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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION OF RIO RICO UTILITIES, INC. FOR A RATE INCREASE.	DOCKET NO. WS-02676A-12-0196 **STAFF'S NOTICE OF FILING SURREBUTTAL TESTIMONY**

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") hereby files the Surrebuttal Testimony of Mary J. Rimback, John A. Cassidy and James R. Armstrong in the above-referenced matter.

RESPECTFULLY SUBMITTED this 19th day of February, 2013.

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Arizona Corporation Commission
DOCKETED
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BEFORE THE ARIZONA CORPORATION COMMISSION

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Commissioner
BRENDA BURNS
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BOB BURNS
Commissioner
SUSAN BITTER SMITH
Commissioner

IN THE MATTER OF THE APPLICATION OF RIO RICO UTILITIES INC. FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR AN INCREASE IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON	)	DOCKET NO. WS-02676A-12-0196

SURREBUTTAL

TESTIMONY

OF

MARY J. RIMBACK

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

FEBRUARY 19, 2013

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RIO RICO UTILITIES, INC.
DOCKET NO. WS-02676A-12-0196

The Surrebuttal Testimony of Staff witness Mary J. Rimback addresses the issues of rate base, operating income revenue requirement, and rate design for Rio Rico Utilities, Inc. ("RRUI" or "Company").

The Company's Rebuttal Testimony for the water division requests an increase in revenue of $581,865 (20.94 percent) over test year revenue of $2,778,765. The total annual revenue of $3,360,630 produces an operating income of $725,084 for a 9.38 percent rate of return on fair value rate base ("FVRB"), which is also its original cost rate base ("OCRB") of $7,730,108.

The Company's Rebuttal Testimony for the waste water division requests an increase in revenue of $235,540 (17.19 percent) over test year revenue of $1,370,130. The total annual revenue of $1,605,670 produces operating income of $444,161 for a 9.38 percent rate of return on FVRB which is also its OCRB, of $4,735,192.

Staff's surrebuttal for the water division recommends an increase in revenue of $257,875 (9.00 percent) over test year revenue of $2,864,823. The total annual revenue of $3,122,698 produces operating income of $628,558 for an 8.2 percent rate of return on Staff-adjusted FVRB of $7,665,343. Staff's surrebuttal revenue requirement represents a $77,295 decrease from its Direct Testimony. Staff's recommended rates would increase the typical 5/8 x 3/4-inch meter residential water bill with median usage of 6,000 gallons by $3.69 (15.06 percent), from $24.51 to $28.20.

Staff's surrebuttal for the wastewater division recommends an increase in revenue of $120,034 (8.56 percent) over test year revenue of $1,402,843. The total annual revenue of $1,522,877 produces an operating income of $384,922 for an 8.2 percent rate of return on Staff adjusted FVRB of $4,694,175. Staff's surrebuttal revenue requirement represents a $12,359 decrease from its Direct Testimony. Staff's recommended rates would increase the typical residential wastewater bill $4.52 (9.85 percent), from $45.88 to $50.40.

I. INTRODUCTION

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

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

Q. Are you the same Mary J. Rimback who previously submitted Direct Testimony in this case?

A. Yes, I am.

Q. How is your testimony organized?

A. My testimony is presented in five Sections. Section I is this introduction. Section II provides the purpose of the testimony. Section III is a summary of recommendations. Section IV presents Staff's response to the Rebuttal Testimony of Mr. Thomas J. Bourassa ("Bourassa Rebuttal"). Section V presents Staff's response to the Rebuttal Testimony of Mr. Greg Sorensen ("Sorensen Rebuttal").

II. PURPOSE OF THE SURREBUTTAL TESTIMONY

Q. What is the purpose of your Surrebuttal Testimony in this proceeding?

A. The purpose of my Surrebuttal Testimony in this proceeding is to respond, on behalf of Staff, to the Rebuttal Testimony of Rio Rico Utilities, Inc. ("RRUI" or "Company") witnesses Mr. Thomas J. Bourassa and Mr. Greg Sorensen and to present Staff's Surrebuttal position regarding rate base, operating income, revenue requirement and rate design issues.

Q. Do you attempt to address every issue raised by the Company in its Rebuttal Testimony?

A. No. My silence on any particular issue raised in the Company's Rebuttal Testimony does not indicate that Staff agrees with the Company's rebuttal position on that issue. I rely on my Direct Testimony unless modified by this Surrebuttal Testimony.

Q. What issues will you address?

A. My surrebuttal addresses the following issues:

Bourassa Rebuttal:

1) Depreciation Expense and Accumulated Depreciation
2) Metered Revenues
3) Declining Usage Adjustment
4) Purchased Power
5) Miscellaneous Expenses
6) APUC Corporate Costs
7) Rate Design
8) Salaries and Wages (Revised Benefits Plan)

Sorenson Rebuttal:

1) Salaries and Wages (Revised Benefits Plan)

III. SUMMARY OF RECOMMENDATIONS

Q. What rebuttal revenue requirement is RRUI proposing?

A. For the water division, the Company's Rebuttal Testimony requests total operating revenue of $3,360,360, a $581,865 (20.94 percent) increase, over the test year revenue of

$2,778,766, to provide a $725,084 operating income and a 9.38 percent rate of return on a proposed $7,730,108 fair value rate base ("FVRB") which is also the proposed original cost rate base ("OCRB").

For the wastewater division, the Company's Rebuttal Testimony requests total operating revenue of $1,605,670, a $235,540 (17.19 percent) increase, over the test year revenue of $1,370,130, to provide a $444,161 operating income and a 9.38 percent rate of return on a $4,735,192 FVRB which is its OCRB.

Q. Please provide a summary of Staff's surrebuttal recommendations.

A. For the water division, Staff's surrebuttal revenue requirement of $3,122,698 represents an increase of $257,875 (9.00 percent) over test year revenue of $2,864,823 to provide a $628,558 operating income for an 8.20 percent rate of return on a Staff-adjusted FVRB of $7,665,343. Staff's surrebuttal revenue requirement represents a $77,295 decrease from its Direct Testimony. Staff's recommended rates would increase the typical 5/8 x 3/4-inch meter residential water bill with median usage of 6,000 gallons by $3.69 (15.06 percent), from $24.51 to $28.20.

For the wastewater division, Staff's surrebuttal revenue requirement of $1,522,877 represents an increase of $120,034 (8.56 percent) over test year revenue of $1,402,843 to provide a $384,922 operating income for an 8.20 percent rate of return on a Staff-adjusted FVRB of $4,694,175. Staff's surrebuttal revenue requirement represents a $12,359 decrease from its Direct Testimony. Staff's recommended rates would increase the typical residential wastewater bill $4.52 (9.85 percent), from $45.88 to $50.40.

IV. RESPONSE TO REBUTTAL TESTIMONY OF MR. THOMAS J. BOURASSA

Depreciation Expense and Accumulated Depreciation (Water and Wastewater Divisions)

Q. Does the Bourassa Rebuttal propose different amounts for depreciation expense for the water and wastewater divisions than the Company proposed in its initial application?

A. Yes. For the water division, the Company's proposed rebuttal depreciation expense decreased by $109,788 compared to its initial filing, from $551,222 to $441,434. For the wastewater division, the Company's proposed rebuttal depreciation expense decreased by $155,665 compared to its initial filing, from $359,629 to $203,964.

Q. How do the magnitudes of the Company's revisions to depreciation expense compare to the proposed revenue increases and test year revenue proposed by the Company in its initial filing for the water and wastewater divisions?

A. For the water division, the Company's $109,788 downward adjustment to proposed depreciation expense represents 18.2 percent of the $604,078 requested increase and 3.8 percent of the $2,854,838 test year revenue. For the wastewater division, the Company's $155,665 downward adjustment to proposed depreciation expense represents 39.5 percent of the $393,612 requested increase and 11.4 percent of the $1,360,583 test year revenue. Since the revenue requirement increases and decreases in dollars equal to the change in depreciation expense,[1] the Company's initial filing would have reflected a $109,788 (3.8 percent) lower revenue requirement for the water division and a $155,665 (11.4 percent) lower revenue requirement for the wastewater division had the Company used its rebuttal amounts for depreciation expense in its initial application.[2]

[1] Ignoring the relatively insignificant gross-up for property taxes,
[2] These amounts do not recognize any offsetting changes to accumulated depreciation.

Q. **Why is the magnitude of the Company's revision to its proposed depreciation expense important?**

A. The revisions are quite large, and they show the importance of properly capturing all of the parameters (e.g. plant values, depreciation rates, depreciation methodologies – including retirement practices) that relate to depreciation in the ratemaking process. Adopting an appropriate depreciation method and applying that method accurately by maintaining good records is a critical component in achieving that outcome. The circumstances that lead to the need for such large revisions should be remedied.

Q. **Please describe some of the concerns Staff has with the Company's depreciation expense and accumulated depreciation.**

A. Schedules in the Company's initial application that support its plant and accumulated depreciation balances have obvious, unexpected inconsistencies. For example, in the wastewater division *"Account No. 389 – Other Sewer Plant and Equipment"* had a 2012 plant balance of $64,928 and an accumulated depreciation balance of $68,869. The excess of accumulated depreciation over the plant balance reflects that depreciation had been taken on fully depreciated plant. In a second example, also in the wastewater division, *"Account No. 371 - Pumping Equipment,"* had $1,588,356 in 2010 for both the plant and accumulated depreciation balances indicating that the account was fully depreciated at that time. The Company made additions to *"Account No. 371 - Pumping Equipment,"* in 2010, 2011 and 2012. For each of these years, the Company recognized depreciation expense by applying the authorized depreciation using the half-year convention in the year of an addition as it should have, but then inappropriately recognized depreciation expense equal to the remaining net book value of the addition in the following year. Thus, each addition was fully depreciated in two years even though the authorized annual depreciation rate is only 12.5 percent, reflecting an eight-year expected life.

It appeared to Staff that for *"Account No. 371- Pumping Equipment,"* this excess depreciation occurred because the Company applied a peculiar group depreciation method that applies the depreciation rate to a pool of costs that combines the fully depreciated plant from years prior to 2010 to the plant additions in subsequent years. Arizona Administrative Code ("A.A.C.") R14-2-102(B)(3) requires public service corporations to use a rational and systematic method of distributing the cost of depreciable plant over its estimated service life. The method that Staff understood the Company to have used in its initial application does not meet that standard. It simply is not rational to have plant with an 8-year life (12.5 percent depreciation rate) become fully depreciated in two years. Such a method results in inaccurate depreciation expense as well as the associated accumulated depreciation balance. Use of such a method could result in inappropriate conclusions regarding depreciation expense and accumulated depreciation and ultimately the revenue requirement which is a partial comprise of these components.

Staff found similar inconsistencies in the water division. In short, the Company's application shows inconsistencies in the depreciation accounts from year-to-year and from account-to-account resulting in depreciation of fully depreciated plant and balances in accumulated depreciation that exceed the plant balances for some accounts. The apparent method applied does not comply with A.A.C., National Association of Regulatory Utility Commissioners ("NARUC"), Uniform System of Accounts ("USoA") or generally accepted accounting principle requirements for a depreciation method that is both systematic and rational.

Q. Does the Bourassa Rebuttal have a different explanation for the inconsistencies Staff identified in the Company's depreciation method and accumulated depreciation balances?

A. Yes. The Bourassa Rebuttal (at page 5) attributes the inconsistencies to the Company depreciating plant that should have been retired.

Q. Is the Company's explanation that retirement omissions could have caused the inconsistencies identified by Staff plausible?

A. Yes. However, it would have required the Company to have overlooked obvious red flags (e.g., accumulated depreciation exceeding plant balances) in its accounting records for multiple years as well as in the preparation of its rate application.

Q. Is the group method of depreciation described in the Bourassa Rebuttal an appropriate depreciation method?

A. Yes. The account group method as described in the Bourassa Rebuttal is effectively the same as the vintage group method Staff advocates, and it produces the same depreciation expense and net plant with one exception. The exception is when to recognize plant retirements.

Q. What is the retirement method described in the Bourassa Rebuttal?

A. The Bourassa Rebuttal proposes to retire plant that becomes fully depreciated regardless of whether the plant remains in service.

Q. What reasons are cited by the Company for its proposed method of retiring plant?

A. The Company refers NARUC USoA accounting instruction 27.B (2) and the Commission Decision for Bella Vista Water Company to support its position.

Q. Do either of these references cited by the Company support its position regarding the timing for recording a retirements?

A. No.

Q. Does the NARUC USoA Accounting instruction 27.B (2) address the issue of when to retire plant?

A. No. NARUC USoA Accounting instruction 27.B (2) only addresses the issue of the amount removed from plant accounts and accumulated depreciation when an asset <u>is retired, not the timing of retirements</u>.

Q. Was the timing of the recording of retirements the issue in the Bella Vista Water Company rate case.

A. No. The issue in the Bella Vista Water Company case concerned how to address deficiencies in the accounting to recognize that some plant that remained recorded on the books was no longer in service. The issue of whether to retire plant that remains in service was not an issue in the Bella Vista Water Company case.

Q. How does the NARUC USoA describe "Property retired"?

A. According to the NARUC USoA, "Property retired," as applied to utility plant, means property which has been removed, sold, abandoned, destroyed, or which for any cause has been permanently withdrawn from service. Accordingly, the Company's proposal to retire plant based on its accumulated depreciation status is a variance from that contemplated by the USoA. Plant should be retired when it is removed from service, not when the recordkeeping reflects that it is fully depreciated. The Company's proposed retirement method also introduces a distortion in its balance sheet, i.e., plant and accumulated depreciation would be understated and would not reflect the true status of useful plant.

Q. Does Staff have any comment regarding Bourassa Rebuttal Exhibit TJB-RB2?

A. Yes. Bourassa Rebuttal Exhibit TJB-RB2 is a copy of Liberty Water's Asset Retirement Policy. The policy has multiple deficiencies, e.g., the Description states,

> *From time to time assets are removed from plant or replaced prior to the end of their useful life. The policy governs the accounting for asset retirements and how they are to be recorded on the utility books.*

The statement clearly refers to the retirement of plant removed from service *prior* to the end of its expected life, but it is unclear whether is applies to plant that remains in service *after* its expected life. The latter is the issue that has caused errors in the Company's accounting for depreciation expense and accumulated depreciation.

Further, Bourassa Rebuttal Exhibit TJB-RB2 shows three accounting entries, i.e., the accounts to be debited and credited. The first and second entries are described as tracking accounts used for statistical purposes. The third entry is to be recorded on the books and the end of the calendar year. The instruction for the third entry is:

> *At the end of every year, a manual adjusting enter 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*

The only reference to "Depreciation Expense – retired plant" is the second entry:

> *Dr. Depreciation expense – retired plant*
> *Cr. Depreciation expense – retired plant*

Since the debit and credits in the second entry are to the same account and no other accounts are affected, this account would have no net debit or credit balance. The third entry is dependent upon the outcome of the second entry that has no net balance. Thus, the third entry is presumed to never occur. What is clear about the Company's asset retirement policy is that it is not clear.

Q. Does Staff have any comment regarding Bourassa Rebuttal Exhibit TJB-RB1?

A, Yes. Bourassa Rebuttal Exhibit TJB-RB1 shows three different depreciation methodologies: individual asset, vintage year and asset group in which the depreciation and accumulated depreciation are identical for three $100 assets acquired in 1998, 1999 and 2000. The exhibit serves to show that the depreciation expense and accumulated depreciation amounts are identical regardless of the method used. However, the exhibit includes one critical quality that is absent from the Company's methodology – proper recordkeeping. As discussed above, deficiencies in the Company's recordkeeping were such that the method that the Company claims to have used was not even recognizable, and it caused the Company to revise its rebuttal amounts for depreciation expense and accumulated depreciation by large amounts. While any depreciation method can be misapplied, the Company's method appears to be open to an unusual level of inaccuracies, does not recognize retirements in accordance with the NARUC USoA and is applied via unclear policies. While Staff prefers that water and wastewater utilities use the vintage year group depreciation method, the account group depreciation method the Company claims to have used can also be systematic and rational when properly implemented. RRUI practice does not meet this standard. Accordingly, Staff concludes that the Commission should direct RRUI to revise its written policies regarding recording of depreciation, accumulated depreciation, retirements and other related accounts and to provide adequate training to employees and to provide oversight of its related practices to ensure accuracy and compliance with the NARUC USoA in its recorded accounts and submissions before the Commission, and should place RRUI on notice that deficiencies in compliance may result in fines and other sanctions as determined by the Commission.

Q. Is there any significant difference in the cost or difficulty of using the vintage year account group method of depreciation advocated by Staff versus the account group depreciation used by the Company?

A. Although there are minor differences, none is significant for professional accountants using modern computers and software. Each method requires tracking the plant additions by account, year placed in service, historical depreciation rates and the accumulated depreciation balances for each year. The primary difference relates to tracking of fully depreciated plant. Assuming the Company's method is modified to properly account for retirements when plant items are removed from service versus when they are fully depreciated, in practice, the methods are essential the same.

Q. Does Staff have any correction to the depreciation expense presented in its Direct Testimony?

A. Yes. Due to incorrect links in a spreadsheet, Schedule MJR-W17 for the water division showed incorrect amounts for fully depreciated plant for *Account No. 311, Electric Pumping Equipment* and *Account No. 347 Miscellaneous Equipment*. For *Electric Pumping Equipment*, the incorrect amount ($1,504,181) is replace by $2,471,201 and for *Miscellaneous Equipment*, the incorrect amount ($0) is replaced by $7,531, as shown in Surrebuttal Schedule MJR-W17.

Q. What amount is Staff recommending for depreciation expense?

A. Staff recommends $377,485 for the water division depreciation expense and $223,774 for the wastewater division depreciation expenses, as shown in Surrebuttal Schedules MJR-W14 and MJR-WW14, respectively. Staff also recommends that the Commission direct RRUI to revise its written policies regarding the recording of depreciation, accumulated depreciation, retirements and other related accounts, to provide adequate training to employees and to provide oversight of its related practices to ensure accuracy and compliance with the NARUC USoA in its recorded accounts and submissions before the Commission, Staff further recommends that RRUI be put on notice that deficiencies in compliance may result in fines and other sanctions as determined by the Commission.

