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BEFORE THE ARIZONA CORPORATION

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BOB STUMP
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AZ CORP COMMISSION
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IN THE MATTER OF THE APPLICATION OF PIMA UTILITY COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.

DOCKET NO. W-02199A-11-0329

IN THE MATTER OF THE APPLICATION OF PIMA UTILITY COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.

DOCKET NO. SW-02199A-11-0330

**STAFF'S NOTICE OF FILING
SURREBUTTAL TESTIMONY**

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") hereby files the Surrebuttal Testimony of Staff witnesses Crystal S. Brown, John A. Cassidy and Marlin Scott, Jr. in the above-referenced matter.

RESPECTFULLY SUBMITTED this 18th day of May, 2012.

Robin R. Mitchell, Staff Attorney
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Arizona Corporation Commission

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BEFORE THE ARIZONA CORPORATION COMMISSION

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

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UTILITY COMPANY, AN ARIZONA CORPORATION,)
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THEREON.)

DOCKET NO. SW-02199A-11-0330

SURREBUTTAL
TESTIMONY
OF
CRYSTAL S. BROWN
PUBLIC UTILITIES ANALYST V
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

MAY 18, 2012

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**EXECUTIVE SUMMARY
PIMA UTILITY COMPANY,
DOCKET NOS. W-02199A-11-0329 AND SW-02199A-11-0330**

Staff recommends the following for the water and wastewater divisions of Pima Utility Company ("Pima Utility"):

Pima Utility Company – Water Division ("Pima Water" or "Company")

Staff recommends a \$457,200 or 23.12 percent revenue increase from \$1,977,627 to \$2,434,827. Staff's recommended revenue increase would produce an operating income of \$693,323 for a 7.60 percent rate of return on an OCRB of \$9,122,677.

Pima Utility – Wastewater Division ("Pima Wastewater" or "Company")

Staff recommends a \$144,486 or 4.67 percent revenue increase from \$3,096,775 to \$3,241,261. Staff's recommended revenue increase would produce an operating income of \$732,804 for a 7.60 percent rate of return on an OCRB of \$9,642,163.

Staff's surrebuttal testimony responds to Pima Utility's rebuttal testimony on the following issues:

1. Rate Base
 - a. Excess Capacity Costs
 - b. Advances in Aid of Construction ("AIAC") and Contributions In Aid of Construction ("CIAC")

2. Operating Income
 - a. Salaries & Wages, Officers and Directors
 - b. Employee Pensions and Benefits
 - c. Rate Case Expense Surcharge
 - d. Property Tax Expense
 - e. Income Tax Expense

1 **INTRODUCTION**

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

3 A. My name is Crystal S. Brown. I am a Public Utilities Analyst V employed by the Arizona
4 Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff").
5 My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Are you the same Crystal S. Brown who filed direct testimony in this case?**

8 A. Yes.

9
10 **PURPOSE OF SURREBUTTAL TESTIMONY**

11 **Q. What is the purpose of your surrebuttal testimony in this proceeding?**

12 A. The purpose of my surrebuttal testimony in this proceeding is to respond, on behalf of
13 Staff, to the rebuttal testimony of Mr. Steven Soriano, Mr. Ray Jones, and Mr. Thomas
14 Bourrassa who represent Pima Utility Company ("Pima Utility" or "Company").
15

16 **Q. Did you attempt to address every issue raised by Pima Utility in its rebuttal
17 testimony?**

18 A. No. I limited my discussion to certain issues as outlined below. My silence on any
19 particular issue raised in the Company's rebuttal testimony does not indicate that I agree
20 with the Company's stated rebuttal position on the issue. Rather, where I do not respond,
21 I rely on my direct testimony.

22
23 **Q. What issues will you address?**

24 A. I will address the issues listed below.

25 1. Rate Base

26 a. Excess Capacity Costs

27 b. Advances in Aid of Construction ("AIAC") and Contributions In Aid of
28 Construction ("CIAC")

1 The decrease reflects the adjustments made in Staff's surrebuttal testimony. The above
2 recommended revenue would apply to the customers of each of the divisions as discussed
3 below:

4
5 *Pima Water*

6 Staff recommends a \$457,200 or 23.12 percent revenue increase from \$1,977,627 to
7 \$2,434,827. Staff's recommended revenue increase would produce an operating income
8 of \$693,323 for a 7.60 percent rate of return on an OCRB of \$9,122,677.

9
10 *Pima Wastewater*

11 Staff recommends a \$144,486 or 4.67 percent revenue increase from \$3,096,775 to
12 \$3,241,261. Staff's recommended revenue increase would produce an operating income
13 of \$732,804 for a 7.60 percent rate of return on an OCRB of \$9,642,163.

14
15 **RATE BASE**

16 **Q. Please summarize Staff's adjustments to the Pima Water's and Pima Wastewater's**
17 **rate base shown on Surrebuttal Schedules CSB-3 and CSB-4 of their respective**
18 **schedules.**

19 **A. A summary of the Company's proposed and Staff's recommended rate bases follows:**

20

	TEST YEAR RATE BASE		
<u>Division</u>	<u>Per Company</u>	<u>Difference</u>	<u>Per Staff</u>
Pima Water	\$9,097,529	\$25,148	\$9,122,677
Pima Wastewater	\$9,863,271	(\$221,108)	\$9,642,163
Total	\$18,960,800	(\$195,960)	\$18,764,840

1 **Q. How does Staff's recommended rate base compare to the recommended rate base in**
2 **Staff's direct testimony?**

3 A. Staff has made no change to its recommended rate base. Staff continues to recommend
4 the 18,764,840 in its direct testimony.

5
6 **Rate Base – Excess Capacity, Pima Wastewater**

7 **Q. Did Staff review the Company's rebuttal testimony regarding excess capacity?**

8 A. Yes.

9
10 **Q. Does Staff agree with the Company?**

11 A. No. Staff witness, Marlin Scott, Jr. will discuss this issue in greater detail in his
12 surrebuttal testimony.

13
14 **Rate Base - AIAC and CIAC, Pima Water**

15 **Q. Did Staff review the Company's rebuttal testimony regarding AIAC for Pima**
16 **Water?**

17 A. Yes. The Company proposes to adopt RUCO's adjustment which transfers a total of
18 \$423,589 (i.e., the test year total AIAC balance of \$374,236 plus an additional \$49,353),
19 to CIAC. The basis of RUCO's adjustment was the Company's response to CSB 1-11
20 which proposed transferring the \$374,236 from AIAC to CIAC and eliminating the
21 accounts payable to the developer.

22
23 **Q. Why is the proposed adjustment inappropriate?**

24 A. Pima owes the money to the developer and, therefore, has an obligation to pay.

1 **Operating Income -- Officer and Director Salary and Wages, Pima Water & Pima**
2 **Wastewater**

3 **Q. Did Staff adjust the level of Mr. Edward Robson's salary in the Company's last rate**
4 **case?**

5 A. No, Staff did not.

6
7 **Q. Is Staff precluded from adjusting Mr. Edward Robson's salary in the instant case?**

8 A. No, Staff is not. Because Staff did not identify an inappropriate or unreasonable expense
9 in one rate case is not justification for ignoring it in a subsequent case once it has been
10 identified. This approach prevents ratepayers from being burdened with an unreasonable
11 cost in perpetuity.

12
13 **Q. Did Staff review the Company's rebuttal testimony concerning the salary of Mr.**
14 **Edward J. Robson?**

15 A. Yes. In Mr. Soriano's rebuttal testimony the Company calculates a revised salary amount
16 by taking the salary included in the last rate case and applying an inflation factor.

17
18 **Q. Does Staff agree with the Company's calculation?**

19 A. No.

20
21 **Q. Can you please explain why Staff disagrees with the Company's calculation?**

22 A. There was no indication that Mr. Robson's salary in the last rate case was based on time
23 sheets or any documentation or record. The National Association of Regulatory Utility
24 Commissioners ("NARUC") Uniform System of Accounts prohibits use of estimates as
25 discussed in my direct testimony. Further, the Company's methodology does not follow
26 the NARUC Guidelines for Cost Allocations and Affiliate Transactions. These guidelines

1 incorporate the cost causation principle in allocating costs when those costs cannot be
2 directly charged.

3
4 **Q. What is Staff's recommendation?**

5 A. Staff continues to recommend removing \$76,608 from each for Pima Water and Pima
6 Wastewater, for a total of \$153,216.

7
8 **Operating Income Adjustment – Employee Pensions and Benefits**

9 **Q. Did Staff review the Company's rebuttal testimony on employee pensions and**
10 **benefits?**

11 A. Yes. Mr. Bourassa stated that "there are no employee pension and benefit related to Mr.
12 Robson's salary in the expense."

13
14 **Q. Does Staff agree?**

15 A. No, Staff does not. In response to Staff's data request CSB 1-24, the Company provided
16 documentation that explicitly showed (1) a \$1,878.34 pension and benefit amount for Mr.
17 Robson for the water division and (2) that the \$1,878.34 amount was included in the total
18 \$64,900 employee pension and benefit amount for the water division. Staff subsequently
19 calculated an allocation of \$522 which resulted in a decrease of the Pension and Benefits
20 accounts of Pima Water and Pima Wastewater of \$1,378 from each for a total \$2,756.

21
22 **Q. What is Staff's recommendation?**

23 A. Staff continues to recommend decreasing the Pension and Benefit account by \$1,378 for
24 Pima Water and Pima Wastewater.

1 **Property Tax Expense**

2 **Q. Did Staff review Mr. Bourassa's rebuttal testimony concerning property tax**
3 **expense?**

4 A. Yes.

5
6 **Q. Has Staff made any revisions to property tax expense?**

7 A. Yes. For Pima Wastewater, Staff has reflected the correct construction work in progress
8 ("CWIP") balance of \$3,971 for the test year property tax calculation. For Pima Water
9 and Pima Wastewater, Staff has reflected the correct assessment ratio of 20 percent used
10 in the calculation of property tax expense for Staff's recommended increase.

11
12 **Q. What is Staff's recommendation?**

13 A. Staff continues to recommend property tax expense of \$77,191 for Pima Water. Staff
14 recommends property tax expense of \$124,635 for Pima Wastewater.

15
16 **Q. How does Staff's recommended property tax expense in its surrebuttal compare to**
17 **the recommended property tax expense in Staff's direct testimony?**

18 A. The comparison is as follows:

19

PROPERTY TAX EXPENSE				
	Reference:	Direct Testimony Property Tax Expense	Increase	Surrebuttal Testimony Property Tax Expense
Pima Water	Schedules CSB-17	\$77,191	\$0	\$77,191
Pima Wastewater	Schedules CSB-18	\$124,522	\$113	\$124,635

1 **Operating Income – Income Tax Expense**

2 **Q. Did Staff review the Company’s rebuttal testimony on income tax expense?**

3 A. Yes.

4
5 **Q. What are the Company’s reasons for continuing to request recovery of income tax**
6 **expense?**

7 A. The Company’s reasons can be summarized into four arguments as follows:

- 8
9 a. Income Determines Tax Liability. Pima Utility generates income and therefore tax
10 liability.
11 b. An Income Tax Allowance Is A Proper Cost of Service Item. An income tax
12 allowance is a proper cost of service for Pima Utility because the tax liability is
13 incurred by Pima Utility in providing utility service to customers.
14
15 c. Lowered Rates of Return And Less Cash Available for Investment. Not providing
16 an income tax allowance would result in lower rates of return and less cash
17 available for investment for S-corps.
18
19 d. The Federal Energy Regulatory Commission (“FERC”) Provides an Income Tax
20 Allowance. The FERC has determined that an income tax allowance should be
21 included as a component of the cost of service for an S-corp so the Commission
22 should follow suit.
23

24 **Q. Does Staff agree with any of the Company’s arguments?**

25 A. No, Staff does not. Staff will first discuss the avoidance of double taxation for S-corps,
26 then address each of the Company’s arguments separately.
27

28 **S-corps and the Avoidance of Double Taxation**

29 **Q. What is the primary benefit of organizing as an S-corp?**

30 A. A S-corp is a tax election an entity (meeting certain criteria) can make in order to
31 eliminate the corporate level tax. In other words, the primary benefit is to avoid the double
32 taxation on investment earnings that the shareholders of C-corps experience.

1 **Q. What causes the double taxation for C-corp shareholders?**

2 A. Double taxation occurs because under the Internal Revenue Code, C-corps are an
3 independent taxable entity. Therefore, C-corps pay taxes on their income just as
4 individuals do, but at different rates. When the C-corps pay dividends to their
5 shareholders those dividend payments incur income tax liabilities for the shareholders on
6 an individual level, even though the income that provided the cash to pay the dividend was
7 already taxed at the corporate level.

8

9 **Q. Please explain how S-corps avoid double taxation.**

10 A. An S-corp is a corporation that is not taxable and is required to pass-through its income to
11 its shareholders for inclusion in the shareholder's personal income tax return. Therefore
12 the investment earnings of the S-corps are taxed only once (at the individual level) as
13 compared to the shareholders of C-corps whose investment earnings are taxed at both the
14 corporate and the individual levels.

15

16 **Income Determines Tax Liability**

17 **Q. Is Pima Utility a regulated investor-owned utility?**

18 A. Yes, Pima Utility is a regulated investor-owned utility and as such is a monopoly provider
19 of water and wastewater services within its service area.

20

21 **Q. For ratemaking purposes, what does the income of Pima Utility represent?**

22 A. For ratemaking purposes, Pima Utility's income represents investment income because it
23 is a return on the shareholders investment in Pima Utility.

24

25 **Q. Has the Commission prescribed a methodology to determine the amount?**

26 A. Yes. The methodology is prescribed in the Arizona Administrative Code.

1 **Q. In general, how is the return on investment calculated?**

2 A. In general, the investors' total investment in the utility is found using the rate base
3 calculation. Then a rate of return is applied to the rate base (i.e. total investment). The
4 result is the potential investment income authorized by the Commission.

5
6 **Q. Has Staff reviewed Mr. Spitzer's testimony?**

7 A. Yes.

8
9 **Q. On page 8, line 11, of Mr. Spitzer's rebuttal testimony, he states that "Pima
10 generates taxable income and, therefore, income tax liability." Does Staff agree with
11 this statement?**

12 A. No, Staff does not. It is true that Pima Utility has generated investment income for its
13 shareholders, however, under the Internal Revenue Code, this investment income does not
14 incur an income tax liability for Pima Utility because it is an S-corp. The investment
15 income generated by Pima Utility incurs a tax liability for Pima Utility's investors.

16
17 **Q. Must shareholders include the investment income from S-corps and the dividend
18 income distributed from C-corps in the calculation of their personal taxable income?**

19 A. Yes. Shareholders must file an income tax return to determine whether they owe any
20 personal income taxes on their total taxable income.

21
22 **Q. How would S-corp shareholders avoid paying personal income taxes on their
23 investment income from Pima Utility?**

24 A. They would escape by shifting their tax burdens onto the company's customers,
25 effectively making the investment income earned from Pima Utility tax free.

26

1 **Q. How does this cost shifting disadvantage Pima Utility's customers?**

2 A. Pima Utility's shareholders did not incur an income tax liability in the generation of
3 investment income from Pima Utility; therefore, there is no cost to be recovered from
4 customers. Including an income tax allowance would artificially inflate rates and require
5 that customers of S-corps to pay the personal income taxes of the shareholders.

6

7 **An Income Tax Allowance Is A Valid Cost of Service Item**

8 **Q. On page 15, line 18 ½, of Mr. Spitzer's rebuttal testimony, he states that a "tax**
9 **liability is incurred by Pima in providing utility service to customers." Does Staff**
10 **agree with this statement?**

11 A. No, Staff does not.

12

13 **Q. Does the NARUC USOA require Pima Utility to record all expenses and liabilities**
14 **that it incurs in providing service to customers?**

15 A. Yes.

16

17 **Q. What amount of income tax expense and/or income tax liability did Pima Utility**
18 **record in its books and records?**

19 A. None, because Pima Utility incurred no income tax expense or liability in the provision of
20 service to its customers.

21

22 **Q. What is the definition of a pro forma adjustment?**

23 A. Arizona Administrative Code R14-2-103(A)(3)(i) defines pro adjustments as follows:

24

25 "Pro forma adjustments" - Adjustments to actual test year results
26 and balances to obtain a normal or more realistic relationship
27 between revenues, expenses, and rate base.

1 **Q. Does the Company's pro forma adjustment to include income taxes reflect a more**
2 **realistic or normal relationship between revenues and expenses?**

3 A. No, it does not. Operating expenses are related to operating revenues in that costs
4 incurred by the utility to provide service are recovered from rate payers through rates.
5 Pima Utility incurred no tax liability in the test year. Therefore, the Company's pro forma
6 adjustment to recover an expense from customers that was not incurred by Pima Utility
7 does not reflect any *realistic* or *normal* relationship between Pima Utility's revenues and
8 expenses.

9
10 **Lower Rates of Return and Less Cash Available**

11 **Q. Did the Company provide any source documentation that Staff could audit and**
12 **verify to support its claims of lowered rates of returns and less cash availability?**

13 A. No. The Company provided no income tax returns of its shareholders or any type of study
14 with underlying actual tax rates and documentation to support its claims.

15
16 **Q. Even if the Company's claims were verified, would the lowered returns justify the**
17 **income tax allowance?**

18 A. No.

19
20 **Q. Why wouldn't the lowered returns justify the income tax allowance?**

21 A. The lowered returns would not justify the income tax allowance because customers would
22 be harmed and the shareholders would be unfairly enriched. This is because the customers
23 would be required to pay all of the shareholders' personal income taxes on the
24 shareholders' investment income from Pima Utility.

25

1 **Q. Notwithstanding the above, does Staff agree that not providing an income tax**
2 **allowance for an S-corp results in lowered rates of return and less cash available for**
3 **investment?**

4 A. No, Staff does not.

5
6 **Q. Does Staff have an example to illustrate that S-corps shareholders do not have**
7 **lowered rates of return when compared to C-corps shareholders?**

8 A. Yes, Staff has borrowed from an example in Exhibit RLJ-DT6 provided in the direct
9 testimony of Mr. Ray Jones for illustrative purposes only. This example should not be
10 construed as Staff advocating for an income tax allowance for S-corps. Table A shows
11 that the after-tax rates of return of 8.49 percent for an S-corp and 8.39 percent for a C-corp
12 shareholder are comparable.

