period adjustments. This process creates another state-specific factor that increases risk and thus the required ROEs for utilities in Arizona. In fact, three out of the six sample water companies operate primarily in California – American States, California Water and SJW Corp. California uses future test years to help better match plant investment and revenues and expenses going forward - the period in which rates will be in effect. California also allows the use of balancing accounts on major operating expenses like purchased power and purchased water to help utilities recover expenses that are beyond their control. A fourth utility in the sample group, Aqua America, has regulatory mechanisms available to it to help lessen risk. In six states in which Aqua America operates water utilities, and two states in which Aqua America operates wastewater utilities, regulatory bodies permit it to add a surcharge to water or wastewater bills to offset the additional depreciation and capital costs associated with certain capital expenditures related to replacing and rehabilitating infrastructure systems. Aqua America also operates in jurisdictions in which it may bill utility customers in accordance with a rate filing that is pending before the respective regulatory commission, as well as in jurisdictions that authorize the use of expense deferrals and amortization in order to provide for an impact on its operating income by an amount that approximates the requested amount in a rate request. In addition, certain states in which Aqua America operates use a surcharge or credit on bills to reflect changes in certain costs, such as changes in state tax rates, other taxes and purchased water, until such time as the costs are incorporated into base rates.

Q28. IT DOESN'T APPEAR THAT LQSWC IS ACTUALLY COMPARABLE TO THE SAMPLE WATER UTILITIES.

A28. It really isn't, for the reasons I have stated. Constraints on the rate making process in Arizona make it difficult to obtain approval of rates that allow Arizona water and wastewater utilities to recover the costs of service it will actually incur during the period when new rates are put in place, which can be several years beyond the test year. Risks are higher for LQSWC and the required return on equity should be above the level required by water utilities that operate in states that do not have such limitations imposed, either by law or by agency policy, on the rate-setting process. Unfortunately, as I testified, the approaches commonly used to estimate a utility's cost of equity require market data, which is not available for smaller companies and utilities operating exclusively in Arizona, like LQSWC. As a result, much larger, public companies must be used as proxies.

But the emphasis on proxy is very important. The criteria established by the Supreme Court in decisions such as *Bluefield Water Works* require the use of comparable companies, i.e., companies that would be viewed by investors as having similar risks. A rational investor would not regard LQSWC as having the same level of risk as Aqua America or even Connecticut Water. Consequently, the results produced by the DCF and CAPM methodologies, utilizing data for the sample utilities, often understate the appropriate return on equity for a regulated water utility provider.

Q29. YOU PREVIOUSLY DISCUSSED FINANCIAL RISK, WHICH IS RELATED TO A FIRM'S CAPITAL STRUCTURE. HOW DO THE CAPITAL STRUCTURES OF THE SAMPLE WATER UTILITIES COMPARE TO LQSWC?

A29. Schedule D-4.3 shows that the capital structure of LQSWC at June 30, 2009 contains 73.9 percent debt and 26.1 percent equity, compared to the average of the water utility sample of 46.9 percent debt and 53.1 percent equity.

Q30. IS THERE A RELATIONSHIP BETWEEN A UTILITY'S CAPITAL STRUCTURE AND ITS COST OF CAPITAL?

A30. Yes. Generally, when a firm engages in debt financing, it exposes itself to greater risk. Once debt becomes significant relative to the total capital structure, the risk increases in a geometric fashion compared to the linear percentage increase in the debt ratio itself. This risk is illustrated by considering the effect of leverage on net earnings. For example, as leverage increases, the equity ratio falls. This creates two adverse effects on the investor. First, equity earnings decline rapidly and may even disappear. Second, the "cushion" of equity protection for debt falls. A decline in the protection afforded debt holders, or the possibility of a serious decline in debt protection, will act to increase the cost of debt financing. Therefore, one may conclude that each new financing, whether through debt or equity, impacts the marginal cost of future financing by any alternative method. For a firm already perceived as being over-leveraged, this additional borrowing would cause the marginal cost of both equity and debt to significantly increase. On the other hand, if the same firm instead employed equity funding, this could actually reduce the real marginal cost of additional borrowing, even if the particular equity issuance occurred at a higher unit cost than an equivalent amount of debt.

Having more debt in its capital structure indicates that LQSWC has more financial risk than the water utility sample. Equally important, smaller utilities cannot support the same level of debt as larger utilities and smaller utilities tend to have less debt in their capital structures as a result. The fact the LQSWC has significantly more debt in its capital structure than the large publicly traded utilities is a serious concern. Smaller utilities face higher business and operational risk as compared to larger utilities which magnify the financial risk of higher debt levels

in their capital structures.

B. <u>Overview of the DCF and CAPM Methodologies</u>

Q31. PLEASE EXPLAIN THE GENERAL APPROACHES TO ESTIMATING THE COST OF CAPITAL.

A31. There two broad approaches:

1) identify comparable-risk sample companies and estimate the cost of capital directly, and,

2) find the location of the CML and estimate the relative risk of the company that jointly determines the cost of capital.

The DCF model is an example of a method falling into the first general approach. It is a direct method, but uses only a subset of the total capital market evidence. The DCF model rests on the premise that the fundamental value of an asset (stock) is its ability to generate future cash flows to the owner of that asset (stock). I will explain the DCF model in more detail later. For now, the DCF is simply the sum of a stock's expected dividend yield and the expected long-term growth rate. Dividend yields are readily available, but long-term growth estimates are more difficult to obtain.

The CAPM is an example of a method falling into the second general approach. It uses information on all securities rather than a small subset. I will explain the CAPM in more detail later. For now, the CAPM is a risk-return relationship, often depicted graphically as the CML. The CAPM is the sum of a risk-free return and a risk premium.

Each of these two methods has their own way of measuring investor expectations. In the final analysis, ROE estimates are subjective and should be based on sound, informed judgment rationally articulated and supported by competent evidence. I have applied several versions of the DCF, and two versions

of the CAPM to "bracket" the fair cost of equity capital for LQSWC, but without taking into account the additional risks that LQSWC possesses.

C. Explanation of the DCF Model and Its Inputs

Q32. PLEASE EXPLAIN THE DCF METHOD OF ESTIMATING THE COST OF EQUITY.

A32. The DCF model is based on the concept that the current price of a share of stock is equal to the present value of future cash flows from the purchase of the stock. In other words, the DCF model is an attempt to replicate the market valuation process that sets the price investors are willing to pay for a share of a company's stock. It rests on the assumption that investors rely on the expected returns (i.e., cash flow they expect to receive) to set the price of a security. The DCF model in its most general form is:

$$[2] \quad P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \ldots + CF_n/(1+k)^n$$

where k is the cost of equity; n is a very large number; P_0 is the current stock price; and, CF_1, CF_2,...CF_n are all the expected future cash flows expected to be received in periods 1, 2, ... n.

Equation (2) can be written to show that the current price (P_0) is also equal to

$$[3] \quad P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \ldots + P_t/(1+k)^t$$

where P_t is the price expected to be received at the end of the period t. If the future price (P_t) included a premium (an expected increase in the stock price or capital gain), the price the investor would pay today in anticipation of receiving that premium would increase. In other words, by estimating the cash flows from the purchase of a stock in the form of dividends and capital gains, we can calculate the investor's required rate of return, i.e., the rate of return an investor presumptively used in bidding the current price to the stock (P_0) to its current level.

Equation [3] is a Market Price version of the DCF model. As with the general form of the DCF model in equation [2], in the Market Price approach the current stock price (P_0) is the present value of the expected cash inflows. The cash flows are comprised of dividends and the final selling price of the stock. The estimated cost of equity (k) is the rate of return investors expect if they bought the stock at today's price, held the stock and received dividends through the transition period, and then sold it for price (P_t).

Q33. CAN YOU PROVIDE AN EXAMPLE TO ILLUSTRATE THE MARKET PRICE VERSION OF THE DCF MODEL?

A33. Yes. Assume an investor buys a share of common stock for $40. If the expected dividend during the coming year is $2.00, then the expected dividend yield is 5 percent ($2.00/$40 = 5.0 percent). If the stock price is also expected to increase to $43.00 after one year, this $3.00 expected gain adds an additional 7.5 percent to the expected total rate of return ($3.00/$40 = 7.5 percent). Thus, the investor buying the stock at $40 per share, expects a total return of 12.5 percent (5 percent dividend yield plus 7.5 percent price appreciation). The total return of 12.5 percent is the appropriate measure of the cost of capital because this is the rate of return that caused the investor to commit $40 of his capital by purchasing the stock.

Q34. PLEASE CONTINUE WITH YOUR DESCRIPTION OF THE DCF MODEL.

A34. Under the assumption that future cash flows are expected to grow at a constant rate ("g"), equation [2] can be solved for k and rearranged into the simple form:

$$[4] \quad k = CF_1/P_0 + g$$

where CF_1/P_0 is the expected dividend yield and g is the expected long term dividend (price) growth rate ("g"). The expected dividend yield is computed as the ratio of next period's expected dividend ("CF_1") divided by the current stock price

("P_0"). This form of the DCF model is known as the constant growth DCF model and recognizes that investors expect to receive a portion of their total return in the form of current dividends and the remainder through future dividends and capital (price) appreciation. A key assumption of this form of the model is that investors expect that same rate of return (k) every year and that market price grows at the same rate as dividends. This has not been historically true for the water utility sample, as shown by the data in Schedule D-4.4 and Schedule D.4.5. As a result, estimates of long-term growth rates (g) should take this into account.

Q35. ARE THERE ANY GENERAL CONCERNS ABOUT APPLYING THE DCF MODEL TO UTILITY STOCKS?

A35. There are a number of reasons why caution must be used when applying the DCF model to utility stocks. First, the stock price and dividend yield component may be unduly influenced by structural changes in the industry, such as mergers and acquisitions, which influence investor expectations. Second, the DCF model is based on a number of assumptions which may not be realistic given the current capital market environment. The traditional DCF model assumes that the stock price, book value, dividends, and earnings all grow at the same rate. This has not been historically true for the sample water utility companies. Third, the application of the DCF model produces estimates of the cost of equity that are consistent with investor expectations only when the market price of a stock and the stock's book value are approximately the same. The DCF model will understate the cost of equity when the market-to-book ratio exceeds 1.0 and conversely will overstate the cost of equity when the market-to-book ratio is less than 1.0. The reason for this is that the market-derived return produced by the DCF is often applied to book value rate base by regulators. Fourth, the assumption of a constant growth rate may be unrealistic, and there may be difficulty in finding an adequate proxy for the growth

rate. Historical growth rates can be downward based as a result of the impact of anemic historical growth rates in earnings, mergers and acquisitions, restructuring, unfavorable regulatory decisions, and even abnormal weather patterns. Further, by placing too much emphasis on the past, the estimation of future growth becomes circular.

Q36. LET'S TURN TO THE SPECIFIC INPUTS USED IN YOUR DCF MODELS. WHAT DATA HAVE YOU USED TO COMPUTE THE EXPECTED DIVIDEND YIELD (CF_1/P_0) IN YOUR MODELS?

A36. First, I computed a current dividend yield (CF_0/P_0). The expected dividend yield (CF_1/P_0) is the current dividend yield (CF_0/P_0) times one plus the growth rate (g). I used the spot price for each of the stocks of the water utilities in the sample group as reported by the Value Line Investment Analyzer for November 20, 2009 for P_0. The current dividend (CF_0) is the dividend for the next year as reported by Value Line. In my schedules, the current dividend yield is denoted as (D_0/P_0), where D_0 is the current dividend and P_0 is the spot stock price. (D_1/P_0) is used to denote the expected dividend yield in the schedules.

Q37. WHAT MEASURES OF GROWTH ("g") HAVE YOU USED?

A37. For my primary DCF growth estimate, I have used analyst growth forecasts, where available, from four different, widely-followed sources: *Zack's Investment Research*, *Morningstar*, *Yahoo Finance*[6], and *Value Line Investment Survey*. Schedule D-4.6 reflects the analyst estimates of growth. The currently available estimates from these four sources provide at least two estimates for each of the sample water utility companies. When there is no estimate of forward-looking growth for a utility in the water utilities sample, I have assumed investors expect

[6] Yahoo Finance analyst estimates provided by Thompson Financial.

the growth for that utility to equal the average of growth rates for the other water utilities in the sample.

Q38. WHY DID YOU USE FORECASTED GROWTH RATES AS YOUR PRIMARY ESTIMATE OF GROWTH?

A38. The DCF model requires estimates of growth that investors expect in the future and not past estimates of growth that have already occurred. Accordingly, I use as a primary estimate of growth analysts' forecasts of growth. Logically, in estimating future growth, financial institutions and analysts have taken into account all relevant historical information on a company as well as other more recent information.[7] To the extent that past results provide useful indications of future growth prospects, analysts' forecasts would already incorporate that information. In addition, a stock's current price reflects known historic information on that company, including its past earnings history. Any further recognition of the past will double count what has already occurred. Therefore, forward-looking growth rates should be used.

Q39. WHAT OTHER ESTIMATES OF GROWTH DID YOU USE?

A39. I used the 5-year historical average growth rates in the stock price, book value per share ("BVPS"), earnings per share ("EPS") and dividends per share ("DPS") along with the average of analyst expectations. Using the historical average of price, BVPS, EPS, and EPS growth is reasonable because investors know that, in equilibrium, common stock prices, BVPS, EPS and DPS will all grow at the same

[7] David A. Gordon, Myron J. Gordon and Lawrence I Gould, "Choice Among Methods of Estimating Share Yield," *Journal of Portfolio Management* (Spring 1989) 50-55. Gordon, Gordon and Gould found that a consensus of analysts' forecasts of earnings per share growth for the next five years provides a more accurate estimate of growth required in the DCF model than three different historical measures of growth (historical EPS, historical DPS, and historical retention growth). They explain that this result makes sense because analysts would take into account such past growth as indicators of future growth as well as any new information.

rate and would take information about changes in stock prices and growth in BVPS into account when they price utilities' stocks. As I stated earlier, a basic assumption of the DCF model is that the stock price, BVPS, EPS and DPS all grow at the same rate. While I believe this growth rate gives further recognition to the past that is already incorporated into analyst estimates of growth, I have been criticized by Staff in the past for not giving direct consideration to past growth rates in my estimate of growth.

Q40. WHAT OTHER CONCERNS DO YOU HAVE ON THE USE OF HISTORICAL DPS GROWTH IN YOUR DCF ESTIMATE OF GROWTH?

A40. Although I have used historical DPS growth in my estimate, I believe the use of historical DPS growth depresses the growth rate. Attachment 1 shows the constant growth DCF results using historical DPS growth. The result is 7.0 percent. While this is above the current cost of investment grade bonds at 6.3 percent, four of the six indicated cost of equity estimates are well below the cost of investment grade bonds. It is important to keep in mind that there is a great deal of empirical evidence demonstrating that, on average, stocks are riskier than bonds and thus achieve higher returns. Morningstar, for example, annually publishes its comprehensive study of historical returns on stocks and bonds.[8]

Putting aside the potential distortions to the result produced by the DCF model caused by structural changes to the industry and abnormal weather conditions, it does not make sense to employ growth rates that result in indicated equity returns less than the cost of debt, especially when those results fly in the face of a large body of empirical evidence. Investors would not bid up the price of a utility stock if the expected return is equivalent to returns on bonds and other debt

[8] Morningstar, *Ibbotson SBBI 2009 Valuation Yearbook.*

investments. As the CML depicted previously illustrates, common stocks are higher and to the right of investment grade bonds on the CML continuum because they are riskier investments. Again, the empirical evidence supports this conclusion. The results using historical DPS growth are unreasonable.

Q41. WHY DID YOU NOT USE ANALYST ESTIMATES OF DPS GROWTH?

A41. Primarily because only one source provides dividend growth estimates (*Value Line*). Further, *Value Line* only provides estimates for three of the six companies in my proxy group. The lack of analyst DPS estimates makes these estimates very poor proxies for growth.

D. <u>Explanation of the CAPM and Its Inputs</u>

Q42. PLEASE EXPLAIN THE CAPM METHODOLOGY FOR ESTIMATING THE COST OF EQUITY.

A42. As I already indicated, the CAPM is a type of risk premium methodology that is often depicted graphically in a form identical to the CML. Put simply, the CAPM formula is the sum of a risk-free rate plus a risk premium. It quantifies the additional return required by investors for bearing incremental risk. The risk-free rate is the reward for postponing consumption by investing in the market. The risk premium is the additional return compensation for assuming risk.

The CAPM formula provides a formal risk-return relationship premised on the idea that only market risk matters, as measure by beta. The CAPM formula is:

$$(7) \quad k = R_f + \beta(R_m - R_f)$$

where k is the expected return, R_f is the risk-free rate, R_m is the market return, $(R_f - R_m)$ is the market risk premium, and β is beta.

The difficulty with the CAPM is that it is a prospective or forward-looking model while most of the capital market data required to match the input variables above is historical.

Q43. WHAT IS THE RISK-FREE RATE?

A43. It is the return on an investment with no risk. The U.S. Treasury rate serves as the basis for the risk-free rate because the yields are directly observable in the market and are backed by the U.S. government. Practically speaking, short-term rates are volatile, fluctuate widely and are subject to more random disturbances than long-term rates. In short, long-term Treasury rates are preferred for these reasons and because long-term rates are more appropriately matched to securities with an indefinite life or long-term investment horizon.

Q44. WHAT IS BETA AND WHAT DOES IT MEASURE?

A44. Beta is a measure of the relative risk of a security and the market. In other words, it is a measure of the sensitivity of a security to the market as a whole. This sensitivity is also known as systematic risk. It is estimated by regressing a security's excess returns against a market portfolio's excess returns. The slope of the regression line is the beta.

Beta for the market is 1.0. A security with a beta greater than 1.0 is considered riskier than the market. A security with a beta less than 1.0 is considered less risky than the market.

There are computational problems surrounding beta. It depends on the return data, the time period used, its duration, the choice of the market index, and whether annual, monthly, or weekly return figures are used. Betas are estimated with error. Based on empirical evidence, high betas will tend to have a positive error (risk is overestimated) and low betas will have a negative error (risk is underestimated).[9]

Q45. WHAT DID YOU USE AS THE PROXY OF THE BETA FOR LQSWC?

[9] Eugene F. Fama and Kenneth R. French, "The Capital Asset Pricing Model: Theory and Evidence," *Journal of Economic Perspectives* (Summer 2004) 25-46.

A45. I used the average beta of the sample water utility companies. Betas were obtained from *Value Line Investment Analyzer* (November 20, 2009). *Value Line* is the source for estimated betas that I regularly employ along with the Commission's Staff and is widely accepted by financial analysts. The average beta as shown on Schedule D-4.13 is 0.80. I should note that because LQSWC is not publicly traded, LQSWC has no beta. I believe that LQSWC, if it were publicly traded, would have a higher beta than the sample water utility companies.

Q46. WHY?

A46. Smaller companies are more risky than larger companies. In Chapter 7 of Morningstar's *Ibbotson SBBI 2009 Valuation Yearbook*, for example, Ibbotson reports that when betas are properly estimated, betas are larger for small companies than for larger companies. As I will explain later, Ibbotson also finds that even after accounting for differences in beta risk, small firms require an additional risk premium over and above the added risk premium indicated by differences in beta risk.

Q47. PLEASE EXPLAIN THE MARKET RISK PREMIUM?

A47. The market-risk premium (R_m-R_f) is the return an investor expects to receive as compensation for market risk. It is the expected market return minus the risk-free rate. Approaches for estimating the market risk premium can be historical or prospective.

Since expected returns are not directly observable, historical realized returns are often used as a proxy for expected returns on the basis that the historical market risk premium follows what is known in statistics as a "random walk." If the historical risk premium does follow the random walk, then one should expect the risk premium to remain at its historical mean. Based on this argument, the best estimate of the future market risk premium is the historical mean. Morningstar's

SBBI Valuation Edition 2009 Yearbook provides historical market returns for various asset classes from 1926 to 2008. This publication also provides market risk premiums over U.S. Treasury bonds, which make it an excellent source for historical market risk premiums.

Prospective market risk premium estimation approaches necessarily require examining the returns expected from common equities and bonds. One method employs applying the DCF model to a representative market index such as the Value Line 1700 stocks (the *Value Line* Composite Index). The expected return from the DCF is measured for a number of periods of time, and then subtracted from the prevailing risk-free rate for each period to arrive at market risk premium for each period. The market risk premium subsequently employed in the CAPM is the average market risk premium of the overall period.

Q48. HOW MANY MARKET RISK PREMIUM ESTIMATES DID YOU PREPARE IN CONNECTION WITH YOUR ASSIGNMENT FOR LQSWC?

A48. I prepared two market risk premium estimates: An historical market risk premium and a current market risk premium.

Q49. HOW DID YOU ESTIMATE THE HISTORICAL MARKET RISK PREMIUM?

A49. I used the Morningstar's *Ibbotson SBBI 2009 Valuation Yearbook* measure of the average premium of the market over long-term treasury securities from 1926 through 2008. The average historical market risk premium over long-term treasury securities is 6.5 percent.

Q50. HOW DID YOU ESTIMATE THE CURRENT MARKET RISK PREMIUM?

A50. I derived a market risk premium by, first, using the DCF model to compute an expected market return for each of the past 12 months using *Value Line's* projections of the average dividend yield and average price appreciation (growth)

on the *Value Line* 1700 Composite Index. I then subtracted the average 30-year Treasury yield for each month from the expected market returns to arrive at the expected market risk premiums. Finally, I averaged the computed market risk premiums to determine the current market risk premium. The data and computations are shown on Schedule D-4.11. The average current market risk premium is 13.28 percent. The current market risk premium is not surprising given the financial markets and economic conditions of the past couple of years and the continued uncertainty expected in the capital markets in the future.

Q51. HAS THE COMMISSION STAFF EMPLOYED A CURRENT MARKET RISK PREMIUM IN THE PAST?

A51. Yes. However, Staff's estimation of the current market risk premium is somewhat different. Staff uses a DCF model to compute the current market risk premium as I do. However, Staff uses the median annualized projected 3-5 year price appreciation on the *Value Line* 1700 stocks in conjunction with the median dividend yield on the *Value Line* 1700 stocks on a specific date.

Q52. WHAT DO YOU ADOPT AS THE RETURN FOR THE RISK-FREE RATE?

A52. I use long-term Treasury bond rates as the measure of the risk-free return for both CAPM and cost of equity estimates. Morningstar's *Ibbotson SBBI 2009 Valuation Yearbook* explains on page 47 that the appropriate choice for the risk-free rate is a return that is no less than the <u>expected</u> return for long-term Treasury securities. Thus, when determining an estimate of the risk-free rate, it is appropriate to adopt a return that is no less than the expected return on the long-term Treasury bond rate. Both of my CAPM estimates are based on a projected estimate of the long-term treasury rates for 2011-2012 of 5.2% as shown on Schedule D-4.10. The 2011-2012 timeframe is the period when new rates will be put in place for LQSWC.

E. **Financial Risk Adjustment**

Q53. PLEASE EXPLAIN YOUR FINANCIAL RISK ADJUSTMENT TO REFLECT LQSWC'S LOWER LEVEL OF DEBT IN ITS CAPITAL STRUCTURE AS COMPARED TO THE SAMPLE WATER UTILITIES?

A53. My financial risk estimation is based upon the methodology developed by Professor Hamada of the University of Chicago, which incorporates the beta of a levered firm to that of its unlevered counterpart. The equation is

$$\beta_L = \beta_U[1 + (1 - T)\varphi]$$

where β_L and β_U are the levered and unlevered betas, respectively, T is the tax rate, and φ the leverage, defined as the ratio of debt and equity of the firm. In simple terms, I unlever the average beta of the six publicly traded water utilities in my sample using a ratio of the market value of debt and the market value of equity. While I can compute the market value of equity of the sample water utilities based on the current number of shares outstanding and the current stock price, estimating the market value of debt is much more difficult. For purposes of my analysis, I assume the market value of debt is the book value. This is a reasonable assumption and is conservative. Once the unlevered beta is determined, I relever the beta using the capital structure of LQSWC. For the market value of equity I multiplied LQSWC's book value of equity times the average market-to-book ratio of the sample water utilities. For LQSWC's debt, I assume the market value of debt is equal to the book value.

The relevered beta is then used in my CAPM models, and the new CAPM results are compared to my original CAPM results. The computed difference is the basis of my financial risk adjustment. My computation of the financial risk adjustment can be found in tables D-4.13, D-4.14, and D-4.15.

Q54. WHAT IS THE COMPUTED FINANCIAL RISK ADJUSTMENT?

A54. A upward adjustment of 230 basis points.

Q55. DO YOU HAVE ANY CONCERNS ABOUT THE HAMADA METHOD?

A55. Yes. In order to use this method, I have made the assumption that the average beta of the sample water utilities is the beta for LQSWC. Since LQSWC is a much smaller firm than the sample water utilities, I would expect the beta to be higher. Consequently, the financial risk adjustment is likely understated.

F. <u>Company Specific Risk Premium</u>

Q56. PLEASE DISCUSS YOUR COMPANY SPECIFIC RISK PREMIUM.

A56. As I testified earlier, LQSWC is not directly comparable to the sample water utilities because of its small size and the regulatory environment in Arizona. The characteristics such as small size, lack of diversification, limited revenue and cash flow, small customer base, lack of liquidity, as well as the magnitudes of regulatory and construction risk are common to smaller water utilities regardless of the regulatory jurisdiction. These characteristics and magnitudes of risk are unique only in the sense that the large publicly traded water utilities (including the companies in the proxy group) do not possess these same characteristics and magnitudes of risk. With respect to Arizona regulation, the use of historical test year with limited out of period adjustments and the lack of adjuster mechanism increases the risk to LQSWC.

Q57. PLEASE DISCUSS SIZE RISK FOR SMALL UTILITY COMPANIES.

A57. Investment risk increases as the firm size decreases, all else remaining constant. There is a great deal of empirical evidence that the firm size phenomenon exists. Morningstar's *Ibbotson SBBI 2009 Valuation Yearbook* (Chapter 7) reports that smaller companies have experienced higher returns that are not fully explainable by their higher betas and that beta is inversely related to company size. In other

words, smaller companies not only have higher betas but higher returns than larger ones. Even after accounting for differences in beta risk, small companies require an additional risk premium over and above the added risk premium indicated by differences in beta risk. Dr. Zepp also reported evidence that the stocks of small water utilities, like LQSWC, are more risky than the stocks of larger water utilities, such as those in the water utilities sample.[10] Even the California PUC conducted a study that showed smaller water utilities are more risky than larger ones.[11] Based on this evidence, it is clear that investors require higher returns on small company stocks than on large company stocks.

I have included in Schedule D-4.16 the results of an *Ibbotson* study using annual data reporting the size premium based upon firm size and return data provided in Morningstar *Ibbotson SBBI 2009 Valuation Yearbook* and information contained in a published work by Dr. Thomas M. Zepp. I have estimated that a small company risk premium in the range of 99 to 181 basis points is appropriate.

Q58. WHAT COMPANY SPECIFIC RISK PREMIUM DO YOU RECOMMEND FOR LQSWC?

A58. To be conservative, I conclude that a company specific risk premium of no less than 100 basis points is warranted for LQSWC to account for its smaller size and degree of regulatory risk.

G. <u>Summary and Conclusions</u>

Q59. HAVE YOU PREPARED A SCHEDULE WHICH SUMMARIZES YOUR EQUITY COST ESTIMATES AND PRESENTS YOUR RECOMMENDATIONS?

[10] Thomas M. Zepp, "Utility Stocks and the Size Effect – Revisited", The Quarterly Review Economics and Finance, Vol. 43, Issue 3, Autumn 2003, 578-582.

[11] Staff Report on Issues Related to Small Water Utilities, June 10, 1991 and CPUC Decision 92-03-093.

A59. Yes. The equity cost estimates and my recommendations are summarized in Schedule D-4.1.

In the first part of my analysis, I applied two versions of the constant growth DCF model. One uses analyst estimates of growth and the other uses historical growth and analyst expectations. *See* Schedules D-4.8. The DCF models produce an indicated equity cost in the range of 11.1 percent to 12.6 percent, with a midpoint of 11.9 percent.

In the second part of my analysis, I applied two versions of the CAPM – a historical risk premium CAPM and a current market risk premium CAPM. The CAPM analyses appear in Schedule D-4.12 and produce an indicated cost of equity in the range of 10.4 percent to 15.8 percent, with a midpoint of 13.1 percent.

In the third part of my analysis, I compute a financial risk adjustment to account for the lower level of debt in LQSWC's capital structure compared to the sample water utilities. My recommendation is that an upward financial risk adjustment of no more than 230 basis points be applied to LQSWC's cost of equity. My financial risk adjustment analysis is shown in schedules D-4.13, D-4.14, and D-4..

In the fourth part of my analysis, I reviewed the financial literature on the small firm size effect and determined that an appropriate small company size premium for small utilities like LQSWC is in the range of 99 to 181 basis points. See Schedule D-4.16. I also considered the risks for LQSWC from Arizona regulation. My recommendation is that an upward adjustment for company specific risk of no less than 100 basis points be applied to LQSWC's cost of equity.

The range of results of both my DCF and CAPM analyses and other risk adjustments is 14.7 percent to 18.1 percent, with a mid-point of 16.4 percent. See Schedule D-4.1.

Q60. WHAT EQUITY RETURN DO YOU RECOMMEND?

A60. My recommended return on equity based on LQSWC's capital structure is 16.0. It is well below the mid-point of the range of my over-all results and reflects the application of my expertise and informed judgment to reach a recommendation that I felt I could defend in this proceeding.

Q61. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY ON COST OF CAPITAL?

A61. Yes.

Las Quintas Serenas Water Company

Application for a Determination of the Fair Value of Its Utility Plants and Property and for Increases in Its Water Rates and Charges

December 31, 2009

Schedules D

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

Exhibit
Schedule D-1
Page 1
Witness: Bourassa

Line No.	Item of Capital	End of Test Year Dollar Amount	Percent of Total	(e) Cost Rate	Weighted Cost	End of Projected Year Dollar Amount	Percent of Total	(e) Cost Rate	Weighted Cost
1	Long-Term Debt	1,723,869	74.15%	6.60%	4.89%	$ 1,666,509	59.70%	6.60%	3.94%
2									
3	Stockholder's Equity[1]	601,011	25.85%	16.00%	4.14%	1,125,071	40.30%	16.00%	6.45%
4									
5	Totals	$ 2,324,880	100.00%		9.03%	$ 2,791,580	100.00%		10.39%
6									
7									
8	[1] Adjustments to equity								
9	Acumm. depreciation adjustment		$ (59,205)						
10	CIAC adjustment		$ (109,250)						
11									
12									
13									
14									
15									
16	SUPPORTING SCHEDULES:								
17	D-2								
18	D-3								
19	D-4								
20	E-1								
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									
31									
32									
33									

RECAP SCHEDULES:
A-3

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

Exhibit
Schedule D-2
Page 1
Witness: Bourassa

Line No.	Description of Debt	End of Test Year Amount Outstanding[1]	Annual Interest	Interest Rate	Weighted Cost	End of Projected Year Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost
1	WIFA Loan	1,723,869	113,775	6.60%	6.60%	1,666,509	109,990	6.60%	6.60%
2			-	0.00%	0.00%	-	-	0.00%	0.00%
3			-	0.00%	0.00%	-	-	0.00%	0.00%
4			-	0.00%	0.00%	-	-	0.00%	0.00%
5			-	0.00%	0.00%	-	-	0.00%	0.00%
6			-	0.00%	0.00%	-	-	0.00%	0.00%
7			-	0.00%	0.00%	-	-	0.00%	0.00%
8			-	0.00%	0.00%	-	-	0.00%	0.00%
9			-	0.00%	0.00%	-	-	0.00%	0.00%
10			-	0.00%	0.00%	-	-	0.00%	0.00%
11			-	0.00%	0.00%	-	-	0.00%	0.00%
12									
13	Totals	$ 1,723,869	$ 113,775		6.60%	$ 1,666,509	109,990		6.60%
14									
15	*SUPPORTING SCHEDULES:*								
16	E-1								
17									
18	[1] Includes long-term debt plus long-term debt - current portion on E-1								
19									
20									

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

Exhibit
Schedule D-3
Page 1
Witness: Bourassa

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

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Cost of Common Equity

Exhibit
Schedule D-4
Page 1
Witness: Bourassa

Line No.		
1		
2	The Company is proposing a cost of common equity of	16.00% .
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
18	E-1	D-1
19		
20		

Las Quintas Serenas Water Company
Summary of Results

Exhibit
Schedule D-4.1
Page 1

Line No.	Method	Low	High	Midpoint
6	Range DCF Constant Growth Estimates[1]	11.1%	12.6%	11.9%
8	Range of CAPM Estimates[2]	10.4%	15.8%	13.1%
11	Average of DCF and CAPM midpoint estimates	10.8%	14.2%	12.5%
14	Financial Risk Adjustment[3]	2.9%	2.9%	2.9%
16	Small Company Risk Premium[4]	1.0%	1.0%	1.0%
18	Indicated Cost of Equity	14.7%	18.1%	16.4%
22	Recommended Cost of Equity			16.0%

26 [1] See Schedule D-4-8
27 [2] See Schedule D-4.12
28 [3] See Schedule D-4.17
29 [4] See testimony.

Las Quintas Serenas Water Company
Selected Characteristics of Sample Group of Water Utilities

Exhibit
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	1. American States	76%	$ 342.6	$ 744.9	A	A2
2	2. Aqua America	93%	$ 658.8	$ 3,479.8	AA-	NR
3	3. California Water	98%	$ 435.1	$ 1,026.3	AA-	NR
4	4. Connecticut Water	93%	$ 66.2	$ 260.3	AAA	NR
5	5. Middlesex	89%	$ 90.8	$ 327.0	A	NR
6	6. SJW Corp.	95%	$ 217.3	$ 509.5	NR	NR
7						
8	Average	91%	$ 301.8	$ 1,058.0		
9						
10	Las Quintas Serenas Water Company (adjusted as of June 30, 2009)	100%	$ 0.5	$ 2.8	NR	NR

[1]AUS Utility Reports (November 2009).

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

Exhibit
Schedule D-4.4

Line No.		[1]	[2]	[3]	[4]	[5]	[6]	[7]
		Five-year historical average annual changes						
	Company	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
1	American States	7.34%	4.87%	15.71%	2.90%	7.71%	6.13%	6.92%
2	Aqua America	4.58%	7.27%	5.21%	8.29%	6.34%	8.78%	7.56%
3	California Water	11.74%	5.67%	12.22%	0.88%	7.63%	7.33%	7.48%
4	Connecticut Water	0.19%	3.07%	0.45%	1.18%	1.22%	11.00%	6.11%
5	Middlesex	Negative	5.76%	8.16%	1.51%	5.14%	8.00%	6.57%
6	SJW Corp.	12.50%	8.16%	4.37%	6.02%	7.76%	11.67%	9.71%
	GROUP AVERAGE	7.27%	5.80%	7.69%	3.46%	5.97%	8.82%	7.39%
	GROUP MEDIAN	7.34%	5.72%	6.69%	2.20%	6.98%	8.39%	7.20%

[1] Average of changes in year-end stock prices ending in 2008. Data from Yahoo Finance website.
[2] Data derived from Value Line Investment Survey and/or 10K Reports for period 2004 to 2008.
[3] See Schedule D-4.6.

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

Exhibit
Schedule D-4.5

Line No.	Company	[1] Price[1]	[2] Book Value[2]	[3] EPS[2]	[4] DPS[2]	[5] Average Col 1-4	[6] Average Future Growth[3]	[7] Average of Future and Historical Growth Col 5-6
		Ten-year historical average annual changes						
7	1. American States	8.16%	4.34%	5.93%	1.80%	5.06%	6.13%	5.59%
8	2. Aqua America	6.43%	8.40%	6.29%	7.22%	7.08%	8.78%	7.93%
9	3. California Water	7.01%	3.54%	5.38%	0.90%	4.21%	7.33%	5.77%
10	4. Connecticut Water	4.94%	3.53%	1.45%	1.22%	2.78%	11.00%	6.89%
11	5. Middlesex	6.17%	3.98%	3.85%	1.91%	3.98%	8.00%	5.99%
12	6. SJW Corp.	9.46%	5.29%	5.40%	5.63%	6.44%	11.67%	9.05%
15	GROUP AVERAGE	7.03%	4.85%	4.72%	3.11%	4.93%	8.82%	6.87%
16	GROUP MEDIAN	6.72%	4.16%	5.39%	1.86%	4.63%	8.39%	6.44%

[1] Average of changes in year-end stock prices ending in 2008. Data from Yahoo Finance website.
[2] Data derived from Value Line Investment Survey and/or 10K Reports for period 1999 to 2008.
[3] See Schedule D-4.6.

Las Quintas Serenas Water Company
Analysts Forecasts of Earnings Per Share Growth

Exhibit
Schedule D-4.6

Line No.		[1]	[2]	[3]	[4]	[5]
		ESTIMATES OF EARNINGS GROWTH				Average Growth (G)
	Company	Zacks[1]	Morningstar[1]	Yahoo[1]	Value Line[1]	(Cols 1-4)[2]
1	1. American States	4.00%	7.00%	4.00%	9.50%	6.13%
2	2. Aqua America	8.00%	8.80%	8.33%	10.00%	8.78%
3	3. California Water	7.00%	7.30%	6.00%	9.00%	7.33%
4	4. Connecticut Water	9.00%		15.00%	9.00%	11.00%
5	5. Middlesex	9.00%	8.00%	8.00%	7.00%	8.00%
6	6. SJW Corp.		15.00%	10.00%	10.00%	11.67%
7	GROUP AVERAGE					8.82%
8	GROUP MEDIAN					8.39%

[1] Data as of November 20, 2009

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

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

Exhibit
Schedule D-4.7

Line No.	Company	Curent Stock Price (P_0)[1]	Current Dividend (D_0)[1]	Current Dividend Yield (D_0/P_0)[1]	Average Annual Dividend Yield (D_0/P_0)[1,2]
1					
2					
3					
4					
5					
6	1. American States	$ 31.94	$ 1.00	3.13%	2.86%
7	2. Aqua America	$ 15.88	$ 0.51	3.21%	2.80%
8	3. California Water	$ 35.78	$ 1.17	3.27%	3.12%
9	4. Connecticut Water	$ 22.80	$ 0.88	3.86%	3.58%
10	5. Middlesex	$ 15.91	$ 0.70	4.40%	3.99%
11	6. SJW Corp.	$ 22.18	$ 0.65	2.93%	2.27%
12					
13	Average			3.47%	3.10%
14	Median			3.24%	2.99%
15					
16	[1] Value Line Analyzer Data. Stock prices as of August 21, 2009.				
17	[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,				
18	expressed as a percentage. For comparison purposes only.				
19					
20					
21					
22					
23					
24					
25					

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

Exhibit
Schedule D-4.8

Line No.		[1] Average Spot Dividend Yield (D_0/P_0)[1]	[2] Expected Dividend Yield (D_1/P_0)[2]	[3] Growth (g)		[4] Indicated Cost of Equity k=Div Yld + g (Cols 2+3)
8	DCF - Past and Future Growth	3.47%	3.72%	7.39%	3	11.1%
10	DCF - Future Growth	3.47%	3.77%	8.82%	4	12.6%
13						11.9%

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

Las Quintas Serenas Water Company
Market Betas

Exhibit
Schedule D-4.9

Line No.		Company	Beta (β)[1]
1		Company	Beta (β)[1]
2	1.	American States	0.80
3	2.	Aqua America	0.65
4	3.	California Water	0.75
5	4.	Connecticut Water	0.85
6	5.	Middlesex	0.80
7	6.	SJW Corp.	0.95
8			
9		Average	**0.80**
10			
11			
12			
13		[1] Value Line Investment Analyzer data (November 20, 2009)	
14		Note: Beta is a relative measure of the historical sensitivity of a stock's price to overall fluctuations	
15		in the New York Stock Exchange Composite Index. A Beta of 1.50 indicates a stock tends to rise	
16		(or fall) 50% more than the New York Stock Exchange Composite Index. The "Beta coefficient" is	
17		derived from a regression analysis of the relationship between weekly percent-age changes in the	
18		price of a stock and weekly percentage changes in the NYSE Index over a period of five years. In	
19		the case of shorter price histories, a smaller time period is used, but two years is the minimum.	
20		The Betas are adjusted for their long-term tendency to converge toward 1.00.	

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

Exhibit
Schedule D-4.10

Line No.	Description	2011	2012	Average
1				
2				
3				
4	Description	2011	2012	Average
5				
6	Blue Chip Consensus Forecasts[1]	5.1%	5.5%	5.3%
7				
8	Value Line[2]	5.0%	5.1%	5.1%
9				
10	Average			5.2%
11				
12				
13				
14				
15	[1] December 2009 Blue Chip Financial Forecasts consensus forecast of 30 Year U.S.Treasury			
16	[2] Value Line Quarterly forecast, dated November 27, 2009 Long-Term U.S Treasury			
17				
18				
19				
20				
21				
22				
23				
24				

Las Quintas Serenas Water Company
Computation of Current Market Risk Premium

Exhibit
Schedule D-4.11

Line No.	Month	Dividend Yield (D_0/P_0)[1]	Expected Dividend Yield (D_1/P_0)[2]	+	Growth (g)[3]	=	Expected Market Return (k)	-	Monthly Average 30 Year Treasury Rate[4]	=	Market Risk Premium (MRP)
4	Aug 2006	2.20%	2.20%	+	11.69%	=	13.89%	-	5.00%	=	8.89%
5	Sept	2.20%	2.20%	+	11.34%	=	13.54%	-	4.85%	=	8.69%
6	Oct	2.15%	2.15%	+	9.75%	=	11.90%	-	4.85%	=	7.05%
7	Nov	2.10%	2.10%	+	9.72%	=	11.82%	-	4.69%	=	7.13%
8	Dec 2006	2.09%	2.09%	+	9.41%	=	11.50%	-	4.68%	=	6.82%
9	Jan 2007	2.05%	2.05%	+	9.57%	=	11.62%	-	4.85%	=	6.77%
10	Feb	2.10%	2.10%	+	10.47%	=	12.57%	-	4.82%	=	7.75%
11	March	2.10%	2.10%	+	10.07%	=	12.17%	-	4.72%	=	7.45%
12	April	2.09%	2.09%	+	9.29%	=	11.38%	-	4.87%	=	6.51%
13	May	2.08%	2.08%	+	9.15%	=	11.23%	-	4.90%	=	6.33%
14	Jun	2.17%	2.17%	+	9.71%	=	11.88%	-	5.20%	=	6.68%
15	Jul	2.27%	2.27%	+	10.91%	=	13.18%	-	5.11%	=	8.07%
16	Aug	2.37%	2.37%	+	11.92%	=	14.29%	-	4.93%	=	9.36%
17	Sept	2.31%	2.31%	+	11.16%	=	13.47%	-	4.79%	=	8.68%
18	Oct	2.45%	2.45%	+	11.90%	=	14.35%	-	4.77%	=	9.58%
19	Nov	2.60%	2.60%	+	13.41%	=	16.01%	-	4.52%	=	11.49%
4	Dec 2007	2.61%	2.61%	+	13.51%	=	16.12%	-	4.52%	=	11.60%
5	Jan 2008	2.67%	2.67%	+	15.19%	=	17.86%	-	4.33%	=	13.53%
4	Feb	2.74%	3.19%	+	16.47%	=	19.66%	-	4.52%	=	15.14%
5	Mar	2.85%	3.35%	+	17.64%	=	20.99%	-	4.39%	=	16.60%
6	April	2.69%	3.11%	+	15.73%	=	18.84%	-	4.44%	=	14.40%
7	May	2.73%	3.15%	+	15.51%	=	18.66%	-	4.60%	=	14.06%
8	Jun	3.13%	3.71%	+	18.51%	=	22.22%	-	4.69%	=	17.53%
9	Jul	3.15%	3.74%	+	18.61%	=	22.35%	-	4.57%	=	17.78%
10	Aug	3.08%	3.59%	+	17.08%	=	20.67%	-	4.50%	=	16.17%
11	Sept	3.07%	3.66%	+	19.30%	=	22.96%	-	4.27%	=	18.69%
12	Oct	4.31%	5.63%	+	30.53%	=	36.16%	-	4.17%	=	31.99%
13	Nov	4.97%	6.71%	+	35.02%	=	41.73%	-	4.00%	=	37.73%
14	Dec 2008	4.44%	5.76%	+	29.62%	=	35.38%	-	2.87%	=	32.51%
15	Jan 2009	4.86%	6.32%	+	30.02%	=	36.34%	-	3.13%	=	33.21%
16	Feb	5.50%	7.43%	+	35.13%	=	42.56%	-	3.59%	=	38.97%
17	Mar	4.21%	5.36%	+	27.33%	=	32.69%	-	3.64%	=	29.05%
18	April	3.66%	4.47%	+	22.05%	=	26.52%	-	3.76%	=	22.76%
19	May	3.46%	4.14%	+	19.67%	=	23.81%	-	4.23%	=	19.58%
20	Jun	3.25%	3.87%	+	19.16%	=	23.03%	-	4.52%	=	18.51%
21	Jul	2.90%	3.37%	+	16.31%	=	19.68%	-	4.41%	=	15.27%
22	Aug	2.82%	3.22%	+	14.21%	=	17.43%	-	4.37%	=	13.06%
23	Sept	2.80%	3.20%	+	14.32%	=	17.52%	-	4.19%	=	13.33%
24	Oct	2.75%	3.15%	+	14.49%	=	17.64%	-	4.19%	=	13.45%
25											
26											
27	Short-term Trends										
28	Recent Twelve Months Avg	3.80%	4.75%	+	23.11%	=	27.86%	-	3.91%	=	23.95%
29	Recent Nine Months Avg	3.48%	4.25%	+	20.30%	=	24.54%	-	4.10%	=	20.44%
30	Recent Six Months Avg	3.00%	3.49%	+	16.36%	=	19.85%	-	4.32%	=	15.53%
31	Recent Three Months Avg	2.79%	3.19%	+	14.34%	=	17.53%	-	4.25%	=	13.28%
32											
33	Recommended	2.79%	3.19%	+	14.34%	=	17.53%	-	4.25%	=	13.28%
34											
35											

38 [1] Average Current Dividend Yield (D_0/P_0) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

37 [2] Expected Dividend Yield (D_1/P_0) equals average current dividend yield (D0/P0) times one plus growth rate(g).

38 [3] Average 3-5 year price appreciation (annualized). Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

39 [4] Monthly average 30 year U.S. Treasury. Federal Reserve.

40

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

Exhibit
Schedule D-4.12

Line No.		Rf[1]	+	beta[3]	x	Rp		=	k
1									
2									
3	Historical Market Risk Premium CAPM	5.2%	+	0.80	x	6.5%	[4]	=	10.4%
4									
5	Current Market Risk Premium CAPM	5.2%	+	0.80	x	13.3%	[5]	=	15.8%
6									
7	Average								13.1%
8									
9									
10									
11									

12 [1] Forecasts of long-term treasury yields. See Scehdule D-4.10.
13 [2] Value Line Investment Analyzer data. See Schedule D.4.9.
14 [3] Historical Market Risk Premium from (Rp) MorningStar SBBI 2009 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2008
15 [4] Computed using DCF constant growth method to determine current market return onValue Line 1700 stocks
16 and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Schedule D-4.11.
17
18
19
20

Las Quintas Serenas Water Company
Financial Risk Computation

Exhibit
Schedule D-4.13

Line No.											
1	**CAPM**										
2		Rf		+	β		x	(Rp)			k
3	Historical Market Risk Premium	5.2%	1	+	0.80	2	x	6.5%	3	=	10.4%
4	Current Market Risk Premium	5.2%	1	+	0.80	2	x	13.3%	4	=	15.8%
5											
6	Average										13.1%
7											
8											
9	**CAPM Relevered Beta**										
10		Rf		+	β		x	(Rp)			k
11	Historical Market Risk Premium	5.2%	1	+	1.09	5	x	6.5%	3	=	12.3%
12	Current Market Risk Premium	5.2%	1	+	1.09	5	x	13.3%	4	=	19.7%
13											
14	Average										16.0%
15											
16	Financial Risk Adjustment										**2.9%**
17											
18											
19	[1] *Forecast of long-term treasury yields.* See Table 15.										
20	[2] Value Line Investment Analyzer data. See Table 13.										
21	[3] Historical Market Risk Premium from (Rp) MorningStar SBBI 2009 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2008										
22	[4] Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks										
23	and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Table 14.										
24	[5] Relevered beta found on Table 19.										
25											

Las Quintas Serenas Water Company
Financial Risk Computation
Unlevered Beta

Exhibit
Schedule D-4.14

Line No.		Company	VL Beta β_L[1]	Raw Beta Raw β_L[2]	Tax Rate t[3]	MV Debt D[4]	MV Equity E[4]	Unlevered Raw Beta β_U[5]
5	1.	American States	0.80	0.70	37.8%	32.5%	67.5%	0.54
6	2.	Aqua America	0.65	0.48	39.7%	36.7%	63.3%	0.36
7	3.	California Water	0.75	0.63	37.7%	28.0%	72.0%	0.51
8	4.	Connecticut Water	0.85	0.78	27.2%	32.2%	67.8%	0.58
9	5.	Middlesex	0.80	0.70	33.2%	35.7%	64.3%	0.51
10	6.	SJW Corp.	0.95	0.93	38.1%	34.9%	65.1%	0.70
13		Sample Water Utilities	0.80	0.70	35.6%	33.3%	66.7%	0.53

[1] Value Line Investment Analyzer data. See Table 13.
Value Line uses the historical data of the stock, but assumes that a security's beta moves toward the market average over time. The formula is as follows:
Adjusted beta = .33 + (.67) * Raw beta
[2] Raw Beta = (VL beta - .33)/(.67)
[3] Effective tax rates for year ended December 31, 2008.
[4] See Table 3.
[5] Raw B_u = Raw B_L/ (1+ (1-t)*D/E)

Las Quintas Serenas Water Company
Financial Risk Computation
Relevered Beta

Exhibit
Schedule D-4.15

Line No.		Unlevered Raw Beta β_U[1]	MV Book Debt BD[2]	MV Equity Capital EC[2]	Tax Rate t[3]	Relevered Raw Beta $\beta_{RL}=\beta_U(1+(1-t)BD/EC))$ β_{RL}	VL Adjusted Relevered Beta .33 + .67(Raw Beta) β_{RL}
5	Las Quintas Serenas Water Comp:	0.53	61.8%	38.2%	29.92%	1.13	1.09

[1] Unlevered Beta from Table 18.

[2] Capital Structure of Company (As of June 30, 2009)

	BV (in 1,000s)			MV (in 1,000s)	%
Long-term Debt	$ 1,724	1.00		$ 1,724	61.8%
Preferred Stock	-	1.00		-	0.0%
Common Stock	601	1.77	(a)	1,067	38.2%
Total Capital	$ 2,325			$ 2,790	100.0%

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

[3] Current Tax rate based on adjusted test year ending 2008 at proposed rates. See Schedule D-1.

Las Quintas Serenas Water Company
Size Premium[1]

Exhibit
Schedule D-4.16

Line No.		Beta(ß)	Size Premium	Risk Premium for Small Water Utilities[7]
6	Mid-Cap Companies[2]	1.12	0.90%	
8	Low-Cap Companies[3]	1.25	1.56%	
10	Micro-Cap Companies[4]	1.50	2.83%	
12	Decile 10[5]	1.62	4.43%	1.81%

Line No.		Risk Premium for Small Water Utilities
20	Estimated Risk Premium for small water utilities[6]	0.99%

[1] Data from Table 7-11 of Morningstar. *Ibbotson SBBI 2009 Valuation Yearbook.*
[2] Mid-Cap companies includes companies with market capitalization between $1,850 million and $7,360 million.
[3] Low-Cap companies includes companies with market capitalization between $454 million and $1,849 million.
[4] Micro-Cap companies includes companies with market capitalization less than $453 million.
[5] Decile 10 includes companies with market capitalization between $1.6 million and $219 million.
[6] From Table 2, Thomas M. Zepp, "Utility Stocks and the Size Effect Revisited," *The Quarterly Review of Economics and Finance*, 43 (2003), 578-582.
[7] Computed as the weighted differences between the Decile 10 risk premium and the inidicated risk premiums for the sample water utilities as shown below. Excludes risk due to differences in beta.

		Market Cap. (Millions)	Class	Size Premium	Difference to Decile 10	Weight	Weighted Size Premium
1.	American States	$ 553	Low-Cap	1.56%	2.87%	0.1666667	0.48%
2.	Aqua America	$ 2,150	Mid-Cap	0.90%	3.53%	0.1666667	0.59%
3.	California Water	$ 741	Low-Cap	1.56%	2.87%	0.1666667	0.48%
4.	Connecticut Water	$ 194	Decile 10	4.43%	0.00%	0.1666667	0.00%
5.	Middlesex	$ 213	Decile 10	4.43%	0.00%	0.1666667	0.00%
6.	SJW Corp.	$ 404	Micro-Cap	2.83%	1.60%	0.1666667	0.27%
	Weighted Size Premium for small companies						1.81%

Las Quintas Serenas Water Company
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model - Historical
Using 5 Year Historical Dividend Growth

Attachment 1

Line No.	Company	[1] Current Dividend Yield (D_0/P_0)[1]	[2] Expected Dividend Yield (D_1/P_0)[2]	[3] Historical Div. Growth (g)[3]	[4] Indicated Equity Cost k=Div Yld + G (Cols 2+3)	[5] Indicated Equity Cost k=Div Yld + G (Cols 2+3)
1	1. American States	3.13%	3.22%	2.90%	6.1%	*
2	2. Aqua America	3.21%	3.48%	8.29%	11.8%	11.8%
3	3. California Water	3.27%	3.30%	0.88%	4.2%	*
4	4. Connecticut Water	3.86%	3.91%	1.18%	5.1%	*
5	5. Middlesex	4.40%	4.47%	1.51%	6.0%	*
6	6. SJW Corp.	2.93%	3.11%	6.02%	9.1%	9.1%
7	GROUP AVERAGE			3.5%	7.0%	10.4%
8	GROUP MEDIAN			3.6%	6.0%	10.4%
9	Current Baa interest rate (November 20, 2009)[4]				6.3%	
10	Blue Chip Forecast Baa Corporate Bond Interest Rate 2012 Top 10[5]				8.5%	
11	Blue Chip Forecast Baa Corporate Bond Interest Rate 2012 Bottom 10[5]				6.7%	
12	Blue Chip Forecast Baa Corporate Bond Interest Rate 2012 Consensus[5]				7.5%	

* Indicated equity cost below current cost of debt (Baa) or negative growth.

[1] Spot Dividend Yield = D_0/P_0. See Table 9.
[2] Expected Dividend Yield = $D_1/P_0 = D_0/P_0 * (1+g)$.
[3] Growth rate (g). Value Line Analyzer Data (August 21, 2009)
[4] Federal Reserve. Baa investment grade bonds.
[5] Blue Chip Financial Forecast (December 2009)

EXHIBIT
A-4
ADMITTED

Exhibit A-4
Thomas J. Bourassa

Prepared Rebuttal Testimony on Rate Base, Income Statement and Rate Design

September 28-29, 2010 ACC Hearing
Las Quintas Serenas Water Company
Docket No. W-01583-09-0589

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 PLANT AND PROPERTY AND (ii) AN INCREASE IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. W-01583A-09-0589
_____	PREPARED TESTIMONY

REBUTTAL TESTIMONY OF

THOMAS J. BOURASSA

ON BEHALF OF LAS QUINTAS SERENAS WATER COMPANY

(RATE BASE, INCOME STATEMENT, RATE DESIGN)

August 23, 2010

I. INTRODUCTION AND PURPOSE OF TESTIMONY.

Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

A2. On behalf of the applicant, Las Quintas Serenas Water Company ("LQLQSWC" or the "Company").

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

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

Q4. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?

A4. I will provide rebuttal testimony in response to the direct filing by Staff. More specifically, this first volume of my rebuttal testimony relates to rate base, income statement and rate design for LQSWC. In a second, separate volume of my testimony, I also present an update to the Company's requested cost of capital as well as 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 REBUTTAL POSITION

Q5. WHAT IS THE REVENUE INCREASE THAT THE COMPANY IS PROPOSING IN THIS REBUTTAL TESTIMONY?

A5. The Company is proposing a total revenue requirement of $685,047 which constitutes an increase in revenues of $196,777, or 40.30% over adjusted test year revenues.

Q6. HOW DOES THIS COMPARE WITH THE COMPANY'S DIRECT FILING?

A6. In the direct filing, the Company requested a total revenue requirement of $691,799, which required an increase in revenues of $203,528, or 41.68%.

Q7. WHY IS THE REQUESTED REVENUE INCREASE LOWER IN LQSWC'S REBUTTAL FILING?

A7. While the Company is recommending a higher rate of return of 9.44 percent compared to 9.03 percent in its direct filing, in its rebuttal filing, LQSWC has adopted a number of adjustments recommended by Staff, as well as proposed a number of adjustments of its own based on known and measurable changes to the test year. The net result of these adjustments is: (1) the Company's proposed operating expenses have decreased by $4,819, from $440,721 in the direct filing to $435,901 and a net decrease of $109,680 in rate base from the direct filing of $2,109,539 to $1,999,859.

Q8. PLEASE SUMMARIZE THE COMPANY'S REBUTTAL RATE BASE ADJUSTMENTS?

A8. The rebuttal rate base adjustments proposed by the Company are summarized as follows:

Plant Retirements – The Company has adopted the Staff recommendation to adjustment plant for retirements. Plant in service ("PIS") is reduced by $7,488.

Debt Financing Costs – The Company has adopted Staff recommendation to remove debt financing costs from PIS. PIS is reduced by $185,625.

Plant Not Used and Useful – The Company has adopted Staff recommendations regarding plant not used and useful and has made a corresponding adjustment to

advances-in-aid of construction ("AIAC") that was used to fund this plant through a refundable line extension agreement. PIS is reduced by $20,918 and advances-in-aid of construction ("AIAC") is reduced by $20,918.

Accumulated Depreciation – The Company proposes to remove accumulated depreciation ("A/D") totaling $33,281 related to the removal of retirement costs, financing costs, and not used and useful plant from PIS.

Accumulated Deferred Income Taxes – The Company proposes to include accumulated deferred income taxes ("ADIT") as an asset of $77,709 reflecting the Company proposed PIS, A/D, CIAC, and AIAC.

Customer Security Deposits – The Company has adopted Staff's recommendation to include customer security deposits totaling $7,475 in rate base in order to help minimize the issues between the parties.

Q9. WHAT ARE THE PROPOSED REVENUE REQUIREMENTS AND RATE INCREASES FOR THE COMPANY AND STAFF AT THIS STAGE OF THE PROCEEDING?

A9. The proposed revenue requirements and proposed rate increases are as follows:

	Revenue Requirement	Revenue Incr.	% Increase
Company-Direct	$691,799	$203,528	41.68%
Staff	$648,334	$160,064	32.78%
Company Rebuttal	$685,047	$196,777	40.30%

III. RATE BASE

Q10. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE BASE RECOMMENDATIONS?

A10. Yes, the rate bases proposed by the parties in the case, are as follows:

	OCRB	FVRB
Company-Direct	$2,109,539	$2,109,539
Staff	$1,911,646	$1,911,646
Company Rebuttal	$1,999,859	$1,999,859

A. Plant-in-service.

Q11. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ORIGINAL COST RATE BASE, AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF?

A11. The Company's rebuttal rate base adjustments to OCRB are detailed on rebuttal schedules B-2, pages 3 through 6. Rebuttal Schedule B-2, page 1 and 2, summarize the Company's proposed adjustments and the rebuttal OCRB.

Rebuttal B-2 adjustment 1, as summarized on Rebuttal Schedule B-2, page 2, consists of three adjustments labeled as "A", "B", and "C" on Rebuttal Schedule B-2, page 3.

Adjustment A reduces PIS for a retirement of plant costing $7,488. This adjustment reflects the adoption of Staff proposed adjustment.[1]

Adjustment B, of rebuttal B-2 adjustment 1, removes debt issuance costs which were inadvertently included as part of new arsenic treatment facilities in the

[1] *See* Direct Testimony of Crystal S. Brown ("Brown Dt.") at 6.

Company's direct filing. This adjustment reflects the adoption of Staff proposed adjustment.[2]

Adjustment C, of rebuttal B-2 adjustment 1, removes $41,000 of plant that is not used and useful. Staff proposes a similar adjustment.[3] While both the Company and Staff propose to remove $41,000 of plant costs, the Company removes $20,082 from plant account 311 – Pumping Equipment and $20,918 from plant account 331 – Transmission and Distribution Mains. On the other hand, Staff removes all of the plant costs from plant account 331 – Transmission and Distribution Mains.

Q12. WHY DID THE COMPANY REMOVE PLANT COSTS FROM PLANT ACCOUNTS 311 AND 331?

A12. Because that is the recommendation of the Staff Engineering witness, Mr. Marlin Scott.[4]

Q13. DO STAFF AND THE COMPANY AGREE ON THE PLANT-IN-SERVICE BALANCE?

A13. Yes. Both Staff and the Company propose a PIS balance of $3,594,472.[5] However, there are some differences in the individual plant account balances as the result of differences between Staff and the Company as which accounts related to the removal of plant not used and useful are adjusted as discussed previously.

B. <u>Accumulated Depreciation.</u>

Q14. PLEASE EXPLAIN YOUR ADJUSTMENTS TO ACCUMULATED DEPRECIATION.

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[2] *See* Brown Dt. at 6-7.
[3] *Id.* at 7-8.
[4] *See* Table H-1 in Direct Testimony of Marlin Scott Jr. ("Scott Dt.") at 8.
[5] Compare Staff Schedule CSB-3 and Company Rebuttal Schedule B-2, page 1.

A14. Rebuttal B-2 adjustment 2, as summarized on Rebuttal Schedule B-2, page 2, consists of one adjustments labeled as "A", "B", "C", and "D" on Rebuttal Schedule B-2, page 4.

Adjustment A reflects a decrease to accumulated depreciation ("A/D") for the plant retirement totaling $7,488. This a corresponding adjustment to the retirement of plant as discussed above.

Adjustment B reflects a decrease to A/D for the depreciation related to debt issuance costs that were included in the Company's A/D balance in its direct filing. This a corresponding adjustment to the removal of debt issuance costs from plant as discussed above.

Adjustment C reflects a decrease to A/D for the plant not used and useful totaling $20,605. This a corresponding adjustment to the removal of plant not used and useful as discussed above.

Adjustment D reflects the reconciliation adjustment to the computed balance of A/D as shown on Rebuttal Schedule B-2, pages 3.10.

Q15. DO STAFF AND THE COMPANY AGREE ON THE ACCUMULATED DEPREICATION BALANCE?

A15. No. The Company recommends an A/D balance of $1,044,147 whereas Staff recommends and A/D balance of $1,002,426.[6] The difference of $41,721 is due, in part, to the amount of depreciation that is removed for not used and useful plant. Staff appears to remove $41,000 of depreciation[7] whereas the Company removes $20,605 of depreciation[8] – a difference of $20,395. The remaining difference in A/D of $21,326 ($41,721 less $20,395) appears to be related to the amount of

[6] Compare Staff Schedule CSB-3 and Company Rebuttal Schedule B-2, page 1.
[7] *See* Staff Schedule CSB-8, page 7 of 7.
[8] *See* Company Rebuttal Schedule B-2, page 4.

depreciation computed for 2009 (ending June 30). I believe Staff should have computed depreciation expense for nine months rather than six months for 2009.[9] The reason for this is that, as with the Company's Rebuttal Schedule B-2 (pages 3.5 to 3.10) where accumulated depreciation is re-computed for all years, all of the years prior to 2009 employ a fiscal year-end date of September 30[10]. For 2009, the end-date is June 30. There are nine months between September 30, 2008 and June 30, 2009, not six months.

C. **Advances-in-aid of Construction ("AIAC").**

Q16. PLEASE DISCUSS THE COMPANY'S ADJUSTMENT TO ADVANCES-IN-AID OF CONSTRUCTION?

A16. In rebuttal B-2 adjustment 3, as shown on Schedule B-2, page 2, the Company proposes a decrease to AIAC of $20,918 to reflect the funding of the plant not used and useful which has been excluded from PIS and rate base. The $20,918 of transmission and distribution mains removed from PIS is related to the Santa Cruz Meadows subdivision. A copy of the refundable line extension agreement is attached as Rebuttal Exhibit TJB-RB1. Staff does not propose a similar adjustment to AIAC.

D. **Accumulated Deferred Income Taxes ("ADITs").**

Q17. PLEASE EXPLAIN THE COMPANY'S REBUTAL PROPOSED ACCUMULATED DEFERRED INCOME TAXES.

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[9] A review of Staff's work papers indicates a 6 month period for the depreciation computation for 2009 was used.

[10] Company's fiscal year is from July 1 to September 30.

A17. The Company proposes accumulated deferred income taxes ("ADIT") in rate base in response to Staff's proposal to include ADIT. In rebuttal B-2 adjustment 4, as shown on Schedule B-2, page 2, the Company's ADIT (an asset) $84,951. The ADIT reflects the Company's rebuttal proposed PIS, A/D, CIAC and AIAC. The details of the Company's rebuttal proposed ADIT adjustment is shown on Schedule B-2, page 6.

Q18. HOW DOES STAFF'S PROPOSED ACCUMULATED DEFERRED INCOME TAX BALANCE COMPARE TO THE COMPANY'S?

A18. Staff proposes a net ADIT liability of $31,307 compared to the Company's ADIT asset of $77,709. Staff's ADIT reduces rate base, where as the Company's ADIT increases rate base. The primary difference between Staff and the Company with respect to ADIT is in the recognition of deferred taxes associated with net operating loss (NOL) carry forward from bonus depreciation. The Company's ADIT recognizes this component of ADIT whereas Staff's does not.

Q19. PLEASE EXPLAIN WHAT A NET OPERATING LOSS CARRY FORWARD IS AND HOW IT GENERATES DEFERRED INCOME TAXES.

A19. For starters, let me provide some background. With the enactment of the Economic Stimulus Act of 2008 (ESA) in February 2008 a special 50 percent depreciation allowance for qualifying property purchased in 2008. In essence, a business could deduct 50 percent of the cost for tax purposes under the bonus depreciation provisions. The purchase of qualifying property had to be made by the end of 2008. A year later, the American Recovery and Reinvestment Act (ARRA) extended the bonus depreciation deduction through the end of 2009. Attempts to have Congress extend the bonus depreciation provisions through 2010 have thus far been unsuccessful.

Q20. WHAT WAS THE PURPOSE OF THE BONUS DEPRECIATION PROVISIONS?

A20. The purpose of the bonus depreciation provisions was to encourage investments by enabling businesses to write them off more quickly for tax purposes.

Q21. PLEASE CONTINUE.

A21. For the Company's tax year 2009 (October 1, 2008 to September 30, 2009), the Company elected to take bonus depreciation on assets in purchased and placed into service during the tax year. The resulting total tax depreciation deduction was over $1 million. Book depreciation for this same period was about $34,000. The large tax depreciation deduction far exceeded the Company's income and the result was a NOL (the excess of allowable deductions over gross income) for 2009.

Q22. ARE THERE TAX BENEFITS ASSOCIATED WITH A NET TAX OPERATING LOSS?

A22. Yes. An NOL can be used to reduce a tax liability by applying the NOL incurred in a current fiscal year against income reported in earlier years (tax loss carry back) and in future years (tax loss carry forward). IRS tax rules permit carrying back losses over the three prior years, resulting in a tax refund. A tax loss carry forward (NOL carry forward), on the other hand, is an NOL charged against income in future years.

Q23. WILL THE COMPANY CARRY BACK THE NET OPERATING LOSS FROM 2009 TO THE EXTENT IT CAN OFFSET PRIOR YEAR TAX LIABILITIES?

A23. Yes. And, I have accounted for this in my ADIT computations so that rate payers receive the benefit of the resulting book-tax timing difference through the end of

the year.[11] The remaining unused NOL will be carried forward to offset future tax liabilities. In other words, the NOL will provide future tax benefits as an offset to future taxable income and accordingly results in an ADIT asset.

