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8
9 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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

DOCKET NO: WS-02676A-12-0196

**NOTICE OF FILING REJOINDER
TESTIMONY**

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

- 19 1. Rejoinder Testimony of Thomas J. Bourassa (Rate Base);
- 20 2. Rejoinder Testimony of Gregory S. Sorensen;
- 21 3. Rejoinder Testimony of Christopher D. Krygier; and
- 22 4. Rejoinder Testimony of Thomas J. Bourassa (Cost of Capital).

23 RRUI had originally requested an extension of the rejoinder deadline to allow time
24 to complete additional discovery.¹ To date Staff has still not timely responded to a

25 _____
26 ¹ See the Company's Unopposed Motion to Extend the Deadline to File Rejoinder Testimony (filed February 26, 2013).

1 number of data requests which were served on February 20, 2013. Therefore, the
2 Company reserves the right to file a supplement to its rejoinder addressing any matters
3 directly arising from Staff's late responses.

4 RESPECTFULLY SUBMITTED this 8th day of March, 2013.

5 FENNEMORE CRAIG, P.C.

6
7 By: 
8 Jay L. Shapiro
9 Attorney for Rio Rico Utilities, Inc.

10 ORIGINAL and 13 copies filed
11 this 8th day of March, 2013 with:

12 Docket Control
13 Arizona Corporation Commission
14 1200 West Washington Street
15 Phoenix, Arizona 85007

16 COPY of the foregoing was emailed/mailed
17 this 8th day of March, 2013 to:

18 Jane L. Rodda
19 Administrative Law Judge
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21 Arizona Corporation Commission
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24 COPY of the foregoing was emailed/hand delivered
25 this 8th day of March, 2013 to:

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16 By: *Maria San Jose*
17 7992245.1/080191.0012

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DOCKET NO: WS-02676A-12-0196

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16 **REJOINDER TESTIMONY OF**
17 **THOMAS J. BOURASSA**
18 **RATE BASE, INCOME STATEMENT AND RATE DESIGN**

19
20 **March 8, 2013**
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1 **I. INTRODUCTION AND QUALIFICATIONS**

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

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

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

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

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

10 A. Yes, my direct testimony was submitted in support of the initial application in this
11 docket. There were two volumes at each stage, one addressing rate base, income
12 statement and rate design, and the other addressing cost of capital. Each of those
13 testimonies included my associated schedules.

14 **Q. WHAT IS THE PURPOSE OF THIS REJOINDER TESTIMONY?**

15 A. To respond to the surrebuttal filings by Staff and RUCO. More specifically, this
16 volume of my rejoinder testimony relates to rate base, income statement and rate
17 design for RRUI. In a separate volume of testimony I will provide responses to
18 Staff and RUCO on the cost of capital and rate of return applied to the fair value
19 rate base and the determination of operating income.

20 **II. SUMMARY OF RRUI'S REJOINDER POSITION**

21 **Q. WHAT REVENUE INCREASES FOR THE WATER AND WASTEWATER**
22 **DIVISIONS IS THE COMPANY PROPOSING IN THIS REJOINDER**
23 **TESTIMONY?**

24 A. For the water division, the Company proposes a total revenue requirement of
25 \$3,432,784, which constitutes an increase in revenues of \$644,939, or 23.13
26 percent over adjusted test year revenues. For the wastewater division, RRUI

1 proposes a total revenue requirement of \$1,649,662, which constitutes an increase
2 in revenues of \$279,532, or 20.40 percent over adjusted test year revenues.

3 **Q. HOW DO THESE FIGURES COMPARE WITH THE COMPANY'S**
4 **REBUTTAL FILING?**

5 A. They are higher. In the rebuttal filing for the water division, the Company
6 requested a total revenue requirement of \$3,360,630, which required an increase in
7 revenues of \$581,865 or 20.94 percent. In the rebuttal filing for the wastewater
8 division, the Company requested a total revenue requirement of \$1,605,670, which
9 required an increase in revenues of \$325,540, or 17.19 percent. One reason for this
10 change is the Company's acceptance of Staff's and RUCO's capital structure, an
11 issue I discuss in the other volume of my rejoinder testimony.¹

12 **Q. WHAT ARE THE PROPOSED REVENUE REQUIREMENTS AND RATE**
13 **INCREASES FOR THE COMPANY, STAFF, AND RUCO AT THIS STAGE**
14 **OF THE PROCEEDING?**

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

	<u>Revenue Requirement</u>	<u>Revenue Incr.</u>	<u>% Increase</u>	
17				
18	Company-Rebuttal	\$3,360,630	\$ 581,865	20.94%
19	Staff-Surrebuttal	\$3,122,698	\$ 257,875	9.00%
20	RUCO-Surrebuttal	\$3,071,393	\$ 206,273	8.25%
21	Company-Rejoinder	\$3,432,784	\$ 644,939	23.13%

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¹ Rejoinder Testimony of Thomas J. Bourassa – Cost of Capital at 2.

1 For the wastewater division, the proposed revenue requirements and
2 proposed rate increases are as follows:

	<u>Revenue Requirement</u>	<u>Revenue Incr.</u>	<u>% Increase</u>
4 Company-Rebuttal	\$1,605,670	\$ 235,540	17.19%
5 Staff-Surrebuttal	\$1,522,877	\$ 120,034	8.56%
6 RUCO-Surrebuttal	\$1,467,898	\$ 65,054	4.64%
7 Company-Rejoinder	\$1,649,662	\$ 279,532	20.40%

8 **III. RATE BASE**

9 **A. Rate Bases**

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

12 **A.** For the water division the rate bases proposed by the parties proposing a rate base
13 in the case, the Company, Staff and RUCO, are as follows:

	<u>OCRB</u>	<u>FVRB</u>
14 Company-Rebuttal	\$ 7,730,108	\$ 7,730,108
15 Staff-Surrebuttal	\$ 7,665,342	\$ 7,665,342
16 RUCO-Surrebuttal	\$ 7,592,850	\$ 7,592,850
17 Company-Rejoinder	\$ 7,730,108	\$ 7,730,108

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

20 **A.** The Company's rejoinder rate base adjustments to the water division's OCRB are
21 detailed on Rejoinder Schedule B-2, pages 3 through 6. Rejoinder Schedule B-2,
22 pages 1 and 2, summarize the Company's proposed adjustments and the rejoinder
23 OCRB. The Company is not proposing any additional changes to rate base from its
24 rebuttal filing. The adjustments proposed in the Company's rejoinder filing are the
25
26

1 same as in the Company's rebuttal filing. Explanation of the rate base adjustments
2 appear in my rebuttal testimony.²

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

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

	<u>OCRB</u>	<u>FVRB</u>
7		
8	Company-Rebuttal	\$ 4,735,192
9	Staff-Surrebuttal	\$ 4,694,175
10	RUCO-Surrebuttal	\$ 4,677,834
11	Company-Rejoinder	\$ 4,735,192

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

14 A. The Company's rejoinder rate base adjustments to the wastewater division's OCRB
15 are detailed on Rejoinder Schedule B-2, pages 3 through 7. Rejoinder Schedule B-
16 2, pages 1 and 2, summarize the Company's proposed adjustments and the
17 rejoinder OCRB. The Company is not proposing any additional changes to rate
18 base from its rebuttal filing. The adjustments proposed in the Company's rejoinder
19 filing are the same as in the Company's rebuttal filing. Explanation of the rate base
20 adjustments appear in my rebuttal testimony.³

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25 ² Rebuttal Testimony of Thomas J. Bourassa – Rate Base, Income Statement and Rate Design (“Bourassa
Rb.”) at 5 – 20.

26 ³ *Id.* at 20 – 27.

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B. Plant-in-Service, Accumulated Depreciation and Retirements

Q. PLEASE DISCUSS THE COMPANY'S REMAINING ISSUES WITH STAFF AND/OR RUCO WITH RESPECT TO RATE BASE?

A. There is only one issue. It involves plant retirements, and it is the same issue for both divisions, only with different numbers. For the water division, the Company is recommending a PIS balance of \$34,455,296 whereas Staff and RUCO recommend a PIS balance of \$35,997,952, a difference of \$1,542,656. The Company's recommended PIS balance is lower because it proposes to retire pumping equipment totaling \$1,534,958 and miscellaneous equipment totaling \$7,701 whereas Staff and RUCO do not. I discussed the basis for the retirements in my rebuttal testimony.⁴

The Company is also recommending accumulated depreciation ("A/D"), net contributions-in-aid of construction ("CIAC") and accumulated deferred income taxes ("ADIT") balances of \$13,756,125, \$11,561,368 and \$462,717, respectively. These adjusted balances conform to the Company's proposed plant retirement approach. Staff is recommending A/D, net CIAC, and ADIT balances of \$15,479,453, \$11,486,599, and \$421,579, respectively. Staff's adjusted balances conform to Staff's fully depreciated plant approach. RUCO is recommending A/D, net CIAC, and ADIT balances of \$15,658,852, \$11,381,858, and \$419,415, respectively. RUCO's adjusted balances conform to RUCO's fully depreciated plant approach.

Q. WHAT ABOUT THE WASTEWATER DIVISION??

A. The Company is recommending a PIS balance of \$12,655,367 whereas Staff and RUCO recommend a PIS balance of \$14,249,271, a difference of \$1,593,904.

⁴ See *id.* at 6 – 8.

1 The Company's recommended PIS balance is lower because it proposes to retire
2 pumping equipment totaling \$1,593,904 whereas Staff's and RUCO's do not. I
3 have discussed the basis for the retirements in my rebuttal testimony.⁵

4 For the wastewater division, the Company is also recommending A/D, net
5 CIAC and ADIT balances of \$4,658,438, \$2,661,536 and \$283,444, respectively.
6 These adjusted balances conform to the Company's proposed plant retirement
7 approach. Staff is recommending A/D, net CIAC, and ADIT balances of
8 \$6,286,242, \$2,711,926, and \$258,171, respectively. Staff's adjusted balances
9 conform to Staff's fully depreciated plant approach. RUCO is recommending A/D,
10 net CIAC, and ADIT balances of \$6,353,587, \$2,642,698, and \$258,395,
11 respectively. RUCO's adjusted balances conform to RUCO's fully depreciated
12 plant approach.

13 **Q. SO RRUI, STAFF AND RUCO EACH HAVE A DIFFERENT APPROACH**
14 **TO DEALING WITH OVERSTATEMENTS IN THE BALANCES FOR**
15 **PLANT AND ACCUMULATED DEPRECIATION AND HOW MUCH**
16 **ANNUAL DEPRECIATION EXPENSE IS INCLUDED IN THE REVENUE**
17 **REQUIREMENT?**

18 A. Yes, and it all originates with the need to retire certain plant.

19 **Q. WHY DOES STAFF DISAGREE WITH THE COMPANY'S PLANT**
20 **RETIREMENT PROPOSAL?**

21 A. I am not entirely sure. Staff complains that the corrections to the accumulated
22 depreciation balances are large.⁶ That does not explain why the Company's
23 retirement proposal is not a reasonable remedy to address the Company's failure to
24 record retirements. It is not unusual for a utility, Staff or RUCO to propose

25 ⁵ *Id.* at 22 – 23.

26 ⁶ *See* Surrebuttal Testimony of Mary J. Rimback ("Rimback Sb.") at 5.