13
14 Further, C-corps have full discretion over the amount of investment income they can
15 distribute or retain. Consequently, the rate of return is 0.00 percent for a C-corp
16 shareholder when a C-corp does not distribute its earnings.

1
2

TABLE A
COMPARABLE RATES OF RETURNS FOR S-CORP AND C-CORP SHAREHOLDERS

	S-corporation		C-corporation	
	Utility	Shareholder	Utility	Shareholder
Revenue Requirement	\$1,414,000		\$1,414,000	
Tax Gross-Up	\$0		\$ 57,367	
Total Revenue	\$1,414,000		\$1,471,367	
Expenses ¹	(\$1,300,000)		(\$1,300,000)	
Corporate Income Tax Expense	\$0		\$ 57,367	
Investment (Operating) Income	\$ 114,000		\$ 114,000	
Flow-Through Investment Income	(\$ 114,000)	\$ 114,000	\$0	
Net Investment Income	\$0	\$ 114,000	\$ 114,000	
Taxes on Personal Investment Income ²		\$ 17,670		
After-tax Investment Income		\$ 96,330		
Dividend Distribution				\$ 114,000
Taxes on Personal Investment Income Capital Gains & State Tax ³		\$0		\$ 20,520
After-tax Investment Income		\$ 96,330		\$ 93,480
Rate Base		\$1,114,000		\$1,114,000
Rate of Return (Pre Tax)		10.00%		10.00%
Rate of Return (Post Tax)		8.65%		8.39%
Rate of Return (Undeclared Dividend)		Non applicable		0.00%

¹ Staff did not include the effects of a shareholder salary as (1) it would not cause a significantly different result (2) there is no federal or state requirement to take a salary (3) not all S-corp and C-corps shareholders take a salary (4) the amount of salary varies across companies (5) it is impossible to verify the tax rates on the shareholder's personal income taxes without the actual income tax return to determine the amount of tax, if any, that was actually paid and (6) the tax effect of a shareholder's salary is generally not a part of Staff's analysis of rate of return and cash flow.

² Pima Utility has provided no income tax statements of its shareholders. Therefore, Staff has used the national average income tax rate of 11% and the state average income tax rate of 4.5%; for a 15.5% effective tax rate.

³ Calculated using capital gains tax of 15% and state tax of 3%; for an 18% effective tax rate.

1 **Q. Does Staff have an example to illustrate that S-corp shareholders do not have less**
2 **cash available when compared to C-corp shareholders?**

3 A. Yes, Staff has again borrowed from an example in Exhibit RLJ-DT6 provided in the direct
4 testimony of Mr. Ray Jones to illustrate that S-corp shareholders do not have less cash
5 available. As shown in the Table B below, the net available cash of \$496,330 for an S-
6 corp shareholder and \$493,480 for a C-corp shareholder are comparable and do not
7 warrant the Commission changing its long-standing policy of not allowing income taxes
8 for non-taxable entities.

9
10 **Table B**

11 **COMPARABLE AMOUNTS OF CASH AVAILABLE FOR INVESTMENT**

	S-corporation		C-corporation	
	Utility	Shareholder	Utility	Shareholder
Investment (i.e., Operating) Income	\$114,000		\$114,000	
Depreciation	<u>\$400,000</u>		<u>\$400,000</u>	
Available Cash	\$514,000		\$514,000	
Flow-Through Investment Income	<u>(\$514,000)</u>	\$ 514,000		
Dividend Distribution				\$ 514,000
Taxes on Personal Investment Income ⁴		<u>(\$ 17,670)</u>		
Taxes on Personal Investment Income - Capital Gains & State Tax ⁵		<u>(\$ 0)</u>		<u>\$ 20,520</u>
Net Available Cash	\$0	\$ 496,330	\$0	\$ 493,480

12
13
⁴ Pima Utility has provided no income tax statements of its shareholders. Therefore, Staff has used the national average income tax rate of 11% and the state average income tax rate of 4.5%; for an effective tax rate of 15.5% for comparison purposes.

⁵ Calculated using capital gains tax of 15% and state tax of 3%; for an effective tax rate of 18%.

1 **S-CORP SHAREHOLDERS CAN AND DO USE BUSINESS LOSSES TO INCREASE**

2 **AVAILABLE CASH**

3 **Q. Can C-corp shareholders offset their personal income with business losses from a C-**
4 **corp?**

5 A. No, they cannot. Losses are retained by the C-corp and are used to offset future income.

6
7 **Q. Can S-corp shareholders offset their personal income with business losses from an S-**
8 **corp?**

9 A. Yes, they can. Business losses for S-corps are passed through to the shareholder and can
10 be used to reduce the total personal income tax of the S-corp shareholder. This tax break
11 can be taken in the year of the loss.

12
13 **Q. Can Staff provide an example to illustrate how a business loss for a shareholder of an**
14 **S-corp can increase his or her wealth better than a business loss for a C-corp**
15 **shareholder?**

16 A. Yes. Table C below shows that a business loss can be used by an S-corp shareholder to
17 offset personal income taxes but cannot be used by a C-corp shareholder to offset personal
18 income taxes. Consequently, an S-corp shareholder can keep more of the cash that he or
19 she earns.

20

Table C

S-CORPS CAN AND DO USE BUSINESS LOSSES TO INCREASE AVAILABLE CASH

		S-corporation		C-corporation	
		Utility	Shareholder	Utility	Shareholder
1	Investment (i.e., Operating) Loss	(\$120,000)		(\$120,000)	
2	Flow-Through Investment Loss		(\$120,000)		(\$ 0)
3	Other Non-Utility Personal Income		<u>\$ 100,000</u>		<u>\$ 100,000</u>
4	Net Total Personal Income/(Loss)		(\$ 20,000)		\$ 100,000
5	Tax Rate on Personal Income		x 15%		x 15%
6	Taxes on Personal Income		\$ 0		\$ 15,000
7					
8	After-Tax Cash Available (L3 –L6)		\$ 100,000		\$ 85,000

The FERC Provides an Income Tax Allowance.

Q. Does the Commission require water and wastewater companies to maintain their books and records in accordance with the FERC Uniform System of Accounts (“USOA”)?

A. No. The Arizona Administrative Code R14-2-411(D)(2) states the following: “Each utility shall maintain its books and records in conformity with the NARUC Uniform System of Accounts for Class A, B, C, and D Water Utilities.”

Q. Have any NARUC training classes that Staff has attended advocated including income tax for a non-taxable entity?

A. Not to my knowledge.

1 **Q. What does the NARUC Rate Case and Audit Manual say concerning the audit of**
2 **income taxes?**

3 A. On page 27 of the NARUC Rate Case and Audit Manual prepared by NARUC Staff
4 Subcommittee on Accounting and Finance in 2003 in the section entitled "Income tax
5 Expense," it states:

6
7 The auditor should look at the Federal and State Schedule M
8 items/adjustments to see what differences exist between the tax
9 return computation and the book tax computation, and inquire about
10 any of the items that appear to be out of place or that are not
11 understood. The auditor should also review and understand the
12 timing and payment schedule of income taxes.

13
14 The auditor should verify that the depreciation rates for book
15 purposes and those for tax purposes are appropriate.

16
17 **Q. Has Staff reviewed the income tax returns of C-corps as a part of its audit of income**
18 **taxes or income tax related items?**

19 A. Yes, Staff has reviewed the income tax returns to support inclusion of income tax expense
20 for some smaller companies and has reviewed portions of income tax returns to audit
21 accumulated deferred income taxes for larger companies. Further, tax returns are needed
22 in order to calculate the lag days for the income tax expense component in a lead-lag
23 study.

24
25 **Q. Does the Commission automatically adopt the same ratemaking treatment for water**
26 **and wastewater companies that the FERC uses for energy companies?**

27 A. No, it does not.
28

1 **Q. Can Staff provide some examples, other than income taxes, where the Commission**
2 **has determined different ratemaking treatment than the FERC?**

3 A. Yes. The Commission does not set rates on indices whereas the FERC will set rates using
4 indices. The Commission typically does not allow CWIP in rate base whereas the FERC
5 typically does. The Commission allows negative cash working capital in rate base
6 whereas the FERC typically does not. The Commission typically does not allow
7 charitable contributions to be recovered through rates whereas the FERC typically does.

8
9 **Q. So, does the mere fact that the FERC allows income taxes for S-corps sufficient**
10 **reason to warrant the Commission changing its long-standing policy?**

11 A. No, it is not.

12
13 **Q. Please summarize Staff's reasons for not recommending income tax expense for an**
14 **S-corp.**

15 A. S-corps are not taxable under the Internal Revenue Code. S-corps can choose to become
16 C-corps. The rates of return for S-corps and C-corps are comparable. The income
17 generated from Pima Utility represents the return on the shareholders' personal investment
18 in Pima Utility and, therefore, is appropriately paid by the shareholders'. Captive
19 customers would be harmed because they would be required to pay for a cost that was not
20 needed in the provision of service. Shareholders would be unfairly enriched because they
21 would be able to shift their tax burdens onto the captive customers effectively paying no
22 taxes on their investment income. NARUC does not advocate allowing income taxes for
23 non taxable entities. The Commission and the FERC continue to have different
24 ratemaking treatment of expenses, such as, but not limited to income taxes.

25

1 **RATE CASE EXPENSE SURCHARGE**

2 **Q. Did Staff review the Company's rebuttal testimony?**

3 A. Yes.

4
5 **Q. Does Staff support the recovery of rate case expense through a surcharge?**

6 A. No. Surcharges and charges similar to them are generally used for expenses when a
7 particular expense represents a significantly large percentage of total operating expenses
8 and is highly volatile and out of the Company's control. In the instant case, the rate case
9 expense amount does not represent a significant portion of Staff's total recommended
10 expenses. Also, as described in Staff's direct testimony, the rate case expense is
11 determined on an annual basis and the normalization calculation uses a five-year average
12 of total rate case expense. Staff therefore does not consider this expense to be highly
13 volatile, as it does not have the tendency to vary widely or to be subject to sudden
14 changes.

15
16 **Q. What other factors did Staff take into account when considering the Company's
17 proposal for a surcharge?**

18 A. There is a concern for single issue rate making which is inherent in surcharges. Single
19 issue rate making does not provide for the proper matching of costs and does not
20 recognize any corresponding cost savings or additional revenue that would be a possible
21 offset. Allowing the costs to be recovered without the off setting revenues or reduction in
22 costs would not accurately reflect the cost of providing service. In addition, surcharges
23 can be burdensome and they are not administratively efficient.

24
25 **Q. What is Staff's recommendation concerning the rate case expense surcharge?**

26 A. Staff recommends that the surcharge not be adopted.

1 **Rate Design**

2 **Q. Did Staff review Mr. Bourassa's rebuttal testimony concerning the problems he**
3 **identified with Staff's rates?**

4 A. Yes. After taking Mr. Bourassa's comments into consideration, Staff has filed new rates
5 as shown on surrebuttal schedules CSB-19 for Pima Water and CSB-20 for Pima
6 Wastewater.

7
8 **Q. Does this conclude your surrebuttal testimony?**

9 A. Yes, it does.

WATER DIVISION SCHEDULES

REVENUE REQUIREMENT

<u>LINE NO.</u>	<u>DESCRIPTION</u>	[A] COMPANY ORIGINAL <u>COST</u>	[B] STAFF ORIGINAL <u>COST</u>
1	Adjusted Rate Base	\$ 9,097,529	\$ 9,122,677
2	Adjusted Operating Income (Loss)	\$ 132,560	\$ 242,246
3	Current Rate of Return (L2 / L1)	1.46%	2.66%
4	Required Rate of Return	9.47%	7.60%
5	Required Operating Income (L4 * L1)	\$ 861,536	\$ 693,323
6	Operating Income Deficiency/(Excess) (L5 - L2)	\$ 728,976	\$ 451,078
7a	Gross Revenue Conversion Factor	1.40411	N/A
7b	Property Tax Factor	N/A	1.01357
8	Increase (Decrease) In Gross Revenue (L7 * L6)	\$ 1,023,565	\$ 457,200
9	Adjusted Test Year Revenue	\$ 1,977,627	\$ 1,977,627
10	Proposed Annual Revenue (L8 + L9)	\$ 3,001,192	\$ 2,434,827
11	Required Increase/(Decrease in Revenue) (%) (L8/L9)	51.76%	23.12%

References:

Column [A]: Company Schedules A-1, C-1, C-3, & D-1

Column [B]: Staff Schedules CSB-2 & CSB-6

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B)		(C) STAFF AS ADJUSTED	
		STAFF ADJUSTMENTS	ADJ NO.		
1	Plant in Service	\$ 14,546,128	\$ 25,531	1	\$ 14,571,659
2	Less: Accumulated Depreciation	4,788,169	383	2	4,788,552
3	Net Plant in Service	<u>\$ 9,757,959</u>	<u>\$ 25,148</u>		<u>\$ 9,783,107</u>
<u>LESS:</u>					
4	Advances in Aid of Construction (AIAC)	\$ 374,236	\$ -		\$ 374,236
5	Service Line and Meter Advances	\$ -	\$ -		\$ -
6	Contributions in Aid of Construction (CIAC)	\$ 632,418	\$ -		\$ 632,418
7	Less: Accumulated Amortization of CIAC	346,223	-		346,223
8	Net CIAC	<u>\$ 286,195</u>	<u>-</u>		<u>\$ 286,195</u>
9	Total Advances and Contributions	\$ 660,431	\$ -		\$ 660,431
10	Customer Deposits	\$ -	\$ -		\$ -
11	Accumulated Deferred Income Taxes	\$ -	\$ -		\$ -
<u>ADD:</u>					
12	Cash Working Capital Allowance	\$ -	\$ -		\$ -
13	Materials and Supplies Inventories	\$ -	\$ -		\$ -
14	Prepayments	\$ -	\$ -		\$ -
15	Rounding	\$ 1	\$ -		\$ 1
16	Total Rate Base	<u>\$ 9,097,529</u>	<u>\$ 25,148</u>		<u>\$ 9,122,677</u>

References:

Column [A], Company Schedule B-1, Page 1
Column [B]: Schedule CSB-3
Column [C]: Column [A] + Column [B]

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	PLANT IN SERVICE Acct. No. Plant Description	[A]	[B]	[C]	[D]
		COMPANY	Expensed	Accumulated	STAFF AS
		AS FILED	Plant Costs	Depreciation	ADJUSTED
		Ref: Sch B-2, 3.19	Ref: Sch CSB-4	Ref: Sch CSB-5	
1	301 Organization	\$ -	\$ -	\$ -	\$ -
2	303 Land and Land Rights	97,637	-	-	97,637
3	304 Structures and Improvements	315,125	-	-	315,125
4	307 Wells and Springs	606,699	3,902	-	610,601
5	309 Supply Mains	-	-	-	-
6	311 Pumping Equipment	2,263,801	5,937	-	2,269,738
7	320 Wtr Trtmnt Equip-Solution Chem Feeders	58,255	-	-	58,255
8	330.1 Distrib Reser & Standpipes-Storage Tanks	1,102,197	-	-	1,102,197
9	330.2 Distrib Reser & Standpipes-Pressure Tanks	73,937	-	-	73,937
10	331 Transmission and Distribution Mains	2,916,048	-	-	2,916,048
11	333 Services	4,709,148	15,692	-	4,724,840
12	334 Meters and Meter Installations	923,202	-	-	923,202
13	335 Hydrants	887,381	-	-	887,381
14	336 Backflow Prevention Devices	-	-	-	-
15	339 Other Plant and Miscellaneous Equipment	-	-	-	-
16	340 Office Furniture and Equipment	4,239	-	-	4,239
17	340.1 Computers and Software	28,479	-	-	28,479
18	341 Transportation Equipment	61,635	-	-	61,635
19	343 Tools, Shop, and Garage Equipment	134,506	-	-	134,506
20	345 Power Operated Equipment	124,899	-	-	124,899
21	346 Communication Equipment	238,939	-	-	238,939
22	347 Miscellaneous Equipment	-	-	-	-
23	Rounding	1	-	-	1
24	Total Plant in Service	\$ 14,546,128	\$ 25,531	\$ -	\$ 14,571,659
25	Less: Accumulated Depreciation	\$ 4,788,169	\$ -	\$ 383	\$ 4,788,552
26	Net Plant in Service	\$ 9,757,959	\$ 25,531	\$ (383)	\$ 9,783,107
27					
28	<u>LESS:</u>				
29	Advances in Aid of Construction (AIAC)	\$ 374,236	\$ -	\$ -	\$ 374,236
30	Meter Deposits - Service Line & Meter Advances	\$ -	-	-	\$ -
31					
32	Contributions in Aid of Construction (CIAC)	\$ 632,418	-	-	\$ 632,418
33	Less: Accumulated Amortization of CIAC	\$ 346,223	-	-	\$ 346,223
34	Net CIAC	\$ 286,195	\$ -	\$ -	\$ 286,195
35					
36	Total Advances and Net Contributions	\$ 660,431	\$ -	\$ -	\$ 660,431
37					
38	Customer Deposits	\$ -	-	-	\$ -
39	Accumulated Deferred Taxes	\$ -	-	-	\$ -
40					
41	<u>ADD:</u>				
42	Cash Working Capital Allowance	\$ -	-	-	\$ -
43	Materials and Supplies Inventories	\$ -	-	-	\$ -
44	Prepayments	\$ -	-	-	\$ -
45	Rounding	\$ 1	-	-	\$ 1
46	Total Rate Base	\$ 9,097,529	\$ 25,531	\$ (383)	\$ 9,122,677

RATE BASE ADJUSTMENT NO. 2 - EXPENSED PLANT

LINE NO.	Plant Account Number	Description	[A]	[B]	[C]
			COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED (Col A + Col B)
1	307	Wells and Springs	\$ 606,699	\$ 3,902	\$ 610,601
2	311	Pumping Equipment	\$ 2,263,801	\$ 5,937	\$ 2,269,738
3	333	Services	\$ 4,709,148	\$ 15,692	\$ 4,724,840
4		Total	\$ 7,579,648	\$ 25,531	\$ 7,605,179

FROM REPAIRS AND MAINTENANCE (CSB 1.29)