Metered Revenue (Water Division)

Q. **What are Staff comments on the Company's rebuttal adjustment number 4 to increase test year revenue by $1,203 due to a change in the Company's revenue annualization for billing for Morning Star Ranch, a 6-inch metered bulk water customer?**

A. During the test year, Morning Star Ranch ("MSR") made purchases only in the last four months. The RRUI's initial application did not annualize the revenue for MSR due to insufficient data and uncertainty regarding MSR being an on-going customer. However, MSR has continued as a customer, and the Company is now recognizing MSR by annualizing its revenue and proposing a $1,203 annualization adjustment to recognize twelve months of billings for MSR using the most recent twelve months of data. The Company recorded $29,625 of revenue from sales to MSR in the test year. Staff has calculated an annualized MSR revenue using the twelve-month period (October 2011 through November 2012), as shown in Surrebuttal Schedule MJR-W21, and it is $39,907, an increase of $9,985 over the actual test year revenue.

Q. What does Staff recommend for Metered Water Revenue?

A. Staff recommends an increase in test year Metered Water Revenue by $9,985, from $2,811,949 to $2,821,934, as shown in Surrebuttal Schedule MJR-W21.

Declining Usage (Water and Wastewater Divisions)

Q. What are Staff's comments regarding Bourassa Rebuttal adjustment number 3 to reduce test year revenue by ($77,275 for the water division and $32,715 for the wastewater division) due projected declining usage?

A. First, the Company did not introduce this adjustment until its Rebuttal Testimony, thus limiting Staff's ability to evaluate the Company's proposal. That proposal is based on the assumption that historical trends for water consumption will continue linearly over a three-year period following the authorization of rates in this proceeding. Any historical reductions in consumption indicate that customers have already made adjustment in their lifestyles to more efficiently use water. Customers are likely to make the largest and most convenient lifestyle change first. At some point customers will have made all reasonable, significant reductions in their consumption. The Company's assumption that customers will continue to reduce consumption at historical rates is not known and measurable or even logical. Accordingly, Staff recommends denial of any adjustment to water division revenue to recognize declining water consumption after the test year and denial of any corresponding adjustment to the wastewater revenue.

Purchased Power (Water and Wastewater Divisions)

Q. What are Staff's comments regarding Bourassa Rebuttal adjustment number 6 to increase Purchased Power Expense by 4.6 percent ($17,083 for the water division and $2,819 for the wastewater division) due to the rate increase request by RRUI's electric power provider Tucson Electric Power "TEP")?

A. RRUI's pro forma adjustment is based on the assumption that the Commission will grant TEP its proposed 4.6 percent overall revenue increase and that the resulting TEP tariff for water utilities will also increase by 4.6 percent. As this time the change, if any, in TEP's rates charged to RRUI are not known and measurable. However, there is a reasonable expectation that the outcome of the TEP rate case will become known before the RRUI rate case is decided. Accordingly, Staff is provisionally adopting RRUI's pro forma adjustment to purchased power. The ultimate purchased power expense adopted in this case should only reflect any known and measurable change in TEP's rates for water utilities. Accordingly, RRUI should provide an update to its pro forma adjustment if and when the Commission makes a final decision authorizing new rates for TEP. Staff's adjustment is shown in water division and wastewater division Surrebuttal Schedules MJR-W22 and MJR-WW22, respectively.

Miscellaneous Expense (Water Division)

Q. Has Staff adopted a $1,804 adjustment to reduce Miscellaneous Expense for the water division to conform with the amount adopt by RRUI and the Residential Utility Consumer Office ("RUCO")?

A. Yes. Staff's adjustment is shown in Surrebuttal Schedule MJR-W23.

Algonquin Power & Utilities Corp ("APUC") Cost Allocation (Water and Wastewater Divisions)

Q. Does Staff have any comments regarding the Bourassa Rebuttal pertaining to the issue of APUC allocations?

A. Yes. The Bourassa Rebuttal suggests that Staff does not recognize that its proposed allocated costs not only include allocations from APUC but also other corporate cost allocations including amounts allocated from Liberty Utilities Company Canada and Liberty's Avondale office in addition to direct charges. It also implies that the large volume (reported as 1,500 pages of supporting documentation) provide to Staff justifies recovery of its requested cost allocations. Further, it asserts that Staff did not express disagreement over the support provided to the $412,723 or $191,738 amounts presented in the C-1 schedules for the water division and wastewater divisions, respectfully.

In response, Staff was fully aware that the proposed cost allocations ($133,975 for the water division and $59,292 for the wastewater division) represent amounts in addition to those from APUC. Staff agrees that the Company provided a large volume of support for the $4,696,412 (Canadian Dollars) total pool from which the proposed cost were allocated. RRUI also provide support for amounts the Company removed from that pool. Staff did inform the Company that its support was insufficient because it did not identify the components of the total pool of costs that the Company is requesting to recover. The Company's replied that it had already provided all the necessary information in a combination of documents and Excel spreadsheets. Instead of identifying the costs it requests for recovery, the Company provided a large volume of data for the total pool of costs and for another pool of costs that it removed and expected Staff to segregate the amounts the Company was requesting to recover. Staff does not consider such indirect representation of requested costs to be adequate. Further, the supporting documentation was not well organized and required sorting through many pages to identify calculations provided on cover sheets.

Q. What does Staff recommend for APUC allocations?

A. Staff recommends a $38,083 reduction in the proposed APUC allocated corporate cost in the water division, as shown in Surrebuttal Schedule MJR-W18, and a $27,931 reduction in the wastewater division, as shown in Surrebuttal Schedule MJR-WW19.

Salaries and Wages - Employee Benefits Expense (Water and Wastewater Divisions)

Q. What are Staff's comments regarding Bourassa Rebuttal adjustment number 9 to increase Salaries and Wages expense by ($31,891 for the water division and $11,811 for the wastewater division) to recognize revised employee benefits?

A. Staff recommends denial of this pro forma adjustment related to a revision in the Company's employee benefit plan. The reasons for Staff's recommendation are discussed below in Staff's response to Mr. Sorensen.

Rate Design (Water and Wastewater Divisions)

Q. Does Staff have any comments regarding the portion of the Bourassa Rebuttal Testimony pertaining to the issue of rate design?

A. Yes. For the water division, the Bourassa Rebuttal Testimony identifies several issues of contention regarding Staff's water rate design including: (1) an assertion the Staff's rate design does not propose a single tier commodity rate for the 6-inch bulk meter customer;[3] (2) an assertion that Staff's recommended rates produce $19,000 less than its recommended revenue requirement;[4] (3) an assertion that Staff's rate structure creates revenue volatility due to a transfer of revenue from the first tier commodity rate to the

[3] Bourassa Rebuttal at page 50.
[4] Bourassa Rebuttal at page 51.

higher tiers;[5] (4) an assertion that the Company proposes to discontinue and Staff proposes to continue the $40 Service Call per hour/after hour charge; and (5) an assertion that the Company proposes a $50 Service Charge – after hours and Staff recommended $40 for the after-hour service.[6]

Schedule MJR-W1 attached to Staff Direct Testimony for rate design shows that Staff did, in fact, recommend a single tier commodity rate for the 6-inch bulk meter. Thus, Staff and the Company are in agreement on this issue.

Staff has found no basis for the Company's an assertion that Staff's recommended rates produce $19,000 less than its recommended revenue requirement. Staff notes that the Company proposes an $18,231 downward revenue annualization adjustment that Staff is not adopting because there is no support to suggest that the end of year customer counts the Company uses for its adjustment are more representative of the on-going number of customers than the actual test year customers. The premise of the Company's revenue annualization adjustment is not consistent with the typical seasonal customer variations experienced by utilities in Arizona.

The Bourassa Rebuttal states that all inverted tier commodity rate structures are inherently volatile, and expresses concern that Staff proposes to lower the first tier commodity rate and states that reducing the first tier commodity rate sends the wrong conservation signal to customers – that water is cheaper.[7] While it is generally recognized that transferring revenue attributed to a lower rate commodity tier to a higher rate commodity tier is associated with greater revenue variances, the notion that transferring revenues attributed

[5] Bourassa Rebuttal at page 51.
[6] Bourassa Rebuttal at page 55.
[7] Bourassa Rebuttal at page 51.

to the first commodity rate tier to higher commodity rate tiers by reducing the former and increasing the latter sends an inappropriate conservation signal to customers overlooks the most salient feature of a rate structure that encourages efficient use of water. Since water is a necessity, customers have minimum consumption requirements that are non-discretionary. Non-discretionary water is not price sensitive. However, discretionary use will be more sensitive to price signal. Thus, redirecting a portion of the revenue from non-discretionary use to discretionary use is the primary economic feature of a rate structure with aspirations of encouraging efficient use of water. Since discretionary versus non-discretionary use is a fundamental key in a rate structure intended to send appropriate consumption signals to customers, the gallons in the first commodity rate tier should reflect an estimate for non-discretionary use. While a rate structure with large variances among commodity rate tiers may persistently have greater variances above and below an average, over time as customers achieve their particular efficient usage levels, overall system consumption should stabilize, i.e., the average consumption and sales by tier should no longer experience the reduced consumption experienced in the early years of a conservation oriented rate design. In other words, customers cannot continue perpetually to consume less.

Staff agrees with the Company's proposal to discontinue the $40 Service Call per hour/after hour charge and to establish a $50 After Hours Service Charge for both the water and wastewater divisions. Staff had intended to make this recommendation in its Direct Testimony. The omission was an inadvertent oversight.

For the wastewater division, the Bourassa Rebuttal notes that the rate structures proposed by all of the parties are similar,[8] but also asserts that Staff's recommended rates produce $34,000 less revenue than its revenue requirement.[9]

As with the water division discussion above, Staff has found no basis for the Company's assertion that Staff's recommended rates for the wastewater division produce $34,000 less than its recommended revenue requirement. However, unlike the water division, Staff's rejection of the Company's $5,207 downward revenue annualization adjustment for the wastewater division does not explain the discrepancy asserted by the Company.

V. RESPONSE TO REBUTTAL TESTIMONY OF MR. GREG SORENSEN

Salaries and Wages - Employee Benefits Expense (Water and Wastewater Divisions)

Q. Please summarize the Sorensen Rebuttal Testimony regarding the revised employee benefit costs.

A. The Sorensen Rebuttal Testimony explains that RRUI's parent company, Liberty, changed its employee benefit plan. The change is based on the outcome of an analysis by a benefits consultant hired by Liberty to help standardize its national benefits plan across all all of its water, sewer, gas and electric utilities in the United States. Liberty informed the Company of the change during the final quarter of 2012, a date subsequent to the rate case filing. Approximately 75 percent of costs relate to employees working directly for RRUI and 25 percent pertain to employees providing administrative support from the Avondale office. The Company asserts that the change is known measurable and is a normal cost of service required to attract and retain talented employees.

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[8] While the rate structures are similar, the rates and revenues produced by RRUI's and Staff's rate designs differ in accordance with their respective revenue requirements.

[9] Bourassa Rebuttal at page 55.

Q. Does Staff have concerns regarding the Company's request to include the incremental costs of the revised employee benefits in this rate case?

A. Yes. Introducing these incremental costs in Rebuttal Testimony does not allow Staff sufficient time to adequately examine various aspects of the costs. Several concerns immediately come to mind including: (1) Why the Company did not broach this issue with Staff when it became known in the fourth quarter of 2012; (2) Why the Company did not provide calculations for support the requested amount; (3) Whether it is appropriate to assume that benefits should be standardized across the United States as opposed to regionalized; (4) Whether the cost to hire employees in RRUI's service territory are greater than, less than or equal to those in other parts of the country; (5) Whether employee benefits should be standardized across water, sewer, gas, and electric utilities; (6) Whether the consultant's study is available for review; (7) Whether additional benefits are being provided; and (8) why RRUI believes it must provide incremental benefits to attract talented employees in a high unemployment economic environment. Under these circumstances, Staff does not agree that the proposed incremental employee benefit costs are a known and measurable change that the Company has demonstrated are necessary for the provision of service.

Q. Does this conclude your Surrebuttal Testimony?

A. Yes, it does.

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Surrebuttal Testimony of Mary J. Rimback

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Surrebuttal Schedule MJR-W1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY FAIR VALUE	(B) STAFF FAIR VALUE
1	Adjusted Rate Base	$ 7,629,607	$ 7,665,343
2	Adjusted Operating Income (Loss)	$ 375,933	$ 473,110
3	Current Rate of Return (L2 / L1)	4.93%	6.17%
4	Required Rate of Return	9.70%	8.20%
5	Required Operating Income (L4 * L1)	$ 740,072	$ 628,558
6	Operating Income Deficiency (L5 - L2)	$ 364,139	$ 155,448
7	Gross Revenue Conversion Factor	1.6589	1.6589
8	Required Revenue Increase (L7 * L6)	$ 604,078	**$ 257,875**
9	Adjusted Test Year Revenue	$ 2,854,838	$ 2,864,823
10	Proposed Annual Revenue	$ 3,458,916	$ 3,122,698
11	Required Increase in Revenue (%)	21.16%	9.00%

References:
Column (A): Company Schedule A-1
Column (B): Staff Schedules MJR-W3 and MJR-W12

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	Calculation of Gross Revenue Conversion Factor:				
1	Revenue	100.0000%			
2	Uncollecible Factor	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 18)	39.7196%			
5	Subtotal (L3 - L4)	60.2804%			
6	**Revenue Conversion Factor (L1 / L5)**	1.658915			
	Calculation of Uncollecttible Factor:				
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 23)	38.5989%			
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
	Calculation of Effective Tax Rate:				
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L7 - L8)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 48)	34.0000%			
16	Effective Federal Income Tax Rate (L9 x L10)	31.6309%			
17	Combined Federal and State Income Tax Rate (L8 +L11)		38.5989%		
	Calculation of Effective Property Tax Factor				
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L12)	38.5989%			
20	One Minus Combined Income Tax Rate (L13-L14)	61.4011%			
21	Property Tax Factor (MJR-W17, L27)	1.8253%			
22	Effective Property Tax Factor (L15*L16)		1.1208%		
23	Combined Federal and State Income Tax and Property Tax Rate (L12+L17)			39.7196%	
24	Required Operating Income (Schedule MJR-W1, Line 5)	$ 628,558			
25	AdjustedTest Year Operating Income (Loss) (MJR-W13, L40	473,110			
26	Required Increase in Operating Income (L19 - L20)		$ 155,448		
27	Income Taxes on Recommended Revenue (Col. [C], L52)	$ 395,133			
28	Income Taxes on Test Year Revenue (Col. [C], L52)	297,413			
29	Required Increase in Revenue to Provide for Income Taxes (L22 - L23)		97,720		
30	Recommended Revenue Requirement (Schedule MJR-W1, Line 10)	$ 3,122,698			
31	Uncollectible Rate	0.0000%			
32	Uncolllectible Expense on Recommended Revenue (L25*L26)	$ -			
33	Adjusted Test Year Uncollectible Expense	$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L27-L28)		-		
35	Property Tax with Recommended Revenue (Schedule MJR-W18, L21)	$ 161,059			
36	Property Tax on Test Year Revenue (Schedule MJR-W18, Line 17)	156,352			
37	Increase in Property Tax Due to Increase in Revenue (L30-31)		4,707		
38	Total Required Increase in Revenue (L21 + L24 + L29 + L32)		$ 257,875		

LINE NO.	*Calculation of Income Tax:*	Test Year		Staff Recommended
39	Revenue (Schedule MJR-W1, Col. [B], Line 9 & Sch. MJR-W1, Col. [B] Line 10)	$ 2,864,823	$ 257,875	$ 3,122,698
40	Operating Expenses Excluding Income Taxes	$ 2,094,299		$ 2,099,006
41	Synchronized Interest (L57)	$ -		$ -
42	Arizona Taxable Income (L34 - L35 - L36)	$ 770,523		$ 1,023,692
43	Arizona State Income Tax Rate	6.9680%		6.9680%
44	Arizona Income Tax (L37 x L38)	$ 53,690		$ 71,331
45	Federal Taxable Income (L37- L39)	$ 716,833		$ 952,361
46	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ 7,500		$ 7,500
47	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	$ 6,250		$ 6,250
48	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ 8,500		$ 8,500
49	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ 91,650		$ 91,650
50	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ 129,823		$ 209,903
51	Total Federal Income Tax	$ 243,723		$ 323,803
52	Combined Federal and State Income Tax (L39 + L46)	$ 297,413		$ 395,133
53	Applicable Federal Income Tax Rate [Col. [C], L46 - Col. [A], L46] / [Col. [C], L40 - Col. [A], L40]			34.0000%
54	Synchronized Interest Calculation			
55	Rate Base			$ 7,665,343
56	Weighted Average Cost of Debt			0.00%
57	*Synchronized Interest*			$ -

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Surrebuttal Schedule MJR-W3

RATE BASE - ORIGINAL COST PROPOSED

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 36,146,217	$ (148,265)	$ 35,997,952
2	Less: Accumulated Depreciation	15,784,381	(304,928)	15,479,453
3	Net Plant in Service	$ 20,361,836	$ 156,664	$ 20,518,500
	LESS:			
4	Contributions in Aid of Construction (CIAC)	$ 20,179,119	$ -	$ 20,179,119
5	Less: Accumulated Amortization	8,797,261	(104,741)	$ 8,692,520
6	Net CIAC	11,381,858	104,741	$ 11,486,599
7	Advances in Aid of Construction (AIAC)	660,955	-	660,955
8	Customer Deposits	284,024	-	284,024
9	Deferred Income Tax Credits	405,395	16,184	421,579
	ADD:			
10	Working Capital Allowance	-	-	-
11	Defered Regulatory Assets	-	-	-
12	**Original Cost Rate Base**	$ 7,629,604	$ 35,739	$ 7,665,343

References:
Column [A]: Company Application Schedule B-1
Column [B]: Testimony MJR
Column [C]: Column [A] + Column [B]

