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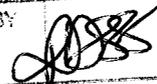
Transcript Exhibit(s)

Docket #(s): W-02370A-10-0519

Exhibit #: A1-A5, S1-S6.

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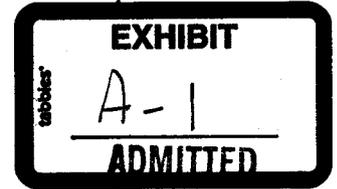
NEW APPLICATION

1 Paul D. Levie, P.C.
 2 2465 W Shane Drive
 3 Prescott, AZ 86305
 4 (928) 778-2600
 5 Attorney for Chino Meadows II Water Company
 6
 7 BEFORE THE ARIZONA CORPORATION COMMISSION

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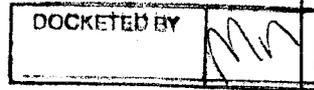
COMMISSIONERS

6 KRISTIN K. MAYES, CHAIRMAN
 7 GARY PIERCE
 8 PAUL NEWMAN
 9 SANDRA D. KENNEDY
 10 BOB STUMP

Arizona Corporation Commission

DOCKETED

DEC 30 2010



11 APPLICATION OF CHINO MEADOWS II
 12 WATER COMPANY, INC FOR
 13 ADJUSTMENTS TO ITS RATES AND
 14 CHARGES FOR UTILITY SERVICE

Docket No. New Application

APPLICATION

W-02370A-10-0519

15 Pursuant to Arizona Revised Statute § 40-301 and Arizona Administrative Code R14-3-106(F), Chino
 16 Meadows II Water Company, Inc (Chino Meadows) is applying for adjustments to its rates and charges
 17 for utility service provided by the company's water system in Arizona, and in support thereof, states as
 18 follows;

1. Applicant for Rate:

19 Chino Meadows II Water Company, Inc.
 20 2465 Shane Drive
 21 Prescott, AZ 86305
 22 (928) 717-2616 Phone
 (928) 717-2621 Fax

2. Authorized Representatives:

23 Paul D. Levie, President/Owner/Attorney
 24 2465 Shane Drive
 25 Prescott, AZ 86305
 (928) 717-2600 Phone
 26 (928) 717-2621 Fax

Matthew Lauterbach, Water Administrator
 2465 Shane Drive
 Prescott, AZ 86305
 (928) 717-2616 Phone
 (928) 717-2621 Fax

Chino Meadows II Water Company – Application for Rate

- 1 3. Chino Meadows II Water Company, Inc is an Arizona corporation engaged in providing water for
2 public purposes in Yavapai County, Arizona, pursuant to certificates of public convenience and
3 necessity granted by the Arizona Corporation Commission (the "Commission"). At the present
4 time, Chino Meadows serves approximately 889 active customers.
- 5 4. Chino Meadows central business office is located at 2465 West Shane Dr, Prescott, AZ 86305.
6 Its mailing address is Post Office Box 350, Chino Valley, AZ 86323-0350, and its telephone
7 number is (928) 717-2616. The company's President and attorney is Paul D. Levie. The
8 company's manager and in person in charge of day to day operations is Matthew Lauterbach.
- 9 5. In this application the Chino Meadows seeks adjustments to its rates and charges for utility
10 service. The company has not had a rate revision since Decision No. 59078 which became
11 effective on June 1st, 1995.
- 12 6. In the last 15 years power generation, fuel, labor, parts, materials and other costs have
13 increased dramatically. Revenues from the company's utility operations are presently
14 inadequate to allow Chino Meadows to recover its operating expenses and provide a just and
15 reasonable rate of return on the fair value of its utility plant and property used to provide
16 service to customers.
- 17 7. With an effective but aging water system it is mandatory to incur capital improvements within
18 the system that are not possible based on the company's current rate structure. Additionally, in
19 the interest of water conservation, the proposed rates in this application are tiered to increase
20 proportionately based on the higher usages and intended to encourage conservation and a
21 more reasonable level of water use.
- 22 8. Filed herewith are the schedules required pursuant to A.A.C. R14-2-103 for rate applications by
23 Class C water utilities. The test year utilized by the Chino Meadows in connection with the
24 preparation of such schedules is the 12-month period that ended December 31, 2009.
- 25
26

Chino Meadows II Water Company – Application for Rate

**Chino Meadows II Water Company Test Year Ended December 31, 2009
Rate Case Application**

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Chino Meadows II Water Company Test Year Ended December 31, 2009
A-1 Computation of Increase in Gross Revenue Requirements

	<u>Original Cost</u>		
Original Cost RCND	761,697.67		
1. Adjusted Rate Base	225,396.28 (a)		
2. Adjusted Operating Income	(6,594.35) (b)		
3. Current Rate of Return	-0.87%		
4. Required Operating Income	82,317.68 (b)		
5. Required Rate of Return	10.81%		
6. Operating Income Deficiency (4-2)	88,912.03		
7. Gross Revenue Conversion Factor	1.3699 (c)		
8. Increase in Gross Revenue Requirements (6x7)	121,797.31		

Customer Classification	Present Rates	Proposed Rates	Dollar Increase	Percentage Increase
Residential 5/8 x 3/4" Meter	344,259.80	427,689.43	83,429.63	24.23%
Other Revenues	7,372.89	8,583.87	1,210.98	16.42%
	<u>351,632.69</u>	<u>436,273.30</u>	<u>84,640.61</u>	<u>24.07%</u>

Supporting Schedules
 (a) B-1 (c) C-3
 (b) C-1 (d) H-1

Chino Meadows II Water Company Test Year Ended December 31, 2009
A-2 Summary Results of Operations

	Prior Years Ended		Test Year Ended 12/31/2009		Projected Year Ended 12/31/2010		
	12/31/2007 (a)	12/31/2008 (a)	Actual (a)	Adjusted (b)	Proposed Rates (b)	Present Rates (c)	Proposed Rates (c)
1. Gross Revenues	365,349.79	356,722.69	351,632.69	351,632.69	436,273.30	346,886.24	430,384.35
2. Revenue Deductions & Operating Expenses	343,998.10	375,689.46	338,565.28	353,955.62	353,955.62	378,029.20	378,029.20
3. Operating Income	21,351.69	(18,966.77)	13,067.41	(2,322.93)	82,317.68	(31,142.96)	52,355.15
4. Other Income & Deductions	(4,282.51)	1,581.36	(16.24)	(16.24)	(16.24)	(16.24)	(16.24)
5. Interest Expense	(1,314.59)	(513.24)	(4,255.18)	(4,255.18)	(4,255.18)	(4,255.18)	(4,255.18)
6. Net Income (Loss)	15,754.59	(17,898.65)	8,795.99	(6,594.35)	78,046.26	(35,414.38)	48,083.73
7. Earned per Average Common Share	1.83	(2.08)	1.02				
8. Dividends per Common Share	0.00	0.00	0.00				
9. Dividend Payout Ratio	0.00	0.00	0.00				
10. Return on Average Invested Capital	17.73%	-20.14%	9.90%	-7.42%	87.83%	-39.85%	54.11%
11. Return on Year End Capital	17.73%	-20.14%	9.90%	9.90%	87.83%	-39.85%	54.11%
12. Return on Average Common Equity	8.20%	-9.37%	4.72%				
13. Return on Year End Common Equity	7.88%	-9.83%	4.61%				
14. Times Bond Interest Earned-Before Income Taxes	16.24	(36.95)	3.07	(0.55)	19.35	(7.32)	12.30
15. Times Total Interest & Preferred Dividends - After Taxes	11.98	(34.87)	2.07	(1.55)	18.34	(8.32)	11.30

Supporting Schedules

(a) E-2 (b) C-1 (c) F-1

Chino Meadows II Water Company Test Year Ended December 31, 2009
A-4 Construction Expenditures and Gross Utility Plant in Service

Year	Construction Expenditures (a)	Net Plant Placed in Service (b)	Gross Utility Plant in Service
1. 2007	1,111.25	298,561.10	755,597.70
2. 2008	2,823.65	274,254.16	757,949.90
3. Test Year - 2009	3,422.72	252,870.03	761,697.67
4. Projected - 2010	253,921.84	485,407.74	1,015,619.51

Supporting Schedules
(a) E-3 (a) E-1

Chino Meadows II Water Company Test Year Ended December 31, 2009
 B-1 Summary of Original Cost and RCND Base Elements

	Original Cost
1. Gross Utility Plant in Service	761,697.67
2. Less: Accumulated Depreciation	(508,827.64)
3. Net Utility Plant in Service	252,870.03
4. Customers' Advances in Construction	(61,212.41)
5. Contributions in Aid of Construction	(10,177.91)
6. Allowance for Working Capital	43,916.57
7. Total Rate Base	225,396.28

Supporting Schedules
 (a) B-2 (c) B-5
 (b) E-1

Recap Schedules
 (d) A-1

Chino Meadows II Water Company Test Year Ended December 31, 2009
 B-2 Original Cost Rate Base Pro Forma Adjustments

	Actual at End of	Pro Forma Adjustments			Adjusted at End
	Test Year	A	B	C	of Test Year
	(a)				(b)
101 Utility Plant					
101-301 Organization	6,843.02				6,843.02
101-303 Land & Land Rights	15,204.06				15,204.06
101-304 Structures & Improvements	44,339.01				44,339.01
101-305 Collecting & Impounding Reservoirs	4,349.74				4,349.74
101-307 Wells & Springs	27,448.37				27,448.37
101-309 Supply Mains	1,009.20				1,009.20
101-311 Pumping Equipment	46,267.62				46,267.62
101-320 Water Treatment Equipment	6,406.03				6,406.03
101-330 Distribution Reservoirs & Standpipes	51,683.88				51,683.88
101-331 Transmission & Distribution Mains	268,036.77				268,036.77
101-333 Services	30,067.16				30,067.16
101-334 Meters & Meter Installation	84,857.12				84,857.12
101-335 Hydrants	12,041.55				12,041.55
101-339 Other Plant & Misc Equipment	16,727.91				16,727.91
101-340 Office Furniture & Equipment	9,346.02				9,346.02
101-341 Transportation Equipment	88,632.94				88,632.94
101-343 Tools, Shop & Garage Equipment	949.18				949.18
101-345 Power Operated Equipment	25,404.59				25,404.59
101-346 Communication Equipment	22,083.50				22,083.50
Total Cost	761,697.67	0.00	0.00	0.00	761,697.67
Accumulated Depreciation & Amortization	(508,827.64)	0.00	0.00	0.00	(508,827.64)
Net Utility Plant	252,870.03	0.00	0.00	0.00	252,870.03

Supporting Schedules
(a)E-1

Recap Schedules
(e)E-1

Chino Meadows II Water Company Test Year Ended December 31, 2009

B-3 RCND Rate Base Pro Forma Adjustments
 Reconstruction Cost New less Depreciation

	Actual at End of Test Year	Pro Forma Adjustments Test Year	Adjusted at End of Test Year
1. Gross Utility Plant in Service	761,697.67		761,697.67
2. Less: Accumulated Depreciation	(508,827.64)		(508,827.64)
3. Net Utility Plant in Service	<u>252,870.03</u>		<u>252,870.03</u>

All pro forma adjustments should be adequately explained on this schedule or on attachments hereto.

Supporting Schedules
 (a) B-4

Chino Meadows II Water Company Test Year Ended December 31, 2009
 B-4 RCND by Major Plant Accounts

Plant Condition	RCN	Percentage	RCND
Wells	78,820.00	35.04%	51,200.00
Well Pump Installations	20,009.00	11.54%	17,700.00
Booster Pump Installations	65,000.00	14.92%	55,300.00
Distribution Reservoirs & Pressure Tanks	280,200.00	24.98%	210,200.00
Distribution Mains	3,858,607.00	20.00%	3,086,900.00
Services	19,942.00	24.78%	15,000.00
Meters	613,600.00	20.00%	490,900.00
Hydrants	13,202.00	9.86%	11,900.00
Improvements at Well, Reservoir & Booster Pump Sites	135,894.00	35.02%	88,300.00
Subtotal	5,085,274.00	20.80%	4,027,400.00
Owner's Overhead Project Costs	858,700.00		684,400.00
Total Utility Physical Plant and Property*	5,943,974.00	9.86%	4,711,800.00

*Does not include Land; Numbers shown are from a 2008 RCND Study

Recap Schedules
 (a) B-3

Chino Meadows II Water Company Test Year Ended December 31, 2009
B-5 Computation of Working Capital

	<u>Amount</u>
1. Cash Working Capital	
1/24 Pumping Power Expense	855.27
1/8 Operations and Maintenance Expense	36,908.49
Total Cash Working Capital	<u>37,763.76</u>
2. Materials & Supplies Inventories	3,023.81 (a)
3. Prepayments	3,129.00 (a)
4. Total Working Capital Allowance	<u>43,916.57</u>

Supporting Schedules
(a) E-1

Recap Schedules
(b) B-1

Chino Meadows II Water Company Test Year Ended December 31, 2009
C-1 Adjusted Test Year Income Statement

	Actual for Test Year Ended (a)	Pro Forma Adjustments (b)	Test Year Results After Pro Forma Adjustments	Proposed Rate Increase	Adjusted with Rate Increase
Revenues:					
461 Metered Water Sales	344,259.80		344,259.80	83,429.63	427,689.43
474 Other Water Revenue	7,372.89		7,372.89	1,210.98	8,583.87
Total Revenue	351,632.69		351,632.69	84,640.61	436,273.30
Operating Expenses:					
601 Salaries & Wages-Employees	115,911.53		126,311.53		126,311.53
603 Salaries & Wages-Officers, Directors, Stockholders	35,498.00	10,400.00	35,498.00		35,498.00
610 Purchased Water	100.01		100.01		100.01
615 Purchased Power	22,657.46		22,657.46		22,657.46
618 Chemicals	883.72		883.72		883.72
620 Materials & Supplies & Repairs and Maintenance	16,147.64		16,147.64		16,147.64
621 Office Supplies & Expenses	17,050.48		17,050.48		17,050.48
631 Contractual Services - Engineering	0.00		0.00		0.00
632 Contractual Services - Accounting	600.00		600.00		600.00
633 Contractual Services - Legal	3,994.71		3,994.71		3,994.71
635 Contractual Services - Testing	4,765.96	2,296.00	7,061.96		7,061.96
636 Contractual Services - Other	9,262.63		9,262.63		9,262.63
641 Rents	6,000.00		6,000.00		6,000.00
642 Rental of Equipment	246.05		246.05		246.05
650 Transportation	15,726.40		15,726.40		15,726.40
657 Insurance - General Liability	11,848.00		11,848.00		11,848.00
658 Insurance - Worker's Compensation	2,554.87		2,554.87		2,554.87
659 Insurance - Other	164.99		164.99		164.99
666 System Support	2,856.00		2,856.00		2,856.00
667 Regulatory Commission Expense	442.22	1,482.74	4,338.74		4,338.74
670 Bad Debt Expense	1,356.04		1,356.04		1,356.04
675 Misc. Expenses	4,089.35		4,089.35		4,089.35
676 Licensing & Permits	2,910.19		2,910.19		2,910.19
680 Tax - Other	6,446.29		6,446.29		6,446.29
408.11 Property Tax	22,328.62		22,328.62		22,328.62
408.12 Payroll Taxes	9,592.12	1,211.60	10,803.72		10,803.72
403 Depreciation	25,132.00		25,132.00		25,132.00
Total Expense	338,565.28	15,390.34	353,955.62		353,955.62
Operating Income (Loss) Before Income Taxes	13,067.41		(2,322.93)		82,317.68
Other Income and Deductions:					
409 Income Taxes	(45.00)		(45.00)		(45.00)
419 Interest Income	25.42		25.42		25.42
421 Nonutility Income	3.34		3.34		3.34
427 Interest Expense	(4,255.18)		(4,255.18)		(4,255.18)
Net Income (Loss)	8,795.99		(6,594.35)		78,046.26

Supporting Schedules (a) E-2 (b) C-2 Recap Schedules (c) A-1

Chino Meadows II Water Company Test Year Ended December 31, 2009
C-2 Income Statement Pro Forma Adjustments

Revenues:		
461 Metered Water Sales		83,429.63
474 Other Water Revenue		<u>1,210.98</u>

(a)

Total Revenue	84,640.61	All Additional Revenue Based on Proposed Rates
Operating Expenses:		
601 Salaries & Wages-Employees		
603 Salaries & Wages-Officers, Directors, Stockholders		
610 Purchased Water	10,400.00	Additional Salaries - Bringing Manager, Admin and Field Tech Wages to Appropriate Levels
615 Purchased Power		
618 Chemicals		
620 Materials & Supplies & Repairs and Maintenance		
621 Office Supplies & Expenses		
631 Contractual Services - Engineering		
632 Contractual Services - Accounting		
633 Contractual Services - Legal		
635 Contractual Services - Testing		
636 Contractual Services - Other	2,296.00	Leak Detection Services to Reduce Water Loss Ratio
641 Rents		
642 Rental of Equipment		
650 Transportation		
657 Insurance - General Liability		
658 Insurance - Worker's Compensation		
659 Insurance - Other		
666 System Support		
667 Regulatory Commission Expense	1,482.74	Additional Software & Hardware Requirements for Company Computer System
670 Bad Debt Expense		
675 Misc Expenses		
676 Licensing & Permits		
680 Tax - Other		
408.11 Property Tax		
408.12 Payroll Taxes		
403 Depreciation	1,211.60	Additional Payroll Taxes for Wages Mentioned Above

Other Income and Deductions:

409 Income Taxes	
419 Interest Income	
421 Nonutility Income	
427 Interest Expense	

Recap Schedules
(a) C-1

Chino Meadows II Water Company Test Year Ended December 31, 2009
 C-3 Computation of Gross Revenue Conversion Factor

Federal Income Taxes	15.00%
State Income Taxes	7.00%
Other Taxes & Expenses	5.00%
Total Tax Percentage	27.00%
Operating Income % = 100% - Tax Percentage	73.00%
Gross Revenue Conversion Factor	1.3699

Recap Schedules
 (A) C-1

Chino Meadows II Water Company Test Year Ended December 31, 2009
D-1 Summary Cost of Capital

	End of Test Year			End of Projected Year		
	Amount	%	Cost Rate	Amount	%	Composite Cost
Invested Capital	-	0.00%	0.00%	-	0.00%	0.00%
Long Term Debt	-	0.00%	0.00%	-	0.00%	0.00%
Preferred Stock	45,760.73	17.45%	0.00%	45,760.73	15.05%	0.00%
Common Equity (w/ Treasury Stock)	145,031.32	55.32%	0.00%	193,115.05	63.49%	0.00%
Short Term Equity	190,792.05	72.77%	0.00%	238,875.78	78.54%	0.00%
Total Equity	71,390.32	27.23%	0.00%	65,269.08	21.46%	0.00%
Deferrals (AIAC and CIAC)	262,182.37	100.00%	0.00%	304,144.85	100.00%	0.00%
Total	262,182.37	100.00%	0.00%	304,144.85	100.00%	0.00%

Chino Meadows II Water Company Test Year Ended December 31, 2009
E-1 Comparative Balance Sheets

	Test Year 2009	Prior Year 2008	Prior Year 2007
101 Assets			
Utility Plant			
101-301 Organization	6,843.02	6,843.02	6,843.02
101-303 Land & Land Rights	15,204.06	15,204.06	15,204.06
101-304 Structures & Improvements	44,339.01	44,339.01	44,339.01
101-305 Collecting & Impounding Reservoirs	4,349.74	4,349.74	4,349.74
101-307 Wells & Springs	27,448.37	27,448.37	27,448.37
101-309 Supply Mains	1,009.20	1,009.20	1,009.20
101-311 Pumping Equipment	46,267.62	46,267.62	46,267.62
101-320 Water Treatment Equipment	6,406.03	6,406.03	5,105.83
101-330 Distribution Reservoirs & Standpipes	51,683.88	51,683.88	51,683.88
101-331 Transmission & Distribution Mains	268,036.77	266,539.46	266,539.46
101-333 Services	30,067.16	30,067.16	30,067.16
101-334 Meters & Meter Installation	84,857.12	82,854.96	81,402.96
101-335 Hydrants	12,041.55	12,041.55	12,041.55
101-339 Other Plant & Misc Equipment	16,727.91	16,479.61	16,479.61
101-340 Office Furniture & Equipment	9,346.02	9,346.02	9,346.02
101-341 Transportation Equipment	88,632.94	88,632.94	89,032.94
101-343 Tools, Shop & Garage Equipment	949.18	949.18	949.18
101-345 Power Operated Equipment	25,404.59	25,404.59	25,404.59
101-346 Communication Equipment	22,083.50	22,083.50	22,083.50
Total Utility Plant	761,697.67	757,949.90	755,597.70
108 Accumulated Depreciation & Amortization	(508,827.64)	(483,695.74)	(457,036.60)
Net Utility Plant	252,870.03	274,254.16	298,561.10
Current assets			
131 Cash	316.92	63,922.71	126,642.11
141 Accounts Receivable	7,272.67	50,062.47	25,273.54
146 Notes from Associated Companies	31,504.47	500.00	-
151 Plant Materials & Supplies	3,023.81	3,023.81	2,706.59
162 Prepaid Taxes	3,129.00	3,174.00	1,474.00
Total Current Assets	45,246.87	120,682.99	156,096.24
Total Assets	298,116.90	394,937.15	454,657.34

Chino Meadows II Water Company Test Year Ended December 31, 2009
E-1 Comparative Balance Sheets (continued)

	2009	2008
Capitalization and Liabilities		
Capitalization		
201 Equity	8,597.00	8,597.00
211 Common Stock Issued	80,266.00	80,266.00
215 Paid-In Capital > of Par Value	145,031.32	154,133.98
216 Retained Earnings	(43,102.27)	(43,102.27)
Required Capital Stock/Treasury Stock	190,792.05	199,894.71
Total Equity	190,792.05	213,084.55
224 Long-Term Debt	-	13,121.11
224-010 Bank One 2000 Lincoln	-	68.73
224-040 Chrysler Financial	-	13,189.84
224-060 Ingersoll Rand	-	213,084.55
Total Long-Term Debt	-	13,189.84
Total Capitalization	190,792.05	213,084.55
Current Liabilities		
231 Account Payable	9,230.90	6,160.29
234 Notes Payable to Associated Companies	6,000.00	69,124.04
235 Customer Deposits	11,329.70	42,997.75
236 Accrued Taxes	4,801.79	6,544.11
241 Misc Current & Accrued Liabilities	-	-
241-100 Payroll Liabilities	3,796.08	3,472.03
241-238 Accrued Workers Compensation	775.96	717.00
Total Current Liabilities	35,934.43	4,189.03
Other Credits		
252 Advances in Aid of Construction	42,208.50	83,710.75
252-010 Main Line Extension	440.00	440.00
252-020 Main Line-Barros 1755	1,143.67	1,143.67
252-030 Main Line-Hoffman 1647	2,625.79	2,625.79
252-040 Line Ext-Garrote 1742	926.09	926.09
252-050 Line Ext-Schuerman 1694	2,452.61	2,452.61
252-060 Line Ext-Garrison 1633	4,026.48	4,026.48
252-070 Line Ext-Cross	2,137.58	2,137.58
252-080 Line Ext-Ouelett	1,181.55	1,181.55
252-090 Line Ext-Landmark	2,799.00	2,799.00
252-100 Line Ext-Oursland	1,271.14	1,271.14
Total Advances in Aid of Construction	61,212.41	102,714.66
271 Contribution in Aid of Construction	12,808.78	12,473.78
272 Less Amortization of Contribution	(2,630.87)	(2,630.87)
Total Contribution in Aid of Construction	10,177.91	9,842.91
Total Other Credits	71,390.32	112,557.57
Total Liabilities	107,324.75	241,572.79
Total Liabilities & Equity	298,116.80	454,657.34

Chino Meadows II Water Company Test Year Ended December 31, 2009
 E-2 Comparative Income Statements

	Test Year Ended 2009	Prior Year Ended 2008	Prior Year Ended 2007
Revenues:			
461 Metered Water Sales	344,259.80	346,995.61	356,650.13
474 Other Water Revenue	7,372.89	9,727.08	8,699.66
Total Revenue	351,632.69	356,722.69	365,349.79
Operating Expenses:			
601 Salaries & Wages-Employees	115,911.53	123,223.16	99,735.10
603 Salaries & Wages-Officers, Directors, Stockholders	35,498.00	1,000.00	30,000.00
610 Purchased Water	100.01	14.92	0.00
615 Purchased Power	22,657.46	22,948.07	21,985.98
618 Chemicals	883.72	1,289.21	3,566.93
620 Materials & Supplies & Repairs and Maintenance	16,147.64	47,251.63	33,421.30
621 Office Supplies & Expenses	17,050.48	23,165.58	22,523.70
631 Contractual Services - Engineering	0.00	0.00	0.00
632 Contractual Services - Accounting	600.00	1,595.00	
633 Contractual Services - Legal	3,994.71	12,485.18	114.00
635 Contractual Services - Testing	4,765.96	5,849.89	2,631.50
636 Contractual Services - Other	9,262.63	29,890.03	7,261.65
641 Rents	6,000.00	5,562.50	7,687.50
642 Rental of Equipment	246.05	1,174.95	6,093.15
650 Transportation	15,726.40	22,520.45	27,834.04
657 Insurance - General Liability	11,848.00	7,760.00	12,864.00
658 Insurance - Worker's Compensation	2,554.87	3,152.26	2,096.00
659 Insurance - Other	164.99	331.38	1,708.04
666 System Support	2,856.00	2,856.00	2,822.00
667 Regulatory Commission Expense	442.22	467.90	542.12
670 Bad Debt Expense	1,356.04	1,091.86	0.00
675 Misc Expenses	4,089.35	1,037.59	2,434.25
676 Licensing & Permits	2,910.19	1,406.59	1,827.02
408.10 Tax - Other	6,446.29	7,091.21	7,295.64
408.11 Property Tax	22,328.62	14,980.13	15,561.61
408.12 Payroll Taxes	9,592.12	10,884.83	7,323.79
403 Depreciation	25,132.00	26,659.14	26,668.78
Total Expense	338,565.28	375,689.46	343,998.10
Operating Income (Loss) Before Income Taxes	13,067.41	(18,966.77)	21,351.69
Other Income and Deductions:			
409 Income Taxes	(45.00)	163.24	(4,289.00)
419 Interest Income	25.42	1,361.72	0.00
421 Nonutility Income	3.34	56.40	6.49
427 Interest Expense	(4,255.18)	(513.24)	(1,314.59)
Net Income (Loss)	8,795.99	(17,898.65)	15,754.59

Supporting Schedules
 (a) E-2

Recap Schedules
 (b) A-2

Chino Meadows II Water Company Test Year Ended December 31, 2009
 E-7 Operating Statistics

	Test Year 2009	Prior Year 2008	Prior Year 2007
Gallons of Water Sold Residential 5/8 x 3/4" Meter	55,920,811.00	56,638,051.00	61,605,220.00
Average Number of Customers Residential 5/8 x 3/4" Meter	865	875	876
Average Annual Gallons per Residential Customer	64,648	64,729	70,326
Average Annual Revenue per Residential Customer	\$397.99	\$396.57	\$407.13
Pumping Cost per 1,000 Gallons - Total	\$0.37	\$0.36	\$0.32

Chino Meadows II Water Company Test Year Ended December 31, 2009
E-8 Taxes Charged to Operations

	Test Year 2009	Prior Year 2008	Prior Year 2007
Federal Taxes:			
Federal Income Tax	9,332.88	11,276.27	9,992.00
Social Security Tax (Company)	7,175.89	7,437.58	5,688.36
Medicare Tax (Company)	1,678.22	1,739.43	1,330.35
Federal Unemployment Tax	267.90	407.67	237.12
Total Federal Taxes	<u>18,454.89</u>	<u>20,860.95</u>	<u>17,247.83</u>
State Taxes:			
State Income Tax	2,403.47	3,187.62	2,456.28
Property Tax	22,328.62	14,980.13	15,561.61
State Sales & Water Use Tax	37,192.80	39,715.30	42,374.85
State Unemployment Tax	762.80	945.40	708.87
AZ-Job Training Tax	37.45	30.52	-
Total State Taxes	<u>62,725.14</u>	<u>58,858.97</u>	<u>61,101.61</u>
Local Taxes:			
Chino Valley Franchise Tax	6,446.29	7,060.69	7,295.64
Total Taxes	<u>87,626.32</u>	<u>86,780.61</u>	<u>85,645.08</u>

Nature of Business

The Company is a regulated utility providing water in a certificated area located in Yavapai County, Arizona.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Basis of Accounting

The accounting records of the Company are maintained in accordance with the uniform system of accounts as prescribed by the National Association of Regulatory Utility Commissioners.

Utility Plant

Property, plant, equipment, and capital leases comprising the utility plant are recorded at cost. Periodically, the Arizona Corporation Commission reviews the basis of the plant and equipment and may establish a new cost basis for rate-making purposes. The Company has adjusted the cost basis of its assets to comply with the Arizona Corporation Commission orders. In accordance with standard accounting practices prescribed for water utilities, renewals and betterments are charged to plant accounts. Repairs and maintenance are charged to operations as incurred.

Depreciation of property, plant and equipment, and amortization of capitalized leased assets are computed using the straight-line method over the useful life of the assets as prescribed by the Arizona Corporation Commission.

Interest costs connected with the construction of major equipment or facilities are capitalized during the period of construction activity. No interest was capitalized in 2008 and 2009.

Cash Equivalents

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Utility Customer Accounts Receivable

Regulated utility customer accounts receivable represent amounts billed customers on a cycle basis. Credit is extended based on the guidelines of the applicable regulators and generally, collateral is not required.

Allowance for Uncollectible Accounts

Allowances for uncollectible accounts are maintained for estimated probable losses resulting from the Company's inability to collect receivables from customers. Accounts that are outstanding longer than the payment terms are considered past due, and the allowance for doubtful accounts is computed based on an analysis of collectibility of accounts receivable at the balance sheet date. For 2008 and 2009, the allowance was \$2,139 and \$2,250, respectively.

Customer Advances for Construction

Customer advances for construction are provided to the Company for certain plant expansion and are subject to refund in accordance with agreements approved by the Arizona Corporation Commission. Such agreements provide for the refund of advances, generally based on an amount equal to 10 percent of annual water revenue generated from the expansion. The repayments are generally for a maximum agreed-upon period which is typically 10 years or until repaid in full. Some of the agreements allow, at the Company's option, to repay beyond the agreed-upon periods. Any unpaid balance remaining at the end of the agreed-upon period for repayment becomes a contribution in aid of construction.

Customer Meter Deposits

The Company is refunding meter deposits to customers in equal installments, without interest, over a ten-year period.

Revenue Recognition

Revenues are recorded as services are rendered and include an estimate for amounts unbilled at the end of the year for water used subsequent to the last billing cycle.

Contributions in Aid of Construction

Contributions in aid of construction are nonrefundable contributions by developers and customers for plant facility expansion. In addition, this amount includes the remaining balance, if any, of advances in aid of construction at the end of the repayment period. The contributions in aid of construction are being amortized at a rate equal to the rate allowed for depreciation, as a reduction of depreciation.

Chino Meadows II Water Company Test Year Ended December 31, 2009
F-1 Projected Income Statements - Present and Proposed Rates

	Actual for Test Year Ended (a)	2010 Projected Adj.	Projected 2010 Present Rates	Projected 2010 Proposed Rates
Revenues:				
461 Metered Water Sales	344,259.80	(4,646.93) (1)	339,612.87	421,916.35
474 Other Water Revenue	7,372.89	(99.52) (1)	7,273.37	8,468.00
Total Revenue	351,632.69		346,886.24	430,384.35
Expenses:				
601 Salaries & Wages-Employees	115,911.53	2,318.23 (2)	118,229.76	118,229.76
603 Salaries & Wages-Officers, Directors, Stockholders	35,498.00	709.96 (2)	36,207.96	36,207.96
610 Purchased Water	100.01		100.01	100.01
615 Purchased Power	22,657.46	2,084.52 (3)	24,741.98	24,741.98
618 Chemicals	883.72	(11.93) (1)	871.79	871.79
620 Materials & Supplies & Repairs and Maintenance	16,147.64		16,147.64	16,147.64
621 Office Supplies & Expenses	17,050.48		17,050.48	17,050.48
631 Contractual Services - Engineering	0.00	0.00	0.00	0.00
632 Contractual Services - Accounting	600.00		600.00	600.00
633 Contractual Services - Legal	3,994.71	25,000.00 (4)	28,994.71	28,994.71
635 Contractual Services - Testing	4,765.96	(64.33) (1)	4,701.63	4,701.63
636 Contractual Services - Other	9,262.63		9,262.63	9,262.63
641 Rents	6,000.00		6,000.00	6,000.00
642 Rental of Equipment	246.05		246.05	246.05
650 Transportation	15,726.40		15,726.40	15,726.40
657 Insurance - General Liability	11,848.00		11,848.00	11,848.00
658 Insurance - Worker's Compensation	2,554.87		2,554.87	2,554.87
659 Insurance - Other	164.99		164.99	164.99
666 System Support	2,856.00	3,427.47 (5)	6,283.47	6,283.47
667 Regulatory Commission Expense	442.22	1,500.00 (6)	1,942.22	1,942.22
670 Bad Debt Expense	1,356.04	4,500.00 (7)	5,856.04	5,856.04
675 Misc Expenses	4,089.35		4,089.35	4,089.35
676 Licensing & Permits	2,910.19		2,910.19	2,910.19
408.10 Tax - Other	6,446.29		6,446.29	6,446.29
408.11 Property Tax	22,328.62		22,328.62	22,328.62
408.12 Payroll Taxes	9,592.12		9,592.12	9,592.12
403 Depreciation	25,132.00		25,132.00	25,132.00
Total Expense	338,565.28		378,029.20	378,029.20
Operating Income (Loss) Before Income Taxes	13,067.41		(31,142.96)	52,355.15
Other Income and Deductions:				
409 Income Taxes	(45.00)		(45.00)	(45.00)
419 Interest Income	25.42		25.42	25.42
421 Nonutility Income	3.34		3.34	3.34
427 Interest Expense	(4,255.18)		(4,255.18)	(4,255.18)
Net Income (Loss)	8,795.99		(35,414.38)	48,083.73

Chino Meadows II Water Company Test Year Ended December 31, 2009
F-3 Projected Construction Requirements

Property Classification	Test Year Ended 2009	Projected Year 2010
Production Plant	0.00	216,921.84 (8)
Transmission Plant	<u>3,747.77</u>	<u>37,000.00 (9)</u>
Total Plant	3,747.77	253,921.84

Recap Schedules
(a) A-4

Chino Meadows II Water Company Test Year Ended December 31, 2009
F-4 Assumptions Used in Developing Projections

- (1) Projected loss of approximately 12 customers due to economic recession and foreclosure
- (2) Projected increase to employee/management salaries of 2%
- (3) Additional costs associated to potential increase in electrical rates 10.55% minus reduction in water demand shown above (1)
- (4) Costs incurred due to improvements and repairs of pumps, generator backup connections and water mains
- (5) Required upgrade to company operating software and hardware
- (6) Fees related to preparation and continuing consulting regarding rate case
- (7) Projected substantial increase in bad debt due to economic impact
- (8) Electrical Updates to Cactus Wren & Donna for Backup Generator = (2) @ \$933.26 & 100k-Gal Storage Tank @ TTI-Tanks and @ Cactus Wren = (2) @ \$93461.28 & Refurbish and Paint (4) Storage Tanks and (3) Buildings
- (9) Line Extension/CV Interconnect @ Rd 2 N = \$15000.00 & Line Replacement Judy to Porcupine = \$22000.00

Chino Meadows II Water Company Test Year Ended December 31, 2009
H-1 Summary of Revenues by Customer Classification - Present & Proposed Rates

Customer Classification	Revenues in Test Year		
	Present Rates	Proposed Rates	Dollar Increase
Residential 5/8 x 3/4" Meter	344,259.80	427,689.43	83,429.63
Other Revenues	7,372.89	8,583.87	1,210.98
	351,632.69	436,273.30	84,640.61
			Percentage Increase
			24.23%
			16.42%
			24.07%

Chino Meadows II Water Company Test Year Ended December 31, 2009
H-3 Changes in Representative Rate Schedules

Monthly Usage Charge	Present Rates	Company Proposed
5/8" x 3/4" Meter	\$18.75	\$23.26
3/4" Meter	\$28.13	\$34.90
1" Meter	\$46.88	\$58.16
1 1/2" Meter	\$93.75	\$116.32
2" Meter	\$150.00	\$186.11
3" Meter	\$337.50	\$418.74
4" Meter	\$565.50	\$701.62
6" Meter	\$1,125.00	\$1,395.79
Gallons included in Minimum	1000	1000
Excess of Minimum - per 1,000 Gallons		
5/8" x 3/4" Meter all gallons over 1,000 gallons	\$3.12	N/A
0 gallons to 10,000 gallons	N/A	\$3.52
10,001 to 20,000 gallons	N/A	\$3.75
all gallons over 20,000	N/A	\$4.34
3/4" Meter all gallons over 1,000 gallons	\$3.12	N/A
0 gallons to 10,000 gallons	N/A	\$3.52
10,001 to 20,000 gallons	N/A	\$3.75
all gallons over 20,000	N/A	\$4.34
1" Meter all gallons over 1,000 gallons	\$3.12	N/A
0 gallons to 10,000 gallons	N/A	\$3.52
10,001 to 20,000 gallons	N/A	\$3.75
all gallons over 20,000	N/A	\$4.34
1 1/2" Meter all gallons over 1,000 gallons	\$3.12	N/A
0 gallons to 10,000 gallons	N/A	\$3.52
10,001 to 20,000 gallons	N/A	\$3.75
all gallons over 20,000	N/A	\$4.34

Chino Meadows II Water Company Test Year Ended December 31, 2009
H-3 Changes in Representative Rate Schedules (continued)

2" Meter			
all gallons over 1,000 gallons	\$3.12	N/A	
0 gallons to 10,000 gallons	N/A	\$3.52	
10,001 to 20,000 gallons	N/A	\$3.75	
all gallons over 20,000	N/A	\$4.34	
3" Meter			
all gallons over 1,000 gallons	\$3.12	N/A	
0 gallons to 10,000 gallons	N/A	\$3.52	
10,001 to 20,000 gallons	N/A	\$3.75	
all gallons over 20,000	N/A	\$4.34	
4" Meter			
all gallons over 1,000 gallons	\$3.12	N/A	
0 gallons to 10,000 gallons	N/A	\$3.52	
10,001 to 20,000 gallons	N/A	\$3.75	
all gallons over 20,000	N/A	\$4.34	
6" Meter			
all gallons over 1,000 gallons	\$3.12	N/A	
0 gallons to 10,000 gallons	N/A	\$3.52	
10,001 to 20,000 gallons	N/A	\$3.75	
all gallons over 20,000	N/A	\$4.34	
Standpipe/Bulk Rate			
	N/A	N/A	

Chino Meadows II Water Company Test Year Ended December 31, 2009
H-3 Changes in Representative Rate Schedules (continued)

Meter Size	Service Line and Meter Installation Charges			
	Company Current Total Charges	Company Proposed Service Line Charges	Company Proposed Meter Charges	Company Proposed Total Charges
5/8 x 3/4-inch	\$335.00	\$406.00	\$95.00	\$500.00
3/4-inch	\$360.00	\$413.00	\$162.00	\$575.00
1-inch	\$420.00	\$441.00	\$209.00	\$650.00
1 1/2-inch	\$540.00	\$395.00	\$321.00	\$716.00
2-inch (turbo)	\$660.00	\$727.00	\$845.00	\$1,572.00
2-inch (compound)	N/A	N/A	N/A	N/A
3-inch (turbo)	N/A	\$952.00	\$1,448.00	\$2,400.00
3-inch (compound)	N/A	N/A	N/A	N/A
4-inch (turbo)	N/A	\$1,310.00	\$2,206.00	\$3,516.00
4-inch (compound)	N/A	N/A	N/A	N/A
5-inch	N/A	N/A	N/A	N/A
6-inch (turbo)	N/A	\$2,160.00	\$4,756.00	\$6,916.00
6-inch (compound)	N/A	N/A	N/A	N/A

Service Charges	Current Charges	Company Proposed
	Establishment	\$15.00
Establishment (after hours)	\$25.00	\$35.00
Reconnection (delinquent)	\$25.00	\$35.00
Reconnection (delinquent - after hours)	\$25.00	\$45.00
Meter Test (if correct)	\$35.00	\$35.00
Deposit per rule		*
Deposit interest per rule		*
Re-Establishment (Within 12 Months)	Months off sys*	**
NSF Check	\$15.00	\$20.00
Deferred Payment	1.00%	1.00%
Meter Re-Read (if correct)	\$10.00	\$15.00
Late Fee	N/A	***

* Per Commission Rules (R14-2-403.B)
** Months off system times the minimum (R14-2-403.D)
*** 1.50 Percent of the unpaid balance per month.

Chino Meadows II Water Company Test Year Ended December 31, 2009
H-4 Typical Bill Analysis

Monthly Consumption	Present Bill	Proposed Bill	Dollar Increase	% Increase
Residential 5/8" x 3/4"	18.75	23.26	4.51	24.07%
1,000	18.75	23.26	4.51	24.07%
2,000	21.87	26.78	4.91	22.47%
3,000	24.99	30.30	5.31	21.26%
4,000	28.11	33.82	5.71	20.32%
5,000	31.23	37.34	6.11	19.57%
6,000	34.35	40.86	6.51	18.96%
7,000	37.47	44.38	6.91	18.45%
8,000	40.59	47.90	7.31	18.02%
9,000	43.71	51.42	7.71	17.65%
10,000	46.83	54.94	8.11	17.32%
11,000	49.95	58.69	8.74	17.50%
12,000	53.07	62.44	9.37	17.66%
13,000	56.19	66.19	10.00	17.80%
14,000	59.31	69.94	10.63	17.93%
15,000	62.43	73.69	11.26	18.04%
16,000	65.55	77.44	11.89	18.14%
17,000	68.67	81.19	12.52	18.24%
18,000	71.79	84.94	13.15	18.32%
19,000	74.91	88.69	13.78	18.40%
20,000	78.03	92.44	14.41	18.47%
25,000	93.63	114.14	20.51	21.91%
30,000	109.23	135.84	26.61	24.36%
35,000	124.83	157.54	32.71	26.21%
40,000	140.43	179.24	38.81	27.64%
45,000	156.03	200.94	44.91	28.78%
50,000	171.63	222.64	51.01	29.72%
Average Usage	5,387	32.44	36.71	6.27
				19.32%

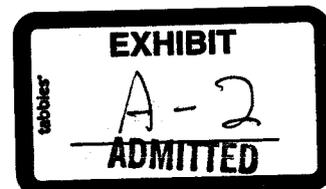
* Chino Meadows II Water Company does not have any size other than 5/8" x 3/4" meters currently installed in service.

Chino Meadows II Water Company Test Year Ended December 31, 2009
H-5 Bill Count

Residential 5/8" x 3/4" 1 to 1000	Jan 2009	Feb 2009	Mar 2009	Apr 2009	May 2009	Jun 2009
1001 to 2000	67	65	73	60	46	34
2001 to 3000	101	130	104	100	100	66
3001 to 4000	124	163	151	123	106	80
4001 to 5000	144	137	145	129	116	117
5001 to 6000	116	124	111	122	111	87
6001 to 7000	96	77	91	71	83	73
7001 to 8000	65	62	44	74	60	73
8001 to 9000	42	33	53	46	51	57
9001 to 10000	30	23	23	38	48	47
10001 to 12000	24	16	27	25	44	44
12001 to 14000	20	10	16	30	47	59
14001 to 16000	15	7	12	22	32	37
16001 to 18000	5	4	9	5	12	27
18001 to 20000	5	3	2	2	14	19
20001 to 25000	4	1	1	2	8	14
25001 to 30000	2	1	1	2	11	14
30001 to 35000	1	-	-	1	-	-
35001 to 40000	-	-	-	2	2	8
40001 to 50000	1	1	1	2	1	2
50001 to 55000	1	-	-	1	2	2
55001 to 60000	-	-	-	-	-	1
60001 to 65000	-	-	-	-	-	-
65001 to 70000	-	-	-	-	-	-
70001 to 75000	-	1	-	-	-	-
75001 to 80000	-	-	-	1	-	-
80001 to 85000	-	-	-	-	-	-
85001 to 90000	-	-	-	-	-	-
90001 to 95000	1	-	-	1	-	-
95001 to 100000	-	-	-	-	-	-
Over 100,000	-	-	-	-	-	-
Total Consumption	864	857	863	863	862	861
	4,111,803	3,505,950	3,828,792	4,378,351	5,272,533	6,067,634

Chino Meadows II Water Company Test Year Ended December 31, 2009
H-5 Bill Count (continued)

Residential 5/8" x 3/4"	Jul 2009	Aug 2009	Sep 2009	Oct 2009	Nov 2009	Dec 2009
1 to 1000	42	42	64	65	78	52
1001 to 2000	79	78	91	97	123	96
2001 to 3000	100	107	115	110	173	122
3001 to 4000	98	98	117	111	135	122
4001 to 5000	105	104	93	103	110	100
5001 to 6000	78	88	82	97	86	98
6001 to 7000	61	66	71	67	55	77
7001 to 8000	54	45	50	66	37	52
8001 to 9000	60	53	43	33	21	44
9001 to 10000	37	43	41	26	11	28
10001 to 12000	60	46	38	52	19	27
12001 to 14000	27	22	29	25	5	15
14001 to 16000	24	21	14	9	5	8
16001 to 18000	12	15	8	4	2	1
18001 to 20000	12	11	9	4	3	4
20001 to 25000	14	16	7	4	-	3
25001 to 30000	4	4	3	2	-	1
30001 to 35000	3	5	2	-	-	-
35001 to 40000	-	1	-	-	-	-
40001 to 50000	1	1	1	-	-	2
50001 to 55000	-	-	-	-	-	-
55001 to 60000	-	-	-	-	-	-
60001 to 65000	-	-	-	-	-	-
65001 to 70000	-	-	-	-	-	-
70001 to 75000	-	-	1	-	-	1
75001 to 80000	-	-	-	-	-	-
80001 to 85000	-	-	-	-	1	-
85001 to 90000	-	-	-	-	-	-
90001 to 95000	-	-	-	-	-	-
95001 to 100000	-	-	-	1	-	-
Over 100,000	-	-	-	-	-	-
Number of Billed Customers	871	866	879	876	864	854
Total Consumption	5,646,752	5,585,332	5,002,356	4,635,510	3,493,420	4,392,378
Average Number of Customers						865
Average Consumption						5,387
Median Consumption						5,227



BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE – Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

IN THE MATTER OF THE APPLICATION OF
CHINO MEADOWS II WATER CO., INC. FOR A
RATE INCREASE.

DOCKET NO. W-02370A-10-0519

**REBUTTAL TESTIMONY
OF
RAY L. JONES
ON BEHALF OF
CHINO MEADOWS II WATER CO., INC.
SEPTEMBER 7, 2011**

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1 **EXECUTIVE SUMMARY**

2
3 Ray L. Jones testifies as follows:
4

5 Chino Meadows II Water Co., Inc. ("Chino" or "Company") has retained Mr. Ray L.
6 Jones to assist it in this Case. On behalf of the Company Mr. Jones proposes a revenue increase
7 of \$44,266 or 12.59% over adjusted test-year revenues of \$351,633. The Company's proposed
8 rates are based on producing an operating margin of 10.0%.

9
10 Mr. Jones explains that he has based Chino's rate increase on an operating margin
11 because Chino is a small company with a relatively small rate base and rate base per customer.
12 He explains that Chino is planning major system improvements and that setting rates based on a
13 return on rate base may cause Chino to have difficulty covering increasing or fluctuating costs,
14 dealing with contingencies, and attracting new capital for system improvements.

15
16 Mr. Jones reviews each of the adjustments proposed by Staff and indicates areas of
17 agreement and disagreement between Staff and the Company for each adjustment. Mr. Jones
18 proposes a new rate base adjustment to add post-test year plant for computer upgrades to plant in
19 service. Mr. Jones also proposes income statement adjustments to include costs for a proposed
20 leak detection program and to include the interest paid on customer deposits in expenses.

21
22 Mr. Jones explains Chino's commitment to groundwater management and water
23 conservation and requests that Staff revise its recommendation that Chino implement five BMPs
24 and instead require Chino to implement one BMP. Mr. Jones explains that Chino is a small
25 provider that currently has no BMP requirements and that Chino is concerned that the costs and
26 effort required to implement five BMPs will be beyond its financial, technical and staffing
27 capabilities and not prove cost effective for its customers.

28
29 Mr. Jones comments on Staff's rate design and points out that the Company is concerned
30 about under earning due to the use of a new conservation oriented rate design.
31
32
33

1 **I INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS?**

3 A. My name is Ray L. Jones. My business address is 25213 N. 49th Drive, Phoenix, Arizona
4 85083.

5 **Q. WHAT IS YOUR PROFESSIONAL EXPERIENCE?**

6 A. I have an extensive background in the Arizona water and wastewater utility businesses. I
7 began my career as a Staff Engineer with Citizens Utilities Company ("Citizens") at its
8 Sun City office in 1985. I held progressively more responsible positions and ultimately
9 became the Vice President and General Manager for Citizens' Arizona Water and
10 Wastewater Operations in 1998. When Arizona-American Water Company ("Arizona-
11 American") purchased Citizens' water and wastewater operations in 2002, I became
12 Arizona-American's President. In 2004, I left Arizona-American and formed my own
13 consulting firm, ARICOR Water Solutions, LC ("ARICOR"). ARICOR provides a wide
14 range of engineering and regulatory support services to the private utility, municipal
15 utility, and development sectors.

16 **Q. WHAT IS YOUR EDUCATIONAL EXPERIENCE?**

17 A. I have a B.S. in Civil Engineering from Kansas University (1985) and an M.B.A. from
18 Arizona State University (1991).

19 **Q. DO YOU HOLD ANY PROFESSIONAL LICENSES?**

20 A. I am a licensed Professional Engineer in Arizona and California and I am a Grade 3
21 Certified Operator for all four Arizona classifications.

22 **Q. WHAT IS YOUR EXPERIENCE BEFORE THE COMMISSION?**

23 A. In my time with Citizens and Arizona-American, I prepared or assisted in the preparation
24 of multiple filings before the Arizona Corporation Commission ("Commission"),

1 including rate applications and CC&N filings. Since starting ARICOR, I have prepared
2 several filings and assisted in the preparation of several more filings before the
3 Commission, including rate applications and CC&N filings. I have also provided
4 testimony in all of these cases before the Commission. A summary of my regulatory
5 work experience is attached as Exhibit A.

6 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

7 A. I am testifying on behalf of the applicant, Chino Meadows II Water Co., Inc. (“Chino” or
8 “Company”).

9 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

10 A. My testimony will provide rebuttal to Commission Staff’s (“Staff”) Direct Testimony in
11 Docket No. W-02370A-10-0519 (the “Case”) offered by Crystal S. Brown, Jian W. Liu
12 and Juan C. Manrique.

13 **II BACKGROUND**

14 **Q. WHEN DID YOU BECOME INVOLVED IN THIS CASE?**

15 A. I first became aware of the Chino Case on August 19, 2011. I received a call from Mr.
16 Matt Lauterbach, the Company’s Water Administrator, asking if I could assist them with
17 evaluating and responding to Staff’s Direct Testimony.

18 **Q. WHY DID CHINO REQUEST YOUR ASSISTANCE?**

19 A. Staff’s Direct Testimony consists of 128 pages of testimony from three witnesses and
20 contains 35 schedules and an engineering report. While this level of effort by Staff is not
21 unusual for a Class C utility, it was not expected by Chino and was outside of Chino’s
22 rate case experience, which previously had been limited to the abbreviated filing and
23 Staff Report associated with a Class D utility. Chino recognized that they had
24 underestimated the effort required to take Chino, a utility at the lower end of the Class C

1 range, through the rate case process, and they realized that they did not have the
2 necessary expertise to evaluate and respond to the Staff Direct Testimony. They retained
3 my services to provide to provide the necessary expertise and manpower.

4 In addition, Chino was concerned that Staff's recommendation for a 6.12% decrease in
5 rates would cause harm to Chino. Chino has undertaken efforts to strengthen and
6 improve its operational processes and procedures and is planning major system
7 improvements while dealing with fluctuating costs and challenges. They are concerned
8 that a rate decrease would hinder Chino's ability to attract new capital, cover increasing
9 costs and deal with contingencies at a time when the ability to do these things is most
10 needed by Chino.

11 **Q. WHAT DOCUMENTS HAVE YOU REVIEWED IN CONNECTION WITH**
12 **YOUR INVOLVEMENT IN THIS CASE?**

13 A. I have reviewed Chino's Application, Chino's response to the Commission's Letter of
14 Deficiency, Chino's responses to Staff's data requests and Staff's Direct Testimony.

15 **Q. HOW HAVE YOU ORGANIZED YOUR TESTIMONY AND SCHEDULES?**

16 A. I have organized my testimony and schedules to mirror Staff's presentation. In order to
17 avoid confusion and simplify the proceeding, I have numbered my adjustments to match
18 Staff's numbering of its adjustments.

19 **III REBUTTAL REVENUE REQUIREMENT**

20 **Q. WHAT IS CHINO'S REBUTTAL REVENUE REQUIREMENT?**

21 A. Chino's rebuttal revenue requirement is shown on Schedule RLJ-1. Chino has reduced
22 its requested revenue increase to \$44,266, an increase of 12.59% over adjusted test-year
23 revenues of \$351,633.

1 **Q. HOW WAS THE REVENUE REQUIREMENT DETERMINED?**

2 A. Two methods were used to evaluate the Company's earnings and determine the revenue
3 requirement. The first method is the traditional rate base method also used by Staff. In
4 the rate base method the revenue requirement is determined by seeking a revenue level
5 that results in an Operating Income that generates a desired return on rate base. Using the
6 rate base method, Chino's revenue increase requirement is \$19,733 or 5.61%.

7 Since Chino is a small company with a relatively low rate base, the operating margin
8 method was also used. In the operating margin method the revenue requirement is
9 determined by seeking a revenue level that results in an Operating Income that generates
10 a desired operating margin. Using the operating margin method, Chino's revenue
11 increase requirement is \$44,266, or 12.59%. I selected the revenue requirement
12 determined from the operating margin method as Chino's requested increase in this Case.

13 **Q. WHY DID CHINO USE THE HIGHER REVENUE REQUIREMENT DERIVED**
14 **FROM THE OPERATING MARGIN METHOD?**

15 A. There were several factors that led to the decision to use the operating margin method.
16 Chino is a small company with a relatively small rate base and rate base per customer¹.
17 Setting rates based on a small rate base can lead to undesirable impacts on any company.
18 For example, rates set on a small rate base result in a relatively small Operating Income
19 which allows only a small margin over expenses. A company operating at a small margin
20 may have difficulty covering increasing or fluctuating costs, dealing with contingencies,
21 and attracting new capital for system improvements.

22 As shown on Schedule F-3 to the Company's filing and further detailed in its response to
23 Staff Data Request CSB 1-33, Chino's is planning major improvements estimated to cost

¹ Chino's proposed rate base is \$212,841 with a customer base of 876 customers [\$243 per customer]. By comparison, Chino's sister company, Granite Mountain Water Co., Inc. had a rate base of \$326,014 with a customer base of only 101 customers [\$3,228 per customer] (See Decision No. 71869).

1 \$253,922. Chino is concerned that setting rates based on the rate base method will hurt
 2 Chino's ability to attract sufficient funds to complete the needed improvements.

3 Chino is also concerned about being able to deal with fluctuating costs and contingencies.
 4 Just one year before the test year, Chino incurred approximately \$30,000 in expenses for
 5 repairs to its water system over and above the normal level of expected expense². Chino
 6 will not receive any recovery of this amount through rates. Chino is concerned that
 7 should similar expenditures become necessary in the future, Chino will have inadequate
 8 resources to address the issue. As noted by Staff's proposed normalization, Chino
 9 experiences fluctuations in its overtime expense and other expenses. Chino must have
 10 sufficient revenues to cover these fluctuating expenses while still being able to deal with
 11 increasing costs and capital investment needs.

12 A comparison of the proposed Chino revenue requirements to the revenue requirement
 13 recently approved for Chino's sister company Granite Mountain Water Co., Inc.
 14 ("Granite") serves to illustrate the problem with setting rates based on a return on rate
 15 base for a company with a small rate base per customer. As shown in the table below,
 16 both the current Staff position and the Company's calculation of rates using the rate base
 17 method result in a smaller Operating Income than that recently approved for Granite,
 18 even though Chino's expenses are nearly five times those of Granite.

	Granite	Chino Meadows		
	Mountain	Staff Position	Company Filing	
	Rate Decision	RB Method	RB Method	OM Method
Revenue	\$ 110,575	\$ 330,067	\$ 371,366	\$ 395,899
Operating Expenses	77,959	310,254	350,933	356,310
Operating Income	\$ 32,616	\$ 19,813	\$ 20,433	\$ 39,590
Return on Rate Base	10.00%	9.60%	9.60%	18.60%
Operating Margin	29.50%	6.00%	5.50%	10.00%

² See Staff Data Request Response CSB 1-22.

1 The operating margins are also illustrative of the problems using the rate base method
2 causes for small utilities. The Staff position and the Company's calculation of rates using
3 the rate base method result in operating margins of only 6.0% and 5.5% respectively.
4 Both are insufficient margins over expenses to provide for a financially healthy utility.

5 **Q. WHY WAS A TEN PERCENT OPERATING MARGIN SELECTED?**

6 A. Chino believes that a 15% or 20% operating margin would be appropriate. Nevertheless,
7 Chino selected a ten percent operating margin because it is the operating margin most
8 often used by Staff when setting rates on an operating margin basis. In addition, Chino
9 recognizes that Staff may be reluctant to embrace operating margin rate making for a
10 Class C water company. Accordingly, Chino has selected what it believes to be the
11 minimum operating margin appropriate for a company of its small size. Chino also notes
12 that it is in the lower quartile of the Class C range (a range that has not been increased for
13 many years) and is more similar to a Class D company than a Class B company. Chino
14 believes maintaining a healthy operating margin is critical to maintaining its financial
15 health on a going forward basis and asks that Staff consider an operating margin
16 approach to setting rates in this Case.

17 **IV RATE BASE**

18 **Q. PLEASE SUMMARIZE THE COMPANY'S PROPOSED ADJUSTMENTS TO**
19 **RATE BASE SHOWN ON SCHEDULES RLJ-3 AND RLJ-4?**

20 A. The Company's proposed adjustments result in a net decrease of \$12,556, from \$225,397
21 to \$212,841. The decrease is due to adopting in large part the adjustments recommended
22 by Staff.

1 **Rate Base Adjustment RLJ-1 - AIAC**

2 **Q. DID CHINO ACCEPT STAFF'S AIAC ADJUSTMENT?**

3 A. Chino accepts the concept of Staff's AIAC adjustment, but proposes a slightly different
4 adjustment amount.

5 **Q. WHY IS YOUR PROPOSED ADJUSTEMENT DIFFERENT FROM STAFF'S?**

6 A. Staff's adjustment is based on the main extension contract amounts indicated in Chino's
7 response to Staff Data Request CSB 1-9C. However, Chino has partially refunded the
8 main extension agreements, making the 12/31/2009 balances somewhat less than the
9 contract amounts Chino provided to Staff. Chino has used the actual 12/31/2009 AIAC
10 balances as shown on Schedule RLJ-5 to make the adjustment.

11 **Q. WHAT IS THE AMOUNT OF AIAC THE COMPANY IS RECOMENDING BE
12 REMOVED AND RECLASSIFIED AS CIAC?**

13 A. The amount of AIAC recommended to be removed and reclassified is \$11,175 as shown
14 on Schedule RLJ-5.

15 **Rate Base Adjustment RLJ-2 - CIAC**

16 **Q. DID CHINO ACCEPT STAFF'S CIAC ADJUSTMENT?**

17 A. Yes, except that Chino used \$11,175 as the amount to be converted to CIAC to reflect the
18 actual 12/31/2009 main extension agreement balances as discussed previously. The
19 adjustment is shown on Schedule RLJ-6.

1 **Rate Base Adjustment RLJ-3 – Amortization of CIAC**

2 **Q. HOW DID CHINO ADDRESS STAFF'S AMORTIZATION OF CIAC**
3 **ADJUSTMENT?**

4 A. Chino used Staff's methodology, substituting \$11,175 for the amount of the CIAC
5 additions used in the amortization calculation. The result is an increase to amortization
6 of CIAC of \$279 as shown on Schedule RLJ-7.

7 **Rate Base Adjustment RLJ-4 – Customer Deposits**

8 **Q. DOES CHINO AGREE WITH STAFF'S PROPOSAL TO INCLUDE CUSTOMER**
9 **DEPOSITS IN THE RATE BASE CALCULATION?**

10 A. Yes, Chino has increased Customer Deposits by \$11,330 as recommended by Staff and
11 shown on Schedule RLJ-8.

12 **Rate Base Adjustment RLJ-5 – Cash Working Capital**

13 **Q. HOW DID THE COMPANY CALCULATE ITS CASH WORKING CAPITAL**
14 **ADJUSTMENT?**

15 A. Chino has calculated cash working capital using the same formula methodology proposed
16 by Staff using the Company's recommended operating expenses. The Company's
17 proposed decrease in cash and working capital is \$5,005 as shown on Schedule RLJ-9.

18 **Rate Base Adjustment RLJ-6 – Post-Test Year Plant**

19 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT FOR POST TEST YEAR PLANT?**

20 A. Staff Operating Income Adjustment No. 7 removes the Company's pro forma adjustment
21 for system support from expenses because the costs were not incurred in the test year and
22 should be capitalized. The Company agrees with Staff's proposed removal of the cost
23 from expenses, but believes the cost should be allowed as a post-test year adjustment to
24 plant in service. Chino's Rate Base Adjustment RLJ-6 adds the actual cost of the
25 computer system upgrades incurred between 4/5/2010 and 8/17/2010 to plant in service.

1 As shown in Schedule RLJ-10, the adjustment increases plant in service by \$3,500.
2 Documentation for the actual cost of the upgrades is provided as Exhibit B.

3 **V INCOME STATEMENT**

4 **Q. PLEASE SUMMARIZE THE COMPANY'S PROPOSED ADJUSTMENTS TO**
5 **REVENUE AND EXPENSES SHOWN ON SCHEDULES RLJ-11 AND RLJ-12?**

6 A. The Company does not propose any adjustments to revenue and agrees with test year
7 revenue of 351,633 as proposed by Staff. The Company's proposed adjustments to
8 expenses result in test year expenses of \$346,609, a net decrease of \$7,302 from
9 \$353,911.

10 **Income Statement Adjustment RLJ-1 – Salaries and Wages, Employees**

11 **Q. DOES CHINO AGREE WITH STAFF'S SALARIES AND WAGES**
12 **ADJUSTMENT?**

13 A. No. Chino believes that Staff has inappropriately removed legitimate salaries and wage
14 expense. I will discuss each of staff's adjustments separately.