Acct. No.	Vendor Name	Description	Amount
9	311-Pumping Equipment	Bray Sales Southern	WP1 - 12" Valve \$ 631.22
10	311-Pumping Equipment	Bray Sales Southern	WP1 - 10" Lug Valves \$ 941.25
11	311-Pumping Equipment	Siemens Energy Aut.	Ultrasonic Level Sensors \$ 909.01
12	311-Pumping Equipment	Industrial Service	Switchover Modules for C1 Site \$ 2,565.70
13	311-Pumping Equipment	Engineered Sales Co	Well 29B Booster Pump \$ 889.89
14		Subtotal	\$ 5,937.07
17	333-Services	HD Supply Waterwork	Copper Tubing for Service Repairs \$ 3,311.61
18	333-Services	HD Supply Waterwork	Copper Tubing for Service Repairs \$ 3,342.33
19	333-Services	HD Supply Waterwork	Copper Tubing for Service Repairs \$ 5,982.91
20	333-Services	HD Supply Waterwork	Copper Tubing for Service Repairs \$ 3,055.11
21		Subtotal	\$ 15,691.96
23		Total for Repairs and Maintenance	\$ 21,629.03

FROM CONTRACTUAL SERVICES , ENGINEERING (CSB 1.31)

Acct. No.	Vendor Name	Description	Amount
28	307-Wells and Springs	B&R Engineering, Inc.	Capitalize as part of Well 27 Rehab \$ 177.35
29	307-Wells and Springs	B&R Engineering, Inc.	Capitalize as part of Well 27 Rehab \$ 2,926.33
30	307-Wells and Springs	B&R Engineering, Inc.	Capitalize as part of Well 27 Rehab \$ 798.11
32		Total for Contractual Services, Engineering	\$ 3,901.79

References:

- Column A: Company Schedule B-2, P. 3.19
- Column B: Testimony, CSB, Company Data Request Responses CSB 1.10, 1.29, & 1.31
- Column C: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 3 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		PER COMPANY	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Accumulated Depreciation	\$ 4,788,169	\$ 383	\$ 4,788,552
2				
3				
4				
5	Year Placed			
6	Reference In Service	Acct No.	Description	Plant Cost
7	CSB 1.31 2010	307	Wells and Springs	\$3,902
8	CSB 1.29 2010	311	Pumping Equipment	\$5,937
9	CSB 1.29 2010	333	Services	\$15,692
10				\$25,531
11				x 3%
12				\$766
13				x 0.5
14				\$383

References:

- Column A: Company Schedule B-2
- Column B: Testimony, Data Request Response CSB 1.31, CSB 1.29
- Column C: Column [A] + Column [B]

OPERATING INCOME - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
REVENUES:						
1	Metered Water Revenues	\$ 1,970,366	\$ -	\$ 1,970,366	\$ 457,200	\$ 2,427,566
2	Unmetered Water Revenues	-	-	-	-	-
3	Other Water Revenues	7,261	-	7,261	-	7,261
4	Total Revenues	\$ 1,977,627	\$ -	\$ 1,977,627	\$ 457,200	\$ 2,434,827
EXPENSES:						
7	Salaries and Wages - Employees	\$ 220,827	\$ -	\$ 220,827	\$ -	\$ 220,827
8	Salaries and Wages - Officers and Directors	90,294	(76,608) 1	13,686	-	13,686
9	Employee Pensions and Benefits	64,900	(1,378) 2	63,522	-	63,522
10	Purchased Power	252,453	-	252,453	-	252,453
11	Chemicals	16,721	-	16,721	-	16,721
12	Repairs and Maintenance	100,885	(29,489) 3	71,396	-	71,396
13	Office Supplies & Expenses	67,321	(460) 4	66,861	-	66,861
14	Contractual Services - Engineering	5,283	(3,902) 5	1,381	-	1,381
15	Contractual Services - Accounting	3,067	-	3,067	-	3,067
16	Contractual Services - Legal	14,175	-	14,175	-	14,175
17	Contractual Services - Other	54,797	(415) 6	54,382	-	54,382
18	Contractual Services - Water Testing	18,737	(9,812) 7	8,925	-	8,925
19	Rents - Equipment	3,203	-	3,203	-	3,203
20	Transportation Expenses	44,637	-	44,637	-	44,637
21	Insurance - Vehicle	17,464	-	17,464	-	17,464
22	Insurance - General Liability	10,840	-	10,840	-	10,840
23	Insurance - Worker's Comp	1,009	-	1,009	-	1,009
24	Reg. Comm. Exp.	3,671	-	3,671	-	3,671
25	Reg. Comm. Exp. - Rate Case	50,000	(10,000) 8	40,000	-	40,000
26	Bad Debt Expense	4,766	-	4,766	-	4,766
27	Miscellaneous Expense	15,934	-	15,934	-	15,934
28	Depreciation Expense	686,998	1,389 9	688,387	-	688,387
29	Taxes Other Than Income	40,883	-	40,883	-	40,883
30	Property Taxes	83,358	(6,167) 10	77,191	6,123	83,314
31	Income Taxes	(27,157)	27,157 11	-	0	0
32	Rounding	1	-	1	-	1
34	Operating Expenses	\$ 1,845,067	\$ (109,686)	\$ 1,735,381	\$ 6,123	\$ 1,741,504
37						
38	Operating Income (Loss)	\$ 132,560	\$ 109,686	\$ 242,246	\$ 451,077	\$ 693,323

References:

- Column (A): Company Schedule C-1
- Column (B): Schedule CSB-7
- Column (C): Column (A) + Column (B)
- Column (D): Schedules CSB-1 and CSB-17
- Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJ #1 Salaries & Wages Officers & Directors Ref. Sch CSB-8	(C) ADJ #2 Employee Pensions and Benefits Ref. Sch CSB-9	(D) ADJ #3 Repairs and Maintenance Ref. Sch CSB-10	(E) ADJ #4 Office Supplies and Expenses Ref. Sch CSB-11	(F) ADJ #5 Contract Services Engineering Ref. Sch CSB-12	(G) ADJ #6 Contract Services Other Ref. Sch CSB-13	(H) ADJ #7 Contract Services Water Testing Ref. Sch CSB-14	(I) Subtotal
1	REVENUES:									
2	Metered Water Revenues	\$ 1,970,366	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,970,366
3	Unmetered Water Revenues									
4	Other Water Revenues	7,261	-	-	-	-	-	-	-	7,261
5	Total Revenues	\$ 1,977,627	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,977,627
6	OPERATING EXPENSES:									
7	Salaries and Wages - Employees	\$ 220,827	-	-	-	-	-	-	-	220,827
8	Salaries and Wages - Officers and Directors	90,294	(76,608)	-	-	-	-	-	-	13,686
9	Employee Pensions and Benefits	64,900	-	(1,378)	-	-	-	-	-	63,522
10	Purchased Power	252,453	-	-	-	-	-	-	-	252,453
11	Chemicals	16,721	-	-	-	-	-	-	-	16,721
12	Repairs and Maintenance	100,885	-	-	(29,489)	-	-	-	-	71,396
13	Office Supplies & Expenses	67,321	-	(460)	-	-	-	-	-	66,861
14	Contractual Services - Engineering	5,283	-	-	-	(3,902)	-	-	-	1,381
15	Contractual Services - Accounting	3,067	-	-	-	-	-	-	-	3,067
16	Contractual Services - Legal	14,175	-	-	-	-	-	-	-	14,175
17	Contractual Services - Other	54,797	-	-	-	-	-	(415)	-	54,382
18	Contractual Services - Water Testing	18,737	-	-	-	-	-	(9,812)	-	8,925
19	Rents - Equipment	3,203	-	-	-	-	-	-	-	3,203
20	Transportation Expenses	44,637	-	-	-	-	-	-	-	44,637
21	Insurance - Vehicle	17,464	-	-	-	-	-	-	-	17,464
22	Insurance - General Liability	10,840	-	-	-	-	-	-	-	10,840
23	Insurance - Worker's Comp	1,009	-	-	-	-	-	-	-	1,009
24	Reg. Comm. Exp.	3,671	-	-	-	-	-	-	-	3,671
25	Reg. Comm. Exp. - Rate Case	50,000	-	-	-	-	-	-	-	50,000
26	Bad Debt Expense	4,766	-	-	-	-	-	-	-	4,766
27	Miscellaneous Expense	15,934	-	-	-	-	-	-	-	15,934
28	Depreciation Expense	686,998	-	-	-	-	-	-	-	686,998
29	Taxes Other Than Income	40,883	-	-	-	-	-	-	-	40,883
30	Property Taxes	83,358	-	-	-	-	-	-	-	83,358
31	Income Taxes	(27,157)	-	-	-	-	-	-	-	(27,157)
32	Rounding	1	-	-	-	-	-	-	-	1
33	Total Operating Expenses	\$ 1,845,067	\$ (76,608)	\$ (1,378)	\$ (29,489)	\$ (460)	\$ (3,902)	\$ (415)	\$ (9,812)	\$ 1,723,003
34	Operating Income (Loss)	\$ 132,560	\$ 76,608	\$ 1,378	\$ 29,489	\$ 460	\$ 3,902	\$ 415	\$ 9,812	\$ 254,624

OPERATING INCOME ADJUSTMENT NO. 1 - SALARY AND WAGES, OFFICERS AND DIRECTORS

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Salary & Wages, Officers and Directors	90,294	\$ (76,608)	\$ 13,686
2				
3				

Chairman of the Board Salary Calculation
--

RCI Salaries & Wages - Accounting and Finance	\$ 24,015
RCI Salary & Wages -IT Department	\$ 1,327
RCI Salary & Wages - Human Resources and Payroll	\$ 2,303
RCI Salary & Wages - Executive and Legal	\$ 17,975
Total RCI Salaries & Wages Expense for Pima Water	\$ 45,620
Multiplied by	30%
	\$ 13,686

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB; CSB 1-24
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 2 - EMPLOYEE PENSIONS AND BENEFITS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Employee Pensions & Benefits, Employees	\$ 63,022	\$ -	\$ 63,022
2	Employee Pensions & Benefits, Chairman of the Board	1,878.00	(1,377.78)	500.22
3		<u>\$ 64,900</u>	<u>\$ (1,378)</u>	<u>\$ 63,522</u>
4				
5				
6				
7				
8	RCI Salaries & Wages - Accounting and Finance		\$ 24,015	
9	RCI Salary & Wages -IT Department		\$ 1,327	
10	RCI Salary & Wages - Human Resources and Payroll		\$ 2,303	
11	RCI Salary & Wages - Executive and Legal		\$ 17,975	
12	Total RCI Salaries & Wages Expense for Pima Water		<u>\$ 45,620</u>	
13	Multiplied by		30%	
14			<u>\$ 13,686</u>	
15	Multiplied by		3.655%	Per CSB 5.2
16	Pensions and Benefits Per Staff		<u>\$ 500</u>	

Pension & Benefits Calculation

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB; Company Data Request Responses to CSB 1-24
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 3 - REPAIRS AND MAINTENANCE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Repairs and Maintenance	\$ 100,885	\$ -	\$ 100,885
2	Expensed Plant		(21,629)	(21,629)
3	Normalized Tree Removal Cost		(7,860)	(7,860)
4	Total Repairs and Maintenance	\$ 100,885	\$ (29,489)	\$ 71,396
5				
6				
7				
8		Expensed Plant		
9	Acct. No. 311, Pumping Equip	\$ 5,937	Data Request Response CSB 1-29	
10	Acct. No. 333, Services	15,692	Data Request Response CSB 1-29	
11		\$ 21,629		
12				
13				
14				
15				
16		Normalize Tree Removal Expense		
17				
18	Pacheco Landscaping	\$ 9,825	From General Ledger Acct No. 620	
19	Divided by 5 years	5		
20	Normalized Expense	\$ 1,965		
21				
22	From Line 18	\$ 9,825		
23	Less: Normalized amount	(1,965)		
24	Amount Removed	7,860		

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 4 - OFFICE SUPPLIES AND EXPENSES

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Office Supplies and Expense	\$ 67,321	\$ (460)	\$ 67,781
2				
3				
4				
5		From General Ledger Account No. 621		
6		Office Supplies and Expense		
7		Jan-10	Coffee Service	\$ 30.52
8		Feb-10	Coffee Service	\$ 40.48
9		Mar-10	Coffee Service	\$ 31.26
10		Apr-10	Coffee Service	\$ 32.43
11		May-10	Coffee Service	\$ 56.35
12		Jun-10	Coffee Service	\$ 25.15
13		Jul-10	Coffee Service	\$ 29.27
14		Aug-10	Coffee Service	\$ 38.66
15		Sep-10	Coffee Service	\$ 24.23
16		Oct-10	Coffee Service	\$ 34.54
17		Nov-10	Coffee Service	\$ 46.29
18		Dec-10	Coffee Service	\$ 71.13
19				\$ 460.31

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 5- CONTRACT SERVICES, ENGINEERING

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Contract Services, Engineering	\$ 5,283	\$ -	\$ 5,283
2	Expensed Plant Costs	-	(3,902)	(3,902)
3		<u>\$ 5,283</u>	<u>\$ (3,902)</u>	<u>\$ 1,381</u>
4				
5				
6				
7				
8	Acct. No. 307, Wells and Springs	3,902	Data Request Response CSB 1-31	

Expensed Plant

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 6 - CONTRACT SERVICES, WATER TESTING

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Contract Services, Testing	\$ 18,737	\$ (9,812)	\$ 8,925

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 7 - CONTRACT SERVICES, OTHER

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Contract Services, Other	\$ 54,797	\$ (415)	\$ 54,382

References:

Column A: Company Schedule C-2

Column B: Testimony, CSB; Data Request Response CSB 6.2

Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 8 - RATE CASE EXPENSE

LINE NO.	Description	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Rate Case Expense	\$ 50,000	\$ (10,000)	\$ 40,000
2				
3				
4				
5				
6		Per Company	Difference	Per Staff
7		\$ 200,000	\$ -	\$ 200,000
8	Divided by	4	1	5
9		50,000	(10,000)	40,000

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 9 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable & Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	301 Organization	\$ -	\$ -	\$ -	0.00%	\$ -
2	303 Land and Land Rights	97,637	97,637	-	0.00%	-
3	304 Structures and Improvements	315,125	-	315,125	3.33%	10,494
4	307 Wells and Springs	610,601	-	610,601	3.33%	20,333
5	309 Supply Mains	-	-	-	2.00%	-
6	311 Pumping Equipment	2,269,738	-	2,269,738	12.50%	283,717
7	320 Water Treatment Equipment	58,255	-	58,255	20.00%	11,651
8	330.1 Distrib Reser & Standpipes-Storage Tanks	1,102,197	-	1,102,197	2.22%	24,469
9	330.2 Distrib Reser & Standpipes-Pressure Tanks	73,937	-	73,937	5.00%	3,697
10	331 Transmission and Distribution Mains	2,916,048	-	2,916,048	2.00%	58,321
11	333 Services	4,724,840	-	4,724,840	3.33%	157,337
12	334 Meters and Meter Installations	923,202	-	923,202	8.33%	76,903
13	335 Hydrants	887,381	-	887,381	2.00%	17,748
14	336 Backflow Prevention Devices	-	-	-	6.67%	-
15	339 Other Plant and Miscellaneous Equipment	-	-	-	6.67%	-
16	340 Office Furniture and Equipment	4,239	-	4,239	6.67%	283
17	340.1 Computers and Software	28,479	-	28,479	20.00%	5,696
18	341 Transportation Equipment	61,635	-	61,635	20.00%	12,327
19	343 Tools, Shop, and Garage Equipment	134,506	-	134,506	5.00%	6,725
20	345 Power Operated Equipment	124,899	-	124,899	5.00%	6,245
21	346 Communication Equipment	238,939	-	238,939	10.00%	23,894
22	347 Miscellaneous Equipment	-	-	-	10.00%	-
23	Rounding	1	-	-	-	-
24	Total Plant	\$ 14,571,659	\$ -	\$ 14,474,021		\$ 719,839
25						
26						
27						
28	Composite Depreciation Rate (Depr Exp / Depreciable Plant):	4.97%				
29	CIAC:	\$ 632,418				
30	Amortization of CIAC (Line 28 x Line 29):	\$ 31,452				
31						
32	Depreciation Expense Before Amortization of CIAC:	\$ 719,839				
33	Less: Amortization of CIAC:	\$ 31,452				
34	Test Year Depreciation Expense - Staff:	\$ 688,387				
35	Depreciation Expense - Company:	686,998				
36	Staff's Total Adjustment:	\$ 1,389				

Composite Depreciation Rate (Depr Exp / Depreciable Plant): 4.97%
CIAC: \$ 632,418
Amortization of CIAC (Line 28 x Line 29): \$ 31,452
Depreciation Expense Before Amortization of CIAC: \$ 719,839
Less: Amortization of CIAC: \$ 31,452
Test Year Depreciation Expense - Staff: \$ 688,387
Depreciation Expense - Company: 686,998
Staff's Total Adjustment: \$ 1,389

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

OPERATING INCOME ADJUSTMENT NO. 10 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 1,977,627	\$ 1,977,627
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	3,955,254	\$ 3,955,254
4	Staff Recommended Revenue, Per Schedule CSB-1	1,977,627	\$ 2,434,827
5	Subtotal (Line 4 + Line 5)	5,932,881	6,390,081
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	1,977,627	\$ 2,130,027
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	3,955,254	\$ 4,260,054
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	112,708	\$ 112,708
12	Full Cash Value (Line 9 + Line 10 - Line 11)	3,842,546	\$ 4,147,346
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	768,509	\$ 829,469
15	Composite Property Tax Rate	10.0442%	10.0442%
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 77,191	\$ -
17	Company Proposed Property Tax	83,358	
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ (6,167)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 83,314
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 77,191
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 6,123
22	Increase to Property Tax Expense		\$ 6,123
23	Increase in Revenue Requirement		457,200
24	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		1.339227%

OPERATING INCOME ADJUSTMENT NO. 11 - INCOME TAXES

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Income Taxes	(27,157)	\$27,157	\$0