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SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Reclassification to Wastewater Plant Ref: Sch MJR-W5	[C] ADJ #2 Alloc Bldg to Wastewater Ref: Sch MJR-W6	[D] ADJ #3 2012 Affiliate Profit Ref: Sch MJR-W7	[E] ADJ #4 ADIT Ref: Sch MJR-W8	[F] ADJ #5 Accum Deprec Fully Deprec Plt Ref: Sch MJR-W9	[G] ADJ #6 Accumulated Amorization of CIAC Ref: Sch MJR-W10	[H] ADJ #7 Affiliate Profit 2009-11 Accum Dep Ref: Sch MJR W-11	[I] ADJ #8 Retire Plant Ref: Sch MJR W-12	[J] STAFF ADJUSTED
1		*PLANT IN SERVICE:*										
2	301.0	Organization Cost	$ 5,785	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 5,785
3	302.0	Franchise Cost	417	-	-	-	-	-	-	-	-	417
4	303.0	Land and Land Rights	44,194	-	-	-	-	-	-	-	-	44,194
5	304.0	Structures and Improvements	3,432,930	-	(121,438)	(35)	-	-	-	-	-	3,311,457
6	305.0	Collecting and Impounding Res.	-	-	-	-	-	-	-	-	-	-
7	306.0	Lake River and Other Intakes	-	-	-	-	-	-	-	-	-	-
8	307.0	Wells and Springs	562,944	-	-	(7)	-	-	-	-	-	562,937
9	308.0	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-	-	-	-
10	309.0	Supply Mains	279,157	-	-	-	-	-	-	-	-	279,157
11	310.0	Power Generation Equipment	219,360	-	-	-	-	-	-	-	-	219,360
12	311.0	Electric Pumping Equipment	3,147,011	-	-	(303)	-	-	-	-	(9,757)	3,136,951
13	320.1	Water Treatment Plants	369,100	(5,658)	-	-	-	-	-	-	-	363,442
14	320.2	Solution Chemical Feeders	-	-	-	-	-	-	-	-	-	-
15	330.0	Distribution Reservoirs & Standpipe	759,861	-	-	-	-	-	-	-	-	759,861
16	330.1	Storage Tanks	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	-	-	-	-	-	-	-	-	-	-
18	331.0	Transmission and Distribution Mains	22,339,256	-	-	(1,363)	-	-	-	-	-	22,337,893
19	333.0	Services	2,768,122	-	-	-	-	-	-	-	-	2,768,122
20	334.0	Meters	1,010,366	-	-	-	-	-	-	-	-	1,010,366
21	335.0	Hydrants	572,321	-	-	-	-	-	-	-	-	572,321
22	336.0	Backflow Prevention Devices	15,855	(9,704)	-	-	-	-	-	-	-	6,151
23	339.0	Other Plant and Miscellaneous Equipment	123,778	-	-	-	-	-	-	-	-	123,778
24	340.0	Office Furniture and Fixtures	29,265	-	-	-	-	-	-	-	-	29,265
25	340.1	Computers and Software	76,919	-	-	-	-	-	-	-	-	76,919
26	341.0	Transportation Equipment	142,188	-	-	-	-	-	-	-	-	142,188
27	342.0	Stores Equipment	-	-	-	-	-	-	-	-	-	-
28	343.0	Tools and Work Equipment	18,203	-	-	-	-	-	-	-	-	18,203
29	344.0	Laboratory Equipment	3,061	-	-	-	-	-	-	-	-	3,061
30	345.0	Power Operated Equipment	-	-	-	-	-	-	-	-	-	-
31	346.0	Communications Equipment	212,996	-	-	-	-	-	-	-	-	212,996
32	347.0	Miscellaneous Equipment	13,128	-	-	-	-	-	-	-	-	13,128
33	348.0	Other Tangible Plant	-	-	-	-	-	-	-	-	-	-
34		*Total Plant In Service - Actual*	$ 36,146,217	(15,362)	(121,438)	(1,708)	-	-	-	-	(9,757)	35,997,952
35		Post Test-Year Plant	-	-	-	-	-	-	-	-	-	-
36		Total Plant In Service	$ 36,146,217	$ (15,362)	$ (121,438)	$ (1,708)	$ -	$ -	$ -	$ -	$ (9,757)	$ 35,997,952
37		Less: Accumulated Depreciation	15,784,381	(1,415)	(337)	(34)	-	(290,873)	-	(2,513)	(9,757)	15,479,453
38			-	-	-	-	-	-	-	-	-	-
39		Net Plant In Service	$ 20,361,836	$ (13,947)	$ (121,101)	$ (1,674)	$ -	$ 290,873	$ -	$ 2,513	$ 0	$ 20,518,500
40												
41		*LESS:*										
42		Contributions in Aid of Construction (CIAC)	$ 20,179,119	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 20,179,119
43		Less: Accumulated Amortization	8,797,261	-	-	-	-	-	(104,741)	-	-	8,692,520
44		Net CIAC (L42 - L43)	11,381,858	-	-	-	-	-	104,741	-	-	11,486,599
45		Advances in Aid of Construction (AIAC)	660,955	-	-	-	-	-	-	-	-	660,955
46		Customer Deposits	284,024	-	-	-	-	-	-	-	-	284,024
47		Deferred Income Taxes	405,395	-	-	-	16,184	-	-	-	-	421,579
48			-	-	-	-	-	-	-	-	-	-
49												
50		*ADD:*										
51		Working Capital Allowance	-	-	-	-	-	-	-	-	-	-
52		Defered Regulatory Assets	-	-	-	-	-	-	-	-	-	-
53												
54		**Original Cost Rate Base**	$ 7,629,604	$ (13,947)	$ (121,101)	$ (1,674)	$ (16,184)	$ 290,873	$ (104,741)	$ 2,513	$ 0	$ 7,665,343

RATE BASE ADJUSTMENT NO. 1 - RECLASSIFICATION OF NET PLANT TO WASTEWATER

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED (Col A + Col B)
1	320	Water Treatment Plants	$ 369,100	$ (5,658)	$ 363,442
2	336	Backflow Prevention Devices	$ 15,855	$ (9,704)	$ 6,151
3		Total	$ 384,955	**$ (15,362)**	$ 369,593
4		Accumulated Depreciation	1415	**$ (1,415)**	0

References:
Column [A]: Company Application Schedule B.2, Page 3.5
Column [B]: Testimony MJR
Column [C]: Column [A] + Column [B]

		Accum Depreciation Adjustment for Plant Transferred to NIWWTP		2009	2010	2011	2012 2 Mos.	Acc Dep
2009	320	Water Treatment Plant 3.33% Depreciation	$ (5,658)	$ (94)	$ (188)	$ (188)	$ (31)	$ (502)
2010	336	Back Flow Prevention Devices 6.67 % Depreciation	$ (7,210)		$ (240)	$ (481)	$ (80)	$ (802)
2011	336	Back Flow Prevention Devices 6.67 % Depreciation	$ (2,494)			$ (83)	$ (28)	$ (111)
		Subtotal	$ (15,362)					$ (1,415)

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Surrebuttal Schedule MJR-W6

RATE BASE ADJUSTMENT NO. 2 - REMOVE A PORTION OF A BUILDING ALLOCATED TO WASTEWATER

LINE NO.	ACCT NO.	DESCRIPTION	[A] Plant in Service Per Company	[B] Staff Adjustment	[C] Plant in Service Per Staff (Col A + Col B)
1	304	Structures and Improvements	$ 3,432,930	$ **(121,438)**	$ 3,311,492
2		Accumulated Depreciation		$ **(337)**	

References:
Column [A]: Company Application Schedule B.2, Page 3.5
Column [B]: Company Testimony
Column [C]: Column [A] + Column [B]

			Depreciation rate	1 month Acc Dep
304	Structures and Improvements	$ 121,438	3.33%	$ 337

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Surrebuttal Schedule MJR-W7

RATE BASE ADJUSTMENT NO. 3 - REMOVE 2012 AFFILIATE PROFIT

LINE NO.	DESCRIPTION	Depr Rate	[A] Included in Plant Service Per Company	[B] STAFF ADJUSTMENTS
1	304 Structures and Improvements		35	$ (35)
2	307 Wells and Springs		7	$ (7)
3	311 Electric Pumping Equipment		303	$ (303)
4	331 Transmission and Distribution Mains		1363	$ (1,363)
	Total Plant Adj		$ 1,708	$ (1,708)
	Accumulated Depreciation Adj 1/2 year			
5	304 Structures and Improvements	3.33%	$ 1	$ (1)
6	307 Wells and Springs	3.33%		$ -
7	311 Electric Pumping Equipment	12.50%	$ 19	$ (19)
8	331 Transmission and Distribution Mains	2.00%	$ 14	$ (14)
	Total Accum Deprec Adj		$ 34	$ (34)

References:
Column [A]: Company Schedule B-2, Page 3.4
Column [B]: Company Response to Staff DRs MJR 1.15 and 2.10

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Surrebuttal Schedule MJR-W8

RATE BASE ADJUSTMENT NO. 4 - ADIT ADJUSTMENT

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	ADIT	$ 405,395	$ 16,184	$ 421,579

References:
Column [A]: Company Schedule B.1, Page 1
Column [B]: Column [C] less Column [A]
Column [C]: Column [A] + Column [B]

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Surrebuttal Schedule MJR-W9

RATE BASE ADJUSTMENT NO. 5 - Accumulated Depreciation - Fully Depreciated Plant

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Accumulated Depreciation	$ 2,869,270	$ (290,873)	$ 2,578,397

References:
Column [A]: Company Schedule B-2, Page 3.5
Column [B]: Testimony MJR
Column [C]: Column [A] + Column [B]

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Surrebuttal Schedule MJR-W10

RATE BASE ADJUSTMENT NO. 6 - ACCUMULATED AMORTIZATION OF CIAC

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	CIAC Amortization	$ 8,797,261	$ (104,741)	8,692,520

References:
Columns [A]: Company Schedule B-2, Page 5.1
Column [B]: Column [C] less Column [A]
Column [C]: Testimony MJR

RATE BASE ADJUSTMENT NO. 7 - ACCUMULATED DEPRECIATION AFFILIATE PROFIT 2009-11

		[A]	[B]	[C]	[D]
LINE NO.	DESCRIPTION	Deprec Rate	Prior Rate Case	Depreciation 2009-2011 3 Years	Staff Adjustment Acc Dep
1	307 Wells & Springs	3.33%	$ (4,372)	$ 437	
2	311 Electric Pumping Equipment	12.50%	(170)	64	
3	331 Transmission and Distribution Mains	2.00%	(5,568)	334	
4	339 Other Plant & Misc Equip	6.67%	(8,386)	1,678	
5	Total Plant Adj		$ (18,496)	$ 2,513	**$ (2,513)**

References:
Column [A]: Company Schedule B-2, Page 3.5
Column [B]: Company Schedule B-2, Page 3.6
Column [C]: Column [A] x Column [B] x 3
Column [D]: Testimony MJR

RATE BASE ADJUSTMENT NO. 8 - PLANT RETIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Acct. No. 311	$ 3,147,011	$ (9,757)	$ 3,137,254
2	Accumulated Depreciation	$ 9,757	$ (9,757)	$ -

References:
Column [A]: Company Schedule B-2, Page 3.5
Column [B]: Company Reponse to RUCO DR 11.3
Column [C]: Column [A] + Column [B]

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Surrebuttal Schedule MJR-W13

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	*REVENUES:*					
2	Metered Water Sales	$ 2,811,949	$ -	$ 2,821,934	$ 257,875	$ 3,079,809
3	Water Sales-Unmetered	-	-	-	-	-
4	Other Water Revenue	42,889	-	42,889	-	42,889
5	Intentionally Left Blank	-	-	-	-	-
6	**Total Operating Revenues**	$ 2,854,838	$ -	$ 2,864,823	$ 257,875	$ 3,122,698
7						
8	*OPERATING EXPENSES:*					
9	Salaries and Wages	$ 426,012	$ -	$ 426,012	$ -	$ 426,012
10	Purchased Water	-	-	-	-	-
11	Purchased Power	371,378	17,083	388,461	-	388,461
12	Fuel for Power Production	-	-	-	-	-
13	Chemicals	3,884	-	3,884	-	3,884
14	Materials and Supplies	27,517	-	27,517	-	27,517
15	Office Supplies and Expense	-	-	-	-	-
16	Management Services-Liberty Water	257,367	(1,804)	255,563	-	255,563
17	Management Services-Corporate	133,975	(40,640)	93,335	-	93,335
18	Management Services-Other	15,903	-	15,903	-	15,903
19	Outside Services-Accounting	167		167	-	167
20	Outside Services-Engineering	-		-	-	-
21	Outside Services - Other	14,205		14,205	-	14,205
22	Outside Services - Legal	4,690		4,690	-	4,690
23	Water Testing	28,231	(4,410)	23,821	-	23,821
24	Rents-Building	-	-	-	-	-
25	Rents-Equipment	3,208	-	3,208	-	3,208
26	Transportation Expenses	89,305	-	89,305	-	89,305
27	Insurance - General Liability	34,100	-	34,100	-	34,100
28	Insurance - Vehicle	7,733	-	7,733	-	7,733
29	Regulatory Commission Expense	-	-	-	-	-
30	Regulatory Commission Expense - Rate Case	87,500	-	87,500	-	87,500
31	Miscellaneous Expense	85,057	-	85,057	-	85,057
32	Bad Debt Expense	-	-	-	-	-
33	Depreciation Expense	551,222	(173,736)	377,486	-	377,486
34	Amortization of CIAC (incl in Dep Exp)	-	-	-	-	-
35	Taxes Other than Income	-	-	-	-	-
36	Property Taxes	155,805	547	156,352	4,707	161,059
37	Income Taxes	181,647	115,766	297,413	97,720	395,133
38	Interest on Customer Deposits	-	-	-	-	-
39	**Total Operating Expenses**	$ 2,478,906	$ (87,193)	$ 2,391,713	$ 102,427	$ 2,494,140
40	**Operating Income (Loss)**	$ 375,932	$ 87,193	$ 473,110	$ 155,448	$ 628,558

References:
Column (A): Company Schedule C-1
Column (B): Schedule MJR-W14
Column (C): Column (A) + Column (B)
Column (D): Schedules MJR-W1, MJR-W2 and MJR-W19
Column (E): Column (C) + Column (D)

Rio Rico Utilities, Inc. - Water Division
Docket No. WS-02676A-12-0196
Test Year Ended February 29, 2012

Surrebuttal Schedule MJR-W14

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Water Testing Expenses ADJ #1 Ref: Sch MJR-W15	[C] APUC Allocated Capital Taxes ADJ #2 Ref: Sch MJR-W16	[D] Depreciation Expense ADJ #3 Ref: Sch MJR-W17	[E] APUC Allocated Corporate Costs Adj #4 Ref. Wch MJR-W-18	[F] Property Tax Expense Adj #4 Ref: Sch MJR-W19	[G] Income Tax Expense ADJ #5 Ref: Sch MJR-W20	[H] Bulk Sales Revenue ADJ #6 Ref: Sch MJR-W21	[I] Purchase Power Adjustment ADJ #7 Ref: Sch MJR-W22	[J] Miscellaneous Expense ADJ #8 Ref: Sch MJR-W23	[K] STAFF ADJUSTED
1	*REVENUES:*											
2	Metered Water Sales	$ 2,811,949	$ -	$ -	$ -		$ -	$ -	$ 9,985	$ -	$ -	$ 2,821,934
3	Water Sales-Unmetered	-	-	-	-		-	-	-	-	-	-
4	Other Water Revenue	42,889	-	-	-		-	-	-	-	-	42,889
5	Intentionally Left Blank	-	-	-	-		-	-	-	-	-	-
6	**Total Operating Revenues**	$ 2,854,838	$ -	$ -	$ -		$ -	$ -	$ 9,985	$ -	$ -	$ 2,864,823
7												
8	*OPERATING EXPENSES:*											
9	Salaries and Wages	$ 426,012	$ -	$ -	$ -		$ -	$ -	$ -	$ -	$ -	$ 426,012
10	Purchased Water	-	-	-	-		-	-	-	-	-	-
11	Purchased Power	371,378	-	-	-		-	-	-	17,083	-	388,461
12	Fuel for Power Production	-	-	-	-		-	-	-	-	-	-
13	Chemicals	3,884	-	-	-		-	-	-	-	-	3,884
14	Materials and Supplies	27,517	-	-	-		-	-	-	-	-	27,517
15	Office Supplies and Expense	-	-	-	-		-	-	-	-	-	-
16	Management Services-Liberty Water	257,367	-	-	-		-	-	-	-	(1,804)	255,563
17	Management Services-Corporate	133,975	-	(2,557)	-	(38,083)	-	-	-	-	-	93,335
18	Management Services-Other	15,903	-	-	-		-	-	-	-	-	15,903
19	Outside Services-Accounting	167	-	-	-		-	-	-	-	-	167
20	Outside Services-Engineering	-	-	-	-		-	-	-	-	-	-
21	Outside Services - Other	14,205	-	-	-		-	-	-	-	-	14,205
22	Outside Services - Legal	4,690	-	-	-		-	-	-	-	-	4,690
23	Water Testing	28,231	(4,410)	-	-		-	-	-	-	-	23,821
24	Rents-Building	-	-	-	-		-	-	-	-	-	-
25	Rents-Equipment	3,208	-	-	-		-	-	-	-	-	3,208
26	Transportation Expenses	89,305	-	-	-		-	-	-	-	-	89,305
27	Insurance - General Liability	34,100	-	-	-		-	-	-	-	-	34,100
28	Insurance - Vehicle	7,733	-	-	-		-	-	-	-	-	7,733
29	Regulatory Commission Expense-Other	-	-	-	-		-	-	-	-	-	-
30	Regulatory Commission Expense - Rate Case	87,500	-	-	-		-	-	-	-	-	87,500
31	Miscellaneous Expense	85,057	-	-	-		-	-	-	-	-	85,057
32	Bad Debt Expense	-	-	-	-		-	-	-	-	-	-
33	Depreciation Expense	551,222	-	-	(173,736)		-	-	-	-	-	377,486
34	Amortization of CIAC (Incl in Dep Exp)	-	-	-	-		-	-	-	-	-	-
35	Taxes Other than Income	-	-	-	-		-	-	-	-	-	-
36	Property Taxes	155,805	-	-	-		547	-	-	-	-	156,352
37	Income Taxes	181,647	-	-	-		-	115,766	-	-	-	297,413
38	Interest on Customer Deposits	-	-	-	-		-	-	-	-	-	-
39	**Total Operating Expenses**	$ 2,478,906	$ (4,410)	$ (2,557)	$ (173,736)		$ 547	$ 115,766	$ -	$ 17,083	$ (1,804)	$ 2,391,713
40	**Operating Income (Loss)**	$ 375,932	$ 4,410	$ 2,557	$ 173,736		$ (547)	$ (115,766)	$ 9,985	$ (17,083)	$ 1,804	$ 473,110

