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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 ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FURNISHED BY ITS WESTERN GROUP AND FOR CERTAIN RELATED APPROVALS.	DOCKET NO. W-01445A-10-0517 **STAFF'S NOTICE OF FILING DIRECT TESTIMONY**

Staff of the Arizona Corporation Commission ("Staff") hereby files the Direct Testimonies of Jeffrey M. Michlik and Katrin Stukov in the above-referenced matter.

RESPECTFULLY SUBMITTED this 5th day of December, 2011.

Arizona Corporation Commission
DOCKETED
DEC - 5 2011
DOCKETED BY

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BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE
Chairman
BOB STUMP
Commissioner
SANDRA D. KENNEDY
Commissioner
PAUL NEWMAN
Commissioner
BRENDA BURNS
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IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY, AND FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FURNISHED BY ITS WESTERN GROUP AND FOR CERTAIN RELATED APPROVALS.	)	DOCKET NO. W-01445A-10-0517

DIRECT

TESTIMONY

OF

JEFFREY M. MICHLIK

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

DECEMBER 5, 2011

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EXECUTIVE SUMMARY
ARIZONA WATER COMPANY
WESTERN GROUP
DOCKET NO. W-01445A-10-0517

Arizona Water Company ("Company" or "AWC") is a certificated Arizona public service corporation that provides water service throughout the State of Arizona. The Company's water systems are grouped into the Northern, Eastern, and Western Groups. The Northern group is comprised of the Navajo and Verde Valley Water Systems; the Eastern group is comprised of the Superstition, Cochise, and Falcon Valley Water Systems; the Western group is comprised of the Pinal Valley, White Tank and Ajo Water Systems. The Company's last rate increase was approved in Decision No. 71845 dated August 24, 2010.

On December 29, 2010, the Company filed a rate application for its Western Group: Pinal Valley Water System (comprised of the Casa Grande, Coolidge, and Stanfield sub-systems); White Tank Water system; and Ajo Water System.

On May 9, 2011, the Company filed an amended application.

The testimony of Jeffery M. Michlik presents Staff's recommendations in the areas of rate base, operating income, rate of return, revenue requirement, distribution system improvement charge ("DSIC"), arsenic cost recovery mechanism ("ACRM"), and Central Arizona Project ("CAP") and off-site facilities hook-up fee tariffs.

Rate Application:

Pinal Valley Water System

The Company proposes rates that would increase operating revenue by $3,919,673 to produce operating revenue of $20,491,721 resulting in operating income of $4,509,311, or a 23.65 percent increase over test year revenue of $16,572,048. The Company also proposes a fair value rate base ("FVRB") of $47,398,030 which is its original cost rate base ("OCRB"), and a 9.51 percent rate of return on the FVRB.

Staff recommends rates that would increase operating revenue by $2,083,848 to produce operating revenue of $18,741,389 resulting in operating income of $3,939,477, or a 12.51 percent increase over adjusted test year revenue of $16,657,541. Staff recommends an OCRB and a FVRB of $46,898,537 and an 8.40 percent rate of return on the FVRB.

White Tank Water System

The Company proposes rates that would increase operating revenue by $624,449 to produce operating revenue of $2,208,920 resulting in operating income of $540,594, or a 39.41 percent increase over test year revenue of $1,584,471. The Company also proposes a FVRB of $5,682,264, which is its OCRB, and a 9.51 percent rate of return on the FVRB.

Staff recommends rates that would increase operating revenue by $478,324 to produce operating revenue of $2,060,889 resulting in operating income of $474,780, or a 30.22 percent increase over adjusted test year revenue of $1,582,565. Staff recommends an OCRB and a FVRB of $5,652,142 and an 8.40 percent rate of return on the FVRB.

Ajo Water System

The Company proposes rates that would increase operating revenue by $19,988 to produce operating revenue of $529,583 resulting in operating income of $94,424, or a 3.92 percent increase over test year revenue of $509,594. The Company also proposes a FVRB of $992,500, which is its OCRB, and a 9.51 percent rate of return on the FVRB.

Staff recommends rates that would decrease operating revenue by $41,676 to produce operating revenue of $474,018 resulting in operating income of $82,962 or an 8.08 percent decrease from adjusted test year revenue of $515,694. Staff recommends an OCRB and a FVRB of $987,646 and an 8.40 percent rate of return on the FVRB.

Other items:

The Company seeks Commission approval (1) to continue its ACRM, (2) to continue its CAP hook-up fees (3) to implement a DSIC, and (4) to implement an off-site facilities hookup fee.

Staff recommends approval of the Company's proposal to continue the existing ACRM and CAP hook-up fee tariff.

Staff recommends denial of the Company's proposed DSIC adjuster mechanism.

Staff also recommends approval of the Company's newly-proposed off-site facilities hookup fee tariff (also see testimony of Staff Engineer Katrin Stukov).

I. INTRODUCTION

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

A. My name is Jeffrey M. Michlik. I am a Public Utilities Analyst V employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Briefly describe your responsibilities as a Public Utilities Analyst V.

A. In my capacity as a Public Utilities Analyst V, I analyze and examine accounting, financial, statistical and other information and prepare reports and provide expert testimony based on my analyses that present Staff's recommendations to the Commission on utility revenue requirements, rate design and other matters.

Q. Please describe your educational background and professional experience.

A. In 2000, I graduated from Idaho State University, receiving a Bachelor of Business Administration Degree in Accounting and Finance, and I am a Certified Public Accountant with the Arizona State Board of Accountancy. I have attended the National Association of Regulatory Utility Commissioners' ("NARUC") Utility Rate School, which presents instruction on general regulatory and business issues.

I joined the Commission as a Public Utilities Analyst in May of 2006. Prior to employment with the Commission, I worked four years for the Arizona Office of the Auditor General as a Staff Auditor, and one year in public accounting as a Senior Auditor.

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

A. I am presenting Staff's analysis and recommendations regarding Arizona Water Company's ("Company" or "AWC") application for a permanent rate increase for its

Western Group, which is comprised of Pinal Valley Water System, White Tank Water System, and Ajo Water System. I am presenting testimony and schedules addressing rate base, operating revenues and expenses, rate of return, revenue requirement, distribution system improvement charge ("DSIC"), arsenic cost recovery mechanism ("ACRM"), and Central Arizona Project ("CAP") and off-site facilities hook-up fee tariffs. Staff witness Bentley Erdwurm is presenting Staff's rate design. Katrin Stukov is presenting Staff's engineering analysis and related recommendations.

Q. What is the basis of your testimony in this case?

A. I performed a regulatory audit of the Company's application and records. The regulatory audit consisted of examining and testing financial information, accounting records, and other supporting documentation and verifying that the accounting principles applied were in accordance with the Commission-adopted NARUC Uniform System of Accounts ("USOA").

Q. How is your testimony organized?

A. My testimony is presented in 13 sections. Section I is this introduction. Section II provides a background of the Company. Section III is a summary of consumer service issues. Section IV presents compliance status. Section V is a summary of the Company's consolidation. Section VI is a summary of the Company's filing and Staff's rate base and operating income adjustments. Section VII presents Staff's rate base recommendations. Section VIII presents Staff's operating income recommendations. Section IX presents Staff's cost of capital. Section X presents Staff's recommendation on the DSIC. Section XI presents Staff's recommendation on the CAP hook-up fee. Section XII presents Staff's recommendation on the ACRM. Section XIII presents Staff's recommendation on the off-site facilities hook-up fee.

II. BACKGROUND

Q. Please review the background of this application.

A. AWC is a certificated Arizona public service corporation that provides water service throughout the state of Arizona. The Company's water systems are grouped into the Northern, Eastern, and Western Groups. The Northern group is comprised of the Navajo and Verde Valley Water Systems; the Eastern group is comprised of the Superstition, Cochise, and Falcon Valley Water Systems; and the Western group is comprised of the Pinal Valley, White Tank and Ajo Water Systems. The Company's last rate increase was approved in Decision No. 71845 dated August 24, 2010.

On December 29, 2010, the Company filed a rate application for its Western Group: Pinal Valley Water System (comprised of the Casa Grande, Coolidge, and Stanfield sub-systems); White Tank Water System; and Ajo Water System.

On May 9, 2011, the Company filed an amended application.

III. CONSUMER SERVICES

Q. Please provide a brief history of customer complaints received by the Commission regarding the Company. Additionally, please discuss customer responses to the Company's proposed rate increase.

A. A review of the Commission's Consumer Services database for the Company from January 1, 2008, to November 22, 2011, revealed the following:

2011 – Eighteen complaints (seven billing, four new service, five service, one quality of service, one repair) and seven opinions opposed to the rate increase.

2010 – Nineteen complaints (eight billing, one deposit, one new service, seven quality of service, two disconnects).

2009 – Twenty-two complaints (six billing, two new service, one service, five quality of service, seven disconnects, one repair).

2008 – Seven complaints (six billing, one new service).

All complaints have been resolved and closed.

IV. COMPLIANCE

Q. Please provide a summary of the compliance status of the Company.

A. The ACC's Compliance database indicates that there are currently no delinquencies for the Company.

V. CONSOLIDATION

Q. Is the Company proposing to continue the consolidation process for its Western Group water systems that began in its prior rate case?

A. Yes. The Company is taking small, gradual steps toward consolidation.

Q. What systems does the Company propose to consolidate in this rate proceeding?

A. In the prior Decision, Casa Grande, Coolidge, and Stanfield (collectively known as Pinal Valley Water System) were consolidated for accounting purposes. However, for rate purposes, only Casa Grande and Coolidge were fully-consolidated. Stanfield maintained a separate commodity rate. The Company proposes to fully consolidate the rates of all three sub-systems in this proceeding.

The Company also proposes to consolidate the Pinal Valley and White Tank Water systems for accounting purposes. For the rates, full consolidation is proposed for the residential and commercial rates in these two systems. The Company proposes to consolidate the monthly minimum charges for the industrial class for these two systems in

the current proceeding, and postpone consolidation of the commodity rates to a future rate case.

Q. Is Staff in agreement with the Company's proposed gradual consolidation plan?

A. Staff agrees with pursuing full consolidation in gradual steps. Staff will present its specific recommendations regarding consolidation as part of its rate design testimony.

VI. SUMMARY OF FILING, RECOMMENDATIONS, AND ADJUSTMENTS

Q. Please summarize the Company's proposals in this filing for each of its systems in the Western Group.

A. The Company has proposed the following for each of its individual systems in the Western Group.

Pinal Valley Water System

The Company proposes rates that would increase operating revenue by $3,919,673 to produce operating revenue of $20,491,721 resulting in operating income of $4,509,311, or a 23.65 percent increase over test year revenue of $16,572,048. The Company also proposes a fair value rate base ("FVRB") of $47,398,030 which is its original cost rate base ("OCRB"), and a 9.51 percent rate of return on the FVRB.

White Tank Water System

The Company proposes rates that would increase operating revenue by $624,449 to produce operating revenue of $2,208,920 resulting in operating income of $540,594, or a 39.41 percent increase over test year revenue of $1,584,471. The Company also proposes a FVRB of $5,682,264, which is its OCRB, and a 9.51 percent rate of return on the FVRB.

Ajo Water System

The Company proposes rates that would increase operating revenue by $19,988 to produce operating revenue of $529,583 resulting in operating income of $94,424, or a 3.92 percent increase over test year revenue of $509,594. The Company also proposes a FVRB of $992,500, which is its OCRB, and a 9.51 percent rate of return on the FVRB.

Q. Please summarize Staff's recommendations.

A. Staff recommends the following for each of the Company's systems in the Western Group.

Pinal Valley Water System

Staff recommends rates that would increase operating revenue by $2,083,848 to produce operating revenue of $18,741,389 resulting in operating income of $3,939,477, or a 12.51 percent increase over adjusted test year revenue of $16,657,541. Staff recommends an OCRB and a FVRB of $46,898,537 and an 8.40 percent rate of return on the FVRB.

White Tank Water System

Staff recommends rates that would increase operating revenue by $478,324 to produce operating revenue of $2,060,889 resulting in operating income of $474,780, or a 30.22 percent increase over adjusted test year revenue of $1,582,565. Staff recommends an OCRB and a FVRB of $5,652,142 and an 8.40 percent rate of return on the FVRB.

Ajo Water System

Staff recommends rates that would decrease operating revenue by $41,676 to produce operating revenue of $474,018 resulting in operating income of $82,962 or an 8.08 percent

decrease from adjusted test year revenue of $515,694. Staff recommends an OCRB and a FVRB of $987,646 and an 8.40 percent rate of return on the FVRB.

Q. What test year did the Company use in this filing?

A. The Company's rate filing is based on the twelve months ended December 31, 2010 ("test year").

Q. Please summarize the rate base adjustments addressed in your testimony.

A. My testimony addresses the following issues:

Plant Not Used And Useful – This adjustment applies only to the Pinal Valley Water System. This adjustment removes land upon which plant equipment is not currently serving customers. This adjustment decreases Plant-in–Service for the Pinal Valley Water System by $258,409.

Cash Working Capital – These adjustments apply to all three Company systems (Pinal Valley Water System, White Tank Water System, and Ajo Water System) and adjust the cash working capital component of working capital based on Staff's calculation. These adjustments decrease Working Capital for Pinal Valley Water System by $241,084, White Tank Water Company by $30,123, and Ajo Water System by $4,854.

Q. Please summarize the operating revenue and expense adjustments addressed in your testimony.

A. My testimony addresses the following issues:

Unbilled Revenues and Expenses – These adjustments apply to all three Company systems (Pinal Valley Water System, White Tank Water System, and Ajo Water System) and reverse the Company's pro forma adjustments for unbilled revenues and expenses. These adjustments increase revenues for Pinal Valley Water System by $85,493 and Ajo Water System by $6,100, and decrease revenues for White Tank Water System by $1,906. These adjustments also decrease expenses for Pinal Valley Water System by $63,280, White Tank Water System by $5,397 and Ajo Water System by $451.

Amortization of CAP Municipal and Industrial ("M&I") Expenses – This adjustment applies only to the Pinal Valley Water System and removes out-of-test year amortization of M&I charges related to the Company's deferred asset. This adjustment decreases amortization expense by $17,399.

Fleet Fuel Expense – These adjustments apply to all three Company systems (Pinal Valley Water System, White Tank Water System, and Ajo Water System) and adjust fleet fuel expense based on Staff's calculation of fuel costs using the most recent historical average. These adjustments decrease expenses in Pinal Valley Water System by $22,193, White Tank Water System by $1,971, and Ajo Water System by $487.

Pumping and Transmission and Distribution ("T&D") Expenses – These adjustments apply to all three Company systems (Pinal Valley Water System, White Tank Water System, and Ajo Water System) and remove the Company's proposed normalization of pumping and T&D expenses based on Staff's analysis. These adjustments decrease expenses in Pinal Valley Water System by $535,437, White Tank Water System by $42,065, and Ajo Water System by $15,127.

Best Management Practices ("BMP") Expense – These adjustments apply to the Pinal Valley Water System and White Tank Water System to remove BMP expense. These adjustments decrease expenses in Pinal Valley Water System by $8,425 and White Tank Water System by $3,500.

Rate Case Expense – These adjustments apply to all three Company systems (Pinal Valley Water System, White Tank Water System, and Ajo Water System) to reduce rate case expense based on Staff's analysis. These adjustments decrease expenses in Pinal Valley Water System by $122,043, White Tank Water System by $1,927, and Ajo Water System by $2,957.

Depreciation Expense – This adjustment applies only to the Pinal Valley Water System and reduces depreciation expense to remove a duplicate of an expense also recognized in the purchased water account. This adjustment decreases depreciation expense by $29,506.

Income Tax Expense – These adjustments apply to all three Company systems (Pinal Valley Water System, White Tank Water System, and Ajo Water System) and increase test year income tax expenses for Pinal Valley Water System by $362,058 and for White Tank Water System by $17,322, and decrease test year income tax expense for Ajo Water System by $1,702, based on Staff's adjustments.

Property Tax Expense – These adjustments apply to all three Company systems (Pinal Valley Water System, White Tank Water System, and Ajo Water System) and decrease test year property tax expenses for Pinal Valley Water System by $15,919 and Ajo Water System by $293, and increase test year property tax expense for White Tank Water

System by $12,365, to reflect application of a modified version of the Arizona Department of Revenue's property tax methodology which the Commission consistently adopts.

VII. RATE BASE

Fair Value Rate Base

Q. Did the Company prepare a schedule showing the elements of Reconstruction Cost New Rate Base?

A. No, the Company did not. The Company's filing treats the OCRB the same as the FVRB.

Rate Base Summary

Q. Please summarize Staff's adjustments to the Company's Western Group water system rate bases shown in Schedules JMM-W3 and JMM-W4.

A. Staff's adjustments to the Company's rate base resulted in a net decrease of $499,493, from $47,398,030 to $46,898,537 for the Pinal Valley Water System; a net decrease of $30,122 from $5,682,264 to $5,652,142 for the White Tank Water System; and a net decrease of $4,854 from $992,500 to $987,646 for the Ajo Water System. Staff's recommendations result from the rate base adjustments described below.

Rate Base Adjustment No. 1 – Plant-in-Service not used and useful (Pinal Valley Water System only).

Q. Did Staff make an adjustment for plant or plant items that were not used and useful?

A. Yes.

Q. What adjustment did Staff make?

A. Staff identified $258,409 in plant that was not used and useful, as shown in Schedule JMM-5.

Q. Why did Staff make this adjustment?

A. Staff's adjustment is based on the Company's response to data request KS 2.11 (c), in which Staff asked the Company to clarify the Company's purchase of property for a storage tank and a booster pump station.

The Company responded:

> This property was purchased for the construction of a new storage tank and booster station to serve the Arizona City portion of the Pinal Valley water system, PWSID No. 11-009. Design and permitting is complete. The required water transmission lines have been constructed. The booster station and storage tank materials have been ordered. Construction is scheduled to begin in October 2011, with completion by May 31, 2012.

Since there is no water plant associated with the property that is currently servicing customers, Staff has removed it from Plant-in-Service.

Q. What is Staff's recommendation?

A. Staff recommends decreasing plant in service by $258,409 to remove Plant-in-Service that is not used and useful, as shown in Schedules JMM-3 and JMM-4.

Rate Base Adjustment No. 2 – Cash Working Capital (Ajo Water System, Pinal Valley Water System, White Tank Water System).

Q. What basis did the Company use for its proposed cash working capital?

A. The Company's proposed cash working capital is based on a lead/lag study.

Q. Does Staff agree with the Company's lead/lag study?

A. No. The Company's study includes lead days for common equity. There are no lead days associated with common equity as those funds become the property of common

shareholders (through realized earnings) at the time service is provided and represent capital reinvested in the business until those shareholders withdraw it. Net income available to common shareholders is effectively "paid" to such shareholders each day and "reinvested" each day until paid out to them as common dividends.

Q. Did the Commission previously address the issue of whether common equity is a component of a lead-lag study to determine cash working capital in the Company's prior rate case?

A. Yes. In the Company's prior rate case, Docket No. W-01445A-08-0440, Decision No. 71845, the Commission determined that equity should not be included as a component of cash working capital.

Q. Has Staff removed the equity component of the lead/lag study?

A. Yes. Staff's adjustment reduces cash working capital for Pinal Valley Water System by $241,084, White Tank Water System by $30,123, Ajo Water System by $4,854, as shown in Schedules JMM-5.

VIII. OPERATING INCOME

Operating Income Summary

Q. What are the results of Staff's analysis of test year revenues, expenses, and operating income?

A. Staff's analysis resulted in adjusted test year operating revenues of $16,657,541, operating expenses of $13,976,267 and operating income of $2,681,274 for the Pinal Valley Water System; adjusted test year operating revenues of $1,582,565, operating expenses of $1,397,216 and operating income of $185,350 for the White Tank Water System; and adjusted test year operating revenues of $515,694, operating expenses of $406,232 and

operating income of $109,463 for the Ajo Water System., (see Schedules JMM-7 and JMM-8 for each of the systems). Staff's recommendations result from the nine operating adjustments described below.

Operating Income Adjustment No. 1 – Unbilled Revenues and Expenses (Pinal Valley Water System, White Tank Water System, and Ajo Water System)

Q. What pro forma adjustment is the Company proposing regarding beginning and ending year revenue and expense adjustments that it recorded on its books?

A. In each of the three Western Group water systems, the Company proposes to eliminate the reversing entry recorded at the beginning of the year and the adjusting entry recorded at the end of the year. The purpose of these entries is to establish a proper cutoff date for recognizing revenues and expenses at the beginning and end of the year to provide a matching of revenues and expenses on an accrual basis of accounting. The Company's proposal to reverse these entries for ratemaking purposes recreates the mismatch that these accounting entries are intended to prevent. As a result, the Company's proposal does not ensure that revenues and expenses are measured over the same period or even over the same number of days. Essentially, the Company's pro forma adjustment places its revenues and at least a good portion of its expenses on a cash basis of accounting.

Q. Should test year revenues and expenses be recognized on an accrual basis to provide matching?

A. Yes. Both generally accepted accounting principles and the NARUC USOA require use of accrual accounting. The primary advantage of accrual accounting is to provide matching of revenues and expenses. Matching is a fundamental accounting principle. Absent matching, operating income is distorted.

Q. What is Staff's recommendation?

A. Staff recommends that the Commission reject the Company's pro forma adjustment. Rejecting the pro forma adjustment increases revenues for Pinal Valley Water System by $85,493 and Ajo Water Company by $6,100 and it decreases revenues for White Tank Water System by $1,906. Rejecting the pro forma adjustment also decreases expenses for Pinal Valley Water System by $63,280, White Tank Water System by $5,397, and Ajo Water System by $451. (See Schedules JMM-8 and JMM-9 for each of the systems.)

Operating Income Adjustment No. 2 – Amortization of CAP M&I Expenses (Pinal Valley Water System Only).

Q. What is the Company proposing for CAP M&I Expenses related to a regulatory asset the Commission established in Decision Nos. 68302 and 71845?

A. The Company proposed $29,505 for test year amortizations and $17,399 for amortizations that should have been recorded in previous years. The latter are out-of-test year expenses that should not be included in the revenue requirement.

Q. What is Staff's recommendation?

A. Staff recommends disallowance for the $17,399 of purchased water expense represented by out-of-test year amortization of a regulatory asset, as shown in Staff schedules JMM-7, JMM-8, and JMM-10 for each of the systems.

Operating Income Adjustment No. 3 – Fleet Fuel Expenses (Pinal Valley Water System, White Tank Water System, and Ajo Water System)

Q. What pro forma adjustment is the Company proposing for fuel costs?

A. The Company proposes a pro forma adjustment to increase fuel costs using the assumption that its fuel cost for the entire test year was equal to the April 2011, average fuel price of $3.67.

Q. Does Staff agree with use of a single point in time to reflect fuel costs?

A. No. Fuel costs are volatile and often are seasonal. Fuel prices varied from a low of $2.77 per gallon in November 2010, to a high of $3.77 per gallon in May of 2011. The current average (November 21, 2011) is $3.275 per gallon, and it is trending downward. To recognize the volatility and seasonality of fuel prices, a 12-month average is preferable to a single date to represent the average annual fuel costs. Staff used a historical average price of $3.31, based on a time period starting at November 2010, and running through the end of October 2011.

Q. What is Staff's recommendation?

A. Staff recommends decreasing the fleet fuel expense for the Pinal Valley Water System by $22,193, for the White Tank Water System by $1,971 and for the Ajo Water System by $487, as shown in Staff schedules JMM-7, JMM-8, and JMM-11 for each of the systems.

Operating Income Adjustment No. 4 – Pumping and T&D Expenses (Pinal Valley Water System, White Tank Water System, and Ajo Water System)

Q. What pro forma adjustment does the Company propose?

A. The Company proposes normalization adjustments that increase pumping and T&D expenses by $535,437 for the Pinal Valley Water System, by $42,065 for the White Tank

Water System and by $15,127 for the Ajo Water System. The Company asserts that these adjustments are necessary to reflect that the test year level of pumping and T&D maintenance expenses was abnormally low and not representative of the level of costs that would be prudently incurred during normal economic and business conditions (which would include a proactive approach to reducing water loss). The Company claims that it has implemented a number of significant cost-cutting measures in response to the economic downturn beginning in 2008, including a focused reduction in the level of costs incurred in the maintenance of its pumping and T&D systems to a minimum level sufficient to maintain adequate and reliable service.

Q. What method and time period did the Company use to calculate its normalization pro forma?

A. The Company used a regression analysis covering the 11-year period 2000 through 2010.

Q. Are there any problems with the Company's methodology?

A. Yes, several. First, it was only by going back for a long period of time that the Company was able to obtain a regression analysis result reflecting a projected increase in pumping and T&D expenses. Had the Company used a four-year regression, the pro-forma adjustment to pumping and T&D expenses would have been negative.

Second, the Company's R-squared (coefficient of correlation) values are .796317 for Pinal Valley Water System, .73354 for White Tank Water System and .73354 for Ajo Water System. R-squared values measure the strength of a linear relationship in a range between negative 1 and positive 1. A value of 1 indicates a perfect direct relationship. A value of 0 indicates no linear relationship. A value of negative 1 indicates a perfect inverse relationship. The R-squared values using the 4 years from 2007 to 2010 are .997595 for

Pinal Valley Water System, .894685 for White Tank Water System and .985855 for Ajo Water System. The four-year regression values showing a downward trend are much higher (providing a higher direct relationship) than the 11-year regression values used by the Company. Thus, if the more reliable statistical information were to be used to normalize the pumping and T&D expenses, the pro forma adjustment would be a decrease, not an increase as proposed by the Company.

Third, the Company inappropriately projected forward its regression analysis to include the unknown pumping and T&D expenses for the future years 2013 and 2014.

Q. Has the Company explained why, if it was able to use cost cutting measures to lower its expenses beginning in 2008, it cannot continue these cost cutting measures in the future?

A. No.

Q. What is the record of the Company's pumping and T&D expenses from 2000 through 2010?

A. The Company's pumping and T&D expenses by account for each of its three water systems are presented in the following tables.

PINAL VALLEY

Year	Acct. 6700	Acct. 6701	Acct. 6720	Acct. 6730	Acct. 6750	Acct. 6760	Acct. 6770	Total
2000	$ 9,545	$ 23,508	$ 68,060	$ 65,465	$ 109,584	$ 41,958	$ 11,122	$ 329,241
2001	5,655	23,987	68,060	99,358	99,421	57,296	12,176	365,954
2002	5,767	8,151	68,060	76,574	109,640	70,200	10,895	349,287
2003	6,022	28,835	68,060	95,402	133,320	110,060	10,221	451,920
2004	6,325	44,101	68,060	98,023	153,681	119,692	23,009	512,892
2005	6,415	49,421	70,223	230,657	160,438	144,392	14,107	675,653
2006	7,737	56,719	94,143	261,933	229,944	147,011	19,083	816,570
2007	7,261	63,319	94,143	430,827	214,884	157,774	38,744	1,006,953
2008	9,832	64,178	94,143	336,044	274,499	127,282	17,901	923,880
2009	9,261	61,472	94,143	330,540	214,424	98,566	51,230	859,635
2010	8,132	53,770	60,007	286,951	222,371	111,587	43,807	786,625

WHITE TANK

Year	Acct. 6700	Acct. 6701	Acct. 6720	Acct. 6730	Acct. 6750	Acct. 6760	Acct. 6770	Total
2000	$ 547	$ 1,489	$ 2,856	$ 5,211	$ 8,065	$ 3,080	$ 725	$ 21,974
2001	323	1,513	2,856	7,048	6,714	4,281	866	23,601
2002	318	1,502	2,856	5,179	7,592	5,641	671	23,761
2003	329	1,708	2,856	5,908	9,184	8,867	639	29,490
2004	353	2,842	2,856	7,803	11,134	9,170	1,774	35,933
2005	352	3,211	3,667	18,662	10,900	11,305	761	48,858
2006	388	3,379	12,561	18,786	15,009	10,510	1,186	61,820
2007	349	3,648	12,561	30,225	14,439	10,095	2,349	73,667
2008	546	3,841	12,561	24,200	18,737	8,092	1,075	69,053
2009	537	3,785	12,561	22,196	14,479	7,849	3,841	65,248
2010	499	6,574	6,279	13,790	12,020	8,518	3,084	50,765

AJO

Year	Acct. 6700	Acct. 6701	Acct. 6720	Acct. 6730	Acct. 6750	Acct. 6760	Acct. 6770	Total
2000	$ 351	$ 950	$ 2,136	$ 3,338	$ 5,123	$ 1,958	$ 470	$ 14,326
2001	193	901	2,136	4,371	3,997	2,550	513	14,661
2002	184	870	2,136	3,125	4,394	3,285	389	14,383
2003	179	929	2,136	3,194	4,990	4,790	351	16,570
2004	174	1,394	2,136	3,817	5,459	4,470	877	18,327
2005	156	1,428	2,496	8,284	4,870	5,008	338	22,581
2006	164	1,439	6,454	7,933	6,326	4,466	501	27,284
2007	142	1,995	6,454	12,338	6,136	4,128	962	32,154
2008	213	2,153	6,454	9,713	7,220	2,891	405	29,049
2009	195	2,080	6,454	7,998	5,225	2,219	1,385	25,555
2010	177	1,279	3,226	6,223	5,677	2,782	1,092	20,456

Q. Does Staff have concerns about the Company claims that it incurred the minimum pumping and T&D expenses to keep the systems functional?