15 *Allocate \$19,563 to Regulated Affiliate*

16 **Q. DOES CHINO TRACK PAYROLL COSTS INCURRED ON BEHALF OF**
17 **GRANITE?**

18 A. Yes, Chino uses time sheets to capture the actual payroll cost of Chino employees
19 performing work in Granite's service area.

20 **Q. WHAT IS THE AMOUNT OF PAYROLL ATTRIBUTABLE TO GRANITE**
21 **DURING THE TEST YEAR?**

22 A. The amount recorded is \$5,248. The detail is provided in Exhibit C.

1 **Q. WHAT AMOUNT OF EXPENSE DOES THE COMPANY PROPOSE TO**
2 **ALLOCATE TO GRANITE?**

3 A. Chino proposes allocating the actual recorded cost of \$5,248 as shown on Schedule RLJ-
4 13.

5 **Q. WHY SHOULDN'T THE COMMISSION ALLOCATE THE SAME AMOUNT AS**
6 **WAS ALLOCATED IN GRANITE'S LAST RATE CASE AS RECOMMENDED**
7 **BY STAFF?**

8 A. Because the actual recorded cost incurred during the test year gives the best indication of
9 the actual cost of salaries and wages incurred on behalf of Granite. In addition, Granite's
10 last rate case was based on an earlier test year (12/31/2008) and the amount allocated was
11 estimated. Also, Staff is proposing and the Company is accepting allocations of
12 transportation and insurance expenses to Granite in this Case even though allocations
13 were not made in Granite's last rate case.

14 *\$10,400 Pro Forma Salary and Wage Increase*

15 **Q. DOES CHINO AGREE WITH STAFF'S DISALLOWANCE OF \$7,280 OF THE**
16 **\$10,400 PRO FORMA ADJUSTMENT RECOMMENDED BY THE COMPANY?**

17 A. No. On January 1, 2011 the Company issued increases with an annual cost of \$7,280 to
18 three of its employees. Exhibit D provides the details of these increases.

19 *Normalize Overtime Charges*

20 **Q. DOES CHINO ACCEPT STAFF'S NORMALIZATION OF OVERTIME**
21 **EXPENSE?**

22 A. Yes. The adjustment is reflected on Schedule RLJ-13

1 *Remove Bonuses*

2 **Q. DOES CHINO AGREE WITH THE REMOVAL OF BONUSES AS PROPOSED**
3 **BY STAFF?**

4 A. No. Chino believes that bonuses are a critical and appropriate component of its
5 compensation program.

6 **Q. WHY DOES CHINO USE BONUSES AS PART OF ITS COMPENSATION**
7 **PACKAGE?**

8 A. Chino uses bonuses to recognize individuals for their exceptional effort in providing
9 services. Chino believes that the extra effort of its employees results in superior customer
10 service, saves time and expense and assists Chino in meeting its goal to provide safe
11 reliable water that meets or exceed the safe drinking water standards. In addition, the
12 bonus program assists in employee retention and insures a knowledgeable work force.
13 Without the bonus program, Chino would need to raise base salaries to be competitive in
14 the market and to retain employees.

15 **Q. WHAT DOES THE COMPANY PROPOSE IN REGARD TO BONUSES?**

16 A. The Company proposes a compromise with 50% of the bonus being included in rates and
17 50% of the bonus being disallowed. The Company understands that this is a treatment
18 afforded many regulated water companies.

19 **Q. PLEASE SUMMARIZE THE COMPANY'S SALARY AND WAGES**
20 **ADJUSTEMNT FOR EMPLOYEES?**

21 A. The Company's adjustment removes \$5,248 for salaries incurred on behalf of Granite,
22 removes \$2,761 to normalize overtime charges and removes \$800 representing one half
23 of the bonus expense. The resulting adjustment is an \$8,809 reduction in salary and
24 wage expense.

1 **Income Statement RLJ-2 – Salaries and Wages, Officers, Directors, and Stockholders**

2 **Q. WHAT IS THE COMPANY'S POSITION ON STAFF'S PROPOSED**
3 **REDUCTION TO SALARIES AND WAGES FOR MR. LEVIE?**

4 A. The Company does not support this adjustment. The Company pays Mr. Levie a wage of
5 \$35,498 for providing management services to Chino. My experience indicates that this
6 is a reasonable wage for a company of this size. Staff has provided no evidence that the
7 wage is unreasonable or otherwise imprudent. Accordingly, Staff's adjustment should be
8 rejected.

9 Staff did make an estimate of the number of hours they felt Mr. Levie should require to
10 perform his duties. Staff's estimate reduced the hours from the Company's estimate of
11 80 hours per month of 69 hours per month. The Company does not believe that Staff is
12 in a position to accurately estimate the time Mr. Levie spends working for Chino.
13 Accordingly, Staff's time estimate should be rejected as speculative.

14 Furthermore Staff's time estimate is irrelevant. The only matter that should be at issue is
15 whether or not the actual cost of \$35,498 incurred by Chino was reasonable and prudent.
16 Mr. Levie's salary is a reasonable salary for the management of a Class C water
17 company. The actual cost of the salary, whether it represents 69 hours of work or 80
18 hours of work, should be included in rates.

19 **Income Statement Adjustments RLJ-3, RLJ-4 & RLJ-5**

20 **Q. DOES THE COMPANY ACCEPT STAFF ADJUSTMENTS FOR LEGAL**
21 **SERVICIES, TESTING AND TRANSPORTATION EXPENSE?**

22 A. Yes, the Company accepts these adjustments and has reflected the proposed adjustments
23 on Schedules RLJ-15, RLJ-16 & RLJ-17.

1 **Income Statement Adjustment No. 6 – Insurance, General Liability**

2 **Q. WHAT IS THE COMPANY'S POSITION REGARDING ALLOCATION OF**
3 **INSURANCE COSTS?**

4 A. The Company agrees with Staff that an appropriate insurance costs should be allocated to
5 Granite. Chino notes, however, that no such allocation was made in Granite's previous
6 rate case. Chino does not agree with Staff's proposed 2-Factor allocation methodology.
7 The Company feels that Staff's use of Net Plant overly skews the allocation to the much
8 smaller Granite. This is due to the relatively new plant at Granite with higher original
9 cost and lower accumulated depreciation.

10 The Company feels a 3-factor allocation is more appropriate. The Company proposes to
11 use Number of Customers, Plant in Service and O&M Expense as the three factors. The
12 Company believes these factors produce a more realistic allocation of costs and are
13 consistent with allocation methods used by other companies.

14 **Q. WHAT IS THE RESULT OF THE COMPANY'S PROPOSED ALLOCATION**
15 **METHOD?**

16 A. As shown on Schedule RLJ-18, Chino's insurance expense is reduced by \$3,038.

17 **Income Statement Adjustment RLJ-7 – System Support Expense**

18 **Q. DOES CHINO ACCEPT STAFF'S SYSTEM SUPPORT ADJUSTMENT?**

19 A. Chino agrees that the system support costs should be charged to capital and accepts
20 Staff's proposed adjustment as shown on Schedule RLJ-19.

1 **Income Statement Adjustment RLJ-8 – Rate Case Expense**

2 **Q. HAS CHINO UPDATED ITS RATE CASE EXPENSE ESTIMATE?**

3 A. Yes. Chino now expects to incur rate case expense in the amount of at least \$30,000.
4 The amount has increased to include the cost of Mr. Jones' services and to include the
5 cost of outside counsel to represent Chino in this case.

6 **Q. WHAT AMORTIZATION PERIOD DOES THE COMPANY PROPOSE?**

7 A. The Company believes a three year amortization period is appropriate, since the
8 Company is likely to need to file for another rate increase within three years. However,
9 the Company understands why Staff has recommended a five year amortization period
10 and proposes a compromise amortization period of four years.

11 **Q. WHAT IS THE RESULTING RATE CASE EXPENSE RECOMMENDED BY**
12 **THE COMPANY?**

13 A. As shown on Schedule RLJ-20, the resulting rate case expense is \$7,500 per year which
14 requires an increase of \$7,058 in rate case expense.

15 **Income Statement Adjustment RLJ-9 – Miscellaneous Expense**

16 **Q. WHAT IS THE COMPANY'S POSITION REGARDING MISCELLANEOUS**
17 **EXPENSES?**

18 A. As indicated in Data Request Response CSB 1-29 the Company agrees that \$1,237
19 related to an old bank account should be removed from miscellaneous expense and has
20 made this adjustment as shown on Schedule RLJ-21. The Company believes that
21 relatively minor level of charges for meals and similar costs in the amount of \$2,249
22 should be included in rates. As explained in Data Request Response CSB 4-1, the
23 Company occasionally purchases food for employees to facilitate repairs of water mains,
24 for administrative meetings and similar business purposes. While, the Company believes

1 these amounts should be included in rates, the Company proposes a compromise position
2 by removing \$617 of the meals expense associated with administrative meetings.

3 The resulting adjustment to miscellaneous expense is \$1,854 as shown in Schedule RLJ-
4 21.

5 **Income Statement Adjustment RLJ-10 – Property Taxes**

6 **Q. HAS THE COMPANY ADJUSTED ITS PROPERTY TAX EXPENSE?**

7 A. Yes. The Company has adjusted property tax expense using the modified Arizona
8 Department of Revenue Methodology as recommended by Staff.

9 **Income Statement Adjustment RLJ-11 – Payroll Taxes**

10 **Q. WHAT IS THE COMPANY'S POSITION ON PAYROLL TAXES?**

11 A. Since the Company does not agree with Staff's payroll adjustment (RLJ-1), the Company
12 believes its pro forma adjustment of \$1,212 should remain in rates. The Company has
13 reduced payroll taxes by \$428, as shown on Schedule RLJ-23, to account for payroll
14 taxes on payroll incurred on behalf of Granite. The detail is provided in Exhibit C.

15 **Income Statement Adjustment RLJ-12 – Depreciation Expense**

16 **Q. HAS CHINO ADOPTED STAFF'S DEPRECIATION EXPENSE ADJUSTMENT?**

17 A. Chino has adopted the proposed depreciation expense and methodology put forth by
18 Staff. A minor adjustment to the amortization of CIAC component was made to conform
19 to the new CIAC balance per Rate Base Adjustment RLJ-2. The result is an increase in
20 depreciation expense of \$13,897 as shown on Schedule RLJ-24.

1 **Income Statement Adjustment RLJ-13 – Income Taxes**

2 **Q. HAS THE COMPANY RECALCULATED INCOME TAX EXPENSE?**

3 A. Yes the Company has calculated income tax expense based on the Company's adjusted
4 test year taxable income. The result is a \$1,374 increase in income tax expense as shown
5 on Schedule RLJ-25.

6 **Income Statement Adjustment RLJ-14 – Leak Detection Expense**

7 **Q. HAS THE COMPANY PROPOSED TO INCLUDE A PRO FORMA EXPENSE**
8 **FOR LEAK DETECTION SERVICES?**

9 A. Yes. The Company had originally included this amount in the Contract Services Testing
10 account. Staff has recommended removing the expense from that account and the
11 Company agreed with that adjustment. However, Staff has not proposed adding the
12 expense in another category. As discussed in the following section, the Company
13 believes that the leak detection expense should be included and has increased the
14 Contract Services – Other account by \$2,296 as shown on Schedule RLJ-26. A proposal
15 for conduction Leak Detection is attached as Exhibit E.

16 **Income Statement Adjustment RLJ-15 – Interest on Deposits**

17 **Q. WHY HAS THE COMPANY INCLUDED INTEREST ON CUSTOMER**
18 **SECURITY DEPOSITS AS AN OPERATING EXPENSE?**

19 A. The Company has included the interest expense because the Customer Deposits have
20 been deducted from rate base. When customer deposits are removed from rate base it is
21 appropriate to include the interest expense as an operating expense.

22 **Q. DID STAFF INCLUDE INTEREST EXPENSE IN OPERATING EXPENSE?**

23 A. No they did not. Although they do not address the issue in their testimony, I believe that
24 the interest expense was not included because Chino did not record any interest expense
25 during the test year.

1 **Q. IF CHINO DID NOT INCUR INTEREST EXPENSE DURING THE TEST YEAR,**
2 **WHY SHOULD INTEREST EXPENSE BE ALLOWED?**

3 A. Because Chino has incurred interest expense on the test year deposit balance and will
4 incur interest expense on a going forward basis. During 2010, the Company became
5 aware that it had not paid the interest due on its deposits during the test year. The
6 Company retroactively calculated and paid the interest due on its customer security
7 deposits in 2010 and has put procedures in place to refund deposits and pay deposit
8 interest on a monthly basis going forward.

9 **Q. WHAT AMOUNT OF INTEREST IS CHINO PROPOSING?**

10 A. As shown on Schedule RLJ-27, Chino is proposing interest expense of \$680 per year
11 which is calculated from the test year deposit balance at the Commission prescribed
12 interest rate of 6.0%.

13 **VI OTHER ISSUES**

14 **Q. ARE THERE ANY ISSUES FROM THE ENGINEERING REPORT THAT YOU**
15 **WOULD LIKE TO DISCUSS?**

16 A. There is one issue that I feel should be addressed from the Engineering Report. Staff
17 observes that Chino does not have a BMP Tariff and recommends that Chino adopt five
18 BMPs within 90 days of the effective date of a Decision in this case. Staff also states that
19 the Company may request cost recovery for the implemented BMPs in its next rate case.
20 Although the Company supports groundwater management and the efforts implemented
21 by the Commission to promote water conservation, the Company is concerned that
22 Staff's recommendation is a step too far for this small company.

23 Chino is classified as a small provider by ADWR. As such, Chino is not required to
24 implement any BMPs under ADWR's Modified Non Per Capita Water Conservation
25 Program ("MNPCCP"). Once Chino becomes a large provider, it will only have to

1 implement one BMP until such time as it reaches 5,001 customers. The effect of Staff's
2 recommendation is to require a small provider with only about 900 customers and only
3 five employees to implement a program suitable to a much larger company. Chino is
4 concerned that the costs and effort required to implement five BMPs will be beyond its
5 financial, technical and staffing capabilities and not prove cost effective for its customers.

6 Chino is not asking to be excused from water conservation efforts. In fact Chino has
7 voluntarily obtained a proposal to perform professional leak detection services for its
8 system and has proposed to include the cost of the leak detection in this Case. Chino
9 believes that its system would benefit from the leak detection services and proposes to
10 implement leak detection and other conservation efforts on an ongoing basis, provided
11 that it can get cost recovery for its effort.

12 Chino asks Staff to reconsider its recommendation to require Chino to implement five
13 BMPs and instead require Chino to implement one BMP and authorize Chino to include
14 the cost of the leak detection program in rates as proposed in Income Statement
15 Adjustment RLJ-14.

16 **Q. DOES THE COMPANY ACCEPT STAFF'S COST OF CAPITAL?**

17 A. The Company agrees that Staff's proposed 9.6% return on equity and rate base is an
18 appropriate cost of capital to use in this proceeding should rate be based on providing a
19 return on rate base. However, the Company is recommending that rates be set to provide
20 and operating margin of 10.0% rather than using the 9.6% cost of capital. The Company
21 has not had time to review the cost of capital testimony in detail and reserve the right to
22 address the testimony in rejoinder if necessary.

1 **VII RATE DESIGN**

2 **Q. DOES THE COMPANY HAVE ANY COMMENTS ON THE SERVICE**
3 **CHARGES PROPOSED BY STAFF?**

4 A. The company is concerned that Staff's recommended charge for a meter test is too low.
5 Staff is recommending a \$20.00 fee for a meter test. This past July, Chino conducted a
6 meter test and the postage cost alone was \$17.91, leaving little or nothing to cover labor
7 and materials costs. Chino has proposed a fee of \$35.00, which is the same fee recently
8 approved for Granite. Chino's research indicates that this fee is at or below the fee
9 imposed by many other companies and requests that Staff change its recommended fee to
10 \$35.00.

11 **Q. DOES THE COMPANY HAVE ANY COMMENTS ON THE RATE DESIGN**
12 **PROPOSED BY STAFF?**

13 A. It is difficult to comment on Staff's rate design since the Company is recommending an
14 increase and Staff is recommending a decrease. Generally, Chino is concerned that
15 moving to a three tier conservation oriented rate design will result in Chino under earning
16 regardless of the overall rate increase or decrease approved. Accordingly, Chino is
17 opposed in any decrease in its base charge and believes that, if possible, all consumption
18 tiers should be at or above the current commodity rate.

19 **Q. HAS THE COMPANY PROVIDED AN UPDATED RATE DESIGN WITH ITS**
20 **REBUTTAL TESTIMONY?**

21 A. No. The Company is hoping that Staff's surrebuttal position will be more closely aligned
22 with the Company's rebuttal position to allow a more meaningful evaluation of Staff's
23 proposed rate design. The Company will present an updated rate design with its rejoinder
24 testimony.

1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

2 A. Yes.

SCHEDULES

RLJ-1 – RLJ-27

Computation of Increase in Gross Revenue Requirements

Line No.	Company As Filed	Company Rebuttal RB Method	Company Rebuttal OM Method
1	Rate Base Method		
2	\$ 225,397	\$ 212,841	
3			
4	(2,278)	\$ 5,024	
5			
6	-1.01%	2.36%	
7			
8	10.81%	9.60%	
9			
10	\$ 82,318	\$ 20,433	
11			
12	\$ 88,912	\$ 15,409	
13			
14	1.3699	1.2806	
15			
16	\$ 84,641	\$ 19,733	
17			
18	\$ 351,633	\$ 351,633	
19			
20	\$ 436,274	\$ 371,366	
21			
22	24.07%	5.61%	
23			
24	Operating Margin Method		
25			1.43%
26			
27		\$ 5,024	
28			
29			10.00%
30			
31		\$ 34,566	
32			
33			1.2806
34			
35		\$ 44,266	
36			
37		\$ 351,633	
38			
39		\$ 395,899	
40			
41			12.59%
42			

Computation of Gross Revenue Conversion Factor

Line No.			
1	<u>Calculation of Effective Tax Rate</u>		
2	Operating Income Before Taxes	100.0000%	
3	State Tax Rate	<u>6.9680%</u>	
4	Federal Taxable Income	93.0320%	
5	Federal Tax Rate	<u>15.0000%</u>	
6	Effective Federal Tax Rate	13.9548%	
7			
8	Combined Effective Tax Rate		20.9228%
9			
10	<u>Calculation of Effective Property Tax Rate</u>		
11	Unity	100.0000%	
12	Combined Effective Tax Rate	<u>20.9228%</u>	
13	One Minus Combined Effective Tax Rate	79.0772%	
14	Property Tax Factor	<u>1.2530%</u>	
15	Effective Property Tax Factor		<u>0.9908%</u>
16			
17	Federal and State Income Tax Rate and Property Tax Rate		21.9136%
18			
19	<u>Calculation of Gross Revenue Conversion Factor</u>		
20	Revenue	100.0000%	
21	Combined Tax and Property Tax Rate	<u>21.9136%</u>	
22	Operating Income Percentage	<u>78.0864%</u>	
23	Gross Revenue Conversion Factor	<u>1.28063</u>	
24			
25			

Summary of Original Cost Rate Base Elements

Line No.		Company As Filed	Company Rebuttal
1			
2	Gross Utility Plant in Service	\$ 761,698	\$ 765,198
3	Less: Accumulated Depreciation	508,828	508,828
4	Net Utility Plant in Service	<u>\$ 252,870</u>	<u>\$ 256,370</u>
5			
6	Less:		
7	Advances in Aid of Construction	\$ 19,004	\$ 7,829
8	Service Line and Meter Advances	42,208	42,208
9	Contributions in Aid of Construction (CIAC)	12,809	23,984
10	Less: Accumulated Amortization of CIAC	<u>2,631</u>	<u>2,910</u>
11	Net CIAC	\$ 10,178	\$ 21,074
12			
13	Total Advances and Contributions	\$ 71,390	\$ 71,111
14			
15	Customer Security Deposits	\$ -	\$ 11,330
16			
17	Accumulated Deferred Income Taxes	\$ -	\$ -
18			
19	Plus:		
20	Working Capital Allowance	\$ 37,764	\$ 32,759
21	Materials and Supplies Inventories	\$ 3,024	\$ 3,024
22	Prepayments	\$ 3,129	\$ 3,129
23			
24	Rate Base	<u>\$ 225,397</u>	<u>\$ 212,841</u>
25			

Rate Base Adjustment RLJ-1

Line

No.

1 Adjust AIAC Balance to Reflect Expired Main Extension Agreements

2

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

Description

AIAC - Main Extension Contracts

Expiring Contracts

Allen Barras (6/8/1999)

Hoffman (9/16/1999)

Vivien & Sebastien Garote (10/28/1999)

Herb Schuerman (12/15/1999)

Lyle Garrison (12/20/1999)

Company
As Filed

Company
Adjustment

Company
Adjusted
Balance

\$ 19,004 \$ (11,175) \$ 7,829

Contract
Balance

12/31/2009

1,144

2,626

926

2,453

4,026

11,175

Chino Meadows II Water Co., Inc.
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Schedule RLJ-6

Rate Base Adjustment RLJ-2

Line

No.

1 Adjust CIAC Balance to Reflect Expired Main Extension Agreements

2

3

4 Description

5

6 Gross CIAC

7

8

9

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11

12

13

14

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16

17

18

	Company	Company	Company
	<u>As Filed</u>	<u>Adjustment</u>	<u>Adjusted</u>
			<u>Balance</u>
6	\$ 12,809	\$ 11,175	\$ 23,984

Rate Base Adjustment RLJ-3

Line

No.

1 Adjust Amortization of CIAC

2

3

4 Description

5

6 Amortization of CIAC - As Filed

7 Amortization of CIAC - Additions

8

9

10

11

12

13

14

15

16

17

18

	Company As Filed	Company Adjustment	Company Adjusted Balance
	\$ 2,631	\$ -	\$ 2,631
	-	279	279
	\$ 2,631	\$ 279	\$ 2,910

Calculation of Amortization of CIAC

CIAC Amortization Rate 2.50% (5.0% x 1/2 year)

CIAC Additions \$ 11,175

Amortization of CIAC \$ 279

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Schedule RLJ-8

Rate Base Adjustment RLJ-4

Line

No.

1 Accept Staff Rate Base Adjustment No. 4 - Customer Deposits

2

3

4 Description

5

6 Customer Deposits

7

8

9

10

11

12

13

14

15

16

17

18

Company
As Filed

Company
Adjustment

Company
Adjusted
Balance

\$	-	\$	11,330	\$	11,330	Accept Staff Adjustment
----	---	----	--------	----	--------	-------------------------

Chino Meadows II Water Co., Inc.
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Schedule RLJ-10

Rate Base Adjustment RLJ-6

Line

No.

1 Adjustment to Reflect Post-Test Year Plant

2

3

4 Description

5

6 Plant In Service

7

8

9

10

11

12

13

14

Company

As Filed

Company

Adjustment

Company

Adjusted

Balance

\$ - \$ 3,500.00 \$ 3,500.00

4/5/2010 Caselle Clarity Upgrade Payment \$ 688

8/17/2010 Caselle Clarity Final Upgrade Payment 688

8/17/2010 Caselle Cash Receipts Module 2,125

\$ 3,500

Operating Income - Test Year and Company Proposed

Line No.		Company Test Year Ended <u>12/31/2009</u>	Company Adjustments	Company Test Year as Adjusted	Company Proposed Increase	Company With Rate Increase
1	Revenues					
2	Metered Water Revenues	\$ 344,260	\$ -	\$ 344,260	\$ 44,266	\$ 388,526
3	Other Water Revenues	7,373	-	7,373		7,373
4	Total Revenues	<u>\$ 351,633</u>	<u>\$ -</u>	<u>\$ 351,633</u>	<u>\$ 44,266</u>	<u>\$ 395,899</u>
5	Operating Expenses					
6	Salaries and Wages - Employees	\$ 126,312	\$ (8,809)	\$ 117,503		\$ 117,503
7	Salaries and Wages - Officers, Dir., Stockholder	35,498	-	35,498		35,498
8	Purchased Water	100	\$ -	100		100
9	Purchased Power	22,657	-	22,657		22,657
10	Chemicals	884	-	884		884
11	Materials & Supplies & Repairs & Maintenance	16,148	-	16,148		16,148
12	Office Supplies Expense	17,050	-	17,050		17,050
13	Contract Services Engineering	-	-	-		-
14	Contract Services Accounting	600	-	600		600
15	Contract Services Legal	3,995	(2,995)	1,000		1,000
16	Contract Services Testing	7,062	(2,296)	4,766		4,766
17	Contract Services Other	9,263	2,296	11,559		11,559
18	Rents	6,000	-	6,000		6,000
19	Equipment Rental	246	-	246		246
20	Transportation Expense	15,726	(1,582)	14,144		14,144
21	Insurance - General Liability	11,848	(3,038)	8,810		8,810
22	Insurance - Worker's Compensation	2,555	-	2,555		2,555
23	Insurance - Other	165	-	165		165
24	System Support	4,339	(1,463)	2,876		2,876
25	Regulatory Expense	442	7,058	7,500		7,500
26	Bad Debt Expense	1,356	-	1,356		1,356
27	Miscellaneous Expense	4,089	(1,854)	2,235		2,235
28	Licensing & Permits	2,910	-	2,910		2,910
29	Tax - Other	6,446	-	6,446		6,446
30	Property Taxes	22,329	(10,142)	12,187	555	12,742
31	Payroll Taxes	10,804	(428)	10,376		10,376
32	Depreciation Expense	25,132	13,897	39,029		39,029
33	Interest on Deposits	-	680	680		680
34	Operating Income Before Income Taxes	<u>\$ 353,956</u>	<u>\$ (8,676)</u>	<u>\$ 345,280</u>	<u>\$ 555</u>	<u>\$ 345,835</u>
35	Income Taxes	(45)	1,374	1,329	9,146	10,475
36	Total Operating Expenses	<u>\$ 353,911</u>	<u>\$ (7,302)</u>	<u>\$ 346,609</u>	<u>\$ 9,700</u>	<u>\$ 356,310</u>
37						
38	Operating Income (Loss)	<u>\$ (2,278)</u>	<u>\$ 7,302</u>	<u>\$ 5,024</u>	<u>\$ 34,566</u>	<u>\$ 39,590</u>
39						
40					Operating Margin	10.00%
41						
42						

Summary of Income Statement Adjustments

Line No.	[A] Company As Filed	[B] ADJ RLJ-1	[C] ADJ RLJ-2	[D] ADJ RLJ-3	[E] ADJ RLJ-4	[F] ADJ RLJ-5	[G] ADJ RLJ-6	[H] ADJ RLJ-7
1	\$ 344,260							
2	Metered Water Revenues							
3	7,373							
4	\$ 351,633	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5	Operating Expenses							
6	Salaries and Wages - Employees	\$ (8,809)						
7	Salaries and Wages - Officers, Dir., Stockholder							
8	Purchased Water	100						
9	Purchased Power	22,657						
10	Chemicals	884						
11	Materials & Supplies & Repairs & Maintenance	16,148						
12	Office Supplies Expense	17,050						
13	Contract Services Engineering							
14	Contract Services Accounting	600						
15	Contract Services Legal	3,995	(2,995)					
16	Contract Services Testing	7,062			(2,296)			
17	Contract Services Other	9,263						
18	Rents	6,000						
19	Equipment Rental	246						
20	Transportation Expense	15,726			(1,582)			
21	Insurance - General Liability	11,848						
22	Insurance - Worker's Compensation	2,555						
23	Insurance - Other	165						
24	System Support	4,339						
25	Regulatory Expense	442						(1,463)
26	Bad Debt Expense	1,356						
27	Miscellaneous Expense	4,089						
28	Licensing & Permits	2,910						
29	Tax - Other	6,446						
30	Property Taxes	22,329						
31	Payroll Taxes	10,804						
32	Depreciation Expense	25,132						
33	Interest on Deposits					0%		
34	Operating Income Before Income Taxes	\$ 353,956	\$ (8,809)	\$ -	\$ (2,995)	\$ (2,296)	\$ (1,582)	\$ (3,038)
35	Income Taxes	(45)						
36	Total Operating Expenses	\$ 353,911	\$ (8,809)	\$ -	\$ (2,995)	\$ (2,296)	\$ (1,582)	\$ (3,038)
37								
38	Operating Income (Loss)	\$ (2,278)	\$ 8,809	\$ -	\$ 2,995	\$ 2,296	\$ 1,582	\$ 3,038

Summary of Income Statement Adjustments

Line No.		(I)	(J)	(K)	(L)	(M)	(N)	(O)	(P)	(Q)
		ADJ	ADJ	ADJ	ADJ	ADJ	ADJ	ADJ	ADJ	Company
		RLJ-8	RLJ-9	RLJ-10	RLJ-11	RLJ-12	RLJ-13	RLJ-14	RLJ-15	Adjusted
1	Revenues									\$ 344,260
2	Metered Water Revenues									7,373
3	Other Water Revenues									351,633
4	Total Revenues									\$ 344,260
5	Operating Expenses									
6	Salaries and Wages - Employees									\$ 117,503
7	Salaries and Wages - Officers, Dir., Stockholder									35,498
8	Purchased Water									100
9	Purchased Power									22,657
10	Chemicals									884
11	Materials & Supplies & Repairs & Maintenance									16,148
12	Office Supplies Expense									17,050
13	Contract Services Engineering									600
14	Contract Services Accounting									1,000
15	Contract Services Legal									4,766
16	Contract Services Testing									11,559
17	Contract Services Other							2,296		6,000
18	Rents									246
19	Equipment Rental									14,144
20	Transportation Expense									8,810
21	Insurance - General Liability									2,555
22	Insurance - Worker's Compensation									165
23	Insurance - Other									2,876
24	System Support									7,500
25	Regulatory Expense	7,058								1,356
26	Bad Debt Expense									2,235
27	Miscellaneous Expense		(1,854)							2,910
28	Licensing & Permits									6,446
29	Tax - Other									12,187
30	Property Taxes									10,376
31	Payroll Taxes									39,029
32	Depreciation Expense									680
33	Interest on Deposits									680
34	Operating Income Before Income Taxes	\$ 7,058	\$ (1,854)	\$ (10,142)	\$ (428)	\$ 13,897	\$ -	\$ 2,296	\$ 680	\$ 345,280
35	Income Taxes						1,374			1,329
36	Total Operating Expenses	\$ 7,058	\$ (1,854)	\$ (10,142)	\$ (428)	\$ 13,897	\$ 1,374	\$ 2,296	\$ 680	\$ 346,609
37										
38	Operating Income (Loss)	\$ (7,058)	\$ 1,854	\$ 10,142	\$ 428	\$ (13,897)	\$ (1,374)	\$ (2,296)	\$ (680)	

Income Statement Adjustment RLJ-1

Line No.	Description	Company As Filed	Company Adjustment	Company Adjusted Balance	
1	<u>Salaries and Wages - Employees</u>				
2					
3					
4	<u>Description</u>	<u>As Filed</u>	<u>Adjustment</u>	<u>Balance</u>	
5					
6	Salaries and Wages - Employees	\$ 126,312	\$ (8,809)	\$ 117,503	
7					
8					
9					
			<u>Salaries and Wages Adjustment</u>		
10	To remove salaries and wages chargeable to Granite Mountain			\$ (5,248)	Chino Payroll Records
11	To normalize overtime charges			\$ (2,761)	Per Staff Direct
12	To remove 50% of bonuses			\$ (800)	1/2 G/L acct. No. 6601.00
13				<u>\$ (8,809)</u>	
14					
15					

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Schedule RLJ-14

Income Statement Adjustment RLJ-2

Line

No.

1 Salary and Wages - Officers, Directors, Stockhdr

2

3

4 Description

5

6 Salary and Wages - Officers, Directors, Stockhdr

7

8

9

10

Company

As Filed

Company

Adjustment

Company

Adjusted

Balance

\$ 35,498.00 \$ - \$ 35,498.00

Income Statement Adjustment RLJ-3

Line

No.

1 Contract Services - Legal

2

3

4 Description

5

6 Contract Services - Legal

7

8

9

10

	Company	Company	Company	
	As Filed	Adjustment	Adjusted	
			Balance	
6	\$ 3,995	\$ (2,995)	\$ 1,000	Accept Staff Adjustment

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Schedule RLJ-16

Income Statement Adjustment RLJ-4

Line

No.

1 Contract Servcies - Testing

2

3

4 Description

5

6 Contract Servcies - Testing

7

8

9

10

Company
As Filed

Company
Adjustment

Company
Adjusted
Balance

\$	7,062	\$	(2,296)	\$	4,766	Accept Staff Adjustment
----	-------	----	---------	----	-------	-------------------------

Chino Meadows II Water Co., Inc.
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Schedule RLJ-17

Income Statement Adjustment RLJ-5

Line

No.

1 Transportation Expense

2

3

4 Description

5

6 Transportation Expense

7

8

9

10

Company
As Filed

Company
Adjustment

Company
Adjusted
Balance

\$	15,726	\$	(1,582)	\$	14,144	Accept Staff Adjustment
----	--------	----	---------	----	--------	-------------------------

Income Statement Adjustment RLJ-6

Line

No.

1 Insurance, General Liability

2

3

4 Description

5

6 Insurance, General Liability

7

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36

Company As Filed	Company Adjustment	Company Adjusted Balance
\$ 11,848	\$ (3,038)	\$ 8,810

Insurance, General Liability Expense			
	Amount Before Allocation	Allocation Percentage	Allocated Amount
Chino Meadows	11,848	0.7436	8,810
Granite Mountain	11,848	0.2564	3,038

Calculation of Three-Factor Allocation					
	Number of Customers	Plant In Service	O & M Expense	Total	Allocation Percentage
Chino Meadows	0.8994	0.5150	0.8164	2.2307	0.7436
Granite Mountain	0.1006	0.4850	0.1836	0.7693	0.2564
	1.0000	1.0000	1.0000	3.0000	1.0000

Allocation Factors			
	Chino Meadows	Granite Mountain	Total
Customers	876	98	974
	0.8994	0.1006	1.0000
Plant In Service	\$ 765,198	\$ 720,673	\$ 1,485,871
	0.5150	0.4850	1.0000
O&M Expense	\$ 346,609	\$ 77,959	\$ 424,568
	0.8164	0.1836	1.0000

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Schedule RLJ-19

Income Statement Adjustment RLJ-7

Line No.	Description	Company As Filed	Company Adjustment	Company Adjusted Balance
1	System Support			
2				
3				
4	System Support	\$ 4,339	\$ (1,463)	\$ 2,856
5				
6				
7				
8				
9				
10				

Accept Staff Adjustment

Income Statement Adjustment RLJ-8

Line

No.

1 Rate Case Expense

2

3

4 Description

5

6 Rate Case Expense

7

8

9

10

11

12

	Company <u>As Filed</u>	Company <u>Adjustment</u>	Company <u>Adjusted Balance</u>
	\$ 442	\$ 7,058	\$ 7,500
		\$ 30,000	
		Years <u>4</u>	
		Expense \$ 7,500	

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Schedule RLJ-21

Income Statement Adjustment RLJ-9

Line No.	Description	Company As Filed	Company Adjustment	Company Adjusted Balance
1	Miscellaneous Expense			
2				
3				
4	Miscellaneous Expense	\$ 4,089.00	\$ (1,854)	\$ 2,235
5				
6				
7				
8	Out of Test Year Expense (Payment on old bank debt)			\$ 1,237
9	Meals at administrative meetings			617
10				\$ 1,854
11				
12				

Income Statement Adjustment RLJ-10

Line No.	Description	Company As Adjusted	Company Proposed
1	<u>Property Tax Expense</u>		
2			
3			
4	<u>Description</u>	<u>Company</u>	<u>Company</u>
5			
6	Adjusted Revenues in year ended 12/31/09	\$ 351,633	\$ 351,633
7	Adjusted Revenues in year ended 12/31/09	351,633	351,633
8	Adjusted Revenues in year ended 12/31/09	351,633	
9	Proposed Revenues after Increase		395,899
10	Average of three year's of revenue	351,633	366,388
11	Average of three year's of revenue, times 2	703,266	732,777
12	Add:		
13	Construction Work In Progress at 10%	-	-
14	Deduct:		
15	Net Book Value of Transportation Equipment	54,837	54,837
16			
17	Full Cash Value	648,429	677,940
18	Assessment Ratio	21.0%	21.0%
19	Assessed Value	136,170	142,367
20	Property Tax Rate (Test Year)	8.9500%	8.9500%
21			
22	Adjusted Test Year Property Tax	\$ 12,187	
23	Company Proposed Property Tax	<u>22,329</u>	
24	Test Year Adjustment	\$ (10,142)	
25			
26	Property Tax a Proposed Rates		\$ 12,742
27	Adjusted Test Year Property Tax		<u>12,187</u>
28	Increase in Property Tax due to Rate Increase		\$ 555
29			
30	Increase to Property Tax Expense		\$ 555
31	Increase in Revenue Requirement		\$ 44,266
32	Increase to Property Tax per Dollar Increase in Revenue		1.2530%
33			
34			
35			

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Schedule RLJ-23

Income Statement Adjustment RLJ-11

Line No.	Description	Company As Filed	Company Adjustment	Company Adjusted Balance
1	Payroll Taxes			
2				
3				
4	Payroll Taxes	\$ 22,329	\$ (428)	\$ 21,901
5				
6				
7				
8				
9				
10				

Income Statement Adjustment RLJ-12

Line No.	Description	Company As Filed	Company Adjustment	Company Adjusted Balance
1	<u>Depreciation Expense</u>			
2				
3				
4	<u>Description</u>			
5				
6	Depreciation Expense	\$ 25,132	\$ 13,897	\$ 39,029
7				
8	Composite Depreciation Rate		7.96%	From Staff Income Adjustment 12
9	CIAC		\$ 23,984	Schedule RLJ-6
10	Amortization of CIAC		\$ 1,909	
11				
12	Depreciation Expense Before Amortization of CIAC		\$ 40,938	From Staff Income Adjustement 12
13	Less Amortization of CIAC		\$ 1,909	
14	Test Year Depreciation Expense		\$ 39,029	
15	Depreciation Expense as Filed		\$ 25,132	
16	Company's Adjustment		\$ 13,897	
17				
18				

Income Statement Adjustment RLJ-13

Line

No.

1 Income Tax Expense

2

3

4 Description

5

6 Income Tax Expense

7

8

9

10 *Calculation of Income Tax:*

11 Revenue

12 Less: Operating Expenses - Excluding Income Taxes

13 Less: Synchronized Interest

14 Arizona Taxable Income

15 Arizona State Income Tax Rate

16 Arizona Income Tax

17 Federal Taxable Income

18 Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%

19 Federal Tax on Second Income Bracket (\$50,001 - 75,000)

20 Total Federal Income Tax

21 Combined Federal and State Income Tax

22

23 Applicable Federal Income Tax Rate

24

25

26

Company
As Filed

Company
Adjustment

Company
Adjusted
Balance

\$ (45) \$ 1,374 \$ 1,329

Adjusted
Test Year

Proposed
with Increase

\$ 351,633

\$ 395,899

345,280

345,835

-

-

\$ 6,353

\$ 50,065

6.968%

6.968%

\$ 443

\$ 3,489

\$ 5,910

\$ 46,576

887

6,986

-

-

887

6,986

\$ 1,329

\$ 10,475

15.00%

15.00%

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Schedule RLJ-26

Income Statement Adjustment RLJ-14

Line

No.

1 Leak Detection Expense

2

3

4 Description

5

6 Contract Servcies - Other

7

8

9

10

Company
As Filed

Company
Adjustment

Company
Adjusted
Balance

\$	-	\$	2,296	\$	2,296
----	---	----	-------	----	-------

Income Statement Adjustment RLJ-15

Line

No.

1 Interest on Deposits

2

3

4 Description

5

6 Interest on Deposits

7

8

9

10

11

12

	<u>Company</u> <u>As Filed</u>	<u>Company</u> <u>Adjustment</u>	<u>Company</u> <u>Adjusted</u> <u>Balance</u>
	\$ -	\$ 680	\$ 680
Test Year Deposit Balance	\$	11,330	
Interest Rate		6.00%	
Annual Interest Expense	\$	680	

EXHIBIT A

Ray L. Jones P.E.
Principal
ARICOR Water Solutions, LC
25213 N. 49th Drive
Phoenix, Arizona 85083

EMPLOYMENT HISTORY

- 2004 – Present **ARICOR Water Solutions**
Principal
ARICOR Water Solutions offers a wide range of services to the private and public sectors. Projects include water resources strategy development, water rights evaluation and development of regulatory strategies. Services also include consultation on water and wastewater utility formation, management and operations, and valuation, including due diligence analysis and preparation of financial schedules and testimony in support of CC&N, Rate Case and other filings before the Arizona Corporation Commission. ARICOR Water Solutions provides water, wastewater and water resource master planning, water and wastewater facilities design, and owner representation; including value engineering, program management and construction oversight. Lastly, ARICOR Water Solutions supports water solutions with contract operations and expert witness testimony and litigation support.
- 2002 to 2004 **Arizona-American Water Company**
President
Responsible for leadership of the Arizona business activities of Arizona-American Water Company. Key responsibilities include developing and evaluation new business opportunities, developing strategic plans, establishing effective government and community relations, insuring compliance with all regulatory requirements, and providing management and guidance to key operations and support personnel.
- 1998 to 2002 **Citizens Water Resources, Arizona Operations**
Vice President and General Manager
Responsible for leadership of the Arizona regulated and unregulated business activities of Citizens Water Resources. Key responsibilities included developing and evaluation new business opportunities, developing strategic plans, establishing effective government and community relations, insuring compliance with all regulatory requirements, and providing management and guidance to key operations and support personnel.
- 1990 to 1998 **Citizens Water Resources, Arizona Operations**
Engineering and Development Services Manager
Responsible for management of a diverse group of business growth related activities. Responsibilities include: marketing of operation and maintenance services (unregulated business growth), management of new development activity (regulated business growth), management of engineering functions (infrastructure planning and construction), management of water resources planning and compliance, management of growth-related regulatory functions (CC&N's and Franchises), and management of capital budgeting functions and capital accounting functions.
- 1985 to 1990 **Citizens Water Resources, Arizona Operations**
Civil Engineer
Responsible for the planning, coordination and supervision of capital expansion and major maintenance and rehabilitation projects as assigned. Responsible for development of capital program for Maricopa County Operations.

EDUCATION

Arizona State University – Master of Business Administration (1991)
University of Kansas – Bachelor of Science in Civil Engineering (1985)

PROFESSIONAL CERTIFICATION

Registered Professional Engineer – Civil Engineering – Arizona

Professional Engineer – Civil Engineering – California

Certified Operator – Wastewater Treatment, Wastewater Collection, Water Treatment, Water Distribution – Arizona

PROFESSIONAL AFFILIATIONS

- Director - Water Utilities Association of Arizona (1998 – 2004)
- Member - American Society of Professional Engineers
- Member - American Water Works Association
- Member - Arizona Water Pollution Control Association
- Member - Water Environment Federation

CIVIC AND COMMUNITY INVOLVEMENT

- Advisory Member - Water Resources Development Commission (2010 – Present)
- Board of Directors – Greater Maricopa FTZ, Inc. (2009 – Present)
- Chairman WESTMARC (2008)
- Director and Member of the Executive Committee- WESTMARC (1998 – Present)
- Co-Chairman, WESTMARC Water Committee (2006 – 2007)
- Chairman-Elect WESTMARC (2007)
- Member – Corporate Contributions Committee, West Valley Fine Arts Council Diamond Ball (Chairman 2005)
- Member – Technical Advisory Committee – Governor’s Water Management Commission (2001)
- Board Member, Manager & Past Chairman – North Valley Little League Softball

REGULATORY EXPERIENCE

Testimony has been provided before the Arizona Corporation Commission in the dockets listed below. Unless otherwise indicated testimony was provided on behalf of the utility.

Filing Year	Utility(ies)	Filing Type(s)	Docket(s)
1992	Sun City West Utilities Company	CC&N Extension (Expansion of Sun City West)	U-2334-92-244
1993	Sun City Water Company Sun City Sewer Company	CC&N Extension (Addition of Coyote Lakes)	U-1656-93-060 U-2276-93-060
1993	Tubac Valley Water Co., Inc.	CC&N Extension (Various Subdivisions on western border)	U-1595-93-241
1993	Sun City West Utilities Company	CC&N Extension (Expansion of Sun City West)	U-2334-93-293
1995	Citizens Utilities Company Sun City Water Company Sun City Sewer Company Sun City West Utilities Company Tubac Valley Water Company	Rate-making	E-1032-95-417 U-1656-95-417 U-2276-95-417 U-2334-95-417 U-1595-95-417
1996	City Water Company Sun City Sewer Company	CC&N Extension (Acquisition of Youngtown)	U-1656-96-282 U-2276-96-282
1996	Citizens Utilities Company	CC&N Extension and Deletion (Realignment of Surprise Bdry.)	E-1032-96-518
1998	Sun City Water Company Sun City West Utilities Company	CAP Water Plan and Accounting Order (Sun Cities CAP plan)	W-01656A-98-0577 SW-02334A-98-0577

Filing Year	Utility(ies)	Filing Type(s)	Docket(s)
2000	Citizens Water Resources Company of Arizona Citizens Water Services Company of Arizona	CC&N Extension and Accounting Order (Anthen Jacka Property and Phoenix Treatment Agreement)	SW-3455-00-1022 SW-3454-00-1022
2000	Citizens Communications Company Citizens Water Services Company of Arizona	CC&N Extension and Approval of Hook-Up Fee (Verrado)	W-0132B-00-1043 SW-0354A-00-1043
2002	Arizona-American Water Company	Ratemaking	WS-01303A-02-0867 WS-01303A-02-0868 WS-01303A-02-0869 WS-01303A-02-0870 WS-01303A-02-0908
2004	Arizona-American Water Company Rancho Cabrillo Water Company Rancho Cabrillo Sewer Company	CC&N Transfer	WS-01303A-04-0089 W-01303A-04-0089 SW-03898A-04-0089
2004	Johnson Utilities Company, LLC (Representing Pulte Home Corporation)	CC&N Extension	WS-02987A-04-0288
2005	Perkins Mountain Utility Company Perkins Mountain Water Company	New CC&N & Initial Rates	WS-20379A-05-0489 W-20380A-05-0490
2005	West End Water Company	CC&N Extension	W-01157A-05-706
2005	Arizona-American Water Company	Approvals Associated with Construction of Surface Water Treatment Facility	W-01303A-05-0718
2006	Arizona-American Water Company	Ratemaking	WS-01303A-06-0403
2008	Sunrise Water Company	Ratemaking	W-02069A-08-0406
2009	Baca Float Water Company	Ratemaking	WS-01678A-09-0376
2009	Aubrey Water Company	Lost Water Evaluation (Rate Case Compliance)	W-03476A-06-0425
2009	White Horse Ranch Owner's Assn.	Ratemaking	W-04161A-09-0471
2010	Litchfield Park Service Company	Ratemaking	W-01427A-09-0104
2011	Pima Utility Company	Ratemaking	W-021999A-11-0329 WS-02199A-11-0330

9/7/11

EXHIBIT B

10:43 AM

09/03/11

Accrual Basis

CHINO MEADOWS II WATER CO., INC.
Account QuickReport
As of December 31, 2010

Type	Date	Num	Name	Memo	Amount	Balance
1101.00 · Utility Plant in Service						8,600.00
1340.10 · Office Equipment & Software						8,600.00
Check	4/5/2010	2858	Caselle, Inc	Inv 34260 - 1/4 Payment of Caselle Clarity Upgrade	687.50	9,287.50
Check	8/17/2010	3111	Caselle, Inc	2nd & final payment of Clarity Software Upgrade	687.50	9,975.00
Check	8/17/2010	3111	Caselle, Inc	Full payment of CM Caselle Cash Receipts Module	2,125.00	12,100.00
Total 1340.10 · Office Equipment & Software					3,500.00	12,100.00
Total 1101.00 · Utility Plant in Service					3,500.00	12,100.00
TOTAL					3,500.00	12,100.00

EXHIBIT C

1:25 PM

08/16/11

Accrual Basis

CHINO MEADOWS II WATER CO., INC.

Account QuickReport

January through December 2009

Type	Date	Num	Name	Memo	Split	Amount
6601.00 · Salaries & Wages - Employees						
6601.01 · Payroll Expenses						
Paycheck	1/28/2009	1977	GMW		1131.02 · Che...	60.00
Paycheck	1/28/2009	1977	GMW		1131.02 · Che...	15.00
Paycheck	1/28/2009	1977	GMW		1131.02 · Che...	45.00
Paycheck	1/28/2009	1976	GMW		1131.02 · Che...	6.50
Paycheck	1/28/2009	1976	GMW		1131.02 · Che...	52.00
Paycheck	1/28/2009	1976	GMW		1131.02 · Che...	26.00
Paycheck	1/28/2009	1976	GMW		1131.02 · Che...	13.00
Paycheck	1/28/2009	1976	GMW		1131.02 · Che...	39.00
Paycheck	2/2/2009	1991	GMW		1131.02 · Che...	58.50
Paycheck	2/3/2009	1990	GMW		1131.02 · Che...	105.00
Paycheck	2/11/2009	2008	GMW		1131.02 · Che...	75.00
Paycheck	2/11/2009	2007	GMW		1131.02 · Che...	13.00
Paycheck	3/4/2009	2052	GMW		1131.02 · Che...	75.00
Paycheck	3/10/2009	2066	GMW		1131.02 · Che...	15.00
Paycheck	3/10/2009	2066	GMW		1131.02 · Che...	60.00
Paycheck	3/10/2009	2066	GMW		1131.02 · Che...	45.00
Paycheck	3/10/2009	2067	GMW		1131.02 · Che...	32.50
Paycheck	3/10/2009	2067	GMW		1131.02 · Che...	39.00
Paycheck	3/17/2009	2078	GMW		1131.02 · Che...	67.50
Paycheck	3/17/2009	2077	GMW		1131.02 · Che...	58.50
Paycheck	3/24/2009	2093	GMW		1131.02 · Che...	30.00
Paycheck	4/8/2009	2124	GMW		1131.02 · Che...	26.00
Paycheck	4/15/2009	2145	GMW		1131.02 · Che...	22.50
Paycheck	4/15/2009	2145	GMW		1131.02 · Che...	165.00
Paycheck	4/15/2009	2146	GMW		1131.02 · Che...	143.00
Paycheck	4/15/2009	2146	GMW		1131.02 · Che...	78.00
Paycheck	5/5/2009	2182	GMW		1131.02 · Che...	58.50
Paycheck	5/13/2009	2195	GMW		1131.02 · Che...	67.50
Paycheck	5/13/2009	2195	GMW		1131.02 · Che...	30.00
Paycheck	5/13/2009	2196	GMW		1131.02 · Che...	58.50
Paycheck	5/13/2009	2196	GMW		1131.02 · Che...	52.00
Paycheck	5/19/2009	2213	GMW		1131.02 · Che...	127.50
Paycheck	5/19/2009	2213	GMW		1131.02 · Che...	37.50
Paycheck	5/19/2009	2213	GMW		1131.02 · Che...	97.50
Paycheck	5/19/2009	2213	GMW		1131.02 · Che...	15.00
Paycheck	5/19/2009	2213	GMW		1131.02 · Che...	52.50
Paycheck	5/19/2009	2212	GMW		1131.02 · Che...	97.50
Paycheck	5/19/2009	2212	GMW		1131.02 · Che...	84.50
Paycheck	5/19/2009	2212	GMW		1131.02 · Che...	19.50
Paycheck	5/19/2009	2212	GMW		1131.02 · Che...	26.00
Paycheck	5/19/2009	2212	GMW		1131.02 · Che...	13.00
Paycheck	5/19/2009	2212	GMW		1131.02 · Che...	13.00
Paycheck	5/26/2009	2253	GMW		1131.02 · Che...	7.50
Paycheck	5/26/2009	2253	GMW		1131.02 · Che...	30.00
Paycheck	5/26/2009	2222	GMW		1131.02 · Che...	52.00
Paycheck	6/11/2009	2262	GMW		1131.02 · Che...	6.50
Paycheck	6/17/2009	2268	GMW		1131.02 · Che...	30.00
Paycheck	6/17/2009	2268	GMW		1131.02 · Che...	15.00
Paycheck	6/17/2009	2269	GMW		1131.02 · Che...	26.00
Paycheck	6/17/2009	2269	GMW		1131.02 · Che...	13.00
Paycheck	7/8/2009	2301	GMW		1131.02 · Che...	52.00
Paycheck	7/14/2009	2323	GMW		1131.02 · Che...	45.00
Paycheck	7/14/2009	2323	GMW		1131.02 · Che...	15.00
Paycheck	7/14/2009	2324	GMW		1131.02 · Che...	45.50
Paycheck	7/28/2009	2356	GMW		1131.02 · Che...	15.00
Paycheck	7/28/2009	2357	GMW		1131.02 · Che...	13.00
Paycheck	8/19/2009	2396	GMW		1131.02 · Che...	30.00
Paycheck	8/19/2009	2395	GMW		1131.02 · Che...	26.00
Paycheck	8/25/2009	2400	GMW		1131.02 · Che...	7.50
Paycheck	8/25/2009	2401	GMW		1131.02 · Che...	52.00
Paycheck	8/25/2009	2401	GMW		1131.02 · Che...	9.75
Paycheck	8/25/2009	2401	GMW		1131.02 · Che...	65.00
Paycheck	9/2/2009	2419	GMW		1131.02 · Che...	26.00
Paycheck	9/2/2009	2419	GMW		1131.02 · Che...	26.00
Paycheck	9/2/2009	2419	GMW		1131.02 · Che...	13.00
Paycheck	9/9/2009	2427	GMW		1131.02 · Che...	37.50
Paycheck	9/9/2009	2429	GMW		1131.02 · Che...	32.50

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08/16/11

Accrual Basis

CHINO MEADOWS II WATER CO., INC.

Account QuickReport

January through December 2009

Type	Date	Num	Name	Memo	Split	Amount
Paycheck	9/15/2009	2435	GMW		1131.02 · Che...	45.00
Paycheck	9/15/2009	2436	GMW		1131.02 · Che...	6.50
Paycheck	9/15/2009	2436	GMW		1131.02 · Che...	52.00
Paycheck	9/15/2009	2436	GMW		1131.02 · Che...	32.50
Paycheck	9/15/2009	2436	GMW		1131.02 · Che...	39.00
Paycheck	9/23/2009	2454	GMW		1131.02 · Che...	58.50
Paycheck	10/1/2009	2471	GMW		1131.02 · Che...	135.00
Paycheck	10/1/2009	2471	GMW		1131.02 · Che...	60.00
Paycheck	10/1/2009	2470	GMW		1131.02 · Che...	104.00
Paycheck	10/1/2009	2470	GMW		1131.02 · Che...	52.00
Paycheck	10/29/2009	2518	GMW		1131.02 · Che...	15.00
Paycheck	11/17/2009	2561	GMW		1131.02 · Che...	52.50
Paycheck	11/24/2009	2575	GMW		1131.02 · Che...	30.00
Paycheck	12/9/2009	2644	GMW		1131.02 · Che...	45.00
Paycheck	12/22/2009	2666	GMW		1131.02 · Che...	37.50
Paycheck	12/22/2009	2666	GMW		1131.02 · Che...	22.50
Paycheck	12/22/2009	2664	GMW		1131.02 · Che...	32.50
Paycheck	12/30/2009	2683	GMW	VOID:	1131.02 · Che...	0.00
Paycheck	12/30/2009	2684	GMW	VOID:	1131.02 · Che...	0.00
Paycheck	12/30/2009	2692	GMW		1131.02 · Che...	32.50
Total 6601.01 · Payroll Expenses						3,757.75
6601.03 · Taxes - Payroll						
Paycheck	1/28/2009	1977	GMW		1131.02 · Che...	0.06
Paycheck	1/28/2009	1977	GMW		1131.02 · Che...	0.01
Paycheck	1/28/2009	1977	GMW		1131.02 · Che...	0.04
Paycheck	1/28/2009	1977	GMW		1131.02 · Che...	3.72
Paycheck	1/28/2009	1977	GMW		1131.02 · Che...	0.93
Paycheck	1/28/2009	1977	GMW		1131.02 · Che...	2.79
Paycheck	1/28/2009	1977	GMW		1131.02 · Che...	0.87
Paycheck	1/28/2009	1977	GMW		1131.02 · Che...	0.22
Paycheck	1/28/2009	1977	GMW		1131.02 · Che...	0.65
Paycheck	1/28/2009	1977	GMW		1131.02 · Che...	0.48
Paycheck	1/28/2009	1977	GMW		1131.02 · Che...	0.12
Paycheck	1/28/2009	1977	GMW		1131.02 · Che...	0.36
Paycheck	1/28/2009	1977	GMW		1131.02 · Che...	1.07
Paycheck	1/28/2009	1977	GMW		1131.02 · Che...	0.27
Paycheck	1/28/2009	1977	GMW		1131.02 · Che...	0.81
Paycheck	1/28/2009	1976	GMW		1131.02 · Che...	0.01
Paycheck	1/28/2009	1976	GMW		1131.02 · Che...	0.05
Paycheck	1/28/2009	1976	GMW		1131.02 · Che...	0.03
Paycheck	1/28/2009	1976	GMW		1131.02 · Che...	0.01
Paycheck	1/28/2009	1976	GMW		1131.02 · Che...	0.04
Paycheck	1/28/2009	1976	GMW		1131.02 · Che...	0.40
Paycheck	1/28/2009	1976	GMW		1131.02 · Che...	3.22
Paycheck	1/28/2009	1976	GMW		1131.02 · Che...	1.61
Paycheck	1/28/2009	1976	GMW		1131.02 · Che...	0.81
Paycheck	1/28/2009	1976	GMW		1131.02 · Che...	2.42
Paycheck	1/28/2009	1976	GMW		1131.02 · Che...	0.09
Paycheck	1/28/2009	1976	GMW		1131.02 · Che...	0.75
Paycheck	1/28/2009	1976	GMW		1131.02 · Che...	0.38
Paycheck	1/28/2009	1976	GMW		1131.02 · Che...	0.19
Paycheck	1/28/2009	1976	GMW		1131.02 · Che...	0.57
Paycheck	1/28/2009	1976	GMW		1131.02 · Che...	0.05
Paycheck	1/28/2009	1976	GMW		1131.02 · Che...	0.42
Paycheck	1/28/2009	1976	GMW		1131.02 · Che...	0.21
Paycheck	1/28/2009	1976	GMW		1131.02 · Che...	0.10
Paycheck	1/28/2009	1976	GMW		1131.02 · Che...	0.31
Paycheck	1/28/2009	1976	GMW		1131.02 · Che...	0.12
Paycheck	1/28/2009	1976	GMW		1131.02 · Che...	0.93
Paycheck	1/28/2009	1976	GMW		1131.02 · Che...	0.47
Paycheck	1/28/2009	1976	GMW		1131.02 · Che...	0.23
Paycheck	1/28/2009	1976	GMW		1131.02 · Che...	0.70
Paycheck	2/2/2009	1991	GMW		1131.02 · Che...	0.06
Paycheck	2/2/2009	1991	GMW		1131.02 · Che...	3.63
Paycheck	2/2/2009	1991	GMW		1131.02 · Che...	0.85
Paycheck	2/2/2009	1991	GMW		1131.02 · Che...	0.47
Paycheck	2/2/2009	1991	GMW		1131.02 · Che...	1.05
Paycheck	2/3/2009	1990	GMW		1131.02 · Che...	0.11

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08/16/11

Accrual Basis

CHINO MEADOWS II WATER CO., INC.

Account QuickReport

January through December 2009

Type	Date	Num	Name	Memo	Split	Amount
Paycheck	2/3/2009	1990	GMW		1131.02 · Che...	6.51
Paycheck	2/3/2009	1990	GMW		1131.02 · Che...	1.52
Paycheck	2/3/2009	1990	GMW		1131.02 · Che...	0.84
Paycheck	2/3/2009	1990	GMW		1131.02 · Che...	1.88
Paycheck	2/11/2009	2008	GMW		1131.02 · Che...	0.08
Paycheck	2/11/2009	2008	GMW		1131.02 · Che...	4.65
Paycheck	2/11/2009	2008	GMW		1131.02 · Che...	1.09
Paycheck	2/11/2009	2008	GMW		1131.02 · Che...	0.60
Paycheck	2/11/2009	2008	GMW		1131.02 · Che...	1.34
Paycheck	2/11/2009	2007	GMW		1131.02 · Che...	0.01
Paycheck	2/11/2009	2007	GMW		1131.02 · Che...	0.81
Paycheck	2/11/2009	2007	GMW		1131.02 · Che...	0.19
Paycheck	2/11/2009	2007	GMW		1131.02 · Che...	0.10
Paycheck	2/11/2009	2007	GMW		1131.02 · Che...	0.23
Paycheck	3/4/2009	2052	GMW		1131.02 · Che...	0.07
Paycheck	3/4/2009	2052	GMW		1131.02 · Che...	4.64
Paycheck	3/4/2009	2052	GMW		1131.02 · Che...	1.08
Paycheck	3/4/2009	2052	GMW		1131.02 · Che...	0.60
Paycheck	3/4/2009	2052	GMW		1131.02 · Che...	1.34
Paycheck	3/10/2009	2066	GMW		1131.02 · Che...	0.02
Paycheck	3/10/2009	2066	GMW		1131.02 · Che...	0.11
Paycheck	3/10/2009	2066	GMW		1131.02 · Che...	0.93
Paycheck	3/10/2009	2066	GMW		1131.02 · Che...	6.51
Paycheck	3/10/2009	2066	GMW		1131.02 · Che...	0.22
Paycheck	3/10/2009	2066	GMW		1131.02 · Che...	1.52
Paycheck	3/10/2009	2066	GMW		1131.02 · Che...	0.12
Paycheck	3/10/2009	2066	GMW		1131.02 · Che...	0.84
Paycheck	3/10/2009	2066	GMW		1131.02 · Che...	0.27
Paycheck	3/10/2009	2066	GMW		1131.02 · Che...	1.88
Paycheck	3/10/2009	2067	GMW		1131.02 · Che...	0.07
Paycheck	3/10/2009	2067	GMW		1131.02 · Che...	4.43
Paycheck	3/10/2009	2067	GMW		1131.02 · Che...	1.04
Paycheck	3/10/2009	2067	GMW		1131.02 · Che...	0.57
Paycheck	3/10/2009	2067	GMW		1131.02 · Che...	1.28
Paycheck	3/17/2009	2078	GMW		1131.02 · Che...	0.07
Paycheck	3/17/2009	2078	GMW		1131.02 · Che...	4.19
Paycheck	3/17/2009	2078	GMW		1131.02 · Che...	0.98
Paycheck	3/17/2009	2078	GMW		1131.02 · Che...	0.54
Paycheck	3/17/2009	2078	GMW		1131.02 · Che...	1.21
Paycheck	3/17/2009	2077	GMW		1131.02 · Che...	0.06
Paycheck	3/17/2009	2077	GMW		1131.02 · Che...	3.63
Paycheck	3/17/2009	2077	GMW		1131.02 · Che...	0.85
Paycheck	3/17/2009	2077	GMW		1131.02 · Che...	0.47
Paycheck	3/17/2009	2077	GMW		1131.02 · Che...	1.05
Paycheck	3/24/2009	2093	GMW		1131.02 · Che...	0.00
Paycheck	3/24/2009	2093	GMW		1131.02 · Che...	1.86
Paycheck	3/24/2009	2093	GMW		1131.02 · Che...	0.43
Paycheck	3/24/2009	2093	GMW		1131.02 · Che...	0.00
Paycheck	3/24/2009	2093	GMW		1131.02 · Che...	0.00
Paycheck	4/8/2009	2124	GMW		1131.02 · Che...	0.00
Paycheck	4/8/2009	2124	GMW		1131.02 · Che...	1.61
Paycheck	4/8/2009	2124	GMW		1131.02 · Che...	0.38
Paycheck	4/8/2009	2124	GMW		1131.02 · Che...	0.03
Paycheck	4/8/2009	2124	GMW		1131.02 · Che...	0.06
Paycheck	4/15/2009	2145	GMW		1131.02 · Che...	0.00
Paycheck	4/15/2009	2145	GMW		1131.02 · Che...	0.00
Paycheck	4/15/2009	2145	GMW		1131.02 · Che...	1.40
Paycheck	4/15/2009	2145	GMW		1131.02 · Che...	10.23
Paycheck	4/15/2009	2145	GMW		1131.02 · Che...	0.33
Paycheck	4/15/2009	2145	GMW		1131.02 · Che...	2.39
Paycheck	4/15/2009	2145	GMW		1131.02 · Che...	0.00
Paycheck	4/15/2009	2145	GMW		1131.02 · Che...	0.00
Paycheck	4/15/2009	2145	GMW		1131.02 · Che...	0.00
Paycheck	4/15/2009	2145	GMW		1131.02 · Che...	0.00
Paycheck	4/15/2009	2146	GMW		1131.02 · Che...	0.00
Paycheck	4/15/2009	2146	GMW		1131.02 · Che...	0.00
Paycheck	4/15/2009	2146	GMW		1131.02 · Che...	8.86
Paycheck	4/15/2009	2146	GMW		1131.02 · Che...	4.84
Paycheck	4/15/2009	2146	GMW		1131.02 · Che...	2.07

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Accrual Basis

CHINO MEADOWS II WATER CO., INC.