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

Monthly Minimum Charge

	Present	Company Proposed	Staff Recommended
<u>Meter Size (All Classes):</u>			
5/8 Inch x 3/4 Inch	\$ 5.70	\$ 7.36	\$ 7.00
3/4 Inch	5.70	7.36	10.50
1 Inch	16.00	20.67	20.00
1 1/2 Inch	21.00	27.13	35.00
2 Inch	26.00	33.59	56.00
3 Inch	40.00	51.68	130.00
4 Inch	52.00	67.18	175.00
6 Inch	100.00	129.20	350.00
Irrigation	180.00	232.56	180.00

Gallons Included In Monthly Minimum Charge

Gallons In Minimum (All Classes, except irrigation)	1,000.00	-	-
Gallons In Minimum (Irrigation)	100,000.00	-	-

Commodity Charge - Per One Thousand Gallons

<u>5/8 x 3/4 Inch (All Classes)</u>			
Over Minimum up to 10,000 gallons	\$ 0.92	N/A	N/A
Over 10,000 gallons	\$ 1.08	N/A	N/A
<u>5/8x3/4 Inch - Residential</u>			
1 gallon to 4,000 gallons	N/A	\$ 0.96	N/A
4,001 gallons to 10,000 gallons	N/A	\$ 1.36	N/A
over 10,000 gallons	N/A	\$ 1.86	N/A
First 4,000 gallons	N/A	N/A	\$ 0.7000
4,001 gallons to 10,000 gallons	N/A	N/A	1.0000
Over 10,000 gallons	N/A	N/A	1.4000
<u>5/8x3/4 Inch - Commercial</u>			
1 gallon to 10,000 gallons	N/A	\$ 1.36	N/A
over 10,000 gallons	N/A	\$ 1.86	N/A
First 10,000 gallons	N/A	N/A	1.0000
Over 10,000 gallons	N/A	N/A	1.4000
<u>3/4 Inch Meter (All Classes)</u>			
Over Minimum up to 10,000 gallons	\$ 0.92	N/A	N/A
Over 10,000 gallons	\$ 1.08	N/A	N/A
<u>3/4 Inch Meter - Residential</u>			
1 gallon to 4,000 gallons	N/A	\$ 0.96	N/A
4,001 gallons to 10,000 gallons	N/A	\$ 1.36	N/A
over 10,000 gallons	N/A	\$ 1.86	N/A
First 4,000 gallons	N/A	N/A	\$ 0.7000
4,001 gallons to 40,000 gallons	N/A	N/A	1.0000
Over 40,000 gallons	N/A	N/A	1.4000
<u>3/4 Inch Meter - Commercial</u>			
1 gallon to 10,000 gallons	N/A	\$ 0.96	N/A
over 10,000 gallons	N/A	\$ 1.36	N/A
First 10,000 gallons	N/A	N/A	1.0000
Over 10,000 gallons	N/A	N/A	1.4000

Present	Company Proposed	Staff Recommended
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Commodity Charge - Per One Thousand Gallons Continued

<u>1 Inch Meter (All classes)</u>				
Over Minimum up to 10,000 gallons	\$	0.92	N/A	N/A
Over 10,000 gallons	\$	1.08	N/A	N/A
<u>1 Inch Meter - Residential, Commercial</u>				
1 gallon to 25,000 gallons		N/A \$	1.36	N/A
over 25,000 gallons		N/A \$	1.86	N/A
First 40,000 gallons		N/A	N/A	1.0000
Over 40,000 gallons		N/A	N/A	1.4000
<u>1.5 Inch Meter (All classes, except irrigation)</u>				
Over Minimum up to 10,000 gallons	\$	0.92	N/A	N/A
Over 10,000 gallons	\$	1.08	N/A	N/A
<u>1.5 Inch Meter - Residential, Commercial</u>				
1 gallon to 50,000 gallons		N/A \$	1.36	N/A
over 50,000 gallons		N/A \$	1.86	N/A
First 76,000 gallons		N/A	N/A	1.0000
Over 76,000 gallons		N/A	N/A	1.4000
<u>2 Inch Meter (All classes, except irrigation)</u>				
Over Minimum up to 10,000 gallons	\$	0.92	N/A	N/A
Over 10,000 gallons	\$	1.08	N/A	N/A
<u>2 Inch Meter - Residential, Commercial</u>				
1 gallon to 80,000 gallons		N/A \$	1.36	N/A
over 80,000 gallons		N/A \$	1.86	N/A
First 126,000 gallons		N/A	N/A	1.0000
Over 126,000 gallons		N/A	N/A	1.4000
<u>3 Inch Meter (All classes, except irrigation)</u>				
Over Minimum up to 10,000 gallons	\$	0.92	N/A	N/A
Over 10,000 gallons	\$	1.08	N/A	N/A
<u>3 Inch Meter - Residential, Commercial</u>				
1 gallon to 160,000 gallons		N/A \$	1.36	N/A
over 160,000 gallons		N/A \$	1.86	N/A
First 309,000 gallons		N/A	N/A	1.0000
Over 309,000 gallons		N/A	N/A	1.4000
<u>4 Inch Meter (All classes, except irrigation)</u>				
Over Minimum up to 10,000 gallons	\$	0.92	N/A	N/A
Over 10,000 gallons	\$	1.08	N/A	N/A
<u>4 Inch Meter - Residential, Commercial</u>				
1 gallon to 250,000 gallons		N/A \$	1.36	N/A
over 250,000 gallons		N/A \$	1.86	N/A
First 419,000 gallons		N/A	N/A	1.0000
Over 419,000 gallons		N/A	N/A	1.4000

Present	Company Proposed	Staff Recommended
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Commodity Charge - Per One Thousand Gallons Continued

<u>6 Inch Meter (All classes, except irrigation)</u>	\$	0.92	N/A	N/A
Over Minimum up to 10,000 gallons	\$	1.08	N/A	N/A
Over 10,000 gallons				
<u>6 Inch Meter - Residential, Commercial</u>		N/A	\$ 1.36	N/A
1 gallons to 500,000 gallons		N/A	\$ 1.86	N/A
over 500,000 gallons				
First 855,000 gallons		N/A	N/A	1.0000
Over 855,000 gallons		N/A	N/A	1.4000
<u>Irrigation (all meter sizes)</u>	\$	0.36	\$ 0.70	0.5100
Over Minimum				
Construction/Standpipe		NT	\$ 0.70	1.4000
All gallons				

NT = No Tariff

Present	Company Proposed	Staff Recommended
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Miscellaneous Charges

Establishment		NT	25.00	\$	25.00
Reestablishment (within 12 months)		*	*		*
Reconnection (Delinquent)		NT	\$ 25.00	\$	25.00
Meter Test (if correct)	\$	20.00	\$ 20.00	\$	20.00
Meter Re-read (if correct)	\$	25.00	\$ 25.00	\$	25.00
Deposit		**	**		**
Deposit Interest		**	**		**
NSF Check	\$	15.00	\$ 15.00	\$	15.00
Deferred Payment, per month		1.50%	1.50%		1.50%
Late Payment Fee (per month)		1.50%	1.50%		1.50%
After hours service charge (At the Customer's Request)		NT	\$ 50.00	\$	50.00

* Number of months off the system times the monthly minimum.

** Per Rule R14-2-403.B

NT = No Tariff

	Total Present Charge	Company Proposed Service Line Charge*	Company Proposed Meter Installation Charge*	Total Company Proposed Charge
Service and Meter Installation Charges	NT	\$ 385	\$ 135	\$ 520
5/8 x 3/4 Inch	NT	\$ 415	\$ 205	\$ 620
3/4 Inch	NT	\$ 465	\$ 265	\$ 730
1 Inch	NT	\$ 520	\$ 475	\$ 995
1 1/2 Inch	NT	\$ 800	\$ 995	\$ 1,795
2 Inch / Turbine	NT	\$ 800	\$ 1,840	\$ 2,640
2 Inch / Compound	NT	\$ 1,015	\$ 1,620	\$ 2,635
3 Inch / Turbine	NT	\$ 1,135	\$ 2,495	\$ 3,630
3 Inch / Compound	NT	\$ 1,430	\$ 2,570	\$ 4,000
4 Inch / Turbine	NT	\$ 1,610	\$ 3,545	\$ 5,155
4 Inch / Compound	NT	\$ 2,150	\$ 4,925	\$ 7,075
6 Inch / Turbine	NT	\$ 2,270	\$ 6,820	\$ 9,090
6 Inch / Compound				

* Based on ACC Staff Engineering Memo dated February 21, 2008

NT = No Tariff

	Total Present Charge	Staff Recommended Service Line Charge	Staff Recommended Meter Installation Charge	Total Staff Recommended Charge
	NT	\$ 385	\$ 135	\$ 520
5/8 x 3/4 Inch	NT	\$ 415	\$ 205	\$ 620
3/4 Inch	NT	\$ 465	\$ 265	\$ 730
1 Inch	NT	\$ 520	\$ 475	\$ 995
1 1/2 Inch	NT	\$ 800	\$ 995	\$ 1,795
2 Inch / Turbine	NT	\$ 800	\$ 1,840	\$ 2,640
2 Inch / Compound	NT	\$ 1,015	\$ 1,620	\$ 2,635
3 Inch / Turbine	NT	\$ 1,135	\$ 2,495	\$ 3,630
3 Inch / Compound	NT	\$ 1,430	\$ 2,570	\$ 4,000
4 Inch / Turbine	NT	\$ 1,610	\$ 3,545	\$ 5,155
4 Inch / Compound	NT	\$ 2,150	\$ 4,925	\$ 7,075
6 Inch / Turbine	NT	\$ 2,270	\$ 6,820	\$ 9,090
6 Inch / Compound				

NT = No Tariff

Typical Bill Analysis
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	6,395	\$ 10.66	\$ 14.46	\$ 3.80	35.62%
Median Usage	4,500	8.92	11.88	\$ 2.96	33.23%
Staff Recommended					
Average Usage	6,395	\$ 10.66	\$ 12.20	\$ 1.53	14.36%
Median Usage	4,500	8.92	10.30	\$ 1.38	15.47%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4-Inch Meter

Gallons	Company Proposed		%	Staff Recommended	
	Present	Proposed		Recommended	%
Consumption	5/8" Rates	5/8" Rates	Increase	5/8" Rates	Increase
-	\$ 5.70	\$ 7.36	29.20%	\$ 7.00	22.81%
1,000	5.70	8.32	46.04%	7.70	35.09%
2,000	6.62	9.28	40.25%	8.40	26.89%
3,000	7.54	10.24	35.87%	9.10	20.69%
4,000	8.46	11.20	32.44%	9.80	15.84%
5,000	9.38	12.56	33.95%	10.80	15.14%
6,000	10.30	13.92	35.19%	11.80	14.56%
7,000	11.22	15.28	36.22%	12.80	14.08%
8,000	12.14	16.64	37.10%	13.80	13.67%
9,000	13.06	18.00	37.86%	14.80	13.32%
10,000	13.98	19.36	38.52%	16.20	15.88%
11,000	15.06	21.22	40.93%	17.60	16.87%
12,000	16.14	23.08	43.03%	19.00	17.72%
13,000	17.22	24.94	44.86%	20.40	18.47%
14,000	18.30	26.80	46.47%	21.80	19.13%
15,000	19.38	28.66	47.91%	23.20	19.71%
16,000	20.46	30.52	49.19%	24.60	20.23%
17,000	21.54	32.38	50.35%	26.00	20.71%
18,000	22.62	34.24	51.39%	27.40	21.13%
19,000	23.70	36.10	52.34%	28.80	21.52%
20,000	24.78	37.96	53.21%	30.20	21.87%
25,000	30.18	47.26	56.61%	37.20	23.26%
30,000	35.58	56.56	58.98%	44.20	24.23%
35,000	40.98	65.86	60.72%	51.20	24.94%
40,000	46.38	75.16	62.06%	58.20	25.49%
45,000	51.78	84.46	63.12%	65.20	25.92%
50,000	57.18	93.76	63.98%	72.20	26.27%
75,000	84.18	140.26	66.62%	107.20	27.35%
100,000	111.18	186.76	67.98%	142.20	27.90%

**WASTEWATER
DIVISION
SCHEDULES**

REVENUE REQUIREMENT

<u>LINE NO.</u>	<u>DESCRIPTION</u>	[A] COMPANY ORIGINAL <u>COST</u>	[B] STAFF ORIGINAL <u>COST</u>
1	Adjusted Rate Base	\$ 9,863,271	\$ 9,642,163
2	Adjusted Operating Income (Loss)	\$ 441,784	\$ 590,256
3	Current Rate of Return (L2 / L1)	4.48%	6.12%
4	Required Rate of Return	9.47%	7.60%
5	Required Operating Income (L4 * L1)	\$ 934,052	\$ 732,804
6	Operating Income Deficiency/(Excess) (L5 - L2)	\$ 492,268	\$ 142,549
7a	Gross Revenue Conversion Factor	1.40414	N/A
7b	Property Tax Factor	N/A	1.01359
8	Increase (Decrease) In Gross Revenue (L7 * L6)	\$ 691,210	\$ 144,486
9	Adjusted Test Year Revenue	\$ 3,096,775	\$ 3,096,775
10	Proposed Annual Revenue (L8 + L9)	\$ 3,787,985	\$ 3,241,261
11	Required Increase/(Decrease in Revenue) (%) (L8/L9)	22.32%	4.67%

References:

Column [A]: Company Schedules A-1, C-1, C-3, & D-1
Column [B]: Staff Schedules CSB-2 & CSB-7

RATE BASE - ORIGINAL COST

LINE NO.	(A)	(B)	ADJ NO.	(C)
	COMPANY AS FILED	STAFF ADJUSTMENTS		STAFF AS ADJUSTED
1	Plant in Service	\$ 22,055,018	\$ (576,077)	1,2 \$ 21,478,941
2	Less: Accumulated Depreciation	11,546,833	(354,969)	3 11,191,864
3	Net Plant in Service	<u>\$ 10,508,185</u>	<u>\$ (221,108)</u>	<u>\$ 10,287,077</u>
<u>LESS:</u>				
4	Advances in Aid of Construction (AIAC)	\$ 285,313	\$ -	\$ 285,313
5	Service Line and Meter Advances	\$ -	\$ -	\$ -
6	Contributions in Aid of Construction (CIAC)	\$ 937,694	\$ -	\$ 937,694
7	Less: Accumulated Amortization of CIAC	578,092	-	578,092
8	Net CIAC	<u>\$ 359,602</u>	<u>-</u>	<u>\$ 359,602</u>
9	Total Advances and Contributions	\$ 644,915	\$ -	\$ 644,915
10	Customer Deposits	\$ -	\$ -	\$ -
11	Accumulated Deferred Income Taxes	\$ -	\$ -	\$ -
<u>ADD:</u>				
12	Cash Working Capital Allowance	\$ -	\$ -	\$ -
13	Materials and Supplies Inventories	\$ -	\$ -	\$ -
14	Prepayments	\$ -	\$ -	\$ -
15	Rounding	\$ 1	\$ -	\$ 1
16	Total Rate Base	<u>\$ 9,863,271</u>	<u>\$ (221,108)</u>	<u>\$ 9,642,163</u>

References:

Column [A], Company Schedule B-1, Page 1
Column [B]: Schedule CSB-3
Column [C]: Column [A] + Column [B]

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	PLANT IN SERVICE Acct. No. Plant Description	[A]	[B]	[C]	[D]	[E]
		COMPANY	Excess	Expensed	Accumulated	STAFF AS
		AS FILED Ref: Sch B-2, 3.19	Capacity Costs Ref: Sch CSB-4	Plant Costs Ref: Sch CSB-5	Depreciation Ref: Sch CSB-6	ADJUSTED
1	351 Organization	\$ -	\$ -	\$ -	\$ -	\$ -
2	353 Land and Land Rights	91,528	-	-	-	91,528
3	354 Structures and Improvements	250,433	-	-	-	250,433
4	360 Collections Sewers - Force	97,523	-	-	-	97,523
5	361.1 Collections Sewers - Gravity	3,854,512	-	-	-	3,854,512
6	361.2 Manholes & Cleanouts	1,791,722	-	-	-	1,791,722
7	363 Services to Customers	632,249	-	-	-	632,249
8	370 Receiving Wells	226,251	-	-	-	226,251
9	371.1 Pumping Equipment - Lift Stations	1,544,146	-	22,391	-	1,566,537
10	371.2 Other Pumping Equipment	103,441	-	-	-	103,441
11	371.3 Pumping Equipment - Recharge Wells	1,436,200	-	-	-	1,436,200
12	375 Reuse Transmission & Distribution	137,444	-	-	-	137,444
13	380 Treatment & Disposal Equipment	9,884,071	(598,468)	-	-	9,285,603
14	389 Other Plant and Miscellaneous Equipment	972,509	-	-	-	972,509
15	390 Office Furniture and Equipment	6,529	-	-	-	6,529
16	390.1 Computers and Software	10,884	-	-	-	10,884
17	391 Transportation Equipment	21,830	-	-	-	21,830
18	393 Tools, Shop, and Garage Equipment	156,200	-	-	-	156,200
19	394 Laboratory Equipment	1,993	-	-	-	1,993
20	396 Communication Equipment	118,828	-	-	-	118,828
21	Post-in-service AFUDC	716,722	-	-	-	716,722
22		-	-	-	-	-
23	Rounding	3	-	-	-	3
24	Total Plant in Service	\$ 22,055,018	\$ (598,468)	\$ 22,391	\$ -	\$ 21,478,941
25	Less: Accumulated Depreciation	\$ 11,546,833	\$ -	\$ -	\$ (354,969)	11,191,864
26	Net Plant in Service	\$ 10,508,185	\$ (598,468)	\$ 22,391	\$ 354,969	\$ 10,287,077
27						
28	LESS:					
29	Advances in Aid of Construction (AIAC)	\$ 285,313	\$ -	\$ -	\$ -	\$ 285,313
30	Meter Deposits - Service Line & Meter Advances	\$ -	-	-	-	-
31						
32	Contributions in Aid of Construction (CIAC)	\$ 937,694	-	-	-	\$ 937,694
33	Less: Accumulated Amortization of CIAC	\$ 578,092	-	-	-	\$ 578,092
34	Net CIAC	\$ 359,602	\$ -	\$ -	\$ -	\$ 359,602
35						
36	Total Advances and Net Contributions	\$ 644,915	\$ -	\$ -	\$ -	\$ 644,915
37						
38	Customer Deposits	\$ -	-	-	-	\$ -
39	Accumulated Deferred Taxes	\$ -	-	-	-	\$ -
40						
41	ADD:					
42	Cash Working Capital Allowance	\$ -	-	-	-	\$ -
43	Materials and Supplies Inventories	\$ -	-	-	-	\$ -
44	Prepayments	\$ -	-	-	-	\$ -
45	Rounding	\$ 1	-	-	-	\$ 1
46	Total Rate Base	\$ 9,863,271	\$ (598,468)	\$ 22,391	\$ 354,969	\$ 9,642,163

