Transcript Exhibit(s)

Docket #(s): _____

Exhibit # : RUCO-15 thru 5-11
Pint 4 of 4

EXHIBIT RLJ 1-11.2W

PIMA UTILITY COMPANY

AGREEMENT RELATING TO EXTENSION OF WATER DISTRIBUTION FACILITIES

This Agreement is made and entered into this 20th day of April, 2004, by and between PIMA UTILITY COMPANY, an Arizona corporation (hereinafter referred to as the "Company"), and HANCOCK-MTH BUILDERS, INC., an Arizona corporation (hereinafter referred to as the "Developer").

RECITALS

A. The Developer is in the process of developing a subdivision (Santan Vista Unit 3, Phases 3, 4 and 5) located on real property described on Exhibit A hereto, and an adjacent unsubdivided roadway area also described on Exhibit A hereto (together, the "Development") that is within the Company's certificated area, and desires the Company to provide water utility services to the Development;

B. The Company owns and operates a water utility system that authorizes the Company to provide public utility water service to the Development and desires to provide such water utility services to the Development.

NOW, THEREFORE, in consideration of the mutual promises contained in this Agreement and other good and valuable consideration, the receipt of which the parties acknowledge, the parties agree as follows:

AGREEMENT

1. On Site Water Facilities.

A Construction. Developer will construct or cause to be constructed on-site water distribution facilities ("On-Site Water Facilities") necessary for the Company to provide water utility service within the Development. A list of the On-Site Water Facilities and the estimated cost thereof is attached hereto as Exhibit B. The On-Site Water Facilities will be designed and constructed in accordance with plans and specifications prepared by Developer and approved by the Company. The size, design, type and quality of materials and of the system, location in the ground and the manner of installation, shall be specified by the Company and shall be in accord with the requirements of the Arizona Corporation Commission (the "Commission") and other public agencies having jurisdiction. The Company will promptly act upon requests for approval of plans.

B. Inspection; Testing; Acceptance. Developer shall inspect and test, or cause the inspection and testing of, the On-Site Water Facilities, and shall deliver the resulting inspection and testing results to the Company. Within five (5) business days after Company receives the inspection and testing results, the Company shall provide Developer with (a) a written acceptance of the facilities, so long as the On-Site Water Facilities are constructed in accordance with the plans and specifications approved by the Company under Section 1(A)(i) and applicable governmental requirements; or (b) a letter detailing in what regard the

Facilities at the approximate locations depicted on Exhibit C. Upon issuance of its written acceptance of the On-Site Water Facilities, the Company shall provide water service to the Development in accordance with the rates, charges and conditions set forth in the tariffs of the Company as filed with the Arizona Corporation Commission, as the same may be amended from time to time. All rights and obligations hereunder including those regarding water utility service to the Development shall be subject to the rules and regulations of the Arizona Corporation Commission and all applicable rates, fees, charges, and tariffs of the Company as approved by the Commission now or as they may be changed in the future.

2. Advances in Aid of Construction; Refunds.

A. Water Facilities Advance. The amounts set forth in Exhibit B, representing the estimated cost of the On-Site Water Facilities, shall be considered an advance in aid of construction (the "Water Facilities Advance") and shall be subject to refund. The Company agrees to refund to the Developer 10% of the total annual gross revenue from water sales to each new bona fide customer whose service line is connected to the On-Site Water Facilities for a period of 10 years beginning the first day of July, 2004. If the entire Water Facilities Advance is not refunded to Developer at the end of the ten-year period, the entire balance remaining, if any, shall become non-refundable. The refund period is to begin on the first day of July, 2004 and the refunds shall be made by the Company on or before the 31st day of August of each fiscal year commencing on August 31, 2005, covering any refunds owing from water revenues received during the preceding July 1 to June 30 period. The aggregate refunds made hereunder shall in no event exceed the total amount of the Water Facilities Advance made pursuant to this Agreement; no interest will be paid by the Company on advances received under this Agreement. With each refund, the Company will also deliver to Developer copies of records of revenues from the Development reasonably sufficient to allow verification of the refund amount.

B. Limitation. The Company shall make no refunds from any revenue received from any lines, other than the customer service lines within the Development, leading up to or taking off from the On-Site Water Facilities, whether the same have been previously installed or may be installed in the future.

C. Termination of Refund. The Company may, upon approval of the Commission, terminate its obligation to refund a percentage of gross revenue as described above by accord and satisfaction of its obligations under this Agreement satisfactory to Developer.

D. Sole Property of Company. The On-Site Water Facilities, following transfer to the Company, shall be the sole property of the Company, and the Developer shall have no right, title or interest in the On-Site Water Facilities following transfer of same to the Company.

E. Changes to Construction Costs. The parties acknowledge that the costs set forth in Exhibit B are based on preliminary plans for the On-Site Water Facilities. If the costs of the final installed On-Site Water Facilities differ from the estimated costs, the amount set forth in Exhibit B shall be adjusted to reflect the actual total cost of construction, and such final amount shall be included in the Water Facilities Advance.

Developer:

HANCOCK-MTH BUILDERS, INC.
8501 E. Princess Drive, #200
Scottsdale, Arizona 85255
Attn: Ken Quartermain
Fax: (480) 303-0338

Each party shall promptly provide written notice to the other party, as provided herein, of any subsequent change of address, and the failure to do so shall precluded any subsequent claim that notice was improperly given hereunder.

E. Authority to Execute and Perform. Each party represents and warrants to the other party that it has been duly authorized to execute and perform this Agreement and all of its duties and obligations hereunder.

F. Commission Approval. Before this Agreement shall become effective and binding upon either the Company or the Developer, it shall be filed with and approved by the Utilities Division of the Commission, and in the event it is not so approved, this Agreement shall be null and void and of no force or effect whatsoever.

G. Miscellaneous. This Agreement shall be governed by and construed in accordance with the laws of the State of Arizona. This Agreement, together with the attachments hereto, sets forth the entire agreement between the parties and supersedes all prior negotiations, understandings and agreements between them. No change in, addition to, or waiver of any of the provisions of this Agreement shall be binding upon any party unless in writing and signed by the parties. Time is of the essence of this Agreement and each and every term contained herein.

H. Start/Completion Dates. The estimated start date for the installation of the On-Site Water Facilities is June 21, 2004 and the estimated completion date is July 16, 2004.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement by their authorized individuals as of the day, month and year first above written.

Company:

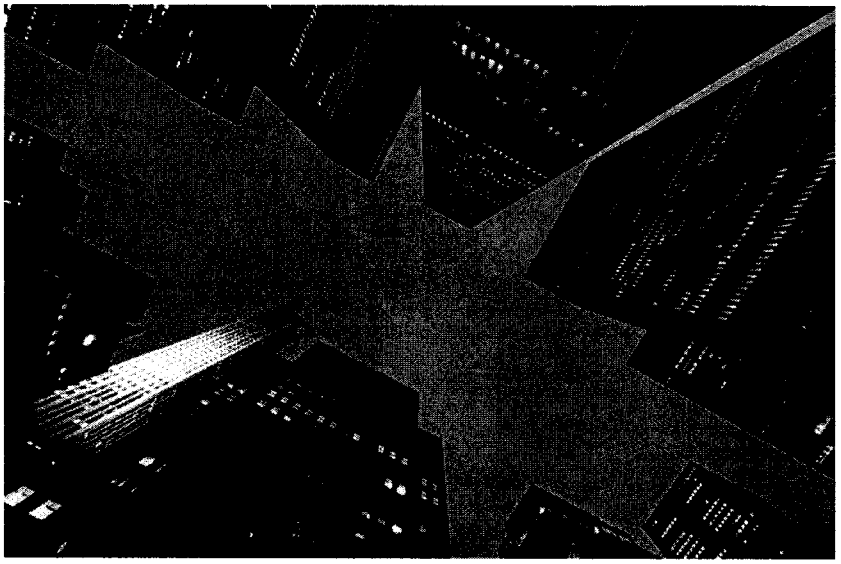
PIMA UTILITY COMPANY,
an Arizona corporation

By: _____
Its V.P.

ECONOMY & POLICY

The Corporate Tax Rate Is Lowest in Decades; Is Business Paying Its Fair Share?

By CHRISTOPHER MATTHEWS | @crobmatthews | February 6, 2012 | +



SIEGFRIED LAYDA / GETTY IMAGES

As the nation frets over slow growth and large budget deficits, much has been made over how much Americas are and should be paying in income tax. President Obama and Democrats have argued that the wealthiest among us are not paying their fair share. They say the spoils of the globalization and the internet revolution have gone almost exclusively to the very wealthy, and that, in times of crisis, more should be asked of those who can afford to give. Those on the right counter that the wealthy pay their fair share and, more, that the top one percent pay a huge percentage of federal income tax receipts.

But there is another source of federal revenues that receives less attention: corporate income taxes. According to the *Wall Street Journal*'s recent study of Congressional Budget Office numbers, corporations are paying an effective rate of 12.1%, the lowest in at least 40 years. So why are some of the biggest and most powerful entities in our society getting away with paying so little? The story is complicated, but the biggest factor in the recent collapse in corporate tax receipts appears to be a set of tax breaks built into recent stimulus efforts.

In 2010 and 2011, companies were allowed to deduct the full cost of the purchases of new equipment, while normally these costs would be expensed over several years. In 2012, this deduction will go down to 50% and be eliminated altogether thereafter, causing the effective tax rate to return to roughly the 25.6% average effective tax rate corporations paid since the late 1980s, according to CBO forecasts.

(**LIST:** Social Windfall: Facebook IPO's Billion-Dollar Winners)

Of course that 25.6% number is still quite a bit lower than the nominal tax rate of 35%, the highest in the world behind only Japan. So why aren't corporations paying what the law says they should? Certainly, some are. According to Howard Barnet, a tax attorney with Carter Ledyard & Milburn, it all depends on what kind of corporation you are. He says that large, multinational corporations have many more strategies available to them to reduce tax burdens than smaller, domestic firms do. Pile on top of that all the tax goodies that politicians like to lavish on their favorite industries like tech, manufacturing, and real estate and, "it's a small subset of domestic companies left holding the bag," Barnet says.

It would seem, then, that whatever your concept of fairness is with regards to personal tax rates, the corporate tax regime in America is blatantly unfair, with some corporations not paying enough and others shouldering too heavy a burden. Our

current system, however, will probably not continue much longer. While 2012 will be a year of gridlock in Washington, tax reform will be on the top of the agenda for the President and Congress after the election, with corporate tax rates and loopholes a major target of reform.

(MORE: Are Companies More Powerful Than Countries?)

Oddly enough, the best way to make corporations pay their fair share may be to do away with the corporate tax altogether. No matter what Mitt Romney says, corporations aren't people. Their profits, however, are ultimately distributed to people, whether it be shareholders or employees. It is true that corporate America is currently hoarding cash, but under most circumstances, executives can't justify such low returns on their capital. If corporate leaders can't find productive use for their profits, they will distribute that money to shareholders in the form of dividends. And that income can be taxed at whatever rate society deems fair.

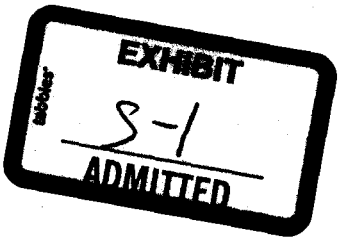
Economist and blogger Ed Dolan argues for shifting the burden of income tax from the corporation to its proprietors, saying at the very least that the corporate tax rate should be lowered, its loopholes eliminated, and that capital gains should be taxed as ordinary income. He also suggests that the corporate tax could be eliminated altogether, and replaced with more broad based taxes on energy or consumption. And these tax regimes need not be regressive. Rates could be set in such a way to not place too great a burden on the less wealthy. And as Barnet notes, "As a practical matter we're going towards [eliminating corporate tax] now. It's just, sort of, the suckers out there who are paying corporate tax."

So are we moving to a point where we officially eliminate taxes on corporations? For obvious reasons, this is not politically feasible. Most proposals in Congress involve lowering the nominal corporate rate but at the same time removing loopholes that allow companies to pay well below the nominal rate.

Certainly this is a start. One thing is for sure: The more complicated the tax code, the easier it is for the rich and powerful to game the system and leave the rest of us to foot the bill.

PIMA UTILITY COMPANY - SEWER DIVISION
DOCKET NO. W-02199A-11-0330
RESPONSE TO STAFF'S FIRST SET OF DATA REQUESTS

November 11, 2011



Response provided by: Ray Jones

Title: Consultant

Company: Pima Utility Company

Address: 9532 East Riggs Road
Sun Lakes, AZ 85248

Company Response Number: CSB 1-12

Q. AIAC and Refunds of AIAC – Please describe your procedures and internal controls to record AIAC and to ensure that refunds are made in a timely basis. Also, please provide a complete history of all your AIAC contracts and dates of refunds since your last rate case. As part of your response, please provide a schedule listing all AIAC agreements and amounts that total the $285,313 AIAC amount shown on Schedule B-2. Please provide copies of all AIAC agreements.

RESPONSE: Pima Utility Company's service area is built out. Accordingly, Pima does not expect to have any additional line extension agreements and does not have any procedures or internal controls for recording AIAC.

Pima has a single unexpired line extension agreement for the Santan Vista project. The original balance on that line extension agreement was 343,412. Through 12/31/2010, Pima has calculated refunds payable of $58,099 on the agreement, leaving an outstanding balance of $285,313 as shown on Schedule B-2.

Due to the bankruptcy of the developer, HANCOCK-MTH Builders, Inc., Pima has been unable to pay the refunds due to HANCOCK-MTH Builders, Inc. and is unaware of a successor entity to which payments can be made. Since it is unlikely that Pima will ever be able to actually pay the amounts due HANCOCK-MTH Builders, Inc., Pima believes it may be more appropriate to eliminate the account payable to HANCOCK-MTH Builders, Inc. and reclassify the full amount of the original advance to Contributions in Aid of Construction. Pima would accept a Staff recommendation to this effect and requests that any Staff recommendation include an appropriate accounting order allowing Pima to eliminate the account payable to HANCOCK-MTH Builders, Inc.

and reclassify the refundable advance as a nonrefundable Contribution in Aid of Construction.

The attached Schedule RLJ 1-12.1S provides a history of Pima's AIAC contracts and dates of refunds since the last rate case. A copy of the line extension agreement with Hancock-MTH Builders, Inc. for the Santan Vista project is attached as Exhibit RLJ 1-12.2S.

Pima Utility Company - Water Division
Refundable Advances-in-aid of Construction

Line No.	Description	Balance 12/31/1992	1993 Additions	1993 Transfer to CIAC	1993 Refunds 3/31/1993	1993 Balance	1994 Additions	1994 Transfer to CIAC	1994 Refunds 12/31/1994	1994 Balance	1995 Additions	1995 Transfer to CIAC 1/1/1995	1995 Refunds 12/31/1995	1995 Balance
3	Sun Lakes	1,566,612			(387)	1,566,226			(327,100)	1,239,126		(23,086)	(538,410)	677,630
4	San Tan Vista													
6	Total	1,566,612	-	-	(387)	1,566,226	-	-	(327,100)	1,239,126	-	(23,086)	(538,410)	677,630

Line No.	Description	1996 Additions	1996 Transfer to CIAC	1996 Refunds 12/31/1996	1996 Balance	1997 Additions	1997 Transfer to CIAC 35,795.00	1997 Refunds 12/31/1997	1997 Balance	1998 Additions	1998 Transfer to CIAC 1/1/1998	1998 Refunds 12/31/1998	1998 Balance
12	Sun Lakes	-	-	(12,295)	665,335	-	(175,746)	(190,577)	299,012	-	(261,718)	(2,382)	34,912
13	San Tan Vista	-	-	-	-	-	-	-	-	-	-	-	-
15	Total	-	-	(12,295)	665,335	-	(175,746)	(190,577)	299,012	-	(261,718)	(2,382)	34,912

Line No.	Description	1999 Additions	1999 Transfer to CIAC 1/1/1999	1999 Refunds	1999 Balance	2000 Additions	2000 Transfer to CIAC	2000 Refunds	2000 Balance	2001 Additions	2001 Transfer to CIAC	2001 Refunds	2001 Balance
21	Sun Lakes	-	(34,912)	-	-	-	-	-	-	-	-	-	-
22	San Tan Vista	-	-	-	-	-	-	-	-	-	-	-	-
24	Total	-	(34,912)	-	-	-	-	-	-	-	-	-	-

Line No.	Description	2002 Additions	2002 Transfer to CIAC	2002 Refunds	2002 Balance	2003 Additions	2003 Transfer to CIAC	2003 Refunds	2003 Balance	2004 Additions	2004 Transfer to CIAC	2004 Refunds	2004 Balance
30	Sun Lakes	-	-	-	-	-	-	-	-	-	-	-	-
31	San Tan Vista	-	-	-	-	-	-	-	-	-	-	-	-
33	Total	-	-	-	-	-	-	-	-	-	-	-	-

Line No.	Description	2005 Additions 1/1/2005	2005 Transfer to CIAC	2005 Refunds	2005 Balance	2006 Additions	2006 Transfer to CIAC	2006 Refunds	2006 Balance	2007 Additions	2007 Transfer to CIAC	2007 Refunds	2007 Balance
39	Sun Lakes	-	-	-	-	-	-	-	423,588	-	-	-	423,588
40	San Tan Vista	423,588	-	-	423,588	-	-	-	-	-	-	-	-
42	Total	423,588	-	-	423,588	-	-	-	423,588	-	-	-	423,588

Line No.	Description	2008 Additions	2008 Transfer to CIAC	2008 Refunds	2008 Balance	2009 Additions	2009 Transfer to CIAC	2009 Refunds 12/31/2009	2009 Balance	2010 Additions	2010 Transfer to CIAC	2010 Refunds 12/31/2010	2010 Balance
48	Sun Lakes	-	-	-	-	-	-	-	-	-	-	-	-
49	San Tan Vista	-	-	-	423,588	-	-	(38,951)	384,637	-	-	(10,402)	374,236
51	Total	-	-	-	423,588	-	-	(38,951)	384,637	-	-	(10,402)	374,236

PIMA UTILITY COMPANY

AGREEMENT RELATING TO EXTENSION OF WASTEWATER COLLECTION FACILITIES

This Agreement is made and entered into this 21st day of April, 2004, by and between PIMA UTILITY COMPANY, an Arizona corporation (hereinafter referred to as the "Company"), and HANCOCK-MTH BUILDERS, INC., an Arizona corporation (hereinafter referred to as the "Developer").

RECITALS

A. The Developer is in the process of developing a subdivision (Santan Vista Unit 3, Phases 3, 4 and 5) located on real property described on Exhibit A hereto and an adjacent unsubdivided roadway area also described on Exhibit A hereto (together, the "Development") that is within the Company's certificated area, and desires the Company to provide wastewater utility services to the Development;

B. The Company owns and operates a wastewater utility system that authorizes the Company to provide public utility wastewater service to the Development and desires to provide such wastewater utility services to the Development.

NOW, THEREFORE, in consideration of the mutual promises contained in this Agreement and other good and valuable consideration, the receipt of which the parties acknowledge, the parties agree as follows:

AGREEMENT

1. Construction of Wastewater Facilities.

A. On Site Wastewater Facilities:

i. Developer will construct or cause to be constructed on-site wastewater collection facilities ("On-Site Wastewater Facilities") necessary for the Company to provide wastewater utility service within the Development. A list of the On-Site Wastewater Facilities and the estimated cost thereof is attached hereto as Exhibit B. The On-Site Wastewater Facilities will be designed and constructed in accordance with plans and specifications prepared by Developer and approved by the Company. The size, design, type and quality of materials and of the system, location in the ground and the manner of installation, shall be specified by the Company and shall be in accord with the requirements of the Arizona Corporation Commission (the "Commission") and other public agencies having jurisdiction. The Company will promptly act upon requests for approval of plans.

ii. Developer shall inspect and test, or cause the inspection and testing of, the On-Site Wastewater Facilities, and shall deliver the resulting inspection and testing results to the Company. Within five (5) business days after Company receives the inspection and testing results, the Company shall provide Developer with (a) a written acceptance of the facilities, so long as the On-Site Wastewater Facilities are constructed in accordance with the

plans and specifications approved by the Company under Section 1(A)(i) and applicable governmental requirements; or (b) a letter detailing in what regard the construction of the On-Site Wastewater Facilities is not in accordance with the plans and specifications approved by the Company or with applicable governmental requirements. Issuance by the Company of written acceptance to Developer may be conditioned upon transfer to the Company of all contractors' warranties of any kind and upon Developer providing the Company with accurate as-built maps describing the exact location of the On-Site Wastewater Facilities and the configuration of such facilities in the Development. Construction, inspection and acceptance may occur in phases, and this Agreement applies to each phase separately.

B. Off Site Facilities: The Company will construct an extension to its wastewater collection facilities as a continuation of its present facilities as follows:

i. Install two pumps in an offsite lift station, and wastewater collection mains and services to connect into an 8-inch wastewater collection main at the west boundary line of the Development as depicted on the map attached hereto as Exhibit C (the "Off-Site Wastewater Facilities").

ii. The Developer will pay to the Company upon signing this Agreement the total sum of $80,000.00, receipt of which is hereby acknowledged by the Company, as the total amount due from the Developer for its share of the cost of installing the Off-Site Wastewater Facilities. The $80,000.00 sum paid by Developer under this subparagraph is a nonrefundable contribution to the Company, and is not an advance in aid of construction subject to refund under Paragraph 2 hereof.

C. Schedules. The Developer and the Company will provide information to each other about their respective schedules for the installation of the On-Site Wastewater Facilities and the Off-Site Wastewater Facilities so as to allow coordination of such installation.

D. Transfer of Facilities to Company; Bill of Sale. Upon written acceptance of a phase of the On-Site Wastewater Facilities by the Company, Developer shall provide Company with a Bill of Sale for the phase of the On-Site Wastewater Facilities, together with detail on all amounts paid to construct the phase of the On-Site Wastewater Facilities. In the Bill of Sale, the Developer shall warrant and represent that (i) the completed phase of the On-Site Wastewater Facilities has been properly constructed and installed in accordance with the plans and specifications therefor; (ii) the completed phase of the On-Site Wastewater Facilities is free and clear of all liens and encumbrances of any nature; and (iii) Developer has submitted all required testing results to all governmental agencies having jurisdiction over the construction of the facilities. In addition, Developer shall warrant that the completed phase of the On-Site Wastewater Facilities will be free from all defects and deficiencies in constructions, materials and workmanship for a period of one (1) year from the date of Company's written acceptance. During the warranty period, Developer agrees to promptly undertake any actions required to repair or correct any defects or deficiencies in construction, materials or workmanship upon receipt of written notice thereof from Company. Upon transfer of facilities, the Developer shall retain no right, title or interest in such facilities.

E. Easements. The Developer shall provide to the Company satisfactory evidence of easements and right-of-way over, under and across all portions of the On-Site

Wastewater Facilities as may be necessary in order (i) to serve each parcel or lot within the Development; and (ii) to operate, maintain and repair the facilities. All easements and rights of way shall be free of obstacles which may interfere with Company's use, operation and maintenance of the facilities. Public utility easements shown on final plats for the Development are satisfactory easements to the extent the easements are adequately described and the On-Site Wastewater Facilities are located therein.

F. Company's Right to Inspect During Construction. The Company shall have the right at all times during construction to inspect the progress of the work performed and to determine whether the work is being performed in accordance with the plans and Company specifications and applicable governmental requirements. If, in the Company's reasonable opinion, the work has not been, or is not being, performed in a good and workmanlike manner and in accordance with the plans and Company specifications and applicable governmental requirements, the Company shall have the right to require Developer to correct any defects by providing written notice to the Developer describing the defect to be remedied. Completion of the On-Site Wastewater Facilities in accordance with the plans and Company specifications and applicable governmental requirements is a condition precedent to the Company's acceptance of the transfer of the facilities and the furnishing of wastewater utility service to the Development.

G. Wastewater Service. Upon issuance of its written acceptance of the On-Site Wastewater Facilities, the Company shall provide wastewater service to the Development in accordance with the rates, charges and conditions set forth in the tariffs of the Company as filed with the Arizona Corporation Commission, as the same may be amended from time to time. All rights and obligations hereunder including those regarding wastewater utility service to the Development shall be subject to the rules and regulations of the Arizona Corporation Commission and all applicable rates, fees, charges, and tariffs of the Company as approved by the Commission now or as they may be changed in the future.

2. Advances in Aid of Construction; Refunds.

A. Wastewater Facilities Advance. The amount set forth in Exhibit B hereto, representing the estimated cost of the On-Site Wastewater Facilities, shall be considered an advance in aid of construction (the "Wastewater Facilities Advance") and shall be subject to refund. The Company agrees to refund to the Developer 10% of the total annual gross revenue from wastewater collection services to each new bona fide customer whose wastewater service line is connected to the On-Site Wastewater Facilities for a period of 5 years beginning the first day of July, 2004. If the entire Wastewater Facilities Advance is not refunded to Developer at the end of the five-year period, the entire balance remaining, if any, shall become non-refundable. The refund period is to begin on the first day of July, 2004 and the refunds shall be made by the Company on or before the 31st day of August of each fiscal year commencing on August 31, 2005, covering any refunds owing from wastewater collection charges received during the preceding July 1 to June 30 period. The aggregate refunds made hereunder shall in no event exceed the total amount of the Wastewater Facilities Advance made pursuant to this Agreement; no interest will be paid by the Company on advances received under this Agreement. With each refund, the Company will also deliver to Developer copies of records of revenues from the Development reasonably sufficient to allow verification of the refund amount.

B. Limitation. The Company shall make no refunds from any revenue

received from any lines, other than the customer service lines within the Development, leading up to or taking off from the On-Site Wastewater Facilities or the Off-Site Wastewater Facilities, whether the same have been previously installed or may be installed in the future.

C. Termination of Refund. The Company may, upon approval of the Commission, terminate its obligation to refund a percentage of gross revenue as described above by accord and satisfaction of its obligations under this Agreement satisfactory to Developer.

D. Sole Property of Company. The On-Site Wastewater Facilities, following transfer to the Company, and the Off-Site Wastewater Facilities installed under this Agreement shall be the sole property of the Company, and the Developer shall have no right, title or interest in the On-Site Wastewater Facilities following transfer of same to the Company, or in the Off-Site Wastewater Facilities.

E. Changes to Construction Costs. The parties acknowledge that the costs set forth in Exhibit B are based on preliminary plans for the On-Site Wastewater Facilities. If the costs of the final installed On-Site Wastewater Facilities differ from the estimated costs, the amount set forth in Exhibit B shall be adjusted to reflect the actual total cost of construction, and such final amount shall be included in the Wastewater Facilities Advance.

3. General Provisions.

A. Non-Liability for Loss. The Company shall not be liable for any loss, additional cost or damage incurred by the Developer as a result of any delay, action, inaction or failure to perform by an employee, agent, contractor, or subcontractor of the Company.

B. Uncontrollable Forces. The Company shall not be liable to the Developer, nor to any of the Developer's customers, nor to any other person, firm or corporation whatsoever, for or on account of any interruption or failure in the delivery of wastewater service in accordance with this Agreement, or for or on account of any loss, injury or damage occasioned hereby, where such interruption or failure, either directly or indirectly, is caused by or results from any of the following: fire, lightning, flood, windstorm, Act of God, invasion or force majeure; compliance with an orders, rules, regulations or determinations, whether valid or invalid, of any governmental authority or agency; strikes, lockouts or labor disputes; breakdown, repair or replacement of any treatment facility, machinery, equipment, collection main or other facility; shortage of any fuel, supplies, material or labor, or where such interruption or failure is directly or indirectly due to any cause not reasonably preventable by Company or not reasonably within its control; any action or omission on the part of Company which is not grossly negligent or is the result of willful misconduct. Upon any interruption or failure to deliver the wastewater utility service in accordance with this Agreement, the Company shall take all prudent action to restore such service as soon as reasonably possible.

C. Binding Effect; Assignment. This Agreement shall be binding upon and for the benefit of the successors and assigns of the parties signing this Agreement; provided, however, that no assignment or other transfer of this Agreement by the Developer shall be binding upon the Company or create any rights in the assignees until such assignment or other transfer as approved and accepted in writing by the Company. Notwithstanding the foregoing, after transfer of the On-Site Wastewater Facilities to the Company pursuant to this Agreement,

assignments by the Developer of its rights hereunder to receive refunds of advances shall be effective upon written notice to the Company with evidence of the assignment.

D. Notices. Any notice required or permitted to be given under this Agreement shall be deemed delivered and be effective on the date physically delivered to the party to whom notice is being provided or two (2) calendar days following the date on which the notice is deposited in the United States Mail, postage prepaid, certified delivery, or one business day after the notice is sent by facsimile and addressed to the party to whom notice is being provided as follows:

Company:

PIMA UTILITY COMPANY
9532 E. Riggs Road
Sun Lakes, Arizona 85248
Attn: Jim Poulos
Fax: (480) 895-4347

Developer:

HANCOCK-MTH BUILDERS, INC.
8501 E. Princess Drive, #200
Scottsdale, Arizona 85255
Attn: Ken Quartermain
Fax: (480) 303-0338

Each party shall promptly provide written notice to the other party, as provided herein, of any subsequent change of address, and the failure to do so shall precluded any subsequent claim that notice was improperly given hereunder.

E. Authority to Execute and Perform. Each party represents and warrants to the other party that it has been duly authorized to execute and perform this Agreement and all of its duties and obligations hereunder.

F. Commission Approval. Before this Agreement shall become effective and binding upon either the Company or the Developer, it shall be filed with and approved by the Utilities Division of the Commission, and in the event it is not so approved, this Agreement shall be null and void and of no force or effect whatsoever.

G. Miscellaneous. This Agreement shall be governed by and construed in accordance with the laws of the State of Arizona. This Agreement, together with the attachments hereto, sets forth the entire agreement between the parties and supersedes all prior negotiations, understandings and agreements between them. No change in, addition to, or waiver of any of the provisions of this Agreement shall be binding upon any party unless in writing and signed by the parties. Time is of the essence of this Agreement and each and every term contained herein.

H. Start/Completion Dates. The estimated start date for the installation of the On-Site Wastewater Facilities is May 24, 2004 and the estimated completion date is June 18,

2004.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement by their authorized individuals as of the day, month and year first above written.

Company:

PIMA UTILITY COMPANY,
an Arizona corporation

By: _____
Its_____

Developer:

HANCOCK-MTH BUILDERS, INC.,
an Arizona corporation

By: _____
Its_____

EXHIBIT A

(Legal Description of Development)

EXHIBIT "A"

Parcel No. 1:

That parcel of land in Section 34, Township 2 South, Range 5 East of the Gila and Salt River Base and Meridian, Maricopa County, Arizona, described as follows:

Commencing at the South quarter corner of said Section 34;

Thence North 89 degrees 53 minutes 51 seconds West, along the South line of said Section 34, 50.01 feet;

Thence North 00 degrees 06 minutes 09 seconds East, 33.00 feet to the intersection of the North right-of-way line of Hunt Highway and the East right-of-way line of the Union Pacific Railroad and the point of beginning, said intersection being a point of non-tangent curvature to the right, whose radius bears North 47 degrees 44 minutes 16 seconds East, 4247.21 feet;

Thence along said East right-of-way line, and along the arc of said curve, through a central angle of 00 degrees 24 minutes 01 second, 29.67 feet to the Southwest corner of a parcel described as Parcel No. 3 of Exhibit A of Special Warranty Deed recorded in Document No. 20030535298, Maricopa County Records;

Thence along the South line of said Parcel No. 3, South 89 degrees 53 minutes 51 seconds East, 40.46 feet to the Southeast corner of said Parcel No. 3 and a point of non-tangent curvature to the right whose radius bears North 47 degrees 46 minutes 14 seconds East, 4217.21 feet;

Thence along the Easterly line of said Parcel No. 3 and along the arc of said curve through a central angle of 40 degrees 39 minutes 39 seconds, 2992.81 feet to a point of non-tangency;

Thence continuing along said Easterly line, North 65 degrees 47 minutes 11 seconds East, 3.59 feet to a point of tangent curvature to the right having a radius of 1167.29 feet;

Thence continuing along said Easterly line, and along the arc of said curve, through a central angle of 03 degrees 19 minutes 45 seconds, 67.83 feet to a point of reverse curvature having a radius of 560.96 feet;

EXHIBIT "A"
(Continued)

Thence continuing along said Easterly line, and along the arc of said curve, through a central angle of 61 degrees 26 minutes 10 seconds, 601.50 feet;

Thence continuing along said Easterly line, North 07 degrees 36 minutes 42 seconds East, 143.35 feet to a point of tangent curvature to the right having a radius of 644.53 feet;

Thence continuing along said Easterly line, and along the arc of said curve, through a central angle of 15 degrees 12 minutes 53 seconds, a distance of 171.15 feet;

Thence continuing along said Easterly line, North 22 degrees 47 minutes 44 seconds East, 399.40 feet to a point of tangent curvature to the right having a radius of 1076.64 feet;

Thence continuing along said Easterly line, and along the arc of said curve, through a central angle of 21 degrees 53 minutes 53 seconds, 411.48 feet to a point of reverse curvature having a radius of 1344.41 feet;

Thence continuing along said Easterly line, and along the arc of said curve, through a central angle of 11 degrees 18 minutes 17 seconds, 265.26 feet;

Thence continuing along said Easterly line, North 33 degrees 17 minutes 15 seconds East, 274.17 feet to the North-South mid-section line of said Section 34;

Thence along said North-South mid-section line South 00 degrees 45 minutes 33 seconds West, 2057.47 feet to the center of said Section 34;

Thence continuing along said North-South mid-section line, South 00 degrees 46 minutes 00 seconds East, 1321.79 feet to the Southwest corner of Fieldstone Estates recorded in Book 583 of Maps, page 8, Maricopa County Records;

Thence along the South line of said Fieldstone Estates, South 89 degrees 53 minutes 27 seconds East, 1323.64 feet to the Northeast corner of the Southwest quarter of the Southeast quarter of said Section 34;

Thence along the East line of said Southwest quarter of the Southeast quarter, South 00 degrees 45 minutes 33 seconds West, 330.35 feet;

Thence South 89 degrees 54 minutes 04 seconds East, 68.61 feet;

EXHIBIT "A"
(Continued)

Thence South 00 degrees 17 minutes 40 seconds West, 659.36 feet;

Thence North 89 degrees 54 minutes 00 seconds West, 74.04 feet to a point on said East line of the Southwest quarter of the Southwest quarter;

Thence along said East line, South 00 degrees 45 minutes 33 seconds West, 48.89 feet to a point on the North line of the South 281.91 feet of said Southwest quarter of the Southeast quarter;

Thence along said North line, North 89 degrees 53 minutes 51 seconds West, 175.00 feet to a point on the West line of the East 175.00 feet of said Southwest quarter of the Southeast quarter;

Thence along said West line, South 00 degrees 45 minutes 33 seconds West, 248.90 feet to a point on the North right-of-way line of said Hunt Highway;

Thence along said North right-of-way line, North 89 degrees 53 minutes 51 seconds West, a distance of 1199.23 feet to the point of beginning.

Parcel No. 2:

That part of the East 100.00 feet of the Northwest quarter of Section 34, Township 2 South, Range 5 East of the Gila and Salt River Base and Meridian, Maricopa County, Arizona, lying between the South right of way line of Riggs Road and the Northwesterly right of way line of the Consolidated Canal, described as follows:

Commencing at the Northeast corner of said Northwest quarter of said Section 34;

Thence along the East line of said Northwest quarter, South 00 degrees 45 minutes 40 seconds West, 55.00 feet to a point on the South line of the 55.00 foot right-of-way of Riggs Road and the point of beginning;

Thence continuing along said East line, South 00 degrees 45 minutes 33 seconds West, 357.96 feet to a point on said Northwest right-of-way line of the Consolidated Canal as recorded in Book 181 of Maps, page 9, Maricopa County Records;

EXHIBIT "A"
(Continued)

Thence along said Northwesterly right-of-way line, South 33 degrees 17 minutes 15 seconds West, 185.97 feet to a point on the West line of the East 100.00 feet of said Northwest quarter of Section 34;

Thence along said West line, North 00 degrees 45 minutes 33 seconds East, 513.30 feet to a point on said South line of the 55.00 foot right-of-way of Riggs Road;

Thence along said South line, North 89 degrees 55 minutes 28 seconds East, 100.01 feet to the point of beginning.

EXHIBIT B

ON-SITE WASTEWATER FACILITIES ADVANCE IN AID OF CONSTRUCTION
(Estimate)
(See attached spreadsheet)

	Santan Vista	132	lots			
				PRELIMINARY		

COST CODE	DESCRIPTION	QTY	UNIT	UNIT PRICE	TOTAL	SUB TOTAL
WATER						
7082	RBF-WATER					
3/4"	SERV CONN.		EA	$ 275.00	$ -	
1"	SERV CONN.	77	EA	$ 300.00	$ 23,100	
10"	PVC	3,310	LF	$ 13.00	$ 43,030	
10"	VALVE BOX AND COVER	6	EA	$ 950.00	$ 5,700	
8"	PVC	3,740	LF	$ 11.00	$ 41,140	
8"	VALVE BOX AND COVER	11	EA	$ 850.00	$ 9,350	
	Air Release Valves		EA	$ 1,000.00	$ -	
	DIPPED WATERLINE	8	EA	$ 3,500.00	$ 28,000	
	LANDSCAPE METERS	2	EA	$ 1,500.00	$ 3,000	
	BLOW-OFF ASSEM.	10	EA	$ 400.00	$ 4,000	
	6" HYDRANT	9	EA	$ 1,800.00	$ 16,200	
7084	JMA-WATER					
3/4"	SERV CONN.		EA	$ 275.00	$ -	
1"	SERV CONN.	55	EA	$ 1,250.00	$ 68,750	
10"	PVC	636	LF	$ 13.00	$ 8,268	
10"	VALVE BOX AND COVER	2	EA	$ 950.00	$ 1,900	
8"	PVC	5,050	LF	$ 14.00	$ 70,700	
8"	VALVE BOX AND COVER	11	EA	$ 850.00	$ 9,350	
	Air Release Valves		EA	$ 1,000.00	$ -	
	DIPPED WATERLINE	7	EA	$ 3,500.00	$ 24,500	
	LANDSCAPE METERS	2	EA	$ 1,500.00	$ 3,000	
	BLOW-OFF ASSEM.		EA	$ 400.00	$ -	
	6" HYDRANT	12	EA	$ 1,800.00	$ 21,600	
	PUMPING SYSTEMS				$ -	
	BOOSTER STATIONS				$ -	
	STORAGE TANKS				$ -	
	DRILL WELLS				$ -	
	PRV STATIONS				$ -	
7088	WATER COs/REPAIRS	1	LS	$ 12,000.00	$ 12,000	
7052	FIRE PROTECTION WATER (Rain For Rent)	1	EA	$ 30,000.00	$ 30,000	
	SUBTOTAL					$ 423,588

COST CODE	DESCRIPTION	QTY	UNIT	UNIT PRICE	TOTAL	SUB TOTAL
SEWER						
7074	RBF SEWER					
	8" PVC	5,490	LF	$ 14.00	$ 76,860	
	10" PVC		LF	$ 12.00	$ -	
	12" PVC		LF	$ 16.00	$ -	
	4" SEWER TAP	70	EA	$ 325.00	$ 22,750	
	4' Diameter Manholes	13	EA	$ 2,200.00	$ 28,600	
	5' Diameter Manholes	10	EA	$ 3,500.00	$ 35,000	
	Clean Outs		EA	$ 250.00	$ -	
	HYDROVAC SEWER SYSTEM	23	HR	$ 190.00	$ 4,370	
	Holding Tanks		EA		$ -	
	Vaccum Test Manholes		EA		$ -	
	Sewer Change Orders/Repairs	1	LS	$ 10,000.00	$ 10,000	
7076	JMA SEWER					
	8" PVC	6,223	LF	$ 14.00	$ 87,122	
	10" PVC		LF	$ 14.00	$ -	
	12" PVC		LF	$ 16.00	$ -	
	12" VCP		LF	$ 16.00	$ -	
	18" PVC		LF	$ 32.00	$ -	
	36" PVC		LF	$ 45.00	$ -	
	HYDROVAC SEWER SYSTEM	24	LF	$ 190.00	$ 4,560	
	4" SEWER TAP	62	LF	$ 325.00	$ 20,150	
	Clean Outs		EA	$ 250.00	$ -	
	4' Diameter Manholes	15	EA	$ 2,000.00	$ 30,000	
	5' Diameter Manholes	8	EA	$ 3,000.00	$ 24,000	
7009	LIFT STATIONS		LS	$ 250,000.00	$ -	
	12" FORCE MAIN		LF	$ 32.00	$ -	-
7080	HYDROVAC SEWER SYSTEM		HR	$ 190.00	$ -	
	Vaccum Test Manholes		EA		$ -	
	Sewer Change Orders/Repairs		LS	$ 20,000.00	$ -	
					$ -	
					$ -	
					$ -	
	SUBTOTAL					$ 343,412

EXHIBIT C

MAP DEPICTING CONNECTION POINT

BEFORE THE ARIZONA CORPORATION

Arizona Corporation Commission
DOCKETED
JUL 25 2011
DOCKETED BY nr

EXHIBIT S-2 ADMITTED

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION OF LAS QUINTAS SERENAS WATER COMPANY FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND AN INCREASE IN IT WATER RATES AND CHARGES FOR WATER UTILITY SERVICE.

DOCKET NO. W-01583A-09-0589

DECISION NO. 72498

OPINION AND ORDER

DATE OF HEARING:	September 28, 2010
PLACE OF HEARING:	Tucson, Arizona
ADMINISTRATIVE LAW JUDGE:	Belinda A. Martin
APPEARANCES:	Mr. Lawrence V. Robertson, Jr., on behalf of the Las Quintas Serenas Water Company; and Ms. Robin Mitchell and Ms. Kimberly Ruht, Staff Attorneys, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

PROCEDURAL HISTORY

On December 31, 2009, Las Quintas Serenas Water Company ("Las Quintas" or "Company") filed with the Arizona Corporation Commission ("Commission") an application for a permanent rate increase ("Application"), which included the Direct Testimony of the Company's rate case consultant, Thomas Bourassa.

On January 29, 2010, the Commission's Utilities Division Staff ("Staff") filed a Letter of Deficiency, and on February 12, 2010, the Company filed its responses to the Letter of Deficiency.

On March 12, 2010, Staff filed its Letter of Sufficiency stating that the Application was sufficient under Arizona Administrative Code ("A.A.C.") R14-2-103(B)(7), and classifying Las Quintas as a Class C public water utility.

On March 24, 2010, a Procedural Order was issued setting the hearing for September 28, 2010, and establishing other procedural deadlines.

On April 23, 2010, Staff filed a Request for Modification to the March 24, 2010, Procedural Order asking that certain dates for filing testimony be revised. The Company did not object.

On April 28, 2010, a Procedural Order was issued granting Staff's Request for Modification.

On May 5, 2010, Las Quintas filed an Affidavit of Publication stating that the notice of hearing had been published on April 28, 2010, in the *Green Valley News and Sun*, and was mailed to all customers by U.S. Mail on April 27, 2010. In response to the Company's Notice, the Commission received three customer comments opposed to the Company's requested rate increase.

On August 9, 2010, Staff filed the Direct Testimony of Crystal Brown, Juan Manrique and Marlin Scott, Jr.

On August 23, 2010, Las Quintas filed the Rebuttal Testimony of Thomas Bourassa.

On September 13, 2010, Staff filed the Surrebuttal Testimony of Crystal Brown and Juan Manrique.

On September 20, 2010, Las Quintas filed the Rejoinder Testimony of Thomas Bourassa.

On September 28, 2010, the hearing in this matter convened as scheduled. No members of the public were present to provide public comment. At the conclusion of the hearing, the matter was taken under advisement pending the submission of the parties' post-hearing briefs.

On November 1, 2010, Staff and Las Quintas filed their initial Post-Hearing Briefs.

On November 15, 2010, Staff and Las Quintas filed their Post-Hearing Reply Briefs.

On November 15, 2010, Las Quintas filed for Commission approval of its Standpipe Water Service Refundable Key Charge Tariff.

On June 14, 2011, Staff filed a Notice of Errata regarding Surrebuttal Schedule CSB-19.

On June 20, 2011, Staff filed a Notice of Errata regarding Surrebuttal Schedule CSB-18.

On June 22, 2011, Las Quintas filed a Notice of Association of Co-Counsel for Applicant.

On July 8, 2011, after the Recommended Opinion and Order had been docketed, Staff filed a Request for Clarification to Recommended Opinion and Order ("Clarification Request") requesting certain changes to Las Quintas' after hours service charges.

* * * * * * * * * *

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

BACKGROUND

1. Las Quintas is an Arizona Class C public water utility corporation engaged in the business of providing water service to approximately 867 service connections, 156 standpipe customers and four fire sprinkler service customers in the Town of Sahuarita, Arizona.

2. The Commission granted Las Quintas a Certificate of Convenience and Necessity ("CC&N") in Decision No. 30888 (May 6, 1958). In Decision No. 58839 (November 2, 1994), the Commission authorized Las Quintas to charge a $250 off-site hook-up fee ("HUF"). Las Quintas' current rates and charges were set by the Commission in Decision No. 67455 (January 4, 2005).[1] In Decision No. 68718 (June 1, 2005), the Commission authorized Las Quintas to borrow up to $1,580,446 from the Water Infrastructure Finance Authority ("WIFA") to construct an arsenic treatment plant. In Decision No. 68863 (July 28, 2006), the Commission approved an arsenic impact HUF for new service connections, authorizing a $1,135 charge for new 5/8 x 3/4-inch meters. In Decision No. 69214 (December 21, 2006), the Commission approved an arsenic remedial surcharge tariff, authorizing a surcharge of $11.37 on 5/8 x 3/4-inch meters[2] to support debt service payments on the WIFA loan approved in Decision No. 68718.

RATE APPLICATION

3. Las Quintas' test year is the twelve-month period ending June 30, 2009.

4. In the test year, Las Quintas reported adjusted gross revenues of $488,270, which, according to the Company, resulted in an adjusted operating income of $52,655. Based on the Company's final schedules, Las Quintas' rate of return was 2.61 percent on an adjusted test year rate base of $2,015,574.