Account QuickReport

January through December 2009

Type	Date	Num	Name	Memo	Split	Amount
Paycheck	4/15/2009	2146	GMW		1131.02 · Che...	1.13
Paycheck	4/15/2009	2146	GMW		1131.02 · Che...	0.00
Paycheck	4/15/2009	2146	GMW		1131.02 · Che...	0.00
Paycheck	4/15/2009	2146	GMW		1131.02 · Che...	0.00
Paycheck	4/15/2009	2146	GMW		1131.02 · Che...	0.00
Paycheck	5/5/2009	2182	GMW		1131.02 · Che...	0.00
Paycheck	5/5/2009	2182	GMW		1131.02 · Che...	3.63
Paycheck	5/5/2009	2182	GMW		1131.02 · Che...	0.85
Paycheck	5/5/2009	2182	GMW		1131.02 · Che...	0.00
Paycheck	5/5/2009	2182	GMW		1131.02 · Che...	0.00
Paycheck	5/13/2009	2195	GMW		1131.02 · Che...	0.00
Paycheck	5/13/2009	2195	GMW		1131.02 · Che...	0.00
Paycheck	5/13/2009	2195	GMW		1131.02 · Che...	4.19
Paycheck	5/13/2009	2195	GMW		1131.02 · Che...	1.86
Paycheck	5/13/2009	2195	GMW		1131.02 · Che...	0.98
Paycheck	5/13/2009	2195	GMW		1131.02 · Che...	0.44
Paycheck	5/13/2009	2195	GMW		1131.02 · Che...	0.00
Paycheck	5/13/2009	2195	GMW		1131.02 · Che...	0.00
Paycheck	5/13/2009	2195	GMW		1131.02 · Che...	0.00
Paycheck	5/13/2009	2195	GMW		1131.02 · Che...	0.00
Paycheck	5/13/2009	2196	GMW		1131.02 · Che...	0.00
Paycheck	5/13/2009	2196	GMW		1131.02 · Che...	0.00
Paycheck	5/13/2009	2196	GMW		1131.02 · Che...	3.63
Paycheck	5/13/2009	2196	GMW		1131.02 · Che...	3.22
Paycheck	5/13/2009	2196	GMW		1131.02 · Che...	0.85
Paycheck	5/13/2009	2196	GMW		1131.02 · Che...	0.75
Paycheck	5/13/2009	2196	GMW		1131.02 · Che...	0.00
Paycheck	5/13/2009	2196	GMW		1131.02 · Che...	0.00
Paycheck	5/13/2009	2196	GMW		1131.02 · Che...	0.00
Paycheck	5/13/2009	2196	GMW		1131.02 · Che...	0.00
Paycheck	5/19/2009	2213	GMW		1131.02 · Che...	0.00
Paycheck	5/19/2009	2213	GMW		1131.02 · Che...	0.00
Paycheck	5/19/2009	2213	GMW		1131.02 · Che...	0.00
Paycheck	5/19/2009	2213	GMW		1131.02 · Che...	0.00
Paycheck	5/19/2009	2213	GMW		1131.02 · Che...	7.90
Paycheck	5/19/2009	2213	GMW		1131.02 · Che...	2.32
Paycheck	5/19/2009	2213	GMW		1131.02 · Che...	6.04
Paycheck	5/19/2009	2213	GMW		1131.02 · Che...	0.93
Paycheck	5/19/2009	2213	GMW		1131.02 · Che...	3.25
Paycheck	5/19/2009	2213	GMW		1131.02 · Che...	1.85
Paycheck	5/19/2009	2213	GMW		1131.02 · Che...	0.54
Paycheck	5/19/2009	2213	GMW		1131.02 · Che...	1.41
Paycheck	5/19/2009	2213	GMW		1131.02 · Che...	0.22
Paycheck	5/19/2009	2213	GMW		1131.02 · Che...	0.76
Paycheck	5/19/2009	2213	GMW		1131.02 · Che...	0.00
Paycheck	5/19/2009	2213	GMW		1131.02 · Che...	0.00
Paycheck	5/19/2009	2213	GMW		1131.02 · Che...	0.00
Paycheck	5/19/2009	2213	GMW		1131.02 · Che...	0.00
Paycheck	5/19/2009	2213	GMW		1131.02 · Che...	0.00
Paycheck	5/19/2009	2213	GMW		1131.02 · Che...	0.00
Paycheck	5/19/2009	2213	GMW		1131.02 · Che...	0.00
Paycheck	5/19/2009	2212	GMW		1131.02 · Che...	0.00
Paycheck	5/19/2009	2212	GMW		1131.02 · Che...	0.00
Paycheck	5/19/2009	2212	GMW		1131.02 · Che...	0.00
Paycheck	5/19/2009	2212	GMW		1131.02 · Che...	0.00
Paycheck	5/19/2009	2212	GMW		1131.02 · Che...	0.00
Paycheck	5/19/2009	2212	GMW		1131.02 · Che...	0.00
Paycheck	5/19/2009	2212	GMW		1131.02 · Che...	6.04
Paycheck	5/19/2009	2212	GMW		1131.02 · Che...	5.24
Paycheck	5/19/2009	2212	GMW		1131.02 · Che...	1.21
Paycheck	5/19/2009	2212	GMW		1131.02 · Che...	1.61
Paycheck	5/19/2009	2212	GMW		1131.02 · Che...	0.81
Paycheck	5/19/2009	2212	GMW		1131.02 · Che...	0.81
Paycheck	5/19/2009	2212	GMW		1131.02 · Che...	1.41
Paycheck	5/19/2009	2212	GMW		1131.02 · Che...	1.22

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Accrual Basis

CHINO MEADOWS II WATER CO., INC.

Account QuickReport

January through December 2009

Type	Date	Num	Name	Memo	Split	Amount
Paycheck	7/14/2009	2323	GMW		1131.02 · Che...	0.00
Paycheck	7/14/2009	2323	GMW		1131.02 · Che...	0.00
Paycheck	7/14/2009	2324	GMW		1131.02 · Che...	0.00
Paycheck	7/14/2009	2324	GMW		1131.02 · Che...	2.82
Paycheck	7/14/2009	2324	GMW		1131.02 · Che...	0.66
Paycheck	7/14/2009	2324	GMW		1131.02 · Che...	0.00
Paycheck	7/14/2009	2324	GMW		1131.02 · Che...	0.00
Paycheck	7/28/2009	2356	GMW		1131.02 · Che...	0.00
Paycheck	7/28/2009	2356	GMW		1131.02 · Che...	0.93
Paycheck	7/28/2009	2356	GMW		1131.02 · Che...	0.22
Paycheck	7/28/2009	2356	GMW		1131.02 · Che...	0.00
Paycheck	7/28/2009	2356	GMW		1131.02 · Che...	0.00
Paycheck	7/28/2009	2357	GMW		1131.02 · Che...	0.00
Paycheck	7/28/2009	2357	GMW		1131.02 · Che...	0.81
Paycheck	7/28/2009	2357	GMW		1131.02 · Che...	0.19
Paycheck	7/28/2009	2357	GMW		1131.02 · Che...	0.00
Paycheck	7/28/2009	2357	GMW		1131.02 · Che...	0.00
Paycheck	8/19/2009	2396	GMW		1131.02 · Che...	0.00
Paycheck	8/19/2009	2396	GMW		1131.02 · Che...	1.86
Paycheck	8/19/2009	2396	GMW		1131.02 · Che...	0.43
Paycheck	8/19/2009	2396	GMW		1131.02 · Che...	0.00
Paycheck	8/19/2009	2396	GMW		1131.02 · Che...	0.00
Paycheck	8/19/2009	2395	GMW		1131.02 · Che...	0.00
Paycheck	8/19/2009	2395	GMW		1131.02 · Che...	1.61
Paycheck	8/19/2009	2395	GMW		1131.02 · Che...	0.38
Paycheck	8/19/2009	2395	GMW		1131.02 · Che...	0.00
Paycheck	8/19/2009	2395	GMW		1131.02 · Che...	0.00
Paycheck	8/25/2009	2400	GMW		1131.02 · Che...	0.00
Paycheck	8/25/2009	2400	GMW		1131.02 · Che...	0.47
Paycheck	8/25/2009	2400	GMW		1131.02 · Che...	0.11
Paycheck	8/25/2009	2400	GMW		1131.02 · Che...	0.00
Paycheck	8/25/2009	2400	GMW		1131.02 · Che...	0.00
Paycheck	8/25/2009	2401	GMW		1131.02 · Che...	0.00
Paycheck	8/25/2009	2401	GMW		1131.02 · Che...	0.00
Paycheck	8/25/2009	2401	GMW		1131.02 · Che...	0.00
Paycheck	8/25/2009	2401	GMW		1131.02 · Che...	0.00
Paycheck	8/25/2009	2401	GMW		1131.02 · Che...	3.22
Paycheck	8/25/2009	2401	GMW		1131.02 · Che...	0.60
Paycheck	8/25/2009	2401	GMW		1131.02 · Che...	4.03
Paycheck	8/25/2009	2401	GMW		1131.02 · Che...	0.75
Paycheck	8/25/2009	2401	GMW		1131.02 · Che...	0.14
Paycheck	8/25/2009	2401	GMW		1131.02 · Che...	0.94
Paycheck	8/25/2009	2401	GMW		1131.02 · Che...	0.00
Paycheck	8/25/2009	2401	GMW		1131.02 · Che...	0.00
Paycheck	8/25/2009	2401	GMW		1131.02 · Che...	0.00
Paycheck	8/25/2009	2401	GMW		1131.02 · Che...	0.00
Paycheck	8/25/2009	2401	GMW		1131.02 · Che...	0.00
Paycheck	8/25/2009	2401	GMW		1131.02 · Che...	0.00
Paycheck	9/2/2009	2419	GMW		1131.02 · Che...	0.00
Paycheck	9/2/2009	2419	GMW		1131.02 · Che...	0.00
Paycheck	9/2/2009	2419	GMW		1131.02 · Che...	0.00
Paycheck	9/2/2009	2419	GMW		1131.02 · Che...	1.61
Paycheck	9/2/2009	2419	GMW		1131.02 · Che...	1.61
Paycheck	9/2/2009	2419	GMW		1131.02 · Che...	0.81
Paycheck	9/2/2009	2419	GMW		1131.02 · Che...	0.38
Paycheck	9/2/2009	2419	GMW		1131.02 · Che...	0.38
Paycheck	9/2/2009	2419	GMW		1131.02 · Che...	0.19
Paycheck	9/2/2009	2419	GMW		1131.02 · Che...	0.00
Paycheck	9/2/2009	2419	GMW		1131.02 · Che...	0.00
Paycheck	9/2/2009	2419	GMW		1131.02 · Che...	0.00
Paycheck	9/2/2009	2419	GMW		1131.02 · Che...	0.00
Paycheck	9/2/2009	2419	GMW		1131.02 · Che...	0.00
Paycheck	9/2/2009	2419	GMW		1131.02 · Che...	0.00
Paycheck	9/9/2009	2427	GMW		1131.02 · Che...	0.00
Paycheck	9/9/2009	2427	GMW		1131.02 · Che...	2.33
Paycheck	9/9/2009	2427	GMW		1131.02 · Che...	0.54
Paycheck	9/9/2009	2427	GMW		1131.02 · Che...	0.00
Paycheck	9/9/2009	2427	GMW		1131.02 · Che...	0.00
Paycheck	9/9/2009	2429	GMW		1131.02 · Che...	0.00
Paycheck	9/9/2009	2429	GMW		1131.02 · Che...	2.02

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Accrual Basis

CHINO MEADOWS II WATER CO., INC.

Account QuickReport

January through December 2009

Type	Date	Num	Name	Memo	Split	Amount
Paycheck	9/9/2009	2429	GMW		1131.02 · Che...	0.47
Paycheck	9/9/2009	2429	GMW		1131.02 · Che...	0.00
Paycheck	9/9/2009	2429	GMW		1131.02 · Che...	0.00
Paycheck	9/15/2009	2435	GMW		1131.02 · Che...	0.00
Paycheck	9/15/2009	2435	GMW		1131.02 · Che...	2.79
Paycheck	9/15/2009	2435	GMW		1131.02 · Che...	0.65
Paycheck	9/15/2009	2435	GMW		1131.02 · Che...	0.00
Paycheck	9/15/2009	2435	GMW		1131.02 · Che...	0.00
Paycheck	9/15/2009	2436	GMW		1131.02 · Che...	0.00
Paycheck	9/15/2009	2436	GMW		1131.02 · Che...	0.00
Paycheck	9/15/2009	2436	GMW		1131.02 · Che...	0.00
Paycheck	9/15/2009	2436	GMW		1131.02 · Che...	0.00
Paycheck	9/15/2009	2436	GMW		1131.02 · Che...	0.00
Paycheck	9/15/2009	2436	GMW		1131.02 · Che...	0.00
Paycheck	9/15/2009	2436	GMW		1131.02 · Che...	0.40
Paycheck	9/15/2009	2436	GMW		1131.02 · Che...	3.22
Paycheck	9/15/2009	2436	GMW		1131.02 · Che...	2.02
Paycheck	9/15/2009	2436	GMW		1131.02 · Che...	2.42
Paycheck	9/15/2009	2436	GMW		1131.02 · Che...	0.09
Paycheck	9/15/2009	2436	GMW		1131.02 · Che...	0.75
Paycheck	9/15/2009	2436	GMW		1131.02 · Che...	0.47
Paycheck	9/15/2009	2436	GMW		1131.02 · Che...	0.57
Paycheck	9/15/2009	2436	GMW		1131.02 · Che...	0.00
Paycheck	9/15/2009	2436	GMW		1131.02 · Che...	0.00
Paycheck	9/15/2009	2436	GMW		1131.02 · Che...	0.00
Paycheck	9/15/2009	2436	GMW		1131.02 · Che...	0.00
Paycheck	9/15/2009	2436	GMW		1131.02 · Che...	0.00
Paycheck	9/15/2009	2436	GMW		1131.02 · Che...	0.00
Paycheck	9/15/2009	2436	GMW		1131.02 · Che...	0.00
Paycheck	9/23/2009	2454	GMW		1131.02 · Che...	0.00
Paycheck	9/23/2009	2454	GMW		1131.02 · Che...	3.63
Paycheck	9/23/2009	2454	GMW		1131.02 · Che...	0.85
Paycheck	9/23/2009	2454	GMW		1131.02 · Che...	0.00
Paycheck	9/23/2009	2454	GMW		1131.02 · Che...	0.00
Paycheck	10/1/2009	2471	GMW		1131.02 · Che...	0.00
Paycheck	10/1/2009	2471	GMW		1131.02 · Che...	0.00
Paycheck	10/1/2009	2471	GMW		1131.02 · Che...	8.37
Paycheck	10/1/2009	2471	GMW		1131.02 · Che...	3.72
Paycheck	10/1/2009	2471	GMW		1131.02 · Che...	1.96
Paycheck	10/1/2009	2471	GMW		1131.02 · Che...	0.87
Paycheck	10/1/2009	2471	GMW		1131.02 · Che...	0.00
Paycheck	10/1/2009	2471	GMW		1131.02 · Che...	0.00
Paycheck	10/1/2009	2471	GMW		1131.02 · Che...	0.00
Paycheck	10/1/2009	2471	GMW		1131.02 · Che...	0.00
Paycheck	10/1/2009	2470	GMW		1131.02 · Che...	0.00
Paycheck	10/1/2009	2470	GMW		1131.02 · Che...	0.00
Paycheck	10/1/2009	2470	GMW		1131.02 · Che...	0.00
Paycheck	10/1/2009	2470	GMW		1131.02 · Che...	6.45
Paycheck	10/1/2009	2470	GMW		1131.02 · Che...	3.22
Paycheck	10/1/2009	2470	GMW		1131.02 · Che...	1.51
Paycheck	10/1/2009	2470	GMW		1131.02 · Che...	0.75
Paycheck	10/1/2009	2470	GMW		1131.02 · Che...	0.00
Paycheck	10/1/2009	2470	GMW		1131.02 · Che...	0.00
Paycheck	10/1/2009	2470	GMW		1131.02 · Che...	0.00
Paycheck	10/29/2009	2518	GMW		1131.02 · Che...	0.00
Paycheck	10/29/2009	2518	GMW		1131.02 · Che...	0.93
Paycheck	10/29/2009	2518	GMW		1131.02 · Che...	0.22
Paycheck	10/29/2009	2518	GMW		1131.02 · Che...	0.00
Paycheck	10/29/2009	2518	GMW		1131.02 · Che...	0.00
Paycheck	11/17/2009	2561	GMW		1131.02 · Che...	0.00
Paycheck	11/17/2009	2561	GMW		1131.02 · Che...	3.26
Paycheck	11/17/2009	2561	GMW		1131.02 · Che...	0.76
Paycheck	11/17/2009	2561	GMW		1131.02 · Che...	0.00
Paycheck	11/17/2009	2561	GMW		1131.02 · Che...	0.00
Paycheck	11/24/2009	2575	GMW		1131.02 · Che...	0.00
Paycheck	11/24/2009	2575	GMW		1131.02 · Che...	1.86
Paycheck	11/24/2009	2575	GMW		1131.02 · Che...	0.44
Paycheck	11/24/2009	2575	GMW		1131.02 · Che...	0.00
Paycheck	11/24/2009	2575	GMW		1131.02 · Che...	0.00
Paycheck	12/9/2009	2644	GMW		1131.02 · Che...	0.00

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Accrual Basis

CHINO MEADOWS II WATER CO., INC.
Account QuickReport
 January through December 2009

Type	Date	Num	Name	Memo	Split	Amount
Paycheck	12/9/2009	2644	GMW		1131.02 · Che...	2.79
Paycheck	12/9/2009	2644	GMW		1131.02 · Che...	0.65
Paycheck	12/9/2009	2644	GMW		1131.02 · Che...	0.00
Paycheck	12/9/2009	2644	GMW		1131.02 · Che...	0.00
Paycheck	12/22/2009	2666	GMW		1131.02 · Che...	0.00
Paycheck	12/22/2009	2666	GMW		1131.02 · Che...	0.00
Paycheck	12/22/2009	2666	GMW		1131.02 · Che...	2.33
Paycheck	12/22/2009	2666	GMW		1131.02 · Che...	1.40
Paycheck	12/22/2009	2666	GMW		1131.02 · Che...	0.54
Paycheck	12/22/2009	2666	GMW		1131.02 · Che...	0.33
Paycheck	12/22/2009	2666	GMW		1131.02 · Che...	0.00
Paycheck	12/22/2009	2666	GMW		1131.02 · Che...	0.00
Paycheck	12/22/2009	2666	GMW		1131.02 · Che...	0.00
Paycheck	12/22/2009	2666	GMW		1131.02 · Che...	0.00
Paycheck	12/22/2009	2666	GMW		1131.02 · Che...	0.00
Paycheck	12/22/2009	2664	GMW		1131.02 · Che...	0.00
Paycheck	12/22/2009	2664	GMW		1131.02 · Che...	2.02
Paycheck	12/22/2009	2664	GMW		1131.02 · Che...	0.47
Paycheck	12/22/2009	2664	GMW		1131.02 · Che...	0.00
Paycheck	12/22/2009	2664	GMW		1131.02 · Che...	0.00
Paycheck	12/30/2009	2683	GMW	VOID:	1131.02 · Che...	0.00
Paycheck	12/30/2009	2683	GMW	VOID:	1131.02 · Che...	0.00
Paycheck	12/30/2009	2683	GMW	VOID:	1131.02 · Che...	0.00
Paycheck	12/30/2009	2683	GMW	VOID:	1131.02 · Che...	0.00
Paycheck	12/30/2009	2683	GMW	VOID:	1131.02 · Che...	0.00
Paycheck	12/30/2009	2684	GMW	VOID:	1131.02 · Che...	0.00
Paycheck	12/30/2009	2684	GMW	VOID:	1131.02 · Che...	0.00
Paycheck	12/30/2009	2684	GMW	VOID:	1131.02 · Che...	0.00
Paycheck	12/30/2009	2684	GMW	VOID:	1131.02 · Che...	0.00
Paycheck	12/30/2009	2684	GMW	VOID:	1131.02 · Che...	0.00
Paycheck	12/30/2009	2684	GMW	VOID:	1131.02 · Che...	0.00
Paycheck	12/30/2009	2684	GMW	VOID:	1131.02 · Che...	0.00
Paycheck	12/30/2009	2692	GMW		1131.02 · Che...	0.00
Paycheck	12/30/2009	2692	GMW		1131.02 · Che...	2.02
Paycheck	12/30/2009	2692	GMW		1131.02 · Che...	0.47
Paycheck	12/30/2009	2692	GMW		1131.02 · Che...	0.00
Paycheck	12/30/2009	2692	GMW		1131.02 · Che...	0.00

Total 6601.03 · Taxes - Payroll 311.81

Total 6601.00 · Salaries & Wages - Employees 4,069.56

TOTAL **4,069.56**

1:25 PM

08/16/11

Accrual Basis

CHINO MEADOWS II WATER CO., INC.

Account QuickReport

January through December 2009

Type	Date	Num	Name	Memo	Split	Amount
6601.00 · Salaries & Wages - Employees						
6601.01 · Payroll Expenses						
Paycheck	2/11/2009	2007	gmwc		1131.02 · Che...	52.00
Paycheck	3/4/2009	2051	gmwc		1131.02 · Che...	26.00
Paycheck	4/8/2009	2123	gmwc		1131.02 · Che...	30.00
Paycheck	5/5/2009	2181	gmwc		1131.02 · Che...	127.50
Paycheck	5/5/2009	2181	gmwc		1131.02 · Che...	45.00
Paycheck	5/5/2009	2181	gmwc		1131.02 · Che...	123.75
Paycheck	5/5/2009	2181	gmwc		1131.02 · Che...	45.00
Paycheck	5/5/2009	2182	gmwc		1131.02 · Che...	65.00
Paycheck	5/5/2009	2182	gmwc		1131.02 · Che...	13.00
Paycheck	5/5/2009	2182	gmwc		1131.02 · Che...	91.00
Paycheck	5/13/2009	2196	gmwc		1131.02 · Che...	13.00
Paycheck	6/3/2009	2233	gmwc		1131.02 · Che...	30.00
Paycheck	6/11/2009	2263	gmwc		1131.02 · Che...	15.00
Paycheck	6/11/2009	2263	gmwc		1131.02 · Che...	15.00
Paycheck	7/1/2009	2287	gmwc		1131.02 · Che...	60.00
Paycheck	7/14/2009	2324	gmwc		1131.02 · Che...	13.00
Paycheck	9/23/2009	2455	gmwc		1131.02 · Che...	172.50
Paycheck	9/23/2009	2455	gmwc		1131.02 · Che...	15.00
Paycheck	9/23/2009	2454	gmwc		1131.02 · Che...	117.00
Paycheck	10/14/2009	2500	gmwc		1131.02 · Che...	15.00
Paycheck	10/14/2009	2500	gmwc		1131.02 · Che...	52.50
Paycheck	10/14/2009	2501	gmwc		1131.02 · Che...	45.50
Paycheck	10/29/2009	2518	gmwc		1131.02 · Che...	7.50
Paycheck	11/17/2009	2560	gmwc		1131.02 · Che...	65.00
Paycheck	11/24/2009	2575	gmwc		1131.02 · Che...	75.00
Paycheck	11/24/2009	2576	gmwc		1131.02 · Che...	26.00
Paycheck	11/24/2009	2576	gmwc		1131.02 · Che...	32.50
Paycheck	11/24/2009	2576	gmwc		1131.02 · Che...	26.00
Paycheck	12/9/2009	2643	gmwc		1131.02 · Che...	39.00
Paycheck	12/30/2009	2682	gmwc		1131.02 · Che...	15.00
Paycheck	12/30/2009	2682	gmwc		1131.02 · Che...	22.50
Total 6601.01 · Payroll Expenses						1,490.25
6601.03 · Taxes - Payroll						
Paycheck	2/11/2009	2007	gmwc		1131.02 · Che...	0.05
Paycheck	2/11/2009	2007	gmwc		1131.02 · Che...	3.22
Paycheck	2/11/2009	2007	gmwc		1131.02 · Che...	0.75
Paycheck	2/11/2009	2007	gmwc		1131.02 · Che...	0.42
Paycheck	2/11/2009	2007	gmwc		1131.02 · Che...	0.93
Paycheck	3/4/2009	2051	gmwc		1131.02 · Che...	0.01
Paycheck	3/4/2009	2051	gmwc		1131.02 · Che...	1.61
Paycheck	3/4/2009	2051	gmwc		1131.02 · Che...	0.37
Paycheck	3/4/2009	2051	gmwc		1131.02 · Che...	0.21
Paycheck	3/4/2009	2051	gmwc		1131.02 · Che...	0.46
Paycheck	4/8/2009	2123	gmwc		1131.02 · Che...	0.00
Paycheck	4/8/2009	2123	gmwc		1131.02 · Che...	1.86
Paycheck	4/8/2009	2123	gmwc		1131.02 · Che...	0.44
Paycheck	4/8/2009	2123	gmwc		1131.02 · Che...	0.00
Paycheck	4/8/2009	2123	gmwc		1131.02 · Che...	0.00
Paycheck	5/5/2009	2181	gmwc		1131.02 · Che...	0.00
Paycheck	5/5/2009	2181	gmwc		1131.02 · Che...	0.00
Paycheck	5/5/2009	2181	gmwc		1131.02 · Che...	15.58
Paycheck	5/5/2009	2181	gmwc		1131.02 · Che...	5.58
Paycheck	5/5/2009	2181	gmwc		1131.02 · Che...	3.64
Paycheck	5/5/2009	2181	gmwc		1131.02 · Che...	1.30
Paycheck	5/5/2009	2181	gmwc		1131.02 · Che...	0.00
Paycheck	5/5/2009	2181	gmwc		1131.02 · Che...	0.00
Paycheck	5/5/2009	2181	gmwc		1131.02 · Che...	0.00
Paycheck	5/5/2009	2181	gmwc		1131.02 · Che...	0.00
Paycheck	5/5/2009	2181	gmwc		1131.02 · Che...	0.00
Paycheck	5/5/2009	2181	gmwc		1131.02 · Che...	0.00
Paycheck	5/5/2009	2181	gmwc		1131.02 · Che...	0.00
Paycheck	5/5/2009	2181	gmwc		1131.02 · Che...	0.00
Paycheck	5/5/2009	2181	gmwc		1131.02 · Che...	0.00
Paycheck	5/5/2009	2181	gmwc		1131.02 · Che...	4.03
Paycheck	5/5/2009	2182	gmwc		1131.02 · Che...	0.81
Paycheck	5/5/2009	2182	gmwc		1131.02 · Che...	5.64
Paycheck	5/5/2009	2182	gmwc		1131.02 · Che...	0.94
Paycheck	5/5/2009	2182	gmwc		1131.02 · Che...	0.19

1:25 PM

08/16/11

Accrual Basis

CHINO MEADOWS II WATER CO., INC.

Account QuickReport

January through December 2009

Type	Date	Num	Name	Memo	Split	Amount
Paycheck	5/5/2009	2182	gmwc		1131.02 · Che...	1.32
Paycheck	5/5/2009	2182	gmwc		1131.02 · Che...	0.00
Paycheck	5/5/2009	2182	gmwc		1131.02 · Che...	0.00
Paycheck	5/5/2009	2182	gmwc		1131.02 · Che...	0.00
Paycheck	5/5/2009	2182	gmwc		1131.02 · Che...	0.00
Paycheck	5/5/2009	2182	gmwc		1131.02 · Che...	0.00
Paycheck	5/13/2009	2196	gmwc		1131.02 · Che...	0.00
Paycheck	5/13/2009	2196	gmwc		1131.02 · Che...	0.81
Paycheck	5/13/2009	2196	gmwc		1131.02 · Che...	0.19
Paycheck	5/13/2009	2196	gmwc		1131.02 · Che...	0.00
Paycheck	5/13/2009	2196	gmwc		1131.02 · Che...	0.00
Paycheck	6/3/2009	2233	gmwc		1131.02 · Che...	0.00
Paycheck	6/3/2009	2233	gmwc		1131.02 · Che...	1.86
Paycheck	6/3/2009	2233	gmwc		1131.02 · Che...	0.44
Paycheck	6/3/2009	2233	gmwc		1131.02 · Che...	0.00
Paycheck	6/3/2009	2233	gmwc		1131.02 · Che...	0.00
Paycheck	6/11/2009	2263	gmwc		1131.02 · Che...	0.00
Paycheck	6/11/2009	2263	gmwc		1131.02 · Che...	0.00
Paycheck	6/11/2009	2263	gmwc		1131.02 · Che...	0.93
Paycheck	6/11/2009	2263	gmwc		1131.02 · Che...	0.93
Paycheck	6/11/2009	2263	gmwc		1131.02 · Che...	0.22
Paycheck	6/11/2009	2263	gmwc		1131.02 · Che...	0.22
Paycheck	6/11/2009	2263	gmwc		1131.02 · Che...	0.00
Paycheck	6/11/2009	2263	gmwc		1131.02 · Che...	0.00
Paycheck	6/11/2009	2263	gmwc		1131.02 · Che...	0.00
Paycheck	6/11/2009	2263	gmwc		1131.02 · Che...	0.00
Paycheck	6/11/2009	2263	gmwc		1131.02 · Che...	0.00
Paycheck	7/1/2009	2287	gmwc		1131.02 · Che...	0.00
Paycheck	7/1/2009	2287	gmwc		1131.02 · Che...	3.72
Paycheck	7/1/2009	2287	gmwc		1131.02 · Che...	0.87
Paycheck	7/1/2009	2287	gmwc		1131.02 · Che...	0.00
Paycheck	7/1/2009	2287	gmwc		1131.02 · Che...	0.00
Paycheck	7/14/2009	2324	gmwc		1131.02 · Che...	0.00
Paycheck	7/14/2009	2324	gmwc		1131.02 · Che...	0.81
Paycheck	7/14/2009	2324	gmwc		1131.02 · Che...	0.19
Paycheck	7/14/2009	2324	gmwc		1131.02 · Che...	0.00
Paycheck	7/14/2009	2324	gmwc		1131.02 · Che...	0.00
Paycheck	9/23/2009	2455	gmwc		1131.02 · Che...	0.00
Paycheck	9/23/2009	2455	gmwc		1131.02 · Che...	0.00
Paycheck	9/23/2009	2455	gmwc		1131.02 · Che...	10.70
Paycheck	9/23/2009	2455	gmwc		1131.02 · Che...	0.93
Paycheck	9/23/2009	2455	gmwc		1131.02 · Che...	2.50
Paycheck	9/23/2009	2455	gmwc		1131.02 · Che...	0.22
Paycheck	9/23/2009	2455	gmwc		1131.02 · Che...	0.00
Paycheck	9/23/2009	2455	gmwc		1131.02 · Che...	0.00
Paycheck	9/23/2009	2455	gmwc		1131.02 · Che...	0.00
Paycheck	9/23/2009	2455	gmwc		1131.02 · Che...	0.00
Paycheck	9/23/2009	2454	gmwc		1131.02 · Che...	0.00
Paycheck	9/23/2009	2454	gmwc		1131.02 · Che...	7.25
Paycheck	9/23/2009	2454	gmwc		1131.02 · Che...	1.70
Paycheck	9/23/2009	2454	gmwc		1131.02 · Che...	0.00
Paycheck	9/23/2009	2454	gmwc		1131.02 · Che...	0.00
Paycheck	10/14/2009	2500	gmwc		1131.02 · Che...	0.00
Paycheck	10/14/2009	2500	gmwc		1131.02 · Che...	0.00
Paycheck	10/14/2009	2500	gmwc		1131.02 · Che...	0.93
Paycheck	10/14/2009	2500	gmwc		1131.02 · Che...	3.26
Paycheck	10/14/2009	2500	gmwc		1131.02 · Che...	0.22
Paycheck	10/14/2009	2500	gmwc		1131.02 · Che...	0.76
Paycheck	10/14/2009	2500	gmwc		1131.02 · Che...	0.00
Paycheck	10/14/2009	2500	gmwc		1131.02 · Che...	0.00
Paycheck	10/14/2009	2500	gmwc		1131.02 · Che...	0.00
Paycheck	10/14/2009	2500	gmwc		1131.02 · Che...	0.00
Paycheck	10/14/2009	2501	gmwc		1131.02 · Che...	0.00
Paycheck	10/14/2009	2501	gmwc		1131.02 · Che...	2.82
Paycheck	10/14/2009	2501	gmwc		1131.02 · Che...	0.66
Paycheck	10/14/2009	2501	gmwc		1131.02 · Che...	0.00
Paycheck	10/14/2009	2501	gmwc		1131.02 · Che...	0.00
Paycheck	10/29/2009	2518	gmwc		1131.02 · Che...	0.00
Paycheck	10/29/2009	2518	gmwc		1131.02 · Che...	0.47

EXHIBIT D

Law and Business Offices of

Paul D. Levie
2465 Shane Drive
Prescott, Arizona 86305

Attorney At Law
(928) 778-2600 Prescott
(928) 778-2301 Prescott Home
(928) 717-2621 FAX

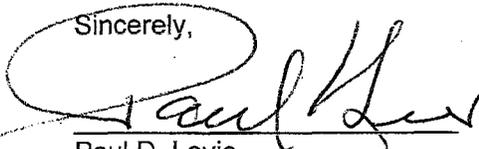
Equestrian Development Corporation
Granite Mountain Homesites
Granite Mountain Water Co., Inc.
Chino Meadows II Water Co., Inc.
Chino Meadows Properties
Paulden Properties
Investment Properties

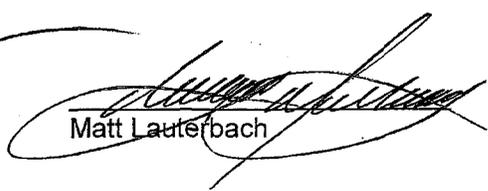
December 8, 2010

Pam Harbeson,

In appreciation for your outstanding performance and work ethic since joining our team earlier this year, in addition to the enclosed bonus of \$500.00 we are increasing your hourly wage, effective January 1st, 2011, from \$13.00/hour to \$14.50/hour. You have proven to be a confident and proactive team member. Your skills of auditing and analysis are comparable to your ability to assertiveness and tenacity to get the jobs done.

Sincerely,


Paul D. Levie


Matt Lauterbach

Cc: Personnel File

Law and Business Offices of

Paul D. Levie
2465 Shane Drive
Prescott, Arizona 86305

Attorney At Law
(928) 778-2600 Prescott
(928) 778-2301 Prescott Home
(928) 717-2621 FAX

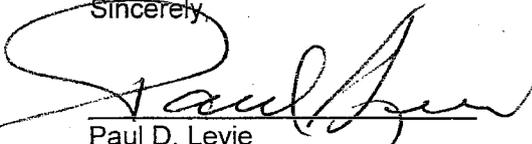
Equestrian Development Corporation
Granite Mountain Homesites
Granite Mountain Water Co., Inc.
Chino Meadows II Water Co., Inc.
Chino Meadows Properties
Paulden Properties
Investment Properties

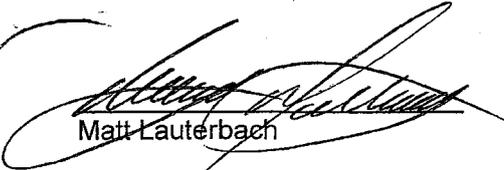
December 8, 2010

John DeGarmo,

In appreciation for your outstanding performance and work ethic over the last year, in addition to the enclosed bonus of \$250.00 we are increasing your hourly wage, effective January 1st, 2011, from \$14.00/hour to \$15.00/hour. You are an exemplary employee and your dedication in so many diverse working environments and tasks is greatly appreciated. We can always count on you do get things done.

Sincerely,


Paul D. Levie


Matt Lauterbach

Cc: Personnel File

Law and Business Offices of

Paul D. Levie
2465 Shane Drive
Prescott, Arizona 86305

Attorney At Law
(928) 778-2600 Prescott
(928) 778-2301 Prescott Home
(928) 717-2621 FAX

Equestrian Development Corporation
Granite Mountain Homesites
Granite Mountain Water Co., Inc.
Chino Meadows II Water Co., Inc.
Chino Meadows Properties
Paulden Properties
Investment Properties

December 8, 2010

Matt Lauterbach,

Effective January 1st, 2011 your hourly salary will be increased to \$17.00 per hour.

Sincerely,



Paul D. Levie

Cc: Personnel File

EXHIBIT E



Utility Services Associates
LLC
You Leak, We Seek™

March 3, 2010

Chino Meadows II Water Co.
Attn: Matt Lauterbach
PO Box 350
Chino Valley, AZ 86323

Dear Mr. Lauterbach:

We would like to thank you for this opportunity to submit this proposal for your consideration of a **Leak Detection Project for the Chino Meadows II Water Co., AZ.**

We advocate furnishing a comprehensive leak survey of the area you designated. This will maximize our ability to find even smaller leaks.

We specialize in Leak Detection. We are not affiliated with any one manufacturer. Therefore, we can use whatever equipment and procedures meet your special needs. We constantly upgrade to the latest technology and methods to provide the most cost-effective service available. After reviewing information you provided, we are confident we can identify areas of unaccounted for water, lost through leakage, in the distribution system.

The area we discussed for this leak survey and pinpointing project is **4 to 10 miles** of distribution pipe, varying in sizes from **2" through 6"**. Pipe material consists of **100% PVC**. Valve boxes are mostly accessible for easy contact of our equipment. Contact points (valves, hydrants or services, etc.) are within **300 feet** in most cases. The pressure varies from **35 PSI to 60 PSI**. Non Revenue Water (NRW) is **9%**.

Our experienced Field Technicians provide the highest degree of professionalism in the business. Our office staff has been with the company since its inception. We strive to help clients reduce their non-revenue water loss due to leakage in a cost-effective manner. When leaks are eliminated, the effects on loss management and conservation will ultimately outweigh the initial cost of our service. We are proud of our record with other communities, and suggest you contact at least a sampling of them to confirm our abilities.

We believe our unique qualifications and the services we can provide make us the best candidate for successfully fulfilling your leak detection needs. We look forward to the opportunity of assisting you with this important water conservation project. Our quotation and procedures and methods are attached for your review and are incorporated into the proposal.

We thank you for your interest and hope to see you in the near future.

Sincerely,
Bruce Rubin
Bruce Rubin
Consultant

March 3, 2010
Chino Meadows II Water Co., AZ

QUOTATION

The following prices are based on information provided to us as described in the first page of this proposal letter. Should actual conditions or footage vary it may be necessary to adjust pricing accordingly.

Locate and Pinpoint Water Leaks

2 days	@ \$969.00 per day:	\$1,938.00
	Mobilization Charges:	\$358.00

The above is a minimum price and applies only when we are in the area. In the event services are desired when we are not in the area or mobilization to the area requires airfare, rental car, freight, etc., mobilization charges will be negotiated. **Any applicable state taxes will be added when service is performed.**

Daily rate is based on 8 hours per day, Monday through Friday. In the event an extension of days or footage is desired while we are on this project the additional charge will be at the same ratio as the above schedule. This project may be extended only if our schedule permits and upon approval of Chino Meadows II Water Co.. In the event a reduction or extension of days or footage is desired, prior to our arrival please contact us for a review of the above pricing. To schedule service, please call 877-585-LEAK (5325).

It is understood that pinpointing leaks on private service lines is not a part of this project. However, we will indicate which service lines are leaking whenever possible at no extra charge.

In order to expedite this project and to make sure you get the most effective water line survey for your investment, it will be necessary for you to supply a helper at all times who can assist our Field Technician with information regarding the water system. A helper will also ensure that no areas are missed during the survey and all possible methods are utilized and to locate all lines accurately.

When quotes are based on a fixed price, in order to expedite the survey, it is necessary that preparation for service as outlined herein be adhered to. The above price includes up to two copies of any Final Report prepared by Utility Services Associates for U.S. clients and one copy for overseas clients. (One copy of Final Report will be sent upon project completion unless otherwise requested.) Additional copies may be obtained at a price of \$30.00 per copy.

CONTRACT TIME - Proposal price shall be held for 90 days from proposal date.

Mobilization Charges may be adjusted based upon changes in airfare or rental car costs. Prices above do not include any applicable taxes.

PAYMENT - A service charge will be assessed on past due or delinquent accounts at the rate of 1^{1/2}% per month.

Bruce Rubin

EXHIBIT

tabbles

A-3
~~ADMITTED~~

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE – Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

IN THE MATTER OF THE APPLICATION OF
CHINO MEADOWS II WATER CO., INC. FOR A
RATE INCREASE.

DOCKET NO. W-02370A-10-0519

**REJOINDER TESTIMONY
OF
RAY L. JONES
ON BEHALF OF
CHINO MEADOWS II WATER CO., INC.
SEPTEMBER 28, 2011**

**REJOINDER TESTIMONY
OF
RAY L. JONES
ON BEHALF OF
CHINO MEADOWS II WATER CO., INC.
SEPTEMBER ~~7~~²⁸, 2011
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1 **I INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS?**

3 A. My name is Ray L. Jones. My business address is 25213 N. 49th Drive, Phoenix, Arizona
4 85083.

5 **Q. ARE YOU THE SAME RAY L. JONES WHO PREVIOUSLY SUBMITTED**
6 **DIRECT AND REBUTTAL TESTIMONY IN THIS DOCKET?**

7 A. Yes.

8 **II RESPONSE TO STAFF'S SURREBUTTAL TESTIMONY**

9 **Q. HAVE YOU REVIEWED STAFF'S SURREBUTTAL TESTIMONY IN THIS**
10 **CASE?**

11 A. Yes, I reviewed the testimony provided by Juan C. Manrique and Crystal S. Brown.

12 **Q. WHAT WAS YOUR INITIAL REACTION TO STAFF'S SURREBUTTAL**
13 **TESTIMONY?**

14 A. I was disappointed. I had hoped that Staff would respond more positively to the ideas
15 discussed and compromises proposed in my Rebuttal Testimony.

16 **Q. WHY DID YOU THINK STAFF WOULD RESPOND MORE POSITIVELY TO**
17 **CHINO?**

18 A. I have been encouraged by the Commission's recent discussions regarding the financial
19 issues facing water companies, both large and small.

20 The Commission has recently opened two dockets related to addressing issues facing
21 water companies. Docket ACC-00000A-10-0466 was opened to addressing regulatory
22 lag faced by water companies and other utilities. Additionally the Commission opened
23 Docket W-00000C-06-0149 to several issues facing water companies.

1 The Commission recently completed workshops (Docket No. W-00000C-06-0149)
2 addressing many issues facing water companies. At the initial workshop meeting,
3 Utilities Director, Steve Olea, asked the participants to think outside of the box and stated
4 that water is too cheap. Others spoke to the plight of small water companies, in particular
5 mentioning the need for consolidation of companies and the need to enhance viability of
6 water companies and encourage investment in infrastructure. Commissioner Mayes
7 observed: We must deal with small water companies. They take all the time. They are
8 troubled. They are the elephant in the room.

9 As the workshops progressed, the original scope of the docket was expanded and many
10 topics were discussed. I thought the discussions were productive and indicated a
11 willingness by the Commission to begin taking action to address issues facing small
12 water companies such as Chino.

13 I felt this case was a good opportunity to address some of the issues facing a small water
14 company such as Chino. Chino is a company working hard to address issues and
15 improve its operations. Chino is requesting a modest rate increase and has not had a rate
16 increase in over 16 years. Chino needs sufficient revenue to continue its improvements
17 and attract new investment into its water system. This case appeared to me to be a good
18 opportunity for the Commission to break from its past practices and move to a style of
19 ratemaking that addresses some of the problems facing small utilities.

20 **Q. HOW WOULD YOU DESCRIBE STAFF'S APPROACH TO ITS**
21 **SURREBUTTAL TESTIMONY?**

22 **A.** Their approach is consistent with its Direct Testimony and consistent with practices I
23 have observed on other past cases. I would describe it as a minimalistic approach to
24 setting a revenue requirement. The approach seems to have the goal of arriving at the
25 lowest supportable revenue requirement. My observation is that this approach was

1 developed over many years of customer-centric rate case processing at the Commission.

2 While I understand that a low revenue requirement benefits customers, we are now seeing
3 the results of focusing just on low revenue requirements. Small Arizona water utilities
4 are clearly struggling.

5 One clear lesson of the workshops is that customers also benefit from a financially
6 healthy utility that can attract capital and address customers' needs.

7 **Q. WOULD YOU SUMMARIZE THE DIFFERENCES BETWEEN YOUR**
8 **POSITION AND STAFF'S?**

9 A. It appears that our differences come down to two basic issues¹. We have a fundamental
10 disagreement about whether to use rate of return to set the revenue requirement as
11 recommended by Staff, or whether to use an operating margin to set the revenue
12 requirement as recommended by Chino. This disagreement impacts the revenue
13 requirement by approximately \$42,000. The operating margin issue is discussed in detail
14 below.

15 We also disagree on the level of expenses to include in the test year. The difference is
16 approximately \$36,825. The difference is not so much a disagreement on the facts as it is
17 a disagreement on our approaches to rate making.

18 **Q. WHAT IS CHINO'S REJOINDER REVENUE REQUIREMENT?**

19 A. Chino's rejoinder revenue requirement is shown on Schedule RLJ-1. Chino's requested
20 revenue increase is \$64,305, an increase of 18.29% over adjusted test-year revenues of
21 \$351,633.

22

¹ As of the preparation of this Rejoinder Testimony, Staff had not filed schedules supporting its Surrebuttal Position. Accordingly, estimates of Staff's positions are used in this analysis. I believe that Staff and the Company either agree or are very close to agreement on ratebase.

1 **III USE OF OPERATING MARGIN**

2 **Q. HOW WAS CHINO'S REJOINDER REVENUE REQUIREMENT**
3 **DETERMINED?**

4 A. As shown on Schedule RLJ-1, the revenue requirement is calculated to produce an
5 operating margin of 12.5%

6 **Q. WOULD YOU SUMMARIZE YOUR POSITION REGARDING USE OF THE**
7 **OPERATING MARGIN METHOD?**

8 A. As fully discussed in my Rebuttal testimony, there were several factors that led to the
9 decision to use the operating margin method.

- 10 • Chino is a small company with a relatively small rate base and rate base per
11 customer. A company operating at a small margin may have difficulty covering
12 increasing or fluctuating costs, dealing with contingencies, and attracting new
13 capital for system improvements.
- 14 • Chino is concerned that setting rates based on the rate base method will not
15 provide sufficient income to allow Chino to attract sufficient funds to complete
16 needed system improvements.
- 17 • Chino has a history of fluctuating costs that are not being recovered in the allowed
18 expenses in this case. Chino must have sufficient revenues to cover these
19 fluctuating expenses while still being able to deal with increasing costs and capital
20 investment needs.

1 **Q. HAS CHINO COMPARED THE OPERATING MARGIN RESULTING FROM**
 2 **STAFF'S RECOMMENDED REVENUE REQUIREMENT TO OTHER**
 3 **COMPANIES RECENTLY IN THE RATE MAKING PROCESS?**

4 A. As fully discussed in my Rebuttal Testimony, I compared the proposed Chino revenue
 5 requirements to the revenue requirement recently approved for Chino's sister company
 6 Granite Mountain Water Co., Inc. ("Granite"). As shown in the table below, both the
 7 current Staff position and the Company's calculation of rates using the rate base method
 8 result in a smaller Operating Income than that recently approved for Granite, even though
 9 Chino's expenses are nearly five times those of Granite.

	Granite	Chino Meadows		
	Mountain	Staff Position	Company Filing	
	Rate Decision	RB Method	RB Method	OM Method
Revenue	\$ 110,575	\$ 330,067	\$ 373,940	\$ 415,938
Operating Expenses	77,959	310,254	353,507	363,946
Operating Income	\$ 32,616	\$ 19,813	\$ 20,433	\$ 51,992
Return on Rate Base	10.00%	9.60%	9.60%	24.39%
Operating Margin	29.50%	6.00%	5.50%	12.50%

16 In addition, I researched Class C companies with rate filings made in 2009 and 2010.
 17 The table below summarizes my findings from those cases.

Companies without Rate Base - Rate Set Based on Cash Flow Analysis			
Utility	Docket	Rate Base	Operating Margin
Valle Verde	W-01431A-09-0360	(593,061)	10.1%
Companies with Rate Base - Rate Set Based on Rate of Return			
Utility	Docket	Rate Base	Operating Margin
Southland Utilities	W-02062A-09-0515	417,978	16.9%
Mt. Tipton Water	W-02105A-09-0522	569,669	13.5%
Las Quinta Serenas	W-01583A-09-0589	1,913,221	25.5%
Abra Water	W-01782A-10-0224	466,276	11.1%
Average		841,786	16.8%

1 **Q. HOW DOES CHINO'S RATE BASE COMPARE TO THE COMPANIES IN**
2 **YOUR TABLE THAT HAD RATES SET BASED ON RATE OF RETURN?**

3 A. Chino has a much smaller rate base than the other companies. Chino's rate base is about
4 ½ the level of the smallest rate base and approximately 25% of the average rate base of
5 the companies.

6 **Q. WHAT CONCLUSIONS HAVE YOU DRAWN AFTER COMPARING THE**
7 **SAMPLE COMPANIES TO CHINO?**

8 A. It is clear that setting rates using the rate-base method for water companies with a small
9 rate base results in a much lower operating margin. In the case of Chino, the operating
10 margin would be in the 5% to 6% range, with the companies with larger rate bases
11 averaging 16.8%. It is also clear that Staff's approach works to the detriment of Chino, a
12 company with a small rate base, as compared to a company with no rate base at all. Put
13 another way, Chino would have received higher rates if it had not invested in facilities.
14 As applied to smaller utilities, Staff's method favors utilities that don't invest over those
15 that do.

16 The underlying question at issue is: what level of resulting operating margin should the
17 transition from rate of return ratemaking to operating margin ratemaking be made?

18 **Q. HAVE OTHER JURISDICTIONS ADDRESSED THE ISSUE?**

19 A. I am aware that the California Public Utilities Commission ("CPUC") has adopted
20 WATER DIVISION STANDARD PRACTICE U-3-SM (SP-U-3-SM) requiring the
21 CUPC to apply standard rates of return and standard rates of margin for water companies
22 with less than 2,000 customers (Class C and Class D). Pursuant to the Standard Practice
23 the CUPC bases its revenue requirement on the method that produces the *highest* revenue

1 requirement². CPUC Staff currently recommends a 23.4% rate of margin for Class C
2 water utilities (501 – 2000 customers).

3 **Q. HOW WOULD THIS POLICY APPLY IN ARIZONA?**

4 A. If this policy was used here, whenever a small water company's operating margin
5 dropped below the operating margin typical for larger companies, ratemaking would
6 transition from a rate-of-return basis to an operating-margin basis. Based on my analysis
7 of larger Class C companies, operating margin ratemaking would be used for Chino.

8 **Q. ARE YOU AWARE OF ANY CLASS C OR LARGER COMPANIES WITH RATE**
9 **BASE RECENTLY AFFORDED OPERATING MARGIN RATEMEKING**
10 **TREATMENT?**

11 A. Johnson Utilities Wastewater Division recently had rates set on an operating margin
12 basis.³ Since Johnson had a rate base of only \$136,562, Staff recommended setting rates
13 on an operating margin of 10.0%. The Commission ultimately approved a 3.0%
14 operating margin for Johnson, which produced operating income of \$290,610 and cash
15 flow of approximately \$2.4 million. The available cash flow represented 25.2% of
16 expenses.

17 **Q. BASED ON YOUR REVIEW OF OTHER CLASS C COMPANIES, THE CPUC**
18 **STANDARD PRACTICE AND THE JOHNSON UTILITIES CASE, DO YOU**
19 **BELIEVE THAT CHINO'S REVENUE REQUIREMENT SHOULD BE SET**
20 **USING AN OPERATING MARGIN?**

21 A. Yes. Chino should not be discriminated against compared to similarly situated
22 companies with no rate base or larger companies with or without a rate base. It is unfair

² See CPUC STANDARD PRACTICE FOR PREPARING RESULTS OF OPERATION REPORTS FOR GENERAL RATE INCREASE REQUESTS OF WATER UTILITIES OTHER THAN MAJOR COMPANIES Standard Practice U-3-SM revised April 2006 and CPUC RESOLUTION NO. W-4524, dated March 17, 2005.

³ See Decision No. 71854 in Docket No. WS-02987A-08-0180

1 for Staff to recommend a 10% operating margin for Johnson Utilities and refuse to
2 recommend an operating margin approach in this case.

3 **Q. WHAT OPERATING MARGIN ARE YOU RECOMMENDING IN YOUR**
4 **REJOINDER TESTIMONY?**

5 A. I am recommending an operating margin of 12.5%. The operating margin was selected to
6 produce a ratio of cash flow to expenses of 25%, approximately equaling the ratio
7 granted in the Johnson Utilities case.

8 **IV RATE BASE**

9 **Q. HAS THE COMPANY UPDATED ITS RATE BASE POSITION?**

10 A. No. Although I have not yet reviewed Staff's schedules, I expect Staff to adopt the
11 adjustments proposed in my rebuttal testimony and that our rate base amounts will
12 substantially agree.

13 **V INCOME STATEMENT**

14 **Q. PLEASE SUMMARIZE THE COMPANY'S REJOINDER POSITION**
15 **REGARDING REVENUE AND EXPENSES SHOWN ON SCHEDULES RLJ-11**
16 **AND RLJ-12?**

17 A. The Company does not propose any adjustments to revenue and agrees with test year
18 revenue of 351,633 as proposed by Staff. The Company's proposed adjustments to
19 expenses result in test year expenses of \$363,946.

20 **Q. WHAT ARE THE REMAINING AREAS OF DISAGREEMENT BETWEEN**
21 **STAFF AND THE COMPANY?**

22 A. The primary areas of disagreement are related to salaries and wages expenses, treatment
23 of the cost of employee meals and the *pro forma* adjustment for proposed leak detection
24 services. There are also minor agreements regarding the allocation of certain expenses
25 between Chino and Granite Mountain.

1 **Q. IS THE COMPANY ALTERING ITS POSITION ON ANY OF THE DISPUTED**
2 **ITEMS?**

3 A. No. The Company stands by its Rebuttal Testimony on disputed issues.

4 **Q. WHAT IS THE NATURE OF YOUR DISAGREEMENTS WITH STAFF?**

5 A. The disagreements are largely related to what adjustments should be made to establish a
6 normal or more realistic relationship between revenues expenses and rate base. Staff's
7 customer-centric approach is focused on making adjustments that tend to lower the
8 revenue requirement. My approach is more focused on making sure Chino has the
9 resources necessary to attract capital and continue making improvements to its system.

10 For example, Staff reaches back into 2008 to establish an allocation for salaries charged
11 to Granite. Staff argues that using a different salary allocation than used in the 2008
12 Granite case will result in the Granite customers overpaying. Yet Staff allocates
13 transportation and insurance expense to Granite even though none was allocated in the
14 Granite case. Using Staff's logic, wouldn't that cause Granite customers to underpay and
15 the utility to be shorted? The only consistency in Staff's positions is that both actions
16 lower Chino's revenue requirement.

17 Another example is Staff's three-year averaging of Chino's overtime expense while
18 failing to normalize \$30,000 in expenses for repairs to its water system incurred in 2008.
19 It seems only fair that Staff normalize all of the expenses or at least provide an operating
20 margin that provides sufficient cash flow to deal with unexpected expenses while
21 maintaining sufficient income to attract new capital.

22 More troubling to me are Staff's water management recommendations that will reduce
23 Chino's revenues and increase Chino costs. I have no problem with conservation
24 oriented rates and Best Management Practices. However, at the same time Staff is

1 recommending a mere 6.0% for operating margin, Staff provides no adjustment⁴ to deal
2 with the certainty that Chino will experience a reduced level of operating income as a
3 result of the water management recommendations.

4 **Q. ARE THE COMPANY AND STAFF IN AGREEMENT REGARDING RATE**
5 **CASE EXPENSE?**

6 A. I don't know. Staff states that it requested invoices to support the requested \$30,000 in
7 rate case expense. Chino has provided the invoices for rate case expense incurred to date.
8 Those invoices total only about \$5,000. Those invoices do not include the costs for my
9 preparation of Rebuttal Testimony and Rejoinder Testimony, my preparation for hearing,
10 my appearance at hearing or any post-hearing activities. Likewise they do not include
11 the costs for Craig A. Marks PLC for legal services pertaining to the review and filing of
12 testimony, preparation for hearing, appearance at hearing and any post-hearing activities.
13 That is because these activities have not yet been billed to Chino. The costs for my
14 services and the services of Craig A. Marks PLC are estimated at \$25,000. The requested
15 rate case expense consists of these estimated costs plus the actual costs incurred to date.

16 **Q. HOW DO THESE COSTS COMPARE TO OTHER CLASS C COMPANY'S**
17 **RATE CASE EXPENSE?**

18 A. They compare favorably. When researching Class C companies with rate filings made in
19 2009 and 2010, I noted the approved rate case expense. It ranged from a high of \$80,000
20 to a low of \$7,500 with an average of \$39,643.

21 **Q. WHAT AMORTIZATION PERIOD DOES THE COMPANY PROPOSE?**

22 A. My review indicated that the Commission approved an amortization period of three years
23 for all of the reviewed Class C companies. The Company believes a three year

⁴ Staff's specifically rejects the Company's *pro forma* adjustment of \$2,296 for leak detection services.

1 amortization period is appropriate, since the Company is likely to need to file for another
2 rate increase within three years.

3 **Q. WHAT IS THE RESULTING RATE CASE EXPENSE RECOMMENDED BY**
4 **THE COMPANY?**

5 A. As shown on Schedule RLJ-20, the resulting rate case expense is \$10,000 per year.

6 **VI OTHER ISSUES**

7 **Q. YOU HAVE MENTIONED CHINO'S DESIRE TO CONTUNUE MAKING**
8 **IMPROVMENTS TO ITS SYSTEM. CAN YOU EXPAND ON THIS**
9 **STATEMENT?**

10 A. Yes. Since Matt Lauterbach was hired in August of 2008, Chino (and Granite) has
11 embarked taken on multiple efforts to improve their operations and physical water
12 systems. A summary of improvement activities is attached as Exhibit A. Chino believes
13 that adoption of Staff's recommendations in this case will impair their efforts to improve
14 operations and attract capital needed for additional improvements.

15 **Q. ARE THERE ANY OTHER ISSUES YOU WOULD LIKE TO DISCUSS?**

16 A. We still have not received Staff's rebuttal schedules. Once I review those, I may need to
17 file supplemental rejoinder testimony.

18 **VII RATE DESIGN**

19 **Q. HAS THE COMPANY PROVIDED AN UPDATED RATE DESIGN WITH ITS**
20 **REBUTTAL TESTIMONY?**

21 A. No. The Company will present a late filed rate design once it has had the opportunity to
22 review Staff's surrebuttal schedules.