RATE BASE ADJUSTMENT NO. 1 - EXCESS CAPACITY PLANT COSTS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Acct. No. 380 -Treatment & Disposal Equipment	\$ 9,285,603	\$ -	\$ 9,285,603
2	1998 Phase 2 Water Reclamation Facility	\$ 598,468	\$ (598,468)	\$ -
3	Total Acct. No. 380 -Treatment & Disposal Equip	\$ 9,884,071	\$ (598,468)	\$ 9,285,603

References:

Column A: Company Schedule C-2

Column B: Testimony, CSB; Company Data Request Responses to CSB 5.16 Revised

Column C: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 2 - EXPENSED PLANT

LINE NO.	Plant Account Number	Description	[A]	[B]	[C]
			COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED (Col A + Col B)
1	371.1	Pumping Equipment - Lift Stati	\$ 1,544,146	\$ 22,391	\$ 1,566,537
2	380	Treatment & Disposal Equipm	\$ 9,884,071	\$ -	\$ 9,884,071
3					
4		Total	<u>\$ 11,428,217</u>	<u>\$ 22,391</u>	<u>\$ 11,450,608</u>

FROM MATERIALS AND SUPPLIES (CSB 1.34)

Acct. No.	Vendor Name	Description	Amount
9	371.1-Pumping Equipment	James, Cooke & Hobso	LS Impellor \$ 1,169.43
10	371.1-Pumping Equipment	James, Cooke & Hobso	LS Impellor \$ 1,169.43
11	371.1-Pumping Equipment	James, Cooke & Hobso	LS Impellor \$ 1,169.43
12	371.1-Pumping Equipment	James, Cooke & Hobso	S Alma flyght pump \$ 5,670.48
13		Subtotal	\$ 9,178.77
15	380-Treatment & Dispo	Dana Kepner Company	WWTP flow rate + totalizer for flow rate \$ 776.43
16	380-Treatment & Dispo	HD Supply Waterwork	WWTP-filter handrails (Ins requir) \$ 2,733.25
17	380-Treatment & Dispo	HD Supply Waterwork	WWTP-pour slab \$ 537.50
18	380-Treatment & Dispo	HD Supply Waterwork	WWTP-Ultrasonic level sensor@filters \$ 909.00
19	380-Treatment & Dispo	Summit-Electric Supp	Replace Gallery PLC \$ 3,351.31
20	380-Treatment & Dispo	Summit-Electric Supp	Replace Gallery PLC \$ 1,410.52
21	380-Treatment & Dispo	Kooltronic Inc.	A/C cabinet 3000BTU-pplymer SCADA \$ 2,309.16
22	380-Treatment & Dispo	WW Grainger Inc	Digester Replace \$ 1,184.84
23		Subtotal	\$ 13,212.01
25		Total for Materials and Supplies	\$ 22,390.78

FROM CONTRACTUAL SERVICES , ENGINEERING (CSB 1.36)

Acct. No.	Vendor Name	Description	Amount
30	Construction Work In Progre	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway Force \$ 5,892.47
31	Construction Work In Progre	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway Force \$ 6,944.73
32	Construction Work In Progre	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway Force \$ 1,350.02
33	Construction Work In Progre	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway Force \$ 2,104.46
34	Construction Work In Progre	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway Force \$ 75.41
35	Construction Work In Progre	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway Force \$ 2,946.22
36	Construction Work In Progre	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway Force \$ 210.44
37		Total for Contractual Services, Engineering	\$ 19,523.75 *

*CWIP is not included in rate base.

References:

- Column A: Company Schedule B-2, P. 3.19
- Column B: Testimony, CSB, Company Data Request Responses CSB 1.11, 1.34, & 1.36
- Column C: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 3 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		PER COMPANY	STAFF ADJUSTMENTS	AS ADJUSTED	STAFF AS ADJUSTED		
1	Accumulated Depreciation	\$ 11,546,833	\$ (354,969)	\$ 11,191,864			
2							
3							
4							
5							
6							
7	Acct.						
8	No. Plant Description	Ref. Sch B-2, P. 4	Ref. Sch CSB-7, P 2	Ref. Sch CSB-7, P 2	Ref. Sch CSB-7, P 2		
9		\$ -	\$ -	\$ -	\$ -		
10	351 Organization						
11	353 Land and Land Rights	84,144	-	-	-	84,144	
12	354 Structures and Improvements	-	-	-	-	-	
13	355 Power Generation Equipment	15,117	-	-	-	15,117	
14	360 Collections Sewers - Force	1,206,261	-	-	-	1,206,261	
15	361.1 Collections Sewers - Gravity	529,549	-	-	-	529,549	
16	361.2 Manholes & Cleanouts	-	-	-	-	-	
17	362 Special Collecting Structures	146,469	-	-	-	146,469	
18	363 Services to Customers	-	-	-	-	-	
19	367 Reuse Meters and Installations	126,073	-	-	-	126,073	
20	370 Receiving Wells	1,250,667	-	-	-	1,250,667	
21	371.1 Pumping Equipment - Lift Stations	36,728	-	-	1,120	37,848	
22	371.2 Other Pumping Equipment	1,142,980	-	-	-	1,142,980	
23	371.3 Pumping Equipment - Recharge Wells	-	-	-	-	-	
24	374 Reuse Distribution Reservoirs	36,340	-	-	-	36,340	
25	375 Reuse Transmission & Distribution	5,730,039	-	-	-	5,730,039	
26	380 Treatment & Disposal Equipment	-	(356,088)	-	-	(356,088)	
27	382 Outfall Sewer Lines	585,769	-	-	-	585,769	
28	389 Other Plant and Miscellaneous Equipment	896	-	-	-	896	
29	390 Office Furniture and Equipment	8,564	-	-	-	8,564	
30	390.1 Computers and Software	21,830	-	-	-	21,830	
31	391.0 Transportation Equipment	-	-	-	-	-	
32	392.0 Stores Equipment	134,132	-	-	-	134,132	
33	393 Tools, Shop, and Garage Equipment	1,694	-	-	-	1,694	
34	394 Laboratory Equipment	(1,016)	-	-	-	(1,016)	
35	395 Power Operated Equipment	69,450	-	-	-	69,450	
36	396 Communication Equipment	-	-	-	-	-	
37	Post-in-service AFUDC	421,146	-	-	-	421,146	
38	Rounding	-	-	-	-	-	
39	Total Accumulated Depreciation	\$ 11,546,833	\$ (356,088)	\$ 11,191,864	\$ 1,120	\$ 11,191,864	

References:

- Column A: Company Schedule B-2
- Column B: Testimony, CSB; Data Request Response CSB 2-1, Schedule CSB-6, Page 2
- Column C: Column [A] + Column [B]

**RATE BASE ADJUSTMENT NO. 4 - ACCUMULATED DEPRECIATION
 CONTINUED**

TO REFLECT ACCUMULATED DEPRECIATION RELATED TO EXCESS CAPACITY PLANT COSTS									
Year Placed	Schedule	In Service	Acct No.	Description	Plant Cost	No. of Interim Years @ 3%	Depreciation Rate	No. of Interim Years @ 5%	Accumulated Depreciation
1998	CSB-4		380	Treatment & Disposal Equipment	\$598,468	1.5	3.00%	11	\$356,088.46
TO REFLECT ACCUMULATED DEPRECIATION RELATED TO EXPENSED PLANT									
Year Placed	Schedule	In Service	Acct No.	Description	Plant Cost	Number of Interim Years	Depreciation Rate	Accumulated Depreciation	
2010	CSB-4		371.1	Pumping Equipment - Lift Station:	\$22,391	0.5	10.00%	\$1,119.54	

References:

- Column A: Company Schedule B-2
- Column B: Testimony, CSB; Data Request Response CSB 2-1, Schedule CSB-6
- Column C: Column [A] + Column [B]

OPERATING INCOME - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A]	[B]	[C]	[D]	[E]
		COMPANY TEST YEAR AS FILED	STAFF TEST YEAR ADJUSTMENTS	STAFF TEST YEAR AS ADJUSTED	STAFF PROPOSED CHANGES	STAFF RECOMMENDED
REVENUES:						
1	Flat Rate Revenues	\$ 2,997,389	\$ -	\$ 2,997,389	\$ 129,721	\$ 3,127,110
2	Metered Revenues	93,356	-	93,356	\$ 14,765	108,121
3	Other Revenues	6,030	-	6,030	-	6,030
4	Total Revenues	\$ 3,096,775	\$ -	\$ 3,096,775	\$ 144,486	\$ 3,241,261
EXPENSES:						
7	Salaries and Wages - Employees	\$ 345,644	\$ -	\$ 345,644	\$ -	\$ 345,644
8	Salaries and Wages - Officers and Directors	90,294	\$ (76,608) 1	13,686	-	13,686
9	Employee Pensions and Benefits	115,720	\$ (1,378) 2	114,342	-	114,342
10	Purchased Power	134,337	\$ -	134,337	-	134,337
11	Chemicals	84,059	\$ -	84,059	-	84,059
12	Materials and Supplies	184,532	\$ (22,391) 3	162,141	-	162,141
13	Office Supplies & Expenses	188,906	\$ (460) 4	188,446	-	188,446
14	Contractual Services - Engineering	20,305	\$ (19,524) 5	781	-	781
15	Contractual Services - Accounting	3,067	\$ -	3,067	-	3,067
16	Contractual Services - Legal	108	\$ -	108	-	108
17	Contractual Services - Other	61,500	\$ (7,138) 6	54,362	-	54,362
18	Contractual Services - Water Testing	15,729	\$ 12,157 7	27,886	-	27,886
19	Rents - Equipment	698	\$ -	698	-	698
20	Transportation Expenses	28,808	\$ -	28,808	-	28,808
21	Insurance - Vehicle	3,067	\$ -	3,067	-	3,067
22	Insurance - General Liability	20,916	\$ -	20,916	-	20,916
23	Insurance - Worker's Comp	222	\$ -	222	-	222
24	Reg. Comm. Exp.	-	\$ -	-	-	-
25	Reg. Comm. Exp. - Rate Case	50,000	\$ (10,000) 8	40,000	-	40,000
26	Bad Debt Expense	9,509	\$ -	9,509	-	9,509
27	Miscellaneous Expense	2,174	\$ -	2,174	-	2,174
28	Depreciation Expense	1,010,700	\$ 63,556 9	1,074,256	-	1,074,256
29	Amortization of Deferred Operating Costs	62,925	\$ -	62,925	-	62,925
30	Tax - Other Than Income	10,449	\$ -	10,449	-	10,449
31	Property Taxes	125,916	\$ (1,281) 10	124,635	1,937	126,572
32	Income Taxes	85,405	\$ (85,405) 11	-	0	0
33	Rounding	1	-	1	-	1
34	Operating Expenses	\$ 2,654,991	\$ (148,472)	\$ 2,506,519	\$ 1,937	\$ 2,508,456
37						
38	Operating Income (Loss)	\$ 441,784	\$ 148,472	\$ 590,256	\$ 142,549	\$ 732,804

References:

- Column (A): Company Schedule C-1, Page 2
- Column (B): Schedule CSB-8
- Column (C): Column (A) + Column (B)
- Column (D): Schedules CSB-1 and CSB-18
- Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJ #1 Salaries & Wages Officers & Directors Ref. Sch CSB-9	(C) ADJ #2 Employee Pensions and Benefits Ref. Sch CSB-10	(D) ADJ #3 Materials and Supplies Ref. Sch CSB-11	(E) ADJ #4 Office Supplies and Expenses Ref. Sch CSB-12	(F) ADJ #5 Contract Services Engineering Ref. Sch CSB-13	(G) ADJ #6 Contract Services Other Ref. Sch CSB-14	(H) ADJ #7 Contract Services Water Testing Ref. Sch CSB-15	(I) Subtotal
1	REVENUES:									
1	Flat Rate Revenues	\$ 2,997,389	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,997,389
2	Metered Revenues	93,356	-	-	-	-	-	-	-	93,356
3	Other Revenues	6,030	-	-	-	-	-	-	-	6,030
4	Total Revenues	\$ 3,096,775	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,096,775
5										
6	OPERATING EXPENSES:									
7	Salaries and Wages - Employees	\$ 345,644	-	-	-	-	-	-	-	345,644
8	Salaries and Wages - Officers and Directors	90,294	(76,608)	-	-	-	-	-	-	13,686
9	Employee Pensions and Benefits	115,720	-	(1,378)	-	-	-	-	-	114,342
10	Purchased Power	134,337	-	-	-	-	-	-	-	134,337
11	Chemicals	84,059	-	-	-	-	-	-	-	84,059
12	Materials and Supplies	184,532	-	-	(22,391)	-	-	-	-	162,141
13	Office Supplies & Expenses	188,906	-	-	-	(460)	-	-	-	188,446
14	Contractual Services - Engineering	20,305	-	-	-	-	(19,524)	-	-	781
15	Contractual Services - Accounting	3,067	-	-	-	-	-	-	-	3,067
16	Contractual Services - Legal	108	-	-	-	-	-	-	-	108
17	Contractual Services - Other	61,500	-	-	-	-	-	-	-	54,362
18	Contractual Services - Water Testing	15,729	-	-	-	-	(7,138)	12,157	-	27,886
19	Rents - Equipment	698	-	-	-	-	-	-	-	698
20	Transportation Expenses	28,808	-	-	-	-	-	-	-	28,808
21	Insurance - Vehicle	3,067	-	-	-	-	-	-	-	3,067
22	Insurance - General Liability	20,916	-	-	-	-	-	-	-	20,916
23	Insurance - Worker's Comp	222	-	-	-	-	-	-	-	222
24	Reg. Comm. Exp.	-	-	-	-	-	-	-	-	-
25	Reg. Comm. Exp. - Rate Case	50,000	-	-	-	-	-	-	-	50,000
26	Bad Debt Expense	9,509	-	-	-	-	-	-	-	9,509
27	Miscellaneous Expense	2,174	-	-	-	-	-	-	-	2,174
28	Depreciation Expense	1,010,700	-	-	-	-	-	-	-	1,010,700
29	Amortization of Deferred Operating Costs	62,925	-	-	-	-	-	-	-	62,925
30	Tax - Other Than Income	10,449	-	-	-	-	-	-	-	10,449
31	Property Taxes	125,916	-	-	-	-	-	-	-	125,916
32	Income Taxes	85,405	-	-	-	-	-	-	-	85,405
33	Rounding	1	-	-	-	-	-	-	-	1
34	Total Operating Expenses	\$ 2,654,991	\$ (76,608)	\$ (1,378)	\$ (22,391)	\$ (460)	\$ (19,524)	\$ (7,138)	\$ 12,157	\$ 2,539,649
35										
36	Operating Income (Loss)	\$ 441,784	\$ 76,608	\$ 1,378	\$ 22,391	\$ 460	\$ 19,524	\$ 7,138	\$ (12,157)	\$ 557,126

OPERATING INCOME ADJUSTMENT NO. 1 - SALARY AND WAGES, OFFICERS AND DIRECTORS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Salary & Wages, Officers and Directors	90,294	\$ (76,608)	\$ 13,686
2				
3				
4				
5				
6				
7	RCI Salaries & Wages - Accounting and Finance		\$ 24,015	
8	RCI Salary & Wages -IT Department		\$ 1,327	
9	RCI Salary & Wages - Human Resources and Payroll		\$ 2,303	
10	RCI Salary & Wages - Executive and Legal		\$ 17,975	
11	Total RCI Salaries & Wages Expense for Pima Sewer		\$ 45,620	
12			Multiplied by 30%	
13			\$ 13,686	

Chairman of the Board Salary Calculation
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References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB; CSB 1-24
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 2 - EMPLOYEE PENSIONS AND BENEFITS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Employee Pensions and Benefits	\$ 113,842	\$ -	\$ 113,842
2	Employee Pensions & Benefits, Chairman of I	\$ 1,878	\$ (1,378)	\$ 500
3		\$ 115,720	\$ (1,378)	\$ 114,342
4				
5				
6				
7				
8				
9	RCI Salaries & Wages - Accounting and Finance		\$ 24,015	
10	RCI Salary & Wages -IT Department		\$ 1,327	
11	RCI Salary & Wages - Human Resources and Payroll		\$ 2,303	
12	RCI Salary & Wages - Executive and Legal		\$ 17,975	
13	Total RCI Salaries & Wages Expense for Pima Sewer		\$ 45,620	
14	Multiplied by		30%	
15			\$ 13,686	
16	Multiplied by		3.655%	Per CSB 5.2
17	Pensions and Benefits Per Staff		\$ 500	

Pension & Benefits Calculation

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB; Company Data Request Responses to CSB 1-24
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 3 - MATERIALS & SUPPLIES

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Materials and Supplies	\$ 184,532	\$ -	\$ 184,532
2	Expensed Plant		(22,391)	(22,391)
3	Total Materials and Supplies	\$ 184,532	\$ (22,391)	\$ 162,141

MATERIALS AND SUPPLIES (CSB 1.34)