5. Las Quintas is seeking a gross revenue requirement of $687,117, an increase of

[1] After receiving its CC&N in 1958, the Commission approved a rate increase for Las Quintas in Decision No. 52854 (March 5, 1982), and another increase in Decision No. 54760 (November 13, 1985). The Company did not come in for another rate increase until 2004, which was approved by the Commission in Decision No. 67455.

[2] Larger meters incur a larger surcharge.

$198,847, or 40.72 percent, resulting in operating income of $190,270, a rate of return of 9.44 percent on its proposed Fair Value Rate Base ("FVRB") of $2,015,574.

6. Staff also calculated the Company's test year revenues at $488,270, which Staff determined resulted in an adjusted operating income of $51,564. Based on Staff's final schedules, the Company's rate of return was 2.70 percent on an adjusted test year rate base of $1,913,221.

7. Staff recommends a gross revenue requirement of $638,106, an increase of $149,836, or 30.69 percent, over test year revenues which results in operating income of $162,624, an 8.5 percent rate of return on Staff's proposed $1,913,221 FVRB.

8. The major contested issues in this proceeding were the treatment of accumulated deferred income taxes, the amount of depreciation expense attributable to amortization of contributions in aid of construction ("CIAC"), the cost of equity, rate design and the imposition of interest on security deposits for standpipe keys.

RATE BASE

9. As reflected in their respective final schedules,[3] Las Quintas' and Staff's proposed Original Cost Rate Bases ("OCRB") and FVRBs are as follows:

	OCRB	FVRB
Las Quintas	$2,015,574	$2,015,574
Staff	$1,913,221	$1,913,221

10. The sole rate base issue in dispute involves the treatment of accumulated deferred income taxes ("ADIT").

11. ADIT reflects the timing difference between when income taxes are calculated for ratemaking purposes and the actual federal and state income taxes that are paid by a company. The timing difference is primarily due to the fact that straight line depreciation is used by a company for ratemaking purposes, whereas accelerated depreciation is used for income tax reporting purposes.

12. The National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts requires utilities to use straight line depreciation for plant. In the early years of

[3] Rejoinder Testimony of Thomas Bourassa, Rejoinder Schedule A-1; Surrebuttal Testimony of Crystal Brown, Surrebuttal Schedule CSB-1.

an asset's life, straight line depreciation typically results in a lower depreciation expense, resulting in a higher operating income, and thus a higher income tax, than under the accelerated depreciation methodology used for tax purposes. The Internal Revenue Service Code allows companies to use accelerated depreciation for preparing their taxes, which in the early years of an asset's life typically results in a higher depreciation expense, and lower income taxes.

13. When a company has paid less in taxes because of accelerated or bonus depreciation than is calculated for ratemaking purposes, a deferred liability is created. An ADIT liability is a deduction from rate base. When the rate-making depreciation expense is greater than the depreciation expense for tax purposes, a deferred asset is created. An ADIT asset is an addition to rate base.

14. Las Quintas asserts that ADIT is critical to the ratemaking process and if not properly calculated and reflected in the ratemaking formula, it will cause ratepayers to either pay too much or too little. Las Quintas believes that regardless of whether an ADIT asset or liability is created, the use of the money or the loss of the use of money should be recognized in rate base.[4]

15. In this matter, the Company is proposing an ADIT asset whereas Staff is recommending an ADIT liability. Las Quintas' and Staff's final recommended ADIT components are as follows:

	Las Quintas[5]	Staff[6]
Fixed Asset Component	$(77,925)	($66,475)
AIAC Component	$32,463	$35,169
NOL Component	$116,508	0
Total	$71,046	$(31,307)

16. In his testimony, Thomas Bourassa, Las Quintas' witness on this issue, stated that during the test year, the Company opted to take advantage of a special fifty percent depreciation allowance on qualifying property permitted under the Economic Stimulus Act of 2008.[7] Mr. Bourassa testified that this "bonus" depreciation was a one time "take it or lose it" tax opportunity.[8] Las Quintas chose to take the bonus depreciation, with a resulting tax depreciation deduction of over

[4] Rebuttal Testimony of Thomas Bourassa, pages 9-10.
[5] Rejoinder Testimony of Thomas Bourassa, Rejoinder Schedule B-2, page 6.
[6] Surrebuttal Testimony of Crystal Brown, Surrebuttal Schedule CSB-10.
[7] Rebuttal Testimony of Thomas Bourassa, page 8.
[8] Tr. at 19.

$1 million. However, the Company's book depreciation for the same property in the same period was approximately $34,000. As a result, Las Quintas' depreciation deduction exceeded its income, and it incurred a net operating loss ("NOL") in 2009.[9]

17. Mr. Bourassa stated that, for tax purposes, an NOL can be applied against prior years' income (a tax loss carry back) and also against future income (a tax loss carry forward).[10] Mr. Bourassa stated that he applied some of the NOL as a tax loss carry back, with the remaining NOL to be used as a tax loss carry forward to offset Las Quintas' future tax liability.[11] He concludes that "the NOL will provide future tax benefits as an offset to future taxable income and accordingly results in an ADIT asset."[12]

18. Staff believes that it is not appropriate to include NOLs in the ADIT calculation.[13] Staff testified that NOL represents losses incurred by a company when it failed to earn taxable profit in previous years.[14] Staff believes that to include NOLs in ADIT would be unfair to ratepayers because ratepayers essentially would be paying a carrying charge on the Company's expected future recovery of a tax benefit while the ratepayers have already paid their share of income tax expense in rates.[15] Staff further asserts that the NOLs are not the result of book versus tax timing differences, but represent a tax loss that can be carried forward to offset taxable income in future years.[16] Additionally, Staff's witness, Crystal Brown, testified that the only ADIT components that should be included in rate base are those that reflect a net investment of capital. Staff argues that if funds not representing capital investment were included in rate base, then investors would earn a rate of return on an amount that is not an investment; a result unfair to ratepayers.[17]

19. The NOL results from bonus depreciation that was available in the test year, but is not, in and of itself, a tax timing difference. The Company could not utilize all of the bonus depreciation in the test year, which resulted in a carry forward of the tax benefit. The NOL carry forward benefits

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[9] Rebuttal Testimony of Thomas Bourassa, page 9.
[10] *Id.*
[11] *Id.*, page 10.
[12] *Id.*
[13] Tr. at 105.
[14] Surrebuttal Testimony of Crystal Brown, page 9.
[15] *Id.*, pages 9-10.
[16] Tr. at 97-98, 104-105.
[17] Surrebuttal Testimony of Crystal Brown, page 9.

the Company, which it can utilize it to reduce the Company's tax liability, but under the Company's proposal it would result in an ADIT asset and an increase to rate base and rates. The Company has not provided any authority for including the NOL in the ADIT calculation for rate-making purposes nor has it demonstrated why it is fair to Las Quintas' ratepayers to pay a return on the NOL when the rates customers pay allow the Company to earn operating income.

20. Accordingly, we adopt Staff's ADIT balance of $(31,307) as a reduction to rate base.

21. Las Quintas did not prepare schedules showing the elements of reconstruction cost new depreciated ("RCND") and instead requested that the OCRB be treated as its FVRB.[18] Based on the foregoing discussion, we adopt an adjusted OCRB and FVRB of $1,913,221 for Las Quintas as follows:

Commission Approved:

Plant in Service	$ 3,594,472
Less: Accumulated Depreciation	$ 1,021,769
Net Plant in Service	$ 2,572,703
Deductions:	
CIAC	$ 333,555
Less Accumulated Amortization	$ 83,901
Net CIAC	$ 249,654
Service Line and Meter Advances	$ 19,641
AIAC	$ 351,405
Customer Deposits	$ 7,475
ADIT	$ 31,307
Total OCRB	$ 1,913,221

INCOME STATEMENT

Revenues

22. Las Quintas and Staff agree on the Company's test year revenues of $488,270. We find test year revenues to be $488,270.

Expenses

23. Las Quintas proposed adjusted operating expenses of $435,615. Staff proposed adjustments to water testing expense, rate case expense, depreciation expense, property taxes and income taxes, resulting in adjusted test year operating expenses of $436,706.

[18] Application, page 2-3.

24. Las Quintas objected to Staff's adjustment to that portion of the depreciation expense related to CIAC amortization, and to Staff's normalization of rate case expense over four years instead of three years as requested by the Company.

CALCULATION OF AMORTIZATION OF CIAC IN DEPRECIATION EXPENSE

25. Staff recommends a reduction to depreciation expense of $11,703 for amortization of CIAC, a difference of $212 from Las Quintas' proposed deduction of $11,915.[19] Although both Staff and Las Quintas applied a composite rate to calculate the CIAC amortization amount included in depreciation expense, the composite rate each used was different. Staff states the difference between Staff's calculation and the Company's is the result of the methodology used to compute the composite rate—the Company utilizes a composite amortization rate of 3.57 percent that includes non-depreciable plant, while Staff only used depreciable plant in the determination of its composite amortization rate of 3.51 percent.[20]

26. Las Quintas includes land acquired with CIAC in its amortization calculations. Staff argues that land is not depreciable and consequently is not amortizable, and therefore should be excluded from calculation of the amortization rate.[21] In support of this position, Staff cites to the NARUC Guideline that provides "balances in account 271 which represent contributions of *depreciable plant* shall be amortized by charges to this account over a period equal to the estimated service life of the related contributed asset."[22] (Emphasis added.) At hearing, Ms. Brown testified that in her experience, Commission Staff has not used any other manner of calculating CIAC amortization expense.[23]

27. Las Quintas states that the method of calculating CIAC amortization should be revenue neutral, and asserts that in order to ensure revenue neutrality, land funded with CIAC must be included in the composite amortization of all CIAC. The Company asserts that when all plant is used to calculate the composite rate there will be an exact offset of the annual amortization and no

[19] Surrebuttal Testimony of Crystal Brown, Surrebuttal Schedule CSB-15; Rejoinder Testimony of Thomas Bourassa, Rejoinder Schedule C-2, page 2.
[20] Surrebuttal Testimony of Crystal Brown, page 13.
[21] *Id.*, pages 13-15.
[22] Tr. at 93, citing Hearing Exhibit S-6.
[23] Tr. at 91.

impact on the Company's operating expense and cash flows. According to the Company, if only depreciable plant is used to calculate the composite rate, there will be in a negative impact on the Company's operating expenses and cash flow.[24]

28. NARUC Guidelines provide that only depreciable plant should be amortized, and in the past the Commission has adopted Staff's methodology used here.[25] We agree that land can be funded with CIAC as well as any other type of asset. However, because land is assumed to have an infinite service life, it does not depreciate, and is not amortized.

29. Staff's method recognizes that CIAC may include both depreciable and non-depreciable plant, and insures that only depreciable CIAC is amortized. We recognize that there may be a timing difference between the Staff and the Company methods, but believe that Staff's method will insure that the total amount of CIAC amortization will match the depreciation of plant associated with CIAC. Thus, we agree that Staff's approach to use NARUC's Guideline to remove non-depreciable assets from the calculation of the composite amortization rate for CIAC is appropriate and we adopt Staff's position on CIAC amortization.

RATE CASE EXPENSE

30. The Company proposes a rate case expense of $80,000, to be amortized over three years, for an annual rate case expense of $26,667.[26] The Company asserts that normalization over three years is appropriate because it intends to come in after three years with another rate case.[27]

31. Staff accepts the Company's proposed rate case expense of $80,000, but normalizes that amount over four years, resulting in an annual rate case expense of $20,000.[28] Staff notes that it usually normalizes rate case expense over a three-to-five year period.[29] Staff argues that given the Company's inconsistent history of rate case applications,[30] it is appropriate to normalize the rate case expense in this matter over four years.[31]

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[24] Rebuttal Testimony of Thomas Bourassa, page 14-15.
[25] See, for example, Decision No. 72251 (April 7, 2011).
[26] Rejoinder Testimony of Thomas Bourassa, Rejoinder Schedule C-1, page 1.
[27] Rebuttal Testimony of Thomas Bourassa, page 15.
[28] Direct Testimony of Crystal Brown, page 11.
[29] *Id.*
[30] Rate increases were approved in 1982, 1985, 2005, and the instant rate case was filed in 2009.
[31] Direct Testimony of Crystal Brown, page 11.

32. Accordingly, we find Las Quintas' recommendation of a rate case expense of $80,000 recovered over three years, for an annual rate case expense of $26,667, is reasonable.

33. Once the $80,000 amount has been fully recovered, in the event that Las Quintas does not file a new rate case during the next three years, further rate case expense will be terminated.

34. Therefore, based on the rate structure adopted below, on August 1, 2011, the new monthly minimum usage charges shall be:

MONTHLY USAGE CHARGE:

All Classes	
5/8 x 3/4-inch Meter	$20.56
3/4-inch Meter	30.84
1-inch Meter	51.39
1-1/2-inch Meter	102.79
2-inch Meter	164.46
3-inch Meter	328.36
4-inch Meter	513.94
6-inch Meter	1,027.88
8-inch Meter	1,655.76

35. Then, on August 1, 2014, the monthly minimum usage charges shall be reduced to:

MONTHLY USAGE CHARGE:

All Classes	
5/8 x 3/4-inch Meter	$18.33
3/4-inch Meter	27.49
1-inch Meter	45.82
1-1/2-inch Meter	91.64
2-inch Meter	146.62
3-inch Meter	294.91
4-inch Meter	458.18
6-inch Meter	916.36
8-inch Meter	1,432.72

36. Based on the foregoing discussion, we find that Staff's recommended test year operating expense of $436,706 is reasonable and shall be adopted.

37. Accordingly, we find that test year operating revenues were $488,270 and test year operating expenses were $436,706, for a test year operating income of $51,564.

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COST OF CAPITAL

38. The parties' positions on the cost of capital components are summarized as follows:

	Cost of Debt	Cost of Equity	WACC
Las Quintas[32]	7.1%	14.4%	9.44%
Staff[33]	7.1%	10.4%	8.5%

39. The cost of capital is the opportunity cost represented by anticipated returns that are foregone by choosing one investment over another, or, in other words, the return that investors expect from a venture. The weighted average cost of capital ("WACC") is the average of the cost rates on all issued securities adjusted to reflect their relative amounts in the company's capital structure. Thus, the WACC for a particular company is determined based on the cost of its debt and the cost of its equity, multiplied by the proportion of the debt and equity that comprise its total capital.[34]

40. The cost of debt is determined by the interest rate of the company's debt instruments. In this matter, Staff and Las Quintas agree that the applicable cost of debt is 7.1 percent.

41. The cost of equity ("COE") is determined by the market, and represents investors' expected returns, not realized accounting returns.[35] The COE is estimated using various methodologies. Most commonly, and in this case, witnesses used the Discounted Cash Flow ("DCF") method and the Capital Asset Pricing Model ("CAPM"). Despite using the same basic methodologies and the same representative sample group of publicly traded utilities for their calculations, the witnesses derive differing results due to their use of different assumptions and inputs.

42. The DCF uses the present value of the current average market price of the sample group and shareholder expected future cash flows (primarily dividends) to determine the stock value of the subject utility.[36] The CAPM model describes the relationship between a security's investment risk and its market rate of return.[37] The CAPM assumes that investors require a return that is

[32] Rejoinder Testimony of Thomas Bourassa, Rejoinder Schedule D-2, page 1.
[33] Surrebuttal Testimony of Juan Manrique, Surrebuttal Schedule JCM-1.
[34] Direct Testimony of Juan Manrique, pages 3-4.
[35] *Id.*, page 7.
[36] *Id.*, page 14.
[37] *Id.*, page 25-26.

commensurate with the level of risk associated with a particular security.[38] Under the CAPM, the expected return is equal to the risk-free interest rate plus the product of the market risk premium, multiplied by beta, where beta represents the riskiness of the investment relative to the market.[39]

43. In this case, Las Quintas seeks a rate of return on rate base using a WACC of 9.44 percent. Las Quintas calculates the WACC using its capital structure of 67.9 percent debt and 32.1 percent equity, which is far more leveraged than the sample companies' capital structure.

44. Las Quintas calculates a COE of 14.40 percent based on its witness, Mr. Bourassa's, analysis. [40] Mr. Bourassa utilized the DCF and the CAPM to calculate its proposed COE. Mr. Bourassa then adjusted the COE produced by his DCF and CAPM calculations upward by 150 basis points to account for the higher debt level in Las Quintas' capital structure as compared to the sample group, and then again adjusted the COE upward by another 100 basis points to account for Las Quintas' small size relative to the sample companies, the Company's lack of investment liquidity, and additional risks that Las Quintas believes result from the particular rate-making methods employed in Arizona.[41]

45. Staff recommends a hypothetical capital structure consisting of 60.0 percent debt and 40.0 percent equity.[42] Staff recommends the application of a hypothetical capital structure in this case because of the Company's highly leveraged financial position. According to Staff, the recommended hypothetical capital structure provides Las Quintas additional financial assistance given its higher financial risk than that of the sample companies.[43] Staff asserts that its hypothetical capital structure will provide Las Quintas with a 10.6 percent greater return on equity than that calculated using the Company's current capital structure.[44] Staff concludes that, "use of a hypothetical capital structure more clearly demonstrates that Staff's overall rate of return recommendation is consistent with that for a utility with a capital structure Staff considers to be within a reasonable range."[45]

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[38] *Id.*, page 27.
[39] *Id.*
[40] Rejoinder Testimony of Thomas Bourassa, page 2; Rejoinder Schedule D-2, page 1.
[41] *Id.*
[42] Direct Testimony of Juan Manrique, page 6.
[43] Surrebuttal Testimony of Juan Manrique, page 3-4.
[44] Direct Testimony of Juan Marique, page 33.
[45] *Id.*

46. Staff recommends a COE of 10.4 percent.[46] Staff argues that its COE is based on sound and well-accepted methodologies that have consistently been utilized by the Commission. Staff used two versions of the DCF Model, the constant growth DCF and the multi-stage DCF. Staff recommends against too heavy a reliance on analysts' forecasts, which it believes the Company's witness has done, and states that its DCF methodology gives equal weight to historic data and analysts' forecasts. Staff's overall DCF COE is 9.7. Staff's overall CAPM COE is 11.0 percent, and includes both Staff's CAPM estimate using the historical market risk premium and the current market risk premium.[47]

47. Staff disagrees with the Company's inclusion in COE of an upward financial risk adjustment of 150 basis points. Staff asserts that it does not recommend the use of a financial risk adjustment because Las Quintas is not publicly traded and, as such, does not have access to the capital markets.[48] Staff also argues that including an upward financial risk adjustment along with the application of a hypothetical capital structure that benefits the Company effectively compensates the Company twice for its risky capital structure in relation to the sample companies, and it is not reasonable that ratepayers should compensate the Company twice for its highly-leveraged capital structure.[49]

48. Staff also argues that Las Quintas' firm-specific risk adjustment of 100 basis points is not necessary in this case because there is no evidence that Arizona has a less favorable regulatory environment than the sample companies.[50] Additionally, Staff notes that the Commission has previously rejected proposals for a "small firm risk premium."[51]

49. Given the Company's highly leveraged capital structure, we find that a hypothetical capital structure consisting of 60 percent debt and 40 percent equity is appropriate. After consideration of all the testimony, evidence and arguments presented, we find that, in this case, a COE of 10.4 percent and cost of debt of 7.1 percent is reasonable. Consequently, we approve a

[46] Surrebuttal Testimony of Juan Manrique, Surrebuttal Schedule JCM-1.
[47] *Id.*, Surrebuttal Schedule JCM-3.
[48] Direct Testimony of Juan Manrique, page 33.
[49] Surrebuttal *Testimony of Juan Manrique*, page 4.
[50] Direct Testimony of Juan Manrique, page 41.
[51] *Id.*, page 43.

WACC of 8.5 percent as follows:

	Capital Structure	Cost	WACC
Debt	60.0 %	7.1 %	4.3 %
Equity	40.0 %	10.4 %	4.2%
Total	100.0%		8.5%

REVENUE REQUIREMENT

50. Based on our findings herein, we determine that Las Quintas is entitled to a gross revenue increase of $149,836, or 30.69 percent:

FVRB	$1,913,221
Adjusted Operating Income	$51,564
Required Rate of Return	8.5%
Required Operating Income	$162,624
Operating Income Deficiency	$111,059
Gross Rev. Conv. Factor	1.34915
Gross Revenue Increase	$149,836
Adjusted Test Year Revenue	$488,270
Approved Annual Revenue	$638,106
Percentage Revenue Increase	30.69%

RATE DESIGN

51. Set forth below are the current, Company proposed, and Staff proposed rates and charges according to their respective revenue requirements and rate design recommendations:

MONTHLY USAGE CHARGE:	Present Rates	Company Proposed	Staff Recommended
All Classes			
5/8 x 3/4-inch Meter	$10.00	$20.00	$20.00
3/4-inch Meter	22.50	30.00	30.00
1-inch Meter	25.00	50.00	50.00
1-1/2-inch Meter	55.00	100.00	100.00
2-inch Meter	70.00	160.00	160.00
3-inch Meter	125.00	320.00	320.00
4-inch Meter	225.00	500.00	500.00

6-inch Meter	350.00	1,000.00	1,000.00
8-inch Meter	N/T	N/T	1,600.00
Standpipe	$10.10	$20.20	$20.20
Fire Sprinkler Connection			
Less than 6 inches (See Notes 1 and 2)	$10.00	$10.00	N/A
Larger than 6 inches (See Notes 1 and 2)	15.00	15.00	N/A
Less than 6 inches (See Notes 1 and 3)	10.00	N/A	Note 3
Larger than 6 inches (See Notes 1 and 3)	15.00	N/A	Note 3

Note 1 – Present Rates are 1% of monthly minimum for comparable sized meters, but not less than $5.00 per month.
Note 2 – Proposed rates are 2% of monthly minimum for comparable sized meters, but not less than $15 per month.
Note 3 – Staff's recommended monthly charges are 2% of the monthly minimum for an equivalent sized meter or $10, whichever is greater, for all meter sizes.

COMMODITY RATES:
(Residential, Commercial, Industrial)
(Per 1,000 gallons)

5/8" x 3/4-inch Meter			
0 to 4,000 gallons	$0.95	N/A	N/A
4,001 to 23,000 gallons	1.15	N/A	N/A
Over 23,000 gallons	1.35	N/A	N/A
0 to 4,000 gallons	N/A	$1.87	$1.08
4,001 to 10,000 gallons	N/A	2.37	2.08
Over 10,000 gallons	N/A	2.97	3.09
3/4-inch Meter			
0 to 4,000 gallons	$0.95	N/A	N/A
4,001 to 23,000 gallons	1.15	N/A	N/A
Over 23,000 gallons	1.35	N/A	N/A
0 to 4,000 gallons	N/A	$1.87	$1.08
4,001 to 10,000 gallons	N/A	2.37	2.08
Over 10,000 gallons	N/A	2.87	3.09
1-inch Meter			
0 to 40,000 gallons	$1.15	N/A	N/A
Over 40,000 gallons	1.35	N/A	N/A

0 to 25,000 gallons	N/A	$2.37	N/A
Over 25,000 gallons	N/A	2.97	N/A
0 to 27,000 gallons	N/A	N/A	$2.08
Over 27,000 gallons	N/A	N/A	3.09
1 1/2-inch Meter			
0 to 100,000 gallons	$1.15	N/A	N/A
Over 100,000 gallons	1.35	N/A	N/A
0 to 50,000 gallons	N/A	$2.37	N/A
Over 50,000 gallons	N/A	2.97	N/A
0 to 70,000 gallons	N/A	N/A	$2.08
Over 70,000 gallons	N/A	N/A	3.09
2-inch Meter (All Classes Except Standpipe)			
0 to 150,000 gallons	$1.15	N/A	N/A
Over 150,000 gallons	1.35	N/A	N/A
0 to 80,000 gallons	N/A	$2.37	N/A
Over 80,000 gallons	N/A	2.97	N/A
0 to 122,000 gallons	N/A	N/A	$2.08
Over 122,000 gallons	N/A	N/A	3.09
3-inch Meter (All Classes Except Standpipe)			
0 to 160,000 gallons	N/A	$2.37	N/A
Over 160,000 gallons	N/A	2.97	N/A
0 to 262,000 gallons	N/A	N/A	$2.08
Over 262,000 gallons	N/A	N/A	3.09
4-inch Meter (All Classes Except Standpipe)			
0 to 400,000 gallons	$1.15	N/A	N/A
Over 400,000 gallons	1.35	N/A	N/A
0 to 250,000 gallons	N/A	$2.37	N/A
Over 250,000 gallons	N/A	2.97	N/A
0 to 423,000 gallons	N/A	N/A	$2.08
Over 423,000 gallons	N/A	N/A	3.09

6-inch Meter			
(All Classes Except Standpipe)			
0 to 400,000 gallons	$1.15	N/A	N/A
Over 400,000 gallons	1.35	N/A	N/A
0 to 500,000 gallons	N/A	$2.37	N/A
Over 500,000 gallons	N/A	2.97	N/A
0 to 873,000 gallons	N/A	N/A	$2.08
Over 873,000 gallons	N/A	N/A	3.09
8-inch Meter			
(All Classes Except Standpipe)			
0 to 1,414,000 gallons	N/T	N/A	$2.08
Over 1,414,000 gallons	N/T	N/A	3.09
Standpipe			
0 to 4,000 gallons	$ 0.95	N/A	N/A
4,001 to 23,000 gallons	1.15	N/A	N/A
Over 23,000 gallons	1.35	N/A	N/A
0 to 4,000 gallons	N/T	$ 1.87	N/A
4,001 to 10,000 gallons	N/T	2.37	N/A
Over 10,000 gallons	N/T	2.97	N/A
0 to 4,000 gallons	N/T	N/A	$ 1.08
4,001 to 23,000 gallons	N/T	N/A	2.08
Over 23,000 gallons	N/T	N/A	3.09

SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable pursuant to A.A.C. R14-2-405)

		Company Proposed			Staff Recommended		
	Current Charge	Proposed Service Line Charge	Meter Installation Charge	Total Recommended Charges	Proposed Service Line Charge	Meter Installation Charge	Total Recommended Charges
5/8" x ¾ " Meter	$ 150.00	$ 445.00	$155.00	$ 600.00	$ 445.00	$155.00	$ 600.00
3/4 " Meter	NT	445.00	255.00	700.00	445.00	255.00	700.00
1" Meter	225.00	495.00	315.00	810.00	495.00	315.00	810.00
1-1/2" Meter	475.00	550.00	525.00	1,075.00	550.00	525.00	1,075.00
2" Meter	625.00	N/A	N/A	N/A	N/A	N/A	N/A
2" Meter Turbine	NT	830.00	1,045.00	1,875.00	830.00	1,045.00	1,875.00
2" Meter Compound	NT	830.00	1,890.00	2,720.00	830.00	1,890.00	2,720.00
3" Meter	850.00	N/A	N/A	N/A	N/A	N/A	N/A
3" Meter Turbine	NT	1,045.00	1,670.00	2,715.00	1,045.00	1,670.00	2,715.00
3" Meter Compound	NT	1,165.00	2,545.00	3,710.00	1,165.00	2,545.00	3,710.00
4" Meter	1,800.00	N/A	N/A	N/A	N/A	N/A	N/A
4" Meter Turbine	NT	1,490.00	2,670.00	4,160.00	1,490.00	2,670.00	4,160.00
4" Meter Compound	NT	1,670.00	3,645.00	5,315.00	1,670.00	3,645.00	5,315.00
6" Meter	3,000.00	N/A	N/A	N/A	N/A	N/A	N/A
6" Meter Turbine	NT	2,210.00	5,025.00	7,235.00	2,210.00	5,025.00	7,235.00
6" Meter Compound	NT	2,330.00	6,920.00	9,250.00	2,330.00	6,920.00	9,250.00
8" Meter	NT	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost

SERVICE CHARGES:	Present Rates	Company Proposed	Staff Recommended
Establishment	$20.00	$20.00	$20.00
Establishment (After Hours)	30.00	30.00	30.00
Reconnection (Delinquent)	20.00	20.00	20.00
Reconnection (Delinquent and After Hours)	30.00	30.00	30.00
Meter Test (If Correct)	25.00	25.00	25.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	$15.00	$15.00	$15.00
Deferred Payment (Per Month)	NT	1.50%	1.50%
Meter Re-Read (If Correct)	$15.00	$15.00	$15.00
After hours service charge (Per A.A.C. R14.2-403D)	NT	Cost	Cost
Late Charge per month (Per A.A.C. R14-2-409G(6))	1.50%	1.50%	1.50%

* Per A.A.C. R14-2-403.B.

** Months off system times the minimum, per A.A.C. R14-2-403.D.

Standpipe Deposits			
Original Key Deposit	$30.00	$30.00	$30.00
Additional Set	5.00	5.00	5.00

Arsenic Remedial Surcharge			
5/8 x 3/4-inch Meter	$11.37	*	*
¾-inch Meter	17.05	*	*
1-inch Meter	28.42	*	*
1-1/2-inch Meter	56.84	*	*
2-inch Meter	90.94	*	*
3-inch Meter	170.52	*	*
4-inch Meter	284.20	*	*
6-inch Meter or larger	568.40	*	*
Standpipe	11.37	*	*

*Staff and Company recommend discontinuation of this surcharge.

Arsenic Impact Hook-up Fee			
5/8 x 3/4-inch Meter	$1,135.00	$1,135.00	$1,135.00
3/4-inch Meter	1,703.00	1,703.00	1,703.00
1-inch Meter	2,838.00	2,838.00	2,838.00
1-1/2-inch Meter	5,675.00	5,675.00	5,675.00
2-inch Meter	9,080.00	9,080.00	9,080.00
3-inch Meter	18,160.00	18,160.00	18,160.00
4-inch Meter	28,375.00	28,375.00	28,375.00
6-inch Meter or larger	56,750.00	56,750.00	56,750.00

Offsite Facilities Hook-up Fee			
5/8 x 3/4-inch Meter	$250.00	$250.00	$250.00
3/4-inch Meter	250.00	250.00	250.00
1-inch Meter	250.00	250.00	250.00
1-1/2-inch Meter	250.00	250.00	250.00
2-inch Meter	250.00	250.00	250.00
3-inch Meter	250.00	250.00	250.00
4-inch Meter	250.00	250.00	250.00
6-inch Meter or larger	250.00	250.00	250.00

N/T=No current tariff
N/A=Not applicable

In addition to the collection regular rates, the Utility will collect from its customers a proportionate share of any privilege, sales, use and franchise tax. Per Commission Rule (R14-2-409.D.5).

All advances and/or contributions are to include labor, materials, overheads, and all applicable taxes.

52. Las Quintas believes that Staff's proposed design results in larger users subsidizing smaller users.[52] The Company notes that under its present rates, the 5/8 x 3/4-inch meter customers account for approximately 67.0 percent of revenues. Under the Company's proposed rates, those same customers provide 65.8 percent of revenues and under Staff proposed rates, the percentage drops to 64.8 percent. According to Las Quintas, this drop must be made up by those customers in the higher water usage levels. Las Quintas asserts that this is not only unfair, but if the larger metered customers begin to conserve water because of the uneven shift in rates, then there is a greater impact on revenue stability and on the Company's ability to earn its authorized rate of return.[53]

53. Staff asserts that its rate design promotes efficient water use and provides an economic benefit to those customers who make efforts to conserve water. Staff argues that because those customers with larger meters use more water, it is reasonable to recover a more proportional amount of revenues from those high water use customers.[54]

54. Las Quintas currently charges an approved arsenic remedial surcharge tariff of $11.37 on 5/8x 3/4-inch meters per customer, per month. In its Application, the Company proposed to eliminate the arsenic remedial surcharge since the arsenic treatment facilities are now recognized in rate base and the associated debt is reflected in the Las Quintas' cost of capital. Staff agreed with Las Quintas' conclusion that the arsenic remedial surcharge should be eliminated since the plant

[52] Rejoinder Testimony of Thomas Bourassa, page 15.
[53] *Id.*, page 16, and Rejoinder Exhibit TJB-RJ4.
[54] Surrebuttal Testimony of Crystal Brown, page 17.

associated with the surcharge is now in rate base.[55]

55. For a residential customer served by a 5/8 x 3/4-inch meter with average usage of 10,768 gallons per month, the current monthly charges are $32.95, including the arsenic remedial surcharge. Under the Company's final proposed rates, a customer with the same average usage would experience an increase of $11.05 per month, or 33.51 percent, to $44.00.

56. An average usage customer on a 5/8 x 3/4-inch meter under Staff's recommended rates would experience an increase of $6.22 per month, or 18.88 percent, from $32.95 to $39.17.

57. We agree with Staff that a rate structure that promotes water conservation is desirable. The Company's and Staff's rate designs are not significantly different and the Company's evidence that revenues would be harmed by Staff's rate design was not persuasive. Accordingly, we find that Staff's recommended rates, as modified in Finding of Fact Nos. 34 and 35, are reasonable and should be adopted.

58. In its Surrebuttal Testimony, Staff recommended that Las Quintas be required to pay interest on customer standpipe charges at six percent annually pursuant to A.A.C. R14-2-403(B).[56] However, the Las Quintas argues that it should not be required to pay interest on customer standpipe key deposits because these deposits are in place only insure the return of the keys and are not in place to secure payment from customers, or used as a means for funding capital improvements.[57]

59. At hearing, however, Staff witness Crystal Brown testified that if the Company does not want to pay interest on the funds collected to insure customers return the standpipe keys, Staff recommends that the Company change the standpipe key deposit to a standpipe key charge. [58]

60. Accordingly, in its initial Post-Hearing Brief, Las Quintas indicated that it would file a tariff adopting Staff's suggestion and on November 15, 2010, the Company filed for Commission approval a Standpipe Water Service Refundable Key Charge Tariff ("Key Charge Tariff") in this docket. The Company also attached a copy of the Key Charge Tariff to its Post-Hearing Reply Brief. Under the Key Charge Tariff, the Refundable Key Charge for the first key is $30 and if a second key

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[55] Direct Testimony of Crystal Brown, page 16.
[56] Surrebuttal Testimony of Crystal Brown, page 7.
[57] Rebuttal Testimony of Thomas Bourassa, page 11.
[58] Tr. at 87, 89.

is needed, there would be an additional $5.00 charge. These are the same rates that are currently in effect for the standpipe key deposit.

61. Staff filed no comments or objections to the proposed Key Charge Tariff. As such, we approve the Key Charge Tariff attached hereto as Exhibit A.

62. Las Quintas has an approved off-site HUF of $250, which became effective in November 1994. Additionally, in 2006, the Commission approved an arsenic impact HUF for new service connections, under which the Company charges $1,135 for new 5/8 x 3/4-inch meters. The Company proposed to change the off-site HUF from a flat $250 charge per hook-up to an off-site HUF determined by meter size.[59] Because of this requested change to the off-site HUF, Las Quintas proposed to eliminate the $1,135 per 5/8-inch meter arsenic impact HUF.[60]

63. Staff recommended that the arsenic impact HUF and the off-site HUF should remain in place and unchanged in order to assist Las Quintas in servicing the debt associated with the installation of the arsenic treatment facilities.[61] The Company accepted Staff's recommendations to continue with the arsenic impact HUF and the off-site HUF.[62]

64. We find that Staff's recommended charges, as well as the Company's Key Charge Tariff, are reasonable and shall be adopted.

65. In the Clarification Request, Staff requested the deletion of service charges for "Establishment (After Hours)" of $30.00 and "Reconnection (Delinquent and After Hours)" of $30.00 to be replaced with "Service Charge (After Hours)" of $35.00. Staff stated that the Company and Staff believed it is more appropriate to establish a separate tariff applicable for any utility service provided by the Company after regular business hours at a customer's request, rather than having after hours tariffs for every specific service activity.

66. We find that this request is reasonable and should be adopted.

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[59] Direct Testimony of Thomas Bourassa, page 17; Schedule H-3, page 5.
[60] *Id.*, page 18.
[61] Direct Testimony of Marlin Scott, Exhibit MSJ, pages 9-10.
[62] Rebuttal Testimony of Thomas Bourassa, page 21.

MISCELLANEOUS MATTERS

67. Staff recommends that the Company continue to use the depreciation rates by individual National Association of Regulatory Utility Commissioners category, as set forth in the Direct Testimony of Marlin Scott, Exhibit MSJ, Table I-1, and attached as Exhibit B.

68. Staff noted that it received a compliance status report from the Arizona Department of Environmental Quality dated March 19, 2010, indicating that Las Quintas' water system is currently delivering water that meets water quality standards required by A.A.C., Title 18, Chapter 4.

69. Las Quintas' water system is located in the Tucson Active Management Area ("AMA"). In an Arizona Department of Water Resources ("ADWR") compliance status report dated April 5, 2010, ADWR determined that the Company is currently in compliance with departmental requirements governing water providers and/or community water systems.

70. Staff stated that Las Quintas has no delinquent Commission compliance issues.

71. The Company has an approved curtailment tariff and an approved backflow prevention tariff on file with the Commission.

72. Because an allowance for the property tax expense is included in Las Quintas' rates and will be collected from its customers, the Commission seeks assurances from the Company that any taxes collected from ratepayers have been remitted to the appropriate taxing authority. It has come to the Commission's attention that a number of water companies have been unwilling or unable to fulfill their obligation to pay the taxes that were collected from its ratepayers, some for as many as twenty years. It is reasonable, therefore, that as a preventive measure the Company shall annually file, as part of its annual report, an affidavit with the Commission's Utilities Division attesting that the company is current in paying its property taxes in Arizona.

73. The Modified Non-Per Capita Conservation Program is a regulatory program administered by the ADWR that was added to the Third Management Plan for Arizona's AMAs. It is a performance-based program that requires participating providers to implement water conservation measures that result in water use efficiency in their service areas.[63] Under the program, water service providers implement a Public Education Program and one or more additional Best Management

[63] See http://www.azwater.gov/azdwr/Watermanagement/AMAs/documents/MNPCCPFAQs.pdf.

Practices ("BMPs") based on their total number of residential and non-residential water service connections.

74. The Company does not dispute the importance of conservation and the benefits of adopting BMPs. Las Quintas' witness Kaycee Conger testified that the Company provides its customers with conservation information, but it would also be willing to consider the implementation of BMPs appropriate and cost-effective for its service area.[64] Staff has considerable experience working with companies like Las Quintas to document their BMPs in the form of a tariff. We will direct the Company and Staff to work together to document and implement the Company's BMP tariff.

CONCLUSIONS OF LAW

1. Las Quintas is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§40-250, 40-251 and 40-367.

2. The Commission has jurisdiction over Las Quintas and the subject matter contained in the Company's Application.

3. Notice of the Application was given in accordance with Arizona law.

4. Las Quintas' FVRB is $1,913,221.

5. The rates and charges established herein are just and reasonable and in the public interest.

6. The recommendations stated herein are reasonable and should be adopted.

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[64] Tr. at 45-46.

ORDER

IT IS THEREFORE ORDERED that Las Quintas Serenas Water Company is hereby authorized and directed to file with the Commission by July 29, 2011, revised schedules of rates and charges consistent with the discussion herein, as set forth below:

MONTHLY USAGE CHARGE:
Beginning August 1, 2011, through July 31, 2014:

All Classes	
5/8 x 3/4-inch Meter	$20.56
3/4-inch Meter	30.84
1-inch Meter	51.39
1-1/2-inch Meter	102.79
2-inch Meter	164.46
3-inch Meter	328.36
4-inch Meter	513.94
6-inch Meter	1,027.88
8-inch Meter	1,655.76

MONTHLY USAGE CHARGE:
Beginning August 1, 2014:

All Classes	
5/8 x 3/4-inch Meter	$18.33
3/4-inch Meter	27.49
1-inch Meter	45.82
1-1/2-inch Meter	91.64
2-inch Meter	146.62
3-inch Meter	294.91
4-inch Meter	458.18
6-inch Meter	916.36
8-inch Meter	1,432.72

Standpipe	$20.20

Fire Sprinkler Connection
2% of the monthly minimum for an equivalent sized meter or $10, whichever is greater, for all meter sizes.

COMMODITY RATES:
(Residential, Commercial, Industrial)
(Per 1,000 gallons)

5/8 x 3/4-inch Meter	
0 to 4,000 gallons	$1.08
4,001 to 10,000 gallons	2.08
Over 10,000 gallons	3.09
3/4-inch Meter	
0 to 4,000 gallons	1.08
4,001 to 10,000 gallons	2.08
Over 10,000 gallons	3.09
1-inch Meter	
0 to 27,000 gallons	2.08
Over 27,000 gallons	3.09
1 1/2-inch Meter	
0 to 70,000 gallons	2.08
Over 70,000 gallons	3.09
2-inch Meter	
(All Classes Except Standpipe)	
0 to 122,000 gallons	2.08
Over 122,000 gallons	3.09
3-inch Meter	
(All Classes Except Standpipe)	
0 to 262,000 gallons	2.08
Over 262,000 gallons	3.09
4-inch Meter	
(All Classes Except Standpipe)	
0 to 423,000 gallons	2.08
Over 423,000 gallons	3.09
6-inch Meter	
(All Classes Except Standpipe)	
0 to 873,000 gallons	2.08
Over 873,000 gallons	3.09
8-inch Meter	
(All Classes Except Standpipe)	
0 to 1,414,000 gallons	2.08
Over 1,414,000 gallons	3.09

Standpipe

0 to 4,000 gallons	1.08
4,000 to 23,000 gallons	2.08
Over 23,000 gallons	3.09

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable pursuant to A.A.C. R14-2-405)

	Service Line Charge	Meter Installation Charge	Total Charges
5/8 x 3/4-inch Meter	$ 445.00	$155.00	$ 600.00
3/4-inch Meter	445.00	255.00	700.00
1-inch Meter	495.00	315.00	810.00
1-1/2-inch Meter	550.00	525.00	1,075.00
2-inch Meter	N/A	N/A	N/A
2-inch Meter Turbine	830.00	1,045.00	1,875.00
2-inch Meter Compound	830.00	1,890.00	2,720.00
3-inch Meter	N/A	N/A	N/A
3-inch Meter Turbine	1,045.00	1,670.00	2,715.00
3-inch Meter Compound	1,165.00	2,545.00	3,710.00
4-inch Meter	N/A	N/A	N/A
4-inch Meter Turbine	1,490.00	2,670.00	4,160.00
4-inch Meter Compound	1,670.00	3,645.00	5,315.00
6-inch Meter	N/A	N/A	N/A
6-inch Meter Turbine	2,210.00	5,025.00	7,235.00
6-inch Meter Compound	2,330.00	6,920.00	9,250.00
8-inch Meter	At Cost	At Cost	At Cost

SERVICE CHARGES:

Establishment	$20.00
Reconnection (Delinquent)	20.00
Service Charge (After Hours)	35.00
Meter Test (If Correct)	25.00
Deposit	*
Deposit Interest	*
Re-Establishment (Within 12 Months)	**
NSF Check	$15.00
Deferred Payment (Per Month)	1.50%
Meter Re-Read (If Correct)	$15.00
After hours service charge (Per A.A.C. R14.2-403D)	Cost
Late Charge per month (Per A.A.C. R14-2-409G(6))	1.50%

* Per A.A.C. R14-2-403.B.
** Months off system times the minimum, per R14-2-403.D.

Standpipe Water Service Refundable Key Charge

First Key	$ 30.00
Second Key/Replacement Key	5.00

Arsenic Impact Hook-up Fee	
5/8 x 3/4-inch Meter	$1,135.00
3/4-inch Meter	1,703.00
1-inch Meter	2,838.00
1-1/2-inch Meter	5,675.00
2-inch Meter	9,080.00
3-inch Meter	18,160.00
4-inch Meter	28,375.00
6-inch Meter or larger	56,750.00

Offsite Facilities Hook-up Fee	
5/8 x 3/4-inch Meter	$250.00
3/4-inch Meter	250.00
1-inch Meter	250.00
1-1/2" Meter	250.00
2-inch Meter	250.00
3-inch Meter	250.00
4-inch Meter	250.00
6-inch Meter or larger	250.00

In addition to the collection regular rates, the Utility will collect from its customers a proportionate share of any privilege, sales, use and franchise tax. Per Commission Rule (R14-2-409.D.5).

All advances and/or contributions are to include labor, materials, overheads, and all applicable taxes.

IT IS FURTHER ORDERED that the revised schedules of rates and charges shall be effective for all service rendered on and after August 1, 2011.

IT IS FURTHER ORDERED that Las Quintas Serenas Water Company shall notify its customers of the revised schedules of the rates and charges authorized herein by means of either an insert in its next regularly scheduled billing or by a separate mailing, in a form acceptable to Staff.

IT IS FURTHER ORDERED that Las Quintas Serenas Water Company's Standpipe Water Service Refundable Key Charge Tariff attached as Exhibit A is approved.

IT IS FURTHER ORDERED that Las Quintas Serenas Water Company shall continue to use the Depreciation Table attached as Exhibit B, on a going forward basis.

IT IS FURTHER ORDERED that Las Quintas Serenas Water Company shall file as part of its Annual Report an affidavit attesting that it is current on payment of its property taxes in Arizona.

. . .

. . .

. . .

IT IS FURTHER ORDERED that within 90 days of the effective date of this Decision, Las Quintas Serenas Water Company shall submit its Best Management Practices, as a compliance item in this docket, in the form of tariffs that substantially conform to the templates created by Staff (and available on the Commission's Website) for the Commission's review and consideration.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN | COMMISSIONER

COMMISSIONER | COMMISSIONER | COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 25th day of July, 2011.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT

DISSENT

SERVICE LIST FOR: LAS QUINTAS SERENAS WATER COMPANY

DOCKET NO.: W-01583A-09-0589

Lawrence V. Robertson, Jr.
P. O. Box 1448
Tubac, AZ 85646

John F. Munger
MUNGER CHADWICK, P.L.C
333 North Wilmot, Suite 300
Tucson, AZ 85711

Janice Alward, Chief Counsel
Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007

Steven M. Olea, Director
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007

EXHIBIT A

TARIFF SCHEDULE
STANDPIPE WATER SERVICE REFUNDABLE KEY CHARGE

AREA OF AVAILABILITY: Standpipe water service is provided through standpipe located in the certificated water service area of Las Quintas Serenas Water Co. ("Company").