23 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

24 A. Yes.

SCHEDULES

RLJ-1 – RLJ-27

Computation of Increase in Gross Revenue Requirements

Line No.	Company As Filed	Company Rebuttal RB Method	Company Rebuttal OM Method
1	Rate Base Method		
2	\$ 225,397	\$ 213,154	
3			
4	(2,278)	\$ 3,044	
5			
6	-1.01%	1.43%	
7			
8	10.81%	9.60%	
9			
10	\$ 82,318	\$ 20,463	
11			
12	\$ 88,912	\$ 17,419	
13			
14	1.3699	1.2806	
15			
16	\$ 84,641	\$ 22,307	
17			
18	\$ 351,633	\$ 351,633	
19			
20	\$ 436,274	\$ 373,940	
21			
22	24.07%	6.34%	
23			
24	Operating Margin Method		
25			0.87%
26			
27			\$ 3,044
28			
29			12.50%
30			
31			\$ 51,992
32			
33			\$ 48,948
34			
35			1.3137
36			
37			\$ 64,305
38			
39			\$ 351,633
40			
41			\$ 415,938
42			
43			18.29%
44			

Computation of Gross Revenue Conversion Factor

Line			
<u>No.</u>			
1	<u>Calculation of Effective Tax Rate</u>		
2	Operating Income Before Taxes	100.0000%	
3	State Tax Rate	<u>6.9680%</u>	
4	Federal Taxable Income	93.0320%	
5	Applicable Federal Tax Rate	<u>17.1424%</u>	
6	Effective Federal Tax Rate	15.9479%	
7			
8	Combined Effective Tax Rate		22.9159%
9			
10	<u>Calculation of Effective Property Tax Rate</u>		
11	Unity	100.0000%	
12	Combined Effective Tax Rate	<u>22.9159%</u>	
13	One Minus Combined Effective Tax Rate	77.0841%	
14	Property Tax Factor	<u>1.2530%</u>	
15	Effective Property Tax Factor		<u>0.9659%</u>
16			
17	Federal and State Income Tax Rate and Property Tax Rate		23.8818%
18			
19	<u>Calculation of Gross Revenue Conversion Factor</u>		
20	Revenue	100.0000%	
21	Combined Tax and Property Tax Rate	<u>23.8818%</u>	
22	Operating Income Percentage	<u>76.1182%</u>	
23	Gross Revenue Conversion Factor	<u>1.31375</u>	
24			
25			

Summary of Original Cost Rate Base Elements

Line No.		Company As Filed	Company Rebuttal
1			
2	Gross Utility Plant in Service	\$ 761,698	\$ 765,198
3	Less: Accumulated Depreciation	508,828	508,828
4	Net Utility Plant in Service	<u>\$ 252,870</u>	<u>\$ 256,370</u>
5			
6	Less:		
7	Advances in Aid of Construction	\$ 19,004	\$ 7,829
8	Service Line and Meter Advances	42,208	42,208
9	Contributions in Aid of Construction (CIAC)	12,809	23,984
10	Less: Accumulated Amortization of CIAC	2,631	2,910
11	Net CIAC	\$ 10,178	\$ 21,074
12			
13	Total Advances and Contributions	\$ 71,390	\$ 71,111
14			
15	Customer Security Deposits	\$ -	\$ 11,330
16			
17	Accumulated Deferred Income Taxes	\$ -	\$ -
18			
19	Plus:		
20	Working Capital Allowance	\$ 37,764	\$ 33,072
21	Materials and Supplies Inventories	\$ 3,024	\$ 3,024
22	Prepayments	\$ 3,129	\$ 3,129
23			
24	Rate Base	<u>\$ 225,397</u>	<u>\$ 213,154</u>
25			

Rate Base Adjustment RLJ-1

Line

No.

1 Adjust AIAC Balance to Reflect Expired Main Extension Agreements

2

4

5 Description

Company

Company

Company

Adjusted

As Filed

Adjustment

Balance

6

7 AIAC - Main Extension Contracts

\$ 19,004

\$ (11,175)

\$ 7,829

8

9

Contract

10

Balance

11 Expiring Contracts

12/31/2009

12 Allen Barras (6/8/1999)

1,144

13 Hoffman (9/16/1999)

2,626

14 Vivien & Sebastien Garote (10/28/1999)

926

15 Herb Schuerman (12/15/1999)

2,453

16 Lyle Garrison (12/20/1999)

4,026

17

11,175

18

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Schedule RLJ-6

Rate Base Adjustment RLJ-2

Line

No.

1 Adjust CIAC Balance to Reflect Expired Main Extension Agreements

2

3

4 Description

5

6 Gross CIAC

<u>Company</u>	<u>Company</u>	<u>Company</u>
<u>As Filed</u>	<u>Adjustment</u>	<u>Adjusted</u>
		<u>Balance</u>
\$ 12,809	\$ 11,175	\$ 23,984

7

8

9

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18

Rate Base Adjustment RLJ-3

Line

No.

1 Adjust Amortization of CIAC

2

3

4 Description

5

6 Amortization of CIAC - As Filed

7 Amortization of CIAC - Additions

8

9

10

11

12

13

14

15

16

17

18

	Company <u>As Filed</u>	Company <u>Adjustment</u>	Company <u>Adjusted Balance</u>
	\$ 2,631	\$ -	\$ 2,631
	-	279	279
	<u>\$ 2,631</u>	<u>\$ 279</u>	<u>\$ 2,910</u>

Calculation of Amortization of CIAC

CIAC Amortization Rate	2.50% (5.0% x 1/2 year)
CIAC Additions	<u>\$ 11,175</u>
Amortization of CIAC	\$ 279

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Schedule RLJ-8

Rate Base Adjustment RLJ-4

Line

No.

1 Accept Staff Rate Base Adjustment No. 4 - Customer Deposits

2

3

4 Description

Company
As Filed

Company
Adjustment

Company
Adjusted
Balance

5

6 Customer Deposits

\$ -

\$ 11,330

\$ 11,330

Accept Staff Adjustment

7

8

9

10

11

12

13

14

15

16

17

18

Rate Base Adjustment RLJ-6

Line

No.

1 Adjustment to Reflect Post-Test Year Plant

2

3

4 Description

5

6 Plant In Service

7

8

9

10

11

12

13

14

<u>Company</u>	<u>Company</u>	<u>Company</u>
<u>As Filed</u>	<u>Adjustment</u>	<u>Adjusted</u>
		<u>Balance</u>
\$ -	\$ 3,500.00	\$ 3,500.00
	4/5/2010 Caselle Clarity Upgrade Payment \$ 688	
	8/17/2010 Caselle Clarity Final Upgrade Payment 688	
	8/17/2010 Caselle Cash Receipts Module <u>2,125</u>	
	\$ 3,500	

Operating Income - Test Year and Company Proposed
Operating Income Method

Line No.		Company Test Year Ended 12/31/2009	Company Adjustments	Company Test Year as Adjusted	Company Proposed Increase	Company With Rate Increase
1	Revenues					
2	Metered Water Revenues	\$ 344,260	\$ -	\$ 344,260	\$ 64,305	\$ 408,565
3	Other Water Revenues	7,373	-	7,373		7,373
4	Total Revenues	\$ 351,633	\$ -	\$ 351,633	\$ 64,305	\$ 415,938
5	Operating Expenses					
6	Salaries and Wages - Employees	\$ 126,312	\$ (8,809)	\$ 117,503		\$ 117,503
7	Salaries and Wages - Officers, Dir., Stockholder	35,498	-	35,498		35,498
8	Purchased Water	100	\$ -	100		100
9	Purchased Power	22,657	-	22,657		22,657
10	Chemicals	884	-	884		884
11	Materials & Supplies & Repairs & Maintenance	16,148	-	16,148		16,148
12	Office Supplies Expense	17,050	-	17,050		17,050
13	Contract Services Engineering	-	-	-		-
14	Contract Services Accounting	600	-	600		600
15	Contract Services Legal	3,995	(2,995)	1,000		1,000
16	Contract Services Testing	7,062	(2,296)	4,766		4,766
17	Contract Services Other	9,263	2,296	11,559		11,559
18	Rents	6,000	-	6,000		6,000
19	Equipment Rental	246	-	246		246
20	Transportation Expense	15,726	(1,582)	14,144		14,144
21	Insurance - General Liability	11,848	(3,035)	8,813		8,813
22	Insurance - Worker's Compensation	2,555	-	2,555		2,555
23	Insurance - Other	165	-	165		165
24	System Support	4,339	(1,463)	2,876		2,876
25	Regulatory Expense	442	9,558	10,000		10,000
26	Bad Debt Expense	1,356	-	1,356		1,356
27	Miscellaneous Expense	4,089	(1,854)	2,235		2,235
28	Licensing & Permits	2,910	-	2,910		2,910
29	Tax - Other	6,446	-	6,446		6,446
30	Property Taxes	22,329	(10,142)	12,187	806	12,993
31	Payroll Taxes	10,804	(428)	10,376		10,376
32	Depreciation Expense	25,132	13,897	39,029		39,029
33	Interest on Deposits	-	680	680		680
34	Operating Expenses Before Income Taxes	\$ 353,956	\$ (6,173)	\$ 347,783	\$ 806	\$ 348,589
35	Income Taxes	(45)	850	805	14,552	15,357
36	Total Operating Expenses	\$ 353,911	\$ (5,322)	\$ 348,589	\$ 15,357	\$ 363,946
37						
38	Operating Income (Loss)	\$ (2,278)	\$ 5,322	\$ 3,044	\$ 48,948	\$ 51,992
39						
40					Operating Margin	12.50%
41						
42						

Summary of Income Statement Adjustments

Line No.	[A] Company As Filed	[B] ADJ RU-1	[C] ADJ RU-2	[D] ADJ RU-3	[E] ADJ RU-4	[F] ADJ RU-5	[G] ADJ RU-6	[H] ADJ RU-7
1	Revenues							
2	Metered Water Revenues	\$ 344,260						
3	Other Water Revenues	7,373						
4	Total Revenues	\$ 351,633	\$ -					
5	Operating Expenses							
6	Salaries and Wages - Employees	\$ 126,312	\$ (8,809)					
7	Salaries and Wages - Officers, Dir., Stockholder	35,498						
8	Purchased Water	100						
9	Purchased Power	22,657						
10	Chemicals	884						
11	Materials & Supplies & Repairs & Maintenance	16,148						
12	Office Supplies Expense	17,050						
13	Contract Services Engineering	-						
14	Contract Services Accounting	600						
15	Contract Services Legal	3,995			(2,995)			
16	Contract Services Testing	7,062				(2,296)		
17	Contract Services Other	9,263						
18	Rents	6,000						
19	Equipment Rental	246						
20	Transportation Expense	15,726				(1,582)		
21	Insurance - General Liability	11,848					(3,035)	
22	Insurance - Worker's Compensation	2,555						
23	Insurance - Other	165						
24	System Support	4,339						(1,463)
25	Regulatory Expense	442						
26	Bad Debt Expense	1,356						
27	Miscellaneous Expense	4,089						
28	Licensing & Permits	2,910						
29	Tax - Other	6,446						
30	Property Taxes	22,329						
31	Payroll Taxes	10,804				0%		
32	Depreciation Expense	25,132						
33	Interest on Deposits	-						
34	Operating Income Before Income Taxes	\$ 353,956	\$ (8,809)	\$ -	\$ (2,995)	\$ (2,296)	\$ (1,582)	\$ (3,035)
35	Income Taxes	(45)						
36	Total Operating Expenses	\$ 353,911	\$ (8,809)	\$ -	\$ (2,995)	\$ (2,296)	\$ (1,582)	\$ (3,035)
37								
38	Operating Income (Loss)	\$ (2,278)	\$ 8,809	\$ -	\$ 2,995	\$ 2,296	\$ 1,582	\$ 3,035

Summary of Income Statement Adjustments

Line No.	[I] ADJ RLJ-8	[J] ADJ RLJ-9	[K] ADJ RLJ-10	[L] ADJ RLJ-11	[M] ADJ RLJ-12	[N] ADJ RLJ-13	[O] ADJ RLJ-14	[P] ADJ RLJ-15	[Q] Company Adjusted
1	Revenues								
2									\$ 344,260
3									7,373
4	Total Revenues								
5	Operating Expenses								
6									\$ 117,503
7									35,498
8									100
9									22,657
10									884
11									16,148
12									17,050
13									-
14									600
15									1,000
16									4,766
17							2,296		11,559
18									6,000
19									246
20									14,144
21									8,813
22									2,555
23									165
24									2,876
25	9,558								10,000
26									1,356
27		(1,854)							2,235
28									2,910
29									6,446
30			(10,142)						12,187
31				(428)					10,376
32					13,897				39,029
33								680	680
34	Operating Income Before Income Taxes								
35	\$ 9,558	\$ (1,854)	\$ (10,142)	\$ (428)	\$ 13,897	\$ -	\$ 2,296	\$ 680	\$ 347,783
36	Total Operating Expenses								
37	\$ 9,558	\$ (1,854)	\$ (10,142)	\$ (428)	\$ 13,897	\$ 850	\$ 2,296	\$ 680	\$ 348,589
38	Operating Income (Loss)								
	\$ (9,558)	\$ 1,854	\$ 10,142	\$ 428	\$ (13,897)	\$ (850)	\$ (2,296)	\$ (680)	

Income Statement Adjustment RLJ-1

Line No.	<u>Description</u>	<u>Company As Filed</u>	<u>Company Adjustment</u>	<u>Company Adjusted Balance</u>
1	<u>Salaries and Wages - Employees</u>			
2				
3				
4	<u>Description</u>			
5				
6	Salaries and Wages - Employees	\$ 126,312	\$ (8,809)	\$ 117,503
7				
8				
9				
			<u>Salaries and Wages Adjustment</u>	
10	To remove salaries and wages chargeable to Granite Mountain		\$ (5,248)	Chino Payroll Records
11	To normalize overtime charges		\$ (2,761)	Per Staff Direct
12	To remove 50% of bonuses		\$ (800)	1/2 G/L acct. No. 6601.00
13			<u>\$ (8,809)</u>	
14				
15				

Income Statement Adjustment RLJ-2

Line

No.

1 Salary and Wages - Officers, Directors, Stockhldr

2

3

4 Description

Company
As Filed

Company
Adjustment

Company
Adjusted
Balance

5

6 Salary and Wages - Officers, Directors, Stockhldr

\$ 35,498.00

\$ -

\$ 35,498.00

7

8

9

10

Income Statement Adjustment RLJ-3

Line

No.

1 Contract Services - Legal

2

3

4 Description

5

6 Contract Services - Legal

7

8

9

10

Company
As Filed

Company
Adjustment

Company
Adjusted
Balance

\$	3,995	\$	(2,995)	\$	1,000	Accept Staff Adjustment
----	-------	----	---------	----	-------	-------------------------

Income Statement Adjustment RLJ-4

Line

No.

1 Contract Servcies - Testing

2

3

4 Description

5

6 Contract Servcies - Testing

7

8

9

10

Company
As Filed

Company
Adjustment

Company
Adjusted
Balance

\$ 7,062 \$ (2,296) \$ 4,766 Accept Staff Adjustment

Income Statement Adjustment RLJ-5

Line No.	Description	Company As Filed	Company Adjustment	Company Adjusted Balance	
1	<u>Transportation Expense</u>				
2					
3					
4	<u>Description</u>				
5					
6	Transportation Expense	\$ 15,726	\$ (1,582)	\$ 14,144	Accept Staff Adjustment
7					
8					
9					
10					

Income Statement Adjustment RLJ-6

Line

No.

1 Insurance, General Liability

2

3

4 Description

5

6 Insurance, General Liability

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Company As Filed	Company Adjustment	Company Adjusted Balance
\$ 11,848	\$ (3,035)	\$ 8,813

Insurance, General Liability Expense			
	Amount		
	Before	Allocation	Allocated
	Allocation	Percentage	Amount
Chino Meadows	11,848	0.7439	8,813
Granite Mountain	11,848	0.2561	3,035

Calculation of Three-Factor Allocation					
	Number of Customers	Plant In Service	O & M Expense	Total	Allocation Percentage
Chino Meadows	0.8994	0.5150	0.8172	2.2316	0.7439
Granite Mountain	0.1006	0.4850	0.1828	0.7684	0.2561
	1.0000	1.0000	1.0000	3.0000	1.0000

Allocation Factors			
	Chino Meadows	Granite Mountain	Total
Customers	876	98	974
	0.8994	0.1006	1.0000
Plant In Service	\$ 765,198	\$ 720,673	\$ 1,485,871
	0.5150	0.4850	1.0000
O&M Expense	\$ 348,589	\$ 77,959	\$ 426,548
	0.8172	0.1828	1.0000

Income Statement Adjustment RLJ-7

Line No.	Description	Company As Filed	Company Adjustment	Company Adjusted Balance
1	<u>System Support</u>			
2				
3				
4	<u>Description</u>			
5				
6	System Support	\$ 4,339	\$ (1,463)	\$ 2,856
7				
8				
9				
10				

Accept Staff Adjustment

Income Statement Adjustment RLJ-8

Line

No.

1 Rate Case Expense

2

3

4 Description

5

6 Rate Case Expense

7

8

9

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11

12

	<u>Company</u> <u>As Filed</u>	<u>Company</u> <u>Adjustment</u>	<u>Company</u> <u>Adjusted</u> <u>Balance</u>
	\$ 442	\$ 9,558	\$ 10,000
Rate Case Expense		\$ 30,000	
Years		<u>3</u>	
Expense		\$ 10,000	

Income Statement Adjustment RLJ-9

Line

No.

1 Miscellaneous Expense

2

3

4 Description

5

6 Miscellaneous Expense

7

8

9

10

11

12

	Company <u>As Filed</u>	Company <u>Adjustment</u>	Company <u>Adjusted Balance</u>
	\$ 4,089.00	\$ (1,854)	\$ 2,235
Out of Test Year Expense (Payment on old bank debt)			\$ 1,237
Meals at administrative meetings			617
			<u>\$ 1,854</u>

Income Statement Adjustment RLJ-10

Line No.	Description	Company As Adjusted	Company Proposed
1	<u>Property Tax Expense</u>		
2			
3			
4	<u>Description</u>		
5			
6	Adjusted Revenues in year ended 12/31/09	\$ 351,633	\$ 351,633
7	Adjusted Revenues in year ended 12/31/09	351,633	351,633
8	Adjusted Revenues in year ended 12/31/09	351,633	
9	Proposed Revenues after Increase		415,938
10	Average of three year's of revenue	351,633	373,068
11	Average of three year's of revenue, times 2	703,266	746,136
12	Add:		
13	Construction Work In Progress at 10%	-	-
14	Deduct:		
15	Net Book Value of Transportation Equipment	54,837	54,837
16			
17	Full Cash Value	648,429	691,299
18	Assessment Ratio	21.0%	21.0%
19	Assessed Value	136,170	145,173
20	Property Tax Rate (Test Year)	8.9500%	8.9500%
21			
22	Adjusted Test Year Property Tax	\$ 12,187	
23	Company Proposed Property Tax	<u>22,329</u>	
24	Test Year Adjustment	\$ (10,142)	
25			
26	Property Tax a Proposed Rates		\$ 12,993
27	Adjusted Test Year Property Tax		<u>12,187</u>
28	Increase in Property Tax due to Rate Increase		\$ 806
29			
30	Increase to Property Tax Expense		\$ 806
31	Increase in Revenue Requirement		\$ 64,305
32	Increase to Property Tax per Dollar Increase in Revenue		1.2530%
33			
34			
35			

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Schedule RLJ-23

Income Statement Adjustment RLJ-11

Line

No.

1 Payroll Taxes

2

3

4 Description

5

6 Payroll Taxes

7

8

9

10

	<u>Company</u> <u>As Filed</u>	<u>Company</u> <u>Adjustment</u>	<u>Company</u> <u>Adjusted</u> <u>Balance</u>
	\$ 22,329	\$ (428)	\$ 21,901

Income Statement Adjustment RLJ-12

Line

No.

1 Depreciation Expense

2

3

4 Description

5

6 Depreciation Expense

7

8

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18

Company
As Filed

Company
Adjustment

Company
Adjusted
Balance

\$ 25,132 \$ 13,897 \$ 39,029

Composite Depreciation Rate 7.96% From Staff Income Adjustment 12

CIAC \$ 23,984 Schedule RLJ-6

Amortization of CIAC \$ 1,909

Depreciation Expense Before Amortization of CIAC \$ 40,938 From Staff Income Adjustment 12

Less Amortization of CIAC \$ 1,909

Test Year Depreciation Expense \$ 39,029

Depreciation Expense as Filed 25,132

Company's Adjustment \$ 13,897

Income Statement Adjustment RLJ-13

Line

No.

1 Income Tax Expense

2

3

4 Description

5

6 Income Tax Expense

Company
As Filed

Company
Adjustment

Company
Adjusted
Balance

\$ (45) \$ 850 \$ 805

7

8

9

Adjusted
Test Year

Proposed
with Increase

10 *Calculation of Income Tax:*

11 Revenue

\$ 351,633

\$ 415,938

12 Less: Operating Expenses - Excluding Income Taxes

347,783

348,589

13 Less: Synchronized Interest

-

-

14 Arizona Taxable Income

\$ 3,850

\$ 67,349

15 Arizona State Income Tax Rate

6.9680%

6.9680%

16 Arizona Income Tax

\$ 268

\$ 4,693

17 Federal Taxable Income

\$ 3,582

\$ 62,656

18 Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%

537

7,500

19 Federal Tax on Second Income Bracket (\$50,001 - 75,000) @ 25%

-

3,164

20 Federal Tax on Third Income Bracket (\$75,001 - 100,000) @ 34%

-

-

21 Total Federal Income Tax

537

10,664

22 Combined Federal and State Income Tax

\$ 805

\$ 15,357

23

24 Effective Federal Income Tax Rate

15.0000%

17.0200%

25

26 Applicable Federal Income Tax Rate (Rate Applicable to Revenue Increase)

17.1424%

27

28

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Schedule RLJ-26

Income Statement Adjustment RLJ-14

Line No.	Description	Company As Filed	Company Adjustment	Company Adjusted Balance
1	<u>Leak Detection Expense</u>			
2				
3				
4	<u>Description</u>			
5				
6	Contract Servcies - Other	\$ -	\$ 2,296	\$ 2,296
7				
8				
9				
10				

Income Statement Adjustment RLJ-15

Line

No.

1 Interest on Deposits

2

3

4 Description

5

6 Interest on Deposits

7

8

9

10

11

12

	<u>Company</u> <u>As Filed</u>	<u>Company</u> <u>Adjustment</u>	<u>Company</u> <u>Adjusted</u> <u>Balance</u>
	\$ -	\$ 680	\$ 680
Test Year Deposit Balance	\$	11,330	
Interest Rate		6.00%	
Annual Interest Expense	\$	680	

EXHIBIT A

Chino Meadows II
Summary of Completed and Planned
Operational and System Improvements
[Starting August 2008]

Operational Improvements

- The Company's accounting software was convoluted and did not fully comply with the NARUC Chart of Accounts. A temporarily employed water administrator had decided to reformat the Chart of Accounts to a non-standard format. Staff has spent an extensive amount of time correcting the system which now complies with the NARUC Chart of Accounts.
- The company was historically technologically impaired and did not offer modern day conveniences, such as water company websites, digital applications, payment options for debit/credit cards, etc. Now new customers can visit our website at www.cmiiwc.com to obtain an application, see a map of the water system, view the annual water quality reports, get emergency contact phone numbers, find links the AZ Corporation Commission, ADWR, ADEQ or even pay their bill online.
- The company had nearly a hundred copies of old engineering maps of different section additions or changes to the system. These copies were compiled into a hand drawn map. Our field technicians were using educated guess as to the locations of the water mains underground, as some of the water lines are greater than 30 years old.

A project to get accurate GPS locations on every system component we could locate in our system has been completed, including using GIS technology to build an interactive map. This new map incorporates a satellite image and shows the location of mains, meters, valves, well, storage tanks, blow offs, air release valves, etc. It also shows notes from field technicians about the depths of pipes and other pertinent information. Additionally it has a feature to see actual photographs from previous repairs and excavations, so future employees can know what to expect if a future need arises to excavate.

- The company's software system from Caselle was antiquated and support from the company was about to be terminated. In 2010 we purchased the upgrade Caselle Clarity to better serve the company and the customers. The addition of the cash receipting module allows for customers debit/credit card payments to be brought into the system automatically on a daily basis. It also enables our customers to go online and see the current and previous balances and usage.
- In 2009 the company changed it's billing format from a post card bill to a professional style 8 ½ x 11 format which includes a perforated remittance slip, a return envelope, custom messages for customers, and a graph to show the customers usage over the last year.

Chino Meadows II

Summary of Completed and Planned Operational and System Improvements

System Improvements

- Between September 2008 and December 2010 Chino Meadows Water had approximately 8 water main breaks which caused water service to be shut off to 125 households in order to repair the main. This affected so many customers because this was the only main providing service to these homes due to the terrain and washes surrounding the area. In 2010 we installed an 800 foot extension of the water main through a wash in order to loop the system at a cost of \$36,353. A subsequent shut off caused only 15 homes to be offline instead of 125 thanks to the extension. In addition to the benefit of reduced impact to customers, the extension reduces the pressure on the section where these 8 incidents occurred. This section of piping is one of the lowest elevations in the system and the piping is approximately 30-40 years old.
- The company has many, many different types and ages of water meters in the system. In March 2010 purchase of (90) 5/8x3/4" meters was authorized to replace old ones in the system, with the hopes that it would improve our water loss ratios. We would like to replace all of the meters in the system at a rate of 10% or 90 units each year over the next 9 years. The total estimated costs for that, including the 90 we purchased in 2010, would be about \$37,800.
- In March 2011 we purchased a used 40kw Portable Backup Generator capable of supplying power to one of our well and storage tank facilities and we completed the subsequent electrical work to make it functional. Since March we have provided water service on at least three occasions of power outages, where it would not have been possible without the backup generator.
- The company would like to have backup generators and electrical work for the additional well location on Donna Dr. and the additional storage tank/pressure tank location on Cactus Wren Rd. The estimated costs for the required generators are approximately \$6k to \$10k each and the bid on the electrical work is \$4199.49 for each of the two locations.
- Our service trucks are a 1999 and a 2000 light duty Ford Ranger with an excessive amount of miles on them. These trucks are scheduled for replacement.
- There are 4 areas within the distribution system that should have main extensions in order to "loop" the system and ensure continuous water service for customers. We have not received estimates on the cost of these improvements.
- The water system has incurred 8 additional leaks and breaks in the last 6 months due to aging pipes, tree roots and inadequate materials used in the original construction. The repairs for these issues are expensed but they are the direct cause of an aging system with an extensive amount of tree roots reaching and breaking the pipes due to the root balls that attack the pipes and exploit the leaks in the system. This is another reason why the company needs to pursue leak detection services, to proactively repair the leaks before the line breaks and forces water outages.

EXHIBIT

tabbies

A-4
ADMITTED

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE – Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

IN THE MATTER OF THE APPLICATION OF
CHINO MEADOWS II WATER CO., INC. FOR A
RATE INCREASE.

DOCKET NO. W-02370A-10-0519

**SUPPLEMENTAL REJOINDER TESTIMONY
OF
RAY L. JONES
ON BEHALF OF
CHINO MEADOWS II WATER CO., INC.
OCTOBER 3, 2011**

1 **I INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS?**

3 A. My name is Ray L. Jones. My business address is 25213 N. 49th Drive, Phoenix, Arizona
4 85083.

5 **Q. ARE YOU THE SAME RAY L. JONES WHO PREVIOUSLY SUBMITTED**
6 **REBUTTAL AND REJOINDER TESTIMONY IN THIS DOCKET?**

7 A. Yes.

8 **II UPDATE TO CHINO'S REJOINDER POSTION**

9 **Q. HAVE YOU REVIEWED STAFF'S SUPPLEMENTAL SURREBUTTAL**
10 **TESTIMONY IN THIS CASE ON SEPTEMBER 29, 2011?**

11 A. Yes, I reviewed the testimony provided by Crystal S. Brown.

12 **Q. DO YOU WISH TO UPDATE CHINO'S REJOINDER POSITION AFTER**
13 **REVIEWING STAFF'S TESTIMONY?**

14 A. Yes. Staff has agreed to Chino's proposed rate base adjustments and updated
15 depreciation expense to reflect the impact of post-test year plant. Chino did not
16 previously update depreciation expense to reflect the impact of post-test year plant.
17 Chino agrees with Staff's depreciation expense calculation and has updated its Income
18 Statement Adjustment RLJ-12 as shown on Schedule RLJ-24. I have also discovered a
19 \$20.00 error in my Income Statement Adjustment RLJ-7 on Schedule RLJ-19. I had
20 previously indicated agreement with Staff's proposed adjustment in the amount of
21 \$1,483, but inadvertently entered only \$1,463 for the adjustment amount. In addition to
22 impacting expenses, these changes impact cash working capital which in turn impacts
23 rate base. Therefore I have included a complete set of updated schedules with this
24 Supplemental Rebuttal Testimony.

1 **Q. WHAT IS CHINO'S FINAL REVENUE REQUIREMENT?**

2 A. Chino's final revenue requirement is shown on Schedule RLJ-1. Chino's requested
3 revenue increase is \$65,123, an increase of 18.52% over adjusted test-year revenues of
4 \$351,633.

5 **Q. HAVE YOU PREPARED AN UPDATED RATE DESIGN BASED ON YOUR**
6 **FINAL POSITION?**

7 A. Yes. An updated rate design is attached as Schedule RLJ-28. Chino has agreed to Staff's
8 three tier design and uses Staff's proposed break over points between tiers. Chino
9 proposes to increase the base charge by approximately the same percentage as the overall
10 rate increase of 18.52%. Chino has set the upper tier at 125% of the middle tier and set
11 the lower tier at 75% of the middle tier cost.

12 **Q. PLEASE SUMMARIZE THE REMAINING DIFFERENCES BETWEEN YOUR**
13 **POSITION AND STAFF'S?**

14 A. We have a disagreement about whether to use rate of return to set the revenue
15 requirement as recommended by Staff, or whether to use an operating margin to set the
16 revenue requirement as recommended by Chino. This disagreement impacts the revenue
17 requirement by between \$28,000 and \$42,000 depending on whether Staff's or the
18 Company's proposed level of expenses is used. I have attached a chart labeled Schedule
19 RLJ-29 graphically showing the difference between Staff's and the Company's positions.

20 We also disagree on the level of expenses to include in the test year. The difference in
21 expenses is approximately \$32,000.

22 I have in attached Schedule RLJ-30 detailing the disputed issues and the Company's
23 positions.

1 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL REJOINER**
2 **TESTIMONY?**

3 A. Yes.

SCHEDULES

RLJ-1 – RLJ-30

Computation of Increase in Gross Revenue Requirements

Line No.	Company As Filed	Company Rejoinder RB Method	Company Rejoinder OM Method
1	Rate Base Method		
2	\$ 225,397	\$ 213,152	
3			
4	(2,278)	\$ 2,521	
5			
6	-1.01%	1.18%	
7			
8	10.81%	9.60%	
9			
10	\$ 82,318	\$ 20,463	
11			
12	\$ 88,912	\$ 17,941	
13			
14	1.3699	1.2806	
15			
16	\$ 84,641	\$ 22,976	
17			
18	\$ 351,633	\$ 351,633	
19			
20	\$ 436,274	\$ 374,609	
21			
22	24.07%	6.53%	
23			
24	Operating Margin Method		
25			0.72%
26			
27			\$ 2,521
28			
29			12.50%
30			
31			\$ 52,095
32			
33			\$ 49,573
34			
35			1.3137
36			
37			\$ 65,123
38			
39			\$ 351,633
40			
41			\$ 416,756
42			
43			18.52%
44			

Computation of Gross Revenue Conversion Factor

Line No.			
1	<u>Calculation of Effective Tax Rate</u>		
2	Operating Income Before Taxes	100.0000%	
3	State Tax Rate	<u>6.9680%</u>	
4	Federal Taxable Income	93.0320%	
5	Applicable Federal Tax Rate	<u>17.1383%</u>	
6	Effective Federal Tax Rate	15.9441%	
7			
8	Combined Effective Tax Rate		22.9121%
9			
10	<u>Calculation of Effective Property Tax Rate</u>		
11	Unity	100.0000%	
12	Combined Effective Tax Rate	<u>22.9121%</u>	
13	One Minus Combined Effective Tax Rate	77.0879%	
14	Property Tax Factor	<u>1.2530%</u>	
15	Effective Property Tax Factor		<u>0.9659%</u>
16			
17	Federal and State Income Tax Rate and Property Tax Rate		23.8780%
18			
19	<u>Calculation of Gross Revenue Conversion Factor</u>		
20	Revenue	100.0000%	
21	Combined Tax and Property Tax Rate	<u>23.8780%</u>	
22	Operating Income Percentage	<u>76.1220%</u>	
23	Gross Revenue Conversion Factor	<u>1.31368</u>	
24			
25			

Summary of Original Cost Rate Base Elements

Line <u>No.</u>	Company <u>As Filed</u>	Company <u>Rejoinder</u>
1		
2	\$ 761,698	\$ 765,198
3	508,828	508,828
4	<u>\$ 252,870</u>	<u>\$ 256,370</u>
5		
6	Less:	
7	\$ 19,004	\$ 7,829
8	42,208	42,208
9	12,809	23,984
10	<u>2,631</u>	<u>2,910</u>
11	\$ 10,178	\$ 21,074
12		
13	\$ 71,390	\$ 71,111
14		
15	\$ -	\$ 11,330
16		
17	\$ -	\$ -
18		
19	Plus:	
20	\$ 37,764	\$ 33,069
21	\$ 3,024	\$ 3,024
22	\$ 3,129	\$ 3,129
23		
24	<u>\$ 225,397</u>	<u>\$ 213,152</u>
25		

Original Cost Rate Base Pro forma Adjustments

Line No.	[A] Company As Filed	[B] ADJ RLJ-1	[C] ADJ RLJ-2	[D] ADJ RLJ-3	[E] ADJ RLJ-4	[F] ADJ RLJ-5	[G] ADJ RLJ-6	[H] Adjusted End of Test Year
1								
2	Gross Utility Plant in Service	\$ 761,698					\$ 3,500	\$ 765,198
3	Less: Accumulated Depreciation	508,828						508,828
4	Net Utility Plant in Service	<u>\$ 252,870</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,500</u>	<u>\$ 256,370</u>
5								
6	Less:							
7	Advances in Aid of Construction	19,004	(11,175)					7,829
8	Service Line and Meter Advances	42,208						42,208
9								
10	Contributions in Aid of Construction (CIAC)	12,809		11,175				23,984
11	Less: Accumulated Amortization of CIAC	2,631			279			2,910
12	Net CIAC	<u>10,178</u>	<u>-</u>	<u>11,175</u>	<u>(279)</u>	<u>-</u>	<u>-</u>	<u>21,074</u>
13								
14	Total Advances and Contributions	71,390	(11,175)	11,175	(279)	-	-	71,111
15								
16	Customer Security Deposits	-				11,330		11,330
17	Accumulated Deferred Income Taxes	-						-
18								
19	Plus:							
20	Working Capital Allowance	37,764				(4,695)		33,069
21	Materials and Supplies Inventories	3,024						3,024
22	Prepayments	3,129						3,129
23								
24	Rate Base	<u>225,397</u>	<u>11,175</u>	<u>(11,175)</u>	<u>279</u>	<u>(11,330)</u>	<u>(4,695)</u>	<u>3,500</u>
25								<u>\$ 213,152</u>

Rate Base Adjustment RLJ-1

Line No.	Description	Company As Filed	Company Adjustment	Company Adjusted Balance
1	<u>Adjust AIAC Balance to Reflect Expired Main Extension Agreements</u>			
2				
4				
5	<u>Description</u>			
6				
7	AIAC - Main Extension Contracts	\$ 19,004	\$ (11,175)	\$ 7,829
8				
9		Contract		
10		Balance		
11	<u>Expiring Contracts</u>	<u>12/31/2009</u>		
12	Allen Barras (6/8/1999)	1,144		
13	Hoffman (9/16/1999)	2,626		
14	Vivien & Sebastien Garote (10/28/1999)	926		
15	Herb Schuerman (12/15/1999)	2,453		
16	Lyle Garrison (12/20/1999)	<u>4,026</u>		
17		11,175		
18				

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Supplemental Rejoinder Schedule RLJ-6

Rate Base Adjustment RLJ-2

Line

No.

1 Adjust CIAC Balance to Reflect Expired Main Extension Agreements

2

3

4 Description

5

6 Gross CIAC

7

8

9

10

11

12

13

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18

	<u>Company</u>	<u>Company</u>	<u>Company</u>
	<u>As Filed</u>	<u>Adjustment</u>	<u>Adjusted</u>
			<u>Balance</u>
6	\$ 12,809	\$ 11,175	\$ 23,984

Rate Base Adjustment RLJ-3

Line

No.

1 Adjust Amortization of CIAC

2

3

4 Description

5

6 Amortization of CIAC - As Filed

7 Amortization of CIAC - Additions

8

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17

18

	Company As Filed	Company Adjustment	Company Adjusted Balance
	\$ 2,631	\$ -	\$ 2,631
	-	279	279
	\$ 2,631	\$ 279	\$ 2,910

Calculation of Amortization of CIAC

CIAC Amortization Rate	2.50% (5.0% x 1/2 year)
CIAC Additions	<u>\$ 11,175</u>
Amortization of CIAC	\$ 279

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Supplemental Rejoinder Schedule RLJ-8

Rate Base Adjustment RLJ-4

Line

No.

1 Accept Staff Rate Base Adjustment No. 4 - Customer Deposits

2

3

4 Description

5

6 Customer Deposits

7

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Company
As Filed

Company
Adjustment

Company
Adjusted
Balance

\$	-	\$	11,330	\$	11,330	Accept Staff Adjustment
----	---	----	--------	----	--------	-------------------------

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Supplemental Rejoinder Schedule RLJ-10

Rate Base Adjustment RLJ-6

Line

No.

1 Adjustment to Reflect Post-Test Year Plant

2

3

4 Description

5

6 Plant In Service

7

8

9 4/5/2010 Caselle Clarity Upgrade Payment

10 8/17/2010 Caselle Clarity Final Upgrade Payment

11 8/17/2010 Caselle Cash Receipts Module

12

13

14

Company
As Filed

Company
Adjustment

Company
Adjusted
Balance

\$ - \$ 3,500.00 \$ 3,500.00

\$ 688

688

2,125

\$ 3,500

Operating Income - Test Year and Company Proposed
Operating Income Method

Line No.		Company Test Year Ended <u>12/31/2009</u>	Company Adjustments	Company Test Year as Adjusted	Company Proposed Increase	Company With Rate Increase
1	Revenues					
2	Metered Water Revenues	\$ 344,260	\$ -	\$ 344,260	\$ 65,123	\$ 409,383
3	Other Water Revenues	7,373	-	7,373		7,373
4	Total Revenues	<u>\$ 351,633</u>	<u>\$ -</u>	<u>\$ 351,633</u>	<u>\$ 65,123</u>	<u>\$ 416,756</u>
5	Operating Expenses					
6	Salaries and Wages - Employees	\$ 126,312	\$ (8,809)	\$ 117,503		\$ 117,503
7	Salaries and Wages - Officers, Dir., Stockholder	35,498	\$ -	35,498		35,498
8	Purchased Water	100	\$ -	100		100
9	Purchased Power	22,657	-	22,657		22,657
10	Chemicals	884	-	884		884
11	Materials & Supplies & Repairs & Maintenance	16,148	-	16,148		16,148
12	Office Supplies Expense	17,050	-	17,050		17,050
13	Contract Services Engineering	-	-	-		-
14	Contract Services Accounting	600	-	600		600
15	Contract Services Legal	3,995	(2,995)	1,000		1,000
16	Contract Services Testing	7,062	(2,296)	4,766		4,766
17	Contract Services Other	9,263	2,296	11,559		11,559
18	Rents	6,000	-	6,000		6,000
19	Equipment Rental	246	-	246		246
20	Transportation Expense	15,726	(1,582)	14,144		14,144
21	Insurance - General Liability	11,848	(3,034)	8,814		8,814
22	Insurance - Worker's Compensation	2,555	-	2,555		2,555
23	Insurance - Other	165	-	165		165
24	System Support	4,339	(1,483)	2,856		2,856
25	Regulatory Expense	442	9,558	10,000		10,000
26	Bad Debt Expense	1,356	-	1,356		1,356
27	Miscellaneous Expense	4,089	(1,854)	2,235		2,235
28	Licensing & Permits	2,910	-	2,910		2,910
29	Tax - Other	6,446	-	6,446		6,446
30	Property Taxes	22,329	(10,142)	12,187	816	13,003
31	Payroll Taxes	10,804	(428)	10,376		10,376
32	Depreciation Expense	25,132	14,577	39,709		39,709
33	Interest on Deposits	-	680	680		680
34	Operating Expenses Before Income Taxes	<u>\$ 353,956</u>	<u>\$ (5,511)</u>	<u>\$ 348,445</u>	<u>\$ 816</u>	<u>\$ 349,261</u>
35	Income Taxes	(45)	712	667	14,734	15,401
36	Total Operating Expenses	<u>\$ 353,911</u>	<u>\$ (4,799)</u>	<u>\$ 349,112</u>	<u>\$ 15,550</u>	<u>\$ 364,662</u>
37						
38	Operating Income (Loss)	<u>\$ (2,278)</u>	<u>\$ 4,799</u>	<u>\$ 2,521</u>	<u>\$ 49,573</u>	<u>\$ 52,095</u>
39						
40					Operating Margin	12.50%
41						
42						

Summary of Income Statement Adjustments

Line No.	[A] Company As Filed	[B] ADJ RLJ-1	[C] ADJ RLJ-2	[D] ADJ RLJ-3	[E] ADJ RLJ-4	[F] ADJ RLJ-5	[G] ADJ RLJ-6	[H] ADJ RLJ-7
1	Revenues							
2	Metered Water Revenues	\$ 344,260						
3	Other Water Revenues	7,373						
4	Total Revenues	\$ 351,633	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5	Operating Expenses							
6	Salaries and Wages - Employees	\$ 126,312	\$ (8,809)					
7	Salaries and Wages - Officers, Dir., Stockholder	35,498						
8	Purchased Water	100						
9	Purchased Power	22,657						
10	Chemicals	884						
11	Materials & Supplies & Repairs & Maintenance	16,148						
12	Office Supplies Expense	17,050						
13	Contract Services Engineering	-						
14	Contract Services Accounting	600						
15	Contract Services Legal	3,995		(2,995)				
16	Contract Services Testing	7,062			(2,296)			
17	Contract Services Other	9,263						
18	Rents	6,000						
19	Equipment Rental	246						
20	Transportation Expense	15,726				(1,582)		
21	Insurance - General Liability	11,848					(3,034)	
22	Insurance - Worker's Compensation	2,555						
23	Insurance - Other	165						
24	System Support	4,339						(1,483)
25	Regulatory Expense	442						
26	Bad Debt Expense	1,356						
27	Miscellaneous Expense	4,089						
28	Licensing & Permits	2,910						
29	Tax - Other	6,446						
30	Property Taxes	22,329						
31	Payroll Taxes	10,804						
32	Depreciation Expense	25,132						
33	Interest on Deposits	-						
34	Operating Income Before Income Taxes	\$ 353,956	\$ (8,809)	\$ -	\$ (2,995)	\$ (2,296)	\$ (1,582)	\$ (3,034)
35	Income Taxes	(45)						
36	Total Operating Expenses	\$ 353,911	\$ (8,809)	\$ -	\$ (2,995)	\$ (2,296)	\$ (1,582)	\$ (3,034)
37								
38	Operating Income (Loss)	\$ (2,278)	\$ 8,809	\$ -	\$ 2,995	\$ 2,296	\$ 1,582	\$ 3,034

Summary of Income Statement Adjustments

Line No.	[I] ADJ RLJ-8	[J] ADJ RLJ-9	[K] ADJ RLJ-10	[L] ADJ RLJ-11	[M] ADJ RLJ-12	[N] ADJ RLJ-13	[O] ADJ RLJ-14	[P] ADJ RLJ-15	[Q] Company Adjusted
1	Revenues								
2									\$ 344,260
3									7,373
4	Total Revenues								
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 351,633
5	Operating Expenses								
6									\$ 117,503
7									35,498
8									100
9									22,657
10									884
11									16,148
12									17,050
13									-
14									600
15									1,000
16									4,766
17							2,296		11,559
18									6,000
19									246
20									14,144
21									8,814
22									2,555
23									165
24									2,856
25	9,558								10,000
26									1,356
27		(1,854)							2,235
28									2,910
29									6,446
30			(10,142)						12,187
31				(428)					10,376
32					14,577				39,709
33								680	680
34	Operating Income Before Income Taxes								
	\$ 9,558	\$ (1,854)	\$ (10,142)	\$ (428)	\$ 14,577	\$ -	\$ 2,296	\$ 680	\$ 348,445
35	Income Taxes								
						712			667
36	Total Operating Expenses								
	\$ 9,558	\$ (1,854)	\$ (10,142)	\$ (428)	\$ 14,577	\$ 712	\$ 2,296	\$ 680	\$ 349,112
37									
38	Operating Income (Loss)								
	\$ (9,558)	\$ 1,854	\$ 10,142	\$ 428	\$ (14,577)	\$ (712)	\$ (2,296)	\$ (680)	

Income Statement Adjustment RLJ-1

Line				
<u>No.</u>				
1	<u>Salaries and Wages - Employees</u>			
2				
3				Company
4	<u>Description</u>	<u>Company</u>	<u>Company</u>	<u>Adjusted</u>
5		<u>As Filed</u>	<u>Adjustment</u>	<u>Balance</u>
6	Salaries and Wages - Employees	\$ 126,312	\$ (8,809)	\$ 117,503
7				
8				
9		<u>Salaries and Wages Adjustment</u>		
10	To remove salaries and wages chargeable to Granite Mountain		\$ (5,248)	Chino Payroll Records
11	To normalize overtime charges		\$ (2,761)	Per Staff Direct
12	To remove 50% of bonuses		\$ (800)	1/2 G/L acct. No. 6601.00
13			\$ (8,809)	
14				
15				

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Supplemental Rejoinder Schedule RLJ-14

Income Statement Adjustment RLJ-2

Line

No.

1 Salary and Wages - Officers, Directors, Stockhldr

2

3

4 Description

Company
As Filed

Company
Adjustment

Company
Adjusted
Balance

5

6 Salary and Wages - Officers, Directors, Stockhldr

\$ 35,498.00

\$ -

\$ 35,498.00

7

8

9

10

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Supplemental Rejoinder Schedule RLJ-15

Income Statement Adjustment RLJ-3

Line

No.

1 Contract Services - Legal

2

3

4 Description

5

6 Contract Services - Legal

7

8

9

10

Company
As Filed

Company
Adjustment

Company
Adjusted
Balance

\$	3,995	\$	(2,995)	\$	1,000	Accept Staff Adjustment
----	-------	----	---------	----	-------	-------------------------

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Supplemental Rejoinder Schedule RLJ-16

Income Statement Adjustment RLJ-4

Line

No.

1 Contract Servcies - Testing

2

3

4 Description

5

6 Contract Servcies - Testing

7

8

9

10

Company
As Filed

Company
Adjustment

Company
Adjusted
Balance

\$	7,062	\$	(2,296)	\$	4,766	Accept Staff Adjustment
----	-------	----	---------	----	-------	-------------------------

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Supplemental Rejoinder Schedule RLJ-17

Income Statement Adjustment RLJ-5

Line

No.

1 Transportation Expense

2

3

4 Description

5

6 Transportation Expense

7

8

9

10

Company

As Filed

Company

Adjustment

Company

Adjusted

Balance

\$ 15,726 \$ (1,582) \$ 14,144 Accept Staff Adjustment

Income Statement Adjustment RLJ-6

Line

No.

1 Insurance, General Liability

2

3

4 Description

5

6 Insurance, General Liability

7

8

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36

	Company As Filed	Company Adjustment	Company Adjusted Balance
	\$ 11,848	\$ (3,034)	\$ 8,814

Insurance, General Liability Expense			
	Amount Before Allocation	Allocation Percentage	Allocated Amount
Chino Meadows	11,848	0.7439	8,814
Granite Mountain	11,848	0.2561	3,034

Calculation of Three-Factor Allocation					
	Number of Customers	Plant In Service	O & M Expense	Total	Allocation Percentage
Chino Meadows	0.8994	0.5150	0.8175	2.2318	0.7439
Granite Mountain	0.1006	0.4850	0.1825	0.7682	0.2561
	1.0000	1.0000	1.0000	3.0000	1.0000

Allocation Factors			
	Chino Meadows	Granite Mountain	Total
Customers	876 0.8994	98 0.1006	974 1.0000
Plant In Service	\$ 765,198 0.5150	\$ 720,673 0.4850	\$ 1,485,871 1.0000
O&M Expense	\$ 349,112 0.8175	\$ 77,959 0.1825	\$ 427,071 1.0000

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Supplemental Rejoinder Schedule RLJ-19

Income Statement Adjustment RLJ-7

Line

No.

1 System Support

2

3

4 Description

5

6 System Support

7

8

9

10

Company
As Filed

Company
Adjustment

Company
Adjusted
Balance

\$	4,339	\$	(1,483)	\$	2,856	Accept Staff Adjustment
----	-------	----	---------	----	-------	-------------------------

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Supplemental Rejoinder Schedule RLJ-20

Income Statement Adjustment RLJ-8

Line

No.

1 Rate Case Expense

2

3

4 Description

5

6 Rate Case Expense

7

8

9

10

11

12

	Company	Company	Company
	As Filed	Adjustment	Adjusted
			Balance
	\$ 442	\$ 9,558	\$ 10,000
	Rate Case Expense	\$ 30,000	
	Years	<u>3</u>	
	Expense	\$ 10,000	

Income Statement Adjustment RLJ-10

Line No.	Description	Company As Adjusted	Company Proposed
1	<u>Property Tax Expense</u>		
2			
3			
4	<u>Description</u>	<u>As Adjusted</u>	<u>Proposed</u>
5			
6	Adjusted Revenues in year ended 12/31/09	\$ 351,633	\$ 351,633
7	Adjusted Revenues in year ended 12/31/09	351,633	351,633
8	Adjusted Revenues in year ended 12/31/09	351,633	
9	Proposed Revenues after Increase		416,756
10	Average of three year's of revenue	351,633	373,341
11	Average of three year's of revenue, times 2	703,266	746,682
12	Add:		
13	Construction Work In Progress at 10%	-	-
14	Deduct:		
15	Net Book Value of Transportation Equipment	54,837	54,837
16			
17	Full Cash Value	648,429	691,845
18	Assessment Ratio	21.0%	21.0%
19	Assessed Value	136,170	145,287
20	Property Tax Rate (Test Year)	8.9500%	8.9500%
21			
22	Adjusted Test Year Property Tax	\$ 12,187	
23	Company Proposed Property Tax	<u>22,329</u>	
24	Test Year Adjustment	\$ (10,142)	
25			
26	Property Tax a Proposed Rates		\$ 13,003
27	Adjusted Test Year Property Tax		<u>12,187</u>
28	Increase in Property Tax due to Rate Increase		\$ 816
29			
30	Increase to Property Tax Expense		\$ 816
31	Increase in Revenue Requirement		\$ 65,123
32	Increase to Property Tax per Dollar Increase in Revenue		1.2530%
33			
34			
35			

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Supplemental Rejoinder Schedule RLJ-23

Income Statement Adjustment RLJ-11

Line

No.

1 Payroll Taxes

2

3

4 Description

5

6 Payroll Taxes

7

8

9

10

Company
As Filed

Company
Adjustment

Company
Adjusted
Balance

\$	10,804	\$	(428)	\$	10,376
----	--------	----	-------	----	--------

Income Statement Adjustment RLJ-12

Line

No.

1 Depreciation Expense

2

3

4 Description

5

6 Depreciation Expense

7

8

9

10

11

12

13

14

15

16

17

18

Company

As Filed

Company

Adjustment

Company

Adjusted

Balance

\$ 25,132 \$ 14,577 \$ 39,709

Composite Depreciation Rate 8.05% From Staff Income Adjustment 12

CIAC \$ 23,984 Schedule RLJ-6

Amortization of CIAC \$ 1,930

Depreciation Expense Before Amortization of CIAC \$ 41,638 From Staff Income Adjustment 12

Less Amortization of CIAC \$ 1,930

Test Year Depreciation Expense \$ 39,709

Depreciation Expense as Filed 25,132

Company's Adjustment \$ 14,577

Income Statement Adjustment RLJ-13

Line

No.

1 Income Tax Expense

2

3

4 Description

5

6 Income Tax Expense

Company
As Filed

Company
Adjustment

Company
Adjusted
Balance

\$ (45) \$ 712 \$ 667

7

8

9

10 *Calculation of Income Tax:*

11 Revenue

Adjusted
Test Year

Proposed
with Increase

\$ 351,633

\$ 416,756

12 Less: Operating Expenses - Excluding Income Taxes

348,445

349,261

13 Less: Synchronized Interest

-

-

14 Arizona Taxable Income

\$ 3,188

\$ 67,496

15 Arizona State Income Tax Rate

6.9680%

6.9680%

16 Arizona Income Tax

\$ 222

\$ 4,703

17 Federal Taxable Income

\$ 2,966

\$ 62,793

18 Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%

445

7,500

19 Federal Tax on Second Income Bracket (\$50,001 - 75,000) @ 25%

-

3,198

20 Federal Tax on Third Income Bracket (\$75,001 - 100,000) @ 34%

-

-

21 Total Federal Income Tax

445

10,698

22 Combined Federal and State Income Tax

\$ 667

\$ 15,401

23

24 Effective Federal Income Tax Rate

15.0000%

17.0373%

25

26 Applicable Federal Income Tax Rate (Rate Applicable to Revenue Increase)

17.1383%

27

28

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Supplemental Rejoinder Schedule RLJ-26

Income Statement Adjustment RLJ-14

Line

No.

1 Leak Detection Expense

2

3

4 Description

5

6 Contract Services - Other

7

8

9

10

Company
As Filed

Company
Adjustment

Company
Adjusted
Balance

\$	-	\$	2,296	\$	2,296
----	---	----	-------	----	-------

Income Statement Adjustment RLJ-15

Line

No.

1 Interest on Deposits

2

3

4 Description

5

6 Interest on Deposits

7

8

9

10

11

12

	Company <u>As Filed</u>	Company <u>Adjustment</u>	Company <u>Adjusted Balance</u>
	\$ -	\$ 680	\$ 680
Test Year Deposit Balance	\$	11,330	
Interest Rate		6.00%	
Annual Interest Expense	\$	680	

RATE DESIGN

Monthly Customer Charge for:

	Present Rates	Company Proposed	Staff Proposed
5/8x3/4 Inch	\$ 18.75	\$ 22.25	\$ 17.75
3/4 Inch	28.13	33.38	26.63
1 Inch	46.88	55.63	44.38
1 1/2 Inch	93.75	111.25	88.75
2 Inch	150.00	178.00	142.00
3 Inch	N/A	N/A	266.25
4 Inch	N/A	N/A	443.75
6 Inch	N/A	N/A	887.50

Company Proposed Base Charge is increased at same percentage as overall rate increase

Company's service area is entirely residential with no commercial development. The Company's system is not designed to support the flow rates required.

Gallons Included In Monthly Minimum: 1,000 0 0

Commodity Charge:

Per 1,000 gallons above minimum	\$ 3.12	N/A	N/A
0 to 3,000 gallons	N/A	\$ 2.55	\$ 2.10
3,001 to 8,000 gallons	N/A	\$ 3.40	\$ 2.85
All gallons in excess of 8,000	N/A	\$ 4.25	\$ 3.80

Company has adopted Staff's tiers. Company has set lower tier at 75% of middle tier and upper tier at 125% of middle tier.

Service Line and Meter Installation Charges:

	Present Rates	Company Proposed			Staff Recommended		
		Services	Meters	Total	Services	Meters	Total
5/8" x 3/4" Meter	\$ 350.00	\$ 405.00	\$ 95.00	\$ 500.00	\$ 406.00	\$ 95.00	\$ 501.00
3/4" Meter	360.00	413.00	162.00	575.00	413.00	162.00	575.00
1" Meter	420.00	441.00	209.00	650.00	441.00	209.00	650.00
1 1/2" Meter	540.00	395.00	321.00	716.00	395.00	321.00	716.00
2" Meter	660.00	727.00	845.00	1,572.00	727.00	845.00	1,572.00
3" Meter	N/A	952.00	1,448.00	2,400.00	952.00	1,448.00	2,400.00
4" Meter	N/A	1,310.00	2,206.00	3,516.00	1,310.00	2,206.00	3,516.00
6" Meter	N/A	2,160.00	4,756.00	6,916.00	2,160.00	4,756.00	6,916.00

Only difference between Company and Staff is \$1.00 for Services on the 5/8" x 3/4" meter. Company's rate matches recently approved rate for GMWC.

Service Charges:

	Present Rates	Company Proposed	Staff Proposed
Establishment	\$ 15.00	\$ 25.00	\$ 25.00
Establishment (After Hours)	30.00	35.00	Eliminate
Reconnection (Delinquent)	22.00	35.00	30.00
Reconnection (Delinquent) (After Hours)	N/A	45.00	Eliminate
After Hours Charge	N/A	N/A	25.00
Meter Test (if correct)	15.00	35.00	20.00
Deposit	*	*	*
Deposit Interest	*	*	*
Reestablishment (within 12 months)	**	**	**
NSF Check	15.00	20.00	20.00
Deferred Payment, per month	1.50%	1.00%	1.50%
Meter Re-read (if correct)	12.00	15.00	15.00
Late Payment Fee (per month)	N/A	***	1.50%

The Company's proposed Service Charges are the same as were recently approved for GMWC.

The Company desires to have consistent charges to simplify customer service and avoid customer charge errors.

Monthly Service Charge For Fire Sprinkler:

4" or smaller	N/A	N/A	****
6"	N/A	N/A	****
8"	N/A	N/A	****
10"	N/A	N/A	****

Company's service area is entirely residential with no commercial development. The Company's system is not designed to support the flow rates required.

* Per Commission Rule A.A.C. R14-2-403(B)

** Number of months off system times monthly minimum, per A.A.C. R14-2-203(D)

*** 1.5% of the unpaid balance per month

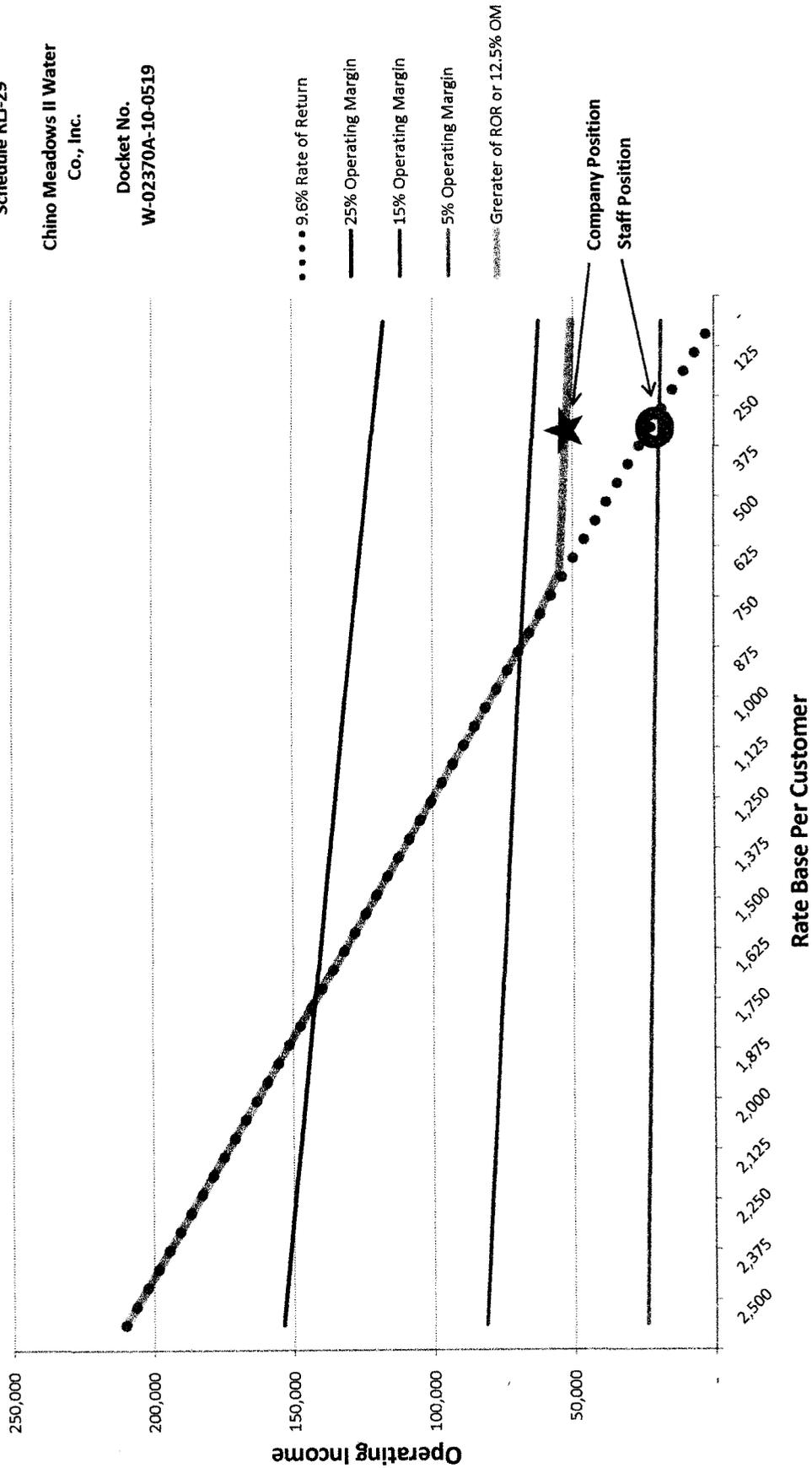
**** 2.00% of Monthly Minimum for a comparable sized meter connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

Graph to Illustrate Company and Staff Postions (at Company's proposed level of expenses)

Supplemental Rejoinder
Schedule RLJ-29

Chino Meadows II Water
Co., Inc.

