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Transcript Exhibit(s)

Docket #(s): W-01445A-11-0310

Exhibit #: R-1, R-2, R-6 through R-14, R-16 through R-20

Part 6 of 7

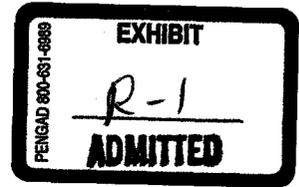
Arizona Corporation Commission
DOCKETED

JUN 8 2012

WJL

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL
2012 JUN - 8 P 1: 34

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Resolution Endorsing and Co-Sponsoring "The Distribution System Improvement Charge"

WHEREAS, The Pennsylvania Public Utility Commission and the Pennsylvania Legislature have adopted a promising and unique regulatory approach that encourages the acceleration of the needed remediation of aging water utility infrastructures; *and*

WHEREAS, The Distribution System Improvement Charge is an automatic adjustment charge that enables recovery of infrastructure improvement costs on a quarterly basis in between rate cases for projects that are non-revenue producing and non-expense reducing such as main cleaning and relining, fire hydrant replacement and main extensions to eliminate dead ends; *and*

WHEREAS, A videotape which explains this unique approach is being prepared by the National Association of Water Companies to help educate and inform other regulatory agencies and legislatures about the benefits of this unique approach; *and*

WHEREAS, The U.S. EPA within its Drinking Water Infrastructure Needs Survey has identified a magnitude of national infrastructure needs of \$77.2 billion in pending expenditures; *and*

WHEREAS, As the magnitude of need may be too great to be accomplished under traditional ratemaking methodologies; *and*

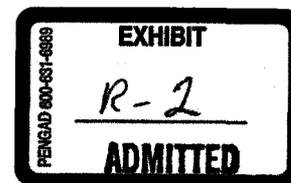
WHEREAS, The Distribution System Improvement Charge provides benefits to ratepayers such as improved water quality, increased pressure, fewer main breaks, fewer service interruptions, lower levels of unaccounted for water, and more time between rate cases which leads to greater rate stability; *and*

WHEREAS, Ratepayer protections are incorporated in the Pennsylvania approach: the surcharge is limited to a maximum of 5% of the water bill, annual reconciliation audits are conducted where overcollections will be refunded with interest and undercollections will be billed into future rates without interest recovery, the surcharge is reset to zero at the time of the next rate case, the charge is reset to zero if the company is over-earning, customer notice is provided, and all charges reflect used and useful plant; *now, therefore, be it*

RESOLVED, That the Board of Directors of the National Association of Regulatory Utility Commissioners (NARUC), convened at its 1999 Winter Meetings in Washington, D.C, agrees to endorse the mechanism as an example of an innovative regulatory tool that other Public Utility Commissions may consider to solve infrastructure remediation challenges in their States; *now be it further*

RESOLVED, That NARUC agrees to co-sponsor with the National Association of Water Companies the videotape of the Distribution System Improvement Charge as an educational tool to inform other regulatory agencies and legislatures about this promising new mechanism.

*Sponsored by the Committee on Water
Adopted February 24, 1999*



[Home](#) > [Resolutions](#) > Water Company Infrastructure Costs

National Association of State Utility Consumer Advocates
R E S O L U T I O N

Discouraging State Regulatory Commissions from Adopting Automatic Adjustment Charges for Water Company Infrastructure Costs

WHEREAS, certain regulated water companies have recently proposed mechanisms for automatically increasing water rates, prior to regulatory review, based upon isolated items of expense related to infrastructure projects; and WHEREAS, the National Association of State Utility Consumer Advocates (NASUCA) believes that public interest is still best served by rate of return regulation of investor-owned water companies and that such automatic adjustment mechanisms contradict several sound rate of return ratemaking principles, including the matching principle, because increases to items of rate base are recognized far outside of the test year from which all other rate base, as well as revenues, expenses, and cost of capital items that are used when calculating rates, allowing 'piecemeal ratemaking' and preventing the recognition of any simultaneous offsetting reductions in other items; and

WHEREAS, automatic adjustment mechanisms also circumvent regulatory review of increases to rate base for prudence and reasonableness; and

WHEREAS, automatic adjustment mechanisms further create bad public policy by eliminating the built-in regulatory incentive to control costs between rate cases and, generates incentives to increase spending in order to avoid reduction of the surcharge which occurs if the water company's authorized return is reached; and

WHEREAS, when an automatic adjustment clause is adopted, rate stability is reduced and proper price signals are distorted by frequent rate increases, and no convincing evidence has been shown to support the claim that the frequency of rate case proceedings is reduced by such clauses; and

WHEREAS, special incentives are not needed in order ensure adequate water quality, pressure, and a proper reduction of service interruptions; and

WHEREAS, automatic adjustment mechanisms can inappropriately reward water companies that have imprudently fallen behind in infrastructure improvements; and

WHEREAS, it is inappropriate to tilt the regulatory balance against consumers and shift business risk away from water companies simply for the purpose of creating an incentive for these companies to fulfill their basic obligation to provide safe and adequate service;

THEREFORE, BE IT RESOLVED, that NASUCA strongly recommends state legislatures and state public utility commissions avoid the implementation of automatic adjustments charges for water company infrastructure costs; and

BE IT FURTHER RESOLVED, that NASUCA authorizes its Executive Committee to develop specific positions and to take appropriate actions consistent with the terms of this resolution. The Executive Committee shall notify the membership of any action taken pursuant to this resolution.

Approved by NASUCA:

June, 1999, Baltimore, Maryland

Submitted By:

NASUCA Ad Hoc Water Committee

Christine Maloni Hoover, PA, Chair

Wes Blakley, IN

Robert Brabston, NJ

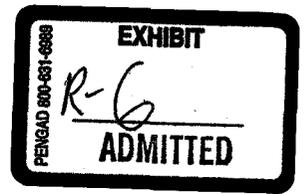
John Coffman, MO

Brian Gallagher, DE

Donald Rogers, MD

Dale Stransky, NV

James Warden, Jr., NY



ARIZONA WATER COMPANY
DOCKET NO. W-01445A-11-0310

DIRECT TESTIMONY
OF
ROBERT B. MEASE
ON
RATE DESIGN

ON BEHALF OF
THE
RESIDENTIAL UTILITY CONSUMER OFFICE

MARCH 13, 2012

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EXECUTIVE SUMMARY

Based on RUCO's analysis of Arizona Water Company's rate application, RUCO is recommending rate designs for the Eastern Groups Systems that will result in the following typical monthly bills for residential customers with average consumption on a 5/8" X 3/4" meter:

		ROCO		
	<u>SYSTEM</u>	<u>PRESENT RATE</u>	<u>PROPOSED RATE</u>	<u>% CHANGE</u>
	<u>Superstition</u> (Apache Junction, Superior, Miami)	\$ 33.84	\$ 38.89	14.92 %
	<u>Cochise</u>			
	Bisbee	\$ 32.42	\$ 35.45	9.32 %
	Sierra Vista	\$ 25.96	\$ 32.34	24.60 %
	<u>Falcon Valley</u>			
	Oracle	\$ 43.05	\$ 47.36	10.00 %
	San Manuel	\$ 43.61	\$ 58.70	34.62 %
	SaddleBrooke Ranch	\$ 28.96	\$ 37.51	29.52 %
	<u>Winkelman</u>	\$ 30.38	\$ 36.51	20.18 %

RUCO supports the Company's proposal to fully consolidate the Oracle, San Manuel and SaddleBrooke Ranch Systems into a single "Falcon Valley" System. RUCO witness, William Rigsby, discusses RUCO's position on consolidation in his testimony.

1 **INTRODUCTION**

2 **Q. Please state your name, position, employer and address.**

3 A. My Name is Robert B. Mease. I am a Public Utilities Analyst V employed
4 by the Residential Utility Consumer Office ("RUCO") located at 1110 W.
5 Washington, Suite 220, Phoenix, Arizona 85007.

6
7 **Q. Please state your educational background and qualifications in the
8 utility regulation field.**

9 A. Appendix 1, which is attached to this testimony, describes my educational
10 background, work experience and regulatory matters in which I have
11 participated. In summary, I joined RUCO in October of 2011. I graduated
12 from Morris Harvey College in Charleston, WV and attended Kanawha
13 Valley School of Graduate Studies. I am a Certified Public Accountant
14 and have been licensed to practice in West Virginia and Montana. My
15 years of work experience include serving as Vice President and Controller
16 of a public utility and energy company in Great Falls, Montana and have
17 participated in several rate case filings on behalf of the utility.

18
19 **Q. What is the purpose of your direct testimony?**

20 A. My direct testimony will address RUCO's rate designs for the Company's
21 Eastern Group Water Systems. The systems include Superstition
22 (Apache Junction, Superior, and Miami), Cochise (Bisbee, and Sierra
23 Vista), Falcon Valley (Oracle, San Manuel, and SaddleBrooke Ranch) and

1 the Winkelman System. Schedules have been prepared for each system
2 that develop appropriate rate designs summing up to RUCO's
3 recommended revenue. Also an analysis of a typical residential bill for
4 each system has been included.

5

6 To support RUCO's position in this direct testimony, Schedules numbered
7 RD-1 and RD-2 have been prepared for each system.

8

9 **RATE DESIGN**

10 **Q. Please explain elements of the rate designs.**

11 A. Each Schedule RD-1 illustrates the elements of RUCO's rate design which
12 mirrors the Company's Schedules by maintaining the same basic
13 conservation-oriented rate structure effective under present rates with a
14 customer charge and inclining block rates for each classification and
15 meter size.

16

17 **PROOF OF RECOMMENDED REVENUE**

18 **Q. Has RUCO prepared Schedules presenting proof of your**
19 **recommended revenue?**

20 A. Yes. Proof that RUCO's recommended rate designs will produce the
21 recommended required revenue as illustrated, is presented on Schedule
22 RD-1 prepared for each system.

23

1 **TYPICAL BILL ANALYSIS**

2 **Q. Has RUCO prepared Schedules representing the financial impact of**
3 **RUCO's recommended rate designs on the typical residential**
4 **customer for each system?**

5 **A. Yes. A typical bill analysis for residential customers of each system with**
6 **various levels of usage is presented on Schedules RD-2.**

7

8 **SUPERSTITION**

9 **Q. Please describe a typical bill utilizing RUCO's rate design on the**
10 **average Superstition residential customer.**

11 **A. RUCO's Superstition System (Apache Junction, Superior and Miami) rate**
12 **design proposes a basic service charge for residential customers with a**
13 **5/8" X 3/4" meter of \$20.49 while the Company has proposed a rate of**
14 **\$23.00.**

15 **Commodity charges recommended by RUCO and the Company are as**
16 **follows:**

17

<u>Superstition</u>	<u>Current Fee</u>	<u>RUCO Proposed</u>	<u>Company Proposed</u>
18 First 3,000 gallons	\$ 2.28	\$ 2.57	\$ 2.89
19 3,000 to 10,000 gallons	\$ 2.85	\$ 3.21	\$ 3.61
20 Over 10,000 gallons	\$ 3.56	\$ 4.02	\$ 4.51

21

22 **The monthly billing per RUCO's proposal to the Superstition residential**
23 **users, assuming an average consumption of 6,321 gallons per month, will**

1 be \$38.89, a 14.9% increase compared to the Company's requested
2 increase of 29.1%

3

4 **COCHISE**

5 **Q. Please describe the financial impact of RUCO's rate design on the**
6 **average Cochise System (Bisbee and Sierra Vista) residential**
7 **customer.**

8 A. RUCO's rate design proposes a basic service charge for residential
9 customers, both Bisbee and Sierra Vista, with a 5/8" X 3/4" meter of
10 \$18.40 while the Company has proposed a rate of \$20.00.

11

12 While the monthly basic service charge is the same for both systems
13 (Bisbee and Sierra Vista) the commodity charges will be separately
14 maintained. The Commodity charges for the two systems in the Cochise
15 System are as follows:

16

	<u>Bisbee</u>	<u>Current Fee</u>	<u>RUCO Proposed</u>	<u>Company Proposed</u>
18	First 3,000 gallons	\$ 3.60	\$ 3.22	\$ 3.60
19	3,000 to 10,000 gallons	\$ 4.50	\$ 4.02	\$ 4.50
20	Over 10,000 gallons	\$ 5.63	\$ 5.04	\$ 5.63

21 The monthly billing per RUCO's proposal to the Bisbee residential users,
22 assuming an average consumption of 4,832 gallons per month, will be
23 \$35.45, a 9.3% increase compared to the Company's requested increase
24 of 12.1%.

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<u>Sierra Vista</u>	<u>Current Fee</u>	<u>RUCO Proposed</u>	<u>Company Proposed</u>
First 3,000 gallons	\$ 1.36	\$ 1.51	\$ 1.67
3,000 to 10,000 gallons	\$ 1.70	\$ 1.89	\$ 2.09
Over 10,000 gallons	\$ 2.13	\$ 2.36	\$ 2.61

The monthly billing per RUCO's proposal to the Sierra Vista residential users, assuming an average consumption of 7,995 gallons per month, will be \$30.33, a 24.6% increase compared to the Company's requested increase of 32.8%.

FALCON VALLEY

Q. Is the Company proposing to consolidate the Oracle, San Manuel and SaddleBrooke Ranch Systems?

A. Yes, the Company is proposing consolidating the three systems into the Falcon Valley System. They have consolidated the rates in this filing as if the systems are already consolidated.

Q. What are the Company's reasons for consolidating the three systems as proposed?

A. The basic reasons for consolidation of the systems include " the existing functional relationships such as sharing management, operating employees and customer service. Also, it will help streamline administrative and regulatory processes, thereby lowering costs,

1 especially costs related to ratemaking and accounting. Finally, the Oracle
2 and SaddleBrooke Ranch Systems are physically interconnected.

3

4 **Q. Does RUCO agree with the Company's consolidation proposal?**

5 A. Yes, RUCO agrees with the Company's proposal and have prepared our
6 rate structure accordingly.

7

8 **Q. Please describe the financial impact of RUCO's rate design on the**
9 **average Falcon Valley (Oracle, San Manuel, SaddleBrooke Ranch)**
10 **residential customer?**

11 A. RUCO's Falcon Valley rate design proposes a basic service charge for
12 residential customers with a 5/8" X 3/4" meter of \$21.59 while the
13 Company has proposed a rate of \$23.00. RUCO's recommended charge
14 represents an increase of 8.8% for the customers of the Oracle System, a
15 43% increase to customers in the SaddleBrooke Ranch while there will be
16 less than a 1% increase in the basic service charge to customers in the
17 San Manuel System. Current commodity fees and proposed commodity
18 fees are shown for each system as follows:

19

20	<u>Oracle</u>	<u>Current Fee</u>	<u>RUCO Proposed</u>	<u>AWC Proposed</u>
21	First 3,000 gallons	\$ 4.09	\$ 4.54	\$ 4.84
22	3,000 to 10,000 gallons	\$ 5.12	\$ 5.68	\$ 6.05
23	Over 10,000 gallons	\$ 6.39	\$ 7.09	\$ 7.56

1 The monthly billing per RUCO's proposal to Oracle's residential users,
2 assuming an average consumption of 5,140 gallons per month, will be
3 \$47.36, a 10% increase compared to the Company's requested increase
4 of 14.5%.

5

<u>San Manuel</u>	<u>Current Fee</u>	<u>RUCO Proposed</u>	<u>AWC Proposed</u>
First 3,000 gallons	\$ 2.70	\$ 4.54	\$ 4.84
3,000 to 10,000 gallons	\$ 3.38	\$ 5.68	\$ 6.04
Over 10,000 gallons	\$ 4.22	\$ 7.09	\$ 7.55

10

11 The monthly billing per RUCO's proposal to San Manuel's residential
12 users, assuming an average consumption of 7,139 gallons per month, will
13 be \$58.70, a 36.6% increase compared to the Company's requested
14 increase of 40.5%.

15

<u>SaddleBrooke Ranch</u>	<u>Current Fee</u>	<u>RUCO Proposed</u>	<u>AWC Proposed</u>
First 3,000 gallons	\$ 4.10	\$ 4.54	\$ 4.84
3,000 to 10,000 gallons	\$ 4.10	\$ 5.68	\$ 6.05
Over 10,000 gallons	\$ 4.10	\$ 7.09	\$ 7.55

20

21 The monthly billing per RUCO's proposal to the SaddleBrooke Ranch
22 residential users, assuming an average consumption of 3,405 gallons per
23 month, will be \$37.51, a 29.5% increase compared to the Company's
24 requested increase of 37.9%.

25

1 **WINKELMAN**

2 **Q. Please describe the financial impact of RUCO's rate design on the**
3 **average Winkelman System residential customer.**

4 A. RUCO's Winkelman rate design proposes a basic service charge for
5 residential customers with a 5/8" X 3/4" meter of \$17.15 while the
6 Company has proposed a rate of \$19.00. Current commodity fees and
7 proposed fees are as follows:

8

9 <u>Winkelman</u>	<u>Current Fee</u>	<u>RUCO Proposed</u>	<u>AWC Proposed</u>
10 First 3,000 gallons	\$ 1.45	\$ 1.76	\$ 1.95
11 3,000 to 10,000 gallons	\$ 1.81	\$ 2.20	\$ 2.44
12 Over 10,000 gallons	\$ 2.26	\$ 2.75	\$ 3.05

13

14 The monthly billing per RUCO's proposal to Winkelman's residential
15 users, assuming an average consumption of 9,398 gallons per month, will
16 be \$36.51, a 20.2% increase compared to the Company's requested
17 increase of 28.6%.

18

19 **Q. Does this conclude your direct testimony on rate design?**

20 A. Yes, it does.

Arizona Water Company
Docket No. W-01445A-11-0310
Test Year Ended December 31, 2010

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**EASTERN GROUP - SUPERSTITION
RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
RESIDENTIAL CUSTOMERS					
1	5/8" X 3/4" Meter	21,020	\$ 20.49	\$ 5,168,262	\$ 5,168,262
	Commodity Usage (In Thousands of Gallons)				
2	First Tier - First 3,000 Gals.	636,406	\$ 2.5729	\$ 1,637,412	
3	Second Tier - Next 7,000 Gals.	650,348	\$ 3.2162	\$ 2,091,632	
4	Third Tier - Over 10,000 Gals.	307,738	\$ 4.0202	\$ 1,237,179	\$ 4,966,223
5	1" Meter	1,553	\$ 51.22	\$ 954,672	\$ 954,672
	Commodity Usage (In Thousands of Gallons)				
6	First Tier - First 40,000 Gals.	115,707	\$ 3.2162	\$ 372,133	
7	Second Tier - Over 40,000 Gals.	76,411	\$ 4.0202	\$ 307,189	
8	Third Tier - Over 40,000 Gals.	-	\$ 4.0202	\$ -	\$ 679,322
9	2" Meter	57	\$ 163.91	\$ 111,849	\$ 111,849
	Commodity Usage (In Thousands of Gallons)				
10	First Tier - First 125,000 Gals.	57,789	\$ 3.2162	\$ 185,860	
11	Second Tier - Over 125,000 Gals.	26,937	\$ 4.0202	\$ 108,294	
12	Third Tier - Over 125,000 Gals.	-	\$ 4.0202	\$ -	\$ 294,154
13	3" Meter	4	\$ 327.83	\$ 15,746	\$ 15,746
	Commodity Usage (In Thousands of Gallons)				
14	First Tier - First 300,000 Gals.	11,001	\$ 3.2162	\$ 35,382	
15	Second Tier - Over 300,000 Gals.	2,083	\$ 4.0202	\$ 8,373	
16	Third Tier - Over 300,000 Gals.	-	\$ 4.0202	\$ -	\$ 43,756
17	4" Meter	10	\$ 512.23	\$ 63,558	\$ 63,558
	Commodity Usage (In Thousands of Gallons)				
18	First Tier - First 500,000 Gals.	45,470	\$ 3.2162	\$ 146,239	
19	Second Tier - Over 500,000 Gals.	31,724	\$ 4.0202	\$ 127,537	
20	Third Tier - Over 500,000 Gals.	-	\$ 4.0202	\$ -	\$ 273,776
21	6" Meter	13	\$ 1,024.46	\$ 164,021	\$ 164,021
	Commodity Usage (In Thousands of Gallons)				
22	First Tier - First 1,000,000 Gals.	83,615	\$ 3.2162	\$ 268,919	
23	Second Tier - Over 1,000,000 Gals.	30,550	\$ 4.0202	\$ 122,818	
24	Third Tier - Over 1,000,000 Gals.	-	\$ 4.0202	\$ -	\$ 391,736
25	8" Meter	-	\$ 1,639.13	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
26	First Tier - First 1,500,000 Gals.	-	\$ 3.2162	\$ -	
27	Second Tier - Over 1,500,000 Gals.	-	\$ 4.0202	\$ -	
28	Third Tier - Over 1,500,000 Gals.	-	\$ 4.0202	\$ -	\$ -
29	10" Meter	-	\$ 2,356.25	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
30	First Tier - First 2,300,000 Gals.	-	\$ 3.2162	\$ -	
31	Second Tier - Over 2,300,000 Gals.	-	\$ 4.0202	\$ -	
32	Third Tier - Over 2,300,000 Gals.	-	\$ 4.0202	\$ -	\$ -
33	Total Residential Customer Bills	<u>22,658</u>			
34	Total Residential Usage	<u>2,075,778</u>			
35	TOTAL RESIDENTIAL CUSTOMERS REVENUE				<u>\$ 13,127,076</u>

**EASTERN GROUP - SUPERSTITION
RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
COMMERCIAL CUSTOMERS					
36	5/8" X 3/4" Meter	384	\$ 20.49	\$ 94,414	\$ 94,414
	Commodity Usage (In Thousands of Gallons)				
37	First Tier - First 10,000 Gals.	17,078	\$ 3.2162	\$ 54,927	
38	Second Tier - Over 10,000 Gals.	17,448	\$ 4.0202	\$ 70,146	
39	Third Tier - Over 10,000 Gals.	-	\$ 4.0202	\$ -	\$ 125,073
40	1" Meter	294	\$ 51.22	\$ 180,676	\$ 180,676
	Commodity Usage (In Thousands of Gallons)				
41	First Tier - First 40,000 Gals.	43,305	\$ 3.2162	\$ 139,275	
42	Second Tier - Over 40,000 Gals.	41,624	\$ 4.0202	\$ 167,338	
43	Third Tier - Over 40,000 Gals.	-	\$ 4.0202	\$ -	\$ 306,614
44	2" Meter	221	\$ 163.91	\$ 434,931	\$ 434,931
	Commodity Usage (In Thousands of Gallons)				
45	First Tier - First 125,000 Gals.	120,291	\$ 3.2162	\$ 386,877	
46	Second Tier - Over 125,000 Gals.	78,732	\$ 4.0202	\$ 316,521	
47	Third Tier - Over 125,000 Gals.	-	\$ 4.0202	\$ -	\$ 703,397
48	3" Meter	25	\$ 327.83	\$ 98,838	\$ 98,838
	Commodity Usage (In Thousands of Gallons)				
49	First Tier - First 300,000 Gals.	36,913	\$ 3.2162	\$ 118,718	
50	Second Tier - Over 300,000 Gals.	26,103	\$ 4.0202	\$ 104,941	
51	Third Tier - Over 300,000 Gals.	-	\$ 4.0202	\$ -	\$ 223,659
52	4" Meter	11	\$ 512.23	\$ 67,769	\$ 67,769
	Commodity Usage (In Thousands of Gallons)				
53	First Tier - First 500,000 Gals.	17,071	\$ 3.2162	\$ 54,903	
54	Second Tier - Over 500,000 Gals.	19,473	\$ 4.0202	\$ 78,285	
55	Third Tier - Over 500,000 Gals.	-	\$ 4.0202	\$ -	\$ 133,187
56	6" Meter	12	\$ 1,024.46	\$ 144,705	\$ 144,705
	Commodity Usage (In Thousands of Gallons)				
57	First Tier - First 1,000,000 Gals.	65,823	\$ 3.2162	\$ 211,697	
58	Second Tier - Over 1,000,000 Gals.	35,789	\$ 4.0202	\$ 143,880	
59	Third Tier - Over 1,000,000 Gals.	-	\$ 4.0202	\$ -	\$ 355,577
60	8" Meter	2	\$ 1,639.13	\$ 39,775	\$ 39,775
	Commodity Usage (In Thousands of Gallons)				
61	First Tier - First 1,500,000 Gals.	4,488	\$ 3.2162	\$ 14,433	
62	Second Tier - Over 1,500,000 Gals.	-	\$ 4.0202	\$ -	
63	Third Tier - Over 1,500,000 Gals.	-	\$ 4.0202	\$ -	\$ 14,433
64	10" Meter	-	\$ 2,356.25	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
65	First Tier - First 2,300,000 Gals.	-	\$ 3.2162	\$ -	
66	Second Tier - Over 2,300,000 Gals.	-	\$ 4.0202	\$ -	
67	Third Tier - Over 2,300,000 Gals.	-	\$ 4.0202	\$ -	\$ -
68	Total Commercial Customer Bills	<u>949</u>			
69	Total Commercial Usage	<u>524,137</u>			
70	TOTAL COMMERCIAL CUSTOMERS REVENUE			<u>\$ 2,923,049</u>	

**EASTERN GROUP - SUPERSTITION
RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
INDUSTRIAL CUSTOMERS					
71	5/8" X 3/4" Meter	-	\$ 20.49	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
72	First Tier - First 999,999,999 Gals.	-	\$ 2.4640	\$ -	
73	Second Tier - Next 999,999,999 Gals.	-	\$ 2.4640	\$ -	
74	Third Tier - Over 999,999,999 Gals.	-	\$ 2.5729	\$ -	\$ -
75	1" Meter	3	\$ 51.22	\$ 1,844	\$ 1,844
	Commodity Usage (In Thousands of Gallons)				
76	First Tier - First 999,999,999 Gals.	213	\$ 2.4640	\$ 524	
77	Second Tier - Next 999,999,999 Gals.	-	\$ 2.4640	\$ -	
78	Third Tier - Over 999,999,999 Gals.	-	\$ 2.5729	\$ -	\$ 524
79	2" Meter	4	\$ 163.91	\$ 7,868	\$ 7,868
	Commodity Usage (In Thousands of Gallons)				
80	First Tier - First 999,999,999 Gals.	14,362	\$ 2.4640	\$ 35,388	
81	Second Tier - Next 999,999,999 Gals.	-	\$ 2.4640	\$ -	
82	Third Tier - Over 999,999,999 Gals.	-	\$ 2.5729	\$ -	\$ 35,388
83	3" Meter	2	\$ 327.83	\$ 7,868	\$ 7,868
	Commodity Usage (In Thousands of Gallons)				
84	First Tier - First 999,999,999 Gals.	5,067	\$ 2.4640	\$ 12,484	
85	Second Tier - Next 999,999,999 Gals.	-	\$ 2.4640	\$ -	
86	Third Tier - Over 999,999,999 Gals.	-	\$ 2.5729	\$ -	\$ 12,484
87	4" Meter	-	\$ 512.23	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
88	First Tier - First 999,999,999 Gals.	-	\$ 2.4640	\$ -	
89	Second Tier - Next 999,999,999 Gals.	-	\$ 2.4640	\$ -	
90	Third Tier - Over 999,999,999 Gals.	-	\$ 2.5729	\$ -	\$ -
91	6" Meter	-	\$ 1,024.46	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
92	First Tier - First 999,999,999 Gals.	-	\$ 2.4640	\$ -	
93	Second Tier - Next 999,999,999 Gals.	-	\$ 2.4640	\$ -	
94	Third Tier - Over 999,999,999 Gals.	-	\$ 2.5729	\$ -	\$ -
95	8" Meter	-	\$ 1,639.13	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
96	First Tier - First 999,999,999 Gals.	-	\$ 2.4640	\$ -	
97	Second Tier - Next 999,999,999 Gals.	-	\$ 2.4640	\$ -	
98	Third Tier - Over 999,999,999 Gals.	-	\$ 2.5729	\$ -	\$ -
99	10" Meter	-	\$ 2,356.25	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
100	First Tier - First 999,999,999 Gals.	-	\$ 2.4640	\$ -	
101	Second Tier - Next 999,999,999 Gals.	-	\$ 2.4640	\$ -	
102	Third Tier - Over 999,999,999 Gals.	-	\$ 2.5729	\$ -	\$ -
103	Total Industrial Customer Bills		<u>9</u>		
104	Total Industrial Usage		<u>19,641</u>		
105	TOTAL INDUSTRIAL CUSTOMERS REVENUE				<u>\$ 65,976</u>

EASTERN GROUP - SUPERSTITION
RATE DESIGN AND PROOF OF RECOMMENDED REVENUE

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
PRIVATE FIRE SERVICE CUSTOMERS					
106	5/8" Meter	1,951	\$ 28.00	\$ 54,628	\$ 54,628
107	1" Meter		\$ 28.00	\$ -	\$ -
108	2" Meter		\$ 28.00	\$ -	\$ -
109	3" Meter		\$ 28.00	\$ -	\$ -
110	4" Meter		\$ 28.00	\$ -	\$ -
111	6" Meter		\$ 28.00	\$ -	\$ -
112	8" Meter		\$ 28.00	\$ -	\$ -
113	10" Meter		\$ 28.00	\$ -	\$ -
114	Total Private Fire Service Customers	<u>1,951</u>			
115	TOTAL PRIVATE FIRES SERVICE CUSTOMERS REVENUE				<u>\$ 54,628</u>
OTHER WATER REVENUE CUSTOMERS					
116	Public Fire Hydrant		\$ -	\$ -	\$ -
117	Coin Machine		\$ 2,5729	\$ -	\$ -
118	Commodity Usage (In Thousands of Gallons)	6,315	\$ 56,4610	\$ 27,960	\$ 27,960
119	Construction Water 2" Meter		\$ 163.91		
120	Commodity Usage (In Thousands of Gallons)				
120	First Tier - First 125,000 Gals.		\$ 2,5413		
121	Second Tier - Over 125,000 Gals.		\$ 3,1770		
122	Third Tier - Over 125,000 Gals.		\$ 2,5729		\$ -
123	Construction Water 3" Meter	20	\$ 327.83	\$ 77,695	\$ 77,695
124	Commodity Usage (In Thousands of Gallons)				
124	First Tier - First 300,000 Gals.	12,668	\$ 2,5413	\$ 32,194	
125	Second Tier - Over 300,000 Gals.	7,485	\$ 3,1770	\$ 23,780	
126	Third Tier - Over 300,000 Gals.		\$ 2,5729		\$ 55,974
127	Construction Water 4" Meter		\$ 512.23	\$ 6,147	\$ 6,147
128	Commodity Usage (In Thousands of Gallons)				
128	First Tier - First 500,000 Gals.	1,947	\$ 2,5413	\$ 4,948	
129	Second Tier - Over 500,000 Gals.		\$ 3,1770	\$ -	
130	Third Tier - Over 500,000 Gals.		\$ 2,5729	\$ -	\$ 4,948
131	Sales For Resales 2" Meter		\$ 163.91	\$ -	\$ -
132	Commodity Usage (In Thousands of Gallons)				
132	First Tier - First 999,999,999 Gals.		\$ 2,4640	\$ -	
133	Second Tier - Next 999,999,999 Gals.		\$ 2,4640	\$ -	
134	Third Tier - Over 999,999,999 Gals.		\$ 2,5729	\$ -	\$ -
135	Sales For Resales 3" Meter		\$ 327.83	\$ -	\$ -
136	Commodity Usage (In Thousands of Gallons)				
136	First Tier - First 999,999,999 Gals.		\$ 2,4640	\$ -	
137	Second Tier - Next 999,999,999 Gals.		\$ 2,4640	\$ -	
138	Third Tier - Over 999,999,999 Gals.		\$ 2,5729	\$ -	\$ -

**EASTERN GROUP - SUPERSTITION
RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
139	Sales For Resales 6" Meter Commodity Usage (In Thousands of Gallons)	0.3	\$ 1,229.35	\$ 3,688	\$ 3,688
140	First Tier - First 999,999,999 Gals.	1,353	\$ 2,4640	\$ 3,334	
141	Second Tier - Next 999,999,999 Gals.		\$ 2,4640	\$ -	
142	Third Tier - Over 999,999,999 Gals.		\$ 2,5729	\$ -	\$ 3,334
143	Total Other Water Revenue Customer Bills	<u>20</u>			
144	Total Other Water Revenue Usage	<u>28,415</u>			
145	TOTAL OTHER WATER CUSTOMERS REVENUE				<u>\$ 179,746</u>
146	RUCO TOTAL PROPOSED REVENUE PER BILL COUNT				\$ 16,350,474
147	Unreconciled Difference vs. Billed Revenues				
148	Miscellaneous Revenues				<u>857,550</u>
149	RUCO TOTAL REVENUE				<u>\$ 17,208,024</u>
150	RUCO ADJUSTED TEST-YEAR REVENUE PER SCHEDULE RBM-1				<u>\$ 17,208,024</u>
151	Difference				\$ 0.11
152	Percentage Difference				0.000001%

EASTERN GROUP - SUPERSTITION
 TYPICAL RESIDENTIAL BILL ANALYSIS

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)	(F)	(G)
		ORIGINAL RATES	PRESENT ADDITIONAL ACRM / PPA SURCHARGES	TOTAL PRESENT RATES	COMPANY PROPOSED	COMPANY PROPOSED	RUCO PROPOSED	RUCO PROPOSED
1	BASIC MONTHLY CHARGE	\$ 17.52	\$ -	\$ 17.52	\$ 23.00	\$ -	\$ 20.49	
2	COMMODITY CHARGE (Per 1,000 Gallons)							
3	1st Tier - First 3,000	\$ 2.2820	\$ -	\$ 2.2820	\$ 2.8882	\$ -	\$ 2.5729	
4	2nd Tier - Next 7,000	\$ 2.8527	\$ -	\$ 2.8527	\$ 3.6103	\$ -	\$ 3.2162	
5	3rd Tier - Over 10,000	\$ 3.5663	\$ -	\$ 3.5663	\$ 4.5129	\$ -	\$ 4.0202	
AVERAGE RESIDENTIAL BILL COMPARISONS								
COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL								
5		PERCENT AVERAGE USAGE OF 6,321	PRESENT BASE RATE MONTHLY COST	PRESENT SURCHARGE MONTHLY COST	PRESENT TOTAL MONTHLY COST	RUCO MONTHLY COST	RUCO MONTHLY INCREASE	% MONTHLY INCREASE
6	1,580	25.00%	\$ 21.13	-	\$ 21.13	\$ 24.55	\$ 3.43	16.23%
7	3,161	50.00%	\$ 24.82	-	\$ 24.82	\$ 28.72	\$ 3.90	15.71%
8	6,321	100.00%	\$ 33.84	-	\$ 33.84	\$ 38.89	\$ 5.05	14.92%
9	9,482	150.00%	\$ 42.86	-	\$ 42.86	\$ 49.05	\$ 6.20	14.46%
10	12,642	200.00%	\$ 53.76	-	\$ 53.76	\$ 61.34	\$ 7.59	14.11%
MEDIAN RESIDENTIAL BILL COMPARISONS								
COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL								
10		PERCENT MEDIAN USAGE OF 4,594	PRESENT BASE RATE MONTHLY COST	PRESENT SURCHARGE MONTHLY COST	PRESENT TOTAL MONTHLY COST	RUCO MONTHLY COST	RUCO MONTHLY INCREASE	% MONTHLY INCREASE
11	1,149	25.00%	\$ 20.14	-	\$ 20.14	\$ 23.44	\$ 3.30	16.40%
12	2,297	50.00%	\$ 22.76	-	\$ 22.76	\$ 26.40	\$ 3.64	15.98%
13	4,594	100.00%	\$ 28.91	-	\$ 28.91	\$ 33.33	\$ 4.42	15.29%
14	6,891	150.00%	\$ 35.47	-	\$ 35.47	\$ 40.72	\$ 5.26	14.82%
15	9,188	200.00%	\$ 42.02	-	\$ 42.02	\$ 48.11	\$ 6.09	14.50%

EASTERN GROUP - BISBEE
RATE DESIGN AND PROOF OF RECOMMENDED REVENUE

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
RESIDENTIAL CUSTOMERS					
1	5/8" X 3/4" Meter	3,069	\$ 18.40	\$ 677,635	\$ 677,635
	Commodity Usage (In Thousands of Gallons)				
2	First Tier - First 3,000 Gals.	82,344	\$ 3.2225	\$ 265,353	
3	Second Tier - Next 7,000 Gals.	67,792	\$ 4.0282	\$ 273,078	
4	Third Tier - Over 10,000 Gals.	27,844	\$ 5.0353	\$ 140,202	\$ 678,633
5	1" Meter	32	\$ 46.00	\$ 17,438	\$ 17,438
	Commodity Usage (In Thousands of Gallons)				
6	First Tier - First 35,000 Gals.	2,436	\$ 4.0282	\$ 9,811	
7	Second Tier - Over 35,000 Gals.	1,954	\$ 5.0353	\$ 9,840	
8	Third Tier - Over 35,000 Gals.	-	\$ 5.0353	\$ -	\$ 19,651
9	2" Meter	6	\$ 147.20	\$ 10,629	\$ 10,629
	Commodity Usage (In Thousands of Gallons)				
10	First Tier - First 125,000 Gals.	3,746	\$ 4.0282	\$ 15,089	
11	Second Tier - Over 125,000 Gals.	2,275	\$ 5.0353	\$ 11,457	
12	Third Tier - Over 125,000 Gals.	-	\$ 5.0353	\$ -	\$ 26,546
13	3" Meter	-	\$ 294.40	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
14	First Tier - First 265,000 Gals.	-	\$ 4.0282	\$ -	
15	Second Tier - Over 265,000 Gals.	-	\$ 5.0353	\$ -	
16	Third Tier - Over 265,000 Gals.	-	\$ 5.0353	\$ -	\$ -
17	4" Meter	-	\$ 460.00	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
18	First Tier - First 420,000 Gals.	-	\$ 4.0282	\$ -	
19	Second Tier - Over 420,000 Gals.	-	\$ 5.0353	\$ -	
20	Third Tier - Over 420,000 Gals.	-	\$ 5.0353	\$ -	\$ -
21	6" Meter	-	\$ 920.00	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
22	First Tier - First 860,000 Gals.	-	\$ 4.0282	\$ -	
23	Second Tier - Over 860,000 Gals.	-	\$ 5.0353	\$ -	
24	Third Tier - Over 860,000 Gals.	-	\$ 5.0353	\$ -	\$ -
25	8" Meter	-	\$ 1,472.00	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
26	First Tier - First 1,300,000 Gals.	-	\$ 4.0282	\$ -	
27	Second Tier - Over 1,300,000 Gals.	-	\$ 5.0353	\$ -	
28	Third Tier - Over 1,300,000 Gals.	-	\$ 5.0353	\$ -	\$ -
29	10" Meter	-	\$ 2,116.00	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
30	First Tier - First 2,000,000 Gals.	-	\$ 4.0282	\$ -	
31	Second Tier - Over 2,000,000 Gals.	-	\$ 5.0353	\$ -	
32	Third Tier - Over 2,000,000 Gals.	-	\$ 5.0353	\$ -	\$ -
33	Total Residential Customer Bills	<u>3,107</u>			
34	Total Residential Usage	<u>188,391</u>			
35	TOTAL RESIDENTIAL CUSTOMERS REVENUE			<u>\$ 1,430,532</u>	

EASTERN GROUP - BISBEE
RATE DESIGN AND PROOF OF RECOMMENDED REVENUE

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
COMMERCIAL CUSTOMERS					
36	5/8" X 3/4" Meter	220	\$ 18.40	\$ 48,574	\$ 48,574
	Commodity Usage (In Thousands of Gallons)				
37	First Tier - First 10,000 Gals.	7,749	\$ 4.0282	\$ 31,214	
38	Second Tier - Over 10,000 Gals.	3,938	\$ 5.0353	\$ 19,827	
39	Third Tier - Over 10,000 Gals.	-	\$ 5.0353	\$ -	\$ 51,041
40	1" Meter	47	\$ 46.00	\$ 26,138	\$ 26,138
	Commodity Usage (In Thousands of Gallons)				
41	First Tier - First 35,000 Gals.	6,559	\$ 4.0282	\$ 26,422	
42	Second Tier - Over 35,000 Gals.	3,254	\$ 5.0353	\$ 16,384	
43	Third Tier - Over 35,000 Gals.	-	\$ 5.0353	\$ -	\$ 42,806
44	2" Meter	42	\$ 147.20	\$ 73,522	\$ 73,522
	Commodity Usage (In Thousands of Gallons)				
45	First Tier - First 125,000 Gals.	21,454	\$ 4.0282	\$ 86,420	
46	Second Tier - Over 125,000 Gals.	38,560	\$ 5.0352	\$ 194,156	
47	Third Tier - Over 125,000 Gals.	-	\$ 5.0352	\$ -	\$ 280,576
48	3" Meter	-	\$ 294.40	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
49	First Tier - First 265,000 Gals.	-	\$ 4.0282	\$ -	
50	Second Tier - Over 265,000 Gals.	-	\$ 5.0352	\$ -	
51	Third Tier - Over 265,000 Gals.	-	\$ 5.0352	\$ -	\$ -
52	4" Meter	3	\$ 460.00	\$ 16,743	\$ 16,743
	Commodity Usage (In Thousands of Gallons)				
53	First Tier - First 420,000 Gals.	5,318	\$ 4.0282	\$ 21,423	
54	Second Tier - Over 420,000 Gals.	2,735	\$ 5.0352	\$ 13,772	
55	Third Tier - Over 420,000 Gals.	-	\$ 5.0352	\$ -	\$ 35,195
56	6" Meter	-	\$ 920.00	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
57	First Tier - First 860,000 Gals.	-	\$ 4.0282	\$ -	
58	Second Tier - Over 860,000 Gals.	-	\$ 5.0352	\$ -	
59	Third Tier - Over 860,000 Gals.	-	\$ 5.0352	\$ -	\$ -
60	8" Meter	-	\$ 1,472.00	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
61	First Tier - First 1,390,000 Gals.	-	\$ 4.0282	\$ -	
62	Second Tier - Over 1,390,000 Gals.	-	\$ 5.0352	\$ -	
63	Third Tier - Over 1,390,000 Gals.	-	\$ 5.0352	\$ -	\$ -
64	10" Meter	-	\$ 2,116.00	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
65	First Tier - First 2,000,000 Gals.	-	\$ 4.0282	\$ -	
66	Second Tier - Over 2,000,000 Gals.	-	\$ 5.0352	\$ -	
67	Third Tier - Over 2,000,000 Gals.	-	\$ 5.0352	\$ -	\$ -
68	Total Commercial Customer Bills	<u>312</u>			
69	Total Commercial Usage	<u>89,567</u>			
70	TOTAL COMMERCIAL CUSTOMERS REVENUE			<u>\$ 574,595</u>	

EASTERN GROUP - BISBEE
RATE DESIGN AND PROOF OF RECOMMENDED REVENUE

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
INDUSTRIAL CUSTOMERS					
71	5/8" X 3/4" Meter		\$ 18.40	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
72	First Tier - First 999,999,999 Gals.		\$ 5.1415	\$ -	
73	Second Tier - Next 999,999,999 Gals.		\$ 5.1415	\$ -	
74	Third Tier - Over 999,999,999 Gals.		\$ 5.1415	\$ -	\$ -
75	1" Meter	1.0	\$ 46.00	\$ 552	\$ 552
	Commodity Usage (In Thousands of Gallons)				
76	First Tier - First 999,999,999 Gals.	38.5	\$ 5.1415	\$ 198	
77	Second Tier - Next 999,999,999 Gals.		\$ 5.1415	\$ -	
78	Third Tier - Over 999,999,999 Gals.		\$ 5.1415	\$ -	\$ 198
79	2" Meter	1.0	\$ 147.20	\$ 1,766	\$ 1,766
	Commodity Usage (In Thousands of Gallons)				
80	First Tier - First 999,999,999 Gals.		\$ 5.1415	\$ -	
81	Second Tier - Next 999,999,999 Gals.		\$ 5.1415	\$ -	
82	Third Tier - Over 999,999,999 Gals.		\$ 5.1415	\$ -	\$ -
83	3" Meter		\$ 294.40	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
84	First Tier - First 999,999,999 Gals.		\$ 5.1415	\$ -	
85	Second Tier - Next 999,999,999 Gals.		\$ 5.1415	\$ -	
86	Third Tier - Over 999,999,999 Gals.		\$ 5.1415	\$ -	\$ -
87	4" Meter		\$ 460.00	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
88	First Tier - First 999,999,999 Gals.		\$ 5.1415	\$ -	
89	Second Tier - Next 999,999,999 Gals.		\$ 5.1415	\$ -	
90	Third Tier - Over 999,999,999 Gals.		\$ 5.1415	\$ -	\$ -
91	6" Meter		\$ 920.00	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
92	First Tier - First 999,999,999 Gals.		\$ 5.1415	\$ -	
93	Second Tier - Next 999,999,999 Gals.		\$ 5.1415	\$ -	
94	Third Tier - Over 999,999,999 Gals.		\$ 5.1415	\$ -	\$ -
95	8" Meter		\$ 1,472.00	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
96	First Tier - First 999,999,999 Gals.		\$ 5.1415	\$ -	
97	Second Tier - Next 999,999,999 Gals.		\$ 5.1415	\$ -	
98	Third Tier - Over 999,999,999 Gals.		\$ 5.1415	\$ -	\$ -
99	10" Meter		\$ 2,116.00	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
100	First Tier - First 999,999,999 Gals.		\$ 5.1415	\$ -	
101	Second Tier - Next 999,999,999 Gals.		\$ 5.1415	\$ -	
102	Third Tier - Over 999,999,999 Gals.		\$ 5.1415	\$ -	\$ -
103	Total Industrial Customer Bills	<u>2</u>			
104	Total Industrial Usage	<u>39</u>			
105	TOTAL INDUSTRIAL CUSTOMERS REVENUE			<u>\$ 2,516</u>	

EASTERN GROUP - BISBEE
RATE DESIGN AND PROOF OF RECOMMENDED REVENUE

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
PRIVATE FIRE SERVICE CUSTOMERS					
106	5/8" Meter	14	\$ 28.50	\$ 4,845	\$ 4,845
107	1" Meter		\$ 28.50	\$ -	\$ -
108	2" Meter		\$ 28.50	\$ -	\$ -
109	3" Meter		\$ 28.50	\$ -	\$ -
110	4" Meter		\$ 28.50	\$ -	\$ -
111	6" Meter		\$ 28.50	\$ -	\$ -
112	8" Meter		\$ 28.50	\$ -	\$ -
113	10" Meter		\$ 28.50	\$ -	\$ -
114	Total Private Fire Service Customers	<u>14</u>			
115	TOTAL PRIVATE FIRE SERVICE CUSTOMERS REVENUE				<u>\$ 4,845</u>
OTHER WATER REVENUE CUSTOMERS					
116	Public Fire Hydrant		\$ -	\$ -	\$ -
117	Coin Machine		\$ -	\$ -	\$ -
118	Commodity Usage (In Thousands of Gallons)		\$ -	\$ -	\$ -
119	Construction Water 2" Meter		\$ 147.20	\$ -	\$ -
120	Commodity Usage (In Thousands of Gallons)				
	First Tier - First 125,000 Gals.		\$ 4.0282	\$ -	
121	Second Tier - Over 125,000 Gals.		\$ 5.0352	\$ -	
122	Third Tier - Over 125,000 Gals.		\$ 5.0352	\$ -	\$ -
123	Construction Water 3" Meter	3	\$ 294.40	\$ 9,715	\$ 9,715
124	Commodity Usage (In Thousands of Gallons)				
	First Tier - First 265,000 Gals.	1,627	\$ 4.0282	\$ 6,553	
125	Second Tier - Over 265,000 Gals.	7,052	\$ 5.0352	\$ 35,506	
126	Third Tier - Over 265,000 Gals.		\$ 5.0352	\$ -	\$ 42,059
127	Construction Water 4" Meter	0.4	\$ 460.00	\$ 2,300	\$ 2,300
128	Commodity Usage (In Thousands of Gallons)				
	First Tier - First 420,000 Gals.	1,254	\$ 4.0282	\$ 5,051	
129	Second Tier - Over 420,000 Gals.	5,779	\$ 5.0352	\$ 29,098	
130	Third Tier - Over 420,000 Gals.		\$ 5.0352	\$ -	\$ 34,150
131	Sales For Resales 2" Meter		\$ 147.20	\$ -	\$ -
132	Commodity Usage (In Thousands of Gallons)				
	First Tier - First 999,999,999 Gals.		\$ 4.0282	\$ -	
133	Second Tier - Next 999,999,999 Gals.		\$ 4.0282	\$ -	
134	Third Tier - Over 999,999,999 Gals.		\$ 4.0282	\$ -	\$ -
135	Sales For Resales 3" Meter		\$ 294.40	\$ -	\$ -
136	Commodity Usage (In Thousands of Gallons)				
	First Tier - First 999,999,999 Gals.		\$ 4.0282	\$ -	
137	Second Tier - Next 999,999,999 Gals.		\$ 4.0282	\$ -	
138	Third Tier - Over 999,999,999 Gals.		\$ 4.0282	\$ -	\$ -

EASTERN GROUP - BISBEE
RATE DESIGN AND PROOF OF RECOMMENDED REVENUE

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
139	Sales For Resales 6" Meter		\$ 920.00	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
140	First Tier - First 999,999,999 Gals.		\$ 4.0282	\$ -	
141	Second Tier - Next 999,999,999 Gals.		\$ 4.0282	\$ -	
142	Third Tier - Over 999,999,999 Gals.		\$ 4.0282	\$ -	\$ -
143	Total Other Water Revenue Customer Bills	<u>3</u>			
144	Total Other Water Revenue Usage	<u>15,711</u>			
145	TOTAL OTHER WATER CUSTOMERS REVENUE				<u>\$ 88,223</u>
146	RUCO TOTAL PROPOSED REVENUE PER BILL COUNT				<u>\$ 2,100,712</u>
147	Unreconciled Difference vs. Billed Revenues				36,491
148	Miscellaneous Revenues				
149	RUCO TOTAL REVENUE				<u>\$ 2,137,203</u>
150	RUCO ADJUSTED TEST-YEAR REVENUE PER SCHEDULE RBM-1				<u>\$ 2,137,203</u>
151	Difference				\$ -
152	Percentage Difference				0.00%

**EASTERN GROUP - BISBEE
 TYPICAL RESIDENTIAL BILL ANALYSIS**

LINE NO.	DESCRIPTION	(A) ORIGINAL RATES	(B) PRESENT ADDITIONAL ACRM / PPA SURCHARGES	(C) TOTAL PRESENT RATES	(D) COMPANY PROPOSED	(E) RUCO PROPOSED	(F) RUCO PROPOSED	(G) RUCO PROPOSED
1	RESIDENTIAL (5/8" X 3/4") RATE DESIGN	\$ 13.36	\$ -	\$ 13.36	\$ 20.00	\$ -	\$ 18.40	
	BASIC MONTHLY CHARGE							
2	COMMODITY CHARGE (Per 1,000 Gallons)							
3	1st Tier - First 3,000	\$ 3.6039	\$ -	\$ 3.6039	\$ 3.6039	\$ -	\$ 3.2225	
4	2nd Tier - Next 7,000	\$ 4.5049	\$ -	\$ 4.5049	\$ 4.5049	\$ -	\$ 4.0282	
5	3rd Tier - Over 10,000	\$ 5.6312	\$ -	\$ 5.6311	\$ 5.6311	\$ -	\$ 5.0353	

**AVERAGE RESIDENTIAL BILL COMPARISONS
 COST OF WATER SERVICE AT
 DIFFERENT LEVELS OF USAGE WITH
 PERCENTAGE INCREASE IN BILL**

LINE NO.	VARIABLE MONTHLY USAGE	PERCENT AVERAGE USAGE OF 4,832	PRESENT BASE RATE MONTHLY COST	PRESENT SURCHARGE MONTHLY COST	PRESENT TOTAL MONTHLY COST	RUCO MONTHLY COST	RUCO MONTHLY INCREASE	% MONTHLY INCREASE
5	1,208	25.00%	\$ 17.71	\$ -	\$ 17.71	\$ 22.29	\$ 4.58	25.85%
6	2,416	50.00%	\$ 22.07	\$ -	\$ 22.07	\$ 26.19	\$ 4.12	18.66%
7	4,832	100.00%	\$ 32.42	\$ -	\$ 32.42	\$ 35.45	\$ 3.02	9.32%
8	7,248	150.00%	\$ 40.21	\$ -	\$ 40.21	\$ 45.18	\$ 4.97	12.36%
9	9,664	200.00%	\$ 53.81	\$ -	\$ 53.81	\$ 54.91	\$ 1.10	2.04%

**MEDIAN RESIDENTIAL BILL COMPARISONS
 COST OF WATER SERVICE AT
 DIFFERENT LEVELS OF USAGE WITH
 PERCENTAGE INCREASE IN BILL**

LINE NO.	VARIABLE MONTHLY USAGE	PERCENT MEDIAN USAGE OF 3,308	PRESENT BASE RATE MONTHLY COST	PRESENT SURCHARGE MONTHLY COST	PRESENT TOTAL MONTHLY COST	RUCO MONTHLY COST	RUCO MONTHLY INCREASE	% MONTHLY INCREASE
10	827	25.00%	\$ 16.34	\$ -	\$ 16.34	\$ 21.07	\$ 4.72	28.91%
11	1,654	50.00%	\$ 19.32	\$ -	\$ 19.32	\$ 23.73	\$ 4.41	22.82%
12	3,308	100.00%	\$ 25.56	\$ -	\$ 25.56	\$ 29.31	\$ 3.75	14.67%
13	4,962	150.00%	\$ 33.01	\$ -	\$ 33.01	\$ 35.97	\$ 2.96	8.97%
14	6,616	200.00%	\$ 40.46	\$ -	\$ 40.46	\$ 42.63	\$ 2.17	5.37%

EASTERN GROUP - SIERRA VISTA
RATE DESIGN AND PROOF OF RECOMMENDED REVENUES

	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
RESIDENTIAL CUSTOMERS				
1	5/8" X 3/4" Meter	2,721	\$ 18.40	\$ 600,766
	Commodity Usage (In Thousands of Gallons)			\$ 600,766
2	First Tier - First 3,000 Gals.	88,117	\$ 1.5081	\$ 132,889
3	Second Tier - Next 7,000 Gals.	104,684	\$ 1.8851	\$ 197,339
4	Third Tier - Over 10,000 Gals.	68,226	\$ 2.3564	\$ 160,770
				\$ 490,997
5	1" Meter	59	\$ 46.00	\$ 32,644
	Commodity Usage (In Thousands of Gallons)			\$ 32,644
6	First Tier - First 35,000 Gals.	9,368	\$ 1.8851	\$ 17,659
7	Second Tier - Over 35,000 Gals.	1,661	\$ 2.3564	\$ 3,913
8	Third Tier - Over 35,000 Gals.	-	\$ 2.3564	\$ -
				\$ 21,572
9	2" Meter	1	\$ 147.20	\$ 1,771
	Commodity Usage (In Thousands of Gallons)			\$ 1,771
10	First Tier - First 125,000 Gals.	1,504	\$ 1.8851	\$ 2,834
11	Second Tier - Over 125,000 Gals.	8,084	\$ 2.3564	\$ 19,049
12	Third Tier - Over 125,000 Gals.	-	\$ 2.3564	\$ -
				\$ 21,883
13	3" Meter	-	\$ 294.40	\$ -
	Commodity Usage (In Thousands of Gallons)			\$ -
14	First Tier - First 265,000 Gals.	-	\$ 1.8851	\$ -
15	Second Tier - Over 265,000 Gals.	-	\$ 2.3564	\$ -
16	Third Tier - Over 265,000 Gals.	-	\$ 2.3564	\$ -
				\$ -
17	4" Meter	-	\$ 460.00	\$ -
	Commodity Usage (In Thousands of Gallons)			\$ -
18	First Tier - First 420,000 Gals.	-	\$ 1.8851	\$ -
19	Second Tier - Over 420,000 Gals.	-	\$ 2.3564	\$ -
20	Third Tier - Over 420,000 Gals.	-	\$ 2.3564	\$ -
				\$ -
21	6" Meter	-	\$ 920.00	\$ -
	Commodity Usage (In Thousands of Gallons)			\$ -
22	First Tier - First 860,000 Gals.	-	\$ 1.8851	\$ -
23	Second Tier - Over 860,000 Gals.	-	\$ 2.3564	\$ -
24	Third Tier - Over 860,000 Gals.	-	\$ 2.3564	\$ -
				\$ -
25	8" Meter	-	\$ 1,472.00	\$ -
	Commodity Usage (In Thousands of Gallons)			\$ -
26	First Tier - First 1,300,000 Gals.	-	\$ 1.8851	\$ -
27	Second Tier - Over 1,300,000 Gals.	-	\$ 2.3564	\$ -
28	Third Tier - Over 1,300,000 Gals.	-	\$ 2.3564	\$ -
				\$ -
29	10" Meter	-	\$ 2,944.00	\$ -
	Commodity Usage (In Thousands of Gallons)			\$ -
30	First Tier - First 2,000,000 Gals.	-	\$ 1.8851	\$ -
31	Second Tier - Over 2,000,000 Gals.	-	\$ 2.3564	\$ -
32	Third Tier - Over 2,000,000 Gals.	-	\$ 2.3564	\$ -
				\$ -
33	Total Residential Customer Bills	<u>2,781</u>		
34	Total Residential Usage	<u>281,642</u>		
35	TOTAL RESIDENTIAL CUSTOMERS REVENUE			<u>\$ 1,169,633</u>

**EASTERN GROUP - SIERRA VISTA
RATE DESIGN AND PROOF OF RECOMMENDED REVENUES**

	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
COMMERCIAL CUSTOMERS				
36	5/8" X 3/4" Meter	62	\$ 18.40	\$ 13,624
	Commodity Usage (In Thousands of Gallons)			\$ 13,624
37	First Tier - First 10,000 Gals.	3,202	\$ 1,8851	\$ 6,036
38	Second Tier - Over 10,000 Gals.	2,202	\$ 2,3564	\$ 5,189
39	Third Tier - Over 10,000 Gals.	-	\$ 2,3564	\$ -
40	1" Meter	41	\$ 46.00	\$ 22,722
	Commodity Usage (In Thousands of Gallons)			\$ 22,722
41	First Tier - First 35,000 Gals.	6,683	\$ 1,8851	\$ 12,597
42	Second Tier - Over 35,000 Gals.	2,745	\$ 2,3564	\$ 6,468
43	Third Tier - Over 35,000 Gals.	-	\$ 2,3564	\$ -
44	2" Meter	44	\$ 147.20	\$ 77,998
	Commodity Usage (In Thousands of Gallons)			\$ 77,998
45	First Tier - First 125,000 Gals.	32,013	\$ 1,8851	\$ 60,347
46	Second Tier - Over 125,000 Gals.	11,298	\$ 2,3564	\$ 26,623
47	Third Tier - Over 125,000 Gals.	-	\$ 2,3564	\$ -
48	3" Meter	7	\$ 294.40	\$ 24,677
	Commodity Usage (In Thousands of Gallons)			\$ 24,677
49	First Tier - First 265,000 Gals.	12,259	\$ 1,8851	\$ 23,108
50	Second Tier - Over 265,000 Gals.	7,064	\$ 2,3564	\$ 16,645
51	Third Tier - Over 265,000 Gals.	-	\$ 2,3564	\$ -
52	4" Meter	3	\$ 460.00	\$ 16,525
	Commodity Usage (In Thousands of Gallons)			\$ 16,525
53	First Tier - First 420,000 Gals.	10,346	\$ 1,8851	\$ 19,503
54	Second Tier - Over 420,000 Gals.	6,045	\$ 2,3564	\$ 14,244
55	Third Tier - Over 420,000 Gals.	-	\$ 2,3564	\$ -
56	6" Meter		\$ 920.00	\$ -
	Commodity Usage (In Thousands of Gallons)			\$ -
57	First Tier - First 860,000 Gals.	-	\$ 1,8851	\$ -
58	Second Tier - Over 860,000 Gals.	-	\$ 2,3564	\$ -
59	Third Tier - Over 860,000 Gals.	-	\$ 2,3564	\$ -
60	8" Meter	-	\$ 1,472.00	\$ -
	Commodity Usage (In Thousands of Gallons)			\$ -
61	First Tier - First 1,390,000 Gals.	-	\$ 1,8851	\$ -
62	Second Tier - Over 1,390,000 Gals.	-	\$ 2,3564	\$ -
63	Third Tier - Over 1,390,000 Gals.	-	\$ 2,3564	\$ -
64	10" Meter	-	\$ 2,944.00	\$ -
	Commodity Usage (In Thousands of Gallons)			\$ -
65	First Tier - First 2,000,000 Gals.	-	\$ 1,8851	\$ -
66	Second Tier - Over 2,000,000 Gals.	-	\$ 2,3564	\$ -
67	Third Tier - Over 2,000,000 Gals.	-	\$ 2,3564	\$ -
68	Total Commercial Customer Bills	<u>157</u>		
69	Total Commercial Usage	<u>93,855</u>		
70	TOTAL COMMERCIAL CUSTOMERS REVENUE			<u>\$ 346,306</u>

**EASTERN GROUP - SIERRA VISTA
RATE DESIGN AND PROOF OF RECOMMENDED REVENUES**

	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
INDUSTRIAL CUSTOMERS				
71	5/8" X 3/4" Meter	\$ 18.40	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)			
72	First Tier - First 999,999,999 Gals.	\$ 3,5800	\$ -	
73	Second Tier - Next 999,999,999 Gals.	\$ 3,5800	\$ -	
74	Third Tier - Over 999,999,999 Gals.	\$ 3,5800	\$ -	\$ -
75	1" Meter	\$ 46.00	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)			
76	First Tier - First 999,999,999 Gals.	\$ 3,5800	\$ -	
77	Second Tier - Next 999,999,999 Gals.	\$ 3,5800	\$ -	
78	Third Tier - Over 999,999,999 Gals.	\$ 3,5800	\$ -	\$ -
79	2" Meter	\$ 147.20	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)			
80	First Tier - First 999,999,999 Gals.	\$ 3,5800	\$ -	
81	Second Tier - Next 999,999,999 Gals.	\$ 3,5800	\$ -	
82	Third Tier - Over 999,999,999 Gals.	\$ 3,5800	\$ -	\$ -
83	3" Meter	\$ 294.40	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)			
84	First Tier - First 999,999,999 Gals.	\$ 3,5800	\$ -	
85	Second Tier - Next 999,999,999 Gals.	\$ 3,5800	\$ -	
86	Third Tier - Over 999,999,999 Gals.	\$ 3,5800	\$ -	\$ -
87	4" Meter	\$ 460.00	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)			
88	First Tier - First 999,999,999 Gals.	\$ 3,5800	\$ -	
89	Second Tier - Next 999,999,999 Gals.	\$ 3,5800	\$ -	
90	Third Tier - Over 999,999,999 Gals.	\$ 3,5800	\$ -	\$ -
91	6" Meter	\$ 920.00	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)			
92	First Tier - First 999,999,999 Gals.	\$ 3,5800	\$ -	
93	Second Tier - Next 999,999,999 Gals.	\$ 3,5800	\$ -	
94	Third Tier - Over 999,999,999 Gals.	\$ 3,5800	\$ -	\$ -
95	8" Meter	\$ 1,472.00	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)			
96	First Tier - First 999,999,999 Gals.	\$ 3,5800	\$ -	
97	Second Tier - Next 999,999,999 Gals.	\$ 3,5800	\$ -	
98	Third Tier - Over 999,999,999 Gals.	\$ 3,5800	\$ -	\$ -
99	10" Meter	\$ 2,116.00	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)			
100	First Tier - First 999,999,999 Gals.	\$ 3,5800	\$ -	
101	Second Tier - Next 999,999,999 Gals.	\$ 3,5800	\$ -	
102	Third Tier - Over 999,999,999 Gals.	\$ 3,5800	\$ -	\$ -
103	Total Industrial Customer Bills	<u>-</u>		
104	Total Industrial Usage	<u>-</u>		
105	TOTAL INDUSTRIAL CUSTOMERS REVENUE			<u>\$ -</u>

**EASTERN GROUP - SIERRA VISTA
RATE DESIGN AND PROOF OF RECOMMENDED REVENUES**

	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
PRIVATE FIRE SERVICE CUSTOMERS				
106	5/8" Meter	44 \$	28.50 \$	15,048 \$
107	1" Meter		28.50 \$	- \$
108	2" Meter		28.50 \$	- \$
109	3" Meter		28.50 \$	- \$
110	4" Meter		28.50 \$	- \$
111	6" Meter		28.50 \$	- \$
112	8" Meter		28.50 \$	- \$
113	10" Meter		28.50 \$	- \$
114	Total Private Fire Service Customers	<u>44</u>		
115	TOTAL PRIVATE FIRE SERVICE CUSTOMERS REVENUE			<u>\$ 15,048</u>
OTHER WATER REVENUE CUSTOMERS				
116	Public Fire Hydrant	- \$	- \$	- \$
117	Coin Machine	- \$	- \$	- \$
118	Commodity Usage (In Thousands of Gallons)	-		
119	Construction Water 2" Meter	- \$	147.20 \$	- \$
120	Commodity Usage (In Thousands of Gallons)			
	First Tier - First 125,000 Gals.	- \$	1,883.33 \$	- \$
121	Second Tier - Over 125,000 Gals.	- \$	2,356.64 \$	- \$
122	Third Tier - Over 125,000 Gals.	- \$	2,356.64 \$	- \$
123	Construction Water 3" Meter	2 \$	294.40 \$	7,654 \$
124	Commodity Usage (In Thousands of Gallons)			
	First Tier - First 265,000 Gals.	1,490 \$	1,883.33 \$	2,806 \$
125	Second Tier - Over 265,000 Gals.	1,223 \$	2,356.64 \$	2,882 \$
126	Third Tier - Over 265,000 Gals.	- \$	2,356.64 \$	- \$
127	Construction Water 4" Meter	0 \$	460.00 \$	1,840 \$
128	Commodity Usage (In Thousands of Gallons)			
	First Tier - First 420,000 Gals.	5 \$	1,883.33 \$	9 \$
129	Second Tier - Over 420,000 Gals.	- \$	2,356.64 \$	- \$
130	Third Tier - Over 420,000 Gals.	- \$	2,356.64 \$	- \$
131	Sales For Resales 2" Meter	- \$	147.20 \$	- \$
132	Commodity Usage (In Thousands of Gallons)			
	First Tier - First 999,999,999 Gals.	- \$	1,885.1 \$	- \$
133	Second Tier - Next 999,999,999 Gals.	- \$	1,885.1 \$	- \$
134	Third Tier - Over 999,999,999 Gals.	- \$	1,885.1 \$	- \$
135	Sales For Resales 3" Meter	- \$	294.40 \$	- \$
136	Commodity Usage (In Thousands of Gallons)			
	First Tier - First 999,999,999 Gals.	- \$	1,885.1 \$	- \$
137	Second Tier - Next 999,999,999 Gals.	- \$	1,885.1 \$	- \$
138	Third Tier - Over 999,999,999 Gals.	- \$	1,885.1 \$	- \$

**EASTERN GROUP - SIERRA VISTA
RATE DESIGN AND PROOF OF RECOMMENDED REVENUES**

	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
139	Sales For Resales 6" Meter Commodity Usage (In Thousands of Gallons)	-	\$ 920.00	\$ -
140	First Tier - First 999,999,999 Gals.	-	\$ 1,8851	\$ -
141	Second Tier - Next 999,999,999 Gals.	-	\$ 1,8851	\$ -
142	Third Tier - Over 999,999,999 Gals.	-	\$ 1,8851	\$ -
143	Total Other Water Revenue Customer Bills	<u>2</u>		
144	Total Other Water Revenue Usage	<u>2,713</u>		
145	TOTAL OTHER WATER CUSTOMERS REVENUE			<u>\$ 15,192</u>
146	RUCO TOTAL PROPOSED REVENUE PER BILL COUNT			<u>\$ 1,546,179</u>
147	Unreconciled Difference vs. Billed Revenues			\$ -
148	Miscellaneous Revenues			18,108
149	RUCO TOTAL REVENUE			<u>\$ 1,564,287</u>
150	RUCO ADJUSTED TEST-YEAR REVENUE PER SCHEDULE RBM-1			<u>\$ 1,564,287</u>
151	Difference			\$ (0)
152	Percentage Difference			0.00%

**EASTERN GROUP - SIERRA VISTA
 TYPICAL RESIDENTIAL BILL ANALYSIS**

LINE NO.	DESCRIPTION	(A) ORIGINAL RATES	(B) PRESENT ADDITIONAL ACRM / PPA SURCHARGES	(C) TOTAL PRESENT RATES	(D) COMPANY PROPOSED	(E) RUCO PROPOSED	(F) RUCO PROPOSED	(G) RUCO PROPOSED
1	RESIDENTIAL (5/8" X 3/4") RATE DESIGN	\$ 13.36	\$ -	\$ 13.36	\$ 20.00		\$ 18.40	
	BASIC MONTHLY CHARGE							
2	COMMODITY CHARGE (Per 1,000 Gallons)							
3	1st Tier - First	\$ 3,000	\$ -	\$ 1,3626	\$ 1,6700		\$ 1,5081	
4	2nd Tier - Next	\$ 7,000	\$ -	\$ 1,7032	\$ 2,0881		\$ 1,8851	
5	3rd Tier - Over	\$ 10,000	\$ -	\$ 2,1290	\$ 2,6102		\$ 2,3564	

**AVERAGE RESIDENTIAL BILL COMPARISONS
 COST OF WATER SERVICE AT
 DIFFERENT LEVELS OF USAGE WITH
 PERCENTAGE INCREASE IN BILL**

VARIABLE MONTHLY USAGE	PERCENT AVERAGE USAGE OF 7,995	PRESENT BASE RATE MONTHLY COST	PRESENT SURCHARGE MONTHLY COST	PRESENT TOTAL MONTHLY COST	RUCO MONTHLY COST	RUCO MONTHLY INCREASE	% MONTHLY INCREASE
1,999	25.00%	\$ 16.08	\$ -	\$ 16.08	\$ 21.41	\$ 5.33	33.14%
3,998	50.00%	\$ 19.15	\$ -	\$ 19.15	\$ 24.80	\$ 5.66	29.55%
7,995	100.00%	\$ 25.96	\$ -	\$ 25.96	\$ 32.34	\$ 6.39	24.60%
11,993	150.00%	\$ 33.61	\$ -	\$ 33.61	\$ 40.82	\$ 7.20	21.43%
15,990	200.00%	\$ 42.12	\$ -	\$ 42.12	\$ 50.23	\$ 8.11	19.26%

**MEDIAN RESIDENTIAL BILL COMPARISONS
 COST OF WATER SERVICE AT
 DIFFERENT LEVELS OF USAGE WITH
 PERCENTAGE INCREASE IN BILL**

VARIABLE MONTHLY USAGE	PERCENT MEDIAN USAGE OF 5,610	PRESENT BASE RATE MONTHLY COST	PRESENT SURCHARGE MONTHLY COST	PRESENT TOTAL MONTHLY COST	RUCO MONTHLY COST	RUCO MONTHLY INCREASE	% MONTHLY INCREASE
1,403	25.00%	\$ 15.27	\$ -	\$ 15.27	\$ 20.52	\$ 5.24	34.34%
2,805	50.00%	\$ 17.12	\$ -	\$ 17.12	\$ 22.56	\$ 5.44	31.79%
5,610	100.00%	\$ 21.89	\$ -	\$ 21.89	\$ 27.84	\$ 5.95	27.18%
8,415	150.00%	\$ 26.67	\$ -	\$ 26.67	\$ 33.13	\$ 6.46	24.23%
11,220	200.00%	\$ 31.97	\$ -	\$ 31.97	\$ 38.99	\$ 7.03	21.98%

**EASTERN GROUP - FALCON VALLEY
RATE DESIGN AND PROOF OF RECOMMENDED REVENUES**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
RESIDENTIAL CUSTOMERS					
1	5/8" X 3/4" Meter	2,824	\$ 21.59	\$ 731,599	\$ 731,599
	Commodity Usage (in "000" of gallons)				
2	First Tier - First 3,000 Gals.	85,318	\$ 4.5405	\$ 387,392	
3	Second Tier - Next 7,000 Gals.85,	356	\$ 5.6756	\$ 484,452	
4	Third Tier - Over 10,000 Gals.	35,246	\$ 7.0946	\$ 250,057	\$ 1,121,902
5	1" Meter	82	\$ 53.98	\$ 52,982	\$ 52,982
	Commodity Usage (In Thousands of Gallons)				
6	First Tier - First 30,000 Gals.	6,182	\$ 5.6756	\$ 35,088	
7	Second Tier - Over 30,000 Gals.	4,110	\$ 7.0946	\$ 29,159	
8	Third Tier - Over 30,000 Gals.		\$ 7.0946		\$ 64,247
9	2" Meter	0.4	\$ 172.72	\$ 859	\$ 859
	Commodity Usage (In Thousands of Gallons)				
10	First Tier - First 100,000 Gals.	448	\$ 5.6756	\$ 2,540	
11	Second Tier - Over 100,000 Gals.	652	\$ 7.0946	\$ 4,624	
12	Third Tier - Over 100,000 Gals.	-	\$ 7.0946	\$ -	\$ 7,164
13	3" Meter	-	\$ 345.45	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
14	First Tier - First 220,000 Gals.	-	\$ 5.6756	\$ -	
15	Second Tier - Over 220,000 Gals.	-	\$ 7.0946	\$ -	
16	Third Tier - Over 220,000 Gals.	-	\$ 7.0946	\$ -	\$ -
17	4" Meter	-	\$ 539.76	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
18	First Tier - First 350,000 Gals.	-	\$ 5.6756	\$ -	
19	Second Tier - Over 350,000 Gals.	-	\$ 7.0946	\$ -	
20	Third Tier - Over 350,000 Gals.	-	\$ 7.0946	\$ -	\$ -
21	6" Meter	-	\$ 1,079.52	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
22	First Tier - First 725,000 Gals.	-	\$ 5.6756	\$ -	
23	Second Tier - Over 725,000 Gals.	-	\$ 7.0946	\$ -	
24	Third Tier - Over 725,000 Gals.	-	\$ 7.0946	\$ -	\$ -
25	8" Meter	-	\$ 1,727.23	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
26	First Tier - First 1,175,000 Gals.	-	\$ 5.6756	\$ -	
27	Second Tier - Over 1,175,000 Gals.	-	\$ 7.0946	\$ -	
28	Third Tier - Over 1.175,000 Gals.	-	\$ 7.0946	\$ -	\$ -
29	10" Meter	-	\$ 2,482.89	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
30	First Tier - First 1,700,000 Gals.	-	\$ 5.6756	\$ -	
31	Second Tier - Over 1,700,000 Gals.	-	\$ 7.0946	\$ -	
32	Third Tier - Over 1,700,000 Gals.	-	\$ 7.0946	\$ -	\$ -
33	Total Residential Customer Bills	<u>2,906</u>			
34	Total Residential Usage	<u>217,313</u>			
35	TOTAL RESIDENTIAL CUSTOMERS REVENUE			<u>\$ 1,978,751</u>	

**EASTERN GROUP - FALCON VALLEY
RATE DESIGN AND PROOF OF RECOMMENDED REVENUES**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
COMMERCIAL CUSTOMERS					
36	5/8" X 3/4" Meter	119	\$ 21.59	\$ 30,944	\$ 30,944
	Commodity Usage (In Thousands of Gallons)				
37	First Tier - First 10,000 Gals.	5,036	\$ 5.6756	\$ 28,583	
38	Second Tier - Over 10,000 Gals.	2,809	\$ 7.0946	\$ 19,925	
39	Third Tier - Over 10,000 Gals.				\$ 48,508
40	1" Meter	32	\$ 53.98	\$ 20,767	\$ 20,767
	Commodity Usage (In Thousands of Gallons)				
41	First Tier - First 30,000 Gals.	2,935	\$ 5.6756	\$ 16,659	
42	Second Tier - Over 30,000 Gals.	1,365	\$ 7.0946	\$ 9,684	
43	Third Tier - Over 30,000 Gals.	-	\$ 7.0946	\$ -	\$ 26,344
44	2" Meter	20	\$ 172.72	\$ 41,142	\$ 41,142
	Commodity Usage (In Thousands of Gallons)				
45	First Tier - First 100,000 Gals.	18,606	\$ 5.6756	\$ 105,603	
46	Second Tier - Over 100,000 Gals.	6,968	\$ 7.0946	\$ 49,432	
47	Third Tier - Over 100,000 Gals.	-	\$ 7.0946	\$ -	\$ 155,035
48	3" Meter	2	\$ 345.45	\$ 7,181	\$ 7,181
	Commodity Usage (In Thousands of Gallons)				
49	First Tier - First 220,000 Gals.	1,325	\$ 5.6756	\$ 7,523	
50	Second Tier - Over 220,000 Gals.	-	\$ 7.0946	\$ -	
51	Third Tier - Over 220,000 Gals.	-	\$ 7.0946	\$ -	\$ 7,523
52	4" Meter	1	\$ 539.76	\$ 6,401	\$ 6,401
	Commodity Usage (In Thousands of Gallons)				
53	First Tier - First 350,000 Gals.	1,425	\$ 5.6756	\$ 8,088	
54	Second Tier - Over 350,000 Gals.	-	\$ 7.0946	\$ -	
55	Third Tier - Over 350,000 Gals.	-	\$ 7.0946	\$ -	\$ 8,088
56	6" Meter	4	\$ 1,079.52	\$ 50,925	\$ 50,925
	Commodity Usage (In Thousands of Gallons)				
57	First Tier - First 725,000 Gals.	9,747	\$ 5.6756	\$ 55,323	
58	Second Tier - Over 725,000 Gals.	1,869	\$ 7.0946	\$ 13,261	
59	Third Tier - Over 725,000 Gals.	-	\$ 7.0946	\$ -	\$ 68,584
60	8" Meter	-	\$ 1,727.23	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
61	First Tier - First 1,175,000 Gals.	-	\$ 5.6756	\$ -	
62	Second Tier - Over 1,175,000 Gals.	-	\$ 7.0946	\$ -	
63	Third Tier - Over 1,175,000 Gals.	-	\$ 7.0946	\$ -	\$ -
64	10" Meter	-	\$ 2,482.89	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
65	First Tier - First 1,700,000 Gals.	-	\$ 5.6756	\$ -	
66	Second Tier - Over 1,700,000 Gals.	-	\$ 7.0946	\$ -	
67	Third Tier - Over 1,700,000 Gals.	-	\$ 7.0946	\$ -	\$ -
68	Total Commercial Customer Bills	<u>178</u>			
69	Total Commercial Usage	<u>52,086</u>			
70	TOTAL COMMERCIAL CUSTOMERS REVENUE			<u>\$</u>	<u>471,442</u>

**EASTERN GROUP - FALCON VALLEY
RATE DESIGN AND PROOF OF RECOMMENDED REVENUES**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
INDUSTRIAL CUSTOMERS					
71	5/8" X 3/4" Meter		\$ 21.59	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
72	First Tier - First 999,999,999 Gals.		\$ 2.3468	\$ -	
73	Second Tier - Next 999,999,999 Gals.		\$ 2.3468	\$ -	
74	Third Tier - Over 999,999,999 Gals.		\$ 2.3468	\$ -	\$ -
75	1" Meter		\$ 53.98	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
76	First Tier - First 999,999,999 Gals.		\$ 2.3468	\$ -	
77	Second Tier - Next 999,999,999 Gals.		\$ 2.3468	\$ -	
78	Third Tier - Over 999,999,999 Gals.		\$ 2.3468	\$ -	\$ -
79	2" Meter		\$ 172.72	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
80	First Tier - First 999,999,999 Gals.		\$ 2.3468	\$ -	
81	Second Tier - Next 999,999,999 Gals.		\$ 2.3468	\$ -	
82	Third Tier - Over 999,999,999 Gals.		\$ 2.3468	\$ -	\$ -
83	3" Meter		\$ 345.45	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
84	First Tier - First 999,999,999 Gals.		\$ 2.3468	\$ -	
85	Second Tier - Next 999,999,999 Gals.		\$ 2.3468	\$ -	
86	Third Tier - Over 999,999,999 Gals.		\$ 2.3468	\$ -	\$ -
87	4" Meter		\$ 539.76	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
88	First Tier - First 999,999,999 Gals.		\$ 2.3468	\$ -	
89	Second Tier - Next 999,999,999 Gals.		\$ 2.3468	\$ -	
90	Third Tier - Over 999,999,999 Gals.		\$ 2.3468	\$ -	\$ -
91	6" Meter		\$ 1,079.52	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
92	First Tier - First 999,999,999 Gals.		\$ 2.3468	\$ -	
93	Second Tier - Next 999,999,999 Gals.		\$ 2.3468	\$ -	
94	Third Tier - Over 999,999,999 Gals.		\$ 2.3468	\$ -	\$ -
95	8" Meter		\$ 1,727.23	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
96	First Tier - First 999,999,999 Gals.		\$ 2.3468	\$ -	
97	Second Tier - Next 999,999,999 Gals.		\$ 2.3468	\$ -	
98	Third Tier - Over 999,999,999 Gals.		\$ 2.3468	\$ -	\$ -
99	10" Meter		\$ 2,482.89	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
100	First Tier - First 999,999,999 Gals.		\$ 2.3468	\$ -	
101	Second Tier - Next 999,999,999 Gals.		\$ 2.3468	\$ -	
102	Third Tier - Over 999,999,999 Gals.		\$ 2.3468	\$ -	\$ -
103	Total Industrial Customer Bills		-		
104	Total Industrial Usage		-		
105	TOTAL INDUSTRIAL CUSTOMERS REVENUE			\$ -	\$ -

**EASTERN GROUP - FALCON VALLEY
RATE DESIGN AND PROOF OF RECOMMENDED REVENUES**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
PRIVATE FIRE SERVICE CUSTOMERS					
106	5/8" Meter	3	\$ 27.00	\$ 1,107	\$ 1,107
107	1" Meter		\$ 27.00	\$ -	\$ -
108	2" Meter		\$ 27.00	\$ -	\$ -
109	3" Meter		\$ 27.00	\$ -	\$ -
110	4" Meter		\$ 27.00	\$ -	\$ -
111	6" Meter		\$ 27.00	\$ -	\$ -
112	8" Meter		\$ 27.00	\$ -	\$ -
113	10" Meter		\$ 27.00	\$ -	\$ -
114	Total Private Fire Service Customers	<u>3</u>			
115	TOTAL PRIVATE FIRE SERVICE CUSTOMERS REVENUE				<u>\$ 1,107</u>
OTHER WATER REVENUE CUSTOMERS					
116	Public Fire Hydrant		\$ -	\$ -	\$ -
117	Coin Machine		\$ -	\$ -	\$ -
118	Commodity Usage (In Thousands of Gallons)		\$ -	\$ -	\$ -
119	Construction Water 2" Meter		\$ 172.72	\$ -	\$ -
120	Commodity Usage (In Thousands of Gallons)				
	First Tier - First 100,000 Gals.		\$ 5.6756	\$ -	
121	Second Tier - Over 100,000 Gals.		\$ 7.0946	\$ -	
122	Third Tier - Over 100,000 Gals.		\$ 7.0946	\$ -	\$ -
123	Construction Water 3" Meter	4	\$ 345.45	\$ 16,581	\$ 16,581
124	Commodity Usage (In Thousands of Gallons)				
	First Tier - First 220,000 Gals.	4,837	\$ 5.6756	\$ 27,452	
125	Second Tier - Over 220,000 Gals.	176	\$ 7.0946	\$ 1,248	
126	Third Tier - Over 220,000 Gals.	-	\$ 7.0946	\$ -	\$ 28,700
127	Construction Water 4" Meter		\$ 539.76	\$ -	\$ -
128	Commodity Usage (In Thousands of Gallons)				
	First Tier - First 350,000 Gals.		\$ 5.6756	\$ -	
129	Second Tier - Over 350,000 Gals.		\$ 7.0946	\$ -	
130	Third Tier - Over 350,000 Gals.		\$ 7.0946	\$ -	\$ -
131	Sales For Resales 2" Meter		\$ 172.72	\$ -	\$ -
132	Commodity Usage (In Thousands of Gallons)				
	First Tier - First 999,999,999 Gals.		\$ 5.6756	\$ -	
133	Second Tier - Next 999,999,999 Gals.		\$ 5.6756	\$ -	
134	Third Tier - Over 999,999,999 Gals.		\$ 5.6756	\$ -	\$ -
135	Sales For Resales 3" Meter		\$ 345.45	\$ -	\$ -
136	Commodity Usage (In Thousands of Gallons)				
	First Tier - First 999,999,999 Gals.		\$ 5.6756	\$ -	
137	Second Tier - Next 999,999,999 Gals.		\$ 5.6756	\$ -	
138	Third Tier - Over 999,999,999 Gals.		\$ 5.6756	\$ -	\$ -

**EASTERN GROUP - FALCON VALLEY
RATE DESIGN AND PROOF OF RECOMMENDED REVENUES**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
139	Sales For Resales 6" Meter		\$ 1,079.52	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
140	First Tier - First 999,999,999 Gals.		\$ 5.6756	\$ -	
141	Second Tier - Next 999,999,999 Gals.		\$ 5.6756	\$ -	
142	Third Tier - Over 999,999,999 Gals.		\$ 5.6756	\$ -	\$ -
143	Total Other Water Revenue Customer Bills	<u>4</u>			
144	Total Other Water Revenue Usage	<u>5,013</u>			
145	TOTAL OTHER WATER CUSTOMERS REVENUE				<u>\$ 45,281</u>
146	RUCO TOTAL PROPOSED REVENUE PER BILL COUNT				<u>\$ 2,496,581</u>
147	Unreconciled Difference vs. Billed Revenues			\$ -	
148	Miscellaneous Revenues				12,494
149	RUCO TOTAL REVENUE				<u>\$ 2,509,075</u>
150	RUCO ADJUSTED TEST-YEAR REVENUE PER SCHEDULES RBM-1				<u>\$ 2,509,076</u>
151	Difference			\$ -	
152	Percentage Difference				0.00%

**EASTERN GROUP - ORACLE
 TYPICAL RESIDENTIAL BILL ANALYSIS**

LINE NO.	DESCRIPTION	ORIGINAL RATES		PRESENT ADDITIONAL ACRM / PPA SURCHARGES		TOTAL PRESENT RATES		(D)	(E)	(F)	(G)
		\$	19.83	\$	-	\$	19.83					$	21.59
1	BASIC MONTHLY CHARGE							23.00			
COMMODITY CHARGE (Per 1,000 Gallons)											
2	1st Tier - First 3,000	\$ 4.0922		\$ -		\$ 4.0922		4.8370		\$ 4.5405	
3	2nd Tier - Next 7,000	\$ 5.1151		\$ -		\$ 5.1151		6.0462		\$ 5.6756	
4	3rd Tier - Over 10,000	\$ 6.3938		\$ -		\$ 6.3938		7.5578		\$ 7.0946	
AVERAGE RESIDENTIAL BILL COMPARISONS											
COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL											
5		1,285	25.00%	\$ 25.09		\$ -		25.09	\$ 27.42	\$ 2.34	9.31%
6		2,570	50.00%	\$ 30.35		\$ -		30.35	\$ 33.26	\$ 2.91	9.60%
7		5,140	100.00%	\$ 43.05		\$ -		43.05	\$ 47.36	\$ 4.30	10.00%
8		7,710	150.00%	\$ 56.20		\$ -		56.20	\$ 61.94	\$ 5.75	10.22%
9		10,280	200.00%	\$ 69.70		\$ -		69.70	\$ 76.93	\$ 7.23	10.37%
MEDIAN RESIDENTIAL BILL COMPARISONS											
COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL											
10		990	25.00%	\$ 23.88		\$ -		23.88	\$ 26.08	\$ 2.20	9.23%
11		1,979	50.00%	\$ 27.93		\$ -		27.93	\$ 30.58	\$ 2.65	9.48%
12		3,958	100.00%	\$ 37.01		\$ -		37.01	\$ 40.65	\$ 3.64	9.84%
13		5,937	150.00%	\$ 47.13		\$ -		47.13	\$ 51.88	\$ 4.75	10.08%
14		7,916	200.00%	\$ 57.25		\$ -		57.25	\$ 63.11	\$ 5.86	10.24%

**EASTERN GROUP - FALCON VALLEY (SAN MANUEL)
 TYPICAL RESIDENTIAL BILL ANALYSIS**

LINE NO.	DESCRIPTION	(A) ORIGINAL RATES	(B) PRESENT ADDITIONAL ACRM / PPA SURCHARGES	(C) TOTAL PRESENT RATES	(D) COMPANY PROPOSED	(E) RUCO PROPOSED	(F) RUCO PROPOSED	(G) RUCO PROPOSED
1	RESIDENTIAL (5/8" X 3/4") RATE DESIGN	21.52	-	21.52	23.00		21.59	
	BASIC MONTHLY CHARGE							
2	COMMODITY CHARGE (Per 1,000 Gallons)							
3	1st Tier - First 3,000	2.7022	-	2.7022	4.8370		4.5405	
4	2nd Tier - Next 7,000	3.3775	-	3.3775	6.0462		5.6756	
5	3rd Tier - Over 10,000	4.2221	-	4.2221	7.5578		7.0846	

AVERAGE RESIDENTIAL BILL COMPARISONS

LINE NO.	COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL	VARIABLE MONTHLY USAGE	PERCENT AVERAGE OF USAGE OF 7,139	PRESENT BASE RATE MONTHLY COST	PRESENT SURCHARGE MONTHLY COST	PRESENT TOTAL MONTHLY COST	RUCO MONTHLY COST	RUCO MONTHLY INCREASE	% MONTHLY INCREASE
5		1,785	25.00%	26.34	-	26.34	29.69	3.35	12.72%
6		3,570	50.00%	31.55	-	31.55	38.44	6.89	21.85%
7		7,139	100.00%	43.61	-	43.61	58.70	15.10	34.62%
8		10,709	150.00%	56.26	-	56.26	79.97	23.71	42.14%
9		14,278	200.00%	71.33	-	71.33	105.29	33.96	47.61%

MEDIAN RESIDENTIAL BILL COMPARISONS

LINE NO.	COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL	VARIABLE MONTHLY USAGE	PERCENT MEDIAN USAGE OF 5,425	PRESENT BASE RATE MONTHLY COST	PRESENT SURCHARGE MONTHLY COST	PRESENT TOTAL MONTHLY COST	RUCO MONTHLY COST	RUCO MONTHLY INCREASE	% MONTHLY INCREASE
10		1,356	25.00%	25.18	-	25.18	27.75	2.56	10.18%
11		2,713	50.00%	28.85	-	28.85	33.91	5.06	17.53%
12		5,425	100.00%	37.82	-	37.82	48.98	11.16	29.51%
13		8,138	150.00%	46.98	-	46.98	64.37	17.39	37.02%
14		10,850	200.00%	56.86	-	56.86	80.97	24.11	42.41%

**EASTERN GROUP - FALCON VALLEY (SADDLEBROOKE RANCH)
 TYPICAL RESIDENTIAL BILL ANALYSIS**

LINE NO.	DESCRIPTION	ORIGINAL RATES		PRESENT SURCHARGES		TOTAL PRESENT RATES	(D)	(E)	(F)	(G)
		\$	15.00	\$	-					
1	BASIC MONTHLY CHARGE									
COMMODITY CHARGE (Per 1,000 Gallons)										
	PRESENT	10,000	3,000			4,1000	4,8370		4,5405	
2	1st Tier - First	10,000	3,000			4,1000	4,8370		4,5405	
3	2nd Tier - Next	10,000	7,000			4,1000	6,0462		5,6756	
4	3rd Tier - Over	10,000	10,000			4,1000	7,5578		7,0946	

**AVERAGE RESIDENTIAL BILL COMPARISONS
 COST OF WATER SERVICE AT
 DIFFERENT LEVELS OF USAGE WITH
 PERCENTAGE INCREASE IN BILL**

	VARIABLE MONTHLY USAGE	PERCENT AVERAGE USAGE OF 3,405	PRESENT BASE RATE MONTHLY COST	PRESENT SURCHARGE MONTHLY COST	PRESENT TOTAL MONTHLY COST	RUCO MONTHLY COST	RUCO MONTHLY INCREASE	% MONTHLY INCREASE
5	851	25.00%	\$ 18.49	\$ -	\$ 18.49	\$ 25.46	\$ 6.97	37.67%
6	1,703	50.00%	\$ 21.98	\$ -	\$ 21.98	\$ 29.32	\$ 7.34	33.40%
7	3,405	100.00%	\$ 28.96	\$ -	\$ 28.96	\$ 37.51	\$ 8.55	29.52%
8	5,108	150.00%	\$ 35.94	\$ -	\$ 35.94	\$ 47.17	\$ 11.23	31.25%
9	6,810	200.00%	\$ 42.92	\$ -	\$ 42.92	\$ 56.84	\$ 13.92	32.42%

**MEDIAN RESIDENTIAL BILL COMPARISONS
 COST OF WATER SERVICE AT
 DIFFERENT LEVELS OF USAGE WITH
 PERCENTAGE INCREASE IN BILL**

	VARIABLE MONTHLY USAGE	PERCENT MEDIAN USAGE OF 2,567	PRESENT BASE RATE MONTHLY COST	PRESENT SURCHARGE MONTHLY COST	PRESENT TOTAL MONTHLY COST	RUCO MONTHLY COST	RUCO MONTHLY INCREASE	% MONTHLY INCREASE
10	642	25.00%	\$ 17.63	\$ -	\$ 17.63	\$ 24.50	\$ 6.87	38.98%
11	1,284	50.00%	\$ 20.26	\$ -	\$ 20.26	\$ 27.42	\$ 7.16	35.32%
12	2,567	100.00%	\$ 25.52	\$ -	\$ 25.52	\$ 33.25	\$ 7.72	30.25%
13	3,851	150.00%	\$ 30.79	\$ -	\$ 30.79	\$ 40.04	\$ 9.25	30.05%
14	5,134	200.00%	\$ 36.05	\$ -	\$ 36.05	\$ 47.32	\$ 11.27	31.27%

**EASTERN GROUP - WINKLEMAN
RATE DESIGN AND PROOF OF RECOMMENDED REVENUES**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
RESIDENTIAL CUSTOMERS					
1	5/8" X 3/4" Meter	132	\$ 17.15	\$ 27,172	\$ 27,172
	Commodity Usage (In Thousands of Gallons)				
2	First Tier - First 3,000 Gals.	4,145	\$ 1.7606	\$ 7,298	
3	Second Tier - Next 7,000 Gals.	5,800	\$ 2.2008	\$ 12,764	
4	Third Tier - Over 10,000 Gals.	4,944	\$ 2.7510	\$ 13,602	\$ 33,664
5	1" Meter	2	\$ 42.88	\$ 1,016	\$ 1,016
	Commodity Usage (In Thousands of Gallons)				
6	First Tier - First 30,000 Gals.	237	\$ 2.2008	\$ 521	
7	Second Tier - Over 30,000 Gals.	786	\$ 2.7510	\$ 2,162	
8	Third Tier - Over 30,000 Gals.	-	\$ 2.7510	\$ -	\$ 2,684
9	2" Meter	-	137.20	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
10	First Tier - First 100,000 Gals.	-	\$ 2.2008	\$ -	
11	Second Tier - Over 100,000 Gals.	-	\$ 2.7510	\$ -	
12	Third Tier - Over 100,000 Gals.	-	\$ 2.7510	\$ -	\$ -
13	3" Meter	-	\$ 274.41	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
14	First Tier - First 220,000 Gals.	-	\$ 2.2008	\$ -	
15	Second Tier - Over 220,000 Gals.	-	\$ 2.7510	\$ -	
16	Third Tier - Over 220,000 Gals.	-	\$ 2.7510	\$ -	\$ -
17	4" Meter	-	\$ 428.76	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
18	First Tier - First 350,000 Gals.	-	\$ 2.2008	\$ -	
19	Second Tier - Over 350,000 Gals.	-	\$ 2.7510	\$ -	
20	Third Tier - Over 350,000 Gals.	-	\$ 2.7510	\$ -	\$ -
21	6" Meter	-	\$ 857.53	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
22	First Tier - First 725,000 Gals.	-	\$ 2.2008	\$ -	
23	Second Tier - Over 725,000 Gals.	-	\$ 2.7510	\$ -	
24	Third Tier - Over 725,000 Gals.	-	\$ 2.7510	\$ -	\$ -
25	8" Meter	-	\$ 1,372.04	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
26	First Tier - First 1,175,000 Gals.	-	\$ 2.2008	\$ -	
27	Second Tier - Over 1,175,000 Gals.	-	\$ 2.7510	\$ -	
28	Third Tier - Over 1,175,000 Gals.	-	\$ 2.7510	\$ -	\$ -
29	10" Meter	-	\$ 1,972.31	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
30	First Tier - First 1,700,000 Gals.	-	\$ 2.2008	\$ -	
31	Second Tier - Over 1,700,000 Gals.	-	\$ 2.7510	\$ -	
32	Third Tier - Over 1,700,000 Gals.	-	\$ 2.7510	\$ -	\$ -
33	Total Residential Customer Bills	<u>134</u>			
34	Total Residential Usage	<u>15,912</u>			
35	TOTAL RESIDENTIAL CUSTOMERS REVENUE			<u>\$ 64,535</u>	

**EASTERN GROUP - WINKLEMAN
RATE DESIGN AND PROOF OF RECOMMENDED REVENUES**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
COMMERCIAL CUSTOMERS					
36	5/8" X 3/4" Meter	13	\$ 17.15	\$ 2,727	\$ 2,727
	Commodity Usage (In Thousands of Gallons)				
37	First Tier - First 10,000 Gals.	432	\$ 2,2008	\$ 951	
38	Second Tier - Over 10,000 Gals.	687	\$ 2,7510	\$ 1,890	
39	Third Tier - Over 10,000 Gals.	-	\$ 2,7510	\$ -	\$ 2,840
40	1" Meter	1	\$ 42.88	\$ 493	\$ 493
	Commodity Usage (In Thousands of Gallons)				
41	First Tier - First 30,000 Gals.	137	\$ 2,2008	\$ 301	
42	Second Tier - Over 30,000 Gals.	34	\$ 2,7510	\$ 94	
43	Third Tier - Over 30,000 Gals.	-	\$ 2,7510	\$ -	\$ 395
44	2" Meter	2	\$ 137.20	\$ 3,155	\$ 3,155
	Commodity Usage (In Thousands of Gallons)				
45	First Tier - First 100,000 Gals.	801	\$ 2,2008	\$ 1,762	
46	Second Tier - Over 100,000 Gals.	-	\$ 2,7510	\$ -	
47	Third Tier - Over 100,000 Gals.	-	\$ 2,7510	\$ -	\$ 1,762
48	3" Meter	1	\$ 274.41	\$ 3,155	\$ 3,155
	Commodity Usage (In Thousands of Gallons)				
49	First Tier - First 220,000 Gals.	2,614	\$ 2,2008	\$ 5,752	
50	Second Tier - Over 220,000 Gals.	610	\$ 2,7510	\$ 1,679	
51	Third Tier - Over 220,000 Gals.	-	\$ 2,7510	\$ -	\$ 7,431
52	4" Meter	2	\$ 428.76	\$ 9,858	\$ 9,858
	Commodity Usage (In Thousands of Gallons)				
53	First Tier - First 350,000 Gals.	7,737	\$ 2,2008	\$ 17,028	
54	Second Tier - Over 350,000 Gals.	939	\$ 2,7510	\$ 2,584	
55	Third Tier - Over 350,000 Gals.	-	\$ 2,7510	\$ -	\$ 19,612
56	6" Meter	-	\$ 857.53	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
57	First Tier - First 725,000 Gals.	-	\$ 2,2008	\$ -	
58	Second Tier - Over 725,000 Gals.	-	\$ 2,7510	\$ -	
59	Third Tier - Over 725,000 Gals.	-	\$ -	\$ -	\$ -
60	8" Meter	-	\$ 1,372.04	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
61	First Tier - First 1,175,000 Gals.	-	\$ 2,2008	\$ -	
62	Second Tier - Over 1,175,000 Gals.	-	\$ -	\$ -	
63	Third Tier - Over 1,175,000 Gals.	-	\$ 2,7510	\$ -	\$ -
64	10" Meter	-	\$ 2,744.09	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
65	First Tier - First 1,700,000 Gals.	-	\$ -	\$ -	
66	Second Tier - Over 1,700,000 Gals.	-	\$ 2,7510	\$ -	
67	Third Tier - Over 1,700,000 Gals.	-	\$ 2,7510	\$ -	\$ -
			\$ -		
68	Total Commercial Customer Bills	<u>19</u>			
69	Total Commercial Usage	<u>13,991</u>			
70	TOTAL COMMERCIAL CUSTOMERS REVENUE				<u>\$ 51,428</u>

EASTERN GROUP - WINKLEMAN
RATE DESIGN AND PROOF OF RECOMMENDED REVENUES

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
INDUSTRIAL CUSTOMERS					
71	5/8" X 3/4" Meter	-	\$ 17.15	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
72	First Tier - First 999,999,999 Gals.	-	\$ 2.2567	\$ -	
73	Second Tier - Next 999,999,999 Gals.	-	\$ 2.2567	\$ -	
74	Third Tier - Over 999,999,999 Gals.	-	\$ 2.2567	\$ -	\$ -
75	1" Meter	-	\$ 42.88	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
76	First Tier - First 999,999,999 Gals.	-	\$ 2.2567	\$ -	
77	Second Tier - Next 999,999,999 Gals.	-	\$ 2.2567	\$ -	
78	Third Tier - Over 999,999,999 Gals.	-	\$ 2.2567	\$ -	\$ -
79	2" Meter	1	\$ 137.2043	\$ 1,646	\$ 1,646
	Commodity Usage (In Thousands of Gallons)				
80	First Tier - First 999,999,999 Gals.	829	\$ 2.2567	\$ 1,871	
81	Second Tier - Next 999,999,999 Gals.	-	\$ 2.2567	\$ -	
82	Third Tier - Over 999,999,999 Gals.	-	\$ 2.2567	\$ -	\$ 1,871
83	3" Meter	-	\$ 274.4086	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
84	First Tier - First 999,999,999 Gals.	-	\$ 2.2567	\$ -	
85	Second Tier - Next 999,999,999 Gals.	-	\$ 2.2567	\$ -	
86	Third Tier - Over 999,999,999 Gals.	-	\$ 2.2567	\$ -	\$ -
87	4" Meter	-	\$ 428.7635	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
88	First Tier - First 999,999,999 Gals.	-	\$ 2.2567	\$ -	
89	Second Tier - Next 999,999,999 Gals.	-	\$ 2.2567	\$ -	
90	Third Tier - Over 999,999,999 Gals.	-	\$ 2.2567	\$ -	\$ -
91	6" Meter	-	\$ 857.5270	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
92	First Tier - First 999,999,999 Gals.	-	\$ 2.2567	\$ -	
93	Second Tier - Next 999,999,999 Gals.	-	\$ 2.2567	\$ -	
94	Third Tier - Over 999,999,999 Gals.	-	\$ 2.2567	\$ -	\$ -
95	8" Meter	-		\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
96	First Tier - First 999,999,999 Gals.	-	\$ 2.2567	\$ -	
97	Second Tier - Next 999,999,999 Gals.	-	\$ 2.2567	\$ -	
98	Third Tier - Over 999,999,999 Gals.	-	\$ 2.2567	\$ -	\$ -
99	10" Meter	-	\$ 2,744.0864	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
100	First Tier - First 999,999,999 Gals.	-	\$ 2.2567	\$ -	
101	Second Tier - Next 999,999,999 Gals.	-	\$ 2.2567	\$ -	
102	Third Tier - Over 999,999,999 Gals.	-	\$ 2.2567	\$ -	\$ -
103	Total Industrial Customer Bills	<u>1</u>			
104	Total Industrial Usage	<u>829</u>			
105	TOTAL INDUSTRIAL CUSTOMERS REVENUE			<u>\$ 3,517</u>	

**EASTERN GROUP - WINKLEMAN
RATE DESIGN AND PROOF OF RECOMMENDED REVENUES**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
PRIVATE FIRE SERVICE CUSTOMERS					
106	5/8" Meter	-	\$ 27.00	\$ -	\$ -
107	1" Meter	-	\$ 27.00	\$ -	\$ -
108	2" Meter	-	\$ 27.00	\$ -	\$ -
109	3" Meter	-	\$ 27.00	\$ -	\$ -
110	4" Meter	-	\$ 27.00	\$ -	\$ -
111	6" Meter	-	\$ 27.00	\$ -	\$ -
112	8" Meter	-	\$ 27.00	\$ -	\$ -
113	10" Meter	-	\$ 27.00	\$ -	\$ -
114	Total Private Fire Service Customers	<u>-</u>			
115	TOTAL PRIVATE FIRE SERVICE CUSTOMERS REVENUE				<u>\$ -</u>
OTHER WATER REVENUE CUSTOMERS					
116	Public Fire Hydrant	-	\$ -	\$ -	\$ -
117	Coin Machine	-	\$ -	\$ -	\$ -
118	Commodity Usage (In Thousands of Gallons)	-	\$ -	\$ -	\$ -
119	Construction Water 2" Meter	-	\$ 137.2043	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
120	First Tier - First 100,000 Gals.	-	\$ 2.2008	\$ -	\$ -
121	Second Tier - Over 100,000 Gals.	-	\$ 2.7510	\$ -	\$ -
122	Third Tier - Over 100,000 Gals.	-	\$ 2.7510	\$ -	\$ -
123	Construction Water 3" Meter	-	\$ 274.4086	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)		\$ -		
124	First Tier - First 220,000 Gals.	-	\$ 2.2008	\$ -	\$ -
125	Second Tier - Over 220,000 Gals.	-	\$ 2.7510	\$ -	\$ -
126	Third Tier - Over 220,000 Gals.	-	\$ 2.7510	\$ -	\$ -
127	Construction Water 4" Meter	-	\$ 428.7635	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
128	First Tier - First 350,000 Gals.	-	\$ 2.2008	\$ -	\$ -
129	Second Tier - Over 350,000 Gals.	-	\$ 2.7510	\$ -	\$ -
130	Third Tier - Over 350,000 Gals.	-	\$ 2.7510	\$ -	\$ -
131	Sales For Resales 2" Meter	-	\$ 137.2043	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
132	First Tier - First 999,999,999 Gals.	-	\$ 2.5848	\$ -	\$ -
133	Second Tier - Next 999,999,999 Gals.	-	\$ 2.5848	\$ -	\$ -
134	Third Tier - Over 999,999,999 Gals.	-	\$ -	\$ -	\$ -
135	Sales For Resales 3" Meter	-	\$ 274.4086	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
136	First Tier - First 999,999,999 Gals.	-	\$ 2.2008	\$ -	\$ -
137	Second Tier - Next 999,999,999 Gals.	-	\$ 2.2008	\$ -	\$ -
138	Third Tier - Over 999,999,999 Gals.	-	\$ 2.2008	\$ -	\$ -

**EASTERN GROUP - WINKLEMAN
RATE DESIGN AND PROOF OF RECOMMENDED REVENUES**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
139	Sales For Resales 6" Meter Commodity Usage (In Thousands of Gallons)	-	\$ 857.5270	\$ -	\$ -
140	First Tier - First 999,999,999 Gals.	-	\$ 2.2008	\$ -	
141	Second Tier - Next 999,999,999 Gals.	-	\$ 2.2008	\$ -	
142	Third Tier - Over 999,999,999 Gals.	-	\$ 2.2008	\$ -	\$ -
143	Total Other Water Revenue Customer Bills	<u>-</u>			
144	Total Other Water Revenue Usage	<u>-</u>			
145	TOTAL OTHER WATER CUSTOMERS REVENUE				<u>\$ -</u>
146	RUCO TOTAL PROPOSED REVENUE PER BILL COUNT				<u>\$ 119,480</u>
147	Unreconciled Difference vs. Billed Revenues				
148	Miscellaneous Revenues				1,669
149	RUCO TOTAL REVENUE				<u>\$ 121,149</u>
150	RUCO ADJUSTED TEST-YEAR REVENUE PER SCHEDULE RBM-1				<u>\$ 121,149</u>
151	Difference				\$ 0
152	Percentage Difference				0.00%

**EASTERN GROUP - WINKLEMAN
 RATE DESIGN AND PROOF OF RECOMMENDED REVENUES**

LINE NO.	DESCRIPTION	(A) ORIGINAL RATES	(B) PRESENT ADDITIONAL ACRM / PPA SURCHARGES	(C) TOTAL PRESENT RATES	(D) COMPANY PROPOSED	(E) RUCO PROPOSED	(F) RUCO PROPOSED	(G) RUCO PROPOSED
1	RESIDENTIAL (5/8" X 3/4") RATE DESIGN	\$ 14.48	\$ -	\$ 14.48	\$ 19.00	\$ -	\$ 17.15	
	BASIC MONTHLY CHARGE							
2	COMMODITY CHARGE (Per 1,000 Gallons)							
3	1st Tier - First 3,000	\$ 1.4458	\$ -	\$ 1.4458	\$ 1.9505	\$ -	\$ 1.7606	
4	2nd Tier - Next 7,000	\$ 1.8074	\$ -	\$ 1.8074	\$ 2.4381	\$ -	\$ 2.2008	
5	3rd Tier - Over 10,000	\$ 2.2595	\$ -	\$ 2.2595	\$ 3.0477	\$ -	\$ 2.7510	

AVERAGE RESIDENTIAL BILL COMPARISONS

COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL	VARIABLE MONTHLY USAGE	PERCENT AVERAGE USAGE OF 9,398	PRESENT BASE RATE MONTHLY COST	PRESENT SURCHARGE MONTHLY COST	PRESENT TOTAL MONTHLY COST	RUCO MONTHLY COST	RUCO MONTHLY INCREASE	% MONTHLY INCREASE
	2,350	25.00%	\$ 17.88	\$ -	\$ 17.88	\$ 21.29	\$ 3.41	19.08%
	4,699	50.00%	\$ 21.89	\$ -	\$ 21.89	\$ 26.17	\$ 4.28	19.57%
	9,398	100.00%	\$ 30.38	\$ -	\$ 30.38	\$ 36.51	\$ 6.13	20.18%
	14,097	150.00%	\$ 40.73	\$ -	\$ 40.73	\$ 49.11	\$ 8.38	20.56%
	18,796	200.00%	\$ 51.34	\$ -	\$ 51.34	\$ 62.04	\$ 10.69	20.82%

MEDIAN RESIDENTIAL BILL COMPARISONS

COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL	VARIABLE MONTHLY USAGE	PERCENT MEDIAN USAGE OF 6,635	PRESENT BASE RATE MONTHLY COST	PRESENT SURCHARGE MONTHLY COST	PRESENT TOTAL MONTHLY COST	RUCO MONTHLY COST	RUCO MONTHLY INCREASE	% MONTHLY INCREASE
	1,659	25.00%	\$ 16.88	\$ -	\$ 16.88	\$ 20.07	\$ 3.19	18.92%
	3,318	50.00%	\$ 19.39	\$ -	\$ 19.39	\$ 23.13	\$ 3.74	19.29%
	6,635	100.00%	\$ 25.39	\$ -	\$ 25.39	\$ 30.43	\$ 5.04	19.87%
	9,953	150.00%	\$ 31.38	\$ -	\$ 31.38	\$ 37.73	\$ 6.35	20.23%
	13,270	200.00%	\$ 38.86	\$ -	\$ 38.86	\$ 46.83	\$ 7.98	20.53%



ARIZONA WATER COMPANY
DOCKET NO. W-01445A-11-0310

DIRECT TESTIMONY
OF
ROBERT B. MEASE
ON
REQUIRED REVENUE

ON BEHALF OF
THE
RESIDENTIAL UTILITY CONSUMER OFFICE

MARCH 13, 2012

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EXECUTIVE SUMMARY

Arizona Water Company ("AWC" or "Company") is a Class A public service water corporation. At the present time, the total Company serves approximately 84,000 customers. AWC is comprised of nineteen separate operating systems that are organized into three different geographical groups: the Eastern, Western, and Northern Groups. AWC filed a general rate application with the Arizona Corporation Commission ("ACC" or "Commission") on August 5, 2011 for its Eastern Group using a test year ending December 31, 2010. The Commission found the Application sufficient and filed a letter of Sufficiency on September 6, 2011.

The Company's Eastern Group is comprised of the Superstition (Apache Junction, Superior and Miami Systems), Cochise (Bisbee and Sierra Vista Systems), San Manuel, Oracle, SaddleBrooke Ranch, and Winkelman. The Eastern Group serves approximately 33,300 customers in Cochise, Gila, Maricopa and Pinal counties. AWC is requesting adjustments to its rates and charges for utility service in each of the Eastern Groups water systems. AWC's rate application uses a test year ending December 31, 2010, and requests an increase in total revenues of \$5,268,560, or approximately 25.68 percent increase over test year operating revenues. In addition, AWC's application proposes consolidation of the San Manuel, Oracle and SaddleBrooke Ranch water systems into the Falcon Valley water system; authorization of an arsenic cost recovery mechanism (ACRM) as previously authorized in Decision No. 71845 for the Superstition water system; authorization to implement a Distribution System Improvement Charge (DSIC); authorization to implement Off Site Facilities Fees of \$3,500 and up for new service connections in the Eastern System; and continuation of a Monitoring Assistance Program (MAP) surcharge previously authorized for the Eastern Group.

AWC's Application requests and RUCO's proposed gross revenue increases are as follows:

<u>System</u>	<u>AWC Requested</u> <u>Increase</u>	<u>Percent</u>	<u>RUCO</u> <u>Recommended</u>	<u>Percent</u>
Superstition	\$3,894,582	25.86%	\$2,151,858	14.29%
Cochise	\$ 733,087	22.19%	\$ 397,905	12.05%
Oracle	\$ 148,456	15.00%	\$ 72,778	7.35%
San Manuel	\$ 387,458	40.88%	\$ 322,629	34.05%
SaddleBrooke	\$ 73,713	62.95%	\$ 58,872	52.51%
Winkelman	\$ 31,264	30.63%	\$ 19,050	18.61%

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AWC is requesting a 9.72 percent rate of return on the fair value rate base (FVRB) on the Eastern Groups Systems while RUCO is recommending an 8.08% rate of return. The FVRB as identified by the Company and RUCO's recommendation is shown as follows:

<u>SYSTEM</u>	<u>COMPANY PROPOSED</u> <u>FVRB</u>	<u>RUCO's PROPOSED</u> <u>FVRB</u>
Superstition	\$50,574,693	\$50,029,487
Cochise	\$ 8,550,839	\$ 8,361,674
Oracle	\$ 2,470,183	\$ 2,474,853
San Manuel	\$ 2,016,750	\$ 1,998,819
SaddleBrooke Ranch	\$ (124,601)	\$ (175,628)
Winkelman	\$ 306,862	\$ 304,727

RUCO's Chief of Accounting and Rates, William A. Rigsby, will address the policy related requests of the Company such as a continuation of the ACRM, declining water use, a distribution system improvement charge ("DSIC"), rate consolidation, and hook-up fees as well as RUCO's recommended cost of capital.

1 **INTRODUCTION**

2 **Q. Please state your name, position, employer and address.**

3 A. My Name is Robert B. Mease. I am a Public Utilities Analyst V employed
4 by the Residential Utility Consumer Office ("RUCO") located at 1110 W.
5 Washington, Suite 220, Phoenix, Arizona 85007.

6

7 **Q. Please state your educational background and qualifications in the**
8 **utility regulation field.**

9 A. Appendix 1, which is attached to this testimony, describes my educational
10 background, work experience and regulatory matters in which I have
11 participated. In summary, I joined RUCO in October of 2011. I graduated
12 from Morris Harvey College in Charleston, WV and attended Kanawha
13 Valley School of Graduate Studies. I am a Certified Public Accountant
14 and have been licensed to practice in West Virginia and Montana. My
15 years of work experience include serving as Vice President and Controller
16 of a public utility and energy company in Great Falls, Montana and have
17 participated in several rate case filings on behalf of the utility.

18

19 **Q. Please state the purpose of your testimony.**

20 A. The purpose of my testimony is to present RUCO's recommendations
21 regarding Arizona Water Company's ("AWC" or "Company") Eastern
22 Group's Application for a determination of the current fair value of its utility
23 plant and property and for a permanent increase in its rates and charges

1 based thereon for utility service. The test year utilized by the Company in
2 connection with the preparation of this Application is the 12-month period
3 that ended December 31, 2010.

4

5 **Q. How many and which systems are in the Company's Eastern Group?**

6 A. There are nine systems in the AWC's Eastern Group. However, three of
7 the nine systems are consolidated into one system, which is known as the
8 Superstition System. The Superstition System is comprised of the Apache
9 Junction, Superior, and Miami Systems. Two additional systems, Bisbee
10 and Sierra Vista are partially consolidated into the Cochise System and
11 the Company has requested that three of the remaining systems, Oracle,
12 San Manuel and SaddleBrooke Ranch be fully consolidated under the
13 name of the Falcon Valley System. One additional system, Winkelman, is
14 not consolidated with any of the other Eastern systems.

15

16 **BACKGROUND**

17 **Q. Please describe your work effort on this project.**

18 A. I reviewed financial data provided by the Company and performed
19 analytical procedures necessary to understand the Company's filing as it
20 relates to operating income, rate base, and the overall revenue
21 requirement for each system in the Eastern Group. My recommendations
22 are based on these analyses. Procedures performed include the in-house
23 formulation and analysis of this data, the review and analysis of the

1 Company's responses to Commission Staff data requests, and review of
2 prior ACC dockets related to AWC's Eastern Group. RUCO's participation
3 in this proceeding is the cumulative effort of two RUCO witnesses; myself
4 Robert B. Mease, and William A. Rigsby. I was responsible for the rate
5 base and operating income and expense adjustments that determine
6 RUCO's revenue requirement recommendations and RUCO's Chief of
7 Accounting and Rates, Mr. Rigsby, will present separate testimony on
8 policy related issues and RUCO's cost of capital recommendation.

9

10 **Q. Please identify the exhibits you are sponsoring.**

11 A. I am sponsoring schedules for the Eastern Group systems numbered
12 RBM-1 through RBM-17. Schedules are provided for each of the systems
13 including Superstition (Apache Junction, Superior, Miami), Cochise
14 (Bisbee, Sierra Vista), Oracle, San Manuel, SaddleBrooke Ranch and
15 Winkelman.

16

17 **SUMMARY OF DIRECT TESTIMONY**

18 **Q. Please provide a summary of the Company's filing for each of the**
19 **systems in the Eastern Group.**

20 A. The Company is proposing a fair value rate base (FVRB) of \$63,794,726
21 for the Eastern Group and a 9.72 percent rate of return on the FVRB. For
22 ratemaking purposes the Company has elected not to perform a
23 reconstruction cost new less depreciation study and is using its original

1 cost rate (OCRB) base as its FVRB. The FVRB for each of the Easterns
 2 Group systems as filed by the Company:

<u>System</u>	<u>FVRB</u>
3 Superstition (Apache Junction, Superior 4 and Miami)	\$ 50,574,693
5 Cochise (Bisbee, Sierra Vista)	\$ 8,550,839
6 Oracle	\$ 2,470,182
7 San Manuel	\$ 2,016,750
8 SaddleBrooke Ranch	\$ (124,601)
9 SaddleBrooke Ranch	\$ 306,862
10	<u>\$ 63,794,726</u>

11
 12
 13 The Company is also proposing an adjustment in rates that will increase
 14 operating revenues by \$5,268,560, a 25.86 percent overall increase from
 15 the test year, for the Eastern Group

<u>System</u>	<u>Proposed Operating Revenue</u>	<u>Increase From Test Year</u>	<u>Percentage Increase</u>
16 Superstition	\$ 18,950,748	\$ 3,894,582	25.87 %
17 Cochise	\$ 4,036,365	\$ 733,087	22.19 %
18 Oracle	\$ 1,116,712	\$ 148,456	15.00 %
19 San Manuel	\$ 1,319,969	\$ 387,458	39.31 %
20 SaddleBrooke	\$ 227,686	\$ 73,713	62.95 %
21 Winkelman	\$ 133,362	\$ 31,264	30.63 %
22	<u>\$ 25,784,844</u>	<u>\$ 5,268,560</u>	<u>25.68 %</u>

23
 24
 25
 26
 27 **RATE BASE ADJUSTMENTS - SUMMARY**

28
 29 **Q. Has RUCO recommended any adjustments to the rate base for any of
 30 the systems in the Eastern Group?**

31 **A. Yes, RUCO has recommended several adjustments to the rate base as
 32 filed by the Company.**

1 **Q. Can you please summarize RUCO's rate base adjustments and**
2 **recommendations related to the Company's filing?**

3 A. Yes, in summary adjustments to the rate base that RUCO is
4 recommending includes the following:

5 RUCO Rate Base Adjustment #1 – Post Test Year Plant

6 RUCO is recommending an adjustment that reflects reductions made to
7 post-test year plant. The Company estimated the cost of post-test year
8 plant additions when filing their Application. When final costs of the
9 additions were determined adjustments were necessary. The final
10 adjustments decreased the rate base in the Superstition and Cochise
11 systems by (\$81,786) and (\$122,233) respectively and increased the rate
12 base in the Oracle System by \$29,823.

13

14 RUCO Rate Base Adjustment #2 – Plant in Service

15 Original Cost Base, Schedule B-2, included in the Application for Rate
16 Increase was not in agreement with the information provided in a separate
17 data request provided by the Company. This difference between the
18 application and the details resulted in a decrease in the rate base filed for
19 the SaddleBrooke Ranch system by \$51,738.

20

21

22

23

1 RUCO Operating Adjustment #1 – Pumping, Transmission and
2 Distribution Expense, Normalization Adjustment - RUCO is recommending
3 a reduction in the Eastern's Group normalization of Pumping,
4 Transmission and Distribution Expense. RUCO believes the methodology
5 utilized by the Company to calculate the adjustment did not provide
6 sufficient justification to support the adjustment. In addition, the number of
7 years used in the calculation was inappropriate. The adjustment
8 decreases Pumping, Transmission and Distribution Expense for each
9 system as follows:

10	Superstition	\$ 253,710	San Manuel	\$ 1,504
11	Cochise	\$ 65,190	SaddleBrooke	\$ 298
12	Oracle	\$ 19,114	Winkelman	\$ 3,172

13
14 RUCO Operating Adjustment #2 – Rate Case Expense - This adjustment
15 reflects RUCO's recommended level of Rate Case Expense, to be
16 normalized over three years. RUCO's adjustment is being made based on
17 the amount deemed as reasonable by the Commission for the Eastern
18 Group during the prior rate case and adjusting that previously authorized
19 amount based on inflation. This adjustment decreases Rate Case
20 Expense for each system as follows:

21	Superstition	\$ 30,797	San Manuel	\$ 1,953
22	Cochise	\$ 8,430	SaddleBrooke	\$ 45
23	Oracle	\$ 1,898	Winkelman	\$ 205

1 RUCO Operating Adjustment #3 – Fleet Fuel Expense – This adjustment
2 reflects known and measurable cost per gallon of gasoline at a specific
3 point in time. RUCO used the same data source¹ that the Company used
4 in its rate application in determining the most current known and
5 measurable price per gallon of gasoline. The price of gasoline has been
6 trending downward since the Company made its initial filing. This
7 adjustment decreases Fleet Fuel Expense for each system as follows:

8	Superstition	\$ 16,218	San Manuel	\$ 994
9	Cochise	\$ 4,463	SaddleBrooke	\$ 91
10	Oracle	\$ 1,235	Winkelman	\$ 115

11
12 RUCO Operating Adjustment #4 – Miscellaneous Expense – This
13 adjustment removes certain expenses related to civic/service club dues,
14 service awards associated with the year-end service award banquet, and
15 50 percent of water association fees. This adjustment reduces
16 Administration Expenses as follows:

17	Superstition	\$ 7,522	San Manuel	\$ 462
18	Cochise	\$ 1,794	SaddleBrooke	\$ 42
19	Oracle	\$ 547	Winkelman	\$ 35

20
21 RUCO Operating Adjustment #5 – Depreciation Expense - This
22 adjustment calculates Depreciation and Amortization Expense based on

¹ AAA's Daily Fuel Gauge Report; January 2012.

1 RUCO's recommended plant levels including the Phoenix Office and
2 Meter Shop. Depreciation Expense is being recalculated based on
3 reductions or increases in UPIS as previously discussed in rate base
4 adjustments.

5	Superstition	(\$ 1,093)	San Manuel	\$ -0-
6	Cochise	(\$ 2,358)	SaddleBrook Ranch	(\$ 2,204)
7	Oracle	\$ 476	Winkelman	\$ -0-

8 RUCO Operating Adjustment #6 – Property Tax Expense – This
9 adjustment calculates property tax expense based on a modified Arizona
10 Department of Revenue (“ADOR”) formula that has been adopted by the
11 Commission in a number of prior rate cases. The adjustment to Property
12 Tax Expense for each system is an increase as follows:

13	Superstition	\$ 35,600	San Manuel	\$ 5,274
14	Cochise	\$ 5,540	SaddleBrooke Ranch	\$ 1,584
15	Oracle	\$ 508	Winkelman	\$ 503

16
17 RUCO Operating Adjustment #7 – Income Tax Expense – This adjustment
18 calculates the appropriate level of Income Tax Expense given RUCO's
19 recommended operating income. The adjustment to Income Tax Expense
20 for each system is an increase as follows:

21	Superstition	\$ 127,195	San Manuel	\$ 2,145
22	Cochise	\$ 34,260	SaddleBrooke Ranch	\$ 1,690
23	Oracle	\$ 8,576	Winkelman	\$ 1,392

1 **REVENUE REQUIREMENTS**

2 **Q. Can you please summarize the results of RUCO's analysis of the**
3 **Company's filing and state RUCO's recommended revenue**
4 **requirements for the Eastern Group Systems.**

5 **A. RUCO is recommending the following revenue increases or (decreases):**

6	<u>System</u>	<u>Rev. Increase</u>	<u>Pct. Increase/(Decrease)</u>
7	Superstition	\$ 2,151,858	14.29 %
8	Cochise	\$ 397,905	12.05 %
9	Oracle	\$ 72,778	7.35 %
10	San Manuel	\$ 322,629	34.05 %
11	SaddleBrooke Ranch	\$ 58,872	52.51 %
12	Winkelman	\$ 19,050	18.61 %
13		<u>\$ 3,023,092</u>	<u>14.74 %</u>

14

15 **RATE BASE ADJUSTMENTS**

16 **Q. Is RUCO recommending any changes to the Company's proposed**
17 **rate base?**

18 **A. Yes. RUCO analyzed the Company's rate base adjustments to its**
19 **historical test year and made adjustments to the rate base as filed by the**
20 **Company. The cumulative review, analysis and adjustments made by**
21 **RUCO are explained on the succeeding pages.**

22

23

24

1 **Rate Base Adjustment # 1 Post Test Year Plant**

2 **Q. Did RUCO make any adjustments related to post-test year additions**
3 **included in the rate base for any of the Eastern Systems?**

4 A. Yes. The Company made post-test year adjustments for the Superstition,
5 Cochise and Oracle systems as identified on Schedules RBM-6. The
6 adjustments for each post-test year addition, made by AWC, were based
7 on estimated costs to complete the projects. When final costs were
8 identified, the total costs by project were less than the original amounts
9 estimated by AWC and included in the Application. The adjustments
10 reduced the rate base for Superstition by (\$81,786), and Cochise by
11 (\$122,233) and increased the rate base for the Oracle system by \$29,823.

12 **Rate Base Adjustment #2 – Utility Plant in Service (“UPIS”)**

13 **Q. Did RUCO make any adjustments to rate based other than post-test**
14 **year additions related to UPIS?**

15 A. Yes. RUCO also made an adjustment to the UPIS for the SaddleBrooke
16 Ranch system. RUCO reviewed additions, deletions and adjustments for
17 each system from the last rate case forward in order to confirm the original
18 cost rate base as shown by the Company on Schedule B-2 of their
19 Application.

20

1 **Q. What was the result of this review for the SaddleBrooke Ranch**
2 **System?**

3 A. There was no starting point to work from since SaddleBrooke Ranch
4 system had no initial rate base. They began operating as a separate
5 system in 2008. According to the Company: "The SaddleBrooke Ranch
6 system has never been subject to a general rate proceeding, therefore, no
7 beginning rate balances exist. All plant additions, retirements and
8 adjustments for the SaddleBrooke Ranch system since its inception were
9 provided in a separate response and are the support for the test year rate
10 base." ²

11 **Q. Did you summarize the additions, retirements and adjustments to**
12 **develop a rate base as stated by the Company in their response and**
13 **what was the result of your review?**

14 A. Yes. I did summarize the additions, retirements and adjustments. The
15 results of my summary identified a reduction in the original cost rate base
16 as submitted by the Company at the end of the test year by \$51,738.

17
18
19
20

² RUCO's Data Request No. 3.04

1 **RUCO Rate Base Adjustment #3 – Cash Working Capital**

2 **Q. Please explain the concept of Cash Working Capital.**

3 A. Cash Working Capital is often defined as the net cash outlay that a utility
4 must furnish to provide service before payment for that service is received
5 from the customers. A company's Cash Working Capital requirement
6 represents the amount of cash the company must have on hand to cover
7 any differences in the time period between when revenues are received
8 and expenses must be paid. The most accurate way to measure the cash
9 working capital requirement is via a lead/lag study. The lead/lag study
10 measures the actual lead and lag days attributable to the individual
11 revenues and expenses.

12
13 **Q. Is RUCO proposing a Cash Working Capital requirement adjustment
14 in this case?**

15 A. Yes. RUCO proposes a reduction in Cash Working Capital for each
16 system. These adjustments are shown on Schedules RBM-5 and RBM-
17 6(1) and discussed previously in my testimony.

18
19 **Q Did AWC file a lead/lag study supporting its requested Cash
20 Working Capital requirements in this case?**

21 A. Yes, however RUCO independently confirmed the calculations made by
22 the Company in developing their working capital requirements.

23

1 **Q. What element of expenses did RUCO adjust in its lead/lag study?**

2 A. RUCO made several operating expense adjustments that are reflected in
3 RUCO's recommended lead/lag expense levels on Schedules RBM-5 and
4 RBM-6(1). The lone expense adjustment not reflected in RUCO's lead/lag
5 study is the Rate Case Expense adjustment.

6

7 **Q. Why isn't RUCO's Rate Case Expense adjustments reflected in**
8 **RUCO's operating expenses in its lead/lag study?**

9 A. Rate Case Expense has already been incurred and paid, consequently, it
10 is not an appropriate expense to be included in the calculation of Cash
11 Working Capital.

12

13 **Q. Did RUCO make any other adjustments to elements in the lead/lag**
14 **study?**

15 A. Yes, RUCO made adjustments to Federal and State Income Taxes, Cost
16 of Common Equity and payment of dividends. RUCO is also
17 recommending several rate base adjustments, as discussed in RUCO rate
18 base adjustment #1, that are reflected in RUCO's lead/lag calculation for
19 the recommended level of synchronized interest.

20

21

22

1 **Q. Has the Cost of Common Equity previously been addressed by the**
2 **Commission in prior rate cases?**

3 A. Yes, in Decision No. 71845, which was AWC's last rate case, the
4 Commission disallowed the Company's inclusion of the cost of equity in
5 the lead/lag study.

6

7 **Q. Should the Cost of Common Equity be included in a lead/lag study?**

8 A No, AWC's lead/lag study treats the cost of equity as if AWC compensates
9 stockholders on a daily basis. Compensation, or income, is received by
10 stockholders in two forms, through dividend payments, and/or through the
11 sale of their stock. Cash payments are made to stockholder's through
12 quarterly dividend payments.

13

14 **Q. Aren't dividend payments optional and have to be approved by the**
15 **Board of Directors?**

16 A. Yes, dividend payments are optional and have to be approved for
17 payment by the Board of Directors. However, AWC's Board of Directors
18 has consistently, quarter after quarter, year after year, without interruption,
19 maintained full dividend payments to its controlling holding company
20 shareholders and are also included in the Company's proforma cash
21 projections going forward.

22

1 **Q. Does RUCO believe that dividend payments should be included in**
2 **the calculation of Working Capital?**

3 A. Yes, RUCO takes the position that dividend payments should be included
4 in the calculation of the Company's Working Capital. The Company has
5 paid dividends quarterly since at least January 2005, and dividend
6 payments are included in the Company's projected cash flow for payment
7 in future years. It is RUCO's position that dividend payments should not
8 be treated any differently than payment of interest on Company debt.

9

10 **Q. Did RUCO measure the actual delay in the cash outlays for the**
11 **Company's quarterly dividend payments?**

12 A. Yes, RUCO calculated a payment lag of 75.89 days. That is, the
13 Company has had the use of those funds for that amount of days.

14

15 **Q. What were the results to Cash Working Capital when measuring the**
16 **actual delay in the cash outlay by the utility to stockholders?**

17 A. The overall impact of measuring the actual delay in the cash outlay by the
18 utility, the Company's quarterly cash dividend payments reduces the Cash
19 Working Capital (rate base) by an additional amount for the Company's
20 systems as follows:

21	Superstition	\$ 201,773	San Manuel	\$ 8,574
22	Cochise	\$ 34,194	SaddleBrooke	\$ 0
23	Oracle	\$ 15,123	Winkelman	\$ 417

1 **Q. Can you cite any research on how other Commissions treat the**
2 **inclusion of dividend payments in their lead/lag study calculations**
3 **which supports RUCO's position on this issue?**

4 A. Yes, according to a recent study conducted by the Wyoming Office of
5 Consumer Advocacy, the State of Pennsylvania treats the inclusion of
6 dividend payments as follows. "Since the payment of debt interest is
7 usually no less than semi-annually and dividend payments are no less
8 than quarterly, the Commission has treated these items as a reduction to
9 the utility's CWC requirement."³

10
11 **Q. Has the Arizona Commission addressed this question of dividend**
12 **payments in past rate cases?**

13 A. Yes. In Decision No. 71845, the Commission rejected both RUCO and
14 the Company's positions to include dividend payments in the calculation of
15 Working Capital. RUCO disagrees with the Commission's conclusion in
16 Decision No. 71845 as to "who" the additional burden is placed on when
17 the cash outlay for dividend payments is included in the cash working
18 capital's lead/lag study.

19
20
21

³ See Attachment Number 1

1 **Q. Can you please explain why RUCO disagrees with the Commission's**
2 **decision on this subject?**

3 A. Decision No. 71845, issued in May 25, 2010 states on page 23 the
4 following:

5 "Yet the Company now also seeks to place the additional burden on
6 ratepayers of funding AWC's dividends, through the cash working
7 capital component, even though the unilateral decisions to continue full
8 dividend payments were within the sole discretion of AWC's Board."

9
10
11 As evidenced by RUCO's Schedules RBM-6(1), the impact of recognizing
12 the cash outlay for the quarterly dividend payments in the lead/lag study,
13 falls on the shoulders of the shareholders and not the ratepayers. The
14 recognition of the quarterly dividend payments in the lead/lag study
15 calculation reduces the need of cash working capital and thus, rate base
16 in the amount of \$260,082. Including dividends in the calculation of
17 Working Capital is not at the expense of the ratepayers.

18
19 **Q. What is RUCO's rationale for including the interest expense in the**
20 **lead/lag study?**

21 A. Interest payments are contractual arrangements associated with AWC's
22 debt issuances that obligate the Company to make fixed interest
23 payments on certain dates. In this respect, debt interest closely
24 resembles AWC's other cash operating expenses. Thus, the payment
25 lead for AWC's interest expense should be separately recognized in the
26 lead/lag calculation as the Commission has recognized in numerous

1 cases. Typically, long-term debt interest is paid semi-annually, creating a
2 91.25-day expense lag.

3

4 **Q. Did the Company utilize the 91.25-day lag in calculating its interest**
5 **expense for cash working capital?**

6 A. Yes.

7

8 **Q. What adjustments are necessary to cash working capital when taking**
9 **all of RUCO's recommendations into consideration?**

10 A. The total adjustment for all Eastern Systems related to Working Capital
11 adjustments and resultant rate base is a reduction of \$574,860 as
12 indicated in my summary testimony.

13

14 **OPERATING INCOME ADJUSTMENTS**

15 **RUCO Operating Adjustment #1 –Pumping, Transmission and Distribution**
16 **Expense, Normalization Adjustment**

17

18 **Q. Did the Company normalize Pumping, Transmission and Distribution**
19 **Maintenance Expense?**

20 A. Yes.

21

22

23

1 **Q. What methodology was utilized in their normalization process?**

2 A. The Company's adjustment to Pumping, Transmission and Distribution
3 maintenance expense was based on a regression analysis. The analysis
4 began using an eleven year historical period. The Company then utilizes
5 the x variable coefficients calculated in the analysis to predict the future
6 years 2011 through year 2014. The Company then takes an average of
7 these futures years and deducts the test year expense to arrive at the
8 proforma adjustment made.

9

10 **Q. Does RUCO have a problem with the methodology used by the**
11 **Company?**

12 A. Yes, RUCO has several problems with the methodology used. First the
13 results of the regression analysis using an eleven year historical period do
14 not produce the results that support a strong relationship between the
15 variables used in the analysis, therefore, RUCO does not believe that you
16 can rely on the analysis as presented. Second, utilizing an eleven year
17 period was the only way that the Company was able to obtain an analysis
18 producing a positive result. Had the Company utilized a shorter period
19 there would have been a negative adjustment related to these expenses.
20 Finally, by projecting forward three years and deducting the test year
21 actual expenses incurred, does not provide an accurate and reliable
22 proforma adjustment.

23

1 **Q. What was the Company's rational for normalizing these expenses?**

2 A. As explained in testimony "the Company implemented a number of
3 significant cost-cutting measures in response to the economic downturn
4 beginning in 2008, including a focused reduction in the level of costs
5 incurred in the maintenance of the Company's pumping and T&D systems
6 to a minimum level sufficient to maintain adequate and reliable service."

7

8 **Q. Did the Company's financial statements support these reductions?**

9 A. Yes, there have been significant reductions in these expenses during the
10 years 2008, 2009 and 2010.

11

12 **Q. Does RUCO have a recommendation for normalizing these expenses.**

13 A. Yes, RUCO reviewed the justification for normalizing these expenses and
14 performed its own calculations. RUCO took an average of the past three
15 years, coinciding with the year end for the last rate case filing, and is
16 recommending that the average of the three years be approved. The
17 Company made proforma adjustments of \$548,218 for the Eastern Group
18 while RUCO's recommendation is to allow \$205,231 as a proper amount
19 for normalization.

20

21

22

23

1 **RUCO Operating Adjustment #2 – Rate Case Expense**

2 **Q. What level of rate case expense is AWC proposing and what level of**
3 **Rate Case Expense is RUCO recommending?**

4 A. AWC is proposing Rate Case Expense, on a total Eastern Group basis, of
5 \$476,874 and allocated to each of the six systems on a customer count
6 basis. RUCO is recommending a Rate Case Expense of \$312,600. Both
7 RUCO and the Company propose that the expense be normalized over a
8 three-year period.

9
10 **Q. How did RUCO determine its recommended level of fair and**
11 **reasonable Rate Case Expense for this case?**

12 A. RUCO took the amount, \$250,000, that was found to be reasonable in
13 Commission Decision No. 66848, the last rate case filed by the Eastern
14 Group, and applied the Consumer Price Index ("CPI") inflation factor per
15 InflationData.com from January 2004 thru November 2011. That time
16 period's cumulative inflation factor was 25.04 percent. The \$312,600
17 represents the \$250,000 Rate Case Expense found to be reasonable in
18 the previous Eastern Group's rate case multiplied by 1.2504.

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1 **RUCO Operating Adjustment #3 – Fleet Fuel Expense**

2 **Q. Can you please explain RUCO's adjustment to the Company-**
3 **proposed level of Fleet Fuel Expense?**

4 A. RUCO's adjustment to the Company-proposed level of Fleet Fuel
5 Expense is based on the downward price trend of a gallon of gasoline
6 over the test year period. The Company used a price per gallon of
7 \$3.671. RUCO adjusted that number down to \$3.315, which was the most
8 current known and measurable price per gallon of gasoline in January
9 2012. RUCO and the Company utilized the same data source – AAA Daily
10 Fuel Gauge – in determining the price per gallon of gasoline. This is the
11 same adjustment that RUCO made in the previous AWC Western Group
12 rate case.

13
14 **Q. What is the effect of RUCO's adjustment to Fleet Fuel Expense?**

15 A. RUCO's adjustment reduces Fleet Fuel Expense by \$23,116 on a total
16 Eastern Group basis. The adjustment involves each of the Eastern
17 Group's systems and is identified by specific account on Schedule RBM-
18 12 for each system. The adjustment affects 6 line items on the
19 Company's income statement. The line items affected on the income
20 statement are Source of Supply – Other, Pumping Expenses – Other,
21 Water Treatment Expenses, Transmission & Distribution Expenses,
22 Customer Accounting Expenses, and Administrative and General
23 Expenses for all six systems.

1 **Q. The cost of gasoline has been increasing over the past two months.**
2 **How does this affect your adjustment for Fleet Fuel Expense?**

3 A. I agree the cost of gasoline has been increasing. We determined the cost
4 of gasoline at a specific point in time and prepared adjustments to the
5 Fleet Fuel Expense for each system accordingly. RUCO is prepared to
6 review our adjustment if the price of fuel continues to decrease and
7 change our recommendation during surrebuttal testimony, if necessary,
8

9 **RUCO Operating Adjustment #4 – Miscellaneous Expense**

10 **Q. Please explain RUCO's adjustment to Miscellaneous Expense.**

11 A. RUCO's Miscellaneous Expense adjustment removes certain expenses
12 more appropriately absorbed by the shareholders.
13

14 **Q. What type of Miscellaneous Expenses did RUCO remove?**

15 A. RUCO removed Civic/Service club dues, fees, donations, costs for flowers
16 purchased and annual Service Award Banquet costs were adjusted.
17 These are costs that the ratepayers should not have to pay for their cost of
18 service. In addition, water associations' fees and dues were reduced by 50
19 percent to be shared by the shareholders and ratepayers. RUCO has
20 proposed and the Commission has accepted this percentage allocation in
21 prior rate case and RUCO believes this is a fair allocation between
22 Company and ratepayers.
23

1 **RUCO Operating Adjustment #5 – Depreciation Expense**

2 **Q. Have you recalculated test year Depreciation and Amortization**
3 **Expense?**

4 A. Yes, RUCO is in agreement with the Company's Test Year Depreciation
5 and Amortization Expense as calculated.

6
7 **Q. Was a depreciation expense adjustment required once the post Test**
8 **Year plant final costs were determined?**

9 A. Yes, depreciation expense adjustments were made for the Superstition,
10 Cochise, and Oracle locations. These three systems included post test
11 year plant additions based on estimated costs and depreciation expense
12 was calculated accordingly. When final costs were determined
13 depreciation expenses were recomputed.

14

15 **RUCO Operating Adjustment #6 – Property Tax Expense**

16 **Q. Has RUCO changed its approach to computing Property Tax**
17 **Expense for the adjusted Test Year?**

18 A. Yes. RUCO has adopted the method that the Staff has been using for the
19 past several rate cases. This method of computing Property Tax Expense
20 also has an effect on the adjusted Test Year income taxes and
21 computation of the gross-up factor. This was adopted by RUCO in the
22 spirit of compromise and primarily to eliminate issues of comparability of

1 the Test year level of adjusted operating expenses and adjusted operating
2 income.

3

4 **Q. Has RUCO made an adjustment to the Company-adjusted Test Year**
5 **level of Property Tax Expense?**

6 A. No. However, RUCO normally would have an adjustment to the adjusted
7 Test Year property taxes because of RUCO's recommended level of
8 proposed revenues. RUCO adopts Staff's method in computing property
9 taxes and computes the adjusted Test Year income taxes with an element
10 for the gross up factor to account for the additional property taxes as
11 revenue increases.

12

13 **Q. Has RUCO made an adjustment to the Company-proposed level of**
14 **Property Tax Expense?**

15 A. Yes. The adjustment shown on Schedules RBM-7 in Column (D) on line
16 32 is different from what the Company has proposed. The reason for the
17 difference between the amounts shown are related to the proposed levels
18 of revenue. The details of these computations are shown on Schedules
19 RBM-15.

20

21

22

23

1 **RUCO Operating Adjustment #7 – Income Tax Expense**

2 **Q. Have you calculated Income Tax Expense based on RUCO's**
3 **recommended adjusted operating income?**

4 A. Yes. This adjustment is shown on Schedules RBM-16 for the six systems
5 in the Eastern Group.

6

7 **Q. Have you included an interest synchronization calculation in your**
8 **computation of Income Tax Expense?**

9 A. Yes. The interest synchronization calculation, which computes an interest
10 expense deduction for income tax purposes, can be viewed on Schedules
11 RBM-16. The interest synchronization calculation is the adjusted rate
12 base multiplied by the weighted cost of debt. The income tax gross up
13 revenue conversion factor includes an element for the increase in property
14 taxes due to RUCO's recommended level of increased revenues as
15 discussed in the property tax expense adjustment #6 above.

16

17 **Q. Does your silence on any of the issues, matters or findings**
18 **addressed in the testimony of any of the witnesses for AWC**
19 **constitute your acceptance of their positions on such issues,**
20 **matters or findings?**

21 A. No, it does not.

22

23

1 Q. Does this conclude your testimony on AWC's Eastern Group?

2 A. Yes, it does.

APPENDIX 1

ROBERT B. MEASE
Education and Professional Qualifications

EDUCATION

Bachelors Degree Business Administration / Accounting - Morris Harvey College.

Attended West Virginia School of Graduate Studies and studied Accounting and Public Administration

Attended numerous courses and seminars for Continuing Professional Educational purposes.

WORK EXPERIENCE

Controller

Knives of Alaska, Inc., Diamond Blade, LLC., and Alaska Expedition Company.

Financial Manager / CFO

All Saints Camp & Conference Center

Energy West, Inc.

Vice President, Controller

- Led team that succeeded in obtaining a \$1.5 million annual utility rate increase
- Coached accountants for proper communication techniques with Public Service Commission, supervised 9 professional accountants
- Developed financial models used to negotiate an \$18 million credit line
- Responsible for monthly, quarterly and annual financial statements for internal and external purposes, SEC filings on a quarterly and annual basis, quarterly presentations to Board of Directors and shareholders during annual meetings, coordinated annual audit
- Communication with senior management team, supervised accounting staff and resolved all accounting issues, reviewed expenditures related to capital projects
- Monitored natural gas prices and worked with senior buyers to ensure optimal price obtained

Junkermier, Clark, Campanella, Stevens

Consulting Staff

- Established a consulting practice that generated approximately \$160k the first year of existence
- Prepared business plan and projections for inclusion in clients financing documents
- Prepared written reports related to consulting engagements performed
- Developed models used in financing documents and made available for other personnel to use
- Performed Profit Enhancement engagements
- Participated during audit of large manufacturing client for two reporting years

Prior to 1999, held various positions: TMC Sales, Inc. as **Vice President / Controller**, with American Agri-Technology Corporation as **Vice President / CFO** and with Union Carbide Corporation as **Accounting Manager**. (**Union Carbide was a multi-national Fortune 500 Company that was purchased by Dow Chemical**)

PROFESSIONAL AFFILIATIONS

Member - Institute of Management Accountants

Member - American Institute of CPA's

Past Member - WV Society of CPA's and Montana Society of CPA's

ATTACHMENT A

Lead Lag Studies
Wyoming Office of Consumer Advocate
September 2007

1. When using a lead-lag study for cash working capital, do any of you make any special adjustments (such as excluding purchased power or fuel) to recognize that these elements are recovered in a separate adjustment mechanism? If so, how are these elements treated?
2. When using a lead-lag study, do you include all taxes (income, property, payroll) -- even those with extra ordinary lag times? If not, what is done?
3. Are there any other exceptions to the ordinary calculations in a lead lag study?

I'd appreciate any help or advice that any of you wish to offer. Thanks.

Denise Kay Parrish
State of Wyoming
dparri@state.wy.us

PA – Cash Working Capital

1. Expenses such as purchased gas costs are excluded from lead-lag studies since they are recovered through automatic cost recovery mechanisms governed by the 1307(f) Purchased Gas Cost regulations in Pennsylvania.
2. We have generally included all taxes in the lead –lag studies. The lead-lag calculations are based on federal and state tax due dates, including the incorporation of estimated payments and final true-up dates. Additionally, we have advocated the adoption of ratepayer favorable options, such as safe-harbor provisions, where applicable, whether or not these have been proposed by the utility.
3. Since the payment of debt interest is usually no less than semi-annually and dividend payments are no less than quarterly, the Commission has treated these items as a reduction to the utility's CWC requirement. As a final note, lead-lag studies are only required by Commission for those utilities requesting a revenue increase in excess of \$1,000,000. As a cost-saving alternative, the FERC formula method or one-eighth method is accepted for those filing cases less than \$1,000,000.

New York – Lead Lag Studies

In New York we don't perform lead lag studies, but rather rely on the FPC method (be it 1/7, 1/6), and then correct for traditional overstatements that this method produces by making what we call an "earnings base capitalization" (EBC) adjustment to rate base.

Essentially the EBC compares utility assets which require a return (either cash or AFC) to costed capital (e.g., debt, equity), and we do daily balances for the capital (the latter MUCH easier than doing same for payables, receivables etc). We also remove non-utility\regulated assets from capital on a dollar for dollar basis which effectively implies they have no float and temporary cash investments (TCI) from capital because excess cash would require a pre-tax return and customers are better off putting the associated TCI income below the line.

Up until very recently this has always produced a negative adjustment to rate base, and if positive would require some explanation because if positive it implies inefficient cash management practices, and we don't reward bad behavior by increasing rate base. I say up to recently because I'm seeing some crop up now and it looks like they resulted from negative pension expenses in past years which as you can imagine causes cash flow problems because we're funding cash expenses with non-cash pension accruals.

I've always thought that the combination of the FPC method and the EBC adjustment produced a reasonable allowance for cash working capital without having to delve into all the details that a traditional lead-lag study would require.

You probably have this already but the Accounting for Public Utilities manual by Hahne and Aliff devotes a whole chapter to working capital and about 15 pages to lead lag and some of the things to look for when performing one.

Enjoy,
Wayne

Idaho – Cash Working Capital

We don't use a lead-lag study so haven't evaluated the need for adjustments.

For the larger companies we use the Balance Sheet method to identify investor supplied funds. For the small water companies & 1 small electric we use the 1/8th of O&M after all adjustments are made in the case.

Alabama – Cash Working Capital

We do not calculate a working capital component in our cost of service filings (Jurisdictional Separation Study, RSE), so lead-lag is not applicable. We do, however, typically consider working capital when doing special studies, such as a pricing analysis.

1. We do not exclude fuel, purchased power, or similar items from our lead-lag study.
2. Yes, we include all taxes, regardless of timing.
3. No .

Kentucky – Cash Working Capital

While the Kentucky PSC has considered lead lag studies in previous cases, we have not required their use. When determining a cash working capital allowance in rate base, the Kentucky PSC normally uses the "1/8th formula" approach, where operating and maintenance expenses (net of purchased power or purchased gas costs) is multiplied by 1/8.

Kansas – Cash Working Capital

On the telecom side, companies receive the 15 day allowance, similar to that adopted by the FCC.

Nevada – Cash Working Capital

Question regarding methods used to determine investor supplied working capital
In Nevada the utilities use a lead/lag study to determine cash working capital. And, the current asset accounts of M&S, fuel, and prepaids are included in rate base separately. I would note various accruals are also included in rate base (e.g., vacation pay, sick leave). In both instances, the account balances are the 13 month average amount.

Nevada does require lead lag studies to be performed if a request is being made for cash working capital. While Nevada requires some modifications to the standard format, it does not make any adjustments for the items listed but one. Nevada uses a fuel adjustment clause and eliminates any deferred balance from the study.

Paul

Paul Anderson
Public Utilities Commission of Nevada

Washington – Cash Working Capital

The state of Washington currently uses the Investor Supplied Working Capital approach so hasn't endorsed or performed a lead lag study.

Minnesota – Cash Working Capital

You will likely find some differences in the studies approved in Minnesota for each of the companies, but generally. I am not aware that we make special adjustments for items like purchased power or fuel.

We include all taxes, etc. Yes, Minnesota property taxes generate a huge negative CWC. (Minnesota taxes are paid in the year following the year they are assessed for.)

I am not aware of other major exceptions to the lead-lag studies used.

Colorado – Cash Working Capital

Colorado uses lead lag studies. It does not make any special adjustments. All taxes are included. No other exceptions.

Kansas – Cash Working Capital

In Kansas, for electric and gas companies that request cash working capital in their rate cases, we only accept lead-lag studies. The KCC ruled in the mid-1990's that utility companies could not use the 1/8 method. However, utility companies have the option of whether they want to request cash working capital. Kansas does include all taxes in the lead-lag study, especially property taxes which have a long lag time thus there is an offsetting benefit to ratepayers.

Wisconsin – Cash Working Capital

Wisconsin uses its own method for providing a return on working capital and therefore does not perform lead lag studies.

Tennessee – Cash Working Capital

In a sense, everything could be included in the lead-lag study and the working capital study would be the rate base. Every line item of a rate base calculation is essentially a "special adjustment mechanism" or exception from measuring the lead or lag in the lead-lag study. Therefore, there is no need to exclude anything that is in the cost of service (total revenues) from the lead-lag study UNLESS that item's investment carrying costs (or savings) are considered in the rate base or elsewhere in the cost of service.

For example, a PGA or fuel clause adjustment usually recovers only the cost of the fuel and the time value of money on over/under collections in the current month's actual fuel costs. The PGA does NOT normally consider the 17 day lag from service to billing plus the 10 to 15 day lag until payment. (Of course the revenue lag has a similar pattern and is considered in the revenue side of the lead-lag study.) So unless there is a separate cost adjustment in the PGA to cover the net lag between the purchase of gas and the recovery of gas costs, these lag factors would have to go in the lead-lag study.

We do make special adjustments for items that are considered separately in rate base. For example, large pre-payments or accruals that are recovered in monthly rates before cash is paid would be deducted as a separate item from rate base. One example may be the amortization of a cost that is already paid by the utility such as insurance expense. If the pre-payment is added to rate base, the appropriate expense lag in the study would be 0 days. If there is no rate base addition for the pre-payment, the full prepayment period (1/2 of the insurance period) would have to be in the lead-lag study. A company may try to include the investment two times by adding the pre-payment to rate base and by including the full pre-payment period in the lead-lag study. This would give the company two rate base additions for the same investment.

Another example of a pre-payment would be rate case costs. The company pays before recovery, so the item can be put in the rate case as a rate base addition (with a special adjustment to 0 days in the lead-lag) or the full prepayment can be included in the lead-lag study as a 3 year lead.

Although it may not sound right, plant in service and accumulated depreciation are essentially "special adjustments" to recognize the lead-lag effects of the company paying for plant before recovering the cost of the plant. Depreciation is the monthly expense portion of several items including 1) the recovery of the cost of plant already spent and 2) a prepayment of cost of removal which has not been spent. The net effect of including plant in service less accumulated depreciation gives the company a return on its huge prepayment of the cost of the plant less the consumers' prepayment of the cost of removal. The long-term portion of the prepayment (cost of the plant) is a special item adjustment to rate base (plant in service less accumulated depreciation) while there is a special adjustment in the lead-lag study to treat the depreciation expense as a 0 day expense lag. The long-term portion of the post-payment (cost of removal) is a special item adjustment to rate base (accumulated depreciation) while there is a special adjustment in the lead-lag study to treat the depreciation expense (including the advanced recovery of removal costs) as a 0 day expense lag.

On taxes (income, property, payroll): yes, we include everything that consumers pay unless there is a separate line item rate base addition/deduction for the unusually long pre-payment or post-payment. One example is our PSC (TRA) inspection fee which is paid 272 days in arrears, but we include the full 272 days as a lag to reflect the fact that the company had the benefit of not paying on the first year's revenues and has the continuing benefit of not paying on this year's revenues until next year.

Another type of exception is the "unpaid for portion of materials and supplies" adjustment. We subtract the unpaid for portion of M&S from the M&S in rate base because the lag effect of the delayed payments are not picked up anywhere else in the cost of service.

We also deduct "Accrued Interest on Customer Deposits" from rate base because the utility does not pay compound interest and we allow interest on CDs as a current operating expense which effectively gives the utility free money until the deposits are refunded. This was an \$847,000 rate base deduction in a recent medium sized natural gas rate case.

Of course the key to keeping working capital requirements low, is to collect those revenues fast!

Hope this helps.
Dan McCormac
615 741-2935

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RBM-17	1	COST OF CAPITAL

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Adjusted Original Cost/Fair Value Rate Base	\$ 8,550,839	\$ 8,361,674
2			
3	Adjusted Operating Income (Loss)	\$ 387,079	\$ 435,051
4			
5	Current Rate of Return (L3 / L1)	4.53%	5.20%
6			
7	Required Operating Income (L9 X L1)	\$ 830,936	\$ 675,968
8			
9	Required Rate of Return on Fair Value Rate Base	9.72%	8.08%
10			
11	Operating Income Deficiency (L7 - L3)	\$ 443,857	\$ 240,917
12			
13	Gross Revenue Conversion Factor (RBM-1, Page 2)	1.6516	1.6516
14			
15	Required Increase in Gross Revenue Requirement (L11 X L13)	\$ 733,087	\$ 397,905
16			
17	Adjusted Test Year Revenue	\$ 3,303,548	\$ 3,303,548
18			
19	Proposed Annual Revenue (L15 + L17)	\$ 4,036,635	\$ 3,701,453
20			
21	Required Percentage Increase in Revenue (L15 / L17)	22.19%	12.04%
22			
23	Consolidated Revenue Adjustment	\$ -	\$ -
24			
25	Required Increase in Gross Revenue Under Proposed Consolidation	\$ -	\$ -
26			
27	Required Revenue Under Proposed Consolidation	\$ -	\$ -
28			
29	Required Percentage Increase in Revenue Under Proposed Consolidation	0.00%	0.00%
30			
31	Rate of Return on Common Equity	12.50%	9.30%

References:

Column (A): Company Schs. A-1 and C-1

Column (B): RUCO Schs. RBM-2, RBM-6, and RBM-9

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	100.0000%			
2	Proposed Bad Debt Expense (Per Co. Workpapers)	-			
3	Subtotal (L1 thru L2)	100.0000%			
4	Combined Federal, State, Property Tax Rate (L22)	39.4537%			
5	Subtotal (L3 - L4)	60.5463%			
6	Revenue Conversion Factor (L1 / L5)	1.6516			
CALCULATION OF EFFECTIVE TAX RATE:					
8	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
9	Arizona State Income Tax Rate	6.9680%			
10	Federal Taxable Income (L9 - L10)	93.0320%			
11	Applicable Federal Income Tax Rate (L58)	34.0000%			
12	Effective Federal Income Tax Rate (L11 X L12)	31.6309%			
13	Combined Federal and State Income Tax Rate (L10 + L13)	38.5989%			
CALCULATION OF EFFECTIVE PROPERTY TAX FACTOR:					
16	Unity	100.0000%			
17	Combined Federal and State Tax Rate	38.5989%			
18	1 Minus Combined Income Tax Rate	61.4011%			
19	Property Tax Factor	1.3922%			
20	Effective Property Tax Factor (L19 x L 20)	0.8548%			
21	Combined Federal, State & Property Tax RateTax Rate (L14 + L21)	39.4537%			
22					
23					
24	RUCO Required Operating Income (Sch. RBM-1, Col. (B), L7)	\$ 675,968			
25	RUCO Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RBM-1, Col. (B), L3)	435,051			
26	Required Increase In Operating Income (L24 - L25)		\$ 240,917		
27					
28	Income Taxes On Recommended Revenue (Col. (D), L53)	\$ 249,178			
29	Income Taxes On Test Year Revenue (Col. (D), L55)	97,730			
30	Required Increase In Revenue To Provide For Income Taxes (L28 - L29)		\$ 151,449		
31					
32	Property Tax with Recommended Revenue (Sch. RBM-7, Col. E, L31)	143,511			
33	Property Tax on TestYear Revenue (Sch. RBM-7, Col. C, L31)	137,972			
34	Increase in Property Tax Due to Increase in Revenue (L32 - L33)		\$ 5,539		
35					
36	Total Required Increase in Revenue (L26 + L30 + L34)		\$ 397,905		
37					
RUCO's CALCULATION OF INCOME TAX:					
38	RUCO Proposed Revenue (Sch. RBM-1, Col. (B), L19)			\$ 3,701,453	
39	Less:				
40	Operating Expense Excluding Income Tax (Sch. RBM-7, Col. (E), L24 + L26 + L31 + L32)			2,776,307	
41	Synchronized Interest (Col. (C), L63)			279,587	
42	Arizona Taxable Income (L39 - L41 - L42)			\$ 645,559	
43	Arizona State Income Tax Rate			6.9680%	
44	Arizona Income Tax (L43 X L44)				\$ 44,983
45	Fed. Taxable Income (L43 - L45)			\$ 600,576	
46	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ -	
47	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			\$ -	
48	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			\$ -	
49	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			\$ -	
50	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			\$ 204,196	
51	Total Federal Income Tax (L47 thru L 51)				\$ 204,196
52	Combined Federal And State Income Tax (L45+ L52)				\$ 249,178
53					
54					
55	RUCO Adj'd Test Year Combined Federal and State Income Tax (RBM-7, Col. (C), L29 and L30)				\$ 97,730
56	RUCO Proposed Income Tax Adjustment (L53 - L55)				\$ 151,449
57					
58	Applicable Federal Income Tax Rate				34.00%
59					
NOTE (A): Interest Synchronization					
60	Adjusted Rate Base RBM-2, Col. (C), L28			\$ 8,361,674	
61	Weighted Cost Of Debt RBM-9, Col. (M), L1			3.34%	
62	Interest Expense (L61 X L62)			\$ 279,587	
63					

SUMMARY RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB
1	Plant Classification			
2	Intangible Plant	\$ 44,054		\$ 44,054
3	Source of Supply Plant	1,649,596		1,649,596
4	Pumping Plant	1,715,876		1,715,876
5	Water Treatment Plant	143,171		143,171
6	Transmission & Distribution Plant	15,999,702	(122,233)	15,877,469
7	General Plant	1,440,539		1,440,539
8	Total Gross Plant in Service (L2 thru L7)	\$ 20,992,937	\$ (122,233)	\$ 20,870,704
9				
10	Accumulated Depreciation	\$ 7,506,943		\$ 7,506,943
11	Net Utility Plant In Service (L8 - L10)	\$ 13,485,994	\$ (122,233)	\$ 13,363,761
12				
13	Advances In Aid Of Const.	\$ 1,632,190		\$ 1,632,190
14				
15	Contribution In Aid Of Const.	\$ 2,198,794		\$ 2,198,794
16	Accumulated Amortization Of CIAC	\$ (439,381)		\$ (439,381)
17	NET CIAC (L15 + L16)	\$ 1,759,413	\$ -	\$ 1,759,413
18				
19	Deferred Income Tax	\$ 1,823,964		\$ 1,823,964
20				
21	Customer Deposits	\$ 38,290		\$ 38,290
22				
23	Allowance For Working Capital	\$ 318,702	\$ (66,932)	\$ 251,770
24				
25	Net Regulatory Asset / (Liability)	\$ -		\$ -
26				
27	Rounding	\$ -		\$ -
28	TOTAL RATE BASE (+L11 - L17 - L19 - L21 + L23)	\$ 8,550,839	\$ (189,165)	\$ 8,361,674

References:
Column (A): Company Schedule B-1 and RBM-3 Col. E
Column (B): Schedule RBM-3 Cols. F and G
Column (C): Col. A + Col. B

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED NET PLANT	(B) COMPANY ADJ NO 1 POST TEST YEAR ADJUSTMENTS	(C) NET REGULATORY LIABILITY	(D) PHOENIX OFF AND METER SHOP	(E) COMPANY AS FILED OCB/FVRB	(F) ADJMT NO.1 POST TESTYR ADJUSTMENTS	(G) ADJMT NO.6 WORKING CAPITAL	(H) RUCO ADJUSTED OCB/FVRB
1	Plant Classification								
2	Intangible Plant	\$ 43,398	\$ -	\$ -	\$ 658	\$ 44,054	\$ -	\$ -	\$ 44,054
3	Source of Supply Plant	1,649,590	-	-	6	1,649,596	-	-	1,649,596
4	Pumping Plant	1,715,876	-	-	-	1,715,876	-	-	1,715,876
5	Water Treatment Plant	143,024	-	-	147	143,171	-	-	143,171
6	Transmission & Distribution Plant	15,274,344	724,922	-	436	15,999,702	(122,233)	-	15,877,469
7	General Plant	933,254	-	-	507,285	1,440,539	-	-	1,440,539
8	Total Gross Plant in Service (Sum L2 thru L7)	\$ 19,759,483	\$ 724,922	\$ -	\$ 508,532	\$ 20,992,937	\$ (122,233)	\$ -	\$ 20,870,704
9									
10	Accumulated Depreciation	\$ 7,381,827	6,885	-	118,231	\$ 7,506,943	-	-	7,506,943
11	Net Utility Plant in Service (L8 less L10)	\$ 12,377,656	\$ 718,037	\$ -	\$ 390,301	\$ 13,465,984	\$ (122,233)	\$ -	\$ 13,363,761
12									
13	Advances In Aid Of Const.	\$ 1,632,190	\$ -	\$ -	\$ -	\$ 1,632,190	\$ -	\$ -	\$ 1,632,190
14									
15	Contribution In Aid Of Const.	\$ 2,198,794	\$ -	\$ -	\$ -	\$ 2,198,794	\$ -	\$ -	\$ 2,198,794
16	Accumulated Amortization Of CIAC	(439,381)	-	-	-	(439,381)	-	-	(439,381)
17	NET CIAC (L15 less L16)	\$ 1,759,413	\$ -	\$ -	\$ -	\$ 1,759,413	\$ -	\$ -	\$ 1,759,413
18									
19	Deferred Income Tax	\$ -	\$ -	\$ -	\$ 1,823,964	\$ 1,823,964	\$ -	\$ -	\$ 1,823,964
20									
21	Customer Deposits	\$ 39,290	\$ -	\$ -	\$ -	\$ 39,290	\$ -	\$ -	\$ 39,290
22									
23	Allowance For Working Capital	\$ 318,702	\$ -	\$ -	\$ -	\$ 318,702	\$ -	\$ (66,932)	\$ 251,770
24									
25	Net Regulatory Asset / (Liability)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
26									
27	Adjustment to Match Rate Base with G/L	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
28	TOTAL RATE BASE (+L11 - L17 - L19 - L21 + L23)	\$ 9,266,466	\$ 718,037	\$ -	\$ (1,433,663)	\$ 8,550,839	\$ (122,233)	\$ (66,932)	\$ 8,361,674

References:
Column (A) through (E): Company Schedule B-2; Column (D) RBM-4(1)
Column (F): RUCO Schedule RBM-6, Col. G
Column (G): RUCO Schedule RBM-5, Col. A

DIRECT PLANT AND ACCUMULATED DEPRECIATION

Line No.	Acct. No.	Description	Depreciation Rate	2010				Balance Per G.L.	Difference
				Additions	Retirements	Adjustments	Depreciation Expense			Balance
1		Intangible Plant							
2	301	Organization	0.00%						
3	302	Franchises	S... Ass't. 111						
4	303	Other Intangibles	S... Ass't. 111						
5		Subtotal Intangible Plant							
6		Source of Supply Plant							
7	310.1	Water Rights	0.00%			13,200		445,953	
8	310.3	Other Source of Supply Land	0.00%					12,965	
9	310.4	Wells - Other	3.13%						
10	314	Wells							
11		Subtotal Source of Supply Plant				13,200		1,190,671	
12		Pumping Plant						1,649,590	
13	320	Pumping Plant Land	0.00%					8,935	
14	321	Pumping Plant Structures & Improvements	2.86%					46,922	
15	325	Electric Pumping Equipment	5.88%					1,471,226	
16	328	Gas Engine Equipment	4.00%					188,792	
17		Subtotal Pumping Plant						1,715,876	
18		Water Treatment Plant							
19	330	Water Treatment Plant Land	0.00%						
20	331	Water Treatment Structures & Improvements	2.50%					16,144	
21	332	Water Treatment Equipment	2.86%					126,879	
22		Subtotal Water Treatment Plant						143,025	
23		Transmission & Distribution Plant							
24	340	Transmission and Distribution Land	0.00%					5,044	
25	342	Storage Tanks	2.00%					750,635	
26	343	Transmission & Distribution Mains	1.79%					10,014,824	
27	344	Fire Sprinkler Taps	2.00%					322,137	
28	345	Services	2.38%					2,985,410	
29	346	Meters	4.55%					477,436	
30	348	Hydrants	1.82%					715,859	
31		Subtotal Transmission & Distribution Plant						15,274,342	
32		General Plant							
33	389	General Plant Land	0.00%					2,450	
34	390	General Plant Structures	2.50%					41,286	
35	390.1	Leasehold Improvements	S... Ass't. 108.2					8,234	
36	391	Office Furniture & Equipment	6.67%					179,566	
37	393	Warehouse Equipment	5.00%						
38	394	Tools, Shop & Garage Equipment	4.00%					91,877	
39	395	Laboratory Equipment	5.00%					5,315	
40	396	Power Operated Equipment	6.67%					33,762	
41	397	Communication Equipment	6.67%					537,257	
42	398	Miscellaneous Equipment	3.33%					33,507	
43		Subtotal General Plant						933,254	
44		Plant in Service						19,759,483	
1		Net Salvage/Cost of Removal						4,839.00	
2		Adjustments booked to Conform with Rate Decision						(14,421)	
3		Accum. Deprec. Related to other Plant Adjustments						7,381,082	
4		Accumulated Depreciation & Amort.						12,376,400	
5		Net Plant in Service						12,377,666	

\$ 476,168 \$ (88,200) \$ (330,472) \$ 502,207 \$ 19,759,482 \$ 19,759,483 \$ (1) (2)

PHOENIX OFFICE AND METER SHOP - RATE BASE ALLOCATION

LINE NO.	DESCRIPTION	(A) TEST YEAR ADJUSTED	(B) Superstition	(C) Cochise	(D) San Manuel	(E) Oracle	(F) SaddleBrook Ranch	(G) Winkelman
1	3 Factor Allocation Factor		28.65%	7.19%	1.64%	2.04%	0.15%	0.19%
2	Phoenix Office Allocation							
3	Plant Classification							
4	Intangible Plant	\$ 9,148	\$ 2,621	\$ 668	\$ 150	\$ 187	\$ 14	\$ 17
5	Source of Supply Plant	-	-	-	-	-	-	-
6	Pumping Plant	-	-	-	-	-	-	-
7	Water Treatment Plant	-	-	-	-	-	-	-
8	Transmission & Distribution Plant	-	-	-	-	-	-	-
9	General Plant	6,908,613	1,979,318	496,729	113,301	140,936	10,363	13,126
10	Total Gross Plant in Service (Sum L4 thru L9)	\$ 6,917,761	\$ 1,981,939	\$ 497,387	\$ 113,451	\$ 141,122	\$ 10,377	\$ 13,144
11	Less:							
12	Accumulated Depreciation	1,587,979	454,956	114,176	26,043	32,395	2,382	3,017
13	Net Utility Plant in Service (L10 less L12)	\$ 5,329,782	\$ 1,526,982	\$ 383,211	\$ 87,408	\$ 108,728	\$ 7,995	\$ 10,127
14	Less:							
15	Deferred Income Tax	25,368,073	7,267,953	1,823,964	416,036	517,509	38,052	48,199
16	Total Phoenix Office Allocation (L13 less L15)	\$ (20,038,291)	\$ (5,740,970)	\$ (1,440,753)	\$ (328,628)	\$ (408,781)	\$ (30,057)	\$ (38,073)
17								
18	Meter Shop Allocation							
19	Plant Classification							
20	Intangible Plant	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
21	Source of Supply Plant	80	23	6	1	2	-	-
22	Pumping Plant	-	-	-	-	-	-	-
23	Water Treatment Plant	2,050	587	147	34	42	3	4
24	Transmission & Distribution Plant	6,065	1,738	436	99	124	9	12
25	General Plant	146,810	42,061	10,556	2,408	2,995	220	279
26	Total Gross Plant in Service (Sum L20 thru L25)	\$ 155,005	\$ 44,409	\$ 11,145	\$ 2,542	\$ 3,162	\$ 232	\$ 294
27	Less:							
28	Accumulated Depreciation	56,404	16,160	4,055	925	1,151	85	107
29	Net Utility Plant in Service (L26 less L28)	\$ 98,601	\$ 28,249	\$ 7,089	\$ 1,617	\$ 2,011	\$ 148	\$ 187
30	Less:							
31	Deferred Income Tax	56,404	-	-	-	-	-	-
32	Total Phoenix Office Allocation (L29 less L31)	\$ 42,197	\$ 28,249	\$ 7,089	\$ 1,617	\$ 2,011	\$ 148	\$ 187
33								
34	Total Phoenix Office and Meter Shop Allocation							
35	Plant Classification							
36	Intangible Plant	\$ 9,148	\$ 2,621	\$ 668	\$ 150	\$ 187	\$ 14	\$ 17
37	Source of Supply Plant	80	23	6	1	2	-	-
38	Pumping Plant	-	-	-	-	-	-	-
39	Water Treatment Plant	2,050	587	147	34	42	3	4
40	Transmission & Distribution Plant	6,065	1,738	436	99	124	9	12
41	General Plant	7,055,423	2,021,379	507,285	115,709	143,931	10,583	13,405
42	Total Gross Plant in Service	\$ 7,072,766	\$ 2,026,347	\$ 508,532	\$ 115,993	\$ 144,284	\$ 10,609	\$ 13,438
43	Less:							
44	Accumulated Depreciation	1,644,383	471,116	118,231	26,968	33,545	2,467	3,124
45	Net Utility Plant in Service (Sum L7 - L8)	\$ 5,428,382	\$ 1,555,232	\$ 390,301	\$ 89,025	\$ 110,739	\$ 8,142	\$ 10,314
46	Less:							
47	Deferred Income Tax	25,368,073	7,267,953	1,823,964	416,036	517,509	38,052	48,199
48	Total Phoenix Office Allocation (L9 - L10)	\$ (19,996,095)	\$ (5,712,721)	\$ (1,433,664)	\$ (327,011)	\$ (408,770)	\$ (29,910)	\$ (37,886)

EXPLANATION OF RATE BASE ADJUSTMENT
ALLOWANCE FOR WORKING CAPITAL

LINE NO.	DESCRIPTION	(A)	(B)
		AMOUNT	REFERENCE
1	Working Cash Requirement As Per Company	\$ 54,157	Company Schedule B-5, PG. 2 of 2
2	Working Cash Requirement As Per RUCO	(12,775)	RUCO Schedule RBM-6(1), L30
3	Adjustment	\$ (66,932)	L2 - L1
4			
5	Material and Supplies Inventories As Per Company	\$ 58,630	Company Schedule B-5, PG. 2 of 2
6	Material and Supplies Inventories As Per RUCO	58,630	Company Schedule B-5, PG. 2 of 2
7	Adjustment	\$ -	L6 - L5
8			
9	Required Bank Balances As Per Company	\$ 156,780	Company Schedule B-5, PG. 2 of 2
10	Required Bank Balances As Per RUCO	156,780	Company Schedule B-5, PG. 2 of 2
11	Adjustment	\$ -	L10 - L9
12			
13	Prepayments & Special Deposits As Per Company	\$ 49,135	Company Schedule B-5, PG. 2 of 2
14	Prepayments & Special Deposits As Per RUCO	49,135	Company Schedule B-5, PG. 2 of 2
15		\$ -	L13 - L14
16			
17	TOTAL ADJUSTMENT (See RLM-2, Column (K))	\$ (66,932)	Sum L3, L7, L11, L15

EXPLANATION OF RATE BASE ADJUSTMENT NO. 2

Line No.	(A) Company Test Year Adjusted Results	(B) RUCO Adj	(C) RUCO Adjusted Results	(D) Revenue Lag Days ¹	(E) Expense Lag Days ²	(F) Net Lag Days [B - C]	(G) Lead / Lag Factor [D + 365]	(H) Working Cash Requirement [A X E]
1	\$ 448,281		\$ 448,281	30.32	30.87	(0.55)	(0.0015)	\$ (675)
2	Operating Expenses							
3	Purchased Power		843,054	30.32	14.00	16.32	0.0447	37,695
4	Payroll			30.32	-	30.32	0.0831	-
5	Purchased Water			30.32	(18.11)	48.43	0.1327	3,664
6	Chemicals		27,617	30.32	(45.27)	75.59	0.2071	8,250
7	Property & Liability Insurance		39,836	30.32	(46.50)	76.82	0.2105	1,918
8	Workman's Compensation Insurance		9,111	30.32	(8.92)	39.24	0.1075	15,664
9	Health Insurance		145,704	30.32	(9.27)	39.59	0.1085	61,933
10	Other O&M (Excluding Rate Case Expense)		(71,447)	30.32	37.00	(6.68)	(0.0183)	(3,737)
11	Federal Income Taxes		(76,470)	30.32	37.00	(6.68)	(0.0183)	(823)
12	Slate Income Taxes		(16,845)	30.32	14.00	16.32	0.0447	2,828
13	FICA Taxes		63,246	30.32	83.10	(52.78)	(0.1446)	(272)
14	FUTA & SUTA Taxes		1,882	30.32	212.00	(181.68)	(0.4978)	(71,433)
15	Property Taxes		148,178	30.32	(98.83)	129.15	0.3538	14,312
16	Registration, Svc. Contracts, & Misc. Fees		40,447	30.32	34.72	(4.40)	(0.0121)	(900)
17	Retirement Annuities (401k)		74,691	30.32				
18								
19								
20	Subtotal	(169,429)	2,657,546					68,421
21								
22								
23	Interest Expense	(6,527)	279,587	30.32	91.25	(60.93)	(0.1669)	(46,672)
24	Cost of Equity	(544,822)	-	30.32	-	30.32	0.0831	-
25	Dividends Paid	276,544	276,544	30.32	75.89	(45.57)	(0.1248)	(34,524)
26								
27	Subtotal	(274,805)	556,131					(81,196)
28								
29								
30	Total	(444,234)	3,213,677					(12,775)
31								
32								

33 Columns (A), (D), and (E) Company Schs. B-5 page 1
34 Column (B) RUCO Schs. RBM-7, RBM-8

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJ'MTS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Operating Revenues					
1	Residential	\$ 2,270,520	\$ -	\$ 2,270,520	\$ 329,645	\$ 2,600,165
2	Commercial	863,071	-	863,071	57,830	920,901
3	Industrial	3,342	-	3,342	(826)	2,516
4	Private Fire Service	16,647	-	16,647	3,246	19,893
5	Other Water Revenues	107,091	-	107,091	(3,712)	103,379
6	Total Water Revenues	\$ 3,260,671	\$ -	\$ 3,260,671	\$ 386,183	\$ 3,646,854
7						
8	Miscellaneous	\$ 42,877	\$ -	\$ 42,877	\$ 11,722	\$ 54,599
9	Total Operating Revenues	\$ 3,303,548	\$ -	\$ 3,303,548	\$ 397,905	\$ 3,701,453
10						
11	Operating Expenses					
12	Source of Supply Expenses:					
13	Purchased Water	\$ -	-	-	-	-
14	Other	36,840	(75)	36,765	-	36,765
15	Pumping Expenses:					
16	Purchased Power	448,281	-	448,281	-	448,281
17	Purchased Gas	1,606	-	1,606	-	1,606
18	Other	103,495	(1,100)	102,395	-	102,395
19	Water Treatment Expenses	75,163	(236)	74,927	-	74,927
20	Transmission & Distribution Expenses	564,445	(2,481)	561,964	-	561,964
21	Customer Accounting Expenses	355,672	(669)	355,003	-	355,003
22	Sales Expense	-	-	-	-	-
23	Administrative & General Expenses	573,228	(75,317)	497,911	-	497,911
24	Total Operations & Maintenance Expense	\$ 2,158,730	\$ (79,877)	\$ 2,078,853	\$ -	\$ 2,078,853
25						
26	Depreciation & Amortization Expenses	\$ 498,716	\$ (2,358)	\$ 496,358	-	\$ 496,358
27						
28	Taxes					
29	Federal Income Taxes	\$ 52,012	\$ 28,075	\$ 80,087	124,109	\$ 204,196
30	State Income Taxes	11,458	6,184	17,642	27,340	44,983
31	Property Taxes	137,972	-	137,972	5,539	143,511
32	Other	57,584	-	57,584	-	57,584
33	Total Taxes	\$ 259,026	\$ 34,260	\$ 293,286	\$ 156,988	\$ 450,274
34						
35	Total Operating Expenses	\$ 2,916,472	\$ (47,975)	\$ 2,868,497	\$ 156,988	\$ 3,025,485
36	Operating Income	\$ 387,076	\$ 47,975	\$ 435,051	\$ 240,917	\$ 675,968

References:

Column (A): RBM-8, Col. A
Column (B): RBM-8, Col. K
Column (C): Col. A + Col. B
Column (D): RBM-1, RBM-1(2), RBM-15
Column (E): Col. C + Col. D

SCHEDULE OF OPERATING INCOME - TEST YEAR WITH RUOCO ADJUSTMENTS

Line No.	(A) Test Year Ended 12/31/2010	(B) Adjustment Normalize Maintenance IS-1	(C) Adjustment Rate Case Expense IS-2	(D) Adjustment Fleet Fuel Expense IS-3	(E) Adjustment Misc Expenses IS-4	(F) Adjustment Depreciation Expense IS-5	(G) Adjustment LEFT BLANK	(H) Adjustment LEFT BLANK	(I) Adjustment Property Tax IS-20	(J) Adjustment Income Tax IS-21	(K) Total Prio Forma Adjustments	(L) Test Year Adjusted Results
1	Operating Revenues											
2	Residential											2,270,520
3	Commercial	863,071										863,071
4	Industrial	3,342										3,342
5	Private Fire Services	16,647										16,647
6	Other Water Revenues	107,091										107,091
7	Total Water Revenues (L2 thru L6)	\$ 3,260,671										\$ 3,260,671
8	Miscellaneous	42,877										42,877
9	Total Operating Revenues (L7 + L9)	\$ 3,303,548										\$ 3,303,548
10	Operating Expenses											
11	Source of Supply Expenses:											
12	Purchased Water											
13	Other	36,840										36,840
14	Pumping Expenses:											
15	Purchased Power	448,281										448,281
16	Purchased Gas	1,006										1,006
17	Other	103,495										103,495
18	Water Treatment Expenses	75,163										75,163
19	Transmission & Distribution Expenses	564,445										564,445
20	Customer Accounting Expenses	355,672										355,672
21	Sales Expense											
22	Administrative & General Expenses	64,850										64,850
23	Total Operations & Maint. Exp (L14 thru L24)	\$ 2,158,730	\$ (65,190)	\$ (8,430)	\$ (4,463)	\$ (1,794)	\$ (243)	\$ (4,463)	\$ (1,794)	\$ (1,794)	\$ (75,317)	\$ 2,078,853
24	Depreciation & Amortization Expenses	498,716										498,716
25	Taxes											
26	Federal Income Taxes	52,012										52,012
27	State Income Taxes	11,456										11,456
28	Property Taxes	137,972										137,972
29	Other	57,584										57,584
30	Total Taxes (L30 thru L33)	\$ 259,028										\$ 259,028
31	Total Operating Expenses (L25 + L27 + L34)	\$ 2,916,472	\$ (65,190)	\$ (8,430)	\$ (4,463)	\$ (1,794)	\$ (2,358)	\$ (4,463)	\$ (1,794)	\$ (1,794)	\$ (47,975)	\$ 2,868,497
32	Operating Income (L10 less L36)	\$ 387,076	\$ 65,190	\$ 8,430	\$ 4,463	\$ 1,794	\$ 2,358	\$ -	\$ -	\$ -	\$ 47,975	\$ 435,051

References:

- Column A, RBM-9
- Column B, RBM-10
- Column C, RBM-11
- Column D, RBM-12
- Column E, RBM-13
- Column F, RBM-14
- Column J, RBM-16

SCHEDULE OF OPERATING INCOME-TEST YR COMPANY ADJUSTMENTS

Line No.	(A) Test Year Ended 12/31/2010	(B) Adjustment Sales Tax IS-1	(C) Adjustment Net Unbilled IS-2	(D) Adjustment MAP IS-3	(E) Adjustment ACRM IS-4	(F) Adjustment Misc IS-5	(G) Adjustment Annual Rates IS-6	(H) Adjustment New Customers IS-7	(I) Adjustment Annualize Payroll IS-8	(J) Adjustment Annualize Emp Benefits IS-9	(K) Adjustment Interest on Customer Deposits IS-10	(L) Adjustment Normalize Maintenance IS-11
1	Operating Revenues											
2	Residential	\$ 2,440,538	\$ (224,117)	\$ 3,582	\$ (9,871)	\$ -	\$ 54,881	\$ 5,727	\$ -	\$ -	\$ -	\$ -
3	Commercial	906,126	(77,770)	838	(777)	-	29,405	5,249	-	-	-	-
4	Industrial	2,981	(225)	(21)	(3)	-	610	-	-	-	-	-
5	Private Fire Service	8,627	(726)	-	-	-	8,746	-	-	-	-	-
6	Other Water Revenues	122,126	(12,398)	-	(10)	-	(2,626)	-	-	-	-	-
7	Total Water Revenues (L2 thru L5)	\$ 3,480,386	\$ (315,237)	\$ 4,379	\$ (10,661)	\$ -	\$ 90,816	\$ 10,976	\$ -	\$ -	\$ -	\$ -
8	Miscellaneous	46,914	(4,037)	-	-	-	-	-	-	-	-	-
9	Total Operating Revenues (L7 + L9)	\$ 3,527,312	\$ (319,274)	\$ 4,379	\$ (10,661)	\$ -	\$ 90,816	\$ 10,976	\$ -	\$ -	\$ -	\$ -
10	Operating Expenses											
11	Source of Supply Expenses:											
12	Purchased Water	-	-	-	-	-	-	-	-	-	-	-
13	Other	32,134	-	429	-	-	-	95	-	-	-	-
14	Pumping Expenses:											
15	Purchased Power	445,426	-	(3,104)	-	-	-	-	-	-	-	-
16	Purchased Gas	1,606	-	-	-	-	-	-	-	-	-	-
17	Other	86,363	-	1,635	-	-	-	1,570	8,947	-	-	3,088
18	Water Treatment Expenses	87,444	-	501	(16,914)	-	-	257	3,288	-	-	-
19	Transmission & Distribution Expenses	401,330	-	5,266	-	-	-	1,154	41,536	-	-	108,992
20	Customer Accounting Expenses	323,274	-	2,950	-	-	-	930	26,853	-	-	-
21	Sales Expense	502,102	-	1,739	-	-	-	1,444	11,225	24,616	2,297	-
22	Administrative & General Expenses	1,879,679	-	8,406	(16,914)	-	-	5,450	95,844	24,616	2,297	112,080
23	Total Operations & Maint. Exp (L14 thru L24)	\$ 464,098	\$ -	\$ 9,406	\$ (16,914)	\$ -	\$ -	\$ 5,450	\$ 95,844	\$ 24,616	\$ 2,297	\$ 112,080
24	Depreciation & Amortization Expenses											
25	Taxes											
26	Federal Income Taxes	135,289	-	-	-	-	-	-	-	-	-	-
27	State Income Taxes	15,283	-	-	-	-	-	-	-	-	-	-
28	Property Taxes	128,907	-	-	-	-	-	-	-	-	-	-
29	Other	368,064	(319,274)	-	-	-	-	-	8,794	-	-	-
30	Total Taxes (L30 thru L33)	\$ 647,543	\$ (319,274)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,794	\$ -	\$ -	\$ -
31	Total Operating Expenses (L25 + L27 + L34)	\$ 2,891,320	\$ (319,274)	\$ 9,406	\$ (16,914)	\$ -	\$ -	\$ 5,450	\$ 104,638	\$ 24,616	\$ 2,297	\$ 112,080
32	Operating Income (L10 less L36)	\$ 535,992	\$ -	\$ (5,027)	\$ 6,253	\$ -	\$ 90,816	\$ 5,526	\$ (104,638)	\$ (24,616)	\$ (2,297)	\$ (112,080)

Columns (A) through (X) see Company Exhibit Schedule C-2

SCHEDULE OF OPERATING INCOME-TEST YR COMPANY ADJUSTMENTS

Line No.	(M) Adjustment Water & Gas Exp IS - 12	(N) Adjustment Rate Case Expense IS - 13	(O) Adjustment Adjust / A&G for BMP IS - 14	(P) Adjustment Fleet Fuel Expense IS - 15	(Q) Adjustment AS 400 Printers IS - 16	(R) Adjustment Arsenic Treatment Exp IS - 17	(S) Adjustment Error Correction CAP Charges IS - 18	(T) Adjustment Depreciation Expense IS - 19	(U) Adjustment Property Tax IS - 20	(V) Adjustment Income Tax IS - 21	(W) Total Pro Forma Adjustments	(X) Test Year Adjusted Results
1	Operating Revenues											
2	Residential											2,270,520
3	Commercial											663,071
4	Industrial											3,342
5	Private Fire Service											16,647
6	Other Water Revenues											107,091
7	Total Water Revenues (L2 thru L6)											3,260,671
8	Miscellaneous											
9	Total Operating Revenues (L7 + L9)											42,877
10	Operating Expenses											
11	Source of Supply Expenses:											
12	Purchased Water											
13	Other											36,840
14	Pumping Expenses:											
15	Purchased Power											448,281
16	Purchased Gas											1,606
17	Other											17,132
18	Water Treatment Expenses											75,163
19	Transmission & Distribution Expenses											163,115
20	Customer Accounting Expenses											32,388
21	Sales Expense											71,126
22	Administrative & General Expenses											279,051
23	Total Operations & Maint. Exp (L14 thru L24)											34,618
24	Depreciation & Amortization Expenses											
25	Taxes											
26	Federal Income Taxes											52,012
27	State Income Taxes											11,458
28	Property Taxes											137,972
29	Other											57,584
30	Total Taxes (L30 thru L33)											259,026
31	Total Operating Expenses (L25 + L27 + L34)											2,916,472
32	Operating Income (L10 less L36)											387,076

Columns (A) through (X) see Company Exhibit Schedule C-2

**OPERATING INCOME ADJUSTMENT NO. 1
PUMPING AND TRANSMISSION & DISTRIBUTION MAINTENANCE EXPENSE**

Pumping Accounts Normalized		<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>3 Year Normalized Average</u>
1	<u>Maintenance:</u>				
2	Supervision & Engineering	\$ 1,944	\$ 2,382	\$ 2,295	\$ 2,207
3	Structures & Improvements	17,258	6,341	11,811	11,803
4	Electric pumping equipment	12,120	21,463	11,792	15,125
5	Gas pumping equipment	1,341	773	1,789	1,301
6					
7	Total Pumping Maintenance Expense	\$ 32,663	\$ 30,959	\$ 27,687	\$ 30,436
8					
9					
10	Company Requested Level of T. Y. Pumping Maintenance Expense				<u>30,776</u>
11					
12	RUCO Increase / (Decrease) in T. Y. Expense Level				<u>\$ (340)</u>
13					
14	RUCO Pumping Maintenance Expense Adjustment				<u>\$ (340)</u>
15					
16					
17					
18					
19					
20	Transmission & Distribution Accounts Normalized				
21		<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>3 Year Normalized Average</u>
22	<u>Maintenance:</u>				
23	Supervision & Engineering	\$ 39,665	\$ 36,401	\$ 35,299	\$ 37,122
24	Tanks	37,962	37,962	18,978	31,634
25	Mains	132,654	128,713	99,049	120,139
26	Mains - Leak Repair	-	-	18,391	6,130
27	Mains - Leak Detection	-	-	417	139
28	Services	111,332	90,297	61,031	87,553
29	Services - Leak Repair	-	-	9,982	3,327
30	Meters	17,266	16,396	16,739	16,800
31	Hydrants	4,754	946	1,078	2,259
32					
33	Total T & D Maintenance Expense	\$ 343,633	\$ 310,715	\$ 260,964	\$ 305,104
34					
35					
36	Company Requested Level of T. Y. T & D Maintenance Expense				<u>369,954</u>
37					
38	RUCO Increase / (Decrease) Expense Adjustment				<u>\$ (64,850)</u>
39					
40	RUCO T & D Maintenance Expense Adjustment				<u>\$ (64,850)</u>
41					
42					
43	Total RUCO Pumping and T & D Maintenance Expense Adjustment (L14 + L40)				\$ (65,190)

OPERATING INCOME ADJUSTMENT NO. 2
RATE CASE EXPENSE ADJUSTMENT

Line No.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(B) RUCO AS ADJUSTED
1	Rate Case Expense Total for Eastern Group	\$ 476,874	\$ (164,274)	\$ 312,600
2				
3	Allocation Factor			19.15%
4				
5	Superstition (Apache Junction, Superior, Miami)			\$ 59,854
6				
7	Amortization Period - 3 years			3
8				
9	RUCO Adjusted Rate Case Expense (L5 / L7)			\$ 19,951
10				
11	Company Rate Case Expense as Filed (Company Sch. C-2 Appendix)			\$ 28,381
12				
13	RUCO Pro Forma Rate Case Expense (L9 - L11)			\$ (8,430)
14				
15	RUCO Adjustment			\$ (8,430)
16				
17				
18	RUCO's Rate Base Expense Adjustment Calculation:			
19	Decision No. 66848, dated March 19, 2004, approved amount			
20	\$250,000 for Arizona Water Company's Eastern Group.		\$ 250,000	
21				
22	Inflation Factor from January 1, 2002 through September 30,			
23	per Inflation Data.com		25.04%	
24				
25	Reasonable Amount of Rate Case Expense based on			
26	Decision No. 66848.		\$ 312,600	
27				
28	RUCO Adjustment		\$ 164,274	
29				
30	<u>Allocation Factor Based on Number of Customers</u>		<u>Customers</u>	<u>Percent of Total</u>
31	Superstition (Apache Junction, Superior, Miami)		23,607	71.10%
32	Cochise (Bisbee, Sierra Vista)		6,357	19.15%
33	San Manuel		1,465	4.41%
34	Oracle		1,506	4.54%
35	SaddleBrook Ranch		113	0.34%
36	Winkelman		153	0.46%
37	Total Number of Customers and Percentages		33,201	100.00%