Rio Rico Utilities, Inc. - Water Division
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Surrebuttal Schedule MJR-W15

OPERATING ADJUSTMENT NO. 1 - WATER TESTING EXPENSE

		[A]	[B]	[C]
Line No.	Description	COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Water Testing	$ 28,231	$ (4,410)	$ 23,821

References:
Column [A]: Company Schedule C-1, Page 1
Column [B]: Testimony Staff Engineering Testimony
Column [C]: Column [A] + Column [B]

Rio Rico Utilities, Inc. - Water Division
Docket No. WS-026764A-12-0196
Test Year Ended: February 29, 2012

Surrebuttal Schedule MJR-W16

OPERATING ADJUSTMENT NO. 2 - APUC ALLOCATED CAPITAL TAXES

Line No.	Description	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Management Services-Corporate	$ 133,975	$ (2,557)	$ 131,418

References:
Column [A]: Company Schedule C-1, Page 1
Column [B]: MJR Testimony
Column [C]: Column [A] + Column [B]

Rio Rico Utilities, Inc. - Water Division
Docket No. WS-02676A-12-0196
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Surrebuttal Schedule MJR-W17

OPERATING ADJUSTMENT NO. 3 - DEPRECIATION EXPENSE

LINE NO.	ACCT NO.	DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	301	Organization Cost	$ 5,785	$ 5,785	$ -	0.00%	$ -
2	302	Franchise Cost	417	417	-	0.00%	-
3	303	Land and Land Rights	44,194	44,194	-	0.00%	-
4	304	Structures and Improvements	3,311,457	-	3,311,457	3.33%	110,272
5	305	Collecting and Impounding Res.	-	-	-	2.50%	-
6	306	Lake River and Other Intakes	-	-	-	2.50%	-
7	307	Wells and Springs	562,937	-	562,937	3.33%	18,746
8	308	Infiltration Galleries and Tunnels	-	-	-	6.67%	-
9	309	Supply Mains	279,157	-	279,157	2.00%	5,583
10	310	Power Generation Equipment	219,360	-	219,360	5.00%	10,968
11	311	Electric Pumping Equipment	3,136,951	2,471,201	665,750	12.50%	83,219
12	320	Water Treatment Equipment	363,442	-	363,442	3.33%	12,103
13	320	Water Treatment Plant	-	-	-	20.00%	-
14	330	Distribution Reservoirs & Standpipe	759,861	-	759,861	2.22%	16,869
15	330.1	Storage Tanks	-	-	-	2.22%	-
16	330.2	Pressure Tanks	-	-	-	5.00%	-
17	331	Transmission and Distribution Mains	22,337,893	-	22,337,893	2.00%	446,758
18	333	Services	2,768,122	-	2,768,122	3.33%	92,178
19	334	Meters	1,010,366	-	1,010,366	8.33%	84,163
20	335	Hydrants	572,321	-	572,321	2.00%	11,446
21	336	Backflow Prevention Devices	6,151	-	6,151	6.67%	410
22	339	Other Plant and Miscellaneous Equipment	123,778	-	123,778	6.67%	8,256
23	340	Office Furniture and Fixtures	29,265	-	29,265	6.67%	1,952
24	340.1	Computers and Software per Company C-2*	76,919	76,919	-	20.00%	-
25	341	Transportation Equipment	142,188	-	142,188	20.00%	28,438
26	342	Stores Equipment	-	-	-	4.00%	-
27	343	Tools and Work Equipment	18,203	-	18,203	5.00%	910
28	344	Laboratory Equipment Per Company C-2*	3,061	3,061	-	10.00%	-
29	345	Power Operated Equipment	-	-	-	5.00%	-
30	346	Communications Equipment	212,996	-	212,996	10.00%	21,300
31	347	Miscellaneous Equipment	13,128	7,531	5,597	10.00%	560
32	348	Other Tangible Plant	-	-	-	10.00%	-
33		Total Plant	$ 35,997,952	$ 2,609,108	$ 33,388,844		$ 954,130

38	CIAC ■ Depreciation Expense/Depreciable Plant	2.86%
39	CIAC Balance	$ 20,179,119
40	Depreciation Expense Before Amortization of CIAC:	$ 954,130
41	Less Amortization of CIAC:	$ 576,645
42	**Test Year Depreciation Expense - Staff:**	**$ 377,485**
43	Depreciation Expense - Company:	$ 551,221
44	**Staff's Total Adjustment:**	**$ (173,736)**

Note:

* Indicates items that were fully depreciated per Company Schedule C-2.
References:
Column [A]: Schedule MJR-W4
Column [B]: Testimony MJR From Column [A]
Column [C]: Column [A] - Column [B]
Column [D]: Staff Engineering Testimony
Column [E]: Column [C] x Column [D]

Rio Rico Utilities, Inc. - Water Division
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Surrebuttal Schedule MJR-W18

OPERATING ADJUSTMENT NO. 4 - APUC COST ALLOCATION

Line No.	Description	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Management Services-Corporate	$ 133,975		
2	Less Adjusment No. 2 Capital Taxes	(2,557)		
3	Subtotal	$ 131,418	$ (38,083)	$ 93,335

References:
Column [A]: Company Schedule C-1, Page 1
Column [B]: MJR Testimony
Column [C]: Column [A] + Column [B]

Rio Rico Utilities, Inc. - Water Division
Docket No. WS-02676A-12-0196
Test Year Ended February 29, 2012

Surrebuttal Schedule MJR-W19

OPERATING INCOME - PROPERTY TAX EXPENSE - NO ADJUSTMENT

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	$ 2,864,823	$ 2,864,823
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	5,729,645	$ 5,729,645
4	Staff Recommended Revenue, Per Schedule JMM-1	2,864,823	$ 3,122,698
5	Subtotal (Line 4 + Line 5)	8,594,468	8,852,343
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	2,864,823	$ 2,950,781
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	5,729,645	$ 5,901,562
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	20,364	$ 20,364
12	Full Cash Value (Line 9 + Line 10 - Line 11)	5,709,281	$ 5,881,198
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	1,141,856	$ 1,176,240
15	Composite Property Tax Rate (Per Company Schedule)	13.6927%	13.6927%
16			$ -
17	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	$ 156,352	
18	Company Proposed Property Tax	155,805	
19			
20	Staff Test Year Adjustment (Line 17-Line 18)	$ 547	
21	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		$ 161,059
22	Staff Test Year Adjusted Property Tax Expense (Line 17)		$ 156,352
23	Increase in Property Tax Expense Due to Increase in Revenue Requirement		$ 4,707
24			
25	Increase to Property Tax Expense		**$ 4,707**
26	Increase in Revenue Requirement		257,875
27	Increase to Property Tax per Dollar Increase in Revenue (Line 25/Line 26)		**1.825306%**

References:
Column [A]: Company Schedule C-2, Page 3
Column [B]: Testimony MJR
Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 5 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Income Tax Expense	$ 181,647	$ 115,766	$ 297,413

References:
Column (A): Company Schedule C-1
Column (B): Column [C] - Column [A]
Column (C): Schedule MJR-W2

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Surrebuttal Schedule MJR-W21

OPERATING ADJUSTMENT NO. 6 - MISSING BILL COUNTS BULK SALES 6-INCH METER

Line No.	Description	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	6-Inch Meter	$ 29,923	$ 9,985	$ 39,907

References:
Column [A]: Company Schedule H-1, Page 1
Column [B]: Ruco DR 12.1
Column [C]: Column [A] + Column [B]

	Minimum Monthly Charge	Commodity rate per 1,000	Gallons	Subtotal
Dec-11	$ 549	$ 4.79	541,000	$ 3,140
Jan-12	$ 549	$ 4.79	404,000	2,484
Feb-12	$ 549	$ 4.79	462,000	2,762
Mar-12	$ 549	$ 4.79	275,000	1,866
Apr-12	$ 549	$ 4.79	578,000	3,318
May-12	$ 549	$ 4.79	709,000	3,945
Jun-12	$ 549	$ 4.79	1,017,000	5,420
Jul-12	$ 549	$ 4.79	554,000	3,203
Aug-12	$ 549	$ 4.79	465,000	2,776
Sep-12	$ 549	$ 4.79	616,000	3,500
Oct-12	$ 549	$ 4.79	642,000	3,624
Nov-12	$ 549	$ 4.79	693,000	3,868
				$ 39,907

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Surrebuttal Schedule MJR-W22

OPERATING INCOME ADJUSTMENT NO. 7 - PURCHASED POWER

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Purchased Power	$ 371,378	$ 17,083	$ 388,461

References:
Column (A): Company Schedule C-1
Column (B): Column [C] - Column [A]
Column (C): Schedule MJR-Surrebuttal Testimony

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Surrebuttal Schedule MJR-W23

OPERATING INCOME ADJUSTMENT NO. 8 - MISCELLANEOUS EXPENSES

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Management Services-Liberty Water	$ 257,367	$ (1,804)	$ 255,563

References:
Column (A): Company Schedule C-1
Column (B): Column [C] - Column [A]
Column (C): Schedule MJR-Surrebuttal Testimony

Monthly Usage Charge	Present	Company Proposed Rates	Staff Recommended Rates
Meter Size (All Classes):			
5/8 x 3/4 Inch	10.98	17.22	15.00
5/8 x 3/4 Inch (Low Income)	9.33	14.64	12.75
3/4 Inch	16.47	25.83	22.50
1 Inch	27.45	43.05	37.50
1 Inch (Low Income)	23.33	36.59	31.88
1 1/2 Inch	54.90	86.10	75.00
2 Inch	87.84	137.76	120.00
3 Inch	175.68	275.52	240.00
4 Inch	274.50	430.50	375.00
6 Inch	549.00	861.00	750.00
8 Inch	878.40	1,377.60	1,200.00
10 Inch	1,262.70	1,980.30	1,725.00
12 Inch	2,360.70	3,702.30	3,225.00
Commodity Charge - Per 1,000 Gallons All Classes			
5/8" x 3/4" Meter			
First 3,000 gallons	$ 1.5900	1.8200	1.500
3,001 to 9,000 gallons	2.9200	3.0200	2.900
Over 9,000 gallons	3.6400	3.6700	3.400
3/4" Meter			
First 6,000 gallons	2.9200	N/A	N/A
Over 6,000 gallons	3.6400	N/A	N/A
First 4,500 gallons	N/A	3.0200	2.900
Over 4,500 gallons	N/A	3.6700	3.400
1" Meter			
First 15,000 gallons	2.9200	N/A	N/A
Over 15,000 gallons	3.6400	N/A	N/A
First 22,500 gallons	N/A	3.0200	2.900
Over 22,500 gallons	N/A	3.6700	3.400
1 1/2" Meter			
First 20,000 gallons	2.9200	N/A	N/A
Over 20,000 gallons	3.6400	N/A	N/A
First 45,000 gallons	N/A	3.0200	2.900
Over 45,000 gallons	N/A	3.6700	3.400
2" Meter			
First 57,000 gallons	2.9200	N/A	N/A
Over 57,000 gallons	3.6400	N/A	N/A
First 72,000 gallons	N/A	3.0200	2.900
Over 72,000 gallons	N/A	3.6700	3.400
3" Meter			
First 57,000 gallons	2.9200	N/A	N/A
Over 57,000 gallons	3.6400	N/A	N/A
First 144,000 gallons	N/A	3.0200	2.900
Over 144,000 gallons	N/A	3.6700	3.400
4" Meter			
First 57,000 gallons	2.9200	N/A	N/A
Over 57,000 gallons	3.6400	N/A	N/A
First 225,000 gallons	N/A	N/A	2.900
Over 225,000 gallons	N/A	N/A	3.400
6" Meter			
First 125,000 gallons	2.9200	N/A	N/A
Over 125,000 gallons	3.6400	N/A	N/A
First 450,000 gallons	N/A	3.0200	2.900
Over 450,000 gallons	N/A	3.6700	3.400
6" - Bulk			
Per 1,000 gallons	N/A	N/A	4.790
8" Meter			
First 125,000 gallons	2.9200	N/A	
Over 125,000 gallons	3.6400	N/A	
First 720,000 gallons	N/A	3.0200	2.900
Over 720,000 gallons	N/A	3.6700	3.400
10" Meter			
First 125,000 gallons	2.9200	N/A	N/A
Over 125,000 gallons	3.6400	N/A	N/A
First 1,035,000 gallons	N/A	3.0200	2.900
Over 1,035,000 gallons	N/A	3.6700	3.400
12" Meter			
First 125,000 gallons	2.9200	N/A	N/A
Over 125,000 gallons	3.6400	N/A	N/A
First 1,935,000 gallons	N/A	3.0200	2.900
Over 1,935,000 gallons	N/A	3.6700	3.4000
Fire Lines:			
Up to 8"	Per Rule*	N/A	Per Rule*
10"	Per Rule*	N/A	Per Rule*
12"	Per Rule*	N/A	Per Rule*

*1% of monthly minimum for a comparable size meter connection, but no less than $5.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct for the primary water service line.

Other Service Charges:

Establishment	$ 15.00	$ 15.00	$ 15.00
Establishment (After Hours)	$ 25.00	$ 25.00	$ 25.00
Reconnection (Delinquent)	$ 15.00	$ 15.00	$ 15.00
Reconnection (Delinquent) - After Hours	$ 25.00	$ 25.00	N/T
Meter Test (If Correct)	$ 15.00	$ 15.00	$ 15.00
Deposit	*	*	*
Deposit Interest	**	**	**
Reestablishment (within 12 months)	***	***	***
NSF Check	$ 15.00	$ 15.00	$ 15.00
Late Payment Penalty	1.5% per month	1.5% per month	1.5% per month
Deferred Payment	1.5% per month	1.5% per month	1.5% per month
Moving Meter at Customer Request	At Cost	At Cost	At Cost
Service Calls - Per Hour/After Hours(a)	$ 40.00	$ 40.00	N/T
After Hours Service Charge	N/T	N/T	$ 50.00

* Per Commission Rule A.A.C. R-14-2-403(B)
** Per Commission Rule A.A.C. R-14-2-403(B)
*** Per Commission Rule A.A.C. R-14-2-403(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 14-2-409D(5).

Service and Meter Installation Charges

	Total Present Charge	*Proposed* Service Line	*Proposed* Meter	*Total Proposed* Charge	*Recommended* Service Line	*Recommended* Meter Insallation	Total Recommended
Service Size 5/8"	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
3/4"	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
1"	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
1-1/2"	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
2"	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
3"	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
4"	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
6"	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
8"	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
10"	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
12"	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost

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Surrebuttal Schedule MJR-W25

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

Company Proposed	Gallons		Present Rates		Proposed Rates		Dollar Increase	Percent Increase
Average Usage	9,061	$	33.49	$	41.02	$	7.53	22.49%
Median Usage	6,000		24.51		31.74	$	7.23	29.50%
Staff Recommended								
Average Usage	9,061	$	33.49	$	37.11	$	3.62	10.79%
Median Usage	6,000		24.51		28.20	$	3.69	15.06%

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

Gallons Consumption		Present Rates		Company Proposed Rates	% Increase		Staff Recommended Rates	% Increase
-	$	10.98	$	17.22	56.83%	$	15.00	36.61%
1,000		12.57		19.04	51.47%		16.50	31.26%
2,000		14.16		20.86	47.32%		18.00	27.12%
3,000		15.75		22.68	44.00%		19.50	23.81%
4,000		18.67		25.70	37.65%		22.40	19.98%
5,000		21.59		28.72	33.02%		25.30	17.18%
6,000		24.51		31.74	29.50%		28.20	15.06%
7,000		27.43		34.76	26.72%		31.10	13.38%
8,000		30.35		37.78	24.48%		34.00	12.03%
9,000		33.27		40.80	22.63%		36.90	10.91%
10,000		36.91		44.47	20.48%		40.30	9.18%
11,000		40.55		48.14	18.72%		43.70	7.77%
12,000		44.19		51.81	17.24%		47.10	6.59%
13,000		47.83		55.48	15.99%		50.50	5.58%
14,000		51.47		59.15	14.92%		53.90	4.72%
15,000		55.11		62.82	13.99%		57.30	3.97%
16,000		58.75		66.49	13.17%		60.70	3.32%
17,000		62.39		70.16	12.45%		64.10	2.74%
18,000		66.03		73.83	11.81%		67.50	2.23%
19,000		69.67		77.50	11.24%		70.90	1.77%
20,000		73.31		81.17	10.72%		74.30	1.35%
25,000		91.51		99.52	8.75%		91.30	-0.23%
30,000		109.71		117.87	7.44%		108.30	-1.29%
35,000		127.91		136.22	6.50%		125.30	-2.04%
40,000		146.11		154.57	5.79%		142.30	-2.61%
45,000		164.31		172.92	5.24%		159.30	-3.05%
50,000		182.51		191.27	4.80%		176.30	-3.40%
75,000		273.51		283.02	3.48%		261.30	-4.46%
100,000		364.51		374.77	2.81%		346.30	-5.00%

Rio Rico Utilities, Inc. - WasteWater Division
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Surrebuttal Testimony of Mary J. Rimback

TABLE OF CONTENTS TO SCHEDULES

Rio Rico Utility, Inc. - Wastewater
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Surrebuttal Schedule MJR-WW1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY FAIR VALUE	(B) STAFF FAIR VALUE
1	Adjusted Rate Base	$ 4,600,012	$ 4,694,175
2	Adjusted Operating Income (Loss)	$ 213,826	$ 312,566
3	Current Rate of Return (L2 / L1)	4.65%	6.66%
4	Required Rate of Return	9.70%	8.20%
5	Required Operating Income (L4 * L1)	$ 446,201	$ 384,922
6	Operating Income Deficiency (L5 - L2)	$ 232,375	$ 72,356
7	Gross Revenue Conversion Factor	1.6939	1.6589
8	Required Revenue Increase (L7 * L6)	$ 393,612	**$ 120,034**
9	Adjusted Test Year Revenue	$ 1,360,583	$ 1,402,843
10	Proposed Annual Revenue	$ 1,754,195	$ 1,522,877
11	Required Increase in Revenue (%)	28.93%	8.56%