1 adjustments to the A/D balances related to retirements in a rate case. In some
2 cases, the adjustments can be significant. For example, in the recent Pima Utility
3 Company ("Pima") rate case, Pima proposed an A/D adjustment of nearly
4 (\$570,000) and nearly (\$1.3) million related to retirements it failed to record by the
5 end of the year for its water division and wastewater division, respectively.⁷
6 Further, Pima proposed additional A/D adjustments of nearly (\$590,000) and over
7 \$1.4 million to true-up its recorded book A/D balance to the reconstructed A/D
8 balance.

9 **Q. WERE YOU A WITNESS IN THAT CASE?**

10 A. Yes. So I can testify with firsthand knowledge that Staff did not disagree with
11 Pima's approach, nor did Staff complain about the magnitude of the adjustments.
12 Ultimately, the Commission adopted Pima's proposed retirements and related A/D
13 impacts.⁸ The only difference between the instant case and that one is Pima
14 proposed its retirement related adjustments in its initial filing and RRUI proposed
15 its retirement related adjustments in its rebuttal filing. The remedy to correct the
16 overstated PIS and A/D balances by recognizing retirements is exactly the same.
17 In the Bella Vista Water Company ("Bella Vista") rate case, which I discussed in
18 my rebuttal testimony, the remedy was also the same, and Bella Vista made its
19 proposal in its rebuttal filing. In that case Staff accepted the remedy and the
20 Commission adopted it.⁹ So, the bottom line is, Staff is being inconsistent.

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25 ⁷ See Docket Nos. W-02199A-11-0329 and SW-02199A-11-0330 (consolidated).

26 ⁸ See Decision 73573 (November 21, 2012).

⁹ Bourassa Rb. at 7.

1 **Q. WHAT IMPACT DO THE PROPOSED PIS AND A/D ADJUSTMENTS**
2 **RELATED TO THE COMPANY'S RETIREMENTS APPROACH HAVE**
3 **ON RATE BASE?**

4 A. The net impact on rate base is very small, about \$65,000 for the water division.
5 The actual recording of retirements reduces PIS by \$1,542,659 and reduces A/D by
6 \$1,542,659. This part has zero impact as is true of all retirements. There is an
7 impact as the result of not depreciating the retired plant in the intervening years
8 since the end of the last rate case. For the water division, there is \$471,430 less
9 A/D from depreciation, which has a positive impact on rate base. When
10 considering the impact on the net balance of CIAC as well as accumulated deferred
11 income taxes or ADITs, the net overall increase in rate base is just under \$65,000.

12 Again, the same conforming adjustments flow out of Staff's adjustments –
13 Staff's A/D balance is also reduced because fully depreciated plant is not
14 depreciated in the intervening years since the end of the last rate case. For the
15 water division, Staff computed \$290,873 less A/D from depreciation; which also
16 has a positive impact on rate base.¹⁰

17 **Q. IS THIS DISPUTE OVER RETIRED PLANT THE ONLY DIFFERENCE**
18 **BETWEEN STAFF AND THE COMPANY?**

19 A. Yes. The Company proposes a rate base of \$7,730,108 while Staff proposes a rate
20 base of \$7,665,342, a difference of less than \$65,000. This is less than 1 percent of
21 Staff's or the Company's recommended rate bases. This is a relatively small
22 difference when viewed in the proper context.

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¹⁰ *Id.* at 11.

1 **Q. WHAT ABOUT THE WASTEWATER DIVISION?**

2 A. The difference is even smaller. The Company proposes a rate base of \$4,735,192
3 for the wastewater division while Staff proposes a rate base of \$4,694,175, a
4 difference of about \$41,000.

5 **Q. MR. BOURASSA, WHY IS THERE SUCH A SIGNIFICANT DISPUTE**
6 **OVER \$106,000 OF RATE BASE?**

7 A. Because the Staff approach, as well as the RUCO approach, fails to resolve the
8 issue and we will face it again in future rate cases.

9 **Q. PLEASE EXPLAIN.**

10 A. The PIS and A/D balance are currently overstated because they include amounts
11 for assets that are no longer in service (not used and useful). The underlying utility
12 assets owned by the Company, e.g. mains, meters, hydrants, etc., drive depreciation
13 expense. If the goal is to fix depreciation expense on a going forward basis, then
14 the assets driving the depreciation expense must be addressed. The Company's
15 approach retires assets that are no longer in service so that the remaining assets in
16 service are the only drivers of depreciation expense. The Staff and RUCO
17 approach do not address the assets and will create this same issue in every rate case
18 going forward. Adopting the Company's approach solves the short-term problem,
19 too much depreciation expense, and the long-term problem of what assets are in
20 rate base. That's what happened in the Bella Vista rate case.

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1 **Q. IS THE COMPANY RETIRING PLANT WHEN IT BECOMES FULLY**
2 **DEPRECIATED IRRESPECTIVE OF WHETHER THE PLANT REMAINS**
3 **IN SERVICE?**

4 A. Not my knowledge.¹¹ Again, following the remedy in the Bella Vista rate case,
5 RRUI identified the plant amounts to retire by an analysis of past additions to the
6 pumping equipment and miscellaneous equipment account and the expected useful
7 lives of the underlying plant in these two accounts.¹² This approach was
8 necessitated because the Company lacks sufficient detail to identify specific plant
9 added by its prior owners that is no longer used and useful. Staff accepted the lack
10 of sufficient plant detail from pre-Liberty days in the Bella Vista rate case as the
11 reason for using an approach different than actually identifying specific plant
12 equipment to retire.¹³ As Staff argued in the Bella Vista rate case, if one assumes
13 the useful lives embedded in the depreciation rates are reflective of the useful lives
14 of the underlying plant, then it is reasonable to assume plant additions older than
15 the expected useful life reflect plant that is no longer used and useful.¹⁴

16 **Q. WHAT ABOUT STAFF'S COMPLAINT THAT THE COMPANY'S**
17 **PROPOSAL TO RETIRE PLANT BASED ON ITS ACCUMULATED**
18 **DEPRECIATION STATUS IS AT VARIANCE WITH THE NARUC**
19 **UNIFORM SYSTEM OF ACCOUNTS?**

20 A. The Company's proposal to retire plant is not based on its accumulated
21 depreciation status so the complaint by Ms. Rimback is unfounded. The proposal
22 is based upon plant that is no longer used and useful, just as it was in the Bella
23 Vista rate case.

24 ¹¹ See Rimback Sb. at 7.

25 ¹² Bourassa Rb. at 8.

26 ¹³ See Direct Testimony of Crystal S. Brown (Docket No. W-02465A-09-0411, *et al.*) at 16.

¹⁴ *Id.*

1 **Q. WHAT ARE THE SIMILARITIES AND DIFFERENCES BETWEEN**
 2 **BELLA VISTA AND RRUI?**

3 A. Below is a table comparing the circumstance and/or action taken to address the
 4 overstatements in the PIS and A/D balances as well as the going-forward
 5 depreciation expense levels between the Bella Vista rate case and this rate case.
 6

Circumstance/Action	Bella Vista	RRUI
*Utility Plant Related	Yes	Yes
*Previously a Developer Owned Utility	Yes	Yes
*PIS and A/D balances appear too high relative to net book value which causes depreciation expense to be too high	Yes	Yes
*Plant detail unavailable from prior owner to identify specific plant to retire	Yes	Yes
*Estimate retirements using an appropriate method	Yes	Yes
*Plant retirements resolve PIS balance, A/D balance, and depreciation expense issues	Yes	Yes
*Staff Recommendation	Retire plant and correct PIS and A/D balances	Don't retire plant
*Total of PIS retirements adopted and/or recommended by company	\$1,333,228	Water \$1,542,659 Wastewater \$1,593,905

21 Remember, in the Bella Vista rate case Staff's recommendation to retire
 22 plant was premised upon overstatements of the PIS and A/D balance as well and
 23 the related overstatement of depreciation expense caused by not used and useful
 24 plant in the PIS balance.¹⁵ Staff also recognized that an alternative method to
 25

26 ¹⁵ See *id.* at 15 – 17.

1 estimate the plant retirement amounts was necessary to the lack of sufficient
2 documentation from the prior owners.¹⁶

3 **Q. NOTWITHSTANDING STAFF'S AFOREMENTIONED CONCERNS, IS**
4 **THE COMPANY'S METHODOLOGY TO ESTIMATE THE**
5 **RETIREMENT AMOUNTS REASONABLE?**

6 A. Yes. I have explained that methodology in my rebuttal testimony.
7 The methodology is similar to the methodology Staff proposed in the Bella Vista
8 rate case.

9 **Q. HOW MUCH PLANT DID STAFF SEEK TO RETIRE IN THE BELLA**
10 **VISTA RATE CASE?**

11 A. Staff recommended \$1,333,228 in retirements as shown on Surrebuttal Schedule
12 CSB-7.¹⁷ This was the same amount proposed by Bella Vista.¹⁸ By comparison,
13 the Company is proposing \$1,542,659 in retirements for the water division.¹⁹

14 **Q. WHAT WAS THE NET IMPACT ON THE A/D BALANCE IN THE BELLA**
15 **VISTA RATE CASE?**

16 A. The A/D balance was reduced by \$290,690. By comparison, the Company is
17 proposing a \$471,430 reduction in the A/D balance for the water division.²⁰

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¹⁶ *Id.*
¹⁷ See Surrebuttal Testimony of Crystal Brown (Docket No. W-02465A-09-0411, et al.) at Schedule CSB-7.
¹⁸ See Rejoinder Testimony of Thomas J. Bourassa (Docket No. W-02465A-09-0411, et al.) at Consolidated Rejoinder Schedule B-2, page 3.5.
¹⁹ See Water Division Rejoinder Schedule B-2, page 3.
²⁰ See Water Division Rejoinder Schedule B-2, page 4.

1 Q. DOES STAFF ATTEMPT TO DISTINGUISH THIS CASE FROM THE
2 BELLA VISTA CASE?

3 A. Yes, Ms. Rimback testifies that the issue of whether to retire plant that remains in
4 service was not an issue in the Bella Vista case.²¹ I agree. In my view it is not an
5 issue in the instant case either.

6 Q. THEN WHY ALL THE CRITICISM BY STAFF?

7 A. Candidly, Staff is making this issue far more complicated than it needs to be.
8 For example, on page 9 of her testimony, Ms. Rimback quotes a statement at the
9 beginning of the Company's retirement policy where it states:

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

13 She then asserts the policy is unclear because it says nothing about plant that is still
14 in service after the end of its expected life. The policy is a "retirement" policy. As
15 such, it specifically refers to plant removed and/or replaced. If the plant is neither
16 removed and/or replaced then it is not retired.

17 Similarly, Ms. Rimback claims that the accounting entries are unclear.²²
18 The accounting entries listed in the retirement policy conform to the USoA.
19 Ultimately, the book cost of an asset reduces the plant account and accumulated
20 depreciation in conformance with USoA accounting instruction 27(B)2. I do not
21 know why Ms. Rimback finds this unclear.

22

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²¹ Rimback Sb. at 8.

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²² *Id.* at 9 – 10.

1 Q. THEN YOU LIKELY DISAGREE WITH STAFF'S RECOMMENDATION
2 THAT THE COMMISSION DIRECT RRUI TO REVISE ITS
3 RETIREMENT POLICY AND TO PROVIDE TRAINING TO
4 EMPLOYEES AND OVERSIGHT OF ITS RELATED PRACTICES?