A. Yes. Inadequate maintenance can have undesirable consequences, including: decreasing the useful life of plant equipment, causing increases in other short-term or long-term expenses, decreasing system function efficiency and increasing water loss. Also, although the Company saw reason to decrease its maintenance expense, a cost which was already authorized and included in rates in the prior rate case, The Company did not see a comparable need to reduce dividend payments to shareholders. The Company's approach to reducing cash flow requirements does not appear to provide equal consideration for ratepayers and shareholders.

Q. Over what period of time does Staff usually normalize expenses?

A. Staff usually normalizes expenses over a three- or five-year time period.

Q. In which circumstances would Staff normalize an expense?

A. If the expense seemed abnormally high in the test year or abnormally low in the test year, in comparison to recent years.

Q. Is the Company's expense unusually low based on the historical data presented above?

A. No.

Q. What is Staff's recommendation?

A. Staff recommends reversal of the Company's proposed pro-forma adjustment. Reversing the pro forma adjustment decreases pumping and T&D expense for the Pinal Valley Water System by $535,437, for the White Tank Water System by $42,065, and for the Ajo Water

System by $15,127, as shown in Staff schedules JMM-7, JMM-8, and JMM-12 for each system.

Operating Income Adjustment No. 5 – BMP expenses (Pinal Valley Water System and White Tank Water System)

Q. What pro forma is the Company proposing for BMP expenses?

A. The Company proposes pro forma adjustments to increase administrative and general expense for the incremental costs it projects to incur for the additional BMPs required by Decision No. 71845.

Q. Has Staff completed its review of the Company's BMP proposal?

A. No. Staff has issued data request JMM 14-1 to the Company and is awaiting a response. Accordingly, Staff's recommendation regarding BMPs is provisional and may change depending upon the response received to the outstanding data request.

Q. What is Staff's provisional recommendation regarding the Company's pro forma for BMP expenses?

A. Staff's provisional recommendation is for the Company to continue deferring the costs it incurs for the additional BMPs required by Decision No. 71845, and reversal of the pro-forma adjustments, which would decrease BMP expenses for the Pinal Valley Water System by $8,425, and for White Tank Water System by $3,500, as shown in Staff schedules JMM-7, JMM-8, and JMM-13 for the respective systems.

Operating Income Adjustment No. 6 – Rate Case Expense (Pinal Valley Water System, White Tank Water System, and Ajo Water System)

Q. Did the Company file an amended rate case application for the Western Group?

A. Yes.

Q. Why did the Company file an amended rate application for the Western Group?

A. In the original application, the Company utilized a test year that ended before the rates from the prior rate case took effect. Without any actual usage data under the current rates, the Company attempted to reflect those rates in test year revenues through a pro forma adjustment to test year billing data.

Q. Does Staff believe the Company utilized a proper test year in the original application?

A. No. It has been the general practice of Staff to require a Company to utilize a test year that ideally includes twelve months of actual data with the most current rate in effect; but Staff has found cases sufficient with less.

Q. Was this issue discussed with the Company prior to the filing of the original application?

A. Yes, it is my understanding that the Company met with Staff prior to filing the application. In that meeting, Staff indicated that, if the Company filed using a test year with less than six months of revenues under current rates, Staff would not find the application sufficient.

Q. Despite this warning, did the Company file the application?

A. Yes, and Staff ultimately found the Company's application not sufficient.

Q. What happened next?

A. The Company filed a motion with the administrative law judge ("ALJ") that, among other things, asked the ALJ to direct Staff to find the Application sufficient.

Q. How did the ALJ respond?

A. The ALJ indicated that, if the parties were not able to resolve this issue, the matter would have to go before the Commission for a determination as to whether the test year used by the Company was proper.

Q. What did the Company do?

A. In the end, the Company filed an amended application using a test year that included six months of actual data with current rates in effect.

Q. Did the Company revise its proposed rate case expense in the amended application?

A. Yes. The Company increased its rate case expense from $476,874 to $626,156, a 31.30 percent increase over the original proposal.

Q. Why did the Company increase the rate case expense?

A. The Company did not provide a specific explanation other than to say that the proposed costs were based on estimated projections, in addition to costs already incurred. Therefore, Staff believes the increase in rate case expense was the direct result of the sufficiency issue.

Q. Does Staff believe the Company acted prudently when it filed the original application in this docket for the Western Group?

A. No. Consequently, Staff does not believe the Company should be entitled to recover any increase in rate case expense that resulted from having to file the amended application.

Q. Does Staff believe the Company should be entitled to recover the $476,874 the Company requested in the original application?

A. No. Staff recommends that the Company be able to recover total rate case expense of $126,927 for the Western Group as discussed in more detail below.

Q. Please summarize the Company's amended proposal for Rate Case Expense?

A. The Company is proposing a pro forma adjustment to increase the annual recovery of rate case expense by $160,505 over the $48,214 amount recorded in the test year, for a $208,719 ($626,156 normalized over three years) total annual rate case expense for the Western Group. The $160,505 pro forma represents an incremental annual increase over test year amounts of $147,452 for the Pinal Valley Water System, $9,757 for the White Tank Water System and $3,296 for the Ajo Water System.

Q. What was the amount of rate case expense that the Company was awarded in its last rate case?

A. In its prior rate case (Docket No. W-01445A-08-0440, Decision No. 71845, dated August 25, 2010, page 31), the Company was authorized $500,000 in rate case expense over a three-year period.

Q. Did the prior case include only the Western Group?

A. No. The Company's prior rate application included the Eastern and Northern Groups, as well as the Western Group, for a total of seventeen systems, each requiring its own analysis, schedules and revenue requirement determination.

Q. What systems did the Company propose to consolidate in the last rate case?

A. The Company proposed and was granted authority in Decision No. 71845, to consolidate the following groups of water systems: 1) Superstition and Miami, 2) Casa Grande, Coolidge and Stanfield, 3) Rimrock, Pinewood and Sedona, 4) Lakeside and Overgaard, and 5) Bisbee and Sierra Vista.

Q. What did the Company cite as one of its justifications for these consolidations?

A. On page 33 of Mr. Garfield's testimony (Docket No. W-01445A-08-0440), he notes that the purposes for, and benefits achieved by, consolidating these water systems include increased efficiency and reduced cost and complexity of rate filings.

On page 13 of Mr. Harris' testimony (Docket No. W-01445A-08-0440), he also refers to the streamlined administrative and regulatory processes lowering costs, especially those costs related to ratemaking.

Q. How does the amount of rate case expense the Company is requesting in the current rate case compare to the amount it requested for the Western Group in the prior rate case (Docket No. W-01445A-08-0440)?

A. In the prior rate case, the Company requested $176,350 in rate case expense for its Western Group; in the present case, it requests $626,156, an increase of $449,806 or 255 percent.

Q. Are there more complex issues in this rate case as compared to the prior rate case that would warrant a 255 percent increase in rate case expense for the Western Group?

A. No additional complexities are apparent to Staff in the current rate case as compared to the prior rate case.

Q. Does consolidation of the water systems in the prior rate case appear to have provided a benefit in the way of reduced rate case expense?

A. No. It appears that any benefit in terms of rate case expense efficiencies due to the consolidation of the water systems has been lost by the Company separately filing a rate case for the Western Group.

Q. Does Staff have any other comments regarding consolidation and rate case expense?

A. Yes. In a pre-filing discussion, Staff expressed to the Company its preference that the Company file all of its Groups (Northern, Western, and Eastern) together, under one Docket. The Company instead chose to separately pursue rates for each of its Groups, thereby increasing rate case expense.

Q. What was the actual amount of rate case expense that the Company incurred in its prior rate case (Docket No. W-01445A-08-0440)?

A. The Company's response to Staff data request JMM 5-2 shows $617,671 as the actual total rate case expense incurred during the prior rate case. Thus, the Company's proposed $626,156 rate case expense for the three systems in the current rate case is more than the actual amount incurred in its prior rate case for all seventeen of its water systems.

Q. What is Staff's recommendation for rate case expense?

A. Staff recommends using as a base amount the $616,199 amount of rate case expense the Company actually incurred during the prior rate case, and allocating that amount based on customers over the same systems as the Company used in the prior case to determine the amount to allocate to the systems in the Western Group in this case. Using this method, Staff's recommendation results in decreases in rate case expense of $122,043 for the Pinal Valley Water System, of $1,927 for the White Tank Water System and of $2,957 for the

Ajo Water System, as shown in Staff schedules JMM-7, JMM-8, and JMM-14 for the respective systems.

Operating Income Adjustment No. 7 – Depreciation Expense (Pinal Valley Water System only).

Q. Did Staff make an adjustment to depreciation expense?

A. Yes.

Q. Why did Staff make this adjustment?

A. Staff reduced depreciation expense to remove a duplicate of an expense also recognized in the purchased water account.

Q. What is Staff's recommendation?

A. Staff recommends reducing depreciation expense by $29,506 for the Pinal Valley Water System, as shown in Staff schedules JMM-7, JMM-8 and JMM-15.

Operating Income Adjustment No. 8 – Income Tax Expense (Pinal Valley Water System, White Tank Water System, and Ajo Water System)

Q. Did Staff make an adjustment to income tax expense?

A. Yes. Staff recomputed income taxes based on Staff's test year adjustments.

Q. What adjustment does Staff recommend for test year income tax expense?

A. Staff recommends increases in tax year income tax expenses of $362,058 for the Pinal Valley Water System and $17,322 for the White Tank Water System and a decrease in income tax expense of $1,702 for Ajo Water System. Please see Schedules JMM-16 for the respective systems.

Operating Income Adjustment No. 9 – Property Tax Expense (Pinal Valley Water System, White Tank Water System, and Ajo Water System)

Q. Did Staff make an adjustment to property tax expense?

A. Yes. Staff recomputed property taxes based on Staff's test year revenue.

Q. What adjustment does Staff recommend for test year property tax expense?

A. Staff recommends decreases in test year property tax expense of $15,919 for Pinal Valley Water System and $293 for Ajo Water System and an increase in property tax of $12,365 for White Tank Water System. Please see Schedules JMM-17 for the respective systems.

IX. COST OF CAPITAL

Q. Briefly summarize AWC's proposed capital structure, cost of debt, return on equity and overall rate of return for this proceeding.

A. Table 1 summarizes AWC's proposed capital structure, cost of debt, return on equity and overall rate of return in this proceeding:

Table 1

	Weight	Cost	Weighted Cost
Long-term Debt	49.0%	6.8%	3.3%
Common Equity	51.1%	12.1%	6.2%
Cost of Capital/ROR			**9.5%**

AWC is proposing an overall rate of return of 9.5 percent.

Q. Does Staff agree with the Company's proposed capital structure?

A. Yes. Staff recommends a capital structure composed of 49.0 percent debt and 51.0 percent equity.

Q. Does Staff agree with the Company's proposed cost of debt?

A. Yes. Staff recommends a 6.8 percent cost of debt.

Q. Did Staff conduct its typical market based discounted cash flow and capital asset pricing models to estimate the cost of equity ("COE") in this case?

A. No. Due to limited Staff resources, Staff has derived a cost of equity based on recent relevant information.

Q. Please explain the methodology Staff employed to estimate the COE for AWC.

A. Since shares of AWC stock are not a trading on a public exchange, Staff determined that taking the mean of the most recent Commission-authorized COE (10.4 percent for Las Quintas Serenas Water Company, Decision No. 72498, dated July 25, 2011) and the most recent Staff market-based COE estimate (9.6 percent for Chino Meadows II Water Company, Inc., Docket No. W-02370A-10-0519) for water utilities that are not publicly traded would provide a reasonable estimate of COE for AWC. Thus, Staff recommends a 10.0 percent [(10.4% + 9.6%) ÷ 2] COE for AWC.

Q. What overall rate of return does Staff recommend to AWC?

A. Staff recommends an 8.4 percent overall rate of return for AWC, as shown in the following table:

Table 2

	Weight	Cost	Weighted Cost
Long-term Debt	49.0%	6.8%	3.3%
Common Equity	51.1%	10.0%	5.1%
Cost of Capital/ROR			**8.4%**

Q. Please summarize Staff's cost of capital recommendation.

A. Staff recommends that the Commission adopt a capital structure for AWC in this proceeding composed of 49.0 percent debt and 51.0 percent equity, a 6.8 percent cost of debt and a 10.0 percent cost of equity resulting in an 8.4 percent overall rate of return.

X. DISTRIBUTION SYSTEM IMPROVEMENT CHARGE

Q. Has the Company proposed a DSIC in this rate proceeding?

A. Yes.

Q. What is a DSIC?

A. A DSIC is a surcharge mechanism that enables the Company to implement and/or change a surcharge to recover the cost of certain items of plant between rate cases.

Q. What are the Company's claimed potential benefits of a DSIC?

A. The Company states that a DSIC will benefit customers in older service areas such as the Pinal Valley and Coolidge Airport where infrastructure is reaching the end of its useful life and larger levels of capital investment, coupled with the lag associated with historic test years, will result in larger step increases in rates at the time new rates are approved by

the Commission. The Company further states that, with the DSIC, once reinvestments are made in qualifying infrastructure, rates would be raised gradually and in smaller steps.

Q. Has a similar mechanism been asked for by another water company in Arizona?

A. Yes, a similar mechanism was requested by Arizona-American Water Company in Docket Nos. W-01303A-09-0343 et al., using the name infrastructure improvement surcharge ("IIS").

Q. Did the Commission approve the requested ISS?

A. No. In Decision No. 72047, the Commission stated:

> We agree with RUCO and Staff that the recovery of expenditures for plant additions and improvements does not warrant the extraordinary ratemaking device of an adjustor mechanism, and will therefore not grant the request for institution of an IIS.

Q. Does Staff recommend the implementation of a DSIC/ISS?

A. No. Staff recommends limiting the use of adjustor mechanisms to extraordinary circumstances. The Company's planned use of this surcharge is for routine expenditures, and the Company has not demonstrated extraordinary circumstances to justify a surcharge between rate cases.

Q. What does Staff recommend?

A. Staff recommends denial of the Company proposal to implement a DSIC in this case.

XI. CENTRAL ARIZONA PROJECT HOOK-UP FEE

Q. Has the Company asked to continue its hook-up fee tariff (HU-279) for its Pinal Valley Water System and its White Tank Water System?

A. Yes.

Q. What is Staff's recommendation?

A. Staff recommends approval of the Company's request to continue to collect fees to help offset the M&I expenses related to the CAP allocation and for review for the appropriateness of this tariff again in the next rate case. However, Staff recommends changing the title of this tariff to CAP M&I Fees, as this more accurately describes the charges being imposed and avoids confusion with other hook-up fee tariffs.

XII. ARSENIC COST RECOVERY MECHANISM

Q. Has the Company asked to continue the future use of the ACRM mechanism?

A. Yes.

Q. What is Staff's recommendation?

A. Staff recommends that the Commission continue authorization for an ACRM that preserves eligibility for an ACRM surcharge for each new arsenic treatment facility. However, whether an ACRM surcharge is granted should be reserved and subject to further review upon each application by the Company for an ACRM surcharge.

XIII. OFF-SITE FACILITIES FEE

Q. Has the Company proposed an off-site facilities fee in this case?

A. Yes. The Company proposes an off-site facilities fee to help offset the costs of constructing additional plant to provide for water production, treatment, delivery, storage,

and pressure facilities. This fee would only be applicable to new service connections in the service area. The proposed fee is $3,500 for a 5/8 x 3/4-inch metered customer, and it increases by the American Water Works Association capacity multipliers for larger meter sizes.

Q. What is Staff's recommendation?

A. Staff concludes that the proposed off-site facilities fees are reasonable, and recommends the adoption of the specific tariff language contained in Attachment A of the Staff engineering witness' testimony.

Q. Does this conclude your direct testimony?

A. Yes, it does

Arizona Water Company - Pinal Valley (Casa Grande, Coolidge, Stanfield)
Docket No. W-01445A-10-0517
Test Year ended December 31, 2010

DIRECT TESTIMONY OF Jeffrey M. Michlik

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Arizona Water Company - Pinal Valley (Casa Grande, Coolidge, Stanfield) **Schedule JMM-1**
Docket No. W-01445A-10-0517
Test Year ended December 31, 2010

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY FAIR VALUE	(B) STAFF FAIR VALUE
1	Adjusted Rate Base	$ 47,398,030	$ 46,898,537
2	Adjusted Operating Income (Loss)	$ 2,143,637	$ 2,681,274
3	Current Rate of Return (L2 / L1)	4.52%	5.72%
4	Required Rate of Return	9.51%	8.40%
5	Required Operating Income (L4 * L1)	$ 4,509,311	$ 3,939,477
6	Operating Income Deficiency (L5 - L2)	$ 2,365,674	$ 1,258,203
7	Gross Revenue Conversion Factor	1.6569	1.6562
8	Required Revenue Increase (L7 * L6)	$ 3,919,673	**$ 2,083,848**
9	Adjusted Test Year Revenue	$ 16,572,048	$ 16,657,541
10	Proposed Annual Revenue (L8 + L9)	$ 20,491,721	$ 18,741,389
11	Required Increase in Revenue (%)	23.65%	12.51%

References:
Column (A): Company Schedule A-1
Column (B): Staff Schedules JMM-3 and JMM-7

Arizona Water Company - Pinal Valley (Casa Grande, Coolidge, Stanfield)
Docket No. W-01445A-10-0517
Test Year ended December 31, 2010

Schedule JMM-2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	Calculation of Gross Revenue Conversion Factor:				
1	Revenue	100.0000%			
2	Uncollecible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.6212%			
5	Subtotal (L3 - L4)	60.3788%			
6	**Revenue Conversion Factor (L1 / L5)**	1.656210			
	Calculation of Uncollecttible Factor:				
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 23)	38.5989%			
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
	Calculation of Effective Tax Rate:				
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 55)	34.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%			
17	Combined Federal and State Income Tax Rate (L13 +L16)		38.5989%		
	Calculation of Effective Property Tax Factor				
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	38.5989%			
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%			
21	Property Tax Factor (JMM-17, L27)	1.6650%			
22	Effective Property Tax Factor (L20*L21)		1.0223%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.6212%	
24	Required Operating Income (Schedule JMM-1, Line 5)	$ 3,939,477			
25	AdjustedTest Year Operating Income (Loss)	2,681,274			
26	Required Increase in Operating Income (L24 - L25)		$ 1,258,203		
27	Income Taxes on Recommended Revenue (Col. [E], L52)	$ 1,503,585			
28	Income Taxes on Test Year Revenue (Col. [B], L52)	712,635			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		790,950		
30	Recommended Revenue Requirement (Schedule JMM-1, Line 10)	$ 18,741,389			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncolllectible Expense on Recommended Revenue (L30*L31)	$ -			
33	Adjusted Test Year Uncollectible Expense	$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)		-		
35	Property Tax with Recommended Revenue (JMM-17, Col B, L31)	$ 866,727			
36	Property Tax on Test Year Revenue (JMM-17, Col A, L17)	832,032			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		34,696		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		$ 2,083,848		

		Test Year		Staff Recommended
	Calculation of Income Tax:			
39	Revenue (Schedule JMM-7, Col. [C], Line 5 & Sch. JMM-1, Col. [D] Line 10)	$ 16,657,541	$ 2,083,848	$ 18,741,389
40	Operating Expenses Excluding Income Taxes	$ 13,263,632		$ 13,298,327
41	Synchronized Interest (L56)	$ 1,547,652		$ 1,547,652
42	Arizona Taxable Income (L39 - L40 - L41)	$ 1,846,257		$ 3,895,410
43	Arizona State Income Tax Rate	6.9680%		6.9680%
44	Arizona Income Tax (L42 x L43)	$ 128,647		$ 271,432
45	Federal Taxable Income (L42 - L44)	$ 1,717,610		$ 3,623,978
46	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ 7,500		$ 7,500
47	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	$ 6,250		$ 6,250
48	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ 8,500		$ 8,500
49	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ 91,650		$ 91,650
50	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ 470,087		$ 1,118,252
51	Total Federal Income Tax	$ 583,987		$ 1,232,152
52	Combined Federal and State Income Tax (L44 + L51)	$ 712,635		$ 1,503,585
53	Applicable Federal Income Tax Rate [Col. [E], L51 - Col. [B], L51] / [Col. [E], L45 - Col. [B], L45]			34.0000%
	Calculation of Interest Synchronization:			
54	Rate Base (Schedule JMM-3, Col. (C), Line 17	$ 46,898,537		
55	Weighted Average Cost of Debt	3.3000%		
56	Synchronized Interest (L45 X L46)	$ 1,547,652		

Arizona Water Company - Pinal Valley (Casa Grande, Coolidge, Stanfield) **Schedule JMM-3**
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Test Year ended December 31, 2010

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	Adj. No.	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 145,686,164	$ (258,408)	1	$ 145,427,756
2	Less: Accumulated Depreciation	29,456,880	-		29,456,880
3	Net Plant in Service	$ 116,229,284	$ (258,408)		$ 115,970,876
4					
5	*LESS:*				
6					
7	Contributions in Aid of Construction (CIAC)	$ 19,589,664	$ -		$ 19,589,664
8	Less: Accumulated Amortization	3,428,365	-		$ 3,428,365
9	Net CIAC	16,161,299	-		$ 16,161,299
10					
11	Advances in Aid of Construction (AIAC)	45,465,736	-		45,465,736
12					
13	Customer Deposits	327,277	-		327,277
14					
15	Deferred Income Tax Credits	8,683,491	-		8,683,491
16					
17					
18	*ADD:*				
19					
20					
21	Working Capital	1,333,549	(241,084)	2	1,092,465
22					
23	Deferred Regulatory Assets	473,000	-		473,000
24					
25					
26	**Original Cost Rate Base**	$ 47,398,030	$ (499,493)		$ 46,898,537

References:
Column [A]: Company as Filed
Column [B]: Schedule JMM-4
Column (C): Column (A) + Column (B)

Arizona Water Company - Pinal Valley (Casa Grande, Coolidge, Stanfield)
Docket No. W-01445A-10-0517
Test Year ended December 31, 2010

Schedule JMM-4

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Plant Not Used And Useful Ref: Sch JMM-5	[C] ADJ #2 Cash Working Capital Ref: Sch JMM-6	[D] STAFF ADJUSTED
PLANT IN SERVICE:						
1						
2	301	Organization Cost	$ 223	$ -	$ -	$ 223
3	302	Franchise Cost	82,969	-	-	$ 82,969
4	303	Other Intangibles	1,453,913	-	-	$ 1,453,913
5	310.1	Water Rights	356,562	-	-	$ 356,562
6	310.3	Other Source of Supply Land	298,575	-	-	$ 298,575
7	310.4	Wells - Other	-	-	-	$ -
8	314	Wells	6,455,579	-	-	$ 6,455,579
9	320	Pumping Plant Land	31,897	-	-	$ 31,897
10	321	Pumping Plant Structures & Improvements	239,380	-	-	$ 239,380
11	325	Electric Pumping Equipment	8,974,359	-	-	$ 8,974,359
12	328	Gas Engine Equipment	20,026	-	-	$ 20,026
13	330	Water Treatment Plant - Land	680,718	-	-	$ 680,718
14	331	Water Treatment Structures and Improvements	1,523,410	-	-	$ 1,523,410
15	332	Water Treatment Equipment	6,915,949	-	-	$ 6,915,949
16	340	Transmission and Distribution - Land	345,492	(258,409)	-	$ 87,083
17	342	Storage Tanks	3,012,541	-	-	$ 3,012,541
18	343	Transmission and Distribution Mains	71,028,915	-	-	$ 71,028,915
19	344	Fire Sprinkler Taps	2,476,818	-	-	$ 2,476,818
20	345	Services	23,433,199	-	-	$ 23,433,199
21	346	Meters	3,072,138	-	-	$ 3,072,138
22	348	Hydrants	9,136,596	-	-	$ 9,136,596
23	389	General Plant Land	8,772			$ 8,772
24	390	General Plant Structures	509,744	-	-	$ 509,744
25	390.1	Leasehold Improvements	580,126	-	-	$ 580,126
26	391	Office Furniture & Equipment	2,000,728	-	-	$ 2,000,728
27	393	Warehouse Equipment	26,500	-	-	$ 26,500
28	394	Tools, Shops, and Garage Equipment	451,117	-	-	$ 451,117
29	395	Laboratory Equipment	65,185	-	-	$ 65,185
30	396	Power Operated Equipment	103,217	-	-	$ 103,217
31	397	Communications Equipment	2,197,417			$ 2,197,417
32	398	Miscellaneous Equipment	204,100			$ 204,100
33		Intentionally Left Blank		-	-	$ -
34			145,686,164	-	-	145,427,756
35			-	-		-
36		Total Plant in Service	$ 145,686,164	$ (258,409)	$ -	$ 145,427,756
37						
40		Less: Accumulated Depreciation	29,456,880	-	-	29,456,880
41			-	-	-	-
42		Net Plant in Service	$ 116,229,284	$ (258,409)	$ -	$ 115,970,876
43						
44		*LESS:*				
45		Contributions in Aid of Construction (CIAC)	$ 19,589,664	$ -	$ -	$ 19,589,664
46		Less: Accumulated Amortization	3,428,365	-	-	3,428,365
47		Net CIAC (L25 - L26)	16,161,299	-	-	16,161,299
48		Advances in Aid of Construction (AIAC)	45,465,736	-	-	45,465,736
49		Customer Deposits	327,277	-	-	327,277
50		Deferred Income Taxes	8,683,491	-	-	8,683,491
51						
52						
53		*ADD:*				
54		Working Capital	1,333,549	-	(241,084)	1,092,465
55		Deffered Regulatory Assets	473,000	-	-	473,000
56						
57		**Original Cost Rate Base**	$ 47,398,030	$ (258,409)	$ (241,084)	$ 46,898,537

Arizona Water Company - Pinal Valley (Casa Grande, Coolidge, Stanfield)
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Test Year ended December 31, 2010

Schedule JMM-5

RATE BASE ADJUSTMENT NO. 1 - PLANT NOT USED AND USEFUL

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	340	Transmission and Distribution - Land	$ 345,492	$ (258,409)	$ 87,083

REFERENCES:
Column [A]: Company Filing
Column [B]: Direct Testimony JMM
Column [C]: Column [A] + Column [B]

Arizona Water Company - Pinal Valley (Casa Grande, Coolidge, Stanfield)
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Test Year ended December 31, 2010

Schedule JMM-6

RATE BASE ADJUSTMENT NO. 2 - CASH WORKING CAPITAL

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1		Working Capital	$ 1,333,549	$ (241,084)	$ 1,092,465