Docket No.
W-02370A-10-0519



Chino Meadows II Water Company
 Test Year Ended December 31, 2009
 Evaluation of Disputed Issues after Filing of Supplemental Rejoinder Testimony

Supplemental Rejoinder Schedule RLJ-30
 Contested Issues

Issue	Adjustment Number	Company Position	Staff Position	Difference	Discussion
Income Statement - Expense Issues					
Directly Contested Items					
Salary and Wages, Employees	1				
Allocation of Salaries to Granite Mountain		5,248	19,563	(14,315)	Company proposes to use actual time card data rather than out of test year allocation from Granite Mountain rate case.
Allocation of Wage Increases to GM		-	1,611	(1,611)	
Dissallowance of Bonuses		(800)	(1,600)	(800)	Company proposes to allow 1/2 of bonuses awarded. Company position consistent with past ACC treatment of bonuses for other companies.
Salary and Wages, Officers, Directors, SH	2				
Dissallowance of Portion of Paul Levie Salary		-	(4,879)	(4,879)	Company believes actual salary should be used. Actual salary is reasonable for the work performed and should be used.
Insurance, General Liability	6				
Allocation of GI Insurance to Granite Mountain		3,034	3,874	(840)	Staff allocates using Customers and Net Plant. Company allocates using 3-factor of Customers, Plant in Service and O&M Expense. Company notes that Plant in Service is better factor than Net Plant due to the high level of accumulated depreciation on Chino Plant. Plant in Service is used for other Arizona companies and by California PUC.
Rate Case Expense	8	10,000	6,000	(4,000)	Both parties agree on \$30,000 in rate case expense. Company uses 3-year amortization period. Staff uses 5-year amortization period. Company notes that it is likely to have a rate case within 3 years and that all recent decisions for Class C companies have used a 3-year amortization period.
Miscellaneous Expense	9				
Dissallowance of Employee Gifts		-	38	(38)	Company believes these expenses are prudently incurred expenses related to utility operations and should be allowed. The meal expenses are for field employee meals provided when crews are working overtime on main breaks. The office food and beverage is for employee meals provided to promote efficient and consistent customer service. They are necessary due to the 20 minute drive from Chino's office to the nearest restaurant. The employee gifts and holiday party are normal business expenses and are intended to recognize employees for their efforts and assist with employee retention. These types of expenses have been allowed for larger companies regulated by the ACC.
Dissallowance of Office Food & Beverage		-	1,002	(1,002)	
Dissallowance of meals during main break repairs		-	141	(141)	
Employee holiday party			450	(450)	
Allocation of Payroll Taxes to Granite Mountain	11	428	1,673	(1,245)	
Leak Detection Expense	14	2,296	-	(2,296)	Chino proposes to perform leak testing for its water system as part of implementing as a Best Management Practice(BMP). Staff agrees that Chino should implement a BMP, but does not provide a proforma adjustment to allow for the cost. Chino proposal to allow a proforma adjustment for the cost of implementing a Commission mandated BMP is reasonable and should be approved.
Total - Directly Contested Items				(31,618)	

Issue	Adjustment Number	Company Position	Staff Position	Difference	Discussion
Other Expenses Impacted by Directly Contested Items					
Income Tax		667	7,282	6,615	The difference in income tax results from the differences in Operation and Maintenance Expenses.
Total Expenses		\$ 349,112	\$ 324,109	\$ (25,003)	
Rate Base Issues					
Total Rate Base		\$ 213,152	\$ 211,167	\$ (1,985)	The difference in rate base results from the impact of differences in test year Working Capital
Working Capital		33,069	31,084	(1,985)	Operation and Maintenance Expense on the Working Capital Calculation.
Interest on Deposits					
Revenue Requirement					
Revenue Requirement as Requested		12.5% OM	9.6% ROR		Chino does not believe that setting rates based on ROR is appropriate for smaller Class C water companies. Staff's resulting operating margin would be only 6%, which is far less than operating margins recently provided for other Class C water companies and for Chino's sister company, Granite Mountain. A 6% operating margin does not provide sufficient income to cover contingencies. It also discourages investment because a smaller company is better off with no rate base and rates set on operating margin than if it had a small rate base and rates set on ROR.
		\$ 416,756	\$ 342,346	\$ (74,410)	
Comparative Revenue Requirements					
Revenue Requirement using 9.6% Return on Rate Base		\$ 374,609	\$ 342,346	\$ 32,263	
Revenue Requirement using 12.5% Operating Margin		\$ 416,756	\$ 370,410	\$ 46,346	
Difference Between OM and ROR Approach		\$ 42,147	\$ 28,064		
Other Issues					
Number of Best Management Practices to Implement		1	5	4	Chino is a small provider that currently has no BMP requirements. Chino is concerned that the costs and effort required to implement five BMPs will be beyond its financial, technical and staffing capabilities and not prove cost effective for its customers. Additionally, implementation of five BMPs will negatively impact Chino's Operating Income since Staff is not recommending a proforma adjustment for the cost of implementing the BMPs.



Granite Mountain Allocation Analysis

Line

1	<u>Staff's Salary Allocations:</u>		
2	Granite Mountain Salary Allocation	\$ (19,563)	CSB-13, Ln 8
3	Granite Mountain Share of Increases	<u>(1,611)</u>	CSB-13, Ln 13
4		\$ (21,174)	
5	Staff's Allocations (not allocated in Granite Mountain)		
6	Off-set for Transportation Allocation	1,582	CSB-17
7	Off-Set for Insurance Allocation	3,874	CSB-18
8	Off-set for Payroll Taxes Allocation	<u>1,673</u>	CSB-23
9		7,129	
10			
11	<u>Settlement Proposal</u>		
12	Granite Mountain Salary Allocation	\$ (19,563)	CSB-13, Ln 8
13	Granite Mountain Share of Increases	<u>(1,611)</u>	CSB-13, Ln 13
14		\$ (21,174)	
15			
16	Less:		
17	Off-set for Transportation Allocation	1,582	RLJ-17 & CSB-17
18	Off-Set for Insurance Allocation	3,034	RLJ-18
19	Off-set for Payroll Taxes Allocation	<u>1,673</u>	CSB-23
20		6,289	
21			
22	Net Salary Allocation to Granite Mountain	(14,885)	
23			
24			



BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE
Chairman
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner
BRENDA BURNS
Commissioner

IN THE MATTER OF THE APPLICATION OF)
CHINO MEADOWS II WATER FOR A)
DETERMINATION OF THE FAIR VALUE)
OF ITS UTILITY PLANT AND PROPERTY)
AND FOR INCREASES IN ITS WATER)
RATES AND CHARGES FOR)
UTILITY SERVICE THEREON.)
_____)

DOCKET NO. W-02370A-10-0519

DIRECT
TESTIMONY
OF
JIAN W. LIU
UTILITIES ENGINEER
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

AUGUST 08, 2011

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RECOMMENDATIONS	4

EXHIBIT

Engineering Report for CHINO MEADOWS II WATER	JWL
---	-----

1 **INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Jian W. Liu. My business address is 1200 West Washington Street, Phoenix,
4 Arizona 85007.

5
6 **Q. By whom and in what position are you employed?**

7 A. I am employed by the Arizona Corporation Commission ("Commission" or "ACC") as a
8 Utilities Engineer - Water/Wastewater in the Utilities Division.

9
10 **Q. How long have you been employed by the Commission?**

11 A. I have been employed by the Commission since October 2005.

12
13 **Q. What are your responsibilities as a Utilities Engineer - Water/Wastewater?**

14 A. My main responsibilities are to inspect, investigate and evaluate water and wastewater
15 systems. This includes obtaining data, preparing reconstruction cost new and/or original
16 cost studies, investigative reports, interpreting rules and regulations, and to suggest
17 corrective action and provide technical recommendations on water and wastewater system
18 deficiencies. I also provide written and oral testimony in rate cases and other cases before
19 the Commission.

20
21 **Q. How many companies have you analyzed for the Utilities Division?**

22 A. I have analyzed more than 40 companies fulfilling these various responsibilities for
23 Utilities Division Staff ("Staff").

24
25 **Q. Have you previously testified before this Commission?**

26 A. Yes, I have testified on numerous occasions before this Commission.

1 **Q. What is your educational background?**

2 A. I am a Ph.D. Candidate in Geotechnical Engineering from Arizona State University
3 ("ASU"). I have a Master of Science Degree in Natural Science from ASU and a Master
4 of Science Degree in Civil Engineering from the Institute of Rock & Soil Mechanics
5 ("IRSM"), Academy of Sciences, China.

6
7 **Q. Briefly describe your pertinent work experience.**

8 A. From 1982 to 2000, I was employed by IRSM, SCS Engineers, and URS Corporation as a
9 Civil and Environmental Engineer. In 2000, I joined the Arizona Department of
10 Environmental Quality ("ADEQ"). My responsibilities with ADEQ included review and
11 approval of water distribution systems, sewer distribution systems, and on-site wastewater
12 treatment facilities. I remained with ADEQ until transferring to the Commission in
13 October 2005.

14
15 **Q. Please state your professional membership, registrations, and licenses.**

16 A. I am a licensed professional civil engineer in the State of Arizona.

17
18 **PURPOSE OF TESTIMONY**

19 **Q. What was your assignment in this rate proceeding?**

20 A. My assignment was to provide Staff's engineering evaluation of the subject rate
21 proceeding. I reviewed the Company's application and responses to data requests, and I
22 inspected the water system. This testimony and its attachments present Staff's
23 engineering evaluation. The findings of my engineering evaluation are contained in the
24 Engineering Report that I have prepared for this proceeding. The report is included as
25 Exhibit JWL in this pre-filed testimony.

1 **ENGINEERING REPORTS**

2 **Q. Please describe the information contained in your Engineering Reports.**

3 A. The Report is divided into three general sections: 1) *Executive Summary*;
4 2) *Engineering Report Discussion*, and 3) *Engineering Report Exhibits*. The *Discussions*
5 section for the Water System can be further divided into ten subsections: A) Location of
6 Company; B) Description of the Water System; C) ADEQ Compliance; D) ACC
7 Compliance; E) Arizona Department Of Water Resources (“ADWR”) compliance; F)
8 Water Testing Expenses, G) Water Usage, H) Growth; I) Depreciation Rates; J) Other
9 Issues.

10
11 **RECOMMENDATIONS AND CONCLUSIONS**

12 **Q. What are Staff’s conclusions and recommendations regarding the Company’s**
13 **operations?**

14 A. Staff’s conclusions and recommendations regarding the Company’s operations are listed
15 below.

16
17 **CONCLUSIONS:**

- 18
19 1. Arizona Department of Environment Quality (“ADEQ”) regulates the Chino Meadows II
20 Water Company (“Chino Meadows” or “the Company”) water system under ADEQ
21 Public Water System (“PWS”) #13-079. ADEQ has determined that the system is
22 currently delivering water that meets water quality standards required by Arizona
23 Administrative Code, Title 18, and Chapter 4. (ADEQ report dated February 18, 2011).
24
25 2. Chino Meadows is located in the ADWR Prescott Active Management Area (“AMA”) and
26 is subject to its AMA reporting and conservation requirements. Staff received an ADWR
27 compliance status report dated February 14, 2011. ADWR reported that the Company is
28 currently in compliance with departmental requirements governing water providers and/or
29 community water systems.
30
31 3. Staff concludes that the Chino Meadows has adequate production capacity and storage
32 capacity to serve the existing customer base and reasonable growth.

1 4. A check of the Commission's Utilities Division Compliance Section database indicated no
2 delinquent compliance items for Chino Meadows.
3

4 5. Chino Meadows has approved Curtailment Plan and Backflow Prevention Tariffs on file
5 with the Commission.
6

7 **RECOMMENDATIONS**
8

9 1. Staff recommends that the Company use Staff's depreciation rates by individual National
10 Association of Regulatory Utility Commissioners category as delineated in Table B of
11 Exhibit JWJL.
12

13 2. Staff recommends the annual water testing expense of \$4,766 reported by the Company be
14 used for purposes of this application.
15

16 3. Staff recommends that the charges listed in Table C be adopted.
17

18 4. The Company does not have an approved Best Management Practices ("BMPs") tariff.
19 Staff recommends that Chino Meadows be required to file with Docket Control, as a
20 compliance item in this docket, within 90 days of the effective date of a Decision in this
21 matter, at least five BMPs in the form of tariffs that substantially conform to the templates
22 created by Staff, available at the Commission's website, for the Commission's review and
23 consideration. A maximum of two of these BMPs may come from the "Public
24 Awareness/Public Relations" or "Education and Training" categories of the BMP's. The
25 Company may request cost recovery of actual costs associated with the BMPs
26 implemented in its next general rate application.
27

28 **Q. Does this conclude your Direct Testimony?**

29 **A.** Yes, it does.

EXHIBIT JW

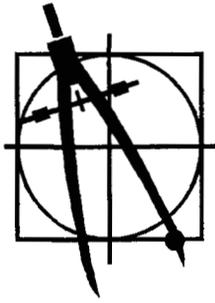
ENGINEERING REPORT FOR

CHINO MEADOWS II WATER CO., INC.

DOCKET NO. W-02370A-10-0519 (RATES)

JIAN W LIU

JULY 19, 2011



**Engineering Report for:
Chino Meadows II Water Company
for a Rate Increase
Docket No. W-02370A-10-0519 (Rates)**

**By: Jian W Liu
Utilities Engineer**

JULY 19, 2011

EXECUTIVE SUMMARY

CONCLUSIONS:

1. ADEQ regulates the Chino Meadows Water System under ADEQ Public Water System ("PWS") #13-079. ADEQ has determined that the system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4. (ADEQ report dated February 18, 2011).
2. Chino Meadows is located in the ADWR Prescott Active Management Area ("AMA") and is subject to its AMA reporting and conservation requirements. Staff received an ADWR compliance status report dated February 14, 2011. ADWR reported that the Company is currently in compliance with departmental requirements governing water providers and/or community water systems.
3. Staff concludes that the Chino Meadows has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.
4. A check of the Commission's Utilities Division Compliance Section database indicated no delinquent compliance items for Chino Meadows.
5. Chino Meadows has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.

RECOMMENDATIONS

1. Staff recommends that the Company use Staff's depreciation rates by individual National Association of Regulatory Utility Commissioners category as delineated in Table B of Exhibit JWL.
2. Staff recommends the annual water testing expense of \$4,766 reported by the Company be used for purposes of this application.
3. Staff recommends that the charges listed in Table C be adopted.

-
4. The Company does not have an approved Best Management Practices (“BMPs”) tariff. Staff recommends that Chino Meadows be required to file with Docket Control, as a compliance item in this docket, within 90 days of the effective date of a Decision in this matter, at least five BMPs in the form of tariffs that substantially conform to the templates created by Staff, available at the Commission’s website, for the Commission’s review and consideration. A maximum of two of these BMPs may come from the “Public Awareness/Public Relations” or “Education and Training” categories of the BMP’s. The Company may request cost recovery of actual costs associated with the BMPs implemented in its next general rate application.

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FIGURES

County Map	FIGURE 1
Certificated Area.....	FIGURE 2

A. INTRODUCTION AND LOCATION OF COMPANY

Chino Meadows II Water Company ("Chino Meadows" or "the Company") has submitted an application with the Arizona Corporation Commission ("ACC" or "Commission") for approval of a rate increase in Docket No. W-02370A-10-0519. This report constitutes Staff's engineering evaluation of the subject application. Chino Meadows presently provides utility service to approximately 889 water customers in Yavapai County, Arizona. Chino Meadows's business office is located at 2465 West Shane Dr, Prescott, AZ 86305. Figure 1 shows the location of Chino Meadows within Yavapai County and Figure 2 shows the certificated area.

B. DESCRIPTION OF THE WATER SYSTEM

The plant facilities were visited on May 5, 2011, by Jian Liu, Commission Utilities Division Staff ("Staff") Utilities Engineer, in the accompaniment of Matthew Lauterbach of the Company.

The plant facilities consist of two active wells with total pumping capacity of over 475 gallons per minute ("GPM"), four storage tanks with total storage capacity of 107,100 gallons, hydro-pneumatic pressure systems and distribution system currently serving approximately 889 active connections. Staff concludes that the Chino Meadows water system has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.

(Tabular Description of Water System)

Well Data (active wells only)

ADWR ID No.	Pump HP	Pump GPM	Casing Depth(ft)	Casing Size(in)	Meter Size(in)	Year Drilled
55-552320	15	225	335	10	3	1995
55-613770	20	250	450	12	3	1979

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
67000	1			5	1
20000	1	5,000	2	10	1
10000	2			15	4
				25	1
Total 107,000					

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
2	2,698			
		5/8x3/4	889	7
4	2,872	3/4		
6	70,214	1		
		1.5		
		2		
Less than 2	33,461	3		
		4		
		Total	889	

C. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY (“ADEQ”) COMPLIANCE

ADEQ regulates the Chino Meadows Water System under ADEQ Public Water System (“PWS”) #13-079. ADEQ has determined that the system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4. (ADEQ report dated February 18, 2011).

D. ACC COMPLIANCE

A check with of the Commission’s Utilities Division Compliance Section database indicated no delinquent compliance items for Chino Meadows. (Compliance Section Email dated June 20, 2011)

E. ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE

Chino Meadows is located in the ADWR Prescott Active Management Area (“AMA”) and is subject to its AMA reporting and conservation requirements. Staff received an ADWR compliance status report dated February 14, 2011. ADWR reported that the Company is currently in compliance with departmental requirements governing water providers and/or community water systems.

F. WATER TESTING EXPENSES

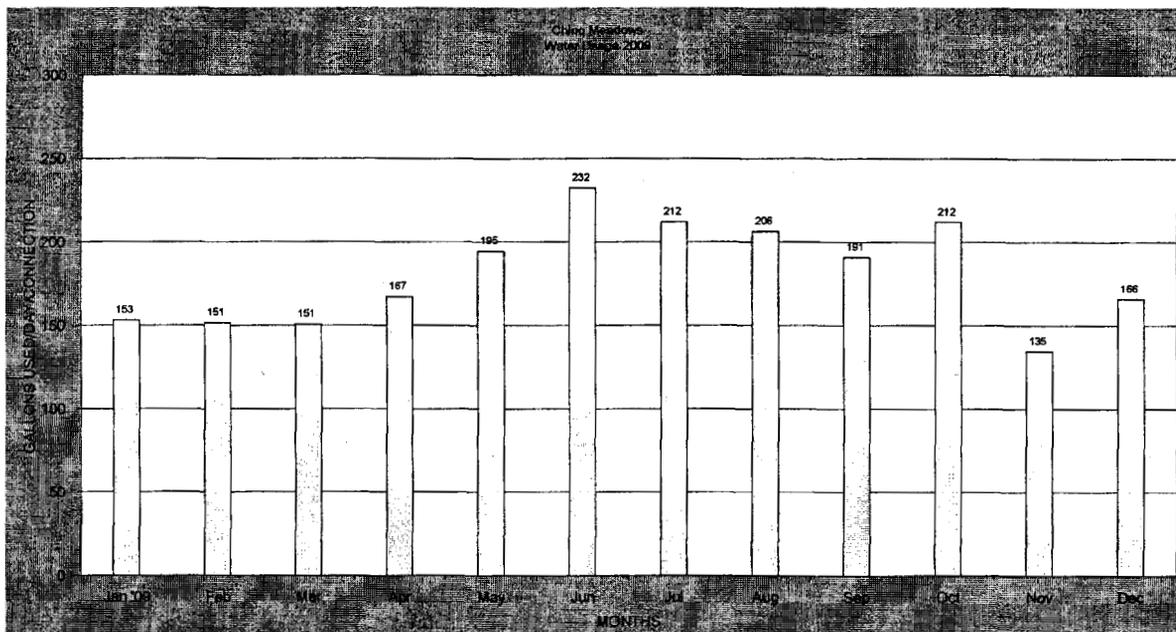
The Company reported a total water testing expense of \$4,766 during the test year. Staff reviewed the reported amount and supporting documentation provided by the Company. Staff

recommends the annual water testing expense of \$4,766 reported by the Company be used for purposes of this application.¹

G. WATER USE

Water Sold

Based on information provided by the Company, water use for the year 2009 is presented below. The high monthly domestic water use was 232 gal/day per service connection in June and the low monthly domestic water use was 135 gal/day per service connection in November. The average annual use was 181 gal/day per service connection.



Non-account Water

Non-account water should be 10 percent or less and never more than 15 percent. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing. The Company reported 64,519,100 gallons pumped and 58,789,200 gallons sold, resulting in a water loss of 8.88 percent for 2009. Non-account water is within acceptable limits.

¹ Company filed water testing expense of \$7,062. After Staff reviewed the documentation, Company told Staff they made a mistake. The amount should be \$4,766.

Best Management Practices ("BMP") Tariff

The Company does not have an approved BMP tariff. Staff recommends that Chino Meadows be required to file with Docket Control, as a compliance item in this docket, within 90 days of the effective date of this Decision, at least five BMPs in the form of tariffs that substantially conform to the templates created by Staff, available at the Commission's website, for the Commission's review and consideration. A maximum of two of these BMPs may come from the "Public Awareness/Public Relations" or "Education and Training" categories of the BMP's. The Company may request cost recovery of actual costs associated with the BMPs implemented in its next general rate application.

H. GROWTH

In December 2001, Chino Meadows had 680 customers. In December 2007, Chino Meadows's customer base was 901 customers. In December 2010, the Company had 885 customers. In this changing economic climate it is hard for Staff to predict what level of growth is reasonable. The Company estimates that Chino Meadows may lose 10 to 15 customers per year if economic conditions continue. On the other hand, if the economy rebounds from the recession the Company may see a progressive increase in new customers which correlates with a large number of undeveloped residential lots within the company's CC&N. If this were the case, the company may add as many as 84 new customers by 2015.

I. DEPRECIATION RATES

Staff recommends that Chino Meadows use the depreciation rates by individual National Association of Regulatory Utility Commissioners category delineated in Table B of Exhibit JWJ.

Table B. Depreciation Rates

NARUC Acct. 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 percent to 50 percent. The depreciation rate would be set in accordance with the specific capital items in this account.

J. CURTAILMENT PLAN AND BACKFLOW PREVENTION TARIFFS

Chino Meadows has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.

K. METER AND SERVICE LINE INSTALLATION CHARGES

The Company has requested to change its service line and meter installation charges. These charges are refundable advances and the Company's proposed charges are within or below Staff's recommended range for these 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, separate service line and meter charges have been developed by Staff. Staff recommends that the Company proposed charges listed in Table C be adopted.

Table C. Service Line and Meter Installation Charges

Meter Sizes	Current Charges	Company Proposed & Staff Recommended Service Line Charges	Company Proposed & Staff Recommended * Meter Charges	Company Proposed & Staff Recommended Total Charges
5/8" x 3/4"	\$335	\$406	\$95	\$501
3/4"	\$360	\$413	\$162	\$575
1"	\$420	\$441	\$209	\$650
1-1/2"	\$540	\$395	\$321	\$716
2"	\$660	\$727	\$845	\$1,572
3"	N/A	\$952	\$1448	\$2,400
4"	N/A	\$1,310	\$2,206	\$3,316
6"	N/A	\$2,160	\$4,756	\$6,916

*Note: Meter charge includes meter box or vault.

Chino Meadows II Water Company
Docket No. W-02370A-10-0519

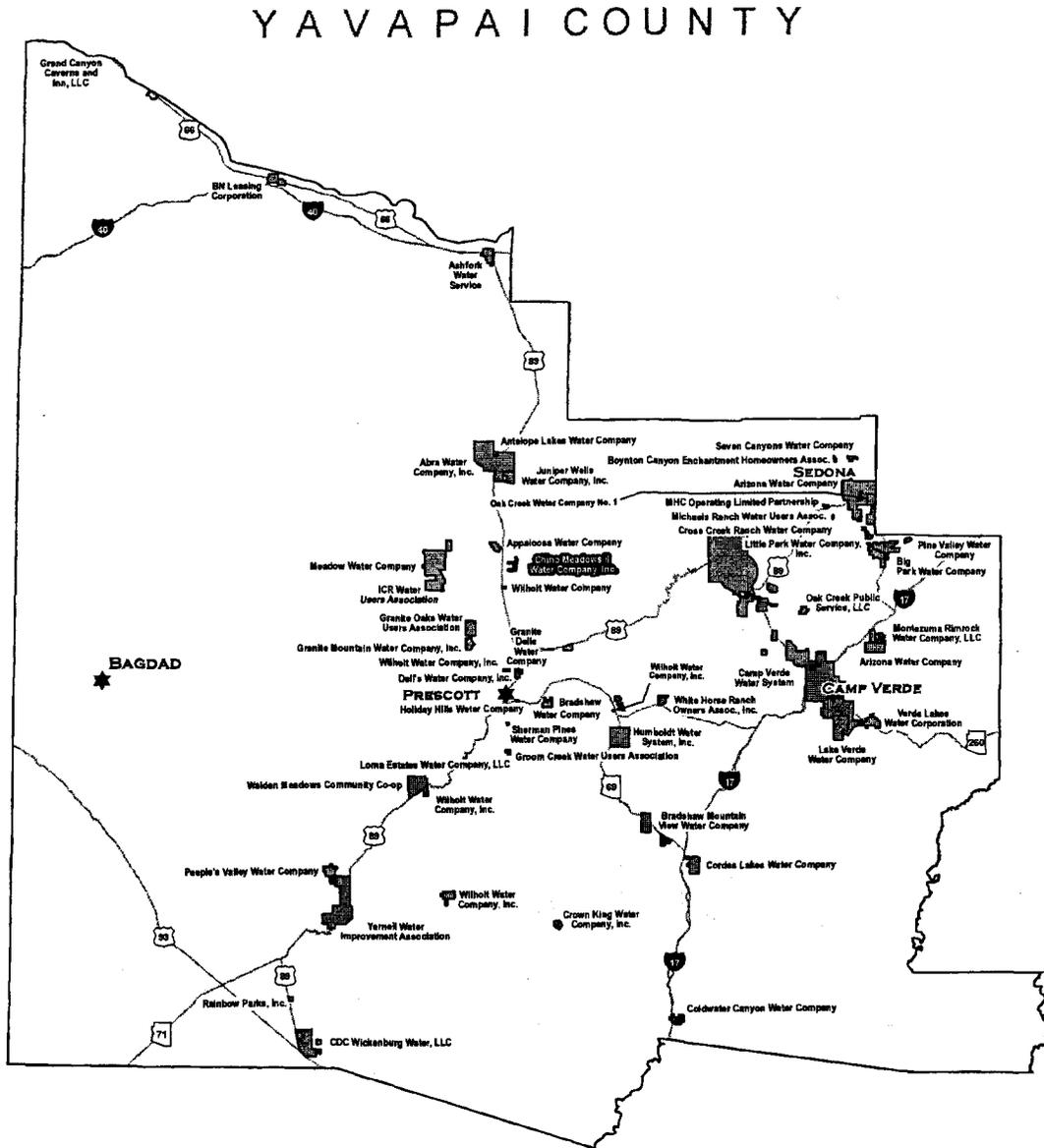


Figure A-1. County Map

Chino Meadows II Water Company
Docket No. W-02370A-10-0519

YAVAPAI COUNTY

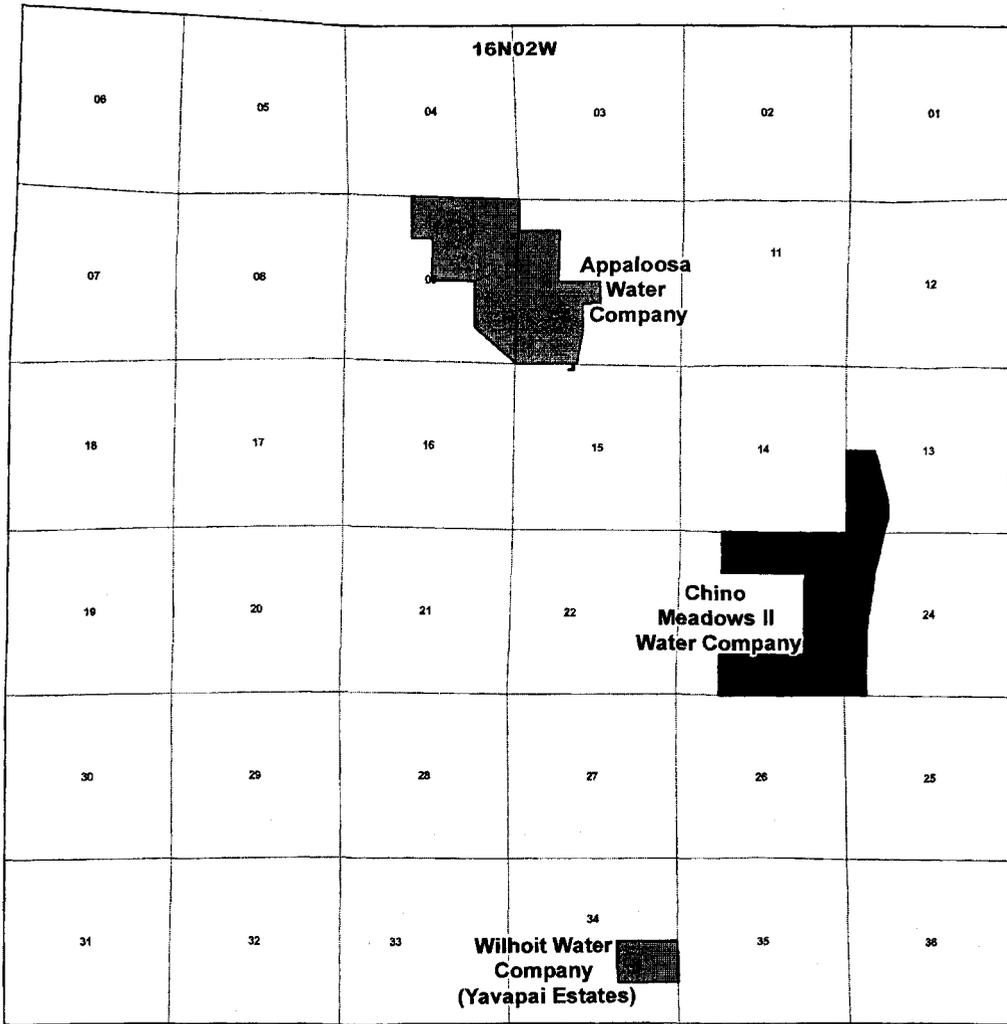


Figure A-2. Certificated Area



BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE
Chairman
BOB STUMP
Commissioner
SANDRA D. KENNEDY
Commissioner
PAUL NEWMAN
Commissioner
BRENDA BURNS
Commissioner

IN THE MATTER OF THE APPLICATION OF)
CHINO MEADOWS II WATER COMPANY, INC.)
FOR APPROVAL OF A RATE INCREASE)

DOCKET NO. W-02370A-10-0519

DIRECT
TESTIMONY
OF
JUAN C. MANRIQUE
PUBLIC UTILITIES ANALYST I
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

AUGUST 8, 2011

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**EXECUTIVE SUMMARY
CHINO MEADOWS II WATER COMPANY
DOCKET NO. W-02370A-10-0519**

The direct testimony of Staff witness Juan C. Manrique addresses the following issues:

Capital Structure – Staff recommends that the Commission adopt a capital structure for Chino Meadows II Water Company (“Applicant”) for this proceeding consisting of 0.0 percent debt and 100.0 percent equity which is the Applicant’s actual capital structure.

Cost of Equity – Staff recommends that the Commission adopt a 9.6 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 9.2 percent for the discounted cash flow method (“DCF”) to 9.9 percent for the capital asset pricing model (“CAPM”).

Cost of Debt – Chino Meadows’ capital structure contains no debt.

Overall Rate of Return – Staff recommends that the Commission adopt a 9.6 percent overall rate of return (“ROR”).

1 **I. INTRODUCTION**

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

3 A. My name is Juan C. Manrique. I am a Public Utilities Analyst employed by the Arizona
4 Corporation Commission (“Commission”) in the Utilities Division (“Staff”). My business
5 address is 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Briefly describe your responsibilities as a Public Utilities Analyst.**

8 A. In my position as a Public Utilities Analyst, I perform studies to estimate the cost of
9 capital component in rate filings to determine the overall revenue requirement and analyze
10 requests for financing authorizations.

11
12 **Q. Please describe your educational background and professional experience.**

13 A. I graduated from Arizona State University and received a Bachelor of Science degree in
14 Finance. My course of studies included courses in corporate and international finance,
15 investments, accounting, statistics, and economics. I began employment as a Staff Public
16 Utilities Analyst in October 2008. My professional experience includes two years as a
17 Loan Officer with a homebuilder and as an Associate for an Investor Relations firm.

18
19 **Q. What is the scope of your testimony in this case?**

20 A. My testimony provides Staff’s recommended capital structure, cost of debt, return on
21 equity (“ROE”) and overall rate of return (“ROR”) for establishing the revenue
22 requirements for Chino Meadows II Water Company’s (“CM II” or “Applicant”) pending
23 rate application.

24

1 **Q. Please provide a brief description of CM II.**

2 A. CM II is a for-profit Arizona corporation located in Prescott, Arizona, that is engaged in
3 the business of providing public water (approximately 890 customers) utility service in a
4 portion of Yavapai County, Arizona.

5

6 **Summary of Testimony and Recommendations**

7 **Q. Briefly summarize how Staff's cost of capital testimony is organized.**

8 A. Staff's cost of capital testimony is presented in eleven sections. Section I is this
9 introduction. Section II discusses the concept of weighted average cost of capital
10 ("WACC"). Section III presents the concept of capital structure and presents Staff's
11 recommended capital structure for CM II in this proceeding. Section IV discusses the
12 concepts of ROE and risk. Section V presents the methods employed by Staff to estimate
13 CM II's ROE. Section VI presents the findings of Staff's ROE analysis. Section VII
14 presents Staff's final cost of equity estimates for CM II. Section VIII presents Staff's Cost
15 of Debt recommendation. Section IX presents Staff's ROR recommendation. Finally
16 Section X presents the conclusions.

17

18 **Q. Have you prepared any exhibits to accompany your testimony?**

19 A. Yes. I prepared nine schedules (JCM-1 to JCM-9) that support Staff's cost of capital
20 analysis.

21

22 **Q. What is Staff's recommended rate of return for CM II?**

23 A. Staff recommends a 9.6 percent overall ROR, as shown in Schedule JCM-1. Staff's ROR
24 recommendation is based on cost of equity estimates for CM II that range from 9.2 percent
25 using the discounted cash flow method ("DCF") to 9.9 percent using the capital asset
26 pricing model ("CAPM") and no debt in the Company's capital structure.

1 **CM II's Proposed Overall Rate of Return**

2 **Q. Briefly summarize CM II's proposed capital structure, cost of debt, ROE and overall**
3 **ROR for this proceeding.**

4 **A.** Table 1 summarizes the Applicant's proposed capital structure, cost of debt, ROE and
5 overall ROR in this proceeding:

6
7 **Table 1**

	Weight	Cost	Weighted Cost
Long-term Debt	0.0%	0.0%	0.0%
Common Equity	100.0%	10.81%	<u>10.81%</u>
Cost of Capital/ROR			10.81%

8
9 CM II is proposing an overall rate of return of 10.81 percent.

10
11 **II. THE WEIGHTED AVERAGE COST OF CAPITAL**

12 **Q. Briefly explain the cost of capital concept.**

13 **A.** The cost of capital is the opportunity cost of choosing one investment over others with
14 equivalent risk. In other words, the cost of capital is the return that stakeholders expect
15 for investing their financial resources in a determined business venture over another
16 business venture.

17
18 **Q. What is the overall cost of capital?**

19 **A.** The cost of capital to a company issuing a variety of securities (i.e., stock and
20 indebtedness) is an average of the cost rates on all issued securities adjusted to reflect the
21 relative amounts for each security in the company's entire capital structure. Thus, the
22 overall cost of capital is the WACC.

1 **Q. How is the WACC calculated?**

2 A. The WACC is calculated by adding the weighted expected returns of a firm's securities.
3 The WACC formula is:

4 Equation 1.

5
$$\text{WACC} = \sum_{i=1}^n W_i * r_i$$

6
7
8 In this equation, W_i is the weight given to the i^{th} security (the proportion of the i^{th} security
9 relative to the portfolio) and r_i is the expected return on the i^{th} security.

10
11 **Q. Can you provide an example demonstrating application of Equation 1?**

12 A. Yes. For this example, assume that an entity has a capital structure composed of 60
13 percent debt and 40 percent equity. Also, assume that the embedded cost of debt is 6.0
14 percent and the expected return on equity, i.e. the cost of equity, is 10.5 percent.
15 Calculation of the WACC is as follows:

16
$$\text{WACC} = (60\% * 6.0\%) + (40\% * 10.5\%)$$

17
$$\text{WACC} = 3.60\% + 4.20\%$$

18
$$\text{WACC} = 7.80\%$$

19
20 The WACC in this example is 7.80 percent. The entity in this example would need to earn
21 an overall rate of return of 7.80 percent to cover its cost of capital.

22

1 **III. CAPITAL STRUCTURE**

2 **Background**

3 **Q. Please explain the capital structure concept.**

4 A. The capital structure of a firm is the relative proportions of each type of security—short-
5 term debt, long-term debt (including capital leases), preferred stock and common stock—
6 that are used to finance the firm's assets.

7
8 **Q. How is the capital structure expressed?**

9 A. The capital structure of a company is expressed as the percentage of each component of
10 the capital structure (capital leases, short-term debt, long-term debt, preferred stock and
11 common stock) relative to the entire capital structure.

12
13 As an example, the capital structure for an entity that is financed by \$20,000 of capital
14 leases, \$85,000 of long-term debt, \$15,000 of preferred stock and \$80,000 of common
15 stock is shown in Table 2.

16
17 **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%

1 The capital structure in this example is composed of 0.0 percent short-term debt, 10.0
2 percent capital leases, 42.5 percent long-term debt, 7.5 percent preferred stock and 40.0
3 percent common stock.

4
5 **CM II's Capital Structure**

6 **Q. What capital structure does CM II propose?**

7 A. The Applicant proposes a capital structure composed of 0.0 percent debt and 100.0 percent
8 common equity.

9
10 **Q. How does CM II's proposed capital structure compare to capital structures of the**
11 **publicly-traded water utilities?**

12 A. CM II's capital structure is composed of 0.0 percent debt and 100.0 percent equity.
13 Schedule JCM-4 shows the capital structures of six publicly-traded water companies
14 ("sample water companies") as of December 2010. The average capital structure for the
15 sample water companies is comprised of approximately 53.2 percent debt and 46.8 percent
16 equity.

17
18 **Staff's Capital Structure**

19 **Q. What is Staff's recommended capital structure for CM II?**

20 A. Staff recommends using the Applicant's current capital structure which is composed of 0.0
21 percent debt and 100.0 percent equity.

22

1 **IV. RETURN ON EQUITY**

2 **Background**

3 **Q. Please define the term “cost of equity capital.”**

4 A. The cost of equity is the rate of return that investors expect to earn on their investment in a
5 business entity given its risk. In other words, the cost of equity to the entity is the
6 investors’ expected rate of return on other investments of similar risk. As investors have a
7 wide selection of stocks to choose from, they will choose stocks with similar risks but
8 higher returns. Therefore, the market determines the entity’s cost of equity.

9
10 **Q. Is there a correlation between interest rates and the cost of equity?**

11 A. Yes. The cost of equity tends to move in the same direction as interest rates. This
12 relationship is part of the CAPM formula. The CAPM is a market-based model employed
13 by Staff for estimating the cost of equity. The CAPM is further discussed in Section V of
14 this testimony.

15
16 **Q. What has been the general trend of interest rates in recent years?**

17 A. A chronological chart of interest rates is a good tool to show interest rate history and
18 identify trends. Chart 1 graphs intermediate U.S. treasury rates from June 2001 to June
19 2011.

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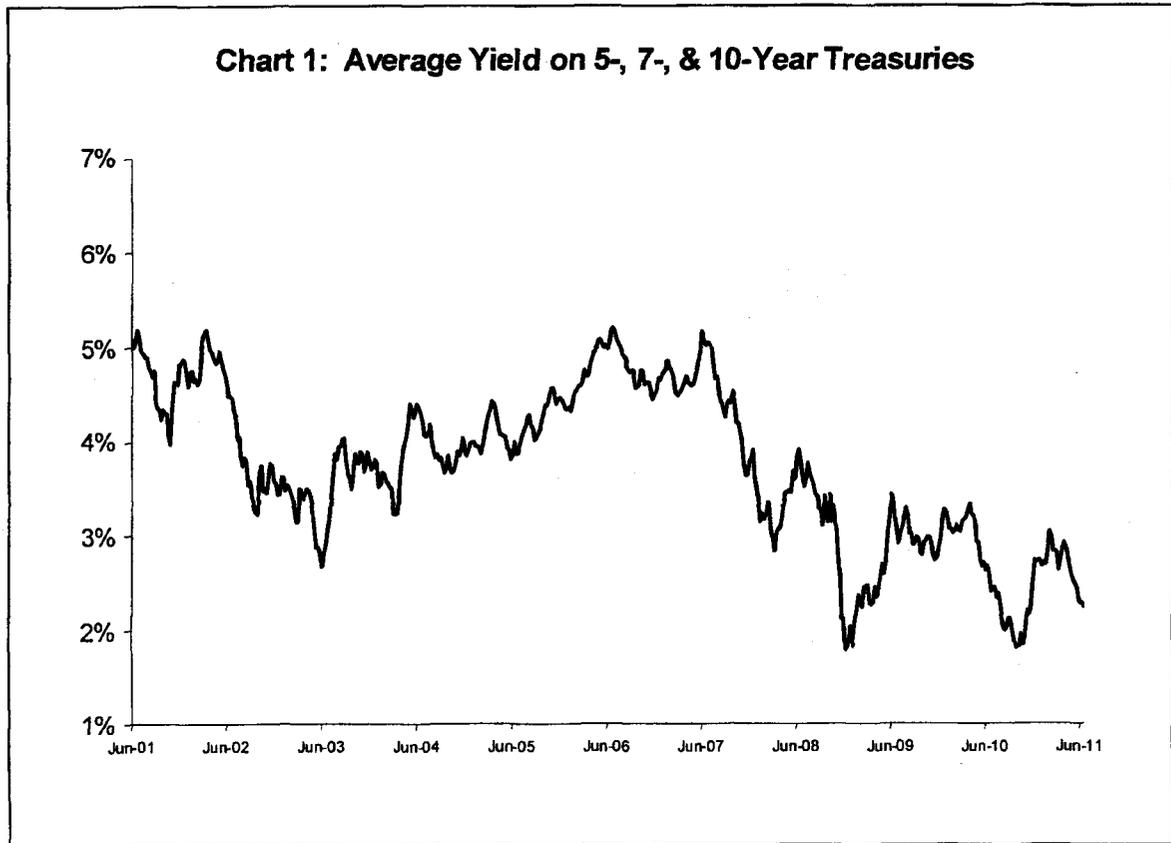
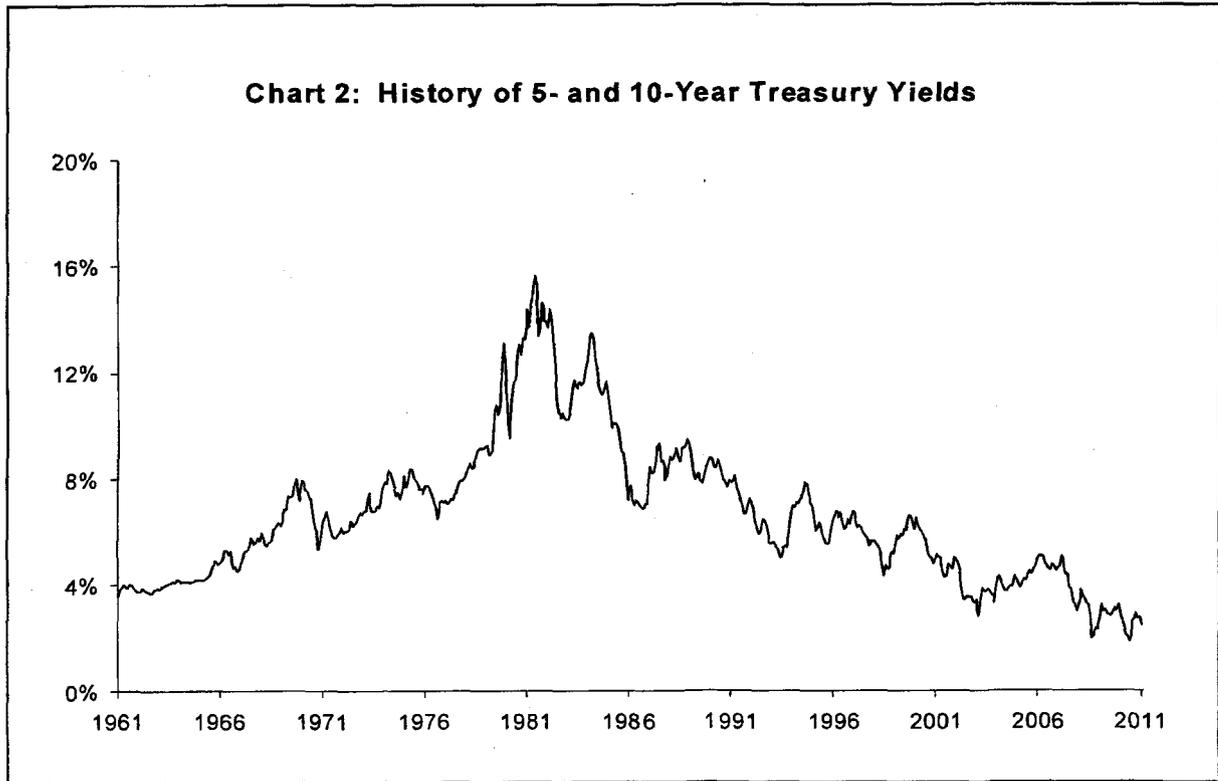


Chart 1 shows that intermediate interest rates trended downward from 2000 to mid-2003, then turned slightly upward until mid-2007 and have trended downward since with dips in early-2009, again in early-2010 and are decreasing currently.

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.

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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.

1 **Q. Is there any information available that leads to an understanding of the relationship**
2 **between the equity returns required for a regulated water utility and those required**
3 **in the market as a whole?**

4 A. Yes. A comparison of betas, a component of the CAPM discussed in Section V, for the
5 water utility industry and the market provide insight into this relationship. The average
6 beta (0.76)¹ for a water utility is lower than the theoretical average beta for all stocks (1.0).
7 According to the CAPM formula, the cost of equity capital moves in the same direction as
8 beta. Since the beta for the water utility industry is lower than the beta for the market, the
9 implication is that the required return on equity for a regulated water utility is below the
10 average required return on the market.

11
12 **Risk**

13 **Q. Please define risk in relation to cost of capital.**

14 A. Risk, as it relates to an investment, is the variability or uncertainty of the returns on a
15 particular security. Investors are risk averse and require a greater potential return to invest
16 in relatively greater risk opportunities, i.e., investors require compensation for taking
17 on additional risk. Risk is generally separated into two components. Those components
18 are market risk (systematic risk) and non-market risk (diversifiable risk or firm-specific
19 risk).

20
21 **Q. What is market risk?**

22 A. Market risk or systematic risk is the risk of an investment that cannot be reduced through
23 diversification. Market risk stems from factors that affect all securities such as recessions,
24 war, inflation and high interest rates. Since these factors affect the entire market they
25 cannot be eliminated through diversification. Market risk does not impact each security to

¹ See Schedule JCM-7

1 the same degree. The degree to which any security's returns are affected by the market
2 can be measured using Beta. Beta reflects the business risk and the financial risk of a
3 security.

4
5 **Q. Please define business risk.**

6 A. Business risk is the fluctuation of earnings inherent in a firm's operations and
7 environment, such as competition and adverse economic conditions that may impair its
8 ability to provide returns on investment. Companies in the same or similar line of
9 business tend to experience the same fluctuations in business cycles.

10
11 **Q. Please define financial risk.**

12 A. Financial risk is the fluctuation of earnings inherent in using debt financing by a firm that
13 may impair its ability to provide adequate return. The more a company uses debt
14 financing, the more the company becomes exposed to financial risk.

15
16 **Q. Do business risk and financial risk affect the cost of equity?**

17 A. Yes.

18
19 **Q. Is a firm subject to any other risk?**

20 A. Yes. Firms are also subject to unsystematic or firm-specific risk. Examples of
21 unsystematic risk include losses caused by labor problems, nationalization of assets, loss
22 of a big client or weather conditions. Investors can eliminate firm-specific risk by holding
23 a diverse portfolio; thus, it is not of concern to diversified investors.

24

1 **Q. How does CM II's financial risk compare to the sample water companies' financial**
2 **risk from the perspective of an investor?**

3 A. From an investor's perspective CM II's capital structure is less risky than the sample
4 water companies. Schedule JCM-4 shows the capital structures of the sample water
5 companies as of December 2010, as well as CM II's actual capital structure. As of
6 September 2010, the sample water companies were capitalized with approximately 53.2
7 percent debt and 46.8 percent equity, while CM II's actual capital structure consists of
8 approximately 0.0 percent debt and 100.0 percent equity. Thus, CM II's shareholders bear
9 less financial risk than the shareholders of the sample companies.

10

11 **Q. Is firm-specific risk measured by beta?**

12 A. No. Firm-specific risk is not measured by beta.

13

14 **Q. Is the cost of equity affected by firm-specific risk?**

15 A. No. Since firm-specific risk can be eliminated through diversification, it does not affect
16 the cost of equity.

17

18 **Q. Can investors expect additional returns for firm-specific risk?**

19 A. No. Investors who hold diversified portfolios can eliminate firm-specific risk and,
20 consequently, do not require any additional return. Since investors who choose to be less
21 than fully-diversified must compete in the market with fully-diversified investors, the
22 former cannot expect to be compensated for unique risk.

23

1 **V. ESTIMATING THE COST OF EQUITY**

2 **Introduction**

3 **Q. Did Staff directly estimate the cost of equity for CM II?**

4 A. No. Since CM II is not a publicly-traded company, Staff is unable to directly estimate the
5 Applicant's cost of equity due to the unavailability of financial information. Instead, Staff
6 uses an average of a representative sample group to reduce the sample error resulting from
7 random fluctuations in the market at the time the information is gathered.

8
9 **Q. What companies did Staff select as proxies or comparables for CM II?**

10 A. Staff's sample consists of the following six publicly-traded water utilities: American
11 States Water, California Water, Aqua America, Connecticut Water Services, Middlesex
12 Water and SJW Corp. Staff chose these companies because they are publicly-traded and
13 receive the majority of their earnings from regulated operations.

14
15 **Q. What models did Staff implement to estimate CM II's cost of equity?**

16 A. Staff used two market-based models to estimate the cost of equity for CM II: the DCF and
17 the CAPM.

18
19 **Q. Please explain why Staff chose the DCF and CAPM models.**

20 A. Staff chose to use the DCF and CAPM models because they are widely-recognized
21 market-based models and have been used extensively to estimate the cost of equity. An
22 explanation of the DCF and CAPM models follows.

1 **Discounted Cash Flow Model Analysis**

2 **Q. Please provide a brief summary of the theory upon which the DCF method of**
3 **estimating the cost of equity is based.**

4 A. The DCF method of stock valuation is based on the theory that the value of an investment
5 is equal to the sum of the future cash flows generated from the aforementioned investment
6 discounted to the present time. This method uses expected dividends, market price and
7 dividend growth rate to calculate the cost of capital. Professor Myron Gordon pioneered
8 the DCF method in the 1960s. The DCF method has become widely used to estimate the
9 cost of equity for public utilities due to its theoretical merit and its simplicity. Staff used
10 the financial information for the relevant six sample companies in the DCF model and
11 averaged the results to determine an estimated cost of equity for the sample companies.

12
13 **Q. Does Staff use more than one version of the DCF model?**

14 A. Yes. Staff uses two versions of the DCF model: the constant-growth DCF and the multi-
15 stage or non-constant growth DCF. The constant-growth DCF model assumes that an
16 entity's dividends will grow indefinitely at the same rate. The multi-stage growth DCF
17 model assumes that the dividend growth rate will change at some point in the future.

18
19 **The Constant-Growth DCF**

20 **Q. What is the mathematical formula used in Staff's constant-growth DCF analysis?**

21 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

1 Equation 2 assumes that the entity has a constant earnings retention rate and that its
2 earnings are expected to grow at a constant rate. According to Equation 2, a stock with a
3 current market price of \$10 per share, an expected annual dividend of \$0.45 per share and
4 an expected dividend growth rate of 3.0 percent per year has a cost of equity to the entity
5 of 7.5 percent reflected by the sum of the dividend yield ($\$0.45 / \$10 = 4.5$ percent) and the
6 3.0 percent annual dividend growth rate.

7
8 **Q. How did Staff calculate the dividend yield component (D_1/P_0) of the constant-growth**
9 **DCF formula?**

10 A. Staff calculated the yield component of the DCF formula by dividing the expected annual
11 dividend² (D_1) by the spot stock price (P_0) after the close of the market June 22, 2011, as
12 reported by the website *MSN Money*.

13
14 **Q. Why did Staff use the June 22, 2011, spot price rather than a historical average stock**
15 **price to calculate the dividend yield component of the DCF formula?**

16 A. Current, rather than historic, market stock price is used in order to be consistent with
17 finance theory, i.e., the efficient market hypothesis. The efficient market hypothesis
18 asserts that the current stock price reflects all available information on a stock including
19 investors' expectations of future returns. Use of a historical average of stock prices
20 illogically discounts the most recent information in favor of less recent information. The
21 latter is stale and is representative of underlying conditions that may have changed.
22

² Value Line Summary & Index. 7-1-11.

1 **Q. How did Staff estimate the dividend growth (g) component of the constant-growth**
2 **DCF model represented by Equation 2?**

3 A. The dividend growth component used by Staff is determined by the average of six
4 different estimation methods, as shown in Schedule JCM-8. Staff calculated historical and
5 projected growth estimates on dividend-per-share ("DPS"),³ earnings-per-share ("EPS")⁴
6 and sustainable growth bases.

7
8 **Q. Why did Staff examine EPS growth to estimate the dividend growth component of**
9 **the constant-growth DCF model?**

10 A. Historic and projected EPS growth are used because dividends are related to earnings.
11 Dividend distributions may exceed earnings in the short run but cannot continue
12 indefinitely. In the long term, dividend distributions are dependent on earnings.

13
14 **Q. How did Staff estimate historical DPS growth?**

15 A. Staff estimated historical DPS growth by calculating the average rate of growth in DPS of
16 the sample water companies from 2000 to 2010. The results of that calculation are shown
17 in Schedule JCM-5. Staff calculated an average historical DPS growth rate of 3.2 percent
18 for the sample water utilities for the aforementioned period.

19
20 **Q. How did Staff estimate the projected DPS growth?**

21 A. Staff calculated an average of the projected DPS growth rates for the sample water utilities
22 from *Value Line*. The average projected DPS growth rate is 4.1 percent, as shown in
23 Schedule JCM-5.

24

³ Derived from information provided by *Value Line*.

⁴ Derived from information provided by *Value Line*.

1 **Q. How did Staff calculate the historical EPS growth rate?**

2 A. Staff estimated historical EPS growth by calculating the average rate of growth in EPS of
3 the sample water companies from 2000 to 2010. Staff calculated an average historical
4 EPS growth rate of 4.4 percent for the sample water companies for the aforementioned
5 period, as shown in Schedule JCM-5.

6
7 **Q. How did Staff estimate the projected EPS growth?**

8 A. Staff calculated an average of the projected EPS growth rates for the sample water
9 companies from *Value Line*. The average projected EPS growth rate is 6.0 percent, as
10 shown in Schedule JCM-5.

11
12 **Q. How does Staff calculate its historical and projected sustainable growth rates?**

13 A. Historical and projected sustainable growth rates are calculated by adding their respective
14 retention growth rate terms (br) to their respective stock financing growth rate terms (vs),
15 as shown in Schedule JCM-6.

16
17 **Q. What is retention growth?**

18 A. Retention growth is the growth in dividends due to the retention of earnings. The
19 retention growth concept is based on the theory that dividend growth cannot be achieved
20 unless the company retains and reinvests some of its earnings. The retention growth is
21 used in Staff's calculation of sustainable growth shown in Schedule JCM-6.

22
23 **Q. What is the formula for the retention growth rate?**

24 A. The retention growth rate is the product of the retention ratio and the book/accounting
25 return on equity. The retention growth rate formula is:

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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 companies?

A. Staff calculated the historical retention rates by averaging the retention rates for the sample water companies from 2001 to 2010. 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 companies?

A. Staff used the retention growth projections for the sample water companies for the period 2014 to 2016 from *Value Line*. The projected average retention growth rate for the sample water companies is 4.8 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 1.9, notably higher than 1.0, as shown in Schedule JCM-7.

1 **Q. Is there any financial implication of a market-to-book ratio greater than 1.0?**

2 A. Yes. A market-to-book ratio greater than 1.0 implies that investors expect an entity to
3 earn an accounting/book return on its equity that exceeds its cost of equity. The
4 relationship between required returns and expected cash flows is readily observed in the
5 fixed securities market. For example, assume an entity contemplating issuance of bonds
6 with a face value of \$10 million at either 6 percent or 8 percent, and thus, paying annual
7 interest of \$600,000 or \$800,000, respectively. Regardless of investors' required return on
8 similar bonds, investors will be willing to pay more for the bonds if issued at 8 percent
9 than if the bonds are issued at 6 percent. For example, if the current interest rate required
10 by investors is 6 percent, then they would bid \$10 million for the 6 percent bonds and
11 more than \$10 million for the 8 percent bonds. Similarly, if equity investors require a 9
12 percent return and expect an entity to earn accounting/book returns of 13 percent, the
13 market will bid up the price of the entity's stock to provide the required return of 9
14 percent.

15
16 **Q. How has Staff generally recognized a market-to-book ratio exceeding 1.0 in its cost of
17 equity analyses in recent years?**

18 A. Staff has assumed that investors expect the market-to-book ratio to remain greater than
19 1.0. Given that assumption, Staff has added a stock financing growth rate (vs) term to the
20 retention ratio (br) term to calculate its historical and projected sustainable growth rates.

21
22 **Q. Do the historical and projected sustainable growth rates Staff uses to develop its
23 DCF cost of equity in this case continue to include a stock financing growth rate
24 term?**

25 A. Yes.

26

1 **Q. What is stock financing growth?**

2 A. Stock financing growth is the growth in an entity's dividends due to the sale of stock by
3 that entity. Stock financing growth is a concept derived by Myron Gordon and discussed
4 in his book *The Cost of Capital to a Public Utility*.⁵ Stock financing growth is the product
5 of the fraction of the funds raised from the sale of stock that accrues to existing
6 shareholders (v) and the fraction resulting from dividing the funds raised from the sale of
7 stock by the existing common equity (s).

8
9 **Q. What is the mathematical formula for the stock financing growth rate?**

10 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

11

12 **Q. How is the variable v presented above calculated?**

13 A. Variable v is calculated as follows:

Equation 5:

$$v = 1 - \left(\frac{\text{book value}}{\text{market value}} \right)$$

14

15 For example, assume that a share of stock has a \$30 book value and is selling for \$45.

16 Then, to find the value of v , the formula is applied:

⁵ Gordon, Myron J. *The Cost of Capital to a Public Utility*. MSU Public Utilities Studies, Michigan, 1974. pp 31-35.

$$v = 1 - \left(\frac{30}{45}\right)$$

1 In this example, v is equal to 0.33.

2

3 **Q. How is the variable s presented above calculated?**

4 A. Variable s is calculated as follows:

5 Equation 6:

6

7

$$s = \frac{\text{Funds raised from the issuance of stock}}{\text{Total existing common equity before the issuance}}$$

8

9 For example, assume that an entity has \$150 in existing equity, and it sells \$30 of stock.

10 Then, to find the value of s , the formula is applied:

$$s = \left(\frac{30}{150}\right)$$

11 In this example, s is equal to 20.0 percent.

12

13 **Q. What is the vs term when the market-to-book ratio is equal to 1.0?**

14 A. A market-to-book ratio equal to 1.0 reflects that investors expect an entity to earn a
15 book/accounting return on their equity investment equal to the cost of equity. When the
16 market-to-book ratio is equal to 1.0, none of the funds raised from the sale of stock by the
17 entity accrues to the benefit of existing shareholders, i.e., the term v is equal to zero (0.0).
18 Consequently, the vs term is also equal to zero (0.0). When stock financing growth is
19 zero, dividend growth depends solely on the br term.

20

1 **Q. What is the effect of the v_s term when the market-to-book ratio is greater than 1.0?**

2 A. A market-to-book ratio greater than 1.0 reflects that investors expect an entity to earn a
3 book/accounting return on their equity investment greater than the cost of equity.
4 Equation 5 shows that when the market-to-book ratio is greater than 1.0 the v term is also
5 greater than zero. The excess by which new shares are issued and sold over book value
6 per share of outstanding stock is a contribution that accrues to existing stockholders in the
7 form of a higher book value. The resulting higher book value leads to higher expected
8 earnings and dividends. Continued growth from the v_s term is dependent upon the
9 continued issuance and sale of additional shares at a price that exceeds book value per
10 share.

11

12 **Q. What v_s estimate did Staff calculate from its analysis of the sample water companies?**

13 A. Staff estimated an average stock financing growth of 2.5 percent for the sample water
14 companies, as shown in Schedule JCM-6.

15

16 **Q. What would occur if an entity had a market-to-book ratio greater than 1.0 as a result
17 of investors expecting earnings to exceed the cost of equity capital and the entity
18 subsequently experienced newly-authorized rates equal to its cost of equity capital?**

19 A. Market pressure on the entity's stock price to reflect the change in future expected cash
20 flows would cause the market-to-book ratio to move toward 1.0.

21

22 **Q. Is inclusion of the v_s term necessary if the average market-to-book ratio of the
23 sample water utilities falls to 1.0 due to authorized ROEs equaling the cost of equity?**

24 A. No. As discussed above, when the market-to-book ratio is equal to 1.0, none of the funds
25 raised from the sale of stock by the entity accrues to the benefit of existing shareholders
26 because the v term equals to zero, and consequently, the v_s term also equals zero. When

1 the market-to-book ratio equals 1.0, dividend growth depends solely on the *br* term.
2 Staff's inclusion of the *vs* term assumes that the market-to-book ratio continues to exceed
3 1.0 and that the water utilities will continue to issue and sell stock at prices above book
4 value with the effect of benefitting existing shareholders.

5
6 **Q. What are Staff's historical and projected sustainable growth rates?**

7 A. Staff's estimated historical sustainable growth rate is 5.4 percent based on an analysis of
8 earnings retention for the sample water companies. Staff's projected sustainable growth
9 rate is 7.3 percent based on retention growth projected by *Value Line*. Schedule JCM-6
10 presents Staff's estimates of the sustainable growth rate.

11
12 **Q. What is Staff's expected infinite annual growth rate in dividends?**

13 A. Staff's expected infinite annual growth rate in dividends is 5.1 percent which is the
14 average of historical and projected DPS, EPS, and sustainable growth estimates. Staff's
15 calculation of the expected infinite annual growth rate in dividends is shown in Schedule
16 JCM-8.

17
18 **Q. What is Staff's constant-growth DCF estimate for the sample utilities?**

19 A. Staff's constant-growth DCF estimate is 8.5 percent, as shown in Schedule JCM-3.
20

21 *The Multi-Stage DCF*

22 **Q. Why did Staff implement the multi-stage DCF model to estimate CM II's cost of
23 equity?**

24 A. Staff generally uses the multi-stage DCF model to consider the assumption that dividends
25 may not grow at a constant rate. The multi-stage DCF uses two stages of growth. The
26 first stage is four years followed by the second constant growth stage.

1 **Q. What is the mathematical formula for the multi-stage DCF?**

2 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

3

4 **Q. What steps did Staff take to implement its multi-stage DCF cost of equity model?**

5 A. First, Staff projected future dividends for each of the sample water utilities using near-
6 term and long-term growth rates. Second, Staff calculated the rate (cost of equity) which
7 equates the present value of the forecasted dividends to the current stock price for each of
8 the sample water utilities. Lastly, Staff calculated an average of the individual sample
9 company cost of equity estimates.

10

11 **Q. How did Staff calculate near-term (stage-1) growth?**

12 A. The stage-1 growth rate is based on *Value Line's* projected dividends for the next twelve
13 months, when available, and on the average dividend growth rate (5.1 percent) calculated
14 in Staff's constant DCF analysis for the remainder of the stage.

15

1 **Q. How did Staff estimate long-term (stage-2) growth?**

2 A. Staff calculated the stage-2 growth rate using the arithmetic mean rate of growth in GDP
3 from 1929 to 2010.⁶ Using the GDP growth rate assumes that the water utility industry is
4 expected to grow at the same rate as the overall economy.