5 A. Yes, strongly, as I also disagree with Ms. Rimback's claim that sanctions and fines
6 might be warranted.²³ This is a serious overreach. The issue is really quite simple
7 – despite the adoption of a retirement policy, the Company missed some plant
8 items that should have been retired with all conforming adjustments before the
9 application was filed. The Company is doing the best it can with the predecessor's
10 records. As soon as the fact that plant no longer in service was in rate base was
11 pointed out, the Company turned to the same remedy just used in the Bella Vista
12 case without complaint. Ms. Rimback did not work on the Bella Vista case, in fact
13 she was not even on Staff when that case was decided. Perhaps in her inexperience
14 she is not aware that oversights are often corrected along the way in rate cases, and
15 the point is to get it right so we can set the rates.

16 Q. PLEASE COMMENT ON RUCO'S SURREBUTTAL TESTIMONY
17 REGARDING THIS ISSUE.

18 A. RUCO has not offered any additional testimony on this subject so my rebuttal
19 testimony is still responsive to RUCO's position.²⁴

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²³ *Id.* at 11.

²⁴ Bourassa Rb. at 11 – 13.

1 **IV. INCOME STATEMENT**

2 **A. Water Division Revenue and Expenses**

3 **Q. PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO**
4 **REVENUES AND EXPENSES FOR THE WATER DIVISION AND**
5 **IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF**
6 **AND/OR RUCO.**

7 A. The Company adjustments for the water division are detailed on Rejoinder
8 Schedule C-2, pages 1 through 16. The rejoinder income statement with
9 adjustments is summarized on Rejoinder Schedule C-1, pages 1 and 2. The
10 Company is proposing two changes to revenues and/or expenses from its rebuttal
11 filing. The first change is an adoption of RUCO's recommended revenue
12 annualization for Morning Star Ranch ("MSR").²⁵ The second change reflects a
13 revision to adjusted test year income taxes as a result of the adoption of a 100
14 percent capital structure with no interest expense deduction from interest
15 synchronization.²⁶ All other adjustments proposed in the Company's rejoinder
16 filing remain the same as in its rebuttal filing. Explanations of the revenue and/or
17 expense adjustments appear in my rebuttal testimony.²⁷

18 **1. Response to Staff Surrebuttal Testimony**

19 **Q. PLEASE DISCUSS THE COMPANY'S REMAINING ISSUES WITH**
20 **STAFF CONCERNING THE WATER DIVISION'S REVENUES AND/OR**
21 **EXPENSES.**

22 A. There are several revenue and/or expense issues remaining between the Company
23 and Staff. They include: 1) declining usage adjustment; 2) the MSR revenue
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25 ²⁵ See Water Division Rejoinder Schedule C-2, adjustment number 4.

26 ²⁶ See Water Division Rejoinder Schedule C-2, adjustment number 15.

27 ²⁷ Bourassa Rb. at 28 - 34.

1 annualization, 3) corporate allocation; and 4) employee benefits. With the
2 exception of the MSR revenue annualization, these issues also impact the
3 wastewater division. The third issue—employee benefits—are addressed by
4 Mr. Sorensen in his rejoinder.²⁸

5 The differences in depreciation expense result from the differences between
6 the two parties' proposed PIS balances, not a disagreement over the depreciation
7 rates or application of the depreciation calculation. The differences between the
8 Staff and RRUI with respect to property tax and income tax expense are a function
9 of the differences between the parties' adjusted test year revenues and proposed
10 revenue requirements, not differences in computation or methodology.

11 a. **Declining Usage Adjustment**

12 **Q. PLEASE COMMENT ON THE DISAGREEMENT BETWEEN THE**
13 **COMPANY AND STAFF CONCERNING THE COMPANY PROPOSED**
14 **DECLINING USAGE ADJUSTMENT.**

15 A. Staff recommends denial of the Company's proposed declining usage adjustment
16 because it believes customers have already made adjustments to their lifestyles to
17 use more water efficiently and therefore will not further reduce their
18 consumption.²⁹ In other words, future consumption levels are not known and
19 measurable. This is disturbing. Staff has recommended and the Commission has
20 regularly adopted normalized expenses in the past. Normalized expenses are
21 expense levels that are determined by using historical averages, which are then
22 presumed to be the level of the expense on a going forward basis. Normalized
23 expenses are no more and no less known and measurable than a declining usage
24 adjustment based on an analysis of historical consumption. In fact, in many

25 ²⁸ Rejoinder Testimony of Greg Sorensen ("Sorensen Rj.") at 4 – 8.

26 ²⁹ Rimback Sb. at 13.

1 respects the Company's proposed declining usage adjustment is superior to
2 expense normalization.

3 I have argued unsuccessfully in the past that expense normalizations should
4 consider other factors rather than simply taking the average of 3 or 4 historical
5 years and stopping there. The Company's declining usage adjustment is based
6 upon an analysis of the last four years, which takes into consideration not only
7 customer growth, but varying conditions including weather and previous changes
8 in rates. Just as important, the Company's declining usage adjustment is extremely
9 conservative. Increased consumption in each usage block from customer growth
10 offsets reductions in consumption that have occurred each year. In other words,
11 the true reductions in consumption would be much higher but for customer growth.

12 **Q. WHAT ABOUT STAFF'S CLAIM THAT THEY JUST DO NOT HAVE**
13 **ENOUGH TIME TO REVIEW THE PROPOSED ADJUSTMENT?**

14 **A.** I think it is unfortunate. We have long heard about Staff's strained resources and
15 we sympathize. But, the Company filed its rebuttal testimony on January 28, 2013.
16 The hearing date is scheduled for March 26, 2013, giving Staff nearly 2 months to
17 complete its evaluation. Instead, Staff just ignored it and didn't even try to conduct
18 an evaluation. Finally, we started the discussion of declining usage in
19 Mr. Sorensen's Direct Testimony.³⁰ RRUI continues to experience significant
20 revenue erosion to the tune of approximately 8 percent of total revenues which are
21 lost to customers conserving water.

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26 ³⁰ Direct Testimony of Greg Sorensen at 6 – 7.

1 **Q. HOW DOES THIS DECLINING USAGE IMPACT RRUI'S ABILITY TO**
2 **EARN ITS AUTHORIZED RATE OF RETURN?**

3 A. It is almost impossible. One of the key aspects in having the opportunity to earn an
4 authorized rate of return is collecting all of the revenue authorized by the
5 Commission. As illustrated in Mr. Sorensen's testimony,³¹ RRUI was authorized
6 to collect revenues of \$4.598M in the last rate case, yet RRUI only collected
7 \$4.211M because RRUI did not sell as much water. So, even if RRUI had expense
8 levels that matched the levels authorized by the Commission it wouldn't have
9 earned its authorized rate of return.

10 By way of further example –

11

	Commission Authorized	Actual Results
12 Revenue	\$10.00	\$9.00
13 Expenses	\$8.50	\$8.50
14 Profit	\$1.50	\$0.50
15 Return Percent	15%	5.5%

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18 As illustrated in the table, even if the Company controls costs and does everything
19 in its control, the declining usage of customers impacts the company's bottom line
20 profit and therefore cannot earn its authorized rate of return.

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26 ³¹ *Id.* at 6.

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b. MSR Revenue Annualization

Q. PLEASE COMMENT ON THE DISAGREEMENT BETWEEN THE COMPANY AND STAFF WITH RESPECT TO THE MSR REVENUE ANNUALIZATION.

A. Staff recommends a revenue annualization adjustment for MSR totaling \$9,985.³² The Company has adopted RUCO's MSR revenue annualization adjustment totaling \$10,282, which is \$267 higher than Staff's recommendation. The Company believes the RUCO MSR revenue annualization is computationally correct and the \$10,282 adjustment should be adopted.

c. Corporate Allocation

Q. PLEASE COMMENT ON THE DISAGREEMENT BETWEEN RRUI AND STAFF WITH RESPECT TO THE COMPANY'S PROPOSED CORPORATE ALLOCATION.

A. Staff continues to recommend a reduction to Management Services – Corporate expense.³³ Staff's recommendation apparently rests on Staff's inability to understand the underlying support for the Company's recommended costs.³⁴ Frankly, I am perplexed as to why Ms. Rimback believes the Company did not provide direct support for all of its corporate costs.³⁵ I have personally examined the corporate cost support information and was readily able to find the underlying transaction detail for all allocated corporate costs. As an auditor, having identified the transactions, I could then make specific inquiries to the Company and request copies of invoices for back-up.

³² See Surrebuttal Testimony of Timothy J. Coley ("Coley Sb.") at 20.
³³ Rimback Sb. at 15.
³⁴ *Id.*
³⁵ See *id.* (referring to the Company's information as an "indirect representation" of costs).

1 **Q. DID MS. RIMBACK DO THAT?**

2 A. Well, it appears she was able to at least identify the transactions because she did
3 request copies of invoices for support of certain transactions. The Company
4 provided responses to Ms. Rimback's requests on October 4, 2012 and November
5 7, 2012.³⁶ I am unsure about what she did once she received this information, but
6 again, I found no difficulty in identifying the underlying transactions supporting
7 the entire amounts, \$133,975 and \$59,292, the Company seeks to include in
8 operating expense for the water division and wastewater division, respectively.

9 **Q. WHAT OTHER INFORMATION DID THE COMPANY PROVIDE STAFF**
10 **TO SUPPORT THE CORPORATE COSTS?**

11 A. On September 10, 2012 the Company first provided Staff and the other parties
12 information supporting the corporate costs.³⁷ Then there were the two additional
13 data requests I previously mentioned. On January 4, 2013, in response to
14 comments by Staff and to assist Staff in its audit, the Company also provided
15 Ms. Rimback a reconciliation of the corporate costs to the C-1 schedules (income
16 statements for water and wastewater), including the back-up transaction detail in an
17 Excel workbook. This information contained the same transaction detail provided
18 back in September, except that the Company also included a reconciliation of the
19 corporate costs to the amounts appearing on the Company's C-1 schedules with
20 links to the transaction detail. On January 25, 2013 the Company provided the
21 same information to Mr. Armstrong. The schedules provided are a direct
22 representation of the corporate costs the Company seeks to include in operating
23 expenses. As such, I find Ms. Rimback's reason for denying some of the corporate
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25 ³⁶ See Company response to Staff data requests MJR 3.3, MJR 3.6, MJR 3.10, and MJR 4.4.

26 ³⁷ See Company response to Staff data requests MJR 2.3 and MJR 2.10.

1 costs to be unfounded and believe the Commission should reject Staff's
2 recommendation as a result.

3 **Q. DID RUCO COMPLAIN THAT THE SUPPORTING INFORMATION THE**
4 **COMPANY PROVIDED WAS INADEQUATE IN SOME WAY?**

5 A. Not to my knowledge.

6 **d. Additional Comments**

7 **Q. HAS STAFF ACCEPTED THE COMPANY'S PROPOSED PURCHASED**
8 **POWER ADJUSTMENT?**

9 A. Yes, provisionally.³⁸ The Company agrees with Staff that when the final outcome
10 for the UNSE rate increase is known the Company can update its purchased power
11 adjustment.

12 **2. Response to RUCO Surrebuttal Testimony**

13 **Q. PLEASE DISCUSS THE COMPANY'S REMAINING ISSUES WITH RUCO**
14 **WITH RESPECT TO REVENUES AND/OR EXPENSES.**

15 A. There are several revenue and/or expense issues remaining between the Company
16 and RUCO. They include: 1) property tax expense; 2) rate case expense
17 amortization period; 3) declining usage adjustment; 4) purchased power;
18 5) achievement and incentive pay; and 6) corporate allocation. Each of these issues
19 impacts both divisions. Mr. Sorenson responds to RUCO's surrebuttal testimony
20 on the fifth issue – achievement and incentive pay.³⁹

21 As with Staff, the difference with respect to depreciation expense is a
22 function of the differences between the parties proposed PIS balances. Also, the
23 difference on income tax expense is a function of the parties' adjusted test year
24 revenues and proposed revenue requirements.