		Test Year Adjusted Results	Revenue	Expense	Net Lag Days [B - C]	Lead / Lag Factor [D ÷ 365]	Working Cash Requirement [A X E]
8	Staff's Calculation						
9	Purchased Power	$ 1,783,602	30.10	30.87	(0.77)	(0.0021)	$ (3,758)
10	Payroll	2,924,079	30.10	14.00	16.10	0.0441	128,988
11	Purchased Water	445,372	30.10	(55.31)	85.41	0.2340	104,218
12	Chemicals	237,329	30.10	(18.11)	48.21	0.1321	31,348
13	Property & Liability Insurance	189,650	30.10	(45.27)	75.37	0.2065	39,162
14	Workman's Compensation Insurance	43,376	30.10	(46.50)	76.60	0.2099	9,103
15	Health Insurance	539,321	30.10	(8.92)	39.02	0.1069	57,657
16	Other O&M (Excluding Rate Case Expense)	2,913,906	30.10	(9.27)	39.37	0.1079	314,311
17	Federal Income Taxes	1,505,971	30.10	37.00	(6.90)	(0.0189)	(28,465)
18	State Income Taxes	331,752	30.10	37.00	(6.90)	(0.0189)	(6,271)
19	FICA Taxes	219,076	30.10	14.00	16.10	0.0441	9,664
20	FUTA & SUTA Taxes	6,783	30.10	83.10	(53.00)	(0.1452)	(985)
21	Property Taxes	914,804	30.10	212.00	(181.90)	(0.4984)	(455,896)
22	Registration, Svc. Contracts, & Misc. Fees	182,839	30.10	(98.83)	128.93	0.3532	64,585
23	Retirement Annuities (401k)	276,469	30.10	34.72	(4.62)	(0.0127)	(3,499)
26		$ 12,514,327					$ 260,163
27	Subtotal						
29	Interest Expense	1,585,957	30.10	91.25	(61.15)	(0.1675)	(265,698)
30	Cost of Equity	-	30.10	-	30.10	0.0825	-
32	Subtotal	$ 1,585,957					$ (265,698)
35	Total	14,100,284					$ (5,534)
37	Company Cash Working Capital						$ 235,550
39	Increase/(Decrease)						$ (241,084)

REFERENCES:
Column [A]: Company Filing
Column [B]: Direct Testimony JMM
Column [C]: Column [A] + Column [B]

Arizona Water Company - Pinal Valley (Casa Grande, Coolidge, Stanfield)
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Test Year ended December 31, 2010

Schedule JMM-7

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	*OPERATING REVENUES:*					
2	Residential	$ 10,454,087	$ 54,903	$ 10,508,990	$ 2,083,848	$ 12,592,838
3	Commercial	4,124,997	27,712	4,152,709	-	4,152,709
4	Industrial	939,855	2,878	942,733	-	942,733
5	Private Fire Service	100,237		100,237		100,237
6	Other Water Revenues	218,638	-	218,638	-	218,638
7	Total Water Revenues	$ 15,837,814	$ 82,615	$ 15,923,307	$ 2,083,848	$ 18,007,155
8						
9	Miscellaneous	734,234.00		734,234.00		734,234
10	Total Operating Revenues	$ 16,572,048	$ -	$ 16,657,541	$ 2,083,848	$ 18,741,389
11						
12	*OPERATING EXPENSES:*					
13	Source of Supply Expenses					
14	Purchased Water	$ 445,372	$ (17,399)	$ 427,973	$ -	$ 427,973
15	Other	70,038	(541)	69,497	-	69,497
16	Pumping Expenses					
17	Purchased Power	1,783,602	(12,429)	1,771,173	-	1,771,173
18	Purchased Gas	927	-	927	-	927
19	Other	646,335	(117,615)	528,720	-	528,720
20	Water Treatment Expenses	1,105,676	(2,526)	1,103,150	-	1,103,150
21	Transmission and Distribution Expenses	2,096,350	(462,985)	1,633,365	-	1,633,365
22	Customer Accounting Expenses	1,231,220	(15,129)	1,216,091	-	1,216,091
23	Sales Expense	-	-	-	-	-
24	Administrative and General Expenses	2,347,389	(140,154)	2,207,235	-	2,207,235
25	Total Operation and Maintenance Expense	9,726,909	(768,778)	8,958,131	-	8,958,131
26						
27	Depreciation and Amortization Expenses	3,313,401	(29,506)	3,283,895		3,283,895
28						
29	Taxes					
30	Federal Income Taxes	287,290	296,697	583,987	648,165	1,232,152
31	State Income Taxes	63,287	65,360	128,647	142,785	271,432
32	Property Taxes	847,951	(15,919)	832,032	34,696	866,727
33	Other	189,574	-	189,574	-	189,574
34	Total Taxes	1,388,102	346,138	1,734,240	825,646	2,559,886
35		-	-	-	-	-
36		-	-	-	-	-
37	Total Operating Expenses	14,428,412	-	13,976,267	825,646	14,801,912
38						
39	Operating Income (Loss)	$ 2,143,637	$ 537,637	$ 2,681,274	$ 1,258,203	$ 3,939,477

References:
Column (A): Company Schedule C-1
Column (B): Schedule JMM-8
Column (C): Column (A) + Column (B)
Column (D): Schedules JMM-16 and JMM-17
Column (E): Column (C) + Column (D)

Arizona Water Company - Pinal Valley (Casa Grande, Coolidge, Stanfield)
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Schedule JMM-8

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Reverse Net Unbilled Revenues and Expenses ADJ #1	[C] Reduce over amortization of CAP M&I Charges ADJ #2	[D] Fleet Fuel Expense ADJ #3	[E] Removal of Pumping Transmission and Distribution Normalization ADJ #4	[F] Removal of BMP Expense ADJ #5	[G] Rate Case Expense ADJ #6	[H] Depreciation Expense ADJ #7	[I] Income Tax Expense ADJ #8	[J] Property Expense ADJ #9	[K] STAFF ADJUSTED
1		*OPERATING REVENUES:*		Ref: Sch JMM-9	Ref: Sch JMM-10	Ref: Sch JMM-11	Ref: Sch JMM-12	Ref: Sch JMM-13	Ref: Sch JMM-14	Ref: Sch JMM-15	Ref: Sch JMM-16	Ref: Sch JMM-17	
2		Residential	$ 10,454,087	$ 54,903	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 10,508,990
3		Commercial	4,124,997	27,712	-	-	-	-	-	-	-	-	4,152,709
4		Industrial	939,855	2,878	-	-	-	-	-	-	-	-	942,733
5		Private Fire Service	100,237	-	-	-	-	-	-				100,237
6		Other Water Revenues	218,638	-	-	-	-	-	-	-	-	-	218,638
7		Total Water Revenues	$ 15,837,815	$ 85,493	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 15,923,307
8													
9		Miscellaneous	$ 734,234										$ 734,234
10		Total Operating Revenues	$ 16,572,049	$ 85,493	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 16,657,541
11													
12		*OPERATING EXPENSES:*											
13		Source of Supply Expenses								$ -	$ -	$ -	$ -
14		Purchased Water	$ 445,372	-	(17,399)	-	-	-	-	-	-	-	427,973
15		Other	70,038	(168)	-	(373)	-	-	-	-	-	-	69,497
16		Pumping Expenses								-	-	-	
17		Purchased Power	1,783,602	(12,429)	-	-	-	-	-	-	-	-	1,771,173
18		Purchased Gas	927	-	-	-	-	-	-	-	-	-	927
19		Other	646,335	(7,039)	-	(3,778)	(106,798)	-	-	-	-	-	528,720
20		Water Treatment Expenses	1,105,676	(1,353)	-	(1,173)	-	-	-	-	-	-	1,103,150
21		Transmission and Distribution Expenses	2,096,350	(22,009)	-	(12,337)	(428,639)	-	-	-	-	-	1,633,365
22		Customer Accounting Expenses	1,231,220	(11,804)	-	(3,326)	-	-	-	-	-	-	1,216,091
23		Sales Expense	-	-	-	-	-	-	-	-	-	-	-
24		Administrative and General Expenses	2,347,389	(8,479)	-	(1,207)	-	(8,425)	(122,043)	-	-	-	2,207,235
25		Total Operation and Maintenance Expense	$ 9,726,909	$ (63,280)	$ (17,399)	$ (22,193)	$ (535,437)	$ (8,425)	$ (122,043)	$ -	$ -	$ -	$ 8,958,131
26										-	-	-	
27		Depreciation and Amortization Expenses	3,313,401	-	-	-	-	-	-	(29,506)	-	-	3,283,895
28										-	-	-	
29		Taxes								-	-	-	
30		Federal Income Taxes	287,290	-	-	-	-	-	-	-	296,697	-	583,987
31		State Income Taxes	63,287	-	-	-	-	-	-	-	65,360	-	128,647
32		Property Taxes	847,951	-	-	-	-	-	-	-	-	(15,919)	832,032
33		Other	189,574	-	-	-	-	-	-	-	-	-	189,574
34		Total Taxes	$ 1,388,102	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 362,058	$ (15,919)	$ 1,734,240
35			-	-	-	-	-	-	-	-	-	-	-
36		Total Operating Expenses	$ 14,428,412	$ (63,280)	$ (17,399)	$ (22,193)	$ (535,437)	$ (8,425)	$ (122,043)	$ (29,506)	$ 362,058	$ (15,919)	$ 13,976,267
37										$ -	$ -	$ -	
38		Operating Income (Loss)	$ 2,143,637	$ 148,773	$ 17,399	$ 22,193	$ 535,437	$ 8,425	$ 122,043	$ 29,506	$ (362,058)	$ 15,919	$ 2,681,274

Arizona Water Company - Pinal Valley (Casa Grande, Coolidge, Stanfield)
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Test Year ended December 31, 2010

Schedule JMM-9

OPERATING INCOME ADJUSTMENT NO. 1 - REVERSE NET UNBILLED REVENUES AND EXPENSES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF[1] RECOMMENDED
1	Residential	$ 10,454,087	$ 54,903	$ 10,508,990
2	Commercial	4,124,997	27,712	4,152,709
3	Industrial	939,855	2,878	942,733
4	Revenue Adjustments	$ 15,518,939	$ 85,493	$ 15,604,432
5				
6	Source Supply - Other	$ 69,870	$ -	$ 69,870
7	Unbilled Expenses	168	(168)	-
8	Total Source Supply - Other	$ 70,038	$ (168)	$ 69,870
9				
10	Purchased Power	$ 1,771,173	$ -	$ 1,771,173
11	Unbilled Expenses	12,429	(12,429)	-
12	Total Purchased Power	$ 1,783,602	$ (12,429)	$ 1,771,173
13				
14	Pumping Expense - Other	$ 639,296	$ -	$ 639,296
15	Unbilled Expenses	7,039	(7,039)	-
16	Total Pumping Expense - Other	$ 646,335	$ (7,039)	$ 639,296
17				
18	Water Treatment Expenses	$ 1,104,323	$ -	$ 1,104,323
19	Unbilled Expenses	1,353	(1,353)	-
20	Total Water Treatment Expenses	$ 1,105,676	$ (1,353)	$ 1,104,323
21				
22	Transmission and Distribution Expenses	$ 2,074,341	$ -	$ 2,074,341
23	Unbilled Expenses	22,009	(22,009)	-
24	Total Transmission and Distribution Expenses	$ 2,096,350	$ (22,009)	$ 2,074,341
25				
26	Customer Accounting Expenses	$ 1,219,416	$ -	$ 1,219,416
27	Unbilled Expenses	11,804	(11,804)	-
28	Total Customer Accounting Expenses	$ 1,231,220	$ (11,804)	$ 1,219,416
29				
30	Administrative and General Expenses	$ 2,338,910	$ -	$ 2,338,910
31	Unbilled Expenses	8,479	(8,479)	-
32	Total Administrative and General Expenses	$ 2,347,389	$ (8,479)	$ 2,338,910
33				
34	Total Expense Adjustments	$ 9,280,610	$ (63,280)	$ 9,217,330

[1] Amounts do not reflect other adjustments.

References:
Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

Arizona Water Company - Pinal Valley (Casa Grande, Coolidge, Stanfield)
Docket No. W-01445A-10-0517
Test Year ended December 31, 2010

Schedule JMM-10

OPERATING INCOME ADJUSTMENT NO. 2 - AMORTIZATION EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF[1] RECOMMENDED
1	Purchased Water	$ 398,468	$ -	$ 398,468
2	Amortization Expense (CAP) Water	46,904	(17,399)	29,505
3	Total Purchased Water	$ 445,372	$ (17,399)	$ 427,973
4				
5	Staff's Calculation			
6	Total Amortization as Reported on Schedule B-2	$ 29,505		
7	page 4 of 5.			
8	Total per General Ledger Account 041-40100-6022	46,904		
9	Difference	$ (17,399)		

[1] Amounts do not reflect other adjustments.

References:
Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

Arizona Water Company - Pinal Valley (Casa Grande, Coolidge, Stanfield) Schedule JMM-11
Docket No. W-01445A-10-0517
Test Year ended December 31, 2010

OPERATING INCOME ADJUSTMENT NO. 3 - FLEET FUEL EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF[1] RECOMMENDED
1	Source Supply - Other	$ 16,571,060	$ -	$ 16,571,060
2	Fleet Fuel Expenses	989	(373)	616
3	Total Source Supply - Other	$ 16,572,049	$ (373)	$ 16,571,676
4				
5	Pumping Expense - Other	$ 636,315	$ -	$ 636,315
6	Fleet Fuel Expenses	10,020	(3,778)	6,242
7	Total Pumping Expense - Other	$ 646,335	$ (3,778)	$ 642,557
8				
9	Water Treatment Expenses	$ 1,102,565	$ -	$ 1,102,565
10	Fleet Fuel Expenses	3,111	(1,173)	1,938
11	Total Water Treatment Expenses	$ 1,105,676	$ (1,173)	$ 1,104,503
12				
13	Transmission and Distribution Expenses	$ 2,063,632	$ -	$ 2,063,632
14	Fleet Fuel Expenses	32,718	(12,337)	20,381
15	Total Transmission and Distribution Expenses	$ 2,096,350	$ (12,337)	$ 2,084,013
16				
17	Customer Accounting Expenses	$ 1,222,401	$ -	$ 1,222,401
18	Fleet Fuel Expenses	8,819	(3,326)	5,493
19	Total Customer Accounting Expenses	$ 1,231,220	$ (3,326)	$ 1,227,894
20				
21	Administrative and General Expenses	$ 2,344,190	$ -	$ 2,344,190
22	Fleet Fuel Expenses	3,199	(1,207)	1,992
23	Total Administrative and General Expenses	$ 2,347,389	$ (1,207)	$ 2,346,182
24				
25	Total Expense Adjustments	$ 23,999,019	$ (22,193)	$ 23,976,826
26				
27				
28	Staff's Calculation based on the most recent 12 month gas price of $ 3.31			
29				
30		Company Pro-forma	Staff's Recalculation	Reduction
31	Source Supply - Other	$ 989	$ 616	$ 373
32	Pumping Expenses Other	10,020	6,242	3,778
33	Water Treatment Expenses	3,111	1,938	1,173
34	Transmission and Distribution Expenses	32,718	20,381	12,337
35	Customer Accounting Expenses	8,819	5,493	3,326
36	Administrative and General Expenses	3,199	1,992	1,207
37	Totals	$ 58,856	$ 36,663	$ 22,193

[1] Amounts do not reflect other adjustments.

References:
Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

Arizona Water Company - Pinal Valley (Casa Grande, Coolidge, Stanfield) **Schedule JMM-12**
Docket No. W-01445A-10-0517
Test Year ended December 31, 2010

OPERATING INCOME ADJUSTMENT NO. 4 - REMOVAL OF NORMALIZATION EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF[1] RECOMMENDED
1	Pumping Expenses - Other	$ 539,537	$ -	$ 539,537
2	Normalization of Pumping Expenses	106,798	(106,798)	$ -
3	Total Pumping Expense - Other	$ 646,335	$ (106,798)	$ 539,537
4				
5	Transmission and Distribution Expenses	$ 1,667,711	$ -	$ 1,667,711
6	Normalization of Transmission and Distribution Expenses	428,639	(428,639)	-
7	Total Transmission and Distribution Expenses	$ 2,096,350	$ (428,639)	$ 1,667,711

[1] Amounts do not reflect other adjustments.

References:
Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

Arizona Water Company - Pinal Valley (Casa Grande, Coolidge, Stanfield) **Schedule JMM-13**
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Test Year ended December 31, 2010

OPERATING INCOME ADJUSTMENT NO. 5 - REMOVAL OF ADDITIONAL BMP COSTS

		[A]	[B]	[C]
LINE NO.	**DESCRIPTION**	**COMPANY PROPOSED**	**STAFF ADJUSTMENTS**	**STAFF[1] RECOMMENDED**
1	Administrative and General Expenses	$ 2,338,964	$ -	$ 2,338,964
2	Removal of Additional BMP Costs	8,425	(8,425)	-
3	Total Administrative and General	$ 2,347,389	$ (8,425)	$ 2,338,964

[1] Amounts do not reflect other adjustments.

References:
Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

Arizona Water Company - Pinal Valley (Casa Grande, Coolidge, Stanfield)
Docket No. W-01445A-10-0517
Test Year ended December 31, 2010

Schedule JMM-14

OPERATING INCOME ADJUSTMENT NO. 6 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF[1] RECOMMENDED
1	Administrative and General Expenses	$ 2,199,937	$ -	$ 2,199,937
2	Rate Case Expense Pro Forma	147,452	(122,043)	25,409
3	Total Administrative and General	$ 2,347,389	$ (122,043)	$ 2,225,346

Staff's Calculation of Rate Case Expense for Pinal Valley

Line No.	System		Average Number of Customers	[A] T.Y. 2010 Rate Case Expense Estimate / Spread	[B] Normalization Period in Years	[C] Annual Amortization / Pro Forma Rate Case Exp.	[D] T.Y. 2010 Prior Rate Case Expense Charged to O&M - 928.2	[E] Increase / (Decrease)
1								
2	All Systems							
3		Pinal Valley	28,030	206,770.75	3	$ 68,924	$ 43,515	$ 25,409
4		White Tank	1,927	14,211.26	3			
5		Ajo	679	5,009.41	3			
6		Superstition	23,792	175,503.90	3			
7		Cochise	6,404	47,243.60	3			
8		San Manuel	1,476	10,886.20	3			
9		Oracle	1,521	11,216.31	3			
10		SaddleBrooke Ranch	89	652.84	3			
11		Winkelman	157	1,155.07	3			
12		Navajo	9,090	67,056.86	3			
13		Verde Valley	10,569	77,965.19	3			
14			83,733	617,671				
27								
28	Rate Case Expense Incurred Last Time			$ 617,671		$ 68,924	$ 43,515	$ 25,409
29								
30	Company Proposed Rate Case Expense Pro Forma							$ 147,452
31								
32	Staff Recommended Rate Case Expense							$ (122,043)

[1] Amounts do not reflect other adjustments.

References:
Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

Arizona Water Company - Pinal Valley (Casa Grande, Coolidge, Stanfield)
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Schedule JMM-15

OPERATING INCOME ADJUSTMENT NO. 7 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	301	Organization Cost	$ 223	$ -	$ 223	0.00%	$ -
2	302	Franchise Cost	$ 82,969	$ -	$ 82,969	4.00%	$ 3,319
3	303	Other Intangibles	$ 1,453,913	$ -	$ 1,453,913	7.97%	$ 115,857
4	310.1	Water Rights	$ 356,562	$ -	$ 356,562	0.00%	$ -
5	310.3	Other Source of Supply Land	$ 298,575	$ -	$ 298,575	0.00%	$ -
6	310.4	Wells - Other	$ -	$ -	$ -	2.50%	$ -
7	314	Wells	$ 6,455,579	$ -	$ 6,455,579	3.13%	$ 202,060
8	320	Pumping Plant Land	$ 31,897	$ -	$ 31,897	0.00%	$ -
9	321	Pumping Plant Structures & Improvements	$ 239,380	$ -	$ 239,380	2.86%	$ 6,846
10	325	Electric Pumping Equipment	$ 8,974,359	$ -	$ 8,974,359	5.88%	$ 527,692
11	328	Gas Engine Equipment	$ 20,026	$ -	$ 20,026	4.00%	$ 801
12	330	Water Treatment Plant - Land	$ 680,718	$ -	$ 680,718	0.00%	$ -
13	331	Water Treatment Structures and Improvements	$ 1,523,410	$ -	$ 1,523,410	2.50%	$ 38,085
14	332	Water Treatment Equipment	$ 6,915,949	$ -	$ 6,915,949	2.86%	$ 197,796
15	340	Transmission and Distribution - Land	$ 87,083	$ -	$ 87,083	0.00%	$ -
16	342	Storage Tanks	$ 3,012,541	$ -	$ 3,012,541	2.00%	$ 60,251
17	343	Transmission and Distribution Mains	$ 71,028,915	$ -	$ 71,028,915	1.79%	$ 1,271,418
18	344	Fire Sprinkler Taps	$ 2,476,818	$ -	$ 2,476,818	2.00%	$ 49,536
19	345	Services	$ 23,433,199	$ -	$ 23,433,199	2.38%	$ 557,710
20	346	Meters	$ 3,072,138	$ -	$ 3,072,138	4.55%	$ 139,782
21	348	Hydrants	$ 9,136,596	$ -	$ 9,136,596	1.82%	$ 166,286
22	389	General Plant Land	$ 8,772	$ -	$ 8,772	0.00%	$ -
23	390	General Plant Structures	$ 509,744	$ -	$ 509,744	2.50%	$ 12,744
24	390.1	Leasehold Improvements	$ 580,126	$ -	$ 580,126	1.58%	$ 9,179
25	391	Office Furniture & Equipment	$ 2,000,728	$ -	$ 2,000,728	6.67%	$ 133,449
26	393	Warehouse Equipment	$ 26,500	$ -	$ 26,500	5.00%	$ 1,325
27	394	Tools, Shops, and Garage Equipment	$ 451,117	$ -	$ 451,117	4.00%	$ 18,045
28	395	Laboratory Equipment	$ 65,185	$ -	$ 65,185	5.00%	$ 3,259
29	396	Power Operated Equipment	$ 103,217	$ -	$ 103,217	6.67%	$ 6,885
30	397	Communications Equipment	$ 2,197,417	$ -	$ 2,197,417	6.67%	$ 146,568
31	398	Miscellaneous Equipment	$ 204,100	$ -	$ 204,100	3.33%	$ 6,797
32		Intentionally Left Blank					
33		Total Plant	$ 145,427,756	$ -	$ 145,344,564		$ 3,675,688
34							
35		Composite Depreciation Rate (Depr Exp / Depreciable Plant):	2.00%				
36		CIAC:	$ 19,589,664				
37		Amortization of CIAC (Line 35 x Line 36):	$ 391,793				
38							
39		Depreciation Expense Before Amortization of CIAC:	$ 3,675,688				
40		Less Amortization of CIAC:	$ 391,793				
41		**Test Year Depreciation Expense - Staff:**	**$ 3,283,895**				
42		Depreciation Expense - Company:	$ 3,313,401				
43		**Staff's Total Adjustment:**	**$ (29,506)**				

References:
Column [A]: Schedule JMM-4
Column [B]: From Column [A]
Column [C]: Column [A] - Column [B]
Column [D]: Engineering Staff Report
Column [E]: Column [C] x Column [D]

Arizona Water Company - Pinal Valley (Casa Grande, Coolidge, Stanfield)
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Schedule JMM-16

OPERATING INCOME ADJUSTMENT NO. 8 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Federal Income Taxes	$ 287,290	$ 296,697	$ 583,987
2	State Income Taxes	63,287	65,360	128,647
3	Federal and State Income Taxes	$ 350,577	$ 362,058	$ 712,635

References:
Column (A), Company Schedule C-1
Column (B): Column [C] - Column [A]
Column (C): Schedule JMM-2

Arizona Water Company - Pinal Valley (Casa Grande, Coolidge, Stanfield)
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Schedule JMM-17

OPERATING INCOME ADJUSTMENT NO. 9 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	$ 16,657,541	$ 16,657,541
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	33,315,082	$ 33,315,082
4	Staff Recommended Revenue, Per Schedule JMM-1	16,657,541	$ 18,741,389
5	Subtotal (Line 4 + Line 5)	49,972,623	52,056,471
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	16,657,541	$ 17,352,157
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	33,315,082	$ 34,704,314
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	33,315,082	$ 34,704,314
13	Assessment Ratio	20.5%	20.5%
14	Assessment Value (Line 12 * Line 13)	6,829,592	$ 7,114,384
15	Composite Property Tax Rate (Per Company Schedule)	12.1827%	12.1827%
16			
17	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	$ 832,032	
18	Company Proposed Property Tax	847,951	
19			
20	Staff Test Year Adjustment (Line 17-Line 18)	$ (15,919)	
21	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		$ 866,727
22	Staff Test Year Adjusted Property Tax Expense (Line 17)		$ 832,032
23	Increase in Property Tax Expense Due to Increase in Revenue Requirement		$ 34,696
24			
25	Increase to Property Tax Expense		$ 34,696
26	Increase in Revenue Requirement		2,083,848
27	Increase to Property Tax per Dollar Increase in Revenue (Line25/Line 26)		1.664975%

Arizona Water Company - Pinal Valley (Casa Grande, Coolidge, Stanfield) **Schedule JMM-18**
Docket No. W-01445A-10-0517
Test Year ended December 31, 2010

Arizona Water Company Cost of Capital Calculation
Capital Structure
And Weighted Average Cost of Capital
Staff Recommended and Company Proposed

[A]	[B]	[C]	[D]
Description	Weight (%)	Cost	Weighted Cost
Staff Recommended Structure			
Debt	49.0%	6.8%	3.3%
Common Equity	51.0%	10.0%	5.1%
Weighted Average Cost of Capital			**8.4%**
Company Proposed Structure[1]			
Debt	49.0%	6.8%	3.3%
Common Equity	51.0%	12.1%	6.2%
Weighted Average Cost of Capital			**9.5%**

[1] Company Schedule D-1, page 2

[D] : [B] x [C]

Arizona Water Company - White Tank
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DIRECT TESTIMONY OF Jeffrey M. Michlik

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JMM-7	OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED
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Arizona Water Company - White Tank
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Schedule JMM-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY FAIR VALUE	(B) STAFF FAIR VALUE
1	Adjusted Rate Base	$ 5,682,264	$ 5,652,142
2	Adjusted Operating Income (Loss)	$ 162,083	$ 185,350
3	Current Rate of Return (L2 / L1)	2.85%	3.28%
4	Required Rate of Return	9.51%	8.40%
5	Required Operating Income (L4 * L1)	$ 540,594	$. 474,780
6	Operating Income Deficiency (L5 - L2)	$ 378,512	$ 289,430
7	Gross Revenue Conversion Factor	1.6497	1.6526
8	Required Revenue Increase (L7 * L6)	$ 624,449	**$ 478,324**
9	Adjusted Test Year Revenue	$ 1,584,471	$ 1,582,565
10	Proposed Annual Revenue (L8 + L9)	$ 2,208,920	$ 2,060,889
11	Required Increase in Revenue (%)	39.41%	30.22%

References:
Column (A): Company Schedule A-1
Column (B): Staff Schedules JMM-3 and JMM-7

Arizona Water Company - White Tank
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Schedule JMM-2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	Calculation of Gross Revenue Conversion Factor:				
1	Revenue	100.0000%			
2	Uncollecible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.4908%			
5	Subtotal (L3 - L4)	60.5092%			
6	**Revenue Conversion Factor (L1 / L5)**	1.652641			
	Calculation of Uncollecttible Factor:				
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 23)	38.5433%			
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4567%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
	Calculation of Effective Tax Rate:				
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 55)	33.9402%			
16	Effective Federal Income Tax Rate (L14 x L15)	31.5753%			
17	Combined Federal and State Income Tax Rate (L13 +L16)		38.5433%		
	Calculation of Effective Property Tax Factor				
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	38.5433%			
20	One Minus Combined Income Tax Rate (L18-L19)	61.4567%			
21	Property Tax Factor (JMM-17, L27)	1.5418%			
22	Effective Property Tax Factor (L20*L21)		0.9475%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.4908%	
24	Required Operating Income (Schedule JMM-1, Line 5)	$ 474,780			
25	AdjustedTest Year Operating Income (Loss)	185,350			
26	Required Increase in Operating Income (L24 - L25)		$ 289,430		
27	Income Taxes on Recommended Revenue (Col. [E], L52)	$ 181,209			
28	Income Taxes on Test Year Revenue (Col. [B], L52)	(310)			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		181,519		
30	Recommended Revenue Requirement (Schedule JMM-1, Line 10)	$ 2,060,889			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncolllectible Expense on Recommended Revenue (L30*L31)	$ -			
33	Adjusted Test Year Uncollectible Expense	$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)		-		
35	Property Tax with Recommended Revenue (JMM-17, Col B, L31)	$ 80,575			
36	Property Tax on Test Year Revenue (JMM-17, Col A, L17)	73,200			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		7,375		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		$ 478,324		