5
6 **Q. What is the historical GDP growth rate that Staff used to estimate stage-2 growth?**

7 A. Staff used 6.6 percent to estimate the stage-2 growth rate.

8
9 **Q. What is Staff's multi-stage DCF estimate for the sample utilities?**

10 A. Staff's multi-stage DCF estimate is 9.9 percent, as shown in Schedule JCM-3.

11
12 **Q. What is Staff's overall DCF estimate for the sample utilities?**

13 A. Staff's overall DCF estimate is 9.2 percent. Staff calculated the overall DCF estimate by
14 averaging the constant growth DCF (8.5 percent) and multi-stage DCF (9.9 percent)
15 estimates, as shown in Schedule JCM-3.

16
17 **Capital Asset Pricing Model**

18 **Q. Please describe the CAPM.**

19 A. The CAPM is used to determine the prices of securities in a competitive market. The
20 CAPM model describes the relationship between a security's investment risk and its
21 market rate of return. Under the CAPM an investor requires the expected return of a
22 security to equal the rate on a risk-free security plus a risk premium. If the investor's
23 expected return does not meet or beat the required return, the investment is not
24 economically justified. The model also assumes that investors will sufficiently diversify

⁶ www.bea.doc.gov.

1 their investments to eliminate any non-systematic or unique risk.⁷ In 1990, Professors
2 Harry Markowitz, William Sharpe, and Merton Miller earned the Nobel Prize in
3 Economic Sciences for their contribution to the development of the CAPM.

4
5 **Q. Did Staff use the same sample water utilities in its CAPM and DCF cost of equity**
6 **estimation analyses?**

7 A. Yes. Staff's CAPM cost of equity estimation analysis uses the same sample water
8 companies as its DCF cost of equity estimation analysis.

9
10 **Q. What is the mathematical formula for the CAPM?**

11 A. The mathematical formula for the CAPM is:

12
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

13
14 The equation shows that the expected return (K) on a risky asset is equal to the risk-free
15 interest rate (R_f) plus the product of the market risk premium ("Rp") ($R_m - R_f$) multiplied
16 by beta (β) where beta represents the riskiness of the investment relative to the market.

17

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.

1 **Q. What is the risk free rate?**

2 A. The risk free rate is the rate of return of an investment with zero risk.
3

4 **Q. What does Staff use as surrogates to represent estimations of the risk-free rates of
5 interest in its historical and current market risk premium CAPM methods?**

6 A. Staff uses separate parameters as surrogates for the estimations of the risk-free rates of
7 interest for the historical market risk premium CAPM cost of equity estimation and the
8 current market risk premium CAPM cost of equity estimation. Staff uses the average of
9 three (five-, seven-, and ten-year) intermediate-term U.S. Treasury securities' spot rates in
10 its historical market risk premium CAPM cost of equity estimation, and the 30-year U.S.
11 Treasury bond spot rate in its current market risk premium CAPM cost of equity
12 estimation. U.S. Treasuries are largely verifiable and readily available.
13

14 **Q. What does beta measure?**

15 A. Beta measures the volatility, or systematic risk, of a security relative to the market. Since
16 systematic risk cannot be diversified away, it is the only risk that is relevant when
17 estimating a security's required return. Using a baseline market beta of 1.0, a security
18 with a beta less than 1.0 will be less volatile than the market. A security with a beta
19 greater than 1.0 will be more volatile than the market.
20

21 **Q. How did Staff estimate CM II's beta?**

22 A. Staff used the average of the *Value Line* betas for the sample water companies as a proxy
23 for CM II's beta. Schedule JCM-7 shows the *Value Line* betas for each of the sample
24 water companies. The 0.76 average beta for the sample water companies is Staff's
25 estimated beta for CM II. A security with a 0.76 beta has less volatility than the market.
26

1 **Q. Please describe expected market risk premium ($R_m - R_f$)?**

2 **A.** The expected market risk premium is the expected return on the market above the risk free
3 rate. Simplified, it is the return an investor expects as compensation for market risk.
4

5 **Q. What did Staff use for the market risk premium?**

6 **A.** Staff uses separate calculations for the market risk premium in its historical and current
7 market risk premium CAPM methods.
8

9 **Q. How did Staff calculate an estimate for the market risk premium in its historical
10 market risk premium CAPM method?**

11 **A.** Staff uses the intermediate-term government bond income returns published in the
12 Ibbotson Associates' *Stocks, Bonds, Bills, and Inflation 2010 Yearbook* to calculate the
13 historical market risk premium. Ibbotson Associates calculates the historical risk
14 premium by averaging the historical arithmetic differences between the S&P 500 and the
15 intermediate-term government bond income returns for the period 1926-2010. Staff's
16 historical market risk premium estimate is 7.2 percent, as shown in Schedule JCM-3.
17

18 **Q. How did Staff calculate an estimate for the market risk premium in its current
19 market risk premium CAPM method?**

20 **A.** Staff solves equation 8 above to arrive at a market risk premium using a DCF derived
21 expected return (K) of 14.47 (2.0 + 12.47⁸) percent using the expected dividend yield (2.0
22 percent over the next twelve months) and the annual per share growth rate (12.47 percent)
23 that *Value Line* projects for all dividend-paying stocks under its review⁹ along with the
24 current long-term risk-free rate (30-year Treasury note at 4.22 percent) and the market's

⁸ The three to five year price appreciation is 60%. $1.60^{0.25} - 1 = 12.47\%$.

⁹ July 1, 2011 issue date.

1 average beta of 1.0. Staff calculated the current market risk premium as 10.25¹⁰ as shown
2 in Schedule JCM-3.
3

4 **Q. What is the result of Staff's historical market risk premium CAPM and current**
5 **market risk premium CAPM cost of equity estimations for the sample utilities?**

6 A. Staff's cost of equity estimates are 7.7 percent using the historical market risk premium
7 CAPM and 12.0 using the current market risk premium CAPM.
8

9 **Q. What is Staff's overall CAPM estimate for the sample utilities?**

10 A. Staff's overall CAPM cost of equity estimate is 9.9 percent which is the average of the
11 historical market risk premium CAPM (7.7 percent) and the current market risk premium
12 CAPM (12.0 percent) estimates, as shown in Schedule JCM-3.
13

14 **VI. SUMMARY OF STAFF'S COST OF EQUITY ANALYSIS**

15 **Q. What is the result of Staff's constant-growth DCF analysis to estimate of the cost of**
16 **equity to the sample water companies?**

17 A. Schedule JCM-3 shows the result of Staff's constant-growth DCF analysis. The result of
18 Staff's constant-growth DCF analysis is as follows:
19

20 $k = 3.4\% + 5.1\%$

21
22 $k = 8.5\%$

23 Staff's constant-growth DCF estimate of the cost of equity to the sample water companies
24 is 8.5 percent.
25

¹⁰ 14.47% = 4.22% + (1) (10.25%).

1 **Q. What is the result of Staff's multi-stage DCF analysis to estimate of the cost of equity**
2 **for the sample water companies?**

3 A. Schedule JCM-9 shows the result of Staff's multi-stage DCF analysis. The result of
4 Staff's multi-stage DCF analysis is:

5

6	<u>Applicant</u>	<u>Equity Cost</u>
7		<u>Estimate (k)</u>
8		
9	American States Water	9.6%
10	California Water	10.0%
11	Aqua America	9.2%
12	Connecticut Water	10.2%
13	Middlesex Water	10.5%
14	SJW Corp	<u>9.6%</u>
15		
16	Average	9.9%

17

18 Staff's multi-stage DCF estimate of the cost of equity for the sample water utilities is 9.9
19 percent.

20

21 **Q. What is Staff's overall DCF estimate of the cost of equity for the sample utilities?**

22 A. Staff's overall DCF estimate of the cost of equity for the sample utilities is 9.2 percent.
23 Staff calculated an overall DCF cost of equity estimate by averaging Staff's constant
24 growth DCF (8.5 percent) and Staff's multi-stage DCF (9.9 percent) estimates, as shown
25 in Schedule JCM-3.

26

27 **Q. What is the result of Staff's historical market risk premium CAPM analysis to**
28 **estimate of the cost of equity for the sample water companies?**

29 A. Schedule JCM-3 shows the result of Staff's CAPM analysis using the historical risk
30 premium estimate. The result is as follows:

31

$$k = 2.3\% + 0.76 * 7.2\%$$
$$k = 7.7\%$$

1 Staff's CAPM estimate (using the historical market risk premium) of the cost of equity to
2 the sample water utilities is 7.7 percent.

3

4 **Q. What is the result of Staff's current market risk premium CAPM analysis to**
5 **estimate the cost of equity for the sample water companies**

6 A. Schedule JCM-3 shows the result of Staff's CAPM analysis using the current market risk
7 premium estimate. The result is:

8

$$k = 4.2\% + 0.76 * 10.2\%$$

9

$$k = 12.0\%$$

10

11 Staff's CAPM estimate (using the current market risk premium) of the cost of equity to the
12 sample water utilities is 12.0 percent.

13

14 **Q. What is Staff's overall CAPM estimate of the cost of equity for the sample utilities?**

15 A. Staff's overall CAPM estimate for the sample utilities is 9.9 percent. Staff's overall
16 CAPM estimate is the average of the historical market risk premium CAPM (7.7 percent)
17 and the current market risk premium CAPM (12.0 percent) estimates, as shown in
18 Schedule JCM-3.

19

20 **Q. Please summarize the results of Staff's cost of equity analysis for the sample utilities.**

21 A. The following table shows the results of Staff's cost of equity analysis:

22

23

Table 2

24

25

26

Method	Estimate
Average DCF Estimate	9.2%
Average CAPM Estimate	9.9%
Overall Average	9.6%

1 Staff's average estimate of the cost of equity to the sample water utilities is 9.6 percent.
2

3 **VII. FINAL COST OF EQUITY ESTIMATES FOR CM II**

4 **Q. Please compare CM II's capital structure to that of the six sample water companies.**

5 A. The average capital structure for the sample water companies is composed of 46.8 percent
6 equity and 53.2 percent debt, as shown in Schedule JCM-4. CM II's capital structure is
7 composed of 100.0 percent equity and 0.0 percent debt. In this case, since CM II's capital
8 structure is less leveraged than that of the average sample water companies' capital
9 structure, its stockholders bear less financial risk than the sample water utilities.
10 Accordingly, CM II's cost of equity is lower than that of the sample water utilities.
11

12 **Q. What is Staff's ROE estimate for CM II?**

13 A. Staff determined an ROE estimate of 9.6 percent for the Applicant based on cost of equity
14 estimates for the sample companies ranging from 9.2 percent for the DCF to 9.9 percent
15 for the CAPM.
16

17 **Q. Why does Staff not use a financial risk adjustment to calculate the effect on the cost
18 of equity capital of the different financial risks posed by CM II versus the sample
19 companies?**

20 A. In this case, Staff does not use a financial risk adjustment because CM II is not a publicly-
21 traded company, and thus, it does not have access to the capital markets.
22

23 **VIII. COST OF DEBT**

24 **Q. What is Staff's Cost of Debt recommendation?**

25 A. CM II has no debt in its capital structure.
26

1 **IX. RATE OF RETURN RECOMMENDATION**

2 **Q. What overall rate of return did Staff determine for CM II?**

3 A. Staff determined a 9.6 percent ROR for the Applicant, as shown in Schedule JCM-1 and in
4 the following table:

5
6 **Table 3**

7

	Weight	Cost	Weighted Cost
Long-term Debt	0.0%	0.0%	0.0%
Common Equity	100.0%	9.6%	<u>9.6%</u>
Overall ROR			<u>9.6%</u>

8

9 **X. CONCLUSION**

10 **Q. Please summarize Staff's recommendations.**

11 A. Staff recommends that the Commission adopt a capital structure for CM II in this
12 proceeding composed of 0.0 percent debt and 100.0 percent equity.

13
14 Staff also recommends that the Commission adopt a 9.6 percent ROR for the Applicant,
15 based on Staff's cost of equity estimates that range from 9.2 percent to 9.9 percent for the
16 sample companies.

17
18 **Q. Does this conclude your Direct Testimony?**

19 A. Yes, it does.

**Chino Meadows II Water Company Cost of Capital Calculation
Capital Structure
And Weighted Average Cost of Capital
Staff Recommended and Company Proposed**

[A] <u>Description</u>	[B] <u>Weight (%)</u>	[C] <u>Cost</u>	[D] <u>Weighted Cost</u>
Staff Recommended Structure			
Debt	0.0%	0.0%	0.0%
Common Equity	100.0%	9.6%	<u>9.6%</u>
Weighted Average Cost of Capital			9.6%
Company Proposed Structure			
Debt	0.0%	0.0%	0.0%
Common Equity	100.0%	10.8%	<u>10.8%</u>
Weighted Average Cost of Capital			10.8%

[D] : [B] x [C]
Supporting Schedules: JCM-3 and JCM-4.

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Chino Meadows II Water Company Cost of Capital Calculation
 Final Cost of Equity Estimates
 Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
DCF Method				
Constant Growth DCF Estimate		$\frac{D_1}{P_0}$ ¹	+	$\frac{g}{k}$
Multi-Stage DCF Estimate		3.4%	+	5.1%
Average of DCF Estimates				9.2%
CAPM Method				
Historical Market Risk Premium ³	R_f	β^5	x	$\frac{k}{k}$
Current Market Risk Premium ⁴	2.3%	0.76	x	7.7%
Average of CAPM Estimates	4.2%	0.76	x	12.0%
				9.9%
			Average	9.6%
			Financial risk adjustment	9.6%
			Total	9.6%

1 MSN Money and Value Line

2 Schedule JCM-3

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 S&P 500 Yearbook data

7 Testimony

Chino Meadows II Water Company Cost of Capital Calculation
Average Capital Structure of Sample Water Utilities

[A]	[B]	[C]	[D]
<u>Company</u>	<u>Debt</u>	<u>Common Equity</u>	<u>Total</u>
American States Water	49.8%	50.2%	100.0%
California Water	53.4%	46.6%	100.0%
Aqua America	57.2%	42.8%	100.0%
Connecticut Water	55.9%	44.1%	100.0%
Middlesex Water	49.4%	50.6%	100.0%
SJW Corp	<u>53.4%</u>	<u>46.6%</u>	<u>100.0%</u>
Average Sample Water Utilities	53.2%	46.8%	100.0%
Chino Meadows - Actual Capital Structure	0.0%	100.0%	100.0%

Source:
Sample Water Companies from Value Line

Chino Meadows II Water Company Cost of Capital Calculation
 Growth in Earnings and Dividends
 Sample Water Utilities

[A] Company	[B] Dividends Per Share 2000 to 2010 <u>DPS¹</u>	[C] Dividends Per Share Projected <u>DPS¹</u>	[D] Earnings Per Share 2000 to 2010 <u>EPS^{1,2}</u>	[E] Earnings Per Share Projected <u>EPS¹</u>
American States Water	1.9%	3.7%	6.2%	2.2%
California Water	0.8%	3.0%	4.0%	4.0%
Aqua America	7.7%	6.0%	6.7%	8.4%
Connecticut Water	1.5%	No Projection	0.9%	No Projection
Middlesex Water	1.8%	No Projection	2.4%	No Projection
SJW Corp	<u>5.2%</u>	<u>3.8%</u>	<u>3.8%</u>	<u>9.1%</u>
Average Sample Water Utilities	3.2%	4.1%	4.4%	6.0%

¹ Value Line

² Negative values are inconsistent with the DCF, accordingly, they are excluded from the average.

Chino Meadows II Water Company Cost of Capital Calculation
 Sustainable Growth
 Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]
Company	Retention Growth 2001 to 2010 br	Retention Growth Projected br	Stock Financing Growth vs	Sustainable Growth 2001 to 2010 br + vs	Sustainable Growth Projected br + vs
American States Water	3.1%	6.7%	1.7%	4.9%	8.4%
California Water	2.2%	4.2%	3.7%	5.9%	7.9%
Aqua America	4.5%	5.5%	4.4%	8.9%	9.9%
Connecticut Water	2.3%	No Projection	0.9%	3.2%	No Projection
Middlesex Water	1.3%	No Projection	4.1%	5.4%	No Projection
SJW Corp	<u>3.9%</u>	<u>2.8%</u>	<u>0.1%</u>	<u>4.0%</u>	<u>2.9%</u>
Average Sample Water Utilities	2.9%	4.8%	2.5%	5.4%	7.3%

[B]: Value Line
 [C]: Value Line
 [D]: Value Line and MSN Money
 [E]: [B]+[D]
 [F]: [C]+[D]

Chino Meadows II Water Company Cost of Capital Calculation
 Selected Financial Data of Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Company	Symbol	Spot Price 6/22/2011	Book Value	Mkt To Book	Value Line Beta	Raw Beta
American States Water	AWR	33.69	20.46	1.6	0.75	β_{raw} 0.60
California Water	CWT	17.97	10.57	1.7	0.70	0.52
Aqua America	WTR	22.99	8.70	2.6	0.65	0.45
Connecticut Water	CTWS	25.24	12.82	2.0	0.80	0.67
Middlesex Water	MSEX	18.62	10.96	1.7	0.75	0.60
SJW Corp	SJW	22.80	14.66	1.6	0.90	0.82
Average				1.9	0.76	0.61

[C]: Msn Money
 [D]: Value Line
 [E]: [C] / [D]
 [F]: Value Line
 [G]: (-0.35 + [F]) / 0.67

Chino Meadows II Water Company Cost of Capital Calculation
 Calculation of Expected Infinite Annual Growth in Dividends
 Sample Water Utilities

[A]	[B]
<u>Description</u>	<u>g</u>
DPS Growth - Historical ¹	3.2%
DPS Growth - Projected ¹	4.1%
EPS Growth - Historical ¹	4.4%
EPS Growth - Projected ¹	6.0%
Sustainable Growth - Historical ²	5.4%
<u>Sustainable Growth - Projected²</u>	<u>7.3%</u>
Average	5.1%

1 Schedule JCM-5

2 Schedule JCM-6

Chino Meadows II Water Company Cost of Capital Calculation
 Multi-Stage DCF Estimates
 Sample Water Utilities

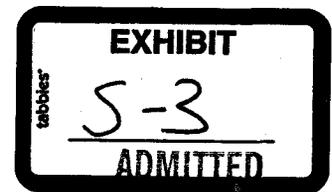
[A] Company	[B] Current Mkt. Price (P ₀) ¹ 6/22/2011	[C] d ₁	[D] d ₂	[E] d ₃	[F] d ₄	[H] Stage 2 growth ³ (g _n)	[I] Equity Cost Estimate (K) ⁴
American States Water	33.7	1.07	1.12	1.18	1.24	6.6%	9.6%
California Water	18.0	0.64	0.67	0.70	0.74	6.6%	10.0%
Aqua America	23.0	0.64	0.67	0.70	0.74	6.6%	9.2%
Connecticut Water	25.2	0.94	0.99	1.04	1.09	6.6%	10.2%
Middlesex Water	18.6	0.75	0.79	0.83	0.87	6.6%	10.5%
SJW Corp	22.8	0.72	0.75	0.79	0.83	6.6%	9.6%

Average 9.9%

$$P_0 = \sum_{t=1}^n \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K-g_n} \left[\frac{1}{(1+K)} \right]^n$$

Where : P₀ = 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 - 2010 in current dollars.
 4 Internal Rate of Return of Projected Dividends



BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE
Chairman
BOB STUMP
Commissioner
SANDRA D. KENNEDY
Commissioner
PAUL NEWMAN
Commissioner
BRENDA BURNS
Commissioner

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-02370A-10-0519
CHINO MEADOWS II WATER COMPANY, INC.)
FOR APPROVAL OF A RATE INCREASE)

SURREBUTTAL
TESTIMONY
OF
JUAN C. MANRIQUE
PUBLIC UTILITIES ANALYST I
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

SEPTEMBER 19, 2011

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EXECUTIVE SUMMARY
CHINO MEADOWS II WATER COMPANY, INC.
DOCKET NOS. W-02370A-10-0519

The Surrebuttal testimony of Staff witness Juan C. Manrique addresses the following issues:

Capital Structure – Staff continues to recommend that the Commission adopt a capital structure for Chino Meadows Water Company, Inc. (“Company”) for this proceeding consisting of 100.0 percent equity and 0.0 percent debt which is the Company’s actual capital structure.

Cost of Equity – Staff continues to recommend that the Commission adopt a 9.6 percent return on equity (“ROE”) for the Company. Staff’s estimated ROE for the Applicant is based on cost of equity estimates for the sample companies ranging from 9.2 percent for the discounted cash flow method (“DCF”) to 9.9 percent for the capital asset pricing model (“CAPM”). In its rebuttal, the Company agreed with Staff’s recommendation.

Cost of Debt – Chino Meadows’ capital structure contains no debt.

Overall Rate of Return – Staff recommends that the Commission adopt a 9.6 percent overall rate of return.

Mr. Jones’ Rebuttal – The Commission should reject the Company’s proposed use of an Operating Margin instead of a Cost of Capital calculation to determine revenues as this is an indirect request for compensation for firm-specific risk resulting in an excessive return on property devoted to public service.

1 **I. INTRODUCTION**

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

3 A. My name is Juan C. Manrique. I am a Public Utilities Analyst employed by the Arizona
4 Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business
5 address is 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Are you the same Juan C. Manrique who filed direct testimony in this case?**

8 A. Yes, I am.

9
10 **Q. What is the purpose of your Surrebuttal Testimony in this rate proceeding?**

11 A. The purpose of my Surrebuttal Testimony in this rate proceeding is to respond to the cost
12 of capital portion of the rebuttal testimony of Chino Meadows' witness Mr. Ray L. Jones
13 ("Mr. Jones' Rebuttal").

14
15 **Q. Please explain how Staff's Surrebuttal Testimony for cost of capital is organized.**

16 A. Staff's surrebuttal testimony for cost of capital is presented in four sections. Section I is
17 this introduction. Section II discusses Staff's cost of capital analysis. Section III presents
18 Staff's comments on Mr. Jones' rebuttal testimony. Lastly, Section IV presents Staff's
19 recommendations.

20
21 **II. COST OF EQUITY AND OVERALL RATE OF RETURN**

22 **Q. Did Staff update its analysis concerning the Applicant's cost of equity ("COE") since
23 it filed its Direct Testimony?**

24 A. No. Staff did not update its analysis as the Company agreed with Staff's COE
25 recommendation.

26

1 **Q. What is Staff's COE?**

2 A. Staff's COE is 9.6 percent, as it was in Staff's direct testimony.

3
4 **Q. What is Staff's updated overall ROR?**

5 A. Staff's overall ROR remains 9.6 percent as it was in Staff's direct testimony.

6
7 **III. RESPONSE TO THE REBUTTAL TESTIMONY OF THE APPLICANT'S COST**
8 **OF CAPITAL WITNESS**

9 **Mr. Jones' Rebuttal**

10 **Q. What is Staff's response to Mr. Jones' conclusion that the revenue requirement**
11 **should be determined by an operating margin as opposed to a cost of capital**
12 **calculation?¹**

13 A. Mr. Jones concludes that due to the Company's relatively small rate base, which leads to a
14 small operating income and a small margin over expenses, the Company may have
15 difficulty covering increasing or fluctuating costs, dealing with contingencies and
16 attracting new capital for system improvements. He also notes that determining the
17 operating income via the rate base rate of return method results in a lower operation
18 margin for the Company than for its sister company Granite Mountain Water Co., Inc.²

19
20 Use of the operating margin method for determining the operating income effectively
21 provides greater income for greater expenses relative to rate base. Variations in the
22 operating expenses to rate base ratio among utilities is a firm-specific risk for which no
23 additional compensation should be awarded. Staff agrees that for small utilities in
24 addition to rate of return on rate base, consideration should also be given to whether the
25 cash flows generated by the rate of return are sufficient to cover reasonable operating

¹ Mr. Jones' Rebuttal, page 4.

² Id.

1 contingencies. Under Staff's recommended revenue requirement, the Company would
2 generate annual cash flows of \$58,725 (\$19,813 operating income + \$38,912 depreciation
3 expense)³ which is a reasonable provision for contingencies. The Company is entitled to a
4 reasonable return on the value of its property and no more. Since the rate base rate of
5 return method provides adequate cash flows, the Company is not entitled to pick and
6 choose alternate methods to enrich its shareholders.

7
8 **IV. STAFF RECOMMENDATIONS**

9 **Q. What are Staff's recommendations for Chino Meadows' cost of capital?**

10 **A. Staff makes the following recommendations for Chino Meadows' cost of capital:**

- 11 1. Staff recommends a capital structure of 0.0 percent debt and 100.0 percent equity.
- 12 2. Staff recommends a cost of debt of not applicable or 0.0 percent.
- 13 3. Staff recommends a cost of equity of 9.6 percent.
- 14 4. Staff recommends an overall rate of return of 9.6 percent.

15
16 **Q. Does Staff's silence on any particular issue raised by the Company in its Rebuttal
17 testimony indicate that Staff agrees with the stated Rebuttal position?**

18 **A. No.**

19
20 **Q. Does this conclude your testimony?**

21 **A. Yes, it does.**

³ Crystal Brown Direct, Schedule CSB-10. Assumes no refunds on advances in aid of construction.

**Chino Meadows II Water Company Cost of Capital Calculation
Capital Structure
And Weighted Average Cost of Capital
Staff Recommended and Company Proposed**

[A]	[B]	[C]	[D]
<u>Description</u>	<u>Weight (%)</u>	<u>Cost</u>	<u>Weighted Cost</u>
Staff Recommended Structure			
Debt	0.0%	0.0%	0.0%
Common Equity	100.0%	9.6%	<u>9.6%</u>
Weighted Average Cost of Capital			9.6%
Company Proposed Structure			
Debt	0.0%	0.0%	0.0%
Common Equity	100.0%	10.8%	<u>10.8%</u>
Weighted Average Cost of Capital			10.8%

[D]: [B] x [C]
Supporting Schedules: JCM-3 and JCM-4.

Docket No. W-02370A-10-0519

Surrebuttal Schedule JCM-2

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Chino Meadows II Water Company Cost of Capital Calculation
 Final Cost of Equity Estimates
 Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
<u>DCF Method</u>				
Constant Growth DCF Estimate		D/P_a^1	+	g^2
Multi-Stage DCF Estimate		3.4%	+	5.1%
Average of DCF Estimates				=
<u>CAPM Method</u>				
Historical Market Risk Premium ³	Rf	β^5	x	(R_p)
Current Market Risk Premium ⁴	2.3%	0.76	x	7.2% ⁶
Average of CAPM Estimates	4.2%	0.76	x	10.2% ⁷
				=
				k
				8.5%
				9.9%
				9.2%
				k
				7.7%
				12.0%
				9.9%
			Average	9.6%
			Financial risk adjustment	
			Total	9.6%

1 MSN Money and Value Line
 2 Schedule JCM-3
 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 88BI 2009 Yearbook data
 7 Testimony

Chino Meadows II 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	49.8%	50.2%	100.0%
California Water	53.4%	46.6%	100.0%
Aqua America	57.2%	42.8%	100.0%
Connecticut Water	55.9%	44.1%	100.0%
Middlesex Water	49.4%	50.6%	100.0%
SJW Corp	53.4%	46.6%	100.0%
Average Sample Water Utilities	53.2%	46.8%	100.0%
Chino Meadows - Actual Capital Structure	0.0%	100.0%	100.0%

Source:
 Sample Water Companies from Value Line

Chino Meadows II Water Company Cost of Capital Calculation
 Growth in Earnings and Dividends
 Sample Water Utilities

[A] Company	[B] Dividends Per Share 2000 to 2010 <u>DPS</u> ¹	[C] Dividends Per Share Projected <u>DPS</u> ¹	[D] Earnings Per Share 2000 to 2010 <u>EPS</u> ^{1,2}	[E] Earnings Per Share Projected <u>EPS</u> ¹
American States Water	1.9%	3.7%	6.2%	2.2%
California Water	0.8%	3.0%	4.0%	4.0%
Aqua America	7.7%	6.0%	6.7%	8.4%
Connecticut Water	1.5%	No Projection	0.9%	No Projection
Middlesex Water	1.8%	No Projection	2.4%	No Projection
SJW Corp	<u>5.2%</u>	<u>3.8%</u>	<u>3.8%</u>	<u>9.1%</u>
Average Sample Water Utilities	3.2%	4.1%	4.4%	6.0%

¹ Value Line

² Negative values are inconsistent with the DCF, accordingly, they are excluded from the average.

Chino Meadows II Water Company Cost of Capital Calculation
 Sustainable Growth
 Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]
Company	Retention Growth 2001 to 2010 br	Retention Growth Projected br	Stock Financing Growth vs	Sustainable Growth 2001 to 2010 br + vs	Sustainable Growth Projected br + vs
American States Water	3.1%	6.7%	1.7%	4.9%	8.4%
California Water	2.2%	4.2%	3.7%	5.9%	7.9%
Aqua America	4.5%	5.5%	4.4%	8.9%	9.9%
Connecticut Water	2.3%	No Projection	0.9%	3.2%	No Projection
Middlesex Water	1.3%	No Projection	4.1%	5.4%	No Projection
SJW Corp	<u>3.9%</u>	<u>2.8%</u>	<u>0.1%</u>	<u>4.0%</u>	<u>2.9%</u>
Average Sample Water Utilities	2.9%	4.8%	2.5%	5.4%	7.3%

[B]: Value Line
 [C]: Value Line
 [D]: Value Line and MSN Money
 [E]: [B]+[D]
 [F]: [C]+[D]

Chino Meadows II Water Company Cost of Capital Calculation
 Selected Financial Data of Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Company	Symbol	Spot Price 6/22/2011	Book Value	Mkt To Book	Value Line Beta β	Raw Beta β_{raw}
American States Water	AWR	33.69	20.46	1.6	0.75	0.60
California Water	CWT	17.97	10.57	1.7	0.70	0.52
Aqua America	WTR	22.99	8.70	2.6	0.65	0.45
Connecticut Water	CTWS	25.24	12.82	2.0	0.80	0.67
Middlesex Water	MSEX	18.52	10.96	1.7	0.75	0.60
SJW Corp	SJW	22.80	14.66	1.6	0.90	0.82
Average				1.9	0.76	0.61

[C]: Man Money
 [D]: Value Line
 [E]: [C] / [D]
 [F]: Value Line
 [G]: $(-0.35 + [F]) / 0.67$

Chino Meadows II Water Company Cost of Capital Calculation
Calculation of Expected Infinite Annual Growth in Dividends
Sample Water Utilities

[A]	[B]
<u>Description</u>	g
DPS Growth - Historical ¹	3.2%
DPS Growth - Projected ¹	4.1%
EPS Growth - Historical ¹	4.4%
EPS Growth - Projected ¹	6.0%
Sustainable Growth - Historical ²	5.4%
<u>Sustainable Growth - Projected²</u>	<u>7.3%</u>
Average	5.1%

¹ Schedule JCM-5

² Schedule JCM-5

Chino Meadows II Water Company Cost of Capital Calculation
 Multi-Stage DCF Estimates
 Sample Water Utilities

[A] Company	[B] Current Mkt. Price (P ₀) ¹ 6/22/2011	[C] d ₁	[D] d ₂	[E] d ₃	[F] d ₄	[H] Stage 2 growth ³ (g _n)	[I] Equity Cost Estimate (K) ⁴
American States Water	33.7	1.07	1.12	1.18	1.24	6.6%	9.6%
California Water	18.0	0.64	0.67	0.70	0.74	6.6%	10.0%
Aqua America	23.0	0.64	0.67	0.70	0.74	6.6%	9.2%
Connecticut Water	25.2	0.94	0.99	1.04	1.09	6.6%	10.2%
Middlesex Water	18.6	0.75	0.79	0.83	0.87	6.6%	10.5%
SJW Corp	22.8	0.72	0.75	0.79	0.83	6.6%	9.6%

Average 9.9%

$$P_0 = \sum_{t=1}^n \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K-g_n} \left[\frac{1}{(1+K)^n} \right]$$

Where: P₀ = 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 - 2010 in current dollars.
 4 Internal Rate of Return of Projected Dividends



BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE
Chairman
BOB STUMP
Commissioner
SANDRA D. KENNEDY
Commissioner
PAUL NEWMAN
Commissioner
BRENDA BURNS
Commissioner

IN THE MATTER OF THE APPLICATION OF)
CHINO MEADOWS II WATER COMPANY, INC.)
FOR A RATE INCREASE)
_____)

DOCKET NO. W-02370A-10-0519

DIRECT
TESTIMONY
OF
CRYSTAL S. BROWN
PUBLIC UTILITIES ANALYST V
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

AUGUST 8, 2011

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EXECUTIVE SUMMARY
CHINO MEADOWS II WATER COMPANY
DOCKET NO. W-02370A-10-0519

Chino Meadows II Water Company ("Chino Meadows" or "Company") is an Arizona public service corporation engaged in providing water utility services to approximately 876 customers within Yavapai County, Arizona. Chino Meadows' current rates were approved in Decision No. 59078, dated May 4, 1995.

The Company proposes an \$84,641, or 24.07 percent revenue increase from \$351,633 to \$436,273. The proposed revenue increase would produce an operating income of \$82,318 for a 36.52¹ percent rate of return on an original cost rate base ("OCRB") of \$225,397. The Company's proposed rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 4,280 gallons from \$28.98 to \$34.80, for an increase of \$5.82 or 20.1 percent.

Staff recommends a \$21,566, or 6.13 percent revenue decrease from \$351,633 to \$330,067. Staff's recommended revenue decrease would produce an operating income of \$19,813 for a 9.60 percent rate of return on a Staff adjusted OCRB of \$206,387 as shown on Schedule CSB-1. Staff's recommended rates would decrease the typical residential 5/8 x 3/4-inch meter bill with a median usage of 4,280 gallons from \$28.98 to \$27.29, for a decrease of \$1.69 or 5.8 percent.

¹ The rate of return shown on Schedule A-1, line 5 of the Company's application is 10.81 percent. However, this rate when multiplied by the Company's proposed rate base yields an operating income of \$24,365 (\$225,397 x 10.81%). Staff reflects here the actual rate of return resulting from dividing the Company's proposed operating income by its proposed rate base.

1 **INTRODUCTION**

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

3 A. My name is Crystal S. Brown. I am a Public Utilities Analyst V employed by the Arizona
4 Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business
5 address is 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Briefly describe your responsibilities as a Public Utilities Analyst V.**

8 A. I am responsible for the examination and verification of financial and statistical
9 information included in utility rate applications. In addition, I develop revenue
10 requirements, prepare written reports, testimonies, and schedules that include Staff
11 recommendations to the Commission. I am also responsible for testifying at formal
12 hearings on these matters.

13
14 **Q. Please describe your educational background and professional experience.**

15 A. I received a Bachelor of Science Degree in Business Administration from the University
16 of Arizona and a Bachelor of Science Degree in Accounting from Arizona State
17 University.

18
19 Since joining the Commission in August 1996, I have participated in numerous rate cases
20 and other regulatory proceedings involving electric, gas, water, and wastewater utilities. I
21 have testified on matters involving regulatory accounting and auditing. Additionally, I
22 have attended utility-related seminars sponsored by the National Association of
23 Regulatory Utility Commissioners ("NARUC") on ratemaking and accounting designed to
24 provide continuing and updated education in these areas.
25

1 **Q. What is the scope of your testimony in this case?**

2 A. I am presenting Staff's analysis and recommendations in the areas of rate base and
3 operating revenues, expenses, and rate design regarding the Chino Meadows II Water
4 Company, Inc.'s ("Chino Meadows" or "Company") application for a permanent rate
5 increase. Staff witness, Juan Manrique, is presenting Staff's cost of capital
6 recommendations. Staff witness, Jian Liu, is presenting Staff's engineering analysis and
7 recommendations.

8
9 **Q. What is the basis of your recommendations?**

10 A. I performed a regulatory audit of the Company's application to determine whether
11 sufficient, relevant, and reliable evidence exists to support the Company's requested rate
12 increase. The regulatory audit consisted of examining and testing the financial
13 information, accounting records, and other supporting documentation and verifying that
14 the accounting principles applied were in accordance with the Commission-adopted
15 NARUC Uniform System of Accounts ("USOA").

16
17 **BACKGROUND**

18 **Q. Please provide a brief description of Chino Meadows and the service it provides.**

19 A. Chino Meadows is an Arizona public service corporation, serving approximately 876
20 customers in Yavapai County, Arizona. Chino Meadows' current rates were approved in
21 Decision No. 59078, dated May 4, 1995.

22
23 **Q. What are the primary reasons for Chino Meadows' requested permanent rate
24 increase?**

25 A. According to Chino Meadows, the primary reason is to recover its operating expenses and
26 to earn a just and reasonable rate of return.

27

1 **CONSUMER SERVICE**

2 **Q. Please provide a brief history of customer complaints received by the Commission**
3 **regarding Chino Meadows.**

4 A. Staff reviewed the Commission's records and found that, for the year 2007, there were six
5 complaints regarding billing, quality of service, disconnects and/or terminations, and
6 repair issues; for the year 2008, there were two complaints regarding billing and quality of
7 service; and for the years 2009 to 2011, there were no complaints. All complaints have
8 been resolved and closed. In 2011, there was one opinion opposing the instant rate case.

9
10 **COMPLIANCE**

11 **Q. Please provide a summary of the compliance status of Chino Meadows.**

12 A. A check of the Compliance database indicates that there are currently no delinquencies for
13 Chino Meadows.

14
15 **SUMMARY OF PROPOSED REVENUES**

16 **Q. Please summarize the Company's filing.**

17 A. The Company proposes an \$84,641, or 24.07 percent revenue increase from \$351,633 to
18 \$436,273. The proposed revenue increase would produce an operating income of \$82,318
19 for a 36.52² percent rate of return on an original cost rate base ("OCRB") of \$225,397.
20 The Company's proposed rates would increase the typical residential 5/8 x 3/4-inch meter
21 bill with a median usage of 4,280 gallons from \$28.98 to \$34.80, for an increase of \$5.82
22 or 20.1 percent.

23

² The rate of return shown on Schedule A-1, line 5 of the Company's application is 10.81 percent. However, this rate when multiplied by the Company's proposed rate base yields an operating income of \$24,365 (\$225,397 x 10.81%). Staff reflects here the actual rate of return resulting from dividing the Company's proposed operating income by its proposed rate base.

1 **Q. Please summarize Staff's recommended revenue.**

2 A. Staff recommends a \$21,566, or 6.13 percent revenue decrease from \$351,633 to
3 \$330,067. Staff's recommended revenue decrease would produce an operating income of
4 \$19,813 for a 9.60 percent rate of return on a Staff adjusted OCRB of \$206,387 as shown
5 on Schedule CSB-1. Staff's recommended rates would decrease the typical residential 5/8
6 x 3/4-inch meter bill with a median usage of 4,280 gallons from \$28.98 to \$27.29, for a
7 decrease of \$1.69 or 5.8 percent.

8
9 **Q. What test year did Chino Meadows utilize in this filing?**

10 A. Chino Meadows' rate filing is based on the twelve months ended December 31, 2009
11 ("test year").

12
13 **Q. Please summarize Staff's rate base and operating income adjustments for Chino
14 Meadows.**

15 A. My testimony discusses the following adjustments:

16
17 **Rate Base Adjustments**

18 Advances In Aid of Construction ("AIAC") – This adjustment decreases AIAC by
19 \$12,630 to reflect Staff's removal of AIAC that, through the terms of the AIAC
20 agreement, had converted to CIAC after ten years.

21
22 Contributions In Aid of Construction ("CIAC") – Staff increased CIAC by \$12,630 as the
23 result of transferring the cost of AIAC plant that had converted to CIAC plant to the AIAC
24 account.

25
26 Amortization of CIAC – This adjustment increases accumulated amortization of CIAC by
27 \$316 to reflect the amortization of CIAC on the Staff-recommended CIAC additions.

1 Customer Deposits – This adjustment increases the account by \$11,330 to reflect test year-
2 end customer deposits.

3
4 Cash Working Capital Allowance – This adjustment decreases the account by \$7,996 to
5 reflect calculation of the cash working capital allowance using Staff's recommended
6 operating expenses.

7
8 **Operating Income Adjustments**

9 Salary and Wages, Employees – This adjustment decreases operating expenses by
10 \$31,204. Staff's adjustments reflect disallowance of a pro forma salary increase that has
11 not occurred; allocation of a portion of the salary and wage expense to an affiliate;
12 normalization of overtime charges; annualization of a salary increase that took effect in
13 the test year; and inclusion of a salary increase that went into effect after the test year.

14
15 Salary and Wages, Officers, Directors, and Stockholders – This adjustment decreases
16 operating expenses by \$4,879 to reflect Staff's changes to the number of estimated hours
17 worked.

18
19 Contract Services, Legal – This adjustment decreases operating expenses by \$2,995 to
20 reflect removal of non-recurring costs related to the sale of the Company and to provide an
21 allowance for a reasonable level of legal expense.

22
23 Contract Services, Testing – This adjustment decreases operating expenses by \$2,296 to
24 reflect Staff's recommended annual water testing costs.

25
26 Transportation Expense – This adjustment decreases operating expenses by \$1,582 to
27 reflect Staff's allocation of a portion of this expense to an affiliate.

1 Insurance, General Liability – This adjustment decreases operating expenses by \$3,874 to
2 reflect Staff's allocation of a portion of this expense to an affiliate.

3
4 System Support Expense – This adjustment decreases operating expenses by \$1,483 to
5 reflect Staff's disallowance of costs that were not incurred in the test year and costs that
6 should be capitalized and depreciated rather than expensed.

7
8 Rate Case Expense – This adjustment increases operating expense by \$698 to provide for
9 a normalized level of rate case expense.

10
11 Miscellaneous Expense – This adjustment decreases operating expenses by \$3,486 to
12 remove an expense that was not incurred in the test year and also to remove food,
13 beverage, and similar costs.

14
15 Property Tax Expense – This adjustment decreases operating expense by \$10,141 to
16 reflect Staff's calculation of the Company's property tax expense.

17
18 Payroll Tax Expense – This adjustment decreases operating expense by \$1,212. Staff
19 disallowed the pro forma payroll tax increase as it was related to the Company's pro forma
20 salary increase that Staff also disallowed.

21
22 Depreciation Expense – This adjustment increases operating expenses by \$13,780 to
23 reflect Staff's calculation of depreciation expense based upon Staff's recommended plant
24 balances.

25
26 Income Tax Expense – This adjustment increases operating expenses by \$9,743 to reflect
27 the income tax obligation on Staff's adjusted test year taxable income.

1 **RATE BASE**

2 **Fair Value Rate Base**

3 **Q. Did the Company prepare schedules showing the elements of Reconstruction Cost**
4 **New Rate Base?**

5 A. Yes. However, the Company's reconstructed cost new rate base is the same as its OCRB.
6 Therefore, Chino Meadows proposes that its OCRB be treated as its fair value rate base.

7
8 **Rate Base – Plant Documentation**

9 **Q. Are plant costs required to be supported?**

10 A. Yes. The Arizona Administrative Code R14-2-411(D)(1) states, "Each utility shall keep
11 general and auxiliary accounting records reflecting the cost of its properties . . . and all
12 other accounting and statistical data necessary to give complete and authentic information
13 as to its properties . . ." (emphasis added).

14
15 **Q. During the audit, did Staff identify plant costs which Chino Meadows did not**
16 **adequately support?**

17 A. Yes. Chino Meadows did not provide invoices to support \$121,189 in plant additions, as
18 shown on Schedule CSB-6, line 28. Source documents are essential records for verifying
19 plant costs. In the absence of supporting documentation, the Company's plant balances
20 cannot be verified.

21
22 **Q. What does Staff typically recommend for inadequately supported plant?**

23 A. Staff typically recommends that 100 percent of the cost be removed from rate base. It is
24 the Company's responsibility to support its claimed costs. If unsupported costs are not
25 removed, ratepayers are at risk of paying a return on plant values that may be overstated or
26 on plant items that may not exist.

27

1 **Q. Is Staff recommending that 100 percent of the cost be removed in this case?**

2 A. No, Staff is not.

3
4 **Q. What is Staff's recommended treatment for the inadequately supported plant in this**
5 **case?**

6 A. Staff is recommending that all plant costs remain in plant in service with no CIAC offset.

7
8 **Q. Why is Staff recommending this treatment?**

9 A. There are four reasons Staff is recommending this treatment. First, the Company has
10 operated as a Class D or Class E water utility from the inception of its Certificate of
11 Convenience and Necessity in Decision No. 53420, dated January 20, 1983, until
12 sometime between the years 1995 and 1999 when it reached Class C status. In Staff's
13 experience, many owners of small utilities, including some small Class C water
14 companies, are unsophisticated and unaware of their record keeping responsibilities under
15 the NARUC USOA.

16
17 Second, Staff's inspection verified that the plant did exist and costs were not overstated.
18 Third, upon Staff's investigation of the inadequate support, it appears likely that the
19 Company or the Company's prior owners paid for some of the plant. The Company states
20 that the original owner of Chino Meadows II went into receivership. Fourth, the Company
21 has not been in for rates for approximately 15 years.

22
23 **Q. What would be the impact on the revenue requirement and customers' rates if Staff**
24 **treated 100 percent of the inadequately-supported plant costs as CIAC?**

25 A. Staff's recommended revenue requirement would decrease by \$20,784, from \$330,848 to
26 \$306,548. The typical residential 5/8 x 3/4-inch meter bill with a median usage of 4,280

1 gallons under the Staff recommended rates would decrease by approximately \$1.93, from
2 27.29 to \$25.36. The typical median bill under current rates is \$28.98.
3

4 **Q. Will Staff continue to make the same recommendation for inadequately-supported**
5 **plant costs in the Company's future rate cases?**

6 A. No. Staff is putting the Company on notice that invoices and canceled checks will be
7 needed to support plant additions for the Company's future rate cases.
8

9 **Rate Base Summary**

10 **Q. Please summarize Staff's adjustments to Chino Meadows' rate base shown on**
11 **Schedules CSB-3 and CSB-4.**

12 A. Staff's adjustments to Chino Meadows' rate base resulted in a net decrease of \$19,010,
13 from \$225,397 to \$206,387. This decrease was primarily due to Staff's recognition of
14 customer deposits.
15

16 **Rate Base Adjustment No. 1 – AIAC**

17 **Q. Did Staff identify AIAC that, through the terms of the related main line extension**
18 **agreements, had converted to CIAC after ten years?**

19 A. Yes. Based on the Company's response to data request CSB 1-9, Staff identified five
20 AIAC agreements signed in the year 1999 that, according to the terms of the main line
21 extension agreements, had converted to CIAC after ten years. A listing of the agreements
22 is shown on Schedule CSB-5.
23

24 **Q. What is the amount of AIAC to be removed and reclassified as CIAC?**

25 A. The amount of the AIAC to be removed and reclassified as CIAC is \$12,630.
26

1 **Q. What is Staff recommending?**

2 A. Staff recommends decreasing AIAC by \$12,630 as shown on Schedules CSB-4 and CSB-
3 5.

4

5 **Rate Base Adjustment No. 2 – CIAC**

6 **Q. What did the Company propose for CIAC?**

7 A. The Company proposed \$12,809 for CIAC.

8

9 **Q. Did Staff identify AIAC that, through the terms of the related main line extension**
10 **agreements, had converted to CIAC after ten years?**

11 A. Yes. As previously discussed in Rate Base Adjustment No. 1, "AIAC," Staff identified
12 \$12,630 in AIAC that should be converted to CIAC.

13

14 **Q. What is Staff's recommendation for the CIAC account regarding the AIAC that**
15 **should be converted to CIAC?**

16 A. Staff recommends increasing CIAC by \$12,630, as shown on Schedules CSB-4 and CSB-
17 6.

18

19 **Rate Base Adjustment No. 3 – Amortization of CIAC**

20 **Q. Did Staff make any adjustments to the Amortization of CIAC account?**

21 A. Yes.

22

23 **Q. What was the adjustment?**

24 A. Staff reflected the amortization of CIAC on the Staff recommended CIAC additions.

1 **Q. What is Staff recommending?**

2 A. Staff recommends increasing the amortization of CIAC by \$316, as shown on Schedules
3 CSB-4 and CSB-7.

4

5 **Rate Base Adjustment No. 4 – Customer Deposits**

6 **Q. Is Chino Meadows proposing to include customer deposits in the rate base**
7 **calculation?**

8 A. No, it is not.

9

10 **Q. Are customer deposits normally treated as a reduction to rate base?**

11 A. Yes. Customer deposits are a reduction in the calculation of rate base.

12

13 **Q. Why are customer deposits normally a reduction to rate base?**

14 A. Customer deposits are a reduction to rate base in order to recognize customer-provided
15 capital.

16

17 **Q. What was the Company's customer deposit balance at the end of the test year?**

18 A. The Company's customer deposit balance was \$11,330 at the end of the test year.

19

20 **Q. What is Staff recommending?**

21 A. Staff recommends increasing customer deposits by \$11,330 to reflect the test year-end
22 customer deposit balance in rate base as shown on Schedules CSB-4 and CSB-8.

23

1 **Rate Base Adjustment No. 5 – Cash Working Capital Allowance**

2 **Q. What is cash working capital?**

3 A. Cash working capital is a component of rate base that can be positive or negative. It
4 represents funds provided by the investor for the purpose of paying operating expenses in
5 advance of receiving recovery of such expenses from customers through rates.

6
7 **Q. How did Chino Meadows calculate the cash working capital it proposes to include in
8 rate base?**

9 A. Chino Meadows calculated cash working capital using the “formula method” which is
10 equal to one-eighth of the operating expenses less depreciation, taxes, purchased water,
11 and purchased pumping power expense, plus one twenty-fourth of purchased water and
12 purchased pumping power expense.

13
14 **Q. What are the problems inherent in using the formula methodology?**

15 A. It always yields a positive result, effectively ignoring cash working capital provided by
16 rate payers.

17
18 **Q. What method provides a more accurate measurement of the Company’s cash
19 working capital?**

20 A. The lead-lag method is recognized as the most accurate measure of cash working capital.

21
22 **Q. Is Staff requiring Chino Meadow to use a lead-lag study to support its cash working
23 capital in this rate case?**

24 A. No, Staff is not.
25

1 **Q. Why is Staff not recommending that Chino Meadows provide a lead-lag study to**
2 **support its cash working capital in this rate case?**

3 A. The Company has operated as a Class D or Class E water utility from the inception of its
4 Certificate of Convenience and Necessity in Decision No. 53420, dated January 20, 1983,
5 until sometime between the years 1995 and 1999 when it reached Class C status. Further,
6 the Company has not been in for rates for approximately 15 years and likely did not know
7 that a lead-lag study is needed to support working capital for Class C utilities.

8
9 **Q. Will Staff continue to recommend the calculation of cash working capital using the**
10 **formula method in the Company's future rate cases?**

11 A. No. Staff is putting the Company on notice that a lead-lag study will be needed as support
12 for any cash working capital for the Company's future rate cases.

13
14 **Q. What is Staff's recommendation for Chino Meadows's cash working capital**
15 **allowance?**

16 A. Staff recommends decreasing the account by \$7,996 to reflect calculation of the cash
17 working capital allowance using Staff's recommended operating expenses, as shown on
18 Schedules CSB-4 and CSB-9.

19
20 **Operating Income**

21 **Operating Income Summary**

22 **Q. What are the results of Staff's analysis of test year revenues, expenses and operating**
23 **income?**

24 A. As shown on Schedules CSB-10 and CSB-11, Staff's analysis resulted in test year
25 revenues of \$351,633, expenses of \$314,980 and operating income of \$36,653.

26

1 **Operating Income Adjustment No. 1 – Salaries and Wages, Employees**

2 **Q. What is the Company proposing for employee salary and wages expense?**

3 A. The Company is proposing \$126,312. The amount is composed of \$115,912 for the actual
4 test year employee salary and wages expense and a \$10,400 pro forma adjustment to
5 reflect a salary increase that has not been implemented.

6
7 **Q. Did Staff make any adjustments to the employee salary and wages expense?**

8 A. Yes, Staff made six adjustments as shown on Schedule CSB-12. Staff will discuss each
9 separately.

10
11 *Allocate \$19,563 in Employee Salary and Wage Expense to Regulated Affiliate*

12 **Q. Who are the owners of Chino Meadows II?**

13 A. Mr. and Mrs. Paul and Rae Levie.

14
15 **Q. In addition to Chino Meadows, do Mr. and Mrs. Levie own any other regulated
16 utilities?**

17 A. Yes. Mr. and Mrs. Levie own Granite Mountain Water Company, Inc. ("Granite
18 Mountain") and Antelope Lakes Water Company, Inc. ("Antelope Lakes").

19
20 **Q. Is the direct labor for Granite Mountain and Antelope Lakes provided by the Chino
21 Meadows employees?**

22 A. Yes.

23

1 **Q. Is the direct labor of the Chino Meadows employees charged to Granite Mountain**
2 **and Antelope Lakes when work is performed for Granite Mountain and Antelope**
3 **Lakes?**

4 A. No, it is not. The Company indicated in response to Data Request CSB 1-32 that all of the
5 employee labor expense is recorded on the books of Chino Meadows because most of the
6 work is performed for Chino Meadows. Also, Chino Meadows has the largest number of
7 customers. During the test year, Chino Meadows had approximately 876 customers,
8 Granite Mountain had approximately 98 customers, and Antelope Lakes had two
9 customers.

10

11 **Q. Should the labor expense incurred for Granite Mountain and Antelope Lakes be**
12 **directly charged to Granite Mountain and Antelope Lakes?**

13 A. Yes. The NARUC Guidelines for Cost Allocation and Affiliate Transactions require that
14 the costs primarily attributable to a business operation should be, to the extent appropriate,
15 directly assigned to that business operation.

16

17 **Q. Can the Company provide support for the actual amount of labor expense that was**
18 **directly incurred for Granite Mountain and Antelope Lakes?**

19 A. No, because the employees do not maintain time sheets that document the amount of time
20 they spend working for each utility.

21

22 **Q. What amount of labor expense does Staff recommend allocating to Granite**
23 **Mountain?**

24 A. Staff recommends allocating \$19,563 to Granite Mountain.

25

1 **Q. What is the basis of Staff's recommendation?**

2 A. In Granite Mountain's last rate case (Docket No. W-02467A-09-0333), Granite Mountain
3 did not include salary and wage expense in its total operating expenses; however, Staff
4 recommended \$19,563. The amount was adopted by the Commission in Decision No.
5 71869 dated August 31, 2010 (p. 21, line 24). Therefore, Staff concluded that it was
6 appropriate to remove the \$19,563 from Chino Meadows' proposed \$126,312 in salary
7 and wage expense, as a part of the \$126,312 was labor expense incurred for Granite
8 Mountain.

9
10 **Q. What amount of labor expense does Staff recommend allocating to Antelope Lakes?**

11 A. Staff recommends no allocation be made to Antelope Lakes at this time.

12
13 **Q. What is the basis of Staff's recommendation?**

14 A. During the test year, Antelope Lakes had two customers. However, Chino Meadows has
15 informed Staff that Antelope Lakes currently has no customers.

16
17 **Q. What is Staff's recommendation concerning salary and wage expense to be allocated
18 to regulated affiliates?**

19 A. Staff recommends decreasing salary and wage expense by \$19,563 to reflect Staff's
20 recommended allocation to Granite Mountain, as shown on Schedule CSB-12.

21
22 *Remove \$10,400 Pro Forma Salary and Wage Increase*

23 **Q. What amount is Chino Meadows proposing for employee salaries and wage expense?**

24 A. Chino Meadows is proposing \$126,312 for employee salaries and wages expense. The
25 amount is composed of \$115,912 for actual test year expense and a \$10,400 pro forma
26 salary increase.

27

1 **Q. Did the entire \$10,400 pro forma salary increase go into effect during the test year or**
2 **in the year following the test year?**

3 A. No, it did not.³
4

5 **Q. Is the \$10,400 pro forma salary and wage increase a part of a union negotiated**
6 **contract?**

7 A. No, it is not.
8

9 **Q. Is the Company's pro forma adjustment appropriate?**

10 A. No, the Company's pro forma adjustment is not appropriate. The Company's test year is
11 December 31, 2009, and the Company has not implemented the \$10,400 pro forma salary
12 increase as of July 2011, more than 16 months after the test year. Further, the increase
13 was not the result of an independent third party legal contractual obligation such as a
14 union negotiated contract.
15

16 **Q. What is Staff's recommendation concerning the \$10,400 pro forma salary and wage**
17 **increase adjustment?**

18 A. Staff recommends decreasing employee salary and wage expense by \$10,400 to reflect
19 Staff's disallowance of the pro forma adjustment, as shown on Schedule CSB-13.
20

21 *Reflect Actual Salary and Wage Increase Effective February 8, 2010*

22 **Q. Did Chino Meadows give an employee a salary and wage increase in February 2010?**

23 A. Yes.
24

³ Staff notes that one employee received a salary and wage increase in April of the test year and one employee received an increase the year following the test year. Staff discusses these adjustments later in its testimony.

1 **Q. What was the amount of the increase?**

2 A. The amount was one dollar per hour or \$2,080 per year, as shown on Schedule CSB-12.

3
4 **Q. What is Staff's recommendation regarding the employee salary and wage increase**
5 **effective February 8, 2010?**

6 A. Staff recommends increasing salary and wage expense by \$2,080, as shown on Schedule
7 CSB-12.

8
9 *Annualize Actual Salary and Wage Increase Effective April 1, 2009*

10 **Q. Did Chino Meadows give an employee a salary and wage increase in April 2009?**

11 A. Yes.

12
13 **Q. What was the amount of the increase?**

14 A. The amount was two dollars per hour.

15
16 **Q. Did Staff annualize the increase?**

17 A. Yes, Staff reflected three additional months of salary increase (i.e. January, February, and
18 March). Staff's calculation is $(2,080 \text{ hrs} / 12 \text{ months}) \times 3 \text{ months} \times \$2 = \$1,040$.

19
20 **Q. What is Staff's recommendation regarding the employee salary and wage increase**
21 **effective April 1, 2009?**

22 A. Staff recommends increasing salary and wage expense by \$1,040, as shown on Schedule
23 CSB-12.

24

1 *Normalize Overtime Charges*

2 **Q. What were Chino Meadows' overtime charges for the years 2007, 2008, and 2009?**

3 A. The overtime charges were \$1,575, \$3,798, and \$6,828 for the years 2007, 2008, and
4 2009, respectively.

5
6 **Q. How do the overtime charges for 2009 compare to the previous two years?**

7 A. The charges were significantly higher. The wide fluctuations from year to year indicate
8 overtime hours that were needed in some years but not in others.

9
10 **Q. Did Staff normalize the 2009 overtime charges?**

11 A. Yes, Staff normalized the overtime charges using three years, as shown on Schedule CSB-
12 12.

13
14 **Q. How does including abnormally high costs in operating expenses harm customers?**

15 A. It harms customers because, on average, the rates would be over-stated as the Company
16 would not be incurring the abnormally high level of overtime expense every year.

17
18 **Q. What is Staff's recommendation regarding the overtime charges?**

19 A. Staff recommends decreasing salary and wage expense by \$2,761, as shown on Schedule
20 CSB-12.

21
22 *Remove Bonuses*

23 **Q. Were bonuses included in the Chino Meadows' employee salary and wage expense?**

24 A. Yes.

25
26 **Q. What was the amount of bonuses?**

27 A. According to the Company's general ledger account no. 6601.00, \$1,600 was included.

1 **Q. Are the payment of bonuses necessary to the provision of water service?**

2 A. No, the cost of bonuses are not necessary to provision of service. Chino Meadows pays its
3 employees a competitive salary, wage and benefits package with periodic annual wage
4 increases. These costs are designed to compensate the employees to perform work that
5 will enable the Company to provide adequate service. Therefore, the cost of the
6 employees' base salaries and wages is a required cost. Bonuses are an optional cost and,
7 therefore, should be recognized below-the-line (i.e., removed from rates).

8
9 **Q. What is Staff's recommendation regarding the bonuses?**

10 A. Staff recommends decreasing salary and wage expense by \$1,600 to remove the bonuses,
11 as shown on Schedule CSB-12.

12
13 **Operating Income Adjustment No. 2 – Salaries and Wages, Officers, Directors, and**
14 **Stockholders**

15 **Q. What is the Company proposing for stockholder salary and wages expense?**

16 A. The Company is proposing \$35,498.

17
18 **Q. What stockholder receives the salary and wage?**

19 A. Mr. Paul D. Levie.

20
21 **Q. How many businesses does Mr. Levie operate from his office located at 2465 Shane**
22 **Drive in Prescott, Arizona?**

23 A. According to data request response CSB 4-7, Mr. Levie operates *nine* businesses. Those
24 businesses are: Chino Meadows, Granite Mountain, Antelope Lakes; City of
25 Prescott.com, LLC; Equestrian Constuction, LLC; Equestrian Development Corporation;
26 LL&M Development LLC; Levie-Antelope Lakes Development, Inc.; and Paul D. Levie,
27 P.C.

1 **Q. Does Mr. Levie maintain a time sheet showing the number of hours per day spent**
2 **working on each of his nine businesses?**

3 A. No. Mr. Levie does not maintain time sheets that document the amount of time he spends
4 each day working for each of his nine businesses.

5
6 **Q. Did the Company provide a time study and the underlying documentation to support**
7 **the \$35,498?**

8 A. No, it did not.

9
10 **Q. Did Staff request that the Company provide a description of Mr. Levie's work and**
11 **the estimated amount of time he spends working for Chino Meadows?**

12 A. Yes.

13
14 **Q. What are Mr. Levie's duties as described by Chino Meadows?**

15 A. The duties are: supervision and management of company personnel; review of fiduciary
16 responsibilities including accounts payable and accounts receivable; review of payroll;
17 signing checks for payroll and accounts payable; meeting with Company management to
18 address concerns, equipment repair and/or water plant facilities; project management;
19 acquire, regulate, and oversee company loans and long-term debts; ensuring that proper
20 equipment and procedures are in place to adequately supply drinking water; and review
21 and advise Company on manuals such as employee handbook and emergency response
22 manual.

23
24 **Q. What amount of time did the Company estimate that Mr. Levie spends working for**
25 **Chino Meadows?**

26 A. The Company estimated that Mr. Levie spends 80 hours per month working for Chino
27 Meadows.

1 **Q. Did Staff make any adjustments to the number of hours?**

2 A. Yes. Staff reviewed the number of hours and given that (1) nine businesses are operated
3 from the office, (2) no time sheets were maintained and no time study was conducted, (3)
4 some of the duties appeared to be related to capital projects, (4) some of the duties
5 appeared to duplicate the duties of another employee at the office and (5) some of the time
6 estimated for particular tasks appeared high, Staff reduced the total number of hours from
7 80 to 69. Staff's estimate of time for each duty is shown on Schedule CSB-14, column E.

8
9 **Q. What is Staff's recommendation?**

10 A. Staff recommends decreasing stockholder salary and wages expense by \$4,879, as shown
11 on Schedules CSB-11 and CSB-13. Further, Staff recommends that Chino Meadows have
12 available a time study (and underlying detailed time sheets) to evidence the amount of
13 direct labor hours that Mr. Levie spends on activities related to Chino Meadows for
14 recovery of that expense in future rate cases.