25 ³⁸ Rimback Sb. at 14.

26 ³⁹ Sorensen Rj. at 1 – 3.

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a. Property Taxes

Q. PLEASE COMMENT ON THE DISAGREEMENT BETWEEN THE COMPANY AND RUCO WITH RESPECT TO THE PROPERTY TAXES.

A. RUCO proposes somewhat lower property tax rates and uses different net book values on transportation equipment than the Company. So, this dispute is not a function of the differences between the parties' adjusted test year revenues and proposed revenue requirements or the result of a disagreement over the application of the modified ADOR property tax calculation.

Q. PLEASE EXPLAIN THE DISPUTE.

A. With respect to the property tax rates, the Company used the full cash value assessed at 20 percent in computing the property tax rates. Mr. Coley uses an assessed value that does not represent 20 percent of the full cash value.

For the specific example Mr. Coley refers to in his surrebuttal testimony,⁴⁰ the full cash value on the property tax statement is \$3,530,100. I have included the property tax statement as **Exhibit TJB-RB-RJ1**. Using an assessment ratio of 20 percent, the full cash value is \$706,020, matching the property tax statement. The property tax statement also shows another assessed value of \$727,390, which is not 20 percent of the full cash value. The \$727,390 appears to include (and double count) the assessed value on land totaling \$21,370 (\$706,020 plus \$21,290 equals \$727,390). However, the full cash value of \$3,350,100 includes the full cash value of land and the assessed value of \$706,220 includes the assessed value of land. The property tax statement's second assessed value figure appears to double count the assessed value of land.

⁴⁰ Coley Sb. at 5.

1 I cannot explain why the statement shows the two different assessed values
2 in this way, but all utility operating property should be assessed at 20 percent.
3 There should not be a double counting of the assessed value of land.
4 Consequently, I believe I used the correct full cash value and assessed value in
5 computing my property tax rate.

6 **Q. WHAT ABOUT THE NET BOOK VALUE OF TRANSPORTATION**
7 **EQUIPMENT?**

8 A. At this stage of the proceeding, both Staff and the Company agree on the net book
9 value of transportation equipment. Implied by this mutual agreement is that both
10 Staff and the Company determined the same PIS and A/D balances for
11 transportation equipment balance in their respective reconstructions. RUCO's
12 reconstructed A/D is different than that of both the Company and Staff, and
13 therefore RUCO has a different net book value. RUCO denies there are any errors
14 in its computations and claims the difference is the result of different depreciation
15 methods used by RUCO compared to the Company.⁴¹ However, the fact that the
16 depreciation method RUCO uses to reconstruct the A/D balance is one that I have
17 never seen and/or is not in conformance with any acceptable depreciation method
18 translates to an error in my book..⁴²

19 **b. Rate Case Expense Amortization**

20 **Q. PLEASE COMMENT ON THE DISAGREEMENT BETWEEN THE**
21 **COMPANY AND RUCO WITH RESPECT TO RATE CASE EXPENSE.**

22 A. RUCO and the Company are in agreement on total rate case expense. However,
23 RUCO continues to recommend a 4-year recovery period in contrast the
24 Company's recommend 3-year recovery period. RUCO has not offered any

25 ⁴¹ *Id.* at 17.

26 ⁴² Bourassa Rb. at 11 – 13.

1 additional support for its recommendation, nor has it responded to the Company's
2 rebuttal testimony on rate case expense.⁴³

3 **Q. WHY DOES RUCO ARGUE FOR FOUR YEARS?**

4 A. Mr. Coley provided a work paper that showed how he arrived at a four-year
5 amortization period.⁴⁴ But Mr. Coley makes one fundamentally wrong assumption
6 that distorts his entire analysis. Specifically, he assumes that RRUI's two prior rate
7 cases under prior owners are valid data points to calculate an amortization period.
8 However, Decisions 59547 (March 13, 1996) and 67279 (October 5, 2004) predate
9 Liberty Utilities, which has already brought RRUI in for rate cases every three
10 years, consistent with its general corporate policy.⁴⁵ Finally, even if Mr. Coley's
11 analysis was somehow correct, this completely contradicts RUCO's rate case
12 expense amortization period from the last RRUI rate case in which Liberty Utilities
13 owned the Company: "RUCO recommends amortizing this [rate case expense]
14 amount over three years ..."⁴⁶

15 **c. Declining Usage Adjustment**

16 **Q. PLEASE COMMENT ON THE DISAGREEMENT BETWEEN THE**
17 **COMPANY AND RUCO CONCERNING THE COMPANY'S PROPOSED**
18 **DECLINING USAGE.**

19 A. RUCO rejects the Company's proposed declining usage adjustment because it has
20 rejected such adjustments in recent cases involving Arizona Water Company.⁴⁷
21 Mr. Coley does not refute the analysis demonstrating that RRUI has had and
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23 ⁴³ *Id.* at 35 – 36.

24 ⁴⁴ Mr. Coley's work paper, attached as **Exhibit TJB-RB-RJ2**, is shown with his original analysis and my
revised analysis.

25 ⁴⁵ Bourassa Rb. at 35 – 36.

26 ⁴⁶ Decision 72059 (January 6, 2011) at 24:1-2.

⁴⁷ Coley Sb. at 40.

1 continues to face declining usage. So, despite RUCO's selective support of
2 normalization adjustments, it would appear RUCO has a specifically policy of
3 opposing declining usage adjustments. But RUCO's policy cannot hide or remedy
4 declining consumption that has eroded RRUI's revenues by over \$218,000. That's
5 revenues the Company lost through no fault of its own and will never get back and
6 will continue forcing RRUI to not have an opportunity to earn its authorized rate of
7 return.

8 **d. Corporate Allocation**

9 **Q. PLEASE COMMENT ON THE DISAGREEMENT BETWEEN THE**
10 **COMPANY AND RUCO WITH RESPECT TO THE CORPORATE**
11 **ALLOCATION.**

12 **A.** RUCO has not changed its position regarding its corporate cost adjustment and
13 continues to rely on its direct testimony to support its position. I have responded to
14 RUCO's direct testimony in my rebuttal testimony and have nothing more to add
15 here.⁴⁸

16 **e. Purchased Power**

17 **Q. PLEASE COMMENT ON THE DISAGREEMENT BETWEEN THE**
18 **COMPANY AND RUCO WITH RESPECT TO PURCHASED POWER.**

19 **A.** RUCO rejects the Company's purchased power adjustment calling it "highly
20 speculative".⁴⁹ However, the increase UNS Electric ("UNSE") will be granted will
21 not be zero. As a side note, the Company recognizes it referred to TEP as the
22 power provider. The Company stands corrected. That said, if the purchased power
23 adjustment is denied in this case, this increase in power costs, approved by this
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25 ⁴⁸ Bourassa Rb. at 38 – 40.

26 ⁴⁹ Coley Sb. at 41.

1 Commission, will contribute to the erosion of RRUI's earnings making it unlikely
2 RRUI will earn its authorized rate of return.

3 There is a solution to address RUCO's concern. The solution is a purchased
4 power adjuster mechanism. But, of course, RUCO has rejected any and all
5 attempts by water and wastewater utilities to obtain adjuster mechanisms, so this
6 seems to be another matter of policy for RUCO.

7 **f. Additional Comments**

8 **Q. HAS RUCO ACCEPTED THE COMPANY'S PROPOSED EMPLOYEE**
9 **BENEFITS ADJUSTMENT?**

10 A. Yes, provisionally.⁵⁰ RUCO is still verifying the additional expense.⁵¹

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

12 **Q. PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO**
13 **REVENUES AND EXPENSES FOR THE WASTEWATER DIVISION AND**
14 **IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF**
15 **AND/OR RUCO.**

16 A. The Company adjustments for the water division are detailed on Rejoinder
17 Schedule C-2, pages 1 through 16. The rejoinder income statement with
18 adjustments is summarized on Rejoinder Schedule C-1, pages 1 and 2.
19 The Company is proposing one change to revenues and/or expenses from its
20 rebuttal filing. Specifically, this change reflects a revision to adjusted test year
21 income taxes as a result of the adoption of a 100 percent capital structure with no
22 interest expense deduction from interest synchronization.⁵² All other adjustments
23 proposed in the Company's rejoinder filing are the same as in the rebuttal filing.

24 _____
25 ⁵⁰ *Id.* at 24.

26 ⁵¹ *Id.*

⁵² See Wastewater Division Rejoinder Schedule C-2, adjustment number 15.

1 Explanations of the revenue and/or expense adjustments appear in my rebuttal
2 testimony.⁵³

3 **1. Response to Staff Surrebuttal Testimony**

4 **Q. PLEASE DISCUSS THE COMPANY'S REMAINING ISSUES WITH**
5 **STAFF WITH RESPECT TO THE WASTEWATER DIVISION'S**
6 **REVENUES AND/OR EXPENSES.**

7 A. The issues remaining in dispute between the Company and Staff with respect to the
8 wastewater division income statement include: 1) declining usage adjustment;
9 2) corporate allocation; and 3) employee benefits. As with the water division, the
10 difference between the parties with respect to depreciation expense is a function of
11 the differences between the parties' proposed PIS balances, and the differences in
12 property and income taxes, is a function of the differences between the parties'
13 adjusted test year revenues and proposed revenue requirements.

14 I have discussed the issues with respect to the areas of disagreement with
15 Staff on the declining usage adjustment, MSR revenue annualization, corporate
16 allocation, and employee benefits. My discussion on these issues applies equally to
17 the wastewater division only the amounts in dispute are different.

18 **2. Response to RUCO Surrebuttal Testimony**

19 **Q. PLEASE DISCUSS THE COMPANY'S REMAINING ISSUES WITH RUCO**
20 **WITH RESPECT TO THE WASTEWATER DIVISION'S REVENUES**
21 **AND/OR EXPENSES.**

22 A. There are several remaining revenue and/or expense issues between the Company
23 and RUCO. They include: 1) property tax expense; 2) purchased power, 3) rate
24 case expense; 4) declining usage adjustment; 5) achievement and incentive pay;

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26 ⁵³ Bourassa Rb. at 41 – 48.

1 6) corporate allocation; and, 7) Nogales WW treatment expense. Only the last
2 issue is limited to the wastewater division. Also, again, Mr. Sorensen will address
3 achievement and incentive pay in his rejoinder.⁵⁴

4 Like water, the difference between the Company and RUCO with respect to
5 depreciation expense is a function of the differences between the parties' proposed
6 PIS balances, and the difference between the parties with respect to income tax
7 expense is a function of the parties' adjusted test year revenues and proposed
8 revenue requirements.

9 I have discussed the issues with respect to the areas of disagreement with
10 RUCO on property tax expense, rate case expense, the declining usage adjustment,
11 corporate costs, and purchased power.⁵⁵ My discussion on these issues applies
12 equally to the wastewater division, only the amounts in disputes are different for
13 the wastewater division.

14 a. **Nogales WW Treatment Expense**

15 **Q. PLEASE COMMENT ON THE DISAGREEMENT BETWEEN THE**
16 **COMPANY AND RUCO WITH RESPECT THE NOGALES**
17 **WASTEWATER TREATMENT EXPENSE.**

18 **A.** RUCO agrees with the Company that once the contractual amount for the City of
19 Nogales is clarified the amounts included in the test year for wastewater treatment
20 should be trued up.⁵⁶ However, for now, RUCO continues to recommend an
21 amount that is no more than an estimate of the going forward expense and the
22 Company continues to recommend the test year actual amount.