LIMITED APPLICABILITY: The refundable key charge required by this tariff is applicable only to customers of the Company who receive water service from a standpipe pursuant to an approved and executed Standpipe Water Service Application and Agreement.

REQUIRED KEY CHARGE AND REFUND CONDITIONS: An Applicant for standpipe water service from the Company shall pay the following refundable key charge at the time of application for standpipe water service:

Refundable Key Charge	
First Key	$ 30.00
Second Key (optional)	$ 5.00

Key charges are refundable only for key(s) returned to the Company within six (6) months following closure of the applicable standpipe water service customer account. Should there be an outstanding balance in the applicable standpipe water service customer account at the time of closure, the refundable charge shall be applied to the extent necessary to satisfy such outstanding account balance. Any key charge funds thereafter remaining shall be refunded to the standpipe water service customer who initially paid the charge. No refund shall be due if the standpipe key(s) provided to a standpipe water service customer is/are lost or stolen. In such event, the customer shall have the option of (i) retaining the existing standpipe water service account and paying the Company a $5 charge for a replacement key, if the customer does not already have a second key for the existing account, or (ii) closing the existing standpipe water service account, opening a new account and paying the Company a $30 charge for a key for the new account. If the customer selects option (ii), the customer shall be responsible for payment in full of all standpipe water deliveries occurring under that account.

No interest will be paid by the Company on any refundable key charges received from applicants for standpipe water service from the Company.

TERMS AND CONDITIONS: The Company's provision of standpipe water service is subject to (i) the Company's "Water Service Rules and Regulations," (ii) applicable rules and regulations and/or decisions of the Arizona Corporation Commission, (iii) this tariff, and (iv) the applicable approved and executed Standpipe Water Service Application and Agreement.

LAS QUINTAS SERENAS WATER COMPANY

P.O. Box 68
Sahuarita, Arizona 85629
Telephone: 520.625.8040 Facsimile: 520.648.3520

STANDPIPE WATER SERVICE APPLICATION AND AGREEMENT

Applicant Name: _____

Resident Address: _____

Mailing Address: _____

Telephone Number: _____

Account Number: _____ Key Number: _____

The Applicant, for the privilege of using the Las Quintas Serenas Water Co.'s ("Company") *standpipe*, agrees to the following terms and conditions:

1. Applicant shall pay the following charges at time of application:

	Establishment Fee (non-refundable):	$ 20.00
**	Refundable Key Charge(s):	
	First Key:	$ 30.00
	Second Key (optional):	$ 5.00
	Total Receipt:	$ 55.00

***Key Charge(s) are refundable ONLY when key(s) are returned up to six (6) months after closure of account. Should there be an existing balance at time of account closure; the charge(s) will be applied to pay debt.*

2. Applicant agrees to comply with the Arizona Corporation Commission (A.C.C.) regulations pertaining to the payment for water provided by the Company. The rate shall be the rate established from time to time, as provided for, by order of the A.C.C. The current rates are as follows:

$	10.10	Per month – minimum charge (no usage)
$	11.37	Arsenic Remediation Surcharge
$	0.95	Per 1,000 gallons from 0 to 4,000 gallons used
$	1.15	Per 1,000 gallons from 4,001 to 23,000 gallons used
$	1.35	Per 1,000 gallons over 23,001 gallons used

3. The Applicant shall abide by all rules and regulations promulgated by the Company respecting charges, deposits, billing procedures, and care and use of the equipment.

4. The Company is under no obligation to provide water to any person residing outside of its certificated service area.

5. Access to the *standpipe* is a privilege extended solely for the Applicant's convenience and can be terminated at any time being given ten (10) day's written notice.

LAS QUINTAS SERENAS WATER COMPANY

P.O. Box 68
Sahuarita, Arizona 85629
Telephone: 520.625.8040 Facsimile: 520.648.3520

6. Willful damage, vandalism, or tampering with the *standpipe* and/or metering devices can result in the immediate termination of *standpipe* operation for the Applicant as well as all other users.

7. Failure to comply with the above terms and conditions will result in the immediate termination of use of the *standpipe*.

8. No application will be considered unless all items have been completed.

9. Waiver of Liability. Applicant releases the Company, its directors, officers, employees, and agents from all responsibility or liability for any and all loss, damage, or injury to Applicant or to Applicant's property caused by Applicant's use of the standpipe or the water obtained from it.

10. Indemnification. Applicant agrees to indemnify the Company for any damage Applicant or Applicant's agents or invitees may cause to the standpipe and or to the water delivery system.

_____ _____

Applicant's Signature Date

Approved and Accepted:

Las Quintas Serenas Water Co.

By: _____ _____

Date

EXHIBIT B

Table I-1. Depreciation Rates

NARUC Account No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

1. These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.

2. Acct. 348, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

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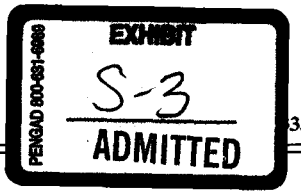


As filed with Securities and Exchange Commission on May 11, 2012

33-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM S-4
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

MERITAGE HOMES CORPORATION

Co-registrants are listed on the following page
(Exact name of registrant as specified in its charter)

Maryland	**1531**	**86-0611231**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(IRS Employer Identification Number)**

17851 North 85th Street, Suite 300
Scottsdale, Arizona 85255
(480) 515-8100
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Larry W. Seay
Executive Vice President and Chief Financial Officer
17851 North 85th Street, Suite 300
Scottsdale, Arizona 85255
(480) 515-8100
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:
Jeffrey E. Beck
Snell & Wilmer L.L.P.
One Arizona Center
400 East Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6316

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective and all other conditions to the exchange offer set forth in the registration rights agreement described in the enclosed prospectus have been satisfied or waived.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ☐

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☐	Accelerated filer	☑
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer) ☐

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer) ☐

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per unit	Proposed maximum aggregate offering price (1)	Amount of registration fee
7% Senior Notes due 2022	$300,000,000	100%	$300,000,000	$34,380
Guarantees of 7% Senior Notes due 2022	$300,000,000	(2)	(2)	(2)

(1) The registration fee was calculated pursuant to Rule 457(f) under the Securities Act of 1933, as amended (the "Securities Act"). For purposes of this calculation, the offering price per note was assumed to be the stated principal amount of each original note that may be received by the registrant in the exchange transaction in which the notes will be offered.

(2) The guarantees are the full and unconditional guarantee of Meritage Homes Corporation's payment obligations under its 7% Senior Notes due 2022 by its direct and indirect wholly-owned subsidiaries listed as co-registrants on the following page. No separate consideration will be received for the guarantees. In accordance with Rule 457(n) under the Securities Act, no separate fee is required for the registration of guarantees.

Item 21. ***Exhibits and Financial Statement Schedules***

(a) *Exhibits:*

Exhibit Number	Description	Page or Method of Filing
2.1	Agreement and plan of Reorganization, dated as of September 13, 1996, by and among Homeplex, the Monterey Merging Companies and the Monterey Stockholders	Incorporated by reference to Appendix A of Form S-4 Registration Statement No. 333-15937.
3.1	Restated Articles of Incorporation of Meritage Homes Corporation	Incorporated by reference to Exhibit 3 of Form 8-K dated June 20, 2002.
3.1.1	Amendment to Articles of Incorporation of Meritage Homes Corporation	Incorporated by reference to Exhibit 3.1 of Form 8-K dated September 15, 2004.
3.1.2	Amendment to Articles of Incorporation of Meritage Homes Corporation	Incorporated by reference to Appendix A of the Proxy Statement for the 2006 Annual Meeting of Stockholders.
3.1.3	Amendment to Articles of Incorporation of Meritage Homes Corporation	Incorporated by reference to Appendix B of the Proxy Statement for the 2008 Annual Meeting of Stockholders.
3.1.4	Amendment to Articles of Incorporation of Meritage Homes Corporation	Incorporated by reference to Appendix A of the Definitive Proxy Statement filed with the Securities and Exchange Commission on January 9, 2009.
3.2	Amended and Restated Bylaws of Meritage Homes Corporation	Incorporated by reference to Exhibit 3.1 of Form 8-K dated August 21, 2007.
3.2.1	Amendment to Amended and Restated Bylaws of Meritage Homes Corporation	Incorporated by reference to Exhibit 3.1 of Form 8-K filed on December 24, 2008.
3.2.2	Amendment No. 2 to Amended and Restated Bylaws of Meritage Homes Corporation	Incorporated by reference to Exhibit 3.1 of Form 8-K filed on May 20, 2011.
3.3	Articles of Organization of Meritage Paseo Crossing, LLC	Incorporated by reference to Exhibit 3.6 of Form S-4 Registration Statement No. 333-64538.
3.4	Articles of Incorporation of Meritage Homes Construction, Inc. (formerly known as Hancock-MTH Builders, Inc.)	Incorporated by reference to Exhibit 3.19 of Form S-4 Registration Statement No. 333-64538.
3.4.1	Articles of Amendment and Merger of Meritage Homes Construction, Inc. (formerly known as Hancock-MTH Builders, Inc.)	Incorporated by reference to Exhibit 3.4.1 of Form S-4 Registration Statement No. 333-166972.
3.5	Bylaws of Meritage Homes Construction, Inc. (formerly known as Hancock-MTH Builders, Inc.)	Incorporated by reference to Exhibit 3.20 of Form S-4 Registration Statement No. 333-64538.
3.6	Articles of Organization of Meritage Paseo Construction, LLC (formerly known as Chandler 110, LLC)	Incorporated by reference to Exhibit 3.9 of Form S-4 Registration Statement No. 333-64538.
3.6.1	Amendment to Articles of Organization of Meritage Paseo Construction, LLC (formerly known as Chandler 110, LLC)	Incorporated by reference to Exhibit 3.9.1 of Form S-4 Registration Statement No. 333-64538.

EXHIBIT 3.4.1

ARTICLES OF AMENDMENT AND MERGER

MERGING MERITAGE HOMES CONSTRUCTION, INC.

WITH AND INTO HANCOCK-MTH BUILDERS, INC.

AND

CHANGING SURVIVOR NAME TO MERITAGE HOMES CONSTRUCTION, INC.

Dated June 18, 2004

Effective July 1, 2004

Pursuant to Section 10-1105 of the Arizona Business Corporation Act, Meritage Homes Construction, Inc., an Arizona corporation ("Meritage Homes Construction") and Hancock-MTH Builders, Inc., an Arizona corporation ("Hancock-MTH"), hereby adopt the following Articles of Merger to merge Meritage Homes Construction with and into Hancock-MTH, with Hancock-MTH being the corporation surviving the merger (the "Merger"):

FIRST: The Plan of Merger is being simultaneously filed with the Arizona Corporation Commission.

SECOND: The names of the corporations that are the parties to this merger are Meritage Homes Construction, Inc., an Arizona corporation, and Hancock-MTH Builders, Inc., an Arizona corporation.

THIRD: The known place of business of Hancock-MTH, the surviving corporation, is 8501 E. Princess Drive, Suite #290, Scottsdale. Arizona 85255.

FOURTH: The name and address of the statutory agent of Hancock-MTH, the surviving corporation, are Lorence M. Zimtbaum, 8501 E. Princess Dr., Suite 290, Scottsdale, Arizona 85255.

FIFTH: The designation, number of outstanding shares and number of votes entitled to be cast by each voting group entitled to vote separately on the Plan of Merger, are as follows:

Name of Corporation	Designation of Class or Series	Number of Shares Outstanding	Shares Entitled to Vote
Meritage Homes Construction	Common	1,000	1,000
Hancock-MTH	Common	1,000	1,000

SIXTH: The total number of votes cast for and against the Plan of Merger by the holders of the common stock (the only class of stock of the respective corporations issued, outstanding and entitled to vote) is sufficient for approval by all voting groups and is as follows:

Name of Corporation	Shares Voted For	Shares Voted Against
Meritage Homes Construction	1,000	0
Hancock-MTH	1,000	0

SEVENTH: Article 1 of the Articles of Incorporation of Hancock-MTH is hereby amended and restated to read as follows:

"1. The name of the corporation is Meritage Homes Construction, Inc."

EIGHTH: Article 3 of the Articles of Incorporation of Hancock-MTH is hereby amended and restated to read as follows:

"The aggregate number of shares that the corporation shall have authority to issue is two thousand (2,000) common shares, all of which shares shall be a single class."

IN WITNESS WHEREOF, the undersigned have hereunto set their hand this 18th day of June, 2004.

MERITAGE HOMES CONSTRUCTION, INC.,
an Arizona corporation

By: /s/ Ron French
Name: Ron French
Title: President

HANCOCK-MTH BUILDERS, INC.,
an Arizona corporation

By: /s/ Ron French
Name: Ron French
Title: President

STATE OF ARIZONA

ACCEPTANCE OF APPOINTMENT AS STATUTORY AGENT

of

MERITAGE HOMES CONSTRUCTION, INC., an Arizona corporation,

To: Arizona Corporation Commission
Incorporating Division
1210 West Washington
Phoenix, Arizona 85007

Please be advised that Lorence M. Zimtbaum, Esq., 8501 E. Princess Drive, Suite 290, Scottsdale, AZ 85255, a resident of the Slate of Arizona, hereby accepts and acknowledges appointment as statutory agent for service of process upon Meritage Homes Construction, Inc., an Arizona corporation, formerly known as Hancock-MTH Builders, Inc., an Arizona corporation, and consents to act in that capacity until removal or resignation.

EFFECTIVE the 1st day of July, 2004.

/s/ Lorence M. Zimtbaum
Lorence M. Zimtbaum

PLAN OF MERGER
MERGING MERITAGE HOMES CONSTRUCTION, INC.
WITH AND INTO HANCOCK-MTH BUILDERS, INC.
AND
CHANGING SURVIVOR NAME TO MERITAGE HOMES CONSTRUCTION, INC.

This Plan of Merger has been prepared in accordance with Section 10-1101 of the Arizona Business Corporation Act.

1. Surviving Corporation. Meritage Homes Construction, Inc., an Arizona corporation ("Meritage Homes Construction"), shall be merged (the "Merger") with and into Hancock-MTH Builders, Inc., an Arizona corporation ("Hancock-MTH"). Hancock-MTH shall be the corporation surviving the Merger.

2. Rights and Obligations. The Merger shall be effective as of the close of business on July 1, 2004 (the "Effective Date"), and as of the Effective Date, Hancock-MTH shall possess and be subject to all the rights, privileges, powers, franchises, property (real, personal and mixed), restrictions, disabilities, duties and debts of Meritage Homes Construction and Hancock-MTH.

3. Officers. The officers of Hancock-MTH after the Effective Date are listed on Exhibit A attached hereto, and each of them shall hold office until their respective successor is elected and qualified, or until their earlier resignation or removal.

4. Directors. **Steven J. Hilton** and **John R. Landon** shall be the directors of Hancock-MTH as of and after the Effective Date, and each of them shall hold office until their respective successor is elected and qualified, or until their earlier resignation or removal.

5. Bylaws. The Bylaws of Hancock-MTH that are in effect immediately prior to the Effective Date shall be the Bylaws of Hancock-MTH as of and after the Effective Date.

6. Articles of Incorporation. The Articles of Incorporation of Hancock-MTH that are in effect immediately prior to the Effective Date shall be the Articles of Incorporation of Hancock-MTH as of and after the Effective Date, except that the name of the surviving corporation shall he Meritage Homes Construction, Inc.

7. Exchange of Shares. As of the Effective Date, all shares of Meritage Homes Construction common stock issued and outstanding immediately prior to the Effective Date shall be converted into the right to receive from Hancock-MTH issued and outstanding shares of Hancock-MTH common stock (the "Merger Consideration") at a rate of one share of Hancock-MTH common stock for each issued and outstanding share of Meritage Homes Construction common stock; provided, however, no fractional shares of Hancock-MTH common stock shall be issued and therefore all fractional shares of Hancock-MTH common stock alter the conversion shall be rounded to the nearest whole share. No further action of the shareholders of Meritage Homes Construction is required to effect the conversion. As of the Effective Date, all shares of Meritage Homes Construction common stock shall no longer be outstanding and shall automatically be canceled and retired and shall cease to exist, and each holder of a certificate representing any such shares of Meritage Homes Construction common stock shall cease to have any rights with respect thereto, except the right to receive the Merger Consideration, without interest.

8. Change of Name. The name of the surviving corporation, Hancock-MTH Builders, Inc., is changed to Meritage Homes Construction, Inc.

This Plan of Merger which shall become effective July 1, 2004 was adopted and approved by the Board of Directors of Meritage Homes Construction by Unanimous Written Consent in Lieu of a Special Meeting of the Board of Directors of Meritage Homes Construction, dated as of June 18, 2004, and by the Board of Directors of Hancock-MTH by Unanimous Written Consent in Lieu of a Special Meeting of the Board of Directors of Hancock-MTH, dated as of June 18, 2004.

MERITAGE HOMES CONSTRUCTION, INC.,
an Arizona corporation

By: /s/ Ron French
Name: Ron French
Title: President

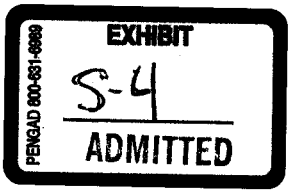
HANCOCK-MTH BUILDERS, INC.,
an Arizona corporation

By: /s/ Ron French
Name: Ron French
Title: President

Exhibit A

John R. Landon	Co-Chief Executive Officer and Co-Chairman
Steven J. Hilton	Co-Chief Executive Officer and Co-Chairman
Jim Arneson	Chief Operating Officer
Ron French	President
Roger A. Zetah	Vice President – Arizona Region CFO, Assistant Secretary
Larry W. Seay	Vice President – Secretary
Rick Morgan	Vice President – Treasurer, Assistant Secretary
Vicki Biggs	Vice President – Controller, Assistant Secretary
Lorence Zimtbaum	Vice President – Regional Corporate Counsel - Arizona Divisions
Robert Laak	Vice President – Director of Landbanking & Joint Ventures
Kenneth Quartermain	Vice President of Development
Jeff Grobstein	Division President – Arizona Active Adult
David Flagg	Vice President – Active Adult – Phoenix Divisions

BEFORE THE ARIZONA CORPORATION COMMISSION



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

IN THE MATTER OF THE APPLICATION OF PIMA UTILITY COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. W-02199A-11-0329
IN THE MATTER OF THE APPLICATION OF PIMA UTILITY COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. W-02199A-11-0330

DIRECT
TESTIMONY
OF
DARRON CARLSON
PUBLIC UTILITYANALYST MANAGER
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

MAY 29, 2012

Operating Income – Income Tax Expense

Q. Did Staff review the Company's rebuttal testimony on income tax expense?

A. Yes.

Q. What are the Company's reasons for continuing to request recovery of income tax expense?

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

a. Income Determines Tax Liability. Pima Utility generates income and therefore tax liability.

b. An Income Tax Allowance Is A Proper Cost of Service Item. An income tax allowance is a proper cost of service for Pima Utility because the tax liability is incurred by Pima Utility in providing utility service to customers.

c. Lowered Rates of Return And Less Cash Available for Investment. Not providing an income tax allowance would result in lower rates of return and less cash available for investment for S-corps.

d. The Federal Energy Regulatory Commission ("FERC") Provides an Income Tax Allowance. The FERC has determined that an income tax allowance should be included as a component of the cost of service for an S-corp so the Commission should follow suit.

Q. Does Staff agree with any of the Company's arguments?

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

S-corps and the Avoidance of Double Taxation

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

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

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

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

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

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

Income Determines Tax Liability

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

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

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

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

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

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

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

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

Q. Has Staff reviewed Mr. Spitzer's testimony?

A. Yes.

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

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

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

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

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

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

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

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

An Income Tax Allowance Is A Valid Cost of Service Item

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

A. No, Staff does not.

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

A. Yes.

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

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

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

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

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

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

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

Lower Rates of Return and Less Cash Available

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

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

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

A. No.

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

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

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

A. No, Staff does not.

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

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

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

TABLE A

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

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

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

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

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

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

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

Table B

COMPARABLE AMOUNTS OF CASH AVAILABLE FOR INVESTMENT

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

[4] Pima Utility has provided no income tax statements of its shareholders. Therefore, Staff has used the national average income tax rate of 11% and the state average income tax rate of 4.5%; for an effective tax rate of 15.5% for comparison purposes.
[5] Calculated using capital gains tax of 15% and state tax of 3%; for an effective tax rate of 18%.

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

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

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

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

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

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

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

Table C

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

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

The FERC Provides an Income Tax Allowance.

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

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

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

A. Not to my knowledge.

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

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

> The auditor should look at the Federal and State Schedule M items/adjustments to see what differences exist between the tax return computation and the book tax computation, and inquire about any of the items that appear to be out of place or that are not understood. The auditor should also review and understand the timing and payment schedule of income taxes.
>
> The auditor should verify that the depreciation rates for book purposes and those for tax purposes are appropriate.

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

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

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

A. No, it does not.

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

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

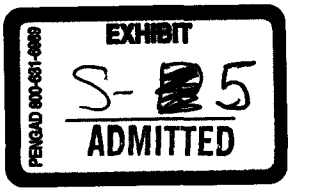
Q. So, does the mere fact that the FERC allows income taxes for S-corps sufficient reason to warrant the Commission changing its long-standing policy?

A. No, it is not.

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

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

BEFORE THE ARIZONA CORPORATION COMMISSION



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

IN THE MATTER OF THE APPLICATION OF PIMA UTILITY COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. W-02199A-11-0329
IN THE MATTER OF THE APPLICATION OF PIMA UTILITY COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. SW-02199A-11-0330

DIRECT

TESTIMONY

OF

CRYSTAL S. BROWN

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

APRIL 3, 2012

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SCHEDULES

Pima Utility Company – Water Division

Pima Utility Company – Wastewater Division

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

Pima Utility Company is a certificated Arizona public service corporation that provided water and wastewater service during 2010 to the community of Sun Lakes in Maricopa County, Arizona. Pima Utility Company provided water service to approximately 10,175 customers and wastewater service to approximately 10,050 customers during the test year. The current rates of Pima Utility Company's water division were approved in Decision No. 58743, dated August 11, 1994. The current rates of Pima Utility Company's wastewater division were approved in Decision No. 62184, dated January 5, 2000.

On August 29, 2011, Pima Utility Company filed applications for permanent rate increases for its water and wastewater divisions.

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

Pima Water states that it experienced a $132,560 test year operating income resulting in a 1.46 percent rate of return.

Pima Water proposes a $1,023,565, or 51.76 percent revenue increase from $1,977,627 to $3,001,192. The proposed revenue increase would produce an operating income of $861,536 for a 9.47 percent rate of return on an original cost rate base ("OCRB") of $9,097,529. The Company's proposed rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 4,500 gallons from $8.92 to $11.88, for an increase of $2.96 or 33.23 percent.

Staff recommends a $479,932 or 24.27 percent revenue increase from $1,977,627 to $2,457,559. Staff's recommended revenue increase would produce an operating income of $711,569 for a 7.80 percent rate of return on an OCRB of $9,122,677. Staff's recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 4,500 gallons from $8.92 to $9.27, for an increase of $0.35 or 3.94 percent.

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

Pima Wastewater states that it experienced a $441,784 test year operating income resulting in a 4.48 percent rate of return.

Pima Wastewater proposes a $691,210, or 22.32 percent revenue increase from $3,096,775 to $3,787,985. The proposed revenue increase would produce an operating income of $934,052 for a 9.47 percent rate of return on an OCRB of $9,863,271. The Company's proposed rates would increase the typical residential bill from $22.73 to $27.79, for an increase of $5.06 or 22.3 percent.

Staff recommends a $170,345 or 5.50 percent revenue increase from $3,096,775 to $3,267,120. Staff's recommended revenue increase would produce an operating income of $752,089 for a 7.80 percent rate of return on an OCRB of $9,642,163. Staff's recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill from $22.73 to $24.05, for an increase of $1.32 or 5.8 percent.

INTRODUCTION

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

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

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

A. I am responsible for the examination and verification of financial and statistical information included in utility rate applications. In addition, I develop revenue requirements, prepare written reports, testimonies, and schedules that include Staff recommendations to the Commission. I am also responsible for testifying at formal hearings on these matters.

Q. Please describe your educational background and professional experience.

A. I received a Bachelor of Science Degree in Business Administration from the University of Arizona and a Bachelor of Science Degree in Accounting from Arizona State University.

Since joining the Commission in August 1996, I have participated in numerous rate cases and other regulatory proceedings involving electric, gas, water, and wastewater utilities. I have testified on matters involving regulatory accounting and auditing. Additionally, I have attended utility-related seminars sponsored by the National Association of Regulatory Utility Commissioners ("NARUC") on ratemaking and accounting designed to provide continuing and updated education in these areas.

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

A. I am presenting Staff's analysis and recommendations in the areas of rate base and operating revenues, expenses, and rate design regarding Pima Utility Company – Water Division ("Pima Water") and Pima Utility Company – Wastewater Division ("Pima Wastewater") (collectively "Pima Utility Company" or "Company") applications for permanent rate increases. Staff witness John Cassidy is presenting Staff's cost of capital recommendations. Staff witness Marlin Scott, Jr. is presenting Staff's engineering analysis and recommendations.

Q. What is the basis of your recommendations?

A. I performed a regulatory audit of Pima Utility Company's applications to determine whether sufficient, relevant, and reliable evidence exists to support the Company's requested rate increases. The regulatory audit consisted of examining and testing the financial information, accounting records, and other supporting documentation and verifying that the accounting principles applied were in accordance with the Commission-adopted NARUC Uniform System of Accounts ("USOA").

BACKGROUND

Q. Please review the background of these applications.

A. Pima Utility Company is a certificated Arizona public service corporation that provided water and wastewater service to the community of Sun Lakes in Maricopa County, Arizona.

Pima Utility Company is owned by a group of shareholders of which the majority shareholder is Mr. Edward Robson. Pima Utility Company employs individuals that work directly for the water and wastewater divisions. These employees are responsible for

managing, operating, and maintaining the divisions. Pima Utility Company uses a shared service, Robson Communities, Inc., ("Robson Communities" or "RCI") to perform administrative work such as accounting, finance, information technology/computer support, human resources, payroll, executive, and legal for both divisions. Robson Communities is an affiliate of Pima Utility. Mr. Edward Robson is the Chairman of the Board for both Pima Utility Company and Robson Communities, Inc.

Pima Water's current rates were authorized in Decision No. 58743, dated August 11, 1994. That Decision authorized a $26,612 revenue increase that provided an 11.5 percent rate of return on a $231,410 fair value rate base.

Pima Wastewater's current rates were authorized in Decision No. 62184, dated January 5, 2000. That Decision authorized a $1,134,979 revenue increase that provided a 9.10 percent rate of return on a $12,472,296 fair value rate base.

Q. What are the primary reasons for Pima Utility Company's requested permanent rate increase?

A. According to the applications, the primary reasons are to recover increased operating expenses and to earn its authorized rate of return on its rate bases.

CONSUMER SERVICE

Q. Please provide a brief history of customer complaints received by the Commission regarding Pima Utility Company.

A. A brief history of customer complaints received by the Commission for Pima Water and Pima Wastewater follows:

Pima Water

Staff performed a search of the Consumer Services database and found the following customer complaints and opinions were filed against Pima Water division from January 1, 2009 through March 13, 2012:

2009 – One complaint quality of service issue.

2010 – Zero complaints.

2011 – Zero complaints and four opinions against rate increase.

2012 – Zero complaints and three opinions against rate increase.

All complaints have been resolved and closed.

Pima Wastewater

Staff performed a search of the Consumer Services database and found the following customer complaints and opinions were filed against Pima Sewer division from January 1, 2009 through March 13, 2012:

2009 – Two complaints, regarding odors, quality of service issue.

2010 – Zero complaints.

2011 – Zero complaints and three opinions against rate increase.

2012 – Zero complaints and three opinions against rate increase.

All complaints have been resolved and closed.

COMPLIANCE

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

A. A check of the Compliance Database indicates that there are currently no delinquencies for Pima Utility Company.

SUMMARY OF PROPOSED REVENUES

Q. Please summarize Pima Utility Company's filing.

A. Pima Utility Company proposes, in aggregate, $6,789,177 of total annual operating revenue. This represents an increase of $1,714,775, or 33.79% percent, over test year revenue of $5,074,402. The amount for each division is shown below.

Company Proposed

	Pima Utility Company Test Year Revenue	Pima Utility Company Proposed Revenue	$ Increase	% Increase
Pima Water	$1,977,627	$3,001,192	$1,023,565	51.76%
Pima Wastewater	$3,096,775	$3,787,985	$ 691,210	22.32%
Total / Overall	$5,074,402	$6,789,177	$1,714,775	33.79%

Q. Please summarize Staff's recommended revenue.

A. Staff recommends a revenue requirement of $5,724,679 in aggregate. This represents an increase of $650,277, or 12.81 percent. The amount for each division is shown below.

Staff Recommended	Test Year Per Staff	Staff Recommended	$ Increase	% Increase
Pima Water	$1,977,627	$2,457,559	$479,932	24.27%
Pima Wastewater	$3,096,775	$3,267,120	$170,345	5.50%
Total / Overall	$5,074,402	$5,724,679	$650,277	12.81%

The above proposed and recommended revenue requirements would apply to the customers of each division of Pima Utility Company as discussed below:

Pima Water

Pima Water proposes a $1,023,565, or 51.76 percent revenue increase from $1,977,627 to $3,001,192. The proposed revenue increase would produce an operating income of $861,536 for a 9.47 percent rate of return on an original cost rate base ("OCRB") of $9,097,529. The Company's proposed rates would increase the typical residential 5/8 x

3/4-inch meter bill with a median usage of 4,500 gallons from $8.92 to $11.88, for an increase of $2.96 or 33.23 percent.

Staff recommends a $479,932 or 24.27 percent revenue increase from $1,977,627 to $2,457,559. Staff's recommended revenue increase would produce an operating income of $711,569 for a 7.80 percent rate of return on an OCRB of $9,122,677. Staff's recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 4,500 gallons from $8.92 to $9.27, for an increase of $0.35 or 3.94 percent.

Pima Wastewater

Pima Wastewater proposes a $691,210, or 22.32 percent revenue increase from $3,096,775 to $3,787,985. The proposed revenue increase would produce an operating income of $934,052 for a 9.47 percent rate of return on an OCRB of $9,863,271. The Company's proposed rates would increase the typical residential bill from $22.73 to $27.79, for an increase of $5.06 or 22.3 percent.

Staff recommends a $170,345 or 5.50 percent revenue increase from $3,096,775 to $3,267,120. Staff's recommended revenue increase would produce an operating income of $752,089 for a 7.80 percent rate of return on an OCRB of $9,642,163. Staff's recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill from $22.73 to $24.05, for an increase of $1.32 or 5.8 percent.

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

A. Pima Utility Company's rate filings are based on the twelve months ended December 31, 2010 ("test year").

Q. Please summarize the rate base and operating income recommendations and adjustments addressed in your testimony for Pima Utility Company.

A. My testimony addresses the following issues:

Expensed Plant Costs, Plant In Service – This adjustment is made for both divisions of Pima Utility Company. It reflects plant that the Company expensed when paid rather than capitalized and depreciated. The adjustments increase plant in service by $25,531 for Pima Water and $22,391 for Pima Wastewater.

Excess Capacity Costs – This adjustment is made only to the rate base of Pima Wastewater and decreases plant in service by $598,468 to remove plant that Staff has identified as being excess capacity.

Accumulated Depreciation – This adjustment is made for both divisions of Pima Utility Company to reflect Staff's calculation of accumulated depreciation based on Staff's adjustments to plant. The adjustments increase accumulated depreciation by $383 for Pima Water and decreases accumulated depreciation by $354,969 for Pima Wastewater.

Salaries and Wages, Officers and Directors – This adjustment is made for both divisions of Pima Utility Company to reflect Staff's calculation of a reasonable level of salary and wage expenses for the chairman of the board, Mr. Edward Robson, who is also the majority shareholder of Robson Communities. The adjustments decrease the Salaries and Wages, Officers and Directors account by $76,608 each for Pima Water and Pima Wastewater.

Employee Pensions and Benefits – This adjustment is made for both divisions of Pima Utility Company. The adjustments decrease Employee Pensions and Benefits expense consistent with Staff's adjustment to decrease Salaries and Wages, Officers and Directors expense. The adjustments decrease the Employee Pensions and Benefits account by $1,378 each for Pima Water and Pima Wastewater.

Repairs and Maintenance (Pima Water) / Materials and Supplies (Pima Wastewater) – The adjustments decrease operating expenses to remove plant costs that the Company inappropriately expensed rather than capitalized and depreciated. The adjustments decrease Pima Water's Repairs and Maintenance account by $29,489 and Pima Wastewater's Materials and Supplies account by $22,391.

Office Supplies and Expenses – This adjustment is made for both divisions of Pima Utility Company and decreases operating expenses to remove expenses that are not needed for the provision of service. The adjustments decrease the Office Supplies and Expenses account by $460 each for Pima Water and Pima Wastewater.

Contract Services, Engineering – This adjustment is made for both divisions of Pima Utility Company and decreases operating expenses to remove plant costs that the Company inappropriately expensed. The adjustments decrease the Contract Services, Engineering account by $3,902 for Pima Water and $19,524 for Pima Wastewater.

Contract Services, Other – This adjustment is made for both divisions of Pima Utility Company and decreases operating expenses to remove expenses that are not needed for the provision of service. The adjustments decrease the Contract Services, Other account by $415 for Pima Water and $7,138 for Pima Wastewater.

Contract Services, Water Testing – This adjustment is made for both divisions of Pima Utility Company and reflects Staff's analysis of water testing expense. The adjustments decrease the Contract Services, Water Testing account by $9,812 for Pima Water and increase the account by $12,157 for Pima Wastewater.

Rate Case Expense – This adjustment is made for both divisions of Pima Utility Company and decreases operating expenses to reflect a reasonable level of rate case expense based upon Staff's analysis. The adjustments decrease the Regulatory Commission - Rate Case account by $10,000 each for Pima Water and Pima Wastewater.

Depreciation Expense – This adjustment is made for both divisions of Pima Utility Company to reflect Staff's calculation of depreciation expense based upon Staff's recommended plant balances. The adjustments increase the Depreciation Expense account by $1,389 for Pima Water and $63,556 for Pima Wastewater.

Property Tax Expense – This adjustment is made for both divisions of Pima Utility Company and decreases operating expenses to reflect Staff's calculation of the property tax expense. The adjustments decrease the Property Tax Expense account by $6,167 for Pima Water and $1,394 for Pima Wastewater.

Income Tax Expense – This adjustment is made for both divisions of Pima Utility Company. Staff's adjustment removes income tax expenses to reflect the fact that the Company has no income tax obligation. The adjustments increase the Income Tax Expense account by $27,157 for Pima Water and decrease the account by $85,405 for Pima Wastewater.

RATE BASE

Fair Value Rate Base

Q. Did Pima Utility Company prepare schedules showing the elements of Reconstruction Cost New Rate Base?

A. No, Pima Utility Company did not. Therefore, Pima Utility Company's OCRBs will be treated as its fair value rate bases.

Rate Base Summary

Q. Please summarize Staff's adjustments to the rate bases of Pima Water and Pima Wastewater as shown on Schedules CSB-2 and CSB-3 of their respective schedules.

A. A summary of Pima Utility Company's proposed and Staff's recommended rate bases follows:

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

Rate Base Adjustment – Expensed Plant (Pima Water and Pima Wastewater)

Q. What guidance should water and wastewater utilities use to determine whether a cost should be capitalized by recording it in a plant account or treated as an operating expense?

A. AAC R14-2-411(D)(2) and R14-2-610(D)(2) require water and wastewater companies to maintain their accounting records in accordance with the NARUC USOA. AAC R14-2-610(D)(2) states, "Each utility shall maintain its books and records in conformity with the Uniform System of Accounts for Class A, B, C and D Sewer Utilities." (Emphasis added). AAC R14-2-411(D)(2) makes a similar requirement for water companies.

Further, the NARUC USOA provides a listing of plant accounts and the types of costs that should be recorded in each account. Utilities should use the plant account listing and Accounting Instruction No. 14 "Utility Plant – Components of Construction Costs" to determine what costs should be recorded as plant.

Q. Did Pima Utility expense costs that, according to the NARUC USOA, should be recorded in plant accounts?

A. Yes, the Company expensed costs that should have been recorded as plant.

Q. What is the effect of expensing plant?

A. The matching principle is violated. The NARUC USOA requires utilities to follow accrual accounting. The matching principle is the underlying basis of accrual accounting. The matching principle requires that revenues in an accounting period be matched to the expenses incurred during that same accounting period.

The practice of expensing plant violates the matching principle because the entire cost of the asset is matched to only one accounting period even though the asset will benefit many accounting periods. Adherence to the matching principle and the NARUC USOA requires that the cost of an asset that benefits more than one accounting period be capitalized (by recording it in a plant account) and depreciated over the asset's useful life.

Q. What is Staff recommending?

A. Staff recommends increasing plant in service to reclassify plant that was incorrectly recorded as an operating expense as shown on Schedules CSB-3 and CSB-4 for Pima Water and Schedules CSB-3 and CSB-5 for Pima Wastewater.

EXPENSED PLANT				
	Reference:	Plant In Service Per Company	Staff's Adjustment	Plant In Service Per Staff
Pima Water	Schedules CSB-3 & CSB-4	$ 14,546,128	$ 25,531	$ 14,571,659
Pima Wastewater	Schedules CSB-3 & CSB-5	$ 22,055,018	$ 22,391	$ 22,077,409
Total		$ 36,601,146	$ 47,922	$ 36,649,068

Rate Base Adjustment – Excess Capacity Plant (Pima Wastewater)

Q. During the course of the audit, did Staff identify excess capacity plant for Pima Wastewater?

A. Yes. Staff identified excess capacity plant, as discussed in greater detail by Staff witness, Marlin Scott, Jr.

Q. Is excess capacity plant used and useful?

A. No, it is not.

Q. What is the cost of the excess capacity plant?

A. The cost is $598,468.

Q. What is Staff's recommendation?

A. Staff recommends decreasing plant in service by $598,468 for Pima Wastewater as shown on Schedules CSB-3 and CSB-4.

Rate Base – Accumulated Depreciation

Q. What did Pima Utility Company propose for Accumulated Depreciation?

A. Pima Utility Company proposed $4,788,169 for the water division and $11,546,833 for the wastewater division.

Q. Did Staff recalculate the Accumulated Depreciation balance using Staff's recommended plant balances?

A. Yes. Staff recalculated the Accumulated Depreciation balance using the plant in service balances that were adjusted for the removal of excess capacity costs (Pima Wastewater only) and the addition of plant costs that were inappropriately included in operating expenses.

Q. Please summarize Staff's recommendation for accumulated depreciation?

A. Staff recommends decreasing accumulated depreciation for each division of Pima Utility Company as follows:

ACCUMULATED DEPRECIATION

	Reference:	Accumulated Depreciation Per Company	Staff's Adjustment	Accumulated Depreciation Per Staff
Pima Water	Schedules CSB-3 & CSB-5	$ 4,788,169	$383	$4,788,552
Pima Wastewater	Schedules CSB-3 & CSB-6	$ 11,546,833	($354,969)	$11,191,864
Total		$ 16,335,002	($354,586)	$15,980,416

Rate Base – Other Matters

Q. What information came to Staff's attention during the course of Staff's audit?

A. Pima Utility Company brought to Staff's attention, in its response to CSB 1-11 (water division), that it owes approximately $49,000 in refunds on a line extension contract to a builder that has filed bankruptcy and has not been able to find a successor.

Q. What is Staff's recommendation concerning this matter?

A. Staff recommends that the Company contact the bankruptcy court to determine who should receive the payment.

OPERATING INCOME

Operating Income Summary

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

A. Staff's analysis resulted in test year revenues, expenses, and operating income as follows:

Test Year	Pima Water	Pima Wastewater
	Sch CSB-6	Sch CSB-7
Revenues	$1,977,627	$3,096,775
Expenses	$1,735,381	$2,506,406
Operating Income	$242,246	$590,369

Operating Income Adjustment – Salaries and Wages, Officers and Directors

Q. What amount is Pima Water and Pima Wastewater proposing for Salaries and Wages, Officers and Directors?

A. Schedule C-2 of the Company's respective income statements, shows that the Company is proposing $90,294 each for Pima Water and Pima Wastewater. The total salary for both divisions is $180,588.

Q. What is the name and title of the individual who receives the salary?

A. The individual's name is Mr. Edward Robson and his title is chairman of the board.

Q. Does Pima Utility have a board of directors that works solely for Pima Utility?

A. No, it does not.

Q. For what board of directors is Mr. Robson chairman?

A. Mr. Robson is the chairman of the board of directors for Robson Communities.

Q. Is Mr. Robson the majority shareholder for Robson Communities?

A. Yes.

Q. How many companies are owned by Robson Communities?

A. According to the application, Robson Communities owns nine companies in Arizona. Those companies are Lago Del Oro Water Company, Ridgeview Utility Company, Saddlebrooke Utility Company, Picacho Water Company, Picacho Sewer Company, Mountain Pass Utility Company, Santa Rosa Water Company, and Santa Rosa Utility Company.

Q. How many hours did the Company state that the chairman of the board spent working for Pima Utility?

A. The Company indicated that the chairman spent 56.6 hours working for Pima

Q. Was that claim based on time sheets or a time study?

A. Neither. The 56.6 hours is an estimate.

Q. Is it appropriate to use an estimate as the basis for a salary?

A. No, it is not. Accounting Instruction No. 10 of the NARUC USOA states:

> 10. General – Allocation of Salaries and Expenses
> Charges to utility plant or to a salaries expense account shall be based upon the actual time engaged in either plant construction or providing operational services. In the event actual time spent in the various activities is not available or practicable, salaries should be allocated upon the basis of a study of the time engaged during a representative period. **Charges should not be made to the accounts based upon estimates** or in an arbitrary fashion. (Emphasis added).

Q. Is the work performed by the chairman of the board for Pima Utility Company classified as direct or indirect?

A. The work is classified as indirect because it reflects the oversight of Robson Communities which, in turn, oversees Pima Utility Company.

Q. Should indirect work be allocated?

A. Yes. One of the principles contained in the NARUC Guideline for Cost Allocations and Affiliate Transactions states:

> The primary cost driver of common costs, or a relevant proxy in the absence of a primary cost driver, should be identified and used to allocate the cost between regulated and non-regulated services or products.

Q. What effect does improperly allocated costs have on rate payers?

A. When costs incurred primarily for the benefit of an unregulated affiliate's business are improperly identified and allocated as operating expenses, then costs of the unregulated affiliate are shifted to the captive customers of the regulated utility. This cost shifting results in the captive customers of the regulated utility subsidizing the business operations of the unregulated affiliate. This harms customers by creating artificially higher rates.

Q. Did Staff review the reasonableness of the $90,294 amount?

A. Yes.

Q. Is the proposed $90,294 amount reasonable?

A. No, it is not because the hourly rate and the corresponding annual salary are excessive.

Q. What is the hourly rate?

A. The hourly rate is $1,500 an hour calculated as follows: $90,294 / 56.6 hours = $1,500 per hour.

Q. What annual salary does this correspond to?

A. A $1,500 hourly rate corresponds to an annual salary of $3 million per year calculated as follows: $1,500 per hour x 2,080 hours = $3 million.

Q. Did Staff allocate a more reasonable amount for worked performed by the chairman for Pima Utilities?

A. Yes, Staff allocated $13,686 for each of the divisions.

Q. How was the amount of Salary Expense for the chairman calculated?

A. Staff's salary expense for the chairman was calculated by multiplying total RCI employee salary and wage expense by 30 percent.

Q. What is Staff's recommendation?

A. Staff recommends decreasing operating expense as follows for Pima Utility Company:

SALARIES AND WAGES, OFFICERS AND DIRECTORS				
	Reference:	Per Company	Staff's Adjustment	Per Staff
Pima Water	Schedules CSB-7 & CSB-8	$90,284	($76,608)	$13,686
Pima Wastewater	Schedules CSB-8 & CSB-9	$90,284	($76,608)	$13,686

Q. Did Pima Utility Company indicate that it planned to file a revision to the proposed amount for the chairman?

A. Yes.

Operating Income Adjustment – Employee Pensions and Benefits

Q. What amount did Pima Water and Pima Wastewater propose for the Employee Pensions and Benefits account?

A. Pima Water proposed $64,900 and Pima Wastewater proposed $115,720.

Q. What adjustment did Staff make to the Employee Pensions and Benefits account?

A. Consistent with Staff's adjustment to reduce the amount of salary and wages paid to the chairman of the board, Staff has reduced the amount of associated pensions and benefits paid to the chairman.

Q. How was the amount of Employee Pensions for the chairman calculated?

A. Staff's pension expense for the chairman was calculated by multiplying total RCI employee pension expense by 30 percent.

Q. What is Staff's recommendation?

A. Staff recommends adjustments to operating expense for Pima Utility Company as follows:

EMPLOYEE PENSIONS AND BENEFITS

	Reference:	Per Company	Staff's Adjustment	Per Staff
Pima Water	Schedules CSB-7 & CSB-9	$64,900	($1,378)	$63,522
Pima Wastewater	Schedules CSB-8 & CSB-11	$115,720	($1,378)	$114,342

Operating Income Adjustment – Repairs and Maintenance (Pima Water) / Materials and Supplies (Pima Wastewater)

Q. Did Pima Water and Pima Wastewater inappropriately record as operating expenses costs that should have been capitalized and depreciated?

A. Yes, as Staff discussed in "Rate Base Adjustment, Expensed Plant," Pima Water and Pima Wastewater inappropriately recorded as operating expenses costs that, according to the NARUC USOA and the matching principle, should be capitalized and depreciated.

Q. What adjustment did Staff make to Pima Water's Repairs and Maintenance account?

A. Staff removed $5,937 in pumping equipment and $15,692 in services that Pima Water inappropriately included in operating expenses. Also, Staff normalized, using five years, the $9,825 cost to remove a tree. Staff's calculation is shown on Schedule CSB-10.