Another way to looking at the NOL carry forward in the instant case is that not all of the bonus depreciation deduction could be utilized by the Company to offset income for tax purposes. Basically, the NOL represents unused tax depreciation that will be used (deducted) against future income for tax purposes. The tax benefits from the unused bonus depreciation can be accounted for in the ADIT computation by either recognizing the tax benefit as a separate component of ADIT (as is shown in the Company's ADIT computation as an NOL carry-forward and a tax asset component[12]) or by adding back the unused bonus depreciation to the tax value of PIS. Adding back the unused bonus depreciation will lower the difference between the book and tax fixed asset values and will ultimately lower the ADIT liability component of ADIT. Either way, the ADIT balance will be the same. Without recognition of the NOL carry forward, the ADIT balance at the end of the test year will be incomplete and a mismatch will occur between rate base, revenues, and expenses.

Q24. DOES THE STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NUMBER 109 REQUIRE THE RECOGNITION OF BOOK-TAX TIMING DIFFERENCE FROM AN OPERATING LOSS CARRY FORWARD?

A24. Yes.[13]

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[11] *See* Company Rebuttal Schedule B-2, page 6, line 12.
[12] *See* Company Rebuttal Schedule B-2, page 6.2, footnote 5.
[13] Statement of Financial Accounting Standards No. 109, Financial Accounting Standards Board, 1992, p. 11.

E. **Customer Security Deposits.**

Q25. PLEASE COMMENT ON STAFF PROPOSAL TO INCLUDE CUSTOMER SECURITY DEPOSITS IN RATE BASE.

A25. Staff recommends the inclusion of customer security deposits (key deposits) totaling $7,475 in rate base (a reduction in rate base).[14] While the Company disagrees with the inclusion of customer deposits in rate base it has adopted Staff's proposal to help eliminate issues between the parties.

Q26. DOES THE COMPANY PAY INTEREST ON KEY DEPOSITS?

A26. No. These are not security deposits to secure the payment from customers: rather, they are deposits to insure the return of keys given to customers to provide access to standpipe service. Accordingly, I have not included any interest expense associated with these deposits in operating expenses.

IV. INCOME STATEMENT

Q27. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED REBUTTAL ADJUSTMENTS TO REVENUES AND EXPENSES AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF?

A27. The Company's proposed rebuttal adjustments are detailed on Rebuttal Schedule C-2, pages 1-6. The rebuttal income statement with adjustments is summarized on Rebuttal Schedule C-1, page 1-2.

Rebuttal adjustment 1 annualizes depreciation and amortization expense. Depreciation and amortization expense is somewhat lower due to the impacts of the Company proposed rebuttal adjustments to plant-in-service.

[14] Michlik Dt. at 10.

Q28. IS THERE AGREEMENT BETWEEN STAFF AND THE COMPANY ON THE LEVEL OF DEPREICATION EXPENSE?

A28. No. Despite having the same total balance of PIS at $3,594,472[15], Staff's recommended level of depreciation expense is higher than the Company's by $12,919[16]. The primary reason for this difference is a computational error contained in Staff determination of depreciation expense. Specifically, Staff uses an incorrect depreciation rate for account 331 – Transmission and Distribution mains. The depreciation rate used in Staff's computation is 3.33 percent[17] whereas Staff's recommended rate is 2.0 percent.[18] Using Staff's plant balance of $883,616 for account 331, the depreciation expense should be $17,762 ($883,616 times 2.0%) and not $29,424 as shown in the Staff schedules[19] - a difference of $11,752 ($29,424 minus $17,762).

Q29. WHAT IS THE REMAINING DEFFIERNCE IN THE RECOMMENDED DEPRECIATION EXPENSE BETWEEN THE PARITES?

A29. Two other relatively minor differences are the cause of the difference between Staff and the Company with respect to depreciation expense. The first relates to the removal of not used and useful plant. The Company removes $20,082 of not used and useful plant cost from acct 311 – Pumping Equipment whereas Staff removes the $20,082 of cost from account 331 – Transmission and Distribution Mains. This was discussed earlier in my rebuttal testimony at page 5. These two accounts have different depreciation rates[20]. And, because Staff made its

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[15] Compare Staff Schedule CSB-15 and Company Rebuttal Schedule C-2, page 2.

[16] Staff recommends depreciation expense of $124,300 per Staff Schedule CSB-15 whereas the Company recommends depreciation expense of $111,381 per Company Schedule C-2, page 2.

[17] *See* Staff Schedule CSB-15, line 9, column D.

[18] See Table I-1 of Staff Exhibit MSJ at page 16.

[19] See Staff Schedule CSB-15, line 9, column E.

[20] For plant account 311 – Pumping Equipment, the depreciation rate is 12.5 percent and for plant account 331 – Transmission and Distribution mains, the depreciation rate is 2.0 percent.

adjustment for not used and used plant to a plant account with a lower depreciation rate, Staff computes more depreciation expense.

The second minor difference relates to the amount of CIAC amortization contained in each of the party's depreciation computations. Staff employs a higher CIAC amortization rate at 3.84 percent than does the Company at 3.57 percent. The higher amortization rate results in a higher amortization amount there by lowering depreciation expense.

Q30. PLEASE COMMENT ON STAFF'S CIAC AMORTIZATION RATE USED IN THE COMPUTATION OF DEPREICATION EXPENSE.

A30. Staff computes amortization of CIAC using a composite rate based on depreciable plant only.[21] Staff's Composite rate is higher as a result. All things being equal, Staff's composite rate results in a higher amount of CIAC amortization. The higher amount of CIAC amortization results in a lower amount of depreciation and amortization expense. The Company employs a CIAC amortization rate based on a composite of all plant in service which is the correct method of determining the composite rate.

Q31. WHY?

A31. Under the concept of using a composite rate for amortization of CIAC, a key assumption is that CIAC is used to fund all plant, not just depreciable plant. Further, Staff's approach to computing a composite rate is inconsistent with the composite rates used to re-compute accumulated amortization of CIAC through the end of the test year.[22] If a composite rate based on only depreciable plant were used to re-compute CIAC amortization through the end of the test year, accumulated amortization of CIAC would be higher. As a result, net CIAC would

[21] *See* Staff Schedule CSB-15.
[22] *See* Company Direct Schedule B-2, page 5.1 to 5.3.

be lower and rate base would be higher. Yet, Staff has not disputed the Company's accumulated CIAC balance.

Q32. PLEASE CONTINUE.

A32. Using the correct composite rate is revenue neutral. This is because the depreciation expense will be exactly offset by the CIAC amortization.

Q33. CAN YOU DEMONSTRATE THIS?

A33. Yes. Assume that a utility has $10 of non-depreciable plant such as land and $90 of depreciable plant funded with $100 of CIAC. Rate base is zero ($100 minus $100). The depreciation rate for depreciable plant is 3.33% and the annual depreciation is $3 ($90 times 3.33%). The composite rate for amortizing CIAC using all plant, not just depreciable plant is 2.96% ($3 divided by $100). The annual amortization of CIAC is $3 ($100 times 3%). Thus, the annual depreciation of $3 is exactly offset by the annual amortization of $3 so there is zero net impact on operating expense. Rate base also continues to be zero into the future. Depreciable net plant is reduced by $3 and net CIAC is reduced by $3.

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

Q34. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE OTHER REVENUE AND EXPENSE ADJUSTMENTS.

A34. Rebuttal adjustment number 2 increases property tax expense and reflects the rebuttal proposed revenues. All the parties are in agreement on the method of

computing property taxes at proposed rates, but each computes the property taxes based on their proposed revenues.

Rebuttal adjustment 3 reduces testing expense by $3,161 to reflect known and measurable changes to this expense. This adjustment reflects the Company's acceptance of Staff's proposed adjustment to water testing expense.[23]

Rebuttal adjustment 4 reflects the synchronization of interest expense with the Company's proposed rate base.

Rebuttal adjustment 5 reflects income taxes at Company's proposed rates.

Q35. PLEASE COMMENT ON STAFF'S PROPOSED RATE CASE EXPENSE.

A35. At this stage of the proceeding, Staff and the Company agree on the total amount of proposed rate case expense of $80,000. However, Staff proposes to normalize rate case expense over 4 years for an annual amount of $20,000 while the Company proposes to amortize rate case expense over 3 years for an annual amount of $26,667. The Company believes a 3 year period is appropriate in the instant case whether a normalized or amortized.

Q36. DOES THE COMPANY EXPECT TO FILE ANOTHER RATE CASE WITHIN 3 YEARS, AND, IF SO, WHY?

A36. Yes, because there are expected increases in operating expenses that are not being captured in the revenue requirement in the instant case. In addition, the Company has an aging infrastructure that will require the replacement of several miles of old transmission and distribution mains[24]. Because of severe cash flow problems over the past several years the Company has not made typical operational expenditures, hired appropriate levels personnel, and has not begun to address its needed capital

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[23] Brown DT. at 10.

[24] The anticipated capital expenditures to replace mains over the next 3 years are over $900,000. After three years, the Company anticipates to spend between $300,000 and $400,000 annually for several more years.

improvements. While forgoing these expenditures has helped to get the Company through the last few years this situation is not sustainable in the long-term.

Q37. HASN'T THE COMPANY ASKED THE WATER INFRASTRUCTURE AND FINANCE AUTHORITY TO LOWER ITS DEBT PAYMENTS TEMPORARILY?

A37. Yes. The Company contacted the Water Infrastructure Authority of Arizona ("WIFA") in June 2009 because of severe cash flow problems. In fact, this was one of the reasons the Company has sought new rates. In any case, WIFA granted the Company's request, but the reduction is only temporary and payments will begin to resume their required levels in the next few months.

Q38. WHAT ARE THE MONTHLY WIFA REQUIRED PAYMENTS?

A38. The required month WIFA payments for debt service and debt reserves are slightly over $18,000. Annually, this requires cash flows of over $217,000.

Q39. IF A RATE INCREASE IS GRANTED IN THE INSTANT CASE, WOULD THE COMPANY'S CASH FLOW SITUATION IMPROVE?

A39. Yes. Of course, the ability of the Company to cash flow its debt payments and begin to address its needed capital improvements will ultimately depend on the size of the increase granted. Further, the ability to attract additional capital in order to make the needed improvements will also be dependent upon the increase granted and the ability of the Company to earned its authorized return. Having said that, as the Company invests more capital, and hires additional personnel, it will need additional rate increases in order to earn its authorized rate of return and be able to continue to attract new capital and maintain its credit. The Company should be filing another rate case in the next 2-3 years to minimize its losses and to sustain long-term financial health.

V. RATE DESIGN

Q40. WHAT ARE THE COMPANY'S REBUTTAL PROPOSED RATES?

A40. LQSWC's rebuttal proposed rates are:

MONTHLY SERVICE CHARGES

5/8" x 3/4" meters	$20.00
3/4" Meters	$30.00
1" Meters	$50.00
1 1/2" Meters	$100.00
2" Meters	$160.00
3" Meters	$320.00
4" Meters	$500.00
6" Meters	$1,000.00
Standpipe	$20.20

COMMODITY RATES

5/8" X ¾" Meters	1 to 4,000 gals	$ 1.86
	4,001 to 10,000 gals	$ 2.36
	Over 10,000 gals	$ 2.96
¾" Meters	1 to 4000 gals	$ 1.86
	4,001 to 10,000 gals	$ 2.36
	Over 10,000 gals	$ 2.96
1" Meters	1 to 25,000 gals	$ 2.36
	Over 25,000 gals	$ 2.96
1 ½" Meters	1 to 50,000	$ 2.36
	Over 50,000	$ 2.96
2" Meters	1 to 80,000	$ 2.36

	Over 80,000	$ 2.96
3" Meters	1 to 160,000	$ 2.36
	Over 160,000	$ 2.96
4" Meters	1 to 250,000	$ 2.36
	Over 250,000	$ 2.96
6" Meters	1 to 500,000	$ 2.36
	Over 500,000	$ 2.96
Standpipe	0 to 4,000 gals	$ 1.90
	4,001 to 23,000 gals	$ 2.36
	Over 23,000 gals	$ 2.96
Arsenic Surcharge	**Eliminated**	

Q41. WHAT WILL BE THE AVERAGE 5/8 INCH CUSTOMER AVERAGE MONTHLY BILL UNDER THE NEW RATES?

A41. As shown on Schedule H-2, page 2, the average monthly bill under proposed rates for a 5/8 inch customer using an average 10.768 gallons is $43.84 – a $10.89 increase over the present monthly bill or a 33.05 percent increase.

Q42. PLEASE COMMENT ON THE STAFF PROPOSED RATE DESIGN.

A42. Like the Company, Staff is proposing an inverted three tier design for the smaller metered customers (5/8 inch and ¾ inch) and an inverted two tier design for the 1 inch and larger metered customers). Staff break-over points are similar to the Company's but are higher than the Company's particularly for the 1 ½ inch and larger metered customers. However, like the Company, Staff's break-over points increase with meter size. And, like the Company, the first tier commodity rate of the 1 inch and larger metered customers is the same as the second tier of the small

metered customers. The second tier of the 1 inch and larger metered customers is the same as the third tier of the small residential metered customers.

While the Company and Staff rate designs produce very similar results with respect to revenue recovery from the monthly minimums as well as from the monthly minimums and the first tier commodity rates. I have included as Rebuttal Exhibit TJB-RB2 schedules showing the revenue recovery from the monthly minimums and the commodity rates under present rates and under the proposed rates for each of the parties.

Q43. WHAT IS THE DISTINQUISHING CHARACTERISTIC BETWEEN THE PARTY'S RATE DESIGNS FOR WHICH YOU HAVE CONCERNS?

A43. The first tier commodity rate for the small metered customers is relatively low. In fact, Staff only increases the first tier commodity rate by about 15 percent over the present first tier commodity rate. This relatively low first tier commodity rate is only available to the smaller meter customers. Further, in order to make up the revenues that would otherwise be captured by a higher first tier commodity rate for the smaller metered customers, the second tier and third tier commodity rates have to be much higher. In fact, the differential between the first and second tier commodity rate under Staff's rate design is $1.00 (an increase of 82.6 percent over the present second tier commodity rate) and the differential between the second and third tier commodity rate under Staff's rate design is $1.09 (an increase of 136.5 percent over the present second tier commodity rate). Also remember, the first tier of the 1 inch and larger meters is the second tier of the smaller meters and the second tier of the 1 inch and larger meters is the third tier of the smaller meters. So, the commodity rates available to the 1 inch and larger meters are increased significantly. The result is more of a shift in revenue recovery away from the smaller metered customers and to the larger metered customers.

Q44. CAN YOU DEMONSTRATE THIS?

A44. Yes. Under present rates, the 5/8x3/4 inch metered customers provide approximately 67.0 percent of revenues. Under the Staff proposed rates, the percentage drops to approximately 64.8 percent. Under the Company's proposed rates, the percentage also drops, but only to 65.8 percent. The decrease in revenue recovery, from the Company's largest customer class, has to be made up by the other customer classes.[25] So, under Staff's design, more of the recovery is shifted to the other customer classes than is under the Company's rate design. I have included as Rebuttal Exhibit TJB-RB3 schedules similar to the H-1 schedule for both Staff and the Company which shows the percentage of total revenue recovered from each customer class.

Q45. IS THERE ANY DISAGREEMENT BETWEEN THE STAFF AND THE COMPANY REGARDING SERVICE LINE AND METER INSTALLATION CHARGES?

A45. No. The Company has adopted the meter and service line installation charges

Q46. IS THERE ANY DISAGREEMENT BETWEEN THE STAFF AND THE COMPANY REGARDING SERVICE LINE AND METER INSTALLATION CHARGES?

A46. No. The Company has adopted the meter and service line installation charges proposed by Staff.

Q47. IS THERE ANY DISAGREEMENT BETWEEN THE STAFF AND THE COMPANY REGARDING MISCELLANEOUS CHARGES?

A47. No.

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

Q48. HAS THE COMPANY ACCEPTED STAFF RECOMMENDATION TO CONTINUE WITH AN ARSENIC IMPACT HOOK-UP FEE AND OFF-SITE FACILITIES HOOK-UP FEE?

A48. Yes. Rather than eliminate the Arsenic Impact Hook-up Fee and replace the existing $250 Off-site Facilities Hook-up Fee as the Company recommended in its direct filing[26], the Company accepts Staff's recommendation to continue with the Arsenic Impact Hook-up Fee and the $250 Off-site Hook-up Fee.

Q49. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

A49. Yes. Although my silence on any issue not discussed herein does not necessarily constitute agreement with Staff.

[26] *See* Direct testimony of Thomas J. Bourassa ("Bourassa Dt.") at 17-18.

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

THOMAS J. BOURASSA
REBUTTAL TESTIMONY
(RATE BASE, INCOME STATEMENT, AND RATE DESIGN)
August 23, 2010

EXHIBIT TJB-RB1

REFUNDABLE
LINE EXTENSION AGREEMENT
BETWEEN
LAS QUINTAS SERENAS WATER COMPANY, INC.

RECEIVED
MAR 14 2006
By

THIS AGREEMENT, made and entered into this 6th day of January, 2006, by and between LAS QUINTAS SERENAS WATER COMPANY, an Arizona Corporation, hereinafter called "UTILITY", whose address is P.O. Box 68, Sahuarita, Arizona 85629, and Title Security Agency of Arizona, an Arizona corporation, as Trustee under its Trust No. 898, and not otherwise, and whose address is 7840 E. Broadway Blvd., Suite 210, Tucson, Arizona 85710, hereinafter called "Applicant".

WITNESSETH:

WHEREAS, APPLICANT is desirous of securing water service to Lots 1-239 of Santa Cruz Meadows, Common Areas A, B, and C, a subdivision located in Section 26, T17S, R13E G&SRM, Pima County, Arizona, recorded in Book 46 of Plats at Page 62 in the Official Records of the Pima County Recorder (the "Plat") as more particularly described in Exhibit "A" as attached hereto and made a part hereof by reference (the "Property"), and will advance monies in aid of construction for such purpose; and,

WHEREAS, UTILITY is willing to supply water to APPLICANT in accordance with the Rules and Regulations of the Arizona Corporation Commission ("Commission"), and in accordance with the terms of this Agreement;

NOW, THEREFORE, in consideration of the mutual covenants, conditions and agreements set forth hereinbelow, it is agreed as follows:

1. In accordance with the plans submitted by APPLICANT and approved UTILITY, APPLICANT agrees to install the water facilities necessary for the purpose of furnishing water to the Property. A copy of said plans is attached hereto as Exhibit "B" and made a part hereof by reference. Water service to Common Areas A, B, and C as shown on the Plat shall be provided for by separate agreement with UTILITY.

2. APPLICANT'S cost of installing the water facilities is estimated to be $20,918.00 which is to be incurred by APPLICANT. In addition APPLICANT will pay to UTILITY the sum of $59,750.00 for the applicable Off-site Facilities Hook-up Fee. Payment of the Off-Site Facilities Hook-up Fee in the total amount of $59,750.00 shall be made on or before commencement of construction of the aforesaid water facilities by APPLICANT. The water facilities will not be accepted by UTILITY for use until this payment is made.

In Summary:

(a) The $20,918.00 shall be treated as a refundable advance in aid of construction for the water facilities to be installed pursuant to this Agreement;

5. All water facilities installed under this Agreement shall be the sole property of UTILITY, and APPLICANT shall have no right, title or interest to or in any such facilities. Upon completion of the installation of the water facilities, APPLICANT shall provide UTILITY with "as built" drawings satisfactory to UTILITY and a copy of the approval of construction (water certificate) as issued by Pima County Department of Environmental Quality.

6. The (i) size, design, type and quality of materials for the water facilities, (ii) location in the ground, and (iii) manner of installation and construction shall be as specified by UTILITY. In addition, APPLICANT shall also comply with the requirements of the Commission or other public agencies having authority and jurisdiction relating to the installation and construction of the water facilities.

7. This Agreement shall be subject to APPLICANT providing to UTILITY recordable easements in favor of utility and required surveying, over, under, and across all

portions of such main extension routes as may be necessary to serve each parcel or lot to be served under this Agreement. APPLICANT agrees that all easements and rights-of-way that are used by UTILITY shall be free of obstacles which may interfere with the construction, operation, maintenance repair and/or replacement of UTILITY'S water facilities. If APPLICANT'S subdivision, tract, development, or project involves road construction, all roads and drainageways will be brought to grade by APPLICANT prior to the commencement of the installation of the water facilities. No pavement or curbs shall be installed prior to the completion of all water facilities. If any streets, roads, alleys or drainageways are installed at a different grade or location after the beginning of the installation of the water facilities, APPLICANT shall be solely responsible for and bear all costs incurred by UTILITY to relocate water facilities as a result of said facilities having improper cover or location.

8. APPLICANT shall pay any additional costs incurred as a result of (i) design changes made or caused by APPLICANT or its agent, the Arizona Department of Environmental Quality, the Pima County Department of Environmental Quality, the Commission or any other public agency under whose jurisdiction the subject construction may fall; or (ii) anticipated or un-anticipated changes in existing UTILITY facilities, due to any work associated with this subdivision, tract, development or project which causes said facilities to have improper cover, sizing capacity or location.

9. The effectiveness of this Agreement shall be contingent upon the approval of the Arizona Department of Environmental Quality and/or the Pima County Department of Environmental Quality of the plans attached hereto as Exhibit C said form of approval being shown as Exhibit "D" to this Agreement and attached hereto and made a part hereof by reference.

10. This Agreement shall be subject to the approval of the Commission. It is further understood and agreed that APPLICANT is knowledgeable of the Rules and Regulations of the Commission as they apply to line and main extension agreements, and APPLICANT acknowledges that UTILITY has furnished it or its agent with a copy of A.C.R.R. R14-2-406 relating to main extension agreements.

11. This Agreement shall be binding upon and for the benefit of the heirs, administrators, executors, successors and assigns of UTILITY and APPLICANT, respectively, provided, however, that an assignment or other transfer of this Agreement by APPLICANT shall not be binding upon UTILITY or create any rights in the Assignee until such assignment or other transfer is first approved and accepted in writing by UTILITY.

12. This Agreement, and all rights and obligations hereunder, including those regarding water service to APPLICANT, shall be subject to the Commission's "Rules and Regulations Relating to the Operation of Domestic Water Utility Companies" and all applicable rates, fees, charges and tariffs of UTILITY as approved by the Commission now or as they may be changed in the future.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement by their authorized individuals on the day, month, and year first above written.

UTILITY

LAS QUINTAS SERENAS WATER COMPANY
By: Steve G. Gay
Its: Manager

APPLICANT

Title Security Agency of Arizona, an Arizona corporation, as Trustee under its Trust No. 898, and not otherwise
By: Leslie D. Hogg
Name: Leslie D. Hogg
Its: Trust Officer

BENEFICIARY CONSENT

Tucson Land, L.L.C., an Arizona limited liability company, as sole beneficiary of Trust No. 898 By: MDC Arizona Corp, Manager
By: Sheldon J. Mandell
Name: Sheldon J. Mandell
Its: President

STATE OF ARIZONA)
)ss.
COUNTY OF PIMA)

This Instrument was acknowledged before me this 26th day of January, 2006, by Steven G. Gay as Manager of Las Quintas Serenas Water Company, an Arizona corporation.

Frances Bernal

FRANCES BERNAL
Notary Public - Arizona
Pima County
My Commission Expires
April 13, 2008

My commission expires:

STATE OF ARIZONA)
)ss.
COUNTY OF PIMA)

This Instrument was acknowledged before me this 6th day of January, 2006, by Leslie D. Hogg as Trust Officer of Title Security Agency of Arizona, an Arizona corporation, as Trustee under its Trust No. 898, and not otherwise.

My commission expires:

Official Seal
NOTARY PUBLIC
STATE OF ARIZONA
County of Pima
LINDA BURRESON
My Commission Expires November 17, 2007

STATE OF Illinois)
)ss.
COUNTY OF Cook)

This Instrument was acknowledged before me this 5th day of January, 2006, by Sheldon J. Mendell as President of MDC Arizona, Manager of Tucson Land, L.L.C., an Arizona limited liability company, the sole beneficiary of Trust No. 898.

My commission expires:

OFFICIAL SEAL
MATTHEW J HUGHES
NOTARY PUBLIC, STATE OF ILLINOIS
MY COMMISSION EXPIRES: 04/24/06

Date Approved: 3-10-06
Decision No.:
Director of Utilities
Arizona Corporation Commission
By: Bradley H. Morton

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

THOMAS J. BOURASSA
REBUTTAL TESTIMONY
(RATE BASE, INCOME STATEMENT, AND RATE DESIGN)
August 23, 2010

EXHIBIT TJB-RB2

Las Quintas Serenas Water Company
Revenue Breakdown Summary
Company Present Rates

	Monthly Mins+Surcharge	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
5/8x3/4 Inch	$ 97,680	$ 28,216	$ 155,882	$ 44,023	$ 325,801
3/4 Inch	$ 1,620	$ 20	$ 1,893	$ 562	$ 4,095
1 Inch	$ 8,700	$ 13,325	$ 3,085		$ 25,111
1.5 Inch	$ 4,620	$ 6,290	$ 3,728		$ 14,637
2 Inch	$ 3,360	$ 5,455	$ 8,229		$ 17,044
4 Inch	$ 5,400	$ 6,738	$ 14,806		$ 26,944
Subtotal	$ 121,380	$ 60,045	$ 187,623	$ 44,585	$ 413,632
Standpipe	$ 19,028	$ 14,433	$ 9,084	$ 24,899	$ 67,445
Fire Sprinkler	$ 480				$ 480
Subtotal	$ 19,508	$ 14,433	$ 9,084	$ 24,899	$ 67,925
TOTALS	$ 140,888	$ 74,478	$ 196,707	$ 69,483	$ 481,557
Percent of Total	29.26%	15.47%	40.85%	14.43%	100.00%
Cummulative %	29.26%	44.72%	85.57%	100.00%	

Las Quintas Serenas Water Company
Revenue Breakdown Summary
Company Proposed Rates

	Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
5/8x3/4 Inch	$ 195,360	$ 7,705	$ 165,163	$ 79,723	$ 447,951
3/4 Inch	$ 2,160	$ 7	$ 1,910	$ 863	$ 4,940
1 Inch	$ 17,400	$ 9,814	$ 4,730		$ 31,943
1.5 Inch	$ 8,400	$ 5,343	$ 6,270		$ 20,013
2 Inch	$ 7,680	$ 4,049	$ 16,394		$ 28,123
4 Inch	$ 12,000	$ 5,136	$ 30,470		$ 47,606
Subtotal	$ 243,000	$ 32,053	$ 224,936	$ 80,585	$ 580,575
Standpipe	$ 38,057	$ 3,277	$ 6,733	$ 48,843	$ 96,910
Fire Sprinkler	$ 480				$ 480
Subtotal	$ 38,537	$ 3,277	$ 6,733	$ 48,843	$ 97,390
TOTALS	$ 281,537	$ 35,330	$ 231,670	$ 129,428	$ 677,965
Percent of Total	41.53%	5.21%	34.17%	19.09%	100.00%
Cummulative %	41.53%	46.74%	80.91%	100.00%	

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

	Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
5/8x3/4 Inch	$ 195,360	$ 4,563	$ 140,395	$ 81,132	$ 421,451
3/4 Inch	$ 2,160	$ 4	$ 1,707	$ 862	$ 4,734
1 Inch	$ 17,400	$ 8,801	$ 4,651		$ 30,852
1.5 Inch	$ 8,400	$ 4,679	$ 6,035		$ 19,114
2 Inch	$ 7,680	$ 3,559	$ 16,967		$ 28,206
4 Inch	$ 12,000	$ 6,318	$ 28,034		$ 46,352
Subtotal	$ 243,000	$ 27,925	$ 197,790	$ 81,995	$ 550,710
Standpipe	$ 38,057	$ 1,941	$ 4,883	$ 51,220	$ 96,100
Fire Sprinkler	$ 480				$ 480
Subtotal	$ 38,537	$ 1,941	$ 4,883	$ 51,220	$ 96,580
TOTALS	$ 281,537	$ 29,866	$ 202,673	$ 133,215	$ 647,290
Percent of Total	43.49%	4.61%	31.31%	20.58%	100.00%
Cummulative %	43.49%	48.11%	79.42%	100.00%	

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

THOMAS J. BOURASSA
REBUTTAL TESTIMONY
(RATE BASE, INCOME STATEMENT, AND RATE DESIGN)
August 23, 2010

EXHIBIT TJB-RB3

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

Exhibit
Page 1

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	$ 450,859	$ 123,625	37.78%	67.02%	65.81%
2	3/4 Inch	4,095	4,940	844	20.62%	0.84%	0.72%
3	1 Inch	24,612	30,934	6,322	25.69%	5.04%	4.52%
4	1.5 Inch	14,756	20,245	5,489	37.20%	3.02%	2.96%
5	2 Inch	17,044	28,123	11,079	65.00%	3.49%	4.11%
6	4 Inch	19,237	30,562	11,325	58.87%	3.94%	4.46%
7	Subtotal	$ 406,979	$ 565,663	$ 158,684	38.99%	83.35%	82.57%
8							
9							
10	Standpipe	$ 67,100	$ 96,222	$ 29,122	43.40%	13.74%	14.05%
11	Fire Sprinkler	480	480	-	0.00%	0.10%	0.07%
12	Subtotal	67,580	96,702	29,122	43.09%	13.84%	14.12%
13							
14							
15	Total Revenuers before Annualization	$ 474,558	$ 662,365	$ 187,806	39.57%	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			Revenue Annualization				
21	5/8x3/4 Inch	$ (1,434)	$ (2,908)	$ (1,474)	102.84%	-0.29%	-0.42%
22	3/4 Inch	-	-	-	0.00%	0.00%	0.00%
23	1 Inch	499	1,009	510	102.33%	0.10%	0.15%
24	1.5 Inch	(118)	(232)	(114)	96.65%	-0.02%	-0.03%
25	2 Inch	-	-	-	0.00%	0.00%	0.00%
26	4 Inch	7,707	17,044	9,337	121.16%	1.58%	2.49%
27	Subtotal	$ 6,654	$ 14,912	$ 8,259	124.13%	1.36%	2.18%
28							
29							
30	Standpipe	345	688	343	99.28%	0.07%	0.10%
31	Fire Sprinkler	-	-	-	0.00%	0.00%	0.00%
32							
33	Total Revenue Annualization	$ 6,999	$ 15,600	$ 8,601	122.90%	1.43%	2.28%
34							
35	Total Revenues with Rev. Annual.	$ 481,557	$ 677,965	$ 196,408	40.79%	98.63%	98.97%
36							
37	Misc. Serv. Rev.	6,778	6,778	-	0.00%	1.388%	0.989%
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	$ 685,047	$ 196,777	40.30%	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	$ 424,067	$ 96,832	29.59%	67.02%	64.85%
2	3/4 Inch	4,095	4,734	638	15.59%	0.84%	0.72%
3	1 Inch	24,612	29,894	5,282	21.46%	5.04%	4.57%
4	1.5 Inch	14,756	19,330	4,574	31.00%	3.02%	2.96%
5	2 Inch	17,044	28,206	11,162	65.49%	3.49%	4.31%
6	4 Inch	19,237	29,651	10,414	54.13%	3.94%	4.53%
7	Subtotal	$ 406,979	$ 535,881	$ 128,902	31.67%	83.35%	81.94%
8							
9							
10	Standpipe	$ 67,100	$ 95,492	$ 28,392	42.31%	13.74%	14.60%
11	Fire Sprinkler	480	480	-	0.00%	0.10%	0.07%
12	Subtotal	67,580	95,972	28,392	42.01%	13.84%	14.68%
13							
14							
15	Total Revenuers before Annualization	$ 474,558	$ 631,853	$ 157,294	33.15%	97.19%	96.62%
16							
17							
18	Meter Size	Company Present Revenues	Staff Proposed Revenues	Dollar Change	Percent Change	Percent of Present	Percent of Proposed
19			Revenue Annualization				
20							
21	5/8x3/4 Inch	$ (1,434)	$ (2,616)	$ (1,182)	82.43%	-0.29%	-0.40%
22	3/4 Inch	-	-	-	0.00%	0.00%	0.00%
23	1 Inch	499	959	460	92.20%	0.10%	0.15%
24	1.5 Inch	(118)	(215)	(97)	82.24%	-0.02%	-0.03%
25	2 Inch	-	-	-	0.00%	0.00%	0.00%
26	4 Inch	7,707	16,701	8,995	116.71%	1.58%	2.55%
27	Subtotal	$ 6,654	$ 14,829	$ 8,175	122.87%	1.36%	2.27%
28							
29							
30	Standpipe	345	609	263	76.35%	0.07%	0.09%
31	Fire Sprinkler	-	-	-	0.00%	0.00%	0.00%
32							
33	Total Revenue Annualization	$ 6,999	$ 15,437	$ 8,439	120.58%	1.43%	2.36%
34							
35	Total Revenues with Rev. Annual.	$ 481,557	$ 647,290	$ 165,733	34.42%	98.63%	98.98%
36							
37	Misc. Serv. Rev.	6,778	6,778	-	0.00%	1.388%	1.036%
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	$ 488,270	$ 653,963	$ 165,693	33.93%	100.00%	100.00%
42							

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

THOMAS J. BOURASSA
REBUTTAL TESTIMONY
(RATE BASE, INCOME STATEMENT, AND RATE DESIGN)
August 23, 2010

SCHEDULES

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Rebuttal Schedule A-1
Page 1
Witness: Bourassa

Line No.			
1	Fair Value Rate Base	$	1,999,859
2			
3	Adjusted Operating Income		52,369
4			
5	Current Rate of Return		2.62%
6			
7	Required Operating Income	$	188,787
8			
9	Required Rate of Return on Fair Value Rate Base		9.44%
10			
11	Operating Income Deficiency	$	136,418
12			
13	Gross Revenue Conversion Factor		1.4425
14			
15	Increase in Gross Revenue Revenue Requirement		196,777
16			
17	Adjusted Test Year Revenues	$	488,270
18	Increase in Gross Revenue Revenue Requirement	$	196,777
19	Proposed Revenue Requirement	$	685,047
20	% Increase		40.30%

	Customer Classification	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
24	5/8 Inch	$ 327,234	$ 450,859	$ 123,625	37.78%
25	3/4 Inch	4,095	4,940	844	20.62%
26	1 Inch	24,612	30,934	6,322	25.69%
27	1.5 Inch	14,756	20,245	5,489	37.20%
28	2 Inch	17,044	28,123	11,079	65.00%
29	4 Inch	19,237	30,562	11,325	58.87%
30	Subtotal	$ 406,979	$ 565,663	$ 158,684	38.99%
31					
32					
33	Standpipe	$ 67,100	$ 96,222	$ 29,122	43.40%
34	Fire Sprinkler	480	480	-	0.00%
35	Subtotal	$ 67,580	$ 96,702	$ 29,122	43.09%
36					
37	**Subtotal Revenues before Annualization**	$ 474,558	$ 662,365	$ 187,806	39.57%
38					
39	Revenue Annualization	6,999	15,600	8,601	122.90%
40	Miscellaneous Revenues	6,778	6,778	-	0.00%
41	Reconciling Amount H-1 to C-1	(65)	304	369	-567.69%
42	**Total of Water Revenues**	$ 488,270	$ 685,047	$ 196,777	40.30%

43	
44	
45	SUPPORTING SCHEDULES:
46	Rebuttal B-1
47	Rebuttal C-1
48	Rebuttal C-3
49	Rebuttal H-1

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

Exhibit
Rebuttal Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 3,594,472	$ 3,594,472
3	Less: Accumulated Depreciation	1,044,147	1,044,147
4			
5	Net Utility Plant in Service	$ 2,550,325	$ 2,550,325
6			
7	Less:		
8	Advances in Aid of		
9	Construction	351,405	351,405
10	Contributions in Aid of		
11	Construction	333,555	333,555
12			
13	Accumulated Amortization of CIAC	(83,901)	(83,901)
14			
15	Service Line and Meter Installation Chgs	19,641	19,641
16	Deferred Income Taxes & Credits	(77,709)	(77,709)
17	Customer Security Deposits	7,475	7,475
18			
19			
20	Plus:		
21	Unamortized Debt Issuance		
22	Costs	-	-
23	Deferred Reg. Assets	-	-
24	Working capital	-	-
25			
26			
27			
28			
29	Total Rate Base	$ 1,999,859	$ 1,999,859
30			
31			
32			
33	SUPPORTING SCHEDULES:		RECAP SCHEDULES:
34	Rebuttal B-2		Rebuttal A-1
35	Rebuttal B-3		
36	Rebuttal B-5		
37			
38			

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	(33,281)	1,044,147
7				
8				
9	Net Utility Plant			
10	in Service	$ 2,751,157	$ (200,832)	$ 2,550,325
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	-	(77,709)	(77,709)
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	$ 2,109,539	$ (109,680)	$ 1,999,859
36				
37				
38				
39	SUPPORTING SCHEDULES:		RECAP SCHEDULES:	
40	Rebuttal B-2, pages 2		Rebuttal B-1	
41				
42				
43				
44				
45				
46				
47				
48				

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

Exhibit
Rebuttal Schedule
Page 2
Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Adjustments 1 Plant	2 Accumulated Depr.	3 AIAC	4 DIT	5 Security Deposits	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		(33,281)				1,044,147
7								
8								
9	Net Utility Plant							
10	in Service	$ 2,751,157	$ (234,113)	$ 33,281	$ -	$ -	$ -	$ 2,550,325
11								
12	**Less:**							
13	Advances in Aid of							
14	Construction	372,323			(20,918)			351,405
15								
16	Contributions in Aid of							
17	Construction (CIAC)	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	-				(77,709)		(77,709)
23	Customer Security Deposits	-					7,475	7,475
24								
25	**Plus:**							
26	Unamortized Finance							
27	Charges	-						-
28								
29	Allowance for Working Capital	-						-
30								
31	Total	$ 2,109,539	$ (234,113)	$ 33,281	$ 20,918	$ 77,709	$ (7,475)	$ 1,999,859
32								
33								
34								
35	SUPPORTING SCHEDULES:						RECAP SCHEDULES:	
36	Rebuttal B-2, pages 3-6						B-1	
37								

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

Exhibit
Schedule B-2
Page 3
Witness: Bourassa

Line No.	Acct. No.	Description	Adjusted Orginal Cost	A Plant Retirement	B Debt Issuance Costs	C Not Used and Useful Plant	D Intentionally Left Blank	E Intentionally Left Blank	F Intentionally Left Blank	Rebuttal Adjusted Original Cost
1	Plant-in-Service									
5	301	Organization Cost	$ -							$ -
6	302	Franchise Cost	-							-
7	303	Land and Land Rights	217							217
8	304	Structures and Improvements	12,229							12,229
9	305	Collecting and Impounding Res.	-							-
10	306	Lake River and Other Intakes	-							-
11	307	Wells and Springs	309,094							309,094
12	308	Infiltration Galleries and Tunnels	-							-
13	309	Supply Mains	-							-
14	310	Power Generation Equipment	-							-
15	311	Electric Pumping Equipment	151,338	(7,488)		(20,082)				123,768
16	320	Water Treatment Equipment	1,740							1,740
17	320.1	Water Treatment Plant	2,162,694		(185,625)					1,977,069
18	320.2	Chemical Solution Feeders	-							-
19	330	Dist. Reservoirs & Standpipe	99,896							99,896
20	330.1	Storage tanks	-							-
21	330.2	Pressure Tanks	-							-
22	331	Trans. and Dist. Mains	924,616			(20,918)				903,698
23	333	Services	2,427							2,427
24	334	Meters	101,418							101,418
25	335	Hydrants	-							-
26	336	Backflow Prevention Devices	1,137							1,137
27	339	Other Plant and Misc. Equip.	-							-
28	340	Office Furniture and Fixtures	28,306							28,306
29	340.1	Computers and Software	-							-
30	341	Transportation Equipment	23,292							23,292
31	342	Stores Equipment	-							-
32	343	Tools and Work Equipment	-							-
33	344	Laboratory Equipment	-							-
34	345	Power Operated Equipment	2,592							2,592
35	346	Communications Equipment	-							-
36	347	Miscellaneous Equipment	3,165							3,165
37	348	Other Tangible Plant	4,424							4,424
38			-							-
39		TOTALS	$ 3,828,585	$ (7,488)	$ (185,625)	$ (41,000)	$ -	$ -	$ -	$ 3,594,472
40										
41	Plant-in-Service per Books									$ 3,828,585
42										
43	Increase (decrease) in Plant-in-Service									$ (234,113)
44										
45	Adjustment to Plant-in-Service									$ (234,113)
46										
47	SUPPORTING SCHEDULES									
48	Rebuttal B-2, pages 3.1-3.3									
49	Rebuttal B-2, pages 3.4-3.9									

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

Exhibit
Schedule B-2
Page 3.1
Witness: Bourassa

Line No.			
1	Plant Retirement		
2			
3	Acct 331 - Pumping Equipment	Pump Bowl Assembly	$ (7,488)
4			
5			
6	Adjustment to Acct 331 - Pumping Equipment		$ (7,488)
7			
8			
9			
10			
11			
12			
13	SUPPORTING SCHEDULES		
14	Staff Schedule CSB-5		
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 - B

Exhibit
Rebuttal Schedule B-2
Page 3.2
Witness: Bourassa

Line No.		
1	Remove Debt Issuance Costs	
2		
3	Acct 320.1 - Water Treatment Equipment	$ (185,625)
4		
5		
6	Adjustment to Acct 320.1 - Water Treatment Equipment	$ (185,625)
7		
8		
9		
10		
11		
12		
13	SUPPORTING SCHEDULES	
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
Rebuttal Schedule B-2
Page 3.3
Witness: Bourassa

Line No.			
1	Not Used and Useful Plant		
2			
3	Acct 311 - Electric Pumping Equipment		
4	Well #6 - Natural gas well engine	$ (10,090)	
5	Natural gas well engine - spare	(9,992)	
6	Total Acct 311 - Electric Pumping Equipment		$ (20,082)
7			
8	Acct 331 - Transmission and Distribution Mains		
9	Sun Cruz Meadows Subdivision		$ (20,918)
10			
11	Total Plant Not Used and Useful		$ (41,000)
12			
13			
14	Adjustment to Plant in Service		$ (41,000)
15			
16			
17			
18	SUPPORTING SCHEDULES		
19	Exhibit MSJ Table H-1		
20			

Las Quintas Serenas Water Company
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.4

Account No.	Description	Prior Deprec. Rate	Current Deprec. Rate	Per Decision 67445 Plant At 9/30/2003	9/30/2003 Accum. Depr.	2004 Plant Additions	2004 Plant Adjustment	2004 Adjusted Plant Additions	2004 Plant Retirements	2004 Salvage A/D Only	September 2004 Plant Balance	2004 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	-	-		-			217	-
304	Structures and Improvements	5.00%	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%	820,492	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	89
348	Other Tangible Plant	5.00%	10.00%	4,424	2,085			-			4,424	221
	Rounding			1	0			-	(1)		-	(0)
	Plant Held for Future Use											
	TOTAL WATER PLANT			1,460,921	688,486	99,563	-	99,563	(1)	-	1,560,483	75,524
				See B-2, page 3.8	See B-2, page 3.9							

Las Quintas Serenas Water Company
Plant Additions and Retirements

Exhibit
Rebuttal 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			314,464	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%			-			-	-
331	Transmission and Distribution Mains	5.00%	2.00%	4,761		4,761			903,698	18,026
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%			-			-	-
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%	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
Rebuttal Schedule B-2
Page 3.6

Account No.	Description	Prior Deprec. Rate	Current Deprec. Rate	2006 Plant Additions	2006 Plant Adjustments	2006 Adjusted Plant Additions	2006 Plant Retirements	2006 Salvage A/D Only	September 2006 Plant Balance	2006 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%	2.50%	-		-			-	-
307	Wells and Springs	5.00%	3.33%	-		-			314,484	10,472
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%	-		-			119,815	14,977
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%	-		-			99,896	2,218
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%	-		-			903,698	18,074
333	Services	5.00%	3.33%	-		-			2,427	81
334	Meters	5.00%	8.33%	808		808			101,418	8,414
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%	-		-			22,618	1,509
340.1	Computers and Software	5.00%	20.00%	-		-			-	-
341	Transportation Equipment	5.00%	20.00%	-		-			27,292	5,458
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%	-		-			3,165	317
348	Other Tangible Plant	5.00%	10.00%	-		-			4,424	442
	Rounding			-		-			-	-
						-			-	-
	Plant Held for Future Use									
	TOTAL WATER PLANT			808	-	808	-	-	1,617,152	62,633
										868,274

Las Quintas Serenas Water Company
Plant Additions and Retirements

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Account No.	Description	Prior Deprec. Rate	Current Deprec. Rate	2007 Plant Additions	2007 Plant Adjustments	2007 Adjusted Plant Additions	2007 Plant Retirements	2007 Salvage A/D Only	September 2007 Plant Balance	2007 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%	2.50%	-		-			-	-
307	Wells and Springs	5.00%	3.33%	-		-			314,484	10,472
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%	-		-			119,815	14,977
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%	-		-			99,896	2,218
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%	-		-			903,698	18,074
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%	3,865		3,865			26,483	1,638
340.1	Computers and Software	5.00%	20.00%			-			-	-
341	Transportation Equipment	5.00%	20.00%			-	(500)		26,792	5,408
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%			-			3,165	317
348	Other Tangible Plant	5.00%	10.00%			-			4,424	442
	Rounding					-			-	-
						-			-	-
	Plant Held for Future Use									
	TOTAL WATER PLANT			3,865	-	3,865	(500)	-	1,620,517	62,745
										931,019

Las Quintas Serenas Water Company
Plant Additions and Retirements

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Account No.	Description	Prior Deprec. Rate	Current Deprec. Rate	2008 Plant Additions	2008 Plant Adjustments	Rebuttal Plant Adjustments	2008 Adjusted Plant Additions	2008 Plant Retirements	2008 Salvage 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%	2.50%	-			-			-	-
307	Wells and Springs	5.00%	3.33%	-			-	(5,390)		309,094	10,383
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%	-			-			119,815	14,977
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%	-			-			99,896	2,218
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)	-			903,698	18,074
333	Services	5.00%	3.33%	-			-			2,427	81
334	Meters	5.00%	8.33%	-			-			101,416	8,446
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	4,604
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%				-			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	-		303	(8,890)	-	1,611,930	61,990

Las Quintas Serenas Water Company
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
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Account No.	Description	Prior Deprec. Rate	Current Deprec. Rate	2009 Plant Additions	2009 Plant Adjustments	Rebuttal Plant Adjustments	2009 Adjusted Plant Additions	2009 Plant Retirements	2009 Salvage A/D Only	June 2009 Plant Balance	2009 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	305
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%				-			309,094	7,720
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%		31,523		31,523	(27,570)		123,768	9,840
320	Water Treatment Equipment	5.00%	3.33%				-			1,740	43
320.1	Water Treatment Equipment	5.00%	3.33%	2,162,694		(185,625)	1,977,069			1,977,069	24,689
320.2	Chemical Solution Feeders	5.00%	20.00%				-			-	-
330	Distribution Reservoirs & Standpipe	5.00%	2.22%				-			99,896	1,663
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%				-			903,698	13,555
333	Services	5.00%	3.33%				-			2,427	61
334	Meters	5.00%	6.33%				-			101,418	6,336
335	Hydrants	5.00%	2.00%				-			-	-
336	Backflow Prevention Devices	5.00%	6.67%				-			1,137	57
339	Other Plant and Miscellaneous Equipment	5.00%	6.67%				-			-	-
340	Office Furniture and Fixtures	5.00%	6.67%	1,520			1,520			28,306	1,378
340.1	Computers and Software	5.00%	20.00%				-			-	-
341	Transportation Equipment	5.00%	20.00%				-			23,292	3,500
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	97
346	Communications Equipment	5.00%	10.00%				-			-	-
347	Miscellaneous Equipment	5.00%	10.00%				-			3,165	237
348	Other Tangible Plant	5.00%	10.00%				-			4,424	348
	Rounding						-			-	-
							-			-	-
	Plant Held for Future Use										
	TOTAL WATER PLANT			2,164,214	31,523	(185,625)	2,010,112	(27,570)	-	3,594,472	69,830

Las Quintas Serenas Water Company
Plant Additions and Retirements

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Rebuttal 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	113,928	96,198
320	Water Treatment Equipment	5.00%	3.33%	391	433	476	533	591	649	693
320.1	Water Treatment Equipment	5.00%	3.33%	-	-	-	-	-	-	24,689
320.2	Chemical Solution Feeders	5.00%	20.00%	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	5.00%	2.22%	44,682	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	501,963	515,519
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	18,888	19,792	23,292
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	4,424
	Rounding			0	-	-	-	-	-	-
				-	-	-	-	-	-	-
	Plant Held for Future Use			-						
	TOTAL WATER PLANT			688,486	764,010	823,909	886,541	948,787	1,001,867	1,044,147

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

Exhibit
Rebuttal Schedule B-2
Page 4
Witness: Bourassa

Line No.	Acct. No.	Description	Adjusted Accum. Depr.	A Plant Retirements	B Debt Issuance Costs	C Not Used and Useful Plant	D Reconcilation To Computed A/D	E Intentionally Left Blank	Rebuttal Adjusted Accum. Depr.
1		Accumulated Depreciation							
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)		(20,082)	(2,870)		96,198
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			(523)	0		515,519
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				-		23,292
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				-		4,424
38			-						-
39		TOTALS	$ 1,077,428	$ (7,488)	$ (2,318)	$ (20,605)	$ (2,870)	$ -	$ 1,044,147
40									
41		Accumulated Deprecaition per Books							$ 1,077,428
42									
43		Increase (decrease) in Accmulated Depreciation							$ (33,281)
44									
45		Adjustment to Plant-in-Service							$ (33,281)
46									
47		SUPPORTING SCHEDULES							
48		Rebuttal 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
Rebuttal Schedule B-2
Page 4.1
Witness: Bourassa

Line No.				
1	Plant Retirement			
2				
3	Acct 331 - Pumping Equipment	Pump Bowl Assembly	$	(7,488)
4				
5				
6	Adjustment to A/D Acct 331 - Pumping Equipment		$	(7,488)
7				
8				
9				
10				
11				
12				
13	SUPPORTING SCHEDULES			
14	Rebuttal 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
Rebuttal Schedule B-2
Page 4.2
Witness: Bourassa

Line No.		
1	Remove Debt Issuance Costs	
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	$ (2,318)
8		
9		
10		
11		
12		
13		
14	SUPPORTING SCHEDULES	
15	Rebuttal B-2, page 3.2	
16		
17		
18		
19		
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21		

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

Exhibit
Rebuttal Schedule B-2
Page 4.3
Witness: Bourassa

Line No.			
1	Not Used and Useful Plant		
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	(9,992)	
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	Depreciation ($20,918 times 2% times 1.25 years)		$ (523)
11			
12			
13	Total A/D for Plant Not Used and Useful		$ (20,605)
14			
15			
16	Adjustment to A/D for plant not used and useful		$ (20,605)
17			
18			
19			
20	SUPPORTING SCHEDULES		
21	Rebuttal 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
Rebuttal Schedule B-2
Page 5
Witness: Bourassa

Line No.		
1	Advances-in-aid of Construction ("AIAC")	
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	$ (20,918)
17		
18		
19		
20	SUPPORTING SCHEDULES	
21	Rebuttal B-2, page 3.3	
22		

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

Exhibit
Rebuttal Schedule B-2
Page 6
Witness: Bourassa

Deferred Income Tax as of June 30, 2009

Line No.		Adjusted Book Value			Tax Value	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Tax Rate[5]	Future Tax Asset Current	Future Tax Asset Non Current	Future Tax Liability Current	Future Tax Liability Non Current
6	Plant-in-Service	$ 3,594,472 [1]										
7	Accum. Deprec.	(1,044,147) [1]										
8	CIAC	(495,638) [1,3]										
9	Fixed Assets	$ 2,054,687	Federal	$ 1,650,911 [2]		100.0%	$ (403,777)	23.7%		$ -		$ (95,719)
10	Fixed Assets	$ 2,054,687	State	$ 2,415,868 [2]		100.0%	$ 361,181	6.97%		25,167		-
11	AIAC		Fed. and State	$ 351,405 [4]		30.0%	$ 105,422 [3,4]	30.7%		32,337		-
12	Tax Benefits from O.L. Carry Forward.		Federal	$ 489,009 [5]		100.0%	$ 489,009	23.7%		115,924		
13									$ -	$ 173,427	$ -	$ (95,719)
15	Net Asset (Liability)								$ 77,709			
17	DIT Asset (Liability) per direct filing								$ -			
19	Adjustment to DIT								$ (77,709)			

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
Adjustment 4 (footnotes)

Exhibit
Rebuttal Schedule B-2
Page 6.1
Witness: Bourassa

Line No.					
1					
2	[1] **Adjusted per Rebuttal Schedule B-2, page 2**				
3					
4	[2] **Tax Basis as of June 30, 2009**		Federal		State
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		$ (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	$ 1,090,620		$ 78,051	
12	Less: Tax Depreciation related to assets added after 6/30/2009	-		-	
13	Tax Depreciation Including Bonus Depr. per 2009 Tax Return	$ 1,090,620		$ 78,051	
14	Factor (9 months through 6/30/2009)	0.75		0.75	
15	Adjusted 2009 Tax Depreciation Including Bonus Depr.		$ (817,965)		$ (58,538)
16	Remove Plant Retirements per B-2 adjustment 1-A		$ (7,488)		$ (7,488)
17	Tax Depr on retired plant ($7,488 times 4% times 11.25 yrs)		$ 3,370		$ 3,370
18	Remove Not Used and Useful Plant per B-2 adjustmnet 1-C		$ (41,000)		$ (41,000)
19	Tax Depr on not used and usedful plant - Natural gas Engine Generator per Depr Rpt	$ 5,314		$ 5,314	
20	Tax Depr on not used and usedful plant - Natural gas Engine Generator per Depr Rpt	$ 4,996		$ 4,996	
21	Tax Depr on not used and usedful plant - Trans and Dist Mains (Fed - $20,198 times 4%				
22	times .25 yrs plus $20,918 times 50%; State - $20,918 times 4% times .5 times .75)	$ 10,762		$ 303	
23			$ 21,072		$ 10,613
24					
25	Net Tax Value		$ 1,650,911		$ 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					

Exhibit
Rebuttal Schedule B-2
Page 6.2
Witness: Bourassa

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

Line No.				Federal
1				
2				
3	[5] **NOL from Bonus Depreciation**		$	84,985
4				
5	Net Income 12 months ended 6/30/2009 (per E-1 scehdule)			
6	Plus: Book Depreciation (07/01/2008 to 6/30/2009)	$ 35,894		
7	Book Depreciation 12 months ended 09/30/3008	0.333	$	11,953
8	Factor (3 months 7/1/2008 to 9/30/2008)			
9		$ 28,497		
10	Book Depreciation 12 months ended 09/30/3009	0.75	$	21,373
11	Factor (9 months 10/01/2008 to 6/30/2009)			
12				
13	Less: Tax Depreciation (07/01/2008 to 6/30/2009)	$ 35,759		
14	Tax Depreciation and Section 179 (10/01/2007 to 9/30/2008)	0.333		
15	Factor (3 months 7/1/2008 to 9/30/2008)		$	(11,908)
16		$ 1,090,620		
17	Adjusted Tax Depreciation (10/01/2008 to 9/30/2009) from above	0.75	$	(817,965)
18	Factor (9 months 10/01/2008 to 6/30/2009)			
19			$	(711,562)
20	NOL from Bonus Depreciation			
21			$	222,553
22	Less: NOL Carry back to prior years			
23			$	(489,009)
24	NOL Carryforward from bonus depreciation			
25				
26	[6] **Effective tax rates Per C-3 schedule**			
27				
28				
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Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Computation of Working Capital

Exhibit
Rebuttal 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	Prepaids		1,583
7			
8			
9	Total Working Capital Allowance	$	39,282
10			
11			
12	Working Capital Requested	$	-
13			
14			
15	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
16	Rebuttal C-1	Rebuttal B-1	
17	E-1		
18			Adjusted
19	Cash Working Capital Detail		Test Year Results
20			
21	Total Operating Expense	$	435,901
22	Less:		
23	Income Tax		(19,507)
24	Property Tax		26,528
25	Depreciation		111,381
26	Purchased Water		-
27	Pumping Power		74,502
28	Allowable Expenses	$	242,997
29	1/8 of allowable expenses	$	30,375
30			
31			

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

Exhibit
Rebuttal 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	$ 196,777	$ 678,269
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	6,778	-	6,778		6,778
5		$ 488,270	$ -	$ 488,270	$ 196,777	$ 685,047
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	450	26,528		26,528
29	Income Tax	(23,603)	4,097	(19,507)	60,359	40,852
30	**Total Operating Expenses**	$ 440,721	$ (4,819)	$ 435,901	$ 60,359	$ 496,260
31	**Operating Income**	$ 47,550	$ 4,819	$ 52,369	$ 136,418	$ 188,787
32	**Other Income (Expense)**					
33	Interest Income	-	-	-		-
34	Other income (loss)	-	-	-		-
35	Interest Expense	(103,237)	6,781	(96,456)		(96,456)
36	Other Expense	-	-	-		-
37						
38	**Total Other Income (Expense)**	$ (103,237)	$ 6,781	$ (96,456)	$ -	$ (96,456)
39	**Net Profit (Loss)**	$ (55,687)	$ 11,600	$ (44,087)	$ 136,418	$ 92,331
40						
41	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
42	Rebuttal C-1, page 2				Rebuttal A-1	
43						

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

Exhibit
Rebuttal Schedule C-1
Page 2
Witness: Bourassa

Line No.		LABEL>>>>> Test Year Adjusted Results	1 Depreciation	2 Property Taxes	3 Water Testing	4 Interest Synchronization	5 Income Taxes	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**									
2	Metered Water Revenues	$ 481,492						$ 481,492	$ 196,777	$ 678,269
3	Unmetered Water Revenues	-						-		-
4	Other Water Revenues	6,778						6,778		6,778
5		$ 488,270	$ -	$ -	$ -	$ -	$ -	$ 488,270	$ 196,777	$ 685,047
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		450				26,528		26,528
29	Income Tax	(23,603)					4,097	(19,507)	60,359	40,852
30	**Total Operating Expenses**	$ 440,721	$ (6,205)	$ 450	$ (3,161)	$ -	$ 4,097	$ 435,901	$ 60,359	$ 496,260
31	**Operating Income**	$ 47,550	$ 6,205	$ (450)	$ 3,161	$ -	$ (4,097)	$ 52,369	$ 136,418	$ 188,787
32	**Other Income (Expense)**									
33	Interest Income	-						-		-
34	Other income (loss)	-						-		-
35	Interest Expense	(103,237)				6,781		(96,456)		(96,456)
36	Other Expense	-						-		-
37		-						-		-
38	**Total Other Income (Expense)**	$ (103,237)	$ -	$ -	$ -	$ 6,781	$ -	$ (96,456)	$ -	$ (96,456)
39	**Net Profit (Loss)**	$ (55,687)	$ 6,205	$ (450)	$ 3,161	$ 6,781	$ (4,097)	$ (44,087)	$ 136,418	$ 92,331
40										
41	SUPPORTING SCHEDULES:									
42	Rebuttal C-2									
43										

RECAP SCHEDULES:
Rebuttal C-1, page 1

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

Exhibit
Rebuttal Schedule C-2
Page 1
Witness: Bourassa

Line No.		Adjustments to Revenues and Expenses						
		1 Depreciation Expense	2 Property Taxes	3 Water Testing Expense	4 Interest Synchronization	5 Income Taxes	6	Subtotal
1								
2								
3	Revenues							-
4								
5	Expenses	(6,205)	450	(3,161)		-		(8,916)
6								
7	Operating							
8	Income	6,205	(450)	3,161	-	-	-	8,916
9								
10	Interest							
11	Expense				-			-
12	Other							
13	Income /							-
14	Expense							
15								
16	Net Income	6,205	(450)	3,161	-	-	-	8,916
17								
18		Adjustments to Revenues and Expenses						
19		7	8	9	10	11	12	Subtotal
20								
21		Blank	Blank	Blank	Blank	Blank	Blank	
22	Revenues							-
23								
24	Expenses							(8,916)
25								
26	Operating							
27	Income	-	-	-	-	-	-	8,916
28								
29	Interest							
30	Expense							-
31	Other							
32	Income /							-
33	Expense							
34								
35	Net Income	-	-	-	-	-	-	8,916

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

Exhibit
Rebuttal Schedule C-2
Page 2
Witness: Bourassa

Line No.						
1	Depreciation Expense					
2						
3	Acct.		Adjusted Original		Proposed	Depreciation
4	No.	Description	Cost		Rates	Expense
5	301	Organization Cost	-		0.00%	-
6	302	Franchise Cost	-		0.00%	-
7	303	Land and Land Rights	217		0.00%	-
8	304	Structures and Improvements	12,229		3.33%	407
9	305	Collecting and Impounding Res.	-		2.50%	-
10	306	Lake River and Other Intakes	-		2.50%	-
11	307	Wells and Springs	309,094		3.33%	10,293
12	308	Infiltration Galleries and Tunnels	-		6.67%	-
13	309	Supply Mains	-		2.00%	-
14	310	Power Generation Equipment	-		5.00%	-
15	311	Electric Pumping Equipment	123,768		12.50%	15,471
16	320	Water Treatment Equipment	1,740		3.33%	58
17	320.1	Water Treatment Plant	1,977,069		3.33%	65,836
18	320.2	Chemical Solution Feeders	-		20.00%	-
19	330	Dist. Reservoirs & Standpipe	99,896		2.22%	2,218
20	330.1	Storage tanks	-		2.22%	-
21	330.2	Pressure Tanks	-		5.00%	-
22	331	Trans. and Dist. Mains	903,698		2.00%	18,074
23	333	Services	2,427		3.33%	81
24	334	Meters	101,418		8.33%	8,448
25	335	Hydrants	-		2.00%	-
26	336	Backflow Prevention Devices	1,137		6.67%	76
27	339	Other Plant and Misc. Equip.	-		6.67%	-
28	340	Office Furniture and Fixtures	28,306		6.67%	1,888
29	340.1	Computers and Software	-		20.00%	-
30	341	Transportation Equipment	23,292		20.00%	- *
31	342	Stores Equipment	-		4.00%	-
32	343	Tools and Work Equipment	-		5.00%	-
33	344	Laboratory Equipment	-		10.00%	-
34	345	Power Operated Equipment	2,592		5.00%	130
35	346	Communications Equipment	-		10.00%	-
36	347	Miscellaneous Equipment	3,165		10.00%	317
37	348	Other Tangible Plant	4,424		10.00%	- *
38						
39		SUBTOTAL	$	3,594,472		$ 123,296
40						
41						
42						
43	Less: Amortization of Contributions		$	333,555	3.5721%	$ (11,915)
44						
45						
46	Total Depreciation Expense					$ 111,381
47						
48	Test Year Depreciation Expense					117,586
49						
50	Increase (decrease) in Depreciation Expense					(6,205)
51						
52	Adjustment to Revenues and/or Expenses					$ (6,205)
53						
54	SUPPORTING SCHEDULE					
55	Rebuttal B-2, page 1		* Fully Depreciated			
56	Rebuttal B-2, page 3					

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Adjustment to Revenues and Expenses
Adjustment Number 2

Exhibit
Rebuttal Schedule C-2
Page 3
Witness: Bourassa

Line No.			
1	Property Taxes:		
2			
3	Adjusted Revenues in year ended 6/30/09	$	488,270
4	Adjusted Revenues in year ended 6/30/09		488,270
5	Proposed Revenues		685,047
6	Average of three year's of revenue	$	553,863
7	Average of three year's of revenue, times 2	$	1,107,725
8	Add:		
9	Construction Work in Progess at 10%	$	-
10	Deduct:		
11	Book Value of Transportation Equipment		-
12			
13	Full Cash Value	$	1,107,725
14	Assessment Ratio		21%
15	Assessed Value		232,622
16	Property Tax Rate		11.4039%
17			
18	Property Tax		26,528
19	Plus: Tax on Parcels		0
20			
21	Total Property Tax at Proposed Rates	$	26,528
22	Adjusted Property Taxes per Direct		26,078
23	Change in Property Taxes	$	450
24			
25			
26	Adjustment to Revenues and/or Expenses	$	450
27			
28			

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

Exhibit
Rebuttal Schedule C-2
Page 4
Witness: Bourassa

Line No.			
1	Water Testing Expense		
2			
3	Water Testing Expense per Staff	$	4,247
4			
5	Test Water Tear Testing Expense		7,408
6			
7	Increase (decrease) in Water Testing Expense	$	(3,161)
8			
9			
10			
11			
12			
13			
14			
15	Adjustment to Revenue and/or Expense	$	(3,161)
16			
17			
18			
19			
20	SUPPORTING SCHEDULE		
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
Rebuttal Schedule C-2
Page 5
Witness: Bourassa

Line No.			
1	Security Deposit Interest		
2			
3			
4	Test Year Security Deposits included in rate base	$	7,475
5	Interest rate		6.00%
6	Annual Interest Expense	$	449
7			
8	Increase (decrease) in interest expense	$	449
9			
10			
11	Adjustment to Revenue and/or Expense	$	449
12			
13			
14			
15			
16			
17			
18			
19			
20			

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

Exhibit
Rebuttal Schedule C-2
Page 5
Witness: Bourassa

Line No.			
1	Interest Synchronization		
2			
3			
4	Fair Value Rate Base	$ 1,999,859	
5	Weighted Cost of Debt	4.82%	
6	Interest Expense		$ 96,456
7			
8	Test Year Interest Expense		$ 103,237
9			
10	Increase (decrease) in Interest Expense		(6,781)
11			
12			
13			
14	Adjustment to Revenue and/or Expense		$ 6,781
15			
16			
17	Weighted Cost of Debt Computation		

18						Weighted
19			Amount	Percent	Cost	Cost
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
Rebuttal Schedule C-2
Page 6
Witness: Bourassa

Line No.					
1	Income Tax Computation				
2					
3				Adjusted with Rate Increase	
4					
5					
6					
7	Taxable Income		$ (63,594)	$ 133,183	
8					
9	Taxable Income		$ (63,594)	$ 133,183	
10					
11					
12					
13	Income Before Taxes			$ 133,183	
14					
15	Arizona Income Before Taxes			$ 133,183	
16					
17	Less Arizona Income Tax			$ 9,280	
18	Rate =	6.97%			
19	Arizona Taxable Income			$ 123,903	
20					
21	Arizona Income Taxes			$ 9,280	
22					
23	Federal Income Before Taxes			$ 133,183	
24					
25	Less Arizona Income Taxes			$ 9,280	
26					
27	Federal Taxable Income			$ 123,903	
28					
29					
30					
31	FEDERAL INCOME TAXES:				
32	15% BRACKET			$ 7,500	
33	25% BRACKET			$ 6,250	
34	34% BRACKET			$ 8,500	Federal
35	39% BRACKET			$ 9,322	Effective
36	34% BRACKET			$ -	Tax
37					Rate
38	Federal Income Taxes			$ 31,572	23.71%
39					
40					
41	Total Income Tax			$ 40,852	
42					
43	Overall Tax Rate			30.67%	
44					
45	Income Tax at Proposed Rates Effective Rate		$ (19,507)		
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.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	23.71%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	30.67%
9		
10	Operating Income % = 100% - Tax Percentage	69.33%
11		
12		
13		
14		
15	1 = Gross Revenue Conversion Factor	
16	Operating Income %	1.4425
17		
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
19		Rebuttal A-1
20		

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

Exhibit
Rebuttal Schedule H-1
Page 1
Witness: Bourassa

Line No.	Meter Size	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	$ 450,859	$ 123,625	37.78%	67.02%	65.81%
2	3/4 Inch	4,095	4,940	844	20.62%	0.84%	0.72%
3	1 Inch	24,612	30,934	6,322	25.69%	5.04%	4.52%
4	1.5 Inch	14,756	20,245	5,489	37.20%	3.02%	2.96%
5	2 Inch	17,044	28,123	11,079	65.00%	3.49%	4.11%
6	4 Inch	19,237	30,562	11,325	58.87%	3.94%	4.46%
7	Subtotal	$ 406,979	$ 565,663	$ 158,684	38.99%	83.35%	82.57%
8							
9							
10	Standpipe	$ 67,100	$ 96,222	$ 29,122	43.40%	13.74%	14.05%
11	Fire Sprinkler	480	480	-	0.00%	0.10%	0.07%
12	Subtotal	67,580	96,702	29,122	43.09%	13.84%	14.12%
13							
14							
15	Total Revenuers before Annualization	$ 474,558	$ 662,365	$ 187,806	39.57%	97.19%	96.69%
16							

Line No.	Meter Size	Company Present Revenues	Company Proposed Revenues	Dollar Change	Percent Change	Percent of Present	Percent of Proposed	Schedule
17			Revenue Annualization					
21	5/8x3/4 Inch	$ (1,434)	$ (2,908)	$ (1,474)	102.84%	-0.29%	-0.42%	C-2, page 5.1
22	3/4 Inch	-	-	-	0.00%	0.00%	0.00%	C-2, page 5.2
23	1 Inch	499	1,009	510	102.33%	0.10%	0.15%	C-2, page 5.3
24	1.5 Inch	(118)	(232)	(114)	96.65%	-0.02%	-0.03%	C-2, page 5.4
25	2 Inch	-	-	-	0.00%	0.00%	0.00%	C-2, page 5.5
26	4 Inch	7,707	17,044	9,337	121.16%	1.58%	2.49%	C-2, page 5.6
27	Subtotal	$ 6,654	$ 14,912	$ 8,259	124.13%	1.36%	2.18%	
28								
29								
30	Standpipe	345	688	343	99.28%	0.07%	0.10%	C-2, page 5.7
31	Fire Sprinkler	-	-	-	0.00%	0.00%	0.00%	
32								
33	Total Revenue Annualization	$ 6,999	$ 15,600	$ 8,601	122.90%	1.43%	2.28%	
34								
35	Total Revenues with Rev. Annual.	$ 481,557	$ 677,965	$ 196,408	40.79%	98.63%	98.97%	
36								
37	Misc. Serv. Rev.	6,778	6,778	-	0.00%	1.388%	0.989%	
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	$ 685,047	$ 196,777	40.30%	100.00%	100.00%	
42								

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

Exhibit
Rebuttal Schedule H-2
Page 1
Witness: Bourassa

Line No.	Meter Size and Class	(a) Average Number of Customers at 6/30/2009	Average Consumption	Average Bill Present Rates	Average Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	5/8x3/4 Inch	820	10,768	$ 32.95	$ 43.84	10.89	33.05%
2	3/4 Inch	6	15,598	56.69	68.13	11.44	20.18%
3	1 Inch	28	16,842	72.79	89.70	16.91	23.23%
4	1.5 Inch	7	52,477	172.19	225.19	53.00	30.78%
5	2 Inch	4	153,057	337.57	564.63	227.06	67.26%
6	4 Inch	2	401,611	971.37	1,537.66	566.29	58.30%
7	Subtotal	867					
8							
9							
10	Standpipe	156	11,823	$ 34.27	$ 47.16	12.90	37.64%
11	Fire Sprinkler	4	-	$ 10.00	$ 10.00	-	0.00%
12	Subtotal	160					
13							
14	Totals	1,026					
15							
16							
17	(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.						
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							
30							
31							
32							
33							
34							
35							
36							
37							
38							
39							
40							

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

Exhibit
Rebuttal Schedule H-2
Page 2
Witness: Bourassa

Line No.	Meter Size and Class	(a) Average Number of Customers at 6/30/2009	Average Consumption	Median Bill Present Rates	Median Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	5/8x3/4 Inch	820	10,768	$ 30.35	$ 38.04	7.69	25.35%
2	3/4 Inch	6	15,598	55.43	64.88	9.46	17.06%
3	1 Inch	28	16,842	67.80	79.47	11.67	17.21%
4	1.5 Inch	7	52,477	153.82	186.04	32.22	20.95%
5	2 Inch	4	153,057	206.37	253.11	46.75	22.65%
6	4 Inch	2	401,611	911.70	1,385.04	473.34	51.92%
7	Subtotal	867					
8							
9							
10	Standpipe	156	11,823	$ 34.27	$ 47.16	$ 12.90	37.64%
11	Fire Sprinkler	4	-	-	-	-	0.00%
12	Subtotal	160					
13							
14	Totals	1,026					
15							
16							
17	(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.						
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							
30							
31							
32							
33							
34							
35							
36							
37							
38							
39							
40							

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

Line No.	Customer Classification and Meter Size		Present Rates	Proposed Rates	Dollar Change	Percentage Increase
1						
2						
3						
4	**Monthly Usage Charge for:**					
5	Residential,Commercial, Irrigation, Resale and Miscellaneous Customers					
6	5/8 x 3/4 Inch		$ 10.00	$ 20.00	$ 10.00	100.00%
7	3/4 Inch		22.50	30.00	7.50	33.33%
8	1 Inch		25.00	50.00	25.00	100.00%
9	1 1/2 Inch		55.00	100.00	45.00	81.82%
10	2 Inch		70.00	160.00	90.00	128.57%
11	3 Inch		125.00	320.00	195.00	156.00%
12	4 Inch		225.00	500.00	275.00	122.22%
13	6 Inch		350.00	1,000.00	650.00	185.71%
14						
15	Standpipe		10.10	20.20	650.00	100.00%
16						
17	Fire Sprinkler Connection, less than 6 inch		10.00	10.00		
18	Fire Sprinkler Connection, larger than 6 inch		15.00	15.00		
19						
20						
21						
22						
23	Arsenic Remedial Surcharge					
24	5/8 x 3/4 Inch		$ 11.37	$ -	$ (11.37)	-100.00%
25	3/4 Inch		17.05	-	(17.05)	-100.00%
26	1 Inch		28.42	-	(28.42)	-100.00%
27	1 1/2 Inch		56.84	-	(56.84)	-100.00%
28	2 Inch		90.94	-	(90.94)	-100.00%
29	3 Inch		170.52	-	(170.52)	-100.00%
30	4 Inch		284.20	-	(284.20)	-100.00%
31	6 Inch		568.40	-	(568.40)	-100.00%
32						
33	Standpipe		11.37	-	(11.37)	-100.00%
34						
35						
36						
37	Gallons In Minimum					
38	All Meter Sizes		-	-		
39						
40						
41						
42	Tier 1: Gallons upper limit (over minimum gallons)					
43	Gallons Proposed, but not over stated Amount					
44	5/8 Inch	Residential	4,000	4,000		
45	3/4 Inch	Residential	4,000	4,000		
46	5/8 Inch	Commerical, Irr	4,000	4,000		
45	3/4 Inch	Commerical, Irr	4,000	4,000		
46	1 Inch	Residential, Commerical, Irr	40,000	25,000		
47	1.5 Inch	Residential, Commerical, Irr	100,000	50,000		
48	2 Inch	Residential, Commerical, Irr	150,000	80,000		
49	3 Inch	Residential, Commerical, Irr		160,000		
50	4 Inch	Residential, Commerical, Irr	400,000	250,000		
51	6 Inch	Residential, Commerical, Irr	400,000	500,000		
52	8 Inch	Residential, Commerical, Irr	N/A	N/A		
53	Standpipe		4,000	4,000		
54						
55						

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

Exhibit
Rebuttal Schedule A - H-3
Page 2
Witness: Bourassa

Line No.	Customer Classification and Meter Size			Present Rates	Proposed Rates
1					
2					
3	Tier 2: (Gallon upper limit, up to, but not exceeding)				
4	5/8 Inch	Residential		23,000	10,000
5	3/4 Inch	Residential		23,000	10,000
6	5/8 Inch	Commerical, Irr		23,000	10,000
7	3/4 Inch	Commerical, Irr		23,000	10,000
8	1 Inch	Residential, Commerical, Irr		999,999,999	999,999,999
9	1.5 Inch	Residential, Commerical, Irr		999,999,999	999,999,999
10	2 Inch	Residential, Commerical, Irr		999,999,999	999,999,999
11	3 Inch	Residential, Commerical, Irr		999,999,999	999,999,999
12	4 Inch	Residential, Commerical, Irr		999,999,999	999,999,999
13	6 Inch	Residential, Commerical, Irr		999,999,999	999,999,999
14	8 Inch	Residential, Commerical, Irr	N/A		N/A
15	Standpipe			23,000	23,000
16					
17					
18					
19	Tier 3: (Gallon over)				
20	5/8 Inch	Residential		999,999,999	999,999,999
21	3/4 Inch	Residential		999,999,999	999,999,999
22	5/8 Inch	Commerical, Irr		999,999,999	999,999,999
23	3/4 Inch	Commerical, Irr		999,999,999	999,999,999
24	1 Inch	Residential, Commerical, Irr		999,999,999	999,999,999
25	1.5 Inch	Residential, Commerical, Irr		999,999,999	999,999,999
26	2 Inch	Residential, Commerical, Irr		999,999,999	999,999,999
27	3 Inch	Residential, Commerical, Irr		999,999,999	999,999,999
28	4 Inch	Residential, Commerical, Irr		999,999,999	999,999,999
29	6 Inch	Residential, Commerical, Irr		999,999,999	999,999,999
30	8 Inch	Residential, Commerical, Irr	N/A		N/A
31	Standpipe			999,999,999	999,999,999
32					
33					
34				Present Rates	Proposed Rates	Percent Change
35						
36	Commodity Rates (per 1,000 gallons over minimum and per Tier)					
37	All	Tier 1	$	0.95	$ 1.86	95.50%
38	All	Tier 2	$	1.15	$ 2.36	104.98%
39	All	Tier 3	$	1.35	$ 2.96	119.06%
40						
41	Construction Water	All gallons				
42	All	Tier 1	$	0.95	$ 1.86	95.50%
43	All	Tier 2	$	1.15	$ 2.36	104.98%
44	All	Tier 3	$	1.35	$ 2.96	119.06%
45						
46						
47						
48						
49						
50						

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

Exhibit
Rebuttal Schedule H- 3
Page 4
Witness: Bourassa

Line No.	Other Service Charges	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 Facitlities 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
Rebuttal Schedule H-3
Page 5
Witness: Bourassa

Line No.		Total Present Charge	Proposed Service Line Charge*	Proposed Meter Install-ation 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	3,670.00	5,160.00
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
Rebuttal Schedule H- 3
Page 6
Witness: Bourassa

Line No.