OPERATING INCOME ADJUSTMENT NO. 3
Fleet Fuel Expense Adjustment

Line No.	DESCRIPTION	COMPANY AS FILED	RUCO PROP'D CHANGES	RUCO ADJUSTMENT AS RECOMM'D
1	Number of fuel gallons used in test year (Total Company)	190,139	190,139	190,139
2				
3	Price per gallon of fuel (Obtained from AAA Fuel Gage Report)	\$ 3.6710	\$ 3.3150	\$ 0.3560
4				
5	Adjusted due to reduced price per gallon of fuel	<u>\$ 698,000</u>	<u>\$ 630,311</u>	<u>\$ 67,689</u>
6				
7				
8	Percentage allocated to Cochise based on			
9	three factor allocation formula.	<u>\$ 11,112</u>	<u>\$ 6,649</u>	<u>\$ (4,463)</u>
10				
11				
12				
13				
14				
15				
16	<u>ALLOCATED TO OEPRATING DEPARTMENTS:</u>	COMPANY AS FILED	RUCO PROP'D CHANGES	RUCO ADJUSTMENT BY DEPARTMENT
17	Source of Supply Expenses:	\$ 187	\$ 112	\$ (75)
18	Pumping Expenses	1,892	1,132	(760)
19	Water Treatment Expenses	587	351	(236)
20	Transmission & Distribution Expenses	6,177	3,696	(2,481)
21	Customer Accounting Expenses	1,665	996	(669)
22	Administrative & General Expenses	604	361	(243)
23				
24		<u>\$ 11,112</u>	<u>\$ 6,649</u>	<u>\$ (4,463)</u>
25				
26				
27				
28				

OPERATING INCOME ADJUSTMENT NO. 6
PROPERTY TAXES

LINE NO.	Property Tax Calculation	(A)	(B)
		RUCO AS ADJUSTED	RUCO RECOMMENDED
1	RUCO Adjusted Test Year Revenues - RBM-6	\$ 3,303,548	\$ 3,303,548
2	Multiplied by 2	2	2
3	Subtotal (Line 1 * Line 2)	\$ 6,607,096	\$ 6,607,096
4	RUCO Adjusted Test Year Revenues - 2010	3,303,548	
5	RUCO Recommended Revenue, Per Schedule RBM-6		3,701,453
6	Subtotal (Line 4 + Line 5)	\$ 9,910,644	\$ 10,308,549
7	Number of Years	3	3
8	Three Year Average (Line 5 / Line 6)	\$ 3,303,548	\$ 3,436,183
9	Department of Revenue Multiplier	2	2
10	Revenue Base Value (L8 X L9)	\$ 6,607,096	\$ 6,872,366
11	Plus: 10% of CWIP -	-	-
12	Less: Net Book Value of Licensed Vehicles	-	-
13	Full Cash Value (L10 + L11 + L12)	\$ 6,607,096	\$ 6,872,366
14	Assessment Ratio	21.0%	21.0%
15	Assessment Value (L13 X L14)	\$ 1,387,490	\$ 1,443,197
16	Composite Property Tax Rate (L19 / L15)	9.9440%	9.9440%
17			
18	RUCO Proposed Property Tax Expense (L15 X L16)	\$ 137,972	
19	Company Proposed Property Tax	137,972	
20			
21	RUCO Test Year Adjustment (Line 16-Line 17)	\$ -	
22	Property Tax - RUCO Recommended Revenue (L15 X L16)		\$ 143,511
23	RUCO Test Year Adjusted Property Tax Expense (L18)		137,972
24	Increase/(Decrease) to Property Tax Expense		\$ 5,539
25			
26	Increase/(Decrease) to Property Tax Expense		\$ 5,539
27	Increase in Revenue Requirement (L5 - L4)		397,905
28	Increase/(Decrease) to Property Tax per Dollar Increase in Revenue (L26 / L27)		1.3922%

**OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
1	FEDERAL INCOME TAXES:		
2			
3	Operating Income Before Taxes	Sch. RBM-7, Column (C), L36 + L29 + L30	\$ 532,780
4	LESS:		
5	Arizona State Tax	L21	17,642
6	Interest Expense	Note (A) L41	279,587
7	Federal Taxable Income	L1 - L2 - L3	\$ 235,551
8			
9	Federal Tax Rate	Sch. RBM-1, Page 2	34.00%
10	Federal Income Tax Expense	L7 X L9	\$ 80,087
11			
12	STATE INCOME TAXES:		
13			
14	Operating Income Before Taxes	L3	\$ 532,780
15	LESS:		
16	Interest Expense	Note (A) L41	279,587
17	State Taxable Income	L14 - L16	\$ 253,193
18			
19	State Tax Rate	Tax Rate	6.97%
20			
21	State Income Tax Expense	L17 X L19	\$ 17,642
22			
23	TOTAL INCOME TAX EXPENSE:		
24	Federal Income Tax Expense	L10	\$ 80,087
25	State Income Tax Expense	L21	17,642
26	Total Income Tax Expense Per RUCO	L24 + L25	\$ 97,730
27			
28	Total Federal Income Tax Expense Per Company (Per Company Sch. C-1, L30)		52,012
29			
30	Total State Income Tax Expense Per Company (Per Company Sch. C-1, L31)		11,458
31			
32	RUCO Federal Income Tax Adjustment	L24 - L28	\$ 28,075
33			
34	RUCO State Income Tax Adjustment	L25 - L30	\$ 6,184
35			
36			
37	NOTE (A): Interest Synchronization		
38			
39	Adjusted Rate Base RBM-2, Col. (M), L28	\$ 8,361,674	
40	Weighted Cost Of Debt RBM-9, Col. (D), L1	3.34%	
41	Interest Expense (L39 X L40)	\$ 279,587	

COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) DOLLAR AMOUNT	(B) CAPITAL RATIO	(C) COST RATE	(D) WEIGHTED COST RATE
1	Long-Term Debt	\$ 75,000,000	49.03%	6.82%	3.34%
2					
3	Common Equity	77,975,335	50.97%	9.30%	4.74%
4					
5	Total Capitalization	\$ 152,975,335	100.00%		
6					
7					
8	WEIGHTED AVERAGE COST OF CAPITAL				8.08%

References:
 Columns (A) Thru (D): WAR Testimony

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RBM-17	1	COST OF CAPITAL

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Adjusted Original Cost/Fair Value Rate Base	\$ 2,470,182	\$ 2,474,853
2			
3	Adjusted Operating Income (Loss)	\$ 163,349	\$ 177,090
4			
5	Current Rate of Return (L3 / L1)	6.61%	7.16%
6			
7	Required Operating Income (L9 X L1)	\$ 240,043	\$ 200,070
8			
9	Required Rate of Return on Fair Value Rate Base	9.72%	8.08%
10			
11	Operating Income Deficiency (L7 - L3)	\$ 76,693	\$ 22,980
12			
13	Gross Revenue Conversion Factor (RBM-1, Page 2 of 2)	1.6508	1.6508
14			
15	Required Increase in Gross Revenue Requirement (L11 X L13)	\$ 126,601	\$ 37,934
16			
17	Adjusted Test Year Revenue	\$ 990,111	\$ 990,111
18			
19	Proposed Annual Revenue (L15 + L17)	\$ 1,116,712	\$ 1,028,045
20			
21	Required Percentage Increase in Revenue (L15 / L17)	12.79%	3.83%
22			
23	Consolidated Revenue Adjustment	\$ 21,855	\$ 34,844
24			
25	Required Increase in Gross Revenue Under Proposed Consolidation	\$ 148,456	\$ 72,778
26			
27	Required Revenue Under Proposed Consolidation	\$ 1,138,567	\$ 1,062,889
28			
29	Required Percentage Increase in Revenue Under Proposed Consolidation	14.99%	7.35%
30			
31	Rate of Return on Common Equity	12.50%	9.30%

References:

Column (A): Company Schs. A-1 and C-1

Column (B): RUCO Schs. RBM-2, RBM-7, RBM-9 and RBM-17

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	CALCULATION OF GROSS REVENUE CONVERSION FACTOR:				
1	Revenue	100.0000%			
2	Proposed Bad Debt Expense (Per Co. Workpapers)	-			
3	Subtotal (L1 thru L2)	100.0000%			
4	Combined Federal, State, Property Tax Rate (L22)	39.4215%			
5	Subtotal (L3 - L4)	60.5785%			
6	Revenue Conversion Factor (L1 / L5)	1.6508			
7					
8	CALCULATION OF EFFECTIVE TAX RATE:				
9	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
10	Arizona State Income Tax Rate	6.9680%			
11	Federal Taxable Income (L9 - L10)	93.0320%			
12	Applicable Federal Income Tax Rate (L58)	34.0000%			
13	Effective Federal Income Tax Rate (L11 X L12)	31.6309%			
14	Combined Federal and State Income Tax Rate (L10 + L13)	38.5989%			
15					
16	CALCULATION OF EFFECTIVE PROPERTY TAX FACTOR:				
17	Unity	100.0000%			
18	Combined Federal and State Tax Rate	38.5989%			
19	1 Minus Combined Income Tax Rate	61.4011%			
20	Property Tax Factor	1.3397%			
21	Effective Property Tax Factor (L19 x L 20)	0.8226%			
22	Combined Federal, State & Property Tax RateTax Rate (L14 + L21)	39.4215%			
23					
24	RUCO Required Operating Income (Sch. RBM-1, Col. (B), L7)	\$ 200,070			
25	RUCO Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RBM-1, Col. (B), L3)	177,090			
26	Required Increase In Operating Income (L24 - L25)		\$ 22,980		
27					
28	Income Taxes On Recommended Revenue (Col. (D), L53)	\$ 73,751			
29	Income Taxes On Test Year Revenue (Col. (D), L55)	59,305			
30	Required Increase In Revenue To Provide For Income Taxes (L28 - L29)		\$ 14,446		
31					
32	Property Tax with Recommended Revenue (Sch. RBM-7, Col. E, L31)	40,303			
33	Property Tax on TestYear Revenue (Sch. RBM-7, Col. C, L31)	39,795			
34	Increase in Property Tax Due to Increase in Revenue (L32 - L33)		\$ 508		
35					
36	Total Required Increase In Revenue (L26 + L30 + L34)		\$ 37,934		
37					
38	RUCO's CALCULATION OF INCOME TAX:				
39	RUCO Proposed Revenue (Sch. RBM-1, Col. (B), L19)			\$ 1,028,045	
40	Less:				
41	Operating Expense Excluding Income Tax (Sch. RBM-7, Col. (E), L24 + L26 + L31 + L32)			754,225	
42	Synchronized Interest (Col. (C), L63)			82,751	
43	Arizona Taxable Income (L39 - L41 - L42)			\$ 191,070	
44	Arizona State Income Tax Rate			6.9680%	
45	Arizona Income Tax (L43 X L44)				\$ 13,314
46	Fed. Taxable Income (L43 - L45)			\$ 177,756	
47	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ -	
48	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			\$ -	
49	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			\$ -	
50	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			\$ -	
51	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			\$ 60,437	
52	Total Federal Income Tax (L47 thru L 51)				\$ 60,437
53	Combined Federal And State Income Tax (L45+ L52)				\$ 73,751
54					
55	RUCO Adj'd Test Year Combined Federal and State Income Tax (RBM-7, Col. (C), L29 and L30)				\$ 59,305
56	RUCO Proposed Income Tax Adjustment (L53 - L55)				\$ 14,446
57					
58	Applicable Federal Income Tax Rate				34.00%
59					
60	NOTE (A): Interest Synchronization				
61	Adjusted Rate Base RBM-2, Col. (C), L28			\$ 2,474,855	
62	Weighted Cost Of Debt RBM-9, Col. (M), L1			3.34%	
63	Interest Expense (L61 X L62)			\$ 82,751	

SUMMARY RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJTD OCRB/FVRB
1	Plant Classification			
2	Intangible Plant	\$ 605		\$ 605
3	Source of Supply Plant	634,100		634,100
4	Pumping Plant	982,777		982,777
5	Water Treatment Plant	106,634		106,634
6	Transmission & Distribution Plant	5,243,850	\$ 29,823	5,273,673
7	General Plant	468,043		468,043
8	Total Gross Plant in Service (L2 thru L7)	\$ 7,436,010	\$ 29,823	\$ 7,465,832
9				
10	Accumulated Depreciation	\$ 2,829,383		\$ 2,829,383
11	Net Utility Plant In Service (L8 - L10)	\$ 4,606,627	\$ 29,823	\$ 4,636,449
12				
13	Advances In Aid Of Const.	\$ 814,160		\$ 814,160
14				
15	Contribution In Aid Of Const.	\$ 1,006,130		\$ 1,006,130
16	Accumulated Amortization Of CIAC	\$ (140,146)		\$ (140,146)
17	NET CIAC (L15 + L16)	\$ 865,984	\$ -	\$ 865,984
18				
19	Deferred Income Tax	\$ 517,509	\$ -	\$ 517,509
20				
21	Customer Deposits	\$ 12,126	\$ -	\$ 12,126
22				
23	Allowance For Working Capital	\$ 73,335	\$ (25,151)	\$ 48,184
24				
25	Net Regulatory Asset / (Liability)	\$ -	\$ -	\$ -
26				
27	Rounding	\$ (1)	\$ (1)	\$ (2)
28	TOTAL RATE BASE (+L11 - L17 - L19 - L21 + L23)	\$ 2,470,182	\$ 4,671	\$ 2,474,853

References:
Column (A): Company Schedule B-1 and RBM-3 Col. E
Column (B): Schedule RBM-3 Cols. F and G
Column (C): Col. A + Col. B; RBM-3

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED NET PLANT	(B) COMPANY ADJ NO 1 POST TEST YEAR ADJUSTMENTS	(C) NET REGULATORY LIABILITY	(D) PHOENIX OFF AND METER SHOP	(E) COMPANY AS FILED OCB/FVRB	(F) ADJMT NO. 1 POST TESTYR ADJUSTMENTS	(G) ADJMT NO. 6 WORKING CAPITAL	(H) RUCO ADJUSTED OCB/FVRB
1	Plant Classification								
2	Intangible Plant	\$ 418	\$ -	\$ -	\$ 187	\$ 605	\$ -	\$ -	\$ 605
3	Source of Supply Plant	634,098	-	-	2	634,100	-	-	634,100
4	Pumping Plant	982,777	-	-	-	982,777	-	-	982,777
5	Water Treatment Plant	106,592	-	-	42	106,634	-	-	106,634
6	Transmission & Distribution Plant	5,064,542	179,184	-	124	5,243,850	29,697	-	5,273,547
7	General Plant	324,112	-	-	143,931	468,043	126	-	468,169
8	Total Gross Plant in Service (Sum L2 thru L7)	\$ 7,112,540	\$ 179,184	\$ -	\$ 144,286	\$ 7,436,010	\$ 29,823	\$ -	\$ 7,465,832
9									
10	Accumulated Depreciation	\$ 2,794,130	1,708	-	33,545	\$ 2,829,383	-	-	2,829,382.97
11	Net Utility Plant in Service (L8 less L10)	\$ 4,318,410	\$ 177,476	\$ -	\$ 110,741	\$ 4,506,627	\$ 29,823	\$ -	\$ 4,536,449
12									
13	Advances In Aid Of Const.	\$ 814,160	\$ -	\$ -	\$ -	\$ 814,160	\$ -	\$ -	\$ 814,160
14									
15	Contribution In Aid Of Const.	\$ 1,006,130	\$ -	\$ -	\$ -	\$ 1,006,130	\$ -	\$ -	\$ 1,006,130
16	Accumulated Amortization Of CIAC	(140,146)	-	-	-	(140,146)	-	-	(140,146)
17	NET CIAC (L15 less L16)	\$ 865,984	\$ -	\$ -	\$ -	\$ 865,984	\$ -	\$ -	\$ 865,984
18									
19	Deferred Income Tax	\$ -	\$ -	\$ -	\$ 517,509	\$ 517,509	\$ -	\$ -	\$ 517,509
20									
21	Customer Deposits	\$ 12,126	\$ -	\$ -	\$ -	\$ 12,126	\$ -	\$ -	\$ 12,126
22									
23	Allowance For Working Capital	\$ 73,335	\$ -	\$ -	\$ -	\$ 73,335	\$ -	\$ (25,151)	\$ 48,184
24									
25	Net Regulatory Asset / (Liability)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
26									
27	Adjustment to Match Rate Base with G/L	\$ 1	\$ 1	\$ -	\$ (2)	\$ -	\$ -	\$ -	\$ -
28	TOTAL RATE BASE (+L11 - L17 - L19 - L21 + L23)	\$ 2,699,476	\$ 177,477	\$ -	\$ (406,770)	\$ 2,470,183	\$ 29,823	\$ (25,151)	\$ 2,474,855

References:
Columns (A) through (E): Company Schedule B-2; Column (D) RBM-4(1)
Column (F): RUCO Schedule RBM-6, Col. F
Column (G): RUCO Schedule RBM-5, Col. A

DIRECT PLANT AND ACCUMULATION DEPRECIATION

Line No.	Acct. No.	Description	Depreciation Rate	2010				Balance Per G.L.	Difference
				Additions	Retirements	Adjustments	Depreciation Expense		
1		Intangible Plant							
2	301	Organization	0.00%						
3	302	Franchises	S... Acct. 111						
4	303	Other Intangibles	S... Acct. 111						
5		Subtotal Intangible Plant					418	418	
6		Source of Supply Plant							
7	310.1	Water Rights	0.00%			(2)	129,139	129,139	
8	310.3	Other Source of Supply Land	0.00%				24,693	24,693	
9	310.4	Wells - Other							
10	314	Wells	3.13%			(446,342)	480,266	480,266	
11		Subtotal Source of Supply Plant				(446,342)	634,098	634,098	
12		Pumping Plant							
13	320	Pumping Plant Land	0.00%				2,742	2,742	
14	321	Pumping Plant Structures & Improvements	2.86%				2,811	91,283	
15	325	Electric Pumping Equipment	5.88%	3,726		52,149	888,752	888,753	
16	328	Gas Engine Equipment	4.00%						
17		Subtotal Pumping Plant		3,726		54,760	982,777	982,778	
18		Water Treatment Plant							
19	330	Water Treatment Plant Land	0.00%						
20	331	Water Treatment Structures & Improvements	2.50%			876	35,054	35,054	
21	332	Water Treatment Equipment	2.86%			2,045	71,537	71,537	
22		Subtotal Water Treatment Plant				2,922	106,591	106,591	
23		Transmission & Distribution Plant							
24	340	Transmission and Distribution Land	0.00%				19,680	19,680	
25	342	Storage Tanks	2.00%			6,123	306,126	306,126	
26	343	Transmission & Distribution Mains	1.79%	2,713	(32)	(781,117)	3,783,051	3,783,052	
27	344	Fire Sprinkler Taps	2.00%						
28	345	Services	2.38%	1,983	(560)	(40,129)	684,335	684,335	
29	346	Meters	4.55%			(190)	112,379	112,379	
30	348	Hydrants	1.32%	973	(362)	(21,443)	156,971	156,971	
31		Subtotal Transmission & Distribution Plant		5,668	(954)	(842,660)	5,064,542	5,064,542	
32		General Plant							
33	389	General Plant Land	0.00%				145,244	145,244	
34	390	Leasehold Improvements	2.50%			3,631	3,262	3,262	
35	390.1	Office Furniture & Equipment	S... Acct. 108.2			218	1,734	1,734	
36	391	Warehouse Equipment	6.67%	1,702		44	23,740	23,740	
37	393	Tools, Shop & Garage Equipment	5.00%	1,282		924	146	146	
38	384	Laboratory Equipment	4.00%			7	1,131	1,131	
39	395	Power Operated Equipment	5.00%			75	144,166	144,166	
40	396	Communication Equipment	6.67%	82,088		6,876	4,698	4,698	
41	387	Miscellaneous Equipment	6.67%			156	324,112	324,112	
42	398	Subtotal General Plant	3.33%	85,072		11,934	7,112,540	7,112,541	
43		Plant in Service							
44									
1		Net Salvage/Cost of Removal							
2		Adjustments booked to Conform with Rate Decision							
3		Accum. Deprec. Related to other Plant Adjustments			(96,875)		2,796,134	2,796,134	
4		Accumulated Depreciation & Amort.			2,796,134		4,316,411	4,316,411	
5		Net Plant in Service					2,005	(2,006)	

PHOENIX OFFICE AND METER SHOP - RATE BASE ALLOCATION

LINE NO.	DESCRIPTION	(A) TEST YEAR ADJUSTED	(B) Superstition 28.65%	(C) Cochise 7.19%	(D) San Manuel 1.64%	(E) Oracle 2.04%	(F) SaddleBrook Ranch 0.15%	(G) Winkelman 0.19%
1	3 Factor Allocation Factor							
2	Phoenix Office Allocation	\$ 9,148	\$ 2,621	\$ 658	\$ 150	\$ 187	\$ 14	\$ 17
3	Plant Classification							
4	Intangible Plant							
5	Source of Supply Plant							
6	Pumping Plant							
7	Water Treatment Plant							
8	Transmission & Distribution Plant							
9	General Plant	6,908,613	1,979,318	496,729	113,301	140,936	10,363	13,126
10	Total Gross Plant in Service (Sum L4 thru L9)	\$ 6,917,761	\$ 1,981,939	\$ 497,387	\$ 113,451	\$ 141,122	\$ 10,377	\$ 13,144
11	Less:							
12	Accumulated Depreciation	1,587,979	454,956	114,176	26,043	32,395	2,382	3,017
13	Net Utility Plant in Service (L10 less L12)	\$ 5,329,782	\$ 1,526,982	\$ 383,211	\$ 87,408	\$ 108,728	\$ 7,995	\$ 10,127
14	Less:							
15	Deferred Income Tax	25,368,073	7,287,953	1,823,964	416,036	517,509	38,052	48,199
16	Total Phoenix Office Allocation (L13 less L15)	\$ (20,038,291)	\$ (5,740,970)	\$ (1,440,753)	\$ (328,628)	\$ (408,781)	\$ (30,057)	\$ (38,073)
17								
18	Meter Shop Allocation							
19	Plant Classification							
20	Intangible Plant							
21	Source of Supply Plant	80	23	6	1	2		
22	Pumping Plant							
23	Water Treatment Plant	2,050	587	147	34	42	3	4
24	Transmission & Distribution Plant	6,065	1,738	436	99	124	9	12
25	General Plant	146,810	42,061	10,556	2,408	220	220	279
26	Total Gross Plant in Service (Sum L20 thru L25)	\$ 155,005	\$ 44,409	\$ 11,145	\$ 2,542	\$ 3,162	\$ 232	\$ 294
27	Less:							
28	Accumulated Depreciation	56,404	16,160	4,055	925	1,151	85	107
29	Net Utility Plant in Service (L26 less L28)	\$ 98,601	\$ 28,249	\$ 7,089	\$ 1,617	\$ 2,011	\$ 148	\$ 187
30	Less:							
31	Deferred Income Tax	56,404	28,249	7,089	1,617	2,011	148	187
32	Total Phoenix Office Allocation (L29 less L31)	\$ 42,197	\$ 28,249	\$ 7,089	\$ 1,617	\$ 2,011	\$ 148	\$ 187
33								
34	Total Phoenix Office and Meter Shop Allocation							
35	Plant Classification							
36	Intangible Plant							
37	Source of Supply Plant	9,148	2,621	658	150	187	14	17
38	Pumping Plant							
39	Water Treatment Plant	2,050	587	147	34	42	3	4
40	Transmission & Distribution Plant	6,065	1,738	436	99	124	9	12
41	General Plant	7,055,423	2,021,379	507,285	115,709	143,931	10,583	13,405
42	Total Gross Plant in Service	\$ 7,072,766	\$ 2,026,347	\$ 508,532	\$ 115,993	\$ 144,284	\$ 10,609	\$ 13,438
43	Less:							
44	Accumulated Depreciation	1,644,383	471,116	118,231	26,988	33,545	2,467	3,124
45	Net Utility Plant in Service (Sum L7 - L8)	\$ 5,428,382	\$ 1,555,232	\$ 390,301	\$ 89,025	\$ 110,739	\$ 8,142	\$ 10,314
46	Less:							
47	Deferred Income Tax	25,368,073	7,287,953	1,823,964	416,036	517,509	38,052	48,199
48	Total Phoenix Office Allocation (L9 - L10)	\$ (19,996,095)	\$ (5,712,721)	\$ (1,433,664)	\$ (327,011)	\$ (406,770)	\$ (29,910)	\$ (37,886)

ALLOWANCE FOR WORKING CAPITAL

LINE NO.	DESCRIPTION	(A) AMOUNT	(B) REFERENCE
1	Working Cash Requirement As Per Company	\$ 14,197	Company Schedule B-5, PG. 1
2	Working Cash Requirement As Per RUCO	<u>(10,954)</u>	RUCO Schedule RBM 6(1), L30
3	Adjustment	\$ <u>(25,151)</u>	Line 2 - Line 1
4			
5	Material and Supplies Inventories As Per Company	\$ 1,380	Company Schedule B-5, PG. 1
6	Material and Supplies Inventories As Per RUCO	<u>1,380</u>	Company Schedule B-5, PG. 1
7	Adjustment	\$ -	Line 5 - Line 4
8			
9	Required Bank Balances As Per Company	\$ 44,254	Company Schedule B-5, PG. 1
10	Required Bank Balances As Per RUCO	<u>44,254</u>	Company Schedule B-5, PG. 1
11	Adjustment	\$ -	Line 8 - Line 7
12			
13	Prepayments & Special Deposits As Per Company	\$ 13,505	Company Schedule B-5, PG. 1
14	Prepayments & Special Deposits As Per RUCO	<u>13,505</u>	Company Schedule B-5, PG. 1
15		\$ -	Line 11 - Line 10
16			
17	TOTAL ADJUSTMENT (See RLM-2, Column (K))	<u>\$ (25,151)</u>	Sum Lines 3, 6, 9 & 12

EXPLANATION OF RATE BASE ADJUSTMENT NO. 1
Summary of Post Test Year Plant Additions
Preliminary Costs vs Final Costs

Identification / Work Authorization / WVA No.	Account Description	Account Number	(A) Date const. began.	(B) Date Construction is expected to be completed or was completed.	(C) Cost Per Company's Exhibit Sch B-2, Appendix Pages 1 thru 6	(D) Final Cost Per Company Response 2.02 Dated Nov. 28, 2011	(E) Total Eastern Region Adjustment	(F) Supersubstitution	(G) Cochoise	(H) Oracle	
1	1-4226 Water Treatment Equipment	332	8/24/2009	12/15/2011	\$ 2,872,067	2,789,964	(82,103)	WT			
2	1-4787 Trans. & Dist. Mains	343	3/19/2011	5/5/2011	21,620	21,897	277	TD			
3	1-4788 Communication Equip	397	5/3/2011	6/7/2011	14,088	20,587	6,499	GP			
4	1-4789 Electric Pumping	325	5/1/2011	6/30/2011	13,800	4,498	(9,302)	GP			
5	1-4792 Trans. & Dist. Mains	343	2/2/2011	6/3/2011	35,514	107,305	71,791	PP			
6	1-4793 Trans. & Dist. Mains	343	5/12/2011	6/13/2011	186,769	176,426	(10,343)	TD			
7	1-4794 Trans. & Dist. Mains	343	5/11/2011	6/10/2011	156,984	133,921	(23,063)	TD			
8	1-4833 Electric Pumping	325	2/15/2011	4/15/2011	14,721	14,209	(512)	PP			
9	1-4842 Electric Pumping	325	5/9/2011	6/10/2011	98,677	61,882	(36,795)	PP			
10	1-4692 Trans. & Dist. Mains	343	5/24/2010	6/2/2011	156,054	139,361	(16,693)	TD	(16,693)		
11	1-4767 Trans. & Dist. Mains	343	12/20/2010	3/2/2011	375,720	293,100	(82,620)	TD	(82,620)		
12	1-4795 Trans. & Dist. Mains	343	2/11/2011	5/22/2011	193,147	169,784	(23,363)	TD	(23,363)		
13	1-4798 Trans. & Dist. Mains	343	5/11/2011	6/30/2011	40,113	44,369	4,256	TD		4,256	
14	1-4789 Trans. & Dist. Mains	343	5/13/2011	6/30/2011	51,218	72,174	20,956	TD		20,956	
15	1-4800 Trans. & Dist. Mains	343	5/11/2011	6/30/2011	87,853	92,338	4,485	TD		4,485	
17	Plant Post Test Year Adjustments				\$ 4,318,345	\$ 4,141,815	\$ (176,530)		(1,448)	(122,676)	29,697
18											
19											
20	Phoenix Office Adjustments		4/20/2011	6/2/2011	\$ 25,564	31,727	2,335	GP	1,766	443	126
21											
22	TOTAL POST TEST YEAR ADJUSTMENTS						\$ (174,196)		\$ 317	\$ (122,233)	\$ 29,823
23											
24											
25											
26											
27											
28											
29											
30											
31											
32											
33											
34											
35											

ADJUSTMENTS AS FOLLOWS:

Pumping Plant (L5 + L8 + L9)	34,484	-
Water Treatment Equipment (L1)	(82,103)	
Transmission & Distribution Plant (L2 + L6 + L7 + L10 thru L15)	(122,108)	(122,676)
General Plant (L3 + L4 + L20)	(468)	(1,037)
	(174,196)	(81,786)
		(122,233)
		29,823

EXPLANATION OF RATE BASE ADJUSTMENT NO. 2

Line No.	(A) Company Test Year Adjusted Results	(B) RUCO Adj	(C) RUCO Adjusted Results	(D) Revenue Lag Days1	(E) Expense Lag Days2	(F) Net Lag Days [B - C]	(G) Lead / Leg Factor [D + 365]	(H) Working Cash Requirement [A X E]
1	\$ 107,154		\$ 107,154	30.56	30.87	(0.31)	(0.0008)	\$ (91)
2	Operating Expenses							
3	Purchased Power		195,535	30.56	14.00	16.56	0.0454	8,871
4	Payroll			30.56	26.04	4.52	0.0124	-
5	Purchased Water			30.56	(18.11)	48.67	0.1333	515
6	Chemicals		3,859	30.56	(45.27)	75.83	0.2078	2,348
7	Property & Liability Insurance		11,303	30.56	(46.50)	77.06	0.2111	546
8	Workman's Compensation Insurance		2,585	30.56	(8.92)	39.48	0.1082	3,782
9	Health Insurance		34,962	30.56	(9.27)	39.83	0.1091	19,203
10	Other O&M (Excluding Rate Case Expense)	(20,895)	175,979	30.56	37.00	(6.44)	(0.0176)	(1,066)
11	Federal Income Taxes	(20,642)	60,437	30.56	37.00	(6.44)	(0.0176)	(235)
12	State Income Taxes	(4,547)	13,314	30.56	14.00	16.56	0.0454	665
13	FICA Taxes		14,659	30.56	83.10	(52.54)	(0.1439)	(69)
14	FUTA & SUTA Taxes		479	30.56	212.00	(181.44)	(0.4971)	(20,035)
15	Property Taxes	(1,186)	40,303	30.56	(98.83)	129.39	0.3545	3,937
16	Registration, Svc. Contracts, & Misc. Fees		11,107	30.56	34.72	(4.16)	(0.0114)	(204)
17	Retirement Annuities (401k)		17,922	30.56				
18								
19								
20	Subtotal	(47,272)	689,598					18,167
21								
22								
23	Interest Expense	98	82,751	30.56	91.25	(61.10)	(0.1674)	(13,852)
24	Cost of Equity	(157,389)	-	30.56	-	30.56	0.0837	-
25	Dividends Paid	122,953	122,953	30.56	75.89	(45.33)	(0.1242)	(15,269)
26								
27	Subtotal	(34,336)	205,704					(29,121)
28								
29								
30	Total	(81,610)	895,302					(10,954)
31								
32								

33 Columns (A), (D), and (E) Company Schs. B-5 page 1
34 Column (B) RUCO Schs. RBM-7, RBM-8

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJMTS	(C) RUCO TEST YEAR AS ADJTD	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Operating Revenues					
1	Residential	\$ 801,054	\$ -	\$ 801,054	\$ 30,764	\$ 831,818
2	Commercial	156,438	-	156,438	6,371	162,809
3	Industrial	-	-	-	-	-
4	Private Fire Service	284	-	284	40	324
5	Other Water Revenues	19,841	-	19,841	718	20,559
6	Total Water Revenues	\$ 977,617	\$ -	\$ 977,617	\$ 37,893	\$ 1,015,510
7	Miscellaneous	\$ 12,494	\$ -	\$ 12,494	\$ 41	12,535
8	Total Operating Revenues	\$ 990,111	\$ -	\$ 990,111	\$ 37,934	\$ 1,028,045
	Operating Expenses					
	Source of Supply Expenses:					
9	Purchased Water	-	-	-	-	-
10	Other	5,202	(20)	5,182	-	5,182
11	Pumping Expenses:					
12	Purchased Power	107,154	-	107,154	-	107,154
13	Purchased Gas	-	-	-	-	-
14	Other	39,396	(2,339)	37,057	-	37,057
15	Water Treatment Expenses	17,008	(65)	16,943	-	16,943
16	Transmission & Distribution Expenses	127,734	(17,672)	110,062	-	110,062
17	Customer Accounting Expenses	103,050	(185)	102,865	-	102,865
18	Sales Expense	-	-	-	-	-
19	Administrative & General Expenses	147,197	(2,512)	144,685	-	144,685
20	Total Operations & Maintenance Expense	\$ 546,741	\$ (22,793)	\$ 523,948	\$ -	\$ 523,948
21	Depreciation & Amortization Expenses	\$ 176,809	\$ 476	\$ 177,285	-	\$ 177,285
	Taxes					
22	Federal Income Taxes	\$ 41,571	\$ 7,028	\$ 48,599	11,838	\$ 60,437
23	State Income Taxes	9,158	1,548	10,706	2,608	13,314
24	Property Taxes	39,795	-	39,795	508	40,303
25	Other	12,689	-	12,689	-	12,689
26	Total Taxes	\$ 103,213	\$ 8,576	\$ 111,789	\$ 14,954	\$ 126,743
27	Total Operating Expenses	\$ 826,763	\$ (13,742)	\$ 813,021	\$ 14,954	\$ 827,975
28	Operating Income	\$ 163,348	\$ 13,742	\$ 177,090	\$ 22,980	\$ 200,070

References:

Column (A): RBM-8, Col. A
Column (B): RBM-8, Col. K
Column (C): Col. A + Col. B
Column (D): RBM-1, RBM-1(2), RBM-15
Column (E): Col. C + Col. D

SCHEDULE OF OPERATING INCOME - TEST YEAR WITH ADJUSTMENTS

Line No.	(A) Test Year Ended 12/31/2010	(B) Adjustment Normalize Maintenance IS-1	(C) Adjustment Rate Case Expense IS-2	(D) Adjustment Fleet Fuel Expense IS-3	(E) Adjustment Misc Expenses IS-4	(F) Adjustment Depreciation Expense IS-5	(G) Adjustment LEFT BLANK	(H) Adjustment LEFT BLANK	(I) Adjustment Property Tax IS-B	(J) Adjustment Income Tax IS-9	(K) Total Pro Forma Adjustments	(L) Test Year Adjusted Results
1												
2	\$ 801,054	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 801,054
3	156,438	-	-	-	-	-	-	-	-	-	-	156,438
4												
5	284	-	-	-	-	-	-	-	-	-	-	284
6	19,841	-	-	-	-	-	-	-	-	-	-	19,841
7	\$ 977,617	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 977,617
8												
9	12,494	-	-	-	-	-	-	-	-	-	-	12,494
10	\$ 990,111	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 990,111
11												
12												
13												
14												
15	5,202	-	-	(20)	-	-	-	-	-	-	(20)	5,182
16												
17	107,154	-	-	-	-	-	-	-	-	-	-	107,154
18												
19	39,396	(2,129)	-	(210)	-	-	-	-	-	-	(2,339)	37,057
20	17,008	-	-	(65)	-	-	-	-	-	-	(65)	16,943
21	127,734	(16,985)	-	(687)	-	-	-	-	-	-	(17,672)	110,062
22	103,050	-	-	(185)	-	-	-	-	-	-	(185)	102,865
23												
24	147,197	-	(1,898)	(67)	(547)	-	-	-	-	-	(2,512)	144,685
25	\$ 546,741	\$ (19,114)	\$ (1,898)	\$ (1,235)	\$ (547)	\$ (547)	\$ -	\$ -	\$ -	\$ -	\$ (22,763)	\$ 523,948
26												
27	176,809	-	-	-	-	476	-	-	-	-	476	177,285
28												
29												
30												
31	41,571	-	-	-	-	-	-	-	-	-	-	41,571
32	9,158	-	-	-	-	-	-	-	-	-	-	9,158
33	39,795	-	-	-	-	-	-	-	-	-	-	39,795
34	12,689	-	-	-	-	-	-	-	-	-	-	12,689
35	\$ 103,213	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 103,213
36	\$ 826,763	\$ (19,114)	\$ (1,898)	\$ (1,235)	\$ (547)	\$ 476	\$ -	\$ -	\$ -	\$ -	\$ (13,742)	\$ 813,021
37	\$ 163,348	\$ 19,114	\$ 1,898	\$ 1,235	\$ 547	\$ (476)	\$ -	\$ -	\$ -	\$ -	\$ 13,742	\$ 177,090

REFERENCES:
Column A, RBM-9
Column B, RBM-10
Column C, RBM-11
Column D, RBM-12
Column E, RBM-13
Column F, RBM-14
Column J, RBM-16

SCHEDULE OF OPERATING INCOME - TEST YEAR WITH ADJUSTMENTS

Line No.	(A) Test Year Ended 12/31/2010	(B) Adj. Sales Tax IS-1	(C) Adj. Net Unbilled IS-2	(D) Adj. MAP IS-3	(E) Adj. ACRM IS-4	(F) Adj. Misc IS-3	(G) Adj. Annual Rates IS-5	(H) Adj. New Customers IS-7	(I) Adj. Payroll IS-8	(J) Adj. Emp. Benefits IS-9	(K) Adj. Interest on Customer Deposits IS-10	(L) Adj. Normalized Maintenance IS-11
1	Operating Revenues											
2	Residential	\$ 865,183	\$ (62,648)	\$ (2,515)	\$ (9,913)	\$ -	\$ (10,747)	\$ (4,305)	\$ -	\$ -	\$ -	\$ -
3	Commercial	178,838	(12,730)	912	(274)	-	(5,175)	(5,133)	-	-	-	-
4	Industrial	-	-	-	-	-	-	-	-	-	-	-
5	Private Fire Service	145	(10)	-	-	-	149	-	-	-	-	-
6	Other Water Revenues	21,055	(1,490)	-	-	-	282	-	-	-	-	-
7	Total Water Revenues (L2 thru L6)	\$ 1,065,221	\$ (76,878)	\$ (1,603)	\$ (4,183)	\$ -	\$ (15,491)	\$ (9,438)	\$ -	\$ -	\$ -	\$ -
8	Miscellaneous	13,346	(852)	-	-	-	-	-	-	-	-	-
9	Total Operating Revenues (L7 + L9)	\$ 1,098,567	\$ (77,731)	\$ (1,603)	\$ (4,183)	\$ -	\$ (15,491)	\$ (9,438)	\$ -	\$ -	\$ -	\$ -
10	Operating Expenses											
11	Source of Supply Expenses:											
12	Purchased Water	-	-	-	-	-	-	-	-	-	-	-
13	Other	4,996	-	50	-	-	-	(51)	149	-	-	-
14	Pumping Expenses:											
15	Purchased Power	107,256	-	(102)	-	-	-	-	-	-	-	-
16	Purchased Gas	-	-	-	-	-	-	-	-	-	-	-
17	Other	34,254	-	88	-	-	-	(1,449)	1,051	-	-	-
18	Water Treatment Expenses	21,005	-	58	(4,248)	-	-	(215)	214	-	-	4,859
19	Transmission & Distribution Expenses	94,494	-	1,374	-	-	-	(694)	2,903	-	-	27,721
20	Customer Accounting Expenses	99,824	-	650	-	-	-	(733)	2,787	-	-	-
21	Sales Expense	-	-	-	-	-	-	-	-	-	-	-
22	Administrative & General Expenses	131,434	-	514	-	-	-	(955)	2,505	5,934	728	-
23	Total Operations & Maint. Exp (L14 thru L24)	\$ 493,263	\$ -	\$ 2,642	\$ (4,248)	\$ -	\$ -	\$ (4,107)	\$ 9,609	\$ 5,934	\$ 728	\$ -
24	Depreciation & Amortization Expenses	167,307	-	-	-	-	-	-	-	-	-	-
25	Taxes											
26	Federal Income Taxes	60,149	-	-	-	-	-	-	-	-	-	-
27	State Income Taxes	6,795	-	-	-	-	-	-	-	-	-	-
28	Property Taxes	43,851	-	-	-	-	-	-	-	-	-	-
29	Other	85,800	(77,731)	-	-	-	-	-	1,620	-	-	-
30	Total Taxes (L30 thru L33)	\$ 199,695	\$ (77,731)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,620	\$ -	\$ -	\$ -
31	Total Operating Expenses (L25 + L27 + L34)	\$ 860,265	\$ (77,731)	\$ 2,642	\$ (4,248)	\$ -	\$ -	\$ (4,107)	\$ 11,229	\$ 5,934	\$ 728	\$ 32,580
32	Operating Income (L10 less L36)	\$ 238,302	\$ -	\$ (4,245)	\$ 55	\$ -	\$ (15,491)	\$ (5,331)	\$ (11,229)	\$ (5,934)	\$ (728)	\$ (32,580)

Columns (A) through columns (X) see Company Exhibit Schedule C-2

SCHEDULE OF OPERATING INCOME - TEST YEAR WITH ADJUSTMENTS

Line No.	(M) Adjustment Adjust Purchase Water & Gas Exp IS-12	(N) Adjustment Rate Case Expense IS-13	(O) Adjustment Adjust A&G for BMP IS-14	(P) Adjustment Fleet Fuel Expense IS-15	(Q) Adjustment AS 400 Printers IS-16	(R) Adjustment Arsenic Treatment Exp IS-17	(S) Adjustment Error Correction CAP Charges IS-18	(T) Adjustment Depreciation Expense IS-19	(U) Adjustment Property Tax IS-20	(V) Adjustment Income Tax IS-21	(W) Total Pro Forma Adjustments	(X) Test Year Adjusted Results
1												
2												
3												
4												
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6												
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37												

Columns (A) through column (X) see Company Exhibit Schedule C-2

**OPERATING INCOME ADJUSTMENT NO. 1
PUMPING, TRANSMISSION & DISTRIBUTION MAINTENANCE EXPENSE**

Pumping Accounts Normalized:		<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>3 Year Normalized Average</u>
1	<u>Maintenance:</u>				
2	Supervision & Engineering	\$ 3,645	\$ 1,975	\$ 2,056	\$ 2,559
3	Structures & Improvements	3,818	3,294	2,091	3,068
4	Electric pumping equipment	8,770	3,587	4,302	5,553
5	Gas pumping equipment	-	-	-	-
6					
7	Total Pumping Maintenance Expense	\$ 16,233	\$ 8,856	\$ 8,449	\$ 11,179
8					
9					
10	Company Requested Level of T. Y. Pumping Maintenance Expense				<u>13,308</u>
11					
12	RUCO Increase / (Decrease) in T. Y. Expense Level				<u>\$ (2,129)</u>
13					
14	RUCO Pumping Maintenance Expense Adjustment				<u>\$ (2,129)</u>
15					
16					
17					
18					
19					
20	Transmission & Distribution Accounts Normalized:				
21		<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>3 Year Normalized Average</u>
22	<u>Maintenance:</u>				
23	Supervision & Engineering	\$ 9,897	\$ 8,974	\$ 6,580	\$ 8,484
24	Tanks	16,148	16,148	8,106	13,467
25	Mains	12,839	5,397	4,882	7,706
26	Mains - Leak Repair	-	-	724	241
27	Mains - Leak Detection	-	-	-	-
28	Services	23,764	12,560	11,684	16,003
29	Services - Leak Repair	-	-	1,164	388
30	Meters	3,504	4,488	7,013	5,002
31	Hydrants	486	282	985	584
32					
33	Total T & D Maintenance Expense	\$ 66,638	\$ 47,849	\$ 41,138	\$ 51,875
34					
35					
36	Company Requested Level of T. Y. T & D Maintenance Expense				<u>68,860</u>
37					
38	RUCO Increase / (Decrease) Expense Adjustment				<u>\$ (16,985)</u>
39					
40	RUCO T & D Maintenance Expense Adjustment				<u>\$ (16,985)</u>
41					
42					
43	Total RUCO Pumping and T & D Maintenance Expense Adjustment (L14 + L40)				<u>\$ (19,114)</u>

**OPERATING INCOME ADJUSTMENT NO. 2
RATE CASE EXPENSE ADJUSTMENT**

Line No.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense Total for Eastern Group	\$ 476,874	\$ (164,274)	\$ 312,600
2				
3	Allocation Factor (L31)			<u>4.54%</u>
4				
5	Superstition (Apache Junction, Superior, Miami)			<u>\$ 14,180</u>
6				
7	Amortization Period - 3 years			3
8				
9	RUCO Adjusted Rate Case Expense (L5 / L7)			<u>\$ 4,727</u>
10				
11	Company Rate Case Expense as Filed (Company Sch. C-2 Appendix)			\$ 6,625
12				
13	RUCO Pro Forma Rate Case Expense (L9 - L11)			<u>\$ (1,898)</u>
14				
15	RUCO Adjustment			<u>\$ (1,898)</u>
16				
17				
18	RUCO's Rate Base Expense Adjustment Calculation:			
19	Decision No. 66848, dated March 19, 2004, approved amount			
20	\$250,000 for Arizona Water Company's Eastern Group.		\$ 250,000	
21				
22	Inflation Factor from January 1, 2002 through September 30,			
23	per Inflation Data.com		<u>25.04%</u>	
24				
25	Reasonable Amount of Rate Case Expense based on			
26	Decision No. 66848.		<u>\$ 312,600</u>	
27				
28	RUCO Adjustment (Col. (A) L1 - Col. (B) L26)		<u>\$ 164,274</u>	
29				
30	<u>Allocation Factor Based on Number of Customers</u>		<u>Customers</u>	<u>Percent of Total</u>
31	Superstition (Apache Junction, Superior, Miami)		23,607	71.10%
32	Cochise (Bisbee, Sierra Vista)		6,357	19.15%
33	San Manuel		1,465	4.41%
34	Oracle		1,506	4.54%
35	SaddleBrook Ranch		113	0.34%
36	Winkelman		153	0.46%
37	Total Number of Customers and Percentages		<u>33,201</u>	<u>100.00%</u>

OPERATING INCOME ADJUSTMENT NO. 3
Fleet Fuel Expense Adjustment

Line No.	DESCRIPTION	COMPANY AS FILED	RUCO PROP'D CHANGES	RUCO ADJUSTMENT AS RECOMM'D
1	Number of fuel gallons used in test year (Total Company)	190,139	190,139	190,139
2				
3	Price per gallon of fuel (Obtained from AAA Fuel Gage Report)	\$ 3.6710	\$ 3.3150	\$ 0.3560
4				
5	Adjusted due to reduced price per gallon of fuel	\$ 698,000	\$ 630,311	\$ 67,689
6				
7				
8	Percentage allocated to Cochise based on			
9	three factor allocation formula.	\$ 3,482	\$ 2,247	\$ (1,235)
10				
11				
12				
13				
14				
15				
16	<u>ALLOCATED TO OEPRATING DEPARTMENTS:</u>	COMPANY AS FILED	RUCO PROP'D CHANGES	RUCO ADJUSTMENT BY DEPARTMENT
17	Source of Supply Expenses:	\$ 58	\$ 38	\$ (20)
18	Pumping Expenses	593	383	(210)
19	Water Treatment Expenses	184	119	(65)
20	Transmission & Distribution Expenses	1,936	1,249	(687)
21	Customer Accounting Expenses	522	337	(185)
22	Administrative & General Expenses	189	122	(67)
23				
24		\$ 3,482	\$ 2,247	\$ (1,235)
25				
26				
27				
28				

OPERATING INCOME ADJUSTMENT NO. 4
 MISCELLANEOUS EXPENSE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) Superstition	(B) Cochise	(C) San Manual	(D) Oracle	(E) SaddleBrook Ranch	(F) Winkelman
<u>DIRECT EXPENSES</u>							
1							
2	Customer Accounting Expense	\$ 1,570	\$ 713	\$ 78	\$ 96	\$ -	\$ -
3							
4	Administration & General Expense	1,642	-	137	143	19	7
5							
6	TOTAL DIRECT EXPENSE	\$ 3,212	\$ 713	\$ 215	\$ 240	\$ 19	\$ 7
7							
<u>PHOENIX OFFICE EXPENSES</u>							
8							
9							
10							
11	Service Awards and Banquets	\$10,580	761	174	216	16	20
12							
13	Flower Shop Expenses	\$987	71	16	20	1	2
14							
15	Water Association Dues Allowed	\$3,475	250	57	71	5	7
16	at 50% of Total						
17							
18	TOTAL ALLOCATED EXPENSES	\$4,310	\$1,082	\$247	\$307	\$23	\$29
19							
20	TOTAL MISCELLANEOUS EXPENSE ADJUSTMENT	\$7,522	\$1,794	\$462	\$547	\$42	\$35
21							
22							
23							
24							

ALLOCATION OF PHOENIX OFFICE EXPENSES BASED ON THREE FACTOR

TOTAL	0.2865	0.0719	0.0164	0.0204	0.0015	0.0019
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OPERATING INCOME ADJUSTMENT NO. 5
CALCULATION OF DEPRECIATION EXPENSE

Line No.	Accr. No.	Present Depreciation Rates	(A) Plant Balance Per GL	(B) Post Test Year Adjustments	(C) Phoenix Office Balance Per GL	(D) Meter Shop Balance Per GL	(E) Three Factor Formula Allocation	(F) Phoenix Office Meter Shop Allocated To Plant	(G) Company Adjusted End Of Test Year	(H) RUCO Adjustments End Of Test Year	(I) Adjusted End Of Test Year Plant	(J) RUCO Depreciation Test Year Adjusted
1												
2	301	0.00%			651		2.04%					
3	302	See Acct. 111	418		8,496		2.04%					750
4	303	See Acct. 111	418		9,148		2.04%	173			592	1,263
5												2,013
6	310.1	0.00%	129,139				2.04%		129,139		129,139	
7	310.3	0.00%	24,693			80	2.04%		24,695		24,695	
8	310.4	See Acct. 111					2.04%					
9		3.15%	480,266				2.04%		480,266		480,266	15,032
10	314		634,098			80	2.04%	2	634,099		634,099	15,032
11												
12												
13	320	0.00%	2,742				2.04%		2,742		2,742	
14	321	2.86%	91,283				2.04%		91,283		91,283	2,611
15	325	5.88%	888,752				2.04%		888,752		888,752	52,259
16	328	4.00%					2.04%					
17			982,777						982,777		982,777	54,869
18												
19	330	0.00%					2.04%					
20	331	2.50%	35,054				2.04%		35,054		35,054	876
21	332	2.86%	71,537			2,050	2.04%	42	71,579		71,579	2,047
22			106,592			2,050		42	106,633		106,633	2,924
23												
24	340	0.00%	19,680				2.04%		19,680		19,680	
25	342	2.00%	306,126				2.04%		306,126		306,126	6,123
26	343	1.78%	3,763,051			6,066	2.04%	124	3,812,872		3,812,872	66,250
27	344	2.00%					2.04%					
28	345	2.38%	684,335				2.04%		684,461		684,461	16,290
29	346	4.55%	112,379				2.04%		112,379		112,379	5,113
30	348	1.82%	158,971				2.04%		158,971		158,971	2,893
31			5,064,542			6,066	2.04%	124	5,094,489		5,094,489	98,670
32												
33	389	0.00%					2.04%					
34	390	2.50%	145,244			52,852	2.04%		147,952		147,952	3,699
35	390.1	See Acct. 106.2			79,935		2.04%	2,709				
36	391	6.67%			1,543,079		2.04%	31,479	31,479		31,479	1,928
37	393	5.00%	3,262		4,895,192		2.04%	100,068	103,350		103,350	6,893
38	394	4.00%	1,734		3,705		2.04%	257	1,991		1,991	100
39	395	5.00%	23,740		196,363		2.04%	5,424	29,164		29,164	1,167
40	395	5.00%	146		1,508		2.04%	92	237		237	12
41	397	6.67%	144,158				2.04%	30	1,161		1,161	77
42	399	3.33%	4,698		7,207		2.04%	147	147,863		147,863	9,862
43			324,112		6,908,612	146,809	2.04%	143,831	4,845		4,845	161
44			\$ 7,112,540	\$ 29,823	\$ 6,917,760	\$ 155,005		\$ 144,271	\$ 7,286,633	\$	\$ 7,286,633	\$ 197,407
												\$ (20,123)
			1,006,130	2%	\$ 20,123							\$ 177,285
												\$ 176,509
												\$ 476

Total Depreciation Test Year Adjusted
Less: Amortization of Regulatory Liability
Add: Amortization of Contribution in Aid of Construction
Total Depreciation as Calculated
Per Company Schedule C-2
Adjustment

OPERATING INCOME ADJUSTMENT NO. 6
PROPERTY TAXES

LINE NO.	Property Tax Calculation	(A)	(B)
		RUCO AS ADJUSTED	RUCO RECOMMENDED
1	RUCO Adjusted Test Year Revenues - RBM-6	\$ 990,111	\$ 990,111
2	Multiplied by 2	<u>2</u>	<u>2</u>
3	Subtotal (Line 1 * Line 2)	\$ 1,980,222	\$ 1,980,222
4	RUCO Adjusted Test Year Revenues - 2010	<u>990,111</u>	
5	RUCO Recommended Revenue, Per Schedule RBM-6		<u>1,028,045</u>
6	Subtotal (Line 4 + Line 5)	\$ 2,970,333	\$ 3,008,267
7	Number of Years	<u>3</u>	<u>3</u>
8	Three Year Average (Line 5 / Line 6)	\$ 990,111	\$ 1,002,756
9	Department of Revenue Multiplier	<u>2</u>	<u>2</u>
10	Revenue Base Value (L8 X L9)	\$ 1,980,222	\$ 2,005,512
11	Plus: 10% of CWIP -	-	-
12	Less: Net Book Value of Licensed Vehicles	-	-
13	Full Cash Value (L10 + L11 + L12))	\$ 1,980,222	\$ 2,005,512
14	Assessment Ratio	<u>21.0%</u>	<u>21.0%</u>
15	Assessment Value (L13 X L14)	\$ 415,847	\$ 421,157
16	Composite Property Tax Rate (L19 / L15)	<u>9.5696%</u>	<u>9.5696%</u>
17	RUCO Proposed Property Tax Expense (L15 X L16))	\$ 39,795	
18	Company Proposed Property Tax	<u>39,795</u>	
19	RUCO Test Year Adjustment (L16 - L17)	\$ -	
19	Property Tax - RUCO Recommended Revenue (L15 X L16)		\$ 40,303
20	RUCO Test Year Adjusted Property Tax Expense (L18)		<u>39,795</u>
21	Increase/(Decrease) to Property Tax Expense		<u>\$ 508</u>
22	Increase/(Decrease) to Property Tax Expense		\$ 508
23	Increase in Revenue Requirement (L5 - L4)		37,934
24	Increase/(Decrease) to Property Tax per Dollar Increase in Revenue (L26 / L27)		1.3397%

**OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
1	FEDERAL INCOME TAXES:		
2			
3	Operating Income Before Taxes	Sch. RBM- 6, Column (C), L29 + L30 + L36	\$ 236,395
4	LESS:		
5	Arizona State Tax	Line 21	10,706
6	Interest Expense	Note (A) Line 21	82,751
7	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ 142,938
8			
9	Federal Tax Rate	Sch. TJC-1, Pg 2, Col. (D), L46	34.00%
10	Federal Income Tax Expense	Line 4 X line 5	\$ 48,599
11			
12	STATE INCOME TAXES:		
13			
14	Operating Income Before Taxes	Line 3	\$ 236,395
15	LESS:		
16	Interest Expense	Note (A) Line 41	82,751
17	State Taxable Income	Line 14 - Line 16	\$ 153,644
18			
19	State Tax Rate	Tax Rate	6.97%
20			
21	State Income Tax Expense	Line 17 X Line 19	\$ 10,706
22			
23	TOTAL INCOME TAX EXPENSE:		
24	Federal Income Tax Expense	Line 10	\$ 48,599
25	State Income Tax Expense	Line 21	10,706
26	Total Income Tax Expense Per RUCO	Line 24 + Line 25	\$ 59,305
27			
28	Total Federal Income Tax Expense Per Company (Per Company Sch. C-1, L30)		41,571
29			
30	Total State Income Tax Expense Per Company (Per Company Sch. C-1, L31)		9,158
31			
32	RUCO Federal Income Tax Adjustment	Line 24 - Line 28	\$ 7,028
33			
34	RUCO State Income Tax Adjustment	Line 25 - Line 30	\$ 1,548
35			
36			
37	NOTE (A):		
38	Interest Synchronization:		
39	Adjusted Rate Base (Sch. TJC-2, Col. (H), L17)	\$ 2,474,855	
40	Weighted Cost Of Debt (Sch. TJC-15 Col. (D), L1)	3.34%	
41	Interest Expense (L18 X L19)	\$ 82,751	

COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) DOLLAR AMOUNT	(B) CAPITAL RATIO	(C) COST RATE	(D) WEIGHTED COST RATE
1	Long-Term Debt	\$ 75,000,000	49.03%	6.82%	3.34%
2					
3	Common Equity	77,975,335	50.97%	9.30%	4.74%
4					
5	Total Capitalization	<u>\$ 152,975,335</u>	<u>100.00%</u>		
6					
7					
8	WEIGHTED AVERAGE COST OF CAPITAL				8.08%

References:
Columns (A) Thru (D): WAR Testimony

TABLE OF CONTENTS TO RBM SCHEDULES

SCH NO.	PAGE NO.	TITLE
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RBM-16	1	OPERATING INCOME ADJUSTMENT NO. 7 - INCOME TAXES
RBM-17	1	COST OF CAPITAL

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Adjusted Original Cost/Fair Value Rate Base	\$ (124,601)	\$ (175,628)
2			
3	Adjusted Operating Income (Loss)	\$ (78,989)	\$ (78,002)
4			
5	Current Rate of Return (L3 / L1)	N/A	44.41%
6			
7	Required Operating Income (L9 X L1)	\$ (12,108)	\$ (14,198)
8			
9	Required Rate of Return on Fair Value Rate Base	9.72%	8.08%
10			
11	Operating Income Deficiency (L7 - L3)	\$ 66,880	\$ 63,804
12			
13	Gross Revenue Conversion Factor (RBM-1, Page 2 of 2)	1.6535	1.6535
14			
15	Required Increase in Gross Revenue Requirement (L11 X L13))	\$ 110,584	\$ 105,498
16			
17	Adjusted Test Year Revenue	\$ 117,102	\$ 117,102
18			
19	Proposed Annual Revenue (L15 + L17)	\$ 227,686	\$ 222,600
20			
21	Required Percentage Increase in Revenue (L15 / L17)	94.43%	90.09%
22			
23	Consolidated Revenue Adjustment	\$ (36,871)	\$ (46,626)
24			
25	Required Increase in Gross Revenue Under Proposed Consolidation	\$ 73,713	\$ 58,872
26			
27	Required Revenue Under Proposed Consolidation	\$ 190,815	\$ 175,974
28			
29	Required Percentage Increase in Revenue Under Proposed Consolidation	62.95%	50.27%
30			
31	Rate of Return on Common Equity	12.50%	9.30%

References:

Column (A): Company Schs. A-1 and C-1
Column (B): RUCO Schs. RBM-2, RBM-7, RBM-9 and RBM-17

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	100.0000%			
2	Proposed Bad Debt Expense (Per Co. Workpapers)	-			
3	Subtotal (L1 thru L2)	100.0000%			
4	Combined Federal, State, Property Tax Rate (L22)	39.5208%			
5	Subtotal (L3 - L4)	60.4792%			
6	Revenue Conversion Factor (L1 / L5)	1.6535			
CALCULATION OF EFFECTIVE TAX RATE:					
9	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
10	Arizona State Income Tax Rate	6.9680%			
11	Federal Taxable Income (L9 - L10)	93.0320%			
12	Applicable Federal Income Tax Rate (L58)	34.0000%			
13	Effective Federal Income Tax Rate (L11 X L12)	31.6309%			
14	Combined Federal and State Income Tax Rate (L10 + L13)	38.5989%			
CALCULATION OF EFFECTIVE PROPERTY TAX FACTOR:					
17	Unity	100.0000%			
18	Combined Federal and State Tax Rate	38.5989%			
19	T. Minus Combined Income Tax Rate	61.4011%			
20	Property Tax Factor	1.5015%			
21	Effective Property Tax Factor (L19 x L 20)	0.9220%			
22	Combined Federal, State & Property Tax Rate Tax Rate (L14 + L21)	39.5208%			
24	RUCO Required Operating Income (Sch. RBM-1, Col. (B), L7)	\$ (14,198)			
25	RUCO Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RBM-1, Col. (B), L3)	(78,002)			
26	Required Increase in Operating Income (L24 - L25)		\$ 63,804		
28	Income Taxes On Recommended Revenue (Col. (D), L53)	\$ (5,234)			
29	Income Taxes On Test Year Revenue (Col. (D), L55)	(45,343)			
30	Required Increase in Revenue To Provide For Income Taxes (L28 - L29)		\$ 40,109		
32	Property Tax with Recommended Revenue (Sch. RBM-7, Col. E, L31)	6,859			
33	Property Tax on TestYear Revenue (Sch. RBM-7, Col. C, L31)	5,275			
34	Increase in Property Tax Due to Increase in Revenue (L32 - L33)		\$ 1,584		
36	Total Required Increase In Revenue (L26 + L30 + L34)		\$ 105,498		
RUCO's CALCULATION OF INCOME TAX:					
39	RUCO Proposed Revenue (Sch. RBM-1, Col. (B), L19)			\$ 222,600	
41	Less: Operating Expense Excluding Income Tax (Sch. RBM-7, Col. (E), L24 + L26 + L31 + L32)			242,031	
42	Synchronized Interest (Col. (C), L63)			(5,872)	
43	Arizona Taxable Income (L39 - L41 - L42)			\$ (13,559)	
44	Arizona State Income Tax Rate			6.9680%	
45	Arizona Income Tax (L43 X L44)				\$ (945)
46	Fed. Taxable Income (L43 - L45)			\$ (12,614)	
47	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ -	
48	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			\$ -	
49	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			\$ -	
50	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			\$ -	
51	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			\$ (4,289)	
52	Total Federal Income Tax (L47 thru L 51)			\$ (4,289)	
53	Combined Federal And State Income Tax (L45+ L52)			\$ (5,234)	
55	RUCO Adj'd Test Year Combined Federal and State Income Tax (RBM-7, Ccl. (C), L29 and L30)			\$ -	
56	RUCO Proposed Income Tax Adjustment (L53 - L55)			\$ (5,234)	
57					
58	Applicable Federal Income Tax Rate				34.00%
NOTE (A): Interest Synchronization					
61	Adjusted Rate Base RBM-2, Col. (C), L28			\$ (175,628)	
62	Weighted Cost Of Debt RBM-9, Col. (M), L1			3.34%	
63	Interest Expense (L61 X L62)			\$ (5,872)	

SUMMARY RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ.TED OCRB/FVRB
1	Plant Classification			
2	Intangible Plant	\$ 14		\$ 14
3	Source of Supply Plant	449,365		449,365
4	Pumping Plant	472,248		472,248
5	Water Treatment Plant	3		3
6	Transmission & Distribution Plant	2,680,649		2,680,649
7	General Plant	32,198		32,198
8	Total Gross Plant in Service (L2 thru L7)	\$ 3,634,477	\$ -	\$ 3,634,477
9				
10	Accumulated Depreciation	\$ 242,563		\$ 242,563
11	Net Utility Plant In Service (L8 - L10)	\$ 3,391,914	\$ -	\$ 3,391,914
12				
13	Advances In Aid Of Const.	\$ 3,312,883		\$ 3,312,883
14				
15	Contribution In Aid Of Const.	\$ 226,219		\$ 226,219
16	Accumulated Amortization Of CIAC	\$ (5,049)		\$ (5,049)
17	NET CIAC (L15 + L16)	\$ 221,170	\$ -	\$ 221,170
18				
19	Deferred Income Tax	\$ 38,052		\$ 38,052
20				
21	Customer Deposits	\$ 706		\$ 706
22				
23	Allowance For Working Capital	\$ 4,557	712	\$ 5,269
24				
25	Net Regulatory Asset / (Liability)	\$ -		\$ -
26				
27	Rounding	\$ -		\$ -
28	TOTAL RATE BASE (+L11 - L17 - L19 - L21 + L23)	\$ (176,340)	\$ 712	\$ (175,628)

References:
Column (A): Company Schedule B-1 and RBM-3 Col. E
Column (B): Schedule RBM-3 Cols. F and G
Column (C): Col. A + Col. B; RBM-3

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED NET PLANT	(B) COMPANY ADJ NO 1 POST TEST YEAR ADJUSTMENTS	(C) NET REGULATORY LIABILITY	(D) PHOENIX OFF AND METER SHOP	(E) COMPANY AS FILED OCRBF/VRB	(F) POST TEST YR ADJUSTMENTS	(G) ADJMT NO. 6 WORKING CAPITAL	(H) RUCO ADJTD OCRBF/VRB
1	Plant Classification								
2	Intangible Plant	\$ -	\$ -	\$ -	\$ 14	\$ 14	\$ -	\$ -	\$ 14
3	Source of Supply Plant	449,365	-	-	-	449,365	-	-	449,365
4	Pumping Plant	472,248	-	-	-	472,248	-	-	472,248
5	Water Treatment Plant	-	-	-	3	3	-	-	3
6	Transmission & Distribution Plant	2,680,640	-	-	9	2,680,649	-	-	2,680,649
7	General Plant	21,615	-	-	10,583	32,198	-	-	32,198
8	Total Gross Plant in Service (Sum L2 thru L7)	\$ 3,623,868	\$ -	\$ -	\$ 10,609	\$ 3,634,477	\$ -	\$ -	\$ 3,634,477
9									
10	Accumulated Depreciation	\$ 240,086	-	-	2,467	242,553	-	-	242,553
11	Net Utility Plant In Service (L8 less L10)	\$ 3,383,772	\$ -	\$ -	\$ 8,142	\$ 3,391,914	\$ -	\$ -	\$ 3,391,914
12									
13	Advances in Aid Of Const.	\$ 3,312,883	\$ -	\$ -	\$ -	\$ 3,312,883	\$ -	\$ -	\$ 3,312,883
14									
15	Contribution in Aid Of Const.	\$ 226,219	\$ -	\$ -	\$ -	\$ 226,219	\$ -	\$ -	\$ 226,219
16	Accumulated Amortization Of CIAC	(5,049)	-	-	-	(5,049)	-	-	(5,049)
17	NET CIAC (L15 less L16)	\$ 221,170	\$ -	\$ -	\$ -	\$ 221,170	\$ -	\$ -	\$ 221,170
18									
19	Deferred Income Tax	\$ -	\$ -	\$ -	\$ 38,052	\$ 38,052	\$ -	\$ -	\$ 38,052
20									
21	Customer Deposits	\$ 706	\$ -	\$ -	\$ -	\$ 706	\$ -	\$ -	\$ 706
22									
23	Allowance For Working Capital	\$ 4,557	\$ -	\$ -	\$ -	\$ 4,557	\$ -	\$ 712	\$ 5,269
24									
25	Net Regulatory Asset / (Liability)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
26									
27	Adjustment to Match Rate Base with G/L	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
28	TOTAL RATE BASE (+L11 - L17 - L19 - L21 + L23)	\$ (146,430)	\$ -	\$ -	\$ (29,910)	\$ (176,340)	\$ -	\$ 712	\$ (175,628)

References:
Column (A) through (E): Company Schedule B-2; Column (D) RBM-4(1)
Column (F): RUCO Schedule RBM-6; Col. F
Column (G): RUCO Schedule RBM-5; Col. A

DIRECT PLANT AND ACCUMULATED DEPRECIATION

Line No.	Acct. No.	Description	Depreciation Rate	2010				Balance Per G.L.
				Additions	Retirements	Adjustments	Depreciation Expense		Balance
1		Intangible Plant						
2	301	Organization	0.00%					
3	302	Franchises	0.00%					
4	303	Other Intangibles	0.00%					
5		Subtotal Intangible Plant						
6		Source of Supply Plant						
7	310.1	Water Rights	0.00%					52
8	310.3	Other Source of Supply Land	0.00%					
9	310.4	Wells - Other	0.00%					
10	314	Wells	3.13%			446,222	14,063	449,313
11		Subtotal Source of Supply Plant				446,222	14,063	449,365
12		Pumping Plant						
13	320	Pumping Plant Land	0.00%					
14	321	Pumping Plant Structures & Improvements	2.96%				1,555	53,685
15	325	Electric Pumping Equipment	5.98%				24,612	418,963
16	328	Gas Engine Equipment	4.00%					
17		Subtotal Pumping Plant					26,147	472,248
18		Water Treatment Plant						
19	330	Water Treatment Plant Land	0.00%					
20	331	Water Treatment Structures & Improvements	2.50%					
21	332	Water Treatment Equipment	2.86%					
22		Subtotal Water Treatment Plant						
23		Transmission & Distribution Plant						
24	340	Transmission and Distribution Land	0.00%					
25	342	Storage Tanks	2.00%					
26	343	Transmission & Distribution Mains	1.79%	1,176,016		783,936	30,873	2,312,748
27	344	Fire Sprinkler Taps	2.00%				305	15,243
28	345	Services	2.38%			95,382	4,943	207,690
29	346	Meters	4.55%			646	400	8,781
30	348	Hydrants	1.82%			58,979	2,478	136,178
31		Subtotal Transmission & Distribution Plant		1,176,016		838,943	38,989	2,680,640
32		General Plant						
33	389	General Plant Land	0.00%					
34	390	General Plant Structures	2.50%					
35	390.1	Leasold Improvements						
36	391	Office Furniture & Equipment	6.67%					
37	393	Warehouse Equipment	5.00%					
38	394	Tools, Shop & Garage Equipment	4.00%					
39	395	Laboratory Equipment	5.00%					
40	396	Power Operated Equipment	6.67%					
41	397	Communication Equipment	6.67%					
42	398	Miscellaneous Equipment	3.33%				1,442	21,615
43		Subtotal General Plant					1,442	21,615
44		Plant In Service		\$ 1,176,016	\$ -	\$ 1,385,165	\$ 80,651	\$ 3,623,868
1		Net Salvage/Cost of Removal						
2		Adjustments booked to Conform with Rate Decision						
3		Accum. Deprac. Related to other Plant Adjustments					96,875	240,096
4		Accumulated Depreciation & Amort.					234,066	
5		Net Plant in Service		\$ 1,176,016	\$ -	\$ 1,385,165	\$ -	\$ 3,383,772

PHOENIX OFFICE AND METER SHOP - RATE BASE ALLOCATION

LINE NO.	DESCRIPTION	(A) TEST YEAR ADJUSTED	(B) Superstition	(C) Cochise	(D) San Manuel	(E) Oracle	(F) SaddleBrook Ranch	(G) Winkelman
			28.65%	7.19%	1.64%	2.04%	0.15%	0.19%
1	3 Factor Allocation Factor							
2	Phoenix Office Allocation							
3	Plant Classification							
4	Intangible Plant	\$ 9,148	\$ 2,621	\$ 658	\$ 150	\$ 187	\$ 14	\$ 17
5	Source of Supply Plant	-	-	-	-	-	-	-
6	Pumping Plant	-	-	-	-	-	-	-
7	Water Treatment Plant	-	-	-	-	-	-	-
8	Transmission & Distribution Plant	-	-	-	-	-	-	-
9	General Plant	6,908,613	1,979,318	496,729	113,301	140,936	10,363	13,126
10	Total Gross Plant in Service (Sum L4 thru L9)	\$ 6,917,761	\$ 1,981,939	\$ 497,387	\$ 113,451	\$ 141,122	\$ 10,377	\$ 13,144
11	Less:							
12	Accumulated Depreciation	1,587,979	454,956	114,176	26,043	32,995	2,382	3,017
13	Net Utility Plant in Service (L10 less L12)	\$ 5,329,782	\$ 1,526,982	\$ 383,211	\$ 87,408	\$ 108,728	\$ 7,995	\$ 10,127
14	Less:							
15	Deferred Income Tax	25,368,073	7,287,953	1,823,964	416,036	517,509	38,052	48,199
16	Total Phoenix Office Allocation (L13 less L15)	\$ (20,038,291)	\$ (5,740,970)	\$ (1,440,753)	\$ (328,628)	\$ (408,781)	\$ (30,057)	\$ (38,073)
17								
18	Meter Shop Allocation							
19	Plant Classification							
20	Intangible Plant	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
21	Source of Supply Plant	80	23	6	1	2	-	-
22	Pumping Plant	-	-	-	-	-	-	-
23	Water Treatment Plant	2,050	587	147	34	42	3	4
24	Transmission & Distribution Plant	6,065	1,738	436	99	124	9	12
25	General Plant	146,810	42,061	10,556	2,408	2,995	220	279
26	Total Gross Plant in Service (Sum L20 thru L25)	\$ 155,005	\$ 44,409	\$ 11,145	\$ 2,542	\$ 3,162	\$ 232	\$ 294
27	Less:							
28	Accumulated Depreciation	56,404	16,150	4,055	925	1,151	85	107
29	Net Utility Plant in Service (L26 less L28)	\$ 98,601	\$ 28,249	\$ 7,089	\$ 1,617	\$ 2,011	\$ 148	\$ 187
30	Less:							
31	Deferred Income Tax	56,404	28,249	7,089	1,617	2,011	148	187
32	Total Phoenix Office Allocation (L29 less L31)	\$ 42,197	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
33								
34	Total Phoenix Office and Meter Shop Allocation							
35	Plant Classification							
36	Intangible Plant	\$ 9,148	\$ 2,621	\$ 658	\$ 150	\$ 187	\$ 14	\$ 17
37	Source of Supply Plant	80	23	6	1	2	-	-
38	Pumping Plant	-	-	-	-	-	-	-
39	Water Treatment Plant	2,050	587	147	34	42	3	4
40	Transmission & Distribution Plant	6,065	1,738	436	99	124	9	12
41	General Plant	7,055,423	2,021,379	507,285	115,708	143,931	10,583	13,405
42	Total Gross Plant in Service	\$ 7,072,766	\$ 2,026,347	\$ 508,532	\$ 115,963	\$ 144,284	\$ 10,609	\$ 13,438
43	Less:							
44	Accumulated Depreciation	1,644,383	471,116	118,231	26,968	33,545	2,467	3,124
45	Net Utility Plant in Service (Sum L7 - L8)	\$ 5,428,382	\$ 1,555,232	\$ 390,301	\$ 89,025	\$ 110,739	\$ 8,142	\$ 10,314
46	Less:							
47	Deferred Income Tax	25,368,073	7,287,953	1,823,964	416,036	517,509	38,052	48,199
48	Total Phoenix Office Allocation (L9 - L10)	\$ (19,996,095)	\$ (5,712,721)	\$ (1,433,664)	\$ (327,011)	\$ (406,770)	\$ (29,910)	\$ (37,886)

ALLOWANCE FOR WORKING CAPITAL

LINE NO.	DESCRIPTION	(A) AMOUNT	(B) REFERENCE
1	Working Cash Requirement As Per Company	\$ 209	Company Schedule B-5, PG. 2 of 2
2	Working Cash Requirement As Per RUCO	921	RUCO Schedule RBM-6(1), L30
3	Adjustment	<u>\$ 712</u>	L2 - L1
4			
5	Material and Supplies Inventories As Per Company	\$ 101	Company Schedule B-5, PG. 2 of 2
6	Material and Supplies Inventories As Per RUCO	101	Company Schedule B-5, PG. 2 of 2
7	Adjustment	<u>\$ -</u>	L6 - L5
8			
9	Required Bank Balances As Per Company	\$ 3,254	Company Schedule B-5, PG. 2 of 2
10	Required Bank Balances As Per RUCO	3,254	Company Schedule B-5, PG. 2 of 2
11	Adjustment	<u>\$ -</u>	L10 - L9
12			
13	Prepayments & Special Deposits As Per Company	\$ 993	Company Schedule B-5, PG. 2 of 2
14	Prepayments & Special Deposits As Per RUCO	993	Company Schedule B-5, PG. 2 of 2
15		<u>\$ -</u>	L13 - L14
16			
17	TOTAL ADJUSTMENT (See RLM-2, Column (K))	<u><u>\$ 712</u></u>	Sum L3, L7, L11, L15

Arizona Water Company
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Saddlebrook Ranch
Schedule RBM-6
Page 1

SCHEDULE NOT USED

EXPLANATION OF RATE BASE ADJUSTMENT NO. 2

Line No.	(A) Company Test Year Adjusted Results	(B) RUCO Adj	(C) RUCO Adjusted Results	(D) Revenue Lag Days ¹	(E) Expense Lag Days ²	(F) Net Lag Days [B - C]	(G) Lead / Lag Factor [D + 365]	(H) Working Cash Requirement [A X E]
1								
2	Operating Expenses							
3	Purchased Power	\$ 103,754	\$ 103,754	28.62	30.87	(2.25)	(0.0062)	\$ (640)
4	Payroll	10,235	10,235	28.62	14.00	14.62	0.0401	410
5	Purchased Water	-	-	28.62	26.04	2.58	0.0071	-
6	Chemicals	-	-	28.62	(18.11)	46.73	0.1280	-
7	Property & Liability Insurance	831	831	28.62	(45.27)	73.89	0.2024	168
8	Workman's Compensation Insurance	190	190	28.62	(46.50)	75.12	0.2058	39
9	Health Insurance	1,338	1,338	28.62	(8.92)	37.54	0.1028	138
10	Other O&M (Excluding Rate Case Expense)	29,583	(430)	28.62	(9.27)	37.89	0.1038	3,116
11	Federal Income Taxes	(4,090)	(4,289)	28.62	37.00	(8.38)	(0.0230)	98
12	State Income Taxes	(901)	(945)	28.62	37.00	(8.38)	(0.0230)	22
13	FICA Taxes	772	772	28.62	14.00	14.62	0.0401	31
14	FUTA & SUTA Taxes	25	25	28.62	83.10	(54.48)	(0.1493)	(4)
15	Property Taxes	6,935	6,859	28.62	212.00	(183.38)	(0.5024)	(3,446)
16	Registration, Svc. Contracts, & Misc. Fees	817	817	28.62	(98.83)	127.45	0.3492	285
17	Retirement Annuities (401k)	686	686	28.62	34.72	(6.10)	(0.0167)	(11)
18								
19								
20	Subtotal	150,175	(749)	150,287				206
21								
22								
23	Interest Expense	(4,169)	(4,169)	28.62	91.25	(62.63)	(0.1716)	715
24	Cost of Equity	(7,939)	7,939	28.62	-	28.62	0.0784	-
25	Dividends Paid	-	-	-	-	-	-	-
26								
27	Subtotal	(12,108)	7,939	(4,169)				715
28								
29								
30	Total	\$ 138,067	\$ 7,190	\$ 146,118				\$ 921
31								
32								

33 Columns (A), (D), and (E) Company Schs. B-5 page 1
34 Column (B) RUCO Schs. RBM-7, RBM-8
35

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJMTS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Operating Revenues					
1	Residential	\$ 45,127	\$ -	\$ 45,127	\$ 37,188	\$ 82,315
2	Commercial	61,276	-	61,276	59,350	120,626
3	Industrial	-	-	-	-	-
4	Private Fire Service	85	-	85	374	459
5	Other Water Revenues	9,032	-	9,032	8,586	17,619
6	Total Water Revenues	\$ 115,520	\$ -	\$ 115,520	\$ 105,498	\$ 221,019
7	Miscellaneous	\$ 1,582	\$ -	\$ 1,582	\$ -	\$ 1,582
8	Total Operating Revenues	\$ 117,102	\$ -	\$ 117,102	\$ 105,498	\$ 222,601
	Operating Expenses					
	Source of Supply Expenses:					
9	Purchased Water	\$ -	-	-	-	-
10	Other	246	(1)	245	-	245
11	Pumping Expenses:					
12	Purchased Power	103,754	-	103,754	-	103,754
13	Purchased Gas	-	-	-	-	-
14	Other	17,704	(145)	17,559	-	17,559
15	Water Treatment Expenses	754	(5)	749	-	749
16	Transmission & Distribution Expenses	7,190	(219)	6,971	-	6,971
17	Customer Accounting Expenses	8,102	(13)	8,089	-	8,089
18	Sales Expense	-	-	-	-	-
19	Administrative & General Expenses	10,107	(92)	10,015	-	10,015
20	Total Operations & Maintenance Expense	\$ 147,857	\$ (476)	\$ 147,381	\$ -	\$ 147,381
21	Depreciation & Amortization Expenses	\$ 89,428	\$ (2,204)	\$ 87,224	-	\$ 87,224
	Taxes					
22	Federal Income Taxes	\$ (38,543)	\$ 1,385	\$ (37,158)	32,869	\$ (4,289)
23	State Income Taxes	(8,491)	305	(8,186)	7,241	(945)
24	Property Taxes	5,275	-	5,275	1,584	6,859
25	Other	567	-	567	-	567
26	Total Taxes	\$ (41,192)	\$ 1,691	\$ (39,501)	\$ 41,694	\$ 2,192
27	Total Operating Expenses	\$ 196,093	\$ (989)	\$ 195,104	\$ 41,694	\$ 236,798
28	Operating Income	\$ (78,991)	\$ 989	\$ (78,002)	\$ 63,804	\$ (14,197)

References:

Column (A): RBM-8, Col. A
Column (B): RBM-8, Col. K
Column (C): Col. A + Col.B
Column (D): RBM-1, RBM-1(2), RBM-15
Column (E): Col. C + Col.D

SCHEDULE OF OPERATING INCOME - TEST YEAR WITH RUCO ADJUSTMENTS

Line No.	(A) Test Year Ended 12/31/2010	(L) Adjustment Normalize Maintenance IS-1	(N) Adjustment Rate Case Expense IS-2	(P) Adjustment Fleet Fuel Expense IS-3	(Q) Adjustment Misc. Expenses IS-4	(R) Adjustment Depreciation Adjustment IS-5	(S) Adjustment LEFT BLANK	(T) Adjustment LEFT BLANK	(U) Adjustment Property Tax IS-8	(V) Adjustment Income Tax IS-9	(W) Total Pro Forma Adjustments	(X) Test Year Adjusted Results
1	Operating Revenues											
2	Residential	\$ 45,127	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 45,127
3	Commercial	61,276	-	-	-	-	-	-	-	-	-	61,276
4	Industrial	-	-	-	-	-	-	-	-	-	-	-
5	Private Fire Service	85	-	-	-	-	-	-	-	-	-	85
6	Other Water Revenues	9,032	-	-	-	-	-	-	-	-	-	9,032
7	Total Water Revenues (L2 thru L6)	\$ 115,520	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 115,520
8	Miscellaneous	1,582	-	-	-	-	-	-	-	-	-	1,582
9	Total Operating Revenues (L7 + L9)	\$ 117,102	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 117,102
10	Operating Expenses											
11	Source of Supply Expenses:											
12	Purchased Water	-	-	-	-	-	-	-	-	-	-	-
13	Other	246	-	-	(1)	-	-	-	-	-	-	245
14	Pumping Expenses:											
15	Purchased Power	103,754	-	-	-	-	-	-	-	-	-	103,754
16	Purchased Gas	-	-	-	-	-	-	-	-	-	-	-
17	Other	17,704	(128)	-	(16)	-	-	-	-	-	(145)	17,559
18	Water Treatment Expenses	754	-	-	(6)	-	-	-	-	-	(6)	748
19	Transmission & Distribution Expenses	7,180	(169)	-	(50)	-	-	-	-	-	(219)	6,971
20	Customer Accounting Expenses	8,102	-	-	(13)	-	-	-	-	-	(13)	8,089
21	Sales Expense	-	-	-	-	-	-	-	-	-	-	-
22	Administrative & General Expenses	10,107	-	(45)	(5)	-	-	-	-	-	(92)	10,015
23	Total Operations & Maint. Exp (L14 thru L24)	\$ 147,857	\$ (298)	\$ (45)	\$ (91)	\$ (42)	\$ -	\$ -	\$ -	\$ -	\$ (476)	\$ 147,381
24	Depreciation & Amortization Expenses	89,428	-	-	-	(2,204)	-	-	-	-	(2,204)	87,224
25	Taxes											
26	Federal Income Taxes	(38,543)	-	-	-	-	-	-	-	-	-	(38,543)
27	State Income Taxes	(8,491)	-	-	-	-	-	-	-	-	-	(8,491)
28	Property Taxes	5,275	-	-	-	-	-	-	-	-	-	5,275
29	Other	567	-	-	-	-	-	-	-	-	-	567
30	Total Taxes (L30 thru L33)	\$ (41,192)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,691	\$ (39,501)
31	Total Operating Expenses (L25 + L27 + L34)	\$ 196,093	\$ (298)	\$ (45)	\$ (91)	\$ (42)	\$ -	\$ -	\$ -	\$ -	\$ (889)	\$ 195,104
32	Operating Income (L10 less L36)	\$ (78,991)	\$ 288	\$ 45	\$ 91	\$ 42	\$ 2,204	\$ -	\$ -	\$ -	\$ 889	\$ (78,002)

References:

- Column A, RBM-9
- Column B, RBM-10
- Column C, RBM-11
- Column D, RBM-12
- Column E, RBM-13
- Column F, RBM-14
- Column J, RBM-16

SCHEDULE OF OPERATING INCOME-TEST YR COMPANY ADJUSTMENTS

Line No.	(A) Test Year Ended 12/31/2010	(B) Adj. Sales Tax IS-1	(C) Adj. Net Unbilled IS-2	(D) Adj. MAP IS-3	(E) Adj. ACRM IS-4	(F) Adj. Misc IS-5	(G) Adj. Annual Rates IS-6	(H) Adj. New Customers IS-7	(I) Adj. Payroll IS-8	(J) Adj. Emp Benefits IS-9	(K) Adj. Interest on Customer Deposits IS-10	(L) Adj. Normalized Maintenance IS-11
1	Operating Revenues											
2	Residential	\$ 37,169	\$ (2,612)	\$ (563)	\$ -	\$ -	\$ -	\$ 11,133	\$ -	\$ -	\$ -	\$ -
3	Commercial	59,615	(4,278)	(444)	-	-	-	6,383	-	-	-	-
4	Industrial	-	-	-	-	-	-	-	-	-	-	-
5	Private Fire Service	92	(7)	-	-	-	-	-	-	-	-	-
6	Other Water Revenues	8,762	(730)	-	-	-	-	-	-	-	-	-
7	Total Water Revenues (L2 thru L6)	\$ 105,638	\$ (7,627)	\$ (1,007)	\$ -	\$ -	\$ -	\$ 17,516	\$ -	\$ -	\$ -	\$ -
8	Miscellaneous	1,703	(121)	-	-	-	-	-	-	-	-	-
9	Total Operating Revenues (L7 + L9)	\$ 108,341	\$ (7,748)	\$ (1,007)	\$ -	\$ -	\$ -	\$ 17,516	\$ -	\$ -	\$ -	\$ -
10	Operating Expenses:											
11	Source of Supply Expenses:											
12	Purchased Water	-	-	-	-	-	-	-	-	-	-	-
13	Other	204	-	-	-	-	-	30	8	-	-	-
14	Pumping Expenses:											
15	Purchased Power	103,754	-	-	-	-	-	-	-	-	-	-
16	Purchased Gas	2,271	-	-	-	-	-	-	-	-	-	-
17	Other	634	(18)	-	-	-	-	15,649	59	-	-	(301)
18	Water Treatment Expenses	4,418	-	20	-	-	-	94	12	-	-	-
19	Transmission & Distribution Expenses	6,098	-	8	-	-	-	1,306	154	-	-	1,150
20	Customer Accounting Expenses	-	-	-	-	-	-	1,803	155	-	-	-
21	Sales Expense	7,149	-	35	-	-	-	2,114	99	-	-	-
22	Administrative & General Expenses	124,528	-	45	-	-	-	20,996	487	237	42	849
23	Total Operations & Maint. Exp (L14 thru L24)	80,591	-	-	-	-	-	-	-	-	-	-
24	Depreciation & Amortization Expenses	(20,654)	-	-	-	-	-	-	-	-	-	-
25	Taxes	(2,333)	-	-	-	-	-	-	-	-	-	-
26	Federal Income Taxes	-	-	-	-	-	-	-	-	-	-	-
27	State Income Taxes	-	-	-	-	-	-	-	-	-	-	-
28	Property Taxes	8,035	(7,748)	-	-	-	-	-	280	-	-	-
29	Other	(14,952)	(7,748)	-	-	-	-	-	-	-	-	-
30	Total Taxes (L30 thru L33)	\$ 190,167	\$ (7,748)	\$ 45	\$ -	\$ -	\$ -	\$ 20,996	\$ 767	\$ 237	\$ 42	\$ 849
31	Total Operating Expenses (L25 + L27 + L34)	\$ (81,826)	\$ -	\$ (1,052)	\$ -	\$ -	\$ -	\$ (3,480)	\$ (767)	\$ (237)	\$ (42)	\$ (849)
32	Operating Income (L10 less L36)											
33												
34												
35												
36												
37												

Columns (A) through columns (K) see Company Exhibit Schedule C-2

SCHEDULE OF OPERATING INCOME-TEST YR COMPANY ADJUSTMENTS

Line No.	(M) Adjustment Adjust Purchase Water & Gas Exp IS-12	(N) Adjustment Rate Case Expense IS-13	(O) Adjustment Adjust/A&G for BMP IS-14	(P) Adjustment Fleet Fuel Expense IS-15	(Q) Adjustment AS 400 Printers IS-16	(R) Adjustment Arsenic Treatment Exp IS-17	(S) Adjustment Error Correction CAP Charges IS-18	(T) Adjustment Depreciation Expense IS-19	(U) Adjustment Property Tax IS-20	(V) Adjustment Income Tax IS-21	(W) Total Pro Forma Adjustments	(X) Test Year Adjusted Results
1												
2	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
3												
4												
5												
6												
7	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
8												
9												
10	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
11												
12												
13												
14												
15												
16												
17												
18												
19												
20												
21												
22												
23												
24												
25	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
26												
27												
28												
29												
30												
31												
32												
33												
34												
35	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
36												
37	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$

Columns (A) through columns (X) see Company Exhibit Schedule C-2

**OPERATING INCOME ADJUSTMENT NO. 1
PUMPING AND TRANSMISSION & DISTRIBUTION MAINTENANCE EXPENSE**

Pumping Accounts Normalized:					3 Year Normalized Average
	<u>2008</u>	<u>2009</u>	<u>2010</u>		
1 <u>Maintenance:</u>					
2 Supervision & Engineering	\$ 54	\$ 63	\$ 116	\$	78
3 Structures & Improvements	45	87	77		70
4 Electric pumping equipment	34	103	690		276
5 Gas pumping equipment	-	-	-		-
6					
7 Total Pumping Maintenance Expense	\$ 133	\$ 253	\$ 883	\$	423
8					
9					
10 Company Requested Level of T. Y. Pumping Maintenance Expense					<u>552</u>
11					
12 RUCO Increase / (Decrease) in T. Y. Expense Level				\$	<u>(129)</u>
13					
14 RUCO Pumping Maintenance Expense Adjustment				\$	<u>(129)</u>
15					
16					
17					
18					
19					
20 Transmission & Distribution Accounts Normalized:					
21	<u>2008</u>	<u>2009</u>	<u>2010</u>		3 Year Normalized Average
22 <u>Maintenance:</u>					
23 Supervision & Engineering	\$ 128	\$ 275	\$ 357	\$	253
24 Tanks	-	-	-		-
25 Mains	144	166	200		170
26 Mains - Leak Repair	-	-	-		-
27 Mains - Leak Detection	-	-	-		-
28 Services	279	366	578		408
29 Services - Leak Repair	-	-	44		15
30 Meters	-	21	359		127
31 Hydrants	5	9	13		9
32					
33 Total T & D Maintenance Expense	\$ 556	\$ 837	\$ 1,551	\$	981
34					
35					
36 Company Requested Level of T. Y. T & D Maintenance Expense					<u>1,150</u>
37					
38 RUCO Increase / (Decrease) Expense Adjustment				\$	<u>(169)</u>
39					
40 RUCO T & D Maintenance Expense Adjustment				\$	<u>(169)</u>
41					
42					
43 Total RUCO Pumping and T & D Maintenance Expense Adjustment				\$	<u>(298)</u>

**OPERATING INCOME ADJUSTMENT NO. 2
RATE CASE EXPENSE ADJUSTMENT**

Line No.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense Total for Eastern Group	\$ 476,874	\$ (164,274)	\$ 312,600
2				
3	Allocation Factor (L31)			0.34%
4				
5	Superstition (Apache Junction, Superior, Miami)			\$ 1,064
6				
7	Amortization Period - 3 years			3
8				
9	RUCO Adjusted Rate Case Expense (L5 / L7)			\$ 355
10				
11	Company Rate Case Expense as Filed (Company Sch. C-2 Appendix)			\$ 400
12				
13	RUCO Pro Forma Rate Case Expense (L9 - L11)			\$ (45)
14				
15	RUCO Adjustment			\$ (45)
16				
17				
18	RUCO's Rate Base Expense Adjustment Calculation:			
19	Decision No. 66848, dated March 19, 2004, approved amount			
20	\$250,000 for Arizona Water Company's Eastern Group.		\$ 250,000	
21				
22	Inflation Factor from January 1, 2002 through September 30,			
23	per Inflation Data.com		25.04%	
24				
25	Reasonable Amount of Rate Case Expense based on			
26	Decision No. 66848.		\$ 312,600	
27				
28	RUCO Adjustment (Col. (A) L1 - Col. (B) L26)		\$ 164,274	
29				
30	<u>Allocation Factor Based on Number of Customers</u>		<u>Customers</u>	<u>Percent of Total</u>
31	Superstition (Apache Junction, Superior, Miami)		23,607	71.10%
32	Cochise (Bisbee, Sierra Vista)		6,357	19.15%
33	San Manuel		1,465	4.41%
34	Oracle		1,506	4.54%
35	SaddleBrook Ranch		113	0.34%
36	Winkelman		153	0.46%
37	Total Number of Customers and Percentages		33,201	100.00%

OPERATING INCOME ADJUSTMENT NO. 2
Fleet Fuel Expense Adjustment

Line No.	DESCRIPTION	COMPANY AS FILED	RUCO PROP'D CHANGES	RUCO ADJUSTMENT AS RECOMM'D
1	Number of fuel gallons used in test year (Total Company)	190,139	190,139	190,139
2				
3	Price per gallon of fuel (Obtained from AAA Fuel Gage Report)	\$ 3.6710	\$ 3.3150	\$ 0.3560
4				
5	Adjusted due to reduced price per gallon of fuel	<u>\$ 698,000</u>	<u>\$ 630,311</u>	<u>\$ 67,689</u>
6				
7				
8	Percentage allocated to Cochise based on			
9	three factor allocation formula.	<u>\$ 256</u>	<u>\$ 165</u>	<u>\$ (91)</u>
10				
11				
12				
13				
14				
15				
16	<u>ALLOCATED TO OEPRATING DEPARTMENTS:</u>	COMPANY AS FILED	RUCO PROP'D CHANGES	RUCO ADJUSTMENT BY DEPARTMENT
17	Source of Supply Expenses:	\$ 4	\$ 3	\$ (1)
18	Pumping Expenses	44	28	(16)
19	Water Treatment Expenses	14	9	(5)
20	Transmission & Distribution Expenses	142	92	(50)
21	Customer Accounting Expenses	38	25	(13)
22	Administrative & General Expenses	14	9	(5)
23				
24		<u>\$ 256</u>	<u>\$ 165</u>	<u>\$ (91)</u>
25				
26				
27				
28				

OPERATING INCOME ADJUSTMENT NO. 5
 CALCULATION OF DEPRECIATION EXPENSE

Line No.	Acct. No.	Present Depreciation Rates	(A) Plant Balance Per GL	(B) Post Test Year Adjustments	(C) Phoenix Office Balance Per GL	(D) Meter Shop Balance Per GL	(E) Three Factor Formula Allocation	(F) Phoenix Office Meter Shop Allocated To Plant	(G) Company Adjusted End Of Test Year	(H) RUCO Adjustments End Of Test Year	(I) Adjusted End Of Test Year Plant	(J) RUCO Depreciation Test Year Adjusted
1												
2	301	0.00%			651		0.15%	1	1		1	
3	302	See Acct. 111			8,486		0.15%	13	13		13	
4	303	See Acct. 111			9,148		0.15%	14	14		14	
5												
6	310.1	0.00%	52				0.15%		52		52	
7	310.3	0.00%				80	0.15%					
8	310.4	See Acct. 111					0.15%		0		0	
9		3.13%	449,313				0.15%		449,313		449,313	14,063
10	314		449,365						449,365		449,365	14,063
11						80		0				
12												
13	320	0.00%					0.15%					
14	321	2.86%					0.15%					
15	325	5.88%	418,563				0.15%		53,665		53,665	1,535
16	328	4.00%					0.15%		418,563		418,563	24,612
17			472,248						472,248		472,248	26,147
18												
19	330	0.00%					0.15%					
20	331	2.50%				2,050	0.15%					
21	332	2.86%				2,050	0.15%	3	3		3	0
22												
23												
24	340	0.00%					0.15%					
25	342	2.00%					0.15%					
26	343	1.79%	2,312,748			6,066	0.15%		2,312,757		2,312,757	41,398
27	344	2.00%	15,243				0.15%		15,243		15,243	305
28	345	2.38%	207,690				0.15%		207,690		207,690	4,943
29	346	4.55%	8,781				0.15%		8,781		8,781	400
30	348	1.82%	138,178				0.15%		138,178		138,178	2,478
31			2,680,840			6,066		9	2,680,849		2,680,849	49,524
32												
33	389	0.00%					0.15%					
34	390	2.50%			79,935	52,852	0.15%	199	199		199	5
35	390.1	See Acct. 108.2			1,543,079		0.15%	2,315	2,315		2,315	40
36	391	6.67%			4,895,192	11,097	0.15%	7,359	7,359		7,359	491
37	393	5.00%			3,705	8,888	0.15%	19	19		19	1
38	394	4.00%			196,363	69,534	0.15%	399	399		399	16
39	395	5.00%			1,508	2,981	0.15%	7	7		7	0
40	396	6.67%				1,458	0.15%	2	2		2	0
41	397	6.67%	21,615		181,623		0.15%	272	21,887		21,887	1,460
42	398	3.33%			7,207		0.15%	11	11		11	0
43			21,615		6,908,612	146,809		10,583	32,198		32,198	2,013
44			\$ 3,623,868	\$ -	\$ 6,817,760	\$ 155,005		\$ 10,609	\$ 3,634,477	\$ -	\$ 3,634,477	\$ 91,748
			226,219	2%	\$ 4,524							\$ (4,524)
												\$ 87,224
												\$ 89,428
												\$ (2,204)

Plant in Service
 Total Depreciation Test Year Adjusted
 Less: Amortization of Regulatory Liability
 Less: Amortization of Contribution in Aid of Construction
 Add: Additional Amortization
 Total Depreciation as Calculated
 Per Company Schedule C-2
 Adjustment

OPERATING INCOME ADJUSTMENT NO. 6
PROPERTY TAXES

LINE NO.	Property Tax Calculation	(A)	(B)
		RUCO AS ADJUSTED	RUCO RECOMMENDED
1	RUCO Adjusted Test Year Revenues - RBM-6	\$ 117,102	\$ 117,102
2	Multiplied by 2	2	2
3	Subtotal (Line 1 * Line 2)	\$ 234,204	\$ 234,204
4	RUCO Adjusted Test Year Revenues - 2010	117,102	
5	RUCO Recommended Revenue, Per Schedule RBM-6		222,600
6	Subtotal (Line 4 + Line 5)	\$ 351,306	\$ 456,804
7	Number of Years	3	3
8	Three Year Average (Line 5 / Line 6)	\$ 117,102	\$ 152,268
9	Department of Revenue Multiplier	2	2
10	Revenue Base Value (L8 X L9)	\$ 234,204	\$ 304,536
11	Plus: 10% of CWIP -	-	-
12	Less: Net Book Value of Licensed Vehicles	-	-
13	Full Cash Value (L10 + L11 + L12))	\$ 234,204	\$ 304,536
14	Assessment Ratio	21.0%	21.0%
15	Assessment Value (L13 X L14)	\$ 49,183	\$ 63,953
16	Composite Property Tax Rate (L19 / L15)	10.7253%	10.7253%
17	RUCO Proposed Property Tax Expense (L15 X L16))	\$ 5,275	
18	Company Proposed Property Tax	5,275	
19	RUCO Test Year Adjustment (L16 - L17)	\$ -	
19	Property Tax - RUCO Recommended Revenue (L15 X L16)		\$ 6,859
20	RUCO Test Year Adjusted Property Tax Expense (L18)		5,275
21	Increase/(Decrease) to Property Tax Expense		\$ 1,584
22	Increase/(Decrease) to Property Tax Expense		\$ 1,584
23	Increase in Revenue Requirement (L5 - L4)		105,498
24	Increase/(Decrease) to Property Tax per Dollar Increase in Revenue (L26 / L27)		1.5015%

**OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
1	FEDERAL INCOME TAXES:		
2			
3	Operating Income Before Taxes	(RBM- 7, Col. (C), L36 + L29 + L30)	\$ (123,345)
4	LESS:		
5	Arizona State Tax	L21	(8,186)
6	Interest Expense	Note (A) L41	(5,872)
7	Federal Taxable Income	L3 - L5 - L6	\$ (109,287)
8			
9	Federal Tax Rate	Sch. RBM-1, Page 2	34.00%
10	Federal Income Tax Expense	L7 X L9	\$ (37,158)
11			
12	STATE INCOME TAXES:		
13			
14	Operating Income Before Taxes	L3	\$ (123,345)
15	LESS:		
16	Interest Expense	Note (A) L41	(5,872)
17	State Taxable Income	L14 - L16	\$ (117,473)
18			
19	State Tax Rate	Tax Rate	6.97%
20			
21	State Income Tax Expense	L17 X L19	\$ (8,186)
22			
23	TOTAL INCOME TAX EXPENSE:		
24	Federal Income Tax Expense	L10	\$ (37,158)
25	State Income Tax Expense	L21	(8,186)
26	Total Income Tax Expense Per RUCO	L24 + L25	\$ (45,343)
27			
28	Total Federal Income Tax Expense Per Company (Per Company Sch. C-1, L30)		(38,543)
29			
30	Total State Income Tax Expense Per Company (Per Company Sch. C-1, L31)		(8,491)
31			
32	RUCO Federal Income Tax Adjustment	L24 - L28	\$ 1,385
33			
34	RUCO State Income Tax Adjustment	L25 - L30	\$ 305
35			
36			
37	<u>NOTE (A): Interest Synchronization</u>		
38			
39	Adjusted Rate Base RBM-2, Col. (M), L28	\$ (175,628)	
40	Weighted Cost Of Debt RBM-9, Col. (D), L1	3.34%	
41	Interest Expense (L39 X L40)	\$ (5,872)	

COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) DOLLAR AMOUNT	(B) CAPITAL RATIO	(C) COST RATE	(D) WEIGHTED COST RATE
1	Long-Term Debt	\$ 75,000,000	49.03%	6.82%	3.34%
2					
3	Common Equity	77,975,335	50.97%	9.30%	4.74%
4					
5	Total Capitalization	<u>\$ 152,975,335</u>	<u>100.00%</u>		
6					
7					
8	WEIGHTED AVERAGE COST OF CAPITAL				8.08%

References:
Columns (A) Thru (D): WAR Testimony

TABLE OF CONTENTS TO RBM SCHEDULES

SCH NO.	PAGE NO.	TITLE
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RBM-4	1 & 2	DIRECT PLANT AND ACCUMULATION DEPRECIATION
RBM-4 (1)	1	PHOENIX OFFICE AND METER SHOP PLANT ALLOCATION
RBM-5	1	ALLOWANCE FOR WORKING CAPITAL
RBM-6	1	RATE BASE ADJUSTMENT NO. 1 - PLANT ADJUSTMENTS
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RBM-10	1	OPERATING INCOME ADJUSTMENT NO. 1 - PUMPING TRANSMISSION & DISTRIBUTION EXPENSE NORMALIZATION
RBM-11	1	OPERATING INCOME ADJUSTMENT NO. 2 - RATE CASE EXPENSE
RBM-12	1	OPERATING INCOME ADJUSTMENT NO. 3 - FLEET FUEL ADJUSTMENT
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RBM-15	1	OPERATING INCOME ADJUSTMENT NO. 6 - PROPERTY TAXES
RBM-16	1	OPERATING INCOME ADJUSTMENT NO. 7 - INCOME TAXES
RBM-17	1	COST OF CAPITAL

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Adjusted Original Cost/Fair Value Rate Base	\$ 2,016,750	\$ 1,998,819
2			
3	Adjusted Operating Income (Loss)	\$ (28,824)	\$ (26,057)
4			
5	Current Rate of Return (L3 / L1)	-1.43%	-1.30%
6			
7	Required Operating Income (L9 X L1)	\$ 195,980	\$ 161,587
8			
9	Required Rate of Return on Fair Value Rate Base	9.72%	8.08%
10			
11	Operating Income Deficiency (L7 - L3)	\$ 224,804	\$ 187,644
12			
13	Gross Revenue Conversion Factor (RBM-1, Page 2 of 2)	1.6567	1.6567
14			
15	Required Increase in Gross Revenue Requirement (L11 X L13)	\$ 372,441	\$ 310,877
16			
17	Adjusted Test Year Revenue	\$ 947,528	\$ 947,528
18			
19	Proposed Annual Revenue (L15 + L17)	\$ 1,319,969	\$ 1,258,405
20			
21	Required Percentage Increase in Revenue (L15 / L17)	39.31%	32.81%
22			
23	Consolidated Revenue Adjustment	\$ 15,017	\$ 11,782
24			
25	Required Increase in Gross Revenue Under Proposed Consolidation	\$ 387,458	\$ 322,659
26			
27	Required Revenue Under Proposed Consolidation	\$ 1,334,986	\$ 1,270,187
28			
29	Required Percentage Increase in Revenue Under Proposed Consolidation	40.89%	34.05%
30			
31	Rate of Return on Common Equity	12.50%	9.30%

References:

Column (A): Company Schs. A-1 and C-1

Column (B): RUCO Schs. RBM-2, RBM-7, RBM-9 and RBM-17

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	100.0000%			
2	Proposed Bad Debt Expense (Per Co. Workpapers)	-			
3	Subtotal (L1 thru L2)	100.0000%			
4	Combined Federal, State, Property Tax Rate (L22)	39.6405%			
5	Subtotal (L3 - L4)	60.3595%			
6	Revenue Conversion Factor (L1 / L5)	<u>1.6567</u>			
CALCULATION OF EFFECTIVE TAX RATE:					
9	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
10	Arizona State Income Tax Rate	6.9680%			
11	Federal Taxable Income (L9 - L10)	93.0320%			
12	Applicable Federal Income Tax Rate (L58)	34.0000%			
13	Effective Federal Income Tax Rate (L11 X L12)	31.6309%			
14	Combined Federal and State Income Tax Rate (L10 + L13)	<u>38.5989%</u>			
CALCULATION OF EFFECTIVE PROPERTY TAX FACTOR:					
17	Unity	100.0000%			
18	Combined Federal and State Tax Rate	38.5989%			
19	1 Minus Combined Income Tax Rate	61.4011%			
20	Property Tax Factor	1.6964%			
21	Effective Property Tax Factor (L19 x L 20)	1.0416%			
22	Combined Federal, State & Property Tax Rate Tax Rate (L14 + L21)	<u>39.6405%</u>			
24	RUCO Required Operating Income (Sch. RBM-1, Col. (B), L7)	\$ 161,587			
25	RUCO Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RBM-1, Col. (B), L3)	<u>(26,057)</u>			
26	Required Increase In Operating Income (L24 - L25)		\$ 187,644		
28	Income Taxes On Recommended Revenue (Col. (D), L53)	\$ 59,565			
29	Income Taxes On Test Year Revenue (Col. (D), L55)	<u>(58,395)</u>			
30	Required Increase In Revenue To Provide For Income Taxes (L28 - L29)		\$ 117,960		
32	Property Tax with Recommended Revenue (Sch. RBM-7, Col. E, L31)	53,495			
33	Property Tax on Test Year Revenue (Sch. RBM-7, Col. C, L31)	<u>48,221</u>			
34	Increase in Property Tax Due to Increase in Revenue (L32 - L33)		\$ 5,274		
36	Total Required Increase In Revenue (L26 + L30 + L34)		<u>\$ 310,877</u>		
				RUCO	
				Recommended	
39	RUCO Proposed Revenue (Sch. RBM-1, Col. (B), L19)			\$ 1,258,405	
41	Less: Operating Expense Excluding Income Tax (Sch. RBM-7, Col. (E), L24 + L26 + L31 + L32)			1,037,253	
42	Synchronized Interest (Col. (C), L63)			66,834	
43	Arizona Taxable Income (L39 - L41 - L42)			\$ 154,318	
44	Arizona State Income Tax Rate			6.9680%	
45	Arizona Income Tax (L43 X L44)				\$ 10,753
46	Fed. Taxable Income (L43 - L45)			\$ 143,565	
47	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ -	
48	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			\$ -	
49	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			\$ -	
50	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			\$ -	
51	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			\$ 48,812	
52	Total Federal Income Tax (L47 thru L 51)			\$ 48,812	
53	Combined Federal And State Income Tax (L45+ L52)			\$ 59,565	
55	RUCO Adj'd Test Year Combined Federal and State Income Tax (RBM-7, Col. (C), L29 and L30)			\$ (58,395)	
56	RUCO Proposed Income Tax Adjustment (L53 - L55)			\$ 117,960	
58	Applicable Federal Income Tax Rate				34.00%
NOTE (A): Interest Synchronization					
61	Adjusted Rate Base RBM-2, Col. (C), L28			\$ 1,998,819	
62	Weighted Cost Of Debt RBM-9, Col. (M), L1			3.34%	
63	Interest Expense (L61 X L62)			\$ 66,834	

SUMMARY RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ.TED OCRB/FVRB
1	Plant Classification			
2	Intangible Plant	\$ 484		\$ 484
3	Source of Supply Plant	178,993		178,993
4	Pumping Plant	406,758		406,758
5	Water Treatment Plant	1,423,286		1,423,286
6	Transmission & Distribution Plant	1,915,019		1,915,019
7	General Plant	489,995		489,995
8	Total Gross Plant in Service (L2 thru L7)	\$ 4,414,535	\$ -	\$ 4,414,535
9				
10	Accumulated Depreciation	\$ 1,313,975		\$ 1,313,975
11	Net Utility Plant In Service (L8 - L10)	\$ 3,100,560	\$ -	\$ 3,100,560
12				
13	Advances in Aid Of Const.	\$ 61,297		\$ 61,297
14				
15	Contribution In Aid Of Const.	\$ 742,146		\$ 742,146
16	Accumulated Amortization Of CIAC	\$ (52,037)		\$ (52,037)
17	NET CIAC (L15 + L16)	\$ 690,109	\$ -	\$ 690,109
18				
19	Deferred Income Tax	\$ 416,036		\$ 416,036
20				
21	Customer Deposits	\$ 11,769		\$ 11,769
22				
23	Allowance For Working Capital	\$ 95,402	\$ (17,932)	\$ 77,470
24				
25	Net Regulatory Asset / (Liability)	\$ -		\$ -
26				
27	Rounding	\$ (1)		\$ (1)
28	TOTAL RATE BASE (+L11 - L17 - L19 - L21 + L23)	\$ 2,016,750	\$ (17,932)	\$ 1,998,819

References:
Column (A): Company Schedule B-1 and RBM-3 Col. E
Column (B): Schedule RBM-3 Cols. F and G
Column (C): Col. A + Col. B; RBM-3

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED NET PLANT TEST YEAR	(B) COMPANY ADJ NO 1 POST TEST YEAR ADJUSTMENTS	(C) NET REGULATORY LIABILITY	(D) PHOENIX OFF AND METER SHOP	(E) COMPANY AS FILED OCRB/FVRB	(F) ADJMT NO. 1 POST TEST YR ADJUSTMENTS	(G) ADJMT NO. 6 WORKING CAPITAL	(H) RUCO ADJUSTED OCRB/FVRB
1	Plant Classification								
2	Intangible Plant	\$ 334	\$ -	\$ -	\$ 150	\$ 484	\$ -	\$ -	\$ 484
3	Source of Supply Plant	178,992	-	-	1	178,993	-	-	178,993
4	Pumping Plant	406,758	-	-	-	406,758	-	-	406,758
5	Water Treatment Plant	1,423,252	-	-	34	1,423,286	-	-	1,423,286
6	Transmission & Distribution Plant	1,914,920	-	-	99	1,915,019	-	-	1,915,019
7	General Plant	374,286	-	-	115,709	489,995	-	-	489,995
8	Total Gross Plant in Service (Sum L2 thru L7)	\$ 4,298,542	\$ -	\$ -	\$ 115,993	\$ 4,414,535	\$ -	\$ -	\$ 4,414,535
9	Accumulated Depreciation	\$ 1,287,007	-	-	26,968	\$ 1,313,975	-	-	\$ 1,313,975
10	Net Utility Plant In Service (L8 less L10)	\$ 3,011,535	\$ -	\$ -	\$ 89,025	\$ 3,100,560	\$ -	\$ -	\$ 3,100,560
11	Advances In Aid Of Const.	\$ 61,297	\$ -	\$ -	\$ -	\$ 61,297	\$ -	\$ -	\$ 61,297
12	Contribution In Aid Of Const.	\$ 742,146	\$ -	\$ -	\$ -	\$ 742,146	\$ -	\$ -	\$ 742,146
13	Accumulated Amortization Of CIAC	(52,037)	-	-	-	(52,037)	-	-	(52,037)
14	NET CIAC (L15 less L16)	\$ 690,109	\$ -	\$ -	\$ -	\$ 690,109	\$ -	\$ -	\$ 690,109
15	Deferred Income Tax	\$ -	\$ -	\$ -	\$ 416,036	\$ 416,036	\$ -	\$ -	\$ 416,036
16	Customer Deposits	\$ 11,769	\$ -	\$ -	\$ -	\$ 11,769	\$ -	\$ -	\$ 11,769
17	Allowance For Working Capital	\$ 95,402	\$ -	\$ -	\$ -	\$ 95,402	\$ -	\$ (17,932)	\$ 77,470
18	Net Regulatory Asset / (Liability)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
19	Adjustment to Match Rate Base with G/L	\$ (1)	\$ -	\$ -	\$ -	\$ (1)	\$ -	\$ -	\$ (1)
20	TOTAL RATE BASE (+L11 - L17 - L19 - L21 + L23)	\$ 2,343,761	\$ -	\$ -	\$ (327,011)	\$ 2,016,750	\$ -	\$ (17,932)	\$ 1,998,819

References:
Columns (A) through (E): Company Schedule B-2; Column (D) RBM-4(1)
Column (F): RUCO Schedule RBM-6, Col. F
Column (G): RUCO Schedule RBM-5; Col. A

Arizona Water Company
Docket No. W-01445A-11-0310
Test Year Ended December 31, 2010

DIRECT PLANT AND ACCUMULATED DEPRECIATION

Line No.	Acct. No.	Description	Depreciation Rate	2008					Balance
				Approved Rate Base 12/31/2007	Additions	Retirements	Adjustments	Depreciation Expense	
1		Intangible Plant							
2	301	Organization	0.00%	11					
3	302	Franchises	S** Ass. 111	477					
4	303	Other Intangibles	S** Ass. 111	486					
5		Subtotal Intangible Plant							
6		Source of Supply Plant							
7	310.1	Water Rights	0.00%	169,941	3,412				173,353
8	310.3	Other Source of Supply Land	0.00%	1					
9	310.4	Wells - Other	S** Ass. 111	5,560					
10	314	Wells	3.13%	175,502	3,412				
11		Subtotal Source of Supply Plant							
12		Pumping Plant							
13	320	Pumping Plant Land	0.00%	7,000					
14	321	Pumping Plant Structures & Improvements	2.86%	14,110					
15	325	Electric Pumping Equipment	5.88%	357,034	27,586				
16	328	Gas Engine Equipment	4.00%						
17		Subtotal Pumping Plant							
18		Water Treatment Plant							
19	330	Water Treatment Plant Land	0.00%	2,000					
20	331	Water Treatment Structures & Improvements	2.50%	42,578					
21	332	Water Treatment Equipment	2.86%	1,354,047	11,552				
22		Subtotal Water Treatment Plant							
23		Transmission & Distribution Plant							
24	340	Transmission and Distribution Land	0.00%	69,500					
25	342	Storage Tanks	2.00%	98,403					
26	343	Transmission & Distribution Mains	1.79%	1,025,418	119,099	(11,190)			
27	344	Fire Sprinkler Taps	2.00%	100					
28	345	Services	2.39%	329,052	10,199	(176)			
29	346	Meters	4.55%	124,886		(646)			
30	348	Hydrants	1.82%	65,598	9,209				
31		Subtotal Transmission & Distribution Plant							
32		General Plant							
33	389	General Plant Land	0.00%	21,821					
34	390	General Plant Structures	2.50%	57,323					
35	390.1	Leasehold Improvements	6.67%	176,419	1,232				
36	391	Office Furniture & Equipment	5.00%	1,227					
37	393	Warehouse Equipment	5.00%	74,961	2,314				
38	394	Tools, Shop & Garage Equipment	4.00%	2,684					
39	395	Laboratory Equipment	5.00%	2,720					
40	396	Power Operated Equipment	6.67%	104,319	461				
41	397	Communication Equipment	6.67%	17,344					
42	398	Miscellaneous Equipment	3.33%	455,818	4,007				
43		Subtotal General Plant							
44		Plant in Service							
45		Net Salvage/Cost of Removal							
46		Adjustments booked to Conform with Rate Decision							
47		Accum. Deprec. Related to other Plant Adjustments							
48		Accumulated Depreciation & Amort.							
49		Net Plant in Service							
50									

		2009					Balance
		Approved Rate Base 12/31/2007	Additions	Retirements	Adjustments	Depreciation Expense	
		175,502	3,412			174	178,993
		7,000				174	7,000
		14,110				404	14,110
		357,034	27,586			22,495	382,562
		378,144	27,586			22,898	403,672
		2,000					2,000
		42,578				1,069	42,832
		1,354,047	11,552			39,295	1,379,322
		1,398,624	11,552			40,324	1,424,454
		69,500					69,500
		98,403				1,968	98,403
		1,025,418	119,099	(11,190)		20,401	1,146,211
		100				2	100
		329,052	10,199	(176)		8,077	339,647
		124,886		(646)		5,639	123,620
		65,598	9,209			1,361	74,805
		1,712,957	138,507	(12,012)	(704)	37,448	1,862,287
		21,821				506	20,223
		57,323					35,214
		176,419	1,232		(212)	7,006	107,177
		1,227				85	2,256
		74,961	2,314			2,947	74,140
		2,684				131	2,618
		2,720				180	2,695
		104,319	461			6,929	105,598
		17,344				574	17,222
		455,818	4,007			18,356	367,144
		4,124,534	185,064	(12,012)	(916)	119,216	4,226,885
		963,111					1,167,918
		3,161,423	185,064	(12,012)	(916)	38,034	3,056,967

PHOENIX OFFICE AND METER SHOP - RATE BASE ALLOCATION

LINE NO.	DESCRIPTION	(A) TEST YEAR ADJUSTED	(B) Superstition	(C) Cochise	(D) San Maneul	(E) Oracle	(F) SaddleBrook Ranch	(G) Winkelman
1	3 Factor Allocation Factor		28.65%	7.19%	1.64%	2.04%	0.15%	0.19%
2	Phoenix Office Allocation							
3	Plant Classification							
4	Intangible Plant	\$ 9,148	\$ 2,621	\$ 658	\$ 150	\$ 187	\$ 14	\$ 17
5	Source of Supply Plant	-	-	-	-	-	-	-
6	Pumping Plant	-	-	-	-	-	-	-
7	Water Treatment Plant	-	-	-	-	-	-	-
8	Transmission & Distribution Plant	-	-	-	-	-	-	-
9	General Plant	6,908,613	1,979,318	496,729	113,301	140,936	10,363	13,126
10	Total Gross Plant in Service (Sum L4 thru L9)	\$ 6,917,761	\$ 1,981,939	\$ 497,387	\$ 113,451	\$ 141,122	\$ 10,377	\$ 13,144
11	Less:							
12	Accumulated Depreciation	1,587,979	454,956	114,176	26,043	32,395	2,382	3,017
13	Net Utility Plant in Service (L10 less L12)	\$ 5,329,782	\$ 1,526,982	\$ 383,211	\$ 87,408	\$ 108,728	\$ 7,995	\$ 10,127
14	Less:							
15	Deferred Income Tax	25,368,073	7,267,953	1,823,964	416,036	517,509	38,052	48,199
16	Total Phoenix Office Allocation (L13 less L15)	\$ (20,038,291)	\$ (5,740,970)	\$ (1,440,753)	\$ (328,628)	\$ (408,781)	\$ (30,057)	\$ (38,073)
17								
18	Meter Shop Allocation							
19	Plant Classification							
20	Intangible Plant	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
21	Source of Supply Plant	80	23	6	1	2	-	-
22	Pumping Plant	-	-	-	-	-	-	-
23	Water Treatment Plant	2,050	587	147	34	42	3	4
24	Transmission & Distribution Plant	6,065	1,738	436	99	124	9	12
25	General Plant	146,810	42,061	10,556	2,408	2,995	220	279
26	Total Gross Plant in Service (Sum L20 thru L25)	\$ 155,005	\$ 44,408	\$ 11,145	\$ 2,542	\$ 3,162	\$ 232	\$ 294
27	Less:							
28	Accumulated Depreciation	56,404	16,160	4,055	925	1,151	85	107
29	Net Utility Plant in Service (L26 less L28)	\$ 98,601	\$ 28,249	\$ 7,089	\$ 1,617	\$ 2,011	\$ 148	\$ 187
30	Less:							
31	Deferred Income Tax	56,404	-	-	-	-	-	-
32	Total Phoenix Office Allocation (L29 less L31)	\$ 42,197	\$ 28,249	\$ 7,089	\$ 1,617	\$ 2,011	\$ 148	\$ 187
33								
34	Total Phoenix Office and Meter Shop Allocation							
35	Plant Classification							
36	Intangible Plant	\$ 9,148	\$ 2,621	\$ 658	\$ 150	\$ 187	\$ 14	\$ 17
37	Source of Supply Plant	80	23	6	1	2	-	-
38	Pumping Plant	-	-	-	-	-	-	-
39	Water Treatment Plant	2,050	587	147	34	42	3	4
40	Transmission & Distribution Plant	6,065	1,738	436	99	124	9	12
41	General Plant	7,055,423	2,021,379	507,285	115,709	143,931	10,583	13,405
42	Total Gross Plant in Service	\$ 7,072,766	\$ 2,026,347	\$ 508,532	\$ 115,993	\$ 144,284	\$ 10,609	\$ 13,438
43	Less:							
44	Accumulated Depreciation	1,644,383	471,116	118,231	26,968	33,545	2,467	3,124
45	Net Utility Plant in Service (Sum L7 - L8)	\$ 5,428,382	\$ 1,555,232	\$ 390,301	\$ 89,025	\$ 110,739	\$ 8,142	\$ 10,314
46	Less:							
47	Deferred Income Tax	25,368,073	7,267,953	1,823,964	416,036	517,509	38,052	48,199
48	Total Phoenix Office Allocation (L9 - L10)	\$ (19,996,095)	\$ (5,712,721)	\$ (1,433,664)	\$ (327,011)	\$ (406,770)	\$ (29,910)	\$ (37,886)

ALLOWANCE FOR WORKING CAPITAL

LINE NO.	DESCRIPTION	(A) AMOUNT	(B) REFERENCE
1	Working Cash Requirement As Per Company	\$ 10,997	Company Schedule B-5, PG. 2 of 2
2	Working Cash Requirement As Per RUCO	(6,935)	RUCO Schedule RBM-6(1), L30
3	Adjustment	\$ (17,932)	L2 - L1
4			
5	Material and Supplies Inventories As Per Company	\$ 36,426	Company Schedule B-5, PG. 2 of 2
6	Material and Supplies Inventories As Per RUCO	36,426	Company Schedule B-5, PG. 2 of 2
7	Adjustment	\$ -	L6 - L5
8			
9	Required Bank Balances As Per Company	\$ 36,269	Company Schedule B-5, PG. 2 of 2
10	Required Bank Balances As Per RUCO	36,269	Company Schedule B-5, PG. 2 of 2
11	Adjustment	\$ -	L10 - L9
12			
13	Prepayments & Special Deposits As Per Company	\$ 11,711	Company Schedule B-5, PG. 2 of 2
14	Prepayments & Special Deposits As Per RUCO	11,711	Company Schedule B-5, PG. 2 of 2
15		\$ -	L13 - L14
16			
17	TOTAL ADJUSTMENT (See RLM-2, Column (K))	\$ (17,932)	Sum L3, L7, L11, L15

Arizona Water Company
Docket No. W-01445A-11-0310
Test Year Ended December 31, 2010

San Manuel
Schedule RBM-6
Page 1

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EXPLANATION OF RATE BASE ADJUSTMENT NO. 2

Line No.	(A) Company Test Year Adjusted Results	(B) RUCO Adj	(C) RUCO Adjusted Results	(D) Revenue Lag Days1	(E) Expense Lag Days2	(F) Net Lag Days [B - C]	(G) Lead / Lag Factor [D * 365]	(H) Working Cash Requirement [A X E]
1	\$ 34,056		\$ 34,056	30.15	30.87	(0.72)	(0.0020)	\$ (67)
2	Operating Expenses							
3	Purchased Power		218,739	30.15	14.00	16.15	0.0442	9,678
4	Payroll		372,967	30.15	26.04	4.11	0.0113	4,200
5	Purchased Water		3,034	30.15	(18.11)	48.26	0.1322	401
6	Chemicals		9,086	30.15	(45.27)	75.42	0.2066	1,877
7	Property & Liability Insurance		2,078	30.15	(46.50)	76.65	0.2100	436
8	Workman's Compensation Insurance		33,958	30.15	(8.92)	39.07	0.1070	3,635
9	Health Insurance		153,827	30.15	(9.27)	39.42	0.1080	16,933
10	Other O&M (Excluding Rate Case Expense)	(2,960)	156,787	30.15	(9.27)	39.42	0.1080	16,933
11	Federal Income Taxes	(17,384)	48,812	30.15	37.00	(6.85)	(0.0188)	(916)
12	State Income Taxes	(3,829)	10,753	30.15	37.00	(6.85)	(0.0188)	(202)
13	FICA Taxes		16,443	30.15	14.00	16.15	0.0442	728
14	FUTA & SUTA Taxes		545	30.15	83.10	(52.95)	(0.1451)	(78)
15	Property Taxes	(1,044)	53,495	30.15	212.00	(181.85)	(0.4982)	(26,652)
16	Registration, Svc. Contracts, & Misc. Fees		8,929	30.15	(98.83)	128.98	0.3534	3,155
17	Retirement Annuities (401k)		17,408	30.15	34.72	(4.57)	(0.0125)	(218)
18								
19								
20	Subtotal	(25,218)	987,090					12,910
21								
22								
23	Interest Expense	(647)	66,834	30.15	91.25	(61.10)	(0.1674)	(11,188)
24	Cost of Equity	(128,498)	-	30.15	-	30.15	0.0826	-
25	Dividends Paid	69,081	69,081	30.15	75.89	(45.74)	(0.1253)	(8,656)
26								
27	Subtotal	(60,064)	135,915					(19,844)
28								
29								
30	Total	(85,281)	1,123,005					(6,935)
31								
32								

33 Columns (A), (D), and (E) Company Schs. B-5 page 1
34 Column (B) RUCO Schs. RBM-7, RBM-8

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJ'MTS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Operating Revenues					
1	Residential	\$ 763,811	\$ -	\$ 763,811	\$ 265,620	\$ 1,029,431
2	Commercial	159,464	-	159,464	43,397	202,861
3	Industrial	-	-	-	-	-
4	Private Fire Service	286	-	286	38	324
5	Other Water Revenues	8,639	-	8,639	1,821	10,460
6	Total Water Revenues	\$ 932,200	\$ -	\$ 932,200	\$ 310,876	\$ 1,243,076
7	Miscellaneous	\$ 15,328	\$ -	\$ 15,328	\$ -	\$ 15,328
8	Total Operating Revenues	\$ 947,528	\$ -	\$ 947,528	\$ 310,876	\$ 1,258,404
	Operating Expenses					
	Source of Supply Expenses:					
9	Purchased Water	\$ 372,967	-	372,967	-	372,967
10	Other	2,637	(17)	2,620	-	2,620
11	Pumping Expenses:	-	-	-	-	-
12	Purchased Power	34,056	-	34,056	-	34,056
13	Purchased Gas	-	-	-	-	-
14	Other	49,208	2,433	51,641	-	51,641
15	Water Treatment Expenses	55,225	(52)	55,173	-	55,173
16	Transmission & Distribution Expenses	103,578	(4,661)	98,917	-	98,917
17	Customer Accounting Expenses	109,167	(148)	109,019	-	109,019
18	Sales Expense	-	-	-	-	-
19	Administrative & General Expenses	134,261	(2,469)	131,792	-	131,792
20	Total Operations & Maintenance Expense	\$ 861,099	\$ (4,913)	\$ 856,186	\$ -	\$ 856,186
21	Depreciation & Amortization Expenses	\$ 112,938	\$ -	\$ 112,938	-	\$ 112,938
	Taxes					
22	Federal Income Taxes	\$ (49,612)	\$ 1,759	\$ (47,853)	96,665	\$ 48,812
23	State Income Taxes	(10,929)	387	(10,542)	21,294	10,753
24	Property Taxes	48,221	-	48,221	5,274	53,495
25	Other	14,635	-	14,635	-	14,635
26	Total Taxes	\$ 2,315	\$ 2,146	\$ 4,461	\$ 123,233	\$ 127,695
27	Total Operating Expenses	\$ 976,352	\$ (2,767)	\$ 973,585	\$ 123,233	\$ 1,096,818
28	Operating Income	\$ (28,824)	\$ 2,767	\$ (26,057)	\$ 187,643	\$ 161,587

References:

Column (A): RBM-8, Col. A
Column (B): RBM-8, Col. K
Column (C): Col. A + Col.B
Column (D): RBM-1, RBM-1(2), RBM-15
Column (E): Col.C + Col.D

SCHEDULE OF OPERATING INCOME - TEST YEAR WITH RUCO ADJUSTMENTS

Line No.	(A) Test Year Ended 12/31/2010	(B) Adjustment Normalize Maintenance IS-1	(C) Adjustment Rate Case Expense IS-2	(D) Adjustment Fleet Fuel Expense IS-3	(E) Adjustment Misc Expenses IS-4	(F) Adjustment Depreciation Expense IS-5	(G) Adjustment LEFT BLANK	(H) Adjustment LEFT BLANK	(I) Adjustment Property Tax IS-8	(J) Adjustment Income Tax IS-9	(K) Total Pro Forma Adjustments	(L) Test Year Adjusted Results
1	Operating Revenues											
2	Residential	\$ 763,811	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 763,811
3	Commercial	159,464	-	-	-	-	-	-	-	-	-	159,464
4	Industrial	-	-	-	-	-	-	-	-	-	-	-
5	Private Fire Service	286	-	-	-	-	-	-	-	-	-	286
6	Other Water Revenues	8,639	-	-	-	-	-	-	-	-	-	8,639
7	Total Water Revenues (L2 thru L6)	\$ 932,200	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 932,200
8	Miscellaneous	15,328	-	-	-	-	-	-	-	-	-	15,328
9	Total Operating Revenues (L7 + L9)	\$ 947,528	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 947,528
10	Operating Expenses											
11	Source of Supply Expenses:											
12	Purchased Water	372,867	-	-	-	-	-	-	-	-	-	372,867
13	Other	2,637	-	-	-	-	-	-	-	-	-	2,620
14	Pumping Expenses:											
15	Purchased Power	34,056	-	-	-	-	-	-	-	-	-	34,056
16	Purchased Gas	-	-	-	-	-	-	-	-	-	-	-
17	Other	49,208	2,603	-	-	-	-	-	-	-	-	51,811
18	Water Treatment Expenses	55,225	-	-	-	-	-	-	-	-	-	55,225
19	Transmission & Distribution Expenses	103,578	(4,107)	-	-	-	-	-	-	-	-	99,471
20	Customer Accounting Expenses	109,167	-	-	-	-	-	-	-	-	-	109,167
21	Sales Expense	-	-	-	-	-	-	-	-	-	-	-
22	Administrative & General Expenses	134,261	-	(1,853)	-	-	-	-	-	-	-	132,408
23	Total Operations & Maint. Exp (L14 thru L24)	\$ 861,099	\$ (1,504)	\$ (1,853)	\$ (462)	\$ (462)	\$ -	\$ -	\$ -	\$ -	\$ (4,913)	\$ 856,186
24	Depreciation & Amortization Expenses	112,938	-	-	-	-	-	-	-	-	-	112,938
25	Taxes											
26	Federal Income Taxes	(49,612)	-	-	-	-	-	-	-	-	-	(49,612)
27	State Income Taxes	(10,826)	-	-	-	-	-	-	-	-	-	(10,826)
28	Property Taxes	48,221	-	-	-	-	-	-	-	-	-	48,221
29	Other	14,635	-	-	-	-	-	-	-	-	-	14,635
30	Total Taxes (L30 thru L33)	\$ 2,315	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,146	\$ 4,461
31	Total Operating Expenses (L25 + L27 + L34)	\$ 976,352	\$ (1,504)	\$ (1,853)	\$ (462)	\$ (462)	\$ -	\$ -	\$ -	\$ -	\$ (2,767)	\$ 973,585
32	Operating Income (L10 less L36)	\$ (28,824)	\$ 1,504	\$ 1,953	\$ 462	\$ 462	\$ -	\$ -	\$ -	\$ -	\$ 2,767	\$ (26,057)

References:
Column A, RBM-9
Column B, RBM-10
Column C, RBM-11
Column D, RBM-12
Column E, RBM-13
Column F, RBM-14
Column J, RBM-16

SCHEDULE OF OPERATING INCOME-TEST YR COMPANY ADJUSTMENTS

Line No.	(A) Test Year Ended 12/31/2010	(B) Adj. Sales Tax IS-1	(C) Adj. Net Unbilled IS-2	(D) Adj. MAP IS-3	(E) Adj. ACRM IS-4	(F) Adj. Misc IS-5	(G) Adj. Annual Rates IS-6	(H) Adj. New Customers IS-7	(I) Adj. Payroll IS-8	(J) Adj. Emp Benefits IS-9	(K) Adj. Interest on Customer Deposits IS-10	(L) Adj. Normalized Maintenance IS-11
1	Operating Revenues											
2	Residential	\$ 767,294	\$ (3,264)	\$ -	\$ (78,279)	\$ -	\$ 117,912	\$ (3,965)	\$ -	\$ -	\$ -	\$ -
3	Commercial	162,422	21	-	(15,169)	-	25,561	(1,838)	-	-	-	-
4	Industrial	146	(11)	-	-	-	151	-	-	-	-	-
5	Private Fire Service	10,018	(704)	-	(1,070)	-	385	-	-	-	-	-
6	Other Water Revenues	959,860	(68,135)	(3,243)	(94,518)	-	144,019	(5,803)	-	-	-	-
7	Total Water Revenues (L2 thru L6)	\$ 959,860	\$ (68,135)	\$ (3,243)	\$ (94,518)	\$ -	\$ 144,019	\$ (5,803)	\$ -	\$ -	\$ -	\$ -
8	Miscellaneous	16,436	(1,109)	-	-	-	-	-	-	-	-	-
9	Total Operating Revenues (L7 + L9)	\$ 976,316	\$ (69,243)	\$ (3,243)	\$ (94,518)	\$ -	\$ 144,019	\$ (5,803)	\$ -	\$ -	\$ -	\$ -
10	Operating Expenses											
11	Source of Supply Expenses:											
12	Purchased Water:	174,051	-	-	-	-	-	-	-	-	-	-
13	Other	3,506	48	-	-	-	-	(1,109)	145	-	-	-
14	Pumping Expenses:											
15	Purchased Power	32,531	(82)	-	-	-	-	-	-	-	-	-
16	Purchased Gas											
17	Other	43,866	(6)	-	-	-	-	(477)	1,465	-	-	3,883
18	Water Treatment Expenses	44,589	77	-	-	-	-	(279)	555	-	-	-
19	Transmission & Distribution Expenses	85,403	1,315	-	-	-	-	(482)	2,880	-	-	12,906
20	Customer Accounting Expenses	104,739	1,492	-	-	-	-	(591)	3,108	-	-	-
21	Sales Expense											
22	Administrative & General Expenses	118,718	419	-	-	-	-	(670)	2,434	5,764	706	-
23	Total Operations & Maint. Exp (L14 thru L24)	\$ 607,403	\$ 3,263	\$ -	\$ -	\$ -	\$ -	\$ (3,608)	\$ 10,587	\$ 5,764	\$ 706	\$ 16,789
24	Depreciation & Amortization Expenses	75,433	-	-	-	-	-	-	-	-	-	-
25	Taxes											
26	Federal Income Taxes	33,794	-	-	-	-	-	-	-	-	-	-
27	State Income Taxes	3,818	-	-	-	-	-	-	-	-	-	-
28	Property Taxes	41,960	-	-	-	-	-	-	-	-	-	-
29	Other	80,020	(69,243)	-	-	-	-	-	3,858	-	-	-
30	Total Taxes (L30 thru L33)	\$ 159,592	\$ (69,243)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,858	\$ -	\$ -	\$ -
31	Total Operating Expenses (L25 + L27 + L34)	\$ 842,428	\$ (69,243)	\$ 3,263	\$ -	\$ -	\$ -	\$ (3,608)	\$ 14,445	\$ 5,764	\$ 706	\$ 16,789
32	Operating Income (L10 less L36)	\$ 133,888	\$ -	\$ (6,506)	\$ -	\$ -	\$ 144,019	\$ (2,195)	\$ (14,445)	\$ (5,764)	\$ (706)	\$ (16,789)

Columns (A) through columns (X) see Company Exhibit Schedule C-2

SCHEDULE OF OPERATING INCOME - TEST YEAR WITH ADJUSTMENTS

Line No.	(M) Adjustment Water & Gas Exp IS - 12	(N) Adjustment Rate Case Expense IS - 13	(O) Adjustment A&G for BMP IS - 14	(P) Adjustment Fleet Fuel Expense IS - 15	(Q) Adjustment AS 400 Printers IS - 16	(R) Adjustment Arsenic Treatment Exp IS - 17	(S) Adjustment Error Correction CAP Charges IS - 18	(T) Adjustment Depreciation Expense IS - 19	(U) Adjustment Property Tax IS - 20	(V) Adjustment Income Tax IS - 21	(W) Total Pro Forma Adjustments	(X) Test Year Adjusted Results
1												
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37												

Columns (A) through columns (X) see Company Exhibit Schedule C-2

**OPERATING INCOME ADJUSTMENT NO. 1
PUMPING AND TRANSMISSION & DISTRIBUTION MAINTENANCE EXPENSE**

Pumping Accounts Normalized:					3 Year Normalized Average	
	<u>2008</u>	<u>2009</u>	<u>2010</u>		<u> </u>	
1	<u>Maintenance:</u>					
2	\$ 3,674	\$ 1,942	\$ 1,998	\$	2,538	
3	3,840	3,268	2,296		3,135	
4	20,385	3,561	4,314		9,420	
5	-	-	-		-	
6	<hr/>					
7	\$ 27,899	\$ 8,771	\$ 8,608	\$	15,093	
8						
9						
10	Company Requested Level of T. Y. Pumping Maintenance Expense				<hr/>	12,490
11						
12	RUCO Increase / (Decrease) in T. Y. Expense Level				<hr/>	\$ 2,603
13						
14	RUCO Pumping Maintenance Expense Adjustment				<hr/>	\$ 2,603
15						
16						
17						
18						
19						
20	Transmission & Distribution Accounts Normalized:					
21	<u>2008</u>	<u>2009</u>	<u>2010</u>		<u>3 Year Normalized Average</u>	
22	<u>Maintenance:</u>					
23	\$ 12,964	\$ 8,545	\$ 8,015	\$	9,841	
24	4,786	4,786	2,392		3,988	
25	12,931	5,330	3,942		7,401	
26	-	-	555		185	
27	-	-	-		-	
28	23,924	12,322	10,779		15,675	
29	-	-	1,117		372	
30	2,980	3,646	6,307		4,311	
31	491	279	188		319	
32	<hr/>					
33	\$ 58,076	\$ 34,908	\$ 33,295	\$	42,093	
34						
35						
36	Company Requested Level of T. Y. T & D Maintenance Expense				<hr/>	46,200
37						
38	RUCO Increase / (Decrease) Expense Adjustment				<hr/>	\$ (4,107)
39						
40	RUCO T & D Maintenance Expense Adjustment				<hr/>	\$ (4,107)
41						
42						
43	Total RUCO Pumping and T & D Maintenance Expense Adjustment (L14 + L40)				<hr/>	\$ (1,504)

OPERATING INCOME ADJUSTMENT NO. 2
RATE CASE EXPENSE ADJUSTMENT

Line No.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense Total for Eastern Group	\$ 476,874	\$ (164,274)	\$ 312,600
2				
3	Allocation Factor (L31)			4.41%
4				
5	Superstition (Apache Junction, Superior, Miami)			\$ 13,794
6				
7	Amortization Period - 3 years			3
8				
9	RUCO Adjusted Rate Case Expense (L5 / L7)			\$ 4,598
10				
11	Company Rate Case Expense as Filed (Company Sch. C-2 Appendix)			\$ 6,551
12				
13	RUCO Pro Forma Rate Case Expense (L9 - L11)			\$ (1,953)
14				
15	RUCO Adjustment			\$ (1,953)
16				
17				
18	RUCO's Rate Base Expense Adjustment Calculation:			
19	Decision No. 66848, dated March 19, 2004, approved amount			
20	\$250,000 for Arizona Water Company's Eastern Group.		\$ 250,000	
21				
22	Inflation Factor from January 1, 2002 through September 30,			
23	per Inflation Data.com		25.04%	
24				
25	Reasonable Amount of Rate Case Expense based on			
26	Decision No. 66848.		\$ 312,600	
27				
28	RUCO Adjustment (Col. (A) L1 - Col. (B) L26)		\$ 164,274	
29				
30	<u>Allocation Factor Based on Number of Customers</u>		<u>Customers</u>	<u>Percent of Total</u>
31	Superstition (Apache Junction, Superior, Miami)		23,607	71.10%
32	Cochise (Bisbee, Sierra Vista)		6,357	19.15%
33	San Manuel		1,465	4.41%
34	Oracle		1,506	4.54%
35	SaddleBrook Ranch		113	0.34%
36	Winkelman		153	0.46%
37	Total Number of Customers and Percentages		33,201	100.00%

OPERATING INCOME ADJUSTMENT NO. 3
Fleet Fuel Expense Adjustment

Line No.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO PROP'D CHANGES	(C) RUCO ADJUSTMENT AS RECOMM'D
1	Number of fuel gallons used in test year (Total Company)	190,139	190,139	190,139
2				
3	Price per gallon of fuel (Obtained from AAA Fuel Gage Report)	\$ 3.6710	\$ 3.3150	\$ 0.3560
4				
5	Adjusted due to reduced price per gallon of fuel	\$ 698,000	\$ 630,311	\$ 67,689
6				
7				
8	Percentage allocated to Cochise based on			
9	three factor allocation formula.	\$ 2,801	\$ 1,807	\$ (994)
10				
11				
12				
13				
14				
15				
16	ALLOCTED TO OEPRATING DEPARTMENTS:	COMPANY	RUCO PROP'D	RUCO ADJUSTMENT
17	Source of Supply Expenses:	AS FILED	CHANGES	BY DEPARTMENT
18	Pumping Expenses	\$ 47	\$ 30	\$ (17)
19	Water Treatment Expenses	477	308	(169)
20	Transmission & Distribution Expenses	148	96	(52)
21	Customer Accounting Expenses	1,558	1,004	(554)
22	Administrative & General Expenses	419	271	(148)
23		152	98	(54)
24		\$ 2,801	\$ 1,807	\$ (994)
25				
26				
27				
28				

OPERATING INCOME ADJUSTMENT NO. 4
 MISCELLANEOUS EXPENSE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) Supersition	(B) Cochise	(C) San Manuel	(D) Oracle	(E) SaddleBrook Ranch	(F) Winkelman
1							
2	<u>DIRECT EXPENSES</u>						
3	Customer Accounting Expense	\$ 1,570	\$ 713	\$ 78	\$ 96	\$ -	\$ -
4	Administration & General Expense	1,642	-	137	143	19	7
5							
6	TOTAL DIRECT EXPENSE	\$ 3,212	\$ 713	\$ 215	\$ 240	\$ 19	\$ 7
7							

ALLOCATION OF PHOENIX OFFICE EXPENSES BASED ON THREE FACTOR

	TOTAL	0.2865	0.0719	0.0164	0.0204	0.0015	0.0019
8	<u>PHOENIX OFFICE EXPENSES</u>						
9							
10							
11	Service Awards and Banquets	\$10,580	761	174	216	16	20
12							
13	Flower Shop Expenses	\$987	71	16	20	1	2
14							
15	Water Association Dues Allowed	\$3,475	250	57	71	5	7
16	at 50% of Total						
17							
18	TOTAL ALLOCATED EXPENSES	\$4,310	\$1,082	\$247	\$307	\$23	\$29
19							
20	TOTAL MISCELLANEOUS EXPENSE ADJUSTMENT	\$7,522	\$1,794	\$462	\$547	\$42	\$35
21							
22							
23							
24							
25							
26							
27							
28							
29							
30							

OPERATING INCOME ADJUSTMENT NO. 5
CALCULATION OF DEPRECIATION EXPENSE

Line No.	Acct. No.	Present Depreciation Rates	(A) Plant Balance Per GL	(B) Post Test Year Adjustments	(C) Phoenix Office Balance Per GL	(D) Meter Shop Balance Per GL	(E) Three Factor Formula Allocation	(F) Phoenix Office Meter Shop Allocated To Plant	(G) Company Adjusted End Of Test Year	(H) RUCO Adjustments End Of Test Year	(I) Adjusted End Of Test Year Plant	(J) RUCO Depreciation Test Year Adjusted											
													0.00%	See Acct. 111	See Acct. 111	0.00%	0.00%	3.15%	0.00%	0.00%	2.86%	0.00%	2.00%
1																							
2	301				651			11	11		11												
3	302																						
4	303		334		8,496			139	474		474												
5			334		9,148			150	484		484												
6																							
7	310.1		173,432						173,432		173,432												
8	310.3					80		1	1		1												
9	310.4																						
10	314		5,560						5,560		5,560												
11			178,992			80		1	178,993		178,993												
12																							
13	320		7,000						7,000		7,000												
14	321		14,110						14,110		14,110												
15	325		385,648						385,648		385,648												
16	328																						
17			406,758						406,758		406,758												
18																							
19	330		2,000						2,000		2,000												
20	331		42,932						42,932		42,932												
21	332		1,378,319			2,050		34	1,378,353		1,378,353												
22			1,423,251			2,050		34	1,423,285		1,423,285												
23																							
24	340		68,500						68,500		68,500												
25	342		98,403						98,403		98,403												
26	343		1,209,461			6,066		99	1,209,560		1,209,560												
27	344		100						100		100												
28	345		339,836						339,836		339,836												
29	346		122,815						122,815		122,815												
30	348		74,805						74,805		74,805												
31			1,914,920			6,066		99	1,915,019		1,915,019												
32																							
33	389																						
34	390		20,223		79,835				22,401		22,401												
35	390.1		35,214		1,543,079			2,178	60,521		60,521												
36	391		107,887		4,895,192			25,306	188,350		188,350												
37	393		4,769		3,705			80,463	4,976		4,976												
38	394		74,308		196,363			207	78,669		78,669												
39	395		2,618		1,508			4,361	2,691		2,691												
40	386		2,695						2,719		2,719												
41	397		109,348		181,623			24	112,326		112,326												
42	398		17,222		7,207				17,341		17,341												
43			374,295		6,908,612			118	489,994		489,994												
44			\$ 4,298,541		\$ 6,917,760		\$ 155,005	\$ 115,993	\$ 4,414,534		\$ 4,414,534	\$ 127,781											
												\$ (14,843)											
												\$ 112,938											
												\$ 112,938											
												\$ (0)											

Total Depreciation Test Year Adjusted
Less: Amortization of Regulatory Liability
Less: Amortization of Contribution in Aid of Construction
Add: Additional Amortization
Total Depreciation as Calculated
Per Company Schedule C-2
Adjustment

OPERATING INCOME ADJUSTMENT NO. 6
PROPERTY TAXES

LINE NO.	Property Tax Calculation	(A)	(B)
		RUCO AS ADJUSTED	RUCO RECOMMENDED
1	RUCO Adjusted Test Year Revenues - RBM-6	\$ 947,528	\$ 947,528
2	Multiplied by 2	2	2
3	Subtotal (Line 1 * Line 2)	\$ 1,895,056	\$ 1,895,056
4	RUCO Adjusted Test Year Revenues - 2010	947,528	
5	RUCO Recommended Revenue, Per Schedule RBM-6		1,258,405
6	Subtotal (Line 4 + Line 5)	\$ 2,842,584	\$ 3,153,461
7	Number of Years	3	3
8	Three Year Average (Line 5 / Line 6)	\$ 947,528	\$ 1,051,154
9	Department of Revenue Multiplier	2	2
10	Revenue Base Value (L8 X L9)	\$ 1,895,056	\$ 2,102,307
11	Plus: 10% of CWIP -	-	-
12	Less: Net Book Value of Licensed Vehicles	-	-
13	Full Cash Value (L10 + L11 + L12)	\$ 1,895,056	\$ 2,102,307
14	Assessment Ratio	21.0%	21.0%
15	Assessment Value (L13 X L14)	\$ 397,962	\$ 441,485
16	Composite Property Tax Rate (L19 / L15)	12.1170%	12.1170%
17			
18	RUCO Proposed Property Tax Expense (L15 X L16)	\$ 48,221	
19	Company Proposed Property Tax	48,221	
20			
21	RUCO Test Year Adjustment (L16 - L17)	\$ -	
22	Property Tax - RUCO Recommended Revenue (L15 X L16)		\$ 53,495
23	RUCO Test Year Adjusted Property Tax Expense (L18)		48,221
24	Increase/(Decrease) to Property Tax Expense		\$ 5,274
25			
26	Increase/(Decrease) to Property Tax Expense		\$ 5,274
27	Increase in Revenue Requirement (L5 - L4)		310,877
28	Increase/(Decrease) to Property Tax per Dollar Increase in Revenue (L26 / L27)		1.6964%

**OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
1	FEDERAL INCOME TAXES:		
2			
3	Operating Income Before Taxes	(RBM- 7, Col. (C), L36 + L29 + L30)	\$ (84,452)
4	LESS:		
5	Arizona State Tax	L21	(10,542)
6	Interest Expense	Note (A) L41	66,834
7	Federal Taxable Income	L3 - L5 - L6	<u>\$ (140,744)</u>
8			
9	Federal Tax Rate	Sch. RBM-1, Page 2	34.00%
10	Federal Income Tax Expense	L7 X L9	<u>\$ (47,853)</u>
11			
12	STATE INCOME TAXES:		
13			
14	Operating Income Before Taxes	L3	\$ (84,452)
15	LESS:		
16	Interest Expense	Note (A) L41	66,834
17	State Taxable Income	L14 - L16	<u>\$ (151,286)</u>
18			
19	State Tax Rate	Tax Rate	6.97%
20			
21	State Income Tax Expense	L17 X L19	<u>\$ (10,542)</u>
22			
23	TOTAL INCOME TAX EXPENSE:		
24	Federal Income Tax Expense	L10	\$ (47,853)
25	State Income Tax Expense	L21	(10,542)
26	Total Income Tax Expense Per RUCO	L24 + L25	<u>\$ (58,395)</u>
27			
28	Total Federal Income Tax Expense Per Company (Per Company Sch. C-1, L30)		(49,612)
29			
30	Total State Income Tax Expense Per Company (Per Company Sch. C-1, L31)		(10,929)
31			
32	RUCO Federal Income Tax Adjustment	L24 - L28	<u>\$ 1,759</u>
33			
34	RUCO State Income Tax Adjustment	L25 - L30	<u>\$ 387</u>
35			
36			
37	<u>NOTE (A): Interest Synchronization</u>		
38			
39	Adjusted Rate Base RBM-2, Col. (M), L28	\$ 1,998,819	
40	Weighted Cost Of Debt RBM-9, Col. (D), L1	3.34%	
41	Interest Expense (L39 X L40)	<u>\$ 66,834</u>	

COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) DOLLAR AMOUNT	(B) CAPITAL RATIO	(C) COST RATE	(D) WEIGHTED COST RATE
1	Long-Term Debt	\$ 75,000,000	49.03%	6.82%	3.34%
2					
3	Common Equity	77,975,335	50.97%	9.30%	4.74%
4					
5	Total Capitalization	<u>\$ 152,975,335</u>	<u>100.00%</u>		
6					
7					
8	WEIGHTED AVERAGE COST OF CAPITAL				8.08%

References:
Columns (A) Thru (D): WAR Testimony

TABLE OF CONTENTS TO RBM SCHEDULES

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RBM-4 (1)	1	PHOENIX OFFICE AND METER SHOP PLANT ALLOCATION
RBM-5	1	ALLOWANCE FOR WORKING CAPITAL
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RBM-8	1 & 2	SCHEDULE OF OPERATING INCOME - TEST YEAR WITH RUCO ADJUSTMENTS
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RBM-10	1	OPERATING INCOME ADJUSTMENT NO. 1 - PUMPING TRANSMISSION & DISTRIBUTION EXPENSE NORMALIZATION
RBM-11	1	OPERATING INCOME ADJUSTMENT NO. 2 - RATE CASE EXPENSE
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RBM-16	1	OPERATING INCOME ADJUSTMENT NO. 7 - INCOME TAXES
RBM-17	1	COST OF CAPITAL

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCR/FVRB COST	(B) RUCO OCR/FVRB COST
1	Adjusted Original Cost/Fair Value Rate Base	\$ 50,574,693	\$ 50,029,487
2			
3	Adjusted Operating Income (Loss)	\$ 2,562,891	\$ 2,745,037
4			
5	Current Rate of Return (L3 / L1)	5.07%	5.49%
6			
7	Required Operating Income (L9 X L1)	\$ 4,914,647	\$ 4,044,443
8			
9	Required Rate of Return on Fair Value Rate Base	9.7200%	8.0841%
10			
11	Operating Income Deficiency (L7 - L3)	\$ 2,351,756	\$ 1,299,406
12			
13	Gross Revenue Conversion Factor (RBM-1, Page 2 of 2)	1.6560	1.6560
14			
15	Required Increase in Gross Revenue Requirement (L11 X L13))	\$ 3,894,582	\$ 2,151,858
16			
17	Adjusted Test Year Revenue	\$ 15,056,166	\$ 15,056,166
18			
19	Proposed Annual Revenue (L15 + L17)	\$ 18,950,748	\$ 17,208,024
20			
21	Required Percentage Increase in Revenue (L15 / L17)	25.87%	14.29%
22			
23	Consolidated Revenue Adjustment	\$ -	\$ -
24			
25	Required Increase in Gross Revenue Under Proposed Consolidation	\$ -	\$ -
26			
27	Required Revenue Under Proposed Consolidation	\$ -	\$ -
28			
29	Required Percentage Increase in Revenue Under Proposed Consolidation	0%	0%
30			
31	Rate of Return on Common Equity	12.50%	9.30%

References:

Column (A): Company Schs. A-1 and C-1

Column (B): RUCO Schs. RBM-2, RBM-7, RBM-9 and RBM-17

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	CALCULATION OF GROSS REVENUE CONVERSION FACTOR:				
1	Revenue	100.0000%			
2	Proposed Bad Debt Expense (Per Co. Workpapers)	-			
3	Subtotal (L1 thru L2)	100.0000%			
4	Combined Federal, State, Property Tax Rate (L22)	39.6147%			
5	Subtotal (L3 - L4)	60.3853%			
6	Revenue Conversion Factor (L1 / L5)	1.6560			
	CALCULATION OF EFFECTIVE TAX RATE:				
9	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
10	Arizona State Income Tax Rate	6.9680%			
11	Federal Taxable Income (L9 - L10)	93.0320%			
12	Applicable Federal Income Tax Rate (L58)	34.0000%			
13	Effective Federal Income Tax Rate (L11 X L12)	31.8309%			
14	Combined Federal and State Income Tax Rate (L10 + L13)	38.5989%			
	CALCULATION OF EFFECTIVE PROPERTY TAX FACTOR:				
17	Unity	100.0000%			
18	Combined Federal and State Tax Rate	38.5989%			
19	1 Minus Combined Income Tax Rate	61.4011%			
20	Property Tax Factor	1.6544%			
21	Effective Property Tax Factor (L19 x L 20)	1.0158%			
22	Combined Federal, State & Property Tax RateTax Rate (L14 + L21)	39.6147%			
24	RUCO Required Operating Income (Sch. RBM-1, Col. (B), L7)	\$ 4,044,443			
25	RUCO Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RBM-1, Col. (B), L3)	2,744,742			
26	Required Increase In Operating Income (L24 - L25)		\$ 1,299,701		
28	Income Taxes On Recommended Revenue (Col. (D), L53)	\$ 1,491,067			
29	Income Taxes On Test Year Revenue (Col. (D), L55)	674,510			
30	Required Increase In Revenue To Provide For Income Taxes (L28 - L29)		\$ 816,557		
32	Property Tax with Recommended Revenue (Sch. RBM-7, Col. E, L31)	782,864			
33	Property Tax on TestYear Revenue (Sch. RBM-7, Col. C, L31)	747,264			
34	Increase in Property Tax Due to Increase in Revenue (L32 - L33)		\$ 35,600		
36	Total Required Increase In Revenue (L26 + L30 + L34)		\$ 2,151,858		
				RUCO	
				Recommended	
38	RUCO's CALCULATION OF INCOME TAX:			\$ 17,208,024	
39	RUCO Proposed Revenue (Sch. RBM-1, Col. (B), L19)				
40	Less:				
41	Operating Expense Excluding Income Tax (Sch. RBM-7, Col. (E), L24 + L26 + L31 + L32)			11,672,219	
42	Synchronized Interest (Col. (C), L63)			1,672,824	
43	Arizona Taxable Income (L39 - L41 - L42)			\$ 3,862,981	
44	Arizona State Income Tax Rate			6.9680%	
45	Arizona Income Tax (L43 X L44)				\$ 269,172
46	Fed. Taxable Income (L43 - L45)			\$ 3,593,808	
47	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
48	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			\$ 6,250	
49	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			\$ 8,500	
50	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			\$ 91,650	
51	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			\$ 1,107,995	
52	Total Federal Income Tax (L47 thru L 51)				\$ 1,221,895
53	Combined Federal And State Income Tax (L45+ L52)				\$ 1,491,067
55	RUCO Adj'd Test Year Combined Federal and State Income Tax (RBM-7, Col. (C), L29 and L30)				\$ 674,510
56	RUCO Proposed Income Tax Adjustment (L53 - L55)				\$ 816,557
58	Applicable Federal Income Tax Rate				34.00%
	NOTE (A): Interest Synchronization				
61	Adjusted Rate Base RBM-2, Col. (C), L28			\$ 50,029,487	
62	Weighted Cost Of Debt RBM-9, Col. (M), L1			3.34%	
63	Interest Expense (L61 X L62)			\$ 1,672,824	

SUMMARY RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB
1	Plant Classification			
2	Intangible Plant	\$ 14,996	\$ -	\$ 14,996
3	Source of Supply Plant	9,147,654	-	9,147,654
4	Pumping Plant	10,135,447	34,484	10,169,930
5	Water Treatment Plant	10,320,657	(82,103)	10,238,554
6	Transmission & Distribution Plant	78,747,178	(33,129)	78,714,048
7	General Plant	5,985,412	(1,037)	5,984,375
8	Total Gross Plant in Service (L2 thru L7)	\$ 114,351,343	(81,786)	\$ 114,269,557
9				
10	Accumulated Depreciation	\$ 27,844,496		\$ 27,844,496
11	Net Utility Plant In Service (L8 - L10)	\$ 86,506,846	\$ (81,786)	\$ 86,425,061
12				
13	Advances In Aid Of Const.	\$ 11,305,977		\$ 11,305,977
14				
15	Contribution In Aid Of Const.	\$ 20,165,452		\$ 20,165,452
16	Accumulated Amortization Of CIAC	\$ (2,561,377)		\$ (2,561,377)
17	NET CIAC (L15 + L16)	\$ 17,604,075	\$ -	\$ 17,604,075
18				
19	Deferred Income Tax	\$ 7,267,953		\$ 7,267,953
20				
21	Customer Deposits	\$ 322,847		\$ 322,847
22				
23	Allowance For Working Capital	\$ 1,016,691	\$ (463,421)	\$ 553,270
24				
25	Net Regulatory Asset / (Liability)	\$ (448,000)		\$ (448,000)
26				
27	Rounding	\$ 8		\$ 8
28	TOTAL RATE BASE (L11-L17-L19-L21+L23+L25)	\$ 50,574,693	\$ (545,207)	\$ 50,029,487

References:
Column (A): Company Schedule B-1 and RBM-3 Col. E
Column (B): Schedule RBM-3 Cols. F and G
Column (C): Col. A + Col. B; RBM-3

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED NET PLANT TEST YEAR	(B) COMPANY ADJ NO 1 POST TEST YEAR ADJUSTMENTS	(C) NET REGULATORY LIABILITY	(D) PHOENIX OFF AND METER SHOP	(E) COMPANY AS FILED OCB/FY/RB	(F) ADJMT NO. 1 POST TEST YR ADJUSTMENTS	(G) ADJMT NO. 6 WORKING CAPITAL	(H) RUCO ADJTD OCB/FY/RB
1	Plant Classification								
2	Ineligible Plant	\$ 12,375	\$ -	\$ -	\$ 2,621	\$ 14,996	\$ -	\$ -	14,996
3	Source of Supply Plant	9,147,631	-	-	23	9,147,654	-	-	9,147,654
4	Pumping Plant	9,986,535	148,912	-	-	10,135,447	34,484	-	10,169,930
5	Water Treatment Plant	7,448,003	2,872,067	-	587	10,320,657	(82,103)	-	10,238,554
6	Transmission & Distribution Plant	78,380,067	365,373	-	1,738	78,747,178	(33,129)	-	78,714,048
7	General Plant	3,936,146	27,888	-	2,021,378	5,985,412	(1,037)	-	5,984,375
8	Total Gross Plant in Service (Sum L2 thru L7)	\$ 108,910,756	\$ 3,414,240	\$ -	\$ 2,026,347	\$ 114,351,343	\$ (81,786)	\$ -	\$ 114,269,557
9	Accumulated Depreciation	\$ 27,323,731	49,649	-	471,116	\$ 27,844,496	-	-	27,844,496
10	Net Utility Plant in Service (L8 less L10)	\$ 81,587,024	\$ 3,364,591	\$ -	\$ 1,555,231	\$ 86,506,846	\$ (81,786)	\$ -	\$ 86,425,061
11									
12	Advances In Aid Of Const.	\$ 11,305,977	\$ -	\$ -	\$ -	\$ 11,305,977	\$ -	\$ -	11,305,977
13									
14	Contribution In Aid Of Const.	\$ 20,165,452	\$ -	\$ -	\$ -	\$ 20,165,452	\$ -	\$ -	20,165,452
15	Accumulated Amortization Of CIAC	(2,561,377)	-	-	-	(2,561,377)	-	-	(2,561,377)
16	NET CIAC (L15 less L16)	\$ 17,604,075	\$ -	\$ -	\$ -	\$ 17,604,075	\$ -	\$ -	\$ 17,604,075
17									
18									
19	Deferred Income Tax	\$ -	\$ -	\$ -	\$ 7,267,953	\$ 7,267,953	\$ -	\$ -	\$ 7,267,953
20									
21	Customer Deposits	\$ 322,847	\$ -	\$ -	\$ -	\$ 322,847	\$ -	\$ -	\$ 322,847
22									
23	Allowance For Working Capital	\$ 1,016,691	\$ -	\$ -	\$ -	\$ 1,016,691	\$ -	\$ (463,421)	\$ 553,270
24									
25	Net Regulatory Asset / (Liability)	\$ -	\$ -	\$ (448,000)	\$ -	\$ (448,000)	\$ -	\$ -	\$ (448,000)
26									
27	Adjustment to Match Rate Base with G/L	\$ 8	\$ -	\$ -	\$ -	\$ 8	\$ -	\$ -	\$ 8
28	TOTAL RATE BASE (Sum L's 11, 13, 17, 18, 21, 23, 25 27)	\$ 53,370,824	\$ 3,364,591	\$ (448,000)	\$ (5,712,722)	\$ 50,574,693	\$ (81,786)	\$ (463,421)	\$ 50,029,487

References:
Columns (A) through (E): Company Schedule B-2; Column (D) RBM-4(1)
Column (F): RUCO Schedule RBM-6, Col. F
Column (G): RUCO Schedule RBM-5, Col. A

DIRECT PLANT AND ACCUMULATED DEPRECIATION

Line No.	Acct. No.	Description	Depreciation Rate	2010					Balance Per G.L.	Difference
				Additions	Retirements	Adjustments	Depreciation Expenses	Balance		
1		Intangible Plant								
2	301	Organization	0.00%					6,869	6,869	
3	302	Franchises	See Acct. 111					5,505	5,505	
4	303	Other Intangibles	See Acct. 111					12,375	12,375	
5		Subtotal Intangible Plant								
6		Source of Supply Plant								
7	310.1	Water Rights	0.00%		(24)			783,568	783,568	
8	310.3	Other Source of Supply Land	0.00%					153,791	153,791	
9	310.4	Wells - Other	0.00%					1,526,600	1,526,600	
10	314	Wells	See Acct. 111		(678,595)			6,673,672	6,673,672	
11		Subtotal Source of Supply Plant	3.13%		(678,619)			9,147,631	9,147,631	
12		Pumping Plant								
13	320	Pumping Plant Land	0.00%					18,910	18,910	
14	321	Pumping Plant Structures & Improvements	2.86%	107			6,402	283,830	283,830	
15	325	Electric Pumping Equipment	5.88%	206,332	(52,770)	(44,448)	565,602	9,673,632	9,673,632	
16	328	Gas Engine Equipment	4.00%				7	163	163	
17		Subtotal Pumping Plant		206,439	(52,770)	(44,448)	574,010	9,986,535	9,986,535	
18		Water Treatment Plant								
19	330	Water Treatment Plant Land	0.00%					811	811	
20	331	Water Treatment Structures & Improvements	2.50%				1,240	49,586	49,586	
21	332	Water Treatment Equipment	2.86%	42,975			210,957	7,387,605	7,387,605	
22		Subtotal Water Treatment Plant		42,975			212,197	7,448,003	7,448,003	
23		Transmission & Distribution Plant								
24	340	Transmission and Distribution Land	0.00%	3,607				185,215	185,215	
25	342	Storage Tanks	2.00%					4,946,483	4,946,483	
26	343	Transmission & Distribution Mains	1.79%	387,829	(3,841)		98,904	53,280,692	53,280,692	
27	344	Fire Sprinkler Taps	2.00%	56,657	(2,502)		14,600	756,878	756,878	
28	345	Services	2.38%	182,600	(6,374)		318,523	13,475,428	13,475,428	
29	346	Meters	4.55%	28,852	(3,748)		91,880	2,027,498	2,027,498	
30	348	Hydrants	1.82%	60,905	(2,983)		66,774	3,687,872	3,687,872	
31		Subtotal Transmission & Distribution Plant		743,043	(21,848)		1,540,679	78,380,067	78,380,067	
32		General Plant								
33	389	General Plant Land	0.00%					54,061	54,061	
34	390	Leasehold Improvements	2.50%	17,835	(1,724)		21,805	880,275	880,275	
35	390.1	Office Furniture & Equipment	6.67%	2,863			21,135	849,700	849,700	
36	391	Warehouse Equipment	5.00%	1,702			29,956	450,547	450,547	
37	393	Tools, Shop & Garage Equipment	4.00%	3,090			591	12,675	12,675	
38	394	Laboratory Equipment	5.00%	2,927	(1,667)		17,847	447,717	447,717	
39	395	Power Operated Equipment	6.67%	713			4,296	86,544	86,544	
40	396	Miscellaneous Equipment	6.67%	22,171			2,818	44,105	44,105	
41	397	Communication Equipment	3.33%	20,223	(1,587)		66,907	1,014,191	1,014,191	
42	398	Subtotal General Plant		71,523	(4,970)		168,353	3,536,146	3,536,146	
43		Plant in Service								
44				\$ 1,063,980	\$ (79,596)	\$ (823,057)	\$ 2,768,008	\$ 109,910,756	\$ 109,910,756	
45		Net Salvage/Cost of Removal								
46		Accum. Deprec. Related to other Plant Adjustments								
47		Adjustments booked to Conform with Rate Decision								
48		Accumulated Depreciation & Amort.								
49				\$ 1,063,980	\$ (79,596)	\$ (823,057)	\$ 2,768,008	\$ 109,910,756	\$ 109,910,756	
50		Net Plant in Service								

537
 (668,734)
 27,318,921
 \$ 1,063,980 \$ (79,596) \$ (823,057) \$ 2,768,008 \$ 109,910,756 \$ 109,910,756 \$ 27,323,731 \$ 4,803

PHOENIX OFFICE AND METER SHOP - RATE BASE ALLOCATION

LINE NO.	DESCRIPTION	(A) TEST YEAR ADJUSTED	(B) Superstition	(C) Cochise	(D) San Manuel	(E) Oracle	(F) SaddleBrook Ranch	(G) Winkelman
			28.65%	7.19%	1.64%	2.04%	0.15%	0.19%
1	3 Factor Allocation Factor							
2	Phoenix Office Allocation	\$ 9,148	\$ 2,621	\$ 658	\$ 150	\$ 187	\$ 14	\$ 17
3	Plant Classification							
4	Intangible Plant							
5	Source of Supply Plant							
6	Pumping Plant							
7	Water Treatment Plant							
8	Transmission & Distribution Plant							
9	General Plant	6,908,613	1,979,318	486,729	113,301	140,936	10,363	13,126
10	Total Gross Plant in Service (Sum L4 thru L9)	\$ 6,917,761	\$ 1,981,939	\$ 497,387	\$ 113,451	\$ 141,122	\$ 10,377	\$ 13,144
11	Less:							
12	Accumulated Depreciation	\$ 1,587,979	454,956	114,176	26,043	32,395	2,382	3,017
13	Net Utility Plant in Service (L10 less L12)	\$ 5,329,782	\$ 1,526,982	\$ 383,211	\$ 87,408	\$ 108,728	\$ 7,995	\$ 10,127
14	Less:							
15	Deferred Income Tax	25,368,073	7,267,953	1,823,964	416,036	517,509	38,052	48,189
16	Total Phoenix Office Allocation (L13 less L15)	\$ (20,038,291)	\$ (5,740,970)	\$ (1,440,753)	\$ (328,628)	\$ (408,761)	\$ (30,057)	\$ (38,073)
17								
18	Meter Shop Allocation							
19	Plant Classification							
20	Intangible Plant							
21	Source of Supply Plant	80	23	6	1	2		
22	Pumping Plant							
23	Water Treatment Plant	2,050	587	147	34	42	3	4
24	Transmission & Distribution Plant	6,065	1,738	436	99	124	9	12
25	General Plant	146,810	42,061	10,556	2,408	2,995	220	279
26	Total Gross Plant in Service (Sum L20 thru L25)	\$ 155,005	\$ 44,409	\$ 11,145	\$ 2,542	\$ 3,162	\$ 232	\$ 294
27	Less:							
28	Accumulated Depreciation	56,404	16,160	4,055	925	1,151	85	107
29	Net Utility Plant in Service (L26 less L28)	\$ 98,601	\$ 28,249	\$ 7,089	\$ 1,617	\$ 2,011	\$ 148	\$ 187
30	Less:							
31	Deferred Income Tax	56,404						
32	Total Phoenix Office Allocation (L29 less L31)	\$ 42,197	\$ 28,249	\$ 7,089	\$ 1,617	\$ 2,011	\$ 148	\$ 187
33								
34	Total Phoenix Office and Meter Shop Allocation							
35	Plant Classification							
36	Intangible Plant							
37	Source of Supply Plant	80	23	6	1	2		
38	Pumping Plant							
39	Water Treatment Plant	2,050	587	147	34	42	3	4
40	Transmission & Distribution Plant	6,065	1,738	436	99	124	9	12
41	General Plant	7,055,423	2,021,379	507,285	115,709	143,931	10,583	13,405
42	Total Gross Plant in Service	\$ 7,072,766	\$ 2,026,347	\$ 508,532	\$ 115,993	\$ 144,284	\$ 10,609	\$ 13,438
43	Less:							
44	Accumulated Depreciation	\$ 1,644,383	471,116	118,231	26,968	33,545	2,467	3,124
45	Net Utility Plant in Service (Sum L7 - L8)	\$ 5,428,382	\$ 1,555,232	\$ 390,301	\$ 89,025	\$ 110,739	\$ 8,142	\$ 10,314
46	Less:							
47	Deferred Income Tax	25,368,073	7,267,953	1,823,964	416,036	517,509	38,052	48,189
48	Total Phoenix Office Allocation (L9 - L10)	\$ (19,996,095)	\$ (5,712,721)	\$ (1,433,664)	\$ (327,011)	\$ (406,770)	\$ (29,910)	\$ (37,886)

ALLOWANCE FOR WORKING CAPITAL

LINE NO.	DESCRIPTION	(A)	(B)
		AMOUNT	REFERENCE
1	Working Cash Requirement As Per Company	\$ 173,185	Company Schedule B-5, PG. 2 of 2
2	Working Cash Requirement As Per RUCO	(290,236)	RUCO Schedule RBM-6(1), L30
3	Adjustment	\$ (463,421)	L2 - L1
4			
5	Material and Supplies Inventories As Per Company	\$ 29,196	Company Schedule B-5, PG. 2 of 2
6	Material and Supplies Inventories As Per RUCO	29,196	Company Schedule B-5, PG. 2 of 2
7	Adjustment	\$ -	L6 - L5
8			
9	Required Bank Balances As Per Company	\$ 624,196	Company Schedule B-5, PG. 2 of 2
10	Required Bank Balances As Per RUCO	624,196	Company Schedule B-5, PG. 2 of 2
11	Adjustment	\$ -	L10 - L9
12			
13	Prepayments & Special Deposits As Per Company	\$ 190,114	Company Schedule B-5, PG. 2 of 2
14	Prepayments & Special Deposits As Per RUCO	190,114	Company Schedule B-5, PG. 2 of 2
15		\$ -	L13 - L14
16			
17	TOTAL ADJUSTMENT (See RLM-2, Column (K))	\$ (463,421)	Sum L3, L7, L11, L15

EXPLANATION OF RATE BASE ADJUSTMENT NO. 2

Line No.	(A) Company Test Year Adjusted Results	(B) RUCO Adj	(C) RUCO Adjusted Results	(D) Revenue Lag Days1	(E) Expense Lag Days2	(F) Net Lag Days [D - E]	(G) Lead / Lag Factor [F + 365]	(H) Working Cash Requirement [A X G]
1	\$ 1,424,839		\$ 1,424,839	29.53	30.87	(1.34)	(0.0037)	\$ (5,231)
2	Operating Expenses							
3	Purchased Power		2,662,431	29.53	14.00	15.53	0.0425	113,281
4	Payroll		691,466	29.53	(40.09)	69.62	0.1907	131,890
5	Purchased Water		130,705	29.53	(18.11)	47.64	0.1305	17,060
6	Chemicals		158,734	29.53	(45.27)	74.80	0.2049	32,530
7	Property & Liability Insurance		36,305	29.53	(46.50)	76.03	0.2083	7,562
8	Workman's Compensation Insurance		481,608	29.53	(8.92)	38.45	0.1053	50,734
9	Health Insurance		1,978,077	29.53	(9.27)	38.80	0.1063	210,272
10	Other O&M (Excluding Rate Case Expense)		(277,450)	29.53	(9.27)	38.80	0.1063	(25,007)
11	Federal Income Taxes		(438,128)	29.53	37.00	(7.47)	(0.0205)	(5,509)
12	State Income Taxes		(96,516)	29.53	37.00	(7.47)	(0.0205)	(5,509)
13	FICA Taxes		199,553	29.53	14.00	15.53	0.0425	8,491
14	FUTA & SUTA Taxes		6,196	29.53	83.10	(53.57)	(0.1468)	(909)
15	Property Taxes		811,695	29.53	212.00	(182.47)	(0.4999)	(391,368)
16	Registration, Svc. Contracts, & Misc. Fees		153,893	29.53	(88.83)	128.36	0.3517	54,120
17	Retirement Annuities (401k)		246,884	29.53	34.72	(5.19)	(0.0142)	(3,510)
18								
19								
20	Subtotal	(840,924)	10,444,623					194,405
21								
22								
23	Interest Expense	(19,425)	1,672,824	29.53	91.25	(61.72)	(0.1691)	(282,868)
24	Cost of Equity	(3,222,397)	-	29.53	-	29.53	0.0809	-
25	Dividends Paid	1,588,687	1,588,687	29.53	75.89	(46.36)	(0.1270)	(201,773)
26								
27	Subtotal	(1,653,135)	3,261,511					(484,641)
28								
29								
30	Total	\$ (2,494,059)	\$ 13,706,134					\$ (290,236)
31								
32								

Columns (A), (D), and (E) Company Schs. B-5 page 1
 Column (B) RUCO Schs. RBM-7, RBM-8

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJMTS	(C) RUCO TEST YEAR AS ADJTD	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Operating Revenues					
1	Residential	\$ 11,436,591	\$ -	\$ 11,436,591	1,690,485	\$ 13,127,076
2	Commercial	2,606,553	-	2,606,553	316,496	\$ 2,923,049
3	Industrial	70,149	-	70,149	(4,173)	\$ 65,976
4	Private Fire Service	51,199	-	51,199	3,429	\$ 54,628
5	Other Water Revenues	166,218	-	166,218	13,527	\$ 179,745
6	Total Water Revenues	\$ 14,330,710	\$ -	\$ 14,330,710	\$ 2,019,764	\$ 16,350,474
7						
8	Miscellaneous	\$ 725,456	\$ -	\$ 725,456	132,094	\$ 857,550
9	Total Operating Revenues	\$ 15,056,166	\$ -	\$ 15,056,166	\$ 2,151,858	\$ 17,208,024
10						
11	Operating Expenses					
12	Source of Supply Expenses:					
13	Purchased Water	\$ 691,466	\$ (272)	691,194	-	\$ 691,194
14	Other	73,495	-	73,495	-	\$ 73,495
15	Pumping Expenses:					
16	Purchased Power	1,424,839	-	1,424,839	-	\$ 1,424,839
17	Purchased Gas	-	-	-	-	\$ -
18	Other	553,472	(2,194)	551,278	-	\$ 551,278
19	Water Treatment Expenses	597,301	(857)	596,444	-	\$ 596,444
20	Transmission & Distribution Expenses	1,742,369	(263,294)	1,479,075	-	\$ 1,479,075
21	Customer Accounting Expenses	1,182,195	(2,430)	1,179,765	-	\$ 1,179,765
22	Sales Expense	-	-	-	-	\$ -
23	Administrative & General Expenses	2,090,357	(39,200)	2,051,157	-	\$ 2,051,157
24	Total Operations & Maintenance Expense	\$ 8,355,495	\$ (308,247)	\$ 8,047,248	\$ -	\$ 8,047,248
25						
26	Depreciation & Amortization Expenses	\$ 2,672,715	\$ (1,093)	\$ 2,671,622	\$ -	\$ 2,671,622
27						
28	Taxes					
29	Federal Income Taxes	\$ 448,513	\$ 104,251	\$ 552,764	669,131	\$ 1,221,895
30	State Income Taxes	98,803	22,944	121,747	147,426	\$ 269,172
31	Property Taxes	747,264	-	747,264	35,600	\$ 782,864
32	Other	170,486	-	170,486	-	\$ 170,486
33	Total Taxes	\$ 1,465,066	\$ 127,194	\$ 1,592,260	\$ 852,157	\$ 2,444,417
34						
35	Total Operating Expenses	\$ 12,493,275	\$ (182,146)	\$ 12,311,130	\$ 852,157	\$ 13,163,287
36	Operating Income	\$ 2,562,891	\$ 182,146	\$ 2,745,037	\$ 1,299,701	\$ 4,044,442

References:

Column (A): RBM-8, Col. A
Column (B): RBM-8, Col. K
Column (C): Col. A + Col. B
Column (D): RBM-1, RBM-1(2), RBM-15
Column (E): Col. C + Col. D

SCHEDULE OF OPERATING INCOME - TEST YEAR WITH RUCO ADJUSTMENTS

Line No.	(A) Test Year Ended 12/31/2010	(B) Adjustment Normalize Maintenance IS-1	(C) Adjustment Rate Case Expense IS-2	(D) Adjustment Fleet Fuel Expense IS-3	(E) Adjustment Misc Expenses IS-4	(F) Adjustment Depreciation Expense IS-5	(G) Adjustment LEFT BLANK	(H) Adjustment LEFT BLANK	(I) Adjustment Property Tax IS-8	(J) Adjustment Income Tax IS-9	(K) Total Pro Forma Adjustments	(L) Test Year Adjusted Results
1	Operating Revenues											
2	Residential	\$ 11,436,591	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,436,591
3	Commercial	2,606,553	-	-	-	-	-	-	-	-	-	2,606,553
4	Industrial	70,149	-	-	-	-	-	-	-	-	-	70,149
5	Private Fire Service	51,199	-	-	-	-	-	-	-	-	-	51,199
6	Other Water Revenues	166,218	-	-	-	-	-	-	-	-	-	166,218
7	Total Water Revenues (L2 thru L6)	\$ 14,330,710	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,330,710
8	Miscellaneous	725,456	-	-	-	-	-	-	-	-	-	725,456
9	Total Operating Revenues (L7 + L9)	\$ 15,056,166	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,056,166
10	Operating Expenses											
11	Source of Supply Expenses:											
12	Purchased Water	691,466	-	(272)	-	-	-	-	-	-	(272)	691,194
13	Other	73,495	-	-	-	-	-	-	-	-	-	73,495
14	Pumping Expenses:											
15	Purchased Power	1,424,839	-	-	-	-	-	-	-	-	-	1,424,839
16	Purchased Gas	553,472	-	-	-	-	-	-	-	-	-	553,472
17	Other	587,301	567	(2,761)	-	-	-	-	-	-	(2,194)	586,444
18	Water Treatment Expenses	1,742,369	(254,277)	(857)	-	-	-	-	-	-	(857)	1,479,075
19	Transmission & Distribution Expenses	1,182,195	-	(9,017)	-	-	-	-	-	-	(263,294)	1,179,765
20	Customer Accounting Expenses	2,090,357	-	(2,430)	-	-	-	-	-	-	(2,430)	2,087,927
21	Sales Expense	8,355,495	-	(881)	(7,522)	-	-	-	-	-	(39,200)	8,047,248
22	Administrative & General Expenses	2,672,715	-	(16,218)	(7,522)	-	-	-	-	-	(306,247)	2,671,622
23	Total Operations & Maint. Exp (L14 thru L24)	\$ 8,355,495	\$ (253,710)	\$ (16,218)	\$ (7,522)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (306,247)	\$ 8,047,248
24	Depreciation & Amortization Expenses	2,672,715	-	-	-	(1,093)	-	-	-	-	(1,093)	2,671,622
25	Taxes											
26	Federal Income Taxes	448,513	-	-	-	-	-	-	104,251	-	104,251	552,764
27	State Income Taxes	98,803	-	-	-	-	-	-	22,944	-	22,944	121,747
28	Property Taxes	747,264	-	-	-	-	-	-	-	-	-	747,264
29	Other	170,486	-	-	-	-	-	-	-	-	-	170,486
30	Total Taxes (L30 thru L33)	\$ 1,465,066	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 127,194	\$ -	\$ 127,194	\$ 1,592,260
31	Total Operating Expenses (L25 + L27 + L34)	\$ 12,493,275	\$ (253,710)	\$ (16,218)	\$ (7,522)	\$ (1,093)	\$ -	\$ -	\$ 127,194	\$ -	\$ (182,146)	\$ 12,311,130
32	Operating Income (L10 less L36)	\$ 2,562,891	\$ 253,710	\$ 16,218	\$ 7,522	\$ 1,093	\$ -	\$ -	\$ -	\$ -	\$ 182,146	\$ 2,745,037

References:

- Column A, RBM-9
- Column B, RBM-10
- Column C, RBM-11
- Column D, RBM-12
- Column E, RBM-13
- Column F, RBM-14
- Column J, RBM-16

SCHEDULE OF OPERATING INCOME-TEST YR COMPANY ADJUSTMENTS

Line No.	(A) Test Year Ended 12/31/2010	(B) Adjustment Sales Tax IS-1	(C) Adjustment Net Unbilled IS-2	(D) Adjustment MAP IS-3	(E) Adjustment ACRM IS-4	(F) Adjustment Misc IS-5	(G) Adjustment Annual Rates IS-6	(H) Adjustment New Customer: IS-7	(I) Adjustment Annualize Payroll IS-8	(J) Adjustment Annualize Emp Benefits IS-9	(K) Adjustment Interest on Customer Deposits IS-10	(L) Adjustment Normalize Maintenance IS-11
1	Operating Revenues											
2	Residential	\$ 12,125,017	\$ 23,809	\$ (6,398)	\$ (1,005,448)		\$ 1,308,746	\$ 2,865	\$ -	\$ -	\$ -	\$ -
3	Commercial	2,887,171	(249,900)	(636)	(199,376)		138,603	19,982				
4	Industrial	95,404	(496)	(17)	(1,480)		(15,076)					
5	Private Fire Service	25,951	(2,298)				27,545					
6	Other Water Revenues	190,584	(16,603)	(13)	(15,789)	(4,002)	12,051					
7	Total Water Revenues (L2 thru L6)	\$ 15,324,127	\$ (1,286,786)	\$ (9,064)	\$ (1,222,104)	\$ (4,002)	\$ 1,471,871	\$ 22,647	\$ -	\$ -	\$ -	\$ -
8	Miscellaneous	793,728	(55,271)									
9	Total Operating Revenues (L7 + L9)	\$ 16,107,855	\$ (1,345,057)	\$ (9,064)	\$ (1,222,104)	\$ (4,002)	\$ 1,471,871	\$ 22,647	\$ -	\$ -	\$ -	\$ -
10	Operating Expenses											
11	Source of Supply Expenses:											
12	Purchased Water	691,466										
13	Other	68,697	454					1,462	2,158			
14	Pumping Expenses:											
15	Purchased Power	1,402,065	(208)									
16	Purchased Gas	511,114	5,867					3,680	16,278			9,099
17	Other	563,641	569					1,084	4,689			
18	Water Treatment Expenses	1,293,729	14,488	(11,916)				435	38,787			370,676
19	Transmission & Distribution Expenses	1,127,386	13,469					379	34,416			
20	Customer Accounting Expenses											
21	Sales Expense	1,828,249	7,277					615	35,476	81,994	19,371	
22	Administrative & General Expenses	7,486,337	41,897	(11,916)				7,655	131,807	81,994	19,371	379,775
23	Total Operations & Maint. Exp (L14 thru L24)	\$ 7,486,337	\$ 41,897	\$ (11,916)	\$ -	\$ -	\$ -	\$ 7,655	\$ 131,807	\$ 81,994	\$ 19,371	\$ 379,775
24	Depreciation & Amortization Expenses	2,485,880										
25	Taxes											
26	Federal Income Taxes	777,203										
27	State Income Taxes	87,797										
28	Property Taxes	695,522										
29	Other	1,485,955	(1,345,057)						19,588			
30	Total Taxes (L30 thru L33)	\$ 3,055,477	\$ (1,345,057)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19,588	\$ -	\$ -	\$ -
31	Total Operating Expenses (L25 + L27 + L34)	\$ 13,028,694	\$ (1,345,057)	\$ 41,897	\$ (11,916)	\$ -	\$ -	\$ 7,655	\$ 151,395	\$ 81,994	\$ 19,371	\$ 379,775
32	Operating Income (L-10 less L36)	\$ 3,079,161	\$ -	\$ (7,875)	\$ 2,852	\$ (1,222,104)	\$ (4,002)	\$ 1,471,871	\$ 14,982	\$ (151,395)	\$ (19,371)	\$ (379,775)

Columns (A) through columns (K) see Company Exhibit Schedule C-2

SCHEDULE OF OPERATING INCOME-TEST YR COMPANY ADJUSTMENTS

Line No.	(M) Adjustment Adjust Purchase Water & Gas Exp IS-12	(N) Adjustment Rate Case Expense IS-13	(O) Adjustment Adjust A&G for BMP IS-14	(P) Adjustment Fleet Fuel Expense IS-15	(Q) Adjustment AS 400 Printers IS-16	(R) Adjustment Arsenic Treatment Exp IS-17	(S) Adjustment Error Correction CAP Charges IS-18	(T) Adjustment Depreciation Expense IS-19	(U) Adjustment Property Tax IS-20	(V) Adjustment Income Tax IS-21	(W) Total Pro Forma Adjustments	(X) Test Year Adjusted Results
1	Operating Revenues											
2	Residential											11,436,691
3	Commercial											2,606,653
4	Industrial											70,149
5	Private Fire Service											51,199
6	Other Water Revenues											166,218
7	Total Water Revenues (L2 thru L6)											14,330,710
8	Miscellaneous											
9	Total Operating Revenues (L7 + L9)											725,456
10	Operating Expenses											
11	Source of Supply Expenses:											
12	Purchased Water											691,466
13	Other			733							4,808	73,495
14	Pumping Expenses:											
15	Purchased Power											
16	Purchased Gas											
17	Other	22,982										1,424,839
18	Water Treatment Expenses			7,434								553,472
19	Transmission & Distribution Expenses			2,308								597,301
20	Customer Accounting Expenses			24,273		38,926						1,742,369
21	Sales Expense			6,542								1,162,195
22	Administrative & General Expenses		104,887	2,373	3,266							2,090,357
23	Total Operations & Maint. Exp (L14 thru L24)	22,982	104,887	43,664	3,266	36,926						8,355,495
24	Depreciation & Amortization Expenses						114,478	72,357				186,835
25	Taxes											
26	Federal Income Taxes											448,513
27	State Income Taxes											98,803
28	Property Taxes											747,264
29	Other											170,486
30	Total Taxes (L30 thru L33)											1,465,066
31	Total Operating Expenses (L25 + L27 + L34)	22,982	104,887	43,664	3,266	36,926	114,478	72,357	51,742			12,493,275
32	Operating Income (L10 less L36)	(22,982)	(104,887)	(43,664)	(3,266)	(36,926)	(114,478)	(72,357)	(51,742)			2,562,891

Columns (A) through columns (X) see Company Exhibit Schedule C-2

**OPERATING INCOME ADJUSTMENT NO. 1
PUMPING AND TRANSMISSION & DISTRIBUTION MAINTENANCE EXPENSE**

Pumping Accounts Normalized				3 Year Normalized Average
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u> </u>
1 <u>Maintenance:</u>				
2 Supervision & Engineering	\$ 16,251	\$ 16,730	\$ 18,822	\$ 17,268
3 Structures & Improvements	34,607	35,817	38,638	36,354
4 Electric pumping equipment	118,608	115,103	96,597	110,103
5 Gas pumping equipment	-	-	-	-
6				
7 Total Pumping Maintenance Expense	\$ 169,466	\$ 167,650	\$ 154,057	\$ 163,724
8				
9				
10 Company Requested Level of T. Y. Pumping Maintenance Expense (Company Sch. C-2)				<u>163,157</u>
11				
12 RUCO Increase / (Decrease) in T. Y. Expense Level (L7 - L10)				<u>\$ 567</u>
13				
14 RUCO Pumping Maintenance Expense Adjustment				\$ 567
15				
16				
17				
18				
19				
20 Transmission & Distribution Accounts Normalized				3 Year Normalized Average
21	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u> </u>
22 <u>Maintenance:</u>				
23 Supervision & Engineering	\$ 80,920	\$ 76,412	\$ 76,013	\$ 77,782
24 Tanks	176,417	176,417	88,205	147,013
25 Mains	338,496	290,671	210,132	279,766
26 Mains - Leak Repair	-	-	24,991	8,330
27 Mains - Leak Detection	-	-	4,077	1,359
28 Services	233,586	160,225	138,075	177,295
29 Services - Leak Repair	-	-	19,941	6,647
30 Meters	104,931	90,181	107,463	100,858
31 Hydrants	61,973	104,311	103,778	90,021
32				
33 Total T & D Maintenance Expense	\$ 996,323	\$ 898,217	\$ 772,675	\$ 889,072
34				
35				
36 Company Requested Level of T. Y. T & D Maintenance Expense (Company Sch. C-2)				<u>1,143,349</u>
37				
38 RUCO Increase / (Decrease) Expense Adjustment (L33 - L36)				<u>\$ (254,277)</u>
39				
40 RUCO T & D Maintenance Expense Adjustment				\$ (254,277)
41				
42				
43 Total RUCO Pumping and T & D Maintenance Expense Adjustment (L14 + L40)				\$ (253,710)

OPERATING INCOME ADJUSTMENT NO. 2
RATE CASE EXPENSE ADJUSTMENT

Line No.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense Total for Eastern Group	\$ 476,874	\$ (164,274)	\$ 312,600
2				
3	Allocation Factor (L31)			71.10%
4				
5	Superstition (Apache Junction, Superior, Miami)			\$ 222,269
6				
7	Amortization Period - 3 years			3
8				
9	RUCO Adjusted Rate Case Expense (L5 / L7)			\$ 74,090
10				
11	Company Rate Case Expense as Filed (Company Sch. C-2 Appendix)			\$ 104,887
12				
13	RUCO Pro Forma Rate Case Expense (L9 - L11)			\$ (30,797)
14				
15	RUCO Adjustment			\$ (30,797)
16				
17				
18	RUCO's Rate Base Expense Adjustment Calculation:			
19	Decision No. 66848, dated March 19, 2004, approved amount			
20	\$250,000 for Arizona Water Company's Eastern Group.		\$ 250,000	
21				
22	Inflation Factor from January 1, 2002 through September 30,			
23	per Inflation Data.com		25.04%	
24				
25	Reasonable Amount of Rate Case Expense based on			
26	Decision No. 66848.		\$ 312,600	
27				
28	RUCO Adjustment (Col. (A) L1 - Col. (B) L26)		\$ 164,274	
29				
30	<u>Allocation Factor Based on Number of Customers</u>		<u>Customers</u>	<u>Percent of Total</u>
31	Superstition (Apache Junction, Superior, Miami)		23,607	71.10%
32	Cochise (Bisbee, Sierra Vista)		6,357	19.15%
33	San Manuel		1,465	4.41%
34	Oracle		1,506	4.54%
35	SaddleBrook Ranch		113	0.34%
36	Winkelman		153	0.46%
37	Total Number of Customers and Percentages		33,201	100.00%