Q. What adjustment did Staff make to Pima Wastewater's Materials and Supplies account?

A. Staff removed $9,179 in pumping equipment and $13,212 in treatment and disposal equipment for a total of $22,391 that Pima Water included in operating expenses. Staff's calculation is shown on Schedule CSB-11.

Q. What treatment does Staff recommend for the Company's expensed plant costs?

A. Staff recommends that the costs be treated consistent with the NARUC USOA and the matching principle. Staff recommends including these costs in rate base and excluding them from test year operating expenses.

Q. What is Staff's recommendation?

A. Staff recommends decreasing operating expense for Pima Utility Company as follows:

REPAIRS & MAINT. (WTR) / MATERIALS & SUPPLIES (WASTEWTR)		
	Reference:	Staff's Adjustment
Pima Water	Schedules CSB-7 & CSB-10	($29,489)
Pima Wastewater	Schedules CSB-8 & CSB-11	($22,391)

Operating Income Adjustment – Office Supplies and Expenses

Q. What amount for coffee service did Pima Water and Pima Wastewater include in their respective Office Supplies and Expenses accounts?

A. Pima Water and Pima Wastewater each included $460 for coffee service in their Office Supplies and Expenses accounts.

Q. What rate-making treatment does Staff recommend for these types of expenses?

A. Since these costs are not necessary to provide service, Staff recommends that they be recognized as non-operating expenses and excluded from the revenue requirement.

Q. What is Staff's recommendation?

A. Staff recommends decreasing operating expense for Pima Utility Company as follows:

OFFICE SUPPLIES AND EXPENSES		
	Reference:	Staff's Adjustment
Pima Water	Schedules CSB-7 & CSB-11	($460)
Pima Wastewater	Schedules CSB-8 & CSB-12	($460)

Operating Income Adjustment – Contract Services, Engineering

Q. Did Pima Water and Pima Wastewater inappropriately record as operating expenses costs that should have been capitalized and depreciated in the Contract Services, Engineering account?

A. Yes, as Staff discussed in "Rate Base Adjustment, Expensed Plant," Pima Water and Pima Wastewater inappropriately recorded as operating expenses costs that, according to the NARUC USOA and the matching principle, should be capitalized and depreciated.

Q. What adjustment did Staff make to Pima Water's and Pima Wastewater's Contract Services, Engineering account?

A. For Pima Water, Staff removed and capitalized $3,902 for wells and springs plant in pumping equipment. For Pima Wastewater, Staff removed from operating expenses but did not capitalize $19,524 in plant costs as the amount was for construction work in progress.

Q. What is Staff's recommendation?

A. Staff recommends decreasing operating expense for Pima Utility Company as follows:

CONTRACT SERVICES, ENGINEERING		
	Reference:	Staff's Adjustment
Pima Water	Schedules CSB-7 & CSB-12	($3,902)
Pima Wastewater	Schedules CSB-8 & CSB-13	($19,524)

Operating Income Adjustment – Contract Services, Other

Q. What amount did Pima Water and Pima Wastewater propose for the Contract Services, Other account?

A. Pima Water proposed $54,797 and Pima Wastewater proposed $61,500.

Q. What adjustment did Staff make to Pima Water's Contract Services, Other account?

A. Staff removed $415 for an allocation from RCI for bonuses. Staff has allowed the full allocated base salaries and wages amounts for the RCI employees. The bonus pay is an optional cost and, therefore, should be recognized below-the-line (i.e., removed from rates).

Q. What adjustment did Staff make to Pima Wastewater's Contract Services, Other account?

A. Staff removed a total of $7,138. Staff removed $6,700 for IDA bond fees. Pima Utility Company is refinancing all of its IDA bonds through a loan to be provided from Wells Fargo; therefore, all fees associated with the IDA bonds will cease once the refinancing takes place. Also, Staff removed $438 for an allocation from RCI for bonuses. Staff has allowed the full allocated base salaries and wages amounts for the RCI employees. The bonus pay is an optional cost and, therefore, should be recognized below-the-line (i.e., removed from rates).

Q. What is Staff's recommendation?

A. Staff recommends decreasing operating expense for Pima Utility Company as follows:

CONTRACT SERVICES, OTHER		
	Reference:	Staff's Adjustment
Pima Water	Schedules CSB-7 & CSB-13	($415)
Pima Wastewater	Schedules CSB-8 & CSB-14	($7,138)

Operating Income Adjustment – Contract Services, Testing

Q. What did Pima Water and Pima Wastewater propose for water testing expense?

A. Pima Water proposed $18,737 and Pima Wastewater proposed $15,729 for water testing expense.

Q. What adjustment did Staff make?

A. Staff adjusted annual water testing costs to reflect Staff's recommended $9,812 decrease for Pima Water and $12,157 increase for Pima Wastewater as discussed in greater detail by Staff witness Marlin Scott, Jr.

Q. What is Staff's recommendation?

A. Staff recommends adjusting operating expense for Pima Utility Company as follows:

CONTRACT SERVICES, WATER TESTING		
	Reference:	Staff's Adjustment
Pima Water	Schedules CSB-7 & CSB-14	($9,812)
Pima Wastewater	Schedules CSB-8 & CSB-15	$12,157

Operating Income Adjustment – Rate Case Expense

Q. What rate case expense is Pima Water and Pima Wastewater proposing?

A. Pima Water and Pima Wastewater are proposing total rate case expense of $200,000 each, normalized using four years, for an annual rate case expense of $50,000 for each division.

Q. Did Staff make an adjustment to rate case expense?

A. Yes.

Q. Why did Staff make this adjustment?

A. Staff usually normalizes rate case expense over a 3- to 5-year period. In this case, Pima Water has not been in for a rate case in approximately 18 years and Pima Wastewater in approximately 10 years; therefore, Staff concludes that normalizing the rate case expense over 5 years is more appropriate.

Q. What is Staff's recommendation?

A. Staff recommends decreasing operating expense by $10,000 for Pima Utility Company to reflect Staff's annual rate case expense of $40,000 for each division:

RATE CASE EXPENSE		
	Reference	Annual Rate Case Expense
Pima Water	Schedules CSB-7 & CSB-15	$40,000
Pima Wastewater	Schedules CSB-8 & CSB-16	$40,000

Operating Income Adjustment – Depreciation Expense

Q. What are Pima Water and Pima Wastewater proposing for depreciation expense?

A. Pima Water and Pima Wastewater are proposing depreciation expense of $686,998 and $1,010,700, respectively.

Q. What adjustment did Staff make to depreciation expense?

A. Staff adjusted depreciation expense to reflect application of the Staff recommended depreciation rates to the Staff recommended plant balances.

Q. What is Staff's recommendation?

A. Staff recommends the following depreciation expense for Pima Water and Pima Wastewater:

DEPRECIATION EXPENSE		
	Reference	Depreciation Expense Per Staff
Pima Water	Schedules CSB-7 & CSB-16	$688,387
Pima Wastewater	Schedules CSB-8 & CSB-17	$1,074,256

Operating Income Adjustment – Property Taxes

Q. What are Pima Water and Pima Wastewater proposing for property taxes?

A. Pima Water and Pima Wastewater are proposing property taxes of $83,358 and $125,916, respectively.

Q. Did Staff make any adjustment to the property taxes?

A. Yes. Staff's adjustment reflects Staff's calculation of the property tax expense using the modified Arizona Department of Revenue Methodology applied to Staff's recommended revenues.

Q. What is Staff's recommendation?

A. Staff recommends the following property tax expense for Pima Water and Pima Wastewater:

PROPERTY TAX EXPENSE		
	Reference	Property Tax Expense Per Staff
Pima Water	Schedules CSB-7 & CSB-17	$77,191
Pima Wastewater	Schedules CSB-8 & CSB-18	$124,522

Operating Income Adjustment – Income Taxes

Q. What are Pima Water and Pima Wastewater proposing for income tax expense?

A. Pima Water and Pima Wastewater are proposing income tax expense of ($27,127), and $85,405, respectively.

Q. What adjustment did Staff make and why?

A. Staff's adjustment removes the income taxes from both divisions as the Company is not liable for income taxes.

Q. What does the Company's audited financial statements say concerning income taxes?

A. The audited financial statements say the following:

> With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2006.
>
> The Company and its stockholders have elected to be taxed as an S corporation. In lieu of corporate income taxes, the stockholders are personally taxed on the Company's taxable income.

Q. Has the Commission recently ruled on the appropriateness of utility companies that are pass-through entities, such as limited liability companies or Sub Chapter S corporations, claiming income tax expense?

A. Yes. In the recent Sunrise Water Company Case,[1] the Commission decided that Sub Chapter S corporations, as well as limited liability companies, that are not subject to tax by the Internal Revenue Service, should not receive income taxes for rate making purposes.

That decision stated, "The Commission has established a long-standing policy of denying recovery of income tax expenses for pass-thru entities and apparently has varied from it, at least in recent years, only as an exception made under unique circumstances or as an inadvertent error."[2]

Q. Was that determination subsequently affirmed by the Commission?

A. Yes. In Decision No. 71510, dated March 17, 2010, and in Decision No. 72177, dated February 11, 2011, the Commission again decided that Sub Chapter S corporations and

[1] Docket No. W-02069A-08-0406, Decision No. 71445 (issued December 28, 2009).
[2] Id. at 36.

limited liability companies that are not subject to tax by the Internal Revenue Service should not receive income taxes for rate making purposes. Staff does note, however, that Decision No. 72177 included a provision that, if the Commission were to alter its policy in the future and allow such entities to impute a hypothetical income tax expense for ratemaking purposes, the utility could file a motion to amend the order prospectively.[3]

Q. What is Staff's recommendation?

A. Staff recommends the following income tax expense for the Pima Utility Company:

INCOME TAX EXPENSE		
	Reference:	Income Tax Per Staff
Pima Water	Schedules CSB-7 & CSB-18	$0
Pima Wastewater	Schedules CSB-8 & CSB-19	$0

RATE DESIGN

Pima Water

Q. Has Staff prepared a schedule summarizing the present, Company proposed, and Staff recommended rates and service charges for Pima Water?

A. Yes. Schedule CSB-19 provides a summary of the present, Company's proposed, and Staff's recommended rates for Pima Water.

Q. Please summarize the present rate design.

A. Customer class is distinguished by meter size. The monthly minimum charges vary by meter size and include 1,000 gallons. The commodity rates are based on an inverted two-tier rate design.

[3] Decision No. 72177 at 45:26-28.

Q. Please summarize the Company's proposed rate design.

A. Customer class is distinguished by meter size. The monthly minimum charges vary by meter size and include no gallons. The commodity rates are based on an inverted three-tier rate design. The Company's proposed rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 4,500 gallons from $8.92 to $11.88, for an increase of $2.96 or 33.23 percent as shown on Schedule CSB-20.

Q. Please summarize Staff's recommended rate design.

A. Customer class is distinguished by meter size. The monthly minimum charges vary by meter size and include no gallons. The commodity rates are based on an inverted three-tier rate design. Staff's recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 4,500 gallons from $8.92 to $9.27, for an increase of $0.35 or 3.94 percent, as shown on Schedule CSB-20.

Q. Did the Company propose to add a "Construction/Standpipe" tariff rate?

A. Yes, the Company proposed to add a "Construction/Standpipe" tariff rate. The proposed rate is $0.70 per gallon.

Q. Does Staff agree with the addition of the tariff item and the proposed rate?

A. Staff agrees with the addition of the tariff item, but Staff recommends a commodity rate of $1.7190. This higher commodity rate is intended to cover the costs of meter reading and other administrative costs.

Q. Did the Company propose any changes to its Meter and Service Line Charges?

A. Yes, and Staff recommends approval. Both the Company-proposed and the Staff-recommended changes are shown on Schedule CSB-19 and are discussed in greater detail in the testimony of Staff witness, Marlin Scott, Jr.

Service Charges – Pima Water

Q. Did the Company propose any changes to the service charges?

A. Yes. The Company proposes to add an Establishment charge of $25, add a Reconnection (Delinquent) charge of $25 and add an After Hours Service Charge of $50.

Q. Does Staff agree with the proposed Establishment and Reconnection (Delinquent) charges?

A. Yes.

Q. Does Staff agree with the proposed After Hours Service Charge?

A. Yes. The Company has proposed an After Hours Service Charge, at the customer's request (after hours). Staff agrees that an additional fee for service provided outside of normal business hours is appropriate when such service is at the customer's request. Such a tariff compensates the utility for additional expenses incurred from providing after-hours service. Moreover, Staff concludes that it is appropriate to apply an after-hours service charge in addition to the charge for any utility service provided after hours at the customer's request. Therefore, Staff recommends the creation of a separate After-Hours Service Charge at the customer request. For example, under Staff's proposal, a customer would be subject to a $25 Reconnection fee if it is done during normal business hours, but would pay an additional after-hours fee when such service is at the customer's request.

Q. Does Staff agree with the amount of the proposed After Hours Service Charge?

A. Yes.

Pima Wastewater

Q. Has Staff prepared a schedule summarizing the present, Company-proposed, and Staff-recommended rates and service charges for Pima Wastewater?

A. Yes. Schedule CSB-20 provides a summary of the Company's present, Company's proposed, and Staff's recommended rates for Pima Wastewater.

Q. Please summarize the present rate design.

A. The present monthly customer charges vary by meter size. The present monthly customer charge for the residential customers is $22.73 with no commodity charge. The monthly customer charge for effluent customers is $180 with 100,000 gallons included in the minimum. Effluent customers pay $0.58 per 1,000 gallons.

Q. Please summarize the Company's proposed rate design.

A. The Company's proposed monthly customer charges vary by meter size. The proposed monthly customer charge for the residential customers is $27.79 with no commodity charge. The proposed monthly customer charge for effluent customers is $232.56 with no gallons included in the minimum. Effluent customers would pay $0.70 per 1,000 gallons under the Company's proposal.

Q. Please summarize Staff's recommended rate design.

A. Staff's monthly customer charges vary by meter size. The recommended monthly customer charge for effluent customers is $230 with no gallons included in the minimum and $0.70 per 1,000 gallons. The recommended monthly customer charge for the

residential customers is $24.05 with no commodity charge. Staff's recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill from $22.73 to $24.05, for an increase of $1.32 or 5.8 percent. as shown on Schedule CSB-21.

Service Charges – Pima Wastewater

Q. Did the Company propose to remove any service charges from its tariff?

A. Yes. The Company proposes to remove a $260 Impact Fee and a $500 Disconnect/Reconnect (Delinquent Account) charge.

Q. Does Staff agree with the proposed removal of the Impact Fee and Disconnect/Reconnect (Delinquent Account) charges?

A. Yes.

Q. Did the Company propose to add any service charges to its tariff?

A. Yes. The Company proposes to add an Establishment charge of $25; add a Reestablishment (Within 12 months) charge per Commission Rules; add a Reconnection (Delinquent) charge of $25; and add an After Hours Service Charge of $50.

Q. Does Staff agree with the proposed Establishment, Re-Establishment and the Reconnection (Delinquent) Charges?

A. Yes.

Q. Does Staff agree with the proposed After Hours Service Charge?

A. Yes. The Company has proposed an After Hours service charge, at the customer's request (after hours). Staff agrees that an additional fee for service provided outside of normal business hours is appropriate when such service is at the customer's request. Such a tariff

compensates the utility for additional expenses incurred from providing after-hours service. Moreover, Staff concludes that it is appropriate to apply an after-hours service charge in addition to the charge for any utility service provided after hours at the customer's request. Therefore, Staff recommends the creation of a separate After-Hours Service Charge at the customer request. For example, under Staff's proposal, a customer would be subject to a $25 Reconnection fee if it is done during normal business hours, but would pay an additional after-hours fee when such service is at the customer's request.

Q. Does Staff agree with the amount of the proposed After Hours Service Charge?

A. Yes.

Q. Does this conclude your direct testimony?

A. Yes, it does.

SCHEDULES

PIMA UTILITY

WATER DIVISION

Pima Utility Company-Water Division
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Schedule CSB-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST	[B] STAFF ORIGINAL COST
1	Adjusted Rate Base	$ 9,097,529	$ 9,122,677
2	Adjusted Operating Income (Loss)	$ 132,560	$ 242,246
3	Current Rate of Return (L2 / L1)	1.46%	2.66%
4	Required Rate of Return	9.47%	7.80%
5	Required Operating Income (L4 * L1)	$ 861,536	$ 711,569
6	Operating Income Deficiency/(Excess) (L5 - L2)	$ 728,976	$ 469,323
7a	Gross Revenue Conversion Factor	1.40411	N/A
7b	Property Tax Factor	N/A	1.02261
8	Increase (Decrease) In Gross Revenue (L7 * L6)	$ 1,023,565	$ 479,932
9	Adjusted Test Year Revenue	$ 1,977,627	$ 1,977,627
10	Proposed Annual Revenue (L8 + L9)	$ 3,001,192	$ 2,457,559
11	Required Increase/(Decrease in Revenue) (%) (L8/L9)	51.76%	24.27%

References:
Column [A]: Company Schedules A-1, C-1, C-3, & D-1
Column [B]: Staff Schedules CSB-2 & CSB-6

Pima Utility Company-Water Division
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Schedule CSB-2

RATE BASE - ORIGINAL COST

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

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

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Schedule CSB-3

SUMMARY OF RATE BASE ADJUSTMENTS

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

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Schedule CSB-4

RATE BASE ADJUSTMENT NO. 2 - EXPENSED PLANT

LINE NO.	Plant Account Number	Description	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED (Col A + Col B)
1	307	Wells and Springs	$ 606,699	$ 3,902	$ 610,601
2	311	Pumping Equipment	$ 2,263,801	$ 5,937	$ 2,269,738
3	333	Services	$ 4,709,148	$ 15,692	$ 4,724,840
4		Total	$ 7,579,648	**$ 25,531**	$ 7,605,179
5					
6					

FROM REPAIRS AND MAINTENANCE (CSB 1.29)

	Acct. No.	Vendor Name	Description	Amount
9	311-Pumping Equipment	Bray Sales Southern	WP1 - 12" Valve	$ 631.22
10	311-Pumping Equipment	Bray Sales Southern	WP1 - 10" Lug Valves	$ 941.25
11	311-Pumping Equipment	Siemens Energy Aut.	Ultrasonic Level Sensors	$ 909.01
12	311-Pumping Equipment	Industrial Service	Swithover Modules for C1 Site	$ 2,565.70
13	311-Pumping Equipment	Engineered Sales Co	Well 29B Booster Pump	$ 889.89
14			Subtotal	$ 5,937.07
15				
16				
17	333-Services	HD Supply Waterwork	Copper Tubing for Service Repairs	$ 3,311.61
18	333-Services	HD Supply Waterwork	Copper Tubing for Service Repairs	$ 3,342.33
19	333-Services	HD Supply Waterwork	Copper Tubing for Service Repairs	$ 5,982.91
20	333-Services	HD Supply Waterwork	Copper Tubing for Service Repairs	$ 3,055.11
21			Subtotal	$ 15,691.96
22				
23			Total for Repairs and Maintenance	$ 21,629.03
24				
25				

FROM CONTRACTUAL SERVICES , ENGINEERING (CSB 1.31)

	Acct. No.	Vendor Name	Description	Amount
28	307-Wells and Springs	B&R Engineering, Inc.	Capitalize as part of Well 27 Rehab	$ 177.35
29	307-Wells and Springs	B&R Engineering, Inc.	Capitalize as part of Well 27 Rehab	$ 2,926.33
30	307-Wells and Springs	B&R Engineering, Inc.	Capitalize as part of Well 27 Rehab	$ 798.11
31				
32			Total for Contractual Services, Engineering	$ 3,901.79

References:

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

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Schedule CSB-5

RATE BASE ADJUSTMENT NO. 3 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A] PER COMPANY	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Accumulated Depreciation	$ 4,788,169	$ 383	$ 4,788,552
2				
3				
4				

	Reference	Year Placed In Service	Acct No.	Description	Plant Cost
5					
6					
7	CSB 1.31	2010	307	Wells and Springs	$3,902
8	CSB 1.29	2010	311	Pumping Equipment	$5,937
9	CSB 1.29	2010	333	Services	$15,692
10					$25,531
11					x 3%
12					$766
13					x 0.5
14					$383

References:

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

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Schedule CSB-6

OPERATING INCOME - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	ADJ NO.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
	REVENUES:						
1	Metered Water Revenues	$ 1,970,366	$ -		$ 1,970,366	$ 479,932	$ 2,450,298
2	Unmetered Water Revenues	-	-		-		-
3	Other Water Revenues	7,261	-		7,261	-	7,261
4	**Total Revenues**	$ 1,977,627	$ -		$ 1,977,627	$ 479,932	$ 2,457,559
5		-					
6	*EXPENSES:*	-					
7	Salaries and Wages - Employees	$ 220,827	$ -		$ 220,827	$ -	$ 220,827
8	Salaries and Wages - Officers and Directors	90,294	(76,608)	1	13,686	-	13,686
9	Employee Pensions and Benefits	64,900	(1,378)	2	63,522	-	63,522
10	Purchased Power	252,453	-		252,453	-	252,453
11	Chemicals	16,721	-		16,721	-	16,721
12	Repairs and Maintenance	100,885	(29,489)	3	71,396	-	71,396
13	Office Supplies & Expenses	67,321	(460)	4	66,861	-	66,861
14	Contractual Services - Engineering	5,283	(3,902)	5	1,381	-	1,381
15	Contractual Services - Accounting	3,067	-		3,067	-	3,067
16	Contractual Services - Legal	14,175	-		14,175	-	14,175
17	Contractual Services - Other	54,797	(415)	6	54,382	-	54,382
18	Contractual Services - Water Testing	18,737	(9,812)	7	8,925	-	8,925
19	Rents - Equipment	3,203	-		3,203	-	3,203
20	Transportation Expenses	44,637	-		44,637	-	44,637
21	Insurance - Vehicle	17,464	-		17,464	-	17,464
22	Insurance - General Liability	10,840	-		10,840	-	10,840
23	Insurance - Worker's Comp	1,009	-		1,009	-	1,009
24	Reg. Comm. Exp.	3,671	-		3,671	-	3,671
25	Reg. Comm. Exp. - Rate Case	50,000	(10,000)	8	40,000	-	40,000
26	Bad Debt Expense	4,766	-		4,766	-	4,766
27	Miscellaneous Expense	15,934	-		15,934	-	15,934
28	Depreciation Expense	686,998	1,389	9	688,387	-	688,387
29	Taxes Other Than Income	40,883	-		40,883	-	40,883
30	Property Taxes	83,358	(6,167)	10	77,191	10,608	87,799
31	Income Taxes	(27,157)	27,157	11	-	0	0
32	Rounding	1	-		1	-	1
33							
34	**Operating Expenses**	$ 1,845,067	$ (109,686)		$ 1,735,381	$ 10,608	$ 1,745,989
37		-					
38	**Operating Income (Loss)**	$ 132,560	$ 109,686		$ 242,246	$ 469,324	$ 711,569

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

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SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Salaries & Wages Offcrs & Directors Ref: Sch CSB-8	[C] ADJ #2 Employee Pensions and Benefits Ref: Sch CSB-9	[D] ADJ #3 Repairs and Maintenance Ref: Sch CSB-10	[E] ADJ #4 Office Supplies and Expenses Ref: Sch CSB-11	[F] ADJ #5 Contract Services Engineering Ref: Sch CSB-12	[G] ADJ #6 Contract Services Other Ref: Sch CSB-13	[H] ADJ #7 Contract Services Water Testing Ref: Sch CSB-14	[I] Subtotal
	REVENUES:									
1	Metered Water Revenues	$ 1,970,366	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,970,366
2	Unmetered Water Revenues	-	-	-	-	-	-	-	-	-
3	Other Water Revenues	7,261	-	-	-	-	-	-	-	7,261
4	**Total Revenues**	$ 1,977,627	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,977,627
5										
6	*OPERATING EXPENSES:*									
7	Salaries and Wages - Employees	$ 220,827	-	-	-	-	-	-	-	220,827
8	Salaries and Wages - Officers and Directors	90,294	(76,608)	-	-	-	-	-	-	13,686
9	Employee Pensions and Benefits	64,900	-	(1,378)	-	-	-	-	-	63,522
10	Purchased Power	252,453	-	-	-	-	-	-	-	252,453
11	Chemicals	16,721	-	-	-	-	-	-	-	16,721
12	Repairs and Maintenance	100,885	-	-	(29,489)	-	-	-	-	71,396
13	Office Supplies & Expenses	67,321	-	-	-	(460)	-	-	-	66,861
14	Contractual Services - Engineering	5,283	-	-	-	-	(3,902)	-	-	1,381
15	Contractual Services - Accounting	3,067	-	-	-	-	-	-	-	3,067
16	Contractual Services - Legal	14,175	-	-	-	-	-	-	-	14,175
17	Contractual Services - Other	54,797	-	-	-	-	-	(415)	-	54,382
18	Contractual Services - Water Testing	18,737	-	-	-	-	-	-	(9,812)	8,925
19	Rents - Equipment	3,203	-	-	-	-	-	-	-	3,203
20	Transportation Expenses	44,637	-	-	-	-	-	-	-	44,637
21	Insurance - Vehicle	17,464	-	-	-	-	-	-	-	17,464
22	Insurance - General Liability	10,840	-	-	-	-	-	-	-	10,840
23	Insurance - Worker's Comp	1,009	-	-	-	-	-	-	-	1,009
24	Reg. Comm. Exp.	3,671	-	-	-	-	-	-	-	3,671
25	Reg. Comm. Exp. - Rate Case	50,000	-	-	-	-	-	-	-	50,000
26	Bad Debt Expense	4,766	-	-	-	-	-	-	-	4,766
27	Miscellaneous Expense	15,934	-	-	-	-	-	-	-	15,934
28	Depreciation Expense	686,998	-	-	-	-	-	-	-	686,998
29	Taxes Other Than Income	40,883	-	-	-	-	-	-	-	40,883
30	Property Taxes	83,358	-	-	-	-	-	-	-	83,358
31	Income Taxes	(27,157)	-	-	-	-	-	-	-	(27,157)
32	Rounding	1	-	-	-	-	-	-	-	1
33										
34	**Total Operating Expenses**	$ 1,845,067	$ (76,608)	$ (1,378)	$ (29,489)	$ (460)	$ (3,902)	$ (415)	$ (9,812)	$ 1,723,003
35										
36	**Operating Income (Loss)**	$ 132,560	$ 76,608	$ 1,378	$ 29,489	$ 460	$ 3,902	$ 415	$ 9,812	$ 254,624

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR CONTINUED

LINE NO.	DESCRIPTION	[J] ADJ #8 Rate Case Expense Ref: Sch CSB-15	[K] ADJ #9 Depreciation Expense Ref: Sch CSB-16	[L] ADJ #10 Property Taxes Ref: Sch CSB-17	[M] ADJ #11 Income Taxes Ref: Sch CSB-18	[N] STAFF ADJUSTED
	REVENUES:					
1	Metered Water Sales	$ -	$ -	$ -	$ -	$ 1,970,366
2	Water Sales - Unmetered	-	-	-	-	-
3	Other Operating Revenues	-	-	-	-	7,261
4	**Total Revenues**	$ -	$ -	$ -	$ -	$ 1,977,627
5						
6	*OPERATING EXPENSES:*					
7	Salaries and Wages - Employees	-	-	-	-	220,827
8	Salaries and Wages - Officers and Directors	-	-	-	-	13,686
9	Employee Pensions and Benefits	-	-	-	-	63,522
10	Purchased Power	-	-	-	-	252,453
11	Chemicals	-	-	-	-	16,721
12	Repairs and Maintenance	-	-	-	-	71,396
13	Office Supplies & Expenses	-	-	-	-	66,861
14	Contractual Services - Engineering	-	-	-	-	1,381
15	Contractual Services - Accounting	-	-	-	-	3,067
16	Contractual Services - Legal	-	-	-	-	14,175
17	Contractual Services - Other	-	-	-	-	54,382
18	Contractual Services - Water Testing	-	-	-	-	8,925
19	Equipment Rental	-	-	-	-	3,203
20	Transportation Expenses	-	-	-	-	44,637
21	Insurance - Vehicle	-	-	-	-	17,464
22	Insurance - General Liability	-	-	-	-	10,840
23	Insurance - Worker's Comp	-	-	-	-	1,009
24	Reg. Comm. Exp.	-	-	-	-	3,671
25	Reg. Comm. Exp. - Rate Case	(10,000)	-	-	-	40,000
26	Bad Debt Expense	-	-	-	-	4,766
27	Miscellaneous Expense	-	-	-	-	15,934
28	Depreciation	-	1,389	-	-	688,387
29	Tax - Other	-	-	-	-	40,883
30	Property Taxes	-	-	(6,167)	-	77,191
31	Income Taxes	-	-	-	27,157	-
32	Rounding	-	-	-	-	1
33						
34	**Total Operating Expenses**	$ (10,000)	$ 1,389	$ (6,167)	$ 27,157	$ 1,735,381
35						
36	**Operating Income (Loss)**	$ 10,000	$ (1,389)	$ 6,167	$ (27,157)	$ 242,246

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Schedule CSB-8

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

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

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

References:

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

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Schedule CSB-9

OPERATING INCOME ADJUSTMENT NO. 2 - EMPLOYEE PENSIONS AND BENEFITS

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

References:

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

Pima Utility Company-Water Division
Docket No. W-02199-11-0329
Test Year Ended December 31, 2010

Schedule CSB-10

OPERATING INCOME ADJUSTMENT NO. 3 - REPAIRS AND MAINTENANCE

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

References:

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

Pima Utility Company-Water Division
Docket No. W-02199-11-0329
Test Year Ended December 31, 2010

Schedule CSB-11

OPERATING INCOME ADJUSTMENT NO. 4 - OFFICE SUPPLIES AND EXPENSES

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Office Supplies and Expense	$ 67,321	$ (460)	$ 67,781
2				
3				
4				

From General Ledger Account No. 621 Office Supplies and Expense			
5			
6			
7	Jan-10	Coffee Service	$ 30.52
8	Feb-10	Coffee Service	$ 40.48
9	Mar-10	Coffee Service	$ 31.26
10	Apr-10	Coffee Service	$ 32.43
11	May-10	Coffee Service	$ 56.35
12	Jun-10	Coffee Service	$ 25.15
13	Jul-10	Coffee Service	$ 29.27
14	Aug-10	Coffee Service	$ 38.66
15	Sep-10	Coffee Service	$ 24.23
16	Oct-10	Coffee Service	$ 34.54
17	Nov-10	Coffee Service	$ 46.29
18	Dec-10	Coffee Service	$ 71.13
19			$ 460.31

References:

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

Pima Utility Company-Water Division
Docket No. W-02199-11-0329
Test Year Ended December 31, 2010

Schedule CSB-12

OPERATING INCOME ADJUSTMENT NO. 5- CONTRACT SERVICES, ENGINEERING

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

References:

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

Pima Utility Company-Water Division
Docket No. W-02199-11-0329
Test Year Ended December 31, 2010

Schedule CSB-13

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

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

References:

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

Pima Utility Company-Water Division
Docket No. W-02199-11-0329
Test Year Ended December 31, 2010

Schedule CSB-14

OPERATING INCOME ADJUSTMENT NO. 7 - CONTRACT SERVICES, OTHER

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

References:

Column A: Company Schedule C-2
Column B: Testimony, CSB; Data Request Response CSB 6.2
Column C: Column [A] + Column [B]

Pima Utility Company-Water Division
Docket No. W-02199-11-0329
Test Year Ended December 31, 2010

Schedule CSB-15

OPERATING INCOME ADJUSTMENT NO. 8 - RATE CASE EXPENSE

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

References:

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

Pima Utility Company-Water Division
Docket No. W-02199-11-0329
Test Year Ended December 31, 2010

Schedule CSB-16

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

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

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

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

Pima Utility Company-Water Division
Docket No. W-02199-11-0329
Test Year Ended December 31, 2010

Schedule CSB-17

OPERATING INCOME ADJUSTMENT NO. 10 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	$ 1,977,627	$ 1,977,627
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	3,955,254	$ 3,955,254
4	Staff Recommended Revenue, Per Schedule CSB-1	1,977,627	$ 2,457,559
5	Subtotal (Line 4 + Line 5)	5,932,881	6,412,813
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	1,977,627	$ 2,137,604
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	3,955,254	$ 4,275,209
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	112,708	$ 112,708
12	Full Cash Value (Line 9 + Line 10 - Line 11)	3,842,546	$ 4,162,501
13	Assessment Ratio	20.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	768,509	$ 874,125
15	Composite Property Tax Rate	10.0442%	10.0442%
			$ -
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	$ 77,191	
17	Company Proposed Property Tax	83,358	
18	Staff Test Year Adjustment (Line 16-Line 17)	$ (6,167)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		$ 87,799
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		$ 77,191
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		$ 10,608
22	Increase to Property Tax Expense		$ 10,608
23	Increase in Revenue Requirement		479,932
24	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		2.210371%

Pima Utility Company-Water Division
Docket No. W-02199-11-0329
Test Year Ended December 31, 2010

Schedule CSB-18

OPERATING INCOME ADJUSTMENT NO. 11 - INCOME TAXES

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

References:

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

	Present	Company Proposed	Staff Recommended
Monthly Minimum Charge			
Meter Size (All Classes):			
5/8 Inch x 3/4 Inch	$ 5.70	$ 7.36	$ 5.70
3/4 Inch	5.70	7.36	5.70
1 Inch	16.00	20.67	16.00
1 1/2 Inch	21.00	27.13	21.00
2 Inch	26.00	33.59	26.00
3 Inch	40.00	51.68	40.00
4 Inch	52.00	67.18	52.00
6 Inch	100.00	129.20	100.00
Irrigation	180.00	232.56	180.00
Gallons Included In Monthly Minimum Charge			
Gallons In Minimum (All Classes, except irrigation)	1,000.00	-	-
Gallons In Minimum (Irrigation)	100,000.00	-	-
Commodity Charge - Per One Thousand Gallons			
5/8 x 3/4 Inch (All Classes)			
Over Minimum up to 10,000 gallons	$ 0.92	N/A	N/A
Over 10,000 gallons	$ 1.08	N/A	N/A
5/8x3/4 Inch - Residential			
1 gallon to 4,000 gallons	N/A	$ 0.96	N/A
4,001 gallons to 10,000 gallons	N/A	$ 1.36	N/A
over 10,000 gallons	N/A	$ 1.86	N/A
First 4,000 gallons	N/A	N/A	$ 0.7500
4,001 gallons to 10,000 gallons	N/A	N/A	1.1430
Over 10,000 gallons	N/A	N/A	1.7190
5/8x3/4 Inch - Commercial			
1 gallon to 10,000 gallons	N/A	$ 1.36	N/A
over 10,000 gallons	N/A	$ 1.86	N/A
First 10,000 gallons	N/A	N/A	1.1430
Over 10,000 gallons	N/A	N/A	1.7190
3/4 Inch Meter (All Classes)			
Over Minimum up to 10,000 gallons	$ 0.92	N/A	N/A
Over 10,000 gallons	$ 1.08	N/A	N/A
3/4 Inch Meter - Residential			
1 gallon to 4,000 gallons	N/A	$ 0.96	N/A
4,001 gallons to 10,000 gallons	N/A	$ 1.36	N/A
over 10,000 gallons	N/A	$ 1.86	N/A
First 4,000 gallons	N/A	N/A	$ 0.7500
4,001 gallons to 21,000 gallons	N/A	N/A	1.1430
Over 21,000 gallons	N/A	N/A	1.7190
3/4 Inch Meter - Commercial			
1 gallon to 10,000 gallons	N/A	$ 0.96	N/A
over 10,000 gallons	N/A	$ 1.36	N/A
First 10,000 gallons	N/A	N/A	1.1430
Over 10,000 gallons	N/A	N/A	1.7190

	Present	Company Proposed	Staff Recommended
Commodity Charge - Per One Thousand Gallons Continued			
1 Inch Meter (All classes)			
Over Minimum up to 10,000 gallons	$ 0.92	N/A	N/A
Over 10,000 gallons	$ 1.08	N/A	N/A
1 Inch Meter - Residential, Commercial			
1 gallon to 25,000 gallons	N/A	$ 1.36	N/A
over 25,000 gallons	N/A	$ 1.86	N/A
First 21,000 gallons	N/A	N/A	1.1430
Over 21,000 gallons	N/A	N/A	1.7190
1.5 Inch Meter (All classes, except irrigation)			
Over Minimum up to 10,000 gallons	$ 0.92	N/A	N/A
Over 10,000 gallons	$ 1.08	N/A	N/A
1.5 Inch Meter - Residential, Commercial			
1 gallon to 50,000 gallons	N/A	$ 1.36	N/A
over 50,000 gallons	N/A	$ 1.86	N/A
First 26,000 gallons	N/A	N/A	1.1430
Over 26,000 gallons	N/A	N/A	1.7190
2 Inch Meter (All classes, except irrigation)			
Over Minimum up to 10,000 gallons	$ 0.92	N/A	N/A
Over 10,000 gallons	$ 1.08	N/A	N/A
2 Inch Meter - Residential, Commercial			
1 gallon to 80,000 gallons	N/A	$ 1.36	N/A
over 80,000 gallons	N/A	$ 1.86	N/A
First 31,000 gallons	N/A	N/A	1.1430
Over 31,000 gallons	N/A	N/A	1.7190
3 Inch Meter (All classes, except irrigation)			
Over Minimum up to 10,000 gallons	$ 0.92	N/A	N/A
Over 10,000 gallons	$ 1.08	N/A	N/A
3 Inch Meter - Residential, Commercial			
1 gallon to 160,000 gallons	N/A	$ 1.36	N/A
over 160,000 gallons	N/A	$ 1.86	N/A
First 47,000 gallons	N/A	N/A	1.1430
Over 47,000 gallons	N/A	N/A	1.7190
4 Inch Meter (All classes, except irrigation)			
Over Minimum up to 10,000 gallons	$ 0.92	N/A	N/A
Over 10,000 gallons	$ 1.08	N/A	N/A
4 Inch Meter - Residential, Commercial			
1 gallon to 250,000 gallons	N/A	$ 1.36	N/A
over 250,000 gallons	N/A	$ 1.86	N/A
First 60,000 gallons	N/A	N/A	1.1430
Over 60,000 gallons	N/A	N/A	1.7190

	Present	Company Proposed	Staff Recommended
Commodity Charge - Per One Thousand Gallons Continued			
6 Inch Meter (All classes, except irrigation)	$ 0.92	N/A	N/A
Over Minimum up to 10,000 gallons	$ 1.08	N/A	N/A
Over 10,000 gallons			
6 Inch Meter - Residential, Commercial	N/A	$ 1.36	N/A
1 gallons to 500,000 gallons	N/A	$ 1.86	N/A
over 500,000 gallons			
First 112,000 gallons	N/A	N/A	1.1430
Over 680,000 gallons	N/A	N/A	1.7190
Irrigation (all meter sizes)	$ 0.36	$ 0.70	0.7000
Over Minimum			
Construction/Standpipe	NT	$ 0.70	1.7190
All gallons			

NT = No Tariff

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

* Number of months off the system times the monthly minimum.
** Per Rule R14-2-403.B

NT = No Tariff

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

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

NT = No Tariff

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

NT = No Tariff

Pima Utilities - Water Division
Docket No. W-02199A-11-0329
Test Year Ended December 31, 2010

Schedule CSB-20

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

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	6,395	$ 10.66	$ 14.46	$ 3.80	35.62%
Median Usage	4,500	8.92	11.88	$ 2.96	33.23%
Staff Recommended					
Average Usage	6,395	$ 10.66	$ 11.44	$ 0.77	7.26%
Median Usage	4,500	8.92	9.27	$ 0.35	3.94%

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

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	$ 5.70	$ 7.36	29.20%	$ 5.70	0.00%
1,000	5.70	8.32	46.04%	6.45	13.16%
2,000	6.62	9.28	40.25%	7.20	8.76%
3,000	7.54	10.24	35.87%	7.95	5.44%
4,000	8.46	11.20	32.44%	8.70	2.84%
4,500	8.92	11.88	33.23%	9.27	3.94%
5,000	9.38	12.56	33.95%	9.84	4.94%
6,000	10.30	13.92	35.19%	10.99	6.66%
6,395	10.66	14.46	35.62%	11.44	7.26%
7,000	11.22	15.28	36.22%	12.13	8.10%
8,000	12.14	16.64	37.10%	13.27	9.32%
9,000	13.06	18.00	37.86%	14.42	10.38%
10,000	13.98	19.36	38.52%	15.56	11.29%
11,000	15.06	21.22	40.93%	17.28	14.72%
12,000	16.14	23.08	43.03%	19.00	17.70%
13,000	17.22	24.94	44.86%	20.72	20.30%
14,000	18.30	26.80	46.47%	22.43	22.59%
15,000	19.38	28.66	47.91%	24.15	24.63%
16,000	20.46	30.52	49.19%	25.87	26.45%
17,000	21.54	32.38	50.35%	27.59	28.09%
18,000	22.62	34.24	51.39%	29.31	29.58%
19,000	23.70	36.10	52.34%	31.03	30.92%
20,000	24.78	37.96	53.21%	32.75	32.15%
25,000	30.18	47.26	56.61%	41.34	36.99%
30,000	35.58	56.56	58.98%	49.94	40.35%
35,000	40.98	65.86	60.72%	58.53	42.83%
40,000	46.38	75.16	62.06%	67.13	44.73%
45,000	51.78	84.46	63.12%	75.72	46.24%
50,000	57.18	93.76	63.98%	84.32	47.46%
75,000	84.18	140.26	66.62%	127.29	51.22%
100,000	111.18	186.76	67.98%	170.27	53.15%

SCHEDULES

PIMA UTILITY

WASTERWATER DIVISION

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

Schedule CSB-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST	[B] STAFF ORIGINAL COST
1	Adjusted Rate Base	$ 9,863,271	$ 9,642,163
2	Adjusted Operating Income (Loss)	$ 441,784	$ 590,369
3	Current Rate of Return (L2 / L1)	4.48%	6.12%
4	Required Rate of Return	9.47%	7.80%
5	Required Operating Income (L4 * L1)	$ 934,052	$ 752,089
6	Operating Income Deficiency/(Excess) (L5 - L2)	$ 492,268	$ 161,720
7a	Gross Revenue Conversion Factor	1.40414	N/A
7b	Property Tax Factor	N/A	1.05333
8	Increase (Decrease) In Gross Revenue (L7 * L6)	$ 691,210	$ 170,345
9	Adjusted Test Year Revenue	$ 3,096,775	$ 3,096,775
10	Proposed Annual Revenue (L8 + L9)	$ 3,787,985	$ 3,267,120
11	Required Increase/(Decrease in Revenue) (%) (L8/L9)	22.32%	5.50%

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

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

Schedule CSB-2

RATE BASE - ORIGINAL COST

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

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

Pima Utility Company-Wastewater Division
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Schedule CSB-3

SUMMARY OF RATE BASE ADJUSTMENTS

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

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Schedule CSB-4

RATE BASE ADJUSTMENT NO. 1 - EXCESS CAPACITY PLANT COSTS

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

References:

Column A: Company Schedule C-2
Column B: Testimony, CSB; Company Data Request Responses to CSB 5.16 Revised
Column C: Column [A] + Column [B]

Pima Utility Company-Wastewater Division
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Schedule CSB-5

RATE BASE ADJUSTMENT NO. 2 - EXPENSED PLANT

LINE NO.	Plant Account Number	Description	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED (Col A + Col B)
1	371.1	Pumping Equipment - Lift Stati	$ 1,544,146	$ 22,391	$ 1,566,537
2	380	Treatment & Disposal Equipm	$ 9,884,071	$ -	$ 9,884,071
3					
4		Total	$ 11,428,217	$ 22,391	$ 11,450,608
5					
6					

FROM MATERIALS AND SUPPLIES (CSB 1.34)

	Acct. No.	Vendor Name	Description	Amount
9	371.1-Pumping Equipment	James, Cooke & Hobso	LS Impellor	$ 1,169.43
10	371.1-Pumping Equipment	James, Cooke & Hobso	LS Impellor	$ 1,169.43
11	371.1-Pumping Equipment	James, Cooke & Hobso	LS Impellor	$ 1,169.43
12	371.1-Pumping Equipment	James, Cooke & Hobso	S Alma flyght pump	$ 5,670.48
13			Subtotal	$ 9,178.77
14				
15	380-Treatment & Dispos	Dana Kepner Company	WWTP flow rate + totalizer for flow rate	$ 776.43
16	380-Treatment & Dispos	HD Supply Waterwork	WWTP-filter handrails (Ins requir)	$ 2,733.25
17	380-Treatment & Dispos	HD Supply Waterwork	WWTP-pour slab	$ 537.50
18	380-Treatment & Dispos	HD Supply Waterwork	WWTP-Ultrasonic level sensor@filters	$ 909.00
19	380-Treatment & Dispos	Summit-Electric Supp	Replace Gallery PLC	$ 3,351.31
20	380-Treatment & Dispos	Summit-Electric Supp	Replace Gallery PLC	$ 1,410.52
21	380-Treatment & Dispos	Kooltronic Inc.	A/C cabinet 3000BTU-pplymer SCADA \	$ 2,309.16
22	380-Treatment & Dispos	WW Grainger Inc	Digestor Replace	$ 1,184.84
23			Subtotal	$ 13,212.01
24				
25			Total for Materials and Supplies	$ 22,390.78
26				
27				

FROM CONTRACTUAL SERVICES , ENGINEERING (CSB 1.36)

	Acct. No.	Vendor Name	Description	Amount
30	Construction Work In Progres	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway Force	$ 5,892.47
31	Construction Work In Progres	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway Force	$ 6,944.73
32	Construction Work In Progres	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway Force	$ 1,350.02
33	Construction Work In Progres	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway Force	$ 2,104.46
34	Construction Work In Progres	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway Force	$ 75.41
35	Construction Work In Progres	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway Force	$ 2,946.22
36	Construction Work In Progres	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway Force	$ 210.44
37			Total for Contractual Services, Engineering	$ 19,523.75 *
38				
39			*CWIP is not included in rate base.	