1
2 **Arsenic Impact Hook-up Fee**
3

	Present Charge	Proposed Charge
5/8 x 3/4 Inch	$ 1,135	$ 1,135
3/4 Inch	1,703	$ 1,703
1 Inch	2,838	$ 2,838
1 1/2 Inch	5,675	$ 5,675
2 Inch	9,080	$ 9,080
3 Inch	18,160	$ 18,160
4 Inch	28,375	$ 28,375
6 Inch	56,750	$ 56,750

14
15
16 **Offsite Facilities Hook-up Fee**
17

	Present Charge	Proposed Charge
5/8 x 3/4 Inch	$ 250	$ 250
3/4 Inch	250	250
1 Inch	250	250
1 1/2 Inch	250	250
2 Inch	250	250
3 Inch	250	250
4 Inch	250	250
6 Inch	250	250

28
29

EXHIBIT
A-5
ADMITTED

Exhibit A-5
Thomas J. Bourassa

Prepared Rebuttal Testimony on Cost of Capital

September 28-29, 2010 ACC Hearing
Las Quintas Serenas Water Company
Docket No. W-01583-09-0589

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 ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	)	DOCKET NO. W-01583A-09-0589 PREPARED TESTIMONY

REBUTTAL TESTIMONY OF

THOMAS J. BOURASSA

ON BEHALF OF LAS QUINTAS SERENAS WATER COMPANY

(COST OF CAPITAL)

August 23, 2010

I. INTRODUCTION AND QUALIFICATIONS

Q1. PLEASE STATE YOUR NAME AND ADDRESS.

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

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

A2. I am testifying on behalf of the applicant, Las Quintas Serenas Water Company ("LQSWC" or the "Company").

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

A3. Yes, my direct testimony was presented in two volumes. My background information and qualifications are set forth in the rate base and revenue requirement volume of my direct testimony.

Q4. DID YOU ALSO PREPARE REBUTTAL TESTIMONY ON THOSE ISSUES IN THIS DOCKET?

A4. Yes, my rebuttal testimony on rate base, income statement, revenue requirement and rate design is being filed in a separate volume at the same time as this testimony.

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

A. Summary of Company's Rebuttal Recommendation

Q5. WHAT IS THE PURPOSE OF THIS VOLUME OF YOUR REBUTTAL TESTIMONY?

A5. I will provide updates of my cost of capital analysis and recommended rate of return using more recent financial data. I also will provide rebuttal as appropriate to the direct testimony of Mr. Manrique on behalf of Staff.

Q6. HOW HAS THE INDICATED RETURN ON EQUITY CHANGED SINCE THE DIRECT FILING WAS MADE LAST JUNE?

A6. The cost of equity has decreased, as indicated by the Discounted Cash Flow ("DCF") model and the Capital Asset Pricing Model ("CAPM"). The table below summarizes the results of my updated analysis using those models:

Method	Low	High	Midpoint
Range DCF Constant Growth Estimates	9.1%	11.3%	10.5%
Range of CAPM Estimates	10.4%	15.8%	13.2%
Average of DCF and CAPM midpoint estimates	10.2%	13.5%	11.9%
Financial Risk Adjustment	1.5%	1.5%	1.5%
Specific Company Risk Premium	1.0%	1.0%	1.0%
Indicated Cost of Equity	**12.7%**	**16.0%**	**14.4%**

The schedules containing my updated cost of capital analysis attached to this rebuttal testimony. Also attached is one exhibit, which is discussed below.

Q7. PLEASE SUMMARIZE YOUR RECOMMENDED REBUTTAL COST OF DEBT AND EQUITY, AND YOUR RECOMMENDED REBUTTAL RATE OF RETURN ON RATE BASE.

A7. The Company's rebuttal recommended capital structure consists of 67.9 percent debt and 32.1 percent common equity as shown on Rebuttal Schedule D-1. Based on my updated cost of capital analysis, I am recommending a cost of equity of 14.4 percent and a cost of debt of 7.1 percent. Based on my 14.4 percent recommended cost of equity and 7.1 percent cost of debt, the Company's weighted cost of capital ("WACC") is 9.44 percent, as shown on Rebuttal Schedule D-1.

Q8. IS THE COMPANY ADOPTING THE STAFF RECOMMENDED COST OF

DEBT?

A8. Yes. Staff recommends a cost of debt of 7.1 percent which reflects the consideration of the impact of debt issuance costs on the cost of debt.[1]

Q9. WHY IS YOUR COST OF EQUITY RECOMMENDATION LOWER IN YOU REBUTTAL THAN IN YOUR DIRECT TESTIMONY?

A9. As stated, my updated analysis indicates cost of equity is 14.4 percent, which is 160 basis points lower than the 16.0 percent cost of equity I proposed for LQSWC in my direct testimony. There are two primary reasons for the reduction in the cost of equity. First, my DCF cost of equity estimate is much lower and this is a direct result of much lower growth estimates. Previously, my cost of equity estimates based on the DCF model ranged from 11.1 percent to 12.6 percent with a mid-point of 11.9 percent. My updated analysis shows the cost of equity estimates for the DCF model rate from 9.7 percent to 11.3 percent with a mid-point of 10.5 percent.

Second, because the Company recommends a change in the capital structure, which has less debt and therefore less financial risk, my financial risk adjustment is much lower. In the Company's direct filing, I recommended a capital structure of 74.1 percent debt and 25.9 percent equity.[2] This was based on the capital structure at the end of the test year (June 20, 2009). The Company now recommends a capital structure consisting of 67.93 percent debt and 32.07 percent equity. This is the capital structure of the Company on September 30, 2009. Because there is less leverage in the capital structure, my financial risk adjustment is much lower dropping from 290 basis points to 150 basis points.[3]

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[1] *See* Direct Testimony of Juan C. Manrique ("Manrique Dt.") at 34.

[2] *See* Direct testimony of Thomas J. Bourassa ("Bourassa COC Dt.") at 22.

[3] Compare Company Direct and Rebuttal schedules D.4-1.

B. **Summary of the Staff Recommendation.**

Q10. PLEASE SUMMARIZE THE RECOMMENDATION OF STAFF FOR THE RATE OF RETURN ON FAIR VALUE RATE BASE.

A10. Staff is recommending a hypothetical capital structure consisting of 60 percent debt and 40 percent equity.[4] Staff determined a cost of equity of 10.6 percent based on the average cost of equity produced by its DCF and CAPM models.[5] As stated, Staff also determined the cost of debt to be 7.1 percent.[6] Based on its 60 percent debt and 40 percent equity hypothetical capital structure, Staff determined the WACC for LQSWC to be 8.5 percent.[7]

Q11. PLEASE SUMMARIZE THE PARTIES RESPECTIVE COST OF EQUITY ESTIMATES.

A11. The range of cost of equity estimates (before consideration of financial risk and small company risk) for the DCF and CAPM are as follows:

Party	DCF	CAPM	Average
LQSWC	10.2%	13.5%	11.9%
Staff	9.8%	11.3%	10.6%

Q12. DOES STAFF RECOMMEND A FINANCIAL RISK ADJUSTMENT TO RECOGNIZE THE HIGHER FINANCIAL RISK OF STAFF'S RECOMMENDED HYPOTHETICAL CAPITAL STRUCTURE

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[4] Manrique Dt. at 33.

[5] *Id.* at 34.

[6] *Id.* at 35.

[7] *Id.*

COMPARED TO THE CAPITAL STRUCTURE OF THE PUBLICLY TRADED WATER UTILITY COMPANIES?

A12. No. Staff justifies its recommendation to employ a hypothetical capital structure in the instant case based on two prior Commission decisions in which a hypothetical capital structure consisting of 60 percent dent and 40 percent equity was used to address highly leveraged capital structures.[8] However, in both of those decisions, Staff recommended, and the Commission adopted, cost of equity estimates which included a financial risk adjustment.

In the Southwest Gas Corporation decision (Decision 68487, February 23, 2006), the Commission adopted a hypothetical capital structure consisting of 60 percent debt and 40 percent equity and a cost of equity of 9.5 percent which reflected Staff's cost of equity estimate of 9.2 percent and Staff's recommended upward adjustment of 30 basis points for recognition of Southwest Gas' highly leveraged capital structure.[9]

In the Arizona-American decision (Decision 69440, May 1, 2007), the Commission adopted a hypothetical capital structure consisting of 60 percent debt and 40 percent equity and a cost of equity of 10.7 percent which reflected Staff's cost of equity estimate of 9.7 percent and Staff's recommended upward adjustment of 100 basis points for recognition of Arizona-American's highly leveraged capital structure.[10]

Q13. WHAT WOULD BE THE APPROPRIATE FINANCIAL RISK ADJUSTMENT TO STAFF'S COST OF EQUITY ANALYSIS?

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[8] Southwest Gas Corporation, Decision 68487, February 23, 2006 and Arizona-American Mohave Water and Wastewater Districts, Decision 69440, May 1, 2007.

[9] Southwest Gas Corporation, Decision 68487, at 29-30.

[10] Arizona-American, Decision 69440, at 18-20.

A13. Using the typical Staff methodology for computing a financial risk adjustment, Staff's financial risk adjustment would be 230 basis points. I have included as Rebuttal Exhibit TJB-COC-RB1 the computation of the financial risk adjustment based upon Staff's cost of equity analysis and Staff's typical approach to implementing the Hamada financial risk adjustment.[11]

Q14. WHAT WOULD BE THE RESULTING COST OF EQUITY ESTIMATE FOR STAFF IF STAFF HAD INCLUDED A FINANCIAL RISK ADJUSTMENT TO REFLECT LQSWC'S HIGHLY LEVERAGED CAPITAL STRUCTURE?

A14. 12.9 percent (10.6 percent cost of equity based on Staff's DCF and CAPM plus 2.3 percent financial risk adjustment based upon the Hamada method).

Q15. HAD STAFF USED THE 12.9 PERCENT COST OF EQUITY IN ITS RECOMMENDED HYPOTHETICAL CAPITAL STRUCTURE WHAT WOULD BE THE RESULTING WEIGHTED AVERAGE COST OF CAPITAL?

A15. 9.42 percent, computed as follows:

	Percent (Weight)	Cost	Weighted Cost
Debt	60%	7.1%	4.26%
Equity	40%	12.9%	5.16%
		Overall ROR	9.42%

Had Staff's approach to the cost of equity in the instant case been consistent with the two Commission decisions upon which Staff relied, Staff's recommended cost of equity would have been over 90 basis points higher (9.42 percent less 8.5 percent).

[11] Staff typically uses the Hamada method for computing financial risk adjustments and uses book values of debt and equity.

Q16. IS IT NECESSARY TO ADD AN UPWARD FINANCIAL RISK ADJUSTMENT TO THE COST OF EQUITY IF THE HYPOTHETICAL CAPITAL STRUCTURE THAT STAFF RECOMMENDS IS ADOPTED?

A16. Yes. This is because there is more debt in the Staff proposed hypothetical capital structure compared to the capital structure of Staff's sample publicly traded utility companies.

Q17. DOES STAFF PROVIDE AN EXPLANATION AS TO WHY IT IGNORED THE HIGHER FINANCIAL RISK CONTAINED IN ITS HYPOTHETICAL CAPITAL STRCUTURE RECOMMENDATION COMPARED TO THE CAPITAL STRCUTURES OF THE PUBLICLY TRADED WATER UTILIOTY COMPANIES?

A17. No.

Q18. DO YOU HAVE ANY OTHER COMMENTS REGARDING STAFF RECOMMENDATIONS?

A18. Yes. Despite Staff's criticisms of my approach to the cost of capital, which I will respond to below, had Staff properly accounted for the higher financial risk of Staff's recommended hypothetical capital structure, the overall cost of capital of 9.42 percent would have been approximately the same as my overall cost of capital recommendation of 9.44 percent.

III. REBUTTAL TO STAFF'S COST OF CAPITAL ANALYSIS, TESTIMONY AND RECOMMENDATIONS

A. Rebuttal to Staff's Criticisms of Analysts' Estimates of Growth

Q19. MR. MANRIQUE CRITICIZES YOU FOR GIVING MORE WEIGHT TO ANALYSTS' ESTIMATES THAN TO HISTORICAL GROWTH RATES.

HOW DO YOU RESPOND?

A19. First, it is important to note that Mr. Manrique does not reject analyst estimates of growth; he just disagrees with the amount of weight I gave these estimates.[12] Staff gives 50 percent weight to analysts' estimates and 50 percent weight to historical growth data. So the dispute between Mr. Manrique and me comes down to something between 50 percent and my "greater" emphasis. In my direct testimony I explained why a weight greater than 50 percent should be given to analysts' estimates.[13]

Q20. WHAT ABOUT MR. MANRIQUE'S CLAIM ON PAGE 36 THAT ONLY ONE-EIGHTH (OR 12.5 PERCENT) OF YOUR GROWTH ESTIMATES RELIES ON HISTORICAL DIVIDEND GROWTH?

A20. It is true that one-eighth (or 12.5 percent) of my growth estimate relies on historical dividend growth. However, only one-sixth (or 16.7 percent) of Staff's growth estimate for its constant growth DCF model relies on historical dividend growth. Furthermore, if one considers the implied growth from Staff's two-stage DCF model (which is based upon growth in GDP) and recognize the fact that Staff's two-stage DCF result is given 50 percent weight in Staff's overall DCF estimate, historical dividend growth has a weighting of only about one-twelfth (or 8.35 percent) under the Staff approach – a lower weighting than I provide in my growth estimate.

Q21. WHAT ABOUT MR. MANRIQUE'S ASSERTION THAT ANALYSTS' ESTIMATES ARE "OVERLY OPTIMISTIC"?

A21. I refer back to my direct testimony at page 29. Gordon, Gordon, and Gould

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[12] Manrique Dt. at 39.

[13] *See* Direct Testimony of Thomas J. Bourassa – Cost of Capital ("Bourassa COC Dt.") at 29-30.

conducted a study and found analyst forecasts of growth outperformed three measures of historical growth. They explain that this result should be expected because analysts would consider historical data in making future projections. Now, Mr. Manrique characterizes the study as merely an "article" that "describes more generally the methods exclusively using analysts' forecasts are 'popular and attractive models', but the article does not support the conclusion that these forecasts should be used alone."[14] The authors' own words undermine Mr. Manrique's characterization. In their own formal study, the authors concluded:

> We have compared the accuracy of four methods for estimating the growth component of the discounted cash flow yield on a share: past growth in earnings (KEGR), past growth in dividends (KDGR), past retention growth rate (KBRG), and forecasts of growth by security analysts (KFRG). ... For our sample of utility shares, KFRG performed well, with KBRG, KDGR, and KEGR following in that order, and with KEGR a distant fourth....
>
> Before closing, we have three observations to make. First, the superior performance by KFRG should come as no surprise. All four estimates of growth rely upon past data, but in the case of KFRG a larger body of past data is used, filtered through a group of security analysts who adjust for abnormalities that are not considered relevant for future growth.... [15]

As I have testified, to the extent that past results provide useful indications of future growth prospects, analysts' forecasts of growth would already incorporate that information.[16] In addition, a stock's current price already reflects known historic information on that company, including its past dividend and earnings

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[14] Manrique Dt. at 38.

[15] David A. Gordon, Myron J. Gordon and Lawrence I. Gould, "Choice Among Methods of Estimating Share Yield," *Journal of Portfolio Management* (Spring 1989) 50-55.

[16] Bourassa COC Dt. at 29.

history.[17] If investors rely on analysts' growth rate forecasts, those are the relevant forecasts for determining equity costs.

In summary, Mr. Manrique offers no quantitative or conceptual argument to rebut Gordon, Gordon, and Gould, and offers no evidence that any of the measures of past growth he has used – historical EPS, historical DPS, historical sustainable growth – provides better a forecast of future growth for utilities than analysts' estimates of growth. Mr. Manrique is using Staff's inputs into the DCF model mechanically without considering the reasons for using those inputs. Unfortunately, Staff's inputs gives less weight to the best estimate of future growth in order to drive down the cost of equity.

Q22. DOESN'T MR. MANRIQUE'S TESTIMONY ON PAGE 38 REFERENCING PROFESSOR GORDON'S REMARKS AT THE 30TH ANNUAL FORUM OF THE SOCIETY OF UTILITY AND REGULATORY FINANCIAL ANALYSTS CONTRADICT WHAT THE AUTHORS HAVE CONCLUDED?

A22. No. In the quoted remarks, Professor Gordon does not say anything about past growth rates. There is no guidance on which past growth rates (EPS, DPS, or book value) should be used, if any, or what weight past growth rates should be given when estimating the growth rate in the DCF model. That is the issue. Mr. Manrique agrees that "Professor Gordon would temper the typically higher analysts' growth rates with the typically lower GNP growth rate."[18] I am sure Mr. Manrique would also agree that I have tempered my estimate by considering past growth rates that are well below the long-term GNP (or GDP) growth rate.[19]

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[17] *Id.*

[18] Manrique Dt. at 39.

[19] *See* Rebuttal Schedule D.4-4, column 5. The average of historical growth rates is 5.87%. The long-term GDP

Q23. DOES MR. MANRIQUE STATE THAT INVESTORS RELY ON ANALYST ESTIMATES?

A23. Yes.[20] He also states that investors rely "to some extent on past growth as well."[21] That is true, but he does not demonstrate the extent to which investors rely on past growth rates – he simply states that they are considered. Again, if analysts' estimates already consider past growth, then Staff vastly overstates the impact of past growth rates in its DCF model. It is, basically, a type of "double-counting" that produces extremely low results.

Q24. DO YOU HAVE FURTHER REBUTTAL TO MR. MANRIQUE'S "OVERLY OPTIMISTIC" TESTIMONY?

A24. Yes. For my second specific response to the assertion that analysts' estimates are "overly optimistic," I point to Value Line. Value Line is in the business of selling information to investors, and all of the parties have relied on Value Line in their cost of equity estimates. Value Line has every incentive to provide accurate forecasts to encourage investors to continue to subscribe to its publications. Value Line does not sell stock and has no incentive to bias upward its buy/sell recommendations and estimates of future growth. Zacks and Morningstar provide similar investment services. Neither markets stock – they sell information, which won't be purchased if it is inaccurate or biased. Yahoo Finance is a free service, but it does not earn commissions from the sales of stock. In sum, Mr. Manrique's testimony is simply wrong. None of these services has any reason to provide inaccurate information to its users.

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growth rate is 6.6% as shown on Staff's Schedule JCM-9.

[20] Manrique at 39.

[21] *Id.*

Q25. DO YOU HAVE ANY FURTHER COMMENTS ON THE TOPIC OF STAFF'S DCF GROWTH ESTIMATES, MR. BOURASSA?

A25. Yes. I am attaching a copy of document filed with the public utilities commission in a 2005 California rate case to this volume of my rebuttal testimony.[22] This document was prepared by Mr. Gary Hayes, a witness for San Diego and Electric Company. It lists a number of sources that further contradict Mr. Manrique's claim that analysts typically make upwardly biased forecasts of growth.

Additionally, to further support the use of analyst forecasts of growth, Dr. Morin states:

> Because of the dominance of institutional investors and their influence on individual investors, analysts' forecasts of long-run growth rates provide a sound basis for estimating required returns. Financial analysts exert a strong influence on the expectations of many investors who do not possess the resources to make their own forecasts, that is, they are a cause of g. *The accuracy of these forecasts in the sense of whether they turn out to be correct is not at issue here, as long as they reflect widely held expectations.* As long as the forecasts are typical and/or influential in that they are consistent with current stock price levels, they are relevant. The use of analysts' forecasts in the DCF model is sometimes denounced on the grounds that it is difficult to forecast earnings and dividends for only one year, let alone for longer time periods. *This objection is unfounded, however, because it is present investor expectations that are being priced; it is the consensus forecast that is embedded in price and therefore in required return, and not the future as it will turn out to be.*[23]

Dr. Myron Gordon, the same Professor Gordon Mr. Manrique quotes in his testimony and the "father" of the standard regulatory version of the DCF model utilized by Mr. Manrique and myself in the instant case, has also recognized the significance of analysts' forecasts of growth in EPS in a speech he gave in March

[22] Exhibit TJB-COC-RB2.

[23] Roger A. Morin. *New Regulatory Finance* (2006) 298 (emphasis added).

1990 before the Institute for Quantitative Research and Finance. He said:

> We have seen that earnings and growth estimates by security analysts were found by Malkiel and Cragg to be superior to data obtained from financial statements for the explanation of variation in price among common stocks. ... Estimates by security analysts available from sources such as IBES are far superior to the data available to Malkiel and Cragg. Eq (7) is not as elegant as Eq (4), but it has a good deal more intuitive appeal. It says that investors buy earnings, but what they will pay for a dollar of earnings increases with the extent to which the earnings are reflected in the dividend or in appreciation through growth.[24]

Professor Gordon recognized that total return is largely affected by the terminal price, which is mostly affected by earnings (hence the common use of price/earnings multiples in evaluating stock prices).

As noted by Dr. Gordon, studies performed by Cragg and Malkiel demonstrate that analysts' forecasts are superior to historical growth rate extrapolations. These studies show that:

> Efficient market hypotheses suggest that valuation should reflect the information available to investors. Insofar as analysts' forecasts are more precise than other types we should therefore expect their differences from other measures to be reflected in the market. It is therefore noteworthy that our regression results do support the hypothesis that analysts' forecasts are needed even when calculated growth rates are available. As we noted when we described the data, *security analysts do not use simple mechanical methods to obtain their evaluations of companies.* The growth-rate figures we obtained were distilled from careful examination of all aspects of the companies' records, evaluation of contingencies to which they might be subject, and whatever information about their prospects the analysts could glean from the companies themselves from other sources. *It is therefore notable that the results of their efforts are found to be so much more relevant to the valuation than the various simpler and more "objective" alternatives that we tried.*[25]

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[24] Gordon, Myron J., "Pricing of Common Stocks", Seminar (March 27, 1990) at 12-13.

[25] John G. Cragg and Burton G. Malkiel, "Expectations and the Structure of Share Prices" *National Bureau of Economic Research* (University of Chicago Press, 1982) Chapter 4.

Vander Weide and Carleton further note:

> [O]ur studies affirm the superiority of analyst's forecasts over simple historical growth extrapolations in the stock price formation process. Indirectly, this finding lends support to the use of valuation models whose input includes expected growth rates.[26]

Q26. THAT'S A LOT OF EXPERT COMMENTARY, BUT WHAT DOES IT ALL MEAN IN THIS CASE?

A26. It means that the level of accuracy of analysts' forecasts is an after-the-fact evaluation with little relevance to the issues at hand here. What really matters is that analysts' forecasts strongly influence investors and hence the market prices they are willing to pay for stocks. Therefore, they should play a prominent role in a proper equity cost determination. Staff, however, has failed to give these forecasts sufficient weight in its analysis. Even Mr. Dreman, who Mr. Manrique relies on[27], admits that:

> We have also seen that in spite of high error rates being recognized for decades, neither analysts nor investors who religiously depend on them have altered their methods in any way.[28]

This is my point. If investors rely on analysts' growth rate forecasts, those forecasts should be used to determine the cost of equity, proportionate to investor reliance, not in a manner that depresses the import of that reliance. Analysts' growth rates influence the prices investors will pay for stocks and thus impact the

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[26] James H. Vander Weide and Willard T. Carleton, "Investor Growth Expectations: Analysts vs. History" (*The Journal of Portfolio Management*, Spring 1988) 78-82.

[27] Manrique Dt. at 36.

[28] David Dreman, *Contrarian Investment Strategies: The Next Generation* 115-116 (Simon & Schuster 1998).

dividend yields. The dividend yields change until the sum of the dividend yield plus the growth rate equals investors' perceived cost of equity. Had the growth forecasts been lower – as Mr. Manrique suggests they should be – the stock prices would be lower and dividend yields would be higher, but there would not necessarily be any difference in the ultimate estimate of the cost of equity.

Q27. HOW DO YOU RESPOND TO MR. MANRIQUE'S REFERENCE TO PROFESSOR JEREMY SIEGEL?

A27. Mr. Manrique's reliance on the quote from Jeremy Siegel that "dividends and not earnings are meaningful" is puzzling.[29] The DCF model assumes, among other things, that a firm will have a stable dividend payout policy and a stable return on the book value of its stock. Thus, it is assumed that the stock's price, its book value, dividends paid, and earnings all grow at the same rate. While it is appropriate to make such assumptions for forecasting purposes, these assumptions are frequently violated when examining historical data. As it turns out, the historical growth in the stock price, book value, dividends, and earnings for the water utility industry has not been the same.[30] Estimates of long-term growth rates should take this into account. Furthermore, I have not used earnings in my DCF model; I used earnings growth as a proxy for growth. Earnings generate the funds used to pay dividends. Growth in earnings provides more cash flows from which dividends are paid. As a consequence, earnings growth is obviously extremely important to investors, and is therefore an entirely appropriate proxy for growth in the DCF model.

Of course, I'd also note that I don't disagree with Professor Siegel that the

[29] Manrique Dt. at 38-39.

[30] *See* Rebuttal Schedule D.4-3 and Rebuttal Schedule D.4-4.

price of a stock is always equal to the present value of all future cash flows. I am sure Professor Siegel would agree that future cash flows would not only include dividends but the future sales price of the stock. I would also add that an investment in the stock of a publicly traded utility is much more liquid than an investment in LQSWC. If investors are unhappy with the return provided by a publicly traded stock they can sell the stock within minutes. On the contrary, an investment in LQSWC does not provide the same level of liquidity. This lack of liquidity creates additional investment risk.

Q28. DO YOU HAVE ANY FURTHER RESPONSE TO MR. MANRIQUE REGARDING THE ISSUE OF USING ANALYSTS' FORECASTS AND THE APPROPRIATE WEIGHT THEY SHOULD BE GIVEN?

A28. Yes, I have one more comment. I find Mr. Manrique's reliance on a quotation from Dr. Burton G. Malkiel is somewhat confusing. Dr. Malkiel is the Chemical Bank Chairman's Professor of Economics at Princeton University and author of the widely read national bestseller book on investing entitled, "A Random Walk Down Wall Street." Mr. Manrique quotes Dr. Malkiel's apparent criticism of analysts' estimates. Yet, in November 2002, Professor Malkiel affirmed his belief in the superiority of analysts' earnings forecasts when he testified before the South Carolina PUC:

> With all the publicity given to tainted analysts' forecasts and investigations instituted by the New York Attorney General, the National Association of Securities Dealers, and the Securities & Exchange Commission, I believe the upward bias that existed in the late 1990s has indeed diminished. In summary, I believe that current analysts' forecasts are more reliable than they were during the late 1990s. *Therefore, analysts' forecasts remain the proper tool to use in performing a Gordon Model DCF analysis.*[31]

[31] *See* Rebuttal testimony of Dr. Burton G. Malkiel, South Carolina Electric and Gas Co., Docket No. 2002-223-E, pp. 16-17 (emphasis added).

I believe that Dr. Malkiel's testimony should eliminate any disagreement on this issue.

B. <u>Firm Specific Risk</u>

Q29. IS MR. MANRIQUE CORRECT THAT PRIOR COMMISSION DECISIONS DID NOT FIND A FIRM SIZE PHENOMENON FOR REGULATED UTILITIES?

A29. Yes, Mr. Manrique is correct, although the Commission's failure to recognize that small firms are riskier than large firms - despite an abundance of empirical financial evidence indicating otherwise - is another reason why it is more risky for smaller utilities to do business in Arizona. Putting that aside, there are many reasons why smaller utilities are more risk than larger utilities. I have discussed these reasons extensively in my direct testimony and will not repeat that testimony here.[32] The simple fact is that a rational investor is not going to view an equity investment in LQSWC as having the same risk as the purchase of publicly traded stock in a substantially larger utility such as Aqua America, American States Water or California Water Service.

The bottom line is that if the differences in risk between small utilities like LQSWC and the large, publicly traded water utilities used to estimate the cost of equity are ignored, LQSWC's equity cost will be understated and unreasonable.

Q30. DO INVESTORS CONSIDER SMALL FIRM RISKS AS WELL AS REGULATORY RISKS?

A30. Of course. Contrary to Mr. Manrique's assertions, the investment related to such factors as firm size and Arizona's regulatory environment are important to

[32] Bourassa COC Dt. at 16-23

investors. These risks are not captured by the market data of the water utility proxy group Staff uses to estimate the cost of equity for LQSWC. None of the utilities in Staff's water proxy group are of comparable size to LQSWC.[33] In fact, LQSWC is but a small fraction of the size of the water utilities in Staff's proxy group. And none of the water utilities in Staff's water proxy group operate exclusively in Arizona and are subject to this jurisdiction's regulatory requirements and policies.[34]

Q31. IS THERE A WAY TO PRECISELY QUANTIFY THE EFFECT OF THESE ADDITIONAL RISKS ON THE RETURN REQUIRED BY AN INVESTOR?

A31. No. But that does not justify ignoring the differences between the sample utilities and LQSWC, as Staff proposes.

Q32. HOW DO YOU RESPOND TO MR. MANRIQUE'S ASSERTION THAT THE ARIZONA REGULATORY ENVIRONMENT IS NO LESS FAVORABLE THAN THE REGULATORY ENVIRONMENTS FACED BY THE SAMPLE UTILITIES?

A32. I disagree with him. Mr. Manrique testifies that the regulatory environment in Arizona has many "attractive attributes," including the ability to seek accounting orders, the recognition of known and measurable changes, the wide use of hook-up fees, and regulatory responsiveness, such as the approval of arsenic recovery mechanisms and arsenic remedial surcharge mechanisms.[35] I will address each of the alleged "attractive attributes" Mr. Manrique has identified.

Q33. LEST START WITH ACCOUNTING ORDERS. ARE ACCOUNTING ORDERS AN "ATTRACTIVE ATTRIBUTE" OF REGULATION IN ARIZONA?

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[33] Bourassa COC Dt. at 17.

[34] *Id.* at 19.

[35] Manrique Dt. at 41.

A33. No. I am not aware that regulatory mechanisms similar to accounting orders are not available to any of the sample water utilities in the regulatory jurisdictions in which they operate. Therefore, accounting orders do not make Arizona attractive to investors relative to other investments. Besides, the nature of accounting orders limits their attractiveness.

Q34. WHAT DO YOU MEAN?

A34. In Arizona, accounting orders are narrowly tailored for specific circumstances and generally only allow utilities to track certain, specified costs. No rate recovery is authorized or assured. Rather, accounting orders issued by this Commission postpone consideration of any cost recovery until a future rate case. In fact, the uncertainty inherent in an accounting order is illustrated in the pending Litchfield Park Service Company rate case, where Staff opposes recovery of costs incurred pursuant to a recent Commission-issued accounting order.[36] Staff testimony regarding the LQSWC's request for an accounting order in the instant case for future consideration of significant arsenic media costs that were not recognized in the Company's initial rate application demonstrates how difficult and how narrowly Staff views the applicability of accounting orders.[37]

Q35. WHAT ABOUT THE RECOGNITION OF "KNOWN AND MEASURABLE" CHANGES?

A35. Again, this is not a regulatory attribute unique to Arizona. In fact, I am not aware of any jurisdictions that utilize an historic test year where adjustments based on known and measurable changes cannot be made to either the test year rate base or

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[36] *See* Direct Testimony of Jeffery M. Michlik (water division) in Docket W-01427A-09-0104 at 12-14. Staff is recommending denial of recovery of costs related to the potential contamination of its water supply due to the proximity of a federally designated superfund site, although Staff has suggested consideration in a future rate case.

[37] See Direct Testimony of Jeffry M. Michlik ('Michlik Dt.") at 29-30.

to test year revenue and expenses in order to make the test year a more "normal" representation of the costs of service during the period in which the rates will be in effect. Arguably, the failure to allow such changes would be unlawful.

In contrast, California, in which three of the six sample water companies (American States, California Water, and SJW Corp.) primarily operate, uses future test years in setting rates. Under that state's rate making system, future expenses can be increased to reflect expected changes including projected inflation, revenues can be adjusted to reflect expected future erosion of revenues from water conservation, and future expected capital investment can be recognized in rate base. This regulatory approach is more attractive to investors than the simple recognition of known and measurable changes to an historical test year.

Moreover, California allows adjuster mechanisms that permit utilities to recover increases in purchased power and purchased water costs due to increases rates charged by power and water providers. More recently, in connection with implementing conservation-oriented rate structures, California has authorized water revenue adjustment mechanisms to be implemented in order to offset revenue erosion due to conservation. In some cases, California allows utilities to file for adjustment mechanisms when unexpected significant capital investment has to be made. By allowing revenues to change between rate cases to match known increases in investment and operating expenses, utilities are given a reasonable chance to earn their authorized return.

In contrast, adjuster mechanisms for purchased water and purchased water have been uniformly opposed by Staff over the past decade, and they have denied by the Commission.[38] And, I don't believe that I have ever seen a revenue

[38] *See, e.g. Chaparral City Water Company*, Decision 68176 (Sept. 30, 2005); *Arizona Water Company (Eastern Group)*, Decision No. 66849 (March 19, 2004).

conservation adjustment adopted by the Commission for an Arizona water utility with inverted-tier rates designed to encourage water conservation.

Q36. DIDN'T THE COMMISSION PROVIDE ARSENIC COST RECOVERY MECHANISMS IN THE PAST?

A36. To some extent. But generally these mechanisms have only for allowed recovery of debt service costs not capital and depreciation. That was beneficial, particularly for utilities that could not cash flow the debt service without this mechanism in place. However, these mechanisms typically do not include recovery of increases in operating and maintenance costs associated with the arsenic facilities. And, the Commission has made it clear that such mechanisms were special cases intended to address extraordinary circumstances, and their approval did not establish a precedent for adjuster mechanisms in general. Thus, while approval of the ACRMs was certainly helpful to the water utilities that obtained them, they do not make Arizona's regulatory environment more attractive to investors than other jurisdictions, which routinely authorize cost recovery mechanisms.

Q37. ARE THERE ANY OTHER "ATTRACTIVE ATTRIBUTES" THAT MAKE OTHER JURISDICTIONS ATTRACTIVE RELATIVE TO ARIZONA?

A37. Yes. For instance, as I discussed in my direct testimony, in many states in which Aqua America operates, utilities are permitted to implement surcharges to recover additional depreciation and capital costs outside the context of a rate case.[39] Aqua America also operates in jurisdictions that allow utilities to implement rates before a final decision in a rate case.[40] In addition, in certain states in which Aqua America operates, utilities are allowed surcharges to reflect changes in certain costs

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[39] Bourassa COC Dt at 21.

[40] *Id.*

until such time as the costs are incorporated into base rates.[41] Pennsylvania allows water utilities to collect a distribution system improvement charge ("DISC") for the replacement of mains, storage tanks and other distribution system infrastructure. Similarly, Middlesex operates utilities in Delaware, which also allows for the implementation of a DISC for the recovery of depreciation and capital costs outside the context of a rate case. Delaware also allows plant expected to be constructed within three years from the end of the test period to be included in rate base. These attributes are attractive to investors, and none of them are available in Arizona.

Q38. ARE YOU AWARE OF ANY STUDIES THAT SUPPORT YOUR TESTIMONY THAT ARIZONA IS NOT AN ATTRACTIVE REGULATORY ENVIRONMENT?

A38. Yes. Standard and Poor's, for example, issued a report in November 2008 that ranked Arizona among the least credit supportive regulatory environments.[42] Investors do recognize the overall effect of the unfavorable regulatory environment here in Arizona.

Q39. PLEASE RESPOND TO MR. MANRIQUE'S TESTIMONY ON PAGE 42 THAT REGULATORY RISK IS A FIRM-SPECIFIC RISK AND INVESTORS CANNOT EXPECT TO BE COMPENSATED FOR FIRM-SPECIFIC RISKS.

A39. Mr. Manrique's assertion is undermined by the fact that the *Bluefield* standard requires the return on equity be commensurate with returns on enterprises with comparable risks (the "comparable earning standard"). The impact of the various factors on investment risk that I have discussed throughout my testimony, such as

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[41] *Id.*

[42] Assessing U.S. Utility Regulatory Environments, Rating Directs, Standard and Poor's (November 7, 2008).

small size, construction risk, regulatory risk, lack of diversification, small customer base, liquidity risk, etc., are factors which make LQSWC more risky and therefore not comparable to the large publicly traded water companies.

Mr. Manrique does not dispute the data contained in Morningstar supporting small company risk premiums.[43] It stands to reason that LQSWC would have higher beta than the sample water companies.[44] Yet, Mr. Manrique blindly accepts that the average beta of the much larger publicly traded water utilities as the beta for LQSWC.[45]

Q40. ON PAGE 43 OF HIS TESTIMONY MR. MANRIQUE STATES THAT THERE IS NO ACCEPTED ANALYSIS THAT DEMONSTRATES THAT UTILITIES ARE SUBJECT TO THE SAME SIZE DEPENDENT BETAS AS THE MARKET. PLEASE RESPOND.

A40. I find it ironic that Mr. Manrique has now essentially admitted that the Staff's often cited Annie Wong study[46] does not prove that a firm size effect does not exist in the regulated utility industry. It would appear that the Commission's reliance on Staff's unequivocal conclusion that the firm size phenomenon does not exist for regulated utilities in the Black Mountain Gas and the Arizona Water rate cases was unwarranted.[47]

Q41. PLEASE CONTINUE.

A41. Risks that would obviously be considered by any rational investor are simply ignored by Mr. Manrique. Would a rational investor really regard an equity

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[43] Small company risk premiums are the risk premiums not explained by the higher betas for small companies.

[44] Bourassa COC Dt. at 8.

[45] Manrique Dt. at 28.

[46] Wong, Annie. "Utility Stocks and the Size Effect: An Empirical Analysis." *Journal of the Midwest Finance Association.* 1993. Pp. 95-101.

[47] Manrique Dt. at 42-43.

investment in LQSWC as presenting less risk than an equity investment in Aqua America or in Connecticut Water Services, which have AA- and A bond ratings, respectively? The answer is a resounding "no".

Q42. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY ON COST OF CAPITAL?

A42. Yes. Although my silence on any issue not discussed herein does not necessarily constitute agreement with Staff.

Las Quintas Serenas Water Company
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THOMAS J. BOURASSA
REBUTTAL TESTIMONY
(COST OF CAPITAL)
August 23, 2010

EXHIBIT TJB-COC-RB1

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

Exhibit
Page 1

Line No.											
1	**CAPM**										
2		**Rf**		+	**β**		x	**(Rp)**			**k**
3	Historical Market Risk Premium	2.6%	1	+	0.78	1	x	7.2%	1	=	8.2%
4	Current Market Risk Premium	4.1%	1	+	0.78	1	x	13.0%	1	=	14.2%
5											
6	Average										11.2%
7											
8											
9	**CAPM Relevered Beta**										
10		**Rf**		+	**β**		x	**(Rp)**			**k**
11	Historical Market Risk Premium	2.6%	1	+	1.00	2	x	7.2%	1	=	9.8%
12	Current Market Risk Premium	4.1%	1	+	1.00	2	x	13.0%	1	=	17.1%
13											
14	Average										13.5%
15											
16	Financial Risk Adjustment										**2.3%**
17											
18											
19	[1] From Staff ScheduleJCM-3.										
20	[2] Relevered bata found on Page 3.										
21											
22											

Las Quintas Serenas Water Company
Financial Risk Computation
Unlevered Beta

Line No.		Company	VL Beta β_L[1]	Raw Beta Raw β_L[2]	Tax Rate t[3]	Book Value Debt D[4]	Book Value Equity E[4]	Unlevered Raw Beta β_U[5]
5	1.	American States	0.80	0.70	37.8%	46.8%	53.2%	0.45
6	2.	Aqua America	0.65	0.48	39.4%	56.6%	43.4%	0.27
7	3.	California Water	0.75	0.63	38.0%	48.0%	52.0%	0.40
8	4.	Connecticut Water	0.80	0.70	19.5%	55.8%	44.2%	0.35
9	5.	Middlesex	0.75	0.63	34.1%	53.3%	46.7%	0.36
10	6.	SJW Corp.	0.95	0.93	40.4%	49.0%	51.0%	0.59
13		Sample Water Utilities	0.78	0.68	34.8%	40.0%	60.0%	0.47

[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 = 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_U[1]	Book Value Book Debt BD[2]	Book Value Equity Capital EC[2]	Tax Rate t[3]	Relevered Raw Beta $\beta_{RL}=\beta_U(1+(1-t)BD/EC))$ β_{RL}	VL Adjusted Relevered Beta .33 + .67(Raw Beta) β_{RL}
1							
2							
3							
4							
5	Las Quintas Serenas Water Compan	0.47	60.0%	40.0%	24.69%	1.00	1.00
6							
7							
8							
9							
10							
11							
12							
13	[1] Unlevered Beta from Schedule D-4.14.			[3] From Staff Schedule CSB-2.			
14	[2] Hypothetical capital structure consisting of 60 percent debt and 40 percent equity as recommended by Staff.						

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

THOMAS J. BOURASSA
REBUTTAL TESTIMONY
(COST OF CAPITAL)
August 23, 2010

EXHIBIT TJB-COC-RB2

Application No.: 07-05-007
Exhibit No.: _____
Witness: Gary H. Hayes
Date: August 28, 2007

Exhibit 4D
CPUC Proceeding A-07-05-003 ET AL
Sponsor/Witness SDG+W/ HAYES
Date Ident. 9/12/07 Recd. 9/12/07
Michael J. Galvin
Administrative Law Judge

Application No. 07-05-007
Exhibit No. SDGE-5

SAN DIEGO GAS & ELECTRIC COMPANY

PREPARED REBUTTAL TESTIMONY OF

GARY H. HAYES

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

August 28, 2007

Appendix B

Analyst Growth-Forecast Research

This survey, prepared at the request of SDG&E by Dr. James H. Vander Weide, Research Professor of Finance and Economics at Duke University, summarizes nine articles that address whether analysts' growth forecasts are overly optimistic. Seven of the nine articles reviewed find no evidence that analysts' growth forecasts are overly optimistic. Two find evidence of optimism, but also conclude that optimism has been declining significantly over time. Of these two studies, one finds that analysts' forecasts for the S&P 500 are pessimistic for the last four years of the study. The summaries are listed in chronological order.

Crichfield, T., Thomas Dyckman and Josef Lakonishok (1978). "An evaluation of security analysts' forecasts." *The Accounting Review* 53(3): 651-668.

The authors study the ability of security analyst to provide unbiased estimates of earnings per share and compare analysts' forecasts to forecasts made using simple statistical models based on historical EPS data. Their study is based on data during the period 1967 – 1976 from the *Earnings Forecaster* published by Standard & Poor's, and the final sample consists of 46 firms. The authors conclude that the analysts perform well in terms of forecast accuracy when compared to the forecasts produced by five statistical models. Their tests also support the hypothesis that analysts predict EPS changes without significant systematic bias.

Elton, E. J., Martin J. Gruber and Mustafa N. Gultekin (1984). "Professional expectations: accuracy and diagnosis of errors." *Journal of Financial and Quantitative Analysis* 19(4): 351-363.

The authors examine five questions regarding analysts' EPS forecasts: (1) what is the size and pattern of analysts' errors; (2) what is the source of errors; (3) are some firms more difficult to predict than others; and (4) is there an association between errors in forecasts and divergence of analysts' estimates. The authors use the I/B/E/S database of earnings forecasts for a sample of 414 firms for the three years 1976 through 1978, and they compare the I/B/E/S forecasts to actual earnings for each of the next two years. The authors conclude that analysts were accurate in estimating the average level of growth in

earnings for all stocks in the sample. However, analysts did have greater divergence of opinion for some industries, and the diversion in analysts' opinions is positively related to forecast error.

Givoly, D., and Josef Lakonishok (1984). "Properties of analysts' forecasts of earnings: a review and analysis of the research." *Journal of Accounting Literature*.3: 119-148.

Givoly and Lakonishok review the status of the research on security analysts' forecasts up to 1984, and they conclude that: (1) the performance of analysts' forecasts is in general superior to that of statistical models, a result that is consistent with a rational market for forecasting services, where the higher costs of financial analysts' forecasts is compensated with better performance; and (2) financial analysts' forecasts incorporate the past history of realizations and predictions in an unbiased manner.

Brown, L. D. (1997). "Analyst forecasting errors: additional evidence." *Financial Analysts Journal November/December*: 81-88.

Using data from I/B/E/S for the period 1985 – 1996, Brown studies whether: (1) analysts' forecasts are optimistic; (2) potential optimistic bias is constant over time; and (3) analysts' forecasting errors are smaller for S&P 500 firms, firms with large market capitalization, firms with greater analyst following, and firms in particular industries. For the entire period, Brown finds that model and median values of analysts' forecast errors are zero, but mean errors are negative. He finds that the negative mean forecast error results from a relatively small number of large forecast errors, indicating that these errors are associated with large accounting write-offs for a small number of firms in certain years. In addition, he finds that: (1) the mean analyst forecast error decreases significantly over the period of his study; and (2) optimistic bias of mean forecasts for S&P 500 firms is significantly less than optimistic bias for all firms, and, indeed, analysts for S&P 500 firms are, on average, pessimistic for the years 1993 – 1996; (3)optimistic bias is less for large firms than for small firms; and (4) optimistic bias is less for firms in certain industries compared to other industries, with the best forecasts for the following industries: food and related products, transportation equipment, communications, and electric, gas, sanitary services.

Keane, M. P., and David E. Runkle (1998). "Are financial analysts' forecasts of corporate profits rational." *The Journal of Political Econo*my 106(4): 768-805.

Keane and Runkle demonstrate that previous inferences regarding analyst optimism are strongly affected by correlation in analyst forecast errors across forecasts and firms and by unexpected accounting write-offs and special charges. They develop a new estimator of bias that gives correct statistical inference when forecast errors are correlated, and they show that previous studies' failure to account for correlation led to a conclusion that analysts are optimistic. Using an I/B/E/S database over the period 1983 – 1991, they also demonstrate that a correct test for analyst optimism leads to the conclusion that analysts are unbiased.

In addition to problems caused by correlation in analysts' earnings forecasts, the authors also address the problems caused by unanticipated accounting accruals. Similar to Abarbanell (2003), they demonstrate that statistical tests of optimism are distorted by discretionary special accounting charges in the forecast period. Failure to adjust for discretionary special accounting charges in the company sample under study distorts statistical results in the direction of favoring the conclusion of biased analysts' forecasts. The authors conclude that the evidence in their paper strongly supports the view that professional stock market analysts make rational forecasts of earnings per share for the companies they follow.

Abarbanell, J., and Reuven Lehavy (2003). "Biased forecasts or biased earnings? The role of reported earnings in explaining apparent bias and over/underreaction in analysts' earnings forecasts." *Journal of Accounting & Economics* 36: 105-146.

Abarbanell and Lehavy investigate whether the apparent bias in analysts' earnings forecasts that appears in some research studies is explained by large accounting write-offs and special charges made by a small number of sample firms. The Abarbanell/Lehavy study is based on a large database of consensus earnings forecasts provided by Zacks for the period 1985 – 1998. When Abarbanell/Lehavy examine the distribution of analysts' forecast errors over this time period, they find that the only statistical indication that supports the argument for analyst optimism is a fairly large negative mean forecast error. In contrast, the median error is zero, suggesting unbiased forecasts, while the percentage of positive errors is significantly greater than the percentage of negative errors (48 percent versus 40 percent), suggesting apparent analyst pessimism. Similar to Brown (1997), Abarbanell/Lehavy explain this phenomenon by observing that the left tail (the optimistic tail of the distribution) contains significantly more extreme errors of greater magnitude than the right tail (the pessimistic tail) of the distribution. Abarbanell/Lehavy's conclusion is supported by a correlation study that examines the relationship between extreme negative forecast errors with extreme negative unexpected accruals. The correlation study indicates a direct connection between the extreme errors in the left tail of the error distribution and unexpected accounting accruals. Once the effect of accounting accruals is removed the study, Abarbanell/Lehavy find that the mean forecast error becomes zero, indicating that there is no tendency for analysts' forecasts to be optimistic.

Ciccone, S. J. (2005). "Trends in analyst earnings forecast properties." *International Review of Financial Analysis* 14: 1-22.

Ciccone examines trends in analysts forecast dispersion, error, and optimism using First Call 120,022 quarterly observations from 1990 – 2001. He finds that analyst optimism declined significantly over the period of his study and that analysts' forecasts for profitable firms became pessimistic in the last several years of his study period. He concludes that analyst optimism is no longer an issue and that, "[i]f anything, analysts have a new concern: earnings pessimism for profit firms."

Clarke, J., Stephen P. Ferris, Narayanan Jayaraman, and Jinsoo Lee (2006). "Are analyst recommendations biased? Evidence from corporate bankruptcies." *Journal of Financial and Quantitative Analysis* 41(1): 169-196.

The authors test whether a bias exists in analysts' recommendations for firms that filed for bankruptcy in the period 1995 – 2001. Their database consists of a final set of 289 firms that filed for bankruptcy during this period and that have I/B/E/S analysts' forecasts. As a comparison sample, the authors identify a matching group of firms with the same SIC code and that have a similar likelihood of bankruptcy as measured by the Altman z-score. The authors test for optimism by comparing the analysts' recommendations for the companies in the bankrupt group to the matched sample of companies in the non-bankrupt group in five categories—strong buy, buy, hold, under-perform, and sell. They find that, on average, analysts' recommendations are significantly lower for the companies that eventually go bankrupt than for the matched companies that do not file for bankruptcy. From this comparison, the authors conclude that the hypothesis that analysts' recommendations are optimistic should be rejected.

Yang, R., and Yaw M. Mensah (2006). "The effect of the SEC's regulation fair disclosure on analyst forecast attributes." *Journal of Financial Regulation and Compliance* 14(2): 192-209.

Regulation fair disclosure ("Reg. FD"), issued on October 23, 2000, prohibits selective disclosure of material non-public information to financial analysts, institutional investors, and others prior to making it available to the general public. Before the implementation of Reg. FD, most conference calls with analysts were accessible only to certain analysts and institutional investors. The authors examine whether Reg. FD has influenced analysts' earnings forecast accuracy and forecast dispersion for companies that routinely conduct conference calls as well as for companies that do not conduct conference calls. Using I/B/E/S forecast data for the period October 1998 through September 2002 and 12,806 firm-quarter observations in pre-Reg FD period and 13,104 firm-quarter observations in the post-Reg FD period, the authors examine the descriptive statistics of analysts' forecast errors in the pre-Reg. FD and post-Reg. FD environments. They conclude that Reg. FD had little influence on analysts' forecast errors: the mean forecast error was approximately zero in both the pre-and post-Reg. FD periods.

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

THOMAS J. BOURASSA
REBUTTAL TESTIMONY
(COST OF CAPITAL)
August 23, 2010

SCHEDULES

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

Exhibit
Rebuttal Schedule D-1
Page 1
Witness: Bourassa

Line No.	Item of Capital	As of September 30, 2009 Dollar Amount	Percent of Total	Cost Rate	Weighted Cost	End of Projected Year 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	64.78%	7.10%	4.60%
2									
3	Adjusted Stockholder's Equity[1]	814,405	32.07%	14.40%	4.62%	906,736	35.22%	14.40%	5.07%
4									
5	Totals	$ 2,539,580	100.00%		9.44%	$ 2,574,551	100.00%		9.67%
6									
7									
8									
9									
10									
11									
12									
13									
14									
15									
16	SUPPORTING SCHEDULES:								
17	Rebuttal D-2								
18	Rebuttal D-3								
19	Rebuttal D-4								
20	Direct D-1								
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									
31									
32									
33									

RECAP SCHEDULES:
Rebuttal A-1.

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

Exhibit
Rebuttal Schedule D-2
Page 1
Witness: Bourassa

Line No.	Description of Debt	As of September 30, 2009 Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost	End of Projected Year 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									
13	Totals	$ 1,725,175	$ 122,487		7.10%	$ 1,667,815	118,415		7.10%
14									
15	SUPPORTING SCHEDULES:								
16	E-1								
17									
18									
19									
20									

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

Exhibit
Rebuttal Schedule D-3
Page 1
Witness: Bourassa

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

Las Quintas Serenas Water Company
Test Year Ended June 30, 2009
Cost of Common Equity

Exhibit
Rebuttal Schedule D-4
Page 1
Witness: Bourassa

Line No.		
1		
2	The Company is proposing a cost of common equity of	14.40% .
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
18	Rebuttal Schedules D-4.0 to D-4.16	Rebuttal D-1
19		
20		

Las Quintas Serenas Water Company
Summary of Results

Exhibit
Rebuttal Schedule D-4.1

Line No.	Method	Low	High	Midpoint
6	Range DCF Constant Growth Estimates[1]	9.7%	11.3%	10.5%
8	Range of CAPM Estimates[2]	10.7%	15.8%	13.2%
11	Average of DCF and CAPM midpoint estimates	10.2%	13.5%	11.9%
14	Financial Risk Adjustment[3]	1.5%	1.5%	1.5%
16	Small Company Risk Premium[4]	1.0%	1.0%	1.0%
18	Indicated Cost of Equity	12.7%	16.0%	14.4%
22	Recommended Cost of Equity			14.4%

[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
Rebuttal Schedule D-4.2

Line No.	Company[1]	% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating
1	1. American States	74%	$ 371.6	$ 769.0	A	A2
2	2. Aqua America	97%	$ 676.6	$ 2,813.6	AA-	NR
3	3. California Water	98%	$ 453.0	$ 1,095.8	AA-	NR
4	4. Connecticut Water	90%	$ 68.0	$ 274.7	A	NR
5	5. Middlesex	88%	$ 92.3	$ 332.7	A	NR
6	6. SJW Corp.	96%	$ 216.5	$ 536.5	NR	NR
7						
8	Average	91%	$ 313.0	$ 970.4		
9						
10	Las Quintas Serenas Water Company (as of December 31, 2009)	100%	$ 0.5	$ 2.8	NR	NR

[1]AUS Utility Reports (August 2010).

Las Quintas Serenas Water Company
Capital Structures

Exhibit
Rebuttal Schedule D-4.3

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

[1] Value Line Analyzer Data (August 13, 2010)
[2] Adjusted Per Schedule D-1

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

Exhibit
Rebuttal Schedule D-4.4

Line No.		[1]	[2]	[3]	[4]	[5]	[6]	[7]
		Five-year historical average annual changes						
	Company	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
8	1. American States	4.04%	5.00%	8.50%	2.50%	5.01%	5.00%	5.00%
9	2. Aqua America	NMF	8.50%	5.00%	8.00%	7.17%	8.37%	7.77%
10	3. California Water	0.88%	6.00%	6.50%	1.00%	3.60%	6.31%	4.95%
11	4. Connecticut Water	NMF	3.00%	Negative	1.50%	2.25%	7.44%	4.84%
12	5. Middlesex	Negative	5.50%	3.50%	1.50%	3.50%	8.00%	5.75%
13	6. SJW Corp.	0.55%	8.00%	3.00%	5.50%	4.26%	9.50%	6.88%
16	GROUP AVERAGE	1.82%	6.00%	5.30%	3.33%	4.30%	7.44%	5.87%
17	GROUP MEDIAN	0.88%	5.75%	5.00%	2.00%	3.93%	7.72%	5.38%

[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.

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

Exhibit
Rebuttal Schedule D-4.5

Line No.		[1]	[2]	[3]	[4]	[5]	[6]	[7]
		Ten-year historical average annual changes						
	Company	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
7	1. American States	7.97%	4.50%	4.00%	1.50%	4.49%	5.00%	4.75%
8	2. Aqua America	7.21%	9.50%	6.50%	7.50%	7.68%	8.37%	8.02%
9	3. California Water	6.01%	4.00%	1.00%	1.00%	3.00%	6.31%	4.65%
10	4. Connecticut Water	3.10%	4.00%	1.00%	1.50%	2.40%	7.44%	4.92%
11	5. Middlesex	4.05%	4.50%	1.50%	2.00%	3.01%	8.00%	5.51%
12	6. SJW Corp.	1.81%	6.00%	2.00%	5.00%	3.70%	9.50%	6.60%
15	GROUP AVERAGE	5.02%	5.42%	2.67%	3.08%	4.05%	7.44%	5.74%
16	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.

Las Quintas Serenas Water Company
Analysts Forecasts of Earnings Per Share Growth

Exhibit
Rebuttal Schedule D-4.6

Line No.		[1]	[2]	[3]	[4]	[5]
		ESTIMATES OF EARNINGS GROWTH				Average Growth (G)
	Company	Zacks[1]	Morningstar[1]	Yahoo[1]	Value Line[1]	(Cols 1-4)[2]
1	1. American States	4.00%	4.00%	4.00%	8.00%	5.00%
2	2. Aqua America	7.00%	8.30%	6.67%	11.50%	8.37%
3	3. California Water	4.00%	6.00%	8.73%	6.50%	6.31%
4	4. Connecticut Water			15.00%		7.44%
5	5. Middlesex		8.00%	8.00%		8.00%
6	6. SJW Corp.		9.00%	10.00%		9.50%
7	GROUP AVERAGE	5.00%	7.06%	8.73%	8.67%	7.44%
8	GROUP MEDIAN					7.72%

[1] Data as of August 13, 2010

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

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

Exhibit
Rebuttal Schedule D-4.7

Line No.	Company	Curent Stock Price (P_0)[1]	Current Dividend (D_0)[1]	Current Dividend Yield (D_0/P_0)[1]	Average Annual Dividend Yield (D_0/P_0)[1,2]
1	1. American States	$ 32.80	$ 1.04	3.17%	2.94%
2	2. Aqua America	$ 19.18	$ 0.59	3.08%	3.09%
3	3. California Water	$ 34.72	$ 1.19	3.43%	3.07%
4	4. Connecticut Water	$ 21.15	$ 0.91	4.31%	4.11%
5	5. Middlesex	$ 16.06	$ 0.72	4.49%	4.71%
6	6. SJW Corp.	$ 22.90	$ 0.70	3.04%	2.84%
7	Average			3.59%	3.46%
8	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.

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

Exhibit
Rebuttal Schedule D-4.8

Line No.		[1] Average Spot Dividend Yield (D_0/P_0)[1]	[2] Expected Dividend Yield (D_1/P_0)[2]	[3] Growth (g)	[4] Indicated Cost of Equity k=Div Yld + g (Cols 2+3)
8	DCF - Past and Future Growth	3.59%	3.80%	5.87% [3]	9.7%
10	DCF - Future Growth	3.59%	3.85%	7.44% [4]	11.3%
13		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.

