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8 **BEFORE THE ARIZONA CORPORATION COMMISSION**

9 IN THE MATTER OF THE  
10 APPLICATION OF RIO RICO  
11 UTILITIES, INC., AN ARIZONA  
12 CORPORATION, FOR A  
13 DETERMINATION OF THE FAIR  
14 VALUE OF ITS UTILITY PLANTS AND  
15 PROPERTY AND FOR INCREASES IN  
16 ITS WATER AND WASTEWATER  
17 RATES AND CHARGES FOR UTILITY  
18 SERVICE BASED THEREON.

DOCKET NO: WS-02676A-12-0196

19 Rio Rico Utilities, Inc. ("RRUI" or "the Company") hereby submits this Notice of  
20 Filing Rebuttal Testimony in the above-referenced matter. Specifically filed herewith are  
21 the Company's Rebuttal Testimonies, which include the following testimonies, along with  
22 supporting schedules and/or attachments:

- 23 1. Rebuttal Testimony of Thomas J. Bourassa (Rate Base);
- 24 2. Rebuttal Testimony of Gregory S. Sorensen;
- 25 3. Rebuttal Testimony of Christopher D. Krygier; and
- 26 4. Rebuttal Testimony of Thomas J. Bourassa (Cost of Capital).

RESPECTFULLY SUBMITTED this 28th day of January, 2013.

Arizona Corporation Commission  
DOCKETED

JAN 28 2013

DOCKETED BY 

FENNEMORE CRAIG, P.C.

By: 

Jay L. Shapiro  
Attorneys for Rio Rico Utilities, Inc.

1 **ORIGINAL** and 13 copies filed  
2 this 28th day of January, 2013 with:

3 Docket Control  
4 Arizona Corporation Commission  
5 1200 West Washington Street  
6 Phoenix, Arizona 85007

7 **COPY** of the foregoing was emailed/mailed  
8 this 28th day of January, 2013 to:

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DOCKET NO: WS-02676A-12-0196

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16 **REBUTTAL TESTIMONY OF**

17 **THOMAS J. BOURASSA**

18 **(RATE BASE, INCOME STATEMENT AND RATE DESIGN)**

19

**January 28, 2013**

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1 **I. INTRODUCTION AND QUALIFICATIONS**

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

3 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,  
4 Phoenix, Arizona 85029.

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

6 A. I am testifying in this proceeding on behalf of the applicant, Rio Rico Utilities, Inc.  
7 ("RRUI" or the "Company").

8 **Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THE  
9 INSTANT CASE?**

10 A. Yes, my direct testimony was submitted in support of the initial application in this  
11 docket. There were two volumes, one addressing rate base, income statement and  
12 rate design, and the other addressing cost of capital.

13 **Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?**

14 A. I will provide rebuttal testimony in response to the direct filings by Staff and  
15 RUCO. More specifically, this first volume of my rebuttal testimony relates to rate  
16 base, income statement and rate design for RRUI. In a second, separate volume of  
17 my rebuttal testimony, I will present an update to the Company's requested cost of  
18 capital as well as provide responses to Staff and RUCO on the cost of capital and  
19 rate of return applied to the fair value rate base, and the determination of operating  
20 income.

21 **II. SUMMARY OF RRUI'S REBUTTAL POSITION**

22 **Q. WHAT ARE THE REVENUE INCREASES FOR THE WATER AND  
23 WASTEWATER DIVISIONS THAT THE COMPANY IS PROPOSING IN  
24 THIS REBUTTAL TESTIMONY?**

25 A. For the water division, the Company proposes a total revenue requirement of  
26 \$3,360,360, which constitutes an increase in revenues of \$581,865, or 20.94% over

1 adjusted test year revenues. For the wastewater division, RRUI proposes a total  
2 revenue requirement of \$1,605,670, which constitutes an increase in revenues of  
3 \$235,540, or 17.19% over adjusted test year revenues.

4 **Q. HOW DO THESE COMPARE WITH THE COMPANY'S DIRECT**  
5 **FILING?**

6 A. They are both lower. In the direct filing for the water division, the Company  
7 requested a total revenue requirement of \$3,458,917, which required an increase in  
8 revenues of \$604,079, or 21.16%. In the direct filing for the wastewater division,  
9 the Company requested a total revenue requirement of \$1,754,195, which required  
10 an increase in revenues of \$393,612, or 28.93%.

11 **Q. WHAT'S DIFFERENT?**

12 A. RRUI has adopted a number of rate base and revenue/expense adjustments  
13 recommended by Staff and/or RUCO, as well as proposed a number of adjustments  
14 of its own based on known and measurable changes to the test year.

15 For the water division, the net result of these adjustments is: (1) the  
16 Company's proposed operating expenses have decreased by \$74,475, from  
17 \$2,478,906 in the direct filing to \$2,404,430; and a net increase of \$100,501 in rate  
18 base from the direct filing of \$7,629,607 to \$7,730,108.

19 For the wastewater division, the net result of these adjustments is: (1) the  
20 Company's proposed operating expenses have decreased by \$78,810, from  
21 \$1,146,763 in the direct filing to \$1,067,953; and (2) a net increase of \$135,180 in  
22 rate base from the direct filing of \$4,600,012 to \$4,735,192.

23 In addition, the Company has reduced its recommended cost of equity from  
24 10.7% in its direct filing to 10.3% in its rebuttal filing. The Company is  
25 recommending a 9.38% rate of return on FVRB based on the Company weighted  
26 average cost of capital which reflects the Company's proposed capital structure of

1 20 percent debt and 80 percent equity. I discuss the Company proposed return on  
2 equity, cost of debt, and capital structure in my cost of capital testimony.

3 **Q. WHAT ARE THE PROPOSED REVENUE REQUIREMENTS AND RATE**  
4 **INCREASES FOR THE COMPANY, STAFF, AND RUCO AT THIS STAGE**  
5 **OF THE PROCEEDING?**

6 A. For the water division, the proposed revenue requirements and proposed rate  
7 increases are as follows:

	<u>Revenue Requirement</u>	<u>Revenue Incr.</u>	<u>% Increase</u>
8 Company-Direct	\$3,458,917	\$ 604,079	21.16%
9 Staff	\$3,199,993	\$ 345,155	12.09%
10 RUCO	\$2,987,529	\$ 90,894	3.14%
11 Company Rebuttal	\$3,360,360	\$ 581,865	20.94%

12 For the wastewater division, the proposed revenue requirements and  
13 proposed rate increases are as follows:

	<u>Revenue Requirement</u>	<u>Revenue Incr.</u>	<u>% Increase</u>
14 Company-Direct	\$1,754,195	\$ 393,612	28.93%
15 Staff	\$1,535,236	\$ 141,635	10.16%
16 RUCO	\$1,405,272	\$ 3,060	0.22%
17 Company Rebuttal	\$1,605,670	\$ 235,540	17.19%

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1 **III. RATE BASE**

2 **A. Water Division Rate Base.**

3 **Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE**  
4 **BASE RECOMMENDATIONS FOR THE WATER DIVISION?**

5 A. Yes, for the water division the rate bases proposed by the parties proposing a rate  
6 base in the case, the Company, Staff and RUCO, are as follows:

	<u>OCRB</u>	<u>FVRB</u>
7		
8	Company-Direct	\$ 7,629,607
9	Staff	\$ 7,665,342
10	RUCO	\$ 7,681,547
11	Company Rebuttal	\$ 7,730,108

12 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**  
13 **ORIGINAL COST RATE BASE FOR THE WATER DIVISION?**

14 A. Yes. The Company's rebuttal rate base adjustments to the water division's OCRB  
15 are detailed on rebuttal schedules B-2, pages 3 through 6. Rebuttal Schedule B-2,  
16 page 1 and 2, summarize the Company's proposed adjustments and the rebuttal  
17 OCRB.

18 **1. Plant-in-service (PIS).**

19 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**  
20 **ADJUSTMENTS TO PLANT-IN-SERVICE FOR THE WATER DIVISION,**  
21 **AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM**  
22 **STAFF AND/OR RUCO?**

23 A. Rebuttal B-2 adjustment 1, as summarized on Rebuttal Schedule B-2, page 2,  
24 consists of six adjustments labeled as "A", "B", "C", "D", "E", and "F" on  
25 Rebuttal Schedule B-2, page 3.

26

1 Adjustment A reflects a reclassification of PIS totaling \$15,362 from the  
2 water division to the wastewater division. This adjustment reflects the adoption of  
3 Staff's recommendation.<sup>1</sup> RUCO proposes a similar adjustment.<sup>2</sup>

4 Adjustment B reflects the removal of \$121,438 from PIS. This adjustment  
5 reflects the adoption of Staff's recommendation.<sup>3</sup> RUCO does not propose a  
6 similar adjustment.

7 Adjustment C reflects the removal of affiliate profit recorded in 2012  
8 totaling \$1,708 from PIS. This adjustment reflects the adoption of Staff's  
9 recommendation.<sup>4</sup> RUCO proposes a similar adjustment.<sup>5</sup>

10 Adjustment D reflects the retirement of PIS totaling \$9,757. This  
11 adjustment reflects the adoption of Staff's recommendation.<sup>6</sup> RUCO does not  
12 propose a similar adjustment.

13 Adjustment E reflects the retirement of PIS totaling \$1,542,649. The  
14 Company is proposing retirements for the plant accounts 311 – Pumping  
15 Equipment and account 347 – Miscellaneous Equipment. This adjustment is made  
16 in response to the positions advanced by Staff and RUCO and adjusts the  
17 accumulated depreciation (A/D) balance to recognize retirements in the past.

18 **Q. WHY IS ADJUSTMENT E NECESSARY?**

19 A. Because the Company depreciated some plant that actually should have been  
20 retired. This resulted in an overstated A/D balance. Staff is similarly adjusting the  
21 A/D balance for overstatement.<sup>7</sup> Rather than recognize retirements as the

22 <sup>1</sup> See Direct Testimony of Mary J. Rimback ("Rimback Dt.") at 13.

23 <sup>2</sup> See Direct Testimony of Timothy J. Coley ("Coley Dt.") at 4.

24 <sup>3</sup> Rimback Dt. at 13.

25 <sup>4</sup> *Id.* at 14.

26 <sup>5</sup> Coley Dt. at 5.

<sup>6</sup> Rimback Dt. at 18.

<sup>7</sup> *Id.* at 16.

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Company proposes, the Staff approach excludes fully depreciated plant in the annual depreciation expense computations for the intervening years between the end of the last year and the end of the current test year for two specific plant accounts, account 311 – Pumping Equipment and account 347 – Miscellaneous Equipment.<sup>8</sup> Staff accomplishes this by using a vintage year group method of computing depreciation for these two plant accounts. A vintage year group that is fully depreciated is excluded from the annual depreciation computation. Both the Company approach and the Staff approach result in corrections (reductions) to the A/D balance because the computed depreciation expense in the intervening years between the last test year and the current test year is less under both approaches.<sup>9</sup> But, RRUI proposes a different methodology to implement the corrections. RRUI proposes an approach that not only corrects the A/D balance but also corrects the PIS balance.

**Q. PLEASE EXPLAIN HOW THE COMPANY IDENTIFIED THE AMOUNTS TO RETIRE FOR EACH OF THESE TWO PLANT ACCOUNTS?**

A. I examined the plant schedules from the two prior rate cases and have identified plant amounts from 1994 through 2003 that should be retired based upon the useful lives of these two accounts. For example, account 311 – Pumping Equipment has an average expected life of 8 years. As an example, plant added on or before 2003 should have been retired by 2012. Account 347 – Miscellaneous equipment has an expected life of 10 years. Similar to above, plant added on or before 2002 should have been retired by 2012. After identifying the net additions (additions less retirements) to each of these accounts between 1994 through 2003, I phased in the

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<sup>8</sup> *Id.*  
<sup>9</sup> *Id.*

1 retirements in the intervening years between the last test year-end<sup>10</sup> and the current  
2 test year-end (February 29, 2012). For example, for pumping equipment,  
3 I assumed the plant added before 2000 was retired in 2009, the plant added in 2001  
4 was retired in 2010, the plant added in 2002 was retired in 2011, and the plant  
5 added in 2003 was retired in 2012. As an example, as shown on Rebuttal Schedule  
6 B-2, Page 3.5, Line No. 13 reflects an adjustment of \$1,469,722 and this amount is  
7 shown as a retirement on Rebuttal Schedule B-2, Page 3.7, Line No. 11 in the  
8 retirements column. I similarly phased in the retirements for miscellaneous  
9 equipment. For both plant accounts, I netted the retirement amount against any  
10 recorded retirements for the years 2009 through 2012 to avoid “double counting”  
11 retirements. The details of the retirement amounts for each year and by plant  
12 account are shown in Rebuttal Schedule B-2, page 3.5. These retirements are also  
13 reflected in my reconstruction of the plant and A/D balances as shown on Rebuttal  
14 Schedule B-2, pages 3.7 to 3.10.

- 15 **Q. ARE YOU AWARE OF A SIMILAR APPROACH BEING USED BEFORE?**
- 16 A. Yes. In the recent *Bella Vista Water Company* (“BVWC”) rate case after BVWC  
17 filed its initial filing, Staff proposed plant retirements because the plant balances  
18 and accumulated depreciation were overstated from the failure by the Company to  
19 record retirements.<sup>11</sup> The Company agreed with the need to record retirements and  
20 proffered its own retirement amounts, which Staff accepted and the Commission  
21 ultimately adopted.<sup>12</sup> In that case, both the plant and accumulated depreciation  
22 balances were corrected for overstatements by recognition of retirements just as the  
23  
24

25 <sup>10</sup> Decision No. 72059 (January 6, 2011) was based on a test-year ended December 31, 2008.  
26 <sup>11</sup> See Direct Testimony of Crystal S. Brown (“Brown Dt.”) at 16 in Docket No. W-02465A-09-0411 *et al.*  
<sup>12</sup> See Decision No. 72251 (April 7, 2011) at 12.

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Company proposes in this case. BVWC is an affiliate of RRUI under the Liberty Utilities umbrella and I discuss that case in additional detail below.

**Q. ARE YOU SAYING YOU HAVE HAD TO FIX THEIR MISTAKE TWICE?**

A. No, this is not a mistake by the utility. It was an omission that isn't surprising given the complexity of plant accounting. That's why I tried to take the simplest approach possible – one that worked before to the satisfaction of the Commission.

**Q. THANK YOU. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE COMPANY PROPOSED WATER DIVISION PLANT ADJUSTMENTS.**

A. Adjustment F reflects the reconciliation of the PIS to the reconstruction of PIS shown on Rebuttal Schedule B-2, pages 3.7 through 3.10. As shown, there are no differences between the reconstructed balance and the adjusted balances shown on Rebuttal Schedule B-2, page 2; which means I have accounted for all of the Company's proposed PIS adjustments in the plant reconstruction.

**2. Accumulated Depreciation (A/D).**

**Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO ACCUMULATED DEPRECIATION FOR THE WATER DIVISION, AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?**

A. Rebuttal B-2 adjustment 2, as summarized on Rebuttal Schedule B-2, page 2, consists of six adjustments labeled as "A", "B", "C", "D", "E", "F" and "G" on Rebuttal Schedule B-2, page 4.

Adjustment A reflects the removal of A/D related to the reclassification of PIS in rebuttal adjustment 1-A discussed above. The Company proposes a

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decrease in A/D of \$1,415. This adjustment reflects the adoption of Staff's recommendation.<sup>13</sup>

Adjustment B reflects the removal of \$337 of A/D related to the removal of PIS in adjustment 1-B discussed above. This adjustment reflects the adoption of Staff's recommendation.<sup>14</sup>

Adjustment C reflects the removal of A/D for the affiliate profit removed from PIS in adjustment 1-C discussed previously. This adjustment reflects the Company computation of the related A/D that totals \$6. This is lower than the Staff proposed amount of \$34.<sup>15</sup> The Company believes that Staff's recommended amount is overstated as it reflects 1 year of depreciation (half-year convention) and should only reflect 2 months of depreciation (half-year convention).

Adjustment D reflects the removal of \$9,757 of A/D for the retirement of PIS in adjustment 1-D discussed previously. This adjustment reflects the adoption of Staff's recommendation.<sup>16</sup>

Adjustment E reflects the removal of \$1,542,659 of A/D for the retirement of PIS discussed in adjustment 1-E discussed previously.

Adjustment F reflects the adjustment required to reconcile A/D to the reconstructed balance.

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<sup>13</sup> See Rimback Dt. at 13.  
<sup>14</sup> *Id.* at 13.  
<sup>15</sup> *Id.* at 14.  
<sup>16</sup> *Id.* at 18.

1 Q. WHY IS THERE A DIFFERENCE BETWEEN THE WATER DIVISION  
2 ADJUSTED A/D BALANCE AND THE RECONSTRUCTED A/D  
3 BALANCE?

4 A. The difference of \$471,430 is comprised of \$469,676 for account 311 – Pumping  
5 Equipment and \$9,755 for account 347 – Miscellaneous Equipment. The  
6 reconstructed balance of A/D takes into account the proposed plant retirements I  
7 discussed as part of the water division proposed PIS adjustment 1-E. This  
8 reduction in A/D is similar to Staff’s proposed \$290,873 reduction in A/D based  
9 upon Staff’s fully depreciated plant approach.<sup>17</sup>

10 Q. HAS RUCO PROPOSED AN APPROACH THAT DEALS WITH FULLY  
11 DEPRECIATED PLANT?

12 A. Yes. RUCO recommends a reduction in the A/D balance of \$114,014 for the water  
13 division.<sup>18</sup>

14 Q. WHAT DEPRECIATION METHOD DOES STAFF EMPLOY WHEN  
15 RECONSTRUCTING THE WATER DIVISION’S A/D BALANCE?

16 A. In the Staff approach, Staff employs a vintage year group method for computing  
17 depreciation for these two plant accounts. Staff does not use the vintage year  
18 method for other water plant accounts; it just singled out two accounts for a  
19 different depreciation method than the rest.

20 Q. WHAT DEPRECIATION METHOD DOES RUCO EMPLOY WHEN  
21 RECONSTRUCTING THE WATER DIVISION’S A/D BALANCE?

22 A. I am not quite sure. There are definitely elements of the asset group method in  
23 there but this method is not consistently followed. For example, RUCO appears to  
24 determine the dollar amount in each asset group that is fully depreciated based

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25 <sup>17</sup> *Id.* at 16.

26 <sup>18</sup> Coley Dt. at 15.

1 simply on the net book value. This is inconsistent with both the asset group  
2 method and the vintage year method Staff employs and should be rejected.

3 **Q. IS MR. COLEY RIGHT THAT AN ASSET CAN BE FULLY**  
4 **DEPRECIATED IN ONE YEAR?**

5 A. No. It is true that the cost of an addition can equal the depreciation expense for  
6 that year, but this does not render the asset group method unacceptable. Let me  
7 explain by example. Assume that an asset group has a \$100 gross balance (which  
8 includes amounts for assets that should have been retired), and A/D balance of  
9 \$100, a current year addition of \$5, and a depreciation rate of 10% (10 year useful  
10 life). Under the asset group methodology, the depreciation expense would be the  
11 lessor of the computed depreciation on \$105 (\$100 plus \$5) or the remaining net  
12 book value, whichever is less. In this example, the computed depreciation would  
13 be \$10.50 (\$105 times 10%). Since \$10.50 is greater than the net book value of \$5  
14 (\$105 minus \$100), the depreciation expense would be \$5; which happens to be the  
15 amount of the current year's addition. But this does not mean that the asset itself  
16 was fully depreciated. As I just explained a bit above, under the asset group  
17 method, we do not track assets individually and the asset group would again be  
18 fully depreciated when the \$5 of depreciation is recorded (\$105 minus \$100 minus  
19 \$5 equals 0). I will explain the asset group in more detail shortly in my testimony.

20 In this example, if the depreciation rate accurately reflected the average life  
21 of the underlying assets, then the \$100 gross balance should have been eliminated  
22 through retirements, and the gross balance of the asset group would only have been  
23 \$5. So, the depreciation expense would only have been \$0.50 (\$5 times 10%) if the  
24 retirements had been recorded and not \$5. This is an example of a distortion  
25 (overstatement) in A/D than can occur under the asset group method.

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Other distortions can be caused by depreciation rates that do not accurately reflect the average life of the asset group. For example, if the average life of an asset group is assumed to be 10 years (10% depreciation rate), but the actual average life turned out to be 5 years (20% depreciation rate), then the asset group would not be fully depreciated at the time of retirement. Assuming an asset costs \$100, the A/D balance after 5 years would be \$45 (\$100 times 4.5 years<sup>19</sup> times 10%). Under the NARUC Uniform System of Accounts, when a retirement is recorded, the cost is removed from both the plant balance and the A/D balance regardless of how much depreciation was recorded.<sup>20</sup> The USOA accounting instructions assume an asset is fully depreciated when retired. Under this example, the A/D balance would be a negative \$55 after the retirement was recorded (\$45 minus \$100). The net book value would be a negative \$55 also.

**Q. DOES IT MATTER WHICH DEPRECIATION METHODOLOGY IS EMPLOYED?**

A. No. If the useful lives of the asset groups do not actually match the average lives of the groups assumed in the depreciation rates, then distortions can occur regardless of the methodology employed.

**Q. WHAT DEPRECIATION METHOD DOES THE COMPANY EMPLOY?**

A. The Company employs the asset group method for all of its assets, including the two plant accounts in question.

---

<sup>19</sup> Half-year convention.  
<sup>20</sup> Accounting Instruction 27.B(2), *Uniform System of Accounts for Class A Water Utilities*, National Association of Regulatory Commissioners, 1996.

1 **Q. HOW DOES THE VINTAGE YEAR GROUP DEPRECIATION METHOD**  
2 **COMPARE TO THE ASSET GROUP DEPRECIATION METHOD?**

3 A. Under the vintage year group method, an asset group (e.g. pumping equipment,  
4 transmissions and distribution mains, well and springs) may consist of one or more  
5 vintage year groups. There is no attempt made to keep track of the depreciation  
6 reserve of individual assets within the vintage year group. Depreciation reserve for  
7 assets added to an asset group in a particular year (vintage year) is tracked  
8 separately from other vintage year groups within that asset group. When the  
9 vintage year group is fully depreciated then depreciation ceases. For example, the  
10 pumping equipment account (account 311) may consist of assets added in 1998,  
11 1999 and 2000. If the depreciation rate is 12.5 percent (8 year life), then the  
12 pumping equipment added in 1998 would be fully depreciated by the end of 2008.  
13 Similarly, pumping equipment added in 1999 would be fully depreciated by 2009,  
14 and so on.

15 Under the asset group depreciation method, there is no attempt to track the  
16 depreciation reserve by vintage year group or individually. It is only when the  
17 asset group is fully depreciated that the depreciation ceases.

18 **Q. DO THE TWO METHODS PROVIDE FOR THE SAME RESULTS OVER**  
19 **TIME?**

20 A. Yes, as long as retirements are recorded and the average service life used to  
21 depreciate the plant matches the actual service life experienced. This is illustrated  
22 in **Exhibit TJB-RB1**. As shown, under either method, at year 2010, net plant is  
23 zero.  
24  
25  
26

1 Q. DO YOU SEE ANY PRACTICAL PROBLEMS IF RRUI WERE TO USE  
2 THE VINTAGE YEAR GROUP METHOD FOR SOME OR ALL OF ITS  
3 PLANT ACCOUNTS?

4 A. Yes. First, it is not very practical or efficient to use different depreciation methods  
5 for plant accounting. In the instant case, Staff uses the vintage year group method  
6 on just two of the Company's plant accounts (Accounts 311 and 371), while  
7 RUCO's method is hodgepodge. There should be consistency across all accounts,  
8 absent good reason.

9 Second, all of the Liberty Utilities owned water/sewer utilities employ the  
10 asset group method of plant accounting for all assets. In fact, the group method  
11 was employed and was unopposed by Staff in recent cases for the other utilities  
12 owned and operated by Liberty Utilities such as Black Mountain Sewer  
13 Corporation,<sup>21</sup> Gold Canyon Sewer Company,<sup>22</sup> Litchfield Park Service  
14 Company,<sup>23</sup> and Rio Rico Utilities.<sup>24</sup> It would be impractical for its utilities to use  
15 different methods of computing depreciation. Finally, the group method is the  
16 most administratively efficient method.

17 Q. YOU MENTIONED THE RECENT BVWC RATE CASE EARLIER.  
18 WHAT HAPPENED THERE?

19 A. In the *Bella Vista Water Company* rate case,<sup>25</sup> Staff rejected the asset group method  
20 and recommended the specific asset method instead. The Commission rejected  
21 Staff's proposal.<sup>26</sup> In the instant case, Staff does not appear to be recommending  
22

23 <sup>21</sup> *Black Mountain Sewer Corporation*, Docket Nos. SW-02361A-05-0657 and SW-02361A-08-0609.

24 <sup>22</sup> *Gold Canyon Sewer Company*, Docket Nos. SW-02519A-00-0638 and SW-02519A-06-0015.

25 <sup>23</sup> *Litchfield Park Service Company*, Docket No. SW-01428A-09-0103, *et al.*

26 <sup>24</sup> *Rio Rico Utilities, Inc.*, Docket No. W-02676A-09-0257.

<sup>25</sup> *Bella Vista Water Company*, Docket No. W-02465A-09-0411, *et al.*

<sup>26</sup> Decision No. 72251 at 15 - 16.

1 the Company be required to use a vintage year group method. Instead, Staff used  
2 that method to serve as a basis correcting the overstatement in accumulated  
3 depreciation. But, unlike the BVWC rate case, the PIS balance is not corrected  
4 under the Staff approach.

5 **Q. DOESN'T LIBERTY HAVE A POLICY FOR RECOGNIZING AND**  
6 **RECORDING RETIREMENTS FOR ITS UTILITIES?**

7 A. Yes. Attached hereto as **Exhibit TJB-RB2** is a copy of the policy. The policy was  
8 implemented in 2010 and the Company has followed this policy since and recorded  
9 retirements as it has replaced plant.

10 **Q. THEN HOW IS IT THAT THE COMPANY IS NOW RECOGNIZING**  
11 **THAT THERE SHOULD BE RETIREMENTS FOR THE PUMPING**  
12 **EQUIPMENT ACCOUNT?**

13 A. This policy was not implemented until 2010 since which time the Company has  
14 followed this policy and has been recording retirements. Evidence of RRUI  
15 following this policy is found in the instant case where the Company proposed  
16 retirements on its B-2 plant schedules. But, some of the very old plant items for  
17 which the Company lacks sufficient detail to identify and which may have been  
18 taken out of service under the prior ownership (pre 2005) or in the intervening  
19 years between RRUI acquisition and the implementation of the policy in 2010 were  
20 simply missed. The Company's retirement proposal is intended to rectify the  
21 failure to record retirements prior to its ownership.

22 **Q. IS THE GROUP DEPRECIATION METHOD AN ACCEPTED METHOD**  
23 **IN REGULATORY UTILITY ACCOUNTING?**

24 A. Yes. The group method is a commonly used and accepted method in regulatory  
25 utility accounting. In fact, it is has been used by Staff in many rate cases. As  
26

1 stated in *Accounting for Public Utilities* published by Matthew Bender and  
2 Company:<sup>27</sup>

3 The group concept has been an integral part of utility  
4 depreciation accounting practice for many years. Though the  
5 concept is applicable to non-regulated entities, it is not often  
6 applied. Non-regulated entities tend to depreciate individual  
7 property units independently. Under the group concept, no  
8 attempt is made to keep track of the depreciation reserve  
9 applicable to individual items of property. This does not  
10 imply loss of control, but rather is a practical approach for  
11 utilities because they possess millions of items of property.

9 **Q. HOW DOES MATTHEW BENDER DESCRIBE THE GROUP METHOD**  
10 **FOR DEPRECIATION?**

11 A. The group concept is explained by Deloitte & Touche in *Accounting for Public*  
12 *Utilities* as follows:<sup>28</sup>

13 Under the group concept each depreciable property group has  
14 some "average" life. For accounting purposes, every item in  
15 the group is assumed to half the life of the group and to be  
16 fully depreciated at the time of retirement. The average is the  
17 result of a calculation, and there is no assurance that any of  
18 the property items in the group is average.

17 The use of the term "average useful life" in the measurement  
18 of the mortality characteristics of utility property carries with  
19 it the concept of retirement dispersion (variation around the  
20 average service life). If every item was average, thereby  
21 having exactly the same life, there would be no dispersion.  
22 The concept of dispersion recognizes that nearly have of the  
23 items in a group last to an age less than the average service  
24 life, a few last to an age equal to the average, and the rest last  
25 longer than the average...

22 ...[U]nder the group concept, normal retirements are  
23 considered fully depreciated no matter what their age. The

25 <sup>27</sup> Deloitte & Touche LLP, *et al. Accounting for Public Utilities*. Lexis-Nexis (Matthew Bender & Co.)  
26 2009, Sec. 6.04 ("Deloitte & Touche").

26 <sup>28</sup> Deloitte & Touche, *supra*.

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capital cost is removed from investment and the same amount is removed from the depreciation reserve...

**Q. WHAT DOES DELOITTE & TOUCHE SAY WITH RESPECT TO THE METHOD STAFF EMPLOYS FOR COMPUTING DEPRECIATION IN THE INSTANT CASE?**

A. Keeping in mind, as I explained above, Staff employs a vintage year group method in its re-computation of A/D and in annualizing depreciation expense, Deloitte & Touche states:<sup>29</sup>

Some regulators suggest that the reserve be recorded by vintage when equal life group rates are used. These suggestions are the result of confusion caused by the use of the "group" in both the utility accounting concept and in the name given to rate calculation procedures. Under the group concept, mortality characteristics apply to the total group, not to the specific components of the group. Therefore suggestions for recording the reserve by vintage are inconsistent with the group concept. *This would be precise, but not accurate.* (emphasis added)

**3. Contributions-in-aid of Construction (CIAC).**

**Q. PLEASE DISCUSS THE COMPANY'S ADJUSTMENT TO CONTRIBUTIONS-IN-AID OF CONSTRUCTION.**

A. In rebuttal B-2 adjustment 3, as shown on Schedule B-2, page 2, the Company reduces accumulated amortization of CIAC by \$178,509. The amount recognizes the changes to the annually computed composite amortization rates in the intervening years since the last test year resulting from the Company's proposed plant retirements.

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<sup>29</sup> *Id.*

1 **Q. DID STAFF AND/OR RUCO ALSO PROPOSE AN INCREASE TO THE**  
2 **WATER DIVISION'S ACCUMULATED AMORTIZATION BALANCE?**

3 A. Staff proposes an increase to accumulated amortization of \$104,741 that reflects  
4 Staff's application of its annually computed composite rates to gross CIAC in the  
5 intervening years. Staff's annually computed composite rates recognize Staff's  
6 proposals to retire plant and to recognize fully depreciated plant.<sup>30</sup> RUCO does not  
7 propose any changes to the accumulated amortization balance.

8 **4. Accumulated Deferred Income Taxes (ADIT).**

9 **Q. HAS THE COMPANY PROPOSED A REBUTTAL ADJUSTMENT TO**  
10 **DEFERRED INCOME TAXES FOR THE WATER DIVISION?**

11 A. Yes. In rebuttal B-2 adjustment 4, as shown on Schedule B-2, page 2, the  
12 Company proposes to increase ADIT by \$57,322. This adjustment recognizes the  
13 Company's rebuttal proposed PIS, A/D, AIAC, and CIAC balances.

14 **Q. DID STAFF AND RUCO PROPOSE ADJUSTMENTS TO DEFERRED**  
15 **INCOME TAXES FOR THE WATER DIVISION?**

16 A. Yes. Both Staff and RUCO propose increase to ADIT based upon their respective  
17 recommended PIS, A/D, AIAC and CIAC balances.<sup>31</sup> The methodology does not  
18 appear to be in dispute.

19 **Q. PLEASE RESPOND TO RUCO'S ASSERTION THAT THE INCOME TAX**  
20 **RATES USED IN THE ADIT COMPUTATION SHOULD BE THE SAME**  
21 **AS IN THE COMPUTATION OF THE GROSS REVENUE CONVERSION**  
22 **FACTOR.**

23 A. There is no material difference between the effective income tax rates shown in the  
24 Company's ADIT computation and the effective income tax rates computed in the

25 <sup>30</sup> Rimback Dt. at 17.

26 <sup>31</sup> *Id.* at 15; Coley Dt. at 25 - 26.

1 gross revenue conversion factor. The effective federal tax rate on Rebuttal  
2 Schedule B-2, page 6.0 is 31.6 percent and the effective federal income tax rate on  
3 Rebuttal Schedule C-3 page 2, line 16 is 31.6308 percent or 31.6 percent rounded.  
4 The difference in the computed ADIT balance due to the rounding is very small  
5 and immaterial.

6 **B. Wastewater Division Rate Base.**

7 **Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE**  
8 **BASE RECOMMENDATIONS FOR THE WASTEWATER DIVISION?**

9 A. Yes, for the wastewater division the rate bases proposed by the parties proposing a  
10 rate base in the case, the Company, Staff and RUCO, are as follows:

	<u>OCRB</u>	<u>FVRB</u>
11 Company-Direct	\$ 4,600,012	\$ 4,600,012
12 Staff	\$ 4,694,175	\$ 4,694,175
13 RUCO	\$ 4,663,510	\$ 4,663,510
14 Company Rebuttal	\$ 4,735,192	\$ 4,735,192

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17 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**  
18 **ORIGINAL COST RATE BASE FOR THE WASTEWATER DIVISION.**

19 A. The Company's rebuttal rate base adjustments to the water division's OCRB are  
20 detailed on rebuttal schedules B-2, pages 3 through 6. Rebuttal Schedule B-2, page  
21 1 and 2, summarizes the Company's proposed adjustments and the rebuttal OCRB.

22 **1. Plant-in-Service (PIS).**

23 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**  
24 **ADJUSTMENTS TO PLANT-IN-SERVICE FOR THE WASTEWATER**

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1           **DIVISION, AND IDENTIFY ANY ADJUSTMENTS YOU HAVE**  
2           **ACCEPTED FROM STAFF AND/OR RUCO?**

3           A.    Rebuttal B-2 adjustment 1, as summarized on Rebuttal Schedule B-2, page 2,  
4           consists of six adjustments labeled as “A”, “B”, “C”, “D”, “E”, and “F” on  
5           Rebuttal Schedule B-2, page 3.

6                     Adjustment A reflects a reclassification of PIS totaling \$15,362 to the  
7           wastewater division from the water division. This adjustment reflects the adoption  
8           of Staff’s recommendation.<sup>32</sup> RUCO proposes a similar adjustment.<sup>33</sup>

9                     Adjustment B reflects the reclassification of wastewater treatment plant  
10           costs related to the Nogales WWTP in the amount of \$1,008,000. Under the  
11           Company’s proposal, \$315,000 is reclassified from account 361 – Collection  
12           Sewers Gravity to Nogales WWTP and \$693,000 is reclassified from 380 –  
13           Treatment and Disposal Equipment to Nogales WWTP. The net impact of this  
14           adjustment on PIS is zero. In a similar adjustment, RUCO proposes to reclassify  
15           \$1,008,000 from plant account 380 – Treatment and Disposal Equipment to the  
16           Nogales WWTP.<sup>34</sup>

17           **Q.    WHY ARE THE COSTS COMING FROM TWO DIFFERENT**  
18           **ACCOUNTS?**

19           A.    After reviewing the historical plant additions for account 380 – Treatment and  
20           Disposal Equipment and the payment history to the City of Nogales,<sup>35</sup> the  
21           Company determined that only \$693,000 of the \$1,008,000 related to the Nogales  
22           WWTP was previously recorded in account 380 – Treatment and Disposal  
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24           <sup>32</sup> Rimback Dt. at 19.

25           <sup>33</sup> Coley Dt. at 4.

26           <sup>34</sup> *Id.* at 5.

<sup>35</sup> See Company Response to RUCO Data Request 5.7.

1 Equipment. The balance of \$315,000 was recorded in plant account 361 –  
2 Collection Sewers Gravity.

3 **Q. THANK YOU. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE**  
4 **ACCUMULATED DEPRECIATION ADJUSTMENTS FOR THE**  
5 **WASTEWATER DIVISION.**

6 A. Adjustment C reflects the reclassification of wastewater treatment plant costs  
7 related to the Nogales WWTP in the amount of \$153,642. Staff proposes a similar  
8 adjustment.<sup>36</sup> RUCO does not propose a similar adjustment.

9 Adjustment D reflects the retirement of PIS totaling \$6,866. This  
10 adjustment reflects the adoption of Staff's recommendation.<sup>37</sup> RUCO does not  
11 propose a similar adjustment.

12 Adjustment E reflects the removal of affiliate profit recorded in 2012  
13 totaling \$415 from PIS. This adjustment reflects the adoption of Staff's  
14 recommendation.<sup>38</sup> RUCO proposes a similar adjustment.<sup>39</sup>

15 Adjustment F reflects the retirement of PIS totaling \$1,593,905. The  
16 Company is proposing retirements for the plant account 371 – Pumping.  
17 I discussed the reasons for this adjustment in detail above for the water division.  
18 I do not think that discussion needs to be repeated for the wastewater division. The  
19 dispute between the Company and the other parties is the same, only the numbers  
20 differ. The details of the retirement amounts for each year and by wastewater plant  
21 account are shown in Rebuttal Schedule B-2, page 3.6. These retirements are also  
22  
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24 <sup>36</sup> Rimback Dt. at 19.

25 <sup>37</sup> *Id.* at 20.

26 <sup>38</sup> *Id.* at 22.

<sup>39</sup> Coley Dt. at 6.

1 reflected in my reconstruction of the plant and A/D balances as shown on Rebuttal  
2 Schedule B-2, pages 3.8 to 3.11.

3 Adjustment G reflects the reconciliation of the PIS to the reconstruction of  
4 PIS shown on Rebuttal Schedule B-2, pages 3.8 through 3.10. As shown, there are  
5 no differences between the reconstructed balance and the adjusted balances shown  
6 on Rebuttal Schedule B-2, page 2; which means I have accounted for all of the  
7 Company's proposed PIS adjustments in the wastewater plant reconstruction.

8 **2. Accumulated Depreciation (A/D).**

9 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**  
10 **ADJUSTMENTS TO ACCUMULATED DEPRECIATION FOR THE**  
11 **WASTEWATER DIVISION, AND IDENTIFY ANY ADJUSTMENTS YOU**  
12 **HAVE ACCEPTED FROM STAFF AND/OR RUCO?**

13 **A.** Rebuttal B-2 adjustment 2, as summarized on Rebuttal Schedule B-2, page 2,  
14 consists of six adjustments labeled as "A", "B", "C", "D", "E", "F", "G", and "H"  
15 on Rebuttal Schedule B-2, page 4.

16 Adjustment A reflects the removal of A/D related to the reclassification of  
17 PIS from the water division to the wastewater division in rebuttal adjustment 1-A  
18 discussed above. The Company proposes an increase in A/D of \$1,415. This  
19 adjustment reflects the adoption of Staff's recommendation.<sup>40</sup>

20 Adjustment B reflects the reclassification of A/D related to the  
21 reclassification of Nogales WWTP related PIS in adjustment 1-B discussed above.  
22 Like the Company, RUCO proposes a reclassification of A/D. However, RUCO's  
23 reclassification only involves the 380 account and the Nogales WWTP account,  
24 whereas the Company's reclassification involves the 380 account, the 361 account,  
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26 <sup>40</sup> Rimback Dt. at 13.

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and the Nogales WWTP account. RUCO also proposes to reclassify \$632,352 of A/D<sup>41</sup> while the Company proposes to reclassify \$544,590. The difference stems from the depreciation rate differences in the accounts involved in each of the parties' reclassification.

Adjustment D reflects the reclassification of \$12,032 of A/D related to the reclassification of Nogales WWTP related PIS in adjustment 1-C discussed above. Staff proposes a reclassification of \$11,181.

Adjustment C reflects the removal of A/D related to affiliate profit removed from PIS in adjustment 1-C discussed previously. This adjustment reflects the Company computation of the related A/D that totals \$6. This is lower than the Staff proposed amount of \$34.<sup>42</sup> The Company believes the Staff recommended amount is overstated as it reflects 1 year of depreciation (half-year convention) and should only reflect 2 months of depreciation (half-year convention).

Adjustment D reflects the A/D related to the retirement of PIS in adjustment 1-D discussed previously. This adjustment reflects the adoption of Staff's recommendation.<sup>43</sup>

Adjustment E reflects the A/D for retirement of PIS discussed in adjustment 1-E discussed previously.

Adjustment F reflects the adjustment to reconcile A/D to the reconstructed balance.

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<sup>41</sup> Coley Dt. at 5.

<sup>42</sup> Rimback Dt. at 8.

<sup>43</sup> *Id.* at 21.

1 **Q. IS THERE A DIFFERENCE BETWEEN THE WASTEWATER DIVISION**  
2 **ADJUSTED A/D BALANCE AND THE RECONSTRUCTED A/D**  
3 **BALANCE? IF SO, WHY?**

4 A. The total difference is \$178,614. This is comprised of a difference of \$147,178 for  
5 account 371 – Pumping Equipment. The reconstructed balance of A/D takes into  
6 account the retirements assumed in the Company’s proposed plant retirement  
7 approach discussed above. This reduction in A/D is similar to Staff’s proposed  
8 \$157,686 reduction in A/D based upon Staff’s fully depreciated plant approach to  
9 reconstructing the A/D balance.<sup>44</sup> The remaining difference of \$33,435 is an  
10 adjustment to fix the A/D balance for account 380 – Treatment and Disposal  
11 Equipment and account 380 – Other Plant and Miscellaneous Equipment.

12 By way of further explanation, after adopting Staff and RUCO’s  
13 reclassification of plant costs from account 380 – Pumping Equipment, this account  
14 has a higher A/D balance than the PIS balance. A \$30,368 downward adjustment  
15 to the A/D balance for account 380 is required to set the A/D balance equal to the  
16 PIS balance. A \$3,049 downward adjustment to A/D for account 389 is required to  
17 set the A/D balance equal to the PIS balance. A similar adjustment is proposed by  
18 Staff for account 389.<sup>45</sup>

19 **Q. HAS RUCO PROPOSED AN ADJUSTMENT TO THE WASTEWATER**  
20 **DIVISION’S A/D BALANCE?**

21 A. Yes, and RUCO recommends a reduction in the A/D balance of \$78,260 for the  
22 wastewater division.<sup>46</sup>

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25 <sup>44</sup> *Id.* at 23.

26 <sup>45</sup> *Id.* at 20.

<sup>46</sup> Coley Dt. at 15.

1 Q. AND ALL OF YOUR EARLIER COMMENTS REGARDING  
2 DEPRECIATION METHOD EMPLOYED BY THE COMPANY, STAFF,  
3 AND RUCO ALSO APPLY HERE?

4 A. Yes. See pages 11 through 18.

5 3. Contributions-in-aid of Construction (CIAC).

6 Q. PLEASE DISCUSS THE COMPANY'S ADJUSTMENT TO THE  
7 WASTEWATER DIVISION'S CONTRIBUTIONS-IN-AID OF  
8 CONSTRUCTION.

9 A. In rebuttal B-2 adjustment 3, as shown on Rebuttal Schedule B-2, page 2, the  
10 Company reduces accumulated amortization of CIAC by \$18,837. The amount  
11 recognizes the changes to the annually computed composite amortization rates in  
12 the intervening years since the last test year resulting from the Company's  
13 proposed rebuttal plant retirements.

14 Q. DID STAFF AND/OR RUCO ALSO PROPOSE AN INCREASE TO THE  
15 WASTEWATER DIVISION'S ACCUMULATED AMORTIZATION  
16 BALANCE?

17 A. Yes. Staff proposes an increase to accumulated amortization by \$69,228.<sup>47</sup> The  
18 \$69,228 reflects Staff's application of its annually computed composite rates to  
19 gross CIAC in the intervening years. Staff's annually computed composite rates  
20 recognize Staff's proposals to retire plant and to recognize fully depreciated  
21 plant.<sup>48</sup> RUCO does not propose any changes to the accumulated amortization  
22 balance.

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25 <sup>47</sup> Rimback Dt. at 24.

26 <sup>48</sup> *Id.*

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4. Accumulated Deferred Income Taxes (ADIT).

Q. HAS THE COMPANY PROPOSED A REBUTTAL ADJUSTMENT TO DEFERRED INCOME TAXES FOR THE WASTEWATER DIVISION?

A. Yes. In rebuttal B-2 adjustment 4, as shown on Schedule B-2, page 2, the Company proposes to increase the ADIT balance by \$39,025. This adjustment recognizes the Company's rebuttal proposed PIS, A/D, AIAC, and CIAC balances.

Q. DID STAFF AND RUCO PROPOSE A REBUTTAL ADJUSTMENT TO DEFERRED INCOME TAXES FOR THE WATER DIVISION?

A. Yes. Both Staff and RUCO propose an increase to ADIT based upon their respective recommended PIS, A/D, AIAC and CIAC balances. Staff proposes to increase the ADIT balance for the wastewater division by 13,752.<sup>49</sup>

Q. ARE THERE ANY OTHER RATE BASE ISSUES BETWEEN THE PARTIES FOR THE WASTEWATER DIVISION?

A. No.

IV. INCOME STATEMENT

A. Water Division Revenue and Expenses.

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO REVENUES AND EXPENSES FOR THE WATER DIVISION AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?

A. The Company rebuttal adjustments for the water division are detailed on Rebuttal Schedule C-2, pages 1-16. The rebuttal income statement with adjustments is summarized on Rebuttal Schedule C-1, page 1-2.

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<sup>49</sup> *Id.* at 21.

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Rebuttal adjustment 1 reduces depreciation expense. The rebuttal proposed depreciation expense is lower than the direct filing by \$109,788. The reduction is primarily due to the impacts of the Company's proposed rebuttal adjustments to plant-in-service as discussed above.

**Q. DO STAFF AND RUCO RECOMMEND LOWER DEPRECIATION EXPENSE FOR THE WATER DIVISION?**

A. Yes. Staff recommends a reduction to depreciation expense of \$107,176.<sup>50</sup> RUCO recommends a reduction to depreciation expense of \$198,500.<sup>51</sup>

**Q. PLEASE CONTINUE.**

A. Rebuttal adjustment number 2 increases property tax expense and reflects the rebuttal proposed revenues. Staff, RUCO, and the Company are in agreement on the method of computing property taxes. This method utilizes the ADOR formula and inputs two years of adjusted revenues plus one year of proposed revenues. I computed the property taxes based on the Company's proposed revenues, and then used the property tax rate and assessment ratio that was used in the direct filing.

**Q. ARE THE PARTIES USING THE SAME TAX RATE?**

A. No. The Company proposes an effective property tax rate of 13.6827 percent whereas RUCO proposes an effective property tax rate of 13.4835 percent.<sup>52</sup> RUCO asserts that I computed the effective property tax rate incorrectly by not using the correct full cash value in my computation. However, I have reviewed my work papers and found no such error. The Company and Staff employ the same effective property tax rate.

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<sup>50</sup> *Id.* at 26.  
<sup>51</sup> Coley Dt. at 35.  
<sup>52</sup> RUCO Schedule TJC-13.

1 **Q. ANY OTHER DIFFERENCES?**

2 A. RUCO uses slightly different net book values for transportation equipment than  
3 does the Company. The net book value for transportation equipment the Company  
4 utilizes is \$20,364 whereas RUCO uses a net book balance of \$21,167. However,  
5 RUCO's net book value for transportation equipment is incorrect and this is due to  
6 an error in RUCO's computation of depreciation expense for the two months of  
7 2012. This error understates the 2012 A/D balance and ultimately the net book  
8 value (gross plant less accumulated depreciation).

9 **Q. HOW DID YOU DISCOVER THIS ERROR?**

10 A. According to RUCO's work papers, RUCO computes depreciation expense of  
11 \$3,906 for the two months of 2012. However, the correct depreciation expense  
12 using the group method is \$4,709 computed as follows:

13 2011 Plant Balance \$140,369 times 20% times 2/12 = \$4,678.96

14 2012 Additions \$1,819 times 20% times 0.5 times 2/12 = \$30.32

15 Total = \$4,709.28 (or \$4,709 rounded)

16 I should note that even assuming a vintage year group method, the result would be  
17 the same. That said, according to RUCO's work papers, both the Company and  
18 Staff agree as to the 2011 plant balance of \$140,369 and the 2012 additions of  
19 \$1,809. We also agree that the gross plant balance for February 2012 is \$142,188  
20 and the 2011 A/D balance \$117,115. When the correct depreciation expense of  
21 \$4,709 is added to the 2011 A/D balance of \$117,115, the February 2012 balance is  
22 \$121,824. However, because of the error in the depreciation expense, RUCO  
23 shows an A/D balance of \$121,021 (\$117,115 plus \$3,906). The correct net book  
24 value is \$20,364 (\$142,188 minus \$121,824) and not \$21,167 (\$142,188 minus  
25 \$121,021). There are also other depreciation expense computational errors for  
26 2012 of a similar nature on other plant accounts in RUCO's work papers.

1 Q. **THANK YOU. PLEASE CONTINUE.**

2 A. Rebuttal adjustment number 3 reduces revenues by \$77,275 reflecting the  
3 Company's proposed declining usage adjustment. The declining usage adjustment  
4 is based upon the average decline in usage from 2008 through 2012 by the  
5 Company's largest customer class; the 5/8 x 3/4 inch residential customers. This  
6 decline has been caused by the inverted tier rate design and resulting conservation.  
7 After computing the average rate of decline in each usage block, these rates are  
8 then applied to the gallons sold in the test year for each usage block to determine  
9 the expected decline in gallons on a going forward basis. The current commodity  
10 rates are then applied to the expected decline in gallons to derive an annual  
11 expected revenue decline on a going forward basis. The expected decline in  
12 revenues is the multiplied by 1.5. A factor of 1.5 was chosen as it is the midpoint  
13 of 3 years; the expected period of time between the time new rates are adopted in  
14 the instant case and new rates are adopted in a subsequent rate case. I would also  
15 note it is approximately the period of time between the time the current rates were  
16 adopted and the new rates in the instant case will be adopted. Still, the Company  
17 believes the declining usage adjustment is conservative. As I will discuss later (at  
18 page 52), the Company revenues from this customer class have eroded by over  
19 \$218,000 from 2008 to 2012.

20 Rebuttal adjustment number 4 increases revenues by \$1,203 due to a change  
21 in the Company's revenue annualization. The additional revenues take into  
22 account estimated annualized billings for Morning Star Ranch ("MSR"); a 6 inch  
23 metered bulk water customer for which revenues were not annualized in the direct  
24 filing.

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1 **Q. WERE THE REVENUES FROM THIS CUSTOMER ANNUALIZED IN**  
2 **THE DIRECT FILING?**

3 A. No. At that time there wasn't enough information to reasonably estimate the usage  
4 and revenues for this customer on a going forward basis. MSR began purchasing  
5 water in November of 2012 and continued to purchase water in decreasing amounts  
6 through the end of the test year. Further, MSR purchased water from the Company  
7 because of problems with their own wells and it was unclear if or when MSR  
8 would no longer need water from the Company.

9 **Q. WHAT HAS HAPPENED SINCE THE FILING?**

10 A. MSR has continued to purchase water monthly at various levels and continues even  
11 today. While the Company does not know if MSR will continue as a customer on a  
12 long-term basis, we now have a full 12 months of usage data upon which a more  
13 realistic estimate of the level of revenues the Company may realize on a going  
14 forward basis, assuming MSR continues as a customer. Using the most recent  
15 12 months of usage data, the Company estimates that annual revenues will be  
16 \$30,828 at present rates. This can be found on Rebuttal Schedule C-2, page 5.19.  
17 During the test year, the Company's revenues included \$29,625 from MSR.<sup>53</sup> The  
18 additional revenues the Company may realize on a going forward basis, as  
19 reflected in the Company proposed revenue annualization adjustment, is therefore  
20 \$1,203 (\$30,928 less \$29,625).

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<sup>53</sup> Rebuttal Schedule H-1, page 1.