References:

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

RATE BASE ADJUSTMENT NO. 3 - ACCUMULATED DEPRECIATION

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

References:

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

RATE BASE ADJUSTMENT NO. 4 - ACCUMULATED DEPRECIATION
CONTINUED

TO REFLECT ACCUMULATED DEPRECIATION RELATED TO EXCESS CAPACITY PLANT COSTS

Schedule	Year Placed In Service	Acct No.	Description	Plant Cost	No. of Interim Years @ 3%	Depreciation Rate	No. of Interim Years @ 5%		Accumulated Depreciation
CSB-4	1998	380	Treatment & Disposal Equipment	$598,468	1.5	3.00%	11	5.00%	$356,088.46

TO REFLECT ACCUMULATED DEPRECIATION RELATED TO EXPENSED PLANT

Schedule	Year Placed In Service	Acct No.	Description	Plant Cost	Number of Interim Years	Depreciation Rate	Accumulated Depreciation
CSB-4	2010	371.1	Pumping Equipment - Lift Station	$22,391	0.5	10.00%	$1,119.54

References:

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

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Schedule CSB-7

OPERATING INCOME - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	ADJ NO.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
	REVENUES:						
1	Flat Rate Revenues	$ 2,997,389	$ -		$ 2,997,389	$ 170,345	$ 3,167,734
2	Metered Revenues	93,356	-		93,356		93,356
3	Other Revenues	6,030	-		6,030	-	6,030
4	**Total Revenues**	$ 3,096,775	$ -		$ 3,096,775	$ 170,345	$ 3,267,120
5		-					
6	*EXPENSES:*	-					
7	Salaries and Wages - Employees	$ 345,644	$ -		$ 345,644	$ -	$ 345,644
8	Salaries and Wages - Officers and Directors	90,294	$ (76,608)	1	13,686	-	13,686
9	Employee Pensions and Benefits	115,720	$ (1,378)	2	114,342	-	114,342
10	Purchased Power	134,337	$ -		134,337	-	134,337
11	Chemicals	84,059	$ -		84,059	-	84,059
12	Materials and Supplies	184,532	$ (22,391)	3	162,141	-	162,141
13	Office Supplies & Expenses	188,906	$ (460)	4	188,446	-	188,446
14	Contractual Services - Engineering	20,305	$ (19,524)	5	781	-	781
15	Contractual Services - Accounting	3,067	$ -		3,067	-	3,067
16	Contractual Services - Legal	108	$ -		108	-	108
17	Contractual Services - Other	61,500	$ (7,138)	6	54,362	-	54,362
18	Contractual Services - Water Testing	15,729	$ 12,157	7	27,886	-	27,886
19	Rents - Equipment	698	$ -		698	-	698
20	*Transportation Expenses*	28,808	$ -		28,808	-	28,808
21	Insurance - Vehicle	3,067	$ -		3,067	-	3,067
22	Insurance - General Liability	20,916	$ -		20,916	-	20,916
23	Insurance - Worker's Comp	222	$ -		222	-	222
24	Reg. Comm. Exp.	-	$ -		-	-	-
25	Reg. Comm. Exp. - Rate Case	50,000	$ (10,000)	8	40,000	-	40,000
26	Bad Debt Expense	9,509	$ -		9,509	-	9,509
27	Miscellaneous Expense	2,174	$ -		2,174	-	2,174
28	Depreciation Expense	1,010,700	$ 63,556	9	1,074,256	-	1,074,256
29	Amortization of Deferred Operating Costs	62,925	$ -		62,925	-	62,925
30	Tax - Other Than Income	10,449	$ -		10,449	-	10,449
31	Property Taxes	125,916	$ (1,394)	10	124,522	8,624	133,146
32	Income Taxes	85,405	$ (85,405)	11	-	0	0
33	Rounding	1	-		1	-	1
34	**Operating Expenses**	$ 2,654,991	$ (148,585)		$ 2,506,406	$ 8,624	$ 2,515,031
37		-					
38	**Operating Income (Loss)**	$ 441,784	$ 148,585		$ 590,369	$ 161,720	$ 752,089

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

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

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

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR CONTINUED

LINE NO.	DESCRIPTION	[J] ADJ #8 Rate Case Expense Ref: Sch CSB-16	[K] ADJ #9 Depreciation Expense Ref: Sch CSB-17	[L] ADJ #10 Property Taxes Ref: Sch CSB-18	[M] ADJ #11 Income Taxes Ref: Sch CSB-19	[N] STAFF ADJUSTED
	REVENUES:					
1	Metered Water Sales	$ -	$ -	$ -	$ -	$ 2,997,389
2	Water Sales - Unmetered	-	-	-	-	93,356
3	Other Operating Revenues	-	-	-	-	6,030
4	**Total Revenues**	$ -	$ -	$ -	$ -	$ 3,096,775
5						
6	*OPERATING EXPENSES:*					
7	Salaries and Wages - Employees	-	-	-	-	345,644
8	Salaries and Wages - Officers and Directors	-	-	-	-	13,686
9	Employee Pensions and Benefits	-	-	-	-	114,342
10	Purchased Power	-	-	-	-	134,337
11	Chemicals	-	-	-	-	84,059
12	Materials and Supplies	-	-	-	-	162,141
13	Office Supplies & Expenses	-	-	-	-	188,446
14	Contractual Services - Engineering	-	-	-	-	781
15	Contractual Services - Accounting	-	-	-	-	3,067
16	Contractual Services - Legal	-	-	-	-	108
17	Contractual Services - Other	-	-	-	-	54,362
18	Contractual Services - Water Testing	-	-	-	-	27,886
19	Rents - Equipment	-	-	-	-	698
20	Transportation Expenses	-	-	-	-	28,808
21	Insurance - Vehicle	-	-	-	-	3,067
22	Insurance - General Liability	-	-	-	-	20,916
23	Insurance - Worker's Comp	-	-	-	-	222
24	Reg. Comm. Exp.	-	-	-	-	-
25	Reg. Comm. Exp. - Rate Case	(10,000)	-	-	-	40,000
26	Bad Debt Expense	-	-	-	-	9,509
27	Miscellaneous Expense	-	-	-	-	2,174
28	Depreciation Expense	-	63,556	-	-	1,074,256
29	Amortization of Deferred Operating Costs	-	-	-	-	62,925
30	Tax - Other Than Income	-	-	-	-	10,449
31	Property Taxes	-	-	(1,394)	-	124,522
32	Income Taxes	-	-	-	(85,405)	-
33	Rounding					1
34	**Total Operating Expenses**	$ (10,000)	$ 63,556	$ (1,394)	$ (85,405)	$ 2,506,406
35						
36	**Operating Income (Loss)**	$ 10,000	$ (63,556)	$ 1,394	$ 85,405	$ 590,369

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Schedule CSB-9

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

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

Chairman of the Board Salary Calculation

References:

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

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

Schedule CSB-10

OPERATING INCOME ADJUSTMENT NO. 2 - EMPLOYEE PENSIONS AND BENEFITS

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

References:

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

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

Schedule CSB-11

OPERATING INCOME ADJUSTMENT NO. 3 - MATERIALS & SUPPLIES

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS (Col C - Col A)	[C] STAFF AS ADJUSTED
1	Materials and Supplies	$ 184,532	$ -	$ 184,532
2	Expensed Plant		(22,391)	(22,391)
3	Total Materials and Supplies	$ 184,532	$ (22,391)	$ 162,141
4				
5				

MATERIALS AND SUPPLIES (CSB 1.34)

	Acct. No.	Vendor Name	Description	Amount
8	371.1-Pumpin	James, Cooke & Hobso	LS Impellor	$ 1,169.43
9	371.1-Pumpin	James, Cooke & Hobso	LS Impellor	$ 1,169.43
10	371.1-Pumpin	James, Cooke & Hobso	LS Impellor	$ 1,169.43
11	371.1-Pumpin	James, Cooke & Hobso	S Alma flyght pump	$ 5,670.48
12			Subtotal	$ 9,178.77
13				
14	380-Treatm	Dana Kepner Company	WWTP flow rate + totalizer for flow rate	$ 776.43
15	380-Treatm	HD Supply Waterwork	WWTP-filter handrails (Ins requir)	$ 2,733.25
16	380-Treatm	HD Supply Waterwork	WWTP-pour slab	$ 537.50
17	380-Treatm	HD Supply Waterwork	WWTP-Ultrasonic level sensor@filters	$ 909.00
18	380-Treatm	Summit-Electric Supp	Replace Gallery PLC	$ 3,351.31
19	380-Treatm	Summit-Electric Supp	Replace Gallery PLC	$ 1,410.52
20	380-Treatm	Kooltronic Inc.	A/C cabinet 3000BTU-pplymer SCADA works	$ 2,309.16
21	380-Treatm	WW Grainger Inc	Digestor Replace	$ 1,184.84
22			Subtotal	$ 13,212.01
23				
24			Total for Materials and Supplies	$ 22,390.78

References:

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

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

Schedule CSB-12

OPERATING INCOME ADJUSTMENT NO. 4 - OFFICE SUPPLIES AND EXPENSES

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

References:

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

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

Schedule CSB-13

OPERATING INCOME ADJUSTMENT NO. 5- CONTRACT SERVICES, ENGINEERING

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Contract Services, Engineering	$ 20,305	$ -	$ 20,305
2	Construction Work In Progress	-	(19,524)	(19,524)
3		$ 20,305	$ (19,524)	$ 781
4				
5				

FROM CONTRACTUAL SERVICES , ENGINEERING (CSB 1.36)

	Acct. No.	Vendor Name	Description	Amount
6	Construction \	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway For	$ 5,892.47
7	Construction \	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway For	$ 6,944.73
8	Construction \	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway For	$ 1,350.02
9	Construction \	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway For	$ 2,104.46
10	Construction \	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway For	$ 75.41
11	Construction \	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway For	$ 2,946.22
12	Construction \	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway For	$ 210.44
13			Total for Contractual Services, Engineering	$ 19,523.75

References:

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

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

Schedule CSB-14

OPERATING INCOME ADJUSTMENT NO. 6 - CONTRACT SERVICES, OTHER

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

References:

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

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

Schedule CSB-15

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

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

References:

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

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

Schedule CSB-16

OPERATING INCOME ADJUSTMENT NO. 8 - RATE CASE EXPENSE

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

References:

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

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

Schedule CSB-17

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

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

28	Composite Depreciation Rate (Depr Exp / Depreciable Plant):	5.25%
29	CIAC:	$ 937,694
30	Amortization of CIAC (Line 28 x Line 29):	$ 49,259
31		
32	Depreciation Expense Before Amortization of CIAC:	$ 1,123,515
33	Less Amortization of CIAC:	$ 49,259
34	Test Year Depreciation Expense - Staff:	$ 1,074,256
35	Depreciation Expense - Company:	1,010,700
36	**Staff's Total Adjustment:**	**$ 63,556**

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

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

Schedule CSB-18

OPERATING INCOME ADJUSTMENT NO. 10 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	$ 3,096,775	$ 3,096,775
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	6,193,550	$ 6,193,550
4	Staff Recommended Revenue, Per Schedule CSB-1	3,096,775	$ 3,267,120
5	Subtotal (Line 4 + Line 5)	9,290,325	9,460,670
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	3,096,775	$ 3,153,557
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	6,193,550	$ 6,307,113
10	Plus: 10% of CWIP -	20,190	20,190
11	Less: Net Book Value of Licensed Vehicles	21,830	$ 21,830
12	Full Cash Value (Line 9 + Line 10 - Line 11)	6,191,910	$ 6,305,473
13	Assessment Ratio	20.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	1,238,382	$ 1,324,149
15	Composite Property Tax Rate	10.0552%	10.0552%
			$ -
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	$ 124,522	
17	Company Proposed Property Tax	125,916	
18	Staff Test Year Adjustment (Line 16-Line 17)	$ (1,394)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		$ 133,146
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		$ 124,522
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		$ 8,624
22	Increase to Property Tax Expense		$ 8,624
23	Increase in Revenue Requirement		170,345
24	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		5.062725%

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

Schedule CSB-19

OPERATING INCOME ADJUSTMENT NO. 11 - INCOME TAXES

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

References:

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

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

Schedule CSB-20

RATE DESIGN

	Present	Company Proposed	Staff Recommended
Sewer Services - Monthly Charge			
5/8 Inch x 3/4 Inch	$ 22.73	$ 27.79	$ 24.05
3/4 Inch	$ 35.33	$ 43.19	$ 35.33
1 Inch	$ 59.33	$ 72.53	$ 59.33
1 1/2 Inch	$ 117.33	$ 143.44	$ 117.33
2 Inch	$ 187.33	$ 229.01	$ 187.33
3 Inch	NT	$ 444.60	$ 384.82
4 Inch	NT	$ 694.69	$ 601.28
6 Inch	NT	$ 1,389.37	$ 1,202.55
Effluent Sales			
Monthly Minimum	$ 180.00	$ 232.56	$ 230.00
Gallons In Minimum	100,000	-	-
Charge per 1,000 gallons	$ 0.58	$ 0.70	$ 0.70
Recovered Effluent Sales			
Monthly Minimum	NT	$ 232.56	$ 230.00
Gallons In Minimum	NT	-	-
Charge per 1,000 gallons	NT	$ 0.70	$ 0.70
Service Charges			
Impact Fee (new connection one-time only)	$ 260	NT	Remove from Tariff
Establishment Fee	NT	$ 25	$ 25
Reestablishment (within 12 months)	NT	*	*
Deferred payment (per month)	1.50%	1.50%	1.50%
Deposit	**	**	**
Deposit Interest	**	**	**
NSF check	$ 15	$ 15	$ 15
Late payment fee (per month)***	1.50%	1.50%	1.50%
Disconnect/Reconnect (delinquent account)	$ 500	NT	Remove from Tariff
Reconnection (Delinquent)	NT	$ 25	$ 25
After Hours Service Charge (At the Customer's Request)	NT	$ 50	$ 50

* Number of months off the system times the applicable sewer charge.
** Per Commission Rule R14-2-603.B.7 and 603.B.3
*** Late payment charge based upon balance owing at the end of the billing cycle which is added to next bill.
NT = No Tariff

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

Schedule CSB-21

TYPICAL BILL ANALYSIS

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

	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Company	$ 22.73	$ 27.79	$5.06	22.3%
Staff	$22.73	$ 24.05	$1.32	5.8%

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF PIMA UTILITY COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. W-02199A-11-0329
IN THE MATTER OF THE APPLICATION OF PIMA UTILITY COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. SW-02199A-11-0330

DIRECT TESTIMONY

OF

MARLIN SCOTT, JR

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

APRIL 3, 2012

TABLE OF CONTENTS

TABLE OF CONTENTS FOR EXHIBIT MSJ

ENGINEERING REPORT FOR WATER DIVISION:

ENGINEERING REPORT FOR WASTEWATER DIVISION

FIGURES

TABLE

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

WATER DIVISION

Conclusions

A. The Pima Utility Company's ("Company") water system has a water loss of 9.25 percent, which is within the acceptable limit of 10 percent.

B. The water system's current source and storage capacity are adequate to serve the present customer base and reasonable growth.

C. Maricopa County Environmental Services Department reported the Company's water system had no deficiencies and is compliant with its regulations.

D. The Company is located in the Arizona Department of Water Resources' ("ADWR") Phoenix Active Management Area and reported the Company's system is in compliance with its requirements governing water providers and/or community water systems.

E. According to the Utilities Division Compliance Section, the Company had no delinquent Arizona Corporation Commission ("ACC") compliance issues.

F. On March 1, 2012, the Company filed a curtailment tariff under Docket No. 12-0079 and this tariff will become effective on March 31, 2012.

G. On March 1, 2012, the Company filed a new application under Docket No. 12-0080 in order to update its backflow prevention tariff ("BPT") using the renumbered Arizona Department of Environmental Quality ("ADEQ") Rule R18-4-215. This updated BPT will become effective on March 31, 2012.

Recommendations

1. Staff recommends an annual water testing expense of $8,925 be adopted for this proceeding. Staff further recommends that $12,157 be reclassified into the Wastewater Division's operating expense.

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

3. Staff recommends that the Company use Staff's recommended water depreciation rates by individual National Association of Regulatory Utility Commissioners category as shown in Water Division Table H-1.

4. Staff recommends approval of the proposed charges as shown in Water Division's Table I-1, with separate installation charges for the service line and meter installations.

WASTEWATER DIVISION

Conclusions

A. The Arizona Department of Environmental Quality ("ADEQ") has reported the Company has no deficiencies and in compliance with ADEQ regulations.

B. According to the Utilities Division Compliance Section, the Company had no delinquent ACC compliance issues.

Recommendations

1. Staff considered the 2.4 million gallon per day ("MGD") Water Reclamation Facility ("WRF") as having excess capacity at this time. Staff recommends that the $8,547,798 for the 1.6 MGD WRF established in the prior rate case in Docket No. 98-0578 remain the same (with Staff adjustments in this rate case, if needed) for the 1.6 MGD WRF which Staff considers used and useful treatment plant capacity in this proceeding.

2. As stated in the Water Division section of the report, Staff discovered that the Company included the Wastewater Division's recharge well water testing of $12,157 with the potable water testing. Staff recommends that the $12,157 be reclassified into the Wastewater Division's operating expense.

3. Staff recommends that the Company use Staff's recommended wastewater depreciation rates by individual NARUC category as shown in Wastewater Division Table G-1.

INTRODUCTION

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

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

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

A. I have been employed by the Commission since November 1987.

Q. Please list your duties and responsibilities.

A. As a Utilities Engineer, specializing in water and wastewater engineering, my responsibilities include: the inspection, investigation, and evaluation of water and wastewater systems; preparing reconstruction cost new and/or original cost studies, cost of service studies and investigative reports; providing technical recommendations and suggesting corrective action for water and wastewater systems; and providing written and oral testimony on rate applications and other cases before the Commission.

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

A. I have analyzed approximately 570 cases covering various responsibilities for the Utilities Division.

Q. Have you previously testified before this Commission?

A. Yes, I have testified in 88 proceedings before this Commission.

Q. What is your educational background?

A. I graduated from Northern Arizona University in 1984 with a Bachelor of Science degree in Civil Engineering Technology.

Q. Briefly describe your pertinent work experience.

A. Prior to my employment with the Commission, I was Assistant Engineer for the City of Winslow, Arizona, for about two years. Prior to that, I was a Civil Engineering Technician with the U.S. Public Health Service in Winslow for approximately six years.

Q. Please state your professional membership, registrations, and licenses.

A. I am a member of the National Association of Regulatory Utility Commissioners' Staff Subcommittee on Water.

PURPOSE OF TESTIMONY

Q. Were you assigned to provide the Utilities Division Staff ("Staff") engineering analysis and recommendation for the Pima Utility Company ("Company") in this proceeding?

A. Yes. I reviewed the Company's application, reviewed responses to data requests, and inspected the water and wastewater systems on December 1, 2011. This testimony and its attachment present Staff's engineering evaluation.

ENGINEERING REPORT

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

A. Exhibit MSJ presents the details and analyses of Staff's findings for the water and wastewater divisions, and is attached to this Direct Testimony. Exhibit MSJ contains the following water division major topics: (1) a description of the water system, (2) water

use, (3) growth, (4) compliance with the rules of the Maricopa County Environmental Services Department, Arizona Department of Water Resources, and the ACC, (5) depreciation rates, (6) service line and meter installation charges, and (7) tariff filings.

Exhibit MSJ also contains the following wastewater division major topics: (1) a description of the wastewater system, (2) wastewater flows, (3) growth, (4) compliance with the rules of the Arizona Department of Environmental Quality and the ACC, (5) plant-in-service adjustments, (6) depreciation rates, and (7) tariff filings.

My conclusions and recommendations from the Engineering Report are contained in the "Executive Summary", above.

Q. Does this conclude your Direct Testimony?

A. Yes, it does.

Engineering Report for Pima Utility Company
Docket No. W-02199A-11-0329 (Rates)

WATER DIVISION

March 6, 2012

A. LOCATION OF PIMA UTILITY COMPANY ("COMPANY")

The Company is located south of the City of Chandler ("Chandler") and provides water service to the community of Sun Lakes. Figure A-1 shows the location of the Company within Maricopa County and Figure A-2 shows the approximate 5.75 square-miles of water certificated area. This certificated area is completely surrounded by Chandler and the Gila River Indian Community.

B. DESCRIPTION OF WATER SYSTEM

This water system was field inspected on December 1, 2011, by Arizona Corporation Commission ("ACC" or "Commission") Staff member Marlin Scott, Jr., in the accompaniment of Steve Soriano, Dave Voorhees and Ray Jones, representing the Company. The operation of this water system consists of six wells, four storage tanks, three booster systems and a distribution system serving approximately 10,175 customers during the test year ending December 2010. The Company also operates two irrigation wells for golf course and landscape watering. A detailed plant facility description is as follows:

Table W-1. Potable Well Data

Well No.	ADWR ID No.	Turbine Pumps	Flow, GPM	Casing Size & Depth	Meter Size
#27	55-520891	150-Hp sub.	1,700	20"/16" x 900'	10"
#29A	55-806730	250-Hp	1,400	16" x 861'	12"
#29B	55-566937	200-Hp	1,500	20" x 910'	12"
#31	55-625798	125-Hp	1,100	20" x 820'	10"
#33	55-625800	150-Hp	1,600	14" x 502'	8"
#34	55-514527	150-Hp	1,500	20"/16" x 874'	8"
		Total:	8,800 GPM		

Table W-2. Irrigation Well Data

Well No.	ADWR ID No.	Turbine Pumps	Flow, GPM	Casing Size & Depth	Meter Size
Irrigation #29	55-625796	150-Hp	1,700	20" x 600'	10"
Irrigation #32	55-625799	250-HP	2,200	16" x 750'	10"
		Total:	3,900 GPM		

Table W-3. Storage Tanks

Capacity	Quantity (Each)	Location
400,000	1	@ Water Plant #1
600,000	1	@ Water Plant #2
750,000	2	@ Water Plant #3
Total: 2,500,000 gallons	4	

Table W-4. Pumping Facilities

Location	Booster System	Storage Tanks (From Table W-2 above)
Water Plant #1	Two 20-Hp booster pumps, two 75-Hp booster pumps, and 5,000 gallon surge tank.	400,000 gallon storage tank
Water Plant #2	Six 25-Hp booster pumps and one 75-Hp booster pump	600,000 gallon storage tank
Water Plant #3	Two 40-Hp booster pumps, two 75-Hp booster pumps, one 125-Hp fire pump, and 15,000 gallon surge tank.	Two 750,000 gallon storage tanks

Table W-5. Water Mains

MAINS		
Size	Material	Length (feet)
2"	PVC	221
4"	PVC	7,031
6"	PVC	306,747
8"	PVC	96,682
10"	PVC	43,488
12"	PVC	13,527
	Total:	467,696 feet or 88.6 miles

Table W-6. Customer Meters

Size	Quantity
5/8 x 3/4-inch	9,806
3/4-inch	4
1- inch	267
1-1/2-inch	11
2-inch	97
3-inch	-
4-inch	-
6-inch	-
Total:	10,185

Table W-7. Fire Hydrants

Size	Quantity
Standard	709

Table W-8. Structures and Treatment Equipment

Location	Structures & Treatment Equipment
Water Plant #1 (Well #31)	Gas chlorination, block fencing
Water Plant #2 (Well #34)	Gas chlorination, block fencing, shed: 20' x 20'
Water Plant #3 (Well #29A)	Gas chlorination, block fencing, building: 25' x 40'
Well #27	Gas chlorination, block fencing
Well #29B	Gas chlorination, block fencing
Well #33	Gas chlorination, block fencing
Irrigation Well #29	Chain link fencing
Irrigation Well #32	Block fencing

C. WATER USE

Water Sold

Based on the information provided by the Company, water use for the test year ending December 2010 is presented in Figure C-1. The customer consumption experienced a high monthly average water use of 785 gallons per day ("GPD") per connection in June and a low monthly average water use of 261 GPD per connection in January for an average annual use of 512 GPD per connection.

Non-Account Water

Non-account water should be 10 percent or less. In the water use data sheet ("ACC report"), the Company reported 2,159,802 gallons (6,628.19 acre-feet) pumped and 1,904,720 gallons (5,845.37 acre-feet) sold during the test year, resulting in a difference of 11.8 percent. In response to Staff's Data Request MSJ-3.4, the Company stated it inadvertently omitted the following sales from the ACC report; 1) 2,643.19 acre-feet for sales to the Oakwood Golf Course, 2) 95.88 acre-feet for industrial usage as unbilled potable water used at the Company's wastewater treatment plant, and 3) 19.53 acre-feet used for flushing, fire fighting and tank cleaning. As a result, the water sold would increase from 5,845.37 acre-feet to 6,014.97 acre-feet, which calculates to a water loss of 9.25 percent ((6,628.18 – 6,014.97) / 6,628.18 =). This 9.25 percent is within the acceptable limit of 10 percent.

System Analysis

The water system's current source capacity of 8,800 GPM and storage capacity of 2.5 million gallons is adequate.

D. GROWTH

Figure D-1 depicts the customer growth using the number of customers that was obtained from annual reports submitted to the Commission. At the end of the test year December 2010, the Company had 10,175 customers and according to the Company, the built-out customer count is estimated at 10,250.

E. MARICOPA COUNTY ENVIRONMENTAL SERVICES DEPARTMENT ("MCESD") COMPLIANCE

Compliance

On January 6, 2012, MCESD reported the Company's system, PWS #07-120, had no deficiencies and the system was compliant with MCESD regulations.

Water Testing Expense

The Company does not participate in the Monitoring Assistance Program and reported its water testing expense at $18,737 during the test year. In its review, Staff discovered that the Company included the Wastewater Division's recharge well water testing of $12,157 with the potable water testing of $6,580. In response to Staff's Data Request MSJ-3.6, the Company provided a calculated annual water testing expense of $8,925 as shown in Table E-1. Staff recommends this annual water testing expense of $8,925 be used for the purpose of this application. Staff further recommends that the $12,157 be reclassified into the Wastewater Division's operating expense.

F. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

Compliance

The Company's water system is located in the Phoenix Active Management Area ("AMA"). According to the ADWR Water Provider Compliance Report, dated December 8, 2011, ADWR has determined that this system is currently compliant with its requirements governing water providers and/or community water systems.

Best Management Practice Tariffs

In the Company's rate application, the Company stated that it is enrolled as a regulated tier II municipal provider in ADWR's Modified Non-Per Capita Conservation Program ("NPCCP"). Under this program, the Company was required to implement the Public Education

Program ("PEP") and five additional Best Management Practices ("BMPs") and on August 24, 2009, ADWR approved the following BMPs:

1. PEP
2. BMP 3.6 – Customer High Water Use Inquiry Resolution
3. BMP 3.7 – Customer High Water Use Notification
4. BMP 3.8 – Water Waste Investigations and Information
5. BMP 4.1 – Leak Detection Program
6. BMP 4.2 – Meter Repair and/or Replacement Program

In Staff's Data Request MSJ 4.1, Staff requested copies of the approved ADWR documents. The Company responded by providing an ADWR letter, dated August 24, 2009, showing a "list" of the above BMP for approval. These BMPs however were not in tariff form.

Staff recommends that the Company file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, at least seven BMPs in the form of tariffs that substantially conform to the templates created by Staff for Commission review and consideration. These BMP templates are available on the Commission's website. The Company may submit the approved six ADWR BMPs and PEP as part of the seven.

G. ARIZONA CORPORATION COMMISSION ("ACC") COMPLIANCE

On January 4, 2012, the Utilities Division Compliance Section reported that the Company had no delinquent ACC compliance issues.

H. DEPRECIATION RATES

In this proceeding, the Company has adopted Staff's typical and customary water depreciation rates. These rates are presented in Table H-1 and it is recommended that the Company use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.

I. SERVICE LINE AND METER INSTALLATION CHARGES

The Company currently has no tariffs for service line and meter installation charges. In this proceeding, the Company has adopted Staff's customary installation charges. These charges are presented in Table I-1 and Staff recommends approval of these proposed charges with separate installation charges for the service line and meter.

J. CURTAILMENT TARIFF

On March 1, 2012, the Company filed a curtailment tariff under Docket No. 12-0079 and this tariff will become effective on March 31, 2012.

K. BACKFLOW PREVENTION TARIFF

Under the Arizona Administrative Code's old R18-4-232, the Company has an approved Backflow Prevention Tariff ("BPT") with an effective date of September 21, 1994. This old R18-4-232 was renumbered by ADEQ to R18-4-215, effective August 30, 2008.

On March 1, 2012, the Company filed a new application under Docket No. 12-0080 in order to update its BPT using the renumbered R18-4-215. This updated BPT will become effective on March 31, 2012.

FIGURES

TABLES

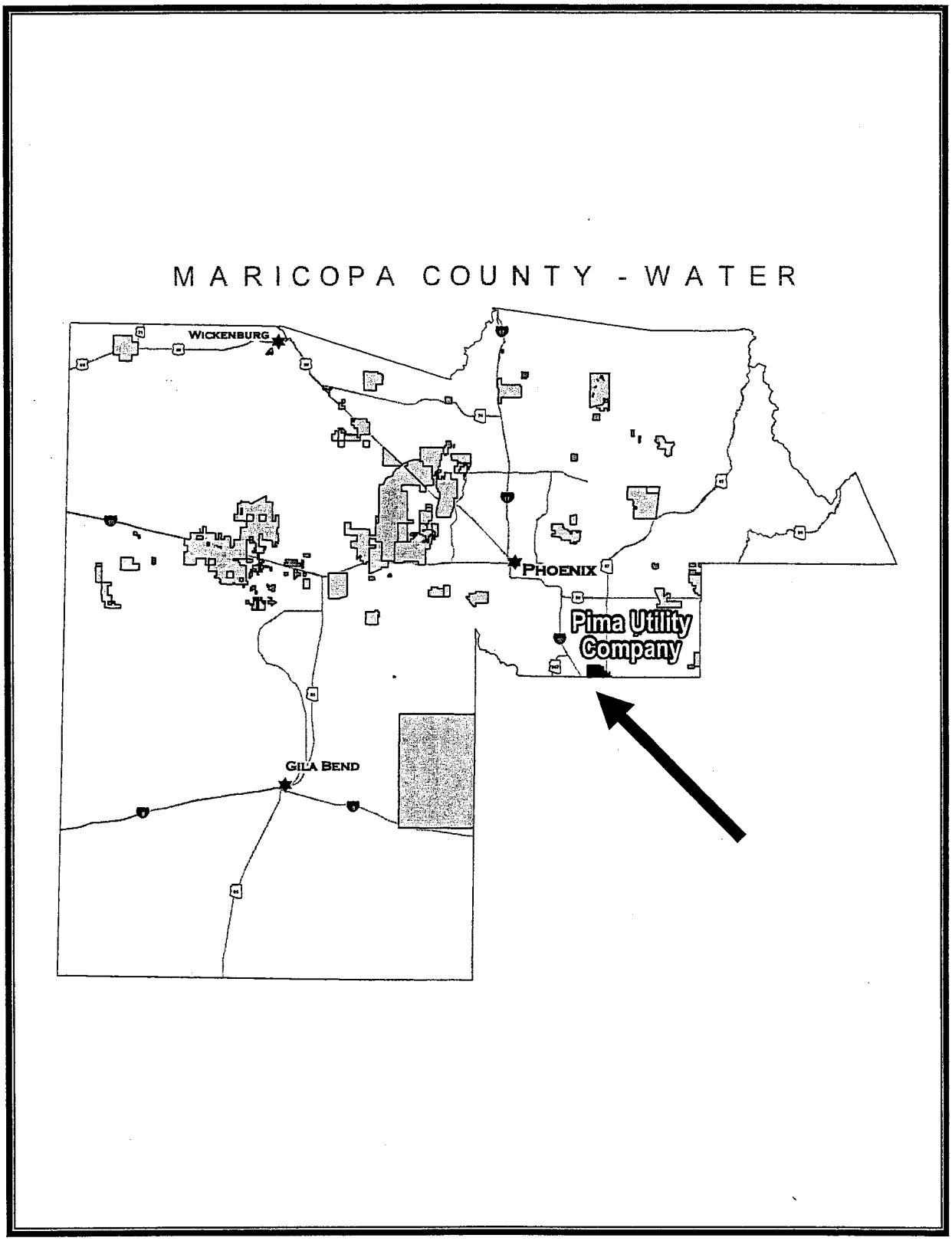


Figure A-1. Maricopa County Map

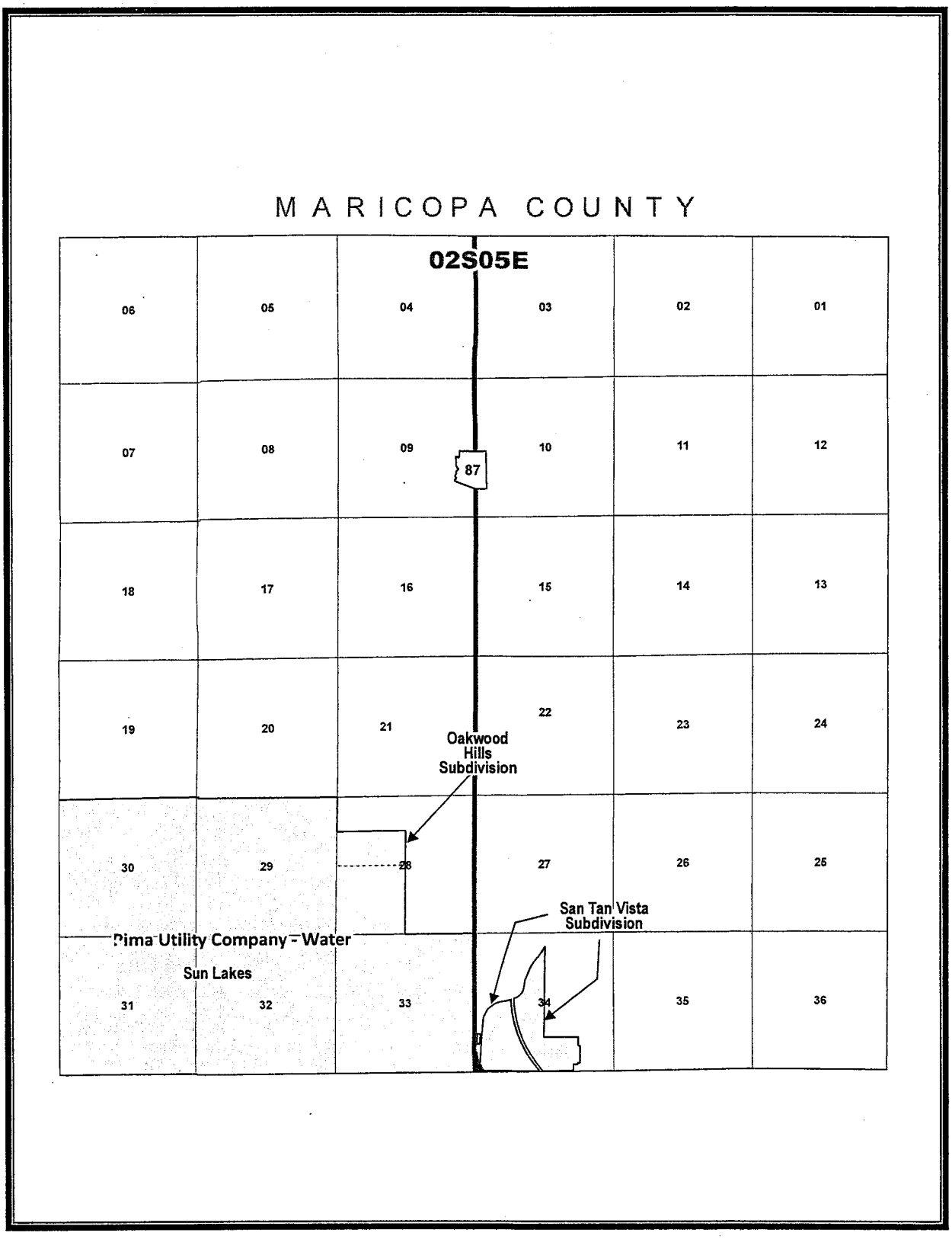


Figure A-2. Certificated Area

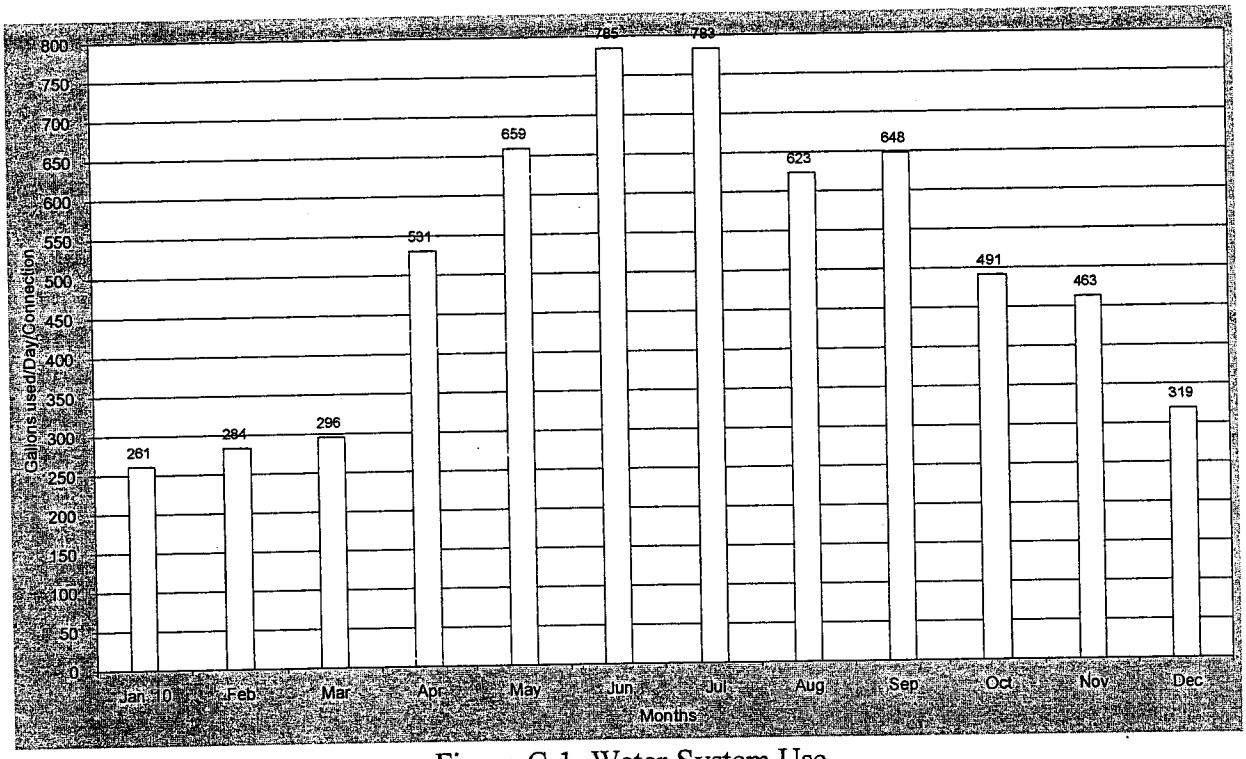


Figure C-1. Water System Use

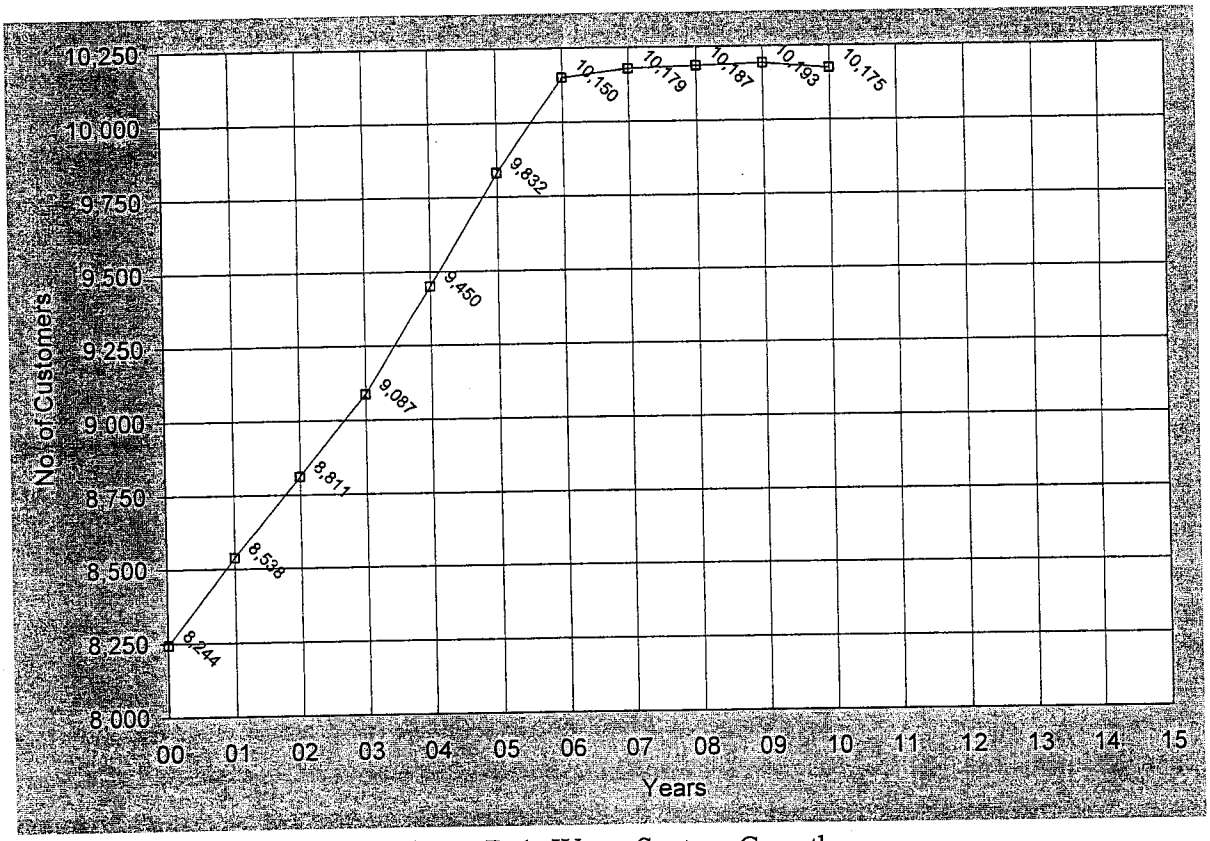


Figure D-1. Water System Growth

Table E-1. Water Testing Expense

MONITORING (Test per 3 years, unless noted)		Legend Lab Cost per Test	No. of Test	Annual Cost
Potable wells - 6 each with 3 POEs				
Total Coliform – 20 samples monthly		$14	240	$3,360
Inorganics - Priority Pollutants	C	$252	3	$252
Radiochemical				
Gross Alpha	C	$60	3	$60
Radium 226 & Radium 228	C	$220	3	$220
Phase II and V:				
Nitrate – annual (POE 3 quarterly)	C	$32	6	$192
Nitrite - per 9 years	C	$32	3	$11
Asbestos - per 9 years	C	$128	3	$43
VOC's	C	$176	3	$176
Inorganics - Ba, CN, F	-	-	-	$0
Composite Fee	-	-	-	$0
Pesticides/PCB's/Unreg./SOC's:				
EDB & DBCP	NC	$128	6	$256
Pesticides [505]	NC	$160	6	$320
Herbicides [515.3]	NC	$160	6	$320
Organic Compounds [525.2]	NC	$280	6	$560
Carbamates [531.2]	NC	$144	6	$288
Glyphosate [547]	NC	$144	6	$288
Endothall [548]	NC	$144	6	$288
Diquat [549.2]	NC	$144	6	$288
Dioxin [1613]	NC	$480	6	$960
Sulfate - per 5 years	C	$16	3	$10
Lead & Copper - per 3 years		$17	30	$170
Trihalomethane - annual	NC	$88	3	$264
HAA5 - annual	NC	$200	3	$600
Irrigation wells - 2 each (No monitoring required)				
Total:				**$8,925**

NC = no composite
C = composite

Table H-1. Water Depreciation Rates

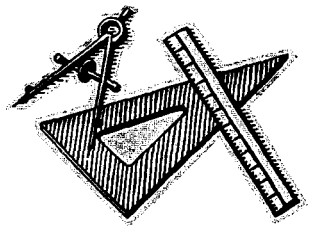
NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	---	---

NOTE: Acct. 348 – Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

Table I-1. Service Line and Meter Installation Charges

Meter Size	Current Total Charges	Proposed Service Line Charges	Proposed Meter Charges	Proposed Total Charges
5/8 x3/4-inch	N/T	$385	$135	$520
3/4-inch	N/T	$415	$205	$620
1-inch	N/T	$465	$265	$730
1-1/2-inch	N/T	$520	$475	$995
2-inch Turbine	N/T	$800	$995	$1,795
2-inch Compound	N/T	$800	$1,840	$2,640
3-inch Turbine	N/T	$1,015	$1,620	$2,635
3-inch Compound	N/T	$1,135	$2,495	$3,630
4-inch Turbine	N/T	$1,430	$2,570	$4,000
4-inch Compound	N/T	$1,610	$3,545	$5,155
6-inch Turbine	N/T	$2,150	$4,925	$7,075
6-inch Compound	N/T	$2,270	$6,820	$9,090

Note: N/T = No tariff.



Engineering Report for Pima Utility Company
Docket No. SW-02199A-11-0330 (Rates)

WASTEWATER DIVISION

March 6, 2012

A. LOCATION OF PIMA UTILITY COMPANY ("COMPANY")

The Company is located south of Chandler and provides wastewater service to the community of Sun Lakes. Figure A-1 shows the location of the Company within Maricopa County and Figure A-2 shows the approximate 5.75 square-miles of wastewater certificated area. This certificated area is completely surrounded by Chandler and the Gila River Indian Community.

B. DESCRIPTION OF WASTEWATER SYSTEM

The Company has a wastewater system consisting of a Water Reclamation Facility ("WRF"), reuse system and collection system. This plant and its system was field inspected on December 1, 2011, by Commission Staff member Marlin Scott, Jr., in the accompaniment of Steve Soriano, Dave Voorhees and Ray Jones, representing the Company.