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25 ⁵⁴ Sorensen Rj. at 1 – 3.

26 ⁵⁵ See pages 22 – 26, *supra*.

⁵⁶ Coley Sb. at 26.

1 **Q. WHAT IS THE STATUS OF A FINAL COST ESTIMATE FROM THE**
2 **CITY OF NOGALES?**

3 A. The most recent information from the City of Nogales was received on or about
4 February 21, 2013. In their correspondence to the Company, the City indicated it
5 still does not have the necessary information to provide a reconciliation of the
6 RRUI account.⁵⁷ Until they do, we simply do not have a known and measurable
7 amount.

8 **Q. MR. BOURASSA, IF THE COMMISSION APPROVES OF RUCO'S**
9 **ADJUSTMENT FOR THE NIWWTP MONTHLY EXPENSE, WILL RRUI**
10 **BE HARMED?**

11 A. Yes. RRUI risks having a higher expense level than what is granted in the test year
12 due to the City's inability to give the Company an exact cost.

13 **Q. HOW SHOULD THE COMMISSION ADDRESS THIS?**

14 A. If the Commission insists on making an adjustment for the expense, it should
15 authorize a regulatory asset and liability through an Accounting Order that
16 authorizes RRUI to defer any incremental expense above or below the test year
17 level authorized in rates so that it may recover the difference in a future rate case.
18 An appropriate Accounting Order might state: "IT IS FURTHER ORDERED that
19 the Company is authorized to defer on its balance sheet as a regulatory asset or
20 liability any incremental expense above or below test year levels authorized in this
21 rate case related to the NIWWTP monthly wastewater treatment expense. In its
22 next general rate case the Company shall propose an amortization period for
23 recovery or refunding of the regulatory asset or liability."
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26 ⁵⁷ See Exhibit TJB -RB-RJ3.

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V. RATE DESIGN

A. Water Division

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

A. The Company's proposed rates are:

MONTHLY SERVICE CHARGES

5/8" x 3/4" meters	\$17.35
3/4" Meters	\$26.03
1" Meters	\$43.38
1 1/2" Meters	\$86.75
2" Meters	\$138.80
3" Meters	\$277.60
4" Meters	\$433.75
6" Meters	\$867.50
8" Meters	\$1,388.00
10" Meters	\$1,995.25
12" Meters	\$3,730.25
Fire Lines up to 8 Inch	Per Rule
Fire Lines 10 Inch	Per Rule
Fire Lines 12 Inch	Per Rule

COMMODITY RATES

5/8" X 3/4" Meters	1 to 3,000	\$ 1.85
	3,001 to 9,000	\$ 3.05
	Over 9,000	\$ 3.70
3/4" Meters	1 to 6,000	\$ 3.05
	Over 6,000	\$ 3.70

1	1" Meters	1 to 22,500	\$ 3.05
2		Over 22,500	\$ 3.70
3	1 ½" Meters	1 to 45,000	\$ 3.05
4		Over 45,000	\$ 3.70
5	2" Meters	1 to 72,000	\$ 3.05
6		Over 72,000	\$ 3.70
7	3" Meters	1 to 144,000	\$ 3.05
8		Over 144,000	\$ 3.70
9	4" Meters	1 to 225,000	\$ 3.05
10		Over 225,000	\$ 3.70
11	6" Meters	1 to 450,000	\$ 3.05
12		Over 450,000	\$ 3.70
13	8" Meters	1 to 720,000	\$ 3.05
14		Over 720,000	\$ 3.70
15	10" Meters	1 to 1,035,000	\$ 3.05
16		Over 1,035,000	\$ 3.70
17	12" Meters	1 to 1,935,000	\$ 3.05
18		Over 1,935,000	\$ 3.70

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

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

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

3 A. As shown on Rejoinder Schedule H-2, page 1, the average monthly bill under
4 proposed rates for a 5/8 x 3/4 inch residential customer using an average 7,794
5 gallons is \$37.52 – a \$7.77 increase over the present monthly bill or a 26.13
6 percent increase.

7 Q. HAVE YOU MADE ANY CHANGES TO THE BASIC RATE DESIGN
8 FROM THE REBUTTAL FILING?

9 A. No.

10 1. Response to Staff and RUCO Surrebuttal Testimony

11 Q. DO STAFF'S WATER RATES NOW PRODUCE STAFF'S
12 RECOMMENDED REVENUE REQUIREMENT?

13 A. Yes.

14 Q. PLEASE RESPOND TO MS. RIMBACK'S SURREBUTTAL TESTIMONY
15 AT PAGE 17 STATING THAT STAFF REJECTS THE COMPANY'S
16 (\$18,231) REVENUE ANNUALIZATION?

17 A. I am confused for a few reasons. First, Staff's adjusted test year revenues do not
18 reflect Staff's rejection of the Company's revenue annualization. It would stand to
19 reason that if Staff rejected the Company's revenue annualization, it would be
20 reflected in Staff's income statement schedule. Second, Ms. Rimback relies on her
21 rejection of the Company's revenue annualization as an excuse as to why her
22 proposed rates in her direct testimony did not generate the Staff recommended
23 revenue requirement. However, shorting the revenues through rates is not a proper
24 way to account for a rejection of a position of another party. It is non-transparent
25 and, frankly, misleading and under-handed. Third, Ms. Rimback states that the
26 Company's customer base is seasonal which renders the Company revenue

1 annualization unacceptable.⁵⁸ But, even if RRUI's customer base were seasonal,
2 which notion Ms. Rimback does not support in any way, it would not render the
3 Company revenue annualization unacceptable.

4 **Q. WHY NOT?**

5 A. Because the Company's revenue annualization takes into consideration seasonal
6 (monthly) variances in water usage by using the average use for each month of the
7 test year in the annualization. If a customer is not home during certain months of
8 the year and does not use any water, their absence will be reflected in the average
9 month usages for those months. That's why we call it an "annualization" not a
10 "monthalization".

11 **Q. HAS STAFF REJECTED YOUR REVENUE ANNUALIZATION AS
12 FLAWED DUE TO SEASONALITY IN OTHER CASES?**

13 A. Occasionally, but once explained the issue is typically resolved. Perhaps
14 Ms. Rimback lacks an understanding of an annualization. Again, she has only been
15 with the Staff since last June. But I have proposed the same type of revenue
16 annualization in many Arizona water rate cases, and those revenue annualizations
17 have been accepted by Staff and adopted by the Commission for years.

18 **B. Wastewater Division**

19 **Q. WHAT ARE THE COMPANY'S REJOINDER PROPOSED RATES FOR
20 WASTEWATER SERVICE?**

21 A. The Company's proposed rates are:

22	MONTHLY SERVICE CHARGES	
23	5/8" x 3/4" meters	\$55.65
24	3/4" Meters	\$64.14

25
26

⁵⁸ Rimback Sb. at 17.

1	1" Meters	\$78.41
2	1 1/2" Meters	\$115.77
3	2" Meters	\$160.58
4	3" Meter	\$279.74
5	4" Meters	\$414.64
6	6" Meter	\$787.94
7	8" Meters	\$1,145.62
8	10" Meters	\$1,711.69
9	12" Meters	\$2,441.25

10 **COMMODITY RATES**

11 **Commercial and Multi-tenant only**

12	0 to 7,000 gallons	\$0.00
13	Over 7,000 gallons	\$5.21

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

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

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

20 **A.** As shown on Wastewater Schedule H-2, page 1, the monthly bill under proposed
21 rates for a 5/8 inch residential customer is \$55.65 – a \$9.77 increase from the
22 present monthly bill or a 21.30 percent increase.

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1. Response to Staff and RUCO Surrebuttal Testimony

Q. DO STAFF'S WASTEWATER RATES NOW PRODUCE STAFF'S RECOMMENDED REVENUE REQUIREMENT?

A. No. The Staff rates produce approximately \$16,000 less revenues than its proposed revenue requirement.

C. Miscellaneous Charges

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

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

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

A. No.

Q. DOES THAT CONCLUDE YOUR REJOINDER TESTIMONY?

A. Yes.

RIO RICO UTILITIES, INC. DBA LIBERTY UTILITIES

**REJOINDER TESTIMONY OF THOMAS J. BOURASSA
RATE BASE, INCOME STATEMENT AND RATE DESIGN**

MARCH 8, 2013

EXHIBIT TB-RB-RJ1

2011 PROPERTY TAX NOTICE

Santa Cruz County

ARIZONA

PARCEL #	AREA CODE	PRIMARY TAX RATE PER \$100 ASSESSED VALUE	SECONDARY TAX RATE PER \$100 ASSESSED VALUE	IRRIGATION DISTRICT \$ PER ACRE	2011 TAX SUMMARY	
938-03-502 2	3502	8.8867	5.1819	0.0000	PRIMARY PROPERTY TAX	64,640.97
					LESS STATE & PDIO EXEMPTION	0.00
					NET PRIMARY PROPERTY TAX	64,640.97
					SECONDARY PROPERTY TAX	33,708.55
					SPECIAL DISTRICT TAX	0.00
					TOTAL TAX DUE	98,349.52

ASSESSMENT	VALUE IN DOLLARS	RATE %	ASSESSED VALUE	TAX RATE	TAX
UNIMPROVED LAND	106,848	20.0	21,370	8.8867	1,891.89
IMPROVED PERSONAL PROPERTY	3,530,100	20.0	706,020	8.8867	62,741.88
UNIMPROVED TOTAL	3,636,948		727,390		64,640.97
FULL CASHLAND		9.0	21,370	5.1819	990.32
FULL CASHLAND EXEMPT		0.0			0.00
FULL CASH PERSONAL PROPERTY	3,530,100	20.0	706,020	4.6176	32,718.73
FULL CASH TOTAL	3,530,100		727,390		33,708.55

43093

SITUS ADDRESS:

LEGAL DESCRIPTION:

JURISDICTION	2010 TAXES	2011 TAXES
02000 SANTA CRUZ COUNTY	20,798.18	20,523.31
02001 STATE SCHOOL TAX EQUALIZATION	2,627.14	3,097.95
07035 SANTA CRUZ SD #35	49,429.86	48,771.50
08150 SCC COMMUNITY COLLEGE	515.26	508.45
11203 RIO RICO FD	22,058.68	24,236.63
11900 FIRE DISTRICT ASSISTANCE FUND	737.13	727.39
15001 SANTA CRUZ COUNTY FCD	126.62	120.59
30099 JTED	368.57	363.70

87134.2 0000 20.2410.0000

This is the only notice you will receive.

Caesar Ramirez
 Santa Cruz County Treasurer
 PO Box 1150
 Nogales, AZ 85628

RECEIVED
 OCT 03 2011

Amador

**THIS IS A
 CALENDAR YEAR
 TAX NOTICE**

TOTALS: 96,661.44 98,349.52

938-03-502 2
 110926 12 R C1041 00035



RIO RICO UTILITIES INC
 SHAWN BUNDY/SENIOR ACCOUNTANT
 12725 W. INDIAN SCHOOL RD., SUITE D-101
 AVONDALE, AZ 853230000

PAYMENT INSTRUCTIONS
 To pay the 1st half installment and tax notices under \$100 send the 1st half coupon with your payment postmarked no later than Nov. 1, 2011. To pay the 2nd half installment, send the 2nd half coupon with your payment postmarked no later than May 1, 2012. To pay taxes for the full year if the entire amount billed per notice exceeds \$100, send the 1st ha coupon with your payment postmarked no later than Jan. 3 2012, and no interest will be charged for the current year.