References:
Column (A): Company Schedule A-1
Column (B): Staff Schedules MJR-WW3 and MJR-WW13

Rio Rico Utility, Inc. - Wastewater
Docket Nos. WS02676A-12-0196
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Surrebuttal Schedule MJR-WW2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	Calculation of Gross Revenue Conversion Factor:				
1	Revenue	100.0000%			
2	Uncollecible Factor	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 18)	39.7199%			
5	Subtotal (L3 - L4)	60.2801%			
6	**Revenue Conversion Factor (L1 / L5)**	1.658922			
	Calculation of Uncollecttible Factor:				
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 23)	38.5989%			
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
	Calculation of Effective Tax Rate:				
7	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
8	Arizona State Income Tax Rate	6.9680%			
9	Federal Taxable Income (L7 - L8)	93.0320%			
10	Applicable Federal Income Tax Rate (Line 48)	34.0000%			
11	Effective Federal Income Tax Rate (L9 x L10)	31.6309%			
12	Combined Federal and State Income Tax Rate (L8 +L11)		38.5989%		
	Calculation of Effective Property Tax Factor				
13	Unity	100.0000%			
14	Combined Federal and State Income Tax Rate (L12)	38.5989%			
15	One Minus Combined Income Tax Rate (L13-L14)	61.4011%			
16	Property Tax Factor (JMM-WW20, L27)	1.8257%			
17	Effective Property Tax Factor (L15*L16)		1.1210%		
18	Combined Federal and State Income Tax and Property Tax Rate (L12+L17)			39.7199%	
19	Required Operating Income (Schedule MJR-WW1, Line 5)	$ 384,922			
20	AdjustedTest Year Operating Income (Loss) (MJR-WW14, L35)	312,566			
21	Required Increase in Operating Income (L19 - L20)		$ 72,356		
22	Income Taxes on Recommended Revenue (Col. [C], L47)	$ 241,976			
23	Income Taxes on Test Year Revenue (Col. [A], L47)	196,490			
24	Required Increase in Revenue to Provide for Income Taxes (L22 - L23)		45,486		
25	Recommended Revenue Requirement (Schedule MJR-WW1, Line 10)	$ 1,522,877			
26	Uncollectible Rate	0.0000%			
27	Uncolllectible Expense on Recommended Revenue (L25*L26)	$ -			
28	Adjusted Test Year Uncollectible Expense	$ -			
29	Required Increase in Revenue to Provide for Uncollectible Exp. (L27-L28)		-		
30	Property Tax with Recommended Revenue (Schedule MJR-WW20, L21)	$ 79,026			
31	Property Tax on Test Year Revenue (Schedule MJR-WW20 Line 17)	76,835			
32	Increase in Property Tax Due to Increase in Revenue (L30-31)		2,191		
33	Total Required Increase in Revenue (L21 + L24 + L29 + L32)		$ 120,034		

LINE NO.	*Calculation of Income Tax:*	Test Year		Staff Recommended	
34	Revenue (Schedule MJR-WW1, Col. [B], Line 9 & Sch. MJR-WW1, Col. [B] Line 10)	$ 1,402,843	$ 120,034	$ 1,522,877	
35	Operating Expenses Excluding Income Taxes	893,787		895,979	$ 1,137,954
36	Synchronized Interest (L51)	$ -		$ -	
37	Arizona Taxable Income (L34 - L35 - L36)	$ 509,056		$ 626,898	
38	Arizona State Income Tax Rate	6.9680%		6.9680%	
39	Arizona Income Tax (L37 x L38)	$ 35,471		$ 43,682	$ 48,339
40	Federal Taxable Income (L37- L39)	$ 473,585		$ 583,216	
41	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	7,500		7,500	
42	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	6,250		6,250	
43	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	8,500		8,500	
44	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	91,650		91,650	
45	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	47,119		84,393	
46	Total Federal Income Tax	161,019		198,293	$ 219,434
47	Combined Federal and State Income Tax (L39 + L46)	$ 196,490		$ 241,976	$ 241,976
48	Applicable Federal Income Tax Rate [Col. [C], L46 - Col. [A], L46] / [Col. [C], L40 - Col. [A], L40]			34.0000%	

Synchronized Interest Calculation

Rate Base Adjusted to date: $ 4,694,175

Rio Rico Utility, Inc. - Wastewater
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Surrebuttal Schedule MJR-WW3

RATE BASE - ORIGINAL COST PROPOSED

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 14,241,190	$ 8,081	$ 14,249,271
2	Less: Accumulated Depreciation	6,437,304	(169,062)	6,268,242
3	Net Plant in Service	$ 7,803,886	$ 177,143	$ 7,981,029
	LESS:			
4	Contributions in Aid of Construction (CIAC)	$ 5,152,673	$ -	$ 5,152,673
5	Less: Accumulated Amortization	2,509,975	(69,228)	$ 2,440,747
6	Net CIAC	2,642,698	69,228	$ 2,711,926
7	Advances in Aid of Construction (AIAC)	293,794	-	293,794
8	Customer Deposits	22,963	-	22,963
9	Deferred Income Tax Credits	244,419	13,752	258,171
	ADD:			
10	Working Capital Allowance	-	-	-
11	Defered Regulatory Assets	-	-	-
12	**Original Cost Rate Base**	$ 4,600,012	$ 94,163	$ 4,694,175

References:
Column [A]: Company Application Schedule B-1
Column [B]: Testimony MJR
Column [C]: Column [A] + Column [B]

Rio Rico Utility, Inc. - Wastewater
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Surrebuttal Schedule MJR-WW4

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Reclassification of Plant Ref: Sch MJR-WW5	[C] ADJ #2 Accum Depreciation Acct #389 Ref: Sch MJR-WW6	[D] ADJ #3 Plant Retirement Ref: Sch MJR-WW7	[E] ADJ #4 ADIT Ref: Sch MJR-WW8	[F] ADJ #5 2012 Affiliate Profit Ref: Sch MJR-WW9	[G] ADJ #6 Affiliate Profit 2009-11 Accum Dep Ref: Sch MJR WW-10	[H] ADJ #7 Accum Deprec Fully Deprec Plant Ref: Sch MJR-WW11	[I] ADJ #8 Accumulated Amortization of CIAC Ref: Sch MJR-WW12	[J] STAFF ADJUSTED
		PLANT IN SERVICE:										
1												
2	351	Organization Cost	$ 5,785	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 5,785
3	352	Franchise Cost	417	-	-	-	-	-	-	-	-	417
4	353	Land and Land Rights	7,545	-	-	-	-	-	-	-	-	7,545
5	354	Structures and Improvements	150,294	-	-	-	-	-	-	-	-	150,294
6	355	Power Generation Equipment	-	-	-	-	-	-	-	-	-	-
7	360	Collection Sewers - Force	636,023	-	-	-	-	-	-	-	-	636,023
8	361	Collection Sewers - Gravity	5,991,654	-	-	-	-	(415)	-	-	-	5,991,239
9	362	Special Collecting Structures	-	-	-	-	-	-	-	-	-	-
10	363	Services to Customers	1,204,113	-	-	-	-	-	-	-	-	1,204,113
11	364	Flow Measuring Devices	66,339	-	-	-	-	-	-	-	-	66,339
12	365	Flow Measuring Installations	-	-	-	-	-	-	-	-	-	-
13	370	Receiving Wells	867,120	-	-	-	-	-	-	-	-	867,120
14	371	Pumping Equipment	1,712,940	-	-	(6,866)	-	-	-	-	-	1,706,074
15	375	Reuse T&D	-	-	-	-	-	-	-	-	-	-
16	380	Treatment and Disposal Equipment	1,128,675	(153,642)	-	-	-	-	-	-	-	975,033
17	381	Plant Sewers	13,690	-	-	-	-	-	-	-	-	13,690
18	382	Outfall Sewer Lines	-	-	-	-	-	-	-	-	-	-
19	389	Other Plant and Misc. Equipment	64,928	-	-	-	-	-	-	-	-	64,928
20	390	Office Furniture and Equipment	116,937	-	-	-	-	-	-	-	-	116,937
21	390	Computers & Software	4,025	-	-	-	-	-	-	-	-	4,025
22	391	Transportation Equipment	117	-	-	-	-	-	-	-	-	117
23	393	Tools, Shop and Garage Equipment	5,139	-	-	-	-	-	-	-	-	5,139
24	394	Laboratory Equipment	-	-	-	-	-	-	-	-	-	-
25	396	Communication Equipment	5,936	-	-	-	-	-	-	-	-	5,936
26	398	Other Tangible Plant	3,913	-	-	-	-	-	-	-	-	3,913
27	380	NIWWTP	2,255,600	169,004	-	-	-	-	-	-	-	2,424,604
28		Total Plant in Service - Actual	$ 14,241,190	15,362	-	(6,866)	-	(415)	-	-	-	$ 14,249,271
29		Post Test-Year Plant	-						-			-
30		Total Plant in Service	$ 14,241,190	$ 15,362	$ -	$ (6,866)	$ -	$ (415)	$ -	$ -	$ -	$ 14,249,271
31		Less: Accumulated Depreciation	6,437,304	(564)	(3,096)	(6,866)	-	(4)	(846)	(157,686)	-	6,268,242
32			-	-		-	-		-			-
33		Net Plant in Service	$ 7,803,886	$ 15,926	$ 3,096	$ 0	$ -	$ (411)	$ 846	$ 157,686	$ -	$ 7,981,029
34												
35		LESS:										
36		Contributions in Aid of Construction (CIAC)	$ 5,152,673	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 5,152,673
37		Less: Accumulated Amortization	2,509,975	-	-	-	-	-	-	-	(69,228)	2,440,747
38		Net CIAC (L39 - L40)	2,642,698	-	-	-	-	-	-	-	69,228	2,711,926
39		Advances in Aid of Construction (AIAC)	293,794	-	-	-	-	-	-	-	-	293,794
40		Customer Deposits	22,963	-	-	-	-	-	-	-	-	22,963
41		Deferred Income Taxes	244,419	-	-	-	13,752	-	-	-	-	258,171
42			-						-			-
43												
44		ADD:										
45		Working Capital Allowance	-	-	-	-	-	-	-	-	-	-
46		Defered Regulatory Assets	-	-	-	-	-	-	-	-	-	-
47												
48		Original Cost Rate Base	$ 4,600,012	$ 15,926	$ 3,096	$ 0	$ (13,752)	$ (411)	$ 846	$ 157,686	$ (69,228)	$ 4,694,175

Rio Rico Utility, Inc. - Wastewater
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Surrebuttal Schedule MJR-WW5

RATE BASE ADJUSTMENT NO. 1 - RECLASSIFICATION OF PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED (Col A + Col B)
1		NIWWTP	$ 2,255,600	$ 169,004	$ 2,424,604
2	380	Treatment and Disposal Equipment	1,128,675	(153,642)	975,033
3		Total Increase in Plant	$ 3,384,275	$ 15,362	$ 3,399,637

Accumulated Depreciation Adjustment

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED (Col A + Col B)
4	NIWWTP	NIWWTP From Water	$ -	$ 1,151	$ 1,151
5		NIWWTP from acct 380	-	9,466	9,466
6	380	Treatment and Disposal	11,181	(11,181)	0
7		Total Increase in A/D	$ -	$ (564)	$ 10,617

References:
Column [A]: Company Application Schedule B.2, Page 3.5
Column [B]: MJR Testimony
Column [C]: Column [A] + Column [B]

Rio Rico Utility, Inc. - Wastewater
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Surrebuttal Schedule MJR-WW6

RATE BASE ADJUSTMENT NO. 2 - ACCUMULATED DEPRECIATION - ACCT. NO. 389

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Other Plant and Misc. Equipment - Acct. No. 389*	$ 68,024	$ (3,096)	$ 64,928

*After removal of 2008-2012 Affiliate Profit Accum Dep	
Company Schedule B-2, Page 3.5	68,869
Staff Rate Base Adjustment No. 6	845
Sub-total	68,024

References:
Column [A]: Company Application Schedule B.2, Page 3.5
Column [B]: Testimony MJR
Column [C]: Column [A] + Column [B]

Rio Rico Utility, Inc. - Wastewater
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Surrebuttal Schedule MJR-WW7

RATE BASE ADJUSTMENT NO. 3 - PLANT RETIREMENT

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Acct. No. 371	$ 1,712,940	$ (6,866)	$ 1,706,074
2	Accumulated Depreciation	$ 6,866	$ (6,866)	$ -

References:
Column [A]: Company Application Schedule B.2, Page 3.5 and Response to Staff DR MJR 1.34.
Column [B]: Testimony MJR
Column [C]: Column [A] + Column [B]

Rio Rico Utility, Inc. - Wastewater
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Surrebuttal Schedule MJR-WW8

RATE BASE ADJUSTMENT NO. 4 - ACCUMULATED DEFERRED INCOME TAXES

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	ADIT	$ 244,419	$ 13,752	258,171

References:
Column [A]: Company Schedule B.1, Page 1
Column [B]: Testimony MJR
Column [C]: Column [A] + Column [B]

Rio Rico Utility, Inc. - Wastewater
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Surrebuttal Schedule MJR-WW9

RATE BASE ADJUSTMENT NO. 5 - REMOVE 2012 AFFILIATE PROFIT

		[A]	[B]
LINE NO.	DESCRIPTION	Included in Plant Service Per Company	STAFF ADJUSTMENTS
1	361 Collection Sewers - Gravity	$ 415	$ (415)
2	361 Accumulated Depreciation (1/2 year @ 2.00)		$ (4)

References:
Column [A]: Company Schedule B-2, Page 3.4
Column [B]: Company Response to Staff DRs MJR 1.15 and 2.10

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ıurrebuttal Schedule MJR-WW10

RATE BASE ADJUSTMENT NO. 6 - ACCUMULATED DEPRECIATION AFFILIATE PROFIT 2009-11

		[A]	[B]	[C]	[D]
LINE NO.	DESCRIPTION	Deprec Rate	Prior Rate Case	Depreciated 2009-2011 3 Years	Staff Adjustment Acc Dep
1	363 Customer Services	2.00%	$ (16)	$ 1	
2	389 Other Sewer and Plant	6.67%	(4,221)	845	
3	Total Plant Adj		$ (4,237)	$ 846	**$ (846)**

References:
Column [A]: Comapany Schedule B-2, Page 3.5
Column [B]: Testimony MJR

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Surrebuttal Schedule MJR-WW11

RATE BASE ADJUSTMENT NO. 7 - ACCUMULATED DEPRECIATION - FULLY DEPRECIATED PLANT

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	ACCUMULATED DEPRECIATION	$ 1,687,580	$ (157,686)	$ 1,529,894

REFERENCES:
Column [A]: Company Schedule B-2, Page 4
Column [B]: Column [C] less Column [A]
Column [C]: Testimony MJR

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Surrebuttal Schedule MJR-WW12

RATE BASE ADJUSTMENT NO. 8 - ACCUMULATED AMORTIZATION OF CIAC

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	2009-2012 COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	CIAC Amortization	$ 2,509,975	$ (69,228)	$ 2,440,747

REFERENCES:
Column [A]: Company Schedule B-2, Page 5.1
Column [B]: Column [C] less Column [A]
Column [C]: See testimony MJR

Rio Rico Utility, Inc. - Wastewater
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Surrebuttal Schedule MJR-WW13

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	*REVENUES:*					
2	Flat Rate Revenues	$ -	$ -	$ -	$ -	$ -
3	Measured Revenues	1,360,583	42,260	1,402,843	120,034	1,522,877
4	Other Wastewater Revenues	-	-	-	-	-
5	Intentionally Left Blank	-	-	-	-	-
6	**Total Operating Revenues**	$ 1,360,583	$ 42,260	$ 1,402,843	$ 120,034	$ 1,522,877
7						
8	*OPERATING EXPENSES:*					
9	Salaries and Wages	$ 131,547	$ -	$ 131,547	$ -	$ 131,547
10	Purchased Wastewater Treatment	-	165,896	165,896	-	165,896
11	Sludge Removal Expense	-	-	-	-	-
12	Purchased Power	61,290	2,819	64,109	-	64,109
13	Fuel for Power Production	-	-	-	-	-
14	Chemicals	4,907	-	4,907	-	4,907
15	Materials and Supplies	4,473	-	4,473	-	4,473
16	Management Services Liberty Water	83,038	-	83,038	-	83,038
17	Contractual Services - Corporate	59,292	(28,767)	30,525	-	30,525
18	Contractual Services - Other	172,270	(165,896)	6,374	-	6,374
19	Contractual Services-Engineering	-	-	-	-	-
20	Water Testing Expense	330	-	330	-	330
21	Contractual Services Other	638	-	638	-	638
22	Contractual Services-Legal	585	-	585	-	585
23	Equipment Rental	400	-	400	-	400
24	Rents-Building	-	-	-	-	-
25	Transportation Expense	18,066	-	18,066	-	18,066
26	Insurance Expense General Liability	11,302	-	11,302	-	11,302
27	Insurance expense Vehicle	2,516	-	2,516	-	2,516
28	Regulatory Expense	-	-	-	-	-
29	Regulatory Expense-Rate Case	29,167	-	29,167	-	29,167
30	Miscellaneous Expense	16,111	-	16,111	-	16,111
31	Bad Debt Expense	23,194	-	23,194	-	23,194
32	Depreciation Expense	359,629	(135,855)	223,774	-	223,774
33	Taxes Other than Income	-	-	-	-	-
29	Property Taxes	74,520	2,315	76,835	2,191	79,026
30	Income Taxes	93,481	103,009	196,490	45,486	241,976
31	Interest on Customer Deposits	-	-	-	-	-
32	**Total Operating Expenses**	$ 1,146,756	$ (56,479)	$ 1,090,277	$ 47,677	$ 1,137,954
33	**Operating Income (Loss)**	$ 213,827	$ 98,739	$ 312,566	$ 72,356	$ 384,922

References:
Column (A): Company Schedule C-1
Column (B): Schedule MJR-WW14
Column (C): Column (A) + Column (B)
Column (D): Schedules MJR-WW1, MJR-WW2 and MJR-WW20
Column (E): Column (C) + Column (D)