		Test Year		Staff Recommended
	Calculation of Income Tax:			
39	Revenue (Schedule JMM-W7, Col. [C], Line 5 & Sch. JMM-1, Col. [D] Line 10)	$ 1,582,565	$ 478,324	$ 2,060,889
40	Operating Expenses Excluding Income Taxes	$ 1,397,526		$ 1,404,901
41	Synchronized Interest (L56)	$ 186,521		$ 186,521
42	Arizona Taxable Income (L39 - L40 - L41)	$ (1,482)		$ 469,467
43	Arizona State Income Tax Rate	6.9680%		6.9680%
44	Arizona Income Tax (L42 x L43)	$ (103)		$ 32,712
45	Federal Taxable Income (L42 - L44)	$ (1,379)		$ 436,755
46	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ (207)		$ 7,500
47	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	$ -		$ 6,250
48	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ -		$ 8,500
49	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ -		$ 91,650
50	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ -		$ 34,597
51	Total Federal Income Tax	$ (207)		$ 148,497
52	Combined Federal and State Income Tax (L44 + L51)	$ (310)		$ 181,209
53	Applicable Federal Income Tax Rate [Col. [E], L51 - Col. [B], L51] / [Col. [E], L45 - Col. [B], L45]			33.9402%
	Calculation of Interest Synchronization:			
54	Rate Base (Schedule JMM-3, Col. (C), Line 17	$ 5,652,142		
55	Weighted Average Cost of Debt	3.3000%		
56	Synchronized Interest (L45 X L46)	$ 186,521		

Arizona Water Company - White Tank
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Schedule JMM-3

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	Adj. No.	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 18,693,006	$ -	1	$ 18,693,007
2	Less: Accumulated Depreciation	2,856,989	-		2,856,989
3	Net Plant in Service	$ 15,836,017	$ -		$ 15,836,018
	LESS:				
4	Contributions in Aid of Construction (CIAC)	$ 1,831,118	$ -		$ 1,831,118
5	Less: Accumulated Amortization	250,616	-		$ 250,616
6	Net CIAC	1,580,502	-		$ 1,580,502
7	Advances in Aid of Construction (AIAC)	7,891,919	-		7,891,919
8	Customer Deposits	22,494	-		22,494
9	Deferred Income Tax Credits	771,189	-		771,189
	ADD:				
9	Working Capital	112,351	(30,123)	2	82,228
10	Deferred Regulatory Assets	-	-		-
11	**Original Cost Rate Base**	$ 5,682,264	$ (30,122)		$ 5,652,142

References:
Column [A]: Company as Filed
Column [B]: Schedule JMM-4
Column (C): Column (A) + Column (B)

Arizona Water Company - White Tank
Docket No. W-01445A-10-0517
Test Year ended December 31, 2010

Schedule JMM-4

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Not Used Ref: Sch JMM-5	[C] ADJ #2 Cash Working Capital Ref: Sch JMM-6	[D] STAFF ADJUSTED
PLANT IN SERVICE:						
2	301	Organization Cost	$ 20	$ -	$ -	$ 20
3	302	Franchise Cost	-	-	-	$ -
4	303	Other Intangibles	14,340	-	-	$ 14,340
5	310.1	Water Rights	26,224	-	-	$ 26,224
6	310.3	Other Source of Supply Land	45,045	-	-	$ 45,045
7	310.4	Wells - Other	-	-	-	$ -
8	314	Wells	1,440,680	-	-	$ 1,440,680
9	320	Pumping Plant Land	-	-	-	$ -
10	321	Pumping Plant Structures & Improvements	22,985	-	-	$ 22,985
11	325	Electric Pumping Equipment	1,599,928	-	-	$ 1,599,928
12	328	Gas Engine Equipment	-	-	-	$ -
13	330	Water Treatment Plant - Land	-	-	-	$ -
14	331	Water Treatment Structures and Improvements	40,103	-	-	$ 40,103
15	332	Water Treatment Equipment	1,650,561	-	-	$ 1,650,561
16	340	Transmission and Distribution - Land	35,990	-	-	$ 35,990
17	342	Storage Tanks	478,301	-	-	$ 478,301
18	343	Transmission and Distribution Mains	10,044,531	-	-	$ 10,044,531
19	344	Fire Sprinkler Taps	41,067	-	-	$ 41,067
20	345	Services	1,952,221	-	-	$ 1,952,221
21	346	Meters	244,729	-	-	$ 244,729
22	348	Hydrants	623,530	-	-	$ 623,530
23	389	General Plant Land	-			$ -
24	390	General Plant Structures	36,903	-	-	$ 36,903
25	390.1	Leasehold Improvements	46,910	-	-	$ 46,910
26	391	Office Furniture & Equipment	176,345	-	-	$ 176,345
27	393	Warehouse Equipment	1,689	-	-	$ 1,689
28	394	Tools, Shops, and Garage Equipment	42,933	-	-	$ 42,933
29	395	Laboratory Equipment	6,790	-	-	$ 6,790
30	396	Power Operated Equipment	1,832	-	-	$ 1,832
31	397	Communications Equipment	106,078			$ 106,078
32	398	Miscellaneous Equipment	13,270			$ 13,270
33		Intentionally Left Blank		-	-	$ -
34			18,693,006	-	-	18,693,007
35			-	-		-
36		Total Plant in Service	$ 18,693,006	$ -	$ -	$ 18,693,007
37						
40		Less: Accumulated Depreciation	2,856,989	-	-	2,856,989
41			-	-	-	-
42		Net Plant in Service	$ 15,836,017	$ -	$ -	$ 15,836,018
43						
44		*LESS:*				
45		Contributions in Aid of Construction (CIAC)	$ 1,831,118	$ -	$ -	$ 1,831,118
46		Less: Accumulated Amortization	250,616	-	-	250,616
47		Net CIAC (L25 - L26)	1,580,502	-	-	1,580,502
48		Advances in Aid of Construction (AIAC)	7,891,919	-	-	7,891,919
49		Customer Deposits	22,494	-	-	22,494
50		Deferred Income Taxes	771,189	-	-	771,189
51						
52						
53		*ADD:*				
54		Working Capital	112,351	-	(30,123)	82,228
55		Deffered Regulatory Assets	-	-	-	-
56						
57		**Original Cost Rate Base**	$ 5,682,264	$ -	$ (30,123)	$ 5,652,142

RATE BASE ADJUSTMENT NO. 1 - NOT USED

Arizona Water Company - White Tank
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Test Year ended December 31, 2010

Schedule JMM-6

RATE BASE ADJUSTMENT NO. 2 - CASH WORKING CAPITAL

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1		Working Capital	$ 112,351	$ (30,123)	$ 82,228

		Test Year Adjusted Results	Revenue	Expense	Net Lag Days [B - C]	Lead / Lag Factor [D ÷ 365]	Working Cash Requirement [A X E]
8	Staff's Calculation						
9	Purchased Power	$ 147,338	31.37	30.87	0.50	0.0014	$ 203
10	Payroll	293,306	31.37	14.00	17.37	0.0476	13,961
11	Purchased Water	64,894	31.37	41.88	(10.51)	(0.0288)	(1,868)
12	Chemicals	18,312	31.37	(18.11)	49.48	0.1356	2,483
13	Property & Liability Insurance	16,843	31.37	(45.27)	76.64	0.2100	3,537
14	Workman's Compensation Insurance	3,852	31.37	(46.50)	77.87	0.2134	822
15	Health Insurance	35,631	31.37	(8.92)	40.29	0.1104	3,933
16	Other O&M (Excluding Rate Case Expense)	297,309	31.37	(9.27)	40.64	0.1114	33,106
17	Federal Income Taxes	180,542	31.37	37.00	(5.63)	(0.0154)	(2,783)
18	State Income Taxes	39,772	31.37	37.00	(5.63)	(0.0154)	(613)
19	FICA Taxes	22,133	31.37	14.00	17.37	0.0476	1,053
20	FUTA & SUTA Taxes	764	31.37	83.10	(51.73)	(0.1417)	(108)
21	Property Taxes	68,827	31.37	212.00	(180.63)	(0.4949)	(34,060)
22	Registration, Svc. Contracts, & Misc. Fees	16,238	31.37	(98.83)	130.20	0.3567	5,792
23	Retirement Annuities (401k)	18,265	31.37	34.72	(3.35)	(0.0092)	(167)
26		$ 1,224,026					$ 25,289
27	Subtotal						
29	Interest Expense	190,131	31.37	91.25	(59.88)	(0.1640)	(31,190)
30	Cost of Equity	-	31.37	-	31.37	0.0860	-
32	Subtotal	$ 190,131					$ (31,190)
35	Total	1,414,157					$ (5,901)
37	Company Cash Working Capital						$ 24,222
39	Increase/(Decrease)						$ (30,123)

REFERENCES:
Column [A]: Company Filing
Column [B]: Direct Testimony JMM
Column [C]: Column [A] + Column [B]

Arizona Water Company - White Tank
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Test Year ended December 31, 2010

Schedule JMM-7

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	*OPERATING REVENUES:*					
2	Residential	$ 1,316,944	$ (2,712)	$ 1,314,232	$ 478,324	$ 1,792,556
3	Commercial	172,061	877	172,938	-	172,938
4	Industrial	25,159	(71)	25,088	-	25,088
5	Private Fire Service	1,361		1,361		1,361
6	Other Water Revenues	47,483	-	47,483	-	47,483
7	Total Water Revenues	$ 1,563,008	$ (1,835)	$ 1,561,102	$ 478,324	$ 2,039,426
8						
9	Miscellaneous	21,463.00		21,463.00		21,463
10	Total Operating Revenues	$ 1,584,471	$ (1,835)	$ 1,582,565	$ 478,324	$ 2,060,889
11						
12	*OPERATING EXPENSES:*					
13	Source of Supply Expenses					
14	Purchased Water	$ 64,894	$ -	$ 64,894	$ -	$ 64,894
15	Other	15,436	(40)	15,396	-	15,396
16	Pumping Expenses					
17	Purchased Power	147,338	(1,203)	146,135	-	146,135
18	Purchased Gas	-	-	-	-	-
19	Other	145,862	(5,544)	140,318	-	140,318
20	Water Treatment Expenses	102,714	(100)	102,614	-	102,614
21	Transmission and Distribution Expenses	170,241	(40,734)	129,507	-	129,507
22	Customer Accounting Expenses	98,134	(1,165)	96,969	-	96,969
23	Sales Expense	-	-	-	-	-
24	Administrative and General Expenses	180,495	(6,074)	174,421	-	174,421
25	Total Operation and Maintenance Expense	925,114	(54,860)	870,254	-	870,254
26						
27	Depreciation and Amortization Expenses	434,755	-	434,755	-	434,755
28						
29	Taxes					
30	Federal Income Taxes	(14,449)	14,242	(207)	148,703	148,497
31	State Income Taxes	(3,183)	3,080	(103)	32,816	32,712
32	Property Taxes	60,835	12,365	73,200	7,375	80,575
33	Other	19,317	-	19,317	-	19,317
34	Total Taxes	62,520	29,687	92,207	188,894	281,101
35		-	-	-	-	-
36		-	-	-	-	-
37	Total Operating Expenses	1,422,389	(25,173)	1,397,216	188,894	1,586,110
38						
39	Operating Income (Loss)	$ 162,083	$ 23,338	$ 185,350	$ 289,430	$ 474,779

References:
Column (A): Company Schedule C-1
Column (B): Schedule JMM-8
Column (C): Column (A) + Column (B)
Column (D): Schedules JMM-16 and JMM-17
Column (E): Column (C) + Column (D)

Arizona Water Company - White Tank
Docket No. W-01445A-10-0517
Test Year ended December 31, 2010

Schedule JMM-8

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Reverse Net Unbilled Revenues and Expenses ADJ #1	[C] Not Used ADJ #2	[D] Fleet Fuel Expense ADJ #3	[E] Removal of Pumping Transmission and Distribution Normalization ADJ #4	[F] Removal of BMP Expense ADJ #5	[G] Rate Case Expense ADJ #6	[H] Not Used ADJ #7	[M] Income Tax Expense ADJ #8	[H] Property Expense ADJ #9	[I] STAFF ADJUSTED
				Ref: Sch JMM-9	Ref: Sch JMM-10	Ref: Sch JMM-11	Ref: Sch JMM-12	Ref: Sch JMM-13	Ref: Sch JMM-14	Ref: Sch JMM-15	Ref: Sch JMM-16	Ref: Sch JMM-17	
1		*OPERATING REVENUES:*											
2		Residential	$ 1,316,944	$ (2,712)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,314,232
3		Commercial	172,061	877	-	-	-	-	-	-	-	-	172,938
4		Industrial	25,159	(71)	-	-	-	-	-	-	-	-	25,088
5		Private Fire Service	1,361	-	-	-	-	-	-				1,361
6		Other Water Revenues	47,483	-	-	-	-	-	-	-	-	-	47,483
7		Total Water Revenues	$ 1,563,009	$ (1,906)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,561,102
8													
9		Miscellaneous	$ 21,463										$ 21,463
10		Total Operating Revenues	$ 1,584,472	$ (1,906)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,582,566
11													
12		*OPERATING EXPENSES:*											
13		Source of Supply Expenses								$ -	$ -	$ -	$ -
14		Purchased Water	$ 64,894	-	-	-	-	-	-	-	-	-	64,894
15		Other	15,436	(6)	-	(33)	-	-	-	-	-	-	15,396
16		Pumping Expenses								-	-	-	
17		Purchased Power	147,338	(1,203)	-	-	-	-	-	-	-	-	146,135
18		Purchased Gas	-	-	-	-	-	-	-	-	-	-	-
19		Other	145,862	(1,535)	-	(336)	(3,673)	-	-	-	-	-	140,318
20		Water Treatment Expenses	102,714	4	-	(104)	-	-	-	-	-	-	102,614
21		Transmission and Distribution Expenses	170,241	(1,246)	-	(1,096)	(38,392)	-	-	-	-	-	129,507
22		Customer Accounting Expenses	98,134	(870)	-	(295)	-	-	-	-	-	-	96,969
23		Sales Expense	-	-	-	-	-	-	-	-	-	-	-
24		Administrative and General Expenses	180,495	(540)	-	(107)	-	(3,500)	(1,927)	-	-	-	174,421
25		Total Operation and Maintenance Expense	$ 925,114	$ (5,397)	$ -	$ (1,971)	$ (42,065)	$ (3,500)	$ (1,927)	$ -	$ -	$ -	$ 870,254
26										-	-	-	
27		Depreciation and Amortization Expenses	434,755	-	-	-	-	-	-	-	-	-	434,755
28										-	-	-	
29		Taxes								-	-	-	
30		Federal Income Taxes	(14,449)	-	-	-	-	-	-	-	14,242	-	(207)
31		State Income Taxes	(3,183)	-	-	-	-	-	-	-	3,080	-	(103)
32		Property Taxes	60,835	-	-	-	-	-	-	-	-	12,365	73,200
33		Other	19,317	-	-	-	-	-	-	-	-	-	19,317
34		Total Taxes	$ 62,520	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 17,322	$ 12,365	$ 92,207
35			-	-	-	-	-	-	-	-	-	-	-
36		Total Operating Expenses	$ 1,422,389	$ (5,397)	$ -	$ (1,971)	$ (42,065)	$ (3,500)	$ (1,927)	$ -	$ 17,322	$ 12,365	$ 1,397,216
37													
38		Operating Income (Loss)	$ 162,083	$ 3,491	$ -	$ 1,971	$ 42,065	$ 3,500	$ 1,927	$ -	$ (17,322)	$ (12,365)	$ 185,350

Arizona Water Company - White Tank
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Test Year ended December 31, 2010

Schedule JMM-9

OPERATING INCOME ADJUSTMENT NO. 1 - REVERSE NET UNBILLED REVENUES AND EXPENSES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF[1] RECOMMENDED
1	Residential	$ 1,316,944	$ (2,712)	$ 1,314,232
2	Commercial	172,061	877	172,938
3	Industrial	25,159	(71)	25,088
4	Revenue Adjustments	$ 1,514,164	$ (1,906)	$ 1,512,258
5				
6	Source Supply - Other	$ 15,430	$ -	$ 15,430
7	Unbilled Expenses	6	(6)	-
8	Total Source Supply - Other	$ 15,436	$ (6)	$ 15,430
9				
10	Purchased Power	$ 146,135	$ -	$ 146,135
11	Unbilled Expenses	1,203	(1,203)	-
12	Total Purchased Power	$ 147,338	$ (1,203)	$ 146,135
13				
14	Pumping Expense - Other	$ 144,327	$ -	$ 144,327
15	Unbilled Expenses	1,535	(1,535)	-
16	Total Pumping Expense - Other	$ 145,862	$ (1,535)	$ 144,327
17				
18	Water Treatment Expenses	$ 102,718	$ -	$ 102,718
19	Unbilled Expenses	(4)	4	-
20	Total Water Treatment Expenses	$ 102,714	$ 4	$ 102,718
21				
22	Transmission and Distribution Expenses	$ 168,995	$ -	$ 168,995
23	Unbilled Expenses	1,246	(1,246)	-
24	Total Transmission and Distribution Expenses	$ 170,241	$ (1,246)	$ 168,995
25				
26	Customer Accounting Expenses	$ 97,264	$ -	$ 97,264
27	Unbilled Expenses	870	(870)	-
28	Total Customer Accounting Expenses	$ 98,134	$ (870)	$ 97,264
29				
30	Administrative and General Expenses	$ 179,955	$ -	$ 179,955
31	Unbilled Expenses	540	(540)	-
32	Total Administrative and General Expenses	$ 180,495	$ (540)	$ 179,955
33				
34	Total Expense Adjustments	$ 860,220	$ (5,397)	$ 854,823

[1] Amounts do not reflect other adjustments.

References:
Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT NO. 2 - NOT USED

Arizona Water Company - White Tank
Docket No. W-01445A-10-0517
Test Year ended December 31, 2010

Schedule JMM-11

OPERATING INCOME ADJUSTMENT NO. 3 - FLEET FUEL EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF[1] RECOMMENDED
1	Source Supply - Other	$ 1,584,384	$ -	$ 1,584,384
2	Fleet Fuel Expenses	88	(33)	55
3	Total Source Supply - Other	$ 1,584,472	$ (33)	$ 1,584,439
4				
5	Pumping Expense - Other	$ 144,972	$ -	$ 144,972
6	Fleet Fuel Expenses	890	(336)	554
7	Total Pumping Expense - Other	$ 145,862	$ (336)	$ 145,526
8				
9	Water Treatment Expenses	$ 102,438	$ -	$ 102,438
10	Fleet Fuel Expenses	276	(104)	172
11	Total Water Treatment Expenses	$ 102,714	$ (104)	$ 102,610
12				
13	Transmission and Distribution Expenses	$ 137,523	$ -	$ 137,523
14	Fleet Fuel Expenses	32,718	(1,096)	31,622
15	Total Transmission and Distribution Expenses	$ 170,241	$ (1,096)	$ 169,145
16				
17	Customer Accounting Expenses	$ 89,315	$ -	$ 89,315
18	Fleet Fuel Expenses	8,819	(295)	8,524
19	Total Customer Accounting Expenses	$ 98,134	$ (295)	$ 97,839
20				
21	Administrative and General Expenses	$ 180,211	$ -	$ 180,211
22	Fleet Fuel Expenses	284	(107)	177
23	Total Administrative and General Expenses	$ 180,495	$ (107)	$ 180,388
24				
25	Total Expense Adjustments	$ 2,281,918	$ (1,971)	$ 2,279,947
26				
27				
28	Staff's Calculation based on the most recent 12 month gas price of $ 3.31			
29				
30		Company Pro-forma	Staff's Recalculation	Reduction
31	Source Supply - Other	$ 88	$ 55	$ 33
32	Pumping Expenses Other	890	554	336
33	Water Treatment Expenses	276	172	104
34	Transmission and Distribution Expenses	2,906	1,810	1,096
35	Customer Accounting Expenses	783	488	295
36	Administrative and General Expenses	284	177	107
37	Totals	$ 5,227	$ 3,256	$ 1,971

[1] Amounts do not reflect other adjustments.

References:
Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

Arizona Water Company - White Tank
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Schedule JMM-12

OPERATING INCOME ADJUSTMENT NO. 4 - REMOVAL OF NORMALIZATION EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF[1] RECOMMENDED
1	Pumping Expenses - Other	$ 142,189	$ -	$ 142,189
2	Normalization of Pumping Expenses	3,673	(3,673)	$ -
3	Total Pumping Expense - Other	$ 145,862	$ (3,673)	$ 142,189
4				
5	Transmission and Distribution Expenses	$ 131,849	$ -	$ 131,849
6	Normalization of Transmission and Distribution Expenses	38,392	(38,392)	-
7	Total Transmission and Distribution Expenses	$ 170,241	$ (38,392)	$ 131,849

[1] Amounts do not reflect other adjustments.

References:
Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

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Schedule JMM-13

OPERATING INCOME ADJUSTMENT NO. 5 - REMOVAL OF ADDITIONAL BMP COSTS

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF[1] RECOMMENDED
1	Administrative and General Expenses	$ 176,995	$ -	$ 176,995
2	Removal of Additional BMP Costs	3,500	(3,500)	-
3	Total Administrative and General	$ 180,495	$ (3,500)	$ 176,995

[1] Total A&G amount does not reflect Adjustment Nos. 1, 3 and 6.

References:
Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

Arizona Water Company - White Tank
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Schedule JMM-14

OPERATING INCOME ADJUSTMENT NO. 6 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF[1] RECOMMENDED
1	Administrative and General Expenses	$ 177,199	$ -	$ 177,199
2	Rate Case Expense Pro Forma	3,296	(1,927)	1,369
3	Total Administrative and General	$ 180,495	$ (1,927)	$ 178,568

Staff's Calculation of Rate Case Expense for Pinal Valley

Line No.	System		Average Number of Customers	[A] T.Y. 2010 Rate Case Expense Estimate / Spread	[B] Normalization Period in Years	[C] Annual Amortization / Pro Forma Rate Case Exp.	[D] T.Y. 2010 Prior Rate Case Expense Charged to O&M - 928.2	[E] Increase / (Decrease)
1								
2	All Systems							
3		Pinal Valley	28,030	206,770.75	3			
4		White Tank	1,927	14,211.26	3	$ 4,737	$ 3,368	$ 1,369
5		Ajo	679	5,009.41	3			
6		Superstition	23,792	175,503.90	3			
7		Cochise	6,404	47,243.60	3			
8		San Manuel	1,476	10,886.20	3			
9		Oracle	1,521	11,216.31	3			
10		SaddleBrooke Ranch	89	652.84	3			
11		Winkelman	157	1,155.07	3			
12		Navajo	9,090	67,056.86	3			
13		Verde Valley	10,569	77,965.19	3			
14			83,733	617,671				
27								
28	Rate Case Expense Incurred Last Time			$ 617,671		$ 4,737	$ 3,368	$ 1,369
29								
30	Company Proposed Rate Case Expense Pro Forma							$ 3,296
31								
32	Staff Recommended Rate Case Expense							$ (1,927)

[1] Total A&G amount does not reflect Adjustment Nos. 1, 3 and 5.

References:
Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

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Schedule JMM-15

OPERATING INCOME ADJUSTMENT NO. 7 - NOT USED

LINE NO.	ACCT NO.	DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	301	Organization Cost	$ 20	$ 20	$ (0)	0.00%	$ -
2	302	Franchise Cost	$ -	$ -	$ -	4.00%	$ -
3	303	Other Intangibles	$ 14,340	$ -	$ 14,340	6.49%	$ 931
4	310.1	Water Rights	$ 26,224	$ -	$ 26,224	0.00%	$ -
5	310.3	Other Source of Supply Land	$ 45,045	$ -	$ 45,045	0.00%	$ -
6	310.4	Wells - Other	$ -	$ -	$ -	2.50%	$ -
7	314	Wells	$ 1,440,680	$ -	$ 1,440,680	3.13%	$ 45,093
8	320	Pumping Plant Land	$ -	$ -	$ -	0.00%	$ -
9	321	Pumping Plant Structures & Improvements	$ 22,985	$ -	$ 22,985	2.86%	$ 657
10	325	Electric Pumping Equipment	$ 1,599,928	$ -	$ 1,599,928	5.88%	$ 94,076
11	328	Gas Engine Equipment	$ -	$ -	$ -	4.00%	$ -
12	330	Water Treatment Plant - Land	$ -	$ -	$ -	0.00%	$ -
13	331	Water Treatment Structures and Improvements	$ 40,103	$ -	$ 40,103	2.50%	$ 1,003
14	332	Water Treatment Equipment	$ 1,650,561	$ -	$ 1,650,561	2.86%	$ 47,206
15	340	Transmission and Distribution - Land	$ 35,990	$ -	$ 35,990	0.00%	$ -
16	342	Storage Tanks	$ 478,301	$ -	$ 478,301	2.00%	$ 9,566
17	343	Transmission and Distribution Mains	$ 10,044,531	$ -	$ 10,044,531	1.79%	$ 179,797
18	344	Fire Sprinkler Taps	$ 41,067	$ -	$ 41,067	2.00%	$ 821
19	345	Services	$ 1,952,221	$ -	$ 1,952,221	2.38%	$ 46,463
20	346	Meters	$ 244,729	$ -	$ 244,729	4.55%	$ 11,135
21	348	Hydrants	$ 623,530	$ -	$ 623,530	1.82%	$ 11,348
22	389	General Plant Land	$ -	$ -	$ -	0.00%	$ -
23	390	General Plant Structures	$ 36,903	$ -	$ 36,903	2.50%	$ 923
24	390.1	Leasehold Improvements	$ 46,910	$ -	$ 46,910	1.74%	$ 815
25	391	Office Furniture & Equipment	$ 176,345	$ -	$ 176,345	6.67%	$ 11,762
26	393	Warehouse Equipment	$ 1,689	$ -	$ 1,689	5.00%	$ 84
27	394	Tools, Shops, and Garage Equipment	$ 42,933	$ -	$ 42,933	4.00%	$ 1,717
28	395	Laboratory Equipment	$ 6,790	$ -	$ 6,790	5.00%	$ 340
29	396	Power Operated Equipment	$ 1,832	$ -	$ 1,832	6.67%	$ 122
30	397	Communications Equipment	$ 106,078	$ -	$ 106,078	6.67%	$ 7,075
31	398	Miscellaneous Equipment	$ 13,270	$ -	$ 13,270	3.33%	$ 442
32		Intentionally Left Blank					
33		Total Plant	$ 18,693,007	$ 20	$ 18,692,987		$ 471,377
34							
35		Composite Depreciation Rate (Depr Exp / Depreciable Plant):	2.00%				
36		CIAC:	$ 1,831,118				
37		Amortization of CIAC (Line 35 x Line 36):	$ 36,622				
38							
39		Depreciation Expense Before Amortization of CIAC:	$ 471,377				
40		Less Amortization of CIAC:	$ 36,622				
41		**Test Year Depreciation Expense - Staff:**	**$ 434,755**				
42		Depreciation Expense - Company:	$ 434,755				
43		**Staff's Total Adjustment:**	**$ (0)**				

References:
Column [A]: Schedule JMM-4
Column [B]: From Column [A]
Column [C]: Column [A] - Column [B]
Column [D]: Engineering Staff Report
Column [E]: Column [C] x Column [D]

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Schedule JMM-16

OPERATING INCOME ADJUSTMENT NO. 8 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Federal Income Taxes	$ (14,449)	$ 14,242	$ (207)
2	State Income Taxes	(3,183)	3,080	(103)
3	Federal and State Income Taxes	$ (17,632)	$ 17,322	$ (310)