15
16 **Operating Income Adjustment No. 3 – Contract Services, Legal**

17 **Q. What did the Company propose for contract services, legal?**

18 A. The Company proposed \$3,995 for contract services, legal. The costs were related to the
19 potential sale of the Company.

20
21 **Q. What adjustment did Staff make?**

22 A. Staff removed the \$3,995 as it was not needed in the provision of service. Further, Staff
23 added \$1,000 to provide a reasonable level of on-going legal costs related to Chino
24 Meadows operations.

1 **Q. What is Staff's recommendation?**

2 A. Staff recommends decreasing contract services, legal expense by \$2,995, as shown on
3 Schedules CSB-11 and CSB-14.
4

5 **Operating Income Adjustment No. 4 – Contract Services, Testing**

6 **Q. What did the Company propose for water testing expense?**

7 A. The Company proposed \$7,062 for water testing expense. The amount is composed of
8 \$4,766 for actual test year expense and a \$2,296 proforma adjustment.
9

10 **Q. What adjustment did Staff make?**

11 A. Staff adjusted annual water testing costs to reflect Staff's recommended \$4,766 water
12 testing expense as discussed in greater detail by Staff witness Jian Liu.
13

14 **Q. What is Staff's recommendation?**

15 A. Staff recommends decreasing water testing expense by \$2,296 as shown on Schedules
16 CSB-11 and CSB-15.
17

18 **Operating Income Adjustment No. 5 – Transportation Expense**

19 **Q. What did the Company propose for transportation expense?**

20 A. The Company proposed \$15,726 for transportation expense.
21

22 **Q. Should a portion of the \$15,726 in transportation expense be allocated to Granite
23 Mountain?**

24 A. Yes. Staff spoke to a representative of the Company and found that Chino Meadows
25 vehicles are used to read the meters of Granite Mountain's customers.
26

1 **Q. How did Staff allocate the expense?**

2 A. Since the Company indicated that the vehicles were only used to read Granite Mountain's
3 customers' meters, Staff allocated the expense on a single factor, customer count.

4
5 **Q. What amount did Staff allocate to Granite Mountain?**

6 A. Staff allocated \$1,582 to Granite Mountain.

7
8 **Q. What is Staff's recommendation?**

9 A. Staff recommends decreasing transportation expense by \$1,582 to remove transportation
10 expense that was incurred for Granite Mountain, as shown on Schedules CSB-11 and
11 CSB-16.

12
13 **Operating Income Adjustment No. 6 – Insurance, General Liability**

14 **Q. What did the Company propose for general liability insurance?**

15 A. The Company proposed \$11,848 for general liability insurance.

16
17 **Q. Should a portion of the \$11,848 in general liability expense be allocated to Granite
18 Mountain?**

19 A. Yes. In response to data request CSB 1-27, the Company indicated that both Granite
20 Mountain and Chino Meadows are covered by the insurance policy, but Chino Meadows
21 paid the entire insurance premium during the test year.

22
23 **Q. How did Staff allocate the expense?**

24 A. Staff allocated the expense using two factors, plant values and customer counts, as shown
25 on Schedule CSB-17.

26

1 **Q. What is Staff's recommendation?**

2 A. Staff recommends decreasing general liability insurance by \$3,874, as shown on
3 Schedules CSB-11 and CSB-17.

4

5 **Operating Income Adjustment No. 7 – System Support Expense**

6 **Q. What guidance should companies use in determining whether a cost should be**
7 **capitalized by recording it in a plant account or treated as an operating expense?**

8 A. The Arizona Administrative Code R14-2-411 (D) (2) requires water companies to
9 maintain their accounting records in accordance with the NARUC USOA. It states that
10 “[e]ach utility shall maintain its books and records in conformity with the Uniform System
11 of Accounts for Class A, B, C and D Water Utilities” (emphasis added).

12

13 **Q. Did Chino Meadows make a pro forma adjustment to expense software and**
14 **computer costs that, according to the NARUC USOA, should be recorded in plant**
15 **accounts?**

16 A. Yes, the Company made a \$1,483 pro forma adjustment to the system support expense
17 account for software and equipment that will enable customers to use their debit or credit
18 cards to pay their water bills. This type of cost should be included in account no. 340,
19 office furniture and equipment.

20

21 **Q. What is the effect of expensing plant?**

22 A. The matching principle is violated. The NARUC USOA requires utilities to follow
23 accrual accounting. The matching principle is the underlying basis of accrual accounting.
24 The matching principle requires that revenues in an accounting period be matched to the
25 expenses incurred during that same accounting period.

26

1 The practice of expensing plant violates the matching principle because the entire cost of
2 the asset is matched to only one accounting period, even though the asset will benefit
3 many accounting periods. Adherence to the matching principle and the NARUC USOA
4 requires that the cost of an asset that benefits more than one accounting period be
5 capitalized (by recording it in a plant account) and depreciated over the asset's useful life.
6

7 **Q. Is the Company-proposed \$1,483 pro forma adjustment based upon historical cost?**

8 A. No, it is not. The Company has not purchased the software and equipment. Arizona
9 Administrative Code R14-2-103(A)(3)(p) requires that test year expenses be based on
10 historical cost.
11

12 **Q. What is Staff's recommendation?**

13 A. Staff recommends decreasing the system support expense account by \$1,483 to remove
14 pro forma costs that were not incurred in the test year and should be capitalized and
15 depreciated, as shown on Schedules CSB-11 and CSB-18.
16

17 **Operating Income Adjustment No. 8 – Rate Case Expense**

18 **Q. What annual amount of rate case expense did the Company propose?**

19 A. The Company proposed \$442 for annual rate case expense.
20

21 **Q. What amount of total rate case expense has the Company incurred?**

22 A. The Company has incurred \$5,100 to date and expects to incur an additional \$600 by the
23 time a decision is issued in this proceeding.
24

25 **Q. Is total rate case expense of \$5,700 reasonable for the Company?**

26 A. Yes.
27

1 **Q. What number of years did Staff use to normalize rate case expense?**

2 A. Staff usually normalizes rate case expense over a 3 to 5 year period. Since there was
3 approximately 15 years between the Company's last rate case and the instant case, Staff
4 recommends five years.

5
6 **Q. What is Staff's recommendation?**

7 A. Staff recommends increasing rate case expense by \$698, as shown on Schedules CSB-11
8 and CSB-19.

9
10 **Operating Income Adjustment No. 9 – Miscellaneous Expense**

11 **Q. What did the Company propose for miscellaneous expense?**

12 A. The Company proposed \$4,089 for miscellaneous expense.

13
14 **Q. What amount for food, beverages, and similar costs did Chino Meadows include in
15 the cost of service?**

16 A. Chino Meadows included \$2,249 for food, beverages, and similar costs, as shown on
17 Schedule CSB-20.

18
19 **Q. What rate-making treatment does Staff recommend for these types of expenses?**

20 A. Since these costs are not necessary to provide service, Staff recommends that they be
21 recognized as non-operating expenses and recognized below the line (i.e. excluded from
22 the rates).

23
24 **Q. Did Staff make any other adjustment?**

25 A. Yes. Staff removed \$1,237 in costs that were not incurred in the test year. The costs were
26 related to outstanding payments from an old bank account with National Bank of Arizona.

27

1 **Q. What is Staff's recommendation?**

2 A. Staff recommends decreasing miscellaneous expense by \$3,486, as shown on Schedules
3 CSB-11 and CSB-20.

4

5 **Operating Income Adjustment No. 10 – Property Taxes**

6 **Q. What is Chino Meadows proposing for property taxes?**

7 A. Chino Meadows is proposing \$22,329 for property taxes.

8

9 **Q. Did Staff make any adjustment to the property taxes?**

10 A. Yes. Staff's adjustment reflects Staff's calculation of the property tax expense using the
11 modified Arizona Department of Revenue Methodology applied to Staff's recommended
12 revenues, as shown on Schedule CSB-21.

13

14 **Q. What is Staff's recommendation?**

15 A. Staff recommends decreasing property tax expense by \$10,141, as shown on Schedules
16 CSB-11 and CSB-21.

17

18 **Operating Income Adjustment No. 11 – Payroll Taxes**

19 **Q. What did the Company propose for payroll taxes?**

20 A. The Company proposed \$10,804 for payroll tax expense. The amount is composed of
21 \$9,592 for actual test year expense and a \$1,212 pro forma payroll tax increase.

22

23 **Q. Is the \$1,212 pro forma payroll tax increase related to the \$10,400 pro forma salary
24 increase discussed in Operating Income Adj. No. 1?**

25 A. Yes.

26

1 **Q. Did Staff disallow the \$10,400 pro forma salary increase discussed in Operating**
2 **Income Adj. No. 1?**

3 A. Yes and accordingly, Staff is recommending disallowance of the related pro forma payroll
4 tax increase.

5
6 **Q. What is Staff's recommendation?**

7 A. Staff recommends decreasing payroll tax expense by \$1,212, as shown on Schedules CSB-
8 11 and CSB-22.

9
10 **Operating Income Adjustment No. 12 – Depreciation Expense**

11 **Q. What is Chino Meadows proposing for depreciation expense?**

12 A. Chino Meadows is proposing depreciation expense of \$25,132.

13
14 **Q. What adjustment did Staff make to depreciation expense?**

15 A. Staff adjusted depreciation expense to reflect application of the Staff recommended
16 depreciation rates to the Staff recommended plant balances.

17
18 **Q. What is Staff recommending?**

19 A. Staff recommends increasing depreciation expense by \$13,780, as shown on Schedules
20 CSB-11 and CSB-23.

21
22 **Operating Income Adjustment No. 13 – Income Taxes**

23 **Q. What is Chino Meadows proposing for test year income tax expense?**

24 A. Chino Meadows is proposing a negative \$45 for income taxes.

25

1 **Q. Did Staff make any adjustments to test year income tax expense?**

2 A. Yes. Staff's adjustment reflects Staff's calculation of the income tax expense based upon
3 Staff's adjusted test year taxable income.
4

5 **Q. What is Staff's recommendation?**

6 A. Staff recommends increasing income tax expense by \$9,743, as shown on Schedules CSB-
7 11 and CSB-24.
8

9 **RATE DESIGN**

10 **Q. Has Staff prepared a schedule summarizing the current, Company proposed, and**
11 **Staff recommended rates and service charges?**

12 A. Yes. Schedule CSB-25 provides a summary of the Company's current, Company's
13 proposed, and Staff's recommended rates.
14

15 **Q. Please summarize the current rate design.**

16 A. Customer class is distinguished by meter size. The monthly minimum charges vary by
17 meter size and include 1,000 gallons. One commodity rate applies to all usage.
18

19 **Q. Please summarize the Company's proposed rate design.**

20 A. Customer class is distinguished by meter size. The monthly minimum charges vary by
21 meter size and include 1,000 gallons. The commodity rates are based on an inverted
22 three-tier rate design. The Company's proposed rates would increase the typical
23 residential 5/8 x 3/4-inch meter bill with a median usage of 4,280 gallons from \$28.98 to
24 \$34.80, for an increase of \$5.82 or 20.1 percent, as shown on Schedule CSB-26.
25

1 **Q. Please summarize Staff's recommended rate design.**

2 A. Customer class is distinguished by meter size. The monthly minimum charges vary by
3 meter size and include no gallons. The commodity rates are based on an inverted three
4 tier rate design. Staff's recommended rates would decrease the typical residential 5/8 x
5 3/4-inch meter bill with a median usage of 4,280 gallons from \$28.98 to \$27.29, for a
6 decrease of \$1.69 or 5.8 percent, as shown on Schedule CSB-26.

7
8 **Q. Did the Company propose any changes to its Meter and Service Line Charges?**

9 A. Yes, and Staff recommends approval. Both the Company-proposed and the Staff-
10 recommended changes are shown on Schedule CSB-26 and are discussed in greater detail
11 in the testimony of Staff witness, Jian Liu.

12
13 **Service Charges**

14 **Q. Did the Company propose any changes to the service charges?**

15 A. Yes. The Company proposes to increase the Establishment charge from \$15 to \$25;
16 increase the Establishment (After Hours) charge from \$30 to \$35; increase the
17 Reconnection (Delinquent) charge from \$22 to \$35; add a Reconnection (Delinquent)
18 After Hours charge of \$45; increase the Meter Test if correct from \$15 to \$35; increase the
19 Insufficient Funds ("NSF") Check charge from \$15 to \$20; decrease the Deferred
20 Payment charge from 1.5 percent to 1.0 percent; increase the Meter Re-Read charge from
21 \$12 to \$15; and to add a Deferred Payment charge of 1.5 percent per month.

22
23 **Q. Does Staff agree with the proposed Establishment (After Hours) Charge and the
24 Reconnection (Delinquent) After Hours Charge?**

25 A. No, Staff does not. Staff agrees that an additional fee for service provided after normal
26 business hours is appropriate when such service is at the customer's request or for the

1 customer's convenience. Such a tariff compensates the utility for additional expenses
2 incurred from providing after-hours service.

3
4 Moreover, Staff concludes that it is appropriate to apply an after-hours service charge in
5 addition to the charge for any utility service provided after hours at the customer's request
6 or for the customer's convenience. Therefore, Staff recommends elimination of the
7 Company's current Establishment (After Hours) charge and denial of the proposed
8 Reconnection (Delinquent) After Hours charge. Instead of these charges, Staff
9 recommends the creation of a separate \$25 after-hours service charge. For example, under
10 Staff's proposal, a customer would be subject to a \$25 Establishment fee if it is done
11 during normal business hours, but would pay an additional \$25 after-hours fee if the
12 customer requested that the establishment be done after normal business hours.

13
14 **Q. Does Staff agree with the proposed Reconnection (Delinquent) Hours charge?**

15 **A.** No, Staff does not. The Company is proposing to increase the Reconnection (delinquent)
16 charge from \$22.00 to \$35.00. Staff recommends a \$30.00 Reconnection (delinquent)
17 charge as it is within the range of the amounts that other utilities in the area charge for this
18 service.

19
20 **Q. Does Staff agree with the proposed Meter Test charge?**

21 **A.** No, Staff does not. The Company is proposing to increase the Meter Test charge from
22 \$15.00 to \$35.00. Staff recommends a \$20.00 Meter Test charge as it is within the range
23 of the amounts that other utilities in the area charge for this service.

24

1 **Q. Does Staff agree with the proposed Deferred Payment charge?**

2 **A.** No, Staff does not. The Company proposed to decrease the charge from one and a half
3 percent to one percent. One percent is not consistent with the Commission Rules,
4 therefore Staff recommends denial.

5
6 **Q. Does Staff agree with the Company-proposed Establishment, NSF Check, and
7 Meter Re-Read Charges?**

8 **A.** Yes.

9
10 **Fire Sprinkler Charges**

11 **Q. Did Staff recommend the addition of fire sprinkler charges?**

12 **A.** Yes. The Company currently does not have tariffed rates for fire sprinklers. In the event
13 that a customer requests service for a fire sprinkler, Staff recommends charges for fire
14 sprinklers for various meter sizes as shown on Schedule CSB-26.

15
16 **Q. Does this conclude your Direct Testimony?**

17 **A.** Yes, it does.

REVENUE REQUIREMENT

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY ORIGINAL COST</u>	<u>[B] STAFF ORIGINAL COST</u>
1	Adjusted Rate Base	\$ 225,397	\$ 206,387
2	Adjusted Operating Income (Loss) After Income Taxes	\$ (2,278)	\$ 36,653
3	Current Rate of Return (L2 / L1)	-1.01%	17.76%
4	Required Rate of Return	10.81%	9.60%
5	Required Operating Income (L4 * L1) ¹	\$ 82,318 ¹	\$ 19,813
6	Operating Income Deficiency/(Excess) (L5 - L2) ²	\$ 88,912 ²	\$ (16,840)
7	Gross Revenue Conversion Factor	1.36990	1.28063
8	Increase (Decrease) In Gross Revenue (L7 * L6) ³	\$ 84,641 ³	\$ (21,566)
9	Adjusted Test Year Revenue	\$ 351,633	\$ 351,633
10	Proposed Annual Revenue (L8 + L9) ⁴	\$ 436,273 ⁴	\$ 330,067
11	Required Increase/(Decrease in Revenue) (%) (L8/L9)	24.07%	-6.13%

Footnotes

¹The Company's Required Operating Income is not equal to L4 * L1

² Company's Required Operating Income Deficiency is not equal to L5 - L2

³The Company's Increase In Gross Revenue is not equal to L7 * L6

⁴The Company's Proposed Annual Revenue is not equal to L8 + L9

References:

Column [A]: Company Schedules A-1, C-1, C-3, & D-1

Column [B]: Staff Schedules CSB-2, CSB-3, & CSB-11

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<i>Calculation of Gross Revenue Conversion Factor:</i>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	21.9136%			
5	Subtotal (L3 - L4)	78.0864%			
6	Revenue Conversion Factor (L1 / L5)	1.280633			
<i>Calculation of Uncollectible Factor:</i>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	20.9228%			
9	One Minus Combined Income Tax Rate (L7 - L8)	79.0772%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
<i>Calculation of Effective Tax Rate:</i>					
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)	15.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	13.9548%			
17	Combined Federal and State Income Tax Rate (L13 +L16)	20.9228%			
<i>Calculation of Effective Property Tax Factor</i>					
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	20.9228%			
20	One Minus Combined Income Tax Rate (L18-L19)	79.0772%			
21	Property Tax Factor (CSB-20, Col B, L24)	1.2530%			
22	Effective Property Tax Factor (L20*L21)	0.9908%			
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)	21.9136%			
24	Required Operating Income (Schedule CSB-1, Line 5)	\$ 19,813			
25	Adjusted Test Year Operating Income (Loss) (Sch CSB-11, Col C, Line 34)	\$ 36,653			
26	Required Increase in Operating Income (L24 - L25)		\$ (16,840)		
27	Income Taxes on Recommended Revenue (Col. [C], L52)	\$ 5,242			
28	Income Taxes on Test Year Revenue (Col. [A], L52)	\$ 9,698			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		(4,456)		
30	Recommended Revenue Requirement (Schedule CSB-1, Line 10)	\$ 330,067			
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-20, Col B, L19)	\$ 11,917			
36	Property Tax on Test Year Revenue (CSB-20, Col A, L16)	\$ 12,187			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		(270)		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		\$ (21,566)		
<i>Calculation of Income Tax:</i>					
39	Revenue (Schedule CSB-11, Col. [C], Line 4 & Sch. CSB-1, Col. [D] Line 1)	\$ 351,633	\$ (21,566)	\$ 330,067	
40	Operating Expenses Excluding Income Taxes	\$ 305,282	\$ (270)	\$ 305,012	
41	Synchronized Interest (L56)	\$ -		\$ -	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ 46,351		\$ 25,055	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L42 x L43)	\$ 3,230		\$ 1,746	
45	Federal Taxable Income (L42 - L44)	\$ 43,121		\$ 23,310	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 6,468		\$ 3,496	
47	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ -		\$ -	
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -		\$ -	
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	\$ 6,468		\$ 3,496	
52	Combined Federal and State Income Tax (L44 + L51)	\$ 9,698		\$ 5,242	
53	Applicable Federal Income Tax Rate [Col. [C], L51 - Col. [A], L51] / [Col. [C], L45 - Col. [A], L45]			15.0000%	
<i>Calculation of Interest Synchronization:</i>					
54	Rate Base (Schedule CSB-3, Col. (C), Line 14)	\$ 206,387			
55	Weighted Average Cost of Debt	0.0000%			
56	Synchronized Interest (L45 X L46)	\$ -			

RATE BASE - ORIGINAL COST

LINE NO.	(A)	(B)	ADJ NO.	(C)
	COMPANY AS FILED	STAFF ADJUSTMENTS		STAFF AS ADJUSTED
1	\$ 761,698	\$ -		\$ 761,698
2	508,828	-		508,828
3	<u>\$ 252,870</u>	<u>\$ -</u>		<u>\$ 252,870</u>
<u>LESS:</u>				
4	\$ 19,004	\$ (12,630)	1	\$ 6,374
5	\$ 42,208	\$ -		\$ 42,208
6	\$ 12,809	\$ 12,630	2	\$ 25,439
7	2,631	316	3	2,947
8	<u>\$ 10,178</u>	<u>12,314</u>		<u>\$ 22,492</u>
9	\$ 71,390	\$ (316)		\$ 71,074
10	\$ -	\$ 11,330	4	\$ 11,330
11	\$ -	\$ -		\$ -
<u>ADD:</u>				
12	\$ 37,764	\$ (7,996)	5	\$ 29,768
13	\$ 3,024	\$ -		\$ 3,024
14	\$ 3,129	\$ -		\$ 3,129
15	<u>\$ 225,397</u>	<u>\$ (19,010)</u>		<u>\$ 206,387</u>

References:

Column [A], Company Schedule B-1, Page 1
Column [B]: Schedule CSB-4
Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 1 - AIAC

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		PER COMPANY	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	AIAC - Main Line Extension Contracts	\$ 19,004	\$ (12,630)	\$ 6,374
2				
3				
4		Contract		
5		Date	Name	Amount
6		6/8/1999	Allen Barras	\$ 1,320
7		9/16/1999	Hoffman	\$ 2,880
8		10/28/1999	Vivien & Sebastien Garote	\$ 1,240
9		12/15/1999	Herb Schuerman	\$ 2,640
10		12/20/1999	Lyle Garrison	\$ 4,550
11				\$ 12,630

References:

- Column A: Company Schedule B-1 and Company's Response to CSB 1-9C
- Column B: Testimony, CSB; Data Request Response CSB 1-9C
- Column C: Column [A] + Column [B]

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Schedule CSB-6

RATE BASE ADJUSTMENT NO. 2 - CIAC

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Gross CIAC	\$ 12,809	\$ 12,630	\$ 25,439

References:

- Column A: Company Schedule B-2
- Column B: Testimony, CSB; Data Request Response CSB 2.3
- Column C: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 3 - AMORTIZATION OF CIAC

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Amortization of CIAC - Per Company	\$ 2,631	\$ -	\$ 2,631
2	Amortization of CIAC - Additions	\$ -	\$ 316	\$ 316
3		\$ 2,631	\$ 316	\$ 2,947
4				
5				
6				
7				
8				

9	Calculation of Amortization of CIAC		
10	CIAC Amortization Rate:	2.50%	From Line 23
11	CIAC:	\$ 12,630	From Line 17
12	Amortization of CIAC (Line 10 x Line 11):	\$ 316	
13			
14	Calculation of CIAC Additions		
15	Inadequately Supported Plant Treated as CIAC	\$ -	From Sch CSB-5
16	AIAC Converted to CIAC	\$ 12,630	From Sch CSB-6
17	Total CIAC Additions	\$ 12,630	
18			
19			
20	Calculation of CIAC Amortization Rate		
21	Amortization Rate Used In Last Rate Case:	5.00%	
22	Multiplied by:	50.00%	Half Year Convention
23	Amortization of CIAC (Line 21 x Line 22):	2.50%	

References:

- Column A: Company Schedule B-2
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

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Schedule CSB-8

RATE BASE ADJUSTMENT NO. 4 - CUSTOMER DEPOSITS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Customer Deposits	\$ -	\$ 11,330	\$ 11,330

References:

- Column A: Company Schedule B-2
- Column B: Testimony, CSB; Data Request Response CSB 1-10
- Column C: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 5 - CASH WORKING CAPITAL

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Cash Working Capital	\$ 37,764	\$ (7,996)	\$ 29,768

Operation & Maintenance *	\$	215,387
Multiplied by	x	1/8
	\$	26,923

Purchased Power and Purchased Water	\$	22,757
Multiplied by	x	1/24
	\$	2,845

Total Cash Working Capital	\$	29,768
----------------------------	----	--------

* Less depreciation, taxes, purchased power, and purchased water.

References:

- Column A: Company Schedule B-2
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

OPERATING INCOME - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
REVENUES:						
1	Metered Water Sales	\$ 344,260	\$ -	\$ 344,260	\$ (21,566)	\$ 322,694
2	Water Sales - Unmetered	-	-	-	-	-
3	Other Operating Revenues	7,373	-	7,373	-	7,373
4	Total Revenues	\$ 351,633	\$ -	\$ 351,633	\$ (21,566)	\$ 330,067
EXPENSES:						
7	Salaries and Wages - Employees	\$ 126,312	\$ (31,204) 1	\$ 95,108	\$ -	\$ 95,108
8	Salaries and Wages - Officers, Dir, Stcklhdrs	35,498	(4,879) 2	30,619	-	30,619
9	Purchased Water	100	-	100	-	100
10	Purchased Power	22,657	-	22,657	-	22,657
11	Chemicals	884	-	884	-	884
12	Materials & Supplies & Repairs & Maint	16,148	-	16,148	-	16,148
13	Office Supplies & Expenses	17,050	-	17,050	-	17,050
14	Contractual Services - Engineering	-	-	-	-	-
15	Contractual Services - Accounting	600	-	600	-	600
16	Contractual Services - Legal	3,995	(2,995) 3	1,000	-	1,000
17	Contractual Services - Testing	7,062	(2,296) 4	4,766	-	4,766
18	Contractual Services - Other	9,263	-	9,263	-	9,263
19	Rents	6,000	-	6,000	-	6,000
20	Equipment Rental	246	-	246	-	246
21	Transportation Expenses	15,726	(1,582) 5	14,144	-	14,144
22	Insurance - General Liability	11,848	(3,874) 6	7,974	-	7,974
23	Insurance - Worker's Compensation	2,555	-	2,555	-	2,555
24	Insurance - Other	165	-	165	-	165
25	System Support	4,339	(1,483) 7	2,856	-	2,856
26	Reg. Comm. Exp. - Rate Case	442	698 8	1,140	-	1,140
27	Bad Debt Expense	1,356	-	1,356	-	1,356
28	Miscellaneous Expense	4,089	(3,486) 9	603	-	603
29	Licensing & Permits	2,910	-	2,910	-	2,910
30	Tax - Other	6,446	-	6,446	-	6,446
31	Property Taxes	22,329	(10,141) 10	12,187	(270)	11,917
32	Payroll Taxes	10,804	(1,212) 11	9,592	-	9,592
33	Depreciation	25,132	13,780 12	38,912	-	38,912
34	Operating Expenses Before Income Taxes	\$ 353,956	\$ (48,674)	\$ 305,282	\$ (270)	\$ 305,012
35	Income Taxes	(45)	9,743 13	9,698	(4,456)	5,242
36	Total Operating Expenses	353,911	(38,931)	314,980	(4,726)	310,254
37						
38	Operating Income (Loss)	\$ (2,278)	\$ 38,931	\$ 36,653	\$ (16,840)	\$ 19,813

References:

- Column (A): Company Schedule C-1, Page 2
- Column (B): Schedule CSB-11
- Column (C): Column (A) + Column (B)
- Column (D): Schedules CSB-1 and CSB-2
- Column (E): Column (C) • Column (D)

Chino Meadows II Water Company
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SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJ #1 Salaries & Wages Employees	(C) ADJ #2 Salaries & Wages Officers, Dir, Stock	(D) ADJ #3 Contract Services Legal	(E) ADJ #4 Contract Services Testing	(F) ADJ #5 Transportation Expense	(G) ADJ #6 Insurance, General Liability	(H) ADJ #7 System Support	Subtotal
		Ref: Sch CSB-12	Ref: Sch CSB-13	Ref: Sch CSB-14	Ref: Sch CSB-15	Ref: Sch CSB-16	Ref: Sch CSB-17	Ref: Sch CSB-18		
1	REVENUES:									
2	Metered Water Sales	\$ 344,260								\$ 344,260
3	Water Sales - Unmetered	7,373								7,373
4	Other Operating Revenues									
5	Total Revenues	\$ 351,633								\$ 351,633
6	OPERATING EXPENSES:									
7	Salaries and Wages - Employees	\$ 126,312	(31,204)							95,108
8	Salaries and Wages - Officers, Dir, Stockhdr:	35,498	(4,879)							30,619
9	Purchased Water	100								100
10	Purchased Power	22,657								22,657
11	Chemicals	884								884
12	Materials & Supplies & Repairs & Maint	16,148								16,148
13	Office Supplies & Expenses	17,050								17,050
14	Contractual Services - Engineering	600								600
15	Contractual Services - Accounting	3,995		(2,995)						1,000
16	Contractual Services - Legal	7,062				(2,296)				4,766
17	Contractual Services - Testing	9,263								9,263
18	Contractual Services - Other	6,000								6,000
19	Rents	246								246
20	Equipment Rental	15,726								15,726
21	Transportation Expenses	11,848					(1,582)			10,266
22	Insurance - General Liability	2,555					(3,874)			(1,319)
23	Insurance - Worker's Compensation	165								165
24	Insurance - Other	4,339						(1,483)		2,856
25	System Support	442								442
26	Reg. Comm. Exp. - Rate Case	1,356								1,356
27	Bad Debt Expense	4,089								4,089
28	Miscellaneous Expense	2,910								2,910
29	Licensing & Permits	6,446								6,446
30	Tax - Other	22,329								22,329
31	Property Taxes	10,804								10,804
32	Payroll Taxes	25,132								25,132
33	Depreciation									
34										
35	Operating Expenses Before Income Taxes	\$ 353,966	(31,204)	(4,879)	(2,995)	(2,296)	(1,582)	(3,874)	(1,483)	\$ 305,843
36	Income Taxes	(45)								(45)
37	Total Operating Expenses	\$ 353,911	(31,204)	(4,879)	(2,995)	(2,296)	(1,582)	(3,874)	(1,483)	\$ 305,598
38										
39	Operating Income (Loss)	\$ (2,278)	\$ 31,204	\$ 4,879	\$ 2,995	\$ 2,296	\$ 1,582	\$ 3,874	\$ 1,483	\$ 46,035

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR CONTINUED

LINE NO.	DESCRIPTION	(I) ADJ #8	(J) ADJ #9	(K) ADJ #10	(L) ADJ #11	(M) ADJ #12	(N) ADJ #13	(O) STAFF ADJUSTED
REVENUES:								
1	Metered Water Sales							
2	Water Sales - Unmetered							
3	Other Operating Revenues							
4	Total Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 344,260
5								7,373
6								\$ 351,633
OPERATING EXPENSES:								
7	Salaries and Wages - Employees							95,108
8	Salaries and Wages - Officers, Dir, Stcklhdrs							30,619
9	Purchased Water							100
10	Purchased Power							22,657
11	Chemicals							884
12	Materials & Supplies & Repairs & Maint							16,148
13	Office Supplies & Expenses							17,050
14	Contractual Services - Engineering							600
15	Contractual Services - Accounting							1,000
16	Contractual Services - Legal							4,766
17	Contractual Services - Testing							9,263
18	Contractual Services - Other							6,000
19	Rents							246
20	Equipment Rental							14,144
21	Transportation Expenses							7,974
22	Insurance - General Liability							2,555
23	Insurance - Worker's Compensation							165
24	Insurance - Other							2,856
25	System Support							1,140
26	Reg. Comm. Exp. - Rate Case	698						1,356
27	Bad Debt Expense							603
28	Miscellaneous Expense		(3,486)					2,910
29	Licensing & Permits							6,446
30	Tax - Other							12,187
31	Property Taxes			(10,141)				9,592
32	Payroll Taxes				(1,212)			38,912
33	Depreciation					13,780		
34								
35	Operating Expenses Before Income Taxes	\$ 698	\$ (3,486)	\$ (10,141)	\$ (1,212)	\$ 13,780	\$ -	\$ 305,282
36	Income Taxes						9,743	9,698
37	Total Operating Expenses	\$ -	\$ -	\$ -	\$ (1,212)	\$ 13,780	\$ 9,743	\$ 314,980
38								
39	Operating Income (Loss)	\$ -	\$ -	\$ -	\$ 1,212	\$ (13,780)	\$ (9,743)	\$ 36,653

OPERATING INCOME ADJUSTMENT NO. 1 - SALARY AND WAGES, EMPLOYEES

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Salary & Wages, Employees	\$ 126,312	\$ (31,204)	\$ 95,108
2				
3				
4				
5				
6				
7				
8	To remove salaries & wages provided for in Granite Mountain rate case		\$ (19,563)	Docket No. W-02467A-09-0333
9	To remove \$10,400 salary and wage increase pro forma adjustment		\$ (10,400)	Data Request Response CSB 1-1
10	To reflect \$1 wage increase that became effective on February 8, 2010		\$ 2,080	Data Request Response CSB 4-4
11	To annualize \$2 wage increase that occurred on April 1, 2009 (CSB 1-1b)		\$ 1,040	(2,080 hrs / 12) x 3 months x \$2
12	To normalize overtime charges		\$ (2,761)	From line 25
13	To remove bonuses		\$ (1,600)	Per GL acct no. 6601.00
14	Total		\$ (31,204)	
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				

Salaries & Wages Employees

Normalized Overtime Charges

2007	\$ 1,575
2008	\$ 3,798
2009	\$ 6,828
	\$ 12,201

Divided by 3 years	3
Staff's normalized overtime charges	\$ 4,067
Company proposed overtime charges	\$ 6,828
Staff's adjustment	\$ (2,761)

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB; Data Request Response CSB 1-1b, 1-15d, CSB 1-32, CSB 4-4, CSB 4-9, & Sch CRM-3 in Docket No W-02467A-09-0333
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 2 - SALARY AND WAGES, OFFICERS, DIRECTORS, STOCKHOLDERS

LINE NO.	DESCRIPTION	[A]	[B]	[C]		
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED	[D] Hours Worked Per Week	[E] Hours Worked Per Month
1	Salary & Wages, Officers, Directors, Stockholders	35,498	\$ (4,879)	\$ 30,619		
2						
3						
4						
5						
6						
7						
8	Supervision and management of company personnel				3	12
9	Review of fiduciary responsibilities including accounts payable and accounts receivable				3	12
10	Review payroll				1	4
11	Sign checks for payroll and accounts payable				1	4
12	Meet with Company mgmnt to address concerns, equipment repair and/or water plant facilities				5	20
13	Project management				0	0
14	Acquire regulate and oversee company loans and long-term debts				2	8
15	Ensuring that proper equipment and procedures are in place to adequately supply drinking water				2	8
16	Review & advise Company on manuals such as employee handbook & emergency response manual				0	1
17					17	69
18		\$35,498 / (80 hrs per month x 12 months) = \$35,498 / 960 hrs = \$36.98			x	\$36.98
19						\$2,551.62
20					x 12 months	\$30,619.44
21						

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB; CSB 1-16e, CSB 1-16f, CSB 4-3
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 3 - CONTRACT SERVICES LEGAL

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Contract Services - Legal	\$ 3,995	\$ (2,995)	\$ 1,000
2				
3				
4				
5				
6				
7				
8	To remove costs related to the potential sale of the Company	\$	(3,995)	
9	To provide for a reasonable level of ongoing legal expense	\$	1,000	
10	Staff's adjustment	\$	(2,995)	

Contract Services Legal

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB; Company Data Request Responses to CSB 1-23
- Column C: Column [A] + Column [B]

Chino Meadows II Water Company
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Schedule CSB-15

OPERATING INCOME ADJUSTMENT NO. 4 - CONTRACT SERVICES TESTING

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Contract Services - Testing	\$ 7,062	\$ (2,296)	\$ 4,766

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 5 - TRANSPORTATION EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Transportation Expense	15,726	\$ (1,582)	\$ 14,144

Transportation Expense			
	Amount Before Allocation	Allocation Percentage	Allocated Amount
Chino Meadows	\$ 15,726.00	0.899383984	\$ 14,143.71
Granite Mountain	\$ 15,726.00	0.100616016	\$ 1,582.29
		1.000000	\$ 15,726.00

Number of Customers by Company			
Source: Chino Meadows, application; Granite Mtn, 2009 Annual Report, p. 12			
	Chino Meadows	Granite Mountain	Total
No. of Customers	876	98	974
No. of Customers Allocation %:	0.89938398	0.100616016	1.00

References:

- Column A: Company Schedule C-1 & E-2
- Column B: Testimony, CSB; Data Request CSB 1.29
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 6- INSURANCE, GENERAL LIABILITY

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Insurance, General Liability	11,848	\$ (3,874)	\$ 7,974

Transportation Expense			
	Amount Before Allocation	Allocation Percentage	Allocated Amount
Chino Meadows	\$ 11,848.00	0.673030810	\$ 7,974.07
Granite Mountain	\$ 11,848.00	0.326969190	\$ 3,873.93
		1.000000	\$ 11,848.00

Calculation of Two-Factor Allocation				
	[A]	[B]	[C]	[D]
	Number of Customers	Net Plant	Total (Col A+B)	Allocation % (Col C / 2)
Chino Meadows	0.90	0.4	1.35	0.673030810
Granite Mountain	0.10	0.55	0.65	0.326969190
	1.00000000	1.00000000	2.00000000	1.00000000

Number of Customers by Company				
Source: Chino Meadows, application; Granite Mtn, 2009 Annual Report, p. 12, Ant Lks CSB 4-8				
	Chino Meadows	Granite Mountain	Antelope Lakes	Total
No. of Customers	876	98	-	974
No. of Customers Allocation %:	0.90	0.10	0.00	1.00

Net Plant by Company				
Source: Chino Meadows, Sch CSB-3; Granite Mtn, 2009 Annual Report, p. 12				
	Chino Meadows	Granite Mountain	Antelope Lakes	Total
Net Plant	252,870	313,243	-	566,113
Net Plant Allocation %:	0.4	0.55	0.00	1.0

References:

- Column A: Company Schedule C-1 & E-2
- Column B: Testimony, CSB; Data Request CSB 1.29
- Column C: Column [A] + Column [B]

Chino Meadows II Water Company
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Schedule CSB-18

OPERATING INCOME ADJUSTMENT NO. 7 - SYSTEM SUPPORT

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	System Support	\$ 4,339	\$ (1,483)	\$ 2,856

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

Chino Meadows II Water Company
 Docket No. W-02370A-10-0519
 Test Year Ended December 31, 2009

Schedule CSB-19

OPERATING INCOME ADJUSTMENT NO. 8 - RATE CASE EXPENSE

LINE NO.	Description	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Rate Case Expense	\$ 442	\$ 698	\$ 1,140

	Per Company	Difference	Per Staff
	\$ 1,326	\$ 4,374	\$ 5,700
Divided by	3	2	5
	442	698	1,140

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

Chino Meadows II Water Company
 Docket No. W-02370A-10-0519
 Test Year Ended December 31, 2009

Schedule CSB-20

OPERATING INCOME ADJUSTMENT NO. 9 - MISCELLANEOUS EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Miscellaneous Expense	\$ 4,089	\$ (3,486)	\$ 603

Out of Test Year Expense (Payment on old bank debt) \$ 1,237.00

Gifts	\$ 38.40
Food & Beverages	\$ 1,002.39
Luncheons & Dinners	\$ 758.45
Employee Parties	\$ 449.79
Subtotal	\$ 2,249.03
Total	\$ 3,486.03

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB; Data Request CSB 1-18 & 1-29
- Column C: Column [A] + Column [B]

Chino Meadows II Water Company
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Schedule CSB-21

OPERATING INCOME ADJUSTMENT NO. 10 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 351,633	\$ 351,633
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	703,265	\$ 703,265
4	Staff Recommended Revenue, Per Schedule CSB-1	351,633	\$ 330,067
5	Subtotal (Line 4 + Line 5)	1,054,898	1,033,333
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	351,633	\$ 344,444
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	703,265	\$ 688,888
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	54,837	\$ 54,837
12	Full Cash Value (Line 9 + Line 10 - Line 11)	648,428	\$ 634,051
13	Assessment Ratio	21.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	136,170	\$ 133,151
15	Composite Property Tax Rate	8.9500%	8.9500%
			\$ -
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 12,187	
17	Company Proposed Property Tax	22,329	
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ (10,141)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 11,917
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 12,187
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ (270)
22	Increase to Property Tax Expense		\$ (270)
23	Increase in Revenue Requirement		(21,566)
24	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		1.253000%

Chino Meadows II Water Company
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

Schedule CSB-22

OPERATING INCOME ADJUSTMENT NO. 11 - PAYROLL TAXES

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Payroll Taxes	\$ 22,329	\$ (1,212)	\$ 21,117

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB;
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 12 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	DESCRIPTION	[A] PLANT in SERVICE Per Staff	[B] NonDepreciable & Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	301 Organization	\$ 6,843	\$ 6,843	\$ -	0.00%	\$ -
2	303 Land and Land Rights	15,204	15,204	-	0.00%	-
3	304 Structures and Improvements	44,339	-	44,339	3.33%	1,476
4	305 Collecting and Impound Reservoirs	4,350	-	4,350	2.50%	109
5	307 Wells and Springs	27,448	9,096	18,352	3.33%	611
6	309 Supply Mains	1,009	-	1,009	2.00%	20
7	311 Pumping Equipment	46,268	-	46,268	12.50%	5,783
8	320 Water Treatment Equipment	6,406	-	6,406	3.33%	213
9	330 Distribution Reservoirs and Standpipes	51,684	21,661	30,023	2.22%	667
10	331 Transmission and Distribution Mains	268,037	167,988	100,049	2.00%	2,001
11	333 Services	30,067	7,181	22,886	3.33%	762
12	334 Meters and Meter Installations	84,857	-	84,857	8.33%	7,069
13	335 Hydrants	12,042	-	12,042	2.00%	241
14	336 Backflow Prevention Devices	-	-	-	6.67%	-
15	339 Other Plant and Miscellaneous Equipment	16,728	1,305	15,423	6.67%	1,029
16	340 Office Furniture and Equipment	9,346	-	9,346	6.67%	623
17	340.1 Computers and Software	-	-	-	20.00%	-
18	341 Transportation Equipment	88,633	-	88,633	20.00%	17,727
19	343 Tools, Shop, and Garage Equipment	949	-	949	5.00%	47
20	345 Power Operated Equipment	25,405	18,377	7,028	5.00%	351
21	346 Communication Equipment	22,084	-	22,084	10.00%	2,208
22	347 Miscellaneous Equipment	-	-	-	10.00%	-
24	Total Plant	\$ 761,698	\$ 225,608	\$ 514,043		\$ 40,938
31	Composite Depreciation Rate (Depr Exp / Depreciable Plant):	7.96%				
32	CIAC: \$	25,439				
33	Amortization of CIAC (Line 32 x Line 33): \$	2,026				
34	Depreciation Expense Before Amortization of CIAC: \$	40,938				
	Less Amortization of CIAC: \$	2,026				
	Test Year Depreciation Expense - Staff: \$	38,912				
	Depreciation Expense - Company:	25,132				
	Staff's Total Adjustment: \$	13,780				

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]

OPERATING INCOME ADJUSTMENT NO. 13 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	(A)	(B)
<i>Calculation of Income Tax:</i>			
1	Revenue	\$ 351,633	
2	Less: Operating Expenses - Excluding Income Taxes	\$ 305,282	
3	Less: Synchronized Interest (L17)	\$ -	
4	Arizona Taxable Income (L1- L2 - L3)	\$ 46,351	
5	Arizona State Income Tax Rate	6.968%	
6	Arizona Income Tax (L4 x L5)		\$ 3,230
7	Federal Taxable Income (L4 - L6)	\$ 43,121	
8	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 6,468	
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		\$ 6,468
14	Combined Federal and State Income Tax (L6 + L13)		<u>\$ 9,698</u>
<i>Calculation of Interest Synchronization:</i>			
15	Rate Base (Schedule CSB-13, Col. (C), Line 16)	\$ 206,387	
16	Weighted Average Cost of Debt	0.00%	
17	Synchronized Interest (L16 x L17)	<u>\$ -</u>	
18	Income Tax - Per Staff	\$ 9,698	
19	Income Tax - Per Company	\$ (45)	
20	Staff Adjustment	\$ 9,743	

RATE DESIGN

Monthly Customer Charge:	Present	Company	Staff
	Rates	Proposed	Recommended
5/8" x 3/4" Meter	\$18.75	\$23.26	\$17.60
3/4" Meter	28.13	34.90	26.40
1" Meter	46.88	58.16	44.00
1 1/2" Meter	93.75	116.32	88.00
2" Meter	150.00	186.11	140.80
3" Meter	N/A	418.74	264.00
4" Meter	N/A	701.62	440.00
6" Meter	N/A	1,395.79	880.00

Gallons Included In Monthly Customer Charge: 1,000 1,000 0

Commodity Charges - Per 1,000 Gallons of Usage

Per 1,000 gallons for all usage \$ 3.12 N/A N/A

In Excess of 1,000 Gallons for All Meter Sizes

0 to 10,000 Gallons	N/A	\$3.52	N/A
10,001 to 20,000 Gallons	N/A	\$3.75	N/A
All Gallons in Excess of 20,000	N/A	\$4.34	N/A
0 to 3,000 Gallons	N/A	N/A	\$2.05
3,001 to 8,000 Gallons	N/A	N/A	\$2.80
All Gallons in Excess of 8,000	N/A	N/A	\$3.58

Service Line and Meter Installation Charges

	Present	Company Proposed			Staff Recommended		
	Rates	Services	Meters	Total	Services	Meters	Total
5/8" x 3/4" Meter	\$350.00	\$406.00	\$95.00	\$500.00	\$406.00	\$95.00	\$501.00
3/4" Meter	360.00	413.00	162.00	\$575.00	413.00	162.00	\$575.00
1" Meter	420.00	441.00	209.00	\$650.00	441.00	209.00	\$650.00
1 1/2" Meter	540.00	395.00	321.00	\$716.00	395.00	321.00	\$716.00
2" Meter	660.00	727.00	845.00	\$1,572.00	727.00	845.00	\$1,572.00
3" Meter	N/A	952.00	1,448.00	\$2,400.00	952.00	1,448.00	\$2,400.00
4" Meter	N/A	1,310.00	2,206.00	\$3,516.00	1,310.00	2,206.00	\$3,516.00
6" Meter	N/A	2,160.00	4,756.00	\$6,916.00	2,160.00	4,756.00	\$6,916.00

Service Charges

Establishment	\$15.00	\$25.00	\$25.00
Establishment (After Hours)	30.00	35.00	Eliminate
Reconnection (Delinquent)	22.00	35.00	30.00
Reconnection (Delinquent) After Hours	N/A	45.00	Eliminate
After Hours Charge (Flat Rate)	N/A	N/A	25.00
Meter Test (If Correct)	15.00	35.00	20.00
Deposit	*	*	*
Deposit Interest (Per Year)	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	15.00	20.00	20.00
Deferred Payment (Per Month)	1.50%	1.00%	1.50%
Meter Re-Read (If Correct)	12.00	15.00	15.00
Late Fee (Per Month)	N/A	***	1.50%

Monthly Service Charge for Fire Sprinkler

4" or Smaller	N/A	N/A	****
6"	N/A	N/A	****
8"	N/A	N/A	****
10"	N/A	N/A	****
Larger than 10"	N/A	N/A	****

- * Per Commission Rules (R14-2-403.B)
- ** Months off system times the minimum (R14-2-403.D)
- *** 1.50 percent of unpaid balance per month
- **** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

TYPICAL BILL ANALYSIS
General Service 5/8 x 3/4 - Inch Meter

Average Number of Customers: 876

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	5,348	\$32.32	\$38.56	\$6.25	19.3%
Median Usage	4,280	\$28.98	\$34.80	\$5.82	20.1%
<u>Staff Proposed</u>					
Average Usage	5,348	\$32.32	\$30.12	(\$2.19)	-6.8%
Median Usage	4,280	\$28.98	\$27.29	(\$1.69)	-5.8%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$18.75	\$23.26	24.1%	\$17.60	-6.1%
1,000	18.75	23.26	24.1%	19.70	5.1%
2,000	21.87	26.78	22.5%	21.80	-0.3%
3,000	24.99	30.30	21.2%	23.90	-4.4%
4,000	28.11	33.82	20.3%	26.55	-5.5%
5,000	31.23	37.34	19.6%	29.20	-6.5%
6,000	34.35	40.86	19.0%	31.85	-7.3%
7,000	37.47	44.38	18.4%	34.50	-7.9%
8,000	40.59	47.90	18.0%	37.15	-8.5%
9,000	43.71	51.42	17.6%	40.30	-7.8%
10,000	46.83	54.94	17.3%	43.45	-7.2%
15,000	62.43	73.69	18.0%	59.20	-5.2%
20,000	78.03	92.44	18.5%	74.95	-3.9%
25,000	93.63	114.14	21.9%	90.70	-3.1%
50,000	171.63	222.64	29.7%	169.45	-1.3%
75,000	249.63	331.14	32.7%	248.20	-0.6%
100,000	327.63	439.64	34.2%	326.95	-0.2%
125,000	405.63	548.14	35.1%	405.70	0.0%
150,000	483.63	656.64	35.8%	484.45	0.2%
175,000	561.63	765.14	36.2%	563.20	0.3%
200,000	639.63	873.64	36.6%	641.95	0.4%



BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE
Chairman
BOB STUMP
Commissioner
SANDRA D. KENNEDY
Commissioner
PAUL NEWMAN
Commissioner
BRENDA BURNS
Commissioner

IN THE MATTER OF THE APPLICATION OF)
CHINO MEADOWS II WATER COMPANY, INC.)
FOR A RATE INCREASE)
_____)

DOCKET NO. W-02370A-10-0519

SURREBUTTAL
TESTIMONY
OF
CRYSTAL S. BROWN
PUBLIC UTILITIES ANALYST V
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

SEPTEMBER 19, 2011

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EXECUTIVE SUMMARY
CHINO MEADOWS II WATER COMPANY
DOCKET NO. W-02370A-10-0519

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 Chino Meadows II Water Company ("Chino Meadows" or "Company") rebuttal testimony on the following issues:

1. Rate Base
 - a. Advances in Aid of Construction ("AIAC")
 - b. Amortization of AIAC
 - c. Post Test Year Plant

2. Operating Income
 - a. Salaries and Wages, Employees
 - b. Salaries and Wages, Officers, Directors, and Stockholders
 - c. Insurance, General Liability
 - d. Rate Case Expense
 - e. Miscellaneous Expense
 - f. Payroll Taxes
 - g. Leak Detection Expense
 - h. Interest on Customer Deposits

1 **INTRODUCTION**

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

3 A. My name is Crystal S. Brown. I am a Public Utilities Analyst V employed by the Arizona
4 Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff").
5 My business address is 1200 West Washington Street, Phoenix, Arizona 85007.
6

7 **Q. Are you the same Crystal S. Brown who filed direct testimony in this case?**

8 A. Yes.
9

10 **PURPOSE OF SURREBUTTAL TESTIMONY**

11 **Q. What is the purpose of your surrebuttal testimony in this proceeding?**

12 A. The purpose of my surrebuttal testimony in this proceeding is to respond, on behalf of
13 Staff, to the rebuttal testimony of Mr. Ray Jones who represents Chino Meadows II Water
14 Company ("Chino Meadows" or "Company").
15

16 **Q. Did you attempt to address every issue raised by Chino Meadows in its rebuttal
17 testimony?**

18 A. No. I limited my discussion to certain issues as outlined below. My silence on any
19 particular issue raised in the Company's rebuttal testimony does not indicate that I agree
20 with the Company's stated rebuttal position on the issue. Rather, where I do not respond,
21 I rely on my direct testimony.
22

23 **Q. What issues will you address?**

24 A. I will address the issues listed below that are discussed in the rebuttal testimony of the
25 Company's witness Mr. Ray Jones.
26

- 1 1. Rate Base
- 2 a. Advances in Aid of Construction ("AIAC")
- 3 b. Amortization of AIAC
- 4 c. Post Test Year Plant
- 5 2. Operating Income
- 6 a. Salaries and Wages, Employees
- 7 b. Salaries and Wages, Officers, Directors, and Stockholders
- 8 c. Insurance, General Liability
- 9 d. Rate Case Expense
- 10 e. Miscellaneous Expense
- 11 f. Payroll Taxes
- 12 g. Leak Detection Expense
- 13 h. Interest on Customer Deposits

14

15 **SUMMARY OF RECOMMENDED REVENUES**

16 **Q. Has Staff prepared schedules summarizing its recommended revenues and**
17 **adjustments to rate base and operating income?**

18 A. No, Staff has not.

19

20 **Q. Why has Staff not prepared schedules summarizing its recommended revenues and**
21 **adjustments to rate base and operating income?**

22 A. After Staff filed its direct testimony, the Company hired a consultant to prepare its rebuttal
23 testimony. The consultant has raised new issues and proposed different treatment of some
24 costs. Staff has requested documentation for these costs.

25

26 **Q. Will Staff file its schedules summarizing its recommended revenues and adjustments**
27 **to rate base and operating income once it has received and reviewed all of the**
28 **documentation?**

29 A. Yes.

1 **RATE BASE**

2 *Rate Base Adjustment No. 1 – Advances In Aid of Construction (“AIAC”)*

3 **Q. Did Staff review Chino Meadows’ rebuttal testimony concerning AIAC?**

4 A. Yes.

5
6 **Q. What was the Company’s main concern?**

7 A. The Company’s main concern was that Staff did not reflect the Company’s payments on
8 the AIAC contracts.

9
10 **Q. Has Staff requested documentation for payments made on the AIAC contracts?**

11 A. Yes.

12
13 **Q. Will Staff adjust its recommended AIAC balance based upon the documentation
14 provided by the Company and file revised schedules if appropriate?**

15 A. Yes.

16
17 *Rate Base Adjustment Nos. 2 and 3– Contributions In Aid of Construction (“CIAC”) and
18 Amortization of CIAC*

19 **Q. Did Staff review Chino Meadows’ rebuttal testimony concerning CIAC and the
20 amortization of CIAC?**

21 A. Yes. As previously discussed in “Rate Base Adjustment No. 1 – AIAC,” the Company
22 states that it has made payments on the AIAC contracts that have converted to CIAC.
23 Staff has requested documentation for the payments on the AIAC contracts. The amount
24 of payments made on the AIAC contracts will reduce Staff’s recommended level of CIAC
25 and amortization of CIAC.
26

1 **Q. Will Staff adjust its recommended CIAC and amortization of CIAC balances based**
2 **upon the documentation provided by the Company and file revised schedules if**
3 **appropriate?**

4 A. Yes.

5

6 *Post-Test Year ("PTY") Plant*

7 **Q. Did Staff review Chino Meadows' rebuttal testimony concerning PTY Plant?**

8 A. Yes. The Company proposes to add \$3,500 in PTY plant.

9

10 **Q. Please describe the plant.**

11 A. The plant is computer software that will allow customers to pay their water bills with a
12 debit or a credit card.

13

14 **Q. Was the plant purchased for growth?**

15 A. No.

16

17 **Q. Is the plant revenue neutral?**

18 A. Yes. The Company is not requesting an additional charge for this service.

19

20 **Q. Has Staff requested invoices to support the plant cost?**

21 A. Yes.

22

23 **Q. Will Staff adjust its recommended plant balance based upon the documentation**
24 **provided by the Company and file revised schedules if appropriate?**

25 A. Yes.

26

1 **OPERATING INCOME**

2 *Operating Income Adjustment No. 1 – Salaries and Wages, Employees*

3 *Allocate \$19,563 in Employee Salary and Wage Expense to Regulated Affiliate*

4 **Q. Did Staff review Chino Meadows' rebuttal testimony concerning the allocation of**
5 **\$19,563 to its regulated affiliate, Granite Mountain Water Company ("Granite**
6 **Mountain")?**

7 **A.** Yes. The Company proposes to allocate \$5,248 which it maintains is the amount actually
8 incurred for Granite Mountain during the test year. The Company claims that the amount
9 was ascertained through time sheets.

10
11 **Q. Did Staff request information about the Company's allocations and the basis of the**
12 **allocations?**

13 **A.** Yes. Staff issued data requests CSB 1-33 and CSB 4-9, both data requests sought
14 information about costs that were allocated and the basis of the allocations (e.g., time
15 sheets). Apparently, the Company collects the number of hours spent working for each
16 Company but does not use the information to appropriately allocate costs.

17
18 **Q. Did the Company discuss the use of timesheets in response to Staff's data request**
19 **concerning allocations of costs and the basis of such allocations?**

20 **A.** No, it did not.

21
22 **Q. Assuming that \$5,248 was the actual salary and wage cost for Granite Mountain**
23 **during the test year, will Granite Mountain customers overpay for this cost?**

24 **A.** Yes, Granite Mountain customers would overpay by \$14,315. Assuming that Granite
25 Mountain customers incur approximately \$5,248 for salary and wage expense and given
26 that Decision No. 71869, dated August 31, 2010, authorized Granite Mountain customers

1 to pay, through rates, \$19,563 for salary and wage expense; an overpayment of \$14,315
2 would occur.

3
4 **Q. What is Staff's recommendation?**

5 A. Staff continues to recommend that \$19,563 be allocated to Granite Mountain.

6
7 *Remove \$10,400 Pro Forma Salary and Wage Increase*

8 **Q. Did Staff review Chino Meadows' rebuttal testimony concerning the \$10,400 pro**
9 **forma salary and wage increase?**

10 A. Yes, the Company claims that \$7,280 of the \$10,400 pro forma salary and wage increase
11 went into effect on January 1, 2011.

12
13 **Q. When will the Company have paid the full \$7,280 to its employees?**

14 A. The Company will have paid the full \$7,280 by December 31, 2011, two years after the
15 test year (i.e., December 31, 2009).

16
17 **Q. Did the Company provide canceled checks or similar documentation to provide**
18 **evidence of the increase?**

19 A. No, it did not.

20
21 **Q. What is Staff's recommendation concerning the \$10,400 pro forma salary and wage**
22 **increase adjustment?**

23 A. Staff continues to recommend decreasing employee salary and wage expense by \$10,400
24 to reflect Staff's disallowance of the pro forma adjustment.

25

1 *Remove Bonuses*

2 **Q. Did Staff review Chino Meadows' rebuttal testimony concerning the removal of**
3 **bonuses?**

4 A. Yes. The Company claims that "Without the bonus program, Chino would need to raise
5 base salaries to be competitive in the market and retain employees."

6

7 **Q. Does Staff agree?**

8 A. No. The Company has provided no studies or other type of documentation to show that
9 the removal of \$1,600 in total bonuses would cause a higher than normal turnover in
10 employees. Bonuses are an optional cost and, therefore, should be recognized below-the-
11 line (i.e., removed from rates).

12

13 **Q. What is Staff's recommendation regarding the bonuses?**

14 A. Staff continues to recommend decreasing salary and wage expense by \$1,600 to remove
15 the bonuses.

16

17 *Operating Income Adjustment No. 2 – Salaries and Wages, Officers, Directors, and Stockholders*

18 **Q. Did Staff review the Chino Meadows' rebuttal testimony concerning the \$35,498 in**
19 **salaries paid to the Company's owner?**

20 A. Yes, the Company maintains that the actual cost of \$35,498 should be included in salary
21 and wage expense because the amount is reasonable and prudent. Further the Company
22 states that "Staff has provided no evidence that the wage is unreasonable or otherwise
23 imprudent."

24

25 **Q. Is the burden of proof borne by the Company or Staff?**

26 A. The burden of proof is borne by the Company.

1 **Q. Did the Company provide any evidence to support the reasonableness and prudence**
2 **of the \$35,498?**

3 A. No, it did not. The Company did not provide any time studies and underlying
4 documentation nor did it provide time sheets for Mr. Levie.

5
6 **Q. Please review the number of businesses that Mr. Levie operates from the office**
7 **located at 2465 Shane Drive in Prescott, Arizona.**

8 A. According to data request CSB 4-7, Mr. Levie operates nine businesses. Those businesses
9 are: Chino Meadows, Granite Mountain, Antelope Lakes; City of Prescott.com, LLC;
10 Equestrian Constuction, LLC; Equestrian Development Corporation; LL&M Development
11 LLC; Levie-Antelope Lakes Development, Inc.; and Paul D. Levie, P.C.

12
13 **Q. Does Mr. Levie keep track of the number of hours per day spent working on each of**
14 **his nine businesses?**

15 A. No. Mr. Levie does not. Therefore, the Company cannot be certain that Mr. Levie spends
16 approximately 80 hours per month working only for Chino Meadows.

17
18 **Q. What is Staff's recommendation?**

19 A. Staff continues to recommend decreasing stockholder salary and wages expense by
20 \$4,879.

21

1 *Operating Income Adjustment No. 6 – Insurance, General Liability*

2 **Q. Did Staff review Chino Meadows’ rebuttal testimony concerning general liability**
3 **insurance expense?**

4 A. Yes, the Company states, “The Company feels that Staff’s use of Net Plant overly skews
5 the allocation to the much smaller Granite. This is due to the relatively new plant at
6 Granite Mountain with higher original cost and lower accumulated depreciation”.

7
8 **Q. Does Staff agree that the use of net plant overly skews the allocation to Granite**
9 **Mountain?**

10 A. No, Staff does not. Chino Meadow’s older plant will be replaced periodically with new
11 plant. Granite Mountain’s plant book value will decrease during the same time. When this
12 occurs, more of the insurance expense will be shifted to Chino Meadows. Thus, use of a
13 net plant allocation factor does not skew the cost but merely reflects book value of plant as
14 of the date it is calculated.

15
16 **Q. What is Staff’s recommendation?**

17 A. Staff continues to recommend decreasing general liability insurance by \$3,874.

18
19 *Operating Income Adjustment No. 8 – Rate Case Expense*

20 **Q. Did Staff review Chino Meadows’ rebuttal testimony concerning rate case expense?**

21 A. Yes, the Company states that it expects to incur rate case expense of at least \$30,000.

22
23 **Q. Has Staff requested invoices to support the rate case expense?**

24 A. Yes.
25

1 **Q. Will Staff adjust its recommended rate case expense based upon the documentation**
2 **provided by the Company and file revised schedules if appropriate?**

3 A. Yes.
4

5 *Operating Income Adjustment No. 9 – Miscellaneous Expense*

6 **Q. Did Staff review Chino Meadows' rebuttal testimony concerning miscellaneous**
7 **expense?**

8 A. Yes, the Company continues to propose inclusion of costs for food and beverages in the
9 cost of service.
10

11 **Q. What rate-making treatment does Staff recommend for these types of expenses?**

12 A. Since these costs are not necessary to provide service, Staff continues to recommend that
13 they be recognized as non-operating expenses and recognized below the line (i.e. excluded
14 from the rates).
15

16 **Q. What is Staff's recommendation?**

17 A. Staff continues to recommend the removal of costs for food, beverages, and similar costs
18 from the cost of service.
19

20 *Operating Income Adjustment No. 11 – Payroll Taxes*

21 **Q. Did Staff review Chino Meadows' rebuttal testimony concerning payroll taxes?**

22 A. Yes. The payroll taxes are related to the Company's pro forma salary and wage increase.
23

1 **Q. What is Staff's recommendation?**

2 A. Staff continues to recommend disallowance of the pro forma payroll tax expense in
3 accordance with Staff's recommended disallowance of the Company's pro forma salary
4 and wage increase.