Las Quintas Serenas Water Company
Market Betas

Exhibit
Rebuttal Schedule D-4.9

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

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

Exhibit
Rebuttal Schedule D-4.10

Line No.	Description	2012	2013	Average
1				
2				
3				
4	Description	2012	2013	Average
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				
15	[1] June 2010 Blue Chip Financial Forecasts consensus forecast of 30 Year U.S.Treasury			
16	[2] Value Line Quarterly forecast, dated May 28, 2010, Long-term Treasury			
17				
18				
19				
20				
21				
22				
23				
24				

Las Quintas Serenas Water Company
Computation of Current Market Risk Premium

Exhibit
Rebuttal Schedule D-4.11

Line No.	Month	Dividend Yield (D_0/P_0)[1]	Expected Dividend Yield (D_1/P_0)[2]	+	Growth (g)[3]	=	Expected Market Return (k)	-	Monthly Average 30 Year Treasury Rate[4]	=	Market Risk Premium (MRP)
1											
2											
3											
4	Jan 2009	4.86%	6.32%	+	30.02%	=	36.34%	-	3.13%	=	33.21%
5	Feb	5.50%	7.43%	+	35.13%	=	42.56%	-	3.59%	=	38.97%
6	Mar	4.21%	5.36%	+	27.33%	=	32.69%	-	3.64%	=	29.05%
7	April	3.66%	4.47%	+	22.05%	=	26.52%	-	3.76%	=	22.76%
8	May	3.46%	4.14%	+	19.67%	=	23.81%	-	4.23%	=	19.58%
9	Jun	3.25%	3.87%	+	19.16%	=	23.03%	-	4.52%	=	18.51%
10	Jul	2.90%	3.37%	+	16.31%	=	19.68%	-	4.41%	=	15.27%
11	Aug	2.82%	3.22%	+	14.21%	=	17.43%	-	4.37%	=	13.06%
12	Sept	2.80%	3.20%	+	14.32%	=	17.52%	-	4.19%	=	13.33%
13	Oct	2.75%	3.15%	+	14.49%	=	17.64%	-	4.19%	=	13.45%
14	Nov	2.68%	3.05%	+	13.88%	=	16.93%	-	4.31%	=	12.62%
15	Dec 2009	2.56%	2.88%	+	12.58%	=	15.46%	-	4.35%	=	11.11%
16	Jan 2010	2.64%	3.00%	+	13.71%	=	16.71%	-	4.48%	=	12.23%
17	Feb	2.59%	2.97%	+	14.65%	=	17.62%	-	4.48%	=	13.14%
18	Mar	2.44%	2.75%	+	12.69%	=	15.44%	-	4.48%	=	10.96%
19	April	2.36%	2.63%	+	11.61%	=	14.24%	-	4.69%	=	9.55%
20	May	2.61%	3.00%	+	14.80%	=	17.80%	-	4.29%	=	13.51%
21	June	2.79%	3.30%	+	18.20%	=	21.50%	-	4.13%	=	17.37%
22	July	2.61%	3.03%	+	15.95%	=	18.98%	-	3.99%	=	14.99%
23											
24	Recommended	2.59%	2.96%	+	14.23%	=	17.19%	-	4.36%	=	13.25%
25											
26	Short-term Trends										
27	Recent Twelve Months Avg	2.64%	3.01%	+	14.26%	=	17.27%	-	4.33%	=	12.94%
28	Recent Nine Months Avg	2.59%	2.96%	+	14.23%	=	17.19%	-	4.36%	=	12.83%
29	Recent Six Months Avg	2.57%	2.95%	+	14.65%	=	17.60%	-	4.34%	=	13.25%
30	Recent Three Months Avg	2.67%	3.11%	+	16.32%	=	19.42%	-	4.14%	=	15.29%
31											
32											

33 [1] Average Current Dividend Yield (D_0/P_0) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

34 [2] Expected Dividend Yield (D_1/P_0) equals average current dividend yield (D0/P0) times one plus growth rate(g).

35 [3] Average 3-5 year price appreciation (annualized). Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

36 [4] Monthly average 30 year U.S. Treasury. Federal Reserve.

37

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

Exhibit
Rebuttal Schedule D-4.12

Line No.		Rf[1]	+	beta[3]	x	Rp		=	k
1									
2									
3	Historical Market Risk Premium CAPM	5.5%	+	0.78	x	6.7%	[4]	=	10.7%
4									
5	Current Market Risk Premium CAPM	5.5%	+	0.78	x	13.3%	[5]	=	15.8%
6									
7	Average								13.2%
8									
9									
10									
11									
12	[1] Forecasts of long-term treasury yields. See Schedule D-4.10.								
13	[2] Value Line Investment Analyzer data. See Schedule D-4.9.								
14	[3] Historical Market Risk Premium from (Rp) MorningStar SBBI 2010 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2009								
15	[4] Computed using DCF constant growth method to determine current market return onValue Line 1700 stocks								
16	and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Schedule D-4.11.								
17									
18									
19									
20									

Las Quintas Serenas Water Company
Financial Risk Computation

Exhibit
Rebuttal Schedule D-4.13

Line No.											
1	**CAPM**										
2		**Rf**		+	**β**		x	**(Rp)**			**k**
3	Historical Market Risk Premium	5.5%	1	+	0.78	2	x	6.7%	3	=	10.7%
4	Current Market Risk Premium	5.5%	1	+	0.78	2	x	13.3%	4	=	15.8%
5											
6	Average										13.3%
7											
8											
9	**CAPM Relevered Beta**										
10		**Rf**		+	**β**		x	**(Rp)**			**k**
11	Historical Market Risk Premium	5.5%	1	+	0.94	5	x	6.7%	3	=	11.7%
12	Current Market Risk Premium	5.5%	1	+	0.94	5	x	13.3%	4	=	17.9%
13											
14	Average										14.8%
15											
16	Financial Risk Adjustment										**1.5%**
17											
18											
19	[1] Forecast of long-term treasury yields. See Schedule D-4.10										
20	[2] Value Line Investment Analyzer data. See Schedule D-4.9										
21	[3] Historical Market Risk Premium from (Rp) MorningStar SBBI 2010 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2009										
22	[4] Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks										
23	and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Schedule D-4.11										
24	[5] Relevered bata found on Schedule D-4.15										
25											

Exhibit
Rebuttal Schedule D-4.14

Las Quintas Serenas Water Company
Financial Risk Computation
Unlevered Beta

Line No.		Company	VL Beta β_l [1]	Raw Beta Raw β_l [2]	Tax Rate t [3]	MV Debt D [4]	MV Equity E [4]	Unlevered Raw Beta β_u [5]
5	1.	American States	0.80	0.70	37.8%	35.0%	65.0%	0.52
6	2.	Aqua America	0.65	0.48	39.4%	34.8%	65.2%	0.36
7	3.	California Water	0.75	0.63	38.0%	34.2%	65.8%	0.48
8	4.	Connecticut Water	0.80	0.70	19.5%	38.4%	61.6%	0.47
9	5.	Middlesex	0.75	0.63	34.1%	36.7%	63.3%	0.46
10	6.	SJW Corp.	0.95	0.93	40.4%	37.2%	62.8%	0.69
13		Sample Water Utilities	0.78	0.68	34.8%	36.1%	63.9%	0.50

[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 Schedule D-4.3
[5] Raw B_u = Raw B_L / (1+ (1-t)*D/E)

Exhibit
Rebuttal Schedule D-4.15

Las Quintas Serenas Water Company
Financial Risk Computation
Relevered Beta

Line No.		Unlevered Raw Beta β_U[1]	MV Book Debt BD[2]	MV Equity Capital EC[2]	Tax Rate t[3]	Relevered Raw Beta $\beta_{RL}=\beta_U(1+(1-t)BD/EC))$ β_{RL}	VL Adjusted Relevered Beta .33 + .67(Raw Beta) β_{RL}
5	Las Quintas Serenas Water Com	0.50	54.4%	45.6%	30.67%	0.91	0.94

[1] Unlevered Beta from Schedule D-4.14.

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

	BV (in Thousands)			MV (in Thousands)	%
Long-term Debt	$ 1,725.18	1.00		$ 1,725	54.40%
Preferred Stock	-	1.00		-	0.0%
Common Stock	814.41	1.78	(a)	1,447	45.6%
Total Capital	$ 2,539.58			$ 3,173	100.0%

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

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

Las Quintas Serenas Water Company
Size Premium[1]

Exhibit
Rebuttal Schedule D-4.16

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

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

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

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

EXHIBIT
A-6
ADMITTED

Exhibit A-6
Thomas J. Bourassa

Prepared Rejoinder Testimony on Rate Base, Income Statement and Rate Design

September 28-29, 2010 ACC Hearing
Las Quintas Serenas Water Company
Docket No. W-01583-09-0589

RECEIVED

2010 SEP 20 P 2: 25

AZ CORP COMMISSION
DOCKET CONTROL

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 ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	)	DOCKET NO. W-01583A-09-0589
	)	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

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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?

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

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

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

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

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

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

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

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

	Revenue Requirement	Revenue Incr.	% Increase
Company Rebuttal	$685,047	$196,777	40.30%
Staff Surrebuttal	$638,106	$149,836	30.69%
Company Rejoinder	$687,117	$198,846	40.72%

III. RATE BASE

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

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

	OCRB	FVRB
Company Rebuttal	$1,999,859	$1,999,859
Staff Surrebuttal	$1,913,221	$1,993,221
Company Rejoinder	$2,015,574	$2,015,574

A. Plant-in-service.

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

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

[2] *See* Rebuttal Testimony of Thomas J. Bourassa ("Bourassa Rb.") at 4-8.

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

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

Staff	$ 3,594,472[3]
Company	$ 3,594,472[4]

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

B. <u>Accumulated Depreciation.</u>

Q12. PLEASE SUMMARIZE THE PARTIES ACCUMULATED DEPRECIATION BALANCE RECOMMENDATIONS.

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

Staff	$ 1,021,769[5]
Company	$ 1,021,769[6]

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

[3] *See* Staff Surrebuttal Schedule CSB-3.
[4] *See* Company Rejoinder Schedule B-1.
[5] *See* Staff Surrebuttal Schedule CSB-3.
[6] *See* Company Rejoinder Schedule B-1.

as to the total adjustment of $55,659.[7]

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

Q13. PLEASE DISCUSS THE RECOMMENDED AIAC AND CIAC BALANCES.

A13. The Company and Staff propose an advances-in-aid of construction ("AIAC") balance of $351,405.[8] With respect to contributions-in-aid of construction ("CIAC"), the Company and Staff propose a CIAC balance of $333,555, and an accumulated amortization balance of $83,901.[9] Thus, they are in agreement as to each of these items.

D. **Accumulated Deferred Income Taxes ("ADITs").**

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

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

Q15. WHAT ADIT BALANCE DOES STAFF RECOMMEND?

A15. Staff continues to recommend an ADIT balance (a liability) of $31,307.[10]

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[7] *See* Rejoinder Schedule B-2, page 1 and Staff Surrebuttal CSB-3.

[8] *See* Rejoinder Schedule B-1; Staff Surrebuttal Schedule CSB-3

[9] *Id.*

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

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

A16. The Company includes a net operating loss from the bonus depreciation component ("NOL Component") whereas Staff does not. I have discussed the NOL Component extensively in my Rebuttal Testimony[11] and will not repeat that testimony here, except to reiterate that the NOL Component is directly related to the timing difference between book and tax depreciation. In other words, it essentially represents the tax benefit related to tax depreciation that the Company will be able to use as an offset to future income.

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

A17. Ms. Brown's testimony demonstrates an apparent lack of understanding of the NOL Component on Ms. Brown's part. Even if the Company had earned its authorized return during the test year, there would still be a net operating loss for tax purposes. In fact, the NOL Component would be at least as great, if not greater, than the NOL Component of $116,506 used in the Company's ADIT computation.[12] This is because the book depreciation for the test year of about $33,325 and the tax depreciation of about $54,334 are dwarfed by the approximately $775,539 of bonus depreciation[13]. Further, there would not have

[11] Bourassa Rb. at 7-10.

[12] *See* Rejoinder Schedule B-2, page 6.

[13] *See* Rejoinder Schedule B-2, page 6.2, footnote 5.

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

I have prepared **Rejoinder Exhibit TJB-RJ1**, attached hereto, to illustrate this point. As you will find in the exhibit, I assumed that the authorized earnings for the test year are based upon the average rate base (average of beginning of year and end of year[14]) and a rate of return of 9.44 percent (the return requested in the instant rate case). We can disagree as to whether these are appropriate assumptions, but I believe this approach is conservative.[15] In any event, as you will find, after carrying back a portion of the tax net operating loss to prior years, as I have done in the Company's computation of the NOL Component[16], the NOL Component would be over $129,000 compared to the $166,506 included in the Company's ADIT computation. Also, as illustrated, there would have been no net operating loss for tax purposes and therefore no NOL Component had the Company not elected to take bonus depreciation.

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

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

[14] Rate base component balances obtained from E-1.

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

[16] *See* Rejoinder Schedule B-2, page 6.2, footnote 5.

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

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

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

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

[17] *See* Chaparral City Water, Docket No. W-02113A-07-0551.

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

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

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

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

[18] Brown Sb. at 6.

[19] Bourassa Rb. at 11.

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

IV. INCOME STATEMENT

A. Income Statement Adjustments.

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

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

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[20] *See* R-14-2-403B.

[21] Brown Sb. at 7.

[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.

[23] Bourassa Rb. at 11-15.

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

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[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.

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

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

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

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

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

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

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

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

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[30] *Id.*

[31] Bourassa Rb. at 15-16.

[32] Bourassa Rb. at 15-16.

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

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

V. RATE DESIGN

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

A29. LQSWC's rejoinder proposed rates are:

MONTHLY SERVICE CHARGES

5/8" x 3/4" meters	$20.00
3/4" Meters	$30.00
1" Meters	$50.00
1 1/2" Meters	$100.00
2" Meters	$160.00
3" Meters	$320.00
4" Meters	$500.00
6" Meters	$1,000.00
Standpipe	$20.20

COMMODITY RATES

5/8" X ¾" Meters	1 to 4,000 gals	$ 1.87
	4,001 to 10,000 gals	$ 2.37
	Over 10,000 gals	$ 2.97
¾" Meters	1 to 4000 gals	$ 1.87
	4,001 to 10,000 gals	$ 2.37
	Over 10,000 gals	$ 2.97
1" Meters	1 to 25,000 gals	$ 2.37
	Over 25,000 gals	$ 2.97
1 ½" Meters	1 to 50,000	$ 2.37
	Over 50,000	$ 2.97
2" Meters	1 to 80,000	$ 2.37
	Over 80,000	$ 2.97
3" Meters	1 to 160,000	$ 2.37
	Over 160,000	$ 2.97
4" Meters	1 to 250,000	$ 2.37
	Over 250,000	$ 2.97
6" Meters	1 to 500,000	$ 2.37
	Over 500,000	$ 2.97
Standpipe	0 to 4,000 gals	$ 1.90
	4,001 to 23,000 gals	$ 2.37
	Over 23,000 gals	$ 2.97
Arsenic Surcharge	**Eliminated**	

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

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

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

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

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

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

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

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

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

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

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

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

Q35. DOES THAT CONCLUDE YOUR REJOINDER TESTIMONY?

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

[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.		June 30, 2009[1]	June 30, 2008[1]	Average
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	$ 2,778,838	$ 470,024	$ 1,624,431
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	$ 2,246,470	$ (127,320)	$ 1,059,575
16				
17		With Bonus Depr.	Without Bonus Depr.	
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	$ 32,325	$ 32,325	
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)	$ (764,222)	$ 11,317	
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	$ (541,669)	$ -	
36				
37				
38	NOL for tax purposes	$ 541,669	No net operating loss,	
39	Federal tax Rate	23.83%	therefore no NOL	
40	NOL Component for ADIT Computation	$ 129,055	carryforward.	
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.			
46				
47				

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

Exhibit

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.		Adjusted Book Value			Tax Value	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Tax Rate[5]	Future Tax Asset Current	Future Tax Asset Non Current	Future Tax Liability Current	Future Tax Liability Non Current
1	**Deferred Income Tax as of June 30, 2009**											
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								$ (139,313)			

See footnotes on page 6.1 and 6.2

Exhibit

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.							
1							
2	**1 Adjusted per Rejoinder Schedule B-2, page 2**						
3							
4	**[2] Tax Basis as of June 30, 2009**			Federal			State
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			$ (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	$ 56,568			$ 78,051		
12	Less: Tax Depreciation related to assets added after 6/30/2009		-			-	
13	Tax Depreciation Including Bonus Depr. per 2009 Tax Return	$ 56,568			$ 78,051		
14	Factor (9 months through 6/30/2009)		0.75			0.75	
15	Adjusted 2009 Tax Depreciation Including Bonus Depr.			$ (42,426)			$ (58,538)
16	Remove Plant Retirements per B-2 adjustment 1-A			$ (7,488)			$ (7,488)
17	Tax Depr on retired plant ($7,488 times 4% times 11.25 yrs)			$ 3,370			$ 3,370
18	Remove Not Used and Useful Plant per B-2 adjustmnet 1-C			$ (41,000)			$ (41,000)
19	Tax Depr on not used and usedful plant - Natural gas Engine Generator per Depr Rpt	$ 5,314			$ 5,314		
20	Tax Depr on not used and usedful plant - Natural gas Engine Generator per Depr Rpt	$ 4,996			$ 4,996		
21	Tax Depr on not used and usedful plant - Trans and Dist Mains (Fed - $20,198 times 4%						
22	times .25 yrs plus $20,918 times 50%; State - $20,918 times 4% times .5 times .75)	$ 10,762			$ 303		
23				$ 21,072			$ 10,613
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							

Exhibit

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

Line No.				Federal	
1					
2					
3	[5] **NOL from Bonus Depreciation**				
4					
5	Net Income 12 months ended 6/30/2009 (per E-1 scehdule)		$	84,985	
6	Plus: Book Depreciation (07/01/2008 to 6/30/2009)				
7	Book Depreciation 12 months ended 09/30/3008	$ 35,894			
8	Factor (3 months 7/1/2008 to 9/30/2008)	0.333	$	11,953	
9					
10	Book Depreciation 12 months ended 09/30/3009	$ 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		$	-	NO NOL FROM BONUS DEPRECIATION BECAUSE TAXABLE INCOME IS POSITIVE
25					
26	[6] **Effective tax rates Per C-3 schedule**				
27					
28					
29					
30					
31					
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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-RJ3

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

Exhibit
Page 1

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 Revenuers before 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			Revenue Annualization				
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 with 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 Revenuers before Annualization	$ 474,318	$ 623,323	$ 149,005	31.41%	97.19%	96.63%
16							
17							
18	Meter	Company Present	Staff Proposed	Dollar	Percent	Percent of	Percent of
19	Size	Revenues	Revenues	Change	Change	Present	Proposed
20			Revenue Annualization				
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 with 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

	Monthly Mins+Surcharge	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
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

	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

	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	**Classification**	**Rates**	**Rates**	**Increase**	**Increase**
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	$ 406,979	$ 567,546	$ 160,567	39.45%
31					
32					
33	Standpipe	$ 67,100	$ 96,536	$ 29,437	43.87%
34	Fire Sprinkler	480	480	-	0.00%
35	Subtotal	$ 67,580	$ 97,016	$ 29,437	43.56%
36					
37	**Subtotal Revenues before Annualization**	$ 474,558	$ 664,562	$ 190,004	40.04%
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**	$ 488,270	$ 687,117	$ 198,847	40.72%
43					
44					
45	SUPPORTING SCHEDULES:				
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.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 3,594,472	$ 3,594,472
3	Less: Accumulated Depreciation	1,021,769	1,021,769
4			
5	Net Utility Plant in Service	$ 2,572,703	$ 2,572,703
6			
7	Less:		
8	Advances in Aid of		
9	Construction	351,405	351,405
10	Contributions in Aid of		
11	Construction	333,555	333,555
12			
13	Accumulated Amortization of CIAC	(83,901)	(83,901)
14			
15	Service Line and Meter Installation Chgs	19,641	19,641
16	Deferred Income Taxes & Credits	(71,046)	(71,046)
17	Customer Security Deposits	7,475	7,475
18			
19			
20	Plus:		
21	Unamortized Debt Issuance		
22	Costs	-	-
23	Deferred Reg. Assets	-	-
24	Working capital	-	-
25			
26			
27			
28			
29	Total Rate Base	$ 2,015,574	$ 2,015,574
30			
31			
32			
33	SUPPORTING SCHEDULES:		RECAP SCHEDULES:
34	Rejoinder B-2		Rejoinder A-1
35	Rejoinder B-3		
36	Rejoinder B-5		
37			
38			

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	$ 2,109,539	$ (93,965)	$ 2,015,574
36				
37				
38				
39	SUPPORTING SCHEDULES:			RECAP SCHEDULES:
40	Rejoinder B-2, pages 2			Rejoinder B-1
41				
42				
43				
44				
45				
46				
47				
48				

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.		Actual at End of Test Year	Proforma Adjustments 1 Plant	2 Accumulated Depr.	3 AIAC	4 DIT	5 Security Deposits	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	$ (234,113)	$ 55,659	$ -	$ -	$ -	$ 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 (CIAC)	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	**Plus:**							
26	Unamortized Finance							
27	Charges	-						-
28								
29	Allowance for Working Capital	-						-
30								
31	Total	$ 2,109,539	$ (234,113)	$ 55,659	$ 20,918	$ 71,046	$ (7,475)	$ 2,015,574
32								
33								
34								
35	SUPPORTING SCHEDULES:						RECAP SCHEDULES:	
36	Rejoinder B-2, pages 3-6						B-1	
37								

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

Exhibit
Schedule B-2
Page 3
Witness: Bourassa

Line No.	Acct. No.	Description	Adjusted Orginal Cost	A Plant Retirement	B Debt Issuance Costs	C Not Used and Useful Plant	D Intentionally Left Blank	E Intentionally Left Blank	F Intentionally Left Blank	Rejoinder Adjusted Original Cost
1	Plant-in-Service									
2										
3						Adjustments				
5	301	Organization Cost	$ -							$ -
6	302	Franchise Cost	-							-
7	303	Land and Land Rights	217							217
8	304	Structures and Improvements	12,229							12,229
9	305	Collecting and Impounding Res.	-							-
10	306	Lake River and Other Intakes	-							-
11	307	Wells and Springs	309,094							309,094
12	308	Infiltration Galleries and Tunnels	-							-
13	309	Supply Mains	-							-
14	310	Power Generation Equipment	-							-
15	311	Electric Pumping Equipment	151,338	(7,488)		(20,082)				123,768
16	320	Water Treatment Equipment	1,740							1,740
17	320.1	Water Treatment Plant	2,162,694		(185,625)					1,977,069
18	320.2	Chemical Solution Feeders	-							-
19	330	Dist. Reservoirs & Standpipe	99,896							99,896
20	330.1	Storage tanks	-							-
21	330.2	Pressure Tanks	-							-
22	331	Trans. and Dist. Mains	924,616			(20,918)				903,698
23	333	Services	2,427							2,427
24	334	Meters	101,418							101,418
25	335	Hydrants	-							-
26	336	Backflow Prevention Devices	1,137							1,137
27	339	Other Plant and Misc. Equip.	-							-
28	340	Office Furniture and Fixtures	28,306							28,306
29	340.1	Computers and Software	-							-
30	341	Transportation Equipment	23,292							23,292
31	342	Stores Equipment	-							-
32	343	Tools and Work Equipment	-							-
33	344	Laboratory Equipment	-							-
34	345	Power Operated Equipment	2,592							2,592
35	346	Communications Equipment	-							-
36	347	Miscellaneous Equipment	3,165							3,165
37	348	Other Tangible Plant	4,424							4,424
38			-							-
39		TOTALS	$ 3,828,585	$ (7,488)	$ (185,625)	$ (41,000)	$ -	$ -	$ -	$ 3,594,472
40										
41	Plant-in-Service per Books									$ 3,828,585
42										
43	Increase (decrease) in Plant-in-Service									$ (234,113)
44										
45	Adjustment to Plant-in-Service									$ (234,113)
46										
47	SUPPORTING SCHEDULES									
48	Rejoinder B-2, pages 3.1-3.3									
49	Rejoinder B-2, pages 3.4-3.9									

Las Quintas Serenas Water Company
Plant Additions and Retirements

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Account No.	Description	Prior Deprec. Rate	Current Deprec. Rate	Per Decision 67445 Plant At 9/30/2003	9/30/2003 Accum. Depr.	2004 Plant Additions	2004 Plant Adjustment	2004 Adjusted Plant Additions	2004 Plant Retirements	2004 Salvage A/D Only	September 2004 Plant Balance	2004 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	-	-		-			217	-
304	Structures and Improvements	5.00%	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%	820,492	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)
	Plant Held for Future Use											
	TOTAL WATER PLANT			1,460,921	688,486	99,563	-	99,563	(1)	-	1,560,483	75,524
				See B-2, page 3.8	See B-2, page 3.9							

Las Quintas Serenas Water Company
Plant Additions and Retirements

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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%			-			-	-
331	Transmission and Distribution Mains	5.00%	2.00%	4,761		4,761			903,698	18,026
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%			-			-	-
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%	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

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Account No.	Description	Prior Deprec. Rate	Current Deprec. Rate	2006 Plant Additions	2006 Plant Adjustments	2006 Adjusted Plant Additions	2006 Plant Retirements	2006 Salvage A/D Only	September 2006 Plant Balance	2006 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%	2.50%	-		-			-	-
307	Wells and Springs	5.00%	3.33%	-		-			314,484	10,472
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%	-		-			119,815	14,977
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%	-		-			99,896	2,218
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%	-		-			903,698	18,074
333	Services	5.00%	3.33%	-		-			2,427	81
334	Meters	5.00%	8.33%	808		808			101,418	8,414
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%	-		-			22,618	1,509
340.1	Computers and Software	5.00%	20.00%	-		-			-	-
341	Transportation Equipment	5.00%	20.00%	-		-			27,292	5,458
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%	-		-			3,165	317
348	Other Tangible Plant	5.00%	10.00%	-		-			4,424	442
	Rounding			-		-			-	-
						-			-	-
	Plant Held for Future Use									
	TOTAL WATER PLANT			808	-	808	-	-	1,617,152	62,633
										868,274

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Plant Additions and Retirements

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Account No.	Description	Prior Deprec. Rate	Current Deprec. Rate	2007 Plant Additions	2007 Plant Adjustments	2007 Adjusted Plant Additions	2007 Plant Retirements	2007 Salvage A/D Only	September 2007 Plant Balance	2007 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%	2.50%	-		-			-	-
307	Wells and Springs	5.00%	3.33%	-		-			314,484	10,472
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%	-		-			119,815	14,977
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%	-		-			99,896	2,218
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%	-		-			903,698	18,074
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%	3,865		3,865			26,483	1,638
340.1	Computers and Software	5.00%	20.00%			-			-	-
341	Transportation Equipment	5.00%	20.00%			-	(500)		26,792	5,408
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%			-			3,165	317
348	Other Tangible Plant	5.00%	10.00%			-			4,424	442
	Rounding					-			-	-
	Plant Held for Future Use					-			-	-
	TOTAL WATER PLANT			3,865	-	3,865	(500)	-	1,620,517	62,745
										931,019

Las Quintas Serenas Water Company
Plant Additions and Retirements

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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%	2.50%	-			-			-	-
307	Wells and Springs	5.00%	3.33%	-			-	(5,390)		309,094	10,383
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%	-			-	(20,082)		99,733	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%	-			-			99,896	2,218
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%	10.00%				-			-	-
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

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Account No.	Description	Prior Deprec. Rate	Current Deprec. Rate	2009 Plant Additions	2009 Plant Adjustments	Rejoinder Plant Adjustments	2009 Adjusted Plant Additions	2009 Plant Retirements	Rejoinder Salvage and A/D Only	June 2009 Plant Balance	2009 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	305
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%				-			309,094	7,720
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%		31,523	(20,082)	11,441	(7,488)	122	103,686	9,535
320	Water Treatment Equipment	5.00%	3.33%				-			1,740	43
320.1	Water Treatment Equipment	5.00%	3.33%	2,162,694		(185,625)	1,977,069			1,977,069	24,689
320.2	Chemical Solution Feeders	5.00%	20.00%				-			-	-
330	Distribution Reservoirs & Standpipe	5.00%	2.22%				-			99,896	1,663
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%				-		523	882,760	13,242
333	Services	5.00%	3.33%				-			2,427	61
334	Meters	5.00%	8.33%				-			101,418	6,336
335	Hydrants	5.00%	2.00%				-			-	-
336	Backflow Prevention Devices	5.00%	6.67%				-			1,137	57
339	Other Plant and Miscellaneous Equipment	5.00%	6.67%				-			-	-
340	Office Furniture and Fixtures	5.00%	6.67%	1,520			1,520			28,306	1,378
340.1	Computers and Software	5.00%	20.00%				-			-	-
341	Transportation Equipment	5.00%	20.00%				-		(404)	23,292	3,494
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	97
346	Communications Equipment	5.00%	10.00%				-			-	-
347	Miscellaneous Equipment	5.00%	10.00%				-			3,165	237
348	Other Tangible Plant	5.00%	10.00%				-			4,424	332
	Rounding						-			-	-
							-			-	-
	Plant Held for Future Use										
	TOTAL WATER PLANT			2,164,214	31,523	(205,707)	1,990,030	(7,488)	241	3,553,472	69,189

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Plant Additions and Retirements

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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%	-	-	-	-	-	-	24,689
320.2	Chemical Solution Feeders	5.00%	20.00%	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	5.00%	2.22%	44,682	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	-	-	-	-	-	-
				-	-	-	-	-	-	-
	Plant Held for Future Use			-						
	TOTAL WATER PLANT			688,486	764,010	823,909	886,541	948,787	959,827	1,021,769

Las Quintas Serenas Water Company
Plant Reconciliation to Prior Rate Case

Exhibit
Rejoinder Schedule B-2
Page 3.11

Line No.	Account No.	Description	Balance Per Company Per 9/30/2003 Filing Before Adj.	Adjustments: Adopted Staff Adjustments	Adjustments: Intentionally Left Blank	Adjustments: Intentionally Left Blank	Per Decision 67445 Prior Case Adjusted Plant	Blank	Rounding	Initial Balance
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	822,434	(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										

Las Quintas Serenas Water Company
A/D Reconciliation to Prior Rate Case

Exhibit
Rejoinder Schedule B-2
Page 3.12

Line No.	Account No.	Description	67445 Per Decision Prior Case Adjusted A/D	Adjustment A/D	Initial Balance
1					
2					
3					
4					
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	Checmical 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
39					
40		TOTAL	688,486	-	688,486
41					

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

Exhibit
Schedule B-2
Page 3.1
Witness: Bourassa

Line No.			
1	Plant Retirement		
2			
3	Acct 331 - Pumping Equipment	Pump Bowl Assembly	$ (7,488)
4			
5			
6	Adjustment to Acct 331 - Pumping Equipment		$ (7,488)
7			
8			
9			
10			
11			
12			
13	SUPPORTING SCHEDULES		
14	Staff Schedule CSB-5		
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 - B

Exhibit
Rejoinder Schedule B-2
Page 3.2
Witness: Bourassa

Line No.		
1	Remove Debt Issuance Costs	
2		
3	Acct 320.1 - Water Treatment Equipment	$ (185,625)
4		
5		
6	Adjustment to Acct 320.1 - Water Treatment Equipment	$ (185,625)
7		
8		
9		
10		
11		
12		
13	SUPPORTING SCHEDULES	
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	Not Used and Useful Plant		
2			
3	Acct 311 - Electric Pumping Equipment		
4	Well #6 - Natural gas well engine	$ (10,090)	
5	Natural gas well engine - spare	(9,992)	
6	Total Acct 311 - Electric Pumping Equipment		$ (20,082)
7			
8	Acct 331 - Transmission and Distribution Mains		
9	Sun Cruz Meadows Subdivision		$ (20,918)
10			
11	Total Plant Not Used and Useful		$ (41,000)
12			
13			
14	Adjustment to Plant in Service		$ (41,000)
15			
16			
17			
18	SUPPORTING SCHEDULES		
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

Accumulated Depreciation

Line No.	Acct. No.	Description	Adjusted Accum. Depr.	A Plant Retirements	B Debt Issuance Costs	C Not Used and Useful Plant	D Reconcilation To Computed A/D	E Intentionally Left Blank	Rejoinder Adjusted Accum. Depr.
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)		(20,082)	(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)	$ (2,318)	$ (41,000)	$ (4,853)	$ -	$ 1,021,769
40									
41		Accumulated Deprecaition per Books							$ 1,077,428
42									
43		Increase (decrease) in Accmulated 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	Plant Retirement		
2			
3	Acct 331 - Pumping Equipment	Pump Bowl Assembly	$ (7,488)
4			
5			
6	Adjustment to A/D Acct 331 - Pumping Equipment		$ (7,488)
7			
8			
9			
10			
11			
12			
13	SUPPORTING SCHEDULES		
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	Remove Debt Issuance Costs	
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	$ (2,318)
8		
9		
10		
11		
12		
13		
14	SUPPORTING SCHEDULES	
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	Not Used and Useful Plant		
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	(9,992)	
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		$ (41,000)
17			
18			
19			
20	SUPPORTING SCHEDULES		
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	Advances-in-aid of Construction ("AIAC")	
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	$ (20,918)
17		
18		
19		
20	SUPPORTING SCHEDULES	
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 4

Exhibit
Rejoinder Schedule B-2
Page 6
Witness: Bourassa

Deferred Income Tax as of June 30, 2009

Line No.		Adjusted Book Value		Tax Value	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Tax Rate[5]	Future Tax Asset Current	Future Tax Asset Non Current	Future Tax Liability Current	Future Tax Liability Non Current
6	Plant-in-Service	$ 3,594,472 1	Federal	$ 1,650,911 2	100.0%	$ (426,155)	23.8%		$ -		
7	Accum. Deprec.	(1,021,769) 1	State	$ 2,415,868 2	100.0%	$ 338,803	6.97%		23,608		$ (101,533)
8	CIAC	(495,638) 1,3	Fed. and State	$ 351,405 4	30.0%	$ 105,422 3,4	30.8%		32,463		-
9	Fixed Assets	$ 2,077,065	Federal	$ 489,009 5	100.0%	$ 489,009	23.8%		116,508		-
10	Fixed Assets	$ 2,077,065						$ -	$ 172,579	$ -	$ (101,533)
11	AIAC							$ 71,046			
12	Tax Benefits from O.L. Carry Forward.							$ -			
13								$ (71,046)			
14											
15	Net Asset (Liability)										
16											
17	DIT Asset (Liability) per direct filing										
18											
19	Adjustment to DIT										
20											
21											
22											
23											
24											
25											
26											
27											
28											
29											
30											
31	*See* footnotes on page 6.1 and 6.2										
32											
33											
34											
35											
36											
37											
38											
39											
40											
41											
42											
43											
44											
45											

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

Exhibit
Rejoinder Schedule B-2
Page 6.1
Witness: Bourassa

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**		Federal		State
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		$ (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	$ 1,090,620		$ 78,051	
12	Less: Tax Depreciation related to assets added after 6/30/2009	-		-	
13	Tax Depreciation Including Bonus Depr. per 2009 Tax Return	$ 1,090,620		$ 78,051	
14	Factor (9 months through 6/30/2009)	0.75		0.75	
15	Adjusted 2009 Tax Depreciation Including Bonus Depr.		$ (817,965)		$ (58,538)
16	Remove Plant Retirements per B-2 adjustment 1-A		$ (7,488)		$ (7,488)
17	Tax Depr on retired plant ($7,488 times 4% times 11.25 yrs)		$ 3,370		$ 3,370
18	Remove Not Used and Useful Plant per B-2 adjustmnet 1-C		$ (41,000)		$ (41,000)
19	Tax Depr on not used and usedful plant - Natural gas Engine Generator per Depr Rpt	$ 5,314		$ 5,314	
20	Tax Depr on not used and usedful plant - Natural gas Engine Generator per Depr Rpt	$ 4,996		$ 4,996	
21	Tax Depr on not used and usedful plant - Trans and Dist Mains (Fed - $20,198 times 4%				
22	times .25 yrs plus $20,918 times 50%; State - $20,918 times 4% times .5 times .75)	$ 10,762		$ 303	
23			$ 21,072		$ 10,613
24					
25	Net Tax Value		$ 1,650,911		$ 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)

Exhibit
Rejoinder Schedule B-2
Page 6.2
Witness: Bourassa

Line No.					Federal
1					
2					
3	[5] **NOL from Bonus Depreciation**				
4					
5	Net Income 12 months ended 6/30/2009 (per E-1 scehdule)			$	84,985
6	Plus: Book Depreciation (07/01/2008 to 6/30/2009)				
7	Book Depreciation 12 months ended 09/30/3008	$	35,894		
8	Factor (3 months 7/1/2008 to 9/30/2008)		0.333	$	11,953
9					
10	Book Depreciation 12 months ended 09/30/3009	$	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		
19				$	(42,426)
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					
40					
41					
42					
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46					
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50					
51					
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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	Prepaids		1,583
7			
8			
9	Total Working Capital Allowance	$	39,282
10			
11			
12	Working Capital Requested	$	-
13			
14			
15	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
16	Rejoinder C-1	Rejoinder B-1	
17	E-1		
18			Adjusted
19	Cash Working Capital Detail		Test Year Results
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	$	242,997
29	1/8 of allowable expenses	$	30,375
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		$ 488,270	$ -	$ 488,270	$ 198,846	$ 687,117
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**	$ 440,721	$ (5,106)	$ 435,615	$ 61,232	$ 496,846
31	**Operating Income**	$ 47,550	$ 5,106	$ 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)	$ 11,129	$ (44,559)	$ 137,615	$ 93,056
40						
41	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
42	Rejoinder C-1, page 2				Rejoinder A-1	
43						

Exhibit
Rejoinder Schedule C-1
Page 2
Witness: Bourassa

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

Line No.		LABEL>>>>> Test Year Adjusted Results	1 Depreciation	2 Property Taxes	3 Water Testing	4 Interest Synchronization	5 Income Taxes	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		$ 488,270	$ -	$ -	$ -	$ -	$ -	$ 488,270	$ 198,846	$ 687,117
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**	$ 440,721	$ (6,205)	$ 483	$ (3,161)	$ -	$ 3,777	$ 435,615	$ 61,232	$ 496,846
31	**Operating Income**	$ 47,550	$ 6,205	$ (483)	$ 3,161	$ -	$ (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	$ 6,023	$ (3,777)	$ (44,559)	$ 137,615	$ 93,056
40										
41	SUPPORTING SCHEDULES:									
42	Rejoinder C-2									
43										

RECAP SCHEDULES:
Rejoinder C-1, page 1

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

Exhibit
Rejoinder Schedule C-2
Page 1
Witness: Bourassa

Adjustments to Revenues and Expenses

Line No.		1 Depreciation Expense	2 Property Taxes	3 Water Testing Expense	4 Interest Synchronization	5 Income Taxes	6	Subtotal
1								
2								
3	Revenues							-
4								
5	Expenses	(6,205)	483	(3,161)		3,777		(5,106)
6								
7	Operating							
8	Income	6,205	(483)	3,161	-	(3,777)	-	5,106
9								
10	Interest							
11	Expense		-		6,023			6,023
12	Other							
13	Income /							-
14	Expense							
15								
16	Net Income	6,205	(483)	3,161	6,023	(3,777)	-	11,129

Adjustments to Revenues and Expenses

17								
18								
19		7	8	9	10	11	12	Subtotal
20								
21		Blank	Blank	Blank	Blank	Blank	Blank	
22	Revenues							-
23								
24	Expenses							(5,106)
25								
26	Operating							
27	Income	-	-	-	-	-	-	5,106
28								
29	Interest							
30	Expense							6,023
31	Other							
32	Income /							-
33	Expense							
34								
35	Net Income	-	-	-	-	-	-	11,129

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	Depreciation Expense					
2						
3	Acct.		Adjusted Original		Proposed	Depreciation
4	No.	Description	Cost		Rates	Expense
5	301	Organization Cost	-		0.00%	-
6	302	Franchise Cost	-		0.00%	-
7	303	Land and Land Rights	217		0.00%	-
8	304	Structures and Improvements	12,229		3.33%	407
9	305	Collecting and Impounding Res.	-		2.50%	-
10	306	Lake River and Other Intakes	-		2.50%	-
11	307	Wells and Springs	309,094		3.33%	10,293
12	308	Infiltration Galleries and Tunnels	-		6.67%	-
13	309	Supply Mains	-		2.00%	-
14	310	Power Generation Equipment	-		5.00%	-
15	311	Electric Pumping Equipment	123,768		12.50%	15,471
16	320	Water Treatment Equipment	1,740		3.33%	58
17	320.1	Water Treatment Plant	1,977,069		3.33%	65,836
18	320.2	Chemical Solution Feeders	-		20.00%	-
19	330	Dist. Reservoirs & Standpipe	99,896		2.22%	2,218
20	330.1	Storage tanks	-		2.22%	-
21	330.2	Pressure Tanks	-		5.00%	-
22	331	Trans. and Dist. Mains	903,698		2.00%	18,074
23	333	Services	2,427		3.33%	81
24	334	Meters	101,418		8.33%	8,448
25	335	Hydrants	-		2.00%	-
26	336	Backflow Prevention Devices	1,137		6.67%	76
27	339	Other Plant and Misc. Equip.	-		6.67%	-
28	340	Office Furniture and Fixtures	28,306		6.67%	1,888
29	340.1	Computers and Software	-		20.00%	-
30	341	Transportation Equipment	23,292		20.00%	- *
31	342	Stores Equipment	-		4.00%	-
32	343	Tools and Work Equipment	-		5.00%	-
33	344	Laboratory Equipment	-		10.00%	-
34	345	Power Operated Equipment	2,592		5.00%	130
35	346	Communications Equipment	-		10.00%	-
36	347	Miscellaneous Equipment	3,165		10.00%	317
37	348	Other Tangible Plant	4,424		10.00%	- *
38						
39		SUBTOTAL	$	3,594,472		$ 123,296
40						
41						
42						
43	Less: Amortization of Contributions		$	333,555	3.5721%	$ (11,915)
44						
45						
46	Total Depreciation Expense					$ 111,381
47						
48	Test Year Depreciation Expense					117,586
49						
50	Increase (decrease) in Depreciation Expense					(6,205)
51						
52	Adjustment to Revenues and/or Expenses					$ (6,205)
53						
54	SUPPORTING SCHEDULE					
55	Rejoinder B-2, page 1		* Fully Depreciated			
56	Rejoinder B-2, page 3					

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 Progess 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 No.			
1	Water Testing Expense		
2			
3	Water Testing Expense per Staff	$	4,247
4			
5	Test Water Tear Testing Expense		7,408
6			
7	Increase (decrease) in Water Testing Expense	$	(3,161)
8			
9			
10			
11			
12			
13			
14			
15	Adjustment to Revenue and/or Expense	$	(3,161)
16			
17			
18			
19			
20	SUPPORTING SCHEDULE		
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	Interest Synchronization		
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		$ 103,237
9			
10	Increase (decrease) in Interest Expense		(6,023)
11			
12			
13			
14	Adjustment to Revenue and/or Expense		$ 6,023
15			
16			
17	Weighted Cost of Debt Computation		

18						Weighted
19			Amount	Percent	Cost	Cost
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.					
1	Income Tax Computation				
2					
3				Adjusted	
4				with Rate	
5				Increase	
6					
7	Taxable Income		$ (64,385)	$ 134,462	
8					
9	Taxable Income		$ (64,385)	$ 134,462	
10					
11					
12					
13	Income Before Taxes			$ 134,462	
14					
15	Arizona Income Before Taxes			$ 134,462	
16					
17	Less Arizona Income Tax			$ 9,369	
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			$ 9,369	
26					
27	Federal Taxable Income			$ 125,092	
28					
29					
30					
31	FEDERAL INCOME TAXES:				
32	15% BRACKET			$ 7,500	
33	25% BRACKET			$ 6,250	
34	34% BRACKET			$ 8,500	Federal
35	39% BRACKET			$ 9,786	Effective
36	34% BRACKET			$ -	Tax
37					Rate
38	Federal Income Taxes			$ 32,036	23.83%
39					
40					
41	Total Income Tax			$ 41,405	
42					
43	Overall Tax Rate			30.79%	
44					
45	Income Tax at Proposed Rates Effective Rate		$ (19,826)		
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.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	23.83%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	30.79%
9		
10	Operating Income % = 100% - Tax Percentage	69.21%
11		
12		
13		
14		
15	1 = Gross Revenue Conversion Factor	
16	Operating Income %	1.4449
17		
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
19		Rejoinder A-1
20		

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

Exhibit
Rejoinder Schedule H-1
Page 1
Witness: Bourassa

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%	65.84%
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%	2.96%
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%	82.60%
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 Revenuers before Annualization	$ 474,558	$ 664,562	$ 190,004	40.04%	97.19%	96.72%
16							
17							
18	Meter Size	Company Present Revenues	Company Proposed Revenues	Dollar Change	Percent Change	Percent of Present	Percent of Proposed	Schedule
19			Revenue Annualization					
20								
21	5/8x3/4 Inch	$ (1,434)	$ (2,918)	$ (1,484)	103.52%	-0.29%	-0.42%	C-2, page 5.1
22	3/4 Inch	-	-	-	0.00%	0.00%	0.00%	C-2, page 5.2
23	1 Inch	499	1,012	513	102.88%	0.10%	0.15%	C-2, page 5.3
24	1.5 Inch	(118)	(233)	(115)	97.31%	-0.02%	-0.03%	C-2, page 5.4
25	2 Inch	-	-	-	0.00%	0.00%	0.00%	C-2, page 5.5
26	4 Inch	7,707	17,117	9,411	122.11%	1.58%	2.49%	C-2, page 5.6
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%	C-2, page 5.7
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 with Rev. Annual.	$ 481,557	$ 680,231	$ 198,674	41.26%	98.63%	99.00%	
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)	108	173	-266.15%	-0.013%	0.016%	
40								
41	Total Revenues	$ 488,270	$ 687,117	$ 198,847	40.72%	100.00%	100.00%	
42								

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 Number of Customers at 6/30/2009	Average Consumption	Average Bill: Present Rates	Average Bill: Proposed Rates	Proposed Increase: Dollar Amount	Proposed Increase: 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	867					
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	160					
13							
14	Totals	1,026					
15							
16							
17	(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.						
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							
30							
31							
32							
33							
34							
35							
36							
37							
38							
39							
40							

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) Average Number of Customers at 6/30/2009	Average Consumption	Median Bill Present Rates	Median Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase 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					
15							
16							
17	(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.						
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							
30							
31							
32							
33							
34							
35							
36							
37							
38							
39							
40							

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					

Line No.	Commodity Rates (Residential, Commercial, Industrial)	Block	(Per 1,000 gallons) Present Rate	Proposed Rate
21				
22				
23	5/8 Inch and 3/4 Inch	0 gallons to 4,000 gallons	$ 0.95	N/A
24		4,001 gallons to 23,000 gallons	$ 1.15	N/A
25		over 23,000 gallons	$ 1.35	N/A
26				
27	1 Inch	0 gallons to 40,000 gallons	$ 1.15	N/A
28		over 40,000 gallons	$ 1.35	N/A
29				
30	1 1/2 Inch	0 gallons to 100,000 gallons	$ 1.15	N/A
31		over 100,000 gallons	$ 1.35	N/A
32				
33	2 Inch	0 gallons to 150,000 gallons	$ 1.15	N/A
34		over 150,000 gallons	$ 1.35	N/A
35				

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

Exhibit
Rejoinder Schedule H-3
Page 2
Witness: Bourassa

Line No.	Commodity Rates (Residential, Commercial, Industrial)	Block	(Per 1,000 gallons) Present Rate	Proposed Rate
5	4 Inch	0 gallons to 400,000 gallons	$ 1.15	N/A
6		over 400,000 gallons	$ 1.35	N/A
8	6 Inch	0 gallons to 400,000 gallons	$ 1.15	N/A
9		over 400,000 gallons	$ 1.35	N/A
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
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
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
23	1 Inch	0 gallons to 25,000 gallons	N/A	$ 2.37
24		over 25,000 gallons	N/A	$ 2.97
26	1 1/2 Inch	0 gallons to 50,000 gallons	N/A	$ 2.37
27		over 50,000 gallons	N/A	$ 2.97
29	2 Inch	0 gallons to 80,000 gallons	N/A	$ 2.37
30		over 80,000 gallons	N/A	$ 2.97
32	3 Inch	0 gallons to 160,000 gallons	N/A	$ 2.37
33		over 160,000 gallons	N/A	$ 2.97

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	(Per 1,000 gallons) Present Rate	Proposed Rate
5	4 Inch	0 gallons to 250,000 gallons	N/A	$ 2.37
6		over 250,000 gallons	N/A	$ 2.97
8	6 Inch	0 gallons to 500,000 gallons	N/A	$ 2.37
9		over 500,000 gallons	N/A	$ 2.97
11	Standpipe	0 gallons to 4,000 gallons	N/A	$ 1.87
12		4,001 gallons to 10,000 gallons	N/A	$ 2.37
13		over 10,000 gallons	N/A	$ 2.97

Arsenic Cost Recovery Surcharge

Line No.	Meter Size :	Present Rates	Proposed Rates	Change	Percent Change
21	5/8 Inch	$ 11.37	$ -	$ (11.37)	-100.00%
22	3/4 Inch	17.05	-	(17.05)	-100.00%
23	1 Inch	28.42	-	(28.42)	-100.00%
24	1 1/2 Inch	56.84	-	(56.84)	-100.00%
25	2 Inch	90.94	-	(90.94)	-100.00%
26	3 Inch	170.52	-	(170.52)	-100.00%
27	4 Inch	284.20	-	(284.20)	-100.00%
28	6 Inch	568.40	-	(568.40)	-100.00%
30	Standpipe	$ 11.37	$ -	$ (11.37)	-100.00%

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.	Other Service Charges	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 Facitlities 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 Install-ation 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

	Present Charge	Proposed Charge
5/8 x 3/4 Inch	$ 1,135	$ 1,135
3/4 Inch	1,703	$ 1,703
1 Inch	2,838	$ 2,838
1 1/2 Inch	5,675	$ 5,675
2 Inch	9,080	$ 9,080
3 Inch	18,160	$ 18,160
4 Inch	28,375	$ 28,375
6 Inch	56,750	$ 56,750

14
15
16 **Offsite Facilities Hook-up Fee**
17

	Present Charge	Proposed Charge
5/8 x 3/4 Inch	$ 250	$ 250
3/4 Inch	250	250
1 Inch	250	250
1 1/2 Inch	250	250
2 Inch	250	250
3 Inch	250	250
4 Inch	250	250
6 Inch	250	250

28
29

EXHIBIT
A-7
ADMITTED

Exhibit A-7
Thomas J. Bourassa

Prepared Rejoinder Testimony on Cost of Capital

September 28-29, 2010 ACC Hearing
Las Quintas Serenas Water Company
Docket No. W-01583-09-0589

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 ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	)	DOCKET NO. W-01583A-09-0589
	)	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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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

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

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

Method	Low	High	Midpoint
Range DCF Constant Growth Estimates	9.1%	11.3%	10.5%
Range of CAPM Estimates	10.4%	15.8%	13.2%
Average of DCF and CAPM midpoint estimates	10.2%	13.5%	11.9%
Financial Risk Adjustment	1.5%	1.5%	1.5%
Specific Company Risk Premium	1.0%	1.0%	1.0%
Indicated Cost of Equity	**12.7%**	**16.0%**	**14.4%**

The schedules containing my updated cost of capital analysis from my rebuttal

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.

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

STRUCTURE ALSO INCLUDED AN UPWARD FINANCIAL RISK ADJUSTMENT.

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

Q8. ARE THE FACTS AND CIRCUMSTANCES IN THE INSTANT CASE

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[6] Southwest Gas Corporation, Decision No. 68487 and Arizona American Mohave Water and Wastewater Districts, Decision No. 69440.

[7] Bourassa COC Rb. at 5.

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

[9] Southwest Gas Corporation, Decision 68487, at 30.

[10] Bourassa COC Rb. at 7.

SIMILAR TO THE SOUTHWEST GAS AND THE ARIZONA-AMERICAN CASE?

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

An important distinction between the instant case and the other two rate cases is that both utilities in the other rate case were much larger, had access to the capital markets, and both had a history of highly leveraged capital structures[16]

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[11] *Id.* at 23.

[12] *Id.* at 24.

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

[14] Southwest Gas Corporation, Decision 68487, at 31.

[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-

whereas LQSWC is much smaller, does not have access to the capital markets, and has only recently experienced a highly leveraged capital structure[17]. In these respects, the upward financial risk adjustment is more justified in instant case than in the prior two cases cited by Staff.

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

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

American Water Company, Decision 69440, at 14.

[17] LQSWC borrowed approximately $1.75 million in 2009 from the Water Infrastructure and Finance Authority ("WIFA") to fund arsenic treatment facilities in order to meet federally mandated water quality standards.

[18] *See* Rebuttal Testimony of Thomas J. Bourassa ("Bourassa COC Rb.") at 6.

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

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

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

---

[19] Manrique Sb. at 3.

[20] Starting with the WACC formula:

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

where WACC = weighted average cost of capital

W_d = % or weight of debt in capital structure

W_e = % or weight of equity in capital structure

D = cost of debt

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] $E = 11.47\%$

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

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

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

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

B. <u>Inadequacy of Earnings Under the Staff Recommendations.</u>

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

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

by Staff, the Company will need to pay dividends of about $49,800. However, the earnings available for dividends under Staff's proposal will only be about $40,000. Let me explain. The Company has an adjusted equity balance (book value) of approximately $814,000.[21] If the publicly traded water utilities are comparable to LQSWC, as Staff assumes, then SWC's equity would trade at 1.7 times the book value[22] or approximately $1.38 million (1.7 times $814,000 million). Staff has computed an expected dividend yield of 3.6 percent.[23] Thus, the expected dividend payment is about $49,800 ($1.38 million times 3.6 percent). Further, Staff's recommendation of 8.5 percent return produces a required operating income of about $162,600.[24] Out of this amount approximately $122,500 of interest must be paid[25], leaving net earnings available for dividends of approximately $40,100 ($162,600 minus $122,500). The earnings available for dividends of $40,100 are less than the required dividends of $49,800 and as a result the Company will have negative earnings retained. In other words, the payout ratio will be 124 percent ($49,800 divided by $40,100). A payout ratio of over 100 percent is not sustainable and is in no way comparable to the publicly traded water utilities.

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

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

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

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

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

[24] *See* Staff Surrebuttal Schedule CSB-1.

[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] 5 year average 2005 through 2009.

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

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

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

A16. 9.9 percent. Let me explain. If LQSWC has a payout ratio of 75 percent, then it must have earnings after interest of about $66,400 ($49,800 divided by 75 percent). Adding the loan interest of $122,500 to the $66,400 results in a required operating income of approximately $188,900 million. Staff's proposed rate base is approximately $1.913 million[27], so the return required is 9.9 percent ($188,900 divided by $1.913 million).

[27] *See* Staff Surrebuttal Schedule CSB-1.

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

A17. Yes, to some extent. But that doesn't explain the entire situation. Staff's rate base is approximately $1.913 million[28] while total capital in the capital structure is approximately $2.54 million[29]. There is a similar discrepancy between Company's proposed rate base and total capital. However, as I will discuss, the Company's recommendation does provide for sufficient earnings to support its invested capital. The primary problem is that Staff's recommended return on equity is simply too low. Regardless of the reason for the difference between rate base and capital, investor supplied capital always has an earnings requirement (interest, dividends, and earnings). As stated by Dr, Morin[30],

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

[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).

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 $52,200[32], 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%).

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

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

Q20. PLEASE RESPOND TO MR. MANRIQUE'S TESTIMONY ON PAGE 4 CONCERNING THE WEIGHT OF HISTORICAL GROWTH ESTIMATES PROVIDED UNDER THE STAFF METHODOLGY.

A20. I have three comments. First, the fact that under the Staff methodology historical growth rates has a weighting of one-twelfth (or 8.35 percent) is not undermined by Mr. Manrique's argument that the Staff uses a sustainable growth model. In computing the 8.35 percent I considered Staff's use of sustainable growth in its growth estimates. Second, my methodology also considers sustainable growth by incorporating book value growth in computing my estimated growth rates. Book value growth, as shown on Rejoinder Schedule D-4.4, is a proxy for sustainable growth. Third, my estimate of sustainable growth of 6.0 percent[34] is far more conservative than Staff's of sustainable growth is 7.1 percent[35]. Consequently, Mr. Manrique's assertion that my method of estimating growth suffers from an omission of consideration of sustainable growth is unfounded. Further, Mr. Manrique's assertion that my method of estimating growth unnecessarily exposes my methodology to undesirable upward bias is also unfounded.

---

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

[34] *See* Rejoinder Schedule D-4.4.

[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.

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

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

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

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

Q22. DOES THE HOLDING PERIOD DICTATE THE LENGTH OF THE U.S.

[36] Morin at 152.

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 states[38],

> 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 long0term 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.

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

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

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

With respect to the relationship between firm size and return, *Morningstar* states[42]:

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

[39] Bourassa COC Rb. at 18-22.

[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.

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

With respect to the CAPM, *Morningstar* states[43]:

> 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
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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

Exhibit
Page 1

Line No.											
1	**CAPM**										
2		**Rf**		+	**β**		x	**(Rp)**			**k**
3	Historical Market Risk Premium	2.1%	1	+	0.78	1	x	7.2%	1	=	7.7%
4	Current Market Risk Premium	3.7%	1	+	0.78	1	x	13.0%	1	=	13.8%
5											
6	Average										10.8%
7											
8											
9	**CAPM Relevered Beta**										
10		**Rf**		+	**β**		x	**(Rp)**			**k**
11	Historical Market Risk Premium	2.1%	1	+	1.15	2	x	7.2%	1	=	10.4%
12	Current Market Risk Premium	3.7%	1	+	1.15	2	x	13.0%	1	=	18.7%
13											
14	Average										14.6%
15											
16	Financial Risk Adjustment										**3.8%**
17											
18											
19	[1] From Staff ScheduleJCM-3.										
20	[2] Relevered bata found on Page 3.										
21											
22											

Las Quintas Serenas Water Company
Financial Risk Computation
Unlevered Beta

Line No.		Company	VL Beta β_l [1]	Raw Beta Raw β_l [2]	Tax Rate t[3]	Book Value Debt D[4]	Book Value Equity E[4]	Unlevered Raw Beta β_U [5]
5	1.	American States	0.80	0.70	37.8%	46.8%	53.2%	0.45
6	2.	Aqua America	0.65	0.48	39.4%	56.6%	43.4%	0.27
7	3.	California Water	0.75	0.63	38.0%	48.0%	52.0%	0.40
8	4.	Connecticut Water	0.80	0.70	19.5%	55.8%	44.2%	0.35
9	5.	Middlesex	0.75	0.63	34.1%	53.3%	46.7%	0.36
10	6.	SJW Corp.	0.95	0.93	40.4%	49.0%	51.0%	0.59
13		Sample Water Utilities	0.78	0.68	34.8%	40.0%	60.0%	0.47

[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 = Raw B_L/ (1+ (1-t)*D/E)

Las Quintas Serenas Water Company
Financial Risk Computation
Relevered Beta

Line No.		Unlevered Raw Beta β_U[1]	Book Value Book Debt BD[2]	Book Value Equity Capital EC[2]	Tax Rate t[3]	Relevered Raw Beta $\beta_{RL}=\beta_U(1+(1-t)BD/EC))$ β_{RL}	VL Adjusted Relevered Beta .33 + .67(Raw Beta) β_{RL}
1							
2							
3							
4							
5	Las Quintas Serenas Water Compan	0.47	68.0%	32.0%	24.69%	1.22	1.15
6							
7							
8							
9							
10							
11							
12							
13	[1] Unlevered Beta from Schedule D-4.14.			[3] From Staff Schedule CSB-2.			
14	[2] Hypothetical capital structure consisting of 60 percent debt and 40 percent equity as recommended by Staff.						

Las Quintas Serenas Water Company
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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 Per Company	B Per Staff
1			
2			
3	[1] Book Value of Equity (end of test year)	$ 814,405	$ 814,405
4	[2] M-B ratio (Publicly Traded Water Utilities)	1.78 [1]	1.7 [5]
5	[3] Market Value of Equity [3] = [1] x [2]	$ 1,449,641	$ 1,384,489
6	[4] Dividend Yield	3.8% [2]	3.6% [6]
7	[5] Expected Dividends [5] = [3] x [4]	$ 52,187	$ 49,842
8			
9	[6] Long-Term Debt (end of Test Year)[3]	$ 1,725,175	$ 1,725,175
10	[7] Interest Rate[3]	7.1%	7.1%
11	[8] Interest Expense [8] = [6] x [7]	$ 122,487	$ 122,487
12			
13			
14	[9] Recommended Operating Income	$ 190,270 [4]	$ 162,624 [7]
15	[10] Less: Interest Expense [10] = [8]	$ 122,487	$ 122,487
16	[11] Earnings Available for Dividends [11] = [9] - [10]	$ 67,783	$ 40,137
17	[12] Dividends [12] = [5]	$ 52,187	$ 49,842
18	[13] Earnings Retained [13] = [11] - [12]	$ 15,596	$ (9,705)
19	[14] Payout Ratio [14] = [11]/[12]	0.77	1.24
20			
21	[15] Average Payout Ratio of Publicly Traded Water Utilities	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 Dollar Amount	Percent of Total	Cost Rate	Weighted Cost	End of Projected Year 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%
2									
3	Adjusted Stockholder's Equity[1]	814,405	32.07%	14.40%	4.62%	907,461	35.24%	14.40%	5.07%
4									
5	Totals	$ 2,539,580	100.00%		9.44%	$ 2,575,276	100.00%		9.67%
6									
7									
8									
9									
10									
11									
12									
13									
14									
15									
16									
17									
18	SUPPORTING SCHEDULES:								
19	Rejoinder D-2								
20	Rejoinder D-3								
21	Rejoinder D-4								
22	Direct D-1								
23									
24									
25									
26									
27									
28									
29									
30									
31									
32									
33									
34									
35									

RECAP SCHEDULES:
Rejoinder A-1.

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 Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost	End of Projected Year 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									
13	Totals	$ 1,725,175	$ 122,487		7.10%	$ 1,667,815	118,415		7.10%
14									
15	SUPPORTING SCHEDULES:								
16	E-1								
17									
18									
19									
20									

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	End of Test Year Shares Outstanding	End of Test Year Amount	End of Test Year Dividend Requirement	End of Projected Year Shares Outstanding	End of Projected Year Amount	End of Projected Year Dividend Requirement
1							
2							
3	NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING						
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17	SUPPORTING SCHEDULES:			RECAP SCHEDULES:			
18				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% .
3	
4	
5	
6	
7	
8	
9	
10	
11	
12	
13	
14	
15	
16	
17	SUPPORTING SCHEDULES: RECAP SCHEDULES:
18	Rejoinder Schedules D-4.0 to D-4.16 Rejoinder D-1
19	
20	

Las Quintas Serenas Water Company
Summary of Results

Exhibit
Rejoinder Schedule D-4.1

Line No.	Method	Low	High	Midpoint
6	Range DCF Constant Growth Estimates[1]	9.7%	11.3%	10.5%
8	Range of CAPM Estimates[2]	10.7%	15.8%	13.2%
11	Average of DCF and CAPM midpoint estimates	10.2%	13.5%	11.9%
14	Financial Risk Adjustment[3]	1.5%	1.5%	1.5%
16	Small Company Risk Premium[4]	1.0%	1.0%	1.0%
18	Indicated Cost of Equity	12.7%	16.0%	14.4%
22	Recommended Cost of Equity			14.4%

26 [1] See Schedule D-4-8
27 [2] See Schedule D-4.12
28 [3] See Schedule D-4.16
29 [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
4	1. American States	74%	$ 371.6	$ 769.0	A	A2
5	2. Aqua America	97%	$ 676.6	$ 2,813.6	AA-	NR
6	3. California Water	98%	$ 453.0	$ 1,095.8	AA-	NR
7	4. Connecticut Water	90%	$ 68.0	$ 274.7	A	NR
8	5. Middlesex	88%	$ 92.3	$ 332.7	A	NR
9	6. SJW Corp.	96%	$ 216.5	$ 536.5	NR	NR
11	Average	91%	$ 313.0	$ 970.4		
13	Las Quintas Serenas Water Company (as of December 31, 2009)	100%	$ 0.5	$ 2.8	NR	NR

[1]AUS Utility Reports (August 2010).

Las Quintas Serenas Water Company
Capital Structures

Exhibit
Rejoinder Schedule D-4.3

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

[1] Value Line Analyzer Data (August 13, 2010)
[2] Adjusted Per Schedule D-1

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

Exhibit
Rejoinder Schedule D-4.4

Line No.	Company	[1] Price[1]	[2] Book Value[2]	[3] EPS[2]	[4] DPS[2]	[5] Average Col 1-4	[6] Average Future Growth[3]	[7] Average of Future and Historical Growth Col 5-6
		Five-year historical average annual changes						
1	American States	4.04%	5.00%	8.50%	2.50%	5.01%	5.00%	5.00%
2	Aqua America	NMF	8.50%	5.00%	8.00%	7.17%	8.37%	7.77%
3	California Water	0.88%	6.00%	6.50%	1.00%	3.60%	6.31%	4.95%
4	Connecticut Water	NMF	3.00%	Negative	1.50%	2.25%	7.44%	4.84%
5	Middlesex	Negative	5.50%	3.50%	1.50%	3.50%	8.00%	5.75%
6	SJW Corp.	0.55%	8.00%	3.00%	5.50%	4.26%	9.50%	6.88%
	GROUP AVERAGE	1.82%	6.00%	5.30%	3.33%	4.30%	7.44%	5.87%
	GROUP MEDIAN	0.88%	5.75%	5.00%	2.00%	3.93%	7.72%	5.38%

[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.

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

Exhibit
Rejoinder Schedule D-4.5

Line No.		[1]	[2]	[3]	[4]	[5]	[6]	[7]
1								
2								Average of Future and Historical Growth
3								
4			Ten-year historical average annual changes				Average Future	
5			Book			Average		
6	Company	Price[1]	Value[2]	EPS[2]	DPS[2]	Col 1-4	Growth[3]	Col 5-6
7	1. American States	7.97%	4.50%	4.00%	1.50%	4.49%	5.00%	4.75%
8	2. Aqua America	7.21%	9.50%	6.50%	7.50%	7.68%	8.37%	8.02%
9	3. California Water	6.01%	4.00%	1.00%	1.00%	3.00%	6.31%	4.65%
10	4. Connecticut Water	3.10%	4.00%	1.00%	1.50%	2.40%	7.44%	4.92%
11	5. Middlesex	4.05%	4.50%	1.50%	2.00%	3.01%	8.00%	5.51%
12	6. SJW Corp.	1.81%	6.00%	2.00%	5.00%	3.70%	9.50%	6.60%
13								
14								
15	GROUP AVERAGE	5.02%	5.42%	2.67%	3.08%	4.05%	7.44%	5.74%
16	GROUP MEDIAN	5.03%	4.50%	1.75%	1.75%	3.36%	7.72%	5.21%
17								
18								
19								
20	[1] Average of changes in annual stock prices ending August 13, 2010. Data from Yahoo Finance website.							
21	[2] Value Line Analyzer Data, Aug 13, 2010							
22	[3] See Rejoinder Schedule D-4.6.							
23								
24								
25								
26								
27								
28								

Las Quintas Serenas Water Company
Analysts Forecasts of Earnings Per Share Growth

Exhibit
Rejoinder Schedule D-4.6

Line No.	Company	[1] Zacks[1]	[2] Morningstar[1]	[3] Yahoo[1]	[4] Value Line[1]	[5] Average Growth (G) (Cols 1-4)[2]
		ESTIMATES OF EARNINGS GROWTH				
1	1. American States	4.00%	4.00%	4.00%	8.00%	5.00%
2	2. Aqua America	7.00%	8.30%	6.67%	11.50%	8.37%
3	3. California Water	4.00%	6.00%	8.73%	6.50%	6.31%
4	4. Connecticut Water			15.00%		7.44%
5	5. Middlesex		8.00%	8.00%		8.00%
6	6. SJW Corp.		9.00%	10.00%		9.50%
7	GROUP AVERAGE	5.00%	7.06%	8.73%	8.67%	7.44%
8	GROUP MEDIAN					7.72%

[1] Data as of August 13, 2010
[2] Where no data available or single estimate, average of other utilities assumed to estimate for utility.

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

Exhibit
Rejoinder Schedule D-4.7

Line No.	Company	Curent Stock Price (P_0)[1]	Current Dividend (D_0)[1]	Current Dividend Yield (D_0/P_0)[1]	Average Annual Dividend Yield (D_0/P_0)[1,2]
1	1. American States	$ 32.80	$ 1.04	3.17%	2.94%
2	2. Aqua America	$ 19.18	$ 0.59	3.08%	3.09%
3	3. California Water	$ 34.72	$ 1.19	3.43%	3.07%
4	4. Connecticut Water	$ 21.15	$ 0.91	4.31%	4.11%
5	5. Middlesex	$ 16.06	$ 0.72	4.49%	4.71%
6	6. SJW Corp.	$ 22.90	$ 0.70	3.04%	2.84%
7					
8	Average			3.59%	3.46%
9	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.