References:
Column (A), Company Schedule C-1
Column (B): Column [C] - Column [A]
Column (C): Schedule JMM-2

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Schedule JMM-17

OPERATING INCOME ADJUSTMENT NO. 9 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	$ 1,582,565	$ 1,582,565
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	3,165,130	$ 3,165,130
4	Staff Recommended Revenue, Per Schedule JMM-1	1,582,565	$ 2,060,889
5	Subtotal (Line 4 + Line 5)	4,747,695	5,226,019
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	1,582,565	$ 1,742,006
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	3,165,130	$ 3,484,013
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	3,165,130	$ 3,484,013
13	Assessment Ratio	20.5%	20.5%
14	Assessment Value (Line 12 * Line 13)	648,852	$ 714,223
15	Composite Property Tax Rate (Per Company Schedule)	11.2814%	11.2814%
16			
17	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	$ 73,200	
18	Company Proposed Property Tax	60,835	
19			
20	Staff Test Year Adjustment (Line 17-Line 18)	$ 12,365	
21	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		$ 80,575
22	Staff Test Year Adjusted Property Tax Expense (Line 17)		$ 73,200
23	Increase in Property Tax Expense Due to Increase in Revenue Requirement		$ 7,375
24			
25	Increase to Property Tax Expense		$ 7,375
26	Increase in Revenue Requirement		478,324
27	Increase to Property Tax per Dollar Increase in Revenue (Line25/Line 26)		1.541795%

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Schedule JMM-18

Arizona Water Company Cost of Capital Calculation
Capital Structure
And Weighted Average Cost of Capital
Staff Recommended and Company Proposed

[A]	[B]	[C]	[D]
Description	Weight (%)	Cost	Weighted Cost
Staff Recommended Structure			
Debt	49.0%	6.8%	3.3%
Common Equity	51.0%	10.0%	5.1%
Weighted Average Cost of Capital			**8.4%**
Company Proposed Structure[1]			
Debt	49.0%	6.8%	3.3%
Common Equity	51.0%	12.1%	6.2%
Weighted Average Cost of Capital			**9.5%**

[1] Company Schedule D-1, page 2

[D] : [B] x [C]

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DIRECT TESTIMONY OF Jeffrey M. Michlik

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Schedule JMM-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY FAIR VALUE	(B) STAFF FAIR VALUE
1	Adjusted Rate Base	$ 992,500	$ 987,646
2	Adjusted Operating Income (Loss)	$ 82,346	$ 109,463
3	Current Rate of Return (L2 / L1)	8.30%	11.08%
4	Required Rate of Return	9.51%	8.40%
5	Required Operating Income (L4 * L1)	$ 94,424	$ 82,962
6	Operating Income Deficiency (L5 - L2)	$ 12,079	$ (26,500)
7	Gross Revenue Conversion Factor	1.6548	1.5726
8	Required Revenue Increase/Decrease (L7 * L6)	$ 19,988	**$ (41,676)**
9	Adjusted Test Year Revenue	$ 509,594	$ 515,694
10	Proposed Annual Revenue (L8 + L9)	$ 529,583	$ 474,018
11	Required Increase in Revenue (%)	3.92%	-8.08%

References:
Column (A): Company Schedule A-1
Column (B): Staff Schedules JMM-3 and JMM-7

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Schedule JMM-2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	Calculation of Gross Revenue Conversion Factor:				
1	Revenue	100.0000%			
2	Uncollecible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	36.4125%			
5	Subtotal (L3 - L4)	63.5875%			
6	**Revenue Conversion Factor (L1 / L5)**	1.572636			
	Calculation of Uncollecttible Factor:				
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 23)	35.4167%			
9	One Minus Combined Income Tax Rate (L7 - L8)	64.5833%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
	Calculation of Effective Tax Rate:				
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 55)	30.5795%			
16	Effective Federal Income Tax Rate (L14 x L15)	28.4487%			
17	Combined Federal and State Income Tax Rate (L13 +L16)		35.4167%		
	Calculation of Effective Property Tax Factor				
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	35.4167%			
20	One Minus Combined Income Tax Rate (L18-L19)	64.5833%			
21	Property Tax Factor (JMM-17, L27)	1.5418%			
22	Effective Property Tax Factor (L20*L21)		0.9957%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			36.4125%	
24	Required Operating Income (Schedule JMM-1, Line 5)	$ 82,962			
25	AdjustedTest Year Operating Income (Loss)	109,463			
26	Required Increase in Operating Income (L24 - L25)		$ (26,500)		
27	Income Taxes on Recommended Revenue (Col. [E], L52)	$ 14,654			
28	Income Taxes on Test Year Revenue (Col. [B], L52)	29,186			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		(14,533)		
30	Recommended Revenue Requirement (Schedule JMM-1, Line 10)	$ 474,018			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncolllectible Expense on Recommended Revenue (L30*L31)	$ -			
33	Adjusted Test Year Uncollectible Expense	$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)		-		
35	Property Tax with Recommended Revenue (JMM-17, Col B, L31)	$ 23,210			
36	Property Tax on Test Year Revenue (JMM-17, Col A, L17)	23,853			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		(643)		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		$ (41,676)		

		Test Year		Staff Recommended
	Calculation of Income Tax:			
39	Revenue (Schedule JMM-7, Col. [C], Line 5 & Sch. JMM-1, Col. [D] Line 10)	$ 515,694	$ (41,676)	$ 474,018
40	Operating Expenses Excluding Income Taxes	$ 377,046		$ 376,403
41	Synchronized Interest (L56)	$ 32,592		$ 32,592
42	Arizona Taxable Income (L39 - L40 - L41)	$ 106,056		$ 65,023
43	Arizona State Income Tax Rate	6.9680%		6.9680%
44	Arizona Income Tax (L42 x L43)	$ 7,390		$ 4,531
45	Federal Taxable Income (L42 - L44)	$ 98,666		$ 60,492
46	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ 7,500		$ 7,500
47	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	$ 6,250		$ 2,623
48	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ 8,046		$ -
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	$ 21,796		$ 10,123
52	Combined Federal and State Income Tax (L44 + L51)	$ 29,186		$ 14,654

53	Applicable Federal Income Tax Rate [Col. [E], L51 - Col. [B], L51] / [Col. [E], L45 - Col. [B], L45]	30.5795%

	Calculation of Interest Synchronization:	
54	Rate Base (Schedule JMM-3, Col. (C), Line 17	$ 987,646
55	Weighted Average Cost of Debt	3.3000%
56	Synchronized Interest (L45 X L46)	$ 32,592

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Schedule JMM-3

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	Adj. No.	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 2,314,881	$ -	1	$ 2,314,882
2	Less: Accumulated Depreciation	966,588	-		966,588
3	Net Plant in Service	$ 1,348,293	$ -		$ 1,348,294
	LESS:				
4	Contributions in Aid of Construction (CIAC)	$ 88,150	$ -		$ 88,150
5	Less: Accumulated Amortization	20,177	-		$ 20,177
6	Net CIAC	67,973	-		$ 67,973
7	Advances in Aid of Construction (AIAC)	106,162	-		106,162
8	Customer Deposits	7,929	-		7,929
9	Deferred Income Tax Credits	190,261	-		190,261
	ADD:				
9	Working Capital	16,531	(4,854)	2	11,677
10	Deferred Regulatory Assets	-	-		-
11	**Original Cost Rate Base**	$ 992,500	$ (4,854)		$ 987,646

References:
Column [A]: Company as Filed
Column [B]: Schedule JMM-4
Column (C): Column (A) + Column (B)

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Schedule JMM-4

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Not Used Ref: Sch JMM-5	[C] ADJ #2 Cash Working Capital Ref: Sch JMM-6	[D] STAFF ADJUSTED
PLANT IN SERVICE:						
2	301	Organization Cost	$ 5	$ -	$ -	$ 5
3	302	Franchise Cost	-	-	-	$ -
4	303	Other Intangibles	4,576	-	-	$ 4,576
5	310.1	Water Rights	10,222	-	-	$ 10,222
6	310.3	Other Source of Supply Land	1	-	-	$ 1
7	310.4	Wells - Other	-	-	-	$ -
8	314	Wells	802	-	-	$ 802
9	320	Pumping Plant Land	3,208	-	-	$ 3,208
10	321	Pumping Plant Structures & Improvements	3,015	-	-	$ 3,015
11	325	Electric Pumping Equipment	83,008	-	-	$ 83,008
12	328	Gas Engine Equipment	-	-	-	$ -
13	330	Water Treatment Plant - Land	-	-	-	$ -
14	331	Water Treatment Structures and Improvements	-	-	-	$ -
15	332	Water Treatment Equipment	4,305	-	-	$ 4,305
16	340	Transmission and Distribution - Land	6,065	-	-	$ 6,065
17	342	Storage Tanks	160,595	-	-	$ 160,595
18	343	Transmission and Distribution Mains	1,386,670	-	-	$ 1,386,670
19	344	Fire Sprinkler Taps	28,759	-	-	$ 28,759
20	345	Services	306,627	-	-	$ 306,627
21	346	Meters	51,129	-	-	$ 51,129
22	348	Hydrants	79,863	-	-	$ 79,863
23	389	General Plant Land	-			$ -
24	390	General Plant Structures	47,215	-	-	$ 47,215
25	390.1	Leasehold Improvements	11,573	-	-	$ 11,573
26	391	Office Furniture & Equipment	46,681	-	-	$ 46,681
27	393	Warehouse Equipment	287	-	-	$ 287
28	394	Tools, Shops, and Garage Equipment	10,804	-	-	$ 10,804
29	395	Laboratory Equipment	34,923	-	-	$ 34,923
30	396	Power Operated Equipment	3,245	-	-	$ 3,245
31	397	Communications Equipment	30,481			$ 30,481
32	398	Miscellaneous Equipment	822			$ 822
33		Intentionally Left Blank		-	-	$ -
34			2,314,881	-	-	2,314,882
35			-	-		-
36		Total Plant in Service	$ 2,314,881	$ -	$ -	$ 2,314,882
37						
40		Less: Accumulated Depreciation	966,588	-	-	966,588
41			-	-	-	-
42		Net Plant in Service	$ 1,348,293	$ -	$ -	$ 1,348,294
43						
44		*LESS:*				
45		Contributions in Aid of Construction (CIAC)	$ 88,150	$ -	$ -	$ 88,150
46		Less: Accumulated Amortization	20,177	-	-	20,177
47		Net CIAC (L25 - L26)	67,973	-	-	67,973
48		Advances in Aid of Construction (AIAC)	106,162	-	-	106,162
49		Customer Deposits	7,929	-	-	7,929
50		Deferred Income Taxes	190,261	-	-	190,261
51						
52						
53		*ADD:*				
54		Working Capital	16,531	-	(4,854)	11,677
55		Deffered Regulatory Assets	-	-	-	-
56						
57		**Original Cost Rate Base**	$ 992,500	$ -	$ (4,854)	$ 987,646

RATE BASE ADJUSTMENT NO. 1 - NOT USED

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Schedule JMM-6

RATE BASE ADJUSTMENT NO. 2 - CASH WORKING CAPITAL

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1		Working Capital	$ 16,531	$ (4,854)	$ 11,677

		Test Year Adjusted Results	Revenue	Expense	Net Lag Days [B - C]	Lead / Lag Factor [D ÷ 365]	Working Cash Requirement [A X E]
8	Staff's Calculation						
9	Purchased Power	$ 3,083	28.95	30.87	(1.93)	(0.0053)	$ (16)
10	Payroll	76,021	28.95	14.00	14.95	0.0409	3,113
11	Purchased Water	147,188	28.95	38.97	(10.03)	(0.0275)	(4,043)
12	Chemicals	1,146	28.95	(18.11)	47.06	0.1289	148
13	Property & Liability Insurance	4,155	28.95	(45.27)	74.22	0.2033	845
14	Workman's Compensation Insurance	950	28.95	(46.50)	75.45	0.2067	196
15	Health Insurance	14,052	28.95	(8.92)	37.87	0.1037	1,458
16	Other O&M (Excluding Rate Case Expense)	52,754	28.95	(9.27)	38.22	0.1047	5,523
17	Federal Income Taxes	31,535	28.95	37.00	(8.06)	(0.0221)	(696)
18	State Income Taxes	6,947	28.95	37.00	(8.06)	(0.0221)	(153)
19	FICA Taxes	5,695	28.95	14.00	14.95	0.0409	233
20	FUTA & SUTA Taxes	167	28.95	83.10	(54.16)	(0.1484)	(25)
21	Property Taxes	24,461	28.95	212.00	(183.06)	(0.5015)	(12,268)
22	Registration, Svc. Contracts, & Misc. Fees	4,006	28.95	(98.83)	127.78	0.3501	1,402
23	Retirement Annuities (401k)	7,203	28.95	34.72	(5.78)	(0.0158)	(114)
26		$ 379,364					$ (4,396)
27	Subtotal						
29	Interest Expense	33,209	28.95	91.25	(62.31)	(0.1707)	(5,669)
30	Cost of Equity	-	28.95	-	28.95	0.0793	-
32	Subtotal	$ 33,209					$ (5,669)
35	Total	412,574					$ (10,065)
37	Company Cash Working Capital						$ (5,211)
39	Increase/(Decrease)						$ (4,854)

REFERENCES:
Column [A]: Company Filing
Column [B]: Direct Testimony JMM
Column [C]: Column [A] + Column [B]

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Schedule JMM-7

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	*OPERATING REVENUES:*					
2	Residential	$ 380,053	$ 4,637	$ 384,690	$ (41,676)	$ 343,014
3	Commercial	122,455	1,463	123,918	-	123,918
4	Industrial	-	-	-	-	-
5	Private Fire Service	653		653		653
6	Other Water Revenues	2,665	-	2,665	-	2,665
7	Total Water Revenues	$ 505,826	$ 6,100	$ 511,926	$ (41,676)	$ 470,250
8						
9	Miscellaneous	3,768.00		3,768.00		3,768
10	Total Operating Revenues	$ 509,594	$ 6,100	$ 515,694	$ (41,676)	$ 474,018
11						
12	*OPERATING EXPENSES:*					
13	Source of Supply Expenses					
14	Purchased Water	$ 147,188	$ -	$ 147,188	$ -	$ 147,188
15	Other	467	(11)	456	-	456
16	Pumping Expenses					
17	Purchased Power	3,083	-	3,083	-	3,083
18	Purchased Gas	-	-	-	-	-
19	Other	11,299	(2,052)	9,247	-	9,247
20	Water Treatment Expenses	8,155	142	8,297	-	8,297
21	Transmission and Distribution Expenses	59,614	(13,790)	45,824	-	45,824
22	Customer Accounting Expenses	30,955	(147)	30,808	-	30,808
23	Sales Expense	-	-	-	-	-
24	Administrative and General Expenses	54,423	(3,164)	51,259	-	51,259
25	Total Operation and Maintenance Expense	315,184	(19,022)	296,162	-	296,162
26						
27	Depreciation and Amortization Expenses	52,300	-	52,300	-	52,300
28						
29	Taxes					
30	Federal Income Taxes	25,312	(3,516)	21,796	(11,673)	10,123
31	State Income Taxes	5,576	1,814	7,390	(2,859)	4,531
32	Property Taxes	24,146	(293)	23,853	(643)	23,210
33	Other	4,731	-	4,731	-	4,731
34	Total Taxes	59,765	(1,995)	57,770	(15,175)	42,595
35		-	-	-	-	-
36		-	-	-	-	-
37	Total Operating Expenses	427,249	(21,017)	406,232	(15,175)	391,057
38						
39	Operating Income (Loss)	$ 82,346	$ 27,117	$ 109,463	$ (26,500)	$ 82,961

References:
Column (A): Company Schedule C-1
Column (B): Schedule JMM-8
Column (C): Column (A) + Column (B)
Column (D): Schedules JMM-16 and JMM-17
Column (E): Column (C) + Column (D)

Arizona Water Company - Ajo
Docket No. W-01445A-10-0517
Test Year ended December 31, 2010

Schedule JMM-8

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Reverse Net Unbilled Revenues and Expenses ADJ #1	[C] Not Used ADJ #2	[D] Fleet Fuel Expense ADJ #3	[E] Removal of Pumping Transmission and Distribution Normalization ADJ #4	[F] Not Used ADJ #5	[G] Rate Case Expense ADJ #6	[H] Not Used ADJ #7	[M] Income Tax Expense ADJ #8	[H] Property Expense ADJ #9	[I] STAFF ADJUSTED
1		*OPERATING REVENUES:*		Ref: Sch JMM-9	Ref: Sch JMM-10	Ref: Sch JMM-11	Ref: Sch JMM-12	Ref: Sch JMM-13	Ref: Sch JMM-14	Ref: Sch JMM-15	Ref: Sch JMM-16	Ref: Sch JMM-17	
2		Residential	$ 380,053	$ 4,637	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 384,690
3		Commercial	122,455	1,463	-	-	-	-	-	-	-	-	123,918
4		Industrial	-	-	-	-	-	-	-	-	-	-	-
5		Private Fire Service	653	-	-	-	-	-	-				653
6		Other Water Revenues	2,665	-	-	-	-	-	-	-	-	-	2,665
7		Total Water Revenues	$ 505,827	$ 6,100	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 511,926
8													
9		Miscellaneous	$ 3,768										$ 3,768
10		Total Operating Revenues	$ 509,595	$ 6,100	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 515,695
11													
12		*OPERATING EXPENSES:*											
13		Source of Supply Expenses								$ -	$ -	$ -	$ -
14		Purchased Water	$ 147,188	-	-	-	-	-	-	-	-	-	147,188
15		Other	467	(2)	-	(9)	-	-	-	-	-	-	456
16		Pumping Expenses								-	-	-	
17		Purchased Power	3,083	-	-	-	-	-	-	-	-	-	3,083
18		Purchased Gas	-	-	-	-	-	-	-	-	-	-	-
19		Other	11,299	(17)	-	(83)	(1,952)	-	-	-	-	-	9,247
20		Water Treatment Expenses	8,155	168	-	(26)	-	-	-	-	-	-	8,297
21		Transmission and Distribution Expenses	59,614	(345)	-	(270)	(13,175)	-	-	-	-	-	45,824
22		Customer Accounting Expenses	30,955	(74)	-	(73)	-	-	-	-	-	-	30,808
23		Sales Expense	-	-	-	-	-	-	-	-	-	-	-
24		Administrative and General Expenses	54,423	(180)	-	(26)	-	-	(2,957)	-	-	-	51,259
25		Total Operation and Maintenance Expense	$ 315,184	$ (451)	$ -	$ (487)	$ (15,127)	$ -	$ (2,957)	$ -	$ -	$ -	$ 296,162
26										-	-	-	
27		Depreciation and Amortization Expenses	52,300	-	-	-	-	-	-	-	-	-	52,300
28										-	-	-	
29		Taxes								-	-	-	
30		Federal Income Taxes	25,312	-	-	-	-	-	-	-	(3,516)	-	21,796
31		State Income Taxes	5,576	-	-	-	-	-	-	-	1,814	-	7,390
32		Property Taxes	24,146	-	-	-	-	-	-	-	-	(293)	23,853
33		Other	4,731	-	-	-	-	-	-	-	-	-	4,731
34		Total Taxes	$ 59,765	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (1,702)	$ (293)	$ 57,770
35			-	-	-	-	-	-	-	-	-	-	-
36		Total Operating Expenses	$ 427,249	$ (451)	$ -	$ (487)	$ (15,127)	$ -	$ (2,957)	$ -	$ (1,702)	$ (293)	$ 406,232
37													
38		Operating Income (Loss)	$ 82,346	$ 6,551	$ -	$ 487	$ 15,127	$ -	$ 2,957	$ -	$ 1,702	$ 293	$ 109,463

Arizona Water Company - Ajo
Docket No. W-01445A-10-0517
Test Year ended December 31, 2010

Schedule JMM-9

OPERATING INCOME ADJUSTMENT NO. 1 - REVERSE NET UNBILLED REVENUES AND EXPENSES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF[1] RECOMMENDED
1	Residential	$ 380,053	$ 4,637	$ 384,690
2	Commercial	122,455	1,463	123,918
3	Industrial	-	-	-
4	Revenue Adjustments	$ 502,508	$ 6,100	$ 508,608
5				
6	Source Supply - Other	$ 465	$ -	$ 465
7	Unbilled Expenses	2	(2)	-
8	Total Source Supply - Other	$ 467	$ (2)	$ 465
9				
10	Purchased Power	$ 3,083	$ -	$ 3,083
11	Unbilled Expenses	-	-	-
12	Total Purchased Power	$ 3,083	$ -	$ 3,083
13				
14	Pumping Expense - Other	$ 11,282	$ -	$ 11,282
15	Unbilled Expenses	17	(17)	-
16	Total Pumping Expense - Other	$ 11,299	$ (17)	$ 11,282
17				
18	Water Treatment Expenses	$ 8,323	$ -	$ 8,323
19	Unbilled Expenses	(168)	168	-
20	Total Water Treatment Expenses	$ 8,155	$ 168	$ 8,323
21				
22	Transmission and Distribution Expenses	$ 59,269	$ -	$ 59,269
23	Unbilled Expenses	345	(345)	-
24	Total Transmission and Distribution Expenses	$ 59,614	$ (345)	$ 59,269
25				
26	Customer Accounting Expenses	$ 30,881	$ -	$ 30,881
27	Unbilled Expenses	74	(74)	-
28	Total Customer Accounting Expenses	$ 30,955	$ (74)	$ 30,881
29				
30	Administrative and General Expenses	$ 54,243	$ -	$ 54,243
31	Unbilled Expenses	180	(180)	-
32	Total Administrative and General Expenses	$ 54,423	$ (180)	$ 54,243
33				
34	Total Expense Adjustments	$ 167,996	$ (451)	$ 167,545

[1] Amounts do not reflect other adjustments.

References:
Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT NO. 2 - NOT USED

Arizona Water Company - Ajo
Docket No. W-01445A-10-0517
Test Year ended December 31, 2010

Schedule JMM-11

OPERATING INCOME ADJUSTMENT NO. 3 - FLEET FUEL EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF[1] RECOMMENDED
1	Source Supply - Other	$ 509,573	$ -	$ 509,573
2	Fleet Fuel Expenses	22	(9)	13
3	Total Source Supply - Other	$ 509,595	$ (9)	$ 509,586
4				
5	Pumping Expense - Other	$ 11,079	$ -	$ 11,079
6	Fleet Fuel Expenses	220	(83)	137
7	Total Pumping Expense - Other	$ 11,299	$ (83)	$ 11,216
8				
9	Water Treatment Expenses	$ 8,087	$ -	$ 8,087
10	Fleet Fuel Expenses	68	(26)	42
11	Total Water Treatment Expenses	$ 8,155	$ (26)	$ 8,129
12				
13	Transmission and Distribution Expenses	$ 26,896	$ -	$ 26,896
14	Fleet Fuel Expenses	32,718	(270)	32,448
15	Total Transmission and Distribution Expenses	$ 59,614	$ (270)	$ 59,344
16				
17	Customer Accounting Expenses	$ 22,136	$ -	$ 22,136
18	Fleet Fuel Expenses	8,819	(73)	8,746
19	Total Customer Accounting Expenses	$ 30,955	$ (73)	$ 30,882
20				
21	Administrative and General Expenses	$ 54,353	$ -	$ 54,353
22	Fleet Fuel Expenses	70	(26)	44
23	Total Administrative and General Expenses	$ 54,423	$ (26)	$ 54,397
24				
25	Total Expense Adjustments	$ 674,041	$ (487)	$ 673,554
26				
27				
28	Staff's Calculation based on the most recent 12 month gas price of $ 3.31			
29				
30		Company Pro-forma	Staff's Recalculation	Reduction
31	Source Supply - Other	$ 22	$ 13	$ 9
32	Pumping Expenses Other	220	137	83
33	Water Treatment Expenses	68	42	26
34	Transmission and Distribution Expenses	717	447	270
35	Customer Accounting Expenses	193	120	73
36	Administrative and General Expenses	70	44	26
37	Totals	$ 1,290	$ 803	$ 487

[1] Amounts do not reflect other adjustments.

References:
Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

Arizona Water Company - Ajo
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Test Year ended December 31, 2010

Schedule JMM-12

OPERATING INCOME ADJUSTMENT NO. 4 - REMOVAL OF NORMALIZATION EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF[1] RECOMMENDED
1	Pumping Expenses - Other	$ 9,347	$ -	$ 9,347
2	Normalization of Pumping Expenses	1,952	(1,952)	$ -
3	Total Pumping Expense - Other	$ 11,299	$ (1,952)	$ 9,347
4				
5	Transmission and Distribution Expenses	$ 46,439	$ -	$ 46,439
6	Normalization of Transmission and Distribution Expenses	13,175	(13,175)	-
7	Total Transmission and Distribution Expenses	$ 59,614	$ (13,175)	$ 46,439

[1] Amounts do not reflect other adjustments.

References:
Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT NO. 5 - NOT USED

Arizona Water Company - Ajo
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Test Year ended December 31, 2010

Schedule JMM-14

OPERATING INCOME ADJUSTMENT NO. 6 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF[1] RECOMMENDED
1	Administrative and General Expenses	$ 51,127	$ -	$ 51,127
2	Rate Case Expense Pro Forma	3,296	(2,957)	339
3	Total Administrative and General	$ 54,423	$ (2,957)	$ 51,466

Staff's Calculation of Rate Case Expense for Pinal Valley

Line No.	System		Average Number of Customers	[A] T.Y. 2010 Rate Case Expense Estimate / Spread	[B] Normalization Period in Years	[C] Annual Amortization / Pro Forma Rate Case Exp.	[D] T.Y. 2010 Prior Rate Case Expense Charged to O&M - 928.2	[E] Increase / (Decrease)
1								
2	All Systems							
3		Pinal Valley	28,030	206,770.75	3			
4		White Tank	1,927	14,211.26	3			
5		Ajo	679	5,009.41	3	$ 1,670	$ 1,331	$ 339
6		Superstition	23,792	175,503.90	3			
7		Cochise	6,404	47,243.60	3			
8		San Manuel	1,476	10,886.20	3			
9		Oracle	1,521	11,216.31	3			
10		SaddleBrooke Ranch	89	652.84	3			
11		Winkelman	157	1,155.07	3			
12		Navajo	9,090	67,056.86	3			
13		Verde Valley	10,569	77,965.19	3			
14			83,733	617,671				
27								
28	Rate Case Expense Incurred Last Time			$ 617,671		$ 1,670	$ 1,331	$ 339
29								
30	Company Proposed Rate Case Expense Pro Forma							$ 3,296
31								
32	Staff Recommended Rate Case Expense							$ (2,957)

[1] Total A&G amount does not reflect Adjustment Nos. 1, 3 and 5.