Make your check payable to and mail to:
 Caesar Ramirez
 Santa Cruz County Treasurer
 PO Box 1150
 Nogales, AZ 85628

THERE WILL BE A CHARGE FOR EACH RETURNED CHECK AND YOUR TAXES WILL REVERT TO AN UNPAID STATUS.

PLEASE INCLUDE YOUR PARCEL NUMBER ON YOUR CHECK.

RIO RICO UTILITIES, INC. DBA LIBERTY UTILITIES

**REJOINDER TESTIMONY OF THOMAS J. BOURASSA
RATE BASE, INCOME STATEMENT AND RATE DESIGN**

MARCH 8, 2013

EXHIBIT TB-RB-RJ2

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
1	Rico Rico Utilities, Inc. dba Liberty Utilities														
2	Docket No. WS-02676A-12-0196														
3															
4															
5															
6	Rate Case Expense Analysis														
7															
8															
9															
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ORIGINAL Analysis		Days	Years
Test Year			
Decision No. 59547	3/13/1996		
Test Year	12/31/2002		
Decision No. 67279	10/5/2004	3128	8.57
Test Year	12/31/2008		
Decision No. 72059	1/6/2011	2284	6.26
Test Year	2/29/2012		
Decision No. ?????	9/1/2013	969	2.65
Average (yrs)			5.83

REVISED Analysis		Days	Years
RRUI Acquired	12/31/2005		XXXX [1]
Test Year	12/31/2008		
Decision No. 72059	1/6/2011	1096	3.00
Test Year	2/29/2012		
Decision No. ?????	9/1/2013	1155	3.16
Average (yrs)			3.08

[1] - Liberty Utilities did not own Rico Rico Utilities, Inc. during Decision No. 59547 or 67279.

RIO RICO UTILITIES, INC. DBA LIBERTY UTILITIES

**REJOINDER TESTIMONY OF THOMAS J. BOURASSA
RATE BASE, INCOME STATEMENT AND RATE DESIGN**

MARCH 8, 2013

EXHIBIT TB-RB-RJ3

CITY OF NOGALES



OFFICE OF THE CITY ATTORNEY

February 21, 2013

Kristin Paiva
Fennemore Craig, P.C.
3003 N. Central Avenue, Suite 2600
Phoenix, AZ 85012

RECEIVED K. PAIVA

FEB 25 2013

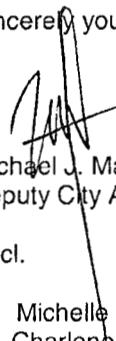
ACTION _____

Dear Kristin:

This is a follow-up to your letter of February 12, 2013 to Spencer Smith, and my letter of May 10, 2012. I am enclosing the documents that the City of Nogales has received so far this year from IBWC regarding operational costs at the Nogales International Wastewater Treatment Plant, as well as a summary showing Rio Rico's payments. Please note that we have not yet received a quarterly report from IBWC for the last quarter of the federal fiscal year, ending October, 2012, nor the annual report. We usually receive these reports in December, and due to the delay we have inquired of IBWC regarding these reports but as yet have not received a response. As soon as we receive these reports, we will forward you copies and will reconcile Rio Rico's account as outlined in my earlier letter.

Please do not hesitate to contact me if you have further questions.

Sincerely yours,


Michael J. Massee
Deputy City Attorney

Encl.

cc: Michelle Wood, RUCO
Charlene LaPlante, Santa Cruz County Attorney's Office

RIO RICO UTILITIES, INC. DBA LIBERTY UTILITIES

**REJOINDER TESTIMONY OF THOMAS J. BOURASSA
RATE BASE, INCOME STATEMENT AND RATE DESIGN**

MARCH 8, 2013

WATER DIVISION SCHEDULES

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

Exhibit
 Rejoinder Schedule A-1
 Page 1
 Witness: Bourassa

Line No.					
1	Fair Value Rate Base			\$	7,730,108
2					
3	Adjusted Operating Income				345,590
4					
5	Current Rate of Return				4.47%
6					
7	Required Operating Income			\$	734,360
8					
9	Required Rate of Return on Fair Value Rate Base				9.50%
10					
11	Operating Income Deficiency			\$	388,770
12					
13	Gross Revenue Conversion Factor				1.6589
14					
15	Increase in Gross Revenue Requirement			\$	644,939
16					
17					
18	Adjusted Test Year Revenues			\$	2,787,845
19	Increase in Gross Revenue Revenue Requirement			\$	644,939
20	Proposed Revenue Requirement			\$	3,432,784
21	% Increase				23.13%
22					
23	Customer	Present	Proposed	Dollar	Percent
24	Classification	Rates	Rates	Increase	Increase
25	5/8X3/4 Inch Residential	\$ 2,239,712	\$ 2,777,363	\$ 537,651	24.01%
26	5/8X3/4 Inch Residential (Low Income)	29,750	37,210	7,460	25.07%
27	3/4 Inch Residential	4,032	5,437	1,406	34.86%
28	1 Inch Residential	25,847	32,719	6,872	26.59%
29	1 Inch Residential (Low Income)	359	487	128	35.79%
30	1 1/2 Inch Residential	5,642	6,790	1,148	20.35%
31	2 Inch Residential	5,482	7,513	2,031	37.05%
32	5/8X3/4 Inch Commercial	36,891	44,031	7,140	19.35%
33	1 Inch Commercial	45,719	55,170	9,452	20.67%
34	1 1/2 Inch Commercial	16,434	20,086	3,652	22.22%
35	2 Inch Commercial	110,064	137,878	27,814	25.27%
36	3 Inch Commercial	113,938	128,813	14,875	13.06%
37	4 Inch Commercial	83,492	91,613	8,121	9.73%
38	6 Inch Commercial	25,623	28,060	2,437	9.51%
39	5/8X3/4 Inch Industrial	4,727	6,159	1,431	30.27%
40	2 Inch Industrial	47,436	51,605	4,169	8.79%
41	5/8X3/4 Inch Multi-family	3,072	3,736	663	21.59%
42	1 1/2 Inch Multi-family	1,071	1,471	401	37.41%
43	6 Inch Bulk	29,625	40,039	10,414	35.15%
44	Fire Lines up to 8 Inch	1,263	1,995	733	58.01%
45	Revenue Annualization	(7,949)	(8,905)	(956)	12.03%
46	Declining Usage Adjustment	(77,275)	(77,275)	-	0.00%
47	Subtotal	\$ 2,744,956	\$ 3,391,997	\$ 647,040	23.57%
48					
49	Other Water Revenues	42,889	42,889	-	0.00%
50	Reconciling Amount	-	(2,102)	(2,102)	0.00%
51	Rounding			1	0.00%
52	Total of Water Revenues	\$ 2,787,845	\$ 3,432,784	\$ 644,939	23.13%

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

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

Exhibit
 Rejoinder Schedule B-1
 Page 1
 Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	\$ 34,455,296	\$ 34,455,296
3	Less: Accumulated Depreciation	<u>13,756,125</u>	<u>13,756,125</u>
4			
5	Net Utility Plant in Service	\$ 20,699,171	\$ 20,699,171
6			
7	<u>Less:</u>		
8	Advances in Aid of Construction	660,955	660,955
9			
10	Contributions in Aid of Construction	20,179,119	20,179,119
11			
12	Accumulated Amortization of CIAC	(8,617,752)	(8,617,752)
13			
14	Customer Meter Deposits	284,024	284,024
15	Deferred Income Taxes & Credits	462,717	462,717
16			
17			
18			
19	<u>Plus:</u>		
20	Unamortized Finance		
21	Charges	-	-
22	Deferred Tax Assets	-	-
23	Allowance for Working Capital	-	-
24			
25			
26	Total Rate Base	<u>\$ 7,730,108</u>	<u>\$ 7,730,108</u>
27			
28			
29			
30			
31			
32			
33			
34			
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41	<u>SUPPORTING SCHEDULES:</u>		
42	B-2		
43	B-3		
44	B-5		
45			
46			
47			
48			
49			
50			

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

Exhibit
 Rejoinder Schedule B-2
 Page 1
 Witness: Bourassa

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

45 SUPPORTING SCHEDULES:
 46 B-2, pages 2

RECAP SCHEDULES:
 B-1

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

Exhibit
 Rejoinder Schedule B-2
 Page 2
 Witness: Bourassa

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

SUPPORTING SCHEDULES:
 B-1

SUPPORTING SCHEDULES:
 B-2, pages 3-5

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

Line No.	Acct. No.	Description	Plant-in-Service										Rebuttal Adjusted Original Cost
			Direct Adjusted Original Cost	A	B	C	D	E	F	G	H	I	
				Reclassification to WW Plant	WW Portion of Allocated Building Costs	Affiliate Profit	Plant Retirement	Plant Retirements	Adjustments to Reconcile to Plant Reconstruction				
5	301	Organization Cost	5,785									5,785	
7	302	Franchise Cost	417									417	
8	303	Land and Land Rights	44,194									44,194	
9	304	Structures and Improvements	3,432,930		(121,438)	(35)						3,311,457	
10	305	Collecting and Impounding Res.	-									-	
11	306	Lake River and Other Intakes	-									-	
12	307	Wells and Springs	562,944			(7)						562,937	
13	308	Infiltration Galleries and Tunnels	-									-	
14	309	Supply Mains	279,157									279,157	
15	310	Power Generation Equipment	219,360									219,360	
16	311	Electric Pumping Equipment	3,147,011			(303)	(9,757)	(1,534,958)				1,601,993	
17	320	Water Treatment Equipment	369,100	(5,658)								363,442	
18	320.1	Water Treatment Plant	-									-	
19	320.2	Chemical Solution Feeders	-									-	
20	330	Dist. Reservoirs & Standpipe	759,861									759,861	
21	330.1	Storage tanks	-									-	
22	330.2	Pressure Tanks	-									-	
23	331	Trans. and Dist. Mains	22,339,256									22,337,893	
24	333	Services	2,768,122			(1,363)						2,768,122	
25	334	Meters	1,010,366									1,010,366	
26	335	Hydrants	572,321									572,321	
27	336	Backflow Prevention Devices	15,855		(9,704)							6,151	
28	339	Other Plant and Misc. Equip.	123,778									123,778	
29	340	Office Furniture and Fixtures	29,265									29,265	
30	340.1	Computers and Software	76,919									76,919	
31	341	Transportation Equipment	142,188									142,188	
32	342	Stores Equipment	-									-	
33	343	Tools and Work Equipment	18,203									18,203	
34	344	Laboratory Equipment	3,061									3,061	
35	345	Power Operated Equipment	-									-	
36	346	Communications Equipment	212,996									212,996	
37	347	Miscellaneous Equipment	13,128									13,128	
38	348	Other Tangible Plant	-					(7,701)				-	
39		Plant Held for Future Use	-									-	
40		TOTALS	\$ 36,146,219	\$ (15,362)	\$ (121,438)	\$ (1,708)	\$ (9,757)	\$ (1,542,659)	\$ 0	\$ 34,455,296			
42		Plant-in-Service per Books	\$ 36,146,219									\$ 36,146,219	
44		Increase (decrease) in Plant-in-Service										\$ (1,690,924)	
46		Adjustment to Plant-in-Service										\$ (1,690,924)	

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

Exhibit
 Rejoinder Schedule B-2
 Page 3.1
 Witness: Bourassa

Line

No.

1 Reclassification of plant to Wastewater Division

2

3

4

Acct.