5

6 *Operating Income Adjustment No. 4-- Contract Services Testing, Leak Detection*

7 **Q. Did Staff review the Chino Meadows' rebuttal testimony concerning leak detection**
8 **expense?**

9 A. Yes, the Company continues to propose a pro forma adjustment in the amount of \$2,296
10 for leak detection.

11

12 **Q. Did the Company have inadequate service or fail to provide service during the test**
13 **year because it was unable to obtain leak detection services?**

14 A. No.

15

16 **Q. Has the Company incurred the cost for leak detection services?**

17 A. No, not as of September 2011, more than 20 months past the test year.

18

19 **Q. What is Staff's recommendation?**

20 A. Staff continues to recommend removing the pro forma adjustment for leak detection
21 services from the revenue requirement.

22

1 *Operating Income – Interest on Customer Deposits*

2 **Q. Did Staff review the Chino Meadows' rebuttal testimony concerning interest on**
3 **customer deposits?**

4 A. Yes, the Company is proposing to include interest on test year customer deposits that it
5 paid after the test year.

6

7 **Q. Has staff requested support for the payment?**

8 A. Yes.

9

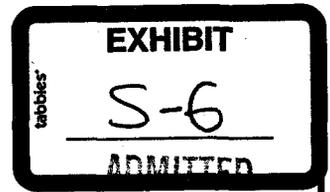
10 **Q. Will Staff adjust its recommended interest on customer deposits based upon the**
11 **documentation provided by the Company and file revised schedules if appropriate?**

12 A. Yes.

13

14 **Q. Does this conclude Staff's surrebuttal testimony?**

15 A. No. Once Staff has received and reviewed all of the requested documentation, Staff will
16 file its surrebuttal schedules as soon thereafter as possible.



BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE
Chairman
BOB STUMP
Commissioner
SANDRA D. KENNEDY
Commissioner
PAUL NEWMAN
Commissioner
BRENDA BURNS
Commissioner

IN THE MATTER OF THE APPLICATION OF)
CHINO MEADOWS II WATER COMPANY, INC.)
FOR A RATE INCREASE)
_____)

DOCKET NO. W-02370A-10-0519

SUPPLEMENTAL
SURREBUTTAL
TESTIMONY
OF
CRYSTAL S. BROWN
PUBLIC UTILITIES ANALYST V
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

SEPTEMBER 29, 2011

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**EXECUTIVE SUMMARY
CHINO MEADOWS II WATER COMPANY
DOCKET NO. W-02370A-10-0519**

Staff recommends a \$9,287 or 2.64 percent revenue decrease from \$351,633 to \$342,346. Staff's recommended revenue would produce an operating income of \$20,272 for a 9.60 percent rate of return on an OCRB of \$211,167, as shown on Supplemental Surrebuttal Schedule CSB-1. Staff's recommended rates would decrease the typical residential 5/8 x 3/4-inch meter bill with a median usage of 4,280 gallons from \$28.98 to \$27.70, for a decrease of \$1.29 or 4.4 percent.

Staff's Supplemental Surrebuttal testimony discusses the changes made to Staff's direct and surrebuttal testimonies based upon the documentation received from Chino Meadows II Water Company ("Chino Meadows" or "Company") regarding its rebuttal testimony on the following issues:

1. Rate Base
 - a. Advances in Aid of Construction ("AIAC")
 - b. Contributions in Aid of Construction ("CIAC")
 - c. Amortization of CIAC
 - d. Cash Working Capital
 - e. Post Test Year Plant

2. Operating Income
 - a. Salary and Wages, Employees
 - b. Rate Case Expense
 - c. Payroll Taxes
 - d. Depreciation Expense
 - e. Income Tax Expense
 - f. Interest on Customer Deposits

1 **INTRODUCTION**

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

3 A. My name is Crystal S. Brown. I am a Public Utilities Analyst V employed by the Arizona
4 Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business
5 address is 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Are you the same Crystal S. Brown who filed direct and surrebuttal testimony in this
8 case?**

9 A. Yes.

10
11 **PURPOSE OF SUPPLEMENTAL SURREBUTTAL TESTIMONY**

12 **Q. What is the purpose of your Supplemental Surrebuttal testimony in this proceeding?**

13 A. The purpose of my Supplemental Surrebuttal testimony in this proceeding is to testify on
14 behalf of Staff regarding the additional changes Staff made to its direct testimony and
15 surrebuttal testimony after it received and reviewed the documentation from Chino
16 Meadows II Water Company ("Chino Meadows" or "Company").

17
18 **Q. Is Staff late-filing its Supplemental Surrebuttal schedules at this time?**

19 A. Yes.

20
21 **Q. Why is Staff late-filing its Supplemental Surrebuttal schedules?**

22 A. As discussed in Staff's surrebuttal testimony filed on September 19, 2011, the Company's
23 rebuttal testimony raised issues not discussed in its direct testimony and proposed
24 different treatment of some costs.

1 **Q. Did you attempt to address every issue raised by Chino Meadows in its rebuttal**
2 **testimony?**

3 A. No. I limited my discussion to certain issues as outlined below. My silence on any
4 particular issue raised in the Company's rebuttal testimony does not indicate that I agree
5 with the Company's stated rebuttal position on the issue. Rather, where I do not respond,
6 I rely on my direct testimony.

7
8 **Q. What issues will you address?**

9 A. I will address the issues listed below that are discussed in the rebuttal testimony of the
10 Company's witness Mr. Ray Jones.

11 1. Rate Base

- 12 a. Advances in Aid of Construction ("AIAC")
13 b. Contributions in Aid of Construction ("CIAC")
14 c. Amortization of CIAC
15 d. Cash Working Capital
16 e. Post Test Year Plant

17 2. Operating Income

- 18 a. Salary and Wages, Employees
19 b. Rate Case Expense
20 c. Payroll Taxes
21 d. Depreciation Expense
22 e. Income Tax Expense
23 f. Interest on Customer Deposits

24
25 **SUMMARY OF RECOMMENDED REVENUES**

26 **Q. Please summarize Staff's recommended revenue.**

27 A. Staff recommends a \$9,287 or 2.64 percent revenue decrease from \$351,633 to \$342,346.
28 Staff's recommended revenue would produce an operating income of \$20,272 for a 9.60
29 percent rate of return on an OCRB of \$211,167, as shown on Supplemental Surrebuttal
30 Schedule CSB-1. Staff's recommended rates would decrease the typical residential 5/8 x

1 3/4-inch meter bill with a median usage of 4,280 gallons from \$28.98 to \$27.70, for a
2 decrease of \$1.29 or 4.4 percent.

3
4 **Q. How does Staff's recommended revenue compare to the recommended revenue in**
5 **Staff's direct testimony?**

6 A. Staff's recommended revenue has increased by \$12,279, from \$330,067 in its direct
7 testimony to \$342,346 in its Supplemental Surrebuttal testimony due to various
8 adjustments as described below.

9
10 **RATE BASE**

11 *Rate Base Adjustment No. 1 – Advances In Aid of Construction ("AIAC")*

12 **Q. Has Staff reviewed the documentation to support the refund payments made on the**
13 **AIAC that has converted to CIAC discussed in the Company's rebuttal testimony?**

14 A. Yes.

15
16 **Q. Does Staff agree with the \$11,175 in AIAC proposed by the Company?**

17 A. Yes.

18
19 **Q. What is Staff's recommendation?**

20 A. Staff recommends decreasing AIAC by \$11,175 as shown on Supplemental Surrebuttal
21 Schedule CSB-5.

22
23 **Q. How does Staff's recommended AIAC compare to the recommended AIAC in Staff's**
24 **direct testimony?**

25 A. Staff's recommended AIAC has increased by \$1,455, from \$6,374 in Staff's direct
26 testimony to \$7,829 in its Supplemental Surrebuttal testimony.

1 *Rate Base Adjustment Nos. 2 and 3 – Contributions In Aid of Construction (“CIAC”) and*
2 *Amortization of CIAC*

3 **Q. Has Staff revised its CIAC and the amortization of CIAC recommendations based**
4 **upon documentation received from the Company?**

5 A. Yes. As previously discussed in “Rate Base Adjustment No. 1 – AIAC,” Staff has
6 reviewed the documentation the Company has provided in support of payments made on
7 the AIAC contracts that have converted to CIAC and has made the necessary revisions.

8
9 **Q. What are Staff’s recommendations?**

10 A. Staff recommends increasing CIAC by \$11,175 as shown on Supplemental Surrebuttal
11 Schedule CSB-6. Staff also recommends increasing Amortization of CIAC by \$279 as
12 shown on Supplemental Surrebuttal Schedule CSB-7.

13
14 **Q. How do Staff’s recommendations of CIAC and amortization of CIAC compare to the**
15 **recommended CIAC and amortization of CIAC in Staff’s direct testimony?**

16 A. Staff’s recommended CIAC has decreased by \$1,455, from \$25,439 in Staff’s direct
17 testimony to \$23,984 in its Supplemental Surrebuttal testimony. Also, Staff’s
18 recommended amortization of CIAC has decreased by \$37, from \$2,947 in Staff’s direct
19 testimony to \$2,910 in its Supplemental Surrebuttal testimony

20
21 *Rate Base Adjustment No. 5 - Cash Working Capital*

22 **Q. Did Staff make any adjustments to Cash Working Capital?**

23 A. Yes. Staff’s adjustment reflects Staff’s calculation of the cash working capital based upon
24 Staff’s adjusted test year operating expenses.

1 **Q. What is Staff's recommendation?**

2 A. Staff recommends decreasing cash working capital by \$6,680 as shown on Supplemental
3 Surrebuttal Schedule CSB-9.

4
5 **Q. How does Staff's recommendation of cash working capital compare to the
6 recommended cash working capital in Staff's direct testimony?**

7 A. Staff's recommended cash working capital has increased by \$1,316, from \$29,768 in
8 Staff's direct testimony to \$31,084 in its Supplemental Surrebuttal testimony.

9
10 *Rate Base Adjustment No. 6 - Post-Test Year ("PTY") Plant*

11 **Q. Has Staff reviewed the documentation in support of the \$3,500 PTY plant addition
12 proposed by the Company in its rebuttal testimony?**

13 A. Yes.

14
15 **Q. Does Staff agree with the Company's proposed PTY plant addition?**

16 A. Yes, as discussed in Staff's surrebuttal testimony, the plant is revenue neutral and was not
17 constructed for growth. Further the cost has been verified through invoices.

18
19 **Q. What is Staff's recommendation?**

20 A. Staff recommends increasing plant in service by \$3,500 as shown on Supplemental
21 Surrebuttal Schedule CSB-10.

22
23 **Q. How does Staff's recommendation of plant in service compare to the recommended
24 plant in service in Staff's direct testimony?**

25 A. Staff's recommended plant in service has increased by \$3,500, from \$761,698 in Staff's
26 direct testimony to \$765,198 in its Supplemental Surrebuttal testimony.

1 **OPERATING INCOME**

2 *Operating Income Adjustment No. 1 – Employee Salary and Wage Expense*

3 **Q. Does Staff have any additional information or revisions to its surrebuttal position**
4 **concerning salaries and wages?**

5 A. Yes. Staff has additional information concerning its recommended allocation to Granite
6 Mountain and has changed its position on the salary and wage increases that became
7 effective January 1, 2011. Staff will discuss each separately.

8
9 *Allocate \$19,563 in Employee Salary and Wage Expense to Regulated Affiliate*

10 **Q. What additional information does Staff have regarding its \$19,563 allocation to**
11 **Chino Meadow's affiliate, Granite Mountain?**

12 A. Staff has reviewed the data requests in Granite Mountain's last rate case and found that the
13 owner of Chino Meadows provided Staff with the \$19,563 allocation amount.

14
15 **Q. How did the Company calculate the \$19,563?**

16 A. The amount was 20 percent of total salary and wages according to the response to data
17 request CM5.23¹ (See Attachment A) as follows:

18 CM5.23 Please explain how the salaries allocation of 20 percent was calculated?

19 a. Granite Mountain Water Company, Inc. (GMWC) contractually
20 employed personnel of the Chino Meadows II Water Company, Inc.
21 (CMIIWC) during the test year 2007. Applicants own CMIIWC
22 and operated both companies during the test year and 2008 with the
23 same employees. They were paid by CMIIWC and no
24 reimbursement was made by GMWC. With regards to the Rate
25 Application, we anticipate that in the near future the employees of

¹ Docket Nos. W-02467A-09-0333 and W-02467A-09-0334, Granite Mountain's last rate case.

1 GMWC will be employed and paid 100% of their hourly salaries
2 and wages by the GMWC. **We further anticipate that salaries**
3 **and wages in 2009 and thereafter will be 20% of the prior**
4 **combined costs. (Emphasis added.)**
5

6 **Q. Does Staff have any other recommendations concerning the Granite Mountain**
7 **allocation?**

8 **A. Yes.**

9 a. Staff recommends that the next rate cases for Chino Meadows and Granite
10 Mountain be filed concurrently in order to properly identify and set allocated
11 costs between the two companies.
12

13 b. Staff recommends that the Company utilize the National Association of
14 Regulatory Utility Commissioners ("NARUC") Guidelines for Cost
15 Allocations and Affiliate Transactions to develop written cost allocation
16 procedures.
17

18 c. Staff recommends that the Company file with Docket Control, as a compliance
19 item in this docket, a copy of its written allocation procedures within 90 days
20 of the effective date of the Decision resulting from this proceeding. At a
21 minimum the procedures should:

- 22 1. Identify each expense to be allocated, i.e., provide a descriptive name.
- 23 2. Identify the basis of the allocation (e.g. customers, rate base, revenue,
24 expenses, four factor, time sheets, etc.)
- 25 3. Show the actual calculation used to make the allocation.
26

1 *Remove \$10,400 Pro Forma Salary and Wage Increase*

2 **Q. Has Staff made any other changes to its surrebuttal position regarding employee**
3 **salary and wages?**

4 A. Yes, Staff has reflected the \$7,280 in actual salary and wages that the Company stated
5 went into effect on January 1, 2011.

6
7 **Q. Has Staff requested additional information concerning the \$7,280?**

8 A. Yes, Staff has requested additional information.

9
10 **Q. Is Staff's recommended addition to employee salary and wages subject to true-up**
11 **based upon the documentation provided by the Company?**

12 A. Yes, Staff's adjustment is subject to true-up based upon the documentation provided by
13 the Company.

14
15 **Q. Has Staff allocated a portion of the salary and wage increase to Granite Mountain?**

16 A. Yes, as shown on Supplemental Surrebuttal Schedule CSB-13, lines 20 through 27, Staff
17 has allocated \$1,611 of the \$7,280 increase to Granite Mountain.

18
19 **Q. What is Staff's recommendation concerning the employee salary and wage increase**
20 **adjustment?**

21 A. Staff recommends increasing employee salary and wage expense by an additional \$7,280
22 to reflect actual salary and wage increases that went into effect on January 1, 2011. Staff
23 further recommends allocating \$1,611 to Granite Mountain, for a net increase of \$5,669.

24

1 **Q. How does Staff's recommendation of employee salary and wage expense compare to**
2 **the recommended employee salary and wage expense in Staff's direct testimony?**

3 A. Staff's recommended employee salary and wage expense has increased by \$5,669, from
4 \$95,108 in Staff's direct testimony to \$100,777 in its Supplemental Surrebuttal testimony.

5

6 *Operating Income Adjustment No. 8 – Rate Case Expense*

7 **Q. Did Staff review Chino Meadows' rebuttal testimony concerning rate case expense?**

8 A. Yes, the Company states that it expects to incur rate case expense of at least \$30,000.

9

10 **Q. Has Staff reviewed the documentation to support the rate case expense?**

11 A. Yes.

12

13 **Q. Does Staff agree with the Company's proposal in its rebuttal testimony to normalize**
14 **the rate case expense using four years rather than five years?**

15 A. No, Staff does not. Staff typically normalizes rate case expense using three, four, or five
16 years based upon a company's rate case filing history. Chino Meadows has not filed for a
17 rate increase in approximately fifteen years, therefore Staff continues to recommend five
18 years as the number of years over which rate case expense should be normalized.

19

20 **Q. What is Staff's recommendation?**

21 A. Staff recommends increasing rate case expense by \$5,558 as shown on Supplemental
22 Surrebuttal Schedule CSB-20.

1 **Q. How does Staff's recommendation of rate case expense compare to the recommended**
2 **rate case expense in Staff's direct testimony?**

3 A. Staff's recommended rate case expense has increased by \$4,860, from \$1,140 in Staff's
4 direct testimony to \$6,000 in its Supplemental Surrebuttal testimony.

5
6 *Operating Income Adjustment No. 11 – Payroll Taxes*

7 **Q. Did Staff make any changes to Payroll Taxes?**

8 A. Yes, Staff made two changes. First, Staff reflected the correct payroll tax balance filed by
9 the Company (i.e., \$10,804) rather than the \$22,329 reflected in Staff's direct testimony.
10 Second, Staff has decreased payroll taxes as a result of allocating a portion of these costs
11 to Granite Mountain.

12
13 **Q. What is Staff's recommendation?**

14 A. Staff recommends decreasing payroll taxes by \$1,673 as shown on Supplemental
15 *Surrebuttal Schedule CSB-23*.

16
17 **Q. How does Staff's recommendation of payroll taxes compare to the recommended**
18 **payroll taxes in Staff's direct testimony?**

19 A. Staff's recommended payroll taxes has decreased by \$11,374, from \$21,117 in Staff's
20 direct testimony to \$9,743 in its Supplemental Surrebuttal testimony.

21
22 *Operating Income Adjustment No. 12 – Depreciation Expense*

23 **Q. Did Staff make any changes to Depreciation Expense?**

24 A. Yes, as previously discussed, Staff made changes to CIAC, amortization of CIAC and
25 plant in service. These changes resulted in a change in depreciation expense. Staff

1 adjusted depreciation expense to reflect application of the Staff recommended
2 depreciation rates.

3
4 **Q. What is Staff's recommendation?**

5 A. Staff recommends increasing depreciation expense by \$14,577 as shown on Supplemental
6 Surrebuttal Schedule CSB-24.

7
8 **Q. How does Staff's recommendation of depreciation expense compare to the**
9 **recommended depreciation expense in Staff's direct testimony?**

10 A. Staff's recommended depreciation expense has increased by \$797, from \$38,912 in Staff's
11 direct testimony to \$39,709 in its Supplemental Surrebuttal testimony.

12
13 *Operating Income Adjustment No. 13 – Income Taxes*

14 **Q. Did Staff make any adjustment to the income tax expense?**

15 A. Yes. Staff's adjustment reflects the income tax obligation on Staff's adjusted test year
16 taxable income.

17
18 **Q. What is Staff's recommendation?**

19 A. Staff recommends increasing income tax expense by \$7,327 as shown on Supplemental
20 Surrebuttal Schedule CSB-24.

21
22 **Q. How does Staff's recommendation of income tax expense compare to the**
23 **recommended income tax expense in Staff's direct testimony?**

24 A. Staff's recommended income tax expense has decreased by \$2,416, from \$9,698 in Staff's
25 direct testimony to \$7,282 in its Supplemental Surrebuttal testimony.

26

1 *Operating Income Adjustment No. 14 – Interest on Customer Deposits*

2 **Q. Did Staff review the documentation supporting interest expense on customer deposits**
3 **as discussed in Chino Meadows' rebuttal testimony?**

4 A. Yes.

5
6 **Q. Does Staff agree with the proposed \$680 in interest expense?**

7 A. Yes.

8
9 **Q. What is Staff's recommendation?**

10 A. Staff recommends increasing interest on customer deposits by \$680 as shown on
11 Supplemental Surrebuttal Schedule CSB-26.

12
13 **Q. How does Staff's recommendation of interest on customer deposits compare to the**
14 **recommended interest on customer deposits in Staff's direct testimony?**

15 A. Staff's recommended interest on customer deposits has increased by \$680, from \$0 in
16 Staff's direct testimony to \$680 in its Supplemental Surrebuttal testimony.

17
18 **Q. Why do Staff's Supplemental Surrebuttal schedules reflect other adjustments that**
19 **Staff has not discussed in its Supplemental Surrebuttal testimony?**

20 A. Staff has previously discussed those other adjustments in its direct and surrebuttal
21 testimony and they remain unchanged.

22
23 **Q. Does this conclude Staff's Supplemental Surrebuttal testimony?**

24 A. Yes, it does.

REVENUE REQUIREMENT

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY ORIGINAL COST</u>	<u>[B] STAFF ORIGINAL COST</u>
1	Adjusted Rate Base	\$ 225,397	\$ 211,167
2	Adjusted Operating Income (Loss) After Income Taxes	\$ (2,278)	\$ 27,524
3	Current Rate of Return (L2 / L1)	-1.01%	13.03%
4	Required Rate of Return	10.81%	9.60%
5	Required Operating Income (L4 * L1) ¹	\$ 82,318 ¹	\$ 20,272
6	Operating Income Deficiency/(Excess) (L5 - L2) ²	\$ 88,912 ²	\$ (7,252)
7	Gross Revenue Conversion Factor	1.36990	1.28063
8	Increase (Decrease) In Gross Revenue (L7 * L6) ³	\$ 84,641 ³	\$ (9,287)
9	Adjusted Test Year Revenue	\$ 351,633	\$ 351,633
10	Proposed Annual Revenue (L8 + L9) ⁴	\$ 436,273 ⁴	\$ 342,346
11	Required Increase/(Decrease in Revenue) (%) (L8/L9)	24.07%	-2.64%

Footnotes

¹ The Company's Required Operating Income is not equal to L4 * L1

² Company's Required Operating Income Deficiency is not equal to L5 - L2

³ The Company's Increase In Gross Revenue is not equal to L7 * L6

⁴ The Company's Proposed Annual Revenue is not equal to L8 + L9

References:

Column [A]: Company Schedules A-1, C-1, C-3, & D-1

Column [B]: Staff Schedules CSB-2, CSB-3, & CSB-11

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	21.9136%			
5	Subtotal (L3 - L4)	78.0864%			
6	Revenue Conversion Factor (L1 / L5)	1.280633			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	20.9228%			
9	One Minus Combined Income Tax Rate (L7 - L8)	79.0772%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
<u>Calculation of Effective Tax Rate:</u>					
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)	15.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	13.9548%			
17	Combined Federal and State Income Tax Rate (L13 +L16)		20.9228%		
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	20.9228%			
20	One Minus Combined Income Tax Rate (L18-L19)	79.0772%			
21	Property Tax Factor (CSB-22, Col B, L24)	1.2530%			
22	Effective Property Tax Factor (L20*L21)		0.9908%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			21.9136%	
24	Required Operating Income (Schedule CSB-1, Line 5)	\$ 20,272			
25	Adjusted Test Year Operating Income (Loss) (Sch CSB-11, Col C, Line 34)	27,524			
26	Required Increase in Operating Income (L24 - L25)		\$ (7,252)		
27	Income Taxes on Recommended Revenue (Col. [C], L52)	\$ 5,364			
28	Income Taxes on Test Year Revenue (Col. [A], L52)	7,282			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		(1,919)		
30	Recommended Revenue Requirement (Schedule CSB-1, Line 10)	\$ 342,346			
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-22, Col B, L19)	\$ 12,071			
36	Property Tax on Test Year Revenue (CSB-22, Col A, L16)	12,187			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		(116)		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		\$ (9,287)		
<u>Calculation of Income Tax:</u>					
39	Revenue (Schedule CSB-11, Col. [C], Line 4 & Sch. CSB-1, Col. [D] Line 1)	Test Year \$ 351,633	Staff Recommended \$ (9,287)	\$ 342,346	
40	Operating Expenses Excluding Income Taxes	\$ 316,826	\$ (116)	\$ 316,710	
41	Synchronized Interest (L56)	\$ -		\$ -	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ 34,806		\$ 25,636	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L42 x L43)	\$ 2,425		\$ 1,786	
45	Federal Taxable Income (L42 - L44)	\$ 32,381		\$ 23,849	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 4,857		\$ 3,577	
47	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ -		\$ -	
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -		\$ -	
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	\$ 4,857		\$ 3,577	
52	Combined Federal and State Income Tax (L44 + L51)	\$ 7,282		\$ 5,364	
53	Applicable Federal Income Tax Rate [Col. [C], L51 - Col. [A], L51] / [Col. [C], L45 - Col. [A], L45]			15.0000%	
<u>Calculation of Interest Synchronization:</u>					
54	Rate Base (Schedule CSB-3, Col. (C), Line 14)	\$ 211,167			
55	Weighted Average Cost of Debt	0.0000%			
56	Synchronized Interest (L45 X L46)	\$ -			

RATE BASE - ORIGINAL COST

LINE NO.	(A)	(B)	ADJ NO.	(C)
	COMPANY AS FILED	STAFF ADJUSTMENTS		STAFF AS ADJUSTED
1	\$ 761,698	\$ 3,500	6	\$ 765,198
2	508,828	-		508,828
3	<u>\$ 252,870</u>	<u>\$ 3,500</u>		<u>\$ 256,370</u>
<u>LESS:</u>				
4	\$ 19,004	\$ (11,175)	1	\$ 7,829
5	\$ 42,208	\$ -		\$ 42,208
6	\$ 12,809	\$ 11,175	2	\$ 23,984
7	2,631	279	3	2,910
8	<u>\$ 10,178</u>	<u>10,896</u>		<u>\$ 21,074</u>
9	\$ 71,390	\$ (279)		\$ 71,111
10	\$ -	\$ 11,330	4	\$ 11,330
11	\$ -	\$ -		\$ -
<u>ADD:</u>				
12	\$ 37,764	\$ (6,680)	5	\$ 31,084
13	\$ 3,024	\$ -		\$ 3,024
14	\$ 3,129	\$ -		\$ 3,129
15	<u>\$ 225,397</u>	<u>\$ (14,230)</u>		<u>\$ 211,167</u>

References:

Column [A], Company Schedule B-1, Page 1
Column [B]: Schedule CSB-4
Column [C]: Column [A] + Column [B]

Supplemental Surrebuttal Schedule CSB-4

Chino Meadows II Water Company
 Docket No. W-02370A-10-0519
 Test Year Ended December 31, 2009

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	PLANT IN SERVICE	Acct. No. - Plant Description	(A) COMPANY AS FILED		(B) Adj No.1		(C) ADJ No.2		(D) ADJ No.3		(E) ADJ No.4		(F) ADJ No.5		(G) ADJ No.6		[H]
			Ref. Sch CSB-5	Ref. Sch CSB-6	Ref. Sch CSB-7	Ref. Sch CSB-8	Ref. Sch CSB-9	Ref. Sch CSB-10									
1		301 Organization	6,843														6,843
2		303 Land and Land Rights	15,204														15,204
3		304 Structures and Improvements	44,339														44,339
4		305 Collecting and Impound Reservoirs	4,350														4,350
5		307 Wells and Springs	27,448														27,448
6		309 Supply Mains	1,009														1,009
7		311 Pumping Equipment	46,268														46,268
8		320 Water Treatment Equipment	6,406														6,406
9		330 Distribution Reservoirs and Standpipes	51,684														51,684
10		331 Transmission and Distribution Mains	268,037														268,037
11		333 Services	30,067														30,067
12		334 Meters and Meter Installations	84,857														84,857
13		335 Hydrants	12,042														12,042
14		336 Backflow Prevention Devices	-														-
15		339 Other Plant and Miscellaneous Equipment	16,728														16,728
16		340 Office Furniture and Equipment	9,346														9,346
17		340.1 Computers and Software	-												3,500		3,500
18		341 Transportation Equipment	88,633														88,633
19		343 Tools, Shop, and Garage Equipment	949														949
20		345 Power Operated Equipment	25,405														25,405
21		346 Communication Equipment	22,084														22,084
22		347 Miscellaneous Equipment	-														-
23		Rounding	-														-
24		Total Plant in Service	761,698													3,500	765,198
25		Less: Accumulated Depreciation	508,828														508,828
26		Net Plant in Service	252,870													3,500	256,370
27																	
28		LESS:															
29		Advances in Aid of Construction (AIAC)	19,004														19,004
30		Meter Deposits - Service Line & Meter Advances	42,208														42,208
31																	
32		Contributions in Aid of Construction (CIAC)	12,809		11,175												23,984
33		Less: Accumulated Amortization of CIAC	2,631						279								2,910
34		Net CIAC	10,178		11,175				(279)								21,074
35																	
36		Total Advances and Net Contributions	71,390		11,175				(279)								71,111
37																	
38		Customer Deposits	-							11,330							11,330
39		Accumulated Deferred Taxes	-														-
40																	
41		ADD:															
42		Cash Working Capital Allowance	37,764														37,764
43		Materials and Supplies Inventories	3,024														3,024
44		Prepayments	3,129														3,129
45		Total Rate Base	225,397		11,175				279							3,500	211,167

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Supplemental Surrebuttal Schedule CSB-5

RATE BASE ADJUSTMENT NO. 1 - AIAC

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		PER COMPANY	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	AIAC - Main Line Extension Contracts	\$ 19,004	\$ (11,175)	\$ 7,829
2				
3				
4				
5		Contract		
6		Date	Name	Amount
7		6/8/1999	Allen Barras	\$ 1,320
8		9/16/1999	Hoffman	\$ 2,880
9			Vivien &	
10		10/28/1999	Sebastien Garote	\$ 1,240
11		12/15/1999	Herb Schuerman	\$ 2,640
12		12/20/1999	Lyle Garrison	\$ 4,550
13				\$ 12,630
			Less: Refunds on AIAC contracts:	\$ (1,455)
				\$ 11,175

References:

- Column A: Company Schedule B-1 and Company's Response to CSB 1-9C
- Column B: Testimony, CSB; Data Request Response CSB 1-9C; Company's rebuttal testimony
- Column C: Column [A] + Column [B]

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Supplemental Surrebuttal Schedule CSB-6

RATE BASE ADJUSTMENT NO. 2 - CIAC

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Gross CIAC	\$ 12,809	\$ 11,175	\$ 23,984

References:

Column A: Company Schedule B-2

Column B: Testimony, CSB; Data Request Response CSB 2.3; Company's rebuttal testimony

Column C: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 3 - AMORTIZATION OF CIAC

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Amortization of CIAC - Per Company	\$ 2,631	\$ -	\$ 2,631
2	Amortization of CIAC - Additions	\$ -	\$ 279	\$ 279
3		\$ 2,631	\$ 279	\$ 2,910
4				
5				
6				
7				
8				

9	Calculation of Amortization of CIAC			
10		CIAC Amortization Rate:	2.50%	From Line 23
11		CIAC:	\$ 11,175	From Line 17
12		Amortization of CIAC (Line 10 x Line 11):	\$ 279	
13				
14	Calculation of CIAC Additions			
15		Inadequately Supported Plant Treated as CIAC	\$ -	
16		AIAC Converted to CIAC	\$ 11,175	From Sch CSB-6
17		Total CIAC Additions	\$ 11,175	
18				
19				
20	Calculation of CIAC Amortization Rate			
21		Amortization Rate Used In Last Rate Case:	5.00%	
22		Multiplied by:	50.00%	Half Year Convention
23		Amortization of CIAC (Line 21 x Line 22):	2.50%	

References:

- Column A: Company Schedule B-2
- Column B: Testimony, CSB; Company's rebuttal testimony
- Column C: Column [A] + Column [B]

Chino Meadows II Water Company
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Supplemental Surrebuttal Schedule CSB-8

RATE BASE ADJUSTMENT NO. 4 - CUSTOMER DEPOSITS

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Customer Deposits	\$ -	\$ 11,330	\$ 11,330

References:

- Column A: Company Schedule B-2
- Column B: Testimony, CSB; Data Request Response CSB 1-10
- Column C: Column [A] + Column [B]

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Supplemental Surrebuttal Schedule CSB-9

RATE BASE ADJUSTMENT NO. 5 - CASH WORKING CAPITAL

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Cash Working Capital	\$ 37,764	\$ (6,680)	\$ 31,084

Operation & Maintenance *	\$	225,916
Multiplied by	x	1/8
	\$	<u>28,240</u>

Purchased Power and Purchased Water	\$	22,757
Multiplied by	x	1/24
	\$	<u>2,845</u>

Total Cash Working Capital \$ 31,084

* Less depreciation, taxes, purchased power, and purchased water.

References:

- Column A: Company Schedule B-2
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

Chino Meadows II Water Company
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Supplemental Surrebuttal Schedule CSB-10

RATE BASE ADJUSTMENT NO. 6 - POST-TEST YEAR PLANT

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Acct No. 340.1-Computers and Software	\$ -	\$ 3,500	\$ 3,500

References:

- Column A: Company Schedule B-2
- Column B: Testimony, CSB; Company's rebuttal testimony
- Column C: Column [A] + Column [B]

OPERATING INCOME - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A]	[B]	[C]	[D]	[E]
		COMPANY TEST YEAR AS FILED	STAFF TEST YEAR ADJUSTMENTS	STAFF TEST YEAR ADJ AS ADJUSTED	STAFF PROPOSED CHANGES	STAFF RECOMMENDED
REVENUES:						
1	Metered Water Sales	\$ 344,260	\$ -	\$ 344,260	\$ (9,287)	\$ 334,973
2	Water Sales - Unmetered	-	-	-	-	-
3	Other Operating Revenues	7,373	-	7,373	-	7,373
4	Total Revenues	\$ 351,633	\$ -	\$ 351,633	\$ (9,287)	\$ 342,346
EXPENSES:						
7	Salaries and Wages - Employees	\$ 126,312	\$ (25,535) 1	\$ 100,777	\$ -	\$ 100,777
8	Salaries and Wages - Officers, Dir, Stcklhdrs	35,498	(4,879) 2	30,619	-	30,619
9	Purchased Water	100	-	100	-	100
10	Purchased Power	22,657	-	22,657	-	22,657
11	Chemicals	884	-	884	-	884
12	Materials & Supplies & Repairs & Maint	16,148	-	16,148	-	16,148
13	Office Supplies & Expenses	17,050	-	17,050	-	17,050
14	Contractual Services - Engineering	-	-	-	-	-
15	Contractual Services - Accounting	600	-	600	-	600
16	Contractual Services - Legal	3,995	(2,995) 3	1,000	-	1,000
17	Contractual Services - Testing	7,062	(2,296) 4	4,766	-	4,766
18	Contractual Services - Other	9,263	-	9,263	-	9,263
19	Rents	6,000	-	6,000	-	6,000
20	Equipment Rental	246	-	246	-	246
21	Transportation Expenses	15,726	(1,582) 5	14,144	-	14,144
22	Insurance - General Liability	11,848	(3,874) 6	7,974	-	7,974
23	Insurance - Worker's Compensation	2,555	-	2,555	-	2,555
24	Insurance - Other	165	-	165	-	165
25	System Support	4,339	(1,483) 7	2,856	-	2,856
26	Reg. Comm. Exp. - Rate Case	442	5,558 8	6,000	-	6,000
27	Bad Debt Expense	1,356	-	1,356	-	1,356
28	Miscellaneous Expense	4,089	(3,486) 9	603	-	603
29	Licensing & Permits	2,910	-	2,910	-	2,910
30	Tax - Other	6,446	-	6,446	-	6,446
31	Property Taxes	22,329	(10,141) 10	12,187	(116)	12,071
32	Payroll Taxes	10,804	(1,673) 11	9,130	-	9,130
33	Depreciation	25,132	14,577 12	39,709	-	39,709
34		-	680 14	680	-	680
35	Operating Expenses Before Income Taxes	\$ 353,956	\$ (37,809)	\$ 316,826	\$ (116)	\$ 316,710
36	Income Taxes	(45)	7,327 13	7,282	(1,919)	5,364
37	Total Operating Expenses	353,911	(30,482)	324,109	(2,035)	322,074
38						
39	Operating Income (Loss)	\$ (2,278)	\$ 30,482	\$ 27,524	\$ (7,252)	\$ 20,272

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)

Chino Meadows II Water Company
Docket No. W-02370A-10-0519
Test Year Ended December 31, 2009

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Salaries & Wages Employees [Ref: Sch CSB-13]	[C] ADJ #2 Salaries & Wages Officers, Dir, Stock [Ref: Sch CSB-14]	[D] ADJ #3 Contract Services Legal [Ref: Sch CSB-15]	[E] ADJ #4 Contract Services Testing [Ref: Sch CSB-16]	[F] ADJ #5 Transportation Expense [Ref: Sch CSB-17]	[G] ADJ #6 Insurance, Liability [Ref: Sch CSB-18]	[H] ADJ #7 System Support [Ref: Sch CSB-19]	Subtotal
1	REVENUES:	\$ 344,260	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 344,260
2	Metered Water Sales	7,373	-	-	-	-	-	-	-	7,373
3	Water Sales - Unmetered	351,633	-	-	-	-	-	-	-	351,633
4	Other Operating Revenues	-	-	-	-	-	-	-	-	-
5	Total Revenues	\$ 351,633	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 351,633
6	OPERATING EXPENSES:									
7	Salaries and Wages - Employees	\$ 126,312	(25,535)	(4,879)	-	-	-	-	-	100,777
8	Salaries and Wages - Officers, Dir, Stickhdn:	35,498	-	-	-	-	-	-	-	30,619
9	Purchased Water	100	-	-	-	-	-	-	-	100
10	Purchased Power	22,657	-	-	-	-	-	-	-	22,657
11	Chemicals	884	-	-	-	-	-	-	-	884
12	Materials & Supplies & Repairs & Maint	16,148	-	-	-	-	-	-	-	16,148
13	Office Supplies & Expenses	17,050	-	-	-	-	-	-	-	17,050
14	Contractual Services - Engineering	600	-	-	-	-	-	-	-	600
15	Contractual Services - Accounting	3,995	-	-	(2,995)	-	-	-	-	1,000
16	Contractual Services - Legal	7,062	-	-	-	(2,296)	-	-	-	4,766
17	Contractual Services - Testing	9,263	-	-	-	-	-	-	-	9,263
18	Contractual Services - Other	6,000	-	-	-	-	-	-	-	6,000
19	Rents	246	-	-	-	-	-	-	-	246
20	Equipment Rental	15,726	-	-	-	-	(1,582)	-	-	14,144
21	Transportation Expenses	11,848	-	-	-	-	(3,874)	-	-	7,974
22	Insurance - General Liability	2,555	-	-	-	-	-	-	-	2,555
23	Insurance - Worker's Compensation	165	-	-	-	-	-	-	-	165
24	Insurance - Other	4,339	-	-	-	-	-	(1,483)	-	2,856
25	System Support	442	-	-	-	-	-	-	-	442
26	Reg. Comm. Exp. - Rate Case	1,356	-	-	-	-	-	-	-	1,356
27	Bad Debt Expense	4,089	-	-	-	-	-	-	-	4,089
28	Miscellaneous Expense	2,910	-	-	-	-	-	-	-	2,910
29	Licensing & Permits	6,446	-	-	-	-	-	-	-	6,446
30	Tax - Other	22,329	-	-	-	-	-	-	-	22,329
31	Property Taxes	10,804	-	-	-	-	-	-	-	10,804
32	Payroll Taxes	25,132	-	-	-	-	-	-	-	25,132
33	Depreciation	-	-	-	-	-	-	-	-	-
34	Interest on Customer Deposits	\$ 353,956	(25,535)	(4,879)	(2,995)	(2,296)	(1,582)	(3,874)	(1,483)	\$ 311,312
35	Operating Expenses Before Income Taxes	(45)	-	-	-	-	-	-	-	(45)
36	Income Taxes	\$ 353,911	(25,535)	(4,879)	(2,995)	(2,296)	(1,582)	(3,874)	(1,483)	\$ 311,267
37	Total Operating Expenses									
38	Operating Income (Loss)	(2,276)	25,535	4,879	2,995	2,296	1,582	3,874	1,483	40,365

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR CONTINUED

LINE NO.	DESCRIPTION	(I) ADJ #8	(J) ADJ #9	(K) ADJ #10	(L) ADJ #11	(M) ADJ #12	(N) ADJ #13	(O) ADJ #14	STAFF ADJUSTED
REVENUES:									
1	Metered Water Sales								7,373
2	Water Sales - Unmetered								351,633
3	Other Operating Revenues								
4	Total Revenues								359,006
OPERATING EXPENSES:									
6	Salaries and Wages - Employees								100,777
7	Salaries and Wages - Officers, Dir, Scklhdns								30,619
8	Purchased Water								100
9	Purchased Power								22,657
10	Chemicals								884
11	Materials & Supplies & Repairs & Maint								16,148
12	Office Supplies & Expenses								17,050
13	Contractual Services - Engineering								600
14	Contractual Services - Accounting								1,000
15	Contractual Services - Legal								4,766
16	Contractual Services - Testing								9,263
17	Contractual Services - Other								6,000
18	Rents								246
19	Equipment Rental								14,144
20	Transportation Expenses								7,974
21	Insurance - General Liability								2,555
22	Insurance - Worker's Compensation								165
23	Insurance - Other								2,856
24	System Support								6,000
25	Reg. Comm. Exp. - Rate Case								1,356
26	Bad Debt Expense								603
27	Miscellaneous Expense		(3,486)						2,910
28	Licensing & Permits								6,446
29	Tax - Other								12,187
30	Property Taxes			(10,141)					9,130
31	Payroll Taxes				(1,673)				39,709
32	Depreciation					14,577			680
33	Interest on Customer Deposits								680
34	Operating Expenses Before Income Taxes		(3,486)	(10,141)	(1,673)	14,577			316,826
35	Income Taxes						7,327		7,282
36	Total Operating Expenses		(3,486)	(10,141)	(1,673)	14,577	7,327		324,109
37	Operating Income (Loss)							(680)	27,524

OPERATING INCOME ADJUSTMENT NO. 1 - SALARY AND WAGES, EMPLOYEES

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Salary & Wages, Employees	\$ 126,312	\$ (25,535)	\$ 100,777
2				
3				
4				
5				
6				
7				
8	To remove salaries & wages provided for in Granite Mountain rate case		\$ (19,563)	Docket No. W-02467A-09-0333
9	To remove \$10,400 salary and wage increase pro forma adjustment		\$ (10,400)	Data Request Response CSB 1-1
10	To reflect \$1 wage increase that became effective on February 8, 2010		\$ 2,080	Data Request Response CSB 4-4
11	To annualize \$2 wage increase that occurred on April 1, 2009 (CSB 1-1b)		\$ 1,040	(2,080 hrs / 12) x 3 months x \$2
12	To reflect salary & wage increase that became effective on January 1, 2011		\$ 7,280	Company's rebuttal p. 10, line 17
13	To reflect Granite Mtn.'s allocation of increases effective on January 1, 2011		\$ (1,611)	From line 27
14	To normalize overtime charges		\$ (2,761)	From line 40
15	To remove bonuses		\$ (1,600)	Per GL acct no. 6601.00
16	Total		\$ (25,535)	

Salaries & Wages Employees

Calculation of Granite Mtn.'s Allocation of Salary & Wage Increase		
	\$ 19,563	Docket No. W-02467A-09-0333
Divided by	\$ 126,312	Salary and wage per Company
	15.49%	Granite Mountain allocation percentage
Multiplied by	\$ 10,400	(\$2,080+\$1,040+\$7,280) From lines 11, 12, & 13
	\$ 1,611	Salary and wage increase allocated to Granite Mtn

Normalized Overtime Charges

2007	\$ 1,575
2008	\$ 3,798
2009	\$ 6,828
	\$ 12,201
Divided by 3 years	3
Staff's normalized overtime charges	\$ 4,067
Company proposed overtime charges	\$ 6,828
Staff's adjustment	\$ (2,761)

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB; Data Request Response CSB 1-1b, 1-15d, CSB 1-32, CSB 4-4, CSB 4-9, & Sch CRM-3 in Docket No W-02467A-09-0333
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 2 - SALARY AND WAGES, OFFICERS, DIRECTORS, STOCKHOLDERS

LINE NO.	DESCRIPTION	[A]	[B]	[C]		
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED	[D] Hours Worked Per Week	[E] Hours Worked Per Month
1	Salary & Wages, Officers, Directors, Stockholders	35,498	\$ (4,879)	\$ 30,619		
2						
3						
4						
5						
6						
7						
8	Supervision and management of company personnel				3	12
9	Review of fiduciary responsibilities including accounts payable and accounts receivable				3	12
10	Review payroll				1	4
11	Sign checks for payroll and accounts payable				1	4
12	Meet with Company mgmnt to address concerns, equipment repair and/or water plant facilities				5	20
13	Project management				0	0
14	Acquire regulate and oversee company loans and long-term debts				2	8
15	Ensuring that proper equipment and procedures are in place to adequately supply drinking water				2	8
16	Review & advise Company on manuals such as employee handbook & emergency response manual				0	1
17					17	69
18		$\$35,498 / (80 \text{ hrs per month} \times 12 \text{ months}) = \$35,498 / 960 \text{ hrs} = \36.98			x	\$36.98
19						\$2,551.62
20						x 12 months
21						\$30,619.44

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB; CSB 1-16e, CSB 1-16f, CSB 4-3
- Column C: Column [A] + Column [B]

Chino Meadows II Water Company
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Supplemental Surrebuttal Schedule CSB-15

OPERATING INCOME ADJUSTMENT NO. 3 - CONTRACT SERVICES LEGAL

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Contract Services - Legal	\$ 3,995	\$ (2,995)	\$ 1,000
2				
3				
4				
5				
6				
7				
8	To remove costs related to the potential sale of the Company		\$ (3,995)	
9	To provide for a reasonable level of ongoing legal expense		\$ 1,000	
10	Staff's adjustment		\$ (2,995)	

Contract Services Legal

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB; Company Data Request Responses to CSB 1-23
- Column C: Column [A] + Column [B]

Chino Meadows II Water Company
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Supplemental Surrebuttal Schedule CSB-16

OPERATING INCOME ADJUSTMENT NO. 4 - CONTRACT SERVICES TESTING

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Contract Services - Testing	\$ 7,062	\$ (2,296)	\$ 4,766

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 5 - TRANSPORTATION EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Transportation Expense	15,726	\$ (1,582)	\$ 14,144

Transportation Expense			
	Amount Before Allocation	Allocation Percentage	Allocated Amount
Chino Meadows	\$ 15,726.00	0.899383984	\$ 14,143.71
Granite Mountain	\$ 15,726.00	0.100616016	\$ 1,582.29
		1.000000	\$ 15,726.00

Number of Customers by Company			
Source: Chino Meadows, application; Granite Mtn, 2009 Annual Report, p. 12			
	Chino Meadows	Granite Mountain	Total
No. of Customers	876	98	974
No. of Customers Allocation %:	0.89938398	0.100616016	1.00

References:

- Column A: Company Schedule C-1 & E-2
- Column B: Testimony, CSB; Data Request CSB 1.29
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 6- INSURANCE, GENERAL LIABILITY

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Insurance, General Liability	11,848	\$ (3,874)	\$ 7,974

Transportation Expense			
	Amount Before Allocation	Allocation Percentage	Allocated Amount
Chino Meadows	\$ 11,848.00	0.673030810	\$ 7,974.07
Granite Mountain	\$ 11,848.00	0.326969190	\$ 3,873.93
		1.000000	\$ 11,848.00

Calculation of Two-Factor Allocation				
	[A]	[B]	[C]	[D]
	Number of Customers	Net Plant	Total (Col A+B)	Allocation % (Col C / 2)
Chino Meadows	0.90	0.4	1.35	0.673030810
Granite Mountain	0.10	0.55	0.65	0.326969190
	1.00000000	1.00000000	2.00000000	1.00000000

Number of Customers by Company				
Source: Chino Meadows, application; Granite Mtn, 2009 Annual Report, p. 12, Ant Lks CSB 4-8				
	Chino Meadows	Granite Mountain	Antelope Lakes	Total
No. of Customers	876	98	-	974
No. of Customers Allocation %:	0.90	0.10	0.00	1.00

Net Plant by Company				
Source: Chino Meadows, Sch CSB-3; Granite Mtn, 2009 Annual Report, p. 12				
	Chino Meadows	Granite Mountain	Antelope Lakes	Total
Net Plant	252,870	313,243	-	566,113
Net Plant Allocation %:	0.4	0.55	0.00	1.0

References:

- Column A: Company Schedule C-1 & E-2
- Column B: Testimony, CSB; Data Request CSB 1.29
- Column C: Column [A] + Column [B]

Chino Meadows II Water Company
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Supplemental Surrebuttal Schedule CSB-19

OPERATING INCOME ADJUSTMENT NO. 7 - SYSTEM SUPPORT

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	System Support	\$ 4,339	\$ (1,483)	\$ 2,856

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

Chino Meadows II Water Company
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OPERATING INCOME ADJUSTMENT NO. 8 - RATE CASE EXPENSE

LINE NO.	Description	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Rate Case Expense	\$ 442	\$ 5,558	\$ 6,000

	Per Company	Difference	Per Staff
	\$ 1,326	\$ 28,674	\$ 30,000
Divided by	3	2	5
	442	5,558	6,000

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

Chino Meadows II Water Company
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Supplemental Surrebuttal Schedule CSB-21

OPERATING INCOME ADJUSTMENT NO. 9 - MISCELLANEOUS EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Miscellaneous Expense	\$ 4,089	\$ (3,486)	\$ 603

Out of Test Year Expense (Payment on old bank debt) \$ 1,237.00

Gifts	\$ 38.40
Food & Beverages	\$ 1,002.39
Luncheons & Dinners	\$ 758.45
Employee Parties	\$ 449.79
Subtotal	\$ 2,249.03
Total	\$ 3,486.03

References:

Column A: Company Schedule C-2

Column B: Testimony, CSB; Data Request CSB 1-18 & 1-29

Column C: Column [A] + Column [B]

Chino Meadows II Water Company
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Supplemental Surrebuttal Schedule CSB-22

OPERATING INCOME ADJUSTMENT NO. 10 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 351,633	\$ 351,633
2	Weight Factor	<u>2</u>	<u>2</u>
3	Subtotal (Line 1 * Line 2)	703,265	\$ 703,265
4	Staff Recommended Revenue, Per Schedule CSB-1	<u>351,633</u>	<u>\$ 342,346</u>
5	Subtotal (Line 4 + Line 5)	1,054,898	1,045,611
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	351,633	\$ 348,537
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	703,265	\$ 697,074
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	54,837	\$ 54,837
12	Full Cash Value (Line 9 + Line 10 - Line 11)	648,428	\$ 642,237
13	Assessment Ratio	21.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	136,170	\$ 134,870
15	Composite Property Tax Rate	<u>8.9500%</u>	<u>8.9500%</u>
			\$ -
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 12,187	
17	Company Proposed Property Tax	<u>22,329</u>	
18	Staff Test Year Adjustment (Line 16-Line 17)	<u>\$ (10,141)</u>	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 12,071
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 12,187
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		<u>\$ (116)</u>
22	Increase to Property Tax Expense		\$ (116)
23	Increase in Revenue Requirement		(9,287)
24	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		1.253000%

Chino Meadows II Water Company
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Supplemental Surrebuttal Schedule CSB-23

OPERATING INCOME ADJUSTMENT NO. 11 - PAYROLL TAXES

LINE NO.	DESCRIPTION	[A]	[B]	[C]	
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED	
1	Total Payroll Taxes	\$ 10,804	\$ -	\$ 10,804	Remove \$1,212 adjustment
2	Payroll Taxes allocated to Granite Mountain	\$ -	\$ (1,673)	\$ (1,673)	
3	Payroll Taxes allocated to Chino Meadows	\$ 10,804	\$ (1,673)	\$ 9,131	
			\$ 10,804		Total payroll taxes
			15.49%		Granite Mountain allocation percentage
			\$ 1,673		Amount to be allocated to Granite Mountain

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB;
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 12 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	DESCRIPTION	(A) PLANT In SERVICE Per Staff	(B) NonDepreciable & Fully Depreciated PLANT	(C) DEPRECIABLE PLANT (Col A - Col B)	(D) DEPRECIATION RATE	(E) DEPRECIATION EXPENSE (Col C x Col D)
1	301 Organization	\$ 6,843	\$ 6,843	\$ -	0.00%	\$ -
2	303 Land and Land Rights	15,204	15,204	-	0.00%	-
3	304 Structures and Improvements	44,339	-	44,339	3.33%	1,476
4	305 Collecting and Impound Reservoirs	4,350	-	4,350	2.50%	109
5	307 Wells and Springs	27,448	9,096	18,352	3.33%	611
6	309 Supply Mains	1,009	-	1,009	2.00%	20
7	311 Pumping Equipment	46,268	-	46,268	12.50%	5,783
8	320 Water Treatment Equipment	6,406	-	6,406	3.33%	213
9	330 Distribution Reservoirs and Standpipes	51,684	21,661	30,023	2.22%	667
10	331 Transmission and Distribution Mains	268,037	167,988	100,049	2.00%	2,001
11	333 Services	30,067	7,181	22,886	3.33%	762
12	334 Meters and Meter Installations	84,857	-	84,857	8.33%	7,069
13	335 Hydrants	12,042	-	12,042	2.00%	241
14	336 Backflow Prevention Devices	-	-	-	6.67%	-
15	339 Other Plant and Miscellaneous Equipment	16,728	1,305	15,423	6.67%	1,029
16	340 Office Furniture and Equipment	9,346	-	9,346	6.67%	623
17	340.1 Computers and Software	3,500	-	3,500	20.00%	700
18	341 Transportation Equipment	88,633	-	88,633	20.00%	17,727
19	343 Tools, Shop, and Garage Equipment	949	-	949	5.00%	47
20	345 Power Operated Equipment	25,405	18,377	7,028	5.00%	351
21	346 Communication Equipment	22,084	-	22,084	10.00%	2,208
22	347 Miscellaneous Equipment	-	-	-	10.00%	-
24	Total Plant	\$ 765,198	\$ 225,608	\$ 517,543		\$ 41,638

31	Composite Depreciation Rate (Depr Exp / Depreciable Plant):	8.05%
32	CIAC: \$	23,984
33	Amortization of CIAC (Line 32 x Line 33): \$	1,930
34	Depreciation Expense Before Amortization of CIAC: \$	41,638
	Less Amortization of CIAC: \$	1,930
	Test Year Depreciation Expense - Staff: \$	39,709
	Depreciation Expense - Company: \$	25,132
	Staff's Total Adjustment: \$	14,577

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]

OPERATING INCOME ADJUSTMENT NO. 13 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	(A)	(B)
<i>Calculation of Income Tax:</i>			
1	Revenue	\$ 351,633	
2	Less: Operating Expenses - Excluding Income Taxes	\$ 316,826	
3	Less: Synchronized Interest (L17)	\$ -	
4	Arizona Taxable Income (L1- L2 - L3)	\$ 34,808	
5	Arizona State Income Tax Rate	6.968%	
6	Arizona Income Tax (L4 x L5)		\$ 2,425
7	Federal Taxable Income (L4 - L6)	\$ 32,381	
8	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 4,857	
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		\$ 4,857
14	Combined Federal and State Income Tax (L6 + L13)		<u>\$ 7,282</u>
<i>Calculation of Interest Synchronization:</i>			
15	Rate Base (Schedule CSB-13, Col. (C), Line 16)	\$ 211,167	
16	Weighted Average Cost of Debt	<u>0.00%</u>	
17	Synchronized Interest (L16 x L17)	<u>\$ -</u>	
18	Income Tax - Per Staff	\$ 7,282	
19	Income Tax - Per Company	\$ (45)	
20	Staff Adjustment	\$ 7,327	

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Supplemental Surrebuttal Schedule CSB-26

OPERATING INCOME ADJUSTMENT NO. 14 - INTEREST ON CUSTOMER DEPOSITS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Interest on customer deposits	\$ -	\$ 680	\$ 680

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB;
- Column C: Column [A] + Column [B]

RATE DESIGN

Monthly Customer Charge:	Present	Company	Staff
	Rates	Proposed	Recommended
5/8" x 3/4" Meter	\$18.75	\$23.26	\$17.75
3/4" Meter	28.13	34.90	26.63
1" Meter	46.88	58.16	44.38
1 1/2" Meter	93.75	116.32	88.75
2" Meter	150.00	186.11	142.00
3" Meter	N/A	418.74	266.25
4" Meter	N/A	701.62	443.75
6" Meter	N/A	1,395.79	887.50

Gallons included in Monthly Customer Charge: 1,000 1,000 0

Commodity Charges - Per 1,000 Gallons of Usage

Per 1,000 gallons for all usage \$ 3.12 N/A N/A

In Excess of 1,000 Gallons for All Meter Sizes

0 to 10,000 Gallons	N/A	\$3.52	N/A
10,001 to 20,000 Gallons	N/A	\$3.75	N/A
All Gallons in Excess of 20,000	N/A	\$4.34	N/A
0 to 3,000 Gallons	N/A	N/A	\$2.10
3,001 to 8,000 Gallons	N/A	N/A	\$2.85
All Gallons in Excess of 8,000	N/A	N/A	\$3.80

Service Line and Meter Installation Charges

	Present	Company Proposed			Staff Recommended		
	Rates	Services	Meters	Total	Services	Meters	Total
5/8" x 3/4" Meter	\$350.00	\$406.00	\$95.00	\$500.00	\$406.00	\$95.00	\$501.00
3/4" Meter	360.00	413.00	162.00	\$575.00	413.00	162.00	\$575.00
1" Meter	420.00	441.00	209.00	\$650.00	441.00	209.00	\$650.00
1 1/2" Meter	540.00	395.00	321.00	\$716.00	395.00	321.00	\$716.00
2" Meter	660.00	727.00	845.00	\$1,572.00	727.00	845.00	\$1,572.00
3" Meter	N/A	852.00	1,448.00	\$2,400.00	952.00	1,448.00	\$2,400.00
4" Meter	N/A	1,310.00	2,206.00	\$3,516.00	1,310.00	2,206.00	\$3,516.00
6" Meter	N/A	2,160.00	4,756.00	\$6,916.00	2,160.00	4,756.00	\$6,916.00

Service Charges

Establishment	\$15.00	\$25.00	\$25.00
Establishment (After Hours)	30.00	35.00	Eliminate
Reconnection (Delinquent)	22.00	35.00	30.00
Reconnection (Delinquent) After Hours	N/A	45.00	Eliminate
After Hours Charge (Flat Rate)	N/A	N/A	25.00
Meter Test (If Correct)	15.00	35.00	20.00
Deposit	*	*	*
Deposit Interest (Per Year)	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	15.00	20.00	20.00
Deferred Payment (Per Month)	1.50%	1.00%	1.50%
Meter Re-Read (If Correct)	12.00	15.00	15.00
Late Fee (Per Month)	N/A	***	1.50%

Monthly Service Charge for Fire Sprinkler

4" or Smaller	N/A	N/A	****
6"	N/A	N/A	****
8"	N/A	N/A	****
10"	N/A	N/A	****
Larger than 10"	N/A	N/A	****

* Per Commission Rules (R14-2-403.B)
** Months off system times the minimum (R14-2-403.D)
*** 1.50 percent of unpaid balance per month
**** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

TYPICAL BILL ANALYSIS
General Service 5/8 x 3/4 - Inch Meter

Average Number of Customers: 876

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	5,348	\$32.32	\$38.56	\$6.25	19.3%
Median Usage	4,280	\$28.98	\$34.80	\$5.82	20.1%
<u>Staff Proposed</u>					
Average Usage	5,348	\$32.32	\$30.74	(\$1.57)	-4.9%
Median Usage	4,280	\$28.98	\$27.70	(\$1.29)	-4.4%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$18.75	\$23.26	24.1%	\$17.75	-5.3%
1,000	18.75	23.26	24.1%	19.85	5.9%
2,000	21.87	26.78	22.5%	21.95	0.4%
3,000	24.99	30.30	21.2%	24.05	-3.8%
4,000	28.11	33.82	20.3%	26.90	-4.3%
5,000	31.23	37.34	19.6%	29.75	-4.7%
6,000	34.35	40.86	19.0%	32.60	-5.1%
7,000	37.47	44.38	18.4%	35.45	-5.4%
8,000	40.59	47.90	18.0%	38.30	-5.6%
9,000	43.71	51.42	17.6%	42.10	-3.7%
10,000	46.83	54.94	17.3%	45.90	-2.0%
15,000	62.43	73.69	18.0%	64.90	4.0%
20,000	78.03	92.44	18.5%	83.90	7.5%
25,000	93.63	114.14	21.9%	102.90	9.9%
50,000	171.63	222.64	29.7%	197.90	15.3%
75,000	249.63	331.14	32.7%	292.90	17.3%
100,000	327.63	439.64	34.2%	387.90	18.4%
125,000	405.63	548.14	35.1%	482.90	19.0%
150,000	483.63	656.64	35.8%	577.90	19.5%
175,000	561.63	765.14	36.2%	672.90	19.8%
200,000	639.63	873.64	36.6%	767.90	20.1%

October 19, 2009

Response to Staff's Fifth Set of Data Requests to Granite Mountain Water Company, Inc.

Docket Nos: W-02467A-09-0333 and W-02467A-09-0334

a detailed lead schedule for these invoices as a cover/checklist sheet listing the invoices by date, invoice number and amount.

a. McMMain & Sons Excavation Inc was contracted to complete the water infrastructure for Granite Mountain Water Company, as part of Equestrian Development Inc's Granite Mountain Homesites, Unit 5, Phase 3 "Levie Lane". Attached as (Exhibit CM 5.18) is the invoice from the contracted company in the amount of \$78,655.00.

CM 5.19 Is the \$125,000 line of credit with Chase Bank in the Company's name or in the name of some other individual or entity? Please provide copies of the loan documents.

a. The \$125,000 line of credit with JPMorgan Chase Bank is in the name of Granite Mountain Water Company, Inc. Please see attached (Exhibit CM5.19) for proof.

CM5.20 What is the cost of the new 50,000 gallon water storage tank?

a. Please find attached as (Exhibit CM5.20) the costs associated to the new 50,000 gallon tank and subsequently required retaining wall.

CM 5.21 Please provide invoices to verify the cost of the new water storage tank.

a. Please find attached as (Exhibit CM5.21) the invoices associated to the new 50,000 gallon tank and subsequently required retaining wall.

CM5.22 Please provide the names of the shareholders of the Company.

a. As shown on the original rate application (<http://images.edocket.azcc.gov/docketpdf/0000100344.pdf> Page 9 of 242) the shareholders of Granite Mountain Water Company, Inc. are:
Paul D. Levie and Rae Levie

CM5.23 Please explain how the salaries allocation of 20 percent was determined.

a. Granite Mountain Water Company, Inc. (GMWC) contractually employed personnel of the Chino Meadows II Water Company, Inc. (CMIIWC) during the test year of 2007. Applicants own CMIIWC and operated both companies during the test year and 2008 with the same employees. They were paid by CMIIWC and no reimbursement was made by GMWC. With regards to the Rate Application, we anticipate that in the near future the employees of GMWC will be employed and paid 100% of their hourly compensation by the GMWC. We further anticipate that salaries and wages in 2009 and thereafter will be 20% of the prior combined costs.

b. The applicable salary projections were designated as twenty percent by the company president as a sound business and accounting estimate, based on the potential pending sale of Chino Meadows II Water Company, Inc. As advised, "In the past Granite Mountain Water Company and Chino Meadows II Water Company have operated somewhat in conjunction with one another - office and field staff are used to operate both". Overall