OPERATING INCOME ADJUSTMENT NO. 3
Fleet Fuel Expense Adjustment

Line No.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO CALCUALTED COST	(C) RUCO ADJUSTMENT AS RECOMM'D
1	Number of fuel gallons used in test year (Total Company)	190,139	190,139	190,139
2				
3	Price per gallon of fuel (Obtained from AAA Fuel Gage Report)	\$ 3.6710	\$ 3.3150	\$ 0.3560
4				
5	Adjusted due to reduced price per gallon of fuel (Total Company)	\$ 698,000	\$ 630,311	\$ 67,689
6				
7				
8	Percentage allocated to Superstition based on			
9	three factor allocation formula.	\$ 43,664	\$ 27,446	\$ (16,218)
10				
11				
12				
13	SUPERSTITION			
14	ALLOCATED TO OEPRATING DEPARTMENTS:			
15	Source of Supply Expenses:	\$ 733	\$ 461	\$ (272)
16	Pumping Expenses	7,434	4,673	(2,761)
17	Water Treatment Expenses	2,308	1,451	(857)
18	Transmission & Distribution Expenses	24,274	15,257	(9,017)
19	Customer Accounting Expenses	6,542	4,112	(2,430)
20	Administrative & General Expenses	2,373	1,492	(881)
21				
22	Totals By Department	\$ 43,664	\$ 27,446	\$ (16,218)
23				
24				
25				
26	<u>Allocated based on three factor formula</u>	<u>Allocation</u>		
27	Superstition (Apache Junction, Superior, Miami)	\$ 27,446		
28	Cochise (Bisbee, Sierra Vista)	\$ 6,649		
29	San Manuel	\$ 1,807		
30	Oracle	\$ 2,247		
31	SaddleBrook Ranch	\$ 165		
32	Winkelman	\$ 209		
33	Total RUCO Allocated to Eastern Group	\$ 38,523		
34				
35				

OPERATING INCOME ADJUSTMENT NO. 5
CALCULATION OF DEPRECIATION EXPENSE

Line No.	Acc. No.	Present Depreciation Rates	(A) Plant Balance P&LGL	(B) Post Test Year Adjustments	(C) Phoenix Office Balance		(D) Meter Shop Balance Per GL	(E) Three Factor Formula Allocation	(F) Phoenix Office Meter Shop Allocated To Plant	(G) Company Adjusted End Of Test Year	(H) RUCO Adjustments End Of Test Year	(I) Adjusted End of Test Year Plant	(J) RUCO Depreciation Test Year Adjusted
					Per GL	Per GL							
1													
2	301	0.00%			651			28.65%	187	187			
3	302	See Acct. 111	6,869					28.65%		6,869			
4	303	See Acct. 111	5,506		8,496			28.65%	2,434	7,940			397
5			12,375		9,148				2,621	14,988			397
6													
7	310.1	0.00%	793,568					28.65%		793,568			
8	310.3	0.00%	153,791			80		28.65%	23	153,814			
9	310.4	See Acct. 111	1,526,600					28.65%		1,526,600			63,608
10	314	3.13%	6,673,672					28.65%		6,673,672			208,686
11			9,147,631			80			23	9,147,654			272,494
12													
13	320	0.00%	18,910					28.65%		18,910			
14	321	2.86%	293,830					28.65%		293,830			8,404
15	325	5.88%	9,673,632	148,912				28.65%		9,822,544	34,484		578,593
16	328	4.00%	163					28.65%		163			7
17			9,986,535	148,912						10,135,447	34,484		588,003
18													
19	330	0.00%	811					28.65%		811			
20	331	2.50%	49,596					28.65%		49,596			1,240
21	332	2.86%	7,357,605	2,872,067		2,050		28.65%	587	10,270,260	(82,103)		291,381
22			7,448,003	2,872,067		2,050			587	10,320,657	(82,103)		292,621
23													
24	340	0.00%	195,215					28.65%		195,215			
25	342	2.00%	4,946,483	365,373				28.65%		4,946,483			98,930
26	343	1.79%	53,280,892			6,066		28.65%	1,738	53,647,803	(33,129)		959,703
27	344	2.00%	756,878					28.65%		756,878			15,138
28	345	2.38%	13,475,428					28.65%		13,475,428			320,715
29	346	4.55%	2,027,498					28.65%		2,027,498			92,251
30	348	1.82%	3,697,872					28.65%		3,697,872			67,501
31			78,380,067	365,373		6,066			1,738	78,747,177	(33,129)		1,554,037
32													
33	389	0.00%	54,061					28.65%		54,061			
34	390	2.50%	860,275			52,852		28.65%	38,043	918,318			22,958
35	390.1	See Acct. 108.2	849,700		79,935			28.65%		1,291,792			28,818
36	391	6.67%	450,547		4,895,192	11,097		28.65%	1,405,652	1,856,199			123,808
37	393	5.00%	12,675		3,705			28.65%	3,608	16,283			814
38	394	4.00%	447,717		186,363	69,534		28.65%	76,179	523,896			20,856
39	395	5.00%	86,544		1,508	2,981		28.65%	1,286	87,830			4,392
40	396	6.67%	44,105			1,458		28.65%	418	44,523			2,970
41	397	6.67%	1,014,191		181,623			28.65%	52,035	1,094,114	(1,037)		72,808
42	398	3.33%	96,332		7,207			28.65%	2,065	98,395			3,277
43			3,936,146	27,888	6,908,612	146,809			2,021,378	5,885,412	(1,037)		280,900
44			\$ 108,910,756	\$ 3,414,240	\$ 6,917,760	\$ 155,005			\$ 2,025,347	\$ 114,351,343	\$ (61,786)		\$ 2,888,453
													\$ (28,000)
													\$ (403,309)
													\$ 114,478
													\$ 2,871,622
													\$ 2,872,715
													\$ (1,083)

Total Depreciation Test Year Adjusted \$ 114,268,557
Less: Amortization of Regulatory Liability \$ (28,000)
Less: Amortization of Contribution In Aid of Construction \$ (403,309)
Add: Additional Amortization \$ 114,478
Total Depreciation as Calculated \$ 2,871,622
Per Company Schedule C-2 \$ 2,872,715
Adjustment \$ (1,083)

OPERATING INCOME ADJUSTMENT NO. 6
PROPERTY TAXES

LINE NO.	Property Tax Calculation	(A)	(B)
		RUCO AS ADJUSTED	RUCO RECOMMENDED
1	RUCO Adjusted Test Year Revenues - RBM-6	\$ 15,056,166	\$ 15,056,166
2	Multiplied by 2	2	2
3	Subtotal (Line 1 * Line 2)	\$ 30,112,332	\$ 30,112,332
4	RUCO Adjusted Test Year Revenues - 2010	15,056,166	
5	RUCO Recommended Revenue, Per Schedule RBM-6		17,208,024
6	Subtotal (Line 4 + Line 5)	\$ 45,168,499	\$ 47,320,357
7	Number of Years	3	3
8	Three Year Average (Line 5 / Line 6)	\$ 15,056,166	\$ 15,773,452
9	Department of Revenue Multiplier	2	2
10	Revenue Base Value (L8 X L9)	\$ 30,112,332	\$ 31,546,904
11	Plus: 10% of CWIP -	-	-
12	Less: Net Book Value of Licensed Vehicles	-	-
13	Full Cash Value (L10 + L11 + L12)	\$ 30,112,332	\$ 31,546,904
14	Assessment Ratio	21.0%	21.0%
15	Assessment Value (L13 X L14)	\$ 6,323,590	\$ 6,624,850
16	Composite Property Tax Rate (L19 / L15)	11.8171%	11.8171%
17			
18	RUCO Proposed Property Tax Expense (L15 X L16)	\$ 747,264	
19	Company Proposed Property Tax	747,264	
20			
21	RUCO Test Year Adjustment (L16 - L17)	\$ -	
22	Property Tax - RUCO Recommended Revenue (L15 X L16)		\$ 782,864
23	RUCO Test Year Adjusted Property Tax Expense (L18)		747,264
24	Increase/(Decrease) to Property Tax Expense		\$ 35,600
25			
26	Increase/(Decrease) to Property Tax Expense		\$ 35,600
27	Increase in Revenue Requirement (L5 - L4)		2,151,858
28	Increase/(Decrease) to Property Tax per Dollar Increase in Revenue (L26 / L27)		1.6544%

**OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
1	FEDERAL INCOME TAXES:		
2			
3	Operating Income Before Taxes	(RBM- 7, Col. (C), L36 + L29 + L30)	\$ 3,419,547
4	LESS:		
5	Arizona State Tax	L21	120,947
6	Interest Expense	Note (A) L41	1,672,824
7	Federal Taxable Income	L3 - L5 - L6	\$ 1,625,776
8			
9	Federal Tax Rate	Sch. RBM-1, Page 2	34.00%
10	Federal Income Tax Expense	L7 X L9	\$ 552,764
11			
12	STATE INCOME TAXES:		
13			
14	Operating Income Before Taxes	L3	\$ 3,419,547
15	LESS:		
16	Interest Expense	Note (A) L41	1,672,824
17	State Taxable Income	L14 - L16	\$ 1,746,723
18			
19	State Tax Rate	Tax Rate	6.97%
20			
21	State Income Tax Expense	L17 X L19	\$ 121,747
22			
23	TOTAL INCOME TAX EXPENSE:		
24	Federal Income Tax Expense	L10	\$ 552,764
25	State Income Tax Expense	L21	121,747
26	Total Income Tax Expense Per RUCO	L24 + L25	\$ 674,510
27			
28	Total Federal Income Tax Expense Per Company (Per Company Sch. C-1, L30)		448,513
29			
30	Total State Income Tax Expense Per Company (Per Company Sch. C-1, L31)		98,803
31			
32	RUCO Federal Income Tax Adjustment	L24 - L28	\$ 104,251
33			
34	RUCO State Income Tax Adjustment	L25 - L30	\$ 22,944
35			
36			
37	NOTE (A): Interest Synchronization		
38			
39	Adjusted Rate Base RBM-2, Col. (M), L28	\$ 50,029,487	
40	Weighted Cost Of Debt RBM-9, Col. (D), L1	3.34%	
41	Interest Expense (L39 X L40)	\$ 1,672,824	

COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) DOLLAR AMOUNT	(B) CAPITAL RATIO	(C) COST RATE	(D) WEIGHTED COST RATE
1	Long-Term Debt	\$ 75,000,000	49.03%	6.82%	3.34%
2					
3	Common Equity	77,975,335	50.97%	9.30%	4.74%
4					
5	Total Capitalization	\$ 152,975,335	100.00%		
6					
7					
8	WEIGHTED AVERAGE COST OF CAPITAL				8.08%

References:
Columns (A) Thru (D): WAR Testimony

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RBM-17	1	COST OF CAPITAL

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Adjusted Original Cost/Fair Value Rate Base	\$ 306,862	\$ 304,727
2			
3	Adjusted Operating Income (Loss)	\$ 11,131	\$ 13,267
4			
5	Current Rate of Return (L3 / L1)	3.63%	4.35%
6			
7	Required Operating Income (L9 X L1)	\$ 29,820	\$ 24,654
8			
9	Required Rate of Return on Fair Value Rate Base	9.72%	8.08%
10			
11	Operating Income Deficiency (L7 - L3)	\$ 18,689	\$ 11,387
12			
13	Gross Revenue Conversion Factor (RBM-1, Page 2 of 2)	1.6729	1.6729
14			
15	Required Increase in Gross Revenue Requirement (L11 X L13)	\$ 31,264	\$ 19,050
16			
17	Adjusted Test Year Revenue	\$ 102,090	\$ 102,099
18			
19	Proposed Annual Revenue (L15 + L17)	\$ 133,362	\$ 121,149
20			
21	Required Percentage Increase in Revenue (L15 / L17)	30.63%	18.66%
22			
23	Consolidated Revenue Adjustment	\$ -	\$ -
24			
25	Required Increase in Gross Revenue Under Proposed Consolidation	\$ -	\$ -
26			
27	Required Revenue Under Proposed Consolidation	\$ -	\$ -
28			
29	Required Percentage Increase in Revenue Under Proposed Consolidation	0.00%	0.00%
30			
31	Rate of Return on Common Equity	12.50%	9.30%

References:

Column (A): Company Schs. A-1 and C-1
Column (B): RUCO Schs. RBM-2, RBM-7, RBM-9 and RBM-17

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	CALCULATION OF GROSS REVENUE CONVERSION FACTOR:				
1	Revenue	100.0000%			
2	Proposed Bad Debt Expense (Per Co. Workpapers)	-			
3	Subtotal (L1 thru L2)	100.0000%			
4	Combined Federal, State, Property Tax Rate (L22)	40.2234%			
5	Subtotal (L3 - L4)	59.7766%			
6	Revenue Conversion Factor (L1 / L5)	<u>1.6729</u>			
	CALCULATION OF EFFECTIVE TAX RATE:				
9	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
10	Arizona State Income Tax Rate	6.9680%			
11	Federal Taxable Income (L9 - L10)	93.0320%			
12	Applicable Federal Income Tax Rate (L58)	34.0000%			
13	Effective Federal Income Tax Rate (L11 X L12)	31.6309%			
14	Combined Federal and State Income Tax Rate (L10 + L13)	<u>38.5989%</u>			
	CALCULATION OF EFFECTIVE PROPERTY TAX FACTOR:				
17	Unity	100.0000%			
18	Combined Federal and State Tax Rate	38.5989%			
19	1 Minus Combined Income Tax Rate	61.4011%			
20	Property Tax Factor	2.8458%			
21	Effective Property Tax Factor (L19 x L 20)	1.6245%			
22	Combined Federal, State & Property Tax RateTax Rate (L14 + L21)	<u>40.2234%</u>			
24	RUCO Required Operating Income (Sch. RBM-1, Col. (B), L7)	\$ 24,654			
25	RUCO Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RBM-1, Col. (B), L3)	13,267			
26	Required Increase In Operating Income (L24 - L25)		\$ 11,387		
28	Income Taxes On Recommended Revenue (Col. (D), L53)	\$ 9,093			
29	Income Taxes On Test Year Revenue (Col. (D), L55)	1,935			
30	Required Increase In Revenue To Provide For Income Taxes (L28 - L29)		\$ 7,159		
32	Property Tax with Recommended Revenue (Sch. RBM-7, Col. E, L31)	8,608			
33	Property Tax on TestYear Revenue (Sch. RBM-7, Col. C, L31)	8,104			
34	Increase in Property Tax Due to Increase in Revenue (L32 - L33)		\$ 504		
36	Total Required Increase In Revenue (L26 + L30 + L34)		<u>\$ 19,050</u>		
	RUCO's CALCULATION OF INCOME TAX:				
39	RUCO Proposed Revenue (Sch. RBM-1, Col. (B), L19)			\$ 121,149	
41	Less:				
42	Operating Expense Excluding Income Tax (Sch. RBM-7, Col. (E), L24 + L26 + L31 + L32)			87,401	
43	Synchronized Interest (Col. (C), L63)			10,189	
44	Arizona Taxable Income (L39 - L41 - L42)			\$ 23,559	
45	Arizona State Income Tax Rate			6.9680%	
46	Arizona Income Tax (L43 X L44)				\$ 1,642
47	Fed. Taxable Income (L43 - L45)			\$ 21,917	
48	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ -	
49	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			\$ -	
50	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			\$ -	
51	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			\$ -	
52	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			\$ 7,452	
53	Total Federal Income Tax (L47 thru L 51)				\$ 7,452
54	Combined Federal And State Income Tax (L45+ L52)				<u>\$ 9,093</u>
55	RUCO Adj'd Test Year Combined Federal and State Income Tax (RBM-7, Col. (C), L29 and L30)				\$ 1,935
56	RUCO Proposed Income Tax Adjustment (L53 - L55)				<u>\$ 7,159</u>
58	Applicable Federal Income Tax Rate				34.00%
	NOTE (A): Interest Synchronization				
61	Adjusted Rate Base RBM-2, Col. (C), L28			\$ 304,727	
62	Weighted Cost Of Debt RBM-9, Col. (M), L1			3.34%	
63	Interest Expense (L61 X L62)			<u>\$ 10,189</u>	

SUMMARY RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJTED OCRB/FVRB
1	Plant Classification			
2	Intangible Plant	\$ 2,134		\$ 2,134
3	Source of Supply Plant	51,660		51,660
4	Pumping Plant	163,932		163,932
5	Water Treatment Plant	27,193		27,193
6	Transmission & Distribution Plant	313,611		313,611
7	General Plant	32,887		32,887
8	Total Gross Plant in Service (L2 thru L7)	\$ 591,416		\$ 591,416
9				
10	Accumulated Depreciation	\$ 220,207		\$ 220,207
11	Net Utility Plant In Service (L8 - L10)	\$ 371,209	\$ -	\$ 371,209
12				
13	Advances In Aid Of Const.	\$ -		\$ -
14				
15	Contribution In Aid Of Const.	\$ 21,225		\$ 21,225
16	Accumulated Amortization Of CIAC	\$ (984)		\$ (984)
17	NET CIAC (L15 + L16)	\$ 20,241	\$ -	\$ 20,241
18				
19	Deferred Income Tax	\$ 48,199		\$ 48,199
20				
21	Customer Deposits	\$ 1,249		\$ 1,249
22				
23	Allowance For Working Capital	\$ 5,343	(2,136)	\$ 3,207
24				
25	Net Regulatory Asset / (Liability)	\$ -		\$ -
26				
27	Rounding	\$ -		\$ -
28	TOTAL RATE BASE (+L11 - L17 - L19 - L21 + L23)	\$ 306,863	\$ (2,136)	\$ 304,727

References:
Column (A): Company Schedule B-1 and RBM-3 Col. E
Column (B): Schedule RBM-3 Cols. F and G
Column (C): Col. A + Col. B; RBM-3

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED NET PLANT TEST YEAR	(B) COMPANY ADJ NO 1 POST TEST YEAR ADJUSTMENTS	(C) NET REGULATORY LIABILITY	(D) PHOENIX OFF AND METER SHOP	(E) COMPANY AS FILED OCRB/FVRB	(F) ADJMT NO. 1 POST TEST YR ADJUSTMENTS	(G) ADJMT NO. 6 WORKING CAPITAL	(H) RUCO ADJUSTED OCRB/FVRB
1	Plant Classification								
2	Intangible Plant	\$ 2,117	\$ -	\$ -	\$ 17	\$ 2,134	\$ -	\$ -	\$ 2,134
3	Source of Supply Plant	51,660	-	-	-	51,660	-	-	51,660
4	Pumping Plant	163,932	-	-	-	163,932	-	-	163,932
5	Water Treatment Plant	27,189	-	-	4	27,193	-	-	27,193
6	Transmission & Distribution Plant	313,599	-	-	12	313,611	-	-	313,611
7	General Plant	19,482	-	-	13,405	32,887	-	-	32,887
8	Total Gross Plant in Service (Sum L2 thru L7)	\$ 577,978	\$ -	\$ -	\$ 13,438	\$ 591,416	\$ -	\$ -	\$ 591,416
9									
10	Accumulated Depreciation	\$ 217,083	-	-	3,124	\$ 220,207	\$ -	\$ -	\$ 220,207
11	Net Utility Plant in Service (L8 - L10)	\$ 360,895	\$ -	\$ -	\$ 10,314	\$ 371,209	\$ -	\$ -	\$ 371,209
12									
13	Advances In Aid Of Const.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14									
15	Contribution In Aid Of Const.	\$ 21,225	\$ -	\$ -	\$ -	\$ 21,225	\$ -	\$ -	\$ 21,225
16	Accumulated Amortization Of CIAC	(984)	-	-	-	(984)	-	-	(984)
17	NET CIAC (L15 - L16)	\$ 20,241	\$ -	\$ -	\$ -	\$ 20,241	\$ -	\$ -	\$ 20,241
18									
19	Deferred Income Tax	\$ -	\$ -	\$ -	\$ 48,199	\$ 48,199	\$ -	\$ -	\$ 48,199
20									
21	Customer Deposits	\$ 1,249	\$ -	\$ -	\$ -	\$ 1,249	\$ -	\$ -	\$ 1,249
22									
23	Allowance For Working Capital	\$ 5,343	\$ -	\$ -	\$ -	\$ 5,343	\$ -	\$ (2,136)	\$ 3,207
24									
25	Net Regulatory Asset / (Liability)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
26									
27	Adjustment to Match Rate Base with G/L	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
28	TOTAL RATE BASE (L11 - L17 - L19 - L21 + L23)	\$ 344,748	\$ -	\$ -	\$ (37,865)	\$ 306,883	\$ -	\$ (2,136)	\$ 304,727

References:
Columns (A) through (E): Company Schedule B-2; Column (D) RBM-4(1)
Column (F): RUCO Schedule RBM-6, Col. F
Column (G): RUCO Schedule RBM-5, Col. A

DIRECT PLANT AND ACCUMULATED DEPRECIATION

Arizona Water Company
Docket No. W-01445A-1-0310
Test Year Ended December 31, 2010
Plant Reconciliation Schedule

Line No.	Acct. No.	Description	Depreciation Rate	2010			Balance Per G.L.	Difference
				Additions	Retirements	Adjustments		
2	301	Intangible Plant	0.00%	-	-	-	-	
3	302	Organization	0.00%	-	-	-	-	
4	303	Franchises	0.00%	-	-	-	-	
5	304	Other Intangibles	0.00%	-	-	-	-	
6	310.1	Source of Supply Plant	0.00%	-	-	-	-	
7	310.1	Water Rights	0.00%	-	-	-	-	
8	310.3	Other Source of Supply Land	0.00%	-	-	-	-	
9	310.4	Wells - Other	0.00%	-	-	-	-	
10	314	Wells	3.13%	-	-	-	-	
11		Subtotal Source of Supply Plant		(564)	(18,033)	48,327	(66,360)	
12		Subtotal		(564)	(14,700)	51,660	(66,360)	
13	320	Pumping Plant	0.00%	-	-	-	-	
14	321	Pumping Plant Land	0.00%	-	-	-	-	
15	322	Pumping Plant Structures & Improvements	2.86%	-	-	-	-	
16	323	Electric Pumping Equipment	3.88%	-	-	-	-	
17	328	Gas Engine Equipment	4.00%	-	-	-	-	
18		Subtotal Pumping Plant		-	-	-	-	
19	330	Water Treatment Plant	0.00%	-	-	-	-	
20	331	Water Treatment Plant Land	2.50%	-	-	-	-	
21	332	Water Treatment Structures & Improvements	2.86%	-	-	-	-	
22		Water Treatment Equipment		-	-	-	-	
23		Subtotal Water Treatment Plant		-	-	-	-	
24	340	Transmission and Distribution Plant	0.00%	-	-	-	-	
25	342	Storage Tanks	2.00%	-	-	-	-	
26	343	Transmission and Distribution Land	1.79%	-	-	-	-	
27	344	Transmission and Distribution Mains	2.00%	-	-	-	-	
28	345	Fire Sprinkler Taps	2.38%	-	-	-	-	
29	346	Services	4.55%	-	-	-	-	
30	348	Hydrants	1.82%	-	-	-	-	
31		Subtotal Transmission & Distribution Plant		(102)	(102)	313,559	0	
32		General Plant	0.00%	-	-	-	-	
33	389	General Plant Land	2.50%	-	-	-	-	
34	390	General Plant Structures	2.50%	-	-	-	-	
35	390.1	Leasehold Improvements	6.67%	-	-	-	-	
36	391	Office Furniture & Equipment	5.00%	-	-	-	-	
37	393	Warehouses Equipment	4.00%	-	-	-	-	
38	394	Tools Shop & Garage Equipment	5.00%	-	-	-	-	
39	395	Laboratory Equipment	6.67%	-	-	-	-	
40	396	Power Operated Equipment	6.67%	-	-	-	-	
41	397	Communication Equipment	3.33%	-	-	-	-	
42	398	Miscellaneous Equipment		-	-	-	-	
43		Subtotal General Plant		15	14,482	14,482	-	
44		Plant In Service		1,121	19,481	19,482	(0)	
45				(102)	(102)	511,617	(66,360)	
46				3	127	127	-	
47				(0)	(0)	-	-	
48				111	3,376	3,377	(0)	
49				26	1,031	1,031	-	
50				966	14,482	14,482	-	
				15	465	465	-	
				1,121	19,481	19,482	(0)	
				17,860	511,617	577,976	(66,360)	
				134,005	134,005	217,083	(83,078)	
				(102)	(102)	377,974	16,719	
						360,959		

Net Salvage/Cost of Removal
Adjustments booked to Conform with Rate Decision
Accum. Deprec. Related to other Plant Adjustments
Accumulated Depreciation & Amort.
Net Plant In Service

PHOENIX OFFICE AND METER SHOP - RATE BASE ALLOCATION

LINE NO.	DESCRIPTION	(A) TEST YEAR ADJUSTED	(B) Superstition	(C) Cochise	(D) San Manuel	(E) Oracle	(F) SaddleBrook Ranch	(G) Winkelman
			28.65%	7.19%	1.64%	2.04%	0.15%	0.19%
1	3 Factor Allocation Factor							
2	Phoenix Office Allocation							
3	Plant Classification	\$ 9,148	\$ 2,621	\$ 658	\$ 150	\$ 187	\$ 14	\$ 17
4	Intangible Plant	-	-	-	-	-	-	-
5	Source of Supply Plant	-	-	-	-	-	-	-
6	Pumping Plant	-	-	-	-	-	-	-
7	Water Treatment Plant	-	-	-	-	-	-	-
8	Transmission & Distribution Plant	-	-	-	-	-	-	-
9	General Plant	6,908,613	1,979,318	496,729	113,301	140,936	10,363	13,126
10	Total Gross Plant in Service (Sum L4 thru L9)	\$ 6,917,761	\$ 1,981,939	\$ 497,387	\$ 113,451	\$ 141,122	\$ 10,377	\$ 13,144
11	Less:							
12	Accumulated Depreciation	\$ 1,587,979	454,956	114,176	26,043	32,395	2,382	3,017
13	Net Utility Plant In Service (L10 less L12)	\$ 5,329,782	\$ 1,526,982	\$ 383,211	\$ 87,408	\$ 108,728	\$ 7,995	\$ 10,127
14	Less:							
15	Deferred Income Tax	25,368,073	7,267,953	1,823,964	418,036	517,509	38,052	48,199
16	Total Phoenix Office Allocation (L13 less L15)	\$ (20,038,291)	\$ (5,740,970)	\$ (1,440,753)	\$ (328,629)	\$ (408,781)	\$ (30,057)	\$ (38,073)
17								
18	Meter Shop Allocation							
19	Plant Classification							
20	Intangible Plant	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
21	Source of Supply Plant	80	23	6	1	2	-	-
22	Pumping Plant	-	-	-	-	-	-	-
23	Water Treatment Plant	2,050	587	147	34	42	3	4
24	Transmission & Distribution Plant	6,065	1,738	436	99	124	9	12
25	General Plant	146,810	42,061	10,556	2,408	2,995	220	279
26	Total Gross Plant in Service (Sum L20 thru L25)	\$ 155,005	\$ 44,409	\$ 11,145	\$ 2,542	\$ 3,162	\$ 232	\$ 294
27	Less:							
28	Accumulated Depreciation	\$ 56,404	16,160	4,055	925	1,151	85	107
29	Net Utility Plant In Service (L26 less L28)	\$ 98,601	\$ 28,249	\$ 7,089	\$ 1,617	\$ 2,011	\$ 148	\$ 187
30	Less:							
31	Deferred Income Tax	56,404	-	-	-	-	-	-
32	Total Phoenix Office Allocation (L29 less L31)	\$ 42,197	\$ 28,249	\$ 7,089	\$ 1,617	\$ 2,011	\$ 148	\$ 187
33								
34	Total Phoenix Office and Meter Shop Allocation							
35	Plant Classification							
36	Intangible Plant	\$ 9,148	\$ 2,621	\$ 658	\$ 150	\$ 187	\$ 14	\$ 17
37	Source of Supply Plant	80	23	6	1	2	-	-
38	Pumping Plant	-	-	-	-	-	-	-
39	Water Treatment Plant	2,050	587	147	34	42	3	4
40	Transmission & Distribution Plant	6,065	1,738	436	99	124	9	12
41	General Plant	7,055,423	2,021,379	507,285	115,709	143,931	10,563	13,405
42	Total Gross Plant in Service	\$ 7,072,766	\$ 2,026,347	\$ 508,632	\$ 115,993	\$ 144,284	\$ 10,609	\$ 13,438
43	Less:							
44	Accumulated Depreciation	\$ 1,644,383	471,116	118,231	26,968	33,545	2,467	3,124
45	Net Utility Plant In Service (Sum L7 - L8)	\$ 5,428,382	\$ 1,555,232	\$ 390,301	\$ 89,025	\$ 110,739	\$ 8,142	\$ 10,314
46	Less:							
47	Deferred Income Tax	25,368,073	7,267,953	1,823,964	418,036	517,509	38,052	48,199
48	Total Phoenix Office Allocation (L9 - L10)	\$ (19,996,095)	\$ (5,712,721)	\$ (1,433,664)	\$ (327,011)	\$ (406,770)	\$ (29,910)	\$ (37,886)

ALLOWANCE FOR WORKING CAPITAL

LINE NO.	DESCRIPTION	(A) AMOUNT	(B) REFERENCE
1	Working Cash Requirement As Per Company	\$ (165)	Company Schedule B-5, PG. 2 of 2
2	Working Cash Requirement As Per RUCO	(2,301)	RUCO Schedule RBM-6(1), L30
3	Adjustment	\$ (2,136)	L2 - L1
4			
5	Material and Supplies Inventories As Per Company	\$ 129	Company Schedule B-5, PG. 2 of 2
6	Material and Supplies Inventories As Per RUCO	129	Company Schedule B-5, PG. 2 of 2
7	Adjustment	\$ -	L6 - L5
8			
9	Required Bank Balances As Per Company	\$ 4,122	Company Schedule B-5, PG. 2 of 2
10	Required Bank Balances As Per RUCO	4,122	Company Schedule B-5, PG. 2 of 2
11	Adjustment	\$ -	L10 - L9
12			
13	Prepayments & Special Deposits As Per Company	\$ 1,258	Company Schedule B-5, PG. 2 of 2
14	Prepayments & Special Deposits As Per RUCO	1,258	Company Schedule B-5, PG. 2 of 2
15		\$ -	L13 - L14
16			
17	TOTAL ADJUSTMENT (See RLM-2, Column (K))	\$ (2,136)	Sum L3, L7, L11, L15

Arizona Water Company
Docket No. W-01445A-11-0310
Test Year Ended December 31, 2010

Winkelman
Schedule RBM-6
Page 1

SCHEDULE NOT USED

EXPLANATION OF RATE BASE ADJUSTMENT NO. 2

Line No.	(A) Company Test Year Adjusted Results	(B) RUCO Adj	(C) RUCO Adjusted Results	(D) Revenue Lag Days1	(E) Expense Lag Days2	(F) Net Lag Days [B - C]	(G) Lead / Lag Factor [D + 365]	(H) Working Cash Requirement [A X E]
1	\$		\$					
2	Operating Expenses		6,781	29.68	30.87	(1.19)	(0.0033)	(22)
3	Purchased Power		20,662	29.68	14.00	15.68	0.0430	888
4	Payroll		-	29.68	26.04	3.64	0.0100	-
5	Purchased Water		5,807	29.68	(18.11)	47.79	0.1309	760
6	Chemicals		1,053	29.68	(45.27)	74.95	0.2053	216
7	Property & Liability Insurance		241	29.68	(46.50)	76.18	0.2087	50
8	Workman's Compensation Insurance		3,680	29.68	(8.92)	38.60	0.1058	389
9	Health Insurance		15,475	29.68	(9.27)	38.95	0.1067	1,651
10	Other O&M (Excluding Rate Case Expense)	(3,322)	7,452	29.68	37.00	(7.32)	(0.0201)	(149)
11	Federal Income Taxes	(2,620)	1,642	29.68	37.00	(7.32)	(0.0201)	(83)
12	State Income Taxes	(577)	1,549	29.68	14.00	15.68	0.0430	67
13	FICA Taxes		50	29.68	83.10	(53.42)	(0.1464)	(7)
14	FUTA & SUTA Taxes	(323)	8,608	29.68	212.00	(182.32)	(0.4995)	(4,300)
15	Property Taxes		1,035	29.68	(98.83)	128.51	0.3521	364
16	Registration, Svc. Contracts, & Misc. Fees		1,887	29.68	34.72	(5.04)	(0.0138)	(26)
17	Retirement Annuities (401k)							
18								
19								
20	Subtotal	(6,843)	75,921					(152)
21								
22								
23	Interest Expense		10,268	29.68	91.25	(61.57)	(0.1687)	(1,732)
24	Cost of Equity	(19,552)	-	29.68	-	29.68	0.0813	-
25	Dividends Paid	3,297	3,297	29.68	75.89	(46.21)	(0.1266)	(417)
26								
27	Subtotal	(16,255)	13,565					(2,150)
28								
29								
30	Total	(23,097)	89,487					(2,301)
31								
32								
33								
34								

Columns (A), (D), and (E) Company Schs. B-5 page 1
Column (B) RUCO Schs. RBM-7, RBM-8

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJMTS	(C) RUCO TEST YEAR AS ADJTD	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Operating Revenues					
1	Residential	\$ 54,242	\$ -	\$ 54,242	\$ 19,050	\$ 73,292
2	Commercial	43,099	-	43,099	-	43,099
3	Industrial	3,089	-	3,089	-	3,089
4	Private Fire Service	-	-	-	-	-
5	Other Water Revenues	-	-	-	-	-
6	Total Water Revenues	\$ 100,430	\$ -	\$ 100,430	\$ 19,050	\$ 119,480
7	Miscellaneous	\$ 1,669	\$ -	\$ 1,669	\$ -	\$ 1,669
8	Total Operating Revenues	\$ 102,099	\$ -	\$ 102,099	\$ 19,050	\$ 121,149
	Operating Expenses					
	Source of Supply Expenses:					
9	Purchased Water	-	-	-	-	-
10	Other	387	(1)	386	-	386
11	Pumping Expenses:					
12	Purchased Power	6,781	-	6,781	-	6,781
13	Purchased Gas	-	-	-	-	-
14	Other	4,107	(102)	4,005	-	4,005
15	Water Treatment Expenses	7,361	(6)	7,355	-	7,355
16	Transmission & Distribution Expenses	16,618	(3,153)	13,465	-	13,465
17	Customer Accounting Expenses	10,674	(18)	10,656	-	10,656
18	Sales Expense	-	-	-	-	-
19	Administrative & General Expenses	14,757	(247)	14,510	-	14,510
20	Total Operations & Maintenance Expense	\$ 60,685	\$ (3,527)	\$ 57,158	\$ -	\$ 57,158
21	Depreciation & Amortization Expenses	\$ 20,295	\$ -	\$ 20,295	-	\$ 20,295
	Taxes					
22	Federal Income Taxes	\$ 445	\$ 1,141	\$ 1,586	5,866	\$ 7,452
23	State Income Taxes	98	251	349	1,292	1,642
24	Property Taxes	8,104	-	8,104	504	8,608
25	Other	1,340	-	1,340	-	1,340
26	Total Taxes	\$ 9,987	\$ 1,392	\$ 11,379	\$ 7,663	\$ -
27	Total Operating Expenses	\$ 90,967	\$ (2,135)	\$ 88,832	\$ 7,663	\$ 96,495
28	Operating Income	\$ 11,132	\$ 2,135	\$ 13,267	\$ 11,387	\$ 24,654

References:

Column (A): RBM-8, Col. A
Column (B): RBM-8, Col. K
Column (C): Col. A + Col. B
Column (D): RBM-1, RBM-1(2), RBM-15
Column (E): Col. C + Col. D

SCHEDULE OF OPERATING INCOME - TEAR YR WITH RUOCO ADJUSTMENTS

Line No.	(A) Test Year Ended 12/31/2010	(B) Adjustment Normalize Maintenance IS-1	(C) Adjustment Rate Case Expense IS-2	(D) Adjustment Fleet Fuel Expense IS-3	(E) Adjustment Misc Expenses IS-4	(F) Adjustment Depreciation Expense IS-5	(G) Adjustment LEFT BLANK	(H) Adjustment LEFT BLANK	(I) Adjustment Property Tax IS-8	(J) Adjustment Income Tax IS-9	(K) Total Pro Forma Adjustments	(L) Test Year Adjusted Results
1												
2	Operating Revenues											
3	Residential											54,242
4	Commercial											43,099
5	Industrial											3,089
6	Private Fire Service											-
7	Other Water Revenues											-
8	Total Water Revenues (L2 thru L6)											100,430
9	Miscellaneous											1,659
10	Total Operating Revenues (L7 + L9)											102,089
11												
12	Operating Expenses											
13	Source of Supply Expenses:											
14	Purchased Water											
15	Other											386
16	Pumping Expenses:											
17	Purchased Power											6,781
18	Purchased Gas											
19	Other											4,005
20	Water Treatment Expenses											7,355
21	Transmission & Distribution Expenses											13,465
22	Customer Accounting Expenses											10,656
23	Sales Expense											
24	Administrative & General Expenses											
25	Total Operations & Maint. Exp (L14 thru L24)											14,510
26												57,158
27	Depreciation & Amortization Expenses											20,295
28												
29	Taxes											
30	Federal Income Taxes											1,586
31	State Income Taxes											349
32	Property Taxes											8,104
33	Other											1,340
34	Total Taxes (L30 thru L33)											11,379
35	Total Operating Expenses (L25 + L27 + L34)											88,832
36	Operating Income (L10 less L36)											13,267

REFERENCES:
Column A, RBM-9
Column B, RBM-10
Column C, RBM-11
Column D, RBM-12
Column E, RBM-13
Column F, RBM-14

SCHEDULE OF OPERATING INCOME-TEST YR COMPANY ADJUSTMENTS

Line No.	(A) Test Year Ended 12/31/2010	(B) Adjustment Sales Tax IS-1	(C) Adjustment Net Unbilled IS-2	(D) Adjustment MAP IS-3	(E) Adjustment ACRM IS-4	(F) Adjustment Misc IS-5	(G) Adjustment Annual Rates IS-6	(H) Adjustment New Customers IS-7	(I) Adjustment Annualize Payroll IS-8	(J) Adjustment Annualize Emp. Benefits IS-9	(K) Adjustment Interest on Customer Deposits IS-10	(L) Adjustment Normalize Maintenance IS-11
1	Operating Revenues											
2	Residential	\$ 53,799	\$ (833)	\$ (440)	\$ -	\$ -	\$ 7,039	\$ (676)				
3	Commercial	46,764	(3,035)	(64)	-	-	1,437	(1,845)				
4	Industrial	3,046	(83)	(3)	-	-	392					
5	Private Fire Service											
6	Other Water Revenues											
7	Total Water Revenues (L2 thru L6)	\$ 103,609	\$ (7,945)	\$ (507)	\$ -	\$ -	\$ 8,868	\$ (2,521)	\$ -	\$ -	\$ -	\$ -
8	Miscellaneous	1,809	(140)									
9	Total Operating Revenues (L7 + L9)	\$ 105,418	\$ (8,085)	\$ (507)	\$ -	\$ -	\$ 8,868	\$ (2,521)	\$ -	\$ -	\$ -	\$ -
10	Operating Expenses											
11	Source of Supply Expenses:											
12	Purchased Water											
13	Other	372	5					(10)	15			
14	Pumping Expenses:											
15	Purchased Power	6,511	(41)									
16	Purchased Gas											
17	Other	3,659	7					(265)	108			543
18	Water Treatment Expenses	8,215						(214)	22			
19	Transmission & Distribution Expenses	10,565	144	(686)				(174)	300			5,603
20	Customer Accounting Expenses	10,444	47					(172)	306			
21	Sales Expense											
22	Administrative & General Expenses	13,240	48					(218)	263			
23	Total Operating Expenses (L14 thru L24)	\$ 53,006	\$ 217	\$ (686)	\$ -	\$ -	\$ -	\$ (1,053)	\$ 1,014	\$ 624	\$ 75	\$ 6,146
24	Depreciation & Amortization Expenses	27,358										
25	Taxes											
26	Federal Income Taxes	1,613										
27	Slate Income Taxes	182										
28	Property Taxes	7,620										
29	Other	9,248							177			
30	Total Taxes (L30 thru L33)	\$ 18,663	\$ (8,085)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 177	\$ -	\$ -	\$ -
31	Total Operating Expenses (L25 + L27 + L34)	\$ 99,027	\$ (8,085)	\$ 217	\$ (686)	\$ -	\$ -	\$ (1,053)	\$ 1,191	\$ 624	\$ 75	\$ 6,146
32	Operating Income (L10 less L36)	\$ 6,391	\$ -	\$ (1,251)	\$ 179	\$ -	\$ 8,868	\$ (1,468)	\$ (1,191)	\$ (624)	\$ (75)	\$ (6,146)

Columns (A) through columns (X) see Company Exhibit Schedule C-2

SCHEDULE OF OPERATING INCOME-TEST YR COMPANY ADJUSTMENTS

Line No.	(M) Adjustment Water & Gas Exp IS-12	(N) Adjustment Rate Case Expense IS-13	(O) Adjustment Adjust A&G for BMP IS-14	(P) Adjustment Fleet Fuel Expense IS-15	(Q) Adjustment AS 400 Printers IS-16	(R) Adjustment Arsenic Treatment Exp IS-17	(S) Adjustment Error Correction CAP Charges IS-18	(T) Adjustment Depreciation Expense IS-19	(U) Adjustment Property Tax IS-20	(V) Adjustment Income Tax IS-21	(W) Total Pro Forma Adjustments	(X) Test Year Adjusted Results
1												
2											\$ 443	\$ 54,242
3											(3,665)	43,099
4											43	3,089
5												
6												
7												
8												
9												
10												
11												
12												
13												
14												
15												
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33												
34												
35												
36												
37												

Columns (A) through columns (X) see Company Exhibit Schedule C-2

**OPERATING INCOME ADJUSTMENT NO. 1
PUMPING AND TRANSMISSION & DISTRIBUTION MAINTENANCE EXPENSE**

Pumping:		<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>3 Year Normalized Average</u>
1	<u>Maintenance:</u>				
2	Supervision & Engineering	\$ 400	\$ 210	\$ 212	\$ 274
3	Structures & Improvements	416	353	216	328
4	Electric pumping equipment	1,383	383	456	741
5	Gas pumping equipment	-	-	-	-
6					
7	Total Pumping Maintenance Expense	\$ 2,199	\$ 946	\$ 884	\$ 1,343
8					
9					
10	Company Requested Level of T. Y. Pumping Maintenance Expense				<u>1,426</u>
11					
12	RUCO Increase / (Decrease) in T. Y. Expense Level				<u>\$ (83)</u>
13					
14	RUCO Pumping Maintenance Expense Adjustment				<u>\$ (83)</u>
15					
16					
17					
18					
19					
20	Transmission & Distribution:				
21		<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>3 Year Normalized Average</u>
22	<u>Maintenance:</u>				
23	Supervision & Engineering	\$ 1,047	\$ 955	\$ 679	\$ 894
24	Tanks	4,743	4,743	2,373	3,953
25	Mains	1,399	574	419	797
26	Mains - Leak Repair	-	-	-	-
27	Mains - Leak Detection	-	-	-	-
28	Services	2,596	1,328	1,139	1,688
29	Services - Leak Repair	-	-	8	3
30	Meters	339	410	700	483
31	Hydrants	53	30	21	35
32					
33	Total T & D Maintenance Expense	\$ 10,177	\$ 8,040	\$ 5,339	\$ 7,852
34					
35					
36	Company Requested Level of T. Y. T & D Maintenance Expense				<u>10,941</u>
37					
38	RUCO Increase / (Decrease) Expense Adjustment				<u>\$ (3,089)</u>
39					
40	RUCO T & D Maintenance Expense Adjustment				<u>\$ (3,089)</u>
41					
42					
43	Total RUCO Pumping and T & D Maintenance Expense Adjustment				<u>\$ (3,172)</u>

OPERATING INCOME ADJUSTMENT NO. 2
RATE CASE EXPENSE ADJUSTMENT

Line No.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense Total for Eastern Group	\$ 476,874	\$ (164,274)	\$ 312,600
2				
3	Allocation Factor			0.46%
4				
5	Winkelman			\$ 1,441
6				
7	Amortization Period - 3 years			3
8				
9	RUCO Adjusted Rate Case Expense (L5 / L7)			\$ 480
10				
11	Company Rate Case Expense as Filed (Company Sch. C-2 Appendix)			\$ 685
12				
13	RUCO Pro Forma Rate Case Expense (L9 - L11)			\$ (205)
14				
15	RUCO Adjustment			\$ (205)
16				
17				
18	RUCO's Rate Base Expense Adjustment Calculation:			
19	Decision No. 66848, dated March 19, 2004, approved amount			
20	\$250,000 for Arizona Water Company's Eastern Group.		\$ 250,000	
21				
22	Inflation Factor from January 1, 2002 through September 30,			
23	per Inflation Data.com		25.04%	
24				
25	Reasonable Amount of Rate Case Expense based on			
26	Decision No. 66848.		\$ 312,600	
27				
28	RUCO Adjustment		\$ 164,274	
29				
30	<u>Allocation Factor Based on Number of Customers</u>		<u>Customers</u>	<u>Percent of Total</u>
31	Superstition (Apache Junction, Superior, Miami)		23,607	71.10%
32	Cochise (Bisbee, Sierra Vista)		6,357	19.15%
33	San Manuel		1,465	4.41%
34	Oracle		1,506	4.54%
35	SaddleBrook Ranch		113	0.34%
36	Winkelman		153	0.46%
37	Total Number of Customers and Percentages		33,201	100.00%

OPERATING INCOME ADJUSTMENT NO. 3
Fleet Fuel Expense Adjustment

Line No.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO PROP'D CHANGES	(C) RUCO ADJUSTMENT AS RECOMM'D
1	Number of fuel gallons used in test year (Total Company)	190,139	190,139	190,139
2				
3	Price per gallon of fuel (Obtained from AAA Fuel Gage Report)	\$ 3.6710	\$ 3.3150	\$ 0.3560
4				
5	Adjusted due to reduced price per gallon of fuel	\$ 698,000	\$ 630,311	\$ 67,689
6				
7				
8	Percentage allocated to Cochise based on			
9	three factor allocation formula.	\$ 324	\$ 209	\$ (115)
10				
11				
12				
13				
14				
15				
16	<u>ALLOCATED TO OEPRATING DEPARTMENTS:</u>	COMPANY	RUCO PROP'D	RUCO ADJUSTMENT
17	Source of Supply Expenses:	AS FILED	CHANGES	BY DEPARTMENT
18	Pumping Expenses	\$ 5	\$ 4	\$ (1)
19	Water Treatment Expenses	55	36	(19)
20	Transmission & Distribution Expenses	17	11	(6)
21	Customer Accounting Expenses	180	116	(64)
22	Administrative & General Expenses	49	31	(18)
23		18	11	(7)
24		\$ 324	\$ 209	\$ (115)
25				
26				
27				
28				

OPERATING INCOME ADJUSTMENT NO. 4
 MISCELLANEOUS EXPENSE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) Superstition	(B) Cochise	(C) San Manuel	(D) Oracle	(E) SaddleBrook Ranch	(F) Winkelman
<u>DIRECT EXPENSES</u>							
1							
2	Customer Accounting Expense	\$ 1,570	\$ 713	\$ 78	\$ 96	\$ -	\$ -
3							
4	Administration & General Expense	1,642	-	137	143	19	7
5							
6	TOTAL DIRECT EXPENSE	\$ 3,212	\$ 713	\$ 215	\$ 240	\$ 19	\$ 7
7							

LINE NO.	DESCRIPTION	ALLOCATION FACTOR	PHOENIX OFFICE EXPENSES	ADJUSTMENT
<u>PHOENIX OFFICE EXPENSES</u>				
8				
9	TOTAL	0.2865	0.0719	0.0164
10				
11	Service Awards and Banquets	3,031	761	174
12				
13	Flower Shop Expenses	283	71	16
14				
15	Water Association Dues Allowed	996	250	57
16	at 50% of Total			
17				
18	TOTAL ALLOCATED EXPENSES	\$4,310	\$1,082	\$247
19				
20	TOTAL MISCELLANEOUS EXPENSE ADJUSTMENT	\$7,522	\$1,794	\$462
21				
22				
23				
24				
25				
26				
27				
28				
29				
30				

OPERATING INCOME ADJUSTMENT NO. 6
PROPERTY TAXES

LINE NO.	Property Tax Calculation	(A)	(B)
		RUCO AS ADJUSTED	RUCO RECOMMENDED
1	RUCO Adjusted Test Year Revenues - RBM-6	\$ 102,099	\$ 102,099
2	Multiplied by 2	<u>2</u>	<u>2</u>
3	Subtotal (Line 1 * Line 2)	\$ 204,198	\$ 204,198
4	RUCO Adjusted Test Year Revenues - 2010	<u>102,099</u>	
5	RUCO Recommended Revenue, Per Schedule RBM-6		<u>121,149</u>
6	Subtotal (Line 4 + Line 5)	\$ 306,297	\$ 325,347
7	Number of Years	<u>3</u>	<u>3</u>
8	Three Year Average (Line 5 / Line 6)	\$ 102,099	\$ 108,449
9	Department of Revenue Multiplier	<u>2</u>	<u>2</u>
10	Revenue Base Value (L8 X L9)	\$ 204,198	\$ 216,898
11	Plus: 10% of CWIP -	-	-
12	Less: Net Book Value of Licensed Vehicles	-	-
13	Full Cash Value (L10 + L11 + L12))	\$ 204,198	\$ 216,898
14	Assessment Ratio	<u>21.0%</u>	<u>21.0%</u>
15	Assessment Value (L13 X L14)	\$ 42,882	\$ 45,549
16	Composite Property Tax Rate (L19 / L15)	<u>18.8986%</u>	<u>18.8986%</u>
17	RUCO Proposed Property Tax Expense (L15 X L16))	\$ 8,104	
18	Company Proposed Property Tax	<u>8,104</u>	
19	RUCO Test Year Adjustment (L16 - L17)	\$ -	
19	Property Tax - RUCO Recommended Revenue (L15 X L16)		\$ 8,608
20	RUCO Test Year Adjusted Property Tax Expense (L18)		<u>8,104</u>
21	Increase/(Decrease) to Property Tax Expense		<u>\$ 504</u>
22	Increase/(Decrease) to Property Tax Expense		\$ 504
23	Increase in Revenue Requirement (L5 - L4)		19,050
24	Increase/(Decrease) to Property Tax per Dollar Increase in Revenue (L26 / L27)		2.6458%

**OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
1	FEDERAL INCOME TAXES:		
2			
3	Operating Income Before Taxes	(RBM- 7, Col. (C), L36 + L29 + L30)	\$ 15,202
4	LESS:		
5	Arizona State Tax	L21	349
6	Interest Expense	Note (A) L41	10,189
7	Federal Taxable Income	L3 - L5 - L6	\$ 4,663
8			
9	Federal Tax Rate	Sch. RBM-1, Page 2	34.00%
10	Federal Income Tax Expense	L7 X L9	\$ 1,586
11			
12	STATE INCOME TAXES:		
13			
14	Operating Income Before Taxes	L3	\$ 15,202
15	LESS:		
16	Interest Expense	Note (A) L41	10,189
17	State Taxable Income	L14 - L16	\$ 5,013
18			
19	State Tax Rate	Tax Rate	6.97%
20			
21	State Income Tax Expense	L17 X L19	\$ 349
22			
23	TOTAL INCOME TAX EXPENSE:		
24	Federal Income Tax Expense	L10	\$ 1,586
25	State Income Tax Expense	L21	349
26	Total Income Tax Expense Per RUCO	L24 + L25	\$ 1,935
27			
28	Total Federal Income Tax Expense Per Company (Per Company Sch. C-1, L30)		445
29			
30	Total State Income Tax Expense Per Company (Per Company Sch. C-1, L31)		98
31			
32	RUCO Federal Income Tax Adjustment	L24 - L28	\$ 1,141
33			
34	RUCO State Income Tax Adjustment	L25 - L30	\$ 251
35			
36			
37	<u>NOTE (A): Interest Synchronization</u>		
38			
39	Adjusted Rate Base RBM-2, Col. (C), L28	\$ 304,727	
40	Weighted Cost Of Debt RBM-9, Col. (D), L1	3.34%	
41	Interest Expense (L39 X L40)	\$ 10,189	

COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) DOLLAR AMOUNT	(B) CAPITAL RATIO	(C) COST RATE	(D) WEIGHTED COST RATE
1	Long-Term Debt	\$ 75,000,000	49.03%	6.82%	3.34%
2					
3	Common Equity	77,975,335	50.97%	9.30%	4.74%
4					
5	Total Capitalization	\$ 152,975,335	100.00%		
6					
7					
8	WEIGHTED AVERAGE COST OF CAPITAL				8.08%

References:
Columns (A) Thru (D): WAR Testimony



ARIZONA WATER COMPANY
DOCKET NO. W-01445A-11-0310

SURREBUTTAL TESTIMONY
OF
ROBERT B. MEASE
ON
RATE DESIGN

ON BEHALF OF
THE
RESIDENTIAL UTILITY CONSUMER OFFICE

MAY 7, 2012

TABLE OF CONTENTS

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EXECUTIVE SUMMARY

Based on RUCO's analysis of Arizona Water Company's rebuttal testimony RUCO is recommending rate designs for the Eastern Groups Systems that will result in the following typical monthly bills for residential customers with average consumption on a 5/8" X 3/4" meter.

		ROCO - SURREBUTTAL		
	<u>SYSTEM</u>	<u>PRESENT RATE</u>	<u>PROPOSED RATE</u>	<u>% CHANGE</u>
	<u>Superstition (Apache</u>			
	Junction, Superior,			
	Miami	\$ 33.84	\$ 38.83	14.76%
	<u>Cochise</u>			
	Bisbee	\$ 32.42	\$ 35.11	8.27 %
	Sierra Vista	\$ 25.96	\$ 32.00	23.30 %
	<u>Falcon Valley</u>			
	Oracle	\$ 43.05	\$ 47.94	11.34 %
	SaddleBrooke Ranch	\$ 28.96	\$ 37.97	31.10 %
	<u>San Manuel</u>	\$ 43.61	\$ 58.70	34.62%
	<u>Winkelman</u>	\$ 30.38	\$ 36.51	20.18 %

RUCO supports the Company's proposal to fully consolidate the Oracle and SaddleBrooke Ranch Systems into a single "Falcon Valley" System. However, RUCO has redrawn their recommendation to include San Manuel in this consolidation. RUCO witness, William Rigsby, discusses RUCO's position on consolidation in his testimony.

1 **INTRODUCTION**

2 Q. Please state your name, position, employer and address.

3 A. My Name is Robert B. Mease. I am a Public Utilities Analyst V employed
4 by the Residential Utility Consumer Office ("RUCO") located at 1110 W.
5 Washington, Suite 220, Phoenix, Arizona 85007.

6

7 **Q. Have you previously provided testimony regarding this docket?**

8 A. Yes. I filed testimony on this docket on March 13, 2012.

9

10 **Q. What is the purpose of your surrebuttal testimony?**

11 A. My surrebuttal testimony will address the Company's rebuttal proposals
12 and comments pertaining to adjustments as they pertain to each systems
13 rates design.

14

15 **RATE DESIGN**

16 Q. Please explain elements of the rate designs.

17 A. Each Schedule RD-1 illustrates the elements of RUCO's rate design which
18 mirrors the Company's Schedules by maintaining the same basic
19 conservation-oriented rate structure effective under present rates with a
20 customer charge and inclining block rates for each classification and
21 meter size.

22

23

1 **Q. What adjustments have you made in your surrebuttal rate design?**

2 A. I have maintained our basic rate design but have made two adjustments in
3 my rate design. I have adjusted each systems revenue requirements
4 based on my previous testimony. My second adjustment has been to
5 decrease the fixed monthly minimum cost related to each locations billing.

6
7 **Q. Can you further explain what you mean by adjusting your fixed
8 monthly minimum?**

9 A. Yes. In my original testimony I calculated the Eastern group's fixed
10 monthly minimum at approximately 47% on the total revenue
11 requirements. I have reduced the monthly minimum by approximately 2%
12 to approximately 45% with my current rate design.

13
14 **Q. Have you maintained the same methodology in your rate making
15 assumptions as your original testimony?**

16 A. Yes. I have maintained RUCO's basic structure with minor exceptions as
17 discussed below.

18

19 **TYPICAL BILL ANALYSIS**

20 **Q. Has RUCO prepared Schedules representing the financial impact of
21 RUCO's recommended rate designs on the typical residential
22 customer for each system?**

1 A. Yes. A typical bill analysis for residential customers of each system with
2 various levels of usage is presented on Schedules RD-2.

3

4 **SUPERSTITION - Surrebuttal**

5 Q. Please describe a typical bill utilizing RUCO's rate design on the average
6 Superstition residential customer.

7 A. RUCO's Superstition System (Apache Junction, Superior and Miami) rate
8 design proposes a basic service charge for residential customers with a
9 5/8" X 3/4" meter of \$20.46 while the Company has proposed a rate of
10 \$23.00.

11 Commodity charges recommended by RUCO and the Company are as
12 follows:

<u>Superstition</u>	<u>Current Fee</u>	<u>RUCO Proposed - Surrebuttal</u>
First 3,000 gallons	\$ 2.28	\$ 2.57
3,000 to 10,000 gallons	\$ 2.85	\$ 3.21
Over 10,000 gallons	\$ 3.56	\$ 4.02

17

18 The monthly billing per RUCO's proposal to the Superstition residential
19 users, assuming an average consumption of 6,321 gallons per month, will
20 be \$38.83, a 14.7% increase compared to the Company's requested
21 increase of 29.1%

22

23

24

1 **COCHISE - Surrebuttal**

2 Q. Please describe the financial impact of RUCO's rate design on the
3 average Cochise System (Bisbee and Sierra Vista) residential customer.

4 A. RUCO's rate design proposes a basic service charge for residential
5 customers, both Bisbee and Sierra Vista, with a 5/8" X 3/4" meter of
6 \$18.40 while the Company has proposed a rate of \$20.00.

7
8 While the monthly basic service charge is the same for both systems
9 (Bisbee and Sierra Vista) the commodity charges will be separately
10 maintained. The Commodity charges for the two systems in the Cochise
11 System are as follows:

12

<u>Bisbee</u>	<u>Current Fee</u>	<u>RUCO Proposed - Surrebuttal</u>
13 First 3,000 gallons	\$ 3.60	\$ 3.15
14 3,000 to 10,000 gallons	\$ 4.50	\$ 3.94
15 Over 10,000 gallons	\$ 5.63	\$ 4.93

16
17 The monthly billing per RUCO's proposal to the Bisbee residential users,
18 assuming an average consumption of 4,832 gallons per month, will be
19 \$35.11, a 8.27% increase compared to the Company's requested increase
20 of 12.1%.

21

<u>Sierra Vista</u>	<u>Current Fee</u>	<u>RUCO Proposed - Surrebuttal</u>
22 First 3,000 gallons	\$ 1.36	\$ 1.47
23 3,000 to 10,000 gallons	\$ 1.70	\$ 1.84

24

1 Over 10,000 gallons \$ 2.13 \$ 2.29

2
3 The monthly billing per RUCO's proposal to the Sierra Vista residential
4 users, assuming an average consumption of 7,995 gallons per month, will
5 be \$32.00, a 23.30 increase compared to the Company's requested
6 increase of 32.8%.

7
8 **FALCON VALLEY - Surrebuttal**

9 **Q. Has RUCO changed their recommendation to consolidate the San**
10 **Manuel system into Falcon Valley with Oracle and SaddleBrooke**
11 **Ranch?**

12 **A.** Yes. RUCO originally recommended the consolidation but has withdrawn
13 their recommendation.

14
15 **Q. What were the reasons for RUCO's changing its recommendation?**

16 **A.** It was determined that by consolidating San Manuel into Falcon Valley a
17 considerable financial burden would have been put on the rate payers in
18 this system. In other words, San Manuel rate payers would have to pay
19 an additional \$70,000 to subsidize Oracle and SaddleBrooke Ranch.

20
21 **Q. Please describe the financial impact of RUCO's rate design on the**
22 **average Falcon Valley (Bisbee and Sierra Vista) residential customer.**

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A. The Impact on the Oracle and SaddleBrooke Ranch systems are as follows:

<u>Oracle</u>	<u>Current Fee</u>	<u>RUCO Proposed - Surrebuttal</u>
First 3,000 gallons	\$ 4.09	\$ 4.59
3,000 to 10,000 gallons	\$ 5.12	\$ 5.74
Over 10,000 gallons	\$ 6.39	\$ 7.18

The monthly billing per RUCO's proposal to Oracle's residential users, assuming an average consumption of 5,140 gallons per month, will be \$47.94, a 10% increase compared to the Company's requested increase of 14.5%.

<u>SaddleBrooke Ranch</u>	<u>Current Fee</u>	<u>RUCO Proposed</u>	<u>AWC Proposed</u>
First 3,000 gallons	\$ 4.10	\$ 4.54	\$ 4.84
3,000 to 10,000 gallons	\$ 4.10	\$ 5.68	\$ 6.05
Over 10,000 gallons	\$ 4.10	\$ 7.09	\$ 7.55

The monthly billing per RUCO's proposal to the SaddleBrooke Ranch residential users, assuming an average consumption of 3,405 gallons per month, will be \$37.97, a 31.10% increase compared to the Company's requested increase of 37.9%.

WINKELMAN - Surrebuttal

Q. Please describe the financial impact of RUCO's rate design on the average Winkelman System residential customer.

1 A. RUCO's Winkelman rate design proposes a basic service charge for
2 residential customers with a 5/8" X 3/4" meter of \$16.91 while the
3 Company has proposed a rate of \$19.00. Current commodity fees and
4 proposed fees are as follows:

5

6	<u>Winkelman</u>	<u>Current Fee</u>	<u>RUCO Proposed - Surrebuttal</u>
7	First 3,000 gallons	\$ 1.45	\$ 1.76
8	3,000 to 10,000 gallons	\$ 1.81	\$ 2.20
9	Over 10,000 gallons	\$ 2.26	\$ 2.75

10 The monthly billing per RUCO's proposal to Winkelman's residential
11 users, assuming an average consumption of 9,398 gallons per month, will
12 be \$36.01, a 18.5% increase compared to the Company's requested
13 increase of 28.6%.

14

15 Q. Does this conclude your direct testimony on rate design?

16 A. Yes, it does.

**EASTERN GROUP - SUPERSTITION - SURREBUTTAL
RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
RESIDENTIAL CUSTOMERS					
1	5/8" X 3/4" Meter	21,020	\$ 20.46	\$ 5,161,085	\$ 5,161,085
	Commodity Usage (In Thousands of Gallons)				
2	First Tier - First 3,000 Gals.	636,406	\$ 2.5693	\$ 1,635,139	
3	Second Tier - Next 7,000 Gals.	650,348	\$ 3.2117	\$ 2,088,728	
4	Third Tier - Over 10,000 Gals.	307,738	\$ 4.0147	\$ 1,235,461	\$ 4,959,327
5	1" Meter	1,553	\$ 51.15	\$ 953,347	\$ 953,347
	Commodity Usage (In Thousands of Gallons)				
6	First Tier - First 40,000 Gals.	115,707	\$ 3.2117	\$ 371,616	
7	Second Tier - Over 40,000 Gals.	76,411	\$ 4.0147	\$ 306,762	
8	Third Tier - Over 40,000 Gals.	-	\$ 4.0147	\$ -	\$ 678,378
9	2" Meter	57	\$ 163.69	\$ 111,694	\$ 111,694
	Commodity Usage (In Thousands of Gallons)				
10	First Tier - First 125,000 Gals.	57,789	\$ 3.2117	\$ 185,602	
11	Second Tier - Over 125,000 Gals.	26,937	\$ 4.0147	\$ 108,144	
12	Third Tier - Over 125,000 Gals.	-	\$ 4.0147	\$ -	\$ 293,746
13	3" Meter	4	\$ 327.37	\$ 15,724	\$ 15,724
	Commodity Usage (In Thousands of Gallons)				
14	First Tier - First 300,000 Gals.	11,001	\$ 3.2117	\$ 35,333	
15	Second Tier - Over 300,000 Gals.	2,083	\$ 4.0147	\$ 8,362	
16	Third Tier - Over 300,000 Gals.	-	\$ 4.0147	\$ -	\$ 43,695
17	4" Meter	10	\$ 511.52	\$ 63,470	\$ 63,470
	Commodity Usage (In Thousands of Gallons)				
18	First Tier - First 500,000 Gals.	45,470	\$ 3.2117	\$ 146,036	
19	Second Tier - Over 500,000 Gals.	31,724	\$ 4.0147	\$ 127,360	
20	Third Tier - Over 500,000 Gals.	-	\$ 4.0147	\$ -	\$ 273,396
21	6" Meter	13	\$ 1,023.04	\$ 163,794	\$ 163,794
	Commodity Usage (In Thousands of Gallons)				
22	First Tier - First 1,000,000 Gals.	83,615	\$ 3.2117	\$ 268,546	
23	Second Tier - Over 1,000,000 Gals.	30,550	\$ 4.0147	\$ 122,647	
24	Third Tier - Over 1,000,000 Gals.	-	\$ 4.0147	\$ -	\$ 391,192
25	8" Meter	-	\$ 1,636.86	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
26	First Tier - First 1,500,000 Gals.	-	\$ 3.2117	\$ -	
27	Second Tier - Over 1,500,000 Gals.	-	\$ 4.0147	\$ -	
28	Third Tier - Over 1,500,000 Gals.	-	\$ 4.0147	\$ -	\$ -
29	10" Meter	-	\$ 2,352.98	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
30	First Tier - First 2,300,000 Gals.	-	\$ 3.2117	\$ -	
31	Second Tier - Over 2,300,000 Gals.	-	\$ 4.0147	\$ -	
32	Third Tier - Over 2,300,000 Gals.	-	\$ 4.0147	\$ -	\$ -
33	Total Residential Customer Bills	<u>22,658</u>			
34	Total Residential Usage	<u>2,075,778</u>			
35	TOTAL RESIDENTIAL CUSTOMERS REVENUE			<u>\$ 13,108,849</u>	

**EASTERN GROUP - SUPERSTITION - SURREBUTTAL
RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
COMMERCIAL CUSTOMERS					
36	5/8" X 3/4" Meter Commodity Usage (In Thousands of Gallons)	384	\$ 20.46	\$ 94,283	\$ 94,283
37	First Tier - First 10,000 Gals.	17,078	\$ 3.2117	\$ 54,851	
38	Second Tier - Over 10,000 Gals.	17,448	\$ 4.0147	\$ 70,049	
39	Third Tier - Over 10,000 Gals.	-	\$ 4.0147	\$ -	\$ 124,899
40	1" Meter Commodity Usage (In Thousands of Gallons)	294	\$ 51.15	\$ 180,425	\$ 180,425
41	First Tier - First 40,000 Gals.	43,305	\$ 3.2117	\$ 139,082	
42	Second Tier - Over 40,000 Gals.	41,624	\$ 4.0147	\$ 167,106	
43	Third Tier - Over 40,000 Gals.	-	\$ 4.0147	\$ -	\$ 306,188
44	2" Meter Commodity Usage (In Thousands of Gallons)	221	\$ 163.69	\$ 434,327	\$ 434,327
45	First Tier - First 125,000 Gals.	120,291	\$ 3.2117	\$ 386,340	
46	Second Tier - Over 125,000 Gals.	78,732	\$ 4.0147	\$ 316,081	
47	Third Tier - Over 125,000 Gals.	-	\$ 4.0147	\$ -	\$ 702,421
48	3" Meter Commodity Usage (In Thousands of Gallons)	25	\$ 327.37	\$ 98,701	\$ 98,701
49	First Tier - First 300,000 Gals.	36,913	\$ 3.2117	\$ 118,553	
50	Second Tier - Over 300,000 Gals.	26,103	\$ 4.0147	\$ 104,795	
51	Third Tier - Over 300,000 Gals.	-	\$ 4.0147	\$ -	\$ 223,349
52	4" Meter Commodity Usage (In Thousands of Gallons)	11	\$ 511.52	\$ 67,674	\$ 67,674
53	First Tier - First 500,000 Gals.	17,071	\$ 3.2117	\$ 54,826	
54	Second Tier - Over 500,000 Gals.	19,473	\$ 4.0147	\$ 78,176	
55	Third Tier - Over 500,000 Gals.	-	\$ 4.0147	\$ -	\$ 133,002
56	6" Meter Commodity Usage (In Thousands of Gallons)	12	\$ 1,023.04	\$ 144,504	\$ 144,504
57	First Tier - First 1,000,000 Gals.	65,823	\$ 3.2117	\$ 211,403	
58	Second Tier - Over 1,000,000 Gals.	35,789	\$ 4.0147	\$ 143,680	
59	Third Tier - Over 1,000,000 Gals.	-	\$ 4.0147	\$ -	\$ 355,083
60	8" Meter Commodity Usage (In Thousands of Gallons)	2	\$ 1,636.86	\$ 39,720	\$ 39,720
61	First Tier - First 1,500,000 Gals.	4,488	\$ 3.2117	\$ 14,413	
62	Second Tier - Over 1,500,000 Gals.	-	\$ 4.0147	\$ -	
63	Third Tier - Over 1,500,000 Gals.	-	\$ 4.0147	\$ -	\$ 14,413
64	10" Meter Commodity Usage (In Thousands of Gallons)	-	\$ 2,352.98	\$ -	\$ -
65	First Tier - First 2,300,000 Gals.	-	\$ 3.2117	\$ -	
66	Second Tier - Over 2,300,000 Gals.	-	\$ 4.0147	\$ -	
67	Third Tier - Over 2,300,000 Gals.	-	\$ 4.0147	\$ -	\$ -
68	Total Commercial Customer Bills	<u>949</u>			
69	Total Commercial Usage	<u>524,137</u>			
70	TOTAL COMMERCIAL CUSTOMERS REVENUE			<u>\$ 2,918,990</u>	

**EASTERN GROUP - SUPERSTITION - SURREBUTTAL
RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
INDUSTRIAL CUSTOMERS					
71	5/8" X 3/4" Meter	-	\$ 20.46	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
72	First Tier - First 999,999,999 Gals.	-	\$ 2.4606	\$ -	
73	Second Tier - Next 999,999,999 Gals.	-	\$ 2.4606	\$ -	
74	Third Tier - Over 999,999,999 Gals.	-	\$ 2.5693	\$ -	\$ -
75	1" Meter	3	\$ 51.15	\$ 1,841	\$ 1,841
	Commodity Usage (In Thousands of Gallons)				
76	First Tier - First 999,999,999 Gals.	213	\$ 2.4606	\$ 524	
77	Second Tier - Next 999,999,999 Gals.	-	\$ 2.4606	\$ -	
78	Third Tier - Over 999,999,999 Gals.	-	\$ 2.5693	\$ -	\$ 524
79	2" Meter	4	\$ 163.69	\$ 7,857	\$ 7,857
	Commodity Usage (In Thousands of Gallons)				
80	First Tier - First 999,999,999 Gals.	14,362	\$ 2.4606	\$ 35,339	
81	Second Tier - Next 999,999,999 Gals.	-	\$ 2.4606	\$ -	
82	Third Tier - Over 999,999,999 Gals.	-	\$ 2.5693	\$ -	\$ 35,339
83	3" Meter	2	\$ 327.37	\$ 7,857	\$ 7,857
	Commodity Usage (In Thousands of Gallons)				
84	First Tier - First 999,999,999 Gals.	5,067	\$ 2.4606	\$ 12,467	
85	Second Tier - Next 999,999,999 Gals.	-	\$ 2.4606	\$ -	
86	Third Tier - Over 999,999,999 Gals.	-	\$ 2.5693	\$ -	\$ 12,467
87	4" Meter	-	\$ 511.52	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
88	First Tier - First 999,999,999 Gals.	-	\$ 2.4606	\$ -	
89	Second Tier - Next 999,999,999 Gals.	-	\$ 2.4606	\$ -	
90	Third Tier - Over 999,999,999 Gals.	-	\$ 2.5693	\$ -	\$ -
91	6" Meter	-	\$ 1,023.04	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
92	First Tier - First 999,999,999 Gals.	-	\$ 2.4606	\$ -	
93	Second Tier - Next 999,999,999 Gals.	-	\$ 2.4606	\$ -	
94	Third Tier - Over 999,999,999 Gals.	-	\$ 2.5693	\$ -	\$ -
95	8" Meter	-	\$ 1,636.86	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
96	First Tier - First 999,999,999 Gals.	-	\$ 2.4606	\$ -	
97	Second Tier - Next 999,999,999 Gals.	-	\$ 2.4606	\$ -	
98	Third Tier - Over 999,999,999 Gals.	-	\$ 2.5693	\$ -	\$ -
99	10" Meter	-	\$ 2,352.98	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
100	First Tier - First 999,999,999 Gals.	-	\$ 2.4606	\$ -	
101	Second Tier - Next 999,999,999 Gals.	-	\$ 2.4606	\$ -	
102	Third Tier - Over 999,999,999 Gals.	-	\$ 2.5693	\$ -	\$ -
103	Total Industrial Customer Bills		<u>9</u>		
104	Total Industrial Usage		<u>19,641</u>		
105	TOTAL INDUSTRIAL CUSTOMERS REVENUE				<u>\$ 65,884</u>

**EASTERN GROUP - SUPERSTITION - SURREBUTTAL
RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
PRIVATE FIRE SERVICE CUSTOMERS					
106	5/8" Meter	1,951	\$ 28.00	\$ 54,628	\$ 54,628
107	1" Meter		\$ 28.00	\$ -	\$ -
108	2" Meter		\$ 28.00	\$ -	\$ -
109	3" Meter		\$ 28.00	\$ -	\$ -
110	4" Meter		\$ 28.00	\$ -	\$ -
111	6" Meter		\$ 28.00	\$ -	\$ -
112	8" Meter		\$ 28.00	\$ -	\$ -
113	10" Meter		\$ 28.00	\$ -	\$ -
114	Total Private Fire Service Customers	<u>1,951</u>			
115	TOTAL PRIVATE FIRES SERVICE CUSTOMERS REVENUE				<u>\$ 54,628</u>
OTHER WATER REVENUE CUSTOMERS					
116	Public Fire Hydrant		\$ -	\$ -	\$ -
117	Coin Machine		\$ 2,5693	\$ -	\$ -
118	Commodity Usage (In Thousands of Gallons)	6,315	\$ 56,3826	\$ 27,999	\$ 27,999
119	Construction Water 2" Meter		\$ 163.69		
120	Commodity Usage (In Thousands of Gallons)				
	First Tier - First 125,000 Gals.		\$ 2,5377		
121	Second Tier - Over 125,000 Gals.		\$ 3,1726		
122	Third Tier - Over 125,000 Gals.		\$ 2,5693	\$ -	\$ -
123	Construction Water 3" Meter	20	\$ 327.37	\$ 77,587	\$ 77,587
124	Commodity Usage (In Thousands of Gallons)				
	First Tier - First 300,000 Gals.	12,668	\$ 2,5377	\$ 32,149	
125	Second Tier - Over 300,000 Gals.	7,485	\$ 3,1726	\$ 23,747	
126	Third Tier - Over 300,000 Gals.		\$ 2,5693	\$ -	\$ 55,896
127	Construction Water 4" Meter		\$ 511.52	\$ 6,138	\$ 6,138
128	Commodity Usage (In Thousands of Gallons)				
	First Tier - First 500,000 Gals.	1,947	\$ 2,5377	\$ 4,941	
129	Second Tier - Over 500,000 Gals.		\$ 3,1726	\$ -	
130	Third Tier - Over 500,000 Gals.		\$ 2,5693	\$ -	\$ 4,941
131	Sales For Resales 2" Meter		\$ 163.69	\$ -	\$ -
132	Commodity Usage (In Thousands of Gallons)				
	First Tier - First 999,999,999 Gals.		\$ 2,4606	\$ -	
133	Second Tier - Next 999,999,999 Gals.		\$ 2,4606	\$ -	
134	Third Tier - Over 999,999,999 Gals.		\$ 2,5693	\$ -	\$ -
135	Sales For Resales 3" Meter		\$ 327.37	\$ -	\$ -
136	Commodity Usage (In Thousands of Gallons)				
	First Tier - First 999,999,999 Gals.		\$ 2,4606	\$ -	
137	Second Tier - Next 999,999,999 Gals.		\$ 2,4606	\$ -	
138	Third Tier - Over 999,999,999 Gals.		\$ 2,5693	\$ -	\$ -

**EASTERN GROUP - SUPERSTITION - SURREBUTTAL
RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
139	Sales For Resales 6" Meter	0.3	\$ 1,227.64	\$ 3,683	\$ 3,683
	Commodity Usage (In Thousands of Gallons)				
140	First Tier - First 999,999,999 Gals.	1,353	\$ 2,4606	\$ 3,329	
141	Second Tier - Next 999,999,999 Gals.		\$ 2,4606	\$ -	
142	Third Tier - Over 999,999,999 Gals.		\$ 2,5693	\$ -	\$ 3,329
143	Total Other Water Revenue Customer Bills	<u>20</u>			
144	Total Other Water Revenue Usage	<u>28,415</u>			
145	TOTAL OTHER WATER CUSTOMERS REVENUE				<u>\$ 179,574</u>
146	RUCO TOTAL PROPOSED REVENUE PER BILL COUNT				\$ 16,327,925
147	Unreconciled Difference vs. Billed Revenues				
148	Miscellaneous Revenues				<u>857,550</u>
149	RUCO TOTAL REVENUE				<u>\$ 17,185,475</u>
150	RUCO ADJUSTED TEST-YEAR REVENUE PER SCHEDULE RBM-1				<u>\$ 17,185,475</u>
151	Difference				\$ (0.38)
152	Percentage Difference				-0.000002%

**EASTERN GROUP - SUPERSTITION - SURREBUTTAL
 TYPICAL RESIDENTIAL BILL ANALYSIS**

LINE NO.	DESCRIPTION	(A) ORIGINAL RATES	(B) PRESENT ADDITIONAL ACRM / PPA SURCHARGES	(C) TOTAL PRESENT RATES	(D) COMPANY PROPOSED	(E) RUCO PROPOSED	(F) RUCO PROPOSED	(G) RUCO PROPOSED
1	RESIDENTIAL (5/8" X 3/4") RATE DESIGN	\$ 17.52	\$ -	\$ 17.52	\$ 23.00		\$ 20.46	
	BASIC MONTHLY CHARGE							
	COMMODITY CHARGE (Per 1,000 Gallons)							
2	1st Tier - First 3,000	\$ 2.2820	\$ -	\$ 2.2820	\$ 2.8882		\$ 2.5693	
3	2nd Tier - Next 7,000	\$ 2.8527	\$ -	\$ 2.8527	\$ 3.6103		\$ 3.2117	
4	3rd Tier - Over 10,000	\$ 3.5663	\$ -	\$ 3.5663	\$ 4.5129		\$ 4.0147	
AVERAGE RESIDENTIAL BILL COMPARISONS								
	COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL							
5		1,580	\$ 21.13	\$ -	\$ 21.13	\$ 24.52	\$ 3.39	16.07%
6		3,161	\$ 24.82	\$ -	\$ 24.82	\$ 28.68	\$ 3.86	15.55%
7		6,321	\$ 33.84	\$ -	\$ 33.84	\$ 38.83	\$ 4.99	14.76%
8		9,482	\$ 42.86	\$ -	\$ 42.86	\$ 48.99	\$ 6.13	14.30%
9		12,642	\$ 53.76	\$ -	\$ 53.76	\$ 61.26	\$ 7.50	13.95%
MEDIAN RESIDENTIAL BILL COMPARISONS								
	COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL							
10		1,149	\$ 20.14	\$ -	\$ 20.14	\$ 23.41	\$ 3.27	16.24%
11		2,297	\$ 22.76	\$ -	\$ 22.76	\$ 26.36	\$ 3.60	15.82%
12		4,594	\$ 28.91	\$ -	\$ 28.91	\$ 33.29	\$ 4.37	15.13%
13		6,891	\$ 35.47	\$ -	\$ 35.47	\$ 40.67	\$ 5.20	14.66%
14		9,188	\$ 42.02	\$ -	\$ 42.02	\$ 48.04	\$ 6.02	14.34%

**EASTERN GROUP - BISBEE - SURREBUTTAL
RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
RESIDENTIAL CUSTOMERS					
1	5/8" X 3/4" Meter	3,069	\$ 18.40	\$ 677,635	\$ 677,635
	Commodity Usage (In Thousands of Gallons)				
2	First Tier - First 3,000 Gals.	82,344	\$ 3.1580	\$ 260,039	
3	Second Tier - Next 7,000 Gals.	67,792	\$ 3.9475	\$ 267,608	
4	Third Tier - Over 10,000 Gals.	27,844	\$ 4.9344	\$ 137,394	\$ 665,041
5	1" Meter	32	\$ 46.00	\$ 17,438	\$ 17,438
	Commodity Usage (In Thousands of Gallons)				
6	First Tier - First 35,000 Gals.	2,436	\$ 3.9476	\$ 9,615	
7	Second Tier - Over 35,000 Gals.	1,954	\$ 4.9344	\$ 9,643	
8	Third Tier - Over 35,000 Gals.	-	\$ 4.9344	\$ -	\$ 19,257
9	2" Meter	6	\$ 147.20	\$ 10,629	\$ 10,629
	Commodity Usage (In Thousands of Gallons)				
10	First Tier - First 125,000 Gals.	3,746	\$ 3.9476	\$ 14,786	
11	Second Tier - Over 125,000 Gals.	2,275	\$ 4.9344	\$ 11,228	
12	Third Tier - Over 125,000 Gals.	-	\$ 4.9344	\$ -	\$ 26,014
13	3" Meter	-	\$ 294.40	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
14	First Tier - First 265,000 Gals.	-	\$ 3.9476	\$ -	
15	Second Tier - Over 265,000 Gals.	-	\$ 4.9344	\$ -	
16	Third Tier - Over 265,000 Gals.	-	\$ 4.9344	\$ -	\$ -
17	4" Meter	-	\$ 460.00	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
18	First Tier - First 420,000 Gals.	-	\$ 3.9476	\$ -	
19	Second Tier - Over 420,000 Gals.	-	\$ 4.9344	\$ -	
20	Third Tier - Over 420,000 Gals.	-	\$ 4.9344	\$ -	\$ -
21	6" Meter	-	\$ 920.00	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
22	First Tier - First 860,000 Gals.	-	\$ 3.9476	\$ -	
23	Second Tier - Over 860,000 Gals.	-	\$ 4.9344	\$ -	
24	Third Tier - Over 860,000 Gals.	-	\$ 4.9344	\$ -	\$ -
25	8" Meter	-	\$ 1,472.00	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
26	First Tier - First 1,300,000 Gals.	-	\$ 3.9476	\$ -	
27	Second Tier - Over 1,300,000 Gals.	-	\$ 4.9344	\$ -	
28	Third Tier - Over 1,300,000 Gals.	-	\$ 4.9344	\$ -	\$ -
29	10" Meter	-	\$ 2,116.00	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
30	First Tier - First 2,000,000 Gals.	-	\$ 3.9476	\$ -	
31	Second Tier - Over 2,000,000 Gals.	-	\$ 4.9344	\$ -	
32	Third Tier - Over 2,000,000 Gals.	-	\$ 4.9344	\$ -	\$ -
33	Total Residential Customer Bills	<u>3,107</u>			
34	Total Residential Usage	<u>188,391</u>			
35	TOTAL RESIDENTIAL CUSTOMERS REVENUE			<u>\$ 1,416,014</u>	

**EASTERN GROUP - BISBEE - SURREBUTTAL
RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
COMMERCIAL CUSTOMERS					
36	5/8" X 3/4" Meter Commodity Usage (In Thousands of Gallons)	220	\$ 18.40	\$ 48,574	\$ 48,574
37	First Tier - First 10,000 Gals.	7,749	\$ 3.9476	\$ 30,589	
38	Second Tier - Over 10,000 Gals.	3,938	\$ 4.9344	\$ 19,430	
39	Third Tier - Over 10,000 Gals.	-	\$ 4.9344	\$ -	\$ 50,018
40	1" Meter Commodity Usage (In Thousands of Gallons)	47	\$ 46.00	\$ 26,138	\$ 26,138
41	First Tier - First 35,000 Gals.	6,559	\$ 3.9476	\$ 25,893	
42	Second Tier - Over 35,000 Gals.	3,254	\$ 4.9344	\$ 16,056	
43	Third Tier - Over 35,000 Gals.	-	\$ 4.9344	\$ -	\$ 41,948
44	2" Meter Commodity Usage (In Thousands of Gallons)	42	\$ 147.20	\$ 73,522	\$ 73,522
45	First Tier - First 125,000 Gals.	21,454	\$ 3.9475	\$ 84,689	
46	Second Tier - Over 125,000 Gals.	38,560	\$ 4.9343	\$ 190,267	
47	Third Tier - Over 125,000 Gals.	-	\$ 4.9343	\$ -	\$ 274,956
48	3" Meter Commodity Usage (In Thousands of Gallons)	-	\$ 294.40	\$ -	\$ -
49	First Tier - First 265,000 Gals.	-	\$ 3.9475	\$ -	
50	Second Tier - Over 265,000 Gals.	-	\$ 4.9343	\$ -	
51	Third Tier - Over 265,000 Gals.	-	\$ 4.9343	\$ -	\$ -
52	4" Meter Commodity Usage (In Thousands of Gallons)	3	\$ 460.00	\$ 16,743	\$ 16,743
53	First Tier - First 420,000 Gals.	5,318	\$ 3.9475	\$ 20,994	
54	Second Tier - Over 420,000 Gals.	2,735	\$ 4.9343	\$ 13,496	
55	Third Tier - Over 420,000 Gals.	-	\$ 4.9343	\$ -	\$ 34,490
56	6" Meter Commodity Usage (In Thousands of Gallons)	-	\$ 920.00	\$ -	\$ -
57	First Tier - First 860,000 Gals.	-	\$ 3.9475	\$ -	
58	Second Tier - Over 860,000 Gals.	-	\$ 4.9343	\$ -	
59	Third Tier - Over 860,000 Gals.	-	\$ 4.9343	\$ -	\$ -
60	8" Meter Commodity Usage (In Thousands of Gallons)	-	\$ 1,472.00	\$ -	\$ -
61	First Tier - First 1,390,000 Gals.	-	\$ 3.9475	\$ -	
62	Second Tier - Over 1,390,000 Gals.	-	\$ 4.9343	\$ -	
63	Third Tier - Over 1,390,000 Gals.	-	\$ 4.9343	\$ -	\$ -
64	10" Meter Commodity Usage (In Thousands of Gallons)	-	\$ 2,116.00	\$ -	\$ -
65	First Tier - First 2,000,000 Gals.	-	\$ 3.9475	\$ -	
66	Second Tier - Over 2,000,000 Gals.	-	\$ 4.9343	\$ -	
67	Third Tier - Over 2,000,000 Gals.	-	\$ 4.9343	\$ -	\$ -
68	Total Commercial Customer Bills	<u>312</u>			
69	Total Commercial Usage	<u>89,567</u>			
70	TOTAL COMMERCIAL CUSTOMERS REVENUE				<u>\$ 566,391</u>

**EASTERN GROUP - BISBEE - SURREBUTTAL
RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
INDUSTRIAL CUSTOMERS					
71	5/8" X 3/4" Meter Commodity Usage (In Thousands of Gallons)		\$ 18.40	\$ -	\$ -
72	First Tier - First 999,999,999 Gals.		\$ 5.0385	\$ -	
73	Second Tier - Next 999,999,999 Gals.		\$ 5.0385	\$ -	
74	Third Tier - Over 999,999,999 Gals.		\$ 5.0385	\$ -	\$ -
75	1" Meter Commodity Usage (In Thousands of Gallons)	1.0	\$ 46.00	\$ 552	\$ 552
76	First Tier - First 999,999,999 Gals.	38.5	\$ 5.0385	\$ 194	
77	Second Tier - Next 999,999,999 Gals.		\$ 5.0385	\$ -	
78	Third Tier - Over 999,999,999 Gals.		\$ 5.0385	\$ -	\$ 194
79	2" Meter Commodity Usage (In Thousands of Gallons)	1.0	\$ 147.20	\$ 1,766	\$ 1,766
80	First Tier - First 999,999,999 Gals.		\$ 5.0385	\$ -	
81	Second Tier - Next 999,999,999 Gals.		\$ 5.0385	\$ -	
82	Third Tier - Over 999,999,999 Gals.		\$ 5.0385	\$ -	\$ -
83	3" Meter Commodity Usage (In Thousands of Gallons)		\$ 294.40	\$ -	\$ -
84	First Tier - First 999,999,999 Gals.		\$ 5.0385	\$ -	
85	Second Tier - Next 999,999,999 Gals.		\$ 5.0385	\$ -	
86	Third Tier - Over 999,999,999 Gals.		\$ 5.0385	\$ -	\$ -
87	4" Meter Commodity Usage (In Thousands of Gallons)		\$ 460.00	\$ -	\$ -
88	First Tier - First 999,999,999 Gals.		\$ 5.0385	\$ -	
89	Second Tier - Next 999,999,999 Gals.		\$ 5.0385	\$ -	
90	Third Tier - Over 999,999,999 Gals.		\$ 5.0385	\$ -	\$ -
91	6" Meter Commodity Usage (In Thousands of Gallons)		\$ 920.00	\$ -	\$ -
92	First Tier - First 999,999,999 Gals.		\$ 5.0385	\$ -	
93	Second Tier - Next 999,999,999 Gals.		\$ 5.0385	\$ -	
94	Third Tier - Over 999,999,999 Gals.		\$ 5.0385	\$ -	\$ -
95	8" Meter Commodity Usage (In Thousands of Gallons)		\$ 1,472.00	\$ -	\$ -
96	First Tier - First 999,999,999 Gals.		\$ 5.0385	\$ -	
97	Second Tier - Next 999,999,999 Gals.		\$ 5.0385	\$ -	
98	Third Tier - Over 999,999,999 Gals.		\$ 5.0385	\$ -	\$ -
99	10" Meter Commodity Usage (In Thousands of Gallons)		\$ 2,116.00	\$ -	\$ -
100	First Tier - First 999,999,999 Gals.		\$ 5.0385	\$ -	
101	Second Tier - Next 999,999,999 Gals.		\$ 5.0385	\$ -	
102	Third Tier - Over 999,999,999 Gals.		\$ 5.0385	\$ -	\$ -
103	Total Industrial Customer Bills		<u>2</u>		
104	Total Industrial Usage		<u>39</u>		
105	TOTAL INDUSTRIAL CUSTOMERS REVENUE				<u>\$ 2,512</u>

**EASTERN GROUP - BISBEE - SURREBUTTAL
RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
PRIVATE FIRE SERVICE CUSTOMERS					
106	5/8" Meter	14	\$ 28.50	\$ 4,845	\$ 4,845
107	1" Meter		\$ 28.50	\$ -	\$ -
108	2" Meter		\$ 28.50	\$ -	\$ -
109	3" Meter		\$ 28.50	\$ -	\$ -
110	4" Meter		\$ 28.50	\$ -	\$ -
111	6" Meter		\$ 28.50	\$ -	\$ -
112	8" Meter		\$ 28.50	\$ -	\$ -
113	10" Meter		\$ 28.50	\$ -	\$ -
114	Total Private Fire Service Customers	<u>14</u>			
115	TOTAL PRIVATE FIRE SERVICE CUSTOMERS REVENUE				<u>\$ 4,845</u>
OTHER WATER REVENUE CUSTOMERS					
116	Public Fire Hydrant		\$ -	\$ -	\$ -
117	Coin Machine		\$ -	\$ -	\$ -
118	Commodity Usage (In Thousands of Gallons)		\$ -	\$ -	\$ -
119	Construction Water 2" Meter		\$ 147.20	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
120	First Tier - First 125,000 Gals.		\$ 3.9475	\$ -	\$ -
121	Second Tier - Over 125,000 Gals.		\$ 4.9343	\$ -	\$ -
122	Third Tier - Over 125,000 Gals.		\$ 4.9343	\$ -	\$ -
123	Construction Water 3" Meter	3	\$ 294.40	\$ 9,715	\$ 9,715
	Commodity Usage (In Thousands of Gallons)				
124	First Tier - First 265,000 Gals.	1,627	\$ 3.9475	\$ 6,422	
125	Second Tier - Over 265,000 Gals.	7,052	\$ 4.9343	\$ 34,794	
126	Third Tier - Over 265,000 Gals.		\$ 4.9343	\$ -	\$ 41,216
127	Construction Water 4" Meter	0.4	\$ 460.00	\$ 2,300	\$ 2,300
	Commodity Usage (In Thousands of Gallons)				
128	First Tier - First 420,000 Gals.	1,254	\$ 3.9475	\$ 4,950	
129	Second Tier - Over 420,000 Gals.	5,779	\$ 4.9343	\$ 28,515	
130	Third Tier - Over 420,000 Gals.		\$ 4.9343	\$ -	\$ 33,466
131	Sales For Resales 2" Meter		\$ 147.20	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
132	First Tier - First 999,999,999 Gals.		\$ 3.9475	\$ -	\$ -
133	Second Tier - Next 999,999,999 Gals.		\$ 3.9475	\$ -	\$ -
134	Third Tier - Over 999,999,999 Gals.		\$ 3.9475	\$ -	\$ -
135	Sales For Resales 3" Meter		\$ 294.40	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
136	First Tier - First 999,999,999 Gals.		\$ 3.9475	\$ -	\$ -
137	Second Tier - Next 999,999,999 Gals.		\$ 3.9475	\$ -	\$ -
138	Third Tier - Over 999,999,999 Gals.		\$ 3.9475	\$ -	\$ -

**EASTERN GROUP - BISBEE - SURREBUTTAL
RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
139	Sales For Resales 6" Meter Commodity Usage (In Thousands of Gallons)		\$ 920.00	\$ -	\$ -
140	First Tier - First 999,999,999 Gals.		\$ 3.9475	\$ -	
141	Second Tier - Next 999,999,999 Gals.		\$ 3.9475	\$ -	
142	Third Tier - Over 999,999,999 Gals.		\$ 3.9475	\$ -	\$ -
143	Total Other Water Revenue Customer Bills	<u>3</u>			
144	Total Other Water Revenue Usage	<u>15,711</u>			
145	TOTAL OTHER WATER CUSTOMERS REVENUE				<u>\$ 86,697</u>
146	RUCO TOTAL PROPOSED REVENUE PER BILL COUNT				<u>\$ 2,076,459</u>
147	Unreconciled Difference vs. Billed Revenues				
148	Miscellaneous Revenues				36,491
149	RUCO TOTAL REVENUE				<u>\$ 2,112,950</u>
150	RUCO ADJUSTED TEST-YEAR REVENUE PER SCHEDULE RBM-1				<u>\$ 2,112,950</u>
151	Difference				\$ 0
152	Percentage Difference				0.00%

**EASTERN GROUP - BISBEE - SURREBUTTAL
 TYPICAL RESIDENTIAL BILL ANALYSIS**

LINE NO.	DESCRIPTION	(A) ORIGINAL RATES	(B) ADDITIONAL ACRM / PPA SURCHARGES	(C) TOTAL PRESENT RATES	(D) COMPANY PROPOSED	(E) RUCO PROPOSED	(F) RUCO PROPOSED	(G) RUCO PROPOSED
1	RESIDENTIAL (5/8" X 3/4") RATE DESIGN	\$ 13.36	\$ -	\$ 13.36	\$ 20.00	\$ -	\$ 18.40	
	BASIC MONTHLY CHARGE							
2	COMMODITY CHARGE (Per 1,000 Gallons)							
3	1st Tier - First 3,000	\$ 3.6039	\$ -	\$ 3.6039	\$ 3.6039	\$ -	\$ 3.1580	
4	2nd Tier - Next 7,000	\$ 4.5049	\$ -	\$ 4.5049	\$ 4.5049	\$ -	\$ 3.9475	
5	3rd Tier - Over 10,000	\$ 5.6312	\$ -	\$ 5.6311	\$ 5.6311	\$ -	\$ 4.9344	
AVERAGE RESIDENTIAL BILL COMPARISONS								
	COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL	PERCENT AVERAGE USAGE OF 4,832	PRESENT BASE RATE MONTHLY COST	PRESENT SURCHARGE MONTHLY COST	PRESENT TOTAL MONTHLY COST	RUCO MONTHLY COST	RUCO MONTHLY INCREASE	% MONTHLY INCREASE
5		25.00%	\$ 17.71	\$ -	\$ 17.71	\$ 22.21	\$ 4.50	25.41%
6		50.00%	\$ 22.07	\$ -	\$ 22.07	\$ 26.03	\$ 3.96	17.96%
7		100.00%	\$ 32.42	\$ -	\$ 32.42	\$ 35.11	\$ 2.68	8.27%
8		150.00%	\$ 40.21	\$ -	\$ 40.21	\$ 44.64	\$ 4.43	11.03%
9		200.00%	\$ 53.81	\$ -	\$ 53.81	\$ 54.18	\$ 0.37	0.68%
MEDIAN RESIDENTIAL BILL COMPARISONS								
	COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL	PERCENT MEDIAN USAGE OF 3,308	PRESENT BASE RATE MONTHLY COST	PRESENT SURCHARGE MONTHLY COST	PRESENT TOTAL MONTHLY COST	RUCO MONTHLY COST	RUCO MONTHLY INCREASE	% MONTHLY INCREASE
10		25.00%	\$ 16.34	\$ -	\$ 16.34	\$ 21.01	\$ 4.67	28.59%
11		50.00%	\$ 19.32	\$ -	\$ 19.32	\$ 23.62	\$ 4.30	22.27%
12		100.00%	\$ 25.56	\$ -	\$ 25.56	\$ 29.09	\$ 3.53	13.81%
13		150.00%	\$ 33.01	\$ -	\$ 33.01	\$ 35.62	\$ 2.61	7.90%
14		200.00%	\$ 40.46	\$ -	\$ 40.46	\$ 42.15	\$ 1.69	4.17%

**EASTERN GROUP - SIERRA VISTA - SURREBUTTAL
RATE DESIGN AND PROOF OF RECOMMENDED REVENUES**

	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
RESIDENTIAL CUSTOMERS				
1	5/8" X 3/4" Meter	2,721	\$ 18.40	\$ 600,766
	Commodity Usage (In Thousands of Gallons)			\$ 600,766
2	First Tier - First 3,000 Gals.	88,117	\$ 1.4715	\$ 129,661
3	Second Tier - Next 7,000 Gals.	104,684	\$ 1.8393	\$ 192,546
4	Third Tier - Over 10,000 Gals.	68,226	\$ 2.2992	\$ 156,866
				\$ 479,073
5	1" Meter	59	\$ 46.00	\$ 32,644
	Commodity Usage (In Thousands of Gallons)			\$ 32,644
6	First Tier - First 35,000 Gals.	9,368	\$ 1.8393	\$ 17,230
7	Second Tier - Over 35,000 Gals.	1,661	\$ 2.2992	\$ 3,818
8	Third Tier - Over 35,000 Gals.	-	\$ 2.2992	\$ -
				\$ 21,048
9	2" Meter	1	\$ 147.20	\$ 1,771
	Commodity Usage (In Thousands of Gallons)			\$ 1,771
10	First Tier - First 125,000 Gals.	1,504	\$ 1.8393	\$ 2,765
11	Second Tier - Over 125,000 Gals.	8,084	\$ 2.2992	\$ 18,587
12	Third Tier - Over 125,000 Gals.	-	\$ 2.2992	\$ -
				\$ 21,352
13	3" Meter	-	\$ 294.40	\$ -
	Commodity Usage (In Thousands of Gallons)			\$ -
14	First Tier - First 265,000 Gals.	-	\$ 1.8393	\$ -
15	Second Tier - Over 265,000 Gals.	-	\$ 2.2992	\$ -
16	Third Tier - Over 265,000 Gals.	-	\$ 2.2992	\$ -
				\$ -
17	4" Meter	-	\$ 460.00	\$ -
	Commodity Usage (In Thousands of Gallons)			\$ -
18	First Tier - First 420,000 Gals.	-	\$ 1.8393	\$ -
19	Second Tier - Over 420,000 Gals.	-	\$ 2.2992	\$ -
20	Third Tier - Over 420,000 Gals.	-	\$ 2.2992	\$ -
				\$ -
21	6" Meter	-	\$ 920.00	\$ -
	Commodity Usage (In Thousands of Gallons)			\$ -
22	First Tier - First 860,000 Gals.	-	\$ 1.8393	\$ -
23	Second Tier - Over 860,000 Gals.	-	\$ 2.2992	\$ -
24	Third Tier - Over 860,000 Gals.	-	\$ 2.2992	\$ -
				\$ -
25	8" Meter	-	\$ 1,472.00	\$ -
	Commodity Usage (In Thousands of Gallons)			\$ -
26	First Tier - First 1,300,000 Gals.	-	\$ 1.8393	\$ -
27	Second Tier - Over 1,300,000 Gals.	-	\$ 2.2992	\$ -
28	Third Tier - Over 1,300,000 Gals.	-	\$ 2.2992	\$ -
				\$ -
29	10" Meter	-	\$ 2,944.00	\$ -
	Commodity Usage (In Thousands of Gallons)			\$ -
30	First Tier - First 2,000,000 Gals.	-	\$ 1.8393	\$ -
31	Second Tier - Over 2,000,000 Gals.	-	\$ 2.2992	\$ -
32	Third Tier - Over 2,000,000 Gals.	-	\$ 2.2992	\$ -
				\$ -
33	Total Residential Customer Bills	<u>2,781</u>		
34	Total Residential Usage	<u>281,642</u>		
35	TOTAL RESIDENTIAL CUSTOMERS REVENUE			<u>\$ 1,156,653</u>

**EASTERN GROUP - SIERRA VISTA - SURREBUTTAL
RATE DESIGN AND PROOF OF RECOMMENDED REVENUES**

	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
COMMERCIAL CUSTOMERS				
36	5/8" X 3/4" Meter	62	\$ 18.40	\$ 13,624
	Commodity Usage (In Thousands of Gallons)			
37	First Tier - First 10,000 Gals.	3,202	\$ 1.8393	\$ 5,889
38	Second Tier - Over 10,000 Gals.	2,202	\$ 2.2992	\$ 5,063
39	Third Tier - Over 10,000 Gals.	-	\$ 2.2992	\$ -
				\$ 10,952
40	1" Meter	41	\$ 46.00	\$ 22,722
	Commodity Usage (In Thousands of Gallons)			
41	First Tier - First 35,000 Gals.	6,683	\$ 1.8393	\$ 12,291
42	Second Tier - Over 35,000 Gals.	2,745	\$ 2.2992	\$ 6,311
43	Third Tier - Over 35,000 Gals.	-	\$ 2.2992	\$ -
				\$ 18,602
44	2" Meter	44	\$ 147.20	\$ 77,998
	Commodity Usage (In Thousands of Gallons)			
45	First Tier - First 125,000 Gals.	32,013	\$ 1.8393	\$ 58,881
46	Second Tier - Over 125,000 Gals.	11,298	\$ 2.2992	\$ 25,976
47	Third Tier - Over 125,000 Gals.	-	\$ 2.2992	\$ -
				\$ 84,858
48	3" Meter	7	\$ 294.40	\$ 24,677
	Commodity Usage (In Thousands of Gallons)			
49	First Tier - First 265,000 Gals.	12,259	\$ 1.8393	\$ 22,547
50	Second Tier - Over 265,000 Gals.	7,064	\$ 2.2992	\$ 16,240
51	Third Tier - Over 265,000 Gals.	-	\$ 2.2992	\$ -
				\$ 38,788
52	4" Meter	3	\$ 460.00	\$ 16,525
	Commodity Usage (In Thousands of Gallons)			
53	First Tier - First 420,000 Gals.	10,346	\$ 1.8393	\$ 19,030
54	Second Tier - Over 420,000 Gals.	6,045	\$ 2.2992	\$ 13,898
55	Third Tier - Over 420,000 Gals.	-	\$ 2.2992	\$ -
				\$ 32,928
56	6" Meter		\$ 920.00	\$ -
	Commodity Usage (In Thousands of Gallons)			
57	First Tier - First 860,000 Gals.	-	\$ 1.8393	\$ -
58	Second Tier - Over 860,000 Gals.		\$ 2.2992	\$ -
59	Third Tier - Over 860,000 Gals.		\$ 2.2992	\$ -
60	8" Meter		\$ 1,472.00	\$ -
	Commodity Usage (In Thousands of Gallons)			
61	First Tier - First 1,390,000 Gals.		\$ 1.8393	\$ -
62	Second Tier - Over 1,390,000 Gals.		\$ 2.2992	\$ -
63	Third Tier - Over 1,390,000 Gals.		\$ 2.2992	\$ -
64	10" Meter		\$ 2,944.00	\$ -
	Commodity Usage (In Thousands of Gallons)			
65	First Tier - First 2,000,000 Gals.		\$ 1.8393	\$ -
66	Second Tier - Over 2,000,000 Gals.		\$ 2.2992	\$ -
67	Third Tier - Over 2,000,000 Gals.		\$ 2.2992	\$ -
68	Total Commercial Customer Bills	<u>157</u>		
69	Total Commercial Usage	<u>93,855</u>		
70	TOTAL COMMERCIAL CUSTOMERS REVENUE			<u>\$ 341,673</u>

**EASTERN GROUP - SIERRA VISTA - SURREBUTTAL
RATE DESIGN AND PROOF OF RECOMMENDED REVENUES**

	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
INDUSTRIAL CUSTOMERS				
71	5/8" X 3/4" Meter	\$ 18.40	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)			
72	First Tier - First 999,999,999 Gals.	\$ 3.4930	\$ -	
73	Second Tier - Next 999,999,999 Gals.	\$ 3.4930	\$ -	
74	Third Tier - Over 999,999,999 Gals.	\$ 3.4930	\$ -	\$ -
75	1" Meter	\$ 46.00	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)			
76	First Tier - First 999,999,999 Gals.	\$ 3.4930	\$ -	
77	Second Tier - Next 999,999,999 Gals.	\$ 3.4930	\$ -	
78	Third Tier - Over 999,999,999 Gals.	\$ 3.4930	\$ -	\$ -
79	2" Meter	\$ 147.20	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)			
80	First Tier - First 999,999,999 Gals.	\$ 3.4930	\$ -	
81	Second Tier - Next 999,999,999 Gals.	\$ 3.4930	\$ -	
82	Third Tier - Over 999,999,999 Gals.	\$ 3.4930	\$ -	\$ -
83	3" Meter	\$ 294.40	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)			
84	First Tier - First 999,999,999 Gals.	\$ 3.4930	\$ -	
85	Second Tier - Next 999,999,999 Gals.	\$ 3.4930	\$ -	
86	Third Tier - Over 999,999,999 Gals.	\$ 3.4930	\$ -	\$ -
87	4" Meter	\$ 460.00	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)			
88	First Tier - First 999,999,999 Gals.	\$ 3.4930	\$ -	
89	Second Tier - Next 999,999,999 Gals.	\$ 3.4930	\$ -	
90	Third Tier - Over 999,999,999 Gals.	\$ 3.4930	\$ -	\$ -
91	6" Meter	\$ 920.00	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)			
92	First Tier - First 999,999,999 Gals.	\$ 3.4930	\$ -	
93	Second Tier - Next 999,999,999 Gals.	\$ 3.4930	\$ -	
94	Third Tier - Over 999,999,999 Gals.	\$ 3.4930	\$ -	\$ -
95	8" Meter	\$ 1,472.00	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)			
96	First Tier - First 999,999,999 Gals.	\$ 3.4930	\$ -	
97	Second Tier - Next 999,999,999 Gals.	\$ 3.4930	\$ -	
98	Third Tier - Over 999,999,999 Gals.	\$ 3.4930	\$ -	\$ -
99	10" Meter	\$ 2,116.00	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)			
100	First Tier - First 999,999,999 Gals.	\$ 3.4930	\$ -	
101	Second Tier - Next 999,999,999 Gals.	\$ 3.4930	\$ -	
102	Third Tier - Over 999,999,999 Gals.	\$ 3.4930	\$ -	\$ -
103	Total Industrial Customer Bills	-		
104	Total Industrial Usage	-		
105	TOTAL INDUSTRIAL CUSTOMERS REVENUE			\$ -

**EASTERN GROUP - SIERRA VISTA - SURREBUTTAL
RATE DESIGN AND PROOF OF RECOMMENDED REVENUES**

	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
PRIVATE FIRE SERVICE CUSTOMERS				
106	5/8" Meter	44	\$ 28.50	\$ 15,048
107	1" Meter		\$ 28.50	\$ -
108	2" Meter		\$ 28.50	\$ -
109	3" Meter		\$ 28.50	\$ -
110	4" Meter		\$ 28.50	\$ -
111	6" Meter		\$ 28.50	\$ -
112	8" Meter		\$ 28.50	\$ -
113	10" Meter		\$ 28.50	\$ -
114	Total Private Fire Service Customers	<u>44</u>		
115	TOTAL PRIVATE FIRE SERVICE CUSTOMERS REVENUE			<u>\$ 15,048</u>
OTHER WATER REVENUE CUSTOMERS				
116	Public Fire Hydrant	-	\$ -	\$ -
117	Coin Machine	-	\$ -	\$ -
118	Commodity Usage (In Thousands of Gallons)	-		
119	Construction Water 2" Meter	-	\$ 147.20	\$ -
	Commodity Usage (In Thousands of Gallons)			
120	First Tier - First 125,000 Gals.	-	\$ 1.8375	\$ -
121	Second Tier - Over 125,000 Gals.	-	\$ 2.2992	\$ -
122	Third Tier - Over 125,000 Gals.	-	\$ 2.2992	\$ -
123	Construction Water 3" Meter	2	\$ 294.40	\$ 7,654
	Commodity Usage (In Thousands of Gallons)			
124	First Tier - First 265,000 Gals.	1,490	\$ 1.8375	\$ 2,738
125	Second Tier - Over 265,000 Gals.	1,223	\$ 2.2992	\$ 2,812
126	Third Tier - Over 265,000 Gals.	-	\$ 2.2992	\$ 5,550
127	Construction Water 4" Meter	0	\$ 460.00	\$ 1,840
	Commodity Usage (In Thousands of Gallons)			
128	First Tier - First 420,000 Gals.	5	\$ 1.8375	\$ 9
129	Second Tier - Over 420,000 Gals.	-	\$ 2.2992	\$ -
130	Third Tier - Over 420,000 Gals.	-	\$ 2.2992	\$ 9
131	Sales For Resales 2" Meter	-	\$ 147.20	\$ -
	Commodity Usage (In Thousands of Gallons)			
132	First Tier - First 999,999,999 Gals.	-	\$ 1.8393	\$ -
133	Second Tier - Next 999,999,999 Gals.	-	\$ 1.8393	\$ -
134	Third Tier - Over 999,999,999 Gals.	-	\$ 1.8393	\$ -
135	Sales For Resales 3" Meter	-	\$ 294.40	\$ -
	Commodity Usage (In Thousands of Gallons)			
136	First Tier - First 999,999,999 Gals.	-	\$ 1.8393	\$ -
137	Second Tier - Next 999,999,999 Gals.	-	\$ 1.8393	\$ -
138	Third Tier - Over 999,999,999 Gals.	-	\$ 1.8393	\$ -

**EASTERN GROUP - SIERRA VISTA - SURREBUTTAL
RATE DESIGN AND PROOF OF RECOMMENDED REVENUES**

	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
139	Sales For Resales 6" Meter Commodity Usage (In Thousands of Gallons)	-	\$ 920.00	\$ -
140	First Tier - First 999,999,999 Gals.	-	\$ 1.8393	\$ -
141	Second Tier - Next 999,999,999 Gals.	-	\$ 1.8393	\$ -
142	Third Tier - Over 999,999,999 Gals.	-	\$ 1.8393	\$ -
143	Total Other Water Revenue Customer Bills	<u>2</u>		
144	Total Other Water Revenue Usage	<u>2,713</u>		
145	TOTAL OTHER WATER CUSTOMERS REVENUE			<u>\$ 15,054</u>
146	RUCO TOTAL PROPOSED REVENUE PER BILL COUNT			<u>\$ 1,528,427</u>
147	Unreconciled Difference vs. Billed Revenues			\$ -
148	Miscellaneous Revenues			18,108
149	RUCO TOTAL REVENUE			<u>\$ 1,546,535</u>
150	RUCO ADJUSTED TEST-YEAR REVENUE PER SCHEDULE RBM-1			<u>\$ 1,546,535</u>
151	Difference			\$ 0
152	Percentage Difference			0.00%

**EASTERN GROUP - SIERRA VISTA - SURREBUTTAL
 TYPICAL RESIDENTIAL BILL ANALYSIS**

LINE NO.	DESCRIPTION	PRESENT ADDITIONAL ACRM / PPA SURCHARGES		(C)	(D)	(E)	(F)	(G)
		ORIGINAL RATES	TOTAL PRESENT RATES					
1	BASIC MONTHLY CHARGE	\$ 13.36	\$ 13.36	\$ 20.00			\$ 18.40	
COMMODITY CHARGE (Per 1,000 Gallons)								
2	1st Tier - First	\$ 1.3626	\$ 1.3626	\$ 1.6700			\$ 1.4715	
3	2nd Tier - Next	\$ 1.7032	\$ 1.7032	\$ 2.0881			\$ 1.8393	
4	3rd Tier - Over	\$ 2.1290	\$ 2.1290	\$ 2.6102			\$ 2.2992	
AVERAGE RESIDENTIAL BILL COMPARISONS								
COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL								
		PERCENT AVERAGE USAGE OF 7,995	PRESENT BASE RATE MONTHLY COST	PRESENT SURCHARGE MONTHLY COST	PRESENT TOTAL MONTHLY COST	RUCO MONTHLY COST	RUCO MONTHLY INCREASE	% MONTHLY INCREASE
5	1,999	25.00%	\$ 16.08	\$ -	\$ 16.08	\$ 21.34	\$ 5.26	32.69%
6	3,998	50.00%	\$ 19.15	\$ -	\$ 19.15	\$ 24.65	\$ 5.50	28.74%
7	7,995	100.00%	\$ 25.96	\$ -	\$ 25.96	\$ 32.00	\$ 6.05	23.30%
8	11,993	150.00%	\$ 33.61	\$ -	\$ 33.61	\$ 40.27	\$ 6.66	19.81%
9	15,990	200.00%	\$ 42.12	\$ -	\$ 42.12	\$ 49.46	\$ 7.34	17.42%
MEDIAN RESIDENTIAL BILL COMPARISONS								
COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL								
		PERCENT MEDIAN USAGE OF 5,610	PRESENT BASE RATE MONTHLY COST	PRESENT SURCHARGE MONTHLY COST	PRESENT TOTAL MONTHLY COST	RUCO MONTHLY COST	RUCO MONTHLY INCREASE	% MONTHLY INCREASE
10	1,403	25.00%	\$ 15.27	\$ -	\$ 15.27	\$ 20.46	\$ 5.19	34.00%
11	2,805	50.00%	\$ 17.12	\$ -	\$ 17.12	\$ 22.46	\$ 5.34	31.20%
12	5,610	100.00%	\$ 21.89	\$ -	\$ 21.89	\$ 27.62	\$ 5.72	26.14%
13	8,415	150.00%	\$ 26.67	\$ -	\$ 26.67	\$ 32.77	\$ 6.10	22.89%
14	11,220	200.00%	\$ 31.97	\$ -	\$ 31.97	\$ 38.49	\$ 6.53	20.42%

**EASTERN GROUP - FALCON VALLEY - SURREBUTTAL
RATE DESIGN AND PROOF OF RECOMMENDED REVENUES**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
RESIDENTIAL CUSTOMERS					
1	5/8" X 3/4" Meter	1,435	\$ 21.85	\$ 376,258	\$ 376,258
	Commodity Usage (in "000" of gallons)				
2	First Tier - First 3,000 Gals.	42,676	\$ 4.5959	\$ 196,137	
3	Second Tier - Next 7,000 Gals.	34,214	\$ 5.7449	\$ 196,557	
4	Third Tier - Over 10,000 Gals.	10,036	\$ 7.1811	\$ 72,073	\$ 464,767
5	1" Meter	76	\$ 54.63	\$ 49,715	\$ 49,715
	Commodity Usage (In Thousands of Gallons)				
6	First Tier - First 30,000 Gals.	4,982	\$ 5.7449	\$ 28,621	
7	Second Tier - Over 30,000 Gals.	3,592	\$ 7.1811	\$ 25,796	
8	Third Tier - Over 30,000 Gals.	-	\$ 7.1811		\$ 54,418
9	2" Meter	0	\$ 174.83	\$ 869	\$ 869
	Commodity Usage (In Thousands of Gallons)				
10	First Tier - First 100,000 Gals.	448	\$ 5.7449	\$ 2,571	
11	Second Tier - Over 100,000 Gals.	652	\$ 7.1811	\$ 4,681	
12	Third Tier - Over 100,000 Gals.	-	\$ 7.1811	\$ -	\$ 7,251
13	3" Meter	-	\$ 349.66	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
14	First Tier - First 220,000 Gals.	-	\$ 5.7449	\$ -	
15	Second Tier - Over 220,000 Gals.	-	\$ 7.1811	\$ -	
16	Third Tier - Over 220,000 Gals.	-	\$ 7.1811	\$ -	\$ -
17	4" Meter	-	\$ 546.34	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
18	First Tier - First 350,000 Gals.	-	\$ 5.7449	\$ -	
19	Second Tier - Over 350,000 Gals.	-	\$ 7.1811	\$ -	
20	Third Tier - Over 350,000 Gals.	-	\$ 7.1811	\$ -	\$ -
21	6" Meter	-	\$ 1,092.69	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
22	First Tier - First 725,000 Gals.	-	\$ 5.7449	\$ -	
23	Second Tier - Over 725,000 Gals.	-	\$ 7.1811	\$ -	
24	Third Tier - Over 725,000 Gals.	-	\$ 7.1811	\$ -	\$ -
25	8" Meter	-	\$ 1,748.30	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
26	First Tier - First 1,175,000 Gals.	-	\$ 5.7449	\$ -	
27	Second Tier - Over 1,175,000 Gals.	-	\$ 7.1811	\$ -	
28	Third Tier - Over 1,175,000 Gals.	-	\$ 7.1811	\$ -	\$ -
29	10" Meter	-	\$ 2,513.18	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
30	First Tier - First 1,700,000 Gals.	-	\$ 5.7449	\$ -	
31	Second Tier - Over 1,700,000 Gals.	-	\$ 7.1811	\$ -	
32	Third Tier - Over 1,700,000 Gals.	-	\$ 7.1811	\$ -	\$ -
33	Total Residential Customer Bills	<u>1,511</u>			
34	Total Residential Usage	<u>96,600</u>			
35	TOTAL RESIDENTIAL CUSTOMERS REVENUE			<u>\$ 953,279</u>	

**EASTERN GROUP - FALCON VALLEY - SURREBUTTAL
RATE DESIGN AND PROOF OF RECOMMENDED REVENUES**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
COMMERCIAL CUSTOMERS					
36	5/8" X 3/4" Meter	76	\$ 21.85	\$ 19,962	\$ 19,962
	Commodity Usage (In Thousands of Gallons)				
37	First Tier - First 10,000 Gals.	3,176	\$ 5.7449	\$ 18,244	
38	Second Tier - Over 10,000 Gals.	1,269	\$ 7.1811	\$ 9,111	
39	Third Tier - Over 10,000 Gals.				\$ 27,354
40	1" Meter	18	\$ 54.63	\$ 11,950	\$ 11,950
	Commodity Usage (In Thousands of Gallons)				
41	First Tier - First 30,000 Gals.	1,349	\$ 5.7449	\$ 7,749	
42	Second Tier - Over 30,000 Gals.	73	\$ 7.1811	\$ 527	
43	Third Tier - Over 30,000 Gals.	-	\$ 7.1811	\$ -	\$ 8,276
44	2" Meter	12	\$ 174.83	\$ 25,058	\$ 25,058
	Commodity Usage (In Thousands of Gallons)				
45	First Tier - First 100,000 Gals.	14,446	\$ 5.7449	\$ 82,991	
46	Second Tier - Over 100,000 Gals.	3,856	\$ 7.1811	\$ 27,694	
47	Third Tier - Over 100,000 Gals.	-	\$ 7.1811	\$ -	\$ 110,685
48	3" Meter	1	\$ 349.66	\$ 3,123	\$ 3,123
	Commodity Usage (In Thousands of Gallons)				
49	First Tier - First 220,000 Gals.	861	\$ 5.7449	\$ 4,944	
50	Second Tier - Over 220,000 Gals.	-	\$ 7.1811	\$ -	
51	Third Tier - Over 220,000 Gals.	-	\$ 7.1811	\$ -	\$ 4,944
52	4" Meter	-	\$ 546.34	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
53	First Tier - First 350,000 Gals.	-	\$ 5.7449	\$ -	
54	Second Tier - Over 350,000 Gals.	-	\$ 7.1811	\$ -	
55	Third Tier - Over 350,000 Gals.	-	\$ 7.1811	\$ -	\$ -
56	6" Meter	1	\$ 1,092.69	\$ 12,672	\$ 12,672
	Commodity Usage (In Thousands of Gallons)				
57	First Tier - First 725,000 Gals.	4,747	\$ 5.7449	\$ 27,269	
58	Second Tier - Over 725,000 Gals.	1,788	\$ 7.1811	\$ 12,841	
59	Third Tier - Over 725,000 Gals.	-	\$ 7.1811	\$ -	\$ 40,111
60	8" Meter	-	\$ 1,748.30	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
61	First Tier - First 1,175,000 Gals.	-	\$ 5.7449	\$ -	
62	Second Tier - Over 1,175,000 Gals.	-	\$ 7.1811	\$ -	
63	Third Tier - Over 1,175,000 Gals.	-	\$ 7.1811	\$ -	\$ -
64	10" Meter	-	\$ 2,513.18	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
65	First Tier - First 1,700,000 Gals.	-	\$ 5.7449	\$ -	
66	Second Tier - Over 1,700,000 Gals.	-	\$ 7.1811	\$ -	
67	Third Tier - Over 1,700,000 Gals.	-	\$ 7.1811	\$ -	\$ -
68	Total Commercial Customer Bills	<u>108</u>			
69	Total Commercial Usage	<u>31,565</u>			
70	TOTAL COMMERCIAL CUSTOMERS REVENUE				<u>\$ 264,135</u>

**EASTERN GROUP - FALCON VALLEY - SURREBUTTAL
RATE DESIGN AND PROOF OF RECOMMENDED REVENUES**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
INDUSTRIAL CUSTOMERS					
71	5/8" X 3/4" Meter		\$ 21.85	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
72	First Tier - First 999,999,999 Gals.		\$ 2.3754	\$ -	
73	Second Tier - Next 999,999,999 Gals.		\$ 2.3754	\$ -	
74	Third Tier - Over 999,999,999 Gals.		\$ 2.3754	\$ -	\$ -
75	1" Meter		\$ 54.63	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
76	First Tier - First 999,999,999 Gals.		\$ 2.3754	\$ -	
77	Second Tier - Next 999,999,999 Gals.		\$ 2.3754	\$ -	
78	Third Tier - Over 999,999,999 Gals.		\$ 2.3754	\$ -	\$ -
79	2" Meter		\$ 174.83	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
80	First Tier - First 999,999,999 Gals.		\$ 2.3754	\$ -	
81	Second Tier - Next 999,999,999 Gals.		\$ 2.3754	\$ -	
82	Third Tier - Over 999,999,999 Gals.		\$ 2.3754	\$ -	\$ -
83	3" Meter		\$ 349.66	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
84	First Tier - First 999,999,999 Gals.		\$ 2.3754	\$ -	
85	Second Tier - Next 999,999,999 Gals.		\$ 2.3754	\$ -	
86	Third Tier - Over 999,999,999 Gals.		\$ 2.3754	\$ -	\$ -
87	4" Meter		\$ 546.34	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
88	First Tier - First 999,999,999 Gals.		\$ 2.3754	\$ -	
89	Second Tier - Next 999,999,999 Gals.		\$ 2.3754	\$ -	
90	Third Tier - Over 999,999,999 Gals.		\$ 2.3754	\$ -	\$ -
91	6" Meter		\$ 1,092.69	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
92	First Tier - First 999,999,999 Gals.		\$ 2.3754	\$ -	
93	Second Tier - Next 999,999,999 Gals.		\$ 2.3754	\$ -	
94	Third Tier - Over 999,999,999 Gals.		\$ 2.3754	\$ -	\$ -
95	8" Meter		\$ 1,748.30	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
96	First Tier - First 999,999,999 Gals.		\$ 2.3754	\$ -	
97	Second Tier - Next 999,999,999 Gals.		\$ 2.3754	\$ -	
98	Third Tier - Over 999,999,999 Gals.		\$ 2.3754	\$ -	\$ -
99	10" Meter		\$ 2,513.18	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
100	First Tier - First 999,999,999 Gals.		\$ 2.3754	\$ -	
101	Second Tier - Next 999,999,999 Gals.		\$ 2.3754	\$ -	
102	Third Tier - Over 999,999,999 Gals.		\$ 2.3754	\$ -	\$ -
103	Total Industrial Customer Bills				
104	Total Industrial Usage				
105	TOTAL INDUSTRIAL CUSTOMERS REVENUE				\$ -

**EASTERN GROUP - FALCON VALLEY - SURREBUTTAL
RATE DESIGN AND PROOF OF RECOMMENDED REVENUES**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
PRIVATE FIRE SERVICE CUSTOMERS					
106	5/8" Meter	2	\$ 27.00	\$ 1,107	\$ 1,107
107	1" Meter		\$ 27.00	\$ -	\$ -
108	2" Meter		\$ 27.00	\$ -	\$ -
109	3" Meter		\$ 27.00	\$ -	\$ -
110	4" Meter		\$ 27.00	\$ -	\$ -
111	6" Meter		\$ 27.00	\$ -	\$ -
112	8" Meter		\$ 27.00	\$ -	\$ -
113	10" Meter		\$ 27.00	\$ -	\$ -
114	Total Private Fire Service Customers	<u>2</u>			
115	TOTAL PRIVATE FIRE SERVICE CUSTOMERS REVENUE				<u>\$ 1,107</u>
OTHER WATER REVENUE CUSTOMERS					
116	Public Fire Hydrant		\$ -	\$ -	\$ -
117	Coin Machine		\$ -	\$ -	\$ -
118	Commodity Usage (In Thousands of Gallons)		\$ -	\$ -	\$ -
119	Construction Water 2" Meter Commodity Usage (In Thousands of Gallons)		\$ 174.83	\$ -	\$ -
120	First Tier - First 100,000 Gals.		\$ 5.7449	\$ -	
121	Second Tier - Over 100,000 Gals.		\$ 7.1811	\$ -	
122	Third Tier - Over 100,000 Gals.		\$ 7.1811	\$ -	\$ -
123	Construction Water 3" Meter Commodity Usage (In Thousands of Gallons)	3	\$ 349.66	\$ 10,839	\$ 10,839
124	First Tier - First 220,000 Gals.	4,015	\$ 5.7449	\$ 23,066	
125	Second Tier - Over 220,000 Gals.	176	\$ 7.1811	\$ 1,263	
126	Third Tier - Over 220,000 Gals.	-	\$ 7.1811	\$ -	\$ 24,329
127	Construction Water 4" Meter Commodity Usage (In Thousands of Gallons)		\$ 546.34	\$ -	\$ -
128	First Tier - First 350,000 Gals.		\$ 5.7449	\$ -	
129	Second Tier - Over 350,000 Gals.		\$ 7.1811	\$ -	
130	Third Tier - Over 350,000 Gals.		\$ 7.1811	\$ -	\$ -
131	Sales For Resales 2" Meter Commodity Usage (In Thousands of Gallons)		\$ 174.83	\$ -	\$ -
132	First Tier - First 999,999,999 Gals.		\$ 5.7449	\$ -	
133	Second Tier - Next 999,999,999 Gals.		\$ 5.7449	\$ -	
134	Third Tier - Over 999,999,999 Gals.		\$ 5.7449	\$ -	\$ -
135	Sales For Resales 3" Meter Commodity Usage (In Thousands of Gallons)		\$ 349.66	\$ -	\$ -
136	First Tier - First 999,999,999 Gals.		\$ 5.7449	\$ -	
137	Second Tier - Next 999,999,999 Gals.		\$ 5.7449	\$ -	
138	Third Tier - Over 999,999,999 Gals.		\$ 5.7449	\$ -	\$ -

**EASTERN GROUP - FALCON VALLEY - SURREBUTTAL
RATE DESIGN AND PROOF OF RECOMMENDED REVENUES**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
139	Sales For Resales 6" Meter Commodity Usage (In Thousands of Gallons)		\$ 1,092.69	\$ -	\$ -
140	First Tier - First 999,999,999 Gals.		\$ 5.7449	\$ -	
141	Second Tier - Next 999,999,999 Gals.		\$ 5.7449	\$ -	
142	Third Tier - Over 999,999,999 Gals.		\$ 5.7449	\$ -	\$ -
143	Total Other Water Revenue Customer Bills	<u>3</u>			
144	Total Other Water Revenue Usage	<u>4,191</u>			
145	TOTAL OTHER WATER CUSTOMERS REVENUE				<u>\$ 35,168</u>
146	RUCO TOTAL PROPOSED REVENUE PER BILL COUNT				<u>\$ 1,253,689</u>
147	Unreconciled Difference vs. Billed Revenues			\$ -	
148	Miscellaneous Revenues				12,535
149	RUCO TOTAL REVENUE				<u>\$ 1,266,224</u>
150	RUCO ADJUSTED TEST-YEAR REVENUE PER SCHEDULES RBM-1				<u>\$ 1,266,224</u>
151	Difference			\$ -	
152	Percentage Difference				0.00%

**EASTERN GROUP - ORACLE - SURREBUTTAL
 TYPICAL RESIDENTIAL BILL ANALYSIS**

LINE NO.	DESCRIPTION	(A)		(B)		(C)		(D)		(E)		(F)		(G)	
		ORIGINAL RATES	ADDITIONAL SURCHARGES	PRESENT SURCHARGES	TOTAL PRESENT RATES	PERCENT AVERAGE USAGE OF 5,140	PRESENT BASE RATE MONTHLY COST	PRESENT SURCHARGE MONTHLY COST	PRESENT TOTAL MONTHLY COST	RUCO MONTHLY COST	RUCO MONTHLY INCREASE				
1	BASIC MONTHLY CHARGE	\$ 19.83	\$ -	\$ -	\$ 19.83			\$ 23.00		\$ 21.85					
COMMODITY CHARGE (Per 1,000 Gallons)															
2	1st Tier - First 3,000	\$ 4.0922	\$ -	\$ -	\$ 4.0922			\$ 4.8370		\$ 4.5959					
3	2nd Tier - Next 7,000	\$ 5.1151	\$ -	\$ -	\$ 5.1151			\$ 6.0462		\$ 5.7449					
4	3rd Tier - Over 10,000	\$ 6.3938	\$ -	\$ -	\$ 6.3938			\$ 7.5578		\$ 7.1811					
AVERAGE RESIDENTIAL BILL COMPARISONS															
COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL															
5	1,285	25.00%	\$ 25.09	\$ -	\$ -	\$ 25.09	\$ 27.76	\$ 2.67	10.65%						
6	2,570	50.00%	\$ 30.35	\$ -	\$ -	\$ 30.35	\$ 33.67	\$ 3.32	10.93%						
7	5,140	100.00%	\$ 43.05	\$ -	\$ -	\$ 43.05	\$ 47.94	\$ 4.89	11.34%						
8	7,710	150.00%	\$ 56.20	\$ -	\$ -	\$ 56.20	\$ 62.70	\$ 6.50	11.57%						
9	10,280	200.00%	\$ 69.70	\$ -	\$ -	\$ 69.70	\$ 77.87	\$ 8.16	11.71%						
MEDIAN RESIDENTIAL BILL COMPARISONS															
COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL															
10	990	25.00%	\$ 23.88	\$ -	\$ -	\$ 23.88	\$ 26.40	\$ 2.52	10.56%						
11	1,979	50.00%	\$ 27.93	\$ -	\$ -	\$ 27.93	\$ 30.95	\$ 3.02	10.82%						
12	3,958	100.00%	\$ 37.01	\$ -	\$ -	\$ 37.01	\$ 41.15	\$ 4.14	11.18%						
13	5,937	150.00%	\$ 47.13	\$ -	\$ -	\$ 47.13	\$ 52.51	\$ 5.38	11.43%						
14	7,916	200.00%	\$ 57.25	\$ -	\$ -	\$ 57.25	\$ 63.88	\$ 6.63	11.58%						

**EASTERN GROUP - FALCON VALLEY (SADDLEBROOKE RANCH)
 TYPICAL RESIDENTIAL BILL ANALYSIS**

LINE NO.	DESCRIPTION	(A)		(B)		(C)		(D)		(E)		(F)		(G)	
		ORIGINAL RATES	\$	PRESENT ADDITIONAL ACRM / PPA SURCHARGES	\$	TOTAL PRESENT RATES	\$	PRESENT TOTAL MONTHLY COST	\$	COMPANY PROPOSED	\$	RUCO PROPOSED	\$	RUCO MONTHLY INCREASE	\$	% MONTHLY INCREASE
1	RESIDENTIAL (5/8" X 3/4") RATE DESIGN														
	BASIC MONTHLY CHARGE	\$ 15.00	\$	-	\$	15.00	\$	23.00	\$	23.00	\$	21.85	\$	21.85	
COMMODITY CHARGE (Per 1,000 Gallons)															
	PRESENT														
2	1st Tier - First	3,000	\$	-	\$	4,100	\$	4,837	\$	4,837	\$	4,595	\$	4,595	
3	2nd Tier - Next	7,000	\$	-	\$	4,100	\$	6,046	\$	6,046	\$	5,744	\$	5,744	
4	3rd Tier - Over	10,000	\$	-	\$	4,100	\$	7,557	\$	7,557	\$	7,181	\$	7,181	
AVERAGE RESIDENTIAL BILL COMPARISONS															
	COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL	VARIABLE MONTHLY USAGE	PERCENT AVERAGE USAGE OF	PRESENT BASE RATE MONTHLY COST	PRESENT SURCHARGE MONTHLY COST	PRESENT TOTAL MONTHLY COST	PRESENT TOTAL MONTHLY COST	PRESENT TOTAL MONTHLY COST	RUCO MONTHLY COST	RUCO MONTHLY COST	RUCO MONTHLY INCREASE	RUCO MONTHLY INCREASE	RUCO MONTHLY INCREASE	RUCO MONTHLY INCREASE	% MONTHLY INCREASE
5		851	25.00%	\$ 18.49	\$ -	\$ 18.49	\$ 18.49	\$ 18.49	\$ 25.77	\$ 25.77	\$ 7.28	\$ 7.28	\$ 7.28	\$ 7.28	39.35%
6		1,703	50.00%	\$ 21.98	\$ -	\$ 21.98	\$ 21.98	\$ 21.98	\$ 29.68	\$ 29.68	\$ 7.70	\$ 7.70	\$ 7.70	\$ 7.70	35.02%
7		3,405	100.00%	\$ 28.96	\$ -	\$ 28.96	\$ 28.96	\$ 28.96	\$ 37.97	\$ 37.97	\$ 9.01	\$ 9.01	\$ 9.01	\$ 9.01	31.10%
8		5,108	150.00%	\$ 35.94	\$ -	\$ 35.94	\$ 35.94	\$ 35.94	\$ 47.75	\$ 47.75	\$ 11.81	\$ 11.81	\$ 11.81	\$ 11.81	32.85%
9		6,810	200.00%	\$ 42.92	\$ -	\$ 42.92	\$ 42.92	\$ 42.92	\$ 57.53	\$ 57.53	\$ 14.61	\$ 14.61	\$ 14.61	\$ 14.61	34.04%
MEDIAN RESIDENTIAL BILL COMPARISONS															
	COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL	VARIABLE MONTHLY USAGE	PERCENT MEDIAN USAGE OF	PRESENT BASE RATE MONTHLY COST	PRESENT SURCHARGE MONTHLY COST	PRESENT TOTAL MONTHLY COST	PRESENT TOTAL MONTHLY COST	PRESENT TOTAL MONTHLY COST	RUCO MONTHLY COST	RUCO MONTHLY COST	RUCO MONTHLY INCREASE	RUCO MONTHLY INCREASE	RUCO MONTHLY INCREASE	RUCO MONTHLY INCREASE	% MONTHLY INCREASE
10		642	25.00%	\$ 17.63	\$ -	\$ 17.63	\$ 17.63	\$ 17.63	\$ 24.80	\$ 24.80	\$ 7.17	\$ 7.17	\$ 7.17	\$ 7.17	40.68%
11		1,284	50.00%	\$ 20.26	\$ -	\$ 20.26	\$ 20.26	\$ 20.26	\$ 27.75	\$ 27.75	\$ 7.49	\$ 7.49	\$ 7.49	\$ 7.49	36.97%
12		2,567	100.00%	\$ 25.82	\$ -	\$ 25.82	\$ 25.82	\$ 25.82	\$ 33.65	\$ 33.65	\$ 7.83	\$ 7.83	\$ 7.83	\$ 7.83	30.32%
13		3,851	150.00%	\$ 30.79	\$ -	\$ 30.79	\$ 30.79	\$ 30.79	\$ 40.53	\$ 40.53	\$ 9.74	\$ 9.74	\$ 9.74	\$ 9.74	31.64%
14		5,134	200.00%	\$ 36.05	\$ -	\$ 36.05	\$ 36.05	\$ 36.05	\$ 47.90	\$ 47.90	\$ 11.85	\$ 11.85	\$ 11.85	\$ 11.85	32.88%

**EASTERN GROUP - SAN MANUEL
RATE DESIGN PROOF OF RECOMMENDED REVENUES**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
RESIDENTIAL CUSTOMERS					
1	5/8" X 3/4" Meter	1,389	\$ 21.590	\$ 359,876	\$ 359,876
	Commodity Usage				
2	First Tier - First 3,000 Gals.	42,642	\$ 4.5405	\$ 193,619	
3	Second Tier - Next 7,000 Gals.	51,142	\$ 5.6756	\$ 290,264	
4	Third Tier - Over 10,000 Gals.	25,210	\$ 7.0946	\$ 178,853	\$ 662,737
	\$	1,022,613			
5	1" Meter	6	\$ 53.9759	\$ 3,865	\$ 3,865
	Commodity Usage				
6	First Tier - First 10,000 Gals.	1,200	\$ 5.6756	\$ 6,811	
7	Second Tier - Over 10,000 Gals.	518	\$ 7.0946	\$ 3,674	
8	Third Tier - Over 10,000 Gals.	-	\$ 7.0946	\$ -	\$ 10,485
	\$	14,350			
9	2" Meter	-	\$ 172.7228	\$ -	\$ -
	Commodity Usage				
10	First Tier - First 125,000 Gals.	-	\$ 5.6756	\$ -	
11	Second Tier - Over 125,000 Gals.	-	\$ 7.0946	\$ -	
12	Third Tier - Over 125,000 Gals.	-	\$ 7.0946	\$ -	\$ -
13	3" Meter	-	\$ 345.4456	\$ -	\$ -
	Commodity Usage				
14	First Tier - First 325,000 Gals.	-	\$ 5.6756	\$ -	
15	Second Tier - Over 325,000 Gals.	-	\$ 7.0946	\$ -	
16	Third Tier - Over 325,000 Gals.	-	\$ 7.0946	\$ -	\$ -
17	4" Meter	-	\$ 539.7588	\$ -	\$ -
	Commodity Usage				
18	First Tier - First 500,000 Gals.	-	\$ 5.6756	\$ -	
19	Second Tier - Over 500,000 Gals.	-	\$ 7.0946	\$ -	
20	Third Tier - Over 500,000 Gals.	-	\$ 7.0946	\$ -	\$ -
21	6" Meter	-	\$ 1,079.5177	\$ -	\$ -
	Commodity Usage				
22	First Tier - First 925,000 Gals.	-	\$ 5.6756	\$ -	
23	Second Tier - Over 925,000 Gals.	-	\$ 7.0946	\$ -	
24	Third Tier - Over 925,000 Gals.	-	\$ 7.0946	\$ -	\$ -
25	8" Meter	-	\$ 1,727.2282	\$ -	\$ -
	Commodity Usage				
26	First Tier - First 1,500,000 Gals.	-	\$ 5.6756	\$ -	
27	Second Tier - Over 1,500,000 Gals.	-	\$ 7.0946	\$ -	
28	Third Tier - Over 1,500,000 Gals.	-	\$ 7.0946	\$ -	\$ -
29	10" Meter	-	\$ 2,482.8906	\$ -	\$ -
	Commodity Usage				
30	First Tier - First 3,000,000 Gals.	-	\$ 5.6756	\$ -	
31	Second Tier - Over 3,000,000 Gals.	-	\$ 7.0946	\$ -	
32	Third Tier - Over 3,000,000 Gals.	-	\$ 7.0946	\$ -	\$ -
33	Total Residential Customer Bills	<u>1,395</u>			
34	Total Residential Usage	<u>120,712</u>			
35	TOTAL RESIDENTIAL CUSTOMERS REVENUE			<u>\$ 1,036,963</u>	

**EASTERN GROUP - SAN MANUEL
RATE DESIGN PROOF OF RECOMMENDED REVENUES**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
COMMERCIAL CUSTOMERS					
36	5/8" X 3/4" Meter Commodity Usage	43.3	\$ 21.5904	\$ 11,223	\$ 11,223
37	First Tier - First 10,000 Gals.	1860.4	\$ 5.6756	\$ 10,559	
38	Second Tier - Over 10,000 Gals.	1539.8	\$ 7.0946	\$ 10,924	
39	Third Tier - Over 10,000 Gals.				\$ 21,483
	\$	32,706			
40	1" Meter Commodity Usage	13.84	\$ 53.9759	\$ 8,961	\$ 8,961
41	First Tier - First 40,000 Gals.	1,586.34	\$ 5.6756	\$ 9,003	
42	Second Tier - Over 40,000 Gals.	1,291.60	\$ 7.0946	\$ 9,163	
43	Third Tier - Over 40,000 Gals.		\$ 7.0946	\$ -	\$ 18,167
	\$	27,128			
44	2" Meter Commodity Usage	7.91	\$ 172.7228	\$ 16,386	\$ 16,386
45	First Tier - First 125,000 Gals.	4,160.34	\$ 5.6756	\$ 23,613	
46	Second Tier - Over 125,000 Gals.	3,111.10	\$ 7.0946	\$ 22,072	
47	Third Tier - Over 125,000 Gals.	-	\$ 7.0946	\$ -	\$ 45,685
	\$	62,071			
48	3" Meter Commodity Usage	0.99	\$ 345.4456	\$ 4,097	\$ 4,097
49	First Tier - First 325,000 Gals.	464.77	\$ 5.6756	\$ 2,638	
50	Second Tier - Over 325,000 Gals.	-	\$ 7.0946	\$ -	
51	Third Tier - Over 325,000 Gals.	-	\$ 7.0946	\$ -	\$ 2,638
	\$	6,734			
52	4" Meter Commodity Usage	0.99	\$ 539.7588	\$ 6,401	\$ 6,401
53	First Tier - First 500,000 Gals.	1,425.04	\$ 5.6756	\$ 8,088	
54	Second Tier - Over 500,000 Gals.	-	\$ 7.0946	\$ -	
55	Third Tier - Over 500,000 Gals.	-	\$ 7.0946	\$ -	\$ 8,088
	\$	14,489			
56	6" Meter Commodity Usage	2.96	\$ 1,079.5177	\$ 38,405	\$ 38,405
57	First Tier - First 925,000 Gals.	5,000.70	\$ 5.6756	\$ 28,382	
58	Second Tier - Over 925,000 Gals.	81.00	\$ 7.0946	\$ 575	
59	Third Tier - Over 925,000 Gals.	-	\$ 7.0946	\$ -	\$ 28,957
	\$	67,362			
60	8" Meter Commodity Usage	-	\$ 1,727.2282	\$ -	\$ -
61	First Tier - First 1,500,000 Gals.	-	\$ 5.6756	\$ -	
62	Second Tier - Over 1,500,000 Gals.	-	\$ 7.0946	\$ -	
63	Third Tier - Over 1,500,000 Gals.	-	\$ 7.0946	\$ -	\$ -
64	10" Meter Commodity Usage	-	\$ 2,482.8906	\$ -	\$ -
65	First Tier - First 3,000,000 Gals.	-	\$ 5.6756	\$ -	
66	Second Tier - Over 3,000,000 Gals.	-	\$ 7.0946	\$ -	
67	Third Tier - Over 3,000,000 Gals.	-	\$ 7.0946	\$ -	\$ -
68	Total Commercial Customer Bills	<u>70</u>			
69	Total Commercial Usage	<u>20,521</u>			
70	TOTAL COMMERCIAL CUSTOMERS REVENUE			<u>\$ 210,491</u>	

**EASTERN GROUP - SAN MANUEL
RATE DESIGN PROOF OF RECOMMENDED REVENUES**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
INDUSTRIAL CUSTOMERS					
71	5/8" X 3/4" Meter Commodity Usage		\$ 21.5904	\$ -	\$ -
72	First Tier - First 999,999,999 Gals.		\$ 2.3468	\$ -	
73	Second Tier - Next 999,999,999 Gals.		\$ 2.3468	\$ -	
74	Third Tier - Over 999,999,999 Gals.		\$ 2.3468	\$ -	\$ -
75	1" Meter Commodity Usage		\$ 53.9759	\$ -	\$ -
76	First Tier - First 999,999,999 Gals.		\$ 2.3468	\$ -	
77	Second Tier - Next 999,999,999 Gals.		\$ 2.3468	\$ -	
78	Third Tier - Over 999,999,999 Gals.		\$ 2.3468	\$ -	\$ -
79	2" Meter Commodity Usage		\$ 172.7228	\$ -	\$ -
80	First Tier - First 999,999,999 Gals.		\$ 2.3468	\$ -	
81	Second Tier - Next 999,999,999 Gals.		\$ 2.3468	\$ -	
82	Third Tier - Over 999,999,999 Gals.		\$ 2.3468	\$ -	\$ -
83	3" Meter Commodity Usage		\$ 345.4456	\$ -	\$ -
84	First Tier - First 999,999,999 Gals.		\$ 2.3468	\$ -	
85	Second Tier - Next 999,999,999 Gals.		\$ 2.3468	\$ -	
86	Third Tier - Over 999,999,999 Gals.		\$ 2.3468	\$ -	\$ -
87	4" Meter Commodity Usage		\$ 539.7588	\$ -	\$ -
88	First Tier - First 999,999,999 Gals.		\$ 2.3468	\$ -	
89	Second Tier - Next 999,999,999 Gals.		\$ 2.3468	\$ -	
90	Third Tier - Over 999,999,999 Gals.		\$ 2.3468	\$ -	\$ -
91	6" Meter Commodity Usage		\$ 1,079.5177	\$ -	\$ -
92	First Tier - First 999,999,999 Gals.		\$ 2.3468	\$ -	
93	Second Tier - Next 999,999,999 Gals.		\$ 2.3468	\$ -	
94	Third Tier - Over 999,999,999 Gals.		\$ 2.3468	\$ -	\$ -
95	8" Meter Commodity Usage		\$ 1,727.2282	\$ -	\$ -
96	First Tier - First 999,999,999 Gals.		\$ 2.3468	\$ -	
97	Second Tier - Next 999,999,999 Gals.		\$ 2.3468	\$ -	
98	Third Tier - Over 999,999,999 Gals.		\$ 2.3468	\$ -	\$ -
99	10" Meter Commodity Usage		\$ 2,482.8906	\$ -	\$ -
100	First Tier - First 999,999,999 Gals.		\$ 2.3468	\$ -	
101	Second Tier - Next 999,999,999 Gals.		\$ 2.3468	\$ -	
102	Third Tier - Over 999,999,999 Gals.		\$ 2.3468	\$ -	\$ -
103	Total Industrial Customer Bills				
104	Total Industrial Usage				
105	TOTAL INDUSTRIAL CUSTOMERS REVENUE				\$ -

**EASTERN GROUP - SAN MANUEL
RATE DESIGN PROOF OF RECOMMENDED REVENUES**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINANTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
PRIVATE FIRE SERVICE CUSTOMERS					
106	5/8" Meter	\$ 27.00	27	\$ 324	\$ 324
107	1" Meter	\$ 27.00	27	\$ -	\$ -
108	2" Meter	\$ 27.00	27	\$ -	\$ -
109	3" Meter	\$ 27.00	27	\$ -	\$ -
110	4" Meter	\$ 27.00	27	\$ -	\$ -
111	6" Meter	\$ 27.00	27	\$ -	\$ -
112	8" Meter	\$ 27.00	27	\$ -	\$ -
113	10" Meter	\$ 27.00	27	\$ -	\$ -
114	Total Private Fire Service Customers				
115	TOTAL PRIVATE FIRE SERVICE CUSTOMERS REVENUE				<u>\$ 324</u>
OTHER WATER REVENUE CUSTOMERS					
116	Public Fire Hydrant		\$ -	\$ -	\$ -
117	Coin Machine		\$ -	\$ -	\$ -
118	Commodity Usage		\$ -	\$ -	\$ -
119	Construction Water 2" Meter		\$ 172.7228	\$ -	\$ -
	Commodity Usage			\$ -	\$ -
120	First Tier - First 125,000 Gals.		\$ 5.6756	\$ -	\$ -
121	Second Tier - Over 125,000 Gals.		\$ 7.0946	\$ -	\$ -
122	Third Tier - Over 125,000 Gals.		\$ 7.0946	\$ -	\$ -
123	Construction Water 3" Meter	1.42	\$ 345.4456	\$ 5,873	\$ 5,873
	Commodity Usage				
124	First Tier - First 325,000 Gals.	821.80	\$ 5.6756	\$ 4,664	
125	Second Tier - Over 325,000 Gals.		\$ 7.0946	\$ -	
126	Third Tier - Over 325,000 Gals.		\$ 7.0946	\$ -	\$ 4,664
	\$	10,537			
127	Construction Water 4" Meter		\$ 539.7588	\$ -	\$ -
	Commodity Usage				
128	First Tier - First 500,000 Gals.		\$ 5.6756	\$ -	\$ -
129	Second Tier - Over 500,000 Gals.		\$ 7.0946	\$ -	\$ -
130	Third Tier - Over 500,000 Gals.		\$ 7.0946	\$ -	\$ -
131	Sales For Resales 2" Meter		\$ 172.7228	\$ -	\$ -
	Commodity Usage				
132	First Tier - First 1,000,000 Gals.		\$ 5.6756	\$ -	\$ -
133	Second Tier - Next 1,000,000 Gals.		\$ 5.6756	\$ -	\$ -
134	Third Tier - Over 1,000,000 Gals.		\$ 5.6756	\$ -	\$ -
135	Sales For Resales 3" Meter		\$ 345.4456	\$ -	\$ -
	Commodity Usage				
136	First Tier - First 1,000,000 Gals.		\$ 5.6756	\$ -	\$ -
137	Second Tier - Next 1,000,000 Gals.		\$ 5.6756	\$ -	\$ -
138	Third Tier - Over 1,000,000 Gals.		\$ 5.6756	\$ -	\$ -

**EASTERN GROUP - SAN MANUEL
RATE DESIGN PROOF OF RECOMMENDED REVENUES**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
139	Sales For Resales 6" Meter Commodity Usage		\$ 1,079,5177	\$ -	\$ -
140	First Tier - First 1,000,000 Gals.		\$ 5.6756	\$ -	
141	Second Tier - Next 1,000,000 Gals.		\$ 5.6756	\$ -	
142	Third Tier - Over 1,000,000 Gals.		\$ 5.6756	\$ -	\$ -
143	Total Other Water Revenue Customer Bills				
144	Total Other Water Revenue Usage				
145	TOTAL OTHER WATER CUSTOMERS REVENUE				<u>\$ 10,537</u>
146	RUCO TOTAL PROPOSED REVENUE PER BILL COUNT				<u>\$ 1,258,315</u>
147	Unreconciled Difference vs. Billed Revenues				\$ (77)
148	Miscellaneous Revenues				15,328
149	RUCO TOTAL REVENUE				<u>\$ 1,273,566</u>
150	RUCO ADJUSTED TEST-YEAR REVENUE PER SCHEDULE RBM-1				<u>\$ 1,258,405</u>
151	Difference				\$ 15,161
152	Percentage Difference				1.20%

**EASTERN GROUP - SAN MANUEL - SURREBUTTAL
 TYPICAL RESIDENTIAL BILL ANALYSIS**

LINE NO.	DESCRIPTION	(A)		(B)	(C)	(D)	(E)	(F)	(G)
		ORIGINAL RATES	TOTAL PRESENT RATES	ADDITIONAL ACRIM / PPA SURCHARGES	PRESENT SURCHARGE MONTHLY COST	PRESENT TOTAL MONTHLY COST	COMPANY PROPOSED MONTHLY COST	RUCO PROPOSED MONTHLY INCREASE	RUCO PROPOSED MONTHLY INCREASE
1	BASIC MONTHLY CHARGE	\$ 21.52	\$ 21.52	\$ -	\$ 21.52	\$ 23.00	\$ 23.00	\$ 21.59	
COMMODITY CHARGE (Per 1,000 Gallons)									
2	1st Tier - First 3,000	\$ 2.7022	\$ 2.7022	\$ -	\$ 2.7022	\$ 4.8370	\$ 4.8370	\$ 4.5405	
3	2nd Tier - Next 7,000	\$ 3.3775	\$ 3.3775	\$ -	\$ 3.3775	\$ 6.0462	\$ 6.0462	\$ 5.6756	
4	3rd Tier - Over 10,000	\$ 4.2221	\$ 4.2221	\$ -	\$ 4.2221	\$ 7.5578	\$ 7.5578	\$ 7.0946	
AVERAGE RESIDENTIAL BILL COMPARISONS									
COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL									
5	1,785	25.00%	7.139	\$ 26.34	\$ -	\$ 26.34	\$ 29.69	\$ 3.35	12.72%
6	3,570	50.00%	7.139	\$ 31.55	\$ -	\$ 31.55	\$ 38.44	\$ 6.89	21.85%
7	7,139	100.00%	7.139	\$ 43.61	\$ -	\$ 43.61	\$ 58.70	\$ 15.10	34.62%
8	10,709	150.00%	7.139	\$ 56.26	\$ -	\$ 56.26	\$ 79.97	\$ 23.71	42.14%
9	14,278	200.00%	7.139	\$ 71.33	\$ -	\$ 71.33	\$ 109.29	\$ 33.96	47.61%
MEDIAN RESIDENTIAL BILL COMPARISONS									
COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL									
10	1,356	25.00%	5.425	\$ 25.18	\$ -	\$ 25.18	\$ 27.75	\$ 2.56	10.18%
11	2,713	50.00%	5.425	\$ 28.85	\$ -	\$ 28.85	\$ 33.91	\$ 5.06	17.53%
12	5,425	100.00%	5.425	\$ 37.82	\$ -	\$ 37.82	\$ 49.98	\$ 12.16	29.51%
13	8,138	150.00%	5.425	\$ 46.98	\$ -	\$ 46.98	\$ 64.37	\$ 17.39	37.02%
14	10,850	200.00%	5.425	\$ 56.86	\$ -	\$ 56.86	\$ 80.97	\$ 24.11	42.41%

**EASTERN GROUP - WINKLEMAN - SURREBUTTAL
RATE DESIGN AND PROOF OF RECOMMENDED REVENUES**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
RESIDENTIAL CUSTOMERS					
1	5/8" X 3/4" Meter	132	\$ 16.91	\$ 26,795	\$ 26,795
	Commodity Usage (In Thousands of Gallons)				
2	First Tier - First 3,000 Gals.	4,145	\$ 1.7362	\$ 7,196	
3	Second Tier - Next 7,000 Gals.	5,800	\$ 2.1703	\$ 12,587	
4	Third Tier - Over 10,000 Gals.	4,944	\$ 2.7129	\$ 13,414	\$ 33,197
5	1" Meter	2	\$ 42.29	\$ 1,002	\$ 1,002
	Commodity Usage (In Thousands of Gallons)				
6	First Tier - First 30,000 Gals.	237	\$ 2.1703	\$ 514	
7	Second Tier - Over 30,000 Gals.	786	\$ 2.7129	\$ 2,132	
8	Third Tier - Over 30,000 Gals.	-	\$ 2.7129	\$ -	\$ 2,646
9	2" Meter	-	135.30	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
10	First Tier - First 100,000 Gals.	-	\$ 2.1703	\$ -	
11	Second Tier - Over 100,000 Gals.	-	\$ 2.7129	\$ -	
12	Third Tier - Over 100,000 Gals.	-	\$ 2.7129	\$ -	\$ -
13	3" Meter	-	\$ 270.61	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
14	First Tier - First 220,000 Gals.	-	\$ 2.1703	\$ -	
15	Second Tier - Over 220,000 Gals.	-	\$ 2.7129	\$ -	
16	Third Tier - Over 220,000 Gals.	-	\$ 2.7129	\$ -	\$ -
17	4" Meter	-	\$ 422.82	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
18	First Tier - First 350,000 Gals.	-	\$ 2.1703	\$ -	
19	Second Tier - Over 350,000 Gals.	-	\$ 2.7129	\$ -	
20	Third Tier - Over 350,000 Gals.	-	\$ 2.7129	\$ -	\$ -
21	6" Meter	-	\$ 845.64	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
22	First Tier - First 725,000 Gals.	-	\$ 2.1703	\$ -	
23	Second Tier - Over 725,000 Gals.	-	\$ 2.7129	\$ -	
24	Third Tier - Over 725,000 Gals.	-	\$ 2.7129	\$ -	\$ -
25	8" Meter	-	\$ 1,353.03	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
26	First Tier - First 1,175,000 Gals.	-	\$ 2.1703	\$ -	
27	Second Tier - Over 1,175,000 Gals.	-	\$ 2.7129	\$ -	
28	Third Tier - Over 1,175,000 Gals.	-	\$ 2.7129	\$ -	\$ -
29	10" Meter	-	\$ 1,944.98	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
30	First Tier - First 1,700,000 Gals.	-	\$ 2.1703	\$ -	
31	Second Tier - Over 1,700,000 Gals.	-	\$ 2.7129	\$ -	
32	Third Tier - Over 1,700,000 Gals.	-	\$ 2.7129	\$ -	\$ -
33	Total Residential Customer Bills	<u>134</u>			
34	Total Residential Usage	<u>15,912</u>			
35	TOTAL RESIDENTIAL CUSTOMERS REVENUE			<u>\$ 63,640</u>	

**EASTERN GROUP - WINKLEMAN - SURREBUTTAL
RATE DESIGN AND PROOF OF RECOMMENDED REVENUES**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
COMMERCIAL CUSTOMERS					
36	5/8" X 3/4" Meter Commodity Usage (In Thousands of Gallons)	13	\$ 16.91	\$ 2,690	\$ 2,690
37	First Tier - First 10,000 Gals.	432	\$ 2.1703	\$ 937	
38	Second Tier - Over 10,000 Gals.	687	\$ 2.7129	\$ 1,863	
39	Third Tier - Over 10,000 Gals.	-	\$ 2.7129	\$ -	\$ 2,801
40	1" Meter Commodity Usage (In Thousands of Gallons)	1	\$ 42.28	\$ 486	\$ 486
41	First Tier - First 30,000 Gals.	137	\$ 2.1703	\$ 297	
42	Second Tier - Over 30,000 Gals.	34	\$ 2.7129	\$ 93	
43	Third Tier - Over 30,000 Gals.	-	\$ 2.7129	\$ -	\$ 390
44	2" Meter Commodity Usage (In Thousands of Gallons)	2	\$ 135.30	\$ 3,111	\$ 3,111
45	First Tier - First 100,000 Gals.	801	\$ 2.1703	\$ 1,738	
46	Second Tier - Over 100,000 Gals.	-	\$ 2.7129	\$ -	
47	Third Tier - Over 100,000 Gals.	-	\$ 2.7129	\$ -	\$ 1,738
48	3" Meter Commodity Usage (In Thousands of Gallons)	1	\$ 270.61	\$ 3,111	\$ 3,111
49	First Tier - First 220,000 Gals.	2,614	\$ 2.1703	\$ 5,672	
50	Second Tier - Over 220,000 Gals.	610	\$ 2.7129	\$ 1,656	
51	Third Tier - Over 220,000 Gals.	-	\$ 2.7129	\$ -	\$ 7,328
52	4" Meter Commodity Usage (In Thousands of Gallons)	2	\$ 422.82	\$ 9,721	\$ 9,721
53	First Tier - First 350,000 Gals.	7,737	\$ 2.1703	\$ 16,792	
54	Second Tier - Over 350,000 Gals.	939	\$ 2.7129	\$ 2,548	
55	Third Tier - Over 350,000 Gals.	-	\$ 2.7129	\$ -	\$ 19,340
56	6" Meter Commodity Usage (In Thousands of Gallons)	-	\$ 845.64	\$ -	\$ -
57	First Tier - First 725,000 Gals.	-	\$ 2.1703	\$ -	
58	Second Tier - Over 725,000 Gals.	-	\$ 2.7129	\$ -	
59	Third Tier - Over 725,000 Gals.	-	\$ -	\$ -	\$ -
60	8" Meter Commodity Usage (In Thousands of Gallons)	-	\$ 1,353.03	\$ -	\$ -
61	First Tier - First 1,175,000 Gals.	-	\$ 2.1703	\$ -	
62	Second Tier - Over 1,175,000 Gals.	-	\$ -	\$ -	
63	Third Tier - Over 1,175,000 Gals.	-	\$ 2.7129	\$ -	\$ -
64	10" Meter Commodity Usage (In Thousands of Gallons)	-	\$ 2,706.06	\$ -	\$ -
65	First Tier - First 1,700,000 Gals.	-	\$ -	\$ -	
66	Second Tier - Over 1,700,000 Gals.	-	\$ 2.7129	\$ -	
67	Third Tier - Over 1,700,000 Gals.	-	\$ 2.7129	\$ -	\$ -
68	Total Commercial Customer Bills	<u>19</u>			
69	Total Commercial Usage	<u>13,991</u>			
70	TOTAL COMMERCIAL CUSTOMERS REVENUE			<u>\$ 50,715</u>	

**EASTERN GROUP - WINKLEMAN - SURREBUTTAL
RATE DESIGN AND PROOF OF RECOMMENDED REVENUES**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
INDUSTRIAL CUSTOMERS					
71	5/8" X 3/4" Meter	-	\$ 16.91	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
72	First Tier - First 999,999,999 Gals.	-	\$ 2,2254	\$ -	
73	Second Tier - Next 999,999,999 Gals.	-	\$ 2,2254	\$ -	
74	Third Tier - Over 999,999,999 Gals.	-	\$ 2,2254	\$ -	\$ -
75	1" Meter	-	\$ 42.29	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
76	First Tier - First 999,999,999 Gals.	-	\$ 2,2254	\$ -	
77	Second Tier - Next 999,999,999 Gals.	-	\$ 2,2254	\$ -	
78	Third Tier - Over 999,999,999 Gals.	-	\$ 2,2254	\$ -	\$ -
79	2" Meter	1	\$ 135.3028	\$ 1,624	\$ 1,624
	Commodity Usage (In Thousands of Gallons)				
80	First Tier - First 999,999,999 Gals.	829	\$ 2,2254	\$ 1,845	
81	Second Tier - Next 999,999,999 Gals.	-	\$ 2,2254	\$ -	
82	Third Tier - Over 999,999,999 Gals.	-	\$ 2,2254	\$ -	\$ 1,845
83	3" Meter	-	\$ 270.6056	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
84	First Tier - First 999,999,999 Gals.	-	\$ 2,2254	\$ -	
85	Second Tier - Next 999,999,999 Gals.	-	\$ 2,2254	\$ -	
86	Third Tier - Over 999,999,999 Gals.	-	\$ 2,2254	\$ -	\$ -
87	4" Meter	-	\$ 422.8213	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
88	First Tier - First 999,999,999 Gals.	-	\$ 2,2254	\$ -	
89	Second Tier - Next 999,999,999 Gals.	-	\$ 2,2254	\$ -	
90	Third Tier - Over 999,999,999 Gals.	-	\$ 2,2254	\$ -	\$ -
91	6" Meter	-	\$ 845.6425	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
92	First Tier - First 999,999,999 Gals.	-	\$ 2,2254	\$ -	
93	Second Tier - Next 999,999,999 Gals.	-	\$ 2,2254	\$ -	
94	Third Tier - Over 999,999,999 Gals.	-	\$ 2,2254	\$ -	\$ -
95	8" Meter	-		\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
96	First Tier - First 999,999,999 Gals.	-	\$ 2,2254	\$ -	
97	Second Tier - Next 999,999,999 Gals.	-	\$ 2,2254	\$ -	
98	Third Tier - Over 999,999,999 Gals.	-	\$ 2,2254	\$ -	\$ -
99	10" Meter	-	\$ 2,706.0560	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
100	First Tier - First 999,999,999 Gals.	-	\$ 2,2254	\$ -	
101	Second Tier - Next 999,999,999 Gals.	-	\$ 2,2254	\$ -	
102	Third Tier - Over 999,999,999 Gals.	-	\$ 2,2254	\$ -	\$ -
103	Total Industrial Customer Bills		<u>1</u>		
104	Total Industrial Usage		<u>829</u>		
105	TOTAL INDUSTRIAL CUSTOMERS REVENUE				<u>\$ 3,469</u>

**EASTERN GROUP - WINKLEMAN - SURREBUTTAL
RATE DESIGN AND PROOF OF RECOMMENDED REVENUES**

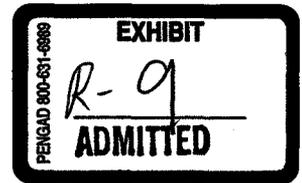
LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
PRIVATE FIRE SERVICE CUSTOMERS					
106	5/8" Meter	-	\$ 27.00	\$ -	\$ -
107	1" Meter	-	\$ 27.00	\$ -	\$ -
108	2" Meter	-	\$ 27.00	\$ -	\$ -
109	3" Meter	-	\$ 27.00	\$ -	\$ -
110	4" Meter	-	\$ 27.00	\$ -	\$ -
111	6" Meter	-	\$ 27.00	\$ -	\$ -
112	8" Meter	-	\$ 27.00	\$ -	\$ -
113	10" Meter	-	\$ 27.00	\$ -	\$ -
114	Total Private Fire Service Customers	-			
115	TOTAL PRIVATE FIRE SERVICE CUSTOMERS REVENUE				\$ -
OTHER WATER REVENUE CUSTOMERS					
116	Public Fire Hydrant	-	\$ -	\$ -	\$ -
117	Coin Machine	-	\$ -	\$ -	\$ -
118	Commodity Usage (In Thousands of Gallons)	-	\$ -	\$ -	\$ -
119	Construction Water 2" Meter	-	\$ 135.3028	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
120	First Tier - First 100,000 Gals.	-	\$ 2.1703	\$ -	\$ -
121	Second Tier - Over 100,000 Gals.	-	\$ 2.7129	\$ -	\$ -
122	Third Tier - Over 100,000 Gals.	-	\$ 2.7129	\$ -	\$ -
123	Construction Water 3" Meter	-	\$ 270.6056	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)		\$ -		
124	First Tier - First 220,000 Gals.	-	\$ 2.1703	\$ -	\$ -
125	Second Tier - Over 220,000 Gals.	-	\$ 2.7129	\$ -	\$ -
126	Third Tier - Over 220,000 Gals.	-	\$ 2.7129	\$ -	\$ -
127	Construction Water 4" Meter	-	\$ 422.8213	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
128	First Tier - First 350,000 Gals.	-	\$ 2.1703	\$ -	\$ -
129	Second Tier - Over 350,000 Gals.	-	\$ 2.7129	\$ -	\$ -
130	Third Tier - Over 350,000 Gals.	-	\$ 2.7129	\$ -	\$ -
131	Sales For Resales 2" Meter	-	\$ 135.3028	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
132	First Tier - First 999,999,999 Gals.	-	\$ 2.5489	\$ -	\$ -
133	Second Tier - Next 999,999,999 Gals.	-	\$ 2.5489	\$ -	\$ -
134	Third Tier - Over 999,999,999 Gals.	-	\$ -	\$ -	\$ -
135	Sales For Resales 3" Meter	-	\$ 270.6056	\$ -	\$ -
	Commodity Usage (In Thousands of Gallons)				
136	First Tier - First 999,999,999 Gals.	-	\$ 2.1703	\$ -	\$ -
137	Second Tier - Next 999,999,999 Gals.	-	\$ 2.1703	\$ -	\$ -
138	Third Tier - Over 999,999,999 Gals.	-	\$ 2.1703	\$ -	\$ -

**EASTERN GROUP - WINKLEMAN - SURREBUTTAL
RATE DESIGN AND PROOF OF RECOMMENDED REVENUES**

LINE NO.	DESCRIPTION	(A) RUCO AS ADJUSTED DETERMINTS	(B) PROPOSED CHARGES & USAGE FEES	(C) PROPOSED REVENUES	(D) TOTAL REVENUES
139	Sales For Resales 6" Meter Commodity Usage (In Thousands of Gallons)	-	\$ 845.6425	\$ -	\$ -
140	First Tier - First 999,999,999 Gals.	-	\$ 2.1703	\$ -	
141	Second Tier - Next 999,999,999 Gals.	-	\$ 2.1703	\$ -	
142	Third Tier - Over 999,999,999 Gals.	-	\$ 2.1703	\$ -	\$ -
143	Total Other Water Revenue Customer Bills	<u>-</u>			
144	Total Other Water Revenue Usage	<u>-</u>			
145	TOTAL OTHER WATER CUSTOMERS REVENUE				<u>\$ -</u>
146	RUCO TOTAL PROPOSED REVENUE PER BILL COUNT				<u>\$ 117,824</u>
147	Unreconciled Difference vs. Billed Revenues				
148	Miscellaneous Revenues				1,669
149	RUCO TOTAL REVENUE				<u>\$ 119,493</u>
150	RUCO ADJUSTED TEST-YEAR REVENUE PER SCHEDULE RBM-1				<u>\$ 119,492</u>
151	Difference				\$ 1
152	Percentage Difference				0.00%

**EASTERN GROUP - WINKLEMAN - SURREBUTTAL
 RATE DESIGN AND PROOF OF RECOMMENDED REVENUES**

LINE NO.	DESCRIPTION	(A)		(B)		(C)		(D)		(E)		(F)		(G)	
		ORIGINAL RATES	\$	ADDITIONAL SURCHARGES	\$	TOTAL PRESENT RATES	\$	PRESENT MONTHLY COST	\$	PRESENT TOTAL MONTHLY COST	\$	RUCO MONTHLY COST	\$	RUCO MONTHLY INCREASE	\$	RUCO PROPOSED MONTHLY INCREASE
1	RESIDENTIAL (5/8" X 3/4") RATE DESIGN														
	BASIC MONTHLY CHARGE	14.48	\$	-	\$	14.48	\$	19.00	\$	19.00	\$	16.91	\$	16.91	\$
2	COMMODITY CHARGE (Per 1,000 Gallons)														
	1st Tier - First 3,000	1.4458	\$	-	\$	1.4458	\$	1.9505	\$	1.9505	\$	1.7362	\$	1.7362	\$
	2nd Tier - Next 7,000	1.8074	\$	-	\$	1.8074	\$	2.4381	\$	2.4381	\$	2.1703	\$	2.1703	\$
	3rd Tier - Over 10,000	2.2595	\$	-	\$	2.2595	\$	3.0477	\$	3.0477	\$	2.7129	\$	2.7129	\$
5	AVERAGE RESIDENTIAL BILL COMPARISONS														
	COST OF WATER SERVICE AT														
	DIFFERENT LEVELS OF USAGE WITH														
	PERCENTAGE INCREASE IN BILL														
	VARIABLE MONTHLY USAGE	2,350		17.88	\$	-	\$	17.88	\$	17.88	\$	20.99	\$	3.12	17.43%
		4,699		21.89	\$	-	\$	21.89	\$	21.89	\$	25.81	\$	3.92	17.91%
		9,998		30.38	\$	-	\$	30.38	\$	30.38	\$	36.01	\$	5.63	18.52%
		14,097		40.73	\$	-	\$	40.73	\$	40.73	\$	48.43	\$	7.70	18.91%
		18,796		51.34	\$	-	\$	51.34	\$	51.34	\$	61.18	\$	9.83	19.15%
10	MEDIAN RESIDENTIAL BILL COMPARISONS														
	COST OF WATER SERVICE AT														
	DIFFERENT LEVELS OF USAGE WITH														
	PERCENTAGE INCREASE IN BILL														
	VARIABLE MONTHLY USAGE	1,659		16.88	\$	-	\$	16.88	\$	16.88	\$	19.79	\$	2.91	17.27%
		3,318		19.39	\$	-	\$	19.39	\$	19.39	\$	22.81	\$	3.42	17.63%
		6,635		25.39	\$	-	\$	25.39	\$	25.39	\$	30.01	\$	4.62	18.21%
		9,953		31.38	\$	-	\$	31.38	\$	31.38	\$	37.21	\$	5.83	18.57%
		13,270		38.86	\$	-	\$	38.86	\$	38.86	\$	46.18	\$	7.33	18.86%



ARIZONA WATER COMPANY
DOCKET NO. W-01445A-11-0310

SURREBUTTAL TESTIMONY
OF
ROBERT B. MEASE
ON
REQUIRED REVENUE

ON BEHALF OF
THE
RESIDENTIAL UTILITY CONSUMER OFFICE

MAY 7, 2012

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EXECUTIVE SUMMARY - SURREBUTTAL

Arizona Water Company (AWC) filed a general rate application with the Arizona Corporation Commission ("ACC" or "Commission") on August 5, 2011 for its Eastern Group using a test year ending December 31, 2010. The Commission found the Application sufficient and filed a letter of Sufficiency on September 6, 2011.

As Always, RUCO has reviewed AWC's rebuttal testimony and has made several adjustments based on additional information provided by the Company. In summary, RUCO recommends a revised total revenue increase of \$2,864,878 for the Eastern Group, a decrease of \$158,244 over RUCO's original adjusted test year revenue increase of \$3,023,122. RUCO's recommended decrease in revenue is primarily related to the adoption of Staff's recommendation decreasing pumping, transmission and distribution expense. RUCO's recommended revenue requirement represents an increase of 14% for the Eastern Group and is \$2,333,793 less than the Company's request in their rebuttal testimony.

In their rebuttal testimony the Company is requesting a 9.72% rate of return on a Fair Value Rate Base (FVRB) of \$63,560,930, while RUCO is recommending an 8.13% rate of return on a FVRB of \$63,001,891.

After submitting additional supporting information RUCO agrees with several of the adjustments that the Company has proposed. Specific adjustments that RUCO and the Company do not agree include cash working capital requirements, pumping, transmission and distribution expense and rate case expense.

In addition, AWC's application proposed consolidation of the San Manuel, Oracle and SaddleBrooke Ranch water systems into the Falcon Valley water system and RUCO was in agreement. After carefully reviewing additional information RUCO is now recommending only the Oracle and SaddleBrooke Ranch locations be consolidated and leaving San Manuel as a standalone system.

1 **INTRODUCTION**

2 **Q. Please state your name, position, employer and address.**

3 A. My Name is Robert B. Mease. I am a Public Utilities Analyst V employed
4 by the Residential Utility Consumer Office ("RUCO") located at 1110 W.
5 Washington, Suite 220, Phoenix, Arizona 85007.

6
7 **Q. Have you previously provided testimony regarding this docket?**

8 A. Yes. I filed testimony on this docket on March 13, 2012.

9
10 **Q. What is the purpose of your surrebuttal testimony?**

11 A. My surrebuttal testimony will address the Company's rebuttal proposals
12 and comments pertaining to adjustments I recommended in my direct
13 testimony. I will also present additional adjustments to test year rate base
14 and operating income items recommended by RUCO, both increases and
15 decreases, resulting from additional information provided by the Company
16 in its rebuttal testimony.

1 **REVENUE REQUIREMENTS**

2 **Q. Can you please summarize the results of RUCO's analysis of the**
3 **Company's rebuttal testimony and identify RUCO's surrebuttal**
4 **recommended revenue requirements?**

5 **A. RUCO's summarized revenue requirements for the Eastern group is as**
6 **follows:**

<u>System</u>	<u>AWC Rebuttal Increase</u>	<u>RUCO Surrebuttal Recommended</u>	<u>Difference</u>
Superstition	\$3,927,383	\$2,129,309	(\$ 1,798,074)
Cochise	\$ 705,007	\$ 355,584	(\$ 349,423)
Oracle	\$ 109,768	\$ 27,929	(\$ 81,839)
San Manuel	\$ 353,183	\$ 203,581	(\$ 149,602)
SaddleBrooke	\$ 71,475	\$ 131,082	\$ 59,607
Winkelman	<u>\$ 31,855</u>	<u>\$ 17,393</u>	<u>(\$ 14,462)</u>
TOTALS	\$5,198,671	\$2,864,878	(\$2,333,793)

22 **Q. Can you please summarize the results of RUCO's analysis of the**
23 **Company's rebuttal testimony for Fair Value Rate Base (FVRB) and**
24 **identify RUCO's surrebuttal recommended FVRB?**

25 **A. RUCO's summarized rate base is as follows:**

<u>System</u>	<u>AWC Rebuttal Increase</u>	<u>RUCO Surrebuttal Recommended</u>	<u>Difference</u>
Superstition	\$ 50,432,117	\$ 49,960,832	(\$ 471,285)
Cochise	\$ 8,425,690	\$ 8,365,892	(\$ 59,798)
Oracle	\$ 2,497,996	\$ 2,474,988	(\$ 23,008)
San Manuel	\$ 2,014,751	\$ 2,011,030	(\$ 3,721)

1	SaddleBrooke	\$ (116,014)	\$ (114,891)	\$ 1,123
2				
3	Winkelman	<u>\$ 306,390</u>	<u>\$ 304,040</u>	<u>(\$ 2,350)</u>
4	TOTALS	\$63,560,930	\$ 63,001,891	(\$ 559,039)
5				

6 **SUMMARY OF SURREBUTTAL TESTIMONY**

7 **Q. What areas will you address in your surrebuttal testimony?**

8 A. My surrebuttal testimony will address RUCO's recommended rate base
9 and operating income adjustments in Arizona Water Company's (hereafter
10 referred to as "AWC" or "Company") Eastern Group for the following
11 systems: Superstition (Apache Junction, Superior, Miami), Cochise
12 (Bisbee, Sierra Vista), Oracle, San Manuel, Saddlebrooke Ranch and
13 Winkelman.

14
15 **Q. Please identify the exhibits you are sponsoring in your rebuttal
16 testimony.**

17 A. I am sponsoring schedules for the Eastern Group systems numbered
18 RBM-1 through RBM-17. Schedules are provided for each of the systems
19 including Superstition (Apache Junction, Superior, Miami), Cochise
20 (Bisbee, Sierra Vista), Oracle, San Manuel, SaddleBrooke Ranch and
21 Winkelman.

22

1 **SUMMARY OF ADJUSTMENTS**

2 **Q. After reviewing the Company's rebuttal testimony, did RUCO and the**
3 **Company find areas of agreement ?**

4 A. Yes. RUCO and the Company are in agreement on several of the
5 recommendations made by RUCO including the following:

6 Rate Base Adjustment #1 – Post Test Year Plant – Superstition, Cochise
7 and Oracle

8 Rate Base Adjustment #2 – Utility Plant in Service (UPIS) – SaddleBrooke
9 Ranch

10 Operating Income Adjustment #3 – Fleet Fuel Expense – All Locations

11 Operating Income Adjustment #4 -- Miscellaneous Expense – All
12 Locations

13 Operating Income Adjustment #5 -- Depreciation Expense – Superstition,
14 Cochise and Oracle

15 Operating Income Adjustment #6 – Property Tax Expense – All Locations

16 Operating Income Adjustment #7 – Income Tax Expense

17
18 **Q. Can you please identify those adjustments recommended by RUCO**
19 **that were not accepted by the Company?**

20 A. Yes. The adjustments recommended by RUCO and not accepted by the
21 Company include the following:

22 Rate Base Adjustment #3 – Cash Working Capital – All Locations

1 Operating Income Adjustment #1 - Pumping, Transmission and
2 Distribution Expense, Normalization Adjustment – All Locations
3 Operating Income Adjustment #2 – Rate Case Expense – All Locations
4

5 **Q. Were there adjustments accepted by the Company acknowledging**
6 **Staff's recommendations that have been accepted by RUCO?**

7 A. Yes. The following adjustments were recommended by the Staff and
8 accepted by the Company and have been adopted by RUCO.

9 Rate Base Adjustment #SR4 – Utility Plant in Service – Superstition
10 (Miami)

11 Rate Base Adjustment #SR5 – Utility Plant in Service – SaddleBrooke
12 Ranch

13 Operating Income Adjustment #SR8 – Unbilled Expenses – All Locations

14 Operating Income Adjustment #SR9 – Water Testing Expense – San
15 Manuel (See Rate Base Adjustment #SR5)

16 Operating Income Adjustment #SR10 – BMP Expenses - Superstition
17

18 **Q. Did the Company make any additional adjustments in their rebuttal**
19 **testimony affecting their final revenue requirements that were**
20 **accepted by RUCO?**

21 A. Yes. The Company reduced their original test year adjustment for
22 purchased water expense affecting only the San Manuel system.

1 Operating Income Adjustment #SR4 – Purchased Water Expense – San
2 Manuel
3

4 **SUMMARY SURREBUTTAL RATE BASE ADJUSTMENTS**

5 RUCO Surrebuttal Rate Base Adjustment #1 – Post Test Year Plant
6 (Superstition, Cochise, Oracle) - The Company estimated the costs of
7 post-test year plant when filing their Application. When final costs were
8 determined adjustments were made to the rate base for the Superstition,
9 Cochise and Oracle systems. The Company has agreed to RUCO's
10 recommended adjustments.

11 RUCO Surrebuttal Rate Base Adjustment #2 – Utility Plant in Service
12 (UPIS) (SaddleBrooke Ranch) - RUCO identified an un-reconciled
13 difference between Schedule B-2 included in the Application filed by the
14 Company and separate details included in data requests. The Company
15 and RUCO have come to agreement on this difference and the
16 appropriate adjustments have been made.

17 RUCO Surrebuttal Rate Base Adjustment #3 – Cash Working Capital (All
18 Locations) – This adjustment reduces the cash working capital allowance
19 requested by the Company for each system in the Eastern Group.

20 RUCO Surrebuttal Rate Base Adjustment #SR4 – Utility Plant in Service –
21 Superstition (Miami) – This adjustment represents the Company's
22 acceptance, and RUCO's agreement, of Staff's recommendation to retire
23 plant no longer in service.

1 RUCO Surrebuttal Rate Base Adjustment #SR5 – Utility Plant in Service –
2 SaddleBrooke Ranch - This adjustment represents the Company's
3 acceptance, and RUCO's agreement, of Staff's recommendation to
4 capitalize costs previously charged to expense.

5
6 **SUMMARY SURREBUTTAL OPERATING INCOME ADJUSTMENTS**

7 RUCO Surrebuttal Operating Income Adjustment #1 – Pumping,
8 Transmission and Distribution Expense, Normalization Adjustment All
9 Locations – RUCO is recommending a reduction in Pumping,
10 Transmission and Distribution Expense, for each system in the Eastern
11 Group. RUCO does not agree with the methodology used in normalizing
12 this expense.

13 RUCO Surrebuttal Operating Income Adjustment #2 – Rate Case
14 Expense (All Locations) – RUCO is recommending a reduction related to
15 rate case expense for all locations in the Eastern Group. RUCO believes
16 that the estimated expenses requested by the Company are excessive
17 and should not be borne by the ratepayer.

18 RUCO Surrebuttal Operating Income Adjustment #3 – Fleet Fuel Expense
19 (All Locations) - RUCO recommended a reduction in fleet fuel expense
20 based on fuel prices at the time of filing testimony. Fuel prices have
21 increased significantly since our testimony was filed and the forecast is
22 continued high prices. As a result RUCO has accepted the Company's
23 original filing.

1 RUCO Surrebuttal Operating Income Adjustment #4 – Miscellaneous
2 Expense (All Locations) – This adjustment reduces expenses for gifts,
3 flowers, service award expenses, and club dues for all Eastern Group
4 locations. In rebuttal testimony the Company has agreed with RUCO's
5 recommendation.

6 RUCO Surrebuttal Operating Income Adjustment #5 – Depreciation
7 Expense (Superstition, Cochise, Oracle) – This adjustment recalculates
8 depreciation expense based on adjustments to UPIS. The Company in its
9 rebuttal testimony agreed with RUCO's recommendation.

10 RUCO Surrebuttal Operating Income Adjustment #6 – Property Tax
11 Expense – This adjustment recalculates the property tax expense based
12 on adjusted levels of revenue requirements and the calculation of the
13 effective property tax rate. RUCO accepts the Company's calculation
14 related to the effective tax rate applied to the appraised values of each
15 systems properties.

16 RUCO Surrebuttal Operating Income Adjustment #SR8 – Unbilled
17 Expenses – All Locations

18 RUCO has accepted Staffs recommendation to remove unbilled expenses
19 from test year adjustments. The Company has also agreed to remove
20 these costs.

21 RUCO Surrebuttal Operating Income Adjustment #SR9 – Water Testing
22 Expense – San Manuel (See Rate Base Adjustment #SR5) – Operating
23 costs related as water testing during start up in the SaddleBrooke Ranch

1 system were erroneously charged to expenses in the San Manuel system.
2 Proper adjustments are being made to correct this error. The adjustment
3 was identified by Staff and accepted by the Company. RUCO adopts the
4 recommendation of Staff as agreed to by the Company.

5
6 Operating Income Adjustment #SR10 – BMP Expenses – Superstition

7 This adjustment reduces the Company's estimated level of BMP expense
8 for the Superstition System only. The adjustment was identified by the
9 Staff and accepted by the Company. RUCO accepts the recommendation
10 and has reduced the revenue requirements for the Superstition System
11 only.

12
13 **SURREBUTTAL RATE BASE ADJUSTMENTS**

14 **Q. Is RUCO recommending any changes to the Company's proposed**
15 **rate base?**

16 **A.** Yes. RUCO analyzed the Company's rate base adjustments to its
17 historical test year and made adjustments to the rate base as filed by the
18 Company. The cumulative review, analysis and adjustments made by
19 RUCO are explained on the succeeding pages.

20
21
22

1 **Rate Base Adjustment # 1 - Post Test Year Plant (Superstition, Cochise,**
2 **and Oracle**

3 **Q. Did RUCO make any adjustments related to post-test year additions**
4 **included in the rate base for any of the Eastern Systems?**

5 A. Yes. The Company made post-test year adjustments for the Superstition,
6 Cochise and Oracle systems as identified on Schedules RBM-6. The
7 adjustments for each post-test year addition, made by AWC, were based
8 on estimated costs to complete the projects. When final costs were
9 determined, the total costs by project were less than the original amounts
10 estimated by AWC and included in the Application filed by the Company.
11 The adjustments reduce the rate base for Superstition by (\$81,786), and
12 Cochise by (\$122,233) and increased the rate base for the Oracle system
13 by \$29,823.

14
15 **Q. Did the Company agree with RUCO's adjustment?**

16 A. Yes. The Company agrees with the adjustments as RUCO is
17 recommending for post-test year adjustments.

18
19
20
21
22

1 **Rate Base Adjustment #2 – Utility Plant in Service (UPIS) SaddleBrooke**
2 **Ranch**

3 **Q. Did RUCO make any adjustments to rate base other than post-test**
4 **year additions related to UPIS?**

5 A. Yes. RUCO made an adjustment to the UPIS for the SaddleBrooke
6 Ranch system. RUCO reviewed additions, deletions and adjustments for
7 each system from the last rate case forward in order to confirm the original
8 cost rate base as shown by the Company on Schedule B-2 of their
9 Application. The results of my review identified a reduction in the original
10 cost rate base for the SaddleBrooke Ranch location as submitted by the
11 Company at the end of the test year by \$51,738.

12
13 **Q. Did the Company provide additional information supporting the un-**
14 **reconciled difference subsequent to the date your original testimony**
15 **was submitted?**

16 A. Yes. The Company provided details supporting the un-reconciled
17 difference.

18
19 **Q. Does RUCO accept the information provided?**

20 A. Yes. RUCO accepts the details supporting the un-reconciled balance and
21 has made the appropriate adjustment in the attached schedules.

22

1 **RUCO Rate Base Adjustment #3 – Cash Working Capital - All Locations**

2 **Q. Is RUCO proposing a Cash Working Capital requirement adjustment**
3 **in this case?**

4 A. Yes. RUCO proposes a reduction in Cash Working Capital for each
5 system. These adjustments are shown on Schedules RBM-5 and RBM-
6 6(1) and discussed previously in my testimony.

7
8 **Q. Did the Company accept RUCO's recommendation to reduce their**
9 **working capital requirements?**

10 A. No. In its rebuttal testimony the Company adjusted their working capital
11 request only by the amount of the difference in operating expenses as
12 proposed by the Company. To the extent that the Company does not
13 accept the proposed expense adjustments they do not accept the
14 proposed recommended working capital allowance.

15
16 **Q. Has the Cost of Common Equity previously been addressed by the**
17 **Commission in prior rate cases?**

18 A. Yes. In Decision No. 71845, which was AWC's last rate case, the
19 Commission disallowed the Company's inclusion of the cost of equity in
20 the lead/lag study.

21

22

1 **Q. Did RUCO recommend other adjustments to working capital not**
2 **accepted by the Company?**

3 A. Yes, RUCO made adjustments to the Cost of Common Equity and
4 payment of dividends.

5

6 **Q. Does RUCO agree with Mr. Reiker's rebuttal testimony stating that**
7 **the Company's stockholders' compensation is earned every day**
8 **service is rendered?**

9 A. No. I would agree with Mr. Reiker that revenue is earned every day that
10 service is rendered, which generates the compensation distributed to the
11 Company's stockholders on a quarterly basis. However, that earned
12 compensation is not distributed to stockholders every day. The Company
13 distributes some portion of its quarterly earned compensation, in the form
14 of dividends, to its stockholders each quarter of the year and reinvests the
15 remaining portion back into the Company.

16

17 **Q. Aren't dividend payments optional and have to be approved by the**
18 **Board of Directors?**

19 A. Yes, dividend payments are optional and have to be approved for
20 payment by the Board of Directors. However, AWC's Board of Directors
21 have consistently, quarter after quarter, year after year, without
22 interruption, maintained full dividend payments to its controlling holding

1 company shareholders and are also included in the Company's pro forma
2 cash projections going forward.

3
4 **Q. Does RUCO believe that dividend payments should be included in**
5 **the calculation of Working Capital?**

6 A. Yes. RUCO takes the position that dividend payments should be included
7 in the calculation of the Company's Working Capital. The Company has
8 paid dividends quarterly since at least January 2005, and dividend
9 payments are included in the Company's projected cash flow for payment
10 in future years. It is RUCO's position that dividend payments should not
11 be treated any differently than payment of interest on Company debt.

12
13 **Rate Base Adjustment #SR4 – Utility Plant in Service (Retire Plant No**
14 **Longer In Service) – Superstition (Miami)**

15 **Q. Can you please explain the basis for this adjustment?**

16 A. According to staff testimony two wells, serving the Miami system, were
17 taken out of service during the test year. Well No. 8, original cost \$9,354
18 and well No. 17, original cost \$37,536. Staff recommended in its direct
19 testimony that UPIS be adjusted to record the retirement of these two
20 wells.

1 **Q. What was the Company's response to staff's recommendation?**

2 A. The Company accepted staff's recommendation and made the appropriate
3 adjustment for Well No. 8, and reduced UPIS by \$9,354 with a
4 corresponding entry to Accumulated Depreciation.

5
6 **Q. How did the Company respond to the retirement of Well No. 17?**

7 A. The Company provided details supporting repairs to Well No. 17 and the
8 well has been returned to service.

9
10 **Q. Has RUCO reviewed the information provided to support the repairs
11 to Well No. 17 and what is RUCO's final recommendation?**

12 A. Yes. RUCO has reviewed the details supporting the repair of this well and
13 has accepted the Company's explanation. RUCO recommends that only
14 Well No. 8 be retired and reduce the UPIS for the Miami system by the
15 cost of the well, \$9,354.

16
17 **Rate Base Adjustment #SR5 – Utility Plant in Service (Capitalize Water
18 Testing Expenses) – SaddleBrooke Ranch**

19 **Q. Can you please explain the rate base adjustment related to
20 SaddleBrooke Ranch?**

21 A. Yes. Staff identified \$9,510 in water testing expenses erroneously
22 charged to the San Manuel system that should have been capitalized as
23 UPIS in the SaddleBrooke Ranch system. These expenses were

1 associated with a well start up, are nonrecurring in nature, and should
2 have been capitalized.

3
4 **Q. What is the accounting affect when recording this adjustment?**

5 A. The UPIS and resultant rate base will be increased for the SaddleBrooke
6 Ranch system and test year operating expenses will be reduced for the
7 San Manuel system.

8
9 **Q. Did the Company agree with the recommendation as made by Staff?**

10 A. Yes. The Company accepted the recommendation.

11
12 **Q. Does RUCO agree with the recommended treatment of these costs?**

13 A. Yes. RUCO agrees with this reclassification of these costs and have
14 made the appropriate adjustments on the schedules attached.

15
16 **SURREBUTAL OPERATING INCOME ADJUSTMENTS**

17 **Operating Income Adjustment #1 –Pumping, Transmission and Distribution**
18 **Expense, Normalization Adjustment**

19 **Q. Please explain the Company's pro forma adjustment to pumping and**
20 **transmission & distribution maintenance expense?**

21 A. The Company's pro forma adjustment to pumping and transmission and
22 distribution maintenance expense is based on a regression analysis. The
23 analysis is over a fourteen-year period, 2000 through 2014. AWC's

1 analysis uses eleven-years of actual historical annual expense amounts.
2 The Company then uses the intercept and x variable coefficients produced
3 in the regression analysis to predict the *future* costs for years 2011
4 through 2014. Finally, the Company averages years 2013 and 2014 and
5 subtracts the test year level of pumping and transmission and distribution
6 maintenance expense as the basis for its pro forma adjustment.

7
8 **Q. How does RUCO respond to the Company's methodology as utilized**
9 **in its regression analysis?**

10 A. The Company's statistical methodology has attempted to predict/forecast
11 a future expense. A regression analysis measures the strength or
12 weakness between a dependent variable and an independent variable.
13 The R squared value is the *ultimate yardstick of regression analysis:*

14 "An R squared coefficient of 1 means the relationship is
15 direct – -1 means there is a negative relationship – a
16 coefficient of zero means there is no relationship between
17 *the two factors.*"

18
19 In AWC's Superstition and Cochise systems, the R squared factor is .60
20 and .35 for transmission & distribution maintenance expense respectively.
21 The R squared factor of .35 is a very weak relationship between the two
22 variables while an R squared factor of .65 is also considered a weak
23 relationship. Most regression analysis consider a .90 to .95 and above as

1 a strong relationship between the two variables. Therefore, RUCO
2 dismisses and cannot rely on the Company's regression analysis as it is
3 presented.