Recorded

5

No. Description

Year

Adjustment

6

320 Water Treatment Equipment

2009

\$ (5,658)

7

336 Backflow Prevention Devices

2010

(7,210)

8

336 Backflow Prevention Devices

2011

(2,494)

9

Total

\$ (15,362)

10

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12

13

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43 SUPPORTING SCHEDULE

44 Staff Schedule MJR-W5

45 Testimony

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

Exhibit
 Rejoinder Schedule B-2
 Page 3.2
 Witness: Bourassa

Line

No.

1 Remove Portion of Building Costs Allocated to Wastewater Division

2

3

4

Acct.

Recorded

5

No. Description

Year

Adjustment

6

304 Structures and Improvements

2012

\$ (121,438)

7

8

9

Total

\$ (121,438)

10

11

12

13

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43 SUPPORTING SCHEDULE

44 Staff Schedule MJR-W6

45 Testimony

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

Exhibit
 Rejoinder Schedule B-2
 Page 3.3
 Witness: Bourassa

Line

No.

1 Remove Affiliate Profit

2

3

4

Acct.

Recorded

5

No. Description

Year

Adjustment

6

304 Structures and Improvements

2012

\$ (35)

7

307 Wells and Springs

2012

(7)

8

311 Electric Pumping Equipment

2012

(303)

9

331 Trans. and Dist. Mains

2012

(1,363)

10

11

12

Total

\$ (1,708)

13

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43 SUPPORTING SCHEDULE

44 Staff Schedule MJR-W7

45 Testimony

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

Exhibit
 Rejoinder Schedule B-2
 Page 3.4
 Witness: Bourassa

Line

No.

1 Plant Retirement

2

3

4 Acct.

Retirement

5 No. Description

Year

Adjustment

6 311 Electric Pumping Equipment

2012

\$ (9,757)

7

8

9

10

11

12 Total

\$ (9,757)

13

14

15

16

17

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43 SUPPORTING SCHEDULE

44 Staff Schedule MJR-W12

45 Testimony

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

Exhibit
 Rejoinder Schedule B-2
 Page 3.5
 Witness: Bourassa

Line

No.	Acct.	<u>Description</u>	<u>Description</u>	<u>Retirement Year</u>	<u>Adjustment</u>
1		<u>Plant Retirements</u>			
2					
3					
4	Acct.			Retirement	
5	No.	Description	Description	Year	Adjustment
6	311	Electric Pumping Equipment	1994 Net Plant Adds	2009	\$ (867,182)
7	311	Electric Pumping Equipment	1995 Net Plant Adds	2009	(36,257)
8	311	Electric Pumping Equipment	1996 Net Plant Adds	2009	(34,827)
9	311	Electric Pumping Equipment	1997 Net Plant Adds	2009	(12,234)
10	311	Electric Pumping Equipment	1998 Net Plant Adds	2009	(18,044)
11	311	Electric Pumping Equipment	1999 Net Plant Adds	2009	(422,696)
12	311	Electric Pumping Equipment	2000 Net Plant Adds	2009	(78,483)
13			Subtotal		\$ (1,469,722)
14					
15	311	Electric Pumping Equipment	2001 Net Plant Adds	2010	(22,907)
16	311	Electric Pumping Equipment	2002 Net Plant Adds	2011	(11,830)
17	311	Electric Pumping Equipment	2003 Net Plant Adds	2012	\$ (151,098)
18	311	Electric Pumping Equipment	Less: Retirement See Adjustment 1-D	2012	9,757
19	311	Electric Pumping Equipment	Less: Retirements recorded in 2012	2012	110,842
20					\$ (30,499)
21					
22		Total			<u>\$ (1,534,958)</u>
23					
24					
25	Acct.			Retirement	
26	No.	Description	Description	Year	Adjustment
27	347	Miscellaneous Equipment	1994 Net Plant Adds	2009	\$ (481)
28	347	Miscellaneous Equipment	1995 Net Plant Adds	2009	(4,164)
29	347	Miscellaneous Equipment	1996 Net Plant Adds	2009	(1,218)
30	347	Miscellaneous Equipment	1997 Net Plant Adds	2009	(1,838)
31	347	Miscellaneous Equipment	1998 Net Plant Adds	2009	-
32	347	Miscellaneous Equipment	1999 Net Plant Adds	2009	-
33	347	Miscellaneous Equipment	2000 Net Plant Adds	2009	-
34			Subtotal		\$ (7,701)
35					
36	347	Miscellaneous Equipment	2001 Net Plant Adds	2009	-
37	347	Miscellaneous Equipment	2002 Net Plant Adds	2010	-
38					-
39					\$ -
40					
41		Total			<u>\$ (7,701)</u>

43 SUPPORTING SCHEDULE

44 Testimony

45

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

Exhibit
 Rejoinder Schedule B-2
 Page 3.6
 Witness: Bourassa

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

43 SUPPORTING SCHEDULE

44 B-2, pages 3.1 through 3.5

45 B-2, pages 3.7 through 3.10

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2010											
				Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Depr.	
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-	5,785	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-	417	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	-	-	44,194	-
4	304	Structures & Improvements	3.33%	2,367	-	-	2,367	-	-	-	-	91,591	2,751,649	489,214	-
5	305	Collecting & Impounding Reservoirs	2.50%	-	-	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-	-	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.33%	897	-	-	897	-	-	-	-	18,729	562,890	197,592	-
8	308	Infiltration Galleries	6.67%	-	-	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	5,583	279,153	37,318	-
10	310	Power Generation Equipment	5.00%	10,472	-	-	10,472	-	-	-	-	10,618	217,592	90,458	-
11	311	Pumping Equipment	12.50%	23,210	-	-	23,210	-	22,907	-	-	168,372	1,347,127	804,917	-
12	320	Water Treatment Equipment	3.33%	-	-	-	-	-	-	-	-	12,103	363,442	169,163	-
13	320.1	Water Treatment Plants	3.33%	-	-	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	20.00%	-	-	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	-	-	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	2.22%	-	-	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	-	-	-	16,869	759,861	172,017	-
18	331	Transmission & Distribution Mains	2.00%	20,635	-	-	20,635	-	-	-	-	442,790	22,149,832	9,048,771	-
19	333	Services	3.33%	251,427	-	-	251,427	84,388	-	-	-	80,326	2,495,718	873,064	-
20	334	Meters	8.33%	12,184	-	-	12,184	4,967	-	-	-	79,692	960,292	468,545	-
21	335	Hydrants	2.00%	-	-	-	-	-	-	-	-	11,372	568,577	171,487	-
22	336	Backflow Prevention Devices	6.67%	9,513	-	-	9,513	-	-	-	-	574	13,361	1,216	-
23	339	Other Plant & Misc. Equipment	6.67%	-	-	-	-	-	-	-	-	8,127	121,843	20,901	-
24	340	Office Furniture & Equipment	6.67%	-	-	-	-	-	-	-	-	1,533	22,986	21,020	-
25	340.1	Computers & Software	20.00%	-	-	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	20.00%	381	-	-	381	-	-	-	-	-	76,919	76,919	-
27	342	Stores Equipment	4.00%	-	-	-	-	-	-	-	-	28,036	140,369	89,041	-
28	343	Tools, Shop & Garage Equipment	5.00%	-	-	-	-	-	-	-	-	762	15,035	10,805	-
29	344	Laboratory Equipment	10.00%	-	-	-	-	-	-	-	-	-	3,061	3,061	-
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	10.00%	3,230	-	-	3,230	-	-	-	-	21,966	221,270	157,233	-
32	347	Miscellaneous Equipment	10.00%	4,947	-	-	4,947	-	-	-	-	295	5,427	(356)	-
33	348	Other Tangible Plant	4.00%	-	-	-	-	-	-	-	-	-	-	-	-
34		Plant Held for Future Use		-	-	-	-	-	-	-	-	-	-	-	-
35				-	-	-	-	-	-	-	-	-	-	-	-
36		TOTALS		339,262	-	-	339,262	89,355	22,907	112,262	999,326	33,126,801	12,902,386		

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

Exhibit
Rejoinder Schedule B-2
Page 3.9
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2011										
				Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	5,785	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	417	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	-	44,194	-
4	304	Structures & Improvements	3.33%	41,525	-	-	41,525	-	-	-	-	92,321	2,793,174	581,536
5	305	Collecting & Impounding Reservoirs	2.50%	-	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.33%	632	-	-	632	-	-	-	-	18,755	563,522	216,347
8	308	Infiltration Galleries	6.67%	-	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	5,583	279,153	42,901
10	310	Power Generation Equipment	5.00%	1,023	-	-	1,023	-	-	-	-	10,905	218,615	101,363
11	311	Pumping Equipment	12.50%	67,261	-	-	67,261	11,830	11,830	-	-	171,855	1,402,558	964,943
12	320	Water Treatment Equipment	3.33%	-	-	-	-	-	-	-	-	12,103	363,442	181,265
13	320.1	Water Treatment Plants	3.33%	-	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	20.00%	-	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	-	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	2.22%	-	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	-	-	-	16,869	759,861	188,886
18	331	Transmission & Distribution Mains	2.00%	76,932	-	-	76,932	-	-	-	-	443,766	22,226,764	9,492,537
19	333	Services	3.33%	307,904	-	-	307,904	105,260	105,260	-	-	86,481	2,698,362	854,285
20	334	Meters	8.33%	61,930	-	-	61,930	27,767	27,767	-	-	81,415	994,455	522,193
21	335	Hydrants	2.00%	3,684	-	-	3,684	-	-	-	-	11,408	572,261	182,895
22	336	Backflow Prevention Devices	6.67%	2,494	-	-	2,494	-	-	-	-	974	15,855	2,190
23	339	Other Plant & Misc. Equipment	6.67%	3,443	-	-	3,443	-	-	-	-	8,242	125,286	29,142
24	340	Office Furniture & Equipment	6.67%	554	-	-	554	-	-	-	-	1,552	23,540	22,572
25	340.1	Computers & Software	20.00%	-	-	-	-	-	-	-	-	-	76,919	76,919
26	341	Transportation Equipment	20.00%	-	-	-	-	-	-	-	-	28,074	140,369	117,115
27	342	Stores Equipment	4.00%	-	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	2,437	-	-	2,437	-	-	-	-	813	17,472	11,618
29	344	Laboratory Equipment	10.00%	-	-	-	-	-	-	-	-	-	3,061	3,061
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	10.00%	381	-	-	381	33,249	33,249	-	-	20,484	188,402	144,468
32	347	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-	543	5,427	187
33	348	Other Tangible Plant	4.00%	-	-	-	-	-	-	-	-	-	-	-
34		Plant Held for Future Use		-	-	-	-	-	-	-	-	-	-	-
35				-	-	-	-	-	-	-	-	-	-	-
36		TOTALS		570,201	-	-	570,201	11,830	166,276	178,105	-	1,012,143	33,518,897	13,736,423