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=Div Yld + g (Cols 2+3)
8	DCF - Past and Future Growth	3.59%	3.80%	5.87%	3	9.7%
10	DCF - Future Growth	3.59%	3.85%	7.44%	4	11.3%
13		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.

Las Quintas Serenas Water Company
Market Betas

Exhibit
Rejoinder Schedule D-4.9

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

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

Exhibit
Rejoinder Schedule D-4.10

Line No.	Description	2012	2013	Average
1				
2				
3				
4	Description	2012	2013	Average
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				
15	[1] June 2010 Blue Chip Financial Forecasts consensus forecast of 30 Year U.S.Treasury			
16	[2] Value Line Quarterly forecast, dated May 28, 2010, Long-term Treasury			
17				
18				
19				
20				
21				
22				
23				
24				

Las Quintas Serenas Water Company
Computation of Current Market Risk Premium

Exhibit
Rejoinder Schedule D-4.11

Line No.	Month	Dividend Yield (D_0/P_0)[1]	Expected Dividend Yield (D_1/P_0)[2]	+	Growth (g)[3]	=	Expected Market Return (k)	-	Monthly Average 30 Year Treasury Rate[4]	=	Market Risk Premium (MRP)
4	Jan 2009	4.86%	6.32%	+	30.02%	=	36.34%	-	3.13%	=	33.21%
5	Feb	5.50%	7.43%	+	35.13%	=	42.56%	-	3.59%	=	38.97%
6	Mar	4.21%	5.36%	+	27.33%	=	32.69%	-	3.64%	=	29.05%
7	April	3.66%	4.47%	+	22.05%	=	26.52%	-	3.76%	=	22.76%
8	May	3.46%	4.14%	+	19.67%	=	23.81%	-	4.23%	=	19.58%
9	Jun	3.25%	3.87%	+	19.16%	=	23.03%	-	4.52%	=	18.51%
10	Jul	2.90%	3.37%	+	16.31%	=	19.68%	-	4.41%	=	15.27%
11	Aug	2.82%	3.22%	+	14.21%	=	17.43%	-	4.37%	=	13.06%
12	Sept	2.80%	3.20%	+	14.32%	=	17.52%	-	4.19%	=	13.33%
13	Oct	2.75%	3.15%	+	14.49%	=	17.64%	-	4.19%	=	13.45%
14	Nov	2.68%	3.05%	+	13.88%	=	16.93%	-	4.31%	=	12.62%
15	Dec 2009	2.56%	2.88%	+	12.58%	=	15.46%	-	4.35%	=	11.11%
16	Jan 2010	2.64%	3.00%	+	13.71%	=	16.71%	-	4.48%	=	12.23%
17	Feb	2.59%	2.97%	+	14.65%	=	17.62%	-	4.48%	=	13.14%
18	Mar	2.44%	2.75%	+	12.69%	=	15.44%	-	4.48%	=	10.96%
19	April	2.36%	2.63%	+	11.61%	=	14.24%	-	4.69%	=	9.55%
20	May	2.61%	3.00%	+	14.80%	=	17.80%	-	4.29%	=	13.51%
21	June	2.79%	3.30%	+	18.20%	=	21.50%	-	4.13%	=	17.37%
22	July	2.61%	3.03%	+	15.95%	=	18.98%	-	3.99%	=	14.99%
23											
24	Recommended	2.59%	2.96%	+	14.23%	=	17.19%	-	4.36%	=	13.25%
25											
26	Short-term Trends										
27	Recent Twelve Months Avg	2.64%	3.01%	+	14.26%	=	17.27%	-	4.33%	=	12.94%
28	Recent Nine Months Avg	2.59%	2.96%	+	14.23%	=	17.19%	-	4.36%	=	12.83%
29	Recent Six Months Avg	2.57%	2.95%	+	14.65%	=	17.60%	-	4.34%	=	13.25%
30	Recent Three Months Avg	2.67%	3.11%	+	16.32%	=	19.42%	-	4.14%	=	15.29%

31
32
33 [1] Average Current Dividend Yield (D_0/P_0) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks
34 [2] Expected Dividend Yield (D_1/P_0) equals average current dividend yield (D0/P0) times one plus growth rate(g).
35 [3] Average 3-5 year price appreciation (annualized). Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks
36 [4] Monthly average 30 year U.S. Treasury. Federal Reserve.
37

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	Historical Market Risk Premium CAPM	5.5%	+	0.78	x	6.7%	[4]	=	10.7%
4									
5	Current Market Risk Premium CAPM	5.5%	+	0.78	x	13.3%	[5]	=	15.8%
6									
7	Average								13.2%
8									
9									
10									
11									
12	[1] Forecasts of long-term treasury yields. See Schedule D-4.10.								
13	[2] Value Line Investment Analyzer data. See Schedule D-4.9.								
14	[3] Historical Market Risk Premium from (Rp) MorningStar SBBI 2010 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2009								
15	[4] Computed using DCF constant growth method to determine current market return onValue Line 1700 stocks								
16	and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Schedule D-4.11.								
17									
18									
19									
20									

Las Quintas Serenas Water Company
Financial Risk Computation

Exhibit
Rejoinder Schedule D-4.13

Line No.											
1	**CAPM**										
2		Rf		+	β		x	(Rp)			k
3	Historical Market Risk Premium	5.5%	1	+	0.78	2	x	6.7%	3	=	10.7%
4	Current Market Risk Premium	5.5%	1	+	0.78	2	x	13.3%	4	=	15.8%
5											
6	Average										13.3%
7											
8											
9	**CAPM Relevered Beta**										
10		Rf		+	β		x	(Rp)			k
11	Historical Market Risk Premium	5.5%	1	+	0.94	5	x	6.7%	3	=	11.7%
12	Current Market Risk Premium	5.5%	1	+	0.94	5	x	13.3%	4	=	17.9%
13											
14	Average										14.8%
15											
16	Financial Risk Adjustment										**1.5%**
17											
18											
19	[1] Forecast of long-term treasury yields. See Schedule D-4.10										
20	[2] Value Line Investment Analyzer data. See Schedule D-4.9										
21	[3] Historical Market Risk Premium from (Rp) MorningStar SBBI 2010 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2009										
22	[4] Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks										
23	and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Schedule D-4.11										
24	[5] Relevered bata found on Schedule D-4.15										
25											

Las Quintas Serenas Water Company
Financial Risk Computation
Unlevered Beta

Exhibit
Rejoinder Schedule D-4.14

Line No.		Company	VL Beta β_L [1]	Raw Beta Raw β_L [2]	Tax Rate t [3]	MV Debt D [4]	MV Equity E [4]	Unlevered Raw Beta β_U [5]
5	1.	American States	0.80	0.70	37.8%	35.0%	65.0%	0.52
6	2.	Aqua America	0.65	0.48	39.4%	34.8%	65.2%	0.36
7	3.	California Water	0.75	0.63	38.0%	34.2%	65.8%	0.48
8	4.	Connecticut Water	0.80	0.70	19.5%	38.4%	61.6%	0.47
9	5.	Middlesex	0.75	0.63	34.1%	36.7%	63.3%	0.46
10	6.	SJW Corp.	0.95	0.93	40.4%	37.2%	62.8%	0.69
13		Sample Water Utilities	0.78	0.68	34.8%	36.1%	63.9%	0.50

[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 Schedule D-4.3
[5] Raw B_u = Raw B_L/ (1+ (1-t)*D/E)

Las Quintas Serenas Water Company
Financial Risk Computation
Relevered Beta

Exhibit
Rejoinder Schedule D-4.15

Line No.		Unlevered Raw Beta β_U[1]	MV Book Debt BD[2]	MV Equity Capital EC[2]	Tax Rate t[3]	Relevered Raw Beta $\beta_{RL}=\beta_U(1+(1-t)BD/EC))$ β_{RL}	VL Adjusted Relevered Beta .33 + .67(Raw Beta) β_{RL}
5	Las Quintas Serenas Water Corr	0.50	54.4%	45.6%	30.79%	0.91	0.94

[1] Unlevered Beta from Schedule D-4.14.

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

	BV (in Thousands)			MV (in Thousands)	%
Long-term Debt	$ 1,725.18	1.00		$ 1,725	54.40%
Preferred Stock	-	1.00		-	0.0%
Common Stock	814.41	1.78	(a)	1,447	45.6%
Total Capital	$ 2,539.58			$ 3,173	100.0%

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

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

Las Quintas Serenas Water Company
Size Premium[1]

Exhibit
Rejoinder Schedule D-4.16

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

Line No.		Risk Premium for Small Water Utilities
20	Estimated Risk Premium for small water utilities[6]	0.99%

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

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

EXHIBIT
S-1
ADMITTED

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner

IN THE MATTER OF THE APPLICATION OF 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 WATER UTILITY SERVICE BASED THEREON.	)	DOCKET NO. W-01583A-09-0589

DIRECT

TESTIMONY

OF

MARLIN SCOTT, JR.

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

AUGUST 9, 2010

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ENGINEERING REPORT 3

EXHIBIT

Engineering Report for Las Quintas Serenas Water Company ..... MSJ

INTRODUCTION

Q. Please state your name, place of employment and job title.

A. My name is Marlin Scott, Jr. My place of employment is the Arizona Corporation Commission ("Commission"), Utilities Division, 1200 West Washington Street, Phoenix, Arizona 85007. My job title is Utilities Engineer.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since November 1987.

Q. Please list your duties and responsibilities.

A. As a Utilities Engineer, specializing in water and wastewater engineering, my responsibilities include: the inspection, investigation, and evaluation of water and wastewater systems; preparing reconstruction cost new and/or original cost studies, reviewing cost of service studies and preparing investigative reports; providing technical recommendations and suggesting corrective action for water and wastewater systems; and providing written and oral testimony on rate applications and other cases before the Commission.

Q. How many cases have you analyzed for the Utilities Division?

A. I have analyzed approximately 545 cases covering various responsibilities for the Utilities Division.

Q. Have you previously testified before this Commission?

A. Yes, I have testified in 79 proceedings before this Commission.

Q. What is your educational background?

A. I graduated from Northern Arizona University in 1984 with a Bachelor of Science degree in Civil Engineering Technology.

Q. Briefly describe your pertinent work experience.

A. Prior to my employment with the Commission, I was Assistant Engineer for the City of Winslow, Arizona, for about two years. Prior to that, I was a Civil Engineering Technician with the U.S. Public Health Service in Winslow for approximately six years.

Q. Please state your professional membership, registrations, and licenses.

A. I am a member of the National Association of Regulatory Utility Commissioners ("NARUC") Staff Subcommittee on Water.

PURPOSE OF TESTIMONY

Q. What was your assignment in this proceeding?

A. My assignment was to provide Staff's engineering evaluation for Las Quintas Serenas Water Company ("Company") in this rate proceeding.

Q. What is the purpose of your testimony in this proceeding?

A. To present the findings of Staff's engineering evaluation of the operation of the Company. The findings are contained in the Engineering Report that I have prepared for this proceeding and is included as Exhibit MSJ attached to this Direct Testimony.

ENGINEERING REPORT

Q. Would you briefly describe what was involved in preparing your Engineering Report for this rate proceeding?

A. After reviewing the application for the Company, I physically inspected the water system to evaluate its operation and to determine if any plant items were not used and useful. I obtained information from the Company regarding plant facilities, water testing expense, and I analyzed that information. I also contacted the Arizona Department of Water Resources ("ADWR") to determine if the Company was in compliance with the ADWR's requirements governing water providers. Based on all the above, I prepared the attached Engineering Report.

Q. Do you provide a summary of the water company operation contained in your Engineering Report?

A. Yes, the summary containing Staff's engineering conclusions and recommendations are located at the beginning of my Exhibit MSJ.

Q. Does this conclude your Direct Testimony?

A. Yes, it does.

Engineering Report
For
Las Quintas Serenas Water Company
Docket No. W-01583A-09-0589 (Rates)

June 2, 2010

SUMMARY

CONCLUSIONS

A. The Las Quintas Serenas Water Company ("Company") has a water loss of 7.2% which is within the acceptable limit of 10% recommended by Staff.

B. The Company's test year well capacity of 1,525 GPM and storage capacity of 490,000 gallons is adequate to serve the present customer base and reasonable growth.

C. According to an Arizona Department of Environmental Quality ("ADEQ") Compliance Status Report, dated March 19, 2010, ADEQ has determined that the Company's system, Public Water System No. 10-064, is currently delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

D. The Company is located in the Arizona Department of Water Resources' ("ADWR") Tucson Active Management Area and ADWR has reported that the Company is in compliance with ADWR's requirements governing water providers and/or community water systems.

E. According to the Utilities Division Compliance database, the Company has no delinquent Arizona Corporation Commission compliance items.

F. The Company has an approved curtailment tariff with an effective date of January 1, 2005.

G. Under the Arizona Administrative Code's old Section R18-4-115, the Company has an approved Backflow Prevention Tariff ("BPT") with an effective date of September 27, 1997. This old Section R18-4-115 was renumbered to Section R18-4-215, effective August 30, 2008.

On July 9, 2010, the Company filed a new application under Docket No. 10-0281 in order to update its BPT using the renumbered Section R18-4-215. This updated BPT will become effective on August 8, 2010 by operation of law.

RECOMMENDATIONS

1. Staff recommends an average annual water testing expense of $4,247 be adopted for this proceeding.

2. Staff recommends the removal of the natural gas engines and the Santa Cruz Meadows Subdivision mains at a total cost of $41,000 from the plant-in-service because these plant items are not used and useful.

3. Staff recommends that the Company continue to use the depreciation rates by individual National Association of Regulatory Utility Commissioners category as presented in Table I-1.

4. Staff recommends the acceptance of the Company's proposed service line and meter installation charges as presented in Table J-1.

5. Staff recommends that the existing Off-Site Hook-Up Fee Tariff for all meter sizes at $250 should remain in effect.

6. Staff recommends that the existing Arsenic Impact Hook-Up Fee Tariff, starting at $1,135, should remain in effect.

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A. LOCATION OF LAS QUINTAS SERENAS WATER COMPANY ("COMPANY")

The Company provides water service within the southwestern town limits of Sahuarita which is located approximately 22 miles south of downtown Tucson. Figure A-1 shows the location of the Company within Pima County and Figure A-2 shows the approximate 2.5 square-miles of certificated area.

B. DESCRIPTION OF WATER SYSTEM

The water system was field inspected on March 25, 2010, by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Omar Mejia, Administrative Manager for the Company. The operation of the water system consisted of three producing wells, a centralized arsenic treatment system, three storage tanks, one booster system and a distribution system serving 857 metered customers and 156 standpipe customers as of June 2009. A detailed plant facility description follows:

Table 1. Well Data

Well Information	Well #5	Well #6	Well #7
ADWR ID No.	55-608531	55-608530	55-565940
Casing Size	10" & 8"	12-inch	12-inch
Casing Depth	10" to 513' w/ 8" to 805'	837 feet	910 feet
Pump Size	40-Hp	75-Hp	150-Hp
Pump Type	Submersible	Turbine	Turbine
Pump Yield	200 GPM	500 GPM	825 GPM
Wellhead Meter	4-inch	4-inch	8-inch
Pressure tank	5,000 gallons	4,000 gallons (surge arrestor)	5,000 gallons (surge arrestor)
Treatment	None	Chlorination & arsenic	Chlorination & arsenic
Arsenic levels	Untreated at 9.8 ppb	Untreated at 14 ppb Blended to 0.005 ppb	Untreated at 11 ppb Blended to 0.005 ppb

Table 2. Storage Tanks

Capacity (Gallons)	Quantity (Each)	Location
400,000	1	At Well #6
60,000	1	On side of berm (hill)
30,000	1	On side of berm (hill)
Total: 490,000	3	

Table 3. Pumping Facilities

Location	Pumping Facilities
Booster System at Well #6	Four 25-Hp booster pumps with a 500 gallon pressure tank as a surge arrestor.
Standpipe #1 and Standpipe #2	Two 5,000 gallon pressure tanks as surge arrestors, one 1,000 gallon pressure tank and a 4-inch double check backflow prevention assembly.

Table 4. Water Mains

Diameter	Material	Length
2-inch	Copper	250 ft.
3-inch	Transite	240 ft.
4-inch	Transite	19,840 ft.
6-inch	Transite	32,487 ft.
8-inch	Transite	2,760 ft.
10-inch	Transite	420 ft.
12-inch	Transite	1,340 ft.
2-inch	PVC	1,550 ft.
4-inch	PVC	5,109 ft.
6-inch	PVC	25,158 ft.
8-inch	PVC	10,610 ft.
12-inch	PVC	1,950 ft.
6-inch	Ductile iron	575 ft.
	Total:	102,289 ft. or 19.4 miles

Table 5. Customer Meters

Size	Quantity
5/8 x 3/4-inch	810
3/4-inch	6
1- inch	29
1-1/2-inch	6
2-inch	3
3-inch Turbine	-
3-inch Compound	1
4-inch Turbine	-
4-inch Compound	2
Total:	857
Standpipe customers	156

Table 6. Fire Hydrants

Size	Quantity
Standard	None

Table 7. Structures & Treatment Equipment

Structures & Treatment Equipment
Well #5: 50'x 90' chain link fencing ("CLF"), storage building – 10' x 20'.
Well #6: 100' x 140' CLF & block fencing, metal shed for chlorinator – 5' x 5', electrical panel metal shed – 6' x 20', 125 kW diesel generator.
Liquid chlorination system – used for pre-treatment for Wells #6 and #7 prior to arsenic treatment.
Arsenic treatment system at 1,275 GPM capacity with a 10,000 gallon backwash tank and a liquid chlorination unit. Flows from Wells #6 & #7 are combined before being split for partial treatment and by-pass flow, resulting in blending of treated water with untreated water.
Well #7: 40' x 50' CLF, well shed – 7.5' x 7.5', control building & panel shed – 8' x 20'. This well transports water to Well #6 for arsenic treatment.

C. WATER USE

Water Sold

Based on the information provided by the Company, water use for the test year ending June 2009 is presented in Figure C-1. Customer consumption experienced a high monthly average water use of 624 gallons per day ("GPD") per connection in June 2009 and a low monthly average water use of 271 GPD per connection in January 2009 for an average annual use of 412 GPD per connection.

Non-Account Water

Non-account water should be 10% or less. The Company reported 166,131,000 gallons pumped and 154,233,000 gallons sold, resulting in a water loss of 7.2%. This 7.2% is within the acceptable limit of 10% recommended by Staff.

System Analysis

Using the Company's test year data, the Company reported the peak use month as June 2009 with 19,155,000 gallons sold. Based on this data, Staff estimates the peak day demand to be 0.54 GPM per connection for evaluating well capacity sufficiency. For storage capacity evaluation, Staff used 624 GPD per connection. Using these factors, Staff determined that the test year well capacity of 1,525 GPM and storage capacity of 490,000 gallons is adequate to serve the present customer base and reasonable growth.

D. GROWTH

Figure D-1 depicts the customer growth using linear regression analysis. The number of customers was obtained from Annual Reports, ending September of each fiscal year, submitted to the Commission. During the 2009 year, the Company had 857 metered customers and 156 standpipe customers, totaling to 1,013 customers, and it is projected that the Company could have approximately a total of 1,150 customers by September 2014.

E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE

Compliance

According to an ADEQ Compliance Status Report, dated March 19, 2010, ADEQ has determined that the Company's system, Public Water System No. 10-064, is currently delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

Water Testing Expense

The Company is subject to mandatory participation in the ADEQ Monitoring Assistance Program ("MAP"). The Company reported its water testing expense at $7,408 during the test year. Staff has reviewed this expense and has recalculated an annual expense of $4,247 with participation in the MAP as shown in Table E-1. Staff recommends this average annual water testing expense of $4,247 be adopted for this proceeding.

F. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

The Company is located in the Tucson Active Management Area. According to an ADWR compliance status report, dated April 5, 2010, the Company is in compliance with ADWR requirements governing water providers and/or community water systems.

G. ARIZONA CORPORATION COMMISSION ("ACC") COMPLIANCE

According to the Utilities Division Compliance database, the Company has no delinquent ACC compliance items.

H. PLANT NOT USED AND USEFUL

In the prior 2004 rate case, the Company operated Well #6 using a natural gas engine. In 2008, during the construction and installation of the arsenic treatment system and other new plant facilities, the natural gas engine was taken out of service. In addition, Staff noted that during its field inspection, the Santa Cruz Meadows Subdivision had plant facilities constructed on site, but no homes. Through its field inspection and Company data responses, Staff found that the following plant items are not used and useful:

Table H-1. Plant Not Used and Useful

Acct. No.	Plant	Year Installed	Original Cost
311	Electric Pumping Equipment	1996	$10,090
	Well #6 – Natural gas well engine (taken out of service in 2008).		
	Natural gas engine (spare)	1997	$9,992
331	Transmission & Distribution Mains	2008	$20,918
	Santa Cruz Meadows Subdivision – 239 lots		
	Total:		**$41,000**

Therefore, Staff recommends the removal of the natural gas engines and the subdivision mains at a total cost of $41,000 from the plant-in-service because these plant items are not used and useful.

I. DEPRECIATION RATES

In the prior rate case, the Company was authorized to use Staff's typical and customary depreciation rates. These depreciation rates are presented in Table I-1 and it is recommended that the Company continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.

J. SERVICE LINE AND METER INSTALLATION CHARGES

The Company proposed changes to its service line and meter installation charges. The Company's proposed charges are within Staff's range of customary installation charges. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, Staff recommends approval of the proposed charges as shown in Table J-1, with separate installation charges for the service line and meter installations.

K. CURTAILMENT PLAN TARIFF

The Company has an approved curtailment tariff with an effective date of January 1, 2005.

L. BACKFLOW PREVENTION TARIFF

Under the Arizona Administrative Code's old Section R18-4-115, the Company has an approved Backflow Prevention Tariff ("BPT") with an effective date of September 27, 1997. This old Section R18-4-115 was renumbered to Section R18-4-215, effective August 30, 2008.

On July 9, 2010, the Company filed a new application under Docket No. 10-0281 in order to update its BPT using the renumbered Section R18-4-215. This updated BPT will become effective on August 8, 2010 by operation of law.

M. OFF-SITE HOOK-UP FEE TARIFF

The Company currently has an approved Off-Site Hook-Up Fee ("HUF") Tariff for all meter sizes at $250 with an effective date of November 2, 1994. In its rate application, the Company has requested to increase this Off-Site HUF Tariff starting at $1,135 for a 5/8 x 3/4-inch meter.

In response to Staff's Data Request MSJ 4.1, the Company stated that the requested increase beginning at $1,135 was from the adoption of the existing Arsenic Impact HUF Tariff, approved by Decision No. 68863 on July 28, 2006, that was to replace the Off-Site HUF Tariff. The Company further stated that the requested increase would be used to continue to pay on debt

service on a Water Infrastructure Finance Authority loan and to provide funds necessary for additional infrastructure.

Since the Company has constructed and placed into service approximately $2.1 million worth of off-site plant and arsenic treatment facilities in 2008, this existing Off-site HUF Tariff should remain in effect in order to assist the Company in repayment of loans obtained for the installation of off-site facilities. Therefore, Staff recommends that the existing Off-Site HUF Tariff for all meter sizes at $250 should remain in effect.

N. ARSENIC IMPACT HOOK-UP FEE TARIFF

The Company has an approved Arsenic Impact Hook-Up Fee Tariff, starting at $1,135, with an effective date of July 28, 2006. In its rate application, the Company is requesting to discontinue this Arsenic Impact HUF tariff.

Since the Company has constructed and placed into service approximately $2.1 million worth of off-site plant and arsenic treatment facilities in 2008, this existing Arsenic Impact HUF Tariff should remain in effect in order to assist the Company in repayment of loans obtained for the installation of arsenic treatment facilities. Therefore, Staff recommends that the existing Arsenic Impact HUF Tariff, starting at $1,135, should remain in effect.

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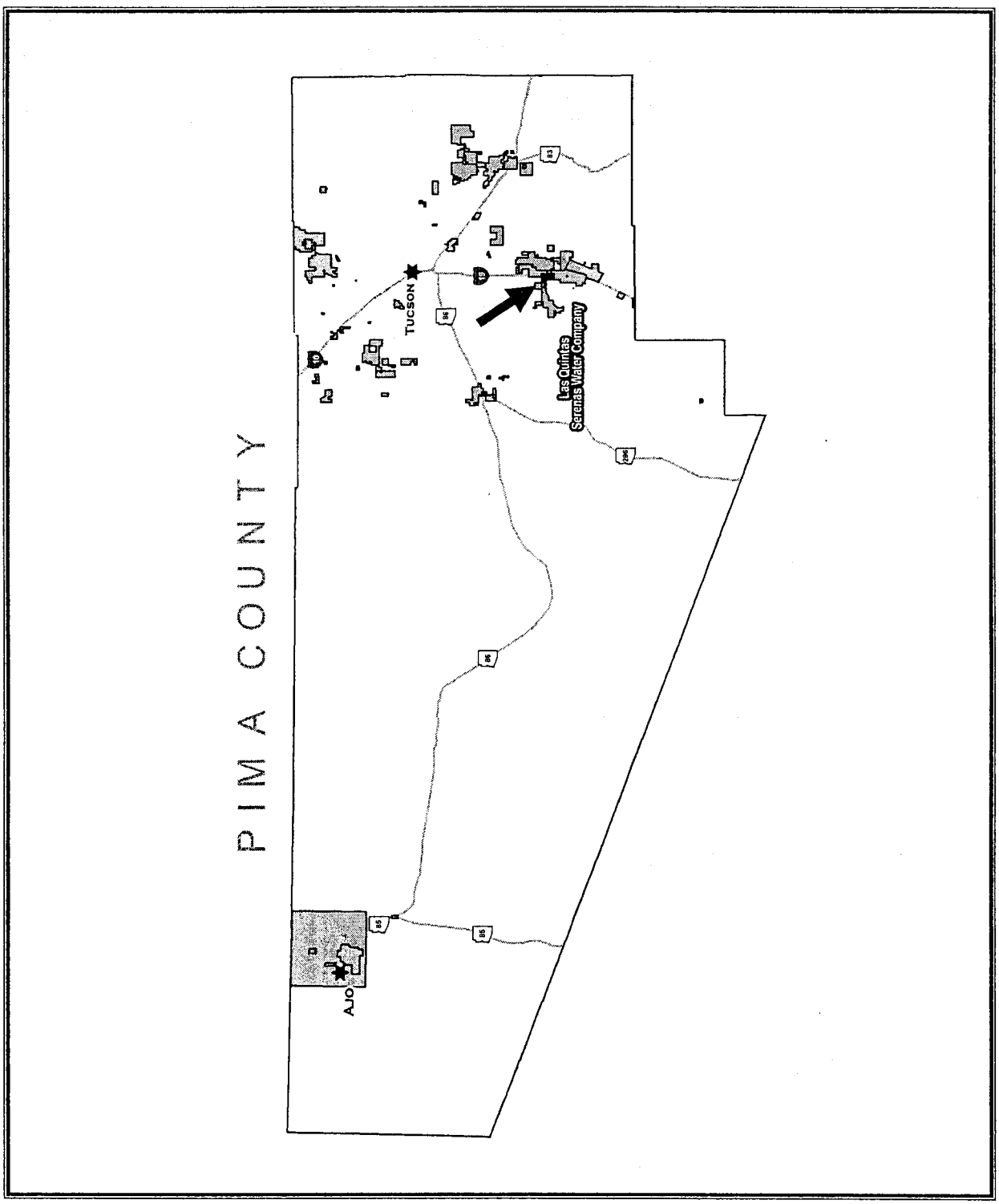

Figure A-1. Pima County Map

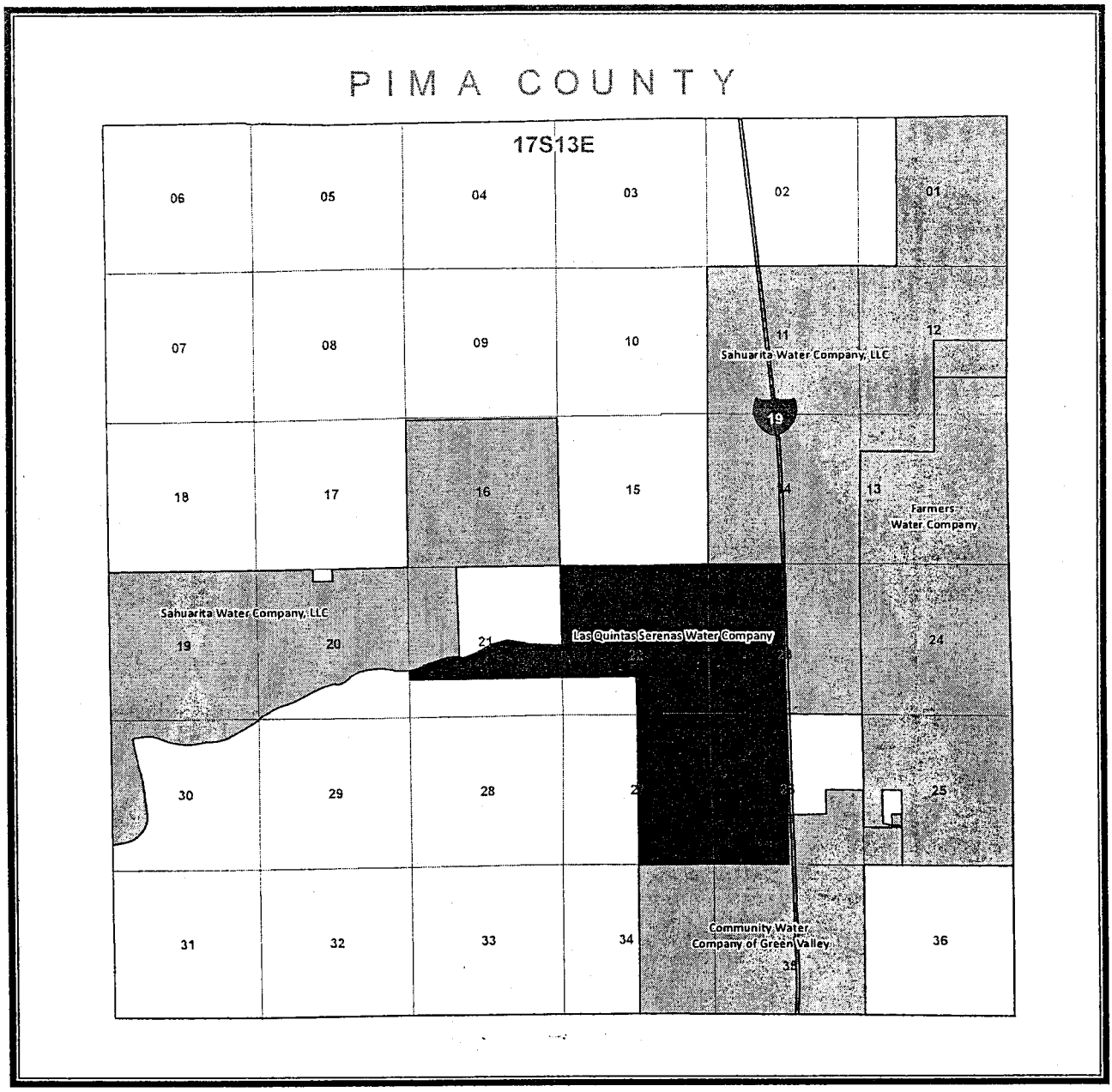

Figure A-2. Certificated Areas

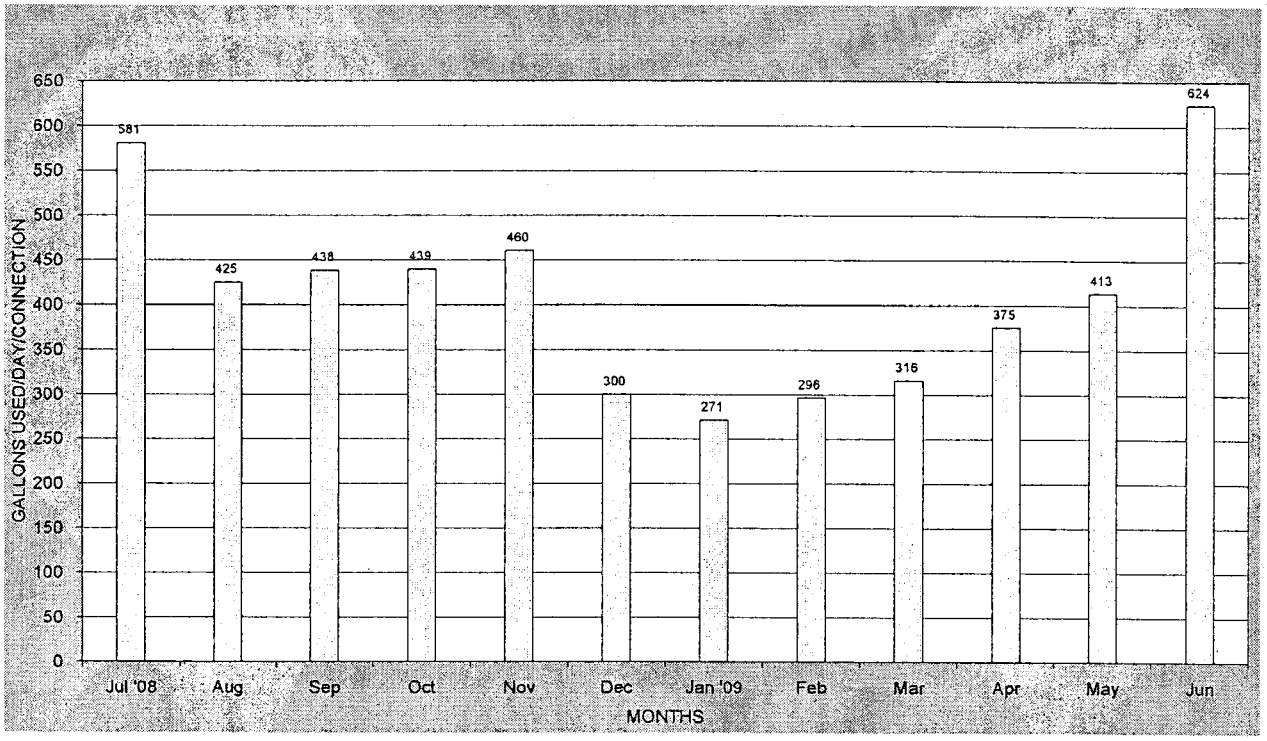

Figure C-1. Water Use

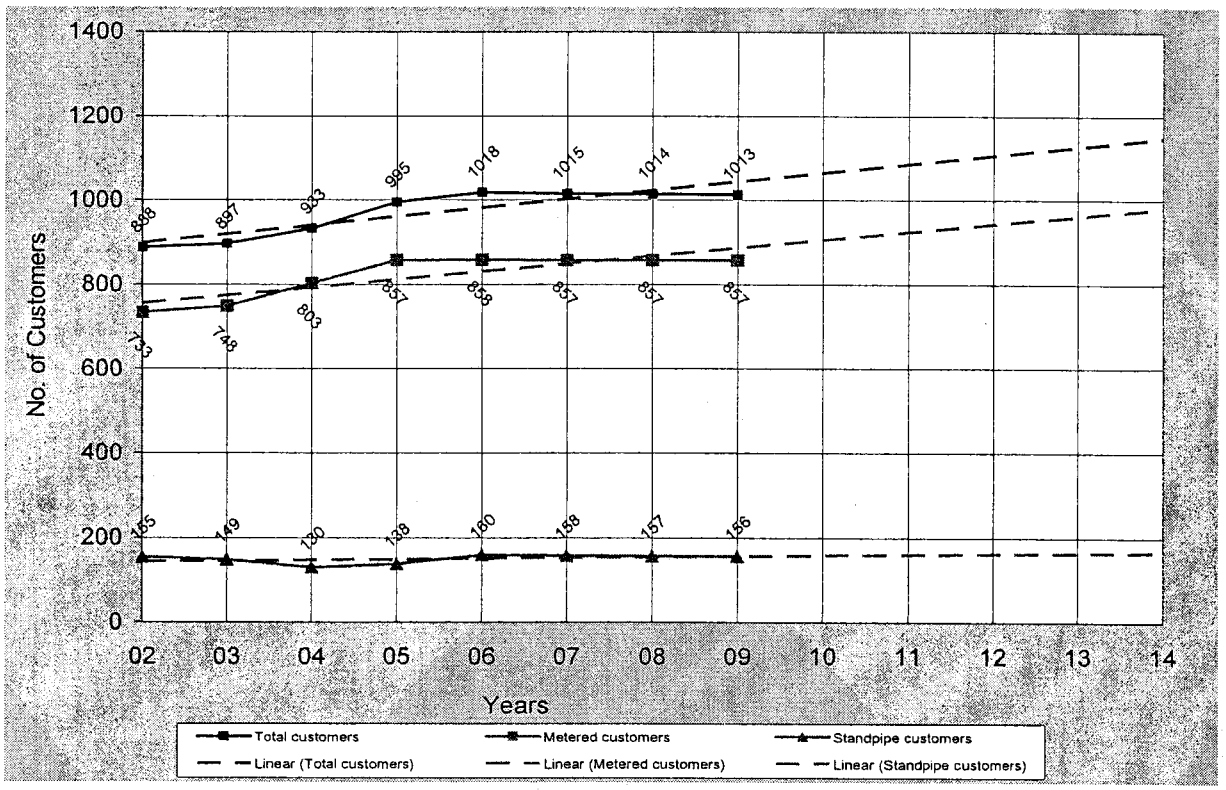

Figure D-1. Growth

Table E-1. Water Testing Expense

Monitoring	Cost per test	No. of test	Annual Cost
Total coliform – 3 samples per month	$20	36	$720
MAP – IOCs, Radiochemical, Nitrate, Nitrite, Asbestos, SOCs, & VOCs	MAP	MAP	$3,036
Arsenic – 1 sample per quarter	$25	4	$100
Lead & Copper – 10 samples per 3 years	$33	10	$110
MRDL – 3 samples per month	$0.44	36	$16
D/DBP – TTHM – annually	$110	1	$110
HAA5 – annually	$155	1	$155
Total			**$4,247**

Note: ADEQ - MAP invoice for the 2010 Calendar Year is $3,035.88.

Table I-1. Depreciation Rates

NARUC Account No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

1. These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.

2. Acct. 348, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

Table J-1. Service Line and Meter Installation Charges

Meter Size	Current Total Charges	Proposed Service Line Charges	Proposed Meter Charges	**Proposed Total Charges**
5/8 x 3/4"	$150	$445	$155	$600
3/4"	NT	$445	$255	$700
1"	$225	$495	$315	$810
1-1/2"	$475	$550	$525	$1,075
2" Turbine	$625	$830	$1,045	$1,875
2" Compound	NT	$830	$1,890	$2,720
3" Turbine	$850	$1,045	$1,670	$2,715
3" Compound	NT	$1,165	$2,545	$3,710
4" Turbine	$1,800	$1,490	$2,670	$4,160
4" Compound	NT	$1,670	$3,645	$5,315
6" Turbine	$3,000	$2,210	$5,025	$7,235
6" Compound	$NT	$2,330	$6,920	$9,250
8"	NT	At Cost	At Cost	At Cost

Notes: (1) NT = no tariff.
(2) For the 4-inch turbine meter size, the Company requested $3,670 and $5,160 for the proposed meter charges and total charges, respectively. However, these charges appear to be a typo because per the Company's noted reference on Schedule H-3, Page 5 of its application to Staff's February 21, 2008 updated installation charges, the actual charges are $2,670 and $4,160, respectively.

EXHIBIT
S-2
ADMITTED

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
SANDRA D. KENNEDY
Commissioner
PAUL NEWMAN
Commissioner
BOB STUMP
Commissioner

IN THE MATTER OF THE APPLICATION OF 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 ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	)	DOCKET NO. W-01583A-09-0589

DIRECT

TESTIMONY

OF

JUAN C. MANRIQUE

PUBLIC UTILITIES ANALYST I

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

AUGUST 9, 2010

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EXECUTIVE SUMMARY
LAS QUINTAS SERENAS WATER COMPANY
DOCKET NO. W-01583A-09-0589

The Direct Testimony of Staff witness Juan C. Manrique addresses the following issues:

Capital Structure – Staff recommends that the Commission adopt a hypothetical capital structure for Las Quintas Serenas Water Company ("Applicant") for this proceeding consisting of 60.0 percent debt and 40.0 percent equity. The Applicant's actual capital structure consists of 67.9 percent debt and 32.1 percent equity.

Cost of Equity – Staff recommends that the Commission adopt a 10.6 percent return on equity ("ROE") for the Applicant. Staff's estimated ROE for the Applicant is based on cost of equity estimates for the sample companies ranging from 9.8 percent for the discounted cash flow method ("DCF") to 11.3 percent for the capital asset pricing model ("CAPM").

Cost of Debt – Staff recommends that the Commission adopt a 7.1 percent cost of debt. This recognizes debt issuance costs as interest expense in accordance with the National Association of Regulatory Commissioners Uniform System of Accounts as opposed to the Applicant's proposal to include debt issuance costs and a component of rate base.

Overall Rate of Return – Staff recommends that the Commission adopt an 8.5 percent overall rate of return ("ROR").

Mr. Bourassa's Testimony – The Commission should reject the Applicant-proposed 16.0 percent ROE for the following reasons:

> Mr. Bourassa's DCF estimates rely heavily on analyst's forecasts and provide little weight to historical dividend per share growth rates.

I. INTRODUCTION

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

A. My name is Juan C. Manrique. I am a Public Utilities Analyst employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Briefly describe your responsibilities as a Public Utilities Analyst.

A. In my position as a Public Utilities Analyst, I perform studies to estimate the cost of capital component in rate filings to determine the overall revenue requirement and analyze requests for financing authorizations.

Q. Please describe your educational background and professional experience.

A. I graduated from Arizona State University and received a Bachelor of Science degree in Finance. My course of studies included courses in corporate and international finance, investments, accounting, statistics, and economics. I began employment as a Staff Public Utilities Analyst in October 2008. My professional experience includes two years as a Loan Officer with a homebuilder and as an Associate for an Investor Relations firm.

Q. What is the scope of your testimony in this case?

A. My testimony provides Staff's recommended capital structure, return on equity ("ROE") and overall rate of return ("ROR") for establishing the revenue requirements for Las Quintas Serenas Water Company's ("LQS" or "Applicant") pending rate application.

Q. Please provide a brief description of LQS.

A. LQS is a for-profit Arizona Limited Liability Corporation that is engaged in the business of providing public water (approximately 1,000 customers) utility service in a portion of Sahuarita within Pima County, Arizona.

Summary of Testimony and Recommendations

Q. Briefly summarize how Staff's cost of capital testimony is organized.

A. Staff's cost of capital testimony is presented in eleven sections. Section I is this introduction. Section II discusses the concept of weighted average cost of capital ("WACC"). Section III presents the concept of capital structure and presents Staff's recommended capital structure for LQS in this proceeding. Section IV discusses the concepts of ROE and risk. Section V presents the methods employed by Staff to estimate LQS's ROE. Section VI presents the findings of Staff's ROE analysis. Section VII presents Staff's final cost of equity estimates for LQS. Section VIII presents Staff's Cost of Debt recommendation. Section IX presents Staff's ROR recommendation. Section X presents Staff's comments on the Direct Testimony of the Applicant's witness, Mr. Thomas J. Bourassa. Finally, Section XI presents the conclusions.

Q. Have you prepared any exhibits to accompany your testimony?

A. Yes. I prepared ten schedules (JCM-1 to JCM-10) that support Staff's cost of capital analysis.

Q. What is Staff's recommended rate of return for LQS?

A. Staff recommends an 8.5 percent overall ROR, as shown in Schedule JCM-1. Staff's ROR recommendation is based on cost of equity estimates for LQS that range from 9.8

percent using the discounted cash flow method ("DCF") to 11.3 percent using the capital asset pricing model ("CAPM") and a cost of debt of 7.1 percent.

LQS's Proposed Overall Rate of Return

Q. Briefly summarize LQS's proposed capital structure, cost of debt, return on equity and overall rate of return for this proceeding.

A. Table 1 summarizes the Applicant's proposed capital structure, cost of debt, return on equity and overall rate of return in this proceeding:

Table 1

	Weight	Cost	Weighted Cost
Long-term Debt	74.2%	6.6%	4.9%
Common Equity	25.9%	16%	4.1%
Cost of Capital/ROR			**9.0%**

LQS is proposing an overall rate of return of 9.0 percent.

II. THE WEIGHTED AVERAGE COST OF CAPITAL

Q. Briefly explain the cost of capital concept.

A. The cost of capital is the opportunity cost of choosing one investment over others with equivalent risk. In other words, the cost of capital is the return that stakeholders expect for investing their financial resources in a determined business venture over another business venture.

Q. What is the overall cost of capital?

A. The cost of capital to a company issuing a variety of securities (i.e., stock and indebtedness) is an average of the cost rates on all issued securities adjusted to reflect the

relative amounts for each security in the company's entire capital structure. Thus, the overall cost of capital is the WACC.

Q. How is the WACC calculated?

A. The WACC is calculated by adding the weighted expected returns of a firm's securities. The WACC formula is:

Equation 1.

$$WACC = \sum_{i=1}^{n} W_i * r_i$$

In this equation, W_i is the weight given to the ith security (the proportion of the ith security relative to the portfolio) and r_i is the expected return on the ith security.

Q. Can you provide an example demonstrating application of Equation 1?

A. Yes. For this example, assume that an entity has a capital structure composed of 60 percent debt and 40 percent equity. Also, assume that the embedded cost of debt is 6.0 percent and the expected return on equity, i.e. the cost of equity, is 10.5 percent. Calculation of the WACC is as follows:

$$WACC = (60\% * 6.0\%) + (40\% * 10.5\%)$$

$$WACC = 3.60\% + 4.20\%$$

$$WACC = 7.80\%$$

The weighted average cost of capital in this example is 7.80 percent. The entity in this example would need to earn an overall rate of return of 7.80 percent to cover its cost of capital.

III. CAPITAL STRUCTURE

Background

Q. Please explain the capital structure concept.

A. The capital structure of a firm is the relative proportions of each type of security--short-term debt, long-term debt (including capital leases), preferred stock and common stock--that are used to finance the firm's assets.

Q. How is the capital structure expressed?

A. The capital structure of a company is expressed as the percentage of each component of the capital structure (capital leases, short-term debt, long-term debt, preferred stock and common stock) relative to the entire capital structure.

As an example, the capital structure for an entity that is financed by $20,000 of capital leases, $85,000 of long-term debt, $15,000 of preferred stock and $80,000 of common stock is shown in Table 2.

Table 2

Component			%
Capital Leases	$20,000	($20,000/$200,000)	10.0%
Long-Term Debt	$85,000	($85,000/$200,000)	42.5%
Preferred Stock	$15,000	($15,000/$200,000)	7.5%
Common Stock	$80,000	($80,000/$200,000)	40.0%
Total	$200,000		100%

The capital structure in this example is composed of 0.0 percent short-term debt, 10.0 percent capital leases, 42.5 percent long-term debt, 7.5 percent preferred stock and 40.0 percent common stock.

LQS's Capital Structure

Q. What capital structure does LQS propose?

A. The Applicant proposes a capital structure composed of 74.15 percent debt and 25.85 percent common equity.

Q. How does LQS's proposed capital structure compare to capital structures of the publicly-traded water utilities?

A. LQS's updated capital structure is composed of 67.9 percent debt and 32.1 percent equity. Schedule JCM-4 shows the capital structures of six publicly traded water companies ("sample water companies") as of December 2009. The average capital structure for the sample water utilities is comprised of approximately 51.6 percent debt and 48.4 percent equity.

Staff's Capital Structure

Q. What is Staff's recommended capital structure for LQS?

A. The Applicant's current capital structure is composed of 67.9 percent debt and 32.1 percent equity; but for reasons outlined in Section VII of my testimony, Staff is recommending a hypothetical capital structure of 60.0 percent debt and 40.0 percent debt.

Q. Why does Staff's current capital structure differ from the Applicant's proposed capital structure?

A. Staff used the most updated capital structure, as of September 30, 2009, provided by the Applicant in response to Staff Data Request 6.1, rather than the end of the test year.

IV. RETURN ON EQUITY

Background

Q. Please define the term "cost of equity capital."

A. The cost of equity is the rate of return that investors expect to earn on their investment in a business entity given its risk. In other words, the cost of equity to the entity is the investors' expected rate of return on other investments of similar risk. As investors have a wide selection of stocks to choose from, they will choose stocks with similar risks but higher returns. Therefore, the market determines the entity's cost of equity.

Q. Is there a correlation between interest rates and the cost of equity?

A. Yes. The cost of equity tends to move in the same direction as interest rates. This relationship is part of the capital asset pricing model ("CAPM") formula. The CAPM is a market-based model employed by Staff for estimating the cost of equity. The CAPM is further discussed in Section V of this testimony.

Q. What has been the general trend of interest rates in recent years?

A. A chronological chart of interest rates is a good tool to show interest rate history and identify trends. Chart 1 graphs intermediate U.S. treasury rates from June 2000 to June 2010.

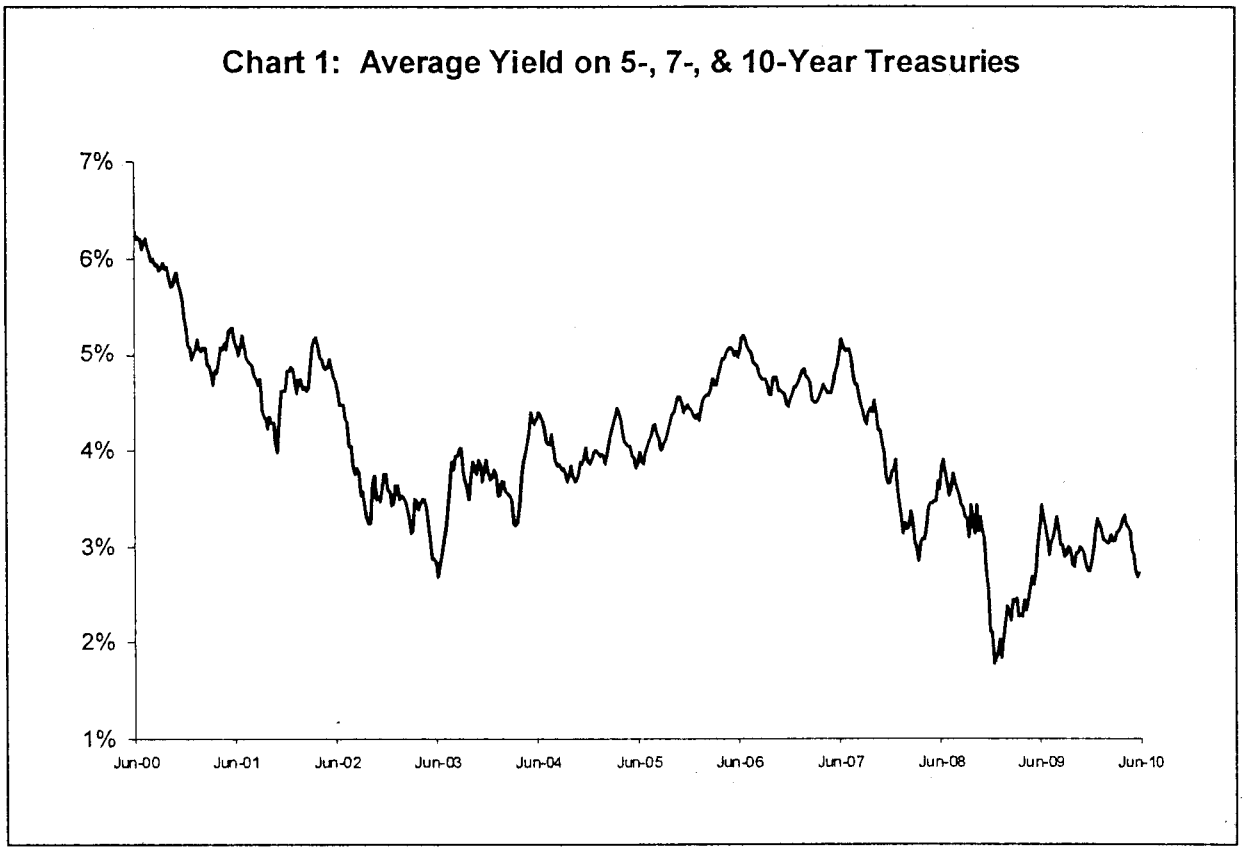
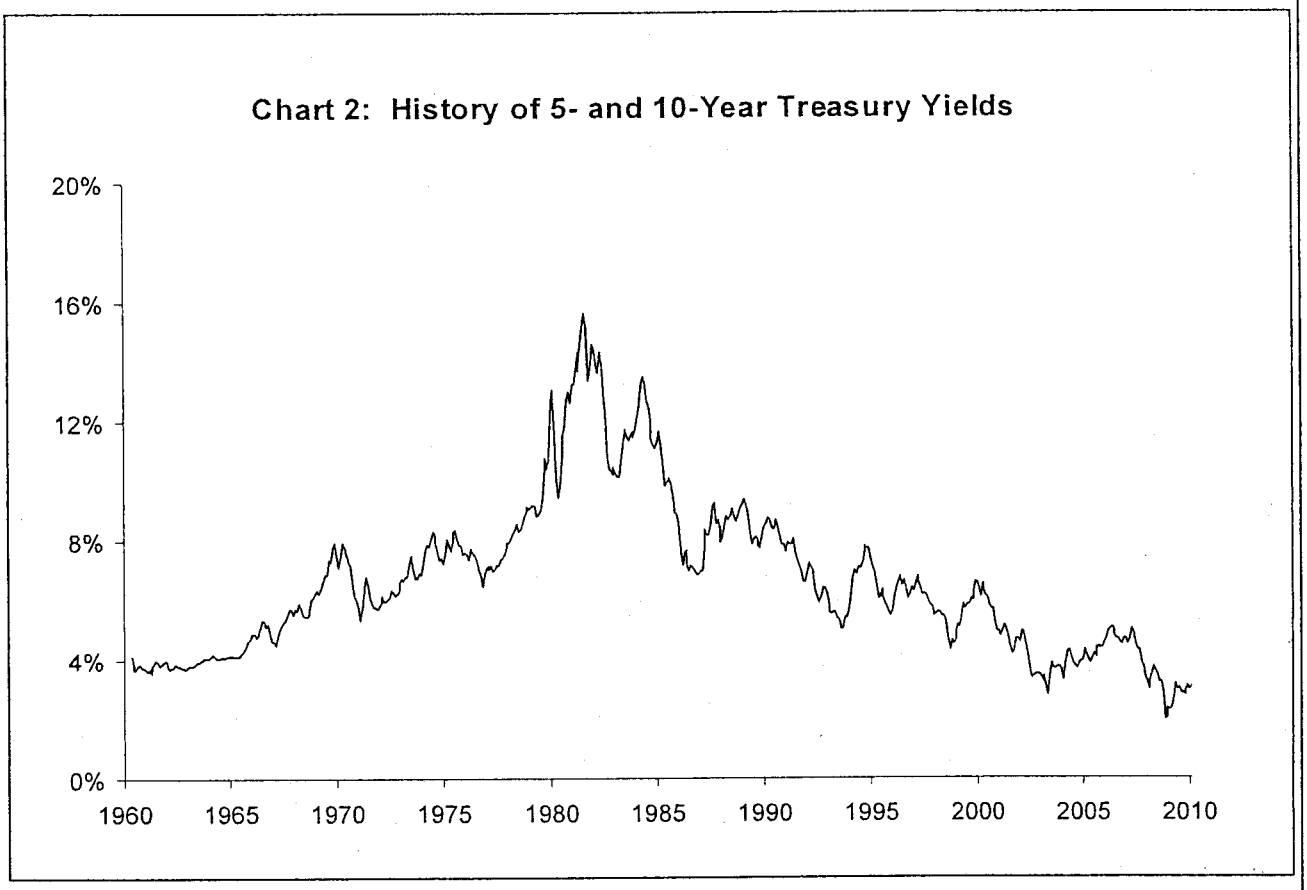


Chart 1 shows that intermediate interest rates trended downward from 2000 to mid-2003 then turned slightly upward until mid-2007, trended downward through early-2009 and have trended upward in the past year and a half.

Q. What has been the general trend in interest rates longer term?

A. U.S. Treasury rates from 1959 to present are shown in Chart 2. The chart shows that interest rates trended upward through the mid-1980s and have trended downward over the last 25 years.



Source: Federal Reserve

Q. Do these trends suggest anything in terms of cost of equity?

A. Yes. As previously discussed, interest rates and cost of equity tend to move in the same direction. The implication is that the cost of equity has declined in the past 25 years.

Q. Do actual returns represent the cost of equity?

A. No. The cost of equity represents investors' *expected* returns and not realized returns.

Q. Is there any information available that leads to an understanding of the relationship between the equity returns required for a regulated water utility and those required in the market as a whole?

A. Yes. A comparison of betas, a component of the CAPM discussed in Section V, for the water utility industry and the market provide insight into this relationship. The average beta (0.78)[1] for a water utility is lower than the theoretical average beta for all stocks (1.0). According to the CAPM formula, the cost of equity capital moves in the same direction as beta. Since the beta for the water utility industry is lower than the beta for the market, the implication is that the required return on equity for a regulated water utility is below the average required return on the market.

Risk

Q. Please define risk in relation to cost of capital.

A. Risk, as it relates to an investment, is the variability or uncertainty of the returns on a particular security. Investors are risk averse and require a greater potential return to invest in relatively greater risk opportunities, i.e., investors require compensation for taking on additional risk. Risk is generally separated into two components. Those components are market risk (systematic risk) and non-market risk (diversifiable risk or firm-specific risk).

Q. What is market risk?

A. Market risk or systematic risk is the risk of an investment that cannot be reduced through diversification. Market risk stems from factors that affect all securities such as recessions, war, inflation and high interest rates. Since these factors affect the entire market they cannot be eliminated through diversification. Market risk does not impact each security to

[1] See Schedule JCM-7

the same degree. The degree to which any security's returns is affected by the market can be measured using Beta. Beta reflects the business risk and the financial risk of a security.

Q. Please define business risk.

A. Business risk is the fluctuation of earnings inherent in a firm's operations and environment such as competition and adverse economic conditions that may impair its ability to provide returns on investment. Companies in the same or similar line of business tend to experience the same fluctuations in business cycles.

Q. Please define financial risk.

A. Financial risk is the fluctuation of earnings inherent in using debt financing by a firm that may impair its ability to provide adequate return. The more a company uses debt financing, the more the company becomes exposed to financial risk.

Q. Do business risk and financial risk affect the cost of equity?

A. Yes.

Q. Is a firm subject to any other risk?

A. Yes. Firms are also subject to unsystematic or firm-specific risk. Examples of unsystematic risk include losses caused by labor problems, nationalization of assets, loss of a big client or weather conditions. Investors can eliminate firm-specific risk by holding a diverse portfolio; thus, it is not of concern to diversified investors.

Q. How does LQS's financial risk compare to the sample water companies' financial risk from the perspective of an investor?

A. From an investor's perspective LQS's capital structure is more risky than the sample water companies. Schedule JCM-4 shows the capital structures of the six publicly-traded water companies ("sample water companies") as of December 2009, as well as LQS's actual capital structure. As of December 2009, the sample water utilities were capitalized with approximately 51.6 percent debt and 48.4 percent equity, while LQS's actual capital structure consists of approximately 67.9 percent debt and 32.1 percent equity. Thus, LQS's shareholders bear more financial risk than the shareholders of the sample companies.

Q. Is firm-specific risk measured by beta?

A. No. Firm-specific risk is not measured by beta.

Q. Is the cost of equity affected by firm-specific risk?

A. No. Since firm-specific risk can be eliminated through diversification, it does not affect the cost of equity.

Q. Can investors expect additional returns for firm-specific risk?

A. No. Investors who hold diversified portfolios can eliminate firm-specific risk and, consequently, do not require any additional return. Since investors who choose to be less than fully-diversified must compete in the market with fully-diversified investors, the former cannot expect to be compensated for unique risk.

V. ESTIMATING THE COST OF EQUITY

Introduction

Q. Did Staff directly estimate the cost of equity for LQS?

A. No. Since LQS is not a publicly-traded company, Staff is unable to directly estimate the Applicant's cost of equity due to the unavailability of financial information. Instead, Staff uses an average of a representative sample group to reduce the sample error resulting from random fluctuations in the market at the time the information is gathered.

Q. What companies did Staff select as proxies or comparables for LQS?

A. Staff's sample consists of the following six publicly-traded water utilities: American States Water, California Water, Connecticut Water Services, Middlesex Water, Aqua America and SJW Corp. Staff chose these companies because they are publicly-traded and receive the majority of their earnings from regulated operations.

Q. What models did Staff implement to estimate LQS's cost of equity?

A. Staff used two market-based models to estimate the cost of equity for LQS: the discounted cash flow model ("DCF") and the CAPM.

Q. Please explain why Staff chose the DCF and CAPM models.

A. Staff chose to use the DCF and CAPM models because they are widely-recognized market-based models and have been used extensively to estimate the cost of equity. An explanation of the DCF and CAPM models follows.

Discounted Cash Flow Model Analysis

Q. Please provide a brief summary of the theory upon which the DCF method of estimating the cost of equity is based.

A. The DCF method of stock valuation is based on the theory that the value of an investment is equal to the sum of the future cash flows generated from the aforementioned investment discounted to the present time. This method uses expected dividends, market price and dividend growth rate to calculate the cost of capital. Professor Myron Gordon pioneered the DCF method in the 1960s. The DCF method has become widely used to estimate the cost of equity for public utilities due to its theoretical merit and its simplicity. Staff used the financial information for the relevant six sample companies in the DCF model and averaged the results to determine an estimated cost of equity for the sample companies.

Q. Does Staff use more than one version of the DCF Model?

A. Yes. Staff uses two versions of the DCF model: the constant-growth DCF Model and the multi-stage or non-constant growth DCF. The constant-growth DCF Model assumes that an entity's dividends will grow indefinitely at the same rate. The multi-stage growth DCF model assumes the dividend growth rate will change at some point in the future.

The Constant-Growth DCF

Q. What is the mathematical formula used in Staff's constant-growth DCF analysis?

A. The constant-growth DCF formula used in Staff's analysis is:

Equation 2:

$$K = \frac{D_1}{P_0} + g$$

where:
K = the cost of equity
D_1 = the expected annual dividend
P_0 = the current stock price
g = the expected infinite annual growth rate of dividends

Equation 2 assumes that the entity has a constant earnings retention rate and that its earnings are expected to grow at a constant rate. According to Equation 2, a stock with a current market price of $10 per share, an expected annual dividend of $0.45 per share and an expected dividend growth rate of 3.0 percent per year has a cost of equity to the entity of 7.5 percent reflected by the sum of the dividend yield ($0.45/ $10 = 4.5 percent) and the 3.0 percent annual dividend growth rate.

Q. How did Staff calculate the dividend yield component (D_1/P_0) of the constant-growth DCF formula?

A. Staff calculated the yield component of the DCF formula by dividing the expected annual dividend[2] (D_1) by the spot stock price (P_0) after the close of the market June 9, 2010, as reported by the website *MSN Money*.

Q. Why did Staff use the June 9, 2010, spot price rather than a historical average stock price to calculate the dividend yield component of the DCF formula?

A. Current, rather than historic, market stock price is used in order to be consistent with finance theory, i.e., the efficient market hypothesis. The efficient market hypothesis asserts that the current stock price reflects all available information on a stock including investors' expectations of future returns. Use of a historical average of stock prices

[2] Value Line Summary & Index. 6-18-10

illogically discounts the most recent information in favor of less recent information. The latter is stale and is representative of underlying conditions that may have changed.

Q. How did Staff estimate the dividend growth (g) component of the constant-growth DCF model represented by Equation 2?

A. The dividend growth component used by Staff is determined by the average of six different estimation methods, as shown in Schedule JCM-8. Staff calculated historical and projected growth estimates on dividend-per-share ("DPS"),[3] earnings-per-share ("EPS")[4] and sustainable growth bases.

Q. Why did Staff examine EPS growth to estimate the dividend growth component of the constant-growth DCF model?

A. Historic and projected EPS growth are used because dividends are related to earnings. Dividend distributions may exceed earnings in the short run but cannot continue indefinitely. In the long term, dividend distributions are dependent on earnings.

Q. How did Staff estimate historical DPS growth?

A. Staff estimated historical DPS growth by calculating the average rate of growth in DPS of the sample water companies from 1999 to 2009. The results of that calculation are shown in Schedule JCM-5. Staff calculated an average historical DPS growth rate of 2.8 percent for the sample water utilities for the aforementioned period.

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[3] Derived from information provided by *Value Line*
[4] Derived from information provided by *Value Line*

Q. How did Staff estimate the projected DPS growth?

A. Staff calculated an average of the projected DPS growth rates for the sample water utilities from *Value Line*. The average projected DPS growth rate is 3.7 percent, as shown in Schedule JCM-5.

Q. How did Staff calculate the historical EPS growth rate?

A. Staff estimated historical EPS growth by calculating the average rate of growth in EPS of the sample water companies from 1999 to 2009. Staff calculated an average historical EPS growth rate of 3.3 percent for the sample water utilities for the aforementioned period, as shown in Schedule JCM-5.

Q. How did Staff estimate the projected EPS growth?

A. Staff calculated an average of the projected EPS growth rates for the sample water utilities from *Value Line*. The average projected EPS growth rate is 8.8 percent, as shown in Schedule JCM-5.

Q. How does Staff calculate its historical and projected sustainable growth rates?

A. Historical and projected sustainable growth rates are calculated by adding their respective retention growth rate terms (br) to their respective stock financing growth rate terms (vs) as shown in Schedule JCM-6.

Q. What is retention growth?

A. Retention growth is the growth in dividends due to the retention of earnings. The retention growth concept is based on the theory that dividend growth cannot be achieved unless the company retains and reinvests some of its earnings. The retention growth is used in Staff's calculation of sustainable growth shown in Schedule JCM-6.

Q. What is the formula for the retention growth rate?

A. The retention growth rate is the product of the retention ratio and the book/accounting return on equity. The retention growth rate formula is:

Equation 3 :

$$\text{Retention Growth Rate} = br$$

where : b = the retention ratio (1 – dividend payout ratio)
r = the accounting/book return on common equity

Q. How did Staff calculate the average historical retention growth rate (br) for the sample water utilities?

A. Staff calculated the historical retention rates by averaging the retention rates for the sample water companies from 2000 to 2009. The historical average retention (br) growth for the sample water utilities is 2.9 percent, as shown in Schedule JCM-6.

Q. How did Staff determine projected retention growth rate (br) for the sample water utilities?

A. Staff used the retention growth projections for the sample water utilities for the period 2013 to 2015 from *Value Line.* The projected average retention growth rate for the sample water utilities is 6.2 percent, as shown in Schedule JCM-6.

Q. When can retention growth provide a reasonable estimate of future dividend growth?

A. The retention growth rate is a reasonable estimate of future dividend growth when the retention ratio is reasonably constant and the entity's market price to book value ("market-to-book ratio") is expected to be 1.0. The average retention ratio has been reasonably

constant in recent years. However, the market-to-book ratio for the sample water utilities is 1.6, notably higher than 1.0, as shown in Schedule JCM-7.

Q. Is there any financial implication of a market-to-book ratio greater than 1.0?

A. Yes. A market-to-book ratio greater than 1.0 implies that investors expect an entity to earn an accounting/book return on its equity that exceeds its cost of equity. The relationship between required returns and expected cash flows is readily observed in the fixed securities market. For example, assume an entity contemplating issuance of bonds with a face value of $10 million at either 6 percent or 8 percent, and thus, paying annual interest of $600,000 or $800,000, respectively. Regardless of investors' required return on similar bonds, investors will be willing to pay more for the bonds if issued at 8 percent than if the bonds are issued at 6 percent. For example, if the current interest rate required by investors is 6 percent, then they would bid $10 million for the 6 percent bonds and more than $10 million for the 8 percent bonds. Similarly, if equity investors require a 9 percent return and expect an entity to earn accounting/book returns of 13 percent, the market will bid up the price of the entity's stock to provide the required return of 9 percent.