The operation of the WRF consists of a 2.4 million gallon per day ("MGD") sequential batch reactor ("SBR") treatment plant and wastewater collection system consisting of 15 collection lift stations, and approximately 99.6 miles of wastewater collection mains serving approximately 10,050 service laterals during the test year ending December 2010. Effluent from the WRF is recycled by direct delivery of reclaimed water to the Oakwood Golf Course. The effluent reuse system includes five recharge/recovery wells. The recharge/recovery wells are used to deliver recovered effluent to the Oakwood Golf Course and to a homeowners' assocation for landscape watering. All remaining effluent is recharged into the groundwater aquifer directly beneath the Company's service area. The wastewater system schematic is shown in Figures B-1 with detailed plant facility descriptions as follows:

Table WW-1. Water Reclamation Facility

Name	Plant Capacity	Location
WRF	2.4 MGD sequential batch reactor facility that includes aerobic digesters, equalization basin, sand filtration and ultra-violet disinfection. Effluent system includes five recharge/recovery wells.	Riggs Road & Old Price Road

Table WW-2. Recharge/Recovery Wells

Well No.	Casing & Depth	Pump (Hp)	Capacity (GPM)	Year Built	Location
RR Well #1 – 55-554079	12" x 210'	20	400	1998	On Oakwood Golf Course at Desert Dr./Cedar Waxing Dr.
RR Well #2 – 55-561907	14" x 220'	20	400	1998	On Oakwood GC on E.J. Robson Blvd.
RR Well #3 – 55-211808	16" x 218'	20	400	2008	In southeast corner of RV storage facility.
RR Well #4 – 55-561906	14" x 220'	20	400	1998	On Oakwood GC on Champagne Dr.
RR Well #5 – 55-566383	14" x 220'	20	400	1998	On Oakwood GC on Arrow Vale Dr.

Table WW-3. Lift Stations

Lift Station No. and Name	No. of Pumps	Horsepower per Pump	Capacity per Pump (GPM)	Wet Well Capacity (gals.)
Lift Station #1 – Maryland	2	20	650	14,960
Lift Station #2 – Dobson	2	25	750	1,878
Lift Station #3 – Cochise	2	5	375	2,900
Lift Station #4 – S. Brentwood	2	3.5	250	2,900
Lift Station #5 – N. Brentwood	2	5	350	2,900
Lift Station #6 – N. Alma School	2	2.5	250	3,229
Lift Station #7 – S. Alma School	2	5	300	3,229
Lift Station #8 – San Tan	2	3.5	250	3,229
Lift Station #9 – Sunnydale	2	3.5	250	3,229
Lift Station #10 – Unit 27	2	7.5	500	18,700
Lift Station #11 – Unit 31	2	10	500	18,700
Lift Station #12 – Unit 32	2	30	900	134,640
Lift Station #13 – Yard	2	10	500	2,000
Lift Station #14 – McDonalds	2	5	300	2,000
Lift Station #15 – San Tan Vista	2	5	300	2,000

Table WW-4. Force Mains

Diameter	Material	Length (ft.)
	(Included in collection system.)	

Table WW-5. Collection Mains

Diameter	Material	Length (ft.)
2-inch	PVC	200
4-inch	PVC	18,401
6-inch	PVC	19,102
8-inch	PVC	392,322
10-inch	PVC	62,042
12-inch	PVC	31,076
15-inch	PVC	2,541
	Total:	525,684 ft. or 99.6 miles

Table WW-6. Manholes

Size	Quantity
Standard	1,396
Drop	-

Table WW-7. Cleanouts

Quantity
220 each

Table WW-8. Service Laterals

Lateral Size	Quantity
4-inch	9,958
6-inch	93
Total:	10,051

C. WASTEWATER FLOWS

Wastewater Flows

Based on the information provided by the Company, wastewater flows for the test year ending December 2010 are presented in Figure C-1. For the average daily flows, March experienced the highest flow of 1,227,677 gallons per day ("GPD"). For the peak day flows, January had the highest flow when 1,438,000 gallons were treated in one day.

System Analysis

As shown in the wastewater flows in Figure C-1, the existing 2.4 MGD WRF appears to be excessive. To further evaluate the WRF capacity by using the January peak day flow of 1,438,000 GPD and converting to 143 GPD per service lateral, the WRF's capacity of 2.4 MGD could serve up to approximately 16,780 service laterals. According to the Company, the build-out customer count is estimated at 10,135 and if this build-out count was used, this system should experience a peak day flow of 1,449,305 GPD (= 10,135 x 143).

Excess Treatment Plant Capacity

Based on Figure C-1 and the System Analysis, Staff concludes that the 2.4 MGD WRF capacity includes excess treatment capacity at this time. In the prior rate case under Docket No. 98-0578, the new WRF was built in two phases; Phase I for the 1.6 MGD WRF at approximately $8,546,000 and Phase II for the 2.4 MGD WRF at a total cost of approximately $9,184,000. It was also reported that the Company was only asking for rate recovery for the Phase I costs, which was adjusted to $8,547,798 by Staff in its Supplemental Surrebuttal.

As a result, Staff recommends that the $8,547,798 for the 1.6 MGD WRF established in the prior rate case remain the same (with Staff adjustments in this rate case, if needed) for the 1.6 MGD WRF which Staff considers used and useful treatment plant capacity in this proceeding.

D. GROWTH

Figure D-1 depicts the customer growth using the number of customers that was obtained from annual reports submitted to the Commission. At the end of the test year December 2010, the Company had 10,050 customers and according to the Company, the built-out customer count is estimated at 10,135.

E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE

Compliance

On December 12, 2011, ADEQ reported the Company's WRF, Inventory No. 100557, was in compliance with ADEQ regulations.

Wastewater Testing Expense

As stated in the Water Division section of the report, Staff discovered that the Company included the Wastewater Division's recharge well water testing of $12,157 with the potable water testing. Staff recommends that the $12,157 be reclassified into the Wastewater Division's operating expense.

F. ARIZONA CORPORATION COMMISSION ("ACC") COMPLIANCE

On January 4, 2012, the Utilities Division Compliance Section reported that the Company had no delinquent ACC compliance issues.

G. DEPRECIATION RATES

In this proceeding, the Company has adopted Staff's typical and customary wastewater depreciation rates. These rates are presented in Table G-1 and it is recommended that the Company use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.

FIGURES

TABLE

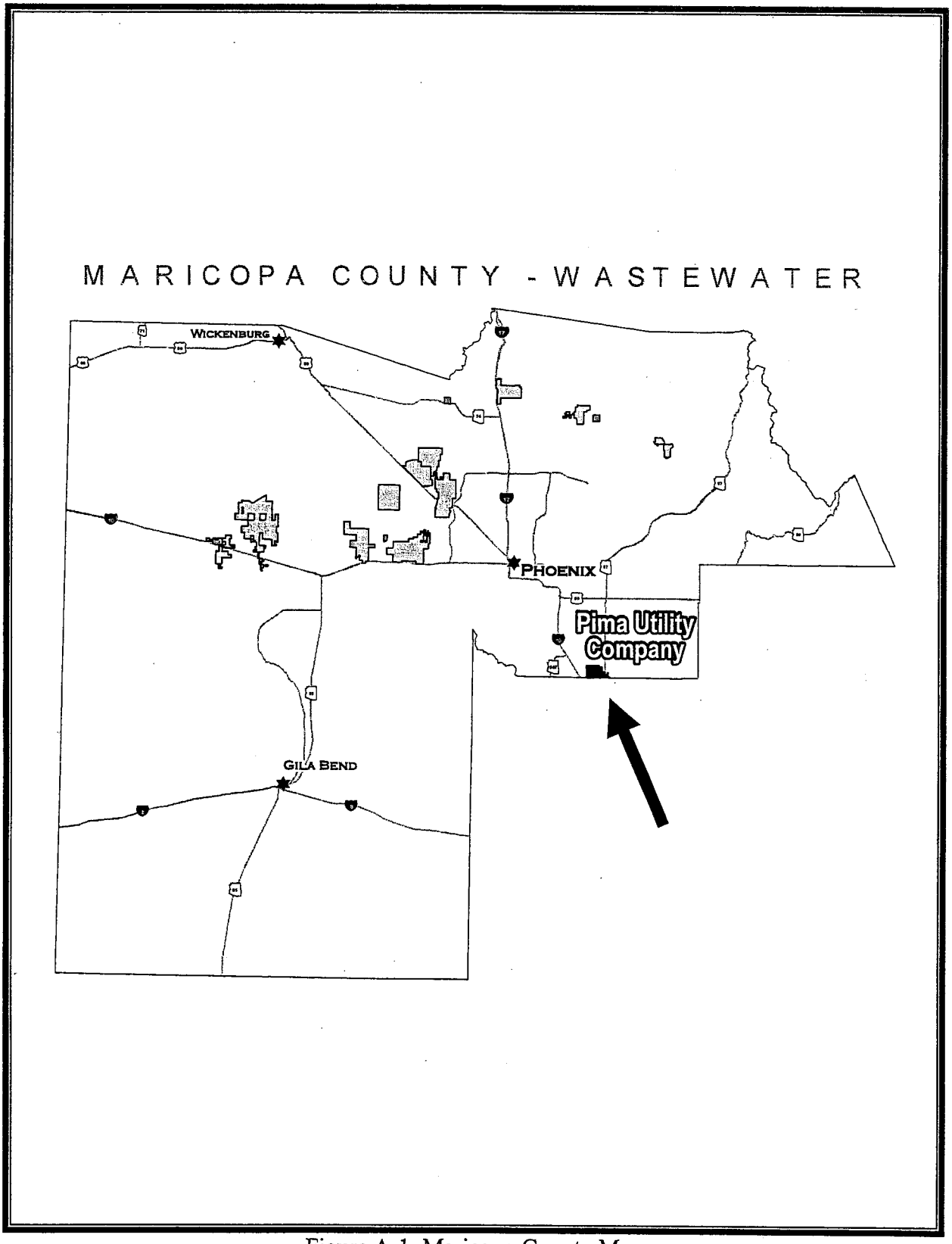


Figure A-1. Maricopa County Map

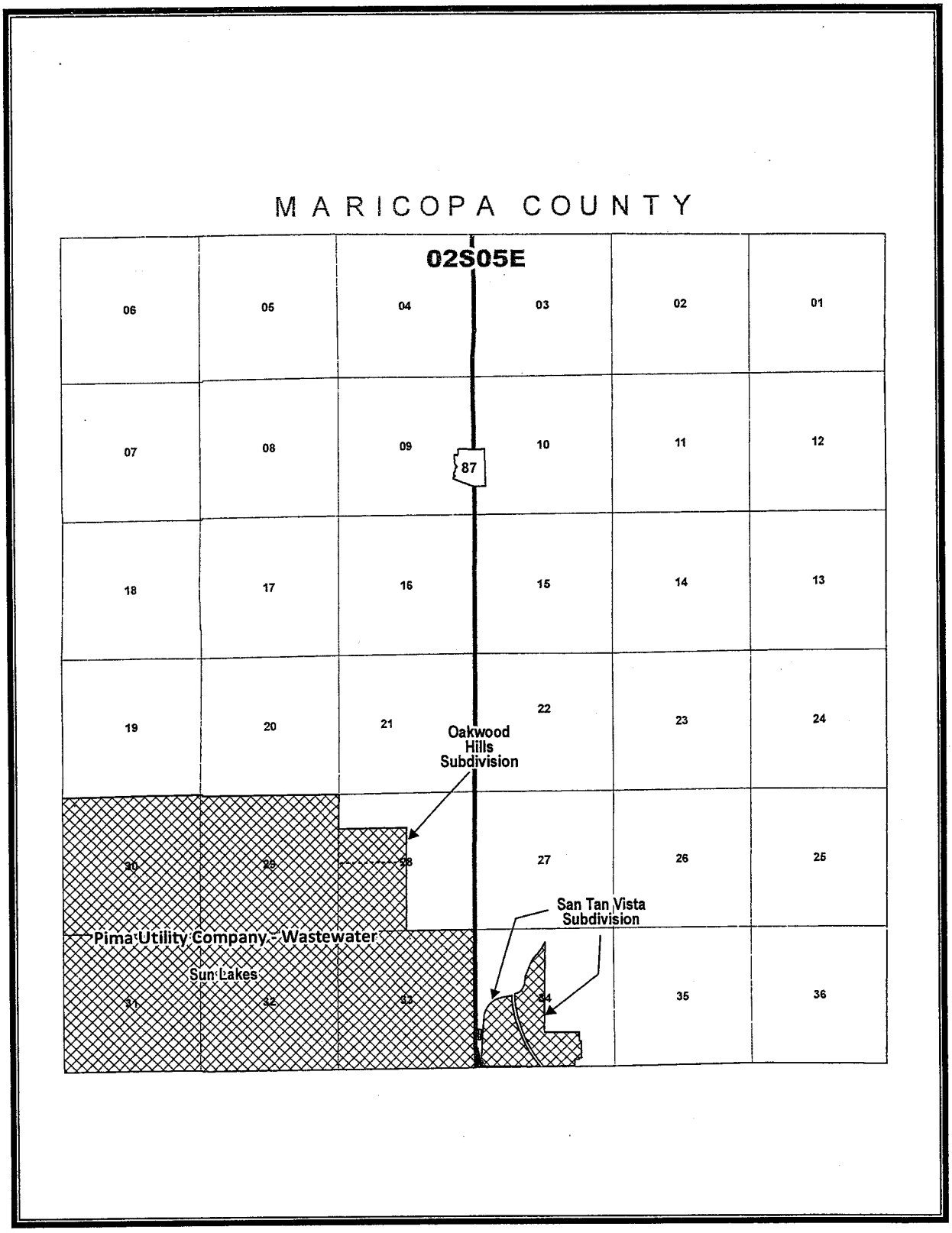


Figure A-2. Certificated Area

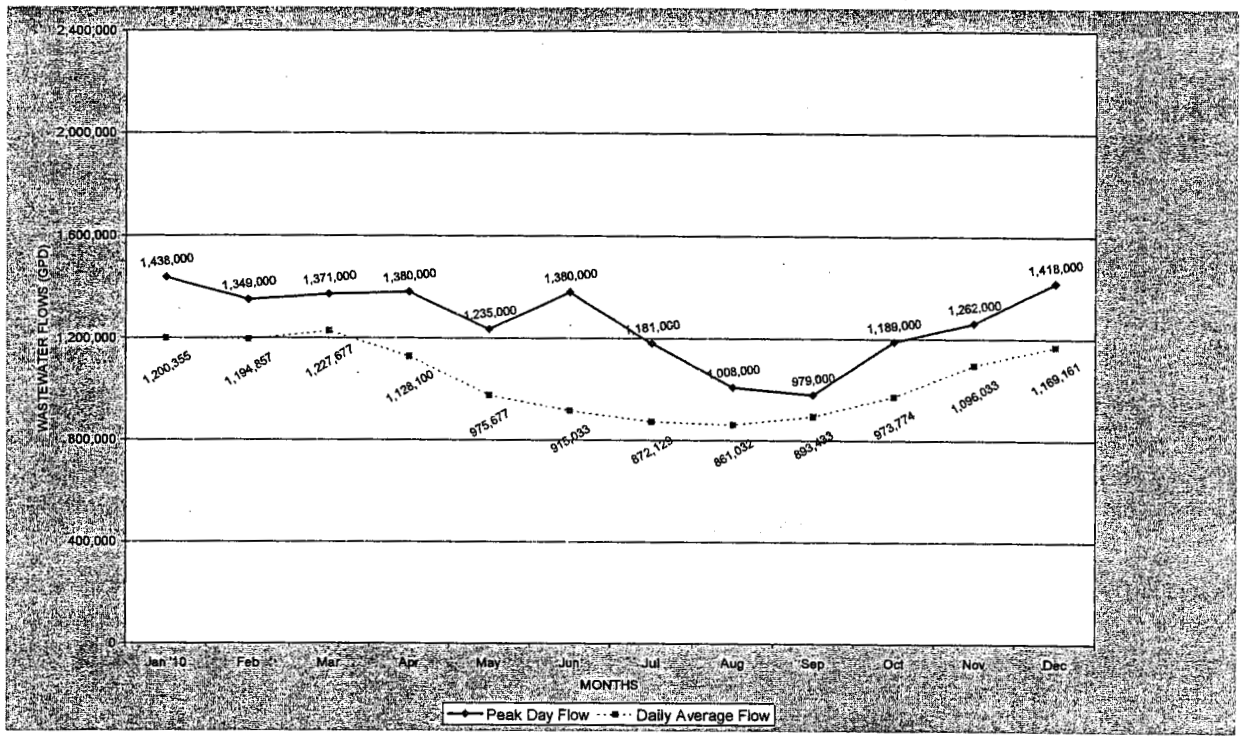


Figure C-1. Wastewater System Flows

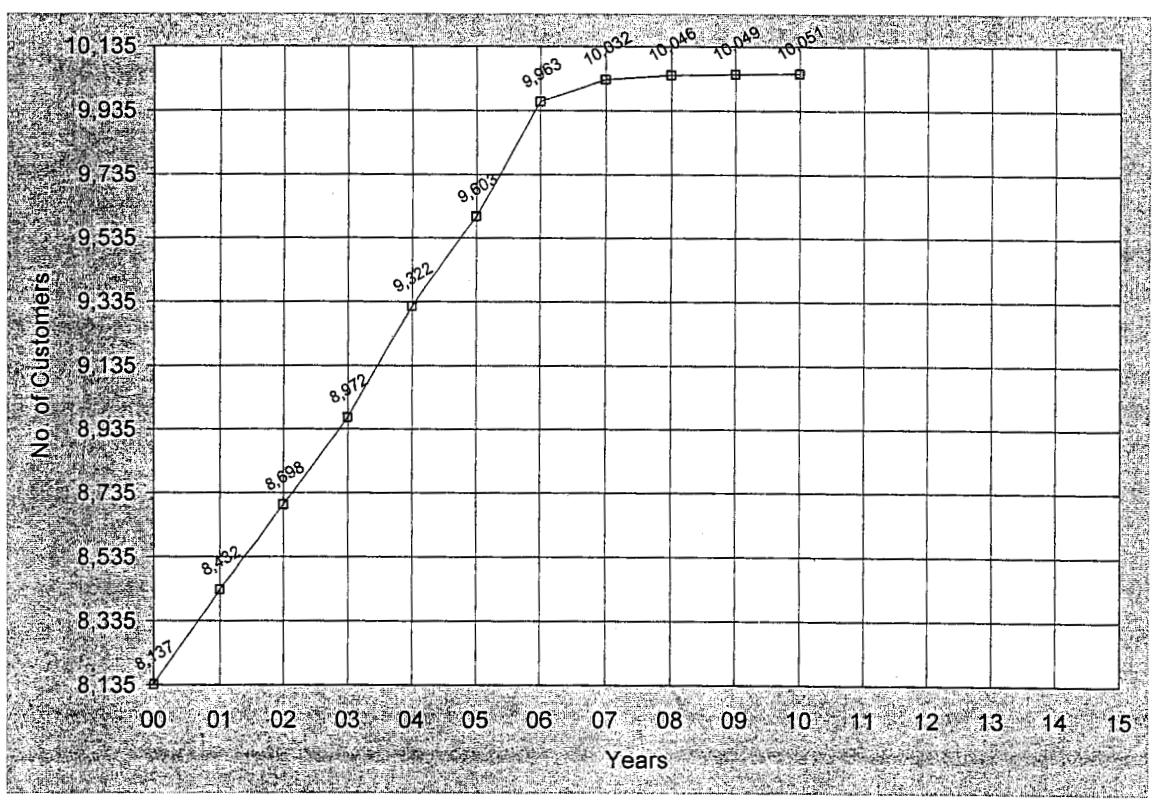


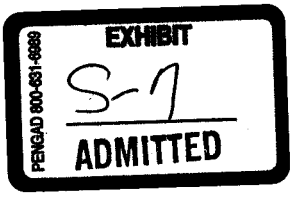
Figure D-1. Wastewater System Growth

Table G-1. Wastewater Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
354	Structures & Improvements	30	3.33
355	Power Generation Equipment	20	5.00
360	Collection Sewers – Force	50	2.0
361	Collection Sewers- Gravity	50	2.0
362	Special Collecting Structures	50	2.0
363	Services to Customers	50	2.0
364	Flow Measuring Devices	10	10.00
365	Flow Measuring Installations	10	10.00
366	Reuse Services	50	2.00
367	Reuse Meters & Meter Installations	12	8.33
370	Receiving Wells	30	3.33
371	Pumping Equipment	8	12.50
374	Reuse Distribution Reservoirs	40	2.50
375	Reuse Transmission & Distribution System	40	2.50
380	Treatment & Disposal Equipment	20	5.0
381	Plant Sewers	20	5.0
382	Outfall Sewer Lines	30	3.33
389	Other Plant & Miscellaneous Equipment	15	6.67
390	Office Furniture & Equipment	15	6.67
390.1	Computers & Software	5	20.0
391	Transportation Equipment	5	20.0
392	Stores Equipment	25	4.0
393	Tools, Shop & Garage Equipment	20	5.0
394	Laboratory Equipment	10	10.0
395	Power Operated Equipment	20	5.0
396	Communication Equipment	10	10.0
397	Miscellaneous Equipment	10	10.0
398	Other Tangible Plant	----	----

NOTE: Acct. 398 – Other Tangible Plant may vary from 5 percent to 50 percent. The depreciation rate would be set in accordance with the specific capital items in this account.

BEFORE THE ARIZONA CORPORATION COMMISSION



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

IN THE MATTER OF THE APPLICATION OF PIMA UTILITY COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. W-02199A-11-0329
IN THE MATTER OF THE APPLICATION OF PIMA UTILITY COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. SW-02199A-11-0330

SURREBUTTAL TESTIMONY

OF

MARLIN SCOTT, JR

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MAY 18, 2012

TABLE OF CONTENTS

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

WASTEWATER DIVISION

Recommendation

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

WATER DIVISION

Recommendation

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

I. INTRODUCTION

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

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

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

A. Yes.

Q. What was the purpose of that testimony?

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

Q. What is the purpose of your Surrebuttal Testimony?

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

II. EXCESS WRF CAPACITY

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

A. Yes.

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

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

Q. Does Staff agree with Mr. Jones' position?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

III. BMPs

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

A. Yes.

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

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

Q. What is Staff's response?

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

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

Q. Does this conclude your Surrebuttal Testimony?

A. Yes.

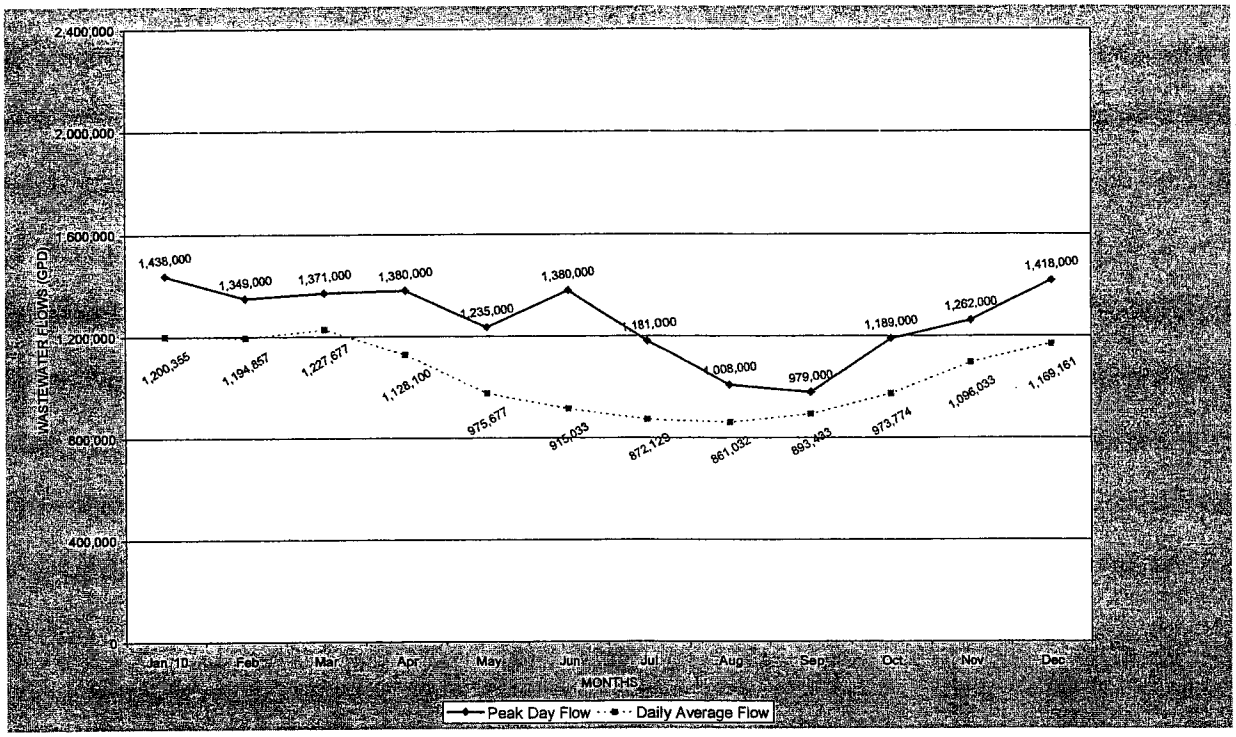


Figure 1. Wastewater System Flows during Test Year 2010

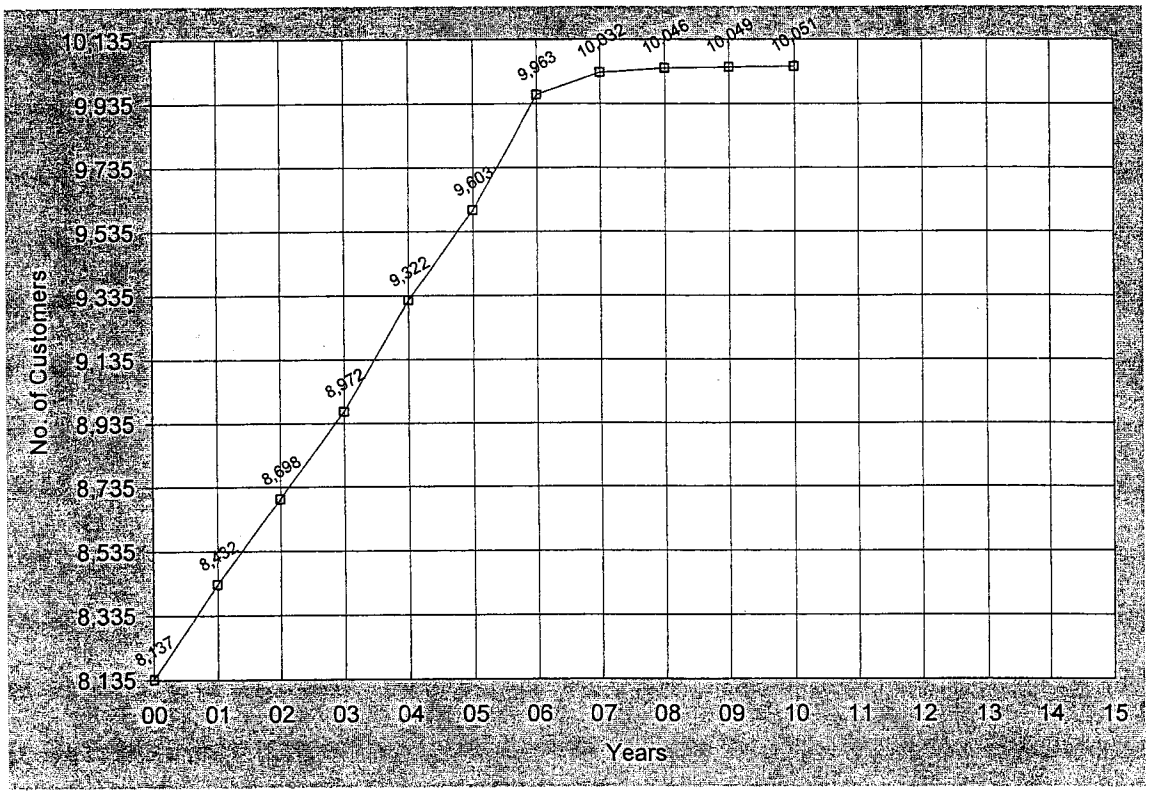


Figure 2. Wastewater System Growth

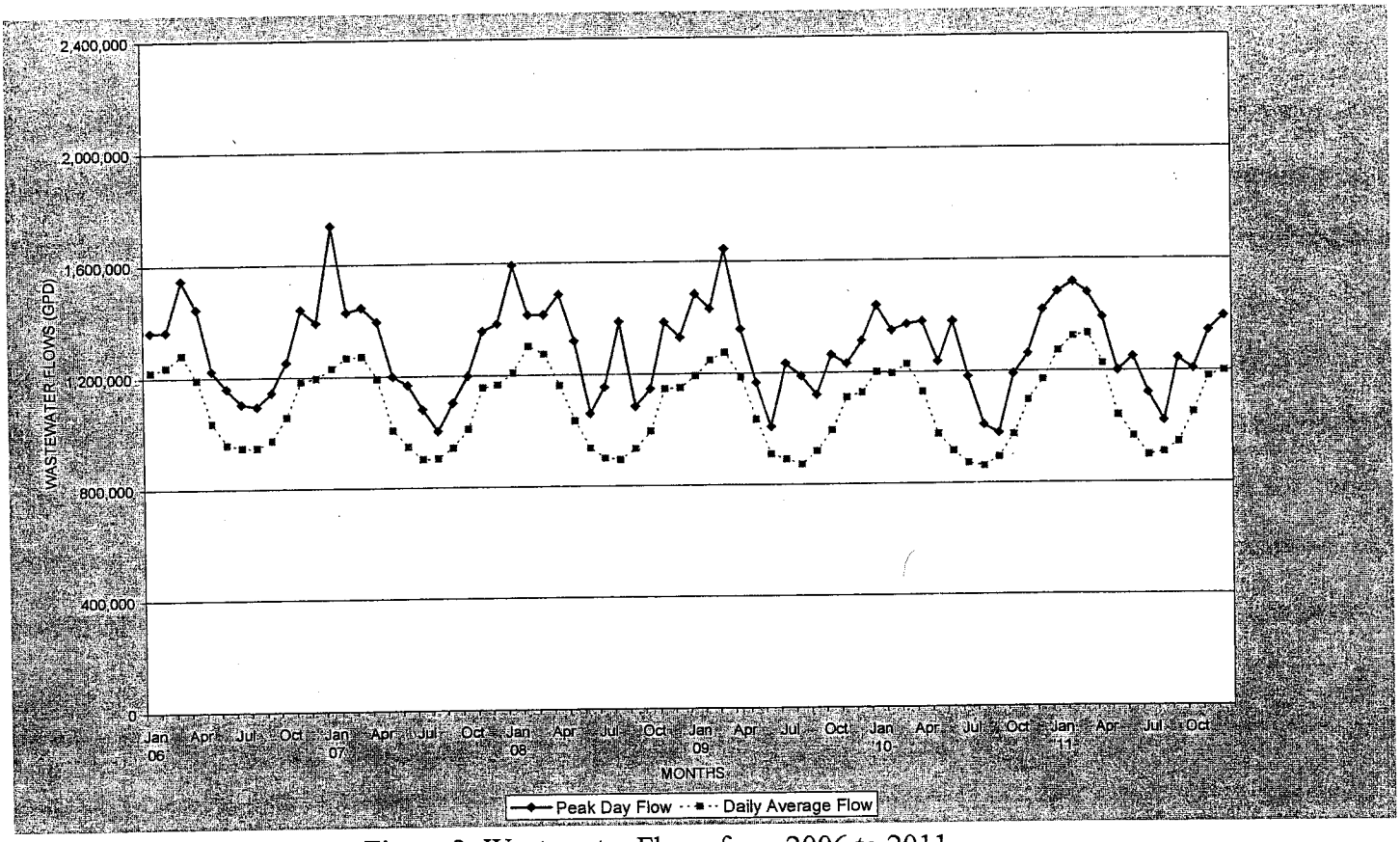
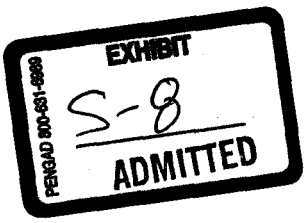


Figure 3. Wastewater Flows from 2006 to 2011

BEFORE THE ARIZONA CORPORATION COMMISSION

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



IN THE MATTER OF THE APPLICATION OF PIMA UTILITY COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. W-02199A-11-0329
IN THE MATTER OF THE APPLICATION OF PIMA UTILITY COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. W-02199A-11-0330

DIRECT
TESTIMONY
OF
JOHN A. CASSIDY
PUBLIC UTILITIES CONSULTANT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

APRIL 3, 2012

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

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

Capital Structure – Staff recommends that the Commission adopt a capital structure for Pima Utility Company ("Company") for this proceeding consisting of 37.9 percent debt and 62.1 percent equity.

Cost of Equity – Staff recommends that the Commission adopt a 9.1 percent return on equity ("ROE") for the Company. Staff's estimated ROE for the Company is based on the average of its discounted cash flow method ("DCF") and capital asset pricing model ("CAPM") cost of equity methodology estimates for the sample companies ranging from 9.0 percent for the CAPM to 9.1 percent for the DCF.

Cost of Debt – Staff recommends that the Commission adopt a 5.5 percent cost of debt for the Company. Staff's recommended cost of debt reflects the maximum anticipated interest rate on the Company's proposed $8,370,000 long-term debt.

Overall Rate of Return – Staff recommends that the Commission adopt a 7.8 percent overall rate of return.

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

> Mr. Bourassa's Future Growth DCF estimates rely exclusively on analysts' forecasts for earnings per share growth, and his Past and Future Growth DCF estimates are based, in part, on historical average share price appreciation. In both DCF models, he overstates the current dividend yield (D_0/P_0) by failing to properly account for a 2-for-1 stock split for one of his sample companies. In his Past and Future Growth DCF model, his expected dividend growth rate (g) is overstated due to a mathematical error. Mr. Bourassa's CAPM estimates are derived using a forecasted risk-free rate.

I. INTRODUCTION

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

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

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

A. I am responsible for the examination of financial and statistical information included in utility rate applications and other financial matters, including studies to estimate the cost of capital component in rate filings used to determine the overall revenue requirement, and for preparing written reports, testimonies and schedules to present Staff's recommendations to the Commission on these matters.

Q. Please describe your educational background and professional experience.

A. I hold a Bachelor of Arts degree in History from Arizona State University, a Master of Library Science degree from the University of Arizona, and an MBA degree with an emphasis in Finance from Arizona State University. While pursuing my MBA degree, I was inducted into Beta Gamma Sigma, the National Business Honor Society. I have passed the CPA exam, but opted not to pursue certification. I have worked professionally as a librarian, financial consultant, tax auditor, and, as a former Commission employee, served as Staff's cost of capital witness in rate case evidentiary proceedings.

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

A. My testimony provides Staff's recommended capital structure, return on equity ("ROE") and overall rate of return ("ROR") for establishing the revenue requirements for Pima Utility Company's ("Pima" or "Company") pending water and wastewater applications.

Q. Please provide a brief description of Pima.

A. Pima is a public service corporation engaged in providing water and wastewater utility services in portions of Maricopa County, Arizona pursuant to certificates of convenience and necessity granted by the Commission. During the Test Year, Pima served approximately 10,175 water and 10,050 wastewater service connections.

Summary of Testimony and Recommendations

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

A. Staff's cost of capital testimony is presented in eleven sections. Section I is this introduction. Section II discusses the concept of weighted average cost of capital ("WACC"). Section III presents the concept of capital structure and presents Staff's recommended capital structure for Pima in this proceeding. Section IV presents Staff's cost of debt for Pima. Section V discusses the concepts of ROE and risk. Section VI presents the methods employed by Staff to estimate Pima's ROE. Section VII presents the findings of Staff's ROE analysis. Section VIII presents Staff's final cost of equity estimates for Pima. Section IX presents Staff's ROR recommendation. Section X presents Staff's comments on the direct testimony of the Company's witness, Mr. Thomas J. Bourassa. Finally, section XI presents the conclusions.

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

A. Yes. I prepared ten schedules (JAC-1 to JAC-10) that support Staff's cost of capital analysis and exhibit JAC-A to present a restatement of the Company's schedule D-4.8 as discussed later.

Q. What is Staff's recommended rate of return for Pima?

A. Staff recommends a 7.8 percent overall ROR, as shown in Schedule JAC-1. Staff's ROR recommendation is based on cost of equity estimates for Pima that range from 9.0 percent using the capital asset pricing method ("CAPM") to 9.1 percent using the discounted cash flow method ("DCF").

Pima's Proposed Overall Rate of Return

Q. Briefly summarize Pima's proposed capital structure, cost of debt, ROE and overall ROR for this proceeding.

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

Table 1

	Weight	Cost	Weighted Cost
Long-term Debt	31.08%	7.182%	2.23%
Common Equity	68.92%	10.50%	7.24%
Cost of Capital/ROR			**9.47%**

Pima is proposing an overall rate of return of 9.47 percent.

II. THE WEIGHTED AVERAGE COST OF CAPITAL

Q. Briefly explain the cost of capital concept.

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

Q. What is the overall cost of capital?

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

Q. How is the WACC calculated?

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

Equation 1.

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

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

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

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

$WACC = (60\% * 6.0\%) + (40\% * 10.5\%)$

$WACC = 3.60\% + 4.20\%$

$WACC = 7.80\%$

The weighted average cost of capital in this example is 7.80 percent. The entity in this example would need to earn an overall rate of return of 7.80 percent to cover its cost of capital.

III. CAPITAL STRUCTURE

Background

Q. Please explain the capital structure concept.

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

Q. How is the capital structure expressed?

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

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

Table 2

Component			%
Short-Term Debt	$20,000	($20,000/$200,000)	10.0%
Long-Term Debt	$85,000	($85,000/$200,000)	42.5%
Preferred Stock	$15,000	($15,000/$200,000)	7.5%
Common Stock	$80,000	($80,000/$200,000)	40.0%
Total	$200,000		100%

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

Pima's Capital Structure

Q. What capital structure does Pima propose?

A. The Company proposes a pro forma capital structure composed of 31.08 percent debt and 68.92 percent common equity. Pima's proposal to use a pro forma capital structure relates to events expected to take place subsequent to the Company's December 31, 2010, test year end; events which would render use of its actual capital structure as of that date to be no longer valid for purposes of this proceeding. Specifically, on November 8, 2011, the Company filed a financing application[1] seeking authority to issue evidence of indebtedness in an amount not to exceed $8,370,000. As contemplated in that application, Pima plans to refinance its existing ($4,370,000) IDA bonds with lower cost debt, and obtain additional debt ($4,000,000) financing through a loan with Wells Fargo at an interest rate not to exceed 5.5 percent. Of this additional debt, $1,500,000 will be used to fund infrastructure improvements to the Company's water and wastewater systems, while $2,500,000 will be used to rebalance the Company's equity-rich capital structure to reflect a higher portion of debt. Pima's proposed pro forma capital structure is intended to give recognition to these prospective events.

Q. How does Pima's pro forma capital structure compare to capital structures of publicly-traded water utilities?

A. Schedule JAC-4 shows the capital structures of six publicly-traded water companies ("sample water companies" or "sample water utilities") as of December 2010. The

[1] Docket Nos. W-02199A-11-0403 and SW-02199A-11-0404.

average capital structure for the sample water utilities is comprised of approximately 51.6 percent debt and 48.4 percent equity.

Staff's Capital Structure

Q. What is Staff's recommended capital structure for Pima?

A. Staff recommends a pro forma capital structure composed of 37.9 percent debt and 62.1 percent equity. Staff presents its capital structure to only one decimal place while the Company presents its capital structure to two decimal places.

Q. Does Staff agree that use of a pro forma capital structure is appropriate in this proceeding?

A. Yes. Unless an unforeseen event preempts Pima's anticipated refinancing, a pro forma capital structure giving recognition to the prospective events noted above better reflects the Company's on-going capital costs. Use of a pro forma capital structure reflects a lower cost of debt and overall reduced cost of capital and, ultimately, a lower revenue requirement.

Q. Why is Staff recommending a different pro forma capital structure from the one proposed by Pima?

A. Upon review of Company witness Bourassa's Schedule D-1, Staff determined that adjustments made to Pima's test year ended December 31, 2010, Stockholder's Equity erroneously served to increase, rather than decrease, common equity, as appropriate. Specifically, when making an adjustment for accumulated depreciation to Pima's Water division plant, Mr. Bourassa erroneously decreased Shareholder's equity by $588,942 and, when making a comparable adjustment to the Company's Wastewater division plant, he erroneously increased Shareholder equity by $2,219,610. As a consequence, the net effect

of the two adjustments served to increase, instead of decrease as it should have, Pima's common equity by $1,630,668 ($2,219,610 - $588,942). Since Staff witness Crystal S. Brown accepted Mr. Bourassa's accumulated depreciation adjustments for purposes of her testimony, it is necessary for Staff to make a double adjustment to correctly restate Pima's common equity: first, to reverse Mr. Bourassa's erroneous adjustment, and second, to properly apply the correct accounting adjustment. Details of Staff's net $3,261,336 ($1,630,668 x 2) correction to Pima's common equity for Witness Bourassa's accumulated depreciation adjustments are shown in Schedule JAC-10.

Q. Did Staff make other adjustments to Pima's pro forma capital structure?

A. Yes. In her direct testimony, Staff witness Brown made several adjustments to the Company's Water and Wastewater plant and accumulated depreciation balances which, in turn, necessitated making additional adjustments to common equity. For the Wastewater Division, the net adjustment increases common equity by $6,128, and for the Water Division, the net adjustment decreases common equity by $1,580,905. Details of these Staff adjustments to common equity are presented in Schedule JAC-10.

Q. What was the total adjustment made by Staff to Pima's common equity?

A. In total, Staff's adjustments reduced the Company's common equity by $4,836,113. As shown in Schedule JAC-10, Staff recommends a capital structure consisting of $13,726,959 in common equity.

Q. Did Staff make other adjustments to Pima's capital structure?

A. No, it did not. Staff recommends a capital structure consisting of $8,370,000 debt and $13,726,959 common equity for a total capitalization of $22,096,959, as shown in Schedule JAC-10.

IV. COST OF DEBT

Q. What is the basis for the Company's proposed 7.18 percent cost of debt?

A. The Company's proposed cost of debt reflects its embedded cost of existing debt.

Q. Is the Company's proposed cost of debt consistent with its proposed pro forma capital structure?

A. No. As previously discussed, the Company proposes a capital structure that reflects refinancing all of its existing debt as well as retiring equity. Matching the anticipated debt cost with the pro forma debt refinancing is appropriate.

Q. What is the anticipated interest rate on the pro forma debt refinancing?

A. The Company's financing application[2] states that the maximum anticipated interest rate is 5.5 percent.

Q. What cost of debt is Staff recommending?

A. Staff provisionally recommends 5.5 percent, the Company's anticipated highest cost, for its proposed debt refinancing.[3] Staff may update its recommendation pending the actual interest rate on the refinancing.

V. RETURN ON EQUITY

Background

Q. Please define the term "cost of equity capital."

A. The cost of equity is the rate of return that investors expect to earn on their investment in a business entity given its risk. In other words, the cost of equity to the entity is the investors' expected rate of return on other investments of similar risk. As investors have a

[2] Docket Nos. W-02199A-11-0403 and SW-02199A-11-0404.
[3] On March 8, 2012, Staff filed a report recommending approval of the Company financing request.

wide selection of stocks to choose from, they will choose stocks with similar risks but higher returns. Therefore, the market determines the entity's cost of equity.

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

A. Yes, there is a positive correlation between interest rates and the cost of equity, as the two tend to move in the same direction. This relationship is reflected in the CAPM formula. The CAPM is a market-based model employed by Staff for estimating the cost of equity. The CAPM is further discussed in Section VI of this testimony.

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

A. A chronological chart of interest rates is a good tool to show interest rate history and identify trends. Chart 1 graphs intermediate U.S. treasury rates from January 18, 2002, to January 27, 2012.