Rio Rico Utility, Inc. - Wastewater
Docket Nos. WS02676A-12-0196
Test Year Ended February 29, 2012

Surrebuttal Schedule MJR-WW14

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Metered Revenues ADJ #1 Ref: Sch MJR-WW15	[C] APUC Allocated Capital Taxes ADJ #2 Ref: Sch MJR-WW16	[D] Depreciation Expenses ADJ #3 Ref: Sch -MJRWW17	[E] Reclassification of Expenses ADJ #4 Ref: Sch MJR-WW18	[F] APUC Cost Allocation ADJ #5 Ref: Sch MJR-WW19	[G] Property Tax Expense ADJ #6 Ref: Sch MJR-WW20	[H] Income Tax Expense ADJ #7 Ref: Sch MJR-WW21	[I] Purchased Power ADJ #8 Ref: Sch MJR-WW22	[J] STAFF ADJUSTED
1	*REVENUES:*										
2	Flat Rate Revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
3	Measured Revenues	1,360,583	42,260	-	-	-	-	-	-	-	1,402,843
4	Other Wastewater Revenues	-		-	-	-	-	-	-	-	-
5	Intentionally Left Blank	-		-	-	-	-	-	-	-	-
6	**Total Operating Revenues**	$ 1,360,583	$ 42,260	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,402,843
7											
8	*OPERATING EXPENSES:*										
9	Salaries and Wages	$ 131,547	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 131,547
10	Purchased Wastewater Treatment	-	-	-	-	165,896	-	-	-	-	165,896
11	Sludge Removal Expense	-	-	-	-	-	-	-	-	-	-
12	Purchased Power	61,290	-	-	-	-	-	-	-	2,819	64,109
13	Fuel for Power Production	-	-	-	-	-	-	-	-	-	-
14	Chemicals	4,907	-	-	-	-	-	-	-	-	4,907
15	Materials and Supplies	4,473	-	-	-	-	-	-	-	-	4,473
16	Management Services Liberty Water	83,038	-	-	-	-	-	-	-	-	83,038
17	Contractual Services - Corporate	59,292	-	(836)	-	-	(27,931)	-	-	-	30,525
18	Contractual Services - Other	172,270	-	-	-	(165,896)	-	-	-	-	6,374
19	Contractual Services-Engineering	-	-	-	-	-	-	-	-	-	-
20	Water Testing Expense	330	-	-	-	-	-	-	-	-	330
21	Contractual Services Other	638	-	-	-	-	-	-	-	-	638
22	Contractual Services-Legal	585	-	-	-	-	-	-	-	-	585
23	Equipment Rental	400	-	-	-	-	-	-	-	-	400
24	Rents-Building	-	-	-	-	-	-	-	-	-	-
25	Transportation Expense	18,066	-	-	-	-	-	-	-	-	18,066
26	Insurance Expense General Liability	11,302	-	-	-	-	-	-	-	-	11,302
27	Insurance expense Vehicle	2,516	-	-	-	-	-	-	-	-	2,516
28	Regulatory Expense	-	-	-	-	-	-	-	-	-	-
29	Regulatory Expense-Rate Case	29,167	-	-	-	-	-	-	-	-	29,167
30	Miscellaneous Expense	16,111	-	-	-	-	-	-	-	-	16,111
31	Bad Debt Expense	23,194	-	-	-	-	-	-	-	-	23,194
32	Depreciation Expense	359,629	-	-	(135,855)	-	-	-	-	-	223,774
33	Taxes Other than Income	-	-	-	-	-	-	-	-	-	-
34	Property Taxes	74,520	-	-	-	-	-	2,315	-	-	76,835
35	Income Taxes	93,481	-	-	-	-	-	-	103,009	-	196,490
36	Interest on Customer Deposits	-	-	-	-	-	-	-	-	-	-
37	**Total Operating Expenses**	$ 1,146,756	$ -	$ (836)	$ (135,855)	$ -	$ (27,931)	$ 2,315	$ 103,009	$ 2,819	$ 1,090,277
38	**Operating Income (Loss)**	$ 213,827	$ 42,260	$ 836	$ 135,855	$ -	$ 27,931	$ (2,315)	$ (103,009)	$ (2,819)	$ 312,566

Rio Rico Utilities, Inc. - Wastewater Division
Docket No. WS-026764A-12-0196
Test Year Ended: February 29, 2012

Surrebuttal Schedule MJR WW15

OPERATING ADJUSTMENT NO. 1 - METERED REVENUES

LINE NO.	Description	[A] Test Year Submitted Company Bill Counts	[B] RUCO 4.2 After 6" Meter Correction	[C] Rebuttal Test Year Bill Counts	[D] STAFF ADJUSTMENTS
1	Residential 5/8 x 3/4"	$ 1,001,239	$ 1,001,239	$ 1,001,239	$ -
2	Residential 5/8 x 3/4" Low Income	26,948	26,948	$ 26,948	-
3	Residential 3/4"	5,182	5,182	$ 5,182	-
4	Residential 1"	7,304	7,304	$ 7,304	-
5	Residential 1" Low Income	494	494	$ 494	-
6	Residential 1 1/2"	-	-	$ -	-
7	Residential 2"	132	132	$ 132	-
8	Commercial 5/8 x 3/4"	45,467	45,467	46,018	551
9	Commercial 1"	54,994	54,994	56,409	1,415
10	Commercial 1 1/2"	17,712	17,712	17,712	-
11	Commercial 2"	93,658	93,658	94,925	1,267
12	Commercial 3"	4,304	4,304	5,376	1,072
13	Commercial 4"	89,951	89,951	89,951	-
14	Commercial 6"	12,213	33,018	33,018	20,805
15	Industrial 5/8 x 3/4"				
16	Industrial 2"			-	-
17	Multi-family 5/8 x 3/4"	4,780	4,780	4,780	-
18	Multi-family 1 1/2"	1,411	1,411	1,411	-
19	Bulk	-		-	-
20	Fire Lines up to 8 Inches	-		-	-
21	Revenue Annualization	(5,207)	7,006	11,943	17,150
22	Bill Count Revenue	$ 1,360,582	$ 1,393,600	$ 1,402,842	$ **42,260**
				0	

References:
Column [A]: Company Schedules H-1, Pages 1 and 2
Column [B]: Testimony MJR
Column [D]: Column [C] - Column [A]

Rio Rico Utility, Inc. - Wastewater
Docket Nos. WS02676A-12-0196
Test Year Ended February 29, 2012

Surrebuttal Schedule MJR WW16

OPERATING ADJUSTMENT NO. 2 - APUC ALLOCATED CAPITAL TAXES

		[A]	[B]	[C]
Line No.	Description	COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Contractual Services - Corporate	$ 59,292	$ (836)	$ 58,456

References:
Column [A]: Company Schedule C-1, Page 1
Column [B]: DR RUCO 6.2
Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 3 - DEPRECIATION EXPENSE

LINE NO.	ACCT NO.	DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	351	Organization Cost	$ 5,785	$ 5,785	$ -	0.00%	$ -
2	352	Franchise Cost	417	417	-	0.00%	-
3	353	Land and Land Rights	7,545	7,545	-	0.00%	-
4	354	Structures and Improvements	150,294	-	150,294	3.33%	5,005
5	355	Power Generation Equipment	-	-	-	5.00%	-
6	360	Collection Sewers - Force	636,023	-	636,023	2.00%	12,720
7	361	Collection Sewers - Gravity	5,991,239	-	5,991,239	2.00%	119,825
8	362	Special Collecting Structures	-	-	-	2.00%	-
9	363	Services to Customers	1,204,113	-	1,204,113	2.00%	24,082
10	364	Flow Measuring Devices	66,339	-	66,339	10.00%	6,634
11	365	Flow Measuring Installations	-	-	-	10.00%	-
12	370	Receiving Wells	867,120	-	867,120	3.33%	28,875
13	371	Pumping Equipment	1,706,074	1,497,314	208,760	12.50%	26,095
14	375	Resuse T&D	-	-	-	2.50%	-
15	380	Treatment and Disposal Equipment	975,033	-	975,033	5.00%	48,752
16	381	Plant Sewers	13,690	-	13,690	5.00%	685
17	382	Outfall Sewer Lines	-	-	-	3.33%	-
18	389	Other Plant and Misc. Equipment per company C-2*	64,928	64,928	-	6.67%	-
19	390	Office Furniture and Equipment	116,937	-	116,937	6.67%	7,800
20	390	Computers & Software per company C-2*	4,025	4,025	-	20.00%	-
21	391	Transportation Equipment	117	-	117	20.00%	23
22	393	Tools, Shop and Garage Equipment per	5,139	5,139	-	5.00%	-
23	394	Laboratory Equipment	-	-	-	0.00%	-
24	396	Communication Equipment per Company C-2*	5,936	5,936	-	10.00%	-
25	398	Other Tangible Plant	3,913	3,913	-	10.00%	-
26	380	Nogales WW	2,424,604	-	2,424,604	4.00%	96,984
27		Total Plant	$ 14,249,271	$ 1,595,002	$ 12,654,269		$ 377,480
28		Ratio Depreciation Expense/Depreciable Plant	2.983%				
30		CIAC	$ 5,152,673				
31		Depreciation Expense Before Amortization of CIAC:	$ 377,480				
32		Less Amortization of CIAC:	$ 153,705				
33		**Test Year Depreciation Expense - Staff:**	**$ 223,774**				
34		Depreciation Expense - Company:	$ 359,629				
35		**Staff's Total Adjustment:**	**$ (135,855)**				

Note:

* Indicates items that were fully depreciated per Company Schedule C-2.

References:
Column [A]: Schedule MJR-WW4
Column [B]: From Column [A]
Column [C]: Column [A] - Column [B]
Column [D]: Staff Engineering Testimony
Column [E]: Column [C] x Column [D]

Rio Rico Utility, Inc. - Wastewater
Docket Nos. WS02676A-12-0196
Test Year Ended February 29, 2012

Surrebuttal Schedule MJR WW18

OPERATING ADJUSTMENT NO. 4 - RECLASSIFICATION OF EXPENSES

Line No.	Description	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Management Services Other	$ 172,270	(165,896)	$ 6,374
2	Purchased Waste Water Treatment	-	165,896	165,896

References:
Column [A]: Company Schedule C-1, Page 1
Column [B]: Testimony MJR
Column [C]: Column [A] + Column [B]

Rio Rico Utility, Inc. - Wastewater
Docket Nos. WS02676A-12-0196
Test Year Ended February 29, 2012

Surrebuttal Schedule MJR WW19

OPERATING ADJUSTMENT NO. 5 - APUC COST ALLOCATION

		[A]	[B]	[C]
Line No.	Description	COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Contractual Services - Corporate	$ 58,456	$ (27,931)	$ 30,525

Company Proposed is after
adjustment # 2 which removed
Capital taxes from Allocations.

References:
Column [A]: Company Schedule C-1, Page 1
Column [B]: Testimony MJR
Column [C]: Column [A] + Column [B]

Rio Rico Utility, Inc. - Wastewater
Docket Nos. WS02676A-12-0196
Test Year Ended February 29, 2012

Surrebuttal Schedule MJR-WW20

OPERATING INCOME ADJUSTMENT NO. 6 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	$ 1,402,843	$ 1,402,843
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	2,805,686	$ 2,805,686
4	Staff Recommended Revenue, Per Schedule JMM-1	1,402,843	$ 1,522,877
5	Subtotal (Line 4 + Line 5)	4,208,529	4,328,563
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	1,402,843	$ 1,442,854
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	2,805,686	$ 2,885,708
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	2,805,686	$ 2,885,708
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	561,137	$ 577,142
15	Composite Property Tax Rate (Per Company Schedule)	13.6927%	13.6927%
16			$ -
17	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	$ 76,835	
18	Company Proposed Property Tax	74,520	
19			
20	Staff Test Year Adjustment (Line 17-Line 18)	$ 2,315	
21	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		$ 79,026
22	Staff Test Year Adjusted Property Tax Expense (Line 17)		$ 76,835
23	Increase in Property Tax Expense Due to Increase in Revenue Requirement		$ 2,191
24			
25	Increase to Property Tax Expense		$ 2,191
26	Increase in Revenue Requirement		120,034
27	Increase to Property Tax per Dollar Increase in Revenue (Line 25/Line 26)		1.825693%

References:
Column [A]: Company Schedule C-2, Page 3
Column [B]: Testimony MJR
Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 7 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Income Tax Expense	$ 93,481	$ 103,009	$ 196,490

References:
Column (A), Company Schedule C-1, Page 1
Column (B): Column [C] - Column [A]
Column (C): Schedule MJR-WW2

Rio Rico Utility, Inc. - Wastewater
Docket Nos. WS02676A-12-0196
Test Year Ended February 29, 2012

Surrebuttal Schedule MJR-WW22

OPERATING INCOME ADJUSTMENT NO. 8 - PURCHASED POWER COST RATE INCREASE

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COMPANY TEST YEAR	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Purchased Power	$ 61,290	$ 2,819	$ 64,109

References:
Column (A), Company Schedule C-1, Page 1
Column (B): Column [C] - Column [A]
Column (C): Schedule MJR Surrebuttal Testimony

Monthly Usage Charge	Present	Company Proposed Rates	Staff Recommended Rates
Meter Size (All Classes):			
5/8 x 3/4 Inch	$ 45.88	$ 60.01	$ 50.40
5/8 x 3/4 Inch Low Income	39.00	51.01	42.84
3/4 Inch	52.88	69.17	58.10
1 Inch	64.64	84.55	71.00
1 Inch Low Income	54.94	71.87	60.35
1 1/2 Inch	95.44	124.84	104.80
2 Inch	132.38	173.15	145.40
3 Inch	230.62	301.65	253.20
4 Inch	341.83	447.11	375.30
6 Inch	649.58	849.65	713.20
8 Inch	944.45	1,235.34	1,057.78
10 Inch	1,415.24	1,851.13	1,585.07
12 Inch	2,012.57	2,632.44	2,254.08
Commodity Charge - Per 1,000 Gallons			
Commercial and Multi-tenant Only			
0 gallons to 7,000 gallons	$ -	$ -	$ -
over 7,000 gallons	4.67	5.44	5.10
Other Service Charges			
Establishment	$ 15.00	$ 15.00	$ 15.00
Establishment (After Hours)	$ 25.00	$ 25.00	N/T
Reconnection (Delinquent)	$ 15.00	$ 15.00	$ 15.00
Reconnection (Delinquent) - After Hours	$ 25.00	$ 25.00	N/T
Deposit	*	*	*
Deposit Interest	**	**	**
Reestablishment (within 12 months)	***	***	***
NSF Check	$ 25.00	$ 25.00	$ 25.00
Late Payment Penalty	1.5 percent per month	1.5 percent per month	1.5 percent per month
Deferred Payment	1.5 percent per month	1.5 percent per month	1.5 percent per month
Service Calls - Per Hour/After Hours(a)	$ 40.00	$ 40.00	N/T
After Hours Service Charge	N/T	N/T	$ 50.00

* 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. R-14-2-603(D) - Months off the system times the monthly minimum.

(a) No charge for service calls during normal working hours.

Service Line Installation Charges	Present	Company Proposed Rates	Staff Recommended Rates
Service Line Size			
4 Inch	At Cost	At Cost	At Cost
6 Inch	At Cost	At Cost	At Cost
8 Inch	At Cost	At Cost	At Cost
10 Inch	At Cost	At Cost	At Cost
12 Inch	At Cost	At Cost	At Cost

Rio Rico Utilities, Inc. - Wastewater Division
Docket No. WS-026764A-12-0196
Test Year Ended: February 29, 2012

Surrebuttal Schedule MJR-WW24

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

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	-	$ 45.88	$ 60.01	$ 14.13	30.80%
Median Usage	-	45.88	60.01	$ 14.13	30.80%
Staff Recommended					
Average Usage	-	$ 45.88	$ 50.40	$ 4.52	9.85%
Median Usage	-	45.88	50.40	$ 4.52	9.85%

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

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	$ 45.88	$ 60.01	30.80%	$ 50.40	9.85%
1,000	45.88	60.01	30.80%	50.40	9.85%
2,000	45.88	60.01	30.80%	50.40	9.85%
3,000	45.88	60.01	30.80%	50.40	9.85%
4,000	45.88	60.01	30.80%	50.40	9.85%
5,000	45.88	60.01	30.80%	50.40	9.85%
6,000	45.88	60.01	30.80%	50.40	9.85%
7,000	45.88	60.01	30.80%	50.40	9.85%
8,000	45.88	60.01	30.80%	50.40	9.85%
9,000	45.88	60.01	30.80%	50.40	9.85%
10,000	45.88	60.01	30.80%	50.40	9.85%
11,000	45.88	60.01	30.80%	50.40	9.85%
12,000	45.88	60.01	30.80%	50.40	9.85%
13,000	45.88	60.01	30.80%	50.40	9.85%
14,000	45.88	60.01	30.80%	50.40	9.85%
15,000	45.88	60.01	30.80%	50.40	9.85%
16,000	45.88	60.01	30.80%	50.40	9.85%
17,000	45.88	60.01	30.80%	50.40	9.85%
18,000	45.88	60.01	30.80%	50.40	9.85%
19,000	45.88	60.01	30.80%	50.40	9.85%
20,000	45.88	60.01	30.80%	50.40	9.85%
25,000	45.88	60.01	30.80%	50.40	9.85%
30,000	45.88	60.01	30.80%	50.40	9.85%
35,000	45.88	60.01	30.80%	50.40	9.85%
40,000	45.88	60.01	30.80%	50.40	9.85%
45,000	45.88	60.01	30.80%	50.40	9.85%
50,000	45.88	60.01	30.80%	50.40	9.85%
75,000	45.88	60.01	30.80%	50.40	9.85%
100,000	45.88	60.01	30.80%	50.40	9.85%

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
BOB BURNS
Commissioner
SUSAN BITTER SMITH
Commissioner

IN THE MATTER OF THE APPLICATION OF RIO RICO UTILITIES INC. FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR AN INCREASE IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON	)	DOCKET NO. WS-02676A-12-0196

SURREBUTTAL

TESTIMONY

OF

JOHN A. CASSIDY

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

FEBRUARY 19, 2013

TABLE OF CONTENTS

SURREBUTTAL SCHEDULES

EXECUTIVE SUMMARY
RIO RICO UTILITIES, INC.
DOCKET NO. WS-02676A-12-0196

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

Capital Structure – Staff recommends that the Commission adopt a capital structure for Rio Rico Utility Company ("Company") for this proceeding consisting of 0.0 percent debt and 100.0 percent equity.