4
5 **Q. Are there other reasons why RUCO believes the 21.4% adjustment to**
6 **transmission and distribution expense is excessive?**

7 A. Yes. I believe there are two other reasons justifying reducing this
8 adjustment. First, Mr. Reiker includes in his testimony a chart that shows
9 "T&D Maintenance Cost per Customer." Mr. Reiker¹ explains that this
10 chart is consistent with, and conforms to the consensus that water utilities
11 operate in a rising-cost industry. While this chart does show an increase
12 in cost per customer over a seventeen year period, there was a three year
13 period between 1996 and 1999 when cost per customer reduced from
14 \$29.00 to \$26.00. This reduction over a three year period, compared to
15 the reduction over the last three year period of 2008, 2009, and 2010,
16 could very well indicate that transmission, distribution and maintenance
17 expense could be cyclic in nature.

18
19
20
21

¹ See Exhibit A

1 **Q. In your review of the graph included in Mr. Reiker's testimony is**
2 **there anything else you would like to comment on?**

3 A. Yes. Once the cost per customer began to rise again in year 2000, it took
4 approximately 4 years for the cost to return to the 1996 levels of \$26.00
5 per customer.

6
7 **Q. What is the second reason why RUCO believes this adjustment is**
8 **excessive?**

9 A. In Mr. Harris and Mr. Reiker's testimony, both have stated that cost-cutting
10 measures, due to the economic downturn in 2008, included a focus on
11 reducing the level of costs incurred in the maintenance of the Company's
12 pumping and T&D systems to a minimum level sufficient to maintain
13 adequate and reliable services. While these expenses did decrease over
14 the three year period, there was a significant increase, 12.1%, over that
15 same period of time under the classification Administration and General
16 Expenses. In addition, the Company continued to pay shareholder
17 dividends, each and every quarter, during the same three year period.

18

19

20

21

22

1 **Q. Does RUCO agree with the statement made by the Company that**
2 **“the Company and RUCO are in agreement that the test year levels of**
3 **Pumping and T&D Maintenance Expenses were abnormally low and**
4 **both parties propose normalizing adjustments.”**

5 A. RUCO initially recommended a normalization adjustment using three
6 years of historical data. However, when reviewing the outputs from the
7 regression analysis indicating the lack of a relationship between the
8 variables used in the analysis, coupled with historical information and
9 testimony provided by the Company, RUCO does not believe that a
10 normalization adjustment is appropriate.
11

12 **Operating Income Adjustment #2 – Rate Case Expense**

13 **Q. Did the Company agree with RUCO’s rate case expense adjustment?**

14 A. No.
15

16 **Q. What did AWC request for rate case expense in their application and**
17 **what was RUCO’s recommendation?**

18 A. AWC requested \$476,874 as rate case expense and RUCO
19 recommended \$312,600. Both AWC and RUCO recommended a
20 recovery period of 4 years.
21
22

1 **Q. How did AWC respond in their disagreement with RUCO's**
2 **adjustment to the Company's requested rate case expense?**

3 A. The Company did not agree with our methodology of applying an
4 inflationary factor for years 2004 through 2011 to \$250,000 rate case
5 expense approved by the Commission in the Company's last Eastern
6 Group rate case. (see Mr. Reiker's rebuttal testimony page 33 lines (7 –
7 10)

8
9 **Q. Did the Company have any other comments reference their**
10 **disagreement with RUCO's methodology?**

11 A. Yes. In Mr. Reiker's, rebuttal testimony he stated that the Company
12 provided a detailed breakdown of its estimated rate case expense, as well
13 as a summary of actual charges to date in its response to RUCO Data
14 Request 1.27. Mr. Reiker also stated that RUCO did not challenge the
15 Company's original estimate or its actual costs to date and that "RUCO
16 and Staff simply offer their own theoretical "back of the envelope
17 calculations".

18
19 **Q. Does RUCO agree with this synopsis as stated by Mr. Reiker?**

20 A. No. In follow up Data Requests Nos. 2.03, 2.04, 2.05, 2.06, 2.07, 2.08,
21 and 3.01, RUCO requested additional information regarding rate case
22 expense. More specifically, RUCO requested an explanation of the total
23 rate case expense by category, the names and hourly charging rates of

1 the individuals representing AWC for both legal and other consulting
2 services, an estimate of the chargeable hours for these external services
3 and copies of any written agreements. Obviously RUCO was concerned
4 about the rate case expense being requested.

5
6 **Q. Was the information provided by the Company in their responses to**
7 **these data requests?**

8 A. Yes. AWC provided all information requested including the hourly rates
9 charged for both legal and consulting services. Regarding the request for
10 written agreements or hourly estimates for services Mr. Harris provided
11 the following explanation: "The estimates were determined through
12 informal discussions with the parties and were not memorialized in any
13 formal agreement."

14
15 **Q. What was RUCO's conclusion once all information was reviewed?**

16 A. The estimate for legal and consulting services was \$375,000 and \$86,000
17 respectively. The average hourly rate for these services is \$307 and \$240
18 respectively. Based on the information provided for these external
19 services RUCO believes that 1,221 billable hours for legal services and
20 358 billable hours for consulting services are excessive and should not be
21 borne entirely by the rate payer.

22
23

1 **Q. Why does RUCO believe the \$476,874 amount is excessive?**

2 A. Again, as I said, the standard is what is reasonable, not the actual or even
3 the estimated amount. The amount requested must be reasonable under
4 the circumstances on any given case. Here, as I have explained,
5 \$476,874 is not a reasonable amount of rate case expense.
6

7 **RUCO Operating Adjustment #3 – Fleet Fuel Expense**

8 **Q. Can you please explain RUCO's original adjustment to the Company-**
9 **proposed level of Fleet Fuel Expense?**

10 A. RUCO reduced the Company-proposed level of Fleet Fuel Expense by
11 \$23,116 based on the downward price trend, as identified by AAA Daily
12 Fuel Gage, of a gallon of gasoline over the test year period. The
13 Company used a price per gallon of \$3.671. RUCO adjusted the price per
14 gallon downward to \$3.315, based on the most current known and
15 measurable price per gallon of gasoline in January 2012.
16

17 **Q. Did the Company agree with RUCO's recommendations?**

18 A. No. The Company did not agree with RUCO recommendation as the price
19 of gasoline has increase substantially since their original testimony was
20 filed.
21
22

1 **Q. Did RUCO address the potential increase in gasoline prices at the**
2 **time testimony was filed?**

3 A. Yes. *RUCO included in their testimony the following:* "We agree the cost
4 of gasoline has been increasing. We determined the cost of gasoline at a
5 specific point in time and prepared adjustments to the Fleet Fuel Expense
6 for each system accordingly. RUCO is prepared to review our adjustment
7 if the price of fuel continues to increase and change our recommended
8 adjustment if necessary."
9

10 **Q. Does RUCO agree with the Company that the known and measurable**
11 **cost of gasoline at \$3.671 per gallon is reasonable?**

12 A. Yes. RUCO accepts the Company's original position and the fleet fuel
13 adjustment.
14

15 **RUCO Operating Adjustment #4 – Miscellaneous Expense**

16 **Q. Please explain RUCO's adjustment to Miscellaneous Expense.**

17 A *RUCO removed Civic/Service club dues, fees, donations, costs for flowers*
18 *purchased and annual Service Award Banquet costs. These are costs*
19 *that the ratepayers should not have to pay for their cost of service. In*
20 *addition, water associations' fees and dues were reduced by 50 percent to*
21 *be shared by the shareholders and ratepayers. RUCO has proposed and*
22 *the Commission has accepted this percentage allocation in prior many*

1 rate cases and RUCO believes this is a fair allocation between Company
2 and ratepayers.

3

4 **Q. Did the Company agree with RUCO's recommendation?**

5 A. Yes. The Company agreed with RUCO's recommendation.

6

7 **RUCO Operating Adjustment #5 – Depreciation Expense**

8 **Q. Was a depreciation expense adjustment required once the post Test**
9 **Year plant final costs were determined?**

10 A. Yes, depreciation expense adjustments were made for the Superstition,
11 Cochise, and Oracle locations. These three systems included post test
12 year plant additions based on estimated costs. When final costs were
13 determined rate base and depreciation expenses were recomputed.

14

15 **Q. Did the Company agree with your recommendation to decrease**
16 **depreciation expense?**

17 A. Yes. The company agreed with our recommendation.

18

19 **RUCO Operating Adjustment #6 – Property Tax Expense**

20 **Q. Has RUCO made any adjustment to their original testimony**
21 **regarding the calculation of property tax expense?**

22 A. Yes. The Company, in their surrebuttal testimony, provided details
23 indicating that the effective tax rates for each system have been adjusted.

1 After a thorough review of the property tax statements, RUCO accepts the
2 Company's adjusted tax rates for each of the Eastern Groups systems.

3
4 **Q. Has RUCO made an adjustment to the Company-proposed level of**
5 **Property Tax Expense?**

6 A. Yes. Adjustments have been made based on the adjusted levels of
7 revenues for each system as recommended by RUCO.

8
9 **RUCO Operating Adjustment #7 – Income Tax Expense**

10 **Q. Have you calculated Income Tax Expense based on RUCO's**
11 **recommended adjusted operating income?**

12 A. Yes. This adjustment is shown on Schedules RBM-16 for the six systems
13 in the Eastern Group.

14
15 **Q. Does the Company accept RUCO's income tax calculation based on**
16 **adjustments in revenues?**

17 A. Yes. Since the Company was silent on RUCO's income tax adjustment I
18 assume they are in agreement.

19
20
21
22
23

1 **RUCO Surrebuttal Adjustment #SR8 – Unbilled Expenses – All Locations**

2 **Q. Did the Company eliminate its test year adjustment for unbilled**
3 **expenses in their rebuttal testimony?**

4 **A. Yes. The Company did eliminate its test year adjustment for these**
5 **expenses.**

6

7 **Q. Does RUCO agree with this elimination?**

8 **A. Yes. RUCO does agree with this adjustment and has made the**
9 **appropriate adjustment in the attached schedules.**

10

11 **RUCO Surrebuttal Adjustment #SR9 – Water Testing Expense – San Manuel**

12 **Q. Can you briefly discuss the nature of this adjustment**

13 **A. Costs of \$9,510 were erroneously charged to expense in the San Manuel**
14 **system when these costs were actually related to startup testing of a well**
15 **in the Saddlebrooke Ranch system.**

16

17 **Q. What was the result of this adjustment?**

18 **A. The UPIS, and resultant rate base in the SaddleBrooke Ranch system**
19 **were increased while operating expenses were decreased in the San**
20 **Manuel system.**

21

22

23

1 **Q. Did the Company agree with this adjustment?**

2 A. Yes. The Company agreed with the adjustment and made the correction
3 in their rebuttal schedules.

4

5 **RUCO Surrebuttal Adjustment #SR10 – BMP Expenses - Superstition**

6 **Q. Can you please briefly explain the nature of this adjustment?**

7 A. This adjustment reduces the Company's estimated level of BMP expense
8 by \$6,470 for the Superstition System only. Staff recommends this
9 adjustment and Company agreed. RUCO adopts this adjustment and
10 makes the necessary adjustment to Superstition schedules.

11

12 **Q. Does this conclude your testimony on AWC's Eastern Group revenue**
13 **requirements?**

14 A. Yes, it does.

EXHIBIT

“A”

ARIZONA WATER COMPANY Transmission Distribution Maintenance Expense

Test Year Ended December 31, 2010

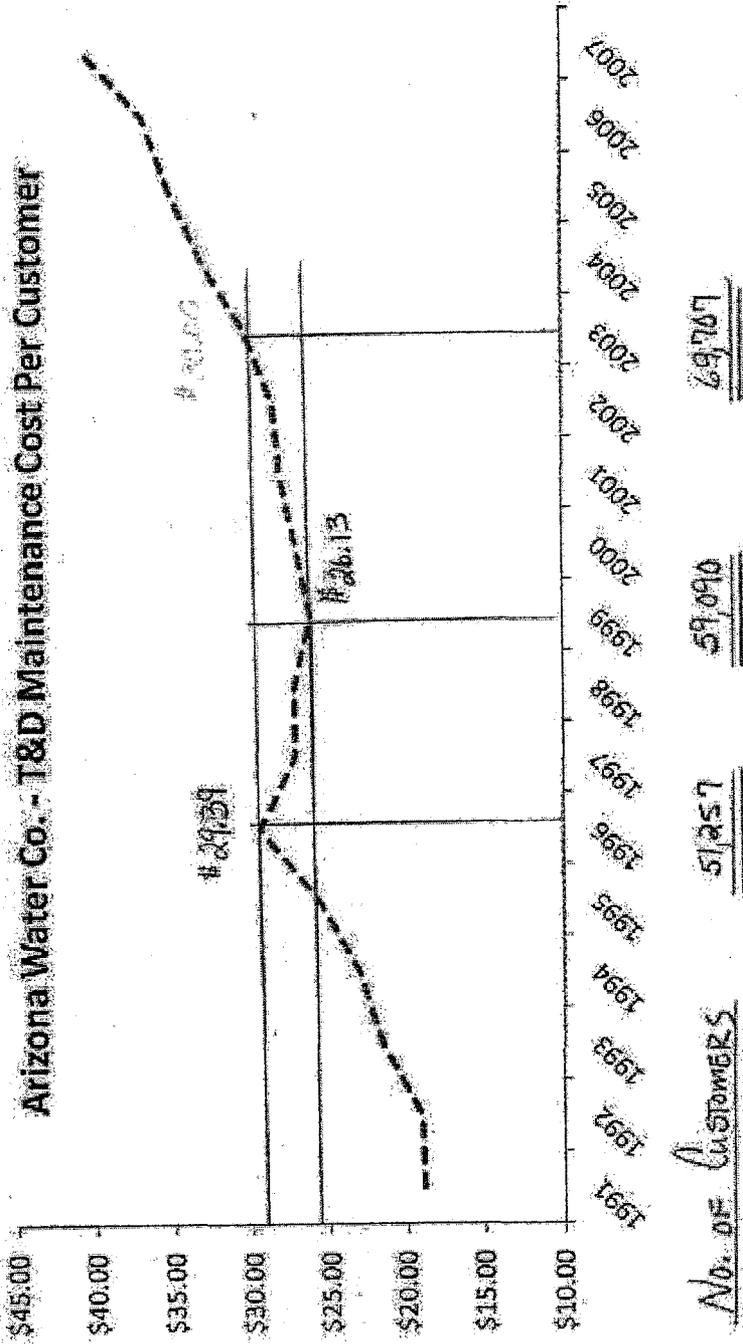


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REVENUE REQUIREMENT - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Adjusted Original Cost/Fair Value Rate Base	\$ 50,574,693	\$ 49,960,832
2			
3	Adjusted Operating Income (Loss)	\$ 2,562,891	\$ 2,779,630
4			
5	Current Rate of Return (L3 / L1)	5.07%	5.56%
6			
7	Required Operating Income (L9 X L1)	\$ 4,914,647	\$ 4,062,522
8			
9	Required Rate of Return on Fair Value Rate Base	9.72%	8.13%
10			
11	Operating Income Deficiency (L7 - L3)	\$ 2,351,756	\$ 1,282,892
12			
13	Gross Revenue Conversion Factor (RBM-1, Page 2 of 2)	1.6560	1.6598
14			
15	Required Increase in Gross Revenue Requirement (L11 X L13))	\$ 3,894,582	\$ 2,129,309
16			
17	Adjusted Test Year Revenue	\$ 15,056,166	\$ 15,056,166
18			
19	Proposed Annual Revenue (L15 + L17)	\$ 18,950,748	\$ 17,185,475
20			
21	Required Percentage Increase in Revenue (L15 / L17)	25.87%	14.14%
22			
23	Consolidated Revenue Adjustment	\$ -	\$ -
24			
25	Required Increase in Gross Revenue Under Proposed Consolidation	\$ -	\$ -
26			
27	Required Revenue Under Proposed Consolidation	\$ -	\$ -
28			
29	Required Percentage Increase in Revenue Under Proposed Consolidation	0%	0%
30			
31	Rate of Return on Common Equity	12.50%	9.40%

References:

Column (A): Company Schs. A-1 and C-1

Column (B): RUCO Schs. RBM-2, RBM-7, RBM-9 and RBM-17

GROSS REVENUE CONVERSION FACTOR - SURREBUTTAL

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	CALCULATION OF GROSS REVENUE CONVERSION FACTOR:				
1	Revenue	100.0000%			
2	Proposed Bad Debt Expense (Per Co. Workpapers)	-			
3	Subtotal (L1 thru L2)	100.0000%			
4	Combined Federal, State, Property Tax Rate (L22)	39.7508%			
5	Subtotal (L3 - L4)	60.2492%			
6	Revenue Conversion Factor (L1 / L5)	1.6598			
7					
8	CALCULATION OF EFFECTIVE TAX RATE:				
9	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
10	Arizona State Income Tax Rate	6.9680%			
11	Federal Taxable Income (L9 - L10)	93.0320%			
12	Applicable Federal Income Tax Rate (L58)	34.0000%			
13	Effective Federal Income Tax Rate (L11 X L12)	31.6309%			
14	Combined Federal and State Income Tax Rate (L10 + L13)	<u>38.5989%</u>			
15					
16	CALCULATION OF EFFECTIVE PROPERTY TAX FACTOR:				
17	Unity	100.0000%			
18	Combined Federal and State Tax Rate	38.5989%			
19	1 Minus Combined Income Tax Rate	61.4011%			
20	Property Tax Factor	1.8760%			
21	Effective Property Tax Factor (L19 x L 20)	1.1519%			
22	Combined Federal, State & Property Tax Rate (L14 + L21)	<u>39.7508%</u>			
23					
24	RUCO Required Operating Income (Sch. RBM-1, Col. (B), L7)	\$ 4,062,522			
25	RUCO Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RBM-1, Col. (B), L3)	<u>2,779,630</u>			
26	Required Increase In Operating Income (L24 - L25)		\$ 1,282,892		
27					
28	Income Taxes On Recommended Revenue (Col. (D), L53)	\$ 1,504,860			
29	Income Taxes On Test Year Revenue (Col. (D), L55)	<u>698,413</u>			
30	Required Increase In Revenue To Provide For Income Taxes (L28 - L29)		\$ 806,447		
31					
32	Property Tax with Recommended Revenue (Sch. RBM-7, Col. E, L31)	887,330			
33	Property Tax on TestYear Revenue (Sch. RBM-7, Col. C, L31)	<u>847,361</u>			
34	Increase in Property Tax Due to Increase in Revenue (L32 - L33)		\$ 39,969		
35					
36	Total Required Increase In Revenue (L26 + L30 + L34)		<u>\$ 2,129,309</u>		
37					
38	<u>RUCO's CALCULATION OF INCOME TAX:</u>				
39	RUCO Proposed Revenue (Sch. RBM-1, Col. (B), L19)			\$ 17,185,475	
40	Less:				
41	Operating Expense Excluding Income Tax (Sch. RBM-7, Col. (E), L24 + L26 + L31 + L32)			11,618,069	
42	Synchronized Interest (Col. (C), L63)			<u>1,668,692</u>	
43	Arizona Taxable Income (L39 - L41 - L42)			\$ 3,898,714	
44	Arizona State Income Tax Rate			6.9680%	
45	Arizona Income Tax (L43 X L44)				\$ 271,662
46	Fed. Taxable Income (L43 - L45)			\$ 3,627,052	
47	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
48	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			\$ 6,250	
49	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			\$ 8,500	
50	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			\$ 91,650	
51	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			\$ 1,119,298	
52	Total Federal Income Tax (L47 thru L 51)				\$ 1,233,198
53	Combined Federal And State Income Tax (L45+ L52)				<u>\$ 1,504,860</u>
54					
55	RUCO Adj'd Test Year Combined Federal and State Income Tax (RBM-7, Col. (C), L29 and L30)				\$ 698,413
56	RUCO Proposed Income Tax Adjustment (L53 - L55)				<u>\$ 806,447</u>
57					
58	Applicable Federal Income Tax Rate				34.00%
59					
60	<u>NOTE (A): Interest Synchronization</u>				
61	Adjusted Rate Base RBM-2, Col. (C), L28			\$ 49,960,832	
62	Weighted Cost Of Debt RBM-9, Col. (M), L1			3.34%	
63	Interest Expense (L61 X L62)			<u>\$ 1,668,692</u>	

SUMMARY RATE BASE - ORIGINAL COST - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ/TED OCRB/FVRB
1	Plant Classification			
2	Intangible Plant	\$ 14,996	\$ -	\$ 14,996
3	Source of Supply Plant	9,147,654	(7,699)	9,139,955
4	Pumping Plant	10,135,447	32,829	10,168,275
5	Water Treatment Plant	10,320,657	(82,103)	10,238,554
6	Transmission & Distribution Plant	78,747,178	(33,129)	78,714,048
7	General Plant	5,985,412	(1,037)	5,984,375
8	Total Gross Plant in Service (L2 thru L7)	\$ 114,351,343	(91,140)	\$ 114,260,203
9				
10	Accumulated Depreciation	\$ 27,844,496	\$ (9,197)	\$ 27,835,142
11	Net Utility Plant In Service (L8 - L10)	\$ 86,506,846	\$ (81,943)	\$ 86,425,061
12				
13	Advances In Aid Of Const.	\$ 11,305,977		\$ 11,305,977
14				
15	Contribution In Aid Of Const.	\$ 20,165,452		\$ 20,165,452
16	Accumulated Amortization Of CIAC	\$ (2,561,377)		\$ (2,561,377)
17	NET CIAC (L15 + L16)	\$ 17,604,075	\$ -	\$ 17,604,075
18				
19	Deferred Income Tax	\$ 7,267,953		\$ 7,267,953
20				
21	Customer Deposits	\$ 322,847		\$ 322,847
22				
23	Allowance For Working Capital	\$ 1,016,691	\$ (532,076)	\$ 484,615
24				
25	Net Regulatory Asset / (Liability)	\$ (448,000)		\$ (448,000)
26				
27	Rounding	\$ 8		\$ 8
28	TOTAL RATE BASE (L11-L17-L19-L21+L23+L25)	\$ 50,574,693	\$ (614,019)	\$ 49,960,832

References:
Column (A): Company Schedule B-1 and RBM-3 Col. E
Column (B): Schedule RBM-3 Cols. F and G
Column (C): Col. A + Col. B; RBM-3

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS - SURREBUTTAL

LINE NO	DESCRIPTION	(A) COMPANY AS FILED NET PLANT TEST YEAR	(B) COMPANY ADJ NO 1 POST TEST YEAR ADJUSTMENTS	(C) NET REGULATORY LIABILITY	(D) PHOENIX OFF AND METER SHOP	(E) COMPANY AS FILED OCRB/FVRB	(F) ADJMT NO. 1 POST TEST YR ADJUSTMENTS	(G) Surrebuttal ADJMT NO. 2 Removal of Well ADJUSTMENTS	(H) ADJMT NO. 6 WORKING CAPITAL	(I) RUCO ADJUSTED OCRB/FVRB
1	Plant Classification									
2	Intangible Plant	\$ 12,375	\$ -	\$ -	\$ 2,621	\$ 14,996	\$ -	\$ -	\$ -	14,996
3	Source of Supply Plant	9,147,631	-	-	23	9,147,654	-	(7,699)	-	9,139,955
4	Pumping Plant	9,986,535	148,912	-	-	10,135,447	34,484	(1,655)	-	10,168,275
5	Water Treatment Plant	7,448,003	2,872,067	-	587	10,320,657	(82,103)	-	-	10,238,554
6	Transmission & Distribution Plant	76,380,067	365,373	-	1,738	78,747,178	(33,129)	-	-	78,714,048
7	General Plant	3,936,146	27,868	-	2,021,378	5,985,412	(1,037)	-	-	5,984,375
8	Total Gross Plant in Service (Sum L2 thru L7)	\$ 106,910,756	\$ 3,414,240	\$ -	\$ 2,026,347	\$ 114,351,343	\$ (81,786)	\$ (9,354)	\$ -	\$ 114,260,203
9	Accumulated Depreciation	\$ 27,323,731	\$ 49,649	\$ -	\$ 471,116	\$ 27,844,496	\$ -	\$ 9,354	\$ -	\$ 27,835,142
10	Net Utility Plant in Service (L8 less L10)	\$ 81,587,024	\$ 3,364,591	\$ -	\$ 1,555,231	\$ 86,506,846	\$ (81,786)	\$ -	\$ -	\$ 86,425,061
12	Advances In Aid Of Const.	\$ 11,305,977	\$ -	\$ -	\$ -	\$ 11,305,977	\$ -	\$ -	\$ -	\$ 11,305,977
14	Contribution In Aid Of Const.	\$ 20,165,452	\$ -	\$ -	\$ -	\$ 20,165,452	\$ -	\$ -	\$ -	\$ 20,165,452
15	Accumulated Amortization Of CIAC	(2,561,377)	-	-	-	(2,561,377)	-	-	-	(2,561,377)
16	NET CIAC (L15 less L16)	\$ 17,604,075	\$ -	\$ -	\$ -	\$ 17,604,075	\$ -	\$ -	\$ -	\$ 17,604,075
17	Deferred Income Tax	\$ -	\$ -	\$ -	\$ 7,267,953	\$ 7,267,953	\$ -	\$ -	\$ -	\$ 7,267,953
19	Customer Deposits	\$ 322,847	\$ -	\$ -	\$ -	\$ 322,847	\$ -	\$ -	\$ -	\$ 322,847
20	Allowance For Working Capital	\$ 1,016,691	\$ -	\$ -	\$ -	\$ 1,016,691	\$ -	\$ -	\$ (532,076)	\$ 484,615
21	Net Regulatory Asset / (Liability)	\$ -	\$ -	\$ (448,000)	\$ -	\$ (448,000)	\$ -	\$ -	\$ -	\$ (448,000)
22	Adjustment to Match Rate Base with G/L	\$ 53,370,824	\$ 3,364,591	\$ -	\$ (5,712,722)	\$ 50,574,693	\$ (81,786)	\$ -	\$ -	\$ 49,960,832
23	TOTAL RATE BASE (Sum L's 11, 13, 17, 19, 21, 23, 25 27)	\$ 53,370,824	\$ 3,364,591	\$ (448,000)	\$ (5,712,722)	\$ 50,574,693	\$ (81,786)	\$ -	\$ (532,076)	\$ 49,960,832

References:
 Columns (A) through (E): Company Schedule B-2; Column (D) RBM-4(1)
 Column (F): RUCO Schedule RBM-6, Col. F
 Column (G): See RUCO Surrebuttal Testimony
 Column (H): RUCO Schedule RBM-5, Col. A

DIRECT PLANT AND ACCUMULATED DEPRECIATION--SURREBITAL

Line No.	Acct No.	Description	Depreciation Rate	2010					Balance Per G.L.	Difference
				Additions	Retirements	Adjustments	Depreciation Expense	Balance		
1		Intangible Plant								
2	301	Organization	0.00%					6,869		
3	302	Franchises	See Acct. 111				275	5,506		
4	303	Other Intangibles	See Acct. 111				275	12,375		
5		Subtotal Intangible Plant								
6	310.1	Source of Supply Plant	0.00%			(24)		793,568		
7	310.2	Water Rights	0.00%					153,791		
8	310.3	Other Source of Supply Land	0.00%				63,608	1,526,600		
9	310.4	Wells - Other	See Acct. 111			(878,585)		6,673,672	(7)	
10	314	Wells	3.13%			(878,619)		9,147,631	(7)	
11		Subtotal Source of Supply Plant								
12		Pumping Plant						18,910		
13	320	Pumping Plant Land	0.00%				8,402	293,630	(1)	
14	321	Pumping Plant Structures & Improvements	2.85%	107				9,673,632	0	
15	325	Electric Pumping Equipment	5.88%	206,332	(52,770)	(44,448)	585,602	163		
16	328	Gas Engine Equipment	4.00%			7		9,986,535	(1)	
17		Subtotal Pumping Plant								
18		Water Treatment Plant						811		
19	330	Water Treatment Plant Land	0.00%				1,240	49,566	0	
20	331	Water Treatment Structures & Improvements	2.50%	42,975			210,957	7,397,505	1	
21	332	Water Treatment Equipment	2.86%	42,975			212,197	7,448,003	1	
22		Subtotal Water Treatment Plant								
23		Transmission & Distribution Plant						195,215		
24	340	Transmission & Distribution Land	0.00%				98,904	4,946,483	(1)	
25	342	Storage Tanks	2.00%	2,593			950,198	53,280,892	(0)	
26	343	Transmission & Distribution Mains	1.79%	397,829	(3,841)		14,600	756,878	1	
27	344	Fire Sprinkler Taps	2.00%	54,657	(2,902)		318,523	13,475,428	(0)	
28	345	Services	2.38%	182,600	(6,374)		91,680	2,027,498	0	
29	346	Meters	4.55%	28,632	(3,748)		66,774	3,697,872	(1)	
30	348	Hydrants	1.82%	60,905	(2,693)		1,540,678	78,380,067	(1)	
31		Subtotal Transmission & Distribution Plant								
32		General Plant						54,081		
33	389	General Plant Land	0.00%				21,805	880,275	1	
34	390	Leasehold Improvements	2.50%	17,635	(1,724)		21,135	849,700	(1)	
35	390.1	Office Furniture & Equipment	See Acct. 108.2	2,863			29,866	450,547	(1)	
36	391	Varehouse Equipment	6.67%	1,702			591	12,675	(1)	
37	393	Tools, Shop & Garage Equipment	5.00%	3,090			17,847	447,717	(0)	
38	394	Laboratory Equipment	4.00%	2,827	(1,667)		4,296	86,544	0	
39	395	Power Operated Equipment	5.00%	713			2,918	44,105	0	
40	396	Miscellaneous Equipment	6.67%	22,171	(1,587)		66,907	1,074,181	0	
41	397	Miscellaneous Equipment	6.67%	20,223			2,698	96,332	0	
42	398	Miscellaneous Equipment	3.33%	71,523	(4,875)		169,353	3,936,146	0	
43		Subtotal General Plant								
44		Plant In Service						108,910,756	(7)	
45		Net Salvage/Cost of Removal								
46		Accum. Deprec. Related to other Plant Adjustments								
47		Adjustments looked to Conform with Rate Decision								
48		Accumulated Depreciation & Amort.								
49										
50		Net Plant In Service								

537
(306,731)
27,318,921 27,318,921 27,323,731 (4,810)
\$ 1,063,980 \$ (79,596) \$ (923,067) \$ (923,067) \$ (27,318,921) \$ 81,587,024 \$ 4,803

PHOENIX OFFICE AND METER SHOP - RATE BASE ALLOCATION - SURREBUTTAL

LINE NO	DESCRIPTION	(A) TEST YEAR ADJUSTED	(B) Superstition	(C) Cochise 7.19%	(D) San Manuel 1.64%	(E) Oracle 2.04%	(F) SaddleBrook Ranch 0.15%	(G) Winkelman 0.19%
1	3 Factor Allocation Factor		28.65%					
2	Phoenix Office Allocation	\$ 9,148	\$ 2,621	\$ 658	\$ 150	\$ 187	\$ 14	\$ 17
3	Plant Classification							
4	Intangible Plant							
5	Source of Supply Plant							
6	Pumping Plant							
7	Water Treatment Plant							
8	Transmission & Distribution Plant	6,914,749	1,981,076	497,170	113,402	141,061	10,372	13,138
9	General Plant	6,917,761	1,983,696	497,828	113,552	141,247	10,386	13,155
10	Total Gross Plant in Service (Sum L4 thru L9)							
11	Less:							
12	Accumulated Depreciation	\$ 1,587,979	\$ 454,956	\$ 114,176	\$ 26,043	\$ 32,395	\$ 2,382	\$ 3,017
13	Net Utility Plant In Service (L10 less L12)	\$ 5,329,782	\$ 1,528,740	\$ 383,652	\$ 87,509	\$ 108,653	\$ 8,004	\$ 10,138
14	Less:							
15	Deferred Income Tax	25,368,073	7,267,953	1,823,964	416,036	517,509	38,052	48,199
16	Total Phoenix Office Allocation (L13 less L15)	\$ (20,038,291)	\$ (5,739,212)	\$ (1,440,312)	\$ (328,527)	\$ (408,656)	\$ (30,048)	\$ (38,061)
17	Meter Shop Allocation							
18	Plant Classification							
19	Intangible Plant							
20	Source of Supply Plant	80	23	6	1	2		
21	Pumping Plant							
22	Water Treatment Plant	2,050	587	147	34	42	3	4
23	Transmission & Distribution Plant	6,065	1,738	436	99	124	9	12
24	General Plant	146,810	42,061	10,556	2,408	2,995	220	279
25	Total Gross Plant in Service (Sum L20 thru L25)	\$ 155,005	\$ 44,409	\$ 11,145	\$ 2,542	\$ 3,162	\$ 232	\$ 294
26	Less:							
27	Accumulated Depreciation	\$ 56,404	\$ 16,160	\$ 4,055	\$ 925	\$ 1,151	\$ 85	\$ 107
28	Net Utility Plant In Service (L26 less L28)	\$ 98,601	\$ 28,249	\$ 7,089	\$ 1,617	\$ 2,011	\$ 148	\$ 187
29	Less:							
30	Deferred Income Tax	56,404						
31	Total Phoenix Office Allocation (L29 less L31)	\$ 42,197	\$ 28,249	\$ 7,089	\$ 1,617	\$ 2,011	\$ 148	\$ 187
32	Total Phoenix Office and Meter Shop Allocation							
33	Plant Classification							
34	Intangible Plant							
35	Source of Supply Plant	9,148	2,621	658	150	187	14	17
36	Pumping Plant							
37	Water Treatment Plant	2,050	587	147	34	42	3	4
38	Transmission & Distribution Plant	6,065	1,738	436	99	124	9	12
39	General Plant	7,065,423	2,023,137	507,725	115,810	144,056	10,592	13,417
40	Total Gross Plant in Service	\$ 7,072,766	\$ 2,028,105	\$ 508,973	\$ 116,094	\$ 144,410	\$ 10,616	\$ 13,450
41	Less:							
42	Accumulated Depreciation	\$ 1,644,383	\$ 471,116	\$ 118,231	\$ 26,968	\$ 33,545	\$ 2,467	\$ 3,124
43	Net Utility Plant In Service (Sum L7 - L8)	\$ 5,428,382	\$ 1,556,990	\$ 390,742	\$ 89,126	\$ 110,864	\$ 8,152	\$ 10,325
44	Less:							
45	Deferred Income Tax	25,368,073	7,267,953	1,823,964	416,036	517,509	38,052	48,199
46	Total Phoenix Office Allocation (L9 - L10)	\$ (19,996,095)	\$ (5,770,963)	\$ (1,433,223)	\$ (326,910)	\$ (406,646)	\$ (29,900)	\$ (37,874)

ALLOWANCE FOR WORKING CAPITAL - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) AMOUNT	(B) REFERENCE
1	Working Cash Requirement As Per Company	\$ 173,185	Company Schedule B-5, PG. 2 of 2
2	Working Cash Requirement As Per RUCO	<u>(358,891)</u>	RUCO Schedule RBM-6(1), L30
3	Adjustment	\$ (532,076)	L2 - L1
4			
5	Material and Supplies Inventories As Per Company	\$ 29,196	Company Schedule B-5, PG. 2 of 2
6	Material and Supplies Inventories As Per RUCO	<u>29,196</u>	Company Schedule B-5, PG. 2 of 2
7	Adjustment	\$ -	L6 - L5
8			
9	Required Bank Balances As Per Company	\$ 624,196	Company Schedule B-5, PG. 2 of 2
10	Required Bank Balances As Per RUCO	<u>624,196</u>	Company Schedule B-5, PG. 2 of 2
11	Adjustment	\$ -	L10 - L9
12			
13	Prepayments & Special Deposits As Per Company	\$ 190,114	Company Schedule B-5, PG. 2 of 2
14	Prepayments & Special Deposits As Per RUCO	<u>190,114</u>	Company Schedule B-5, PG. 2 of 2
15		\$ -	L13 - L14
16			
17	TOTAL ADJUSTMENT (See RLM-2, Column (K))	<u>\$ (532,076)</u>	Sum L3, L7, L11, L15

EXPLANATION OF RATE BASE ADJUSTMENT NO. 2 - SURREBUTTAL

Line No.	(A) Company Test Year Adjusted Results	(B) RUCO Adj	(C) RUCO Adjusted Results	(D) Revenue Lag Days1	(E) Expense Lag Days2	(F) Net Lag Days [D - E]	(G) Lead / Lag Factor [F + 365]	(H) Working Cash Requirement [A X G]
2	Operating Expenses		\$ 1,424,839	29.53	30.87	(1.34)	(0.0037)	\$ (5,231)
3	Purchased Power		2,662,431	29.53	14.00	15.53	0.0425	113,281
4	Payroll		691,466	29.53	(40.09)	69.62	0.1907	131,890
5	Purchased Water		130,705	29.53	(18.11)	47.64	0.1305	17,060
6	Chemicals		158,734	29.53	(45.27)	74.80	0.2049	32,530
7	Property & Liability Insurance		36,305	29.53	(46.50)	76.03	0.2083	7,562
8	Workman's Compensation Insurance		481,608	29.53	(8.92)	38.45	0.1053	50,734
9	Health Insurance		1,819,484	29.53	(9.27)	38.80	0.1063	193,414
10	Other O&M (Excluding Rate Case Expense)	(436,043)	1,819,484	29.53	(9.27)	38.80	0.1063	193,414
11	Federal Income Taxes	(426,825)	1,233,198	29.53	37.00	(7.47)	(0.0205)	(25,238)
12	State Income Taxes	(94,026)	271,662	29.53	37.00	(7.47)	(0.0205)	(5,560)
13	FICA Taxes		199,553	29.53	37.00	(7.47)	(0.0205)	8,491
14	FUTA & SUTA Taxes		6,196	29.53	83.10	(53.57)	(0.1468)	(909)
15	Property Taxes	75,612	887,307	29.53	212.00	(182.47)	(0.4999)	(443,581)
16	Registration, Svc. Contracts, & Misc. Fees		153,893	29.53	(98.83)	128.36	0.3517	54,120
17	Retirement Annuities (401k)		246,884	29.53	34.72	(5.19)	(0.0142)	(3,510)
18								
19								
20	Subtotal		11,285,547	(881,282)	10,404,265			125,051
21								
22								
23	Interest Expense		1,692,249	(23,557)	1,668,692			(282,169)
24	Cost of Equity		3,222,397	(3,222,397)	-	29.53	0.0809	-
25	Dividends Paid		-	1,588,687	1,588,687			(201,773)
26								
27	Subtotal		4,914,646	(1,657,267)	3,257,379			(483,942)
28								
29								
30	Total		\$ 16,200,193	\$ (2,538,549)	\$ 13,661,644			\$ (358,891)
31								
32								

Columns (A), (D), and (E) Company Schs. B-5 page 1
Column (B) RUCO Schs. RBM-7, RBM-8

OPERATING INCOME - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJMTS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Operating Revenues					
1	Residential	\$ 11,436,591	\$ -	\$ 11,436,591	1,997,215	\$ 13,433,806
2	Commercial	2,606,553	-	2,606,553	-	\$ 2,606,553
3	Industrial	70,149	-	70,149	-	\$ 70,149
4	Private Fire Service	51,199	-	51,199	-	\$ 51,199
5	Other Water Revenues	166,218	-	166,218	-	\$ 166,218
6	Total Water Revenues	\$ 14,330,710	\$ -	\$ 14,330,710	\$ 1,997,215	\$ 16,327,925
7						
8	Miscellaneous	\$ 725,456	\$ -	\$ 725,456	132,094	\$ 857,550
9	Total Operating Revenues	\$ 15,056,166	\$ -	\$ 15,056,166	\$ 2,129,309	\$ 17,185,475
10						
11	Operating Expenses					
12	Source of Supply Expenses:					
13	Purchased Water	\$ 691,466	\$ -	691,466	-	\$ 691,466
14	Other	73,495	(454)	73,041	-	\$ 73,041
15	Pumping Expenses:					
16	Purchased Power	1,424,839	208	1,425,047	-	\$ 1,425,047
17	Purchased Gas	-	-	-	-	\$ -
18	Other	553,472	(14,967)	538,505	-	\$ 538,505
19	Water Treatment Expenses	597,302	(569)	596,733	-	\$ 596,733
20	Transmission & Distribution Expenses	1,742,369	(385,143)	1,357,226	-	\$ 1,357,226
21	Customer Accounting Expenses	1,182,195	(13,469)	1,168,726	-	\$ 1,168,726
22	Sales Expense	-	-	-	-	\$ -
23	Administrative & General Expenses	2,090,357	(52,446)	2,037,911	-	\$ 2,037,911
24	Total Operations & Maintenance Expense	\$ 8,355,495	\$ (466,840)	\$ 7,888,655	\$ -	\$ 7,888,655
25						
26	Depreciation & Amortization Expenses	\$ 2,672,715	\$ (1,093)	\$ 2,671,622	\$ -	\$ 2,671,622
27						
28	Taxes					
29	Federal Income Taxes	\$ 448,513	\$ 123,788	\$ 572,301	660,896	\$ 1,233,198
30	State Income Taxes	98,803	27,309	126,112	145,551	\$ 271,662
31	Property Taxes	747,264	100,097	847,361	39,946	\$ 887,307
32	Other	170,486	-	170,486	-	\$ 170,486
33	Total Taxes	\$ 1,465,066	\$ 251,194	\$ 1,716,260	\$ 846,393	\$ 2,562,652
34						
35	Total Operating Expenses	\$ 12,493,275	\$ (216,739)	\$ 12,276,536	\$ 846,393	\$ 13,122,929
36	Operating Income	\$ 2,562,891	\$ 216,739	\$ 2,779,630	\$ 1,282,916	\$ 4,062,522

References:

Column (A): RBM-8, Col. A
Column (B): RBM-8, Col. K
Column (C): Col. A + Col. B
Column (D): RBM-1, RBM-1(2), RBM-15
Column (E): Col. C + Col. D

SCHEDULE OF OPERATING INCOME - TEST YEAR WITH RUCO ADJUSTMENTS - SURREBUTTAL

Line No.	(A) Test Year Ended 12/31/2010	(B) Surrebuttal Adjustment Normalization IS-1	(C) Adjustment Rate Case Expense IS-2	(D) Surrebuttal Adjustment Net Unbilled IS-3	(E) Adjustment Misc Expenses IS-4	(F) Adjustment Depreciation Expense IS-5	(G) Surrebuttal Adjustment Adjust A&G for BMP IS-6	(H) Adjustment LEFT BLANK	(I) Surrebuttal Adjustment Property Tax IS-8	(J) Adjustment Income Tax IS-9	(K) Total Pro Forma Adjustments	(L) Test Year Adjusted Results
1	Operating Revenues											
2	Residential	\$ 11,436,591										\$ 11,436,591
3	Commercial	2,606,553										2,606,553
4	Industrial	70,149										70,149
5	Private Fire Service	51,199										51,199
6	Other Water Revenues	166,218										166,218
7	Total Water Revenues (L2 thru L6)	\$ 14,330,710										\$ 14,330,710
8	Miscellaneous	725,456										725,456
9	Total Operating Revenues (L7 + L9)	\$ 15,056,166										\$ 15,056,166
10	Operating Expenses											
11	Source of Supply Expenses:											
12	Purchased Water	691,466									(454)	691,466
13	Other	73,495		(454)								73,041
14	Pumping Expenses:											
15	Purchased Power	1,424,839		208							208	1,425,047
16	Purchased Gas											
17	Other	553,472	(9,100)	(5,867)							(14,967)	538,505
18	Water Treatment Expenses	597,302		(569)							(569)	596,733
19	Transmission & Distribution Expenses	1,742,369	(370,674)	(14,469)							(385,143)	1,357,226
20	Customer Accounting Expenses	1,182,195		(13,469)							(13,469)	1,168,726
21	Sales Expense											
22	Administrative & General Expenses	2,090,357	(30,797)	(7,277)	(7,522)		(6,850)				(52,446)	2,037,911
23	Total Operations & Maint. Exp (L14 thru L24)	\$ 8,355,495	\$ (379,774)	\$ (41,897)	\$ (7,522)	\$ (1,093)	\$ (6,850)	\$ (6,850)	\$ (100,097)	\$ (151,097)	\$ (466,840)	\$ 7,888,655
24	Depreciation & Amortization Expenses	2,672,715				(1,093)					(1,093)	2,671,622
25	Taxes											
26	Federal Income Taxes	448,513								123,788	123,788	572,301
27	State Income Taxes	98,803								27,309	27,309	126,112
28	Property Taxes	747,264							100,097		100,097	847,361
29	Other	170,486										170,486
30	Total Taxes (L30 thru L33)	\$ 1,465,066							\$ 100,097	\$ 151,097	\$ 251,194	\$ 1,716,260
31	Total Operating Expenses (L25 + L27 + L34)	\$ 12,493,275	\$ (379,774)	\$ (41,897)	\$ (7,522)	\$ (1,093)	\$ (6,850)	\$ (6,850)	\$ (100,097)	\$ (151,097)	\$ (216,739)	\$ 12,276,536
32	Operating Income (L10 less L36)	\$ 2,562,891	\$ 379,774	\$ 41,897	\$ 7,522	\$ 1,093	\$ 6,850	\$ 6,850	\$ (100,097)	\$ (151,097)	\$ 216,739	\$ 2,779,630

References:
 Column A - RBM-9
 Column B - RBM-10 - Remove Pumping and T&D Test Year Expense Adjustment - See RUCO Surrebuttal Testimony
 Column C - RBM-11
 Column D - Remove Unbilled Expense Test Year Adjustment - See RUCO Surrebuttal Testimony
 Column E - RBM-13
 Column F - RBM-14
 Column G - See RUCO Surrebuttal Testimony
 Column I - RBM 15
 Column J - RBM-16

SCHEDULE OF OPERATING INCOME-TEST YR COMPANY ADJUSTMENTS - SURREBUTTAL

Line No.	(A) Test Year Ended 12/31/2010	(B) Adjustment Sales Tax IS-1	(C) Adjustment Net Unbilled IS-2	(D) Adjustment MAP IS-3	(E) Adjustment ACRM IS-4	(F) Adjustment Misc IS-5	(G) Adjustment Annual Rates New Customer IS-6	(H) Adjustment Customer IS-7	(I) Adjustment Payroll IS-8	(J) Adjustment Annualize Emp Benefits IS-9	(K) Adjustment Interest on Customer Deposits IS-10	(L) Adjustment Normalize Maintenance IS-11
1	Operating Revenues											
2	Residential	\$ 12,125,017	\$ (1,009,799)	\$ (8,398)	\$ (1,005,449)		\$ 1,308,746	\$ 2,665				
3	Commercial	2,887,171	(249,900)	(636)	(199,376)		138,603	19,982				
4	Industrial	95,404	(8,188)	(17)	(1,480)		(15,076)					
5	Private Fire Service	25,951	(2,288)				27,545					
6	Other Water Revenues	190,584	(16,603)	(13)	(15,799)	(4,002)	12,051					
7	Total Water Revenues (L2 thru L6)	\$ 15,324,127	\$ (1,286,766)	\$ (9,064)	\$ (1,222,104)	\$ (4,002)	\$ 1,471,871	\$ 22,647				
8	Miscellaneous	783,728	(58,271)									
9	Total Operating Revenues (L7 + L9)	\$ 16,107,855	\$ (1,345,037)	\$ (9,064)	\$ (1,222,104)	\$ (4,002)	\$ 1,471,871	\$ 22,647				
10	Operating Expenses											
11	Source of Supply Expenses:											
12	Purchased Water	691,466							2,158			
13	Other	68,687										
14	Pumping Expenses:											
15	Purchased Power	1,402,065										
16	Purchased Gas	511,114										
17	Other	563,641							16,278			9,099
18	Water Treatment Expenses	1,293,729							4,689			370,676
19	Transmission & Distribution Expenses	1,127,386							38,787			
20	Customer Accounting Expenses								34,418			
21	Sales Expense											
22	Administrative & General Expenses	1,828,249							35,476			
23	Operations & Maint. Exp (L14 thru L24)	7,486,337							131,807			
24	Depreciation & Amortization Expenses	2,485,880										
25	Taxes											
26	Federal Income Taxes	777,203										
27	State Income Taxes	87,797										
28	Property Taxes	695,522										
29	Other	1,495,955	(1,345,057)						19,588			
30	Total Taxes (L30 thru L33)	\$ 3,056,477	\$ (1,345,057)						\$ 19,588			
31	Total Operating Expenses (L25 + L27 + L34)	\$ 13,028,684	\$ (1,345,057)	\$ 41,897	\$ (11,916)	\$ -	\$ -	\$ -	\$ 151,395	\$ 81,994	\$ 19,371	\$ 379,775
32	Operating Income (L10 less L36)	\$ 3,079,161	\$ -	\$ (7,875)	\$ 2,852	\$ (1,222,104)	\$ (4,002)	\$ 1,471,871	\$ 14,992	\$ (81,994)	\$ (19,371)	\$ (379,775)

Columns (A) through columns (X) see Company Exhibit Schedule C-2

SCHEDULE OF OPERATING INCOME-TEST YR COMPANY ADJUSTMENTS - SURREBUTTAL

Line No.	(M)	(N)	(O)	(P)	(Q)	(R)	(S)	(T)	(U)	(V)	(W)	(X)
	Adjustment Water & Gas Exp IS-12	Adjustment Rate Case Expense IS-13	Adjustment Adjust A&G for BMP IS-14	Adjustment Fleet Fuel Expense IS-15	Adjustment AS 400 Printers IS-16	Adjustment Arsenic Treatment Exp IS-17	Adjustment Error Correction CAP Charges IS-18	Adjustment Depreciation Expense IS-19	Adjustment Property Tax IS-20	Adjustment Income Tax IS-21	Total Pro Forma Adjustments	Test Year Adjusted Results
1	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$ (688,426)	\$ 11,436,691
2	-	-	-	-	-	-	-	-	-	-	(280,618)	2,606,553
3	-	-	-	-	-	-	-	-	-	-	(25,256)	70,149
4	-	-	-	-	-	-	-	-	-	-	25,248	51,199
5	-	-	-	-	-	-	-	-	-	-	(24,366)	166,218
6	-	-	-	-	-	-	-	-	-	-	(993,417)	14,330,710
7	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	(58,271)	725,456
8	-	-	-	-	-	-	-	-	-	-	-	-
9	-	-	-	-	-	-	-	-	-	-	-	-
10	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	(1,051,669)	15,056,166
11	-	-	-	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-	-	-	-
15	-	-	-	733	-	-	-	-	-	-	4,808	691,466
16	-	-	-	-	-	-	-	-	-	-	-	73,495
17	22,982	-	-	-	-	-	-	-	-	-	22,774	1,424,639
18	-	-	-	-	-	-	-	-	-	-	-	-
19	-	-	-	7,434	-	-	-	-	-	-	42,358	553,472
20	-	-	-	2,308	-	36,926	-	-	-	-	33,661	597,302
21	-	-	-	24,273	-	-	-	-	-	-	448,640	1,742,369
22	-	-	-	6,542	-	-	-	-	-	-	54,809	1,192,195
23	-	-	-	-	-	-	-	-	-	-	-	-
24	-	104,887	6,850	2,373	3,266	-	-	-	-	-	262,108	2,090,357
25	22,982	104,887	6,850	43,664	3,266	36,926	-	-	-	-	869,158	8,355,495
26	-	-	-	-	-	-	-	-	-	-	-	-
27	-	-	-	-	-	-	114,478	72,357	-	-	186,835	2,672,715
28	-	-	-	-	-	-	-	-	-	-	-	-
29	-	-	-	-	-	-	-	-	-	-	-	-
30	-	-	-	-	-	-	-	-	-	(328,690)	(328,690)	448,513
31	-	-	-	-	-	-	-	-	-	11,006	11,006	98,803
32	-	-	-	-	-	-	-	-	51,742	-	51,742	747,264
33	-	-	-	-	-	-	-	-	-	-	(1,325,469)	170,486
34	-	-	-	-	-	-	-	-	51,742	(317,684)	(1,591,411)	1,465,066
35	-	-	-	-	-	-	-	-	-	-	-	-
36	\$ 22,982	\$ 104,887	\$ 6,850	\$ 43,664	\$ 3,266	\$ 36,926	\$ 114,478	\$ 72,357	\$ 51,742	\$ (317,684)	\$ (535,419)	\$ 12,493,275
37	\$ (22,982)	\$ (104,887)	\$ (6,850)	\$ (43,664)	\$ (3,266)	\$ (36,926)	\$ (114,478)	\$ (72,357)	\$ (51,742)	\$ 317,684	\$ (516,270)	\$ 2,562,891

Columns (A) through columns (X) see Company Exhibit Schedule C-2

**OPERATING INCOME ADJUSTMENT NO. 1
PUMPING AND TRANSMISSION & DISTRIBUTION MAINTENANCE EXPENSE - SURREBUTTAL**

		Test Year Pumping Expense
Pumping Accounts		
1 <u>Maintenance:</u>		
2 Supervision & Engineering	\$	18,822
3 Structures & Improvements		38,638
4 Electric pumping equipment		96,597
5 Gas pumping equipment		-
6		
7 Total Pumping Maintenance Expense	\$	154,057
8		
9		
10 Company Requested Level of T. Y. Pumping Maintenance Expense (Company Sch. C-2)		163,157
11		
12 RUCO Increase / (Decrease) in T. Y. Expense Level (L7 - L10)	\$	(9,100)
13		
14 RUCO Pumping Maintenance Expense Adjustment	\$	(9,100)
15		
16		
17		
18		
19		
20 Transmission & Distribution Accounts		
21		
22 <u>Maintenance:</u>		
23 Supervision & Engineering	\$	76,013
24 Tanks		88,205
25 Mains		210,132
26 Mains - Leak Repair		24,991
27 Mains - Leak Detection		4,077
28 Services		138,075
29 Services - Leak Repair		19,941
30 Meters		107,463
31 Hydrants		103,778
32		
33 Total T & D Maintenance Expense	\$	772,675
34		
35		
36 Company Requested Level of T. Y. T & D Maintenance Expense (Company Sch. C-2)		1,143,349
37		
38 RUCO Increase / (Decrease) Expense Adjustment (L33 - L36)	\$	(370,674)
39		
40 RUCO T & D Maintenance Expense Adjustment	\$	(370,674)
41		
42		
43 Total RUCO Pumping and T & D Maintenance Expense Adjustment (L14 + L40)	\$	(379,774)

**OPERATING INCOME ADJUSTMENT NO. 2
RATE CASE EXP. ADJUSTMENT - SURREBUTTAL**

Line No.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense Total for Eastern Group	\$ 476,874	\$ (164,274)	\$ 312,600
2				
3	Allocation Factor (L31)			71.10%
4				
5	Superstition (Apache Junction, Superior, Miami)			\$ 222,269
6				
7	Amortization Period - 3 years			3
8				
9	RUCO Adjusted Rate Case Expense (L5 / L7)			\$ 74,090
10				
11	Company Rate Case Expense as Filed (Company Sch. C-2 Appendix)			\$ 104,887
12				
13	RUCO Pro Forma Rate Case Expense (L9 - L11)			\$ (30,797)
14				
15	RUCO Adjustment			\$ (30,797)
16				
17				
18	RUCO's Rate Base Expense Adjustment Calculation:			
19	Decision No. 66848, dated March 19, 2004, approved amount			
20	\$250,000 for Arizona Water Company's Eastern Group.		\$ 250,000	
21				
22	Inflation Factor from January 1, 2002 through September 30, per Inflation Data.com		25.04%	
23				
24				
25	Reasonable Amount of Rate Case Expense based on Decision No. 66848.		\$ 312,600	
26				
27				
28	RUCO Adjustment (Col. (A) L1 - Col. (B) L26)		\$ 164,274	
29				
30	<u>Allocation Factor Based on Number of Customers</u>		<u>Customers</u>	<u>Percent of Total</u>
31	Superstition (Apache Junction, Superior, Miami)		23,607	71.10%
32	Cochise (Bisbee, Sierra Vista)		6,357	19.15%
33	San Manuel		1,465	4.41%
34	Oracle		1,506	4.54%
35	SaddleBrook Ranch		113	0.34%
36	Winkelman		153	0.46%
37	Total Number of Customers and Percentages		33,201	100.00%

Arizona Water Company
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Test Year Ended December 31, 2010

Superstition - Surrebuttal
Schedule RBM-12
Page 1

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**OPERATING INCOME ADJUSTMENT NO. 4
 MISCELLANEOUS EXPENSE ADJUSTMENTS - SURREBUTTAL**

LINE NO.	DESCRIPTION	(A) Supersittion	(B) Cochise	(C) San Manual	(D) Oracle	(E) SaddleBrook Ranch	(F) Winkelman
1							
2	Customer Accounting Expense	\$ 1,570	\$ 713	\$ 78	\$ 96	\$ -	\$ -
3	Administration & General Expense	1,642	-	137	143	19	7
4							
5	TOTAL DIRECT EXPENSE	\$ 3,212	\$ 713	\$ 215	\$ 240	\$ 19	\$ 7
6							
7							
8							
9							
10							
11	Service Awards and Banquets	3,031	761	174	216	16	20
12							
13	Flower Shop Expenses	283	71	16	20	1	2
14							
15	Water Association Dues Allowed	996	250	57	71	5	7
16	at 50% of Total						
17	TOTAL ALLOCATED EXPENSES	\$4,310	\$1,082	\$247	\$307	\$23	\$29
18							
19							
20	TOTAL MISCELLANEOUS EXPENSE ADJUSTMENT	\$7,522	\$1,794	\$462	\$547	\$42	\$35
21							
22							
23							
24							
25							
26							
27							
28							
29							
30							

TOTAL

ALLOCATION OF PHOENIX OFFICE EXPENSES BASED ON THREE FACTOR

0.2865 0.0719 0.0164 0.0204 0.0015 0.0019

Arizona Water Company
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Test Year Ended December 31, 2010

OPERATING INCOME ADJUSTMENT NO. 5
CALCULATION OF DEPRECIATION EXPENSE - SURREBITAL

Line No.	Acct. No.	Present Depreciation Rates	(A) Plant Balance Per GL	(B) Post Test Year Adjustments	(C) Phoenix Office Balance Per GL	(D) Meter Shop Balance Per GL	(E) Three Factor Formula Allocation	(F) Phoenix Office Meter Shop Allocated To Plant	(G) Company Adjusted End Of Test Year	(H) RUCO Adjustments End Of Test Year	(I) Adjusted End Of Test Year Plant	(J) RUCO Depreciation Test Year Adjusted
1	Intangible Plant	0.00%	-	-	-	-	-	187	187	-	187	-
2	301 Organization	See Acct. 111	6,869	-	651	-	28.65%	-	6,869	-	6,869	397
3	302 Franchises	See Acct. 111	5,506	-	8,496	-	28.65%	2,434	7,940	-	7,940	397
4	303 Other Intangibles	See Acct. 111	12,375	-	9,148	-	28.65%	2,621	14,996	-	14,996	-
5	Subtotal Intangible Plant											
6	Source of Supply Plant	0.00%	793,568	-	-	-	28.65%	-	793,568	-	793,568	-
7	310.1 Water Rights	0.00%	153,814	-	-	-	28.65%	23	153,814	-	153,814	63,608
8	310.3 Other Source of Supply Land	0.00%	1,526,800	-	-	80	28.65%	-	1,526,800	-	1,526,800	205,868
9	310.4 Wells - Other	3.13%	6,673,672	-	-	-	28.65%	-	6,673,672	-	6,673,672	272,484
10	Subtotal Source of Supply Plant											
11	314 Wells		9,147,631	-	-	80	28.65%	-	9,147,631	-	9,147,631	-
12	Pumping Plant	0.00%	18,910	-	-	-	28.65%	-	18,910	-	18,910	8,404
13	320 Pumping Plant Structures & Improvements	2.86%	293,830	-	-	-	28.65%	-	293,830	-	293,830	579,593
14	321 Electric Pumping Equipment	5.88%	9,673,632	148,912	-	-	28.65%	-	9,822,544	34,484	9,857,028	7
15	325 Gas Engine Equipment	4.00%	163	148,912	-	-	28.65%	-	163	163	163	588,003
16	328 Subtotal Pumping Plant											
17	Water Treatment Plant	0.00%	9,986,535	-	-	-	28.65%	-	10,135,447	34,484	10,169,930	-
18	330 Water Treatment Plant Land	2.50%	811	-	-	-	28.65%	-	811	-	811	1,240
19	331 Water Treatment Structures & Improvements	2.86%	49,566	2,872,067	-	2,050	28.65%	597	10,270,260	(82,103)	10,188,157	291,381
20	332 Water Treatment Equipment		7,397,605	2,872,067	-	2,050	28.65%	597	10,320,657	(82,103)	10,238,554	292,621
21	333 Subtotal Water Treatment Plant											
22	Transmission & Distribution Plant	0.00%	195,215	-	-	-	28.65%	-	195,215	-	195,215	88,930
23	340 Transmission & Distribution Land	2.00%	4,946,483	-	-	-	28.65%	-	4,946,483	-	4,946,483	999,703
24	342 Storage Tanks	1.79%	53,280,692	365,373	-	6,066	28.65%	1,738	53,647,803	(33,129)	53,614,674	15,136
25	343 Transmission & Distribution Mains	2.38%	756,878	-	-	-	28.65%	-	756,878	-	756,878	320,715
26	344 Fire Sprinkler Taps	4.55%	13,475,428	-	-	-	28.65%	-	13,475,428	-	13,475,428	92,251
27	345 Services	1.82%	2,027,498	-	-	-	28.65%	-	2,027,498	-	2,027,498	67,301
28	346 Meters		3,697,872	-	-	-	28.65%	-	3,697,872	-	3,697,872	1,554,037
29	348 Hydrants		78,380,067	365,373	-	6,066	28.65%	1,738	78,747,177	(33,129)	78,714,048	-
30	Subtotal Transmission & Distribution Plant											
31	General Plant	0.00%	54,061	-	-	-	28.65%	-	54,061	-	54,061	22,958
32	389 General Plant Land	2.50%	890,275	-	79,935	52,852	28.65%	38,043	918,318	-	918,318	28,816
33	390 General Plant Structures	6.67%	849,700	-	1,543,079	-	28.65%	442,092	1,291,792	-	1,291,792	123,808
34	391 Leasehold Improvements	See Acct. 108.2	450,547	-	4,895,192	11,097	28.65%	1,405,652	1,856,199	-	1,856,199	814
35	392 Office Furniture & Equipment	5.00%	12,675	-	196,363	69,534	28.65%	3,608	16,283	-	16,283	20,856
36	393 Warehouse Equipment	4.00%	447,717	-	1,508	1,286	28.65%	76,179	523,896	-	523,896	4,392
37	394 Tools, Shop & Garage Equipment	5.00%	86,544	-	1,508	2,961	28.65%	1,286	87,830	-	87,830	2,970
38	395 Laboratory Equipment	6.67%	44,105	-	1,458	1,458	28.65%	418	44,522	-	44,522	72,908
39	396 Power Operated Equipment	6.67%	1,014,191	27,868	181,623	-	28.65%	52,035	1,094,114	(1,037)	1,093,076	3,277
40	397 Miscellaneous Equipment	3.33%	96,332	-	7,207	-	28.65%	2,065	98,396	-	98,396	280,900
41	398 Subtotal General Plant											
42	Plant in Service		3,936,146	27,868	6,908,612	146,809	28.65%	2,021,378	5,965,412	(1,037)	5,984,375	-
43	Total Depreciation Test Year Adjusted		\$ 108,910,756	\$ 3,414,240	\$ 6,917,760	\$ 155,005		\$ 2,026,347	\$ 114,351,343	\$ (81,786)	\$ 114,269,557	\$ 2,988,453
44	Less: Amortization of Regulatory Liability											\$ (26,000)
	Less: Amortization of Contribution in Aid of Construction											\$ (403,309)
	Add: Additional Amortization											\$ 114,478
	Total Depreciation as Calculated											\$ 2,671,622
	Per Company Schedule C-2											\$ 2,672,715
	Adjustment											\$ (1,093)

Plant in Service
Total Depreciation Test Year Adjusted
Less: Amortization of Regulatory Liability
Less: Amortization of Contribution in Aid of Construction
Add: Additional Amortization
Total Depreciation as Calculated
Per Company Schedule C-2
Adjustment

OPERATING INCOME ADJUSTMENT NO. 6
PROPERTY TAXES - SURREBUTTAL

LINE NO.	Property Tax Calculation	(A)	(B)
		RUCO AS ADJUSTED	RUCO RECOMMENDED
1	RUCO Adjusted Test Year Revenues - RBM-6	\$ 15,056,166	\$ 15,056,166
2	Multiplied by 2	<u>2</u>	<u>2</u>
3	Subtotal (Line 1 * Line 2)	\$ 30,112,332	\$ 30,112,332
4	RUCO Adjusted Test Year Revenues - 2010	<u>15,056,166</u>	
5	RUCO Recommended Revenue, Per Schedule RBM-6		<u>17,185,475</u>
6	Subtotal (Line 4 + Line 5)	\$ 45,168,499	\$ 47,297,807
7	Number of Years	<u>3</u>	<u>3</u>
8	Three Year Average (Line 5 / Line 6)	\$ 15,056,166	\$ 15,765,936
9	Department of Revenue Multiplier	<u>2</u>	<u>2</u>
10	Revenue Base Value (L8 X L9)	\$ 30,112,332	\$ 31,531,872
11	Plus: 10% of CWIP -	-	-
12	Less: Net Book Value of Licensed Vehicles	-	-
13	Full Cash Value (L10 + L11 + L12)	\$ 30,112,332	\$ 31,531,872
14	Assessment Ratio	<u>21.0%</u>	<u>21.0%</u>
15	Assessment Value (L13 X L14)	\$ 6,323,590	\$ 6,621,693
16	Composite Property Tax Rate (L19 / L15)	<u>13.4000%</u>	<u>13.4000%</u>
17			
18	RUCO Proposed Property Tax Expense (L15 X L16)	\$ 847,361	
19	Company Proposed Property Tax	<u>747,264</u>	
20			
21	RUCO Test Year Adjustment (L16 - L17)	<u>\$ 100,097</u>	
22	Property Tax - RUCO Recommended Revenue (L15 X L16)		\$ 887,307
23	RUCO Test Year Adjusted Property Tax Expense (L18)		<u>847,361</u>
24	Increase/(Decrease) to Property Tax Expense		<u>\$ 39,946</u>
25			
26	Increase/(Decrease) to Property Tax Expense		\$ 39,946
27	Increase in Revenue Requirement (L5 - L4)		2,129,309
28	Increase/(Decrease) to Property Tax per Dollar Increase in Revenue (L26 / L27)		1.8760%

**OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE - SURREBUTTAL**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
1	FEDERAL INCOME TAXES:		
2			
3	Operating Income Before Taxes	(RBM- 7, Col. (C), L36 + L29 + L30)	\$ 3,478,043
4	LESS:		
5	Arizona State Tax	L21	126,112
6	Interest Expense	Note (A) L41	<u>1,668,692</u>
7	Federal Taxable Income	L3 - L5 - L6	\$ 1,683,239
8			
9	Federal Tax Rate	Sch. RBM-1, Page 2	<u>34.00%</u>
10	Federal Income Tax Expense	L7 X L9	<u>\$ 572,301</u>
11			
12	STATE INCOME TAXES:		
13			
14	Operating Income Before Taxes	L3	\$ 3,478,043
15	LESS:		
16	Interest Expense	Note (A) L41	1,668,692
17	State Taxable Income	L14 - L16	<u>\$ 1,809,351</u>
18			
19	State Tax Rate	Tax Rate	6.97%
20			
21	State Income Tax Expense	L17 X L19	<u>\$ 126,112</u>
22			
23	TOTAL INCOME TAX EXPENSE:		
24	Federal Income Tax Expense	L10	\$ 572,301
25	State Income Tax Expense	L21	126,112
26	Total Income Tax Expense Per RUCO	L24 + L25	<u>\$ 698,413</u>
27			
28	Total Federal Income Tax Expense Per Company (Per Company Sch. C-1, L30)		448,513
29			
30	Total State Income Tax Expense Per Company (Per Company Sch. C-1, L31)		98,803
31			
32	RUCO Federal Income Tax Adjustment	L24 - L28	<u>\$ 123,788</u>
33			
34	RUCO State Income Tax Adjustment	L25 - L30	<u>\$ 27,309</u>
35			
36			
37	<u>NOTE (A): Interest Synchronization</u>		
38			
39	Adjusted Rate Base RBM-2, Col. (M), L28	\$ 49,960,832	
40	Weighted Cost Of Debt RBM-9, Col. (D), L1	3.34%	
41	Interest Expense (L39 X L40)	<u>\$ 1,668,692</u>	

COST OF CAPITAL - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) DOLLAR AMOUNT	(B) CAPITAL RATIO	(C) COST RATE	(D) WEIGHTED COST RATE
1	Long-Term Debt	\$ 75,000,000	49.03%	6.82%	3.34%
2					
3	Common Equity	77,975,335	50.97%	9.40%	4.79%
4					
5	Total Capitalization	\$ 152,975,335	100.00%		
6					
7					
8	WEIGHTED AVERAGE COST OF CAPITAL				8.13%

References:
 Columns (A) Thru (D): WAR Testimony

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RBM-16	1	OPERATING INCOME ADJUSTMENT NO. 7 - INCOME TAXES
RBM-17	1	COST OF CAPITAL

REVENUE REQUIREMENT - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Adjusted Original Cost/Fair Value Rate Base	\$ 8,550,839	\$ 8,365,892
2			
3	Adjusted Operating Income (Loss)	\$ 387,079	\$ 465,040
4			
5	Current Rate of Return (L3 / L1)	4.53%	5.56%
6			
7	Required Operating Income (L9 X L1)	\$ 830,936	\$ 680,265
8			
9	Required Rate of Return on Fair Value Rate Base	9.72%	8.13%
10			
11	Operating Income Deficiency (L7 - L3)	\$ 443,857	\$ 215,225
12			
13	Gross Revenue Conversion Factor (RBM-1, Page 2)	1.6516	1.6521
14			
15	Required Increase in Gross Revenue Requirement (L11 X L13))	\$ 733,087	\$ 355,584
16			
17	Adjusted Test Year Revenue	\$ 3,303,548	\$ 3,303,548
18			
19	Proposed Annual Revenue (L15 + L17)	\$ 4,036,635	\$ 3,659,132
20			
21	Required Percentage Increase in Revenue (L15 / L17)	22.19%	10.76%
22			
23	Consolidated Revenue Adjustment	\$ -	\$ -
24			
25	Required Increase in Gross Revenue Under Proposed Consolidation	\$ -	\$ -
26			
27	Required Revenue Under Proposed Consolidation	\$ -	\$ -
28			
29	Required Percentage Increase in Revenue Under Proposed Consolidation	0.00%	0.00%
30			
31	Rate of Return on Common Equity	12.50%	9.30%

References:

Column (A): Company Schs. A-1 and C-1

Column (B): RUCO Schs. RBM-2, RBM-6, and RBM-9

GROSS REVENUE CONVERSION FACTOR - SURREBUTTAL

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	100.0000%			
2	Proposed Bad Debt Expense (Per Co. Workpapers)	-			
3	Subtotal (L1 thru L2)	100.0000%			
4	Combined Federal, State, Property Tax Rate (L22)	39.4728%			
5	Subtotal (L3 - L4)	60.5272%			
6	Revenue Conversion Factor (L1 / L5)	1.6521			
CALCULATION OF EFFECTIVE TAX RATE:					
9	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
10	Arizona State Income Tax Rate	6.9680%			
11	Federal Taxable Income (L9 - L10)	93.0320%			
12	Applicable Federal Income Tax Rate (L58)	34.0000%			
13	Effective Federal Income Tax Rate (L11 X L12)	31.6309%			
14	Combined Federal and State Income Tax Rate (L10 + L13)	38.5989%			
CALCULATION OF EFFECTIVE PROPERTY TAX FACTOR:					
17	Unity	100.0000%			
18	Combined Federal and State Tax Rate	38.5989%			
19	1 Minus Combined Income Tax Rate	61.4011%			
20	Property Tax Factor	1.4232%			
21	Effective Property Tax Factor (L19 x L 20)	0.8739%			
22	Combined Federal, State & Property Tax Rate Tax Rate (L14 + L21)	39.4728%			
24	RUCO Required Operating Income (Sch. RBM-1, Col. (B), L7)	\$ 680,265			
25	RUCO Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RBM-1, Col. (B), L3)	465,040			
26	Required Increase In Operating Income (L24 - L25)		\$ 215,225		
28	Income Taxes On Recommended Revenue (Col. (D), L53)	\$ 251,791			
29	Income Taxes On Test Year Revenue (Col. (D), L55)	116,493			
30	Required Increase In Revenue To Provide For Income Taxes (L28 - L29)		\$ 135,298		
32	Property Tax with Recommended Revenue (Sch. RBM-7, Col. E, L31)	146,112			
33	Property Tax on TestYear Revenue (Sch. RBM-7, Col. C, L31)	141,051			
34	Increase in Property Tax Due to Increase in Revenue (L32 - L33)		\$ 5,061		
36	Total Required Increase In Revenue (L26 + L30 + L34)		\$ 355,584		
RUCO's CALCULATION OF INCOME TAX:					
38	RUCO Proposed Revenue (Sch. RBM-1, Col. (B), L19)			\$ 3,659,132	
41	Less: Operating Expense Excluding Income Tax (Sch. RBM-7, Col. (E), L24 + L26 + L31 + L32)			2,727,075	
42	Synchronized Interest (Col. (C), L63)			279,728	
43	Arizona Taxable Income (L39 - L41 - L42)			\$ 652,328	
44	Arizona State Income Tax Rate			6.9680%	
45	Arizona Income Tax (L43 X L44)				\$ 45,454
46	Fed. Taxable Income (L43 - L45)			\$ 606,874	
47	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ -	
48	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			\$ -	
49	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			\$ -	
50	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			\$ -	
51	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			\$ 206,337	
52	Total Federal Income Tax (L47 thru L 51)				\$ 206,337
53	Combined Federal And State Income Tax (L45+ L52)				\$ 251,791
55	RUCO Adj'd Test Year Combined Federal and State Income Tax (RBM-7, Col. (C), L29 and L30)				\$ 116,493
56	RUCO Proposed Income Tax Adjustment (L53 - L55)				\$ 135,298
58	Applicable Federal Income Tax Rate				34.00%
NOTE (A): Interest Synchronization					
61	Adjusted Rate Base RBM-2, Col. (C), L28			\$ 8,365,892	
62	Weighted Cost Of Debt RBM-9, Col. (M), L1			3.34%	
63	Interest Expense (L61 X L62)			\$ 279,728	

SUMMARY RATE BASE - ORIGINAL COST - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB
1	Plant Classification			
2	Intangible Plant	\$ 44,054		\$ 44,054
3	Source of Supply Plant	1,649,596		1,649,596
4	Pumping Plant	1,715,876		1,715,876
5	Water Treatment Plant	143,171		143,171
6	Transmission & Distribution Plant	15,999,702	(122,233)	15,877,469
7	General Plant	1,440,539		1,440,539
8	Total Gross Plant in Service (L2 thru L7)	\$ 20,992,937	\$ (122,233)	\$ 20,870,704
9				
10	Accumulated Depreciation	\$ 7,506,943	39	\$ 7,506,982
11	Net Utility Plant In Service (L8 - L10)	\$ 13,485,994	\$ (122,272)	\$ 13,363,722
12				
13	Advances In Aid Of Const.	\$ 1,632,190		\$ 1,632,190
14				
15	Contribution In Aid Of Const.	\$ 2,198,794		\$ 2,198,794
16	Accumulated Amortization Of CIAC	\$ (439,381)		\$ (439,381)
17	NET CIAC (L15 + L16)	\$ 1,759,413	\$ -	\$ 1,759,413
18				
19	Deferred Income Tax	\$ 1,823,964		\$ 1,823,964
20				
21	Customer Deposits	\$ 38,290		\$ 38,290
22				
23	Allowance For Working Capital	\$ 318,702	\$ (62,676)	\$ 256,026
24				
25	Net Regulatory Asset / (Liability)	\$ -		\$ -
26				
27	Rounding	\$ -		\$ -
28	TOTAL RATE BASE (+L11 - L17 - L19 - L21 + L23)	\$ 8,550,839	\$ (184,948)	\$ 8,365,892

References:
Column (A): Company Schedule B-1 and RBM-3 Col. E
Column (B): Schedule RBM-3 Cols. F and G
Column (C): Col. A + Col. B

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS - SURREBUTTAL

LINE NO.	DESCRIPTION	(A)		(B)		(C)	(D)	(E)	(F)	(G)	(H)
		COMPANY AS FILED	NET PLANT	COMPANY POST TEST YEAR	ADJUSTMENTS							NET REGULATORY LIABILITY	PHOENIX OFF AND METER SHOP	COMPANY AS FILED	OCRBFVRB	ADJMT NO. 1 POST TEST YR ADJUSTMENTS	ADJMT NO. 6 WORKING CAPITAL	RUCO ADJTD OCRBFVRB
1	Plant Classification										
2	Ineligible Plant	\$ 43,386	\$ -	\$ -	\$ 658	\$ 44,054		\$ -	\$ -	\$ -	\$ 44,054
3	Source of Supply Plant	1,649,590	-	-	6	1,649,596		-	-	-	1,649,596
4	Pumping Plant	1,715,876	-	-	-	1,715,876		-	-	-	1,715,876
5	Water Treatment Plant	143,024	-	-	147	143,171		-	-	-	143,171
6	Transmission & Distribution Plant	15,274,344	724,922	-	436	15,999,702		(122,233)	-	-	15,877,469
7	General Plant	933,254	-	-	507,285	1,440,539		-	-	-	1,440,539
8	Total Gross Plant in Service (Sum L2 thru L7)	\$ 19,759,483	\$ 724,922	\$ -	\$ 508,532	\$ 20,992,937		\$ -	\$ (122,233)	\$ -	\$ 20,870,704
9	Accumulated Depreciation	\$ 7,381,827	6,885		118,231	\$ 7,506,943			39		7,506,982
10	Net Utility Plant In Service (L8 less L10)	\$ 12,377,656	\$ 718,037	\$ -	\$ 390,301	\$ 13,485,984			\$ (122,272)		\$ 13,363,712
12	Advances In Aid Of Const.	\$ 1,632,190	\$ -	\$ -	\$ -	\$ 1,632,190		\$ -	\$ -	\$ -	\$ 1,632,190
14	Contribution In Aid Of Const.	\$ 2,198,794	\$ -	\$ -	\$ -	\$ 2,198,794		\$ -	\$ -	\$ -	\$ 2,198,794
16	Accumulated Amortization Of CIAC	(439,381)	-	-	-	(439,381)					(439,381)
17	NET CIAC (L15 less L16)	\$ 1,759,413	\$ -	\$ -	\$ -	\$ 1,759,413		\$ -	\$ -	\$ -	\$ 1,759,413
18	Deferred Income Tax	\$ -	\$ -	\$ -	\$ 1,823,964	\$ 1,823,964		\$ -	\$ -	\$ -	\$ 1,823,964
20	Customer Deposits	\$ 38,290	\$ -	\$ -	\$ -	\$ 38,290		\$ -	\$ -	\$ -	\$ 38,290
22	Allowance For Working Capital	\$ 318,702	\$ -	\$ -	\$ -	\$ 318,702		\$ -	\$ -	\$ (62,676)	\$ 256,026
24	Net Regulatory Asset / (Liability)	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -	\$ -
26	Adjustment to Match Rate Base with G/L	\$ 1	\$ -	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -	\$ -
27	TOTAL RATE BASE (+L11 - L17 - L19 - L21 + L23)	\$ 9,286,466	\$ 718,037	\$ -	\$ (1,433,663)	\$ 8,550,839		\$ -	\$ (122,272)	\$ (62,676)	\$ 8,365,892

References:
Columns (A) through (E): Company Schedule B-2; Column (D) RBM-4(1)
Column (F): RUCO Schedule RBM-6, Col. G
Column (G): RUCO Schedule RBM-5, Col. A

DIRECT PLANT AND ACCUMULATED DEPRECIATION - SURREBUTIAL

Line No.	Acct. No.	Description	Depreciation Rate To Present	2010				Balance Per G.L.	Difference
				Additions	Retirements	Adjustments	Depreciation Expense			Balance
1		Intangible Plant							
2	301	Organization	0.00%					18,755	
3	302	Franchises	See Acct. 111					24,641	
4	303	Other Intangibles	See Acct. 111					43,396	
5		Subtotal Intangible Plant							
6		Source of Supply Plant			13,200				
7	310.1	Water Rights	0.00%					445,953	
8	310.3	Other Source of Supply Land	0.00%					12,965	
9	310.4	Wells - Other	See Acct. 111						
10	314	Wells	3.13%					1,190,671	
11		Subtotal Source of Supply Plant			13,200			1,649,590	
12		Pumping Plant							
13	320	Pumping Plant Land	0.00%					8,935	
14	321	Pumping Plant Structures & Improvements	2.86%					46,922	
15	325	Electric Pumping Equipment	5.88%					1,471,226	
16	328	Gas Engine Equipment	4.00%					188,792	
17		Subtotal Pumping Plant						1,715,876	
18		Water Treatment Plant							
19	330	Water Treatment Plant Land	0.00%					16,144	
20	331	Water Treatment Structures & Improvements	2.50%					126,880	
21	332	Water Treatment Equipment	2.86%					126,879	
22		Subtotal Water Treatment Plant						143,024	
23		Transmission & Distribution Plant							
24	340	Transmission and Distribution Land	0.00%					5,044	
25	342	Storage Tanks	2.00%					750,636	
26	343	Transmission & Distribution Mains	1.79%					10,014,824	
27	344	Fire Sprinkler Taps	2.00%					322,137	
28	345	Services	2.38%					2,988,410	
29	346	Meters	4.55%					477,436	
30	348	Hydrants	1.82%					715,659	
31		Subtotal Transmission & Distribution Plant						15,274,344	
32		General Plant							
33	389	General Plant Land	0.00%					2,450	
34	390	General Plant Structures	2.50%					41,286	
35	390.1	Leasehold Improvements	See Acct. 108.2					8,234	
36	391	Office Furniture & Equipment	6.67%					179,566	
37	393	Warehouse Equipment	5.00%						
38	394	Tools, Shop & Garage Equipment	4.00%					91,877	
39	395	Laboratory Equipment	5.00%					5,316	
40	396	Power Operated Equipment	6.67%					33,762	
41	397	Communication Equipment	6.67%					537,257	
42	398	Miscellaneous Equipment	3.33%					33,507	
43		Subtotal General Plant						933,254	
44		Plant in Service						19,759,483	
1		Net Salvage/Cost of Removal						4,839.00	
2		Adjustments booked to Conform with Rate Decision						(14,421)	
3		Accum. Deprec. Related to other Plant Adjustments						7,381,092	
4		Accumulated Depreciation & Amort.						12,378,400	
5		Net Plant in Service						12,377,656	

PHOENIX OFFICE AND METER SHOP - RATE BASE ALLOCATION - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) TEST YEAR ADJUSTED	(B) Superstition	(C) Cochise	(D) San Manuel	(E) Oracle	(F) SaddleBrook Ranch	(G) Winkelman
1	3 Factor Allocation Factor		28.65%					0.19%
2	Phoenix Office Allocation							
3	Plant Classification							
4	Intangible Plant	\$ 9,148	\$ 2,621	\$ 656	\$ 150	\$ 187	\$ 14	\$ 17
5	Source of Supply Plant	-	-	-	-	-	-	-
6	Pumping Plant	-	-	-	-	-	-	-
7	Water Treatment Plant	-	-	-	-	-	-	-
8	Transmission & Distribution Plant	6,914,749	1,981,076	497,170	113,402	141,061	10,372	13,138
9	General Plant	6,917,761	1,983,696	497,828	113,552	141,247	10,386	13,155
10	Total Gross Plant in Service (Sum L4 thru L9)							
11	Less:							
12	Accumulated Depreciation	\$ 1,587,979	\$ 454,956	\$ 114,176	\$ 26,043	\$ 32,395	\$ 2,382	\$ 3,017
13	Net Utility Plant in Service (L10 less L12)	\$ 5,329,782	\$ 1,528,740	\$ 383,652	\$ 87,509	\$ 108,853	\$ 8,004	\$ 10,138
14	Less:							
15	Deferred Income Tax	25,368,073	7,267,953	1,823,964	416,036	517,509	38,052	48,199
16	Total Phoenix Office Allocation (L13 less L15)	\$ (20,038,291)	\$ (5,739,212)	\$ (1,440,312)	\$ (328,527)	\$ (408,656)	\$ (30,048)	\$ (38,061)
17	Meter Shop Allocation							
18	Plant Classification							
19	Intangible Plant	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
20	Source of Supply Plant	80	23	6	1	2	-	-
21	Pumping Plant	-	-	-	-	-	-	-
22	Water Treatment Plant	2,050	587	147	34	42	3	4
23	Transmission & Distribution Plant	6,065	1,738	436	99	124	9	12
24	General Plant	146,810	42,061	10,556	2,408	2,985	220	279
25	Total Gross Plant in Service (Sum L20 thru L25)	\$ 155,005	\$ 44,409	\$ 11,145	\$ 2,542	\$ 3,162	\$ 232	\$ 294
26	Less:							
27	Accumulated Depreciation	\$ 56,404	\$ 16,160	\$ 4,055	\$ 925	\$ 1,151	\$ 85	\$ 107
28	Net Utility Plant in Service (L26 less L28)	\$ 98,601	\$ 28,249	\$ 7,089	\$ 1,617	\$ 2,011	\$ 148	\$ 187
29	Less:							
30	Deferred Income Tax	56,404	28,249	7,089	-	-	-	-
31	Total Phoenix Office Allocation (L29 less L31)	\$ 42,197	\$ -	\$ -	\$ 1,617	\$ 2,011	\$ 148	\$ 187
32	Total Phoenix Office and Meter Shop Allocation							
33	Plant Classification							
34	Intangible Plant	\$ 9,148	\$ 2,621	\$ 656	\$ 150	\$ 187	\$ 14	\$ 17
35	Source of Supply Plant	80	23	6	1	2	-	-
36	Pumping Plant	-	-	-	-	-	-	-
37	Water Treatment Plant	2,050	587	147	34	42	3	4
38	Transmission & Distribution Plant	6,065	1,738	436	99	124	9	12
39	General Plant	7,055,423	2,023,137	507,285	115,810	144,056	10,592	13,417
40	Total Gross Plant in Service	\$ 7,072,766	\$ 2,028,105	\$ 508,532	\$ 116,094	\$ 144,410	\$ 10,618	\$ 13,450
41	Less:							
42	Accumulated Depreciation	\$ 1,644,383	\$ 471,116	\$ 118,231	\$ 26,968	\$ 33,545	\$ 2,467	\$ 3,124
43	Net Utility Plant in Service (Sum L7 - L8)	\$ 5,428,382	\$ 1,556,989	\$ 390,301	\$ 89,126	\$ 110,864	\$ 8,152	\$ 10,325
44	Less:							
45	Deferred Income Tax	25,368,073	7,267,953	1,823,964	416,036	517,509	38,052	48,199
46	Total Phoenix Office Allocation (L9 - L10)	\$ (19,996,095)	\$ (5,710,963)	\$ (1,433,663)	\$ (326,910)	\$ (406,645)	\$ (29,900)	\$ (37,874)

EXPLANATION OF RATE BASE ADJUSTMENT
ALLOWANCE FOR WORKING CAPITAL - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) AMOUNT	(B) REFERENCE
1	Working Cash Requirement As Per Company	\$ 54,157	Company Schedule B-5, PG. 2 of 2
2	Working Cash Requirement As Per RUCO	(8,519)	RUCO Schedule RBM-6(1), L30
3	Adjustment	\$ (62,676)	L2 - L1
4			
5	Material and Supplies Inventories As Per Company	\$ 58,630	Company Schedule B-5, PG. 2 of 2
6	Material and Supplies Inventories As Per RUCO	58,630	Company Schedule B-5, PG. 2 of 2
7	Adjustment	\$ -	L6 - L5
8			
9	Required Bank Balances As Per Company	\$ 156,780	Company Schedule B-5, PG. 2 of 2
10	Required Bank Balances As Per RUCO	156,780	Company Schedule B-5, PG. 2 of 2
11	Adjustment	\$ -	L10 - L9
12			
13	Prepayments & Special Deposits As Per Company	\$ 49,135	Company Schedule B-5, PG. 2 of 2
14	Prepayments & Special Deposits As Per RUCO	49,135	Company Schedule B-5, PG. 2 of 2
15		\$ -	L13 - L14
16			
17	TOTAL ADJUSTMENT (See RLM-2, Column (K))	<u>\$ (62,676)</u>	Sum L3, L7, L11, L15

EXPLANATION OF RATE BASE ADJUSTMENT NO. 2 - SURREBUTTAL

Line No.	(A) Company Test Year Adjusted Results	(B) RUCO Adj	(C) RUCO Adjusted Results	(D) Revenue Lag Days1	(E) Expense Lag Days2	(F) Net Lag Days [B - C]	(G) Lead / Lag Factor [D + 365]	(H) Working Cash Requirement [A X E]
1								
2	Operating Expenses		\$ 448,281	30.32	30.87	(0.55)	(0.0015)	\$ (675)
3	Purchased Power		843,054	30.32	14.00	16.32	0.0447	37,695
4	Payroll		-	30.32	-	30.32	0.0831	-
5	Purchased Water		27,617	30.32	(18.11)	48.43	0.1327	3,664
6	Chemicals		39,836	30.32	(45.27)	75.59	0.2071	8,250
7	Property & Liability Insurance		9,111	30.32	(46.50)	76.82	0.2105	1,918
8	Workman's Compensation Insurance		145,704	30.32	(8.92)	39.24	0.1075	15,664
9	Health Insurance		622,819	30.32	(9.27)	39.59	0.1085	67,555
10	Other O&M (Excluding Rate Case Expense)	(123,279)	206,337	30.32	37.00	(6.68)	(0.0183)	(3,776)
11	Federal Income Taxes	(74,329)	45,454	30.32	37.00	(6.68)	(0.0183)	(832)
12	State Income Taxes	(16,374)	63,246	30.32	14.00	16.32	0.0447	2,828
13	FICA Taxes		1,882	30.32	83.10	(52.78)	(0.1446)	(272)
14	FUTA & SUTA Taxes		146,112	30.32	212.00	(181.68)	(0.4978)	(72,728)
15	Property Taxes	(2,066)	40,447	30.32	(98.83)	129.15	0.3538	14,312
16	Registration, Svc. Contracts, & Misc. Fees		74,691	30.32	34.72	(4.40)	(0.0121)	(900)
17	Retirement Annuities (401k)							
18								
19								
20	Subtotal	(216,048)	2,714,591					72,701
21								
22								
23	Interest Expense		279,728	30.32	91.25	(60.93)	(0.1669)	(46,695)
24	Cost of Equity	(6,386)	-	30.32	-	30.32	0.0831	-
25	Dividends Paid	(544,822)	276,544	30.32	75.89	(45.57)	(0.1248)	(34,524)
26								
27	Subtotal	(274,664)	556,272					(81,220)
28								
29								
30	Total	(490,712)	3,270,863					(8,519)
31								
32								
33								
34								

Columns (A), (D), and (E) Company Schs. B-5 page 1
 Column (B) RUCO Schs. RBM-7, RBM-8

OPERATING INCOME - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJ'MTS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Operating Revenues					
1	Residential	\$ 2,270,520	\$ -	\$ 2,270,520	\$ 343,862	\$ 2,614,382
2	Commercial	863,071	-	863,071	-	863,071
3	Industrial	3,342	-	3,342	-	3,342
4	Private Fire Service	16,647	-	16,647	-	16,647
5	Other Water Revenues	107,091	-	107,091	-	107,091
6	Total Water Revenues	\$ 3,260,671	\$ -	\$ 3,260,671	\$ 343,862	\$ 3,604,533
7						
8	Miscellaneous	\$ 42,877	\$ -	\$ 42,877	\$ 11,722	\$ 54,599
9	Total Operating Revenues	\$ 3,303,548	\$ -	\$ 3,303,548	\$ 355,584	\$ 3,659,132
10						
11	Operating Expenses					
12	Source of Supply Expenses:					
13	Purchased Water	\$ -				
14	Other	36,840	(429)	36,411	-	36,411
15	Pumping Expenses:					
16	Purchased Power	448,281	3,104	451,385	-	451,385
17	Purchased Gas	1,606	-	1,606	-	1,606
18	Other	103,495	(4,724)	98,771	-	98,771
19	Water Treatment Expenses	75,163	(501)	74,662	-	74,662
20	Transmission & Distribution Expenses	564,445	(5,256)	559,189	-	559,189
21	Customer Accounting Expenses	355,672	(2,950)	352,722	-	352,722
22	Sales Expense	-	-	-	-	-
23	Administrative & General Expenses	573,228	(120,953)	452,275	-	452,275
24	Total Operations & Maintenance Expense	\$ 2,158,730	\$ (131,709)	\$ 2,027,021	\$ -	\$ 2,027,021
25						
26	Depreciation & Amortization Expenses	\$ 498,716	\$ (2,358)	\$ 496,358	-	\$ 496,358
27						
28	Taxes					
29	Federal Income Taxes	\$ 52,012	\$ 43,452	\$ 95,464	110,874	\$ 206,337
30	State Income Taxes	11,458	9,572	21,030	24,424	45,454
31	Property Taxes	137,972	3,079	141,051	5,061	146,112
32	Other	57,584	-	57,584	-	57,584
33	Total Taxes	\$ 259,026	\$ 56,102	\$ 315,128	\$ 140,359	\$ 455,487
34						
35	Total Operating Expenses	\$ 2,916,472	\$ (77,964)	\$ 2,838,508	\$ 140,359	\$ 2,978,866
36	Operating Income	\$ 387,076	\$ 77,964	\$ 465,040	\$ 215,225	\$ 680,265

References:

- Column (A): RBM-8, Col. A
- Column (B): RBM-8, Col. K
- Column (C): Col. A + Col.B
- Column (D): RBM-1, RBM-1(2), RBM-15
- Column (E): Col.C + Col.D

SCHEDULE OF OPERATING INCOME - TEST YEAR WITH RUCO ADJUSTMENTS - SURREBUTTAL

Line No.	(A) Test Year Ended 12/31/2010	(B) Surrebuttal Adjustment		(C) Adjustment Rate Case Expense		(D) Surrebuttal Adjustment Net Unbilled Expense		(E) Adjustment Misc Expenses		(F) Adjustment Depreciation Expense		(G) Adjustment LEFT BLANK		(H) Adjustment LEFT BLANK		(I) Surrebuttal Adjustment Property Tax		(J) Adjustment Income Tax		(K) Total Pro Forma Adjustments	(L) Test Year Adjusted Results	
		IS - 1	IS - 2	IS - 3	IS - 4	IS - 5	IS - 20	IS - 21														
1	Operating Revenues																					
2	Residential	2,270,520																				2,270,520
3	Commercial	863,071																				863,071
4	Industrial	3,342																				3,342
5	Private Fire Service	16,647																				16,647
6	Other Water Revenues	107,091																				107,091
7	Total Water Revenues (L2 thru L6)	3,260,671																				3,260,671
8	Miscellaneous	42,877																				42,877
9	Total Operating Revenues (L7 + L9)	3,303,548																				3,303,548
11	Operating Expenses																					
12	Source of Supply Expenses:																					
13	Purchased Water																					
14	Other	36,840				(429)															(429)	36,411
15	Pumping Expenses:																					
16	Purchased Power	448,281				3,104															3,104	451,385
17	Purchased Gas	1,606																				1,606
18	Other	103,485				(1,635)															(4,724)	98,771
19	Water Treatment Expenses	75,163		(3,089)		(5,256)															(5,256)	74,662
20	Transmission & Distribution Expenses	564,445				(2,950)															(2,950)	559,189
21	Customer Accounting Expenses	355,072																				352,722
22	Sales Expenses																					
23	Administrative & General Expenses	573,228		(108,950)		(1,739)															(120,953)	452,275
24	Operations & Maint. Exp (L14 thru L24)	2,156,730		(112,079)		(8,430)															(131,708)	2,027,021
25	Depreciation & Amortization Expenses	499,716									(2,358)										(2,358)	496,358
26	Taxes																					
27	Federal Income Taxes	52,012																			43,452	95,464
28	State Income Taxes	11,458																			9,572	21,030
29	Property Taxes	137,972																			3,079	141,051
30	Other	57,594																				57,584
31	Total Taxes (L30 thru L33)	259,026																			56,102	315,128
32	Total Operating Expenses (L25 + L27 + L34)	2,916,472		(112,079)		(8,430)					(2,358)										(77,964)	2,835,508
33	Operating Income (L10 less L36)	387,076		112,079		8,430					2,358										77,964	465,040

References:
 Column A, RBM-9
 Column B, RBM-10 - Remove Pumping and T&D Test Year Expense Adjustment - See RUCO Surrebuttal Testimony
 Column C, RBM-11
 Column D - Remove Unbilled Test Year Expense Adjustment - See RUCO Testimony
 Column E, RBM-13
 Column F, RBM-14
 Column I, RBM-15

Arizona Water Company
Docket No. W-01445A-11-0310
Test Year Ended December 31, 2010

SCHEDULE OF OPERATING INCOME-TEST YR COMPANY ADJUSTMENTS - SURREBUTTAL

Line No.	(A) Test Year Ended 12/31/2010	(B) Adjustment Sales Tax IS-1	(C) Adjustment Net Unbilled IS-2	(D) Adjustment MAP IS-3	(E) Adjustment ACRM IS-4	(F) Adjustment Misc IS-5	(G) Adjustment Annual Rates IS-6	(H) Adjustment New Customers IS-7	(I) Adjustment Annualize Payroll IS-8	(J) Adjustment Annualize Emp Benefits IS-9	(K) Adjustment Interest on Customer Deposits IS-10	(L) Adjustment Normalize Maintenance IS-11
1	Operating Revenues	\$ 2,440,538	\$ (224,117)	\$ 3,562	\$ (9,871)	\$ -	\$ 54,681	\$ 5,727	\$ -	\$ -	\$ -	\$ -
2	Residential	906,126	(77,770)	838	(777)	-	29,405	5,249	-	-	-	-
3	Commercial	2,981	(225)	(21)	(3)	-	610	-	-	-	-	-
4	Industrial	8,627	(726)	-	-	-	8,746	-	-	-	-	-
5	Private Fire Service	122,126	(12,399)	-	(10)	-	(2,626)	-	-	-	-	-
6	Other Water Revenues	3,480,398	(315,237)	4,379	(10,661)	-	90,816	10,976	-	-	-	-
7	Total Water Revenues (L2 thru L6)	\$ 46,914	(4,037)	\$ 4,379	(10,661)	\$ -	\$ 90,816	\$ 10,976	\$ -	\$ -	\$ -	\$ -
8	Miscellaneous	3,627,312	(319,274)	4,379	(10,661)	-	-	-	-	-	-	-
9	Total Operating Revenues (L7 + L8)	\$ 3,627,312	(319,274)	\$ 4,379	(10,661)	\$ -	\$ 90,816	\$ 10,976	\$ -	\$ -	\$ -	\$ -
10	Operating Expenses											
11	Source of Supply Expenses:											
12	Purchased Water	32,134	-	429	-	-	-	95	3,995	-	-	-
13	Other	445,426	-	(3,104)	-	-	-	-	-	-	-	-
14	Pumping Expenses:	1,606	-	-	-	-	-	1,570	8,947	-	-	3,088
15	Purchased Power	86,363	-	1,635	-	-	-	257	3,288	-	-	-
16	Purchased Gas	87,444	-	501	(16,914)	-	-	1,154	41,536	-	-	108,992
17	Other	401,330	-	5,256	-	-	-	930	26,853	-	-	-
18	Water Treatment Expenses	323,274	-	2,950	-	-	-	-	-	-	-	-
19	Transmission & Distribution Expenses	502,102	-	1,739	-	-	-	1,444	11,225	-	2,297	-
20	Customer Accounting Expenses	1,879,679	-	9,406	(16,914)	-	-	5,450	95,844	-	24,616	-
21	Sales Expense	464,098	-	-	-	-	-	-	-	-	-	-
22	Administrative & General Expenses											
23	Depreciation & Maint. Exp (L14 thru L24)	135,289	-	-	-	-	-	-	-	-	-	-
24	Source of Supply Expenses:	15,283	-	-	-	-	-	-	-	-	-	-
25	Purchased Water	128,907	-	-	-	-	-	-	-	-	-	-
26	Other	365,064	(319,274)	-	-	-	-	-	8,794	-	-	-
27	Total Taxes (L30 thru L33)	\$ 647,543	(319,274)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,794	\$ -	\$ -	\$ -
28	Federal Income Taxes	15,283	-	-	-	-	-	-	-	-	-	-
29	State Income Taxes	128,907	-	-	-	-	-	-	-	-	-	-
30	Property Taxes	365,064	(319,274)	-	-	-	-	-	8,794	-	-	-
31	Other	647,543	(319,274)	-	-	-	-	-	-	-	-	-
32	Total Operating Expenses (L25 + L27 + L34)	\$ 2,991,320	(319,274)	\$ 9,406	(16,914)	\$ -	\$ -	\$ 5,450	\$ 104,638	\$ 24,616	\$ 2,297	\$ 112,080
33	Operating Income (L10 less L36)	\$ 535,992	\$ -	\$ (5,027)	\$ 6,253	\$ -	\$ 90,816	\$ 5,526	\$ (104,638)	\$ (24,616)	\$ (2,297)	\$ (112,080)

Columns (A) through (X) see Company Exhibit Schedule C-2

**OPERATING INCOME ADJUSTMENT NO. 1
PUMPING AND TRANSMISSION & DISTRIBUTION MAINTENANCE EXPENSE - SURREBUTTAL**

	Test Year Pumping Expense
Pumping Accounts	
1 <u>Maintenance:</u>	
2 Supervision & Engineering	\$ 2,295
3 Structures & Improvements	11,811
4 Electric pumping equipment	11,792
5 Gas pumping equipment	1,789
6	
7 Total Pumping Maintenance Expense	\$ 27,687
8	
9	
10 Company Requested Level of T. Y. Pumping Maintenance Expense	30,776
11	
12 RUCO Increase / (Decrease) in T. Y. Expense Level	\$ (3,089)
13	
14 RUCO Pumping Maintenance Expense Adjustment	\$ (3,089)
15	
16	
17	
18	
19	
20 Transmission & Distribution Accounts	
21	
22 <u>Maintenance:</u>	
23 Supervision & Engineering	\$ 35,299
24 Tanks	18,978
25 Mains	99,049
26 Mains - Leak Repair	18,391
27 Mains - Leak Detection	417
28 Services	61,031
29 Services - Leak Repair	9,982
30 Meters	16,739
31 Hydrants	1,078
32	
33 Total T & D Maintenance Expense	\$ 260,964
34	
35	
36 Company Requested Level of T. Y. T & D Maintenance Expense	369,954
37	
38 RUCO Increase / (Decrease) Expense Adjustment	\$ (108,990)
39	
40 RUCO T & D Maintenance Expense Adjustment	\$ (108,990)
41	
42	
43 Total RUCO Pumping and T & D Maintenance Expense Adjustment (L14 + L40)	\$ (112,079)

OPERATING INCOME ADJUSTMENT NO. 2
RATE CASE EXPENSE ADJUSTMENT - SURREBUTTAL

Line No.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(B) RUCO AS ADJUSTED
1	Rate Case Expense Total for Eastern Group	\$ 476,874	\$ (164,274)	\$ 312,600
2				
3	Allocation Factor			19.15%
4				
5	Superstition (Apache Junction, Superior, Miami)			<u>\$ 59,854</u>
6				
7	Amortization Period - 3 years			3
8				
9	RUCO Adjusted Rate Case Expense (L5 / L7)			<u>\$ 19,951</u>
10				
11	Company Rate Case Expense as Filed (Company Sch. C-2 Appendix)			\$ 28,381
12				
13	RUCO Pro Forma Rate Case Expense (L9 - L11)			<u>\$ (8,430)</u>
14				
15	RUCO Adjustment			<u>\$ (8,430)</u>
16				
17				
18	RUCO's Rate Base Expense Adjustment Calculation:			
19	Decision No. 66848, dated March 19, 2004, approved amount			
20	\$250,000 for Arizona Water Company's Eastern Group.		\$ 250,000	
21				
22	Inflation Factor from January 1, 2002 through September 30,			
23	per Inflation Data.com		<u>25.04%</u>	
24				
25	Reasonable Amount of Rate Case Expense based on			
26	Decision No. 66848.		<u>\$ 312,600</u>	
27				
28	RUCO Adjustment		<u>\$ 164,274</u>	
29				
30	<u>Allocation Factor Based on Number of Customers</u>		<u>Customers</u>	<u>Percent of Total</u>
31	Superstition (Apache Junction, Superior, Miami)		23,607	71.10%
32	Cochise (Bisbee, Sierra Vista)		6,357	19.15%
33	San Manuel		1,465	4.41%
34	Oracle		1,506	4.54%
35	SaddleBrook Ranch		113	0.34%
36	Winkelman		<u>153</u>	<u>0.46%</u>
37	Total Number of Customers and Percentages		<u>33,201</u>	<u>100.00%</u>

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OPERATING INCOME ADJUSTMENT NO. 4
MISCELLANEOUS EXPENSE ADJUSTMENTS - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) Superstition	(B) Cochise	(C) San Manuel	(D) Oracle	(E) SaddleBrook Ranch	(F) Winkelman
<u>DIRECT EXPENSES</u>							
1	Customer Accounting Expense	\$ 1,570	\$ 713	\$ 78	\$ 96	\$ -	\$ -
3	Administration & General Expense	1,642	-	137	143	19	7
6	TOTAL DIRECT EXPENSE	\$ 3,212	\$ 713	\$ 215	\$ 240	\$ 19	\$ 7
<u>PHOENIX OFFICE EXPENSES</u>							
8	TOTAL	0.2865	0.0719	0.0164	0.0204	0.0015	0.0019
10	Service Awards and Banquets	\$10,580	761	174	216	16	20
12	Flower Shop Expenses	\$987	71	16	20	1	2
15	Water Association Dues Allowed at 50% of Total	\$3,475	250	57	71	5	7
17	TOTAL ALLOCATED EXPENSES	\$4,310	\$1,082	\$247	\$307	\$23	\$29
19	TOTAL MISCELLANEOUS EXPENSE ADJUSTMENT	\$7,522	\$1,794	\$462	\$547	\$42	\$35

OPERATING INCOME ADJUSTMENT NO. 6
PROPERTY TAXES - SURREBUTTAL

LINE NO.	Property Tax Calculation	(A)	(B)
		RUCO AS ADJUSTED	RUCO RECOMMENDED
1	RUCO Adjusted Test Year Revenues - RBM-6	\$ 3,303,548	\$ 3,303,548
2	Multiplied by 2	2	2
3	Subtotal (Line 1 * Line 2)	\$ 6,607,096	\$ 6,607,096
4	RUCO Adjusted Test Year Revenues - 2010	3,303,548	
5	RUCO Recommended Revenue, Per Schedule RBM-6		3,659,132
6	Subtotal (Line 4 + Line 5)	\$ 9,910,644	\$ 10,266,228
7	Number of Years	3	3
8	Three Year Average (Line 5 / Line 6)	\$ 3,303,548	\$ 3,422,076
9	Department of Revenue Multiplier	2	2
10	Revenue Base Value (L8 X L9)	\$ 6,607,096	\$ 6,844,152
11	Plus: 10% of CWIP -	-	-
12	Less: Net Book Value of Licensed Vehicles	-	-
13	Full Cash Value (L10 + L11 + L12)	\$ 6,607,096	\$ 6,844,152
14	Assessment Ratio	21.0%	21.0%
15	Assessment Value (L13 X L14)	\$ 1,387,490	\$ 1,437,272
16	Composite Property Tax Rate (L19 / L15)	10.1659%	10.1659%
17			
18	RUCO Proposed Property Tax Expense (L15 X L16)	\$ 141,051	
19	Company Proposed Property Tax	137,972	
20			
21	RUCO Test Year Adjustment (Line 16-Line 17)	\$ 3,079	
22	Property Tax - RUCO Recommended Revenue (L15 X L16)		\$ 146,112
23	RUCO Test Year Adjusted Property Tax Expense (L18)		141,051
24	Increase/(Decrease) to Property Tax Expense		\$ 5,061
25			
26	Increase/(Decrease) to Property Tax Expense		\$ 5,061
27	Increase in Revenue Requirement (L5 - L4)		355,584
28	Increase /(Decrease) to Property Tax per Dollar Increase in Revenue (L26 / L27)		1.4232%

**OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE - SURREBUTTAL**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
1	FEDERAL INCOME TAXES:		
2			
3	Operating Income Before Taxes	Sch. RBM- 7, Column (C), L36 + L29 + L30	\$ 581,534
4	LESS:		
5	Arizona State Tax	L21	21,030
6	Interest Expense	Note (A) L41	279,728
7	Federal Taxable Income	L1 - L2 - L3	\$ 280,776
8			
9	Federal Tax Rate	Sch. RBM-1, Page 2	34.00%
10	Federal Income Tax Expense	L7 X L9	\$ 95,464
11			
12	STATE INCOME TAXES:		
13			
14	Operating Income Before Taxes	L3	\$ 581,534
15	LESS:		
16	Interest Expense	Note (A) L41	279,728
17	State Taxable Income	L14 - L16	\$ 301,805
18			
19	State Tax Rate	Tax Rate	6.97%
20			
21	State Income Tax Expense	L17 X L19	\$ 21,030
22			
23	TOTAL INCOME TAX EXPENSE:		
24	Federal Income Tax Expense	L10	\$ 95,464
25	State Income Tax Expense	L21	21,030
26	Total Income Tax Expense Per RUCO	L24 + L25	\$ 116,493
27			
28	Total Federal Income Tax Expense Per Company (Per Company Sch. C-1, L30)		52,012
29			
30	Total State Income Tax Expense Per Company (Per Company Sch. C-1, L31)		11,458
31			
32	RUCO Federal Income Tax Adjustment	L24 - L28	\$ 43,452
33			
34	RUCO State Income Tax Adjustment	L25 - L30	\$ 9,572
35			
36			
37	NOTE (A): Interest Synchronization		
38			
39	Adjusted Rate Base RBM-2, Col. (M), L28	\$ 8,365,892	
40	Weighted Cost Of Debt RBM-9, Col. (D), L1	3.34%	
41	Interest Expense (L39 X L40)	\$ 279,728	

COST OF CAPITAL - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) DOLLAR AMOUNT	(B) CAPITAL RATIO	(C) COST RATE	(D) WEIGHTED COST RATE
1	Long-Term Debt	\$ 75,000,000	49.03%	6.82%	3.34%
2					
3	Common Equity	<u>77,975,335</u>	<u>50.97%</u>	9.40%	<u>4.79%</u>
4					
5	Total Capitalization	<u>\$ 152,975,335</u>	<u>100.00%</u>		
6					
7					
8	WEIGHTED AVERAGE COST OF CAPITAL				8.13%

References:
Columns (A) Thru (D): WAR Testimony

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RBM-16	1	OPERATING INCOME ADJUSTMENT NO. 7 - INCOME TAXES
RBM-17	1	COST OF CAPITAL

REVENUE REQUIREMENT - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Adjusted Original Cost/Fair Value Rate Base	\$ 2,016,851	\$ 2,011,030
2			
3	Adjusted Operating Income (Loss)	\$ (28,824)	\$ 40,688
4			
5	Current Rate of Return (L3 / L1)	-1.43%	2.02%
6			
7	Required Operating Income (L9 X L1)	\$ 195,980	\$ 163,525
8			
9	Required Rate of Return on Fair Value Rate Base	9.72%	8.13%
10			
11	Operating Income Deficiency (L7 - L3)	\$ 224,804	\$ 122,837
12			
13	Gross Revenue Conversion Factor (RBM-1, Page 2 of 2)	1.6567	1.6573
14			
15	Required Increase in Gross Revenue Requirement (L11 X L13))	\$ 372,441	\$ 203,581
16			
17	Adjusted Test Year Revenue	\$ 947,528	\$ 947,528
18			
19	Proposed Annual Revenue (L15 + L17)	\$ 1,319,969	\$ 1,151,109
20			
21	Required Percentage Increase in Revenue (L15 / L17)	39.31%	21.49%
22			
23	Consolidated Revenue Adjustment	\$ 15,017	\$ -
24			
25	Required Increase in Gross Revenue Under Proposed Consolidation	\$ 387,458	\$ -
26			
27	Required Revenue Under Proposed Consolidation	\$ 1,334,986	\$ -
28			
29	Required Percentage Increase in Revenue Under Proposed Consolidation	40.89%	0.00%
30			
31	Rate of Return on Common Equity	12.50%	9.40%

References:

Column (A): Company Schs. A-1 and C-1

Column (B): RUCO Schs. RBM-2, RBM-7, RBM-9 and RBM-17

GROSS REVENUE CONVERSION FACTOR - SURREBUTTAL

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	100.0000%			
2	Proposed Bad Debt Expense (Per Co. Workpapers)	-			
3	Subtotal (L1 thru L2)	100.0000%			
4	Combined Federal, State, Property Tax Rate (L22)	39.6619%			
5	Subtotal (L3 - L4)	60.3381%			
6	Revenue Conversion Factor (L1 / L5)	1.6573			
CALCULATION OF EFFECTIVE TAX RATE:					
9	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
10	Arizona State Income Tax Rate	6.9680%			
11	Federal Taxable Income (L9 - L10)	93.0320%			
12	Applicable Federal Income Tax Rate (L58)	34.0000%			
13	Effective Federal Income Tax Rate (L11 X L12)	31.6309%			
14	Combined Federal and State Income Tax Rate (L10 + L13)	38.5989%			
CALCULATION OF EFFECTIVE PROPERTY TAX FACTOR:					
17	Unity	100.0000%			
18	Combined Federal and State Tax Rate	38.5989%			
19	1 Minus Combined Income Tax Rate	61.4011%			
20	Property Tax Factor	1.7312%			
21	Effective Property Tax Factor (L19 x L 20)	1.0630%			
22	Combined Federal, State & Property Tax RateTax Rate (L14 + L21)	39.6619%			
24	RUCO Required Operating Income (Sch. RBM-1, Col. (B), L7)	\$ 163,525			
25	RUCO Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RBM-1, Col. (B), L3)	40,688			
26	Required Increase In Operating Income (L24 - L25)		\$ 122,837		
28	Income Taxes On Recommended Revenue (Col. (D), L53)	\$ 60,527			
29	Income Taxes On Test Year Revenue (Col. (D), L55)	(16,693)			
30	Required Increase In Revenue To Provide For Income Taxes (L28 - L29)		\$ 77,219		
32	Property Tax with Recommended Revenue (Sch. RBM-7, Col. E, L31)	52,735			
33	Property Tax on TestYear Revenue (Sch. RBM-7, Col. C, L31)	49,211			
34	Increase in Property Tax Due to Increase in Revenue (L32 - L33)		\$ 3,524		
36	Total Required Increase In Revenue (L26 + L30 + L34)		\$ 203,581		
RUCO's CALCULATION OF INCOME TAX:					
39	RUCO Proposed Revenue (Sch. RBM-1, Col. (B), L19)			\$ 1,151,109	
40	Less:				
41	Operating Expense Excluding Income Tax (Sch. RBM-7, Col. (E), L24 + L26 + L31 + L32)			927,057	
42	Synchronized Interest (Col. (C), L63)			67,242	
43	Arizona Taxable Income (L39 - L41 - L42)			\$ 156,810	
44	Arizona State Income Tax Rate			6.9680%	
45	Arizona Income Tax (L43 X L44)				\$ 10,926
46	Fed. Taxable Income (L43 - L45)			\$ 145,883	
47	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ -	
48	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			\$ -	
49	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			\$ -	
50	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			\$ -	
51	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			\$ 49,600	
52	Total Federal Income Tax (L47 thru L 51)				\$ 49,600
53	Combined Federal And State Income Tax (L45+ L52)				\$ 60,527
55	RUCO Adj'd Test Year Combined Federal and State Income Tax (RBM-7, Col. (C), L29 and L30)				\$ (16,693)
56	RUCO Proposed Income Tax Adjustment (L53 - L55)				\$ 77,219
58	Applicable Federal Income Tax Rate				34.00%
NOTE (A): Interest Synchronization					
61	Adjusted Rate Base RBM-2, Col. (C), L28			\$ 2,011,030	
62	Weighted Cost Of Debt RBM-9, Col. (M), L1			3.34%	
63	Interest Expense (L61 X L62)			\$ 67,242	

SUMMARY RATE BASE - ORIGINAL COST - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB
1	Plant Classification			
2	Intangible Plant	\$ 484		\$ 484
3	Source of Supply Plant	178,993		178,993
4	Pumping Plant	406,758		406,758
5	Water Treatment Plant	1,423,286		1,423,286
6	Transmission & Distribution Plant	1,915,019		1,915,019
7	General Plant	490,096		490,096
8	Total Gross Plant in Service (L2 thru L7)	\$ 4,414,635	\$ -	\$ 4,414,635
9				
10	Accumulated Depreciation	\$ 1,313,975		\$ 1,313,975
11	Net Utility Plant In Service (L8 - L10)	\$ 3,100,661	\$ -	\$ 3,100,661
12				
13	Advances In Aid Of Const.	\$ 61,297		\$ 61,297
14				
15	Contribution In Aid Of Const.	\$ 742,146		\$ 742,146
16	Accumulated Amortization Of CIAC	\$ (52,037)		\$ (52,037)
17	NET CIAC (L15 + L16)	\$ 690,109	\$ -	\$ 690,109
18				
19	Deferred Income Tax	\$ 416,036		\$ 416,036
20				
21	Customer Deposits	\$ 11,769		\$ 11,769
22				
23	Allowance For Working Capital	\$ 95,402	\$ (5,821)	\$ 89,581
24				
25	Net Regulatory Asset / (Liability)	\$ -		\$ -
26				
27	Rounding	\$ (1)		\$ (1)
28	TOTAL RATE BASE (+L11 - L17 - L19 - L21 + L23)	\$ 2,016,851	\$ (5,821)	\$ 2,011,030

References:

Column (A): Company Schedule B-1 and RBM-3 Col. E
Column (B): Schedule RBM-3 Cols. F and G
Column (C): Col. A + Col. B; RBM-3

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED NET PLANT TEST YEAR	(B) COMPANY ADJ. NO. 1 POST TEST YEAR ADJUSTMENTS	(C) NET REGULATORY LIABILITY	(D) PHOENIX OFF AND METER SHOP	(E) COMPANY AS FILED OCRB/FVRB	(F) ADJMT NO. 1 POST TEST YR ADJUSTMENTS	(G) ADJMT NO. 6 WORKING CAPITAL	(H) RUCO ADJUSTED OCRB/FVRB
1	Plant Classification								
2	Intangible Plant	\$ 334	\$ -	\$ -	\$ 150	\$ 484	\$ -	\$ -	\$ 484
3	Source of Supply Plant	178,992	-	-	1	178,993	-	-	178,993
4	Pumping Plant	406,758	-	-	-	406,758	-	-	406,758
5	Water Treatment Plant	1,423,252	-	-	34	1,423,286	-	-	1,423,286
6	Transmission & Distribution Plant	1,914,920	-	-	99	1,915,019	-	-	1,915,019
7	General Plant	374,286	-	-	115,810	490,096	-	-	490,096
8	Total Gross Plant in Service (Sum L2 thru L7)	\$ 4,298,542	\$ -	\$ -	\$ 116,094	\$ 4,414,635	\$ -	\$ -	\$ 4,414,635
9	Accumulated Depreciation	1,287,007	-	-	28,968	1,313,975	-	-	1,313,975
10	Net Utility Plant in Service (L8 less L10)	\$ 3,011,535	\$ -	\$ -	\$ 89,126	\$ 3,100,661	\$ -	\$ -	\$ 3,100,661
11	Advances in Aid Of Const.	61,297	-	\$ -	-	61,297	-	-	61,297
12	Contribution in Aid Of Const.	742,146	-	\$ -	-	742,146	-	-	742,146
13	Accumulated Amortization Of CIAC	(52,037)	-	-	-	(52,037)	-	-	(52,037)
14	NET CIAC (L-15 less L16)	\$ 690,109	\$ -	\$ -	\$ -	\$ 690,109	\$ -	\$ -	\$ 690,109
15	Deferred Income Tax	-	-	\$ -	\$ 416,036	\$ 416,036	\$ -	\$ -	\$ 416,036
16	Customer Deposits	11,769	-	\$ -	-	11,769	-	-	11,769
17	Allowance For Working Capital	95,402	-	\$ -	-	95,402	-	(5,821)	89,581
18	Net Regulatory Asset / (Liability)	-	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
19	Adjustment to Match Rate Base with G/L	(1)	-	-	(326,910)	(1)	-	(5,821)	(1)
20	TOTAL RATE BASE (+L11 - L17 - L19 - L21 + L23)	\$ 2,343,761	\$ -	\$ -	\$ (326,910)	\$ 2,016,851	\$ -	\$ (5,821)	\$ 2,011,030

References:
Columns (A) through (E): Company Schedule B-2; Column (D) RBM-4(1)
Column (F): RUCO Schedule RBM-6, Col. F
Column (G): RUCO Schedule RBM-5, Col. A

PHOENIX OFFICE AND METER SHOP - RATE BASE ALLOCATION - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) TEST YEAR ADJUSTED	(B) Superstition 28.65%	(C) Cochise 7.19%	(D) San Maneul 1.64%	(E) Oracle 2.04%	(F) SaddleBrook Ranch 0.15%	(G) Winkelman 0.19%
1	3 Factor Allocation Factor							
2	Phoenix Office Allocation							
3	Plant Classification							
4	Intangible Plant	\$ 9,148	\$ 2,621	\$ 658	\$ 150	\$ 187	\$ 14	\$ 17
5	Source of Supply Plant	-	-	-	-	-	-	-
6	Pumping Plant	-	-	-	-	-	-	-
7	Water Treatment Plant	-	-	-	-	-	-	-
8	Transmission & Distribution Plant	6,914,749	1,981,076	497,170	113,402	141,061	10,372	13,138
9	General Plant	6,917,761	1,983,696	497,828	113,552	141,247	10,386	13,155
10	Total Gross Plant in Service (Sum L4 thru L9)							
11	Less:							
12	Accumulated Depreciation	\$ 1,587,979	\$ 454,956	\$ 114,176	\$ 26,043	\$ 32,395	\$ 2,382	\$ 3,017
13	Net Utility Plant in Service (L10 less L12)	\$ 5,329,782	\$ 1,528,740	\$ 383,652	\$ 87,509	\$ 109,853	\$ 8,004	\$ 10,138
14	Less:							
15	Deferred Income Tax	25,368,073	7,267,953	1,823,964	416,036	517,509	38,052	48,199
16	Total Phoenix Office Allocation (L13 less L15)	\$ (20,038,291)	\$ (5,739,212)	\$ (1,440,312)	\$ (328,527)	\$ (408,656)	\$ (30,048)	\$ (38,061)
17								
18	Meter Shop Allocation							
19	Plant Classification							
20	Intangible Plant	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
21	Source of Supply Plant	80	23	6	1	2	-	-
22	Pumping Plant	-	-	-	-	-	-	-
23	Water Treatment Plant	2,050	587	147	34	42	3	4
24	Transmission & Distribution Plant	6,065	1,738	436	99	124	9	12
25	General Plant	146,810	42,061	10,556	2,408	2,995	220	279
26	Total Gross Plant in Service (Sum L20 thru L25)	\$ 155,005	\$ 44,409	\$ 11,145	\$ 2,542	\$ 3,162	\$ 232	\$ 294
27	Less:							
28	Accumulated Depreciation	\$ 56,404	\$ 16,160	\$ 4,055	\$ 925	\$ 1,151	\$ 85	\$ 107
29	Net Utility Plant in Service (L26 less L28)	\$ 98,601	\$ 28,249	\$ 7,089	\$ 1,617	\$ 2,011	\$ 148	\$ 187
30	Less:							
31	Deferred Income Tax	56,404	-	-	-	-	-	-
32	Total Phoenix Office Allocation (L29 less L31)	\$ 42,197	\$ 28,249	\$ 7,089	\$ 1,617	\$ 2,011	\$ 148	\$ 187
33								
34	Total Phoenix Office and Meter Shop Allocation							
35	Plant Classification							
36	Intangible Plant	\$ 9,148	\$ 2,621	\$ 658	\$ 150	\$ 187	\$ 14	\$ 17
37	Source of Supply Plant	80	23	6	1	2	-	-
38	Pumping Plant	-	-	-	-	-	-	-
39	Water Treatment Plant	2,050	587	147	34	42	3	4
40	Transmission & Distribution Plant	6,065	1,738	436	99	124	9	12
41	General Plant	7,055,423	2,023,137	507,726	115,610	144,056	10,592	13,417
42	Total Gross Plant in Service	\$ 7,072,766	\$ 2,028,105	\$ 508,973	\$ 116,094	\$ 144,410	\$ 10,618	\$ 13,460
43	Less:							
44	Accumulated Depreciation	\$ 1,644,363	\$ 471,116	\$ 118,231	\$ 26,968	\$ 33,545	\$ 2,467	\$ 3,124
45	Net Utility Plant in Service (Sum L7 - L8)	\$ 5,428,362	\$ 1,556,990	\$ 390,742	\$ 89,126	\$ 110,864	\$ 8,152	\$ 10,325
46	Less:							
47	Deferred Income Tax	25,368,073	7,267,953	1,823,964	416,036	517,509	38,052	48,199
48	Total Phoenix Office Allocation (L9 - L10)	\$ (19,996,095)	\$ (5,710,963)	\$ (1,433,223)	\$ (326,910)	\$ (406,645)	\$ (29,900)	\$ (37,874)

ALLOWANCE FOR WORKING CAPITAL - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) AMOUNT	(B) REFERENCE
1	Working Cash Requirement As Per Company	\$ 10,997	Company Schedule B-5, PG. 2 of 2
2	Working Cash Requirement As Per RUCO	5,176	RUCO Schedule RBM-6(1), L30
3	Adjustment	\$ (5,821)	L2 - L1
4			
5	Material and Supplies Inventories As Per Company	\$ 36,426	Company Schedule B-5, PG. 2 of 2
6	Material and Supplies Inventories As Per RUCO	36,426	Company Schedule B-5, PG. 2 of 2
7	Adjustment	\$ -	L6 - L5
8			
9	Required Bank Balances As Per Company	\$ 36,269	Company Schedule B-5, PG. 2 of 2
10	Required Bank Balances As Per RUCO	36,269	Company Schedule B-5, PG. 2 of 2
11	Adjustment	\$ -	L10 - L9
12			
13	Prepayments & Special Deposits As Per Company	\$ 11,711	Company Schedule B-5, PG. 2 of 2
14	Prepayments & Special Deposits As Per RUCO	11,711	Company Schedule B-5, PG. 2 of 2
15		\$ -	L13 - L14
16			
17	TOTAL ADJUSTMENT (See RLM-2, Column (K))	\$ (5,821)	Sum L3, L7, L11, L15

SCHEDULE 6 INTENTIONALLY IS BLANK

EXPLANATION OF RATE BASE ADJUSTMENT NO. 2 - SURREBUTTAL

Line No.	(A) Company Test Year Adjusted Results	(B) RUCO Adj	(C) RUCO Adjusted Results	(D) Revenue Lag Days1	(E) Expense Lag Days2	(F) Net Lag Days [B - C]	(G) Lead / Lag Factor [D + 365]	(H) Working Cash Requirement [A X E]
1								
2	Operating Expenses							
3	Purchased Power	\$ 34,056	\$ 34,056	30.15	30.87	(0.72)	(0.0020)	\$ (67)
4	Payroll	218,739	218,739	30.15	14.00	16.15	0.0442	9,678
5	Purchased Water	372,967	372,967	30.15	26.04	4.11	0.0113	4,200
6	Chemicals	3,034	3,034	30.15	(18.11)	48.26	0.1322	401
7	Property & Liability Insurance	9,086	9,086	30.15	(45.27)	75.42	0.2066	1,877
8	Workman's Compensation Insurance	2,078	2,078	30.15	(46.50)	76.65	0.2100	436
9	Health Insurance	33,958	33,958	30.15	(8.92)	39.07	0.1070	3,635
10	Other O&M (Excluding Rate Case Expense)	153,827	(112,398)	30.15	(9.27)	39.42	0.1080	28,752
11	Federal Income Taxes	66,196	(16,596)	30.15	37.00	(6.85)	(0.0188)	(931)
12	State Income Taxes	14,582	(3,656)	30.15	37.00	(6.85)	(0.0188)	(205)
13	FICA Taxes	16,443	16,443	30.15	14.00	16.15	0.0442	728
14	FUTA & SUTA Taxes	545	545	30.15	83.10	(52.95)	(0.1451)	(79)
15	Property Taxes	54,539	(1,803)	30.15	212.00	(181.85)	(0.4982)	(26,274)
16	Registration, Svc. Contracts, & Misc. Fees	8,929	8,929	30.15	(98.83)	128.98	0.3534	3,155
17	Retirement Annuities (401k)	17,408	17,408	30.15	34.72	(4.57)	(0.0125)	(218)
18								
19								
20	Subtotal	1,006,387	(134,452)	1,096,730				25,089
21								
22								
23	Interest Expense	67,481	(239)	67,242	30.15	91.25	(0.1674)	(11,256)
24	Cost of Equity	128,498	(128,498)	-	-	30.15	0.0826	-
25	Dividends Paid		69,081	69,081	30.15	75.89	(0.1253)	(8,656)
26								
27	Subtotal	195,979	(59,655)	136,324				(19,913)
28								
29								
30	Total	\$ 1,202,366	\$ (194,108)	\$ 1,233,054				\$ 5,176
31								
32								

33 Columns (A), (D), and (E) Company Schs. B-5 page 1
34 Column (B) RUCO Schs. RBM-7, RBM-8

OPERATING INCOME - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJM'TS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Operating Revenues					
1	Residential	\$ 763,811	\$ -	\$ 763,811	\$ 203,581	\$ 967,392
2	Commercial	159,464	-	159,464	-	159,464
3	Industrial	-	-	-	-	-
4	Private Fire Service	286	-	286	-	286
5	Other Water Revenues	8,639	-	8,639	-	8,639
6	Total Water Revenues	\$ 932,200	\$ -	\$ 932,200	\$ 203,581	\$ 1,135,781
7	Miscellaneous	\$ 15,328	\$ -	\$ 15,328	\$ -	\$ 15,328
8	Total Operating Revenues	\$ 947,528	\$ -	\$ 947,528	\$ 203,581	\$ 1,151,109
	Operating Expenses					
	Source of Supply Expenses:					
9	Purchased Water	\$ 372,967	\$ (82,364)	290,603	-	290,603
10	Other	2,637	(48)	2,589	-	2,589
11	Pumping Expenses:	-	-	-	-	-
12	Purchased Power	34,056	82	34,138	-	34,138
13	Purchased Gas	-	-	-	-	-
14	Other	49,208	(3,888)	45,320	-	45,320
15	Water Treatment Expenses	55,225	(9,587)	45,638	-	45,638
16	Transmission & Distribution Expenses	103,578	(14,220)	89,358	-	89,358
17	Customer Accounting Expenses	109,167	(1,492)	107,675	-	107,675
18	Sales Expense	-	-	-	-	-
19	Administrative & General Expenses	134,261	(2,834)	131,427	-	131,427
20	Total Operations & Maintenance Expense	\$ 861,099	\$ (114,351)	\$ 746,748	\$ -	\$ 746,748
21	Depreciation & Amortization Expenses	\$ 112,938	\$ -	\$ 112,938	\$ -	\$ 112,938
	Taxes					
22	Federal Income Taxes	\$ (49,612)	\$ 35,933	\$ (13,679)	63,280	\$ 49,600
23	State Income Taxes	(10,929)	7,916	(3,013)	13,940	10,926
24	Property Taxes	48,221	990	49,211	3,524	52,735
25	Other	14,635	-	14,635	-	14,635
26	Total Taxes	\$ 2,315	\$ 44,838	\$ 47,153	\$ 80,744	\$ 127,897
27	Total Operating Expenses	\$ 976,352	\$ (69,512)	\$ 906,840	\$ 80,744	\$ 987,583
28	Operating Income	\$ (28,824)	\$ 69,512	\$ 40,688	\$ 122,837	\$ 163,526

References:

Column (A): RBM-8, Col. A
Column (B): RBM-8, Col. K
Column (C): Col. A + Col. B
Column (D): RBM-1, RBM-1(2), RBM-15
Column (E): Col. C + Col. D

SCHEDULE OF OPERATING INCOME - TEST YEAR WITH RUCO ADJUSTMENTS - SURREBUTTAL

Line No.	(A) Test Year Ended 12/31/2010	(B) Surrebuttal Adjustment Normalized Maintenance IS-1	(C) Surrebuttal Adjustment Rate Case Expense IS-2	(D) Surrebuttal Adjustment Net Unbilled Expense IS-3	(E) Surrebuttal Adjustment Misc Expenses IS-4	(F) Surrebuttal Adjustment Depreciation Expense IS-5	(G) Surrebuttal Adjustment Purchased Water IS-6	(H) Surrebuttal Adjustment Water Testing Expense IS-7	(I) Surrebuttal Adjustment Property Tax IS-8	(J) Surrebuttal Adjustment Income Tax IS-9	(K) Total Pro Forma Adjustments	(L) Test Year Adjusted Results
1	Operating Revenues											
2	Residential	\$ 763,811	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 763,811
3	Commercial	159,464	-	-	-	-	-	-	-	-	-	159,464
4	Industrial	286	-	-	-	-	-	-	-	-	-	286
5	Private Fire Service	8,639	-	-	-	-	-	-	-	-	-	8,639
6	Other Water Revenues	932,200	-	-	-	-	-	-	-	-	-	932,200
7	Total Water Revenues (L2 thru L6)	\$ 1,963,360	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,963,360
8	Miscellaneous	15,328	-	-	-	-	-	-	-	-	-	15,328
9	Total Operating Revenues (L7 + L9)	\$ 1,978,688	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,978,688
10	Operating Expenses											
11	Source of Supply Expenses:											
12	Purchased Water	372,967	-	-	-	-	(82,364)	-	-	-	(82,364)	290,603
13	Other	2,637	-	(48)	-	-	-	-	-	-	(48)	2,589
14	Pumping Expenses:											
15	Purchased Power	34,056	-	82	-	-	-	-	-	-	82	34,138
16	Purchased Gas	49,208	-	-	-	-	-	-	-	-	-	49,208
17	Other	55,225	-	(6)	-	-	-	-	-	-	(3,888)	51,337
18	Water Treatment Expenses	103,578	-	(77)	-	-	(9,510)	-	-	-	(9,587)	94,001
19	Transmission & Distribution Expenses	109,167	-	(1,315)	-	-	-	-	-	-	(1,420)	107,747
20	Customer Accounting Expenses	134,261	-	(1,492)	-	-	-	-	-	-	(1,492)	132,769
21	Sales Expense	861,099	-	(419)	(462)	-	-	-	-	-	(881)	860,218
22	Administrative & General Expenses	112,938	-	(3,275)	(462)	-	(82,364)	(9,510)	-	-	(91,611)	21,327
23	Total Operations & Maint. Exp (L14 thru L24)	\$ 1,978,688	\$ (16,787)	\$ (3,275)	\$ (462)	\$ -	\$ (82,364)	\$ (9,510)	\$ -	\$ -	\$ (114,351)	\$ 1,864,337
24	Depreciation & Amortization Expenses											
25	Federal Income Taxes	(49,612)	-	-	-	-	-	-	-	35,933	35,933	(13,679)
26	State Income Taxes	(10,929)	-	-	-	-	-	-	-	7,916	7,916	(3,013)
27	Property Taxes	48,221	-	-	-	-	-	-	-	990	990	49,211
28	Other	14,635	-	-	-	-	-	-	-	-	-	14,635
29	Total Taxes (L30 thru L33)	\$ 2,315	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,838	\$ 44,838	\$ 47,153
30	Total Operating Expenses (L25 + L27 + L34)	\$ 978,352	\$ (16,787)	\$ (3,275)	\$ (462)	\$ -	\$ (82,364)	\$ (9,510)	\$ -	\$ 44,838	\$ (69,512)	\$ 908,840
31	Operating Income (L10 less L36)	\$ (28,824)	\$ 16,787	\$ 3,275	\$ 462	\$ -	\$ 82,364	\$ 9,510	\$ -	\$ (44,838)	\$ 89,512	\$ 40,889

References:

- Column A, RBM-9
- Column B, RBM-10 - Remove Pumping and T&D Test Year Expense - See RUCO Surrebuttal Testimony
- Column C, RBM-11
- Column D, RBM-12 - Remove Unbilled Test Year Expense Adjustment - See RUCO Surrebuttal Testimony
- Column E, RBM-13
- Column F, RBM-14
- Column G - Adjust Test Year Purchased Water as per Company Testimony - See also RUCO Surrebuttal Testimony
- Column H - Adjust for Water Testing Expenses - See RUCO Surrebuttal Testimony
- Column I - RBM 15
- Column J, RBM-16

SCHEDULE OF OPERATING INCOME-TEST YR COMPANY ADJUSTMENTS - SURREBUTTAL

Line No.	(A) Test Year Ended 12/31/2010	(B) Adj. Sales Tax IS-1	(C) Adj. Net Unbilled IS-2	(D) Adj. MAP IS-3	(E) Adj. ACRM IS-4	(F) Adj. Misc IS-5	(G) Adj. Annual Rates IS-6	(H) Adj. New Customers IS-7	(I) Annualize Payroll IS-8	(J) Annualize Emp Benefits IS-9	(K) Adj. Interest on Customer Deposits IS-10	(L) Adj. Normalized Maintenance IS-11
1	Operating Revenues											
2	Residential	\$ 767,294	\$ (3,264)	\$ -	\$ (78,278)	\$ -	\$ 117,912	\$ (3,965)	\$ -	\$ -	\$ -	\$ -
3	Commercial	162,422	21	-	(15,169)	-	25,561	(1,838)	-	-	-	-
4	Industrial	146	-	-	-	-	151	-	-	-	-	-
5	Private Fire Service	(11)	-	-	-	-	-	-	-	-	-	-
6	Other Water Revenues	(704)	-	-	(1,070)	-	395	-	-	-	-	-
7	Total Water Revenues (L2 thru L6)	\$ 959,880	\$ (68,135)	\$ (3,243)	\$ (94,518)	\$ -	\$ 144,019	\$ (5,803)	\$ -	\$ -	\$ -	\$ -
8	Miscellaneous	16,436	(1,108)	-	-	-	-	-	-	-	-	-
9	Total Operating Revenues (L7 + L9)	\$ 976,316	\$ (69,243)	\$ (3,243)	\$ (94,518)	\$ -	\$ 144,019	\$ (5,803)	\$ -	\$ -	\$ -	\$ -
10	Operating Expenses											
11	Source of Supply Expenses:											
12	Purchased Water	174,051	-	-	-	-	-	-	145	-	-	-
13	Other	3,506	48	-	-	-	(1,109)	-	-	-	-	-
14	Pumping Expenses:											
15	Purchased Power	32,531	(92)	-	-	-	-	-	-	-	-	-
16	Purchased Gas	43,866	(6)	-	-	-	-	(477)	1,465	-	-	3,883
17	Other	44,589	77	-	-	-	-	(278)	555	-	-	-
18	Water Treatment Expenses	85,403	1,315	-	-	-	-	(482)	2,880	-	-	12,906
19	Transmission & Distribution Expenses	104,739	1,492	-	-	-	-	(591)	3,108	-	-	-
20	Customer Accounting Expenses	-	-	-	-	-	-	-	-	-	-	-
21	Sales Expense	-	-	-	-	-	-	-	-	-	-	-
22	Administrative & General Expenses	118,718	419	-	-	-	-	(670)	2,434	5,764	706	-
23	Total Operations & Maint. Exp (L14 thru L24)	\$ 607,403	\$ 3,263	\$ -	\$ -	\$ -	\$ -	\$ (3,608)	\$ 10,587	\$ 5,764	\$ 706	\$ 16,789
24	Depreciation & Amortization Expenses	75,433	-	-	-	-	-	-	-	-	-	-
25	Taxes											
26	Federal Income Taxes	33,794	-	-	-	-	-	-	-	-	-	-
27	State Income Taxes	3,818	-	-	-	-	-	-	-	-	-	-
28	Property Taxes	41,960	-	-	-	-	-	-	-	-	-	-
29	Other	80,020	(69,243)	-	-	-	-	-	3,858	-	-	-
30	Total Taxes (L30 thru L33)	\$ 159,592	\$ (69,243)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,858	\$ -	\$ -	\$ -
31	Total Operating Expenses (L25 + L27 + L34)	\$ 842,428	\$ (69,243)	\$ 3,263	\$ -	\$ -	\$ -	\$ (3,608)	\$ 14,445	\$ 5,764	\$ 706	\$ 16,789
32	Operating Income (L-10 less L36)	\$ 133,888	\$ -	\$ (6,506)	\$ -	\$ (94,518)	\$ -	\$ 144,019	\$ (2,195)	\$ (5,764)	\$ (706)	\$ (16,789)

Columns (A) through columns (X) see Company Exhibit Schedule C-2

SCHEDULE OF OPERATING INCOME - TEST YEAR WITH ADJUSTMENTS - SURREBUTTAL

Line No.	(M) Adjustment Water & Gas Exp IS-12	(N) Adjustment Rate Case Expense IS-13	(O) Adjustment Adjust A&G for BMP IS-14	(P) Adjustment Fleet Fuel Expense IS-15	(Q) Adjustment AS 400 Printers IS-16	(R) Adjustment Arsenic Treatment Exp IS-17	(S) Adjustment Error Correction CAP Charges IS-18	(T) Adjustment Depreciation Expense IS-19	(U) Adjustment Property Tax IS-20	(V) Adjustment Income Tax IS-21	(W) Total Pro Forma Adjustments	(X) Test Year Adjusted Results
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Columns (A) through columns (X) see Company Exhibit Schedule C-2

OPERATING INCOME ADJUSTMENT NO. 1
PUMPING AND TRANSMISSION & DISTRIBUTION MAINTENANCE EXPENSE - SURREBUTTAL

		Test Year Pumping Expense
Pumping Accounts		
1 <u>Maintenance:</u>		
2 Supervision & Engineering	\$	1,998
3 Structures & Improvements		2,296
4 Electric pumping equipment		4,314
5 Gas pumping equipment		-
6		
7 Total Pumping Maintenance Expense	\$	8,608
8		
9		
10 Company Requested Level of T. Y. Pumping Maintenance Expense		12,490
11		
12 RUCO Increase / (Decrease) in T. Y. Expense Level	\$	(3,882)
13		
14 RUCO Pumping Maintenance Expense Adjustment	\$	(3,882)
15		
16		
17		
18		
19		
20 Transmission & Distribution Accounts		
21		
22 <u>Maintenance:</u>		
23 Supervision & Engineering	\$	8,015
24 Tanks		2,392
25 Mains		3,942
26 Mains - Leak Repair		555
27 Mains - Leak Detection		-
28 Services		10,779
29 Services - Leak Repair		1,117
30 Meters		6,307
31 Hydrants		188
32		
33 Total T & D Maintenance Expense	\$	33,295
34		
35		
36 Company Requested Level of T. Y. T & D Maintenance Expense		46,200
37		
38 RUCO Increase / (Decrease) Expense Adjustment	\$	(12,905)
39		
40 RUCO T & D Maintenance Expense Adjustment	\$	(12,905)
41		
42		
43 Total RUCO Pumping and T & D Maintenance Expense Adjustment (L14 + L40)	\$	(16,787)

OPERATING INCOME ADJUSTMENT NO. 2
RATE CASE EXPENSE ADJUSTMENT - SURREBUTTAL

Line No.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense Total for Eastern Group	\$ 476,874	\$ (164,274)	\$ 312,600
2				
3	Allocation Factor (L31)			4.41%
4				
5	Superstition (Apache Junction, Superior, Miami)			\$ 13,794
6				
7	Amortization Period - 3 years			3
8				
9	RUCO Adjusted Rate Case Expense (L5 / L7)			\$ 4,598
10				
11	Company Rate Case Expense as Filed (Company Sch. C-2 Appendix)			\$ 6,551
12				
13	RUCO Pro Forma Rate Case Expense (L9 - L11)			\$ (1,953)
14				
15	RUCO Adjustment			\$ (1,953)
16				
17				
18	RUCO's Rate Base Expense Adjustment Calculation:			
19	Decision No. 66848, dated March 19, 2004, approved amount			
20	\$250,000 for Arizona Water Company's Eastern Group.		\$ 250,000	
21				
22	Inflation Factor from January 1, 2002 through September 30,			
23	per Inflation Data.com		25.04%	
24				
25	Reasonable Amount of Rate Case Expense based on			
26	Decision No. 66848.		\$ 312,600	
27				
28	RUCO Adjustment (Col. (A) L1 - Col. (B) L26)		\$ 164,274	
29				
30	<u>Allocation Factor Based on Number of Customers</u>		<u>Customers</u>	<u>Percent of Total</u>
31	Superstition (Apache Junction, Superior, Miami)		23,607	71.10%
32	Cochise (Bisbee, Sierra Vista)		6,357	19.15%
33	San Manuel		1,465	4.41%
34	Oracle		1,506	4.54%
35	SaddleBrook Ranch		113	0.34%
36	Winkelman		153	0.46%
37	Total Number of Customers and Percentages		33,201	100.00%

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OPERATING INCOME ADJUSTMENT NO. 4
MISCELLANEOUS EXPENSE ADJUSTMENTS - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) Superstition	(B) Cochise	(C) San Manuel	(D) Oracle	(E) SaddleBrook Ranch	(F) Winkelman
<u>DIRECT EXPENSES</u>							
1	Customer Accounting Expense	\$ 1,570	\$ 713	\$ 78	\$ 96	\$ -	\$ -
2	Administration & General Expense	1,642	-	137	143	19	7
3	TOTAL DIRECT EXPENSE	\$ 3,212	\$ 713	\$ 215	\$ 240	\$ 19	\$ 7

ALLOCATION OF PHOENIX OFFICE EXPENSES BASED ON THREE FACTOR

	TOTAL	0.2865	0.0719	0.0164	0.0204	0.0015	0.0019
<u>PHOENIX OFFICE EXPENSES</u>							
Service Awards and Banquets	\$10,580	3,031	761	174	216	16	20
Flower Shop Expenses	\$987	283	71	16	20	1	2
Water Association Dues Allowed at 50% of Total	\$3,475	996	250	57	71	5	7
TOTAL ALLOCATED EXPENSES	\$15,042	\$4,310	\$1,082	\$247	\$307	\$23	\$29
TOTAL MISCELLANEOUS EXPENSE ADJUSTMENT		\$7,522	\$1,794	\$462	\$547	\$42	\$35

OPERATING INCOME ADJUSTMENT NO. 6
PROPERTY TAXES - SURREBUTTAL

LINE NO.	Property Tax Calculation	(A)	(B)
		RUCO AS ADJUSTED	RUCO RECOMMENDED
1	RUCO Adjusted Test Year Revenues - RBM-6	\$ 947,528	\$ 947,528
2	Multiplied by 2	2	2
3	Subtotal (Line 1 * Line 2)	\$ 1,895,056	\$ 1,895,056
4	RUCO Adjusted Test Year Revenues - 2010	947,528	
5	RUCO Recommended Revenue, Per Schedule RBM-6		1,151,109
6	Subtotal (Line 4 + Line 5)	\$ 2,842,584	\$ 3,046,165
7	Number of Years	3	3
8	Three Year Average (Line 5 / Line 6)	\$ 947,528	\$ 1,015,388
9	Department of Revenue Multiplier	2	2
10	Revenue Base Value (L8 X L9)	\$ 1,895,056	\$ 2,030,776
11	Plus: 10% of CWIP -	-	-
12	Less: Net Book Value of Licensed Vehicles	-	-
13	Full Cash Value (L10 + L11 + L12)	\$ 1,895,056	\$ 2,030,776
14	Assessment Ratio	21.0%	21.0%
15	Assessment Value (L13 X L14)	\$ 397,962	\$ 426,463
16	Composite Property Tax Rate (L19 / L15)	12.3658%	12.3658%
17			
18	RUCO Proposed Property Tax Expense (L15 X L16))	\$ 49,211	
19	Company Proposed Property Tax	48,221	
20			
21	RUCO Test Year Adjustment (L16 - L17)	\$ 990	
22	Property Tax - RUCO Recommended Revenue (L15 X L16)		\$ 52,736
23	RUCO Test Year Adjusted Property Tax Expense (L18)		49,211
24	Increase/(Decrease) to Property Tax Expense		3,524
25			
26	Increase/(Decrease) to Property Tax Expense		\$ 3,524
27	Increase in Revenue Requirement (L5 - L4)		203,581
28	Increase /(Decrease) to Property Tax per Dollar Increase in Revenue (L26 / L27)		1.7312%

OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
1	FEDERAL INCOME TAXES:		
2			
3	Operating Income Before Taxes	(RBM- 7, Col. (C), L36 + L29 + L30)	\$ 23,996
4	LESS:		
5	Arizona State Tax	L21	(3,013)
6	Interest Expense	Note (A) L41	67,242
7	Federal Taxable Income	L3 - L5 - L6	\$ (40,233)
8			
9	Federal Tax Rate	Sch. RBM-1, Page 2	34.00%
10	Federal Income Tax Expense	L7 X L9	\$ (13,679)
11			
12	STATE INCOME TAXES:		
13			
14	Operating Income Before Taxes	L3	\$ 23,996
15	LESS:		
16	Interest Expense	Note (A) L41	67,242
17	State Taxable Income	L14 - L16	\$ (43,247)
18			
19	State Tax Rate	Tax Rate	6.97%
20			
21	State Income Tax Expense	L17 X L19	\$ (3,013)
22			
23	TOTAL INCOME TAX EXPENSE:		
24	Federal Income Tax Expense	L10	\$ (13,679)
25	State Income Tax Expense	L21	(3,013)
26	Total Income Tax Expense Per RUCO	L24 + L25	\$ (16,693)
27			
28	Total Federal Income Tax Expense Per Company (Per Company Sch. C-1, L30)		(49,612)
29			
30	Total State Income Tax Expense Per Company (Per Company Sch. C-1, L31)		(10,929)
31			
32	RUCO Federal Income Tax Adjustment	L24 - L28	\$ 35,933
33			
34	RUCO State Income Tax Adjustment	L25 - L30	\$ 7,916
35			
36			
37	NOTE (A): Interest Synchronization		
38			
39	Adjusted Rate Base RBM-2, Col. (M), L28	\$ 2,011,030	
40	Weighted Cost Of Debt RBM-9, Col. (D), L1	3.34%	
41	Interest Expense (L39 X L40)	\$ 67,242	

COST OF CAPITAL - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) DOLLAR AMOUNT	(B) CAPITAL RATIO	(C) COST RATE	(D) WEIGHTED COST RATE
1	Long-Term Debt	\$ 75,000,000	49.03%	6.82%	3.34%
2					
3	Common Equity	77,975,335	50.97%	9.40%	4.79%
4					
5	Total Capitalization	<u>\$ 152,975,335</u>	<u>100.00%</u>		
6					
7					
8	WEIGHTED AVERAGE COST OF CAPITAL				8.13%

References:
Columns (A) Thru (D): WAR Testimony

TABLE OF CONTENTS TO RBM SCHEDULES - SURREBUTTAL

SCH NO.	PAGE NO.	TITLE
RBM-1	1 & 2	REVENUE REQUIREMENT AND GROSS REVENUE CONVERSION FACTOR
RBM-2	1	SUMMARY RATE BASE - ORIGINAL COST
RBM-3	1	SUMMARY ORIGINAL COST RATE BASE WITH ADJUSTMENTS
RBM-4	1 & 2	DIRECT PLANT AND ACCUMULATION DEPRECIATION
RBM-4 (1)	1	PHOENIX OFFICE AND METER SHOP PLANT ALLOCATION
RBM-5	1	ALLOWANCE FOR WORKING CAPITAL
RBM-6	1	RATE BASE ADJUSTMENT NO. 1 - PLANT ADJUSTMENTS
RBM-6(1)	1	RATE BASE ADJUSTMENT NO. 2 - WORKING CAPITAL
RBM-7	1	OPERATING INCOME
RBM-8	1 & 2	SCHEDULE OF OPERATING INCOME - TEST YEAR WITH RUCO ADJUSTMENTS
RBM-9	1 & 2	SCHEDULE OF OPERATING INCOME-TEST YEAR COMPANY ADJUSTMENTS
RBM-10	1	OPERATING INCOME ADJUSTMENT NO. 1 - PUMPING TRANSMISSION & DISTRIBUTION EXPENSE NORMALIZATION
RBM-11	1	OPERATING INCOME ADJUSTMENT NO. 2 - RATE CASE EXPENSE
RBM-12	1	OPERATING INCOME ADJUSTMENT NO. 3 - INTENTIONALLY LEFT BLANK
RBM-13	1	OPERATING INCOME ADJUSTMENT NO. 4 - MISCELLANEOUS EXPENSE
RBM-14	1	OPERATING INCOME ADJUSTMENT NO. 5 - DEPRECIATION EXPENSE ADJUSTMENT
RBM-15	1	OPERATING INCOME ADJUSTMENT NO. 6 - PROPERTY TAXES
RBM-16	1	OPERATING INCOME ADJUSTMENT NO. 7 - INCOME TAXES
RBM-17	1	COST OF CAPITAL

REVENUE REQUIREMENT - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Adjusted Original Cost/Fair Value Rate Base	\$ 2,470,183	\$ 2,474,988
2			
3	Adjusted Operating Income (Loss)	\$ 163,349	\$ 184,350
4			
5	Current Rate of Return (L3 / L1)	6.61%	7.45%
6			
7	Required Operating Income (L9 X L1)	\$ 240,043	\$ 201,251
8			
9	Required Rate of Return on Fair Value Rate Base	9.72%	8.13%
10			
11	Operating Income Deficiency (L7 - L3)	\$ 76,693	\$ 16,901
12			
13	Gross Revenue Conversion Factor (RBM-1, Page 2 of 2)	1.6508	1.6525
14			
15	Required Increase in Gross Revenue Requirement (L11 X L13))	\$ 126,801	\$ 27,929
16			
17	Adjusted Test Year Revenue	\$ 990,111	\$ 990,111
18			
19	Proposed Annual Revenue (L15 + L17)	\$ 1,116,712	\$ 1,018,040
20			
21	Required Percentage Increase in Revenue (L15 / L17)	12.79%	2.82%
22			
23	Consolidated Revenue Adjustment	\$ 21,855	\$ -
24			
25	Required Increase in Gross Revenue Under Proposed Consolidation	\$ 148,456	\$ -
26			
27	Required Revenue Under Proposed Consolidation	\$ 1,138,567	\$ -
28			
29	Required Percentage Increase in Revenue Under Proposed Consolidation	14.99%	0.00%
30			
31	Rate of Return on Common Equity	12.50%	9.40%

References:

Column (A): Company Schs. A-1 and C-1

Column (B): RUCO Schs. RBM-2, RBM-7, RBM-9 and RBM-17

GROSS REVENUE CONVERSION FACTOR - SURREBUTTAL

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	CALCULATION OF GROSS REVENUE CONVERSION FACTOR:				
1	Revenue	100.0000%			
2	Proposed Bad Debt Expense (Per Co. Workpapers)	-			
3	Subtotal (L1 thru L2)	100.0000%			
4	Combined Federal, State, Property Tax Rate (L22)	39.4846%			
5	Subtotal (L3 - L4)	60.5154%			
6	Revenue Conversion Factor (L1 / L5)	1.6525			
	CALCULATION OF EFFECTIVE TAX RATE:				
9	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
10	Arizona State Income Tax Rate	6.9680%			
11	Federal Taxable Income (L9 - L10)	93.0320%			
12	Applicable Federal Income Tax Rate (L58)	34.0000%			
13	Effective Federal Income Tax Rate (L11 X L12)	31.6309%			
14	Combined Federal and State Income Tax Rate (L10 + L13)	38.5989%			
	CALCULATION OF EFFECTIVE PROPERTY TAX FACTOR:				
17	Unity	100.0000%			
18	Combined Federal and State Tax Rate	38.5989%			
19	1 Minus Combined Income Tax Rate	61.4011%			
20	Property Tax Factor	1.4425%			
21	Effective Property Tax Factor (L19 x L20)	0.8857%			
22	Combined Federal, State & Property Tax Rate (L14 + L21)	39.4846%			
24	RUCO Required Operating Income (Sch. RBM-1, Col. (B), L7)	\$ 201,251			
25	RUCO Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RBM-1, Col. (B), L3)	184,350			
26	Required Increase In Operating Income (L24 - L25)		\$ 16,901		
28	Income Taxes On Recommended Revenue (Col. (D), L53)	\$ 74,491			
29	Income Taxes On Test Year Revenue (Col. (D), L55)	63,866			
30	Required Increase In Revenue To Provide For Income Taxes (L28 - L29)		\$ 10,625		
32	Property Tax with Recommended Revenue (Sch. RBM-7, Col. E, L31)	43,251			
33	Property Tax on Test Year Revenue (Sch. RBM-7, Col. C, L31)	42,848			
34	Increase in Property Tax Due to Increase in Revenue (L32 - L33)		\$ 403		
36	Total Required Increase In Revenue (L26 + L30 + L34)		\$ 27,929		
				RUCO	
				Recommended	
39	RUCO Proposed Revenue (Sch. RBM-1, Col. (B), L19)			\$ 1,018,040	
40	Less:				
41	Operating Expense Excluding Income Tax (Sch. RBM-7, Col. (E), L24 + L26 + L31 + L32)			742,297	
42	Synchronized Interest (Col. (C), L63)			82,756	
43	Arizona Taxable Income (L39 - L41 - L42)			\$ 192,987	
44	Arizona State Income Tax Rate			6.9680%	
45	Arizona Income Tax (L43 X L44)				\$ 13,447
46	Fed. Taxable Income (L43 - L45)			\$ 179,539	
47	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ -	
48	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			\$ -	
49	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			\$ -	
50	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			\$ -	
51	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			\$ 61,043	
52	Total Federal Income Tax (L47 thru L 51)				\$ 61,043
53	Combined Federal And State Income Tax (L45+ L52)				\$ 74,491
55	RUCO Adj'd Test Year Combined Federal and State Income Tax (RBM-7, Col. (C), L29 and L30)				\$ 63,866
56	RUCO Proposed Income Tax Adjustment (L53 - L55)				\$ 10,625
58	Applicable Federal Income Tax Rate				34.00%
	NOTE (A): Interest Synchronization				
61	Adjusted Rate Base RBM-2, Col. (C), L28			\$ 2,474,988	
62	Weighted Cost Of Debt RBM-9, Col. (M), L1			3.34%	
63	Interest Expense (L61 X L62)			\$ 82,756	

SUMMARY RATE BASE - ORIGINAL COST - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB
1	Plant Classification			
2	Intangible Plant	\$ 605		\$ 605
3	Source of Supply Plant	634,100		634,100
4	Pumping Plant	982,777		982,777
5	Water Treatment Plant	106,634		106,634
6	Transmission & Distribution Plant	5,243,850	\$ 29,823	5,273,673
7	General Plant	468,043		468,043
8	Total Gross Plant in Service (L2 thru L7)	\$ 7,436,010	\$ 29,823	\$ 7,465,832
9				
10	Accumulated Depreciation	\$ 2,829,383	11	\$ 2,829,394
11	Net Utility Plant In Service (L8 - L10)	\$ 4,606,627	\$ 29,812	\$ 4,636,438
12				
13	Advances In Aid Of Const.	\$ 814,160		\$ 814,160
14				
15	Contribution In Aid Of Const.	\$ 1,006,130		\$ 1,006,130
16	Accumulated Amortization Of CIAC	\$ (140,146)		\$ (140,146)
17	NET CIAC (L15 + L16)	\$ 865,984	\$ -	\$ 865,984
18				
19	Deferred Income Tax	\$ 517,509	\$ -	\$ 517,509
20				
21	Customer Deposits	\$ 12,126	\$ -	\$ 12,126
22				
23	Allowance For Working Capital	\$ 73,335	\$ (25,007)	\$ 48,328
24				
25	Net Regulatory Asset / (Liability)	\$ -	\$ -	\$ -
26				
27	Rounding	\$ -	\$ -	\$ -
28	TOTAL RATE BASE (+L11 - L17 - L19 - L21 + L23)	\$ 2,470,183	\$ 4,805	\$ 2,474,988

References:
Column (A): Company Schedule B-1 and RBM-3 Col. E
Column (B): Schedule RBM-3 Cols. F and G
Column (C): Col. A + Col. B; RBM-3

Arizona Water Company
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SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED NET PLANT	(B) COMPANY ADJ NO. 1 POST TEST YEAR ADJUSTMENTS	(C) NET REGULATORY LIABILITY	(D) PHOENIX OFF AND METER SHOP	(E) COMPANY AS FILED OCRBI/FVRB	(F) ADJMT NO. 1 POST TEST YR ADJUSTMENTS	(G) ADJMT NO. 6 WORKING CAPITAL	(H) RUCO ADJTD OCRBI/FVRB
1	Plant Classification	\$ 418	\$ -	\$ -	187	\$ 605	\$ -	\$ -	605
2	Intangible Plant	634,098	-	-	2	634,100	-	-	982,777
3	Source of Supply Plant	982,777	-	-	-	982,777	-	-	106,634
4	Pumping Plant	106,592	-	-	42	106,634	-	-	5,273,547
5	Water Treatment Plant	5,064,542	179,184	-	124	5,243,850	29,897	-	468,169
6	Transmission & Distribution Plant	324,112	-	-	143,831	468,043	126	-	7,465,832
7	General Plant	7,112,540	179,184	\$ -	144,286	7,438,010	29,823	\$ -	2,829,383.97
8	Total Gross Plant in Service (Sum L2 thru L7)	2,794,130	1,708	\$ -	33,545	2,829,383	11	\$ -	4,636,438
9	Accumulated Depreciation	4,318,410	177,476	\$ -	110,741	4,606,627	29,812	\$ -	814,160
10	Net Utility Plant in Service (LB less L10)	814,160	-	\$ -	-	814,160	-	\$ -	1,006,130
12	Advances In Aid Of Const.	1,006,130	-	\$ -	-	1,006,130	-	\$ -	(140,146)
13	Contribution In Aid Of Const.	(140,146)	-	\$ -	-	(140,146)	-	\$ -	865,984
14	Accumulated Amortization Of CIAC	865,984	-	\$ -	-	865,984	-	\$ -	517,509
15	NET CIAC (L15 less L16)	-	-	\$ -	-	-	-	\$ -	12,126
16	Deferred Income Tax	-	-	\$ -	517,509	517,509	-	\$ -	48,328
17	Customer Deposits	12,126	-	\$ -	-	12,126	-	\$ -	-
18	Allowance For Working Capital	73,335	-	\$ -	-	73,335	-	\$ (25,007)	-
19	Net Regulatory Asset / (Liability)	-	-	\$ -	-	-	-	\$ -	-
20	Adjustment to Match Rate Base with G/L	1	1	\$ -	(2)	2,470,183	29,812	\$ (25,007)	2,474,988
21	TOTAL RATE BASE (+L11 - L17 - L19 - L21 + L23)	2,899,476	177,477	\$ -	(406,770)	2,470,183	29,812	\$ (25,007)	2,474,988

References:
Columns (A) through (E): Company Schedule B-2; Column (D) RBM-4(1)
Column (F): RUCO Schedule RBM-6, Col. F
Column (G): RUCO Schedule RBM-5, Col. A

Arizona Water Company
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DIRECT PLANT AND ACCUMULATION DEPRECIATION - SURREBITAL

Line No.	Acct. No.	Description	Depreciation Rates	2010				Balance Per G.L.	Difference
				Additions	Retirements	Adjustments	Depreciation Expense			Balance
1		Intangible Plant							
2	301	Organization	0.00%					418	418
3	302	Franchises	See Acct. 111						
4	303	Other Intangibles	See Acct. 111					418	418
5		Subtotal Intangible Plant							
6		Source of Supply Plant			(2)			129,139	129,139
7	310.1	Water Rights	0.00%					24,693	24,693
8	310.3	Other Source of Supply Land	0.00%						
9	310.4	Wells - Other	See Acct. 111		(446,342)			480,266	480,266
10	314	Wells	3.13%		(446,343)			634,098	634,098
11		Subtotal Source of Supply Plant							
12		Pumping Plant						2,742	2,742
13	320	Pumping Plant Land	0.00%					91,283	91,283
14	321	Pumping Plant Structures & Improvements	2.88%					888,752	888,752
15	325	Electric Pumping Equipment	5.88%	3,726					
16	328	Gas Engine Equipment	4.00%						
17		Subtotal Pumping Plant		3,726					
18		Water Treatment Plant						982,777	982,777
19	330	Water Treatment Plant Land	0.00%					35,054	35,054
20	331	Water Treatment Structures & Improvements	2.50%					71,537	71,537
21	332	Water Treatment Equipment	2.88%					106,592	106,592
22		Subtotal Water Treatment Plant							
23		Transmission & Distribution Plant						19,680	19,680
24	340	Transmission and Distribution Land	0.00%					306,126	306,126
25	342	Storage Tanks	2.00%	2,713	(32)	(781,117)		3,783,051	3,783,052
26	343	Transmission & Distribution Mains	1.79%						
27	344	Fire Sprinkler Taps	2.00%	1,983	(560)	(40,129)		684,335	684,335
28	345	Services	2.36%					112,379	112,379
29	346	Meters	4.55%	973	(362)	(190)		158,971	158,971
30	348	Hydrants	1.82%			(21,445)			
31		Subtotal Transmission & Distribution Plant		5,668	(954)	(842,860)		5,064,542	5,064,542
32		General Plant						145,244	145,244
33	389	General Plant Land	0.00%						
34	390	General Plant Structures	2.50%					3,262	3,262
35	390.1	Leasehold Improvements	See Acct. 108.2					1,734	1,734
36	391	Office Furniture & Equipment	6.67%	1,702				23,740	23,740
37	393	Warehouse Equipment	5.00%	1,282				146	146
38	394	Tools, Shop & Garage Equipment	4.00%					1,131	1,131
39	395	Laboratory Equipment	5.00%					144,159	144,159
40	396	Power Operated Equipment	6.67%	82,088				4,698	4,698
41	397	Communication Equipment	6.67%						
42	398	Miscellaneous Equipment	3.33%					324,112	324,112
43		Subtotal General Plant		85,072		11,934		7,112,540	7,112,541
44		Plant in Service		\$ 94,466	\$ (954)	\$ (1,289,224)	\$ 182,760	\$ 7,112,540	\$ 7,112,541

Line No.	Description	Balance	Difference
1	Net Salvage/Cost of Removal		
2	Adjustments booked to Conform with Rate Decision	(96,875)	
3	Accum. Deprec. Related to other Plant Adjustments	2,786,134	2,784,130
4	Accumulated Depreciation & Amort.	\$ 4,316,405	\$ 4,318,411
5	Net Plant in Service	\$ 94,466	\$ (954)

PHOENIX OFFICE AND METER SHOP - RATE BASE ALLOCATION - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) TEST YEAR ADJUSTED	(B) Supersiltion 28.65%	(C) Cochise 7.19%	(D) San Manuel 1.64%	(E) Oracle 2.04%	(F) SaddleBrook Ranch 0.15%	(G) Winkelman 0.19%
1	3 Factor Allocation Factor							
2	Phoenix Office Allocation							
3	Plant Classification							
4	Intangible Plant	\$ 9,148	\$ 2,621	\$ 658	\$ 150	\$ 187	\$ 14	\$ 17
5	Source of Supply Plant	-	-	-	-	-	-	-
6	Pumping Plant	-	-	-	-	-	-	-
7	Water Treatment Plant	-	-	-	-	-	-	-
8	Transmission & Distribution Plant	6,914,749	1,981,076	497,170	113,402	141,061	10,372	13,138
9	General Plant	6,917,761	1,983,696	497,828	113,552	141,247	10,386	13,155
10	Total Gross Plant in Service (Sum L4 thru L9)							
11	Less:							
12	Accumulated Depreciation	\$ 1,587,979	\$ 454,956	\$ 114,176	\$ 26,043	\$ 32,385	\$ 2,382	\$ 3,017
13	Net Utility Plant In Service (L.10 less L.12)	\$ 5,329,782	\$ 1,528,740	\$ 383,652	\$ 87,509	\$ 108,863	\$ 8,004	\$ 10,138
14	Less:							
15	Deferred Income Tax	25,368,073	7,267,953	1,823,984	416,036	517,509	38,052	48,199
16	Total Phoenix Office Allocation (L.13 less L.15)	\$ (20,038,291)	\$ (5,739,212)	\$ (1,440,312)	\$ (328,527)	\$ (408,656)	\$ (30,048)	\$ (38,061)
17								
18	Meter Shop Allocation							
19	Plant Classification							
20	Intangible Plant	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
21	Source of Supply Plant	80	23	6	1	2	3	4
22	Pumping Plant	-	-	-	-	-	-	-
23	Water Treatment Plant	2,050	587	147	34	42	9	12
24	Transmission & Distribution Plant	6,065	1,738	436	99	124	220	279
25	General Plant	146,810	42,061	10,556	2,408	2,995	232	294
26	Total Gross Plant in Service (Sum L20 thru L25)	\$ 155,005	\$ 44,409	\$ 11,145	\$ 2,542	\$ 3,162	\$ 85	\$ 107
27	Less:							
28	Accumulated Depreciation	\$ 56,404	\$ 16,160	\$ 4,055	\$ 925	\$ 1,151	\$ 148	\$ 187
29	Net Utility Plant In Service (L.26 less L.28)	\$ 98,601	\$ 28,249	\$ 7,089	\$ 1,617	\$ 2,011	\$ 148	\$ 187
30	Less:							
31	Deferred Income Tax	56,404	-	-	-	-	-	-
32	Total Phoenix Office Allocation (L.29 less L.31)	\$ 42,197	\$ 28,249	\$ 7,089	\$ 1,617	\$ 2,011	\$ 148	\$ 187
33								
34	Total Phoenix Office and Meter Shop Allocation							
35	Plant Classification							
36	Intangible Plant	\$ 9,148	\$ 2,621	\$ 658	\$ 150	\$ 187	\$ 14	\$ 17
37	Source of Supply Plant	80	23	6	1	2	-	-
38	Pumping Plant	-	-	-	-	-	-	-
39	Water Treatment Plant	2,050	587	147	34	42	3	4
40	Transmission & Distribution Plant	6,065	1,738	436	99	124	9	12
41	General Plant	7,055,423	2,023,137	507,726	115,810	144,056	10,592	13,417
42	Total Gross Plant in Service	\$ 7,072,766	\$ 2,028,105	\$ 508,973	\$ 116,094	\$ 144,410	\$ 10,618	\$ 13,450
43	Less:							
44	Accumulated Depreciation	\$ 1,644,383	\$ 471,116	\$ 118,231	\$ 26,968	\$ 33,545	\$ 2,467	\$ 3,124
45	Net Utility Plant In Service (Sum L7 - L8)	\$ 5,428,382	\$ 1,556,990	\$ 390,742	\$ 89,126	\$ 110,864	\$ 8,152	\$ 10,325
46	Less:							
47	Deferred Income Tax	25,368,073	7,267,953	1,823,984	416,036	517,509	38,052	48,199
48	Total Phoenix Office Allocation (L.9 - L.10)	\$ (19,996,095)	\$ (5,710,963)	\$ (1,433,223)	\$ (326,910)	\$ (406,645)	\$ (29,900)	\$ (37,874)

ALLOWANCE FOR WORKING CAPITAL - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) AMOUNT	(B) REFERENCE
1	Working Cash Requirement As Per Company	\$ 14,197	Company Schedule B-5, PG. 1
2	Working Cash Requirement As Per RUCO	(10,810)	RUCO Schedule RBM 6(1), L30
3	Adjustment	\$ (25,007)	Line 2 - Line 1
4			
5	Material and Supplies Inventories As Per Company	\$ 1,380	Company Schedule B-5, PG. 1
6	Material and Supplies Inventories As Per RUCO	1,380	Company Schedule B-5, PG. 1
7	Adjustment	\$ -	Line 5 - Line 4
8			
9	Required Bank Balances As Per Company	\$ 44,254	Company Schedule B-5, PG. 1
10	Required Bank Balances As Per RUCO	44,254	Company Schedule B-5, PG. 1
11	Adjustment	\$ -	Line 8 - Line 7
12			
13	Prepayments & Special Deposits As Per Company	\$ 13,505	Company Schedule B-5, PG. 1
14	Prepayments & Special Deposits As Per RUCO	13,505	Company Schedule B-5, PG. 1
15		\$ -	Line 11 - Line 10
16			
17	TOTAL ADJUSTMENT (See RLM-2, Column (K))	\$ (25,007)	Sum Lines 3, 6, 9 & 12

EXPLANATION OF RATE BASE ADJUSTMENT NO. 2 - SURREBUTTAL

Line No.	(A) Company Test Year Adjusted Results	(B) RUCO Adj	(C) RUCO Adjusted Results	(D) Revenue Lag_Days1	(E) Expense Lag_Days2	(F) Net Lag Days [B - C]	(G) Lead / Lag Factor [D + 365]	(H) Working Cash Requirement [A X E]
1	\$ 107,154		\$ 107,154	30.56	30.87	(0.31)	(0.0008)	\$ (91)
2	195,535		195,535	30.56	14.00	16.56	0.0454	8,871
3				30.56	26.04	4.52	0.0124	-
4	3,859		3,859	30.56	(18.11)	48.67	0.1333	515
5	11,303		11,303	30.56	(45.27)	75.83	0.2078	2,348
6	2,585		2,585	30.56	(46.50)	77.06	0.2111	546
7	34,962		34,962	30.56	(8.92)	39.48	0.1082	3,782
8	155,084	(35,770)	190,854	30.56	(9.27)	39.83	0.1091	20,827
9	81,079	(20,036)	61,043	30.56	37.00	(6.44)	(0.0176)	(1,077)
10	17,861	(4,414)	13,447	30.56	37.00	(6.44)	(0.0176)	(237)
11	14,659		14,659	30.56	14.00	16.56	0.0454	665
12	479		479	30.56	83.10	(52.54)	(0.1439)	(69)
13	41,491	1,760	43,251	30.56	212.00	(181.44)	(0.4971)	(21,500)
14	11,107		11,107	30.56	(98.83)	129.39	0.3545	3,937
15	17,922		17,922	30.56	34.72	(4.16)	(0.0114)	(204)
16								
17								
18								
19	695,080	(58,459)	708,160					18,312
20								
21								
22								
23	82,653	103	82,756	30.56	91.25	(61.10)	(0.1674)	(13,653)
24	157,389	(157,389)	-	30.56	-	30.56	0.0837	-
25		122,953	122,953	30.56	75.89	(45.33)	(0.1242)	(15,269)
26								
27	240,042	(34,333)	205,709					(29,122)
28								
29								
30	\$ 935,122	\$ (92,793)	\$ 913,869					\$ (10,810)
31								
32								
33								
34								

Columns (A), (D), and (E) Company Schs. B-5 page 1
Column (B) RUCO Schs. RBM-7, RBM-8

OPERATING INCOME - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJMTS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Operating Revenues					
1	Residential	\$ 801,054	\$ -	\$ 801,054	\$ 27,888	\$ 828,942
2	Commercial	156,438	-	156,438	-	156,438
3	Industrial	-	-	-	-	-
4	Private Fire Service	284	-	284	-	284
5	Other Water Revenues	19,841	-	19,841	-	19,841
6	Total Water Revenues	\$ 977,617	\$ -	\$ 977,617	\$ 27,888	\$ 1,005,505
7	Miscellaneous	\$ 12,494	\$ -	\$ 12,494	\$ 41	12,535
8	Total Operating Revenues	\$ 990,111	\$ -	\$ 990,111	\$ 27,929	\$ 1,018,040
	Operating Expenses					
	Source of Supply Expenses:					
9	Purchased Water	-	-	-	-	-
10	Other	5,202	(50)	5,152	-	5,152
11	Pumping Expenses:					
12	Purchased Power	107,154	102	107,256	-	107,256
13	Purchased Gas	-	-	-	-	-
14	Other	39,396	(4,947)	34,449	-	34,449
15	Water Treatment Expenses	17,008	(68)	16,940	-	16,940
16	Transmission & Distribution Expenses	127,734	(29,096)	98,638	-	98,638
17	Customer Accounting Expenses	103,050	(650)	102,400	-	102,400
18	Sales Expense	-	-	-	-	-
19	Administrative & General Expenses	147,197	(2,959)	144,238	-	144,238
20	Total Operations & Maintenance Expense	\$ 546,741	\$ (37,668)	\$ 509,073	\$ -	\$ 509,073
21	Depreciation & Amortization Expenses	\$ 176,809	\$ 476	\$ 177,285	-	\$ 177,285
	Taxes					
22	Federal Income Taxes	\$ 41,571	\$ 10,766	\$ 52,337	8,707	\$ 61,043
23	State Income Taxes	9,158	2,371	11,529	1,918	13,447
24	Property Taxes	39,795	3,053	42,848	403	43,251
25	Other	12,689	-	12,689	-	12,689
26	Total Taxes	\$ 103,213	\$ 16,190	\$ 119,403	\$ 11,027	\$ 130,431
27	Total Operating Expenses	\$ 826,763	\$ (21,002)	\$ 805,761	\$ 11,027	\$ 816,788
28	Operating Income	\$ 163,348	\$ 21,002	\$ 184,350	\$ 16,901	\$ 201,251

References:

Column (A): RBM-8, Col. A
Column (B): RBM-8, Col. K
Column (C): Col. A + Col. B
Column (D): RBM-1, RBM-1(2), RBM-15
Column (E): Col. C + Col. D

Arizona Water Company
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Test Year Ended December 31, 2010

SCHEDULE OF OPERATING INCOME - RUCO TEST YEAR WITH ADJUSTMENTS - SURREBUTAL

Line No.	(A) Test Year Ended 12/31/2010	(B) Surrebutal Adjustment Maintenance IS-1	(C) Surrebutal Adjustment Rate Case Expense IS-2	(D) Surrebutal Adjustment Net Unbilled IS-3	(E) Adjustment Misc Expenses IS-4	(F) Adjustment Depreciation Expense IS-5	(G) Adjustment LEFT BLANK	(H) Adjustment LEFT BLANK	(I) Surrebutal Adjustment Property Tax IS-8	(J) Adjustment Income Tax IS-9	(K) Total Pro Forma Adjustments	(L) Test Year Adjusted Results
1	Operating Revenues											
2	Residential	\$ 801,054	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 801,054
3	Commercial	156,438	-	-	-	-	-	-	-	-	-	156,438
4	Industrial	284	-	-	-	-	-	-	-	-	-	284
5	Private Fire Service	19,841	-	-	-	-	-	-	-	-	-	19,841
6	Other Water Revenues	977,917	-	-	-	-	-	-	-	-	-	977,917
7	Total Water Revenues (L2 thru L6)	\$ 1,984,534	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,984,534
8	Miscellaneous	12,494	-	-	-	-	-	-	-	-	-	12,494
9	Total Operating Revenues (L7 + L9)	\$ 2,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,000,000
10	Operating Expenses											
11	Source of Supply Expenses:											
12	Purchased Water	5,202	-	(50)	-	-	-	-	-	-	(50)	5,152
13	Other	107,154	-	102	-	-	-	-	-	-	102	107,256
14	Pumping Expenses:											
15	Purchased Power	39,396	(4,859)	(88)	-	-	-	-	-	-	(4,947)	34,449
16	Purchased Gas	17,008	-	(68)	-	-	-	-	-	-	(68)	16,940
17	Other	127,734	(27,722)	(1,374)	-	-	-	-	-	-	(29,096)	98,638
18	Water Treatment Expenses	103,050	-	(650)	-	-	-	-	-	-	(650)	102,400
19	Transmission & Distribution Expenses	147,197	(1,898)	(514)	(547)	-	-	-	-	-	(2,959)	144,238
20	Customer Accounting Expenses	546,741	(32,581)	(2,642)	(547)	-	-	-	-	-	(37,668)	508,073
21	Sales Expense	176,809	-	-	-	-	-	-	-	-	-	176,809
22	Administrative & General Expenses	41,571	-	-	-	-	-	-	-	-	-	41,571
23	Depreciation & Amortization Expenses	9,158	-	-	-	-	-	-	-	-	-	9,158
24	Taxes	39,795	-	-	-	-	-	-	-	-	-	39,795
25	Federal Income Taxes	12,689	-	-	-	-	-	-	3,053	-	3,053	15,742
26	State Income Taxes	103,213	-	-	-	-	-	-	-	-	-	103,213
27	Property Taxes	826,783	(32,581)	(2,642)	(547)	-	-	-	-	-	(3,730)	790,423
28	Other	163,348	32,581	1,898	547	(476)	-	-	(3,053)	-	(2,025)	162,748
29	Total Taxes (L30 thru L33)	\$ 1,032,727	\$ (32,581)	\$ (2,642)	\$ (547)	\$ (476)	\$ -	\$ -	\$ (3,053)	\$ -	\$ (21,002)	\$ 1,011,725
30	Total Operating Expenses (L25 + L27 + L34)	\$ 2,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,000,000
31	Operating Income (L10 less L36)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

References:
 Column A, RBM-9
 Column B, RBM-10 - Remove Pumping and T&D Test Year Expense Adjustment - See RUCO Testimony
 Column C, RBM-11
 Column D, RBM-12 - Removed Unbilled Expense Test Year Adjustment - See RUCO Surrebutal Testimony
 Column E, RBM-13
 Column F, RBM-14
 Column I, RBM-15

SCHEDULE OF OPERATING INCOME - TEST YEAR WITH ADJUSTMENTS - SURREBUTIAL

Line No.	(A) Test Year Ended 12/31/2010	(B) Adj. Sales Tax IS-1	(C) Adj. Net Unbilled IS-2	(D) Adj. MIP IS-3	(E) Adj. ACRM IS-4	(F) Adj. Misc IS-5	(G) Adj. Annual Rates IS-6	(H) Adj. New Customers IS-7	(I) Adj. Payroll IS-8	(J) Adj. Emp Benefits IS-9	(K) Adj. Interest on Customer Deposits IS-10	(L) Adj. Normalize Maintenance IS-11
1	Operating Revenues											
2	Residential	885,183	(62,649)	(2,515)	(3,913)		(10,747)	(4,305)				
3	Commercial	178,838	(12,730)	912	(274)		(5,175)	(5,133)				
4	Industrial	145	(10)				149					
5	Private Fire Service	21,055	(1,490)				282					
6	Other Water Revenues	1,085,221	(76,878)	(1,603)	(4,193)		(15,491)	(9,438)				
7	Total Water Revenues (L2 thru L6)	1,334,662	(852)	(1,603)	(4,193)		(15,491)	(9,438)				
8	Miscellaneous	1,098,567	(77,731)	(1,603)	(4,193)		(15,491)	(9,438)				
9	Total Operating Revenues (L7 + L9)	2,433,229	(852)	(1,603)	(4,193)		(15,491)	(9,438)				
10	Operating Expenses											
11	Source of Supply Expenses:											
12	Purchased Water	4,996		50				(51)	149			
13	Other											
14	Pumping Expenses:											
15	Purchased Power	107,256		(102)								
16	Purchased Gas											
17	Other	34,254		88				(1,449)	1,051			4,859
18	Water Treatment Expenses	21,005		68	(4,248)			(215)	214			
19	Transmission & Distribution Expenses	94,494		1,374				(694)	2,903			27,721
20	Customer Accounting Expenses	99,824		650				(733)	2,787			
21	Sales Expense											
22	Administrative & General Expenses	131,434		514				(965)	2,505			
23	Administrative & Maint. Exp (L14 thru L24)	493,263		2,642	(4,248)			(4,107)	9,609			
24	Depreciation & Amortization Expenses	167,307										
25	Taxes											
26	Federal Income Taxes	60,149										
27	State Income Taxes	6,795										
28	Property Taxes	43,861										
29	Other	88,600	(77,731)						1,620			
30	Total Taxes (L30 thru L33)	199,695							1,620			
31	Total Operating Expenses (L25 + L27 + L34)	860,265	(77,731)	2,642	(4,248)			(4,107)	11,229			
32	Operating Income (L10 less L36)	238,302		(4,245)	55		(15,491)	(5,331)	(11,229)			
33												
34												
35												
36												
37												

Columns (A) through columns (X) see Company Exhibit Schedule C-2

SCHEDULE OF OPERATING INCOME - TEST YEAR WITH ADJUSTMENTS

Line No.	(M) Adjustment Adjust Purchase Water & Gas Exp IS - 12	(N) Adjustment Rate Case Expense IS - 13	(O) Adjustment Adjust A&G for BMP IS - 14	(P) Adjustment Fleet Fuel Expense IS - 15	(Q) Adjustment AS-400 Printers IS - 16	(R) Adjustment Arsenic Treatment Exp IS - 17	(S) Adjustment Error Correction CAP Charges IS - 18	(T) Adjustment Depreciation Expense IS - 19	(U) Adjustment Property Tax IS - 20	(V) Adjustment Income Tax IS - 21	(W) Total Pro Forma Adjustments	(X) Test Year Adjusted Results
1												
2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (84,129)	\$ 801,054
3	-	-	-	-	-	-	-	-	-	-	(22,400)	156,438
4	-	-	-	-	-	-	-	-	-	-	-	-
5	-	-	-	-	-	-	-	-	-	-	139	284
6	-	-	-	-	-	-	-	-	-	-	(1,214)	19,841
7	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (107,604)	\$ 977,617
8												
9											(852)	12,494
10	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (108,456)	\$ 990,111
11												
12												
13												
14												
15												
16												
17												
18												
19												
20												
21												
22												
23												
24												
25	\$ -	\$ 6,625	\$ -	\$ -	\$ 233	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,763	\$ 147,197
26												
27												
28												
29												
30												
31												
32												
33												
34												
35												
36	\$ -	\$ 6,625	\$ -	\$ 3,482	\$ 233	\$ -	\$ -	\$ 9,502	\$ (4,156)	\$ (16,215)	\$ (33,502)	\$ 826,763
37	\$ -	\$ (6,625)	\$ -	\$ (3,482)	\$ (233)	\$ -	\$ -	\$ (9,502)	\$ 4,156	\$ 16,215	\$ (74,954)	\$ 163,348

Columns (A) through column (X) see Company Exhibit Schedule C-2

OPERATING INCOME ADJUSTMENT NO. 1
PUMPING, TRANSMISSION & DISTRIBUTION MAINTENANCE EXPENSE - SURREBUTTAL

	Test Year Pumping Expense
Pumping Accounts	
1 <u>Maintenance:</u>	
2 Supervision & Engineering	\$ 2,056
3 Structures & Improvements	2,091
4 Electric pumping equipment	4,302
5 Gas pumping equipment	-
6	
7 Total Pumping Maintenance Expense	\$ 8,449
8	
9	
10 Company Requested Level of T. Y. Pumping Maintenance Expense	13,308
11	
12 RUCO Increase / (Decrease) in T. Y. Expense Level	\$ (4,859)
13	
14 RUCO Pumping Maintenance Expense Adjustment	\$ (4,859)
15	
16	
17	
18	
19	
20 Transmission & Distribution Accounts	
21	
22 <u>Maintenance:</u>	
23 Supervision & Engineering	\$ 6,580
24 Tanks	8,106
25 Mains	4,882
26 Mains - Leak Repair	724
27 Mains - Leak Detection	-
28 Services	11,684
29 Services - Leak Repair	1,164
30 Meters	7,013
31 Hydrants	985
32	
33 Total T & D Maintenance Expense	\$ 41,138
34	
35	
36 Company Requested Level of T. Y. T & D Maintenance Expense	68,860
37	
38 RUCO Increase / (Decrease) Expense Adjustment	\$ (27,722)
39	
40 RUCO T & D Maintenance Expense Adjustment	\$ (27,722)
41	
42	
43 Total RUCO Pumping and T & D Maintenance Expense Adjustment (L14 + L40)	\$ (32,581)

OPERATING INCOME ADJUSTMENT NO. 2
RATE CASE EXPENSE ADJUSTMENT - SURREBUTTAL

Line No.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense Total for Eastern Group	\$ 476,874	\$ (164,274)	\$ 312,600
2				
3	Allocation Factor (L31)			4.54%
4				
5	Superstition (Apache Junction, Superior, Miami)			\$ 14,180
6				
7	Amortization Period - 3 years			3
8				
9	RUCO Adjusted Rate Case Expense (L5 / L7)			\$ 4,727
10				
11	Company Rate Case Expense as Filed (Company Sch. C-2 Appendix)			\$ 6,625
12				
13	RUCO Pro Forma Rate Case Expense (L9 - L11)			\$ (1,898)
14				
15	RUCO Adjustment			\$ (1,898)
16				
17				
18	RUCO's Rate Base Expense Adjustment Calculation:			
19	Decision No. 66848, dated March 19, 2004, approved amount			
20	\$250,000 for Arizona Water Company's Eastern Group.		\$ 250,000	
21				
22	Inflation Factor from January 1, 2002 through September 30,			
23	per Inflation Data.com		25.04%	
24				
25	Reasonable Amount of Rate Case Expense based on			
26	Decision No. 66848.		\$ 312,600	
27				
28	RUCO Adjustment (Col. (A) L1 - Col. (B) L26)		\$ 164,274	
29				
30	<u>Allocation Factor Based on Number of Customers</u>		<u>Customers</u>	<u>Percent of Total</u>
31	Superstition (Apache Junction, Superior, Miami)		23,607	71.10%
32	Cochise (Bisbee, Sierra Vista)		6,357	19.15%
33	San Manuel		1,465	4.41%
34	Oracle		1,506	4.54%
35	SaddleBrook Ranch		113	0.34%
36	Winkelman		153	0.46%
37	Total Number of Customers and Percentages		33,201	100.00%

INTENTIONALLY LEFT BLANK

Line
No.