1 **Q. DOES RUCO PROPOSE A WATER DIVISION REVENUE**  
2 **ANNUALIZATION ADJUSTMENT FOR MORNING STAR RANCH?**

3 A. Yes. However, RUCO proposes to increase revenues by \$20,898.<sup>54</sup> This  
4 considerably overstates any reasonable estimate of the level of revenues the  
5 Company may realize on a going forward basis.

6 **Q. WHY IS RUCO'S WATER DIVISION REVENUE ANNUALIZATION**  
7 **OVERSTATED?**

8 A. Primarily because RUCO assumes that the test year water sales for November 2011  
9 and December 2011 will be repeated. But this is an insufficient sample. The usage  
10 data for November 2012 and December 2012 shows the usage was far less and at  
11 more realistic levels. As I stated earlier, the problem with annualizing revenues in  
12 the initial filing was the lack of a reasonable understanding of the going forward  
13 usage by MSR. It is now clear that the usages during the test year were far greater  
14 than what can be expected in the future.

15 **Q. ARE THERE ANY OTHER ISSUES SURROUNDING THE MORNING**  
16 **STAR RANCH ANNUALIZATION?**

17 A. Yes. RUCO has increased test year revenues by another \$20,898 as a revenue  
18 accrual correction for the water division.<sup>55</sup> There is no basis for this adjustment.  
19 The revenue accrual correction adjustment the Company proposed in its initial  
20 filing is only impacted by a change in the bill count revenues before the revenue  
21 annualization. A failure to capture the billings and revenues from a customer in the  
22 bill counts will impact the revenue accrual adjustment. But a change in the  
23 revenue annualization will not. Let me explain.

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<sup>54</sup> Coley Dt. at 41.

<sup>55</sup> *Id.* at 43.

1           The Company did not fail to bill and record revenues for MSR during the  
2 test year. As shown on both the Company's Direct Schedule H-1, page 1 and the  
3 Rebuttal Schedule H-1, page 1, the 6 inch bulk revenue is the same at \$29,625.  
4 The total bill count revenues before the revenue annualization also remains the  
5 same at \$2,830,180. The revenue accrual correction of \$10,308 as shown in the  
6 revenue reconciliation at the bottom of both the Direct Schedule H-1, page 3 and  
7 Rebuttal Schedule H-1, page 3, also remains the same.

8 **Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE COMPANY'S**  
9 **WATER DIVISION REBUTTAL ADJUSTMENTS TO REVENUES AND**  
10 **EXPENSES.**

11 A. Rebuttal adjustment 5 reflects the Company's adoption of Staff's adjustment to  
12 water testing expense.<sup>56</sup> RUCO does not propose a similar adjustment.

13           Rebuttal adjustment 6 increases purchased power expense for an anticipated  
14 increase in Tucson Electric Power ("TEP") increase in rates. TEP recently filed for  
15 an increase in its rates and is requesting an overall increase of approximately 4.6  
16 percent. The Company is basing its proposed purchased power adjustment on  
17 TEP's overall increase. This is a conservative estimate of the increase in electric  
18 power rates to the Company. In my experience residential customers rates are  
19 typically increased less than the overall requested increase and all other customers,  
20 including public utilities, experience higher increases than the overall requested  
21 increase. As such, 4.6 percent is conservative and likely understates the increase in  
22 rates to the Company when the TEP rate case is decided.

23           Rebuttal adjustment 7 reflects the adoption of the Staff proposed adjustment  
24 to Management Services – Corporate for capital taxes.<sup>57</sup>

25 <sup>56</sup> Rimback Dt. at 25.

26 <sup>57</sup> *Id.*

1           Rebuttal adjustment 8 reduces miscellaneous expense by \$1,804 and reflects  
2 the adoption of RUCO's recommendation to remove certain miscellaneous  
3 expenses.<sup>58</sup>

4           Rebuttal adjustment 9 increases Salaries and Wages by \$31,891 for revised  
5 employee benefits. The proposed employee benefit costs reflect a recently adopted  
6 benefit arrangement for the Company's employees. Please see the rebuttal  
7 testimony of Mr. Greg Sorensen for details on this adjustment.

8           Rebuttal Adjustments 10-13 are intentionally left blank.

9           Rebuttal Adjustment 14 reflects the changes to interest expense resulting  
10 from the interest synchronization with the Company's rebuttal proposed rate base.  
11 Interest synchronization also reflects the Company's proposed capital structure and  
12 cost of debt.

13           Rebuttal Adjustment 15 reflects the changes to income taxes at the  
14 Company's rebuttal proposed revenues and expenses.

15 **Q. HOW HAVE YOU ADDRESSED RUCO'S COMPLAINTS ABOUT THE**  
16 **TAX RATES EMPLOYED IN THE INITIAL FILING?**

17 **A.** RUCO claims the effective tax rates computed in the Company's initial filing were  
18 incorrect and/or misstated, particularly for the wastewater division.<sup>59</sup> However,  
19 I employed the same methodology used in the prior rate case for allocating income  
20 taxes between the water division and the wastewater division. This methodology  
21 computed income taxes on a combined basis rather than each division on a stand-  
22 alone basis. The total income taxes were then allocated to each division. The  
23 allocation of income taxes under this approach resulted in different effective tax  
24 rates for each division. The wastewater division's effective tax rate was higher

25 <sup>58</sup> Coley Dt. at 44 – 45.

26 <sup>59</sup> *Id.* at 56.

1 than the water division's effective tax rate based on this allocation methodology,  
2 but the overall effective tax rate was still only 34 percent. While I disagree with  
3 RUCO's assessment, I have revised the income tax computation methodology to  
4 treat each division on a stand-alone basis.

5 **Q. HAS STAFF TREATED EACH DIVISION ON A STAND-ALONE BASIS**  
6 **FOR COMPUTING INCOME TAXES AND THE EFFECTIVE TAX**  
7 **RATES?**

8 A. Yes. All of the parties are in agreement on the income tax methodology.

9 1. **Water Division Remaining Revenue and Expense Issues.**

10 **Q. PLEASE IDENTIFY ANY REMAINING ISSUES IN DISPUTE WITH**  
11 **RUCO AND/OR STAFF.**

12 a. **Rate Case Expense.**

13 A. All of the parties agree on the total rate case expense of \$350,000 for both  
14 divisions; \$262,500 for the water division and \$87,500 for the wastewater division.  
15 Both the Company and Staff agree on a 3 year recovery period and annual rate case  
16 expense of \$87,500 and \$29,167 for the water division and the wastewater division  
17 respectively. However, RUCO proposes a 4 year recovery period.<sup>60</sup> RUCO asserts  
18 a 4 year period is more reflective of the time between rate cases for RRUI but  
19 offers no explanation why a 4 year period is more reflective than a 3 year period.  
20 RUCO clearly missed the fact that it will be less than 3 years between the time new  
21 rates were granted in the prior case and the time new rates are expected to be  
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24 <sup>60</sup> Coley Dt. at 37.

1 granted in the instant case.<sup>61</sup> A 3 year recovery period was found reasonable and  
2 appropriate in that case and there is no basis to change it in this case.<sup>62</sup>

3 b. **Staff and RUCO APUC Allocation Adjustments.**

4 **Q. DOES THE COMPANY AGREE WITH STAFF ON THIS ISSUE?**

5 A. The Company does not agree with the Staff proposed adjustment to Management  
6 Services – Corporate for allocated Algonquin Power and Utility Corp. (APUC)  
7 costs. Staff asserts the Company did not provide all the support for its requested  
8 corporate cost allocation to the water division of \$133,975.<sup>63</sup> The Company  
9 respectfully disagrees. The Company provided over 1,500 pages of documents and  
10 lead schedules supporting the \$133,975.<sup>64</sup> Staff appears to be confusing the  
11 \$133,975 test year allocated cost, which includes not only an APUC component of  
12 \$93,335 but other corporate cost allocations (Liberty Utilities Company Canada  
13 (“LUCC”) and central office costs based in Liberty’s Avondale office, not directly  
14 charged to RRUI) as well. Staff accepts the \$93,335 APUC cost allocation  
15 (exclusive of capital taxes of \$2,557) and appears to assume this is the only cost  
16 component for the corporate costs. Staff then simply took the difference between  
17 the \$133,975 and the \$93,335 plus the corporate taxes of \$2,557 (net adjustment  
18 \$38,083<sup>65</sup>) as its recommended adjustment. Hopefully, once Staff realizes the  
19 APUC cost allocation was only one component of the \$133,975, Staff will revisit  
20 its analysis.

21  
22 <sup>61</sup> Decision No. 72059 was approved on January 6, 2011 and the anticipated decision in the instant case is  
23 expected on or before July 2013, assuming the rate case proceeds according to the 365 day time clock,  
which is approximately 2 years and 7 months from the date of the last decision.

24 <sup>62</sup> Decision No. 72059 at 24.

25 <sup>63</sup> Rimback Dt. at 27.

26 <sup>64</sup> See Company responses to Staff Data Requests MJR 2.2, MJR 2.3, MJR 2.9, and MJR 2.10. See also  
Company response to RUCO Data Request 3.7.

<sup>65</sup> See Staff Schedule RJM-W-18.

1 Q. DID STAFF REQUEST ANY INVOICE COPIES OR OTHER  
2 ACCOUNTING DETAIL AS PART OF ITS AUDIT OF CORPORATE  
3 COSTS?

4 A. Yes. As part of Staff Data Request MJR 3.10, dated September 28, 2012, Staff  
5 requested accounting support for 19 separate transactions to verify the costs RRUI  
6 requested.

7 Q. WAS RRUI ABLE TO PROVIDE SUPPORT FOR THOSE 19  
8 TRANSACTIONS?

9 A. Yes. RRUI promptly provided accounting detail and invoice backup to all 19  
10 transactions in an expeditious fashion.

11 Q. DID STAFF CONTACT THE COMPANY AND EXPRESS ANY CONCERN  
12 REGARDING THE TRANSACTION DETAIL FOUND IN THE  
13 INVOICES?

14 A. Not that I am aware.

15 Q. THANK YOU. IN TERMS OF OTHER SUPPORT, WHAT DID THE  
16 COMPANY PROVIDE STAFF?

17 A. Included in the 1,500 pages of documentation was a file labeled "MJR 2.3 and  
18 MJR 2.10 – (Corporate Cost Detail)." Included in this file was the financial data  
19 that matched that \$412,723 and \$191,738 that was reflected in the water and  
20 wastewater division on the Company's C-1 Schedules. The 1,500 pages was  
21 almost three times greater than the original application of approximately 550 pages.

22 Q. DID COMMISSION STAFF OR RUCO EVER EXPRESS DISAGREEMENT  
23 OVER THE SUPPORT THAT MATCHED THE \$412,723 OR \$191,738  
24 THAT WAS REFLECTED ON THE C-1 SCHEDULES?

25 A. No.  
26

1 Q. DID STAFF DISALLOW ANY APUC COSTS OTHER THAN THE  
2 CAPITAL TAXES OF \$2,557 INCLUDED IN THE APUC COMPONENT  
3 OF THE CORPORATE COST ALLOCATION?

4 A. No.

5 Q. DID STAFF HAVE ANY ISSUES WITH THE COST ALLOCATION  
6 METHODOLOGY EMPLOYED FOR RRUI?

7 A. No. The Company has worked with Staff over the past few years to insure that the  
8 cost allocation methodology is fair and reasonable, and complied with the NARUC  
9 cost allocation guidelines. I would have been surprised if Staff had voiced any  
10 significant concerns over the methodology given the efforts by the Company to  
11 work with Staff.

12 Q. PLEASE DISCUSS RUCO'S ADJUSTMENT TO THE APUC COST  
13 ALLOCATION.

14 A. RUCO recommends disallowance of some of the APUC allocated costs for several  
15 reasons. I will address each of these reasons individually. First, RUCO cites to the  
16 prior decision that allowed certain costs and disallowed others.<sup>66</sup> Accordingly,  
17 RUCO recommends disallowing escrow, trustee fees and shareholder  
18 communication fees, among others. The Company respectfully disagrees with the  
19 disallowance of these costs. These costs are for necessary activities to allow RRUI  
20 to have access to capital markets for capital projects and operations. In today's  
21 market place, the importance of ready access to capital can't be understated. Many  
22 stand-alone Arizona utilities simply do not have the steady access to capital that is  
23 available to RRUI. The importance of this is seen in the number of Arizona utility  
24 companies that come to the Commission in financial distress. Further, RRUI

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26 <sup>66</sup> Coley Dt. at 52.

1 receives benefits by having strategic direction, corporate governance and financial  
2 controls. This definitely benefits RRUI's long term health for a fraction of the  
3 price. Many small privately run utilities may not have all of these costs, but history  
4 has demonstrated that without these strategic corporate administrative costs and  
5 costs associated with raising capital, the long term well-being of the utility is  
6 compromised.

7 Second, RUCO acknowledges that its allocated costs are lower than the  
8 amounts allowed by the Commission in RRUI's last rate case.<sup>67</sup> However, it  
9 believes the amounts allowed by the Commission in the prior rate case were  
10 "excessive" and the current requested amount, while lower, is still too high.<sup>68</sup>  
11 I will not criticize RUCO for its opinion, but the Commission found the amounts it  
12 allowed in the last rate case as reasonable based upon the facts and circumstances  
13 in that rate case. But, the facts and circumstances of the instant case are different.  
14 For example, the Company is operating under a new cost allocation methodology  
15 which neither Staff nor RUCO have expressed significant concerns over.<sup>69</sup> In the  
16 prior case, there were substantial concerns over the allocation methodology  
17 including potential subsidization by ratepayers for costs of non-regulated entities.  
18 The bottom line is that an assessment of the reasonableness of the costs, regardless  
19 of whether the costs are higher or lower than the previous rate case, should not be  
20 made based upon no more than an analyst's belief that they are too high. The  
21 reasonableness should be based upon whether or not the costs are prudent and  
22 necessary for the provision of service.

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25 <sup>67</sup> *Id.* at 52.

26 <sup>68</sup> *Id.*

<sup>69</sup> RUCO does express concerns over achievement and incentive pay.

1 Q. WHAT ABOUT THE SHARING WITH SHAREHOLDERS ARGUMENT?

2 A. RUCO believes a portion of the allocated costs should be borne by shareholders  
3 and unregulated utilities. This comment is interesting because the current cost  
4 allocation methodology does result in a fair and reasonable sharing of costs  
5 between shareholders, other Liberty owned utilities, as well as non-regulated  
6 entities owned by APUC. In fact, a number of costs were removed from the  
7 corporate allocated costs including wages, benefits, and travel, to insure the  
8 allocated costs were appropriate and reasonable.<sup>70</sup> I would note the recorded test  
9 year corporate allocated costs were reduced from approximately \$413,000 to  
10 approximately \$134,000 for the water division, and from approximately \$192,000  
11 to approximately \$59,000 for the wastewater division – reductions of \$279,000 and  
12 \$133,000, respectively.

13 In sum, customers of RRUI receive significant benefits from the cost  
14 allocation model, including lower costs incurred for services that are essential and  
15 necessary to the provision of high quality water and wastewater utility service.

16 c. RUCO's Liberty Water Adjustment.

17 Q. PLEASE DISCUSS RUCO'S ADJUSTMENT TO MANAGEMENT  
18 SERVICE – LIBERTY WATER.

19 A. The Company does not agree with RUCO proposed adjustment to Management  
20 Services – Liberty Water for cost related to employee incentives.<sup>71</sup> Mr. Sorensen  
21 addresses the reasonableness of including these costs in the Liberty Water  
22 allocation and in the operating expenses of RRUI.<sup>72</sup>

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25 <sup>70</sup> See Company responses to Staff data requests MJR 2.3 and 2.10.

26 <sup>71</sup> Coley Dt. at 45.

<sup>72</sup> See Rebuttal Testimony of Greg Sorensen.

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**B. Wastewater Division Revenue and Expenses.**

**Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S WASTEWATER DIVISION PROPOSED ADJUSTMENTS TO REVENUES AND EXPENSES AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?**

A. The Company rebuttal adjustments for the Wastewater Division are detailed on Rebuttal Schedule C-2, pages 1-16. The rebuttal income statement with adjustments is summarized on Rebuttal Schedule C-1, page 1-2.

Rebuttal adjustment 1 decreases depreciation expense. Depreciation expense is slightly higher primarily due to the impacts of the Company proposed rebuttal adjustments to plant-in-service. The rebuttal proposed depreciation expense is lower than the direct filing by \$155,665. The reduction is primarily due to the impacts of the Company's proposed rebuttal adjustments to plant-in-service.

**Q. DO STAFF AND RUCO RECOMMEND LOWER DEPRECIATION EXPENSE FOR THE WASTEWATER DIVISION?**

A. Yes. Staff recommends a reduction to depreciation expense of \$135,855.<sup>73</sup> RUCO recommends a reduction to depreciation expense of \$150,435.<sup>74</sup>

**Q. PLEASE CONTINUE.**

A. Rebuttal adjustment number 2 increases property tax expense and reflects the rebuttal proposed revenues. As stated, Staff, RUCO, and the Company are in agreement on the method of computing property taxes. As also stated, the Company and RUCO employ different effective property tax rates. My earlier comments regarding the property tax computation also apply to the wastewater division.

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<sup>73</sup> Rimback Dt. at 31.  
<sup>74</sup> Coley Dt. at 35.

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Rebuttal adjustment number 3 reduces revenues by \$32,715 reflecting the Company proposed declining usage adjustment. The declining usage adjustment is based upon the average decline in usage from 2008 through 2012 by the Company's commercial customer classes as these customers' wastewater rates are dependent on water usage, similar to the water customers; therefore, the Company will see revenue erosion. After computing the average rate of decline in each usage block these rates are then applied to the gallons sold in the test year for each usage block to determine the expected decline in gallons on a going forward basis. The current wastewater commodity rate(s) are then applied to the expected decline in gallons to derive an annual expected revenue decline on a going forward basis. The expected decline in revenues is the multiplied by 1.5. A factor of 1.5 was chosen as it is the midpoint of 3 years; the expected period of time between the time new rates are adopted in the instant case and new rates are adopted in a subsequent rate case. I would also note it is approximately the period of time between the time the current rates were adopted and the new rates in the instant case will be adopted. Again, the Company believes the declining usage adjustment is conservative. The Company revenues from the commercial customer classes have eroded by over 120,000 from 2008 to 2012.

Rebuttal adjustment number 4 increases revenues by \$17,150 and reflects the Company's updated revenue annualization. The Company has updated its revenue annualization for two reasons. First, since the initial filing the Company found that its bill counts did not reflect all the usage that should have been billed to one of its 6 inch metered customer. In fact, the original bill count only showed billings for the first 4 months of the test year and billings for the last 8 months of the test year. Consequently, in the initial revenue annualization, which adjusts the revenues to the year-end number of customers, it was assumed that the Company

1 no longer had a 6 inch commercial customer and thus the revenues for this  
2 customer through its initial revenue annualization. The revenue annualization  
3 adjustment for this customer in the initial filing was (\$12,213).<sup>75</sup>

4 After correcting the bill counts for the test year, there are now 12 billings for  
5 the 6 inch commercial customer. The revenue annualization adjustment for this  
6 customer is increased to zero, an increase to the revenue annualization adjustment  
7 of \$12,213. Second, after discovering the billing errors associated with the 6 inch  
8 commercial customer, the Company analyzed its other customers to make sure  
9 there were no other missing bills. That analysis showed there were other missing  
10 bills for a few other commercial customers – one 5/8 x 3/4 inch commercial  
11 customer, one 1 inch commercial customer, one 2 inch commercial customer, and  
12 one 3 inch commercial customer.

13 In similar fashion, the initial revenue annualizations for these customers  
14 changed as a result of including these 4 customers in the bill counts. The net  
15 impact of the change in revenue annualizations for these customers is an increase  
16 of \$4,937 over the initial revenue annualization adjustment. Together, the  
17 correction of the billings for the one 6 inch commercial customer and the 4 other  
18 commercial customers constitute a total increase to the revenue annualization is  
19 \$17,150 (\$12,213 plus \$4,937) greater the revenue annualization proposed in the  
20 initial filing.

21 **Q. DOES RUCO PROPOSE A SIMILAR REVENUE ANNUALIZATION**  
22 **ADJUSTMENT FOR THE WASTEWATER DIVISION?**

23 A. Yes, however, RUCO's adjustment is \$16,518 (\$12,213 plus \$4,305) rather the  
24 \$17,150.<sup>76</sup> RUCO has correctly determined the revenue annualization impact for

25 <sup>75</sup>See Direct Schedule H-1, page 2.

26 <sup>76</sup>Coley Dt. at 42.

1 the 6 inch commercial customer of \$12,213,<sup>77</sup> but has understated the revenue  
2 annualization impact for the other 4 commercial customers of \$4,305.<sup>78</sup>

3 **Q. OKAY. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE**  
4 **COMPANY'S WASTEWATER DIVISION REBUTTAL ADJUSTMENTS**  
5 **TO REVENUES AND EXPENSES.**

6 A. Rebuttal adjustment 5 increases revenues by \$25,110 for the missing bills  
7 discussed above for adjustment 4. This additional adjustment is necessary to  
8 reconcile the test year revenues to the corrected bill counts.

9 **Q. WHY IS IT NECESSARY?**

10 A. First, for the 6 inch commercial customer discussed previously, the correction to  
11 the test year revenues totals \$20,805. In the initial filing, the Company included  
12 revenues, before the revenue annualization, of \$12,213.<sup>79</sup> After correcting the bill  
13 counts, the revenues for this customer are \$33,018, a difference of \$20,805  
14 (\$33,018 minus \$12,213).<sup>80</sup> Second, the change in test year revenues for the other  
15 4 commercial customers discussed previously totaled \$4,305. In the initial filing,  
16 the Company included revenues, before the revenue annualization, of \$45,467,  
17 \$54,994, \$93,658, and \$4,304 for the 5/8 x 3/4 inch commercial customer class,  
18 1 inch commercial customer class, 2 inch commercial customer class, and 3 inch  
19 commercial customer class, respectively.<sup>81</sup> The total revenues for these 4 customer  
20 classes are \$198,423. After correcting the bill counts, the revenues for these  
21 4 customer classes are \$46,018, \$56,409, 94,925, and \$5,376, respectively.<sup>82</sup> The

22  
23 <sup>77</sup> *Id.*

24 <sup>78</sup> *Id.*

25 <sup>79</sup> *See* Direct Schedule H-1, page 1.

26 <sup>80</sup> *See* Rebuttal Schedule H-1, page 1.

<sup>81</sup> *See* Direct Schedule H-1, page 1.

<sup>82</sup> *See* Rebuttal Schedule H-1, page 1.

1 total corrected revenues for these 4 customers are \$202,728, a difference of \$4,305.  
2 Combined, the total increase in revenues is \$25,110 (\$20,805 plus \$4,305).

3 **Q. DOES RUCO PROPOSE A SIMILAR ADJUSTMENT FOR THE MISSING**  
4 **BILL COUNTS?**

5 A. Yes.<sup>83</sup> RUCO's revenue accrual correction adjustment is the same as the  
6 Company's at \$25,110.<sup>84</sup>

7 **Q. PLEASE CONTINUE.**

8 A. Rebuttal adjustment 6 increases purchased power expense for an anticipated  
9 increase in TEP increase in rates. TEP recently filed for an increase in its rates and  
10 is requesting an overall increase of approximately 4.6 percent. The Company is  
11 basing its proposed purchased power adjustment on the expected TEP overall  
12 increase. This is a conservative estimate for the increase in electric power rates to  
13 the Company. In my experience residential customers rates are typically increased  
14 less than the overall requested increase and all other customers experience higher  
15 increases than the overall requested increase. So, 4.6 percent is conservative and  
16 likely understates the increase in rates to the Company when the TEP rate case is  
17 decided.

18 Rebuttal adjustment 7 reflects the adoption of the Staff proposed adjustment  
19 to Management Services – Corporate for capital taxes.<sup>85</sup>

20 Rebuttal Adjustment 8 is intentionally left blank.

21 Rebuttal adjustment 9 reflects the reclassification of \$165,896 of  
22 Management Services – Other expense to Purchased Wastewater Treatment

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<sup>83</sup> Coley Dt. at 43.

<sup>84</sup> *Id.*

<sup>85</sup> Rimback Dt. at 31.

1 expense. The net impact of this adjustment on operating expenses is zero. This  
2 adjustment reflects the adoption of the Staff proposed reclassification.<sup>86</sup>

3 **Q. DOES RUCO PROPOSE A SIMILAR RECLASSIFICATION OF**  
4 **EXPENSE?**

5 A. Yes, except RUCO first reduces the purchased wastewater treatment related  
6 expenses by \$56,897 and then reclassifies the remainder of \$108,999 from  
7 Management Services – Other expense to Purchased Wastewater Treatment  
8 expense.<sup>87</sup>

9 **Q. WHY DOES THE COMPANY DISAGREE WITH RUCO'S PROPOSAL TO**  
10 **REDUCE PURCHASED WASTEWATER TREATMENT RELATED**  
11 **COSTS?**

12 A. Because RUCO's recommended expense level is not based on complete, known  
13 and measurable data. While RUCO is correct that the actual post test year expense  
14 payments have been lower than the test year levels, this is not a complete and  
15 accurate picture. This is because the City of Nogales has not yet trued-up the new  
16 charge to their actual expenses. When it does, the temporary lower amount the  
17 Company is currently paying will eventually be trued-up with the updated analysis.  
18 Depending on the outcome, the Company could receive one large bill to reconcile  
19 the past payments with the City's current costs. Thereafter, going forward the  
20 Company will be billed monthly based on the updated cost analysis, which may be  
21 more or less than what was billed during the test year. At this point we simply do  
22 not know what the updated cost analysis from the City will show and it is  
23 premature to recommend any changes to the recorded test year purchased  
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25 <sup>86</sup> *Id.* at 32.

26 <sup>87</sup> *Coley* at 49 – 50.

1 wastewater treatment costs. In fact, until the City is done, the only known and  
2 measurable cost for wastewater treatment from the City is the test year cost.

3 **Q. WHAT HAS THE COMPANY DONE TO OBTAIN THE UPDATED**  
4 **NUMBERS?**

5 A. Mr. Sorensen informs me that the Company has been hounding the City for the  
6 updated numbers since the day we got RUCO's direct filing and he has now asked  
7 legal counsel to try.

8 **Q. WILL THE COMPANY REVISE ITS PURCHASED WASTEWATER**  
9 **TREATMENT EXPENSE IF IT GETS A FINAL NUMBER FROM THE**  
10 **CITY OF NOGALES?**

11 A. Yes. The Company seeks only the costs that it expects to incur. At this stage of  
12 the proceeding the going-forward costs are simply unknown.

13 **Q. PLEASE CONTINUE.**

14 A. Rebuttal adjustment 10 increases Salaries and Wages by \$11,811 for revised  
15 employee benefit costs. The proposed employee benefit costs reflect a recently  
16 adopted benefit arrangement for the Company's employees. I have discussed this  
17 in detail above, and Mr. Sorensen provides further discussion in his rebuttal  
18 testimony.

19 Rebuttal adjustments 11-13 are intentionally left blank.

20 Rebuttal Adjustment 14 reflects the changes to interest expense resulting  
21 from the interest synchronization with the Company's rebuttal proposed rate base.  
22 Interest synchronization also reflects Company's proposed capital structure and  
23 cost of debt.

24 Rebuttal Adjustment 15 reflects the changes to income taxes at the  
25 Company's rebuttal proposed revenues and expenses.

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**1. Remaining Revenue and Expense Issues.**

**Q. PLEASE IDENTIFY ANY REMAINING ISSUES IN DISPUTE WITH RUCO AND/OR STAFF.**

A. I have discussed the issues with respect to rate case expense and corporate cost allocations previously on pages 34 through 39. My discussion on these issues applies equally to the wastewater division; only the amounts in dispute are different for the wastewater division.

**V. RATE DESIGN**

**A. Water Division.**

**Q. WHAT ARE THE COMPANY'S REBUTTAL PROPOSED RATES FOR WATER SERVICE?**

A. The Company's proposed rates are:

**MONTHLY SERVICE CHARGES**

5/8" x 3/4" meters	\$16.96
3/4" Meters	\$25.44
1" Meters	\$42.40
1 1/2" Meters	\$84.80
2" Meters	\$135.68
3" Meters	\$271.36
4" Meters	\$424.00
6" Meters	\$848.00
8" Meters	\$1,356.80
10" Meters	\$1,950.40
12" Meters	\$3,646.40
Fire Lines up to 8 Inch	Per Rule
Fire Lines 10 Inch	Per Rule

1	Fire Lines 12 Inch		Per Rule
2	COMMODITY RATES		
3	5/8" X 3/4" Meters	to 3,000	\$ 1.81
4		3,001 to 9,000	\$ 3.01
5		Over 9,000	\$ 3.66
6	3/4" Meters	1 to 6,000	\$ 3.01
7		Over 6,000	\$ 3.66
8	1" Meters	1 to 22,500	\$ 3.01
9		Over 22,500	\$ 3.66
10	1 1/2" Meters	1 to 45,000	\$ 3.01
11		Over 45,000	\$ 3.66
12	2" Meters	1 to 72,000	\$ 3.01
13		Over 72,000	\$ 3.66
14	3" Meters	1 to 144,000	\$ 3.01
15		Over 144,000	\$ 3.66
16	4" Meters	1 to 225,000	\$ 3.01
17		Over 225,000	\$ 3.66
18	6" Meters	1 to 450,000	\$ 3.01
19		Over 450,000	\$ 3.66
20	8" Meters	1 to 720,000	\$ 3.01
21		Over 720,000	\$ 3.66
22	10" Meters	1 to 1,035,000	\$ 3.01
23		Over 1,035,000	\$ 3.66
24	12" Meters	1 to 1,935,000	\$ 3.01
25		Over 1,935,000	\$ 3.66
26			

1 Q. WHAT IS THE AVERAGE MONTHLY BILL FOR THE 5/8 X 3/4 INCH  
2 METERED CUSTOMERS UNDER PRESENT RATES?

3 A. As shown on Rebuttal Schedule H-2, page 1, the average monthly bill under  
4 present rates for a 5/8 x 3/4 inch residential customer using an average 7,794  
5 gallons is \$29.75.

6 Q. WHAT WILL BE THE AVERAGE 5/8 X 3/4 INCH RESIDENTIAL  
7 CUSTOMER AVERAGE MONTHLY BILL UNDER THE NEW RATES?

8 A. As shown on Schedule H-2, page 1, the average monthly bill under proposed rates  
9 for a 5/8 x 3/4 inch residential customer using an average 7,794 gallons is \$36.82 –  
10 a \$7.07 increase over the present monthly bill or a 23.77 percent increase.

11 Q. HAVE YOU MADE ANY CHANGES TO THE RATE DESIGN FROM THE  
12 DIRECT FILING?

13 A. Yes. The Company is proposing a single tier rate design for the 6 inch bulk meter  
14 (Morning Star Ranch or MSR). The 6 inch bulk customer will still be charged a  
15 monthly minimum. The Company is proposing the same basic design for all other  
16 customer classes it proposed in its initial filing although the rates have changed to  
17 reflect the Company's proposed rebuttal revenue requirement.

18 Q. WHY IS THE COMPANY NOW PROPOSING A SINGLE TIER RATE  
19 DESIGN FOR THE 6 INCH BULK WATER CUSTOMER?

20 A. Two reasons. First, we are now able to assume that the 6 inch bulk water customer  
21 (MSR) is going to be a long term customer. This water is being delivered to  
22 residences within the Morning Star Ranch development. A two tier structure  
23 doesn't make much sense as MSR will always exceed both the current and  
24 proposed 2<sup>nd</sup> block break-over point. Second, RUCO points out MSR water  
25 deliveries are covered by an agreement which sets the commodity rate charged at  
26

1 the level the Commission approves for the 3<sup>rd</sup> block rate.<sup>88</sup> A single tier is all that  
2 is needed for this customer.

3 **Q. PLEASE COMMENT ON THE PROPOSED RATE DESIGN OF STAFF**  
4 **AND RUCO.**

5 A. Like the Company, Staff is proposing an inverted three tier design for the 5/8  
6 metered customers and an inverted two tier design for the 3/4 inch and larger  
7 metered customers.<sup>89</sup> Staff's break-over points also increase with meter size. The  
8 first tier commodity rate for 1 inch and larger metered customers is the same as the  
9 second tier of the 5/8 inch metered customers. The second tier of the 3/4 inch and  
10 larger metered customers is the same as the third tier of the 5/8 inch metered  
11 customers.<sup>90</sup> Staff is not currently proposing a single tier rate design for the 6 inch  
12 bulk customer.

13 RUCO is proposing an inverted three tier design for the 5/8 metered  
14 customers and an inverted two tier design for the 3/4 inch and larger metered  
15 customers.<sup>91</sup> RUCO's break-over points also increase with meter size. The first  
16 tier commodity rate for 1 inch and larger metered customers is the same as the  
17 second tier of the 5/8 inch metered customers. The second tier of the 3/4 inch and  
18 larger metered customers is the same as the third tier of the 5/8 inch metered  
19 customers.<sup>92</sup> RUCO is currently proposing a single tier rate design for the 6 inch  
20 bulk customer.<sup>93</sup>

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23 <sup>88</sup> Direct Testimony of Timothy J. Coley – Rate Design (“Coley Rate Design Dt.”) at 5.

24 <sup>89</sup> See Staff Surrebuttal Schedule MJR-W-1.

25 <sup>90</sup> *Id.*

26 <sup>91</sup> *Id.*

<sup>92</sup> See RUCO Schedule TJC RD-2.

<sup>93</sup> Coley Rate Design Dt. at 5.

1 **Q. DO YOU HAVE ANY CONCERNS WITH STAFF'S PROPOSED RATE**  
2 **DESIGN?**

3 A. Only a couple. That's because the Staff's rate design is a more balanced rate  
4 design than it recommended in the prior rate case. Staff's rate design provides a  
5 greater amount of revenue recovery from the monthly minimums which moves the  
6 rate design more towards balancing water conservation with revenue stability. In  
7 fact, both the Company's rate design and Staff's rate design provide more than 40  
8 percent of the revenue recovery from the monthly minimums. The Company's rate  
9 design provides a bit more than Staff's rate design at 43.3 percent versus 41.3  
10 percent, but I welcome Staff's efforts to move in the right direction and provide  
11 more balance to the rate design.

12 Having said that, my first concern is that Staff's rates do not produce the  
13 Staff proposed revenue requirement. The Staff proposed rates produce about  
14 \$19,000 less revenue than Staff proposes. Second, Staff proposes to lower the first  
15 tier commodity rate from \$1.59 to \$1.50, a 6 percent reduction.<sup>94</sup> I am compelled  
16 to continue to testify that reducing the commodity rate sends the wrong  
17 conservation signal to customers – that water is cheaper. Reducing the first tier  
18 commodity rate also means that more revenues have to be recovered from the  
19 higher priced commodity rates. This increases revenue risk, the risk of not  
20 recovering the authorized revenue requirement.

21 **Q. WHERE DOES THIS VOLATILITY COME FROM?**

22 A. Commodity rate revenues under an inverted tier rate design are inherently volatile.  
23 The revenue volatility is due to the fact that an increasing block rate anticipates  
24 recovering greater proportions of revenues at higher levels of consumption. When  
25

26 <sup>94</sup> See Staff Schedule MJR-W-1.

1 more revenues are expected to be recovered at the higher priced commodity rates  
2 and conservation takes place, a greater amount of revenues are lost.

3 **Q. HAVE YOU PREPARED AN ANALYSIS THAT SHOWS THE AVERAGE**  
4 **ANNUAL REVENUE LOSS BY USAGE BLOCK SINCE THE LAST RATE**  
5 **CASE?**

6 A. Yes. I have prepared an analysis of the revenue erosion that has taken place since  
7 the last rate case and have attached it as Rebuttal Schedule **TJB-RB3**, page 1. As  
8 shown, the reduction in gallons sold since 2008 for the 5/8 x 3/4 inch residential  
9 customers (the largest customer class) was in the 3<sup>rd</sup> block which also happens to  
10 be the highest priced commodity rate. Based on the 4 year average of reduction of  
11 gallons sold in the 3<sup>rd</sup> block, the Company revenues are eroding by \$64,344  
12 annually. The growth that occurred on the system and the increase in gallons sold  
13 in the 1<sup>st</sup> and 2<sup>nd</sup> tier blocks from customer growth actually provided some  
14 additional revenues. On average the Company gained annual revenues from the  
15 1<sup>st</sup> block of \$1,723 and \$10,587 from the 2<sup>nd</sup> block. However, because of the  
16 reduction that occurred in the 3<sup>rd</sup> block, the net average annual revenue loss was  
17 nearly \$55,000 and cumulatively over \$218,000 since the last rate case.

18 The reduction in gallons sold in the 3<sup>rd</sup> block over the past several years  
19 makes sense. When water conservation takes place, it typically occurs at the  
20 higher usage levels where customers tend to have the greatest amount of  
21 discretionary water use. I would expect the 3<sup>rd</sup> block gallons sold to decline under  
22 conservation oriented rates. As you will note, the greatest amount of revenue  
23 erosion occurred in 2011 and 2012 after the current rates from the last decision  
24 were implemented.

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1 Q. WILL THE COMPANY PROPOSED RATE DESIGN CONTINUE TO  
2 ENCOURAGE CONSERVATION?

3 A. Yes. Just as important, it will provide a bit more revenue stability than the Staff  
4 rate design. I continue to have concerns regarding the additional revenue erosion  
5 that will take place on a going forward basis regardless of whether the Staff or the  
6 Company's rate design is adopted.

7 Q. WHAT CONCERNS DO YOU HAVE WITH RUCO'S PROPOSED RATE  
8 DESIGN?

9 A. My greatest concern is that the RUCO design continues to recover revenues from  
10 the monthly minimums that are too similar to the Company's current rate design  
11 and far below the level the Company proposes. RUCO's rate design recovers less  
12 than 36 percent of the overall revenue requirement from the monthly minimums.  
13 As such, the RUCO rate design provides less revenue stability than the Company's  
14 rate design. On the other hand, RUCO does increase the 1<sup>st</sup> tier commodity rate  
15 unlike Staff. RUCO's proposal makes more sense than Staff's proposal to reduce  
16 the 1<sup>st</sup> tier commodity rate.

17 B. Wastewater Division.

18 Q. WHAT ARE THE COMPANY'S REBUTTAL PROPOSED RATES FOR  
19 WASTEWATER SERVICE?

20 A. The Company's proposed rates are:

MONTHLY SERVICE CHARGES	
5/8" x 3/4" meters	\$54.12
3/4" Meters	\$62.37
1" Meters	\$76.24
1 1/2" Meters	\$112.57
2" Meters	\$156.14

1	3" Meter	\$272.02
2	4" Meters	\$403.19
3	6" Meter	\$776.18
4	8" Meters	\$1,113.98
5	10" Meters	\$1,669.28
6	12" Meters	\$2,373.83

7           **COMMODITY RATES**

8           Commercial and Multi-tenant only

9	0 to 7,000 gallons	\$0.00
10	Over 7,000 gallons	\$5.12

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**Q.   WHAT WILL BE THE 5/8 X 3/4 INCH RESIDENTIAL CUSTOMER MONTHLY BILL UNDER THE PRESENT RATES?**

A.   As shown on Schedule H-2, page 1, the average monthly bill under present rates for a 5/8 x 3/4 inch residential customer is \$45.88.

**Q.   WHAT WILL BE THE AVERAGE 5/8 INCH RESIDENTIAL CUSTOMER MONTHLY BILL UNDER THE NEW RATES?**

A.   As shown on Wastewater Schedule H-2, page 1, the monthly bill under proposed rates for a 5/8 inch residential customer is \$54.12 – an \$8.24 increase from the present monthly bill or a 17.95 percent increase.

**Q.   PLEASE COMMENT ON THE PROPOSED RATE DESIGNS OF STAFF AND RUCO.**

A.   All of the parties recommend similar rate designs for the wastewater division. Further, all of the parties spread their respective recommended revenue increases evenly across all classes.

1 Q. DO YOU HAVE ANY CONCERNS WITH THE STAFF AND/OR RUCO  
2 RATE DESIGNS?

3 A. Yes. The Staff proposed rates do not produce Staff's recommended revenue  
4 requirement. The Staff rates produce approximately \$34,000 less revenues than its  
5 proposed revenue requirement.

6 Q. HAVE REVENUES ERODED FOR THE WASTEWATER DIVISION  
7 FROM THE RATE DESIGN SIMILAR TO THE WATER DIVISION?

8 A. Yes. The commercial wastewater rates are tied to the water usage. Water usage  
9 reductions by these customers affect the wastewater revenue recovery. From 2008  
10 through 2012 the Company's revenues have declined by over \$120,000.<sup>95</sup>

11 C. Miscellaneous Charges.

12 Q. IS THERE ANY DISAGREEMENT BETWEEN THE COMPANY AND  
13 STAFF ON THE COMPANY'S PROPOSED METER AND SERVICE LINE  
14 INSTALLATION CHARGES?

15 A. No. The Company and Staff are in agreement.

16 Q. IS THERE ANY DISAGREEMENT BETWEEN THE COMPANY AND  
17 STAFF ON THE COMPANY'S PROPOSED MISCELLANEOUS  
18 CHARGES?

19 A. Yes. While the Company agrees with the Staff proposal to eliminate the  
20 Establishment (after hours) and Reconnection (after hours) charges, it believes the  
21 \$40 Service Call per hour/after hour charge, which would apply to establishment  
22 and reconnection services after hours, should be also eliminated and a Service  
23 Charge – after hours of a flat \$50 should be added. It is not administratively  
24 efficient for the Company to track after hour time for every service it performs  
25

26 <sup>95</sup> See Exhibit TJB-RB3, page 2.

1 after hours, particularly for services such as establishments and reconnections. The  
2 Company believes the proposed \$50 flat charge for all services performed after  
3 hours makes the most sense.

4 **Q. HAS THIS APPROACH BEEN ADOPTED IN OTHER RATE CASES?**

5 A. Yes. This approach has been adopted in the recent rate cases for Pima Utility  
6 Company (Decision No. 73573, November 21, 2012), Goodman Water Company  
7 (Decision No. 72897, February 21, 2012), and Doney Park Water (Decision No.  
8 72746, January 20, 2012). In the pending Avra Valley Cooperative rate case  
9 (Docket No. W-02126A-11-0480), Staff is proposing a similar approach.

10 **Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?**

11 A. Yes.

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**Rio Rico Utilities, Inc. dba Liberty Utilities  
Docket No. WS-02676A-12-0196**

**THOMAS J. BOURASSA  
REBUTTAL TESTIMONY  
(RATE BASE, INCOME STATEMENT, RATE DESIGN)**

**JANUARY 28, 2013**

**EXHIBIT TJB-RB1**



**Rio Rico Utilities, Inc. dba Liberty Utilities  
Docket No. WS-02676A-12-0196**

**THOMAS J. BOURASSA  
REBUTTAL TESTIMONY  
(RATE BASE, INCOME STATEMENT, RATE DESIGN)**

**JANUARY 28, 2013**

**EXHIBIT TJB-RB2**



12725 W. Indian School Rd.  
Suite D101  
Avondale, AZ 85392

## Asset Retirement Policy

Description:	Retirement of Assets from Plant in Service	Proc. #:	8010-800-000-002
		Revision #:	1 Page: 1 of 2

Original	Jun 28, 2010	Document Created	Peter Eichler
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### Description

From time to time, assets are removed or replaced prior to the end of their useful life. This policy governs the accounting treatment of asset retirements and how they are to be recorded on the utility books.

### Regulatory References

NARUC Uniform System of Accounts, pages 31-33

### Other References

Handy-Whitman Index

### Procedure

A new line item has been added to the FWO form which requires the identification of assets. At the time of initiating a project, the following section must now be completed on the form:

WILL THERE BE ASSETS GREATER THAN \$5,000 THAT ARE CURRENTLY IN SERVICE REMOVED AS A RESULT OF THIS PROJECT? IF YES, PLEASE DETAIL THE SPECIFIC ASSETS THAT WILL BE REMOVED:

1. Original Cost of Plant to be removed (if known):
2. What is the replacement cost of the plant being removed (if original cost not known)?
3. Original Work Order of Plant to be removed (if known):
4. Is the Plant being removed reusable?
5. What is the year of original installation of the plant being removed?

### Accounting Entry required:

The recording of asset retirements will occur in tracking accounts for statistical purposes, as they occur. The following entry shall occur. The amount of the entry shall be book cost.

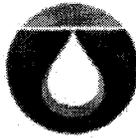
Dr. Accumulated Depreciation – Retired Plant  
Cr. Retired Fixed Assets

In addition, depreciation expense on retired fixed assets should be tracked as well through the following entry, which shall occur from the time of retirement, until the end of the useful life of the asset:

Dr. Depreciation expense - retired plant  
Cr. Depreciation expense – retired plant

At the end of every calendar year, a manual adjusting entry must occur to depreciation expense in the amount of the total debits or total credits in the "Depreciation Expense – retired plant" account. The entry shall be:

Dr. Accumulated Depreciation – plant  
Cr. Depreciation Expense



# Liberty Water

12725 W. Indian School Rd.  
Suite D101  
Avondale, AZ 85392

## Asset Retirement Policy

Proc. #: 8010-800-000-002

Description: Retirement of Assets from Plant in Service

Revision #: 1 Page: 2 of 2

### *Salvage Value, Removal Costs, and other items in the course of retirement*

Any other costs incurred or recovered (via salvage value) in the course of retirement shall be charged or credited against the accumulated depreciation account, consistent with instructions found in section 27(2) of the NARUC Uniform System of Accounts, page 32.

### *Book Cost:*

The book cost of any plant item retired should be determined by referring to the original invoice. If an item cannot be easily distinguished on an invoice, an estimate may be used of original book cost by using an estimate of the replacement value (requires an up to date quote) and adjusting for inflation to the original installation date by using the inflation data in the Handy-Whitman index (2009 version attached for reference).

The Handy Whitman index provides an inflation adjusted value with a base year of 1973. For example, as seen on page W-5-8 line 9, an item located within a utility that is part of the Plateau region with a value of \$100 in 1973 would have a value of \$501 on January 1, 2009. Similarly, if an item were to have a current day replacement cost of \$100, the book value would be deemed to be \$19.96 (calculated as  $\$100 / (501/100)$ ) for retirement purposes.