Cost of Equity – Staff recommends that the Commission adopt an 8.2 percent return on equity ("ROE") for the Company. Staff's estimated ROE for the Company is based on the average of its discounted cash flow method ("DCF") and capital asset pricing model ("CAPM") cost of equity methodology estimates for the sample companies of 8.2 percent for the CAPM and 8.8 percent for the DCF. Staff's recommended ROE includes an upward economic assessment adjustment of 60 basis points, and a downward financial risk adjustment of 90 basis points.

Cost of Debt – Staff recommends that the Commission adopt a 0.0 percent cost of debt for the Company, as Rio Rico has no debt in its capital structure.

Overall Rate of Return – Staff recommends that the Commission adopt an 8.2 percent overall rate of return.

Mr. Bourassa's Testimony – The Commission should reject the Company's proposed 10.3 percent ROE for the following reasons:

> Mr. Bourassa's Future Growth DCF estimates rely exclusively on analysts' forecasts of earnings per share growth. When calculating the dividend growth (g) component, he overstates his estimate of dividend growth by imputing a higher forecasted growth rate for one sample company than is justified by his analysis. This overstatement flows through to the dividend growth estimate in his Past and Future Growth DCF model. In both DCF models, he overstates the current dividend yield (D_0/P_0) by using a 12-month average stock price value for (P_0). Mr. Bourassa's CAPM estimates are inflated due to use of a forecasted risk-free rate.

I. INTRODUCTION

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

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

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

A. Yes, I am.

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

A. The purpose of my Surrebuttal Testimony is to report on Staff's updated cost of capital analysis with its recommendations regarding Rio Rico Utilities, Inc. ("Rio Rico" or "Company") cost of capital, and to respond to the cost of capital Rebuttal Testimony of Company witness, Thomas J. Bourassa ("Mr. Bourassa's Rebuttal").

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

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

II. COST OF EQUITY AND OVERALL RATE OF RETURN

Q. Is Staff recommending a different capital structure for Rio Rico in its Surrebuttal Testimony than it did in Direct Testimony?

A. No. Staff continues to recommend a capital structure consisting of 0.0 percent debt and 100.0 percent common equity.

Q. Has Staff updated its analysis concerning the Company's cost of equity ("COE") since filing Direct Testimony in this proceeding?

A. Yes. Staff updated its analysis to include more recent market data.

Q. What is Staff's updated estimate for the COE?

A. Staff's updated estimate for the COE is 8.5 percent. This figure is derived from cost of equity estimates which range from 8.8 percent for the discounted cash flow ("DCF") method to 8.2 percent for the capital asset pricing model ("CAPM") estimation methodologies, as shown in Surrebuttal Schedule JAC-3. In Direct Testimony, Staff's preliminary COE estimate was 8.8 percent.

Q. In its Surrebuttal Testimony, does Staff continue to recommend the 60 basis point (0.6 percent) upward economic assessment adjustment to Rio Rico's cost of equity that it recommended in its Direct Testimony?

A. Yes.

Q. In its Surrebuttal Testimony, does Staff continue to recommend a downward financial risk adjustment to Rio Rico's cost of equity?

A. Yes. In its Surrebuttal Testimony Staff continues to recommend a downward financial risk adjustment to the Company's COE. However, based on the updated information the downward financial risk adjustment has changed. For purposes of its Surrebuttal Testimony, Staff recommends a downward financial risk adjustment of 90 basis points (0.9 percent). In its Direct Testimony, Staff had recommended a downward financial risk adjustment of 100 basis points (1.0 percent).

Q. What return on equity ("ROE") is Staff recommending for Rio Rico?

A. Staff recommends an 8.2 percent ROE. This figure represents Staff's updated 8.5 percent COE, derived from updated cost of equity estimates ranging from 8.8 percent for the discounted cash flow ("DCF") method to 8.2 percent for the capital asset pricing model ("CAPM") estimation methodologies, and includes Staff's upward 60 basis point economic assessment adjustment, and Staff's downward 90 basis point financial risk adjustment.

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

A. Yes, the updated analysis is supported by Surrebuttal Schedules JAC-1 to JAC-9.

Q. Does Staff's updated cost of equity analysis result in a change to Staff's weighted average cost of capital?

A. Yes. Based upon its updated cost of equity analysis, Staff's weighted average cost of capital fell to 8.2 percent. In its Direct Testimony, Staff's weighted average cost of capital had been 8.4 percent.

Q. What overall rate of return is Staff recommending for Rio Rico?

A. Staff recommends an 8.2 percent overall rate of return. Staff's recommendation is based on an ROE of 8.2 percent, a cost of debt of 0.0, and a capital structure consisting of 0.0 percent debt and 100.0 percent common equity, as shown in Surrebuttal Schedule JAC-1.

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

Q. Please summarize the capital structure, cost of equity and overall rate of return proposed in Mr. Bourassa's Rebuttal.

A. Mr. Bourassa's Rebuttal proposes a hypothetical capital structure composed of 80 percent equity at 10.3 percent and 20 percent debt at 5.7 percent for an 9.38 percent overall rate of return.

Q. How does Staff respond to Mr. Bourassa's criticism of Staff's use of book values, rather than market values, in the calculation of Staff's Hamada financial risk adjustment?

A. Mr. Bourassa's criticism is unwarranted. As noted in Staff's response to the Company's data request,[1] although the Hamada adjustment finds its theoretical basis in market capital structures, a market based capital structure is not the issue in this proceeding. All cost of equity estimation methods require making assumptions, and the application of a Hamada financial risk adjustment based upon book values is a reasonable example of just such an assumption.

IV. STAFF RECOMMENDATIONS

Q. What are Staff's recommendations for Rio Rico's cost of capital?

A. Staff recommends the following for Rio Rico's cost of capital:

1. A capital structure of 0.0 percent debt and 100.0 percent equity.
2. A 0.0 percent cost of debt.

---

[1] *See* Staff response to Rio Rico data request 2.7.

3. An 8.2 percent return on equity (including a 0.6 percent (60 basis point) upward economic assessment adjustment and a 0.9 percent (90 basis point) downward financial risk adjustment.
4. An 8.2 percent overall rate of return.

Q. Does this conclude your Surrebuttal Testimony?

A. Yes, it does.

Rio Rico Utilities, Inc. Cost of Capital Calculation
Capital Structure
And Weighted Average Cost of Capital
Staff Recommended and Company Proposed

[A]	[B]	[C]	[D]
Description	Weight (%)	Cost	Weighted Cost
Staff Recommended Structure			
Debt	0.0%	0.0%	0.0%
Common Equity	100.0%	8.2%	8.2%
Weighted Average Cost of Capital			**8.2%**
Company Proposed Structure			
Debt	20.0%	5.7%	1.1%
Common Equity	80.0%	10.7%	8.6%
Weighted Average Cost of Capital			**9.7%**

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

Intentionally left blank

Rio Rico Utilities, Inc. Cost of Capital Calculation
Final Cost of Equity Estimates
Sample Water Utilities

[A]	[B]		[C]		[D]		[E]
DCF Method			**D_1/P_0[1]**	**+**	**g[2]**	**=**	**k**
Constant Growth DCF Estimate			3.1%	+	4.9%	=	8.0%
Multi-Stage DCF Estimate						=	9.5%
Average DCF Estimate							**8.8%**
CAPM Method	**Rf**	**+**	**β[5]**	**x**	**(Rp)**	**=**	**k**
Historical Market Risk Premium[3]	1.3%	+	0.71	x	7.1% [6]	=	6.3%
Current Market Risk Premium[4]	3.0%	+	0.71	x	9.8% [7]	=	10.0%
Average CAPM Estimate							**8.2%**
					Average of Overall Estimates		**8.5%**
					Economic Assessment Adjustment		0.6%
					Sub-Total		9.1%
					Financial risk adjustment		-0.9%
					Total		**8.2%**

1 MSN Money and Value Line

2 Schedule JAC-8

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

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

5 Value Line

6 Historical Market Risk Premium (Rp) calculated from Ibbotson Associates SBBI 2012 Yearbook data

7 Testimony

Rio Rico Utilities, Inc. Cost of Capital Calculation
Average Capital Structure of Sample Water Utilities

[A]	[B]	[C]	[D]
Company	Debt	Common Equity	Total
American States Water	46.0%	54.0%	100.0%
California Water	53.3%	46.7%	100.0%
Aqua America	53.9%	46.1%	100.0%
Connecticut Water	57.1%	42.9%	100.0%
Middlesex Water	43.3%	56.7%	100.0%
SJW Corp	55.7%	44.3%	100.0%
Average Sample Water Utilities	**51.6%**	**48.4%**	**100.0%**
Rio Rico - Actual Capital Structure	**0.0%**	**100.0%**	**100.0%**

Source:
Sample Water Companies from Value Line

Rio Rico Utilities, Inc. Cost of Capital Calculation
Growth in Earnings and Dividends
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
Company	Dividends Per Share 2002 to 2011 DPS[1]	Dividends Per Share Projected DPS[1]	Earnings Per Share 2002 to 2011 EPS[1]	Earnings Per Share Projected EPS[1]
American States Water	2.4%	7.8%	5.1%	4.7%
California Water	1.0%	3.0%	6.2%	8.6%
Aqua America	7.7%	4.9%	7.3%	5.6%
Connecticut Water	1.6%	3.2%	0.4%	9.1%
Middlesex Water	1.6%	1.8%	2.4%	8.3%
SJW Corp	4.8%	3.0%	3.7%	5.5%
Average Sample Water Utilities	**3.2%**	**4.0%**	**4.2%**	**7.0%**

1 Value Line

Rio Rico Utilities, Inc. Cost of Capital Calculation
Sustainable Growth
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]
Company	Retention Growth **2002 to 2011** br	Retention Growth Projected br	Stock Financing Growth vs	Sustainable Growth **2002 to 2011** br + vs	Sustainable Growth Projected br + vs
American States Water	3.6%	5.3%	2.5%	6.1%	7.8%
California Water	2.2%	4.8%	2.2%	4.4%	7.0%
Aqua America	4.4%	5.2%	2.3%	6.7%	7.6%
Connecticut Water	2.2%	4.0%	1.0%	3.2%	5.0%
Middlesex Water	1.3%	3.3%	3.7%	5.0%	7.0%
SJW Corp	3.7%	3.2%	0.1%	3.8%	3.3%
Average Sample Water Utilities	**2.9%**	**4.3%**	**2.0%**	**4.9%**	**6.3%**

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

Rio Rico Utilities, Inc. Cost of Capital Calculation
Selected Financial Data of Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Company	Symbol	Spot Price 1/23/2013	Book Value	Mkt To Book	*Value Line* Beta β	Raw Beta β *raw*
American States Water	AWR	**51.03**	22.26	2.3	**0.70**	0.52
California Water	CWT	**19.35**	11.40	1.7	**0.65**	0.45
Aqua America	WTR	**26.99**	9.49	2.8	**0.60**	0.37
Connecticut Water	CTWS	**29.76**	13.67	2.2	**0.75**	0.60
Middlesex Water	MSEX	**19.52**	11.97	1.6	**0.70**	0.52
SJW Corp	SJW	**26.77**	15.36	1.7	**0.85**	0.75
Average				**2.1**	**0.71**	**0.53**

[C]: Msn Money

[D]: Value Line

[E]: [C] / [D]

[F]: Value Line

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

Rio Rico Utilities, Inc. Cost of Capital Calculation
Calculation of Expected Infinite Annual Growth in Dividends
Sample Water Utilities

[A]	[B]
Description	g
DPS Growth - Historical[1]	3.2%
DPS Growth - Projected[1]	4.0%
EPS Growth - Historical[1]	4.2%
EPS Growth - Projected[1]	7.0%
Sustainable Growth - Historical[2]	4.9%
Sustainable Growth - Projected[2]	6.3%
Average	**4.9%**

1 Schedule JAC-5

2 Schedule JAC-6

Rio Rico Utilities, Inc. Cost of Capital Calculation
Multi-Stage DCF Estimates
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[H]	[I]
Company	Current Mkt. Price (P_o)[1]	Projected Dividends[2] (Stage 1 growth) (D_t)				Stage 2 growth[3] (g_n)	Equity Cost Estimate (K)[4]
	1/23/2013	d_1	d_2	d_3	d_4		
American States Water	51.0	1.30	1.36	1.43	1.50	6.5%	9.0%
California Water	19.4	0.66	0.69	0.73	0.76	6.5%	9.8%
Aqua America	27.0	0.69	0.73	0.76	0.80	6.5%	9.0%
Connecticut Water	29.8	0.98	1.03	1.08	1.14	6.5%	9.7%
Middlesex Water	19.5	0.77	0.81	0.84	0.89	6.5%	10.3%
SJW Corp	26.8	0.75	0.78	0.82	0.86	6.5%	9.2%

Average **9.5%**

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

Where : P_0 = current stock price
D_t = dividends expected during stage 1
K = cost of equity
n = years of non – constant growth
D_n = dividend expected in year n
g_n = constant rate of growth expected after year n

1 [B] see Schedule JAC-7
2 Derived from Value Line Information
3 Average annual growth in GDP 1929 - 2011 in current dollars.
4 Internal Rate of Return of Projected Dividends

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
BOB BURNS
Commissioner
SUSAN BITTER SMITH
Commissioner

IN THE MATTER OF THE APPLICATION OF RIO RICO UTILITIES INC. FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR AN INCREASE IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON	)	DOCKET NO. WS-02676A-12-0196

SURREBUTTAL

TESTIMONY

OF

JAMES R. ARMSTRONG

CHIEF ACCOUNTANT

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

FEBRUARY 19, 2013

TABLE OF CONTENTS

ATTACHMENTS

EXECUTIVE SUMMARY
RIO RICO UTILITIES, INC
DOCKET NO. WS-02676A-12-0196

Mr. Armstrong's Surrebuttal Testimony addresses Rio Rico Utilities, Inc.'s ("Rio Rico" or "Company") Rebuttal Testimony regarding Staff's recommendation that a System Betterment Cost Recovery ("SBCR") mechanism be approved as an option for Rio Rico.

Mr. Armstrong notes that Staff's SBCR is a DSIC, enhanced to deliver tangible benefits to ratepayers as well as to shorten regulatory lag for Rio Rico.

The Company requested approval of a Sustainable Water Loss Program ("SWIP") mechanism in its initial Application, but in rebuttal the Company now seeks approval of Arizona Water Company's ("AWC") Distribution System Improvement Charge ("DSIC"). However, the Company offers no actual witness-sponsored support for its new request.

Mr. Armstrong recommends that Rio Rico's Rebuttal request for approval of AWC DSIC be denied because the Company should not be allowed to raise new, unsupported, requests for the first time in Rebuttal.

Mr. Armstrong discusses the concept of rate gradualism, and he explains how Staff's SBCR actually delivers more in terms of customer-valued rate gradualism than AWC's DSIC offers.

Staff continues to support approval of its SBCR as an option for Rio Rico.

INTRODUCTION

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

A. My name is James R. Armstrong. I am the Chief Accountant employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Are you the same James R. Armstrong who filed Direct Testimony on behalf of Staff in Rio Rico Utilities Inc.'s ("Rio Rico" or "Company") rate case filing under Docket No. WS-02676A-12-0196?

A. Yes, I am.

Q. What issues will you be addressing in Surrebuttal Testimony?

A. I will be addressing the Rebuttal comments made by Rio Rico witness Mr. Krygier regarding Staff's System Betterment Cost Recovery ("SBCR") recommendation (which is a distribution system improvement charge ("DSIC")).

Q. Mr. Armstrong, is Rio Rico still requesting approval of a Sustainable Water Loss Improvement Program ("SWIP")?

A. Apparently not.

RIO RICO'S NEW DSIC APPROVAL REQUEST

Q. Has the Company surfaced a new request in its very limited response to Staff's SBCR proposal?

A. Yes. According to Company witness, Mr. Krygier, the Company is now seeking approval of the DSIC advocated by Arizona Water Company ("AWC") in AWC's pending rate filing, Docket No. W-01445A-11-0310. However, the Company offers no actual witness-sponsored support for its new request. Obviously, Staff cannot undertake discovery for this case in the pending AWC Docket, nor can Staff expect to cross examine witnesses from the AWC case as a part of establishing the evidentiary record in this case.

Q. Mr. Armstrong, what does Staff recommend regarding the new DSIC request raised for the first time in Rio Rico's Rebuttal Testimony?

A. Staff recommends that Rio Rico's new DSIC approval request be denied. The Company should not be allowed to raise new, unsupported, requests for the first time in Rebuttal.

RESPONSE TO CRITICISMS OF SBCR

Q. Mr. Armstrong, turn with me to page 5, line 12 of Mr. Krygier's two page Rebuttal discussion regarding Staff's SBCR proposal. Do you have any comments regarding Mr. Krygier's conclusion that Rio Rico would only earn a 5.38 percent rate of return ("ROR") on its SBCR investments?

A. Yes. Mr. Krygier's 5.38 percent return discussion is inaccurate and grossly misleading.

Rio Rico provided Staff with a copy of the workpaper prepared by the Company to show this ROR calculation, which I have included as Attachment R-1 to my Surrebuttal Testimony. This workpaper uses some of the general assumptions I used in generating Attachment A to my Direct Testimony, though the Company's calculation appears to modify some of these assumptions for some reason. However, the two primary assumptions are that a $500,000 SBCR-qualified investment is being addressed and that this investment is assumed to have a 40-year depreciable life. I have also attached a copy of my Direct Testimony Attachment A to my Surrebuttal Testimony (as Attachment R-2) for ease of reference.

There are two primary problems with the Company's ROR calculation. First, this calculation is focused on only one accounting period while the actual SBCR investment returns would continue over a 40-year period. Second, the Company's calculations incorrectly portray the Staff's SBCR ROR calculation.

Q. Mr. Armstrong, before you address these problems in more detail, can you tell the Commission if Staff's SBCR recommendation would actually result in such a reduced ROR for Rio Rico?