Acct. No.	Vendor Name	Description	Amount
8	371.1-Pumpin James, Cooke & Hobso	LS Impellor	\$ 1,169.43
9	371.1-Pumpin James, Cooke & Hobso	LS Impellor	\$ 1,169.43
10	371.1-Pumpin James, Cooke & Hobso	LS Impellor	\$ 1,169.43
11	371.1-Pumpin James, Cooke & Hobso	S Alma flyght pump	\$ 5,670.48
12		Subtotal	\$ 9,178.77
14	380-Treatr Dana Kepner Company	WWTP flow rate + totalizer for flow rate	\$ 776.43
15	380-Treatr HD Supply Waterwork	WWTP-filter handrails (Ins requir)	\$ 2,733.25
16	380-Treatr HD Supply Waterwork	WWTP-pour slab	\$ 537.50
17	380-Treatr HD Supply Waterwork	WWTP-Ultrasonic level sensor@filters	\$ 909.00
18	380-Treatr Summit-Electric Supp	Replace Gallery PLC	\$ 3,351.31
19	380-Treatr Summit-Electric Supp	Replace Gallery PLC	\$ 1,410.52
20	380-Treatr Kooltronic Inc.	A/C cabinet 3000BTU-pplymer SCADA works	\$ 2,309.16
21	380-Treatr WW Grainger Inc	Digestor Replace	\$ 1,184.84
22		Subtotal	\$ 13,212.01
24		Total for Materials and Supplies	\$ 22,390.78

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 4 - OFFICE SUPPLIES AND EXPENSES

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Office Supplies and Expense	\$ 188,906	\$ (460)	\$ 189,366
2				
3		From General Ledger Account No. 721		
4		Office Supplies and Expense		
5		Jan-10	Coffee Service	\$ 30.52
6		Feb-10	Coffee Service	\$ 40.48
7		Mar-10	Coffee Service	\$ 31.26
8		Apr-10	Coffee Service	\$ 32.43
9		May-10	Coffee Service	\$ 56.35
10		Jun-10	Coffee Service	\$ 25.15
11		Jul-10	Coffee Service	\$ 29.26
12		Aug-10	Coffee Service	\$ 38.66
13		Sep-10	Coffee Service	\$ 24.23
14		Oct-10	Coffee Service	\$ 34.54
15		Nov-10	Coffee Service	\$ 46.29
16		Dec-10	Coffee Service	\$ 71.13
17				\$ 460.30

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 5- CONTRACT SERVICES, ENGINEERING

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Contract Services, Engineering	\$ 20,305	\$ -	\$ 20,305
2	Construction Work In Progress	-	(19,524)	(19,524)
3		\$ 20,305	\$ (19,524)	\$ 781
4				
5				
6	FROM CONTRACTUAL SERVICES , ENGINEERING (CSB 1.36)			
7	Acct. No.	Vendor Name	Description	Amount
8	Construction \	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway For	\$ 5,892.47
9	Construction \	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway For	\$ 6,944.73
10	Construction \	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway For	\$ 1,350.02
11	Construction \	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway For	\$ 2,104.46
12	Construction \	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway For	\$ 75.41
13	Construction \	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway For	\$ 2,946.22
14	Construction \	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway For	\$ 210.44
15			Total for Contractual Services, Engineering	\$ 19,523.75

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 6 - CONTRACT SERVICES, OTHER

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Contract Services, Other	\$ 61,500	\$ -	\$ 61,500
2	IDA Bond Fees		\$ (6,700)	\$ (6,700)
3	Bonuses		\$ (438)	\$ (438)
4	Total	\$ 61,500	\$ (7,138)	\$ 54,362

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB: CSB 1-39
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 7 - CONTRACT SERVICES, WATER TESTING

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Contract Services, Testing	\$ 15,729	\$ -	\$ 15,729
2	Recharge Well Water Testing		\$ 12,157	\$ 12,157
3		\$ 15,729	\$ 12,157	\$ 27,886

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 8 - RATE CASE EXPENSE

LINE NO.	Description	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Rate Case Expense	\$ 50,000	\$ (10,000)	\$ 40,000
2				
3				
4				
5				
6		Per Company	Difference	Per Staff
7		\$ 200,000	\$ -	\$ 200,000
8	Divided by	4	1	5
9		50,000	(10,000)	40,000

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 9 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	DESCRIPTION	(A) PLANT In Service Per Staff	(B) NonDepreciable & Fully Depreciated PLANT	(C) DEPRECIABLE PLANT (Col A - Col B)	(D) DEPRECIATION RATE	(E) DEPRECIATION EXPENSE (Col C x Col D)
1	351 Organization	\$ -	\$ -	\$ -	0.00%	\$ -
2	353 Land and Land Rights	91,528	91,528	-	0.00%	-
3	354 Structures and Improvements	250,433	-	250,433	3.33%	8,339
4	360 Collections Sewers - Force	97,523	-	97,523	2.00%	1,950
5	361.1 Collections Sewers - Gravity	3,854,512	-	3,854,512	2.00%	77,090
6	361.2 Manholes & Cleanouts	1,791,722	-	1,791,722	2.00%	35,834
7	363 Services to Customers	632,249	-	632,249	2.00%	12,645
8	370 Receiving Wells	226,251	-	226,251	3.33%	7,534
9	371.1 Pumping Equipment - Lift Stations	1,566,537	-	1,566,537	12.50%	195,817
10	371.2 Other Pumping Equipment	103,441	-	103,441	12.50%	12,930
11	371.3 Pumping Equipment - Recharge Wells	1,436,200	-	1,436,200	12.50%	179,525
12	375 Reuse Transmission & Distribution	137,444	-	137,444	2.50%	3,436
13	380 Treatment & Disposal Equipment	9,285,603	-	9,285,603	5.00%	464,280
14	389 Other Plant and Miscellaneous Equipment	972,509	-	972,509	6.67%	64,866
15	390 Office Furniture and Equipment	6,529	-	6,529	6.67%	435
16	390.1 Computers and Software	10,884	-	10,884	20.00%	2,177
17	391 Transportation Equipment	21,830	-	21,830	20.00%	4,366
18	393 Tools, Shop, and Garage Equipment	156,200	-	156,200	5.00%	7,810
19	394 Laboratory Equipment	1,993	-	1,993	10.00%	199
20	396 Communication Equipment	118,828	-	118,828	10.00%	11,883
21	Post-in-service AFUDC	716,722	-	716,722	4.52%	32,396
22		-	-	-		-
23	Rounding	1	-	-		-
24	Total Plant	\$ 21,478,939	\$ -	\$ 21,387,410		\$ 1,123,515
25						
26						
27						
28	Composite Depreciation Rate (Depr Exp / Depreciable Plant):				5.25%	
29	CIAC:	\$ 937,694				
30	Amortization of CIAC (Line 28 x Line 29):	\$ 49,259				
31						
32	Depreciation Expense Before Amortization of CIAC:	\$ 1,123,515				
33	Less: Amortization of CIAC:	\$ 49,259				
34	Test Year Depreciation Expense - Staff:	\$ 1,074,256				
35	Depreciation Expense - Company:	1,010,700				
36	Staff's Total Adjustment:	\$ 63,556				

Composite Depreciation Rate (Depr Exp / Depreciable Plant): 5.25%
CIAC: \$ 937,694
Amortization of CIAC (Line 28 x Line 29): \$ 49,259
Depreciation Expense Before Amortization of CIAC: \$ 1,123,515
Less: Amortization of CIAC: \$ 49,259
Test Year Depreciation Expense - Staff: \$ 1,074,256
Depreciation Expense - Company: 1,010,700
Staff's Total Adjustment: \$ 63,556

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

OPERATING INCOME ADJUSTMENT NO. 10 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 3,096,775	\$ 3,096,775
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	6,193,550	\$ 6,193,550
4	Staff Recommended Revenue, Per Schedule CSB-1	3,096,775	\$ 3,241,261
5	Subtotal (Line 4 + Line 5)	9,290,325	9,434,811
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	3,096,775	\$ 3,144,937
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	6,193,550	\$ 6,289,874
10	Plus: 10% of CWIP -	3,971	3,971
11	Less: Net Book Value of Licensed Vehicles	-	\$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	6,197,521	\$ 6,293,845
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	1,239,504	\$ 1,258,769
15	Composite Property Tax Rate	10.0552%	10.0552%
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 124,635	\$ -
17	Company Proposed Property Tax	125,916	
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ (1,281)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 126,572
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 124,635
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 1,937
22	Increase to Property Tax Expense		\$ 1,937
23	Increase in Revenue Requirement		144,486
24	Increase to Property Tax per Dollar Increase in Revenue (Line 19/Line 20)		1.340693%

OPERATING INCOME ADJUSTMENT NO. 11 - INCOME TAXES

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Income Taxes	\$ 85,405	\$ (85,405)	\$ -

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

RATE DESIGN

	Present	Company Proposed	Staff Recommended
<u>Sewer Services - Monthly Charge</u>			
5/8 Inch x 3/4 Inch	\$ 22.73	\$ 27.79	\$ 23.38
3/4 Inch	\$ 35.33	\$ 43.19	\$ 35.33
1 Inch	\$ 59.33	\$ 72.53	\$ 59.33
1 1/2 Inch	\$ 117.33	\$ 143.44	\$ 117.33
2 Inch	\$ 187.33	\$ 229.01	\$ 187.33
3 Inch	NT	\$ 444.60	\$ -
4 Inch	NT	\$ 694.69	\$ -
6 Inch	NT	\$ 1,389.37	\$ -
<u>Effluent Sales</u>			
Monthly Minimum	\$ 180.00	\$ 232.56	\$ 230.00
Gallons In Minimum	100,000	-	-
Charge per 1,000 gallons	\$ 0.58	\$ 0.70	\$ 0.50
<u>Recovered Effluent Sales</u>			
Monthly Minimum	NT	\$ 232.56	\$ 230.00
Gallons In Minimum	NT	-	-
Charge per 1,000 gallons	NT	\$ 0.70	\$ 0.50
<u>Service Charges</u>			
Impact Fee (new connection one-time only)	\$ 260	NT	Remove from Tariff
Establishment Fee	NT	\$ 25	\$ 25
Reestablishment (within 12 months)	NT	*	*
Deferred payment (per month)	1.50%	1.50%	1.50%
Deposit	**	**	**
Deposit Interest	**	**	**
NSF check	\$ 15	\$ 15	\$ 15
Late payment fee (per month)***	1.50%	1.50%	1.50%
Disconnect/Reconnect (delinquent account)	\$ 500	NT	Remove from Tariff
Reconnection (Delinquent)	NT	\$ 25	\$ 25
After Hours Service Charge (At the Customer's Request)	NT	\$ 50	\$ 50

* Number of months off the system times the applicable sewer charge.

** Per Commission Rule R14-2-603.B.7 and 603.B.3

*** Late payment charge based upon balance owing at the end of the billing cycle which is added to next bill.

NT = No Tariff

Pima Utility Company-Wastewater Division
Docket No. SW-02199-11-0330
Test Year Ended December 31, 2010

Schedule CSB-21

TYPICAL BILL ANALYSIS
Residential Service (5/8" X 3/4" Meter)

	<u>Present</u> <u>Rates</u>	<u>Proposed</u> <u>Rates</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
Company	\$ 22.73	\$ 27.79	\$5.06	22.3%
Staff	\$22.73	\$ 23.38	\$0.65	2.8%

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)
PIMA UTILITY COMPANY, AN ARIZONA)
CORPORATION, FOR A DETERMINATION)
OF THE FAIR VALUE OF ITS UTILITY)
PLANTS AND PROPERTY AND FOR)
INCREASES IN ITS WATER RATES AND)
CHARGES FOR UTILITY SERVICE BASED)
THEREON.)

DOCKET NO. W-02199A-11-0329

IN THE MATTER OF THE APPLICATION OF)
PIMA UTILITY COMPANY, AN ARIZONA)
CORPORATION, FOR A DETERMINATION)
OF THE FAIR VALUE OF ITS UTILITY)
PLANTS AND PROPERTY AND FOR)
INCREASES IN ITS WASTEWATER RATES)
AND CHARGES FOR UTILITY SERVICE)
BASED THEREON.)

DOCKET NO. W-02199A-11-0330

SURREBUTTAL
TESTIMONY
OF
JOHN A. CASSIDY
PUBLIC UTILITIES CONSULANT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

MAY 18, 2012

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**EXECUTIVE SUMMARY
PIMA UTILITY COMPANY
DOCKET NO. W-02199A-11-0329, ET AL.**

The Surrebuttal testimony of Staff witness John A. Cassidy addresses the following issues:

Capital Structure – Staff recommends that the Commission adopt a capital structure for Pima Utility Company (“Company”) for this proceeding consisting of 35.4 percent debt and 64.6 percent equity.

Cost of Equity – Staff recommends that the Commission adopt a 9.4 percent return on equity (“ROE”) for the Company. Staff’s estimated ROE for the Company is based on the average of its DCF and CAPM cost of equity methodology estimates for the sample companies ranging from 9.0 percent for the discounted cash flow method (“DCF”) to 9.7 percent for the capital asset pricing model (“CAPM”).

Cost of Debt – Staff recommends that the Commission adopt a 4.25 percent cost of debt for the Company. Staff’s recommended cost of debt reflects the interest rate used by the Company’s witness, Thomas J. Bourassa, in his Rebuttal testimony on the Company’s proposed \$8,370,000 long-term debt.

Overall Rate of Return – Staff recommends that the Commission adopt a 7.6 percent overall rate of return.

Mr. Bourassa’s Testimony -- The Commission should reject the Company’s proposed 10.50 percent ROE for the following reasons:

Mr. Bourassa’s Future Growth DCF estimates rely exclusively on analysts’ forecasts for earnings per share growth, and his Past and Future Growth DCF estimates are based, in part, on historical average share price appreciation. In both his Future Growth DCF and Past and Future Growth DCF models, his expected dividend growth rate (g) is overstated due to a mathematical error. Mr. Bourassa’s CAPM estimates are derived using a forecasted risk-free rate.

1 **I. INTRODUCTION**

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

3 A. My name is John A. Cassidy. I am a Public Utilities Consultant employed by the Arizona
4 Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business
5 address is 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Are you the same John A. Cassidy who filed Direct Testimony in this case?**

8 A. Yes, I am.

9
10 **Q. What is the purpose of your Surrebuttal Testimony in this rate proceeding?**

11 A. The purpose of my Surrebuttal testimony is to report on Staff's updated cost of capital
12 analysis with its recommendations regarding Pima Utility Company's ("Pima" or
13 "Company") cost of capital, and to respond to the cost of capital Rebuttal Testimony of
14 Company witness Thomas J. Bourassa ("Mr. Bourassa's Rebuttal").

15
16 **Q. Please explain how Staff's Surrebuttal Testimony is organized.**

17 A. Staff's Surrebuttal testimony is presented in four sections. Section I is this introduction.
18 Section II discusses Staff's updated cost of capital analysis. Section III presents Staff's
19 comments on the Rebuttal testimony of the Company's cost of capital witness, Mr.
20 Bourassa. Lastly, Section IV presents Staff's recommendations.

21
22 **II. COST OF EQUITY AND OVERALL RATE OF RETURN**

23 **Q. Is Staff recommending a different cost of debt for Pima in its Surrebuttal Testimony
24 than it did in its Direct Testimony?**

25 A. Yes. In its Direct testimony, Staff provisionally recommended a 5.5 percent cost of debt,
26 based upon knowledge that the interest rate to be charged on the Company's proposed

1 \$8,370,000 debt would not exceed that figure. In his Rebuttal testimony, Mr. Bourassa
2 now proposes a cost of debt for Pima of 4.25 percent, a rate reflective of the effective cost
3 of debt the Company expects to incur. Based upon this information, Staff now
4 recommends a cost of debt for the Company of 4.25 percent.

5
6 **Q. Is Staff recommending a different capital structure for Pima in its Surrebuttal**
7 **testimony than it did in its Direct testimony?**

8 A. Yes. In its Direct testimony, Staff made several adjustments to the Company's capital
9 structure, reducing common equity by a total of \$4,836,113. Based on information which
10 came to light subsequent to the filing of its Direct testimony, Staff made an adjustment to
11 reinstate \$1,574,777 of that amount. Accordingly, as shown in Surrebuttal Schedule JAC-
12 1 and Surrebuttal Schedule JAC-10, Staff now recommends a capital structure consisting
13 of 35.4 percent debt and 64.6 percent common equity.

14
15 **Q. Has Staff updated its analysis concerning the Company's return on equity ("ROE")**
16 **since filing Direct testimony in this proceeding?**

17 A. Yes. Staff updated its analysis to include the most recent market data available.

18
19 **Q. What is Staff's updated ROE?**

20 A. Staff's updated ROE is 9.4 percent. In Staff's Direct testimony, the ROE had been 9.1
21 percent.

22
23 **Q. What ROE is Staff recommending for Pima?**

24 A. Staff is recommending a ROE of 9.4 percent derived from its updated cost of equity
25 estimates which range from 9.0 percent for the discounted cash flow ("DCF") method to
26 9.7 percent for the capital asset pricing model ("CAPM") estimation methodologies.

1 **Q. Did Staff update its analysis concerning the Applicant's overall rate of return?**

2 A. Yes, the updated analysis is supported by Surrebuttal Schedules JAC-1 to JAC-10.

3

4 **Q. What is Staff's updated overall rate of return?**

5 A. Staff's updated overall rate of return is 7.6 percent, a decrease from 7.8 percent in Staff's
6 Direct testimony.

7

8 **Q. What overall rate of return is Staff recommending for Pima?**

9 A. Staff recommends a 7.6 percent overall rate of return. Staff's recommendation is based on
10 a ROE of 9.4 percent, a cost of debt of 4.25 percent and a pro forma capital structure
11 consisting of 35.4 percent debt and 64.6 percent equity, as shown in Surrebuttal Schedule
12 JAC-1.

13

14 **III. STAFF RESPONSE TO COMPANY'S COST OF CAPITAL WITNESS MR.**
15 **THOMAS J. BOURASSA**

16 **Q. In his Rebuttal Testimony, what capital structure does Mr. Bourassa recommend for**
17 **the Company?**

18 A. Mr. Bourassa now recommends a capital structure consisting of 35.36 percent debt and
19 64.64 percent equity.

20

21 **Q. Is this the same capital structure that Staff recommends for the Company?**

22 A. Yes. The only difference is that Staff rounds its recommended capital structure numbers
23 to the tenth position, not the hundredth position (i.e., 35.4 percent debt and 64.6 percent
24 equity).

25

1 **Q. And as noted earlier, both Staff and Mr. Bourassa are in agreement as to the**
2 **Company's cost of debt, correct?**

3 A. Yes. In his Rebuttal testimony, Mr. Bourassa recommended a cost of debt of 4.25 percent,
4 and for the reasons noted above Staff adopts that rate as its recommended cost of debt for
5 the Company, as well.