*Please note that utilities located in Arizona are deemed to be part of the "Plateau region" while utilities in Texas are deemed to be part of the "South West region".*

**Rio Rico Utilities, Inc. dba Liberty Utilities  
Docket No. WS-02676A-12-0196**

**THOMAS J. BOURASSA  
REBUTTAL TESTIMONY  
(RATE BASE, INCOME STATEMENT, RATE DESIGN)**

**JANUARY 28, 2013**

**EXHIBIT TJB-RB3**

	Year				Average
	2008	2009	2010	2011	2012
<b>Gallons Sold by Usage Block (in 1,000's)</b>					
Block 1 (<=3,000 gallons)	27,743	26,361	28,943	36,766	31,920
Block 2 (3,001 to 9,000 gallons)	214,462	206,202	214,340	232,483	228,638
Block 3 (>9,000 gallons)	341,864	362,922	336,672	295,738	266,147
<b>Year-Over-Year Increase(decrease)(in 1,000's)</b>					
Block 1 (<=3,000 gallons)		(1,382)	2,582	7,823	(4,846)
Block 2 (3,001 to 9,000 gallons)		(8,260)	8,138	18,143	(3,845)
Block 3 (>9,000 gallons)		21,058	(26,250)	(40,934)	(29,591)
<b>Year-Over-Year Percentage Increase(decrease)</b>					
Block 1 (<=3,000 gallons)		-4.98%	9.79%	27.03%	-13.18%
Block 2 (3,001 to 9,000 gallons)		-3.85%	3.95%	8.46%	-1.65%
Block 3 (>9,000 gallons)		6.16%	-7.23%	-12.16%	-10.01%

	2008-2010	2011-2012	2009	2010	2011	2012
	Commodity Charge	Commodity Charge	Dollar (Incr./Decr.)	Dollar (Incr./Decr.)	Dollar (Incr./Decr.)	Dollar (Incr./Decr.)
\$	1.44	1.59	(1,990)	3,718	12,439	(7,705)
\$	1.70	2.92	(14,042)	13,835	52,978	(11,227)
\$	1.90	3.64	40,010	(49,875)	(149,001)	(107,710)
Annual			23,978	(32,322)	(83,585)	(54,644)
Cumulative			23,978	(8,344)	(91,929)	(218,572)

Decision 72059  
 January 6, 2011

**Estimate of future annual revenue erosion**

	Avg Incr./Decr.	Estimate Incr.(decr) (in 1,000's)	Present Commodity Charge	Estimate of Annual Dollar (Incr./Decr.)
Block 1 (<=3,000 gallons)	4.67%	1,354	1.59	2,153
Block 2 (3,001 to 9,000 gallons)	1.73%	3,753	2.92	10,959
Block 3 (>9,000 gallons)	-5.81%	(17,755)	3.64	(64,629)
Totals		(12,648)		(51,517)

TY Gallons Sold (in 1,000's)
29,020
217,396
305,631
<b>552,047</b>

	Year			
	2008	2009	2010	2011
<b>Gallons Sold by Usage Block (in 1,000's)</b>				
Block 1 (<=7,000 gallons)	2,059	1,925	1,702	1,691
Block 2 (>7,000 gallons)	68,107	58,474	52,932	47,756
				<b>2012</b>
				1,875
				45,545

	Year			
	2008	2009	2010	2011
<b>Year-Over-Year Increase(decrease)(in 1,000's)</b>				
Block 1 (<=7,000 gallons)		(134)	(222)	(11)
Block 2 (>7,000 gallons)		(9,633)	(5,542)	(5,176)
				184
				(2,211)

	Year				Average
	2008	2009	2010	2011	Average
<b>Year-Over-Year Percentage Increase(decrease)</b>					
Block 1 (<=7,000 gallons)		-6.53%	-11.56%	-0.63%	10.87%
Block 2 (>7,000 gallons)		-14.14%	-9.48%	-9.78%	-4.63%
					-1.96%
					-9.51%

	2008-2010	2009	2010	2011	2012
	Commodity	Dollar	Dollar	Dollar	Dollar
	Charge	(Incr.(Decr.)	(Incr.(Decr.)	(Incr.(Decr.)	(Incr.(Decr.)
<b>Year-over-Year Revenue Increase (decrease)</b>					
	\$ 5.71	\$ (55,005)	\$ (31,643)	\$ (24,792)	\$ (10,593)
Annual	\$ (55,005)	\$ (31,643)	\$ (24,792)	\$ (10,593)	\$ (30,508)
Cumulative	\$ (55,005)	\$ (86,648)	\$ (111,440)	\$ (122,033)	

Decision 72059  
 January 6, 2011

<b>Estimate of future annual revenue erosion</b>			
	Avg	Estimate	Present
	Incr./Decr.	Incr.(decr)	Commodity
	(Incr./Decr.)	(in 1,000's)	Charge
Block 1 (<=7,000 gallons)	-1.96%	(33)	\$ -
Block 2 (>7,000 gallons)	-9.51%	(4,670)	\$ 4.67
<b>Totals</b>		<b>(4,703)</b>	<b>\$ (21,809)</b>

<b>TY Gallons</b>	
	Sold (in 1,000's)
Block 1 (<=7,000 gallons)	1,680
Block 2 (>7,000 gallons)	49,119
<b>Totals</b>	<b>50,799</b>

**Rio Rico Utilities dba Liberty Utilities –Water Division  
Docket No. WS-02676A-12-0196**

**THOMAS J. BOURASSA  
REBUTTAL TESTIMONY  
(RATE BASE, INCOME STATEMENT,  
RATE DESIGN)**

**January 28, 2013**

**SCHEDULES**

**Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division**  
**Test Year Ended February 29, 2012**  
**Computation of Increase in Gross Revenue**  
**Requirements As Adjusted**

Exhibit  
 Rebuttal Schedule A-1  
 Page 1  
 Witness: Bourassa

Line No.					
1	Fair Value Rate Base			\$	7,730,108
2					
3	Adjusted Operating Income				374,335
4					
5	Current Rate of Return				4.84%
6					
7	Required Operating Income			\$	725,084
8					
9	Required Rate of Return on Fair Value Rate Base				9.38%
10					
11	Operating Income Deficiency			\$	350,749
12					
13	Gross Revenue Conversion Factor				1.6589
14					
15	Increase in Gross Revenue Requirement			\$	581,865
16					
17					
18	Adjusted Test Year Revenues			\$	2,778,766
19	Increase in Gross Revenue Requirement			\$	581,865
20	Proposed Revenue Requirement			\$	3,360,630
21	% Increase				20.94%
22					
23	<b>Customer</b>	<b>Present</b>	<b>Proposed</b>	<b>Dollar</b>	<b>Percent</b>
24	<b>Classification</b>	<b>Rates</b>	<b>Rates</b>	<b>Increase</b>	<b>Increase</b>
25	5/8X3/4 Inch Residential	\$ 2,239,712	\$ 2,727,658	\$ 487,946	21.79%
26	5/8X3/4 Inch Residential (Low Income)	29,750	36,531	6,780	22.79%
27	3/4 Inch Residential	4,032	5,334	1,303	32.31%
28	1 Inch Residential	25,847	32,124	6,277	24.29%
29	1 Inch Residential (Low Income)	359	478	119	33.14%
30	1 1/2 Inch Residential	5,642	6,671	1,029	18.23%
31	2 Inch Residential	5,482	7,365	1,883	34.35%
32	5/8X3/4 Inch Commercial	36,891	43,310	6,419	17.40%
33	1 Inch Commercial	45,719	54,239	8,520	18.84%
34	1 1/2 Inch Commercial	16,434	19,734	3,300	20.08%
35	2 Inch Commercial	110,064	135,439	25,375	23.05%
36	3 Inch Commercial	113,938	126,904	12,966	11.38%
37	4 Inch Commercial	83,492	90,182	6,689	8.01%
38	6 Inch Commercial	25,623	27,606	1,983	7.74%
39	5/8X3/4 Inch Industrial	4,727	6,043	1,316	27.83%
40	2 Inch Industrial	47,436	50,918	3,482	7.34%
41	5/8X3/4 Inch Multi-family	3,072	3,671	599	19.49%
42	1 1/2 Inch Multi-family	1,071	1,442	371	34.70%
43	6 Inch Bulk	29,625	31,334	1,709	5.77%
44	Fire Lines up to 8 Inch	1,263	1,950	688	54.48%
45	Revenue Annualization	(17,028)	(14,617)	2,411	-14.16%
46	Declining Usage Adjustment	(77,275)	(77,275)	-	0.00%
47	Subtotal	\$ 2,735,877	\$ 3,317,042	\$ 581,165	21.24%
48					
49	Other Water Revenues	42,889	42,889	-	0.00%
50	Reconciling Amount	-	699	699	0.00%
51	Rounding			1	0.00%
52	Total of Water Revenues	\$ 2,778,766	\$ 3,360,630	\$ 581,865	20.94%

53  
 54 **SUPPORTING SCHEDULES:**  
 55 B-1  
 56 C-1  
 57 C-3  
 58 H-1

Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
 Test Year Ended February 29, 2012  
 Summary of Rate Base

Exhibit  
 Rebuttal Schedule B-1  
 Page 1  
 Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	\$ 34,455,296	\$ 34,455,296
3	Less: Accumulated Depreciation	13,756,125	13,756,125
4			
5	Net Utility Plant in Service	\$ 20,699,171	\$ 20,699,171
6			
7	<u>Less:</u>		
8	Advances in Aid of Construction	660,955	660,955
9			
10	Contributions in Aid of Construction	20,179,119	20,179,119
11			
12	Accumulated Amortization of CIAC	(8,617,752)	(8,617,752)
13			
14	Customer Meter Deposits	284,024	284,024
15	Deferred Income Taxes & Credits	462,717	462,717
16			
17			
18			
19	<u>Plus:</u>		
20	Unamortized Finance		
21	Charges	-	-
22	Deferred Tax Assets	-	-
23	Allowance for Working Capital	-	-
24			
25			
26	Total Rate Base	\$ 7,730,108	\$ 7,730,108
27			
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
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41	<u>SUPPORTING SCHEDULES:</u>		
42	B-2		
43	B-3		
44	B-5		
45			
46			
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48			
49			
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**Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division**  
**Test Year Ended February 29, 2012**  
**Original Cost Rate Base Proforma Adjustments**

Exhibit  
 Rebuttal Schedule B-2  
 Page 1  
 Witness: Bourassa

Line No.		Actual at End of <u>Test Year</u>	Proforma <u>Adjustment</u>	Adjusted at end of <u>Test Year</u>
1	Gross Utility			
2	Plant in Service	\$ 36,146,219	(1,690,924)	\$ 34,455,296
3				
4	<b>Less:</b>			
5	Accumulated			
6	Depreciation	15,784,381	(2,028,256)	13,756,125
7				
8				
9	Net Utility Plant			
10	in Service	\$ 20,361,839		\$ 20,699,171
11				
12	<b>Less:</b>			
13	Advances in Aid of			
14	Construction	660,955	-	660,955
15				
16	Contributions in Aid of			
17	Construction - Gross	20,179,119	-	20,179,119
18				
19	Accumulated Amortization of CIAC	(8,797,261)	179,509	(8,617,752)
20				
21	Customer Meter Deposits	284,024		284,024
22	Accumulated Deferred Income Tax	405,395	57,322	462,717
23				-
24				-
25				
26	<b>Plus:</b>			
27	Unamortized Finance			
28	Charges	-		-
29	Prepayments	-		-
30	Materials and Supplies	-		-
31	Working capital	-	-	-
32				-
33				
34	<b>Total</b>	<b>\$ 7,629,607</b>		<b>\$ 7,730,108</b>

45 SUPPORTING SCHEDULES:  
 46 B-2, pages 2

RECAP SCHEDULES:  
 B-1

47  
 48  
 49  
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Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
 Test Year Ended February 29, 2012  
 Original Cost Rate Base Proforma Adjustments

Exhibit  
 Rebuttal Schedule B-2  
 Page 2  
 Witness: Bourassa

Line No.	Description	Proforma Adjustments					Adjusted at end of Test Year
		1	2	3	4	5	
	Actual at End of Test Year	Plant-in-Service	Accumulated Depreciation	CIAC	ADIT		
1	Gross Utility						
2	Plant in Service	\$ 36,146,219	(1,690,924)			\$ 34,455,296	
3							
4	Less:						
5	Accumulated						
6	Depreciation	15,784,381	(2,028,256)			13,756,125	
7							
8							
9	Net Utility Plant						
10	in Service	\$ 20,361,839	\$ (1,690,924)	\$ -	\$ -	\$ 20,699,171	
11							
12	Less:						
13	Advances in Aid of						
14	Construction	660,955				660,955	
15							
16	Contributions in Aid of						
17	Construction (CIAC)	20,179,119				20,179,119	
18							
19	Accumulated Amort of CIAC	(8,797,261)		179,509		(8,617,752)	
20							
21	Customer Meter Deposits	284,024				284,024	
22	Accumulated Deferred Income Taxes	405,395			57,322	462,717	
23							
24							
25	Plus:						
26	Unamortized Finance						
27	Charges						
28	Prepayments						
29	Materials and Supplies						
30	Allowance for Cash Working Capital						
31							
32	Total	\$ 7,629,607	\$ (1,690,924)	\$ (179,509)	\$ (57,322)	\$ 7,730,108	
33							
34							
35							

SUPPORTING SCHEDULES:  
 B-2, pages 3-5

RECAP SCHEDULES:  
 B-1

Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
 Test Year Ended February 28, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment Number 1

Line No.	Acct. No.	Description	Direct Adjusted Original Cost	Adjustments			Rebuttal Adjusted Original Cost		
				A	B	C		D	E
			Reclassification to WW Plant	WW Portion of Allocated Building Costs	Affiliate Profit	Plant Retirement	Plant Retirements	Adjustments to Reconcile to Plant Reconstruction	
1		Organization Cost	5,785						5,785
2		Franchise Cost	417						417
3		Land and Land Rights	44,194						44,194
4		Structures and Improvements	3,432,930		(121,438)	(95)			3,311,457
5		Collecting and Impounding Res.	-						-
6		Lake River and Other Intakes	-						-
7		Wells and Springs	562,944			(7)			562,937
8		Infiltration Galleries and Tunnels	-						-
9		Supply Mains	278,157						278,157
10		Power Generation Equipment	219,360						219,360
11		Electric Pumping Equipment	3,147,011						3,147,011
12		Water Treatment Plant	369,100	(5,658)		(303)	(9,757)	(1,534,958)	1,601,993
13		Chemical Solution Feeders	-						-
14		Dist. Reservoirs & Standpipe	-						-
15		Storage tanks	759,861						759,861
16		Pressure Tanks	-						-
17		Trans. and Dist. Mains	22,339,256						22,337,893
18		Services	2,768,122			(1,363)			2,766,122
19		Meters	1,010,366						1,010,366
20		Hydrants	572,321						572,321
21		Backflow Prevention Devices	15,855						15,855
22		Other Plant and Misc. Equip.	123,778	(9,704)					123,778
23		Office Furniture and Fixtures	29,285						29,285
24		Computers and Software	76,919						76,919
25		Transportation Equipment	142,188						142,188
26		Stores Equipment	-						-
27		Tools and Work Equipment	18,203						18,203
28		Laboratory Equipment	3,061						3,061
29		Power Operated Equipment	-						-
30		Communications Equipment	212,996						212,996
31		Miscellaneous Equipment	13,128						13,128
32		Other Tangible Plant	-				(7,701)		-
33		Plant Held for Future Use	-					0	-
34		TOTALS	\$ 36,146,219	\$ (15,362)	\$ (121,438)	\$ (1,708)	\$ (9,757)	\$ (1,542,659)	\$ 34,455,296
35		Plant-in-Service per Books							\$ 36,146,219
36		Increase (decrease) in Plant-in-Service							\$ (1,690,924)
37		Adjustment to Plant-in-Service							\$ (1,690,924)

Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
Test Year Ended February 29, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - A

Exhibit  
Rebuttal Schedule B-2  
Page 3.1  
Witness: Bourassa

Line  
No.

1 Reclassification of plant to Wastewater Division

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Acct. No.	Description	Recorded Year	Adjustment
320	Water Treatment Equipment	2009	\$ (5,658)
336	Backflow Prevention Devices	2010	(7,210)
336	Backflow Prevention Devices	2011	(2,494)
	Total		<u>\$ (15,362)</u>

SUPPORTING SCHEDULE

Staff Schedule MJR-W5

Testimony

Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
Test Year Ended February 29, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - B

Exhibit  
Rebuttal Schedule B-2  
Page 3.2  
Witness: Bourassa

Line  
No.

1 Remove Portion of Building Costs Allocated to Wastewater Division

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Acct.  
No. Description  
304 Structures and Improvements

Recorded  
Year Adjustment  
2012 \$ (121,438)

Total

\$ (121,438)

SUPPORTING SCHEDULE  
Staff Schedule MJR-W6  
Testimony

**Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division**  
**Test Year Ended February 29, 2012**  
**Original Cost Rate Base Proforma Adjustments**  
**Adjustment Number 1 - C**

Exhibit  
 Rebuttal Schedule B-2  
 Page 3.3  
 Witness: Bourassa

Line  
No.

1 Remove Affiliate Profit

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Acct. No.	Description
304	Structures and Improvements
307	Wells and Springs
311	Electric Pumping Equipment
331	Trans. and Dist. Mains

Recorded Year	Adjustment
2012	\$ (35)
2012	(7)
2012	(303)
2012	(1,363)

Total

\$ (1,708)

**SUPPORTING SCHEDULE**

Staff Schedule MJR-W7

Testimony

Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
 Test Year Ended February 29, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment Number 1 - D

Exhibit  
 Rebuttal Schedule B-2  
 Page 3.4  
 Witness: Bourassa

Line  
 No.

1 Plant Retirement

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Acct. Description  
 311 Electric Pumping Equipment

Retirement Adjustment  
 Year  
 2012 \$ (9,757)

Total

\$ (9,757)

SUPPORTING SCHEDULE  
 Staff Schedule MJR-W12  
 Testimony

**Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division**  
 Test Year Ended February 29, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment Number 1 - E

Exhibit  
 Rebuttal Schedule B-2  
 Page 3.5  
 Witness: Bourassa

Line  
No.

1 Plant Retirements

2  
3

4 Acct.			Retirement		
5 No.	Description	Description	Year	Adjustment	
6 311	Electric Pumping Equipment	1994 Net Plant Adds	2009	\$ (867,182)	
7 311	Electric Pumping Equipment	1995 Net Plant Adds	2009	(36,257)	
8 311	Electric Pumping Equipment	1996 Net Plant Adds	2009	(34,827)	
9 311	Electric Pumping Equipment	1997 Net Plant Adds	2009	(12,234)	
10 311	Electric Pumping Equipment	1998 Net Plant Adds	2009	(18,044)	
11 311	Electric Pumping Equipment	1999 Net Plant Adds	2009	(422,698)	
12 311	Electric Pumping Equipment	2000 Net Plant Adds	2009	(78,483)	
13		Subtotal		\$ (1,469,722)	
14					
15 311	Electric Pumping Equipment	2001 Net Plant Adds	2010		(22,907)
16 311	Electric Pumping Equipment	2002 Net Plant Adds	2011		(11,830)
17 311	Electric Pumping Equipment	2003 Net Plant Adds	2012	\$ (151,098)	
18 311	Electric Pumping Equipment	Less: Retirement See Adjustment 1-D	2012	9,757	
19 311	Electric Pumping Equipment	Less: Retirements recorded in 2012	2012	110,842	
20					\$ (30,499)
21					
22		Total			\$ (1,534,958)
23					
24					

25 Acct.			Retirement		
26 No.	Description	Description	Year	Adjustment	
27 347	Miscellaneous Equipment	1994 Net Plant Adds	2009	\$ (481)	
28 347	Miscellaneous Equipment	1995 Net Plant Adds	2009	(4,164)	
29 347	Miscellaneous Equipment	1996 Net Plant Adds	2009	(1,218)	
30 347	Miscellaneous Equipment	1997 Net Plant Adds	2009	(1,838)	
31 347	Miscellaneous Equipment	1998 Net Plant Adds	2009	-	
32 347	Miscellaneous Equipment	1999 Net Plant Adds	2009	-	
33 347	Miscellaneous Equipment	2000 Net Plant Adds	2009	-	
34		Subtotal		\$ (7,701)	
35					
36 347	Miscellaneous Equipment	2001 Net Plant Adds	2009		-
37 347	Miscellaneous Equipment	2002 Net Plant Adds	2010		-
38				\$	-
39					
40					
41		Total			\$ (7,701)
42					

43 SUPPORTING SCHEDULE

44 Testimony

45

Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
 Test Year Ended February 29, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment Number 1 - F

Exhibit  
 Rebuttal Schedule B-2  
 Page 3.6  
 Witness: Bourassa

Line No.	Acct. No.	Description	Direct Adjusted Original Cost	B-2 Adjustments	Rebuttal Adjusted Original Cost	Plant Per Reconstruction	Difference
1		Reconciliation of Plant to Plant Reconstruction					
2							
3							
4							
5	301	Organization Cost	5,785	-	5,785	5,785	-
6	302	Franchise Cost	417	-	417	417	-
7	303	Land and Land Rights	44,194	-	44,194	44,194	-
8	304	Structures and Improvements	3,432,930	(121,473)	3,311,457	3,311,457	-
9	305	Collecting and Impounding Res.	-	-	-	-	-
10	306	Lake River and Other Intakes	-	-	-	-	-
11	307	Wells and Springs	562,944	(7)	562,937	562,937	-
12	308	Infiltration Galleries and Tunnels	-	-	-	-	-
13	309	Supply Mains	279,157	-	279,157	279,157	-
14	310	Power Generation Equipment	219,360	-	219,360	219,360	-
15	311	Electric Pumping Equipment	3,147,011	(1,545,018)	1,601,993	1,601,993	-
16	320	Water Treatment Equipment	369,100	(5,658)	363,442	363,442	-
17	320.1	Water Treatment Plant	-	-	-	-	-
18	320.2	Chemical Solution Feeders	-	-	-	-	-
19	330	Dist. Reservoirs & Standpipe	759,861	-	759,861	759,861	-
20	330.1	Storage tanks	-	-	-	-	-
21	330.2	Pressure Tanks	-	-	-	-	-
22	331	Trans. and Dist. Mains	22,339,256	(1,363)	22,337,893	22,337,893	-
23	333	Services	2,768,122	-	2,768,122	2,768,122	-
24	334	Meters	1,010,366	-	1,010,366	1,010,366	-
25	335	Hydrants	572,321	-	572,321	572,321	-
26	336	Backflow Prevention Devices	15,855	(9,704)	6,151	6,151	-
27	339	Other Plant and Misc. Equip.	123,778	-	123,778	123,778	-
28	340	Office Furniture and Fixtures	29,265	-	29,265	29,265	-
29	340.1	Computers and Software	76,919	-	76,919	76,919	-
30	341	Transportation Equipment	142,188	-	142,188	142,188	-
31	342	Stores Equipment	-	-	-	-	-
32	343	Tools and Work Equipment	18,203	-	18,203	18,203	-
33	344	Laboratory Equipment	3,061	-	3,061	3,061	-
34	345	Power Operated Equipment	-	-	-	-	-
35	346	Communications Equipment	212,996	-	212,996	212,996	-
36	347	Miscellaneous Equipment	13,128	(7,701)	5,427	5,427	0
37	348	Other Tangible Plant	-	-	-	-	-
38		Plant Held for Future Use	-	-	-	-	-
39		TOTALS	\$ 36,146,219	\$ (1,690,924)	\$ 34,455,295	\$ 34,455,296	\$ 0

43 **SUPPORTING SCHEDULE**  
 44 B-2, pages 3.1 through 3.5  
 45 B-2, pages 3.7 through 3.10





Rio Rico Utilities dba Liberty Utilities - Water Division  
Plant Additions and Retirements

Exhibit  
Rebuttal Schedule B-2  
Page 3.9  
Witness: Bowers

MARUC		2011												
Line No.	Account No.	Description	Allowed Deprec. Rate	Plant Additions (Par Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Par Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculating)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	5,785	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	417	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	-	44,194	-
4	304	Structures & Improvements	3.35%	41,525	-	-	41,525	-	-	-	-	92,321	2,793,174	\$81,536
5	305	Collecting & Impounding Reservoirs	2.50%	-	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.33%	-	-	-	-	-	-	-	-	-	-	-
8	308	Infiltration Galleries	6.67%	-	-	-	632	-	-	-	-	18,755	583,522	216,347
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	12.50%	1,023	-	-	1,023	-	-	-	-	5,543	279,153	42,901
12	320	Water Treatment Equipment	12.50%	67,261	-	-	67,261	-	11,830	11,830	-	10,905	218,616	101,363
13	320.1	Water Treatment Plants	3.33%	-	-	-	-	-	-	-	-	171,865	1,402,558	964,943
14	320.2	Solution Chemical Feeders	20.00%	-	-	-	-	-	-	-	-	12,708	363,442	181,265
15	330	Distribution Reservoirs & Standpipes	2.22%	-	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	2.22%	-	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	-	-	-	18,886	759,861	188,886
18	331	Transmission & Distribution Mains	2.00%	76,932	-	-	76,932	-	-	-	-	-	-	-
19	333	Services	3.33%	307,904	-	-	307,904	-	-	-	-	443,786	22,226,764	9,482,537
20	334	Meters	8.33%	61,930	-	-	61,930	105,260	-	105,260	-	86,481	2,896,362	854,285
21	335	Hydrants	2.00%	3,684	-	-	3,684	27,767	-	27,767	-	61,415	984,455	522,183
22	336	Backflow Prevention Devices	6.67%	2,484	-	-	2,484	-	-	-	-	11,408	572,261	162,865
23	338	Other Plant & Misc Equipment	6.67%	3,443	-	-	3,443	-	-	-	-	974	15,635	2,190
24	340	Office Furniture & Equipment	6.67%	554	-	-	554	-	-	-	-	8,242	125,286	29,142
25	340.1	Computers & Software	20.00%	-	-	-	-	-	-	-	-	1,552	23,540	22,572
26	341	Transportation Equipment	20.00%	-	-	-	-	-	-	-	-	-	76,919	76,919
27	342	Stores Equipment	4.00%	-	-	-	-	-	-	-	-	28,074	140,389	117,115
28	343	Tools, Shop & Garage Equipment	5.00%	2,437	-	-	2,437	-	-	-	-	613	17,472	11,618
29	344	Laboratory Equipment	10.00%	-	-	-	-	-	-	-	-	-	3,061	3,061
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	10.00%	381	-	-	381	33,249	-	33,249	-	20,464	183,402	144,468
32	347	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	4.00%	-	-	-	-	-	-	-	-	543	5,427	187
34		Plant Held for Future Use		-	-	-	-	-	-	-	-	-	-	-
35				-	-	-	-	-	-	-	-	-	-	-
36		TOTALS		570,201	-	-	570,201	166,276	11,830	178,105	-	1,912,143	33,518,897	13,736,423

Rio Rico Utilities dba Liberty Utilities - Water Division  
Plant Additions and Retirements

Exhibit  
Rebuttal Schedule B-2  
Page 3.10  
Witness: Bozarasa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2012 (2 months through 2/29)														
				Plant Additions (Per Books)	Plant Adjustments	Plant Retirements	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Retirement Adjustments	Adjusted Plant Retirements	Plant Only Adjustments	Salvage A/D Cost	Depreciation (Calculated)	Plant Balance	Accum. Deprec.		
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	304	Structures & Improvements	3.33%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	305	Collecting & Impounding Reservoirs	2.50%	639,756	(121,438)	(35)	518,283	-	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.33%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	308	Infiltration Galleries	6.67%	3,794	(4,372)	(7)	(585)	-	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	4	-	-	4	-	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	745	-	-	745	-	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	12.50%	351,006	(170)	(303)	350,533	110,842	9,757	30,499	151,098	-	-	-	-	-	-	-
12	320	Water Treatment Equipment	3.33%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	3.33%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	20.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	2.22%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	118,060	(5,586)	(1,363)	111,129	-	-	-	-	-	-	-	-	-	-	-
19	333	Services	3.33%	68,760	-	-	68,760	-	-	-	-	-	-	-	-	-	-	-
20	334	Meters	8.33%	15,911	-	-	15,911	-	-	-	-	-	-	-	-	-	-	-
21	335	Hydrants	2.00%	60	-	-	60	-	-	-	-	-	-	-	-	-	-	-
22	338	Backflow Prevention Devices	6.67%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	6.67%	6,878	(8,388)	-	(1,508)	-	-	-	-	-	-	-	-	-	-	-
24	349	Office Furniture & Equipment	6.67%	5,725	-	-	5,725	-	-	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	20.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	20.00%	1,819	-	-	1,819	-	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	4.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	731	-	-	731	-	-	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	10.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	10.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	10.00%	24,594	-	-	24,594	-	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	4.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
34		Plant Held for Future Use		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
35				-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
36		TOTALS		1,238,843	(138,934)	(1,708)	1,097,201	110,842	9,757	30,499	151,098	(9,704)	(3,564)	174,364	24,455,296	13,756,125	-	-

Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
 Test Year Ended February 29, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment Number 2

Exhibit  
 Rebuttal Schedule B-2  
 Page 4  
 Witness: Bourassa

Line No.	Description	A	B	C	D	E	F	G	Rebuttal Adjusted Accum. Depr.
		Reclassification to WW Plant	WW Portion of Allocated Building Costs	Affiliate Profit	Plant Retirement	Plant Refirements	Direct Adjusted Affiliate Profit	Adjustments to Reconcile to AFD Reconstruction	
1	Acc. No.								
2	301								
3	302								
4	303								
5	304								
6	305								
7	306								
8	307								
9	308								
10	309								
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49	348								
50	349								
	TOTALS	\$ 15,784,381	\$ (1,415)	\$ (6)	\$ (9,757)	\$ (1,542,659)	\$ (2,652)	\$ (471,430)	\$ 13,756,125
	Accumulated Depreciation per Books								\$ 15,784,381
	Increase (decrease) in Accumulated Depreciation								\$ (2,028,256)
	Adjustment to Accumulated Depreciation								\$ (2,028,256)

SUPPORTING SCHEDULES  
 B-2, pages 4.1 through 4.5

Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
 Test Year Ended February 29, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment Number 2 - A

Exhibit  
 Rebuttal Schedule B-2  
 Page 4.1  
 Witness: Bourassa

Line

No.

1 Reclassification of plant to Wastewater Division

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Acct. No.	Description	Depr Rate	Recorded Year	Years thru EOTY (Half-Year Conv.)	Plant Reclass Adjustment	Accumulated Depreciation Adjustment
320	Water Treatment Equipment	3.33%	2009	2.67	\$ (5,658)	\$ (502)
336	Backflow Prevention Devices	6.67%	2010	1.67	(7,210)	(802)
336	Backflow Prevention Devices	6.67%	2011	0.67	(2,494)	(111)
	Total					<u>\$ (1,415)</u>

SUPPORTING SCHEDULE

B-2 Schedule 3.1

Testimony

**Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division**  
**Test Year Ended February 29, 2012**  
**Original Cost Rate Base Proforma Adjustments**  
**Adjustment Number 2 - B**

Exhibit  
 Rebuttal Schedule B-2  
 Page 4.2  
 Witness: Bourassa

Line  
No.

Remove Portion of Building Costs Allocated to Wastewater Division

Acct. No.	Description	Depr Rate	Recorded Year	Years thru EOTY (Half-Year Conv.)	Plant Adjustment	Accumulated Depreciation Adjustment
304	Structures and Improvements	3.33%	2012	0.083333	\$ (121,473)	\$ (337)
Total						<u>\$ (337)</u>

43 SUPPORTING SCHEDULE  
 44 B-2 Schedule 3.2  
 45 Testimony

**Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division**  
**Test Year Ended February 29, 2012**  
**Original Cost Rate Base Proforma Adjustments**  
**Adjustment Number 2 - C**

**Exhibit**  
**Rebuttal Schedule B-2**  
**Page 4.3**  
**Witness: Bourassa**

Line  
No.

1 Remove Affiliate Profit

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Acct. No.	Description	Depr Rate	Recorded Year	Years thru EOTY (Half-Year Conv.)	Plant Profit Adjustment	Accumulated Depreciation Adjustment
304	Structures and Improvements	3.33%	2012	0.083333	\$ (35)	\$ (0)
307	Wells and Springs	3.33%	2012	0.083333	(7)	(0)
311	Electric Pumping Equipment	12.50%	2012	0.083333	(303)	(3)
331	Trans. and Dist. Mains	2.00%	2012	0.083333	(1,363)	(2)
Total						<u>\$ (6)</u>

43 SUPPORTING SCHEDULE

44 B-2 Schedule 3.3

45 Testimony

Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
Test Year Ended February 29, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - D

Exhibit  
Rebuttal Schedule B-2  
Page 4.4  
Witness: Bourassa

Line  
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Plant Retirement

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Acct.  
No. Description  
311 Electric Pumping Equipment

Plant Retirement Adjustment	Accumulated Depreciation Adjustment
\$ (9,757)	\$ (9,757)

Total

\$ (9,757)

SUPPORTING SCHEDULE

B-2 Schedule 3.4

Testimony

Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
 Test Year Ended February 29, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment Number 2 - E

Exhibit  
 Rebuttal Schedule B-2  
 Page 4.5  
 Witness: Bourassa

Line  
 No.

Line No.	Acct. No.	Description	Plant Retirement Adjustment	Accumulated Depreciation Adjustment
1	<u>Plant Retirements</u>			
2				
3				
4				
5				
6	311	Electric Pumping Equipment	\$ (1,534,958)	\$ (1,534,958)
7	347	Miscellaneous Equipment	(7,701)	(7,701)
8				
9				
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11		Total		<u>\$ (1,542,659)</u>
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43 SUPPORTING SCHEDULE  
 44 B-2 Schedule 3.4  
 45 Testimony

Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
 Test Year Ended February 29, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment Number 2 - F

Exhibit  
 Rebuttal Schedule B-2  
 Page 4.6  
 Witness: Bourassa

Line  
 No.

1 A/D Related to 2009-2011 Affiliate Profit Removed from Plant in Direct Filing

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Acct. No.	Description	Depr Rate	Years thru EOTY	Direct Filing Plant Adjustment	Accumulated Depreciation Adjustment
307	Wells and Springs	3.33%	3.166667	\$ (4,372)	\$ (461)
311	Electric Pumping Equipment	12.50%	3.166667	(170)	(87)
331	Trans. and Dist. Mains	2.00%	3.166667	(5,568)	(353)
339	Other Plant and Misc. Equip.	6.67%	3.166667	(8,386)	(1,771)
Total				\$	<u>(2,652)</u>

SUPPORTING SCHEDULE  
 B-2 Schedule 3.4  
 Testimony

**Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division**  
**Test Year Ended February 29, 2012**  
**Original Cost Rate Base Proforma Adjustments**  
**Adjustment Number 2 - G**

Exhibit  
 Rebuttal Schedule B-2  
 Page 4.7  
 Witness: Bourassa

Line No.	Accumulated Depreciation (A/D)	Direct Adjusted Original Cost	B-2 Adjustments	Rebuttal Adjusted Original Cost	A/D Per Reconstruction	Accumulated Depreciation Adjustment
1	<u>Accumulated Depreciation (A/D)</u>					
2						
3						
4	Acct. No. Description					
5	301 Organization Cost	-	-	-	-	-
6	302 Franchise Cost	-	-	-	-	-
7	303 Land and Land Rights	-	-	-	-	-
8	304 Structures and Improvements	598,813	(337)	598,476	598,476	0
9	305 Collecting and Impounding Res.	-	-	-	-	-
10	306 Lake River and Other Intakes	-	-	-	-	-
11	307 Wells and Springs	219,473	(461)	219,012	219,012	0
12	308 Infiltration Galleries and Tunnels	-	-	-	-	-
13	309 Supply Mains	43,831	-	43,831	43,831	-
14	310 Power Generation Equipment	103,188	-	103,188	103,188	-
15	311 Electric Pumping Equipment	2,859,238	(1,552,466)	1,306,772	845,075	(461,697)
16	320 Water Treatment Equipment	183,785	(502)	183,283	183,282	-
17	320.1 Water Treatment Plant	-	-	-	-	-
18	320.2 Chemical Solution Feeders	-	-	-	-	-
19	330 Dist. Reservoirs & Standpipe	191,697	-	191,697	191,697	-
20	330.1 Storage tanks	-	-	-	-	-
21	330.2 Pressure Tanks	-	-	-	-	-
22	331 Trans. and Dist. Mains	9,566,814	(355)	9,566,459	9,566,459	(0)
23	333 Services	869,455	-	869,455	869,455	-
24	334 Meters	536,110	-	536,110	536,110	-
25	335 Hydrants	184,803	-	184,803	184,803	-
26	336 Backflow Prevention Devices	2,366	(912)	1,454	1,454	0
27	339 Other Plant and Misc. Equip.	30,527	(1,771)	28,756	28,756	0
28	340 Office Furniture and Fixtures	22,865	-	22,865	22,865	-
29	340.1 Computers and Software	76,919	-	76,919	76,919	-
30	341 Transportation Equipment	121,824	-	121,824	121,824	-
31	342 Stores Equipment	-	-	-	-	-
32	343 Tools and Work Equipment	11,766	-	11,766	11,766	-
33	344 Laboratory Equipment	3,061	-	3,061	3,061	-
34	345 Power Operated Equipment	-	-	-	-	-
35	346 Communications Equipment	147,813	-	147,813	147,813	-
36	347 Miscellaneous Equipment	10,032	-	10,032	278	(9,755)
37	348 Other Tangible Plant	-	-	-	-	-
38	Plant Held for Future Use	-	-	-	-	-
39	TOTALS	\$ 15,784,381	\$ (1,556,826)	\$ 14,227,555	\$ 13,756,125	\$ (471,430)

42  
 43 SUPPORTING SCHEDULE  
 44 B-2, pages 4.1 through 4.6  
 45 B-2, pages 3.7 through 3.10

**Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division**  
**Test Year Ended February 29, 2012**  
**Original Cost Rate Base Proforma Adjustments**  
**Adjustment 3**

Exhibit  
 Rebuttal Schedule B-2  
 Page 5.0  
 Witness: Bourassa

Contributions-in-Aid of Construction (CIAC) and Accumulated Amortization

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	<u>Gross CIAC</u>	<u>Accumulated Amortization</u>
Computed balance at 12/29/2012 per Rebuttal	\$ 20,179,119	\$ 8,817,752
Adjusted balance per Direct at 02/29/2012	<u>\$ 20,179,119</u>	<u>\$ 8,797,261</u>
Increase (decrease)	\$ -	\$ (179,509)
Adjustment to CIAC/AA CIAC	<u>\$ -</u>	<u>\$ 179,509</u>
Label	3a	3b

SUPPORTING SCHEDULES

E-1  
 B-2, page 5.1



Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
 Test Year Ended February 29, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment 5

Line No.	Deferred Income Taxes as of February 29, 2012		Water & Sewer Adjusted Book Value	Water & Sewer Tax Value	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Effective Tax Rate	Future Tax Asset		Future Tax Liability	
	Plant-in-Service	Accum. Deprec.						Current	Non-Current	Current	Non-Current
1											
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Footnotes - See page 2



**Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division**  
**Test Year Ended February 29, 2012**  
**Computation of Working Capital**

**Exhibit**  
**Schedule B-5**  
**Page 1**  
**Witness: Bourassa**

Line  
 No.

1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	155,372
3	Pumping Power (1/24 of Pumping Power)		16,186
4	Purchased Water (1/24 of Purchased Water)		-
5	Prepaid Expenses		
6			
7			
8			
9	<b>Total Working Capital Allowance</b>	<b>\$</b>	<b>171,558</b>
10			
11			
12	<b>Working Capital Requested</b>	<b>\$</b>	<b>-</b>
13			
14			
15			
16			
17			
18	<b>Total Operating Expense</b>	<b>\$</b>	<b>2,404,430</b>
19	<b>Less:</b>		
20	Income Tax	\$	179,923
21	Property Tax		151,638
22	Depreciation		441,434
23	Purchased Water		-
24	Pumping Power		388,461
25	<b>Allowable Expenses</b>	<b>\$</b>	<b>1,242,974</b>
26	<b>1/8 of allowable expenses</b>	<b>\$</b>	<b>155,372</b>

29 SUPPORTING SCHEDULES:  
 30 E-1

RECAP SCHEDULES:  
 B-1

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**Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division**  
**Test Year Ended February 29, 2012**  
**Income Statement**

Exhibit  
 Rebuttal Schedule C-1  
 Page 1  
 Witness: Bourassa

Line No.		Test Year Adjusted Results	Adjustment	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	<b>Revenues</b>					
2	Metered Water Revenues	\$ 2,811,949	\$ (76,072)	\$ 2,735,877	\$ 581,865	\$ 3,317,741
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	42,889	-	42,889		42,889
5		<u>\$ 2,854,838</u>	<u>\$ (76,072)</u>	<u>\$ 2,778,768</u>	<u>\$ 581,865</u>	<u>\$ 3,360,630</u>
6	<b>Operating Expenses</b>					
7	Salaries and Wages	\$ 426,012	32,881	\$ 458,903		\$ 458,903
8	Purchased Water	-	-	-		-
9	Purchased Power	371,378	17,083	388,461		388,461
10	Fuel For Power Production	-	-	-		-
11	Chemicals	3,884	-	3,884		3,884
12	Materials and Supplies	27,517	-	27,517		27,517
13	Management Services - US Liberty Water	257,367	-	257,367		257,367
14	Management Services - Corporate	133,975	(2,557)	131,418		131,418
15	Management Services - Other	15,903	-	15,903		15,903
16	Outside Services - Accounting	167	-	167		167
17	Outside Services - Engineering	-	-	-		-
18	Outside Services- Other	14,205	-	14,205		14,205
19	Outside Services- Legal	4,690	-	4,690		4,690
20	Water Testing	28,231	(4,410)	23,821		23,821
21	Rents - Building	-	-	-		-
22	Rents - Equipment	3,208	-	3,208		3,208
23	Transportation Expenses	89,305	-	89,305		89,305
24	Insurance - General Liability	34,100	-	34,100		34,100
25	Insurance - Vehicle	7,733	-	7,733		7,733
26	Reg. Comm. Exp. - Other	-	-	-		-
27	Reg. Comm. Exp. - Rate Case	87,500	-	87,500		87,500
28	Miscellaneous Expense	85,057	(1,804)	83,253		83,253
29	Bad Debt Expense	-	-	-		-
30	Depreciation and Amortization Expense	551,222	(109,788)	441,434		441,434
31	Taxes Other Than Income	-	-	-		-
32	Property Taxes	155,805	(4,167)	151,638	10,623	162,261
33	Income Tax	181,647	(1,724)	179,923	220,493	400,416
34						
35	<b>Total Operating Expenses</b>	<u>\$ 2,478,906</u>	<u>\$ (74,475)</u>	<u>\$ 2,404,430</u>	<u>\$ 231,116</u>	<u>\$ 2,635,546</u>
36	<b>Operating Income</b>	<u>\$ 375,933</u>	<u>\$ (1,597)</u>	<u>\$ 374,335</u>	<u>\$ 350,749</u>	<u>\$ 725,084</u>
37	<b>Other Income (Expense)</b>					
38	Interest Income	(0)	-	(0)		(0)
39	Other income	-	-	-		-
40	Interest Expense	(86,978)	(1,146)	(88,123)		(88,123)
41	Other Expense	-	-	-		-
42						
43	<b>Total Other Income (Expense)</b>	<u>\$ (86,978)</u>	<u>\$ (1,146)</u>	<u>\$ (88,123)</u>	<u>\$ -</u>	<u>\$ (88,123)</u>
44	<b>Net Profit (Loss)</b>	<u>\$ 288,955</u>	<u>\$ (2,743)</u>	<u>\$ 286,212</u>	<u>\$ 350,749</u>	<u>\$ 636,961</u>

45  
 46 SUPPORTING SCHEDULES:  
 47 C-1, page 2

RECAP SCHEDULES:  
 A-1

Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
 Test Year Ended February 29, 2012  
 Income Statement

Exhibit  
 Rebuttal Schedule C-1  
 Page 2.1  
 Witness: Bourassa

Line No.	Label	1	2	3	4	5	6	7	8
	Test Year Adjusted Results	Depreciation	Property Taxes	Declining Usage Adjustment	Revenue Annualization	Staffs Water Testing	Rate Increase IEP	APUC Allocated Capital Taxes	Miscellaneous Expense
1	Revenues								
2	Metered Water Revenues	\$ 2,811,949			\$ 1,203				
3	Unmetered Water Revenues								
4	Other Water Revenues								
5		\$ 42,889							
6	Operating Expenses	\$ 2,854,838		\$ (77,275)	\$ 1,203				
7	Salaries and Wages								
8	Purchased Water	\$ 426,012							
9	Purchased Power						17,083		
10	Fuel For Power Production	371,378							
11	Chemicals								
12	Materials and Supplies	3,884							
13	Management Services - US Liberty Water	27,517							
14	Management Services - Corporate	257,367							
15	Management Services - Other	133,975							
16	Outside Services - Accounting	15,903							(2,557)
17	Outside Services - Engineering	167							
18	Outside Services - Other	14,205							
19	Outside Services- Legal	4,690							
20	Water Testing	28,231							
21	Rents - Building								(4,410)
22	Rents - Equipment	3,208							
23	Transportation Expenses	89,305							
24	Insurance - General Liability	34,100							
25	Insurance - Vehicle	7,733							
26	Reg. Comm. Exp. - Other								
27	Reg. Comm. Exp. - Rate Case	87,500							
28	Miscellaneous Expense	85,057							
29	Bad Debt Expense								
30	Depreciation and Amortization Expense	551,222	(109,788)						(1,804)
31	Taxes Other Than Income								
32	Property Taxes		(4,167)						
33	Income Tax	155,805							
34		181,647							
35	Total Operating Expenses	\$ 2,478,906	\$ (109,788)						
36	Operating Income	\$ 375,933	\$ 109,788		\$ 1,203	\$ (4,410)	\$ 17,083	\$ (2,557)	\$ (1,804)
37	Other Income (Expense)								
38	Interest Income								
39	Other Income	(0)							
40	Interest Expense								
41	Other Expense	(86,978)							
42									
43	Total Other Income (Expense)	\$ (86,978)							
44	Net Profit (Loss)	\$ 288,955	\$ 109,788		\$ 1,203	\$ 4,410	\$ (17,083)	\$ 2,557	\$ 1,804
45									
46									
47									
48									

SUPPORTING SCHEDULES:  
 C-2, pages 1-16

Rio Rico Utilities, Inc. dba Liberty Utilities - Water I  
 Test Year Ended February 29, 2012  
 Income Statement

Exhibit  
 Rebuttal Schedule C-1  
 Page 2.2  
 Witness: Bourassa

Line No.	Revenues	9	10	11	12	13	14	15	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	Revenues										
2	Metered Water Revenues								\$ 2,736,877	\$ 581,865	\$ 3,317,741
3	Unmetered Water Revenues										
4	Other Water Revenues										
5									\$ 42,889	\$ 581,865	\$ 3,360,630
6	Operating Expenses										
7	Salaries and Wages	32,891									
8	Purchased Water								\$ 458,903		\$ 458,903
9	Purchased Power										
10	Fuel For Power Production								388,461		388,461
11	Chemicals										
12	Materials and Supplies								3,884		3,884
13	Management Services - US Liberty Water								27,517		27,517
14	Management Services - Corporate								257,367		257,367
15	Management Services - Other								131,418		131,418
16	Outside Services - Accounting								15,903		15,903
17	Outside Services - Engineering								167		167
18	Outside Services- Other										
19	Outside Services- Legal								14,205		14,205
20	Water Testing								4,690		4,690
21	Rents - Building								23,821		23,821
22	Rents - Equipment										
23	Transportation Expenses								3,208		3,208
24	Insurance - General Liability								89,305		89,305
25	Insurance - Vehicle								34,100		34,100
26	Reg. Comm. Exp. - Other								7,733		7,733
27	Reg. Comm. Exp. - Rate Case										
28	Miscellaneous Expense										
29	Bad Debt Expense										
30	Depreciation and Amortization Expense								87,500		87,500
31	Taxes Other Than Income								83,253		83,253
32	Property Taxes										
33	Income Tax										
34									441,434		441,434
35	Total Operating Expenses								151,638	10,623	162,261
36	Operating Income	\$ 32,891							179,923	220,493	400,416
37	Other Income (Expense)	\$ (32,891)						(1,724)			
38	Interest Income										
39	Other Income										
40	Interest Expense										
41	Other Expense										
42											
43	Total Other Income (Expense)								(0)		(0)
44	Net Profit (Loss)	\$ (32,891)							(88,123)		(88,123)
45									286,212	350,749	636,961
46									1,724		1,724
47											
48											

SUPPORTING SCHEDULES:  
 C-1, page 1

Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
 Test Year Ended February 29, 2012  
 Adjustments to Revenues and Expenses

Exhibit  
 Rebuttal Schedule C-2  
 Page 1  
 Witness: Bourassa

Line No.	<u>Adjustments to Revenues and Expenses</u>						<u>Subtotal</u>	
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>		
		Property	Declining	Revenue	Staff's	Rate Increase		
	<u>Depreciation</u>	<u>Taxes</u>	<u>Usage</u>	<u>Annualization</u>	<u>Water Testing</u>	<u>IEP</u>		
4	Revenues			1,203	(4,410)		(3,207)	
6	Expenses	(109,788)	(4,167)			17,083	(174,146)	
9	Operating Income	109,788	4,167	77,275	1,203	(4,410)	(17,083)	170,839
11	Interest Expense							-
13	Other Income / Expense							-
17	Net Income	109,788	4,167	77,275	1,203	(4,410)	(17,083)	170,839
20		<u>Adjustments to Revenues and Expenses</u>						<u>Subtotal</u>
		<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	
		APUC	Miscellaneous	Employee	Intentionally	Intentionally	Intentionally	
		Allocated	Expense	Benefits	Left	Left	Left	
		Capital Taxes			Blank	Blank	Blank	
25	Revenues							(3,207)
27	Expenses	(2,557)	(1,804)	32,891	-	-	-	(145,816)
30	Operating Income	2,557	1,804	(32,891)	-	-	-	142,409
32	Interest Expense							-
34	Other Income / Expense							-
38	Net Income	2,557	1,804	(32,891)	-	-	-	142,409
41		<u>Adjustments to Revenues and Expenses</u>						<u>Total</u>
		<u>13</u>	<u>14</u>	<u>15</u>	<u>16</u>	<u>17</u>	<u>18</u>	
		Intentionally	Interest	Income				
		Left	Synchronization	Taxes				
		Blank						
46	Revenues							(3,207)
48	Expenses			(1,724)				(147,340)
51	Operating Income	-	-	1,724	-	-	-	144,133
53	Interest Expense		(1,146)					(1,146)
55	Other Income / Expense							-
59	Net Income	-	(1,146)	1,724	-	-	-	142,987

Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
 Test Year Ended February 29, 2012  
 Adjustments to Revenues and Expenses  
 Adjustment Number 1

Exhibit  
 Rebuttal Schedule C-2  
 Page 2  
 Witness: Bourassa

Depreciation Expense

Line No.	Acct. No.	Description	Adjusted Original Cost	Non-Depr or Fully Depreciated	Depreciable Adjusted Original Cost	Proposed Rates	Depreciation Expense
1							
2							
3							
4							
5	301	Organization Cost	5,785	(5,785)	-	0.00%	-
6	302	Franchise Cost	417	(417)	-	0.00%	-
7	303	Land and Land Rights	44,194	(44,194)	-	0.00%	-
8	304	Structures and Improvements	3,311,457		3,311,457	3.33%	110,272
9	305	Collecting and Impounding Res.	-		-	2.50%	-
10	306	Lake River and Other Intakes	-		-	2.50%	-
11	307	Wells and Springs	562,937		562,937	3.33%	18,746
12	308	Infiltration Galleries and Tunnels	-		-	6.67%	-
13	309	Supply Mains	279,157		279,157	2.00%	5,583
14	310	Power Generation Equipment	219,360		219,360	5.00%	10,968
15	311	Electric Pumping Equipment	1,601,993		1,601,993	12.50%	200,249
16	320	Water Treatment Equipment	363,442		363,442	3.33%	12,103
17	320.1	Water Treatment Plant	-		-	3.33%	-
18	320.2	Chemical Solution Feeders	-		-	20.00%	-
19	330	Dist. Reservoirs & Standpipe	759,861		759,861	2.22%	16,849
20	330.1	Storage tanks	-		-	2.22%	-
21	330.2	Pressure Tanks	-		-	5.00%	-
22	331	Trans. and Dist. Mains	22,337,893		22,337,893	2.00%	446,758
23	333	Services	2,768,122		2,768,122	3.33%	92,178
24	334	Meters	1,010,366		1,010,366	8.33%	84,163
25	335	Hydrants	572,321		572,321	2.00%	11,446
26	336	Backflow Prevention Devices	6,151		6,151	6.67%	410
27	339	Other Plant and Misc. Equip.	123,778		123,778	6.67%	8,256
28	340	Office Furniture and Fixtures	29,265		29,265	6.67%	1,952
29	340.1	Computers and Software	76,919	(76,919)	-	20.00%	-
30	341	Transportation Equipment	142,188		142,188	20.00%	28,438
31	342	Stores Equipment	-		-	4.00%	-
32	343	Tools and Work Equipment	18,203		18,203	5.00%	910
33	344	Laboratory Equipment	3,061	(3,061)	-	10.00%	-
34	345	Power Operated Equipment	-		-	5.00%	-
35	346	Communications Equipment	212,996		212,996	10.00%	21,300
36	347	Miscellaneous Equipment	5,427		5,427	10.00%	543
37	348	Other Tangible Plant	-		-	10.00%	-
38		TOTALS	\$ 34,455,296	\$ (130,376)	\$ 34,324,919		\$ 1,071,144
39							
40							
41		Less: Amortization of Contributions			Gross CIAC \$ 20,179,119	Amort. Rate 3.1206%	\$ (629,710)
42		Total Depreciation Expense					\$ 441,434
43							
44		Adjusted Test Year Depreciation Expense					551,222
45							
46		Increase (decrease) in Depreciation Expense					(109,788)
47							
48		Adjustment to Revenues and/or Expenses					\$ (109,788)
49							
50		<u>SUPPORTING SCHEDULE</u>					
51		B-2, page 3					

Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
 Test Year Ended February 29, 2012.  
 Adjustment to Revenues and Expenses  
 Adjustment Number 2

Exhibit  
 Rebuttal Schedule C-2  
 Page 3  
 Witness: Bourassa

Property Taxes

Line No.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	\$ 2,778,766	\$ 2,778,766
2	Weight Factor	<u>2</u>	<u>2</u>
3	Subtotal (Line 1 * Line 2)	5,557,532	5,557,532
4	Company Recommended Revenue	2,778,766	3,360,630
5	Subtotal (Line 4 + Line 5)	8,336,298	8,918,162
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	2,778,766	2,972,721
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	5,557,532	5,945,441
10	Plus: 10% of CWIP (intentionally excluded)	-	-
11	Less: Net Book Value of Licensed Vehicles	20,364	20,364
12	Full Cash Value (Line 9 + Line 10 - Line 11)	5,537,168	5,925,078
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	1,107,434	1,185,016
15	Composite Property Tax Rate - Obtained from ADOR	13.6927%	13.6927%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 151,638	\$ 162,261
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	<u>\$ 151,638</u>	<u>\$ 162,261</u>
19	Test Year Property Taxes	<u>\$ 155,805</u>	<u>\$ 162,261</u>
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	<u>\$ (4,167)</u>	<u>\$ 162,261</u>
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		\$ 162,261
23	Company Test Year Adjusted Property Tax Expense (Line 18)		\$ 151,638
24	Increase in Property Tax Due to Increase in Revenue Requirement		<u>\$ 10,623</u>
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		\$ 10,623
27	Increase in Revenue Requirement		\$ 581,865
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		1.82570%
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			

Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
Test Year Ended February 29, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 3

Exhibit  
Rebuttal Schedule C-2  
Page 4  
Witness: Bourassa

Declining Usage Adjustment

Line  
No.

1		
2	Declining Usage Adjustment	\$ (77,275)
3		
4	Increase (decrease) in Water Testing Expense	<u>(77,275)</u>
5		
6	Adjustment to Revenues	<u>\$ (77,275)</u>
7		
8		
9	Adjustment to Revenue and/or Expense	<u>(77,275)</u>
10		
11	<u>Reference</u>	
12	<u>Testimony</u>	
13		
14		
15		
16		
17		
18		
19		
20		

Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
Test Year Ended February 29, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 4

Exhibit  
Rebuttal Schedule C-2  
Page 5  
Witness: Bourassa

Revenue Annualization

Line  
No.