A. No, it would not. In fact, when the Company's simplified SBCR return analysis is evaluated over the full 40-year life of the underlying asset, instead of just over one isolated year as the Company has done, it is much more likely that the Company would be positioned to earn an ROR of 9.54 percent on its SBCR-qualified investments rather than the 5.38 percent return suggested by Mr. Krygier.

Q. Please continue with your discussion of the problems with the Company's 5.38 percent ROR calculation.

A. Rio Rico's SBCR-qualified investment would generate a return for the Company over the full useful life of the asset – which in Staff's example is assumed to be 40 years. In fact, the full cost of the investment would always be included in rate base (net of accumulated depreciation and accumulated deferred income taxes) over its used and useful life. In only four years out of the forty years the investment will be in service is there a separate imputed revenue requirement reduction captured to recognize the value to ratepayers of the shift in the timing of the recognition of regulatory lag.

The Company's workpaper is focused on only one of the four years when the separate imputed revenue requirement adjustment is captured. During the other 36 years, Rio Rico would be positioned with the opportunity to earn its full authorized ROR, which in my example is 10 percent.

While I do not agree with the single year ROR calculation made by the Company, just to keep the math simple, let us use this 5.38 percent ROR for the four years during which the imputed revenue requirement adjustment is captured, while during the other 36 years the Company is positioned to earn an ROR of 10 percent from full rate base inclusion of the SBCR investment, then the "average ROR" over the full 40 years is 9.54 percent. (The simple average of (5.38% X 4 years plus 10% X 36 years) / 40 = 9.54%.)

The "ROR sky is not falling" under Staff's SBCR recommendation, as Mr. Krygier would want the Commission to believe.

Q. Mr. Armstrong, on page 6, line 23 through page 7, line 5, Mr. Krygier states that Staff's SBCR actually promotes regulatory lag. Do you want to respond to that statement?

A. Yes. Mr. Krygier mischaracterized my testimony. I did not say that the SBCR will promote regulatory lag. I simply pointed out that there are aspects of regulatory lag that are beneficial to the Company and there are aspects of regulatory lag that are beneficial to ratepayers. Such an acknowledgement does not promote regulatory lag, it simply states fact.

The reason Staff proposed the SBCR is because it recognizes regulatory lag can have deleterious impacts on utility companies **and** their customers. Staff's mechanism to address regulatory lag, the SBCR, provides benefits to both the Company and its customers. Simply put, Staff's SBCR endeavors to address regulatory lag in a fair and equitable manner, as opposed to advancing only a one-sided fix to the dilemma.

Q. On page 6, lines 5 through 9, Mr. Krygier discussed the rate design Staff is recommending to facilitate SBCR billings. Mr. Krygier calls the Staff's rate design flawed because the revenue is placed in the highest tier commodity charge causing a potentially devastating impact on families. Would you like to respond to those comments?

A. Yes. If Mr. Krygier's focus is on the potentially devastating impact of higher rates on families, then he has his argument backwards. From a given family's perspective, revenue recovery from higher monthly minimums or through a high first rate tier can be more devastating to families. There is very little most families can do to moderate the impact of rate increases recovered through monthly minimums or through the first rate tier; to the contrary they can moderate the impact on their respective bill with Staff's rate design proposal because they may be able to reduce consumption.

SBCR PROMOTES RATE GRADUALISM

Q. Mr. Krygier again discussed the concept of rate gradualism on page 4 of his rebuttal testimony. Can you address how Staff's SBCR recommendation would promote the concept of rate gradualism?

A. Yes. First, the SBCR will provide all of the rate gradualism benefits that a traditional DSIC would provide. In Attachment R-3, I depict the rate gradualism benefits under a traditional DSIC in Schedule 2.

Second, Staff's SBCR provides additional rate gradualism benefits not offered by a traditional DSIC. Capturing the imputed value of the shift in regulatory lag in developing the rates to be charged by the utility in years six through nine of Staff's SBCR program would further advance the delivery of rate gradualism in Arizona. This can be seen in Schedule 2 of my Attachment R-3.

Q. Mr. Armstrong, please explain the rate gradualism comparisons displayed in Attachment R-3 in more detail.

A. The first page of this Exhibit contains three schedules depicting the timing of the additional revenue flows to a utility under three scenarios:

1. under traditional ratemaking (Schedule 1);
2. under a traditional DSIC (Schedule 2); and,
3. under Staff's SBCR (Schedule 3).

Under traditional rate making (Schedule 1), the utility is periodically (about every four or five years) granted rate increases. While these increases are less frequent, they may be significant and can create "rate shock" for customers due to the magnitude of the required level of rate increases. Rate path "A - B - C - D - E - F," marked in red, designates this path.

Under a traditional DSIC (Schedule 2) rate increase gradualism is introduced. Ratepayers will pay incrementally higher rates each year (occurring at points 1, 2, 3, and 4 on this Schedule) as additional infrastructure investments are factored in to the DSIC surcharges billed to customers. Path "A - B - 1 - 2 - 3 - 4 - 5 - 6 - 7 - D - E - F," marked in blue, designates this path. **Rate gradualism ceases after year five under a DSIC**.

Under Staff's SBCR mechanism (Schedule 3), rate gradualism, continues during years six through nine, with the path "A - B - 1 - 2 - 3 - 4 - 5 - 6 - 7 - 8 - 9 - F," marked in green showing this continuation of rate gradualism in years six through nine under Staff's SBCR.

Q. **So you are saying that Staff's SBCR not only delivers the initial rate gradualism associated with a traditional DSIC (in years two through five), but SBCR also provides for the continuation of rate gradualism in years six through nine?**

A. Yes, that is correct.

Q. **Turning to page 2 of Attachment R-3, does the area contained within path 1 - 2 - 3 - 4 – 5 - 6 - 7 - C, and shaded in yellow, represent additional revenues being provided to Rio Rico under <u>both</u> the traditional DSIC and Staff's SBCR, while the area contained path 8 - 9 - E - D, and also shaded in yellow, represents the imputed value received by ratepayers <u>only</u> under Staff's SBCR recommendation?**

A. Yes, that is correct.

Q. **On page 6 of Mr. Krygier's Rebuttal Testimony, he is critical of Staff's SBCR proposal because it is a "radical, new, untested and unproven idea that contradicts similar mechanisms used by the ACC in dealing with similar issues . . ." Would you like to respond to Mr. Krygier's statement?**

A. Yes. As I noted in my Direct Testimony, and as also noted on page 2 of the *Arizonans For Responsible Water Policy*'s October 2012 abstract entitled <u>Moving Beyond Rate Shock & Regulatory Lag – How Distribution and Collection System Improvement Charges benefit customers, investors, and regulators</u>, the DSIC concept has been considered and denied in Arizona for over 13 years. In my opinion, Staff's SBCR is a legitimate, balanced, and reasonable proposal for implementing a DSIC.

Staff's SBCR proposal is a DSIC that contains some new considerations, such as its regulatory lag benefit shifting provision, the recommended recovery of ad valorem taxes, and the recommendation that the utility could defer certain expenses, prudently incurred, in connection with the processing of an SBCR filing. However, Staff's SBCR proposal also incorporates a number of features found in earlier DSIC mechanism proposals, such as: rate gradualism, allowing for revenue recoveries between rate cases, annual and cumulative surcharge increase caps, earning level checks, periodic infrastructure investment activity reporting, and resetting the surcharge to zero when underlying infrastructure investments are included in rate base. By approving Staff's SBCR as an option for Rio Rico, the Commission will position the Company to receive a timely return on its infrastructure investments while also endorsing customer-valued rate benefits, including rate gradualism.

Finally, with regard to the allegation that the SBCR "contradicts" mechanisms approved by the ACC for energy utilities, I would note that in Arizona, as in most state regulatory jurisdictions, Commissions have made, and likely will continue to make, countless decisions containing unique provisions each based upon the collective evidence presented in the underlying docket. Also, many times cost recovery mechanisms are approved as a part of settlement agreements subsequently accepted by the regulatory authority. As we all know, settlements often lead to approval of very unique cost recovery provisions, and approval of such provisions is often linked to some other set of valuable concessions made by parties to the case and the utility receiving approval of the cost recovery mechanism. There is little to be gained from a comparison of the differences in such mechanisms when such comparisons are made outside of the full context of the underlying settlement agreements, or if such comparisons are made without giving consideration to all of the evidence presented in the underlying dockets.

Q. Does this conclude your Surrebuttal Testimony?

A. Yes, it does.

ATTACHMENT R-1

	A	B	C	D
1	**Rio Rico Utilities, Inc. dba Liberty Utilities**			
2	**Docket No. WS-02676A-12-0196**			
3	**SBCR Return Analysis**			
4				
5				
6		Plant Investment		$ 500,000
7		Depreciation Life		40
8		Annual Depreciation		$ 12,500
9		ROE + Tax Gross-up	10.00%	0.16
10		Return		$ 80,000
11		Revenue Requirement		$ 92,500
12				
13				
14		SBCR Discount		40%
15		Allowed SBCR Surcharge		$ 55,500
16		Depreciation Recovery		$ 12,500
17		SBCR Surcharge for Return		$ 43,000
18		SBCR ROE		5.38%

R. 2

Rio Rico Utilities
Docket No. WS-02676A-12-0196

James Armstrong Direct Testimony
Attachment A

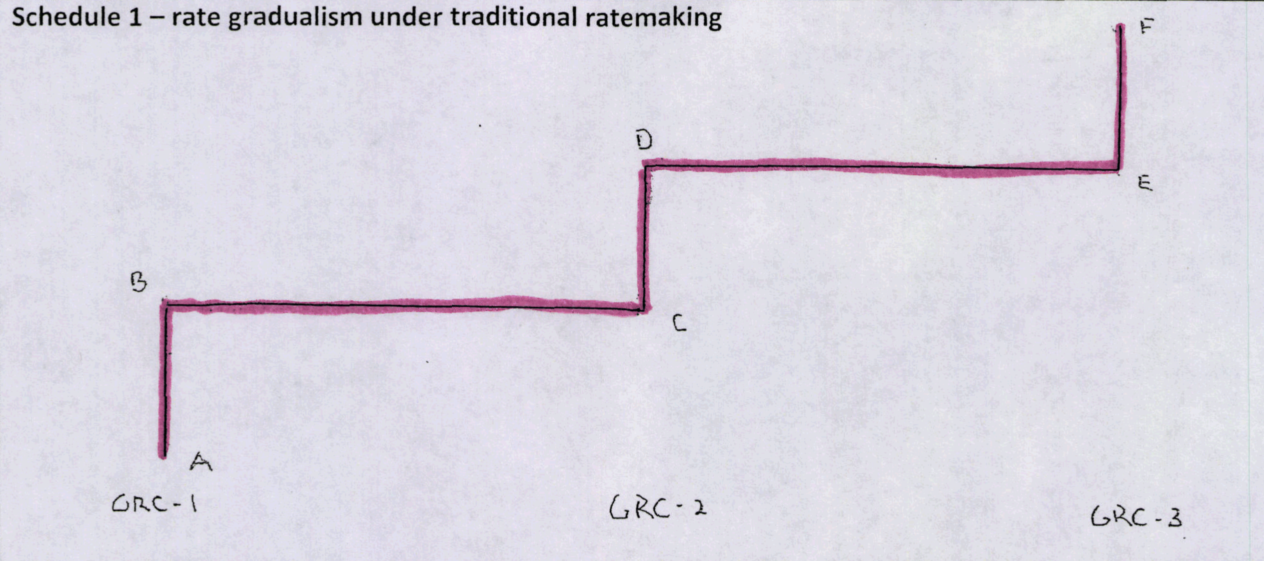
Line No.		A	B	C	D	E
1	SBCR Investment		$ 500,000			
2	ROR w/Tax	10.00%	50,000			
3	Depreciation	2.50%	12,500			
4	Property Tax Gross Up	1.25%	6,250			
5	Per Year Incremental Non-Traditional Revenue Stream		$ 68,750			
6	4 Year Value		$ 275,000			
		Traditional		Imputed Value of Shift in Regulatory Lag		
7	Plant-in-Service		$ 8,000,000		$ 8,000,000	
8	DSIC-2 Investments		500,000		500,000	
9	Less: Accumulated Depreciation		3,200,000		3,200,000	
10			$ 5,300,000		$ 5,300,000	
11	Materials & Supplies		320,000		320,000	
12	Gross Rate Base		$ 5,620,000		$ 5,620,000	
	Less:					
13	ADIT	$ 960,000		$ 960,000		
14	CIAC	320,000		320,000		
15	Customer Deposits	160,000		160,000		
16	Total Rate Base Reductions		1,440,000		1,440,000	
17	Total Rate Base		$ 4,180,000		$ 4,180,000	
18	ROR w/Tax		10.0%		10.0%	
19	ROR Portion of Revenue Requirement		$ 418,000		$ 418,000	
20	**Inputed Value of Shift in Regulatory Lag**			$ (275,000)		
21	**ROR w/Tax**			10.0%		
22					$ (27,500)	
23					$ 390,500	$ (27,500) *
24	**Number of Years**					4
25	**Value Over 4 years**					$ (110,000)
26	**Value as a % (Line 22, Column E / Line 6, column B)**					-40%

* There would also be a slight decrease in the resulting property tax gross-up calculation

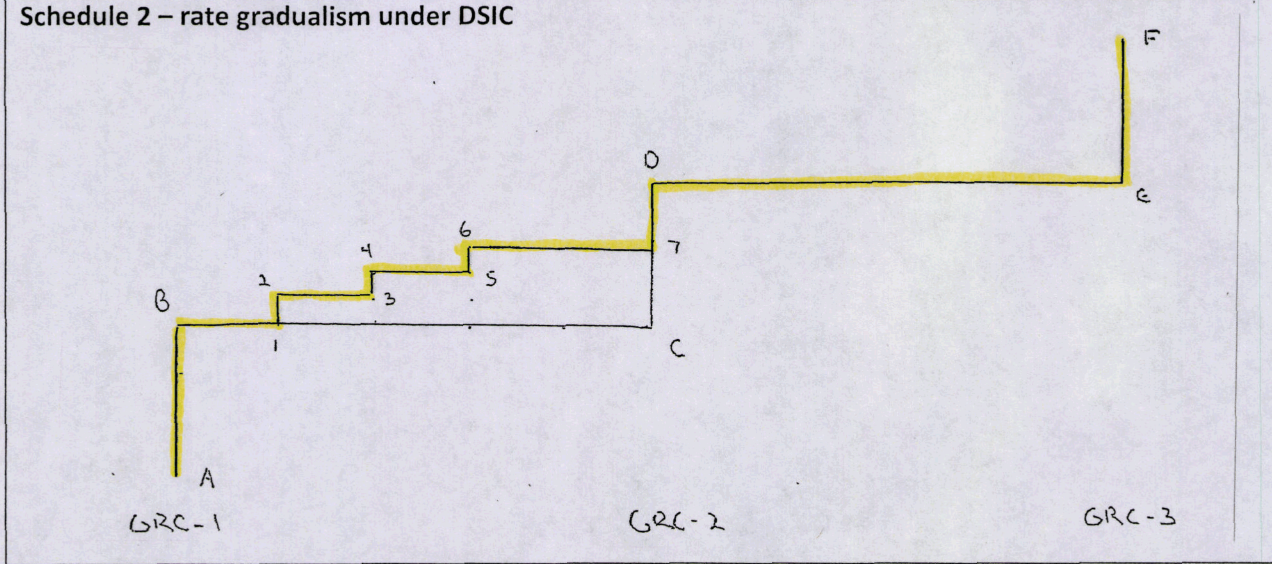
Rio Rico Utilities
Docket No. WS-02676A-12-0196
Rate Gradualism

James R. Armstrong
Surrebuttal Attachment R-3

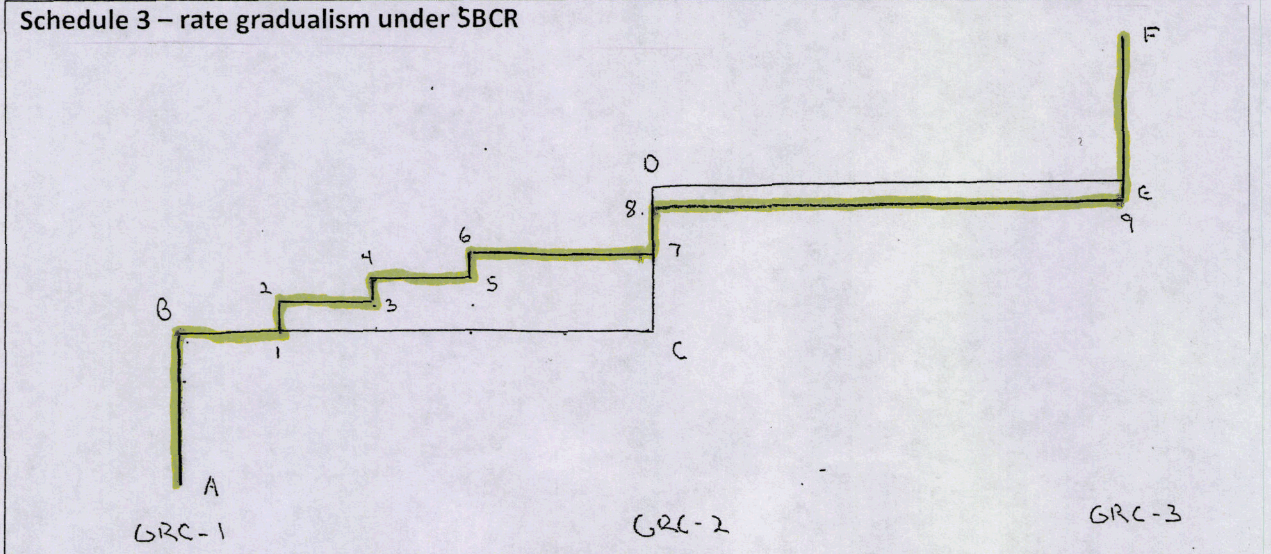
Schedule 1 – rate gradualism under traditional ratemaking



Schedule 2 – rate gradualism under DSIC



Schedule 3 – rate gradualism under SBCR



Schedule 3 – rate gradualism under SBCR