- 1
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OPERATING INCOME ADJUSTMENT NO. 4
MISCELLANEOUS EXPENSE ADJUSTMENTS - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) Supersition	(B) Cochise	(C) San Manual	(D) Oracle	(E) SaddleBrook Ranch	(F) Winkelman
1							
2	Customer Accounting Expense	\$ 1,570	\$ 713	\$ 78	\$ 96	\$ -	\$ -
3							
4	Administration & General Expense	1,642	-	137	143	19	7
5							
6	TOTAL DIRECT EXPENSE	\$ 3,212	\$ 713	\$ 215	\$ 240	\$ 19	\$ 7
7							
8							
9							
10							
11	Service Awards and Banquets	3,031	761	174	216	16	20
12							
13	Flower Shop Expenses	283	71	16	20	1	2
14							
15	Water Association Dues Allowed	996	250	57	71	5	7
16	at 50% of Total						
17							
18	TOTAL ALLOCATED EXPENSES	\$4,310	\$1,082	\$247	\$307	\$23	\$29
19							
20	TOTAL MISCELLANEOUS EXPENSE ADJUSTMENT	\$7,522	\$1,794	\$462	\$547	\$42	\$35
21							
22							
23							
24							

ALLOCATION OF PHOENIX OFFICE EXPENSES BASED ON THREE FACTOR

TOTAL	0.2865	0.0719	0.0164	0.0204	0.0015	0.0019
\$10,580	3,031	761	174	216	16	20
\$987	283	71	16	20	1	2
\$3,475	996	250	57	71	5	7
\$15,042	\$4,310	\$1,082	\$247	\$307	\$23	\$29
	\$7,522	\$1,794	\$462	\$547	\$42	\$35

OPERATING INCOME ADJUSTMENT NO. 5
CALCULATION OF DEPRECIATION EXPENSE - SURREBUTTAL

Line No.	Acct. No.	Present Depreciation Rates	(A) Plant Balance Per GL	(B) Post Test Year Adjustments	(C) Phoenix Office Balance Per GL	(D) Meter Shop Balance Per GL	(E) Three Factor Formula Allocation	(F) Phoenix Office Meter Shop Allocated To Plant	(G) Company Adjusted End Of Test Year	(H) RUCO Adjustments End Of Test Year	(I) Adjusted End Of Test Year Plant	(J) RUCO Depreciation Test Year Adjusted
1												
2	301	0.00%			651		2.04%					750
3	302	See Acct. 111	418		8,495		2.04%	173			592	1,263
4	303	See Acct. 111	418		9,148		2.04%	173			592	2,013
5												
6												
7	310.1	0.00%	129,139				2.04%		129,139		129,139	
8	310.3	0.00%	24,693			80	2.04%		24,695		24,695	
9	310.4	See Acct. 111					2.04%					
10	314	3.13%	480,266			80	2.04%		480,266		480,266	15,032
11			634,098						634,099		634,099	15,032
12												
13	320	0.00%					2.04%		2,742		2,742	
14	321	2.86%	91,283				2.04%		91,283		91,283	2,811
15	325	5.88%	888,752				2.04%		888,752		888,752	52,259
16	328	4.00%					2.04%					
17			982,777						982,777		982,777	54,869
18												
19	330	0.00%					2.04%					
20	331	2.50%	35,054				2.04%		35,054		35,054	876
21	332	2.86%	71,537			2,050	2.04%	42	71,579		71,579	2,047
22			106,592			2,050		42	106,633		106,633	2,824
23												
24	340	0.00%	19,680				2.04%		19,680		19,680	6,123
25	342	2.00%	308,126				2.04%		308,126		308,126	68,250
26	343	1.78%	3,783,051			6,066	2.04%	124	3,812,872		3,812,872	16,290
27	344	2.00%					2.04%					
28	345	2.38%	684,335				2.04%		684,461		684,461	5,113
29	346	4.55%	112,379				2.04%		112,379		112,379	2,893
30	348	1.82%	158,971				2.04%		158,971		158,971	98,670
31			5,064,542			6,066		124	5,094,489		5,094,489	
32												
33	389	0.00%					2.04%					
34	390	2.50%	145,244			52,852	2.04%	2,709	147,952		147,952	3,699
35	390.1	See Acct. 108.2			79,935		2.04%	31,479	31,479		31,479	1,928
36	391	6.67%			1,543,079		2.04%	100,088	103,350		103,350	6,893
37	393	5.00%	3,262		11,097	8,888	2.04%	257	1,991		1,991	100
38	394	4.00%	1,734		3,705	69,534	2.04%	5,424	29,164		29,164	1,167
39	395	5.00%	23,740		196,363	2,981	2.04%	92	237		237	12
40	396	5.00%	146		1,508	1,458	2.04%	30	1,161		1,161	77
41	397	6.67%	1,131		181,623		2.04%	3,705	147,863		147,863	9,962
42	398	6.67%	144,158		7,207		2.04%	147	4,845		4,845	161
43		3.33%	4,698						4,845		4,845	
44			324,112		6,908,612	146,809		143,931	468,043		468,043	23,899
			\$ 7,112,540	\$ 29,823	\$ 6,917,760	\$ 155,005		\$ 144,271	\$ 7,286,633	\$	\$ 7,286,633	\$ 197,407
												\$ (20,123)
			1,006,130	2%	\$ 20,123							\$ 177,285
												\$ 176,809
												\$ 476

Plant In Service
Total Depreciation Test Year Adjusted
Less: Amortization of Regulatory Liability
Less: Amortization of Contribution in Aid of Construction
Acc: Additional Amortization
Total Depreciation as Calculated
Per Company Schedule C-2
Adjustment

OPERATING INCOME ADJUSTMENT NO. 6
PROPERTY TAXES - SURREBUTTAL

LINE NO.	Property Tax Calculation	(A)	(B)
		RUCO AS ADJUSTED	RUCO RECOMMENDED
1	RUCO Adjusted Test Year Revenues - RBM-6	\$ 990,111	\$ 990,111
2	Multiplied by 2	2	2
3	Subtotal (Line 1 * Line 2)	\$ 1,980,222	\$ 1,980,222
4	RUCO Adjusted Test Year Revenues - 2010	990,111	
5	RUCO Recommended Revenue, Per Schedule RBM-6		1,018,040
6	Subtotal (Line 4 + Line 5)	\$ 2,970,333	\$ 2,998,262
7	Number of Years	3	3
8	Three Year Average (Line 5 / Line 6)	\$ 990,111	\$ 999,421
9	Department of Revenue Multiplier	2	2
10	Revenue Base Value (L8 X L9)	\$ 1,980,222	\$ 1,998,841
11	Plus: 10% of CWIP -	-	-
12	Less: Net Book Value of Licensed Vehicles	-	-
13	Full Cash Value (L10 + L11 + L12))	\$ 1,980,222	\$ 1,998,841
14	Assessment Ratio	21.0%	21.0%
15	Assessment Value (L13 X L14)	\$ 415,847	\$ 419,757
16	Composite Property Tax Rate (L19 / L15)	10.3038%	10.3038%
17	RUCO Proposed Property Tax Expense (L15 X L16))	\$ 42,848	
18	Company Proposed Property Tax	39,795	
19	RUCO Test Year Adjustment (L16 - L17)	\$ 3,053	
19	Property Tax - RUCO Recommended Revenue (L15 X L16)		\$ 43,251
20	RUCO Test Year Adjusted Property Tax Expense (L18)		42,848
21	Increase/(Decrease) to Property Tax Expense		\$ 403
22	Increase/(Decrease) to Property Tax Expense		\$ 403
23	Increase in Revenue Requirement (L5 - L4)		27,929
24	Increase /(Decrease) to Property Tax per Dollar Increase in Revenue (L26 / L27)		1.4425%

**OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE - SURREBUTTAL**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
1	FEDERAL INCOME TAXES:		
2			
3	Operating Income Before Taxes	Sch. RBM- 6, Column (C), L29 + L30 + L36	\$ 248,216
4	LESS:		
5	Arizona State Tax	Line 21	11,529
6	Interest Expense	Note (A) Line 21	82,756
7	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ 153,932
8			
9	Federal Tax Rate	Sch. TJC-1, Pg 2, Col. (D), L46	34.00%
10	Federal Income Tax Expense	Line 4 X line 5	\$ 52,337
11			
12	STATE INCOME TAXES:		
13			
14	Operating Income Before Taxes	Line 3	\$ 248,216
15	LESS:		
16	Interest Expense	Note (A) Line 41	82,756
17	State Taxable Income	Line 14 - Line 16	\$ 165,461
18			
19	State Tax Rate	Tax Rate	6.97%
20			
21	State Income Tax Expense	Line 17 X Line 19	\$ 11,529
22			
23	TOTAL INCOME TAX EXPENSE:		
24	Federal Income Tax Expense	Line 10	\$ 52,337
25	State Income Tax Expense	Line 21	11,529
26	Total Income Tax Expense Per RUCO	Line 24 + Line 25	\$ 63,866
27			
28	Total Federal Income Tax Expense Per Company (Per Company Sch. C-1, L30)		41,571
29			
30	Total State Income Tax Expense Per Company (Per Company Sch. C-1, L31)		9,158
31			
32	RUCO Federal Income Tax Adjustment	Line 24 - Line 28	\$ 10,766
33			
34	RUCO State Income Tax Adjustment	Line 25 - Line 30	\$ 2,371
35			
36			
37	NOTE (A):		
38	Interest Synchronization:		
39	Adjusted Rate Base (Sch. TJC-2, Col. (H), L17)	\$ 2,474,988	
40	Weighted Cost Of Debt (Sch. TJC-15 Col. (D), L1)	3.34%	
41	Interest Expense (L18 X L19)	\$ 82,756	

COST OF CAPITAL - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) DOLLAR AMOUNT	(B) CAPITAL RATIO	(C) COST RATE	(D) WEIGHTED COST RATE
1	Long-Term Debt	\$ 75,000,000	49.03%	6.82%	3.34%
2					
3	Common Equity	<u>77,975,335</u>	<u>50.97%</u>	9.40%	<u>4.79%</u>
4					
5	Total Capitalization	<u>\$ 152,975,335</u>	<u>100.00%</u>		
6					
7					
8	WEIGHTED AVERAGE COST OF CAPITAL				8.13%

References:
Columns (A) Thru (D): WAR Testimony

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REVENUE REQUIREMENT - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Adjusted Original Cost/Fair Value Rate Base	\$ (124,601)	\$ (114,891)
2			
3	Adjusted Operating Income (Loss)	\$ (78,989)	\$ (79,325)
4			
5	Current Rate of Return (L3 / L1)	N/A	N/A
6			
7	Required Operating Income (L9 X L1)	\$ (12,108)	\$ -
8			
9	Required Rate of Return on Fair Value Rate Base	9.72%	8.13%
10			
11	Operating Income Deficiency (L7 - L3)	\$ 66,880	\$ 79,325
12			
13	Gross Revenue Conversion Factor (RBM-1, Page 2 of 2)	1.6535	1.6525
14			
15	Required Increase in Gross Revenue Requirement (L11 X L13)	\$ 110,584	\$ 131,082
16			
17	Adjusted Test Year Revenue	\$ 117,102	\$ 117,102
18			
19	Proposed Annual Revenue (L15 + L17)	\$ 227,686	\$ 248,184
20			
21	Required Percentage Increase in Revenue (L15 / L17)	94.43%	111.94%
22			
23	Consolidated Revenue Adjustment	\$ (36,871)	\$ -
24			
25	Required Increase in Gross Revenue Under Proposed Consolidation	\$ 73,713	\$ -
26			
27	Required Revenue Under Proposed Consolidation	\$ 190,815	\$ -
28			
29	Required Percentage Increase in Revenue Under Proposed Consolidation	62.95%	0.00%
30			
31	Rate of Return on Common Equity	12.50%	9.40%

References:

Column (A): Company Schs. A-1 and C-1

Column (B): RUCO Schs. RBM-2, RBM-7, RBM-9 and RBM-17

GROSS REVENUE CONVERSION FACTOR - SURREBUTTAL

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	100.0000%			
2	Proposed Bad Debt Expense (Per Co. Workpapers)	-			
3	Subtotal (L1 thru L2)	100.0000%			
4	Combined Federal, State, Property Tax Rate (L22)	39.4846%			
5	Subtotal (L3 - L4)	60.5154%			
6	Revenue Conversion Factor (L1 / L5)	1.6525			
CALCULATION OF EFFECTIVE TAX RATE:					
9	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
10	Arizona State Income Tax Rate	6.9680%			
11	Federal Taxable Income (L9 - L10)	93.0320%			
12	Applicable Federal Income Tax Rate (L58)	34.0000%			
13	Effective Federal Income Tax Rate (L11 X L12)	31.6309%			
14	Combined Federal and State Income Tax Rate (L10 + L13)	38.5989%			
CALCULATION OF EFFECTIVE PROPERTY TAX FACTOR:					
17	Unity	100.0000%			
18	Combined Federal and State Tax Rate	38.5989%			
19	1 Minus Combined Income Tax Rate	61.4011%			
20	Property Tax Factor	1.4425%			
21	Effective Property Tax Factor (L19 x L 20)	0.8857%			
22	Combined Federal, State & Property Tax RateTax Rate (L14 + L21)	39.4846%			
24	RUCO Required Operating Income (Sch. RBM-1, Col. (B), L7)	\$ -			
25	RUCO Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RBM-1, Col. (B), L3)	(79,325)			
26	Required Increase In Operating Income (L24 - L25)		\$ 79,325		
28	Income Taxes On Recommended Revenue (Col. (D), L53)	\$ 2,415			
29	Income Taxes On Test Year Revenue (Col. (D), L55)	(47,452)			
30	Required Increase In Revenue To Provide For Income Taxes (L28 - L29)		\$ 49,866		
32	Property Tax with Recommended Revenue (Sch. RBM-7, Col. E, L31)	6,959			
33	Property Tax on TestYear Revenue (Sch. RBM-7, Col. C, L31)	5,068			
34	Increase in Property Tax Due to Increase in Revenue (L32 - L33)		\$ 1,891		
36	Total Required Increase In Revenue (L26 + L30 + L34)		\$ 131,082		
RUCO's CALCULATION OF INCOME TAX:					
39	RUCO Proposed Revenue (Sch. RBM-1, Col. (B), L19)			\$ 248,184	
40	Less:				
41	Operating Expense Excluding Income Tax (Sch. RBM-7, Col. (E), L24 + L26 + L31 + L32)			245,769	
42	Synchronized Interest (Col. (C), L63)			(3,842)	
43	Arizona Taxable Income (L39 - L41 - L42)			\$ 6,257	
44	Arizona State Income Tax Rate			6.9680%	
45	Arizona Income Tax (L43 X L44)				\$ 436
46	Fed. Taxable Income (L43 - L45)			\$ 5,821	
47	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ -	
48	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			\$ -	
49	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			\$ -	
50	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			\$ -	
51	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			\$ 1,979	
52	Total Federal Income Tax (L47 thru L 51)			\$ 1,979	
53	Combined Federal And State Income Tax (L45+ L52)			\$ 2,415	
55	RUCO Adj'd Test Year Combined Federal and State Income Tax (RBM-7, Col. (C), L29 and L30)			\$ -	
56	RUCO Proposed Income Tax Adjustment (L53 - L55)			\$ 2,415	
58	Applicable Federal Income Tax Rate				34.00%
NOTE (A): Interest Synchronization					
61	Adjusted Rate Base RBM-2, Col. (C), L28			\$ (114,891)	
62	Weighted Cost Of Debt RBM-9, Col. (M), L1			3.34%	
63	Interest Expense (L61 X L62)			\$ (3,842)	

SUMMARY RATE BASE - ORIGINAL COST - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB
1	Plant Classification			
2	Intangible Plant	\$ 14		\$ 14
3	Source of Supply Plant	455,467	9,510	464,977
4	Pumping Plant	472,248		472,248
5	Water Treatment Plant	3		3
6	Transmission & Distribution Plant	2,726,286		2,726,286
7	General Plant	32,198		32,198
8	Total Gross Plant in Service (L2 thru L7)	\$ 3,686,216	\$ 9,510	\$ 3,695,726
9				
10	Accumulated Depreciation	\$ 242,563	149	\$ 242,712
11	Net Utility Plant In Service (L8 - L10)	\$ 3,443,653	\$ 9,361	\$ 3,453,014
12				
13	Advances In Aid Of Const.	\$ 3,312,883		\$ 3,312,883
14				
15	Contribution In Aid Of Const.	\$ 226,219		\$ 226,219
16	Accumulated Amortization Of CIAC	\$ (5,049)		\$ (5,049)
17	NET CIAC (L15 + L16)	\$ 221,170	\$ -	\$ 221,170
18				
19	Deferred Income Tax	\$ 38,052		\$ 38,052
20				
21	Customer Deposits	\$ 706		\$ 706
22				
23	Allowance For Working Capital	\$ 4,557	349	\$ 4,906
24				
25	Net Regulatory Asset / (Liability)	\$ -		\$ -
26				
27	Rounding	\$ -		\$ -
28	TOTAL RATE BASE (+L11 - L17 - L19 - L21 + L23)	\$ (124,601)	\$ 9,710	\$ (114,891)

References:
Column (A): Company Schedule B-1 and RBM-3 Col. E
Column (B): Schedule RBM-3 Cols. F and G
Column (C): Col. A + Col. B; RBM-3

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED		(B) COMPANY POST TEST YEAR ADJUSTMENTS		(C) NET REGULATORY LIABILITY		(D) PHOENIX OFF AND METER SHOP		(E) COMPANY AS FILED OCRB/FVRB		SURREBUTTAL (F) RECLASS FROM SAN MANUEL		(G) ADJMT NO. 6 WORKING CAPITAL		(H) RUCO ADJTED OGRB/FVRB	
		NET PLANT	ADJ NO 1	ADJUSTMENTS	REGULATORY LIABILITY	PHOENIX OFF AND METER SHOP	COMPANY AS FILED OCRB/FVRB	COMPANY AS FILED OCRB/FVRB	RECLASS FROM SAN MANUEL	ADJMT NO. 6 WORKING CAPITAL	RUCO ADJTED OGRB/FVRB						
1	Plant Classification																
2	Intangible Plant																
3	Source of Supply Plant	455,467	-	-	-	-	-	-	14	455,467	14	-	-	-	-	464,977	
4	Pumping Plant	472,248	-	-	-	-	-	-	-	472,248	-	-	-	-	-	472,248	
5	Water Treatment Plant	-	-	-	-	-	-	3	3	-	-	-	-	-	-	-	3
6	Transmission & Distribution Plant	2,726,277	-	-	-	-	-	9	9	2,726,286	-	-	-	-	-	2,726,286	
7	General Plant	21,615	-	-	-	-	-	10,583	10,583	32,198	-	-	-	-	-	32,198	
8	Total Gross Plant in Service (Sum L2 thru L7)	3,675,607	-	-	-	-	-	10,609	10,609	3,686,216	-	-	-	-	-	3,695,726	
9																	
10	Accumulated Depreciation	240,096	-	-	-	-	-	2,467	2,467	242,563	-	-	-	-	-	242,712	
11	Net Utility Plant in Service (L8 less L10)	3,435,511	-	-	-	-	-	8,142	8,142	3,443,653	-	-	-	-	-	3,453,014	
12																	
13	Advances in Aid Of Const.	3,312,883	-	-	-	-	-	-	-	3,312,883	-	-	-	-	-	3,312,883	
14																	
15	Contribution in Aid Of Const.	226,219	-	-	-	-	-	-	-	226,219	-	-	-	-	-	226,219	
16	Accumulated Amortization Of CIAC	(5,049)	-	-	-	-	-	-	-	(5,049)	-	-	-	-	-	(5,049)	
17	NET CIAC (L-15 less L16)	221,170	-	-	-	-	-	-	-	221,170	-	-	-	-	-	221,170	
18																	
19	Deferred Income Tax	-	-	-	-	-	-	38,052	38,052	38,052	-	-	-	-	-	38,052	
20																	
21	Customer Deposits	706	-	-	-	-	-	-	-	706	-	-	-	-	-	706	
22																	
23	Allowance For Working Capital	4,557	-	-	-	-	-	-	-	4,557	-	-	-	-	349	4,906	
24																	
25	Net Regulatory Asset / (Liability)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
26																	
27	Adjustment to Match Rate Base with G/L	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
28	TOTAL RATE BASE (+L11 - L17 - L19 - L21 + L23)	(94,891)	-	-	-	-	-	(29,910)	(29,910)	(124,801)	-	-	9,361	349	(114,891)		

References:
Columns (A) through (E): Company Schedule B-2; Column (D) RBM-4(1)
Column (F): RUCO Schedule RBM-6, Col. F
Column (G): RUCO Schedule RBM-5, Col. A

PHOENIX OFFICE AND METER SHOP - RATE BASE ALLOCATION - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) TEST YEAR ADJUSTED	(B) Superstition 28.65%	(C) Cochise 7.19%	(D) San Manuel 1.64%	(E) Oracle 2.04%	(F) SaddleBrook Ranch 0.15%	(G) Winkelman 0.19%
1	3 Factor Allocation Factor							
2	Phoenix Office Allocation							
3	Plant Classification	\$ 9,148	\$ 2,621	\$ 658	\$ 150	\$ 187	\$ 14	\$ 17
4	Intangible Plant	-	-	-	-	-	-	-
5	Source of Supply Plant	-	-	-	-	-	-	-
6	Pumping Plant	-	-	-	-	-	-	-
7	Water Treatment Plant	-	-	-	-	-	-	-
8	Transmission & Distribution Plant	6,914,749	1,981,076	497,170	113,402	141,061	10,372	13,138
9	General Plant	6,917,761	1,983,696	497,828	113,952	141,247	10,386	13,155
10	Total Gross Plant in Service (Sum L4 thru L9)							
11	Less:							
12	Accumulated Depreciation	\$ 1,587,979	454,956	114,176	26,043	32,395	2,362	3,017
13	Net Utility Plant in Service (L10 less L12)	\$ 5,329,782	\$ 1,528,740	\$ 383,652	\$ 87,909	\$ 108,853	\$ 8,004	\$ 10,138
14	Less:							
15	Deferred Income Tax	25,368,073	7,267,953	1,823,964	416,036	517,509	38,052	48,199
16	Total Phoenix Office Allocation (L13 less L15)	\$ (20,038,291)	\$ (5,739,212)	\$ (1,440,312)	\$ (328,527)	\$ (408,656)	\$ (30,048)	\$ (38,061)
17								
18	Meter Shop Allocation							
19	Plant Classification	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
20	Intangible Plant	80	23	6	1	2	-	-
21	Source of Supply Plant	-	-	-	-	-	-	-
22	Pumping Plant	2,050	587	147	34	42	3	4
23	Water Treatment Plant	6,065	1,738	436	99	124	9	12
24	Transmission & Distribution Plant	146,810	42,061	10,556	2,408	2,995	220	279
25	General Plant	155,005	44,409	11,145	2,542	3,162	232	294
26	Total Gross Plant in Service (Sum L20 thru L25)							
27	Less:							
28	Accumulated Depreciation	\$ 56,404	16,160	4,055	925	1,151	85	107
29	Net Utility Plant in Service (L26 less L28)	\$ 98,601	\$ 28,249	\$ 7,089	\$ 1,617	\$ 2,011	\$ 148	\$ 187
30	Less:							
31	Deferred Income Tax	56,404	-	-	-	-	-	-
32	Total Phoenix Office Allocation (L29 less L31)	\$ 42,197	\$ 28,249	\$ 7,089	\$ 1,617	\$ 2,011	\$ 148	\$ 187
33								
34	Total Phoenix Office and Meter Shop Allocation							
35	Plant Classification	\$ 9,148	\$ 2,621	\$ 658	\$ 150	\$ 187	\$ 14	\$ 17
36	Intangible Plant	80	23	6	1	2	-	-
37	Source of Supply Plant	-	-	-	-	-	-	-
38	Pumping Plant	2,050	587	147	34	42	3	4
39	Water Treatment Plant	6,065	1,738	436	99	124	9	12
40	Transmission & Distribution Plant	7,055,423	2,023,137	507,726	115,810	144,056	10,592	13,417
41	General Plant	7,072,766	2,028,105	508,973	116,094	144,410	10,618	13,450
42	Total Gross Plant in Service							
43	Less:							
44	Accumulated Depreciation	\$ 1,644,383	\$ 471,116	\$ 118,231	\$ 26,968	\$ 33,545	\$ 2,616	\$ 3,124
45	Net Utility Plant in Service (Sum L7 - L8)	\$ 5,428,382	\$ 1,556,990	\$ 390,742	\$ 89,126	\$ 110,864	\$ 8,003	\$ 10,325
46	Less:							
47	Deferred Income Tax	25,368,073	7,267,953	1,823,964	416,036	517,509	38,052	48,199
48	Total Phoenix Office Allocation (L9 - L10)	\$ (19,996,095)	\$ (5,710,963)	\$ (1,433,223)	\$ (326,910)	\$ (406,645)	\$ (29,900)	\$ (37,874)

ALLOWANCE FOR WORKING CAPITAL - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) AMOUNT	(B) REFERENCE
1	Working Cash Requirement As Per Company	\$ 209	Company Schedule B-5, PG. 2 of 2
2	Working Cash Requirement As Per RUCO	558	RUCO Schedule RBM-6(1), L30
3	Adjustment	\$ 349	L2 - L1
4			
5	Material and Supplies Inventories As Per Company	\$ 101	Company Schedule B-5, PG. 2 of 2
6	Material and Supplies Inventories As Per RUCO	101	Company Schedule B-5, PG. 2 of 2
7	Adjustment	\$ -	L6 - L5
8			
9	Required Bank Balances As Per Company	\$ 3,254	Company Schedule B-5, PG. 2 of 2
10	Required Bank Balances As Per RUCO	3,254	Company Schedule B-5, PG. 2 of 2
11	Adjustment	\$ -	L10 - L9
12			
13	Prepayments & Special Deposits As Per Company	\$ 993	Company Schedule B-5, PG. 2 of 2
14	Prepayments & Special Deposits As Per RUCO	993	Company Schedule B-5, PG. 2 of 2
15		\$ -	L13 - L14
16			
17	TOTAL ADJUSTMENT (See RLM-2, Column (K))	\$ 349	Sum L3, L7, L11, L15

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Saddlebrook Ranch - Surrebuttal
Schedule RBM-6
Page 1

SCHEDULE NOT USED

EXPLANATION OF RATE BASE ADJUSTMENT NO. 2 - SURREBUTTAL

Line No.	(A) Company Test Year Adjusted Results	(B) RUCO Adj	(C) RUCO Adjusted Results	(D) Revenue Lag Days1	(E) Expense Lag Days2	(F) Net Lag Days [B - C]	(G) Lead / Lag Factor [D + 365]	(H) Working Cash Requirement [A X E]
1	\$ 103,754		\$ 103,754	28.62	30.87	(2.25)	(0.0062)	\$ (640)
2	Operating Expenses							410
3	Purchased Power		10,235	28.62	14.00	14.62	0.0401	-
4	Payroll		-	28.62	26.04	2.58	0.0071	-
5	Purchased Water		-	28.62	(18.11)	46.73	0.1280	-
6	Chemicals		-	28.62	(45.27)	73.89	0.2024	168
7	Property & Liability Insurance		831	28.62	(46.50)	75.12	0.2058	39
8	Workman's Compensation Insurance		190	28.62	(8.92)	37.54	0.1028	138
9	Health Insurance		1,338	28.62	(9.27)	37.89	0.1038	2,978
10	Other O&M (Excluding Rate Case Expense)		896	28.62	37.00	(8.38)	(0.0230)	(45)
11	Federal Income Taxes		6,069	28.62	37.00	(8.38)	(0.0230)	(10)
12	State Income Taxes		1,337	28.62	14.00	14.62	0.0401	31
13	FICA Taxes		772	28.62	83.10	(54.48)	(0.1493)	(4)
14	FUTA & SUTA Taxes		25	28.62	212.00	(183.38)	(0.5024)	(3,496)
15	Property Taxes		24	28.62	(98.83)	127.45	0.3492	285
16	Registration, Svc. Contracts, & Misc. Fees		817	28.62	34.72	(6.10)	(0.0167)	(11)
17	Retirement Annuities (401K)		686	28.62				
18								
19	Subtotal	150,175	8,326	156,708				(157)
20								
21								
22	Interest Expense	(4,169)	(4,169)	28.62	91.25	(62.63)	(0.1716)	715
23	Cost of Equity	(7,939)	7,939	28.62		28.62	0.0784	-
24	Dividends Paid							-
25								
26	Subtotal	(12,108)	7,939	(4,169)				715
27								
28								
29								
30	Total	\$ 138,067	\$ 16,265	\$ 152,539				\$ 558
31								
32								
33								
34								
35								

Columns (A), (D), and (E) Company Schs. B-5 page 1
Column (B) RUCO Schs. RBM-7, RBM-8

OPERATING INCOME - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJMTS	(C) RUCO TEST YEAR AS ADJTED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Operating Revenues					
1	Residential	\$ 45,127	\$ -	\$ 45,127	\$ 131,082	\$ 176,209
2	Commercial	61,276	-	61,276	-	61,276
3	Industrial	-	-	-	-	-
4	Private Fire Service	85	-	85	-	85
5	Other Water Revenues	9,032	-	9,032	-	9,032
6	Total Water Revenues	\$ 115,520	\$ -	\$ 115,520	\$ 131,082	\$ 246,602
7	Miscellaneous	\$ 1,582	\$ -	\$ 1,582	\$ -	\$ 1,582
8	Total Operating Revenues	\$ 117,102	\$ -	\$ 117,102	\$ 131,082	\$ 248,184
	Operating Expenses					
	Source of Supply Expenses:					
9	Purchased Water	\$ -	-	-	-	-
10	Other	246	-	246	-	246
11	Pumping Expenses:					
12	Purchased Power	103,754	-	103,754	-	103,754
13	Purchased Gas	-	-	-	-	-
14	Other	17,704	600	18,304	-	18,304
15	Water Treatment Expenses	754	-	754	-	754
16	Transmission & Distribution Expenses	7,190	381	7,571	-	7,571
17	Customer Accounting Expenses	8,102	(8)	8,094	-	8,094
18	Sales Expense	-	-	-	-	-
19	Administrative & General Expenses	10,107	(122)	9,985	-	9,985
20	Total Operations & Maintenance Expense	\$ 147,857	\$ 851	\$ 148,708	\$ -	\$ 148,708
21	Depreciation & Amortization Expenses	\$ 89,428	\$ 108	\$ 89,536	-	\$ 89,536
	Taxes					
22	Federal Income Taxes	\$ (38,543)	\$ (342)	\$ (38,885)	40,864	\$ 1,979
23	State Income Taxes	(8,491)	(75)	(8,566)	9,002	436
24	Property Taxes	5,275	(207)	5,068	1,891	6,959
25	Other	567	-	567	-	567
26	Total Taxes	\$ (41,192)	\$ (625)	\$ (41,817)	\$ 51,757	\$ 9,941
27	Total Operating Expenses	\$ 196,093	\$ 334	\$ 196,427	\$ 51,757	\$ 248,184
28	Operating Income	\$ (78,991)	\$ (334)	\$ (79,325)	\$ 79,325	\$ -

References:

Column (A): RBM-8, Col. A
Column (B): RBM-8, Col. K
Column (C): Col. A + Col. B
Column (D): RBM-1, RBM-1(2), RBM-15
Column (E): Col. C + Col. D

SCHEDULE OF OPERATING INCOME - TEST YEAR WITH RUCO ADJUSTMENTS - SURREBITAL

Line No.	(A) Test Year Ended 12/31/2010	(B) Surrebital Adjustment Normalize Maintenance IS-1	(C) Surrebital Adjustment Rate Case Expense IS-2	(D) Surrebital Adjustment Net Unbilled Expense IS-3	(E) Adjustment Misc Expenses IS-4	(F) Adjustment Depreciation Adjustment IS-5	(G) Adjustment LEFT BLANK IS-6	(H) Adjustment LEFT BLANK IS-7	(I) Surrebital Adjustment Property Tax IS-8	(J) Adjustment Income Tax IS-9	(K) Total Pro Forma Adjustments	(L) Test Year Adjusted Results
1	Operating Revenues											
2	Residential	\$ 45,127	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 45,127
3	Commercial	61,276	-	-	-	-	-	-	-	-	-	61,276
4	Industrial	85	-	-	-	-	-	-	-	-	-	85
5	Private Fire Service	9,032	-	-	-	-	-	-	-	-	-	9,032
6	Other Water Revenues	-	-	-	-	-	-	-	-	-	-	-
7	Total Water Revenues (L2 thru L6)	\$ 115,520	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 115,520
8	Miscellaneous	1,592	-	-	-	-	-	-	-	-	-	1,592
9	Total Operating Revenues (L7 + L9)	\$ 117,102	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 117,102
10	Operating Expenses											
11	Source of Supply Expenses:											
12	Purchased Water	-	-	-	-	-	-	-	-	-	-	246
13	Other	246	-	-	-	-	-	-	-	-	-	-
14	Pumping Expenses:											
15	Purchased Power	103,754	-	-	-	-	-	-	-	-	-	103,754
16	Purchased Gas	17,704	-	-	18	-	-	-	-	-	600	18,304
17	Other	754	-	-	-	-	-	-	-	-	-	754
18	Water Treatment Expenses	7,190	-	(20)	-	-	-	-	-	-	381	7,571
19	Transmission & Distribution Expenses	8,102	-	(8)	-	-	-	-	-	-	(8)	8,094
20	Customer Accounting Expenses	-	-	-	-	-	-	-	-	-	-	-
21	Sales Expense	-	-	(35)	-	-	-	-	-	-	(122)	9,985
22	Administrative & General Expenses	10,107	(45)	(45)	(42)	(42)	-	-	-	-	851	148,708
23	Operations & Maint. Exp (L14 thru L24)	147,957	(45)	(45)	(42)	(42)	-	-	-	-	108	89,536
24	Depreciation & Amortization Expenses	89,428	-	-	-	-	-	-	-	-	-	(38,885)
25	Taxes	-	-	-	-	-	-	-	-	(342)	(342)	(6,566)
26	Federal Income Taxes	(38,543)	-	-	-	-	-	-	-	(75)	(75)	5,068
27	State Income Taxes	(6,491)	-	-	-	-	-	-	(207)	-	(207)	567
28	Property Taxes	5,275	-	-	-	-	-	-	-	-	-	-
29	Other	567	-	-	-	-	-	-	-	-	(625)	(41,817)
30	Total Taxes (L30 thru L33)	(41,192)	-	-	-	-	-	-	(207)	(417)	(625)	(41,817)
31	Total Operating Expenses (L25 + L27 + L34)	\$ 196,093	\$ 983	\$ (45)	\$ (42)	\$ (42)	\$ 108	\$ -	\$ (207)	\$ (417)	\$ 334	\$ 196,427
32	Total Operating Expenses (L25 + L27 + L34)	\$ (75,991)	\$ (983)	\$ 45	\$ 42	\$ (108)	\$ -	\$ -	\$ 207	\$ 417	\$ (334)	\$ (79,325)
33	Operating Income (L10 less L36)	\$ 41,510	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 41,510

References:
 Column A, RBM-9
 Column B, RBM-10 - Remove Pumping and T&D Test Year Expense Adjustment - See RUCO Surrebital Testimony
 Column C, RBM-11
 Column D, Remove Unbilled Expense Test Year Adjustment - See RUCO Surrebital Testimony
 Column E, RBM-13
 Column F, RBM-14
 Column I, RBM15 - See RUCO Surrebital Adjustment
 Column J, RBM-16

SCHEDULE OF OPERATING INCOME-TEST YEAR COMPANY ADJUSTMENTS - SURREBITAL

Line No.	(A) Test Year Ended 12/31/2010	(B) Adjustment Sales Tax IS-1	(C) Adjustment Net Unbilled IS-2	(D) Adjustment MAP IS-3	(E) Adjustment ACRM IS-4	(F) Adjustment Misc IS-5	(G) Adjustment Annual Rates IS-6	(H) Adjustment New Customers IS-7	(I) Adjustment Annualize Payroll IS-8	(J) Adjustment Annualize Emp Benefits IS-9	(K) Adjustment Interest on Customer Deposits IS-10	(L) Adjustment Normalize Maintenance IS-11
1	Operating Revenues											
2	Residential	(2,612)	(563)					11,133				
3	Commercial	(4,278)	(444)				6,383					
4	Industrial											
5	Private Fire Service	(7)										
6	Other Water Revenues	(730)										
7	Total Water Revenues (L2 thru L6)	(7,627)	(1,007)					17,516				
8	Miscellaneous	(121)										
9	Total Operating Revenues (L7 + L9)	(7,748)	(1,007)					17,516				
10	Operating Expenses											
11	Source of Supply Expenses:											
12	Purchased Water								8			
13	Other							30				
14	Pumping Expenses:											
15	Purchased Power											
16	Purchased Gas											
17	Other		(18)					15,649				(301)
18	Water Treatment Expenses							94				
19	Transmission & Distribution Expenses							1,306				1,150
20	Customer Accounting Expenses		20					1,803				
21	Sales Expense		8									
22	Administrative & General Expenses		35					2,114		237		
23	Total Operations & Maint. Exp (L14 thru L24)		45					20,996	487	237	42	849
24	Depreciation & Amortization Expenses											
25	Taxes											
26	Federal Income Taxes	(20,654)										
27	State Income Taxes	(2,333)										
28	Property Taxes											
29	Other	8,035	(7,748)						280			
30	Total Taxes (L30 thru L33)	(14,952)	(7,748)						280			
31	Total Operating Expenses (L25 + L27 + L34)	(190,167)	(7,748)	45				20,996	767	237	42	849
32	Operating Income (L10 less L36)	(81,826)		(1,052)				(3,480)	(767)	(237)	(42)	(849)

Columns (A) through columns (X) see Company Exhibit Schedule C-2

Arizona Water Company
Docket No. W-01445A-11-0310
Test Year Ended December 31, 2010

SCHEDULE OF OPERATING INCOME-TEST YR COMPANY ADJUSTMENTS - SURREBUTTAL

Line No.	(M) Adjustment Water & Gas Exp IS-12	(N) Adjustment Rate Case Expense IS-13	(O) Adjustment Adjust A&G for BMP IS-14	(P) Adjustment Fleet Fuel Expense IS-15	(Q) Adjustment AS 400 Printers IS-19	(R) Adjustment Arsenic Treatment Exp IS-17	(S) Adjustment Error Correction CAP Charges IS-18	(T) Adjustment Depreciation Expense IS-19	(U) Adjustment Property Tax IS-20	(V) Adjustment Income Tax IS-21	(W) Total Pro Forma Adjustments	(X) Test Year Adjusted Results
1												
2	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$ 7,959	\$ 45,127
3											1,661	61,276
4											(7)	85
5											(730)	9,032
6											8,882	115,520
7	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	(121)	1,582
8											8,761	117,102
9	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$		
10												
11												
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Columns (A) through columns (X) see Company Exhibit Schedule C-2

**OPERATING INCOME ADJUSTMENT NO. 1
PUMPING AND TRANSMISSION & DISTRIBUTION MAINTENANCE EXPENSE - SURREBUTTAL**

Pumping Accounts	Test Year Pumping Expense
1 <u>Maintenance:</u>	
2 Supervision & Engineering	\$ 116
3 Structures & Improvements	77
4 Electric pumping equipment	690
5 Gas pumping equipment	-
6	
7 Total Pumping Maintenance Expense	\$ 883
8	
9	
10 Company Requested Level of T. Y. Pumping Maintenance Expense	(301)
11	
12 RUCO Increase / (Decrease) in T. Y. Expense Level	\$ 582
13	
14 RUCO Pumping Maintenance Expense Adjustment	\$ 582
15	
16	
17	
18	
19	
20 Transmission & Distribution Accounts	Test Year T&D Accounts
21	
22 <u>Maintenance:</u>	
23 Supervision & Engineering	\$ 357
24 Tanks	-
25 Mains	200
26 Mains - Leak Repair	-
27 Mains - Leak Detection	-
28 Services	578
29 Services - Leak Repair	44
30 Meters	359
31 Hydrants	13
32	
33 Total T & D Maintenance Expense	\$ 1,551
34	
35	
36 Company Requested Level of T. Y. T & D Maintenance Expense	1,150
37	
38 RUCO Increase / (Decrease) Expense Adjustment	\$ 401
39	
40 RUCO T & D Maintenance Expense Adjustment	\$ 401
41	
42	
43 Total RUCO Pumping and T & D Maintenance Expense Adjustment	\$ 983

OPERATING INCOME ADJUSTMENT NO. 2
RATE CASE EXPENSE ADJUSTMENT - SURREBUTTAL

Line No.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense Total for Eastern Group	\$ 476,874	\$ (164,274)	\$ 312,600
2				
3	Allocation Factor (L31)			0.34%
4				
5	Superstition (Apache Junction, Superior, Miami)			\$ 1,064
6				
7	Amortization Period - 3 years			3
8				
9	RUCO Adjusted Rate Case Expense (L5 / L7)			\$ 355
10				
11	Company Rate Case Expense as Filed (Company Sch. C-2 Appendix)			\$ 400
12				
13	RUCO Pro Forma Rate Case Expense (L9 - L11)			\$ (45)
14				
15	RUCO Adjustment			\$ (45)
16				
17				
18	RUCO's Rate Base Expense Adjustment Calculation:			
19	Decision No. 66848, dated March 19, 2004, approved amount			
20	\$250,000 for Arizona Water Company's Eastern Group.		\$ 250,000	
21				
22	Inflation Factor from January 1, 2002 through September 30,			
23	per Inflation Data.com		25.04%	
24				
25	Reasonable Amount of Rate Case Expense based on			
26	Decision No. 66848.		\$ 312,600	
27				
28	RUCO Adjustment (Col. (A) L1 - Col. (B) L26)		\$ 164,274	
29				
30	<u>Allocation Factor Based on Number of Customers</u>		<u>Customers</u>	<u>Percent of Total</u>
31	Superstition (Apache Junction, Superior, Miami)		23,607	71.10%
32	Cochise (Bisbee, Sierra Vista)		6,357	19.15%
33	San Manuel		1,465	4.41%
34	Oracle		1,506	4.54%
35	SaddleBrook Ranch		113	0.34%
36	Winkelman		153	0.46%
37	Total Number of Customers and Percentages		33,201	100.00%

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**OPERATING INCOME ADJUSTMENT NO. 4
 MISCELLANEOUS EXPENSE ADJUSTMENTS - SURREBUTTAL**

LINE NO.	DESCRIPTION	(A) Superstition	(B) Cochise	(C) San Manuel	(D) Oracle	(E) SaddleBrook Ranch	(F) Winkelman
1		\$ 1,570	\$ 713	\$ 78	\$ 96	\$ -	\$ -
2	<u>DIRECT EXPENSES</u>						
3	Customer Accounting Expense	1,642	-	137	143	19	7
4	Administration & General Expense						
5	TOTAL DIRECT EXPENSE	\$ 3,212	\$ 713	\$ 215	\$ 240	\$ 19	\$ 7

ALLOCATION OF PHOENIX OFFICE EXPENSES BASED ON THREE FACTOR

	TOTAL	0.2865	0.0719	0.0164	0.0204	0.0015	0.0019
8							
9	<u>PHOENIX OFFICE EXPENSES</u>						
10	Service Awards and Banquets	\$10,580	761	174	216	16	20
11	Flower Shop Expenses	\$987	71	16	20	1	2
12	Water Association Dues Allowed at 50% of Total	\$3,475	250	57	71	5	7
13	TOTAL ALLOCATED EXPENSES	\$15,042	\$1,082	\$247	\$307	\$23	\$29
14	TOTAL MISCELLANEOUS EXPENSE ADJUSTMENT	\$7,522	\$1,794	\$462	\$547	\$42	\$35

OPERATING INCOME ADJUSTMENT NO. 6
PROPERTY TAXES - SURREBUTTAL

LINE NO.	Property Tax Calculation	(A)	(B)
		RUCO AS ADJUSTED	RUCO RECOMMENDED
1	RUCO Adjusted Test Year Revenues - RBM-6	\$ 117,102	\$ 117,102
2	Multiplied by 2	<u>2</u>	<u>2</u>
3	Subtotal (Line 1 * Line 2)	\$ 234,204	\$ 234,204
4	RUCO Adjusted Test Year Revenues - 2010	<u>117,102</u>	
5	RUCO Recommended Revenue, Per Schedule RBM-6		<u>248,184</u>
6	Subtotal (Line 4 + Line 5)	\$ 351,306	\$ 482,388
7	Number of Years	<u>3</u>	<u>3</u>
8	Three Year Average (Line 5 / Line 6)	\$ 117,102	\$ 160,796
9	Department of Revenue Multiplier	<u>2</u>	<u>2</u>
10	Revenue Base Value (L8 X L9)	\$ 234,204	\$ 321,592
11	Plus: 10% of CWIP -	-	-
12	Less: Net Book Value of Licensed Vehicles	-	-
13	Full Cash Value (L10 + L11 + L12))	\$ 234,204	\$ 321,592
14	Assessment Ratio	<u>21.0%</u>	<u>21.0%</u>
15	Assessment Value (L13 X L14)	\$ 49,183	\$ 67,534
16	Composite Property Tax Rate (L19 / L15)	<u>10.3038%</u>	<u>10.3038%</u>
17	RUCO Proposed Property Tax Expense (L15 X L16))	\$ 5,068	
18	Company Proposed Property Tax	<u>5,275</u>	
19	RUCO Test Year Adjustment (L16 - L17)	\$ (207)	
19	Property Tax - RUCO Recommended Revenue (L15 X L16)		\$ 6,959
20	RUCO Test Year Adjusted Property Tax Expense (L18)		<u>5,068</u>
21	Increase/(Decrease) to Property Tax Expense		<u>\$ 1,891</u>
22	Increase/(Decrease) to Property Tax Expense		\$ 1,891
23	Increase in Revenue Requirement (L5 - L4)		131,082
24	Increase/(Decrease) to Property Tax per Dollar Increase in Revenue (L26 / L27)		1.4425%

OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
1	FEDERAL INCOME TAXES:		
2			
3	Operating Income Before Taxes	(RBM- 7, Col. (C), L36 + L29 + L30)	\$ (126,777)
4	LESS:		
5	Arizona State Tax	L21	(8,566)
6	Interest Expense	Note (A) L41	(3,842)
7	Federal Taxable Income	L3 - L5 - L6	\$ (114,369)
8			
9	Federal Tax Rate	Sch. RBM-1, Page 2	34.00%
10	Federal Income Tax Expense	L7 X L9	<u>\$ (38,885)</u>
11			
12	STATE INCOME TAXES:		
13			
14	Operating Income Before Taxes	L3	\$ (126,777)
15	LESS:		
16	Interest Expense	Note (A) L41	(3,842)
17	State Taxable Income	L14 - L16	\$ (122,935)
18			
19	State Tax Rate	Tax Rate	6.97%
20			
21	State Income Tax Expense	L17 X L19	<u>\$ (8,566)</u>
22			
23	TOTAL INCOME TAX EXPENSE:		
24	Federal Income Tax Expense	L10	\$ (38,885)
25	State Income Tax Expense	L21	(8,566)
26	Total Income Tax Expense Per RUCO	L24 + L25	<u>\$ (47,452)</u>
27			
28	Total Federal Income Tax Expense Per Company (Per Company Sch. C-1, L30)		(38,543)
29			
30	Total State Income Tax Expense Per Company (Per Company Sch. C-1, L31)		(8,491)
31			
32	RUCO Federal Income Tax Adjustment	L24 - L28	<u>\$ (342)</u>
33			
34	RUCO State Income Tax Adjustment	L25 - L30	<u>\$ (75)</u>
35			
36			
37	<u>NOTE (A): Interest Synchronization</u>		
38			
39	Adjusted Rate Base RBM-2, Col. (M), L28	\$ (114,891)	
40	Weighted Cost Of Debt RBM-9, Col. (D), L1	3.34%	
41	Interest Expense (L39 X L40)	<u>\$ (3,842)</u>	

COST OF CAPITAL - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) DOLLAR AMOUNT	(B) CAPITAL RATIO	(C) COST RATE	(D) WEIGHTED COST RATE
1	Long-Term Debt	\$ 75,000,000	49.03%	6.82%	3.34%
2					
3	Common Equity	77,975,335	50.97%	9.40%	4.79%
4					
5	Total Capitalization	<u>\$ 152,975,335</u>	<u>100.00%</u>		
6					
7					
8	WEIGHTED AVERAGE COST OF CAPITAL				8.13%

References:
Columns (A) Thru (D): WAR Testimony

TABLE OF CONTENTS TO RBM SCHEDULES - SURREBUTTAL

SCH NO.	PAGE NO.	TITLE
RBM-1	1 & 2	REVENUE REQUIREMENT AND GROSS REVENUE CONVERSION FACTOR
RBM-2	1	SUMMARY RATE BASE - ORIGINAL COST
RBM-3	1	SUMMARY ORIGINAL COST RATE BASE WITH ADJUSTMENTS
RBM-4	1 & 2	DIRECT PLANT AND ACCUMULATION DEPRECIATION
RBM-4 (1)	1	PHOENIX OFFICE AND METER SHOP PLANT ALLOCATION
RBM-5	1	ALLOWANCE FOR WORKING CAPITAL
RBM-6	1	RATE BASE ADJUSTMENT NO. 1 - INTENTIONALLY LEFT BLANK
RBM-6(1)	1	RATE BASE ADJUSTMENT NO. 2 - WORKING CAPITAL
RBM-7	1	OPERATING INCOME
RBM-8	1 & 2	SCHEDULE OF OPERATING INCOME - TEST YEAR WITH RUCO ADJUSTMENTS
RBM-9	1 & 2	SCHEDULE OF OPERATING INCOME-TEST YEAR COMPANY ADJUSTMENTS
RBM-10	1	OPERATING INCOME ADJUSTMENT NO. 1 - PUMPING TRANSMISSION & DISTRIBUTION EXPENSE NORMALIZATION
RBM-11	1	OPERATING INCOME ADJUSTMENT NO. 2 - RATE CASE EXPENSE
RBM-12	1	OPERATING INCOME ADJUSTMENT NO. 3 - INTENTIONALLY LEFT BLANK
RBM-13	1	OPERATING INCOME ADJUSTMENT NO. 4 - MISCELLANEOUS EXPENSE
RBM-14	1	OPERATING INCOME ADJUSTMENT NO. 5 - DEPRECIATION EXPENSE ADJUSTMENT
RBM-15	1	OPERATING INCOME ADJUSTMENT NO. 6 - PROPERTY TAXES
RBM-16	1	OPERATING INCOME ADJUSTMENT NO. 7 - INCOME TAXES
RBM-17	1	COST OF CAPITAL

REVENUE REQUIREMENT - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Adjusted Original Cost/Fair Value Rate Base	\$ 306,862	\$ 304,040
2			
3	Adjusted Operating Income (Loss)	\$ 11,131	\$ 14,385
4			
5	Current Rate of Return (L3 / L1)	3.63%	4.73%
6			
7	Required Operating Income (L9 X L1)	\$ 29,820	\$ 24,754
8			
9	Required Rate of Return on Fair Value Rate Base	9.72%	8.13%
10			
11	Operating Income Deficiency (L7 - L3)	\$ 18,689	\$ 10,369
12			
13	Gross Revenue Conversion Factor (RBM-1, Page 2 of 2)	1.6729	1.6774
14			
15	Required Increase in Gross Revenue Requirement (L11 X L13)	\$ 31,264	\$ 17,393
16			
17	Adjusted Test Year Revenue	\$ 102,090	\$ 102,099
18			
19	Proposed Annual Revenue (L15 + L17)	\$ 133,362	\$ 119,492
20			
21	Required Percentage Increase in Revenue (L15 / L17)	30.63%	17.04%
22			
23	Consolidated Revenue Adjustment	\$ -	\$ -
24			
25	Required Increase in Gross Revenue Under Proposed Consolidation	\$ -	\$ -
26			
27	Required Revenue Under Proposed Consolidation	\$ -	\$ -
28			
29	Required Percentage Increase in Revenue Under Proposed Consolidation	0.00%	0.00%
30			
31	Rate of Return on Common Equity	12.50%	9.40%

References:

Column (A): Company Schs. A-1 and C-1

Column (B): RUCO Schs. RBM-2, RBM-7, RBM-9 and RBM-17

GROSS REVENUE CONVERSION FACTOR - SURREBUTTAL

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	100.0000%			
2	Proposed Bad Debt Expense (Per Co. Workpapers)	-			
3	Subtotal (L1 thru L2)	100.0000%			
4	Combined Federal, State, Property Tax Rate (L22)	40.3849%			
5	Subtotal (L3 - L4)	59.6151%			
6	Revenue Conversion Factor (L1 / L5)	1.6774			
CALCULATION OF EFFECTIVE TAX RATE:					
9	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
10	Arizona State Income Tax Rate	6.9680%			
11	Federal Taxable Income (L9 - L10)	93.0320%			
12	Applicable Federal Income Tax Rate (L56)	34.0000%			
13	Effective Federal Income Tax Rate (L11 X L12)	31.6309%			
14	Combined Federal and State Income Tax Rate (L10 + L13)	38.5989%			
CALCULATION OF EFFECTIVE PROPERTY TAX FACTOR:					
17	Unity	100.0000%			
18	Combined Federal and State Tax Rate	38.5989%			
19	1 Minus Combined Income Tax Rate	61.4011%			
20	Property Tax Factor	2.9088%			
21	Effective Property Tax Factor (L19 x L 20)	1.7860%			
22	Combined Federal, State & Property Tax RateTax Rate (L14 + L21)	40.3849%			
24	RUCO Required Operating Income (Sch. RBM-1, Col. (B), L7)	\$ 24,754			
25	RUCO Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RBM-1, Col. (B), L3)	14,385			
26	Required Increase In Operating Income (L24 - L25)		\$ 10,369		
28	Income Taxes On Recommended Revenue (Col. (D), L53)	\$ 9,170			
29	Income Taxes On Test Year Revenue (Col. (D), L55)	2,652			
30	Required Increase In Revenue To Provide For Income Taxes (L28 - L29)		\$ 6,518		
32	Property Tax with Recommended Revenue (Sch. RBM-7, Col. E, L31)	9,415			
33	Property Tax on TestYear Revenue (Sch. RBM-7, Col. C, L31)	8,909			
34	Increase in Property Tax Due to Increase in Revenue (L32 - L33)		\$ 506		
36	Total Required Increase In Revenue (L26 + L30 + L34)		\$ 17,393		
RUCO's CALCULATION OF INCOME TAX:					
39	RUCO Proposed Revenue (Sch. RBM-1, Col. (B), L19)			\$ 119,492	
40	Less:				
41	Operating Expense Excluding Income Tax (Sch. RBM-7, Col. (E), L24 + L26 + L31 + L32)			85,568	
42	Synchronized Interest (Col. (C), L63)			10,166	
43	Arizona Taxable Income (L39 - L41 - L42)			\$ 23,758	
44	Arizona State Income Tax Rate			6.9680%	
45	Arizona Income Tax (L43 X L44)				\$ 1,655
46	Fed. Taxable Income (L43 - L45)			\$ 22,102	
47	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ -	
48	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			\$ -	
49	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			\$ -	
50	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			\$ -	
51	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			\$ 7,515	
52	Total Federal Income Tax (L47 thru L 51)				\$ 7,515
53	Combined Federal And State Income Tax (L45+ L52)				\$ 9,170
55	RUCO Adj'd Test Year Combined Federal and State Income Tax (RBM-7, Col. (C), L29 and L30)				\$ 2,652
56	RUCO Proposed Income Tax Adjustment (L53 - L55)				\$ 6,518
58	Applicable Federal Income Tax Rate				34.00%
NOTE (A): Interest Synchronization					
61	Adjusted Rate Base RBM-2, Col. (C), L28			\$ 304,040	
62	Weighted Cost Of Debt RBM-9, Col. (M), L1			3.34%	
63	Interest Expense (L61 X L62)			\$ 10,166	

SUMMARY RATE BASE - ORIGINAL COST - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJTED OCRB/FVRB
1	Plant Classification			
2	Intangible Plant	\$ 2,134		\$ 2,134
3	Source of Supply Plant	51,660		51,660
4	Pumping Plant	163,932		163,932
5	Water Treatment Plant	27,193		27,193
6	Transmission & Distribution Plant	313,611		313,611
7	General Plant	32,887		32,887
8	Total Gross Plant in Service (L2 thru L7)	<u>\$ 591,416</u>		<u>\$ 591,416</u>
9				
10	Accumulated Depreciation	\$ 220,207		\$ 220,207
11	Net Utility Plant In Service (L8 - L10)	<u>\$ 371,209</u>	<u>\$ -</u>	<u>\$ 371,209</u>
12				
13	Advances In Aid Of Const.	\$ -		\$ -
14				
15	Contribution In Aid Of Const.	\$ 21,225		\$ 21,225
16	Accumulated Amortization Of CIAC	\$ (984)		\$ (984)
17	NET CIAC (L15 + L16)	<u>\$ 20,241</u>	<u>\$ -</u>	<u>\$ 20,241</u>
18				
19	Deferred Income Tax	\$ 48,199		\$ 48,199
20				
21	Customer Deposits	\$ 1,249		\$ 1,249
22				
23	Allowance For Working Capital	\$ 5,343	(2,823)	\$ 2,520
24				
25	Net Regulatory Asset / (Liability)	\$ -		\$ -
26				
27	Rounding	\$ -		\$ -
28	TOTAL RATE BASE (+L11 - L17 - L19 - L21 + L23)	<u>\$ 306,863</u>	<u>\$ (2,823)</u>	<u>\$ 304,040</u>

References:
Column (A): Company Schedule B-1 and RBM-3 Col. E
Column (B): Schedule RBM-3 Cols. F and G
Column (C): Col. A + Col. B; RBM-3

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED NET PLANT TEST YEAR	(B) COMPANY ADJ NO 1 POST TEST YEAR ADJUSTMENTS	(C) NET REGULATORY LIABILITY	(D) PHOENIX OFF AND METER SHOP	(E) COMPANY AS FILED OCRB/FVRB	(F) ADJMT NO. 1 POST TEST YR ADJUSTMENTS	(G) ADJMT NO. 8 WORKING CAPITAL	(H) RUCO ADJUSTED OCRB/FVRB
1	Plant Classification								
2	Intangible Plant	\$ 2,117	\$ -	\$ -	\$ 17	\$ 2,134	\$ -	\$ -	\$ 2,134
3	Source of Supply Plant	51,660	-	-	-	51,660	-	-	51,660
4	Pumping Plant	163,932	-	-	-	163,932	-	-	163,932
5	Water Treatment Plant	27,189	-	-	4	27,193	-	-	27,193
6	Transmission & Distribution Plant	313,599	-	-	12	313,611	-	-	313,611
7	General Plant	19,482	-	-	13,405	32,887	-	-	32,887
8	Total Gross Plant in Service (Sum L2 thru L7)	\$ 577,978	\$ -	\$ -	\$ 13,438	\$ 591,416	\$ -	\$ -	\$ 591,416
9									
10	Accumulated Depreciation	\$ 217,083	-	-	3,124	\$ 220,207	-	-	220,207
11	Net Utility Plant in Service (L8 - L10)	\$ 360,895	\$ -	\$ -	\$ 10,314	\$ 371,209	\$ -	\$ -	\$ 371,209
12									
13	Advances In Aid Of Const.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14									
15	Contribution In Aid Of Const.	\$ 21,225	\$ -	\$ -	\$ -	\$ 21,225	\$ -	\$ -	\$ 21,225
16	Accumulated Amortization Of CIAC	(984)	-	-	-	(984)	-	-	(984)
17	NET CIAC (L15 - L16)	\$ 20,241	\$ -	\$ -	\$ -	\$ 20,241	\$ -	\$ -	\$ 20,241
18									
19	Deferred Income Tax	\$ -	\$ -	\$ -	\$ 48,199	\$ 48,199	\$ -	\$ -	\$ 48,199
20									
21	Customer Deposits	\$ 1,249	\$ -	\$ -	\$ -	\$ 1,249	\$ -	\$ -	\$ 1,249
22									
23	Allowance For Working Capital	\$ 5,343	\$ -	\$ -	\$ -	\$ 5,343	\$ -	\$ (2,823)	\$ 2,520
24									
25	Net Regulatory Asset / (Liability)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
26									
27	Adjustment to Match Rate Base with G/L	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
28	TOTAL RATE BASE (+L11 - L17 - L19 - L21 + L23)	\$ 344,748	\$ -	\$ -	\$ (37,885)	\$ 306,863	\$ -	\$ (2,823)	\$ 304,040

References:
 Columns (A) through (E): Company Schedule B-2; Column (D) RBM-4(1)
 Column (F): RUCO Schedule RBM-6, Col. F
 Column (G): See RUCO Surrebuttal Testimony

Line No.	Acc'l. No.	Description	Depreciation Rate	2010				Balance Per G.L.	Difference
				Additions	Retirements	Adjustments	Depreciation Expense		
1		Intangible Plant							
2	301	Organization	0.00%				2,072		
3	302	Franchises	See Acc't. 111				45		
4	303	Other Intangibles	See Acc't. 111						
5		Subtotal Intangible Plant					2,117		
6		Source of Supply Plant			0				
7	310.1	Water Rights	0.00%				2,911		
8	310.3	Other Source of Supply Land	0.00%				422		
9	310.4	Wells - Other	See Acc't. 111						
10	314	Wells	3.13%						
11		Subtotal Source of Supply Plant			(0)		48,327	(66,360)	
12		Pumping Plant					51,660	(66,360)	
13	320	Pumping Plant Land	0.00%						
14	321	Pumping Plant Structures & Improvements	2.86%				6,073		
15	325	Electric Pumping Equipment	5.88%				157,859		
16	328	Gas Engine Equipment	4.00%						
17		Subtotal Pumping Plant					163,932		
18		Water Treatment Plant							
19	330	Water Treatment Plant Land	0.00%						
20	331	Water Treatment Structures & Improvement	2.50%				3,906		
21	332	Water Treatment Equipment	2.86%				23,283	(0)	
22		Subtotal Water Treatment Plant					27,189	(0)	
23		Transmission & Distribution Plant							
24	340	Transmission and Distribution Land	0.00%						
25	342	Storage Tanks	2.00%				28,903		
26	343	Transmission & Distribution Mains	1.79%	841			120,920	0	
27	344	Fire Sprinkler Taps	2.00%						
28	345	Services	2.38%				109,947	0	
29	346	Meters	4.55%	(102)			27,418	(0)	
30	348	Hydrants	1.82%				26,410		
31		Subtotal Transmission & Distribution Plant					313,599	0	
32		General Plant							
33	389	General Plant Land	0.00%						
34	390	General Plant Structures	2.50%				127		
35	390.1	Leasehold Improvements	See Acc't. 108.2						
36	391	Office Furniture & Equipment	6.87%					(0)	
37	393	Warehouse Equipment	5.00%						
38	394	Tools, Shop & Garage Equipment	4.00%				3,376	(0)	
39	395	Laboratory Equipment	5.00%	1,220			1,031		
40	396	Power Operated Equipment	6.87%	1,031					
41	397	Communication Equipment	6.87%				14,482		
42	398	Miscellaneous Equipment	3.33%				465		
43		Subtotal General Plant					19,481	(0)	
44		Plant In Service					511,617	577,978	
45		Net Salvage/Cost of Removal						(66,360)	
46		Adjustments booked to Conform with Rate Decision							
47		Accum. Deprac. Related to other Plant Adjustments						(83,078)	
48		Accumulated Depreciation & Amort.							
49		Net Plant in Service					377,612	16,710	
50							350,895		

PHOENIX OFFICE AND METER SHOP - RATE BASE ALLOCATION - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) TEST YEAR ADJUSTED	(B) Superstition 28.65%	(C) Cochise 7.19%	(D) San Manuel 1.64%	(E) Oracle 2.04%	(F) SaddleBrook Ranch 0.15%	(G) Winkelman 0.19%
1	3 Factor Allocation Factor							
2	Phoenix Office Allocation							
3	Plant Classification	\$ 9,148	\$ 2,621	\$ 658	\$ 150	\$ 187	\$ 14	\$ 17
4	Intangible Plant	-	-	-	-	-	-	-
5	Source of Supply Plant	-	-	-	-	-	-	-
6	Pumping Plant	-	-	-	-	-	-	-
7	Water Treatment Plant	-	-	-	-	-	-	-
8	Transmission & Distribution Plant	-	-	-	-	-	-	-
9	General Plant	6,908,613	1,979,318	496,729	113,301	140,936	10,363	13,126
10	Total Gross Plant in Service (Sum L4 thru L9)	\$ 6,917,761	\$ 1,981,939	\$ 497,387	\$ 113,451	\$ 141,122	\$ 10,377	\$ 13,144
11	Less:							
12	Accumulated Depreciation	\$ 1,587,979	454,956	114,176	26,043	32,395	2,382	3,017
13	Net Utility Plant in Service (L10 less L12)	\$ 5,329,782	\$ 1,526,982	\$ 383,211	\$ 87,408	\$ 108,728	\$ 7,995	\$ 10,127
14	Less:							
15	Deferred Income Tax	25,368,073	7,267,953	1,823,964	416,036	517,509	38,052	48,199
16	Total Phoenix Office Allocation (L13 less L15)	\$ (20,038,291)	\$ (5,740,970)	\$ (1,440,753)	\$ (328,628)	\$ (408,781)	\$ (30,057)	\$ (38,073)
17								
18	Meter Shop Allocation							
19	Plant Classification							
20	Intangible Plant	\$ 80	-	6	1	2	-	-
21	Source of Supply Plant	-	-	-	-	-	-	-
22	Pumping Plant	-	-	-	-	-	-	-
23	Water Treatment Plant	2,050	587	147	34	42	3	4
24	Transmission & Distribution Plant	6,065	1,738	436	99	124	9	12
25	General Plant	146,810	42,061	10,556	2,408	2,995	220	279
26	Total Gross Plant in Service (Sum L20 thru L25)	\$ 155,005	\$ 44,409	\$ 11,145	\$ 2,542	\$ 3,162	\$ 232	\$ 294
27	Less:							
28	Accumulated Depreciation	\$ 56,404	16,160	4,055	925	1,151	85	107
29	Net Utility Plant in Service (L26 less L28)	\$ 98,601	\$ 28,249	\$ 7,089	\$ 1,617	\$ 2,011	\$ 148	\$ 187
30	Less:							
31	Deferred Income Tax	56,404	-	-	-	-	-	-
32	Total Phoenix Office Allocation (L29 less L31)	\$ 42,197	\$ 28,249	\$ 7,089	\$ 1,617	\$ 2,011	\$ 148	\$ 187
33								
34	Total Phoenix Office and Meter Shop Allocation							
35	Plant Classification							
36	Intangible Plant	\$ 9,148	\$ 2,621	\$ 658	\$ 150	\$ 187	\$ 14	\$ 17
37	Source of Supply Plant	80	23	6	1	2	-	-
38	Pumping Plant	-	-	-	-	-	-	-
39	Water Treatment Plant	2,050	587	147	34	42	3	4
40	Transmission & Distribution Plant	6,065	1,738	436	99	124	9	12
41	General Plant	7,055,423	2,021,379	507,285	115,709	143,931	10,583	13,405
42	Total Gross Plant in Service	\$ 7,072,766	\$ 2,026,347	\$ 509,532	\$ 115,993	\$ 144,284	\$ 10,609	\$ 13,438
43	Less:							
44	Accumulated Depreciation	\$ 1,644,383	471,116	118,231	26,968	33,545	2,467	3,124
45	Net Utility Plant in Service (Sum L7 - L8)	\$ 5,428,382	\$ 1,555,232	\$ 390,301	\$ 89,025	\$ 110,739	\$ 8,142	\$ 10,314
46	Less:							
47	Deferred Income Tax	25,368,073	7,267,953	1,823,964	416,036	517,509	38,052	48,199
48	Total Phoenix Office Allocation (L9 - L10)	\$ (19,996,095)	\$ (5,712,721)	\$ (1,433,664)	\$ (327,011)	\$ (406,770)	\$ (29,910)	\$ (37,886)

ALLOWANCE FOR WORKING CAPITAL - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) AMOUNT	(B) REFERENCE
1	Working Cash Requirement As Per Company	\$ (165)	Company Schedule B-5, PG. 2 of 2
2	Working Cash Requirement As Per RUCO	(2,988)	RUCO Schedule RBM-6(1), L30
3	Adjustment	\$ (2,823)	L2 - L1
4			
5	Material and Supplies Inventories As Per Company	\$ 129	Company Schedule B-5, PG. 2 of 2
6	Material and Supplies Inventories As Per RUCO	129	Company Schedule B-5, PG. 2 of 2
7	Adjustment	\$ -	L6 - L5
8			
9	Required Bank Balances As Per Company	\$ 4,122	Company Schedule B-5, PG. 2 of 2
10	Required Bank Balances As Per RUCO	4,122	Company Schedule B-5, PG. 2 of 2
11	Adjustment	\$ -	L10 - L9
12			
13	Prepayments & Special Deposits As Per Company	\$ 1,258	Company Schedule B-5, PG. 2 of 2
14	Prepayments & Special Deposits As Per RUCO	1,258	Company Schedule B-5, PG. 2 of 2
15		\$ -	L13 - L14
16			
17	TOTAL ADJUSTMENT (See RLM-2, Column (K))	\$ (2,823)	Sum L3, L7, L11, L15

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Winkelman - Surrebuttal
Schedule RBM-6
Page 1

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EXPLANATION OF RATE BASE ADJUSTMENT NO. 2 - SURREBUTTAL

Line No.	(A) Company Test Year Adjusted Results	(B) RUCO Adj	(C) RUCO Adjusted Results	(D) Revenue Lag Days1	(E) Expense Lag Days2	(F) Net Lag Days [B - C]	(G) Lead / Lag Factor [D + 365]	(H) Working Cash Requirement [A X E]
1	\$		\$					
2	Operating Expenses		6,781	29.68	30.87	(1.19)	(0.0033)	(22)
3	Purchased Power	20,662	20,662	29.68	14.00	15.68	0.0430	888
4	Payroll			29.68	26.04	3.64	0.0100	-
5	Purchased Water		5,807	29.68	(18.11)	47.79	0.1309	760
6	Chemicals		1,053	29.68	(45.27)	74.95	0.2053	216
7	Property & Liability Insurance		241	29.68	(46.50)	76.18	0.2087	50
8	Workman's Compensation Insurance		3,680	29.68	(8.92)	38.60	0.1058	389
9	Health Insurance		18,797	29.68	(9.27)	38.95	0.1067	1,370
10	Other O&M (Excluding Rate Case Expense)		7,515	29.68	37.00	(7.32)	(0.0201)	(151)
11	Federal Income Taxes		1,655	29.68	37.00	(7.32)	(0.0201)	(33)
12	State Income Taxes		1,549	29.68	14.00	15.68	0.0430	67
13	FICA Taxes		50	29.68	83.10	(53.42)	(0.1464)	(7)
14	FUTA & SUTA Taxes		484	29.68	212.00	(182.32)	(0.4995)	(4,703)
15	Property Taxes		1,035	29.68	(98.83)	128.51	0.3521	364
16	Registration, Svc. Contracts, & Misc. Fees		1,887	29.68	34.72	(5.04)	(0.0138)	(26)
17	Retirement Annuities (401k)							
18								
19								
20	Subtotal	82,764	74,166					(838)
21								
22								
23	Interest Expense		10,268	29.68	91.25	(61.57)	(0.1687)	(1,732)
24	Cost of Equity	19,552		29.68	-	29.68	0.0813	-
25	Dividends Paid		3,297	29.68	75.89	(46.21)	(0.1266)	(417)
26								
27	Subtotal	33,117	13,565					(2,150)
28								
29								
30	Total	\$ 115,881	\$ 87,731					\$ (2,988)
31								
32								
33								
34								

Columns (A), (D), and (E) Company Schs. B-5 page 1
Column (B) RUCO Schs. RBM-7, RBM-8

OPERATING INCOME - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJMT'S	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Operating Revenues					
1	Residential	\$ 54,242	\$ -	\$ 54,242	\$ 17,393	\$ 71,635
2	Commercial	43,099	-	43,099	-	43,099
3	Industrial	3,089	-	3,089	-	3,089
4	Private Fire Service	-	-	-	-	-
5	Other Water Revenues	-	-	-	-	-
6	Total Water Revenues	\$ 100,430	\$ -	\$ 100,430	\$ 17,393	\$ 117,823
7	Miscellaneous	\$ 1,669	\$ -	\$ 1,669	\$ -	\$ 1,669
8	Total Operating Revenues	\$ 102,099	\$ -	\$ 102,099	\$ 17,393	\$ 119,492
	Operating Expenses					
	Source of Supply Expenses:					
9	Purchased Water	-	-	-	-	-
10	Other	387	5	392	-	392
11	Pumping Expenses:					
12	Purchased Power	6,781	(41)	6,740	-	6,740
13	Purchased Gas	-	-	-	-	-
14	Other	4,107	(535)	3,572	-	3,572
15	Water Treatment Expenses	7,361	7	7,368	-	7,368
16	Transmission & Distribution Expenses	16,618	(5,458)	11,160	-	11,160
17	Customer Accounting Expenses	10,674	47	10,721	-	10,721
18	Sales Expense	-	-	-	-	-
19	Administrative & General Expenses	14,757	(192)	14,565	-	14,565
20	Total Operations & Maintenance Expense	\$ 60,685	\$ (6,167)	\$ 54,518	\$ -	\$ 54,518
21	Depreciation & Amortization Expenses	\$ 20,295	\$ -	\$ 20,295	-	\$ 20,295
	Taxes					
22	Federal Income Taxes	\$ 445	\$ 1,728	\$ 2,173	5,342	\$ 7,515
23	State Income Taxes	98	381	479	1,177	1,655
24	Property Taxes	8,104	805	8,909	506	9,415
25	Other	1,340	-	1,340	-	1,340
26	Total Taxes	\$ 9,987	\$ 2,914	\$ 12,901	\$ 7,024	\$ -
27	Total Operating Expenses	\$ 90,967	\$ (3,253)	\$ 87,714	\$ 7,024	\$ 94,739
28	Operating Income	\$ 11,132	\$ 3,253	\$ 14,385	\$ 10,369	\$ 24,754

References:

Column (A): RBM-8, Col. A
Column (B): RBM-8, Col. K
Column (C): Col. A + Col. B
Column (D): RBM-1, RBM-1(2), RBM-15
Column (E): Col. C + Col. D

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SCHEDULE OF OPERATING INCOME - TEAR YR WITH RUCO ADJUSTMENTS - SURREBUTTAL

Line No.	(A) Test Year Ended 12/31/2010	(B) Surrebuttal Adjustment Normalize Maintenance IS-1	(C) Surrebuttal Adjustment Rate Case Expense IS-2	(D) Surrebuttal Adjustment Net Unbilled Expense IS-3	(E) Surrebuttal Adjustment Misc Expenses IS-4	(F) Surrebuttal Adjustment Depreciation Expense IS-5	(G) Surrebuttal Adjustment LEFT BLANK	(H) Surrebuttal Adjustment LEFT BLANK	(I) Surrebuttal Adjustment Property Tax IS-8	(J) Surrebuttal Adjustment Income Tax IS-9	(K) Total Pro Forma Adjustments	(L) Test Year Adjusted Results
1	Operating Revenues											
2	Residential											54,242
3	Commercial											43,099
4	Industrial											3,089
5	Private Fire Service											
6	Other Water Revenues											
7	Total Water Revenues (L2 thru L6)											100,430
8	Miscellaneous											1,669
9	Total Operating Revenues (L7 + L9)											102,099
10	Operating Expenses											
11	Source of Supply Expenses:											
12	Purchased Water											387
13	Other											
14	Pumping Expenses:											
15	Purchased Power											(41)
16	Purchased Gas											(635)
17	Other											7
18	Water Treatment Expenses											4,107
19	Transmission & Distribution Expenses											7,361
20	Customer Accounting Expenses											18,618
21	Sales Expense											144
22	Administrative & General Expenses											10,674
23	Administrative & Maint. Exp (L14 thru L24)											14,757
24	Depreciation & Amortization Expenses											80,685
25	Taxes											20,295
26	Federal Income Taxes											445
27	State Income Taxes											98
28	Property Taxes											8,104
29	Other											1,340
30	Total Taxes (L30 thru L33)											9,987
31	Total Operating Expenses (L25 + L27 + L34)											90,967
32	Operating Income (L-10 less L36)											11,132
33	Adjustment Property Tax IS-8											805
34	Adjustment Income Tax IS-9											381
35	Total Pro Forma Adjustments											805
36	Test Year Adjusted Results											12,901
37												87,714

References:
 Column A, RBM-9
 Column B, RBM-10 - Remove Pumping and T&D Test Year Expense Adjustment - See RUCO Surrebuttal Testimony
 Column C, RBM-11
 Column D, RBM-12 - Remove Unbilled Expense Test Year Adjustment - See RUCO Surrebuttal Testimony
 Column E, RBM-13
 Column F, RBM-14
 Column J, RBM-16

SCHEDULE OF OPERATING INCOME-TEST YR COMPANY ADJUSTMENTS - SURREBUTTAL

Line No.	(A) Test Year Ended 12/31/2010	(B) Adj. Sales Tax IS-1	(C) Adj. Net Unbilled IS-2	(D) Adj. MAP IS-3	(E) Adj. ACRM IS-4	(F) Adj. Misc IS-5	(G) Adj. Annual Rates IS-6	(H) Adj. New Customers IS-7	(I) Adj. Payroll IS-8	(J) Adj. Emp Benefits IS-9	(K) Adj. Customer Deposits IS-10	(L) Adj. Normalized Maintenance IS-11
1	Operating Revenues											
2	Residential	\$ 53,799	\$ (4,647)	\$ (833)	\$ (440)		\$ 7,039	\$ (676)				
3	Commercial	46,764	(3,035)	(158)	(64)		1,437	(1,846)				
4	Industrial	3,046	(263)	(83)	(3)		392					
5	Private Fire Service											
6	Other Water Revenues											
7	Total Water Revenues (L2 thru L6)	\$ 103,609	\$ (7,945)	\$ (1,074)	\$ (507)		\$ 8,868	\$ (2,521)				
8	Miscellaneous	1,809	(140)									
9	Total Operating Revenues (L7 + L9)	\$ 105,418	\$ (8,085)	\$ (1,074)	\$ (607)		\$ 8,868	\$ (2,521)				
10	Operating Expenses											
11	Source of Supply Expenses:											
12	Purchased Water											
13	Other	372		5				(10)	15			
14	Pumping Expenses:											
15	Purchased Power	6,511		(41)								
16	Purchased Gas	3,659		7				(265)	108			543
17	Other	8,215		7				(214)	22			
18	Water Treatment Expenses	10,565		144	(686)			(174)	300			5,603
19	Transmission & Distribution Expenses	10,444		47				(172)	306			
20	Customer Accounting Expenses											
21	Sales Expense											
22	Administrative & General Expenses	13,240		48				(218)	263		624	75
23	Operations & Maint. Exp (L14 thru L24)	53,006		217	(686)			(1,053)	1,014	624	624	75
24	Total Operating Expenses (L25 + L27 + L34)	\$ 27,358										
25	Depreciation & Amortization Expenses											
26	Taxes											
27	Federal Income Taxes	1,613										
28	State Income Taxes	182										
29	Property Taxes	7,620										
30	Other	9,248	(8,085)						177			
31	Total Taxes (L30 thru L33)	\$ 18,663	\$ (8,085)						\$ 177			
32	Total Operating Expenses (L25 + L27 + L34)	\$ 99,027	\$ (8,085)	\$ 217	\$ (686)		\$ 8,868	\$ (1,053)	\$ 1,191	\$ 624	\$ 624	\$ 75
33	Operating Income (L10 less L36)	\$ 6,391	\$ -	\$ (1,291)	\$ 179		\$ -	\$ (1,468)	\$ (1,191)	\$ (624)	\$ (75)	\$ (6,146)

Columns (A) through columns (X) see Company Exhibit Schedule C-2

SCHEDULE OF OPERATING INCOME-TEST YR COMPANY ADJUSTMENTS

Line No.	(M) Adjustment Adjust Purchase Water & Gas Exp IS-12	(N) Adjustment Rate Case Expense IS-13	(O) Adjustment Adjust A&G for BMP IS-14	(P) Adjustment Fleet Fuel Expense IS-15	(Q) Adjustment AS 400 Printers IS-16	(R) Adjustment Arsenic Treatment Exp IS-17	(S) Adjustment Error Correction CAP Charges IS-18	(T) Adjustment Depreciation Expense IS-19	(U) Adjustment Property Tax IS-20	(V) Adjustment Income Tax IS-21	(W) Total Pro Forma Adjustments	(X) Test Year Adjusted Results
1												
2												
3												
4												
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6												
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37												

Columns (A) through columns (X) see Company Exhibit Schedule C-2

OPERATING INCOME ADJUSTMENT NO. 1
PUMPING AND TRANSMISSION & DISTRIBUTION MAINTENANCE EXPENSE - SURREBUTTAL

	Test Year Pumping Expense
Pumping Accounts	
1 <u>Maintenance:</u>	
2 Supervision & Engineering	\$ 212
3 Structures & Improvements	216
4 Electric pumping equipment	456
5 Gas pumping equipment	-
6	
7 Total Pumping Maintenance Expense	\$ 884
8	
9	
10 Company Requested Level of T. Y. Pumping Maintenance Expense	1,426
11	
12 RUCO Increase / (Decrease) in T. Y. Expense Level	\$ (542)
13	
14 RUCO Pumping Maintenance Expense Adjustment	\$ (542)
15	
16	
17	
18	
19	
20 Transmission & Distribution Accounts	
21	
22 <u>Maintenance:</u>	
23 Supervision & Engineering	\$ 679
24 Tanks	2,373
25 Mains	419
26 Mains - Leak Repair	-
27 Mains - Leak Detection	-
28 Services	1,139
29 Services - Leak Repair	8
30 Meters	700
31 Hydrants	21
32	
33 Total T & D Maintenance Expense	\$ 5,339
34	
35	
36 Company Requested Level of T. Y. T & D Maintenance Expense	10,941
37	
38 RUCO Increase / (Decrease) Expense Adjustment	\$ (5,602)
39	
40 RUCO T & D Maintenance Expense Adjustment	\$ (5,602)
41	
42	
43 Total RUCO Pumping and T & D Maintenance Expense Adjustment	\$ (6,144)

OPERATING INCOME ADJUSTMENT NO. 2
RATE CASE EXPENSE ADJUSTMENT - SURREBUTTAL

Line No.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense Total for Eastern Group	\$ 476,874	\$ (164,274)	\$ 312,600
2				
3	Allocation Factor			0.46%
4				
5	Winkelman			<u>\$ 1,441</u>
6				
7	Amortization Period - 3 years			3
8				
9	RUCO Adjusted Rate Case Expense (L5 / L7)			<u>\$ 480</u>
10				
11	Company Rate Case Expense as Filed (Company Sch. C-2 Appendix)			\$ 685
12				
13	RUCO Pro Forma Rate Case Expense (L9 - L11)			<u>\$ (205)</u>
14				
15	RUCO Adjustment			<u>\$ (205)</u>
16				
17				
18	RUCO's Rate Base Expense Adjustment Calculation:			
19	Decision No. 66848, dated March 19, 2004, approved amount			
20	\$250,000 for Arizona Water Company's Eastern Group.		\$ 250,000	
21				
22	Inflation Factor from January 1, 2002 through September 30,			
23	per Inflation Data.com		<u>25.04%</u>	
24				
25	Reasonable Amount of Rate Case Expense based on			
26	Decision No. 66848.		<u>\$ 312,600</u>	
27				
28	RUCO Adjustment		<u>\$ 164,274</u>	
29				
30	<u>Allocation Factor Based on Number of Customers</u>		<u>Customers</u>	<u>Percent of Total</u>
31	Superstition (Apache Junction, Superior, Miami)		23,607	71.10%
32	Cochise (Bisbee, Sierra Vista)		6,357	19.15%
33	San Manuel		1,465	4.41%
34	Oracle		1,506	4.54%
35	SaddleBrook Ranch		113	0.34%
36	Winkelman		<u>153</u>	<u>0.46%</u>
37	Total Number of Customers and Percentages		<u>33,201</u>	<u>100.00%</u>

Arizona Water Company
Docket No. W-01445A-11-0310
Test Year Ended December 31, 2010

Winkelman - Surrebuttal
Schedule RBM-12
Page 1

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OPERATING INCOME ADJUSTMENT NO. 4
MISCELLANEOUS EXPENSE ADJUSTMENTS - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) Superstition	(B) Cochise	(C) San Manual	(D) Oracle	(E) SaddleBrook Ranch	(F) Winkelman
1		\$ 1,570	\$ 713	\$ 78	\$ 96	\$ -	\$ -
2	Customer Accounting Expense						
3		1,642	-	137	143	19	7
4	Administration & General Expense						
5		\$ 3,212	\$ 713	\$ 215	\$ 240	\$ 19	\$ 7
6	TOTAL DIRECT EXPENSE						
7							
DIRECT EXPENSES							
8							
9							
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PHOENIX OFFICE EXPENSES							
ALLOCATION OF PHOENIX OFFICE EXPENSES BASED ON THREE FACTOR							
		0.2865	0.0719	0.0164	0.0204	0.0015	0.0019
	TOTAL						
8		\$10,580	761	174	216	16	20
9	Service Awards and Banquets						
10		\$987	71	16	20	1	2
11	Flower Shop Expenses						
12		\$3,475	250	57	71	5	7
13	Water Association Dues Allowed at 50% of Total						
14		\$15,042	\$1,082	\$247	\$307	\$23	\$29
15	TOTAL ALLOCATED EXPENSES						
16		\$7,522	\$1,794	\$462	\$547	\$42	\$35
17	TOTAL MISCELLANEOUS EXPENSE ADJUSTMENT						

Arizona Water Company
Docket No. W-01446A-11-0310
Test Year Ended December 31, 2010

OPERATING INCOME ADJUSTMENT NO. 5
CALCULATION OF DEPRECIATION EXPENSE - SURREBITTAL

Line No.	Acct. No.	Present Depreciation Rates	(A) Plant Balance Per GL	(B) Post Test Year Adjustments	(C) Phoenix Office Balance Per GL	(D) Meter Shop Balance Per GL	(E) Three Factor Formula Allocation	(F) Phoenix Office Meter Shop Allocated To Plant	(G) Company Adjusted End Of Test Year	(H) RUCO Adjustments End Of Test Year	(I) Adjusted End Of Test Year Plant	(J) RUCO Depreciation Test Year Adjusted
1	301	0.00%	2,072	45	651	-	0.19%	1	2,072	-	2,072	-
2	302	See Acct. 111	-	-	8,496	-	0.19%	16	61	-	61	3
3	303	See Acct. 111	2,117	-	9,148	-	0.19%	17	2,134	-	2,134	3
4	303											
5	310.1	0.00%	2,911	-	-	-	0.19%	-	2,911	-	2,911	-
6	310.3	0.00%	422	-	-	80	0.19%	0	422	-	422	-
7	310.4	See Acct. 111	48,327	-	-	-	0.19%	-	48,327	-	48,327	1,513
8	314	3.13%	51,660	-	-	80	0.19%	0	51,660	-	51,660	1,513
9	314											
10	314											
11	320	0.00%	6,073	-	-	-	0.19%	-	6,073	-	6,073	174
12	320	2.86%	157,859	-	-	-	0.19%	-	157,859	-	157,859	9,334
13	325	4.00%	163,932	-	-	-	0.19%	-	163,932	-	163,932	9,508
14	328											
15	330	0.00%	3,906	-	-	-	0.19%	-	3,906	-	3,906	98
16	331	2.50%	23,263	-	-	2,050	0.19%	4	23,267	-	23,267	666
17	332	2.86%	27,189	-	-	2,050	0.19%	4	27,193	-	27,193	764
18	340	0.00%	28,903	-	-	-	0.19%	-	28,903	-	28,903	578
19	342	2.00%	120,920	-	-	-	0.19%	-	120,932	-	120,932	2,165
20	343	1.79%	109,946	-	-	6,066	0.19%	12	109,946	-	109,946	2,617
21	344	2.00%	27,419	-	-	-	0.19%	-	27,419	-	27,419	1,248
22	345	2.38%	26,410	-	-	-	0.19%	-	26,410	-	26,410	481
23	346	4.55%	313,599	-	-	6,066	0.19%	12	313,610	-	313,610	7,088
24	348	1.82%										
25	348											
26	348											
27	348											
28	348											
29	348											
30	348											
31	348											
32	389	0.00%	-	-	-	-	0.19%	-	-	-	-	9
33	390	2.50%	127	-	79,935	52,852	0.19%	252	379	-	379	-
34	390	See Acct. 108.2	-	-	1,543,079	-	0.19%	2,932	2,932	-	2,932	622
35	390.1	6.67%	-	-	4,885,192	11,087	0.19%	9,322	9,322	-	9,322	1
36	391	5.00%	-	-	3,705	8,888	0.19%	24	24	-	24	155
37	391	4.00%	3,377	-	196,363	69,534	0.19%	505	3,882	-	3,882	52
38	394	5.00%	1,031	-	1,508	2,981	0.19%	9	1,039	-	1,039	0
39	395	6.67%	14,482	-	181,623	1,458	0.19%	3	14,828	-	14,828	989
40	396	6.67%	465	-	7,207	-	0.19%	14	478	-	478	16
41	397	3.33%	19,482	-	6,908,612	146,909	0.19%	13,405	32,887	-	32,887	1,845
42	398											
43	398											
44	398											
			\$ 577,978	\$	\$ 6,917,760	\$ 155,005		\$ 13,438	\$ 591,416	\$	\$ 591,416	\$ 20,720
			21,228	\$	\$ 425							\$ (425)
												\$ 20,295
												\$ 30,295
												\$ 0

Plant in Service
Total Depreciation Test Year Adjusted
Less: Amortization of Regulatory Liability
Less: Amortization of Contribution in Aid of Construction
Add: Additional Amortization
Total Depreciation as Calculated
Per Company Schedule C-2
Adjustment

OPERATING INCOME ADJUSTMENT NO. 6
PROPERTY TAXES - SURREBUTTAL

LINE NO.	Property Tax Calculation	(A)	(B)
		RUCO AS ADJUSTED	RUCO RECOMMENDED
1	RUCO Adjusted Test Year Revenues - RBM-6	\$ 102,099	\$ 102,099
2	Multiplied by 2	2	2
3	Subtotal (Line 1 * Line 2)	\$ 204,198	\$ 204,198
4	RUCO Adjusted Test Year Revenues - 2010	102,099	
5	RUCO Recommended Revenue, Per Schedule RBM-6		119,492
6	Subtotal (Line 4 + Line 5)	\$ 306,297	\$ 323,690
7	Number of Years	3	3
8	Three Year Average (Line 5 / Line 6)	\$ 102,099	\$ 107,897
9	Department of Revenue Multiplier	2	2
10	Revenue Base Value (L8 X L9)	\$ 204,198	\$ 215,794
11	Plus: 10% of CWIP -	-	-
12	Less: Net Book Value of Licensed Vehicles	-	-
13	Full Cash Value (L10 + L11 + L12))	\$ 204,198	\$ 215,794
14	Assessment Ratio	21.0%	21.0%
15	Assessment Value (L13 X L14)	\$ 42,882	\$ 45,317
16	Composite Property Tax Rate (L19 / L15)	20.7769%	20.7769%
17	RUCO Proposed Property Tax Expense (L15 X L16))	\$ 8,909	
18	Company Proposed Property Tax	8,104	
19	RUCO Test Year Adjustment (L16 - L17)	\$ 805	
19	Property Tax - RUCO Recommended Revenue (L15 X L16)		\$ 9,415
20	RUCO Test Year Adjusted Property Tax Expense (L18)		8,909
21	Increase/(Decrease) to Property Tax Expense		\$ 506
22	Increase/(Decrease) to Property Tax Expense		\$ 506
23	Increase in Revenue Requirement (L5 - L4)		17,393
24	Increase /(Decrease) to Property Tax per Dollar Increase in Revenue (L26 / L27)		2.9088%

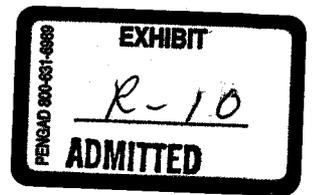
**OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE - SURREBUTTAL**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
1	FEDERAL INCOME TAXES:		
2			
3	Operating Income Before Taxes	(RBM- 7, Col. (C), L36 + L29 + L30)	\$ 17,037
4	LESS:		
5	Arizona State Tax	L21	479
6	Interest Expense	Note (A) L41	10,166
7	Federal Taxable Income	L3 - L5 - L6	\$ 6,392
8			
9	Federal Tax Rate	Sch. RBM-1, Page 2	34.00%
10	Federal Income Tax Expense	L7 X L9	\$ 2,173
11			
12	STATE INCOME TAXES:		
13			
14	Operating Income Before Taxes	L3	\$ 17,037
15	LESS:		
16	Interest Expense	Note (A) L41	10,166
17	State Taxable Income	L14 - L16	\$ 6,870
18			
19	State Tax Rate	Tax Rate	6.97%
20			
21	State Income Tax Expense	L17 X L19	\$ 479
22			
23	TOTAL INCOME TAX EXPENSE:		
24	Federal Income Tax Expense	L10	\$ 2,173
25	State Income Tax Expense	L21	479
26	Total Income Tax Expense Per RUCO	L24 + L25	\$ 2,652
27			
28	Total Federal Income Tax Expense Per Company (Per Company Sch. C-1, L30)		445
29			
30	Total State Income Tax Expense Per Company (Per Company Sch. C-1, L31)		98
31			
32	RUCO Federal Income Tax Adjustment	L24 - L28	\$ 1,728
33			
34	RUCO State Income Tax Adjustment	L25 - L30	\$ 381
35			
36			
37	NOTE (A): Interest Synchronization		
38			
39	Adjusted Rate Base RBM-2, Col. (C), L28	\$ 304,040	
40	Weighted Cost Of Debt RBM-9, Col. (D), L1	3.34%	
41	Interest Expense (L39 X L40)	\$ 10,166	

COST OF CAPITAL - SURREBUTTAL

LINE NO.	DESCRIPTION	(A) DOLLAR AMOUNT	(B) CAPITAL RATIO	(C) COST RATE	(D) WEIGHTED COST RATE
1	Long-Term Debt	\$ 75,000,000	49.03%	6.82%	3.34%
2					
3	Common Equity	<u>77,975,335</u>	<u>50.97%</u>	9.40%	<u>4.79%</u>
4					
5	Total Capitalization	<u>\$ 152,975,335</u>	<u>100.00%</u>		
6					
7					
8	WEIGHTED AVERAGE COST OF CAPITAL				8.13%

References:
Columns (A) Thru (D): WAR Testimony



ARIZONA WATER COMPANY
DOCKET NO. W-01445A-11-0310

DIRECT TESTIMONY
OF
WILLIAM A. RIGSBY

ON BEHALF OF
THE
RESIDENTIAL UTILITY CONSUMER OFFICE

MARCH 13, 2012

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14	of Pennsylvania	

EXECUTIVE SUMMARY

1
2 Based on the Residential Utility Consumer Office's ("RUCO") analysis of
3 Arizona Water Company's application for a permanent rate increase for its
4 Eastern Group, filed on August 5, 2011, RUCO recommends that the
5 Arizona Corporation Commission reject Arizona Water Company's request
6 for a Distribution System Improvement Charge, and its rate design method
7 that addresses declining usage.

8
9 RUCO recommends approval of Arizona Water Company's requests for
10 the consolidation of the San Manuel, Oracle and SaddleBrooke Ranch
11 operating systems into a proposed Falcon Valley System, and the
12 continuation of an Arsenic Cost Recovery Mechanism.

13
14 RUCO neither agrees with nor disagrees with Arizona Water Company's
15 off-site facilities fee tariff, but reiterates the reasons it has given in other
16 rate case proceedings as to why it believes that delaying the recognition of
17 contributions-in-aid-of construction as a deduction to rate base is not in
18 the best interest of ratepayers.
19

1 **INTRODUCTION**

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

3 A. My Name is William A. Rigsby. I am the Chief of Accounting and Rates
4 for the Residential Utility Consumer Office ("RUCO") located at 1110 W.
5 Washington, Suite 220, Phoenix, Arizona 85007.

6
7 **Q. Please describe your qualifications in the field of utility regulation
8 and your educational background.**

9 A. I have been involved with utility regulation in Arizona since 1994. During
10 that period of time I have worked as a utilities rate analyst for both the
11 Arizona Corporation Commission ("ACC" or "Commission") and for RUCO.
12 I hold a Bachelor of Science degree in the field of finance from Arizona
13 State University and a Master of Business Administration degree, with an
14 emphasis in accounting, from the University of Phoenix. Appendix 1,
15 which is attached to my direct testimony on the cost of capital issues in
16 this case, further describes my educational background and also includes
17 a list of the rate cases and regulatory matters that I have been involved
18 with.

19
20 **Q. What is the purpose of your testimony?**

21 A. The purpose of my testimony is to present RUCO's positions on a number
22 of requests contained in Arizona Water Company's ("AWC" or "Company")
23 application for a permanent increase in rates ("Application") for the

1 Company's Eastern Group operating systems. AWC filed its Application
2 with the Arizona Corporation Commission ("ACC" or "Commission") on
3 August 5, 2011 using a test year ending on December 31, 2010 ("Test
4 Year").

5
6 **Q. Will RUCO be filing testimony on the required revenue, rate design
7 and cost of capital issues associated with AWC's Application?**

8 A. Yes. RUCO witness Robert A. Mease will provide direct testimony
9 presenting RUCO's recommendations on required revenue and rate
10 design. As I noted above, I have filed, under separate cover, direct
11 testimony on the cost of capital issues in this case.

12
13 **SUMMARY OF TESTIMONY AND RECOMMENDATIONS**

14 **Q. Please summarize the specific issues that you will address in your
15 direct testimony.**

16 A. My direct testimony will address AWC's requests for a Distribution System
17 Improvement Charge ("DSIC"), the continuation of the Company's Arsenic
18 Cost Recovery Mechanism ("ACRM"), consolidation of AWC's San
19 Manuel, Oracle and SaddleBrooke Ranch operating systems into a
20 Company-proposed Falcon Valley System, a rate design that addresses
21 declining usage, and the Company's request for an Off-Site Facilities Fee
22 that delays recognition of contributions-in-aid-of-construction ("CIAC") as a

1 deduction from rate base until plant funded by the hook-up fees is placed
2 into service.

3

4 **Q. Please provide a brief summary of RUCO's recommendations.**

5 A. RUCO recommends that the Commission reject Arizona Water
6 Company's request for a DSIC, and the Company's rate design method
7 that addresses declining usage.

8

9 RUCO recommends approval of AWC's requests for the consolidation of
10 the San Manuel, Oracle and SaddleBrooke Ranch operating systems into
11 a Company-proposed Falcon Valley System, and to continue AWC's
12 ACRM.

13

14 RUCO neither agrees with nor disagrees with AWC's off-site facilities fee
15 tariff, but reiterates the reasons it has given in other rate case proceedings
16 as to why it believes that delaying the recognition of CIAC as a deduction
17 to rate base is not in the best interest of ratepayers.

18

19 **DISTRIBUTION SYSTEM IMPROVEMENT CHARGE**

20 **Q. Have you reviewed the direct testimony of AWC witnesses William M.**
21 **Garfield and Joseph D. Harris that addresses AWC's request for a**
22 **DSIC surcharge?**

23 A. Yes.

1 **Q. Briefly explain AWC's DSIC surcharge request.**

2 A. According to Mr. Harris' testimony, AWC is seeking Commission approval
3 of a surcharge mechanism that would recover the fixed costs associated
4 with DSIC-eligible utility plant additions net of retirements placed into
5 service between general rate cases. Under AWC's proposal the DSIC
6 would be phased-in each year and capped at 7.50 percent of the annual
7 amount billed to customers. According to the Company, DSIC requests
8 would be filed with the Commission on a semi-annual basis thirty days
9 prior to the implementation of any Company-proposed surcharge
10 increases.

11
12 **Q. What is RUCO's recommendation regarding the Company-proposed
13 DSIC?**

14 A. RUCO recommends that the Commission reject the Company-proposed
15 DSIC in favor of the traditional ratemaking process. To support its
16 recommendation, RUCO lists four reasons.¹ First, AWC is seeking
17 recovery of routine plant improvements outside of a rate case that would
18 normally be recovered in a general rate case proceeding. Second, the
19 DSIC is a one-sided mechanism which works only in the interest of the
20 shareholder. While it allows accelerated cost recovery for new plant, it
21 fails to consider reduced operations and maintenance expense ("O&M")
22 savings attributable to the new plant. Third, there is no federal or state

¹ There are also legal concerns with the implementation of the DSIC which, if necessary, RUCO will address in its legal briefs.

1 requirement mandating the types of routine plant additions that AWC
2 seeks recovery for through the Company-proposed DSIC. Fourth, WC
3 has not proven that it would not be able to ensure safe and reliable water
4 service or achieve cost recovery absent the DSIC. Therefore, there is no
5 need for the Commission to adopt a special surcharge for such routine
6 additions.

7
8 **Q. In regard to RUCO's first reason for rejecting the Company-proposed**
9 **DSIC, are the types of infrastructure improvements that would be**
10 **recovered through the DSIC extraordinary in nature?**

11 **A.** No. The types of infrastructure improvements for which the Company
12 seeks cost recovery for through a DSIC mechanism are routine in nature.
13 These are plant improvements that any regulated utility would normally
14 make as existing assets reach the end of their useful lives. There is
15 nothing extraordinary about these types of plant additions. The normal
16 regulatory procedures allow cost recovery for these types of plant
17 additions after a determination of prudence and that the additions meet the
18 used and useful standard during a general rate case proceeding when all
19 of the various ratemaking elements are taken into consideration. RUCO
20 has consistently opposed the use of cost recovery mechanisms that do
21 not allow for the type of thorough analysis that takes place in a general
22 rate case proceeding.

23

1 **Q. Why is it important to consider all of the ratemaking elements when**
2 **setting new rates?**

3 A. Because the addition of new plant that replaces aging plant can have an
4 impact on operating expenses which are recovered by a utility on a dollar-
5 for-dollar basis in new rates. For example, new additions may be
6 responsible for lower purchased pumping power costs as a result of
7 improved system efficiency and lower employee wage expense as a result
8 of less time spent on repairing aging plant items after normal hours.
9 Under the Company-proposed DSIC, AWC would enjoy the benefit of
10 receiving a return on and a return of its investment in new plant through a
11 surcharge established between general rate case proceedings.
12 Unfortunately, ratepayers receive no benefit from any cost savings that
13 are related to the plant additions that they will be paying for through the
14 DSIC. Any cost savings resulting from new plant additions recovered
15 through the Company-proposed DSIC would be pocketed by AWC
16 between general rate case proceedings.

17
18 **Q. In regard to RUCO's third reason for rejecting the Company-**
19 **proposed DSIC, are there any federal or state regulations that require**
20 **the Commission to approve a mechanism that is similar to the**
21 **ACRM?**

22 A. No. Unlike the circumstances surrounding plant that was required for
23 reducing the level of arsenic in drinking water, there are no federal or state

1 requirements that warrant the implementation of a mechanism similar to
2 the Arsenic Cost Recovery Mechanism ("ACRM")² for the recovery of
3 aging plant between general rate cases. RUCO believes that adjustor
4 mechanisms are extraordinary rate recovery devices that are permitted for
5 certain narrow circumstances. In RUCO's view, the routine replacement
6 of aging infrastructure, that would be recovered through the Company-
7 proposed DSIC, does not qualify as an extraordinary circumstance that
8 requires a mechanism such as the ACRM which was specifically designed
9 to address a one-time event that impacted dozens of Arizona water
10 companies simultaneously. In this case, AWC cites excessive water loss,
11 which is something that the Company should keep in check as a matter of
12 routine cost management. The Company's failure to perform ordinary
13 maintenance is not a reason for the institution of a DSIC.

14
15 **Q. Please discuss RUCO's fourth reason for rejecting the DSIC.**

16 **A.** RUCO believes that AWC should replace aging infrastructure as part of
17 the Company's normal course of infrastructure improvements to ensure
18 continued safety and reliability. RUCO, however, does not find that a
19 DSIC surcharge is necessary for AWC to meet the Company's obligation
20 to provide safe and reliable water service. AWC does not contend that the
21 denial of a DSIC would change its ability to meet the Company's statutory

² The ACRM was adopted by the Commission in order to allow Arizona water providers to recover the costs associated with meeting more stringent arsenic level standards imposed by the federal government.

1 and regulatory commitments and AWC does not allege that it is financially
2 unable to make necessary and prudent infrastructure replacements
3 without the DSIC.

4
5 **Q. Does the National Association of State Consumer Advocates**
6 **(“NASUCA”) endorse mechanisms similar to the DSIC?**

7 A. No. NASUCA issued a resolution in 1999 (Attachment A) that opposes
8 the adoption and implementation of mechanisms such as the Company-
9 proposed DSIC. The resolution lists a number of sound reasons why
10 such mechanisms should be rejected by state utility commissions.

11
12 **Q. Can you cite any research that illuminates the deficiencies in the**
13 **Company-proposed DSIC surcharge?**

14 A. Yes. Ken Costello, a Principal with the National Regulatory Research
15 Institute (“NRRRI”), published a survey report on cost trackers (similar to the
16 Company-proposed DSIC) in September 2009. In his report, Mr. Costello
17 noted the following:

18 “Cost trackers can, in various ways, result in higher utility
19 costs. First, they undercut the positive effects of regulatory
20 lag on a utility’s costs. “Regulatory lag” refers to the time
21 gap between when a utility undergoes a change in cost or
22 sales levels and when the utility can reflect these changes in
23 new rates. Economic theory predicts that the longer the
24 regulatory lag, the more a utility has to control its costs;
25 when a utility incurs costs, the longer it has to wait to recover
26 those costs, the lower its earnings are in the interim. The
27 utility, consequently, would have an incentive to minimize
28 additional costs. Commissions rely on regulatory lag as an

1 important tool for motivating utilities to act efficiently. As
2 economist and regulator Alfred Kahn once remarked:

3
4 "Freezing rates for the period of the lag imposes
5 penalties for inefficiency, excessive conservatism,
6 and wrong guesses, and offers rewards to their
7 opposites; companies can for a time keep the
8 higher profits they reap from a superior
9 performance and have to suffer the losses for a
10 poor one."

11
12 Rational utility management, as a general rule, would exert
13 minimal effort in controlling costs if it has no effect on the
14 utility's profits. This condition occurs when a utility is able to
15 pass through (with little or no regulatory scrutiny) higher
16 costs to customers with minimal consequences for sales.
17 Cost containment constitutes a real cost to management.
18 Without any expected benefits, management would exert
19 minimum effort on cost containment. The difficult problem
20 for the regulator is to detect when management is lax.
21 Regulators should concern themselves with this problem; lax
22 management translates into a higher cost of service and, if
23 undetected, higher rates to the utilities customers.
24 Regulators should closely monitor and scrutinize costs, such
25 as those subject to cost trackers, that utilities have little
26 incentive to control."³
27

28 **Q. Can you cite other cases or testimony that supports RUCO's position**
29 **on this issue?**

30 A. Yes. In April of 2009, Sonny Popowsky, the Consumer Advocate for the
31 Commonwealth of Pennsylvania, offered testimony before the
32 Pennsylvania House Consumer Affairs Committee regarding a House Bill
33 that would have approved a mechanism similar to the Company-proposed
34 DSIC for natural gas utilities (Attachment B). In his testimony, to support
35 his argument against the adoption of the natural gas mechanism, Mr.

³ Costello, Ken, "How Should Regulators View Cost Trackers?" Washington, DC: National Regulatory Research Institute, Pages 4-5 [footnotes excluded]

1 Popowski quoted Commonwealth Court Judge Leavitt in her opinion on a
2 Collection System Improvement Charge, being sought by Pennsylvania-
3 American Water Company:

4 "The surcharge is quite different from a base rate. In
5 Pennsylvania, as in most jurisdictions, rates for public
6 utilities are set using what is known as the test year concept,
7 which requires taking a snapshot of the utility's revenues,
8 expenses and capital costs during a one-year period. The
9 object of using a test year is to reflect typical conditions. Test
10 year expenses may be adjusted or normalized where
11 atypical or non-recurring. Under the test year concept,
12 revenues, expenses and capital costs are to be
13 simultaneously reviewed for the same period of time so that
14 a utility may prove its new rates are "just and reasonable."
15

16 Mr. Popowski went on to state the following:

17 "Unlike a traditional base rate case, in which all costs and all
18 revenues are considered simultaneously, a DSIC is a one-
19 way street that can only increase rates between rate cases,
20 even if a utility's other costs are going down or its revenues
21 are going up. In setting utility rates, it is important to look at
22 all the utility's costs and revenues, not just a single utility
23 cost item that may be added between rate cases."
24

25 **Q. Has the Commission rejected such mechanisms in prior cases?**

26 A. Yes, in a prior Arizona-American Water Company rate case proceeding,
27 the Commission adopted the recommendations of ACC Staff and RUCO
28 and rejected a similar cost recovery mechanism identified as an
29 Infrastructure Improvement Surcharge ("IIS"). Decision No. 72047 stated
30 the following:

31 "The Company admits the surcharge would cover routine
32 investments in such items as meters, mains, hydrants, tanks
33 and booster stations, and while the Company proposed a cap
34 on the increase between rates, the Company has not

1 quantified the amount of the proposed surcharge. We agree
2 with RUCO and Staff that the recovery of expenditures for
3 plant additions and improvements does not warrant the
4 extraordinary ratemaking device of an adjuster mechanism,
5 and will therefore not grant the request for institution of an IIS.”
6

7 **Q. Do the customer bill impacts estimated by AWC justify the adoption**
8 **of the DSIC?**

9 **A.** No. While an argument could be made that the Company-proposed DSIC
10 would result in gradual rate increases that would be more palatable to
11 both ACC Commissioners and to ratepayers, if the Commission were to
12 adopt the Company-proposed DSIC, ratepayers could be looking at two
13 rate increases per year every year between general rate cases. Municipal
14 systems don't even impose such frequent rate hikes on their water and
15 wastewater customers. This steady stream of rate increases is certainly a
16 departure from the Commission's prior preference for rate stability
17 between general rate cases. While it is possible that the adoption of the
18 Company-proposed DSIC may mitigate rate shock in future general rate
19 cases, the Commission would have to weigh this with the fact that this
20 steady stream of rate increases will benefit the Company more than AWC
21 ratepayers given the fact that the surcharge amounts will not reflect any
22 dollar-for-dollar cost reductions in operating expenses that are associated
23 with the new plant.

24
25 Because ACC Staff, and intervenors, such as RUCO, will not have the
26 opportunity to look closely at the plant additions being placed into service

1 between rate cases, the possibility exists that imprudent expenditures
2 would not be discovered until a general rate case proceeding. By then
3 ratepayers could have been overcharged for imprudent plant expenditures
4 for a number of years. Furthermore, ratepayers who leave the affected
5 systems will not even see any savings from new rates, established in a
6 general rate case proceeding, that reflect lower operating costs or the
7 disallowance of imprudent plant expenditures. For the reasons that I've
8 given above, I believe that the Commission should reject the Company-
9 proposed DSIC.

10
11 **Q. Is there any way to mitigate the problems with the DSIC that you**
12 **discussed above?**

13 **A.** Possibly. In July 2011, David D. Dismukes, Ph.D. (who recently testified
14 for ACC Staff in the recent Southwest Gas Corporation rate case
15 proceeding), filed testimony⁴ on a surcharge mechanism similar to the
16 Company-proposed DSIC in a proceeding before the Maryland Public
17 Service Commission. As an alternative to an accelerated natural gas pipe
18 replacement plan that was being proposed in that proceeding by WGL
19 Holdings, Inc., Mr. Dismukes recommended an Operations & Maintenance
20 ("O&M") expense offset that would apply a specified dollar credit to every
21 mile of replaced pipe. A similar credit could be applied to every foot of
22 replacement line that AWC would recover through the Company-proposed

⁴ Dismukes, David E., Ph.D., Direct Testimony on Behalf of the Maryland Office of People's Counsel, Case no. 9267, filed July 27, 2011

1 DSIC. Mr. Dismukes recommendation makes good sense from the
2 standpoint that O&M expense would drop as aging infrastructure is
3 replaced. In this case, an O&M credit would have the effect of lowering
4 the increased pro-forma level of O&M expense that it is being proposed by
5 AWC in this case which would be embedded in base rates. The adoption
6 of an O&M credit, that would be applied to customer bills at the same time
7 that potential DSIC surcharges go into effect, would produce fairer rates in
8 RUCO's view.

9
10 **Q. Did the Maryland Public Service Commission approve the surcharge**
11 **portion of the plan being proposed by WGL Holdings, Inc.?**

12 A. No. In its final decision⁵ on the matter, the Maryland Public Service
13 Commission stated that "although the Commission does agree with WGL
14 [Holdings, Inc.] that "safe and reliable infrastructure is its highest priority,"
15 it maintains that 'infrastructure investments do not justify a surcharge' to
16 be imposed on customers. The Maryland Commission authorized WGL
17 Holdings, Inc. to implement the initial phase of its proposed accelerated
18 natural gas pipe replacement plan but stated that it would address cost
19 recovery in appropriate future rate cases.

20
21 ...
22

⁵ Maryland Public Service Commission Order No. 84475 issued on November 14, 2011

1 **Q. Has RUCO made any downward adjustment to the Company-**
2 **proposed increase in O&M expense?**

3 A. Despite concerns that RUCO has with AWC's proposed increase in O&M
4 expense, RUCO has not made any adjustment. But if the Commission
5 were to adopt the Company-proposed DSIC with no type of O&M credit,
6 RUCO believes that a downward adjustment should be made.

7

8 **ARSENIC COST RECOVERY MECHNISM**

9 **Q. Is AWC requesting a continuance of the ACRM for the Company's**
10 **Eastern Group?**

11 A. Yes.

12

13 **Q. Does RUCO oppose AWC's request for a continuance of the ACRM**
14 **for the Company's Eastern Group?**

15 A. No. RUCO recommends that the Commission adopt AWC's request for a
16 continuance of the Eastern Group's ACRM for the reasons that I
17 previously stated.

18

19 **FALCON VALLEY CONSOLIDATION**

20 **Q. Is AWC proposing consolidation of the San Manuel, Oracle and**
21 **SaddleBrooke Ranch operating systems into a Company-proposed**
22 **Falcon Valley System in this proceeding?**

23 A. Yes.

1 **Q. Does RUCO support the proposed consolidation?**

2 A. Yes. RUCO recommends that the Commission adopt the Company's
3 request to consolidate the San Manuel, Oracle and SaddleBrooke Ranch
4 operating systems into the Company-proposed Falcon Valley System.

5

6 **Q. Why is RUCO recommending that the Commission adopt the**
7 **Company-proposed consolidation?**

8 A. RUCO analyzed the rate impact on each of the three AWC operating
9 systems, which are in close proximity to each other, and concluded that
10 the Company-proposed consolidation will not result in any economic harm
11 to ratepayers served by those operating systems. Furthermore, as
12 discussed in the rate design testimony of RUCO witness Robert A. Mease,
13 all of these systems are located very close to one another. The Oracle and
14 SaddleBrooke Ranch systems are physically interconnected. Finally, all of
15 these systems share utility management, employees and customer
16 service.

17

18 **Q. Is RUCO's position on this issue consistent with its prior positions**
19 **on rate consolidation?**

20 A. Yes. RUCO has looked at rate consolidation on a case by case basis in
21 the past. Furthermore, RUCO has consistently taken the position that the
22 Commission should set rates on a cost of service basis in order to avoid
23 cross-subsidization. RUCO believes that the Commission should approve

1 rate consolidation only if there are public policy reasons that outweigh
2 adherence to traditional cost of service principles.

3
4 In a recent case involving deconsolidation of Arizona-American Water
5 Company's Anthem/Agua Fria Wastewater District, RUCO did not oppose
6 the deconsolidation of the Anthem/Agua Fria Wastewater District noting
7 that ratepayers were paying rates that reflected the costs of operating two
8 separate wastewater systems that were not interconnected and provided
9 service to customers living in two different communities that were miles
10 apart from one another. In that case, RUCO also believed that Anthem
11 ratepayers were heavily subsidizing Agua Fria customers under the
12 existing consolidated arrangement. RUCO argued in that case that had
13 the two districts not been consolidated, the rates for the two separate
14 districts would have more closely reflected the actual cost of service and
15 ratepayers would have had a much better idea of what they could expect
16 to pay for wastewater services when they bought homes or relocated in
17 their respective service areas.

18
19 In this particular case, the three operating systems are close enough for
20 interconnection to be practical, and there is no evidence that consolidation
21 would result in rates being set artificially low. RUCO believes that the
22 Company's request in this case, bears similarities to a request in a 2009

1 Liberty Water rate⁶ case in which RUCO supported, and the Commission
2 approved the consolidation of three stand-alone operating subsidiaries.⁷
3

4 **Q. Please provide a comparison that shows what RUCO's proposed**
5 **rates would be for San Manuel, Oracle and SaddleBrooke Ranch**
6 **customers on both a stand-alone and consolidated basis.**

7 **A.** The schedules below provide a comparison of what a typical monthly bill
8 for a 5/8 x 3/4-inch meter customer would experience under RUCO's
9 recommended rates on both a stand-alone and consolidated basis:
10

11 **Stand-Alone Basis:**

12 System	13 Current Rates	14 RUCO Recommended Rates	15 Difference (\$)	16 Difference (%)
17 Oracle	18 \$43.05	19 \$44.69	20 \$1.64	21 3.81%
22 San Manuel	23 \$43.61	24 \$58.44	25 \$14.83	26 34.01%
27 SaddleBrooke Ranch	28 \$28.96	29 \$51.17	30 \$22.21	31 76.69%

32 **Consolidated Basis:**

33 System	Current Rates	RUCO Recommended Rates	Difference (\$)	Difference (%)
Oracle	\$43.05	\$47.36	\$4.31	10.01%
San Manuel	\$43.61	\$58.70	\$15.09	34.60%
SaddleBrooke Ranch	\$28.96	\$37.51	\$8.55	29.52%

⁶ Docket Number: W-02465A-09-0411 et al., Decision No. 72251, dated April 7, 2011

⁷ Bella Vista Water Company, Inc., Northern Sunrise Water Company, Inc., and Southern Sunrise Water Company, Inc.

1 As can be seen above, the difference between a typical monthly bill under
2 RUCO's recommended rates on a consolidated basis as opposed to a
3 stand-alone basis would be \$2.67 per month higher for an Oracle
4 ratepayer, \$0.26 per month higher for a San Manuel ratepayer and \$13.66
5 per month lower for a SaddleBrooke Ranch ratepayer.⁸

6
7 **Q. Does RUCO's consolidated rate design reflect the cost of service to**
8 **San Manuel, Oracle and Saddlebrooke Ranch customers?**

9 A. Yes. RUCO's rate design generates rates that will produce the level of
10 revenue needed to cover AWC's cost of service for the San Manuel,
11 Oracle and Saddlebrooke Ranch operating systems on a consolidated
12 basis.

13
14 **DECLINING USAGE RATE DESIGN**

15 **Q. Have you reviewed the testimony of Company witness Joel M. Reiker**
16 **on declining usage?**

17 A. Yes.

18
19 **Q. Briefly summarize Mr. Reiker's testimony on declining usage.**

20 A. Mr. Reiker makes the argument that AWC's Eastern Group is
21 experiencing declining usage attributable to the Commission's policy of
22 requiring three-tier increasing block rate designs.

⁸ Typical monthly bills are based on an average monthly consumption of 5,140 gallons for Oracle, 7,139 gallons for San Manuel and 3,405 gallons for SaddleBrooke Ranch.

1 **Q. What is the Company proposing to mitigate declining usage which**
2 **the Company attributes to the Commission's policy of requiring**
3 **three-tier increasing block rate designs?**

4 A. The Company is proposing that it recover a higher percentage, than what
5 is indicated in a cost of service study, of the Eastern Group's overall
6 revenue requirement through the fixed basic service charge and that it
7 collect forecasted shortfalls of revenue through a rate design in which the
8 rates are calculated with usage-adjusted billing determinants.

9
10 **Q. What is RUCO's position on AWC's rate design method that relies on**
11 **usage-adjusted billing determinants?**

12 A. RUCO is not convinced that the level of declining usage per customer will
13 continue into the future and that the declining usage results from
14 conservation efforts. Nor is RUCO convinced that any projected or
15 forecasted declining usage will result in AWC's inability to earn its
16 authorized return from such customers. The potential for ongoing
17 conservation will be mitigated and usage levels stabilized over time; thus,
18 minimizing the declining usage that impacts the Company's revenues.

19

20

21

22 ...

23

1 **Q. Has RUCO adopted the Company-proposed rate design method for**
2 **dealing with declining usage?**

3 A. No. RUCO does not believe it is appropriate to embed in today's rates an
4 adjustment designed to recover forecasted lost revenue based on the
5 possibility that residential usage will decline in the future.

6
7 **Q. Does RUCO have an alternative recommendation for a declining**
8 **usage adjustment?**

9 A. Yes. RUCO would analyze additional evidence, if timely submitted by the
10 Company, which demonstrates known and measurable residential
11 declining use subsequent to the test year and make a recommendation on
12 the issue. This is the same position that RUCO is taking in an Arizona-
13 American Water Company rate case that is now before the Commission.

14

15 **OFF SITE FACILITIES FEE**

16 **Q. What is RUCO position on AWC's request for an Off-Site Facilities**
17 **Fee that delays recognition of contributions-in-aid-of-construction**
18 **("CIAC") until plant funded by hook-up fees is placed into service?**

19 A. RUCO neither agrees with nor disagrees with AWC's off-site facilities fee
20 tariff that delays the recognition of CIAC as a deduction to rate base until
21 the plant funded by hook-up fees is placed into service. However, RUCO
22 continues to stand by its position, which RUCO has taken in other rate

1 case proceedings, that delaying the recognition of CIAC as a deduction to
2 rate base is not in the best interest of ratepayers for a number of reasons.

3

4 **Q. Does your silence on any of the issues, matters or findings**
5 **addressed in the testimony of the Company's witnesses constitute**
6 **your acceptance of their positions on such issues, matters or**
7 **findings?**

8 **A. No, it does not.**

9

10 **Q. Does this conclude your direct testimony on AWC's Eastern Group**
11 **rate case filing?**

12 **A. Yes, it does.**

ATTACHMENT A

[Home](#) > [Resolutions](#) > Water Company Infrastructure Costs

National Association of State Utility Consumer Advocates

R E S O L U T I O N

Discouraging State Regulatory Commissions from Adopting Automatic Adjustment Charges for Water Company Infrastructure Costs

WHEREAS, certain regulated water companies have recently proposed mechanisms for automatically increasing water rates, prior to regulatory review, based upon isolated items of expense related to infrastructure projects; and WHEREAS, the National Association of State Utility Consumer Advocates (NASUCA) believes that public interest is still best served by rate of return regulation of investor-owned water companies and that such automatic adjustment mechanisms contradict several sound rate of return ratemaking principles, including the matching principle, because increases to items of rate base are recognized far outside of the test year from which all other rate base, as well as revenues, expenses, and cost of capital items that are used when calculating rates, allowing 'piecemeal ratemaking' and preventing the recognition of any simultaneous offsetting reductions in other items; and

WHEREAS, automatic adjustment mechanisms also circumvent regulatory review of increases to rate base for prudence and reasonableness; and

WHEREAS, automatic adjustment mechanisms further create bad public policy by eliminating the built-in regulatory incentive to control costs between rate cases and, generates incentives to increase spending in order to avoid reduction of the surcharge which occurs if the water company's authorized return is reached; and

WHEREAS, when an automatic adjustment clause is adopted, rate stability is reduced and proper price signals are distorted by frequent rate increases, and no convincing evidence has been shown to support the claim that the frequency of rate case proceedings is reduced by such clauses; and

WHEREAS, special incentives are not needed in order ensure adequate water quality, pressure, and a proper reduction of service interruptions; and

WHEREAS, automatic adjustment mechanisms can inappropriately reward water companies that have imprudently fallen behind in infrastructure improvements; and

WHEREAS, it is inappropriate to tilt the regulatory balance against consumers and shift business risk away from water companies simply for the purpose of creating an incentive for these companies to fulfill their basic obligation to provide safe and adequate service;

THEREFORE, BE IT RESOLVED, that NASUCA strongly recommends state legislatures and state public utility commissions avoid the implementation of automatic adjustments charges for water company infrastructure costs; and

BE IT FURTHER RESOLVED, that NASUCA authorizes its Executive Committee to develop specific positions and to take appropriate actions consistent with the terms of this resolution. The Executive Committee shall notify the membership of any action taken pursuant to this resolution.

Approved by NASUCA:

June, 1999, Baltimore, Maryland

Submitted By:

NASUCA Ad Hoc Water Committee

Christine Maloni Hoover, PA, Chair
Wes Blakley, IN

Robert Brabston, NJ

John Coffman, MO

Brian Gallagher, DE

Donald Rogers, MD

Dale Stransky, NV

James Warden, Jr., NY



ATTACHMENT B

**BEFORE THE PENNSYLVANIA
HOUSE CONSUMER AFFAIRS COMMITTEE**

Testimony of

**SONNY POPOWSKY
CONSUMER ADVOCATE**

Regarding

**House Bill 744
Natural Gas Distribution System Improvement Charge**

**Harrisburg, PA
April 23, 2009**

**Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923
(717) 783-5048 - Office
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Email: spopowsky@paoca.org
111172**

**Chairman Preston, Chairman Godshall
and Members of the House Consumer Affairs Committee**

My name is Sonny Popowsky. I have served as the Consumer Advocate of Pennsylvania since 1990, and I have worked at the Office of Consumer Advocate since 1979. Thank you for this opportunity to present testimony to this Committee regarding House Bill 744, which would allow natural gas utilities in Pennsylvania to increase their rates automatically to reflect the capital costs of distribution plant that is added to service between base rate cases. As currently drafted, House Bill 744 would allow automatic increases in rates to reflect the value of new plant additions, but would not reflect reductions in the value of existing distribution plant resulting from depreciation and retirements during the same period. As such, the proposed distribution system improvement charge (DSIC) contained in HB 744 is one-sided and unfair to consumers. In addition, HB 744 contains no limit on the overall level of rate increases that can be obtained by natural gas utilities through these automatic adjustment clauses, which means that rates can be increased indefinitely without a Commission review of the utility's overall base rates. If the General Assembly chooses to proceed with HB 744, then I would respectfully submit that the legislation must be amended in order to correct these flaws.

As you know, the model used to support the proposed natural gas distribution system improvement charge is found in a Public Utility Code provision that was added for water companies in 1996 to allow water utilities to increase rates between base rate cases in order to cover the costs of new distribution improvements. At that time, many water utilities were filing base rate cases almost annually to cover the cost of new infrastructure required to meet state and federal safe drinking water laws.

In contrast, until 2008, several of our major natural gas utilities had not filed base rate cases in decades. Prior to 2008, the last base rate increase for PECO Gas was in 1988, twenty years earlier. The last base rate case filed by Columbia before 2008 was in 1995 and the last Equitable case prior to 2008 was in 1997. To this day, UGI and Dominion (Peoples) have not filed a base rate case since 1995. I am not aware of any evidence that these utilities have been unable to maintain safe natural gas service and make necessary infrastructure improvements during those many years in which their base rates remained unchanged. When Pennsylvania natural gas utilities have been able to provide service to customers without increasing their base rates for 10, 15 or 20 years, why would we pass a law that allows them to raise those rates automatically every three months?

This is not a hypothetical question. In November 2007, PECO Gas issued a press release announcing that it had just completed \$12.3 million in upgrades to its suburban Philadelphia natural gas facilities, including the replacement of 58,000 feet of cast iron and bare steel mains. And, PECO Gas did all this without raising its base rates and without a DSIC. In the press release announcing the system improvements that PECO issued on November 6, 2007, the Company stated:

During the past 20 years, PECO has made significant upgrades to its natural gas delivery system and expanded capacity, serving about 7,000 new customers each year – all without an increase in the company's delivery and service charges since 1988. By saving customers money through the use of new technologies, increasing sales, operational mergers and other efficiencies PECO charges remain among the lowest in Pennsylvania.

That is how ratemaking is supposed to work. Between base rate cases, a utility makes needed investments that increase costs, but the utility may also add customers who provide more

revenues, or it may operate more efficiently to reduce costs in other areas. Most importantly, the level of investment in its existing infrastructure goes down in value due to depreciation and retirements. In a base rate case, both the increases and decreases are taken into account.

In a base rate case, all of the utility's costs and revenues are looked at together in order to determine whether the company needs to increase its base rates. In contrast, a distribution system improvement charge simply takes out of context one cost element – the cost of new pipes – and raises the utility's overall rates to reflect that additional cost, without considering any offsetting changes.

It is true that improvements to our natural gas infrastructure cost money, and utilities that make prudent investments that are used to serve the public are permitted an opportunity to recover a return of and earn a fair return on those investments. That does not mean, however, that we need to remove the protections of the Public Utility Code in order to make it easier for utilities to increase their rates between rate cases, without hearings and without any meaningful ability for customers to oppose such increases.

Traditionally, utilities in Pennsylvania and across the Nation have recovered the cost of infrastructure improvements through base rate cases, in which all of the utilities' investments, expenses, and revenues are examined at the same point in time. As I mentioned earlier, in 1996, the General Assembly created an exception to this process for water utilities at a time when water companies contended that they were subject to very substantial new infrastructure requirements. The investments recovered through these surcharges, which are permitted to increase every three months, are subject to Commission audit to ensure that they are correctly calculated and accounted for, but they are not reviewed by the Commission to determine whether the investments are needed or are prudently incurred before their costs are

placed in rates. That is why these provisions are called “automatic adjustment” clauses in both the existing Section 1307 of the Public Utility Code and in the proposed House Bill 744.

Initially, the DSIC surcharges for water utilities were limited by the PUC to no more than 5% of the utility’s revenues, but in 2007, the Commission approved – over the objection of my Office, the Office of Small Business Advocate, the Office of Trial Staff, and the Company’s large industrial customers -- an increase in the DSIC surcharge of Pennsylvania American Water Company (PAWC) from 5% to 7.5%. Indeed, it appears from the Commission’s Order in that case, that the Commission believes it has the discretion to allow the surcharge to increase to 10% or even higher if it chooses to do so.

As you may be aware, PAWC also sought to implement a surcharge for its wastewater (sewer) division called a Collection System Improvement Charge (or CSIC). The PUC approved that surcharge and my Office successfully appealed on the ground that the automatic capital recovery surcharges permitted under the Public Utility Code are limited to water utilities. The Commonwealth Court agreed with my Office that the CSIC was not permitted under the Public Utility Code, but the Court also discussed the policy objections to a clause that allows a utility to recover capital expenditures through an automatic surcharge mechanism. As stated by Judge Leavitt in her Opinion for the Commonwealth Court:

Utility’s Wastewater Charge will entail regulatory oversight that amounts to no more than a mathematical exercise. The after-the-fact audit will require Utility to show only that it did, in actuality, spend the funds for the intended purpose and not, for example, that a new pumping station was needed and was operating effectively.....

.... the “cursory” review undertaken for a surcharge is not a substitute for the review undertaken in a base rate case to determine whether a rate is just and reasonable.

Popowsky v. PA PUC, 869 A.2d 1144, 1156 (Comm. Ct. 2005).

More important than the lack of prior substantive Commission review, in my opinion, is the fact that a surcharge for capital expenditures is contrary to the general concept of just and reasonable rates because it allows recovery of a single cost increase, while ignoring all of the other changes, both positive and negative, that occur between base rate cases. Again, to quote from Judge Leavitt's opinion for the Commonwealth Court in the PAWC CSIC case:

The surcharge is quite different from a base rate. In Pennsylvania, as in most jurisdictions, rates for public utilities are set using what is known as the test year concept, which requires taking a snapshot of the utility's revenues, expenses and capital costs during a one-year period. The object of using a test year is to reflect typical conditions. Test year expenses may be adjusted or normalized where atypical or non-recurring. Under the test year concept, revenues, expenses and capital costs are to be simultaneously reviewed for the same period of time so that a utility may prove its new rates are "just and reasonable."

869 A.2d at 1152.

Unlike a traditional base rate case, in which all costs and all revenues are considered simultaneously, a DSIC is a one-way street that can only increase rates between rate cases, even if a utility's other costs are going down or its revenues are going up. In setting utility rates, it is important to look at all the utility's costs and revenues, not just a single utility cost item that may be added between rate cases.

While I strongly oppose the enactment of a DSIC, I would respectfully urge the General Assembly to consider a number of amendments to House Bill 744 in the event that the General Assembly chooses to go forward with this legislation.

First, I would suggest that the DSIC should only reflect the net increase in distribution plant between rate cases; that is, the cost of new capital additions in the relevant

categories, minus the depreciation and retirements from the same categories of plant during the same time period. In that way, if a natural gas utility is truly making substantial new capital additions that exceed the normal reductions in plant value that occur between rate cases, then the company can charge the customers a positive DSIC. Second, there should be a percentage cap on the total level of DSIC rate increases, and that cap should be based on the utility's distribution revenues, not on total revenues, which include highly volatile natural gas commodity costs that are not related in any way to the distribution system improvements. I would suggest that the cap be set at 5%, which is where the PUC initially set the cap for the water DSIC's, but which the Commission subsequently allowed Pennsylvania American Water Company to increase to 7.5%. Third, I would propose that any natural gas DSIC be preceded by a full base rate case in which the company's total costs and revenues would be examined by the PUC before any automatic increases are permitted. In that way, a utility that has not filed a base rate case in 15 years could not simply walk in to the Commission and start increasing its rates every three months without any prior examination of whether its current rates are just and reasonable.

In order to assist the members of this Committee I have attached three amendments to this testimony that I believe would address these issues. As always, I would be pleased to work with the members and staff of this Committee to develop legislation that I hope would best serve Pennsylvania's utility consumers.

Thank you again for permitting me to testify at this hearing. I would be happy to answer any questions you may have at this time.

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AMENDMENTS TO HOUSE BILL NO. 744

Printer's No. 830

Amend Section 2, page 2, line 25, by inserting after "of"

the net change in

Amend Section 2, page 2, line 30, by inserting after "proceedings"

, minus any decreases in net distribution plant resulting from depreciation and retirements of the same categories of existing distribution plant during the same period.

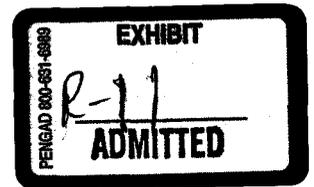
Amend Section 2, page 3, by inserting between lines 4 and 5

(3) The revenue collected in any year pursuant to an automatic rate adjustment mechanism established pursuant to this subsection shall not exceed five percent of the amount a natural gas distribution company billed its customers for distribution service in the previous calendar year.

Amend Section 2, page 3, line 4, by inserting after "mechanism"

The commission shall include as part of that regulation or order a requirement that a natural gas distribution company shall not initially establish an automatic rate adjustment mechanism pursuant to this subsection unless the commission has established the natural gas distribution company's rates in a general rate case as set out in section 1308(d) (relating to voluntary changes in rates), filed after the effective date of this subsection.

111172



ARIZONA WATER COMPANY
DOCKET NO. W-01445A-11-0310

DIRECT TESTIMONY
OF
WILLIAM A. RIGSBY
ON
COST OF CAPITAL

ON BEHALF OF
THE
RESIDENTIAL UTILITY CONSUMER OFFICE

MARCH 13, 2012

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EXECUTIVE SUMMARY

Based on the Residential Utility Consumer Office's ("RUCO") analysis of Arizona Water Company's amended application for a permanent rate increase, filed with the Arizona Corporation Commission ("ACC" or "Commission") on August 5, 2011, RUCO recommends the following:

Cost of Equity – RUCO recommends that the Commission adopt a 9.30 percent cost of equity. This 9.30 percent figure falls just under the high side of the range of results obtained in RUCO's cost of equity analysis, and is 320 basis points lower than the 12.50 percent cost of equity capital proposed by Arizona Water Company in its application for a permanent rate increase.

Cost of Debt – RUCO recommends that the Commission adopt Arizona Water Company's proposed 6.82 percent cost of Long-term debt.

Capital Structure – RUCO recommends that the Commission adopt Arizona Water Company's proposed capital structure comprised of 50.97 percent equity and 49.03 percent long-term debt.

Weighted Average Cost of Capital – RUCO recommends that the Commission adopt RUCO's recommended 8.08 percent weighted average cost of capital ("WACC") which is the weighted cost of RUCO's recommended costs of common equity and long-term debt, and is 164 basis points lower than the 9.72 percent WACC being proposed by Arizona Water Company.

RUCO disagrees with a number of inputs that Arizona Water Company's cost of capital consultant relied on in both the discounted cash flow ("DCF") model and the capital asset pricing model ("CAPM") which was used to develop a proposed cost of common equity estimate of 12.50 percent. This includes his reliance on earnings per share forecasts only as opposed to also taking estimates of future growth in dividends and book value per share into consideration for the growth component of the DCF model; his use of long-term treasury instruments as the input for the risk-free rate of return component in the CAPM model which also relies on outdated higher beta coefficients and a market risk premium that was calculated on a narrower range of observed data from 1984 through 2010 as opposed to the broader range that RUCO relied on which included total returns over the period between 1926 and 2010. Finally, RUCO disagrees with the 90 basis point risk premium adjustment that is part of Arizona Water Company's proposed 12.50 percent cost of equity capital.

1 **INTRODUCTION**

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

3 A. My Name is William A. Rigsby. I am the Chief of Accounting and Rates
4 for the Residential Utility Consumer Office ("RUCO") located at 1110 W.
5 Washington, Suite 220, Phoenix, Arizona 85007.

6
7 **Q. Please describe your qualifications in the field of utilities regulation
8 and your educational background.**

9 A. I have been involved with utilities regulation in Arizona since 1994. During
10 that period of time I have worked as a utilities rate analyst for both the
11 Arizona Corporation Commission ("ACC" or "Commission") and for RUCO.
12 I hold a Bachelor of Science degree in the field of finance from Arizona
13 State University and a Master of Business Administration degree, with an
14 emphasis in accounting, from the University of Phoenix. I have been
15 awarded the professional designation, Certified Rate of Return Analyst
16 ("CRRRA") by the Society of Utility and Regulatory Financial Analysts
17 ("SURFA"). The CRRRA designation is awarded based upon experience
18 and the successful completion of a written examination. Appendix I, which
19 is attached to my direct testimony further describes my educational
20 background and also includes a list of the rate cases and regulatory
21 matters that I have been involved with.

22

23

1 **Q. What is the purpose of your testimony?**

2 A. The purpose of my testimony is to present recommendations that are
3 based on my analysis of Arizona Water Company's ("AWC" or "Company")
4 application for a permanent rate increase ("Application") for the
5 Company's Eastern Group water systems that was filed with the Arizona
6 Corporation Commission on August 5, 2011. AWC has chosen the
7 operating period ended December 31, 2010 for the test year ("Test Year")
8 in this proceeding. The Company has elected not to conduct a
9 reconstruction cost new less depreciation study ("RCND") for the purpose
10 of establishing a fair value rate base, and to use its original cost rate base
11 as its fair value rate base for the purpose of establishing a fair value rate
12 of return on its invested capital.

13
14 **Q. Briefly describe AWC and the Company's Eastern Group.**

15 A. AWC is a closely held public service company that provides water service
16 to a number of communities in Arizona through three separate
17 geographical operating groups. The Company's Eastern Group is
18 presently comprised of one fully consolidated system, one consolidated
19 system that is in the process of being phased-in, and four stand-alone
20 systems. AWC's fully consolidated system is the Superstition System,
21 which provides service to Apache Junction, Superior and Miami. The
22 Company's Cochise system is currently being phased-in and serves
23 Bisbee and Sierra Vista. The stand-alone systems in the Eastern Group

1 include San Manuel, Oracle, SaddleBrooke Ranch and Winkleman. In this
2 rate case proceeding AWC is requesting that San Manuel, Oracle and
3 SaddleBrooke Ranch be consolidated into a Company-proposed Falcon
4 Valley System.

5
6 **Q. Is this your first case involving AWC?**

7 A. No. I have been involved with a number of AWC proceedings dating back
8 to 2001.

9
10 **Q. What areas will you address in your direct testimony?**

11 A. I will address the cost of capital issues associated with the case.
12

13 **Q. Will RUCO also offer direct testimony on the rate base, operating
14 income and rate design issues in this proceeding?**

15 A. Yes. The rate base and operating income issues associated with the case
16 will be addressed by RUCO witness Timothy J. Coley. RUCO witness
17 Rodney L. Moore will sponsor RUCO's rate design
18

19 **Q. Please explain your role in RUCO's analysis of AWC's Application.**

20 A. I reviewed AWC's Application and performed a cost of capital analysis to
21 determine a fair rate of return on the Company's invested capital. In
22 addition to my recommended capital structure, my direct testimony will
23 present my recommended cost of common equity (the Company has no

1 preferred stock) and my recommended cost long-term debt. The
2 recommendations contained in this testimony are based on information
3 obtained from Company responses to data requests, AWC's Application,
4 and from market-based research that I conducted during my analysis.

5
6 **Q. Please identify the exhibits that you are sponsoring.**

7 A. I am sponsoring Exhibit 1, Attachments A through D and Schedules WAR-
8 1 through WAR-9.

9
10 **SUMMARY OF TESTIMONY AND RECOMMENDATIONS**

11 **Q. Briefly summarize how your cost of capital testimony is organized.**

12 A. My cost of capital testimony is organized into seven sections. First, the
13 introduction I have just presented and second, a summary of my testimony
14 and recommendations that I am about to give. Third, I will present the
15 findings of my cost of equity capital analysis, which utilized both the
16 discounted cash flow ("DCF") method, and the capital asset pricing model
17 ("CAPM"). These are the two methods that RUCO and ACC Staff have
18 consistently used for calculating the cost of equity capital in rate case
19 proceedings in the past, and are the methodologies that the ACC has
20 given the most weight to in setting allowed rates of return for utilities that
21 operate in the Arizona jurisdiction. In this third section I will also provide a
22 brief overview of the current economic climate within which the Company
23 is operating. Fourth, I will discuss my recommended cost of long-term

1 debt for AWC. The fifth section of my direct testimony is devoted to a
2 discussion of my recommended capital structure for the Company. Sixth I
3 will discuss my recommended weighted average cost of capital. In the
4 Seventh and final section, I will comment on the Company's cost of capital
5 testimony. Exhibit 1, Attachments A through D and Schedules WAR-1
6 through WAR-9 will provide support for my cost of capital analysis.

7
8 **Q. Please summarize the recommendations and adjustments that you**
9 **will address in your testimony.**

10 **A.** Based on the results of my analysis, I am making the following
11 recommendations:

12
13 **Cost of Equity** – I am recommending that the Commission adopt a 9.30
14 percent cost of equity. This 9.30 percent figure falls just below the high
15 side of the range of results obtained in my cost of equity analysis, and is
16 320 basis points lower than the 12.50 percent cost of equity capital
17 proposed by AWC in its application for a permanent rate increase.

18
19 **Cost of Debt** – I am recommending that the Commission adopt the
20 Company-proposed 6.82 percent cost of Long-term debt.

21

1 **Capital Structure** – I am recommending that the Commission adopt the
2 Company-proposed capital structure comprised of 50.97 percent equity
3 and 49.03 percent long-term debt.

4
5 **Weighted Average Cost of Capital** – I am recommending that the
6 Commission adopt my recommended 8.08 percent weighted average cost
7 of capital (“WACC”) which is the weighted cost of my recommended costs
8 of common equity and long-term debt, and is 164 basis points lower than
9 the 9.72 percent WACC being proposed by Arizona Water Company.

10
11 **Q. Why do you believe that your recommended 8.08 percent WACC is**
12 **an appropriate rate of return for the Company to earn on its invested**
13 **capital?**

14 **A.** The 8.08 percent WACC figure that I am recommending meets the criteria
15 established in the landmark Supreme Court cases of Bluefield Water
16 Works & Improvement Co. v. Public Service Commission of West Virginia
17 (262 U.S. 679, 1923) and Federal Power Commission v. Hope Natural
18 Gas Company (320 U.S. 391, 1944). Simply stated, these two cases
19 affirmed that a public utility that is efficiently and economically managed is
20 entitled to a return on investment that instills confidence in its financial
21 soundness, allows the utility to attract capital, and also allows the utility to
22 perform its duty to provide service to ratepayers. The rate of return

1 adopted for the utility should also be comparable to a return that investors
2 would expect to receive from investments with similar risk.

3
4 The Hope decision allows for the rate of return to cover both the operating
5 expenses and the "capital costs of the business" which includes interest
6 on debt and dividend payment to shareholders. This is predicated on the
7 belief that, in the long run, a company that cannot meet its debt obligations
8 and provide its shareholders with an adequate rate of return will not
9 continue to supply adequate public utility service to ratepayers.

10
11 **Q. Do the Bluefield and Hope decisions indicate that a rate of return**
12 **sufficient to cover all operating and capital costs is guaranteed?**

13 **A.** No. Neither case *guarantees* a rate of return on utility investment. What
14 the Bluefield and Hope decisions *do allow*, is for a utility to be provided
15 with the *opportunity* to earn a reasonable rate of return on its investment.
16 That is to say that a utility, such as AWC, is provided with the opportunity
17 to earn an appropriate rate of return if the Company's management
18 exercises good judgment and manages its assets and resources in a
19 manner that is both prudent and economically efficient.

1 **COST OF EQUITY CAPITAL**

2 **Q. What is your final recommended cost of equity capital for AWC?**

3 A. I am recommending a cost of equity of 9.30 percent. My recommended
4 9.30 percent cost of equity figure falls just below the high side of the range
5 of results derived from my DCF and CAPM analyses, which utilized a
6 sample of publicly traded water providers and a sample of natural gas
7 local distribution companies ("LDCs"). The results of my DCF and CAPM
8 analyses are summarized on page 3 of my Schedule WAR-1.

9

10 **Discounted Cash Flow (DCF) Method**

11 **Q. Please explain the DCF method that you used to estimate the**
12 **Company's cost of equity capital.**

13 A. The DCF method employs a stock valuation model known as the constant
14 growth valuation model, that bears the name of Dr. Myron J. Gordon (i.e.
15 the Gordon model), the professor of finance who was responsible for its
16 development. Simply stated, the DCF model is based on the premise that
17 the current price of a given share of common stock is determined by the
18 present value of all of the future cash flows that will be generated by that
19 share of common stock. The rate that is used to discount these cash
20 flows back to their present value is often referred to as the investor's cost
21 of capital (i.e. the cost at which an investor is willing to forego other
22 investments in favor of the one that he or she has chosen).

23

1 Another way of looking at the investor's cost of capital is to consider it from
2 the standpoint of a company that is offering its shares of stock to the
3 investing public. In order to raise capital, through the sale of common
4 stock, a company must provide a required rate of return on its stock that
5 will attract investors to commit funds to that particular investment. In this
6 respect, the terms "cost of capital" and "investor's required return" are one
7 in the same. For common stock, this *required return* is a function of the
8 dividend that is paid on the stock. The investor's required rate of return
9 can be expressed as the percentage of the dividend that is paid on the
10 stock (dividend yield) plus an expected rate of future dividend growth.
11 This is illustrated in mathematical terms by the following formula:

$$k = \frac{D_1}{P_0} + g$$

12 where: k = the required return (cost of equity, equity capitalization rate),

13 $\frac{D_1}{P_0}$ = the dividend yield of a given share of stock calculated

14 by dividing the expected dividend by the current market

15 price of the given share of stock, and

16 g = the expected rate of future dividend growth

17
18 This formula is the basis for the standard growth valuation model that I
19 used to determine the Company's cost of equity capital.

20

1 **Q. In determining the rate of future dividend growth for the Company,**
2 **what assumptions did you make?**

3 A. There are two primary assumptions regarding dividend growth that must
4 be made when using the DCF method. First, dividends will grow by a
5 constant rate into perpetuity, and second, the dividend payout ratio will
6 remain at a constant rate. Both of these assumptions are predicated on
7 the traditional DCF model's basic underlying assumption that a company's
8 earnings, dividends, book value and share growth all increase at the same
9 constant rate of growth into infinity. Given these assumptions, if the
10 dividend payout ratio remains constant, so does the earnings retention
11 ratio (the percentage of earnings that are retained by the company as
12 opposed to being paid out in dividends). This being the case, a
13 company's dividend growth can be measured by multiplying its retention
14 ratio (1 - dividend payout ratio) by its book return on equity. This can be
15 stated as $g = b \times r$.

16
17 **Q. Would you please provide an example that will illustrate the**
18 **relationship that earnings, the dividend payout ratio and book value**
19 **have with dividend growth?**

20 A. RUCO consultant Stephen Hill illustrated this relationship in a Citizens
21 Utilities Company 1993 rate case by using a hypothetical utility.¹

22

¹ Citizens Utilities Company, Arizona Gas Division, Docket No. E-1032-93-111, Prepared Testimony, dated December 10, 1993, p. 25.

Table I

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Growth</u>
Book Value	\$10.00	\$10.40	\$10.82	\$11.25	\$11.70	4.00%
Equity Return	10%	10%	10%	10%	10%	N/A
Earnings/Sh.	\$1.00	\$1.04	\$1.082	\$1.125	\$1.170	4.00%
Payout Ratio	0.60	0.60	0.60	0.60	0.60	N/A
Dividend/Sh	\$0.60	\$0.624	\$0.649	\$0.675	\$0.702	4.00%

Table I of Mr. Hill's illustration presents data for a five-year period on his hypothetical utility. In Year 1, the utility had a common equity or book value of \$10.00 per share, an investor-expected equity return of ten percent, and a dividend payout ratio of sixty percent. This results in earnings per share of \$1.00 (\$10.00 book value x 10 percent equity return) and a dividend of \$0.60 (\$1.00 earnings/sh. x 0.60 payout ratio) during Year 1. Because forty percent (1 - 0.60 payout ratio) of the utility's earnings are retained as opposed to being paid out to investors, book value increases to \$10.40 in Year 2 of Mr. Hill's illustration. Table I presents the results of this continuing scenario over the remaining five-year period.

The results displayed in Table I demonstrate that under "steady-state" (i.e. constant) conditions, book value, earnings and dividends all grow at the same constant rate. The table further illustrates that the dividend growth rate, as discussed earlier, is a function of (1) the internally generated

1 funds or earnings that are retained by a company to become new equity,
2 and (2) the return that an investor earns on that new equity. The DCF
3 dividend growth rate, expressed as $g = b \times r$, is also referred to as the
4 internal or sustainable growth rate.

5
6 **Q. If earnings and dividends both grow at the same rate as book value,
7 shouldn't that rate be the sole factor in determining the DCF growth
8 rate?**

9 **A.** No. Possible changes in the expected rate of return on either common
10 equity or the dividend payout ratio make earnings and dividend growth by
11 themselves unreliable. This can be seen in the continuation of Mr. Hill's
12 illustration on a hypothetical utility.

13
14 Table II

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Growth</u>
15 Book Value	\$10.00	\$10.40	\$10.82	\$11.47	\$12.158	5.00%
16 Equity Return	10%	10%	15%	15%	15%	10.67%
17 Earnings/Sh	\$1.00	\$1.04	\$1.623	\$1.720	\$1.824	16.20%
18 Payout Ratio	0.60	0.60	0.60	0.60	0.60	N/A
19 Dividend/Sh	\$0.60	\$0.624	\$0.974	\$1.032	\$1.094	16.20%
20						
21						

22 In the example displayed in Table II, a sustainable growth rate of four
23 percent² exists in Year 1 and Year 2 (as in the prior example). In Year 3,

² $[(\text{Year 2 Earnings/Sh} - \text{Year 1 Earnings/Sh}) \div \text{Year 1 Earnings/Sh}] = [(\$1.04 - \$1.00) \div \$1.00] = [\$0.04 \div \$1.00] = \underline{4.00\%}$

1 Year 4 and Year 5, however, the sustainable growth rate increases to six
2 percent.³ If the hypothetical utility in Mr. Hill's illustration were expected to
3 earn a fifteen-percent return on common equity on a continuing basis,
4 then a six percent long-term rate of growth would be reasonable.
5 However, the compound growth rate for earnings and dividends, displayed
6 in the last column, is 16.20 percent. If this rate was to be used in the
7 DCF model, the utility's return on common equity would be expected to
8 increase by fifty percent every five years, $[(15 \text{ percent} \div 10 \text{ percent}) - 1]$.
9 This is clearly an unrealistic expectation.

10
11 Although it is not illustrated in Mr. Hill's hypothetical example, a change in
12 only the dividend payout ratio will eventually result in a utility paying out
13 more in dividends than it earns. While it is not uncommon for a utility in
14 the real world to have a dividend payout ratio that exceeds one hundred
15 percent on occasion, it would be unrealistic to expect the practice to
16 continue over a sustained long-term period of time.

21 ...
22

³ $[(1 - \text{Payout Ratio}) \times \text{Rate of Return}] = [(1 - 0.60) \times 15.00\%] = 0.40 \times 15.00\% = \underline{6.00\%}$

1 **Q. Other than the retention of internally generated funds, as illustrated**
2 **in Mr. Hill's hypothetical example, are there any other sources of new**
3 **equity capital that can influence an investor's growth expectations**
4 **for a given company?**

5 A. Yes, a company can raise new equity capital externally. The best
6 example of external funding would be the sale of new shares of common
7 stock. This would create additional equity for the issuer and is often the
8 case with utilities that are either in the process of acquiring smaller
9 systems or providing service to rapidly growing areas.

10
11 **Q. How does external equity financing influence the growth**
12 **expectations held by investors?**

13 A. Rational investors will put their available funds into investments that will
14 either meet or exceed their given cost of capital (i.e. the return earned on
15 their investment). In the case of a utility, the book value of a company's
16 stock usually mirrors the equity portion of its rate base (the utility's earning
17 base). Because regulators allow utilities the opportunity to earn a
18 reasonable rate of return on rate base, an investor would take into
19 consideration the effect that a change in book value would have on the
20 rate of return that he or she would expect the utility to earn. If an investor
21 believes that a utility's book value (i.e. the utility's earning base) will
22 increase, then he or she would expect the return on the utility's common
23 stock to increase. If this positive trend in book value continues over an

1 extended period of time, an investor would have a reasonable expectation
2 for sustained long-term growth.

3
4 **Q. Please provide an example of how external financing affects a**
5 **utility's book value of equity.**

6 **A.** As I explained earlier, one way that a utility can increase its equity is by
7 selling new shares of common stock on the open market. If these new
8 shares are purchased at prices that are higher than those shares sold
9 previously, the utility's book value per share will increase in value. This
10 would increase both the earnings base of the utility and the earnings
11 expectations of investors. However, if new shares sold at a price below
12 the pre-sale book value per share, the after-sale book value per share
13 declines in value. If this downward trend continues over time, investors
14 might view this as a decline in the utility's sustainable growth rate and will
15 have lower expectations regarding growth. Using this same logic, if a new
16 stock issue sells at a price per share that is the same as the pre-sale book
17 value per share, there would be no impact on either the utility's earnings
18 base or investor expectations.

19
20
21
22 ...
23

1 **Q. Please explain how the external component of the DCF growth rate is**
2 **determined.**

3 A. In his book, *The Cost of Capital to a Public Utility*,⁴ Dr. Gordon (the
4 individual responsible for the development of the DCF or constant growth
5 model) identified a growth rate that includes both expected internal and
6 external financing components. The mathematical expression for Dr.
7 Gordon's growth rate is as follows:

8
9
$$g = (br) + (sv)$$

10 where: g = DCF expected growth rate,
11 b = the earnings retention ratio,
12 r = the return on common equity,
13 s = the fraction of new common stock sold that
14 accrues to a current shareholder, and
15 v = funds raised from the sale of stock as a fraction
16 of existing equity.

17 and
$$v = 1 - [(BV) \div (MP)]$$

18 where: BV = book value per share of common stock, and
19 MP = the market price per share of common stock.

20

⁴ Gordon, M.J., *The Cost of Capital to a Public Utility*, East Lansing, MI: Michigan State University, 1974, pp. 30-33.

1 **Q. Did you include the effect of external equity financing on long-term**
2 **growth rate expectations in your analysis of expected dividend**
3 **growth for the DCF model?**

4 A. Yes. The external growth rate estimate (sv) is displayed on Page 1 of
5 Schedule WAR-4, where it is added to the internal growth rate estimate
6 (br) to arrive at a final sustainable growth rate estimate.

7
8 **Q. Please explain why your calculation of external growth on page 2 of**
9 **Schedule WAR-4, is the current market-to-book ratio averaged with**
10 **1.0 in the equation $[(M \div B) + 1] \div 2$.**

11 A. The market price of a utility's common stock will tend to move toward book
12 value, or a market-to-book ratio of 1.0, if regulators allow a rate of return
13 that is equal to the cost of capital (one of the desired effects of regulation).
14 As a result of this situation, I used $[(M \div B) + 1] \div 2$ as opposed to the
15 current market-to-book ratio by itself to represent investor's expectations
16 that, in the future, a given utility will achieve a market-to-book ratio of 1.0.

17
18 **Q. Has the Commission ever adopted a cost of capital estimate that**
19 **included this assumption?**

20 A. Yes. In a prior Southwest Gas Corporation rate case⁵, the Commission
21 adopted the recommendations of ACC Staff's cost of capital witness,
22 Stephen Hill, who I noted earlier in my testimony. In that case, Mr. Hill

⁵ Decision No. 68487, Dated February 23, 2006 (Docket No. G-01551A-04-0876)

1 used the same methods that I have used in arriving at the inputs for the
2 DCF model. His final recommendation for Southwest Gas Corporation
3 was largely based on the results of his DCF analysis, which incorporated
4 the same valid market-to-book ratio assumption that I have used
5 consistently in the DCF model as a cost of capital witness for RUCO.

6
7 **Q. Can you cite a more recent case in which the Commission adopted a**
8 **cost of capital estimate that included this assumption?**

9 A. Yes. The Commission adopted a RUCO recommended cost of common
10 equity which relied on the same assumption in a 2009 Global Water rate
11 case proceeding.⁶ Decision No. 71878, dated September 14, 2010 stated
12 the following:

13 "We find that the evidence presented by RUCO as a basis for its cost of
14 equity recommendation constitutes substantial evidence in support of its
15 cost of equity recommendation. We further find that the evidence
16 presented by the Company as a basis for its cost of equity
17 recommendation contrary to RUCO's assertion, constitutes evidence that
18 is no less substantial in support of its recommendation and of Staffs
19 acceptance thereof. The methodologies on which each of the parties
20 relied in making their cost of equity recommendations are clearly set
21 forth in the hearing exhibits. Based on a consideration of all the
22 evidence presented in this proceeding, we find a cost of common equity
23 of 9.0 percent to be reasonable in this case. This level of return on equity
24 reasonably and fairly balances the needs of Applicants and their
25 ratepayers, is reflective of current market conditions, and results in the
26 setting of just and reasonable rates."
27

28 **Q. How did you develop your dividend growth rate estimate?**

29 A. I analyzed data on two separate proxy groups. A water company proxy
30 group comprised of five publicly traded water companies and a natural gas

⁶ Docket Number W-02445A-09-0077

1 proxy group consisting of nine natural gas local distribution companies
2 (“LDCs”) that have similar operating characteristics to water providers.
3

4 **Q. Why did you use a proxy group methodology as opposed to a direct**
5 **analysis of the Company?**

6 A. One of the problems in performing this type of analysis is that the utility
7 applying for a rate increase is not always a publicly traded company as in
8 this case where shares of AWC are closely held and not publicly-traded on
9 a stock exchange. Because of this situation, I used the aforementioned
10 proxy that includes four publicly-traded water companies and nine LDCs.
11

12 **Q. Are there any other advantages to the use of a proxy?**

13 A. Yes. As I noted earlier, the U.S. Supreme Court ruled in the Hope
14 decision that a utility is entitled to earn a rate of return that is
15 commensurate with the returns on investments of other firms with
16 comparable risk. The proxy technique that I have used derives that rate of
17 return. One other advantage to using a sample of companies is that it
18 reduces the possible impact that any undetected biases, anomalies, or
19 measurement errors may have on the DCF growth estimate.
20
21
22 ...
23

1 **Q. What criteria did you use in selecting the companies that make up**
2 **your water company proxy for the Company?**

3 A. The five water companies used in the proxy are publicly traded on the
4 both the New York Stock Exchange ("NYSE") and the NASDAQ.⁷ All of
5 the water companies are followed by The Value Line Investment Survey
6 ("Value Line") and are the same companies that comprise Value Line's
7 large capitalization Water Utility Industry segment of the U.S. economy
8 (Attachment A contains Value Line's January 20, 2012 update of the water
9 utility industry and evaluations of the water companies used in my proxy).

10

11 **Q. Are these the same water utilities that you have used in prior rate**
12 **case proceedings?**

13 A. I have used four of the five water utilities in prior rate case proceedings.
14 Value Line recently included Middlesex Water Company (stock ticker
15 symbol MSEX, which is traded on the NASDAQ) in its large capitalization
16 edition that provides long range projections on earnings and other
17 financial metrics. Prior to January of 2012, Middlesex Water Company
18 was included in Value Line's Small and Mid-Cap Edition.

19

20 ...

21

⁷ "NASDAQ" originally stood for "National Association of Securities Dealers Automated Quotations". Today it is the second-largest stock exchange in the world, after the New York Stock Exchange ("NYSE").

1 **Q. Please describe Middlesex Water Company.**

2 A. According to Value Line, Middlesex Water Company owns and operates
3 regulated water systems in New Jersey, Delaware and Pennsylvania and
4 operates municipal and privately owned systems on a contract basis in
5 New Jersey and Delaware. During the 2010 operating period, MSEX's
6 Middlesex System provided water service to 60,000 retail customers,
7 primarily in Middlesex County New Jersey, which accounted for 64.00
8 percent of total revenues.

9

10 **Q. Please describe the other water utilities that comprise your water**
11 **company proxy group.**

12 A. My water company proxy group also includes American States Water
13 Company (stock ticker symbol "AWR"), California Water Service Group
14 ("CWT"), SJW Corporation ("SJW"), a San Jose, California-based water
15 provider which, prior to April of 2011, was also included in Value Line's
16 Small and Mid-Cap Edition, and Aqua America, Inc. ("WTR"). Each of
17 these water companies, including MSEX, all face the same types of risk
18 that AWC faces. For the sake of brevity, I will refer to Middlesex each of
19 the other companies in my samples by their appropriate stock ticker
20 symbols henceforth.

21

22 ...

23

1 **Q. Briefly describe the areas served by the companies in your water**
2 **company sample proxy.**

3 A. AWR serves communities located in Los Angeles, Orange and San
4 Bernardino counties in California. CWT provides service to customers in
5 seventy-five communities in California, New Mexico and Washington.
6 CWT's principal service areas are located in the San Francisco Bay area,
7 the Sacramento, Salinas and San Joaquin Valleys and parts of Los
8 Angeles. As described earlier in my testimony, MSEX serves customers
9 in New Jersey, Delaware and Pennsylvania. SJW serves approximately
10 226,000 customers in the San Jose area and approximately 8,700
11 customers in a region located between Austin and San Antonio, Texas.
12 WTR is a holding company for a large number of water and wastewater
13 utilities operating in nine different states including Pennsylvania, Ohio,
14 New Jersey, Illinois, Maine, North Carolina, Texas, Florida and Kentucky.

15
16 **Q. What criteria did you use in selecting the natural gas LDCs included**
17 **in your proxy for the Company?**

18 A. As are the water companies that I just described, each of the natural gas
19 LDCs used in the proxy are publicly traded on a major stock exchange (all
20 nine trade on the NYSE) and are followed by Value Line. Each of the nine
21 LDCs in my sample are tracked in Value Line's natural gas Utility industry
22 segment. All of the companies in the proxy are engaged in the provision
23 of regulated natural gas distribution services. Attachment B of my

1 testimony contains Value Line's most recent evaluation of the natural gas
2 proxy group that I used for my cost of common equity analysis.

3
4 **Q. What companies are included your natural gas proxy?**

5 A. The nine natural gas LDCs included in my proxy (and their NYSE ticker
6 symbols) are AGL Resources, Inc. ("AGL"), Atmos Energy Corp. ("ATO"),
7 Laclede Group, Inc. ("LG"), New Jersey Resources Corporation ("NJR"),
8 Northwest Natural Gas Co. ("NWN"), Piedmont Natural Gas Company
9 ("PNY"), South Jersey Industries, Inc. ("SJI") Southwest Gas Corporation
10 ("SWX"), which is the dominant natural gas provider in Arizona, and WGL
11 Holdings, Inc. ("WGL").

12
13 **Q. Are these the same LDCs that you have used in prior rate case
14 proceedings?**

15 A. Yes, I have used these same LDCs in prior cases including the most
16 recent UNS Gas, Inc. proceeding.⁸

17
18 **Q. Briefly describe the regions of the U.S. served by the nine natural
19 gas LDCs that make up your sample proxy.**

20 A. The nine LDCs listed above provide natural gas service to customers in
21 the Middle Atlantic region (i.e. NJR which serves portions of northern New
22 Jersey, SJI which serves southern New Jersey and WGL which serves the

⁸ Docket No. G-04204A-10-0158

1 Washington D.C. metro area), the Southeast and South Central portions
2 of the U.S. (i.e. AGL which serves Virginia, southern Tennessee and the
3 Atlanta, Georgia area and PNY which serves customers in North Carolina,
4 South Carolina and Tennessee), the South, deep South and Midwest (i.e.
5 ATO which serves customers in Kentucky, Mississippi, Louisiana, Texas,
6 Colorado and Kansas, LG which serves the St. Louis area), and the
7 Pacific Northwest (i.e. NWN which serves Washington state and Oregon).
8 Portions of Arizona, Nevada and California are served by SWX.

9
10 **Q. Are these the same water and natural gas companies that AWC used**
11 **in its application?**

12 A. AWC's cost of equity witness, Dr. Thomas Zepp, used all of the same
13 water companies included in my proxy but did not rely on a sample of
14 LDCs as I did. Dr. Zepp also used two other water companies in his cost
15 of capital analysis which I excluded from mine.

16
17 **Q. Which water companies did you exclude from your sample?**

18 A. I excluded American Water Works Company, Inc. and Connecticut Water
19 Service, Inc.

20
21 **Q. Why did you exclude those three water companies?**

22 A. I excluded American Water Works Company, Inc., because Value Line
23 does not have five full years of historical data on it. As I will explain later

1 in my testimony, I rely on a five-year average of historical growth as a
2 benchmark figure on which to make my future growth estimates.
3 Connecticut Water Service, Inc., is followed in Value Line's Small and Mid-
4 Cap edition which does not provide the same type of forward-looking
5 information (i.e. long-term estimates on return on common equity and
6 share growth) that it provides on the five water companies that I used in
7 my proxy. This was also true of Middlesex Water Company, which Dr.
8 Zepp also included in his sample, prior to January 2012.

9
10 **Q. Please explain your DCF growth rate calculations for the sample**
11 **companies used in your proxy.**

12 **A.** Schedule WAR-5 provides retention ratios, returns on book equity, internal
13 growth rates, book values per share, numbers of shares outstanding, and
14 the compounded share growth for each of the utilities included in the
15 sample for the historical observation period 2006 to 2010. Schedule
16 WAR-5 also includes Value Line's projected 2011, 2012 and 2014-16
17 values for the retention ratio, equity return, book value per share growth
18 rate, and number of shares outstanding for the both the water utilities and
19 the LDCs included in my analysis.

20
21
22 ...

23

1 **Q. Please describe how you used the information displayed in Schedule**
2 **WAR-5 to estimate each comparable utility's dividend growth rate.**

3 A. In explaining my analysis, I will use AWR as an example. The first
4 dividend growth component that I evaluated was the internal growth rate.
5 I used the "b x r" formula (described earlier on pages 11 and 12 of my
6 direct testimony) to multiply AWR's earned return on common equity by its
7 earnings retention ratio for each year in the 2006 to 2010 observation
8 period to derive the utility's annual internal growth rates. I used the mean
9 average of this five-year period as a benchmark against which I compared
10 the projected growth rate trends provided by Value Line. Because an
11 investor is more likely to be influenced by recent growth trends, as
12 opposed to historical averages, the five-year mean noted earlier was used
13 only as a benchmark figure. As shown on Schedule WAR-5, Page 1,
14 AWR's average internal growth rate of 3.67% over the 2006 to 2010 time
15 frame reflects an up and down pattern of growth that ranged from a low of
16 2.56% in 2006 to a high of 5.85% during 2010. Value Line is predicting a
17 pattern of increasing growth for the future and expects internal growth will
18 fall to 5.37% in 2011 before climbing to 5.66% by the end of the 2014-16
19 time frame. After weighing Value Line's projections on earnings and
20 dividend growth, I believe that a 5.70% rate of internal sustainable growth
21 is reasonable for AWR (Schedule WAR-4, Page 1 of 2).

22
23

1 **Q. Please continue with the external growth rate component portion of**
2 **your analysis.**

3 A. Schedule WAR-5 demonstrates that the number of shares outstanding for
4 AWR increased from 17.05 million to 18.63 million from 2006 to 2010.
5 Value Line is predicting that this level will increase from 18.75 million in
6 2011 to 19.50 million by the end of 2016. Based on this data, I believe
7 that a 1.00 percent growth in shares is not unreasonable for AWR (Page 2
8 of Schedule WAR-4). My final dividend growth rate estimate for AWR is
9 6.01 percent (5.70 percent internal growth + 0.31 percent external growth)
10 and is shown on Page 1 of Schedule WAR-4.

11
12 **Q. What is your average DCF dividend growth rate estimate for your**
13 **sample of water utilities?**

14 A. My average DCF dividend growth rate estimate for my water company
15 sample is 5.17 percent as displayed on page 1 of Schedule WAR-4.

16
17 **Q. Did you use the same approach to determine an average dividend**
18 **growth rate for your proxy of natural gas LDCs?**

19 A. Yes.

20

21

22 ...

23

1 **Q. What is your average DCF dividend growth rate estimate for the**
2 **sample natural gas utilities?**

3 A. My average DCF dividend growth rate estimate is 5.82 percent, which is
4 also displayed on page 1 of Schedule WAR-4.

5
6 **Q. How does your average dividend growth rate estimates on water**
7 **companies compare to the growth rate data published by Value Line**
8 **and other analysts?**

9 A. Schedule WAR-6 compares my growth estimates with the five-year
10 projections of analysts at both Zacks Investment Research, Inc. ("Zacks")
11 (Attachment C) and Value Line. In the case of the water companies, my
12 5.17 percent growth estimate falls between Zacks' average long-term EPS
13 projection of 10.10 percent for the water companies in my sample and
14 Value Line's growth projection of 4.53 percent (which is an average of
15 EPS, DPS and BVPS). My 5.17 percent estimate is 27 basis points higher
16 than the 4.90 percent average of Value Line's historical growth results and
17 5 basis points higher than the 5.12 percent average of the growth data
18 published by Value Line and Zacks. My 5.17 percent growth estimate is
19 also 435 basis points higher than Value Line's 0.82 percent 5-year
20 compound historical average of EPS, DPS and BVPS. The estimates of
21 analysts at Value Line indicate that investors are expecting somewhat
22 higher performance from the water utility industry in the future given Value
23 Line's projected 8.00 percent to 9.00 percent return on book common

1 equity for the water utility industry over the 2011 to 2016 period
2 (Attachment A). On balance, I would say my 5.87 percent estimate is a
3 good representation of the growth projections that are available to the
4 investing public.

5
6 **Q. How do your average growth rate estimates on natural gas LDCs**
7 **compare to the growth rate data published by Value Line and other**
8 **analysts?**

9 A. As can be seen on Schedule WAR-6, my 5.82 percent growth estimate for
10 the natural gas LDCs is 117 to 120 basis points higher than the average
11 4.65 percent Value Line projected estimate (which is an average of EPS,
12 DPS and BVPS), and the 4.62 percent average of long-term EPS
13 consensus projection published by Zacks. The 5.82 percent estimate that
14 I have calculated is 26 basis points higher than the 5.56 percent average
15 of the 5-year historic EPS, DPS and BVPS means of Value Line and is
16 also 79 basis points higher than the combined 5.03 percent Value Line
17 and Zacks averages displayed in Schedule WAR-6. In fact, my 5.82
18 percent growth estimate exceeds Value Line's 4.29 percent 5-year
19 compound historical average of EPS, DPS and BVPS by 153 basis points.
20 In the case of the LDCs I would say that my 5.82 percent estimate is more
21 optimistic than the growth projections for natural gas LDCs being
22 presented by securities analysts at this point in time.

23

1 **Q. How did you calculate the dividend yields displayed in Schedule**
2 **WAR-3?**

3 A. For both the water companies and the natural gas LDCs I used the
4 estimated annual dividends, for the next twelve-month period, that
5 appeared in Value Line's January 20, 2012 Ratings and Reports water
6 utility industry update and Value Line's December 9, 2011 Ratings and
7 Reports natural gas utility update. I then divided those figures by the
8 eight-week average daily adjusted closing price per share of the
9 appropriate utility's common stock. The eight-week observation period ran
10 from December 19, 2011 to February 10, 2012. The average dividend
11 yields were 3.29 percent and 3.50 percent for the water companies and
12 natural gas LDCs respectively.

13
14 **Q. Based on the results of your DCF analysis, what is your cost of**
15 **equity capital estimate for the water and natural gas utilities included**
16 **in your sample?**

17 A. As shown on page 3 of Schedule WAR-2, the cost of equity capital derived
18 from my DCF analysis is 8.46 percent for the water utilities and 9.32
19 percent for the natural gas LDCs.

20

21

22 ...

23

1 **Capital Asset Pricing Model (CAPM) Method**

2 **Q. Please explain the theory behind CAPM and why you decided to use**
3 **it as an equity capital valuation method in this proceeding.**

4 A. CAPM is a mathematical tool that was developed during the early 1960's
5 by William F. Sharpe⁹, the Timken Professor Emeritus of Finance at
6 Stanford University, who shared the 1990 Nobel Prize in Economics for
7 research that eventually resulted in the CAPM model. CAPM is used to
8 analyze the relationships between rates of return on various assets and
9 risk as measured by beta.¹⁰ In this regard, CAPM can help an investor to
10 determine how much risk is associated with a given investment so that he
11 or she can decide if that investment meets their individual preferences.
12 Finance theory has always held that as the risk associated with a given
13 investment increases, so should the expected rate of return on that
14 investment and vice versa. According to CAPM theory, risk can be
15 classified into two specific forms: nonsystematic or diversifiable risk, and
16 systematic or non-diversifiable risk. While nonsystematic risk can be
17 virtually eliminated through diversification (i.e. by including stocks of
18 various companies in various industries in a portfolio of securities),
19 systematic risk, on the other hand, cannot be eliminated by diversification.

⁹ William F. Sharpe, "A Simplified Model of Portfolio Analysis," Management Science, Vol. 9, No. 2 (January 1963), pp. 277-93.

¹⁰ Beta is defined as an index of volatility, or risk, in the return of an asset relative to the return of a market portfolio of assets. It is a measure of systematic or non-diversifiable risk. The returns on a stock with a beta of 1.0 will mirror the returns of the overall stock market. The returns on stocks with betas greater than 1.0 are more volatile or riskier than those of the overall stock market; and if a stock's beta is less than 1.0, its returns are less volatile or riskier than the overall stock market.

1 **Q. Please explain why U.S. Treasury instruments are regarded as a**
2 **suitable proxy for the risk-free rate of return?**

3 A. As citizens and investors, we would like to believe that U.S. Treasury
4 securities (which are backed by the full faith and credit of the United
5 States Government) pose no threat of default no matter what their maturity
6 dates are. However, a comparison of various Treasury instruments
7 (Attachment D) will reveal that those with longer maturity dates do have
8 slightly higher yields. Treasury yields are comprised of two separate
9 components,¹¹ a real rate of interest (believed to be approximately 2.00
10 percent) and an inflationary expectation. When the real rate of interest is
11 subtracted from the total treasury yield, all that remains is the inflationary
12 expectation. Because increased inflation represents a potential capital
13 loss, or risk, to investors, a higher inflationary expectation by itself
14 represents a degree of risk to an investor. Another way of looking at this
15 is from an opportunity cost standpoint. When an investor locks up funds in
16 long-term T-Bonds, compensation must be provided for future investment
17 opportunities foregone. This is often described as maturity or interest rate
18 risk and it can affect an investor adversely if market rates increase before
19 the instrument matures (a rise in interest rates would decrease the value
20 of the debt instrument). As discussed earlier in the DCF portion of my

¹¹ As a general rule of thumb, there are three components that make up a given interest rate or rate of return on a security: the real rate of interest, an inflationary expectation, and a risk premium. The approximate risk premium of a given security can be determined by simply subtracting a 91-day T-Bill rate from the yield on the security.

1 testimony, this compensation translates into higher rates of returns to the
2 investor.

3
4 **Q. What security did you use for a risk-free rate of return in your CAPM**
5 **analysis?**

6 A. I used an eight-week average of the yield on a 5-year U.S. Treasury
7 instrument. The yields were published in Value Line's Selection and
8 Opinion publication dated December 30, 2011 through February 17, 2012
9 (Attachment D). This resulted in a risk-free (r_f) rate of return of 0.83
10 percent.

11
12 **Q. Why did you use the yield on a 5-year year U.S. Treasury instrument**
13 **as opposed to a short-term T-Bill?**

14 A. While a shorter term instrument, such as a 91-day T-Bill, presents the
15 lowest possible total risk to an investor, a good argument can be made
16 that the yield on an instrument that matches the investment period of the
17 asset being analyzed in the CAPM model should be used as the risk-free
18 rate of return. Since utilities in Arizona generally file for rates every three
19 to five years, the yield on a 5-year U.S. Treasury Instrument closely
20 matches the investment period or, in the case of regulated utilities, the
21 period that new rates will be in effect.

22

1 **Q. How did you calculate the market risk premium used in your CAPM**
2 **analysis?**

3 A. I used both a geometric and an arithmetic mean of the historical total
4 returns on the S&P 500 index from 1926 to 2010 as the proxy for the
5 market rate of return (r_m). For the risk-free portion of the risk premium
6 component (r_f), I used the geometric mean of the total returns of
7 intermediate-term government bonds for the same eighty-four year period.
8 The market risk premium ($r_m - r_f$) that results by using the geometric mean
9 of these inputs is 4.50 percent ($9.90\% - 5.40\% = \underline{4.50\%}$). The market risk
10 premium that results by using the arithmetic mean calculation is 6.40
11 percent ($11.90\% - 5.50\% = \underline{6.40\%}$).
12

13 **Q. How did you select the beta coefficients that were used in your**
14 **CAPM analysis?**

15 A. The beta coefficients (β), for the individual utilities used in both my
16 proxies, were calculated by Value Line and were current as of January 20,
17 2012 for the water companies and December 9, 2011 for the natural gas
18 LDCs. Value Line calculates its betas by using a regression analysis
19 between weekly percentage changes in the market price of the security
20 being analyzed and weekly percentage changes in the NYSE Composite
21 Index over a five-year period. The betas are then adjusted by Value Line
22 for their long-term tendency to converge toward 1.00. The beta
23 coefficients for the service providers included in my water company

1 sample ranged from 0.65 to 0.85 with an average beta of 0.71. The beta
2 coefficients for the LDCs included in my natural gas sample ranged from
3 0.60 to 0.75 with an average beta of 0.67.
4

5 **Q. What are the results of your CAPM analysis?**

6 A. As shown on pages 1 and 2 of Schedule WAR-7, my CAPM calculation
7 using a geometric mean to calculate the risk premium results in an
8 average expected return of 4.03 percent for the water companies and 3.86
9 percent for the natural gas LDCs. My calculation using an arithmetic
10 mean results in an average expected return of 5.38 percent for the water
11 companies and 5.14 percent for the natural gas LDCs.
12

13 **Q. What would be the expected return if a longer term 30-year U.S.
14 Treasury bond were used as the risk free asset in the CAPM model?**

15 A. If a 3.02 percent eight-week average of 30-year U.S. Treasury bond yields
16 were used in my CAPM model it would produce expected returns of 6.93
17 percent using a geometric mean, and 7.21 percent using an arithmetic
18 mean for my water company sample with its higher average beta of 0.71.
19 As I will discuss later in my testimony, the yields of long-term U.S.
20 Treasury instruments are currently falling as a result of recent actions
21 being undertaken by the U.S. Federal Reserve.
22

1 **Q. Please summarize the results derived under each of the**
2 **methodologies presented in your testimony.**

3 A. The following is a summary of the cost of equity capital derived under
4 each methodology used:

5

6	<u>METHOD</u>	<u>RESULTS</u>
7	DCF (Water Sample)	8.46%
8	DCF (Natural Gas Sample)	9.32%
9	CAPM (Water Sample)	4.03% – 5.38%
10	CAPM (Natural Gas)	3.86% – 5.14%

11

12 My final recommended cost of common equity figure is 9.30 percent which
13 is just below the high end of my range of estimates.

14

15 **Q. How does your recommended cost of equity capital compare with**
16 **the cost of equity capital proposed by the Company?**

17 A. The 12.50 percent cost of equity capital reflected in the Company's
18 Application is 320 basis points higher than the 9.30 percent cost of equity
19 capital that I am recommending.

20

21 **Q How did you arrive at your final recommended 9.30 percent cost of**
22 **common equity?**

23 A. My recommended 9.30 percent cost of common equity falls just below the
24 high side of the range of estimates obtained from my DCF and CAPM

1 analyses. As I will discuss in more detail in the next section of my
2 testimony, my final estimate takes into consideration current interest rates
3 (as the cost of equity moves in the same direction as interest rates) and
4 the current state of the national economy. My final estimate also takes
5 into consideration the U.S. Federal Reserve's recent decision to keep
6 interest rates at their current levels until at least the later part of 2014. I
7 also took into consideration information on Arizona's economy and current
8 rate of unemployment in making my final cost of equity estimate.

9
10 **Current Economic Environment**

11 **Q. Please explain why it is necessary to consider the current economic**
12 **environment when performing a cost of equity capital analysis for a**
13 **regulated utility.**

14 **A.** Consideration of the economic environment is necessary because trends
15 in interest rates, present and projected levels of inflation, and the overall
16 state of the U.S. economy determine the rates of return that investors earn
17 on their invested funds. Each of these factors represent potential risks
18 that must be weighed when estimating the cost of equity capital for a
19 regulated utility and are, most often, the same factors considered by
20 individuals who are also investing in non-regulated entities.

21
22 ...

1 **Q. Please describe your analysis of the current economic environment.**

2 A. My analysis begins with a review of the economic events that have
3 occurred between 1990 and the present in order to provide a background
4 on how we got to where we are now. It also describes how the Board of
5 Governors of the Federal Reserve System ("Federal Reserve" or "Fed")
6 and its Federal Open Market Committee ("FOMC") used its interest rate-
7 setting authority to stimulate the economy by cutting interest rates during
8 recessionary periods and by raising interest rates to control inflation during
9 times of robust economic growth. Schedule WAR-8 displays various
10 economic indicators and other data that I will refer to during this portion of
11 my testimony.

12
13 In 1991, as measured by the most recently revised annual change in
14 gross domestic product ("GDP"), the U.S. economy experienced a rate of
15 growth of negative 0.20 percent. This decline in GDP marked the
16 beginning of a mild recession that ended sometime before the end of the
17 first half of 1992. Reacting to this situation, the Federal Reserve, then
18 chaired by noted economist Alan Greenspan, lowered its benchmark
19 federal funds rate¹² in an effort to further loosen monetary constraints - an
20 action that resulted in lower interest rates.

¹² This is the interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. The federal funds rate is the most sensitive indicator of the direction of interest rates, since it is set daily by the market, unlike the prime rate and the discount rate, which are periodically changed by banks and by the Federal Reserve Board, respectively.

1 During this same period, the nation's major money center banks followed
2 the Federal Reserve's lead and began lowering their interest rates as well.
3 By the end of the fourth quarter of 1993, the prime rate (the rate charged
4 by banks to their best customers) had dropped to 6.00 percent from a
5 1990 level of 10.01 percent. In addition, the Federal Reserve's discount
6 rate on loans to its member banks had fallen to 3.00 percent and short-
7 term interest rates had declined to levels that had not been seen since
8 1972.

9
10 Although GDP increased in 1992 and 1993, the Federal Reserve took
11 steps to increase interest rates beginning in February of 1994, in order to
12 keep inflation under control. By the end of 1995, the Federal discount rate
13 had risen to 5.21 percent. Once again, the banking community followed
14 the Federal Reserve's moves. The Fed's strategy, during this period, was
15 to engineer a "soft landing." That is to say that the Federal Reserve
16 wanted to foster a situation in which economic growth would be stabilized
17 without incurring either a prolonged recession or runaway inflation.

18
19 **Q. Did the Federal Reserve achieve its goals during this period?**

20 **A.** Yes. The Fed's strategy of decreasing interest rates to stimulate the
21 economy worked. The annual change in GDP began an upward trend in
22 1992. A change of 4.50 percent and 4.20 percent were recorded at the
23 end of 1997 and 1998 respectively. Based on daily reports that were

1 presented in the mainstream print and broadcast media during most of
2 1999, there appeared to be little doubt among both economists and the
3 public at large that the U.S. was experiencing a period of robust economic
4 growth highlighted by low rates of unemployment and inflation. Investors,
5 who believed that technology stocks and Internet company start-ups (with
6 little or no history of earnings) had high growth potential, purchased these
7 types of issues with enthusiasm. These types of investors, who exhibited
8 what former Chairman Greenspan described as "irrational exuberance,"
9 pushed stock prices and market indexes to all time highs from 1997 to
10 2000. Over the next ten years, the FOMC continued to stimulate the
11 economy and keep inflation in check by raising and lowering the federal
12 funds rate.

13
14 **Q. How did the U.S. economy fare between 2001 and 2007?**

15 **A.** The U.S. economy entered into a recession near the end of the first
16 quarter of 2001. The bullish trend, which had characterized the last half of
17 the 1990's, had already run its course sometime during the third quarter of
18 2000. Disappointing economic data releases, since the beginning of
19 2001, preceded the September 11, 2001 terrorist attacks on the World
20 Trade Center and the Pentagon which are now regarded as a defining
21 point during this economic slump. From January 2001 to June 2003 the
22 Federal Reserve cut interest rates a total of thirteen times in order to
23 stimulate growth. During this period, the federal funds rate fell from 6.50

1 percent to 1.00 percent. The FOMC reversed this trend on June 29, 2004
2 and raised the federal funds rate 25 basis points to 1.25 percent. From
3 June 29, 2004 to January 31, 2006, the FOMC raised the federal funds
4 rate thirteen more times to a level of 4.50 percent during a period in which
5 the economic picture turned considerably brighter as both Inflation and
6 unemployment fell, wages increased and the overall economy, despite
7 continued problems in housing, *grew briskly*.¹³

8
9 The FOMC's January 31, 2006 meeting marked the final appearance of
10 Alan Greenspan, who had presided over the rate setting body for a total of
11 eighteen years. On that same day, Greenspan's successor, Ben
12 Bernanke, the former chairman of the President's Council of Economic
13 Advisers, and a former Fed governor under Greenspan from 2002 to
14 2005, was confirmed by the U.S. Senate to be the new Federal Reserve
15 chief. As expected by Fed watchers, Chairman Bernanke picked up
16 where his predecessor left off and increased the federal funds rate by 25
17 basis points during each of the next three FOMC meetings for a total of
18 seventeen consecutive rate increases since June 2004, and raising the
19 federal funds rate to a level of 5.25 percent. The Fed's rate increase
20 campaign finally came to a halt at the FOMC meeting held on August 8,
21 2006, when the FOMC decided not to raise rates. Once again, the Fed
22 managed to engineer a soft landing.

¹³ Henderson, Nell, "Bullish on Bernanke" The Washington Post, January 30, 2007.

1 **Q. What has been the state of the economy since 2007?**

2 A. Reports in the mainstream financial press during the majority of 2007
3 reflected the view that the U.S. economy was slowing as a result of a
4 worsening situation in the housing market and higher oil prices. The
5 overall outlook for the economy was one of only moderate growth at best.
6 Also during this period the Fed's key measure of inflation began to exceed
7 the rate setting body's comfort level.

8
9 On August 7, 2007, the beginning of what is now being referred to as the
10 Great Recession; the FOMC decided not to increase or decrease the
11 federal funds rate for the ninth straight time and left its target rate
12 unchanged at 5.25 percent.¹⁴ At the time of the Fed's decision, analysts
13 speculated that a rate cut over the next several months was unlikely given
14 the Fed's concern that inflation would fail to moderate. However, during
15 this same period, evidence of an even slower economy and a possible
16 recession was beginning to surface. Within days of the Fed's decision to
17 stand pat on rates, a borrowing crisis rooted in a deterioration of the
18 market for subprime mortgages, and securities linked to them, forced the
19 Fed to inject \$24 billion in funds (raised through its open market
20 operations) into the credit markets.¹⁵ By Friday, August 17, 2007, after a

¹⁴ Ip, Greg, "Markets Gyrate As Fed Straddles Inflation, Growth" The Wall Street Journal, August 8, 2007

¹⁵ Ip, Greg, "Fed Enters Market To Tamp Down Rate" The Wall Street Journal, August 9, 2007

1 turbulent week on Wall Street, the Fed made the decision to lower its
2 discount rate (i.e. the rate charged on direct loans to banks) by 50 basis
3 points, from 6.25 percent to 5.75 percent, and took steps to encourage
4 banks to borrow from the Fed's discount window in order to provide
5 liquidity to lenders. According to an article that appeared in the August 18,
6 2007 edition of The Wall Street Journal,¹⁶ the Fed had used all of its tools
7 to restore normalcy to the financial markets. If the markets failed to settle
8 down, the Fed's only weapon left was to cut the Federal Funds rate –
9 possibly before the next FOMC meeting scheduled on September 18,
10 2007.

11
12 **Q. Did the Fed cut rates as a result of the subprime mortgage borrowing**
13 **crises?**

14 A. Yes. At its regularly scheduled meeting on September 18, 2007, the
15 FOMC surprised the investment community and cut both the federal funds
16 rate and the discount rate by 50 basis points (25 basis points more than
17 what was anticipated). This brought the federal funds rate down to a level
18 of 4.75 percent. The Fed's action was seen as an effort to curb the
19 aforementioned slowdown in the economy. Over the course of the next
20 four months, the FOMC reduced the Federal funds rate by a total 175
21 basis points to a level of 3.00 percent – mainly as a result of concerns that
22 the economy was slipping into a recession. This included a 75 basis point

¹⁶ Ip, Greg, Robin Sidel and Randall Smith, "Fed Offers Banks Loans Amid Crises" The Wall Street Journal, August 9, 2007

1 reduction that occurred one week prior to the FOMC's meeting on January
2 29, 2008.

3
4 **Q. What actions has the Fed taken in regard to interest rates since the**
5 **beginning of 2008?**

6 A. The Fed made two more rate cuts which included a 75 basis point
7 reduction in the federal funds rate on March 18, 2008 and an additional 25
8 basis point reduction on April 30, 2008. The Fed's decision to cut rates
9 was based on its belief that the slowing economy was a greater concern
10 than the current rate of inflation (which the majority of FOMC members
11 **believed would moderate during the economic slowdown).**¹⁷ **As a result of**
12 **the Fed's actions, the federal funds rate was reduced to a level of 2.00**
13 **percent. From April 30, 2008 through September 16, 2008, the Fed took**
14 **no further action on its key interest rate. However, the days before and**
15 **after the Fed's September 16, 2008 meeting saw longstanding Wall Street**
16 **firms such as Lehman Brothers, Merrill Lynch and AIG failing as a result of**
17 **their subprime holdings. By the end of the week, the Bush administration**
18 **had announced plans to deal with the deteriorating financial condition**
19 **which had now become a worldwide crisis. The administrations actions**
20 **included former Treasury Secretary Henry Paulson's request to Congress**
21 **for \$700 billion to buy distressed assets as part of a plan to halt what has**

¹⁷ Ip, Greg, "Credit Worries Ease as Fed Cuts, Hints at More Relief" The Wall Street Journal,
March 19, 2008

1 been described as the worst financial crisis since the 1930's¹⁸. Amidst this
2 turmoil, the Fed made the decision to cut the federal funds rate by another
3 50 basis points in a coordinated move with foreign central banks on
4 October 8, 2008. This was followed by another 50 basis point cut during
5 the regular FOMC meeting on October 29, 2008. At the time of this
6 writing, the federal funds target rate now stands at 0.25 percent, the result
7 of a 75 basis point cut announced on December 16, 2008.

8
9 **Q. What is the current rate of inflation in the U.S.?**

10 A. As can be seen on Schedule WAR-8, the current rate of inflation, as
11 measured by the consumer price index, is at 2.90 percent according to
12 information provided by the U.S. Department of Labor's Bureau of Labor
13 Statistics.¹⁹

14
15 **Q. Has the Fed raised interest rates in anticipation of higher inflation?**

16 A. No. The FOMC has not raised interest rates to date. The Fed's plan to
17 buy \$600 billion of U.S. government bonds over an eight month period,
18 known as quantitative easing stage two or QE2,²⁰ was completed during
19 the summer of 2011. The attempt to drive down long-term interest rates

¹⁸ Soloman, Deborah, Michael R. Crittenden and Damian Paletta, "U.S. Bailout Plan Calms Markets, But Struggle Looms Over Details" The Wall Street Journal, September 20, 2008

¹⁹ <http://www.bls.gov/news.release/cpi.nr0.htm>

²⁰ Hilsenrath, Jon, "Fed Fires \$600 Billion Stimulus Shot" The Wall Street Journal, November 4, 2010

1 and encourage more borrowing and growth by increasing the money
2 supply has yet to stimulate the economy, however, fears of a double dip
3 recession seem to have subsided. At its August 9, 2011 meeting, the
4 FOMC announced that it intended to keep interest rates at their current
5 levels for at least the next two years warning that the economy would
6 remain weak for some time but that the Fed is prepared to take further
7 steps to shore it up.²¹

8
9 **Q. Has the Fed taken any recent action, such as QE2, to stimulate the**
10 **economy?**

11 **A. Yes. At the close of the FOMC's September meeting the Fed announced**
12 **its decision to implement a plan that resembles a 1961 Federal Reserve**
13 **program known as "Operation Twist".²² Under this plan, the Fed will sell**
14 **\$400 billion in Treasury securities that mature within three years. The**
15 **proceeds from these sales will then be reinvested into securities that**
16 **mature in six to 30 years. This action would significantly alter the balance**
17 **of the Fed's holdings toward long-term securities. In addition to selling off**
18 **its shorter term Treasury holdings, the Fed will take the proceeds from its**
19 **maturing mortgage-backed securities and reinvest them in other mortgage**
20 **backed securities. For the past year, the Fed has been reinvesting that**

²¹ Reddy, Sudeep and Jonathan Cheng "Markets Sink Then Soar After Fed Speaks" The Wall Street Journal, August 10, 2011

²² Hilsenrath, Jon and Luca Di Leo "Fed Launches New Stimulus" The Wall Street Journal, September 22, 2011

1 money into Treasury bonds, shrinking its mortgage portfolio. The overall
2 goal of the Fed's plan is to reduce long-term interest rates in the hope of
3 boosting investment and spending and provide a shot in the arm to the
4 beleaguered housing sector of the economy. During its most recent
5 FOMC meeting held on January 25, 2012, the Fed decided not to make
6 any changes to existing interest rates. After the meeting Fed officials
7 stated that they expected short-term interest rates to stay close to zero "at
8 least through late 2014," which is even longer than previously indicated.
9 Members of the Fed also signaled dissatisfaction with the recovery and
10 growing confidence that inflation was slowing as they expected.²³

11
12 **Q. Has there been any noticeable drop in long-term rates since the Fed**
13 **announced its plan to purchase longer term Treasury instruments?**

14 A. Yes. The yield on the 30-year Treasury bond has from fallen from 5.02
15 percent to 3.15 percent since February 9, 2011.

16
17 **Q. Putting this all into perspective, how have the Fed's actions since**
18 **2000 affected the yields on Treasury Instruments and benchmark**
19 **interest rates?**

20 A. As can be seen on Schedule WAR-8, current Treasury yields are
21 considerably lower than corresponding yields that existed during the year
22 2000 and U.S. Treasury instruments, are for the most part, still at

²³ Di Leo, Luca and Jon Hilsenrath, "Fed Expects Low Rates Through 2014" The Wall Street Journal, January 25, 2012

1 historically low levels. As can be seen on the first page of Attachment D,
2 the previously mentioned federal discount rate (the rate charged to the
3 Fed's member banks), has remained steady at 0.75 percent since
4 November of 2010.

5
6 As of February 8, 2012, leading interest rates that include the 3-month, 6-
7 month and 1-year treasury yields have dropped from their February 2011
8 levels. Longer term yields including the 5-year, 10-year and 30-year have
9 all fallen from levels that existed a year ago. The same is true for the 30-
10 year Zero rate. The prime rate has remained constant at 3.25 percent
11 over the past year, as has the benchmark federal funds rate discussed
12 above. A previous trend, described by former Chairman Greenspan as a
13 "conundrum"²⁴, in which long-term rates fell as short-term rates increased,
14 thus creating a somewhat inverted yield curve that existed as late as June
15 2007, is completely reversed and a more traditional yield curve (one
16 where yields increase as maturity dates lengthen) presently exists. The 5-
17 year Treasury yield, used in my CAPM analysis, has decreased 150 basis
18 points from 2.33 percent, in February 2011, to 0.83 percent as of February
19 8, 2012.

20
21 ...
22

²⁴ Wolk, Martin, "Greenspan wrestling with rate 'conundrum'," MSNBC, June 8, 2005

1 **Q. What are the current yields on utility bonds?**

2 A. Referring again to Attachment D, as of February 8, 2012, 25/30-year A-
3 rated utility bonds were yielding 4.19 percent (163 basis points lower than
4 a year ago) and 25/30-year Baa/BBB-rated utility bonds were yielding 4.67
5 percent (down 155 basis points from a year earlier).

6
7 **Q. What is the current outlook for the economy?**

8 A. The current outlook on the economy is that a slide into recession appears
9 to be unlikely but an outlook for slower growth persists with continued
10 elevated levels of unemployment. Value line's analysts offered this
11 perspective in the February 17, 2012 edition of Value Line's Selection and
12 Opinion publication:

13 **"Food for thought came out of Washington earlier this**
14 **month – namely that payrolls are gaining strength and doing**
15 **so in a big way.** Specifically, the government reported that
16 payrolls jumped by 243,000 in January – nearly twice the gain
17 that had been forecast. Also, upward revisions for November
18 and December helped lift the average monthly increase for the
19 latest three months to 201,000. Payroll growth of that
20 magnitude, if sustained, might be sufficient to push the jobless
21 rate, which declined from 8.5% to 8.3% in January, still lower this
22 year."
23

24 Value Line's analysts went on to say:

25 **"Still, we aren't out of the woods yet, and it could be a case**
26 **of two steps forward, one step backward on this front for a**
27 **while.** Overall, hiring should continue at a decent pace in 2012.
28 But we note that this is a volatile metric, where there can be big
29 swings from month to month. Also the unemployment rate,
30 which is off sharply, may rise for a time, as those jobless who
31 have stopped looking for jobs – and are not now counted as out
32 of work – return to the job search."
33
34
35
36

1 Value Line's analysts continued to state:

2 "Meanwhile, there is other good news, as recent weeks have
3 seen gains in construction, chain store sales, factory orders,
4 manufacturing, and non-manufacturing. This series of positive
5 reports suggests that gross domestic product growth could reach
6 2.5% in the current quarter. That is above our earlier estimate of
7 2.0%."
8
9

10 **Q. How are water utilities such as AWC faring in the current economic**
11 **environment?**

12 **A.** While, as always, there are concerns regarding long-term infrastructure
13 requirements, Value Line analyst Andre J. Costanza stated in his January
14 20, 2012 quarterly water industry update (Attachment A) that water utilities
15 **are being viewed as safe havens during the current period of economic**
16 **uncertainty – even though they are regarded as less than stellar**
17 **investments. Mr. Costanza went on to state the following:**

18 "The Water Utility Industry has held up relatively well since our
19 last visit in October. Although a slew of recently released
20 economic data suggests that the housing and job market are on
21 the road to recovery, many still-wary pundits appear to be
22 reserving judgment until there are clearer signs of stability.
23 Some are even saying that the uptick in jobs and new home
24 sales is being artificially supported, and that another downturn
25 could be on the horizon. Either way, investors' cautious
26 approach is evident, with many continuing to seek shelter from
27 potential market volatility in the relatively safe Water Utility
28 Industry. As a result, the group, as a whole, ranks in the upper
29 rungs of The Value Line Investment Survey for Timeliness.
30

31 That being said, not all that operate in this space have exactly
32 been supporting their own causes. Many ran into trouble in the
33 most recent quarter, raising concern that the group may have
34 difficulty growing earnings in the months ahead. Burgeoning
35 maintenance and capital expenditure costs remain a problem,
36 despite more favorable regulatory backing.
37

38 Still, the group's income component has historically been its
39 attraction. Steady dividend growth ought to continue to pique
40 investor interest, but for how long, given a plethora of

1 alternatives and financial constraints that may well limit capital
2 deployment in the future.”
3
4

5 **Q. How has Arizona fared in terms of the overall economy and home**
6 **foreclosures?**

7 A. Arizona was one of the states hit hardest during the Great Recession and
8 has lagged during the current recovery.²⁵ During the period between 2006
9 and 2009, statewide construction spending fell by 40.00 percent.
10 According to information provided by Irvine, California-based RealtyTrac
11 on January 9, 2012, Arizona ranks second in the nation in foreclosures
12 behind Nevada and ahead of California. According to RealtyTrac, Arizona
13 had the nation's second highest state foreclosure rate for the third year in
14 a row, with 4.14 percent of the state's housing units (one in 24) with at
15 least one foreclosure filing in 2011. This despite a 28.00 percent drop in
16 foreclosure activity from November 2011 to December 2011 which was
17 caused largely by a 41.00 percent drop in scheduled foreclosure
18 auctions.²⁶
19

20 **Q. What is the current unemployment situation in Arizona during this**
21 **period of economic recovery?**

22 A. According to information published on January 20, 2012, and displayed on
23 the website of the Arizona Department of Administration's Office of

²⁵ Beard, Betty, "Recession hit Arizona hardest" The Arizona Republic, March 6, 2011

²⁶ RealtyTrack Staff, "Year-End Foreclosure Report: Foreclosures on the Retreat," RealtyTrack, January 9, 2012.