1		
2		
3		
4	Revenue Annualization per Rebuttal	\$ (17,028)
5	Revenue Annualization per Direct	<u>(18,231)</u>
6	Increase (decrease) in Revenue Annualization	1,203
7		
8	Total Revenue from Annualization	<u>\$ 1,203</u>
9		
10		
11	Adjustment to Revenue and/or Expense	<u>\$ 1,203</u>
12		
13	<u>SUPPORTING SCHEDULES</u>	
14	C-2 pages 5.1 to 5.20	
15	H-1	
16	Testimony	
17		
18		
19		
20		

Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division

5/8x3/4 Inch Residential

Customers to Year End Levels

Test Year Ended February 29, 2012

Exhibit  
Schedule C-2

Page 5.1

Witness: Bourassa

Line No.		Month of Mar-11	Month of Apr-11	Month of May-11	Month of Jun-11	Month of Jul-11	Month of Aug-11	Month of Sep-11	Total Year
1	Year End Number of Customers	5,875	5,875	5,875	5,875	5,875	5,875	5,875	
2	Actual Customers	5,960	5,935	5,934	5,932	5,444	6,308	5,891	
3	Increase in Number of Customers/Bills	(85)	(60)	(59)	(57)	431	(433)	(16)	
4	Average Revenue / Present Rates	27.34	31.40	30.65	36.41	37.30	29.90	31.39	
5	Revenue Annualization / Present Rates	(2,324)	(1,884)	(1,809)	(2,075)	18,075	(12,948)	(502)	
6									
7	Increase in Number of Customers	(85)	(60)	(59)	(57)	431	(433)	(16)	
8	Average Revenue / Proposed Rates	34.33	38.53	37.75	43.61	44.50	36.98	38.51	
9	Revenue Annualization / Proposed Rates	(2,918)	(2,312)	(2,227)	(2,486)	19,179	(16,012)	(616)	
10	Additional Gallons to be Produced	(592,262)	(501,665)	(478,135)	(562,178)	4,365,760	(3,997,760)	(133,701)	
11									
12									
13									
14									
15	Year End Number of Customers	5,875	5,875	5,875	5,875	5,875	5,875	5,875	
16	Actual Customers	5,895	5,874	5,880	5,900	5,875	5,875	5,875	
17	Increase in Number of Customers/Bills	(20)	1	(5)	(25)	-	-	-	(328)
18	Average Revenue / Present Rates	29.56	29.11	25.41	25.56	24.82	-	-	
19	Revenue Annualization / Present Rates	(591)	29	(127)	(639)	-	-	-	
20									
21	Increase in Number of Customers	(20)	1	(5)	(25)	-	-	-	
22	Average Revenue / Proposed Rates	36.63	36.16	32.34	32.51	31.74	-	-	
23	Revenue Annualization / Proposed Rates	(591)	29	(127)	(639)	-	-	-	
24	Additional Gallons to be Produced	(154,589)	7,576	(31,533)	(159,017)	-	-	-	

**Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division**  
**5/8x3/4 Inch Residential (Low Income)**  
**Customers to Year End Levels**  
**Test Year Ended February 29, 2012**

Exhibit  
 Schedule C-2  
 Page 5.2  
 Witness: Bourassa

Line No.		Month of Mar-11	Month of Apr-11	Month of May-11	Month of Jun-11	Month of Jul-11	Month of Aug-11	Month of Sep-11
1	Year End Number of Customers	139	139	139	139	139	139	139
2	Actual Customers	-	54	65	79	62	127	112
3	Increase in Number of Customers/Bills	139	85	74	60	77	12	27
4	Average Revenue / Present Rates	\$ 9.33	\$ 24.46	\$ 25.03	\$ 30.28	\$ 30.38	\$ 27.03	\$ 27.10
5	Revenue Annualization / Present Rates	\$ 1,297	\$ 2,079	\$ 1,853	\$ 1,617	\$ 2,339	\$ 324	\$ 732
6								
7	Increase in Number of Customers	139	85	74	60	77	12	27
8	Average Revenue / Proposed Rates	\$ 14.42	\$ 30.45	\$ 31.04	\$ 36.39	\$ 36.49	\$ 33.09	\$ 33.17
9	Revenue Annualization / Proposed Rates	\$ 2,004	\$ 2,588	\$ 2,297	\$ 2,183	\$ 2,610	\$ 397	\$ 896
10	Additional Gallons to be Produced	-	634,352	569,231	578,734	745,161	101,853	230,223
11								
12								
13								
14								
15	Year End Number of Customers	139	139	139	139	139	139	139
16	Actual Customers	117	126	132	135	139	139	139
17	Increase in Number of Customers/Bills	22	13	7	4	-	-	520
18	Average Revenue / Present Rates	\$ 24.19	\$ 25.86	\$ 21.25	\$ 23.00	\$ 21.64		
19	Revenue Annualization / Present Rates	\$ 532	\$ 336	\$ 149	\$ 92	\$ -		\$ 11,550
20								
21	Increase in Number of Customers	22	13	7	4	-	-	520
22	Average Revenue / Proposed Rates	\$ 30.16	\$ 31.88	\$ 27.13	\$ 28.94	\$ 27.54		
23	Revenue Annualization / Proposed Rates	\$ 532	\$ 336	\$ 149	\$ 92	\$ -		\$ 14,559
24	Additional Gallons to be Produced	161,709	104,310	43,167	27,496	-		3,196,336







**Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division**

1 1/2 Inch Residential

Customers to Year End Levels

Test Year Ended February 29, 2012

Exhibit  
Schedule C-2  
Page 5.6  
Witness: Bourassa

Line No.	Description	Month of Mar-11	Month of Apr-11	Month of May-11	Month of Jun-11	Month of Jul-11	Month of Aug-11	Month of Sep-11
1	Year End Number of Customers	4	4	4	4	4	4	4
2	Actual Customers	3	3	3	3	3	3	3
3	Increase in Number of Customers/Bills	1	1	1	1	1	1	1
4	Average Revenue / Present Rates	\$ 135.14	\$ 161.83	\$ 144.85	\$ 130.29	\$ 124.22	\$ 118.15	\$ 156.98
5	Revenue Annualization / Present Rates	\$ 135	\$ 162	\$ 145	\$ 130	\$ 124	\$ 118	\$ 157
6	Increase in Number of Customers	1	1	1	1	1	1	1
7	Average Revenue / Proposed Rates	\$ 163.06	\$ 185.13	\$ 171.09	\$ 159.05	\$ 154.03	\$ 149.01	\$ 181.12
8	Revenue Annualization / Proposed Rates	\$ 163	\$ 185	\$ 171	\$ 159	\$ 154	\$ 149	\$ 181
9	Additional Gallons to be Produced	26,000	33,333	28,667	24,667	23,000	21,333	32,000

Line No.	Description	Month of Oct-11	Month of Nov-11	Month of Dec-11	Month of Jan-12	Month of Feb-12	Total Year
10	Year End Number of Customers	4	4	4	4	4	
11	Actual Customers	3	3	4	4	4	
12	Increase in Number of Customers/Bills	1	1	1	1	1	9
13	Average Revenue / Present Rates	\$ 126.65	\$ 120.58	\$ 157.89	\$ 136.05	\$ 174.27	
14	Revenue Annualization / Present Rates	\$ 127	\$ 121	\$ -	\$ -	\$ -	\$ 1,219
15	Increase in Number of Customers	1	1	1	1	1	
16	Average Revenue / Proposed Rates	\$ 156.04	\$ 151.02	\$ 181.87	\$ 163.81	\$ 195.42	
17	Revenue Annualization / Proposed Rates	\$ 127	\$ 121	\$ -	\$ -	\$ -	\$ 1,470
18	Additional Gallons to be Produced	23,667	22,000	-	-	-	234,667



Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division

5/8 Inch Commercial

Customers to Year End Levels

Test Year Ended February 29, 2012

Exhibit  
Schedule C-2  
Page 5.8  
Witness: Bourassa

Line No.		Month of Mar-11	Month of Apr-11	Month of May-11	Month of Jun-11	Month of Jul-11	Month of Aug-11	Month of Sep-11
1	Year End Number of Customers	83	83	83	83	83	83	83
2	Actual Customers	79	78	79	79	47	111	80
3	Increase in Number of Customers/Bills	4	5	4	4	36	(28)	3
4	Average Revenue / Present Rates	\$ 29.06	\$ 28.25	\$ 27.73	\$ 34.97	\$ 46.20	\$ 34.32	\$ 37.00
5	Revenue Annualization / Present Rates	\$ 116	\$ 141	\$ 111	\$ 140	\$ 1,663	\$ (961)	\$ 111
6								
7	Increase in Number of Customers	4	5	4	4	36	(28)	3
8	Average Revenue / Proposed Rates	\$ 36.11	\$ 35.28	\$ 34.73	\$ 42.16	\$ 53.45	\$ 41.51	\$ 44.20
9	Revenue Annualization / Proposed Rates	\$ 144	\$ 176	\$ 139	\$ 169	\$ 1,824	\$ (1,162)	\$ 133
10	Additional Gallons to be Produced	30,228	36,410	28,405	37,873	451,915	(268,072)	30,075
11								
12								
13								
14								
15	Year End Number of Customers	83	83	83	83	83	83	83
16	Actual Customers	80	81	81	83	83	83	83
17	Increase in Number of Customers/Bills	3	2	2	-	-	-	35
18	Average Revenue / Present Rates	\$ 37.91	\$ 32.12	\$ 41.13	\$ 29.12	\$ 31.44	-	-
19	Revenue Annualization / Present Rates	\$ 114	\$ 64	\$ 82	\$ -	\$ -	-	\$ 1,582
20								
21	Increase in Number of Customers	3	2	2	-	-	-	-
22	Average Revenue / Proposed Rates	\$ 45.12	\$ 39.26	\$ 48.36	\$ 36.17	\$ 38.56	-	-
23	Revenue Annualization / Proposed Rates	\$ 114	\$ 64	\$ 82	\$ -	\$ -	-	\$ 1,834
24	Additional Gallons to be Produced	30,825	17,210	22,321	-	-	-	425,190



Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division

1 1/2 Inch Commercial

Customers to Year End Levels

Test Year Ended February 29, 2012

Exhibit  
Schedule C-2  
Page 5.10  
Witness: Bourassa

Line

No.

1 Year End Number of Customers

2 Actual Customers

3 Increase in Number of Customers/Bills

4 Average Revenue / Present Rates

5 Revenue Annualization / Present Rates

6

7 Increase in Number of Customers

8 Average Revenue / Proposed Rates

9 Revenue Annualization / Proposed Rates

10 Additional Gallons to be Produced

11

12

13

14

15

16

17

18 Year End Number of Customers

19 Actual Customers

20 Increase in Number of Customers/Bills

21 Average Revenue / Present Rates

22 Revenue Annualization / Present Rates

23

24 Increase in Number of Customers

Average Revenue / Proposed Rates

Revenue Annualization / Proposed Rates

Additional Gallons to be Produced

	Month of Mar-11	Month of Apr-11	Month of May-11	Month of Jun-11	Month of Jul-11	Month of Aug-11	Month of Sep-11
	10	10	10	10	10	10	10
\$	130.77	130.04	129.32	164.62	160.17	199.75	122.40
\$	-	-	-	-	320	(400)	-
\$	159.45	158.85	158.24	187.44	183.75	216.49	152.53
\$	-	-	-	-	368	(433)	-
	-	-	-	-	65,750	(87,500)	-

	Month of Oct-11	Month of Nov-11	Month of Dec-11	Month of Jan-12	Month of Feb-12	Total Year
	10	10	10	10	10	
\$	97.24	107.75	104.54	116.94	96.66	
\$	-	-	-	-	-	(79)
\$	128.45	139.28	135.97	148.01	127.84	
\$	-	-	-	-	-	(65)
	-	-	-	-	-	(21,750)

**Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division**  
 2 Inch Commercial  
 Customers to Year End Levels  
 Test Year Ended February 29, 2012

Exhibit  
 Final Schedule C-2  
 Page 5.11  
 Witness: Bourassa

Line No.	Month of	Month of	Month of	Month of	Month of	Month of	Month of	Total Year
	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	
1	43	43	43	43	43	43	43	
2	43	44	44	43	42	44	43	
3	(1)	(1)	(1)	(1)	(1)	(1)	(1)	
4	\$ 200.16	\$ 219.44	\$ 210.28	\$ 226.37	\$ 202.76	\$ 193.82	\$ 248.58	
5	\$ -	\$ (219)	\$ (210)	\$ -	\$ 203	\$ (194)	\$ -	
6								
7	(1)	(1)	(1)	(1)	1	(1)	(1)	
8	\$ 251.46	\$ 271.34	\$ 261.89	\$ 278.48	\$ 254.15	\$ 244.93	\$ 301.37	
9	\$ -	\$ (271)	\$ (262)	\$ -	\$ 254	\$ (245)	\$ -	
10		\$ (45,068)	\$ (41,932)		\$ 39,357	\$ (86,295)		
11								
12								
13								
14								
15	43	43	43	43	43	43	43	
16	43	43	44	44	44	44	43	
17	(1)	(1)	(1)	(1)	(1)	(1)	(1)	
18	\$ 189.29	\$ 194.93	\$ 177.10	\$ 181.27	\$ 186.58	\$ -	\$ -	
19	\$ -	\$ -	\$ (177)	\$ (181)	\$ -	\$ -	\$ -	
20								
21	(1)	(1)	(1)	(1)	(1)	(1)	(1)	
22	\$ 240.26	\$ 246.07	\$ 227.69	\$ 231.99	\$ 237.46	\$ -	\$ -	
23	\$ -	\$ -	\$ (177)	\$ (181)	\$ -	\$ -	\$ -	
24			\$ (30,568)	\$ (31,986)	\$ -	\$ -	\$ -	

**Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division**  
**Bill Comparison Present and Proposed Rates**  
 Meter Size: 3 Inch Commercial

Exhibit H-4  
 Schedule H-4  
 Page 12  
 Witness: Bourassa  
**REVISED**

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1,000	\$ 175.68	\$ 271.36	\$ 95.68	54.46%
2,000	178.60	274.37	95.77	53.62%
3,000	181.52	277.38	95.86	52.81%
4,000	184.44	280.39	95.95	52.02%
5,000	187.36	283.40	96.04	51.26%
6,000	190.28	286.41	96.13	50.52%
7,000	193.20	289.42	96.22	49.80%
8,000	196.12	292.43	96.31	49.11%
9,000	199.04	295.44	96.40	48.43%
10,000	201.96	298.45	96.49	47.78%
12,000	204.88	301.46	96.58	47.14%
14,000	210.72	307.48	96.76	45.92%
16,000	216.56	313.50	96.94	44.76%
18,000	222.40	319.52	97.12	43.67%
20,000	228.24	325.54	97.30	42.63%
25,000	234.08	331.56	97.48	41.64%
30,000	248.68	346.61	97.93	39.38%
35,000	263.28	361.66	98.38	37.37%
40,000	277.88	376.71	98.83	35.57%
45,000	292.48	391.76	99.28	33.94%
50,000	307.08	406.81	99.73	32.48%
60,000	321.68	421.86	100.18	31.14%
70,000	353.04	451.96	98.92	28.02%
80,000	389.44	482.06	92.62	23.78%
90,000	425.84	512.16	86.32	20.27%
100,000	462.24	542.26	80.02	17.31%
	498.64	572.36	73.72	14.78%

**Present Rates:**  
 Monthly Minimum: \$ 175.68  
 Gallons in Minimum -  
 Charge Per 1,000 Gallons 57,000 \$ 2.92  
 Up to 57,000 \$ 3.64  
 Over

**Proposed Rates:**  
 Monthly Minimum: \$ 271.36  
 Gallons in Minimum -  
 Charge Per 1,000 Gallons 144,000 \$ 3.01  
 Up to 144,000 \$ 3.66  
 Over

Average Usage 173,138 \$ 764.86 \$ 811.44 \$ 46.58 6.09% \$ 110,905.00  
 Median Usage 24,000 \$ 245.76 \$ 343.60 \$ 97.84 39.81%











Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division

2 inch Industrial

Customers to Year End Levels

Test Year Ended February 29, 2012

Exhibit  
Final Schedule C-2

Page 5.18

Witness: Bourassa

Line No.		Month of Mar-11	Month of Apr-11	Month of May-11	Month of Jun-11	Month of Jul-11	Month of Aug-11	Month of Sep-11	Total Year
1	Year End Number of Customers	4	4	4	4	4	4	4	
2	Actual Customers	7	7	7	7	6	8	7	
3	Increase in Number of Customers	(3)	(3)	(3)	(3)	(2)	(4)	(3)	
4	Average Revenue / Present Rates	\$ 360.36	\$ 818.48	\$ 538.20	\$ 731.12	\$ 183.23	\$ 969.09	\$ 526.24	
5	Revenue Annualization / Present Rates	\$ (1,081)	\$ (2,455)	\$ (1,615)	\$ (2,193)	\$ (366)	\$ (3,876)	\$ (1,579)	
6									
7	Increase in Number of Customers	(3)	(3)	(3)	(3)	(2)	(4)	(3)	
8	Average Revenue / Proposed Rates	\$ 404.16	\$ 864.80	\$ 582.98	\$ 776.96	\$ 234.01	\$ 1,016.23	\$ 570.95	
9	Revenue Annualization / Proposed Rates	\$ (1,212)	\$ (2,594)	\$ (1,749)	\$ (2,331)	\$ (488)	\$ (4,065)	\$ (1,713)	
10	Additional Gallons to be Produced	(258,429)	(636,000)	(405,000)	(564,900)	(65,333)	(1,013,500)	(395,143)	
11									
12									
13									
14									
15	Year End Number of Customers	4	4	4	4	4	4	4	
16	Actual Customers	5	4	4	4	4	4	4	
17	Increase in Number of Customers	(1)	-	-	-	-	-	-	(22)
18	Average Revenue / Present Rates	\$ 751.50	\$ 855.79	\$ 530.01	\$ 570.96	\$ 1,189.76			
19	Revenue Annualization / Present Rates	\$ (752)	\$ -	\$ -	\$ -	\$ -			\$ (13,917)
20									
21	Increase in Number of Customers	(1)	-	-	-	-	-	-	
22	Average Revenue / Proposed Rates	\$ 797.46	\$ 902.32	\$ 574.75	\$ 615.92	\$ 1,238.12			
23	Revenue Annualization / Proposed Rates	\$ (752)	\$ -	\$ -	\$ -	\$ -			\$ (14,930)
24	Additional Gallons to be Produced	(193,600)	-	-	-	-			(3,531,005)

Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
 6 Inch Bulk  
 Customers to Year End Levels  
 Test Year Ended February 29, 2012

Line No.	Month	Gallons Sold	Present Rates	Proposed Rates
1	Jan. 2012	541,000	2,428.24	2,828.06
2	Feb.	404,000	1,929.56	2,326.64
3	March	462,000	2,140.68	2,538.92
4	April	275,000	1,460.00	1,854.50
5	May	578,000	2,562.92	2,963.48
6	June	709,000	3,039.76	3,442.94
7	July	1,017,000	4,160.88	4,570.22
8	August	554,000	2,475.56	2,875.64
9	Sept.	465,000	2,151.60	2,548.90
10	Oct.	616,000	2,701.24	3,102.56
11	Nov.	642,000	2,795.88	3,197.72
12	Dec. 2012	693,000	2,981.52	3,384.38
13				
14				
15	2012 Total Usage	6,956,000	30,827.84	35,634.96
16				
17	Average Monthly Usage	579,667		
18				
19				
20	Anticipated Revenues based on 2012 average usage		Present Rates	Proposed Rates
21			\$ 30,828	\$ 35,635
22	Revenues per Direct		29,625	
23				
24	Revenues at Proposed Rates			31,334
25				
26	Increase (decrease) in revenues		\$ 1,203	\$ 4,301
27				
28				

**Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division**  
**Bill Comparison Present and Proposed Rates**  
 Meter Size: Fire Lines Up to 8 Inch

Exhibit  
 Schedule H-4  
 Page 20  
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 5.49	\$ 8.48	\$ 2.99	54.46%
1,000	5.49	8.48	2.99	54.46%
2,000	5.49	8.48	2.99	54.46%
3,000	5.49	8.48	2.99	54.46%
4,000	5.49	8.48	2.99	54.46%
5,000	5.49	8.48	2.99	54.46%
6,000	5.49	8.48	2.99	54.46%
7,000	5.49	8.48	2.99	54.46%
8,000	5.49	8.48	2.99	54.46%
9,000	5.49	8.48	2.99	54.46%
10,000	5.49	8.48	2.99	54.46%
12,000	5.49	8.48	2.99	54.46%
14,000	5.49	8.48	2.99	54.46%
16,000	5.49	8.48	2.99	54.46%
18,000	5.49	8.48	2.99	54.46%
20,000	5.49	8.48	2.99	54.46%
25,000	5.49	8.48	2.99	54.46%
30,000	5.49	8.48	2.99	54.46%
35,000	5.49	8.48	2.99	54.46%
40,000	5.49	8.48	2.99	54.46%
45,000	5.49	8.48	2.99	54.46%
50,000	5.49	8.48	2.99	54.46%
60,000	5.49	8.48	2.99	54.46%
70,000	5.49	8.48	2.99	54.46%
80,000	5.49	8.48	2.99	54.46%
90,000	5.49	8.48	2.99	54.46%
100,000	5.49	8.48	2.99	54.46%
Average Usage	\$ 5.49	\$ 8.48	\$ 2.99	54.46%
Median Usage	\$ 5.49	\$ 8.48	\$ 2.99	54.46%

**Present Rates:**  
 Monthly Minimum: \$ 5.49

**Proposed Rates:**  
 Monthly Minimum: \$ 8.48

Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
Test Year Ended February 29, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 5

Exhibit  
Rebuttal Schedule C-2  
Page 6  
Witness: Bourassa

Water Testing

Line  
No.

1			
2	Water Testing Expense per Rebuttal	\$	23,821
3	Water Testing Expense per Direct		<u>28,231</u>
4	Increase (decrease) in Water Testing Expense		<u>(4,410)</u>
5			
6	Adjustment to Revenues	\$	<u>(4,410)</u>
7			
8			
9	Adjustment to Revenue and/or Expense		<u>(4,410)</u>
10			
11	<u>Reference</u>		
12	Staff Schedule MJR-W15		
13			
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Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
Test Year Ended February 29, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 6

Exhibit  
Rebuttal Schedule C-2  
Page 7  
Witness: Bourassa

Purchased Power - TEP Rate Increase

Line

No.

1			
2	Test Year Adjusted Purchased Power Expense	\$	371,378
3	Anticipated TEP rate increase (as %)		4.60%
4	Increase in Purchased Power Expense		17,083
5			
6	Adjustment to Purchased Power Expense	<u>\$</u>	<u>17,083</u>
7			
8			
9	Adjustment to Revenue and/or Expense		<u>17,083</u>
10			
11	<u>Reference</u>		
12	Testimony		
13	Work papers		
14			
15			
16			
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21			
22			
23			

Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
Test Year Ended December 31, 2001  
Adjustment to Revenues and Expenses  
Adjustment Number 7

Exhibit  
Rebuttal Schedule C-2  
Page 6  
Witness: Bourassa

APUC Allocated Capital Taxes

Line  
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1  
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APUC Allocated Capital Taxes	\$ (2,557)
Adjustment to Management Services -Corporate	<u>\$ (2,557)</u>
Adjustment to Revenue and/or Expense	<u>(2,557)</u>

Reference  
Staff Schedule MJR-W16  
Testimony

**Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division**  
**Test Year Ended December 31, 2001**  
**Adjustment to Revenues and Expenses**  
**Adjustment Number 8**

**Exhibit**  
**Rebuttal Schedule C-2**  
**Page 9**  
**Witness: Bourassa**

**Miscellaneous Expense**

**Line**  
**No.**

1		
2	RUCO proposed reduction to Miscellaneous Expense	\$ (1,804)
3		
4		
5		
6	Adjustment to Miscellaneous Expense	<u>\$ (1,804)</u>
7		
8		
9	Adjustment to Revenue and/or Expense	<u>(1,804)</u>
10		
11	<u>Reference</u>	
12	Staff Schedule TJC-21	
13	Testimony	
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Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
Test Year Ended February 29, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 9

Exhibit  
Rebuttal Schedule C-2  
Page 10  
Witness: Bourassa

Employee Benefits

Line  
No.

1			
2	Allocated portion of new employee benefit costs	\$	32,891
3			
4			
5			
6	Adjustment to Salaries and Wages expense	<u>\$</u>	<u>32,891</u>
7			
8			
9	Adjustment to Revenue and/or Expense		<u>32,891</u>
10			
11	<u>Reference</u>		
12	Testimony		
13	Workpapers		
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**Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division**  
**Test Year Ended February 29, 2012**  
**Adjustment to Revenues and Expenses**  
**Adjustment Number 10**

**Exhibit**  
**Rebuttal Schedule C-2**  
**Page 11**  
**Witness: Bourassa**

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**Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division**  
**Test Year Ended February 29, 2012**  
**Adjustment to Revenues and Expenses**  
**Adjustment Number 11**

**Exhibit**  
**Rebuttal Schedule C-2**  
**Page 12**  
**Witness: Bourassa**

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**Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division**  
**Test Year Ended February 29, 2012**  
**Adjustment to Revenues and Expenses**  
**Adjustment Number 12**

**Exhibit**  
**Rebuttal Schedule C-2**  
**Page 13**  
**Witness: Bourassa**

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**Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division**  
**Test Year Ended February 29, 2012**  
**Adjustment to Revenues and Expenses**  
**Adjustment Number 13**

**Exhibit**  
**Rebuttal Schedule C-2**  
**Page 14**  
**Witness: Bourassa**

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Interest Synchronization

Line No.				
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3				
4	Fair Value Rate Base	\$	7,730,108	
5	Weighted Cost of Debt		1.14%	
6	Interest Expense	\$	88,123	
7				
8	Test Year Interest Expense	\$	<u>86,978</u>	
9				
10	Increase (decrease) in Interest Expense		1,146	
11				
12				
13				
14	Adjustment to Revenue and/or Expense	\$	<u>(1,146)</u>	
15				
16				
17	<u>Weighted Cost of Debt Computation</u>			
18				
19		<u>Percent</u>	<u>Cost</u>	<u>Weighted Cost</u>
20	Debt	20.00%	5.70%	1.14%
21	Equity	80.00%	10.30%	8.24%
22	Total	<u>100.00%</u>		<u>9.38%</u>
23				
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Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
Test Year Ended February 29, 2012  
Adjustment to Revenues and/or Expenses  
Adjustment Number 15

Exhibit  
Rebuttal Schedule C-2  
Page 16  
Witness: Bourassa

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Income Taxes

	<u>Test Year at Present Rates</u>	<u>Test Year at Proposed Rates</u>
Computed Income Tax	\$ 179,923	\$ 400,416
Test Year Income tax Expense	-	179,923
Adjustment to Income Tax Expense	<u>\$ 179,923</u>	<u>\$ 220,493</u>

SUPPORTING SCHEDULE

C-3, page 2

Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
 Test Year Ended February 29, 2012  
 Computation of Gross Revenue Conversion Factor

Exhibit  
 Rebuttal Schedule C-3  
 Page 1  
 Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Combined Federal and State Effective Income Tax Rate	38.599%
2		
3	Property Taxes	1.121%
4		
5		
6	Total Tax Percentage	39.720%
7		
8	Operating Income % = 100% - Tax Percentage	60.280%
9		
10		
11		
12		
13	<u>1</u> = Gross Revenue Conversion Factor	
14	Operating Income %	1.6589
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		

25 SUPPORTING SCHEDULES:  
 26 C-3, page 2

RECAP SCHEDULES:  
 A-1

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Rio Rico Utilities, Inc. d/b/a Liberty Utilities - Water Division  
 Test Year Ended February 29, 2012

Exhibit  
 Rebuttal Schedule C-3  
 Page 2  
 Witness: Bourassa

GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	(E)	(F)
<b>Calculation of Gross Revenue Conversion Factor:</b>							
1	Revenue		100.0000%				
2	Uncollectible Factor (Line 11)		0.0000%				
3	Revenue (L1 - L2)		100.0000%				
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)		38.7199%				
5	Subtotal (L3 - L4)		68.2801%				
6	Revenue Conversion Factor (L1 / L3)		1.63662%				
<b>Calculation of Uncollectible Factor:</b>							
7	Unity		100.0000%				
8	Combined Federal and State Tax Rate (L17)		38.5989%				
9	One Minus Combined Income Tax Rate (L7 - L8.)		61.4011%				
10	Uncollectible Rate		0.0000%				
11	Uncollectible Factor (L9 * L10)		0.0000%				
<b>Calculation of Effective Tax Rate:</b>							
12	Operating Income Before Taxes (Arizona Taxable Income)		100.0000%				
13	Arizona State Income Tax Rate		6.9680%				
14	Federal Taxable Income (L12 - L13)		93.0320%				
15	Applicable Federal Income Tax Rate (L55 Col F)		34.0000%				
16	Effective Federal Income Tax Rate (L14 x L15)		31.6364%				
17	Combined Federal and State Income Tax Rate (L13 + L16)		38.5989%				
<b>Calculation of Effective Property Tax Factor:</b>							
18	Unity		100.0000%				
19	Combined Federal and State Income Tax Rate (L17)		38.5989%				
20	One Minus Combined Income Tax Rate (L18-L19)		61.4011%				
21	Property Tax Factor		1.8267%				
22	Effective Property Tax Factor (L20 * L21)		1.1210%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)		39.7199%				
24	Required Operating Income	\$	725,084				
25	Adjusted Test Year Operating Income (Loss)	\$	374,335				
26	Required Increase in Operating Income (L24 - L25)			\$	350,749		
27	Income Taxes on Recommended Revenue (Col. (F), L52)	\$	400,416				
28	Income Taxes on Test Year Revenue (Col. (C), L52)	\$	179,923				
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)			\$	220,493		
30	Recommended Revenue Requirement	\$	3,380,830				
31	Uncollectible Rate (Line 10)		0.0000%				
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$	-				
33	Adjusted Test Year Uncollectible Expense	\$	-				
34	Required Increase in Revenue to Provide for Uncollectible Exp.			\$	-		
35	Property Tax with Recommended Revenue	\$	182,281				
36	Property Tax on Test Year Revenue	\$	151,635				
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)			\$	10,623		
38	Total Required Increase in Revenue (L26 + L29 + L37)			\$	581,865		

	(A) Test Year			(B) Sewer			(C) Water			(D) Company Recommended			(E) Sewer			(F) Water			
	Total	Company		Total	Company		Total	Company		Total	Company		Total	Company		Total	Company		
38	Revenue	\$	4,148,898	\$	1,370,130	\$	2,778,768	\$	4,986,301	\$	1,605,670	\$	3,380,630	\$	3,151,350	\$	916,229	\$	2,235,131
40	Operating Expenses Excluding Income Taxes		3,136,438		911,928		2,224,507		142,104		83,981		88,123		142,104		83,981		88,123
41	Synchronized Interest (L47)		142,104		53,981		88,123		1,672,838		635,461		1,037,377		1,672,838		635,461		1,037,377
42	Arizona Taxable Income (L38 - L40 - L41)	\$	870,355	\$	404,220	\$	466,135	\$	1,116,983	\$	44,279	\$	72,284	\$	1,116,983	\$	44,279	\$	72,284
43	Arizona State Effective Income Tax Rate (see work papers)		6.9680%		6.9680%		6.9680%		6.9680%		6.9680%		6.9680%		6.9680%		6.9680%		6.9680%
44	Arizona Income Tax (L42 x L43)	\$	60,648	\$	28,189	\$	32,460	\$	116,983	\$	44,279	\$	72,284	\$	116,983	\$	44,279	\$	72,284
45	Federal Taxable Income (L42-L44)	\$	809,707	\$	376,054	\$	433,658	\$	1,556,275	\$	591,183	\$	968,092	\$	1,556,275	\$	591,183	\$	968,092
46																			
47	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$	15,000	\$	7,500	\$	7,500	\$	7,506	\$	7,506	\$	7,500	\$	7,506	\$	7,506	\$	7,500
48	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$	12,500	\$	6,250	\$	6,250	\$	6,256	\$	6,256	\$	6,250	\$	6,256	\$	6,256	\$	6,250
49	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$	17,000	\$	8,500	\$	8,500	\$	8,506	\$	8,506	\$	8,500	\$	8,506	\$	8,506	\$	8,500
50	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$	183,300	\$	91,650	\$	91,650	\$	91,656	\$	91,656	\$	91,650	\$	91,656	\$	91,656	\$	91,650
51	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$	47,501	\$	13,958	\$	33,543	\$	418,233	\$	87,182	\$	214,251	\$	418,233	\$	87,182	\$	214,251
52																			
53	Total Federal Income Tax	\$	275,301	\$	127,858	\$	147,443	\$	529,133	\$	201,062	\$	328,131	\$	529,133	\$	201,062	\$	328,131
54	Combined Federal and State Income Tax (L35 + L42)	\$	338,947	\$	156,025	\$	179,923	\$	645,687	\$	245,281	\$	400,416	\$	645,687	\$	245,281	\$	400,416

55 **COMBINED** Applicable Federal Income Tax Rate [Col. (D), L53 - Col. (A), L53] / [Col. (D), L45 - Col. (A), L45] 34.0000%

56 **WASTEWATER** Applicable Federal Income Tax Rate [Col. (E), L53 - Col. (B), L53] / [Col. (E), L45 - Col. (B), L45] 34.0000%

57 **WATER** Applicable Federal Income Tax Rate [Col. (F), L53 - Col. (C), L53] / [Col. (F), L45 - Col. (C), L45] 34.0000%

**Calculation of Interest Synchronization:**

58	Rate Base	\$	4,735,182	\$	7,730,108
59	Weighted Average Cost of Debt		1.1400%		1.1400%
60	Synchronized Interest (L59 X L60)	\$	53,981	\$	88,123





Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
 Test Year Ended February 29, 2012  
 Revenue Summary  
 With Annualized Revenues to Year End Number of Customers

Exhibit  
 Rebuttal Schedule H-1  
 Page 3  
 Witness: Bourassa

Line No.	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	\$ 2,830,180	\$ 3,408,934	\$ 578,754	20.45%	100.00%	100.00%
2	(77,275)	(77,275)	-	0.00%	-	-
3	(17,028)	(14,617)	2,411	-14.16%	-0.60%	-0.43%
4	\$ 2,735,877	\$ 3,317,042	\$ 581,165	21.24%		
5						
6	\$ 42,889	\$ 42,889	-	0.00%	1.52%	1.26%
7	-	699	699	0.00%	0.00%	0.02%
8	\$ 2,778,766	\$ 3,360,630	\$ 581,864	20.94%	0.00%	0.00%
9						
10						
11	<u>Revenue Reconciliation</u>					
12						
13	Revenue per bill count before revenue annualization	\$ 2,873,069				
14	Revenue per GL (metered water revenues)	\$ 2,862,761				
15	Adjustments Rev. Accrual Correction	10,308				
16	Adjusted Revenue per GL (metered water revenues)	2,873,069				
17	Difference	\$ 0				
18	Difference %	0.00%				
19	Tolerance %	0.50%				
20	Tolerance Amount + or -	\$ 14,365				
21	Acceptable?	YES				
22						
23						
24						
25						
26						
27						
28						
29						
30						
31						
32						
33						
34						
35						
36						
37						
38						

Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
 Test Year Ended February 29, 2012  
 Customer Summary

Exhibit  
 Rebuttal Schedule H-2  
 Page 1  
 Witness: Bourassa

Line No.	Meter Size, Class	(a) Average Number of Customers at 2/29/2012	Average Consumption	Average Bill		Proposed Increase	
				Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	5/8X3/4 Inch Residential	5,902	7,794 \$	29.75 \$	36.82	7.07	23.77%
2	5/8X3/4 Inch Residential (Low Income)	96	7,658	24.95	30.95	6.00	24.05%
3	3/4 Inch Residential	11	4,316	29.07	38.43	9.36	32.18%
4	1 Inch Residential	35	10,705	58.71	74.62	15.91	27.11%
5	1 Inch Residential (Low Income)	1	6,667	39.88	53.10	13.22	33.14%
6	1 1/2 Inch Residential	3	27,921	141.77	168.54	26.77	18.89%
7	2 Inch Residential	3	19,316	144.24	193.82	49.58	34.37%
8	Subtotal	6,052					
9							
10	5/8X3/4 Inch Commercial	80	8,995 \$	33.25 \$	40.43	7.18	21.59%
11	1 Inch Commercial	49	15,566	73.31	89.25	15.94	21.75%
12	1 1/2 Inch Commercial	10	24,508	129.71	158.57	28.86	22.25%
13	2 Inch Commercial	43	39,263	202.49	253.86	51.37	25.37%
14	3 Inch Commercial	12	173,138	764.86	811.44	46.58	6.09%
15	4 Inch Commercial	6	253,431	1,155.95	1,205.31	49.36	4.27%
16	6 Inch Commercial	1	457,917	2,125.82	2,231.48	105.66	4.97%
17	Subtotal	201					
18							
19	5/8X3/4 Inch Industrial	17	4,422 \$	19.90 \$	26.67	6.77	34.01%
20	2 Inch Industrial	6	167,329	655.88	701.30	45.43	6.93%
21	Subtotal	23					
22							
23	5/8X3/4 Inch Multi-family	7	9,058 \$	33.48 \$	40.66	7.18	21.45%
24	1 1/2 Inch Multi-family	1	11,750	89.21	120.17	30.96	34.70%
25	Subtotal	8					
26							
27	6 Inch Bulk	0	1,908,591	7,406.27	7,833.44	427.17	5.77%
28	Five Lines up to 8 Inch	19	- \$	5.49 \$	8.48	2.99	54.46%
29							
30							
31	Total	6,303					
32							

(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
 Test Year Ended February 29, 2012  
 Customer Summary

Line No.	Meter Size, Class	(a) Average Number of Customers at 2/29/2012	Median Consumption	Median Bill		Proposed Increase	
				Present Rates	Proposed Rates	Dollar Amount	Percent
1	5/8X3/4 Inch Residential (Low Income)	5,902	6,000 \$	24.51 \$	31.42	6.91	28.19%
2	5/8X3/4 Inch Residential	96	-	23.32	29.27	5.95	25.52%
3	3/4 Inch Residential	11	4,000	28.15	37.48	9.33	33.14%
4	1 Inch Residential	35	6,000	44.97	60.46	15.49	34.45%
5	1 Inch Residential (Low Income)	1	-	40.71	53.95	13.24	32.53%
6	1 1/2 Inch Residential	3	20,000	113.30	145.00	31.70	27.98%
7	2 Inch Residential	3	14,000	128.72	177.82	49.10	38.14%
8	Subtotal	6,052					
9							
10	5/8X3/4 Inch Commercial	80	3,000 \$	15.75 \$	22.39	6.64	42.16%
11	1 Inch Commercial	49	7,000	47.89	63.47	15.58	32.53%
12	1 1/2 Inch Commercial	10	9,000	81.18	111.89	30.71	37.83%
13	2 Inch Commercial	43	20,500	147.70	197.39	49.69	33.64%
14	3 Inch Commercial	12	24,000	245.76	343.60	97.84	39.81%
15	4 Inch Commercial	6	192,000	932.34	1,001.92	69.58	7.46%
16	6 Inch Commercial	1	425,000	2,006.00	2,127.25	121.25	6.04%
17	Subtotal	201					
18							
19	5/8X3/4 Inch Industrial	17	4,353 \$	10.98 \$	16.96	5.98	54.46%
20	2 Inch Industrial	6	32,667	140.40	189.86	49.46	35.23%
21	Subtotal	23					
22							
23	5/8X3/4 Inch Multi-family	7	8,000 \$	30.35 \$	37.44	7.09	23.36%
24	1 1/2 Inch Multi-family	1	11,000	87.02	117.91	30.89	35.50%
25	Subtotal	8					
26							
27	6 Inch Bulk	0	945,000	3,898.80	4,306.70	407.90	10.46%
28	Fire Lines up to 8 Inch	19	- \$	5.49 \$	8.48	2.99	54.46%
29							
30							
31	Total	6,303					

(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
 Test Year Ended February 29, 2012  
 Present and Proposed Rates

Line No.	Monthly Usage Charge for: Meter Size (All Classes):	Present Rates	Proposed Rates	Change	Percent Change
1	5/8 Inch	\$ 10.98	\$ 16.96	\$ 5.98	54.46%
2	3/4 Inch	16.47	25.44	8.97	54.46%
3	1 Inch	27.45	42.40	14.95	54.46%
4	1 1/2 Inch	54.90	84.80	29.90	54.46%
5	2 Inch	87.84	135.68	47.84	54.46%
6	3 Inch	175.68	271.36	95.68	54.46%
7	4 Inch	274.50	424.00	149.50	54.46%
8	6 Inch	549.00	848.00	299.00	54.46%
9	8 Inch	878.40	1,356.80	478.40	54.46%
10	10 Inch	1,262.70	1,950.40	687.70	54.46%
11	12 Inch	2,360.70	3,646.40	1,285.70	54.46%

Low Income Tariff - A 15% discount is available to qualified residential customers meeting the low income qualifications. Participation is limited to a maximum 2,200 customers.

Fire Lines 8 Inch (R-14-2-408.B)  
 Fire Lines 10 Inch (R-14-2-408.B)  
 Fire Lines 12 Inch (R-14-2-408.B)

Per Rule\*  
 Per Rule\*  
 Per Rule\*

\* 1% of Monthly Minimum for a Comparable Size Meter Connection, but not less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

Gallons In Minimum (All Classes)

Commodity Rates (All Classes)	Block	Present Rate	Proposed Rate
5/8 Inch	0 gallons to 3,000 gallons	\$ 1.59	\$ 1.81
	3,001 gallons to 9,000 gallons	\$ 2.92	\$ 3.01
	over 9,000 gallons	\$ 3.64	\$ 3.66
3/4 Inch Meter	0 gallons to 6,000 gallons	\$ 2.92	
	over 6,000 gallons	\$ 3.64	
3/4 Inch Meter	0 gallons to 4,500 gallons		\$ 3.01
	over 4,500 gallons		\$ 3.66

\* Per Rule - A.A.C. R-14-2-408.B  
 NT = No Tariff

Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
 Test Year Ended February 29, 2012  
 Present and Proposed Rates

Exhibit  
 Rebuttal Schedule H-3  
 Page 2  
 Witness: Bourassa

Line No.	Commodity Rates (All Classes)	(Per 1,000 gallons)	
		Present Rate	Proposed Rate
1			
2			
3			
4	Block 0 gallons to 15,000 gallons over 15,000 gallons	\$ 2.92	\$ -
5		\$ 3.64	\$ -
6			
7	1 Inch Meter 0 gallons to 22,500 gallons over 22,500 gallons	\$ 3.01	\$ 3.01
8		\$ 3.64	\$ 3.66
9			
10	1.5 Inch Meter 0 gallons to 20,000 gallons over 20,000 gallons	\$ 2.92	\$ 3.01
11		\$ 3.64	\$ 3.66
12			
13	1.5 Inch Meter 0 gallons to 45,000 gallons over 45,000 gallons	\$ 2.92	\$ 3.01
14		\$ 3.64	\$ 3.66
15			
16	2 Inch Meter 0 gallons to 57,000 gallons over 57,000 gallons	\$ 2.92	\$ 3.01
17		\$ 3.64	\$ 3.66
18			
19	2 Inch Meter 0 gallons to 72,000 gallons over 72,000 gallons	\$ 2.92	\$ 3.01
20		\$ 3.64	\$ 3.66
21			
22	3 Inch Meter 0 gallons to 57,000 gallons over 57,000 gallons	\$ 2.92	\$ 3.01
23		\$ 3.64	\$ 3.66
24			
25	3 Inch Meter 0 gallons to 144,000 gallons over 144,000 gallons	\$ 2.92	\$ 3.01
26		\$ 3.64	\$ 3.66
27			
28	4 Inch Meter 0 gallons to 57,000 gallons over 57,000 gallons	\$ 2.92	\$ 3.01
29		\$ 3.64	\$ 3.66
30			
31	4 Inch Meter 0 gallons to 225,000 gallons over 225,000 gallons	\$ 2.92	\$ 3.01
32		\$ 3.64	\$ 3.66
33			
34	6 Inch Meter 0 gallons to 125,000 gallons over 125,000 gallons	\$ 2.92	\$ 3.01
35		\$ 3.64	\$ 3.66
36			
37	6 Inch Meter 0 gallons to 450,000 gallons over 450,000 gallons	\$ 2.92	\$ 3.01
38		\$ 3.64	\$ 3.66

Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division  
 Test Year Ended February 29, 2012  
 Present and Proposed Rates

Exhibit  
 Rebuttal Schedule H-3  
 Page 3  
 Witness: Bourassa

Line No.	Commodity Rates (All Classes)			
1	8 Inch Meter			
2				
3				
4				
5				
6				
7	8 Inch Meter			
8				
9				
10	10 Inch Meter			
11				
12				
13	10 Inch Meter			
14				
15				
16	12 Inch Meter			
17				
18				
19	12 Inch Meter			
20				
21				
22				
23	6 Inch Bulk			
24				
25	NT = No Tariff			
26				
27				
28				
29				
30				
31				
32				
33				
34				
35				
36				
37				
38				

0 gallons to 125,000 gallons over 125,000 gallons	\$	2.92	\$	3.01
0 gallons to 720,000 gallons over 720,000 gallons	\$	3.64	\$	3.66
0 gallons to 125,000 gallons over 125,000 gallons	\$	2.92	\$	3.01
0 gallons to 1,035,000 gallons over 1,035,000 gallons	\$	3.64	\$	3.66
0 gallons to 125,000 gallons over 125,000 gallons	\$	2.92	\$	3.01
0 gallons to 1,935,000 gallons over 1,935,000 gallons	\$	3.64	\$	3.66
All gallons	\$		\$	3.66

**Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division**  
**Changes in Representative Rate Schedules**  
**Test Year Ended February 29, 2012**

Exhibit  
 Rebuttal Schedule H-3  
 Page 4  
 Witness: Bourassa

Line No.	Other Service Charges	Present Rates	Proposed Rates
1	Establishment	\$ 15.00	\$ 15.00
2	Establishment (After Hours)	\$ 25.00	NT
3	Reconnection (Delinquent)	\$ 15.00	\$ 15.00
4	Reconnection (Delinquent) - After Hours	\$ 25.00	NT
5	Meter test (If Correct)	\$ 15.00	\$ 15.00
6	Deposit	*	*
7	Deposit Interest	**	**
8	Reestablishment (within 12 months)	***	***
9	NSF Check	\$ 15.00	\$ 15.00
10	Meter Reread (if Correct)	\$ 20.00	\$ 20.00
11	Late Payment Penalty	1.5% per month	1.5% per month
12	Deferred Payment (R-01-2-409.G)	1.5% per month	1.5% per month
13	Moving meter at customer request (R-14-2-405.B)	at Cost	at Cost
14	Service Calls - Per Hour/After Hours(a)	\$ 40.00	NT
15	Service Charge - After Hours(a)		\$ 40.00
16			
17			
18			
19			
20			
21	* Per Commission Rule A.A.C. R-14-2-403(B)		
22	** Per Commission Rule A.A.C. R-14-2-403(B)		
23	*** Per Commission Rule A.A.C. R14-2-403(D) - Months off the system times the monthly minimum.		
24			
25	(a) No charge for service calls during normal working hours.		
26			
27	IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM		
28	ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE		
29	TAX. PER COMMISSION RULE 14-2-409D(5).		
30			
31			
32			
33			
34			



**Rio Rico Utilities dba Liberty Utilities –Wastewater Division  
Docket No. WS-02676A-12-0196**

**THOMAS J. BOURASSA  
REBUTTAL TESTIMONY  
(RATE BASE, INCOME STATEMENT,  
RATE DESIGN)**

**January 28, 2013**

**SCHEDULES**

**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**  
 Test Year Ended February 29, 2012  
 Computation of Increase in Gross Revenue  
 Requirements As Adjusted

Exhibit  
 Rebuttal Schedule A-1  
 Page 1  
 Witness: Bourassa

Line No.					
1	Fair Value Rate Base			\$	4,735,192
2					
3	Adjusted Operating Income				302,177
4					
5	Current Rate of Return				6.38%
6					
7	Required Operating Income			\$	444,161
8					
9	Required Rate of Return on Fair Value Rate Base				9.38%
10					
11	Operating Income Deficiency			\$	141,984
12					
13	Gross Revenue Conversion Factor				1.6589
14					
15	Increase in Gross Revenue Requirement			\$	235,540
16					
17					
18	Adjusted Test Year Revenues			\$	1,370,130
19	Increase in Gross Revenue Revenue Requirement			\$	235,540
20	Proposed Revenue Requirement			\$	1,605,670
21	% Increase				17.19%
22					
23	<b>Customer</b>	<b>Present</b>	<b>Proposed</b>	<b>Dollar</b>	<b>Percent</b>
24	<b>Classification</b>	<b>Rates</b>	<b>Rates</b>	<b>Increase</b>	<b>Increase</b>
25	5/8X3/4 Inch Residential	\$ 1,001,239	\$ 1,180,962	\$ 179,722	17.95%
26	5/8X3/4 Inch Residential (Low Income)	26,948	31,785	4,837	17.95%
27	3/4 Inch Residential	5,182	6,112	930	17.95%
28	1 Inch Residential	7,304	8,615	1,311	17.95%
29	1 Inch Residential (Low Income)	494	583	89	17.95%
30	1 1/2 Inch Residential	-	-	-	0.00%
31	2 Inch Residential	132	156	24	17.95%
32	5/8X3/4 Inch Commercial	46,018	53,041	7,023	15.26%
33	1 Inch Commercial	56,409	64,530	8,121	14.40%
34	1 1/2 Inch Commercial	17,712	20,091	2,379	13.43%
35	2 Inch Commercial	94,925	107,703	12,778	13.46%
36	3 Inch Commercial	5,376	6,202	826	15.36%
37	4 Inch Commercial	89,951	100,030	10,079	11.20%
38	6 Inch Commercial	33,018	36,863	3,846	11.65%
39	5/8X3/4 Inch Multi-tenant	4,780	5,524	743	15.55%
40	1 1/2 Inch Multi-tenant	1,411	1,643	231	16.39%
41					0.00%
42	Revenue Annualization	11,943	13,924	1,981	16.59%
43	Declining Usage Adjustment	(32,713)	(32,713)	-	0.00%
44	<b>Subtotal</b>	<b>\$ 1,370,130</b>	<b>\$ 1,605,052</b>	<b>\$ 234,922</b>	<b>17.15%</b>
45					
46	Other Water Revenues	-	-	-	0.00%
47	Reconciling Amount	-	618	618	0.00%
48	Rounding				0.00%
49	<b>Total of Water Revenues</b>	<b>\$ 1,370,130</b>	<b>\$ 1,605,670</b>	<b>\$ 235,540</b>	<b>17.19%</b>
50					
51					
52	<b>SUPPORTING SCHEDULES:</b>				
53	B-1				
54	C-1				
55	C-3				
56	H-1				

**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**  
 Test Year Ended February 29, 2012  
 Summary of Rate Base

Exhibit  
 Rebuttal Schedule B-1  
 Page 1  
 Witness: Bourassa

<u>Line No.</u>	<u>Original Cost Rate base</u>	<u>Fair Value Rate Base</u>
1		
2	\$ 12,655,367	\$ 12,655,367
3	Less: Accumulated Depreciation	
4	4,658,438	4,658,438
5	Net Utility Plant in Service	
6	\$ 7,996,929	\$ 7,996,929
7	<u>Less:</u>	
8	Advances in Aid of Construction	
9	293,794	293,794
10	Contributions in Aid of Construction	
11	5,152,673	5,152,673
12	Accumulated Amortization of CIAC	
13	(2,491,137)	(2,491,137)
14	Customer Meter Deposits	
15	22,963	22,963
16	Deferred Income Taxes & Credits	
17	283,444	283,444
18		
19	<u>Plus:</u>	
20	Unamortized Finance	
21	Charges	
22	-	-
23	Deferred Tax Assets	
24	-	-
25	Allowance for Working Capital	
26	-	-
27		
28		
29		
30		
31		
32		
33		
34		
35		
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37		
38		
39		
40		
41	<u>SUPPORTING SCHEDULES:</u>	
42	B-2	
43	B-3	
44	B-5	
45		
46		
47		
48		
49		
50		

	\$ 4,735,192	\$ 4,735,192
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**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**  
 Test Year Ended February 29, 2012  
 Original Cost Rate Base Proforma Adjustments

Exhibit  
 Rebuttal Schedule B-2  
 Page 1  
 Witness: Bourassa

Line No.		Actual at End of <u>Test Year</u>	Proforma <u>Adjustment</u>	Adjusted at end of <u>Test Year</u>
1	Gross Utility			
2	Plant in Service	\$ 14,241,191	(1,585,824)	\$ 12,655,367
3				
4	<b>Less:</b>			
5	Accumulated			
6	Depreciation	6,437,304	(1,778,866)	4,658,438
7				
8				
9	Net Utility Plant			
10	in Service	\$ 7,803,886		\$ 7,996,929
11				
12	<b>Less:</b>			
13	Advances in Aid of			
14	Construction	293,794	-	293,794
15				
16	Contributions in Aid of			
17	Construction - Gross	5,152,673	-	5,152,673
18				
19	Accumulated Amortization of CIAC	(2,509,975)	18,837	(2,491,137)
20				
21	Customer Meter Deposits	22,963		22,963
22	Accumulated Deferred Income Tax	244,419	39,025	283,444
23				-
24				-
25				
26	<b>Plus:</b>			
27	Unamortized Finance			
28	Charges	-		-
29	Prepayments	-		-
30	Materials and Supplies	-	-	-
31	Working capital	-	-	-
32				-
33				
34	<b>Total</b>	<u>\$ 4,600,012</u>		<u>\$ 4,735,192</u>

45 SUPPORTING SCHEDULES:  
 46 B-2, pages 2

RECAP SCHEDULES:  
 B-1

47  
 48  
 49  
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Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division  
 Test Year Ended February 29, 2012  
 Original Cost Rate Base Proforma Adjustments

Exhibit  
 Rebuttal Schedule B-2  
 Page 2  
 Witness: Bourassa

Line No.	Description	1 Adjusted at end of Test Year	Proforma Adjustments			5 ADIT	Rebuttal Adjusted at end of Test Year
			2 Plant-in-Service	3 Accumulated Depreciation	4 CIAC		
1	Gross Utility Plant in Service	\$ 14,241,191	(1,585,824)			\$ 12,655,367	
2							
3							
4	Less:						
5	Accumulated Depreciation	6,437,304	(1,778,866)			4,658,438	
6							
7							
8							
9	Net Utility Plant in Service	\$ 7,803,886	\$ (1,585,824)	\$ -	\$ -	\$ 7,996,929	
10							
11							
12	Less:						
13	Advances in Aid of Construction	293,794				293,794	
14							
15							
16	Contributions in Aid of Construction (CIAC)	5,152,673				5,152,673	
17							
18							
19	Accumulated Amort of CIAC	(2,509,975)		18,837		(2,491,137)	
20							
21	Customer Meter Deposits	22,963				22,963	
22	Accumulated Deferred Income Taxes	244,419			39,025	283,444	
23							
24							
25	Plus:						
26	Unamortized Finance Charges	-				-	
27							
28	Prepayments	-				-	
29	Materials and Supplies	-				-	
30	Allowance for Cash Working Capital	-				-	
31							
32	Total	\$ 4,600,012	\$ (1,585,824)	\$ 1,778,866	\$ (18,837)	\$ 4,735,192	
33							
34							
35							
36							
37							
38							
39							
40							

SUPPORTING SCHEDULES:  
 B-1

SUPPORTING SCHEDULES:  
 B-2, pages 3-5

Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division  
Test Year Ended February 28, 2012  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1

Line No.	Acct. No.	Description	Plant-in-Service					Adjustments			E	E	E	Rebuttal Adjusted Original Cost
			A	B	C	D	E	D	E	E				
			Direct Adjusted Original Cost	Plant Reclassification from Water Division	Nogales WWTP Plant Reclassification	Nogales WWTP Plant Reclassification	Nogales WWTP Plant Retirement	Affiliate Profit	Plant Retirement	Plant Retirements				
1	351	Organization	5,785										5,785	
2	352	Franchise	417										417	
3	353	Land	7,545										7,545	
4	354	Structures & Improvements	150,294										150,294	
5	355	Power Generation												
6	360	Collection Sewer Forced	636,023										636,023	
7	361	Collection Sewers Gravity	5,991,654		(315,000)								5,676,239	
8	362	Special Collecting Structures						(415)						
9	363	Customer Services	1,204,113										1,204,113	
10	364	Flow Measuring Devices	66,339										66,339	
11	366	Reuse Services												
12	367	Reuse Meters And Installation												
13	370	Receiving Wells	867,120										867,120	
14	371	Pumping Equipment	1,712,940					(6,866)					1,712,940	
15	374	Reuse Distribution Reservoirs												
16	375	Reuse Trans. and Dist. System												
17	380	Treatment & Disposal Equipment	1,128,675		(693,000)								282,033	
18	381	Plant Sewers	13,690										13,690	
19	382	Outfall Sewer Lines												
20	389	Other Sewer Plant & Equipment	64,928										64,928	
21	390	Office Furniture & Equipment	116,937										116,937	
22	390.1	Computers and Software	4,025										4,025	
23	391	Transportation Equipment	117										117	
24	392	Stores Equipment												
25	393	Tools, Shop And Garage Equip	5,139										5,139	
26	394	Laboratory Equip												
27	396	Communication Equip	5,936										5,936	
28	398	Other Tangible Plant	3,913										3,913	
29		Nogales WWTP	2,255,600	15,362	1,008,000		153,642						3,432,604	
30														
31														
32														
33														
34														
35														
36														
37														
38														
39		Plant Held for Future Use		15,362										
40		TOTALS	\$ 14,241,191	\$ 15,362	\$ -	\$ -	\$ (6,866)	\$ (415)	\$ -	\$ (1,593,905)	\$ -	\$ -	\$ 12,655,367	
41		Plant-in-Service per Direct											\$ 14,241,191	
42		Increase (decrease) in Plant-in-Service											\$ (1,585,824)	
43		Adjustment to Plant-in-Service											\$ (1,585,824)	

**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**  
 Test Year Ended February 29, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment Number 1 -A

Exhibit  
 Rebuttal Schedule B-2  
 Page 3.1  
 Witness: Bourassa

Line  
No.