Chart 1: Average Yield on 5-, 7-, & 10-Year Treasuries

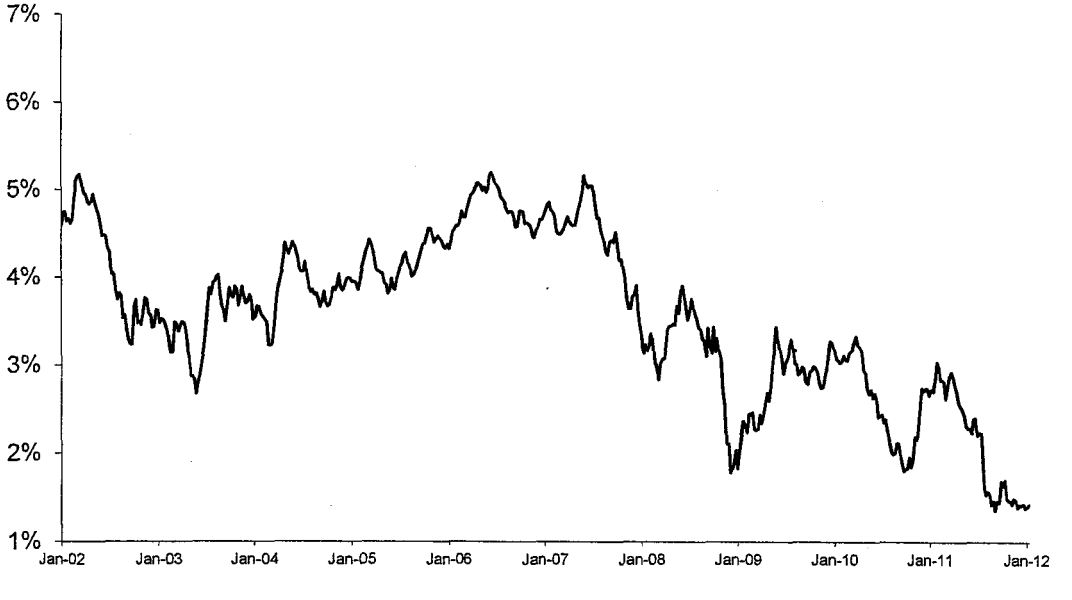
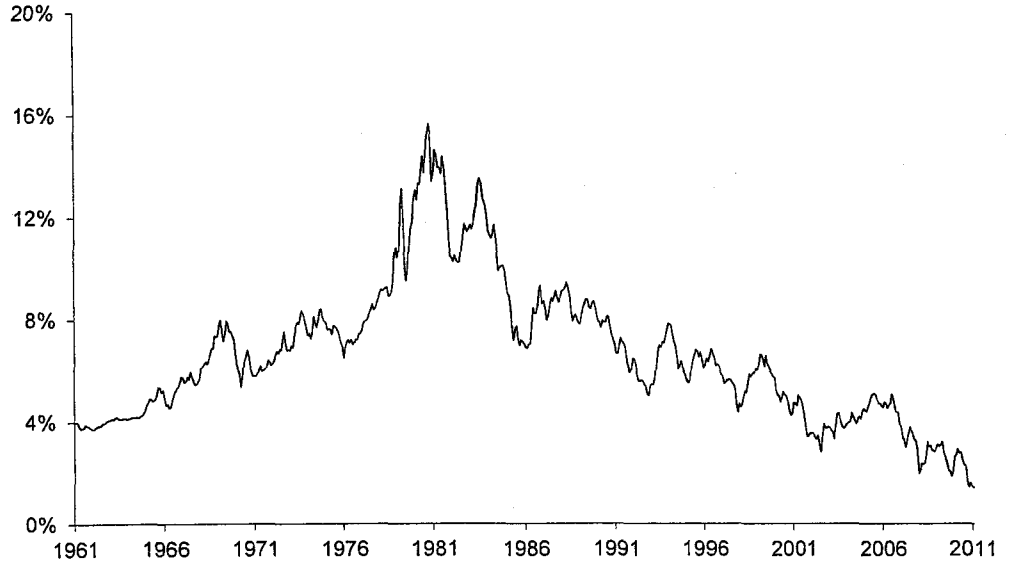


Chart 1 shows that intermediate-term interest rates trended downward from 2002 to mid-2003, trended upward through early-2008, trended downward through early-2009, trended upward through mid-2010, trended downward through late 2010, trended upward to mid-2011, and are currently trending down from the existing, relatively low rates.

Q. What has been the general trend in interest rates longer term?

A. U.S. Treasury rates from December 1961 - December 2011 are shown in Chart 2. The chart shows that interest rates trended upward through the mid-1980s and have trended downward over the last 25 years.

Chart 2: History of 5- and 10-Year Treasury Yields



Source: Federal Reserve

Q. Do these trends suggest anything in terms of cost of equity?

A. Yes. As previously noted, interest rates and cost of equity tend to move in the same direction; therefore, the cost of equity has declined in the past 25 years.

Q. Do actual returns represent the cost of equity?

A. No. The cost of equity represents investors' *expected* returns and not realized returns.

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

A. Yes. A comparison of betas, a component of the CAPM discussed in Section VI, for the water utility industry and the market provide insight into this relationship. In theory, the market has a beta value of 1.0, with stocks bearing greater risk (less risk) than the market having beta values higher than (lower than) 1.0, respectively. Furthermore, in accordance with the CAPM, the cost of equity capital moves in the same direction as beta. Therefore, because the average beta value (0.72)[4] for a water utility is less than 1.0, the required return on equity for a regulated water utility is below that of the market as a whole.

Risk

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

A. Risk, as it relates to an investment, is the variability or uncertainty of the returns on a particular security. Investors are risk averse and require a greater potential return to invest in relatively greater risk opportunities, i.e., investors require compensation for taking on additional risk. Risk is generally separated into two components. Those components

[4] See Schedule JAC-7.

are market risk (systematic risk) and non-market risk (diversifiable risk or firm-specific risk).

Q. What is market risk?

A. Market risk or systematic risk is the risk of an investment that cannot be reduced through diversification. Market risk stems from factors that affect all securities, such as recessions, war, inflation and high interest rates. Since these factors affect the entire market they cannot be eliminated through diversification. Market risk does not impact each security to the same degree. The degree to which a given security's return is affected by market fluctuations can be measured using Beta. Beta reflects the business risk and the financial risk of a security.

Q. Please define business risk.

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

Q. Please define financial risk.

A. Financial risk is the fluctuation of earnings, inherent in the use of debt financing, that may impair a firm's ability to provide adequate return; the higher the percentage of debt in a company's capital structure, the greater its exposure to financial risk.

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

A. Yes.

Q. Is a firm subject to any other risk?

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

Q. How does Pima's financial risk exposure compare to that of Staff's sample group of water companies?

A. JAC-4 shows the capital structures of the six sample water companies as of September 30, 2011, and Pima's adjusted capital structure as of the end of the test year, December 31, 2010. As shown, the sample water utilities were capitalized with approximately 51.6 percent debt and 48.4 percent equity, while Pima's capital structure consists of approximately 37.9 percent debt and 62.1 percent equity. Thus, Pima bears less financial risk than does Staff's sample companies.

Q. Is firm-specific risk measured by beta?

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

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

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

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

A. No. Investors who hold diversified portfolios can eliminate firm-specific risk and, consequently, do not require any additional return. Since investors who choose to be less

than fully diversified must compete in the market with fully-diversified investors, the former cannot expect to be compensated for unique risk.

VI. ESTIMATING THE COST OF EQUITY

Introduction

Q. Did Staff directly estimate the cost of equity for Pima?

A. No. Since Pima is not a publicly-traded company, Staff is unable to directly estimate its cost of equity due to the unavailability of financial information. Instead, Staff uses an average of a representative sample group to reduce the sample error resulting from random fluctuations in the market at the time the information is gathered.

Q. What companies did Staff select as proxies or comparables for Pima?

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

Q. What models did Staff implement to estimate Pima's cost of equity?

A. Staff used two market-based models to estimate the cost of equity for Pima: the DCF model and the CAPM.

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

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

Discounted Cash Flow Model Analysis

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

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

Q. Does Staff use more than one version of the DCF?

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

The Constant-Growth DCF

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

A. The constant-growth DCF formula used in Staff's analysis is:

Equation 2 :

$$K = \frac{D_1}{P_0} + g$$

where : K = the cost of equity
D_1 = the expected annual dividend
P_0 = the current stock price
g = the expected infinite annual growth rate of dividends

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

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

A. Staff calculated the expected yield component of the DCF formula by dividing the expected annual dividend[5] (D_1) by the spot stock price (P_0) after the close of market on February 29, 2012, as reported by *MSN Money*.

Q. Why did Staff use the February 29, 2012, spot price rather than a historical average stock price to calculate the dividend yield component of the DCF formula?

A. The current, rather than historic, market price is used in order to be consistent with financial theory. In accordance with the Efficient Market Hypothesis, the current stock price is reflective of all available information on a stock, and as such reveals investors' expectations of future returns. Use of historical average stock prices illogically discounts the most recent information in favor of less recent information. The latter is stale and is representative of underlying conditions that may have changed.

[5] *Value Line* Summary & Index, May 13, 2011.

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

A. The dividend growth component used by Staff is determined by the average of six different estimation methods, as shown in Schedule JAC-8. Staff calculated historical and projected growth estimates on dividend-per-share ("DPS"),[6] earnings-per-share ("EPS")[7] and sustainable growth bases.

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

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

Q. How did Staff estimate historical DPS growth?

A. Staff estimated historical DPS growth by calculating a compound annual DPS growth rate for each of its sample companies over the 10-year period, 2001-2010. As shown in Schedule JAC-5, the average historical DPS growth rate for the sample was 3.1 percent.

Q. How did Staff estimate projected DPS growth?

A. Staff calculated an average of the projected DPS growth rates for the sample water utilities from *Value Line* through the period, 2014-2016. The average projected DPS growth rate is 4.3 percent, as shown in Schedule JAC-5.

[6] Derived from information provided by *Value Line.*
[7] Derived from information provided by *Value Line.*

Q. How did Staff estimate historical EPS growth rate?

A. Staff estimated historical EPS growth by calculating a compound annual EPS growth rate for each of its sample companies over the 10-year period, 2001-2010. As shown in Schedule JAC-5, the average historical EPS growth rate for the sample was 4.5 percent.

Q. How did Staff estimate projected EPS growth?

A. Staff calculated an average of the projected EPS growth rates for the sample water utilities from *Value Line* through the period, 2014-2016. The average projected EPS growth rate is 6.7 percent, as shown in Schedule JAC-5.

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

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

Q. What is retention growth?

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

Q. What is the formula for the retention growth rate?

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

Equation 3 :

$$\text{Retention Growth Rate} = br$$

where : b = the retention ratio (1 – dividend payout ratio)
r = the accounting/book return on common equity

Q. How did Staff calculate the average historical retention growth rate (br) for the sample water utilities?

A. Staff calculated the mean of the 10-year average historical retention rate for each sample company over the period, 2001-2010. As shown in Schedule JAC-6, the historical average retention (br) growth rate for the sample is 2.9 percent.

Q. How did Staff estimate its projected retention growth rate (br) for the sample water utilities?

A. Staff used the retention growth projections for the sample water utilities for the period, 2014-2016, from *Value Line.* As shown in Schedule JAC-6, the projected average retention growth rate for the sample companies is 4.5 percent.

Q. When can retention growth provide a reasonable estimate of future dividend growth?

A. The retention growth rate is a reasonable estimate of future dividend growth when the retention ratio is reasonably constant and the entity's market price to book value ("market-to-book ratio") is expected to be 1.0. The average retention ratio has been reasonably constant in recent years. However, the market-to-book ratio for the sample water utilities is 1.9, notably higher than 1.0, as shown in Schedule JAC-7.

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

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

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

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

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

A. Yes.

Q. What is stock financing growth?

A. Stock financing growth is the growth in an entity's dividends due to the sale of stock by that entity. Stock financing growth is a concept derived by Myron Gordon and discussed in his book *The Cost of Capital to a Public Utility.*[8] Stock financing growth is the product of the fraction of the funds raised from the sale of stock that accrues to existing shareholders (v) and the fraction resulting from dividing the funds raised from the sale of stock by the existing common equity (s).

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

A. The mathematical formula for stock financing growth is:

Equation 4:

$$\text{Stock Financing Growth} = vs$$

where: v = Fraction of the funds raised from the sale of stock that accrues to existing shareholders

s = Funds raised from the sale of stock as a fraction of the existing common equity

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

A. Variable v is calculated as follows:

Equation 5:

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

[8] MYRON J. GORDON, THE COST OF CAPITAL TO A PUBLIC UTILITY 31-35 (MSU Public Utilities Studies 1974).

For example, assume that a share of stock has a $30 book value and is selling for $45. Then, to find the value of *v*, the formula is applied:

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

In this example, *v* is equal to 0.33.

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

A. Variable *s* is calculated as follows:

Equation 6:

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

For example, assume that an entity has $150 in existing equity, and it sells $30 of stock. Then, to find the value of *s*, the formula is applied:

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

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

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

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

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

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

Q. What *vs* estimate did Staff calculate from its analysis of the sample water utilities?

A. Staff estimated an average stock financing growth of 2.3 percent for the sample water utilities, as shown in Schedule JAC-6.

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

A. Holding all other factors constant, one would expect market forces to move the company's stock price lower, closer to a market-to-book ratio of 1.0, to reflect investor expectations of reduced expected future cash flows.

Q. If the average market-to-book ratio of Staff's sample water utilities were to fall to 1.0 due to authorized ROEs equaling their cost of equity, would inclusion of the vs term be necessary to Staff's constant-growth DCF analysis?

A. No. As discussed above, when the market-to-book ratio is equal to 1.0, none of the funds raised from the sale of stock by the entity accrues to the benefit of existing shareholders

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

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

A. Staff's estimated historical sustainable growth rate is 5.3 percent based on an analysis of earnings retention for the sample water companies. Staff's projected sustainable growth rate is 7.1 percent based on retention growth projected by *Value Line.* Schedule JAC-6 presents Staff's estimates of the sustainable growth rate.

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

A. Staff's expected dividend growth rate (g) is 5.2 percent, which is the average of historical and projected DPS, EPS, and sustainable growth estimates. Staff's calculation of the expected infinite annual growth rate in dividends is shown in Schedule JAC-8.

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

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

The Multi-Stage DCF

Q. Why did Staff implement the multi-stage DCF model to estimate Pima's cost of equity?

A. Staff generally uses the multi-stage DCF model to consider the assumption that dividends may not grow at a constant rate. The multi-stage DCF uses two stages of growth, the first

stage (near-term) having a duration of four years, followed by the second stage (long-term) of constant growth.

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

A. The multi-stage DCF formula is shown in the following equation:

Equation 7 :

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

Where : P_0 = current stock price
D_t = dividends expected during stage 1
K = cost of equity
n = years of non – constant growth
D_n = dividend expected in year n
g_n = constant rate of growth expected after year n

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

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

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

A. The stage-1 growth rate is based on *Value Line*'s projected dividends for the next twelve months, when available, and on the average dividend growth (g) rate of 5.2 percent, calculated in Staff's constant DCF analysis for the remainder of the stage.

Q. How did Staff estimate long-term (stage-2) growth?

A. Staff calculated the stage-2 growth rate using the arithmetic mean rate of growth in Gross Domestic Product ("GDP") from 1929 to 2011.[9] Using the GDP growth rate assumes that the water utility industry is expected to grow at the same rate as the overall economy.

Q. What is the historical GDP growth rate that Staff used to estimate stage-2 growth?

A. Staff used 6.5 percent to estimate the stage-2 growth rate.

Q. What is Staff's multi-stage DCF estimate for the sample utilities?

A. Staff's multi-stage DCF estimate is 9.7 percent, as shown in Schedule JAC-3.

Q. What is Staff's overall DCF estimate for the sample utilities?

A. Staff's overall DCF estimate is 9.1 percent. Staff calculated the overall DCF estimate by averaging the constant growth DCF (8.5%) and multi-stage DCF (9.7%) estimates, as shown in Schedule JAC-3.

Capital Asset Pricing Model

Q. Please describe the CAPM.

A. The CAPM is used to determine the prices of securities in a competitive market. The CAPM model describes the relationship between a security's investment risk and its market rate of return. Under the CAPM, an investor requires the expected return of a security to equal the rate on a risk-free security plus a risk premium. If the investor's expected return does not meet or beat the required return, the investment is not economically justified. The model also assumes that investors will sufficiently diversify

[9] www.bea.doc.gov.

their investments to eliminate any non-systematic or unique risk.[10] In 1990, Professors Harry Markowitz, William Sharpe, and Merton Miller earned the Nobel Prize in Economic Sciences for their contribution to the development of the CAPM.

Q. Did Staff use the same sample water utilities in its CAPM and DCF cost of equity estimation analyses?

A. Yes. Staff's CAPM cost of equity estimation analysis uses the same sample water companies as its DCF cost of equity estimation analysis.

Q. What is the mathematical formula for the CAPM?

A. The mathematical formula for the CAPM is:

Equation 8:

$$K = R_f + \beta (R_m - R_f)$$

where:
R_f = risk free rate
R_m = return on market
β = beta
$R_m - R_f$ = market risk premium
K = expected return

The equation shows that the expected return (K) on a risky asset is equal to the risk-free interest rate (R_f) plus the product of the market risk premium ($R_m - R_f$) multiplied by beta (β) where beta represents the riskiness of the investment relative to the market.

[10] The CAPM makes the following assumptions: 1) single holding period; 2) perfect and competitive securities market; 3) no transaction costs; 4) no restrictions on short selling or borrowing; 5) the existence of a risk-free rate; and 6) homogeneous expectations.

Q. What is the risk-free rate?

A. The risk-free rate is the rate of return of an investment free of default risk.

Q. What does Staff use as surrogates to represent estimations of the risk-free rates of interest in its historical and current market risk premium CAPM methods?

A. Staff uses separate parameters as surrogates for the estimations of the risk-free rates of interest for the historical market risk premium CAPM cost of equity estimation and the current market risk premium CAPM cost of equity estimation. Staff uses the average of three (5-, 7-, and 10-year) intermediate-term U.S. Treasury securities' spot rates in its historical market risk premium CAPM cost of equity estimation, and the 30-year U.S. Treasury bond spot rate in its current market risk premium CAPM cost of equity estimation. Rates on U.S. Treasuries are largely verifiable and readily available.

Q. What does beta measure?

A. Beta measures the volatility, or systematic risk, of a security relative to the market. Since systematic risk cannot be diversified away, it is the only risk that is relevant when estimating a security's required return. Using a baseline market beta of 1.0, a security with a beta less than 1.0 will be less volatile than the market. A security with a beta greater than 1.0 will be more volatile than the market.

Q. How did Staff estimate Pima's beta?

A. Staff used the average of the *Value Line* betas for the sample water utilities as a proxy for the Company's beta. Schedule JAC-7 shows the *Value Line* betas for each of the sample water utilities. The 0.72 average beta for the sample water utilities is Staff's estimated beta for Pima. A security with a 0.72 beta has less volatility than the market.

Q. What is the market risk premium ($R_m - R_f$)?

A. The market risk premium is the expected return on the market, minus the risk-free rate. Simplified, it is the return an investor expects as compensation for market risk.

Q. What did Staff use for the market risk premium?

A. Staff uses separate calculations for the market risk premium in its historical and current market risk premium CAPM methods.

Q. How did Staff calculate an estimate for the market risk premium in its historical market risk premium CAPM method?

A. Staff uses the intermediate-term government bond income returns published in the Ibbotson Associates' *Stocks, Bonds, Bills, and Inflation 2011 Yearbook* to calculate the historical market risk premium. Ibbotson Associates calculates the historical risk premium by averaging the historical arithmetic differences between the S&P 500 and the intermediate-term government bond income returns for the period 1926-2010. Staff's historical market risk premium estimate is 7.2 percent, as shown in Schedule JAC-3.

Q. How did Staff calculate an estimate for the market risk premium in its current market risk premium CAPM method?

A. Staff solves equation 8 above to arrive at a market risk premium using a DCF-derived expected return (K) of 14.67 (2.2 + 12.47[11]) percent using the expected dividend yield (2.2 percent over the next twelve months) and the annual per share growth rate (12.47 percent) that *Value Line* projects for all dividend-paying stocks under its review[12] along with the current long-term risk-free rate (30-year Treasury note at 3.08 percent) and the market's

[11] The three to five year price appreciation is 60%. $1.60^{0.25}$ - 1 = 12.47%.
[12] February 24, 2012 issue date.

average beta of 1.0. Staff calculated the current market risk premium as 11.59 percent,[13] as shown in Schedule JAC-3.

Q. What is the result of Staff's historical market risk premium CAPM and current market risk premium CAPM cost of equity estimations for the sample utilities?

A. Staff's cost of equity estimates are 6.6 percent using the historical market risk premium CAPM and 11.4 percent using the current market risk premium CAPM.

Q. What is Staff's overall CAPM estimate for the sample utilities?

A. Staff's overall CAPM cost of equity estimate is 9.0 percent which is the average of the historical market risk premium CAPM (6.6 percent) and the current market risk premium CAPM (11.4 percent) estimates, as shown in Schedule JAC-3.

VII. SUMMARY OF STAFF'S COST OF EQUITY ANALYSIS

Q. What is the result of Staff's constant-growth DCF analysis to estimate the cost of equity for the sample water utilities?

A. Schedule JAC-3 shows the result of Staff's constant-growth DCF analysis. The result of Staff's constant-growth DCF analysis is as follows:

$$k = 3.3\% + 5.2\%$$

$$k = \mathbf{8.5\%}$$

Staff's constant-growth DCF estimate of the cost of equity for the sample water utilities is 8.5 percent.

[13] 14.67% = 3.08% + (1) (11.59%).

Q. What is the result of Staff's multi-stage DCF analysis to estimate of the cost of equity for the sample utilities?

A. Schedule JAC-9 shows the result of Staff's multi-stage DCF analysis. The result of Staff's multi-stage DCF analysis is:

Company	Equity Cost Estimate (k)
American States Water	9.6%
California Water	9.8%
Aqua America	9.4%
Connecticut Water	9.8%
Middlesex Water	10.5%
SJW Corp	9.5%
Average	**9.7%**

Staff's multi-stage DCF estimate of the cost of equity for the sample water utilities is 9.7 percent.

Q. What is Staff's overall DCF estimate of the cost of equity for the sample utilities?

A. Staff's overall DCF estimate of the cost of equity for the sample utilities is 9.1 percent. Staff calculated an overall DCF cost of equity estimate by averaging Staff's constant growth DCF (8.5 percent) and Staff's multi-stage DCF (9.7 percent) estimates, as shown in Schedule JAC-3.

Q. What is the result of Staff's historical market risk premium CAPM analysis to estimate of the cost of equity for the sample utilities?

A. Schedule JAC-3 shows the result of Staff's CAPM analysis using the historical risk premium estimate. The result is as follows:

$$k = 1.4\% + 0.72 * 7.2\%$$
$$k = 6.6\%$$

Staff's CAPM estimate (using the historical market risk premium) of the cost of equity to the sample water utilities is 6.6 percent.

Q. What is the result of Staff's current market risk premium CAPM analysis to estimate the cost of equity for the sample utilities?

A. Schedule JAC-3 shows the result of Staff's CAPM analysis using the current market risk premium estimate. The result is:

$$k = 3.1\% + 0.72 * 11.6\%$$

$$k = 11.4\%$$

Staff's CAPM estimate (using the current market risk premium) of the cost of equity to the sample water utilities is 11.4 percent.

Q. What is Staff's overall CAPM estimate of the cost of equity for the sample utilities?

A. Staff's overall CAPM estimate for the sample utilities is 9.0 percent. Staff's overall CAPM estimate is the average of the historical market risk premium CAPM (6.6 percent) and the current market risk premium CAPM (11.4 percent) estimates, as shown in Schedule JAC-3.

Q. Please summarize the results of Staff's cost of equity analysis for the sample utilities.

A. The following table shows the results of Staff's cost of equity analysis:

Table 2

Method	Estimate
Average DCF Estimate	9.1%
Average CAPM Estimate	9.0%
Overall Average	**9.1%**

Staff's average estimate of the cost of equity to the sample water utilities is 9.1 percent.

VIII. FINAL COST OF EQUITY ESTIMATES FOR PIMA

Q. Please compare Pima's capital structure to that of the six sample water companies.

A. The average capital structure for the sample water utilities is composed of 48.4 percent equity and 51.6 percent debt, as shown in Schedule JAC-4. Pima's capital structure is composed of 62.1 percent equity and 37.9 percent debt. In this case, since Pima's capital structure is less leveraged than that of the average sample water utilities' capital structure, its stockholders bear less financial risk than the sample water utilities.

Q. Does Pima's reduced financial risk affect its cost of equity?

A. Yes. As previously discussed, financial risk is a component of market risk and investors require compensation for market risk. Since Pima's financial risk is less than that of the average sample water companies, its cost of equity is lower than that of the sample water companies.

Q. Is Staff recommending a downward financial risk adjustment to Pima's cost of equity to recognize its lower financial risk?

A. No. Staff normally applies two criteria in assessing whether application of a downward financial risk adjustment is appropriate. The first consideration is whether the utility has a reasonably economical capital structure. Staff considers a capital structure composed of no more than 60 percent equity to meet this condition. If equity exceeds 60 percent, as it does for Pima, Staff considers application of a downward financial risk adjustment to be appropriate if the utility meets the second criterion. The second condition is whether the utility has access to equity capital markets. Although Pima's equity exceeds 60 percent, it does not have access to the equity capital markets; accordingly, Staff is not recommending a downward financial risk adjustment to Pima's cost of equity. Staff's methodology for applying a downward financial risk adjustment encourages a utility with access to the

equity capital markets to use that access to manage its capital structure with economical efficiency and encourages a utility that lacks access to the equity capital markets to maintain a healthy capital structure.

IX. RATE OF RETURN RECOMMENDATION

Q. What overall rate of return did Staff determine for Pima?

A. Staff determined a 7.8 percent ROR for the Company, as shown in Schedule JAC-1 and the following table:

Table 3

	Weight	Cost	Weighted Cost
Long-term Debt	37.9%	5.5%	2.1%
Common Equity	62.1%	9.1%	5.7%
Overall ROR			**7.8%**

X. STAFF RESPONSE TO COMPANY'S COST OF CAPITAL WITNESS MR. THOMAS J. BOURRASSA

Q. Please summarize Mr. Bourassa's analyses and recommendations.

A. Mr. Bourassa recommends a 10.50 percent ROE based on estimates derived from two constant growth DCF analyses, two CAPM analyses, and a Build-up risk premium model designed to serve as a check to his DCF and CAPM results for a sample group of six publicly-traded water companies. His recommended ROE includes a downward 40-basis-point financial risk adjustment, offset by an 80-basis-point small-company risk premium to compensate the Company for small size.

In his Future Growth DCF model, Mr. Bourassa relies exclusively on analysts' forecasts for EPS growth to estimate the expected dividend growth (g) component. Mr. Bourassa

considers analysts' estimates of growth to be "the best measure of growth for use in the DCF for utility stocks," and only "reluctantly" presents DCF estimates based upon historical measures of growth (see Bourassa Direct at 33, lines 11-13). In his Past and Future Growth DCF model, he estimates (g) giving 50 percent weight to historical measures of growth in annual share price, BVPS, EPS and DPS over a five-year period, and 50 percent weight to the (g) value obtained from analysts' forecasts for EPS growth.

As discussed below, due to a mathematical error in TJB Schedule D-4.4, the expected dividend growth (g) rate used in Mr. Bourassa's Past and Future Growth DCF model is inflated. Moreover, in both his DCF models, Mr. Bourassa overstates the market cost of equity by failing to properly account for a 2-for-1 stock split for one of his sample companies (California Water) when calculating the current dividend yield (D_0/P_0) component.

For purposes of his CAPM analyses, Mr. Bourassa presents estimates based upon both historical and current market risk premia. In both, however, he uses a 5.0 percent forecasted risk free (R_f) rate based, in part, upon estimates from *Value Line* and Blue Chip Consensus Forecasts for the 30-year long-term Treasury yield covering the period 2012-2013. Lastly, Mr. Bourassa presents estimates from a build-up model based upon the Duff and Phelps risk premium study designed as a check to his DCF and CAPM estimates.

Q. Does Staff have any comments on Mr. Bourassa's sole reliance on analysts' forecasts to estimate DPS growth in his Future Growth DCF analysis?

A. Yes. Generally, analysts' forecasts are known to be overly optimistic. Sole use of analysts' forecasts to calculate the expected dividend growth rate, (g), serves to inflate that

component of the DCF model and, consequently, the estimated cost of equity. Also, exclusive reliance on analysts' forecasts of earnings growth to forecast DPS is inappropriate because it assumes that investors do not look at other relevant information such as historical dividend and earnings growth.

Q. Does the narrative of Mr. Bourassa's Direct testimony state that he relies exclusively on analysts' forecasts of EPS growth to estimate the expected dividend growth rate (g) in his Future Growth DCF model?

A. No. He states only that he used "analyst growth forecasts," and that these "analyst estimates of growth" could be found in Schedule D-4.6 (see Bourassa Direct at 31, lines 21-24). Only when referring to TJB Schedule D-4.6 does one learn that he has relied exclusively on analysts' forecasts for EPS to estimate (g).

Q. How does Staff respond to Mr. Bourassa's statement that "empirical evidence indicates that analyst estimates of growth are the best measure of growth for use in the DCF for utility stocks"[14]?

A. The appropriate growth rate to use in the DCF model is the dividend growth rate expected by *investors*, not by analysts. Investors are assumed to be rational, and as such will want to take into consideration all relevant available information prior to making an investment decision. Therefore, it is reasonable to assume that investors would consider both historical measures of past growth, as well as analysts' forecasts of future growth.

[14] Direct testimony of Mr. Thomas J. Bourassa, page 33, lines 12-13.

Q. Does Staff have evidence to support its assertion that exclusive reliance on analysts' forecasts of earnings growth in the DCF model would result in inflated cost of equity estimates?

A. Yes. Experts in the financial community have commented on the optimism in analysts' forecasts of future earnings.[15] A study cited by David Dreman in his book *Contrarian Investment Strategies: The Next Generation* found that *Value Line* analysts were optimistic in their forecasts by 9 percent annually, on average for the 1987 – 1989 period. Another study conducted by David Dreman found that between 1982 and 1997, analysts overestimated the growth of earnings of companies in the S&P 500 by 188 percent.

Burton Malkiel, of Princeton University, conducted a study of the 1- and 5-year earnings forecasts made by some of the most respected names in the investment business. His results showed that, when compared with actual earnings growth rates, the 5-year forecasts made by professional analysts were far less accurate than estimates derived from several naïve forecasting models, such as the long-run growth rate in national income. In the following excerpt from his book, *A Random Walk Down Wall Street*, Professor Malkiel discusses the results of his study:

> When confronted with the poor record of their five-year growth estimates, *the security analysts honestly, if sheepishly, admitted that five years ahead is really too far in advance to make reliable projections*. They protested that although long-term projections are admittedly important, they really ought to be judged on their ability to project earnings changes one year ahead. Believe it or not, it turned out that their one-year forecasts were even worse than their five-year projections.
>
> The analysts fought back gamely. They complained that it was unfair to judge their performance on a wide cross section of

[15] See Seigel, Jeremy J. Stocks for the Long Run. 2002. McGraw-Hill. New York. p. 100. Dreman, David. *Contrarian Investment Strategies: The Next Generation*. 1998. Simon & Schuster. New York. pp. 97-98. Malkiel, Burton G. *A Random Walk Down Wall Street*. 2003. W.W. Norton & Co. New York. p. 175.
Testimony of Professors Myron J. Gordon and Lawrence I. Gould, consultant to the Trial Staff (Common Carrier Bureau), FCC Docket 79-63, p. 95.

> industries, because earnings for high-tech firms and various "cyclical" companies are notoriously hard to forecast. *"Try us on utilities," one analyst confidently asserted. At the time they were considered among the most stable group of companies because of government regulation. So we tried it and they didn't like it. Even the forecasts for the stable utilities were far off the mark.*[16] (Emphasis added).

Q. Are investors aware of the problems related to analysts' forecasts?

A. Yes. In addition to books, there are numerous published articles appearing in *The Wall Street Journal* and other financial publications that cast doubt on the accuracy of research analysts' forecasts.[17] Investors, being keenly aware of these inherent biases in forecasts, will use other methods to assess future growth.

Q. Should DPS growth be considered in a DCF analysis?

A. Yes. As previously stated in section VI of this testimony, the current market price of a stock is equal to the present value of all expected future dividends, not future earnings. Professor Jeremy Siegel from the Wharton School of Finance stated:

> Note that the price of the stock is always equal to the present value of all future *dividends* and not the present value of future earnings. Earnings not paid to investors can have value only if they are paid as dividends or other cash disbursements at a later date. Valuing stock as the present discounted value of future earnings is manifestly wrong and greatly overstates the value of the firm.[18]

For valuation purposes, therefore, earnings paid out in the form of a dividend have paramount relevancy to investors. Dividends, unlike earnings, cannot be manipulated or

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[16] BURTON G. MALKIEL, A RANDOM WALK DOWN WALL STREET 175 (W.W. Norton & Co. 2003).
[17] See Smith, Randall & Craig, Suzanne. "Big Firms Had Research Ploy: Quiet Payments Among Rivals." *The Wall Street Journal*. April 30, 2003. Brown, Ken. "Analysts: Still Coming Up Rosy." *The Wall Street Journal*. January 27, 2003. p. C1. Karmin, Craig. "Profit Forecasts Become Anybody's Guess." *The Wall Street Journal*. January 21, 2003. p. C1. Gasparino, Charles. "Merrill Lynch Investigation Widens." *The Wall Street Journal*. April 11, 2002. p. C4. Elstein, Aaron. "Earnings Estimates Are All Over the Map." *The Wall Street Journal*. August 2, 2001. p. C1. Dreman, David. "Don't Count on those Earnings Forecasts." *Forbes*. January 26, 1998. p. 110.
[18] Seigel, Jeremy J. Stocks for the Long Run. 2002. McGraw-Hill. New York. P. 93.

overstated. Thus, historical DPS growth should receive appropriate consideration when estimating the market cost of equity in the DCF model.

Q. How does Mr. Bourassa calculate the expected dividend growth rate (g) used in his Past and Future Growth DCF model?

A. Mr. Bourassa estimates the expected dividend growth rate (g) providing 50 percent weight to historical measures of growth in average annual share price, book value per share, earnings per share and dividends per share for his sample companies over a 5-year period and 50 percent weight to the average of analysts' forecasts for EPS growth used in his Future Growth DCF.

Q. Does Staff have any comment on Mr. Bourassa's use of growth in average annual share price to estimate the expected dividend growth (g) component in his Past and Future Growth DCF model?

A. Yes. Staff takes exception to the use of average annual stock price appreciation as a growth parameter by which to estimate (g). In and of itself, share price appreciation is not a determinant of growth, and for this reason Staff considers its use as a growth parameter to be inappropriate.

Q. Has Mr. Bourassa done anything which might serve to overstate the expected dividend growth rate (g) in his Past and Future Growth DCF model?

A. Yes. In reviewing TJB Schedule D-4.4, Staff determined that Mr. Bourassa made a mathematical error when calculating the average 5-year growth rate in share price appreciation, BVPS, EPS and DPS for American States Water, one of his sample companies. Specifically, in column [5] of that schedule, he overstates average growth for American States Water by 110-basis points, reporting it to be 6.9 percent when it should

be 5.8 percent. That error, in turn, served to inflate Mr. Bourassa's calculations of the combined future and historical growth averages in column [7], resulting in an overstatement of 9 basis points to his 5.27 percent expected dividend growth (g) rate. When properly calculated, the sample average (g) value used in Mr. Bourassa's Past and Future Growth DCF model is 5.18 percent.

Q. How has Mr. Bourassa overstated the current dividend yield (D_0/P_0) in his DCF analyses?

A. In June, 2011, a 2-for-1 stock split was effectuated by California Water,[19] one of Mr. Bourassa's sample companies. In calculating the current dividend yield (D_0/P_0) for his sample group of companies, however, a review of TJB Schedule D-4.7 shows that, while Mr. Bourassa appropriately adjusted for the split by cutting the stock price in half, he failed to do likewise to the current dividend (D_0). As a consequence, the current dividend yield (D_0/P_0) reported for California Water, 6.43 percent, is twice what it should be, resulting in a significant overstatement to Mr. Bourassa's calculated sample average current dividend yield (D_0/P_0) of 3.77 percent. Properly calculated, his sample average (D_0/P_0) is 3.25 percent, a value 52 basis points *lower* than that used in each of his two DCF analyses.

Q. Does this mean that Mr. Bourassa has overstated the estimated cost of equity in his two DCF analyses?

A. Yes, it does. The current dividend (D_0) is used to calculate next year's expected dividend (D_1) in the following way:

$$(D_0) * (1 + g) = (D_1)$$

[19] *Value Line* Investment Survey, July 22, 2011.

Thus, in failing to properly adjust California Water's current dividend (D_0) for the stock split, the above noted 52-basis-point overstatement to Mr. Bourassa's 3.77 percent sample average current dividend yield (D_0/P_0) flows through to his sample average expected dividend yield (D_1/P_0), as well. Furthermore, for purposes of the cost of equity results obtained by his Past and Future Growth DCF model, this overstatement is magnified by the aforementioned mathematical error found in TJB Schedule D-4.4 which served to inflate the expected dividend growth (g) rate.

Q. Has Staff quantified the magnitude of the overstatement to Mr. Bourassa's DCF results stemming from these two issues?

A. Yes. After correcting for both the mathematical error to TJB Schedule D-4.4 and the oversight regarding the California Water stock split in TJB Schedule D-4.7, Staff determined that Mr. Bourassa's average DCF cost of equity would fall by 60 basis points, as shown below:

	Staff Adjusted	Bourassa
DCF – Past and Future Growth	8.6%	9.2%
DCF – Future Growth	9.2%	9.8%
Average DCF	8.9%	9.5%

Details of Staff's adjustments can be found in Exhibit JAC-A.

Q. In his testimony, does Mr. Bourassa give equal weight to the results derived from each of his two constant growth DCF models?

A. Yes. As presented in TJB Schedule D-4.8, Mr. Bourassa gives equal weight to the results derived from his Past and Future Growth DCF and Future Growth DCF models, taking the average of the two and carrying it forward to TJB Schedule D-4.1.

Q. In his testimony, does Mr. Bourassa give equal weight to the results derived from his DCF and CAPM models?

A. Yes. As presented in TJB Schedule D-4.1, Mr. Bourassa gives equal weight to the results derived from both his DCF and CAPM models, using the average midpoint estimate for each in calculating a preliminary cost of equity for the Company.

Q. Turning to Mr. Bourassa's CAPM analyses, does Staff agree with his use of a forecasted risk-free interest rate?

A. No. The appropriate risk-free interest rate to be used is the current rate borne by investors in the market. Use of a forecasted risk-free rate only serves to overstate the estimated market cost of equity.

Q. What risk-free rate does Mr. Bourassa use in his CAPM analyses?

A. In both his historical and current market risk premia CAPM analyses, Mr. Bourassa uses a forecasted risk-free rate (R_f) based, in part, upon estimates from *Value Line* and Blue Chip Consensus Forecasts for the 30-year long-term Treasury yield covering the period, 2012-2013. The forecasted rate used by Mr. Bourassa in his CAPM analyses is 5.0 percent. At present, the current 30-year long-term Treasury yield is 3.08 percent, suggesting that he has overstated the risk-free rate in his CAPM analysis by some 190 basis points.

Q. Does Staff have any comment regarding the estimates derived from Mr. Bourassa's build-up model based upon the Duff and Phelps risk premium study?

A. Yes. The results of Mr. Bourassa's build-up model were designed as a check to his DCF and CAPM estimates. Staff concludes that his build-up risk premium model provides

little support for his recommended cost of equity because the results far exceed his DCF and CAPM estimates.

Q. Does Staff have any comment regarding Mr. Bourassa's proposed downward 40-basis-point financial risk adjustment?

A. Yes. As previously discussed in Section VIII, Staff does not support a downward financial risk adjustment since Pima does not have access to the equity financial markets.

Q. Does Staff have any comment regarding Mr. Bourassa's proposed 80-basis-point small company risk premium?

A. Yes. The Commission previously ruled in Decision No. 64282[20] for Arizona Water Company that firm size does not warrant recognition of a risk premium stating, "We do not agree with the Company's proposal to assign a risk premium to Arizona Water based on its size relative to other publicly traded water utilities . . . ." The Commission affirmed its previous ruling in Decision No. 64727[21] for Black Mountain Gas Company, agreeing with Staff that "the 'firm size phenomenon' does not exist for regulated utilities, and that therefore there is no need to adjust for risk for small firm size in utility regulation." All companies have firm-specific risks; therefore, the existence of unique risks for a company does not lead to the conclusion that its total risk is greater than other entities. Moreover, as previously discussed, investors cannot expect compensation for firm-specific risk since it can be eliminated through diversification.

[20] Dated Dec. 28, 2001, Docket No. W-01445A-00-0962.
[21] Dated Apr. 17, 2002, Docket No. G-03703A-01-0263.

XI. CONCLUSION

Q. Please summarize Staff's recommendations.

A. Staff recommends that the Commission adopt a 7.8 percent overall rate of return for the Company based on a capital structure composed of 37.9 percent debt and 62.1 percent equity, Staff's 9.1 percent cost of equity estimate and 5.5 percent cost of debt.

Q. Does this conclude your direct testimony?

A. Yes, it does.

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

[A]	[B]	[C]	[D]
Description	Weight (%)	Cost	Weighted Cost
Staff Recommended Structure			
Debt	37.9%	5.5%	2.1%
Common Equity	62.1%	9.1%	5.7%
Weighted Average Cost of Capital			**7.8%**
Company Proposed Structure[1]			
Debt	31.1%	7.2%	2.2%
Common Equity	68.9%	10.5%	7.2%
Weighted Average Cost of Capital[2]			**9.5%**

[1] Rounded to one decimal point.

[2] Rounded from 9.47 percent.

[D] : [B] x [C]

Supporting Schedules: JAC-3 and JAC-4.

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

[A]	[B]		[C]		[D]		[E]
DCF Method			D_1/P_0 [1]	+	g [2]	=	k
Constant Growth DCF Estimate			3.3%	+	5.2%	=	8.5%
Multi-Stage DCF Estimate						=	9.7%
Average DCF Estimate							**9.1%**
CAPM Method	Rf	+	β [5]	x	(Rp)	=	k
Historical Market Risk Premium [3]	1.4%	+	0.72	x	7.2% [6]	=	6.6%
Current Market Risk Premium [4]	3.1%	+	0.72	x	11.6% [7]	=	11.4%
Average CAPM Estimate							**9.0%**
					Average of Overall Estimates		**9.1%**
					Financial risk adjustment		0.0%
					Total		**9.1%**

1 MSN Money and Value Line

2 Schedule JAC-8

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

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

5 Value Line

6 Historical Market Risk Premium (Rp) calculated from Ibbotson Associates SBBI 2011 Yearbook data

7 Testimony

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

[A]	[B]	[C]	[D]
Company	Debt	Common Equity	Total
American States Water	46.6%	53.4%	100.0%
California Water	52.2%	47.8%	100.0%
Aqua America	54.7%	45.3%	100.0%
Connecticut Water	55.1%	44.9%	100.0%
Middlesex Water	44.3%	55.7%	100.0%
SJW Corp	56.6%	43.4%	100.0%
Average Sample Water Utilities	**51.6%**	**48.4%**	**100.0%**
Pima - Actual Capital Structure	**37.9%**	**62.1%**	**100.0%**

Source:
Sample Water Companies from Value Line

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

[A]	[B]	[C]	[D]	[E]
Company	Dividends Per Share 2001 to 2010 DPS[1]	Dividends Per Share Projected DPS[1]	Earnings Per Share 2001 to 2010 EPS[1,2]	Earnings Per Share Projected EPS[1]
American States Water	1.9%	4.9%	5.7%	3.2%
California Water	0.8%	3.9%	3.3%	7.4%
Aqua America	7.7%	5.7%	6.7%	9.2%
Connecticut Water	1.5%	No Projection	0.9%	No Projection
Middlesex Water	1.7%	2.1%	6.5%	4.6%
SJW Corp	5.2%	4.8%	3.8%	9.1%
Average Sample Water Utilities	**3.1%**	**4.3%**	**4.5%**	**6.7%**

1 Value Line

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

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

[A]	[B]	[C]	[D]	[E]	[F]
Company	Retention Growth **2001 to 2010** br	Retention Growth Projected br	Stock Financing Growth vs	Sustainable Growth **2001 to 2010** br + vs	Sustainable Growth Projected br + vs
American States Water	3.4%	5.8%	1.8%	5.2%	7.7%
California Water	2.2%	4.8%	3.4%	5.6%	8.2%
Aqua America	4.5%	5.7%	4.0%	8.5%	9.7%
Connecticut Water	2.3%	No Projection	1.0%	3.3%	No Projection
Middlesex Water	1.3%	3.7%	3.7%	4.9%	7.4%
SJW Corp	3.9%	2.6%	0.1%	4.0%	2.7%
Average Sample Water Utilities	**2.9%**	**4.5%**	**2.3%**	**5.3%**	**7.1%**

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

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

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Company	Symbol	Spot Price 2/29/2012	Book Value	Mkt To Book	*Value Line* Beta β	Raw Beta β raw
American States Water	AWR	**36.86**	21.50	1.7	**0.70**	0.52
California Water	CWT	**19.21**	11.08	1.7	**0.65**	0.45
Aqua America	WTR	**22.21**	9.07	2.4	**0.65**	0.45
Connecticut Water	CTWS	**28.82**	13.37	2.2	**0.75**	0.60
Middlesex Water	MSEX	**18.42**	11.70	1.6	**0.70**	0.52
SJW Corp	SJW	**23.89**	14.75	1.6	**0.85**	0.75
Average				**1.9**	**0.72**	**0.55**

[C]: Msn Money

[D]: Value Line

[E]: [C] / [D]

[F]: Value Line

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

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

[A]	[B]
Description	g
DPS Growth - Historical[1]	3.1%
DPS Growth - Projected[1]	4.3%
EPS Growth - Historical[1]	4.5%
EPS Growth - Projected[1]	6.7%
Sustainable Growth - Historical[2]	5.3%
Sustainable Growth - Projected[2]	7.1%
Average	**5.2%**

1 Schedule JAC-5

2 Schedule JAC-6

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

[A]	[B]	[C]	[D]	[E]	[F]	[H]	[I]
Company	Current Mkt. Price (P_o)[1] 2/29/2012	Projected Dividends[2] (Stage 1 growth) (D_t) d_1	d_2	d_3	d_4	Stage 2 growth[3] (g_n)	Equity Cost Estimate (K)[4]
American States Water	36.9	1.16	1.22	1.29	1.35	6.5%	9.6%
California Water	19.2	0.65	0.68	0.72	0.75	6.5%	9.8%
Aqua America	22.2	0.67	0.70	0.74	0.78	6.5%	9.4%
Connecticut Water	28.8	0.98	1.03	1.08	1.14	6.5%	9.8%
Middlesex Water	18.4	0.75	0.79	0.83	0.87	6.5%	10.5%
SJW Corp	23.9	0.73	0.77	0.80	0.85	6.5%	9.5%

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

Average **9.7%**

Where : P_0 = current stock price
D_t = dividends expected during stage 1
K = cost of equity
n = years of non – constant growth
D_n = dividend expected in year n
g_n = constant rate of growth expected after year n

1 [B] see Schedule JAC-7

2 Derived from Value Line Information

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

4 Internal Rate of Return of Projected Dividends

Pima Utility Company Cost of Capital Calculation
Capitalization

	Staff as Adjusted	Percentage of Capital Structure
Total Debt	$ 8,370,000	37.9%
Total Common Equity	$ 13,726,959	62.1%
Total Capitalization	$ 22,096,959	100.0%

Adjustments to Equity -

Applicant's Proposed Pro Forma End of Test Year Equity as of 12/31/10		$	18,563,072
Net Correction for Thomas J. Bourassa A/D Adjustments (a)			(3,261,336)
Net Correction for CSB Adjustments - Wastewater (b)			6,128
Net Correction for CSB Adjustments - Water (c)			(1,580,905)
Staff's Recommended Common Equity		$	13,726,959
Equity Adjustments Corresponding with Thomas J. Bourassa A/D Adjustments:			
Reverse Erroneous TJB Adjustment - Wastewater	$ (2,219,610)		
Apply Correct Adjustment for TJB A/D Adjustment - Wastewater	(2,219,610)		
Reverse Erroneous TJB Adjustment - Water	588,942		
Apply Correct Adjustment for TJB A/D Adjustment - Water	588,942		
Net Equity Adjustment for TJB A/D Adjustments		$	(3,261,336) (a)
Equity Adjustments Corresponding with Crystal S. Brown Adjustments - Wastewater:			
CSB Unsupported Plant Adjustment - Wastewater	$ (1,586,598)		
CSB Unsupported A/D Adjustment - Wastewater	1,571,455		
CSB Expensed Plant Adjustment - Wastewater	22,391		
CSB Expensed Plant A/D Adjustment - Wastewater	(1,120)		
Net Equity Adjustment for CSB Adjustments - Wastewater			6,128 (b)
Equity Adjustments Corresponding with Crystal S. Brown Adjustments - Water:			
CSB Unsupported Plant Adjustment - Water	$ (4,282,321)		
CSB Unsupported A/D Adjustment - Water	2,676,180		
CSB Expensed Plant Adjustment - Water	25,531		
CSB Expensed Plant A/D Adjustment - Water	(295)		
Net Equity Adjustment for CSB Adjustments - Water			(1,580,905) (c)
Total Staff Adjustment to Common Equity		$	(4,836,113)

Staff Correction to
Bourassa Schedule D-4.8

Exhibit JAC-A

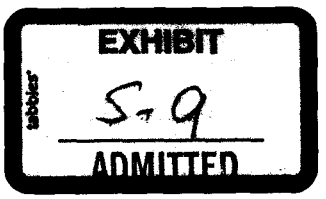
Pima Utility Company
Discounted Cash Flow Analysis
DCF Constant Growth

Line No.		[1]	[2]		[3]		[4]
1							
2		Current	Expected		Expected		Indicated
3		Dividend	Dividend		Dividend		Cost of
4		Yield	Yield		Growth		Equity
5		(D_0/P_0)	(D_1/P_0)		Rate (g)		([2] + [3]) (K)
6							
7	DCF - Past and Future Growth	3.25%	3.41%	+	5.18%	=	8.6%
8							
9	DCF - Future Growth	3.25%	3.43%	+	5.79%	=	9.2%
10							
11	**DCF Average**						**8.9%**
12							
13							
14							

Notes: [1] Current Dividend Yield (D_0/P_0) as corrected for California Water 2-for-1 stock split (See TJB Schedule D-4.7)
[2] Expected Dividend Yield (D_1/P_0) calculated as: [1] * (1 + [3])
[3] Expected Dividend Growth Rate (g) as corrected for mathematical error (See TJB Schedule D-4.4)
[4] Resulting change to Company Witness Bourassa's DCF results after correcting for errors in TJB Schedules D-4.7 and D-4.4

BEFORE THE ARIZONA CORPORATION COMMISSION

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



IN THE MATTER OF THE APPLICATION OF PIMA UTILITY COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. W-02199A-11-0329
IN THE MATTER OF THE APPLICATION OF PIMA UTILITY COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. W-02199A-11-0330

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

MAY 18, 2012

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

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

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

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

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

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

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

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

I. INTRODUCTION

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

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

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

A. Yes, I am.

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

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

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

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

II. COST OF EQUITY AND OVERALL RATE OF RETURN

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

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

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

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

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

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

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

Q. What is Staff's updated ROE?

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

Q. What ROE is Staff recommending for Pima?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A. Yes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IV. STAFF RECOMMENDATIONS

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

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

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

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

A. No.

Q. Does this conclude your Surrebuttal Testimony?

A. Yes, it does.

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

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

[D] : [B] x [C]

Supporting Schedules: JAC-3 and JAC-4.