Q. How has Staff generally recognized a market-to-book ratio exceeding 1.0 in its cost of equity analyses in recent years?

A. Staff has assumed that investors expect the market-to-book ratio to remain greater than 1.0. Given that assumption, Staff has added a stock financing growth rate (vs) term to the retention ratio (br) term to calculate its historical and projected sustainable growth rates.

Q. Do the historical and projected sustainable growth rates Staff uses to develop its DCF cost of equity in this case continue to include a stock financing growth rate term?

A. Yes.

Q. What is stock financing growth?

A. Stock financing growth is the growth in an entity's dividends due to the sale of stock by that entity. Stock financing growth is a concept derived by Myron Gordon and discussed in his book *The Cost of Capital to a Public Utility.*[5] Stock financing growth is the product of the fraction of the funds raised from the sale of stock that accrues to existing shareholders (v) and the fraction resulting from dividing the funds raised from the sale of stock by the existing common equity (s).

Q. What is the mathematical formula for the stock financing growth rate?

A. The mathematical formula for stock financing growth is:

Equation 4:

$$\text{Stock Financing Growth} = vs$$

where: v = Fraction of the funds raised from the sale of stock that accrues to existing shareholders

s = Funds raised from the sale of stock as a fraction of the existing common equity

Q. How is the variable *v* presented above calculated?

A. Variable v is calculated as follows:

[5] Gordon, Myron J. *The Cost of Capital to a Public Utility.* MSU Public Utilities Studies, Michigan, 1974. pp 31-35.

Equation 5 :

$$v = 1 - \left(\frac{book\ value}{market\ value} \right)$$

For example, assume that a share of stock has a $30 book value and is selling for $45. Then, to find the value of *v*, the formula is applied:

$$v = 1 - \left(\frac{30}{45} \right)$$

In this example, *v* is equal to 0.33.

Q. How is the variable *s* presented above calculated?

A. Variable *s* is calculated as follows:

Equation 6:

$$s = \frac{\text{Funds raised from the issuance of stock}}{\text{Total existing common equity before the issuance}}$$

For example, assume that an entity has $150 in existing equity, and it sells $30 of stock. Then, to find the value of *s*, the formula is applied:

$$s = \left(\frac{30}{150} \right)$$

In this example, *s* is equal to 20.0 percent.

Q. What is the *vs* term when the market-to-book ratio is equal to 1.0?

A. A market-to-book ratio equal to 1.0 reflects that investors expect an entity to earn a book/accounting return on their equity investment equal to the cost of equity. When the market-to-book ratio is equal to 1.0, none of the funds raised from the sale of stock by the

entity accrues to the benefit of existing shareholders, i.e., the term *v* is equal to zero (0.0). Consequently, the *vs* term is also equal to zero (0.0). When stock financing growth is zero, dividend growth depends solely on the *br* term.

Q. What is the effect of the *vs* term when the market-to-book ratio is greater than 1.0?

A. A market-to-book ratio greater than 1.0 reflects that investors expect an entity to earn a book/accounting return on their equity investment greater than the cost of equity. Equation 5 shows that when the market-to-book ratio is greater than 1.0 the *v* term is also greater than zero. The excess by which new shares are issued and sold over book value per share of outstanding stock is a contribution that accrues to existing stockholders in the form of a higher book value. The resulting higher book value leads to higher expected earnings and dividends. Continued growth from the *vs* term is dependent upon the continued issuance and sale of additional shares at a price that exceeds book value per share.

Q. What *vs* estimate did Staff calculate from its analysis of the sample water utilities?

A. Staff estimated an average stock financing growth of 2.0 percent for the sample water utilities, as shown in Schedule JCM-6.

Q. What would occur if an entity had a market-to-book ratio greater than 1.0 as a result of investors expecting earnings to exceed the cost of equity capital and the entity subsequently experienced newly-authorized rates equal to its cost of equity capital?

A. Market pressure on the entity's stock price to reflect the change in future expected cash flows would cause the market-to-book ratio to move toward 1.0.

Q. Is inclusion of the vs term necessary if the average market-to-book ratio of the sample water utilities falls to 1.0 due to authorized ROEs equaling the cost of equity?

A. No. As discussed above, when the market-to-book ratio is equal to 1.0, none of the funds raised from the sale of stock by the entity accrues to the benefit of existing shareholders because the *v* term equals to zero, and consequently, the *vs* term also equals zero. When the market-to-book ratio equals 1.0, dividend growth depends solely on the *br* term. Staff's inclusion of the *vs* term assumes that the market-to-book ratio continues to exceed 1.0 and that the water utilities will continue to issue and sell stock at prices above book value with the effect of benefitting existing shareholders.

Q. What are Staff's historical and projected sustainable growth rates?

A. Staff's estimated historical sustainable growth rate is 4.8 percent based on an analysis of earnings retention for the sample water companies. Staff's projected sustainable growth rate is 9.1 percent based on retention growth projected by *Value Line*. Schedule JCM-6 presents Staff's estimates of the sustainable growth rate.

Q. What is Staff's expected infinite annual growth rate in dividends?

A. Staff's expected infinite annual growth rate in dividends is 5.4 percent which is the average of historical and projected DPS, EPS, and sustainable growth estimates. Staff's calculation of the expected infinite annual growth rate in dividends is shown in Schedule JCM-8.

Q. What is Staff's constant-growth DCF estimate for the sample utilities?

A. Staff's constant-growth DCF estimate is 9.3 percent, as shown in Schedule JCM-3.

The Multi-Stage DCF

Q. Why did Staff implement the multi-stage DCF model to estimate LQS's cost of equity?

A. Staff generally uses the multi-stage DCF model to consider the assumption that dividends may not grow at a constant rate. The multi-stage DCF uses two stages of growth. The first stage is four years followed by the second constant growth stage.

Q. What is the mathematical formula for the multi-stage DCF?

A. The multi-stage DCF formula is shown in the following equation:

Equation 7 :

$$P_0 = \sum_{t=1}^{n} \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K-g_n}\left[\frac{1}{(1+K)}\right]^n$$

Where :
P_0 = current stock price
D_t = dividends expected during stage 1
K = cost of equity
n = years of non – constant growth
D_n = dividend expected in year n
g_n = constant rate of growth expected after year n

Q. What steps did Staff take to implement its multi-stage DCF cost of equity model?

A. First, Staff projected future dividends for each of the sample water utilities using near-term and long-term growth rates. Second, Staff calculated the rate (cost of equity) which equates the present value of the forecasted dividends to the current stock price for each of the sample water utilities. Lastly, Staff calculated an average of the individual sample company cost of equity estimates.

Q. How did Staff calculate near-term (stage-1) growth?

A. The stage-1 growth rate is based on *Value Lines's* projected dividends for the next twelve months, when available, and on the average dividend growth rate (5.4 percent) calculated in Staff's constant DCF analysis for the remainder of the stage.

Q. How did Staff estimate long-term (stage-2) growth?

A. Staff calculated the stage-2 growth rate using the arithmetic mean rate of growth in GDP from 1929 to 2009.[6] Using the GDP growth rate assumes that the water utility industry is expected to grow at the same rate as the overall economy.

Q. What is the historical GDP growth rate that Staff used to estimate stage-2 growth?

A. Staff used 6.6 percent to estimate the stage-2 growth rate.

Q. What is Staff's multi-stage DCF estimate for the sample utilities?

A. Staff's multi-stage DCF estimate is 10.3 percent, as shown in Schedule JCM-3.

Q. What is Staff's overall DCF estimate for the sample utilities?

A. Staff's overall DCF estimate is 9.8 percent. Staff calculated the overall DCF estimate by averaging the constant growth DCF (9.3 percent) and multi-stage DCF (10.3 percent) estimates, as shown in Schedule JCM-3.

Capital Asset Pricing Model

Q. Please describe the CAPM.

A. The CAPM is used to determine the prices of securities in a competitive market. The CAPM model describes the relationship between a security's investment risk and its

[6] www.bea.doc.gov

market rate of return. Under the CAPM an investor requires the expected return of a security to equal the rate on a risk-free security plus a risk premium. If the investor's expected return does not meet or beat the required return, the investment is not economically justified. The model also assumes that investors will sufficiently diversify their investments to eliminate any non-systematic or unique risk.[7] In 1990, Professors Harry Markowitz, William Sharpe, and Merton Miller earned the Nobel Prize in Economic Sciences for their contribution to the development of the CAPM.

Q. Did Staff use the same sample water utilities in its CAPM and DCF cost of equity estimation analyses?

A. Yes. Staff's CAPM cost of equity estimation analysis uses the same sample water companies as its DCF cost of equity estimation analysis.

Q. What is the mathematical formula for the CAPM?

A. The mathematical formula for the CAPM is:

Equation 8:

$$K = R_f + \beta (R_m - R_f)$$

where:

R_f = risk free rate
R_m = return on market
β = beta
$R_m - R_f$ = market risk premium
K = expected return

[7] The CAPM makes the following assumptions: 1) single holding period; 2) perfect and competitive securities market; 3) no transaction costs; 4) no restrictions on short selling or borrowing; 5) the existence of a risk-free rate; and 6) homogeneous expectations.

The equation shows that the expected return (K) on a risky asset is equal to the risk-free interest rate (R_f) plus the product of the market risk premium ("Rp") ($R_m - R_f$) multiplied by beta (β) where beta represents the riskiness of the investment relative to the market.

Q. What is the risk free rate?

A. The risk free rate is the rate of return of an investment with zero risk.

Q. What does Staff use as surrogates to represent estimations of the risk-free rates of interest in its historical and current market risk premium CAPM methods?

A. Staff uses separate parameters as surrogates for the estimations of the risk-free rates of interest for the historical market risk premium CAPM cost of equity estimation and the current market risk premium CAPM cost of equity estimation. Staff uses the average of three (five-, seven-, and ten-year) intermediate-term U.S. Treasury securities' spot rates in its historical market risk premium CAPM cost of equity estimation, and the 30-year U.S. Treasury bond spot rate in its current market risk premium CAPM cost of equity estimation. U.S. Treasuries are largely verifiable and readily available.

Q. What does beta measure?

A. Beta measures the volatility, or systematic risk, of a security relative to the market. Since systematic risk cannot be diversified away, it is the only risk that is relevant when estimating a security's required return. Using a baseline market beta of 1.0, a security with a beta less than 1.0 will be less volatile than the market. A security with a beta greater than 1.0 will be more volatile than the market.

Q. How did Staff estimate LQS's beta?

A. Staff used the average of the *Value Line* betas for the sample water utilities as a proxy for LQS's beta. Schedule JCM-7 shows the *Value Line* betas for each of the sample water utilities. The 0.78 average beta for the sample water utilities is Staff's estimated beta for LQS. A security with a 0.78 beta has less volatility than the market.

Q. Please describe expected market risk premium ($R_m - R_f$)?

A. The expected market risk premium is the expected return on the market above the risk free rate. Simplified, it is the return an investor expects as compensation for market risk.

Q. What did Staff use for the market risk premium?

A. Staff uses separate calculations for the market risk premium in its historical and current market risk premium CAPM methods.

Q. How did Staff calculate an estimate for the market risk premium in its historical market risk premium CAPM method?

A. Staff uses the intermediate-term government bond income returns published in the Ibbotson Associates' *Stocks, Bonds, Bills, and Inflation 2009 Yearbook* to calculate the historical market risk premium. Ibbotson Associates calculates the historical risk premium by averaging the historical arithmetic differences between the S&P 500 and the intermediate-term government bond income returns for the period 1926-2009. Staff's historical market risk premium estimate is 7.2 percent, as shown in Schedule JCM-3.

Q. How did Staff calculate an estimate for the market risk premium in its current market risk premium CAPM method?

A. Staff solves equation 8 above to arrive at a market risk premium using a DCF derived expected return (K) of 17.12 (2.1 + 15.02[8]) percent using the expected dividend yield (2.1 percent over the next twelve months) and the annual per share growth rate (15.02 percent) that *Value Line* projects for all dividend-paying stocks under its review[9] along with the current long-term risk-free rate (30-year Treasury note at 4.1 percent) and the market's average beta of 1.0. Staff calculated the current market risk premium as 13.00[10] as shown in Schedule JCM-3.

Q. What is the result of Staff's historical market risk premium CAPM and current market risk premium CAPM cost of equity estimations for the sample utilities?

A. Staff's cost of equity estimates are 8.2 percent using the historical market risk premium CAPM and 14.3 using the current market risk premium CAPM.

Q. What is Staff's overall CAPM estimate for the sample utilities?

A. Staff's overall CAPM cost of equity estimate is 11.3 percent which is the average of the historical market risk premium CAPM (8.2 percent) and the current market risk premium CAPM (14.3 percent) estimates, as shown in Schedule JCM-3.

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[8] The three to five year price appreciation is 75%. $1.75^{0.25} - 1 = 15.02\%$
[9] June 18, 2010 issue date.
[10] 17.12% = 4.12% + (1) (13.00%)

VI. SUMMARY OF STAFF'S COST OF EQUITY ANALYSIS

Q. What is the result of Staff's constant-growth DCF analysis to estimate of the cost of equity to the sample water utilities?

A. Schedule JCM-3 shows the result of Staff's constant-growth DCF analysis. The result of Staff's constant-growth DCF analysis is as follows:

k = 3.9% + 5.4%

k = **9.3%**

Staff's constant-growth DCF estimate of the cost of equity to the sample water utilities is 9.3 percent.

Q. What is the result of Staff's multi-stage DCF analysis to estimate of the cost of equity for the sample utilities?

A. Schedule JCM-9 shows the result of Staff's multi-stage DCF analysis. The result of Staff's multi-stage DCF analysis is:

Applicant	**Equity Cost Estimate (k)**
American States Water	9.8%
California Water	10.1%
Aqua America	10.0%
Connecticut Water	11.1%
Middlesex Water	11.4%
SJW Corp	9.6%
Average	**10.3%**

Staff's multi-stage DCF estimate of the cost of equity for the sample water utilities is 10.3 percent.

Q. What is Staff's overall DCF estimate of the cost of equity for the sample utilities?

A. Staff's overall DCF estimate of the cost of equity for the sample utilities is 9.8 percent. Staff calculated an overall DCF cost of equity estimate by averaging Staff's constant growth DCF (9.3 percent) and Staff's multi-stage DCF (10.3 percent) estimates, as shown in Schedule JCM-3.

Q. What is the result of Staff's historical market risk premium CAPM analysis to estimate of the cost of equity for the sample utilities?

A. Schedule JCM-3 shows the result of Staff's CAPM analysis using the historical risk premium estimate. The result is as follows:

$$k = 2.6\% + 0.78 * 7.2\%$$

$$k = 8.2\%$$

Staff's CAPM estimate (using the historical market risk premium) of the cost of equity to the sample water utilities is 8.2 percent.

Q. What is the result of Staff's current market risk premium CAPM analysis to estimate the cost of equity for the sample utilities?

A. Schedule JCM-3 shows the result of Staff's CAPM analysis using the current market risk premium estimate. The result is:

$$k = 4.1\% + 0.78 * 13.0\%$$

$$k = 14.3\%$$

Staff's CAPM estimate (using the current market risk premium) of the cost of equity to the sample water utilities is 14.3 percent.

Q. What is Staff's overall CAPM estimate of the cost of equity for the sample utilities?

A. Staff's overall CAPM estimate for the sample utilities is 11.3 percent. Staff's overall CAPM estimate is the average of the historical market risk premium CAPM (8.2 percent) and the current market risk premium CAPM (14.3 percent) estimates, as shown in Schedule JCM-3.

Q. Please summarize the results of Staff's cost of equity analysis for the sample utilities.

A. The following table shows the results of Staff's cost of equity analysis:

Table 2

Method	Estimate
Average DCF Estimate	9.8%
Average CAPM Estimate	11.3%
Overall Average	**10.6%**

Staff's average estimate of the cost of equity to the sample water utilities is 10.6 percent.

VII. FINAL COST OF EQUITY ESTIMATES FOR LQS

Q. Please compare LQS's capital structure to that of the six sample water companies.

A. The average capital structure for the sample water utilities is composed of 48.4 percent equity and 51.6 percent debt, as shown in Schedule JCM-4. LQS's capital structure is composed of 32.1 percent equity and 67.9 percent debt. In this case, since LQS's capital structure is more leveraged than that of the average sample water utilities' capital structure, its stockholders bear more financial risk than the sample water utilities.

Q. Does LQS's additional financial risk affect its cost of equity?

A. Yes. As previously discussed, financial risk is a component of market risk and investors require compensation of market risk.

Q. Explain why Staff recommends adopting a hypothetical capital structure to recognize LQS's additional financial risk versus the sample companies as opposed to an upward financial risk adjustment in this case?

A. Either method can provide a satisfactory result. In this case, Staff does not use a financial risk adjustment because LQS is not a publicly-traded company and, thus, it does not have access to the capital markets. Further, use of a hypothetical capital structure more clearly demonstrates that Staff's overall rate of return recommendation is consistent with that for a utility with a capital structure Staff considers to be within a reasonable range. Thus, Staff is recommending a hypothetical capital structure of 60 percent debt and 40 percent equity. Staff's recommendation provides LQS with the opportunity to increase its equity position through reasonable earnings that would not otherwise be available. In this case, the Applicant would earn a 10.6 percent return on a higher percentage of equity than currently exists in its capital structure. This recommendation encourages LQS to have a more balanced capital structure, and it does not disadvantage LQS for its lack of access to the capital markets.

Q. Has the Commission adopted a hypothetical capital structure for other Arizona utilities?

A. Yes. The Commission has used hypothetical capital structures in prior cases involving highly leveraged utilities. For example, in a case involving Southwest Gas Company, the Commission adopted a hypothetical capital structure of 40 percent equity and 60 percent debt, as recommended by Staff (Decision No. 68487, at 23-25). In Decision No. 69440,

the Commission adopted a hypothetical capital structure of 40 percent equity and 60 percent debt for Arizona-American Water.

Q. What is Staff's ROE estimate for LQS?

A. Staff determined an ROE estimate of 10.6 percent for the Applicant based on cost of equity estimates for the sample companies ranging from 9.8 percent for the DCF to 11.3 percent for the CAPM.

VIII. COST OF DEBT

Q. Please explain the difference between the Applicant's and Staff's cost of debt recommendation.

A. The Applicant is recommending a 6.6 percent cost of debt while Staff is recommending a 7.1 percent cost of debt. The difference is represented by the treatment of $185,625 of debt issuance costs. The Applicant included the debt issuance costs in the Water Treatment Plant account. The National Association of Regulatory Commissioners Uniform System of Accounts specifies that debt issuance costs are a component of interest expense, and Staff's cost of debt reflects the specified treatment. I.e., these costs are amortized over the life of the loan as a component of interest expense, as shown in Schedule JCM-10.

IX. RATE OF RETURN RECOMMENDATION

Q. What overall rate of return did Staff determine for LQS?

A. Staff determined a 8.5 percent ROR for the Applicant, as shown in Schedule JCM-1 and in the following table:

Table 3

	Weight	Cost	Weighted Cost
Long-term Debt	60.0%	7.1%	4.3%
Common Equity	40.0%	10.6%	4.2%
Overall ROR			**8.5%**

X. STAFF RESPONSE TO APPLICANT'S COST OF CAPITAL WITNESS MR. THOMAS J. BOURASSA

Q. Please summarize Mr. Bourassa's analyses and recommendations.

A. Mr. Bourassa recommends a 16.0 percent ROE based on analyses for two constant growth DCF models (Past and Future Growth and Future Only Growth), as well as historical and current market risk premium CAPM for the same sample of water companies selected by Staff. Mr. Bourassa also asserts that LQS faces additional risks not captured by the market models, such as regulatory and financial risk, and he concludes that a 16.0 percent ROE presents a reasonable balance resulting from his analyses. Mr. Bourassa proposes 9.0 percent for the overall ROR with a capital structure consisting of 25.9 percent equity and 74.2 percent debt.

Constant-Growth DCF

Q. Does Mr. Bourassa give equal weight to historical data and analysts' projections to estimate the growth component of his DCF cost of equity estimate?

A. No. Mr. Bourassa's DCF cost of equity estimate is based on the midpoint of his (1) Past and Future Growth estimate and (2) Future Growth estimate. Half of the Past and Future Growth estimate relies on analysts' projections of earnings growth and the entire Future Growth estimate relies on analysts' projections of earnings growth. Thus, choosing the midpoint of the two methods provides analysts' projections with 75 percent of the weight

compared to 25 percent for historical data. In addition, Mr. Bourassa's Past and Future Growth estimate provides equal weight to stock price, book value per share, earnings per share and dividends per share. Thus, only one-eighth (12.5 percent) of his method of estimating the dividend growth relies on the growth in dividends per share.

Q. Does Staff have any comments on Mr. Bourassa's heavy reliance on analysts' forecasts to estimate DPS growth in his constant growth DCF estimates?

A. Yes. Generally, analysts' forecasts are known to be overly optimistic. Heavy use of analysts' forecasts to calculate the growth in dividends (g), will cause inflated growth, and consequently, inflated cost of equity estimates unless investors give the same strong weight to analysts' forecasts. Also, heavy reliance on analysts' forecasts of earnings growth to forecast DPS is inappropriate because it assumes that investors discount other relevant information such as past dividend and earnings growth.

Q. Does Staff have any evidence to support its assertion that heavy reliance on analysts' forecasts of earnings growth in the DCF model would result in inflated cost of equity estimates?

A. Yes. Experts in the financial community have commented on the optimism in analysts' forecasts of future earnings.[11] A study cited by David Dreman in his book *Contrarian Investment Strategies: The Next Generation* found that *Value Line* analysts were optimistic in their forecasts by 9 percent annually, on average for the 1987 – 1989 period. Another study conducted by David Dreman found that between 1982 and 1997, analysts overestimated the growth of earnings of companies in the S&P 500 by 188 percent.

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[11] See Seigel, Jeremy J. Stocks for the Long Run. 2002. McGraw-Hill. New York. p. 100. Dreman, David. *Contrarian Investment Strategies: The Next Generation*. 1998. Simon & Schuster. New York. pp. 97-98. Malkiel, Burton G. *A Random Walk Down Wall Street*. 2003. W.W. Norton & Co. New York. p. 175.
Testimony of Professors Myron J. Gordon and Lawrence I. Gould, consultant to the Trial Staff (Common Carrier Bureau), FCC Docket 79-63, p. 95.

Also, Burton Malkiel of Princeton University studied the one-year and five-year earnings forecasts made by some of the most respected names in the investment business. His results showed that the five-year estimates of professional analysts, when compared with actual earnings growth rates, were much worse than the predictions from several naïve forecasting models, such as the long-run rate of growth of national income. In the following excerpt from Professor Malkiel's book A Random Walk Down Wall Street, he discusses the results of his study:

> *When confronted with the poor record of their five-year growth estimates, the security analysts honestly, if sheepishly, admitted that five years ahead is really too far in advance to make reliable projections. They protested that although long-term projections are admittedly important, they really ought to be judged on their ability to project earnings changes one year ahead. Believe it or not, it turned out that their one-year forecasts were even worse than their five-year projections.*
>
> *The analysts fought back gamely. They complained that it was unfair to judge their performance on a wide cross section of industries, because earnings for high-tech firms and various "cyclical" companies are notoriously hard to forecast. "Try us on utilities," one analyst confidently asserted. At the time they were considered among the most stable group of companies because of government regulation. So we tried it and they didn't like it. Even the forecasts for the stable utilities were far off the mark.*[12] (Emphasis added)

Q. Are investors aware of the problems related to analysts' forecasts?

A. Yes. In addition to books, there are numerous published articles appearing in *The Wall Street Journal* and other financial publications that cast doubt as to how accurate research analysts are in their forecasts.[13] Investors, being keenly aware of these inherent biases in forecasts, will use other methods to assess future growth.

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[12] Malkiel, Burton G. A Random Walk Down Wall Street. 2003. W.W. Norton & Co. New York. p. 175

[13] See Smith, Randall & Craig, Suzanne. "Big Firms Had Research Ploy: Quiet Payments Among Rivals." *The Wall Street Journal*. April 30, 2003. Brown, Ken. "Analysts: Still Coming Up Rosy." *The Wall Street Journal*. January 27, 2003. p. C1. Karmin, Craig. "Profit Forecasts Become Anybody's Guess." *The Wall Street Journal*. January

Q. Does Staff have any comments on the study cited by Mr. Bourassa, conducted by David A. Gordon, Myron J. Gordon and Lawrence I. Gould[14] that he asserts supports heavy use of analysts' forecasts in the DCF model?

A. Yes. The article cited by Mr. Bourassa does not conclude that investors ignore or heavily discount past growth when pricing stocks. Instead, the article describes more generally that methods exclusively using analysts' forecasts are "popular or attractive models", but the article does not support the conclusion that these forecasts should be used alone or as the primary estimates.

Q. Does Professor Gordon recommend relying exclusively on analysts' forecasts as the measure of growth in the DCF model?

A. No. Subsequent to the study cited by Mr. Bourassa,[15] Professor Gordon provided the keynote address at the 30th Financial Forum of the Society of Utility and Regulatory Financial Analysts, in which he stated:

> *I understand that companies coming before regulatory agencies liked and advocated the high growth rates in security analyst forecasts for arriving at their cost of equity capital. Instead of rejecting these forecasts, I understand that FERC and other regulatory agencies have decided to compromise with them. In particular, in arriving at the cost of equity for company X, the FERC has decided to arrive at the growth rate in my dividend growth model by using an average of two growth rates. One is security analysts forecast of the short-term growth rate in earnings provided by IBES or Value Line and the other a more long run and typically lower figure such as the past growth in GNP.*

21, 2003. p. C1. Gasparino, Charles. "Merrill Lynch Investigation Widens." *The Wall Street Journal*. April 11, 2002. p. C4. Elstein, Aaron. "Earnings Estimates Are All Over the Map." *The Wall Street Journal*. August 2, 2001. p. C1. Dreman, David. "Don't Count on those Earnings Forecasts." *Forbes*. January 26, 1998. p. 110.

[14] Gordon, David A., Myron J. Gordon, Lawrence I. Gould. "Choice Among Methods of Estimating Share Yield." *The Journal of Portfolio Management*. Spring 1989. pp. 50-55. (Bourassa's direct testimony, page 29, footnote.)

[15] Ibid.

> *Such an average can be questioned on various grounds. However, my judgment is that between the short-term forecast alone and its average with the past growth rate in GNP, the latter may be a more reasonable figure.*[16] (Emphasis added)

Simply stated, Professor Gordon would temper the typically higher analysts' forecasts with the typically lower GNP growth rate by averaging the two.

Q. How does Staff respond to Mr. Bourassa's statement, "Logically, in estimating future growth, financial institutions and analysts have taken into account all relevant historical information on a company as well as other more recent information. To the extent that past results provide useful indications of future growth prospects, analysts' forecasts would already incorporate that information."? (Bourassa's Direct Testimony, Page 29, line 7-10)

A. The appropriate growth rate to use in the DCF formula is the dividend growth rate expected by *investors*, not analysts. Therefore, while analysts may have considered historical measures of growth, it is reasonable to assume that investors rely to some extent on past growth as well. This calls for consideration of both analysts' forecasts as well as past growth.

Q. Does Staff have any comments on Mr. Bourassa's slight reliance on historical DPS growth to estimate DPS growth constant growth DCF estimates?

A. Yes. As previously stated on Section V of this testimony, the current market price of a stock is equal to the present value of all expected future dividends, not future earnings. Professor Jeremy Siegel from the Wharton School of Finance stated:

[16] Gordon, M. J. Keynote Address at the 30th Financial Forum of the Society of Utility and Regulatory Financial Analysts. May 8, 1998. Transparency 3.

> *Note that the price of the stock is always equal to the present value of all future dividends and not the present value of future earnings. Earnings not paid to investors can have value only if they are paid as dividends or other cash disbursements at a later date. Valuing stock as the present discounted value of future earnings is manifestly wrong and greatly overstates the value of the firm.*[17]

In other words, investors pay attention to earnings as long as they are paid as dividends. Earnings can easily be overstated. If investors do not receive dividends or other cash disbursement at a later date, then such earnings are meaningless. Accordingly, historical DPS growth should receive appropriate consideration in the estimation of DPS growth component of the DCF cost of equity estimation model.

Q. Does Staff have any comment on data in Mr. Bourassa Schedule D-4.4 which he uses to calculate a DCF dividend growth rate in his Past and Future DCF method?

A. Yes. Schedule D-4.4 presents calculations based on five years of historical data. Using only five years of data could result in significant variances in the outcomes due to a single high or low data point. A larger number of data points, i.e., use of more years, is usually preferable. Also, five years may be too limited to capture a full business cycle, resulting in unnecessary skewing of the outcomes.

[17] Seigel, Jeremy J. Stocks for the Long Run. 2002. McGraw-Hill. New York. P. 93.

Firm-Specific Risk

Q. Does Staff have any comment on Mr. Bourassa's statement that "Arizona water and wastewater utilities face legal constraints that limit their ability to obtain rate relief outside of a general rate case in which the 'fair value' of the utility's property is determined and used to set rates?"[18]

A. Yes. The unique regulatory environments of the sample companies and LQS are firm specific risks for which investors cannot expect compensation. None of Mr. Bourassa's comments demonstrate that Arizona is a less favorable regulatory environment from those of the sample companies. Every regulatory jurisdiction has its own framework with its own specific identifiable advantages and disadvantages; however, it is the overall effect that is relevant. Nothing in Mr. Bourassa's testimony provides this overall perspective. The fact that investors continue to acquire Arizona utilities and invest capital in Arizona utilities debunks the notion that the regulatory environment in Arizona places utilities at some disadvantage. The regulatory framework in Arizona has many attractive attributes including: use of fair value rate base, ability to seek accounting orders, recognition of known and measurable changes, wide use of hook-up fees and regulatory responsiveness to utility industry concerns (e.g., arsenic cost recovery mechanisms and arsenic remedial surcharge mechanisms).

[18] Direct Testimony of Thomas J. Bourassa, Las Quintas Serenas Water Company, Docket No. W-01583A-09-0589, page 20 lines 17-20

Q. What is Staff's response to Mr. Bourassa's contention that the market data provided by the sample water utilities does not capture all of the market risk associated with LQS due to Arizona regulatory requirements' use of historical test years and limited out of period adjustment recognition?[19]

A. The examples cited by Mr. Bourassa are examples of firm-specific or unique risks. Existence of firm-specific risk does not necessarily indicate that a company has more total risk than others, as all companies have firm-specific risks. Moreover, as previously discussed, the market does not compensate investors for firm-specific risk because it can be eliminated through diversification.

Q. Does Staff have a response to Mr. Bourassa's citation that "[i]n Chapter 7 of Morningstar's Ibbotson SBBI 2009 Valuation Yearbook, for example, Ibbotson reports that when betas (a measure of market risk) are properly estimated, betas are larger for smaller companies than for larger companies"[20]**?**

A. Yes. It is generally understood that smaller companies tend to have higher betas than larger companies due to larger variations in earnings thus making the smaller companies more risky.

[19] Direct Testimony of Thomas J. Bourassa, Las Quintas Serenas Water Company, Docket No. W-01583A-09-0589, page 21 lines 1-2

[20] Direct Testimony of Thomas J. Bourassa, Las Quintas Serenas Water Company, Docket No. W-01583A-09-0589, page 33 lines 9-12

Q. What is Staff's response to Mr. Bourassa's contention that LQS should receive a higher cost of equity estimate because of its smaller size through a "company specific risk premium"[21] and to his assertion that LQS is not comparable to the six publicly-traded water utilities in the sample group due to a difference in size?[22]

A. Staff does not agree that LQS should be allowed a small firm risk premium. No generally-accepted analysis demonstrates that utilities are subject to the same size dependent betas as the general market. The Commission has previously ruled that firm size does not warrant recognition of a risk premium. In Decision No. 64282, dated December 28, 2001, for Arizona Water, the Commission stated, "We do not agree with the Company's proposal to assign a risk premium to Arizona Water based on its size relative to other publicly traded water utilities…." In Decision No. 64727, dated April 17, 2002, for Black Mountain Gas, the Commission agreed with Staff that "the 'firm size phenomenon' does not exist for regulated utilities, and that therefore there is no need to adjust for risk for small firm size in utility rate regulation."

XI. CONCLUSION

Q. Please summarize Staff's recommendations.

A. Staff recommends that the Commission adopt a capital structure for LQS in this proceeding composed of 60.0 percent debt and 40.0 percent equity.

Staff also recommends that the Commission adopt a 8.5 percent ROR for the Applicant, based on Staff's cost of equity estimates that range from 9.8 percent to 11.3 percent for the sample companies and a 7.1 percent cost of debt.

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[21] Direct Testimony of Thomas J. Bourassa, Las Quintas Serenas Water Company, Docket No. W-01583A-09-0589, page 37 lines beginning line 8

[22] Direct Testimony of Thomas J. Bourassa, Las Quintas Serenas Water Company, Docket No. W-01583A-09-0589, page 37 lines beginning line 8

Q. Does this conclude your Direct Testimony?

A. Yes, it does.

Las Quintas Serenas Water Company Cost of Capital Calculation
Capital Structure
And Weighted Average Cost of Capital
Staff Recommended and Company Proposed

[A]	[B]	[C]	[D]
Description	Weight (%)	Cost	Weighted Cost
Staff Recommended Structure			
Debt	60.0% [1]	7.1%	4.3%
Common Equity	40.0%	10.6%	4.2%
Weighted Average Cost of Capital			**8.5%**
Company Proposed Structure			
Debt	74.2%	6.6%	4.9%
Common Equity	25.9%	16.0%	4.1%
Weighted Average Cost of Capital			**9.0%**

[D] : [B] x [C]

Supporting Schedules: JCM-3 and JCM-4.

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Las Quintas Serenas Water Company Cost of Capital Calculation
Final Cost of Equity Estimates
Sample Water Utilities

[A]	[B]		[C]		[D]		[E]
DCF Method			D_1/P_0 [1]	+	g [2]	=	k
Constant Growth DCF Estimate			3.9%	+	5.4%	=	9.3%
Multi-Stage DCF Estimate						=	10.3%
Average of DCF Estimates							**9.8%**
CAPM Method	Rf	+	β [5]	x	(Rp)	=	k
Historical Market Risk Premium [3]	2.6%	+	0.78	x	7.2% [6]	=	8.2%
Current Market Risk Premium [4]	4.1%	+	0.78	x	13.0% [7]	=	14.3%
Average of CAPM Estimates							**11.3%**
					Average		**10.6%**
			Financial risk adjustment				
					Total		**10.6%**

1 MSN Money and Value Line

2 Schedule JCM-8

3 Risk-free rate (Rf) for 5, 7, and 10 year Treasury rates from the U.S. Treasury Department at www.ustreas.gov

4 Risk-free rate (Rf) for 30 Year Treasury bond rate from the U.S. Treasury Department at www.ustreas.gov

5 Value Line

6 Historical Market Risk Premium (Rp) calculated from Ibbotson Associates SBBI 2009 Yearbook data

7 Testimony

Las Quintas Serenas Water Company Cost of Capital Calculation
Average Capital Structure of Sample Water Utilities

[A]	[B]	[C]	[D]
Company	Debt	Common Equity	Total
American States Water	46.8%	53.2%	100.0%
California Water	48.0%	52.0%	100.0%
Aqua America	56.6%	43.4%	100.0%
Connecticut Water	55.8%	44.2%	100.0%
Middlesex Water	53.3%	46.7%	100.0%
SJW Corp	49.0%	51.0%	100.0%
Average Sample Water Utilities	**51.6%**	**48.4%**	**100.0%**
LQSWC - Actual Capital Structure	**67.9%**	**32.1%**	**100.0%**

Source:
Sample Water Companies from Value Line

Las Quintas Serenas Water Company Cost of Capital Calculation
Growth in Earnings and Dividends
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
Company	Dividends Per Share 1999 to 2009 DPS[1]	Dividends Per Share Projected DPS[1]	Earnings Per Share 1999 to 2009 EPS[1,2]	Earnings Per Share Projected EPS[1]
American States Water	1.6%	3.4%	3.1%	7.7%
California Water	0.7%	1.3%	2.5%	5.9%
Aqua America	6.6%	6.5%	6.2%	12.7%
Connecticut Water	1.3%	No Projection	1.5%	No Projection
Middlesex Water	1.7%	No Projection	-0.5%	No Projection
SJW Corp	5.1%	No Projection	-0.7%	No Projection
Average Sample Water Utilities	**2.8%**	**3.7%**	**3.3%**	**8.8%**

1 Value Line

2 Negative values are inconsistent with the DCF, accordingly, they are excluded from the average.

Las Quintas Serenas Water Company Cost of Capital Calculation
Sustainable Growth
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]
Company	Retention Growth **2000 to 2009** br	Retention Growth Projected br	Stock Financing Growth vs	Sustainable Growth **2000 to 2009** br + vs	Sustainable Growth Projected br + vs
American States Water	3.0%	5.4%	1.7%	4.7%	7.1%
California Water	2.0%	5.9%	3.5%	5.6%	9.4%
Aqua America	4.6%	7.2%	3.6%	8.2%	10.8%
Connecticut Water	2.5%	No Projection	0.6%	3.2%	No Projection
Middlesex Water	1.2%	No Projection	2.2%	3.3%	No Projection
SJW Corp	4.0%	No Projection	0.1%	4.1%	No Projection
Average Sample Water Utilities	**2.9%**	**6.2%**	**2.0%**	**4.8%**	**9.1%**

[B]: Value Line
[C]: Value Line
[D]: Value Line and MSN Money
[E]: [B]+[D]
[F]: [C]+[D]

Las Quintas Serenas Water Company Cost of Capital Calculation
Selected Financial Data of Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Company	Symbol	Spot Price 6/9/2010	Book Value	Mkt To Book	*Value Line* Beta β	Raw Beta β *raw*
American States Water	AWR	**32.02**	19.63	1.6	**0.80**	0.67
California Water	CWT	**33.96**	20.60	1.6	**0.75**	0.60
Aqua America	WTR	**16.73**	8.29	2.0	**0.65**	0.45
Connecticut Water	CTWS	**20.08**	12.81	1.6	**0.80**	0.67
Middlesex Water	MSEX	**15.06**	10.94	1.4	**0.75**	0.60
SJW Corp	SJW	**22.78**	14.75	1.5	**0.95**	0.90
Average				**1.6**	**0.78**	**0.65**

[C]: Msn Money

[D]: Value Line

[E]: [C] / [D]

[F]: Value Line

[G]: (-0.35 + [F]) / 0.67

Las Quintas Serenas Water Company Cost of Capital Calculation
Calculation of Expected Infinite Annual Growth in Dividends
Sample Water Utilities

[A]	[B]
Description	g
DPS Growth - Historical[1]	2.8%
DPS Growth - Projected[1]	3.7%
EPS Growth - Historical[1]	3.3%
EPS Growth - Projected[1]	8.8%
Sustainable Growth - Historical[2]	4.8%
Sustainable Growth - Projected[2]	9.1%
Average	**5.4%**

1 Schedule JCM-5

2 Schedule JCM-6

Las Quintas Serenas Water Company Cost of Capital Calculation
Multi-Stage DCF Estimates
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[H]	[I]
Company	Current Mkt. Price (P_o)[1] 6/9/2010	Projected Dividends[2] (Stage 1 growth) (D_t) d_1	d_2	d_3	d_4	Stage 2 growth[3] (g_n)	Equity Cost Estimate (K)[4]
American States Water	32.0	1.07	1.13	1.19	1.25	6.6%	9.8%
California Water	34.0	1.24	1.31	1.38	1.45	6.6%	10.1%
Aqua America	16.7	0.60	0.63	0.66	0.70	6.6%	10.0%
Connecticut Water	20.1	0.92	0.97	1.03	1.08	6.6%	11.1%
Middlesex Water	15.1	0.74	0.78	0.82	0.87	6.6%	11.4%
SJW Corp	22.8	0.71	0.75	0.79	0.83	6.6%	9.6%

Average **10.3%**

$$P_0 = \sum_{t=1}^{n} \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K-g_n}\left[\frac{1}{(1+K)}\right]^n$$

Where : P_0 = current stock price
D_t = dividends expected during stage 1
K = cost of equity
n = years of non – constant growth
D_n = dividend expected in year n
g_n = constant rate of growth expected after year n

1 [B] see Schedule JCM-7

2 Derived from Value Line Information

3 Average annual growth in GDP 1929 - 2009 in current dollars.

4 Internal Rate of Return of Projected Dividends

Las Quintas Serenas Water Company Cost of Capital Calculation
Cost of Debt Calculation including Debt Issuance Costs

Outstanding WIFA Loan Amount As of September 30, 2009	Interest Rate	Interest Expense	Debt Issuance Costs	Yearly Amortization of Debt Issuance Costs	Interest Expense Including Yearly Amortization of Debt Issuance Costs
$ 1,725,175	6.60%	$ 113,862	$ 185,625	$ 9,281	$ 123,143

Interest Rate Including Yearly Amortization of Debt Issuance Costs
7.1%

EXHIBIT
S-3
ADMITTED

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner

IN THE MATTER OF THE APPLICATION OF 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 WATER UTILITY SERVICE BASED THEREON.	)	DOCKET NO. W-01583A-09-0589

SURREBUTTAL

TESTIMONY

OF

JUAN C. MANRIQUE

PUBLIC UTILITIES ANALYST I

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

SEPTEMBER 13, 2010

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EXECUTIVE SUMMARY
LAS QUINTAS SERENAS WATER COMPANY
DOCKET NO. W-01583A-09-0589

The Surrebuttal Testimony of Staff witness Juan C. Manrique addresses the following issues:

Capital Structure – Staff continues to recommend that the Commission adopt a hypothetical capital structure for Las Quintas Serenas Water Company ("Applicant") for this proceeding consisting of 60.0 percent debt and 40.0 percent equity. The Applicant's actual capital structure consists of 67.9 percent debt and 32.1 percent equity.

Cost of Equity – Staff recommends that the Commission adopt a 10.4 percent return on equity ("ROE") for the Applicant. Staff's estimated ROE for the Applicant is based on cost of equity estimates for the sample companies ranging from 9.7 percent for the discounted cash flow method ("DCF") to 11.0 percent for the capital asset pricing model ("CAPM").

Cost of Debt – Staff continues to recommend, and now the Company agrees, that the Commission adopt a 7.1 percent cost of debt. This recognizes debt issuance costs as interest expense in accordance with the National Association of Regulatory Commissioners Uniform System of Accounts as opposed to the Applicant's initial proposal to include debt issuance costs as a component of rate base.

Overall Rate of Return – Staff recommends that the Commission adopt an overall rate of return ("ROR") of 8.5 percent.

Response to the Rebuttal Testimony of Applicant's witness Mr. Thomas J. Bourassa – The Commission should reject the Company's proposals to allow for a firm size adjustment and to rely heavily on analysts' forecasts for DCF estimates as well as forecasted U.S. Treasury rates for Historical Market Risk Premium CAPM results.

I. INTRODUCTION

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

A. My name is Juan C. Manrique. I am a Public Utilities Analyst employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Are you the same Juan C. Manrique who filed Direct Testimony in this case?

A. Yes, I am.

Q. What is the purpose of your Surrebuttal Testimony in this rate proceeding?

A. The purpose of my Surrebuttal Testimony in this rate proceeding is to report on Staff's updated cost of capital analysis with its recommendations regarding Las Quintas Serenas Water Company's ("LQS" or "Applicant") cost of capital and to respond to the cost of capital portion of the Rebuttal Testimony of LQS's witness Mr. Thomas J. Bourassa ("Mr. Bourassa's Rebuttal").

Q. Please explain how Staff's Surrebuttal Testimony for cost of capital is organized.

A. Staff's Surrebuttal Testimony for cost of capital is presented in four sections. Section I is this introduction. Section II discusses Staff's updated cost of capital analysis. Section III presents Staff's comments on Mr. Bourassa's Rebuttal Testimony. Lastly, Section IV presents Staff's recommendations.

II. COST OF EQUITY AND OVERALL RATE OF RETURN

Q. Did Staff update its analysis concerning the Applicant's cost of equity ("COE") since it filed its Direct Testimony?

A. Yes. Staff updated its analysis to include the most updated data available.

Q. What is Staff's updated COE?

A. Staff's updated COE is 10.4 percent. In Staff's Direct Testimony, the COE was 10.6 percent.

Q. What is Staff recommending for LQS's COE?

A. Staff is recommending a COE of 10.4 percent derived from its updated cost of equity estimates that range from 9.7 percent to 11.0 percent.

Q. Did Staff update its analysis concerning the Applicant's overall rate of return?

A. Yes.

Q. What is Staff's updated overall rate of return?

A. Staff's updated overall rate of return remains 8.5 percent.

Q. What is Staff recommending for LQS's overall rate of return?

A. Staff is recommending an overall rate of return of 8.5 percent. Staff's recommendation is based on a COE of 10.4 percent, a cost of debt of 7.1 percent and a hypothetical capital structure of 40.0 percent equity and 60.0 percent debt, as shown in Surrebuttal Schedule JCM-1.

III. RESPONSE TO THE REBUTTAL TESTIMONY OF THE APPLICANT'S COST OF CAPITAL WITNESS

Mr. Bourassa's Rebuttal

Q. Does Staff have a response to Mr. Bourassa's argument that Staff erred in its Cost of Equity analysis by excluding a financial risk adjustment?

A. Yes. Mr. Bourassa claims a historical precedent for the use of a financial risk adjustment in conjunction with a hypothetical capital structure by the Commission.[1] While it is true that the Commission approved a hypothetical capital structure along with an upward financial risk adjustment, Staff does not recommend that outcome in this case. Also, in the cited cases, Staff did not recommend both a hypothetical capital structure and a financial risk adjustment. In the Southwest Gas case, Staff witness Stephen Hill reluctantly accepted the Company's position of a hypothetical capital structure but did not compute a financial risk adjustment.[2] Mr. Hill merely stated a range of values for the cost of equity and chose a value at the high end of the range. In the Arizona-American case, Staff witness Pedro Chaves recommended a financial risk adjustment but did not recommend a hypothetical capital structure.[3] In each instance, the Commission adopted both a hypothetical capital structure and a financial risk adjustment based on the specific facts and details of those cases, but not due to a Staff recommendation.

Q. Explain why Staff does not recommend adoption of a financial risk adjustment to complement its hypothetical capital structure.

A. Staff recommends a hypothetical capital structure in this case for essentially the same reason that Staff sometimes recommends a financial risk adjustment – i.e., to recognize that a utility has either higher or lower financial risk than the sample companies. An

[1] Mr. Bourassa's Rebuttal Page 5
[2] In the Matter of Southwest Gas Corporation, Docket No. G-01551A-04-0876
[3] In the matter of Arizona-American Water Company, Docket No. W-01303A-06-0014

upward financial risk adjustment can also be viewed as providing additional financial assistance to a utility with excess debt or inadequate equity. Similarly, the hypothetical capital structure Staff recommends in this case serves to provide additional financial assistance in recognition of the Company's additional financial risk compared to the sample companies. Simply put, including an upward financial risk adjustment along with a hypothetical capital structure that is beneficial to the Company effectively compensates the Company twice for its risky capital structure in relation to the sample companies. Such double reward is inappropriate to the Company is this case. Staff's recommendation of a hypothetical capital structure is already providing the Company with a return on a larger portion of equity capital than it possesses. By also including an upward financial risk adjustment, ratepayers would essentially be required to doubly compensate the Company for its highly-leveraged capital structure.

Q. How does Staff respond to Mr. Bourassa's assertions that "only one-sixth (or 16.7 percent) of Staff's growth estimate for its constant growth DCF model relies on historical dividend growth. Furthermore, if one considers the implied growth from Staff's two-stage DCF model (which is based upon growth in GDP) and recognizes the fact that Staff's two-stage DCF result is given 50 percent weight in Staff's overall DCF estimate, historical dividend growth has a weighting of only about one-twelfth (or 8.35 percent) under the Staff approach – a lower weighting than I provide in my growth estimate"?

A. Mr. Bourassa's argument fails to address the fact that Staff's methodology uses a Sustainable Growth model which indirectly serves as a check on dividend growth. Dividends cannot grow perpetually at a higher rate than earnings. Staff's Sustainable Growth model uses historic as well as projected dividend growth rates to arrive at a

balanced discounted cash flow method ("DCF") result. The omission of these methods by Mr. Bourassa unnecessarily exposes his methodology to undesirable upward bias.

Q. Does any other part of Mr. Bourassa's analysis ignore past financial indicators that result in an increase of his cost of equity estimate?

A. Yes. Mr. Bourassa's capital asset pricing model ("CAPM") analysis uses a Historical and Current Market Risk Premium ("MRP")[4] to arrive at a cost of equity. However, both his Historical and Current MRP calculations use a forecasted 30-year U.S. Treasury interest rate for 2011-2012. Mr. Bourassa's use of forecasted U.S. Treasury rates ignores current (spot) interest rates, a more accurate indicator of future growth. Use of the forecasted U.S. Treasury rates result in a significant upward outcome in his CAPM results. For example, the actual 30-year U.S. Treasury rate was 4.22 percent[5] compared to the 5.5 percent rate used by Mr. Bourassa as the risk-free rate. As a result, both his Historical and Current MRP CAPM calculations are 1.28 percent higher. Moreover, the most recently available 30-year U.S. Treasury rate is 3.72 percent,[6] a 50 basis point reduction from the 4.22 percent. Thus, in contrast to the forecasted interest rates used by Mr. Bourassa, the empirical evidence shows that interest rates on 30-yer U.S. Treasuries have trended downward as 2011 approaches. In addition, by using the same high risk-free rate for the Historical MRP CAPM result as for the Current MRP CAPM, Mr. Bourassa inflates the final CAPM result unnecessarily. For its Historical MRP CAPM, Staff uses the average of the spot rates of 5-, 7-, and 10-year U.S. Treasuries which more accurately represents the holding period of the sample companies.

[4] Mr. Bourassa's Rebuttal Schedules 4.10 and 4.12
[5] May 28, 2010.
[6] September 8, 2010.

Q. Mr. Bourassa addresses a list "of the alleged 'attractive attributes' Mr. Manrique has identified," then proceeds to argue the merits of each one listed.[7] Does Staff have a response to these arguments?

A. Yes. Mr. Bourassa chose to cherry-pick certain aspects of other regulatory environments to dismiss the examples given in Staff's Direct Testimony of attractive attributes of Arizona ratemaking regulation. These arguments ignore the central tenet of Staff's argument:

> *The unique regulatory environments of the sample companies and LQS are **firm-specific risks** for which investors cannot expect compensation. None of Mr. Bourassa's comments demonstrate that Arizona is a less favorable regulatory environment from those of the sample companies. Every regulatory jurisdiction has its own framework with its own specific identifiable advantages and disadvantages; however, it is the overall effect that is relevant.*[8]

In other words, regulatory risk is a firm-specific risk whether it is in Arizona or another state. Investors cannot expect to be compensated for firm-specific risks as these can be diversified away.

Q. Does Staff have a response to Mr. Bourassa's assertion that "if analysts' estimates already consider past growth, then Staff vastly overstates the impact of past growth rates in its DCF model"[9]?

A. Yes. Mr. Bourassa makes this assertion as if the *only* factor investors look at is analysts' growth rates. Investors do rely on analysts' forecasts as one factor in investment decisions; however, other factors such as historical data also factor into investors' investment decisions.

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[7] Mr. Bourassa's Rebuttal, pages 18-21
[8] Manrique Direct, page 41, lines 6-11
[9] Mr. Bourassa's Rebuttal, page 11, lines 11-13

IV. STAFF RECOMMENDATIONS

Q. What are Staff's recommendations for LQS's cost of capital?

A. Staff makes the following recommendations for LQS's cost of capital:

1. Staff recommends a hypothetical capital structure of 60.0 percent debt and 40.0 percent equity.
2. Staff recommends a cost of debt of 7.1 percent.
3. Staff recommends a cost of equity of 10.4 percent.
4. Staff recommends an overall rate of return of 8.5 percent.

Q. Does this conclude your testimony?

A. Yes, it does.

Las Quintas Serenas Water Company Cost of Capital Calculation
Capital Structure
And Weighted Average Cost of Capital
Staff Recommended and Company Proposed

[A]	[B]	[C]	[D]
Description	Weight (%)	Cost	Weighted Cost
Staff Recommended Structure			
Debt	60.0% [1]	7.1%	4.3%
Common Equity	40.0%	10.4%	4.2%
Weighted Average Cost of Capital			**8.5%**
Company Proposed Structure			
Debt	67.9%	7.1%	4.8%
Common Equity	32.1%	14.4%	4.6%
Weighted Average Cost of Capital			**9.4%**

[D] : [B] x [C]

Supporting Schedules: JCM-3 and JCM-4.

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Las Quintas Serenas Water Company Cost of Capital Calculation
Final Cost of Equity Estimates
Sample Water Utilities

[A]	[B]		[C]		[D]		[E]
DCF Method			D_1/P_0 [1]	+	g [2]	=	k
Constant Growth DCF Estimate			3.6%	+	5.6%	=	9.2%
Multi-Stage DCF Estimate						=	10.1%
Average of DCF Estimates							**9.7%**
CAPM Method	Rf	+	β [5]	x	(Rp)	=	k
Historical Market Risk Premium[3]	2.1%	+	0.78	x	7.2% [6]	=	7.7%
Current Market Risk Premium[4]	3.7%	+	0.78	x	13.5% [7]	=	14.3%
Average of CAPM Estimates							**11.0%**
					Average		**10.4%**
			Financial risk adjustment				
					Total		**10.4%**

1 MSN Money and Value Line

2 Schedule JCM-8

3 Risk-free rate (Rf) for 5, 7, and 10 year Treasury rates from the U.S. Treasury Department at www.ustreas.gov

4 Risk-free rate (Rf) for 30 Year Treasury bond rate from the U.S. Treasury Department at www.ustreas.gov

5 Value Line

6 Historical Market Risk Premium (Rp) calculated from Ibbotson Associates SBBI 2009 Yearbook data

7 Testimony

Las Quintas Serenas Water Company Cost of Capital Calculation
Average Capital Structure of Sample Water Utilities

[A]	[B]	[C]	[D]
Company	Debt	Common Equity	Total
American States Water	46.4%	53.6%	100.0%
California Water	48.3%	51.7%	100.0%
Aqua America	56.5%	43.5%	100.0%
Connecticut Water	55.0%	45.0%	100.0%
Middlesex Water	53.4%	46.6%	100.0%
SJW Corp	49.4%	50.6%	100.0%
Average Sample Water Utilities	**51.5%**	**48.5%**	**100.0%**
LQS - Actual Capital Structure	**67.9%**	**32.1%**	**100.0%**

Source:
Sample Water Companies from Value Line

Las Quintas Serenas Water Company Cost of Capital Calculation
Growth in Earnings and Dividends
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
Company	Dividends Per Share 1999 to 2009 DPS[1]	Dividends Per Share Projected DPS[1]	Earnings Per Share 1999 to 2009 EPS[1,2]	Earnings Per Share Projected EPS[1]
American States Water	1.7%	3.5%	3.1%	9.1%
California Water	0.8%	1.2%	2.5%	5.9%
Aqua America	7.4%	6.4%	6.2%	12.7%
Connecticut Water	1.3%	No Projection	1.5%	No Projection
Middlesex Water	1.7%	No Projection	-0.5%	No Projection
SJW Corp	5.1%	No Projection	-0.7%	No Projection
Average Sample Water Utilities	**3.0%**	**3.7%**	**3.3%**	**9.2%**

1 Value Line

2 Negative values are inconsistent with the DCF, accordingly, they are excluded from the average.

Las Quintas Serenas Water Company Cost of Capital Calculation
Sustainable Growth
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]
Company	Retention Growth **2000 to 2009** br	Retention Growth Projected br	Stock Financing Growth vs	Sustainable Growth **2000 to 2009** br + vs	Sustainable Growth Projected br + vs
American States Water	3.0%	5.6%	1.7%	4.8%	7.3%
California Water	2.0%	5.9%	3.7%	5.7%	9.5%
Aqua America	4.6%	6.7%	4.1%	8.7%	10.8%
Connecticut Water	2.5%	No Projection	0.7%	3.3%	No Projection
Middlesex Water	1.2%	No Projection	2.5%	3.7%	No Projection
SJW Corp	4.0%	No Projection	0.1%	4.1%	No Projection
Average Sample Water Utilities	**2.9%**	**6.1%**	**2.1%**	**5.0%**	**9.2%**

[B]: Value Line
[C]: Value Line
[D]: Value Line and MSN Money
[E]: [B]+[D]
[F]: [C]+[D]

Las Quintas Serenas Water Company Cost of Capital Calculation
Selected Financial Data of Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Company	Symbol	Spot Price 8/18/2010	Book Value	Mkt To Book	*Value Line* Beta β	Raw Beta β *raw*
American States Water	AWR	**32.73**	19.79	1.7	**0.80**	0.67
California Water	CWT	**34.94**	20.68	1.7	**0.75**	0.60
Aqua America	WTR	**19.56**	8.40	2.3	**0.65**	0.45
Connecticut Water	CTWS	**21.80**	12.87	1.7	**0.80**	0.67
Middlesex Water	MSEX	**16.29**	11.04	1.5	**0.75**	0.60
SJW Corp	SJW	**23.57**	14.91	1.6	**0.95**	0.90
Average				**1.7**	**0.78**	**0.65**

[C]: Msn Money

[D]: Value Line

[E]: [C] / [D]

[F]: Value Line

[G]: (-0.35 + [F]) / 0.67

Las Quintas Serenas Water Company Cost of Capital Calculation
Calculation of Expected Infinite Annual Growth in Dividends
Sample Water Utilities

[A]	[B]
Description	g
DPS Growth - Historical[1]	3.0%
DPS Growth - Projected[1]	3.7%
EPS Growth - Historical[1]	3.3%
EPS Growth - Projected[1]	9.2%
Sustainable Growth - Historical[2]	5.0%
Sustainable Growth - Projected[2]	9.2%
Average	**5.6%**

1 Schedule JCM-5

2 Schedule JCM-6

Las Quintas Serenas Water Company Cost of Capital Calculation
Multi-Stage DCF Estimates
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[H]	[I]
Company	Current Mkt. Price (P_o)[1] 8/18/2010	Projected Dividends[2] (Stage 1 growth) (D_t) d_1	d_2	d_3	d_4	Stage 2 growth[3] (g_n)	Equity Cost Estimate (K)[4]
American States Water	32.7	1.05	1.11	1.18	1.24	6.6%	9.7%
California Water	34.9	1.22	1.29	1.36	1.44	6.6%	10.0%
Aqua America	19.6	0.59	0.62	0.66	0.69	6.6%	9.5%
Connecticut Water	21.8	0.91	0.96	1.02	1.07	6.6%	10.7%
Middlesex Water	16.3	0.73	0.77	0.81	0.86	6.6%	11.0%
SJW Corp	23.6	0.70	0.74	0.78	0.82	6.6%	9.5%

Average **10.1%**

$$P_0 = \sum_{t=1}^{n} \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K-g_n}\left[\frac{1}{(1+K)}\right]^n$$

Where : P_0 = current stock price

D_t = dividends expected during stage 1

K = cost of equity

n = years of non – constant growth

D_n = dividend expected in year n

g_n = constant rate of growth expected after year n

1 [B] see Schedule JCM-7

2 Derived from Value Line Information

3 Average annual growth in GDP 1929 - 2009 in current dollars.

4 Internal Rate of Return of Projected Dividends

Las Quintas Serenas Water Company Cost of Capital Calculation
Cost of Debt Calculation including Debt Issuance Costs

Outstanding WIFA Loan Amount As of September 30, 2009	Interest Rate	Interest Expense	Debt Issuance Costs	Yearly Amortization of Debt Issuance Costs	Interest Expense Including Yearly Amortization of Debt Issuance Costs
$ 1,725,175	6.60%	$ 113,862	$ 185,625	$ 9,281	$ 123,143

Interest Rate Including Yearly Amortization of Debt Issuance Costs
7.1%

EXHIBIT
S-4
ADMITTED

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner

IN THE MATTER OF THE APPLICATION OF 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 WATER UTILITY SERVICE BASED THEREON.	)	DOCKET NO. W-01583A-09-0589

DIRECT

TESTIMONY

OF

CRYSTAL S. BROWN

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

AUGUST 9, 2010

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EXECUTIVE SUMMARY
LAS QUINTAS SERENAS WATER COMPANY
DOCKET NO. W-01583A-09-0589

Las Quintas Serenas Water Company ("Las Quintas" or "Company") is an Arizona public service corporation engaged in providing water utility services to approximately 1,027 customers within the municipal boundaries of the Town of Sahuarita, Arizona. Las Quintas' current rates were approved in Decision No. 67455, dated January 4, 2005.

The Company proposes a $203,528, or 41.68 percent revenue increase from $488,270 to $691,799. The proposed revenue increase would produce an operating income of $190,491 for a 9.03 percent rate of return on an original cost rate base ("OCRB") of $2,109,539. The Company's proposed rates would increase the typical residential 5/8 x 3/4 inch meter bill having a median usage of 8,500 gallons from $30.35 to $38.40, for an increase of $8.06 or 26.54 percent.

Staff recommends a $160,064 or 32.78 percent revenue increase from $488,270 to $648,334. Staff's recommended revenue increase would produce an operating income of $162,490 for an 8.50 percent rate of return on an OCRB of $1,911,646. Staff's recommended rates would increase the typical residential 5/8 x 3/4 inch meter bill having a median usage of 8,500 gallons from $30.35 to $33.85, for an increase of $3.51 or 11.55 percent, as shown on Schedule CSB-19.

INTRODUCTION

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

A. My name is Crystal S. Brown. I am a Public Utilities Analyst V employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Briefly describe your responsibilities as a Public Utilities Analyst V.

A. I am responsible for the examination and verification of financial and statistical information included in utility rate applications. In addition, I develop revenue requirements, prepare written reports, testimonies, and schedules that include Staff recommendations to the Commission. I am also responsible for testifying at formal hearings on these matters.

Q. Please describe your educational background and professional experience.

A. I received a Bachelor of Science Degree in Business Administration from the University of Arizona and a Bachelor of Science Degree in Accounting from Arizona State University.

Since joining the Commission in August 1996, I have participated in numerous rate cases and other regulatory proceedings involving electric, gas, water, and wastewater utilities. I have testified on matters involving regulatory accounting and auditing. Additionally, I have attended utility-related seminars sponsored by the National Association of Regulatory Utility Commissioners ("NARUC") on ratemaking and accounting designed to provide continuing and updated education in these areas.

Q. What is the scope of your testimony in this case?

A. I am presenting Staff's analysis and recommendations in the areas of rate base and operating revenues, expenses, and rate design regarding the Las Quintas Serenas Water Company, Inc.'s ("Las Quintas" or "Company") application for a permanent rate increase. Staff witness Juan Manrique is presenting Staff's cost of capital recommendations. Staff witness Marlin Scott, Jr. is presenting Staff's engineering analysis and recommendations.

Q. What is the basis of your recommendations?

A. I performed a regulatory audit of the Company's application to determine whether sufficient, relevant, and reliable evidence exists to support the Company's requested rate increase. The regulatory audit consisted of examining and testing the financial information, accounting records, and other supporting documentation and verifying that the accounting principles applied were in accordance with the Commission-adopted NARUC Uniform System of Accounts ("USOA").

BACKGROUND

Q. Please provide a brief description of Las Quintas and the service it provides.

A. Las Quintas is an Arizona public service corporation, serving approximately 1,027 customers within the municipal boundaries of the Town of Sahuarita, Arizona. Las Quintas' current rates were approved in Decision No. 67455, dated January 4, 2005.

Q. What are the primary reasons for Las Quintas' requested permanent rate increase?

A. According to Las Quintas, the primary reason is to earn an adequate rate of return.

CONSUMER SERVICE

Q. Please provide a brief history of customer complaints received by the Commission regarding Las Quintas.

A. Staff reviewed the Commission's records and found no complaints and one opinion opposed to the rate increase as of July 9, 2010.

COMPLIANCE

Q. Please provide a summary of the compliance status of Las Quintas.

A. A check of the Compliance database indicates that there are currently no delinquencies for Las Quintas.

SUMMARY OF PROPOSED REVENUES

Q. Please summarize the Company's filing.

A. The Company proposes a $203,528, or 41.68 percent revenue increase from $488,270 to $691,799. The proposed revenue increase would produce an operating income of $190,491 for a 9.03 percent rate of return on an original cost rate base ("OCRB") of $2,109,539. The Company's proposed rates would increase the typical residential 5/8 x 3/4 inch meter bill having a median usage of 8,500 gallons from $30.35 to $38.40, for an increase of $8.06 or 26.54 percent.

Q. Please summarize Staff's recommended revenue.

A. Staff recommends a $160,064 or 32.78 percent revenue increase from $488,270 to $648,334. Staff's recommended revenue increase would produce an operating income of $162,490 for an 8.50 percent rate of return on an OCRB of $1,911,646. Staff's recommended rates would increase the typical residential 5/8 x 3/4 inch meter bill having a median usage of 8,500 gallons from $30.35 to $33.85, for an increase of $3.51 or 11.55 percent, as shown on Schedule CSB-19.

Q. What test year did Las Quintas utilize in this filing?

A. Las Quintas' rate filing is based on the twelve months ended June 30, 2009 ("test year").

Q. Please summarize Staff's rate base and operating income adjustments for Las Quintas.

A. My testimony discusses the following adjustments:

Rate Base Adjustments:

Plant Retirement – This adjustment decreases plant in service by $7,488 to reflect plant that was taken out of service.

Debt Issuance Costs – This adjustment decreases plant in service by $185,625 to reflect debt issuance costs that the Company had incorrectly included in water treatment plant.

Not Used and Useful – This adjustment decreases plant in service by $41,000 to remove plant that is not used and useful.

Accumulated Depreciation – This adjustment decreases accumulated depreciation by $75,002 to reflect Staff's calculation of accumulated depreciation based on Staff's adjustments to plant and to reflect six months rather than nine months of depreciation expense in 2009.

Customer Deposits – This adjustment decreases rate base by $7,475 to reflect test year-end customer deposits.

Accumulated Deferred Income Taxes ("ADITs") – This adjustment decreases rate base by $31,307 to reflect Staff's calculation of the ADIT.

Operating Income Adjustments:

Water Testing – This adjustment decreases operating expenses by $3,161 to reflect Staff's recommended annual water testing costs.

Rate Case Expense – This adjustment decreases operating expenses by $6,667 to reflect Staff's recommended normalized rate case expense.

Depreciation Expense – This adjustment increases operating expenses by $6,714 to reflect Staff's calculation of depreciation expense based upon Staff's recommended plant balances.

Property Tax Expense – This adjustment decreases operating expense by $3,249 to reflect Staff's calculation of the Company's property tax expense.

Income Tax Expense – This adjustment increases operating expenses by $10,030 to reflect the income tax obligation on Staff's adjusted test year taxable income.

RATE BASE

Fair Value Rate Base

Q. Did the Company prepare schedules showing the elements of Reconstruction Cost New Rate Base?

A. No, the Company did not. Las Quintas requested that its OCRB be treated as its fair value rate base.

Rate Base Summary

Q. Please summarize Staff's adjustments to Las Quintas' rate base shown on Schedules CSB-3 and CSB-4.

A. Staff's adjustments to Las Quintas' rate base resulted in a net decrease of $197,893, from $2,109,539 to $1,911,646. This decrease was primarily due to Staff removing $185,625 in debt issuance costs.

Rate Base Adjustment No. 1 – Plant Retirement

Q. Did Las Quintas' plant balance reflect all retirements related to its pumping equipment?

A. No, it did not. The Company indicated in response to Staff data request CSB 2.7 that it replaced a bowl assembly for a pump in 2008 at a cost of $10,282. The Company assumes that the pump was installed in 1998.

Q. What is the amount of retirement?

A. The Company estimates the cost to be $7,488.

Q. What is Staff recommending?

A. Staff recommends decreasing plant in service by $7,488 as shown on Schedules CSB-4 and CSB-5.

Rate Base Adjustment No. 2 – Debt Issuance Costs

Q. What are debt issuance costs?

A. In general, debt issuance costs, are underwriting, legal, and administrative fees associated with issuing debt.

Q. Did Las Quintas include debt issuance costs in Account No. 320.1, Water Treatment Plant balance?

A. Yes. The Company included $185,625 in debt issuance costs in Account No. 321, water treatment plant.

Q. Does Las Quintas agree that the debt issuance costs should be removed from plant?

A. Yes. In response to Staff data request CSB 2.9, the Company indicated that the amount should be removed.

Q. What is Staff recommending?

A. Staff recommends decreasing plant in service by $185,625 as shown on Schedules CSB-4 and CSB-6.

Rate Base Adjustment No. 3 – Not Used and Useful Plant

Q. Did the Company include in rate base plant that was not used and useful?

A. Yes, Staff identified $41,000 in plant that was not used and useful as shown on Schedules CSB-4 and CSB-7.

Q. What was the basis of Staff's determination?

A. Marlin Scott, Jr., Staff's Engineer, inspected the entire system and identified certain individual plant items that were not serving customers during the test year.