1	<u>Reclassification of plant from Water Division</u>					
2						
3	To WW		From Water			
4	Acct.		Acct.	Water	Recorded	
5	<u>No.</u>	<u>Description</u>	<u>No.</u>	<u>Description</u>	<u>Year</u>	<u>Adjustment</u>
6	380	Nogales WWTP	320	Water Treatment Equipment	2009	\$ 5,658
7	380	Nogales WWTP	336	Backflow Prevention Devices	2010	7,210
8	380	Nogales WWTP	336	Backflow Prevention Devices	2011	2,494
9		Total				<u>\$ 15,362</u>

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43 SUPPORTING SCHEDULE  
 44 Staff Schedule MJR-W5  
 45 Testimony

**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**  
 Test Year Ended February 29, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment Number 1 - B

Exhibit  
 Rebuttal Schedule B-2  
 Page 3.2  
 Witness: Bourassa

Line  
No.

1	<u>Reclassification of plant costs related to Nogales plant</u>			
2				
3				
4	Acct.		Recorded	
5	<u>No.</u>	<u>Description</u>	<u>Year</u>	<u>Adjustment</u>
6	380	Treatment & Disposal Equipment	1997	\$ (338,000)
7	380	Treatment & Disposal Equipment	1998	<u>(355,000)</u>
8				\$ (693,000)
9				
10	361	Collection Sewers Gravity	2005	(315,000)
11				
12		Total		<u>\$ (1,008,000)</u>
13				
14				
15				
16		Nogales WWTP		<u>\$ 1,008,000</u>
17				
18				
19				
20				
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43	<u>SUPPORTING SCHEDULE</u>			
44	RUCO Schedule TJC-7(a)			
45	Testimony			

**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**  
 Test Year Ended February 29, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment Number 1 - C

Exhibit  
 Rebuttal Schedule B-2  
 Page 3.3  
 Witness: Bourassa

Line

No.

1 Reclassification of plant costs related to Nogales plant

2

3

4

Acct.

Recorded

5

No. Description

Year

Adjustment

6

380 Treatment & Disposal Equipment

2008 and Prior \$ (34,237)

7

380 Treatment & Disposal Equipment

2009 \$ (17,798)

8

380 Treatment & Disposal Equipment

2010 \$ (609)

9

380 Treatment & Disposal Equipment

2011 \$ (99,784)

10

380 Treatment & Disposal Equipment

2012 (1,214)

11

Total

\$ (153,642)

12

13

14

15

Total

16

17

18

19

Nogales WWTP

\$ 153,642

20

21

22

23

24

25

26

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46 SUPPORTING SCHEDULE

47 Staff Schedule MJR-WW5

48 Testimony

**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**  
 Test Year Ended February 29, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment Number 1 - D

Exhibit  
 Rebuttal Schedule B-2  
 Page 3.4  
 Witness: Bourassa

Line  
No.

1 Plant Retirement

2

3

4

Acct.

Recorded

5

No. Description

Year

Adjustment

6

371 Pumping Equipment

2009

\$ (6,866)

7

8

9

Total

\$ (6,866)

10

11

12

13

14

15

16

17

18

19

20

21

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SUPPORTING SCHEDULE

44

Staff Schedule MJR-W7

45

Testimony

**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**  
 Test Year Ended February 29, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment Number 1 - E

Exhibit  
 Rebuttal Schedule B-2  
 Page 3.5  
 Witness: Bourassa

Line

No.

1 Remove 2012 Affiliate Profit

2

3

4

Acct.

Recorded

5

No. Description

Year

Adjustment

6

371 Pumping Equipment

2012

\$ (415)

7

8

9

Total

\$ (415)

10

11

12

13

14

15

16

17

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SUPPORTING SCHEDULE

44

Staff Schedule MJR-W9

45

Testimony

**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**  
 Test Year Ended February 29, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment Number 1 - F

Exhibit  
 Rebuttal Schedule B-2  
 Page 3.6  
 Witness: Bourassa

Line  
No.

1 Plant Retirements

2

3

4

Acct.

No. Description

Description

Retirement

Year

Adjustment

6

371 Pumping Equipment

1994 Net Plant Adds

2009

\$ (265,342)

7

371 Pumping Equipment

1995 Net Plant Adds

2009

-

8

371 Pumping Equipment

1996 Net Plant Adds

2009

(31,512)

9

371 Pumping Equipment

1997 Net Plant Adds

2009

(383,702)

10

371 Pumping Equipment

1998 Net Plant Adds

2009

(15,616)

11

371 Pumping Equipment

1999 Net Plant Adds

2009

-

12

371 Pumping Equipment

2000 Net Plant Adds

2009

(2,895)

13

Subtotal

\$ (699,067)

14

371 Pumping Equipment

2001 Net Plant Adds

2010

(29,911)

16

371 Pumping Equipment

2002 Net Plant Adds

2011

(864,926)

17

371 Pumping Equipment

2003 Net Plant Adds

2012

-

18

19

20

21

22

Total

\$ (1,593,905)

23

24

25

26

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Testimony

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**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**  
 Test Year Ended February 29, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment Number 1 - G

Exhibit  
 Rebuttal Schedule B-2  
 Page 3.7  
 Witness: Bourassa

Line No.	Acct.	Description	Direct Adjusted Original Cost	B-2 Adjustments	Rebuttal Adjusted Original Cost	Plant Per Reconstruction	Difference
1		Reconciliation of Plant to Plant Reconstruction					
2							
3							
4							
5							
6	351	Organization	5,785	-	5,785	5,785	-
7	352	Franchise	417	-	417	417	-
8	353	Land	7,545	-	7,545	7,545	-
9	354	Structures & Improvements	150,294	-	150,294	150,294	-
10	355	Power Generation	-	-	-	-	-
11	360	Collection Sewer Forced	636,023	-	636,023	636,023	-
12	361	Collection Sewers Gravity	5,991,654	(315,415)	5,676,239	5,676,239	-
13	362	Special Collecting Structures	-	-	-	-	-
14	363	Customer Services	1,204,113	-	1,204,113	1,204,113	-
15	364	Flow Measuring Devices	66,339	-	66,339	66,339	-
16	366	Reuse Services	-	-	-	-	-
17	367	Reuse Meters And Installation	-	-	-	-	-
18	370	Receiving Wells	867,120	-	867,120	867,120	-
19	371	Pumping Equipment	1,712,940	(1,600,770)	112,170	112,170	-
20	374	Reuse Distribution Reservoirs	-	-	-	-	-
21	375	Reuse Trans. and Dist. System	-	-	-	-	-
22	380	Treatment & Disposal Equipment	1,128,675	(846,642)	282,033	282,033	-
23	381	Plant Sewers	13,690	-	13,690	13,690	-
24	382	Outfall Sewer Lines	-	-	-	-	-
25	389	Other Sewer Plant & Equipment	64,928	-	64,928	64,928	-
26	390	Office Furniture & Equipment	116,937	-	116,937	116,937	-
27	390.1	Computers and Software	4,025	-	4,025	4,025	-
28	391	Transportation Equipment	117	-	117	117	-
29	392	Stores Equipment	-	-	-	-	-
30	393	Tools, Shop And Garage Equip	5,139	-	5,139	5,139	-
31	394	Laboratory Equip	-	-	-	-	-
32	396	Communication Equip	5,936	-	5,936	5,936	-
33	398	Other Tangible Plant	3,913	-	3,913	3,913	-
34	380	Nogales WWTP	2,255,600	1,177,004	3,432,604	3,432,604	-
35							
36							
37							
38							
39							
40		TOTALS	\$ 14,241,191	\$ (1,585,823)	\$ 12,655,368	\$ 12,655,368	\$ -

43 SUPPORTING SCHEDULE  
 44 B-2, pages 3.1 through 3.5  
 45 B-2, pages 3.8 through 3.11

Rio Rico Utilities dba Liberty Utilities - Wastewater Div  
 Plant Additions and Retirements

Line No.	NARUC Account No.	Description	Allowed		Per Decision 72059		2009		Adjusted		Accum. Deprec. 12/31/2008	Accum. Deprec.		
			Deprec. Rate	Plant at 12/31/2008	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements			Salvage A/D Only	Depreciation (Calculated)
1	351	Organization	0.00%	5,785	-	-	-	-	-	-	-	-		
2	352	Franchise	0.00%	417	-	-	-	-	-	-	-	-		
3	353	Land	0.00%	7,545	-	-	-	-	-	-	-	-		
4	354	Structures & Improvements	3.33%	28,548	-	-	294	-	-	-	-	-		
5	355	Power Generation	5.00%	-	-	-	-	-	-	-	-	-		
6	360	Collection Sewer Forced	2.00%	636,023	-	-	-	-	-	-	-	-		
7	361	Collection Sewers Gravity	2.00%	5,945,962	-	-	130,091	-	-	-	-	-		
8	362	Special Collecting Structures	2.00%	-	-	-	-	-	-	-	-	-		
9	363	Customer Services	2.00%	1,145,530	-	-	7,984	-	-	-	-	-		
10	364	Flow Measuring Devices	10.00%	55,988	-	-	8,984	-	-	-	-	-		
11	366	Reuse Services	2.00%	-	-	-	-	-	-	-	-	-		
12	367	Reuse Meters And Installation	8.33%	-	-	-	-	-	-	-	-	-		
13	370	Receiving Wells	3.33%	887,120	-	-	-	-	-	-	-	-		
14	371	Pumping Equipment	12.50%	1,504,181	-	-	112	-	-	-	-	-		
15	374	Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-	-	-	-		
16	375	Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	-	-	-	-		
17	380	Treatment & Disposal Equipment	5.00%	1,006,848	-	-	14,462	-	-	-	-	-		
18	381	Plant Sewers	5.00%	-	-	-	-	-	-	-	-	-		
19	382	Outfall Sewer Lines	3.33%	-	-	-	-	-	-	-	-	-		
20	389	Other Sewer Plant & Equipment	6.67%	68,869	-	-	-	-	-	-	-	-		
21	390	Office Furniture & Equipment	6.67%	110,454	-	-	-	-	-	-	-	-		
22	390	Computers and Software	20.00%	4,025	-	-	-	-	-	-	-	-		
23	391	Transportation Equipment	20.00%	-	-	-	-	-	-	-	-	-		
24	392	Stores Equipment	4.00%	-	-	-	-	-	-	-	-	-		
25	393	Tools, Shop And Garage Equip	5.00%	4,897	-	-	-	-	-	-	-	-		
26	394	Laboratory Equip	10.00%	-	-	-	-	-	-	-	-	-		
27	396	Communication Equip	10.00%	5,936	-	-	-	-	-	-	-	-		
28	398	Other Tangible Plant	10.00%	3,913	-	-	-	-	-	-	-	-		
29		Nogales WWTP	4.72%	427,000	-	-	-	-	-	-	-	-		
30														
31														
32														
33														
34		Plant Held for Future Use												
35														
36		TOTALS		11,829,042	5,110,028	161,917	-	161,917	245	699,067	699,312	418,631	11,291,647	4,829,348

Lin e No.	NARUC Account No.	Description	Allowed Deprec. Rate	Net Plant	2010		Adjusted Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
					Plant Additions (Per Books)	Plant Adjustments							
1	351	Organization	0.00%	5,785	-	-	-	-	-	-	-	5,785	-
2	352	Franchise	0.00%	417	-	-	-	-	-	-	-	417	-
3	353	Land	0.00%	7,545	-	-	-	-	-	-	-	7,545	-
4	354	Structures & Improvements	3.33%	683	-	-	-	-	-	-	683	28,842	28,842
5	355	Power Generation	5.00%	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewer Forced	2.00%	661,674	-	-	-	-	-	-	12,720	636,023	(12,930)
7	361	Collection Sewers Gravity	2.00%	3,742,280	-	108	-	-	-	-	121,522	6,076,161	2,455,296
8	362	Special Collecting Structures	2.00%	-	-	-	-	-	-	-	-	-	-
9	363	Customer Services	2.00%	534,680	-	36,522	-	-	-	-	23,431	1,189,801	642,030
10	364	Flow Measuring Devices	10.00%	27,863	-	-	-	-	-	-	6,495	64,952	43,585
11	366	Reuse Services	2.00%	-	-	-	-	-	-	-	-	-	-
12	367	Reuse Meters And Installation	8.33%	-	-	-	-	-	-	-	-	-	-
13	370	Receiving Wells	3.35%	599,535	-	-	-	-	-	-	28,875	867,120	296,460
14	371	Pumping Equipment	12.50%	127,274	-	-	84,064	29,911	29,911	-	104,038	859,378	752,079
15	374	Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-	-	-	-	-
16	375	Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	-	-	-	-	-
17	380	Treatment & Disposal Equipment	5.00%	304,824	-	609	-	-	-	-	51,081	1,021,920	767,567
18	381	Plant Sewers	5.00%	-	-	-	-	-	-	-	-	-	-
19	382	Outfall Sewer Lines	3.33%	-	-	-	-	-	-	-	-	-	-
20	389	Other Sewer Plant & Equipment	6.67%	-	-	-	-	-	-	-	-	68,869	68,869
21	390	Office Furniture & Equipment	6.67%	95,066	-	-	-	-	-	-	7,367	110,454	22,755
22	390	Computers and Software	20.00%	-	-	-	-	-	-	-	-	4,025	4,025
23	391	Transportation Equipment	20.00%	-	-	-	-	-	-	-	-	-	-
24	392	Stores Equipment	4.00%	-	-	-	-	-	-	-	-	-	-
25	393	Tools, Shop And Garage Equip	5.00%	496	-	-	-	-	-	-	245	4,897	4,646
26	394	Laboratory Equip	10.00%	-	-	-	-	-	-	-	-	-	-
27	396	Communication Equip	10.00%	-	-	-	-	-	-	-	-	5,936	5,936
28	398	Other Tangible Plant	10.00%	707	-	-	-	-	-	-	391	3,913	3,567
29		Nogales WWTP	4.72%	353,471	-	-	-	-	-	-	20,154	427,000	93,664
30				-	-	-	-	-	-	-	-	-	-
31				-	-	-	-	-	-	-	-	-	-
32				-	-	-	-	-	-	-	-	-	-
33				-	-	-	-	-	-	-	-	-	-
34		Plant Held for Future Use		-	-	-	-	-	-	-	-	-	-
35				-	-	-	-	-	-	-	-	-	-
36		TOTALS		6,462,299	121,303	121,303	-	29,911	29,911	-	377,003	11,383,039	5,176,440

Rio Rico Utilities dba Liberty Utilities - Wastewater Div  
 Plant Additions and Retirements

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2011				Accum. Deprec.
				Plant Additions (Par Books)	Plant Retirements (Par Books)	Retirement Adjustments	Adjusted Plant Retirements	
1	351	Organization	0.00%	-	-	-	-	-
2	352	Franchise	0.00%	-	-	-	-	-
3	353	Land	0.00%	-	-	-	-	-
4	354	Structures & Improvements	3.33%	-	-	-	-	-
5	355	Power Generation	5.00%	-	-	-	-	-
6	360	Collection Sewer Forced	2.00%	-	-	-	-	-
7	361	Special Collecting Structures	2.00%	652	-	-	12,720	(210)
8	362	Special Collecting Structures	2.00%	-	-	-	121,530	2,576,825
9	363	Customer Services	2.00%	7,319	-	-	23,869	665,899
10	364	Flow Measuring Devices	10.00%	-	-	-	6,495	50,060
11	366	Reuse Services	2.00%	-	-	-	-	-
12	367	Reuse Meters And Installation	8.33%	-	-	-	-	-
13	370	Receiving Wells	3.33%	-	-	-	-	-
14	371	Pumping Equipment	12.50%	-	-	-	-	-
15	374	Reuse Distribution Reservoirs	2.50%	94,151	-	864,926	28,875	325,335
16	375	Reuse Trans. and Dist. System	2.50%	-	-	-	59,249	(53,598)
17	380	Treatment & Disposal Equipment	5.00%	-	-	-	-	-
18	381	Plant Sewers	5.00%	99,979	3,400	-	53,510	817,678
19	382	Outfall Sewer Lines	3.33%	-	-	-	-	-
20	389	Other Sewer Plant & Equipment	6.67%	-	-	-	-	-
21	390	Office Furniture & Equipment	6.67%	-	-	-	-	-
22	390	Computers and Software	20.00%	-	-	-	7,367	30,122
23	391	Transportation Equipment	20.00%	67	-	-	-	4,025
24	392	Stores Equipment	4.00%	-	-	-	-	7
25	393	Tools, Shop And Garage Equip	5.00%	139	-	-	248	4,894
26	394	Laboratory Equip	10.00%	-	-	-	-	-
27	396	Communication Equip	10.00%	-	-	-	-	-
28	398	Other Tangible Plant	10.00%	-	-	-	-	-
29		Nogales WWTP	4.72%	-	-	-	20,154	113,838
30				-	-	-	-	-
31				-	-	-	-	-
32				-	-	-	-	-
33				-	-	-	-	-
34		Plant Held for Future Use		-	-	-	-	-
35				-	-	-	-	-
36		TOTALS		202,307	3,400	864,926	354,026	4,642,140





**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**  
 Test Year Ended February 29, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment Number 2 - A

Exhibit  
 Rebuttal Schedule B-2  
 Page 4.1  
 Witness: Bourassa

Line  
No.

Reclassification of plant from Water Division

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Acct. No.	Description	Depr Rate	Recorded Year	Years thru EOTY (Half-Year Conv.)	Plant Reclass Adjustment	Accumulated Depreciation Adjustment
	Nogales WWTP	3.33%	2009	2.67	\$ 5,658	\$ 502
	Nogales WWTP	6.67%	2010	1.67	7,210	802
	Nogales WWTP	6.67%	2011	0.67	2,494	111
	Total				<u>\$ 15,362</u>	<u>\$ 1,415</u>

SUPPORTING SCHEDULE  
 B-2 Schedule 3.1  
 Testimony

**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**  
 Test Year Ended February 29, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment Number 2 - B

Exhibit  
 Rebuttal Schedule B-2  
 Page 4.2  
 Witness: Bourassa

Line

No.

1 Reclassification of Treatment and Disposal Equip. A/D to Nogales WWTP A/D

2

3

4 Depreciation recorded through Oct 2004

5

Acct.	Depr	Recorded	Years	Plant	Accumulated
<u>No.</u> <u>Description</u>	<u>Rate</u>	<u>Year</u>	<u>thru Oct 2004</u>	<u>Reclass</u>	<u>Depreciation</u>
			<u>(Half-Year Conv.)</u>	<u>Adjustment</u>	<u>Adjustment</u>
8 380 Treatment and Disposal Equipment	5.26%	1997	7.25	\$ (338,000)	\$ (128,896)
9 380 Treatment and Disposal Equipment	5.26%	1998	6.25	(355,000)	(116,706)
11 Subtotal					\$ (245,603)

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18 Depreciation recorded Oct 2004 through Feb. 2012

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Acct.	Depr	Recorded	Years	Plant	Accumulated
<u>No.</u> <u>Description</u>	<u>Rate</u>	<u>Year</u>	<u>thru 2008</u>	<u>Reclass</u>	<u>Depreciation</u>
			<u>(Half-Year Conv.)</u>	<u>Adjustment</u>	<u>Adjustment</u>
22 380 Treatment and Disposal Equipment	5.00%	1997	7.42	\$ (338,000)	\$ (125,342)
23 380 Treatment and Disposal Equipment	5.00%	1998	7.42	(355,000)	(131,646)
24 361 Collection Sewers Gravity	2.00%	2005	6.67	(315,000)	(42,000)
25 Subtotal					\$ (298,988)
27 Total					\$ (544,590)

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35 Reclassification Totals by Account

36	380 Treatment and Disposal Equipment		\$ (502,590)
37	361 Collection Sewers Gravity		(42,000)
38	Nogales WWTP		544,590
39	Total		\$ -

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43 SUPPORTING SCHEDULE

44 B-2 Schedule 3.2

45 Testimony

**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**  
 Test Year Ended February 29, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment Number 2 - C

Exhibit  
 Rebuttal Schedule B-2  
 Page 4.3  
 Witness: Bourassa

Line

No.

1 Reclassification of Treatment and Disposal Equip. A/D to Nogales WWTP A/D

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4 Acct.

Depr

Recorded

Years

Plant  
Reclass

Accumulated  
Depreciation

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No. Description

Rate

Year

(Half-Year Conv.)

Adjustment

Adjustment

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380 Treatment and Disposal Equipment

5.00% 2008 and Prior

3.67

\$ (34,237) \$ (6,277)

7

380 Treatment and Disposal Equipment

5.00% 2009

2.67

\$ (17,798) (2,373)

8

380 Treatment and Disposal Equipment

5.00% 2010

1.67

\$ (609) (51)

9

380 Treatment and Disposal Equipment

5.00% 2011

0.67

\$ (99,784) (3,326)

10

380 Treatment and Disposal Equipment

5.00% 2012

0.08

\$ (1,214) (5)

11

Total

(12,032)

12

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Reclassification Totals by Account

17

380 Treatment and Disposal Equipment

\$ (12,032)

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Nogales WWTP

12,032

19

Total

\$ -

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SUPPORTING SCHEDULE

44

B-2 Schedule 3.3

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Testimony

**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**  
 Test Year Ended February 29, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment Number 2 -D

Exhibit  
 Rebuttal Schedule B-2  
 Page 4.4  
 Witness: Bourassa

Line  
No.

1	<u>Plant Retirement</u>		
2			
3			
4	Acct.		Plant Retirement
5	<u>No.</u>	<u>Description</u>	<u>Adjustment</u>
6	371	Pumping Equipment	\$ (6,866)
7			
8			Accumulated
9	Total		<u>\$ (6,866)</u>

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43 SUPPORTING SCHEDULE  
 44 B-2 Schedule 3.4  
 45 Testimony

**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**  
 Test Year Ended February 29, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment Number 2 - E

Exhibit  
 Rebuttal Schedule B-2  
 Page 4.5  
 Witness: Bourassa

Line  
No.

1 Remove 2012 Affiliate Profit

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Acct.

Depr

Recorded

Years  
thru EOTY  
(Half-Year Conv.)

Plant

Accumulated  
Depreciation

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No. Description

Rate

Year

Adjustment

Adjustment

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371 Pumping Equipment

12.50%

2012

0.083333

\$ (415)

\$ (4)

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8

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Total

\$ (4)

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SUPPORTING SCHEDULE

44

B-2 Schedule 3.5

45

Testimony

**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**  
 Test Year Ended February 29, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment Number 2 - F

Exhibit  
 Rebuttal Schedule B-2  
 Page 4.6  
 Witness: Bourassa

Line  
No.

1	<u>A/D Related to 2009-2011 Affiliate Profit Removed from Plant in Direct Filing</u>						
2							
3							
4	Acct.		Depr	Recorded	Years	Direct Filing	Accumulated
5	<u>No.</u>	<u>Description</u>	<u>Rate</u>	<u>Year</u>	<u>thru EOTY</u>	<u>Plant</u>	<u>Depreciation</u>
6	363	Customer Services	2.00%	2008	3.166667	\$ (16)	\$ (1)
7	389	Other Sewer Plant & Equipment	6.67%	2008	3.166667	(4,221)	(892)
8							
9		Total					<u>\$ (893)</u>

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43 SUPPORTING SCHEDULE  
 44 B-2 Schedule 3.5  
 45 Testimony

**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**  
 Test Year Ended February 29, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment Number 2 - G

Exhibit  
 Rebuttal Schedule B-2  
 Page 4.7  
 Witness: Bourassa

Line

No.

1 Plant Retirements

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4 Acct.

5 No. Description

6 371 Electric Pumping Equipment

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11 Total

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43 SUPPORTING SCHEDULE

44 B-2 Schedule 3.6

45 Testimony

	Plant Retirement <u>Adjustment</u>	Accumulated Depreciation <u>Adjustment</u>
6	\$ (1,593,905)	\$ (1,593,905)
11		<u>\$ (1,593,905)</u>

Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division  
 Test Year Ended February 29, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment Number 2 - H

Exhibit  
 Rebuttal Schedule B-2  
 Page 4.8  
 Witness: Bourassa

Line

No.

<u>Accumulated Depreciation (A/D)</u>						
		Direct		Rebuttal		
	Acct.	Adjusted		Adjusted	A/D	Accumulated
	<u>No.</u>	Original	B-2	Original	Per	Depreciation
	<u>Description</u>	<u>Cost</u>	<u>Adjustments</u>	<u>Cost</u>	<u>Reconstruction</u>	<u>Adjustment</u>
6	351	-	-	-	-	-
7	352	-	-	-	-	-
8	353	-	-	-	-	-
9	354	29,339	-	29,339	29,339	-
10	355	-	-	-	-	-
11	360	1,910	-	1,910	1,910	-
12	361	2,596,939	(42,000)	2,554,939	2,554,939	(0)
13	362	-	-	-	-	-
14	363	669,901	(1)	669,900	669,900	0
15	364	51,174	-	51,174	51,174	-
16	366	-	-	-	-	-
17	367	-	-	-	-	-
18	370	330,148	-	330,148	330,148	-
19	371	1,687,580	(1,600,775)	86,805	(58,373)	(145,178)
20	374	-	-	-	-	-
21	375	-	-	-	-	-
22	380	827,041	(514,622)	312,419	282,033	(30,386)
23	381	57	-	57	57	-
24	382	-	-	-	-	-
25	389	68,869	(892)	67,977	64,928	(3,049)
26	390	31,386	-	31,386	31,386	-
27	390.1	4,025	-	4,025	4,025	-
28	391	10	-	10	10	-
29	392	-	-	-	-	-
30	393	4,937	-	4,937	4,937	-
31	394	-	-	-	-	-
32	396	5,936	-	5,936	5,936	-
33	398	3,662	-	3,662	3,662	-
34	Nogales WWTP	124,390	558,037	682,427	682,427	0
35						
36						
37						
38						
39						
40	TOTALS	\$ 6,437,304	\$ (1,600,253)	\$ 4,837,052	\$ 4,658,438	\$ (178,614)

SUPPORTING SCHEDULE

44 B-2, pages 4.1 through 4.5

45 B-2, pages 3.8 through 3.11

**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**  
 Test Year Ended February 29, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment 3

Exhibit  
 Rebuttal Schedule B-2  
 Page 5  
 Witness: Bourassa

Contributions-in-Aid of Construction (CIAC) and Accumulated Amortization

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	<u>Gross CIAC</u>	<u>Accumulated Amortization</u>
Computed balance at 02/29/2012 per Rebuttal	\$ 5,152,673	\$ 2,491,137
Adjusted balance at 02/29/2012	<u>\$ 5,152,673</u>	<u>\$ 2,509,975</u>
Increase (decrease)	\$ -	\$ (18,837)
Adjustment to CIAC/AA CIAC	<u>\$ -</u>	<u>\$ 18,837</u>
Label	3a	3b

SUPPORTING SCHEDULES  
 B-2, page 5.1



Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division  
 Test Year Ended February 29, 2012  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment 5

Line No.	Deferred Income Tax as of February 29, 2012.			Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Effective Tax Rate	Future Tax Asset		Future Tax Liability				
	Water & Sewer Adjusted Book Value	Water & Sewer Tax Value	Water & Sewer Tax Value				Current	Non Current	Current	Non Current			
6	Plant-in-Service	\$ 47,110,663 <sup>1</sup>											
7	Accum. Deprec.	(18,414,563) <sup>1</sup>											
8	CIAC	(14,891,228) <sup>3</sup>											
9	Fed. Fixed Assets	\$ 13,804,872	\$ 10,765,875 <sup>2</sup>	100.0%	\$ (3,038,998)	31.60%							(960,323)
10	State Fixed Assets	\$ 13,804,872	\$ 13,593,838 <sup>2</sup>	100.0%	\$ (211,034)	6.97%							(14,705)
11	Fed & State AIAC		593,411 <sup>4</sup>	100.0%	\$ 593,411 <sup>4</sup>	38.57%		\$ 228,867	\$ 228,867	\$ -	\$ -	\$ -	\$ (975,028)
12													
13	Net Asset (Liability)							\$ (746,161)					
14	Allocation Factor - WW-Division (based on rate base before ADIT)							0.3799					
15	Net Asset (Liability) WW Division							(283,444)					
16	DIT Asset (Liability) per Direct							(244,419)					
17	Adjustment to DIT							39,025					
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Footnotes - See page 2

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49

	FEDERAL	STATE
<sup>1</sup> Per Rebuttal Adjusted Balances		
<sup>2</sup> Computation of Net Tax Value February 29, 2012		
Based on 2011 Tax Depreciation report (December 31, 2011)		
Unadjusted Cost at December 31, 2011 per federal and state tax depr. report	\$ 28,328,799	\$ 28,328,799
Reconciling Items not on tax report:		
KPMG CIAC related adjustments per KPMG tax basis adjustment	(3,942,541)	(3,942,541)
Plant Adds 1/1/2012 to 2/28/2012	2,918,334	2,918,334
Land costs not on tax, on books	51,739	51,739
2011 Reconciling Difference Book vs. Tax (timing) (see work papers)	(120,225)	(120,225)
Rebuttal Proposed Retirements - Water Division	(1,552,416)	(1,552,416)
Rebuttal Proposed Retirements - WW Division	(1,600,771)	(1,600,771)
Net Unadjusted Cost tax Basis at February 29, 2012	\$ 24,082,920	\$ 24,082,920
<u>Reductions</u>		
Basis Reduction 2011 and Prior Years per federal and state tax depr. report	\$ (3,066,507)	\$ -
KPMG CIAC related adjustments per KPMG tax basis adjustment	1,192,828	1,192,828
Accumulated Depreciation 2011 and prior per federal and state tax depr. report	(14,334,167)	(14,640,446)
2012 Tax Depreciation on 2011 and prior plant (2 months of 2012) per federal and state tax depr. report	(163,663)	(184,923)
2012 Bonus Depreciation estimate (2 months of 2012) per federal and state tax depr. report	(90,811)	(9,728)
2012 Tax Depreciation on plant adds 1/1/2012 to 2/28/2012 (2 months of 2012) per federal and state tax depr. report	(7,912)	-
Rebuttal Proposed Retirements - Water Division	1,552,416	1,552,416
Rebuttal Proposed Retirements - WW Division	1,600,771	1,600,771
Net Reductions through February 2012	(13,317,045)	-
Net tax value of plant-in-service at February 29, 2012	\$ 10,765,875	\$ (10,489,082)
<sup>3</sup> CIAC (including impact of change to probability of realization)		
Gross CIAC per Rebuttal Adjusted Balances	\$ 25,331,792	
CIAC reductions/additions		
A.A. per Rebuttal Adjusted Balances	(11,108,889)	
Net CIAC before unrealized AIAC	\$ 14,222,903	
Unrealized AIAC Component		
Adjusted Net AIAC (see footnote 5 below)	\$ 954,749	
Unrealized AIAC Component % (1-Realized AIAC Component)	70.0%	
Total realizable CIAC	\$ 668,325	\$ 14,891,228
<sup>4</sup> AIAC (including impact of change in probability of realization)		
AIAC per adjusted book balances		
AIAC reductions/additions		
Net AIAC before unrealized portion	\$ 954,749	\$ 954,749
Less: Unrealized AIAC (from Note 3, above)	(668,325)	(668,325)
Netrealizable AIAC	\$ 286,425	\$ 286,425
Meter and Service Line Installation Charges per Rebuttal Adjusted Balances	306,987	306,987
Total AIAC	\$ 593,411	\$ 593,411

Line			
<u>No.</u>			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	71,101
3	Pumping Power (1/24 of Pumping Power)		2,671
4	Purchased Water (1/24 of Purchased Water)		-
5	Prepaid Expenses		
6			
7			
8			
9	Total Working Capital Allowance	<u>\$</u>	<u>73,773</u>
10			
11			
12	<b>Working Capital Requested</b>	<u>\$</u>	<u>-</u>
13			
14			
15			
16			
17		<u>Adjusted Test Year</u>	
18	Total Operating Expense	\$	1,067,953
19	Less:		
20	Income Tax	\$	156,025
21	Property Tax		75,043
22	Depreciation		203,964
23	Purchased Water		-
24	Pumping Power		64,109
25	Allowable Expenses	<u>\$</u>	<u>568,811</u>
26	1/8 of allowable expenses	<u>\$</u>	<u>71,101</u>
27			
28			
29	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>	
30	C-1	B-1	
31			
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**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**  
 Test Year Ended February 29, 2012  
 Income Statement

Exhibit  
 Rebuttal Schedule C-1  
 Page 1  
 Witness: Bourassa

Line No.		Test Year Adjusted Results	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	<b>Revenues</b>					
2	Metered Water Revenues	\$ 1,360,583	\$ 9,546	\$ 1,370,130	\$ 235,540	\$ 1,605,670
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	-	-	-		-
5		<u>\$ 1,360,583</u>	<u>\$ 9,546</u>	<u>\$ 1,370,130</u>	<u>\$ 235,540</u>	<u>\$ 1,605,670</u>
6	<b>Operating Expenses</b>					
7	Salaries and Wages	\$ 131,547	11,811	\$ 143,358		\$ 143,358
8	Purchased Wastewater Treatment	-	165,896	165,896		165,896
9	Sludge Removal Expense	-	-	-		-
10	Purchased Power	61,290	2,819	64,109		64,109
11	Fuel for Power Production	-	-	-		-
12	Chemicals	4,907	-	4,907		4,907
13	Materials and Supplies	4,473	-	4,473		4,473
14	Management Services - US Liberty Water	83,038	-	83,038		83,038
15	Management Services - Corporate	59,292	(836)	58,456		58,456
16	Management Services - Other	172,270	(165,896)	6,374		6,374
17	Contracted Services - Engineering	-	-	-		-
18	Contractual Services- Testing	330	-	330		330
19	Contractual Services - Other	638	-	638		638
20	Contractual Services - Legal	585	-	585		585
21	Equipment Rental	400	-	400		400
22	Rents - Building	-	-	-		-
23	Transportation Expenses	18,066	-	18,066		18,066
24	Insurance - General Liability	11,302	-	11,302		11,302
25	Insurance - Vehicle	2,516	-	2,516		2,516
26	Regulatory Commission Expense	-	-	-		-
27	Reg. Comm. Exp. - Rate Case	29,167	-	29,167		29,167
28	Miscellaneous Expense	16,111	-	16,111		16,111
29	Bad Debt Expense	23,194	-	23,194		23,194
30	Depreciation Expense	359,629	(155,665)	203,964		203,964
31	Taxes Other Than Income	-	-	-		-
32	Property Taxes	74,520	523	75,043	4,300	79,344
33	Income Tax	93,487	62,538	156,025	89,257	245,281
34		-	-	-		-
35	<b>Total Operating Expenses</b>	<u>\$ 1,146,763</u>	<u>\$ (78,810)</u>	<u>\$ 1,067,953</u>	<u>\$ 93,557</u>	<u>\$ 1,161,510</u>
36	<b>Operating Income</b>	<u>\$ 213,820</u>	<u>\$ 88,357</u>	<u>\$ 302,177</u>	<u>\$ 141,984</u>	<u>\$ 444,161</u>
37	<b>Other Income (Expense)</b>					
38	Interest Income	-	-	-		-
39	Other income	-	-	-		-
40	Interest Expense	(52,427)	(1,554)	(53,981)		(53,981)
41	Other Expense	-	-	-		-
42		-	-	-		-
43	<b>Total Other Income (Expense)</b>	<u>\$ (52,427)</u>	<u>\$ (1,554)</u>	<u>\$ (53,981)</u>	<u>\$ -</u>	<u>\$ (53,981)</u>
44	<b>Net Profit (Loss)</b>	<u>\$ 161,393</u>	<u>\$ 86,802</u>	<u>\$ 248,196</u>	<u>\$ 141,984</u>	<u>\$ 390,179</u>

SUPPORTING SCHEDULES:

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RECAP SCHEDULES:

A-1

45  
46  
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Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division  
 Test Year Ended February 29, 2012  
 Income Statement

Exhibit  
 Rebuttal Schedule C-1  
 Page 2.1  
 Witness: Bourassa

Line No.	1	2	3	4	5	6	7	8
	Test Year Adjusted Results	Property Taxes	Deduction Usage Adjustment	Revenue Annualization	Revenue Accrual Fix	TEP Rate Increase	Staffs APUC Cap. Tax Adj.	Intentionally Left Blank
1	Revenues							
2	Metered Water Revenues		\$ (32,713)	17,150	\$ 25,110			
3	Unmetered Water Revenues							
4	Other Water Revenues							
5		\$ -	\$ (32,713)	\$ 17,150	\$ 25,110	\$ -	\$ -	\$ -
6	Operating Expenses							
7	Salaries and Wages	\$ 131,547						
8	Purchased Wastewater Treatment					2,819		
9	Sludge Removal Expense							
10	Purchased Power	61,290						
11	Fuel for Power Production							
12	Chemicals	4,907						
13	Materials and Supplies	4,473						
14	Management Services - US Liberty Water	83,038						
15	Management Services - Corporate	59,292						
16	Management Services - Other	172,270					(836)	
17	Contracted Services - Engineering							
18	Contracted Services - Testing	330						
19	Contracted Services - Other	638						
20	Contracted Services - Legal	585						
21	Equipment Rental	400						
22	Rents - Building							
23	Transportation Expenses	18,066						
24	Insurance - General Liability	11,302						
25	Insurance - Vehicle	2,516						
26	Regulatory Commission Expense							
27	Reg. Comm. Exp. - Rate Case	29,167						
28	Miscellaneous Expense	16,111						
29	Bad Debt Expense	23,194						
30	Depreciation Expense	359,629						
31	Taxes Other Than Income							
32	Property Taxes							
33	Income Tax	74,520						
34		93,487						
35	Total Operating Expenses	\$ 1,146,763	\$ (523)	\$ -	\$ -	\$ 2,819	\$ (836)	\$ -
36	Operating Income	\$ 213,820	\$ (523)	\$ (32,713)	\$ 17,150	\$ (2,819)	\$ 836	\$ -
37	Other Income (Expense)							
38	Interest Income							
39	Other Income							
40	Interest Expense	(52,427)						
41	Other Expense							
42								
43	Total Other Income (Expense)	\$ (52,427)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
44	Net Profit (Loss)	\$ 161,393	\$ (523)	\$ (32,713)	\$ 17,150	\$ (2,819)	\$ 836	\$ -

SUPPORTING SCHEDULES:  
 C-2, pages 1-16

Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater  
 Test Year Ended February 29, 2012  
 Income Statement

Exhibit  
 Rebuttal Schedule C-1  
 Page 2.2  
 Witness: Bourassa

Line No.	2	10	11	12	13	14	15	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	Revenues							\$ 1,370,130	\$ 235,540	\$ 1,605,670
2	Metered Water Revenues									
3	Unmetered Water Revenues									
4	Other Water Revenues									
5								\$ 1,370,130	\$ 235,540	\$ 1,605,670
6	Operating Expenses									
7	Salaries and Wages	11,811						143,358		143,358
8	Purchased Wastewater Treatment							165,896		165,896
9	Sludge Removal Expense									
10	Purchased Power							64,109		64,109
11	Fuel for Power Production									
12	Chemicals							4,907		4,907
13	Materials and Supplies							4,473		4,473
14	Management Services - US Liberty Water							83,038		83,038
15	Management Services - Corporate							58,456		58,456
16	Management Services - Other							6,374		6,374
17	Contracted Services - Engineering							330		330
18	Contracted Services - Testing							638		638
19	Contracted Services - Other							585		585
20	Contracted Services - Legal							400		400
21	Equipment Rental									
22	Rents - Building							18,066		18,066
23	Transportation Expenses							11,302		11,302
24	Insurance - General Liability							2,516		2,516
25	Insurance - Vehicle									
26	Regulatory Commission Expense							29,167		29,167
27	Reg. Comm. Exp. - Rate Case							16,111		16,111
28	Miscellaneous Expense							23,194		23,194
29	Bad Debt Expense							203,964		203,964
30	Depreciation Expense									
31	Taxes Other Than Income							75,043	4,300	79,344
32	Property Taxes							156,025	89,257	245,281
33	Income Tax									
34										
35	Total Operating Expenses							\$ 1,067,953	\$ 93,557	\$ 1,161,510
36	Operating Income							\$ 302,177	\$ 141,984	\$ 444,161
37	Other Income (Expense)									
38	Interest Income									
39	Other Income									
40	Interest Expense									
41	Other Expense									
42										
43	Total Other Income (Expense)							(53,981)		(53,981)
44	Net Profit (Loss)							\$ 248,196	\$ 141,984	\$ 390,179

RECAP SCHEDULES:  
 C-1, page 1

SUPPORTING SCHEDULES:  
 C-2, pages 1-16

SUPPORTING SCHEDULES:  
 C-2, pages 1-16

Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division  
 Test Year Ended February 29, 2012  
 Adjustments to Revenues and Expenses

Exhibit  
 Rebuttal Schedule C-2  
 Page 1  
 Witness: Bourassa

Line No.	<u>Adjustments to Revenues and Expenses</u>						<u>Subtotal</u>	
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>		
1								
2								
3	<u>Depreciation</u>	<u>Property Taxes</u>	<u>Declining Usage Adjustment</u>	<u>Revenue Annualization</u>	<u>Revenue Accrual Fix</u>	<u>TEP Rate Increase</u>		
4	Revenues		(32,713)	17,150	25,110		9,546	
5								
6	Expenses	(155,665)	523			2,819	(152,323)	
7								
8	Operating							
9	Income	155,665	(523)	(32,713)	17,150	25,110	(2,819)	161,869
10								
11	Interest							
12	Expense							
13	Other							
14	Income /							
15	Expense							
16								
17	Net Income	155,665	(523)	(32,713)	17,150	25,110	(2,819)	161,869
18								
19								
20								
21								
22								
23								
24								
25	Revenues							
26								
27	Expenses	(836)	-	-	11,811	-	-	(141,348)
28								
29	Operating							
30	Income	836	-	-	(11,811)	-	-	150,894
31								
32	Interest							
33	Expense							
34	Other							
35	Income /							
36	Expense							
37								
38	Net Income	836	-	-	(11,811)	-	-	150,894
39								
40								
41								
42								
43								
44								
45								
46	Revenues							
47								
48	Expenses			62,538				(78,810)
49								
50	Operating							
51	Income	-	-	(62,538)	-	-	-	88,357
52								
53	Interest							
54	Expense		(1,554)					(1,554)
55	Other							
56	Income /							
57	Expense							
58								
59	Net Income	-	(1,554)	(62,538)	-	-	-	86,802

**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**  
 Test Year Ended February 29, 2012  
 Adjustments to Revenues and Expenses  
 Adjustment Number 1

Exhibit  
 Rebuttal Schedule C-2  
 Page 2  
 Witness: Bourassa

Depreciation Expense

Line No.	Acct.	Description	Adjusted Original Cost	Non-Depr or Fullu Depreciated	Depreciable Adjusted Original Cost	Proposed Rates	Depreciation Expense
1							
2							
3							
4	No.	Description	Cost	Depreciated	Cost	Rates	Expense
5	351	Organization	5,785	(5,785)	-	0.00%	-
6	352	Franchise	417	(417)	-	0.00%	-
7	353	Land	7,545	(7,545)	-	0.00%	-
8	354	Structures & Improvements	150,294		150,294	3.33%	5,005
9	355	Power Generation	-		-	5.00%	-
10	360	Collection Sewer Forced	636,023		636,023	2.00%	12,720
11	361	Collection Sewers Gravity	5,676,239		5,676,239	2.00%	113,525
12	362	Special Collecting Structures	-		-	2.00%	-
13	363	Customer Services	1,204,113		1,204,113	2.00%	24,082
14	364	Flow Measuring Devices	66,339		66,339	10.00%	6,634
15	366	Reuse Services	-		-	2.00%	-
16	367	Reuse Meters And Installation	-		-	8.33%	-
17	370	Receiving Wells	867,120		867,120	3.33%	28,875
18	371	Pumping Equipment	112,170		112,170	12.50%	14,021
19	374	Reuse Distribution Reservoirs	-		-	2.50%	-
20	375	Reuse Trans. and Dist. System	-		-	2.50%	-
21	380	Treatment & Disposal Equipment	282,033	(282,033)	-	5.00%	-
22	381	Plant Sewers	13,690		13,690	5.00%	685
23	382	Outfall Sewer Lines	-		-	3.33%	-
24	389	Other Sewer Plant & Equipment	64,928	(64,928)	-	6.67%	-
25	390	Office Furniture & Equipment	116,937		116,937	6.67%	7,800
26	390.1	Computers and Software	4,025	(4,025)	-	20.00%	-
27	391	Transportation Equipment	117		117	20.00%	23
28	392	Stores Equipment	-		-	4.00%	-
29	393	Tools, Shop And Garage Equip	5,139		5,139	5.00%	257
30	394	Laboratory Equip	-		-	10.00%	-
31	396	Communication Equip	5,936	(5,936)	-	10.00%	-
32	398	Other Tangible Plant	3,913		3,913	10.00%	391
33		Nogales WWTP	3,432,604		3,432,604	4.00%	137,304
34			-		-		-
35			-		-		-
36			-		-		-
37			-		-		-
38		<b>TOTALS</b>	<b>\$ 12,655,367</b>	<b>\$ (370,669)</b>	<b>\$ 12,284,699</b>		<b>\$ 351,323</b>
39							
40					<u>Gross CIAC</u>	<u>Amort. Rate</u>	
41		Less: Amortization of Contributions			\$ 5,152,673	2.8598%	\$ (147,358)
42		Total Depreciation Expense					\$ 203,964
43							
44		Adjusted Test Year Depreciation Expense					359,629
45							
46		Increase (decrease) in Depreciation Expense					(155,665)
47							
48		Adjustment to Revenues and/or Expenses					\$ (155,665)
49							
50		<u>SUPPORTING SCHEDULE</u>					
51		B-2, page 3 and 4					

Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division  
 Test Year Ended February 29, 2012  
 Adjustment to Revenues and Expenses  
 Adjustment Number 2

Exhibit  
 Rebuttal Schedule C-2  
 Page 3  
 Witness: Bourassa

Property Taxes

Line No.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	\$ 1,370,130	\$ 1,370,130
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	<u>2,740,259</u>	<u>2,740,259</u>
4	Company Recommended Revenue	1,370,130	1,605,670
5	Subtotal (Line 4 + Line 5)	4,110,389	4,345,930
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	1,370,130	1,448,643
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	2,740,259	2,897,286
10	Plus: 10% of CWIP (intentionally excluded)	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	2,740,259	2,897,286
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	548,052	579,457
15	Composite Property Tax Rate - Obtained from ADOR	13.6927%	13.6927%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 75,043	\$ 79,344
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	<u>\$ 75,043</u>	<u>\$ 79,344</u>
19	Test Year Property Taxes	<u>\$ 74,520</u>	<u>\$ 79,344</u>
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	<u>\$ 523</u>	<u>\$ 4,300</u>
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		<u>\$ 79,344</u>
23	Company Test Year Adjusted Property Tax Expense (Line 18)		<u>\$ 75,043</u>
24	Increase in Property Tax Due to Increase in Revenue Requirement		<u>\$ 4,300</u>
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		\$ 4,300
27	Increase in Revenue Requirement		\$ 235,540
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		1.82570%
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			

**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**  
Test Year Ended February 29, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 3

Exhibit  
Rebuttal Schedule C-2  
Page 4  
Witness: Bourassa

Declining Usage Adjustment

Line  
No.