References:
Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

Arizona Water Company - Ajo
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Test Year ended December 31, 2010

Schedule JMM-15

OPERATING INCOME ADJUSTMENT NO. 7 - NOT USED

LINE NO.	ACCT NO.	DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	301	Organization Cost	$ 5	$ 5	$ (0)	0.00%	$ -
2	302	Franchise Cost	$ -	$ -	$ -	4.00%	$ -
3	303	Other Intangibles	$ 4,576	$ -	$ 4,576	6.49%	$ 297
4	310.1	Water Rights	$ 10,222	$ -	$ 10,222	0.00%	$ -
5	310.3	Other Source of Supply Land	$ 1	$ -	$ 1	0.00%	$ -
6	310.4	Wells - Other	$ -	$ -	$ -	2.50%	$ -
7	314	Wells	$ 802	$ -	$ 802	3.13%	$ 25
8	320	Pumping Plant Land	$ 3,208	$ -	$ 3,208	0.00%	$ -
9	321	Pumping Plant Structures & Improvements	$ 3,015	$ -	$ 3,015	2.86%	$ 86
10	325	Electric Pumping Equipment	$ 83,008	$ -	$ 83,008	5.88%	$ 4,881
11	328	Gas Engine Equipment	$ -	$ -	$ -	4.00%	$ -
12	330	Water Treatment Plant - Land	$ -	$ -	$ -	0.00%	$ -
13	331	Water Treatment Structures and Improvements	$ -	$ -	$ -	2.50%	$ -
14	332	Water Treatment Equipment	$ 4,305	$ -	$ 4,305	2.86%	$ 123
15	340	Transmission and Distribution - Land	$ 6,065	$ -	$ 6,065	0.00%	$ -
16	342	Storage Tanks	$ 160,595	$ -	$ 160,595	2.00%	$ 3,212
17	343	Transmission and Distribution Mains	$ 1,386,670	$ -	$ 1,386,670	1.79%	$ 24,821
18	344	Fire Sprinkler Taps	$ 28,759	$ -	$ 28,759	2.00%	$ 575
19	345	Services	$ 306,627	$ -	$ 306,627	2.38%	$ 7,298
20	346	Meters	$ 51,129	$ -	$ 51,129	4.55%	$ 2,326
21	348	Hydrants	$ 79,863	$ -	$ 79,863	1.82%	$ 1,454
22	389	General Plant Land	$ -	$ -	$ -	0.00%	$ -
23	390	General Plant Structures	$ 47,215	$ -	$ 47,215	2.50%	$ 1,180
24	390.1	Leasehold Improvements	$ 11,573	$ -	$ 11,573	1.74%	$ 201
25	391	Office Furniture & Equipment	$ 46,681	$ -	$ 46,681	6.67%	$ 3,114
26	393	Warehouse Equipment	$ 287	$ -	$ 287	5.00%	$ 14
27	394	Tools, Shops, and Garage Equipment	$ 10,804	$ -	$ 10,804	4.00%	$ 432
28	395	Laboratory Equipment	$ 34,923	$ -	$ 34,923	5.00%	$ 1,746
29	396	Power Operated Equipment	$ 3,245	$ -	$ 3,245	6.67%	$ 216
30	397	Communications Equipment	$ 30,481	$ -	$ 30,481	6.67%	$ 2,033
31	398	Miscellaneous Equipment	$ 822	$ -	$ 822	3.33%	$ 27
32		Intentionally Left Blank					
33		Total Plant	$ 2,314,882	$ 5	$ 2,314,877		$ 54,063
34							
35		Composite Depreciation Rate (Depr Exp / Depreciable Plant):	2.00%				
36		CIAC:	$ 88,150				
37		Amortization of CIAC (Line 35 x Line 36):	$ 1,763				
38							
39		Depreciation Expense Before Amortization of CIAC:	$ 54,063				
40		Less Amortization of CIAC:	$ 1,763				
41		**Test Year Depreciation Expense - Staff:**	**$ 52,300**				
42		Depreciation Expense - Company:	$ 52,300				
43		**Staff's Total Adjustment:**	**$ (0)**				

References:
Column [A]: Schedule JMM-4
Column [B]: From Column [A]
Column [C]: Column [A] - Column [B]
Column [D]: Engineering Staff Report
Column [E]: Column [C] x Column [D]

Arizona Water Company - Ajo
Docket No. W-01445A-10-0517
Test Year ended December 31, 2010

Schedule JMM-16

OPERATING INCOME ADJUSTMENT NO. 8 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Federal Income Taxes	$ 25,312	$ (3,516)	$ 21,796
2	State Income Taxes	5,576	1,814	7,390
3	Federal and State Income Taxes	$ 30,888	$ (1,702)	$ 29,186

References:
Column (A), Company Schedule C-1
Column (B): Column [C] - Column [A]
Column (C): Schedule JMM-2

Arizona Water Company - Ajo
Docket No. W-01445A-10-0517
Test Year ended December 31, 2010

Schedule JMM-17

OPERATING INCOME ADJUSTMENT NO. 9 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	$ 515,694	$ 515,694
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	1,031,388	$ 1,031,388
4	Staff Recommended Revenue, Per Schedule JMM-1	515,694	$ 474,018
5	Subtotal (Line 4 + Line 5)	1,547,082	1,505,406
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	515,694	$ 501,802
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	1,031,388	$ 1,003,604
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	1,031,388	$ 1,003,604
13	Assessment Ratio	20.5%	20.5%
14	Assessment Value (Line 12 * Line 13)	211,435	$ 205,739
15	Composite Property Tax Rate (Per Company Schedule)	11.2814%	11.2814%
16			
17	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	$ 23,853	
18	Company Proposed Property Tax	24,146	
19			
20	Staff Test Year Adjustment (Line 17-Line 18)	$ (293)	
21	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		$ 23,210
22	Staff Test Year Adjusted Property Tax Expense (Line 17)		$ 23,853
23	Increase in Property Tax Expense Due to Increase in Revenue Requirement		$ (643)
24			
25	Increase to Property Tax Expense		$ (643)
26	Increase in Revenue Requirement		(41,676)
27	Increase to Property Tax per Dollar Increase in Revenue (Line25/Line 26)		1.541795%

Arizona Water Company - Ajo
Docket No. W-01445A-10-0517
Test Year ended December 31, 2010

Schedule JMM-18

Arizona Water Company Cost of Capital Calculation
Capital Structure
And Weighted Average Cost of Capital
Staff Recommended and Company Proposed

[A]	[B]	[C]	[D]
Description	Weight (%)	Cost	Weighted Cost
Staff Recommended Structure			
Debt	49.0%	6.8%	3.3%
Common Equity	51.0%	10.0%	5.1%
Weighted Average Cost of Capital			**8.4%**
Company Proposed Structure[1]			
Debt	49.0%	6.8%	3.3%
Common Equity	51.0%	12.1%	6.2%
Weighted Average Cost of Capital			**9.5%**

[1] Company Schedule D-1, page 2

[D] : [B] x [C]

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 ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASE IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICES	DOCKET NO. W-01445A-10-0517

DIRECT

TESTIMONY

OF

KATRIN STUKOV

UTILITIES ENGINEER

ARIZONA CORPORATION COMMISSION

UTILITIES DIVISION

DECEMBER 5, 2011

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ENGINEERING REPORT	2

EXHIBITS

Engineering Report	Exhibit KS
Off-Site Facilities Fee Tariff	Exhibit A

INTRODUCTION

Q. Please state your name, place of employment and job title.

A. My name is Katrin Stukov. My place of employment is the Arizona Corporation Commission ("Commission"), Utilities Division, 1200 West Washington Street, Phoenix, Arizona 85007. My job title is Utilities Engineer.

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

A. I have been employed by the Commission since June 2006.

Q. Please list your duties and responsibilities.

A. As a Utilities Engineer, specializing in water and wastewater engineering, I inspect and evaluate water and wastewater systems; obtain data, prepare reports; suggest corrective action, provide technical recommendations on water and wastewater system deficiencies; and provide written and oral testimony on rate and other cases before the Commission.

Q. How many cases have you analyzed for the Utilities Division?

A. I have analyzed over 70 cases covering various responsibilities for the Utilities Division.

Q. What is your educational background?

A. I graduated from the Moscow University of Civil Engineering with a Bachelor of Science degree in Civil Engineering with a concentration in water and wastewater systems.

Q. Briefly describe your pertinent work experience.

A. Prior to my employment with the Commission, I was a design review environmental engineer with the Arizona Department of Environmental Quality ("ADEQ") for twenty years. My responsibilities with ADEQ included review of projects for the construction of

water and wastewater facilities. Prior to that, I worked as a civil engineer in several engineering and consulting firms, including Bechtel, Inc. and Brown & Root, Inc., in Houston, Texas.

PURPOSE OF TESTIMONY

Q. Were you assigned to provide the Utilities Division Staff's ("Staff") engineering analysis and recommendations for this Arizona Water Company ("AWC" or "Company") rate case proceeding?

A. Yes. I reviewed the Company's application and responses to data requests, and I visited AWC water systems. This testimony and its attachment present Staff's engineering evaluation.

ENGINEERING REPORT

Q. Please describe the attached Engineering Report, Exhibit KS.

A. Exhibit KS presents AWC water systems' details and Staff's analysis and findings, and is attached to this direct testimony. Exhibit KS contains the following major topics: (1) a description and analysis of each water system, (2) water use, (3) growth, (4) compliance with the rules of the ADEQ and Arizona Department of Water Resources, (5) depreciation rates and (6) Staff's conclusions and recommendations.

Q. Please summarize Staff's engineering conclusions and recommendations.

A. Such a summary is provided at the front of Exhibit KS.

Q. Does this conclude your direct testimony?

A. Yes, it does.

Engineering Report For
Arizona Water Company (Western Group)
Docket No. W-01445A-10-0517 (RATES)
By: Katrin Stukov
Utilities Engineer
November 8, 2011

SUMMARY

CONCLUSIONS

1. The Arizona Department of Environmental Quality ("ADEQ") or its formally delegated agent, the Maricopa County Environmental Services Department ("MCESD"), has reported that all six Arizona Water Company ("AWC" or "Company")Western Group water systems have no deficiencies and these systems are currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4.

2. Based on the Company's water use data sheets for the test year in the amended rate application and responses to data requests, all six AWC Western Group water systems have a water loss within acceptable limit of 10 percent.

3. Based on the Company's water use data sheets for the test year in the amended rate application, all AWC Western Group water systems have adequate production and storage capacities to serve their respective present customer base and a reasonable level of growth.

4. ADWR has determined that all six Company's water systems are in compliance with ADWR requirements governing community water systems.

5. The Company has approved curtailment plan and a backflow prevention tariffs.

RECOMMENDATIONS

1. Staff recommends that the Company's reported annual water testing expense of $42,281(which excludes the ADEQ Monitoring Assistance Program ("MAP") expense of $6,850) be accepted for this proceeding.

2 Staff recommends the adoption of the previously approved depreciation rates developed by the Company, as presented in Table A.

3 Staff recommends the acceptance of the Company's requested service line and meter installation charges, as delineated in Table B.

4 Staff recommends that in case any of the Company's water systems should be consolidated for purpose of rate making and accounting, AWC be required to continue reporting information, such as, but not limited to Water Use, Water Loss and Plant Description Data, separately for each of its individual systems by Public Water System ("PWS"), as defined by ADEQ, in future Annual Reports and rate filings.

5 Staff recommends adoption of the Off-site Facilities Fee Tariff discussed in Section VII and shown in Attachment A and the funds from the tariff be used for only those plant items that met the conditions of Attachment A. Staff recommends that the Company submit a calendar year Off-Site Facilities Fee status report each January to Docket Control for the prior calendar year, beginning January 2013, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the amount of money spent from the tariff account, the amount of interest earned on the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.

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ATTACHEMENT

Off-Site Facilities Fee Tariff ..... A

I. GENERAL INTRODUCTION AND LOCATION OF COMPANY

On May 9, 2011, Arizona Water Company ("AWC" or "Company") filed an Amended Application with the Arizona Corporation Commission ("ACC" or "Commission") for a rate increase for its Western Group, using a test year ending December 31, 2010. The Commission Utilities Division Staff ("Staff") engineering review and analysis of the amended application is presented in this report.

The Company's Western Group supplies water to approximately 30,600 connections in Pinal, Maricopa and Pima counties. Since the last company-wide rate case, the Company added a new water system, the Coolidge Airport[1], to the Western Group and, also, merged its interconnected Casa Grande and Coolidge systems into one system, named Pinal Valley water system. The Western Group is presently comprised of the following six independent[2] water systems: Tierra Grande, Pinal Valley, Coolidge Airport, Stanfield, White Tank and Ajo. Four systems- Tierra Grande, Pinal Valley, Coolidge Airport and Stanfield ("Pinal Valley Group") are in Pinal County. The White Tank system is in Maricopa County and the Ajo system is in Pima County.

Figure1 shows the location of the Company's Western Group water systems within Arizona and delineates the Company's approximately 240,000 acres of existing certificated area. Each system is named after the community where the system is located.

Figure 2 shows the location of the Company's Pinal Valley Group within Pinal County.

Each respective water system was visited by Katrin Stukov, Staff Utilities Engineer, accompanied by Company representatives Fred Schneider, James Wilson, Joseph Harris, Joel Rieker, and the respective water system operations manager.

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[1] AWC operates the Coolidge Airport system since November 1, 2007. The City of Coolidge leases the Coolidge Airport system to AWC pursuant to a Water System Lease and Operation Agreement dated November 1, 2007.
[2] Each system having its own water production, water treatment, storage and distribution facilities

FIGURE 1

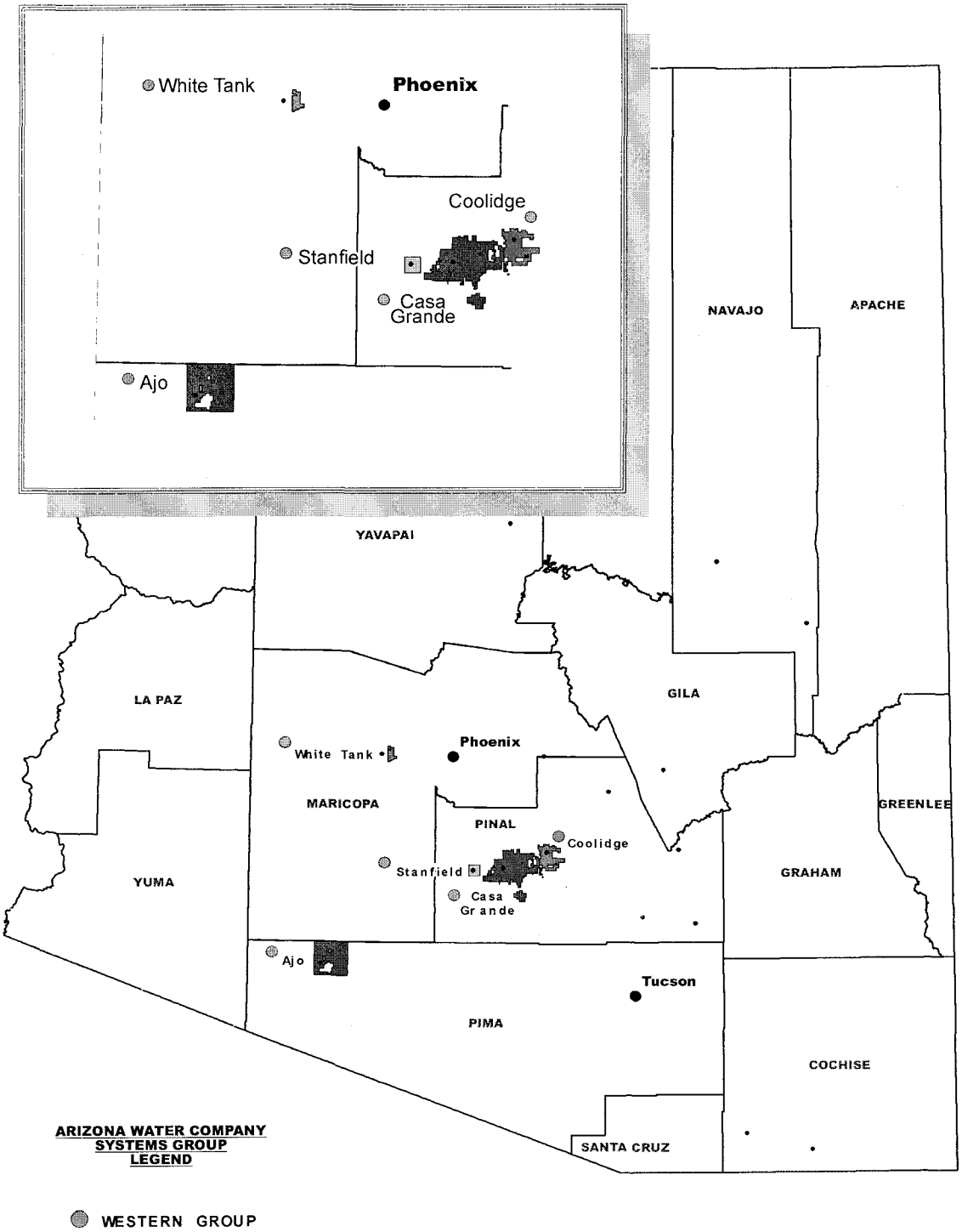
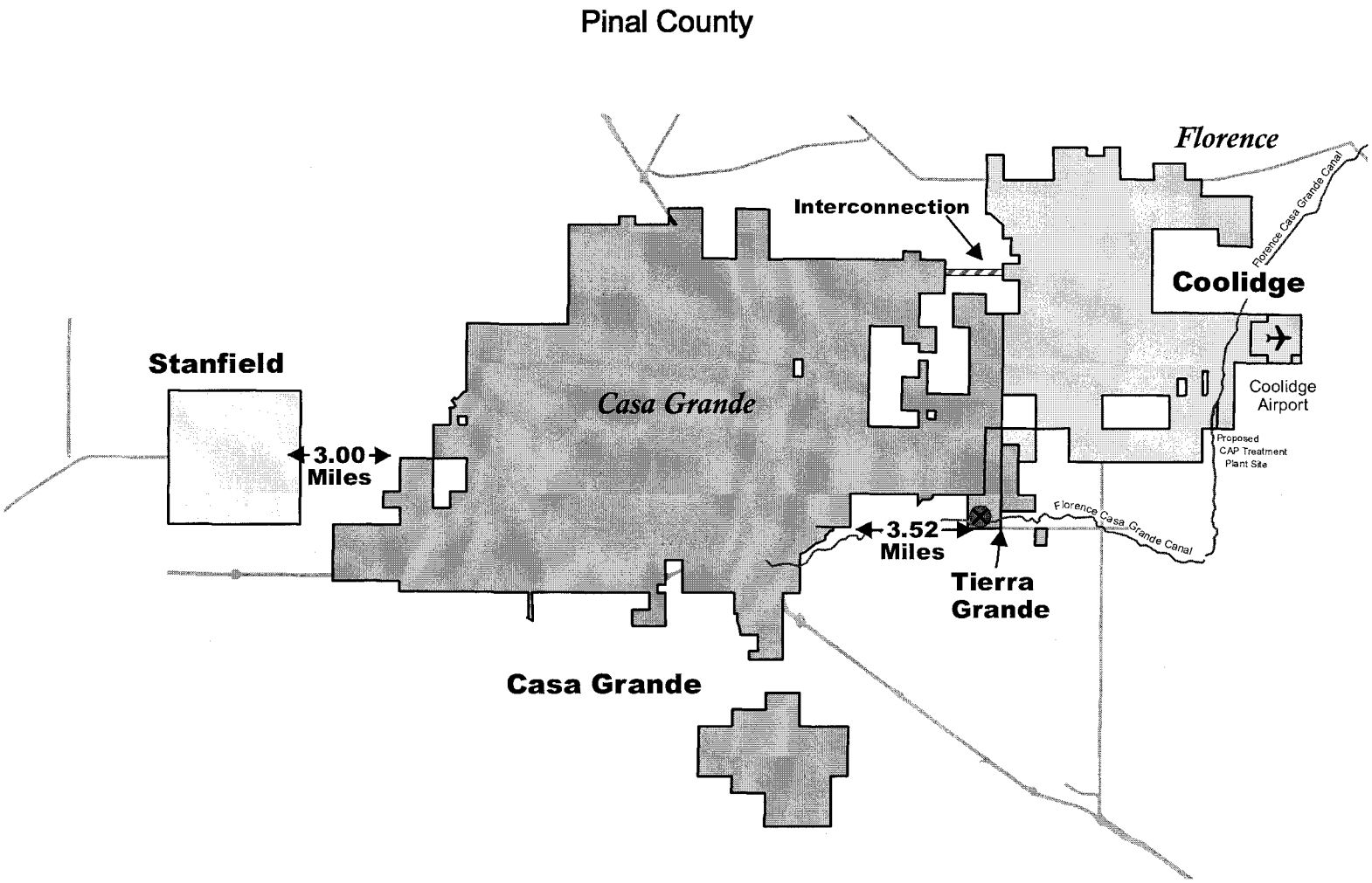

White Tank
Phoenix
Coolidge
Stanfield
Casa Grande
Ajo
NAVAJO
APACHE
YAVAPAI
LA PAZ
GILA
White Tank
Phoenix
MARICOPA
PINAL
Coolidge
Stanfield
Casa Grande
GREENLEE
YUMA
GRAHAM
Ajo
Tucson
PIMA
COCHISE
SANTA CRUZ
ARIZONA WATER COMPANY
SYSTEMS GROUP
LEGEND
WESTERN GROUP

FIGURE 2
Pinal Valley Group



II. WATER SYTEMS

SUMMARY

Statistical information for the Western Group's six systems is tabulated below:

Group Name	Pinal Valley Group				n/a	n/a
System Name	Approved partial rate consolidation Per Decision No.71845			Not included in Decision No.71845	White Tank	Ajo
	Approved full rate consolidation Per Decision No.71845		Stanfield	Coolidge Airport		
	Tierra Grande	Pinal Valley (Interconnected and merged Casa Grande & Coolidge systems)				
County	Pinal	Pinal	Pinal	Pinal	Maricopa	Pima
PWS ID#	11-076	11-009	11-012	11-707	07-128	10-003
ADEQ compliant?	yes	yes	yes	yes	yes	yes
ADWR compliant?	yes	yes	yes	yes	yes	yes
AMA	Pinal	Pinal	Pinal	Pinal	Phoenix	n/a
Number of Connections at the end of the test year	355	27,458	205	8	1,937	681
Is a production capacity adequate?	yes	yes	yes	yes	yes	yes
Is a storage capacity adequate?	yes	yes	yes	yes	yes	yes
Water Loss	6.8%	6.2%	6.3%	6.1%	3.2%	7.8%
MAP fee	yes	no	yes	no	yes	no
Number of Arsenic Treatment Plants	none	5	1	none	2	none
Number of Nitrate Treatment Plants	none	1		none	1	none
Proposed expansion/ new treatment plant	none	1	none	none	1	none
Purchased Potable Water	no	no	no	no	yes	yes
CAP Hook-Up Fee	n/a	$208/$150	n/a	n/a	$500	n/a
Proposed Off-Site Facilities Fee	n/a	yes	yes	n/a	n/a	n/a
Date of site visit	10/4/11	10/3/&10/4/11	10/3/11	10/4/11	9/30/11	9/26/11

1. Tierra Grande PWS # 11-076

A. LOCATION AND DESCRIPTION OF THE SYSTEM

This system serves an eastern part of Casa Grande area in Pinal County. Major plant in service includes 2 wells, 2 storage tanks, pumping facilities and a distribution system serving approximately 355 connections. A breakdown of the plant facilities is tabulated below:

Wells

AWC Well ID	ADWR Well ID	Pump (HP)	Pump Yield (GPM)	Casing Depth (feet)	Casing Diameter (inches)	Meter Size (inches)	Year Drilled	Water Treatment System
Well # 1	55-616682[3]	75	420	-	20	6	-	Chlorination System
Well # 3	55-801030	15[4]	100	-	-	2	-	
		Total 520						

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
250,000	1	5,000	1	10	2
10,000	1	2,000	1	50	1
Total 260,000					

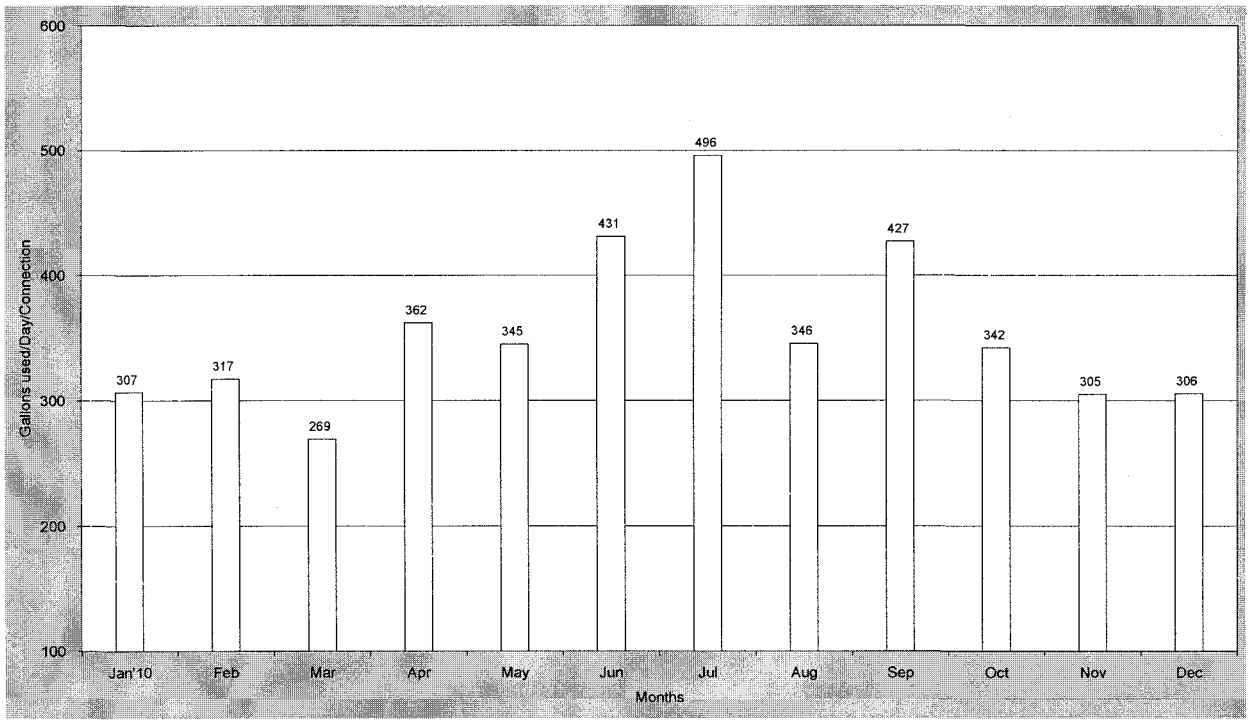
Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
4	1,370	5/8x3/4	342	8
6	19,600	1	9	
8	18,470	2	3	
		Turbo 3	1	
		Total	355	

[3] Per Company's response KS 4.3
[4] Pump and motor replacement in June 2011 -Work Authorization ("W.A.") 1-4801

B. WATER USE

Water Sold

The Figure below represents the water consumption data for the test year ending December 31, 2010, provided by the Company in its water use data sheet. Customer consumption included a high monthly water use of 496 GPD per connection in July, and the low water use was 269 GPD per connection in March. The average annual use was 354 GPD per connection.



Non-account Water

The Company reported 49,799,000 gallons pumped, 46,222,100 gallons sold and 200,800 gallons of authorized non-revenue uses for the test year, resulting in a water loss of 6.8% percent. This percentage is within acceptable limit of 10 percent.

C. SYSTEM ANALYSIS

Based on the data provided by the Company for the Test Year, Staff concludes that the Tierra Grande system's source capacity of 520 GPM and storage capacity of 260,000 gallons is adequate to serve the present customer base and reasonable growth.