Q. What is Staff recommending?

A. Staff recommends decreasing plant in service by $41,000 to remove all plant from rate base that was not used and useful as shown on Schedules CSB-4 and CSB-7.

Rate Base Adjustment No. 4 – Accumulated Depreciation

Q. What adjustments did Staff make to accumulated depreciation?

A. Staff adjusted accumulated deprecation to reflect the Staff-recommended plant balances adjusted to remove an unrecorded plant retirement, not used and useful plant, and to reflect six months rather than nine months of depreciation expense in 2009.

Q. What is Staff recommending?

A. Staff recommends decreasing accumulated depreciation by $75,002 as shown on Schedules CSB-4, and CSB-8.

Rate Base Adjustment No. 5 – Customer Deposits

Q. Is Las Quintas proposing to include customer deposits in the rate base calculation?

A. No, it is not.

Q. Are customer deposits normally treated as a reduction to rate base?

A. Yes. Customer deposits are a reduction in the calculation of rate base.

Q. Why are customer deposits normally a reduction to rate base?

A. Customer deposits are a reduction to rate base in order to recognize customer-provided capital.

Q. What was the Company's customer deposit balance at the end of the test year?

A. The Company's customer deposit balance was $7,475 at the end of the test year.

Q. What is Staff recommending?

A. Staff recommends decreasing rate base by $7,475 to reflect the test year-end customer deposit balance in rate base as shown on Schedules CSB-4 and CSB-9.

Rate Base Adjustment No. 6 – Accumulated Deferred Income Tax ("ADIT")

Q. What are ADITs?

A. ADITs are the accumulated temporary tax differences between income taxes calculated for rate-making purposes and the actual income taxes that a company pays to the United States Treasury and the State of Arizona.

Q. Did the Company propose an ADIT in its Direct Testimony?

A. No, it did not. In response to Staff data request CSB 2.9, the Company indicated that it had not finalized its 2009 tax returns when the application was prepared and thus did not include any deferred income taxes in rate base.

Q. Did the Company calculate an ADIT in response to a Staff data request?

A. Yes. In response to Staff data request CSB 2.9, the Company calculated an ADIT asset of $154,268.

Q. Did Staff make any adjustments to the Company's ADIT calculation?

A. Yes. Staff added back $185,625 to the book value of assets because the Company had inadvertently removed the amount twice. Staff also removed the net operating loss ("NOL") carry forward as it represents a one-sided transaction.

Q. Did Staff prepare a schedule showing the Company's calculation and Staff's adjustments?

A. Yes. The Company's calculation and Staff's adjustments are shown on Schedule CSB-10.

Q. What does Staff recommend?

A. Staff recommends an ADIT liability of $31,307 as shown on Schedules CSB-4 and CSB-10.

OPERATING INCOME

Operating Income Summary

Q. What are the results of Staff's analysis of test year revenues, expenses and operating income?

A. As shown on Schedules CSB-11 and CSB-12 Staff's analysis resulted in test year revenues of $488,270, expenses of $444,387 and operating income of $43,883.

Operating Income Adjustment No. 1 – Water Testing Expense

Q. What did the Company propose for water testing expense?

A. The Company proposed $7,408 for water testing expense.

Q. What adjustment did Staff make?

A. Staff adjusted annual water testing costs to reflect Staff's recommended amount as discussed in greater detail by Staff witness Marlin Scott, Jr.

Q. What is Staff recommending?

A. Staff recommends decreasing water testing expense by $3,161 as shown on Schedules CSB-12 and CSB-13.

Operating Income Adjustment No. 2 – Rate Case Expense

Q. What annual amount of rate case expense did the Company propose?

A. The Company proposes annual rate case expense of $26,667.

Q. How did the Company calculate the amount?

A. The Company divided the total estimated rate case expense of $80,000 by three years.

Q. Is the three-year period reasonable?

A. No, it is not.

Q. For the Company's three most recent rate cases, please discuss the number of years between each filing.

A. The earliest of the three most recent rate cases was filed in 1985 (Decision No. 54760, dated November 13, 1985). Approximately 19 years later the Company filed a rate case in 2004 (Decision No. 67455, dated January 4, 2005). Approximately four years later, the Company filed the instant rate case on December 3, 2009.

Q. What number of years did Staff use to normalize rate case expense?

A. Staff usually normalizes rate case expense over a 3 to 5 year period. Since there was approximately 19 years between the Company's first and the second rate cases and approximately four years between the second and the third rate cases; Staff determined that for this rate case four years would be reasonable.

Q. What is Staff's recommendation?

A. Staff recommends decreasing rate case expense by $6,667 as shown on Schedules CSB-12 and CSB-14.

Operating Income Adjustment No. 3 – Depreciation Expense

Q. What is Las Quintas proposing for depreciation expense?

A. Las Quintas is proposing depreciation expense of $117,586.

Q. What adjustment did Staff make to depreciation expense?

A. Staff adjusted depreciation expense to reflect application of the Staff recommended depreciation rates to the Staff recommended plant balances.

Q. What is Staff recommending?

A. Staff recommends increasing depreciation expense by $6,714 as shown on Schedules CSB-12 and CSB-15.

Operating Income Adjustment No. 4 – Property Taxes

Q. What is Las Quintas proposing for property taxes?

A. Las Quintas is proposing $26,078 for property taxes. The Company's proposed property tax expense is calculated on the modified Arizona Department of Revenue ("ADOR") methodology typically adopted by the Commission for water and wastewater utilities. The results from using this methodology are primarily dependent upon the test year and proposed revenues. In other words, each revenue requirement has its own property tax expense in the same manner as each operating income has its own income tax expenses. Although the results for this methodology are frequently referred to as Test Year amounts, in fact, the results are representative of the average expected property tax over a subsequent three-year period based partially on proposed revenues. The Company's calculation of proposed property taxes is representative only of the Company's proposed revenues. Therefore, if the Commission were to adopt any revenue requirement other than

that proposed by the Company, the Company's proposed property tax would not correspond with the adopted revenues.

Q. Has Staff developed a solution to address the dependent relationship between property tax expense and revenues?

A. Yes. Staff has included a factor for property taxes in the gross revenue conversion factor ("GRCF") (see Schedule CSB-2) that automatically adjusts the revenue requirement for changes in revenue in the same way that income taxes are adjusted for changes in operating income. This flexible method will accurately reflect property tax expense at any authorized revenue level. This refinement removes the need to include proposed revenues in the calculation of test year property tax expense and allows for accurate calculation of property tax expense at the test year revenue level.

Q. What amount did Staff calculate for property tax expense?

A. Staff calculated $22,829 for Test Year Property Tax Expense, as shown in Schedule CSB-16.[1]

Q. What is Staff recommending?

A. Staff recommends decreasing property tax expense by $3,249 as shown on Schedules CSB-12 and CSB-16. Staff further recommends adoption of its GRCF that includes a factor for property tax expense, as shown in Schedule CSB-2.

Operating Income Adjustment No. 5 – Income Taxes

Q. What is Las Quintas proposing for test year income tax expense?

A. Las Quintas is proposing a negative $23,603 for income taxes.

[1] Schedule CSB-16 also shows calculations for property tax expense of $25,384 for Staff's recommended revenue.

Q. Did Staff make any adjustments to test year income tax expense?

A. Yes. Staff's adjustment reflects Staff's calculation of the income tax expense based upon Staff's adjusted test year taxable income.

Q. What is Staff's recommendation?

A. Staff recommends increasing income tax expense by $10,030 as shown on Schedules CSB-12 and CSB-17.

RATE DESIGN

Q. Has Staff prepared a schedule summarizing the present, Company proposed, and Staff recommended rates and service charges?

A. Yes. Schedule CSB-18 provides a summary of the Company's present, Company's proposed, and Staff's recommended rates.

Q. Please summarize the present rate design.

A. Customer class is distinguished by meter size. The monthly minimum charges vary by meter size and include no gallons. The commodity rates are based on an inverted tier rate design that includes three tiers for residential and two for all other meter sizes as shown on CSB-18.

Q. Please summarize the Company's proposed rate design.

A. Customer class is distinguished by meter size. The monthly minimum charges vary by meter size and include no gallons. The commodity rates are based on an inverted tier rate design that includes three tiers for residential and two for all other meter sizes as shown on CSB-18. The Company's proposed rates would increase the typical residential bill from

$30.35 to $38.40 for an increase of $8.06, or 26.54 percent, as shown on Schedule CSB-19.

Q. Please summarize Staff's recommended rate design.

A. Customer class is distinguished by meter size. The monthly minimum charges vary by meter size and include no gallons. The commodity rates are based on an inverted tier rate design that includes three tiers for residential and two for all other meter sizes. Staff's recommended rates would increase the typical residential bill with a median usage of 8,500 gallons from $30.35 to $33.85, for an increase of $3.51 or 11.55 percent, as shown on Schedule CSB-19.

Q. Did Staff recommend any changes to the Company's Meter and Service Line Charges?

A. Yes. Staff-recommended changes are shown on Schedule CSB-18, page 4 and are discussed in greater detail in the testimony of Staff witness, Marlin Scott, Jr.

Other Service Charges

Q. Did the Company propose any changes to its service charges?

A. Yes. The Company proposes to add a deferred payment charge of 1.5 percent per month. Additionally, the Company proposes to add an after-hours service charge at cost.

Q. Does Staff agree with the proposed changes?

A. Yes.

Arsenic Surcharge

Q. Did the Company propose any changes to its arsenic surcharge?

A. Yes. The Company proposes that the arsenic surcharge be eliminated.

Q. Does Staff agree?

A. Yes. The cost of the arsenic treatment plant has been included in rate base and accordingly in Staff's recommended revenue requirement which will be recovered through Staff's recommended rates. Therefore, the arsenic surcharge should be eliminated.

Arsenic Impact Hook-Up Fee

Q. Did the Company propose any changes to its arsenic impact hook-up fee ("Arsenic HUF")?

A. Yes, the Company proposes that it be discontinued.

Q. Does Staff agree?

A. No, as discussed in greater detail by Staff witness, Marlin Scott, Jr., Staff recommends that the Arsenic HUF remain in effect.

Offsite Facilities Hook-Up Fee

Q. Did the Company propose any changes to its off-site facilities hook-up fee ("HUF")?

A. Yes. The Company currently has an off-site hook-up fee of $250 for all meter sizes. The Company proposes an off-site facilities hook-up fee of $1,135 for 5/8 x 3/4-inch meter customers with higher charges for larger meters as shown on Schedule CSB-18, page 5.

Q. What does Staff recommend?

A. Staff recommends no change to the current fee of $250 for all meter sizes as discussed in greater detail by Staff witness Marlin Scott, Jr.

Q. Does this conclude Staff's Direct Testimony?

A. Yes, it does.

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Schedule CSB-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST	[B] STAFF ORIGINAL COST
1	Adjusted Rate Base	$ 2,109,539	$ 1,911,646
2	Adjusted Operating Income (Loss)	$ 47,550	$ 43,883
3	Current Rate of Return (L2 / L1)	2.25%	2.30%
4	Required Rate of Return	9.03%	8.50%
5	Required Operating Income (L4 * L1)	$ 190,491	$ 162,490
6	Operating Income Deficiency (L5 - L2)	$ 142,942	$ 118,607
7	Gross Revenue Conversion Factor	1.42390	1.34953
8	Increase (Decrease) In Gross Revenue (L7 * L6)[1]	$ 203,528	$ 160,064
9	Adjusted Test Year Revenue	$ 488,270	$ 488,270
10	Proposed Annual Revenue (L8 + L9)	$ 691,799	$ 648,334
11	Required Increase/(Decrease in Revenue) (%) (L8/L9)	41.68%	32.78%

[1] The Company's increase in gross revenue does not equal line 7 x line 6

References:
Column [A]: Company Schedules A-1, C-1, C-3, & D-1
Column [B]: Staff Schedules CSB-2, CSB-3, & CSB-11

Las Quintas Serenas Water Company
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Schedule CSB-2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	Calculation of Gross Revenue Conversion Factor:				
1	Revenue	100.0000%			
2	Uncollecible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	25.9002%			
5	Subtotal (L3 - L4)	74.0998%			
6	**Revenue Conversion Factor (L1 / L5)**	1.349531			
	Calculation of Uncollecttible Factor:				
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	24.6979%			
9	One Minus Combined Income Tax Rate (L7 - L8)	75.3021%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
	Calculation of Effective Tax Rate:				
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 53)	19.0579%			
16	Effective Federal Income Tax Rate (L14 x L15)	17.7299%			
17	Combined Federal and State Income Tax Rate (L13 +L16)		24.6979%		
	Calculation of Effective Property Tax Factor				
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	24.6979%			
20	One Minus Combined Income Tax Rate (L18-L19)	75.3021%			
21	Property Tax Factor	1.5965%			
22	Effective Property Tax Factor (L20*L21)		1.2022%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			25.9002%	
24	Required Operating Income (Schedule CSB-1, Line 5)	$ 162,490			
25	AdjustedTest Year Operating Income (Loss)	43,883			
26	Required Increase in Operating Income (L24 - L25)		$ 118,607		
27	Income Taxes on Recommended Revenue (Col. [E], L52)	$ 25,327			
28	Income Taxes on Test Year Revenue (Col. [B], L52)	(13,574)			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		38,901		
30	Recommended Revenue Requirement (Schedule CSB-1, Line 10)	$ 648,334			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncolllectible Expense on Recommended Revenue (L30*L31)	$ -			
33	Adjusted Test Year Uncollectible Expense	$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)		-		
35	Property Tax with Recommended Revenue (CSB-15, Col B, L19)	$ 25,384			
36	Property Tax on Test Year Revenue	22,829			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		2,555		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		$ 160,064		

	Calculation of Income Tax:	Test Year		Staff Recommended
39	Revenue (Schedule CSB-11, Col. [C], Line 5 & Sch. CSB-1, Col. [D] Line 1	$ 488,270	$ 160,064	$ 648,334
40	Operating Expenses Excluding Income Taxes	$ 457,961	$ 2,555	$ 460,517
41	Synchronized Interest (L56)	$ 91,759		$ 91,759
42	Arizona Taxable Income (L39 - L40 - L41)	$ (61,450)		$ 96,058
43	Arizona State Income Tax Rate	6.9680%		6.9680%
44	Arizona Income Tax (L42 x L43)	$ (4,282)		$ 6,693
45	Federal Taxable Income (L42 - L44)	$ (57,168)		$ 89,365
46	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ (7,500)		$ 7,500
47	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	$ (1,792)		$ 6,250
48	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ -		$ 4,884
49	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ -		$ -
50	Federal Tax on Fifth Income Bracket ($335,001 - $10,000,000) @ 34%	$ -		$ -
51	Total Federal Income Tax	$ (9,292)		$ 18,634
52	Combined Federal and State Income Tax (L44 + L51)	$ (13,574)		$ 25,327
53	Applicable Federal Income Tax Rate [Col. [C], L51 - Col. [A], L51] / [Col. [C], L45 - Col. [A], L45]			19.0579%
	Calculation of Interest Synchronization:			
54	Rate Base (Schedule CSB-3, Col. (C), Line 14	$ 1,911,646		
55	Weighted Average Cost of Debt	4.8000%		
56	Synchronized Interest (L45 X L46)	$ 91,759		

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Schedule CSB-3

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	ADJ NO.	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 3,828,585	$ (234,113)	1, 2, 3	$ 3,594,472
2	Less: Accumulated Depreciation	(1,077,428)	75,002	4	(1,002,426)
3	Net Plant in Service	$ 2,751,157	$ (159,111)		$ 2,592,046
	LESS:				
4	Advances in Aid of Construction (AIAC)	$ 372,323	$ -		$ 372,323
5	Service Line and Meter Advances (Meter Deposits)	$ 19,641	$ -		$ 19,641
6	Contributions in Aid of Construction (CIAC)	$ 333,555	$ -		$ 333,555
7	Less: Accumulated Amortization	(83,901)	-		(83,901)
8	Net CIAC	$ 249,654	$ -		$ 249,654
9	Total Advances and Contributions	$ 641,618	$ -		$ 641,618
10	Customer Deposits	$ -	$ 7,475	5	$ 7,475
11	Accumulated Deferred Income Taxes	$ -	$ 31,307	6	$ 31,307
	ADD:				
12	Working Capital	$ -	$ -		$ -
13		$ -	$ -		$ -
14	**Total Rate Base**	$ 2,109,539	$ (197,893)		$ 1,911,646

References:
Column [A], Company Schedule B-1, Page 1
Column [B]: Schedule CSB-4
Column [C]: Column [A] + Column [B]

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Schedule CSB-4

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	PLANT IN SERVICE Acct. No. - I Plant Description	[A] COMPANY AS FILED	[B] Adj No.1 Plant Retirement Ref: Sch CSB-5	[C] ADJ No. 2 Debt Issuance Costs Ref: Sch CSB-6	[D] ADJ No. 3 Not Used & Useful Plant Ref: Sch CSB-7	[E] ADJ No. 4 Accumulated Depreciation Ref: Sch CSB-8	[F] ADJ No. 5 Customer Deposits Ref: Sch CSB-9	[F] ADJ No. 6 ADIT Ref: Sch CSB-10	[G] STAFF AS ADJUSTED
1									
2	303 Land and Land Rights	$ 217	$ -	$ -	$ -	$ -	$ -	$ -	$ 217
3	304 Structures and Improvements	12,229	-	-	-	-	-	-	12,229
5	307 Wells and Springs	309,094	-	-	-	-	-	-	309,094
6	309 Supply Mains	-	-	-	-	-	-	-	-
7	310 Power Generation Equipment	-	-	-	-	-	-	-	-
8	311 Pumping Equipment	151,338	(7,488)	-	-	-	-	-	143,850
9	320 Water Treatment Equipment	1,740	-	-	-	-	-	-	1,740
	320.1 Water Treatment Plant	2,162,694	-	(185,625)	-	-	-	-	1,977,069
10	330 Distribution Reservoirs and Standpipes	99,896	-	-	-	-	-	-	99,896
11	331 Transmission and Distribution Mains	924,616	-	-	(41,000)	-	-	-	883,616
12	333 Services	2,427	-	-	-	-	-	-	2,427
13	334 Meters and Meter Installations	101,418	-	-	-	-	-	-	101,418
14	335 Hydrants	-	-	-	-	-	-	-	-
15	336 Backflow Prevention Devices	1,137	-	-	-	-	-	-	1,137
16	339 Other Plant and Miscellaneous Equipment	-	-	-	-	-	-	-	-
17	340 Office Furniture and Equipment	28,306	-	-	-	-	-	-	28,306
18	340.1 Computers and Software	-	-	-	-	-	-	-	-
19	341 Transportation Equipment	23,292	-	-	-	-	-	-	23,292
20	343 Tools, Shop, and Garage Equipment	-	-	-	-	-	-	-	-
21	344 Laboratory Equipment	-	-	-	-	-	-	-	-
22	345 Power Operated Equipment	2,592	-	-	-	-	-	-	2,592
23	346 Communication Equipment	-	-	-	-	-	-	-	-
24	347 Miscellaneous Equipment	3,165	-	-	-	-	-	-	3,165
25	348 Other Tangible Equipment	4,424	-	-	-	-	-	-	4,424
26	Rounding	-	-	-	-	-	-	-	-
27	Total Plant in Service	$ 3,828,585	$ (7,488)	$ (185,625)	$ (41,000)	$ -	$ -	$ -	$ 3,594,472
31	Less: Accumulated Depreciation	$ (1,077,428)	$ -	$ -	$ -	$ 75,002	$ -	$ -	(1,002,426)
32	Net Plant in Service	$ 2,751,157	$ (7,488)	$ (185,625)	$ (41,000)	$ 75,002	$ -	$ -	$ 2,592,046
34	*LESS:*								
35	Advances in Aid of Construction (AIAC)	$ 372,323	$ -	$ -	$ -	$ -	$ -	$ -	$ 372,323
36	Service Line and Meter Advances (Meter Deposits)	$ 19,641	-	-	-	-	-	-	$ 19,641
38	Contributions in Aid of Construction (CIAC)	$ 333,555	-	-	-	-	-	-	$ 333,555
39	Less: Accumulated Amortization of CIAC	$ (83,901)	-	-	-	-	-	-	$ (83,901)
40	Net CIAC	$ 249,654	$ -	$ -	$ -	$ -	$ -	$ -	$ 249,654
42	Total Advances and Net Contributions	$ 641,618	$ -	$ -	$ -	$ -	$ -	$ -	$ 641,618
44	Customer Deposits	$ -	-	-	-	-	7,475	-	$ 7,475
45	Accumulated Deferred Taxes	$ -	-	-	-	-	-	31,307	$ 31,307
47	*ADD:*								
48	Working Capital Allowance	$ -	-	-	-	-	-	-	$ -
49		$ -	-	-	-	-	-	-	$ -
50	**Total Rate Base**	$ 2,109,539	$ (7,488)	$ (185,625)	$ (41,000)	$ 75,002	$ (7,475)	$ (31,307)	$ 1,911,646

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Schedule CSB-5

RATE BASE ADJUSTMENT NO. 1 - PLANT RETIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Pumping Equipment	$ 151,338	$ (7,488)	$ 143,850

References:
Column [A]: Company Schedule B-2
Column [B]: Testimony, CSB; Company's Response to Data Request CSB 2.7
Column [C]: Column [A] + Column [B]

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Schedule CSB-6

RATE BASE ADJUSTMENT NO. 2 - DEBT ISSUANCE COSTS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Water Treatment Plant	$ 1,977,069	$ -	$ 1,977,069
2	Debt Issuance Costs	185,625	(185,625)	-
3	Total Water Treatment Plant	$ 2,162,694	$ (185,625)	$ 1,977,069

References:
Column [A]: Company Schedule B-2
Column [B]: Testimony, CSB; Data Request Response CSB 2.9
Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 3 - NOT USED AND USEFUL PLANT

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Transmission and Distribution Mains	$ 924,616	$ (41,000)	$ 883,616

References:
Column [A]: Company Schedule B-2
Column [B]: Testimony, CSB
Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 4 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Accumulated Depreciation	$ 1,077,428	$ (75,002)	$1,002,426

Column [A]: Company Schedule B-2
Column [B]: Testimony, CSB
Column [C]: Column [A] + Column [B]; Schedule CSB-8, Page 7

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PLANT AND ACCUMULATED DEPRECIATION SCHEDULE

	Plant 30-Sep-03 Original Cost	30-Sep-03 Accumulated Depreciation	Prior Depre Rate	Depr. Rates Effective on 4-Jan-05 (Dec. No. 67455)	2004 Additions	2004 Retirements Cost Removal	2004 Retirements Depreciation	2004 Depr. Expense	2004 Total Cost	2004 Accumulated Depreciation
301 Organization Cost	$0	$0	0%	0.00%	$0	$0	$0	$0	$0	$0
302 Franchise Cost	0	0	0%	0.00%	0	0	0	$0	0	0
303 Land & Land Rights	217	0	0%	0.00%	0	0	0	$0	217	0
304 Structures & Improv	6,599	3,110	5%	3.33%	0	0	0	$330	6,599	3,440
305 Collecting & Impounding Res.	0	0	5%	2.50%	0	0	0	$0	0	0
307 Wells & Springs	300,389	141,585	5%	3.33%	0	0	0	$15,019	300,389	156,604
310 Power Generation Equip	0	0	5%	5.00%	0	0	0	$0	0	0
311 Electric Pumping Equip	103,684	48,870	5%	12.50%	11,131	0	0	$5,462	114,815	54,333
320 Water Treatment Equip	830	391	5%	3.33%	0	0	0	$42	830	433
320.1 Water Treatment Equip	0	0	5%	3.33%	0	0	0	$0	0	0
330 Dist. Resrvr & Stndpipe	94,798	44,682	5%	2.22%	1,546	0	0	$4,779	96,344	49,461
331 Trans. & Distr. Mains	820,492	386,730	5%	2.00%	78,445	0	0	$42,986	898,937	429,715
333 Services	2,427	1,144	5%	3.33%	0	0	0	$121	2,427	1,265
334 Meters	100,611	47,422	5%	8.33%	0	0	0	$5,031	100,611	52,452
335 Hydrants	0	0	5%	2.00%	0	0	0	$0	0	0
336 Backflow Prevention Devices	1,137	536	5%	6.67%	0	0	0	$57	1,137	593
339 Other Plant and Misc Equip	0	0	5%	6.67%	0	0	0	$0	0	0
340 Office Furniture & Fixt	13,720	6,467	5%	6.67%	5,695	0	0	$828	19,415	7,295
340.1 Computers and Software	0	0	5%	20.00%	0	0	0	$0	0	0
341 Transportation Equip	9,000	4,242	5%	20.00%	0	0	0	$450	9,000	4,692
343 Tools & Work Equip	0	0	5%	5.00%	0	0	0	$0	0	0
345 Power Operated Equip	2,592	1,222	5%	5.00%	0	0	0	$130	2,592	1,351
346 Communications Equip	0	0	5%	10.00%	0	0	0	$0	0	0
347 Miscellaneous Equipment	0	0	5%	10.00%	2,746	0	0	$69	2,746	69
348 Other Tangible Equipment	4,424	2,085	5%	10.00%	0	0	0	$221	4,424	2,306
2003/2004 Totals	$1,460,920	$688,486			$99,563	$0	$0	$75,524	$1,560,483	$764,010

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE

	2005 Additions Cost	2005 Retirements Cost Removal	2005 Retirements Depreciation	Fully Depreciated	2005 Depr. Expense	2005 Total Cost	2005 Accumulated Depreciation	2005 Net Book Value
301 Organization Cost	$0	$0	$0	$0	$0	$0	$0	$0
302 Franchise Cost	0	0	0	0	$0	0	0	0
303 Land & Land Rights	0	0	0	0	$0	217	0	217
304 Structures & Improv	5,630	0	0	0	$313	12,229	3,754	8,475
305 Collecting & Impounding Res.	0	0	0	0	$0	0	0	0
307 Wells & Springs	14,095	0	0	0	$10,238	314,484	166,842	147,642
310 Power Generation Equip	0	0	0	0	$0	0	0	0
311 Electric Pumping Equip	5,000	0	0	0	$14,664	119,815	68,997	50,818
320 Water Treatment Equip	910	0	0	0	$43	1,740	476	1,264
320.1 Water Treatment Equip		0	0	0	$0	0	0	0
330 Dist. Resrvr & Stndpipe	3,552	0	0	0	$2,178	99,896	51,639	48,257
331 Trans. & Distr. Mains	4,761	0	0	0	$18,026	903,698	447,742	455,956
333 Services	0	0	0	0	$81	2,427	1,346	1,081
334 Meters	0	0	0	0	$8,381	100,611	60,833	39,778
335 Hydrants	0	0	0	0	$0	0	0	0
336 Backflow Prevention Devices	0	0	0	0	$76	1,137	669	468
339 Other Plant and Misc Equip	0	0	0	0	$0	0	0	0
340 Office Furniture & Fixt	3,202	0	0	0	$1,402	22,617	8,697	13,920
340.1 Computers and Software	0	0	0	0	$0	0	0	0
341 Transportation Equip	18,292	0	0	0	$3,629	27,292	8,321	18,971
343 Tools & Work Equip	0	0	0	0	$0	0	0	0
345 Power Operated Equip	0	0	0	0	$130	2,592	1,481	1,111
346 Communications Equip	0	0	0	0	$0	0	0	0
347 Miscellaneous Equipment	419	0	0	0	$296	3,165	364	2,801
348 Other Tangible Equipment	0	0	0	0	$442	4,424	2,749	1,675
2008 Totals	$55,861	$0	$0	$0	$59,899	$1,616,344	$823,909	$792,435

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE

	2006 Additions Cost	2006 Retirements Cost Removal	2006 Retirements Depreciation	Fully Depreciated	2006 Depr. Expense	2006 Total Cost	2006 Accumulated Depreciation	2006 Net Book Value
301 Organization Cost	$0	$0	$0	$0	0	$0	$0	$0
302 Franchise Cost	0	0	0	0	0	0	0	0
303 Land & Land Rights	0	0	0	0	0	217	0	217
304 Structures & Improv	0	0	0	0	407	12,229	4,161	8,068
305 Collecting & Impounding Res.	0	0	0	0	0	0	0	0
307 Wells & Springs	0	0	0	0	10,472	314,484	177,314	137,170
310 Power Generation Equip	0	0	0	0	0	0	0	0
311 Electric Pumping Equip	0	0	0	0	14,977	119,815	83,974	35,841
320 Water Treatment Equip	0	0	0	0	58	1,740	533	1,207
320.1 Water Treatment Equip	0	0	0	0	0	0	0	0
330 Dist. Resrvr & Stndpipe	0	0	0	0	2,218	99,896	53,856	46,040
331 Trans. & Distr. Mains	0	0	0	0	18,074	903,698	465,816	437,882
333 Services	0	0	0	0	81	2,427	1,427	1,000
334 Meters	808	0	0	0	8,415	101,419	69,248	32,171
335 Hydrants	0	0	0	0	0	0	0	0
336 Backflow Prevention Devices	0	0	0	0	76	1,137	744	393
339 Other Plant and Misc Equip	0	0	0	0	0	0	0	0
340 Office Furniture & Fixt	0	0	0	0	1,509	22,617	10,205	12,412
340.1 Computers and Software	0	0	0	0	0	0	0	0
341 Transportation Equip	0	0	0	0	5,458	27,292	13,780	13,512
343 Tools & Work Equip	0	0	0	0	0	0	0	0
345 Power Operated Equip	0	0	0	0	130	2,592	1,611	981
346 Communications Equip	0	0	0	0	0	0	0	0
347 Miscellaneous Equipment	0	0	0	0	317	3,165	681	2,484
348 Other Tangible Equipment	0	0	0	0	442	4,424	3,191	1,233
2009 Totals	$808	$0	$0	$0	$62,633	$1,617,152	$886,542	$730,610

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PLANT AND ACCUMULATED DEPRECIATION SCHEDULE

	2007 Additions Cost	2007 Retirements Cost Removal	2007 Retirements Depreciation	Fully Depreciated	2007 Depr. Expense	2007 Total Cost	2007 Accumulated Depreciation	2007 Net Book Value
301 Organization Cost	$0	$0	$0	$0	$0	$0	$0	$0
302 Franchise Cost	0	0	0	0	$0	0	0	0
303 Land & Land Rights	0	0	0	0	$0	217	0	217
304 Structures & Improv	0	0	0	0	$407	12,229	4,568	7,661
305 Collecting & Impounding Res.	0	0	0	0	$0	0	0	0
307 Wells & Springs	0	0	0	0	$10,472	314,484	187,787	126,697
310 Power Generation Equip	0	0	0	0	$0	0	0	0
311 Electric Pumping Equip	0	0	0	0	$14,977	119,815	98,951	20,864
320 Water Treatment Equip	0	0	0	0	$58	1,740	591	1,149
320.1 Water Treatment Equip	0	0	0	0	$0	0	0	0
330 Dist. Resrvr & Stndpipe	0	0	0	0	$2,218	99,896	56,074	43,822
331 Trans. & Distr. Mains	0	0	0	0	$18,074	903,698	483,890	419,808
333 Services	0	0	0	0	$81	2,427	1,508	919
334 Meters	0	0	0	0	$8,448	101,419	77,696	23,723
335 Hydrants	0	0	0	0	$0	0	0	0
336 Backflow Prevention Devices	0	0	0	0	$76	1,137	820	317
339 Other Plant and Misc Equip	0	0	0	0	$0	0	0	0
340 Office Furniture & Fixt	3,865	0	0	0	$1,637	26,482	11,843	14,639
340.1 Computers and Software	0	0	0	0	$0	0	0	0
341 Transportation Equip	0	500	500	0	$5,408	26,792	18,688	8,104
343 Tools & Work Equip	0	0	0	0	$0	0	0	0
345 Power Operated Equip	0	0	0	0	$130	2,592	1,740	852
346 Communications Equip	0	0	0	0	$0	0	0	0
347 Miscellaneous Equipment	0	0	0	0	$317	3,165	997	2,168
348 Other Tangible Equipment	0	0	0	0	$442	4,424	3,634	790
2009 Totals	$3,865	$500	$500	$0	$62,745	$1,620,517	$948,787	$671,730

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PLANT AND ACCUMULATED DEPRECIATION SCHEDULE

	2008 Additions Cost	2008 Retirements Cost Removal	2008 Retirements Depreciation	Fully Depreciated	2008 Depr. Expense	2008 Total Cost	2008 Accumulated Depreciation	2008 Net Book Value
301 Organization Cost	$0	$0	$0	$0	$0	$0	$0	$0
302 Franchise Cost	0	0	0	0	$0	0	0	0
303 Land & Land Rights	0	0	0	0	$0	217	0	217
304 Structures & Improv	0	0	0	0	$407	12,229	4,975	7,254
305 Collecting & Impounding Res.	0	0	0	0	$0	0	0	0
307 Wells & Springs	0	5,390	5,390	0	$10,383	309,094	192,779	116,315
310 Power Generation Equip	0	0	0	0	$0	0	0	0
311 Electric Pumping Equip	0	7,488	7,488	0	$14,509	112,327	105,972	6,355
320 Water Treatment Equip	0	0	0	0	$58	1,740	649	1,091
320.1 Water Treatment Equip	0	0	0	0	$0	0	0	0
330 Dist. Resrvr & Stndpipe	0	0	0	0	$2,218	99,896	58,292	41,604
331 Trans. & Distr. Mains	20,918	0	0	0	$18,283	924,616	502,173	422,443
333 Services	0	0	0	0	$81	2,427	1,589	838
334 Meters	0	0	0	0	$8,448	101,419	86,144	15,275
335 Hydrants	0	0	0	0	$0	0	0	0
336 Backflow Prevention Devices	0	0	0	0	$76	1,137	896	241
339 Other Plant and Misc Equip	0	0	0	0	$0	0	0	0
340 Office Furniture & Fixt	303	0	0	0	$1,776	26,785	13,619	13,166
340.1 Computers and Software	0	0	0	0	$0	0	0	0
341 Transportation Equip	0	3,500	3,500	0	$4,604	23,292	19,792	3,500
343 Tools & Work Equip	0	0	0	0	$0	0	0	0
345 Power Operated Equip	0	0	0	0	$130	2,592	1,870	722
346 Communications Equip	0	0	0	0	$0	0	0	0
347 Miscellaneous Equipment	0	0	0	0	$317	3,165	1,314	1,851
348 Other Tangible Equipment	0	0	0	0	$442	4,424	4,076	348
2008 Totals	$21,221	$16,378	$16,378	$0	$61,731	$1,625,360	$994,140	$631,220

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PLANT AND ACCUMULATED DEPRECIATION SCHEDULE

	2009 Additions Cost	2009 Retirements Cost Removal	2009 Retirements Depreciation	Fully Depreciated	2009 Depr. Expense	2009 Total Cost	2009 Accumulated Depreciation	2009 Net Book Value
301 Organization Cost	$0	$0	$0	$0	$0	$0	$0	$0
302 Franchise Cost	0	0	0	0	$0	0	0	0
303 Land & Land Rights	0	0	0	0	$0	217	0	217
304 Structures & Improv	0	0	0	0	$204	12,229	5,179	7,050
305 Collecting & Impounding Res.	0	0	0	0	$0	0	0	0
307 Wells & Springs	0	0	0	0	$5,146	309,094	197,926	111,168
310 Power Generation Equip	0	0	0	0	$0	0	0	0
311 Electric Pumping Equip	31,523	0	0	0	$8,006	143,850	113,977	29,873
320 Water Treatment Equip	0	0	0	0	$29	1,740	678	1,062
320.1 Water Treatment Equip	2,162,694	185,625	0	0	$16,459	1,977,069	16,459	1,960,610
330 Dist. Resrvr & Stndpipe	0	0	0	0	$1,109	99,896	59,401	40,495
331 Trans. & Distr. Mains	0	41,000	41,000	0	$9,041	883,616	470,214	413,402
333 Services	0	0	0	0	$40	2,427	1,629	798
334 Meters	0	0	0	0	$4,224	101,419	90,368	11,051
335 Hydrants	0	0	0	0	$0	0	0	0
336 Backflow Prevention Devices	0	0	0	0	$38	1,137	934	203
339 Other Plant and Misc Equip	0	0	0	0	$0	0	0	0
340 Office Furniture & Fixt	1,520	0	0	0	$919	28,305	14,538	13,767
340.1 Computers and Software	0	0	0	0	$0	0	0	0
341 Transportation Equip	0	0	0	0	$3,500	23,292	23,292	(0)
343 Tools & Work Equip	0	0	0	0	$0	0	0	0
345 Power Operated Equip	0	0	0	0	$65	2,592	1,935	657
346 Communications Equip	0	0	0	0	$0	0	0	0
347 Miscellaneous Equipment	0	0	0	0	$158	3,165	1,472	1,693
348 Other Tangible Equipment	0	0	0	0	$348	4,424	4,424	(0)
2009 Totals	$2,195,737	$226,625	$41,000	$0	$49,286	$3,594,472	$1,002,426	$2,592,046

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Schedule CSB-9

RATE BASE ADJUSTMENT NO. 5 - CUSTOMER DEPOSITS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Customer Deposits	$ -	$ 7,475	$ 7,475

References:

Column A: Company Schedule B-2
Column B: Testimony, CSB; Data Request Response CSB 2.11
Column C: Column [A] + Column [B]

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Schedule CSB-10

RATE BASE ADJUSTMENT NO. 6 - ACCUMULATED DEFERRED INCOME TAXES

LINE NO.	DESCRIPTION	[A] PER COMPANY	[B] ADJUSTMENT	[C] PER STAFF
1	**Federal Taxes**			
2	Tax Value of Fixed Assets	$ 1,674,957	$ -	$ 1,674,957
3	Less: Book Value Fixed Asset Value (From Line 22)	1,872,065	185,625	2,057,690
4	Subtotal	$ (197,108)	$ (185,625)	$ (382,733)
5	Multiplied by federal tax rate	24.5180%	24.52%	24.5180%
6	**Noncurrent Future Tax Asset/(Liability)**	**(48,327)**	**(45,512)**	**(93,838)**
7				
8	**State Taxes**			
9	Tax Value of Fixed Assets	$ 2,450,374	$ -	$ 2,450,374
10	Less: Book Value Fixed Asset Value (From Line 22)	1,872,065	185,625	2,057,690
11	Subtotal	$ 578,309	$ (185,625)	$ 392,684
12	Multiplied by state tax rate	6.9681%	6.9681%	6.9681%
13	**Noncurrent Future Tax Asset/(Liability)**	**40,297**	**(12,935)**	**27,363**
14				
15	**AIAC**			
16	Tax Value of AIAC	$ -	$ -	$ -
17	Less: Book Value of AIAC	(372,323)	-	(372,323)
18		$ 372,323	$ -	$ 372,323
19	Multiplied by Probability of Realization of Future Benefit	30.0%	30.0%	30.0%
20	Subtotal	111,697	-	111,697
21	Multiplied by combined federal and state tax rate	31.4861%	31.4861%	31.4861%
22	**Noncurrent Future Tax Asset/(Liability)**	**$ 35,169**	**$ -**	**$ 35,169**
23				
24				
25	**Operating Loss Carry Forward**			
26	Tax Value of Fixed Assets	$ -	$ -	$ -
27	Less: Book Value Fixed Asset Value (From Line 22)	(518,518)	518,518	-
28	Subtotal	$ 518,518	$ (518,518)	$ -
29	Multiplied by state tax rate	24.5178%	24.5178%	24.5178%
30	**Noncurrent Future Tax Asset/(Liability)**	**$ 127,129**	**$ (127,129)**	**$ -**
31				
32				
33	**Net Asset/(Liability)**	**$ 154,268**	**$ (185,575)**	**$ (31,307)**
34	**ADIT Per Company's Direct Testimony**			$ -
35	**Staff's Adjustment**			**$ (31,307)**

References:

Column A: Company Response to Data Request Response CSB 2.9
Column B: Testimony, CSB, Company Data Request Responses CSB 2.9
Column C: Column [A] + Column [B]

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Schedule CSB-11

OPERATING INCOME - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	ADJ NO.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
	REVENUES:						
1	Metered Water Sales	$ 481,492	$ -		$ 481,492	$ 160,064	$ 641,556
2	Water Sales - Unmetered	-	-		-		-
3	Other Operating Revenues	6,778	-		6,778	-	6,778
4	**Total Revenues**	$ 488,270	$ -		$ 488,270	$ 160,064	$ 648,334
5							
6	*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)	1	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	(6,667)	2	20,000	-	20,000
24	Miscellaneous Expense	6,177	-		6,177	-	6,177
25	Bad Debt Expense	31	-		31	-	31
26	Depreciation Expense	117,586	6,714	3	124,300	-	124,300
27	Taxes Other Than Income	-	-		-	-	-
28	Property Taxes	26,078	(3,249)	4	22,829	2,555	25,384
29	Income Taxes	(23,603)	10,030	5	(13,574)	38,901	25,327
31							
32	**Total Operating Expenses**	$ 440,721	$ 3,667		$ 444,387	$ 41,457	$ 485,844
33							
34	**Operating Income (Loss)**	$ 47,550	$ (3,667)		$ 43,883	$ 118,607	$ 162,490

References:
Column (A): Company Schedule C-1, Page 2
Column (B): Schedule CSB-12
Column (C): Column (A) + Column (B)
Column (D): Schedules CSB-1 and CSB-2
Column (E): Column (C) + Column (D)

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Schedule CSB-12

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Water Testing Expense	[C] ADJ #2 Rate Case Expense	[D] ADJ #3 Depreciation Expense	[E] ADJ #4 Property Taxes	[F] ADJ #5 Income Taxes	[G] STAFF ADJUSTED
	REVENUES:		Ref: Sch CSB-13	Ref: Sch CSB-14	Ref: Sch CSB-15	Ref: Sch CSB-16	Ref: Sch CSB-17	
1	Metered Water Sales	$ 481,492	$ -	$ -	$ -	$ -	$ -	$ 481,492
2	Water Sales - Unmetered	-	-	-	-	-	-	-
3	Other Operating Revenues	6,778	-	-	-	-	-	6,778
4	**Total Revenues**	$ 488,270	$ -	$ -	$ -	$ -	$ -	$ 488,270
5								
6	*OPERATING EXPENSES:*							
7	Salaries and Wages	$ 150,775	-	-	-	-	-	$ 150,775
8	Purchased Water	-	-	-	-	-	-	-
9	Purchased Power	74,502	-	-	-	-	-	74,502
10	Fuel for Power Production	4,217	-	-	-	-	-	4,217
11	Chemicals	765	-	-	-	-	-	765
12	Materials & Supplies	21,840	-	-	-	-	-	21,840
13	Outside Services	-	-	-	-	-	-	-
14	Outside Services- Legal	-	-	-	-	-	-	-
15	Outside Services- Other	6,568	-	-	-	-	-	6,568
16	Water Testing	7,408	(3,161)	-	-	-	-	4,247
17	Equipment Rental	-	-	-	-	-	-	-
18	Rents	11,874	-	-	-	-	-	11,874
19	Transportation Expenses	7,012	-	-	-	-	-	7,012
20	Insurance - General Liability	2,825	-	-	-	-	-	2,825
21	Insurance - Health and Life	-	-	-	-	-	-	-
22	Reg. Comm. Exp.	-	-	-	-	-	-	-
23	Reg. Comm. Exp. - Rate Case	26,667	-	(6,667)	-	-	-	20,000
24	Miscellaneous Expense	6,177	-	-	-	-	-	6,177
25	Bad Debt Expense	31	-	-	-	-	-	31
26	Depreciation Expense	117,586	-	-	6,714	-	-	124,300
27	Taxes Other Than Income	-	-	-	-	-	-	-
28	Property Taxes	26,078	-	-	-	(3,249)	-	22,829
29	Income Taxes	(23,603)	-	-	-	-	10,030	(13,574)
31								
32	**Total Operating Expenses**	$ 440,721	$ (3,161)	$ (6,667)	$ 6,714	$ (3,249)	$ 10,030	$ 444,387
33								
34	**Operating Income (Loss)**	$ 47,550	$ 3,161	$ 6,667	$ (6,714)	$ 3,249	$ (10,030)	$ 43,883

Las Quintas Serenas Water Company
Docket No. W-01583A-09-0589
Test Year Ended June 30, 2009

Schedule CSB-13

OPERATING INCOME ADJUSTMENT NO. 1 - WATER TESTING EXPENSE

		[A]	[B]	[C]
LINE NO.	Description	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Water Testing Expense	$ 7,408	$ (3,161)	$ 4,247

References:

Column A: Company Schedule C-1
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

Las Quintas Serenas Water Company
Docket No. W-01583A-09-0589
Test Year Ended June 30, 2009

Schedule CSB-14

OPERATING INCOME ADJUSTMENT NO. 2 - RATE CASE EXPENSE

LINE NO.	Description	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Rate Case Expense	$ 26,667	$ (6,667)	$ 20,000

	Per Company	Difference	Per Staff
	$ 80,000	$ -	$ 80,000
Divided by	3	1	4
	26,667	(6,667)	20,000

References:

Column A: Company Schedule C-1
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

Las Quintas Serenas Water Company
Docket No. W-01583A-09-0589
Test Year Ended June 30, 2009

Schedule CSB-15

OPERATING INCOME ADJUSTMENT NO. 3 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.		DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	303	Land and Land Rights	$ 217	$ 217	$ -	0.00%	$ -
	304	Structures and Improvements	12,229	-	12,229	3.33%	407
2	307	Wells and Springs	309,094	-	309,094	3.33%	10,293
3	309	Supply Mains	-	-	-	2.50%	-
4	310	Power Generation Equipment	-	-	-	3.33%	-
5	311	Pumping Equipment	143,850	-	143,850	12.50%	17,981
6	320	Water Treatment Equipment	1,740	-	1,740	3.33%	58
7	320.1	Water Treatment Plant	1,977,069	-	1,977,069	3.33%	65,836
8	330	Distribution Reservoirs and Standpipes	99,896	-	99,896	2.22%	2,218
9	331	Transmission and Distribution Mains	883,616	-	883,616	3.33%	29,424
10	333	Services	2,427	-	2,427	2.00%	49
11	334	Meters and Meter Installations	101,418	-	101,418	8.33%	8,448
12	335	Hydrants	-	-	-	2.00%	-
13	336	Backflow Prevention Devices	1,137	-	1,137	6.67%	76
14	339	Other Plant and Miscellaneous Equipment	-	-	-	6.67%	-
15	340	Office Furniture and Equipment	28,306	-	28,306	6.67%	1,888
16	340.1	Computers and Software	-	-	-	20.00%	-
17	341	Transportation Equipment	23,292	23,292	-	20.00%	-
18	343	Tools, Shop, and Garage Equipment	-	-	-	5.00%	-
19	344	Laboratory Equipment	-	-	-	10.00%	-
20	345	Power Operated Equipment	2,592	-	2,592	5.00%	130
21	346	Communication Equipment	-	-	-	10.00%	-
22	347	Miscellaneous Equipment	3,165	-	3,165	10.00%	317
23	348	Other Tangible Equipment	4,424	4,424	-	10.00%	-
24		Total Plant	$ 3,594,472	$ 27,933	$ 3,566,539		$ 137,124
25							
29							
30							
31		Composite Depreciation Rate (Depr Exp / Depreciable Plant):	3.84%				
32		CIAC:	$ 333,555				
33		Amortization of CIAC (Line 32 x Line 33):	$ 12,824				
34							
		Depreciation Expense Before Amortization of CIAC:	$ 137,124				
		Less Amortization of CIAC:	$ 12,824				
		Test Year Depreciation Expense - Staff:	$ 124,300				
		Depreciation Expense - Company:	117,586				
		Staff's Total Adjustment:	**$ 6,714**				

References:
Column [A]: Schedule CSB-4
Column [B]: From Column [A]
Column [C]: Column [A] - Column [B]
Column [D]: Engineering Staff Report
Column [E]: Column [C] x Column [D]

Las Quintas Serenas Water Company
Docket No. W-01583A-09-0589
Test Year Ended June 30, 2009

Schedule CSB-16

OPERATING INCOME ADJUSTMENT NO. 4 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	$ 488,270	$ 488,270
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	976,541	$ 976,541
4	Staff Recommended Revenue, Per Schedule CSB-1	488,270	648,334
5	Subtotal (Line 4 + Line 5)	1,464,811	1,624,874
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	488,270	$ 541,625
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	976,541	$ 1,083,250
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	23,292	$ 23,292
12	Full Cash Value (Line 9 + Line 10 - Line 11)	953,249	$ 1,059,958
13	Assessment Ratio	21.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	200,182	$ 222,591
15	Composite Property Tax Rate	11.4039%	11.4039%
			$ -
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	$ 22,829	
17	Company Proposed Property Tax	26,078	
18	Staff Test Year Adjustment (Line 16-Line 17)	$ (3,249)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		$ 25,384
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		$ 22,829
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		$ 2,555
22	Increase to Property Tax Expense		$ 2,555
23	Increase in Revenue Requirement		160,064
24	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		1.596546%

Las Quintas Serenas Water Company
Docket No. W-01583A-09-0589
Test Year Ended June 30, 2009

Schedule CSB-17

OPERATING INCOME ADJUSTMENT NO. 5 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	(A)	(B)
	Calculation of Income Tax:	Test Year	
1	Revenue	$ 488,270	
2	Less: Operating Expenses - Excluding Income Taxes	$ 457,961	
3	Less: Synchronized Interest (L17)	$ 91,759	
4	Arizona Taxable Income (L1- L2 - L3)	$ (61,450)	
5	Arizona State Income Tax Rate	6.968%	
6	Arizona Income Tax (L4 x L5)		$ (4,282)
7	Federal Taxable Income (L4 - L6)	$ (57,168)	
8	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ (7,500)	
9	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	$ (1,792)	
10	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ -	
11	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ -	
12	Federal Tax on Fifth Income Bracket ($335,001 - $10,000,000) @ 34%	$ -	
13	Total Federal Income Tax		$ (9,292)
14	Combined Federal and State Income Tax (L6 + L13)		$ (13,574)
	Calculation of Interest Synchronization:		
15	Rate Base	$ 1,911,646	
16	Weighted Average Cost of Debt	4.80%	
17	Synchronized Interest (L16 x L17)	$ 91,759	
18	Income Tax - Per Staff	$ (13,574)	
19	Income Tax - Per Company	$ (23,603)	
20	**Staff Adjustment**	**$ 10,030**	

Monthly Minimum Charge	Present*	Company Proposed	Staff Recommended
Meter Size (All Classes):			
5/8 Inch x 3/4 Inch	$ 10.00	$ 20.00	$ 20.00
3/4 Inch	22.50	30.00	30.00
1 Inch	25.00	50.00	50.00
1 1/2 Inch	55.00	100.00	100.00
2 Inch	70.00	160.00	160.00
3 Inch	125.00	320.00	320.00
4 Inch	225.00	500.00	500.00
6 Inch	350.00	1,000.00	1,000.00
8 Inch	-	-	1,600.00
Gallons In Minimum	-	-	-
*Does not include arsenic remedial surcharge listed on Schedule CSB-18, page 5.			
Standpipe	$ 10.10	$ 20.20	$ 20.20
Fire Sprinkler Connection			
Fire Sprinkler - less than 6 inches (See Notes 1 and 2)	10.00	10.00	N/A
Fire Sprinkler - larger than 6 inches (See Notes 1 and 2)	15.00	15.00	N/A
Fire Sprinkler - less than 6 inches (See Notes 1 and 3)	10.00	N/A	Note 3
Fire Sprinkler - larger than 6 inches (See Notes 1 and 3)	15.00	N/A	Note 3

Note 1 - Present Rates are 1% of monthly minimum for comparable sized meters, but not less than $5.00 per month
Note 2 - Proposed rates are 2% of monthly minimum for comparable sized meters, but not less than $15 per month.
Note 3 - Staff's recommended monthly charges are 2% of the monthly minimum for an equivalent sized meter or $10, whichever is greater, for all meter sizes.

Commodity Rates
(Residential, Commercial, Industrial)

5/8" x 3/4" Meter			
0 gallons to 4,000 gallons	$ 0.9500	N/A	N/A
4,001 gallons to 23,000 gallons	1.1500	N/A	N/A
over 23,000 gallons	1.3500	N/A	N/A
0 gallons to 4,000 gallons	$ 0.9500	$ 1.9000	$ 1.1000
4,001 to 10,000 gallons	N/A	2.4000	2.1000
over 10,000 gallons	N/A	3.0000	3.1930
3/4" Meter			
0 gallons to 4,000 gallons	$ 0.9500	N/A	N/A
4,001 gallons to 23,000 gallons	1.1500	N/A	N/A
over 23,000 gallons	1.3500	N/A	N/A
0 gallons to 4,000 gallons	N/A	$ 1.9000	$ 1.1000
4,001 to 10,000 gallons	N/A	2.4000	2.1000
over 10,000 gallons	N/A	3.0000	3.1930
1" Meter			
0 gallons to 40,000 gallons	$ 1.1500	N/A	N/A
over 40,000 gallons	1.3500	N/A	N/A
0 gallons to 25,000 gallons	N/A	$ 2.4000	N/A
over 25,000 gallons	N/A	3.0000	N/A
First 27,000 gallons	N/A	N/A	2.1000
Over 27,000 gallons	N/A	N/A	3.1930

	Present	Company Proposed	Staff Recommended
Commodity Charge - Per Thousand Gallons Continued			
1 1/2" Meter			
0 gallons to 100,000 gallons	$ 1.1500	N/A	N/A
over 100,000 gallons	1.3500	N/A	N/A
0 gallons to 50,000 gallons	N/A	2.4000	N/A
over 50,000 gallons	N/A	3.0000	N/A
First 70,000 gallons	N/A	1.4500	2.1000
Over 70,000 gallons	N/A	1.9000	3.1930
2" Meter (All Classes Except Standpipe)			
0 gallons to 150,000 gallons	1.1500	1.4500	N/A
over 150,000 gallons	1.3500	1.9000	N/A
0 gallons to 80,000 gallons	N/A	2.4000	N/A
over 80,000 gallons	N/A	3.0000	N/A
First 122,000 gallons	N/A	N/A	2.1000
Over 122,000 gallons	N/A	N/A	3.1930
3" Meter (All Classes Except Standpipe)			
No Tariff	N/T	N/A	N/A
No Tariff	N/T	N/A	N/A
0 gallons to 160,000 gallons	N/A	2.4000	N/A
over 160,000 gallons	N/A	3.0000	N/A
First 262,000 gallons	N/A	N/A	2.1000
Over 262,000 gallons	N/A	N/A	3.1930
4" Meter (All Classes Except Standpipe)			
0 gallons to 400,000 gallons	1.1500	1.4500	N/A
over 400,000 gallons	1.3500	1.9000	N/A
0 gallons to 250,000 gallons	N/A	2.4000	N/A
over 250,000 gallons	N/A	3.0000	N/A
First 423,000 gallons	N/A	N/A	2.1000
Over 423,000 gallons	N/A	N/A	3.1930
6" Meter (All Classes Except Standpipe)			
0 gallons to 400,000 gallons	1.1500	1.4500	N/A
over 400,000 gallons	1.3500	1.9000	N/A
0 gallons to 500,000 gallons	N/A	2.4000	N/A
over 500,000 gallons	N/A	3.0000	N/A
First 873,000 gallons	N/A	N/A	2.1000
Over 873,000 gallons	N/A	N/A	3.1930
8" Meter (All Classes Except Standpipe)			
No Tariff	N/T	N/A	N/A
No Tariff	N/T	N/A	N/A
No Tariff	N/T	N/A	N/A
No Tariff	N/T	N/A	N/A
First 1,414,000 gallons	N/A	N/A	2.1000
Over 1,414,000 gallons	N/A	N/A	3.1930

	Present	Company Proposed	Staff Recommended
Miscellaneous Charges			
Establishment	$ 20.00	$ 20.00	$ 20.00
Establishment (After Hours)	$ 30.00	$ 30.00	$ 30.00
Reconnection (Delinquent)	$ 20.00	$ 20.00	$ 20.00
Reconnection (Delinquent and After Hours)	$ 30.00	$ 30.00	$ 30.00
Meter Test (If meter reading correctly)	$ 25.00	$ 25.00	$ 25.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-Establishment (With-in 12 Months)	**	**	**
NSF Check	$ 15.00	$ 15.00	$ 15.00
Deferred Payment, Per Month	N/T	1.50%	1.50%
Meter Re-Read (if correct)	$ 15.00	$ 15.00	$ 15.00
After hours service charge, per Rule R14-2-403D	N/T	Cost	Cost
Late Charge per month (per R-14-2-409G(6))	1.50%	1.50%	1.50%
Stanpipe Charges			
Original Key Deposit	$ 30.00	$ 30.00	$ 30.00
Additional Set	$ 5.00	$ 5.00	$ 5.00
Offsite Facitlities Hook-Up Fee	$ 250.00	See CSB-18, p. 5	$ 250.00
Arsenic Impact Hook-Up Fee	See CSB-18, p. 5	NT	See CSB-18, p. 5

* PER COMMISSION RULE (R14-2-403.B)
** Months off system times the minimum. PER COMMISSION RULE (R14-2-403.D)

N/T = No tariff.

IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE TAX. PER COMMISSION RULE (14-2-409.D 5).

ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS, AND ALL APPLICABLE TAXES.

Service and Meter Installation Charges	Total Present Charge	Company Proposed Service Line Charge	Company Proposed Meter Installation Charge	Total Company Proposed Charge*
5/8 x 3/4 Inch	$ 150	$ 445	$ 155	$ 600
3/4 Inch	NT	$ 445	$ 255	$ 700
1 Inch	$ 225	$ 495	$ 315	$ 810
1 1/2 Inch	$ 475	$ 550	$ 525	$ 1,075
2 Inch	$ 625	N/A	N/A	N/A
2 Inch / Turbine	NT	$ 830	$ 1,045	$ 1,875
2 Inch / Compound	NT	$ 830	$ 1,890	$ 2,720
3 Inch	$ 850	N/A	N/A	N/A
3 Inch / Turbine	NT	$ 1,045	$ 1,670	$ 2,715
3 Inch / Compound	NT	$ 1,165	$ 2,545	$ 3,710
4 Inch	$ 1,800	N/A	N/A	N/A
4 Inch / Turbine	NT	$ 1,490	$ 3,670	$ 5,160
4 Inch / Compound	NT	$ 1,670	$ 3,645	$ 5,315
6 Inch	$ 3,000	N/A	N/A	N/A
6 Inch / Turbine	NT	$ 2,210	$ 5,025	$ 7,235
6 Inch / Compound	NT	$ 2,330	$ 6,920	$ 9,250
8 Inch	NT	At Cost	At Cost	At Cost

	Total Present Charge	Staff Recommended Service Line Charge**	Staff Recommended Meter Installation Charge	Total Staff Recommended Charge
5/8 x 3/4 Inch	$ 150	$ 445	$ 155	$ 600
3/4 Inch	NT	$ 445	$ 255	$ 700
1 Inch	$ 225	$ 495	$ 315	$ 810
1 1/2 Inch	$ 475	$ 550	$ 525	$ 1,075
2 Inch	$ 625	N/A	N/A	N/A
2 Inch / Turbine	NT	$ 830	$ 1,045	$ 1,875
2 Inch / Compound	NT	$ 830	$ 1,890	$ 2,720
3 Inch	$ 850	N/A	N/A	N/A
3 Inch / Turbine	NT	$ 1,045	$ 1,670	$ 2,715
3 Inch / Compound	NT	$ 1,165	$ 2,545	$ 3,710
4 Inch	$ 1,800	N/A	N/A	N/A
4 Inch / Turbine	NT	$ 1,490	$ 2,670	$ 4,160
4 Inch / Compound	NT	$ 1,670	$ 3,645	$ 5,315
6 Inch	$ 3,000	N/A	N/A	N/A
6 Inch / Turbine	NT	$ 2,210	$ 5,025	$ 7,235
6 Inch / Compound	NT	$ 2,330	$ 6,920	$ 9,250
8 Inch	NT	At Cost	At Cost	At Cost

NT = No Tariff

Arsenic Remedial Surcharge	Present	Company Proposed	Staff Recommended*
5/8 x 3/4 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	-	-

* Staff recommends discontinuance of the surcharge.

Arsenic Impact Hook-up Fee	Present	Company Proposed	Staff Recommended
5/8 x 3/4 Inch	$ 1,135	$ -	$ 1,135
3/4 Inch	1,703	-	1,703
1 Inch	2,838	-	2,838
1 1/2 Inch	5,675	-	5,675
2 Inch	9,080	-	9,080
3 Inch	18,160	-	18,160
4 Inch	28,375	-	28,375
6 Inch	56,750	-	56,750

Off-site Facilities Hook-up Fee	Present	Company Proposed	Staff Recommended
5/8 x 3/4 Inch	$ 250	$ 1,135	$ 250
3/4 Inch	250	1,703	250
1 Inch	250	2,838	250
1 1/2 Inch	250	5,675	250
2 Inch	250	9,080	250
3 Inch	250	18,160	250
4 Inch	250	28,375	250
6 Inch or larger	250	56,750	250

Las Quintas Serenas Water Company
Docket No. W-01583A-09-0589
Test Year Ended June 30, 2009

Schedule CSB-19

Typical Bill Analysis
5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates*	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	10,768	32.95	44.30	$ 11.35	34.45%
Median Usage	8,500	30.35	38.40	$ 8.06	26.54%
Staff Recommended					
Average Usage	10,768	$ 32.95	39.45	$ 6.50	19.72%
Median Usage	8,500	30.35	33.85	$ 3.51	11.55%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4-Inch Meter

Gallons Consumption	Present Rates*	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	$ 21.37	$ 20.00	-6.41%	$ 20.00	-6.41%
1,000	22.32	21.90	-1.88%	21.10	-5.47%
2,000	23.27	23.80	2.28%	22.20	-4.60%
3,000	24.22	25.70	6.11%	23.30	-3.80%
4,000	25.17	27.60	9.65%	24.40	-3.06%
5,000	26.32	30.00	13.98%	26.50	0.68%
6,000	27.47	32.40	17.95%	28.60	4.11%
7,000	28.62	34.80	21.59%	30.70	7.27%
8,000	29.77	37.20	24.96%	32.80	10.18%
9,000	30.92	39.60	28.07%	34.90	12.87%
10,000	32.07	42.00	30.96%	37.00	15.37%
11,000	33.22	45.00	35.46%	40.19	20.99%
12,000	34.37	48.00	39.66%	43.39	26.23%
13,000	35.52	51.00	43.58%	46.58	31.13%
14,000	36.67	54.00	47.26%	49.77	35.73%
15,000	37.82	57.00	50.71%	52.97	40.04%
16,000	38.97	60.00	53.96%	56.16	44.11%
17,000	40.12	63.00	57.03%	59.35	47.93%
18,000	41.27	66.00	59.92%	62.54	51.55%
19,000	42.42	69.00	62.66%	65.74	54.97%
20,000	43.57	72.00	65.25%	68.93	58.21%
25,000	49.72	87.00	74.98%	84.90	70.75%
30,000	56.47	102.00	80.63%	100.86	78.61%
35,000	63.22	117.00	85.07%	116.83	84.79%
40,000	69.97	132.00	88.65%	132.79	89.78%
45,000	76.72	147.00	91.61%	148.76	93.89%
50,000	83.47	162.00	94.08%	164.72	97.34%
75,000	117.22	237.00	102.18%	244.55	108.62%
100,000	150.97	312.00	106.66%	324.37	114.86%

*Includes arsenic impact fee of $11.37

EXHIBIT
S-5
ADMITTED

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner

IN THE MATTER OF THE APPLICATION OF 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 WATER UTILITY SERVICE BASED THEREON.	)	DOCKET NO. W-01583A-09-0589

SURREBUTTAL

TESTIMONY

OF

CRYSTAL S. BROWN

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

SEPTEMBER 13, 2010

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EXECUTIVE SUMMARY
LAS QUINTAS SERENAS WATER COMPANY
DOCKET NO. W-01583A-09-0589

Staff recommends total annual revenues of $638,106 resulting in a $162,624 operating income or 8.50 percent rate of return on a $1,913,221 rate base. Staff's Surrebuttal Testimony responds to Las Quintas Serenas Water Company's ("Las Quintas" or "Company") Rebuttal Testimony on the following issues:

1. Rate Base
   a. Not Used and Useful Plant
   b. Accumulated Depreciation
   c. Advances in Aid of Construction ("AIAC")
   d. Customer Deposits
   e. Accumulated Deferred Income Taxes ("ADIT")

2. Operating Income
   a. Rate Case Expense
   b. Depreciation Expense
   c. Calculation of CIAC Amortization Expense
   d. Property Tax Expense
   e. Income Tax Expense

3. Rate Design

INTRODUCTION

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

A. My name is Crystal S. Brown. I am a Public Utilities Analyst V employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Are you the same Crystal S. Brown who filed Direct Testimony in this case?

A. Yes.

PURPOSE OF SURREBUTTAL TESTIMONY

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

A. The purpose of my Surrebuttal Testimony in this proceeding is to respond, on behalf of Staff, to the Rebuttal Testimony of Mr. Thomas Bourassa who represents Las Quintas Serenas Water Company, Inc. ("Las Quintas" or "Company").

Q. Did you attempt to address every issue raised by Las Quintas in its Rebuttal Testimony?

A. No. I limited my discussion to certain issues as outlined below. My silence on any particular issue raised in the Company's Rebuttal Testimony does not indicate that I agree with the Company's stated rebuttal position on the issue. Rather, where I do not respond, I rely on my Direct Testimony.

Q. What issues will you address?

A. I will address the issues listed below that are discussed in the Rebuttal Testimony of the Company's witness Mr. Thomas Bourassa.

1. Rate Base
   a. Not Used and Useful Plant
   b. Accumulated Depreciation
   c. Advances in Aid of Construction ("AIAC")
   d. Customer Deposits
   e. Accumulated Deferred Income Taxes ("ADIT")
2. Operating Income
   a. Rate Case Expense
   b. Depreciation Expense
   c. Calculation of CIAC Amortization Expense
   d. Property Tax Expense
   e. Income Tax Expense
3. Rate Design

SUMMARY OF PROPOSED REVENUES

Q. Please summarize Staff's recommended revenue.

A. Staff recommends a $149,836 or 30.69 percent revenue increase from $488,270 to $638,106. Staff's recommended revenue increase would produce an operating income of $162,624 for an 8.50 percent rate of return on an OCRB of $1,913,221. Staff's recommended rates would increase the typical residential 5/8 x 3/4 inch meter bill having a median usage of 8,500 gallons from $30.35 to $33.68, for an increase of $3.34 or 10.99 percent, as shown on Schedule CSB-19.

Q. How does Staff's recommended revenue compare to the recommended revenue in Staff's Direct Testimony?

A. Staff's recommended revenue has decreased by $10,228, from $648,334 in its Direct Testimony to $638,106 in its Surrebuttal Testimony due to various adjustments as described below.

RATE BASE

Rate Base Adjustment No. 3 – Not Used and Useful Plant

Q. Did Staff review Las Quintas' Rebuttal Testimony concerning not used and useful plant?

A. Yes. The Company indicated that it removed a total of $41,000: $20,082 from Account No. 311, pumping equipment and $20,918 from plant Account No. 331, transmission mains because those were the amounts and plant accounts recommended by Staff witness Marlin Scott, Jr. Also, in its Rebuttal Testimony, the Company stated that the plant was financed with $20,918 in advances in aid of construction ("AIAC").

Q. Does Staff agree?

A. Yes. Staff inadvertently removed the entire $41,000 amount from Account No. 331, transmission mains in the year 2009. Staff has recalculated the plant balances using the correct amounts by plant account. Additionally, the Company provided a copy of the line extension agreement evidencing that the not used and useful plant was financed with $20,918 in AIAC. Staff has adjusted the AIAC account to remove the $20,918.