1 Employment and Population Statistics,²⁷ the seasonally adjusted
2 unemployment rate for Arizona remained steady at 8.70 percent in
3 November and December 2011. At the time that this information was
4 compiled, Arizona's rate of unemployment was slightly higher than the
5 U.S. unemployment rate²⁸ which stood at 8.50 percent during December
6 2011 as can be seen below:

7
8 **Arizona, U.S. Economic Indicators**
9 **Unemployment Rate (Seasonally Adj.)**

10
11

	<u>Dec '11</u>	<u>Nov '11</u>	<u>Oct '11</u>
12 United States	8.5%	8.7%	9.0%
13 Arizona	8.7%	8.7%	9.0%
14 Arizona unadjusted rate	8.7%	8.4%	8.9%

15
16

17 In January 2012 the U. S. rate was 8.30 percent.

18
19 According to the January 2, 2012 Arizona Department of Administration's
20 Office of Employment and Population Statistics report, the December
21 2011 rates of unemployment by county as follows:

22 **County Unemployment Rates - December 2011**

23
24
25
26
27
28

Apache	15.5%
Cochise	8.1%
Coconino	8.5%
Gila	10.0%
Graham	10.0%
Greenlee	8.2%

²⁷ Arizona Department of Administration's Office of Employment and Population Statistics
<http://www.workforce.az.gov/>

²⁸ U.S. Bureau of Labor Statistics Economic News Release dated June 3, 2011
<http://www.bls.gov/news.release/empsit.nr0.htm>

1	La Paz	9.7%
2	Maricopa	7.7%
3	Mohave	10.1%
4	Navajo	14.7%
5	Pima	7.9%
6	Pinal	10.4%
7	Santa Cruz	15.2%
8	Yavapai	9.6%
9	Yuma	23.1%

10

11

12

AWC's Eastern Group systems provide service to ratepayers in Cochise, Gila, Maricopa, and Pinal Counties.

13

14

The December 2011 unemployment rates of the communities served by AWC are as follows:

15

16

Community Unemployment Rates - December 2011

17

Apache Junction 7.4%

18

Bisbee 9.0%

19

Miami 12.2%

20

Oracle 11.0%

21

San Manuel 14.5%

22

Sierra Vista 4.9%

23

Superior 20.9%

24

Winkelman 6.6%

25

26

Q. After weighing the economic information that you've just discussed, do you believe that the 9.30 percent cost of equity capital that you have estimated is reasonable for the Company?

27

28

29

A. I believe that my recommended 9.30 percent cost of equity capital, which is 463 basis points higher than the current 4.67 percent yield on a Baa/BBB-rated utility bond, will provide AWC with a reasonable rate of return on invested capital when data on interest rates (that are low by historical standards), the current state of the economy, current rates of unemployment (both nationally and in Arizona), and the Fed's decision to

30

31

32

33

34

1 keep interest rates at their current levels into the latter part of 2014 are all
2 taken into consideration. As I noted earlier, the Hope decision determined
3 that a utility is entitled to earn a rate of return that is commensurate with
4 the returns it would make on other investments with comparable risk. I
5 believe that my cost of equity analysis, which is just below the high side of
6 the range of results I obtained from both the DCF and CAPM models, has
7 produced such a return.

8
9 **COST OF DEBT**

10 **Q. Have you reviewed AWC's testimony on the Company-proposed cost**
11 **of long-term debt?**

12 A. Yes.

13
14 **Q. What cost of long-term debt are you recommending for AWC?**

15 A. I am recommending that the Commission adopt the Company proposed
16 cost of debt of 6.82 percent.

17
18 **CAPITAL STRUCTURE**

19 **Q. Have you reviewed AWC's testimony regarding the Company's**
20 **proposed capital structure?**

21 A. Yes.

1 **Q. Please describe the Company's proposed capital structure.**

2 A. The Company is proposing a capital structure comprised of 49.03 percent
3 long-term debt and 50.97 percent common equity.
4

5 **Q. Is AWC's capital structure in line with industry averages?**

6 A. For the most part, yes. As can be seen in Schedule WAR-9, AWC's
7 capital structure is heavier in equity than the capital structures of the water
8 utilities in my sample and would be perceived by investors as having lower
9 financial risk. In the case of my LDC sample, AWC's capital structure has
10 slightly less equity. The capital structures for my sample water utilities
11 averaged 53.10 percent for debt and 46.90 percent for equity (46.8
12 percent common equity + 0.1 percent preferred equity). On the other
13 hand, AWC is not as heavy in equity as the capital structures of the LDCs
14 in my sample. The capital structures for those utilities averaged 47.10
15 percent for debt and 52.90 percent for equity (52.4 percent common equity
16 + 0.5 percent preferred equity).
17

18 **Q. What capital structure are you recommending for AWC?**

19 A. I am recommending that the Commission adopt the Company-proposed
20 capital structure comprised of 49.03 percent long-term debt and 50.97
21 percent common equity.
22
23

1 **WEIGHTED AVERAGE COST OF CAPITAL**

2 **Q. How does the Company's proposed weighted average cost of capital**
3 **compare with your recommendation?**

4 A. The Company has proposed a weighted average cost of capital of 9.72
5 percent. This figure is the result of a weighted average of AWC's
6 proposed 6.82 percent cost of long-term debt and 12.50 percent cost of
7 common equity capital. The Company-proposed 9.72 percent weighted
8 cost of capital is 164 basis points higher than the 8.08 percent weighted
9 cost of capital that I am recommending.

10
11 **COMMENTS ON AWC'S COST OF EQUITY CAPITAL**

12 **TESTIMONY**

13 **Q. How does your recommended cost of equity capital compare with**
14 **the cost of equity capital proposed by the Company?**

15 A. The Company's cost of capital witness, Dr. Zepp, is recommending a cost
16 of common equity of 12.50 percent. His 12.50 percent cost of equity
17 capital is 320 basis points higher than the 9.30 percent cost of equity
18 capital that I am recommending.

19
20 **Q. Briefly summarize Dr. Zepp's direct testimony.**

21 A. The first portion of Dr. Zepp's testimony describes the risks that he
22 believes AWC faces and why the Company requires an additional
23 premium of at least 90 basis points because of business risk that is higher

1 than that faced by the companies in his sample. The remainder of his
2 testimony presents the results of his DCF and CAPM analyses and
3 information that supports his 90 basis point risk premium.

4
5 **Q. What methods did Dr. Zepp use to arrive at his cost of common**
6 **equity for AWC?**

7 A. Dr. Zepp used both the DCF and CAPM methods. His DCF analysis
8 relies on two estimates for the growth component ("g") of the constant
9 model that I also used in my analysis. Dr. Zepp's DCF results range from
10 11.70 percent to 12.10 percent compared with my DCF estimates that
11 range from 8.46 percent to 9.32 percent. In regard to the CAPM, Dr. Zepp
12 also uses the same Sharpe/Litner version of the CAPM model that I have
13 used. His CAPM analysis uses two different market risk premium inputs
14 and his results range from 10.10 percent to 12.10 percent compared with
15 my CAPM estimates that range from 3.86 percent to 5.38 percent.

16
17 **DCF Comparison**

18 **Q. Please compare the results that you obtained from your DCF**
19 **analysis and the results that Dr. Zepp obtained from his DCF**
20 **analysis using the constant growth model?**

21 A. Dr. Zepp's average dividend yields of 3.27 percent and 3.36 percent,
22 based on three and six months of observed stock price movements
23 respectively, fall above and below the average 3.29 percent result I

1 obtained from my water company sample and below the 3.50 percent
2 average dividend yield obtained from my sample of LDCs. The main
3 reason for the difference in our DCF results are the growth estimates that
4 Dr. Zepp used in his DCF model. His first growth estimate of 8.42
5 percent, which he labels as "conceptually correct" produces a cost of
6 equity estimate of 12.00 percent when his 8.42 percent growth estimate is
7 added to a higher expected three month dividend yield of 3.54 percent and
8 an estimate of 12.10 percent when his 8.43 percent growth estimate is
9 added to an expected six month dividend yield of 3.65 percent. His
10 second growth estimate of 8.14 percent which is based on ACC Staff's
11 past approach for calculating DCF growth components, produced cost of
12 equity estimates of 11.70 percent to 11.80 percent when the 8.14 percent
13 growth estimate is added to his higher expected three month dividend
14 yield of 3.53 percent and to an expected six month dividend yield of 3.64
15 percent.

16
17 **Q. Do you agree with Dr. Zepp's estimates of growth?**

18 **A.** No. I believe that the main reason for the difference in our earnings
19 estimates is that Dr. Zepp is relying only on earnings per share forecasts
20 as opposed to taking estimates of future growth in earnings, dividends and
21 book value per share into consideration as I have in developing my DCF
22 growth estimates (current Value Line estimates of EPS, DPS and BVPS
23 for the companies included in my water and gas samples can be seen on

1 my Schedule WAR-6). Reliance on analysts' earnings per share
2 estimates alone would tend to produce the higher results obtained by Dr.
3 Zepp.

4
5 **CAPM Comparison**

6 **Q. What is the difference between the risk-free instrument that Dr. Zepp**
7 **used in his CAPM model and the one that you used?**

8 A. Dr. Zepp used forecasted yields on long-term U.S. Treasury instruments
9 as the input for the risk-free rate of return component in the CAPM model.
10 Dr Zepp's average forecasted long-term yield of 5.17 percent is 434 basis
11 points higher than 0.83 percent average yield of the 5-year treasury
12 instrument that I relied on.

13
14 **Q. What are your concerns with Dr. Zepp's use of forecasted yields on**
15 **long-term U.S. Treasury instruments for a risk-free rate of return?**

16 A. Besides the fact that Dr. Zepp relied on forecasts as opposed to actual
17 current yields (that result from prices for Treasury instruments that factor
18 in investors' future expectations) I believe that long-term treasury
19 instruments are not as suitable as intermediate-term instruments. As I
20 stated earlier in my testimony, utilities in Arizona typically file for rates
21 every three to five years. Because of this, I believe that the yield on a 5-
22 year U.S. Treasury Instrument is a better proxy for a risk-free rate of
23 return. That aside, analysts forecasts of interest rates generally tend to be

1 overly optimistic. Dr. Zepp's 5.17 percent risk-free rate is an average of
2 analysts' estimates of long-term Treasury rates for 2011, 2012 and 2013
3 which were made in February of 2011 and are now over a year old.

4
5 Q. Can you provide an updated comparison of Value Line long-term Treasury
6 rate forecasts?

7 A. Yes. A comparison of Value Line's current projections²⁹ with the
8 projections exhibited in Dr. Zepp's testimony can be seen below:

9

	<u>2012</u>	<u>2013</u>	<u>2014</u>
10 Value Line 2011	4.9%	5.2%	5.5%
11 Value Line 2012	<u>3.3%</u>	<u>3.7%</u>	<u>4.0%</u>
12 Difference	<u>1.6%</u>	<u>1.5%</u>	<u>1.5%</u>

13

14
15 Based on the above comparison, Value Line's analysts have lowered their
16 projections by an average of 153 basis points over the 2012 – 2014
17 period. Clearly the estimates relied on by Dr. Zepp are not valid at this
18 point in time given the Federal Reserve's intent to keep interest rates at
19 their current levels through the later part of 2014. Furthermore, long-term
20 rates appear to be falling as a result of the Fed's current plan to reduce
21 long-term interest rates just noted above.

²⁹ Value Line Investment Survey, Selection & Opinion, February 17, 2012

1 **Q. How did Dr. Zepp's average beta used in his CAPM model compare**
2 **with the average beta that you used in yours?**

3 A. Dr Zepp's average water company beta of 0.74 is higher than the average
4 0.71 beta for water companies that I used in my CAPM analysis. In fact,
5 several of the betas of the water company's that are common to both our
6 samples have fallen since Dr. Zepp's testimony was filed indicating lower
7 risk. A comparison of the betas that Dr. Zepp relied on and the more
8 recent ones that I relied is as follows:

	<u>AWC</u>	<u>RUCO</u>
9		
10	American States	0.75 0.70
11	Aqua America	0.65 0.65
12	California Water	0.70 0.65
13	Middlesex Water	0.75 0.70
14	SJW Corporation	0.90 0.85

15
16 As for the two water utilities that I did not include in my sample, American
17 Water Works' beta has remained stable at 0.65 and Connecticut Water
18 Service's beta has fallen from 0.80 to 0.75.

19
20 **Q. How does Dr. Zepp's market risk premium compare with the market**
21 **risk premium that you used in your CAPM analysis?**

22 A. Dr. Zepp relied on a 6.70 percent market risk premium published by
23 Morningstar which is close to the 6.40 percent market risk premium

1 (based on an arithmetic mean) that I relied on. He also relied on a higher
2 market risk premium of 9.40 percent. His 9.40 percent market risk
3 premium was calculated on a narrower range of observed data from 1984
4 through 2010 as opposed to the broader range that I relied on which
5 included total returns over the period between 1926 and 2010. I believe
6 that the time period that I relied on is more appropriate since it
7 encompasses a greater number of events that have impacted the U.S.
8 economy such as the Great Depression, a number of recessions with
9 varying degrees of severity, the U.S. involvement in five major armed
10 conflicts, which includes World War II, and periods of domestic political
11 and social strife).

12
13 **Q. How did Dr. Zepp arrive at his final 12.50 percent cost of common**
14 **equity for AWC?**

15 A. Dr. Zepp's final estimate of 12.50 percent is based upon an average of the
16 results of his various DCF and CAPM models. In arriving at final cost of
17 equity figure for AWC, he adds an additional 90 basis points, to take into
18 account the additional risks that Dr. Zepp believes AWC faces.

19
20 **Q. Do you agree with Dr. Zepp's assertion that AWC needs a 90 basis**
21 **point adjustment for business risk?**

22 A. No. Each of the Companies used in my water sample are essentially a
23 collection of water systems such as the ones that make up AWC. These

1 systems face the same type of risks faced by AWC and investors'
2 tolerance for those types of risk are reflected in the cost of equity capital
3 derived from my analysis. I believe that my 9.30 percent cost of equity,
4 which is 86 basis points higher than the DCF results of my LDC sample,
5 mitigates any perceived business risk that is unique to AWC. My
6 recommended 9.30 percent cost of common equity is also 30 basis points
7 higher than Value Line's 9.00 percent long-term average estimate for the
8 water industry's return on book common equity.

9
10 **Q. Does your silence on any of the issues, matters or findings**
11 **addressed in the testimony of Dr. Zepp or any other witness for AWC**
12 **constitute your acceptance of their positions on such issues,**
13 **matters or findings?**

14 A. No, it does not.

15
16 **Q. Does this conclude your testimony on AWC?**

17 A. Yes, it does.

Qualifications of William A. Rigsby, CRRA

EDUCATION:

University of Phoenix
Master of Business Administration, Emphasis in Accounting, 1993

Arizona State University
College of Business
Bachelor of Science, Finance, 1990

Mesa Community College
Associate of Applied Science, Banking and Finance, 1986

Society of Utility and Regulatory Financial Analysts
38th Annual Financial Forum and CRRA Examination
Georgetown University Conference Center, Washington D.C.
Awarded the Certified Rate of Return Analyst designation
after successfully completing SURFA's CRRA examination.

Michigan State University
Institute of Public Utilities
N.A.R.U.C. Annual Regulatory Studies Program, 1997 &1999

Florida State University
Center for Professional Development & Public Service
N.A.R.U.C. Annual Western Utility Rate School, 1996

EXPERIENCE:

Chief of Accounting and Rates
Residential Utility Consumer Office
October 2011 – Present

Public Utilities Analyst V
Residential Utility Consumer Office
April 2001 – Present

Senior Rate Analyst
Accounting & Rates - Financial Analysis Unit
Arizona Corporation Commission, Utilities Division
July 1999 – April 2001

Senior Rate Analyst
Residential Utility Consumer Office
December 1997 – July 1999

Utilities Auditor II and III
Accounting & Rates – Revenue Requirements Analysis Unit
Arizona Corporation Commission, Utilities Division
October 1994 – November 1997

Tax Examiner Technician I / Revenue Auditor II
Arizona Department of Revenue
Transaction Privilege / Corporate Income Tax Audit Units
July 1991 – October 1994

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
ICR Water Users Association	U-2824-94-389	Original CC&N
Rincon Water Company	U-1723-95-122	Rate Increase
Ash Fork Development Association, Inc.	E-1004-95-124	Rate Increase
Parker Lakeview Estates Homeowners Association, Inc.	U-1853-95-328	Rate Increase
Mirabell Water Company, Inc.	U-2368-95-449	Rate Increase
Bonita Creek Land and Homeowner's Association	U-2195-95-494	Rate Increase
Pineview Land & Water Company	U-1676-96-161	Rate Increase
Pineview Land & Water Company	U-1676-96-352	Financing
Montezuma Estates Property Owners Association	U-2064-96-465	Rate Increase
Houghland Water Company	U-2338-96-603 et al	Rate Increase
Sunrise Vistas Utilities Company – Water Division	U-2625-97-074	Rate Increase
Sunrise Vistas Utilities Company – Sewer Division	U-2625-97-075	Rate Increase
Holiday Enterprises, Inc. dba Holiday Water Company	U-1896-97-302	Rate Increase
Gardener Water Company	U-2373-97-499	Rate Increase
Cienega Water Company	W-2034-97-473	Rate Increase
Rincon Water Company	W-1723-97-414	Financing/Auth. To Issue Stock
Vail Water Company	W-01651A-97-0539 et al	Rate Increase
Bermuda Water Company, Inc.	W-01812A-98-0390	Rate Increase
Bella Vista Water Company	W-02465A-98-0458	Rate Increase
Pima Utility Company	SW-02199A-98-0578	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

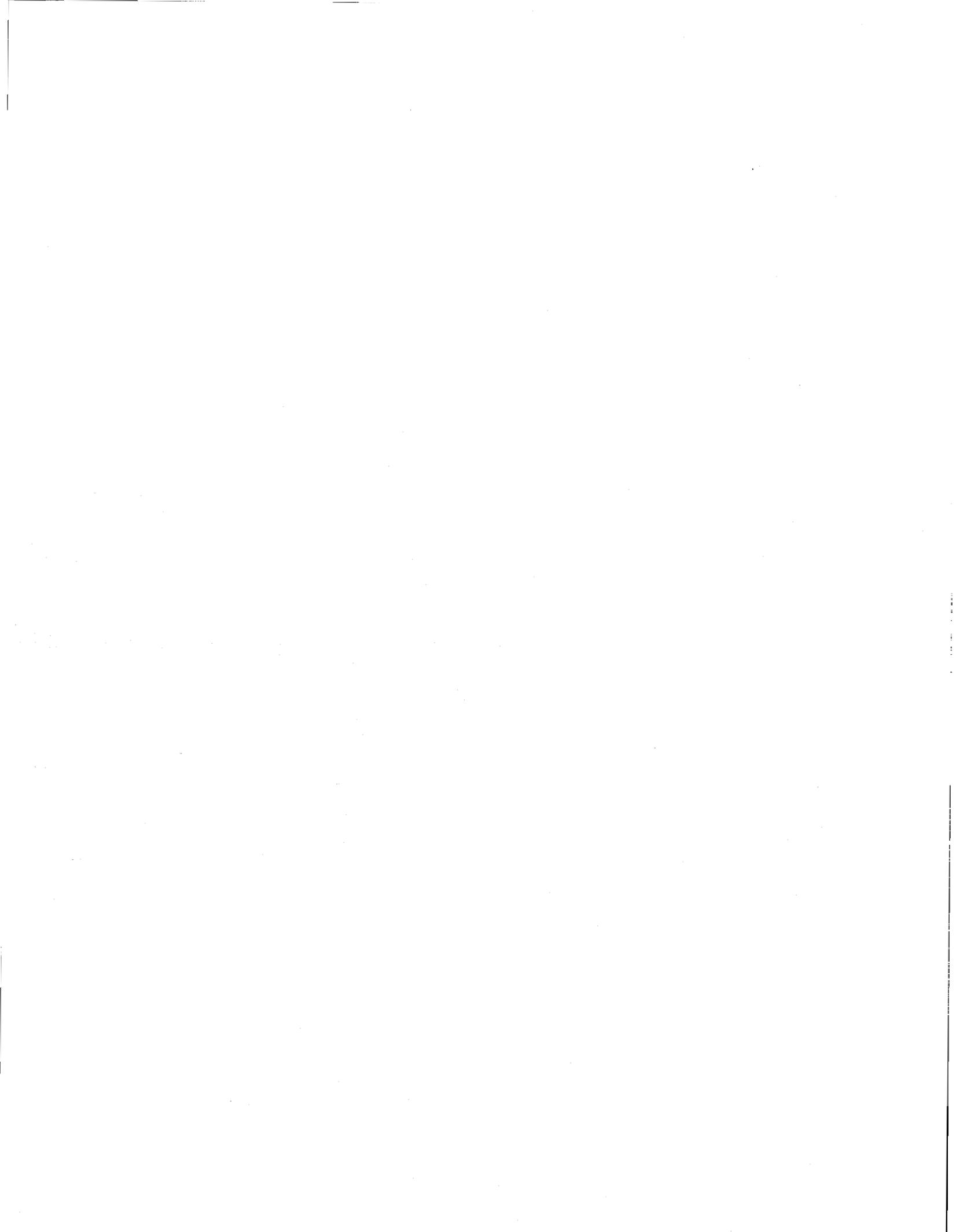
<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
Pineview Water Company	W-01676A-99-0261	WIFA Financing
I.M. Water Company, Inc.	W-02191A-99-0415	Financing
Marana Water Service, Inc.	W-01493A-99-0398	WIFA Financing
Tonto Hills Utility Company	W-02483A-99-0558	WIFA Financing
New Life Trust, Inc. dba Dateland Utilities	W-03537A-99-0530	Financing
GTE California, Inc.	T-01954B-99-0511	Sale of Assets
Citizens Utilities Rural Company, Inc.	T-01846B-99-0511	Sale of Assets
MCO Properties, Inc.	W-02113A-00-0233	Reorganization
American States Water Company	W-02113A-00-0233	Reorganization
Arizona-American Water Company	W-01303A-00-0327	Financing
Arizona Electric Power Cooperative	E-01773A-00-0227	Financing
360networks (USA) Inc.	T-03777A-00-0575	Financing
Beardsley Water Company, Inc.	W-02074A-00-0482	WIFA Financing
Mirabell Water Company	W-02368A-00-0461	WIFA Financing
Rio Verde Utilities, Inc.	WS-02156A-00-0321 et al	Rate Increase/ Financing
Arizona Water Company	W-01445A-00-0749	Financing
Loma Linda Estates, Inc.	W-02211A-00-0975	Rate Increase
Arizona Water Company	W-01445A-00-0962	Rate Increase
Mountain Pass Utility Company	SW-03841A-01-0166	Financing
Picacho Sewer Company	SW-03709A-01-0165	Financing
Picacho Water Company	W-03528A-01-0169	Financing
Ridgeview Utility Company	W-03861A-01-0167	Financing
Green Valley Water Company	W-02025A-01-0559	Rate Increase
Bella Vista Water Company	W-02465A-01-0776	Rate Increase
Arizona Water Company	W-01445A-02-0619	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
Arizona-American Water Company	W-01303A-02-0867 et al.	Rate Increase
Arizona Public Service Company	E-01345A-03-0437	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-03-0434	Rate Increase
Qwest Corporation	T-01051B-03-0454	Renewed Price Cap
Chaparral City Water Company	W-02113A-04-0616	Rate Increase
Arizona Water Company	W-01445A-04-0650	Rate Increase
Tucson Electric Power	E-01933A-04-0408	Rate Review
Southwest Gas Corporation	G-01551A-04-0876	Rate Increase
Arizona-American Water Company	W-01303A-05-0405	Rate Increase
Black Mountain Sewer Corporation	SW-02361A-05-0657	Rate Increase
Far West Water & Sewer Company	WS-03478A-05-0801	Rate Increase
Gold Canyon Sewer Company	SW-02519A-06-0015	Rate Increase
Arizona Public Service Company	E-01345A-05-0816	Rate Increase
Arizona-American Water Company	W-01303A-05-0718	Transaction Approval
Arizona-American Water Company	W-01303A-05-0405	ACRM Filing
Arizona-American Water Company	W-01303A-06-0014	Rate Increase
UNS Gas, Inc.	G-04204A-06-0463	Rate Increase
Arizona-American Water Company	WS-01303A-06-0491	Rate Increase
UNS Electric, Inc.	E-04204A-06-0783	Rate Increase
Arizona-American Water Company	W-01303A-07-0209	Rate Increase
Tucson Electric Power	E-01933A-07-0402	Rate Increase
Southwest Gas Corporation	G-01551A-07-0504	Rate Increase
Chaparral City Water Company	W-02113A-07-0551	Rate Increase
Arizona Public Service Company	E-01345A-08-0172	Rate Increase
Johnson Utilities, LLC	WS-02987A-08-0180	Rate Increase
Arizona-American Water Company	W-01303A-08-0227 et al.	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
UNS Gas, Inc.	G-04204A-08-0571	Rate Increase
Arizona Water Company	W-01445A-08-0440	Rate Increase
Far West Water & Sewer Company	WS-03478A-08-0608	Interim Rate Increase
Black Mountain Sewer Corporation	SW-02361A-08-0609	Rate Increase
Global Utilities	SW-02445A-09-0077 et al.	Rate Increase
Litchfield Park Service Company	SW-01428A-09-0104 et al.	Rate Increase
UNS Electric, Inc.	E-04204A-09-0206	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-08-09-0257	Rate Increase
Arizona-American Water Company	W-01303A-09-0343	Rate Increase
Bella Vista Water Company	W-02465A-09-0411 et al.	Rate Increase
Chaparral City Water Company	W-02113A-10-0309	Reorganization
Qwest Communications International	T-04190A-10-0194 et al.	Merger
CenturyLink, Inc.	T-04190A-10-0194 et al.	Merger
Southwest Gas Corporation	G-01551A-10-0458	Rate Increase
Arizona-American Water Company	W-01303A-10-0448	Rate Increase
Arizona-American Water Company	W-01303A-11-0101	Reorganization
Bermuda Water Company, Inc.	W-01812A-10-0521	Rate Increase
UNS Gas, Inc.	G-04204A-11-0158	Rate Increase
Arizona Public Service Company	E-01345A-11-0224	Rate Increase
Arizona-American Water Company	W-01303A-09-0343	Deconsolidation
Arizona Water Company	W-01445A-10-0517	Rate Increase



ATTACHMENT A

INDUSTRY TIMELINESS: 16 (of 98)

The Water Utility Industry has held up relatively well since our last visit in October. Although a slew of recently released economic data suggests that the housing and job market are on the road to recovery, many still-wary pundits appear to be reserving judgment until there are clearer signs of stability. Some are even saying that the uptick in jobs and new home sales is being artificially supported, and that another downturn could be on the horizon. Either way, investors' cautious approach is evident, with many continuing to seek shelter from potential market volatility in the relatively safe Water Utility Industry. As a result, the group, as a whole, ranks in the upper rungs of *The Value Line Investment Survey* for Timeliness.

That being said, not all that operate in this space have exactly been supporting their own causes. Many ran into trouble in the most recent quarter, raising concern that the group may have difficulty growing earnings in the months ahead. Burgeoning maintenance and capital expenditure costs remain a problem, despite more favorable regulatory backing.

Still, the group's income component has historically been its attraction. Steady dividend growth ought to continue to pique investor interest, but for how long, given a plethora of alternatives and financial constraints that may well limit capital deployment in the future.

Industry Backdrop

Water providers are responsible for the safe and timely delivery of water to millions of people daily. That being said, these companies are almost as important as the liquid they provide itself. Population growth ought to support healthy demand for the foreseeable future.

And, although purification and distribution standards are stringent, utilities have been riding the wave of improved regulatory climate. Indeed, state regulatory boards, which are also responsible for, among other things, keeping the balance of power between providers and customers, have been far more business friendly in recent memory. This is extremely important given that these boards are required to review and rule on general rate case requests submitted by providers looking to recover costs incurred during distribution. As costs of doing business have swelled, so to has their importance to the livelihoods of many operating in this group.

Rising Costs of Doing Business

As time goes by many already aging water infrastructures grow older and need repair, or perhaps complete overhauls. These costs have soared into the hundreds of millions of dollars and are not likely to subside anytime soon, without repercussions. A more business-friendly regulatory environment is offsetting some of the burden, but expenses related to doing business are eating away at profit margins.

Meanwhile, most that operate in this segment are not exactly flush with cash. Balance sheets are highly leveraged, so the cash coffers are usually strapped. Although external financing has become routine, the financial constraints are precluding most from being more active on the acquisition front.

Conclusion

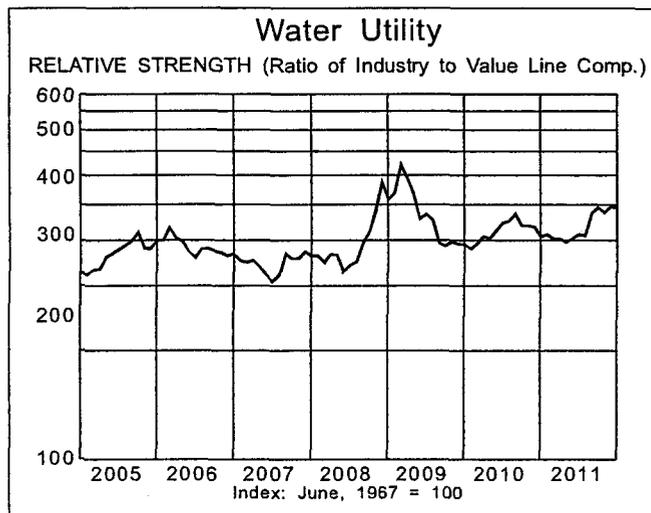
Favorable housing and job reports have given the broader market some legs in recent weeks, which would appear to spell bad news for this group. However, the economy has been turbulent, and if the naysayers are right, now may be a good time for investors seeking capital preservation and a steady stream of income to dip into the Water Utility Industry.

Although not known for its growth potential, this sector offers a number of promising income producers, none of which are more prominent than *Middlesex Water Company*. It sports a nearly 4% yield and a 2 (Above Average) Safety rank. *American States Water*, however, is another interesting choice. Top ranked for Timeliness, it too has a healthy dividend yield and exceedingly better 3- to 5-year price appreciation appeal.

That said, prospective investors should keep in mind the industry's capital restraints and potentially lower yields looking further out. As such, there are better streams of income to be had, especially in the Electric Utility Industry.

Andre J. Costanza

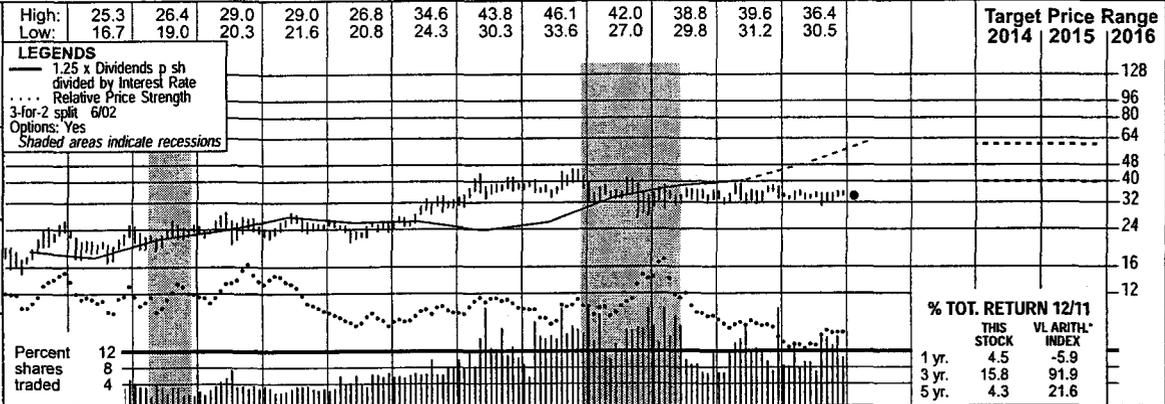
Composite Statistics: Water Utility Industry							
2007	2008	2009	2010	2011	2012	14-16	
3777.9	4004.3	4228.9	4614.5	4775	5125	Revenues (\$mill)	6175
d157.5	384.1	409.6	500.8	570	630	Net Profit (\$mill)	800
NMF	NMF	NMF	40.0%	39.0%	39.0%	Income Tax Rate	39.0%
NMF	1.5%	1.1%	1.0%	1.0%	2.0%	AFUDC % to Net Profit	7.0%
50.9%	52.1%	55.1%	55.3%	55.0%	53.0%	Long-Term Debt Ratio	49.0%
49.1%	47.9%	44.9%	54.7%	45.0%	47.0%	Common Equity Ratio	51.0%
13134.6	12795.2	14011.9	14720.8	15275	15975	Total Capital (\$mill)	17550
14542.8	15611.0	15910.8	17869.0	18350	19400	Net Plant (\$mill)	22250
4%	4.5%	4.4%	4.9%	5.0%	6.0%	Return on Total Cap'l	8.0%
NMF	6.3%	6.5%	7.7%	8.0%	8.5%	Return on Shr. Equity	9.0%
NMF	6.3%	6.5%	7.7%	8.0%	8.5%	Return on Com Equity	9.0%
NMF	3.0%	2.1%	3.1%	3.0%	3.5%	Retained to Com Eq	4.0%
NMF	51%	68%	60%	57%	55%	All Div'ds to Net Prof	53%
NMF	20.7	19.3	17.3	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	21.0
NMF	1.25	1.29	1.10			Relative P/E Ratio	1.40
2.3%	2.5%	3.5%	3.4%			Avg Ann'l Div'd Yield	2.8%



AMER. STATES WATER NYSE-AWR

RECENT PRICE **34.29** P/E RATIO **15.0** (Trailing: 13.6 Median: 22.0) RELATIVE P/E RATIO **1.02** DIV'D YLD **3.3%** VALUE LINE

TIMELINESS 1 Raised 9/16/11
SAFETY 3 New 2/4/00
TECHNICAL 3 Lowered 12/16/11
BETA .70 (1.00 = Market)



2014-16 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	60	(+75%)	18%
Low	40	(+15%)	7%

Insider Decisions

	F	M	A	M	J	A	S	O
to Buy	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	3	2
to Sell	0	0	0	0	0	0	4	1

Institutional Decisions

	1Q2011	2Q2011	3Q2011
to Buy	51	48	58
to Sell	48	55	54
Hld's(000)	11214	11377	11349

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	© VALUE LINE PUB. LLC 14-16
11.03	11.37	11.44	11.02	12.91	12.17	13.06	13.78	13.98	13.61	14.06	15.76	17.49	18.42	19.48	21.41	22.65	23.15	Revenues per sh
1.75	1.75	1.85	2.04	2.26	2.20	2.53	2.54	2.08	2.23	2.64	2.89	3.31	3.37	3.40	4.23	4.55	4.60	"Cash Flow" per sh
1.03	1.13	1.04	1.08	1.19	1.28	1.35	1.34	.78	1.05	1.32	1.33	1.62	1.55	1.62	2.22	2.25	2.30	Earnings per sh ^A
.81	.82	.83	.84	.85	.86	.87	.87	.88	.89	.90	.91	.96	1.00	1.01	1.04	1.10	1.16	Div'd Decl'd per sh ^{B=}
2.19	2.40	2.58	3.11	4.30	3.03	3.18	2.68	3.76	5.03	4.24	3.91	2.89	4.45	4.18	4.24	4.55	4.75	Cap'l Spending per sh
10.29	11.01	11.24	11.48	11.82	12.74	13.22	14.05	13.97	15.01	15.72	16.64	17.53	17.95	19.39	20.26	21.85	22.10	Book Value per sh
11.77	13.33	13.44	13.44	13.44	15.12	15.12	15.18	15.21	16.75	16.80	17.05	17.23	17.30	18.53	18.63	18.75	19.00	Common Shs Outst'g ^C
11.6	12.6	14.5	15.5	17.1	15.9	16.7	18.3	31.9	23.2	21.9	27.7	24.0	22.6	21.2	15.7	15.3		Avg Ann'l P/E Ratio
.78	.79	.84	.81	.97	1.03	.86	1.00	1.82	1.23	1.17	1.50	1.27	1.36	1.41	1.01	.96		Relative P/E Ratio
6.7%	5.8%	5.5%	5.0%	4.2%	4.2%	3.9%	3.6%	3.5%	3.6%	3.1%	2.5%	2.5%	2.9%	2.9%	3.0%	3.2%		Avg Ann'l Div'd Yield

CAPITAL STRUCTURE as of 9/30/11
 Total Debt \$345.3 mill. Due in 5 Yrs \$281.0 mill.
 LT Debt \$340.4 mill. LT Interest \$24.0 mill.
 (LT interest earned: 5.5x: total interest coverage: 5.2x)

Leases, Uncapitalized: Annual rentals \$3.3 mill.

Pension Assets-12/10 \$90.2 mill.
 Oblig. \$118.8 mill.

Pfd Stock None.

Common Stock 18,735,254 shs.
 as of 11/14/11
MARKET CAP: \$650 million (Small Cap)

197.5	209.2	212.7	228.0	236.2	268.6	301.4	318.7	361.0	398.9	425	450	Revenues (\$mill)	535
20.4	20.3	11.9	16.5	22.5	23.1	28.0	26.8	29.5	41.4	43.0	44.0	Net Profit (\$mill)	52.0
43.0%	38.9%	43.5%	37.4%	47.0%	40.5%	42.6%	37.8%	38.9%	43.2%	42.5%	42.0%	Income Tax Rate	40.0%
--	--	--	--	--	12.2%	8.5%	6.9%	3.2%	5.8%	5.0%	5.0%	AFUDC % to Net Profit	5.0%
54.9%	52.0%	52.0%	47.7%	50.4%	48.6%	46.9%	46.2%	45.9%	44.3%	45.5%	45.0%	Long-Term Debt Ratio	47.0%
44.7%	48.0%	48.0%	52.3%	49.6%	51.4%	53.1%	53.8%	54.1%	55.7%	54.5%	55.0%	Common Equity Ratio	53.0%
447.6	444.4	442.3	480.4	532.5	551.6	569.4	577.0	665.0	677.4	750	765	Total Capital (\$mill)	840
539.8	563.3	602.3	664.2	713.2	750.6	776.4	825.3	866.4	855.0	900	950	Net Plant (\$mill)	1050
6.1%	6.5%	4.6%	5.2%	5.4%	6.0%	6.7%	6.4%	5.9%	7.6%	7.5%	7.0%	Return on Total Cap'l	8.0%
10.1%	9.5%	5.6%	6.6%	8.5%	8.1%	9.3%	8.6%	8.2%	11.0%	10.5%	10.5%	Return on Shr. Equity	11.5%
10.1%	9.5%	5.6%	6.6%	8.5%	8.1%	9.3%	8.6%	8.2%	11.0%	10.5%	10.5%	Return on Com Equity	11.5%
3.6%	3.3%	NMF	1.0%	2.8%	2.7%	3.9%	3.1%	3.2%	5.8%	5.5%	5.5%	Retained to Com Eq	6.0%
65%	65%	113%	84%	67%	67%	58%	64%	61%	47%	48%	51%	All Div'ds to Net Prof	51%

CURRENT POSITION (\$MILL.)

	2009	2010	9/30/11
Cash Assets	1.7	4.2	5.2
Other	94.3	200.8	155.0
Current Assets	96.0	205.0	160.2
Accts Payable	33.9	36.2	43.7
Debt Due	18.1	61.4	4.9
Other	47.7	81.2	67.8
Current Liab.	99.7	178.8	116.4
Fix. Chg. Cov.	352%	441%	400%

ANNUAL RATES of change (per sh)

	Past 10 Yrs	Past 5 Yrs	Est'd '08-'10 to '14-'16
Revenues	5.0%	7.5%	3.5%
"Cash Flow"	5.5%	9.5%	6.0%
Earnings	4.5%	11.5%	6.5%
Dividends	2.0%	2.5%	4.5%
Book Value	5.0%	5.0%	.5%

QUARTERLY REVENUES (\$mill.)

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2008	68.9	80.3	85.3	84.2	318.7
2009	79.6	93.6	101.5	86.3	361.0
2010	88.4	95.5	111.3	103.7	398.9
2011	94.3	109.8	119.9	101	425
2012	100	115	125	110	450

EARNINGS PER SHARE ^A

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2008	.30	.53	.26	.43	1.55
2009	.28	.64	.52	.18	1.62
2010	.45	.47	.62	.71	2.22
2011	.37	.68	.83	.37	2.25
2012	.42	.67	.80	.41	2.30

QUARTERLY DIVIDENDS PAID ^{B=}

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2008	.250	.250	.250	.250	1.00
2009	.250	.250	.250	.260	1.01
2010	.260	.260	.260	.260	1.04
2011	.260	.280	.280	.280	1.10
2012					

BUSINESS: American States Water Co. operates as a holding company. Through its principal subsidiary, Golden State Water Company, it supplies water to more than 250,000 customers in 75 communities in 10 counties. Service areas include the greater metropolitan areas of Los Angeles and Orange Counties. The company also provides electric utility services to nearly 23,250 customers in the city of Big Bear Lake and in areas of San Bernardino County. Sold Chaparral City Water of Arizona (6/11). Has 703 employees. Officers & directors own 2.9% of common stock (4/11 Proxy). Chairman: Lloyd Ross. President & CEO: Robert J. Sprowls, Inc. CA. Addr: 630 East Foothill Boulevard, San Dimas, CA 91773. Tel: 909-394-3600. Internet: www.aswater.com.

American States Water is ranked 1 (Highest) for Timeliness. Earnings momentum has been tremendous, with the water utility posting growth of nearly 35% in the third quarter, and 14% through the first nine months of the 2011 (fourth-quarter and full-year results were not released as of the date of our report). The stock becomes even more attractive for those remaining bearish on a macro-economic turnaround, as Wall Street tends to pour money into utilities during times of uncertainty.

We suspect that bottom-line growth tapered off considerably in the fourth quarter, but remained healthy all things considered. Although it appears as though we look for earnings to plummet sharply, note that fourth-quarter 2010 earnings included a gain of roughly \$0.30 for the recognition of retroactive revenues earlier in the year. Absent the gain, we estimate that share earnings advanced nearly 20% in the December period, thanks primarily to higher water rates, the result of a more favorable regulatory environment, from the company's Golden State water subsidiary.

The company apparently has come to a resolution regarding its cost of capital request. The Division of Ratepayer Advocates has suggested that the California Public Utilities Commission (CPUC) authorize the company a 9.99% return on equity, and a rate making capital structure of 55% equity/45% debt. The CPUC is expected to sign off on the request. Nevertheless, rising operating costs are likely to make earnings growth harder to come by this year and thereafter. We do not think that cost controls will be able to offset the growing infrastructure expenses and repairs that will be necessary as watersystems grow older and in need of repair. **The stock's long-term growth prospects are nothing to write home about.** Even AWR's dividend yield, though healthy versus the Value Line median, loses some appeal when compared to its utility brethren. **That said, diversification may well help.** Management's expansion into non-regulated areas, namely military bases, could spark earnings growth.

Andre J. Costanza January 20, 2012

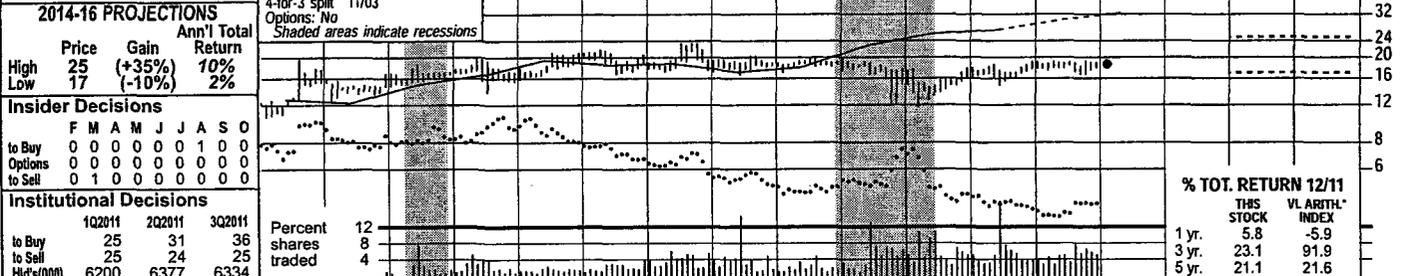
(A) Primary earnings. Excludes nonrecurring gains/losses: '04, 14¢; '05, 25¢; '06, 6¢; '08, (27¢); '10, (45¢) '11, 20¢. Next earnings report due early March. Quarterly egs. may not add due to rounding. (B) Dividends historically paid in early March, June, September, and December. ■ Div'd reinvestment plan available. (C) In millions, adjusted for split.

Company's Financial Strength B++
Stock's Price Stability 90
Price Growth Persistence 60
Earnings Predictability 85

MIDDLESEX WATER NDQ-MSEX

RECENT PRICE **18.69** P/E RATIO **20.1** (Trailing: 21.0 Median: 23.0) RELATIVE P/E RATIO **1.37** DIVD YLD **4.0%** VALUE LINE

TIMELINESS 4 Lowered 1/20/12	High: 17.0 18.7 20.0 21.2 21.8 23.5 20.5 20.2 19.8 17.9 19.3 19.4	Low: 12.5 14.7 13.7 15.8 16.7 17.1 16.5 16.9 12.0 11.6 14.7 16.5	Target Price Range 2014 2015 2016
SAFETY 2 New 10/21/11			
TECHNICAL 3 Lowered 12/9/11			
BETA .70 (1.00 = Market)			



2014-16 PROJECTIONS		Ann'l Total		1995-2012													© VALUE LINE PUB. LLC 14-16							
Price	Gain	Return		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Revenues per sh	8.25	
High	25	(+35%)	10%	4.56	4.52	4.72	4.39	5.35	5.39	5.87	5.98	6.12	6.25	6.44	6.16	6.50	6.79	6.75	6.60	6.70	6.90	"Cash Flow" per sh	2.25	
Low	17	(-10%)	2%	1.01	.94	1.02	1.02	1.19	.99	1.18	1.20	1.15	1.28	1.33	1.33	1.49	1.53	1.40	1.55	1.60	1.70	Earnings per sh ^A	1.20	
				.68	.60	.67	.71	.76	.51	.66	.73	.61	.73	.71	.82	.87	.89	.72	.96	.90	1.00	Div'd Decl'd per sh ^{B=C}	.80	
				.54	.55	.57	.58	.60	.61	.62	.63	.65	.66	.67	.68	.69	.70	.71	.72	.73	.74	1.00	Cap'l Spending per sh	5.00
				1.08	.73	1.20	2.68	2.33	1.32	1.25	1.59	1.87	2.54	2.18	2.31	1.66	2.12	1.49	1.90	4.15	4.40	10.80	Book Value per sh	11.10
				5.74	5.85	6.00	6.80	6.95	6.98	7.11	7.39	7.60	8.02	8.26	9.52	10.05	10.33	11.13	10.75	10.75	10.75	16.00	Common Shs Outst'g ^C	17.00
				8.30	8.41	8.54	9.82	10.00	10.11	10.17	10.36	10.48	11.36	11.58	13.17	13.25	13.40	13.52	15.57	15.70	16.00		Avg Ann'l P/E Ratio	17.0
				12.2	14.4	13.4	15.2	17.6	28.7	24.6	23.5	30.0	26.4	27.4	22.7	21.6	19.8	21.0	17.8	20.8			Relative P/E Ratio	1.15
				.82	.90	.77	.79	1.00	1.87	1.26	1.28	1.71	1.39	1.46	1.23	1.15	1.19	1.40	1.13	1.41			Avg Ann'l Div'd Yield	4.3%
				6.5%	6.4%	6.3%	5.4%	4.4%	4.2%	3.8%	3.7%	3.5%	3.4%	3.5%	3.7%	3.7%	4.0%	4.7%	4.0%					

CAPITAL STRUCTURE as of 9/30/11																		
Total Debt \$137.2 mill. Due in 5 Yrs \$25.0 mill.																		
LT Debt \$132.6 mill. LT Interest \$6.0 mill.																		
(LT interest coverage: 4.5x)																		
Pension Assets-12/10 \$30.0 mill.																		
Oblig. \$42.1 mill.																		
Pfd Stock \$3.4 mill. Pfd Div'd: \$2 mill.																		
Common Stock 15,634,889 shs.																		
as of 10/31/11																		
MARKET CAP: \$300 million (Small Cap)																		
CURRENT POSITION (\$MILL.)																		
Cash Assets																		
Other																		
Current Assets																		
Accts Payable																		
Debt Due																		
Other																		
Current Liab.																		
Fix. Chg. Cov.																		

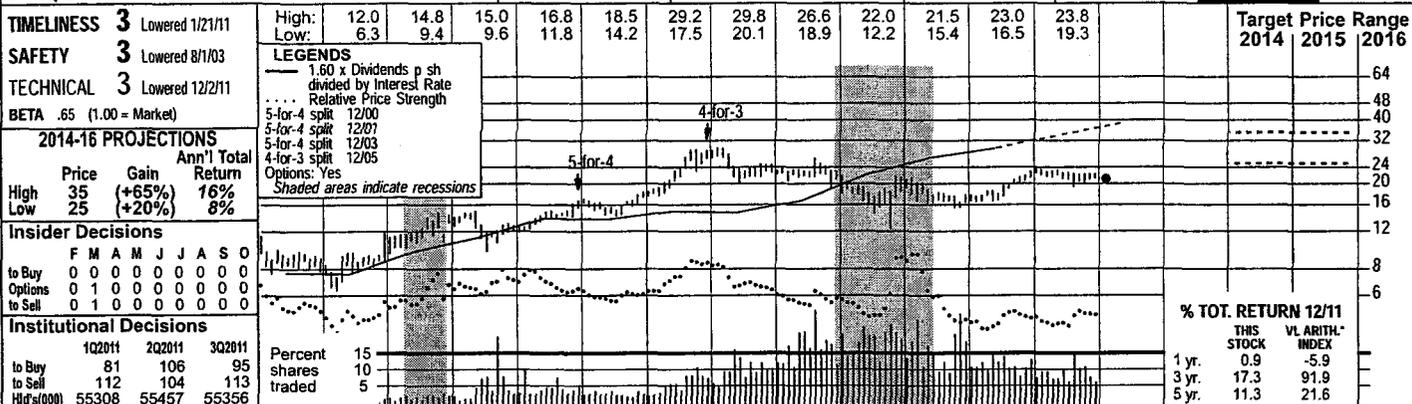
BUSINESS: Middlesex Water Company engages in the ownership and operation of regulated water utility systems in New Jersey, Delaware, and Pennsylvania. It also operates water and wastewater systems under contract on behalf of municipal and private clients in NJ and DE. Its Middlesex System provides water services to 60,000 retail customers, primarily in Middlesex County, New Jersey. In 2010, the Middlesex System accounted for 64% of total revenues. At 12/31/10, the company had 292 employees. Incorporated: NJ. President, CEO, and Chairman: Dennis W. Doll. Officers/directors own 3.39% of the common stock; BlackRock, 7.0%; The Vanguard Group, 5.0% (4/11 proxy). Address: 1500 Ronson Road, Iselin, NJ 08830. Tel.: 732-634-1500. Internet: www.middlesexwater.com.

ANNUAL RATES of change (per sh)																		
Revenues																		
"Cash Flow"																		
Earnings																		
Dividends																		
Book Value																		
QUARTERLY REVENUES (\$ mill.)																		
2008																		
2009																		
2010																		
2011																		
2012																		
EARNINGS PER SHARE ^A																		
2008																		
2009																		
2010																		
2011																		
2012																		
QUARTERLY DIVIDENDS PAID ^{B=C}																		
2008																		
2009																		
2010																		
2011																		
2012																		

Middlesex Water Company floundered in 2011. The water utility (which offers services to customers in New Jersey, Delaware, and Pennsylvania) will likely report a more than 5% decline in share earnings for the year. That said, the company should bounce back in 2012, on favorable rate rulings and an improving economy, particularly in its favored state of New Jersey, where Middlesex Systems serves over 60,000 customers. **The company instituted a dividend increase,** with the payout going from \$0.183 to \$0.185. The first distribution at the higher level was made on December 1st. **Modest growth in earnings looks to be the norm in the near term.** Lower water consumption (a result of cooler temperatures and a wet winter thus far), is likely to put stress on revenues from the segment. Furthermore, Operations and Management expenses rose 4.5% for the quarter, a result of production related expenses, as well as employee healthcare and post-retirement costs. As these trends are unlikely to fall in the next few years (indeed, the post-retirement and healthcare expenses should show an upward pattern), it is quite likely that the expenses will hinder the bottom line, slowing down earnings growth in the near term. **The company's long-term prospects seem mixed at this time.** Middlesex has several rate cases going forward this year. It filed a \$6.9 million rate request in Delaware in mid-September (mostly to recoup expenses from maintenance outlays), and plans to file a (much larger) case in New Jersey. Favorable outcomes in these cases would work to considerably boost the top and bottom lines for the 3- to 5-year pull. Furthermore, the company has several projects in mind to increase its growth prospects, as well as its customer base for the long-term. However, we remain wary of Middlesex's lackluster expense control. To invest heavily in future projects will result in a rise in expenses, which in turn will work to stress the bottom line. **Income-oriented investors might want to look here.** The good quality equity has an above industry average dividend yield, and with a strong cash flow position, future payouts are quite secure for now. *Sahana Zutshi January 20, 2012*

AQUA AMERICA NYSE-WTR

RECENT PRICE **21.18** P/E RATIO **20.0** (Trailing: 21.8 Median: 25.0) RELATIVE P/E RATIO **1.36** DIVD YLD **3.1%** VALUE LINE



1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	© VALUE LINE PUB. LLC	14-16
1.84	1.86	2.02	2.09	2.41	2.46	2.70	2.85	2.97	3.48	3.85	4.03	4.52	4.63	4.91	5.26	5.40	5.70	Revenues per sh	6.70
.47	.50	.56	.61	.72	.76	.86	.94	.96	1.09	1.21	1.26	1.37	1.42	1.61	1.78	1.95	2.05	"Cash Flow" per sh	2.40
.29	.30	.34	.40	.42	.47	.51	.54	.57	.64	.71	.70	.71	.73	.77	.90	1.05	1.10	Earnings per sh ^A	1.40
.22	.23	.24	.26	.27	.28	.30	.32	.35	.37	.40	.44	.48	.51	.55	.59	.63	.66	Div'd Decl'd per sh ^B	.78
.52	.48	.58	.82	.90	1.16	1.09	1.20	1.32	1.54	1.84	2.05	1.79	1.98	2.08	2.37	2.25	2.30	Cap'l Spending per sh	2.45
2.46	2.69	2.84	3.21	3.42	3.85	4.15	4.36	5.34	5.89	6.30	6.96	7.32	7.82	8.12	8.51	8.95	9.40	Book Value per sh	11.05
63.74	65.75	67.47	72.20	106.80	111.82	113.97	113.19	123.45	127.18	128.97	132.33	133.40	135.37	136.49	137.97	138.90	139.90	Common Shs Outst'g ^C	142.90
12.0	15.6	17.8	22.5	21.2	18.2	23.6	23.6	24.5	25.1	31.8	34.7	32.0	24.9	23.1	21.1	20.2		Avg Ann'l P/E Ratio	21.0
.80	.98	1.03	1.17	1.21	1.18	1.21	1.29	1.40	1.33	1.69	1.87	1.70	1.50	1.54	1.36	1.36		Relative P/E Ratio	1.40
6.2%	4.9%	3.9%	2.9%	3.0%	3.3%	2.5%	2.5%	2.5%	2.3%	1.8%	1.8%	2.1%	2.8%	3.1%	3.1%	3.0%		Avg Ann'l Div'd Yield	2.7%

CAPITAL STRUCTURE as of 9/30/11				2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	
Total Debt \$1497.9 mill. Due in 5 Yrs \$300 mill.				307.3	322.0	367.2	442.0	496.8	533.5	602.5	627.0	670.5	726.1	750	800	800	800	800	800	800	800
LT Debt \$1402.5 mill. LT Interest \$65.0 mill.				58.5	62.7	67.3	80.0	91.2	92.0	95.0	97.9	104.4	124.0	145	155	155	155	155	155	155	155
(LT interest earned: 4.5x; total interest coverage: 4.5x)				39.3%	38.5%	39.3%	39.4%	38.4%	39.6%	38.9%	39.7%	39.4%	39.2%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
Pension Assets-12/10 \$159.2 mill. Oblig. \$234.9 mill.				52.2%	54.2%	51.4%	50.0%	52.0%	51.6%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%	51.0%	51.0%	51.0%	51.0%	51.0%	51.0%
Pfd Stock None				47.7%	45.8%	48.6%	50.0%	48.0%	48.4%	44.6%	45.9%	44.4%	43.4%	47.0%	49.0%	49.0%	49.0%	49.0%	49.0%	49.0%	49.0%
Common Stock 138,568,084 shares as of 10/24/11				990.4	1076.2	1355.7	1497.3	1690.4	1904.4	2191.4	2306.6	2495.5	2706.2	2640	2685	2685	2685	2685	2685	2685	2685
MARKET CAP: \$2.9 billion (Mid Cap)				1368.1	1490.8	1824.3	2069.8	2280.0	2506.0	2792.8	2997.4	3227.3	3469.3	3625	3785	3785	3785	3785	3785	3785	3785
CURRENT POSITION				7.8%	7.6%	6.4%	6.7%	6.9%	6.4%	5.9%	5.7%	5.6%	5.9%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Cash Assets				12.3%	12.7%	10.2%	10.7%	11.2%	10.0%	9.7%	9.3%	9.4%	10.6%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%
Receivables				5.1%	5.2%	4.2%	4.6%	4.9%	3.7%	3.2%	2.8%	2.7%	3.7%	5.0%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Inventory (AvgCst)				59%	59%	59%	57%	56%	63%	67%	70%	72%	65%	59%	60%	60%	60%	60%	60%	60%	60%
Other																					
Current Assets																					
Accts Payable																					
Debt Due																					
Other																					
Current Liab.																					
Fix. Chg. Cov.																					

BUSINESS: Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately three million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and five other states. Divested three of four non-water businesses in '91; telemarketing group in '93; and others. Acquired AquaSource, 7/03; Consumers Water, 4/99; and others. Water supply revenues '10: residential, 59.5%; commercial, 14.5%; industrial & other, 26.0%. Officers and directors own 2.0% of the common stock (4/11 Proxy). Chairman & Chief Executive Officer: Nicholas DeBenedictis. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Telephone: 610-525-1400. Internet: www.aquaamerica.com.

Aqua America likely ended 2011 with an approximately 15% rise in earnings from the previous year. Consumer demand was most likely the main factor in the top-and-bottom-line growth. Management has decided to increase the quarterly dividend by 6.5%. The rise will impact payouts from the December 1st dividend onward. The boost is the 21st increase in 20 years, highlighting the strength of Aqua America's cash flows. Given the steady record, we believe that future payout hikes are likely. Rate cases are going well for Aqua America. Year to date, the company has been rewarded about \$21 million in favorable rulings (from Indiana, Ohio, North Carolina and Pennsylvania). There are cases ongoing in Florida, Texas, and Illinois, and we anticipate more favorable outcomes. Finally, Aqua America has additionally filed for over \$50 million of rates and surcharges in Pennsylvania, Virginia, New Jersey, Texas, and Ohio, with returns anticipated in mid-to-late 2012. This, combined with the above mentioned ongoing rate cases (set to conclude in 2012 as well) should result in a healthy boost to the top and bottom lines for the ahead year. The company is looking at various acquisitions. Given the soft economy, management has been on an acquisition spree to spur growth. Thus far, Aqua America has made ten minor acquisitions, and planned to enter 2012 with at least 15 under its belt. Though few details are known, it is also quite likely that the company will continue this trend through 2012 to boost revenues and earnings. Diversification is the long-term goal. Management is especially interested in the rapid development of deep horizontal drilling (particularly in regards to the Marcellus Shale) and the prospects it represents (water is a key component of the process). Finally, the company is working on pipeline projects, to replace the trucks used for every well that is pumped. It has already started building relationships with several major suppliers. These upcoming ventures augur well for the company over the 2014-2016 pull. Income investors should favor this equity, with its above-industry average dividend yield.

Sahana Zutshi January 20, 2012

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2008	139.3	151.0	177.1	159.6	627.0
2009	154.5	167.3	180.8	167.9	670.5
2010	160.5	178.5	207.8	179.3	726.1
2011	171.3	188.2	197.3	193.2	750
2012	180	200	220	200	800

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2008	.11	.17	.26	.19	.73
2009	.14	.19	.25	.19	.77
2010	.16	.22	.32	.20	.90
2011	.19	.25	.33	.28	1.05
2012	.20	.25	.37	.28	1.10

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2008	.125	.125	.125	.135	.51
2009	.135	.135	.135	.145	.55
2010	.145	.145	.145	.155	.59
2011	.155	.155	.155	.165	.63
2012					

ATTACHMENT B

It has been a turbulent year for the financial markets, to say the least. For one thing, investors have been concerned about the health of the domestic economy, given ongoing difficulties in the housing sector and a stubbornly high unemployment rate (around 9% at present). To further complicate matters, uncertainty surrounds the outcome of the sovereign debt crisis in Europe, given troubles in the continent's weakest economies, such as Greece, Italy, and Spain. A disappointing recent bond auction in powerhouse Germany does not help, either.

It comes as no surprise that stocks across a variety of sectors, including those in *Value Line's* Natural Gas Utility universe, have been affected by these market fluctuations. But the stock prices in our industry have held up relatively well. We attribute that partly to the healthy levels of dividend income, which have provided some much-needed stability.

The Economic Climate

Conditions in the United States remain tough, attributable partially to softness in the housing market. A high unemployment rate has further complicated matters. Indeed, GDP growth was an unspectacular 2.5% in the third quarter, and this moderate pace of expansion will probably continue during the fourth quarter and into the new year. As a result, consumers have been focusing on energy conservation. Of course, all these trends bode ill for the revenues of the companies included in the Natural Gas Utility Industry.

Rate Cases

Rate cases are a very important issue for natural gas utilities. Federal authorities establish wholesale service tariffs and state regulators determine retail distribution rates. Adequate returns on common equity are necessary to keep these businesses viable. Higher rates are sought to pay for the cost of expansion, storm damage and/or to cover the expenses of maintaining reliable service. To promote good relationships with customers and regulators, managements endeavor to keep operating and service costs as low as possible. At times, though, political pressure can compel authorities to limit rates of return, to the detriment of utility companies. But for the most part, regulators attempt to strike a fair balance

Composite Statistics: Natural Gas Utility									
2007	2008	2009	2010	2011	2012			14-16	
38528	44207	34909	34089	36250	42500	Revenues (\$mill)		50250	
1562.4	1694.2	1677.6	1769.4	2250	2130	Net Profit (\$mill)		2415	
33.9%	35.7%	33.8%	34.0%	36.0%	36.0%	Income Tax Rate		36.0%	
4.1%	3.8%	4.8%	5.2%	6.2%	5.0%	Net Profit Margin		4.8%	
50.4%	50.6%	49.9%	46.7%	52.0%	51.0%	Long-Term Debt Ratio		54.0%	
49.5%	49.4%	50.1%	53.3%	48.0%	49.0%	Common Equity Ratio		46.0%	
32263	32729	33974	33144	33250	35500	Total Capital (\$mill)		43000	
33936	35342	37292	39294	40250	42250	Net Plant (\$mill)		50500	
6.5%	6.8%	6.5%	6.9%	6.5%	6.0%	Return on Total Cap'l		5.5%	
9.8%	10.5%	10.0%	10.0%	10.0%	10.0%	Return on Shr. Equity		10.5%	
9.8%	10.5%	10.0%	10.0%	10.0%	10.0%	Return on Com Equity		10.5%	
3.7%	4.3%	3.8%	4.0%	4.0%	3.5%	Retained to Com Eq		4.5%	
62%	59%	61%	61%	61%	60%	All Div'ds to Net Prof		61%	
16.6	13.9	12.8	14.0			Avg Ann'l P/E Ratio		13.0	
.88	.83	.85	.90			Relative P/E Ratio		.85	
3.7%	4.2%	4.8%	4.3%			Avg Ann'l Div'd Yield		4.6%	
336%	358%	381%	402%	400%	375%	Fixed Charge Coverage		400%	

INDUSTRY TIMELINESS: 74 (of 98)

between the interests of shareholders and customers.

What is the Weather?

Weather is a factor that affects the demand for natural gas, especially from small commercial businesses and consumers. Not surprisingly, earnings for utilities are susceptible to seasonal temperature patterns, with consumption normally at its peak during the winter heating months. Unseasonably warm or cold weather can cause substantial volatility in quarterly operating results. But some companies strive to counteract this exposure through temperature-adjusted rate mechanisms, which are available in many states. Therefore, investors interested in utilities with more-stable profits from year to year are advised to look for companies that hedge this risk.

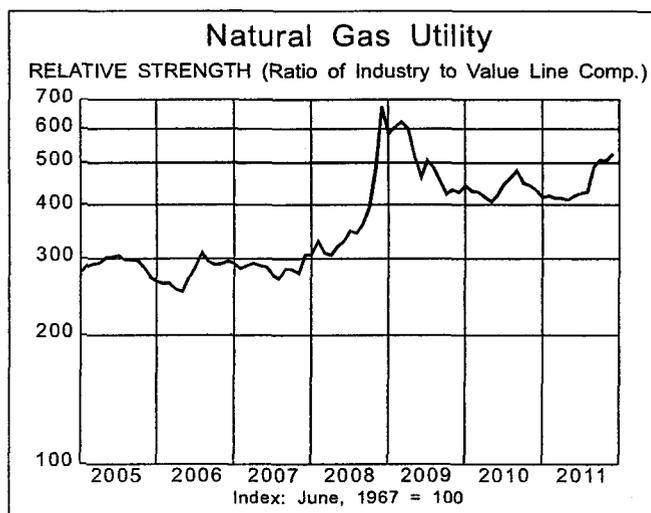
Dividends

The primary attraction of utility equities is their generous amount of dividend income. At the time of this writing, the average yield for the 12 companies in our group was about 3.7%, considerably higher than the *Value Line* median of 2.4%. Standouts include *AGL Resources*, *NiSource Inc.*, *Laclede Group*, and *Atmos Energy*. Indeed, when the financial markets are turbulent, as has been the case throughout 2011, healthy dividend yields act as an anchor, so to speak, in this category.

Conclusion

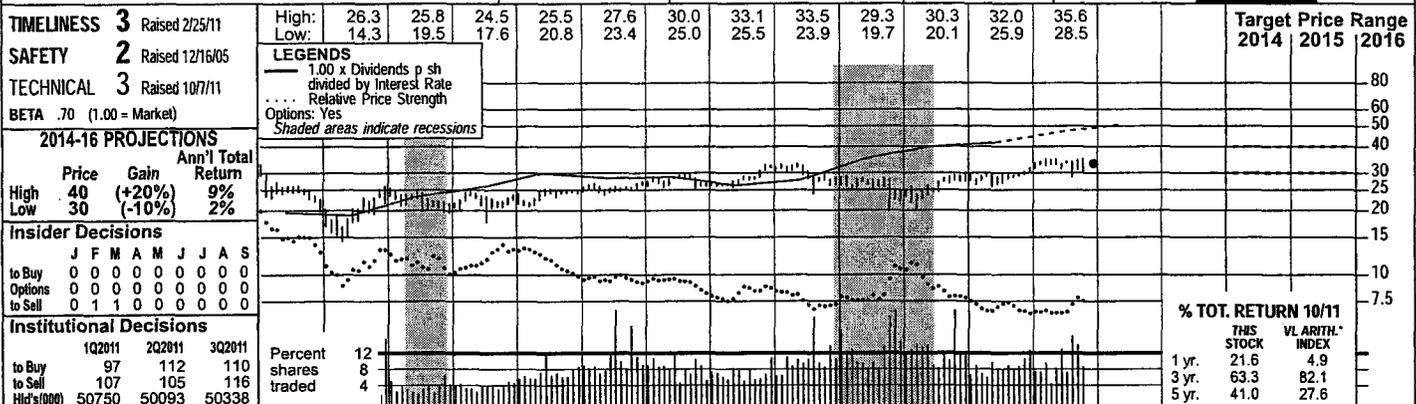
The Natural Gas Utility group is currently ranked in the bottom third of all industries tracked by *Value Line*, in terms of Timeliness. Nonetheless, these shares are most appropriate for income-conscious investors with a conservative bent (given that a number of these issues are ranked favorably for Safety and earn high marks for Price Stability). It should be mentioned, however, that companies with bigger nonregulated operations may offer a higher potential for returns, but profits could be more volatile than companies with a greater emphasis on the more stable utility segment. All things considered, our readers are advised to consider the individual reports before making a commitment.

Frederick L. Harris, III



ATMOS ENERGY CORP. NYSE-ATO

RECENT PRICE **33.30** P/E RATIO **14.0** (Trailing: 14.3 Median: 14.0) RELATIVE P/E RATIO **1.04** DIV'D YLD **4.2%** VALUE LINE



Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	© VALUE LINE PUB. LLC 14-16
Revenues per sh ^A	35.36	22.82	54.39	46.50	61.75	75.27	66.03	79.52	53.69	53.12	48.05	51.10	64.75
"Cash Flow" per sh	3.03	3.39	3.23	2.91	3.90	4.26	4.14	4.19	4.29	4.64	4.80	5.15	5.55
Earnings per sh ^{A, B}	1.47	1.45	1.71	1.58	1.72	2.00	1.94	2.00	1.97	2.16	2.26	2.40	2.70
Div'ds Decl'd per sh ^C	1.16	1.18	1.20	1.22	1.24	1.26	1.28	1.30	1.32	1.34	1.36	1.38	1.45
Cap'l Spending per sh	2.77	3.17	3.10	3.03	4.14	5.20	4.39	5.20	5.51	6.02	6.90	7.10	7.65
Book Value per sh	14.31	13.75	16.66	18.05	19.90	20.16	22.01	22.60	23.52	24.16	24.90	27.70	30.10
Common Shs Outst'g ^D	40.79	41.68	51.48	62.80	80.54	81.74	89.33	90.81	92.55	90.16	90.50	91.00	105.00
Avg Ann'l P/E Ratio	15.6	15.2	13.4	15.9	16.1	13.5	15.9	13.6	12.5	13.2	14.4		13.0
Relative P/E Ratio	.80	.83	.76	.84	.86	.73	.84	.82	.83	.84	.90		.85
Avg Ann'l Div'd Yield	5.1%	5.4%	5.2%	4.9%	4.5%	4.7%	4.2%	4.8%	5.3%	4.7%	4.2%		4.1%
Revenues (\$mill) ^A	1442.3	950.8	2799.9	2920.0	4973.3	6152.4	5898.4	7221.3	4969.1	4789.7	4347.6	4650	6800
Net Profit (\$mill)	56.1	59.7	79.5	86.2	135.8	162.3	170.5	180.3	179.7	201.2	199.3	220	285
Income Tax Rate	37.3%	37.1%	37.1%	37.4%	37.7%	37.6%	35.8%	38.4%	34.4%	38.5%	36.4%	38.5%	40.5%
Net Profit Margin	3.9%	6.3%	2.8%	3.0%	2.7%	2.6%	2.9%	2.5%	3.6%	4.2%	4.6%	4.7%	4.2%
Long-Term Debt Ratio	54.3%	53.9%	50.2%	43.2%	57.7%	57.0%	52.0%	50.8%	49.9%	45.4%	49.5%	49.0%	49.0%
Common Equity Ratio	45.7%	46.1%	49.8%	56.8%	42.3%	43.0%	48.0%	49.2%	50.1%	54.6%	50.5%	51.0%	51.0%
Total Capital (\$mill)	1276.3	1243.7	1721.4	1994.8	3785.5	3828.5	4092.1	4172.3	4346.2	3987.9	4460	4940	6200
Net Plant (\$mill)	1335.4	1300.3	1516.0	1722.5	3374.4	3629.2	3836.8	4136.9	4439.1	4793.1	5150	5400	6400
Return on Total Cap'l	5.9%	6.8%	6.2%	5.8%	6.1%	5.9%	5.9%	5.9%	5.9%	6.9%	6.0%	6.0%	6.0%
Return on Shr. Equity	9.6%	10.4%	9.3%	7.6%	8.5%	9.8%	8.7%	8.8%	8.3%	9.2%	9.0%	9.0%	9.0%
Return on Com Equity	9.6%	10.4%	9.3%	7.6%	8.5%	9.8%	8.7%	8.8%	8.3%	9.2%	9.0%	9.0%	9.0%
Retained to Com Eq	2.1%	1.9%	2.8%	1.7%	2.3%	3.6%	3.0%	3.1%	2.7%	3.5%	3.5%	3.5%	4.0%
All Div'ds to Net Prof	79%	82%	70%	77%	73%	63%	65%	65%	68%	82%	62%	57%	53%

Atmos Energy's history dates back to 1906 in the Texas Panhandle. Over the years, through various mergers, it became part of Pioneer Corporation, and, in 1981, Pioneer named its gas distribution division Energas. In 1983, Pioneer organized Energas as a separate subsidiary and distributed the outstanding shares of Energas to Pioneer shareholders. Energas changed its name to Atmos in 1988. Atmos acquired Trans Louisiana Gas in 1986, Western Kentucky Gas Utility in 1987, Greeley Gas in 1993, United Cities Gas in 1997, and others.

CAPITAL STRUCTURE as of 6/30/11
 Total Debt \$2208.5 mill. Due in 5 Yrs \$1240.0 mill.
 LT Debt \$2206.1 mill. LT Interest \$110.0 mill.
 (LT interest earned: 3.2x; total interest coverage: 3.1x)
 Leases, Uncapitalized Annual rentals \$18.2 mill.
 Pfd Stock None
 Pension Assets-9/10 \$301.7 mill.
 Oblig. \$407.5 mill.
 Common Stock 90,285,306 shs.
 as of 7/29/11
MARKET CAP: \$3.0 billion (Mid Cap)

CURRENT POSITION	2009	2010	6/30/11
Cash Assets (\$mill.)	111.2	132.0	117.4
Other	717.7	743.2	872.3
Current Assets	828.9	875.2	989.7
Accts Payable	207.4	266.2	312.2
Debt Due	72.7	486.2	2.4
Other	457.3	413.7	333.7
Current Liab.	737.4	1166.1	648.3
Fix. Chg. Cov.	416%	440%	435%

BUSINESS: Atmos Energy Corporation is engaged primarily in the distribution and sale of natural gas to over three million customers via six regulated natural gas utility operations: Louisiana Division, West Texas Division, Mid-Tex Division, Mississippi Division, Colorado-Kansas Division, and Kentucky/Mid-States Division. Combined 2010 gas volumes: 323 MMcf. Breakdown: 59%, residential; 32%, commercial; 6%, industrial; and 3% other. 2010 depreciation rate 3.3%. Has around 4,915 employees. Officers and directors own 1.4% of common stock (12/10 Proxy). President and Chief Executive Officer: Kim R. Cocklin, Inc.: Texas. Address: Three Lincoln Centre, Suite 1800, 5430 LBJ Freeway, Dallas, Texas 75240. Telephone: 972-934-9227. Internet: www.atmosenergy.com.

We believe that Atmos Energy Corporation will generate higher earnings in fiscal 2012 (which began on October 1st), compared to last year's figure. The bread-and-butter natural gas distribution segment stands to benefit from a rise in throughput, if weather conditions cooperate (which ought to boost consumption levels). That division will also enjoy a full year of higher rates in such states as Texas, Louisiana, and Iowa. Elsewhere, we expect the nonregulated operations, which include the natural gas marketing unit and pipeline segment, to perform reasonably well, overall. As a result, consolidated share net ought to advance about 6%, to \$2.40, in the new fiscal year. Assuming additional expansion of operating margins, the bottom line could increase at a similar rate, possibly to \$2.50 a share, in fiscal 2013.

Steady, although unspectacular, results appear to be in store for the company over the next three to five years. The utility ranks as one of the country's largest natural gas-only distributors, boasting more than three million customers across 12 states. Also, the unregulated units, especially pipelines, possess healthy overall growth prospects. Lastly, we look for the company to eventually resume its successful strategy of purchasing less efficient utilities and shoring up their profitability through expense-reduction initiatives, rate relief, and aggressive marketing initiatives. But given our exclusion of future acquisitions, because of size and timing issues, annual earnings-per-share growth may well be in the mid-single-digit range over the 2014-2016 horizon.

The stock offers an appealing dividend yield, which is above the average gas utility equity tracked by Value Line. Our long-range projections indicate that further increases in the payout, though moderate, are likely to occur. Earnings coverage ought to remain adequate. Other positives include a 2 (Above Average) Safety rank and an excellent rating for Price Stability. Meanwhile, these shares are ranked to perform just in line with the broader market for the coming six to 12 months.

Frederick L. Harris, III December 9, 2011

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2008	657.5	2484.0	1639.1	1440.7	7221.3
2009	1716.3	1821.4	780.8	650.6	4969.1
2010	1292.9	1940.3	770.2	786.3	4789.7
2011	1133.3 ^F	1581.5 ^F	843.6	789.2	4347.6
2012	1255	1740	850	805	4650

Company's Financial Strength B+
Stock's Price Stability 100
Price Growth Persistence 45
Earnings Predictability 90

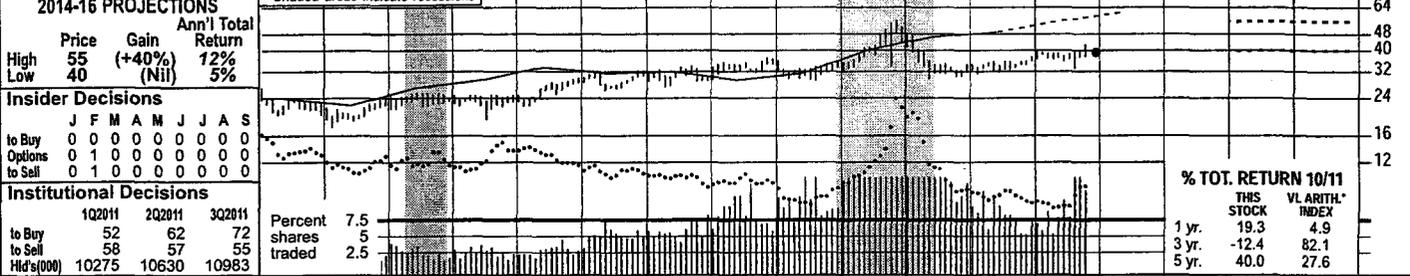
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LACLEDE GROUP NYSE-LG

RECENT PRICE **39.29** P/E RATIO **15.2** (Trailing: 13.7 Median: 14.0) RELATIVE P/E RATIO **1.14** DIV'D YLD **4.2%** VALUE LINE

TIMELINESS 3 Lowered 9/23/11	High: 24.8	25.5	25.0	30.0	32.5	34.3	37.5	36.0	55.8	48.3	37.8	42.8	Target Price Range 2014 2015 2016	
SAFETY 2 Raised 6/20/03	Low: 17.5	21.3	19.0	21.8	26.0	26.9	29.1	28.8	31.9	29.3	30.8	32.9		128
TECHNICAL 3 Lowered 8/5/11	LEGENDS 1.00 x Dividends p sh divided by Interest Rate Relative Price Strength Options: Yes Shaded areas indicate recessions													



2014-16 PROJECTIONS	Price	Gain	Ann'l Total Return	1995-2012													% TOT. RETURN 10/11																					
High	55	(+40%)	12%	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	THIS STOCK	VL ARITH' INDEX	14-16														
Low	40	(Nil)	5%	24.79	31.03	34.33	31.04	26.04	29.99	53.08	39.84	54.95	59.59	75.43	93.51	93.40	100.44	85.49	77.83	71.25	71.75	1 yr.	19.3	4.9														
Insider Decisions	Percent shares traded: 7.5, 5, 2.5																																					
Institutional Decisions	to Buy: 52, 62, 72; to Sell: 58, 57, 55; Hld's(000): 10275, 10630, 10983																																					
1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Revenues per sh	86.55	"Cash Flow" per sh	5.20	Earnings per sh ^{A B}	3.05	Div'ds Decl'd per sh ^C	1.80	Cap'l Spending per sh	3.15	Book Value per sh ^D	31.15	Common Shs Outst'g ^E	26.00	Avg Ann'l P/E Ratio	15.5	Relative P/E Ratio	1.05	Avg Ann'l Div'd Yield	3.8%	
24.79	31.03	34.33	31.04	26.04	29.99	53.08	39.84	54.95	59.59	75.43	93.51	93.40	100.44	85.49	77.83	71.25	71.75	2009	85.49	2010	77.83	2011	71.25	2012	71.75	1650	2250	33.0%	35.0%	3.7%	40.0%	1350	1300	7.0%	10.0%	10.0%	4.0%	58%

CAPITAL STRUCTURE as of 6/30/11	1002.1	755.2	1050.3	1250.3	1597.0	1997.6	2021.6	2209.0	1895.2	1735.0	1603.3	1650	Revenues (\$mill) ^A	2250
Total Debt \$364.3 mill. Due in 5 Yrs \$155.0 mill.	30.5	22.4	34.6	36.1	40.1	50.5	49.8	57.6	64.3	54.0	63.8	61.0	Net Profit (\$mill)	80.0
LT Debt \$364.3 mill. LT Interest \$20.0 mill.	32.7%	35.4%	35.0%	34.8%	34.1%	32.5%	33.4%	31.3%	33.6%	33.4%	31.4%	33.0%	Income Tax Rate	35.0%
(Total interest coverage: 4.0x)	3.0%	3.0%	3.3%	2.9%	2.5%	2.5%	2.6%	3.1%	3.4%	3.1%	4.0%	3.7%	Net Profit Margin	3.5%
Leases, Uncapitalized Annual rentals \$9 mill.	49.5%	47.5%	50.4%	51.6%	48.1%	49.5%	45.3%	44.4%	42.9%	40.5%	39.0%	40.0%	Long-Term Debt Ratio	40.0%
Pension Assets-9/10 \$240.9 mill.	50.2%	52.3%	49.4%	48.3%	51.8%	50.4%	54.6%	55.5%	57.1%	59.5%	61.0%	60.0%	Common Equity Ratio	60.0%
Oblig. \$398.4 mill.	574.1	546.6	605.0	737.4	707.9	798.9	784.5	876.1	906.3	899.9	930	980	Total Capital (\$mill)	1350
Pfd Stock None	602.5	594.4	621.2	646.9	679.5	763.8	793.8	823.2	855.9	884.1	935	975	Net Plant (\$mill)	1300
Common Stock 22,429,189 shs. as of 7/28/11	6.9%	6.0%	7.4%	6.6%	7.6%	8.4%	8.5%	8.1%	8.7%	7.4%	8.0%	7.5%	Return on Total Cap'l	7.0%
MARKET CAP: \$875 million (Small Cap)	10.5%	7.8%	11.5%	10.1%	10.9%	12.5%	11.6%	11.8%	12.4%	10.1%	11.0%	10.5%	Return on Shr. Equity	10.0%
CURRENT POSITION	10.5%	7.8%	11.6%	10.1%	10.9%	12.5%	11.6%	11.8%	12.4%	10.1%	11.0%	10.5%	Return on Com Equity	10.0%
2009	2010	6/30/11	1.8%	NMF	3.1%	2.7%	3.1%	5.1%	4.3%	5.2%	5.9%	5.0%	Retained to Com Eq	4.0%
(\$MILL.)	83%	113%	74%	73%	72%	59%	63%	56%	53%	64%	56%	62%	All Div'ds to Net Prof	58%

BUSINESS: Laclede Group, Inc., is a holding company for Laclede Gas, which distributes natural gas in eastern Missouri, including the city of St. Louis, St. Louis County, and parts of 10 other counties. Has roughly 625,000 customers. Purchased SM&P Utility Resources, 1/02; divested, 3/08. Therms sold and transported in fiscal 2010: .97 mill. Revenue mix for regulated operations: residential, 68%; commercial and industrial, 24%; transportation, 2%; other, 6%. Has around 1,700 employees. Officers and directors own approximately 8% of common shares (1/11 proxy). Chairman and CEO: Douglas H. Yaeger; President: Suzanne Sitherwood. Inc.: Missouri. Address: 720 Olive Street, St. Louis, Missouri 63101. Telephone: 314-342-0500. Internet: www.thelacledegroup.com.

Laclede Group may well register a drop in profits during fiscal 2012, which began on October 1st, compared to last year's figure. That's partially because we anticipate a difficult comparison for the third quarter. Indeed, Laclede Gas (the core division) benefited from a substantial gain, last April, on the sale of 320,000 barrels of propane from inventory that was no longer required to serve utility customers. Furthermore, margins for Laclede Energy Resources could continue to be squeezed by narrower regional price differentials (reflecting the less-than-optimal economic environment). At this juncture, it seems that earnings per share will decrease about 7%, to \$2.65, in the new fiscal year. But the bottom line may stage a recovery in fiscal 2013, perhaps to \$2.80 a share, assuming additional expansion of operating margins.

We anticipate an unexciting performance for the company over the next three to five years. Expansion of the customer base for the natural gas distributor will probably remain sluggish, at best. That's attributable largely to the fact that the service territory, which is located in eastern Missouri, has been in a mature phase for some time. Present difficulties aside, Laclede Energy Resources appears to have promising long-term potential. Nonetheless, it tends to contribute just a small portion to total profits. All told, the company's annual share-net advances may only be in the mid-single-digit range during the 2014-2016 period.

Of course, a business combination could brighten things. We believe that Laclede Group possesses adequate financial resources to support such an initiative. However, it appears that management is satisfied with the status quo at this juncture. **The stock's dividend yield of 4.2% is one of the highest of all natural gas utility equities that are tracked by Value Line.** Even so, additional increases in the distribution may be moderate. That is largely because the utility's long-term prospects are not spectacular. Meanwhile, these good-quality shares are ranked to perform only in line with the broader market averages for the coming six to 12 months.

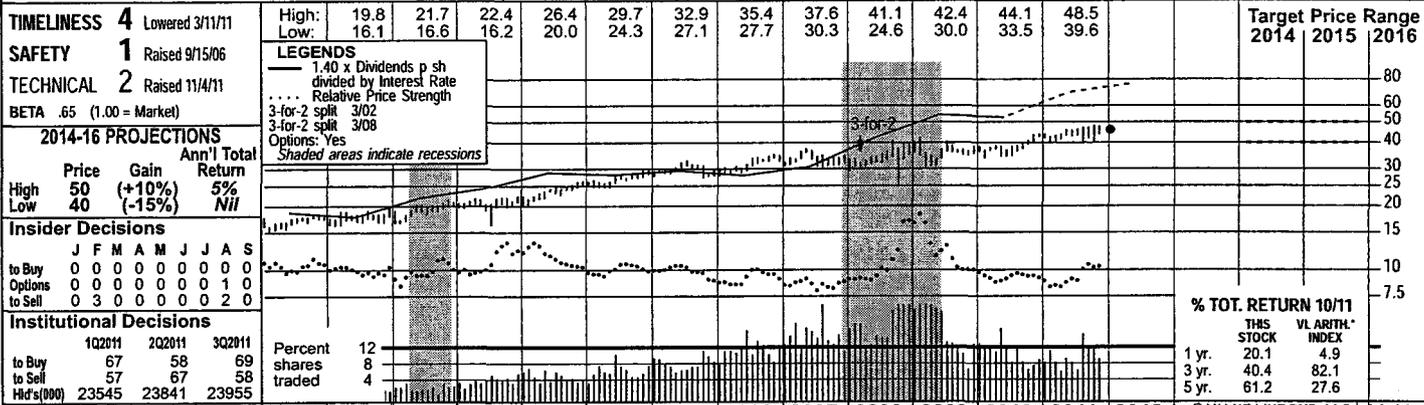
Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	50
Earnings Predictability	80

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(A) Fiscal year ends Sept. 30th. (B) Based on average shares outstanding thru '97, then diluted. Excludes nonrecurring loss: '06, '74. Excludes gain from discontinued operation. (C) Dividends historically paid in early January, April, July, and October. (D) Dividend reinvestment plan available. (E) Incl. deferred charges. In '10: \$487.1 mill., \$21.85/sh. (F) Qty. egs. may not sum due to rounding or change in shares outstanding.

NEW JERSEY RES. NYSE-NJR

RECENT PRICE **46.16** P/E RATIO **16.7** (Trailing: 17.9) (Median: 15.0) RELATIVE P/E RATIO **1.25** DIV'D YLD **3.3%** VALUE LINE



TIMELINESS 4 Lowered 3/11/11
SAFETY 1 Raised 9/15/06
TECHNICAL 2 Raised 11/4/11
BETA .65 (1.00 = Market)

2014-16 PROJECTIONS

Price	Gain	Ann'l Total Return
High 50	(+10%)	5%
Low 40	(-15%)	Nil

Insider Decisions

J	F	M	A	M	J	J	A	S
to Buy	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	1	0
to Sell	0	3	0	0	0	0	2	0

Institutional Decisions

	1Q2011	2Q2011	3Q2011
to Buy	67	58	69
to Sell	57	67	58
Hld's(000)	23545	23841	23955

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	© VALUE LINE PUB. LLC	14-16
11.36	13.48	17.31	17.73	22.65	29.42	51.22	44.11	62.29	60.89	76.19	79.63	72.62	90.74	62.34	63.81	72.65	77.50	Revenues per sh ^A	84.65
1.42	1.48	1.63	1.74	1.86	1.99	2.12	2.14	2.38	2.50	2.62	2.73	2.44	3.62	3.16	3.28	3.42	3.80	"Cash Flow" per sh	4.40
.86	.92	.99	1.04	1.11	1.20	1.30	1.39	1.59	1.70	1.77	1.87	1.55	2.70	2.40	2.46	2.58	2.85	Earnings per sh ^B	3.35
.68	.69	.71	.73	.75	.76	.78	.80	.83	.87	.91	.96	1.01	1.11	1.24	1.36	1.44	1.52	Div'ds Decl'd per sh ^C	1.64
1.18	1.19	1.15	1.07	1.21	1.23	1.10	1.02	1.14	1.45	1.28	1.28	1.46	1.72	1.81	2.09	2.26	2.00	Cap'l Spending per sh	2.00
6.47	6.73	6.92	7.26	7.57	8.29	8.80	8.71	10.26	11.25	10.60	15.00	15.50	17.28	16.59	17.53	18.74	19.15	Book Value per sh ^D	24.25
40.03	40.69	40.23	40.07	39.92	39.59	40.00	41.50	40.85	41.61	41.32	41.44	41.61	42.06	41.59	41.36	41.42	40.00	Common Shs Outst'g ^E	40.00
11.8	13.6	13.5	15.3	15.2	14.7	14.2	14.7	14.0	15.3	16.8	16.1	21.6	12.3	14.9	15.0	16.8	19.15	Avg Ann'l P/E Ratio	14.0
.79	.85	.78	.80	.87	.96	.73	.80	.80	.81	.89	.87	1.15	.74	.99	.96	1.25	1.25	Relative P/E Ratio	.95
6.7%	5.6%	5.3%	4.6%	4.5%	4.4%	4.2%	3.9%	3.7%	3.3%	3.1%	3.2%	3.0%	3.3%	3.5%	3.7%	3.3%	3.3%	Avg Ann'l Div'd Yield	3.5%

CAPITAL STRUCTURE as of 9/30/11

Total Debt \$593.7 mill. Due in 5 Yrs \$129.1 mill.
 LT Debt \$426.8 mill. LT Interest \$19.6 mill.
 Incl. \$69.9 mill. capitalized leases.
 (LT interest earned: 7.5x; total interest coverage: 7.5x)

Pension Assets-9/11 \$155.7 mill.
Oblig. \$270.2 mill.

Pfd Stock None

Common Stock 41,446,786 shs.
 as of 11/21/11
MARKET CAP: \$1.9 billion (Mid Cap)

CURRENT POSITION

	2009	2010	9/30/11
Cash Assets (\$MILL.)	36.2	.9	7.4
Other	648.0	784.1	725.0
Current Assets	684.2	785.0	732.4
Accts Payable	44.4	47.3	66.0
Debt Due	149.9	178.9	166.9
Other	361.9	479.6	470.5
Current Liab.	556.2	705.8	703.4
Fix. Chg. Cov.	711%	700%	700%

ANNUAL RATES

	Past 10 Yrs.	Past 5 Yrs.	Est'd '08-'10 to '14-'16
Revenues	12.0%	1.5%	2.5%
"Cash Flow"	6.0%	6.0%	4.5%
Earnings	8.5%	8.5%	5.0%
Dividends	5.0%	7.5%	5.0%
Book Value	8.5%	10.0%	6.0%

Fiscal Year Ends

Year	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2008	811.1	1178	1000	827.1	3816.2
2009	801.3	937.5	441.1	412.6	2592.5
2010	609.6	918.4	479.8	631.5	2639.3
2011	713.2	977.0	648.1	670.9	3009.2
2012	735	1000	670	695	3100

Fiscal Year Ends

Year	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2008	1.31	1.86	d.10	d.39	2.70
2009	.77	1.71	.03	d.12	2.40
2010	.66	1.55	.28	d.03	2.46
2011	.71	1.62	.23	.02	2.58
2012	.77	1.68	.30	.10	2.85

Cal-endar

Year	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2008	.267	.28	.28	.28	1.11
2009	.31	.31	.31	.31	1.24
2010	.34	.34	.34	.34	1.36
2011	.36	.36	.36	.36	1.44
2012	.38				

New Jersey Resources' results in fiscal 2011 (ended September 30th) were solid. Indeed, the company's top line advanced 14%, to just over \$3.0 billion. This was largely a result of double-digit gains from the nonutility operations. The utility portion of its business was also a contributing factor, although that division registered only a 3.7% volume advance. Over the course of the year, New Jersey Natural Gas (NJNG) added 6,783 new customer accounts. Almost half of this was due to new construction, which is certainly encouraging, considering that in most parts of the country home building has come to a standstill. On the capital project front, NJR completed the remaining nine projects included in its Accelerated Infrastructure Program (AIP I). These should contribute nicely this year. **We look for the company to log a nice double-digit earnings advance this year.** The NJNG division has targeted 12,000-14,000 new customer accounts through the end of 2012. At this point, it is about halfway to reaching the high end of that range. Elsewhere, the company has already begun work on its six capital

commercial and electric utility, 56% incentive programs). N.J. Natural Energy subsidiary provides unregulated retail/wholesale natural gas and related energy svcs. 2010 dep. rate: 2.2%. Has 887 empl. Off./dir. own about 1.5% of common (12/10 Proxy). Chrmn., CEO & Pres.: Laurence M. Downes, Inc.: NJ Addr.: 1415 Wyckoff Road, Wall, NJ 07719. Tel.: 732-938-1480. Web: www.njresources.com.

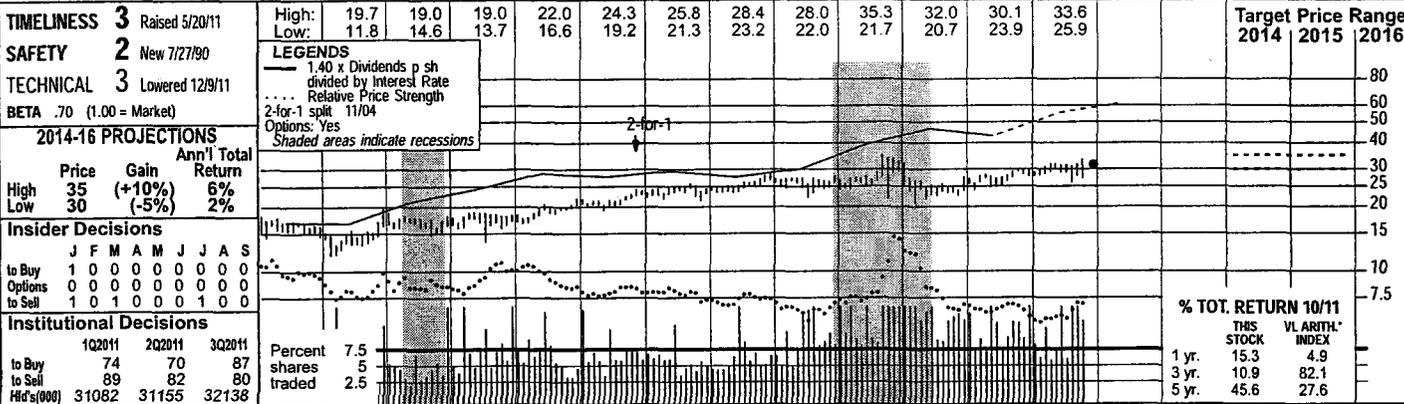
projects that make up AIP II. Those investments will help to boost the reliability of its distribution system. Further gains should stem from its Clean Energy Ventures, Midstream Assets, and Home Service divisions. **The balance sheet appears to be improving and is currently in good shape.** Cash reserves rebounded more than eightfold over the course of 2011. That financial cushion now sits at approximately \$7.5 million. At the same time, NJR has trimmed its long-term debt load about 0.5%, leaving it well within manageable levels. Meanwhile, the company repurchased almost 245,000 shares this year, leaving about 1.4 million shares under the current buyback authorization. What's more, the board of directors recently approved a 5.6% hike in the quarterly dividend, to \$0.38 a share. **Shares of New Jersey Resources have appeal as an income vehicle,** based on the utility's dividend growth prospects, though the yield here is below the industry average (3.7%). On the downside, the stock is untimely for the year ahead.

Bryan J. Fong
 December 9, 2011

(A) Fiscal year ends Sept. 30th. (B) Diluted earnings. City eggs may not sum to total due to change in shares outstanding. Next earnings report due late Jan. (C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available. (D) Includes regulatory assets in 2010: \$454.6 million, \$10.99/share. (E) In millions, adjusted for splits.

PIEDMONT NAT'L GAS NYSE-PNY

RECENT PRICE **31.60** P/E RATIO **19.4** (Trailing: 20.1 Median: 17.0) RELATIVE P/E RATIO **1.45** DIV'D YLD **3.7%** VALUE LINE

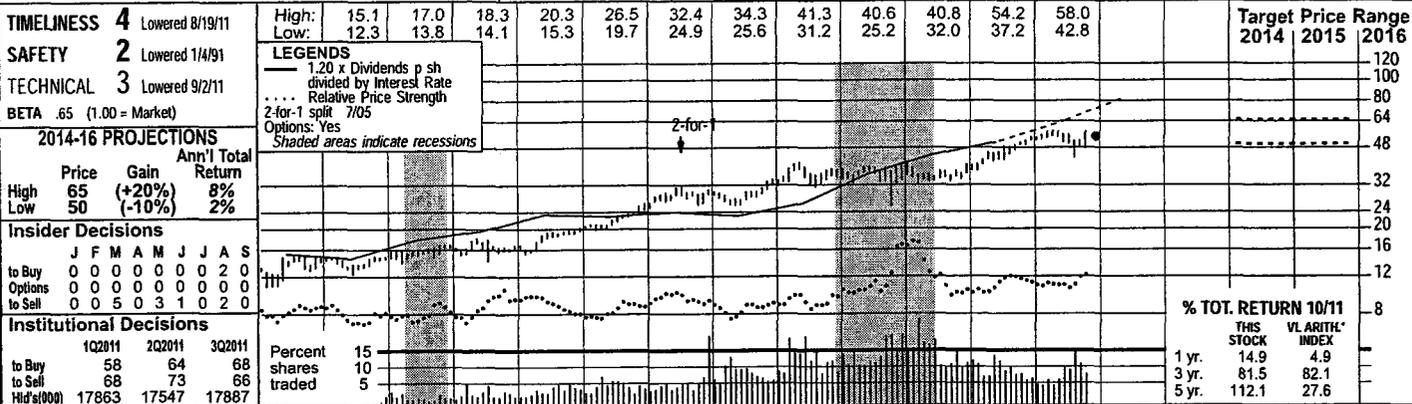


1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	© VALUE LINE PUB. LLC	14-16
8.76	11.59	12.84	12.45	10.97	13.01	17.06	12.57	18.14	19.95	22.96	25.80	23.37	28.52	22.36	21.48	20.20	21.85	Revenues per sh ^A	25.15
1.25	1.49	1.62	1.72	1.70	1.77	1.81	1.81	2.04	2.31	2.43	2.51	2.64	2.77	3.01	2.91	3.00	3.10	"Cash Flow" per sh	3.35
.73	.84	.93	.98	.93	1.01	1.01	.95	1.11	1.27	1.32	1.28	1.40	1.49	1.67	1.55	1.58	1.65	Earnings per sh ^{AB}	1.80
.54	.57	.61	.64	.68	.72	.76	.80	.82	.85	.91	.95	.99	1.03	1.07	1.11	1.15	1.19	Div'ds Decl'd per sh ^C	1.31
1.72	1.64	1.52	1.48	1.58	1.65	1.29	1.21	1.16	1.85	2.50	2.74	1.85	2.47	1.76	2.75	4.40	7.75	Cap'l Spending per sh	8.10
6.16	6.53	6.95	7.45	7.86	8.26	8.63	8.91	9.36	11.15	11.53	11.83	11.99	12.11	12.67	13.35	13.65	14.00	Book Value per sh ^D	14.75
57.67	59.10	60.39	61.48	62.59	63.83	64.93	66.18	67.31	76.67	76.70	74.61	73.23	73.26	73.27	72.28	71.50	71.00	Common Shs Outst'g ^E	68.00
13.8	13.9	13.6	16.3	17.7	14.3	16.7	18.4	16.7	16.6	17.9	19.2	18.7	18.2	15.4	17.1	18.8		Avg Ann'l P/E Ratio	18.0
.92	.87	.78	.85	1.01	.93	.86	1.01	.95	.88	.95	1.04	.99	1.10	1.03	1.08	1.40		Relative P/E Ratio	1.20
5.4%	4.9%	4.8%	4.0%	4.1%	5.0%	4.5%	4.6%	4.4%	4.1%	3.8%	3.9%	3.8%	3.8%	4.1%	4.2%	3.9%		Avg Ann'l Div'd Yield	3.7%

CAPITAL STRUCTURE as of 7/31/11		2009	2010	7/31/11	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407	2408	2409	2410	2411	2412	2413	2414	2415	2416	2417	2418	2419	2420	2421	2422	2423	2424	2425	2426	2427	2428	2429	2430	2431	2432	2433	2434	2435	2436	2437	2438	2439	2440	2441	2442	2443	2444	2445	2446	2447	2448	2449	2450	2451	2452	2453	2454	2455	2456	2457	2458	2459	2460	2461	2462	2463	2464	2465	2466	2467	2468	2469	2470	2471	2472	2473	2474	2475	2476	2477	2478	2479	2480	2481	2482	2483	2484	2485	2486	2487	2488	2489	2490	2491	2492	2493	2494	2495	2496	2497	2498	2499	2500	2501	2502	2503	2504	2505	2506	2507	2508	2509	2510	2511	2512	2513	2514	2515	2516	2517	2518	2519	2520	2521	2522	2523	2524	2525	2526	2527	2528	2529	2530	2531	2532	2533	2534	2535	2536	2537	2538	2539	2540	2541	2542	2543	2544	2545	2546	2547	2548	2549	2550	2551	2552	2553	2554	2555	2556	2557	2558	2559	2560	2561	2562	2563	2564	2565	2566	2567	2568	2569	2570	2571	2572	2573	2574	2575	2576	2577	2578	2579	2580	2581	2582	2583	2584	2585	2586	2587	2588	2589	2590	2591	2592	2593	2594	2595	2596	2597	2598	2599	2600	2601	2602	2603	2604	2605	2606	2607	2608	2609	2610	2611	2612	2613	2614	2615	2616	2617	2618	2619	2620	2621	2622	2623	2624	2625	2626	2627	2628	2629	2630	2631	2632	2633	2634	2635	2636	2637	2638	2639	2640	2641	2642	2643	2644	2645	2646	2647	2648	2649	2650	2651	2652	2653	2654	2655	2656	2657	2658	2659	2660	2661	2662	2663	2664	2665	2666	2667	2668	2669	2670	2671	2672	2673	2674	2675	2676	2677	2678	2679	2680	2681	2682	2683	2684	2685	2686	2687	2688	2689	2690	2691	2692	2693	2694	2695	2696	2697	2698	2699	2700	2701	2702	2703	2704	2705	2706	2707	2708	2709	2710	2711	2712	2713	2714	2715	2716	2717	2718	2719	2720	2721	2722	2723	2724	2725	2726	2727	2728	2729	2730	2731	2732	2733	2734	2735	2736	2737	2738	2739	2740	2741	2742	2743	2744	2745	2746	2747	2748	2749	2750	2751	2752	2753	2754	2755	2756	2757	2758	2759	2760	2761	2762	2763	2764	2765	2766	2767	2768	2769	2770	2771	2772	2773	2774	2775	2776	2777	2778	2779	2780	2781	2782	2783	2784	2785	2786	2787	2788	2789	2790	2791	2792	2793	2794	2795	2796	2797	2798	2799	2800	2801	2802	2803	2804	2805	2806	2807	2808	2809	2810	2811	2812	2813	2814	2815	2816	2817	2818	2819	2820	2821	2822	2823	2824	2825	2826	2827	2828	2829	2830	2831	2832	2833	2834	2835	2836	2837	2838	2839	2840	2841	2842	2843	2844	2845	2846	2847	2848	2849	2850	2851	2852	2853	2854	2855	2856	2857	2858	2859	2860	2861	2862	2863	2864	2865	2866	2867	2868	2869	2870	2871	2872	2873	2874	2875	2876	2877	2878	2879	2880	2881	2882	2883	2884	2885	2886	2887	2888	2889	2890	2891	2892	2893	2894	2895	2896	2897	2898	2899	2900	2901	2902	2903	2904	2905	2906	2907	2908	2909	2910	2911	2912	2913	2914	2915	2916	2917	2918	2919	2920	2921	2922	2923	2924	2925	2926	2927	2928	2929	2930	2931	2932	2933	2934	2935	2936	2937	2938	2939	2940	2941	2942	2943	2944	2945	2946	2947	2948	2949	2950	2951	2952	2953	2954	2955	2956	2957	2958	2959	2960	2961	2962	2963	2964	2965	2966	2967	2968	2969	2970	2971	2972	2973	2974	2975	2976	2977	2978	2979	2980	2981	2982	2983	2984	2985	2986	2987	2988	2989	2990	2991	2992	2993	2994	2995	2996	2997	2998	2999	3000	3001	3002	300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SOUTH JERSEY INDS. NYSE-SJI

RECENT PRICE 54.37 **P/E RATIO** 18.0 (Trailing: 20.1 Median: 15.0) **RELATIVE P/E RATIO** 1.34 **DIV'D YLD** 3.0% **VALUE LINE**



2014-16 PROJECTIONS												Target Price Range	
Price	Gain	Ann'l Total Return		2014	2015	2016							
High 65	(+20%)	8%											
Low 50	(-10%)	2%											

Insider Decisions												
Percent shares traded												
to Buy	0	0	0	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0	0	0	0
to Sell	0	0	5	0	3	1	0	2	0	0	0	0

Institutional Decisions												
Percent shares traded												
to Buy	58	64	68									
to Sell	68	73	66									
Hld's (000)	17863	17547	17887									

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	© VALUE LINE PUB. LLC 14-16	
16.50	16.52	16.18	20.89	17.60	22.43	35.30	20.69	26.34	29.51	31.78	31.76	32.30	32.36	28.37	30.97	29.70	31.55	Revenues per sh	38.25
1.65	1.54	1.60	1.44	1.84	1.95	1.90	2.12	2.24	2.44	2.51	3.51	3.20	3.48	3.72	4.21	3.85	4.45	"Cash Flow" per sh	5.75
.83	.85	.86	.64	1.01	1.08	1.15	1.22	1.37	1.58	1.71	2.46	2.09	2.27	2.38	2.70	2.90	3.20	Earnings per sh ^A	4.10
.72	.72	.72	.72	.72	.73	.74	.75	.78	.82	.86	.92	1.01	1.11	1.22	1.36	1.50	1.64	Div'ds Decl'd per sh ^B	2.10
2.08	2.01	2.30	3.06	2.19	2.21	2.82	3.47	2.36	2.67	3.21	2.51	1.88	2.08	3.67	5.59	4.85	5.15	Cap'l Spending per sh	7.05
7.34	8.03	6.43	6.23	6.74	7.25	7.81	9.67	11.26	12.41	13.50	15.11	16.25	17.33	18.24	19.08	19.70	21.90	Book Value per sh ^C	26.45
21.44	21.51	21.54	21.56	22.30	23.00	23.72	24.41	26.46	27.76	28.98	29.33	29.61	29.73	29.80	29.87	31.00	32.00	Common Shs Outst'g ^D	34.00
12.2	13.3	13.8	21.2	13.3	13.0	13.6	13.5	13.3	14.1	16.6	11.9	17.2	15.9	15.0	16.8	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	14.0
.82	.83	.80	1.10	.76	.85	.70	.74	.76	.74	.88	.64	.91	.96	1.00	1.08			Relative P/E Ratio	.95
7.2%	6.4%	6.1%	5.3%	5.4%	5.2%	4.7%	4.6%	4.3%	3.7%	3.0%	3.2%	2.8%	3.1%	3.0%	3.4%			Avg Ann'l Div'd Yield	3.7%

CAPITAL STRUCTURE as of 9/30/11											
Total Debt \$689.2 mill. Due in 5 Yrs \$330.7 mill.											
LT Debt \$424.2 mill. LT Interest \$24.0 mill.											
(Total interest coverage: 5.8x)											
Pension Assets-12/10 \$120.6 mill. Oblig. \$167.5 mill.											
Pfd Stock None											
Common Stock 30,140,819 common shs. as of 11/1/11											
MARKET CAP: \$1.6 billion (Mid Cap)											

CURRENT POSITION				2009	2010	9/30/11
(\$MILL.)						
Cash Assets		3.8		2.4		2.6
Other		364.6		421.4		324.4
Current Assets		368.4		423.8		327.0
Accts Payable		123.9		165.2		131.4
Debt Due		231.7		362.1		265.0
Other		123.2		113.2		105.4
Current Liab.		478.8		640.5		501.8
Fix. Chg. Cov.		585%		532%		513%

ANNUAL RATES					
of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '08-'10	'08-'10	'14-'16
Revenues	4.0%	1.0%	4.0%	4.0%	4.0%
"Cash Flow"	8.0%	9.5%	7.0%	7.0%	7.0%
Earnings	10.5%	9.5%	9.0%	9.0%	9.0%
Dividends	5.5%	8.5%	9.5%	9.5%	9.5%
Book Value	10.5%	8.0%	6.5%	6.5%	6.5%

QUARTERLY REVENUES (\$ mill.)					
Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2008	348.1	135.8	210.4	267.7	962.0
2009	362.2	134.5	127.1	221.6	845.4
2010	329.3	151.6	160.7	283.5	925.1
2011	331.9	160.5	137.6	290	920
2012	365	175	160	310	1010

EARNINGS PER SHARE ^A					
Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2008	1.32	.26	.04	.67	2.27
2009	1.46	.15	d.06	.83	2.38
2010	1.49	.24	.10	.87	2.70
2011	1.63	.20	.01	1.06	2.90
2012	1.70	.25	.10	1.15	3.20

QUARTERLY DIVIDENDS PAID ^B					
Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2007	--	.245	.245	.515	1.01
2008	--	.270	.270	.568	1.11
2009	--	.298	.298	.628	1.22
2010	--	.330	.330	.695	1.36
2011	--	.365	.365	.768	

BUSINESS: South Jersey Industries, Inc. is a holding company. Its subsidiary, South Jersey Gas Co., distributes natural gas to 347,725 customers in New Jersey's southern counties, which covers about 2,500 square miles and includes Atlantic City. Gas revenue mix '10: residential, 44%; commercial, 21%; cogeneration and electric generation, 12%; industrial, 23%. Non-utility operations include: South Jersey Energy, South Jersey Resources Group, Marina Energy, and South Jersey Energy Service Plus. Has 650 employees. Off./dir. control 1.0% of common shares; Black Rock Inc., 8.3% (4/11 proxy). Chrm. & CEO: Edward Graham. Inc.: NJ. Address: 1 South Jersey Plaza, Folsom, NJ 08037. Telephone: 609-561-9000. Internet: www.sjindustries.com.

Shares of South Jersey Industries have come off a recent high. The company posted less-than-stellar off-season results for the third quarter. The utility business reported modest top-line growth for the interim, but this was more than offset by lower revenues from South Jersey's nonutility operations. Share earnings came in at \$0.01, well below our estimate and the prior-year tally.

The company now expects a bottom-line advance of 7% to 11% for full-year 2011, somewhat below its prior guidance of 9% to 15% growth. Wholesale gas marketing continues to be hurt by unfavorable industry conditions. This includes thin storage spreads and a lack of price volatility. Moreover, the startup of one of the company's solar projects has been pushed back from the fourth quarter of 2011 until the first quarter of 2012. In addition, challenges in the marketing business due to pipeline disruptions within the Marcellus region had made it difficult to move gas to end users. Recently introduced pipeline capacity appears to have alleviated this constraint.

Prospects for the utility business ap-

pear favorable. South Jersey Gas should continue to experience modest customer growth. Natural gas remains the fuel of choice within the utility's service territory. This business should further benefit from customer interest in converting to natural gas from other fuel sources. Meanwhile, the company's nonutility operations will likely improve in the coming years, given its pipeline of energy projects and opportunities in the Marcellus region.

The board of directors has increased the dividend by roughly 10%. The quarterly dividend is now \$0.4025, beginning with the December payout. Steady increases in the cash distribution will likely continue in the coming years.

These shares are unfavorably ranked for Timeliness. We expect higher revenues and earnings for the company by 2014-2016. Moreover, South Jersey earns good marks for Safety, Price Stability, and Earnings Predictability. However, this appears to be partly reflected in the present quotation. This equity offers unimpressive, though fairly well-defined, total return potential for the coming years.

Michael Napoli, CFA December 9, 2011

(A) Based on GAAP egs. through 2006, economic egs. thereafter. GAAP EPS: '07, \$2.10; '08, \$2.58; '09, \$1.94; '10, \$2.22. Excl. non-recur. gain (loss): '01, \$0.13; '08, \$0.31; '09, (\$0.44); '10, (\$0.47). Excl gain (losses) from report due late February. (B) Div'ds paid early April, July, Oct., and late Dec. Div. reinvest. plan avail. (C) Incl. reg. assets. In 2010: \$248.4 mill., \$8.32 per sh. (D) In mill., adj. for split.

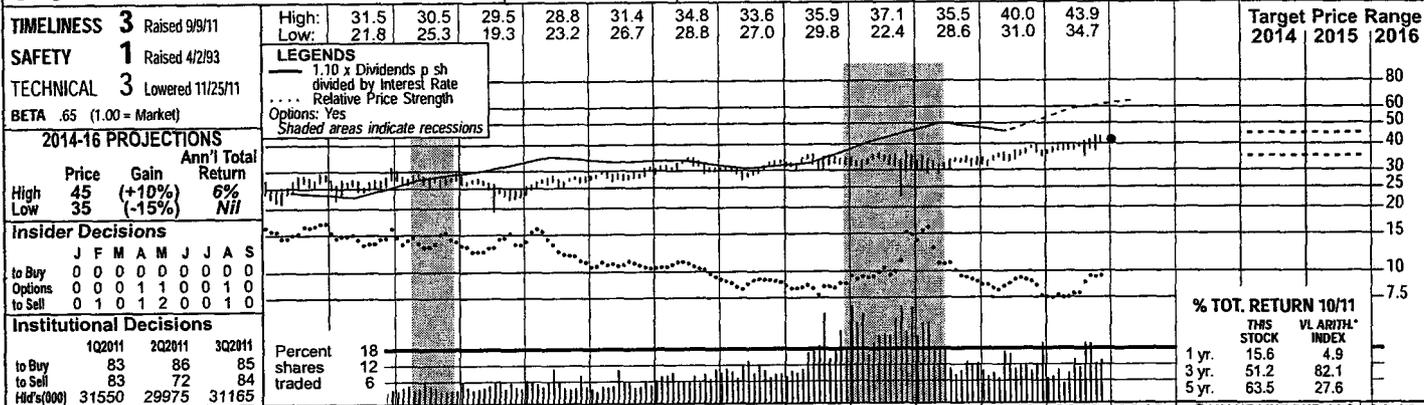
Company's Financial Strength B++
 Stock's Price Stability 100
 Price Growth Persistence 90
 Earnings Predictability 85

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WGL HOLDINGS NYSE-WGL

RECENT PRICE **41.80** P/E RATIO **17.1** (Trailing: 18.5 Median: 15.0) RELATIVE P/E RATIO **1.28** DIV'D YLD **3.7%** VALUE LINE



TIMELINESS 3 Raised 9/9/11
SAFETY 1 Raised 4/2/93
TECHNICAL 3 Lowered 11/25/11
BETA .65 (1.00 = Market)

2014-16 PROJECTIONS

Price	Gain	Ann'l Total Return
High 45	(+10%)	6%
Low 35	(-15%)	Nil

Insider Decisions

	J	F	M	A	M	J	J	A	S
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	1	1	0	0	1	0
to Sell	0	1	0	1	2	0	0	1	0

Institutional Decisions

	10/2011	2/2011	3/2011
to Buy	83	86	85
to Sell	83	72	84
Hld's(000)	31550	29975	31165

LEGENDS
 1.10 x Dividends p sh divided by Interest Rate
 Relative Price Strength
 Options: Yes
 Shaded areas indicate recessions

Target Price Range

2014	2015	2016
80	60	50
40	30	25
20	15	10
7.5		

% TOT. RETURN 10/11

	THIS STOCK	VLARITH INDEX
1 yr.	15.6	4.9
3 yr.	51.2	82.1
5 yr.	63.5	27.6

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	© VALUE LINE PUB. LLC	14-16
19.30	22.19	24.16	23.74	20.92	22.19	29.80	32.63	42.45	42.93	44.94	53.96	53.51	52.65	53.98	53.60	53.75	56.30	Revenues per sh ^A	60.95
2.51	2.93	3.02	2.79	2.74	3.20	3.24	2.63	4.00	3.87	3.97	3.84	3.89	4.34	4.44	4.11	4.01	4.40	"Cash Flow" per sh	4.65
1.45	1.85	1.85	1.54	1.47	1.79	1.88	1.14	2.30	1.98	2.13	1.94	2.09	2.44	2.53	2.27	2.25	2.50	Earnings per sh ^B	2.75
1.12	1.14	1.17	1.20	1.22	1.24	1.26	1.27	1.28	1.30	1.32	1.35	1.37	1.41	1.47	1.50	1.55	1.59	Div'ds Decl'd per sh ^C	1.71
2.63	2.85	3.20	3.62	3.42	2.67	2.68	3.34	2.65	2.33	2.32	3.27	3.33	2.70	2.77	2.57	3.94	5.85	Cap'l Spending per sh	4.80
11.95	12.79	13.48	13.86	14.72	15.31	16.24	15.78	16.25	16.95	17.80	18.86	19.83	20.99	21.89	22.82	23.49	25.10	Book Value per sh ^D	27.65
42.93	43.70	43.70	43.84	46.47	46.47	48.54	48.56	48.63	48.67	48.65	48.89	49.45	49.92	50.14	50.54	51.20	51.50	Common Shs Outst'g ^E	52.00
12.7	11.5	12.7	17.2	17.3	14.6	14.7	23.1	11.1	14.2	14.7	15.5	15.6	13.7	12.6	15.1	17.0		Avg Ann'l P/E Ratio	15.0
.85	.72	.73	.89	.99	.95	.75	1.26	.63	.75	.78	.84	.83	.82	.84	.95	1.30		Relative P/E Ratio	1.00
6.1%	5.4%	5.0%	4.5%	4.8%	4.8%	4.6%	4.8%	5.0%	4.6%	4.2%	4.5%	4.2%	4.2%	4.6%	4.4%	4.1%		Avg Ann'l Div'd Yield	4.3%

CAPITAL STRUCTURE as of 9/30/11
 Total Debt \$703.7 mill. Due in 5 Yrs \$194.2 mill.
 LT Debt \$587.2 mill. LT Interest \$39.4 mill.
 (LT interest earned: 6.2x; total interest coverage: 5.7x)

Pension Assets-9/11 \$1,289.0 mill.
 Oblig. \$896.5 mill.

Preferred Stock \$28.2 mill. Pfd. Div'd \$1.3 mill.

Common Stock 51,429,169 shs. as of 10/31/11

MARKET CAP: \$2.1 billion (Mid Cap)

1446.5	1584.8	2064.2	2089.6	2186.3	2637.9	2646.0	2628.2	2706.9	2708.9	2751.5	2900	Revenues (\$mill) ^A	3170
89.9	55.7	112.3	98.0	104.8	96.0	102.9	122.9	128.7	115.0	115.5	130	Net Profit (\$mill)	140
39.6%	34.0%	38.0%	38.2%	37.4%	39.0%	39.1%	37.1%	39.1%	38.7%	39.0%	39.0%	Income Tax Rate	39.0%
6.2%	3.5%	5.4%	4.7%	4.8%	3.6%	3.9%	4.7%	4.8%	4.2%	4.2%	4.3%	Net Profit Margin	4.5%
41.7%	45.7%	43.8%	40.9%	39.5%	37.8%	37.9%	35.9%	33.3%	33.4%	32.3%	31.0%	Long-Term Debt Ratio	29.0%
56.3%	52.4%	54.3%	57.2%	58.6%	60.4%	60.3%	62.4%	65.0%	65.0%	66.2%	69.0%	Common Equity Ratio	70.0%
1400.8	1462.5	1454.9	1443.6	1478.1	1526.1	1625.4	1679.5	1687.7	1774.4	1818.1	1875	Total Capital (\$mill)	2055
1519.7	1606.8	1874.9	1915.6	1969.7	2067.9	2150.4	2208.3	2269.1	2346.2	2489.9	2640	Net Plant (\$mill)	3150
7.9%	5.3%	9.1%	8.2%	8.5%	7.6%	7.6%	8.5%	8.8%	7.6%	7.4%	8.0%	Return on Total Cap'l	8.0%
11.0%	7.0%	13.7%	11.5%	11.7%	10.1%	10.2%	11.4%	11.4%	9.7%	9.6%	10.0%	Return on Shr. Equity	10.0%
11.2%	7.2%	14.0%	11.7%	12.0%	10.3%	10.4%	11.6%	11.6%	9.9%	9.7%	10.0%	Return on Com Equity	10.0%
3.8%	NMF	6.2%	4.1%	4.6%	3.2%	3.5%	5.0%	5.0%	3.3%	3.4%	3.5%	Retained to Com Eq	3.5%
67%	112%	56%	65%	62%	69%	66%	57%	57%	67%	63%	64%	All Div'ds to Net Prof	62%

CURRENT POSITION

	2009	2010	9/30/11
Cash Assets	7.9	8.9	4.3
Other	675.6	708.4	720.4
Current Assets	683.5	717.3	724.7
Accts Payable	213.5	225.4	279.4
Debt Due	266.5	130.5	116.5
Other	154.6	188.2	180.8
Current Liab.	634.6	544.1	576.7
Fix. Chg. Cov.	533%	536%	535%

ANNUAL RATES

	Past 10 Yrs	Past 5 Yrs	Est'd '08-'10	'14-'16
Revenues	9.0%	4.0%	2.0%	2.0%
"Cash Flow"	4.0%	1.5%	1.5%	1.5%
Earnings	4.0%	2.5%	2.0%	2.0%
Dividends	2.0%	2.5%	2.5%	2.5%
Book Value	4.0%	5.0%	4.0%	4.0%

BUSINESS: WGL Holdings, Inc. is the parent of Washington Gas Light, a natural gas distributor in Washington, D.C. and adjacent areas of VA and MD to resident and comm'l users (1,073,722 meters). Hampshire Gas, a federally regulated sub., operates an underground gas-storage facility in WV. Non-regulated subs.: Wash. Gas Energy Svcs. sells and delivers natural gas and pro-

vides energy related products in the D.C. metro area; Wash. Gas Energy Sys. designs/installs comm'l heating, ventilating, and air cond. systems. Black Rock Inc. owns 9.2% of common stock; Off.dir. less than 1% (1/11 proxy). Chrmn. & CEO: Terry D. McCallister, Inc.: D.C. and VA. Addr.: 101 Const. Ave., N.W., Washington, D.C. 20080. Tel.: 202-624-6410. Internet: www.wglholdings.com.

QUARTERLY REVENUES (\$ mill.)^A

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2008	751.6	1020.0	464.7	391.9	2628.2
2009	826.2	1040.9	427.0	412.8	2706.9
2010	727.4	1056.6	459.7	465.2	2708.9
2011	795.9	1017.2	490.3	448.1	2751.5
2012	830	1050	525	495	2900

EARNINGS PER SHARE^{A,B}

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2008	.96	1.66	.06	d.24	2.44
2009	1.03	1.65	.11	d.25	2.53
2010	1.01	1.64	d.07	d.29	2.27
2011	1.02	1.53	d.03	d.26	2.25
2012	1.08	1.59	.03	d.20	2.50

QUARTERLY DIVIDENDS PAID^C

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2007	.34	.34	.34	.34	1.36
2008	.34	.36	.36	.36	1.42
2009	.36	.37	.37	.37	1.47
2010	.37	.378	.378	.378	1.50
2011	.378	.39	.39	.39	

WGL Holdings finished out fiscal 2011 (ended September 30th) with better-than-expected financial results. Indeed, the top line advanced about 1.6%, thanks to higher contributions from non-utility operations. The regulated utility division still added roughly 9,800 average active customer meters last year. And the retail energy marketing segment gained about 39,000 accounts over that time frame. Finally, even the design-build energy systems unit logged a profit last year. That portion of WGL's business has been facing delays on many of its government contracts but, more recently, those projects have been moving forward. On the downside, tighter margins led to a slight earnings decline, though share net still beat our target by \$0.05.

We have raised our 2012 earnings estimate by \$0.15, to \$2.50 a share. This ought to be supported by additional customer accounts at both the regulated utility and retail energy marketing divisions, as well as from the commencement of large government contracts at the design-build energy system unit.

Rate cases augur well for the compa-

ny's prospects. Both the Maryland and Virginia rate cases have been approved. Those developments allow the company to boost annual revenues by about \$52 million. These adjustments should help WGL to recoup infrastructure costs. Elsewhere, the company has plans to file for a rate increase in the District of Columbia to help cover \$38 million of pension and post-retirement benefit costs that have been deferred in this region.

Alternative energy projects also stand to benefit WGL Holdings. Kent County, Maryland has selected Washington Gas Energy Services (WGES) to build a 1.6 Kilowatt Solar array. That project will be built by Standard Solar and owned and operated by WGES. It is expected to be completed in the spring of 2012. Meantime, WGL has a joint venture with Skyline Innovations to develop \$30 million worth of commercial-scale solar water heaters.

These shares are a nice income-generating vehicle. On the downside, the stock is trading within our Target Price Range, which limits its appreciation potential for the pull to 2014-2016.

Bryan J. Fong
 December 9, 2011

(A) Fiscal years end Sept. 30th. (B) Based on diluted shares. Excludes non-recurring losses: '01, (13¢); '02, (34¢); '07, (4¢); '08, (14¢) discontinued operations; '06, (15¢). Qty. egs. may not sum to total, due to change in shares outstanding. Next earnings report due late Jan. (C) Dividends historically paid early February, May, August, and November. (D) Includes deferred charges and intangibles. '10: \$580.4 million, \$11.48/sh. (E) In millions, adjusted for stock split.

Company's Financial Strength

A	100
Stock's Price Stability	45
Price Growth Persistence	45
Earnings Predictability	95

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ATTACHMENT C

AMERICAN STS WTR CO (NYSE)

ZACKS RANK: 3 - HOLD

AWR 37.19 ± 0.65 (1.78%) **Vol. 33,831** 10:46 ET

American States is a public utility company engaged principally in the purchase, production, distribution and sale of water. The company also distributes electricity in some communities. In the customer service areas for both water and electric, rates and operations are subject to the jurisdiction of the California Public Utilities Commission.

General Information

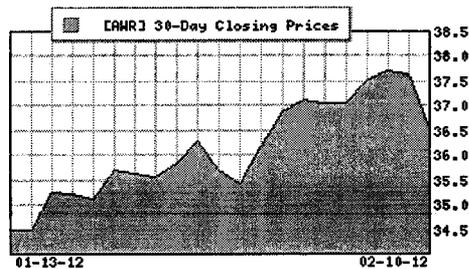
AMER STATES WTR
 630 E FOOTHILL BLVD
 SAN DIMAS, CA 91773-9016
 Phone: 9093943600
 Fax: 909-394-0711
 Web: <http://www.aswater.com>
 Email: investorinfo@aswater.com

Industry: UTIL-WATER
 SPLY
 Sector: Utilities

Fiscal Year End December
 Last Completed Quarter 12/31/11
 Next EPS Date 03/09/2012

Price and Volume Information

Zacks Rank 
 Yesterday's Close 36.54
 52 Week High 37.91
 52 Week Low 30.53
 Beta 0.34
 20 Day Moving Average 114,888.65
 Target Price Consensus 39.5



% Price Change

4 Week 6.01
 12 Week 0.97
 YTD 4.70

% Price Change Relative to S&P 500

4 Week 1.78
 12 Week -8.58
 YTD -1.93

Share Information

Shares Outstanding 18.74
 (millions)
 Market Capitalization 684.58
 (millions)
 Short Ratio 7.02
 Last Split Date 06/10/2002

Dividend Information

Dividend Yield 3.07%
 Annual Dividend \$1.12
 Payout Ratio 0.00
 Change in Payout Ratio 0.00
 Last Dividend Payout / Amount 02/10/2012 / \$0.28

EPS Information

Current Quarter EPS Consensus Estimate 0.38
 Current Year EPS Consensus Estimate 2.22
 Estimated Long-Term EPS Growth Rate 12.00
 Next EPS Report Date 03/09/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell) 2.14
 30 Days Ago 2.14
 60 Days Ago 2.14
 90 Days Ago 2.14

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 16.45	vs. Previous Year 33.87%	vs. Previous Year 7.72%
Trailing 12 Months: 16.24	vs. Previous Quarter 22.06%	vs. Previous Quarter: 9.17%
PEG Ratio 1.37		
Price Ratios	ROE	ROA
Price/Book	12/31/11	12/31/11

	1.69		-		-
Price/Cash Flow	18.01	09/30/11	10.86	09/30/11	3.53
Price / Sales	-	06/30/11	10.05	06/30/11	3.20
Current Ratio		Quick Ratio		Operating Margin	
12/31/11	-	12/31/11	-	12/31/11	-
09/30/11	1.38	09/30/11	1.35	09/30/11	9.88
06/30/11	1.38	06/30/11	1.36	06/30/11	9.13
Net Margin		Pre-Tax Margin		Book Value	
12/31/11	-	12/31/11	-	12/31/11	-
09/30/11	17.27	09/30/11	17.27	09/30/11	21.68
06/30/11	14.11	06/30/11	14.11	06/30/11	21.05
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12/31/11	-	12/31/11	-	12/31/11	-
09/30/11	40.72	09/30/11	0.84	09/30/11	45.66
06/30/11	43.56	06/30/11	0.87	06/30/11	46.43

CALIFORNIA WTR SVC GROUP (NYSE)

ZACKS RANK: 3 - HOLD

CWT 18.43 ▲0.14 (0.77%) Vol. 44,603 11:00 ET

California Water Service Company's business, which is carried on through its operating subsidiaries, consists of the production, purchase, storage, purification, distribution and sale of water for domestic, industrial, public and irrigation uses, and for fire protection. It also provides water related services under agreements with municipalities and other private companies. The nonregulated services include full water system operation, and billing and meter reading services.

General Information

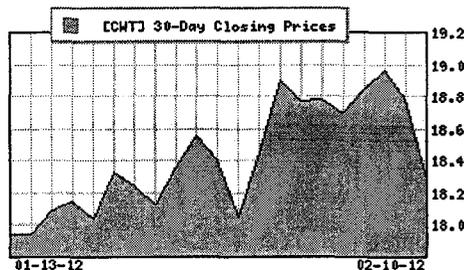
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 SERVICE CO
 SAN JOSE, CA 95112
 Phone: 4083678200
 Fax: 831-427-9185
 Web: <http://www.calwatergroup.com>
 Email: None

Industry: UTIL-WATER
 SPLY
 Sector: Utilities

Fiscal Year End: December
 Last Completed Quarter: 12/31/11
 Next EPS Date: 02/22/2012

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 18.29
 52 Week High: 19.37
 52 Week Low: 16.65
 Beta: 0.29
 20 Day Moving Average: 279,613.81
 Target Price Consensus: 21



% Price Change

4 Week: 1.95
 12 Week: -1.88
 YTD: 0.16

% Price Change Relative to S&P 500

4 Week: -2.12
 12 Week: -11.16
 YTD: -6.18

Share Information

Shares Outstanding (millions): 41.82
 Market Capitalization (millions): 764.83
 Short Ratio: 6.70
 Last Split Date: 06/13/2011

Dividend Information

Dividend Yield: 3.44%
 Annual Dividend: \$0.63
 Payout Ratio: 0.00
 Change in Payout Ratio: 0.00
 Last Dividend Payout / Amount: 02/02/2012 / \$0.16

EPS Information

Current Quarter EPS Consensus Estimate: 0.18
 Current Year EPS Consensus Estimate: 1.02
 Estimated Long-Term EPS Growth Rate: 10.00
 Next EPS Report Date: 02/22/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.00
 30 Days Ago: 2.00
 60 Days Ago: 2.00
 90 Days Ago: 1.89

Fundamental Ratios

P/E	EPS Growth		Sales Growth		
Current FY Estimate:	16.37	vs. Previous Year	2.04%	vs. Previous Year	15.65%
Trailing 12 Months:	19.67	vs. Previous Quarter	72.41%	vs. Previous Quarter:	28.81%
PEG Ratio	1.64				

Price Ratios		ROE		ROA	
Price/Book	1.68	12/31/11	-	12/31/11	-
Price/Cash Flow	9.08	09/30/11	8.88	09/30/11	2.25
Price / Sales	-	06/30/11	8.84	06/30/11	2.27
Current Ratio		Quick Ratio		Operating Margin	
12/31/11	-	12/31/11	-	12/31/11	-
09/30/11	0.97	09/30/11	0.93	09/30/11	7.74
06/30/11	1.00	06/30/11	0.95	06/30/11	8.00
Net Margin		Pre-Tax Margin		Book Value	
12/31/11	-	12/31/11	-	12/31/11	-
09/30/11	13.44	09/30/11	13.44	09/30/11	10.88
06/30/11	13.33	06/30/11	13.33	06/30/11	10.50
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12/31/11	-	12/31/11	-	12/31/11	-
09/30/11	33.41	09/30/11	1.05	09/30/11	51.26
06/30/11	31.64	06/30/11	1.09	06/30/11	52.17

MIDDLESEX WATER CO (NASD)

ZACKS RANK: 3 - HOLD

MSEX 18.63 ▲0.16 (0.87%) Vol. 4,641 10:56 ET

Middlesex Water Company treats, stores and distributes water for residential, commercial, industrial and fire prevention purposes.

General Information

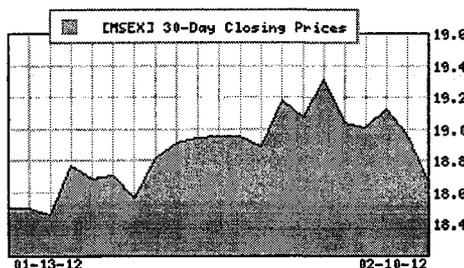
MIDDLESEX WATER
 1500 RONSON RD P O BOX 1500
 ISELIN, NJ 08830
 Phone: 7326341500
 Fax: 732-638-7515
 Web: <http://www.middlesexwater.com>
 Email: bsohler@middlesexwater.com

Industry: UTIL-WATER
 SPLY
 Sector: Utilities

Fiscal Year End: December
 Last Completed Quarter: 12/31/11
 Next EPS Date: 03/07/2012

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 18.48
 52 Week High: 19.60
 52 Week Low: 16.51
 Beta: 0.47
 20 Day Moving Average: 43,916.20
 Target Price Consensus: 20



% Price Change

4 Week: 0.86
 12 Week: 2.47
 YTD: 0.00

% Price Change Relative to S&P 500

4 Week: -3.16
 12 Week: -7.22
 YTD: -6.33

Share Information

Shares Outstanding (millions): 15.64
 Market Capitalization (millions): 291.75
 Short Ratio: 16.32
 Last Split Date: 11/17/2003

Dividend Information

Dividend Yield: 3.97%
 Annual Dividend: \$0.74
 Payout Ratio: 0.00
 Change in Payout Ratio: 0.00
 Last Dividend Payout / Amount: NA / \$0.00

EPS Information

Current Quarter EPS Consensus Estimate: 0.18
 Current Year EPS Consensus Estimate: 0.88
 Estimated Long-Term EPS Growth Rate: -
 Next EPS Report Date: 03/07/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.33
 30 Days Ago: 2.33
 60 Days Ago: 2.33
 90 Days Ago: 2.33

Fundamental Ratios

P/E

Current FY Estimate: 18.78
 Trailing 12 Months: 21.20
 PEG Ratio: -

EPS Growth

vs. Previous Year: -11.11%
 vs. Previous Quarter: 39.13%

Sales Growth

vs. Previous Year: -3.09%
 vs. Previous Quarter: 9.84%

Price Ratios

Price/Book: 1.64 12/31/11

ROE

ROA

- 12/31/11

Price/Cash Flow	11.95	09/30/11	8.02	09/30/11	2.82
Price / Sales	-	06/30/11	8.41	06/30/11	2.98
Current Ratio		Quick Ratio		Operating Margin	
12/31/11	-	12/31/11	-	12/31/11	-
09/30/11	0.57	09/30/11	0.53	09/30/11	13.50
06/30/11	0.58	06/30/11	0.54	06/30/11	13.95
Net Margin		Pre-Tax Margin		Book Value	
12/31/11	-	12/31/11	-	12/31/11	-
09/30/11	20.10	09/30/11	20.10	09/30/11	11.36
06/30/11	20.50	06/30/11	20.50	06/30/11	11.21
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12/31/11	-	12/31/11	-	12/31/11	-
09/30/11	29.83	09/30/11	0.75	09/30/11	42.31
06/30/11	29.81	06/30/11	0.77	06/30/11	43.06

SJW CORP (NYSE)

ZACKS RANK: 3 - HOLD

SJW 24.49 ▲ 0.40 (1.66%) Vol. 2,494 11:02 ET

SJW CORP. is a holding company which operates through its wholly-owned subsidiaries, San Jose Water Co., SJW Land Co., and Western Precision, Inc. San Jose Water Co., is a public utility in the business of providing waterservice to a population of approximately 928,000 people. Their servicearea encompasses about 134 sq. miles in the metropolitan San Juan area. SJW Land Co. operates parking facilities located adjacent to the theirheadquarters and the San Jose area.

General Information

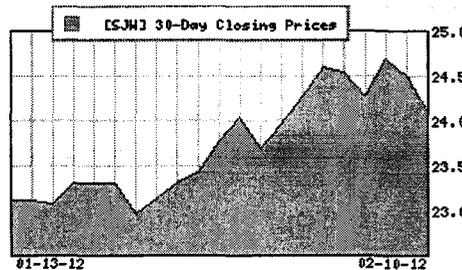
SJW CORP
110 W. TAYLOR STREET
SAN JOSE, CA 95110
Phone: 4082797800
Fax: 408-279-7917
Web: <http://www.sjwater.com/>
Email: boardofdirectors@sjwater.com

Industry: UTIL-WATER
Sector: SPLY
Utilities

Fiscal Year End: December
Last Completed Quarter: 12/31/11
Next EPS Date: 02/21/2012

Price and Volume Information

Zacks Rank: **3**
Yesterday's Close: 24.09
52 Week High: 25.32
52 Week Low: 20.87
Beta: 0.60
20 Day Moving Average: 27,253.95
Target Price Consensus: 27



% Price Change		% Price Change Relative to S&P 500	
4 Week	4.24	4 Week	0.08
12 Week	0.33	12 Week	-9.16
YTD	1.90	YTD	-4.55

Share Information

Shares Outstanding (millions): 18.59
Market Capitalization (millions): 447.88
Short Ratio: 22.94
Last Split Date: 03/17/2006

Dividend Information

Dividend Yield: 2.95%
Annual Dividend: \$0.71
Payout Ratio: 0.00
Change in Payout Ratio: 0.00
Last Dividend Payout / Amount: 02/02/2012 / \$0.18

EPS Information

Current Quarter EPS Consensus Estimate: 0.12
Current Year EPS Consensus Estimate: 0.88
Estimated Long-Term EPS Growth Rate: -
Next EPS Report Date: 02/21/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.33
30 Days Ago: 2.33
60 Days Ago: 2.33
90 Days Ago: 2.33

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 22.94	vs. Previous Year	0.00% vs. Previous Year
Trailing 12 Months: 28.01	vs. Previous Quarter	51.72% vs. Previous Quarter: 25.26%
PEG Ratio	-	

Price Ratios		ROE		ROA	
Price/Book	1.72	12/31/11	-	12/31/11	-
Price/Cash Flow	10.17	09/30/11	6.34	09/30/11	1.66
Price / Sales	-	06/30/11	6.33	06/30/11	1.68
Current Ratio		Quick Ratio		Operating Margin	
12/31/11	-	12/31/11	-	12/31/11	-
09/30/11	2.31	09/30/11	2.28	09/30/11	7.13
06/30/11	2.13	06/30/11	2.10	06/30/11	7.22
Net Margin		Pre-Tax Margin		Book Value	
12/31/11	-	12/31/11	-	12/31/11	-
09/30/11	13.13	09/30/11	13.13	09/30/11	14.01
06/30/11	15.37	06/30/11	15.37	06/30/11	13.73
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12/31/11	-	12/31/11	-	12/31/11	-
09/30/11	94.49	09/30/11	1.32	09/30/11	56.96
06/30/11	92.40	06/30/11	1.35	06/30/11	57.47

AQUA AMERICA INC (NYSE)

ZACKS RANK: 3 - HOLD

WTR 22.38 ▲ 0.31 (1.40%) Vol. 114,174 11:03 ET

Aqua America is the largest publicly-traded U.S.-based water utility serving residents in Pennsylvania, Ohio, Illinois, Texas, New Jersey, Indiana, Virginia, Florida, North Carolina, Maine, Missouri, New York, South Carolina and Kentucky. The company has been committed to the preservation and improvement of the environment throughout its history, which spans more than 100 years.

General Information

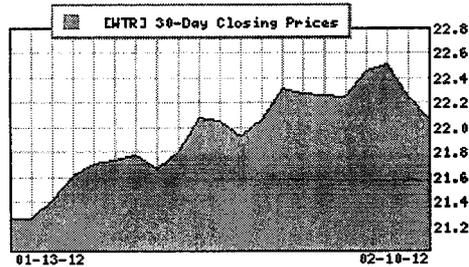
AQUA AMER INC
762 LANCASTER AVE
BRYN MAWR, PA 19010
Phone: 2155278000
Fax: 610-645-1061
Web: <http://www.aquaamerica.com>
Email: None

Industry: UTIL-WATER
Sector: SPLY
Utilities

Fiscal Year End: December
Last Completed Quarter: 12/31/11
Next EPS Date: 02/28/2012

Price and Volume Information

Zacks Rank 
Yesterday's Close: 22.07
52 Week High: 23.57
52 Week Low: 19.28
Beta: 0.20
20 Day Moving Average: 396,518.16
Target Price Consensus: 24.57



% Price Change

4 Week: 3.81
12 Week: 1.75
YTD: 0.09

% Price Change Relative to S&P 500

4 Week: -0.33
12 Week: -7.87
YTD: -6.25

Share Information

Shares Outstanding (millions): 138.57
Market Capitalization (millions): 3,058.20
Short Ratio: 8.76
Last Split Date: 12/02/2005

Dividend Information

Dividend Yield: 2.99%
Annual Dividend: \$0.66
Payout Ratio: 0.00
Change in Payout Ratio: 0.00
Last Dividend Payout / Amount: 11/15/2011 / \$0.17

EPS Information

Current Quarter EPS Consensus Estimate: 0.23
Current Year EPS Consensus Estimate: 1.02
Estimated Long-Term EPS Growth Rate: 8.30
Next EPS Report Date: 02/28/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 1.92
30 Days Ago: 1.92
60 Days Ago: 1.92
90 Days Ago: 1.92

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 20.52	vs. Previous Year: -6.25%	vs. Previous Year: -5.04%
Trailing 12 Months: 23.23	vs. Previous Quarter: 20.00%	vs. Previous Quarter: 4.83%
PEG Ratio: 2.48		

Price Ratios

ROE

ROA

Price/Book	2.52	12/31/11	-	12/31/11	-
Price/Cash Flow	12.39	09/30/11	10.94	09/30/11	3.16
Price / Sales	-	06/30/11	11.25	06/30/11	3.26
Current Ratio			Quick Ratio		Operating Margin
12/31/11	-	12/31/11	-	12/31/11	-
09/30/11	0.78	09/30/11	0.76	09/30/11	17.81
06/30/11	0.58	06/30/11	0.54	06/30/11	17.78
Net Margin			Pre-Tax Margin		Book Value
12/31/11	-	12/31/11	-	12/31/11	-
09/30/11	30.33	09/30/11	30.33	09/30/11	8.76
06/30/11	29.35	06/30/11	29.35	06/30/11	8.77
Inventory Turnover			Debt-to-Equity		Debt to Capital
12/31/11	-	12/31/11	-	12/31/11	-
09/30/11	25.92	09/30/11	1.16	09/30/11	53.63
06/30/11	26.82	06/30/11	1.21	06/30/11	54.78

AGL RESOURCES INC (NYSE)

ZACKS RANK: 3 - HOLD

GAS 41.80 \pm 0.24 (0.58%) Vol. 54,915 11:07 ET

AGL Resources principal business is the distribution of natural gas to customers in central, northwest, northeast and southeast Georgia and the Chattanooga, Tennessee area through its natural gas distribution subsidiary. AGL's major service area is the ten county metropolitan Atlanta area.

General Information

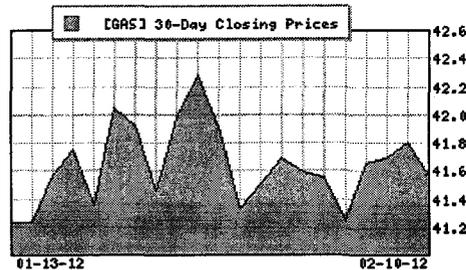
AGL RESOURCES
TEN PEACHTREE PLACE
ATLANTA, GA 30309
Phone: 4045844000
Fax: 404-584-3945
Web: <http://www.aglresources.com>
Email: sstashak@aglresources.com

Industry: UTIL-GAS DISTR
Sector: Utilities

Fiscal Year End: December
Last Completed Quarter: 12/31/11
Next EPS Date: 02/22/2012

Price and Volume Information

Zacks Rank 
Yesterday's Close: 41.56
52 Week High: 43.69
52 Week Low: 34.08
Beta: 0.43
20 Day Moving Average: 465,854.84
Target Price Consensus: 42



% Price Change

4 Week: 0.80
12 Week: 1.34
YTD: -1.66

% Price Change Relative to S&P 500

4 Week: -3.22
12 Week: -8.24
YTD: -7.89

Share Information

Shares Outstanding (millions): 78.55
Market Capitalization (millions): 3,264.70
Short Ratio: 5.29
Last Split Date: 12/04/1995

Dividend Information

Dividend Yield: 4.33%
Annual Dividend: \$1.80
Payout Ratio: 0.00
Change in Payout Ratio: 0.00
Last Dividend Payout / Amount: 12/12/2011 / \$0.55

EPS Information

Current Quarter EPS Consensus Estimate: 0.92
Current Year EPS Consensus Estimate: 2.93
Estimated Long-Term EPS Growth Rate: 4.30
Next EPS Report Date: 02/22/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.57
30 Days Ago: 2.57
60 Days Ago: 2.50
90 Days Ago: 2.50

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	13.63	vs. Previous Year	-93.10%	vs. Previous Year	-14.74%
Trailing 12 Months:	14.63	vs. Previous Quarter	-93.94%	vs. Previous Quarter:	-21.33%
PEG Ratio	3.14				
Price Ratios		ROE		ROA	
Price/Book	1.73	12/31/11		12/31/11	-

Price/Cash Flow	8.15	09/30/11	11.78	09/30/11	3.05
Price / Sales	-	06/30/11	12.98	06/30/11	3.39
Current Ratio		Quick Ratio		Operating Margin	
12/31/11	-	12/31/11	-	12/31/11	-
09/30/11	1.58	09/30/11	1.02	09/30/11	10.05
06/30/11	1.15	06/30/11	0.76	06/30/11	10.72
Net Margin		Pre-Tax Margin		Book Value	
12/31/11	-	12/31/11	-	12/31/11	-
09/30/11	15.41	09/30/11	15.41	09/30/11	23.97
06/30/11	16.83	06/30/11	16.83	06/30/11	24.46
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12/31/11	-	12/31/11	-	12/31/11	-
09/30/11	2.83	09/30/11	1.43	09/30/11	58.82
06/30/11	2.82	06/30/11	1.13	06/30/11	53.06

ATMOS ENERGY CORP (NYSE)

ZACKS RANK: 4 - SELL

ATO 31.71 ▲ 0.15 (0.48%) Vol. 92,468 11:05 ET

Atmos Energy Corporation distributes and sells natural gas to residential, commercial, industrial, agricultural and other customers. Atmos operates through five divisions in cities, towns and communities in service areas located in Colorado, Georgia, Illinois, Iowa, Kansas, Kentucky, Louisiana, Missouri, South Carolina, Tennessee, Texas and Virginia. The Company has entered into an agreement to sell all of its natural gas utility operations in South Carolina. The Company also transports natural gas for others through its distribution system.

General Information

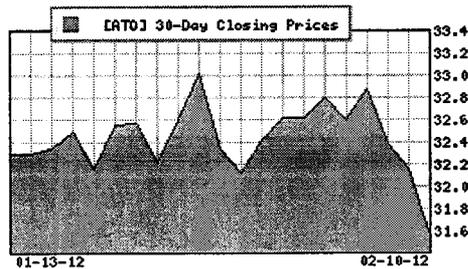
ATMOS ENERGY CP
 1800 THREE LINCOLN CTR 5430 LBJ
 FREEWAY
 DALLAS, TX 75240
 Phone: 9729349227
 Fax: 972-855-3040
 Web: <http://www.atmosenergy.com>
 Email: None

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: September
 Last Completed Quarter: 09/30/11
 Next EPS Date: 05/09/2012

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 31.56
 52 Week High: 35.55
 52 Week Low: 28.51
 Beta: 0.49
 20 Day Moving Average: 306,681.50
 Target Price Consensus: 34.5



% Price Change

4 Week: -2.26
 12 Week: -9.70
 YTD: -5.37

% Price Change Relative to S&P 500

4 Week: -6.16
 12 Week: -18.24
 YTD: -11.36

Share Information

Shares Outstanding (millions): 90.36
 Market Capitalization (millions): 2,851.89
 Short Ratio: 1.25
 Last Split Date: 05/17/1994

Dividend Information

Dividend Yield: 4.37%
 Annual Dividend: \$1.38
 Payout Ratio: 0.67
 Change in Payout Ratio: 0.04
 Last Dividend Payout / Amount: 11/22/2011 / \$0.34

EPS Information

Current Quarter EPS Consensus Estimate: 1.46
 Current Year EPS Consensus Estimate: 2.35
 Estimated Long-Term EPS Growth Rate: 4.30
 Next EPS Report Date: 05/09/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.86
 30 Days Ago: 2.86
 60 Days Ago: 2.86
 90 Days Ago: 2.86

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 13.44	vs. Previous Year: -24.69%	vs. Previous Year: -2.83%
Trailing 12 Months: 15.40	vs. Previous Quarter: 916.67%	vs. Previous Quarter: 46.14%
PEG Ratio: 3.10		

Price Ratios		ROE		ROA	
Price/Book	1.26	12/31/11	8.09	12/31/11	2.59
Price/Cash Flow	6.65	09/30/11	8.88	09/30/11	2.88
Price / Sales	0.66	06/30/11	8.70	06/30/11	2.85
Current Ratio		Quick Ratio		Operating Margin	
12/31/11	1.07	12/31/11	0.79	12/31/11	4.33
09/30/11	1.17	09/30/11	0.83	09/30/11	4.72
06/30/11	1.53	06/30/11	1.13	06/30/11	4.62
Net Margin		Pre-Tax Margin		Book Value	
12/31/11	7.04	12/31/11	7.04	12/31/11	25.10
09/30/11	7.19	09/30/11	7.19	09/30/11	24.98
06/30/11	7.19	06/30/11	7.19	06/30/11	25.86
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12/31/11	12.51	12/31/11	0.97	12/31/11	49.31
09/30/11	12.46	09/30/11	0.98	09/30/11	49.45
06/30/11	12.07	06/30/11	0.94	06/30/11	48.57

LACLEDE GROUP INC (NYSE)

ZACKS RANK: 2 - BUY

LG 42.22 ▲0.27 (0.64%) Vol. 24,122 11:08 ET

The Laclede Group, Inc. is a public utility engaged in the retail distribution and transportation of natural gas. The Company, which is subject to the jurisdiction of the Missouri Public Service Commission, serves the City of St. Louis, St. Louis County, the City of St. Charles, St. Charles County, the town of Arnold, and parts of Franklin, Jefferson, St. Francois, Ste. Genevieve, Iron, Madison and Butler Counties, all in Missouri.

General Information

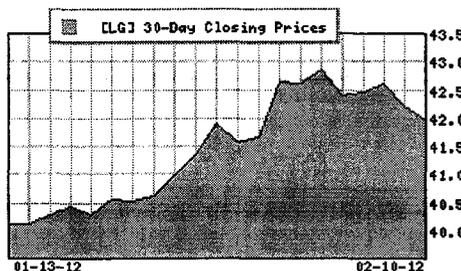
LACLEDE GRP INC
 720 OLIVE ST
 ST LOUIS, MO 63101
 Phone: 3143420500
 Fax: 314-421-1979
 Web: <http://www.thelacledegroup.com>
 Email: mkullman@lacledegas.com

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: September
 Last Completed Quarter: 09/30/11
 Next EPS Date: 04/27/2012

Price and Volume Information

Zacks Rank: **2**
 Yesterday's Close: 41.95
 52 Week High: 43.00
 52 Week Low: 32.90
 Beta: 0.08
 20 Day Moving Average: 87,835.95
 Target Price Consensus: 42



% Price Change

4 Week: 4.59
 12 Week: 3.30
 YTD: 3.66

% Price Change Relative to S&P 500

4 Week: 0.42
 12 Week: -6.47
 YTD: -2.91

Share Information

Shares Outstanding (millions): 22.46
 Market Capitalization (millions): 942.24
 Short Ratio: 11.47
 Last Split Date: 03/08/1994

Dividend Information

Dividend Yield: 3.96%
 Annual Dividend: \$1.66
 Payout Ratio: 0.58
 Change in Payout Ratio: -0.02
 Last Dividend Payout / Amount: 12/08/2011 / \$0.41

EPS Information

Current Quarter EPS Consensus Estimate: 1.37
 Current Year EPS Consensus Estimate: 2.68
 Estimated Long-Term EPS Growth Rate: 3.00
 Next EPS Report Date: 04/27/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 3.00
 30 Days Ago: 3.00
 60 Days Ago: 3.00
 90 Days Ago: 3.00

Fundamental Ratios

P/E

Current FY Estimate: 15.64
 Trailing 12 Months: 14.72
 PEG Ratio: 5.21

EPS Growth

vs. Previous Year: 5.71%
 vs. Previous Quarter: 892.86%

Sales Growth

vs. Previous Year: -7.49%
 vs. Previous Quarter: 51.60%

Price Ratios

Price/Book: 1.60 12/31/11

ROE

11.03 12/31/11

ROA

3.58

Price/Cash Flow	9.21	09/30/11	10.96	09/30/11	3.50
Price / Sales	0.60	06/30/11	11.46	06/30/11	3.57
Current Ratio			Quick Ratio		Operating Margin
12/31/11	1.29	12/31/11	0.89	12/31/11	4.06
09/30/11	1.59	09/30/11	1.04	09/30/11	3.88
06/30/11	1.86	06/30/11	1.48	06/30/11	3.96
Net Margin			Pre-Tax Margin		Book Value
12/31/11	6.10	12/31/11	6.10	12/31/11	26.25
09/30/11	5.80	09/30/11	5.80	09/30/11	25.56
06/30/11	5.91	06/30/11	5.91	06/30/11	25.86
Inventory Turnover			Debt-to-Equity		Debt to Capital
12/31/11	12.27	12/31/11	0.58	12/31/11	36.53
09/30/11	12.58	09/30/11	0.64	09/30/11	38.86
06/30/11	12.61	06/30/11	0.63	06/30/11	38.60

NEW JERSEY RES (NYSE)

ZACKS RANK: 3 - HOLD

NJR 47.74 ▲0.43 (0.91%) Vol. 69,038 11:08 ET

NJ RESOURCES is an exempt energy svcs holding company providing retail & wholesale natural gas & related energy services to customers from the Gulf Coast to New England. Subsidiaries include: (1) N J Natural Gas Co, a natural gas distribution company that provides regulated energy & appliance services to residential, commercial & industrial customers in central & northern N J. (2) NJR Energy Holdings Corp formerly NJR Energy Svcs Corp & (3) NJR Development Corp, a sub-holding company of NJR, which includes the Company's remaining unregulated operating subsidiaries.

General Information

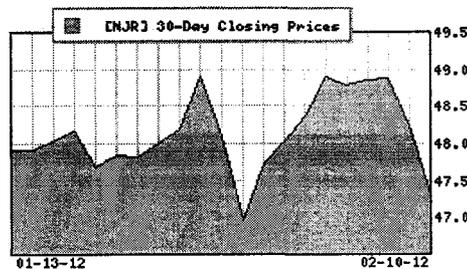
NJ RESOURCES
1415 WYCKOFF RD PO BOX 1468
WALL, NJ 07719
Phone: 9089381494
Fax: 732-938-2134
Web: <http://www.njresources.com>
Email: dpuma@njresources.com

Industry: UTIL-GAS DISTR
Sector: Utilities

Fiscal Year End: September
Last Completed Quarter: 09/30/11
Next EPS Date: 05/09/2012

Price and Volume Information

Zacks Rank 
Yesterday's Close: 47.31
52 Week High: 50.48
52 Week Low: 39.60
Beta: 0.25
20 Day Moving Average: 199,213.66
Target Price Consensus: 47.8



% Price Change

4 Week: -1.23
12 Week: -0.36
YTD: -3.84

% Price Change Relative to S&P 500

4 Week: -5.17
12 Week: -9.78
YTD: -9.93

Share Information

Shares Outstanding (millions): 41.43
Market Capitalization (millions): 1,959.86
Short Ratio: 12.81
Last Split Date: 03/04/2008

Dividend Information

Dividend Yield: 3.21%
Annual Dividend: \$1.52
Payout Ratio: 0.52
Change in Payout Ratio: -0.03
Last Dividend Payout / Amount: 12/13/2011 / \$0.38

EPS Information

Current Quarter EPS Consensus Estimate: 1.63
Current Year EPS Consensus Estimate: 2.75
Estimated Long-Term EPS Growth Rate: 4.50
Next EPS Report Date: 05/09/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 3.00
30 Days Ago: 2.88
60 Days Ago: 2.88
90 Days Ago: 2.86

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 17.21	vs. Previous Year: 55.71%	vs. Previous Year: -9.92%
Trailing 12 Months: 16.04	vs. Previous Quarter: 5,350.00%	vs. Previous Quarter: -4.25%
PEG Ratio: 3.83		

Price Ratios		ROE		ROA	
Price/Book	2.39	12/31/11	15.44	12/31/11	4.64
Price/Cash Flow	13.83	09/30/11	13.77	09/30/11	4.08
Price / Sales	0.67	06/30/11	13.74	06/30/11	4.04
Current Ratio		Quick Ratio		Operating Margin	
12/31/11	1.03	12/31/11	0.68	12/31/11	4.18
09/30/11	1.04	09/30/11	0.61	09/30/11	3.54
06/30/11	1.18	06/30/11	0.77	06/30/11	3.52
Net Margin		Pre-Tax Margin		Book Value	
12/31/11	5.53	12/31/11	5.53	12/31/11	19.81
09/30/11	4.22	09/30/11	4.22	09/30/11	18.73
06/30/11	4.85	06/30/11	4.85	06/30/11	19.25
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12/31/11	9.90	12/31/11	0.53	12/31/11	34.47
09/30/11	9.61	09/30/11	0.55	09/30/11	35.48
06/30/11	9.08	06/30/11	0.54	06/30/11	34.97

Price/Book	1.83	12/31/11	-	12/31/11	-
Price/Cash Flow	9.23	09/30/11	9.71	09/30/11	2.67
Price / Sales	-	06/30/11	9.91	06/30/11	2.73
Current Ratio		Quick Ratio		Operating Margin	
12/31/11	-	12/31/11	-	12/31/11	-
09/30/11	0.62	09/30/11	0.41	09/30/11	8.12
06/30/11	0.60	06/30/11	0.41	06/30/11	8.20
Net Margin		Pre-Tax Margin		Book Value	
12/31/11	-	12/31/11	-	12/31/11	-
09/30/11	12.77	09/30/11	12.77	09/30/11	26.11
06/30/11	12.91	06/30/11	12.91	06/30/11	26.79
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12/31/11	-	12/31/11	-	12/31/11	-
09/30/11	8.07	09/30/11	0.86	09/30/11	46.35
06/30/11	7.93	06/30/11	0.77	06/30/11	43.57

PIEDMONT NAT GAS INC (NYSE)

ZACKS RANK: 3 - HOLD

PNY 33.44 Δ 0.20 (0.60%) Vol. 35,554 11:11 ET

Piedmont Natural Gas Co., Inc., is an energy and services company engaged in the transportation and sale of natural gas and the sale of propane to residential, commercial and industrial customers in North Carolina, South Carolina and Tennessee. The Company is the second-largest natural gas utility in the southeast. The Company and its non-utility subsidiaries and divisions are also engaged in acquiring, marketing and arranging for the transportation and storage of natural gas for large-volume purchasers, and in the sale of propane to customers in the Company's three-state service area.

General Information

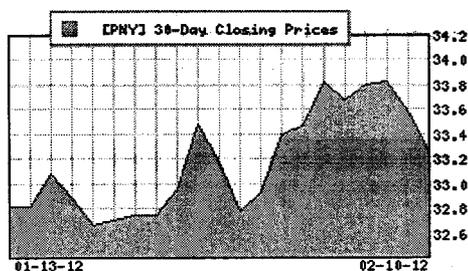
PIEDMONT NAT GA
4720 PIEDMONT ROW DR
CHARLOTTE, NC 28233
Phone: 7043643120
Fax: 704-365-3849
Web: <http://www.piedmontng.com>
Email: investorrelations@piedmontng.com

Industry: UTIL-GAS DISTR
Sector: Utilities

Fiscal Year End: October
Last Completed Quarter: 10/31/11
Next EPS Date: 03/08/2012

Price and Volume Information

Zacks Rank 
Yesterday's Close: 33.24
52 Week High: 34.74
52 Week Low: 25.86
Beta: 0.31
20 Day Moving Average: 232,308.16
Target Price Consensus: 31.33



% Price Change	% Price Change Relative to S&P 500
4 Week: 1.28	4 Week: -2.76
12 Week: 4.66	12 Week: -5.24
YTD: -2.18	YTD: -8.37

Share Information

Shares Outstanding (millions): 72.34
Market Capitalization (millions): 2,404.65
Short Ratio: 16.54
Last Split Date: 11/01/2004

Dividend Information

Dividend Yield: 3.49%
Annual Dividend: \$1.16
Payout Ratio: 0.00
Change in Payout Ratio: 0.00
Last Dividend Payout / Amount: 12/22/2011 / \$0.29

EPS Information

Current Quarter EPS Consensus Estimate: 1.19
Current Year EPS Consensus Estimate: 1.65
Estimated Long-Term EPS Growth Rate: 4.70
Next EPS Report Date: 03/08/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 3.50
30 Days Ago: 3.38
60 Days Ago: 2.88
90 Days Ago: 2.88

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 20.10	vs. Previous Year: -8.33%	vs. Previous Year: -1.08%
Trailing 12 Months: 21.17	vs. Previous Quarter: -8.33%	vs. Previous Quarter: -2.67%
PEG Ratio: 4.31		

Price Ratios	ROE		ROA		
Price/Book	2.41	01/31/12	-	01/31/12	-
Price/Cash Flow	10.88	10/31/11	11.13	10/31/11	3.55
Price / Sales	-	07/31/11	11.26	07/31/11	3.62
Current Ratio	Quick Ratio		Operating Margin		
01/31/12	-	01/31/12	-	01/31/12	-
10/31/11	0.54	10/31/11	0.36	10/31/11	7.92
07/31/11	0.73	07/31/11	0.54	07/31/11	7.94
Net Margin	Pre-Tax Margin		Book Value		
01/31/12	-	01/31/12	-	01/31/12	-
10/31/11	12.96	10/31/11	12.96	10/31/11	13.81
07/31/11	13.03	07/31/11	13.03	07/31/11	14.20
Inventory Turnover	Debt-to-Equity		Debt to Capital		
01/31/12	-	01/31/12	-	01/31/12	-
10/31/11	11.66	10/31/11	0.68	10/31/11	40.37
07/31/11	11.25	07/31/11	0.66	07/31/11	39.77

SOUTH JERSEY INDS INC (NYSE)

ZACKS RANK: 3 - HOLD

SJI 54.35 ▲0.33 (0.61%) Vol. 10,322 11:10 ET

South Jersey Inds Inc. is engaged in the business of operating, through subsidiaries, various business enterprises. The company's most significant subsidiary is South Jersey Gas Company (SJG). SJG is a public utility company engaged in the purchase, transmission and sale of natural gas for residential, commercial and industrial use. SJG also makes off-system sales of natural gas on a wholesale basis to various customers on the interstate pipeline system and transports natural gas.

General Information

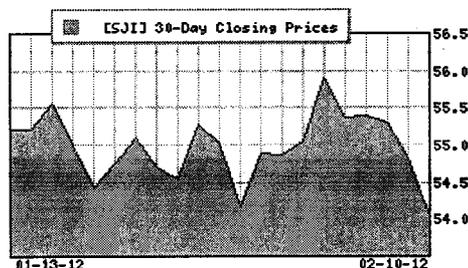
SOUTH JERSEY IN
 1 SOUTH JERSEY PLAZA, ROUTE 54
 FOLSOM, NJ 08037
 Phone: 609-561-9000
 Fax: 609-561-8225
 Web: <http://www.sjindustries.com>
 Email: None

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: December
 Last Completed Quarter: 12/31/11
 Next EPS Date: 02/28/2012

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 54.02
 52 Week High: 58.03
 52 Week Low: 42.85
 Beta: 0.35
 20 Day Moving Average: 127,613.45
 Target Price Consensus: 60.8



% Price Change

4 Week: -2.16
 12 Week: -1.37
 YTD: -4.91

% Price Change Relative to S&P 500

4 Week: -6.06
 12 Week: -10.70
 YTD: -10.93

Share Information

Shares Outstanding (millions): 30.14
 Market Capitalization (millions): 1,628.22
 Short Ratio: 12.55
 Last Split Date: 07/01/2005

Dividend Information

Dividend Yield: 2.98%
 Annual Dividend: \$1.61
 Payout Ratio: 0.00
 Change in Payout Ratio: 0.00
 Last Dividend Payout / Amount: 12/07/2011 / \$0.40

EPS Information

Current Quarter EPS Consensus Estimate: 1.04
 Current Year EPS Consensus Estimate: 2.88
 Estimated Long-Term EPS Growth Rate: 6.00
 Next EPS Report Date: 02/28/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 1.33
 30 Days Ago: 1.33
 60 Days Ago: 1.33
 90 Days Ago: 1.33

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 16.72	vs. Previous Year: -90.00%	vs. Previous Year: -14.34%
Trailing 12 Months: 19.93	vs. Previous Quarter: -95.00%	vs. Previous Quarter: -14.24%
PEG Ratio: 2.79		

Price Ratios **ROE** **ROA**

Price/Book	2.72	12/31/11	-	12/31/11	-
Price/Cash Flow	12.84	09/30/11	13.66	09/30/11	3.95
Price / Sales	-	06/30/11	14.33	06/30/11	4.15
Current Ratio			Quick Ratio		Operating Margin
12/31/11	-	12/31/11	-	12/31/11	-
09/30/11	0.65	09/30/11	0.50	09/30/11	8.91
06/30/11	0.76	06/30/11	0.64	06/30/11	8.96
Net Margin			Pre-Tax Margin		Book Value
12/31/11	-	12/31/11	-	12/31/11	-
09/30/11	12.28	09/30/11	12.28	09/30/11	19.83
06/30/11	12.59	06/30/11	12.59	06/30/11	20.24
Inventory Turnover			Debt-to-Equity		Debt to Capital
12/31/11	-	12/31/11	-	12/31/11	-
09/30/11	12.75	09/30/11	0.71	09/30/11	41.60
06/30/11	11.60	06/30/11	0.70	06/30/11	41.29

SOUTHWEST GAS CORP (NYSE)

ZACKS RANK: 4 - SELL

SWX 42.08 -0.14 (0.33%) Vol. 31,579 11:14 ET

SOUTHWEST GAS CORP. is principally engaged in the business of purchasing, transporting, and distributing natural gas in portions of Arizona, Nevada, and California. The Company also engaged in financial services activities, through PriMerit Bank, Federal Savings Bank (PriMerit or the Bank), a wholly owned subsidiary.

General Information

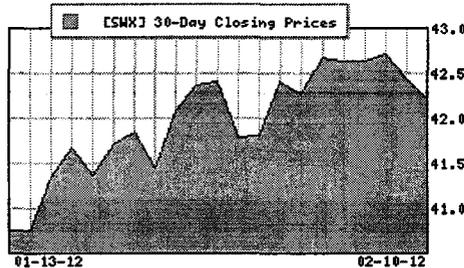
SOUTHWEST GAS
5241 SPRING MOUNTAIN . PO BOX 98510RD
LAS VEGAS, NV 89193-8510
Phone: 7028767237
Fax: 702-876-7037
Web: <http://www.swgas.com>
Email: None

Industry: UTIL-GAS DISTR
Sector: Utilities

Fiscal Year End: December
Last Completed Quarter: 12/31/11
Next EPS Date: 03/05/2012

Price and Volume Information

Zacks Rank 
Yesterday's Close: 41.95
52 Week High: 43.22
52 Week Low: 32.12
Beta: 0.71
20 Day Moving Average: 188,119.00
Target Price Consensus: 39.75



% Price Change

4 Week: 3.58
12 Week: 8.15
YTD: -0.66

% Price Change Relative to S&P 500

4 Week: -0.55
12 Week: -2.08
YTD: -6.95

Share Information

Shares Outstanding (millions): 45.91
Market Capitalization (millions): 1,937.90
Short Ratio: 5.82
Last Split Date: N/A

Dividend Information

Dividend Yield: 2.51%
Annual Dividend: \$1.06
Payout Ratio: 0.00
Change in Payout Ratio: 0.00
Last Dividend Payout / Amount: NA / \$0.00

EPS Information

Current Quarter EPS Consensus Estimate: 0.95
Current Year EPS Consensus Estimate: 2.21
Estimated Long-Term EPS Growth Rate: 5.30
Next EPS Report Date: 03/05/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.86
30 Days Ago: 2.86
60 Days Ago: 2.86
90 Days Ago: 2.86

Fundamental Ratios

P/E	EPS Growth		Sales Growth		
Current FY Estimate:	16.84	vs. Previous Year	-281.82%	vs. Previous Year	14.60%
Trailing 12 Months:	18.43	vs. Previous Quarter	-766.67%	vs. Previous Quarter:	-9.24%
PEG Ratio	3.21				
Price Ratios	ROE		ROA		
Price/Book	1.63	12/31/11	-	12/31/11	-

Price/Cash Flow	7.27	09/30/11	8.82	09/30/11	2.69
Price / Sales	-	06/30/11	10.11	06/30/11	3.07
Current Ratio			Quick Ratio		Operating Margin
12/31/11	-	12/31/11	-	12/31/11	-
09/30/11	0.42	09/30/11	0.42	09/30/11	5.77
06/30/11	0.52	06/30/11	0.52	06/30/11	6.68
Net Margin			Pre-Tax Margin		Book Value
12/31/11	-	12/31/11	-	12/31/11	-
09/30/11	8.62	09/30/11	8.62	09/30/11	25.88
06/30/11	9.49	06/30/11	9.49	06/30/11	26.66
Inventory Turnover			Debt-to-Equity		Debt to Capital
12/31/11	-	12/31/11	-	12/31/11	-
09/30/11	-	09/30/11	0.79	09/30/11	44.10
06/30/11	-	06/30/11	0.77	06/30/11	43.51

WGL HLDGS INC (NYSE)

ZACKS RANK: 3 - HOLD

WGL 41.77 ▲0.21 (0.51%) Vol. 38,926 11:15 ET

WASHINGTON GAS LIGHT CO is a public utility that delivers and sells natural gas to metropolitan Washington, D.C. and adjoining areas in Maryland and Virginia. A distribution subsidiary serves portions of Virginia and West Virginia. The Company has four wholly-owned active subsidiaries that include: Shenandoah Gas Company (Shenandoah) is engaged in the delivery and sale of natural gas at retail in the Shenandoah Valley, including Winchester, Middletown, Strasburg, Stephens City and New Market, Virginia, and Martinsburg, West Virginia.