1		
2	Declining Usage Adjustment	\$ (32,713)
3		
4		
5		
6		
7	Total Revenue Reduction	<u>\$ (32,713)</u>
8		
9		
10	Adjustment to Revenue and/or Expense	<u>\$ (32,713)</u>

11  
12 SUPPORTING SCHEDULES  
13 Testimony

14  
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19  
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**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**  
Test Year Ended February 29, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 4

Exhibit  
Rebuttal Schedule C-2  
Page 5  
Witness: Bourassa

Revenue Annualization

Line  
No.

1

2

3

Revenue Annualization Per Rebuttal

\$ 11,943

4

Revenue Annualization Per Direct

(5,207)

5

Increase (decrease) in Revenue Annualization

17,150

6

7

8

Total Revenue from Annualization

\$ 17,150

9

10

11

Adjustment to Revenue and/or Expense

\$ 17,150

12

13

SUPPORTING SCHEDULES

14

C-2 pages 5.1 to 5.16

15

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Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division

5/8 Inch Residential (Low Income)

Customers to Year End Levels

Test Year Ended February 29, 2012

Exhibit  
Schedule C-2

Page 5.2

Witness: Bourassa

Line No.		Month of Feb-11	Month of Mar-11	Month of May-11	Month of Jun-11	Month of Jul-11	Month of Aug-11	Month of Sep-11
1	Year End Number of Customers	83	83	83	83	83	83	83
2	Actual Customers	-	36	40	49	33	82	67
3	Increase in Number of Customers/Bills	83	47	43	34	50	1	16
4	Average Revenue / Present Rates	\$ 39.00	\$ 39.00	\$ 39.00	\$ 39.00	\$ 39.00	\$ 39.00	\$ 39.00
5	Revenue Annualization / Present Rates	\$ 3,237	\$ 1,833	\$ 1,677	\$ 1,326	\$ 1,950	\$ 39	\$ 624
6								
7	Increase in Number of Customers	83	47	43	34	50	1	16
8	Average Revenue / Proposed Rates	\$ 46.00	\$ 46.00	\$ 46.00	\$ 46.00	\$ 46.00	\$ 46.00	\$ 46.00
9	Revenue Annualization / Proposed Rates	\$ 3,818	\$ 2,162	\$ 1,978	\$ 1,564	\$ 2,300	\$ 46	\$ 736
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11								
12								
13								
14								
15	Year End Number of Customers	83	83	83	83	83		
16	Actual Customers	69	74	78	80	83		
17	Increase in Number of Customers/Bills	14	9	5	3	-		305
18	Average Revenue / Present Rates	\$ 39.00	\$ 39.00	\$ 39.00	\$ 39.00	\$ 39.00		
19	Revenue Annualization / Present Rates	\$ 546	\$ 351	\$ 195	\$ 117	\$ -		\$ 11,894
20								
21	Increase in Number of Customers	14	9	5	3	-		
22	Average Revenue / Proposed Rates	\$ 46.00	\$ 46.00	\$ 46.00	\$ 46.00	\$ 46.00		
23	Revenue Annualization / Proposed Rates	\$ 546	\$ 351	\$ 195	\$ 117	\$ -		\$ 14,029
24	Additional Gallons to be Produced	-	-	-	-	-		-

Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division

3/4 Inch Residential

Customers to Year End Levels

Test Year Ended February 29, 2012

Exhibit  
Schedule C-2  
Page 5.3  
Witness: Bourassa

Line No.		Month of Feb-11	Month of Mar-11	Month of May-11	Month of Jun-11	Month of Jul-11	Month of Aug-11	Month of Sep-11
1	Year End Number of Customers	8	8	8	8	8	8	8
2	Actual Customers	8	8	8	9	10	8	8
3	Increase in Number of Customers/Bills	-	-	-	(1)	(2)	-	-
4	Average Revenue / Present Rates	\$ 52.88	\$ 52.88	\$ 52.88	\$ 52.88	\$ 52.88	\$ 52.88	\$ 52.88
5	Revenue Annualization / Present Rates	\$ -	\$ -	\$ (53)	\$ (106)	\$ -	\$ -	\$ -
6								
7	Increase in Number of Customers	-	-	-	(1)	(2)	-	-
8	Average Revenue / Proposed Rates	\$ 62.37	\$ 62.37	\$ 62.37	\$ 62.37	\$ 62.37	\$ 62.37	\$ 62.37
9	Revenue Annualization / Proposed Rates	\$ -	\$ -	\$ (62)	\$ (125)	\$ -	\$ -	\$ -
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11								
12								
13								
14								
15	Year End Number of Customers	8	8	8	8	8	8	8
16	Actual Customers	7	8	8	8	8	8	8
17	Increase in Number of Customers/Bills	1	-	-	-	-	-	(2)
18	Average Revenue / Present Rates	\$ 52.88	\$ 52.88	\$ 52.88	\$ 52.88	\$ 52.88	\$ 52.88	\$ 52.88
19	Revenue Annualization / Present Rates	\$ 53	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (106)
20								
21	Increase in Number of Customers	1	-	-	-	-	-	-
22	Average Revenue / Proposed Rates	\$ 62.37	\$ 62.37	\$ 62.37	\$ 62.37	\$ 62.37	\$ 62.37	\$ 62.37
23	Revenue Annualization / Proposed Rates	\$ 53	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (125)
24	Additional Gallons to be Produced	-	-	-	-	-	-	-

Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division  
1 Inch Residential  
Customers to Year End Levels  
Test Year Ended February 29, 2012

Line No.	Month of Feb-11	Month of Mar-11	Month of Jun-11	Month of Jul-11	Month of Aug-11	Month of Sep-11
1	9	9	9	9	9	9
2	12	10	10	10	9	9
3	(3)	(1)	(1)	(1)	-	-
4	\$ 64.64	\$ 64.64	\$ 64.64	\$ 64.64	\$ 64.64	\$ 64.64
5	\$ (194)	\$ (65)	\$ (65)	\$ (65)	\$ -	\$ -
6						
7	(3)	(1)	(1)	(1)	-	-
8	\$ 76.24	\$ 76.24	\$ 76.24	\$ 76.24	\$ 76.24	\$ 76.24
9	\$ (229)	\$ (76)	\$ (76)	\$ (76)	\$ -	\$ -
10						
11						
12						
13						
14						
15						
16						
17						
18	\$ 64.64	\$ 64.64	\$ 64.64	\$ 64.64	\$ 64.64	\$ 64.64
19	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
20						
21						
22	\$ 76.24	\$ 76.24	\$ 76.24	\$ 76.24	\$ 76.24	\$ 76.24
23	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
24						

Month of Oct-11	Month of Nov-11	Month of Dec-11	Month of Jan-12	Month of Feb-12	Total Year
9	9	9	9	9	
9	9	9	8	9	
					(5)
\$ 64.64	\$ 64.64	\$ 64.64	\$ 64.64	\$ 64.64	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ (323)
\$ 76.24	\$ 76.24	\$ 76.24	\$ 76.24	\$ 76.24	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ (381)

Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division  
1 Inch Residential (Low Income)  
Customers to Year End Levels  
Test Year Ended February 29, 2012

Line No.	Month of Feb-11	Month of Mar-11	Month of May-11	Month of Jun-11	Month of Jul-11	Month of Aug-11	Month of Sep-11
1	1	1	1	1	1	1	1
2	-	-	-	-	-	-	-
3	1	1	1	1	1	1	1
4	54.94	54.94	54.94	54.94	54.94	54.94	54.94
5	55	55	55	55	55	55	55
6	-	-	-	-	-	-	-
7	1	1	1	1	1	1	1
8	64.81	64.81	64.81	64.81	64.81	64.81	64.81
9	65	65	65	65	65	65	65
10	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-
15	1	1	1	1	1	1	1
16	1	1	1	1	1	1	1
17	-	-	-	-	-	-	-
18	54.94	54.94	54.94	54.94	54.94	54.94	54.94
19	-	-	-	-	-	-	-
20	-	-	-	-	-	-	-
21	-	-	-	-	-	-	-
22	64.81	64.81	64.81	64.81	64.81	64.81	64.81
23	-	-	-	-	-	-	-
24	-	-	-	-	-	-	-

Month of Oct-11	Month of Nov-11	Month of Dec-11	Month of Jan-12	Month of Feb-12	Total Year
1	1	1	1	1	3
1	1	1	1	1	3
54.94	54.94	54.94	54.94	54.94	165
-	-	-	-	-	-
64.81	64.81	64.81	64.81	64.81	194
-	-	-	-	-	-
-	-	-	-	-	-

**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**

1 1/2 Inch Residential

Customers to Year End Levels

Test Year Ended February 29, 2012

Exhibit

Schedule C-2

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Witness: Bourassa

Line No.		Month of Feb-11	Month of Mar-11	Month of May-11	Month of Jun-11	Month of Jul-11	Month of Aug-11	Month of Sep-11
1	Year End Number of Customers	-	-	-	-	-	-	-
2	Actual Customers	-	-	-	-	-	-	-
3	Increase in Number of Customers/Bills	-	-	-	-	-	-	-
4	Average Revenue / Present Rates	\$ 95.44	\$ 95.44	\$ 95.44	\$ 95.44	\$ 95.44	\$ 95.44	\$ 95.44
5	Revenue Annualization / Present Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6								
7	Increase in Number of Customers	-	-	-	-	-	-	-
8	Average Revenue / Proposed Rates	\$ 112.57	\$ 112.57	\$ 112.57	\$ 112.57	\$ 112.57	\$ 112.57	\$ 112.57
9	Revenue Annualization / Proposed Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11								
12								
13								
14								
15	Year End Number of Customers	-	-	-	-	-	-	-
16	Actual Customers	-	-	-	-	-	-	-
17	Increase in Number of Customers/Bills	-	-	-	-	-	-	-
18	Average Revenue / Present Rates	\$ 95.44	\$ 95.44	\$ 95.44	\$ 95.44	\$ 95.44	\$ 95.44	\$ 95.44
19	Revenue Annualization / Present Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
20								
21	Increase in Number of Customers	-	-	-	-	-	-	-
22	Average Revenue / Proposed Rates	\$ 112.57	\$ 112.57	\$ 112.57	\$ 112.57	\$ 112.57	\$ 112.57	\$ 112.57
23	Revenue Annualization / Proposed Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
24	Additional Gallons to be Produced	-	-	-	-	-	-	-



Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division

5/8 Inch Commercial

Customers to Year End Levels

Test Year Ended February 29, 2012

Exhibit  
Schedule C-2  
Page 5.8  
Witness: Bourassa

Line No.		Month of Feb-11	Month of Mar-11	Month of Apr-11	Month of May-11	Month of Jun-11	Month of Jul-11	Month of Aug-11	Month of Sep-11
1	Year End Number of Customers	60	60	60	60	60	60	60	60
2	Actual Customers	55	54	55	55	55	27	83	56
3	Increase in Number of Customers/Bills	5	6	5	5	5	33	(23)	4
4	Average Revenue / Present Rates	\$ 51.43	\$ 49.49	\$ 45.95	\$ 58.11	\$ 64.56	\$ 58.47	\$ 54.46	\$ 54.46
5	Revenue Annualization / Present Rates	\$ 271	\$ 308	\$ 251	\$ 291	\$ 2,130	\$ (1,366)	\$ 209	
6									
7	Increase in Number of Customers	5	6	5	5	5	33	(23)	4
8	Average Revenue / Proposed Rates	\$ 60.20	\$ 58.08	\$ 54.19	\$ 67.53	\$ 74.61	\$ 67.93	\$ 63.53	\$ 63.53
9	Revenue Annualization / Proposed Rates	\$ 317	\$ 362	\$ 296	\$ 338	\$ 2,462	\$ (1,587)	\$ 243	
10	Additional Gallons to be Produced	43,150	48,431	38,372	48,091	363,000	(226,600)	33,847	
11									
12									
13									
14									
15	Year End Number of Customers	60	60	60	60	60	60	60	60
16	Actual Customers	57	57	57	61	61	60	60	60
17	Increase in Number of Customers/Bills	3	3	3	(1)	(1)	-	-	44
18	Average Revenue / Present Rates	\$ 58.33	\$ 46.24	\$ 46.52	\$ 45.88	\$ 48.53	\$ 48.53	\$ 48.53	\$ 48.53
19	Revenue Annualization / Present Rates	\$ 175	\$ 142	\$ 138	\$ (33)	\$ -	\$ -	\$ -	\$ 2,515
20									
21	Increase in Number of Customers	3	3	3	(1)	(1)	-	-	44
22	Average Revenue / Proposed Rates	\$ 67.78	\$ 54.51	\$ 54.82	\$ 54.12	\$ 57.02	\$ 57.02	\$ 57.02	\$ 57.02
23	Revenue Annualization / Proposed Rates	\$ 175	\$ 142	\$ 138	\$ (33)	\$ -	\$ -	\$ -	\$ 2,925
24	Additional Gallons to be Produced	29,000	21,728	21,196	(5,000)	-	-	-	415,216

Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division

1 Inch Commercial

Customers to Year End Levels

Test Year Ended February 29, 2012

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Witness: Bourassa

Line No.	Month of	Month of	Total Year						
	Feb-11	Mar-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11		
1	43	43	43	43	43	43	43		
2	42	39	40	40	39	45	42		
3	1	4	3	3	4	(2)	1		
4	\$ 102.44	\$ 114.33	\$ 105.79	\$ 170.18	\$ 127.53	\$ 89.55	\$ 86.32		
5	\$ 69	\$ 420	\$ 328	\$ 454	\$ 519	\$ (209)	\$ 58		
6									
7	1	4	3	3	4	(2)	1		
8	\$ 117.71	\$ 130.76	\$ 121.39	\$ 192.02	\$ 145.23	\$ 103.57	\$ 100.03		
9	\$ 79	\$ 480	\$ 376	\$ 513	\$ 591	\$ (241)	\$ 67		
10	10,114	64,743	49,018	79,032	83,298	(28,737)	7,801		
11									
12									
13									
14									
15	43	43	43	43	43	43	43		
16	42	42	42	42	42	42	43		
17	1	1	1	1	1	-	15		
18	\$ 88.66	\$ 92.55	\$ 90.10	\$ 90.99	\$ 89.92	\$ 89.92	\$ 1,882		
19	\$ 59	\$ 62	\$ 60	\$ 61	\$ -	\$ -	\$ -		
20									
21	1	1	1	1	1	-	-		
22	\$ 102.59	\$ 106.86	\$ 104.18	\$ 105.15	\$ 103.97	\$ 103.97	\$ 2,145		
23	\$ 59	\$ 62	\$ 60	\$ 61	\$ -	\$ -	\$ -		
24	8,136	8,694	8,343	8,471	-	-	298,912		

Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division

1 1/2 Inch Commercial

Customers to Year End Levels

Test Year Ended February 29, 2012

Exhibit  
Schedule C-2

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Witness: Bourassa

Line No.	Year End Number of Customers	Actual Customers	Increase in Number of Customers	Average Revenue / Present Rates	Revenue Annualization / Present Rates	Month of Feb-11	Month of Mar-11	Month of May-11	Month of Jun-11	Month of Jul-11	Month of Aug-11	Month of Sep-11
1	7	7	-	\$ 208.19	\$ -	7	7	7	7	7	7	7
2	7	7	-	\$ -	\$ -	7	7	7	7	6	8	7
3	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
4	7	7	-	\$ 208.19	\$ 204.85	7	7	7	7	7	7	7
5	7	7	-	\$ 206.19	\$ 206.19	7	7	7	7	7	7	7
6	7	7	-	\$ 267.56	\$ 267.56	7	7	7	7	7	7	7
7	7	7	-	\$ 267.45	\$ 267.45	7	7	7	7	7	7	7
8	7	7	-	\$ 241.96	\$ 241.96	7	7	7	7	7	7	7
9	7	7	-	\$ (242)	\$ (242)	7	7	7	7	7	7	7
10	7	7	-	\$ 43,833	\$ (38,375)	7	7	7	7	7	7	7
11	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
12	7	7	-	\$ 236.26	\$ 232.60	7	7	7	7	7	7	7
13	7	7	-	\$ 234.06	\$ 234.06	7	7	7	7	7	7	7
14	7	7	-	\$ 301.39	\$ 301.39	7	7	7	7	7	7	7
15	7	7	-	\$ 301.27	\$ 301.27	7	7	7	7	7	7	7
16	7	7	-	\$ 273.31	\$ 273.31	7	7	7	7	7	7	7
17	7	7	-	\$ (273)	\$ (273)	7	7	7	7	7	7	7
18	7	7	-	\$ 43,833	\$ (38,375)	7	7	7	7	7	7	7
19	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
20	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
21	7	7	-	\$ 152.15	\$ 175.50	7	7	7	7	7	7	7
22	7	7	-	\$ 168.16	\$ 168.16	7	7	7	7	7	7	7
23	7	7	-	\$ 195.51	\$ 195.51	7	7	7	7	7	7	7
24	7	7	-	\$ 151.48	\$ -	7	7	7	7	7	7	7
25	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
26	7	7	-	\$ 174.78	\$ 200.39	7	7	7	7	7	7	7
27	7	7	-	\$ 192.34	\$ 192.34	7	7	7	7	7	7	7
28	7	7	-	\$ 222.35	\$ 222.35	7	7	7	7	7	7	7
29	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
30	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
31	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
32	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
33	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
34	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
35	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
36	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
37	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
38	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
39	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
40	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
41	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
42	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
43	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
44	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
45	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
46	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
47	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
48	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
49	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
50	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
51	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
52	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
53	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
54	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
55	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
56	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
57	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
58	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
59	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
60	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
61	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
62	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
63	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
64	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
65	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
66	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
67	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
68	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
69	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
70	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
71	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
72	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
73	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
74	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
75	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
76	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
77	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
78	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
79	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
80	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
81	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
82	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
83	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
84	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
85	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
86	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
87	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
88	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
89	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
90	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
91	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
92	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
93	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
94	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
95	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
96	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
97	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
98	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
99	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7
100	7	7	-	\$ -	\$ -	7	7	7	7	7	7	7

Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division

2 Inch Commercial

Customers to Year End Levels

Test Year Ended February 29, 2012

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Witness: Bourassa

Line No.		Month of Feb-11	Month of Mar-11	Month of May-11	Month of Jun-11	Month of Jul-11	Month of Aug-11	Month of Sep-11
1	Year End Number of Customers	28	28	28	28	28	28	28
2	Actual Customers	26	27	27	27	26	28	27
3	Increase in Number of Customers/Bills	2	1	1	1	2	-	1
4	Average Revenue / Present Rates	\$ 330.59	\$ 302.58	\$ 308.28	\$ 313.30	\$ 279.13	\$ 281.49	\$ 287.87
5	Revenue Annualization / Present Rates	\$ 694	\$ 303	\$ 308	\$ 313	\$ 558	\$ -	\$ 288
6	Increase in Number of Customers	2	1	1	1	2	-	1
7	Average Revenue / Proposed Rates	\$ 373.58	\$ 342.85	\$ 349.11	\$ 354.61	\$ 317.12	\$ 319.71	\$ 326.72
8	Revenue Annualization / Proposed Rates	\$ 785	\$ 343	\$ 349	\$ 355	\$ 634	\$ -	\$ 327
9	Additional Gallons to be Produced	103,832	43,444	44,667	45,741	76,846	-	40,296
10								
11								
12								
13								
14								
15	Year End Number of Customers	28	28	28	28	28	28	28
16	Actual Customers	27	28	28	28	28	28	28
17	Increase in Number of Customers/Bills	1	-	-	-	-	-	9
18	Average Revenue / Present Rates	\$ 267.46	\$ 256.64	\$ 254.63	\$ 266.31	\$ 286.99	\$ -	\$ 2,732
19	Revenue Annualization / Present Rates	\$ 267	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
20								
21	Increase in Number of Customers	1	-	-	-	-	-	-
22	Average Revenue / Proposed Rates	\$ 304.33	\$ 292.45	\$ 290.25	\$ 303.06	\$ 325.75	\$ -	\$ 3,096
23	Revenue Annualization / Proposed Rates	\$ 267	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 390,753
24	Additional Gallons to be Produced	35,926	-	-	-	-	-	-

Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division

Exhibit  
Schedule C-2

3 Inch Commercial  
Customers to Year End Levels

Page 5.12

Test Year Ended February 29, 2012

Witness: Bourassa

Line No.	Month of						
	Feb-11	Mar-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11
1	2	2	2	2	2	2	2
2	1	1	1	1	1	1	1
3	1	1	1	1	1	1	1
4	\$ 230.62	\$ 235.29	\$ 239.96	\$ 310.01	\$ 338.03	\$ 305.34	\$ 464.12
5	\$ 231	\$ 235	\$ 240	\$ 310	\$ 338	\$ 305	\$ 464
6							
7	1	1	1	1	1	1	1
8	\$ 272.02	\$ 277.14	\$ 282.26	\$ 359.11	\$ 389.85	\$ 353.98	\$ 528.17
9	\$ 272	\$ 277	\$ 282	\$ 359	\$ 390	\$ 354	\$ 528
10	-	8,000	9,000	24,000	30,000	23,000	57,000

Line No.	Month of	Month of	Total Year				
	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12		
15	2	2	2	2	2		
16	1	2	2	2	2		
17	1	-	-	-	-		8
18	\$ 529.50	\$ 503.82	\$ 286.66	\$ 291.33	\$ 279.66		
19	\$ 530	\$ -	\$ -	\$ -	\$ -		\$ 2,653
20							
21	1	-	-	-	-		
22	\$ 599.89	\$ 571.71	\$ 333.49	\$ 338.62	\$ 325.81		
23	\$ 530	\$ -	\$ -	\$ -	\$ -		\$ 3,062
24	71,000	-	-	-	-		222,000

Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division

4 Inch Commercial

Customers to Year End Levels

Test Year Ended February 29, 2012

Exhibit  
Schedule C-2  
Page 5.13  
Witness: Bourassa

Line No.	Month of Feb-11	Month of Mar-11	Month of May-11	Month of Jun-11	Month of Jul-11	Month of Aug-11	Month of Sep-11
1	4	4	4	4	4	4	4
2	4	4	4	4	2	6	4
3	-	-	-	-	2	(2)	-
4	\$ 1,523.34	\$ 1,877.09	\$ 1,685.62	\$ 2,353.43	\$ 1,434.61	\$ 2,353.04	\$ 1,807.04
5	\$ -	\$ -	\$ -	\$ -	\$ 2,869	\$ (4,706)	\$ -
6	-	-	-	-	-	-	-
7	-	-	-	-	2	(2)	-
8	\$ 1,699.30	\$ 2,087.37	\$ 1,877.33	\$ 2,609.92	\$ 1,601.97	\$ 2,609.49	\$ 2,010.53
9	\$ -	\$ -	\$ -	\$ -	\$ 3,204	\$ (5,219)	\$ -
10	-	-	-	-	482,000	(875,333)	-
11							
12							
13							
14							
15	Month of Oct-11	Month of Nov-11	Month of Dec-11	Month of Jan-12	Month of Feb-12		Total Year
16	4	4	4	4	4		
17	4	4	4	4	4		
18	\$ 1,786.03	\$ 1,725.32	\$ 1,233.80	\$ 1,499.99	\$ 2,749.22		
19	\$ -	\$ -	\$ -	\$ -	\$ -		\$ (1,837)
20							
21							
22	\$ 1,987.47	\$ 1,920.87	\$ 1,381.68	\$ 1,673.69	\$ 3,044.09		\$ (2,015)
23	\$ -	\$ -	\$ -	\$ -	\$ -		(393,333)
24	-	-	-	-	-		

Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division

6 Inch Commercial

Customers to Year End Levels

Test Year Ended February 29, 2012

Exhibit  
Schedule C-2

Page 5.14

Witness: Bourassa

Line No.	Month of	Total Year						
	Feb-11	Mar-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	
1	1	1	1	1	1	1	1	
2	1	1	1	1	1	1	1	
3	-	-	-	-	-	-	-	-
4	\$ 2,601.64	\$ 2,013.22	\$ 649.58	\$ 6,818.65	\$ 3,876.55	\$ 3,544.98	\$ 1,004.50	
5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
6	-	-	-	-	-	-	-	-
7	-	-	-	-	-	-	-	-
8	\$ 2,907.59	\$ 2,262.09	\$ 766.18	\$ 7,533.65	\$ 4,306.17	\$ 3,942.43	\$ 1,155.53	
9	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
10	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-
15	1	1	1	1	1	1	1	
16	1	1	1	1	1	1	1	
17	-	-	-	-	-	-	-	-
18	\$ 2,087.94	\$ 2,853.82	\$ 2,601.64	\$ 2,106.62	\$ 2,858.49			
19	\$ -	\$ -	\$ -	\$ -	\$ -			
20	-	-	-	-	-			
21	-	-	-	-	-			
22	\$ 2,344.06	\$ 3,184.23	\$ 2,907.59	\$ 2,364.55	\$ 3,189.35			
23	\$ -	\$ -	\$ -	\$ -	\$ -			
24	-	-	-	-	-			

**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**

5/8 Inch Multi-Tenant

Customers to Year End Levels

Test Year Ended February 29, 2012

Exhibit  
Schedule C-2  
Page 5.15  
Witness: Bourassa

Line No.		Month of Feb-11	Month of Mar-11	Month of May-11	Month of Jun-11	Month of Jul-11	Month of Aug-11	Month of Sep-11
1	Year End Number of Customers	6	6	6	6	6	6	6
2	Actual Customers	5	7	7	7	4	8	6
3	Increase in Number of Customers/Bills	1	(1)	(1)	(1)	2	(2)	-
4	Average Revenue / Present Rates	\$ 56.94	\$ 56.61	\$ 55.22	\$ 51.88	\$ 77.40	\$ 51.72	\$ 56.00
5	Revenue Annualization / Present Rates	\$ 44	\$ (32)	\$ (55)	\$ (52)	\$ 155	\$ (103)	\$ -
6								
7	Increase in Number of Customers	1	(1)	(1)	(1)	2	(2)	-
8	Average Revenue / Proposed Rates	\$ 66.25	\$ 65.88	\$ 64.36	\$ 60.70	\$ 88.70	\$ 60.52	\$ 65.22
9	Revenue Annualization / Proposed Rates	\$ 51	\$ (38)	\$ (64)	\$ (61)	\$ 177	\$ (121)	\$ -
10	Additional Gallons to be Produced	7,214	(5,299)	(9,000)	(8,286)	27,500	(16,500)	-
11								
12								
13								
14								
15	Year End Number of Customers	6	6	6	6	6	6	6
16	Actual Customers	6	6	6	6	6	6	6
17	Increase in Number of Customers/Bills	-	(0)	-	-	-	-	(2)
18	Average Revenue / Present Rates	\$ 49.77	\$ 45.88	\$ 45.88	\$ 55.22	\$ 105.03		
19	Revenue Annualization / Present Rates	\$ -	\$ (3)	\$ -	\$ -	\$ -		\$ (47)
20								
21	Increase in Number of Customers	-	(0)	-	-	-	-	-
22	Average Revenue / Proposed Rates	\$ 58.38	\$ 54.12	\$ 54.12	\$ 64.36	\$ 119.01		
23	Revenue Annualization / Proposed Rates	\$ -	\$ (3)	\$ -	\$ -	\$ -		\$ (58)
24	Additional Gallons to be Produced	-	(416)	-	-	-		(4,787)



**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**  
Test Year Ended February 29, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 5

Exhibit  
Rebuttal Schedule C-2  
Page 6  
Witness: Bourassa

Revenue Accrual

Line

No.

1			
2	Correct Revenue Accrual Adjustment per Rebuttal	\$	66,999
3	Correct Revenue Accrual Adjustment per Direct		<u>41,889</u>
4	Increase (decrease) in Revenue Accrual Correction	\$	25,110
5			
6	Adjustment to Revenues	\$	<u>25,110</u>
7			
8			
9	Adjustment to Revenue and/or Expense		<u>25,110</u>
10			
11	<u>Reference</u>		
12	Testimony		
13	Work papers		
14			
15			
16			
17			
18			
19			
20			

**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**  
Test Year Ended February 29, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 6

Exhibit  
Rebuttal Schedule C-2  
Page 7  
Witness: Bourassa

Purchased Power - TEP Rate Increase

Line  
No.

1			
2	Test Year Adjusted Purchased Power Expense	\$	61,290
3	Anticipated TEP rate increase (as %)		4.60%
4	Increase in Purchased Power Expense		2,819
5			
6	Adjustment to Purchased Power Expense	<u>\$</u>	<u>2,819</u>
7			
8			
9	Adjustment to Revenue and/or Expense		<u>2,819</u>
10			
11	<u>Reference</u>		
12	Testimony		
13	Work papers		
14			
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23			

**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**  
Test Year Ended February 29, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 7

Exhibit  
Rebuttal Schedule C-2  
Page 8  
Witness: Bourassa

APUC Allocated Capital Taxes

Line  
No.  
1  
2  
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2	APUC Allocated Capital Taxes	(836)
6	Adjustment to Management Services -Corporate	<u>\$ (836)</u>
9	Adjustment to Revenue and/or Expense	<u>(836)</u>

11 Reference  
12 Staff Schedule MJR-W16

**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**  
Test Year Ended February 29, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 8

Exhibit  
Rebuttal Schedule C-2  
Page 9  
Witness: Bourassa

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Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division  
Test Year Ended February 29, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 9

Exhibit  
Rebuttal Schedule C-2  
Page 10  
Witness: Bourassa

Reclassification of Expenses

Line  
No.

1		
2	Management Services - Other	\$ (165,896)
3	Purchased Wastewater Treatment	165,896
4		
5		
6	Net Adjustment	<u>\$ -</u>
7		
8		
9	Adjustment to Revenue and/or Expense	<u>-</u>
10		
11	<u>Reference</u>	
12	Testimony	
13	Work papers	
14		
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Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division  
Test Year Ended February 29, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 10

Exhibit  
Rebuttal Schedule C-2  
Page 11  
Witness: Bourassa

Employee Benefits

Line  
No.

1			
2	Allocated portion of new employee benefit costs	\$	11,811
3			
4			
5			
6	Adjustment to Salaries and Wages expense	<u>\$</u>	<u>11,811</u>
7			
8			
9	Adjustment to Revenue and/or Expense		<u>11,811</u>
10			
11	<u>Reference</u>		
12	Testimony		
13	Workpapers		
14			
15			
16			
17			
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19			
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**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**  
Test Year Ended February 29, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 11

Exhibit  
Rebuttal Schedule C-2  
Page 12  
Witness: Bourassa

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**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**  
Test Year Ended February 29, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 12

Exhibit  
Rebuttal Schedule C-2  
Page 13  
Witness: Bourassa

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**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**  
Test Year Ended February 29, 2012  
Adjustment to Revenues and Expenses  
Adjustment Number 13

Exhibit  
Rebuttal Schedule C-2  
Page 14  
Witness: Bourassa

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Interest Synchronization

<p>Line No.</p> <p>1</p> <p>2</p> <p>3</p> <p>4</p> <p>5</p> <p>6</p> <p>7</p> <p>8</p> <p>9</p> <p>10</p> <p>11</p> <p>12</p> <p>13</p> <p>14</p> <p>15</p> <p>16</p> <p>17</p> <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p> <p>23</p> <p>24</p> <p>25</p> <p>26</p> <p>27</p> <p>28</p> <p>29</p> <p>30</p>	<p>Fair Value Rate Base</p> <p>Weighted Cost of Debt</p> <p>Interest Expense</p> <p>Test Year Interest Expense</p> <p>Increase (decrease) in Interest Expense</p> <p>Adjustment to Revenue and/or Expense</p> <p><u>Weighted Cost of Debt Computation</u></p> <p><u>Pro forma Capital Structure</u></p> <p style="padding-left: 40px;"><u>Percent</u></p> <p style="padding-left: 40px;">Debt</p> <p style="padding-left: 40px;">Equity</p> <p style="padding-left: 40px;">Total</p>	<p>\$ 4,735,192</p> <p>1.14%</p> <p>\$ 53,981</p> <p>\$ 52,427</p> <p>1,554</p> <p>\$ (1,554)</p> <p style="padding-left: 40px;"><u>Cost</u></p> <p style="padding-left: 40px;">5.70%</p> <p style="padding-left: 40px;">10.30%</p>	<p>Weighted <u>Cost</u></p> <p>1.14%</p> <p>8.24%</p> <p>9.38%</p>
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Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division  
Test Year Ended February 29, 2012  
Adjustment to Revenues and/or Expenses  
Adjustment Number 15

Exhibit  
Rebuttal Schedule C-2  
Page 16  
Witness: Bourassa

Line

No.

1 Income Taxes

2

3

4 Computed Income Tax

**Test Year**  
**at Present Rates**  
\$ 156,025

**Test Year**  
**at Proposed Rates**  
\$ 245,281

5 Test Year Income tax Expense

-

156,025

6 Adjustment to Income Tax Expense

\$ 156,025

\$ 89,257

7

8

9

10

11

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13 SUPPORTING SCHEDULE

14 C-3, page 2

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30

Line No.	<u>Description</u>	Percentage of Incremental Gross <u>Revenues</u>
1	Combined Federal and State Effective Income Tax Rate	38.599%
2		
3	Property Taxes	<u>1.121%</u>
4		
5		
6	Total Tax Percentage	39.720%
7		
8	Operating Income % = 100% - Tax Percentage	60.280%
9		
10		
11		
12		
13	<u>1</u> = Gross Revenue Conversion Factor	
14	Operating Income %	1.6589

25 SUPPORTING SCHEDULES:  
 26 C-3, page 2

RECAP SCHEDULES:  
 A-1

27  
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GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Gross Revenue Conversion Factor:</u>							
1	Revenue	100.0000%					
2	Uncollectible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.7199%					
5	Subtotal (L3 - L4)	60.2801%					
6	Revenue Conversion Factor (L1 / L5)	1.658922					
<u>Calculation of Uncollectible Factor:</u>							
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (L17)	38.5989%					
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
<u>Calculation of Effective Tax Rate:</u>							
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	6.9680%					
14	Federal Taxable Income (L12 - L13)	93.0320%					
15	Applicable Federal Income Tax Rate (L55, Col E)	34.0000%					
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%					
17	Combined Federal and State Income Tax Rate (L13 +L16)		38.5989%				
<u>Calculation of Effective Property Tax Factor:</u>							
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	38.5989%					
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%					
21	Property Tax Factor	1.8257%					
22	Effective Property Tax Factor (L20*L21)		1.1210%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.7199%			
24	Required Operating Income	\$ 444,161					
25	Adjusted Test Year Operating Income (Loss)	\$ 302,177					
26	Required Increase in Operating Income (L24 - L25)		\$ 141,984				
27	Income Taxes on Recommended Revenue (Col. (E), L52)	\$ 245,281					
28	Income Taxes on Test Year Revenue (Col. (B), L54)	\$ 156,025					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 89,257				
30	Recommended Revenue Requirement	\$ 1,605,670					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -					
33	Adjusted Test Year Uncollectible Expense	\$ -					
34	Required Increase in Revenue to Provide for Uncollectible Exp.		\$ -				
35	Property Tax with Recommended Revenue	\$ 79,344					
36	Property Tax on Test Year Revenue	\$ 75,043					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		\$ 4,300				
38	Total Required Increase in Revenue (L26 + L29 + L37)		\$ 235,541				

	(A) Test Year			(B) Company Recommended		
	Company	Sewer	Water	Company	Sewer	Water
<b>Total</b>						
39 Revenue	\$ 4,148,896	\$ 1,370,130	\$ 2,778,766	\$ 4,966,301	\$ 1,605,670	\$ 3,360,630
40 Operating Expenses Excluding Income Taxes	\$ 3,136,436	\$ 911,928	\$ 2,224,507	\$ 3,151,359	\$ 916,229	\$ 2,235,131
41 Synchronized Interest (L47)	\$ 142,104	\$ 53,981	\$ 88,123	\$ 142,104	\$ 53,981	\$ 88,123
42 Arizona Taxable Income (L39 - L40 - L41)	\$ 870,355	\$ 404,220	\$ 466,135	\$ 1,672,838	\$ 635,461	\$ 1,037,377
43 Arizona State Effective Income Tax Rate (see work papers)		6.9680%	6.9680%	6.9680%	6.9680%	6.9680%
44 Arizona Income Tax (L42 x L43)	\$ 60,646	\$ 28,166	\$ 32,480	\$ 116,563	\$ 44,279	\$ 72,284
45 Federal Taxable Income (L42- L44)	\$ 809,709	\$ 376,054	\$ 433,655	\$ 1,556,275	\$ 591,183	\$ 965,092
46						
47 Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 15,000	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500
48 Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$ 12,500	\$ 6,250	\$ 6,250	\$ 6,250	\$ 6,250	\$ 6,250
49 Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ 17,000	\$ 8,500	\$ 8,500	\$ 8,500	\$ 8,500	\$ 8,500
50 Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ 183,300	\$ 91,650	\$ 91,650	\$ 91,650	\$ 91,650	\$ 91,650
51 Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ 47,501	\$ 13,958	\$ 33,543	\$ 415,233	\$ 87,102	\$ 214,231
52						
53 Total Federal Income Tax	\$ 275,301	\$ 127,858	\$ 147,443	\$ 529,133	\$ 201,002	\$ 328,131
54 Combined Federal and State Income Tax (L35 + L42)	\$ 335,947	\$ 156,025	\$ 179,923	\$ 645,697	\$ 245,281	\$ 400,416

55 **COMBINED** Applicable Federal income Tax Rate [Col. (D), L53 - Col. (A), L53 / [Col. (D), L45 - Col. (A), L45] 34.0000%

56 **WASTEWATER** Applicable Federal Income Tax Rate [Col. (E), L53 - Col. (B), L53] / [Col. (E), L45 - Col. (B), L45] 34.0000%

57 **WATER** Applicable Federal Income Tax Rate [Col. (F), L53 - Col. (C), L53] / [Col. (F), L45 - Col. (C), L45] 34.0000%

Calculation of Interest Synchronization:

	Sewer	Water
58 Rate Base	\$ 4,735,192	\$ 7,730,108
59 Weighted Average Cost of Debt	1.1400%	1.1400%
60 Synchronized Interest (L45 X L46)	\$ 53,981	\$ 88,123





Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division  
 Test Year Ended February 29, 2012

Exhibit  
 Rebuttal Schedule H-1  
 Page 3  
 Witness: Bourassa

Revenue Summary  
 With Annualized Revenues to Year End Number of Customers

Line No.	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present WW Revenues	Percent of Proposed WW Revenues
1	\$ 1,390,900	\$ 1,623,841	\$ 232,941	16.75%	100.00%	100.00%
2	(32,713)	(32,713)	-	0.00%	-	-
3	11,943	13,924	1,981.25	16.59%	0.86%	0.86%
4	\$ 1,370,130	\$ 1,605,052	\$ 234,922	17.15%		
5						
6	\$ -	\$ -	-	0.00%	0.00%	0.00%
7	-	618	618	0.00%	0.00%	0.04%
8	\$ 1,370,130	\$ 1,605,670	\$ 235,540	17.19%	0.00%	0.00%
9						

Revenue Reconciliation

13	Revenue per bill count before revenue annualization	\$ 1,390,900
14	Revenue per GL (metered water revenues)	\$ 1,323,901
15	Adjustments Rev. Accrual Correction	66,999
16	Adjusted Revenue per GL (metered water revenues)	1,390,900
17	Difference	\$ 0
18	Difference %	0.00%
19	Tolerance %	0.50%
20	Tolerance Amount + or -	\$ 6,955
21		
22	Acceptable?	YES

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Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division  
 Test Year Ended February 29, 2012  
 Customer Summary

Line No.	Meter Size, Class	(a) Average Number of Customers at 2/29/2012	Average Consumption	Average Bill		Proposed Increase	
				Present Rates	Proposed Rates	Dollar Amount	Percent
1	5/8X3/4 Inch Residential	1,819	-	45.88 \$	54.12	8.24	17.95%
2	5/8X3/4 Inch Residential (Low Income)	58	-	39.00	46.00	7.00	17.95%
3	3/4 Inch Residential	8	-	52.88	62.37	9.49	17.95%
4	1 Inch Residential	9	-	64.64	76.24	11.60	17.95%
5	1 Inch Residential (Low Income)	1	-	54.94	64.81	9.86	17.95%
6	1 1/2 Inch Residential	-	-	95.44	112.57	17.13	17.95%
7	2 Inch Residential	0	-	132.38	156.14	23.76	17.95%
8	Subtotal	1,895					
9							
10	5/8X3/4 Inch Commercial	56	8,296 \$	51.93 \$	60.76	8.82	16.99%
11	1 Inch Commercial	41	15,305	103.43	118.79	15.37	14.86%
12	1 1/2 Inch Commercial	7	30,036	203.02	230.58	27.57	13.58%
13	2 Inch Commercial	27	39,870	285.88	324.54	38.65	13.52%
14	3 Inch Commercial	1	29,125	333.94	385.36	51.42	15.40%
15	4 Inch Commercial	4	335,083	1,873.98	2,083.96	209.98	11.20%
16	6 Inch Commercial	0	488,571	2,898.52	3,233.27	334.75	11.55%
17	Subtotal	138					
18							
19	5/8X3/4 Inch Multi-tenant	6	9,614 \$	58.09 \$	67.51	9.42	16.22%
20	1 1/2 Inch Multi-tenant	1	11,750	117.62	136.91	19.28	16.39%
21	Subtotal	7					
22							
23							
24							
25							
26	Total	2,039					

(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division  
 Test Year Ended February 29, 2012  
 Customer Summary

Exhibit  
 Rebuttal Schedule H-2  
 Page 2  
 Witness: Bourassa

Line No.	Meter Size, Class	(a) Average Number of Customers at 2/29/2012	Median Consumption	Median Bill		Proposed Rates	Proposed Increase	
				Present Rates	Proposed Rates		Dollar Amount	Percent Amount
1	5/8X3/4 Inch Residential	1,819	-	45.88 \$	54.12	8.24	17.95%	
2	5/8X3/4 Inch Residential (Low Income)	58	-	39.00	46.00	7.00	17.95%	
3	3/4 Inch Residential	8	-	52.88	62.37	9.49	17.95%	
4	1 Inch Residential	9	-	64.64	76.24	11.60	17.95%	
5	1 Inch Residential (Low Income)	1	-	54.94	64.81	9.86	17.95%	
6	1 1/2 Inch Residential	-	-	95.44	112.57	17.13	17.95%	
7	2 Inch Residential	0	-	132.38	156.14	23.76	17.95%	
8	Subtotal	1,895						
9								
10	5/8X3/4 Inch Commercial	56	4,000	45.88 \$	54.12	8.24	17.95%	
11	1 Inch Commercial	41	8,000	69.31	81.37	12.06	17.39%	
12	1 1/2 Inch Commercial	7	5,000	95.44	112.57	17.13	17.95%	
13	2 Inch Commercial	27	20,000	193.09	222.74	29.65	15.36%	
14	3 Inch Commercial	1	26,500	321.69	371.91	50.23	15.61%	
15	4 Inch Commercial	4	375,000	2,060.39	2,288.45	228.06	11.07%	
16	6 Inch Commercial	0	199,500	1,548.56	1,752.36	203.80	13.16%	
17	Subtotal	138						
18								
19	5/8X3/4 Inch Multi-tenant	6	9,000	55.22 \$	64.36	9.14	16.55%	
20	1 1/2 Inch Multi-tenant	1	11,000	114.12	133.06	18.94	16.60%	
21	Subtotal	7						
22								
23								
24								
25								
26	Total	2,039						
27								
28								
29								

(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division  
 Test Year Ended February 29, 2012  
 Present and Proposed Rates

Exhibit  
 Rebuttal Schedule H-3  
 Page 1  
 Witness: Bourassa

Line No.	Monthly Minimum Charge for: Meter Size (All Classes):	Present Rates	Proposed Rates	Change	Percent Change
1	5/8 inch	\$ 45.88	\$ 54.12	\$ 8.24	17.95%
2	3/4 inch	52.88	62.37	9.49	17.95%
3	1 inch	64.64	76.24	11.60	17.95%
4	1 1/2 inch	95.44	112.57	17.13	17.95%
5	2 inch	132.38	156.14	23.76	17.95%
6	3 inch	230.62	272.02	41.40	17.95%
7	4 inch	341.83	403.19	61.36	17.95%
8	6 inch	649.58	766.18	116.60	17.95%
9	8 inch	944.45	1,113.98	169.53	17.95%
10	10 inch	1,415.24	1,669.28	254.04	17.95%
11	12 inch	2,012.57	2,373.83	361.26	17.95%

Commodity Rates (Commercial and Multi-tenant Only)	Block	Present Rate	Proposed Rate
All Meter Sizes			
	0 gallons to 7,000 gallons	\$ -	\$ -
	over 7,000 gallons	\$ 4.67	\$ 5.12

Low Income Tariff - A 15% discount is available to qualified residential customers meeting the low income qualifications. Participation is limited to a maximum 725 customers.

NT = No Tariff

Line No. 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38

**Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division**  
**Changes in Representative Rate Schedules**  
**Test Year Ended February 29, 2012**

Exhibit  
 Rebuttal Schedule H-3  
 Page 2  
 Witness: Bourassa

Line No.	Other Service Charges	Present Rates	Proposed Rates
1	Establishment	\$ 15.00	\$ 15.00
2	Establishment (After Hours)	\$ 25.00	NT
3	Reconnection (Delinquent)	\$ 15.00	\$ 15.00
4	Reconnection (Delinquent) - After Hours	\$ 25.00	NT
5	Deposit	*	*
6	Deposit Interest	**	**
7	Reestablishment (within 12 months)	***	***
8	NSF Check	\$ 15.00	\$ 15.00
9	Late Payment Penalty	1.5% per month	1.5% per month
10	Deferred Payment	1.5% per month	1.5% per month
11	Service Calls - Per Hour/After Hours(a)	\$ 40.00	NT
12	Service Charge - after hours	NT	\$ 50.00

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\* Per Commission Rule A.A.C. R-14-2-603(B)  
 \*\* Per Commission Rule A.A.C. R-14-2-603(B)  
 \*\*\* Per Commission Rule A.A.C. R14-2-603(D) - Months off the system times the monthly minimum.  
 (a) No charge for service calls during normal working hours.

IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE TAX. PER COMMISSION RULE 14-2-608D(5).

Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division  
Test Year Ended February 29, 2012  
Meter and Service Line Charges

Exhibit  
Rebuttal Schedule H-3  
Page 3  
Witness: Bourassa

Line  
No.

1

2 Service Line Installation Charges

3

4

5

6

7

8 Service Line Size

Present  
Charge

Proposed  
Charge

9 4 Inch

At Cost

At Cost

10 6 Inch

At Cost

At Cost

11 8 Inch

At Cost

At Cost

12 10 Inch

At Cost

At Cost

13 12 Inch

At Cost

At Cost

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32 N/T = No Tariff

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4

5 **BEFORE THE ARIZONA CORPORATION COMMISSION**  
6

7  
8 IN THE MATTER OF THE  
APPLICATION OF RIO RICO  
9 UTILITIES, INC., AN ARIZONA  
CORPORATION, FOR A  
10 DETERMINATION OF THE FAIR  
VALUE OF ITS UTILITY PLANTS AND  
11 PROPERTY AND FOR INCREASES IN  
ITS WATER AND WASTEWATER  
12 RATES AND CHARGES FOR UTILITY  
SERVICE BASED THEREON.  
13

DOCKET NO: WS-02676A-12-0196

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15 **REBUTTAL TESTIMONY OF**  
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17 **GREG SORENSEN**  
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19 **January 28, 2013**  
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IV. SECTION 3 – ANNUAL REVISED BENEFITS PLAN  
ADJUSTMENT ..... 5

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1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

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

3 A. My name is Greg Sorensen. My business address is 12725 W. Indian School Road,  
4 Suite D-101, Avondale, AZ 85392.

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

6 A. On behalf of the Applicant, Rio Rico Utilities, Inc. ("RRUI" or "Company").

7 **Q. BY WHOM ARE YOU EMPLOYED?**

8 A. I am employed by Liberty Utilities ("Liberty") as Vice President and General  
9 Manager.

10 **Q. DID YOU PREVIOUSLY PROVIDE TESTIMONY ON BEHALF OF THE**  
11 **COMPANY IN THIS CASE?**

12 A. Yes, my direct testimony was filed on May 31, 2012, with the Company's  
13 application.

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

15 A. To further support RRUI's application for rate relief by responding to testimony by  
16 the other parties regarding RRUI's policies on bonuses, merit pay, and benefits.

17 **II. SECTION 1 – MERIT PAY DISALLOWANCE (RUCO ADJUSTMENT 12**  
18 **FOR WATER AND SEWER)**

19 **Q. WHAT DID MR. COLEY PROPOSE?**

20 A. Mr. Coley proposed disallowing 50% of the costs associated with the annual merit  
21 wage increase.

22 **Q. ON WHAT GROUNDS DID MR. COLEY PROPOSE THE**  
23 **DISALLOWANCE?**

24 A. Mr. Coley listed two main reasons – lack of certain reoccurrence and insufficient  
25 sharing with shareholders.

26

1           Regarding the first, I believe Mr. Coley may have misunderstood the nature  
2 of these merit pay expenses so I will try to provide further explanation.  
3 Each year, base salary compensation is reviewed for each employee. That base  
4 salary compensation may or may not be adjusted. The components of that  
5 adjustment include where that employee's pay rests within their job pay scale  
6 range, as well as how they performed in the prior year. The combination of these  
7 two items leads to an increase in the employee's base wage (hourly or salaried).  
8 This "merit increase" actually becomes the employee's new base wage for that  
9 following year.

10           Concerning Mr. Coley's second point, this is not an achievement or  
11 incentive pay program. This is simply a way to arrive at what hourly or annual pay  
12 rate the employee will be paid during the coming year. There is nothing here to  
13 "share" with shareholders.

14 **Q. ARE MERIT PAY INCREASES AN IMPORTANT RECRUITING TOOL?**

15 A. Yes. We want to hire and retain qualified and productive employees.  
16 Also, in general, employees believe that if they work hard and produce well during  
17 a given year, they will be paid more in the subsequent year. This is because they  
18 will have another year of experience and skill that they bring to their employer,  
19 and in turn the customers, and the value of that experience, skill and production  
20 should be recognized through increased compensation. Liberty's management  
21 agrees and employee performance is reviewed each year and pay adjusted the  
22 following year, where appropriate. Without such increases, employees have far  
23 less incentive to continue to maintain production levels or to improve performance  
24 or will look for an employer that rewards such efforts. This is a basic job market  
25 concept.

26

1 Q. MR. SORENSEN, IS THIS SALARY COST RECURRING ON A GOING  
2 FORWARD BASIS?

3 A. Once granted, the merit adjustment becomes part of an employee's recurring pay,  
4 paid on a bi-weekly basis. Granted, no level of pay is guaranteed. An employer  
5 may lower wages as well as raise them for an employee. However, I am not aware  
6 of any downward adjustments to employee pay since the end of the test year.  
7 Of course, in that way it is like any other expense – there is no certainty we will  
8 incur any test year expense in the exact same amount in the future.

9 Q. MR. SORENSEN, HAS RRUI / LIBERTY HISTORICALLY PAID MERIT  
10 INCREASES?

11 A. Yes.

12 Q. WHEN WERE THE MERIT INCREASES EFFECTIVE?

13 A. Merit increases were given to employees in late March 2012, but were retroactive  
14 to January 1, 2012, which was during the test year.

15 Q. AND THERE IS NO "AT RISK" ASPECT?

16 A. No, they become part of the recurring daily, weekly, monthly, annual pay rate of  
17 the employee.

18 Q. SINCE THE END OF THE TEST YEAR HAS RRUI / LIBERTY  
19 MAINTAINED THE SAME LEVEL OF EXPENSE?

20 A. Yes.

21 **III. SECTION 2 – INCENTIVE PAY (BONUSES) (RUCO ADJUSTMENT 11**  
22 **FOR WATER AND SEWER)**

23 Q. WHAT DID MR. COLEY PROPOSE AND ON WHAT GROUNDS?

24 A. Mr. Coley proposed disallowing 50% of the costs associated with the incentive pay  
25 increase. His reasoning is the same as with the merit pay program I discussed in  
26 the prior section of my rebuttal testimony.