D. GROWTH

Based on customer data provided by the Company, it appears that the Tierra Grande system is losing customers. A listing of the number of connections at the end of each year from 2008 to 2010 is tabulated below:

2008	2009	2010
360	358	355

2. Pinal Valley (Casa Grande & Coolidge) PWS # 11-009

A. LOCATION AND DESCRIPTION OF THE SYSTEM

In October 2010 the Company merged its interconnected Casa Grande and Coolidge systems and renamed the combined system Pinal Valley water system. This system serves the Casa Grande and Coolidge areas in Pinal County. Major plant in service includes 23 active wells, 5 arsenic treatment plants, 1 nitrate treatment plant, 13 storage tanks, pumping facilities and a distribution system serving approximately 27,460 connections. A breakdown of the plant facilities is tabulated below:

Casa Grande System

Wells

AWC Well ID	ADWR Well ID	Pump (HP)	Pump Yield (GPM)	Casing Depth (feet)	Casing Diameter (inches)	Meter Size (inches)	Year Drilled	Water Treatment Systems
Well # 19	55-616603	300	1500	1000	20	10	1980	Arsenic Treatment (Henness Road) Chlorination Systems
Well # 21	55-506809[5]	250	680	696	20	6	1983	
Well # 24	55-540306	300	920	1000	18	8	1993	
Well # 30	55-208822	200	720	1000	18	8	2006	
Well # 29	55-595284	250	1280	1120	18	10	2004	Arsenic Treatment (Mission Royale) Chlorination System
Well # 27[6]	55-568553	200	455	1110	18	4	1999	Arsenic Treatment (Lake in the Desert) Chlorination System
Well # 28	55-571205	350	1350	1210	18	10	1999	Arsenic Treatment (Arizona City) Chlorination System
Well # 23[7]	55-522319	300	1500	1005	18	8	1989	Arsenic Treatment (Cottonwood) Chlorination Systems
Well # 25	55-546719	300	1230	1074	18	8	1994	
Well # 26	55-560803	300	1360	1240	18	10	1997	
Well # 10	55-616595	200	840	1025	20	8	1960	
Well # 14[8]	55-616598	40	160	600	20	4	1982	
Well # 17	55-616601	200	700	739	16	6	1975	
Well # 20[9]	55-616604	300	950	1000	20	10	1977	
Well# 31	55-210294	200	1045	1500	18	10	2006	
Well# 32	55-21448	250	1470	1200	18	10	2007	Chlorination System
Well# 33	55-212523	250	1370	1000	18	10	2007	Chlorination System
		Total	17,530					

[5] Per AWC e-mail of 9/19/11, the DWR No. originally provided for Well#21 (55-503113) was incorrect.
[6] Pump replacement in 2009 (W.A. 1-4528) and subsequently in 2010 (W.A. 1-4763)
[7] Pump replacement in June 2011 (W.A. 1-4802)
[8] Pump and motor replacement in June 2011 (W.A. 1-4803)
[9] Excess water from Well#17 & Well#20 that is not purchased by Abbot Labs is treated at the Cottonwood ATP

Arsenic Treatment Plants

Well ID	Plant Name	Maximum Capacity (GPM)	Vendor	Ownership	Plant Placed in Operation Date
Wells #19, #21, #24, #30	Henness Rd.	4,050[10]	Layne	AWC Owned	July 2007
Well # 29	Mission Royale	1,500	Layne	AWC Owned	August 2007
Well # 27	Lake in the Desert	400	Layne	AWC Owned	July 2008
Well # 28	Arizona City	1,500	Layne	AWC Owned	May 2008
Well #10, #14, #17,#20,#23, #25, #26, #31	Cottonwood	5,800	Layne	AWC Owned	October 2007

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
16,000	1[11]				
35,000	1	5,000	2	20	2
110,000	1	6,000	1	25	4
115,000	1			30	2
650,000	1			40	6
1,000,000	1			60	1
1,100,000	1			100	1
2,000,000	1			150	5
5,000,000	2			300	1
Total 15,110,000					

[10] The Company is considering to expanding the Arsenic Treatment Plant's capacity from 4,050 GPM to 5,400 GPM
[11] 16,000 gallon storage tank was moved from Stanfield system and put in service in Casa Grande system in 2010 to relieve the Well#27 head pressure (WA 1-4620)

Coolidge System

Wells

AWC Well ID	ADWR Well ID	Pump (HP)	Pump Yield (GPM)	Casing Depth (feet)	Casing Diameter (inches)	Meter Size (inches)	Year Drilled	Water Treatment Systems
Well # 7	55-616606	200	1100	1100	20	8	1956	Chlorination System
Well # 9	55-616608	200	1240	470	20	10	1961	Nitrate Treatment
Well # 10	55-616609	200	1430	980	20	12	1973	Chlorination System
Well # 13 (not in service[12])	55-212419	200	1250	2000	18	10	2007	Chlorination System
Well # 2	55-616687	30	250	542	8	4	1971	Chlorination System
Well # 1[13]	55-616686	15	250	-	10	4	1930	
		Total 5,270						

Nitrate Treatment Plant

Well ID	Maximum Capacity (GPM)	Manufacturer/ Vendor	Ownership	Plant Placed in Operation Date
Wells #9& #10	1,000	Layne	AWC Owned	July 4, 2008

Storage Tanks[14]		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
110,000	1	2,000	1	125	2
116,000	1	5,000	1	60	2
250,000	1[15]			15	1
500,000	1			10	2
1,000,000	1			107	1
Total 1,976,000					

[12] Per Company's response KS 2.6, the Well#13 was removed from service due to elevated arsenic levels on December 21, 2010. The Company is evaluating the arsenic treatment process to construct at Coolidge Well#13.
[13] Per Company's response KS 4.2, this well was put in service in December 2009 (WA 1-4622).
[14] Per Company's response KS 4.1, the 15,000 gallon storage tank was removed from the Coolidge system on November 5, 2010. This tank was relocated to the Airport system, where it was put in service on December 30, 2010 (WA 1-4706).
[15] Grading and drainage improvements in June 2011 (W.A. 1-4807) Per Company's response KS 4.1, this storage tank was constructed (WA 2-4356) using developer advanced funds.

Pinal Valley System (Casa Grande/ Coolidge combined)				
Mains[16 17]		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
2	50,766	5/8x3/4	25,796	3,339
3	25,245	1	953	
4	339,610	2	577	
6	1,592,185	Comp.3	39	
8	403,649	Turbo3	2	
10	34,447	Comp.4	21	
12	396,663	Turbo 4	12	
14	1,265	Comp.6	2	
16	66,862	Turbo 6	24	
20	1,020	Turbo 8	3	
24	39,911			
36	1,585	Total	27,429	

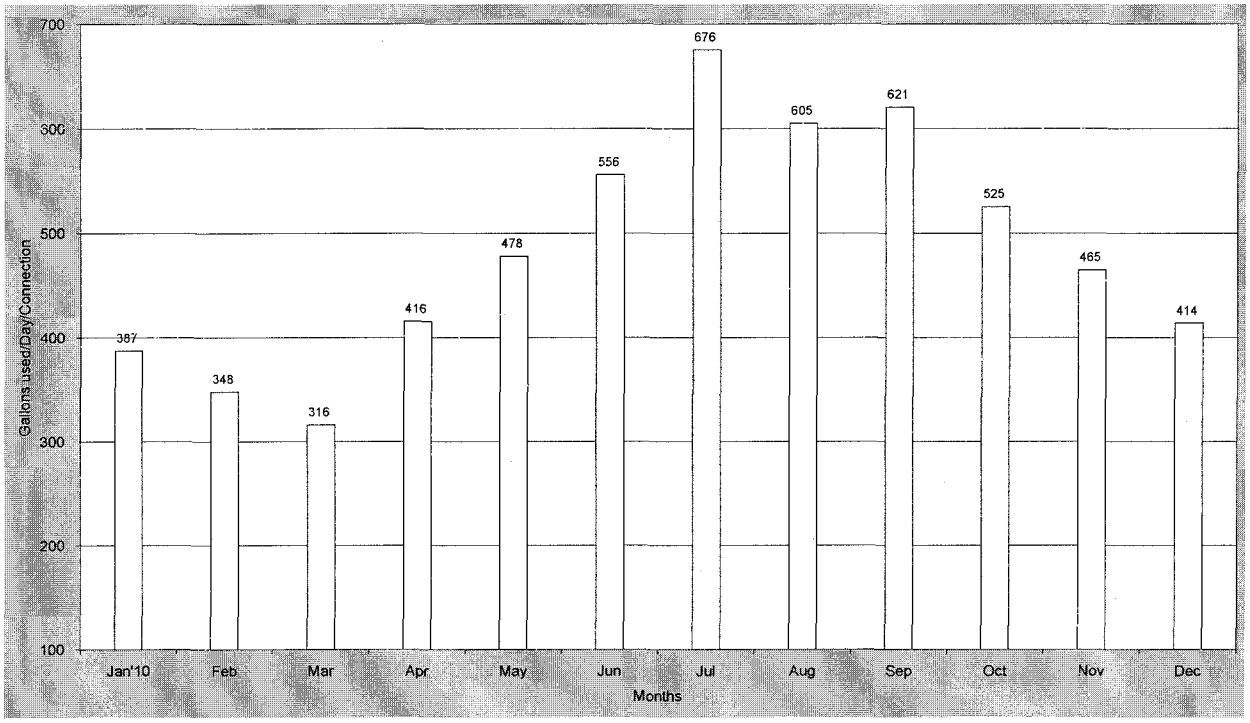
B. WATER USE

Water Sold

The Figure below represents the water consumption data for the test year ending December 31, 2010, provided by the Company in its water use data sheet for its combined Pinal Valley system. Customer consumption included a high monthly water use of 676 GPD per connection in July, and the low water use was 316 GPD per connection in March. The average annual use was 484 GPD per connection.

[16] The Company replaced approximately 6,040 lf of 4-inch and 200 lf of 6-inch CA leaking pipe with 3,320 lf of 6-inch and 2,200 lf of 12-inch PVC pipe in Coolidge system (Old Town) in April 2011 (WA 1-4772)

[17] The Company replaced approximately and 2,000 lf of 6-inch CA leaking pipe with 1,300 lf of 12-inch and 700 lf of 6-inch PVC pipe in Coolidge system (Valley Farms) in April 2011 (WA 1-4773)



Non-account Water

The Company reported 5,241,728,000 gallons pumped, 4,880,915,700 gallons sold and 31,479,300 gallons of authorized non-revenue uses for the test year for its Pinal Valley system, resulting in a water loss of 6.2 percent. This percentage is within acceptable limit of 10 percent.

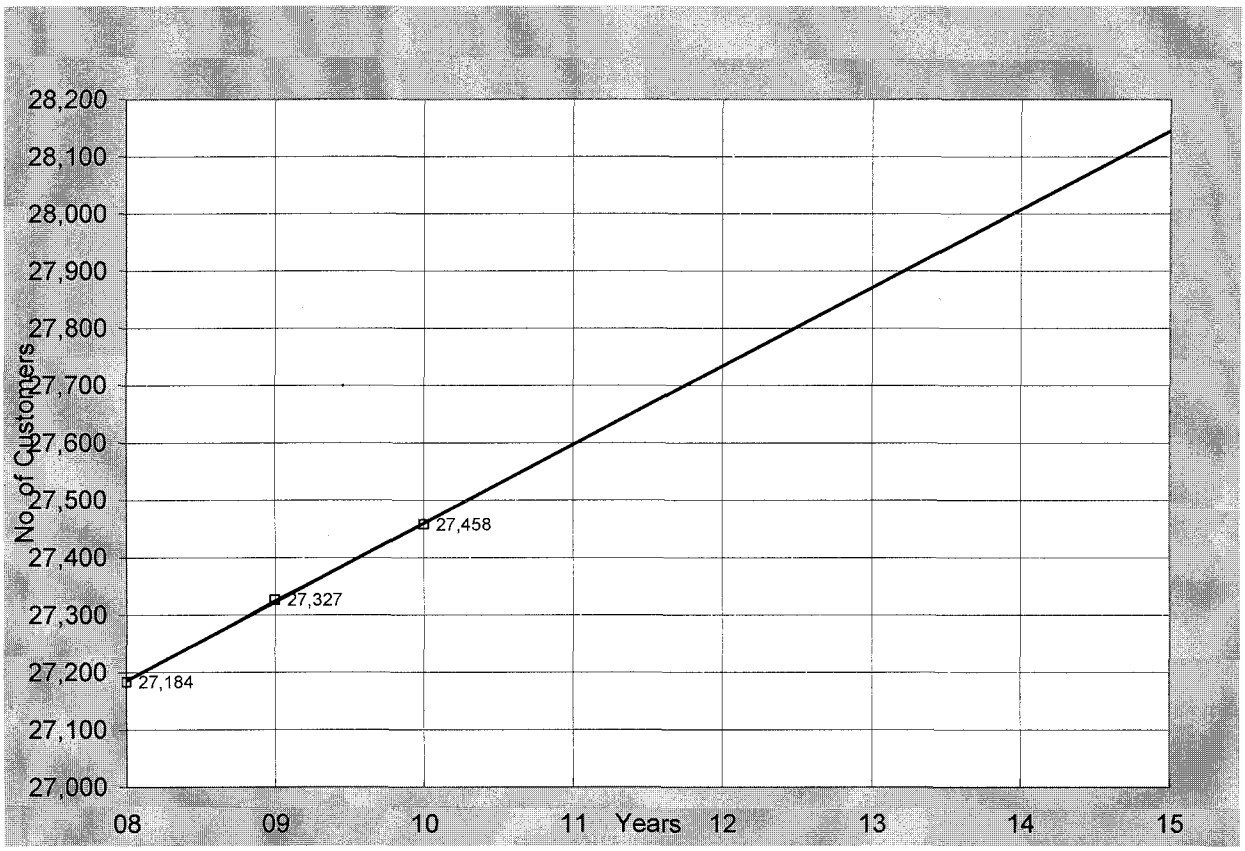
C. SYSTEM ANALYSIS[18]

Based on the water use data sheet provided by the Company for the Test Year, Staff concludes that the Pinal Valley system's total source capacity of 22,800 GPM and total storage capacity of 17,086,000 gallons is adequate to serve the present customer base and reasonable growth.

[18] In response to KS 2.4 (a), the Company did not provide separate water use data sheets for Casa Grande and Coolidge systems. Staff evaluation of the Pinal Valley system is based on the combined water use data provided by AWC.

D. GROWTH

Based on customer data provided by the Company, it is projected that this system could have approximately 28,150 connections by 2015. The Figure below depicts actual growth from 2008 to 2010 and projects an estimated growth in the service area for the next five years using linear regression analysis.



3. Coolidge Airport PWS # 11-707

A. LOCATION AND DESCRIPTION OF THE SYSTEM

The Coolidge Airport system was not a part of the Company's last rate proceeding. According to the Company, AWC has operated the Coolidge Airport system since November 1, 2007. The City of Coolidge leases the Coolidge Airport system to AWC pursuant to a Water System Lease and Operation Agreement dated November 1, 2007.

This system serves the Coolidge Airport area in Pinal County. Major plant in service includes 2 active wells, 1 storage tank, pumping facilities and a distribution system serving 8 connections. A breakdown of the plant facilities is tabulated below:

Wells

AWC Well ID	ADWR Well ID	Pump (HP)	Pump Yield (GPM)	Casing Depth (feet)	Casing Diameter (inches)	Meter Size (inches)	Year Drilled	Water Treatment Systems
Well # 1	55-620899	50	350	475	12	4	1942	Chlorination System
Well # 2	55-620900	50	320	435	16	4	1942	Chlorination System
		Total 670						

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
15,000 (this tank was relocated from the Coolidge system, see Footnote#14)	1	5,000	1	2 40	2 2

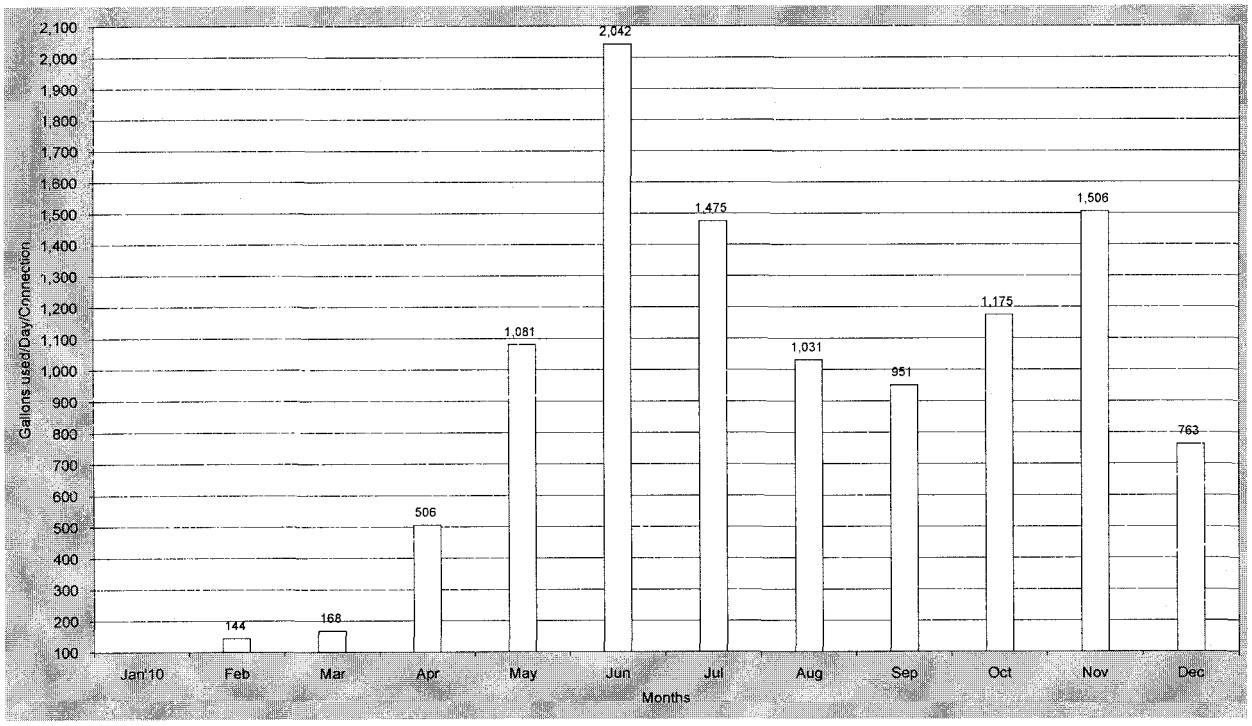
Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
4	3,019	1	3	3
8	3,006	2	4	
		Comp.3	1	
	Total 6,025[19]		Total 8	

[19] The Company abandoned in place 4,212 LF of existing leaking pipe and replaced it with approximately 3,400 LF of new piping in February 2011 (WA 1-4768).

B. WATER USE

Water Sold

The Figure below represents the water consumption data for the test year ending December 31, 2010, provided by the Company in its water use data sheet. Customer consumption included a high monthly water use of 2,042 GPD per connection in June, and the low water use was 144 GPD per connection in February. The average annual use was 903 GPD per connection.



Non-account Water

The Company reported 3,799,800 gallons pumped, 2,645,300 gallons sold and 211,000 gallons of authorized non-revenue uses for the test year[20], resulting in a water loss of 24.7 percent. In order to resolve water loss, in February 2011, the AWC abandoned in place 4,212 LF[21] of existing leaking pipe and replaced it with approximately 3,400 LF of new piping[22]. In response to Staff data request KS 4.5[23], the Company reported 3,229,000 gallons pumped, 2,972,100 gallons sold and 60,300 gallons of authorized non-revenue uses for the six month

[20] For the period February 2010 through December 2010
[21] This amount represents approximately 70% of the Airport system's 6,025 lf distribution piping.
[22] Per Company's response KS-2.8
[23] Per Company's 10/27/11 Supplemental Response KS.12

period from March 2011 through September, 2011, resulting in a reduced water loss of 6.1 percent. This percentage is within acceptable limit of 10 percent.

C. SYSTEM ANALYSIS

Based on the data provided by the Company for the Test Year, Staff concludes that the Coolidge system's source capacity of 670 GPM and storage capacity of 15,000 gallons is adequate to serve the present customer base and reasonable growth.

D. GROWTH

Based on customer data provided by the Company, it appears that the Coolidge Airport system's number of customers remains constant. A listing of the number of connections at the end of each year from 2008 to 2010 is tabulated below:

2008	2009	2010
8	8	8

4. Stanfield PWS # 11-012

A. LOCATION AND DESCRIPTION OF THE SYSTEM

This system serves the Stanfield area in Pinal County. Major plant in service includes 2 wells, 1 arsenic/nitrate treatment plant, 2 storage tanks, pumping facilities and a distribution system serving approximately 205 connections. A breakdown of the plant facilities is tabulated below:

Wells

AWC Well ID	ADWR Well ID	Pump (HP)	Pump Yield (GPM)	Casing Depth (feet)	Casing Diameter (inches)	Meter Size (inches)	Year Drilled	Water Treatment System
Well # 1	55-616684	100	280	811	16	4	-	Arsenic/Nitrate System
Well # 3	55-526586	60	195	1002	18	3	1990	
		Total 475						

Arsenic/Nitrate Treatment Plant

Well ID	Plant Name	Maximum Capacity (GPM)	Vendor	Ownership	Plant Placed in Operation Date
Wells #1& #3	Stanfield	350	Basin	Lease	April 2008

Storage Tanks[24]		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
100,000	1	5,000	1	10	1
20,000	1			15	1
Total 120,000					

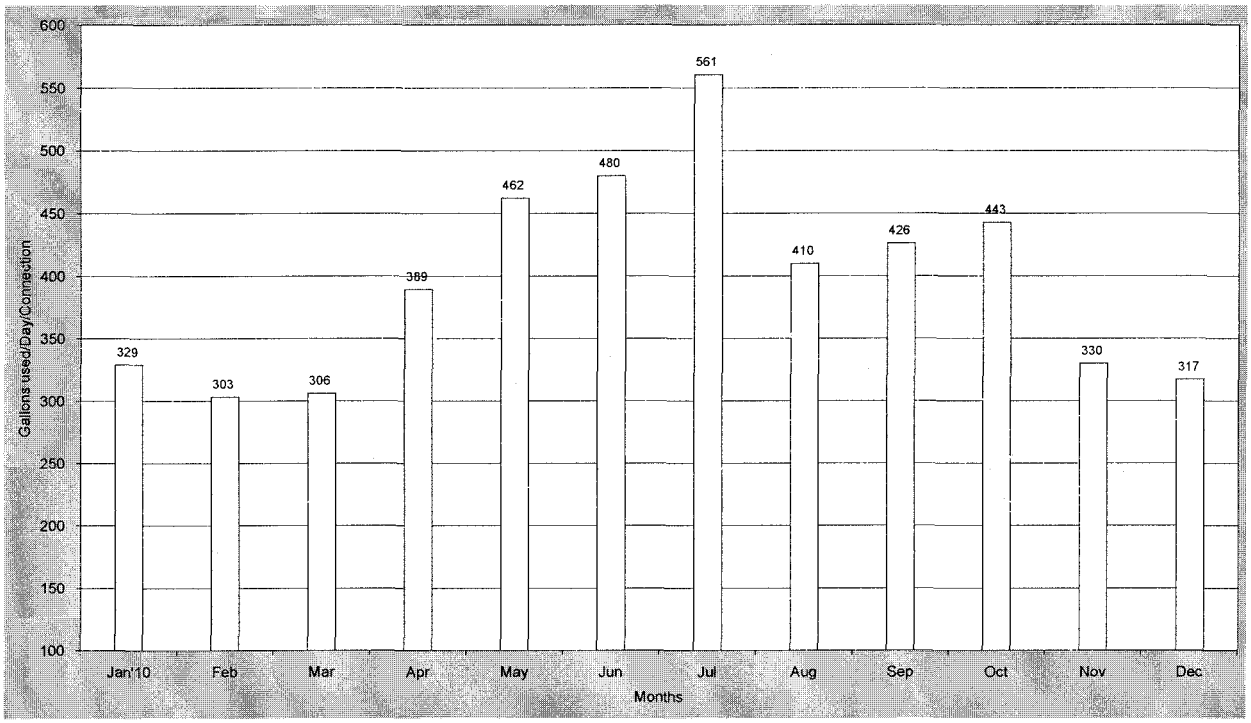
Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
2	420	5/8x3/4	196	12
4	7,680	1	5	
6	17,281	2	4	
		Total	205	

B. WATER USE

Water Sold

Figure below represents the water consumption data for the test year ending December 31, 2010, provided by the Company in its water use data sheet. Customer consumption included a high monthly water use of 561 GPD per connection in July, and the low water use was 303 GPD per connection in February. The average annual use was 396 GPD per connection.

[24] A 16,000 gallon storage tank was removed from service in the Stanfield system and placed back in service in the Casa Grande system in 2010



Non-account Water

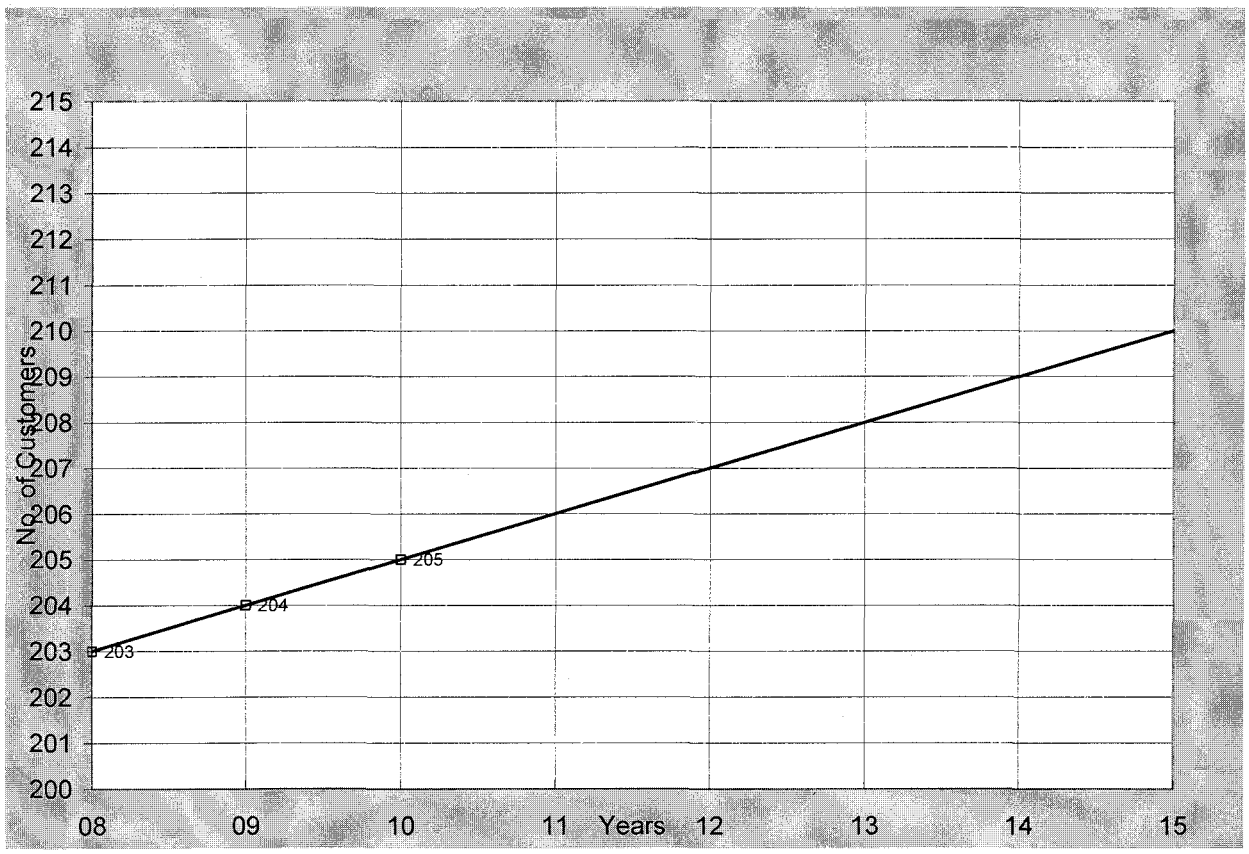
The Company reported 32,538,500 gallons pumped, 29,608,900 gallons sold and 875,500 gallons of authorized non-revenue uses for the test year, resulting in a water loss of 6.3 percent. This percentage is within acceptable limit of 10 percent.

C. SYSTEM ANALYSIS

Based on the data provided by the Company for the Test Year, Staff concludes that the Stanfield system's source capacity of 475 GPM and storage capacity of 120,000 gallons is adequate to serve the present customer base and reasonable growth.

D. GROWTH

Based on customer data provided by the Company, it is projected that the Stanfield system could have approximately 210 connections by 2015. The Figure below depicts actual growth from 2008 to 2010 and projects an estimated growth in the service area for the next five years using linear regression analysis.


215
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No. of Customers
203
204
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08
09
10
11
Years
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13
14
15

5. White Tank PWS # 07-128

A. LOCATION AND DESCRIPTION OF THE SYSTEM

The White Tank system ("WT") serves the White Tank area northwest of Phoenix in Maricopa County. In addition to groundwater pumped from four wells, WT supplements its water supply by purchasing water from the Arizona-American Agua Fria system ("AA") during peak summer demand periods. Major plant in service (see discussion below) includes 4 active wells, 1 arsenic treatment plant, 1 nitrate treatment plant, 4 storage tanks, pumping facilities and a distribution system serving approximately 1,700 connections.