Q. What is Staff's recommendation for plant in service?

A. Staff recommends removing a total of $41,000: $20,082 from Account No. 311, pumping equipment, and $20,918 from plant Account No. 331, transmission mains, as shown on Schedule CSB-4 and Schedule CSB-7.

Q. How does Staff's recommended plant in service compare to the recommended plant in service in Staff's Direct Testimony?

A. Staff's recommended plant in service is the same as the plant in service recommended in its Direct Testimony.

Rate Base Adjustment No. 4 – Accumulated Depreciation

Q. Did Staff review the Company's Rebuttal Testimony concerning accumulated depreciation?

A. Yes.

Q. What were the Company's primary concerns?

A. The Company's primary concerns were that Staff should have segregated the not used and useful plant by account; that Staff should have multiplied the annual depreciation expense by nine-twelfths rather than six-twelfths; and that Staff should have removed $20,605 in accumulated depreciation rather than $41,000.

Q. Does Staff agree with the Company that the not used and useful plant should be segregated?

A. Yes. Consistent with the discussion in Rate Base Adjustment No. 3 – Not Used and Useful Plant, Staff has recalculated the plant balances using the correct amounts by plant account. Staff removed both plant items in the year 2008.

Q. Does Staff agree with the Company that the annual depreciation expense should be multiplied by nine-twelfths rather than six-twelfths?

A. Yes. Based on the Company's explanation and further analysis, Staff agrees with the Company's methodology.

Q. Does Staff agree with the Company that $20,605 in accumulated depreciation should be removed rather than $41,000?

A. No, Staff does not.

Q. What is Staff's rationale for its position?

A. When plant is removed from service, regardless of the reason, the original cost of the plant is removed from both plant in service and accumulated depreciation.

Q. What is Staff's recommendation for accumulated depreciation?

A. Staff recommends decreasing accumulated depreciation by $55,659 as shown on Schedules CSB-4 and CSB-8.

Q. How does Staff's recommended accumulated depreciation compare to the recommended accumulated depreciation in Staff's Direct Testimony?

A. Staff's recommended accumulated depreciation has increased from $1,002,426 in its Direct Testimony to $1,021,769 in its Surrebuttal Testimony.

Rate Base Adjustment No. 3 – Advances In Aid of Construction ("AIAC")

Q. Did Staff review the Company's Rebuttal Testimony concerning AIAC?

A. Yes, the Company stated that $20,918 of the not used and useful plant was financed with AIAC. The Company proposes to remove the amount from AIAC.

Q. Does Staff agree with the Company that the $20,918 in AIAC should be removed?

A. Yes, the Company provided a copy of the related main line extension agreement.

Q. What is Staff's recommendation for AIAC?

A. Staff recommends decreasing AIAC by $20,918 as shown on Schedules CSB-4, and CSB-8.

Q. How does Staff's recommended AIAC compare to the recommended AIAC in Staff's Direct Testimony?

A. Staff's recommended AIAC has decreased from $372,323 to $351,405 in its Surrebuttal Testimony.

Rate Base Adjustment No. 5 – Customer Deposits

Q. Did the Company's Rebuttal Testimony concerning customer deposits raise any questions for Staff?

A. Yes.

Q. What are the questions?

A. Staff has the following questions:

1. Does the Company collect security deposits for its metered customers? If it does, then Staff requests the amount of security deposits collected.
2. Why does the key deposits balance of $7,475 exceed $4,680, which represents the number of standpipe customers multiplied by the $30 key deposit (i.e. 156 standpipe customers x $30 key deposit = $4,680). Staff would like the Company to reconcile the difference of $2,795.
3. Does the additional key charge of five dollars represent a replacement key or a second key? Staff would like to know the deposit requirements for customers when the five dollar charge is for a second key versus a replacement key.

Q. Does the Company pay interest on customer key deposits?

A. No, it does not.[1]

[1] Bourassa Rebuttal at 11.

Q. Does Staff have any recommendations concerning interest payments on customer key deposits?

A. Yes, Staff recommends that Las Quintas be required to pay interest on all customer deposits at six percent annually as a credit to customer bills, consistent with Arizona Administrative Code R-14-2-403 B.

Rate Base Adjustment No. 6 – Accumulated Deferred Income Taxes ("ADIT")

Q. Does the rate base calculation reflect capital provided by investors and non-investors?

A. Yes. Generally, it includes capital such as, but not limited to, net plant, net contributions in aid of construction ("CIAC"), net AIAC, customer deposits, ADIT, and working capital.

Q. How do ADIT provide capital?

A. In the early years of an asset's life, customers are providing more in cash for income taxes than the company actually has to pay. While the utility has access to this additional cash, it represents cost free capital provided by customers that the utility can use to fund plant or operations.

Q. What is the primary cause of the difference in income taxes?

A. The primary cause of the difference in income taxes is the straight line depreciation method used for rate making purposes and accelerated depreciation method used for federal and state income tax reporting purposes.

The National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA") requires utilities to use straight line depreciation. Straight

line depreciation, in the early years of an asset's life, results in a lower depreciation expense which, in turn, results in a higher income tax. Conversely, the Internal Revenue Service ("IRS") allows companies to use accelerated depreciation. Accelerated depreciation, in the early years of an asset's life, results in a higher depreciation expense which, in turn, results in lower income taxes. When an asset is fully depreciated for tax purposes, the situation begins to reverse.

Q. Would you demonstrate how ADIT provide capital?

A. Yes. In the example that follows, income taxes are calculated for a plant asset costing $6,000 with a five year useful life. The capital provided by the ADIT (shown in Column E for Years 1 through 4) is comprised of the computed tax differences between income taxes calculated for rate-making purposes and the actual income taxes that a company pays to the United States Treasury and the State of Arizona.

$6,000 Asset

Accelerated Useful Life = 3 years

Accelerated Depreciation Expense Used for IRS = $6,000 / 3 years = $2,000

Ratemaking Life = 5 years

Ratemaking Depreciation Expense = $6,000 / 5 years = $1,200

Tax Rate = 40%

A	B	C	D	E
Year	Income Tax Effect of Depreciation Expense on State and Federal Income Taxes	Income Tax Effect of Depreciation Expense on Books for Rate Making Purposes	Current Year Deferred Income Tax	Accumulated Deferred Income Tax Balance
1	$2,000 x 40% = $800	$1,200 x 40% = $480	$800 - $480 = $320	$320
2	$2,000 x 40% = $800	$1,200 x 40% = $480	$800 - $480 = $320	$320 + $320 = $640
3	$2,000 x 40% = $800	$1,200 x 40% = $480	$800 - $480 = $320	$640 + $320 = $960
4	$ 0 x 40% = $ 0	$1,200 x 40% = $480	$ 0- $480 = ($480)	$960 - $480 = $480
5	$ 0 x 40% = $ 0	$1,200 x 40% = $480	$ 0- $480 = ($480)	$480 - $480 = $ 0

Q. Should the components used to calculate the ADIT be components that reflect a net investment of capital?

A. Yes, the components used to calculate the ADIT should be only components that reflect a net investment of capital because ADIT are included in rate base. Rate base, in turn, is the net invested capital wherein investors earn their rates of return. In other words, if an amount that does not represent an investment in capital were allowed in rate base (without prior Commission approval) then investors would be allowed to earn a rate of return on an amount that is not an investment. This would be unfair to ratepayers.

Q. What components does the Company propose to use in its calculation of the ADIT?

A. The Company is proposing to use net plant, net CIAC, net AIAC, and net operating loss.

Q. Does a net operating loss represent an investment of capital by Las Quintas?

A. No, it does not. The net operating loss represents losses incurred by the Company when the Company failed to earn its authorized rate of return or any other taxable profit in previous years.

In past proceedings, the Commission authorized rates included an income tax component and the Company recovered those amounts from ratepayers, regardless of whether the Company earned a profit. The inclusion of net operating losses in the ADIT calculation

means that ratepayers would essentially be paying a carrying charge on the Company's expected future recovery of a tax benefit, and this would be unfair to ratepayers since they have already paid their share of income tax expense in rates.

Further, a net operating loss does not represent any cash outlay that the Company has made for providing service in advance of receiving the cash from the customers. Neither does it represent working capital.

Q. Does Staff agree with the Company's argument that, because Financial Accounting Standard Board Statement No. 109 ("FASB 109") allows net operating losses in the calculation of the ADIT, net operating losses should be allowed for ratemaking purposes?

A. No, Staff does not. Accounting treatment allowed under Generally Accepted Accounting Principles is not necessarily appropriate ratemaking treatment. For instance, FASB 109[2] also allows lobbying expenses, business meals, and entertainment expenses in the calculation of the ADIT. However, Staff does not recommend inclusion of these items because, similar to net operating losses, they are not appropriate for ratemaking purposes.

Q. What is Staff's recommendation for the ADIT?

A. Staff continues to recommend an ADIT liability of $31,307 as shown on Surrebuttal Schedules CSB-4 and CSB-10.

[2] FASB 109 has been superseded by FASB Accounting Standard Codification ("ASC").

Q. How does Staff's recommended ADIT compare to the recommended ADIT in Staff's Direct Testimony?

A. Staff's recommended ADIT is the same as the ADIT recommended in its Direct Testimony.

OPERATING INCOME

Operating Income Adjustment No. 2 – Rate Case Expense

Q. Did Staff review the Company's Rebuttal Testimony concerning rate case expense?

A. Yes.

Q. What was the Company's primary concern?

A. The Company's primary concern was that Staff normalized rate case expense using four years rather than three years. The Company believes that using three years to normalize the expense is more appropriate than four years because the Company expects to experience a cash flow problem that, in turn, will necessitate filing another rate case within three years.

Q. Does Staff agree with the Company's concern?

A. No, Staff does not. Staff is recommending a rate increase that is anticipated to be sufficient to pay for the Company's cash expenses and to provide an opportunity to earn Staff's recommended rate of return. Further, Staff's recommendation to normalize rate case expense using four years is based on an analysis of the actual rate case filing experience for the Company's most recent three rate cases as discussed in greater detail in Staff's direct testimony.

Q. What is Staff's recommendation for rate case expense?

A. Staff recommends annual rate case expense of $20,000 that is normalized using four years (i.e., $80,000 / 4 years).

Q. How does Staff's recommended annual rate case expense compare to the recommended annual rate case expense in Staff's Direct Testimony?

A. Staff's recommended annual rate case expense is the same as the annual rate case expense recommended in its Direct Testimony.

Operating Income Adjustment No. 3 – Depreciation Expense

Q. Did Staff review the Company's Rebuttal Testimony concerning depreciation expense?

A. Yes.

Q. What are the Company's primary concerns?

A. The Company's primary concerns are that (1) Staff used incorrect depreciation rates for some plant accounts and that (2) Staff should include land in the calculation of amortization expense for CIAC. Staff will provide a detailed discussion of the calculation of CIAC amortization expense.

Q. Does Staff agree with the Company that incorrect depreciation rates were used for some plant accounts?

A. Yes. Staff has corrected the depreciation rates for Account Nos. 309, 310, 331, and 333.

Calculation of CIAC Amortization Expense

Q. Does Staff agree with the Company that land should be included in the calculation of CIAC amortization expense?

A. No, Staff does not. Inclusion of land in the calculation of CIAC amortization expense will allow the Company to earn a rate of return on land that was purchased with CIAC. Allowing a return on plant purchased with CIAC is unfair to customers and unfairly enriches the Company.

Q. Would Staff review the Company's example provided in support of its proposal to include land in the calculation of CIAC amortization expense?

A. Yes. The Company's example begins with a breakout of plant that was funded with CIAC. Land is funded with $10 in CIAC and all other plant is funded with $90 in CIAC. Annual depreciation expense is $3.00 as shown in Table A below.

TABLE A					
DETAILED LIST OF PLANT PURCHASED WITH CIAC					
[1]	[2]		[3]		[4]
	CIAC Funded Plant		Depreciation Rate		**Depreciation Expense**
Land	$10.00	x	0.00%	=	**$0.00**
All Other Plant	$90.00	x	3.33%	=	**$3.00**
Total CIAC Plant	$100.00				**$3.00**

The Company goes on to explain that its methodology of calculating CIAC amortization expense results in $3.00 of CIAC amortization expense which exactly offsets the depreciation expense: $3.00 in depreciation expense (from Table A) minus $3.00 in CIAC amortization expense (from Table B below) equals $0.

TABLE B								
COMPANY'S CALCULATION OF CIAC AMORTIZATION EXPENSE								
[1]		[2]		[3]		[4]		[5]
Depreciation Expense		Total Plant		CIAC Amortization Rate		Total CIAC		**CIAC Amortization Expense**
$3.00	/	$100.00	=	3.00%	x	$100.00	=	**$3.00**

The Company then claims that Staff's methodology results in a negative cash flow: $3.00 in depreciation expense (from Table A) minus $3.33 in CIAC amortization expense (from Table C below) equal a negative $0.33.

TABLE C								
STAFF'S CALCULATION OF CIAC AMORTIZATION EXPENSE								
Depreciation Expense		Depreciable Plant		CIAC Amortization Rate		Total CIAC		**CIAC Amortization Expense**
$3.00	/	$90.00	=	3.33%	x	$100.00	=	**$3.33**

Q. Is the Company's analysis correct?

A. No, it is not.

Q. Please explain your answer.

A. The problem is that the Company is proposing to amortize $10 in CIAC that it has identified was used to purchase land. Table A, column 2 shows that the land was purchased with CIAC. Table B shows that the Company is taking the annual CIAC amortization rate of 3.00 percent (Table B, column 3) and multiplying that amount by the entire CIAC balance of $100 (Table B, column 4). The $10 is included in the $100 amount that the Company is proposing to amortize. Amortizing CIAC that the Company knows was used to purchase land is unfair to customers and unfairly enriches the Company.

Q. Why is amortizing CIAC that was used to purchase land unfair to customers?

A. Land is not depreciable. That means that the land purchased with CIAC will stay in rate base forever. Each year as the CIAC related to the land is amortized, a smaller and smaller amount of CIAC will be available to offset the land included in plant in service, allowing a portion of the land to earn a return. Once the CIAC related to the land is completely amortized then the entire amount of land that was purchased with CIAC will be included in rate base (i.e., $10 land - $0 CIAC = $10 rate base) and will earn a rate of return. Allowing a rate of return on plant purchased with CIAC is unfair to customers and unfairly enriches the Company.

Staff's methodology does not assume that land is purchased with CIAC. Therefore, under Staff's methodology only the $90 in CIAC related to depreciable plant would be amortized.

TABLE D								
STAFF'S CALCULATION OF CIAC AMORTIZATION EXPENSE								
[1]		[2]		[3]		[4]		[5]
Depreciation Expense		Depreciable Plant	-	CIAC Amortiation Rate		Total CIAC		**CIAC Amortization Expense**
$3.00	/	$90.00	=	3.33%	x	$90.00	=	**$3.00**

In addition, Staff's methodology does not result in a negative cash flow as the Company erroneously claims: $3.00 in depreciation expense (from Table A) minus $3.00 in CIAC amortization expense (from Table D) = $0. Further, Staff's methodology would not harm customers as it does not attempt to amortize CIAC used to purchase land.

Q. What is Staff's recommendation for depreciation expense?

A. Staff recommends depreciation expense of $113,434.

Q. How does Staff's recommended depreciation expense compare to the recommended depreciation expense in Staff's Direct Testimony?

A. Staff's recommended depreciation expense decreased to $113,434 in its Surrebuttal Testimony from $124,300 in its Direct Testimony.

Operating Income Adjustment No. 4 – Property Taxes

Q. Did Staff make any adjustment to the Property Tax Expense?

A. Yes. Staff's adjustment reflects Staff's calculation of the property tax expense using Staff's recommended revenues.

Operating Income Adjustment No. 5 – Income Taxes

Q. Did Staff make any adjustments to test year Income Tax Expense?

A. Yes. Staff's adjustment reflects Staff's calculation of the income tax expense based upon Staff's adjusted test year taxable income.

RATE DESIGN

Q. Has Staff reviewed the Company's Rebuttal Testimony concerning rate design?

A. Yes.

Q. What is the Company's primary concern?

A. The Company's primary concern is that Staff's rate design shifts revenue recovery away from the smaller metered customers to the larger metered customers.

Q. Does Staff agree with the Company's concern?

A. No, Staff does not. The Company's Schedule H-2, page 1 shows that larger metered customers use more water. The average consumption for the 5/8 x 3/4 inch and 3/4 inch

metered customers is 10,768 gallons and 15,598 gallons, respectively. These amounts are much smaller than the average consumption for the 2 inch and 4 inch metered customers which were 153,057 gallons and 401,611 gallons, respectively.

SERVICE LINE AND METER INSTALLATION CHARGES

Q. Did Staff review the Company's proposed service line and meter installation charges?

A. Yes.

Q. Did Staff note a problem with the Company's proposed charges for the four inch turbine service line and meter installation charges?

A. Yes, the Company indicated that it accepted the service line and meter installation charges recommended by Staff but did not reflect the Staff-recommended charge in its schedule.

Q. Does this conclude Staff's Surrebuttal Testimony?

A. Yes, it does.

Las Quintas Serenas Water Company
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Surrebuttal Schedule CSB-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST	[B] STAFF ORIGINAL COST
1	Adjusted Rate Base	$ 2,109,539	$ 1,913,221
2	Adjusted Operating Income (Loss)	$ 47,550	$ 51,564
3	Current Rate of Return (L2 / L1)	2.25%	2.70%
4	Required Rate of Return	9.03%	8.50%
5	Required Operating Income (L4 * L1)	$ 190,491	$ 162,624
6	Operating Income Deficiency (L5 - L2)	$ 142,942	$ 111,059
7	Gross Revenue Conversion Factor	1.42390	1.34915
8	Increase (Decrease) In Gross Revenue (L7 * L6)[1]	$ 203,528	$ 149,836
9	Adjusted Test Year Revenue	$ 488,270	$ 488,270
10	Proposed Annual Revenue (L8 + L9)	$ 691,799	$ 638,106
11	Required Increase/(Decrease in Revenue) (%) (L8/L9)	41.68%	30.69%

[1] The Company's increase in gross revenue does not equal line 7 x line 6

References:
Column [A]: Company Schedules A-1, C-1, C-3, & D-1
Column [B]: Staff Schedules CSB-2, CSB-3, & CSB-11

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Surrebuttal Schedule CSB-2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	Calculation of Gross Revenue Conversion Factor:				
1	Revenue	100.0000%			
2	Uncollecible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	25.8795%			
5	Subtotal (L3 - L4)	74.1205%			
6	**Revenue Conversion Factor (L1 / L5)**	1.349154			
	Calculation of Uncollecttible Factor:				
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	24.6769%			
9	One Minus Combined Income Tax Rate (L7 - L8)	75.3231%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
	Calculation of Effective Tax Rate:				
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 53)	19.0353%			
16	Effective Federal Income Tax Rate (L14 x L15)	17.7089%			
17	Combined Federal and State Income Tax Rate (L13 +L16)		24.6769%		
	Calculation of Effective Property Tax Factor				
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	24.6769%			
20	One Minus Combined Income Tax Rate (L18-L19)	75.3231%			
21	Property Tax Factor	1.5965%			
22	Effective Property Tax Factor (L20*L21)		1.2026%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			25.8795%	
24	Required Operating Income (Schedule CSB-1, Line 5)	$ 162,624			
25	AdjustedTest Year Operating Income (Loss)	51,564			
26	Required Increase in Operating Income (L24 - L25)		$ 111,059		
27	Income Taxes on Recommended Revenue (Col. [E], L52)	$ 25,995			
28	Income Taxes on Test Year Revenue (Col. [B], L52)	(10,389)			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		36,385		
30	Recommended Revenue Requirement (Schedule CSB-1, Line 10)	$ 638,106			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L30*L31)	$ -			
33	Adjusted Test Year Uncollectible Expense	$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)		-		
35	Property Tax with Recommended Revenue (CSB-15, Col B, L19)	$ 25,221			
36	Property Tax on Test Year Revenue	22,829			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		2,392		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		$ 149,836		

	Calculation of Income Tax:	Test Year		Staff Recommended
39	Revenue (Schedule CSB-11, Col. [C], Line 5 & Sch. CSB-1, Col. [D] Line 1	$ 488,270	$ 149,836	$ 638,106
40	Operating Expenses Excluding Income Taxes	$ 447,095	$ 2,392	$ 449,487
41	Synchronized Interest (L56)	$ 90,831		$ 90,831
42	Arizona Taxable Income (L39 - L40 - L41)	$ (49,655)		$ 97,789
43	Arizona State Income Tax Rate	6.9680%		6.9680%
44	Arizona Income Tax (L42 x L43)	$ (3,460)		$ 6,814
45	Federal Taxable Income (L42 - L44)	$ (46,195)		$ 90,975
46	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ (6,929)		$ 7,500
47	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	$ -		$ 6,250
48	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ -		$ 5,431
49	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ -		$ -
50	Federal Tax on Fifth Income Bracket ($335,001 - $10,000,000) @ 34%	$ -		$ -
51	Total Federal Income Tax	$ (6,929)		$ 19,181
52	Combined Federal and State Income Tax (L44 + L51)	$ (10,389)		$ 25,995
53	Applicable Federal Income Tax Rate [Col. [C], L51 - Col. [A], L51] / [Col. [C], L45 - Col. [A], L45]			19.0353%
	Calculation of Interest Synchronization:			
54	Rate Base (Schedule CSB-3, Col. (C), Line 14	$ 1,892,303		
55	Weighted Average Cost of Debt	4.8000%		
56	Synchronized Interest (L45 X L46)	$ 90,831		

Las Quintas Serenas Water Company
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Surrebuttal Schedule CSB-3

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	ADJ NO.	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 3,828,585	$ (234,113)	1, 2, 3	$ 3,594,472
2	Less: Accumulated Depreciation	(1,077,428)	55,659	4	(1,021,769)
3	Net Plant in Service	$ 2,751,157	$ (178,454)		$ 2,572,703
	LESS:				
4	Advances in Aid of Construction (AIAC)	$ 372,323	$ (20,918)	3	$ 351,405
5	Service Line and Meter Advances (Meter Deposits)	$ 19,641	$ -		$ 19,641
6	Contributions in Aid of Construction (CIAC)	$ 333,555	$ -		$ 333,555
7	Less: Accumulated Amortization	(83,901)	-		(83,901)
8	Net CIAC	$ 249,654	$ -		$ 249,654
9	Total Advances and Contributions	$ 641,618	$ -	4	$ 620,700
10	Customer Deposits	$ -	$ 7,475	5	$ 7,475
11	Accumulated Deferred Income Taxes	$ -	$ 31,307	6	$ 31,307
	ADD:				
12	Working Capital	$ -	$ -		$ -
13		$ -	$ -		$ -
14	**Total Rate Base**	$ 2,109,539	$ (217,236)		$ 1,913,221

References:
Column [A], Company Schedule B-1, Page 1
Column [B]: Schedule CSB-4
Column [C]: Column [A] + Column [B]

Las Quintas Serenas Water Company
Docket No. W-01583A-09-0589
Test Year Ended June 30, 2009

Surrebuttal Schedule CSB-4

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	PLANT IN SERVICE Acct. No. - I Plant Description	[A] COMPANY AS FILED	[B] Adj No.1 Plant Retirement Ref: Sch CSB-5	[C] ADJ No. 2 Debt Issuance Costs Ref: Sch CSB-6	[D] ADJ No. 3 Not Used & Useful Plant Ref: Sch CSB-7	[E] ADJ No. 4 Accumulated Depreciation Ref: Sch CSB-8	[F] ADJ No. 5 Customer Deposits Ref: Sch CSB-9	[F] ADJ No. 6 ADIT Ref: Sch CSB-10	[G] STAFF AS ADJUSTED
2	303 Land and Land Rights	$ 217	$ -	$ -	$ -	$ -	$ -	$ -	$ 217
3	304 Structures and Improvements	12,229	-	-	-	-	-	-	12,229
5	307 Wells and Springs	309,094	-	-	-	-	-	-	309,094
6	309 Supply Mains	-	-	-	-	-	-	-	-
7	310 Power Generation Equipment	-	-	-	-	-	-	-	-
8	311 Pumping Equipment	151,338	(7,488)	-	-	-	-	-	143,850
9	320 Water Treatment Equipment	1,740	-	-	(20,082)	-	-	-	(18,342)
	320.1 Water Treatment Plant	2,162,694	-	(185,625)	-	-	-	-	1,977,069
10	330 Distribution Reservoirs and Standpipes	99,896	-	-	-	-	-	-	99,896
11	331 Transmission and Distribution Mains	924,616	-	-	(20,918)	-	-	-	903,698
12	333 Services	2,427	-	-	-	-	-	-	2,427
13	334 Meters and Meter Installations	101,418	-	-	-	-	-	-	101,418
14	335 Hydrants	-	-	-	-	-	-	-	-
15	336 Backflow Prevention Devices	1,137	-	-	-	-	-	-	1,137
16	339 Other Plant and Miscellaneous Equipment	-	-	-	-	-	-	-	-
17	340 Office Furniture and Equipment	28,306	-	-	-	-	-	-	28,306
18	340.1 Computers and Software	-	-	-	-	-	-	-	-
19	341 Transportation Equipment	23,292	-	-	-	-	-	-	23,292
20	343 Tools, Shop, and Garage Equipment	-	-	-	-	-	-	-	-
21	344 Laboratory Equipment	-	-	-	-	-	-	-	-
22	345 Power Operated Equipment	2,592	-	-	-	-	-	-	2,592
23	346 Communication Equipment	-	-	-	-	-	-	-	-
24	347 Miscellaneous Equipment	3,165	-	-	-	-	-	-	3,165
25	348 Other Tangible Equipment	4,424	-	-	-	-	-	-	4,424
26	Rounding	-	-	-	-	-	-	-	-
27	Total Plant in Service	$ 3,828,585	$ (7,488)	$ (185,625)	$ (41,000)	$ -	$ -	$ -	$ 3,594,472
31	Less: Accumulated Depreciation	$ (1,077,428)	$ -	$ -	$ -	$ 55,659	$ -	$ -	(1,021,769)
32	Net Plant in Service	$ 2,751,157	$ (7,488)	$ (185,625)	$ (41,000)	$ 55,659	$ -	$ -	$ 2,572,703
34	*LESS:*								
35	Advances in Aid of Construction (AIAC)	$ 372,323	$ -	$ -	$ (20,918)	$ -	$ -	$ -	$ 351,405
36	Service Line and Meter Advances (Meter Deposits)	$ 19,641	-	-	-	-	-	-	$ 19,641
38	Contributions in Aid of Construction (CIAC)	$ 333,555	-	-	-	-	-	-	$ 333,555
39	Less: Accumulated Amortization of CIAC	$ (83,901)	-	-	-	-	-	-	$ (83,901)
40	Net CIAC	$ 249,654	$ -	$ -	$ -	$ -	$ -	$ -	$ 249,654
42	Total Advances and Net Contributions	$ 641,618	$ -	$ -	$ -	$ -	$ -	$ -	$ 641,618
44	Customer Deposits	$ -	-	-	-	-	7,475	-	$ 7,475
45	Accumulated Deferred Taxes	$ -	-	-	-	-	-	31,307	$ 31,307
47	*ADD:*								
48	Working Capital Allowance	$ -	-	-	-	-	-	-	$ -
49		$ -	-	-	-	-	-	-	$ -
50	**Total Rate Base**	$ 2,109,539	$ (7,488)	$ (185,625)	$ (41,000)	$ 55,659	$ (7,475)	$ (31,307)	$ 1,892,303

Las Quintas Serenas Water Company
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Surrebuttal Schedule CSB-5

RATE BASE ADJUSTMENT NO. 1 - PLANT RETIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Pumping Equipment	$ 151,338	$ (7,488)	$ 143,850

References:
Column [A]: Company Schedule B-2
Column [B]: Testimony, CSB; Company's Response to Data Request CSB 2.7
Column [C]: Column [A] + Column [B]

Las Quintas Serenas Water Company
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Surrebuttal Schedule CSB-6

RATE BASE ADJUSTMENT NO. 2 - DEBT ISSUANCE COSTS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Water Treatment Plant	$ 1,977,069	$ -	$ 1,977,069
2	Debt Issuance Costs	185,625	(185,625)	-
3	Total Water Treatment Plant	$ 2,162,694	$ (185,625)	$ 1,977,069

References:
Column [A]: Company Schedule B-2
Column [B]: Testimony, CSB; Data Request Response CSB 2.9
Column [C]: Column [A] + Column [B]

Las Quintas Serenas Water Company
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Surrebuttal Schedule CSB-7

RATE BASE ADJUSTMENT NO. 3 - NOT USED AND USEFUL PLANT

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Acct No. 311 - Electrical Pumping Equip	$ 151,338	$ (20,082)	$ 131,256
2	Acct No. 331 - Trans and Distrib Mains	$ 924,616	$ (20,918)	$ 903,698
3		$ 1,075,954	$ (41,000)	$ 1,034,954
4	Advances In Aid of Construction	$ 641,618	$ (20,918)	$ 620,700

References:
Column [A]: Company Schedule B-2
Column [B]: Testimony, CSB
Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 4 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Accumulated Depreciation	$ 1,077,428	$ (55,659)	$1,021,769

Column [A]: Company Schedule B-2
Column [B]: Testimony, CSB
Column [C]: Column [A] + Column [B]; Schedule CSB-8, Page 7

Las Quintas Serenas Water Company
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PLANT AND ACCUMULATED DEPRECIATION SCHEDULE

	Plant 30-Sep-03 Original Cost	30-Sep-03 Accumulated Depreciation	Prior Depre Rate	Depr. Rates Effective on 4-Jan-05 (Dec. No. 67455)	2004 Additions	2004 Retirements Cost Removal	2004 Retirements Depreciation	2004 Depr. Expense	2004 Total Cost	2004 Accumulated Depreciation
301 Organization Cost	$0	$0	0%	0.00%	$0	$0	$0	$0	$0	$0
302 Franchise Cost	0	0	0%	0.00%	0	0	0	$0	0	0
303 Land & Land Rights	217	0	0%	0.00%	0	0	0	$0	217	0
304 Structures & Improv	6,599	3,110	5%	3.33%	0	0	0	$330	6,599	3,440
305 Collecting & Impounding Res.	0	0	5%	2.50%	0	0	0	$0	0	0
307 Wells & Springs	300,389	141,585	5%	3.33%	0	0	0	$15,019	300,389	156,604
310 Power Generation Equip	0	0	5%	5.00%	0	0	0	$0	0	0
311 Electric Pumping Equip	103,684	48,870	5%	12.50%	11,131	0	0	$5,462	114,815	54,333
320 Water Treatment Equipment	830	391	5%	3.33%	0	0	0	$42	830	433
320.1 Water Treatment Equipment	0	0	5%	3.33%	0	0	0	$0	0	0
330 Dist. Resrvr & Stndpipe	94,798	44,682	5%	2.22%	1,546	0	0	$4,779	96,344	49,461
331 Trans. & Distr. Mains	820,492	386,730	5%	2.00%	78,445	0	0	$42,986	898,937	429,715
333 Services	2,427	1,144	5%	3.33%	0	0	0	$121	2,427	1,265
334 Meters	100,611	47,422	5%	8.33%	0	0	0	$5,031	100,611	52,452
335 Hydrants	0	0	5%	2.00%	0	0	0	$0	0	0
336 Backflow Prevention Devices	1,137	536	5%	6.67%	0	0	0	$57	1,137	593
339 Other Plant and Misc Equip	0	0	5%	6.67%	0	0	0	$0	0	0
340 Office Furniture & Fixt	13,720	6,467	5%	6.67%	5,695	0	0	$828	19,415	7,295
340.1 Computers and Software	0	0	5%	20.00%	0	0	0	$0	0	0
341 Transportation Equip	9,000	4,242	5%	20.00%	0	0	0	$450	9,000	4,692
343 Tools & Work Equip	0	0	5%	5.00%	0	0	0	$0	0	0
345 Power Operated Equip	2,592	1,222	5%	5.00%	0	0	0	$130	2,592	1,351
346 Communications Equip	0	0	5%	10.00%	0	0	0	$0	0	0
347 Miscellaneous Equipment	0	0	5%	10.00%	2,746	0	0	$69	2,746	69
348 Other Tangible Equipment	4,424	2,085	5%	10.00%	0	0	0	$221	4,424	2,306
2003/2004 Totals	$1,460,920	$688,486			$99,563	$0	$0	$75,524	$1,560,483	$764,010

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE

	2005 Additions Cost	2005 Retirements Cost Removal	2005 Retirements Depreciation	Fully Depreciated	2005 Depr. Expense	2005 Total Cost	2005 Accumulated Depreciation	2005 Net Book Value
301 Organization Cost	$0	$0	$0	$0	$0	$0	$0	$0
302 Franchise Cost	0	0	0	0	$0	0	0	0
303 Land & Land Rights	0	0	0	0	$0	217	0	217
304 Structures & Improv	5,630	0	0	0	$313	12,229	3,754	8,475
305 Collecting & Impounding Res.	0	0	0	0	$0	0	0	0
307 Wells & Springs	14,095	0	0	0	$10,238	314,484	166,842	147,642
310 Power Generation Equip	0	0	0	0	$0	0	0	0
311 Electric Pumping Equip	5,000	0	0	0	$14,664	119,815	68,997	50,818
320 Water Treatment Equip	910	0	0	0	$43	1,740	476	1,264
320.1 Water Treatment Equip		0	0	0	$0	0	0	0
330 Dist. Resrvr & Stndpipe	3,552	0	0	0	$2,178	99,896	51,639	48,257
331 Trans. & Distr. Mains	4,761	0	0	0	$18,026	903,698	447,742	455,956
333 Services	0	0	0	0	$81	2,427	1,346	1,081
334 Meters	0	0	0	0	$8,381	100,611	60,833	39,778
335 Hydrants	0	0	0	0	$0	0	0	0
336 Backflow Prevention Devices	0	0	0	0	$76	1,137	669	468
339 Other Plant and Misc Equip	0	0	0	0	$0	0	0	0
340 Office Furniture & Fixt	3,202	0	0	0	$1,402	22,617	8,697	13,920
340.1 Computers and Software	0	0	0	0	$0	0	0	0
341 Transportation Equip	18,292	0	0	0	$3,629	27,292	8,321	18,971
343 Tools & Work Equip	0	0	0	0	$0	0	0	0
345 Power Operated Equip	0	0	0	0	$130	2,592	1,481	1,111
346 Communications Equip	0	0	0	0	$0	0	0	0
347 Miscellaneous Equipment	419	0	0	0	$296	3,165	364	2,801
348 Other Tangible Equipment	0	0	0	0	$442	4,424	2,749	1,675
2008 Totals	$55,861	$0	$0	$0	$59,899	$1,616,344	$823,909	$792,435

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE

	2006 Additions Cost	2006 Retirements Cost Removal	2006 Retirements Depreciation	Fully Depreciated	2006 Depr. Expense	2006 Total Cost	2006 Accumulated Depreciation	2006 Net Book Value
301 Organization Cost	$0	$0	$0	$0	0	$0	$0	$0
302 Franchise Cost	0	0	0	0	0	0	0	0
303 Land & Land Rights	0	0	0	0	0	217	0	217
304 Structures & Improv	0	0	0	0	407	12,229	4,161	8,068
305 Collecting & Impounding Res.	0	0	0	0	0	0	0	0
307 Wells & Springs	0	0	0	0	10,472	314,484	177,314	137,170
310 Power Generation Equip	0	0	0	0	0	0	0	0
311 Electric Pumping Equip	0	0	0	0	14,977	119,815	83,974	35,841
320 Water Treatment Equip	0	0	0	0	58	1,740	533	1,207
320.1 Water Treatment Equip	0	0	0	0	0	0	0	0
330 Dist. Resrvr & Stndpipe	0	0	0	0	2,218	99,896	53,856	46,040
331 Trans. & Distr. Mains	0	0	0	0	18,074	903,698	465,816	437,882
333 Services	0	0	0	0	81	2,427	1,427	1,000
334 Meters	808	0	0	0	8,415	101,419	69,248	32,171
335 Hydrants	0	0	0	0	0	0	0	0
336 Backflow Prevention Devices	0	0	0	0	76	1,137	744	393
339 Other Plant and Misc Equip	0	0	0	0	0	0	0	0
340 Office Furniture & Fixt	0	0	0	0	1,509	22,617	10,205	12,412
340.1 Computers and Software	0	0	0	0	0	0	0	0
341 Transportation Equip	0	0	0	0	5,458	27,292	13,780	13,512
343 Tools & Work Equip	0	0	0	0	0	0	0	0
345 Power Operated Equip	0	0	0	0	130	2,592	1,611	981
346 Communications Equip	0	0	0	0	0	0	0	0
347 Miscellaneous Equipment	0	0	0	0	317	3,165	681	2,484
348 Other Tangible Equipment	0	0	0	0	442	4,424	3,191	1,233
2009 Totals	$808	$0	$0	$0	$62,633	$1,617,152	$886,542	$730,610

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE

	2007 Additions Cost	2007 Retirements Cost Removal	2007 Retirements Depreciation	Fully Depreciated	2007 Depr. Expense	2007 Total Cost	2007 Accumulated Depreciation	2007 Net Book Value
301 Organization Cost	$0	$0	$0	$0	$0	$0	$0	$0
302 Franchise Cost	0	0	0	0	$0	0	0	0
303 Land & Land Rights	0	0	0	0	$0	217	0	217
304 Structures & Improv	0	0	0	0	$407	12,229	4,568	7,661
305 Collecting & Impounding Res.	0	0	0	0	$0	0	0	0
307 Wells & Springs	0	0	0	0	$10,472	314,484	187,787	126,697
310 Power Generation Equip	0	0	0	0	$0	0	0	0
311 Electric Pumping Equip	0	0	0	0	$14,977	119,815	98,951	20,864
320 Water Treatment Equip	0	0	0	0	$58	1,740	591	1,149
320.1 Water Treatment Equip	0	0	0	0	$0	0	0	0
330 Dist. Resrvr & Stndpipe	0	0	0	0	$2,218	99,896	56,074	43,822
331 Trans. & Distr. Mains	0	0	0	0	$18,074	903,698	483,890	419,808
333 Services	0	0	0	0	$81	2,427	1,508	919
334 Meters	0	0	0	0	$8,448	101,419	77,696	23,723
335 Hydrants	0	0	0	0	$0	0	0	0
336 Backflow Prevention Devices	0	0	0	0	$76	1,137	820	317
339 Other Plant and Misc Equip	0	0	0	0	$0	0	0	0
340 Office Furniture & Fixt	3,865	0	0	0	$1,637	26,482	11,843	14,639
340.1 Computers and Software	0	0	0	0	$0	0	0	0
341 Transportation Equip	0	500	500	0	$5,408	26,792	18,688	8,104
343 Tools & Work Equip	0	0	0	0	$0	0	0	0
345 Power Operated Equip	0	0	0	0	$130	2,592	1,740	852
346 Communications Equip	0	0	0	0	$0	0	0	0
347 Miscellaneous Equipment	0	0	0	0	$317	3,165	997	2,168
348 Other Tangible Equipment	0	0	0	0	$442	4,424	3,634	790
2009 Totals	$3,865	$500	$500	$0	$62,745	$1,620,517	$948,787	$671,730

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE

	2008 Additions Cost	2008 Retirements		Fully Depreciated	2008 Depr. Expense	2008 Total Cost	2008 Accumulated Depreciation	2008 Net Book Value
		Cost Removal	Depreciation					
301 Organization Cost	$0	$0	$0	$0	$0	$0	$0	$0
302 Franchise Cost	0	0	0	0	$0	0	0	0
303 Land & Land Rights	0	0	0	0	$0	217	0	217
304 Structures & Improv	0	0	0	0	$407	12,229	4,975	7,254
305 Collecting & Impounding Res.	0	0	0	0	$0	0	0	0
307 Wells & Springs	0	5,390	5,390	0	$10,383	309,094	192,779	116,315
310 Power Generation Equip	0	0	0	0	$0	0	0	0
311 Electric Pumping Equip	0	27,570	27,570	0	$13,254	92,245	84,635	7,610
320 Water Treatment Equip	0	0	0	0	$58	1,740	649	1,091
320.1 Water Treatment Equip	0	0	0	0	$0	0	0	0
330 Dist. Resrvr & Stndpipe	0	0	0	0	$2,218	99,896	58,292	41,604
331 Trans. & Distr. Mains	20,918	20,918	20,918	0	$18,074	903,698	481,046	422,652
333 Services	0	0	0	0	$81	2,427	1,589	838
334 Meters	0	0	0	0	$8,448	101,419	86,144	15,275
335 Hydrants	0	0	0	0	$0	0	0	0
336 Backflow Prevention Devices	0	0	0	0	$76	1,137	896	241
339 Other Plant and Misc Equip	0	0	0	0	$0	0	0	0
340 Office Furniture & Fixt	303	0	0	0	$1,776	26,785	13,619	13,166
340.1 Computers and Software	0	0	0	0	$0	0	0	0
341 Transportation Equip	0	3,500	3,500	0	$4,604	23,292	19,792	3,500
343 Tools & Work Equip	0	0	0	0	$0	0	0	0
345 Power Operated Equip	0	0	0	0	$130	2,592	1,870	722
346 Communications Equip	0	0	0	0	$0	0	0	0
347 Miscellaneous Equipment	0	0	0	0	$317	3,165	1,314	1,851
348 Other Tangible Equipment	0	0	0	0	$442	4,424	4,076	348
2008 Totals	$21,221	$57,378	$57,378	$0	$60,267	$1,584,360	$951,676	$632,684

PLANT AND ACCUMULATED DEPRECIATION SCHEDULE

	2009 Additions Cost	2009 Retirements Cost Removal	2009 Retirements Depreciation	Fully Depreciated	2009 Depr. Expense	2009 Total Cost	2009 Accumulated Depreciation	2009 Net Book Value
301 Organization Cost	$0	$0	$0	$0	$0	$0	$0	$0
302 Franchise Cost	0	0	0	0	$0	0	0	0
303 Land & Land Rights	0	0	0	0	$0	217	0	217
304 Structures & Improv	0	0	0	0	$305	12,229	5,281	6,948
305 Collecting & Impounding Res.	0	0	0	0	$0	0	0	0
307 Wells & Springs	0	0	0	0	$7,720	309,094	200,499	108,595
310 Power Generation Equip	0	0	0	0	$0	0	0	0
311 Electric Pumping Equip	31,523	0	0	0	$10,126	123,768	94,760	29,008
320 Water Treatment Equip	0	0	0	0	$43	1,740	693	1,047
320.1 Water Treatment Equip	2,162,694	185,625	0	0	$24,689	1,977,069	24,689	1,952,380
330 Dist. Resrvr & Stndpipe	0	0	0	0	$1,663	99,896	59,955	39,941
331 Trans. & Distr. Mains	0	0	0	0	$13,555	903,698	494,601	409,097
333 Services	0	0	0	0	$61	2,427	1,649	778
334 Meters	0	0	0	0	$6,336	101,419	92,480	8,939
335 Hydrants	0	0	0	0	$0	0	0	0
336 Backflow Prevention Devices	0	0	0	0	$57	1,137	953	184
339 Other Plant and Misc Equip	0	0	0	0	$0	0	0	0
340 Office Furniture & Fixt	1,520	0	0	0	$1,378	28,305	14,997	13,308
340.1 Computers and Software	0	0	0	0	$0	0	0	0
341 Transportation Equip	0	0	0	0	$3,494	23,292	23,286	6
343 Tools & Work Equip	0	0	0	0	$0	0	0	0
345 Power Operated Equip	0	0	0	0	$97	2,592	1,967	625
346 Communications Equip	0	0	0	0	$0	0	0	0
347 Miscellaneous Equipment	0	0	0	0	$237	3,165	1,551	1,614
348 Other Tangible Equipment	0	0	0	0	$332	4,424	4,408	16
2009 Totals	$2,195,737	$185,625	$0	$0	$70,093	$3,594,472	$1,021,769	$2,572,703

Las Quintas Serenas Water Company
Docket No. W-01583A-09-0589
Test Year Ended June 30, 2009

Surrebuttal Schedule CSB-9

RATE BASE ADJUSTMENT NO. 5 - CUSTOMER DEPOSITS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Customer Deposits	$ -	$ 7,475	$ 7,475

References:

Column A: Company Schedule B-2
Column B: Testimony, CSB; Data Request Response CSB 2.11
Column C: Column [A] + Column [B]

Las Quintas Serenas Water Company
Docket No. W-01583A-09-0589
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Surrebuttal Schedule CSB-10

RATE BASE ADJUSTMENT NO. 6 - ACCUMULATED DEFERRED INCOME TAXES

LINE NO.	DESCRIPTION	[A] PER COMPANY	[B] ADJUSTMENT	[C] PER STAFF
1	**Federal Taxes**			
2	Tax Value of Fixed Assets	$ 1,674,957	$ -	$ 1,674,957
3	Less: Book Value Fixed Asset Value (From Line 22)	1,872,065	185,625	2,057,690
4	Subtotal	$ (197,108)	$ (185,625)	$ (382,733)
5	Multiplied by federal tax rate	24.5180%	24.52%	24.5180%
6	**Noncurrent Future Tax Asset/(Liability)**	**(48,327)**	**(45,512)**	**(93,838)**
7				
8	**State Taxes**			
9	Tax Value of Fixed Assets	$ 2,450,374	$ -	$ 2,450,374
10	Less: Book Value Fixed Asset Value (From Line 22)	1,872,065	185,625	2,057,690
11	Subtotal	$ 578,309	$ (185,625)	$ 392,684
12	Multiplied by state tax rate	6.9681%	6.9681%	6.9681%
13	**Noncurrent Future Tax Asset/(Liability)**	**40,297**	**(12,935)**	**27,363**
14				
15	**AIAC**			
16	Tax Value of AIAC	$ -	$ -	$ -
17	Less: Book Value of AIAC	(372,323)	-	(372,323)
18		$ 372,323	$ -	$ 372,323
19	Multiplied by Probability of Realization of Future Benefit	30.0%	30.0%	30.0%
20	Subtotal	111,697	-	111,697
21	Multiplied by combined federal and state tax rate	31.4861%	31.4861%	31.4861%
22	**Noncurrent Future Tax Asset/(Liability)**	**$ 35,169**	**$ -**	**$ 35,169**
23				
24				
25	**Operating Loss Carry Forward**			
26	Tax Value of Fixed Assets	$ -	$ -	$ -
27	Less: Book Value Fixed Asset Value (From Line 22)	(518,518)	518,518	-
28	Subtotal	$ 518,518	$ (518,518)	$ -
29	Multiplied by state tax rate	24.5178%	24.5178%	24.5178%
30	**Noncurrent Future Tax Asset/(Liability)**	**$ 127,129**	**$ (127,129)**	**$ -**
31				
32				
33	**Net Asset/(Liability)**	**$ 154,268**	**$ (185,575)**	**$ (31,307)**
34	**ADIT Per Company's Direct Testimony**			$ -
35	**Staff's Adjustment**			**$ (31,307)**

References:

Column A: Company Response to Data Request Response CSB 2.9
Column B: Testimony, CSB, Company Data Request Responses CSB 2.9
Column C: Column [A] + Column [B]

Las Quintas Serenas Water Company
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Surrebuttal Schedule CSB-11

OPERATING INCOME - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	ADJ NO.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
	REVENUES:						
1	Metered Water Sales	$ 481,492	$ -		$ 481,492	$ 149,836	$ 631,328
2	Water Sales - Unmetered	-	-		-		-
3	Other Operating Revenues	6,778	-		6,778	-	6,778
4	**Total Revenues**	$ 488,270	$ -		$ 488,270	$ 149,836	$ 638,106
5							
6	*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)	1	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	(6,667)	2	20,000	-	20,000
24	Miscellaneous Expense	6,177	-		6,177	-	6,177
25	Bad Debt Expense	31	-		31	-	31
26	Depreciation Expense	117,586	(4,152)	3	113,434	-	113,434
27	Taxes Other Than Income	-	-		-	-	-
28	Property Taxes	26,078	(3,249)	4	22,829	2,392	25,221
29	Income Taxes	(23,603)	13,214	5	(10,389)	36,385	25,995
31							
32	**Total Operating Expenses**	$ 440,721	$ (4,015)		$ 436,706	$ 38,777	$ 475,483
33							
34	**Operating Income (Loss)**	$ 47,550	$ 4,015		$ 51,564	$ 111,059	$ 162,624

References:
Column (A): Company Schedule C-1, Page 2
Column (B): Schedule CSB-12
Column (C): Column (A) + Column (B)
Column (D): Schedules CSB-1 and CSB-2
Column (E): Column (C) + Column (D)

Las Quintas Serenas Water Company
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Surrebuttal Schedule CSB-12

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Water Testing Expense	[C] ADJ #2 Rate Case Expense	[D] ADJ #3 Depreciation Expense	[E] ADJ #4 Property Taxes	[F] ADJ #5 Income Taxes	[G] STAFF ADJUSTED
			Ref: Sch CSB-13	Ref: Sch CSB-14	Ref: Sch CSB-15	Ref: Sch CSB-16	Ref: Sch CSB-17	
	REVENUES:							
1	Metered Water Sales	$ 481,492	$ -	$ -	$ -	$ -	$ -	$ 481,492
2	Water Sales - Unmetered	-	-	-	-	-	-	-
3	Other Operating Revenues	6,778	-	-	-	-	-	6,778
4	**Total Revenues**	$ 488,270	$ -	$ -	$ -	$ -	$ -	$ 488,270
5								
6	*OPERATING EXPENSES:*							
7	Salaries and Wages	$ 150,775	-	-	-	-	-	$ 150,775
8	Purchased Water	-	-	-	-	-	-	-
9	Purchased Power	74,502	-	-	-	-	-	74,502
10	Fuel for Power Production	4,217	-	-	-	-	-	4,217
11	Chemicals	765	-	-	-	-	-	765
12	Materials & Supplies	21,840	-	-	-	-	-	21,840
13	Outside Services	-	-	-	-	-	-	-
14	Outside Services- Legal	-	-	-	-	-	-	-
15	Outside Services- Other	6,568	-	-	-	-	-	6,568
16	Water Testing	7,408	(3,161)	-	-	-	-	4,247
17	Equipment Rental	-	-	-	-	-	-	-
18	Rents	11,874	-	-	-	-	-	11,874
19	Transportation Expenses	7,012	-	-	-	-	-	7,012
20	Insurance - General Liability	2,825	-	-	-	-	-	2,825
21	Insurance - Health and Life	-	-	-	-	-	-	-
22	Reg. Comm. Exp.	-	-	-	-	-	-	-
23	Reg. Comm. Exp. - Rate Case	26,667	-	(6,667)	-	-	-	20,000
24	Miscellaneous Expense	6,177	-	-	-	-	-	6,177
25	Bad Debt Expense	31	-	-	-	-	-	31
26	Depreciation Expense	117,586	-	-	(4,152)	-	-	113,434
27	Taxes Other Than Income	-	-	-	-	-	-	-
28	Property Taxes	26,078	-	-	-	(3,249)	-	22,829
29	Income Taxes	(23,603)	-	-	-	-	13,214	(10,389)
31								
32	**Total Operating Expenses**	$ 440,721	$ (3,161)	$ (6,667)	$ (4,152)	$ (3,249)	$ 13,214	$ 436,706
33								
34	**Operating Income (Loss)**	$ 47,550	$ 3,161	$ 6,667	$ 4,152	$ 3,249	$ (13,214)	$ 51,564

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Surrebuttal Schedule CSB-13

OPERATING INCOME ADJUSTMENT NO. 1 - WATER TESTING EXPENSE

		[A]	[B]	[C]
LINE NO.	Description	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Water Testing Expense	$ 7,408	$ (3,161)	$ 4,247

References:

Column A: Company Schedule C-1
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

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Surrebuttal Schedule CSB-14

OPERATING INCOME ADJUSTMENT NO. 2 - RATE CASE EXPENSE

LINE NO.	Description	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Rate Case Expense	$ 26,667	$ (6,667)	$ 20,000

	Per Company	Difference	Per Staff
	$ 80,000	$ -	$ 80,000
Divided by	3	1	4
	26,667	(6,667)	20,000

References:

Column A: Company Schedule C-1
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

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Surrebuttal Schedule CSB-15

OPERATING INCOME ADJUSTMENT NO. 3 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.		DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	303	Land and Land Rights	$ 217	$ 217	$ -	0.00%	$ -
	304	Structures and Improvements	12,229	-	12,229	3.33%	407
2	307	Wells and Springs	309,094	-	309,094	3.33%	10,293
3	309	Supply Mains	-	-	-	2.00%	-
4	310	Power Generation Equipment	-	-	-	5.00%	-
5	311	Pumping Equipment	143,850	-	143,850	12.50%	17,981
6	320	Water Treatment Equipment	(18,342)	-	(18,342)	3.33%	(611)
7	320.1	Water Treatment Plant	1,977,069	-	1,977,069	3.33%	65,836
8	330	Distribution Reservoirs and Standpipes	99,896	-	99,896	2.22%	2,218
9	331	Transmission and Distribution Mains	903,698	-	903,698	2.00%	18,074
10	333	Services	2,427	-	2,427	3.33%	81
11	334	Meters and Meter Installations	101,418	-	101,418	8.33%	8,448
12	335	Hydrants	-	-	-	2.00%	-
13	336	Backflow Prevention Devices	1,137	-	1,137	6.67%	76
14	339	Other Plant and Miscellaneous Equipment	-	-	-	6.67%	-
15	340	Office Furniture and Equipment	28,306	-	28,306	6.67%	1,888
16	340.1	Computers and Software	-	-	-	20.00%	-
17	341	Transportation Equipment	23,292	23,292	-	20.00%	-
18	343	Tools, Shop, and Garage Equipment	-	-	-	5.00%	-
19	344	Laboratory Equipment	-	-	-	10.00%	-
20	345	Power Operated Equipment	2,592	-	2,592	5.00%	130
21	346	Communication Equipment	-	-	-	10.00%	-
22	347	Miscellaneous Equipment	3,165	-	3,165	10.00%	317
23	348	Other Tangible Equipment	4,424	4,424	-	10.00%	-
24		Total Plant	$ 3,594,472	$ 27,933	$ 3,566,539		$ 125,137
25							
29							
30							
31		Composite Depreciation Rate (Depr Exp / Depreciable Plant):	3.51%				
32		CIAC:	$ 333,555				
33		Amortization of CIAC (Line 32 x Line 33):	$ 11,703				
34							
		Depreciation Expense Before Amortization of CIAC:	$ 125,137				
		Less Amortization of CIAC:	$ 11,703				
		Test Year Depreciation Expense - Staff:	$ 113,434				
		Depreciation Expense - Company:	117,586				
		Staff's Total Adjustment:	**$ (4,152)**				

References:
Column [A]: Schedule CSB-4
Column [B]: From Column [A]
Column [C]: Column [A] - Column [B]
Column [D]: Engineering Staff Report
Column [E]: Column [C] x Column [D]

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Surrebuttal Schedule CSB-16

OPERATING INCOME ADJUSTMENT NO. 4 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	$ 488,270	$ 488,270
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	976,541	$ 976,541
4	Staff Recommended Revenue, Per Schedule CSB-1	488,270	638,106
5	Subtotal (Line 4 + Line 5)	1,464,811	1,614,647
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	488,270	$ 538,216
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	976,541	$ 1,076,431
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	23,292	$ 23,292
12	Full Cash Value (Line 9 + Line 10 - Line 11)	953,249	$ 1,053,139
13	Assessment Ratio	21.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	200,182	$ 221,159
15	Composite Property Tax Rate	11.4039%	11.4039%
			$ -
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	$ 22,829	
17	Company Proposed Property Tax	26,078	
18	Staff Test Year Adjustment (Line 16-Line 17)	$ (3,249)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		$ 25,221
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		$ 22,829
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		$ 2,392
22	Increase to Property Tax Expense		$ 2,392
23	Increase in Revenue Requirement		149,836
24	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		1.596546%

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Surrebuttal Schedule CSB-17

OPERATING INCOME ADJUSTMENT NO. 5 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	(A)	(B)
	Calculation of Income Tax:	Test Year	
1	Revenue	$ 488,270	
2	Less: Operating Expenses - Excluding Income Taxes	$ 447,095	
3	Less: Synchronized Interest (L17)	$ 90,831	
4	Arizona Taxable Income (L1- L2 - L3)	$ (49,655)	
5	Arizona State Income Tax Rate	6.968%	
6	Arizona Income Tax (L4 x L5)		$ (3,460)
7	Federal Taxable Income (L4 - L6)	$ (46,195)	
8	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ (6,929)	
9	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	$ -	
10	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ -	
11	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ -	
12	Federal Tax on Fifth Income Bracket ($335,001 - $10,000,000) @ 34%	$ -	
13	Total Federal Income Tax		$ (6,929)
14	Combined Federal and State Income Tax (L6 + L13)		$ (10,389)
	Calculation of Interest Synchronization:		
15	Rate Base	$ 1,892,303	
16	Weighted Average Cost of Debt	4.80%	
17	Synchronized Interest (L16 x L17)	$ 90,831	
18	Income Tax - Per Staff	$ (10,389)	
19	Income Tax - Per Company	$ (23,603)	
20	**Staff Adjustment**	**$ 13,214**	

Monthly Minimum Charge	Present*	Company Proposed	Staff Recommended
Meter Size (All Classes):			
5/8 Inch x 3/4 Inch	$ 10.00	$ 20.00	$ 20.00
3/4 Inch	22.50	30.00	30.00
1 Inch	25.00	50.00	50.00
1 1/2 Inch	55.00	100.00	100.00
2 Inch	70.00	160.00	160.00
3 Inch	125.00	320.00	320.00
4 Inch	225.00	500.00	500.00
6 Inch	350.00	1,000.00	1,000.00
8 Inch	-	-	1,600.00
Gallons In Minimum	-	-	-
*Does not include arsenic remedial surcharge listed on Schedule CSB-18, page 5.			
Standpipe	$ 10.10	$ 20.20	$ 20.20
Fire Sprinkler Connection			
Fire Sprinkler - less than 6 inches (See Notes 1 and 2)	10.00	10.00	N/A
Fire Sprinkler - larger than 6 inches (See Notes 1 and 2)	15.00	15.00	N/A
Fire Sprinkler - less than 6 inches (See Notes 1 and 3)	10.00	N/A	Note 3
Fire Sprinkler - larger than 6 inches (See Notes 1 and 3)	15.00	N/A	Note 3

Note 1 - Present Rates are 1% of monthly minimum for comparable sized meters, but not less than $5.00 per month
Note 2 - Proposed rates are 2% of monthly minimum for comparable sized meters, but not less than $15 per month.
Note 3 - Staff's recommended monthly charges are 2% of the monthly minimum for an equivalent sized meter or $10, whichever is greater, for all meter sizes.

Commodity Rates
(Residential, Commercial, Industrial)

5/8" x 3/4" Meter			
0 gallons to 4,000 gallons	$ 0.9500	N/A	N/A
4,001 gallons to 23,000 gallons	1.1500	N/A	N/A
over 23,000 gallons	1.3500	N/A	N/A
0 gallons to 4,000 gallons	$ 0.9500	$ 1.9000	$ 1.0800
4,001 to 10,000 gallons	N/A	2.4000	2.0800
over 10,000 gallons	N/A	3.0000	3.0900
3/4" Meter			
0 gallons to 4,000 gallons	$ 0.9500	N/A	N/A
4,001 gallons to 23,000 gallons	1.1500	N/A	N/A
over 23,000 gallons	1.3500	N/A	N/A
0 gallons to 4,000 gallons	N/A	$ 1.9000	$ 1.0800
4,001 to 10,000 gallons	N/A	2.4000	2.0800
over 10,000 gallons	N/A	3.0000	3.0900
1" Meter			
0 gallons to 40,000 gallons	$ 1.1500	N/A	N/A
over 40,000 gallons	1.3500	N/A	N/A
0 gallons to 25,000 gallons	N/A	$ 2.4000	N/A
over 25,000 gallons	N/A	3.0000	N/A
First 27,000 gallons	N/A	N/A	2.0800
Over 27,000 gallons	N/A	N/A	3.0900

	Present	Company Proposed	Staff Recommended
Commodity Charge - Per Thousand Gallons Continued			
1 1/2" Meter			
0 gallons to 100,000 gallons	$ 1.15	N/A	N/A
over 100,000 gallons	$ 1.35	N/A	N/A
0 gallons to 50,000 gallons	N/A	$ 2.40	N/A
over 50,000 gallons	N/A	$ 3.00	N/A
First 70,000 gallons	N/A	$ 1.45	$ 2.08
Over 70,000 gallons	N/A	$ 1.90	$ 3.09
2" Meter (All Classes Except Standpipe)			
0 gallons to 150,000 gallons	$ 1.15	$ 1.45	N/A
over 150,000 gallons	$ 1.35	$ 1.90	N/A
0 gallons to 80,000 gallons	N/A	$ 2.40	N/A
over 80,000 gallons	N/A	$ 3.00	N/A
First 122,000 gallons	N/A	N/A	$ 2.08
Over 122,000 gallons	N/A	N/A	$ 3.09
3" Meter (All Classes Except Standpipe)			
No Tariff	N/T	N/A	N/A
No Tariff	N/T	N/A	N/A
0 gallons to 160,000 gallons	N/A	$ 2.40	N/A
over 160,000 gallons	N/A	$ 3.00	N/A
First 262,000 gallons	N/A	N/A	$ 2.08
Over 262,000 gallons	N/A	N/A	$ 3.09
4" Meter (All Classes Except Standpipe)			
0 gallons to 400,000 gallons	$ 1.15	$ 1.45	N/A
over 400,000 gallons	$ 1.35	$ 1.90	N/A
0 gallons to 250,000 gallons	N/A	$ 2.40	N/A
over 250,000 gallons	N/A	$ 3.00	N/A
First 423,000 gallons	N/A	N/A	$ 2.08
Over 423,000 gallons	N/A	N/A	$ 3.09
6" Meter (All Classes Except Standpipe)			
0 gallons to 400,000 gallons	$ 1.15	$ 1.45	N/A
over 400,000 gallons	$ 1.35	$ 1.90	N/A
0 gallons to 500,000 gallons	N/A	$ 2.40	N/A
over 500,000 gallons	N/A	$ 3.00	N/A
First 873,000 gallons	N/A	N/A	$ 2.08
Over 873,000 gallons	N/A	N/A	$ 3.09
8" Meter (All Classes Except Standpipe)			
No Tariff	N/T	N/A	N/A
No Tariff	N/T	N/A	N/A
No Tariff	N/T	N/A	N/A
No Tariff	N/T	N/A	N/A
First 1,414,000 gallons	N/A	N/A	$ 2.08
Over 1,414,000 gallons	N/A	N/A	$ 3.09

	Present	Company Proposed	Staff Recommended
Miscellaneous Charges			
Establishment	$ 20.00	$ 20.00	$ 20.00
Establishment (After Hours)	$ 30.00	$ 30.00	$ 30.00
Reconnection (Delinquent)	$ 20.00	$ 20.00	$ 20.00
Reconnection (Delinquent and After Hours)	$ 30.00	$ 30.00	$ 30.00
Meter Test (If meter reading correctly)	$ 25.00	$ 25.00	$ 25.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-Establishment (With-in 12 Months)	**	**	**
NSF Check	$ 15.00	$ 15.00	$ 15.00
Deferred Payment, Per Month	N/T	1.50%	1.50%
Meter Re-Read (if correct)	$ 15.00	$ 15.00	$ 15.00
After hours service charge, per Rule R14-2-403D	N/T	Cost	Cost
Late Charge per month (per R-14-2-409G(6))	1.50%	1.50%	1.50%
Stanpipe Charges			
Original Key Deposit	$ 30.00	$ 30.00	$ 30.00
Additional Set	$ 5.00	$ 5.00	$ 5.00
Offsite Facitlities Hook-Up Fee	$ 250.00	See CSB-18, p. 5	$ 250.00
Arsenic Impact Hook-Up Fee	See CSB-18, p. 5	NT	See CSB-18, p. 5

* PER COMMISSION RULE (R14-2-403.B)
** Months off system times the minimum. PER COMMISSION RULE (R14-2-403.D)

N/T = No tariff.

IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE TAX. PER COMMISSION RULE (14-2-409.D 5).

ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS, AND ALL APPLICABLE TAXES.

Service and Meter Installation Charges	Total Present Charge	Company Proposed Service Line Charge	Company Proposed Meter Installation Charge	Total Company Proposed Charge*
5/8 x 3/4 Inch	$ 150	$ 445	$ 155	$ 600
3/4 Inch	NT	$ 445	$ 255	$ 700
1 Inch	$ 225	$ 495	$ 315	$ 810
1 1/2 Inch	$ 475	$ 550	$ 525	$ 1,075
2 Inch	$ 625	N/A	N/A	N/A
2 Inch / Turbine	NT	$ 830	$ 1,045	$ 1,875
2 Inch / Compound	NT	$ 830	$ 1,890	$ 2,720
3 Inch	$ 850	N/A	N/A	N/A
3 Inch / Turbine	NT	$ 1,045	$ 1,670	$ 2,715
3 Inch / Compound	NT	$ 1,165	$ 2,545	$ 3,710
4 Inch	$ 1,800	N/A	N/A	N/A
4 Inch / Turbine	NT	$ 1,490	$ 3,670	$ 5,160
4 Inch / Compound	NT	$ 1,670	$ 3,645	$ 5,315
6 Inch	$ 3,000	N/A	N/A	N/A
6 Inch / Turbine	NT	$ 2,210	$ 5,025	$ 7,235
6 Inch / Compound	NT	$ 2,330	$ 6,920	$ 9,250
8 Inch	NT	At Cost	At Cost	At Cost

	Total Present Charge	Staff Recommended Service Line Charge**	Staff Recommended Meter Installation Charge	Total Staff Recommended Charge
5/8 x 3/4 Inch	$ 150	$ 445	$ 155	$ 600
3/4 Inch	NT	$ 445	$ 255	$ 700
1 Inch	$ 225	$ 495	$ 315	$ 810
1 1/2 Inch	$ 475	$ 550	$ 525	$ 1,075
2 Inch	$ 625	N/A	N/A	N/A
2 Inch / Turbine	NT	$ 830	$ 1,045	$ 1,875
2 Inch / Compound	NT	$ 830	$ 1,890	$ 2,720
3 Inch	$ 850	N/A	N/A	N/A
3 Inch / Turbine	NT	$ 1,045	$ 1,670	$ 2,715
3 Inch / Compound	NT	$ 1,165	$ 2,545	$ 3,710
4 Inch	$ 1,800	N/A	N/A	N/A
4 Inch / Turbine	NT	$ 1,490	$ 2,670	$ 4,160
4 Inch / Compound	NT	$ 1,670	$ 3,645	$ 5,315
6 Inch	$ 3,000	N/A	N/A	N/A
6 Inch / Turbine	NT	$ 2,210	$ 5,025	$ 7,235
6 Inch / Compound	NT	$ 2,330	$ 6,920	$ 9,250
8 Inch	NT	At Cost	At Cost	At Cost

NT = No Tariff

Arsenic Remedial Surcharge	Present	Company Proposed	Staff Recommended*
5/8 x 3/4 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	-	-

* Staff recommends discontinuance of the surcharge.

Arsenic Impact Hook-up Fee	Present	Company Proposed	Staff Recommended
5/8 x 3/4 Inch	$ 1,135	$ -	$ 1,135
3/4 Inch	1,703	-	1,703
1 Inch	2,838	-	2,838
1 1/2 Inch	5,675	-	5,675
2 Inch	9,080	-	9,080
3 Inch	18,160	-	18,160
4 Inch	28,375	-	28,375
6 Inch	56,750	-	56,750

Off-site Facilities Hook-up Fee	Present	Company Proposed	Staff Recommended
5/8 x 3/4 Inch	$ 250	$ 1,135	$ 250
3/4 Inch	250	1,703	250
1 Inch	250	2,838	250
1 1/2 Inch	250	5,675	250
2 Inch	250	9,080	250
3 Inch	250	18,160	250
4 Inch	250	28,375	250
6 Inch or larger	250	56,750	250

EXHIBIT
5-6
ADMITTED

UNIFORM SYSTEM OF ACCOUNTS FOR CLASS A WATER UTILITIES

1996

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

Price: $25.00

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

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

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

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

272. Accumulated Amortization of Contributions in Aid of Construction

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

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

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

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

5-6

UNIFORM SYSTEM OF ACCOUNTS FOR CLASS A WATER UTILITIES

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

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

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

272. Accumulated Amortization of Contributions in Aid of Construction

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

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

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

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