1 First, this was in fact a cost that was incurred during the test year. A similar cost  
2 was incurred in the year before and after the test year. As such, Mr. Coley's  
3 speculation that this is not a recurring cost is, in this case, inaccurate. As I further  
4 point out above, every test year expense is at risk for not matching the expense  
5 during a given future year. But bonuses were paid. This is because Liberty strives  
6 to maintain a consistently high level of service and, when achieved, will yield a  
7 consistent level of incentive pay. Post test year, we have continued providing high  
8 quality service, and we expect to pay incentives for the calendar year 2012  
9 performance similar to those paid for 2011, which comprises the majority of the  
10 test year. I know of no known or measurable change to this test year cost.

11 Concerning Mr. Coley's sharing argument, the incentive program costs were  
12 incurred as a cost of service during this test year. These incentives were paid and  
13 were related to the results of the test year. The service provided to our customers  
14 was actually received by them during the test year. This is a cost of service and  
15 costs of service, if reasonable and prudent, are not shared by the shareholder.

16 **Q. WHY ARE BONUS PAYMENTS AN IMPORTANT RECRUITING AND**  
17 **RETENTION TOOL?**

18 A. Bonuses or incentive programs are just a part of an employee's overall or total  
19 compensation. This total compensation has to be market competitive or, all other  
20 things being equal, employees will leave for what they perceive to be a better  
21 paying job. This will then lead to higher turnover for the utility and a degradation  
22 of service to the customer. A similar concept applies to recruiting new employees  
23 to come to work at Liberty. When a candidate is considering coming to work here,  
24 one of the primary considerations they make is the compensation and benefits  
25 package. We have to design our pay and benefits packages to be market  
26 competitive.

1 Q. MR. SORENSEN, IS THIS COST RECURRING ON A GOING FORWARD  
2 BASIS?

3 A. Yes it is.

4 Q. HAS RRUI / LIBERTY HISTORICALLY PAID BONUSES?

5 A. Yes, we have paid annual bonuses for at least as long as I've been here.

6 Q. SINCE THE END OF THE TEST YEAR HAS RRUI / LIBERTY  
7 MAINTAINED THE SAME LEVEL OF EXPENSE?

8 A. Yes, as previously indicated, we have maintained the same or slightly higher level  
9 of expected incentive expense.

10 Q. BUT DON'T THE BENEFITS THAT LEAD TO BONUSES ACCRUE TO  
11 THE SHAREHOLDER FAR MORE THAN THE RATEPAYERS?

12 A. Absolutely not. Liberty's incentives are based on metrics such as  
13 Customer Experience, Employee programs, Operational Excellence, Safety,  
14 Efficiency, and personal performance. These areas of measurement significantly  
15 benefit the customers and community in general. For example, one measure of  
16 Customer Experience is the result of our annual customer satisfaction survey.  
17 Our employees are incented to maintain or increase customer satisfaction each and  
18 every day.

19 **IV. SECTION 3 – ANNUAL REVISED BENEFITS PLAN ADJUSTMENT**

20 Q. MR. BOURASSA PROPOSES A PRO FORMA ADJUSTMENT TO  
21 REFLECT INCREASED EMPLOYEE BENEFIT COSTS.<sup>1</sup> WHAT  
22 CHANGED?

23 A. A change in the benefits program was made by RRUI's parent company, Liberty,  
24 and we were made aware of the impact on RRUI.

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<sup>1</sup> Rebuttal Adjustment No. 9 (water) and Rebuttal Adjustment No. 10 (wastewater). See Rebuttal  
Testimony of Thomas J. Bourassa – Rate Base, Income Statement and Rate Design at 32, 44.

1 Q. BUT WHY DID THE COMPANY WAIT UNTIL REBUTTAL TO MAKE  
2 THE ADJUSTMENT?

3 A. Because we were just informed of the change in expenses in final quarter of 2012,  
4 after the filing date of the rate application.

5 Q. WERE EMPLOYEE BENEFITS COSTS INCURRED DURING THE TEST  
6 YEAR?

7 A. Yes, this is just an update of the employee benefit package costs.

8 Q. IS THE AMOUNT OF THE ADJUSTMENT KNOWN AND  
9 MEASUREABLE?

10 A. Yes, the Company knows the amount of the change and quantifies that in the  
11 adjustment proposed by Mr. Bourassa.

12 Q. WILL THIS EXPENSE OCCUR ON A GOING FORWARD BASIS?

13 A. Yes.

14 Q. ARE BENEFITS COSTS A NORMAL COST OF SERVICE REQUEST BY  
15 RRUI, LIBERTY AND OTHER RATE REGULATED UTILITIES?

16 A. Yes. As I explained above, attracting and retaining talented employees is critical to  
17 the success of all companies and a benefits package is an important tool in  
18 attracting and retaining employees.

19 Q. ARE THESE COSTS SPECIFIC TO RRUI OR LIBERTY EMPLOYEES?

20 A. Yes. Approximately 75% of the adjustment relates to employees directly working  
21 in RRUI. The remaining 25% relates to employees based in our Avondale office  
22 that provide administrative support to RRUI, myself as an example.

23 Q. OKAY, SO WHY DID THE EXPENSES INCREASE, MR. SORENSEN?

24 A. As Liberty expands its national footprint by acquiring other companies, it continues  
25 to evaluate how compensation and benefits are set on a national level. After the  
26 latest round of acquisitions, Liberty hired a benefits consultant to help standardize

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the national benefits plan across all United States water, sewer, gas and electric utilities. After the analysis was performed by the consultant, Liberty implemented the changes to take effect, and employees were notified of this benefits change late last year.

**Q. HOW DOES THIS EXPENSE BENEFIT CUSTOMERS?**

A. In the long-run it is more cost efficient for customers to have Liberty administer one standard national plan than numerous smaller different plans.

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

A. Yes.

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5  
6 BEFORE THE ARIZONA CORPORATION COMMISSION  
7

8 IN THE MATTER OF THE  
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10 DETERMINATION OF THE FAIR  
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11 PROPERTY AND FOR INCREASES IN  
ITS WATER AND WASTEWATER  
12 RATES AND CHARGES FOR UTILITY  
SERVICE BASED THEREON.  
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DOCKET NO: WS-02676A-12-0196

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15  
16 **REBUTTAL TESTIMONY OF**  
17 **CHRISTOPHER D. KRYGIER**

18  
19 **January 28, 2013**  
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I. INTRODUCTION AND PURPOSE OF TESTIMONY.....2  
II. SWIP, SBCR and DSIC.....3

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1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

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

3 A. My name is Christopher D. Krygier, and my business address is 12725 W. Indian  
4 School Road, Suite D101, Avondale, AZ 85392.

5 **Q. DID YOU PREVIOUSLY PROVIDE TESTIMONY ON BEHALF OF THE**  
6 **COMPANY IN THIS CASE?**

7 A. Yes, my direct testimony was filed on May 31, 2012, with the Company's  
8 application.

9 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**  
10 **PROCEEDING?**

11 A. My rebuttal testimony addresses Staff's System Betterment Cost Recovery  
12 mechanism ("SBCR"), the Sustainable Water Loss Improvement Program  
13 ("SWIP") raised in my direct testimony, and the Distribution System Improvement  
14 Charge ("DSIC").<sup>1</sup>

15 **Q. WHERE DID THE DSIC COME FROM?**

16 A. The DSIC has always been the preferred model in the industry. For purposes of  
17 this case, however, it came from the pending Arizona Water Company ("AWC")  
18 rate case, Docket No. W-01445A-11-0310. I will explain this in more detail  
19 below.

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<sup>1</sup> The wastewater version of a DSIC and is called a Collection System Improvement Charge ("CSIC"). For the rest of my testimony the DSIC and CSIC refer to the same general concept.

1 **II. SWIP, SBCR AND DSIC**

2 **Q. SO LET ME SEE IF I HAVE THIS RIGHT. RRUI FIRST REQUESTED**  
3 **APPROVAL OF A SWIP MODELED AFTER A RECENT STAFF**  
4 **RECOMMENDATION, STAFF IS NOW RECOMMENDING A SBCR, AND**  
5 **THE COMMISSION WILL SOON BE CONSIDERING AWC'S REQUEST**  
6 **FOR A DSIC?<sup>2</sup>**

7 A. That's right.

8 **Q. WHICH OF THE SWIP, DSIC OR SBCR DOES RRUI WANT AT THIS**  
9 **POINT?**

10 A. A DSIC.

11 **Q. THEN WHY DIDN'T YOU JUST ASK FOR ONE IN THE FIRST PLACE?**

12 A. The SWIP is a variant of the DSIC. But the Staff version had significant  
13 limitations as it was initially proposed in the current AWC rate case. The SWIP we  
14 outlined in my direct testimony in this case contained several significant  
15 modifications. Staff has since abandoned the SWIP in favor of the SBCR.

16 **Q. SO WHAT ABOUT THE RRUI SWIP?**

17 A. It would now be a step backward. As I explained, things have moved well past the  
18 intent and spirit of our SWIP request. Don't get me wrong though, that's a good  
19 thing; Liberty Utilities is in full support of the DSIC model advanced by AWC and  
20 currently being considered by the Commission. Through discussions with our  
21 counterparts in the utility industry, and further evaluating our long term plans, it  
22 has become evident that in order for Arizona to build a successful utility  
23 environment (i.e., one that attracts investment in water and wastewater and  
24 provides maximum benefit to customers and companies through rate gradualism) a  
25 DSIC as proposed by AWC is most appropriate.

26 <sup>2</sup> See AWC Rate Application, filed August 5, 2011 in Docket No. W-01445A-11-0310.

1 **Q. WHY IS A DSIC PREFERRED?**

2 A. A DSIC modeled after the one proposed by AWC maximizes rate gradualism, a  
3 substantial customer benefit, while promoting healthy utilities. Rate gradualism  
4 provides certainty and minimizes the likelihood of shocking rate increases.

5 **Q. HOW DO YOU KNOW THAT CUSTOMERS PREFER GRADUAL RATE**  
6 **INCREASES?**

7 A. As indicated in a 2012 poll, over 89% of respondents indicated that they prefer  
8 smaller, more frequent rate increases instead of larger, infrequent increases.<sup>3</sup>  
9 This is the same message heard in countless public meetings in ACC rate cases.  
10 Customers repeatedly state that they are better able to adjust to smaller changes in  
11 their household budget. The DSIC mechanism is a tool that best matches that  
12 philosophy.

13 The DSIC is also a tried and true method for facilitating infrastructure  
14 replacement vital to a utility's ability to provide safe, reliable service. The DSIC is  
15 used in approximately ten states and was so successful that one state is now using it  
16 for its electric and gas utilities.<sup>4</sup> The DSIC is the simplest, best understood, and  
17 most conservative option to achieve the Commission's goals of gradual policy  
18 changes, gradual rate shifts, and healthy utility infrastructure.

19 It further appears to Liberty that the Commission is ready to consider the  
20 issue. If the Commission approves the DSIC for AWC, that should be the model  
21 for our industry in Arizona.

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<sup>3</sup> Press Release, Arizonans for Responsible Water Policy, 10/3/2012.

<sup>4</sup> SNL Article, December 27, 2012 "Pa. utilities get ready to use new cost-recovery mechanism for system improvements."

1 **Q. HAS THE COMPANY CALCULATED THE MONTHLY COST TO**  
2 **CUSTOMERS IF AN AWC-TYPE DSIC WAS APPROVED FOR RRUI?**

3 A. Yes. If the Commission approved a DSIC for RRUI, the cost approximates to  
4 \$1.10 per month for water customers and \$1.50 per month for wastewater  
5 customers based on a 3% of test year revenues.

6 **Q. DO YOU KNOW STAFF'S POSITION ON THE DSIC IN THE AWC**  
7 **CASE?**

8 A. I believe Staff opposes the DSIC but did not advance its SWIP in the second case,  
9 the one that is currently pending.

10 **Q. DOESN'T THAT LEAVE STAFF'S SBCR AS SOME SORT OF**  
11 **COMPROMISE?**

12 A. No. The SBCR is unworkable and undesirable. The number one choice for RRUI  
13 is a DSIC modeled after the one sought by AWC. Our SWIP is now a clear runner-  
14 up.

15 **Q. YOU DIDN'T RANK THE SBCR.**

16 A. That's because it is such a bad idea that the SBCR wouldn't even come in third in a  
17 three horse race. Simply put, no utility would use it.

18 **Q. WHY DO YOU SAY THAT NO UTILITY WOULD USE THE SBCR?**

19 A. RRUI calculated the rate of return for a utility implementing the SBCR  
20 recommended by Staff – and the numbers are staggering. If a utility implemented  
21 the SBCR a utility with a 10% rate of return grossed up for taxes would only have  
22 the opportunity to earn a 5.38% rate of return on its investment. This low of a  
23 return would forced the utility to actually file a rate case to recover the lost revenue  
24 *caused by* the SBCR. Obviously that undermines a critical point of an  
25 infrastructure surcharge.

26

1 **Q. WHAT'S ELSE IS WRONG WITH THE SBCR?**

2 A. The SBCR has numerous problems that could be detailed in voluminous amounts  
3 of testimony so I will provide just a few of the problems with the SBCR.

4 Staff's SBCR will create rate shock for customers in two ways. First, the  
5 SBCR rate design is flawed because the revenue is placed in the highest tier  
6 commodity charge, a potentially devastating impact on families. This is price  
7 discrimination against large families that use reasonable amounts of water.  
8 Customer rate shock is also created because a company will under recover its  
9 investment and therefore have to file larger rate increases in the future.

10 Another flaw in Staff's SBCR is that it doesn't follow lessons learned when  
11 developing new regulatory policies. The DSIC has been used in numerous other  
12 states and has been so successful that electric and gas utilities are even now using  
13 the concept. NRRI has written about it, NARUC has written about it, dozens of  
14 entities have studied debated, endorsed, and argued about DSICs – so the  
15 Commission should take advantage of all that information in developing a  
16 reasonable, conservative DSIC. By contrast, Staff's SBCR is a radical, new,  
17 untested and unproven idea that contradicts similar mechanisms used by the ACC  
18 in dealing with similar issues for: Arizona Public Service, the Arizona Electric  
19 Cooperatives, Tucson Electric Power, Southwest Gas, UNS Gas and UNS Electric.  
20 The SBCR ignores valuable lessons gained from adjustors in other industries in  
21 Arizona, and from the DSIC in other states.

22 **Q. ANYTHING ELSE MR. KRYGIER?**

23 A. Yes. Staff's SBCR actually *promotes* regulatory lag, something the current  
24 Commission has made great strides in fixing. In fact, *the SBCR actively argues*  
25 *that regulatory lag is a good thing for customers and the company.*<sup>5</sup> This appears

26 <sup>5</sup> Direct Testimony of James R. Armstrong at 4 – 5.

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at odds with recent comments from the Commission, including the agency's own testimony at the Arizona Legislature in 2011 when the Legislature authorized increased funds for a second hearing room and additional staff *to mitigate regulatory lag* because the Commission was arguing that would ultimately benefit customers.

**Q. SO THE SBCR IS A DEAL BREAKER?**

A. Yes, we do not want it and would not implement it.

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

A. Yes.

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A Professional Corporation  
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5 Attorneys for Rio Rico Utilities, Inc.  
6

7 **BEFORE THE ARIZONA CORPORATION COMMISSION**

8 IN THE MATTER OF THE  
9 APPLICATION OF RIO RICO  
10 UTILITIES, INC., AN ARIZONA  
11 CORPORATION, FOR A  
12 DETERMINATION OF THE FAIR  
13 VALUE OF ITS UTILITY PLANTS AND  
PROPERTY AND FOR INCREASES IN  
ITS WATER AND WASTEWATER  
RATES AND CHARGES FOR UTILITY  
SERVICE BASED THEREON.

DOCKET NO: WS-02676A-12-0196

14  
15 **REBUTTAL DIRECT TESTIMONY OF**

16 **THOMAS J. BOURASSA**

17 **(COST OF CAPITAL)**

18  
19 **January 28, 2013**  
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1 **I. INTRODUCTION AND QUALIFICATIONS**

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

3 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,  
4 Phoenix, Arizona 85029.

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

6 A. I am testifying in this proceeding on behalf of the applicant, Rio Rico Utilities, Inc.  
7 ("RRUI" or the "Company").

8 **Q. DID YOU ALSO PREPARE REBUTTAL TESTIMONY ON THOSE ISSUES  
9 IN THIS DOCKET?**

10 A. Yes, my rebuttal testimony on rate base, income statement, revenue requirement  
11 and rate design is being filed in a separate volume at the same time as this  
12 testimony. In this volume, I present my cost of capital rebuttal testimony. Also  
13 attached are two exhibits, which are discussed below.

14 **II. SUMMARY OF REBUTTAL TESTIMONY AND THE PROPOSED COST  
15 OF CAPITAL FOR THE COMPANY**

16 **A. Summary of Company's Rebuttal Recommendation**

17 **Q. WHAT IS THE SCOPE OF THIS VOLUME OF YOUR REBUTTAL  
18 TESTIMONY?**

19 A. I will provide updates of my cost of capital analysis and recommended rate of  
20 return using more recent financial data. I also will provide rebuttal as appropriate  
21 to the direct testimony of Staff witness John Cassidy and RUCO witness William  
22 Rigsby.

23

24

25

26

1 **Q. HOW HAS THE INDICATED RETURN ON EQUITY CHANGED SINCE**  
2 **THE DIRECT FILING WAS MADE LAST AUGUST?**

3 A. The cost of equity has decreased somewhat since I prepared my cost of equity  
4 analysis in April 2012. The table below summarizes the results of my updated  
5 analysis using those models:  
6

<u>Method</u>	<u>Low</u>	<u>High</u>	<u>Midpoint</u>
7 Range DCF Constant Growth Estimates	9.0%	10.2%	9.6%
8 Range of CAPM Estimates	8.2%	13.9%	11.0%
9 Average of DCF and CAPM midpoint 10 estimates	<u>8.6%</u>	<u>12.1%</u>	<u>10.3%</u>
11 Financial Risk Adjustment	-0.8%	-0.8%	-0.8%
12 Specific Company Risk Premium	<u>0.8%</u>	<u>0.8%</u>	<u>0.8%</u>
13 <b>Indicated Cost of Equity</b>	<b>8.6%</b>	<b>12.2%</b>	<b>10.3%</b>

14  
15  
16 The schedules containing my updated cost of capital analysis are attached to  
17 this rebuttal testimony.

18 My 10.3 percent ROE recommendation balances my judgment about the  
19 degree of financial and business risk associated with an investment in RRUI as  
20 well as consideration of the current economic environment.

21 **Q. HAVE YOU UPDATED YOUR COST OF EQUITY ESTIMATE FOR RRUI**  
22 **USING DUFF & PHELPS RISK PREMIUM STUDY DATA?**

23 A. Yes as shown in **Rebuttal Exhibit TJB-COC-RB1**. I have included cost of equity  
24 estimates for the water sample companies. These estimates have been adjusted for  
25 leverage (financial risk) differences between the companies in the size portfolios  
26 contained in the study and the water sample companies and RRUI. Further, like

1 the Build-up Method cost of equity estimate using the *Morningstar* data, the cost of  
 2 equity estimates includes a water industry risk premium adjustment.<sup>1</sup> I have also  
 3 used the most recent recommendations for the market risk premium from *Duff &*  
 4 *Phelps* for use with their data. Based on various measures of size the results are as  
 5 follows:<sup>2</sup>

6	7	8	9
	<u>Stock</u>	<u>Company</u>	<u>Cost of</u>
	<u>Symbol</u>		<u>Equity</u>
8	AWR	American States Water Co.	10.01%
9	WTR	Aqua America	8.32%
10	CWT	California Water Services Group	10.81%
11	CTWS	Connecticut Water Services	12.21%
12	MSEX	Middlesex Water Company	11.61%
13	SJW	SJW Corp.	11.88%
14		Average	10.80%
15		RRUI	14.30%

17 **Q. HOW DO THE DUFF & PHELPS COST OF EQUITY ESTIMATES**  
 18 **COMPARE TO YOUR DCF AND CAPM RESULTS?**

19 A. The results of my DCF and CAPM analyses for the publicly traded water  
 20 companies compare favorably to the build-up method using the *Duff & Phelps*  
 21 study data. The mid-point of my DCF and CAPM results is 10.3 percent, which is  
 22 approximately the midpoint of the ranges of estimates produced by the build-up  
 23 method using the *Duff & Phelps* study data which range from 8.32 percent to 12.21

24  
 25 <sup>1</sup> Note that the risk premium for the water utility industry is negative indicating that water utilities are less  
 risky than the market as a whole.

26 <sup>2</sup> See Exhibit TJB-COC-RB1, Table 6.

1 percent with a midpoint of 10.27 percent. Second, and more importantly, my  
2 recommended ROE of 10.3 for RRUI is well below the mid-point of the range of  
3 estimates for RRUI using both build-up methods (one using the *Morningstar* data<sup>3</sup>  
4 and the other using the *Duff & Phelps* study data) which range from 10.8 percent to  
5 14.3 percent with a mid-point of 12.6 percent. Accordingly, I find my  
6 recommendation of a 10.3 percent ROE appropriately conservative.

7 **Q. DO THE COST OF EQUITY ESTIMATES BASED ON DUFF & PHELPS**  
8 **TAKE INTO CONSIDERATION THE DIFFERENCES IN LEVERAGE**  
9 **BETWEEN THE PUBLICLY TRADED SAMPLE WATER UTILITIES**  
10 **AND RRUI?**

11 A. Yes.

12 **Q. HAVE YOU ACCOUNTED FOR THE FACT THAT THE WATER**  
13 **UTILITY INDUSTRY IS LESS RISKY THAN THE MARKET?**

14 A. Yes. Based on the industry data, each of above estimates based on the *Duff &*  
15 *Phelps* risk premium study is adjusted downward for the water utility industry risk  
16 based upon the water industry risk premium found in *Morningstar*.<sup>4</sup> As shown in  
17 Table 5 of Exhibit TJB-COC-RB1, the appropriate downward industry risk  
18 premium adjustment is approximately 403 basis points.<sup>5</sup>

19 **Q. WHAT WAS THE ASSUMED HISTORICAL MARKET RISK PREMIUM**  
20 **USED IN THE DUFF & PHELPS STUDY AND YOUR ESTIMATED COST**  
21 **OF EQUITY?**

22 A. The *Duff & Phelps* study uses a historical market risk premium of 4.3 percent.  
23 I used a current market risk premium estimate of 5.5 percent for my calculations.

24 <sup>3</sup> See Direct Testimony of Thomas J. Bourassa – Cost of Capital (“Bourassa COC Dt.”) at 44 – 45.

25 <sup>4</sup> Morningstar. *Ibbotson SBBi 2012 Valuation Yearbook*. Table 3-5.

26 <sup>5</sup> A downward market risk premium indicates the water utility industry is less risky than the market on average. This is consistent with water utility beta’s being less than 1.0.

1 The 5.5 percent is based on the current recommendations of the authors of the *Duff*  
2 & *Phelps* study for use with the study data.<sup>6</sup> In contrast, the long-horizon equity  
3 risk premia as determined by *Morningstar* is 6.6 percent.<sup>7</sup>

4 **Q. ARE THE COST OF EQUITY ESTIMATES LOWER THAN THOSE YOU**  
5 **ESTIMATED IN YOUR DIRECT TESTIMONY?**

6 A. Yes. This is primarily due to a reduction in the risk free rate<sup>8</sup> from 2.85 percent in  
7 my direct testimony to 2.65 percent.

8 **Q. THANK YOU. PLEASE SUMMARIZE YOUR RECOMMENDED**  
9 **REBUTTAL COST OF CAPITAL COMPONENTS.**

10 A. The Company's recommended capital structure consists of 20 percent debt and 80  
11 percent common equity as shown on Rebuttal Schedule D-1. Based on my updated  
12 cost of capital analysis, I am recommending a cost of equity of 10.3 percent. Based  
13 on my 10.3 percent recommended cost of equity and a 20 percent debt and an 80  
14 percent equity capital structure, the Company's weighted average cost of capital  
15 ("WACC") is 9.38 percent, as shown on Rebuttal Schedule D-1.

16 **Q. HOW HAVE ECONOMIC CONDITIONS CHANGED SINCE YOU**  
17 **PREPARED YOUR COST OF CAPITAL ANALYSIS IN APRIL 2012?**

18 A. During the past eight months, both the economy and the financial markets have  
19 improved and the stock market has moved significantly upwards. The Dow Jones  
20 Industrial Average has risen from around 13,000 in April 2012 to just around  
21 13,600 at the time of this rebuttal filing. The S&P 500 index has moved from  
22 around 1,350 in April 2012 to over 1,500 in at the time of this filing. The  
23 unemployment rate has also dropped from 8.2 percent to 7.8 percent. Interest rates

24 \_\_\_\_\_  
25 <sup>6</sup> *Duff & Phelps*, January 15, 2012.

26 <sup>7</sup> *Morningstar. Ibbotson SBI 2011 Valuation Yearbook*, Table A-1.

<sup>8</sup> 20 Year U.S. Treasury bonds.

1 continue to be at historical lows as the Federal Reserve has continued its efforts to  
2 keep interest rates low in order to spur a sluggish economy.

3 The economy (real GDP) grew by an annualized rate of 1.8 percent in the  
4 fourth quarter of 2012 compared to 3.1 percent in the third quarter of 2012.<sup>9</sup> The  
5 outlook for 2013 is for very modest growth in the range of 1.5 percent to 2.7  
6 percent.<sup>10</sup> On the other hand, economists continue to express concerns over the  
7 federal deficits and the high federal debt as well as the drag on economic growth  
8 from increased taxes and the uncertainty regarding additional taxes. The Eurozone  
9 is mired in a recession along with its lingering debt crisis. These circumstances all  
10 continue to be risks to future economic growth in the U.S.<sup>11</sup>

11 **Q. HOW HAS THE ANALYSTS' OUTLOOK FOR THE WATER UTILITY**  
12 **INDUSTRY CHANGED SINCE YOU PREPARED YOUR COST OF**  
13 **CAPITAL ANALYSIS IN APRIL 2012?**

14 A. It hasn't changed much. Despite the concerns in other areas, *Value Line* continues  
15 to espouse the view that the water utility industry is facing ever higher operating  
16 costs that are likely to continue to outpace revenues. *Value Line* also continues to  
17 identify concerns over infrastructure costs to replace aging infrastructures while at  
18 the same time most in this group are strapped for cash. Increased borrowing or  
19 issuing additional shares to meet capital requirements are eating away at profits and  
20 diluting shareholder gains.<sup>12</sup> Thus, the long-term outlook for water utility stocks  
21 remains subdued and *Value Line* continues to advise investors to look elsewhere  
22 from better income producing vehicles, particularly the Electric Utility Industry.<sup>13</sup>

23  
24 <sup>9</sup> *Blue Chip Financial Forecast*, January 2013.  
25 <sup>10</sup> *Blue Chip Financial Forecasts*, January 2013.  
26 <sup>11</sup> *Id.*  
<sup>12</sup> *Value Line*, January 18, 2013.  
<sup>13</sup> *Id.*

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**B. Summary of the Staff and RUCO recommendations**

**Q. PLEASE SUMMARIZE THE RESPECTIVE RECOMMENDATIONS OF STAFF AND RUCO FOR THE RATE OF RETURN ON FAIR VALUE RATE BASE.**

A. Staff is recommending a capital structure consisting of 0 percent debt and 100 percent equity.<sup>14</sup> Staff determined a cost of equity of 8.4 percent based on the average cost of equity produced by its DCF and CAPM models, a financial risk adjustment and an economic assessment adjustment.<sup>15</sup> Staff uses a sample of six publicly traded water utilities, the same as those I used in my analysis. Staff did not consider firm size or firm-specific risks in its analysis. Based on its capital structure recommendation, Staff determined the WACC for RRUI to be 8.4 percent.<sup>16</sup>

RUCO also did not consider firm-size or firm-specific risks for RRUI. RUCO determined its recommended cost of equity of 9.0 percent based on the results of its DCF and CAPM methods.<sup>17</sup> RUCO uses a sample of six publicly traded water utilities. The five utilities are the same as five of the six water utilities I used. RUCO also uses nine gas distribution utilities in its analysis. RUCO joins RRUI in recommending a hypothetical capital structure of 20 percent debt and 80 percent equity and uses a hypothetical cost of debt of 4.13 percent.<sup>18</sup> The 4.13 percent cost of debt is the unadjusted test year effective cost of debt. Based on its

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<sup>14</sup> Direct Testimony of John Cassidy (“Cassidy Dt.”) at 8.  
<sup>15</sup> *Id.* at 36.  
<sup>16</sup> *Id.*  
<sup>17</sup> See Direct Testimony of William A. Rigsby Dt. (“Rigsby Dt.”) at 5.  
<sup>18</sup> *Id.* at 6.

1 20 percent debt and 80 percent equity capital structure, RUCO determined the  
2 WACC for RRUI to be 8.03 percent.<sup>19</sup>

3 **Q. HAS THE COMPANY'S PROPOSED CAPITAL STRUCTURE CHANGED?**

4 A. No. The Company continues to recommends a 20 percent debt and an 80 percent  
5 equity capital structure consistent with its representation to RUCO and the  
6 Commission that it would add this debt to RRUI's capital structure. The Company  
7 also continues to propose a 5.7 percent cost of debt. Based on the Company's  
8 recommended cost of debt and equity and its proposed capital structure, the  
9 Company's proposed WACC is 9.38 percent.<sup>20</sup>

10 **Q. PLEASE COMPARE THE PARTIES' RESPECTIVE COST OF EQUITY**  
11 **ESTIMATES AND RECOMMENDATIONS.**

12 A. The respective parties' cost of equity recommendations are summarized below:

13 <u>Party</u>	<u>DCF</u>	<u>CAPM</u>	<u>Average</u>	<u>Recommended</u>
14 RRUI	9.6%	11.0%	10.7%	10.3%
15 Staff	8.8%	8.8%	8.8%	8.4%
16 RUCO	8.37%	6.16%	7.26%	9.0%

17  
18 **C. Comments on the Cost of Equity Results and Recommendations of Staff**  
19 **and RUCO**

20 **Q. HOW DO THE PARTIES' RECOMMENDATIONS COMPARE TO**  
21 **OTHER FORECASTS OF COMMON EQUITY RETURNS AND**  
22 **CURRENTLY AUTHORIZED RETURNS?**

23 A. *Value Line*, a reputable publication used by the Company, Staff, and RUCO cost of  
24 capital witnesses, publishes forecasts of returns on common equity for larger

25 <sup>19</sup> *Id.*

26 <sup>20</sup> *See* Rebuttal Schedule D-1.

1 publicly traded companies – both water and natural gas. These water utilities are  
2 included in my sample group and in both RUCO's and Staff's sample groups.  
3 *Value Line* (January 18, 2013) projects the following returns on equity for those  
4 water utilities:

5	American States Water (AWR)	12.0%
6	Aqua America (WTR)	12.5%
7	California Water (CWT)	10.5%
8	Connecticut Water (CTWS)	10.5%
9	Middlesex Water (MSEX)	9.0%
10	SJW Corp. (SJW)	<u>7.0%</u>
11	Average	10.3%

12 RUCO also uses a sample group of nine natural gas distribution companies.  
13 *Value Line* (December 7, 2012) projects the following returns on equity for those  
14 gas utilities:

15	AGL Resources, Inc. (GAS)	11.5%
16	Atmos Energy Corp. (ATO)	8.0%
17	Laclede Group (LG)	10.0%
18	New Jersey Resources (NJR)	14.0%
19	Northwest Gas Co. (NWN)	11.5%
20	Piedmont Natural Gas Co. (PNY)	12.5%
21	South Jersey Industries, Inc. (SJI)	16.0%
22	Southwest Gas (SWX)	10.5%
23	WGL Holdings, Inc. (SJW)	<u>9.5%</u>
24	Average	11.5%

1           Furthermore, the currently authorized ROE's for the sample water utility  
2 companies as reported by AUS Utility Reports (January 2013) average 10.03  
3 percent. They are as follows:

4           American States Water (WTR)	9.99%
5           Aqua America (WTR)	10.33%
6           California Water (CWT)	9.99%
7           Connecticut Water (CTWS)	9.75%
8           Middlesex Water (MSEX)	10.15%
9           SJW Corp. (SJW)	<u>9.99%</u>
10          Average	10.03%

11  
12           The currently authorized ROE's for the sample natural gas distribution  
13 companies as reported by AUS (January 2013) average 10.29 percent. They are as  
14 follows:

15          AGL Resources, Inc. (GAS)	10.17%
16          Atmos Energy Corp. (ATO)	11.71%
17          Laclede Group (LG)	NM
18          New Jersey Resources (NJR)	10.30%
19          Northwest Gas Co. (NWN)	9.50%
20          Piedmont Natural Gas Co. (PNY)	10.40%
21          South Jersey Industries, Inc. (SJI)	10.30%
22          Southwest Gas (SWX)	10.12%
23          WGL Holdings, Inc. (SJW)	<u>9.85%</u>
24          Average	10.29%

1 Q. WHAT IS THE RELEVANCE OF ALL THESE RETURNS YOU JUST  
2 WENT THROUGH, MR. BOURASSA?

3 A. Because RRUI has no market data of its own, we use these other companies as  
4 proxies. In this case, comparison to these proxies readily illustrates that Staff's and  
5 RUCO's recommended returns are (1) 100 to 190 basis points lower than the  
6 average of the currently authorized returns and (2) 130 to 310 basis points the  
7 average of the 3-5 year expected returns of the publicly traded utilities each party  
8 uses to estimate the cost of equity for RRUI.

9 Q. HOW DO THE PARTIES' RECOMMENDATIONS COMPARE TO THE  
10 DUFF & PHELPS RISK PREMIUM STUDY DATA?

11 A. The build-up method cost of equity estimate using the *Duff & Phelps* study data is  
12 10.8 percent. This is 240 basis points higher than Staff's recommendation of 8.4  
13 percent, 180 basis points higher than RUCO's recommendation of 9.0 percent, and  
14 50 basis point higher than my recommendation of 10.3 percent.

15 Q. WHAT ABOUT SIZE-BASED METRICS LIKE NET PLANT AND TOTAL  
16 REVENUES, DO THOSE FACTOR IN UNDER THE BUILD-UP  
17 METHOD?

18 A. Not directly, however, these metrics confirm the results. Below is a table using the  
19 two common metrics of size as reported by AUS Utility Reports (January 2013)  
20 compared with the results of my cost of equity analysis based on the *Duff & Phelps*  
21 study.

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<u>Water Utility</u>	<u>Net Plant</u> <u>(\$ millions)</u>	<u>Size Rank</u> <u>by</u> <u>Plant</u>	<u>Revenue</u> <u>(\$ millions)</u>	<u>Size Rank</u> <u>by</u> <u>Rev.</u>	<u>Duff &amp; Phelps</u> <u>COE</u>	<u>Lowest</u> <u>to</u> <u>Highest</u> <u>COE</u>
American States Water (WTR)	\$ 912.0	3	\$ 419.3	3	10.01%	2
Aqua America (WTR)	\$3,863.4	1	\$ 755.7	1	8.32%	1
California Water (CWT)	\$1,443.1	2	\$ 541.5	2	10.81%	3
Connecticut Water (CTWS)	\$ 422.6	6	\$ 79.8	6	12.21%	6
Middlesex Water (MSEX)	\$ 433.3	5	\$ 106.6	5	11.61%	4
SJW Corp. (SJW)	<u>\$ 870.5</u>	4	<u>\$ 261.4</u>	4	<u>11.88%</u>	5
Average	\$1,229.2		\$ 344.0		10.80%	
RRUI (at February 29, 2012)	\$ 28.2		\$ 4.2		14.30%	

What this illustrates is that, despite the fact that neither net plant nor revenues were considered as measures of size using the build-up method, the cost of equity results show that as the size of the utility increases so does the cost of equity. This is as expected and is consistent with the empirical financial data found in *Morningstar*.

The average net plant for the publicly traded water utilities is over 47 times that of RRUI and the average total revenues are over 87 times. There is a significant size difference and one would expect the cost of equity estimate for RRUI to be much higher, and it is. Moreover, most of these utilities operate in jurisdictions such as California and Pennsylvania that use projected or partially projected test years, and authorize surcharges and other cost recovery mechanisms that allow the recovery of increases in costs outside a general rate case. Therefore, it is again confirmed that these large publicly traded utilities are less risky than RRUI. In the real world, RRUI has a cost of equity that is higher than the large publicly traded utilities.

1 Q. PLEASE SUMMARIZE THE RECOMMENDED RETURNS OF THE  
2 PARTIES, EXPECTED BOOK RETURNS, AUTHORIZED RETURNS,  
3 AND RETURNS BASED ON THE DUFF & PHELPS STUDY.

4 A. The following table summarizes the equity returns recommended by each of the  
5 parties with the foregoing expected book returns, authorized returns, and returns  
6 based upon size (*Duff & Phelps*) for the publicly traded utilities:

	<u>Cost of Equity</u>
7 Staff recommendation	8.40%
8 RUCO recommendation	9.00%
9 RRUI recommendation	10.30%
10 Mid-point of DCF and CAPM (Water Utilities)	10.30%
11 Expected Book Returns (Water Utilities)	10.30%
12 Authorized Returns (Water Utilities)	10.03%
13 Expected Book Returns (Gas Utilities)	11.50%
14 Authorized Returns (Gas Utilities)	10.30%
15 Duff & Phelps (Water Utilities)	10.80%

16 The foregoing data provide clear evidence that the Staff and RUCO  
17 recommendations for RRUI are simply too low. At the end of the day, when all the  
18 expert and lawyer wrangling over inputs and assumptions is done, the results  
19 should still pass the simple, common-sense “smell test” and the Staff and the  
20 RUCO recommendations don’t pass that test.

21 Mr. Rigsby’s DCF and CAPM results produce an indicated cost of equity of  
22 just 7.26 percent.<sup>21</sup> He then recommends a 9.0 percent ROE, a tacit  
23 acknowledgment that the results of his models are unreasonably low.  
24 Similarly, Mr. Cassidy’s DCF and CAPM results produce a 7.8 percent ROE (after  
25 adjusting for financial risk and before its recommended economic assessment  
26 adjustment). Mr. Cassidy then adds a mysterious and previously unheard of  
economic assessment adjustment to achieve his 8.4 ROE. Again, perhaps this is

<sup>21</sup> See RUCO Schedule WAR-1, page 2 of 2.

1 Mr. Cassidy's acknowledgment that the results of his models are unreasonably low.  
2 Neither Mr. Cassidy's nor Mr. Rigsby's recommendations pass the "smell test"  
3 when compared to the projected and authorized returns for the sample publicly  
4 traded utility companies.

5 **Q. PLEASE COMMENT ON STAFF'S FINANCIAL RISK ADJUSTMENT.**

6 A. Staff recommends a 100 basis point reduction in the cost of equity to reflect the  
7 lower financial risk of RRUI's 100 percent equity capital structure.<sup>22</sup> For one  
8 thing, Staff's financial risk adjustment is overstated. Based upon the correct use of  
9 the Hamada approach, Staff's financial risk adjustment should be no more than 60  
10 basis points. Simply correcting this error, Staff's ROE should be 8.8 percent not  
11 8.4 percent.

12 **Q. WHY DO YOU BELIEVE STAFF'S FINANCIAL RISK ADJUSTMENT IS**  
13 **OVERSTATED?**

14 A. Staff's financial risk adjustment is overstated for two reasons. First, the beta used  
15 in the Hamada formula Staff employs is the average beta of Staff's sample publicly  
16 traded water utilities. RRUI is a riskier investment than any of the sample utilities.  
17 Consequently, it would have a higher beta than the average of the sample group.  
18 This error overstates the adjustment. Second, Staff's financial risk adjustment is  
19 overstated because Staff uses book values rather than conceptually correct market  
20 values for debt and equity in calculating the risk adjustment using the Hamada  
21 formula. Professor Hamada developed his equation using market values, not  
22 recorded book costs.<sup>23</sup> This is logical given that the Hamada formula is an  
23 extension of the CAPM, which is a market-based model that does not consider  
24

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25 <sup>23</sup> "Effects of the Firm's Capital Structure on Systematic Risk of Common Stock," *Journal of Finance*,  
26 Vol. 27 No. 2 (May 1972) 435 - 453.

1 book or accounting data. The critical component, beta, is an estimate of a  
2 security's risk based on its volatility relative to the market as a whole. Therefore, it  
3 would make no sense to un-lever and re-lever the sample group's average beta to  
4 account for the effect of financial leverage using book equity, as Staff has done in  
5 this case. Furthermore, numerous authorities state that market values must be used  
6 in estimating the effect of leverage on a security's risk.<sup>24</sup> This error also overstates  
7 the adjustment.

8 **Q. IS THE HAMADA METHOD FOR DETERMINING A FINANCIAL**  
9 **ADJUSTMENT NEW, MR. BOURASSA?**

10 A. Hardly. For several years now it has been the method Staff has been  
11 recommending and the Commission has been adopting for determining a financial  
12 risk adjustment. Up or down. The problem is the Hamada is a market-based  
13 model and Staff is using book values. It is conceptually wrong.

14 **Q. THANK YOU. TURNING NOW TO MR. CASSIDY'S CRITICISMS OF**  
15 **YOU FOR CONSIDERING THE DIFFERENCES IN RISK DUE TO THE**  
16 **SIZE OF RRUI COMPARED TO THE PUBLICLY TRADED SAMPLE**  
17 **UTILITIES. PLEASE COMMENT.**

18 A. Mr. Cassidy does not dispute that smaller companies are more risky than larger  
19 companies. Staff simply opines the Commission has not allowed a risk premium  
20 for size in the past.<sup>25</sup>

21  
22  
23 <sup>24</sup> See, e.g., Roger A. Morin, *New Regulatory Finance* 223-24 (Public Utility Reports, Inc. 2006)  
24 ("Morin"); Richard A. Brealey, Stewart C. Myers and Franklin Allen, *Principles of Corporate Finance*  
25 516-20 (McGraw Hill/Irwin 8th ed. 2006); Tim Koller, Marc Goedhart and David Wessels, *Valuation:*  
26 *Measuring and Managing the Value of Companies* 312-13 (John Wiley & Sons, Inc. 4th ed. 2005);  
Shannon, P. Pratt, *Cost of Capital – Estimations and Applications* 83-85 (John Wiley & Sons 2nd ed.  
2002).

<sup>25</sup> Cassidy Dt. at 46.

1 Frankly, it is so astonishing that the process in Arizona has, heretofore,  
2 ignored what the rest of the financial world knows – that size matters – I simply  
3 cannot avoid discussing it without me having to question my own integrity as a  
4 cost of capital expert.

5 **Q. OKAY, WHY DOES SIZE MATTER IN THE ANALYSIS OF A UTILITY'S**  
6 **COST OF CAPITAL?**

7 **A.** There are many reasons why smaller utilities are more risky than larger utilities.  
8 I have discussed these reasons extensively in my direct testimony and will not  
9 repeat that testimony here.<sup>26</sup> The simple fact is that a rational investor is not going  
10 to view an equity investment in RRUI as having the same risk as the purchase of  
11 publicly traded stock in a substantially larger utility such as Aqua America,  
12 American States Water or California Water Service. That does not mean we can't  
13 use the sample companies as proxies, it means we can't ignore the plethora of  
14 evidence that firm size does matter. If the differences in risk between small  
15 utilities like RRUI and the large, publicly traded water utilities used to estimate the  
16 cost of equity are ignored, RRUI's equity cost will be understated and  
17 unreasonable.

18 **Q. IS FIRM SIZE A UNIQUE RISK?**

19 **A.** No. The firm size is a systematic risk factor.<sup>27</sup> We know that based on empirical  
20 financial data that the firm size phenomenon is real. Moreover, we know that the  
21 capital asset pricing model is incomplete and does not fully account for the higher  
22 returns on small company stocks. In other words, the higher risks associated with  
23 smaller firms is not fully accounted for by beta.

24  
25 <sup>26</sup> Bourassa COC Dt. at 15 – 21, 41 – 43.

26 <sup>27</sup> Shannon P. Pratt and Roger J. Grabowski. *Cost of Capital: Applications and Examples, Fourth Edition.*  
John Wiley and Sons, 2010. p. 56.

1 With respect to the relationship between firm size and return, *Morningstar*  
2 states:<sup>28</sup>

3 One of the most remarkable discoveries of modern finance is  
4 that of a relationship between firm size and return. The  
5 relationship cuts across the entire size spectrum but is most  
6 evident among smaller companies which have higher returns  
7 than larger ones. Many studies have looked at the effect of  
8 firm size and return...

9 With respect to the CAPM, *Morningstar* states:<sup>29</sup>

10 The firm size phenomenon is remarkable in several ways.  
11 First, the greater risk of small stocks does not, in the context  
12 of the capital asset pricing model (CAPM), fully account for  
13 their higher returns over the long term. In the CAPM only  
14 systematic, or beta risk, is rewarded; small company stocks  
15 have had returns in excess of those implied by their betas.

16 **Q. BUT DOESN'T MR. RIGSBY ALSO CRITICIZE YOU FOR**  
17 **CONSIDERING THE DIFFERENCES IN RISK DUE TO THE SIZE?**

18 **A.** Yes. Mr. Rigsby's argument is that an investment in RRUI faces the same types of  
19 risks as an investment in the publicly traded utilities in other respective sample  
20 groups.<sup>30</sup> RUCO does not claim the risks are of the same magnitude, but rather  
21 they both have the same types of risk. The market data from *Duff & Phelps*,  
22 *Morningstar*, and others, however, demonstrate the magnitude of market risk with  
23 respect to firm size is in fact different and it's the magnitude that matters.

24 **Q. HOW DO YOU RESPOND TO RUCO'S ARGUMENT THAT RRUI'S**  
25 **PARENT IS A LARGE PUBLICLY TRADED ENTITY THAT HAS**  
26 **ACCESS TO THE CAPITAL MARKETS?**

<sup>28</sup> *Morningstar, Ibbotson SBBi 2011 Valuation Yearbook*, at 83.

<sup>29</sup> *Id.* at 87.

<sup>30</sup> Rigsby Dt. at 69.

1 A. When assessing the risks of any investment, it is the investment not the investor  
2 that is analyzed. I agree with RUCO that RRUI does have access to the capital  
3 markets through its parent and that access should be a consideration in assessing  
4 the risk of an investment in RRUI. In this sense, both RUCO and I would agree  
5 that the impact on investment risk from access to the capital markets is similar in  
6 the same way the publicly traded utilities in each of our sample groups have access  
7 the capital markets. I have considered the access to the capital markets in the size  
8 risk premium I recommend for RRUI. The indicated small company risk premium  
9 I recommend is 80 basis points; which is below the range indicated by my size  
10 premium study of 100 to 367 basis points and lower than the size premium of 487  
11 basis points indicated by the results using the *Duff & Phelps* risk premium study  
12 data.<sup>31</sup>

13 **Q. PLEASE COMMENT ON STAFF'S ECONOMIC RISK ASSESSMENT.**

14 A. I can't, at least not in any meaningful way. Staff does not explain the basis for this  
15 adjustment in its testimony.<sup>32</sup> When pressed, Staff could offer nothing more than  
16 that it is based on Mr. Cassidy's judgment.<sup>33</sup> There is no analysis, study or  
17 authoritative reference upon which Mr. Cassidy's judgment rests for me to  
18 consider. Of course, I agree with Staff that the current economic environment  
19 supports increased ROE's. I have just never seen an adjustment of this type from  
20 Staff or anyone else. When economic conditions were far worse a few years ago,  
21 Staff never advanced an economic assessment adjustment. I am left a bit perplexed  
22 by the whole thing, but my skepticism, and the fact that the Economic Assessment  
23 Adjustment ("EAA") has popped into existence out of nowhere, lead me to

24  
25 <sup>31</sup> See Rebuttal Table D-4.16 and Table 2 of Rebuttal Exhibit TJB-COC-RB1.

26 <sup>32</sup> Cassidy Dt. at 36.

<sup>33</sup> See Staff response to RRUI data request 2.6.

1 conclude that it was Staff's band-aid to cover up an unreasonably low ROE.  
2 Recall that without the goofy EAA, Staff's ROE would be only 7.8 percent.

3 **Q. THANK YOU. PLEASE COMMENT ON STAFF'S RECOMMENDATION**  
4 **OF A 100 PERCENT EQUITY CAPITAL STRUCTURE FOR RRUI.**

5 A. Staff has recommended a 100 percent equity capital structure based on the fact that  
6 RRUI currently has no actual debt in its capital structure. This is ironic given that  
7 Staff agreed to a hypothetical capital structure in RRUI's last rate case when there  
8 was no actual debt.

9 **Q. BUT MR. BOURASSA, ISN'T THIS ALL LIBERTY'S FAULT FOR NOT**  
10 **FOLLOWING THROUGH AND INFUSING 20 PERCENT DEBT INTO ITS**  
11 **CAPITAL STRUCTURE.**

12 A. No. They did. As has been proven time and time again, including the last rate case  
13 for RRUI and for its affiliate, hypothetical debt works in this instance and is  
14 virtually indiscernible from actual debt in the ratemaking process. So, Liberty does  
15 its borrowing at the parent level and infuses the debt down to RRUI in hypothetical  
16 form for ratemaking. RRUI has honored its commitment and the ratepayers have  
17 the benefit of the debt.

18 **Q. PLEASE RESPOND TO MR. RIGSBY'S RECOMMENDATION FOR**  
19 **RRUI'S COST OF DEBT.**

20 A. Mr. Rigsby's cost of debt recommendation is based upon the current yield on a  
21 Baa/BBB rated utility bond.<sup>34</sup> Liberty Utilities' current bond rating is BBB- which  
22 is a grade below S&P's BBB rating. So that's the first flaw in Mr. Rigsby's debt  
23 cost. Mr. Rigsby further assumes that RRUI could borrow money at 4.13 percent.  
24 But the 5.7 percent cost of debt used with our 80-20 equity to debt capital structure  
25

26 <sup>34</sup> Rigsby Dt. at 56.

1 was based on RRUI's parent's cost of debt. That's the rate RRUI, a subsidiary of  
2 Liberty, can borrow at, not the 4.13 percent that popped into existence for RUCO's  
3 purposes.

4 **Q. WHAT SUPPORT DO YOU HAVE FOR YOUR COST OF DEBT?**

5 A. Attached as **Exhibit TJB-COC-RB2** is an announcement for Liberty Utilities  
6 describing its current credit facility (issued in 2010). The credit facility has an  
7 interest rate of 5.6 percent. With the financing costs included, the effective interest  
8 rate is 5.7 percent, the interest rate the Company is proposing.

9 **Q. ON PAGE 38 AND 39 OF HIS TESTIMONY MR. CASSIDY CRITICIZES**  
10 **YOU FOR RELYING EXCLUSIVELY ON ANALYSTS' FORECASTS OF**  
11 **GROWTH. IS THIS TRUE?**

12 A. No. I rely on both historical growth rates and forecasts of growth. I just give more  
13 weight to the analysts' forecasts of growth. It is important to note that Mr. Cassidy  
14 disagrees with the additional weight I give the analysts' forecasts, but he is not  
15 saying these forecasts have no merit, nor did I rely solely on analysts' forecasts of  
16 growth. The dispute between Mr. Cassidy and me comes down to something  
17 between 50 percent and my "greater" emphasis. In my direct testimony I explained  
18 why a weight greater than 50 percent should be given to analysts' estimates.<sup>35</sup>

19 **Q. DID YOU MISSTATE HOW MANY SOURCES YOU USED TO OBTAIN**  
20 **ESTIMATES OF EPS GROWTH IN YOUR DIRECT?**

21 A. Yes. Ultimately I used three rather than four. I mentioned *Morningstar* as a fourth  
22 source in my direct testimony.<sup>36</sup> I tried to obtain EPS growth estimates from  
23 *Morningstar* but was unable to find estimates. They may be available under the  
24 premium subscription service, but I am not a premium member and therefore do

25 <sup>35</sup> Bourassa COC Dt. at 31.

26 <sup>36</sup> *Id.* at 30.