6
7 **Q. Does this leave ROE as the only cost of capital issue yet to be resolved between Staff**
8 **and the Company?**

9 A. Yes.

10
11 **Q. Has Mr. Bourassa updated his cost of equity analysis in his Rebuttal?**

12 A. Yes. For purposes of his Rebuttal testimony, Mr. Bourassa has updated the cost of equity
13 estimates derived from his two DCF models (DCF – Past and Future Growth and DCF –
14 Future Growth), and his two CAPM models (Historical Market Risk Premium CAPM and
15 Current Market Risk Premium CAPM). Additionally, he has also updated the results
16 obtained from his Build Up model.

17
18 **Q. What changes, if any, has Mr. Bourassa made to his recommended cost of equity in**
19 **this proceeding?**

20 A. In his Rebuttal testimony, Mr. Bourassa continues to advocate for a 10.5 percent cost of
21 equity for the Company. However, a review of his Rebuttal Schedule D-4.1 shows that
22 his recommend ROE now includes a downward 30 basis point financial risk adjustment,
23 offset by an 80 basis point small company risk premium to compensate the Company for
24 small size. In his Direct testimony, Mr. Bourassa had previously recommended a
25 downward financial risk adjustment of 40 basis points.

1 **Q. Does Mr. Bourassa provide an explanation for this change to his financial risk**
2 **adjustment?**

3 A. Staff reviewed Mr. Bourassa's Rebuttal testimony, but found no explicit explanation
4 provided for this change. However, Mr. Bourassa does state that his "cost of equity has
5 increased somewhat, as indicated by the Discounted Cash Flow ("DCF") model and the
6 Capital Asset Pricing Model ("CAPM") (Bourassa Rebuttal, p. 2).

7
8 **Q. Is Staff recommending a financial risk adjustment for Pima?**

9 A. No, as noted in Staff's Direct testimony (Cassidy Direct, p. 44, lines 6-7), Staff does not
10 support a downward financial risk adjustment since Pima does not have access to the
11 equity financial markets.

12
13 **Q. When reviewing Mr. Bourassa's Rebuttal DCF analysis, did Staff find that he had**
14 **overstated the cost of equity due to a mathematical error?**

15 A. Yes. A review of Rebuttal Schedule D-4.6 shows that Mr. Bourassa overstated average
16 forecasted EPS growth for Connecticut Water by 335 basis points, reporting it to be 7.9
17 percent when it should have been 4.55 percent. That error, in turn, ultimately led to a 28
18 basis point overstatement to the dividend (g) growth rate used in his DCF – Past and
19 Future Growth model, reporting it to be 6.33 percent (Bourassa Rebuttal Schedule D-4.4)
20 when it should be 6.05 percent, as well as a 56 basis point overstatement to the dividend
21 (g) growth rate used by Mr. Bourassa in his DCF – Future Growth model, reporting it to
22 be 7.9 percent (Bourassa Rebuttal Schedule D-4.8) when properly calculated it should be
23 7.34 percent.

1 **Q. Has Staff prepared any exhibits to correct for the mathematical errors in Mr.**
2 **Bourassa's Rebuttal Schedules D-4.4, D-4.5, D-4.6 and D-4.8?**

3 A. Yes. Staff has prepared Surrebuttal Exhibits JAC-A - JAC-D to restate Mr. Bourassa's
4 Rebuttal Schedules D-4.4, D-4.5, D-4.6 and D-4.8 correcting for the mathematical errors
5 in his growth rate calculations. For ease of interpretation, Staff places a box around the
6 corrected values in each exhibit.

7
8 **Q. Given the above mathematical error, by how much has Mr. Bourassa overstated his**
9 **estimated DCF cost of equity?**

10 A. Mr. Bourassa overstates his DCF cost of equity by 45 basis points. As shown in Bourassa
11 Rebuttal Schedule D-4.8, his average DCF estimate for the cost of equity is 10.5 percent.
12 A review of Staff Surrebuttal Exhibit JAC-D shows that properly calculated, his overall
13 DCF estimate should be 10.05 percent.

14
15 **IV. STAFF RECOMMENDATIONS**

16 **Q. What are Staff's recommendations for Pima's cost of capital?**

17 A. Staff makes the following recommendations for Pima's cost of capital:

- 18 1. Staff recommends a capital structure of 35.4 percent debt and 64.6 percent equity.
19 2. Staff recommends a cost of debt of 4.25 percent.
20 3. Staff recommends a cost of equity of 9.4 percent.
21 4. Staff recommends an overall rate of return of 7.6 percent.

22
23 **Q. Does Staff's silence on any particular issue raised by the Company in its Rebuttal**
24 **testimony imply that Staff agrees with the stated Rebuttal position?**

25 A. No.
26

1 **Q. Does this conclude your Surrebuttal Testimony?**

2 **A. Yes, it does.**

Pima Utility Company Cost of Capital Calculation
 Capital Structure
 And Weighted Average Cost of Capital
 Staff Recommended and Company Proposed

[A]	[B]	[C]	[D]
<u>Description</u>	<u>Weight (%)</u>	<u>Cost</u>	<u>Weighted Cost</u>
Staff Recommended Structure			
Debt	35.4%	4.3%	1.5%
Common Equity	64.6%	9.4%	6.1%
Weighted Average Cost of Capital			7.6%
Company Proposed Structure			
Debt	35.4%	7.2%	2.5%
Common Equity	64.6%	10.5%	6.8%
Weighted Average Cost of Capital			9.3%

[D] : [B] x [C]
 Supporting Schedules: JAC-3 and JAC-4.

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Pima Utility Company Cost of Capital Calculation
Final Cost of Equity Estimates
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
DCF Method				
Constant Growth DCF Estimate		$\frac{D_1 P_0}{P_0}$ ¹	+ α^2	= k
Multi-Stage DCF Estimate		3.4%	+ 4.8%	= 8.2%
Average DCF Estimate				= 9.8%
				9.0%
CAPM Method				
Historical Market Risk Premium ³	R_f	+	β^5	x (RP)
Current Market Risk Premium ⁴	1.4%	+	0.72	x 7.2% ⁶
Average CAPM Estimate	3.2%	+	0.72	x 13.3% ⁷
				= 6.6%
				= 12.7%
				9.7%
			Average of Overall Estimates	9.4%
			Financial risk adjustment	<u>0.0%</u>
			Total	9.4%

1 MSN Money and Value Line

2 Schedule JAC-8

3 Risk-free rate (Rf) for 5, 7, and 10 year Treasury rates from the U.S. Treasury Department at www.ustreas.gov

4 Risk-free rate (Rf) for 30 Year Treasury bond rate from the U.S. Treasury Department at www.ustreas.gov

5 Value Line

6 Historical Market Risk Premium (Rp) calculated from Ibbotson Associates S&P 500 2011 Yearbook data

7 Testimony

Pima Utility Company Cost of Capital Calculation
 Average Capital Structure of Sample Water Utilities

[A] <u>Company</u>	[B] <u>Debt</u>	[C] <u>Common Equity</u>	[D] <u>Total</u>
American States Water	46.0%	54.0%	100.0%
California Water	53.3%	46.7%	100.0%
Aqua America	53.9%	46.1%	100.0%
Connecticut Water	57.1%	42.9%	100.0%
Middlesex Water	43.3%	56.7%	100.0%
SJW Corp	<u>55.7%</u>	<u>44.3%</u>	<u>100.0%</u>
Average Sample Water Utilities	51.6%	48.4%	100.0%
AWC - Actual Capital Structure	35.4%	64.6%	100.0%

Source:
 Sample Water Companies from Value Line

Pima Utility Company Cost of Capital Calculation
 Growth in Earnings and Dividends
 Sample Water Utilities

[A] Company	[B] Dividends Per Share 2002 to 2011 DPS ¹	[C] Dividends Per Share Projected DPS ¹	[D] Earnings Per Share 2002 to 2011 EPS ^{1,2}	[E] Earnings Per Share Projected EPS ¹
American States Water	2.4%	4.0%	5.1%	4.7%
California Water	1.0%	3.9%	6.2%	8.6%
Aqua America	7.7%	4.6%	7.3%	6.3%
Connecticut Water	1.6%	No Projection	0.4%	No Projection
Middlesex Water	1.6%	1.8%	2.4%	8.3%
SJW Corp	4.8%	4.5%	3.7%	4.8%
Average Sample Water Utilities	3.2%	3.8%	4.2%	6.5%

1 Value Line

2 Negative values are inconsistent with the DCF, accordingly, they are excluded from the average.

Pima Utility Company Cost of Capital Calculation
Sustainable Growth
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]
<u>Company</u>	Retention Growth 2002 to 2011 <u>br</u>	Retention Growth Projected <u>br</u>	Stock Financing Growth <u>vs</u>	Sustainable Growth 2002 to 2011 <u>br + vs</u>	Sustainable Growth Projected <u>br + vs</u>
American States Water	3.4%	6.2%	1.8%	5.2%	8.0%
California Water	2.2%	4.5%	2.1%	4.3%	6.6%
Aqua America	4.5%	5.6%	2.1%	6.6%	7.7%
Connecticut Water	2.2%	No Projection	1.0%	3.1%	No Projection
Middlesex Water	1.3%	4.0%	3.5%	4.8%	7.5%
SJW Corp	<u>3.7%</u>	<u>2.9%</u>	<u>0.1%</u>	<u>3.8%</u>	<u>3.0%</u>
Average Sample Water Utilities	2.9%	4.7%	1.8%	4.6%	6.6%

[B]: Value Line
[C]: Value Line
[D]: Value Line and MSN Money
[E]: [B]+[D]
[F]: [C]+[D]

Pima Utility Company Cost of Capital Calculation
 Selected Financial Data of Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Company	Symbol	Spot Price 4/25/2012	Book Value	Mkt To Book	Value Line Beta β	Raw Beta β_{raw}
American States Water	AWR	36.34	21.57	1.7	0.70	0.52
California Water	CWT	17.97	11.07	1.6	0.65	0.45
Aqua America	WTR	22.37	9.17	2.4	0.65	0.45
Connecticut Water	CTWS	28.38	13.42	2.1	0.75	0.60
Middlesex Water	MSEX	18.39	11.62	1.6	0.70	0.52
SJW Corp	SJW	23.58	14.93	1.6	0.85	0.75
Average				1.8	0.72	0.55

[C]: Msn Money

[D]: Value Line

[E]: [C] / [D]

[F]: Value Line

[G]: (-0.35 + [F]) / 0.67

Pima Utility Company Cost of Capital Calculation
 Calculation of Expected Infinite Annual Growth in Dividends
 Sample Water Utilities

[A]	[B]
<u>Description</u>	g
DPS Growth - Historical ¹	3.2%
DPS Growth - Projected ¹	3.8%
EPS Growth - Historical ¹	4.2%
EPS Growth - Projected ¹	6.5%
Sustainable Growth - Historical ²	4.6%
<u>Sustainable Growth - Projected²</u>	<u>6.6%</u>
Average	4.8%

¹ Schedule JAC-5

² Schedule JAC-6

Pima Utility Company Cost of Capital Calculation
 Multi-Stage DCF Estimates
 Sample Water Utilities

[A] Company	[B] Current Mkt. Price (P ₀) ¹ 4/25/2012	[C] Projected Dividends ² (D _t)	[D] d ₁	[E] d ₂	[F] d ₃	[G] d ₄	[H] Stage 2 growth ³ (g _n)	[I] Equity Cost Estimate (K) ⁴
American States Water	36.3		1.16	1.22	1.27	1.34	6.5%	9.6%
California Water	18.0		0.64	0.68	0.71	0.74	6.5%	10.0%
Aqua America	22.4		0.67	0.70	0.73	0.77	6.5%	9.4%
Connecticut Water	28.4		0.97	1.02	1.07	1.12	6.5%	9.8%
Middlesex Water	18.4		0.75	0.78	0.82	0.86	6.5%	10.4%
SJW Corp	23.6		0.73	0.76	0.80	0.84	6.5%	9.5%

Average **9.8%**

$$P_0 = \sum_{t=1}^n \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K-g_n} \left[\frac{1}{(1+K)} \right]^n$$

Where : P₀ = current stock price

D_t = dividends expected during stage 1

K = cost of equity

n = years of non – constant growth

D_n = dividend expected in year n

g_n = constant rate of growth expected after year n

1 [B] see Schedule JAC-7

2 Derived from Value Line Information

3 Average annual growth in GDP 1929 - 2011 in current dollars.

4 Internal Rate of Return of Projected Dividends

Pima Utility Company Cost of Capital Calculation Capitalization		
	Staff as Adjusted	Percentage of Capital Structure
Total Debt	\$ 8,370,000	35.4%
Total Common Equity	\$ 15,301,736	64.6%
Total Capitalization	\$ 23,671,736	100.0%

Adjustments to Equity -

Applicant's Proposed Pro Forma End of Test Year Equity as of 12/31/10	\$ 18,563,072
Net Correction for Thomas J. Bourassa A/D Adjustments	<u>(3,261,336)</u>
Staff's Recommended Common Equity	<u>\$ 15,301,736</u>
<i>Equity Adjustments Corresponding with Thomas J. Bourassa A/D Adjustments:</i>	
Reverse Erroneous TJB Adjustment - Wastewater	\$ (2,219,610)
Apply Correct Adjustment for TJB A/D Adjustment - Wastewater	(2,219,610)
Reverse Erroneous TJB Adjustment - Water	588,942
Apply Correct Adjustment for TJB A/D Adjustment - Water	<u>588,942</u>
Net Equity Adjustment for TJB A/D Adjustments	<u>\$ (3,261,336)</u>

Pima Utility Company
 Comparisons of Past and Future Estimates of Growth

	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	Five-Year Historical Growth					Average	Average
	Price	Book Value	EPS	DPS	Average Hist. Gr.	Future Growth	of Future & Historical Growth
American States Water	5.86%	5.00%	11.50%	2.50%	6.21%	8.07%	7.14%
Aqua America	0.38%	7.00%	4.50%	8.00%	4.97%	8.60%	6.79%
California Water	NMF	5.50%	6.50%	1.00%	4.33%	8.48%	6.41%
Connecticut Water	3.43%	3.00%	1.50%	1.50%	2.36%	4.55%	3.45%
Middlesex Water	7.10%	5.50%	4.50%	1.50%	4.65%	4.35%	4.50%
SJW Corporation	NMF	6.50%	NMF	5.50%	6.00%	10.00%	8.00%
Group Average	4.19%	5.42%	5.70%	3.33%	4.75%	7.34%	6.05%
Group Median	4.64%	5.50%	4.50%	2.00%	4.81%	8.27%	6.60%

Notes: Boxed values correct for values overstated by Bourassa in Schedule D-4.4

- a) Dividend growth (g) component used in DCF - Past & Future Growth is overstated by 28 basis points -- it should be 6.05% as per above, but Bourassa uses 6.33% (see Bourassa Rebuttal Schedule D-4.8)
- b) Dividend growth (g) component used in DCF - Future Growth is overstated by 56 basis points -- it should be 7.34% as per above, but Bourassa uses 7.90% (see Bourassa Rebuttal Schedule D-4.8)

Pima Utility Company
 Comparisons of Past and Future Estimates of Growth

	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	Ten-Year Historical Average Annual Growth						
	Price	Book Value	EPS	DPS	Average Hist. Gr.	Average Future Growth	Average of Future & Historical Growth
American States Water	6.51%	5.00%	4.50%	2.00%	4.50%	8.07%	6.28%
Aqua America	7.63%	9.00%	6.50%	7.50%	7.66%	8.60%	8.13%
California Water	3.95%	4.50%	3.00%	1.00%	3.11%	8.48%	5.79%
Connecticut Water	5.00%	4.00%	1.00%	1.50%	2.87%	4.55%	3.71%
Middlesex Water	5.84%	4.50%	2.50%	2.00%	3.71%	4.35%	4.03%
SJW Corporation	2.69%	6.00%	2.00%	5.00%	3.92%	10.00%	6.96%
Average	5.27%	5.50%	3.25%	3.17%	4.30%	7.34%	5.82%
Median	5.42%	4.75%	2.75%	2.00%	3.82%	8.27%	6.04%

Notes: Boxed values correct for values overstated by Bourassa in Rebuttal Schedule D-4.6.

- a) Dividend growth (g) component used in DCF - Past & Future Growth is overstated by 28 basis points -- it should be 6.05% as per above, but Bourassa uses 6.33% (see Bourassa Rebuttal Schedule D-4.8)
- b) Dividend growth (g) component used in DCF - Future Growth is overstated by 56 basis points -- it should be 7.34% as per above, but Bourassa uses 7.90% (see Bourassa Rebuttal Schedule D-4.8)

Pima Utility Company
 Analysts Forecasts of Earnings per Share Growth

	[1]	[3]	[4]	[5]
	Zacks	Yahoo	Value Line	Average Growth (g) (Cols. 1-4)
American States Water	12.00%	5.70%	6.50%	8.07%
Aqua America	8.30%	7.50%	10.00%	8.60%
California Water	10.00%	9.93%	5.50%	8.48%
Connecticut Water		4.55%		4.55%
Middlesex Water		2.70%	6.00%	4.35%
SJW Corporation		14.00%	6.00%	10.00%
Group Average	10.10%	7.40%	6.80%	7.34%
Group Median				8.27%

- Notes: Boxed values correct for values overstated by Bourassa in Rebuttal Schedule D-4.6
- a) Average growth (g) for Connecticut Water reported as 7.90% in Bourassa Rebuttal Schedule D-4.6.
 - b) Average growth (g) for group reported as 7.90% in Bourassa Rebuttal Schedule D-4.6.

Pima Utility Company
 Discounted Cash Flow Analysis
 DCF Constant Growth

	[1]	[2]	[3]	[4]
	Avg. Spot Dividend Yield <u>(Do/Po)</u>	Expected Dividend Yield <u>(D1/Po)</u>	<u>Growth (g)</u>	Indicated Cost of Equity <u>(K)</u>
DCF -- Past and Future Growth	3.15%	3.34%	6.05%	9.38%
DCF -- Future Growth	3.15%	3.38%	7.34%	10.72%
Average	3.15%	3.36%	6.69%	10.05%

Notes: Boxed values correct for values overstated by Bourassa in Rebuttal Schedule D-4.8.