General Information

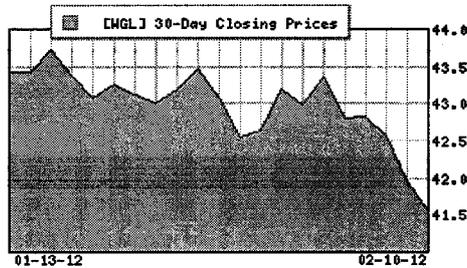
WGL HLDGS INC
101 CONSTITUTION AVE N.W.
WASHINGTON, DC 20080
Phone: 7037504440
Fax: 703-750-4828
Web: <http://www.wglholdings.com>
Email: robertdennis@washgas.com

Industry: UTIL-GAS DISTR
Sector: Utilities

Fiscal Year End: September
Last Completed Quarter: 09/30/11
Next EPS Date: 05/09/2012

Price and Volume Information

Zacks Rank 
Yesterday's Close: 41.56
52 Week High: 44.99
52 Week Low: 34.71
Beta: 0.28
20 Day Moving Average: 243,921.20
Target Price Consensus: 43.86



% Price Change

4 Week: -4.31
12 Week: -1.09
YTD: -6.02

% Price Change Relative to S&P 500

4 Week: -8.12
12 Week: -10.45
YTD: -11.97

Share Information

Shares Outstanding (millions): 51.43
Market Capitalization (millions): 2,137.39
Short Ratio: 16.77
Last Split Date: 05/02/1995

Dividend Information

Dividend Yield: 3.73%
Annual Dividend: \$1.55
Payout Ratio: 0.65
Change in Payout Ratio: 0.03
Last Dividend Payout / Amount: 01/06/2012 / \$0.39

EPS Information

Current Quarter EPS Consensus Estimate: 1.66
Current Year EPS Consensus Estimate: 2.51
Estimated Long-Term EPS Growth Rate: 5.20
Next EPS Report Date: 05/09/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.63
30 Days Ago: 2.75
60 Days Ago: 2.75
90 Days Ago: 2.44

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 16.57	vs. Previous Year: 10.78%	vs. Previous Year: -8.56%
Trailing 12 Months: 17.54	vs. Previous Quarter: 534.62%	vs. Previous Quarter: 62.40%
PEG Ratio: 3.21		

Price Ratios

ROE

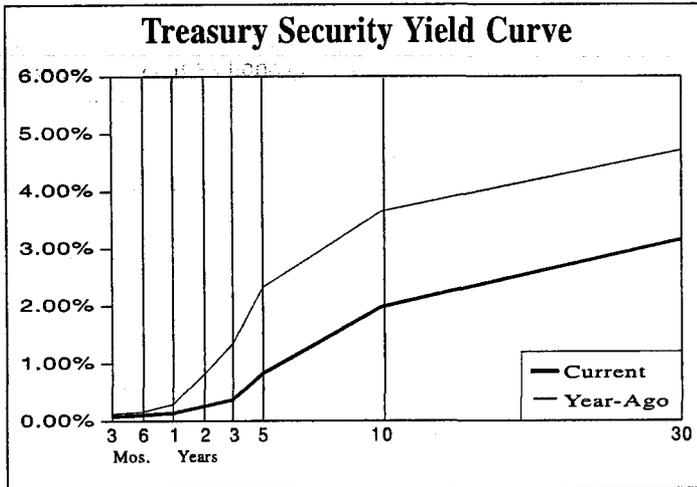
ROA

Price/Book	1.73	12/31/11	9.85	12/31/11	3.12
Price/Cash Flow	9.83	09/30/11	9.41	09/30/11	2.99
Price / Sales	0.80	06/30/11	9.39	06/30/11	2.98
Current Ratio		Quick Ratio		Operating Margin	
12/31/11	1.20	12/31/11	0.79	12/31/11	4.55
09/30/11	1.26	09/30/11	0.71	09/30/11	4.21
06/30/11	1.43	06/30/11	1.03	06/30/11	4.13
Net Margin		Pre-Tax Margin		Book Value	
12/31/11	6.78	12/31/11	6.78	12/31/11	24.03
09/30/11	7.47	09/30/11	7.47	09/30/11	23.44
06/30/11	7.39	06/30/11	7.39	06/30/11	24.44
Inventory Turnover		Debt-to-Equity		Debt to Capital	
12/31/11	8.87	12/31/11	0.47	12/31/11	31.60
09/30/11	10.19	09/30/11	0.49	09/30/11	32.30
06/30/11	10.89	06/30/11	0.47	06/30/11	31.44

ATTACHMENT D

Selected Yields

	Recent (2/08/12)	3 Months Ago (11/09/11)	Year Ago (2/09/11)		Recent (2/08/12)	3 Months Ago (11/09/11)	Year Ago (2/09/11)
TAXABLE							
Market Rates				Mortgage-Backed Securities			
Discount Rate	0.75	0.75	0.75	GNMA 5.5%	1.23	1.37	3.17
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25	FHLMC 5.5% (Gold)	1.86	2.35	3.78
Prime Rate	3.25	3.25	3.25	FNMA 5.5%	1.76	2.03	3.68
30-day CP (A1/P1)	0.23	0.49	0.31	FNMA ARM	2.37	2.43	2.66
3-month LIBOR	0.51	0.45	0.31	Corporate Bonds			
Bank CDs				Financial (10-year) A	4.01	4.09	4.94
6-month	0.22	0.17	0.21	Industrial (25/30-year) A	4.39	4.23	5.67
1-year	0.34	0.21	0.29	Utility (25/30-year) A	4.19	4.14	5.82
5-year	1.16	1.14	1.65	Utility (25/30-year) Baa/BBB	4.67	4.83	6.22
U.S. Treasury Securities				Foreign Bonds (10-Year)			
3-month	0.08	0.01	0.13	Canada	2.07	2.09	3.45
6-month	0.11	0.03	0.16	Germany	1.98	1.72	3.31
1-year	0.14	0.08	0.29	Japan	0.99	0.98	1.34
5-year	0.83	0.87	2.33	United Kingdom	2.19	2.18	3.87
10-year	1.98	1.96	3.65	Preferred Stocks			
10-year (inflation-protected)	-0.34	-0.05	1.20	Utility A	5.36	5.82	5.80
30-year	3.15	3.03	4.71	Financial A	6.48	5.70	6.06
30-year Zero	3.37	3.25	5.02	Financial Adjustable A	5.51	5.51	5.51



TAX-EXEMPT							
Bond Buyer Indexes							
20-Bond Index (GOs)	3.60	4.02	5.25				
25-Bond Index (Revs)	4.70	5.05	5.63				
General Obligation Bonds (GOs)							
1-year Aaa	0.15	0.25	0.39				
1-year A	1.08	1.06	1.16				
5-year Aaa	0.71	1.27	1.96				
5-year A	1.97	2.33	2.87				
10-year Aaa	1.92	2.51	3.57				
10-year A	2.94	3.52	4.54				
25/30-year Aaa	3.56	4.01	4.97				
25/30-year A	4.97	5.35	6.26				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.43	4.56	5.35				
Electric AA	4.52	4.90	5.48				
Housing AA	4.85	5.58	6.44				
Hospital AA	4.64	4.92	5.71				
Toll Road Aaa	4.47	4.55	5.48				

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	1/25/12	1/11/12	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1509282	1523788	-14506	1506034	1540014	1473142
Borrowed Reserves	8517	8985	-468	9751	10742	14198
Net Free/Borrowed Reserves	1500765	1514803	-14038	1496283	1529272	1458944

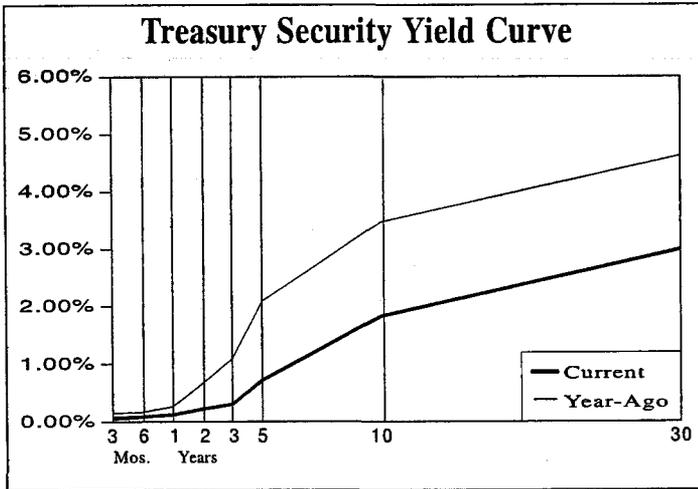
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	1/23/12	1/16/12	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2221.1	2202.7	18.4	15.9%	24.6%	19.2%
M2 (M1+savings+small time deposits)	9768.3	9763.8	4.5	9.5%	10.3%	10.3%

Selected Yields

	Recent (2/01/12)	3 Months Ago (11/02/11)	Year Ago (2/02/11)		Recent (2/01/12)	3 Months Ago (11/02/11)	Year Ago (2/02/11)
TAXABLE							
Market Rates				Mortgage-Backed Securities			
Discount Rate	0.75	0.75	0.75	GNMA 5.5%	1.20	1.62	3.06
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25	FHLMC 5.5% (Gold)	1.91	2.34	3.45
Prime Rate	3.25	3.25	3.25	FNMA 5.5%	1.91	2.10	3.27
30-day CP (A1/P1)	0.32	0.51	0.25	FNMA ARM	2.37	2.43	2.66
3-month LIBOR	0.54	0.43	0.31	Corporate Bonds			
Bank CDs				Financial (10-year) A	3.99	4.15	4.86
6-month	0.22	0.17	0.30	Industrial (25/30-year) A	4.26	4.18	5.63
1-year	0.34	0.21	0.48	Utility (25/30-year) A	4.07	4.12	5.78
5-year	1.16	1.14	1.59	Utility (25/30-year) Baa/BBB	4.55	4.76	6.18
U.S. Treasury Securities				Foreign Bonds (10-Year)			
3-month	0.06	0.01	0.15	Canada	1.90	2.17	3.38
6-month	0.09	0.04	0.17	Germany	1.85	1.83	3.26
1-year	0.12	0.10	0.26	Japan	0.96	1.00	1.23
5-year	0.72	0.88	2.09	United Kingdom	2.05	2.29	3.76
10-year	1.83	1.99	3.48	Preferred Stocks			
10-year (inflation-protected)	-0.43	-0.10	1.02	Utility A	5.90	5.82	5.79
30-year	2.99	3.01	4.62	Financial A	6.05	6.57	6.05
30-year Zero	3.21	3.22	4.96	Financial Adjustable A	5.50	5.50	5.50



TAX-EXEMPT							
Bond Buyer Indexes							
20-Bond Index (GOs)	3.68	4.12	5.25				
25-Bond Index (Revs)	4.71	5.10	5.61				
General Obligation Bonds (GOs)							
1-year Aaa	0.18	0.24	0.39				
1-year A	1.03	1.05	1.17				
5-year Aaa	0.79	1.28	1.90				
5-year A	1.91	2.35	2.82				
10-year Aaa	1.90	2.57	3.51				
10-year A	2.88	3.56	4.50				
25/30-year Aaa	3.53	4.03	4.92				
25/30-year A	4.92	5.37	6.24				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.41	4.55	5.33				
Electric AA	4.47	4.90	5.48				
Housing AA	4.83	5.59	6.41				
Hospital AA	4.62	4.94	5.69				
Toll Road Aaa	4.45	4.55	5.46				

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	1/25/12	1/11/12	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1509281	1523788	-14507	1506034	1540014	1473142
Borrowed Reserves	8517	8985	-468	9751	10742	14198
Net Free/Borrowed Reserves	1500764	1514803	-14039	1496283	1529272	1458944

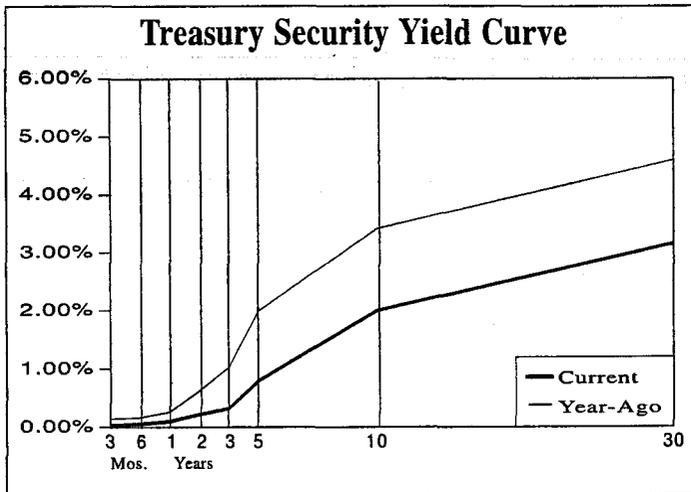
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	1/16/12	1/9/12	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2202.7	2189.1	13.6	12.5%	24.4%	18.5%
M2 (M1+savings+small time deposits)	9763.3	9755.2	8.1	9.3%	11.2%	10.0%

Selected Yields

	Recent (1/25/12)	3 Months Ago (10/26/11)	Year Ago (1/26/11)		Recent (1/25/12)	3 Months Ago (10/26/11)	Year Ago (1/26/11)
TAXABLE							
Market Rates							
Discount Rate	0.75	0.75	0.75				
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25				
Prime Rate	3.25	3.25	3.25				
30-day CP (A1/P1)	0.32	0.49	0.27				
3-month LIBOR	0.56	0.42	0.30				
Bank CDs							
6-month	0.22	0.17	0.31				
1-year	0.34	0.21	0.49				
5-year	1.15	1.14	1.65				
U.S. Treasury Securities							
3-month	0.04	0.01	0.15				
6-month	0.06	0.06	0.17				
1-year	0.10	0.11	0.26				
5-year	0.79	1.06	1.99				
10-year	2.00	2.20	3.42				
10-year (inflation-protected)	-0.25	0.12	1.03				
30-year	3.15	3.22	4.59				
30-year Zero	3.35	3.43	4.93				
Mortgage-Backed Securities							
GNMA 5.5%	1.22	1.76	2.90				
FHLMC 5.5% (Gold)	2.11	2.39	3.19				
FNMA 5.5%	2.01	2.19	3.06				
FNMA ARM	2.35	2.47	2.72				
Corporate Bonds							
Financial (10-year) A	4.15	4.41	4.73				
Industrial (25/30-year) A	4.42	4.49	5.52				
Utility (25/30-year) A	4.47	4.41	5.64				
Utility (25/30-year) Baa/BBB	5.14	5.05	6.10				
Foreign Bonds (10-Year)							
Canada	2.04	2.38	3.31				
Germany	1.95	2.04	3.19				
Japan	1.01	1.00	1.24				
United Kingdom	2.16	2.47	3.69				
Preferred Stocks							
Utility A	5.39	5.21	5.79				
Financial A	6.09	6.49	6.52				
Financial Adjustable A	5.50	5.50	5.50				



TAX-EXEMPT							
Bond Buyer Indexes							
20-Bond Index (GOs)	3.60	4.08	5.41				
25-Bond Index (Revs)	4.77	5.07	5.66				
General Obligation Bonds (GOs)							
1-year Aaa	0.18	0.29	0.41				
1-year A	1.13	1.00	1.28				
5-year Aaa	0.87	1.41	1.91				
5-year A	2.01	2.42	2.96				
10-year Aaa	2.00	2.69	3.60				
10-year A	2.98	3.60	4.49				
25/30-year Aaa	3.59	4.10	5.06				
25/30-year A	5.02	5.42	6.27				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.43	4.56	5.46				
Electric AA	4.50	4.94	5.57				
Housing AA	4.93	5.66	6.44				
Hospital AA	4.64	4.97	5.75				
Toll Road Aaa	4.48	4.57	5.60				

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	1/11/12	12/28/11	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1523788	1471460	52328	1514963	1548942	1454626
Borrowed Reserves	8985	9328	-343	10151	11035	15534
Net Free/Borrowed Reserves	1514803	1462132	52671	1504812	1537907	1439092

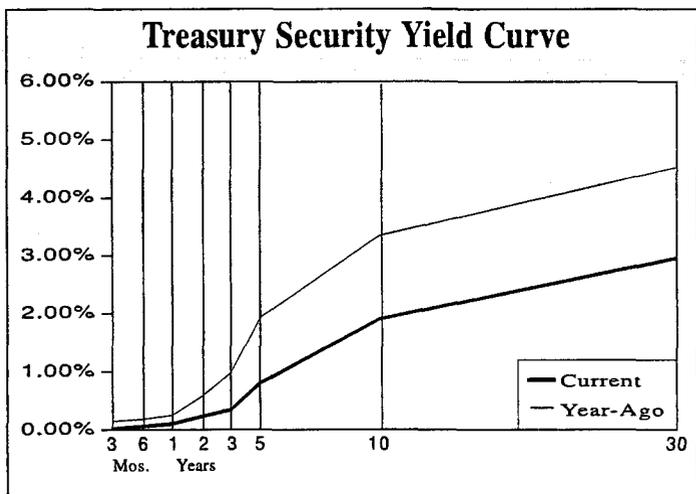
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	1/9/12	1/2/12	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2229.9	2203.4	26.5	14.1%	27.5%	22.6%
M2 (M1+savings+small time deposits)	9756.1	9733.8	22.3	5.7%	11.4%	10.7%

Selected Yields

	Recent (1/18/12)	3 Months Ago (10/19/11)	Year Ago (1/19/11)		Recent (1/18/12)	3 Months Ago (10/19/11)	Year Ago (1/19/11)
TAXABLE							
Market Rates				Mortgage-Backed Securities			
Discount Rate	0.75	0.75	0.75	GNMA 5.5%	1.07	1.84	2.38
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25	FHLMC 5.5% (Gold)	1.94	2.36	3.03
Prime Rate	3.25	3.25	3.25	FNMA 5.5%	1.72	2.17	2.89
30-day CP (A1/P1)	0.32	0.44	0.27	FNMA ARM	2.35	2.47	2.72
3-month LIBOR	0.56	0.41	0.30	Corporate Bonds			
Bank CDs				Financial (10-year) A	4.00	4.33	4.78
6-month	0.22	0.17	0.30	Industrial (25/30-year) A	4.25	4.53	5.57
1-year	0.34	0.21	0.48	Utility (25/30-year) A	4.33	4.40	5.72
5-year	1.16	1.14	1.60	Utility (25/30-year) Baa/BBB	4.94	4.92	6.15
U.S. Treasury Securities				Foreign Bonds (10-Year)			
3-month	0.02	0.02	0.15	Canada	1.96	2.33	3.24
6-month	0.06	0.05	0.18	Germany	1.79	2.06	3.11
1-year	0.10	0.11	0.25	Japan	0.97	1.02	1.27
5-year	0.80	1.04	1.93	United Kingdom	1.96	2.47	3.64
10-year	1.90	2.16	3.34	Preferred Stocks			
10-year (inflation-protected)	-0.21	0.20	0.93	Utility A	4.95	5.25	5.79
30-year	2.96	3.18	4.53	Financial A	6.18	6.69	6.04
30-year Zero	3.14	3.38	4.87	Financial Adjustable A	5.49	5.49	5.49



TAX-EXEMPT							
Bond Buyer Indexes							
20-Bond Index (GOs)	3.62	4.17	5.39				
25-Bond Index (Revs)	4.74	5.06	5.60				
General Obligation Bonds (GOs)							
1-year Aaa	0.17	0.25	0.39				
1-year A	1.02	1.08	1.32				
5-year Aaa	0.85	1.39	1.90				
5-year A	1.93	2.40	3.00				
10-year Aaa	1.93	2.69	3.58				
10-year A	2.91	3.67	4.54				
25/30-year Aaa	3.56	4.09	5.18				
25/30-year A	4.96	5.45	6.31				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.40	4.56	5.56				
Electric AA	4.54	4.94	5.57				
Housing AA	5.01	5.64	6.42				
Hospital AA	4.61	4.97	5.73				
Toll Road Aaa	4.48	4.57	5.63				

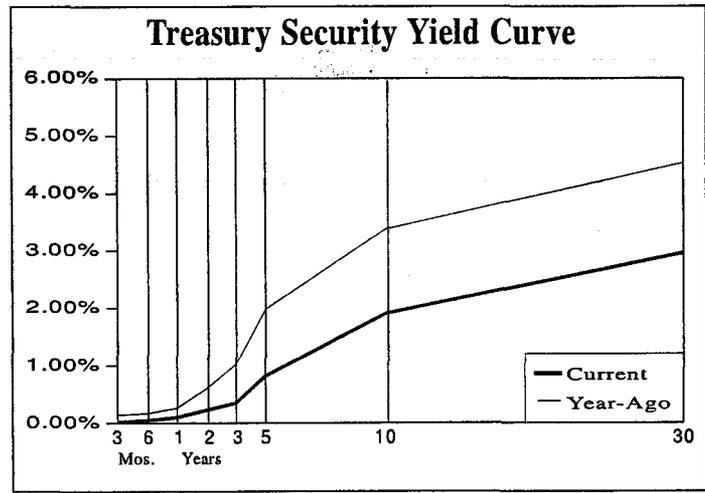
Federal Reserve Data

BANK RESERVES							
<i>(Two-Week Period; in Millions, Not Seasonally Adjusted)</i>							
	Recent Levels			Average Levels Over the Last...			
	1/11/12	12/28/11	Change	12 Wks.	26 Wks.	52 Wks.	
Excess Reserves	1523791	1471462	52329	1514978	1548950	1454630	
Borrowed Reserves	8985	9328	-343	10151	11035	15534	
Net Free/Borrowed Reserves	1514806	1462134	52672	1504828	1537915	1439096	

MONEY SUPPLY							
<i>(One-Week Period; in Billions, Seasonally Adjusted)</i>							
	Recent Levels			Ann'l Growth Rates Over the Last...			
	1/2/12	12/26/11	Change	3 Mos.	6 Mos.	12 Mos.	
M1 (Currency+demand deposits)	2234.3	2167.9	66.4	6.8%	25.4%	22.2%	
M2 (M1+savings+small time deposits)	9751.1	9665.5	85.6	6.2%	11.4%	10.8%	

Selected Yields

	Recent (1/11/12)	3 Months Ago (10/12/11)	Year Ago (1/12/11)		Recent (1/11/12)	3 Months Ago (10/12/11)	Year Ago (1/12/11)
TAXABLE							
Market Rates							
Discount Rate	0.75	0.75	0.75				
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25				
Prime Rate	3.25	3.25	3.25				
30-day CP (A1/P1)	0.25	0.38	0.27				
3-month LIBOR	0.58	0.40	0.30				
Bank CDs							
6-month	0.22	0.17	0.30				
1-year	0.34	0.21	0.48				
5-year	1.17	1.14	1.57				
U.S. Treasury Securities							
3-month	0.02	0.02	0.14				
6-month	0.05	0.04	0.17				
1-year	0.10	0.08	0.26				
5-year	0.82	1.15	1.98				
10-year	1.90	2.21	3.37				
10-year (inflation-protected)	-0.16	0.23	0.93				
30-year	2.96	3.20	4.53				
30-year Zero	3.15	3.39	4.86				
Mortgage-Backed Securities							
GNMA 5.5%	0.91	1.89	2.61				
FHLMC 5.5% (Gold)	1.91	2.32	3.14				
FNMA 5.5%	1.74	2.17	2.99				
FNMA ARM	2.35	2.47	2.72				
Corporate Bonds							
Financial (10-year) A	4.12	4.37	4.80				
Industrial (25/30-year) A	4.22	4.59	5.58				
Utility (25/30-year) A	4.17	4.53	5.77				
Utility (25/30-year) Baa/BBB	4.90	4.99	6.17				
Foreign Bonds (10-Year)							
Canada	1.94	2.35	3.26				
Germany	1.81	2.19	3.05				
Japan	0.97	1.00	1.18				
United Kingdom	2.01	2.64	3.64				
Preferred Stocks							
Utility A	4.94	5.57	5.79				
Financial A	6.27	6.81	6.03				
Financial Adjustable A	5.49	5.49	5.49				



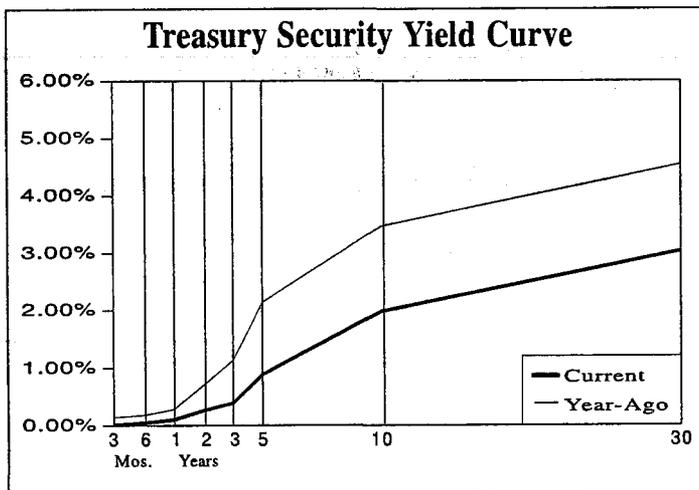
TAX-EXEMPT							
Bond Buyer Indexes							
20-Bond Index (GOs)	3.83	4.14	5.08				
25-Bond Index (Revs)	4.93	5.04	5.44				
General Obligation Bonds (GOs)							
1-year Aaa	0.17	0.26	0.41				
1-year A	1.00	1.11	1.28				
5-year Aaa	0.89	1.41	1.79				
5-year A	1.98	2.43	2.92				
10-year Aaa	1.99	2.63	3.38				
10-year A	3.03	3.75	4.38				
25/30-year Aaa	3.70	4.12	4.94				
25/30-year A	5.12	5.50	5.97				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.49	4.59	5.31				
Electric AA	4.63	4.97	5.30				
Housing AA	5.10	5.63	6.13				
Hospital AA	4.72	5.00	5.43				
Toll Road Aaa	4.53	4.60	5.35				

Federal Reserve Data

BANK RESERVES							
<i>(Two-Week Period; in Millions, Not Seasonally Adjusted)</i>							
	Recent Levels			Average Levels Over the Last...			
	12/28/11	12/14/11	Change	12 Wks.	26 Wks.	52 Wks.	
Excess Reserves	1471463	1528581	-57118	1517529	1552068	1434904	
Borrowed Reserves	9328	9841	-513	10500	11327	16880	
Net Free/Borrowed Reserves	1462135	1518740	-56605	1507029	1540742	1418024	
MONEY SUPPLY							
<i>(One-Week Period; in Billions, Seasonally Adjusted)</i>							
	Recent Levels			Ann'l Growth Rates Over the Last...			
	12/26/11	12/19/11	Change	3 Mos.	6 Mos.	12 Mos.	
M1 (Currency+demand deposits)	2167.8	2137.1	30.7	3.8%	24.0%	17.9%	
M2 (M1+savings+small time deposits)	9664.8	9666.7	-1.9	3.3%	11.6%	9.4%	

Selected Yields

	Recent (01/04/12)	3 Months Ago (10/05/11)	Year Ago (1/05/11)		Recent (01/04/12)	3 Months Ago (10/05/11)	Year Ago (1/05/11)
TAXABLE							
Market Rates				Mortgage-Backed Securities			
Discount Rate	0.75	0.75	0.75	GNMA 5.5%	0.99	1.54	2.86
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25	FHLMC 5.5% (Gold)	2.03	2.23	3.19
Prime Rate	3.25	3.25	3.25	FNMA 5.5%	1.86	2.13	3.05
30-day CP (A1/P1)	0.25	0.41	0.29	FNMA ARM	2.35	2.47	2.72
3-month LIBOR	0.58	0.38	0.30	Corporate Bonds			
Bank CDs				Financial (10-year) A	4.25	3.88	4.89
6-month	0.22	0.17	0.30	Industrial (25/30-year) A	4.33	4.29	5.59
1-year	0.34	0.21	0.48	Utility (25/30-year) A	4.22	4.21	5.86
5-year	1.16	1.18	1.57	Utility (25/30-year) Baa/BBB	4.95	4.65	6.19
U.S. Treasury Securities				Foreign Bonds (10-Year)			
3-month	0.01	0.01	0.14	Canada	1.99	2.14	3.28
6-month	0.05	0.02	0.18	Germany	1.92	1.84	2.94
1-year	0.10	0.09	0.28	Japan	0.99	0.97	1.16
5-year	0.88	0.95	2.14	United Kingdom	2.05	2.36	3.55
10-year	1.98	1.89	3.47	Preferred Stocks			
10-year (inflation-protected)	-0.14	0.08	1.02	Utility A	5.11	5.29	5.79
30-year	3.03	2.85	4.54	Financial A	6.38	6.51	6.48
30-year Zero	3.13	3.03	4.84	Financial Adjustable A	5.48	5.48	5.48



TAX-EXEMPT							
Bond Buyer Indexes							
20-Bond Index (GOs)	3.88	3.93	4.95				
25-Bond Index (Revs)	4.97	5.01	5.38				
General Obligation Bonds (GOs)							
1-year Aaa	0.22	0.20	0.40				
1-year A	1.07	0.97	1.37				
5-year Aaa	0.92	1.13	1.75				
5-year A	2.06	2.18	2.95				
10-year Aaa	2.07	2.36	3.40				
10-year A	3.12	3.47	4.41				
25/30-year Aaa	3.80	3.88	4.90				
25/30-year A	5.20	5.53	5.92				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.53	4.56	5.29				
Electric AA	4.70	4.92	5.28				
Housing AA	5.26	5.55	6.13				
Hospital AA	4.72	4.92	5.43				
Toll Road Aaa	4.53	4.58	5.33				

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	12/28/11	12/14/11	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1471463	1528580	-57117	1517529	1552068	1434904
Borrowed Reserves	9328	9841	-513	10500	11327	16880
Net Free/Borrowed Reserves	1462135	1518739	-56604	1507029	1540741	1418024

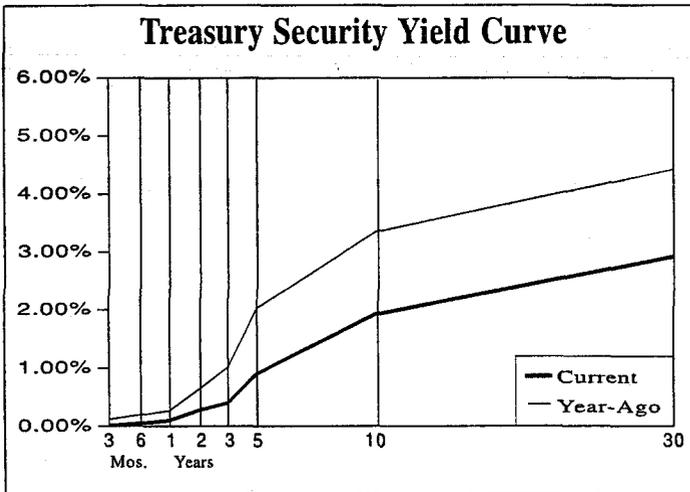
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	12/19/11	12/12/11	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2136.9	2138.3	-1.4	3.4%	21.7%	16.8%
M2 (M1+savings+small time deposits)	9666.4	9672.8	-6.4	4.3%	13.5%	9.7%

Selected Yields

	Recent (12/28/11)	3 Months Ago (9/28/11)	Year Ago (12/29/10)		Recent (12/28/11)	3 Months Ago (9/28/11)	Year Ago (12/29/10)
TAXABLE							
Market Rates				Mortgage-Backed Securities			
Discount Rate	0.75	0.75	0.75	GNMA 5.5%	1.12	1.62	3.08
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25	FHLMC 5.5% (Gold)	2.12	2.08	3.13
Prime Rate	3.25	3.25	3.25	FNMA 5.5%	1.99	1.97	2.94
30-day CP (A1/P1)	0.19	0.42	0.28	FNMA ARM	2.37	2.50	2.80
3-month LIBOR	0.58	0.37	0.30	Corporate Bonds			
Bank CDs				Financial (10-year) A	4.17	3.87	4.76
6-month	0.22	0.17	0.30	Industrial (25/30-year) A	4.26	4.50	5.50
1-year	0.34	0.21	0.48	Utility (25/30-year) A	4.14	4.34	5.78
5-year	1.15	1.26	1.55	Utility (25/30-year) Baa/BBB	4.78	4.98	6.10
U.S. Treasury Securities				Foreign Bonds (10-Year)			
3-month	0.01	0.01	0.12	Canada	1.96	2.20	3.16
6-month	0.05	0.03	0.19	Germany	1.89	2.01	3.02
1-year	0.10	0.10	0.27	Japan	1.00	1.00	1.17
5-year	0.91	0.94	2.03	United Kingdom	2.01	2.55	3.57
10-year	1.92	1.98	3.35	Preferred Stocks			
10-year (inflation-protected)	-0.11	0.11	1.02	Utility A	5.37	5.24	5.79
30-year	2.92	3.07	4.43	Financial A	6.71	6.45	6.48
30-year Zero	3.02	3.28	4.71	Financial Adjustable A	5.48	5.48	5.48



TAX-EXEMPT							
Bond Buyer Indexes							
20-Bond Index (GOs)	3.92	3.85	5.00				
25-Bond Index (Revs)	5.01	4.96	4.52				
General Obligation Bonds (GOs)							
1-year Aaa	0.22	0.24	0.44				
1-year A	1.06	0.99	1.36				
5-year Aaa	0.97	1.04	1.74				
5-year A	2.07	2.05	2.88				
10-year Aaa	2.12	2.15	3.44				
10-year A	3.23	3.42	4.39				
25/30-year Aaa	3.86	3.87	4.90				
25/30-year A	5.24	5.53	5.90				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.56	4.56	5.27				
Electric AA	4.73	4.92	5.28				
Housing AA	5.29	5.55	6.11				
Hospital AA	4.87	4.90	5.45				
Toll Road Aaa	4.54	4.58	5.33				

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	12/14/11	11/30/11	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1528579	1460818	67761	1528506	1561949	1418363
Borrowed Reserves	9841	10019	-178	10826	11617	18227
Net Free/Borrowed Reserves	1518738	1450799	67939	1517680	1550332	1400136

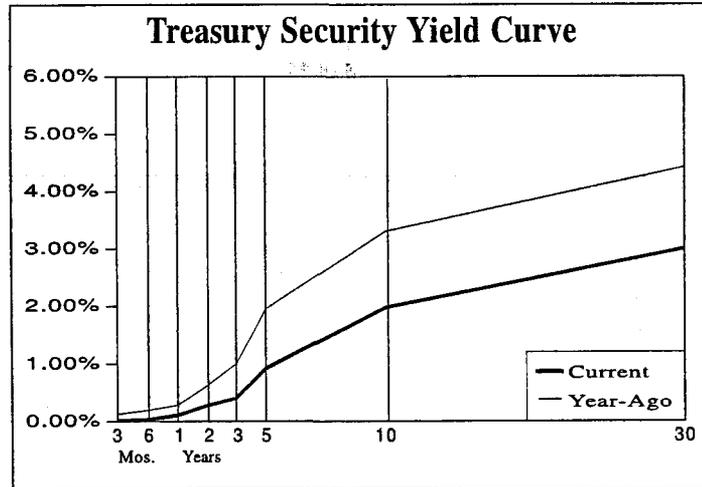
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	12/12/11	12/5/11	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2138.2	2147.8	-9.6	6.1%	23.1%	17.3%
M2 (M1+savings+small time deposits)	9672.2	9639.9	32.3	4.2%	14.4%	9.8%

Selected Yields

	Recent (12/21/11)	3 Months Ago (9/21/11)	Year Ago (12/21/10)		Recent (12/21/11)	3 Months Ago (9/21/11)	Year Ago (12/21/10)
TAXABLE							
Market Rates							
Discount Rate	0.75	0.75	0.75				
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25				
Prime Rate	3.25	3.25	3.25				
30-day CP (A1/P1)	0.29	0.42	0.26				
3-month LIBOR	0.57	0.36	0.30				
Bank CDs							
6-month	0.22	0.17	0.30				
1-year	0.34	0.21	0.49				
5-year	1.15	1.26	1.52				
U.S. Treasury Securities							
3-month	0.01	0.01	0.13				
6-month	0.03	0.02	0.19				
1-year	0.11	0.10	0.28				
5-year	0.92	0.84	1.95				
10-year	1.97	1.86	3.30				
10-year (inflation-protected)	-0.12	0.00	0.98				
30-year	3.00	2.99	4.42				
30-year Zero	3.10	3.25	4.72				
Mortgage-Backed Securities							
GNMA 5.5%	1.05	1.14	2.83				
FHLMC 5.5% (Gold)	2.12	1.93	3.16				
FNMA 5.5%	1.95	1.85	3.01				
FNMA ARM	2.37	2.50	2.80				
Corporate Bonds							
Financial (10-year) A	4.11	3.59	4.75				
Industrial (25/30-year) A	4.21	4.31	5.49				
Utility (25/30-year) A	4.12	4.23	5.74				
Utility (25/30-year) Baa/BBB	4.77	4.86	6.11				
Foreign Bonds (10-Year)							
Canada	1.96	2.12	3.14				
Germany	1.93	1.77	2.99				
Japan	0.98	0.99	1.18				
United Kingdom	2.07	2.41	3.51				
Preferred Stocks							
Utility A	5.36	5.23	5.79				
Financial A	6.55	6.38	6.57				
Financial Adjustable A	5.47	5.47	5.47				



TAX-EXEMPT							
Bond Buyer Indexes							
20-Bond Index (GOs)	3.92	4.07	5.15				
25-Bond Index (Revs)	5.01	5.11	5.48				
General Obligation Bonds (GOs)							
1-year Aaa	0.21	0.21	0.41				
1-year A	1.03	0.99	1.35				
5-year Aaa	0.97	1.00	1.72				
5-year A	2.07	1.99	2.88				
10-year Aaa	2.15	2.21	3.41				
10-year A	3.25	3.56	4.47				
25/30-year Aaa	3.86	3.89	4.88				
25/30-year A	5.24	5.63	5.90				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.56	4.62	5.25				
Electric AA	4.74	4.97	5.27				
Housing AA	5.34	5.60	6.13				
Hospital AA	4.87	4.97	5.43				
Toll Road Aaa	4.54	4.69	5.32				

Federal Reserve Data

BANK RESERVES

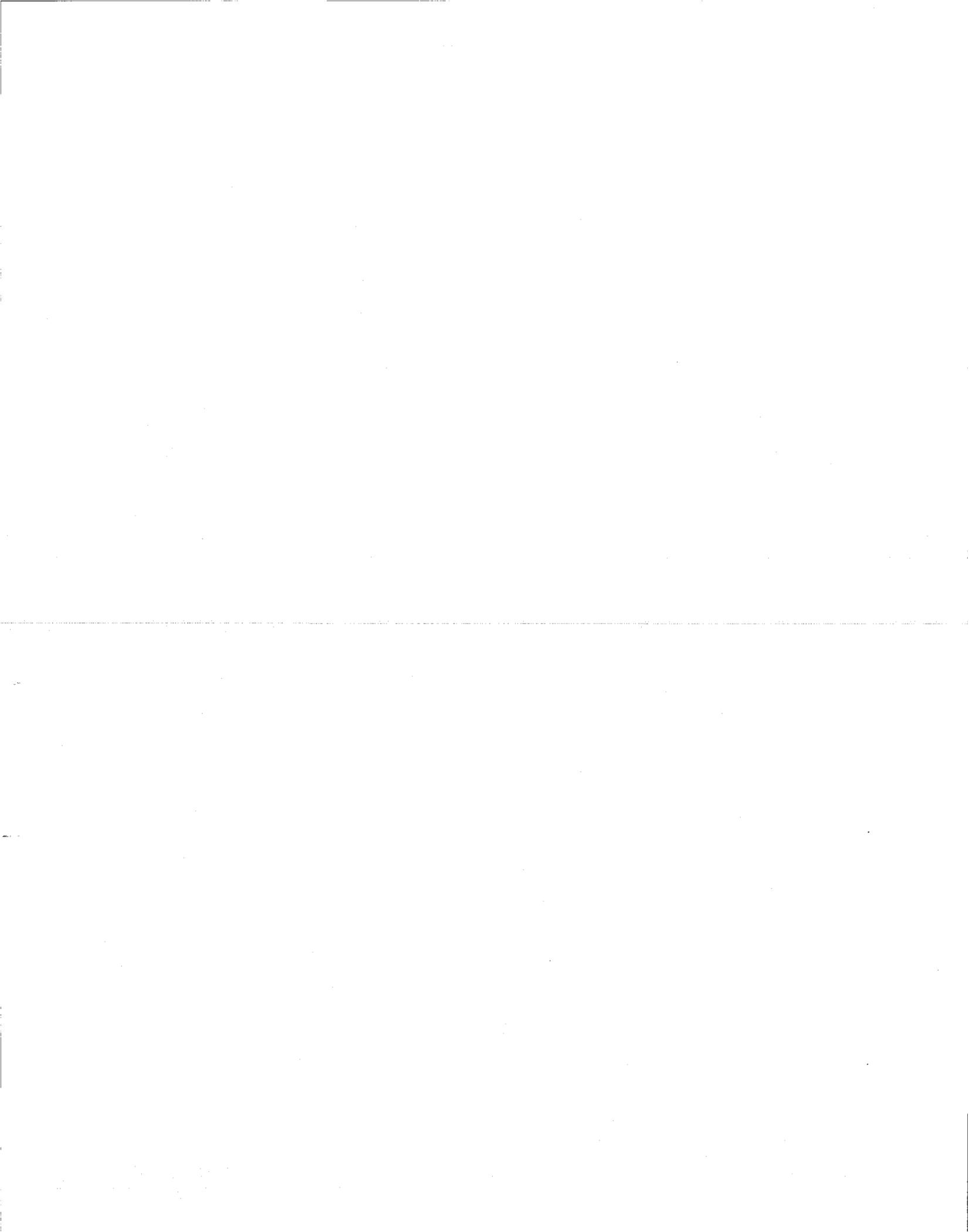
(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	12/14/11	11/30/11	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1528578	1460815	67763	1528506	1561949	1418363
Borrowed Reserves	9841	10019	-178	10826	11617	18227
Net Free/Borrowed Reserves	1518737	1450796	67941	1517680	1550332	1400136

MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	12/5/11	11/28/11	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2147.9	2149.4	-1.5	2.3%	23.6%	18.3%
M2 (M1+savings+small time deposits)	9639.9	9620.8	19.1	2.6%	13.9%	9.7%



ARIZONA WATER COMPANY
DOCKET NO. W-01445A-11-0310
TABLE OF CONTENTS TO SCHEDULES WAR

<u>SCHEDULE #</u>	
WAR - 1	COST OF CAPITAL SUMMARY
WAR - 2	DCF COST OF EQUITY CAPITAL
WAR - 3	DIVIDEND YIELD CALCULATION
WAR - 4	DIVIDEND GROWTH RATE CALCULATION
WAR - 5	DIVIDEND GROWTH COMPONENTS
WAR - 6	GROWTH RATE COMPARISON
WAR - 7	CAPM COST OF EQUITY CAPITAL
WAR - 8	ECONOMIC INDICATORS - 1990 TO PRESENT
WAR - 9	ECONOMIC INDICATORS - 1990 TO PRESENT

WEIGHTED AVERAGE COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) CAPITALIZATION PER COMPANY	(B) RUCO ADJUSTMENTS	(C) RUCO ADJUSTED CAPITALIZATION	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST
1	Long-Term Debt	\$ 75,000,000	\$ -	\$ 75,000,000	49.03%	6.82%	3.34%
2	Common Equity	77,975,335	-	77,975,335	50.97%	9.30%	4.74%
3	Total Capitalization	\$ 152,975,335	\$ -	\$ 152,975,335	100.00%		

4 WEIGHTED AVERAGE COST OF CAPITAL

8.08%

REFERENCES:

- COLUMN (A): TESTIMONY, WAR
- COLUMN (B): LINE 1; SCHEDULE WAR-1, PAGE 2, LINE 2; TESTIMONY WAR
- COLUMN (C): COLUMN (A) x COLUMN (B), LINE 4; LINE 1 + LINE 2
- COLUMN (D): COLUMN (C) LINES 1, 2 AND 3 / LINE 4
- COLUMN (E): LINE 1; SCHEDULE WAR-1, PAGE 2, LINES 2 AND 3; TESTIMONY WAR
- COLUMN (F): COLUMN (D) x COLUMN (E)

ARIZONA WATER COMPANY
 TEST YEAR ENDED DECEMBER 31, 2010
 COST OF CAPITAL SUMMARY

DOCKET NO. W-01445A-11-0310
 SCHEDULE WAR - 1
 PAGE 2 OF 3

COST OF LONG-TERM DEBT

LINE NO.	LONG-TERM DEBT ISSUANCES	(A) AMOUNT OUTSTANDING	(B) ANNUAL COST	(C) INTEREST RATE
1	SERIES K BONDS, DUE APRIL 1, 2031	\$ 15,000,000	\$ 1,206,855	8.05%
2	SERIES L BONDS, DUE AUGUST 1, 2036	25,000,000	1,575,650	6.30%
3	SERIES M BONDS, DUE AUGUST 1, 2038	35,000,000	2,336,110	6.67%
4	TOTALS	\$ 75,000,000	\$ 5,118,615	6.82%

REFERENCES:

COLUMN (A): COMPANY SCHEDULE D-2, PAGE 1
 COLUMN (B): COMPANY SCHEDULE D-2, PAGE 1
 COLUMN (C): COLUMN (B) / COLUMN (A)

COST OF COMMON EQUITY CALCULATION

LINE NO.				
1	<u>DCF METHODOLOGY</u>			
2	DCF - WATER COMPANY SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE	8.46%	SCHEDULE WAR-2, COLUMN (C), LINE 5	
3	DCF - NATURAL GAS LDC SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE	<u>9.32%</u>	SCHEDULE WAR-2, COLUMN (C), LINE 13	
4	AVERAGE OF DCF ESTIMATES	8.89%	(LINE 2 + LINE 3) + 2	
5	<u>CAPM METHODOLOGY</u>			
6	CAPM - WATER COMPANY GEOMETRIC MEAN ESTIMATE	4.03%	SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE	
7	CAPM - NATURAL GAS LDC GEOMETRIC MEAN ESTIMATE	3.86%	SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE	
8	CAPM - WATER COMPANY ARITHMETIC MEAN ESTIMATE	5.38%	SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE	
9	CAPM - NATURAL GAS LDC ARITHMETIC MEAN ESTIMATE	<u>5.14%</u>	SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE	
10	AVERAGE OF CAPM ESTIMATES	4.60%	(SUM OF LINES 6 THRU 9) + 4	
11	AVERAGE OF DCF AND CAPM ESTIMATES	6.75%	(SUM OF LINES 4 AND 10) + 2	
12	FINAL COST OF COMMON EQUITY ESTIMATE	9.30%	TESTIMONY WAR	

ARIZONA WATER COMPANY
 TEST YEAR ENDED DECEMBER 31, 2010
 DCF COST OF EQUITY CAPITAL

DOCKET NO. W-01445A-11-0310
 SCHEDULE WAR - 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) DIVIDEND YIELD	+	(B) GROWTH RATE (g)	=	(C) DCF COST OF EQUITY CAPITAL
1	AWR	AMERICAN STATES WATER CO.	3.15%	+	6.01%	=	9.17%
2	CWT	CALIFORNIA WATER SERVICE GROUP	3.39%	+	5.59%	=	8.98%
3	MSEX	MIDDLESEX WATER COMPANY	3.95%	+	4.37%	=	8.32%
4	SJW	SJW CORPORATION	2.93%	+	3.88%	=	6.80%
5	WTR	AQUA AMERICA, INC.	3.02%	+	6.00%	=	9.03%
6	WATER COMPANY AVERAGE						8.46%
7	GAS	AGL RESOURCES, INC.	4.32%	+	5.92%	=	10.24%
8	ATO	ATMOS ENERGY CORP.	4.23%	+	4.67%	=	8.89%
9	LG	LACLEDE GROUP, INC.	3.95%	+	5.41%	=	9.36%
10	NJR	NEW JERSEY RESOURCES CORPORATION	3.13%	+	7.01%	=	10.14%
11	NWN	NORTHWEST NATURAL GAS CO.	3.67%	+	4.49%	=	8.16%
12	PNY	PIEDMONT NATURAL GAS COMPANY	3.47%	+	3.51%	=	6.98%
13	SJI	SOUTH JERSEY INDUSTRIES, INC.	2.62%	+	10.78%	=	13.41%
14	SWX	SOUTHWEST GAS CORPORATION	2.52%	+	6.44%	=	8.97%
15	WGL	WGL HOLDINGS, INC.	3.61%	+	4.16%	=	7.77%
16	NATURAL GAS LDC AVERAGE						9.32%

REFERENCES:
 COLUMN (A): SCHEDULE WAR - 3, COLUMN C
 COLUMN (B): SCHEDULE WAR - 4, PAGE 1, COLUMN C
 COLUMN (C): COLUMN (A) + COLUMN (B)

ARIZONA WATER COMPANY
 TEST YEAR ENDED DECEMBER 31, 2010
 DIVIDEND YIELD CALCULATION

DOCKET NO. W-01445A-11-0310
 SCHEDULE WAR - 3

LINE NO.	STOCK SYMBOL	COMPANY	(A) ESTIMATED DIVIDEND (PER SHARE) /	(B) AVERAGE STOCK PRICE (PER SHARE) =	(C) DIVIDEND YIELD
1	AWR	AMERICAN STATES WATER CO.	\$1.12 /	\$35.53 =	3.15%
2	CWT	CALIFORNIA WATER SERVICE GROUP	\$0.62 /	\$18.15 =	3.39%
3	MSEX	MIDDLESEX WATER COMPANY	\$0.74 /	\$18.76 =	3.95%
4	SJW	SJW CORPORATION	\$0.69 /	\$23.63 =	2.93%
5	WTR	AQUA AMERICA, INC.	\$0.66 /	\$21.85 =	3.02%
6		WATER COMPANY AVERAGE			3.29%
7	GAS	AGL RESOURCES, INC.	\$1.80 /	\$41.66 =	4.32%
8	ATO	ATMOS ENERGY CORP.	\$1.38 /	\$32.65 =	4.23%
9	LG	LACLEDE GROUP, INC.	\$1.62 /	\$41.01 =	3.95%
10	NJR	NEW JERSEY RESOURCES CORPORATION	\$1.52 /	\$48.51 =	3.13%
11	NWN	NORTHWEST NATURAL GAS CO.	\$1.74 /	\$47.47 =	3.67%
12	PNY	PIEDMONT NATURAL GAS COMPANY	\$1.16 /	\$33.41 =	3.47%
13	SJI	SOUTH JERSEY INDUSTRIES, INC.	\$1.46 /	\$55.62 =	2.62%
14	SWX	SOUTHWEST GAS CORPORATION	\$1.06 /	\$42.03 =	2.52%
15	WGL	WGL HOLDINGS, INC.	\$1.56 /	\$43.19 =	3.61%
16		NATURAL GAS LDC AVERAGE			3.50%

REFERENCES:

COLUMN (A): ESTIMATED 12 MONTH DIVIDEND REPORTED IN VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 01/20/2012 (WATER COMPANIES) AND 12/09/2011 (NATURAL GAS LDC's).
 COLUMN (B): EIGHT WEEK AVERAGE OF ADJUSTED CLOSING PRICES FROM 12/19/2011 TO 02/10/2012
 COLUMN (C): COLUMN (A) DIVIDED BY COLUMN (B)
 STOCK QUOTES OBTAINED THROUGH YAHOO! FINANCE WEB SITE - HISTORICAL QUOTES (<http://finance.yahoo.com>).

NOTE:

CLOSING STOCK PRICES ARE ADJUSTED FOR DIVIDENDS AND STOCK SPLITS.

ARIZONA WATER COMPANY
 TEST YEAR ENDED DECEMBER 31, 2010
 DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. W-01445A-11-0310
 SCHEDULE WAR - 4
 PAGE 1 OF 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) INTERNAL GROWTH (br)	+	(B) EXTERNAL GROWTH (sv)	=	(C) DIVIDEND GROWTH (g)
1	AWR	AMERICAN STATES WATER CO.	5.70%	+	0.31%	=	6.01%
2	CWT	CALIFORNIA WATER SERVICE GROUP	4.70%	+	0.89%	=	5.59%
3	MSEX	MIDDLESEX WATER COMPANY	3.70%	+	0.67%	=	4.37%
4	SJW	SJW CORPORATION	2.50%	+	1.38%	=	3.88%
5	WTR	AQUA AMERICA, INC.	5.50%	+	0.50%	=	6.00%
6		WATER COMPANY AVERAGE					5.17%
7	GAS	AGL RESOURCES, INC.	5.70%	+	0.22%	=	5.92%
8	ATO	ATMOS ENERGY CORP.	4.20%	+	0.47%	=	4.67%
9	LG	LACLEDE GROUP, INC.	4.50%	+	0.91%	=	5.41%
10	NJR	NEW JERSEY RESOURCES CORPORATION	7.00%	+	0.01%	=	7.01%
11	NWN	NORTHWEST NATURAL GAS CO.	4.40%	+	0.09%	=	4.49%
12	PNY	PIEDMONT NATURAL GAS COMPANY	3.50%	+	0.01%	=	3.51%
13	SJI	SOUTH JERSEY INDUSTRIES, INC.	7.50%	+	3.28%	=	10.78%
14	SWX	SOUTHWEST GAS CORPORATION	5.70%	+	0.74%	=	6.44%
15	WGL	WGL HOLDINGS, INC.	3.80%	+	0.36%	=	4.16%
16		NATURAL GAS LDC AVERAGE					5.82%

REFERENCES:
 COLUMN (A): TESTIMONY, WAR
 COLUMN (B): SCHEDULE WAR - 4, PAGE 2, COLUMN C
 COLUMN (C): COLUMN (A) + COLUMN (B)

ARIZONA WATER COMPANY
 TEST YEAR ENDED DECEMBER 31, 2010
 DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. W-01445A-11-0310
 SCHEDULE WAR - 4
 PAGE 2 OF 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) SHARE GROWTH	(B) $x \left\{ \left[\left(\frac{M+B}{1} \right) + 1 \right] / \left[\frac{2}{2} \right] - 1 \right\}$	(C) EXTERNAL GROWTH (sv)
1	AWR	AMERICAN STATES WATER CO.	1.00%	$x \left\{ \left[\left(\frac{1.63}{1} \right) + 1 \right] / \left[\frac{2}{2} \right] - 1 \right\} =$	0.31%
2	CWT	CALIFORNIA WATER SERVICE GROUP	2.70%	$x \left\{ \left[\left(\frac{1.66}{1} \right) + 1 \right] / \left[\frac{2}{2} \right] - 1 \right\} =$	0.89%
3	MSEX	MIDDLESEX WATER COMPANY	1.80%	$x \left\{ \left[\left(\frac{1.74}{1} \right) + 1 \right] / \left[\frac{2}{2} \right] - 1 \right\} =$	0.67%
4	SJW	SJW CORPORATION	4.00%	$x \left\{ \left[\left(\frac{1.69}{1} \right) + 1 \right] / \left[\frac{2}{2} \right] - 1 \right\} =$	1.38%
5	WTR	AQUA AMERICA, INC.	0.70%	$x \left\{ \left[\left(\frac{2.44}{1} \right) + 1 \right] / \left[\frac{2}{2} \right] - 1 \right\} =$	0.50%
6		WATER COMPANY AVERAGE			0.75%
7	GAS	AGL RESOURCES, INC.	0.65%	$x \left\{ \left[\left(\frac{1.68}{1} \right) + 1 \right] / \left[\frac{2}{2} \right] - 1 \right\} =$	0.22%
8	ATO	ATMOS ENERGY CORP.	3.00%	$x \left\{ \left[\left(\frac{1.31}{1} \right) + 1 \right] / \left[\frac{2}{2} \right] - 1 \right\} =$	0.47%
9	LG	LACLEDE GROUP, INC.	3.00%	$x \left\{ \left[\left(\frac{1.61}{1} \right) + 1 \right] / \left[\frac{2}{2} \right] - 1 \right\} =$	0.91%
10	NJR	NEW JERSEY RESOURCES CORPORATION	0.01%	$x \left\{ \left[\left(\frac{2.59}{1} \right) + 1 \right] / \left[\frac{2}{2} \right] - 1 \right\} =$	0.01%
11	NWN	NORTHWEST NATURAL GAS CO.	0.25%	$x \left\{ \left[\left(\frac{1.74}{1} \right) + 1 \right] / \left[\frac{2}{2} \right] - 1 \right\} =$	0.09%
12	PNY	PIEDMONT NATURAL GAS COMPANY	0.01%	$x \left\{ \left[\left(\frac{2.45}{1} \right) + 1 \right] / \left[\frac{2}{2} \right] - 1 \right\} =$	0.01%
13	SJI	SOUTH JERSEY INDUSTRIES, INC.	3.60%	$x \left\{ \left[\left(\frac{2.82}{1} \right) + 1 \right] / \left[\frac{2}{2} \right] - 1 \right\} =$	3.28%
14	SWX	SOUTHWEST GAS CORPORATION	2.50%	$x \left\{ \left[\left(\frac{1.60}{1} \right) + 1 \right] / \left[\frac{2}{2} \right] - 1 \right\} =$	0.74%
15	WGL	WGL HOLDINGS, INC.	0.85%	$x \left\{ \left[\left(\frac{1.84}{1} \right) + 1 \right] / \left[\frac{2}{2} \right] - 1 \right\} =$	0.36%
16		NATURAL GAS LDC AVERAGE			0.68%

REFERENCES:
 COLUMN (A): TESTIMONY, WAR
 COLUMN (B): VALUE LINE INVESTMENT SURVEY
 - RATINGS & REPORTS DATED 01/20/2012 (WATER COMPANIES) AND 12/09/2011 (NATURAL GAS LDCs)
 COLUMN (C): COLUMN (A) x COLUMN (B)

LINE NO.	STOCK SYMBOL	WATER COMPANY NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (f) =	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH	
1	AWR	AMERICAN STATES WATER CO.	2006	0.3158	8.10%	2.56%	16.64	17.05		
2			2007	0.4074	9.30%	3.79%	17.53	17.23		
3			2008	0.3548	8.60%	3.05%	17.95	17.30		
4			2009	0.3765	8.20%	3.09%	19.39	18.53		
5			2010	0.5315	11.00%	5.85%	20.26	18.63		
6			GROWTH 2006 - 2010			3.67%	5.00%			2.24%
7			2011	0.5111	10.50%	5.37%		18.75	18.75	0.64%
8			2012	0.4957	10.50%	5.20%		19.00	19.00	0.99%
9			2014-16	0.4923	11.50%	5.66%	0.50%	19.50	19.50	0.92%
10										
11	CWT	CALIFORNIA WATER SERVICE GROUP	2006	0.1418	6.80%	0.96%	18.15	20.66		
12			2007	0.2267	8.10%	1.84%	18.50	20.67		
13			2008	0.3842	9.90%	3.80%	19.44	20.72		
14			2009	0.3980	9.60%	3.82%	10.13	41.53		
15			2010	0.3407	8.60%	2.93%	10.45	41.67		
16			GROWTH 2006 - 2010			2.67%	5.50%			19.17%
17			2011	0.3861	9.50%	3.67%		42.00	42.00	0.79%
18			2012	0.4182	9.50%	3.97%		45.00	45.00	3.92%
19			2014-16	0.4462	10.50%	4.68%	3.50%	47.50	47.50	2.65%
20										
21	MSEX	MIDDLESEX WATER COMPANY	2006	0.1707	7.80%	1.33%	9.52	13.17		
22			2007	0.2069	8.70%	1.80%	10.05	13.25		
23			2008	0.2135	8.90%	1.90%	10.03	13.40		
24			2009	0.0139	7.00%	0.10%	10.33	13.52		
25			2010	0.2500	8.20%	2.05%	11.13	15.57		
26			GROWTH 2006 - 2010			1.44%	5.50%			4.27%
27			2011	0.1889	8.50%	1.61%		15.70	15.70	0.83%
28			2012	0.2600	9.00%	2.34%		16.00	16.00	1.37%
29			2014-16	0.3333	11.00%	3.67%	1.00%	17.00	17.00	1.77%
30										
31	SJW	SJW CORPORATION	2006	0.5210	9.70%	5.05%	12.48	18.28		
32			2007	0.4135	8.20%	3.39%	12.90	18.36		
33			2008	0.3981	8.00%	3.19%	13.99	18.18		
34			2009	0.1852	6.00%	1.11%	13.66	18.50		
35			2010	0.1905	6.10%	1.16%	13.75	18.55		
36			GROWTH 2006 - 2010			2.78%	6.50%			0.37%
37			2011	0.2159	6.50%	1.40%		18.60	18.60	0.27%
38			2012	0.2600	6.00%	1.56%		21.00	21.00	6.40%
39			2014-16	0.3385	7.50%	2.54%	3.50%	22.50	22.50	3.94%

REFERENCES:
 COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY RATINGS & REPORTS DATED 01/20/2012
 COLUMN (C): COLUMN (A) x COLUMN (B)
 COLUMN (D): VALUE LINE INVESTMENT SURVEY
 COLUMN (E): VALUE LINE INVESTMENT SURVEY
 COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (f) =	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	WTR	AQUA AMERICA, INC.	2006	0.3714	10.00%	3.71%	6.96	132.33	
2			2007	0.3239	10.00%	3.24%	7.32	133.40	
3			2008	0.3014	9.30%	2.80%	7.82	135.37	
4			2009	0.2857	9.40%	2.69%	8.12	136.49	
5			2010	0.3444	10.60%	3.65%	8.51	137.97	
6			GROWTH 2006 - 2010			3.22%	7.00%		1.05%
7			2011	0.4000	11.50%	4.60%		138.90	0.67%
8			2012	0.4000	11.50%	4.60%		139.90	0.70%
9			2014-16	0.4429	12.50%	5.54%	5.00%	142.90	0.70%

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
 - RATINGS & REPORTS DATED 01/20/2012
 COLUMN (C): COLUMN (A) x COLUMN (B)
 COLUMN (D): LINE 6, SIMPLE AVERAGE GROWTH, 2006 - 2010

COLUMN (D): VALUE LINE INVESTMENT SURVEY
 COLUMN (E): LINE 6, COMPOUND GROWTH RATE
 COLUMN (F): VALUE LINE INVESTMENT SURVEY
 COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

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LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (c) =	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	GAS	AGL RESOURCES, INC.	2006	0.4559	13.20%	6.02%	20.71	77.70	
2			2007	0.3971	12.70%	5.04%	21.74	76.40	
3			2008	0.3801	12.60%	4.79%	21.48	76.90	
4			2009	0.4028	12.50%	5.03%	22.95	77.54	
5			2010	0.4133	12.90%	5.33%	23.24	78.00	
6			[GROWTH 2006 - 2010			5.24%	5.50%		0.10%
7			2011	0.3898	11.00%	4.29%		78.60	0.77%
8			2012	0.4159	12.00%	4.98%		79.00	0.64%
9			2014-16	0.4773	12.00%	5.73%	6.00%	80.50	0.63%
10									
11	ATO	ATMOS ENERGY CORP.	2006	0.3700	9.80%	3.63%	20.16	81.74	
12			2007	0.3402	8.70%	2.96%	22.01	89.33	
13			2008	0.3500	8.80%	3.08%	22.60	90.81	
14			2009	0.3298	8.30%	2.74%	23.52	92.55	
15			2010	0.3796	9.20%	3.49%	24.16	90.16	
16			[GROWTH 2006 - 2010			3.18%	5.00%		2.48%
17			2011	0.3982	9.00%	3.58%		90.50	0.38%
18			2012	0.4250	9.00%	3.83%		91.00	0.46%
19			2014-16	0.4630	9.00%	4.17%	4.50%	105.00	3.09%
20									
21	LG	LACLEDE GROUP, INC.	2006	0.4093	12.50%	5.12%	18.85	21.36	
22			2007	0.3723	11.60%	4.32%	19.79	21.65	
23			2008	0.4366	11.80%	5.14%	22.12	21.99	
24			2009	0.4760	12.40%	5.90%	23.32	22.17	
25			2010	0.3539	10.10%	3.57%	24.02	22.29	
26			[GROWTH 2006 - 2010			4.81%	7.00%		1.07%
27			2011	0.4371	11.00%	4.81%		22.50	0.94%
28			2012	0.3774	10.50%	3.96%		23.00	1.58%
29			2014-16	0.4098	10.00%	4.10%	5.00%	26.00	3.13%
30									
31	NJR	NEW JERSEY RESOURCES CORPORATION	2006	0.4866	12.60%	6.13%	15.00	41.44	
32			2007	0.3484	10.10%	3.52%	15.50	41.61	
33			2008	0.5889	15.70%	9.25%	17.28	42.06	
34			2009	0.4833	14.60%	7.06%	16.59	41.59	
35			2010	0.4472	14.10%	6.30%	17.53	41.36	
36			[GROWTH 2006 - 2010			6.45%	10.00%		-0.05%
37			2011	0.4419	13.70%	6.05%		41.42	0.15%
38			2012	0.4667	15.00%	7.00%		40.00	-1.66%
39			2014-16	0.5104	14.00%	7.15%	6.00%	40.00	-0.67%

REFERENCES:
 COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
 - RATINGS & REPORTS DATED 12/09/2011
 COLUMN (C): COLUMN (A) x COLUMN (B)
 COLUMN (D): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2006 - 2010
 COLUMN (E): VALUE LINE INVESTMENT SURVEY
 COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (i)	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	NWN	NORTHWEST NATURAL GAS CO.	2006	0.4085	10.90%	4.45%	22.01	27.24	
2			2007	0.4783	12.50%	5.98%	22.52	26.41	
3			2008	0.4086	10.90%	4.45%	23.71	26.50	
4			2009	0.4346	11.40%	4.95%	24.88	26.53	
5			2010	0.3846	10.50%	4.04%	25.95	26.67	
6			[GROWTH 2006 - 2010			4.78%	4.00%		-0.53%
7			2011	0.3176	9.50%	3.02%		26.75	0.30%
8			2012	0.3407	9.00%	3.07%		26.80	0.24%
9			2014-16	0.4412	10.00%	4.41%	6.00%	26.95	0.21%
10									
11	PNY	PIEDMONT NATURAL GAS COMPANY	2006	0.2578	11.00%	2.84%	11.83	74.61	
12			2007	0.2929	11.90%	3.49%	11.99	73.23	
13			2008	0.3087	12.40%	3.83%	12.11	73.26	
14			2009	0.3593	13.20%	4.74%	12.67	73.27	
15			2010	0.2839	11.60%	3.29%	13.35	72.28	
16			[GROWTH 2006 - 2010			3.64%	3.50%		-0.79%
17			2011	0.2722	11.50%	3.13%		71.50	-1.08%
18			2012	0.2788	12.00%	3.35%		71.00	-0.89%
19			2014-16	0.2722	12.50%	3.40%	2.50%	68.00	-1.21%
20									
21	SJI	SOUTH JERSEY INDUSTRIES, INC.	2006	0.6280	16.30%	10.20%	15.11	29.33	
22			2007	0.5167	12.80%	6.61%	16.25	29.61	
23			2008	0.5110	13.10%	6.69%	17.33	29.73	
24			2009	0.4874	13.10%	6.38%	18.24	29.80	
25			2010	0.4963	14.20%	7.05%	19.08	29.87	
26			[GROWTH 2006 - 2010			7.39%	8.00%		0.46%
27			2011	0.4828	14.00%	6.76%		31.00	3.78%
28			2012	0.4875	14.50%	7.07%		32.00	3.50%
29			2014-16	0.4878	15.00%	7.32%	6.50%	34.00	2.62%
30									
31	SWX	SOUTHWEST GAS CORPORATION	2006	0.5859	8.90%	5.21%	21.58	41.77	
32			2007	0.5590	8.50%	4.75%	22.98	42.81	
33			2008	0.3525	5.90%	2.08%	23.49	44.19	
34			2009	0.5103	7.90%	4.03%	24.44	45.09	
35			2010	0.5595	8.90%	4.98%	25.59	45.60	
36			[GROWTH 2006 - 2010			4.21%	5.00%		2.22%
37			2011	0.5070	8.00%	4.06%		46.50	1.97%
38			2012	0.5600	9.00%	5.04%		48.00	2.60%
39			2014-16	0.5968	9.50%	5.67%	4.50%	50.00	1.86%

REFERENCES:
 COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
 - RATINGS & REPORTS DATED 12/09/2011
 COLUMN (C): COLUMN (A) x COLUMN (B)
 COLUMN (D): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2006 - 2010
 COLUMN (E): VALUE LINE INVESTMENT SURVEY
 COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (f) =	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	WGL	WGL HOLDINGS, INC.	2006	0.3041	10.30%	3.13%	18.86	48.89	
2			2007	0.3445	10.30%	3.55%	19.83	48.45	
3			2008	0.4221	11.60%	4.90%	20.99	49.92	
4			2009	0.4190	11.60%	4.86%	21.89	50.14	
5			2010	0.3392	9.90%	3.36%	22.82	50.54	
6			GROWTH 2006 - 2010			3.96%	5.00%		0.83%
7			2011	0.3111	9.70%	3.02%		51.20	1.31%
8			2012	0.3640	10.00%	3.64%		51.50	0.96%
9			2014-16	0.3782	10.00%	3.78%	4.00%	52.00	0.57%

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
 - RATINGS & REPORTS DATED 12/09/2011
 COLUMN (C): COLUMN (A) x COLUMN (B)
 COLUMN (D): LINE 6, SIMPLE AVERAGE GROWTH, 2006 - 2010

COLUMN (D): VALUE LINE INVESTMENT SURVEY
 COLUMN (D): LINE 6, COMPOUND GROWTH RATE
 COLUMN (E): VALUE LINE INVESTMENT SURVEY
 COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

WATER COMPANY SAMPLE:

LINE NO.	STOCK SYMBOL	(A)		(B)		(C)		(D)		(E)		(F)		
		(br.)	(sv.)	ZACKS EPS	ZACKS EPS	VALUE LINE PROJECTED EPS	BVPS	VALUE LINE HISTORIC EPS	BVPS	VALUE LINE & ZACKS AVGS. EPS	BVPS	5-YEAR COMPOUND HISTORY EPS	DPS	BVPS
1	AMR	6.01%		12.00%	6.50%	4.50%	0.50%	11.50%	2.50%	5.00%	6.07%	13.66%	3.39%	5.04%
2	CWT	5.59%		10.00%	5.50%	3.50%	3.50%	6.50%	1.00%	5.50%	5.07%	-9.22%	-15.01%	-12.89%
3	MSEX	4.37%		-	6.00%	2.00%	1.00%	4.50%	1.50%	5.00%	3.42%	4.02%	1.44%	3.96%
4	SJW	3.88%		-	6.00%	4.50%	3.50%	-1.50%	5.50%	6.50%	4.08%	-8.34%	4.51%	2.45%
5	WTR	6.00%		8.30%	10.00%	6.00%	5.00%	4.50%	8.00%	7.00%	6.97%	6.48%	7.61%	5.16%
6					6.80%	4.10%	2.70%	5.10%	3.70%	5.90%		1.32%	0.39%	0.75%
7	AVERAGES	5.17%		10.10%		4.53%		4.90%		5.12%		0.82%		

NATURAL GAS LDC SAMPLE:

LINE NO.	STOCK SYMBOL	(A)		(B)		(C)		(D)		(E)		(F)		
		(br.)	(sv.)	ZACKS EPS	ZACKS EPS	VALUE LINE PROJECTED EPS	BVPS	VALUE LINE HISTORIC EPS	BVPS	VALUE LINE & ZACKS AVGS. EPS	BVPS	5-YEAR COMPOUND HISTORY EPS	DPS	BVPS
1	GAS	5.92%		4.30%	5.00%	3.00%	6.00%	4.50%	7.50%	5.50%	5.11%	2.48%	4.43%	2.92%
2	ATO	4.67%		4.30%	5.00%	2.00%	4.50%	4.00%	1.50%	5.00%	3.76%	1.94%	1.55%	4.63%
3	LG	5.41%		3.00%	2.50%	2.50%	5.00%	7.50%	2.50%	7.00%	4.29%	0.63%	2.81%	6.25%
4	NJR	7.01%		4.50%	5.00%	5.00%	6.00%	8.50%	7.50%	10.00%	6.64%	7.10%	9.10%	3.97%
5	NWN	4.49%		4.30%	4.50%	3.50%	6.00%	9.50%	3.50%	4.00%	5.04%	3.82%	4.65%	4.20%
6	PNY	3.51%		4.70%	2.50%	3.50%	2.50%	5.00%	4.50%	3.50%	3.74%	4.90%	3.97%	3.07%
7	SJI	10.78%		6.00%	9.00%	9.50%	6.50%	9.50%	8.50%	8.00%	8.14%	2.35%	10.27%	6.01%
8	SWX	6.44%		5.30%	9.00%	4.50%	4.50%	6.00%	2.00%	5.00%	5.19%	3.48%	5.09%	4.35%
9	WGL	4.16%		5.20%	2.00%	2.50%	4.00%	2.50%	2.50%	5.00%	3.39%	4.01%	2.67%	4.88%
10					4.94%	4.00%	5.00%	6.33%	4.44%	5.89%		3.41%	4.98%	4.48%
11	AVERAGES	5.82%		4.62%		4.65%		5.56%		5.03%		4.29%		

REFERENCES:

- COLUMN (A): SCHEDULE WAR - 4, PAGE 1, COLUMN C
- COLUMN (B): ZACKS INVESTMENT RESEARCH (www.zacks.com)
- COLUMN (C): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 01/20/2012 (WATER COMPANIES) AND 12/09/2011 (NATURAL GAS LDC'S)
- COLUMN (D): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 01/20/2012 (WATER COMPANIES) AND 12/09/2011 (NATURAL GAS LDC'S)
- COLUMN (E): SIMPLE AVERAGE OF COLUMNS (B) THRU (D) LINES 1 THRU 3 (WATER) AND 1 THRU 9 (NATURAL GAS)
- COLUMN (F): 5-YEAR ANNUAL GROWTH RATE CALCULATED WITH DATA COMPILED FROM VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 01/20/2012 (WATER COMPANIES) AND 12/09/2011 (NATURAL GAS LDC'S)

BASED ON A GEOMETRIC MEAN:

LINE NO.	STOCK SYMBOL	(A)					(B)
		k	$=$	r_f	$+$	$[\beta \times (r_m - r_f)]$	EXPECTED RETURN
1	AWR	k	$=$	0.83%	$+$	$[0.70 \times (9.90\% - 5.40\%)]$	$=$ 3.98%
2	CWT	k	$=$	0.83%	$+$	$[0.65 \times (9.90\% - 5.40\%)]$	$=$ 3.76%
3	MSEX	k	$=$	0.83%	$+$	$[0.70 \times (9.90\% - 5.40\%)]$	$=$ 3.98%
4	SJW	k	$=$	0.83%	$+$	$[0.65 \times (9.90\% - 5.40\%)]$	$=$ 4.66%
5	WTR	k	$=$	0.83%	$+$	$[0.65 \times (9.90\% - 5.40\%)]$	$=$ 3.76%
6	WATER COMPANY AVERAGE					0.71	4.03%
7	GAS	k	$=$	0.83%	$+$	$[0.75 \times (9.90\% - 5.40\%)]$	$=$ 4.21%
8	ATO	k	$=$	0.83%	$+$	$[0.70 \times (9.90\% - 5.40\%)]$	$=$ 3.98%
9	LG	k	$=$	0.83%	$+$	$[0.60 \times (9.90\% - 5.40\%)]$	$=$ 3.53%
10	NJR	k	$=$	0.83%	$+$	$[0.65 \times (9.90\% - 5.40\%)]$	$=$ 3.76%
11	NWN	k	$=$	0.83%	$+$	$[0.60 \times (9.90\% - 5.40\%)]$	$=$ 3.53%
12	PNY	k	$=$	0.83%	$+$	$[0.70 \times (9.90\% - 5.40\%)]$	$=$ 3.98%
13	SJI	k	$=$	0.83%	$+$	$[0.65 \times (9.90\% - 5.40\%)]$	$=$ 3.76%
14	SWX	k	$=$	0.83%	$+$	$[0.75 \times (9.90\% - 5.40\%)]$	$=$ 4.21%
15	WGL	k	$=$	0.83%	$+$	$[0.65 \times (9.90\% - 5.40\%)]$	$=$ 3.76%
16	NATURAL GAS LDC AVERAGE					0.67	3.86%

REFERENCES:
 COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [\beta (r_m - r_f)]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
 r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
 β = THE BETA COEFFICIENT OF A GIVEN SECURITY
 r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

- (a) AN 8-WEEK AVERAGE OF THE YIELD ON A 5-YEAR U.S. TREASURY INSTRUMENT THAT APPEARED IN VALUE LINE INVESTMENT SURVEYS' "SELECTION & OPINIONS" PUBLICATION FROM 12/30/2011 THROUGH 02/17/2012 WAS USED AS A RISK FREE RATE OF RETURN.
- (b) THE RISK PREMIUM (RM - RF) USED THE GEOMETRIC MEAN FOR S&P 500 TOTAL RETURNS OVER THE 1926 - 2010 PERIOD MINUS TOTAL RETURNS ON INTERMEDIATE TREASURIES DURING THE SAME PERIOD. THE DATA WAS OBTAINED FROM MORNINGSTAR'S STOCKS, BONDS, BILLS AND INFLATION: 2011 YEARBOOK.

BASED ON AN ARITHMETIC MEAN:

LINE NO.	STOCK SYMBOL	(A)				(B) EXPECTED RETURN
		$k = r_f$	$+$	$[\beta \times (r_m - r_f)]$	$=$	
1	AWR	$k = 0.83\%$	$+$	$[0.70 \times (11.90\% - 5.50\%)]$	$= 5.31\%$	
2	CWT	$k = 0.83\%$	$+$	$[0.65 \times (11.90\% - 5.50\%)]$	$= 4.98\%$	
3	MSEX	$k = 0.83\%$	$+$	$[0.70 \times (11.90\% - 5.50\%)]$	$= 5.31\%$	
4	SJW	$k = 0.83\%$	$+$	$[0.85 \times (11.90\% - 5.50\%)]$	$= 6.27\%$	
5	WTR	$k = 0.83\%$	$+$	$[0.65 \times (11.90\% - 5.50\%)]$	$= 4.99\%$	
6	WATER COMPANY AVERAGE			<u>0.71</u>	<u>5.38%</u>	
7	GAS	$k = 0.83\%$	$+$	$[0.75 \times (11.90\% - 5.50\%)]$	$= 5.63\%$	
8	ATO	$k = 0.83\%$	$+$	$[0.70 \times (11.90\% - 5.50\%)]$	$= 5.31\%$	
9	LG	$k = 0.83\%$	$+$	$[0.60 \times (11.90\% - 5.50\%)]$	$= 4.57\%$	
10	NJR	$k = 0.83\%$	$+$	$[0.65 \times (11.90\% - 5.50\%)]$	$= 4.99\%$	
11	NWN	$k = 0.83\%$	$+$	$[0.60 \times (11.90\% - 5.50\%)]$	$= 4.67\%$	
12	PNY	$k = 0.83\%$	$+$	$[0.70 \times (11.90\% - 5.50\%)]$	$= 5.31\%$	
13	SJI	$k = 0.83\%$	$+$	$[0.65 \times (11.90\% - 5.50\%)]$	$= 4.99\%$	
14	SWX	$k = 0.83\%$	$+$	$[0.75 \times (11.90\% - 5.50\%)]$	$= 5.63\%$	
15	WGL	$k = 0.83\%$	$+$	$[0.65 \times (11.90\% - 5.50\%)]$	$= 4.99\%$	
16	NATURAL GAS LDC AVERAGE			<u>0.67</u>	<u>5.14%</u>	

REFERENCES:

COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [\beta (r_m - r_f)]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
 r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
 β = THE BETA COEFFICIENT OF A GIVEN SECURITY
 r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

(a) AN 8-WEEK AVERAGE OF THE YIELD ON A 5-YEAR U.S. TREASURY INSTRUMENT THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 1/23/2011 THROUGH 02/17/2012 WAS USED AS A RISK FREE RATE OF RETURN.

(b) THE RISK PREMIUM (RM - RF) USED THE ARITHMETIC MEAN FOR S&P 500 TOTAL RETURNS OVER THE 1926 - 2010 PERIOD MINUS TOTAL RETURNS ON INTERMEDIATE TREASURIES DURING THE SAME PERIOD. THE DATA WAS OBTAINED FROM MORNINGSTAR'S STOCKS, BONDS, BILLS AND INFLATION: 2011 YEARBOOK.

ARIZONA WATER COMPANY
 TEST YEAR ENDED DECEMBER 31, 2010
 ECONOMIC INDICATORS - 1990 TO PRESENT

DOCKET NO. W-01445A-11-0310
 SCHEDULE WAR - 8

LINE NO.	YEAR	(A) CHANGE IN CPI	(B) CHANGE IN GDP (1996 \$)	(C) PRIME RATE	(D) FED. DISC. RATE	(E) FED. FUNDS RATE	(F) 91-DAY T-BILLS	(G) 30-YR T-BONDS	(H) A-RATED UTIL. BOND YIELD	(I) Baa-RATED UTIL. BOND YIELD
1	1990	5.39%	1.90%	10.01%	6.98%	8.10%	7.50%	7.49%	9.86%	10.06%
2	1991	4.25%	-0.20%	8.46%	5.45%	5.69%	5.38%	5.38%	9.36%	9.55%
3	1992	3.03%	3.30%	6.25%	3.25%	3.52%	3.43%	3.43%	8.69%	8.86%
4	1993	2.96%	2.70%	6.00%	3.00%	3.02%	3.00%	3.00%	7.59%	7.91%
5	1994	2.61%	4.00%	7.14%	3.60%	4.21%	4.25%	4.25%	8.31%	8.63%
6	1995	2.81%	2.50%	8.83%	5.21%	5.83%	5.49%	5.49%	7.89%	8.29%
7	1996	2.93%	3.70%	8.27%	5.02%	5.30%	5.01%	5.01%	7.75%	8.17%
8	1997	2.34%	4.50%	8.44%	5.00%	5.46%	5.06%	5.06%	7.60%	8.12%
9	1998	1.55%	4.20%	8.35%	4.92%	5.35%	4.78%	4.78%	7.04%	7.27%
10	1999	2.19%	4.50%	7.99%	4.62%	4.97%	4.64%	4.64%	7.62%	7.88%
11	2000	3.38%	3.70%	9.23%	5.73%	6.24%	5.82%	5.82%	8.24%	8.36%
12	2001	2.83%	0.80%	6.92%	3.41%	3.88%	3.40%	3.40%	7.59%	8.02%
13	2002	1.59%	1.60%	4.67%	1.17%	1.67%	1.61%	1.61%	7.41%	7.98%
14	2003	2.27%	2.50%	4.12%	2.03%	1.13%	1.01%	1.01%	6.18%	6.64%
15	2004	2.68%	3.60%	4.34%	2.34%	1.35%	1.37%	1.37%	5.77%	6.20%
16	2005	3.39%	2.90%	6.16%	4.19%	3.22%	3.15%	3.15%	5.38%	5.78%
17	2006	3.24%	2.80%	7.97%	5.96%	4.97%	4.73%	4.91%	5.94%	6.30%
18	2007	2.85%	2.90%	8.05%	5.86%	5.02%	4.36%	4.84%	6.07%	6.24%
19	2008	3.84%	-6.80%	5.09%	2.39%	1.92%	1.37%	4.28%	6.34%	6.64%
20	2009	-0.36%	5.00%	3.25%	0.50%	0.00% - 0.25%	0.15%	4.08%	5.84%	6.87%
21	2010	1.64%	2.80%	3.25%	0.72%	0.00% - 0.25%	0.13%	4.25%	5.50%	5.98%
22	2011	3.00%	1.70%	3.25%	0.75%	0.00-0.25%	0.05%	3.93%	5.06%	5.58%
23	CURRENT	2.90%	2.80%	3.25%	0.75%	0.00% - 0.25%	0.08%	3.15%	4.19%	4.67%

REFERENCES:
 COLUMN (A): 1990 - CURRENT, U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS WEB SITE
 COLUMN (B): 1990 - CURRENT, U.S. DEPARTMENT OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS WEB SITE
 COLUMN (C) THROUGH (G): 1990 - 2003, FEDERAL RESERVE BANK OF ST. LOUIS WEB SITE
 COLUMN (F) THROUGH (I): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 02/17/2012
 COLUMN (H) THROUGH (I): 1990 - 2000, MOODY'S PUBLIC UTILITY REPORTS
 COLUMN (H) THROUGH (I): 2001, MERGENT 2002 PUBLIC UTILITY MANUAL
 COLUMN (H) THROUGH (I): 2003, MERGENT NEWS REPORTS

AVERAGE CAPITAL STRUCTURES OF SAMPLE WATER COMPANIES (000's)

LINE NO.	AMR	PCT.	CWT	PCT.	SJW	PCT.	WTR	PCT.	MSEX	PCT.
1	\$ 299.8	44.3%	\$ 479.2	52.4%	\$ 295.7	53.7%	\$ 1,532.0	56.6%	\$ 133.8	43.1%
2	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	3.4	1.1%
3	377.5	55.7%	435.5	47.6%	255.0	46.3%	1,174.3	43.4%	173.3	55.8%
4	\$ 677.4	100%	\$ 914.7	100%	\$ 550.7	100%	\$ 2,706.2	100%	\$ 310.5	100%
5										
6										
7										

WATER COMPANY AVERAGE	PCT.
\$ 548.1	53.1%
0.7	0.1%
483.1	46.8%
\$ 1,031.9	100%

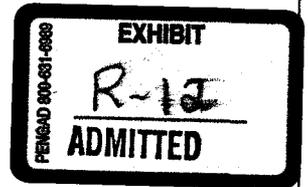
AVERAGE CAPITAL STRUCTURES OF SAMPLE NATURAL GAS COMPANIES (000's)

LINE NO.	AGL	PCT.	ATO	PCT.	LG	PCT.	NJR	PCT.	NWN	PCT.
1	\$ 1,673.0	47.7%	\$ 1,809.6	45.4%	\$ 364.3	47.0%	\$ 428.9	37.2%	\$ 591.7	46.1%
2	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
3	1,836.0	52.3%	2,178.3	54.6%	411.3	53.0%	725.5	62.8%	693.1	53.9%
4	\$ 3,509.0	100%	\$ 3,987.9	100%	\$ 775.6	100%	\$ 1,154.4	100%	\$ 1,284.8	100%
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WATER & LDC AVERAGE	PCT.
\$ 698.6	47.1%
7.1	0.5%
776.8	52.4%
\$ 1,482.5	100%

LINE NO.	PNY	PCT.	SJI	PCT.	SWX	PCT.	WGL	PCT.	NATURAL GAS LDC AVERAGE	PCT.
1	\$ 671.9	41.0%	\$ 340.0	37.4%	\$ 1,169.4	48.3%	\$ 592.9	33.4%	\$ 849.1	43.9%
2	0.0	0.0%	0.0	0.0%	100.0	4.2%	28.2	1.6%	\$ 14.2	0.7%
3	964.9	59.0%	570.1	62.8%	1,102.1	46.5%	1,153.4	65.0%	1,070.5	55.4%
4	\$ 1,636.9	100%	\$ 910.1	100%	\$ 2,371.4	100%	\$ 1,774.4	100%	\$ 1,933.8	100%
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REFERENCE:
 MOST RECENT SEC 10-K FILINGS OR ANNUAL REPORTS



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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

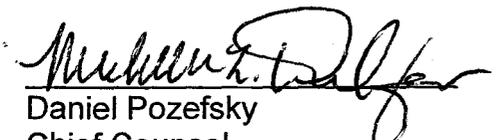
IN THE MATTER OF THE APPLICATION OF
ARIZONA WATER COMPANY, AN ARIZONA
CORPORATION, FOR A DETERMINATION
OF THE FAIR VALUE OF ITS UTILITY
PLANT AND PROPERTY, AND FOR
ADJUSTMENTS TO ITS RATES AND
CHARGES FOR UTILITY SERVICE
FURNISHED BY ITS EASTERN GROUP
AND FOR CERTAIN RELATED
APPROVALS.

Docket No. W-01445A-11-0310

NOTICE OF ERRATA

The RESIDENTIAL UTILITY CONSUMER OFFICE ("RUCO") hereby provides notice of
Errata to the Direct Testimony of William A. Rigsby, CRRRA, in the above-referenced matter.
The changes are on page 2, line 8, of Mr. Rigsby's Direct Testimony and page 3, line 15-17 of
Mr. Rigsby's Direct Testimony on Cost of Capital.

1 RESPECTFULLY SUBMITTED this 13th day of March, 2012.

2
3 
4 Daniel Pozefsky
Chief Counsel

5 AN ORIGINAL AND THIRTEEN COPIES
6 of the foregoing filed this 13th day
7 of March, 2012 with:

8 Docket Control
9 Arizona Corporation Commission
10 1200 West Washington
11 Phoenix, Arizona 85007

12 COPIES of the foregoing hand delivered/
13 mailed this 13th day of March, 2012 to:

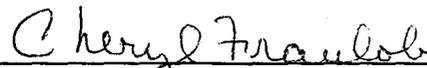
14 The Honorable Lyn Farmer
15 Administrative Law Judge
16 Hearing Division
17 Arizona Corporation Commission
18 1200 West Washington
19 Phoenix, Arizona 85007

20 Steven A. Hirsch
21 Stanley B. Lutz
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36 Arizona Corporation Commission
37 1200 West Washington
38 Phoenix, Arizona 85007

39 By 
40 Cheryl Fraulob

41 Robert W. Geake
42 Vice President and General Counsel
43 Arizona Water Company
44 Post Office Box 29006
45 Phoenix, Arizona 85038-9006

1 Company's Eastern Group operating systems. AWC filed its Application
2 with the Arizona Corporation Commission ("ACC" or "Commission") on
3 August 5, 2011 using a test year ending on December 31, 2010 ("Test
4 Year").

5
6 **Q. Will RUCO be filing testimony on the required revenue, rate design
7 and cost of capital issues associated with AWC's Application?**

8 A. Yes. RUCO witness Robert B. Mease will provide direct testimony
9 presenting RUCO's recommendations on required revenue and rate
10 design. As I noted above, I have filed, under separate cover, direct
11 testimony on the cost of capital issues in this case.

12
13 **SUMMARY OF TESTIMONY AND RECOMMENDATIONS**

14 **Q. Please summarize the specific issues that you will address in your
15 direct testimony.**

16 A. My direct testimony will address AWC's requests for a Distribution System
17 Improvement Charge ("DSIC"), the continuation of the Company's Arsenic
18 Cost Recovery Mechanism ("ACRM"), consolidation of AWC's San
19 Manuel, Oracle and SaddleBrooke Ranch operating systems into a
20 Company-proposed Falcon Valley System, a rate design that addresses
21 declining usage, and the Company's request for an Off-Site Facilities Fee
22 that delays recognition of contributions-in-aid-of-construction ("CIAC") as a

1 include San Manuel, Oracle, SaddleBrooke Ranch and Winkleman. In this
2 rate case proceeding AWC is requesting that San Manuel, Oracle and
3 SaddleBrooke Ranch be consolidated into a Company-proposed Falcon
4 Valley System.

5
6 **Q. Is this your first case involving AWC?**

7 A. No. I have been involved with a number of AWC proceedings dating back
8 to 2001.

9
10 **Q. What areas will you address in your direct testimony?**

11 A. I will address the cost of capital issues associated with the case.

12
13 **Q. Will RUCO also offer direct testimony on the rate base, operating
14 income and rate design issues in this proceeding?**

15 A. Yes. The rate base and operating income issues associated with the case
16 will be addressed by RUCO witness Robert B. Mease. Mr. Mease will
17 also file testimony on RUCO's rate design

18
19 **Q. Please explain your role in RUCO's analysis of AWC's Application.**

20 A. I reviewed AWC's Application and performed a cost of capital analysis to
21 determine a fair rate of return on the Company's invested capital. In
22 addition to my recommended capital structure, my direct testimony will
23 present my recommended cost of common equity (the Company has no



ARIZONA WATER COMPANY
DOCKET NO. W-01445A-11-0310

SURREBUTTAL TESTIMONY
OF
WILLIAM A. RIGSBY

ON BEHALF OF
THE
RESIDENTIAL UTILITY CONSUMER OFFICE

MAY 7, 2012

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1 **INTRODUCTION**

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

3 A. My Name is William A. Rigsby. I am the Chief of Accounting and Rates
4 for the Residential Utility Consumer Office ("RUCO") located at 1110 W.
5 Washington, Suite 220, Phoenix, Arizona 85007.

6
7 **Q. Have you filed any prior testimony in this case on behalf of RUCO?**

8 A. Yes, on March 13, 2012, I filed direct testimony presenting RUCO's
9 recommendations on cost of capital and the Company's request for a
10 DSIC. I also addressed the Company's method for adjusting billing
11 determinates in order to account for declining usage.

12
13 **Q. Please state the purpose of your surrebuttal testimony.**

14 A. The purpose of my surrebuttal testimony is to respond to the rebuttal
15 testimony of AWC witnesses Frederick K. Schneider, Joseph D. Harris,
16 Joel M. Reiker, Dr. Thomas M. Zepp and Pauline M. Ahearn, which was
17 filed on April 10, 2012.

18
19 **Q. Will RUCO be filing surrebuttal testimony on the rate base, operating
20 income and rate design issues in this case?**

21 A. Yes. Those aspects of the case will be addressed in the surrebuttal
22 testimony of RUCO witness Robert B. Mease.

23

1 **Q. How is your surrebuttal testimony organized?**

2 A. My surrebuttal testimony contains three parts: the introduction that I've just
3 presented; a brief summary of AWC's rebuttal testimony; and, my
4 response to AWC's rebuttal testimony.

5

6 **SUMMARY OF REBUTTAL TESTIMONY**

7 **Q. Have you reviewed AWC's rebuttal testimony?**

8 A. Yes.

9

10 **Q. Briefly summarize AWC's rebuttal testimony.**

11 A. Company witnesses Frederic K. Schneider, Joseph D. Harris and Pauline
12 Ahearn, who is presenting testimony for the first time in this proceeding,
13 address the Company-proposed DSIC. Company witness Joel M. Reiker
14 provides rebuttal testimony on AWC's method for adjusting billing
15 determinates in order to account for declining usage. Dr. Thomas M.
16 Zepp offers testimony on the cost of capital issues in the case as does Ms.
17 Ahearn in addition to her testimony on the DSIC.

18

19 **RESPONSE TO REBUTTAL TESTIMONY**

20 **Q. Has AWC withdrawn its request for a DSIC?**

21 A. No. To the contrary, Mr. Schneider, Mr. Harris and Ms. Ahearn continue
22 to advance the Company-proposed DSIC even though both ACC Staff and
23 RUCO have recommended that the Commission reject it. All three

1 witnesses continue to reiterate the need for the mechanism which RUCO
2 believes will result in unfair rates to the Company's customers.

3

4 **Q. Has any of AWC's rebuttal testimony on the DSIC persuaded RUCO**
5 **to change its original position on the Company-proposed DSIC?**

6 A. No. Despite the voluminous testimony presented by AWC, RUCO still
7 believes that the Commission should reject the DSIC for the reasons
8 presented in my direct testimony.

9

10 **Q. If the Commission were to approve a DSIC for the Company, what**
11 **types of restrictions or conditions would RUCO want implemented in**
12 **order to make the surcharge fairer to ratepayers?**

13 A. First, RUCO believes that if the Commission were to approve a DSIC, any
14 DSIC surcharge should only be approved for those Eastern Group
15 systems that have water loss exceeding 10.00 percent. That would
16 include the Company's Miami (11.60 percent), Oracle/SaddleBrooke
17 Ranch (12.60 percent) and Bisbee (15.60 percent) systems. Second,
18 RUCO believes that AWC should be limited to one DSIC filing per year as
19 opposed to the semi-annual filing being requested by the Company in its
20 direct testimony. Third, if the Commission were to approve a DSIC for the
21 Company, RUCO would insist on an Operations & Maintenance ("O&M")
22 expense offset of 15.00 percent. As I explained in my direct testimony, an
23 O&M offset credit would apply a specified dollar credit to every foot of

1 replacement line or main that AWC would recover through a DSIC
2 surcharge. This would insure that ratepayers see some benefit, between
3 rate case proceedings, from reductions in O&M expense attributed to
4 operating efficiencies that would result from the replacement of aging
5 infrastructure. Based on conversations with AWC and the evidence in the
6 record to date, RUCO believes that a 15.00 percent offset would not be
7 unreasonable if the Commission were to approve a DSIC for the
8 Company. Fourth, RUCO believes that there should be an overall 4.00
9 percent cap over three years subject to an annual earnings test. RUCO
10 believes that this 4.00 percent figure is reasonable after taking into
11 consideration the fact that the state of Pennsylvania, had originally capped
12 its DSIC surcharges to 5% of revenues between rate cases.

13
14 **Q. Why does RUCO believe that a 15.00 percent offset is just and**
15 **reasonable?**

16 **A.** In my direct testimony, I stated that a credit could be applied to every foot
17 of replacement line that AWC would recover through the Company-
18 proposed DSIC. However, there are certain types of plant assets included
19 in the DSIC that cannot be measured in terms of linear feet. Still, RUCO
20 believes that a 15.00 percent offset would alleviate the concern that, under
21 the Company-proposed DSIC, ratepayers would not benefit from any O&M
22 expense reductions as aging infrastructure is replaced. While dollar
23 amounts of plant placed in service, and associated depreciation expense

1 incurred between general rate cases would be verified and trued-up in a
2 future rate case proceeding, any savings attributable to operating
3 efficiencies that would have benefited ratepayers would be lost without
4 some form of offset to the DISC surcharge. A 15.00 percent offset would
5 insure that ratepayers receive a benefit from operating efficiencies. The
6 15.00 percent offset would result in a fairer DSIC Surcharge in RUCO's
7 view.

8
9 **Q. Why should the DSIC apply only to AWC systems with a water loss**
10 **of 10.00 percent or greater?**

11 **A.** It is no secret that we live in an arid climate and that the conservation of
12 groundwater has been a goal of the ACC as evidenced by the
13 Commission's policy of implementing rate designs that encourage the
14 customers of water utilities to watch their consumption habits. Keeping
15 water loss levels below 10.0 percent would provide benefits to both the
16 Company and ratepayers by reducing both purchased pumping power
17 expense and the wear and tear on plant assets due to excessive pumping
18 attributed to lost or unaccounted for water.

19
20
21
22 ...
23

1 **Q. Can you elaborate further on the importance of the Commission's**
2 **concern for keeping water loss at levels of 10.00 percent or lower?**

3 A. Yes. RUCO believes that tying the DSIC surcharge to those systems that
4 have water loss above 10.00 percent makes good sense considering that
5 Commission Staff has consistently stressed the need for keeping water
6 loss at 10.00 percent or less and generally makes this a key subject in its
7 engineering testimony.

8
9 **Q. Has RUCO changed its position regarding the method for adjusting**
10 **billing determinates in order to account for declining usage?**

11 A. No. RUCO has not been persuaded by the testimony of AWC witness
12 Joel. M. Reiker and continues to reject the Company's method for
13 adjusting billing determinates in order to account for declining usage.
14 RUCO's decision on this matter was heavily influenced by ACC Staff's
15 consistent rejection of Mr. Reiker's analysis in both this proceeding and in
16 the Company's prior Western Group rate case proceeding.

17
18 **Q. Has RUCO updated its cost of capital recommendations in this case?**

19 A. Yes. Based on updated Value Line information on the water and natural
20 gas industries and more recent stock price information, I have increased
21 my cost of common equity recommendation from 9.30 percent to 9.40
22 percent. This results in an updated weighted average cost of capital

1 recommendation of 8.13 percent which is 5 basis points higher than the
2 8.08 percent figure that I recommended in my direct testimony.

3
4 **Q. Where do AWC, ACC Staff and RUCO stand in regard to their cost of**
5 **capital recommendations at this stage of the proceeding?**

6 A. AWC, ACC Staff and RUCO are in agreement on the 6.82 percent
7 Company-proposed cost of long-term debt and AWC's end of test year
8 capital structure comprised of approximately 49.00 percent long-term debt
9 and 51.00 percent common equity. As is typical in most rate case
10 proceedings, the main point of contention is the cost of common equity.
11 Dr. Zepp, AWC's cost of capital witness, continues to advocate a cost of
12 common equity of 12.50 percent which is supported by Ms. Ahearn. Mr.
13 John A. Cassidy, ACC Staff's cost of capital witness, is recommending a
14 9.10 percent cost of common equity which is 340 basis points lower than
15 the Company's proposal. As I explained earlier, RUCO is recommending
16 an updated 9.40 percent cost of common equity which is 310 basis points
17 lower than the Company's proposal and 30 basis points higher than Mr.
18 Cassidy's recommendation.

19
20 **Q. Have you reviewed the rebuttal testimony of Dr. Zepp and Ms.**
21 **Ahearn?**

22 A. Yes. Dr. Zepp has not made any changes to his proposed 12.50 percent
23 cost of common equity and Ms. Ahearn admits on page 30 of her

1 testimony that, while she did not perform a cost of capital analysis, she
2 believes that Dr. Zepp's 12.50 percent cost of common equity is a
3 reasonable and conservative estimate. Dr. Zepp, as always, is highly
4 critical of my cost of capital analysis for numerous reasons which I will not
5 dwell on in my testimony due to the huge 310 to 340 basis point disparity
6 between his proposed cost of common equity and the cost of equity
7 recommendations being made by both myself and Mr. Cassidy.

8
9 **Q. Why do you believe that Dr. Zepp's proposed 12.50 percent cost of**
10 **common equity is unreasonably high?**

11 **A.** Not only is Dr. Zepp's 12.50 percent cost of common equity estimate 310
12 to 340 basis points higher than the cost of capital recommendations being
13 made by myself and Mr. Cassidy, his 12.50 percent estimate is also 300 to
14 400 basis points higher than the 8.50 percent to 9.50 percent book
15 common equity estimates for the 2012 through 2017 time frame presented
16 in Value Line's most recent update on the water utility industry published
17 on April 20, 2012. Again I would point out that these projections are for
18 water providers that earn revenues through unregulated activities in
19 addition to regulated water services. His 12.50 percent cost of common
20 equity figure is also 785 basis points higher than, or more than double, the
21 most recent 4.65 percent yield on a Baa/BBB utility bond as of April 25,
22 2012.

1 **Q. Are there other reasons why you believe that the Commission should**
2 **reject Dr. Zepp's 12.50 percent cost of common equity?**

3 A. Yes. Dr. Zepp's 12.50 percent cost of common equity even exceeds the
4 11.80 percent return on the market, relying on his preferred arithmetic
5 mean, by 70 basis points. In other words, Dr. Zepp believes that AWC is
6 riskier than the broader market despite the fact that the Company has
7 operated as a regulated monopoly in Arizona since 1954 and has survived
8 numerous economic recessions over that fifty-eight year period including
9 the most recent one that has seen the demise of such high profile
10 companies as Circuit City, Mervyns, and Borders.

11
12 **Q. Using beta as a measurement of risk, what would the indicated beta**
13 **be if Dr. Zepp's 12.50 percent cost of equity was the expected return**
14 **produced by your CAPM model?**

15 A. Using beta (which is the main component of the CAPM model) as a
16 measurement of risk, Dr. Zepp's 12.50 percent rate of return would
17 indicate that AWC has a beta of 1.48, which is more than double the 0.71
18 average beta of the water utilities included in my analysis (again these are
19 all companies that face the same type of risks that AWC faces)¹.

20

¹ CAPM Model: Expected Return = Risk Free Rate of Return + [Beta x (Market Risk Premium)]

$$\begin{aligned} \text{Solving for beta: } 12.50\% &= 3.15\% + [\text{Beta} \times (6.30\%)] \\ 9.35\% &= \text{Beta} \times (6.30\%) \\ 1.48 &= \text{Beta} \end{aligned}$$

1 **Q. Please compare AWC with other companies followed by Value Line**
2 **that have betas that fall within a range of 1.45 to 1.50.**

3 A. A review of recent companies followed by Value Line that have betas that
4 fall within a range of 1.45 to 1.50 included Pulte Group, Inc. with a beta of
5 1.50. Pulte Group, Inc. is a homebuilder with a presence in Arizona that
6 has recorded operating losses since 2009 and, like the majority of other
7 Value Line tracked companies with a beta of 1.50, has not paid dividends
8 during that same period of time. AWC on the other hand, has recorded
9 positive net income and had adequate cash flow to pay dividends to
10 shareholders since 2008 according to Schedule E in the Company's
11 Application. Other companies with betas of 1.50 include Ford Motor
12 Company, the well known auto manufacturer that operates in a
13 competitive global market, Overstock.com, an online retailer that
14 competes with hundreds of other retailers, and Sinclair Broadcast Group,
15 Inc. which owns and operates sixty-five television stations located mostly
16 in medium sized U.S. markets and competes for advertising revenues and
17 viewer market share with other local broadcasters.

18
19 **Q. Were any of the companies that had betas in the range of 1.45 to 1.50**
20 **regulated water utilities such as AWC?**

21 A. No. The only company that was close to a regulated utility was Leap
22 Wireless International, Inc. ("Leap Wireless"), an unregulated wireless
23 communications carrier that operates in the competitive U.S. cellular

1 market under the Cricket brand. Leap Wireless has a beta of 1.45 and,
2 unlike AWC, has not had any earnings, dividends or meaningful return on
3 common equity since 2006.

4

5 **Q. Does your silence on any other issues, matters or findings**
6 **addressed in the rebuttal testimony of AWC's witnesses constitute**
7 **your acceptance of the Company's positions on such issues, matters**
8 **or findings?**

9 A. No, it does not.

10

11 **Q. Does this conclude your surrebuttal testimony on the cost of capital**
12 **issues in AWC's filing for the Company's Eastern Group Systems?**

13 A. Yes, it does.

ATTACHMENT A

It has been business as usual for most in the Water Utility Industry in recent months. There hasn't been any major developments to speak of since our January review, and the stocks here have been more or less holding steady, trading on company-specific fundamentals.

Still, nearly all of those in this space continue to deal with increasing infrastructure needs. Many water systems in the United States are well-aged, and are decaying, thus requiring greater attention. Most utilities do not have the finances to meet these needs, though, and are having to seek out help from outsiders.

Most industry regulators appear to be doing their best to aid water providers, with recent rate case rulings having been far more favorable than in the past. The regulatory climate will undoubtedly remain a key determinant to this sectors success in light of the hundreds of billions of dollars that will be needed for maintenance and systems repair.

Still, even with a more favorable regulatory environment in place, the expected financing costs required will likely remain a drag on the industry's growth prospects. This makes timely investments usually hard to come by here.

Industry Backdrop

Water providers are responsible for the safe and timely delivery of water to millions of people each day. As a result, those operating in this space are just as important as the liquid they provide itself. Population growth ought to support healthy demand for the foreseeable future.

And, although purification and distribution standards are strict, utilities have been riding the wave of improved regulatory climate. Indeed, state regulatory boards, which are also responsible for, among other things, keeping the balance of power between providers and customers, have been far more business friendly in recent memory. This is extremely important given that these boards are required to review and rule on general rate case requests submitted by providers looking to recover costs incurred during distribution. As costs of doing business have swelled, so to has their importance to the livelihoods of many operating in this group.

Rising Costs of Doing Business

As time goes by many already aging water infrastruc-

INDUSTRY TIMELINESS: 38 (of 98)

tures grow older and need repair, or perhaps complete overhauls. These costs have soared into the hundreds of millions of dollars and are not likely to subside anytime soon, without repercussions. A more business-friendly regulatory environment is offsetting some of the burden, but expenses related to doing business are eating away at profit margins.

Meanwhile, most that operate in this are cash possess balance sheets that are highly leveraged, and cash on hand is typically light. External financing has become commonplace, but financial constraints still limit potential, particularly via acquisition.

Conclusion

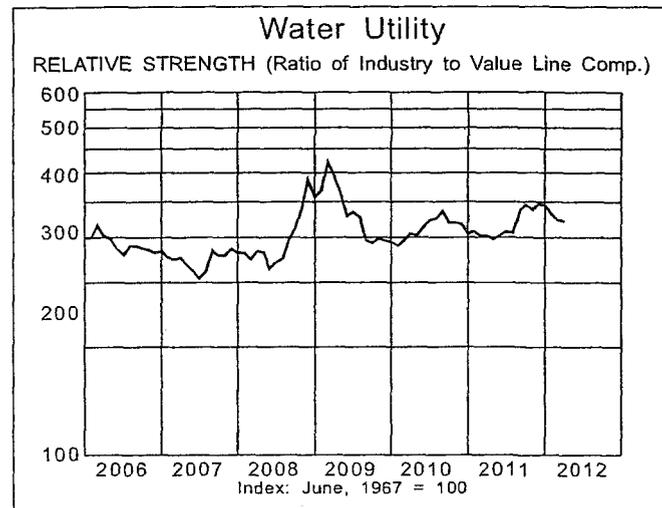
True, timely issues do not normally litter this group. Infrastructure and maintenance costs have historically hampered earnings growth rates. We do not envision much changing despite what appears to be a far better regulatory landscape. The costs of providing safe and timely water distribution is just too lofty, and is likely to only continue rising. Indeed, providers are now facing stricter EPA laws due to the increased threat of terrorism. That said, there are a couple of stocks that buck the trend and that are favorably ranked for Timeliness. *American States Water* and *American Water Works* both score above average rankings for appreciation potential for the coming six to 12 months. Each has been able to keep costs in check, while reaping the benefits of increased rate awards. This is not sustainable in our opinion, however, and we believe that growth potential will fall in line with the group looking further out.

Many investors may be enticed by the groups lofty dividend, as the stocks in this group offer above average yields. But, income-minded investors have far better alternatives, specifically in the Electric Utilities space. Plus, although not highly likely, we ponder whether the aforementioned capital constraints and weak balance sheets may force company's to temper current payout policies. If so, the industry's prospects would sink further.

Andre J. Costanza

Composite Statistics: Water Utility Industry							
2008	2009	2010	2011	2012	2013		15-17
4004.3	4228.9	4614.5	4640.2	4980	5225	Revenues (\$mill)	6125
384.1	409.6	501.0	560.5	620	675	Net Profit (\$mill)	850
38.0%	38.6%	40.0%	39.0%	39.0%	39.0%	Income Tax Rate	39.0%
1.5%	1.1%	1.0%	1.0%	2.0%	5.0%	AFUDC % to Net Profit	10.0%
52.0%	55.1%	55.5%	54.5%	52.5%	51.0%	Long-Term Debt Ratio	49.0%
48.0%	44.9%	54.5%	45.5%	47.5%	49.0%	Common Equity Ratio	51.0%
13063.6	14017.6	14724.2	14846.3	15425	16375	Total Capital (\$mill)	17575
15977.3	16910.7	17868.5	18089.9	18975	19925	Net Plant (\$mill)	22200
4.5%	4.4%	4.9%	5.0%	5.5%	5.5%	Return on Total Cap'l	7.0%
6.1%	6.5%	7.7%	8.5%	8.5%	8.5%	Return on Shr. Equity	9.5%
6.1%	6.5%	7.7%	8.5%	8.5%	8.5%	Return on Com Equity	9.5%
3.0%	2.1%	3.1%	3.5%	3.5%	3.5%	Retained to Com Eq	4.0%
51%	68%	60%	57%	55%	54%	All Div'ds to Net Prof	52%
20.7	19.3	17.3				Avg Ann'l P/E Ratio	21.0
1.25	1.29	1.10				Relative P/E Ratio	1.40
2.5%	3.5%	3.4%				Avg Ann'l Div'd Yield	2.8%

Bold figures are Value Line estimates



AMER. STATES WATER NYSE-AWR

RECENT PRICE **35.11** P/E RATIO **16.3** (Trailing: 16.0 Median: 22.0) RELATIVE P/E RATIO **1.09** DIV'D YLD **3.2%** VALUE LINE

TIMELINESS 2 Lowered 3/23/12	High: 26.4	29.0	29.0	26.8	34.6	43.8	46.1	42.0	38.8	39.6	36.4	38.0	Target Price Range	2015	2016	2017
SAFETY 3 New 2/4/00	Low: 19.0	20.3	21.6	20.8	24.3	30.3	33.6	27.0	29.8	31.2	30.5	34.1	128			
TECHNICAL 4 Lowered 4/6/12	LEGENDS 1.25 x Dividends p sh divided by Interest Rate Relative Price Strength 3-for-2 split 6/02 Options: Yes Shaded areas indicate recessions															
BETA .70 (1.00 = Market)	2015-17 PROJECTIONS Price Gain Ann'l Total High 65 (+85%) 19% Low 45 (+30%) 6%															
Insider Decisions M J J A S O N D J to Buy 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 Options 0 0 0 3 2 0 0 5 2 0 0 0 0 0 0 0 0 to Sell 0 0 0 4 1 0 5 2 0 0 0 0 0 0 0 0 0																
Institutional Decisions 2Q2011 3Q2011 4Q2011 to Buy 48 58 86 to Sell 55 54 40 Hd's(000) 11377 11349 11493																

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	© VALUE LINE PUB. LLC 15-17	
11.37	11.44	11.02	12.91	12.17	13.06	13.78	13.98	13.61	14.06	15.76	17.49	18.42	19.48	21.41	22.24	22.65	23.95	Revenues per sh	27.80
1.75	1.85	2.04	2.26	2.20	2.53	2.54	2.08	2.23	2.64	2.89	3.31	3.37	3.40	4.23	4.26	4.30	4.60	"Cash Flow" per sh	5.15
1.13	1.04	1.08	1.19	1.28	1.35	1.34	1.34	1.05	1.32	1.33	1.62	1.55	1.62	2.22	2.23	2.20	2.40	Earnings per sh A	2.80
.82	.83	.84	.85	.86	.87	.87	.88	.89	.90	.91	.96	1.00	1.01	1.04	1.10	1.16	1.22	Div'd Decl'd per sh B	1.34
2.40	2.58	3.11	4.30	3.03	3.18	2.68	3.76	5.03	4.24	3.91	2.89	4.45	4.18	4.24	4.26	4.45	4.70	Cap'l Spending per sh	5.10
11.01	11.24	11.48	11.82	12.74	13.22	14.05	13.97	15.01	15.72	16.64	17.53	17.95	19.39	20.26	21.68	22.50	23.45	Book Value per sh	25.70
13.33	13.44	13.44	13.44	15.12	15.12	15.18	15.21	16.75	16.80	17.05	17.23	17.30	18.53	18.63	18.85	19.00	19.20	Common Shs Outst'g C	19.60
12.6	14.5	15.5	17.1	15.9	16.7	18.3	31.9	23.2	21.9	27.7	24.0	22.6	21.2	15.7	15.7	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	19.0
.79	.84	.81	.97	1.03	.86	1.00	1.82	1.23	1.17	1.50	1.27	1.36	1.41	1.00	1.01			Relative P/E Ratio	1.25
5.8%	5.5%	5.0%	4.2%	4.2%	3.9%	3.6%	3.5%	3.6%	3.1%	2.5%	2.5%	2.9%	2.9%	3.0%	3.0%			Avg Ann'l Div'd Yield	2.6%
CAPITAL STRUCTURE as of 12/31/11 Total Debt \$341.0 mill. Due in 5 Yrs \$281.0 mill. LT Debt \$340.7 mill. LT Interest \$24.0 mill. (LT interest earned: 5.5x: total interest coverage: 5.2x) (45% of Cap'l)																			
Leases, Uncapitalized: Annual rentals \$3.3 mill. Pension Assets-12/11 \$92.9 mill. Oblig. \$146.1 mill. Pfd Stock None. Common Stock 18,848,158 shs. as of 3/08/12 MARKET CAP: \$650 million (Small Cap)																			
CURRENT POSITION 2009 2010 12/31/11 (\$MILL.) Cash Assets 1.7 4.2 1.3 Other 94.3 200.8 164.3 Current Assets 96.0 205.0 165.6 Accts Payable 33.9 36.2 37.9 Debt Due 18.1 61.3 .3 Other 47.7 81.3 66.2 Current Liab. 99.7 178.8 104.4 Fix. Chg. Cov. 312% 428% 401%																			
ANNUAL RATES Past Past Est'd '09-'11 of change (per sh) 10 Yrs. 5 Yrs. to '15-'17 Revenues 5.0% 7.5% 5.0% "Cash Flow" 5.5% 9.5% 5.0% Earnings 4.5% 11.5% 6.5% Dividends 2.0% 2.5% 4.0% Book Value 5.0% 5.0% 4.5%																			
QUARTERLY REVENUES (\$ mill.) Cal-endar Mar.31 Jun.30 Sep.30 Dec.31 Full Year 2009 79.6 93.6 101.5 86.3 361.0 2010 88.4 95.5 111.3 103.7 398.9 2011 94.4 109.8 119.9 95.2 419.3 2012 95.0 110 120 105 430 2013 105 120 130 105 460																			
EARNINGS PER SHARE A Cal-endar Mar.31 Jun.30 Sep.30 Dec.31 Full Year 2009 .28 .64 .52 .18 1.62 2010 .45 .47 .62 .71 2.22 2011 .37 .68 .83 .35 2.23 2012 .40 .65 .75 .40 2.20 2013 .45 .70 .80 .45 2.40																			
QUARTERLY DIVIDENDS PAID B Cal-endar Mar.31 Jun.30 Sep.30 Dec.31 Full Year 2008 .250 .250 .250 .250 1.00 2009 .250 .250 .250 .250 1.01 2010 .260 .260 .260 .260 1.04 2011 .260 .280 .280 .280 1.10 2012 .280																			

BUSINESS: American States Water Co. operates as a holding company. Through its principal subsidiary, Golden State Water Company, it supplies water to more than 250,000 customers in 75 communities in 10 counties. Service areas include the greater metropolitan areas of Los Angeles and Orange Counties. The company also provides electric utility services to nearly 23,250 customers in the city of Big Bear Lake and in areas of San Bernardino County. Sold Chaparral City Water of Arizona (6/11). Has 703 employees. Officers & directors own 2.9% of common stock (4/11 Proxy). Chairman: Lloyd Ross. President & CEO: Robert J. Sprowls, Inc. CA. Addr: 630 East Foothill Boulevard, San Dimas, CA 91773. Tel: 909-394-3600. Internet: www.aswater.com.

American States Water's bottom line advanced marginally in 2011, to \$2.23 a share, a less than 1% increase from the previous year. As the company is wrapping up its last year with its current rate cycle, we anticipate earnings slipping a bit in 2012, before bouncing back in 2013, a result of rate increases and a more favorable regulatory environment.

The Golden State Water's 2013-2015 general rate case continues, with the Division of Ratepayer Advocate filing testimony in early February. The DRA recommended authorization of 34%, 54%, and 58% of all revenue requests for 2013, 2014, and 2015. Investors should note that this case is the company's first to cover all three water districts, as well as the corporate office. The subsidiary filed a request in June, 2011, for revenue increases of \$31.3 million, \$8.9 million, and \$10.8 million for 2013, 2014, and 2015, respectively. Management has mentioned an increased rate base, as well as declining water sales (which leads to a gap in actual collections and those needed to cover costs) as the primary reasons for the filing. The ruling is anticipated by the end of October, and a

favorable settlement would considerably boost the top and bottom lines until mid-decade.

The California cost of capital proceeding remains the company's main focus. It is likely that the utilities will receive a 9.99% allowed ROE, with Golden State Water's equity layer increasing to 55% (from 51%). The final decision is expected to come by the end of April, and, if unfavorable, American States Water and its peers will quite likely push for a fully litigated proceeding, extending the case to the end of 2012.

The company is expanding into several nonregulated areas, with military bases being the main focus. The 2012 National Defense Authorization Act (signed into law December, 2011) partially removes the complicated regulations surrounding the bidding process, which were the company's biggest obstacles. As a result, expansion into this area should begin by yearend.

There are better options in the industry, as the equity's appreciation potential and dividend yield are inferior to its peers.

Sahana Zutshi

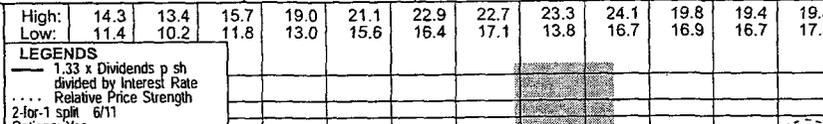
April 20, 2012

(A) Primary earnings. Excludes nonrecurring gains/(losses): '04, 14¢; '05, 25¢; '06, 6¢; '08, (27¢); '10, (45¢); '11, 20¢. Next earnings report due early June. Quarterly egs. may not add due to rounding.	(B) Dividends historically paid in early March, June, September, and December. ■ Div'd reinvestment plan available.	(C) In millions, adjusted for split.	Company's Financial Strength B++
			Stock's Price Stability 90
			Price Growth Persistence 60
			Earnings Predictability 85

CALIFORNIA WATER NYSE-CWT

RECENT PRICE **17.55** P/E RATIO **19.3** (Trailing: 20.4 Median: 21.0) RELATIVE P/E RATIO **1.29** DIV'D YLD **3.6%** VALUE LINE

TIMELINESS 4 Lowered 3/9/12
SAFETY 3 Lowered 7/27/07
TECHNICAL 4 Lowered 4/6/12
BETA .65 (1.00 = Market)



2015-17 PROJECTIONS
 Ann'l Total
 Price Gain Return
 High 30 (+70%) 16%
 Low 20 (+15%) 6%

Insider Decisions
 M J J A S O N D J
 to Buy 0 0 0 0 0 0 0 0 0
 Options 0 0 0 4 0 0 0 0 0
 to Sell 0 0 0 4 0 0 1 0 0

Institutional Decisions
 2Q2011 3Q2011 4Q2011
 to Buy 60 49 52
 to Sell 48 58 58
 Hid's(000) 21479 21742 20424

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
7.24	7.74	7.38	7.98	8.08	8.13	8.67	8.18	8.59	8.72	8.10	8.88	9.90	10.82	11.05
1.25	1.46	1.30	1.37	1.26	1.10	1.32	1.26	1.42	1.52	1.36	1.56	1.86	1.93	1.93
.75	.92	.73	.77	.66	.47	.63	.61	.73	.74	.67	.75	.95	.98	.91
.52	.53	.54	.54	.55	.56	.56	.56	.57	.57	.58	.58	.59	.59	.60
1.41	1.30	1.37	1.72	1.23	2.04	2.91	2.19	1.87	2.01	2.14	1.84	2.41	2.66	2.97
6.11	6.50	6.69	6.71	6.45	6.48	6.56	7.22	7.83	7.90	9.07	9.25	9.72	10.13	10.45
25.24	25.24	25.24	25.87	30.29	30.36	30.36	33.86	36.73	36.78	41.31	41.33	41.45	41.53	41.67
11.9	12.6	17.8	17.8	19.6	27.1	19.8	22.1	20.1	24.9	29.2	26.1	19.8	19.7	20.3
.75	.73	.93	1.01	1.27	1.39	1.08	1.26	1.06	1.33	1.58	1.39	1.19	1.31	1.29
5.8%	4.6%	4.2%	4.0%	4.3%	4.4%	4.5%	4.2%	3.9%	3.1%	2.9%	3.0%	3.1%	3.1%	3.2%

LEGENDS
 1.33 x Dividends p sh divided by Interest Rate
 Relative Price Strength
 2-for-1 split 6/11
 Options: Yes
 Shaded areas indicate recessions

CAPITAL STRUCTURE as of 12/31/11
 Total Debt \$535.3 mill. Due in 5 Yrs \$46.5 mill.
 LT Debt \$481.6 mill. LT Interest \$32.5 mill.
 (LT interest earned: 3.4x; total int. cov.: 2.9x)
 (52% of Cap'l)
Pension Assets-12/11 \$155.7 mill.
 Oblig. \$346.3 mill.
Pfd Stock None
Common Stock 41,817,032 shs. as of 2/22/12
MARKET CAP: \$725 million (Small Cap)

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
263.2	277.1	315.6	320.7	334.7	367.1	410.3	449.4	460.4	501.8	540	570	570	570	570
19.1	19.4	26.0	27.2	25.6	31.2	39.8	40.6	37.7	36.1	43.0	47.0	47.0	47.0	47.0
39.7%	39.9%	39.6%	42.4%	37.4%	39.9%	37.7%	40.3%	39.5%	40.5%	40.0%	39.5%	40.0%	39.5%	40.0%
--	10.3%	3.2%	3.3%	10.6%	8.3%	8.6%	7.6%	4.2%	5.0%	10.0%	10.0%	10.0%	10.0%	10.0%
55.3%	50.2%	48.6%	48.3%	43.5%	42.9%	41.6%	47.1%	52.4%	51.7%	49.5%	50.0%	50.0%	50.0%	50.0%
44.0%	49.1%	50.8%	51.1%	55.9%	56.6%	58.4%	52.9%	47.6%	48.3%	50.5%	50.0%	50.0%	50.0%	50.0%
453.1	498.4	565.9	568.1	670.1	674.9	690.4	794.9	914.7	931.5	985	1035	1035	1035	1035
697.0	759.5	800.3	862.7	941.5	1010.2	1112.4	1198.1	1294.3	1381.1	1450	1515	1515	1515	1515
5.9%	5.6%	6.1%	6.3%	5.2%	5.9%	7.1%	6.5%	5.5%	5.5%	6.0%	6.0%	6.0%	6.0%	6.0%
9.4%	7.8%	8.9%	9.3%	6.8%	8.1%	9.9%	9.6%	8.6%	8.0%	8.5%	9.0%	9.0%	9.0%	9.0%
9.5%	7.9%	9.0%	9.3%	6.8%	8.1%	9.9%	9.6%	8.6%	8.0%	8.5%	9.0%	9.0%	9.0%	9.0%

CURRENT POSITION 2009 2010 12/31/11 (\$MILL.)
 Cash Assets 9.9 42.3 27.2
 Other 82.3 83.9 86.7
 Current Assets 92.2 126.2 113.9
 Accts Payable 43.7 39.5 48.9
 Debt Due 25.0 26.1 53.7
 Other 41.7 41.7 49.3
 Current Liab. 110.4 107.3 151.9
 Fix. Chg. Cov. 430% 390% 300%

Year	2009	2010	2011	2012	2013
1.0%	.7%	2.1%	2.1%	1.0%	1.8%
90%	91%	77%	78%	86%	77%
3.0%	2.3%	3.0%	3.0%	3.0%	3.0%
66%	71%	64%	64%	64%	64%

ANNUAL RATES Past 10 Yrs. Past 5 Yrs. Est'd '09-'11 of change (per sh)
 Revenues 3.5% 6.0% 4.0%
 "Cash Flow" 4.5% 6.5% 5.0%
 Earnings 4.0% 5.0% 6.0%
 Dividends 1.0% 1.0% 4.0%
 Book Value 5.0% 5.0% 3.5%

BUSINESS: California Water Service Group provides regulated and nonregulated water service to roughly 471,900 customers in 83 communities in California, Washington, New Mexico, and Hawaii. Main service areas: San Francisco Bay area, Sacramento Valley, Salinas Valley, San Joaquin Valley & parts of Los Angeles. Acquired Rio Grande Corp; West Hawaii Utilities (9/08). Revenue breakdown, '11: residential, 73%; business, 18%; public authorities, 5%; industrial, 4%. '11 reported depreciation rate: 2.7%. Has roughly 1,132 employees. Chairman: Robert W. Foy. President & CEO: Peter C. Nelson (4/11 Proxy). Inc.: Delaware. Address: 1720 North First Street, San Jose, California 95112-4598. Telephone: 408-367-8200. Internet: www.calwatergroup.com.

Cal-endar	QUARTERLY REVENUES (\$ mill.) ^F				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2009	86.6	116.7	139.2	106.9	449.4
2010	90.3	118.3	146.3	105.5	460.4
2011	98.1	131.4	169.3	103.0	501.8
2012	105	140	178	117	540
2013	110	150	185	125	570

California Water Services Group has run into some trouble. The water utility saw its earnings cut by two-thirds in the fourth quarter. Lower usage rates caused the top line to fall more than 2%, despite the benefits of earlier rate increases awarded by the California Public Utilities Commission (CPUC). Operating costs, meanwhile, continued to soar, with expenses increasing across the board. As a result, the company posted a share gain of \$0.04, less than a quarter of our estimate and a third of the year-before tally. **We look for improvements on the regulatory front to help get earnings growth back on track this year.** The company recently announced that it and the California Public Utilities Commission's Division of Ratepayer Advocates have settled a cost-of-capital request for 2012-2014. It is just awaiting final approval from the CPUC. If signed off on, as we expect, CWT's authorized return on equity would be 9.99%, with the cost of debt being 6.24%. **There could be additional assistance on the horizon, too.** The company is said to preparing its 2012 general rate case. A

Cal-endar	EARNINGS PER SHARE ^A				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2009	.06	.29	.47	.16	.98
2010	.05	.25	.49	.12	.91
2011	.03	.29	.50	.04	.86
2012	.05	.30	.52	.13	1.00
2013	.07	.32	.55	.16	1.10

ruling would likely go into effect by 2014. The regulatory climate has been rather business-friendly in recent years, and there is no reason to suggest a change. **However, we worry that a fair share of the aforementioned gains could be erased by the rising costs of doing business.** The water utility business is capital-intensive. Maintenance expenses are high, and likely to continue climbing as old waterways become antiquated and in need of repair or replacement. CWT has a dearth of cash on hand, and expected cash flow generation fails to cover the future investments that we envision. The additional financing needed to meet these demands will result in higher interest expense and greater share count. **This stock is not for most.** Although its dividend yield is above that of the average issue in our Survey, those looking for a steady source of income have better options in the Electric Utility industry. Meanwhile, capital appreciation potential is limited based on the vast infrastructure costs likely to remain, and the company's need to tap capital markets.

Cal-endar	QUARTERLY DIVIDENDS PAID ^B				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2008	.147	.147	.147	.147	.59
2009	.148	.148	.148	.148	.59
2010	.149	.149	.149	.149	.60
2011	.154	.154	.154	.154	.62
2012	.1575				

Andre J. Costanza April 20, 2012

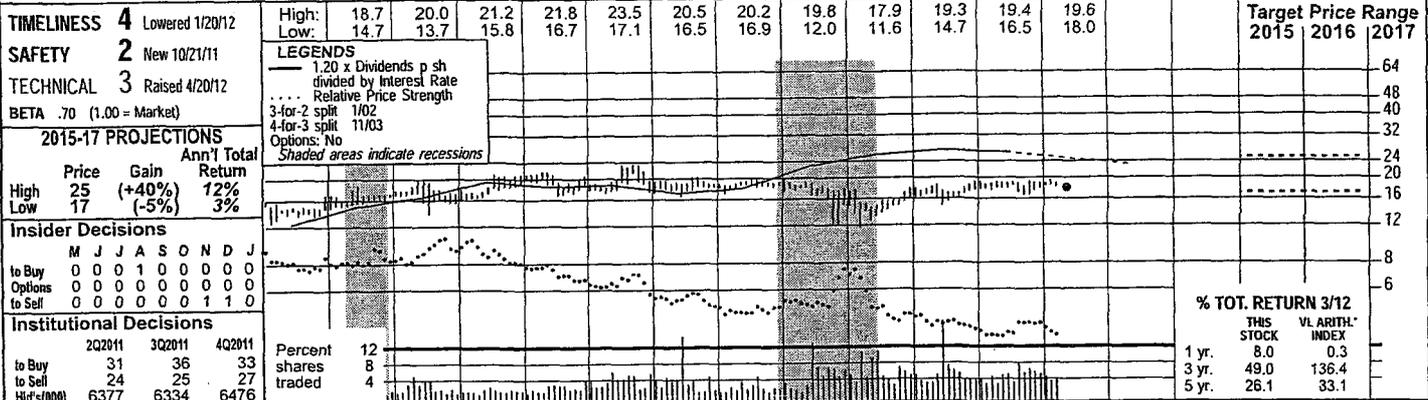
(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (4¢); '01, 2¢; '02, 4¢; '11, 4¢. Next earnings report due early May.

(B) Dividends historically paid in late Jan., April, July, and Oct. ■ Div'd reinvestment plan available.
 (C) Incl. deferred charges. In '11: \$2.2 mill., \$0.05/sh.
 (D) In millions, adjusted for splits.
 (E) Excludes non-reg. rev.

Company's Financial Strength	B+
Stock's Price Stability	90
Price Growth Persistence	60
Earnings Predictability	90

MIDDLESEX WATER NDQ-MSEX

RECENT PRICE **18.03** P/E RATIO **20.5** (Trailing: 21.5 Median: 23.0) RELATIVE P/E RATIO **1.37** DIV'D YLD **4.1%** **VALUE LINE**



Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Value Line Pub. LLC	15-17
Revenues per sh	4.52	4.72	4.39	5.35	5.39	5.87	5.98	6.12	6.25	6.44	6.16	6.50	6.79	6.75	6.60	6.50	6.90	7.10	Revenues per sh	8.40
"Cash Flow" per sh	.94	1.02	1.02	1.19	.99	1.18	1.20	1.15	1.28	1.33	1.33	1.49	1.53	1.40	1.55	1.52	1.70	1.90	"Cash Flow" per sh	2.30
Earnings per sh	.60	.67	.71	.76	.51	.66	.73	.61	.73	.71	.82	.87	.89	.72	.96	.84	.95	1.05	Earnings per sh	1.25
Div'd Decl'd per sh	.55	.57	.58	.60	.61	.62	.63	.65	.66	.67	.68	.69	.70	.71	.72	.73	.74	.75	Div'd Decl'd per sh	.80
Cap'l Spending per sh	.73	1.20	2.68	2.33	1.32	1.25	1.59	1.87	2.54	2.18	2.31	1.66	2.12	1.49	1.90	1.50	1.90	2.15	Cap'l Spending per sh	2.60
Book Value per sh	5.85	6.00	6.80	6.95	6.98	7.11	7.39	7.60	8.02	8.26	9.52	10.05	10.03	10.33	11.13	11.27	11.25	11.35	Book Value per sh	11.40
Common Shs Outst'g	8.41	8.54	9.82	10.00	10.11	10.17	10.36	10.48	11.36	11.58	13.17	13.25	13.40	13.52	15.57	15.70	16.00	16.25	Common Shs Outst'g	17.25
Avg Ann'l P/E Ratio	14.4	13.4	15.2	17.6	28.7	24.6	23.5	30.0	26.4	27.4	22.7	21.6	19.8	21.0	17.8	21.9	15.0	17.0	Avg Ann'l P/E Ratio	17.0
Relative P/E Ratio	.90	.77	.79	1.00	1.87	1.26	1.28	1.71	1.39	1.46	1.23	1.15	1.19	1.40	1.13	1.32	1.32	1.32	Relative P/E Ratio	1.15
Avg Ann'l Div'd Yield	6.4%	6.3%	5.4%	4.4%	4.2%	3.8%	3.7%	3.5%	3.4%	3.5%	3.7%	3.7%	4.0%	4.7%	4.2%	4.2%	4.2%	4.2%	Avg Ann'l Div'd Yield	4.3%

Category	2009	2010	12/31/11	Value Line
CAPITAL STRUCTURE as of 12/31/11				
Total Debt \$136.7 mill. Due in 5 Yrs \$25.0 mill.	61.9	64.1	71.0	81.1
LT Debt \$132.1 mill. LT Interest \$6.0 mill. (LT interest coverage: 4.5x)	7.8	6.6	8.4	8.5
(43% of Cap'l)	33.3%	32.8%	31.1%	27.6%
Pension Assets-12/11 \$32.2 mill. Oblig. \$56.2 mill. Pfd Stock \$3.4 mill. Pfd Div'd: \$2.0 mill.	52.1%	53.8%	53.8%	49.5%
Common Stock 15,703,480 shs. as of 3/05/12	45.5%	44.0%	42.5%	41.3%
MARKET CAP: \$275 million (Small Cap)	168.0	181.1	214.5	231.7
CURRENT POSITION (\$MILL.)	211.4	230.9	262.9	288.0
Cash Assets	4.3	2.5	3.1	3.1
Other	17.7	20.3	19.8	19.8
Current Assets	22.0	22.8	22.9	22.9
Accts Payable	4.3	6.4	5.7	5.7
Debt Due	3.7	4.4	4.6	4.6
Other	52.7	29.9	36.4	36.4
Current Liab.	60.7	40.7	46.7	46.7
Fix. Chg. Cov.	325%	400%	380%	380%

BUSINESS: Middlesex Water Company engages in the ownership and operation of regulated water utility systems in New Jersey, Delaware, and Pennsylvania. It also operates water and wastewater systems under contract on behalf of municipal and private clients in NJ and DE. Its Middlesex System provides water services to 60,000 retail customers, primarily in Middlesex County, New Jersey. In 2011, the Middlesex System accounted for 64% of total revenues. At 12/31/11, the company had 289 employees. Incorporated: NJ. President, CEO, and Chairman: Dennis W. Doll. Officers/directors own 3.39% of the common stock; BlackRock, 6.2%; The Vanguard Group, 5.4% (4/12 proxy). Address: 1500 Ronson Road, Iselin, NJ 08830. Tel.: 732-634-1500. Internet: www.middlesexwater.com.

Middlesex Water's bottom line weakened in 2011, with reported earnings of \$0.84 a share, a decline of 12.5% from the previous year. Lower connection fees (due to the depressed housing market) along with a decline in water consumption were the main causes for the fall. Despite the fall, the utility should bounce back in 2012, supported by an improving economy and several favorable rate rulings. **Several rate cases should help the bottom line recover in 2012.** The company is at the end of its current rate cycle for its two largest utilities, and has filed for rate hikes in both New Jersey and Delaware. Thus far, an interim 10.5% rate increase has been implemented, and the filings should bear fruit by the end of 2012 (though it is quite likely that the full impact will be felt from 2013 onward). **The company is investing heavily in its plants at this time.** Management plans to spend a considerable amount to upgrade Middlesex's water distribution infrastructure. To this end, it has already invested over \$3 million in upgrading systems in Edison, NJ (part of its annual RENEW program). The heavy investment should give the company considerable leverage for its next New Jersey general rate case, which is scheduled for 2014. Should the ruling be favorable, the top and bottom lines are likely to receive a considerable boost from mid-decade on.

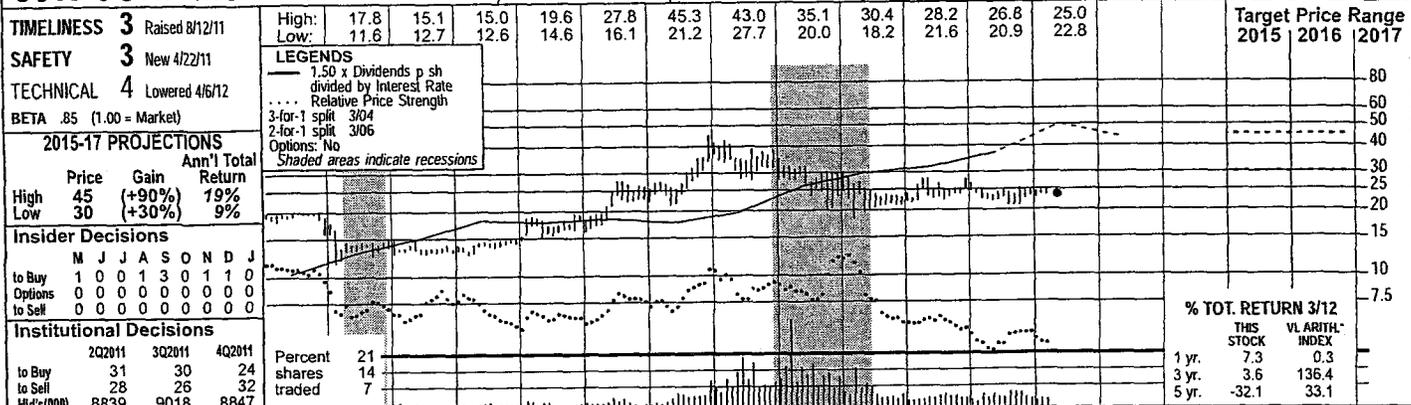
Strong cost control should work to lift earnings, as well. Middlesex has been working on making its various segments leaner and more cost efficient in order to combat the decline in water consumption. To this end, operations and maintenance expenses have been most heavily targeted, and were down 3% year over year. That said, we remain concerned that going forward these efforts might not be enough to combat the rising costs from employee healthcare and post-retirement benefit plans, which show no sign of abating in the future.

Investors will find better options elsewhere, as this equity is currently trading within our Target Price Range. However, the stock's above-average dividend yield, combined with the strong likelihood of rising payouts, should interest income investors. *Sahana Zutshi* April 20, 2012

Category	Value Line
Revenues per sh	8.40
"Cash Flow" per sh	2.30
Earnings per sh	1.25
Div'd Decl'd per sh	.80
Cap'l Spending per sh	2.60
Book Value per sh	11.40
Common Shs Outst'g	17.25
Avg Ann'l P/E Ratio	17.0
Relative P/E Ratio	1.15
Avg Ann'l Div'd Yield	4.3%
Revenues (\$mill)	145
Net Profit (\$mill)	21.5
Income Tax Rate	32.0%
AFUDC % to Net Profit	7.0%
Long-Term Debt Ratio	39.0%
Common Equity Ratio	61.0%
Total Capital (\$mill)	320.0
Net Plant (\$mill)	495
Return on Total Cap'l	7.5%
Return on Shr. Equity	11.0%
Return on Com Equity	11.0%
Retained to Com Eq	4.0%
All Div'ds to Net Prof	64%

SJW CORP. NYSE-SJW

RECENT PRICE **23.52** P/E RATIO **19.6** (Trailing: 21.2, Median: 23.0) RELATIVE P/E RATIO **1.31** DIV'D YLD **3.0%** VALUE LINE



Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Price	5.39	5.79	5.58	6.40	6.74	7.45	7.97	8.20	9.14	9.86	10.35	11.25	12.12	11.68	11.62	12.86	12.50	12.60
Gain	1.43	1.27	1.26	1.43	1.23	1.49	1.55	1.75	1.89	2.21	2.38	2.30	2.44	2.21	2.38	2.80	2.75	2.85
Return	.96	.80	.76	.87	.58	.77	.78	.91	.87	1.12	1.19	1.04	1.08	.81	.84	1.11	1.15	1.20
High	.37	.38	.39	.40	.41	.43	.46	.49	.51	.53	.57	.61	.65	.66	.68	.69	.74	.78
Low	1.06	1.27	1.81	1.77	1.89	2.63	2.06	3.41	2.31	2.83	3.87	6.62	3.79	3.17	5.65	3.75	4.00	4.75
Ann'l Total	6.31	7.02	7.53	7.88	7.90	8.17	8.40	9.11	10.11	10.72	12.48	12.90	13.99	13.66	13.75	14.20	15.25	15.70
High	19.02	19.02	19.01	18.27	18.27	18.27	18.27	18.27	18.27	18.27	18.28	18.36	18.18	18.50	18.55	18.59	20.00	21.00
Low	6.8	11.2	13.1	15.5	33.1	18.5	17.3	15.4	19.6	19.7	23.5	33.4	26.2	28.7	29.1	21.2	21.2	21.2
Gain	.43	.65	.68	.88	2.15	.95	.94	.88	1.04	1.05	1.27	1.77	1.58	1.91	1.85	1.94	1.94	1.94
Return	5.7%	4.3%	3.9%	3.0%	2.1%	3.0%	3.4%	3.5%	3.0%	2.4%	2.0%	1.7%	2.3%	2.8%	2.8%	2.9%	2.9%	2.9%

Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenues per sh	5.39	5.79	5.58	6.40	6.74	7.45	7.97	8.20	9.14	9.86	10.35	11.25	12.12	11.68	11.62	12.86	12.50	12.60
Cash Flow per sh	1.43	1.27	1.26	1.43	1.23	1.49	1.55	1.75	1.89	2.21	2.38	2.30	2.44	2.21	2.38	2.80	2.75	2.85
Earnings per sh	.96	.80	.76	.87	.58	.77	.78	.91	.87	1.12	1.19	1.04	1.08	.81	.84	1.11	1.15	1.20
Div'd Decl'd per sh	.37	.38	.39	.40	.41	.43	.46	.49	.51	.53	.57	.61	.65	.66	.68	.69	.74	.78
Cap'l Spending per sh	1.06	1.27	1.81	1.77	1.89	2.63	2.06	3.41	2.31	2.83	3.87	6.62	3.79	3.17	5.65	3.75	4.00	4.75
Book Value per sh	6.31	7.02	7.53	7.88	7.90	8.17	8.40	9.11	10.11	10.72	12.48	12.90	13.99	13.66	13.75	14.20	15.25	15.70
Common Shs Outst'g	19.02	19.02	19.01	18.27	18.27	18.27	18.27	18.27	18.27	18.27	18.28	18.36	18.18	18.50	18.55	18.59	20.00	21.00
Avg Ann'l P/E Ratio	6.8	11.2	13.1	15.5	33.1	18.5	17.3	15.4	19.6	19.7	23.5	33.4	26.2	28.7	29.1	21.2	21.2	21.2
Relative P/E Ratio	.43	.65	.68	.88	2.15	.95	.94	.88	1.04	1.05	1.27	1.77	1.58	1.91	1.85	1.94	1.94	1.94
Avg Ann'l Div'd Yield	5.7%	4.3%	3.9%	3.0%	2.1%	3.0%	3.4%	3.5%	3.0%	2.4%	2.0%	1.7%	2.3%	2.8%	2.8%	2.9%	2.9%	2.9%

Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenues (\$mill)	145.7	149.7	166.9	180.1	189.2	206.6	220.3	216.1	215.6	239.0	250	265	265	265	265	265	265	265
Net Profit (\$mill)	14.2	16.7	16.0	20.7	22.2	19.3	20.2	15.2	15.8	20.9	23.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Income Tax Rate	40.4%	36.2%	42.1%	41.6%	40.8%	39.4%	39.5%	40.4%	38.8%	41.1%	40.0%	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%
AFUDC % to Net Profit	4.2%	1.6%	2.1%	1.6%	2.1%	2.7%	2.3%	2.0%	2.0%	3.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Long-Term Debt Ratio	41.7%	45.6%	43.7%	42.6%	41.8%	47.7%	46.0%	49.4%	53.7%	56.6%	53.0%	53.0%	53.0%	53.0%	53.0%	53.0%	53.0%	53.0%
Common Equity Ratio	58.3%	54.4%	56.3%	57.4%	58.2%	52.3%	54.0%	50.6%	46.3%	43.4%	47.0%	47.0%	47.0%	47.0%	47.0%	47.0%	47.0%	47.0%
Total Capital (\$mill)	263.5	306.0	328.3	341.2	391.8	453.2	470.9	499.6	550.7	607.8	650	705	705	705	705	705	705	705
Net Plant (\$mill)	390.8	428.5	456.8	484.8	541.7	645.5	684.2	718.5	785.5	756.2	810	875	875	875	875	875	875	875
Return on Total Cap'l	6.9%	6.9%	6.5%	7.6%	7.0%	5.7%	5.8%	4.4%	4.3%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Return on Shr. Equity	9.3%	10.0%	8.7%	10.6%	9.7%	8.2%	8.0%	6.0%	6.2%	7.9%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Return on Com Equity	9.3%	10.0%	8.7%	10.6%	9.7%	8.2%	8.0%	6.0%	6.2%	7.9%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Retained to Com Eq	3.8%	4.7%	3.6%	5.6%	5.2%	3.5%	3.3%	1.2%	1.2%	3.1%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
All Div'ds to Net Prof	59%	53%	58%	47%	46%	57%	59%	80%	80%	61%	64%	66%	66%	66%	66%	66%	66%	66%

BUSINESS: SJW Corporation engages in the production, purchase, storage, purification, distribution, and retail sale of water. It provides water service to approximately 226,000 connections that serve a population of approximately one million people in the San Jose area and 8,700 connections that serve approximately 36,000 residents in a service area in the region between San Antonio and Austin, Texas. The company offers nonregulated water-related services, including water system operations, cash remittances, and maintenance contract services. SJW also owns and operates commercial real estate investments. Has 375 employees. Chairman: Charles J. Toeniskoetter, Inc.: CA. Address: 110 W. Taylor Street, San Jose, CA 95110. Tel.: (408) 279-7800. Int: www.sjwater.com.

SJW Corp. closed out 2011 in swimmingly good fashion. The water utility trounced both top- and bottom-line expectations, posting 23% revenues growth, while more than tripling earnings in the fourth quarter. Rate increases, coupled with retroactive rate relief, played a big role, but the company also did a great job of keeping costs in check. **That said, we look for momentum to slow considerably this year.** Although top-line growth is expected to remain healthy, we believe that the pace set in the most recent quarter is unsustainable. SJW filed its general rate case for the 2013-2015 time frame a few months back, but a decision will probably not be made until the end of the year and not be accretive to earnings until early 2012. Meanwhile, we expect operating costs to begin ticking upward as does the need for maintenance. **In our opinion, the outlook does not get much better looking further out.** Management is planning on dramatically increasing capital expenditures over the next couple of years, with infrastructure replacement taking center stage. The bill will be in the hundreds of millions of dollars. However, cash flow from operations does not come close to covering the costs, and the company's finances are far from adequate enough on their own. Outside funding will almost definitely be required, but the additional shares and/or debt offerings needed to foot the bill come at a cost, and will dilute gains for the foreseeable future. As a result, we see earnings growth further remaining tough to come by in 2013 and thereafter regardless of additional regulatory wins. **This stock holds little appeal at this time.** True, its dividend is impressive at first blush. However, there are far better choices on the market for the income-minded. Plus, we worry that the aforementioned financial constraints could potentially cause income growth to slow, or perhaps be reconsidered if regulatory agencies reverse course and take on a more consumer-friendly approach in the future. Although the latter is not likely, it does add some speculation to this otherwise unimpressive selection. Indeed, the stock holds limited price appreciation potential, based on the earnings constraints.

Year	2009	2010	2011	2012	2013
Quarterly Revenues (\$mill)	40.0	58.2	69.3	48.6	216.1
Full Year	216.1	215.6	239.0	250	265
Earnings per Share	.01	.23	.43	.14	.81
Full Year	.81	.84	1.11	1.15	1.20
Quarterly Dividends Paid	.16	.16	.16	.16	.64
Full Year	.64	.66	.68	.69	.69

Year	2009	2010	2011	2012	2013
Revenues	6.0%	4.5%	2.0%	4.0%	3.5%
"Cash Flow"	6.0%	2.5%	4.0%	7.0%	3.5%
Earnings	2.0%	-3.0%	7.0%	4.0%	3.5%
Dividends	5.0%	5.0%	4.0%	4.0%	3.5%
Book Value	5.5%	4.5%	3.5%	3.5%	3.5%

(A) Diluted earnings. Excludes nonrecurring losses: '03, \$1.97; '04, \$3.78; '05, \$1.09; '06, \$16.36; '08, \$1.22; '10, 46¢. Next earnings report around April 27th. Quarterly egs. may not add due to rounding. (B) Dividends historically paid in early March, June, September, and December. Div'd reinvestment plan available. (C) In millions.

Company's Financial Strength	B+
Stock's Price Stability	75
Price Growth Persistence	75
Earnings Predictability	85

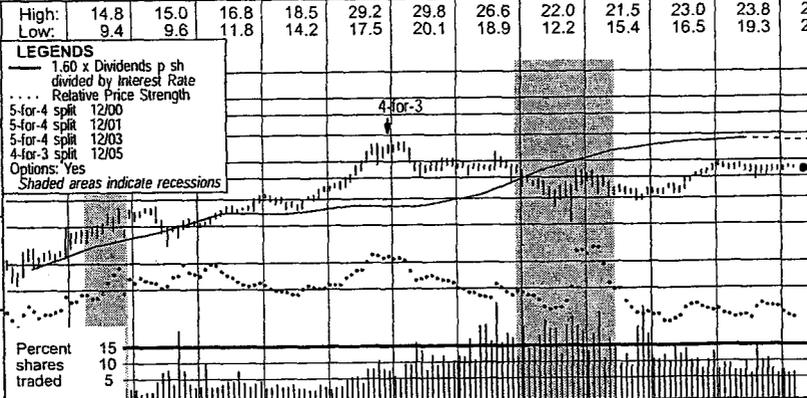
To subscribe call 1-800-833-0046.

Andre J. Costanza April 20, 2012

AQUA AMERICA NYSE-WTR

RECENT PRICE **21.72** P/E RATIO **20.5** (Trailing: 21.5 Median: 25.0) RELATIVE P/E RATIO **1.37** DIV'D YLD **3.0%** VALUE LINE

TIMELINESS 3 Lowered 1/21/11	High: 14.8 15.0 16.8 18.5 29.2 29.8 26.6 22.0 21.5 23.0 23.8 22.8	Target Price Range 2015 2016 2017
SAFETY 2 Raised 4/12/12	Low: 9.4 9.6 11.8 14.2 17.5 20.1 18.9 12.2 15.4 16.5 19.3 21.1	
TECHNICAL 4 Lowered 3/30/12	LEGENDS 1.60 x Dividends p sh divided by Interest Rate Relative Price Strength 5-for-4 split 12/00 5-for-4 split 12/01 5-for-4 split 12/03 4-for-3 split 12/05 Options: Yes Shaded areas indicate recessions	
BETA .65 (1.00 = Market)	2015-17 PROJECTIONS Ann'l Total Return Price Gain Ann'l Total Return High 35 (+60%) 15% Low 25 (+15%) 6%	
Insider Decisions M J J A S O N D J to Buy 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 Options 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 to Sell 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0		
Institutional Decisions 202011 3Q2011 4Q2011 to Buy 106 95 119 to Sell 104 113 92 Hld's(000) 55457 55356 55535 Percent shares traded 15 10 5		



1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	© VALUE LINE PUB. LLC	15-17
1.86	2.02	2.09	2.41	2.46	2.70	2.85	2.97	3.48	3.85	4.03	4.52	4.63	4.91	5.26	5.13	5.70	5.95	Revenues per sh	6.65
.50	.56	.61	.72	.76	.86	.94	.96	1.09	1.21	1.26	1.37	1.42	1.61	1.78	1.84	2.00	2.10	"Cash Flow" per sh	2.40
.30	.34	.40	.42	.47	.51	.54	.57	.64	.71	.70	.71	.73	.77	.90	1.03	1.10	1.20	Earnings per sh A	1.40
.23	.24	.26	.27	.28	.30	.32	.35	.37	.40	.44	.48	.51	.55	.59	.62	.67	.71	Div'd Decl'd per sh B	.79
4.8	5.8	8.2	9.0	1.16	1.09	1.20	1.32	1.54	1.84	2.05	1.79	1.98	2.08	2.37	2.38	2.45	2.50	Cap'l Spending per sh	2.60
2.69	2.84	3.21	3.42	3.85	4.15	4.36	5.34	5.89	6.30	6.96	7.32	7.82	8.12	8.51	9.01	9.45	9.95	Book Value per sh	11.05
65.75	67.47	72.20	106.80	111.82	113.97	113.19	123.45	127.18	128.97	132.33	133.40	135.37	136.49	137.97	138.87	139.90	140.90	Common Shs Outst'g C	142.90
15.6	17.8	22.5	21.2	18.2	23.6	23.6	24.5	25.1	31.8	34.7	32.0	24.9	23.1	21.1	21.1	21.1	21.1	Avg Ann'l P/E Ratio	21.0
.98	1.03	1.17	1.21	1.18	1.21	1.29	1.40	1.33	1.69	1.87	1.70	1.50	1.54	1.34	1.36	1.36	1.36	Relative P/E Ratio	1.40
4.9%	3.9%	2.9%	3.0%	3.3%	2.5%	2.5%	2.5%	2.3%	1.8%	1.8%	2.1%	2.8%	3.1%	3.1%	3.1%	3.1%	3.1%	Avg Ann'l Div'd Yield	2.7%

CAPITAL STRUCTURE as of 12/31/11		2009	2010	12/31/11	2009	2010	2011	2012	2013	Revenues (\$mill)	2009				
Total Debt \$1475.9 mill. Due in 5 Yrs \$300 mill.	LT Debt \$1395.5 mill. LT Interest \$65.0 mill. (LT interest earned: 4.5x; total interest coverage: 4.5x)	322.0	367.2	442.0	496.8	533.5	602.5	627.0	670.5	726.1	711.9	795	840	Revenues (\$mill)	950
		62.7	67.3	80.0	91.2	92.0	95.0	97.9	104.4	124.0	143.1	155	170	Net Profit (\$mill)	200
		38.5%	39.3%	39.4%	38.4%	39.6%	38.9%	39.7%	39.4%	39.2%	32.9%	40.0%	40.0%	Income Tax Rate	40.0%
		54.2%	51.4%	50.0%	52.0%	51.6%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%	49.0%	AFUDC % to Net Profit	2.0%
		45.8%	48.6%	50.0%	48.0%	48.4%	44.6%	45.9%	44.4%	43.4%	47.0%	49.0%	51.0%	Long-Term Debt Ratio	45.0%
		1076.2	1355.7	1497.3	1690.4	1904.4	2191.4	2306.6	2495.5	2706.2	2647.3	2695	2750	Common Equity Ratio	55.0%
		1490.8	1824.3	2069.8	2280.0	2506.0	2792.8	2997.4	3227.3	3469.3	3612.9	3780	3955	Total Capital (\$mill)	2880
		7.6%	6.4%	6.7%	6.9%	6.4%	5.9%	5.7%	5.6%	5.9%	6.8%	7.0%	7.5%	Return on Total Cap'l	8.0%
		12.7%	10.2%	10.7%	11.2%	10.0%	9.7%	9.3%	9.4%	10.6%	11.4%	11.5%	12.0%	Return on Shr. Equity	12.5%
		12.7%	10.2%	10.7%	11.2%	10.0%	9.7%	9.3%	9.4%	10.6%	11.4%	11.5%	12.0%	Return on Com Equity	12.5%
		5.2%	4.2%	4.6%	4.9%	3.7%	3.2%	2.8%	2.7%	3.7%	4.6%	4.5%	5.0%	Retained to Com Eq	5.5%
		59%	59%	57%	56%	63%	67%	70%	72%	65%	60%	61%	59%	All Div'ds to Net Prof	57%

Pension Assets-12/11 \$148.9 mill.		2009	2010	12/31/11	2009	2010	2011	2012	2013	Revenues (\$mill)	2009				
		54.2%	51.4%	50.0%	52.0%	51.6%	55.4%	54.1%	55.6%	56.6%	53.0%	51.0%	49.0%	Revenues (\$mill)	950
		45.8%	48.6%	50.0%	48.0%	48.4%	44.6%	45.9%	44.4%	43.4%	47.0%	49.0%	51.0%	Net Profit (\$mill)	200
		1076.2	1355.7	1497.3	1690.4	1904.4	2191.4	2306.6	2495.5	2706.2	2647.3	2695	2750	Income Tax Rate	40.0%
		1490.8	1824.3	2069.8	2280.0	2506.0	2792.8	2997.4	3227.3	3469.3	3612.9	3780	3955	AFUDC % to Net Profit	2.0%
		7.6%	6.4%	6.7%	6.9%	6.4%	5.9%	5.7%	5.6%	5.9%	6.8%	7.0%	7.5%	Long-Term Debt Ratio	45.0%
		12.7%	10.2%	10.7%	11.2%	10.0%	9.7%	9.3%	9.4%	10.6%	11.4%	11.5%	12.0%	Common Equity Ratio	55.0%
		12.7%	10.2%	10.7%	11.2%	10.0%	9.7%	9.3%	9.4%	10.6%	11.4%	11.5%	12.0%	Total Capital (\$mill)	2880
		5.2%	4.2%	4.6%	4.9%	3.7%	3.2%	2.8%	2.7%	3.7%	4.6%	4.5%	5.0%	Net Plant (\$mill)	4320
		59%	59%	57%	56%	63%	67%	70%	72%	65%	60%	61%	59%	Return on Total Cap'l	8.0%

BUSINESS: Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately three million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and five other states. Divested three of four non-water businesses in '91; telemarketing group in '93; and others. Acquired AquaSource, 7/03; Consumers Water, 4/99; and others. Water supply revenues '10: residential, 59.5%; commercial, 14.5%; industrial & other, 26.0%. Officers and directors own 2.0% of the common stock (4/11 Proxy). Chairman & Chief Executive Officer: Nicholas DeBenedictis. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Telephone: 610-525-1400. Internet: www.aquaamerica.com.

Aqua America's share earnings jumped more than 14% in 2011. An expanding consumer base along with increased existing customer demand were cited as the main factors behind the advance. Given the improving economy, we expect earnings growth to remain on an upward trend, albeit at a slower pace.

There are several rate cases in the mix for the company. Currently, Aqua America has 12 general rate requests in seven states, for over \$65 million. Given the company's history with rate rulings, favorable outcomes are anticipated across the board. In addition to the rate cases mentioned, Aqua America is planning on filing seven more cases throughout 2012, for base rate relief as well as infrastructure surcharge filings. All in all, in the best-case scenario, these rulings are set to boost the top and bottom lines considerably from 2013 onward.

Aqua America remains on the prowl for mergers and acquisitions. The company has completed more than 250 deals over the last 15 years, and does not plan on slowing down its momentum in the near future. In fact, management has plans to expand Aqua America's presence in Pennsylvania, Ohio, and Texas. This should be aided via growing demand for environmentally responsible water (especially in the shale regions). Thus far, the company has three minor acquisitions in the Keystone state under its belt, and we expect the figure to be much higher by the end of the year, given the company's strong balance sheet and solid position in the industry.

The long term looks bright for now. In addition to the growing customer base, management is diversifying via its Marcellus Shale project (a joint venture with Penn Virginia Resource to construct and operate a \$24 million private pipeline to supply fresh water to drilling operators), which is proceeding on schedule and within budget. The first segment was anticipated to be operational by the start of the second quarter.

The equity has limited long-term gains potential though, as it is currently trading close to our Target Price Range. However, income investors might be interested in the above average dividend yield.

Sahana Zutshi April 20, 2012

(A) Diluted eqs. Excl. nonrec. gains (losses): '99, (11¢); '00, 2¢; '01, 2¢; '02, 5¢; '03, 4¢. Excl. gain from disc. operations: '96, 2¢. Next earnings report due late April.	(B) Dividends historically paid in early March, June, Sept. & Dec. Div'd reinvestment plan available (5% discount).	(C) In millions, adjusted for stock splits.	Company's Financial Strength	B++
			Stock's Price Stability	100
			Price Growth Persistence	70
			Earnings Predictability	100

ATTACHMENT B

Stocks in *Value Line's* Natural Gas Utility Industry did not, for the most part, participate in the recent stock market rally (fueled partially by upbeat consumer confidence data). But that's not surprising, since these equities are typically viewed as income vehicles. That quality can provide some much-needed stability during periods of market turbulence, as was the case during the last year.

The Economic Situation

During the final quarter of 2011, U.S. GDP growth was a not-too-spectacular 3%, aided by a rebuilding of inventories, increased commercial construction, plus decreased imports. Nevertheless, the economy is not out of the woods yet, given ongoing softness in the housing sector and the high unemployment rate (hovering around 8% at present). A rise in the price of gasoline does not help matters, either. At this juncture, we believe that GDP growth will stay moderate throughout the remainder of 2012. In this environment, customers have been focusing on energy conservation, which, of course, bodes ill for the revenues of the companies included in the Natural Gas Utility Industry.

A Key Merger

AGL Resources, serving more than 2.3 million customers across several states, including Georgia, Virginia, Tennessee, and Florida, recently completed its acquisition of *Nicor Inc.*, with more than 2.2 million customers in Illinois. Under the terms of the transaction, valued at more than \$2 billion, *AGL* paid \$21.20 in cash or .8382 of a share of *AGL* stock for each *Nicor* share. This move created the largest natural gas distributor in the United States. Another plus is that the two companies' nonregulated units are somewhat complementary. Finally, decent cost savings are likely down the road.

Nonregulated Activities

A number of the companies here are investing in the nonregulated arena (which includes pipelines and energy marketing & trading) and it appears that trend will continue for years to come. Indeed, these businesses provide opportunities for utilities to broaden their income streams. The fact that nonregulated segments can provide upside to share net is noteworthy, given that the return on equity is set by the regulatory state commis-

INDUSTRY TIMELINESS: 61 (of 98)

sions (usually in the 10%-12% range) on the regulated divisions. It should also be mentioned that results for companies with bigger nonregulated units could be more volatile than companies with a greater emphasis on the more stable utility segment.

Weather

Weather is a factor that affects the demand for natural gas, especially from small commercial businesses and consumers. Not surprisingly, earnings for utilities are susceptible to seasonal temperature patterns, with consumption normally at its peak during the winter heating months. Unseasonably warm or cold weather can cause substantial volatility in quarterly operating results. But some companies strive to counteract this exposure through temperature-adjusted rate mechanisms, which are available in many states. Therefore, investors interested in utilities with more-stable profits from year to year are advised to look for companies that hedge this risk.

Dividends

The main appeal of utility equities is their generous levels of dividend income. At the time of this writing, the average yield for the 11 companies in our group was about 3.6%, considerably higher than the *Value Line* median of 2.2%. Standouts include *AGL Resources*, *Ni-Source Inc.*, *Laclede Group*, and *Atmos Energy*. When the financial markets are turbulent, healthy dividend yields tend to act as an anchor, so to speak, in this category.

Conclusion

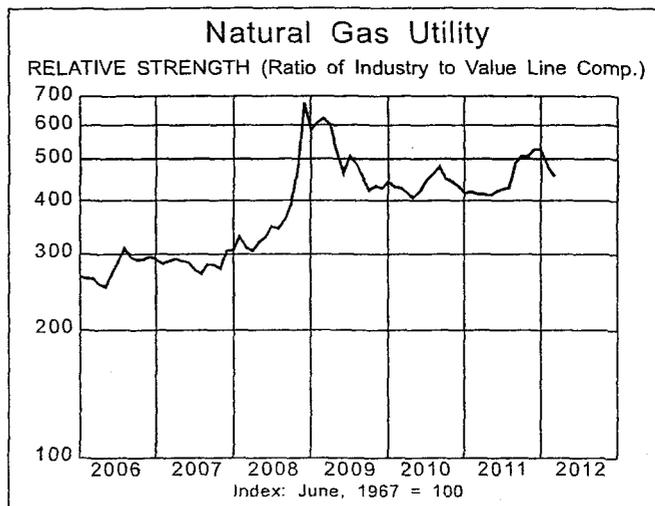
The Natural Gas Utility group is presently ranked in the bottom half of all industries tracked by *Value Line*, in terms of Timeliness. Nevertheless, these shares are most suitable for income-oriented investors with a conservative bent (given that a number of these issues are ranked favorably for Safety and earn high marks for Price Stability). All told, our readers are advised to consider the individual reports before making a commitment.

Frederick L. Harris, III

Composite Statistics: Natural Gas Utility

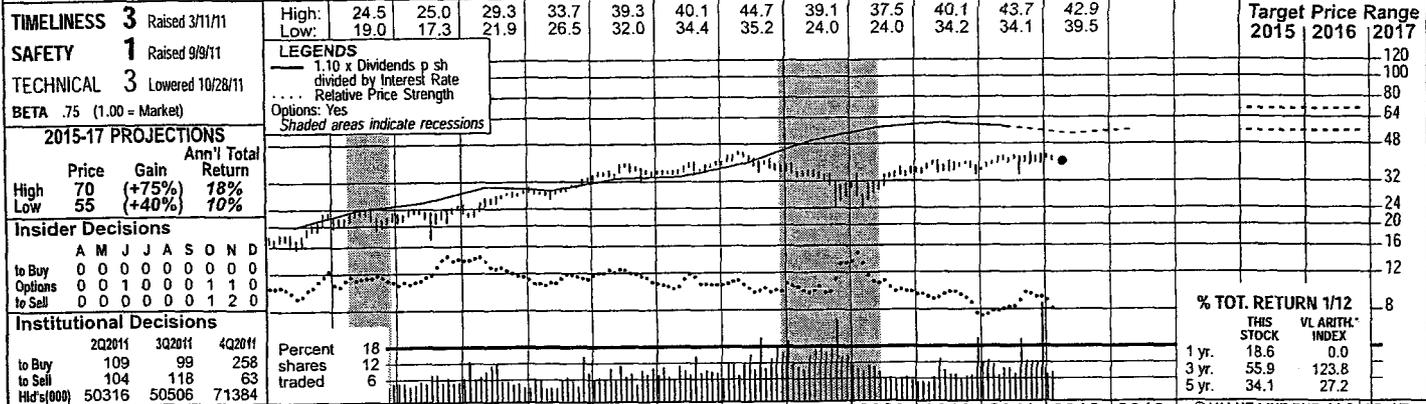
2008	2009	2010	2011	2012	2013		15-17
44207	34909	34089	36250	42500	48000	Revenues (\$mill)	63000
1694.2	1677.6	1769.4	2215	2375	2500	Net Profit (\$mill)	3300
35.7%	33.8%	34.0%	35.0%	36.0%	36.0%	Income Tax Rate	37.0%
3.8%	4.8%	5.2%	6.1%	5.6%	5.2%	Net Profit Margin	5.2%
50.6%	49.9%	46.7%	52.0%	51.0%	51.0%	Long-Term Debt Ratio	52.0%
49.4%	50.1%	53.3%	48.0%	49.0%	49.0%	Common Equity Ratio	48.0%
32729	33974	33144	33250	35500	37300	Total Capital (\$mill)	48000
35342	37292	39294	40250	42250	44600	Net Plant (\$mill)	55000
6.8%	6.5%	6.9%	8.0%	8.0%	8.0%	Return on Total Cap'l	8.5%
10.5%	10.0%	10.0%	14.0%	13.5%	13.5%	Return on Shr. Equity	14.5%
10.5%	10.0%	10.0%	14.0%	13.5%	13.5%	Return on Com Equity	14.5%
4.3%	3.8%	4.0%	4.0%	4.5%	4.5%	Retained to Com Eq	5.0%
59%	61%	61%	61%	62%	62%	All Div'ds to Net Prof	65%
13.9	12.8	14.0				Avg Ann'l P/E Ratio	15.0
.83	.88	.90				Relative P/E Ratio	1.00
4.2%	4.8%	4.3%				Avg Ann'l Div'd Yield	4.5%
358%	381%	402%	400%	390%	395%	Fixed Charge Coverage	405%

Bold figures are Value Line estimates



AGL RESOURCES NYSE-GAS

RECENT PRICE **39.70** P/E RATIO **14.5** (Trailing: 15.0 Median: 13.0) RELATIVE P/E RATIO **0.94** DIVD YLD **4.6%** VALUE LINE



1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	© VALUE LINE PUB. LLC 15-17	
21.91	22.75	23.36	18.71	11.25	19.04	15.32	15.25	23.89	34.98	33.73	32.64	36.41	29.88	30.42	20.00	22.90	23.10	Revenues per sh ^A	27.25
2.49	2.42	2.65	2.29	2.86	3.31	3.39	3.47	3.29	4.20	4.50	4.65	4.68	4.90	5.05	3.05	4.85	5.10	"Cash Flow" per sh	5.85
1.37	1.37	1.41	.91	1.29	1.50	1.82	2.08	2.28	2.48	2.72	2.72	2.71	2.88	3.00	2.12	3.25	3.45	Earnings per sh ^A	4.10
1.06	1.08	1.08	1.08	1.08	1.08	1.08	1.11	1.15	1.30	1.48	1.64	1.68	1.72	1.76	1.90	1.84	1.88	Div'ds Decl'd per sh ^C	2.00
2.37	2.59	2.05	2.51	2.92	2.83	3.30	2.46	3.44	3.44	3.26	3.39	4.84	6.14	6.54	3.42	3.90	4.10	Cap'l Spending per sh	4.95
10.56	10.99	11.42	11.59	11.50	12.19	12.52	14.66	18.06	19.29	20.71	21.74	21.48	22.95	23.24	28.54	29.65	31.00	Book Value per sh ^D	34.25
55.70	56.60	57.30	57.10	54.00	55.10	56.70	64.50	76.70	77.70	77.70	76.40	76.90	77.54	78.00	117.00	118.00	119.00	Common Shs Outst'g ^E	121.00
13.8	14.7	13.9	21.4	13.6	14.6	12.5	12.5	13.1	14.3	13.5	14.7	12.3	11.2	12.5	12.6	118.00	119.00	Avg Ann'l P/E Ratio	15.0
.86	.85	.72	1.22	.88	.75	.68	.71	.69	.76	.73	.78	.74	.75	.80	.82	.82	.82	Relative P/E Ratio	1.00
5.6%	5.4%	5.5%	5.5%	6.2%	4.9%	4.7%	4.3%	3.9%	3.7%	4.0%	4.1%	5.0%	5.4%	4.7%	4.8%	4.8%	4.8%	Avg Ann'l Div'd Yield	3.5%

CAPITAL STRUCTURE as of 12/31/11				2009	2010	2011	2012	2013	REVENUES (\$MILL) ^A		NET PROFIT (\$MILL)		INCOME TAX RATE		NET PROFIT MARGIN		LONG-TERM DEBT RATIO		COMMON EQUITY RATIO		TOTAL CAPITAL (\$MILL)		NET PLANT (\$MILL)		RETURN ON TOTAL CAP'L		RETURN ON SHR. EQUITY		RETURN ON COM. EQUITY		RETAINED TO COM EQ		ALL DIV'DS TO NET PROF						
Total Debt \$4899.0 mill. Due in 5 Yrs \$987.0 mill.				868.9	983.7	1832.0	2718.0	2621.0	2494.0	2800.0	2317.0	2373.0	2338.0	2700	2750	3300	495	40.0%	40.0%	40.0%	40.0%	43.0%	57.0%	8545	8320	6.5%	12.0%	12.0%	12.0%	6.0%	49%								
LT Debt \$3561.0 mill. LT Interest \$136.0 mill. (Total interest coverage: 6.5x)				103.0	132.4	153.0	193.0	212.0	211.0	207.6	222.0	234.0	172.0	385	410	495	495	36.0%	35.9%	37.0%	37.7%	37.8%	37.6%	40.5%	35.2%	35.9%	40.2%	40.0%	40.0%	40.0%	40.0%								
Leases, Uncapitalized Annual rentals \$95.0 mill. Pension Assets-12/11 \$754.0 mill. Oblig. \$968.0 mill.				11.9%	13.5%	8.4%	7.1%	8.1%	8.5%	7.4%	9.6%	9.9%	7.4%	14.2%	14.9%	15.0%	15.0%	58.3%	50.3%	54.0%	51.9%	50.2%	50.2%	50.3%	52.6%	48.0%	52.0%	50.0%	48.0%	48.0%	48.0%								
Pfd Stock None				41.7%	49.7%	46.0%	48.1%	49.8%	49.8%	49.7%	47.4%	47.4%	52.0%	50.0%	57.0%	57.0%	1704.3	1901.4	3008.0	3114.0	3231.0	3335.0	3327.0	3754.0	3486.0	8238.0	8300	8385	8545	8320	8320								
Common Stock 117,099,662 shs. as of 2/15/12				2194.2	2352.4	3178.0	3271.0	3436.0	3566.0	3816.0	4146.0	4405.0	7900.0	7990	8090	8320	8320	8.1%	8.9%	6.3%	7.9%	8.0%	7.7%	7.4%	6.9%	7.6%	3.0%	5.5%	6.0%	6.5%	12.0%	12.0%	12.0%	11.0%	11.0%				
MARKET CAP: \$4.6 billion (Mid Cap)				14.5%	14.0%	11.0%	12.9%	13.2%	12.7%	12.6%	12.5%	12.9%	5.2%	11.0%	11.0%	11.0%	7.0%	6.6%	5.6%	6.2%	6.3%	5.3%	5.1%	5.3%	5.6%	.7%	4.5%	5.0%	6.0%	49%									
CURRENT POSITION (\$MILL.)				52%	53%	49%	52%	52%	58%	60%	57%	57%	86%	57%	54%	54%	Cash Assets	26.0	24.0	69.0	1974.0	2138.0	2677.0	BUSINESS: AGL Resources Inc. is a public utility holding company. Its distribution subsidiaries include Atlanta Gas Light, Chattanooga Gas, Elizabethtown Gas, and Virginia Natural Gas. The utilities have more than 2.3 million customers in Georgia, Virginia, Tennessee, New Jersey, Florida, and Maryland. Engaged in non-regulated natural gas marketing and other allied services. Deregulated subsidiaries: Georgia Natural Gas markets natural gas at retail. Sold Utilipro, 3/01. Acquired Compass Energy Services, 10/07. BlackRock Inc. owns 7.9% of common stock; off/dir., less than 1.0% (3/11 Proxy). Pres. & CEO: John W. Somerhalder II. Inc.: GA. Addr.: Ten Peachtree Place N.E., Atlanta, GA 30309. Telephone: 404-584-4000. Internet: www.aglresources.com.															
ANNUAL RATES of change (per sh)				10 Yrs	5 Yrs	to '15-'17	AGL Resources completed its merger with Nicor Inc., on December 9, 2011, making it the largest natural gas-only distribution company in the country. In accordance with the agreement, each share of Nicor stock was converted into a .8383 share of AGL Resources common stock (or \$21.20 in cash). The merged entity, which changed its ticker symbol to GAS (Nicor's original symbol), now has a market value of about \$4.6 billion, and serves about 4.5 million utility customers in seven states. AGL Resources also modified its segments post-merger, and now has five main businesses: Distribution Operations, Retail Operations, Wholesale Operations, Midstream Operations, and Other. The deal also combines the non regulated businesses of the two companies, and management has created a retail segment set to serve over one million.																																

Cal-endar	QUARTERLY REVENUES (\$ mill.) ^A				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2009	995.0	377.0	307.0	638.0	2317.0
2010	1003	359.0	346.0	665.0	2373.0
2011	878.0	375.0	295.0	790.0	2338.0
2012	1200	390	400	710	2700
2013	1250	410	420	670	2750

Cal-endar	EARNINGS PER SHARE ^{A,B}				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2009	1.55	.26	.16	.91	2.88
2010	1.73	.17	.29	.81	3.00
2011	1.59	.23	.04	.34	2.12
2012	1.65	.35	.40	.85	3.25
2013	1.70	.40	.50	.85	3.45

Cal-endar	QUARTERLY DIVIDENDS PAID ^C				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2008	.42	.42	.42	.42	1.68
2009	.43	.43	.43	.43	1.72
2010	.44	.44	.44	.44	1.76
2011	.45	.45	.45	.55	1.90
2012	.36	.46			

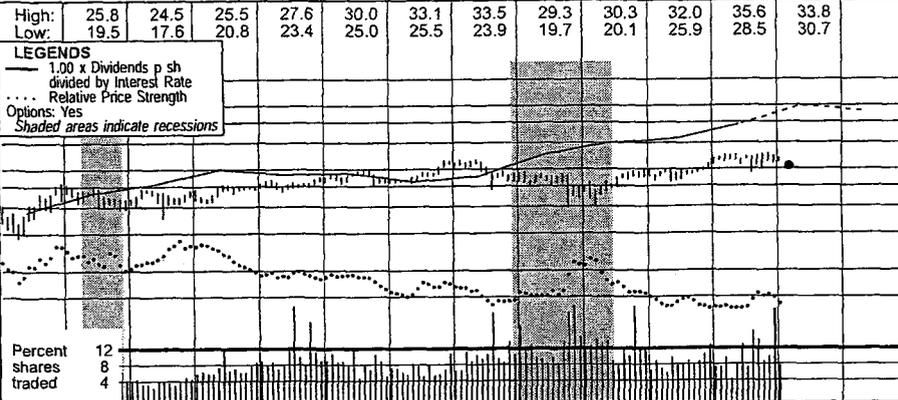
Management announced a dividend increase. The board of directors approved a \$0.01-per-share hike, resulting in an annual dividend rate of \$1.84. Investors should note that in accordance with the pro forma dividends announced during the merger, shareholders received a pro rata dividend of \$0.36, from December 9, to February 17. Previously, shareholders received a pro rata dividend of \$0.0989 for the stub period. The dividend hike is keeping with the long-term underlying trend, and we do see this continuing. The long term looks steady at this point. AGL Resources had several favorable rate rulings in the previous years, and expects a considerable boost to revenue going forward. In addition, the merger with Nicor has made it the largest natural gas distributor in the country, establishing a dominant presence in the Midwest. Our 2012 earnings estimate reflects a normalized rate of profitability, with modest growth set for 2013. The slow growth pattern should continue out to mid-decade, assuming demand for utility services rises in line with the rate of population increase in the company's service territories. Post merger corporate finances are in respectable shape. This neutrally ranked equity will appeal most to income investors with its above industry-average dividend yield, and high likelihood of future hikes. Sahana Zutshi March 9, 2012

(A) Fiscal year ends December 31st. Ended September 30th prior to 2002. (B) Divided earnings per share. Excl. nonrecurring gains (losses): '95, (\$0.83); '99, \$0.39; '00, \$0.13; '01, \$0.13; '03, (\$0.07); '08, \$0.13. Next earnings report due late April. (C) Dividends historically paid early March, June, Sept., and Dec. Div'd reinvest. plan available. (D) Includes intangibles. In 2011: \$1918 million, \$16.40/share. (E) In millions. Company's Financial Strength A Stock's Price Stability 100 Price Growth Persistence 70 Earnings Predictability 95 © 2012, Value Line Publishing LLC. All rights reserved. Factual material is obtained from sources believed to be reliable and is provided without warranties of any kind. THE PUBLISHER IS NOT RESPONSIBLE FOR ANY ERRORS OR OMISSIONS HEREIN. This publication is strictly for subscriber's own, non-commercial, internal use. No part of it may be reproduced, resold, stored or transmitted in any printed, electronic or other form, or used for generating or marketing any printed or electronic publication, service or product. To subscribe call 1-800-833-0046.

ATMOS ENERGY CORP. NYSE-ATO

RECENT PRICE **30.89** P/E RATIO **13.4** (Trailing: 15.0 Median: 14.0) RELATIVE P/E RATIO **0.87** DIV'D YLD **4.5%** VALUE LINE

TIMELINESS 4 Lowered 2/17/12
SAFETY 2 Raised 12/16/05
TECHNICAL 3 Lowered 2/24/12
BETA .70 (1.00 = Market)



2015-17 PROJECTIONS
 Ann'l Total
 Price Gain Ann'l Return
 High 40 (+30%) 10%
 Low 30 (-5%) 4%

Insider Decisions
 A M J J A S O N D
 to Buy 0 0 0 0 0 0 0 0 0 0
 Options 0 0 0 0 0 0 0 0 0 0
 to Sell 0 0 0 0 0 0 0 0 0 0

Institutional Decisions
 2Q2011 3Q2011 4Q2011
 to Buy 112 110 132
 to Sell 105 116 103
 Hld's(000) 50093 50338 48646

Atmos Energy's history dates back to 1906 in the Texas Panhandle. Over the years, through various mergers, it became part of Pioneer Corporation, and, in 1981, Pioneer named its gas distribution division Energas. In 1983, Pioneer organized Energas as a separate subsidiary and distributed the outstanding shares of Energas to Pioneer shareholders. Energas changed its name to Atmos in 1988. Atmos acquired Trans Louisiana Gas in 1986, Western Kentucky Gas Utility in 1987, Greeley Gas in 1993, United Cities Gas in 1997, and others.

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	© VALUE LINE PUB. LLC	15-17
Revenues per sh ^A	22.82	54.39	46.50	61.75	75.27	66.03	79.52	53.69	53.12	48.15	48.35	50.10	Revenues per sh ^A	63.10
"Cash Flow" per sh	3.39	3.23	2.91	3.90	4.26	4.14	4.19	4.29	4.64	4.72	4.95	5.15	"Cash Flow" per sh	5.65
Earnings per sh ^{A,B}	1.45	1.71	1.58	1.72	2.00	1.94	2.00	1.97	2.16	2.26	2.30	2.40	Earnings per sh ^{A,B}	2.70
Div'ds Decl'd per sh ^C	1.18	1.20	1.22	1.24	1.26	1.28	1.30	1.32	1.34	1.36	1.38	1.40	Div'ds Decl'd per sh ^C	1.48
Cap'l Spending per sh	3.17	3.10	3.03	4.14	5.20	4.39	5.20	5.51	6.02	6.90	7.60	7.90	Cap'l Spending per sh	8.80
Book Value per sh	13.75	16.66	18.05	19.90	20.16	22.01	22.60	23.52	24.16	24.98	27.55	29.95	Book Value per sh	34.65
Common Shs Outst'g ^D	41.68	51.48	62.80	80.54	81.74	89.33	90.81	92.55	90.16	90.30	90.50	91.00	Common Shs Outst'g ^D	103.00
Avg Ann'l P/E Ratio	15.2	13.4	15.9	16.1	13.5	15.9	13.6	12.5	13.2	14.4	14.4	14.4	Avg Ann'l P/E Ratio	13.0
Relative P/E Ratio	.83	.76	.84	.86	.73	.84	.82	.83	.84	.84	.84	.84	Relative P/E Ratio	.85
Avg Ann'l Div'd Yield	5.4%	5.2%	4.9%	4.5%	4.7%	4.2%	4.8%	5.3%	4.7%	4.2%	4.2%	4.2%	Avg Ann'l Div'd Yield	4.2%
Revenues (\$mill) ^A	950.8	2799.9	2920.0	4973.3	6152.4	5898.4	7221.3	4969.1	4789.7	4347.6	4375	4560	Revenues (\$mill) ^A	6500
Net Profit (\$mill)	59.7	79.5	86.2	135.8	162.3	170.5	180.3	179.7	201.2	199.3	210	220	Net Profit (\$mill)	280
Income Tax Rate	37.1%	37.1%	37.4%	37.7%	37.6%	35.8%	38.4%	38.5%	38.5%	36.4%	38.5%	38.5%	Income Tax Rate	38.5%
Net Profit Margin	6.3%	2.8%	3.0%	2.7%	2.6%	2.9%	2.5%	3.6%	4.2%	4.6%	4.8%	4.8%	Net Profit Margin	4.3%
Long-Term Debt Ratio	53.9%	50.2%	43.2%	57.7%	57.0%	52.0%	50.8%	49.9%	45.4%	49.4%	49.5%	49.5%	Long-Term Debt Ratio	49.0%
Common Equity Ratio	46.1%	49.8%	56.8%	42.3%	43.0%	48.0%	49.2%	50.1%	54.6%	50.6%	50.5%	50.5%	Common Equity Ratio	51.0%
Total Capital (\$mill)	1243.7	1721.4	1994.8	3785.5	3828.5	4092.1	4172.3	4346.2	3987.9	4461.5	4940	5400	Total Capital (\$mill)	7000
Net Plant (\$mill)	1300.3	1516.0	1722.5	3374.4	3629.2	3836.8	4136.9	4439.1	4793.1	5147.9	5400	5700	Net Plant (\$mill)	6700
Return on Total Cap'l	6.8%	6.2%	5.8%	5.3%	6.1%	5.9%	5.9%	6.9%	6.9%	6.1%	6.0%	5.5%	Return on Total Cap'l	5.5%
Return on Shr. Equity	10.4%	9.3%	7.6%	8.5%	9.8%	8.7%	8.8%	8.3%	9.2%	8.8%	8.5%	8.0%	Return on Shr. Equity	8.0%
Return on Com Equity	10.4%	9.3%	7.6%	8.5%	9.8%	8.7%	8.8%	8.3%	9.2%	8.8%	8.5%	8.0%	Return on Com Equity	8.0%
Retained to Com Eq	1.9%	2.8%	1.7%	2.3%	3.6%	3.0%	3.1%	2.7%	3.5%	3.3%	3.5%	3.5%	Retained to Com Eq	3.5%
All Div'ds to Net Prof	82%	70%	77%	73%	63%	65%	65%	68%	62%	62%	59%	58%	All Div'ds to Net Prof	54%

CAPITAL STRUCTURE as of 12/31/11
 Total Debt \$2596.3 mill. Due in 5 Yrs \$960.0 mill.
 LT Debt \$2206.2 mill. LT Interest \$120.0 mill.
 (LT interest earned: 3.1x; total interest coverage: 3.1x)
 Leases, Uncapitalized Annual rentals \$17.7 mill.
 Pfd Stock None
 Pension Assets-9/11 \$280.2 mill.
 Oblig. \$429.4 mill.
 Common Stock 90,364,061 shs.
 as of 11/14/11
MARKET CAP: \$2.8 billion (Mid Cap)

CURRENT POSITION

	2010	2011	12/31/11
Cash Assets	132.0	131.4	85.2
Other	743.2	879.6	1176.0
Current Assets	875.2	1011.0	1261.2
Accts Payable	266.2	291.2	432.3
Debt Due	486.2	208.8	390.1
Other	413.7	367.6	357.4
Current Liab.	1166.1	867.6	1179.8
Fix. Chg. Cov.	440%	432%	435%

ANNUAL RATES

of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '09-'11 to '15-'17
Revenues	6.5%	-3.5%	3.5%
"Cash Flow"	4.5%	4.5%	3.5%
Earnings	7.0%	4.0%	4.0%
Dividends	1.5%	1.5%	1.5%
Book Value	6.5%	4.5%	6.0%

QUARTERLY REVENUES (\$mill.) ^A

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2009	1716.3	1821.4	780.8	650.6	4969.1
2010	1292.9	1940.3	770.2	786.3	4789.7
2011	1133.3	1581.5	843.6	789.2	4347.6
2012	1101.2	1610	870	793.8	4375
2013	1205	1700	850	805	4560

EARNINGS PER SHARE ^{A,B,E}

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2009	.83	1.29	.02	d.17	1.97
2010	1.00	1.17	d.03	.02	2.16
2011	.81	1.40	.04	.01	2.26
2012	.72	1.47	.09	.02	2.30
2013	.87	1.43	.07	.03	2.40

QUARTERLY DIVIDENDS PAID ^C

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2008	.325	.325	.325	.33	1.31
2009	.33	.33	.33	.335	1.33
2010	.335	.335	.335	.34	1.35
2011	.34	.34	.34	.345	1.37
2012	.345				

BUSINESS: Atmos Energy Corporation is engaged primarily in the distribution and sale of natural gas to over three million customers via six regulated natural gas utility operations: Louisiana Division, West Texas Division, Mid-Tex Division, Mississippi Division, Colorado-Kansas Division, and Kentucky/Mid-States Division. Combined 2011 gas volumes: 281.5 Mmcf. Breakdown: 57%, residential; 32%, commercial; 7%, industrial; and 4% other. 2011 depreciation rate 3.3%. Has around 4,750 employees. Officers and directors own 1.5% of common stock (12/11 Proxy). President and Chief Executive Officer: Kim R. Cocklin, Inc.: Texas. Address: Three Lincoln Centre, Suite 1800, 5430 LBJ Freeway, Dallas, Texas 75240. Telephone: 972-934-9227. Internet: www.atmosenergy.com.

Atmos Energy Corporation began fiscal 2012 (ends September 30th) on a sour note, compared to the first quarter of the previous year. The performance of the nonregulated segment was hurt by unfavorable pricing conditions in the natural gas market. To make matters worse, the natural gas distribution unit encountered a rise in operating expenses (including those pertaining to legal and depreciation & amortization). **But we expect better things for the Texas-based company as the year progresses.** That should be attributable partially to ratemaking activity for the natural gas distribution segment. Moreover, the regulated transmission and storage unit should continue to shine, made possible by higher throughput. The nonregulated operation may lag a while longer, though.

All told, share net might well advance by several pennies, to \$2.30, for the new fiscal year. Assuming additional expansion of operating margins, the bottom line stands to reach \$2.40 a share in fiscal 2013.

Prospects over the 2015-2017 span do

not appear exciting. The utility segment ranks as one of the nation's largest natural gas-only distributors. And we believe that the unregulated units have decent overall growth possibilities, present troubles aside. Too, the company will probably resume its successful strategy of purchasing less efficient utilities and shoring up their profitability through expense-reduction initiatives, rate relief, and aggressive marketing efforts. But given our exclusion of future acquisitions, annual share-net increases could only be in the mid-single-digit range over the next three to five years.

The main attraction here is the dividend yield, which is among the highest of all gas utility equities tracked by Value Line. Our long-term projections indicate that further (albeit, modest) increases in the well-covered distribution are likely. Other pluses for the stock include a 2 (Above Average) Safety rank and an excellent rating for Price Stability.

Meanwhile, Atmos Energy shares are a Below Average (4) selection for Timeliness.

Frederick L. Harris, III March 9, 2012

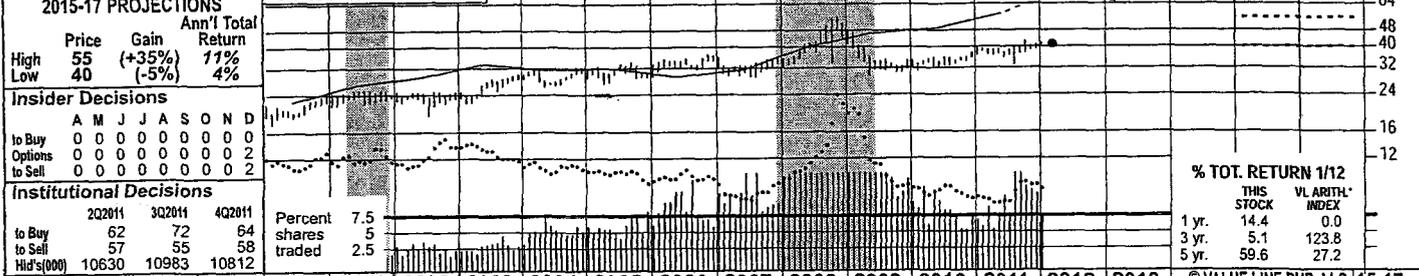
(A) Fiscal year ends Sept. 30th. (B) Diluted shrs. Excl. nonrec. items: '03, d17; '06, d18; '07, d2; '09, 12c; '10, 5c; '11, (1c). Excludes discontinued operations: '11, 10c; '12, 3c. Next
 (C) Div. reinvestment plan. Direct stock purchase plan avail.
 (D) In millions.
 (E) Qtrs may not add due to change in shrs outstanding.

Company's Financial Strength B++
 Stock's Price Stability 100
 Price Growth Persistence 45
 Earnings Predictability 90

LACLEDE GROUP NYSE:LG

RECENT PRICE **41.25** P/E RATIO **15.3** (Trailing: 14.1 Median: 14.0) RELATIVE P/E RATIO **0.99** DIV'D YLD **4.0%** VALUE LINE

TIMELINESS 3 Lowered 9/23/11	High: 25.5	25.0	30.0	32.5	34.3	37.5	36.0	55.8	48.3	37.8	42.8	43.0	Target Price	Range
SAFETY 2 Raised 6/20/03	Low: 21.3	19.0	21.8	26.0	26.9	29.1	28.8	31.9	29.3	30.8	32.9	39.9	2015	2016
TECHNICAL 3 Lowered 2/10/12	LEGENDS --- 1.00 x Dividends p sh divided by Interest Rate Relative Price Strength Options: Yes Shaded areas indicate recessions													
BETA .60 (1.00 = Market)	2015-17 PROJECTIONS Ann'l Total Price Gain Return High 55 (+35%) 11% Low 40 (-5%) 4%													



Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Revenues per sh	75.00
31.03	34.33	31.04	26.04	29.99	53.08	39.84	54.95	59.59	75.43	93.51	93.40	100.44	85.49	77.83	71.48	68.90	68.90	"Cash Flow" per sh	5.20	
3.29	3.32	3.02	2.56	2.68	3.00	2.56	3.15	2.79	2.98	3.81	3.87	4.22	4.56	4.11	4.62	4.60	4.75	Earnings per sh A B	3.05	
1.87	1.84	1.58	1.47	1.37	1.61	1.18	1.82	1.82	1.90	2.37	2.31	2.64	2.92	2.43	2.86	2.70	2.80	Div'ds Decl'd per sh C	1.80	
1.26	1.30	1.32	1.34	1.34	1.34	1.34	1.34	1.34	1.35	1.37	1.40	1.45	1.53	1.57	1.61	1.65	1.69	Cap'l Spending per sh	3.75	
2.35	2.44	2.68	2.58	2.77	2.51	2.80	2.67	2.45	2.84	2.97	2.72	2.57	2.36	2.56	3.02	3.20	3.35	Book Value per sh D	31.15	
13.72	14.26	14.57	14.96	14.99	15.26	15.07	15.65	16.96	17.31	18.85	19.79	22.12	23.32	24.02	25.56	27.30	27.80	Common Shs Outst'g E	26.00	
17.56	17.56	17.63	18.88	18.88	18.88	18.96	19.11	20.98	21.17	21.36	21.65	21.99	22.17	22.29	22.43	22.50	23.00	Avg Ann'l P/E Ratio	15.5	
11.9	12.5	15.5	15.8	14.9	14.5	20.0	13.6	15.7	16.2	13.6	14.2	14.3	13.4	13.7	13.0	13.0	13.0	Relative P/E Ratio	1.05	
.75	.72	.81	.90	.97	.74	1.09	.78	.83	.86	.73	.75	.86	.89	.87	.81	.81	.81	Avg Ann'l Div'd Yield	3.8%	
5.6%	5.6%	5.4%	5.8%	6.6%	5.7%	5.7%	5.4%	4.7%	4.4%	4.3%	4.4%	3.9%	3.9%	4.7%	4.3%	4.3%	4.3%			

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Revenues (\$mill) A	1950
CAPITAL STRUCTURE as of 12/31/11	755.2	1050.3	1250.3	1597.0	1997.6	2021.6	2209.0	1895.2	1735.0	1603.3	1550	1585	1585	1585	Net Profit (\$mill)	80.0
Total Debt \$452.4 mill. Due in 5 Yrs \$70.0 mill.	22.4	34.6	36.1	40.1	50.5	49.8	57.6	64.3	54.0	63.8	61.0	64.5	61.0	64.5	Income Tax Rate	35.0%
LT Debt \$339.4 mill. LT Interest \$20.0 mill. (Total interest coverage: 4.7x)	35.4%	35.0%	34.8%	34.1%	32.5%	33.4%	31.3%	33.6%	33.4%	31.4%	33.0%	34.0%	34.0%	34.0%	Net Profit Margin	4.1%
Leases, Uncapitalized Annual rentals \$.9 mill. Pension Assets-9/11 \$248.0 mill. Oblig. \$384.2 mill.	3.0%	3.3%	2.9%	2.5%	2.5%	2.6%	3.4%	3.1%	4.0%	3.9%	4.1%	4.1%	4.1%	4.1%	Long-Term Debt Ratio	40.0%
Pfd Stock None Common Stock 22,486,439 shs. as of 1/26/12	47.5%	50.4%	51.6%	48.1%	49.5%	45.3%	44.4%	42.9%	40.5%	38.9%	37.0%	37.0%	37.0%	37.0%	Common Equity Ratio	60.0%
MARKET CAP: \$925 million (Small Cap)	52.3%	49.4%	48.3%	51.8%	50.4%	54.6%	55.5%	57.1%	59.5%	61.1%	63.0%	63.0%	63.0%	63.0%	Total Capital (\$mill)	1350
CURRENT POSITION (\$MILL.)	546.6	605.0	737.4	707.9	798.9	784.5	876.1	906.3	899.9	937.7	975	1015	1015	1015	Net Plant (\$mill)	1300
Cash Assets 86.9	43.3	44.6	370.9	370.9	370.9	370.9	370.9	370.9	370.9	370.9	370.9	370.9	370.9	370.9	Return on Total Cap'l	7.0%
Other 327.3	325.8	370.9	370.9	370.9	370.9	370.9	370.9	370.9	370.9	370.9	370.9	370.9	370.9	370.9	Return on Shr. Equity	10.0%
Current Assets 414.2	369.1	415.5	415.5	415.5	415.5	415.5	415.5	415.5	415.5	415.5	415.5	415.5	415.5	415.5	Return on Com Equity	10.0%
Accts Payable 95.6	96.6	94.3	94.3	94.3	94.3	94.3	94.3	94.3	94.3	94.3	94.3	94.3	94.3	94.3	Retained to Com Eq	4.0%
Debt Due 154.6	46.0	113.0	113.0	113.0	113.0	113.0	113.0	113.0	113.0	113.0	113.0	113.0	113.0	113.0	All Div'ds to Net Prof	58%
Other 83.7	89.3	115.9	115.9	115.9	115.9	115.9	115.9	115.9	115.9	115.9	115.9	115.9	115.9	115.9		
Current Liab. 333.9	231.9	323.2	323.2	323.2	323.2	323.2	323.2	323.2	323.2	323.2	323.2	323.2	323.2	323.2		
Fix. Chg. Cov. 391%	463%	430%	430%	430%	430%	430%	430%	430%	430%	430%	430%	430%	430%	430%		

BUSINESS: Laclede Group, Inc., is a holding company for Laclede Gas, which distributes natural gas in eastern Missouri, including the city of St. Louis, St. Louis County, and parts of 10 other counties. Has roughly 625,000 customers. Purchased SM&P Utility Resources, 1/02; divested, 3/08. Utility terms sold and transported in fiscal 2011: 1.1 bill. Revenue mix for regulated operations: residential, 64%; commercial and industrial, 22%; transportation, 2%; other, 12%. Has around 1,640 employees. Officers and directors own approximately 8% of common shares (1/12 proxy). Chairman: William E. Nasser; CEO: Suzanne Sitherwood. Incorporated: Missouri. Address: 720 Olive Street, St. Louis, Missouri 63101. Telephone: 314-342-0500. Internet: www.thelacledegroup.com.

Laclede Group got off to a decent start in fiscal 2012, ends September 30th, as first-quarter share net was 6.7% higher than the year-ago tally. Laclede Energy Resources (LER) was the star performer, as it enjoyed a drop in transportation costs resulting from the renegotiation of contracts that were renewed during fiscal 2011. Profits for Laclede Gas were slightly better, thanks to higher infrastructure system replacement surcharge revenues and lower maintenance costs. But higher pension and benefit expenses provided somewhat of an offset here. Still, we believe that earnings for the year, as a whole, will be down a bit. That's largely because of the challenging third-quarter comparison. In fact, Laclede Gas benefited from a substantial gain, last April, on the sale of 320,000 barrels of propane from inventory that was no longer required to serve utility customers. As a result, fiscal 2012 share net may well decrease around 5%, to \$2.70. But we look for the bottom line to advance nearly 4%, to \$2.80 a share, the following year, assuming that operating margins expand. The company stands to have an un-

spectacular performance over the 2015-2017 period. Expansion of the customer base for the gas utility will likely remain sluggish, as the service territory has been in a mature phase for some time. We think LER has good long-term potential, but it tends to contribute just a small portion to total profits. Of course, an acquisition could brighten things. Even so, it seems that management has no such plans at this time. Thus, in the present configuration, annual share-net gains could only be in the low-to-mid-single-digit range over the next three to five years. **The good-quality stock's dividend yield ranks favorably among all gas utility equities tracked by Value Line.** The payout should continue to be well covered by earnings, although future hikes may be moderate, at best. That's mainly because of the utility unit's lackluster long-term prospects. **Total return potential is not exciting.** Indeed, these shares are already trading within our 3- to 5-year Target Price Range. The dividend will probably continue to grow at a slow rate, as well.

(A) Fiscal year ends Sept. 30th.	ations: '08, 94¢. Next earnings report due late April. (C) Dividends historically paid in early January, April, July, and October. (D) Dividend reinvestment plan available. (E) Incl. deferred	charges. In '11: \$429.9 mill., \$19.17/sh. (E) In millions. (F) Qly. egs. may not sum due to rounding or change in shares outstanding.	Company's Financial Strength B++ Stock's Price Stability 100 Price Growth Persistence 50 Earnings Predictability 80
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N.W. NAT'L GAS NYSE-NWN

RECENT PRICE **46.52** P/E RATIO **18.5** (Trailing: 19.5 Median: 17.0) RELATIVE P/E RATIO **1.20** DIV'D YLD **3.8%** VALUE LINE

TIMELINESS 4 Lowered 5/13/11	High: 26.8	30.7	31.3	34.1	39.6	43.7	52.8	55.2	46.5	50.9	49.0	49.5	Target Price Range																																			
SAFETY 1 Raised 3/18/05	Low: 21.7	23.5	24.0	27.5	32.4	32.8	39.8	37.7	37.7	41.1	39.6	46.1	2015 2016 2017																																			
TECHNICAL 3 Lowered 12/16/11	<p>LEGENDS</p> <p>1.10 x Dividends p sh divided by Interest Rate</p> <p>Relative Price Strength</p> <p>Options: Yes</p> <p>Shaded areas indicate recessions</p>																																															
BETA .60 (1.00 = Market)	<p>2015-17 PROJECTIONS</p> <table border="1"> <tr> <th>Price</th> <th>Gain</th> <th>Ann'l Total Return</th> </tr> <tr> <td>High 65</td> <td>(+40%)</td> <td>9%</td> </tr> <tr> <td>Low 55</td> <td>(+20%)</td> <td>4%</td> </tr> </table>												Price	Gain	Ann'l Total Return	High 65	(+40%)	9%	Low 55	(+20%)	4%																											
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A	M	J	J	A	S	O	N	D																																								
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1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	© VALUE LINE PUB. LLC 15-17
16.86	15.82	16.77	18.17	21.09	25.78	25.07	23.57	25.69	33.01	37.20	39.13	39.16	38.17	30.56	31.77	32.50	33.60	Revenues per sh
3.86	3.72	3.24	3.72	3.68	3.86	3.65	3.85	3.92	4.34	4.76	5.41	5.31	5.20	5.18	5.01	5.65	6.15	"Cash Flow" per sh
1.97	1.76	1.02	1.70	1.79	1.88	1.62	1.76	1.86	2.11	2.35	2.76	2.57	2.83	2.73	2.39	2.65	2.95	Earnings per sh ^A
1.20	1.21	1.22	1.23	1.24	1.25	1.26	1.27	1.30	1.32	1.39	1.44	1.52	1.60	1.68	1.75	1.78	1.82	Div'ds Decl'd per sh ^B
3.70	5.07	4.02	4.78	3.46	3.23	3.11	4.90	5.52	3.48	3.56	4.48	3.92	5.09	9.35	3.76	4.50	5.20	Cap'l Spending per sh
15.37	16.02	16.59	17.12	17.93	18.56	18.88	19.52	20.64	21.28	22.01	22.52	23.71	24.88	26.08	26.74	28.20	29.90	Book Value per sh ^D
22.56	22.86	24.85	25.09	25.23	25.23	25.59	25.94	27.55	27.58	27.24	26.41	26.50	26.53	26.58	26.72	26.75	26.80	Common Shs Outs'tg ^C
11.7	14.4	26.7	14.5	12.4	12.9	17.2	15.8	16.7	17.0	15.9	16.7	18.1	15.2	17.0	17.0	17.0	17.0	Avg Ann'l P/E Ratio
.73	.83	1.39	.83	.81	.66	.94	.90	.88	.91	.86	.89	1.09	1.01	1.08	1.09	1.08	1.09	Relative P/E Ratio
5.2%	4.8%	4.5%	5.0%	5.6%	5.1%	4.5%	4.6%	4.2%	3.7%	3.7%	3.1%	3.3%	3.7%	3.6%	3.6%	3.6%	3.6%	Avg Ann'l Div'd Yield

CAPITAL STRUCTURE as of 12/31/11				2009	2010	12/31/11	2009	2010	12/31/11	2009	2010	12/31/11	2009	2010	12/31/11	2009	2010	12/31/11	2009	2010	12/31/11	
Total Debt \$823.3 mill. Due in 5 Yrs \$250 mill.				641.4	611.3	707.6	910.5	1013.2	1033.2	1037.9	1012.7	812.1	848.8	870	900	Revenues (\$mill)	1300					
LT Debt \$641.7 mill. LT Interest \$42.1 mill.				43.8	46.0	50.6	58.1	65.2	74.5	68.5	75.1	72.7	63.9	71.0	79.0	Net Profit (\$mill)	97.0					
(Total interest coverage: 7.0x)				34.9%	33.7%	34.4%	36.0%	36.3%	37.2%	36.9%	38.3%	40.5%	30.0%	30.0%	30.0%	Income Tax Rate	30.0%					
Pension Assets-12/10 \$219 mill. Oblig. \$337.3 mill.				6.8%	7.5%	7.1%	6.4%	6.4%	7.2%	6.6%	7.4%	8.9%	7.5%	8.2%	8.8%	Net Profit Margin	7.5%					
Pfd Stock None				47.6%	49.7%	46.0%	47.0%	46.3%	46.3%	44.9%	47.7%	46.1%	47.0%	45%	43%	Long-Term Debt Ratio	37%					
Common Stock 26,719,000 shares				51.5%	50.3%	54.0%	53.0%	53.7%	53.7%	55.1%	52.3%	53.9%	53.0%	55%	57%	Common Equity Ratio	63%					
MARKET CAP \$1.2 billion (Mid Cap)				937.3	1006.6	1052.5	1108.4	1116.5	1106.8	1140.4	1261.8	1284.8	1356.2	1375	1400	Total Capital (\$mill)	1455					
CURRENT POSITION				995.6	1205.9	1318.4	1373.4	1425.1	1495.9	1549.1	1670.1	1854.2	1893.9	1985	2090	Ret Plant (\$mill)	2390					
ANNUAL RATES				5.9%	5.7%	5.9%	6.5%	7.1%	8.5%	7.7%	7.3%	7.0%	4.7%	6.5%	7.0%	Return on Total Cap'l	8.0%					
of change (per sh)				8.9%	9.1%	8.9%	9.9%	10.9%	12.5%	10.9%	11.4%	10.5%	8.9%	9.5%	10.0%	Return on Shr. Equity	10.5%					
Revenues				8.5%	9.0%	8.9%	9.9%	10.9%	12.5%	10.9%	11.4%	10.5%	8.9%	9.5%	10.0%	Return on Com Equity	10.5%					
"Cash Flow"				1.9%	2.6%	2.7%	3.7%	4.5%	6.0%	4.5%	5.0%	4.0%	2.4%	3.0%	4.0%	Retained to Com Eq	5.0%					
Earnings				79%	72%	69%	63%	59%	52%	59%	56%	61%	73%	67%	61%	All Div'ds to Net Prof	54%					
Dividends				<p>BUSINESS: Northwest Natural Gas Co. distributes natural gas to 90 communities, 668,000 customers, in Oregon (90% of customers) and in southwest Washington state. Principal cities served: Portland and Eugene, OR; Vancouver, WA. Service area population: 2.5 mill. (77% in OR). Company buys gas supply from Canadian and U.S. producers; has transportation rights on Northwest Pipeline system.</p>																		
Book Value				<p>or the beginning of 2013. Given the length of time since the last rate increase, we do not foresee any obstacles going forward, and a favorable rate ruling is quite likely. Long-term projects should help the top and bottom lines. Several ventures are proceeding on schedule, with the joint venture with Encana set to benefit revenues and earnings by mid-decade. The expansion of the Gill Ranch storage facility should also help boost volume, in turn expanding the customer base. All in all, we anticipate seeing a steady increase in earnings from 2013 onward, as volume increases and benefits from several solar projects also kick in. But the overall picture is uncertain at this point. The sudden depression in gas prices does not augur well for the company's future. Barring a sudden recovery, Northwest Natural is in for a turbulent time. Investors should note that any gains from its projects could be more than offset by the lower prices. This untimely equity may be attractive to income investors that dislike risk (Safety: 1).</p>																		

Cal-endar	QUARTERLY REVENUES (\$mill.)	Full Year			
Mar.31	Jun.30	Sep.30	Dec.31	Year	
2009	437.4	149.1	116.9	309.3	1012.7
2010	286.5	162.4	95.1	268.1	812.1
2011	323.1	161.2	93.3	271.2	848.8
2012	315	165	145	245	870
2013	330	170	150	250	900

Cal-endar	EARNINGS PER SHARE ^A	Full Year			
Mar.31	Jun.30	Sep.30	Dec.31	Year	
2009	1.78	.12	d.25	1.18	2.83
2010	1.64	.26	d.28	1.11	2.73
2011	1.53	.08	d.31	1.09	2.39
2012	1.74	.14	d.45	1.22	2.65
2013	1.80	.16	d.20	1.19	2.95

Cal-endar	QUARTERLY DIVIDENDS PAID ^B	Full Year			
Mar.31	Jun.30	Sep.30	Dec.31	Year	
2008	.375	.375	.375	.395	1.52
2009	.395	.395	.395	.415	1.60
2010	.415	.415	.415	.435	1.68
2011	.435	.435	.435	.445	1.75
2012	.445				

Northwest Natural Gas' earnings dipped in 2011, by over 12%, to \$2.39. The primary contributor to the decrease was a one-time charge (of about \$4 million) from Senate Bill 967. Consequently, given the depressed state of natural gas prices and the unlikelihood of a rebound in the near future, we have reduced our 2012 estimate to \$2.65, a decrease of a dime from our previous figure of \$2.75.

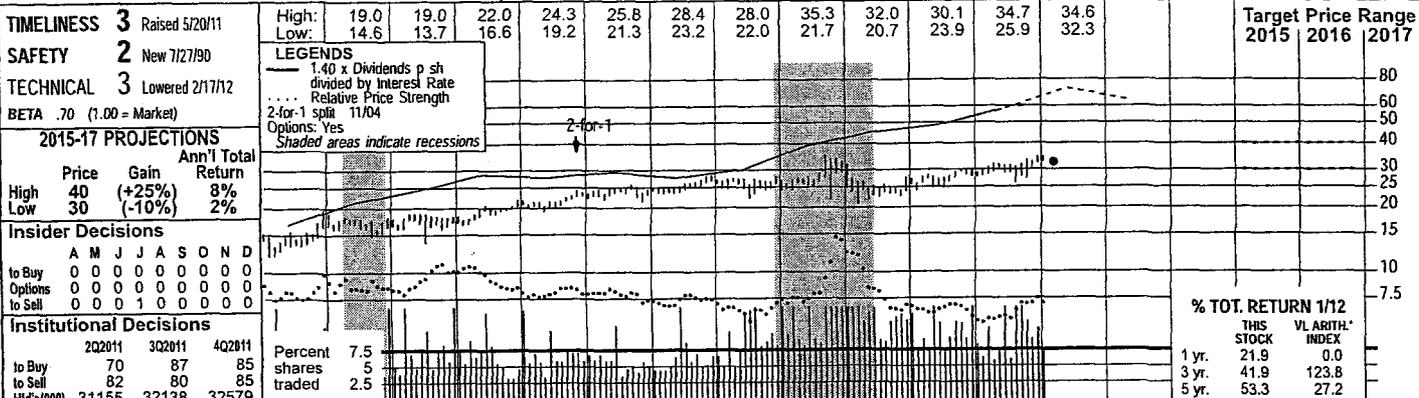
The board of directors recently raised the dividend. The payout is now \$0.445 a quarter, resulting in a \$1.78 annual dividend. The hike went into effect at the end of the fourth quarter. Given the company's history of steady dividend increases, we do not see this trend abating in the future, which should attract income-oriented readers.