1 not know. In any case, had I listed *Morningstar* all of the estimates would have  
2 been blank as I found none. Right or wrong I eliminated the *Morningstar* column  
3 from the direct Schedule D-4.6 which then only showed three sources. As a note, I  
4 currently cannot find EPS estimates from *Zacks*. Again, it may be available under  
5 the premium subscription service, but I am not a member at this time.

6 **Q. THANK YOU. ARE ANALYSTS' FORECASTS OF GROWTH "OVERLY**  
7 **OPTIMISTIC"?**

8 A. Not according to the gurus Gordon, Gordon and Gould<sup>37</sup> who found that analysts'  
9 estimates are the best proxies for DCF growth when estimating the cost of equity  
10 using the DCF. But the level of accuracy of analysts' forecasts is an after-the-fact  
11 evaluation with little relevance to the issues at hand here. Dr. Morin states:

12 Because of the dominance of institutional investors and their  
13 influence on individual investors, analysts' forecasts of long-  
14 run growth rates provide a sound basis for estimating required  
15 returns. Financial analysts exert a strong influence on the  
16 expectations of many investors who do not possess the  
17 resources to make their own forecasts, that is, they are a cause  
18 of g. *The accuracy of these forecasts in the sense of*  
19 *whether they turn out to be correct is not at issue here, as*  
20 *long as they reflect widely held expectations.* As long as the  
21 forecasts are typical and/or influential in that they are  
22 consistent with current stock price levels, they are relevant.  
The use of analysts' forecasts in the DCF model is sometimes  
denounced on the grounds that it is difficult to forecast  
earnings and dividends for only one year, let alone for longer  
time periods. *This objection is unfounded, however,*  
*because it is present in investor expectations that are being*  
*priced; it is the consensus forecast that is embedded in price*  
*and therefore in required return, and not the future as it*  
*will turn out to be.* (emphasis added)<sup>38</sup>

23 What really matters is that analysts' forecasts strongly influence investors  
24 and hence the market prices they are willing to pay for stocks. Analysts' growth

25 <sup>37</sup> *Id.* at 30 – 31.

26 <sup>38</sup> Roger A. Morin. *New Regulatory Finance* (2006) 298.

1 rates influence the prices investors will pay for stocks and thus impact the dividend  
2 yields. The dividend yields change until the sum of the dividend yield plus the  
3 growth rate equals investors' perceived cost of equity. Had the growth forecasts  
4 been lower – as Mr. Cassidy suggests they should be – the stock prices would be  
5 lower and dividend yields would be higher, but there would not necessarily be any  
6 difference in the ultimate estimate of the cost of equity.

7 **Q. HAS MR. CASSIDY OFFERED ANY EVIDENCE THAT INVESTORS DO**  
8 **NOT RELY ON ANALYST ESTIMATES?**

9 A. No. Nor does he offer any evidence of the extent investors rely on historical  
10 growth or on analyst estimates of future growth. Mr. Cassidy offers no quantitative  
11 or conceptual argument to rebut the conclusions of Gordon, Gordon, and Gould,<sup>39</sup>  
12 and offers no evidence that any of the measures of past growth he has used –  
13 historical EPS, historical DPS, historical sustainable growth – provide a better  
14 forecast of future growth for utilities than analysts' estimates of growth.

15 The bottom line – Mr. Cassidy is using Staff's inputs into the DCF model  
16 mechanically without considering the reasons for using those inputs. And Staff's  
17 inputs have long been skewed to give less weight to the best estimate of future  
18 growth in an effort to keep down the cost of equity.

19 **Q. ON PAGE 45 OF HIS TESTIMONY, MR. CASSIDY ALSO CRITICIZES**  
20 **YOU FOR USING A FORECASTED INTEREST RATE FOR THE RISK-**  
21 **FREE RATE IN YOUR CAPM. PLEASE RESPOND.**

22 A. I use both a current interest rate as well as forecasted interest rates on 30 year U.S.  
23 Treasury Bonds as a proxy to my risk-free rate. Like analysts' forecasts of growth,  
24 I believe investors rely on this information. If investors did not rely on this  
25

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26 <sup>39</sup> See Bourassa COC Dt. at 31.

1 information *Value Line*, *Blue Chip* and others would not provide this information.  
2 Mr. Cassidy provides no evidence that investors do not rely on this information.  
3 This is just another disagreement between Mr. Cassidy and me regarding the inputs  
4 to the models he was plugged into when he became Staff's latest cost of capital  
5 model operator.

6 **Q. MR. RIGSBY ALSO STATES THE YOU SELECTIVELY IGNORE**  
7 **ESTIMATES OF DPS GROWTH IN YOUR GROWTH RATE ESTIMATE.**  
8 **PLEASE RESPOND.**

9 A. I explained in detail why I do not use forecasts of the dividend growth in my direct  
10 testimony.<sup>40</sup> I have always followed this approach, not because it depresses the  
11 growth rate but because of the limited information available on dividend growth.  
12 There is only one source (*Value Line*) that provides projected DPS growth  
13 estimates. The wide availability of earnings growth estimates compared to  
14 dividend growth estimates indicates a greater reliance by investors on earnings  
15 rather than dividends for their investment decisions. It turns out that studies  
16 indicate that earning per share ("EPS") growth, and in particular analysts' estimates  
17 of EPS growth, is the best measure of growth and DPS growth was the least  
18 preferable measure of growth.<sup>41</sup> So, it boils down to a difference of opinion on the  
19 use of estimates of DPS growth rather than a purposeful intention to depress the  
20 growth rate and ultimately the indicated cost of equity produced by my DCF  
21 model.

22 I could similarly accuse Mr. Rigsby of intentionally depressing his growth  
23 rates by the method he employs to estimate the EPS growth. Mr. Rigsby's method  
24

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25 <sup>40</sup> *Id.* at 31.

26 <sup>41</sup> David A. Gordon, Myron J. Gordon and Lawrence I. Gould, "Choice Among Methods of Estimating Share Yield," *Journal of Portfolio Management* (Spring 1989), 50 – 55.

1 of estimating his growth rates is subjective and cannot be verified or replicated, in  
2 contrast to the methods I use. In his DCF model, Mr. Rigsby relies on projected  
3 sustainable growth in order to estimate the dividend growth rate. The difference,  
4 however, is that the key inputs necessary to estimate the internal or retention  
5 growth rate are not disclosed by Mr. Rigsby.

6 **Q. WHAT ARE THOSE INPUTS?**

7 A. Internal or retention growth is the expected growth in dividends due to the  
8 retention of earnings. Retention growth is dependent on the percentage of earnings  
9 retained (the retention ratio) and the expected return on common equity that is  
10 applied to the retained earnings. Thus, the internal growth rate formula is:

11 
$$\text{Retention growth rate} = br$$

12 Where:  $b$  = the retention ratio (1-dividend payout ratio)

13  $r$  = the expected return on common equity

14  
15 The problem with Mr. Rigsby's implementation of this formula is that he does not  
16 disclose the retention ratio or the expected return on common equity used to  
17 calculate the retention growth rate. As a result, it is impossible to verify the  
18 accuracy of his calculation of internal growth ( $br$ ).

19 Mr. Rigsby lists various sources of data,<sup>42</sup> and he also attaches various  
20 materials to his direct testimony. But there is no explanation of how any of these  
21 materials were actually used. This approach effectively allows Mr. Rigsby to  
22 simply select a growth rate that falls somewhere within a broad range and cannot  
23 be verified.

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26

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<sup>42</sup> Rigsby Dt. at 23 – 24.

1 Q. ON PAGE 66 OF HIS TESTIMONY, MR. RIGSBY ALSO CRITICIZES  
2 YOUR CURRENT MARKET RISK PREMIUM APPROACH. PLEASE  
3 COMMENT.

4 A. Like Staff, I use a current market risk premium CAPM approach.<sup>43</sup> This approach  
5 is similar to the Staff current market risk premium CAPM approach.<sup>44</sup>  
6 The Commission has adopted Staff recommended ROE's in the past based upon  
7 Staff's cost of capital analyses, which included a current market risk premium  
8 CAPM approach. One of the main differences between my approach and the Staff  
9 approach lies in the fact that I use a recent three month average of the estimate of  
10 the market risk premium rather than a spot market risk premium as Staff does.  
11 My approach produces a less volatile result.

12 Q. DO YOU HAVE ANY FURTHER COMMENTS?

13 A. Just that as I testified above, when all the numbers and models and financial theory  
14 are set aside, Staff's and RUCO's recommendations are far too low to pass the  
15 smell test and should be rejected.

16 Q. WELL MR. BOURASSA, YOU ADMIT THAT THE COMMISSION HAS  
17 IGNORED YOUR RECOMMENDATIONS BEFORE, DON'T YOU? WHY  
18 SHOULD THIS TIME BE DIFFERENT?

19 A. I can only ask that each Commission reviews every rate case on its own merits, or  
20 "case-by-case" as RUCO and Staff both like to say. And I have made more  
21 changes to my approach on cost of capital than I can possibly recall in response to  
22 many of my arguments being rejected. I have recognized a lot of realities of  
23 ratemaking and tried to find a reasonable balance with financial theory and  
24 financial reality. I am not going to stop asking the Commission to do a better job

25 <sup>43</sup> Bourassa COC Dt. at 36 – 37.

26 <sup>44</sup> Cassidy Dt. at 30 – 31.

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of balancing ratemaking and finance or the interests of shareholders and ratepayers. Respectfully, being at the bottom for returns is neither a badge of honor I want my state to wear nor good for the long term health of the citizenry.

**Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY ON COST OF CAPITAL?**

A. Yes, although my silence on any of the issues, matters or findings addressed in the testimony of Staff and/or RUCO does not constitute my acceptance of their positions on such issues, matters or findings.

**Rio Rico Utilities, Inc. dba Liberty Utilities  
Docket No. WS-02676A-12-0196**

**THOMAS J. BOURASSA  
REBUTTAL TESTIMONY  
(COST OF CAPITAL)**

**JANUARY 28, 2013**

**EXHIBIT TJB-COC-RB1**

Rio Rico Utilities, Inc. dba Liberty Utilities  
**COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD**  
 Based on *Duff and Phelps Risk Premium Study Data*

TABLE 1

Company	Measures of size (Millions)						
	MV Equity <sup>1</sup>	Book Equity <sup>1</sup>	MVIC <sup>1</sup>	5 Yr Avg. Net Income	Total Assets <sup>2</sup>	5 Yr Avg. EBITDA <sup>3</sup>	
1. American States	\$ 954	\$ 408	\$ 1,295	\$ 32	\$ 1,192	\$ 120	
2. Aqua America	\$ 3,732	\$ 1,251	\$ 5,128	\$ 113	\$ 4,072	\$ 407	
3. California Water	\$ 801	\$ 450	\$ 1,282	\$ 37	\$ 1,692	\$ 128	
4. Connecticut Water	\$ 263	\$ 119	\$ 399	\$ 10	\$ 425	\$ 23	
5. Middlesex	\$ 303	\$ 177	\$ 435	\$ 12	\$ 489	\$ 38	
6. SJW Corp.	\$ 482	\$ 264	\$ 826	\$ 20	\$ 935	\$ 87	
Rio Rico Utilities, Inc. dba Liberty Utilities	NA	\$ 11.0	NA	\$ 0.1	\$ 29.7	\$ 1.9	

<sup>1</sup> From Zacks Investment Research data

<sup>2</sup> From Zacks Investment Research. From E-1 for subject utility.

<sup>3</sup> Net Income. From Zacks Investment Research and Company ACC reports

Net Income Data

Company	2011	2010	2009	2008	2007	Average
American States	\$ 45.9	\$ 33.2	\$ 29.5	\$ 22.0	\$ 28.0	\$ 31.7
Aqua America	\$ 143.1	\$ 124.0	\$ 104.4	\$ 97.9	\$ 95.0	\$ 112.9
California Water	\$ 37.7	\$ 37.7	\$ 40.6	\$ 39.8	\$ 31.2	\$ 37.4
Connecticut Water	\$ 11.3	\$ 9.8	\$ 10.2	\$ 9.4	\$ 8.8	\$ 9.9
Middlesex	\$ 13.4	\$ 14.3	\$ 10.0	\$ 12.2	\$ 11.8	\$ 12.4
SJW Corp.	\$ 20.9	\$ 24.4	\$ 15.2	\$ 21.5	\$ 19.3	\$ 20.2
Rio Rico Utilities, Inc. dba Liberty Utilities	\$ (2.8)	\$ 0.8	\$ 0.8	\$ 0.6	\$ 1.0	\$ 0.1

Net Income data for publicly traded water utilities from Zacks Investment Research and/or Yahoo Finance

<sup>4</sup> Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA). From Zacks Investment Research and Company ACC reports.

EBITDA Data

Company	2011	2010	2009	2008	2007	Average
American States	\$ 133.3	\$ 134.4	\$ 122.6	\$ 105.9	\$ 102.8	\$ 119.8
Aqua America	\$ 397.8	\$ 473.2	\$ 415.2	\$ 384.7	\$ 364.5	\$ 407.1
California Water	\$ 143.3	\$ 155.7	\$ 125.5	\$ 122.1	\$ 95.6	\$ 128.4
Connecticut Water	\$ 24.2	\$ 22.5	\$ 20.3	\$ 21.1	\$ 27.9	\$ 23.2
Middlesex	\$ 34.6	\$ 43.3	\$ 34.6	\$ 38.6	\$ 36.6	\$ 37.6
SJW Corp.	\$ 87.1	\$ 75.4	\$ 93.5	\$ 99.7	\$ 77.7	\$ 86.7
Rio Rico Utilities, Inc. dba Liberty Utilities	\$ 1.4	\$ 4.0	\$ 1.9	\$ 0.8	\$ 1.2	\$ 1.9

EBITDA data for publicly traded water utilities from Zacks Investment Research and/or Yahoo Finance  
 EBITDA data for subject utility from E-1 and/or ACC reports

Rio Rico Utilities, Inc. dba Liberty Utilities  
**COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD**  
 Based on Duff and Phelps Risk Premium Study Data

**MRP<sub>MRSS</sub> Estimates Using Duff & Phelps Study (Unlevered)**

Assumes 100% Equity and 0% debt  
 Data Smoothing with Regression Analysis

**Smoothed Premium (RP<sub>MRSS</sub>) = Constant + X Coefficients \* Log(Relevant Metric)**

**RP<sub>Unlevered</sub> = RP<sub>levered</sub> - W<sub>d</sub>W<sub>e</sub>(β<sub>u</sub>β<sub>d</sub>) \* RP<sub>market</sub>**

Where β<sub>u</sub> = unlevered portfolio beta

β<sub>d</sub> = debt beta, assumed to be 0.1

W<sub>d</sub> = percentage of debt in capital structure

W<sub>e</sub> = percentage of equity in capital structure

RP<sub>levered</sub> = levered realized risk premium

**TABLE 2**

	MV Equity (Table C-1)	Book Equity (Table C-2)	MVIC (Table C-4)	5 Yr Avg. Net Income (Table C-3)	Total Assets (Table C-5)	5 Yr Avg. EBITDA (Table C-6)
Constant	18.475%	15.380%	18.661%	13.224%	17.273%	14.736%
X Coefficient(s)	-3.239%	-2.561%	-3.201%	-2.616%	-2.812%	-2.723%

**MRP<sub>MRSS</sub> (unlevered)**

	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
1. American States	8.82%	8.70%	8.70%	9.30%	8.62%	9.08%	8.87%
2. Aqua America	6.91%	7.45%	6.79%	7.85%	7.12%	7.63%	7.29%
3. California Water	9.07%	8.59%	8.71%	9.11%	8.19%	8.99%	8.78%
4. Connecticut Water	10.63%	10.07%	10.34%	10.62%	9.88%	11.02%	10.43%
5. Middlesex	10.44%	9.62%	10.22%	10.37%	9.71%	10.45%	10.13%
6. SJW Corp.	9.79%	9.18%	9.32%	9.81%	8.92%	9.46%	9.41%
Average (unlevered)	9.28%	8.93%	9.01%	9.51%	8.74%	9.44%	9.15%
Rio Rico Utilities, Inc. dba Liberty Utilities	NA	12.71%	NA	16.23%	13.13%	14.01%	14.02%
							Indicated size premium
							4.87%

Symbol  
 AWIR  
 WTR  
 CWT  
 CTWS  
 MSEX  
 SJW

Company

Rio Rico Utilities, Inc. dba Liberty Utilities  
 COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD  
 Based on Duff and Phelps Risk Premium Study Data

Unlevered Portfolio Beta  
 (from 2012 Duff & Phelps RP Study - Table C)

TABLE 3

1. 2. 3. 4. 5. 6.	Company	Symbol	Unlevered Portfolio Beta ( $\beta_u$ )						Average	
			(Table C-1)	(Table C-2)	(Table C-4)	(Table C-3)	(Table C-5)	(Table C-6)		
	American States	AWR	0.95	0.96	0.98	0.94	0.94	0.94	0.97	0.96
	Aqua America	WTR	0.87	0.86	0.81	0.88	0.83	0.83	0.84	0.85
	California Water	CWT	0.98	0.95	0.95	0.94	0.92	0.92	0.97	0.95
	Connecticut Water	CTWS	0.96	1.00	0.97	0.97	0.99	0.99	1.03	0.99
	Middlesex	MSEX	0.96	0.98	0.97	0.97	0.99	0.99	0.99	0.98
	SJW Corp.	SJW	0.95	0.97	0.97	0.96	0.97	0.97	0.95	0.96
	Average		0.95	0.95	0.94	0.94	0.94	0.94	0.96	0.95
	Rio Rico Utilities, Inc. dba Liberty Utilities		0.95	0.98	1.00	1.01	1.05	1.03	1.03	1.00

Rio Rico Utilities, Inc. dba Liberty Utilities  
**COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD**  
 Based on *Duff and Phelps* Risk Premium Study Data

**MRP Estimates Using Duff & Phelps Study (Relevered)**

**Relevered Realized Risk Premium**

$$RP_{\text{relevered}} = RP_{\text{unlevered}} + W_d/W_e * (\beta_D - \beta_A) * RP_{\text{market}}$$

Where  $\beta_A$  = unlevered portfolio beta

$\beta_D$  = debt beta, assumed to be 0.1

$W_d$  = percentage of debt in capital structure

$W_e$  = percentage of equity in capital structure

$RP_{\text{unlevered}}$  = unlevered realized risk premium from Table 2

$RP_{\text{market}}$  = general equity risk premium for the market since 1963 (4.4%)

**TABLE 4**

	Symbol	Company	MRP <sub>mps</sub> (Relevered)									
			W <sub>d</sub> /W <sub>e</sub>	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average		
1.	AWR	American States	35.7%	10.13%	10.01%	10.05%	10.59%	9.91%	10.41%	10.18%		
2.	WTR	Aqua America	37.4%	8.14%	8.67%	7.93%	9.11%	8.30%	8.82%	8.49%		
3.	CWT	California Water	60.1%	11.35%	10.78%	10.91%	11.28%	10.32%	11.24%	10.98%		
4.	CTWS	Connecticut Water	51.4%	12.53%	12.05%	12.26%	12.54%	11.85%	13.07%	12.38%		
5.	MSEX	Middlesex	43.7%	12.05%	11.28%	11.85%	12.00%	11.38%	12.12%	11.78%		
6.	SJW	SJW Corp.	71.4%	12.39%	11.85%	11.99%	12.45%	11.59%	12.07%	12.06%		
		Average MRP (Relevered)	49.93%	11.10%	10.77%	10.83%	11.33%	10.56%	11.29%	10.98%		
		Rio Rico Utilities, Inc. dba Liberty Utilities	11.67%	NA	13.15%	NA	16.68%	13.61%	14.47%	14.48%		

Rio Rico Utilities, Inc. dba Liberty Utilities  
**COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD**  
 Based on *Duff and Phelps* Risk Premium Study Data

Equity Risk Premium Adjustment and Other metrics used in Build-up Method

TABLE 5

[1] Estimate of Current Market Risk Premium ( $RP_{market}$ )	5.50%	<<<< Current Duff and Phelps recommendation
[2] Risk Premium Assumed in Duff & Phelps Study (1963-2011) <sup>1</sup>	4.30%	
[3] Equity Risk Premium Adjustment ([1] - [2])	1.20%	
[4] Average MRP (relevered) for publicly traded water companies (from Table 4)	10.98%	
[5] MRP (relevered) for publicly traded water companies ( $RP_{mr+}$ ) ([3] + [4])	12.18%	
[6] Equity Risk Premium Adjustment ([3])	1.20%	
[7] Average MRP (relevered) for subject utility company (from Table 4)	14.48%	
[8] MRP (relevered) for subject utility company ( $RP_{mr+}$ ) ([6] + [7])	15.68%	
[9] Industry Risk Premium (From <i>Ibbotson</i> for SIC-494 Water Supply Industry Table 3-5)	-4.83%	
[10] Adjustment Factor to Industry Risk Premium ([2] / 6.6%) <sup>1</sup>	0.8333	
[11] Adjusted Industry Risk Premium ( $R_i$ ) ([9] x [10])	-4.03%	
[12] Risk Free Rate ( $R_f$ ) <sup>2</sup>	2.65%	

<sup>1</sup> From Duff and Phelps Risk Premium Report 2012.

<sup>2</sup> Yield on 20 Yr U.S. Treasury January 11, 2013 (Federal Reserve)

Rio Rico Utilities, Inc. dba Liberty Utilities  
**COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD**  
 Based on *Duff and Phelps Risk Premium Study Data*

Cost of Equity (COE) Estimate using Build-up Method

$$E(R_i) = R_f + RP_{m+s} + RP_i + RP_u$$

Where:

$E(R_i)$  = Expected (indicated) rate of return

$R_f$  = Risk-free rate of return. See Table 5.

$RP_{m+s}$  = Market risk premium including size premium. See Table 4.

$RP_i$  = Industry risk premium (adjusted) See Table 5.

$RP_u$  = Company-specific risk premium

TABLE 6

Sample Publicly Traded Water Utilities	Rio Rico Utilities, Inc. dba Liberty Utilities
$R_f =$	2.65%
$RP_{m+s} =$	See Table 4
$RP_i =$	-4.03%
$RP_u =$	0.00%

	Indicated COE E(R <sub>i</sub> )						
	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
1. American States	9.95%	9.84%	9.87%	10.41%	9.74%	10.24%	10.01%
2. Aqua America	7.97%	8.49%	7.75%	8.93%	8.12%	8.64%	8.32%
3. California Water	11.17%	10.61%	10.73%	11.11%	10.14%	11.07%	10.81%
4. Connecticut Water	12.36%	11.88%	12.08%	12.37%	11.67%	12.90%	12.21%
5. Middlesex	11.88%	11.10%	11.67%	11.83%	11.21%	11.94%	11.61%
6. SJW Corp.	12.22%	11.67%	11.82%	12.27%	11.41%	11.89%	11.88%
Average COE estimate	10.92%	10.60%	10.66%	11.15%	10.38%	11.11%	10.80%
Rio Rico Utilities, Inc. dba Liberty Utilities	NA	12.98%	NA	16.51%	13.43%	14.30%	14.30%

	Symbol
1.	AWR
2.	WTR
3.	CWT
4.	CTWS
5.	MSEX
6.	SJW

**Rio Rico Utilities, Inc. dba Liberty Utilities**  
**Docket No. WS-02676A-12-0196**

**THOMAS J. BOURASSA**  
**REBUTTAL TESTIMONY**  
**(COST OF CAPITAL)**

**JANUARY 28, 2013**

**EXHIBIT TJB-COC-RB2**

## **Algonquin Power & Utilities Corp. Announces Liberty Water Co. Private Placement Debt Financing**

**OAKVILLE, Ontario - December 13th, 2010** Algonquin Power & Utilities Corp. (“APUC”) (TSX: AQN) today announced a \$50 million private placement debt financing commitment for its subsidiary, Liberty Water Co. (“Liberty Water”). The notes are senior unsecured with a ten year final, 8.8 year average life maturity and will bear interest at 5.6%. Liberty Water will apply proceeds from the notes to repay intercompany debt to APUC. APUC intends to utilize such proceeds to reduce outstanding indebtedness under its banking syndicate credit facility. UBS Securities LLC acted as lead bookrunner on the transaction.

“The private placement debt financing demonstrates our continuing ability to arrange attractive debt for our regulated utilities businesses”, commented Ian Robertson, Chief Executive Officer. “The completion of this financing introduces longer-term debt and an increase in US dollar denominated debt, consistent with our re-financing strategy to seek a capital structure aligned with our North American power and utilities businesses.”

### **About Algonquin Power & Utilities Corp.**

Through its distinct operating subsidiaries, APUC owns and operates a diversified portfolio of approximately \$1 billion of clean renewable electric generation and sustainable utility distribution businesses in North America. Liberty Water Co., APUC’s water utility subsidiary, provides regulated utility services to more than 70,000 customers with a portfolio of 19 water distribution and wastewater treatment utility systems. Pursuant to previously announced agreements, APUC, through its electric utility Liberty Energy Utilities Co., is committed to acquiring the California based regulated utility assets of NV Energy, as well as Granite State Electric Company, a New Hampshire electric distribution company, and EnergyNorth Natural Gas Inc., a regulated natural gas distribution utility, which utilities in total serve over 173,000 customers. Algonquin Power Co., APUC’s electric generation subsidiary, includes 45 renewable energy facilities and 14 thermal energy facilities representing more than 480 MW of installed capacity. APUC and its operating subsidiaries deliver continuing growth through an expanding pipeline of greenfield and expansion renewable power and clean energy projects, organic growth within its regulated utilities and the pursuit of accretive acquisition opportunities. APUC’s common shares and convertible debentures are traded on the Toronto Stock Exchange under the symbols AQN, AQN.DB, AQN.DB.A and AQN.DB.B. Visit Algonquin Power & Utilities Corp. on the web at [www.AlgonquinPowerandUtilities.com](http://www.AlgonquinPowerandUtilities.com).

### **Caution Regarding Forward-Looking Information**

Certain statements included in this news release contain information that is forward-looking within the meaning of certain securities laws, including information and statements regarding prospective results of operations, financial position or cash flows. These statements are based on factors or assumptions that were applied in drawing a conclusion or making a forecast or projection, including assumptions based on historical trends, current conditions and expected future developments. Since forward-looking statements relate to future events and conditions, by their very nature they require making assumptions and involve inherent risks and uncertainties. APUC cautions that although it is believed that the assumptions are reasonable in the

circumstances, these risks and uncertainties give rise to the possibility that actual results may differ materially from the expectations set out in the forward-looking statements. Material risk factors include those set out in the management's discussion and analysis section of APUC's 2009 annual report and 2010 third quarter report, and APUC's Annual Information Form dated March 31, 2010. Given these risks, undue reliance should not be placed on these forward-looking statements, which apply only as of their dates. Other than as specifically required by law, APUC undertakes no obligation to update any forward-looking statements or information to reflect new information, subsequent or otherwise.

**Rio Rico Utilities, Inc. dba Liberty Utilities  
Docket No. WS-02676A-12-0196**

**THOMAS J. BOURASSA  
REBUTTAL TESTIMONY  
(COST OF CAPITAL)**

**JANUARY 28, 2013**

**SCHEDULES**

**Rio Rico Utilities, Inc. dba Liberty Utilities**  
 Test Year Ended February 29, 2012  
 Summary of Cost of Capital

Consolidated Capital Structure of Water and Wastewater Division

Porforma Capital Structure

Line No.	Item of Capital	Percent of Total	Cost Rate	Weighted Cost
1	Long-Term Debt	20.00%	5.70%	1.14%
3	Stockholder's Equity	80.00%	10.30%	8.24%
5	Totals	100.00%		9.38%

SUPPORTING SCHEDULES:

- D-1
- D-3
- D-4
- Testimony

RECAP SCHEDULES:  
 A-1

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

**Rio Rico Utilities, Inc. dba Liberty Utilities**  
 Test Year Ended February 29, 2012  
 Cost of Long Term Debt

Exhibit  
 Schedule D-2  
 Page 1  
 Witness: Bourassa

Line No.	Description of Debt	End of Test Year				End of Projected Year			
		Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost	Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost
1									
2		-	-	0.000%	0.000%	-	-	0.000%	0.000%
3		-	-	0.000%	0.000%	-	-	0.000%	0.000%
4		-	-	0.000%	0.000%	-	-	0.000%	0.000%
5		-	-	0.000%	0.000%	-	-	0.000%	0.000%
6		-	-	0.000%	0.000%	-	-	0.000%	0.000%
7		-	-	0.000%	0.000%	-	-	0.000%	0.000%
8		-	-	0.000%	0.000%	-	-	0.000%	0.000%
9		-	-	0.000%	0.000%	-	-	0.000%	0.000%
10		-	-	0.000%	0.000%	-	-	0.000%	0.000%
11									
12									
13	Totals	\$ -	-		0.000%	\$ -	-		0.000%
14									

Supporting Schedules:

- 16
- 17
- 18
- 19
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- 30

**Rio Rico Utilities, Inc. dba Liberty Utilities**  
Test Year Ended February 29, 2012  
Cost of Preferred Stock

Exhibit  
Schedule D-3  
Page 1  
Witness: Bourassa

Line  
No.  
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	<u>End of Test Year</u>			<u>End of Projected Year</u>		
Description of Issue	Shares Outstanding	Amount	Dividend Requirement	Shares Outstanding	Amount	Dividend Requirement

NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING

SUPPORTING SCHEDULES:

RECAP SCHEDULES:

D-1

**Rio Rico Utilities, Inc. dba Liberty Utilities**  
Test Year Ended February 29, 2012  
Cost of Common Equity

Exhibit  
Schedule D-4  
Page 1  
Witness: Bourassa

Line  
No.

1

2

The Company is proposing a cost of common equity of

10.30% .

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SUPPORTING SCHEDULES:

18

D-4.1 to D-4.16

19

20

RECAP SCHEDULES:

D-1

**Rio Rico Utilities, Inc. dba Liberty Utilities  
Summary of Results**

**Exhibit  
Rebuttal Schedule D-4.1**

Line No.	<u>Method</u>	<u>Low</u>	<u>High</u>	<u>Midpoint</u>
1				
2				
3				
4				
5				
6	Range DCF Constant Growth Estimates <sup>1</sup>	9.0%	10.2%	9.6%
7				
8	Range of CAPM Estimates <sup>2</sup>	8.2%	13.9%	11.0%
9				
10				
11				
12	Average of midpoint estimates	8.6%	12.1%	10.3%
13				
14				
15	Financial Risk Adjustment <sup>3</sup>	-0.8%	-0.8%	-0.8%
16				
17	Small Company Risk Premium <sup>4</sup>	0.8%	0.8%	0.8%
18				
19	Indicated Cost of Equity	8.6%	12.1%	10.3%
20				
21				
22				
23	Recommended Cost of Equity			10.3%
24				
25				
26				
27				
28				
29				
30				

<sup>1</sup> See Schedule D-4-8

<sup>2</sup> See Schedule D-4.12

<sup>3</sup> See Schedule D-4.13, Testimony

<sup>4</sup> See Schedule D-4.16, Testimony

**Rio Rico Utilities, Inc. dba Liberty Utilities**  
**Selected Characteristics of Sample Group of Water Utilities**

**Exhibit**  
**Rebuttal Schedule D-4.2**

Line No.	Company <sup>1</sup>	% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating	Allowed ROE
1	1. American States	68%	\$ 449.7	\$ 912.0	A+	A2	9.99
2	2. Aqua America	96%	\$ 755.7	\$ 3,863.4	AA-	NR	10.33
3	3. California Water	100%	\$ 541.5	\$ 1,443.1	AA-	NR	9.99
4	4. Connecticut Water	100%	\$ 79.8	\$ 422.6	A	NR	9.75
5	5. Middlesex	89%	\$ 106.6	\$ 433.3	A	NR	10.15
6	6. SJW Corp.	96%	\$ 261.4	\$ 870.5	A	NR	9.99
10	Average	92%	\$ 365.8	\$ 1,324.2			10.03
13	Rio Rico Utilities, Inc. dba Liberty Utilities	68%	\$ 4.2	\$ 28.2	NR	NR	
14	(Adjusted as of February 29, 2012)						

<sup>1</sup>AUS Utility Reports (January 2013).

**Rio Rico Utilities, Inc. dba Liberty Utilities  
Capital Structures**

**Exhibit  
Rebuttal Schedule D-4.3**

No.	Company	Book Value <sup>1</sup>		Market Value <sup>1</sup>	
		Long-Term Debt	Common Equity	Long-Term Debt	Common Equity
1	1. American States	45.5%	54.5%	26.3%	73.7%
2	2. Aqua America	52.7%	47.3%	27.2%	72.8%
3	3. California Water	51.7%	48.3%	37.6%	62.4%
4	4. Connecticut Water	53.2%	46.8%	33.9%	66.1%
5	5. Middlesex	42.8%	57.2%	30.4%	69.6%
6	6. SJW Corp.	56.6%	43.4%	41.6%	58.4%
10	Average	50.4%	49.6%	32.8%	67.2%
13	Rio Rico Utilities, Inc. dba Liberty Utilities (Proforma)	20.0%	80.0%	N/A	N/A

<sup>1</sup> Value Line Analyzer Data (January 18, 2013)

<sup>2</sup> Adjusted Per Schedule D-1

**Exhibit  
Rebuttal Schedule D-4.4**

**Rio Rico Utilities, Inc. dba Liberty Utilities  
Comparisons of Past and Future Estimates of Growth**

Line No.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	<b><u>Five-year historical average annual changes</u></b>						
	<u>Company</u>	<u>Price<sup>1</sup></u>	<u>Value<sup>2</sup></u>	<u>Book</u>	<u>EPS<sup>2</sup></u>	<u>DPS<sup>2</sup></u>	<u>Average of Future and Historical Growth</u>
1	1. American States	5.86%	5.00%		11.50%	2.50%	Col 5-6 6.57%
2	2. Aqua America	0.38%	7.00%		4.50%	8.00%	6.18%
3	3. California Water	NMF	5.50%		6.50%	1.00%	4.83%
4	4. Connecticut Water	3.43%	3.00%		1.50%	2.36%	4.73%
5	5. Middlesex	7.10%	5.50%		4.50%	4.65%	4.75%
6	6. SJW Corp.	NMF	6.50%		NMF	6.00%	8.50%
7							
8							
9							
10							
11							
12							
13							
14							
15							
16	GROUP AVERAGE	4.19%	5.42%		5.70%	3.33%	7.10%
17	GROUP MEDIAN	4.64%	5.50%		4.50%	2.00%	7.02%
18							
19							
20							
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22							
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29							

<sup>1</sup> Average of changes in annual stock prices ending on December 31 through 2011. Data from Yahoo Finance website.

<sup>2</sup> Value Line Analyzer Data, January 18, 2013

<sup>3</sup> See Schedule D-4.6.

**Rio Rico Utilities, Inc. dba Liberty Utilities**  
**Comparisons of Past and Future Estimates of Growth**

**Exhibit**  
**Rebuttal Schedule D-4.5**

Line No.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	<u>Ten-year historical average annual changes</u>						
		Book					
	<u>Price<sup>1</sup></u>	<u>Value<sup>2</sup></u>	<u>EPS<sup>2</sup></u>	<u>DPS<sup>2</sup></u>	<u>Average Col 1-4</u>	<u>Average Future Growth<sup>3</sup></u>	<u>Average of Future and Historical Growth Col 5-6</u>
1.	American States	5.00%	4.50%	2.00%	4.50%	6.93%	5.72%
2.	Aqua America	9.00%	6.50%	7.50%	7.66%	7.39%	7.52%
3.	California Water	4.50%	3.00%	1.00%	3.11%	5.33%	4.22%
4.	Connecticut Water	4.00%	1.00%	1.50%	2.87%	7.10%	4.99%
5.	Middlesex	4.50%	2.50%	2.00%	3.71%	4.85%	4.28%
6.	SJW Corp.	6.00%	2.00%	5.00%	3.92%	11.00%	7.46%
	GROUP AVERAGE	5.50%	3.25%	3.17%	4.30%	7.10%	5.70%
	GROUP MEDIAN	4.75%	2.75%	2.00%	3.82%	7.02%	5.35%

<sup>1</sup> Average of changes in annual stock prices ending December 31, 2011. Data from Yahoo Finance website.

<sup>2</sup> Value Line Analyzer Data, January 18, 2013.

<sup>3</sup> See Schedule D-4.6.

**Rio Rico Utilities, Inc. dba Liberty Utilities**      **Exhibit**  
**Analysts Forecasts of Earnings Per Share Growth**      **Rebuttal Schedule D-4.6**

Line No.	[1]	[2]	[3]	[4]
	<b>ESTIMATES OF EARNINGS GROWTH</b>			
	<u>Company</u>	<u>Reuters<sup>1</sup></u>	<u>Yahoo<sup>1</sup></u>	<u>Line<sup>1</sup></u>
		<u>Value</u>		<u>Average Growth (G)</u>
				<u>(Cols 1-3)<sup>2</sup></u>
1	1. American States	11.30%	4.00%	5.50%
2	2. Aqua America	7.87%	7.30%	7.00%
3	3. California Water	5.00%	5.00%	6.00%
4	4. Connecticut Water	8.00%	6.10%	7.50%
5	5. Middlesex	neg	2.70%	7.00%
6	6. SJW Corp.		14.00%	8.00%
7				6.93%
8				7.39%
9				5.33%
10				7.10%
11				4.85%
12				11.00%
13				
14				
15	GROUP AVERAGE	8.04%	6.52%	6.83%
16	GROUP MEDIAN			7.10%
17				7.02%
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				

<sup>1</sup> Data as of January 18, 2013

<sup>2</sup> Where no data available or single estimate, average of other utilities assumed to estimate for utility.

**Rio Rico Utilities, Inc. dba Liberty Utilities  
Current Dividend Yields for Water Utility Sample Group**

Line No.	Company	Current Stock Price (P <sub>0</sub> ) <sup>1</sup>	Current Dividend (D <sub>0</sub> ) <sup>1</sup>	Current Dividend Yield (D <sub>0</sub> /P <sub>0</sub> ) <sup>1</sup>	Average Annual Dividend Yield (D <sub>0</sub> /P <sub>0</sub> ) <sup>1,2</sup>
1	1. American States	\$ 50.75	\$ 1.10	2.17%	3.20%
2	2. Aqua America	\$ 26.87	\$ 0.63	2.34%	2.85%
3	3. California Water	\$ 19.16	\$ 0.62	3.24%	3.36%
4	4. Connecticut Water	\$ 29.94	\$ 0.94	3.14%	3.62%
5	5. Middlesex	\$ 19.28	\$ 0.73	3.79%	4.02%
6	6. SJW Corp.	\$ 25.90	\$ 0.69	2.66%	2.94%
13	Average			2.89%	3.33%
14	Median			2.90%	3.28%

<sup>1</sup> Value Line Analyzer Data. Stock prices as of January 18, 2013.

<sup>2</sup> Average Annual Dividend is dividends declared per share for a year divided by the average annual price of the stock in the same year, expressed as a percentage. For comparison purposes only.

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25

**Rio Rico Utilities, Inc. dba Liberty Utilities**  
**Discounted Cash Flow Analysis**  
**DCF Constant Growth**

**Exhibit**  
**Rebuttal Schedule D-4.8**

Line No.	[1] Average Spot Dividend Yield $(D_0/P_0)^1$	[2] Expected Dividend Yield $(D_1/P_0)^2$	[3] Growth (g)	[4] Indicated Cost of Equity $k = \text{Div Yld} + g$ (Cols 2+3)
8	DCF - Past and Future Growth	2.89%	5.93% <sup>3</sup>	9.0%
10	DCF - Future Growth	2.89%	7.10% <sup>4</sup>	10.2%
13	Average	2.89%	6.51%	9.6%

<sup>1</sup> Spot Dividend Yield =  $D_0/P_0$ . See Schedule D-4.7.

<sup>2</sup> Expected Dividend Yield =  $D_1/P_0 = D_0/P_0 * (1+g)$ .

<sup>3</sup> Growth rate (g). Average of Past and Future Growth. See Schedule D-4.4, column 7

<sup>4</sup> Growth rate (g). Average of Analyst Estimates Future Growth. See Schedule D-4.6.

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28

**Rio Rico Utilities, Inc. dba Liberty Utilities  
Market Betas**

**Exhibit  
Rebuttal Schedule D-4.9**

Line  
No. 1  
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Company	Beta ( $\beta$ ) <sup>1</sup>
1. American States	0.70
2. Aqua America	0.60
3. California Water	0.65
4. Connecticut Water	0.75
5. Middlesex	0.70
6. SJW Corp.	0.85
Average	<b>0.71</b>

<sup>1</sup> Value Line Investment Analyzer data (January 18, 2013)  
 Note: Beta is a relative measure of the historical sensitivity of a stock's price to overall fluctuations in the New York Stock Exchange Composite Index. A Beta of 1.50 indicates a stock tends to rise (or fall) 50% more than the New York Stock Exchange Composite Index. The "Beta coefficient" is derived from a regression analysis of the relationship between weekly percent-age changes in the price of a stock and weekly percentage changes in the NYSE Index over a period of five years. In the case of shorter price histories, a smaller time period is used, but two years is the minimum. The Betas are adjusted for their long-term tendency to converge toward 1.00.

**Rio Rico Utilities, Inc. dba Liberty Utilities**  
**Forecasts of Long-Term Interest Rates**  
**2012-14**

**Exhibit**  
**Rebuttal Schedule D-4.10**

Line No.	<u>Description</u>	<u>Actual Jan-13</u>	<u>2013</u>	<u>2014</u>	<u>Average</u>
6	Blue Chip Consensus Forecasts <sup>1</sup>	3.05%	3.1%	3.6%	3.3%
8	Value Line <sup>2</sup>	3.05%	3.6%	4.5%	3.7%
10	Average				3.5%

<sup>1</sup> December 2012 Blue Chip Financial Forecasts consensus forecast of 30 Year U.S.Treasury

<sup>2</sup> Value Line Quarterly forecast, dated November 23, 2012, Long-term Treasury

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24

**Exhibit  
Rebuttal Schedule D-4.11**

**Rio Rico Utilities, Inc. dba Liberty Utilities  
Computation of Current Market Risk Premium**

Line No.	Month	Dividend Yield (D <sub>t</sub> /P <sub>t</sub> ) <sup>1</sup>	Expected Dividend Yield (D <sub>t</sub> /P <sub>t</sub> ) <sup>2</sup>	Growth (g) <sup>3</sup>	Expected Market Return (k)	Monthly Average 30 Year Treasury Rate <sup>4</sup>	Market Risk Premium (MRP)
1	Jan 2011	2.34%	2.60%	+ 11.10%	= 13.70%	= 4.52%	= 9.18%
2	Feb	2.41%	2.73%	+ 13.16%	= 15.89%	= 4.65%	= 11.24%
3	Mar	2.35%	2.64%	+ 12.33%	= 14.97%	= 4.51%	= 10.46%
4	April	1.83%	2.02%	+ 10.30%	= 12.32%	= 4.50%	= 7.82%
5	May	1.95%	2.18%	+ 11.76%	= 13.94%	= 4.29%	= 9.65%
6	June	1.97%	2.21%	+ 12.11%	= 14.32%	= 4.23%	= 10.09%
7	July	2.23%	2.58%	+ 15.51%	= 18.09%	= 4.27%	= 13.82%
8	Aug	2.73%	3.24%	+ 18.51%	= 21.75%	= 3.65%	= 18.10%
9	Sept	2.88%	3.47%	+ 20.40%	= 23.87%	= 3.18%	= 20.69%
10	Oct	2.60%	3.03%	+ 16.35%	= 19.38%	= 3.13%	= 16.25%
11	Nov	2.75%	3.24%	+ 17.89%	= 21.13%	= 3.02%	= 18.11%
12	Dec 2011	2.70%	3.17%	+ 17.41%	= 20.58%	= 2.98%	= 17.60%
13	Jan 2012	2.61%	2.98%	+ 14.18%	= 17.16%	= 3.03%	= 14.13%
14	Feb	2.60%	2.99%	+ 15.01%	= 18.00%	= 3.11%	= 14.89%
15	Mar	2.36%	2.65%	+ 12.33%	= 14.98%	= 3.28%	= 11.70%
16	April	2.62%	3.02%	+ 15.22%	= 18.24%	= 3.18%	= 15.06%
17	May	2.86%	3.38%	+ 18.12%	= 21.50%	= 2.93%	= 18.57%
18	June	2.73%	3.18%	+ 16.59%	= 19.77%	= 2.70%	= 17.07%
19	July	2.79%	3.29%	+ 18.10%	= 21.39%	= 2.59%	= 18.80%
20	Aug	2.73%	3.17%	+ 16.23%	= 19.40%	= 2.77%	= 16.63%
21	Sept	2.67%	3.07%	+ 14.95%	= 18.02%	= 2.88%	= 15.14%
22	Oct	2.71%	3.14%	+ 15.81%	= 18.95%	= 2.90%	= 16.05%
23	Nov	2.74%	3.15%	+ 14.88%	= 18.03%	= 2.80%	= 15.23%
24	Dec 2012	2.62%	2.95%	+ 12.63%	= 15.58%	= 2.88%	= 12.70%
25	Recommended	2.69%	3.08%	+ 14.44%	= 17.52%	= 2.86%	= 14.66%
26	Short-term Trends						
27	Recent Twelve Months Avg	2.67%	3.08%	+ 15.34%	= 18.42%	= 2.92%	= 15.50%
28	Recent Nine Months Avg	2.72%	3.15%	+ 15.84%	= 18.99%	= 2.85%	= 16.14%
29	Recent Six Months Avg	2.71%	3.13%	+ 15.43%	= 18.56%	= 2.80%	= 15.76%
30	Recent Three Months Avg	2.69%	3.08%	+ 14.44%	= 17.52%	= 2.86%	= 14.66%

<sup>1</sup> Average Current Dividend Yield (D<sub>t</sub>/P<sub>t</sub>) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks  
<sup>2</sup> Expected Dividend Yield (D<sub>t</sub>/P<sub>t</sub>) equals average current dividend yield (D<sub>0</sub>/P<sub>0</sub>) times one plus growth rate(g).  
<sup>3</sup> Average 3-5 year price appreciation (annualized). Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks  
<sup>4</sup> Monthly average 30 year U.S. Treasury. Federal Reserve.

**Rio Rico Utilities, Inc. dba Liberty Utilities  
Capital Asset Pricing Model (CAPM)**

**Exhibit  
Rebuttal Schedule D-4.12**

Line No.	Rf <sup>1</sup>	+	beta <sup>3</sup>	x	Rp	=	k	
3	3.5%	+	0.71	x	6.6%	=	8.2%	
5	3.5%	+	0.71	x	14.7%	=	13.9%	
7	Average							11.0%

<sup>1</sup> Forecasts of long-term treasury yields. See Schedule D-4.10.  
<sup>2</sup> Value Line Investment Analyzer data. See Schedule D-4.9.  
<sup>3</sup> Historical Market Risk Premium from (Rp) MorningStar S&P 2012 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2011.  
<sup>4</sup> Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Schedule D-4.11.

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20



**Exhibit**  
**Rebuttal Schedule D-4.14**

**Rio Rico Utilities, Inc. dba Liberty Utilities**  
**Financial Risk Computation**  
**Unlevered Beta**

Line No.	Company	VL Beta $\beta_L^1$	Raw Beta $\frac{Raw \beta_L^2}{Raw \beta_L^2}$	Tax Rate $t^3$	MV Debt $\frac{D^4}{E^4}$	MV Equity $\frac{E^4}{E^4}$	Unlevered Raw Beta $\beta_{UL}^5$
1	American States	0.70	0.55	43.2%	26.3%	73.7%	0.46
2	Aqua America	0.60	0.40	39.2%	27.2%	72.8%	0.33
3	California Water	0.65	0.48	39.5%	37.6%	62.4%	0.35
4	Connecticut Water	0.75	0.63	41.3%	33.9%	66.1%	0.48
5	Middlesex	0.70	0.55	32.1%	30.4%	69.6%	0.42
6	SJW Corp.	0.85	0.78	38.8%	41.6%	58.4%	0.54
11							
12							
13	Sample Water Utilitie:	0.71	0.57	39.0%	32.8%	67.2%	0.44
14							
15							
16							
17							
18							
19							

<sup>1</sup> Value Line Investment Analyzer data. See Schedule D-4.13

Value Line uses the historical data of the stock, but assumes that a security's beta moves toward the market average over time. The formula is as follows:

Adjusted beta = .33 + (.67) \* Raw beta

<sup>2</sup> Raw Beta = (VL beta - .33)/(.67)

<sup>3</sup> Effective tax rates for year ended December 31, 2011.

<sup>4</sup> See Schedule D-4.3

<sup>5</sup> Raw  $B_U = Raw B_L / (1 + (1-t)*D/E)$

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**Exhibit  
Rebuttal Schedule D-4.15**

**Rio Rico Utilities, Inc. dba Liberty Utilities  
Financial Risk Computation  
Relevered Beta**

Line No.	Unlevered Raw Beta $\beta_{UL}^1$	0.44	MV Book Debt $BD^2$	10.4%	MV Equity Capital $EC^2$	89.6%	Tax Rate $t^3$	38.61%	Relevered Raw Beta $\beta_{RL} = \beta_{UL} (1 + (1-t)BD/EC)$	0.47	VL Adjusted Relevered Beta $\beta_{RL}$	.33 + .67(Raw Beta)	0.64
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<sup>1</sup> Unlevered Beta from Schedule D-4.14.

<sup>2</sup> Proforma Capital Structure of Company

	BV		MV		MV
	(in Thousands)		(in Thousands)		%
Long-term Debt	\$ 20	1.00	\$ 20	10.40%	
Preferred Stock	-	1.00	-	0.0%	
Common Stock	\$ 80	2.14	\$ 171	89.6%	
Total Capital	\$ 100	(a)	\$ 191	100.0%	

(a) Current market-to-book ratio of sample water utilities. See work papers.

<sup>3</sup> Current Tax rate based on test year ending 12/31/2011. See Schedule D-1.

**Exhibit  
Rebuttal Schedule D-4.16**

**Rio Rico Utilities, Inc. dba Liberty Utilities  
Size Premium<sup>1</sup>**

Line No.	<u>Beta(β)</u>	<u>Size Premium</u>	<u>Risk Premium for Small Water Utilities<sup>7</sup></u>
1			
2			
3			
4			
5			
6	1.12	1.14%	
7			
8	1.23	1.88%	
9			
10	1.36	3.89%	
11			
12	1.41	6.10%	3.67%
13			
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Estimated Risk Premium for small water utilities<sup>6</sup>

Risk Premium for Small Water Utilities

0.99%

<sup>1</sup> Data from Table 7-8 of Morningstar, *Ibbotson S&P 2012 Valuation Yearbook*.  
<sup>2</sup> Mid-Cap companies includes companies with market capitalization between \$1,621 million and \$6,896 million.  
<sup>3</sup> Low-Cap companies includes companies with market capitalization between \$423 million and \$1,620 million.  
<sup>4</sup> Micro-Cap companies includes companies with market capitalization less than \$422 million.  
<sup>5</sup> Decile 10 includes companies with market capitalization between \$1.0 million and \$206 million.  
<sup>6</sup> From Table 2, Thomas M. Zepp, "Utility Stocks and the Size Effect Revisited," *The Quarterly Review of Economics and Finance*, 43 (2003), 578-582.  
<sup>7</sup> Computed as the weighted differences between the Decile 10 risk premium and the indicated risk premiums for the sample water utilities as shown below. Excludes risk due to differences in beta.

Market Cap. (Millions)	Class	Size Premium	Difference to Decile 10	Weight	Weighted Size Premium
\$ 954	Low-Cap	1.88%	4.22%	0.1666667	0.70%
\$ 3,732	Mid-Cap	1.14%	4.96%	0.1666667	0.83%
\$ 801	Low-Cap	1.88%	4.22%	0.1666667	0.70%
\$ 263	Micro-Cap	3.89%	2.21%	0.1666667	0.37%
\$ 303	Micro-Cap	3.89%	2.21%	0.1666667	0.37%
\$ 482	Low-Cap	1.88%	4.22%	0.1666667	0.70%
Weighted Size Premium for Small Companies					3.67%