- a) Dividend growth (g) component used in DCF - Past & Future Growth overstated by 28 basis points -- it should be 6.05% as per above, but Bourassa uses 6.33%.
- b) Dividend growth (g) component used in DCF - Future Growth is overstated by 56 basis points -- it should be 7.34% as per above, but Bourassa uses 7.90%.
- c) Estimated cost of equity should be 10.05%, but Bourassa overstates it by 45 basis points, reporting it as 10.5%.

[1] (Do/Po)

[2] [1] * (1 + [3])

[3] Dividend growth (g) rates from Bourassa Rebuttal Schedules D-4.5 and D-4.6.

[4] [2] + [3]

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-02199A-11-0329
PIMA UTILITY COMPANY, AN ARIZONA)
CORPORATION, FOR A DETERMINATION OF)
THE FAIR VALUE OF ITS UTILITY PLANT AND)
PROPERTY AND FOR INCREASES IN ITS)
WATER RATES AND CHARGES FOR UTILITY)
SERVICE BASED THEREON.)

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. SW-02199A-11-0330
PIMA UTILITY COMPANY, AN ARIZONA)
CORPORATION, FOR A DETERMINATION OF)
THE FAIR VALUE OF ITS UTILITY PLANT AND)
PROPERTY AND FOR INCREASES IN ITS)
WASTEWATER RATES AND CHARGES FOR)
UTILITY SERVICE BASED THEREON.)

SURREBUTTAL TESTIMONY

OF

MARLIN SCOTT, JR

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MAY 18, 2012

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**SURREBUTTAL SUMMARY
FOR
PIMA UTILITY COMPANY
DOCKET NOS. W-02199A-11-0329 AND SW-02199A-11-0330**

WASTEWATER DIVISION

Recommendation

1. Staff still considers the 2.4 million gallon per day (“MGD”) Water Reclamation Facility (“WRF”) as having excess capacity at this time. Staff continues to recommend that the 1.6 MGD WRF capacity is adequate and is considered used and useful treatment plant capacity in this proceeding.

WATER DIVISION

Recommendation

1. Staff still recommends that the Company file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, at least seven Best Management Practices (“BMPs”) in the form of tariffs that substantially conform to the templates created by Staff for Commission review and consideration. These BMP templates are available on the Commission’s website. The Company may submit the approved six ADWR BMPs and Public Education Program as its seven BMPs.

1 **I. INTRODUCTION**

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

3 A. My name is Marlin Scott, Jr. My place of employment is the Arizona Corporation
4 Commission ("Commission" or "ACC"), Utilities Division, 1200 West Washington Street,
5 Phoenix, Arizona 85007. My job title is Utilities Engineer.

6
7 **Q. Are you the same Marlin Scott, Jr. who submitted Direct Testimony on behalf of the
8 Utilities Division?**

9 A. Yes.

10

11 **Q. What was the purpose of that testimony?**

12 A. My Direct Testimony provided the Utilities Division Staff's ("Staff") engineering
13 evaluation of Pima Utility Company – Water and Wastewater Divisions ("Company") for
14 this proceeding.

15

16 **Q. What is the purpose of your Surrebuttal Testimony?**

17 A. To provide Staff's response to the Company's Rebuttal Testimony on two issues; 1)
18 excess Water Reclamation Facility ("WRF") capacity and 2) Best Management Practices
19 ("BMPs").

20

21 **II. EXCESS WRF CAPACITY**

22 **Q. Have you reviewed the rebuttal testimony of Ray L. Jones regarding excess WRF
23 capacity?**

24 A. Yes.

1 **Q. What was Mr. Jones' position regarding the excess WRF capacity?**

2 A. Mr. Jones did not agree with Staff's position that the Company's 2.4 million gallon per
3 day ("MGD") WRF had excess treatment plant capacity. Basically, Mr. Jones did not
4 agree with Staff's evaluation of the WRF capacity using the 2010 test year data. Instead,
5 Mr. Jones believes Staff should have used the 1994 WRF information (Preliminary Design
6 Reports) to determine if the capacity provided is appropriate for the customer base. Mr.
7 Jones concludes that due to shifting demographic patterns since 1994, including increased
8 vacancy rates, decreased persons per home and increased water conservation, unit flows
9 have decreased substantially.

10
11 **Q. Does Staff agree with Mr. Jones' position?**

12 A. No. First, in all rate cases before this Commission, Staff uses the test year data to
13 determine system capacity. For the test year ending December 2010, the Company
14 submitted a Wastewater Flow Data Sheet ("WFDS") that showed the flows at the WRF.
15 The WFDS shows the actual monthly and peak flows placed on the WRF during the test
16 year. Staff always uses the actual flow data to determine an appropriate capacity and not
17 the "design" flow data suggested by Mr. Jones. In other words, the test year data is the
18 "known and measureable" data used in this rate case as presented in the attached Figure 1
19 – Wastewater System Flows during Test Year 2010 which was also included in my direct
20 testimony.

21
22 Second, as Mr. Jones stated in his testimony that "the wastewater system is essentially
23 built-out". This built-out growth pattern is shown in the attached Figure 2 – Wastewater
24 System Growth that shows minimal customer growth, resulting in no need of additional
25 treatment plant capacity at this time. Figure 2 was also included in my direct testimony.
26

1 **Q. Does Staff agree with Mr. Jones' conclusion that unit flows have decreased?**

2 A. Yes, the unit flows have decreased substantially as shown in the attached Figure 3 –
3 Wastewater Flows From 2006 to 2011.

4
5 **Q. What other information in Figure 3 could be used to measure that the 1.6 MGD
6 WRF capacity is adequate at this time?**

7 A. In Mr. Jones' rebuttal testimony, Mr. Jones provided a table of the single peak day flow
8 for each year from 2006 through 2011 using Commission Annual Reports. As a follow-up
9 to these peak day flows, Staff has prepared Figure 3 showing the entire flows – peak day
10 and daily averages – for each month from 2006 to 2011 which indicate:

- 11 ▪ The peak day flow exceeded the 1.6 MGD capacity only two times though-out the
12 72-month span.
- 13 ▪ The latest 33-month period shows the flows are below the 1.6 MGD capacity.

14 Again, as shown in Figure 3, the “known and measureable” flows indicate that the 2.4
15 MGD WRF is excessive and the 1.6 MGD capacity is adequate at this time.

16
17 **Q. In his rebuttal, Mr. Jones also mentioned the 1994 financing case. Were you
18 assigned to this financing case?**

19 A. Yes and as stated by Mr. Jones', I testified that the proposed wastewater treatment
20 processes seemed appropriate, cost-effective and reflected sound engineering judgment.
21 However, Staff did not make a used and useful determination regarding the proposed
22 improvements at that time.

23
24 **Q. Was there a wastewater rate case after the 1994 financing case?**

25 A. Yes, under Docket No. 98-0578 the Commission approved a rate adjustment by including
26 1.6 MGD of the total 2.4 WRF capacity into rate base. At that time, the 1.6 MGD

1 capacity (Phase I) was completed and the remaining 0.8 MGD capacity (Phase II) was still
2 under construction, resulting in Phase I being used and useful and Phase II not used and
3 useful.

4
5 **Q. Based on the Company's rebuttal testimony regarding the WRF, does Staff make**
6 **any changes to its recommendation?**

7 A. No, Staff still considers the 2.4 MGD WRF as having excess capacity at this time. Staff
8 continues to recommend that the 1.6 MGD WRF capacity is adequate and is considered
9 used and useful treatment plant capacity in this proceeding.

10
11 **III. BMPs**

12 **Q. Have you reviewed the rebuttal testimony of Mr. Jones regarding BMPs?**

13 A. Yes.

14
15 **Q. What was Mr. Jones' comments regarding the BMPs?**

16 A. Mr. Jones stated that the Company does not support Staff's recommendation because the
17 recommendation is duplicative and excessive by taking the Company beyond what is
18 required by the Arizona Department of Water Resources ("ADWR"). Mr. Jones also
19 reiterated that the Company has the Public Education Program ("PEP") and five ADWR
20 approved BMPs in place.

21
22 **Q. What is Staff's response?**

23 A. Although the Company has ADWR approval for its six BMPs and PEP, these BMPs and
24 PEP are not in Commission tariff form. Therefore, Staff continues to recommend that the
25 Company file with Docket Control, as a compliance item in this docket and within 90 days
26 of the effective date of a decision in this proceeding, at least seven BMPs in the form of

1 tariffs that substantially conform to the templates created by Staff for Commission review
2 and consideration. These BMP templates are available on the Commission's website. The
3 Company may submit the approved six ADWR BMPs and PEP as its seven BMP tariffs.

4

5 **Q. Does this conclude your Surrebuttal Testimony?**

6 **A. Yes.**

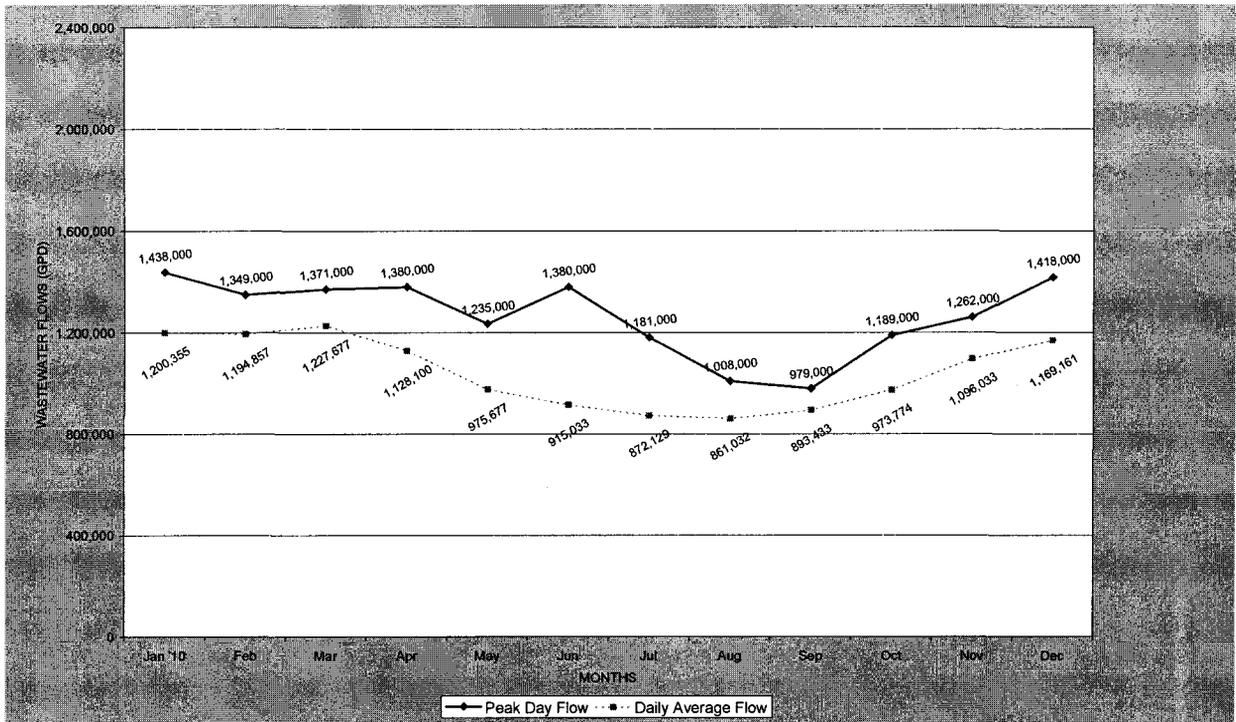


Figure 1. Wastewater System Flows during Test Year 2010

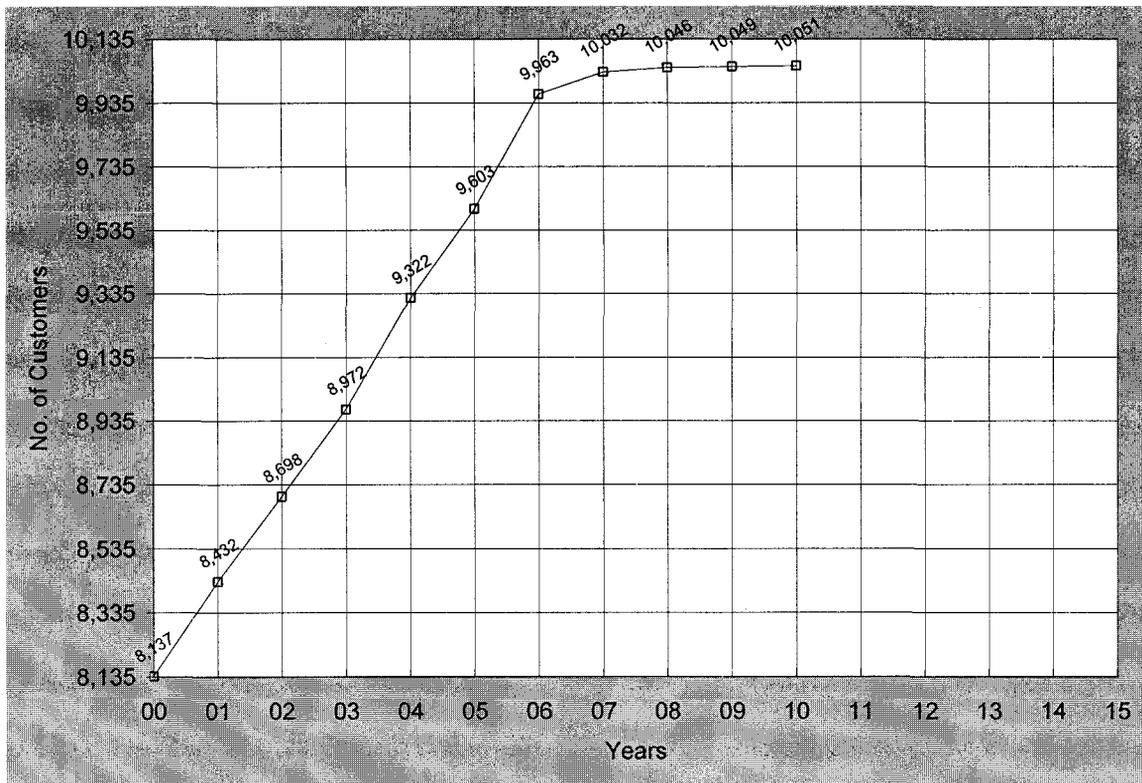


Figure 2. Wastewater System Growth

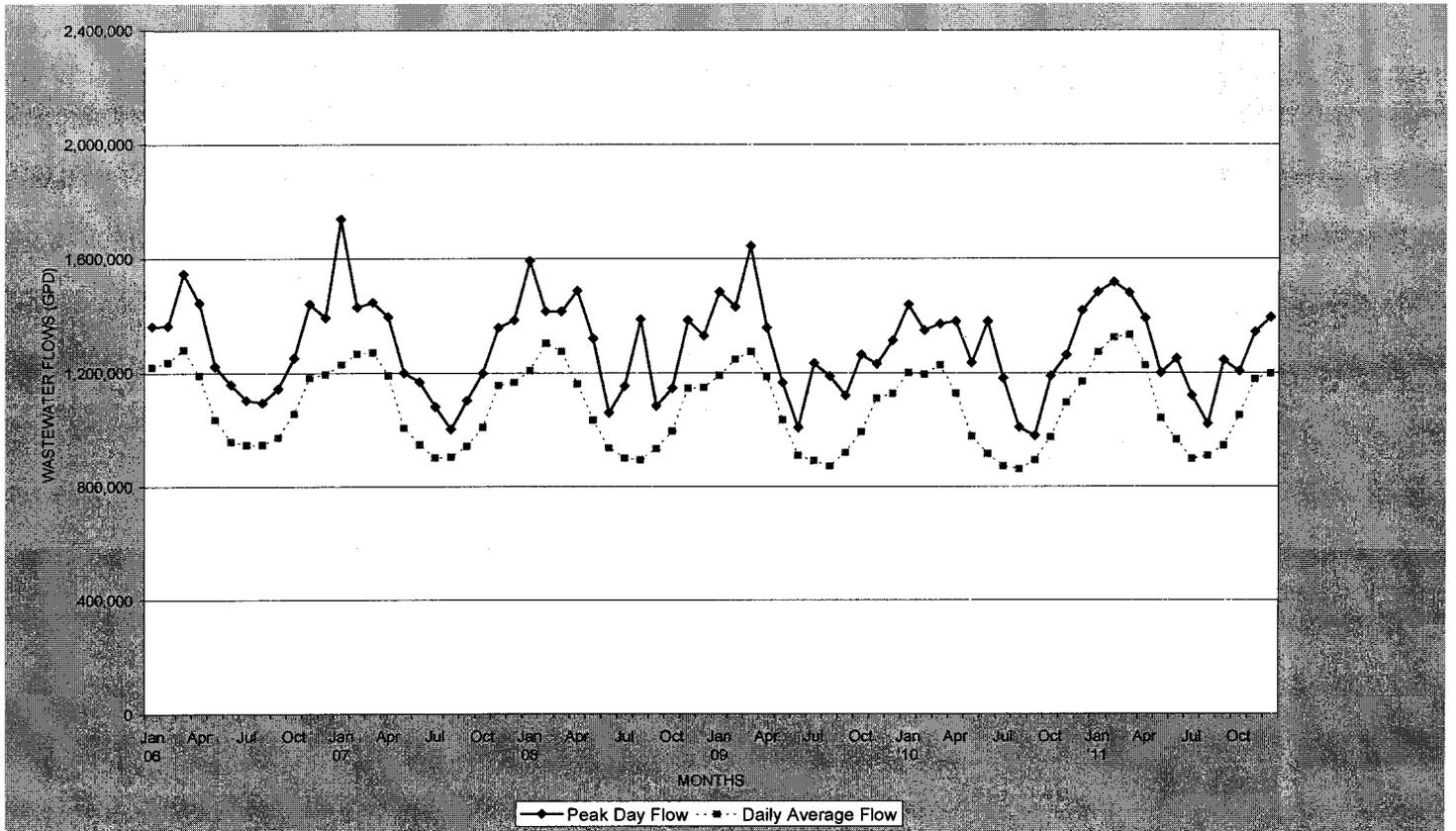


Figure 3. Wastewater Flows from 2006 to 2011