Per Company's response KS 4.4, well #9, well # 10, the new arsenic removal facility (Blue Horizons), storage tank, pressure tank and components are developer contributed facilities (identified with * in the table bellow). According to the response KS 4.4, AWC has not fully accepted these new facilities, therefore, the plant is not yet owned by AWC. AWC continues to operate the facilities, but acceptance of the facilities will not occur until the plant performance has been confirmed. According to the Maricopa County Environmental Services Department ("MCESD"), the Cooling System for the Blue Horizons arsenic treatment plant has an Interim Certificate of Approval of Construction, but it does not yet have Final Approval of Construction ("AOC") from MCESD. The Final AOC can not be issued until the Cooling System is tested over an entire monsoon season (summer 2012 at the earliest).

A breakdown of the plant facilities is tabulated below:

Wells

AWC Well ID	ADWR Well ID	Pump (HP)	Pump Yield (GPM)	Casing Depth (feet)	Casing Diameter (inches)	Meter Size (inches)	Year Drilled	Water Treatment Systems
Well # 2	55-616689	30	155	477	6	3	-	Arsenic Treatment Chlorination systems Nitrate Treatment
Well # 4	55-616691	75	390	604	12	4	1969	
Well # 8	55-584393	100	160	1000	12	4	2001	
Well # 7	55-616693	100	410	858	20	4	-	
Well # 9*	55-203266	250	1490	1418	16	10	2004	Arsenic Treatment* Chlorination systems*
Well # 10*	55-201426	200	1060	1288	16	8	2004	
		Total yield	5,489					

Other Water Source

Description	Meter Size (in inches)	Capacity (GPM)	Gallons Purchased	Water Treatment
AA Emergency Interconnect-primary (Indian School)	3	350	13,078,000	none
AA Emergency Interconnect –back-up (Citrus)	2	160	none	none

Monte Vista Arsenic Treatment Plant

Well ID	Plant Site	Maximum Capacity (GPM)	Manufacturer/ Vendor	Ownership	Plant Placed in Operation
Wells #2,#4& #8	Monte Vista	1,450	Layne	AWC Owned	March 2008

Blue Horizons Arsenic Treatment Plant*

Well ID	Plant Site	Maximum Capacity (GPM)	Manufacturer/ Vendor	Ownership	Cooling system Placed in operation
Wells #9 & #10	Blue Horizons	2,800	Siemens	pending	pending

Nitrate Treatment Plant

Well ID	Plant Site	Maximum Capacity (GPM)	Manufacturer/ Vendor	Ownership	Plant Placed in Operation
Well #7	Go Lightly	550	Layne	AWC Owned	June 2007

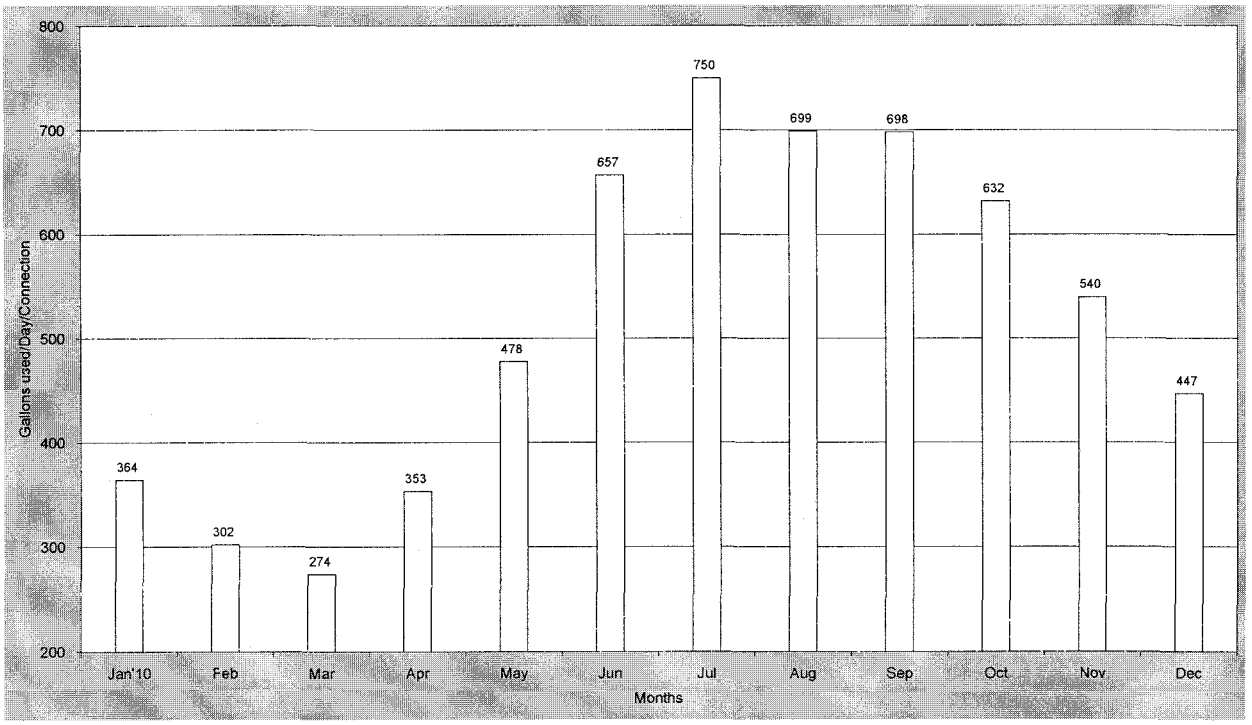
Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
50,000	1	5,000	1	3	1
100,000	1	5,000	1*	5	2
500,000	1			50	3
1,000,000 1,000,000	1 1*			100	3*
Total 2,650,000					

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
2	1,610	5/8x3/4	1,560	249
4	14,490	1	352	
6	169,284	2	19	
8	154,473	Comp.3	2	
12	55,278	Turbo.6	1	
16	6,427	Total	1,934	
20	360			
24	75			

B. WATER USE

Water Sold

The Figure below represents the water consumption data for the test year ending December 31, 2010, provided by the Company in its water use data sheet. Customer consumption included a high monthly water use of 750 GPD per connection in July, and the low water use was 274 GPD per connection in March. The average annual use was 516 GPD per connection.



Non-account Water

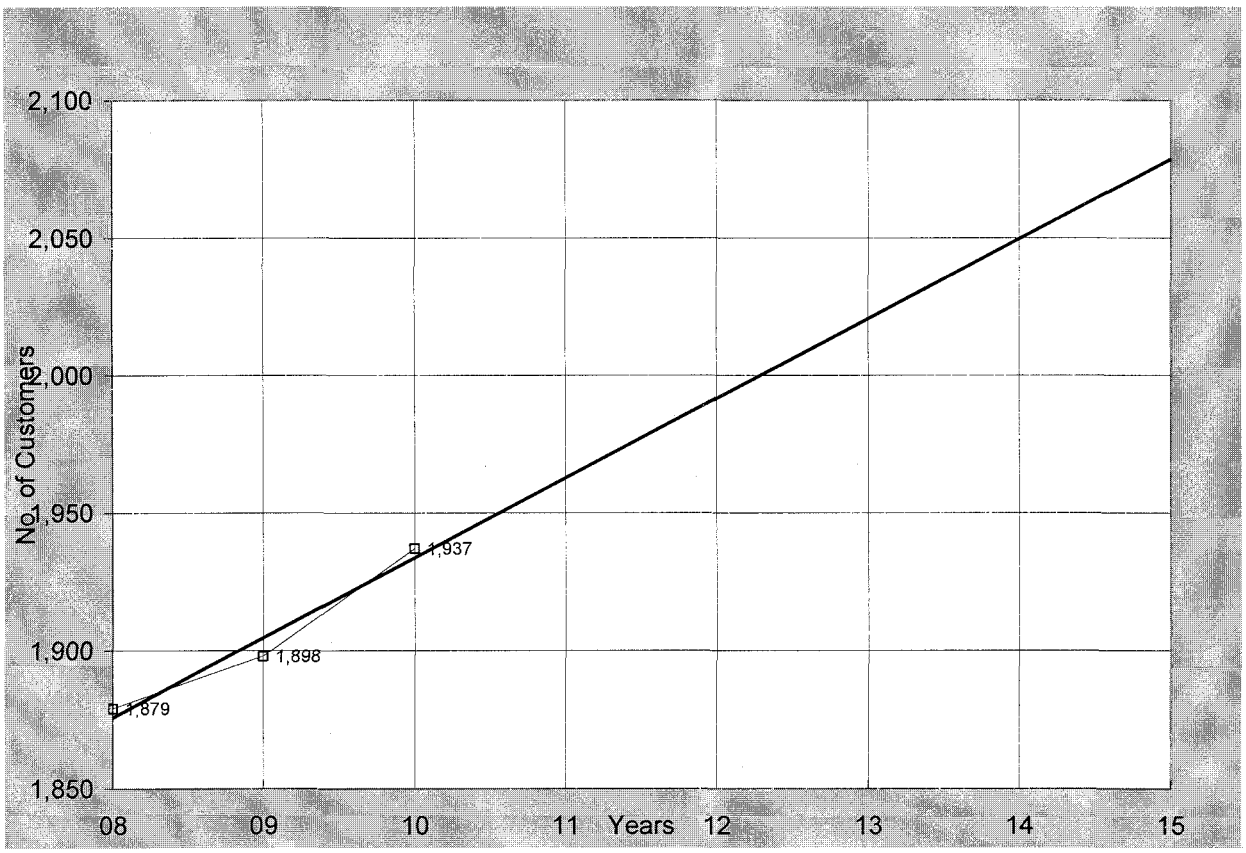
The Company reported 384,528,800 gallons pumped/purchased, 365,274,100 gallons sold and 6,925,400 gallons of authorized non-revenue uses for the test year, resulting in a water loss of 3.2 percent. This percentage is within the acceptable limit of 10 percent.

C. SYSTEM ANALYSIS

Based on the data provided by the Company for the Test Year, Staff concludes that the White Tank system has adequate water supply and storage capacities to serve its customer base and reasonable growth.

D. GROWTH

Based on customer data provided by the Company, it is projected that this system could have approximately 2,075 connections by 2015. The Figure below depicts actual growth from 2008 to 2010 and projects an estimated growth in the service area for the next five years using linear regression analysis.



6. Ajo PWS # 10-003

A. LOCATION AND DESCRIPTION OF THE SYSTEM

This system serves the Ajo area in Pima County. The Ajo system has no wells and is purchasing water from the Ajo Improvement Company[25]. The Ajo system is served by a 4-inch master-meter. Major plant in service includes 2 storage tanks, pumping facilities and a distribution system serving approximately 680 connections. A breakdown of the plant facilities is tabulated below:

Wells

Wells	none

Other Water Sources

Description	Meter Size (in inches)	Capacity (GPM)	Gallons Purchased	Water Treatment
Ajo Improvement Company water system	4	270	51,557,000	Chlorination System

Storage Tank		Pressure Tank		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
500,000	1	-	none	15	2
250,000	1			10	1
Total 750,000					

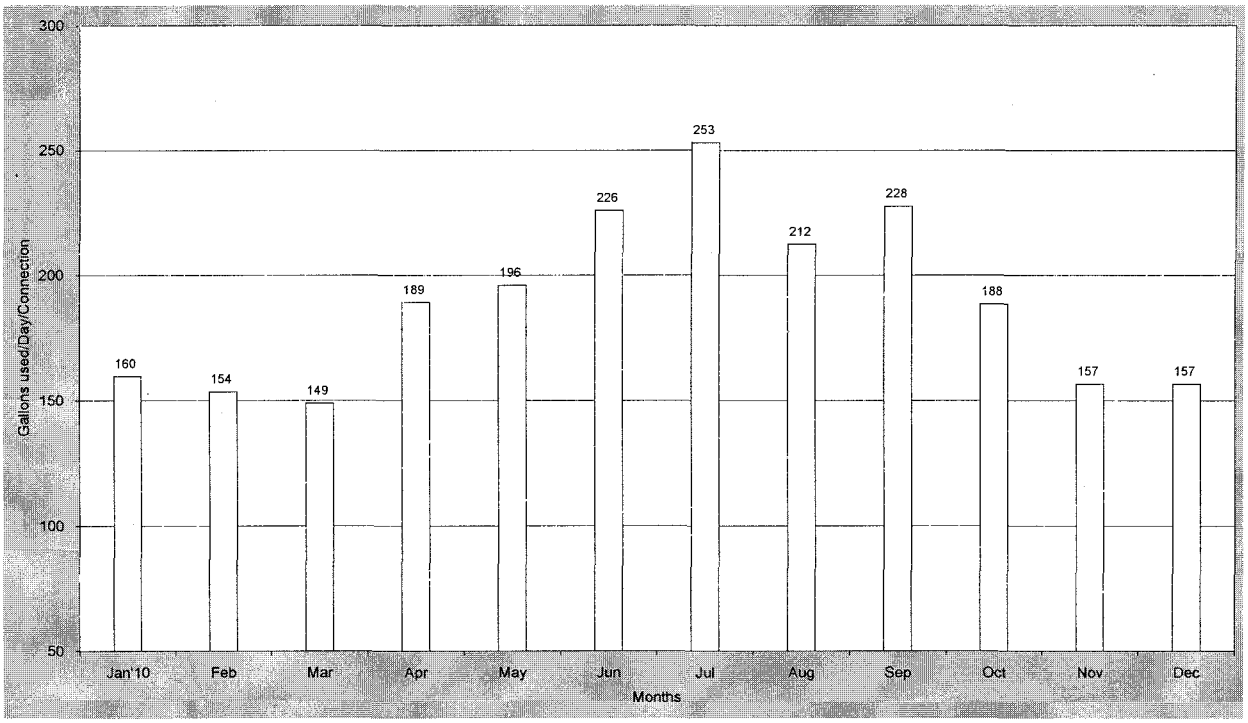
Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
2	4,125	5/8x3/4	644	47
3	294	1	28	
4	41,964	2	3	
6	35,226			
8	3,085			
		Total	675	

[25] Ajo is consecutive system to Ajo Improvement Company (PWS # 10-001).

B. WATER USE

Water Sold

The Figure below represents the water consumption data for the test year ending December 31, 2010, provided by the Company in its water use data sheet. Customer consumption included a high monthly water use of 253 GPD per connection in July, and the low water use was 149 GPD per connection in March. The average annual use was 189 GPD per connection.



Non-account Water

The Company reported 51,557,000 gallons purchased, 47,123,200 gallons sold and 387,000 gallons of authorized non-revenue uses for the test year, resulting in a water loss of 7.8 percent. This percentage is within acceptable limit of 10 percent.

C. SYSTEM ANALYSIS

Based on the data provided by the Company for the Test Year, Staff concludes that the Ajo system has adequate water supply and storage capacities to serve its customer base and reasonable growth.

D. GROWTH

Based on customer data provided by the Company, it appears that the Ajo system has had somewhat of an erratic customer count. A listing of the number of connections at the end of each year from 2008 to 2010 is tabulated below:

2008	2009	2010
675	683	681

III. ADEQ COMPLIANCE

Compliance Status

ADEQ or its formally delegated agent, the Maricopa County Environmental Services Department ("MCESD"), monitors community water systems for compliance. ADEQ/MCED has reported that all six AWC community water systems have no deficiencies and these systems are currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4.[26]

Water Testing Expense

Participation in the ADEQ Monitoring Assistance Program ("MAP") is mandatory for community water systems, which serve less than 10,000 persons (approximately 3,300 service connections). Because the Company is able to monitor its systems at a lower cost than the MAP, the Company has chosen not to participate in the MAP for Pinal Valley, its largest system (with more than 3,300 service connections). The Company's consecutive system, Ajo, is not required to participate in the MAP. All other AWC community systems participate in the MAP. The Company's MAP surcharge tariff has been approved in prior rate cases. The Company reported 2010 MAP costs totaling $6,850 and 2010 MAP surcharge revenues totaling $4,471[27].

The Company reported its water testing expenses for the test year in the "Water Treatment" operating expenses account. The Company reported its water testing expenses for the test year at $42,281 (this amount does not include 2010 MAP costs). Staff reviewed the Company's water testing data and recommends that the Company's reported annual water testing expense of $42,281 be accepted for this proceeding.

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[26] Per ADEQ/MCED Compliance Status Reports dated January and April 2011.
[27] Per Mr. Reiker's direct testimony on page 15

IV. ADWR COMPLIANCE

The Ajo system is not located in an ADWR Active Management Area ("AMA"). The Tierra Grande, Pinal Valley, Coolidge Airport and Stanfield systems are located in the Pinal AMA, and the White Tank system is located in the Phoenix AMA.

The ADWR has determined that all six Company's systems are in compliance with the reporting requirements and the System Water Plans filed met ADWR requirements[28].

V. DEPRECIATION RATES

In the previous rate proceedings for the Eastern and Western Groups and the Company-wide rate case, the individual component depreciation rates developed by the Company were approved per Commission Decisions Nos. 66849, 68303 and 71845. Those depreciation rates have been carried forward and proposed in this rate application[29]. Staff recommends the adoption of the previously approved depreciation rates developed by the Company in this Western Group rate case. These rates are presented in Table A.

[28] Per ADWR Compliance Report dated August 31, 2011.
[29] Per Company's response KS 2.14

TABLE A

COMPONENT DEPRECIATION RATES

Plant Account No.	Depreciable Plant	Average Service Life (years)	AWC Developed Rates (%)
314	Wells & Springs	32	3.13
321	Pumping Plant Structures & Improvements	35	2.86
325	Electric Pumping Equipment	17	5.88
328	Gas Engines	25	4.00
331	Water Treatment Structures & Improvements	40	2.50
332	Water Treatment Equipment	35	2.86
341	Transmission/Distribution Structures	30	3.33
342	Storage Tanks	50	2.00
343	Transmission/Distribution Mains	56	1.79
344	Fire Sprinkler Taps	50	2.00
345	Services	42	2.38
346	Meters	22	4.55
348	Hydrants	55	1.82
390	General Plant Structures	40	2.50
391	Office Furniture & Equipment	15	6.67
393	Warehouse Equipment	20	5.00
394	Tools, Shop & Garage Equipment	25	4.00
395	Laboratory Equipment	20	5.00
396	Power Operated Equipment	15	6.67
397	Communication Equipment	15	6.67
398	Miscellaneous Equipment	30	3.33

VI. OTHER ISSUES

Service Line and Meter Installation Charges

The Company has requested changes in its service line and meter installation charges. These charges are refundable advances. According to the Company, its current charges for services 3-inch and larger and those which require boring under a road or highway, do not recover the actual cost of installation. As a result, the Company is proposing to charge the actual cost of installation of services 3-inch and larger. Staff recommends the acceptance of the Company's requested installation charges as shown in Table B.

TABLE B

SERVICE LINE AND METER INSTALATION CHARGES

Company's Current Charges				Company's Requested Charges		
Meter Size	Service Line Charges	Meter Charges	Total Charges	Service Line Charges**	Meter Charges	Total Charges
5/8"x 3/4"	$445	$155	$600	$445	$155	$600
1"	$495	$315	$810	$495	$315	$810
2"- Turbine 2"- Compound	$830 $830	$1,045 $1,890	$1,875 $2,720	$830 $830	$1,045 $1,890	$1,875 $2,720
3"- Turbine 3"- Compound	$1,045 $1,165	$1,670 $2,545	$2,715 $3,710	At Cost	At Cost	At Cost
4"- Turbine 4"- Compound	$1,490 $1,670	$2,670 $3,645	$4,160 $5,315	At Cost	At Cost	At Cost
6"- Turbine 6"- Compound	$2,210 $2,330	$5,025 $6,920	$7,235 $9,250	At Cost	At Cost	At Cost
8"- Turbine 8"- Compound	$2,210 $2,330	$5,025 $6,920	$7,235 $9,250	At Cost	At Cost	At Cost
10"- Turbine 10"- Compound	$2,210 $2,330	$5,025 $6,920	$7,235 $9,250	At Cost	At Cost	At Cost
				**Note: To include the actual cost incurred when boring under a road or highway is required.		

Curtailment Plan Tariff

The Company has an approved curtailment plan tariff.

Backflow Prevention Tariff

The Company has an approved backflow prevention tariff.

Best Management Practices ("BMPs")

In Commission Decision No. 71845, dated August 24, 2010, the Company was ordered to submit BMPs for its water systems. In compliance with the Commission's Decision the Company submitted its proposed BMPs. Staff and the Company are working together on creating a set of BMP tariffs applicable to the Company's systems.

VII. OFF-SITE FACILITIES FEE TARIFF

In the rate application, the Company requested an Off-Site Facilities Fee ("Facilities Fee") of $3,500 for each new service connections with a 5/8 x ¾-inch meter in its Pinal Valley and Stanfield systems. The amount of the Facilities Fee increases for larger meter sizes.

The Company intends to use this fee to fund the Pinal Valley regional surface water treatment plant ("Pinal Valley CAP treatment Plant")[30] and the necessary transmission and distribution mains, storage tanks and booster systems needed to treat, store and pump water in order to meet the needs of future growth in this area. The Company estimated cost to design and construct Pinal Valley CAP treatment Plant, with a treatment capacity of the 10 million gallon per day[31], and all related infrastructure facilities is $81.8 million.

Based on the Company's water use data sheets for Pinal Valley system for the test year in the rate application and the proposed facilities estimated cost of $81.8 million, Staff concludes that the proposed Facilities Fee of $3,500 for a 5/8"x 3/4"meter is reasonable. Staff recommends the adoption of the specific tariff language contained in Attachment A of this report and the funds from the tariff be used for only those plant items that met the conditions of Attachment A.

[30] See Figure 2 in Section I for the proposed site location.
[31] The Company's Pinal Valley service area has a combined annual CAP allocation of 10,884 acre-feet.

TARIFF SCHEDULE

UTILITY: Arizona Water Company
(Pinal Valley & Stanfield systems)
DOCKET NO. W-01445A-10-0517

DECISION NO. _____
EFFECTIVE DATE: _____

OFF-SITE HOOK-UP FEE

I. Purpose and Applicability

The purpose of the off-site hook-up fees payable to Arizona Water Company ("the Company") pursuant to this tariff is to equitably apportion the costs of constructing additional off-site facilities necessary to provide water production, delivery, storage and pressure among all new service connections. These charges are applicable to all new service connections established after the effective date of this tariff undertaken via Main Extension Agreements or requests for service not requiring a Main Extension Agreement. The charges are one-time charges and are payable as a condition to Company's establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-401 of the Arizona Corporation Commission's ("Commission") rules and regulations governing water utilities shall apply in interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with Company for the installation of water facilities to serve new service connections, and may include Developers and/or Builders of new residential subdivisions and/or commercial and industrial properties.

"Company" means Arizona Water Company.

"Main Extension Agreement" means any agreement whereby an Applicant agrees to advance the costs of the installation of water facilities necessary to the Company to serve new service connections within a development, or installs such water facilities necessary to serve new service connections and transfer ownership of such water facilities to the Company, which agreement shall require the approval of the Commission pursuant to A.A.C. R-14-2-406, and shall have the same meaning as "Water Facilities Agreement" or "Line Extension Agreement."

"Off-site Facilities" means wells, storage tanks and related appurtenances necessary for proper operation, including engineering and design costs. Offsite facilities may also include booster pumps, pressure tanks, transmission mains and related appurtenances necessary for proper operation if these facilities are not for the exclusive use of the applicant and will benefit the entire water system.

"Service Connection" means and includes all service connections for single-family residential or commercial, industrial other uses, regardless of meter size.

III. Off-Site Water Hook-up Fee

For each new service connection, the Company shall collect an off-site hook-up fee derived from the following table:

OFF-SITE HOOK-UP FEE TABLE		
Meter Size	**Size Factor**	**Total Fee**
5/8" x 3/4 "	1	$3,500
3/4"	1.5	$5,250
1"	2.5	$8,750
1-1/2 "	5	$17,500
2"	8	$28,000
3"	16	$56,000
4"	25	$87,500
6" or larger	50	$175,000

IV. Terms and Conditions

(A) Assessment of One Time Off-Site Hook-up Fee: The off-site hook-up fee may be assessed only once per parcel, service connection, or lot within a subdivision (similar to meter and service line installation charge).

(B) Use of Off-Site Hook-up Fee: Off-site hook-up fees may only be used to pay for capital items of off-site facilities, or for repayment of loans obtained to fund the cost of installation of off-site facilities. Off-site hook-up fees shall not be used to cover repairs, maintenance, or operational costs.

(C) Time of Payment:

1) For those requiring a Main Extension Agreement: In the event that the Applicant is required to enter into a Main Extension Agreement, whereby the Applicant agrees to advance the costs of installing mains, valves, fittings, hydrants and other on-site improvements or construct such improvements in order to extend service in accordance with R-14-2-406(B), payment of the hook-up fees required hereunder shall be made by the Applicant no later than 15 calendar days after receipt of notification from the Company that the Utilities Division of the Arizona Corporation Commission has approved the Main Extension Agreement in accordance with R-14-2-406(M).

2) For those connecting to an existing main: In the event that the Applicant is not required to enter into a Main Extension Agreement, the hook-up fee charges hereunder shall be due and payable at the time the meter and service line installation fee is due and payable.

(D) Off-Site Facilities Construction By Developer: Company and Applicant may agree to construction of off-site facilities necessary to serve a particular development by Applicant, which facilities are then conveyed to Company. In that event, Company shall credit the total cost of such off-site facilities as an offset to off-site hook-up fees due under this Tariff. If the total cost of the off-site facilities constructed by Applicant and conveyed to Company is less than the applicable off-site hook-up fees under this Tariff, Applicant shall pay the remaining amount of off-site hook-up fees owed hereunder. If the total cost of the off-site facilities contributed by Applicant and conveyed to Company is more than the applicable off-site hook-up fees under this Tariff, Applicant shall be refunded the difference upon acceptance of the off-site facilities by the Company.

(E) Failure to Pay Charges; Delinquent Payments: The Company will not be obligated to make an advance commitment to provide or actually provide water service to any Applicant in the event that the Applicant has not paid in full all charges hereunder. Under no circumstances will the Company set a meter or otherwise allow service to be established if the entire amount of any payment due hereunder has not been paid.

(F) Large Subdivision and/or Development Projects: In the event that the Applicant is engaged in the development of a residential subdivision and/or development containing more than 150 lots, the Company may, in its discretion, agree to payment of off-site hook-up fees in installments. Such installments may be based on the residential subdivision and/or development's phasing, and should attempt to equitably apportion the payment of charges hereunder based on the Applicant's construction schedule and water service requirements. In the alternative, the Applicant shall post an irrevocable letter of credit in favor of the Company in a commercially reasonable form, which may be drawn by the Company consistent with the actual or planned construction and hook up schedule for the subdivision and/or development.

(G) Off-Site Hook-Up Fees Non-refundable: The amounts collected by the Company as hook-up fees pursuant to the off-site hook-up fee tariff shall be non-refundable contributions in aid of construction.

(H) Use of Off-Site Hook-Up Fees Received: All funds collected by the Company as off-site hook-up fees shall be deposited into a separate interest bearing bank account and used solely for the purposes of paying for the costs of installation of off-site facilities, including repayment of loans obtained for the installation of off-site facilities that will benefit the entire water system.

(I) Off-Site Hook-up Fee in Addition to On-site Facilities: The off-site hook-up fee shall be in addition to any costs associated with the construction of on-site facilities under a Main Extension Agreement.

(J) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site hook-up fees, or if the off-site hook-up fee has been terminated by order of the Arizona Corporation Commission, any funds remaining in the bank account shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.

(K) Fire Flow Requirements: In the event the Applicant for service has fire flow requirements that require additional facilities beyond those facilities whose costs were included in the off-site hook-up fee, and which are contemplated to be constructed using the proceeds of the off-site hook-up Fee, the Company may require the Applicant to install such additional facilities as are required to meet those additional fire flow requirements, as a non-refundable contribution, in addition to the off-site hook-up fee.

(L) Status Reporting Requirements to the Commission: The Company shall submit a calendar year Off-Site Hook-Up Fee status report each January 31st to Docket Control for the prior twelve (12) month period, beginning January 31, 2013, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the physical location/address of the property in respect of which such fee was paid, the amount of money spent from the account, the amount of interest earned on the funds within the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.