The Oregon rate case remains on the agenda. The case, the company's first in nine years, was filed at the end of 2011. Northwest is asking for a 6% rate increase, which would provide a moderate boost to the top and bottom lines going forward. We anticipate a ruling by end of the third quarter, and the proposed changes should be implemented by the end of 2012

(A) Diluted earnings per share. Excludes non-recurring items: '98, \$0.15; '00, \$0.11; '06, (\$0.06); '08, (\$0.03); '09, 6¢. Next earnings report due late April.	(B) Dividends historically paid in mid-February, May, August, and November. ■ Dividend reinvestment plan available.	(C) In millions.	(D) Includes Intangibles. In 2011: \$371.4 million. \$13.90/share.	Company's Financial Strength A	Stock's Price Stability 100	Price Growth Persistence 60	Earnings Predictability 90
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PIEDMONT NAT'L GAS NYSE-PNY

RECENT PRICE **32.57** P/E RATIO **19.7** (Trailing: 20.7 Median: 18.0) RELATIVE P/E RATIO **1.28** DIV'D YLD **3.6%** VALUE LINE



1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	© VALUE LINE PUB. LLC	15-17
11.59	12.84	12.45	10.97	13.01	17.06	12.57	18.14	19.95	22.96	25.80	23.37	28.52	22.36	21.48	19.83	21.85	23.05	Revenues per sh ^A	25.95
1.49	1.62	1.72	1.70	1.77	1.81	1.81	2.04	2.31	2.43	2.51	2.64	2.77	3.01	2.91	2.99	3.10	3.20	"Cash Flow" per sh	3.50
.84	.93	.98	.93	1.01	1.01	.95	1.11	1.27	1.32	1.28	1.40	1.49	1.67	1.55	1.57	1.65	1.70	Earnings per sh ^{AB}	1.90
.57	.61	.64	.68	.72	.76	.80	.82	.85	.91	.95	.99	1.03	1.07	1.11	1.15	1.19	1.23	Div'ds Decl'd per sh ^C	1.35
1.64	1.52	1.48	1.58	1.65	1.29	1.21	1.16	1.85	2.50	2.74	1.85	2.47	1.76	2.75	3.37	7.75	7.85	Cap'l Spending per sh	8.10
6.53	6.95	7.45	7.86	8.26	8.63	8.91	9.36	11.15	11.53	11.83	11.99	12.11	12.67	13.35	13.79	13.95	14.05	Book Value per sh ^D	14.70
59.10	60.39	61.48	62.59	63.83	64.93	66.18	67.31	76.67	76.70	74.61	73.23	73.26	73.27	72.28	72.32	71.00	70.00	Common Shs Outst'g ^E	68.00
13.9	13.6	16.3	17.7	14.3	16.7	18.4	16.7	16.6	17.9	19.2	18.7	18.2	15.4	17.1	18.9	18.9	18.9	Avg Ann'l P/E Ratio	18.0
.87	.78	.85	1.01	.93	.86	1.01	.95	.88	.95	1.04	.99	1.10	1.03	1.09	1.19	1.19	1.19	Relative P/E Ratio	1.20
4.9%	4.8%	4.0%	4.1%	5.0%	4.5%	4.6%	4.4%	4.1%	3.8%	3.9%	3.8%	3.8%	4.1%	4.2%	3.9%	3.9%	3.9%	Avg Ann'l Div'd Yield	3.9%

CAPITAL STRUCTURE as of 10/31/11
 Total Debt \$1006.0 mill. Due in 5 Yrs \$175.0 mill.
 LT Debt \$675.0 mill. LT Interest \$46.1 mill.
 (LT interest earned: 4.1x; total interest coverage: 3.4x)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	15-17
832.0	1220.8	1529.7	1761.1	1924.6	1711.3	2089.1	1638.1	1552.3	1433.9	1550	1615	1615	1615	1615	Revenues (\$mill) ^A
62.2	74.4	95.2	101.3	97.2	104.4	110.0	122.8	111.8	113.6	117	120	120	120	120	Net Profit (\$mill)
33.1%	34.8%	35.1%	33.7%	34.2%	33.0%	36.3%	28.5%	23.4%	24.6%	30.0%	30.0%	30.0%	30.0%	30.0%	Income Tax Rate
7.5%	6.1%	6.2%	5.8%	5.0%	6.1%	5.3%	7.5%	7.2%	7.9%	7.6%	7.4%	7.4%	7.4%	7.4%	Net Profit Margin
43.9%	42.2%	43.6%	41.4%	48.3%	48.4%	47.2%	44.1%	41.0%	40.4%	43.0%	46.5%	46.5%	46.5%	46.5%	Long-Term Debt Ratio
56.1%	57.8%	56.4%	58.6%	51.7%	51.6%	52.8%	55.9%	59.0%	59.6%	57.0%	53.5%	53.5%	53.5%	53.5%	Common Equity Ratio
1051.6	1090.2	1514.9	1509.2	1707.9	1703.3	1681.5	1660.5	1636.9	1671.9	1735	1835	1835	1835	1835	Total Capital (\$mill)
1158.5	1812.3	1849.8	1939.1	2075.3	2141.5	2240.8	2304.4	2437.7	2627.3	2700	2750	2750	2750	2750	Net Plant (\$mill)
7.8%	8.6%	7.8%	8.2%	7.2%	7.8%	8.2%	9.1%	8.4%	8.2%	8.5%	8.5%	8.5%	8.5%	8.5%	Return on Total Cap'l
10.6%	11.8%	11.1%	11.5%	11.0%	11.9%	12.4%	13.2%	11.6%	11.4%	12.0%	12.0%	12.0%	12.0%	12.0%	Return on Shr. Equity
10.6%	11.8%	11.1%	11.5%	11.0%	11.9%	12.4%	13.2%	11.6%	11.4%	12.0%	12.0%	12.0%	12.0%	12.0%	Return on Com Equity
1.7%	3.1%	3.7%	3.6%	2.8%	3.5%	3.9%	4.8%	3.3%	3.1%	3.5%	3.5%	3.5%	3.5%	3.5%	Retained to Com Eq
83%	74%	66%	68%	74%	70%	69%	64%	72%	73%	72%	72%	72%	72%	72%	All Div'ds to Net Prof

Pension Assets-10/11 \$259.5 mill. Oblig. \$236.6 mill.

Pfd Stock None

Common Stock 72,338,303 shs. as of 12/16/11

MARKET CAP: \$2.4 billion (Mid Cap)

BUSINESS: Piedmont Natural Gas Company is primarily a regulated natural gas distributor, serving over 968,188 customers in North Carolina, South Carolina, and Tennessee. 2011 revenue mix: residential (46%), commercial (27%), industrial (7%), other (20%). Principal suppliers: Transco and Tennessee Pipeline. Gas costs: 60.0% of revenues. '11 deprec. rate: 3.2%. Estimated plant age: 10 years. Non-regulated operations: sale of gas-powered heating equipment; natural gas brokering; propane sales. Has about 1,782 employees. Off/dir. own about 1.2% of common stock, BlackRock, 7.6% (1/12 proxy). Chmn., CEO, & Pres.: Thomas E. Skains, Inc. NC. Addr.: 4720 Piedmont Row Drive, Charlotte, NC 28210. Telephone: 704-364-3120. Internet: www.piedmontng.com.

Piedmont Natural Gas likely posted January-period earnings little changed from last year. (Note: The company was expected to issue financial results shortly after this report went to press.) We look for the natural gas distributor to continue to register growth in the number of new customer accounts, despite the stagnant housing markets in PNY's service area. Piedmont was successful in raising that metric by 10,500 during the course of 2011 (the last period of available financial information), and we think that trend will continue. Alternatively, the decline in natural gas pricing will probably weigh on revenues. That said, this is largely viewed as a technicality as gas prices are just passed through to the end-customer. Overall, system throughput is a better gauge of PNY's business volumes, and that measure increased 10.7% in 2011, to 280 million dekatherms. This steady momentum ought to translate into a decent showing for the fiscal first quarter. However, things should pick up later this year, and we look for the company to log a 5% share-net advance in 2012. Last year's completion of two power generation projects at Duke's Buck facility and the Progress' Richmond facility should help contribute to this rise. Additional gains ought to stem from increased customer accounts. Finally, we are awaiting the decision for a possible rate increase by the Tennessee Regulatory Authority. Meantime, the balance sheet is in good shape and improving. The company's cash reserves advanced 20% last year, to roughly \$6.8 million. At the same time, the long-term debt load has remained relatively constant, at \$675 million. We have introduced our 2013 top- and bottom-line estimates at \$1.615 billion and \$1.70 a share, respectively. At the moment, PNY has two large capital undertakings in the works. The Progress' Wayne County and Sutton Projects have been completely designed, and construction is under way on the former, while Sutton should begin in May or June. Those ventures are slated for completion in June of 2012 and 2013, respectively. These shares don't stand out at this time for their yield or total return potential among utilities.

Bryan J. Fong March 9, 2012

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '09-'11	'15-'17
Revenues	4.5%	-1.5%	3.5%	3.5%
"Cash Flow"	5.5%	4.0%	2.5%	2.5%
Earnings	5.0%	4.5%	2.5%	2.5%
Dividends	4.5%	4.0%	3.5%	3.5%
Book Value	5.0%	3.0%	2.0%	2.0%

Fiscal Year Ends	QUARTERLY REVENUES (\$mill.) ^A	Full Fiscal Year			
	Jan.31	Apr.30	Jul.31	Oct.31	
2009	779.6	455.4	180.3	222.8	1638.1
2010	673.7	472.9	211.6	194.1	1552.3
2011	652.0	392.6	197.3	192.0	1433.9
2012	680	415	225	230	1550
2013	695	430	240	250	1615

Fiscal Year Ends	EARNINGS PER SHARE ^{A,B}	Full Fiscal Year			
	Jan.31	Apr.30	Jul.31	Oct.31	
2009	1.10	.73	d.10	d.06	1.67
2010	1.14	.65	d.13	d.13	1.55
2011	1.16	.66	d.12	d.13	1.57
2012	1.17	.68	d.10	d.10	1.65
2013	1.18	.70	d.09	d.09	1.70

Calendar	QUARTERLY DIVIDENDS PAID ^C	Full Year			
	Mar.31	Jun.30	Sep.30	Dec.31	
2008	.25	.26	.26	.26	1.03
2009	.26	.27	.27	.27	1.07
2010	.27	.28	.28	.28	1.11
2011	.28	.29	.29	.29	1.15
2012	.29				

(A) Fiscal year ends October 31st.
 (B) Diluted earnings. Excl. extraordinary item: '00, 8¢. Excl. non-recurring gains (losses): '97, (2¢); '10, 41¢. Next earnings report due mid-March.
 (C) Dividends historically paid mid-January, April, July, October.
 (D) Div'd reinvest. plan available; 5% discount.
 (E) Includes deferred charges. In 2011: \$527.6 million, \$7.29/share.
 (F) In millions, adjusted for stock split.

Company's Financial Strength B++
 Stock's Price Stability 100
 Price Growth Persistence 55
 Earnings Predictability 95

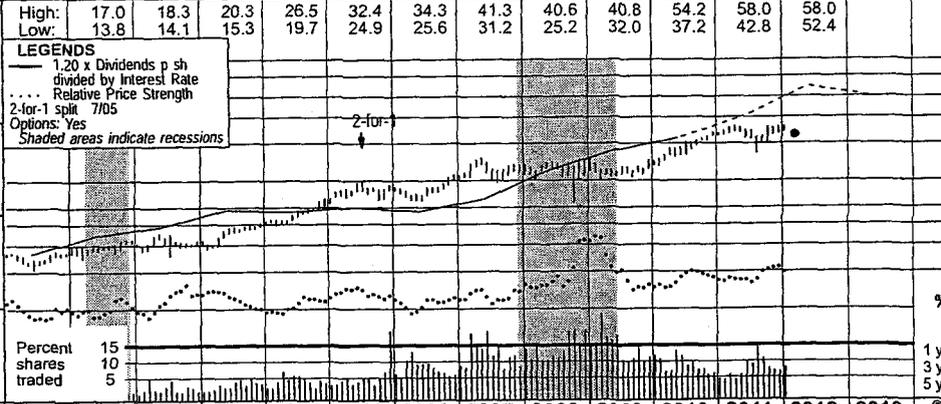
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SOUTH JERSEY INDS. NYSE-SJI

RECENT PRICE **52.69** P/E RATIO **17.0** (Trailing: 18.2 Median: 15.0) RELATIVE P/E RATIO **1.10** DIV'D YLD **3.1%** VALUE LINE

TIMELINESS 3 Raised 3/9/12
SAFETY 2 Lowered 1/4/91
TECHNICAL 3 Lowered 9/2/11
BETA .65 (1.00 = Market)



2015-17 PROJECTIONS
 Ann'l Total
 Price Gain Return
 High 70 (+35%) 10%
 Low 55 (+5%) 5%

Insider Decisions
 A M J J A S O N D
 to Buy 0 0 0 0 2 0 0 0 0 0
 Options 0 0 0 0 0 0 0 0 0 0
 to Sell 0 3 1 0 2 0 0 0 0 0

Institutional Decisions
 2Q2011 3Q2011 4Q2011
 to Buy 64 68 59
 to Sell 73 66 60
 Hld's(000) 17547 17887 17847

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	15-17	
16.52	16.18	20.89	17.60	22.43	35.30	20.89	26.34	29.51	31.78	31.76	32.30	32.36	28.37	30.97	27.43	30.30	32.05	Revenues per sh	38.55
1.54	1.60	1.44	1.84	1.95	1.90	2.12	2.24	2.44	2.51	3.51	3.20	3.48	3.72	4.21	4.54	4.85	5.05	"Cash Flow" per sh	6.20
.85	.86	.64	1.01	1.08	1.15	1.22	1.37	1.58	1.71	2.46	2.09	2.27	2.38	2.70	2.89	3.20	3.50	Earnings per sh ^A	4.50
.72	.72	.72	.72	.73	.74	.75	.78	.82	.86	.92	1.01	1.11	1.22	1.36	1.50	1.64	1.80	Div'ds Decl'd per sh ^B	2.25
2.01	2.30	3.06	2.19	2.21	2.82	3.47	2.36	2.67	3.21	2.51	1.88	2.08	3.67	5.59	6.39	6.45	6.70	Cap'l Spending per sh	7.45
8.03	6.43	6.23	6.74	7.25	7.81	9.67	11.26	12.41	13.50	15.11	16.25	17.33	18.24	19.08	20.66	21.30	22.20	Book Value per sh ^C	25.70
21.51	21.54	21.56	22.30	23.00	23.72	24.41	26.46	27.76	28.98	29.33	29.61	29.73	29.80	29.87	30.21	31.00	32.00	Common Shs Outst'g ^D	35.00
13.3	13.8	21.2	13.3	13.0	13.6	13.5	13.3	14.1	16.6	11.9	17.2	15.9	15.0	16.8	18.5	18.5	18.5	Avg Ann'l P/E Ratio	14.0
.83	.80	1.10	.76	.85	.70	.74	.76	.74	.88	.64	.91	.96	1.00	1.07	1.16	1.16	1.16	Relative P/E Ratio	.95
6.4%	6.1%	5.3%	5.4%	5.2%	4.7%	4.6%	4.3%	3.7%	3.0%	3.2%	2.8%	3.1%	3.4%	3.0%	2.8%	2.8%	2.8%	Avg Ann'l Div'd Yield	3.6%

CAPITAL STRUCTURE as of 12/31/11
 Total Debt \$747.8 mill. Due in 5 Yrs \$417.2 mill.
 LT Debt \$424.2 mill. LT Interest \$18.0 mill.
 (Total interest coverage: 5.7x)

Pension Assets-12/11 \$116.7 mill.
 Oblig. \$195.0 mill.

Pfd Stock None

Common Stock 30,249,818 common shs. as of 2/15/12

MARKET CAP: \$1.6 billion (Mid Cap)

CURRENT POSITION	2009	2010	12/31/11
Cash Assets	3.8	2.4	7.5
Other	364.6	421.4	333.1
Current Assets	368.4	423.8	340.6
Accts Payable	123.9	165.2	153.7
Debt Due	231.7	362.1	323.6
Other	123.2	113.2	110.7
Current Liab.	478.8	640.5	588.0
Fix. Chg. Cov.	585%	532%	505%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '09-'11 to '15-'17
Revenues	4.0%	1.0%	5.0%
"Cash Flow"	8.0%	9.5%	7.0%
Earnings	10.5%	9.5%	9.0%
Dividends	5.5%	8.5%	9.0%
Book Value	10.5%	8.0%	5.0%

Cal-endar	QUARTERLY REVENUES (\$mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2009	362.2	134.5	127.1	221.6	845.4
2010	329.3	151.6	160.7	283.5	925.1
2011	331.9	160.5	137.6	198.6	828.6
2012	345	170	160	265	940
2013	360	180	175	310	1025

Cal-endar	EARNINGS PER SHARE ^A				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2009	1.46	.15	d.06	.83	2.38
2010	1.49	.24	.10	.87	2.70
2011	1.63	.20	.01	1.05	2.89
2012	1.70	.25	.10	1.15	3.20
2013	1.80	.30	.15	1.25	3.50

Cal-endar	QUARTERLY DIVIDENDS PAID ^B				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2008	--	.270	.270	.568	1.11
2009	--	.298	.298	.628	1.22
2010	--	.330	.330	.695	1.36
2011	--	.365	.365	.768	1.50

BUSINESS: South Jersey Industries, Inc. is a holding company. Its subsidiary, South Jersey Gas Co., distributes natural gas to 347,725 customers in New Jersey's southern counties, which covers about 2,500 square miles and includes Atlantic City. Gas revenue mix '11: residential, 41%; commercial, 20%; cogeneration and electric generation, 14%; industrial, 25%. Non-utility operations

Operating performance at South Jersey Industries has proven somewhat mixed in recent times. The relatively mild winter weather has adversely affected heating demand. However, the company's mainstay utility business should continue to benefit from earnings derived from the Capital Investment Recovery Tracker program. These earnings are based upon the pattern of customer gas consumption, which correlates to heating demand and is strongest in the first and fourth quarters. Overall, modest growth from the utility business is on tap.

The company's nonutility operations may well continue to face challenges. Wholesale gas marketing continues to be hurt by difficult industry conditions. This includes thin storage spreads and a lack of price volatility. The delayed startup of one of the company's solar projects (which was pushed back from the December to the March period) likely hindered performance in 2011, but should provide a boost in the current year.

Utility South Jersey Gas should post solid results going forward. This line will probably continue to experience

include: South Jersey Energy, South Jersey Resources Group, Marina Energy, and South Jersey Energy Service Plus. Has 675 employees. Off./dir. control 1.0% of common shares; Black Rock Inc., 8.3% (4/11 proxy). Chmn. & CEO: Edward Graham. Inc.: NJ. Address: 1 South Jersey Plaza, Folsom, NJ 08037. Telephone: 609-561-9000. Internet: www.sjindustries.com.

steady growth in the customer base. Natural gas remains the fuel of choice within the utility's service territory. It should further benefit from customer interest in converting to natural gas from other fuel sources. Moreover, further spending on infrastructure projects (approved by the New Jersey Board of Public Utilities) should enhance service and allow the company to earn a healthy return on these investments. Performance of the nonutility operations should also improve. The company's pipeline of energy projects, and opportunities in the Marcellus region, ought to provide a solid foundation for future growth.

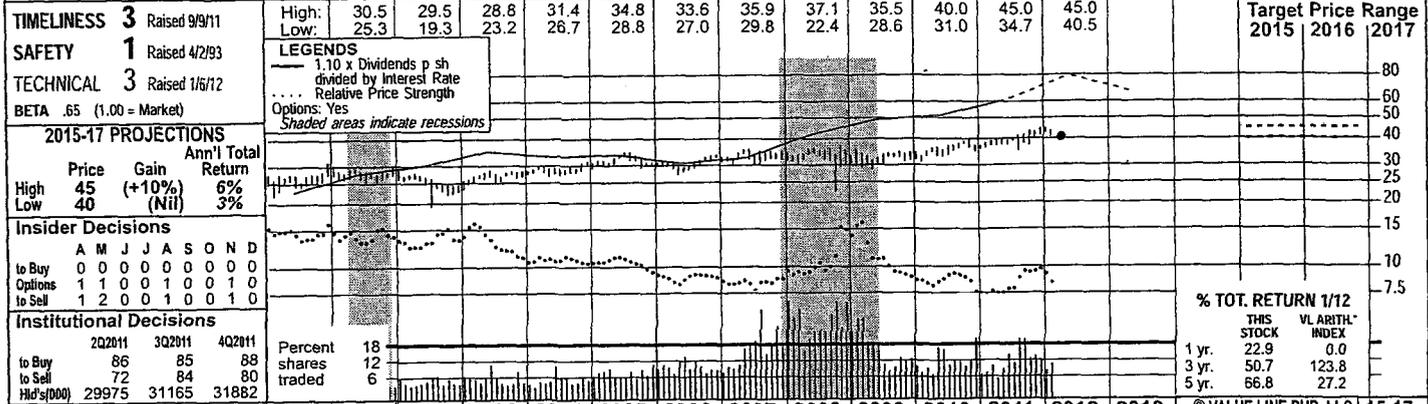
This stock is neutrally ranked for year-ahead performance. We project solid growth in share earnings and dividends for the company over the pull to 2015-2017. South Jersey earns good marks for Safety, Price Stability, and Earnings Predictability. However, this appears to be partly reflected in the recent quotation. This equity offers unimpressive, though relatively well-defined, total return potential for the coming years.

Michael Napoli, CFA March 9, 2012

(A) Based on GAAP egs. through 2006, economic egs. thereafter. GAAP EPS: '07, \$2.10; '08, \$2.58; '09, \$1.94; '10, \$2.22. Excl. non-recur. gain (loss): '01, \$0.13; '08, \$0.31; '09, (\$0.44); '10, (\$0.47). Excl gain (losses) from discount. ops.: '01, (\$0.02); '02, (\$0.04); '03, (\$0.09); '05, (\$0.02); '06, (\$0.02); '07, \$0.01. Next egs. report due in May. (B) Div'ds paid early April, July, Oct., and late Dec. * Div. reinvest. plan avail. (C) Incl. reg. assets. In 2010: \$248.4 mill., \$8.32 per shr. (D) In mill., adj. for split

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	90
Earnings Predictability	85

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1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	© VALUE LINE PUB. LLC	15-17
22.19	24.16	23.74	20.92	22.19	29.80	32.63	42.45	42.93	44.94	53.96	53.51	52.65	53.98	53.60	53.75	54.35	55.05	Revenues per sh ^A	59.90
2.93	3.02	2.79	2.74	3.20	3.24	2.63	4.00	3.87	3.97	3.84	3.89	4.34	4.44	4.11	4.01	4.40	4.45	"Cash Flow" per sh	4.70
1.85	1.85	1.54	1.47	1.79	1.88	1.14	2.30	1.98	2.13	1.94	2.09	2.44	2.53	2.27	2.25	2.50	2.55	Earnings per sh ^B	2.80
1.14	1.17	1.20	1.22	1.24	1.26	1.27	1.28	1.30	1.32	1.35	1.37	1.41	1.47	1.50	1.55	1.59	1.63	Div'ds Decl'd per sh ^C	1.75
2.85	3.20	3.62	3.42	2.67	2.68	3.34	2.65	2.33	2.32	3.27	3.33	2.70	2.77	2.57	3.94	5.85	4.85	Cap'l Spending per sh	4.80
12.79	13.48	13.86	14.72	15.31	16.24	15.78	16.25	16.95	17.80	18.86	19.83	20.99	21.89	22.82	23.49	24.60	25.60	Book Value per sh ^D	28.65
43.70	43.70	43.84	46.47	46.47	48.54	48.56	48.63	48.67	48.65	48.89	49.45	49.92	50.14	50.54	51.20	51.50	51.75	Common Shs Outst'g ^E	52.00
11.5	12.7	17.2	17.3	14.6	14.7	23.1	11.1	14.2	14.7	15.5	15.6	13.7	12.6	15.1	17.0	17.0	17.0	Avg Ann'l P/E Ratio	15.0
.72	.73	.89	.99	.95	.75	1.26	.63	.75	.78	.84	.83	.82	.84	.96	1.07	1.07	1.07	Relative P/E Ratio	1.00
5.4%	5.0%	4.5%	4.8%	4.8%	4.6%	4.8%	5.0%	4.6%	4.2%	4.5%	4.2%	4.2%	4.6%	4.4%	4.1%	4.1%	4.1%	Avg Ann'l Div'd Yield	4.2%

CAPITAL STRUCTURE as of 12/31/11

Total Debt \$862.1 mill. Due in 5 Yrs \$189.2 mill.	1584.8	2064.2	2089.6	2186.3	2637.9	2646.0	2628.2	2706.9	2708.9	2751.5	2800	2850	Revenues (\$mill) ^A	3115
LT Debt \$584.0 mill. LT Interest \$40.0 mill.	55.7	112.3	98.0	104.8	96.0	102.9	122.9	128.7	115.0	115.5	129	132	Net Profit (\$mill)	145
(LT interest earned: 6.2x; total interest coverage: 5.7x)	34.0%	38.0%	38.2%	37.4%	39.0%	39.1%	37.1%	39.1%	38.7%	42.4%	39.0%	39.0%	Income Tax Rate	39.0%
Pension Assets-9/11 \$1,289.0 mill.	3.5%	5.4%	4.7%	4.8%	3.6%	3.9%	4.7%	4.8%	4.2%	4.2%	4.6%	4.6%	Net Profit Margin	4.7%
Oblig. \$896.5 mill.	45.7%	43.8%	40.9%	39.5%	37.8%	37.9%	35.9%	33.3%	33.4%	32.3%	31.0%	30.5%	Long-Term Debt Ratio	28.5%
Preferred Stock \$28.2 mill. Pfd. Div'd \$1.3 mill.	52.4%	54.3%	57.2%	58.6%	60.4%	60.3%	62.4%	65.0%	65.0%	66.2%	67.5%	68.5%	Com-Item Equity Ratio	70.5%
Common Stock 51,497,582 shs. as of 1/31/12	1462.5	1454.9	1443.6	1478.1	1526.1	1625.4	1679.5	1687.7	1774.4	1818.1	1875	1935	Total Capital (\$mill)	2115
	1606.8	1874.9	1915.6	1969.7	2067.9	2150.4	2208.3	2269.1	2346.2	2489.9	2640	2805	Net Plant (\$mill)	3350
	5.3%	9.1%	8.2%	8.5%	7.6%	7.6%	8.5%	8.8%	7.6%	7.5%	8.0%	8.0%	Return on Total Cap'l	8.0%
	7.0%	13.7%	11.5%	11.7%	10.1%	10.2%	11.4%	11.4%	9.7%	9.4%	10.0%	10.0%	Return on Shr. Equity	10.0%
	7.2%	14.0%	11.7%	12.0%	10.3%	10.4%	11.6%	11.6%	9.9%	9.5%	10.0%	10.0%	Return on Com Equity	10.0%
	NMF	6.2%	4.1%	4.6%	3.2%	3.5%	5.0%	5.0%	3.3%	3.4%	3.5%	3.5%	Retained to Com Eq	3.5%
	112%	56%	65%	62%	69%	66%	57%	57%	67%	64%	64%	64%	All Div'ds to Net Prof	62%

WGL Holdings logged a mixed bag of financial results for its December interim. Indeed, the top line declined approximately 9% on a year-over-year basis, to \$727.8 million. However, we view this largely as a technicality stemming from the decrease in natural gas prices over that time frame. Alternatively, the Regulated Utility unit added 9,300 active customer meters. On the margin front, the utility cost of gas declined 8.27% as a function of revenues. This was partially offset by a 7.3% rise in the non-utility cost of energy-related sales. Elsewhere, the Retail Energy-Marketing segment saw the total number of electric accounts grow by 33,800, to 194,400. Finally, the Commercial Energy Systems division inched back into positive territory as some previously delayed government projects came on line. On balance, the bottom line increased 11%, to \$1.13 a share. We look for the natural gas distributor to post a double-digit earnings advance this year. This should be supported by steady growth at the regulated utility segment, solid gains at the retail energy marketing unit, and positive contributions from the commercial energy services division. Too, warmer weather and lower natural gas prices should have a favorable effect on the wholesale energy solutions business, although this does not augur well for WGL's other operations. The company's balance sheet is improving. So far this year, cash reserves increased 27%, to \$5.5 million. At the same time, the long-term debt load remains constant at about \$585 million. We have introduced our 2013 top- and bottom-line estimates at \$2.85 billion and \$2.55 a share, respectively. Aside from steady growth in customer accounts, WGL is awaiting the decision for a rate increase in Virginia. And, the company plans to file for a hike in rates for the District of Columbia, as well. Finally, alternative energy projects may also be a boon. These shares offer a slightly above-average dividend yield, when compared to all other utilities in the Value Line universe. However, they are currently trading inside our Target Price Range, thus, their appreciation potential is limited through 2015-2017.

Bryan J. Fong March 9, 2012

(A) Fiscal years end Sept. 30th. (15¢). Qly egs. may not sum to total, due to change in shares outstanding. Next earnings report due late Apr. (C) Dividends historically paid early February, May, August, and November. (D) Includes deferred charges and intangibles. (E) In millions, adjusted for stock split.

Company's Financial Strength A
 Stock's Price Stability 100
 Price Growth Persistence 50
 Earnings Predictability 95

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ATTACHMENT C

AMERICAN STS WTR CO (NYSE)

ZACKS RANK: 3 - HOLD

AWR 35.76 ▲0.44 (1.25%) Vol. 14,168 13:08 ET

American States is a public utility company engaged principally in the purchase, production, distribution and sale of water. The company also distributes electricity in some communities. In the customer service areas for both water and electric, rates and operations are subject to the jurisdiction of the California Public Utilities Commission.

General Information

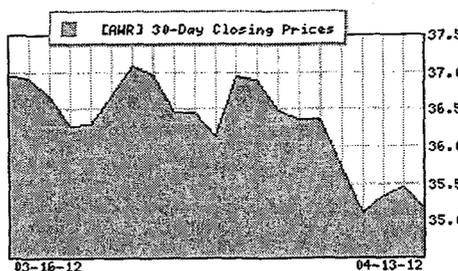
AMER STATES WTR
630 E FOOTHILL BLVD
SAN DIMAS, CA 91773-9016
Phone: 9093943600
Fax: 909-394-0711
Web: <http://www.aswater.com>
Email: nvestorinfo@aswater.com

Industry: UTIL-WATER
Sector: SPLY
Utilities

Fiscal Year End: December
Last Completed Quarter: 12/31/11
Next EPS Date: 05/03/2012

Price and Volume Information

Zacks Rank: **2**
Yesterday's Close: 35.32
52 Week High: 38.00
52 Week Low: 30.53
Beta: 0.34
20 Day Moving Average: 102,399.45
Target Price Consensus: 40.75



% Price Change

4 Week: -4.36
12 Week: -0.81
YTD: 1.20

% Price Change Relative to S&P 500

4 Week: -1.55
12 Week: -4.69
YTD: -7.54

Share Information

Shares Outstanding (millions): 18.85
Market Capitalization (millions): 665.71
Short Ratio: 5.32
Last Split Date: 06/10/2002

Dividend Information

Dividend Yield: 3.17%
Annual Dividend: \$1.12
Payout Ratio: 0.00
Change in Payout Ratio: 0.00
Last Dividend Payout / Amount: 02/10/2012 / \$0.28

EPS Information

Current Quarter EPS Consensus Estimate: 0.40
Current Year EPS Consensus Estimate: 2.23
Estimated Long-Term EPS Growth Rate: 12.00
Next EPS Report Date: 05/03/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.14
30 Days Ago: 2.14
60 Days Ago: 2.14
90 Days Ago: 2.14

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 15.86	vs. Previous Year: -5.41%	vs. Previous Year: -8.16%
Trailing 12 Months: 15.84	vs. Previous Quarter: -57.83%	vs. Previous Quarter: -20.56%
PEG Ratio: 1.32		

Price Ratios	ROE	ROA
Price/Book	03/31/12	03/31/12

	1.62		-		-
Price/Cash Flow	8.24	12/31/11	10.59	12/31/11	3.47
Price / Sales	-	09/30/11	10.86	09/30/11	3.53
Current Ratio		Quick Ratio		Operating Margin	
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	1.59	12/31/11	1.56	12/31/11	10.02
09/30/11	1.38	09/30/11	1.35	09/30/11	9.88
Net Margin		Pre-Tax Margin		Book Value	
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	17.19	12/31/11	17.19	12/31/11	21.81
09/30/11	17.27	09/30/11	17.27	09/30/11	21.68
Inventory Turnover		Debt-to-Equity		Debt to Capital	
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	37.26	12/31/11	0.83	12/31/11	45.44
09/30/11	40.72	09/30/11	0.84	09/30/11	45.66

CALIFORNIA WTR SVC GROUP (NYSE)

ZACKS RANK: 5 - STRONG SELL

CWT 17.82 +0.18 (1.02%) Vol. 93,158 13:20 ET

California Water Service Company's business, which is carried on through its operating subsidiaries, consists of the production, purchase, storage, purification, distribution and sale of water for domestic, industrial, public and irrigation uses, and for fire protection. It also provides water related services under agreements with municipalities and other private companies. The nonregulated services include full water system operation, and billing and meter reading services.

General Information

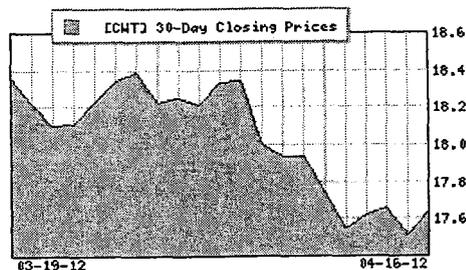
CALIF WATER SVC
 1720 N FIRST ST C/O CALIFORNIA WATER
 SERVICE CO
 SAN JOSE, CA 95112
 Phone: 4083678200
 Fax: 831-427-9185
 Web: <http://www.calwatergroup.com>
 Email: None

Industry: UTIL-WATER
 SPLY
 Sector: Utilities

Fiscal Year End: December
 Last Completed Quarter: 12/31/11
 Next EPS Date: 05/02/2012

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 17.64
 52 Week High: 19.37
 52 Week Low: 16.65
 Beta: 0.28
 20 Day Moving Average: 227,346.55
 Target Price Consensus: 20.6



% Price Change

4 Week: -3.92
 12 Week: -3.29
 YTD: -3.40

% Price Change Relative to S&P 500

4 Week: -1.10
 12 Week: -7.07
 YTD: -11.99

Share Information

Shares Outstanding (millions): 41.82
 Market Capitalization (millions): 737.65
 Short Ratio: 2.89
 Last Split Date: 06/13/2011

Dividend Information

Dividend Yield: 3.57%
 Annual Dividend: \$0.63
 Payout Ratio: 0.00
 Change in Payout Ratio: 0.00
 Last Dividend Payout / Amount: 02/02/2012 / \$0.16

EPS Information

Current Quarter EPS Consensus Estimate: 0.04
 Current Year EPS Consensus Estimate: 1.06
 Estimated Long-Term EPS Growth Rate: 10.00
 Next EPS Report Date: 05/02/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.38
 30 Days Ago: 2.38
 60 Days Ago: 2.00
 90 Days Ago: 2.00

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 16.60	vs. Previous Year: -65.22%	vs. Previous Year: -2.32%
Trailing 12 Months: 20.63	vs. Previous Quarter: -92.00%	vs. Previous Quarter: -39.14%
PEG Ratio: 1.66		

Price Ratios		ROE		ROA	
Price/Book	1.64	03/31/12	-	03/31/12	-
Price/Cash Flow	8.44	12/31/11	8.13	12/31/11	2.03
Price / Sales	-	09/30/11	8.88	09/30/11	2.25
Current Ratio		Quick Ratio		Operating Margin	
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	0.75	12/31/11	0.71	12/31/11	7.18
09/30/11	0.97	09/30/11	0.93	09/30/11	7.74
Net Margin		Pre-Tax Margin		Book Value	
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	12.13	12/31/11	12.13	12/31/11	10.76
09/30/11	13.44	09/30/11	13.44	09/30/11	10.88
Inventory Turnover		Debt-to-Equity		Debt to Capital	
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	34.01	12/31/11	1.07	12/31/11	51.71
09/30/11	33.41	09/30/11	1.05	09/30/11	51.26

MIDDLESEX WATER CO (NASD)

ZACKS RANK: 3 - HOLD

MSEX 18.25 ▲0.08 (0.44%) Vol. 3,073 13:19 ET

Middlesex Water Company treats, stores and distributes water for residential, commercial, industrial and fire prevention purposes.

General Information

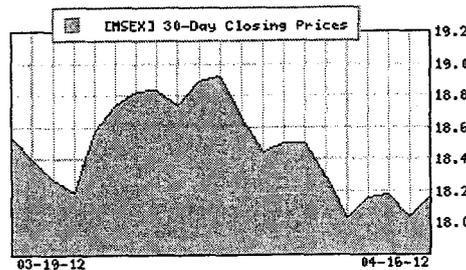
MIDDLESEX WATER
1500 RONSON RD P O BOX 1500
ISELIN, NJ 08830
Phone: 7326341500
Fax: 732-638-7515
Web: <http://www.middlesexwater.com>
Email: bsohler@middlesexwater.com

Industry: UTIL-WATER
Sector: SPLY
Utilities

Fiscal Year End: December
Last Completed Quarter: 12/31/11
Next EPS Date: 05/11/2012

Price and Volume Information

Zacks Rank 
Yesterday's Close: 18.17
52 Week High: 19.60
52 Week Low: 16.51
Beta: 0.46
20 Day Moving Average: 27,818.00
Target Price Consensus: 20



% Price Change

4 Week: -2.00
12 Week: -2.15
YTD: -2.63

% Price Change Relative to S&P 500

4 Week: 0.88
12 Week: -5.98
YTD: -11.27

Share Information

Shares Outstanding (millions): 15.70
Market Capitalization (millions): 285.32
Short Ratio: 13.51
Last Split Date: 11/17/2003

Dividend Information

Dividend Yield: 4.07%
Annual Dividend: \$0.74
Payout Ratio: 0.00
Change in Payout Ratio: 0.00
Last Dividend Payout / Amount: 02/13/2012 / \$0.19

EPS Information

Current Quarter EPS Consensus Estimate: 0.16
Current Year EPS Consensus Estimate: 0.97
Estimated Long-Term EPS Growth Rate: -
Next EPS Report Date: 05/11/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.33
30 Days Ago: 2.33
60 Days Ago: 2.33
90 Days Ago: 2.33

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 18.67	vs. Previous Year: -25.00%	vs. Previous Year: -6.68%
Trailing 12 Months: 21.63	vs. Previous Quarter: -62.50%	vs. Previous Quarter: -18.73%
PEG Ratio: -		

Price Ratios

Price/Book: 1.61
ROE: 03/31/12

ROA

ROA: 03/31/12

Price/Cash Flow	11.90	12/31/11	7.65	12/31/11	2.64
Price / Sales	-	09/30/11	8.02	09/30/11	2.82
Current Ratio			Quick Ratio		Operating Margin
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	0.49	12/31/11	0.45	12/31/11	13.17
09/30/11	0.57	09/30/11	0.53	09/30/11	13.50
Net Margin			Pre-Tax Margin		Book Value
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	19.57	12/31/11	19.57	12/31/11	11.32
09/30/11	20.10	09/30/11	20.10	09/30/11	11.36
Inventory Turnover			Debt-to-Equity		Debt to Capital
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	30.28	12/31/11	0.75	12/31/11	42.29
09/30/11	29.83	09/30/11	0.75	09/30/11	42.31

SJW CORP (NYSE)	ZACKS RANK: 3 - HOLD
SJW 23.92 ▲ 0.18 (0.76%) Vol. 17,060 13:19 ET	

SJW CORP. is a holding company which operates through its wholly-owned subsidiaries, San Jose Water Co., SJW Land Co., and Western Precision, Inc. San Jose Water Co., is a public utility in the business of providing waterservice to a population of approximately 928,000 people. Their servicearea encompasses about 134 sq. miles in the metropolitan San Juan area. SJW Land Co. operates parking facilities located adjacent to the theirheadquarters and the San Jose area.

General Information

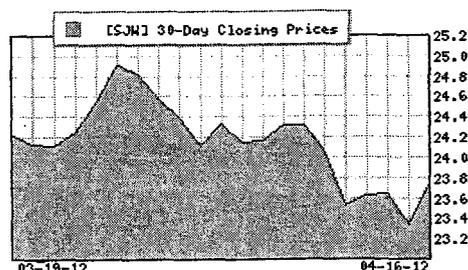
SJW CORP
 110 W. TAYLOR STREET
 SAN JOSE, CA 95110
 Phone: 4082797800
 Fax: 408-279-7917
 Web: <http://www.sjwater.com/>
 Email: boardofdirectors@sjwater.com

Industry UTIL-WATER
 SPLY
 Sector: Utilities

Fiscal Year End December
 Last Completed Quarter 12/31/11
 Next EPS Date 04/25/2012

Price and Volume Information

Zacks Rank 
 Yesterday's Close 23.74
 52 Week High 25.32
 52 Week Low 20.87
 Beta 0.57
 20 Day Moving Average 24,341.00
 Target Price Consensus 27.67



% Price Change	% Price Change Relative to S&P 500
4 Week -2.06	4 Week 0.81
12 Week 3.40	12 Week -0.65
YTD 0.42	YTD -9.39

Share Information

Shares Outstanding (millions) 18.62
 Market Capitalization (millions) 442.02
 Short Ratio 12.75
 Last Split Date 03/17/2006

Dividend Information

Dividend Yield 2.99%
 Annual Dividend \$0.71
 Payout Ratio 0.00
 Change in Payout Ratio 0.00
 Last Dividend Payout / Amount 02/02/2012 / \$0.18

EPS Information

Current Quarter EPS Consensus Estimate 0.02
 Current Year EPS Consensus Estimate 0.94
 Estimated Long-Term EPS Growth Rate -
 Next EPS Report Date 04/25/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell) 1.67
 30 Days Ago 1.67
 60 Days Ago 2.33
 90 Days Ago 2.33

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 25.34	vs. Previous Year 70.00%	vs. Previous Year 22.83%
Trailing 12 Months: 25.53	vs. Previous Quarter -61.36%	vs. Previous Quarter: -15.66%
PEG Ratio		

Price Ratios		ROE		ROA	
Price/Book	1.67	03/31/12	-	03/31/12	-
Price/Cash Flow	8.79	12/31/11	6.79	12/31/11	1.75
Price / Sales	-	09/30/11	6.34	09/30/11	1.66
Current Ratio		Quick Ratio		Operating Margin	
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	2.44	12/31/11	2.40	12/31/11	7.34
09/30/11	2.31	09/30/11	2.28	09/30/11	7.13
Net Margin		Pre-Tax Margin		Book Value	
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	14.83	12/31/11	14.83	12/31/11	14.20
09/30/11	16.55	09/30/11	16.55	09/30/11	14.01
Inventory Turnover		Debt-to-Equity		Debt to Capital	
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	106.64	12/31/11	1.30	12/31/11	56.57
09/30/11	105.35	09/30/11	1.32	09/30/11	56.96

AQUA AMERICA INC (NYSE)

ZACKS RANK: 3 - HOLD

WTR 22.03 ▲ 0.33 (1.52%) Vol. 238,226 13:22 ET

Aqua America is the largest publicly-traded U.S.-based water utility serving residents in Pennsylvania, Ohio, Illinois, Texas, New Jersey, Indiana, Virginia, Florida, North Carolina, Maine, Missouri, New York, South Carolina and Kentucky. The company has been committed to the preservation and improvement of the environment throughout its history, which spans more than 100 years.

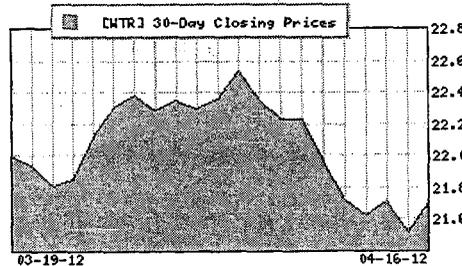
General Information

AQUA AMER INC
762 W. LANCASTER AVE
BRYN MAWR, PA 19010-3489
Phone: 610-527-8000
Fax: 610-645-1061
Web: <http://www.aquaamerica.com>
Email: None

Industry: UTIL-WATER
Sector: SPLY Utilities
Fiscal Year End: December
Last Completed Quarter: 12/31/11
Next EPS Date: 05/03/2012

Price and Volume Information

Zacks Rank **3**
Yesterday's Close 21.70
52 Week High 23.28
52 Week Low 19.28
Beta 0.21
20 Day Moving Average 387,155.69
Target Price Consensus 24.71



% Price Change

4 Week -1.36
12 Week -0.32
YTD -1.59

% Price Change Relative to S&P 500

4 Week 1.53
12 Week -4.22
YTD -10.43

Share Information

Shares Outstanding (millions) 138.88
Market Capitalization (millions) 3,013.63
Short Ratio 7.96
Last Split Date 12/02/2005

Dividend Information

Dividend Yield 3.04%
Annual Dividend \$0.66
Payout Ratio 0.00
Change in Payout Ratio 0.00
Last Dividend Payout / Amount 02/15/2012 / \$0.17

EPS Information

Current Quarter EPS Consensus Estimate 0.21
Current Year EPS Consensus Estimate 1.08
Estimated Long-Term EPS Growth Rate 8.30
Next EPS Report Date 05/03/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell) 2.15
30 Days Ago 2.15
60 Days Ago 1.92
90 Days Ago 1.92

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 20.08	vs. Previous Year -4.76%	vs. Previous Year -3.69%
Trailing 12 Months: 23.08	vs. Previous Quarter -33.33%	vs. Previous Quarter: -12.48%
PEG Ratio 2.43		

Price Ratios

ROE

ROA

Price/Book	2.40	03/31/12	-	03/31/12	-
Price/Cash Flow	12.43	12/31/11	10.73	12/31/11	3.10
Price / Sales	-	09/30/11	10.94	09/30/11	3.16
Current Ratio		Quick Ratio		Operating Margin	
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	0.75	12/31/11	0.73	12/31/11	17.91
09/30/11	0.78	09/30/11	0.76	09/30/11	17.81
Net Margin		Pre-Tax Margin		Book Value	
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	30.32	12/31/11	30.32	12/31/11	9.03
09/30/11	29.01	09/30/11	29.01	09/30/11	8.76
Inventory Turnover		Debt-to-Equity		Debt to Capital	
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	23.76	12/31/11	1.11	12/31/11	52.71
09/30/11	24.09	09/30/11	1.16	09/30/11	53.63

AGL RESOURCES INC (NYSE)

ZACKS RANK: 5 - STRONG SELL

GAS 38.34 ▲0.18 (0.47%) Vol. 217,983 13:24 ET

AGL Resources principal business is the distribution of natural gas to customers in central, northwest, northeast and southeast Georgia and the Chattanooga, Tennessee area through its natural gas distribution subsidiary. AGL's major service area is the ten county metropolitan Atlanta area.

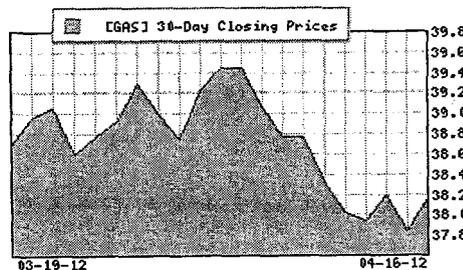
General Information
 AGL RESOURCES
 TEN PEACHTREE PLACE
 ATLANTA, GA 30309
 Phone: 4045844000
 Fax: 404-584-3945
 Web: <http://www.aglresources.com>
 Email: scave@aglresources.com

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: December
 Last Completed Quarter: 12/31/11
 Next EPS Date: 05/03/2012

Price and Volume Information

Zacks Rank: **5**
 Yesterday's Close: 38.16
 52 Week High: 43.69
 52 Week Low: 34.08
 Beta: 0.41
 20 Day Moving Average: 496,616.19
 Target Price Consensus: 41.8



% Price Change

4 Week: -1.37
 12 Week: -8.97
 YTD: -9.70

% Price Change Relative to S&P 500

4 Week: 1.52
 12 Week: -12.53
 YTD: -17.82

Share Information

Shares Outstanding (millions): 117.23
 Market Capitalization (millions): 4,473.54
 Short Ratio: 2.18
 Last Split Date: 12/04/1995

Dividend Information

Dividend Yield: 4.72%
 Annual Dividend: \$1.80
 Payout Ratio: 0.00
 Change in Payout Ratio: 0.00
 Last Dividend Payout / Amount: 02/15/2012 / \$0.35

EPS Information

Current Quarter EPS Consensus Estimate: 1.37
 Current Year EPS Consensus Estimate: 2.83
 Estimated Long-Term EPS Growth Rate: 4.10
 Next EPS Report Date: 05/03/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.57
 30 Days Ago: 2.57
 60 Days Ago: 2.57
 90 Days Ago: 2.57

Fundamental Ratios

P/E

Current FY Estimate: 13.50
 Trailing 12 Months: 13.39
 PEG Ratio: 3.33

EPS Growth

vs. Previous Year: 1.16%
 vs. Previous Quarter: 4,250.00%

Sales Growth

vs. Previous Year: 18.80%
 vs. Previous Quarter: 167.80%

Price Ratios

Price/Book: 0.90

ROE

03/31/12

ROA

- 03/31/12

Price/Cash Flow	7.18	12/31/11	10.23	12/31/11	2.60
Price / Sales	-	09/30/11	11.78	09/30/11	3.05
Current Ratio		Quick Ratio		Operating Margin	
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	0.89	12/31/11	0.65	12/31/11	9.90
09/30/11	1.58	09/30/11	1.02	09/30/11	10.05
Net Margin		Pre-Tax Margin		Book Value	
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	13.30	12/31/11	13.30	12/31/11	42.51
09/30/11	15.41	09/30/11	15.41	09/30/11	23.97
Inventory Turnover		Debt-to-Equity		Debt to Capital	
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	2.77	12/31/11	1.07	12/31/11	51.61
09/30/11	2.82	09/30/11	1.43	09/30/11	58.82

ATMOS ENERGY CORP (NYSE)

ZACKS RANK: 4 - SELL

ATO 31.64 ▲0.19 (0.60%) Vol. 257,972 13:24 ET

Atmos Energy Corporation distributes and sells natural gas to residential, commercial, industrial, agricultural and other customers. Atmos operates through five divisions in cities, towns and communities in service areas located in Colorado, Georgia, Illinois, Iowa, Kansas, Kentucky, Louisiana, Missouri, South Carolina, Tennessee, Texas and Virginia. The Company has entered into an agreement to sell all of its natural gas utility operations in South Carolina. The Company also transports natural gas for others through its distribution system.

General Information

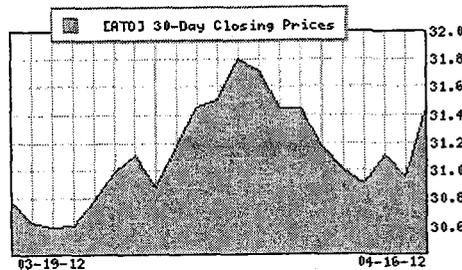
ATMOS ENERGY CP
 1800 THREE LINCOLN CTR 5430 LBJ
 FREEWAY
 DALLAS, TX 75240
 Phone: 9729349227
 Fax: 972-855-3040
 Web: <http://www.atmosenergy.com>
 Email: None

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: September
 Last Completed Quarter: 12/31/11
 Next EPS Date: 05/02/2012

Price and Volume Information

Zacks Rank: **4**
 Yesterday's Close: 31.45
 52 Week High: 35.55
 52 Week Low: 28.51
 Beta: 0.48
 20 Day Moving Average: 433,119.59
 Target Price Consensus: 34.5



% Price Change

4 Week: 2.18
 12 Week: -3.44
 YTD: -5.70

% Price Change Relative to S&P 500

4 Week: 5.17
 12 Week: -7.22
 YTD: -14.83

Share Information

Shares Outstanding (millions): 90.22
 Market Capitalization (millions): 2,837.39
 Short Ratio: 1.02
 Last Split Date: 05/17/1994

Dividend Information

Dividend Yield: 4.39%
 Annual Dividend: \$1.38
 Payout Ratio: 0.00
 Change in Payout Ratio: 0.00
 Last Dividend Payout / Amount: 02/23/2012 / \$0.34

EPS Information

Current Quarter EPS Consensus Estimate: 1.43
 Current Year EPS Consensus Estimate: 2.32
 Estimated Long-Term EPS Growth Rate: 4.70
 Next EPS Report Date: 05/02/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.86
 30 Days Ago: 2.86
 60 Days Ago: 2.86
 90 Days Ago: 2.86

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 13.54	vs. Previous Year	-24.69% vs. Previous Year
Trailing 12 Months: 15.34	vs. Previous Quarter	916.67% vs. Previous Quarter: 46.14%
PEG Ratio: 2.90		

Price Ratios		ROE		ROA	
Price/Book	1.25	03/31/12	-	03/31/12	-
Price/Cash Flow	6.63	12/31/11	8.09	12/31/11	2.59
Price / Sales	-	09/30/11	8.88	09/30/11	2.88
Current Ratio		Quick Ratio		Operating Margin	
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	1.07	12/31/11	0.79	12/31/11	4.33
09/30/11	1.17	09/30/11	0.83	09/30/11	4.72
Net Margin		Pre-Tax Margin		Book Value	
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	7.04	12/31/11	7.04	12/31/11	25.10
09/30/11	7.19	09/30/11	7.19	09/30/11	24.98
Inventory Turnover		Debt-to-Equity		Debt to Capital	
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	12.51	12/31/11	0.97	12/31/11	49.31
09/30/11	12.46	09/30/11	0.98	09/30/11	49.45

LACLEDE GROUP INC (NYSE)

ZACKS RANK: 3 - HOLD

LG 39.39 ▲0.29 (0.74%) Vol. 19,955 13:23 ET

The Laclede Group, Inc. is a public utility engaged in the retail distribution and transportation of natural gas. The Company, which is subject to the jurisdiction of the Missouri Public Service Commission, serves the City of St. Louis, St. Louis County, the City of St. Charles, St. Charles County, the town of Arnold, and parts of Franklin, Jefferson, St. Francois, Ste. Genevieve, Iron, Madison and Butler Counties, all in Missouri.

General Information

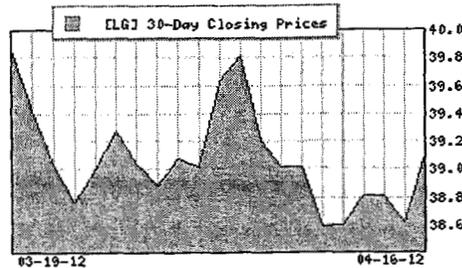
LACLEDE GRP INC
 720 OLIVE ST
 ST LOUIS, MO 63101
 Phone: 3143420500
 Fax: 314-421-1979
 Web: <http://www.thelacledegroupp.com>
 Email: kullman@lacledegas.com

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: September
 Last Completed Quarter: 12/31/11
 Next EPS Date: 04/27/2012

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 39.10
 52 Week High: 43.00
 52 Week Low: 32.90
 Beta: 0.06
 20 Day Moving Average: 88,466.25
 Target Price Consensus: 42



% Price Change

4 Week: -1.91
 12 Week: -3.53
 YTD: -3.39

% Price Change Relative to S&P 500

4 Week: 0.97
 12 Week: -7.30
 YTD: -12.44

Share Information

Shares Outstanding (millions): 22.49
 Market Capitalization (millions): 879.20
 Short Ratio: 9.54
 Last Split Date: 03/08/1994

Dividend Information

Dividend Yield: 4.25%
 Annual Dividend: \$1.66
 Payout Ratio: 0.00
 Change in Payout Ratio: 0.00
 Last Dividend Payout / Amount: 03/08/2012 / \$0.41

EPS Information

Current Quarter EPS Consensus Estimate: 1.36
 Current Year EPS Consensus Estimate: 2.68
 Estimated Long-Term EPS Growth Rate: 3.00
 Next EPS Report Date: 04/27/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 3.00
 30 Days Ago: 3.00
 60 Days Ago: 3.00
 90 Days Ago: 3.00

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 14.60	vs. Previous Year: 5.71%	vs. Previous Year: -7.49%
Trailing 12 Months: 13.72	vs. Previous Quarter: 892.86%	vs. Previous Quarter: 51.60%
PEG Ratio: 4.87		
Price Ratios	ROE	ROA
Price/Book: 1.49	03/31/12	03/31/12

Price/Cash Flow	8.58	12/31/11	11.03	12/31/11	3.58
Price / Sales	-	09/30/11	10.96	09/30/11	3.50
Current Ratio		Quick Ratio		Operating Margin	
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	1.29	12/31/11	0.89	12/31/11	4.06
09/30/11	1.59	09/30/11	1.04	09/30/11	3.88
Net Margin		Pre-Tax Margin		Book Value	
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	6.10	12/31/11	6.10	12/31/11	26.25
09/30/11	5.80	09/30/11	5.80	09/30/11	25.56
Inventory Turnover		Debt-to-Equity		Debt to Capital	
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	12.27	12/31/11	0.58	12/31/11	36.53
09/30/11	12.58	09/30/11	0.64	09/30/11	38.86

NEW JERSEY RES (NYSE)

ZACKS RANK: 4 - SELL

NJR 43.04 +0.34 (0.80%) Vol. 92,937 13:24 ET

NJ RESOURCES is an exempt energy svcs holding company providing retail & wholesale natural gas & related energy services to customers from the Gulf Coast to New England. Subsidiaries include: (1) N J Natural Gas Co, a natural gas distribution company that provides regulated energy & appliance services to residential, commercial & industrial customers in central & northern N J. (2) NJR Energy Holdings Corp formerly NJR Energy Svcs Corp & (3) NJR Development Corp, a sub-holding company of NJR, which includes the Company's remaining unregulated operating subsidiaries.

General Information

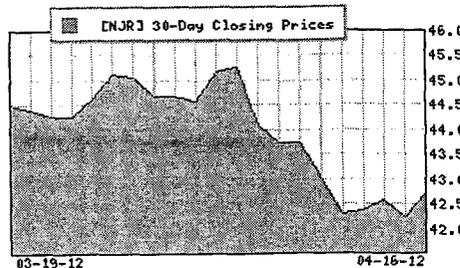
NJ RESOURCES
1415 WYCKOFF RD PO BOX 1468
WALL, NJ 07719
Phone: 9089381494
Fax: 732-938-2134
Web: <http://www.njresources.com>
Email: dpuma@njresources.com

Industry: UTIL-GAS DISTR
Sector: Utilities

Fiscal Year End: September
Last Completed Quarter: 12/31/11
Next EPS Date: 05/02/2012

Price and Volume Information

Zacks Rank **II**
Yesterday's Close 42.70
52 Week High 50.48
52 Week Low 39.60
Beta 0.24
20 Day Moving Average 222,499.25
Target Price Consensus 47.25



% Price Change

4 Week -4.09
12 Week -10.71
YTD -13.21

% Price Change Relative to S&P 500

4 Week -1.27
12 Week -14.20
YTD -21.26

Share Information

Shares Outstanding (millions) 41.48
Market Capitalization (millions) 1,771.07
Short Ratio 10.41
Last Split Date 03/04/2008

Dividend Information

Dividend Yield 3.56%
Annual Dividend \$1.52
Payout Ratio 0.00
Change in Payout Ratio 0.00
Last Dividend Payout / Amount 03/13/2012 / \$0.38

EPS Information

Current Quarter EPS Consensus Estimate 1.59
Current Year EPS Consensus Estimate 2.74
Estimated Long-Term EPS Growth Rate 4.50
Next EPS Report Date 05/02/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell) 3.29
30 Days Ago 3.00
60 Days Ago 3.00
90 Days Ago 2.88

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 15.60	vs. Previous Year 55.71%	vs. Previous Year -9.92%
Trailing 12 Months: 14.48	vs. Previous Quarter 5,350.00%	vs. Previous Quarter: -4.25%
PEG Ratio 3.47		

Price Ratios	ROE		ROA		
Price/Book	2.16	03/31/12	-	03/31/12	-
Price/Cash Flow	12.48	12/31/11	15.44	12/31/11	4.64
Price / Sales	-	09/30/11	13.77	09/30/11	4.08
Current Ratio	Quick Ratio		Operating Margin		
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	1.03	12/31/11	0.68	12/31/11	4.18
09/30/11	1.04	09/30/11	0.61	09/30/11	3.54
Net Margin	Pre-Tax Margin		Book Value		
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	5.53	12/31/11	5.53	12/31/11	19.81
09/30/11	4.22	09/30/11	4.22	09/30/11	18.73
Inventory Turnover	Debt-to-Equity		Debt to Capital		
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	9.90	12/31/11	0.53	12/31/11	34.47
09/30/11	9.61	09/30/11	0.55	09/30/11	35.48

NORTHWEST NAT GAS CO (NYSE)

ZACKS RANK: 3 - HOLD

NWN 45.07 ▲0.52 (1.17%) Vol. 18,398 13:25 ET

NW Natural is principally engaged in the distribution of natural gas. The Oregon Public Utility Commission (OPUC) has allocated to NW Natural as its exclusive service area a major portion of western Oregon, including the Portland metropolitan area, most of the fertile Willamette Valley and the coastal area from Astoria to Coos Bay. NW Natural also holds certificates from the Washington Utilities and Transportation Commission (WUTC) granting it exclusive rights to serve portions of three Washington counties bordering the Columbia River.

General Information

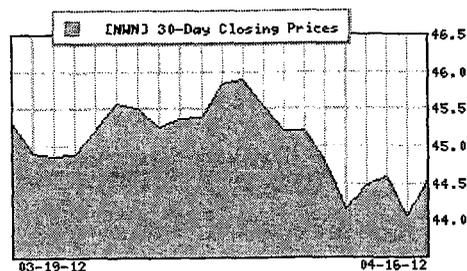
NORTHWEST NAT G
 ONE PACIFIC SQUARE 220 NW SECOND AVE
 PORTLAND, OR -
 Phone: 5032264211
 Fax: 503-273-4824
 Web: <http://www.nwnatural.com>
 Email: Bob.Hess@nwnatural.com

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: December
 Last Completed Quarter: 12/31/11
 Next EPS Date: 05/04/2012

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 44.55
 52 Week High: 49.49
 52 Week Low: 39.63
 Beta: 0.31
 20 Day Moving Average: 97,379.20
 Target Price Consensus: 48.13



% Price Change

4 Week: -1.70
 12 Week: -5.77
 YTD: -7.05

% Price Change Relative to S&P 500

4 Week: 1.18
 12 Week: -9.46
 YTD: -15.63

Share Information

Shares Outstanding (millions): 26.79
 Market Capitalization (millions): 1,193.58
 Short Ratio: 17.26
 Last Split Date: 09/09/1996

Dividend Information

Dividend Yield: 4.00%
 Annual Dividend: \$1.78
 Payout Ratio: 0.00
 Change in Payout Ratio: 0.00
 Last Dividend Payout / Amount: 01/27/2012 / \$0.44

EPS Information

Current Quarter EPS Consensus Estimate: 1.51
 Current Year EPS Consensus Estimate: 2.50
 Estimated Long-Term EPS Growth Rate: 4.30
 Next EPS Report Date: 05/04/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.40
 30 Days Ago: 2.40
 60 Days Ago: 2.20
 90 Days Ago: 2.33

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 17.82	vs. Previous Year: -1.80%	vs. Previous Year: 1.14%
Trailing 12 Months: 17.40	vs. Previous Quarter: 451.61%	vs. Previous Quarter: 190.63%
PEG Ratio: 4.14		

Price Ratios

ROE

ROA

Price/Book	1.66	03/31/12	-	03/31/12	-
Price/Cash Flow	8.60	12/31/11	9.59	12/31/11	2.62
Price / Sales	-	09/30/11	9.71	09/30/11	2.67
Current Ratio		Quick Ratio		Operating Margin	
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	0.84	12/31/11	0.66	12/31/11	8.05
09/30/11	0.62	09/30/11	0.41	09/30/11	8.12
Net Margin		Pre-Tax Margin		Book Value	
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	12.64	12/31/11	12.64	12/31/11	26.76
09/30/11	12.77	09/30/11	12.77	09/30/11	26.11
Inventory Turnover		Debt-to-Equity		Debt to Capital	
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	8.27	12/31/11	0.90	12/31/11	47.32
09/30/11	8.07	09/30/11	0.86	09/30/11	46.35

PIEDMONT NAT GAS INC (NYSE)

ZACKS RANK: 3 - HOLD

PNY 29.83 ▲ 0.27 (0.91%) Vol. 199,795 13:28 ET

Piedmont Natural Gas Co, Inc., is an energy and services company engaged in the transportation and sale of natural gas and the sale of propane to residential, commercial and industrial customers in North Carolina, South Carolina and Tennessee. The Company is the second-largest natural gas utility in the southeast. The Company and its non-utility subsidiaries and divisions are also engaged in acquiring, marketing and arranging for the transportation and storage of natural gas for large-volume purchasers, and in the sale of propane to customers in the Company's three-state service area.

General Information

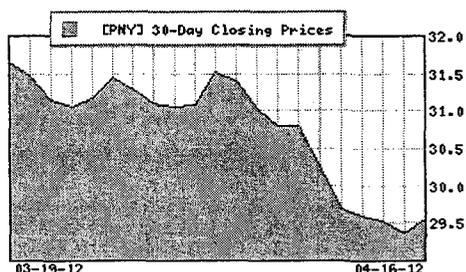
PIEDMONT NAT GA
4720 PIEDMONT ROW DR
CHARLOTTE, NC 28233
Phone: 7043643120
Fax: 704-365-3849
Web: <http://www.piedmontng.com>
Email: nvestorrelations@piedmontng.com

Industry: UTIL-GAS DISTR
Sector: Utilities

Fiscal Year End: October
Last Completed Quarter: 01/31/12
Next EPS Date: 06/06/2012

Price and Volume Information

Zacks Rank 
Yesterday's Close: 29.56
52 Week High: 34.74
52 Week Low: 25.86
Beta: 0.29
20 Day Moving Average: 355,084.91
Target Price Consensus: 31.67



% Price Change

4 Week: -6.60
12 Week: -9.74
YTD: -13.01

% Price Change Relative to S&P 500

4 Week: -3.86
12 Week: -13.27
YTD: -20.70

Share Information

Shares Outstanding (millions): 71.69
Market Capitalization (millions): 2,119.04
Short Ratio: 9.96
Last Split Date: 11/01/2004

Dividend Information

Dividend Yield: 4.06%
Annual Dividend: \$1.20
Payout Ratio: 0.79
Change in Payout Ratio: 0.09
Last Dividend Payout / Amount: 03/21/2012 / \$0.30

EPS Information

Current Quarter EPS Consensus Estimate: 0.71
Current Year EPS Consensus Estimate: 1.59
Estimated Long-Term EPS Growth Rate: 4.70
Next EPS Report Date: 06/06/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 3.50
30 Days Ago: 3.50
60 Days Ago: 3.50
90 Days Ago: 3.38

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 18.54	vs. Previous Year: -9.48%	vs. Previous Year: -27.64%
Trailing 12 Months: 20.25	vs. Previous Quarter: 907.69%	vs. Previous Quarter: 145.74%
PEG Ratio: 3.97		

Price Ratios	ROE		ROA		
Price/Book	2.08	01/31/12	10.29	01/31/12	3.25
Price/Cash Flow	9.68	10/31/11	11.13	10/31/11	3.55
Price / Sales	1.69	07/31/11	11.26	07/31/11	3.62
Current Ratio	Quick Ratio		Operating Margin		
01/31/12	0.62	01/31/12	0.47	01/31/12	8.40
10/31/11	0.54	10/31/11	0.36	10/31/11	7.92
07/31/11	0.73	07/31/11	0.54	07/31/11	7.94
Net Margin	Pre-Tax Margin		Book Value		
01/31/12	13.74	01/31/12	13.74	01/31/12	14.24
10/31/11	12.96	10/31/11	12.96	10/31/11	13.81
07/31/11	13.03	07/31/11	13.03	07/31/11	14.20
Inventory Turnover	Debt-to-Equity		Debt to Capital		
01/31/12	9.81	01/31/12	0.66	01/31/12	39.59
10/31/11	11.66	10/31/11	0.68	10/31/11	40.37
07/31/11	11.25	07/31/11	0.66	07/31/11	39.77

SOUTH JERSEY INDS INC (NYSE)

ZACKS RANK: 4 - SELL

SJI 48.63 *0.61 (1.27%) Vol. 50,246 13:10 ET

South Jersey Inds Inc. is engaged in the business of operating, through subsidiaries, various business enterprises. The company's most significant subsidiary is South Jersey Gas Company (SJG). SJG is a public utility company engaged in the purchase, transmission and sale of natural gas for residential, commercial and industrial use. SJG also makes off-system sales of natural gas on a wholesale basis to various customers on the interstate pipeline system and transports natural gas.

General Information

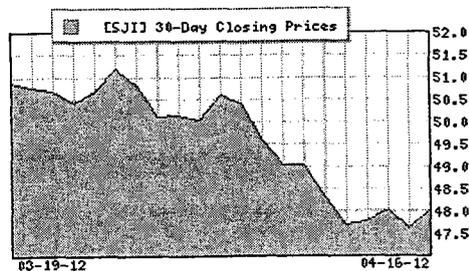
SOUTH JERSEY IN
1 SOUTH JERSEY PLAZA. ROUTE 54
FOLSOM, NJ 08037
Phone: 609-561-9000
Fax: 609-561-8225
Web: <http://www.sjindustries.com>
Email: None

Industry: UTIL-GAS DISTR
Sector: Utilities

Fiscal Year End: December
Last Completed Quarter: 12/31/11
Next EPS Date: 05/09/2012

Price and Volume Information

Zacks Rank 
Yesterday's Close: 48.02
52 Week High: 57.99
52 Week Low: 42.85
Beta: 0.33
20 Day Moving Average: 123,359.95
Target Price Consensus: 53.25



% Price Change

4 Week: -5.60
12 Week: -12.85
YTD: -15.47

% Price Change Relative to S&P 500

4 Week: -2.83
12 Week: -16.26
YTD: -23.07

Share Information

Shares Outstanding (millions): 30.25
Market Capitalization (millions): 1,452.60
Short Ratio: 5.07
Last Split Date: 07/01/2005

Dividend Information

Dividend Yield: 3.35%
Annual Dividend: \$1.61
Payout Ratio: 0.00
Change in Payout Ratio: 0.00
Last Dividend Payout / Amount: 03/07/2012 / \$0.40

EPS Information

Current Quarter EPS Consensus Estimate: 1.71
Current Year EPS Consensus Estimate: 3.12
Estimated Long-Term EPS Growth Rate: 6.00
Next EPS Report Date: 05/09/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 1.40
30 Days Ago: 1.40
60 Days Ago: 1.33
90 Days Ago: 1.33

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 15.41	vs. Previous Year: 20.69%	vs. Previous Year: -29.96%
Trailing 12 Months: 16.62	vs. Previous Quarter: 10,400.00%	vs. Previous Quarter: 44.27%
PEG Ratio: 2.57		

Price Ratios

ROE

ROA

Price/Book	2.32	03/31/12	-	03/31/12	-
Price/Cash Flow	10.74	12/31/11	14.28	12/31/11	4.14
Price / Sales	-	09/30/11	13.66	09/30/11	3.95
Current Ratio		Quick Ratio		Operating Margin	
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	0.58	12/31/11	0.46	12/31/11	10.50
09/30/11	0.65	09/30/11	0.50	09/30/11	8.91
Net Margin		Pre-Tax Margin		Book Value	
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	13.66	12/31/11	13.66	12/31/11	20.71
09/30/11	12.28	09/30/11	12.28	09/30/11	19.83
Inventory Turnover		Debt-to-Equity		Debt to Capital	
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	11.36	12/31/11	0.68	12/31/11	40.47
09/30/11	12.75	09/30/11	0.71	09/30/11	41.60

SOUTHWEST GAS CORP (NYSE)

ZACKS RANK: 1 - STRONG BUY

SWX 42.03 ▲0.71 (1.72%) Vol. 93,451 13:42 ET

SOUTHWEST GAS CORP. is principally engaged in the business of purchasing, transporting, and distributing natural gas in portions of Arizona, Nevada, and California. The Company also engaged in financial services activities, through PriMerit Bank, Federal Savings Bank (PriMerit or the Bank), a wholly owned subsidiary.

General Information

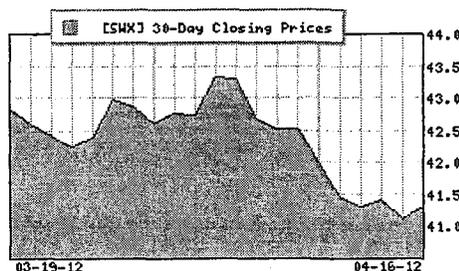
SOUTHWEST GAS
 5241 SPRING MOUNTAIN . PO BOX 98510RD
 LAS VEGAS, NV 89193-8510
 Phone: 7028767237
 Fax: 702-876-7037
 Web: <http://www.swgas.com>
 Email: None

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: December
 Last Completed Quarter: 12/31/11
 Next EPS Date: 05/09/2012

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 41.32
 52 Week High: 43.64
 52 Week Low: 32.12
 Beta: 0.70
 20 Day Moving Average: 153,189.50
 Target Price Consensus: 41.75



% Price Change

4 Week: -3.57
 12 Week: -1.27
 YTD: -2.75

% Price Change Relative to S&P 500

4 Week: -0.74
 12 Week: -5.13
 YTD: -11.18

Share Information

Shares Outstanding (millions): 46.09
 Market Capitalization (millions): 1,904.56
 Short Ratio: 7.81
 Last Split Date: N/A

Dividend Information

Dividend Yield: 2.57%
 Annual Dividend: \$1.06
 Payout Ratio: 0.00
 Change in Payout Ratio: 0.00
 Last Dividend Payout / Amount: 02/13/2012 / \$0.26

EPS Information

Current Quarter EPS Consensus Estimate: 1.57
 Current Year EPS Consensus Estimate: 2.60
 Estimated Long-Term EPS Growth Rate: 5.30
 Next EPS Report Date: 05/09/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.86
 30 Days Ago: 2.86
 60 Days Ago: 2.86
 90 Days Ago: 2.86

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 15.91	vs. Previous Year: 21.43%	vs. Previous Year: 10.58%
Trailing 12 Months: 16.53	vs. Previous Quarter: 695.00%	vs. Previous Quarter: 46.81%
PEG Ratio: 3.03		
Price Ratios	ROE	ROA
Price/Book: 1.55	03/31/12	03/31/12

Price/Cash Flow	6.70	12/31/11	9.57	12/31/11	2.89
Price / Sales	-	09/30/11	8.82	09/30/11	2.69
Current Ratio			Operating Margin		
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	0.54	12/31/11	0.54	12/31/11	6.17
09/30/11	0.42	09/30/11	0.42	09/30/11	5.77
Net Margin			Book Value		
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	9.28	12/31/11	9.28	12/31/11	26.68
09/30/11	8.62	09/30/11	8.62	09/30/11	25.88
Inventory Turnover			Debt to Capital		
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	-	12/31/11	0.76	12/31/11	43.18
09/30/11	-	09/30/11	0.79	09/30/11	44.10

WGL HLDGS INC (NYSE)

ZACKS RANK: 2 - BUY

WGL 39.66 ▲0.49 (1.25%) Vol. 101,887 13:30 ET

WASHINGTON GAS LIGHT CO is a public utility that delivers and sells natural gas to metropolitan Washington, D.C. and adjoining areas in Maryland and Virginia. A distribution subsidiary serves portions of Virginia and West Virginia. The Company has four wholly-owned active subsidiaries that include: Shenandoah Gas Company (Shenandoah) is engaged in the delivery and sale of natural gas at retail in the Shenandoah Valley, including Winchester, Middletown, Strasburg, Stephens City and New Market, Virginia, and Martinsburg, West Virginia.

General Information

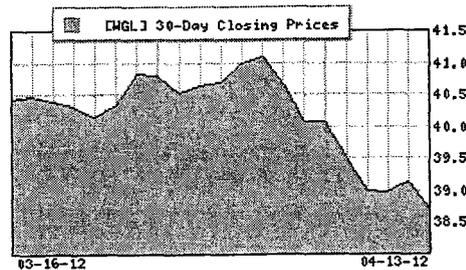
WGL HLDGS INC
 101 CONSTITUTION AVE N.W.
 WASHINGTON, DC 20080
 Phone: 7037504440
 Fax: 703-750-4828
 Web: <http://www.wglholdings.com>
 Email: robertdennis@washgas.com

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: September
 Last Completed Quarter: 12/31/11
 Next EPS Date: 05/02/2012

Price and Volume Information

Zacks Rank **2**
 Yesterday's Close 39.17
 52 Week High 44.99
 52 Week Low 34.71
 Beta 0.26
 20 Day Moving Average 278,869.81
 Target Price Consensus 43.86



% Price Change

4 Week -3.21
 12 Week -9.18
 YTD -11.42

% Price Change Relative to S&P 500

4 Week -0.37
 12 Week -12.73
 YTD -19.66

Share Information

Shares Outstanding (millions) 51.50
 Market Capitalization (millions) 2,017.18
 Short Ratio 6.65
 Last Split Date 05/02/1995

Dividend Information

Dividend Yield 4.08%
 Annual Dividend \$1.60
 Payout Ratio 0.00
 Change in Payout Ratio 0.00
 Last Dividend Payout / Amount 04/05/2012 / \$0.40

EPS Information

Current Quarter EPS Consensus Estimate 1.66
 Current Year EPS Consensus Estimate 2.50
 Estimated Long-Term EPS Growth Rate 5.20
 Next EPS Report Date 05/02/2012

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell) 2.63
 30 Days Ago 2.63
 60 Days Ago 2.63
 90 Days Ago 2.75

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 15.67	vs. Previous Year 10.78%	vs. Previous Year -8.56%
Trailing 12 Months: 16.53	vs. Previous Quarter 534.62%	vs. Previous Quarter: 62.40%
PEG Ratio 3.03		

Price Ratios

ROE

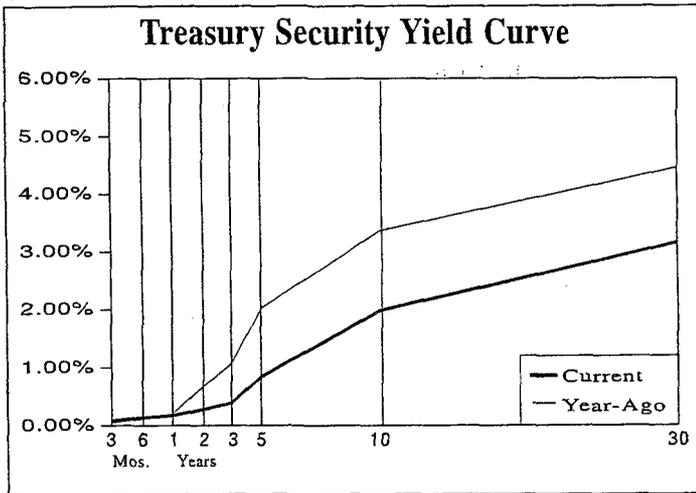
ROA

Price/Book	1.63	03/31/12	-	03/31/12	-
Price/Cash Flow	9.27	12/31/11	9.85	12/31/11	3.12
Price / Sales	-	09/30/11	9.41	09/30/11	2.99
Current Ratio		Quick Ratio		Operating Margin	
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	1.20	12/31/11	0.79	12/31/11	4.55
09/30/11	1.26	09/30/11	0.71	09/30/11	4.21
Net Margin		Pre-Tax Margin		Book Value	
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	6.78	12/31/11	6.78	12/31/11	24.03
09/30/11	7.47	09/30/11	7.47	09/30/11	23.44
Inventory Turnover		Debt-to-Equity		Debt to Capital	
03/31/12	-	03/31/12	-	03/31/12	-
12/31/11	8.87	12/31/11	0.47	12/31/11	31.60
09/30/11	10.19	09/30/11	0.49	09/30/11	32.30

ATTACHMENT D

Selected Yields

	Recent	3 Months	Year		Recent	3 Months	Year
	(4/25/12)	Ago (1/25/12)	Ago (4/27/11)		(4/25/12)	Ago (1/25/12)	Ago (4/27/11)
TAXABLE							
Market Rates							
Discount Rate	0.75	0.75	0.75				
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25				
Prime Rate	3.25	3.25	3.25				
30-day CP (A1/P1)	0.36	0.32	0.24				
3-month LIBOR	0.47	0.56	0.27				
Bank CDs							
6-month	0.22	0.22	0.28				
1-year	0.33	0.34	0.46				
5-year	1.13	1.15	1.71				
U.S. Treasury Securities							
3-month	0.09	0.04	0.05				
6-month	0.14	0.06	0.11				
1-year	0.17	0.10	0.20				
5-year	0.84	0.79	2.02				
10-year	1.98	2.00	3.36				
10-year (inflation-protected)	-0.28	-0.25	0.77				
30-year	3.15	3.15	4.45				
30-year Zero	3.39	3.35	4.79				
Mortgage-Backed Securities							
GNMA 5.5%	1.12	1.22	2.72				
FHLMC 5.5% (Gold)	2.10	2.11	2.94				
FNMA 5.5%	1.89	2.01	2.87				
FNMA ARM	2.36	2.35	2.62				
Corporate Bonds							
Financial (10-year) A	3.52	4.15	4.68				
Industrial (25/30-year) A	4.27	4.42	5.40				
Utility (25/30-year) A	4.17	4.47	5.53				
Utility (25/30-year) Baa/BBB	4.65	5.14	5.95				
Foreign Bonds (10-Year)							
Canada	2.11	2.04	3.27				
Germany	1.74	1.95	3.29				
Japan	0.92	1.01	1.22				
United Kingdom	2.14	2.16	3.57				
Preferred Stocks							
Utility A	5.67	5.39	5.65				
Financial A	6.14	6.09	6.46				
Financial Adjustable A	5.50	5.50	5.50				



TAX-EXEMPT

	Recent	3 Months	Year
	(4/25/12)	Ago (1/25/12)	Ago (4/27/11)
Bond Buyer Indexes			
20-Bond Index (GOs)	3.90	3.60	4.98
25-Bond Index (Revs)	4.81	4.77	5.54
General Obligation Bonds (GOs)			
1-year Aaa	0.18	0.18	0.27
1-year A	1.02	1.13	1.13
5-year Aaa	0.87	0.87	1.66
5-year A	1.86	2.01	2.75
10-year Aaa	2.02	2.00	3.28
10-year A	3.17	2.98	4.41
25/30-year Aaa	3.63	3.59	4.75
25/30-year A	5.08	5.02	6.07
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.40	4.43	5.15
Electric AA	4.64	4.50	5.28
Housing AA	4.82	4.93	5.97
Hospital AA	4.60	4.64	5.60
Toll Road Aaa	4.44	4.48	5.29

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	4/18/12	4/4/12	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1510010	1488952	21058	1525383	1520180	1536985
Borrowed Reserves	7009	7074	-65	7673	8912	11082
Net Free/Borrowed Reserves	1503001	1481878	21123	1517710	1511268	1525902

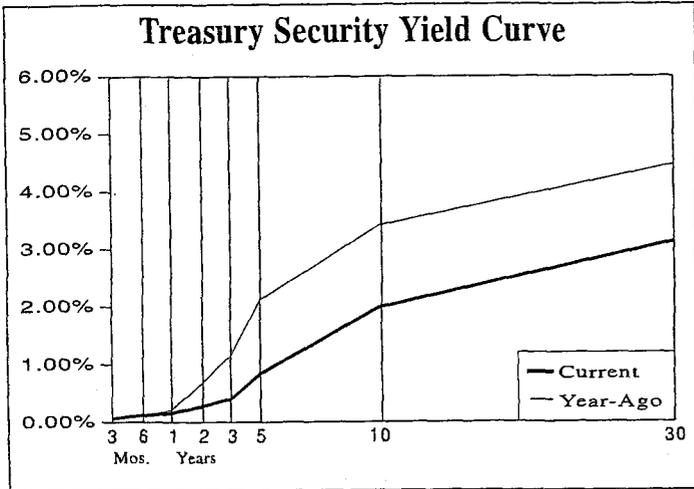
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	4/9/12	4/2/12	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2226.1	2221.8	4.3	8.1%	8.9%	17.3%
M2 (M1+savings+small time deposits)	9828.4	9834.6	-6.2	4.0%	6.8%	9.9%

Selected Yields

	Recent (4/18/12)	3 Months Ago (1/18/12)	Year Ago (4/20/11)		Recent (4/18/12)	3 Months Ago (1/18/12)	Year Ago (4/20/11)
TAXABLE							
Market Rates							
Discount Rate	0.75	0.75	0.75				
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25				
Prime Rate	3.25	3.25	3.25				
30-day CP (A1/P1)	0.32	0.32	0.17				
3-month LIBOR	0.47	0.56	0.27				
Bank CDs							
6-month	0.22	0.22	0.29				
1-year	0.33	0.34	0.47				
5-year	1.14	1.16	1.71				
U.S. Treasury Securities							
3-month	0.07	0.02	0.06				
6-month	0.12	0.06	0.11				
1-year	0.16	0.10	0.21				
5-year	0.84	0.80	2.12				
10-year	1.98	1.90	3.41				
10-year (inflation-protected)	-0.29	-0.21	0.78				
30-year	3.13	2.96	4.47				
30-year Zero	3.36	3.14	4.79				
Mortgage-Backed Securities							
GNMA 5.5%	1.08	1.07	2.85				
FHLMC 5.5% (Gold)	2.14	1.94	3.07				
FNMA 5.5%	1.94	1.72	2.99				
FNMA ARM	2.36	2.35	2.62				
Corporate Bonds							
Financial (10-year) A	3.48	4.00	4.71				
Industrial (25/30-year) A	4.21	4.25	5.45				
Utility (25/30-year) A	4.15	4.33	5.57				
Utility (25/30-year) Baa/BBB	4.62	4.94	6.03				
Foreign Bonds (10-Year)							
Canada	2.04	1.96	3.33				
Germany	1.72	1.79	3.31				
Japan	0.94	0.97	1.24				
United Kingdom	2.13	1.96	3.58				
Preferred Stocks							
Utility A	5.34	4.95	5.59				
Financial A	6.44	6.18	6.45				
Financial Adjustable A	5.49	5.49	5.49				



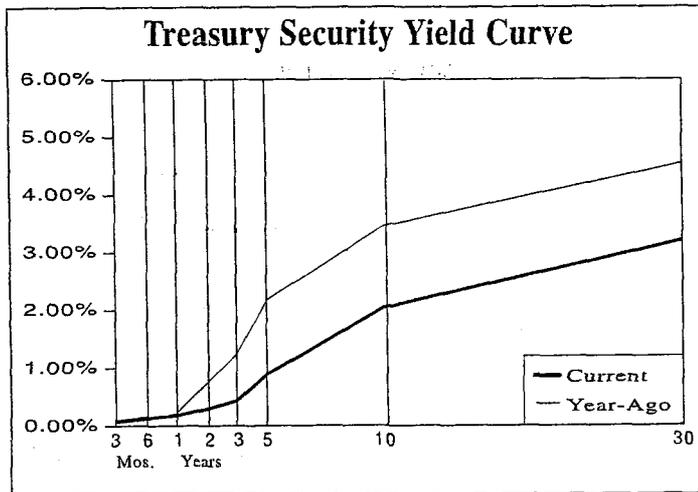
TAX-EXEMPT							
Bond Buyer Indexes							
20-Bond Index (GOs)	3.97	3.62	5.06				
25-Bond Index (Revs)	4.85	4.74	5.58				
General Obligation Bonds (GOs)							
1-year Aaa	0.21	0.17	0.33				
1-year A	1.01	1.02	1.18				
5-year Aaa	0.93	0.85	1.74				
5-year A	1.91	1.93	2.81				
10-year Aaa	2.11	1.93	3.37				
10-year A	3.23	2.91	4.49				
25/30-year Aaa	3.66	3.56	4.80				
25/30-year A	5.10	4.96	6.12				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.45	4.40	5.19				
Electric AA	4.67	4.54	5.32				
Housing AA	4.87	5.01	6.01				
Hospital AA	4.60	4.61	5.65				
Toll Road Aaa	4.44	4.48	5.33				

Federal Reserve Data

BANK RESERVES							
<i>(Two-Week Period; in Millions, Not Seasonally Adjusted)</i>							
	Recent Levels			Average Levels Over the Last...			
	4/4/12	3/21/12	Change	12 Wks.	26 Wks.	52 Wks.	
Excess Reserves	1488951	1505886	-16935	1527351	1522439	1534075	
Borrowed Reserves	7074	7401	-327	7955	9228	11534	
Net Free/Borrowed Reserves	1481877	1498485	-16608	1519396	1513212	1522541	
MONEY SUPPLY							
<i>(One-Week Period; in Billions, Seasonally Adjusted)</i>							
	Recent Levels			Ann'l Growth Rates Over the Last...			
	4/2/12	3/26/12	Change	3 Mos.	6 Mos.	12 Mos.	
M1 (Currency+demand deposits)	2222.0	2214.3	7.6	9.5%	9.1%	17.3%	
M2 (M1+savings+small time deposits)	9857.6	9835.7	21.9	5.0%	6.9%	9.9%	

Selected Yields

	Recent (4/11/12)	3 Months Ago (1/11/12)	Year Ago (4/13/11)		Recent (4/11/12)	3 Months Ago (1/11/12)	Year Ago (4/13/11)
TAXABLE							
Market Rates							
Discount Rate	0.75	0.75	0.75	Mortgage-Backed Securities			
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25	GNMA 5.5%	1.02	0.91	2.97
Prime Rate	3.25	3.25	3.25	FHLMC 5.5% (Gold)	2.10	1.91	3.32
30-day CP (A1/P1)	0.30	0.25	0.23	FNMA 5.5%	1.93	1.74	3.22
3-month LIBOR	0.47	0.58	0.28	FNMA ARM	2.36	2.35	2.62
Bank CDs							
6-month	0.22	0.22	0.29	Corporate Bonds			
1-year	0.33	0.34	0.47	Financial (10-year) A	3.57	4.12	4.72
5-year	1.14	1.17	1.71	Industrial (25/30-year) A	4.27	4.22	5.52
U.S. Treasury Securities							
3-month	0.08	0.02	0.05	Utility (25/30-year) A	4.23	4.17	5.66
6-month	0.14	0.05	0.10	Utility (25/30-year) Baa/BBB	4.69	4.90	6.05
1-year	0.18	0.10	0.22	Foreign Bonds (10-Year)			
5-year	0.88	0.82	2.17	Canada	2.01	1.94	3.37
10-year	2.04	1.90	3.46	Germany	1.78	1.81	3.44
10-year (inflation-protected)	-0.28	-0.16	0.84	Japan	0.95	0.97	1.32
30-year	3.20	2.96	4.54	United Kingdom	2.05	2.01	3.71
30-year Zero	3.43	3.15	4.88	Preferred Stocks			
				Utility A	5.47	4.94	5.83
				Financial A	6.50	6.27	6.44
				Financial Adjustable A	5.49	5.49	5.49



TAX-EXEMPT							
Bond Buyer Indexes							
20-Bond Index (GOs)	4.08	3.83	5.04				
25-Bond Index (Revs)	4.88	4.93	5.61				
General Obligation Bonds (GOs)							
1-year Aaa	0.17	0.17	0.34				
1-year A	1.02	1.00	1.20				
5-year Aaa	0.94	0.89	1.83				
5-year A	2.02	1.98	2.89				
10-year Aaa	2.14	1.99	3.46				
10-year A	3.27	3.03	4.62				
25/30-year Aaa	3.66	3.70	4.86				
25/30-year A	5.14	5.12	6.13				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.43	4.49	5.19				
Electric AA	4.65	4.63	5.34				
Housing AA	4.85	5.10	6.16				
Hospital AA	4.60	4.72	5.65				
Toll Road Aaa	4.43	4.53	5.33				

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	4/4/12	3/21/12	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1488974	1505909	-16935	1527360	1522444	1534077
Borrowed Reserves	7074	7401	-327	7955	9228	11534
Net Free/Borrowed Reserves	1481900	1498508	-16608	1519405	1513216	1522543

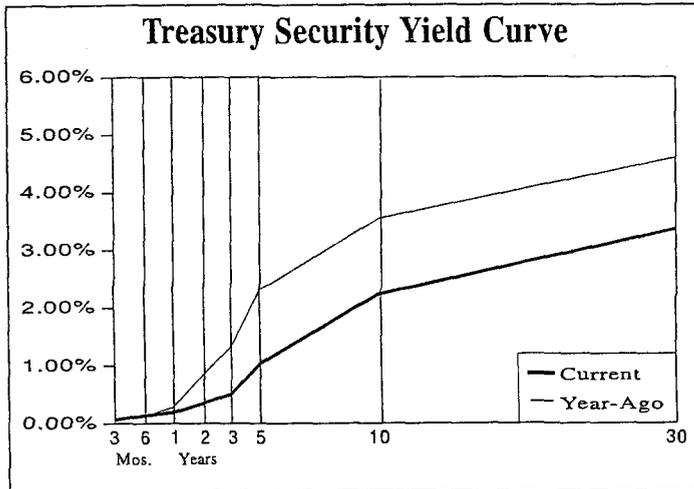
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	3/26/12	3/19/12	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2219.5	2218.3	1.2	8.9%	9.8%	17.4%
M2 (M1+savings+small time deposits)	9825.0	9787.4	37.6	8.1%	6.4%	9.5%

Selected Yields

	Recent (4/04/12)	3 Months Ago (1/04/12)	Year Ago (4/06/11)		Recent (4/04/12)	3 Months Ago (1/04/12)	Year Ago (4/06/11)
TAXABLE							
Market Rates							
Discount Rate	0.75	0.75	0.75	Mortgage-Backed Securities			
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25	GNMA 5.5%	1.52	0.99	2.84
Prime Rate	3.25	3.25	3.25	FHLMC 5.5% (Gold)	2.33	2.03	3.46
30-day CP (A1/P1)	0.32	0.25	0.27	FNMA 5.5%	2.18	1.86	3.40
3-month LIBOR	0.47	0.58	0.29	FNMA ARM	2.36	2.35	2.62
Bank CDs							
6-month	0.22	0.22	0.29	Corporate Bonds			
1-year	0.33	0.34	0.47	Financial (10-year) A	3.66	4.25	4.85
5-year	1.14	1.16	1.71	Industrial (25/30-year) A	4.40	4.33	5.59
U.S. Treasury Securities							
3-month	0.07	0.01	0.06	Utility (25/30-year) A	4.35	4.22	5.66
6-month	0.14	0.05	0.13	Utility (25/30-year) Baa/BBB	4.75	4.95	6.16
1-year	0.19	0.10	0.28	Foreign Bonds (10-Year)			
5-year	1.04	0.88	2.31	Canada	2.13	1.99	3.42
10-year	2.23	1.98	3.55	Germany	1.79	1.92	3.43
10-year (inflation-protected)	-0.09	-0.14	0.96	Japan	1.03	0.99	1.30
30-year	3.36	3.03	4.60	United Kingdom	2.21	2.05	3.76
30-year Zero	3.59	3.13	4.92	Preferred Stocks			
				Utility A	5.29	5.11	5.89
				Financial A	6.46	6.38	5.84
				Financial Adjustable A	5.48	5.48	5.48



TAX-EXEMPT							
Bond Buyer Indexes							
20-Bond Index (GOs)	4.02	3.88	5.00				
25-Bond Index (Revs)	4.85	4.97	5.56				
General Obligation Bonds (GOs)							
1-year Aaa	0.20	0.22	0.37				
1-year A	1.05	1.07	1.21				
5-year Aaa	1.04	0.92	1.85				
5-year A	2.07	2.06	2.84				
10-year Aaa	2.26	2.07	3.41				
10-year A	3.39	3.12	4.48				
25/30-year Aaa	3.72	3.80	4.84				
25/30-year A	5.21	5.20	6.13				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.54	4.53	5.19				
Electric AA	4.72	4.70	5.30				
Housing AA	4.97	5.26	6.19				
Hospital AA	4.60	4.72	5.65				
Toll Road Aaa	4.48	4.53	5.34				

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	3/21/12	3/7/12	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	505910	1546953	-41043	1524859	1526682	1529539
Borrowed Reserves	7401	7554	-153	8277	9552	12010
Net Free/Borrowed Reserves	1498509	1539399	-40890	1516581	1517130	1517529

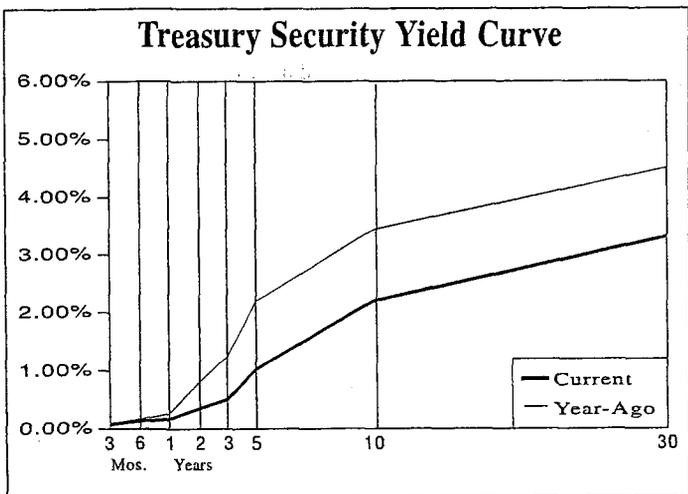
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	3/19/12	3/12/12	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2218.2	2221.8	-3.6	8.5%	9.7%	17.3%
M2 (M1+savings+small time deposits)	9787.7	9810.3	-22.6	7.1%	6.5%	9.3%

Selected Yields

	Recent	3 Months	Year		Recent	3 Months	Year
	(3/28/12)	Ago (12/28/11)	Ago (3/30/11)		(3/28/12)	Ago (12/28/11)	Ago (3/30/11)
TAXABLE							
Market Rates							
Discount Rate	0.75	0.75	0.75				
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25				
Prime Rate	3.25	3.25	3.25				
30-day CP (A1/P1)	0.32	0.19	0.22				
3-month LIBOR	0.47	0.58	0.30				
Bank CDs							
6-month	0.22	0.22	0.29				
1-year	0.34	0.34	0.47				
5-year	1.15	1.15	1.71				
U.S. Treasury Securities							
3-month	0.08	0.01	0.09				
6-month	0.14	0.05	0.17				
1-year	0.17	0.10	0.26				
5-year	1.03	0.91	2.20				
10-year	2.20	1.92	3.44				
10-year (inflation-protected)	-0.13	-0.11	0.98				
30-year	3.31	2.92	4.50				
30-year Zero	3.53	3.02	4.79				
Mortgage-Backed Securities							
GNMA 5.5%	1.37	1.12	2.68				
FHLMC 5.5% (Gold)	2.08	2.12	3.28				
FNMA 5.5%	2.07	1.99	3.17				
FNMA ARM	2.38	2.37	2.63				
Corporate Bonds							
Financial (10-year) A	3.65	4.17	4.70				
Industrial (25/30-year) A	4.39	4.26	5.50				
Utility (25/30-year) A	4.28	4.14	5.56				
Utility (25/30-year) Baa/BBB	4.67	4.78	6.06				
Foreign Bonds (10-Year)							
Canada	2.12	1.96	3.29				
Germany	1.83	1.89	3.34				
Japan	1.00	1.00	1.25				
United Kingdom	2.21	2.01	3.67				
Preferred Stocks							
Utility A	4.57	5.37	5.70				
Financial A	6.44	6.71	6.02				
Financial Adjustable A	5.48	5.48	5.48				



TAX-EXEMPT							
Bond Buyer Indexes							
20-Bond Index (GOs)	4.01	3.92	4.91				
25-Bond Index (Revs)	4.88	5.01	5.52				
General Obligation Bonds (GOs)							
1-year Aaa	0.19	0.22	0.33				
1-year A	1.04	1.06	1.15				
5-year Aaa	1.07	0.97	1.76				
5-year A	2.10	2.07	2.75				
10-year Aaa	2.29	2.12	3.29				
10-year A	3.35	3.23	4.37				
25/30-year Aaa	3.72	3.86	4.80				
25/30-year A	5.21	5.24	6.08				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.54	4.56	5.15				
Electric AA	4.68	4.73	5.28				
Housing AA	4.99	5.29	6.13				
Hospital AA	4.60	4.87	5.61				
Toll Road Aaa	4.48	4.54	5.32				

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	3/21/12	3/7/12	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1505910	1546953	-41043	1524859	1526682	1529539
Borrowed Reserves	7401	7554	-153	8277	9552	12010
Net Free/Borrowed Reserves	1498509	1539399	-40890	1516581	1517130	1517529

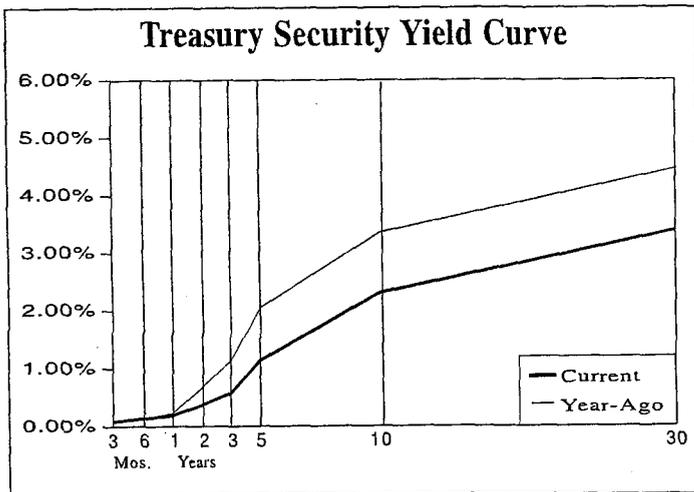
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	3/12/12	3/5/12	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2221.6	2222.0	-0.4	8.8%	9.8%	17.6%
M2 (M1+savings+small time deposits)	9812.7	9800.7	12.0	8.2%	7.0%	9.8%

Selected Yields

	Recent (3/21/12)	3 Months Ago (12/21/11)	Year Ago (3/23/11)		Recent (3/21/12)	3 Months Ago (12/21/11)	Year Ago (3/23/11)
TAXABLE							
Market Rates							
Discount Rate	0.75	0.75	0.75	Mortgage-Backed Securities			
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25	GNMA 5.5%	1.50	1.05	2.60
Prime Rate	3.25	3.25	3.25	FHLMC 5.5% (Gold)	2.12	2.12	3.18
30-day CP (A1/P1)	0.32	0.29	0.28	FNMA 5.5%	2.18	1.95	3.06
3-month LIBOR	0.47	0.57	0.31	FNMA ARM	2.38	2.37	2.63
Bank CDs							
6-month	0.22	0.22	0.30	Corporate Bonds			
1-year	0.34	0.34	0.48	Financial (10-year) A	3.75	4.11	4.63
5-year	1.14	1.15	1.71	Industrial (25/30-year) A	4.47	4.21	5.46
U.S. Treasury Securities							
3-month	0.09	0.01	0.08	Utility (25/30-year) A	4.38	4.12	5.50
6-month	0.14	0.03	0.15	Utility (25/30-year) Baa/BBB	4.75	4.77	5.98
1-year	0.19	0.11	0.23	Foreign Bonds (10-Year)			
5-year	1.14	0.92	2.05	Canada	2.24	1.96	3.21
10-year	2.30	1.97	3.35	Germany	1.98	1.93	3.24
10-year (inflation-protected)	-0.10	-0.12	0.95	Japan	1.02	0.98	1.23
30-year	3.38	3.00	4.45	United Kingdom	2.37	2.07	3.55
30-year Zero	3.60	3.10	4.79	Preferred Stocks			
				Utility A	4.55	5.36	6.00
				Financial A	6.10	6.55	6.10
				Financial Adjustable A	5.47	5.47	5.47



TAX-EXEMPT

Bond Buyer Indexes			
20-Bond Index (GOs)	3.95	3.92	4.86
25-Bond Index (Revs)	4.83	5.01	5.50
General Obligation Bonds (GOs)			
1-year Aaa	0.18	0.21	0.33
1-year A	1.09	1.03	1.19
5-year Aaa	1.03	0.97	1.72
5-year A	2.15	2.07	2.67
10-year Aaa	2.42	2.15	3.16
10-year A	3.32	3.25	4.29
25/30-year Aaa	3.77	3.86	4.75
25/30-year A	5.26	5.24	6.08
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.58	4.56	5.15
Electric AA	4.70	4.74	5.28
Housing AA	5.03	5.34	6.10
Hospital AA	4.66	4.87	5.61
Toll Road Aaa	4.48	4.54	5.30

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	3/7/12	2/22/12	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1546954	1580867	-33913	1528097	1531157	1521755
Borrowed Reserves	7554	7992	-438	8626	9858	12492
Net Free/Borrowed Reserves	1539400	1572875	-33475	1519471	1521299	1509262

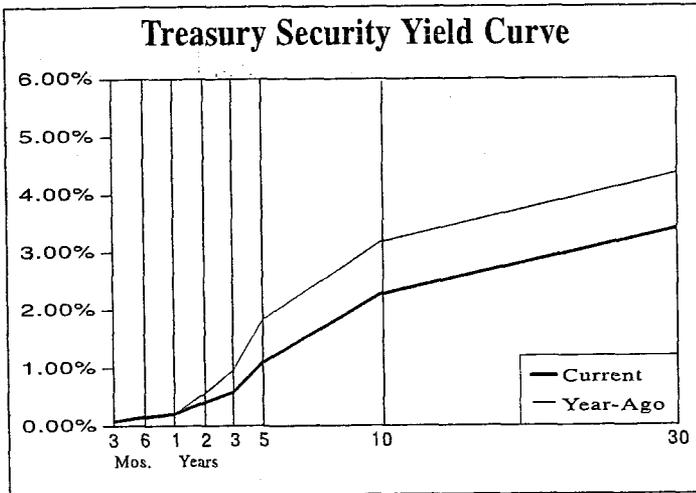
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	3/5/12	2/27/12	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2222.1	2223.9	-1.8	10.0%	10.3%	18.0%
M2 (M1+savings+small time deposits)	9800.7	9785.4	15.3	8.7%	6.6%	9.8%

Selected Yields

	Recent (3/14/12)	3 Months Ago (12/14/11)	Year Ago (3/16/11)		Recent (3/14/12)	3 Months Ago (12/14/11)	Year Ago (3/16/11)
TAXABLE							
Market Rates							
Discount Rate	0.75	0.75	0.75	Mortgage-Backed Securities			
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25	GNMA 5.5%	1.66	1.03	2.54
Prime Rate	3.25	3.25	3.25	FHLMC 5.5% (Gold)	2.09	2.16	2.92
30-day CP (A1/P1)	0.29	0.28	0.24	FNMA 5.5%	2.13	2.05	2.84
3-month LIBOR	0.47	0.56	0.31	FNMA ARM	2.38	2.37	2.63
Bank CDs							
6-month	0.22	0.22	0.21	Corporate Bonds			
1-year	0.34	0.35	0.29	Financial (10-year) A	3.73	4.23	4.45
5-year	1.14	1.17	1.76	Industrial (25/30-year) A	4.54	4.37	5.39
U.S. Treasury Securities							
3-month	0.08	0.01	0.08	Utility (25/30-year) A	4.38	4.23	5.44
6-month	0.15	0.05	0.13	Utility (25/30-year) Baa/BBB	4.83	4.87	5.86
1-year	0.20	0.11	0.20	Foreign Bonds (10-Year)			
5-year	1.10	0.85	1.84	Canada	2.15	1.96	3.13
10-year	2.27	1.90	3.17	Germany	1.95	1.92	3.09
10-year (inflation-protected)	-0.11	-0.08	0.82	Japan	1.01	1.00	1.23
30-year	3.40	2.90	4.36	United Kingdom	2.34	2.09	3.48
30-year Zero	3.63	3.00	4.75	Preferred Stocks			
				Utility A	5.05	5.23	5.79
				Financial A	6.10	6.87	6.10
				Financial Adjustable A	5.46	5.46	5.47



TAX-EXEMPT

Bond Buyer Indexes							
20-Bond Index (GOs)	3.84	3.93	4.91				
25-Bond Index (Revs)	4.76	5.03	5.52				
General Obligation Bonds (GOs)							
1-year Aaa	0.16	0.20	0.37				
1-year A	1.12	1.11	1.23				
5-year Aaa	0.80	1.00	1.76				
5-year A	2.10	2.04	2.73				
10-year Aaa	2.18	2.20	3.16				
10-year A	3.17	3.34	4.31				
25/30-year Aaa	3.63	3.89	4.78				
25/30-year A	5.11	5.26	6.11				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.49	4.58	5.15				
Electric AA	4.56	4.80	5.28				
Housing AA	4.89	5.43	6.14				
Hospital AA	4.61	4.88	5.59				
Toll Road Aaa	4.42	4.54	5.32				

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	3/7/12	2/22/12	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1546954	1580866	-33912	1528096	1531157	1521755
Borrowed Reserves	7554	7992	-438	8626	9858	12492
Net Free/Borrowed Reserves	1539400	1572874	-33474	1519471	1521299	1509262

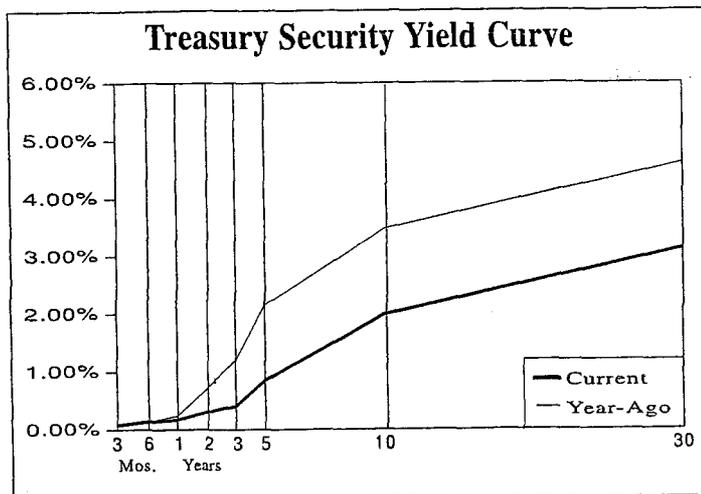
MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	2/27/12	2/20/12	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2218.4	2225.9	-7.5	12.0%	10.8%	18.1%
M2 (M1+savings+small time deposits)	9785.4	9789.1	-3.7	8.0%	5.9%	9.7%

Selected Yields

	Recent (3/07/12)	3 Months Ago (12/07/11)	Year Ago (3/9/11)		Recent (3/07/12)	3 Months Ago (12/07/11)	Year Ago (3/9/11)
TAXABLE							
Market Rates							
Discount Rate	0.75	0.75	0.75				
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25				
Prime Rate	3.25	3.25	3.25				
30-day CP (A1/P1)	0.31	0.52	0.28				
3-month LIBOR	0.47	0.54	0.31				
Bank CDs							
6-month	0.22	0.22	0.21				
1-year	0.34	0.35	0.29				
5-year	1.15	1.17	1.76				
U.S. Treasury Securities							
3-month	0.08	0.01	0.09				
6-month	0.14	0.04	0.15				
1-year	0.17	0.09	0.24				
5-year	0.85	0.89	2.15				
10-year	1.98	2.03	3.47				
10-year (inflation-protected)	-0.24	-0.05	0.95				
30-year	3.12	3.06	4.61				
30-year Zero	3.35	3.16	4.97				
Mortgage-Backed Securities							
GNMA 5.5%	1.72	1.21	2.73				
FHLMC 5.5% (Gold)	2.10	2.30	3.24				
FNMA 5.5%	2.06	2.01	3.14				
FNMA ARM	2.38	2.37	2.63				
Corporate Bonds							
Financial (10-year) A	3.42	4.32	4.72				
Industrial (25/30-year) A	4.28	4.39	5.59				
Utility (25/30-year) A	4.10	4.25	5.65				
Utility (25/30-year) Baa/BBB	4.54	4.92	6.05				
Foreign Bonds (10-Year)							
Canada	1.97	2.06	3.34				
Germany	1.77	2.10	3.29				
Japan	0.98	1.05	1.31				
United Kingdom	2.14	2.24	3.66				
Preferred Stocks							
Utility A	5.17	5.07	5.79				
Financial A	6.09	6.78	6.47				
Financial Adjustable A	5.53	5.53	5.54				



TAX-EXEMPT

Bond Buyer Indexes			
20-Bond Index (GOs)	3.72	4.12	4.90
25-Bond Index (Revs)	4.73	5.09	5.56
General Obligation Bonds (GOs)			
1-year Aaa	0.19	0.21	0.38
1-year A	1.15	1.10	1.21
5-year Aaa	0.75	1.12	1.81
5-year A	2.07	2.20	2.75
10-year Aaa	2.07	2.37	3.17
10-year A	3.10	3.37	4.35
25/30-year Aaa	3.60	3.93	4.78
25/30-year A	5.04	5.28	6.25
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.46	4.61	5.18
Electric AA	4.55	4.83	5.30
Housing AA	4.88	5.53	6.18
Hospital AA	4.62	4.90	5.59
Toll Road Aaa	4.42	4.56	5.34

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	2/22/12	2/8/12	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1580859	1535749	45110	1515792	1533360	1509554
Borrowed Reserves	7992	8163	-171	8978	10163	13027
Net Free/Borrowed Reserves	1572867	1527586	45281	1506814	1523197	1496527

MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	2/20/12	2/13/12	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	2225.9	2228.1	-2.2	14.7%	13.2%	18.7%
M2 (M1+savings+small time deposits)	9789.1	9799.6	-10.5	8.4%	6.1%	9.8%



ARIZONA WATER COMPANY
DOCKET NO. W-01445A-11-0310
TABLE OF CONTENTS TO SURREBUTTAL SCHEDULES WAR

<u>SCHEDULE #</u>	
WAR - 1	COST OF CAPITAL SUMMARY
WAR - 2	DCF COST OF EQUITY CAPITAL
WAR - 3	DIVIDEND YIELD CALCULATION
WAR - 4	DIVIDEND GROWTH RATE CALCULATION
WAR - 5	DIVIDEND GROWTH COMPONENTS
WAR - 6	GROWTH RATE COMPARISON
WAR - 7	CAPM COST OF EQUITY CAPITAL
WAR - 8	ECONOMIC INDICATORS - 1990 TO PRESENT
WAR - 9	ECONOMIC INDICATORS - 1990 TO PRESENT

WEIGHTED AVERAGE COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) CAPITALIZATION PER COMPANY	(B) RUCO ADJUSTMENTS	(C) RUCO ADJUSTED CAPITALIZATION	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST
1	Long-Term Debt	\$ 75,000,000	\$ -	\$ 75,000,000	49.03%	6.82%	3.34%
2	Common Equity	77,975,335	-	77,975,335	50.97%	9.40%	4.79%
3	Total Capitalization	\$ 152,975,335	\$ -	\$ 152,975,335	100.00%		

4 WEIGHTED AVERAGE COST OF CAPITAL

8.13%

REFERENCES:

- COLUMN (A): TESTIMONY, WAR
- COLUMN (B): LINE 1; SCHEDULE WAR-1, PAGE 2, LINE 2; TESTIMONY WAR
- COLUMN (C): COLUMN (A) x COLUMN (B), LINE 4; LINE 1 + LINE 2
- COLUMN (D): COLUMN (C) LINES 1, 2 AND 3 / LINE 4
- COLUMN (E): LINE 1; SCHEDULE WAR-1, PAGE 2, LINES 2 AND 3; TESTIMONY WAR
- COLUMN (F): COLUMN (D) x COLUMN (E)

COST OF LONG-TERM DEBT

LINE NO.	LONG-TERM DEBT ISSUANCES	(A) AMOUNT OUTSTANDING	(B) ANNUAL COST	(C) INTEREST RATE
1	SERIES K BONDS, DUE APRIL 1, 2031	\$ 15,000,000	\$ 1,206,855	8.05%
2	SERIES L BONDS, DUE AUGUST 1, 2036	25,000,000	1,575,650	6.30%
3	SERIES M BONDS, DUE AUGUST 1, 2038	35,000,000	2,336,110	6.67%
4	TOTALS	\$ 75,000,000	\$ 5,118,615	6.82%

REFERENCES:

- COLUMN (A): COMPANY SCHEDULE D-2, PAGE 1
- COLUMN (B): COMPANY SCHEDULE D-2, PAGE 1
- COLUMN (C): COLUMN (B) / COLUMN (A)

COST OF COMMON EQUITY CALCULATION

1	<u>DCF METHODOLOGY</u>		
2	DCF - WATER COMPANY SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE	8.53%	SCHEDULE WAR-2, COLUMN (C), LINE 5
3	DCF - NATURAL GAS LDC SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE	9.47%	SCHEDULE WAR-2, COLUMN (C), LINE 13
4	AVERAGE OF DCF ESTIMATES	9.00%	(LINE 2 + LINE 3) + 2
5	<u>CAPM METHODOLOGY</u>		
6	CAPM - WATER COMPANY GEOMETRIC MEAN ESTIMATE	3.90%	SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 5
7	CAPM - NATURAL GAS LDC GEOMETRIC MEAN ESTIMATE	3.73%	SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 13
8	CAPM - WATER COMPANY ARITHMETIC MEAN ESTIMATE	5.25%	SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 5
9	CAPM - NATURAL GAS LDC ARITHMETIC MEAN ESTIMATE	5.01%	SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 13
10	AVERAGE OF CAPM ESTIMATES	4.47%	(SUM OF LINES 6 THRU 9) + 4
11	AVERAGE OF DCF AND CAPM ESTIMATES	6.74%	(SUM OF LINES 4 AND 10) + 2
12	FINAL COST OF COMMON EQUITY ESTIMATE	9.40%	TESTIMONY WAR

ARIZONA WATER COMPANY
 TEST YEAR ENDED DECEMBER 31, 2010
 DCF COST OF EQUITY CAPITAL

DOCKET NO. W-01445A-11-0310
 SURREBUTTAL SCHEDULE WAR - 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) DIVIDEND YIELD	+	(B) GROWTH RATE (g)	=	(C) DCF COST OF EQUITY CAPITAL
1	AWR	AMERICAN STATES WATER CO.	3.08%	+	6.06%	=	9.14%
2	CWT	CALIFORNIA WATER SERVICE GROUP	3.49%	+	5.21%	=	8.70%
3	MSEX	MIDDLESEX WATER COMPANY	4.02%	+	4.60%	=	8.62%
4	SJW	SJW CORPORATION	2.96%	+	4.33%	=	7.29%
5	WTR	AQUA AMERICA, INC.	2.99%	+	5.90%	=	8.89%
6		WATER COMPANY AVERAGE					8.53%
7	GAS	AGL RESOURCES, INC.	4.73%	+	6.00%	=	10.74%
8	ATO	ATMOS ENERGY CORP.	4.42%	+	3.67%	=	8.09%
9	LG	LACLEDE GROUP, INC.	4.20%	+	4.57%	=	8.77%
10	NJR	NEW JERSEY RESOURCES CORPORATION	3.45%	+	6.96%	=	10.41%
11	NWN	NORTHWEST NATURAL GAS CO.	3.98%	+	4.76%	=	8.73%
12	PNY	PIEDMONT NATURAL GAS COMPANY	3.77%	+	3.61%	=	7.37%
13	SJI	SOUTH JERSEY INDUSTRIES, INC.	2.93%	+	10.21%	=	13.14%
14	SWX	SOUTHWEST GAS CORPORATION	2.79%	+	7.43%	=	10.22%
15	WGL	WGL HOLDINGS, INC.	3.91%	+	3.84%	=	7.75%
16		NATURAL GAS LDC AVERAGE					9.47%

REFERENCES:
 COLUMN (A): SCHEDULE WAR - 3, COLUMN C
 COLUMN (B): SCHEDULE WAR - 4, PAGE 1, COLUMN C
 COLUMN (C): COLUMN (A) + COLUMN (B)

ARIZONA WATER COMPANY
 TEST YEAR ENDED DECEMBER 31, 2010
 DIVIDEND YIELD CALCULATION

DOCKET NO. W-01445A-11-0310
 SURREBUTTAL SCHEDULE WAR - 3

LINE NO.	STOCK SYMBOL	COMPANY	(A) ESTIMATED DIVIDEND (PER SHARE) /	(B) AVERAGE STOCK PRICE (PER SHARE) =	(C) DIVIDEND YIELD
1	AWR	AMERICAN STATES WATER CO.	\$1.12 /	\$36.36 =	3.08%
2	CWT	CALIFORNIA WATER SERVICE GROUP	\$0.63 /	\$18.05 =	3.49%
3	MSEX	MIDDLESEX WATER COMPANY	\$0.74 /	\$18.41 =	4.02%
4	SJW	SJW CORPORATION	\$0.71 /	\$24.01 =	2.96%
5	WTR	AQUA AMERICA, INC.	\$0.66 /	\$22.08 =	2.99%
6		WATER COMPANY AVERAGE			3.31%
7	GAS	AGL RESOURCES, INC.	\$1.84 /	\$38.86 =	4.73%
8	ATO	ATMOS ENERGY CORP.	\$1.38 /	\$31.23 =	4.42%
9	LG	LACLEDE GROUP, INC.	\$1.66 /	\$39.49 =	4.20%
10	NJR	NEW JERSEY RESOURCES CORPORATION	\$1.52 /	\$44.04 =	3.45%
11	NWN	NORTHWEST NATURAL GAS CO.	\$1.78 /	\$44.78 =	3.98%
12	PNY	PIEDMONT NATURAL GAS COMPANY	\$1.16 /	\$30.81 =	3.77%
13	SJI	SOUTH JERSEY INDUSTRIES, INC.	\$1.46 /	\$49.84 =	2.93%
14	SWX	SOUTHWEST GAS CORPORATION	\$1.18 /	\$42.35 =	2.79%
15	WGL	WGL HOLDINGS, INC.	\$1.56 /	\$39.89 =	3.91%
16		NATURAL GAS LDC AVERAGE			3.80%

REFERENCES:
 COLUMN (A): ESTIMATED 12 MONTH DIVIDEND REPORTED IN VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 04/20/2012 (WATER COMPANIES) AND 03/09/2012 (NATURAL GAS LDC's).
 COLUMN (B): EIGHT WEEK AVERAGE OF ADJUSTED CLOSING PRICES FROM 03/05/2012 TO 04/27/2012
 STOCK QUOTES OBTAINED THROUGH YAHOO! FINANCE WEB SITE - HISTORICAL QUOTES (<http://finance.yahoo.com>).
 COLUMN (C): COLUMN (A) DIVIDED BY COLUMN (B)

NOTE:
 CLOSING STOCK PRICES ARE ADJUSTED FOR DIVIDENDS AND STOCK SPLITS.

ARIZONA WATER COMPANY
 TEST YEAR ENDED DECEMBER 31, 2010
 DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. W-01445A-11-0310
 SURREBUTTAL SCHEDULE WAR - 4
 PAGE 1 OF 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) INTERNAL GROWTH (br)	+	(B) EXTERNAL GROWTH (sv)	=	(C) DIVIDEND GROWTH (g)
1	AWR	AMERICAN STATES WATER CO.	5.75%	+	0.31%	=	6.06%
2	CWT	CALIFORNIA WATER SERVICE GROUP	4.50%	+	0.71%	=	5.21%
3	MSEX	MIDDLESEX WATER COMPANY	4.00%	+	0.60%	=	4.60%
4	SJW	SJW CORPORATION	3.10%	+	1.23%	=	4.33%
5	WTR	AQUA AMERICA, INC.	5.50%	+	0.40%	=	5.90%
6		WATER COMPANY AVERAGE					5.22%
7	GAS	AGL RESOURCES, INC.	5.90%	+	0.10%	=	6.00%
8	ATO	ATMOS ENERGY CORP.	3.50%	+	0.17%	=	3.67%
9	LG	LACLEDE GROUP, INC.	3.90%	+	0.67%	=	4.57%
10	NJR	NEW JERSEY RESOURCES CORPORATION	6.95%	+	0.01%	=	6.96%
11	NWN	NORTHWEST NATURAL GAS CO.	4.70%	+	0.06%	=	4.76%
12	PNY	PIEDMONT NATURAL GAS COMPANY	3.60%	+	0.01%	=	3.61%
13	SJI	SOUTH JERSEY INDUSTRIES, INC.	8.20%	+	2.01%	=	10.21%
14	SWX	SOUTHWEST GAS CORPORATION	6.85%	+	0.58%	=	7.43%
15	WGL	WGL HOLDINGS, INC.	3.65%	+	0.19%	=	3.84%
16		NATURAL GAS LDC AVERAGE					5.67%

REFERENCES:
 COLUMN (A): TESTIMONY, WAR
 COLUMN (B): SCHEDULE WAR - 4, PAGE 2, COLUMN C
 COLUMN (C): COLUMN (A) + COLUMN (B)

ARIZONA WATER COMPANY
 TEST YEAR ENDED DECEMBER 31, 2010
 DIVIDEND GROWTH RATE CALCULATION

LINE NO.	STOCK SYMBOL	COMPANY	(A) SHARE GROWTH	(B) $x \{ [((M + B) + 1) / 2] - 1 \}$	(C) EXTERNAL GROWTH (sv)
1	AWR	AMERICAN STATES WATER CO.	1.00%	$x \{ [((1.62) + 1) / 2] - 1 \}$	= 0.31%
2	CWT	CALIFORNIA WATER SERVICE GROUP	2.60%	$x \{ [((1.55) + 1) / 2] - 1 \}$	= 0.71%
3	MSEX	MIDDLESEX WATER COMPANY	1.90%	$x \{ [((1.64) + 1) / 2] - 1 \}$	= 0.60%
4	SJW	SJW CORPORATION	4.30%	$x \{ [((1.57) + 1) / 2] - 1 \}$	= 1.23%
5	WTR	AQUA AMERICA, INC.	0.60%	$x \{ [((2.34) + 1) / 2] - 1 \}$	= 0.40%
6		WATER COMPANY AVERAGE			0.65%
7	GAS	AGL RESOURCES, INC.	0.65%	$x \{ [((1.31) + 1) / 2] - 1 \}$	= 0.10%
8	ATO	ATMOS ENERGY CORP.	2.60%	$x \{ [((1.13) + 1) / 2] - 1 \}$	= 0.17%
9	LG	LACLEDE GROUP, INC.	3.00%	$x \{ [((1.45) + 1) / 2] - 1 \}$	= 0.67%
10	NJR	NEW JERSEY RESOURCES CORPORATION	0.01%	$x \{ [((2.41) + 1) / 2] - 1 \}$	= 0.01%
11	NWN	NORTHWEST NATURAL GAS CO.	0.20%	$x \{ [((1.59) + 1) / 2] - 1 \}$	= 0.06%
12	PNY	PIEDMONT NATURAL GAS COMPANY	0.01%	$x \{ [((2.21) + 1) / 2] - 1 \}$	= 0.01%
13	SJI	SOUTH JERSEY INDUSTRIES, INC.	3.00%	$x \{ [((2.34) + 1) / 2] - 1 \}$	= 2.01%
14	SWX	SOUTHWEST GAS CORPORATION	2.20%	$x \{ [((1.53) + 1) / 2] - 1 \}$	= 0.58%
15	WGL	WGL HOLDINGS, INC.	0.60%	$x \{ [((1.62) + 1) / 2] - 1 \}$	= 0.19%
16		NATURAL GAS LDC AVERAGE			0.42%

REFERENCES:
 COLUMN (A): TESTIMONY, WAR
 COLUMN (B): VALUE LINE INVESTMENT SURVEY
 - RATINGS & REPORTS DATED 04/20/2012 (WATER COMPANIES) AND 03/09/2012 (NATURAL GAS LDC's)
 COLUMN (C): COLUMN (A) x COLUMN (B)

ARIZONA WATER COMPANY
 TEST YEAR ENDED DECEMBER 31, 2010
 DIVIDEND GROWTH COMPONENTS

LINE NO.	STOCK SYMBOL	WATER COMPANY NAME	OPERATING PERIOD	(A) RETENTION RATIO (a)	(B) RETURN ON BOOK EQUITY (b) =	(C) DIVIDEND GROWTH (c)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	AWR	AMERICAN STATES WATER CO.	2007	0.4074	9.30%	3.79%	17.53	17.23	
2			2008	0.3548	8.60%	3.05%	17.95	17.30	
3			2009	0.3765	8.20%	3.09%	19.39	18.53	
4			2010	0.5315	11.00%	5.85%	20.26	18.63	
5			2011	0.5067	10.30%	5.22%	21.68	18.85	2.27%
6			[GROWTH 2007 - 2011	0.4727	9.50%	4.20%	5.00%	19.00	0.80%
7			2012	0.4917	10.00%	4.49%		19.20	0.92%
8			2013	0.5214	11.00%	4.92%	4.50%	19.60	0.78%
9			2015-17			5.74%			
10	CWT	CALIFORNIA WATER SERVICE GROUP	2007	0.2267	8.10%	1.84%	9.25	41.33	
11			2008	0.3789	9.90%	3.75%	9.72	41.45	
12			2009	0.3980	9.60%	3.62%	10.13	41.53	
13			2010	0.3407	8.60%	2.93%	10.45	41.67	
14			2011	0.2791	8.00%	2.23%	10.76	41.82	0.30%
15			[GROWTH 2007 - 2011	0.3600	8.50%	2.91%	5.00%	43.00	2.82%
16			2012	0.3909	9.00%	3.06%		44.00	2.57%
17			2013	0.4231	10.50%	4.44%	3.50%	47.50	2.58%
18			2015-17						
19									
20	MSEX	MIDDLESEX WATER COMPANY	2007	0.2069	8.70%	1.80%	10.05	13.25	
21			2008	0.2135	8.90%	1.90%	10.03	13.40	
22			2009	0.0139	7.00%	0.10%	10.33	13.52	
23			2010	0.2500	8.20%	2.05%	11.13	15.57	
24			2011	0.1310	7.60%	1.00%	11.27	15.70	4.33%
25			[GROWTH 2007 - 2011	0.2211	8.50%	1.37%	5.50%	16.00	1.91%
26			2012	0.2857	9.00%	1.88%		16.25	1.74%
27			2013	0.2657	11.00%	2.57%	1.00%	17.25	1.90%
28			2015-17	0.3600		3.96%			
29									
30	SJW	SJW CORPORATION	2007	0.4135	8.20%	3.39%	12.90	18.36	
31			2008	0.3981	8.00%	3.19%	13.99	18.18	
32			2009	0.1852	6.00%	1.11%	13.66	18.50	
33			2010	0.1905	6.20%	1.18%	13.75	18.55	
34			2011	0.3784	7.90%	2.99%	14.20	18.59	0.31%
35			[GROWTH 2007 - 2011	0.3565	7.50%	2.37%	4.50%	20.00	7.56%
36			2012	0.3500	7.50%	2.67%		21.00	6.28%
37			2013	0.3857	8.00%	2.63%	3.50%	23.00	4.35%
38			2015-17			3.09%			
39									

REFERENCES:
 COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 04/20/2012
 COLUMN (C): COLUMN (A) x COLUMN (B)
 COLUMN (D): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2007 - 2011
 COLUMN (E): VALUE LINE INVESTMENT SURVEY
 COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (r) =	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	WTR	AQUA AMERICA, INC.	2007	0.3239	9.70%	3.14%	7.32	133.40	
2			2008	0.3014	9.70%	2.92%	7.82	135.37	
3			2009	0.2857	9.40%	2.69%	8.12	136.49	
4			2010	0.3444	10.60%	3.65%	8.51	137.97	
5			2011	0.3981	11.40%	4.54%	9.01	138.87	
6			GROWTH 2007 - 2011			3.39%	7.00%		1.01%
7			2012	0.3909	11.50%	4.50%		139.90	0.74%
8			2013	0.4083	12.00%	4.90%		140.90	0.73%
9			2015-17	0.4357	12.50%	5.45%	4.50%	142.90	0.57%

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
 - RATINGS & REPORTS DATED 04/20/2012
 COLUMN (C): COLUMN (A) x COLUMN (B)
 COLUMN (D): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2007 - 2011

COLUMN (D): VALUE LINE INVESTMENT SURVEY
 COLUMN (D): LINE 6, COMPOUND GROWTH RATE
 COLUMN (E): VALUE LINE INVESTMENT SURVEY
 COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

ARIZONA WATER COMPANY
 TEST YEAR ENDED DECEMBER 31, 2010
 DIVIDEND GROWTH COMPONENTS

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (j) =	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	GAS	AGL RESOURCES, INC.	2007	0.3971	12.70%	5.04%	21.74	76.40	
2			2008	0.3801	12.60%	4.79%	21.48	76.90	
3			2009	0.4028	12.50%	5.03%	22.95	77.54	
4			2010	0.4133	12.90%	5.33%	23.24	78.00	
5			2011	0.1038	5.20%	0.54%	28.54	117.00	11.24%
6			GROWTH 2007 - 2011			4.15%	5.50%		0.85%
7			2012	0.4338	11.00%	4.77%		118.00	0.85%
8			2013	0.4551	11.00%	5.01%		119.00	0.85%
9			2015-17	0.5122	12.00%	6.15%	6.00%	121.00	0.67%
10	ATO	ATMOS ENERGY CORP.	2007	0.3402	8.70%	2.96%	22.01	89.33	
11			2008	0.3500	8.80%	3.08%	22.60	90.81	
12			2009	0.3299	8.30%	2.74%	23.52	92.55	
13			2010	0.3796	9.20%	3.49%	24.16	90.16	
14			2011	0.3982	8.80%	3.50%	24.98	90.30	
15			GROWTH 2007 - 2011			3.16%	4.50%		0.27%
16			2012	0.4000	8.50%	3.40%		90.50	0.22%
17			2013	0.4167	8.00%	3.33%		91.00	0.39%
18			2015-17	0.4519	8.00%	3.61%	6.00%	103.00	2.67%
19	LG	LACLEDE GROUP, INC.	2007	0.3723	11.60%	4.32%	19.79	21.65	
20			2008	0.4356	11.80%	5.14%	22.12	21.99	
21			2009	0.4760	12.40%	5.90%	23.32	22.17	
22			2010	0.3539	10.10%	3.57%	24.02	22.29	
23			2011	0.4371	11.10%	4.85%	25.56	22.43	
24			GROWTH 2007 - 2011			4.76%	6.50%		0.89%
25			2012	0.3889	10.00%	3.89%		22.50	0.31%
26			2013	0.3964	10.00%	3.96%		23.00	1.26%
27			2015-17	0.4098	10.00%	4.10%	4.50%	26.00	3.00%
28	NJR	NEW JERSEY RESOURCES CORPORATION	2007	0.3484	10.10%	3.52%	15.50	41.61	
29			2008	0.5889	15.70%	9.25%	17.28	42.06	
30			2009	0.4833	14.60%	7.06%	16.59	41.59	
31			2010	0.4472	14.00%	6.26%	17.62	41.17	
32			2011	0.4419	13.70%	6.05%	18.73	41.45	
33			GROWTH 2007 - 2011			6.43%	7.50%		-0.10%
34			2012	0.4667	16.00%	7.47%		40.00	-3.50%
35			2013	0.5175	16.50%	8.54%		40.00	-1.76%
36			2015-17	0.5130	14.00%	7.18%	5.50%	40.00	-0.71%

REFERENCES:
 COLUMN (A) & (B): VALUE LINE INVESTMENT SURVEY
 - RATINGS & REPORTS DATED 03/09/2012
 COLUMN (C): COLUMN (A) x COLUMN (B)
 COLUMN (D): LINES 6, 16, 26 & 36, COMPOUND GROWTH RATE
 COLUMN (E): VALUE LINE INVESTMENT SURVEY
 COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (r) =	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	NWN	NORTHWEST NATURAL GAS CO.	2007	0.4783	12.50%	5.98%	22.52	26.41	
2			2008	0.4086	10.90%	4.45%	23.71	26.50	
3			2009	0.4346	11.40%	4.95%	24.88	26.53	
4			2010	0.3846	10.50%	4.04%	26.08	26.58	
5			2011	0.2678	8.90%	2.38%	26.74	26.72	
6			GROWTH 2007 - 2011				4.00%		0.29%
7			2012	0.3283	9.50%	3.12%		26.75	0.11%
8			2013	0.3831	10.00%	3.83%		26.80	0.15%
9			2015-17	0.4611	10.50%	4.84%	4.50%	26.95	0.17%
10	PNY	PIEDMONT NATURAL GAS COMPANY	2007	0.2929	11.90%	3.49%	11.99	73.23	
11			2008	0.3087	12.40%	3.83%	12.11	73.26	
12			2009	0.3593	13.20%	4.74%	12.67	73.27	
13			2010	0.2839	11.60%	3.29%	13.35	72.28	
14			2011	0.2675	11.40%	3.05%	13.79	72.32	
15			GROWTH 2007 - 2011				3.00%		-0.31%
16			2012	0.2788	12.00%	3.35%		71.00	-1.83%
17			2013	0.2765	12.00%	3.32%		70.00	-1.62%
18			2015-17	0.2895	13.00%	3.76%	2.00%	68.00	-1.22%
19									
20	SJI	SOUTH JERSEY INDUSTRIES, INC.	2007	0.5167	12.80%	6.61%	16.25	29.61	
21			2008	0.5110	13.10%	6.69%	17.33	29.73	
22			2009	0.4874	13.10%	6.38%	18.24	29.80	
23			2010	0.4963	14.20%	7.05%	19.08	29.87	
24			2011	0.4810	14.30%	6.98%	20.66	30.21	
25			GROWTH 2007 - 2011				8.00%		0.50%
26			2012	0.4875	15.00%	7.31%		31.00	2.62%
27			2013	0.4857	15.50%	7.53%		32.00	2.92%
28			2015-17	0.5000	17.00%	8.50%	5.00%	35.00	2.99%
29									
30	SWX	SOUTHWEST GAS CORPORATION	2007	0.5590	8.50%	4.75%	22.98	42.81	
31			2008	0.3525	5.90%	2.08%	23.49	44.19	
32			2009	0.5103	7.90%	4.03%	24.44	45.09	
33			2010	0.5595	8.90%	4.98%	25.62	45.56	
34			2011	0.5638	9.20%	5.19%	26.68	45.96	
35			GROWTH 2007 - 2011				5.50%		1.79%
36			2012	0.5547	9.50%	4.21%		47.00	2.26%
37			2013	0.5517	10.00%	5.27%		48.00	2.20%
38			2015-17	0.5789	12.00%	6.95%	4.50%	51.00	2.10%
39									

REFERENCES:
 COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 03/09/2012
 COLUMN (C): COLUMN (A) x COLUMN (B)
 COLUMN (D): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2007 - 2011
 COLUMN (E): VALUE LINE INVESTMENT SURVEY
 COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (r)	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	WGL	WGL HOLDINGS, INC.	2007	0.3445	10.40%	3.58%	19.83	49.45	
2			2008	0.4221	10.40%	4.39%	20.99	49.92	
3			2009	0.4190	11.60%	4.86%	21.89	50.14	
4			2010	0.3392	9.90%	3.36%	22.82	50.54	
5			2011	0.3111	9.50%	2.96%	23.49	51.20	
6			GROWTH 2007 - 2011	3.83%		3.83%	5.00%		0.87%
7			2012	0.3640	10.00%	3.64%		51.50	0.59%
8			2013	0.3608	10.00%	3.61%		51.75	0.54%
9			2015-17	0.3750	10.00%	3.75%	4.00%	52.00	0.31%

REFERENCES:
 COLUMN (A) & (B): VALUE LINE INVESTMENT SURVEY
 - RATINGS & REPORTS DATED 03/09/2012
 COLUMN (C): COLUMN (A) x COLUMN (B)
 COLUMN (D): VALUE LINE INVESTMENT SURVEY
 COLUMN (E): VALUE LINE INVESTMENT SURVEY
 COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

REFERENCES:
 COLUMN (D): VALUE LINE INVESTMENT SURVEY
 COLUMN (D): LINE 6, COMPOUND GROWTH RATE
 COLUMN (E): VALUE LINE INVESTMENT SURVEY
 COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2010
GROWTH RATE COMPARISON

WATER COMPANY SAMPLE:

LINE NO.	STOCK SYMBOL	(A)		(B)		(C)		(D)		(E)		(F)	
		ZACKS EPS	(br) + (sv)	ZACKS EPS	VALUE LINE PROJECTED DPS	BVPS	VALUE LINE HISTORIC DPS	EPS	BVPS	VALUE LINE & ZACKS AVGS	EPS	DPS	5 - YEAR COMPOUND HISTORY DPS	BVPS
1	AMR	12.00%	6.06%	12.00%	4.00%	4.50%	2.50%	11.50%	5.00%	5.04%	8.32%	3.46%	5.46%
2	CWT	10.00%	5.21%	10.00%	4.00%	3.50%	1.00%	5.00%	5.00%	3.69%	3.48%	1.66%	3.85%
3	MSEX	-	4.60%	-	1.50%	1.00%	1.50%	4.50%	5.50%	3.86%	-0.87%	1.42%	2.91%
4	SJW	-	4.33%	-	4.00%	3.50%	5.00%	-3.00%	4.50%	6.00%	1.64%	3.13%	2.43%
5	WTR	8.30%	5.90%	8.30%	5.50%	4.50%	8.00%	4.50%	7.00%	4.47%	9.75%	6.61%	5.33%
6	AVERAGES	10.10%	5.22%	10.10%	3.80%	3.40%	3.60%	4.50%	5.40%	4.97%	4.46%	3.26%	3.99%
7	AVERAGES	10.10%	5.22%	10.10%	4.63%	4.50%	4.50%	4.50%	4.97%	4.97%	4.46%	3.91%	4.97%

NATURAL GAS LDC SAMPLE:

LINE NO.	STOCK SYMBOL	(A)		(B)		(C)		(D)		(E)		(F)	
		ZACKS EPS	(br) + (sv)	ZACKS EPS	VALUE LINE PROJECTED DPS	BVPS	VALUE LINE HISTORIC DPS	EPS	BVPS	VALUE LINE & ZACKS AVGS	EPS	DPS	5 - YEAR COMPOUND HISTORY DPS	BVPS
1	GAS	4.30%	6.00%	4.30%	2.00%	6.00%	7.50%	4.50%	5.50%	6.57%	-6.04%	3.75%	7.04%
2	ATO	4.30%	3.67%	4.30%	1.50%	6.00%	1.50%	4.00%	4.50%	4.93%	3.89%	1.53%	3.22%
3	LG	3.00%	4.57%	3.00%	2.50%	4.50%	2.50%	6.00%	6.50%	3.25%	5.48%	2.65%	6.61%
4	NJR	4.50%	6.96%	4.50%	4.00%	5.50%	8.00%	7.00%	7.50%	3.50%	13.59%	9.27%	4.85%
5	NWN	4.30%	4.76%	4.30%	3.00%	4.50%	4.50%	7.00%	4.00%	6.61%	-3.53%	5.00%	4.39%
6	PNY	4.70%	3.61%	4.70%	3.00%	2.00%	4.00%	4.50%	3.00%	0.00%	2.91%	3.82%	3.56%
7	SJI	10.21%	10.21%	6.00%	9.00%	5.00%	8.50%	9.50%	8.00%	4.97%	8.44%	10.39%	6.19%
8	SWX	7.43%	7.43%	5.30%	8.00%	4.50%	3.00%	6.50%	5.50%	0.00%	5.66%	5.37%	3.80%
9	WGL	3.84%	3.84%	5.20%	2.50%	4.00%	2.50%	3.00%	5.00%	0.00%	1.86%	3.13%	4.33%
10	AVERAGES	4.62%	5.67%	4.62%	3.94%	4.67%	4.67%	5.78%	5.50%	4.88%	3.58%	4.99%	4.89%
11	AVERAGES	4.62%	5.67%	4.62%	4.54%	4.54%	5.31%	5.31%	4.88%	4.88%	3.58%	4.49%	4.89%

REFERENCES:

- COLUMN (A): SCHEDULE WAR - 4, PAGE 1, COLUMN C
- COLUMN (B): ZACKS INVESTMENT RESEARCH (www.zacks.com)
- COLUMN (C): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 04/20/2012 (WATER COMPANIES) AND 03/09/2012 (NATURAL GAS LDC'S)
- COLUMN (D): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 04/20/2012 (WATER COMPANIES) AND 03/09/2012 (NATURAL GAS LDC'S)
- COLUMN (E): SIMPLE AVERAGE OF COLUMNS (B) THRU (D) LINES 1 THRU 3 (WATER) AND 1 THRU 9 (NATURAL GAS)
- COLUMN (F): 5-YEAR ANNUAL GROWTH RATE CALCULATED WITH DATA COMPILED FROM VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 04/20/2012 (WATER COMPANIES) AND 03/09/2012 (NATURAL GAS LDC'S)

BASED ON A GEOMETRIC MEAN:

LINE NO.	STOCK SYMBOL	(A)					(B)
		$k = r_f + [\beta (r_m - r_f)] =$				EXPECTED RETURN	
1	AWR	$k = 0.78\% + [0.70 \times (9.80\% - 5.40\%)] =$				3.86%	
2	CWT	$k = 0.78\% + [0.65 \times (9.80\% - 5.40\%)] =$				3.64%	
3	MSEX	$k = 0.78\% + [0.70 \times (9.80\% - 5.40\%)] =$				3.86%	
4	SJW	$k = 0.78\% + [0.85 \times (9.80\% - 5.40\%)] =$				4.52%	
5	WTR	$k = 0.78\% + [0.65 \times (9.80\% - 5.40\%)] =$				3.64%	
6	WATER COMPANY AVERAGE	0.71				3.90%	
7	GAS	$k = 0.78\% + [0.75 \times (9.80\% - 5.40\%)] =$				4.08%	
8	ATO	$k = 0.78\% + [0.70 \times (9.80\% - 5.40\%)] =$				3.86%	
9	LG	$k = 0.78\% + [0.60 \times (9.80\% - 5.40\%)] =$				3.42%	
10	NJR	$k = 0.78\% + [0.65 \times (9.80\% - 5.40\%)] =$				3.64%	
11	NWN	$k = 0.78\% + [0.60 \times (9.80\% - 5.40\%)] =$				3.42%	
12	PNY	$k = 0.78\% + [0.70 \times (9.80\% - 5.40\%)] =$				3.86%	
13	SJL	$k = 0.78\% + [0.65 \times (9.80\% - 5.40\%)] =$				3.64%	
14	SWX	$k = 0.78\% + [0.75 \times (9.80\% - 5.40\%)] =$				4.08%	
15	WGL	$k = 0.78\% + [0.65 \times (9.80\% - 5.40\%)] =$				3.64%	
16	NATURAL GAS LDC AVERAGE	0.67				3.73%	

REFERENCES:

COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [\beta (r_m - r_f)]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
 r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
 β = THE BETA COEFFICIENT OF A GIVEN SECURITY
 r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

- (a) AN 8-WEEK AVERAGE OF THE YIELD ON A 5-YEAR U.S. TREASURY INSTRUMENT THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 03/16/2012 THROUGH 05/04/2012 WAS USED AS A RISK FREE RATE OF RETURN.
- (b) THE RISK PREMIUM (RM - RF) USED THE GEOMETRIC MEAN FOR S&P 500 TOTAL RETURNS OVER THE 1926 - 2011 PERIOD MINUS TOTAL RETURNS ON INTERMEDIATE TREASURIES DURING THE SAME PERIOD. THE DATA WAS OBTAINED FROM MORNINGSTAR'S STOCKS, BONDS, BILLS AND INFLATION; 2012 YEARBOOK.

BASED ON AN ARITHMETIC MEAN:

LINE NO.	STOCK SYMBOL	k	=	r _f	+	[	β	x	(	r _m	-	r _f	)	=	(B) EXPECTED RETURN
1	AWR	k	=	0.78%	+	[	0.70	x	(	11.80%	-	5.50%	)	=	5.19%
2	CWT	k	=	0.78%	+	[	0.65	x	(	11.80%	-	5.50%	)	=	4.87%
3	MSEX	k	=	0.78%	+	[	0.70	x	(	11.80%	-	5.50%	)	=	5.19%
4	SJW	k	=	0.78%	+	[	0.85	x	(	11.80%	-	5.50%	)	=	6.13%
5	WTR	k	=	0.78%	+	[	0.65	x	(	11.80%	-	5.50%	)	=	4.87%
6	WATER COMPANY AVERAGE					[	0.71							=	5.25%
7	GAS	k	=	0.78%	+	[	0.75	x	(	11.80%	-	5.50%	)	=	5.50%
8	ATO	k	=	0.78%	+	[	0.70	x	(	11.80%	-	5.50%	)	=	5.19%
9	LG	k	=	0.78%	+	[	0.60	x	(	11.80%	-	5.50%	)	=	4.56%
10	NJR	k	=	0.78%	+	[	0.65	x	(	11.80%	-	5.50%	)	=	4.87%
11	NWN	k	=	0.78%	+	[	0.60	x	(	11.80%	-	5.50%	)	=	4.56%
12	PNY	k	=	0.78%	+	[	0.70	x	(	11.80%	-	5.50%	)	=	5.19%
13	SJI	k	=	0.78%	+	[	0.65	x	(	11.80%	-	5.50%	)	=	4.87%
14	SWX	k	=	0.78%	+	[	0.75	x	(	11.80%	-	5.50%	)	=	5.50%
15	WGL	k	=	0.78%	+	[	0.65	x	(	11.80%	-	5.50%	)	=	4.87%
16	NATURAL GAS LDC AVERAGE					[	0.67							=	5.01%

REFERENCES:
 COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [\beta (r_m - r_f)]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
 r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
 β = THE BETA COEFFICIENT OF A GIVEN SECURITY
 r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

(a) AN 8-WEEK AVERAGE OF THE YIELD ON A 5-YEAR U.S. TREASURY INSTRUMENT THAT APPEARED IN VALUE LINE INVESTMENT SURVEYS "SELECTION & OPINIONS" PUBLICATION FROM 03/16/2012 THROUGH 05/04/2012 WAS USED AS A RISK FREE RATE OF RETURN.

(b) THE RISK PREMIUM (R_M - R_F) USED THE ARITHMETIC MEAN FOR S&P 500 TOTAL RETURNS OVER THE 1926 - 2011 PERIOD MINUS TOTAL RETURNS ON INTERMEDIATE TREASURIES DURING THE SAME PERIOD. THE DATA WAS OBTAINED FROM MORNINGSTAR'S STOCKS, BONDS, BILLS AND INFLATION: 2012 YEARBOOK.

ARIZONA WATER COMPANY
 TEST YEAR ENDED DECEMBER 31, 2010
 ECONOMIC INDICATORS - 1990 TO PRESENT

DOCKET NO. W-01445A-11-0310
 SURREBUTTAL SCHEDULE WAR - 8

LINE NO.	YEAR	(A) CHANGE IN CPI	(B) CHANGE IN GDP (1996 \$)	(C) PRIME RATE	(D) FED. DISC. RATE	(E) FED. FUNDS RATE	(F) 91-DAY T-BILLS	(G) 30-YR T-BONDS	(H) A-RATED UTIL. BOND YIELD	(I) Baa-RATED UTIL. BOND YIELD
1	1990	5.39%	1.90%	10.01%	6.98%	8.10%	7.50%	7.49%	9.86%	10.06%
2	1991	4.25%	-0.20%	8.46%	5.45%	5.69%	5.38%	5.38%	9.36%	9.55%
3	1992	3.03%	3.30%	6.25%	3.25%	3.52%	3.43%	3.43%	8.69%	8.86%
4	1993	2.96%	2.70%	6.00%	3.00%	3.02%	3.00%	3.00%	7.59%	7.91%
5	1994	2.61%	4.00%	7.14%	3.60%	4.21%	4.25%	4.25%	8.31%	8.63%
6	1995	2.81%	2.50%	8.83%	5.21%	5.83%	5.49%	5.49%	7.89%	8.29%
7	1996	2.93%	3.70%	8.27%	5.02%	5.30%	5.01%	5.01%	7.75%	8.17%
8	1997	2.34%	4.50%	8.44%	5.00%	5.46%	5.06%	5.06%	7.60%	8.12%
9	1998	1.55%	4.20%	8.35%	4.92%	5.35%	4.78%	4.78%	7.04%	7.27%
10	1999	2.19%	4.50%	7.99%	4.62%	4.97%	4.64%	4.64%	7.62%	7.88%
11	2000	3.38%	3.70%	9.23%	5.73%	6.24%	5.82%	5.82%	8.24%	8.36%
12	2001	2.83%	0.80%	6.92%	3.41%	3.88%	3.40%	3.40%	7.59%	8.02%
13	2002	1.59%	1.60%	4.67%	1.17%	1.67%	1.61%	1.61%	7.41%	7.98%
14	2003	2.27%	2.50%	4.12%	2.03%	1.13%	1.01%	1.01%	6.18%	6.64%
15	2004	2.68%	3.60%	4.34%	2.34%	1.35%	1.37%	1.37%	5.77%	6.20%
16	2005	3.39%	2.90%	6.16%	4.19%	3.22%	3.15%	3.15%	5.38%	5.78%
17	2006	3.24%	2.80%	7.97%	5.96%	4.97%	4.73%	4.91%	5.94%	6.30%
18	2007	2.85%	2.90%	8.05%	5.86%	5.02%	4.36%	4.84%	6.07%	6.24%
19	2008	3.84%	-6.80%	5.09%	2.39%	1.92%	1.37%	4.28%	6.34%	6.64%
20	2009	-0.36%	5.00%	3.25%	0.50%	0.00%-0.25%	0.15%	4.08%	5.84%	6.87%
21	2010	1.64%	2.80%	3.25%	0.72%	0.00%-0.25%	0.13%	4.25%	5.50%	5.98%
22	2011	3.00%	1.70%	3.25%	0.75%	0.00-0.25%	0.05%	3.93%	5.06%	5.58%
23	CURRENT	2.70%	2.20%	3.25%	0.75%	0.00%-0.25%	0.09%	3.15%	4.17%	4.65%

REFERENCES:

COLUMN (A): 1990 - CURRENT, U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS WEB SITE
 COLUMN (B): 1990 - CURRENT, U.S. DEPARTMENT OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS
 COLUMN (C) THROUGH (G): 1990 - 2003, FEDERAL RESERVE BANK OF ST. LOUIS WEB SITE
 COLUMN (C) THROUGH (D): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 05/04/2012
 COLUMN (F) THROUGH (I): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 05/04/2012

COLUMN (H) THROUGH (I): 1990 - 2000, MOODY'S PUBLIC UTILITY REPORT
 COLUMN (H) THROUGH (I): 2001, MERGENT 2002 PUBLIC UTILITY MANUAL
 COLUMN (H) THROUGH (I): 2003 MERGENT NEWS REPORTS

AVERAGE CAPITAL STRUCTURES OF SAMPLE WATER COMPANIES (000's)

LINE NO.	AWR	PCT.	CWT	PCT.	SJW	PCT.	WTR	PCT.	MSEX	PCT.
1	\$ 299.8	44.3%	\$ 479.2	52.4%	\$ 295.7	53.7%	\$ 1,532.0	56.6%	\$ 133.8	43.1%
2										
3	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	3.4	1.1%
4										
5	377.5	55.7%	435.5	47.6%	255.0	46.3%	1,174.3	43.4%	173.3	55.8%
6										
7	\$ 677.4	100%	\$ 914.7	100%	\$ 550.7	100%	\$ 2,706.2	100%	\$ 310.5	100%

WATER COMPANY	AVERAGE	PCT.
	\$ 548.1	53.1%
	0.7	0.1%
	483.1	46.8%
	\$ 1,031.9	100%

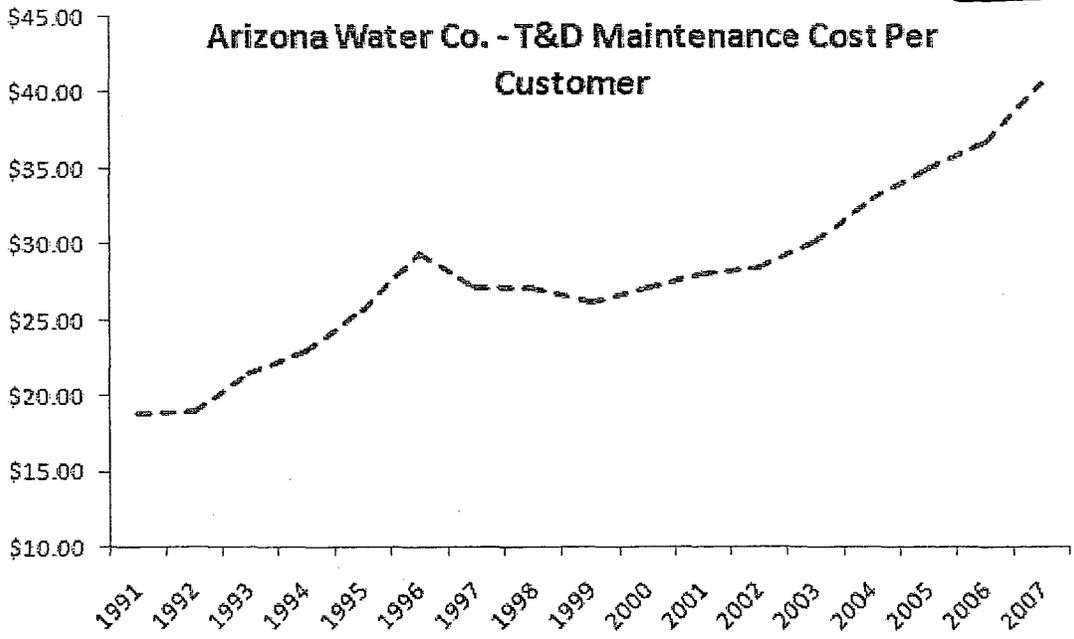
AVERAGE CAPITAL STRUCTURES OF SAMPLE NATURAL GAS COMPANIES (000's)

LINE NO.	AGL	PCT.	ATO	PCT.	LG	PCT.	NJR	PCT.	NWN	PCT.
1	\$ 1,673.0	47.7%	\$ 1,809.6	45.4%	\$ 364.3	47.0%	\$ 428.9	37.2%	\$ 591.7	48.1%
2										
3	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
4										
5	1,836.0	52.3%	2,178.3	54.6%	411.3	53.0%	725.5	62.8%	693.1	53.9%
6										
7	\$ 3,509.0	100%	\$ 3,987.9	100%	\$ 775.6	100%	\$ 1,154.4	100%	\$ 1,284.8	100%
8										
9										
10										
11										
12										
13										
14										
15	\$ 671.9	41.0%	\$ 340.0	37.4%	\$ 1,169.4	49.3%	\$ 592.9	33.4%	\$ 849.1	43.9%
16										
17	0.0	0.0%	0.0	0.0%	100.0	4.2%	28.2	1.6%	14.2	0.7%
18										
19	964.9	59.0%	570.1	62.8%	1,102.1	46.5%	1,153.4	65.0%	1,070.5	55.4%
20										
21	\$ 1,636.9	100%	\$ 910.1	100%	\$ 2,371.4	100%	\$ 1,774.4	100%	\$ 1,933.8	100%
22										
23										
24										
25										
26										
27	\$ 698.6	47.1%								
28										
29	7.1	0.5%								
30										
31	776.8	52.4%								
32										
33	\$ 1,482.5	100%								

LINE NO.	PNY	PCT.	SJI	PCT.	SWX	PCT.	WGL	PCT.	NATURAL GAS LDC AVERAGE	PCT.
15	\$ 671.9	41.0%	\$ 340.0	37.4%	\$ 1,169.4	49.3%	\$ 592.9	33.4%	\$ 849.1	43.9%
17	0.0	0.0%	0.0	0.0%	100.0	4.2%	28.2	1.6%	14.2	0.7%
19	964.9	59.0%	570.1	62.8%	1,102.1	46.5%	1,153.4	65.0%	1,070.5	55.4%
21	\$ 1,636.9	100%	\$ 910.1	100%	\$ 2,371.4	100%	\$ 1,774.4	100%	\$ 1,933.8	100%

WATER & LDC	AVERAGE	PCT.
	\$ 698.6	47.1%
	7.1	0.5%
	776.8	52.4%
	\$ 1,482.5	100%

REFERENCE:
 MOST RECENT SEC 10-K FILINGS OR ANNUAL REPORTS



The pattern shown in the chart above is consistent with, and conforms to, the consensus that water utilities operate in a rising-cost industry. Additional evidence supporting this consensus includes the fact that water utilities generally seek rate increases, rather than decreases.

Q. WHAT ARGUMENT DOES MR. MICHLIK MAKE REGARDING THE REGRESSION ANALYSIS PERFORMED BY THE COMPANY FOR THE PURPOSE OF CALCULATING ITS ADJUSTMENT?

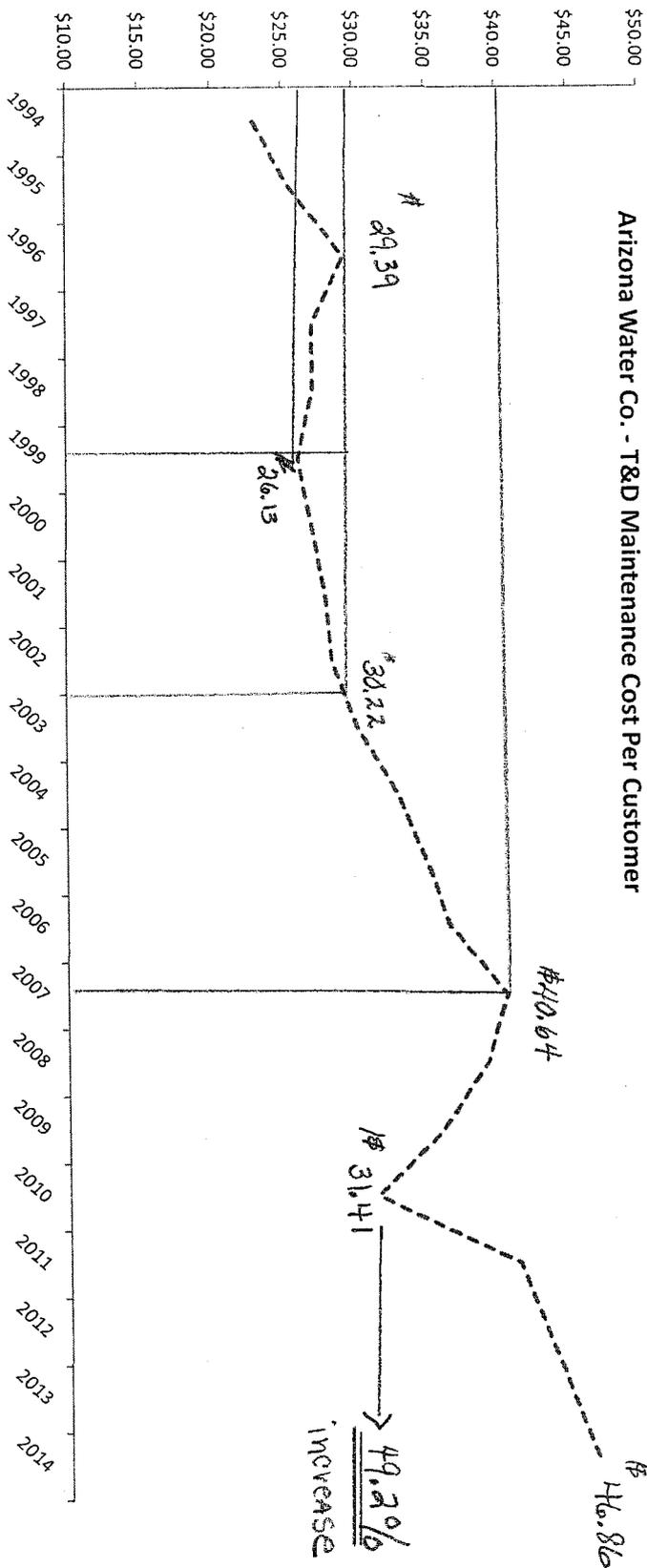
A. On page 21 (lines 13 – 14) of his direct testimony, Mr. Michlik claims the regression analysis performed by the Company is invalid on statistical grounds, and that a more appropriate analysis would have only examined the four years ending with the Test Year, rather than the 11 years utilized by the Company in its analysis.

Q. WOULD A FOUR-YEAR REGRESSION ANALYSIS BE APPROPRIATE?

A. No. On pages 16 (lines 4 – 27) and 17 (lines 1 – 5) of my direct testimony I explained how, as a result of cost-cutting measures implemented by the Company in 2008, the Test Year levels of Pumping and T&D maintenance expenses were abnormally low and not representative of the level of costs that

Transmission Distribution Maintenance Expense

Exhibit



2007	\$	40.64
2008	\$	39.22
2009	\$	36.10
2010	\$	31.41
2011	\$	41.33
2012	\$	43.17
2013	\$	45.02
2014	\$	46.86

Transmission Distribution Maintenance Expense

ARIZONA WATER COMPANY

Test Year Ended December 31, 2010

Year	No. Customers	T&D Maint.	
		Expense	Expense/Cust [D + B]
1994	48,080	\$ 1,107,626	\$ 23.04
1995	49,360	\$ 1,267,422	\$ 25.68
1996	51,257	\$ 1,506,513	\$ 29.39
1997	53,193	\$ 1,443,534	\$ 27.14
1998	55,795	\$ 1,515,984	\$ 27.17
1999	59,090	\$ 1,543,885	\$ 26.13
2000	61,632	\$ 1,667,748	\$ 27.06
2001	64,368	\$ 1,803,824	\$ 28.02
2002	66,844	\$ 1,904,275	\$ 28.49
2003	69,707	\$ 2,106,823	\$ 30.22
2004	72,835	\$ 2,402,464	\$ 32.99
2005	77,652	\$ 2,716,135	\$ 34.98
2006	81,597	\$ 2,993,095	\$ 36.68
2007	83,809	\$ 3,405,962	\$ 40.64
2008	83,721	\$ 3,283,207	\$ 39.22
2009	83,707	\$ 3,022,032	\$ 36.10
2010	83,848	\$ 2,633,422	\$ 31.41
2011	83,848	\$ 3,465,351	\$ 41.33
2012	83,848	\$ 3,619,961	\$ 43.17
2013	83,848	\$ 3,774,570	\$ 45.02
2014	83,848	\$ 3,929,179	\$ 46.86

TOTAL EASTERN GROUP

Year	Coded Year	Acct. 6700	Acct. 6701	Acct. 6720	Acct. 6730	Acct. 6750	Acct. 6760	Acct. 6770	Total	Linear Trend O.L.S. Regression (2000 - 2010)	Increase / (Decrease) From T.Y. Level
2000	0	\$ 29,358	\$ 55,979	\$ 111,564	\$ 215,849	\$ 305,589	\$ 80,691	\$ 23,216	\$ 822,247		
2001	1	27,896	60,398	111,564	232,387	305,790	103,600	43,243	884,877		
2002	2	28,131	80,639	111,564	259,464	329,029	100,783	43,088	952,697		
2003	3	30,951	65,873	111,564	285,906	352,126	150,514	39,138	1,036,071		
2004	4	36,797	79,282	207,951	301,775	380,216	133,838	62,911	1,202,771		
2005	5	41,249	82,483	240,056	334,593	393,386	140,348	56,697	1,288,810		
2006	6	42,452	95,260	240,056	341,984	427,193	176,893	60,258	1,384,095		
2007	7	42,685	98,787	240,056	469,466	462,009	208,388	39,237	1,560,627		
2008	8	38,222	103,010	240,056	498,464	395,480	129,021	67,761	1,472,013		
2009	9	30,043	101,520	240,056	430,851	277,099	115,141	105,857	1,300,567		
2010	10	25,758	101,184	120,054	367,778	255,541	138,582	106,062	1,114,959		
2011	11									1,506,957	391,998
2012	12									1,560,977	446,018
2013	13									1,614,997	500,037
2014	14									1,669,016	554,057
										1,642,007	527,047

Avg. '13-'14

Projected T&D expenses for Eastern Group in year 2011 and included in model	\$	1,506,957
Actual expenses incurred per Company's worksheet (See Exhibit A-7)	\$	1,122,104
Difference	\$	384,853

EXHIBIT
A-7

Line No.		Superstition	Cochise	San Manuel	Oracle	SaddleBrooke	Winkelman	Eastern Group	Total
1									
2									
3	2007	1,065,107	327,988	72,770	82,226	401	12,135	1,560,827	
4	2008	996,323	343,634	54,687	66,638	556	10,176	1,472,013	
5	2009	898,217	310,715	34,908	47,849	837	8,041	1,300,567	
6	2010	772,673	260,963	33,294	41,139	1,552	5,338	1,114,959	
7	2011	747,103	289,289	41,645	38,234	2,455	3,378	1,122,104	
8									
9									
10									
11	2007	156,659	31,148	12,706	12,256	66	1,383	214,218	
12	2008	169,466	32,663	15,304	16,234	134	2,199	235,998	
13	2009	167,650	30,959	8,771	8,856	253	946	217,435	
14	2010	154,058	27,688	8,608	8,449	883	884	200,568	
15	2011	133,196	51,079	5,317	8,596	443	1,079	199,710	
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Pumping Maintenance Expense

T&D Maintenance Expense

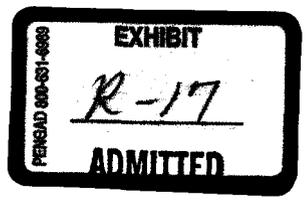
A-7

Eastern Group and Total Company
Admin and General Expenses
2008 through 2010

	2008	2009	2010	2010 / 2009	2010 / 2008
Officers Salaries	534,552	548,758	510,260	-7.0%	-4.5%
General Office Salaries	810,795	816,997	816,546	-0.1%	0.7%
Officers Expenses	25,766	23,159	18,747	-19.1%	-27.2%
Office Supplies & Expenses	150,432	127,959	117,453	-8.2%	-21.9%
Special Services	111,546	114,666	115,599	0.8%	3.6%
Legal Services	371,287	340,644	400,176	17.5%	7.8%
Property Insurance	35,090	26,328	47,198	79.3%	34.5%
Injuries & Damages	368,919	363,178	566,024	55.9%	53.4%
Employee Welfare	1,751,731	1,784,685	2,105,068	18.0%	20.2%
Retirement Annunifities	721,215	751,992	832,134	10.7%	15.4%
Reg. Comm - Assessment	121,806	98,664	109,077	10.6%	-10.5%
Reg. Comm - Rate Case	92,043	83,340	92,783	11.3%	0.8%
Miscellaneous	55,163	42,846	48,799	13.9%	-11.5%
Rents	144,124	191,105	185,407	-3.0%	28.6%
Admin Maintenance	254,677	237,358	252,715	6.5%	-0.8%
	5,549,146	5,551,679	6,217,986	12.0%	12.1%
Superstition	1,612,805	1,590,938	1,828,249	14.9%	12.1%
Cochise	398,466	411,170	502,103	22.1%	13.4%
San Manuel	114,113	102,168	118,716	16.2%	26.0%
Oracle	121,484	115,772	131,432	13.5%	4.0%
Winkelman	12,604	11,127	13,239	19.0%	8.2%
SaddleBrooke Ranch	311	359	7,148	1891.1%	5.0%
	2,259,783	2,231,534	2,600,887	16.6%	2198.4%
					15.1%

Source: Information provided by the Company

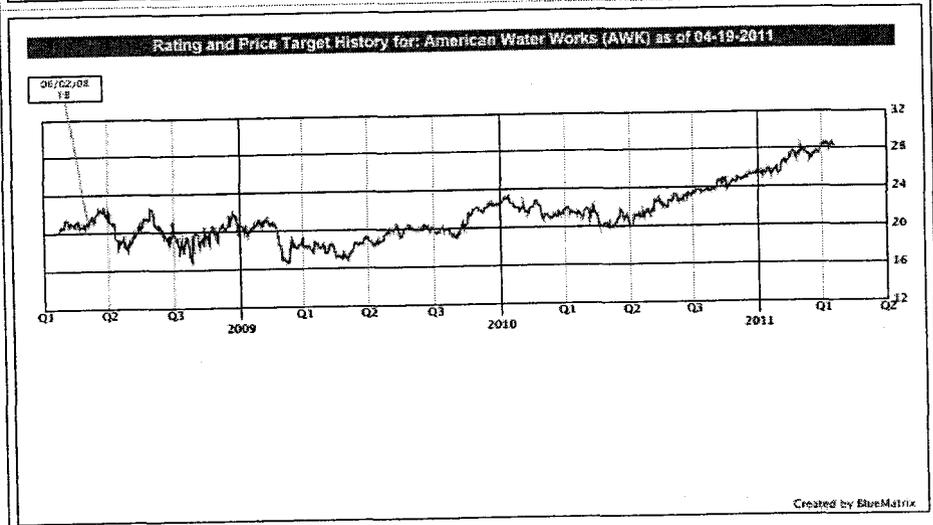
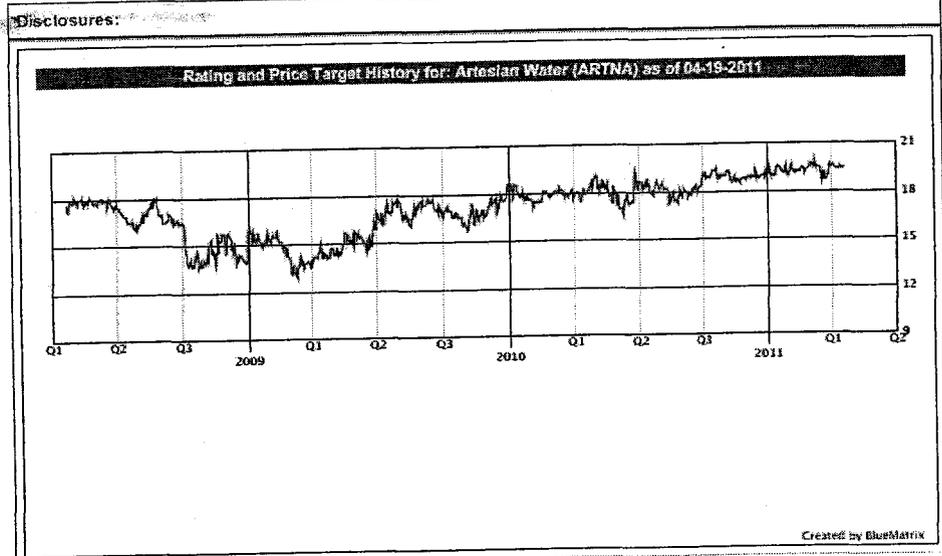


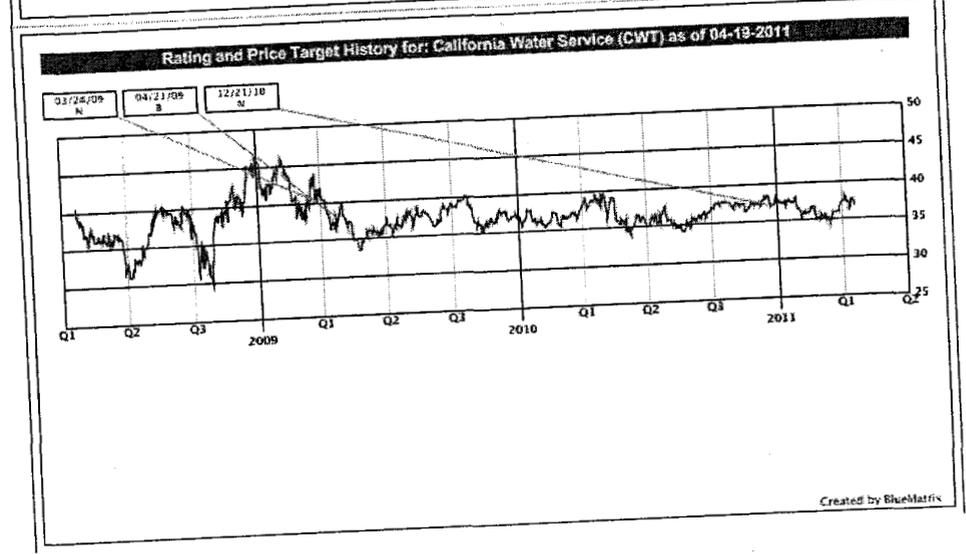
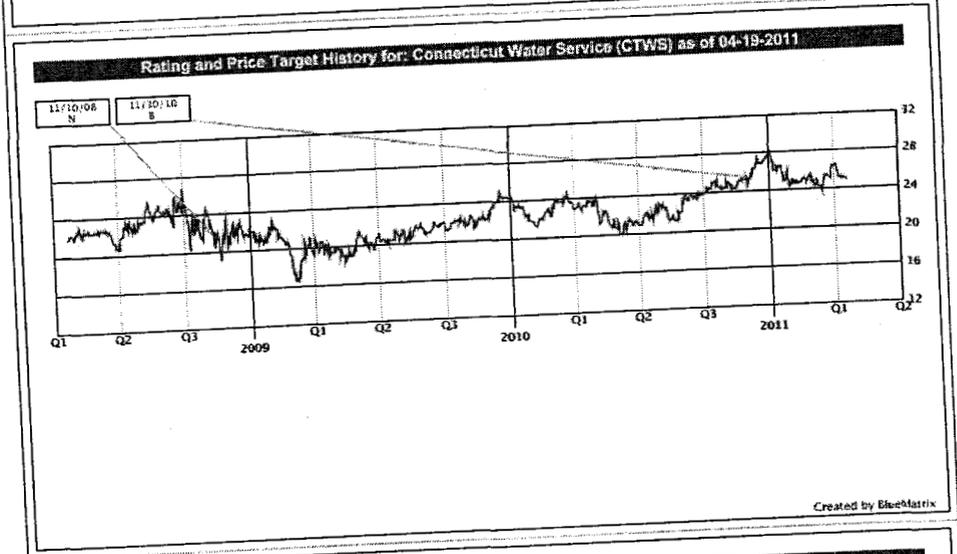
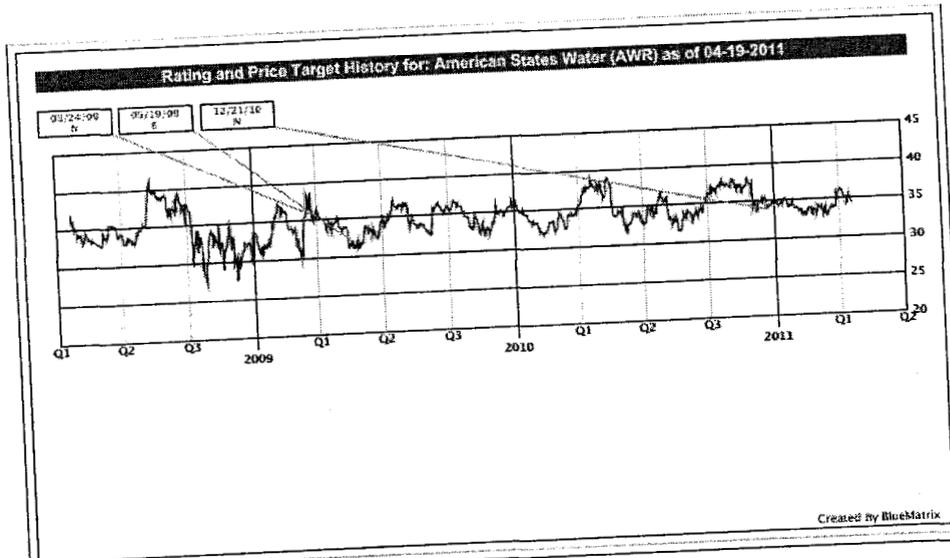


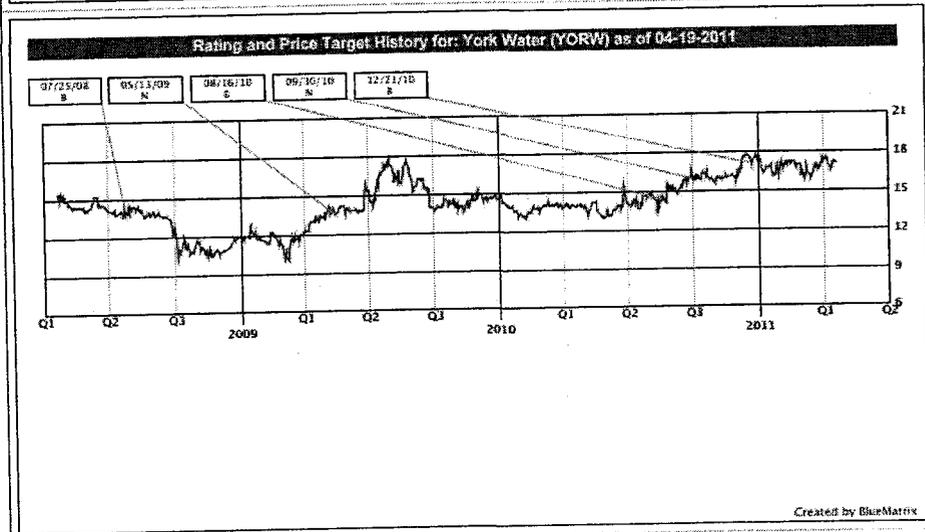
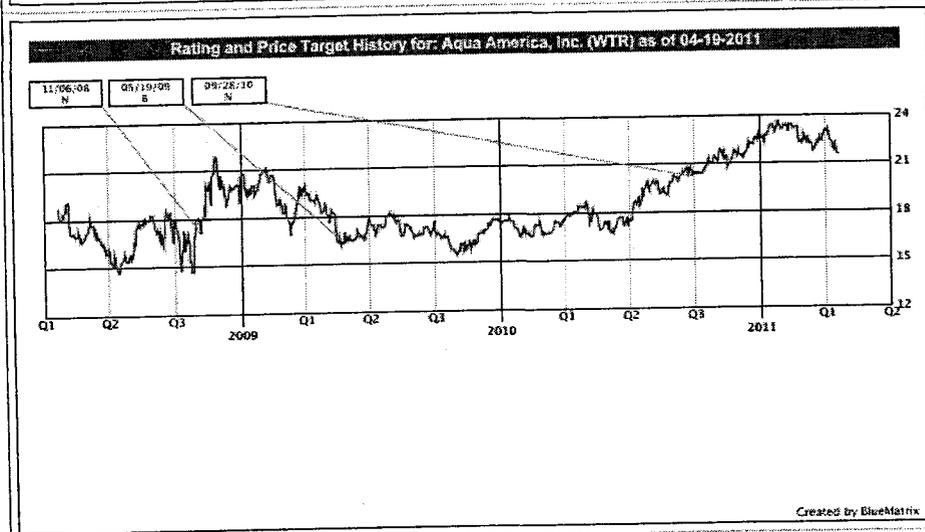
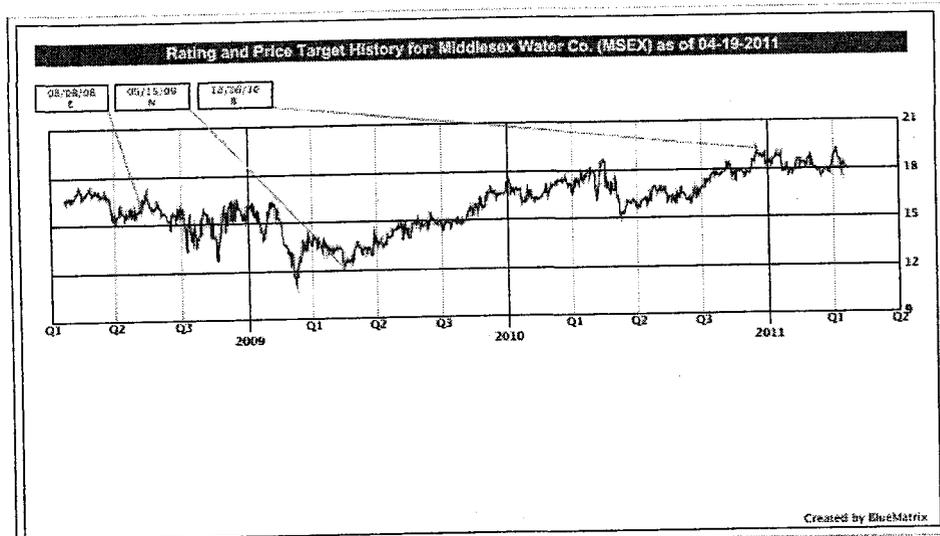
Analyst Name Search

Multi-Company Name Search(comma separated)

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NEUTRAL: Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

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Playing the "January effect"

Mon, Jan 9 2012

By John F. Wasik

(Reuters) - For years, one of the more bankable phenomena in finance has been the January effect.

The premise is simple: Institutions and traders sell off stocks the end of the year for tax reasons and portfolio dressing. Then they start buying again in January, often favoring small companies, also known as "small caps."

With myriad signs that the U.S. economy is in recovery, this may be another good year for the January effect. Even if it isn't - and I refuse to make predictions for short-term traders - it would be a good idea to add bargain-priced small caps to your core portfolio through index mutual funds or exchange-traded funds (ETFs).

While there's certainly some controversy about whether the January effect is legitimate since its "discovery" in 1942, there are behavioral reasons why it may exist. Many investors like to clear out their deadwood by the end of the year and start afresh in January.

Instead of adopting new resolutions, they buy stocks. That's one theory, anyway. Since 1991, the average January return on the S&P 500 Index has been 6.7 percent.

Another view is that after a holiday respite, investors are looking for new, profitable ideas. Since last year's stock market, as measured by the S&P 500, was virtually flat, it's understandable that investors are hoping for a change of pace and a robust January may set the tone for the rest of the year.

JANUARY EFFECT HARBINGER

Since institutions, which dominate the market, migrate from category to category like sheep in a field, they may shift from once-favored stocks - such as large companies - and move into small caps. Is this happening now?

In just one ETF - the iShares Trust Russell 3000 - we get a snapshot of what may be happening. In just the first day of trading this year, the fund shot up 2 percent.

Is this a harbinger of things to come? It's impossible to say, but it's plausible to think that small-caps may be the leading edge of winning category this year.

Similar results were posted by the Schwab Small-Cap ETF. For the week, the stock market was up about 1 percent, tugged at both ends by upbeat employment and continuing euro zone angst.

Overall, there's a hint of optimism in economic news in 2012 that was reflected in widespread market gains. U.S. manufacturing and homebuilding have perked up and job creation is on the rise.

PLAYING THE EFFECT

If there's a prolonged economic and sustained rebound afoot that favors most stocks, here are some ETFs to consider as long-term holdings:

* Vanguard Small Cap Growth ETF. Following a basket of more than 1,000 small companies, this is a good, low-cost way to sample this category.

* SPDR S&P 600 Small-Cap Value. Like the Vanguard fund, this ETF tracks an index of small companies, only with an emphasis on bargain-priced stocks.

Don't make the mistake of getting into these funds and bailing at the first sign of trouble. The last few years have not been kind to small caps in general and we're certainly not free and clear of any potential economic potholes. And one week doesn't foretell what will happen the rest of the year. That trap ensnares a lot of investors. Past returns don't guarantee future profits.

You should plan for the kind of future you can control. Hew to an investment policy statement - draw one up that states your personal financial goals - instead of trading based on short-term moves. If you make only one resolution this year, that's a solid one.

The author is a Reuters columnist. The opinions expressed are his own.

(Editing by Chelsea Emery)

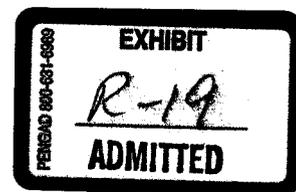


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Forbes



Lara Hoffmans, Contributor

I provide economic and financial news analysis.

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January Effect . . . Anyone?

Where are all the “January effect” headlines?

You know—all the “so goes January goes the year” stories”? Sometimes folks just focus on the first five days: “So goes the first five days goes the month goes the year.” Because if you believed in this “effect” you ought to be bullish. Which is perhaps why, in general, those who believe most in this myth are whistling and looking a different direction.

We got a barrage of so-goes headlines in both 2010 and 2009—stocks were down in both Januaries (then ended both years up big). This isn’t dissimilar to the reaction to the recent “golden cross”—when the 50-day moving average rises above the 200-day moving average—which is thought to be bullish. (It could also simply be as sign of a correction, then a rally, which is exactly what happened as 2011 ended.) But reporting around it mostly said, yes, well, this is a technical indicator, and you can’t always trust ‘em. (Very true.)

Except, when bearish indicators flash—like the death cross, the Hindenburg omen, or a head-and-shoulders, that’s broadly trumpeted as a sure sign of doom—as happened in mid-2010 in the depths of the correction. (Again, stocks ended 2010 up nicely.)

Why are bearish signs accepted as bible truth, but bullish ones disregarded as voodoo? Blame evolution. We feel the pain of loss over two times as intensely as the pleasure of gain (from the Nobel-Prize winning *prospect theory*—which later garnered Daniel Kahneman a Nobel Prize.) So when some sign, signal, indicator, bird formation, whatever, says, “Hey, possible risk ahead!” we’re much more motivated to react. When some indicator (bird formation, etc.) says, “Good times a-coming!” our instinctual brain says, “Meh. You sure you’re not confused and there’s actually more risk?”

This is normal. Being hyperaware of potential risks was a critical evolution that kept us alive for the tens of thousands of years before the development of capital markets—when risk of starving, being snatched by a fanged beast, or falling a great distance with no chance of a med-evac was very high.

That was good then. But it’s almost perfectly backwards when it comes to stocks. Stocks are positive much more than negative—and to a greater degree. Since 1926, US stocks have risen in 62 years out of 86—72% of the time. Yes, you get big downside—like 2008. But that happens less often than our brains allow us to think—and we remember the downside much more keenly than we remember the big upside (like 2009 and 2010).

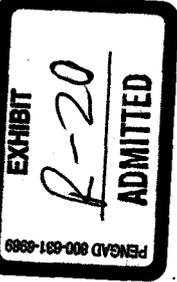
Fact is—bullish or bearish—the January effect is nonsense as a forward-looking predictor. There are four possible outcomes in a year: January and the year can both be up, both be down, up/down or down/up. The most common occurrence? January and the year both up—53% of the time. Don’t take that to mean January is predictive. Take it to mean stocks are up much more than down, so you tend to get more positive months in a year that’s positive (and years are positive much more than not). When January is down, it’s a coin flip whether the year is down too.

Which means, bullish/bearish decisions ought to be based on a sound, rational analysis of all extant risks weighed against all positives to determine which are overall likeliest to weigh on equity demand in the period ahead. Not on a single bird formation with a dubious track record.

Markets Never Forget But People Do by Ken Fisher (CEO of Fisher Investments) and Lara Hoffmans is available now. Learn more about the book at www.marketsneverforget.com

This constitutes the views, opinions and commentary of the author as of January 2012 and should not be regarded as personal investment advice. No assurances are made the author will continue to hold these views, which may change at any time without notice. No assurances are made regarding the accuracy of any forecast made. Past performance is no guarantee of future results. Investing in stock markets involves the risk of loss.

**This article is available online at:
<http://www.forbes.com/sites/larahoffmans/2012/01/20/january-effect-fisher-investments/>**



DOCKET NO. W-01445A-11-0310
SURREBTULL SCHEDULE WAR - 6

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2010
GROWTH RATE COMPARISON

WATER COMPANY SAMPLE:

LINE NO.	STOCK SYMBOL	(A)		(B)		(C)		(D)		(E)		(F)	
		(br) + (\$)	ZACKS EPS	ZACKS EPS	EPS	VALUE LINE PROJECTED DPS	BVPS	EPS	VALUE LINE HISTORIC DPS	BVPS	VALUE LINE & ZACKS AVGS	EPS	DPS	BVPS
1	AWR	6.08%	12.00%	6.50%	4.00%	4.50%	11.50%	2.50%	5.00%	6.57%	8.32%	3.46%	5.46%
2	CWT	5.21%	10.00%	6.00%	4.00%	3.50%	5.00%	1.00%	5.00%	4.93%	3.48%	1.68%	3.85%
3	MSEX	4.60%	-	5.50%	1.50%	1.00%	4.50%	1.50%	5.50%	3.25%	-0.87%	1.42%	2.91%
4	SJW	4.33%	-	7.00%	4.00%	3.50%	-3.00%	5.00%	4.50%	3.50%	1.64%	3.13%	2.43%
5	WTR	5.90%	8.30%	8.50%	5.50%	4.50%	4.50%	8.00%	7.00%	6.61%	9.75%	6.61%	5.33%
6			6.70%	3.40%	3.80%	4.50%	4.50%	3.80%	5.40%		4.46%	3.26%	3.89%
7	AVERAGES	5.22%	10.10%		4.63%			4.50%		4.97%			

NATURAL GAS LDC SAMPLE:

LINE NO.	STOCK SYMBOL	(A)		(B)		(C)		(D)		(E)		(F)	
		(br) + (\$)	ZACKS EPS	ZACKS EPS	EPS	VALUE LINE PROJECTED DPS	BVPS	EPS	VALUE LINE HISTORIC DPS	BVPS	VALUE LINE & ZACKS AVGS	EPS	DPS	BVPS
1	GAS	6.00%	4.30%	5.50%	2.00%	6.00%	4.50%	7.50%	5.50%	5.04%	-6.04%	3.75%	7.04%
2	ATO	3.67%	4.30%	4.00%	1.50%	6.00%	4.00%	1.50%	4.50%	3.69%	3.89%	1.53%	3.22%
3	LG	4.57%	3.00%	2.00%	2.50%	4.50%	6.00%	2.50%	6.50%	3.86%	5.48%	2.85%	6.61%
4	NJR	6.96%	4.50%	5.50%	4.00%	5.50%	7.00%	8.00%	7.50%	8.00%	13.59%	9.27%	4.85%
5	NWN	4.76%	4.30%	4.00%	3.00%	4.50%	7.00%	4.50%	4.00%	4.47%	-3.53%	5.00%	4.39%
6	PNY	3.61%	4.70%	2.50%	3.00%	2.00%	4.50%	4.00%	3.00%	3.99%	2.91%	3.82%	5.56%
7	SJI	10.21%	8.00%	8.00%	9.00%	5.00%	8.50%	8.50%	8.00%	7.86%	8.44%	10.39%	6.19%
8	SWX	7.43%	5.30%	6.50%	8.00%	4.50%	6.50%	3.00%	5.50%	6.04%	5.66%	5.37%	3.80%
9	WGL	3.84%	5.20%	3.00%	2.50%	4.00%	3.00%	2.50%	5.00%	3.60%	1.88%	3.13%	4.33%
10			5.00%	4.67%	3.94%	5.78%	4.67%	4.67%	5.50%		3.58%	4.96%	4.85%
11	AVERAGES	5.67%	4.62%		4.54%			5.31%		4.88%			

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COLUMN (B): ZACKS INVESTMENT RESEARCH (www.zacks.com)
COLUMN (C): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 04/20/2012 (WATER COMPANIES) AND 03/09/2012 (NATURAL GAS LDCs)
COLUMN (D): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 04/20/2012 (WATER COMPANIES) AND 03/09/2012 (NATURAL GAS LDCs)
COLUMN (E): SIMPLE AVERAGE OF COLUMNS (B) THRU (D) LINES 1 THRU 3 (WATER) AND 1 THRU 9 (NATURAL GAS)
COLUMN (F): 5-YEAR ANNUAL GROWTH RATE CALCULATED WITH DATA COMPILED FROM VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 04/20/2012 (WATER COMPANIES) AND 03/09/2012 (NATURAL GAS LDCs)