Intentionally left blank

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

[A]	[B]		[C]		[D]		[E]
			D_1/P_0 [1]	+	g [2]	=	k
DCF Method							
Constant Growth DCF Estimate			3.4%	+	4.8%	=	8.2%
Multi-Stage DCF Estimate						=	9.8%
Average DCF Estimate							**9.0%**
	Rf	+	β [5]	x	(Rp)	=	k
CAPM Method							
Historical Market Risk Premium [3]	1.4%	+	0.72	x	7.2% [6]	=	6.6%
Current Market Risk Premium [4]	3.2%	+	0.72	x	13.3% [7]	=	12.7%
Average CAPM Estimate							**9.7%**
Average of Overall Estimates							**9.4%**
Financial risk adjustment							0.0%
Total							**9.4%**

1 MSN Money and Value Line

2 Schedule JAC-8

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

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

5 Value Line

6 Historical Market Risk Premium (Rp) calculated from Ibbotson Associates SBBI 2011 Yearbook data

7 Testimony

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

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

Source:
Sample Water Companies from Value Line

Docket No. W-02199A-11-0329, et al.

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

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

1 Value Line

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

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

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

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

Docket No. W-02199A-11-0329, et al.

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

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

[C]: Msn Money

[D]: Value Line

[E]: [C] / [D]

[F]: Value Line

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

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

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

1 Schedule JAC-5

2 Schedule JAC-6

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

[A]	[B]	[C]	[D]	[E]	[F]	[H]	[I]
Company	Current Mkt. Price (P_o)[1] 4/25/2012	Projected Dividends[2] (Stage 1 growth) (D_t) d_1	d_2	d_3	d_4	Stage 2 growth[3] (g_n)	Equity Cost Estimate (K)[4]
American States Water	36.3	1.16	1.22	1.27	1.34	6.5%	9.6%
California Water	18.0	0.64	0.68	0.71	0.74	6.5%	10.0%
Aqua America	22.4	0.67	0.70	0.73	0.77	6.5%	9.4%
Connecticut Water	28.4	0.97	1.02	1.07	1.12	6.5%	9.8%
Middlesex Water	18.4	0.75	0.78	0.82	0.86	6.5%	10.4%
SJW Corp	23.6	0.73	0.76	0.80	0.84	6.5%	9.5%

Average **9.8%**

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

Where : P_0 = current stock price
D_t = dividends expected during stage 1
K = cost of equity
n = years of non − constant growth
D_n = dividend expected in year n
g_n = constant rate of growth expected after year n

1 [B] see Schedule JAC-7

2 Derived from Value Line Information

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

4 Internal Rate of Return of Projected Dividends

Pima Utility Company Cost of Capital Calculation
Capitalization

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

Adjustments to Equity -

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

Docket No. W-02199A-11-0329, et al.
Staff Correction to
Bourassa Rebuttal Schedule D-4.4

Surrebuttal Exhibit JAC-A

Pima Utility Company
Comparisons of Past and Future Estimates of Growth

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

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

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

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

Docket No. W-02199A-11-0329, et al.
Staff Correction to
Bourassa Rebuttal Schedule D-4.5

Surrebuttal Exhibit JAC-B

Pima Utility Company
Comparisons of Past and Future Estimates of Growth

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

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

a) Dividend growth (g) component used in DCF - Past & Future Growth is overstated by 28 basis points -- it should be 5.82% as per above, but Bourassa uses 6.10% (see Bourassa Rebuttal Schedule D-4.8)

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

Docket No. W-02199A-11-0329, et al. Surrebuttal Exhibit JAC-C
Staff Correction to
Bourassa Rebuttal Schedule D-4.6

Pima Utility Company
Analysts Forecasts of Earnings per Share Growth

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

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

a) Average growth (g) for Connecticut Water reported as 7.90% in Bourassa Rebuttal Schedule D-4.6.

b) Average growth (g) for group reported as 7.90% in Bourassa Rebuttal Schedule D-4.6.

Docket No. W-02199A-11-0329, et al.
Staff Correction to
Bourassa Rebuttal Schedule D-4.8

Surrebuttal Exhibit JAC-D

Pima Utility Company
Discounted Cash Flow Analysis
DCF Constant Growth

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

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

a) Dividend growth (g) component used in DCF - Past & Future Growth overstated overstated by 28 basis points -- it should be 6.05% as per above, but Bourassa uses 6.33%.

b) Dividend growth (g) component used in DCF - Future Growth is overstated by 56 basis points -- it should be 7.34% as per above, but Bourassa uses 7.90%.

c) Estimated cost of equity should be 10.05%, but Bourassa overstates it by 45 basis points, reporting it as 10.5%.

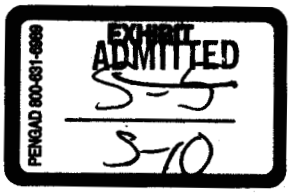
[1] (Do/Po)

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

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

[4] [2] + [3]

BEFORE THE ARIZONA CORPORATION COMMISSION



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

IN THE MATTER OF THE APPLICATION OF PIMA UTILITY COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. W-02199A-11-0329
IN THE MATTER OF THE APPLICATION OF PIMA UTILITY COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. SW-02199A-11-0330

SURREBUTTAL

TESTIMONY

OF

CRYSTAL S. BROWN

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MAY 18, 2012

TABLE OF CONTENTS

SCHEDULES

Pima Utility Company – Water Division

Pima Utility Company – Wastewater Division

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

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

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

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

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

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

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

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

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

INTRODUCTION

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

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

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

A. Yes.

PURPOSE OF SURREBUTTAL TESTIMONY

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

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

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

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

Q. What issues will you address?

A. I will address the issues listed below.

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

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

SUMMARY OF PROPOSED REVENUES

Q. Please summarize Staff's recommended revenue.

A. Staff recommends an aggregate revenue requirement of $5,676,088. This represents an increase over test-year revenue of $601,686, or 11.86% percent. The amounts for each system are shown below.

Summary of Staff-Recommended Annual Revenue by Division

Division	Adjusted Test Year	Surrebuttal Position	$ Change	% Change
Water	$1,977,627	$2,434,827	$457,200	23.12%
Wastewater	$3,096,775	$3,241,261	$144,486	4.67%
Total / Overall	$5,074,402	$5,676,088	$601,686	11.86%

Q. How does Staff's recommended revenue in surrebuttal compare to the recommended revenue in Staff's direct testimony?

A. Staff's recommended revenue has decreased in aggregate by $48,591, from $5,724,679 in its direct testimony to $5,676,088 in its surrebuttal testimony as follows:

Staff Recommended	Direct Testimony	Surrebuttal Testimony	$ Decrease	% Decrease
Water	$2,457,559	$2,434,827	($22,732)	-0.92%
Wastewater	$3,267,120	$3,241,261	($25,859)	-0.79%
Total / Overall	$5,724,679	$5,676,088	($48,591)	-0.85%

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

Pima Water

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

Pima Wastewater

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

RATE BASE

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

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

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

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

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

Rate Base – Excess Capacity, Pima Wastewater

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

A. Yes.

Q. Does Staff agree with the Company?

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

Rate Base - AIAC and CIAC, Pima Water

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

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

Q. Why is the proposed adjustment inappropriate?

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

Operating Income – Officer and Director Salary and Wages, Pima Water & Pima Wastewater

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

A. No, Staff did not.

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

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

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

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

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

A. No.

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

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

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

Q. What is Staff's recommendation?

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

Operating Income Adjustment – Employee Pensions and Benefits

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

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

Q. Does Staff agree?

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

Q. What is Staff's recommendation?

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

Property Tax Expense

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

A. Yes.

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

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

Q. What is Staff's recommendation?

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

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

A. The comparison is as follows:

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

Operating Income – Income Tax Expense

Q. Did Staff review the Company's rebuttal testimony on income tax expense?

A. Yes.

Q. What are the Company's reasons for continuing to request recovery of income tax expense?

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

a. Income Determines Tax Liability. Pima Utility generates income and therefore tax liability.

b. An Income Tax Allowance Is A Proper Cost of Service Item. An income tax allowance is a proper cost of service for Pima Utility because the tax liability is incurred by Pima Utility in providing utility service to customers.

c. Lowered Rates of Return And Less Cash Available for Investment. Not providing an income tax allowance would result in lower rates of return and less cash available for investment for S-corps.

d. The Federal Energy Regulatory Commission ("FERC") Provides an Income Tax Allowance. The FERC has determined that an income tax allowance should be included as a component of the cost of service for an S-corp so the Commission should follow suit.

Q. Does Staff agree with any of the Company's arguments?

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

S-corps and the Avoidance of Double Taxation

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

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

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

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

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

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

Income Determines Tax Liability

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

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

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

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

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

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

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

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

Q. Has Staff reviewed Mr. Spitzer's testimony?

A. Yes.

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

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

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

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

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

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

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

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

An Income Tax Allowance Is A Valid Cost of Service Item

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

A. No, Staff does not.

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

A. Yes.

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

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

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

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

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

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

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

Lower Rates of Return and Less Cash Available

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

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

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

A. No.

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

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

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

A. No, Staff does not.

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

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

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

TABLE A

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

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

[1] Staff did not include the effects of a shareholder salary as (1) it would not cause a significantly different result (2) there is no federal or state requirement to take a salary (3) not all S-corp and C-corps shareholders take a salary (4) the amount of salary varies across companies (5) it is impossible to verify the tax rates on the shareholder's personal income taxes without the actual income tax return to determine the amount of tax, if any, that was actually paid and (6) the tax effect of a shareholder's salary is generally not a part of Staff's analysis of rate of return and cash flow.
[2] Pima Utility has provided no income tax statements of its shareholders. Therefore, Staff has used the national average income tax rate of 11% and the state average income tax rate of 4.5%; for a 15.5% effective tax rate.
[3] Calculated using capital gains tax of 15% and state tax of 3%; for an 18% effective tax rate.

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

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

Table B

COMPARABLE AMOUNTS OF CASH AVAILABLE FOR INVESTMENT

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

[4] Pima Utility has provided no income tax statements of its shareholders. Therefore, Staff has used the national average income tax rate of 11% and the state average income tax rate of 4.5%; for an effective tax rate of 15.5% for comparison purposes.
[5] Calculated using capital gains tax of 15% and state tax of 3%; for an effective tax rate of 18%.

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

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

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

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

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

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

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

Table C

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

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

The FERC Provides an Income Tax Allowance.

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

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

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

A. Not to my knowledge.

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

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

> The auditor should look at the Federal and State Schedule M items/adjustments to see what differences exist between the tax return computation and the book tax computation, and inquire about any of the items that appear to be out of place or that are not understood. The auditor should also review and understand the timing and payment schedule of income taxes.
>
> The auditor should verify that the depreciation rates for book purposes and those for tax purposes are appropriate.

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

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

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

A. No, it does not.

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

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

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

A. No, it is not.

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

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

RATE CASE EXPENSE SURCHARGE

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

A. Yes.

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

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

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

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

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

A. Staff recommends that the surcharge not be adopted.

Rate Design

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

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

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

WATER DIVISION SCHEDULES

Pima Utility Company-Water Division
Docket No. W-02199A-11-0329
Test Year Ended December 31, 2010

Surrebuttal Schedule CSB-1

REVENUE REQUIREMENT

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

References:
Column [A]: Company Schedules A-1, C-1, C-3, & D-1
Column [B]: Staff Schedules CSB-2 & CSB-6

Pima Utility Company-Water Division
Docket No. W-02199A-11-0329
Test Year Ended December 31, 2010

Surrebuttal Schedule CSB-2

RATE BASE - ORIGINAL COST

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

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

Pima Utility Company-Water Division
Docket No. W-02199A-11-0329
Test Year Ended December 31, 2010

Surrebuttal Schedule CSB-3

SUMMARY OF RATE BASE ADJUSTMENTS

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

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Surrebuttal Schedule CSB-4

RATE BASE ADJUSTMENT NO. 2 - EXPENSED PLANT

LINE NO.	Plant Account Number	Description	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED (Col A + Col B)
1	307	Wells and Springs	$ 606,699	$ 3,902	$ 610,601
2	311	Pumping Equipment	$ 2,263,801	$ 5,937	$ 2,269,738
3	333	Services	$ 4,709,148	$ 15,692	$ 4,724,840
4		Total	$ 7,579,648	**$ 25,531**	$ 7,605,179
5					
6					

FROM REPAIRS AND MAINTENANCE (CSB 1.29)

	Acct. No.	Vendor Name	Description	Amount
9	311-Pumping Equipment	Bray Sales Southern	WP1 - 12" Valve	$ 631.22
10	311-Pumping Equipment	Bray Sales Southern	WP1 - 10" Lug Valves	$ 941.25
11	311-Pumping Equipment	Siemens Energy Aut.	Ultrasonic Level Sensors	$ 909.01
12	311-Pumping Equipment	Industrial Service	Swithover Modules for C1 Site	$ 2,565.70
13	311-Pumping Equipment	Engineered Sales Co	Well 29B Booster Pump	$ 889.89
14			Subtotal	$ 5,937.07
15				
16				
17	333-Services	HD Supply Waterwork	Copper Tubing for Service Repairs	$ 3,311.61
18	333-Services	HD Supply Waterwork	Copper Tubing for Service Repairs	$ 3,342.33
19	333-Services	HD Supply Waterwork	Copper Tubing for Service Repairs	$ 5,982.91
20	333-Services	HD Supply Waterwork	Copper Tubing for Service Repairs	$ 3,055.11
21			Subtotal	$ 15,691.96
22				
23			Total for Repairs and Maintenance	$ 21,629.03
24				
25				

FROM CONTRACTUAL SERVICES , ENGINEERING (CSB 1.31)

	Acct. No.	Vendor Name	Description	Amount
28	307-Wells and Springs	B&R Engineering, Inc.	Capitalize as part of Well 27 Rehab	$ 177.35
29	307-Wells and Springs	B&R Engineering, Inc.	Capitalize as part of Well 27 Rehab	$ 2,926.33
30	307-Wells and Springs	B&R Engineering, Inc.	Capitalize as part of Well 27 Rehab	$ 798.11
31				
32			Total for Contractual Services, Engineering	$ 3,901.79

References:

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

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Surrebuttal Schedule CSB-5

RATE BASE ADJUSTMENT NO. 3 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A] PER COMPANY	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Accumulated Depreciation	$ 4,788,169	$ 383	$ 4,788,552

Reference	Year Placed In Service	Acct No.	Description	Plant Cost
CSB 1.31	2010	307	Wells and Springs	$3,902
CSB 1.29	2010	311	Pumping Equipment	$5,937
CSB 1.29	2010	333	Services	$15,692
				$25,531
			x	3%
				$766
			x	0.5
				$383

References:

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

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Surrebuttal Schedule CSB-6

OPERATING INCOME - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	ADJ NO.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
	REVENUES:						
1	Metered Water Revenues	$ 1,970,366	$ -		$ 1,970,366	$ 457,200	$ 2,427,566
2	Unmetered Water Revenues	-	-		-		-
3	Other Water Revenues	7,261	-		7,261	-	7,261
4	**Total Revenues**	$ 1,977,627	$ -		$ 1,977,627	$ 457,200	$ 2,434,827
5		-					
6	*EXPENSES:*	-					
7	Salaries and Wages - Employees	$ 220,827	$ -		$ 220,827	$ -	$ 220,827
8	Salaries and Wages - Officers and Directors	90,294	(76,608)	1	13,686	-	13,686
9	Employee Pensions and Benefits	64,900	(1,378)	2	63,522	-	63,522
10	Purchased Power	252,453	-		252,453	-	252,453
11	Chemicals	16,721	-		16,721	-	16,721
12	Repairs and Maintenance	100,885	(29,489)	3	71,396	-	71,396
13	Office Supplies & Expenses	67,321	(460)	4	66,861	-	66,861
14	Contractual Services - Engineering	5,283	(3,902)	5	1,381	-	1,381
15	Contractual Services - Accounting	3,067	-		3,067	-	3,067
16	Contractual Services - Legal	14,175	-		14,175	-	14,175
17	Contractual Services - Other	54,797	(415)	6	54,382	-	54,382
18	Contractual Services - Water Testing	18,737	(9,812)	7	8,925	-	8,925
19	Rents - Equipment	3,203	-		3,203	-	3,203
20	Transportation Expenses	44,637	-		44,637	-	44,637
21	Insurance - Vehicle	17,464	-		17,464	-	17,464
22	Insurance - General Liability	10,840	-		10,840	-	10,840
23	Insurance - Worker's Comp	1,009	-		1,009	-	1,009
24	Reg. Comm. Exp.	3,671	-		3,671	-	3,671
25	Reg. Comm. Exp. - Rate Case	50,000	(10,000)	8	40,000	-	40,000
26	Bad Debt Expense	4,766	-		4,766	-	4,766
27	Miscellaneous Expense	15,934	-		15,934	-	15,934
28	Depreciation Expense	686,998	1,389	9	688,387	-	688,387
29	Taxes Other Than Income	40,883	-		40,883	-	40,883
30	Property Taxes	83,358	(6,167)	10	77,191	6,123	83,314
31	Income Taxes	(27,157)	27,157	11	-	0	0
32	Rounding	1	-		1	-	1
33							
34	**Operating Expenses**	$ 1,845,067	$ (109,686)		$ 1,735,381	$ 6,123	$ 1,741,504
37		-					
38	**Operating Income (Loss)**	$ 132,560	$ 109,686		$ 242,246	$ 451,077	$ 693,323

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

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SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Salaries & Wages Offcrs & Directors Ref: Sch CSB-8	[C] ADJ #2 Employee Pensions and Benefits Ref: Sch CSB-9	[D] ADJ #3 Repairs and Maintenance Ref: Sch CSB-10	[E] ADJ #4 Office Supplies and Expenses Ref: Sch CSB-11	[F] ADJ #5 Contract Services Engineering Ref: Sch CSB-12	[G] ADJ #6 Contract Services Other Ref: Sch CSB-13	[H] ADJ #7 Contract Services Water Testing Ref: Sch CSB-14	[I] Subtotal
	REVENUES:									
1	Metered Water Revenues	$ 1,970,366	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,970,366
2	Unmetered Water Revenues	-	-	-	-	-	-	-	-	-
3	Other Water Revenues	7,261	-	-	-	-	-	-	-	7,261
4	**Total Revenues**	$ 1,977,627	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,977,627
5										
6	*OPERATING EXPENSES:*									
7	Salaries and Wages - Employees	$ 220,827	-	-	-	-	-	-	-	220,827
8	Salaries and Wages - Officers and Directors	90,294	(76,608)	-	-	-	-	-	-	13,686
9	Employee Pensions and Benefits	64,900	-	(1,378)	-	-	-	-	-	63,522
10	Purchased Power	252,453	-	-	-	-	-	-	-	252,453
11	Chemicals	16,721	-	-	-	-	-	-	-	16,721
12	Repairs and Maintenance	100,885	-	-	(29,489)	-	-	-	-	71,396
13	Office Supplies & Expenses	67,321	-	-	-	(460)	-	-	-	66,861
14	Contractual Services - Engineering	5,283	-	-	-	-	(3,902)	-	-	1,381
15	Contractual Services - Accounting	3,067	-	-	-	-	-	-	-	3,067
16	Contractual Services - Legal	14,175	-	-	-	-	-	(415)	-	14,175
17	Contractual Services - Other	54,797	-	-	-	-	-	-	(9,812)	54,382
18	Contractual Services - Water Testing	18,737	-	-	-	-	-	-	-	8,925
19	Rents - Equipment	3,203	-	-	-	-	-	-	-	3,203
20	Transportation Expenses	44,637	-	-	-	-	-	-	-	44,637
21	Insurance - Vehicle	17,464	-	-	-	-	-	-	-	17,464
22	Insurance - General Liability	10,840	-	-	-	-	-	-	-	10,840
23	Insurance - Worker's Comp	1,009	-	-	-	-	-	-	-	1,009
24	Reg. Comm. Exp.	3,671	-	-	-	-	-	-	-	3,671
25	Reg. Comm. Exp. - Rate Case	50,000	-	-	-	-	-	-	-	50,000
26	Bad Debt Expense	4,766	-	-	-	-	-	-	-	4,766
27	Miscellaneous Expense	15,934	-	-	-	-	-	-	-	15,934
28	Depreciation Expense	686,998	-	-	-	-	-	-	-	686,998
29	Taxes Other Than Income	40,883	-	-	-	-	-	-	-	40,883
30	Property Taxes	83,358	-	-	-	-	-	-	-	83,358
31	Income Taxes	(27,157)	-	-	-	-	-	-	-	(27,157)
32	Rounding	1	-	-	-	-	-	-	-	1
33										-
34	**Total Operating Expenses**	$ 1,845,067	$ (76,608)	$ (1,378)	$ (29,489)	$ (460)	$ (3,902)	$ (415)	$ (9,812)	$ 1,723,003
35										
36	**Operating Income (Loss)**	$ 132,560	$ 76,608	$ 1,378	$ 29,489	$ 460	$ 3,902	$ 415	$ 9,812	$ 254,624

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Surrebuttal Schedule CSB-8

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

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

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

References:

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

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Surrebuttal Schedule CSB-9

OPERATING INCOME ADJUSTMENT NO. 2 - EMPLOYEE PENSIONS AND BENEFITS

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

References:

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

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Surrebuttal Schedule CSB-10

OPERATING INCOME ADJUSTMENT NO. 3 - REPAIRS AND MAINTENANCE

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

References:

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

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Surrebuttal Schedule CSB-11

OPERATING INCOME ADJUSTMENT NO. 4 - OFFICE SUPPLIES AND EXPENSES

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Office Supplies and Expense	$ 67,321	$ (460)	$ 67,781
2				
3				
4				

From General Ledger Account No. 621 Office Supplies and Expense			
Jan-10	Coffee Service	$	30.52
Feb-10	Coffee Service	$	40.48
Mar-10	Coffee Service	$	31.26
Apr-10	Coffee Service	$	32.43
May-10	Coffee Service	$	56.35
Jun-10	Coffee Service	$	25.15
Jul-10	Coffee Service	$	29.27
Aug-10	Coffee Service	$	38.66
Sep-10	Coffee Service	$	24.23
Oct-10	Coffee Service	$	34.54
Nov-10	Coffee Service	$	46.29
Dec-10	Coffee Service	$	71.13
		$	460.31

References:

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

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Surrebuttal Schedule CSB-12

OPERATING INCOME ADJUSTMENT NO. 5- CONTRACT SERVICES, ENGINEERING

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

References:

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

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Surrebuttal Schedule CSB-13

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

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

References:

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

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Surrebuttal Schedule CSB-14

OPERATING INCOME ADJUSTMENT NO. 7 - CONTRACT SERVICES, OTHER

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

References:

Column A: Company Schedule C-2
Column B: Testimony, CSB; Data Request Response CSB 6.2
Column C: Column [A] + Column [B]

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Surrebuttal Schedule CSB-15

OPERATING INCOME ADJUSTMENT NO. 8 - RATE CASE EXPENSE

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

References:

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

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Surrebutal Schedule CSB-16

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

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

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

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

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Surrebuttal Schedule CSB-17

OPERATING INCOME ADJUSTMENT NO. 10 - PROPERTY TAX EXPENSE

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

Pima Utility Company-Water Division
Docket No. W-02199A-11-0329
Test Year Ended December 31, 2010

Surrebuttal Schedule CSB-18

OPERATING INCOME ADJUSTMENT NO. 11 - INCOME TAXES

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

References:

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

	Present	Company Proposed	Staff Recommended
Monthly Minimum Charge			
Meter Size (All Classes):			
5/8 Inch x 3/4 Inch	$ 5.70	$ 7.36	$ 7.00
3/4 Inch	5.70	7.36	$ 10.50
1 Inch	16.00	20.67	$ 20.00
1 1/2 Inch	21.00	27.13	$ 35.00
2 Inch	26.00	33.59	$ 56.00
3 Inch	40.00	51.68	$ 130.00
4 Inch	52.00	67.18	$ 175.00
6 Inch	100.00	129.20	$ 350.00
Irrigation	180.00	232.56	180.00
Gallons Included In Monthly Minimum Charge			
Gallons In Minimum (All Classes, except irrigation)	1,000.00	-	-
Gallons In Minimum (Irrigation)	100,000.00	-	-
Commodity Charge - Per One Thousand Gallons			
5/8 x 3/4 Inch (All Classes)			
Over Minimum up to 10,000 gallons	$ 0.92	N/A	N/A
Over 10,000 gallons	$ 1.08	N/A	N/A
5/8x3/4 Inch - Residential			
1 gallon to 4,000 gallons	N/A	$ 0.96	N/A
4,001 gallons to 10,000 gallons	N/A	$ 1.36	N/A
over 10,000 gallons	N/A	$ 1.86	N/A
First 4,000 gallons	N/A	N/A	$ 0.7000
4,001 gallons to 10,000 gallons	N/A	N/A	1.0000
Over 10,000 gallons	N/A	N/A	1.4000
5/8x3/4 Inch - Commercial			
1 gallon to 10,000 gallons	N/A	$ 1.36	N/A
over 10,000 gallons	N/A	$ 1.86	N/A
First 10,000 gallons	N/A	N/A	1.0000
Over 10,000 gallons	N/A	N/A	1.4000
3/4 Inch Meter (All Classes)			
Over Minimum up to 10,000 gallons	$ 0.92	N/A	N/A
Over 10,000 gallons	$ 1.08	N/A	N/A
3/4 Inch Meter - Residential			
1 gallon to 4,000 gallons	N/A	$ 0.96	N/A
4,001 gallons to 10,000 gallons	N/A	$ 1.36	N/A
over 10,000 gallons	N/A	$ 1.86	N/A
First 4,000 gallons	N/A	N/A	$ 0.7000
4,001 gallons to 40,000 gallons	N/A	N/A	1.0000
Over 40,000 gallons	N/A	N/A	1.4000
3/4 Inch Meter - Commercial			
1 gallon to 10,000 gallons	N/A	$ 0.96	N/A
over 10,000 gallons	N/A	$ 1.36	N/A
First 10,000 gallons	N/A	N/A	1.0000
Over 10,000 gallons	N/A	N/A	1.4000

	Present	Company Proposed	Staff Recommended
Commodity Charge - Per One Thousand Gallons Continued			
1 Inch Meter (All classes)			
Over Minimum up to 10,000 gallons	$ 0.92	N/A	N/A
Over 10,000 gallons	$ 1.08	N/A	N/A
1 Inch Meter - Residential, Commercial			
1 gallon to 25,000 gallons	N/A	$ 1.36	N/A
over 25,000 gallons	N/A	$ 1.86	N/A
First 40,000 gallons	N/A	N/A	1.0000
Over 40,000 gallons	N/A	N/A	1.4000
1.5 Inch Meter (All classes, except irrigation)			
Over Minimum up to 10,000 gallons	$ 0.92	N/A	N/A
Over 10,000 gallons	$ 1.08	N/A	N/A
1.5 Inch Meter - Residential, Commercial			
1 gallon to 50,000 gallons	N/A	$ 1.36	N/A
over 50,000 gallons	N/A	$ 1.86	N/A
First 76,000 gallons	N/A	N/A	1.0000
Over 76,000 gallons	N/A	N/A	1.4000
2 Inch Meter (All classes, except irrigation)			
Over Minimum up to 10,000 gallons	$ 0.92	N/A	N/A
Over 10,000 gallons	$ 1.08	N/A	N/A
2 Inch Meter - Residential, Commercial			
1 gallon to 80,000 gallons	N/A	$ 1.36	N/A
over 80,000 gallons	N/A	$ 1.86	N/A
First 126,000 gallons	N/A	N/A	1.0000
Over 126,000 gallons	N/A	N/A	1.4000
3 Inch Meter (All classes, except irrigation)			
Over Minimum up to 10,000 gallons	$ 0.92	N/A	N/A
Over 10,000 gallons	$ 1.08	N/A	N/A
3 Inch Meter - Residential, Commercial			
1 gallon to 160,000 gallons	N/A	$ 1.36	N/A
over 160,000 gallons	N/A	$ 1.86	N/A
First 309,000 gallons	N/A	N/A	1.0000
Over 309,000 gallons	N/A	N/A	1.4000
4 Inch Meter (All classes, except irrigation)			
Over Minimum up to 10,000 gallons	$ 0.92	N/A	N/A
Over 10,000 gallons	$ 1.08	N/A	N/A
4 Inch Meter - Residential, Commercial			
1 gallon to 250,000 gallons	N/A	$ 1.36	N/A
over 250,000 gallons	N/A	$ 1.86	N/A
First 419,000 gallons	N/A	N/A	1.0000
Over 419,000 gallons	N/A	N/A	1.4000

	Present	Company Proposed	Staff Recommended
Commodity Charge - Per One Thousand Gallons Continued			
6 Inch Meter (All classes, except irrigation)	$ 0.92	N/A	N/A
Over Minimum up to 10,000 gallons	$ 1.08	N/A	N/A
Over 10,000 gallons			
6 Inch Meter - Residential, Commercial	N/A	$ 1.36	N/A
1 gallons to 500,000 gallons	N/A	$ 1.86	N/A
over 500,000 gallons			
First 855,000 gallons	N/A	N/A	1.0000
Over 855,000 gallons	N/A	N/A	1.4000
Irrigation (all meter sizes)	$ 0.36	$ 0.70	0.5100
Over Minimum			
Construction/Standpipe	NT	$ 0.70	1.4000
All gallons			

NT = No Tariff

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

* Number of months off the system times the monthly minimum.
** Per Rule R14-2-403.B

NT = No Tariff

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

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

NT = No Tariff

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

NT = No Tariff

Pima Utilities - Water Division
Docket No. W-02199A-11-0329
Test Year Ended December 31, 2010

Schedule CSB-20

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

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

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

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

WASTEWATER DIVISION SCHEDULES

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

Surrebuttal Schedule CSB-1

REVENUE REQUIREMENT

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

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

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

Surrebuttal Schedule CSB-2

RATE BASE - ORIGINAL COST

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

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

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

Surrebuttal Schedule CSB-3

SUMMARY OF RATE BASE ADJUSTMENTS

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

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

Surrebuttal Schedule CSB-4

RATE BASE ADJUSTMENT NO. 1 - EXCESS CAPACITY PLANT COSTS

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

References:

Column A: Company Schedule C-2
Column B: Testimony, CSB; Company Data Request Responses to CSB 5.16 Revised
Column C: Column [A] + Column [B]

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

Surrebuttal Schedule CSB-5

RATE BASE ADJUSTMENT NO. 2 - EXPENSED PLANT

LINE NO.	Plant Account Number	Description	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED (Col A + Col B)
1	371.1	Pumping Equipment - Lift Stati	$ 1,544,146	$ 22,391	$ 1,566,537
2	380	Treatment & Disposal Equipm	$ 9,884,071	$ -	$ 9,884,071
3					
4		Total	$ 11,428,217	$ 22,391	$ 11,450,608
5					
6					

FROM MATERIALS AND SUPPLIES (CSB 1.34)

	Acct. No.	Vendor Name	Description	Amount
9	371.1-Pumping Equipment	James, Cooke & Hobso	LS Impellor	$ 1,169.43
10	371.1-Pumping Equipment	James, Cooke & Hobso	LS Impellor	$ 1,169.43
11	371.1-Pumping Equipment	James, Cooke & Hobso	LS Impellor	$ 1,169.43
12	371.1-Pumping Equipment	James, Cooke & Hobso	S Alma flyght pump	$ 5,670.48
13			Subtotal	$ 9,178.77
14				
15	380-Treatment & Dispos	Dana Kepner Company	WWTP flow rate + totalizer for flow rate	$ 776.43
16	380-Treatment & Dispos	HD Supply Waterwork	WWTP-filter handrails (Ins requir)	$ 2,733.25
17	380-Treatment & Dispos	HD Supply Waterwork	WWTP-pour slab	$ 537.50
18	380-Treatment & Dispos	HD Supply Waterwork	WWTP-Ultrasonic level sensor@filters	$ 909.00
19	380-Treatment & Dispos	Summit-Electric Supp	Replace Gallery PLC	$ 3,351.31
20	380-Treatment & Dispos	Summit-Electric Supp	Replace Gallery PLC	$ 1,410.52
21	380-Treatment & Dispos	Kooltronic Inc.	A/C cabinet 3000BTU-pplymer SCADA \	$ 2,309.16
22	380-Treatment & Dispos	WW Grainger Inc	Digestor Replace	$ 1,184.84
23			Subtotal	$ 13,212.01
24				
25			Total for Materials and Supplies	$ 22,390.78
26				
27				

FROM CONTRACTUAL SERVICES , ENGINEERING (CSB 1.36)

	Acct. No.	Vendor Name	Description	Amount
30	Construction Work In Progres	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway Force	$ 5,892.47
31	Construction Work In Progres	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway Force	$ 6,944.73
32	Construction Work In Progres	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway Force	$ 1,350.02
33	Construction Work In Progres	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway Force	$ 2,104.46
34	Construction Work In Progres	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway Force	$ 75.41
35	Construction Work In Progres	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway Force	$ 2,946.22
36	Construction Work In Progres	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway Force	$ 210.44
37			Total for Contractual Services, Engineering	$ 19,523.75 *
38				
39			*CWIP is not included in rate base.	

References:

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

RATE BASE ADJUSTMENT NO. 3 - ACCUMULATED DEPRECIATION

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

References:

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

RATE BASE ADJUSTMENT NO. 4 - ACCUMULATED DEPRECIATION
CONTINUED

TO REFLECT ACCUMULATED DEPRECIATION RELATED TO EXCESS CAPACITY PLANT COSTS

Schedule	Year Placed In Service	Acct No.	Description	Plant Cost	No. of Interim Years @ 3%	Depreciation Rate	No. of Interim Years @ 5%		Accumulated Depreciation
CSB-4	1998	380	Treatment & Disposal Equipment	$598,468	1.5	3.00%	11	5.00%	$356,088.46

TO REFLECT ACCUMULATED DEPRECIATION RELATED TO EXPENSED PLANT

Schedule	Year Placed In Service	Acct No.	Description	Plant Cost	Number of Interim Years	Depreciation Rate	Accumulated Depreciation
CSB-4	2010	371.1	Pumping Equipment - Lift Station:	$22,391	0.5	10.00%	$1,119.54

References:

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

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Surrebuttal Schedule CSB-7

OPERATING INCOME - TEST YEAR AND STAFF RECOMMENDED

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

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

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SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

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

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Surrebuttal Schedule CSB-9

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

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

Chairman of the Board Salary Calculation

References:

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

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Surrebuttal Schedule CSB-10

OPERATING INCOME ADJUSTMENT NO. 2 - EMPLOYEE PENSIONS AND BENEFITS

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

References:

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

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Surrebuttal Schedule CSB-11

OPERATING INCOME ADJUSTMENT NO. 3 - MATERIALS & SUPPLIES

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS (Col C - Col A)	[C] STAFF AS ADJUSTED
1	Materials and Supplies	$ 184,532	$ -	$ 184,532
2	Expensed Plant		(22,391)	(22,391)
3	Total Materials and Supplies	$ 184,532	$ (22,391)	$ 162,141
4				
5				

MATERIALS AND SUPPLIES (CSB 1.34)

	Acct. No.	Vendor Name	Description	Amount
8	371.1-Pumpin	James, Cooke & Hobso	LS Impellor	$ 1,169.43
9	371.1-Pumpin	James, Cooke & Hobso	LS Impellor	$ 1,169.43
10	371.1-Pumpin	James, Cooke & Hobso	LS Impellor	$ 1,169.43
11	371.1-Pumpin	James, Cooke & Hobso	S Alma flyght pump	$ 5,670.48
12			Subtotal	$ 9,178.77
13				
14	380-Treatm	Dana Kepner Company	WWTP flow rate + totalizer for flow rate	$ 776.43
15	380-Treatm	HD Supply Waterwork	WWTP-filter handrails (Ins requir)	$ 2,733.25
16	380-Treatm	HD Supply Waterwork	WWTP-pour slab	$ 537.50
17	380-Treatm	HD Supply Waterwork	WWTP-Ultrasonic level sensor@filters	$ 909.00
18	380-Treatm	Summit-Electric Supp	Replace Gallery PLC	$ 3,351.31
19	380-Treatm	Summit-Electric Supp	Replace Gallery PLC	$ 1,410.52
20	380-Treatm	Kooltronic Inc.	A/C cabinet 3000BTU-pplymer SCADA works	$ 2,309.16
21	380-Treatm	WW Grainger Inc	Digestor Replace	$ 1,184.84
22			Subtotal	$ 13,212.01
23				
24			Total for Materials and Supplies	$ 22,390.78

References:

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

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Surrebuttal Schedule CSB-12

OPERATING INCOME ADJUSTMENT NO. 4 - OFFICE SUPPLIES AND EXPENSES

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

References:

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

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Surrebuttal Schedule CSB-13

OPERATING INCOME ADJUSTMENT NO. 5- CONTRACT SERVICES, ENGINEERING

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Contract Services, Engineering	$ 20,305	$ -	$ 20,305
2	Construction Work In Progress	-	(19,524)	(19,524)
3		$ 20,305	$ (19,524)	$ 781
4				
5				

FROM CONTRACTUAL SERVICES , ENGINEERING (CSB 1.36)

	Acct. No.	Vendor Name	Description	Amount
8	Construction \	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway For	$ 5,892.47
9	Construction \	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway For	$ 6,944.73
10	Construction \	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway For	$ 1,350.02
11	Construction \	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway For	$ 2,104.46
12	Construction \	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway For	$ 75.41
13	Construction \	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway For	$ 2,946.22
14	Construction \	B&R Engineering, Inc.	Capitalize to CWIP-Hunt Highway For	$ 210.44
15			Total for Contractual Services, Engineering	$ 19,523.75

References:

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

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Surrebuttal Schedule CSB-14

OPERATING INCOME ADJUSTMENT NO. 6 - CONTRACT SERVICES, OTHER

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

References:

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

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Surrebuttal Schedule CSB-15

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

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

References:

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

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Surrebuttal Schedule CSB-16

OPERATING INCOME ADJUSTMENT NO. 8 - RATE CASE EXPENSE

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

References:

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

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Surrebuttal Schedule CSB-17

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

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

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

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Schedule CSB-18

OPERATING INCOME ADJUSTMENT NO. 10 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	$ 3,096,775	$ 3,096,775
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	6,193,550	$ 6,193,550
4	Staff Recommended Revenue, Per Schedule CSB-1	3,096,775	$ 3,241,261
5	Subtotal (Line 4 + Line 5)	9,290,325	9,434,811
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	3,096,775	$ 3,144,937
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	6,193,550	$ 6,289,874
10	Plus: 10% of CWIP -	3,971	3,971
11	Less: Net Book Value of Licensed Vehicles	-	$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	6,197,521	$ 6,293,845
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	1,239,504	$ 1,258,769
15	Composite Property Tax Rate	10.0552%	10.0552%
			$ -
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	$ 124,635	
17	Company Proposed Property Tax	125,916	
18	Staff Test Year Adjustment (Line 16-Line 17)	$ (1,281)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		$ 126,572
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		$ 124,635
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		$ 1,937
22	Increase to Property Tax Expense		$ 1,937
23	Increase in Revenue Requirement		144,486
24	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		1.340693%

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Schedule CSB-19

OPERATING INCOME ADJUSTMENT NO. 11 - INCOME TAXES

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

References:

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

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Schedule CSB-20

RATE DESIGN

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

* Number of months off the system times the applicable sewer charge.
** Per Commission Rule R14-2-603.B.7 and 603.B.3
*** Late payment charge based upon balance owing at the end of the billing cycle which is added to next bill.
NT = No Tariff

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Schedule CSB-21

TYPICAL BILL ANALYSIS

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

	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Company	$ 22.73	$ 27.79	$5.06	22.3%
Staff	$22.73	$ 23.38	$0.65	2.8%

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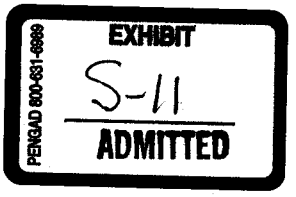

Schedule CSB-20

RATE DESIGN

	Present	Company Proposed	Staff Recommended
Sewer Services - Monthly Charge			
5/8 Inch x 3/4 Inch	$ 22.73	$ 27.79	$ 24.03
3/4 Inch	$ 35.33	$ 43.19	$ 37.35
1 Inch	$ 59.33	$ 72.53	$ 62.72
1 1/2 Inch	$ 117.33	$ 143.44	$ 124.04
2 Inch	$ 187.33	$ 229.01	$ 198.05
3 Inch	NT	$ 444.60	$ -
4 Inch	NT	$ 694.69	$ -
6 Inch	NT	$ 1,389.37	$ -
Effluent Sales			
Monthly Minimum	$ 180.00	$ 232.56	$ 230.00
Gallons In Minimum	100,000	-	-
Charge per 1,000 gallons	$ 0.58	$ 0.70	$ 0.50
Recovered Effluent Sales			
Monthly Minimum	NT	$ 232.56	$ 230.00
Gallons In Minimum	NT	-	-
Charge per 1,000 gallons	NT	$ 0.70	$ 0.50
Service Charges			
Impact Fee (new connection one-time only)	$ 260	NT	Remove from Tariff
Establishment Fee	NT	$ 25	$ 25
Reestablishment (within 12 months)	NT	*	*
Deferred payment (per month)	1.50%	1.50%	1.50%
Deposit	**	**	**
Deposit Interest	**	**	**
NSF check	$ 15	$ 15	$ 15
Late payment fee (per month)***	1.50%	1.50%	1.50%
Disconnect/Reconnect (delinquent account)	$ 500	NT	Remove from Tariff
Reconnection (Delinquent)	NT	$ 25	$ 25
After Hours Service Charge (At the Customer's Request)	NT	$ 50	$ 50

* Number of months off the system times the applicable sewer charge.
** Per Commission Rule R14-2-603.B.7 and 603.B.3
*** Late payment charge based upon balance owing at the end of the billing cycle which is added to next bill.
NT = No Tariff