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

Exhibit
 Rejoinder Schedule B-2
 Page 3, 10
 Witness: Bourassa

Line No.	NARUC No.	Description	Allowed Deprec. Rate	2012 (2 months through 2/29)											
				Plant Additions (Per Books)	Plant Adjustments	Plant Retirements (Per Books)	Retirement Adjustments	Retirement Adjustments	Adjusted Plant Retirements	Plant Only Adjustments	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.	
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-	5,785	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-	417	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	-	-	44,194	-
4	304	Structures & Improvements	3.33%	639,756	(121,438)	(35)	518,283	-	-	-	-	-	-	3,311,457	598,476
5	305	Collecting & Impounding Reservoirs	2.50%	-	-	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-	-	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.33%	3,794	(4,372)	(7)	(585)	-	-	-	-	-	-	562,937	219,012
8	308	Infiltration Galleries	6.67%	-	-	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	4	-	-	4	-	-	-	-	-	-	279,157	43,831
10	310	Power Generation Equipment	5.00%	745	-	-	745	-	-	-	-	-	-	219,360	103,188
11	311	Pumping Equipment	12.50%	351,006	(170)	(303)	350,533	110,842	9,757	30,499	151,098	-	-	1,601,993	845,075
12	320	Water Treatment Equipment	3.33%	-	-	-	-	-	-	-	-	-	-	363,442	183,282
13	320.1	Water Treatment Plants	3.33%	-	-	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	20.00%	-	-	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	-	-	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	2.22%	-	-	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	-	-	-	-	-	759,861	191,697
18	331	Transmission & Distribution Mains	2.00%	118,060	(5,568)	(1,363)	111,129	-	-	-	-	-	-	22,337,893	9,586,459
19	333	Services	3.33%	69,760	-	-	69,760	-	-	-	-	-	-	2,788,122	869,455
20	334	Meters	8.33%	15,911	-	-	15,911	-	-	-	-	-	-	1,010,366	536,110
21	335	Hydrants	2.00%	60	-	-	60	-	-	-	-	-	-	572,321	184,803
22	336	Backflow Prevention Devices	6.67%	-	-	-	-	-	-	-	-	-	-	6,151	1,454
23	339	Other Plant & Misc Equipment	6.67%	6,878	(8,386)	-	(1,508)	-	-	-	-	-	-	123,778	28,756
24	340	Office Furniture & Equipment	6.67%	5,725	-	-	5,725	-	-	-	-	-	-	29,265	22,865
25	340.1	Computers & Software	20.00%	-	-	-	-	-	-	-	-	-	-	76,919	76,919
26	341	Transportation Equipment	4.00%	1,819	-	-	1,819	-	-	-	-	-	-	142,188	121,824
27	342	Stores Equipment	4.00%	-	-	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	731	-	-	731	-	-	-	-	-	-	18,203	11,766
29	344	Laboratory Equipment	10.00%	-	-	-	-	-	-	-	-	-	-	3,061	3,061
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	10.00%	24,594	-	-	24,594	-	-	-	-	-	-	212,996	147,813
32	347	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-	-	-	90	278
33	348	Other Tangible Plant	4.00%	-	-	-	-	-	-	-	-	-	-	-	-
34		Plant Held for Future Use		-	-	-	-	-	-	-	-	-	-	-	-
35				-	-	-	-	-	-	-	-	-	-	-	-
36		TOTALS		1,238,843	(139,934)	(1,708)	1,097,201	110,842	9,757	30,499	151,098	(9,704)	(3,564)	174,364	13,756,125

Line No.	Description	Accumulated Depreciation							
		A	B	C	D	E	F	G	
		Direct Adjusted Accum. Depr.	WW Portion of Allocated Building Costs	Affiliate Profit	Plant Retirement	Plant Retirements	Direct Adjusted Affiliate Profit	Adjustments to Reconcile to A/D Reconstruction	Rebuttal Adjusted Accum. Depr.
1	Organization Cost	-	-	-	-	-	-	-	-
2	Franchise Cost	-	-	-	-	-	-	-	-
3	Land and Land Rights	-	-	-	-	-	-	-	-
4	Structures and Improvements	598,813	(337)	(0)	-	-	-	0	598,476
5	Collecting and Impounding Res.	-	-	-	-	-	-	-	-
6	Lake River and Other Intakes	-	-	-	-	-	-	-	-
7	Wells and Springs	219,473	(0)	(0)	-	-	(461)	0	219,012
8	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-	-
9	Supply Mains	43,831	-	-	-	-	-	-	43,831
10	Power Generation Equipment	103,188	-	-	-	-	-	-	103,188
11	Electric Pumping Equipment	2,859,238	-	-	-	-	-	-	845,075
12	Water Treatment Equipment	183,785	(502)	(3)	(9,757)	(1,542,659)	(67)	(461,676)	183,282
13	Water Treatment Plant	-	-	-	-	-	-	-	-
14	Chemical Solution Feeders	-	-	-	-	-	-	-	-
15	Dist. Reservoirs & Standpipe	191,697	-	-	-	-	-	-	191,697
16	Storage tanks	-	-	-	-	-	-	-	-
17	Pressure Tanks	-	-	-	-	-	-	-	-
18	Trans. and Dist. Mains	9,566,814	-	(2)	-	-	(353)	(0)	9,566,459
19	Services	869,455	-	-	-	-	-	-	869,455
20	Meters	536,110	-	-	-	-	-	-	536,110
21	Hydrants	184,803	-	-	-	-	-	-	184,803
22	Backflow Prevention Devices	2,366	-	-	-	-	-	0	1,454
23	Other Plant and Misc. Equip.	30,527	-	(912)	-	-	(1,771)	0	28,756
24	Office Furniture and Fixtures	22,865	-	-	-	-	-	-	22,865
25	Computers and Software	76,919	-	-	-	-	-	-	76,919
26	Transportation Equipment	121,824	-	-	-	-	-	-	121,824
27	Stores Equipment	-	-	-	-	-	-	-	-
28	Tools and Work Equipment	11,766	-	-	-	-	-	-	11,766
29	Laboratory Equipment	3,061	-	-	-	-	-	-	3,061
30	Power Operated Equipment	-	-	-	-	-	-	-	-
31	Communications Equipment	147,813	-	-	-	-	-	-	147,813
32	Miscellaneous Equipment	10,032	-	-	-	-	-	(9,755)	278
33	Other Tangible Plant	-	-	-	-	-	-	-	-
34	TOTALS	\$ 15,784,381	\$ (1,415)	\$ (337)	\$ (9,757)	\$ (1,542,659)	\$ (2,652)	\$ (471,430)	\$ 13,756,125
35	Accumulated Depreciation per Books								\$ 15,784,381
36	Increase (decrease) in Accumulated Depreciation								\$ (2,028,256)
37	Adjustment to Accumulated Depreciation								\$ (2,028,256)

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

Exhibit
 Rejoinder Schedule B-2
 Page 4.1
 Witness: Bourassa

Line
No.

1	<u>Reclassification of plant to Wastewater Division</u>						
2							
3							
4	Acct.		Depr	Recorded	Years	Plant	Accumulated
5	No.	Description	Rate	Year	thru EOTY	Reclass	Depreciation
6					(Half-Year Conv.)	Adjustment	Adjustment
7	320	Water Treatment Equipment	3.33%	2009	2.67	\$ (5,658)	\$ (502)
8	336	Backflow Prevention Devices	6.67%	2010	1.67	(7,210)	(802)
9	336	Backflow Prevention Devices	6.67%	2011	0.67	(2,494)	(111)
10		Total					<u>\$ (1,415)</u>
11							
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41							
42							
43	<u>SUPPORTING SCHEDULE</u>						
44	B-2 Schedule 3.1						
45	Testimony						

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

Exhibit
 Rejoinder Schedule B-2
 Page 4.2
 Witness: Bourassa

Line
No.

1	<u>Remove Portion of Building Costs Allocated to Wastewater Division</u>						
2							
3							
4	Acct.		Depr	Recorded	Years	Plant	Accumulated
5	<u>No.</u>	<u>Description</u>	<u>Rate</u>	<u>Year</u>	<u>thru EOTY</u>	<u>Adjustment</u>	<u>Depreciation</u>
6	304	Structures and Improvements	3.33%	2012	0.083333	\$ (121,473)	\$ (337)
7							
8							
9		Total				<u>\$ (337)</u>	
10							
11							
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42							
43	<u>SUPPORTING SCHEDULE</u>						
44	B-2 Schedule 3.2						
45	Testimony						

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

Exhibit
 Rejoinder Schedule B-2
 Page 4.3
 Witness: Bourassa

Line

No.

1 Remove Affiliate Profit

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

43 SUPPORTING SCHEDULE

44 B-2 Schedule 3.3

45 Testimony

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

Exhibit
 Rejoinder Schedule B-2
 Page 4.4
 Witness: Bourassa

Line

No.

1 Plant Retirement

2

3

4 Acct.

5 No. Description

6 311 Electric Pumping Equipment

7

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9

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11

12 Total

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43 SUPPORTING SCHEDULE

44 B-2 Schedule 3.4

45 Testimony

	Plant Retirement	Accumulated Depreciation
<u>Adjustment</u>	<u>Adjustment</u>	<u>Adjustment</u>
\$ (9,757)	\$ (9,757)	
		\$ (9,757)

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

Exhibit
 Rejoinder Schedule B-2
 Page 4.5
 Witness: Bourassa

Line

No.

1 Plant Retirements

2

3

4 Acct.

5 No. Description

6 311 Electric Pumping Equipment

7 347 Miscellaneous Equipment

8

9

10

11 Total

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43 SUPPORTING SCHEDULE

44 B-2 Schedule 3.4

45 Testimony

Plant Retirement <u>Adjustment</u>	Accumulated Depreciation <u>Adjustment</u>
\$ (1,534,958)	\$ (1,534,958)
(7,701)	(7,701)
	\$ (1,542,659)

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

Exhibit
 Rejoinder Schedule B-2
 Page 4.6
 Witness: Bourassa

Line
No.

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

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Acct. No.	Description	Depr Rate	Years thru EOTY	Direct Filing Plant Adjustment	Accumulated Depreciation Adjustment
307	Wells and Springs	3.33%	3.166667	\$ (4,372)	\$ (461)
311	Electric Pumping Equipment	12.50%	3.166667	(170)	(67)
331	Trans. and Dist. Mains	2.00%	3.166667	(5,568)	(353)
339	Other Plant and Misc. Equip.	6.67%	3.166667	(8,386)	(1,771)
Total					\$ (2,652)

43 SUPPORTING SCHEDULE

44 B-2 Schedule 3.4

45 Testimony

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

Exhibit
 Rejoinder Schedule B-2
 Page 4.7
 Witness: Bourassa

Line

No.	Description	Direct Adjusted Original Cost	B-2 Adjustments	Rebuttal Adjusted Original Cost	A/D Per Reconstruction	Accumulated Depreciation Adjustment
1	<u>Accumulated Depreciation (A/D)</u>					
2						
3						
4	Acct.					
5	No. Description					
6	301 Organization Cost	-	-	-	-	-
7	302 Franchise Cost	-	-	-	-	-
8	303 Land and Land Rights	-	-	-	-	-
9	304 Structures and Improvements	598,813	(337)	598,476	598,476	0
10	305 Collecting and Impounding Res.	-	-	-	-	-
11	306 Lake River and Other Intakes	-	-	-	-	-
12	307 Wells and Springs	219,473	(461)	219,012	219,012	0
13	308 Infiltration Galleries and Tunnels	-	-	-	-	-
14	309 Supply Mains	43,831	-	43,831	43,831	-
15	310 Power Generation Equipment	103,188	-	103,188	103,188	-
16	311 Electric Pumping Equipment	2,859,238	(1,552,486)	1,306,751	845,075	(461,676)
17	320 Water Treatment Equipment	183,785	(502)	183,282	183,282	-
18	320.1 Water Treatment Plant	-	-	-	-	-
19	320.2 Chemical Solution Feeders	-	-	-	-	-
20	330 Dist. Reservoirs & Standpipe	191,697	-	191,697	191,697	-
21	330.1 Storage tanks	-	-	-	-	-
22	330.2 Pressure Tanks	-	-	-	-	-
23	331 Trans. and Dist. Mains	9,566,814	(355)	9,566,459	9,566,459	(0)
24	333 Services	869,455	-	869,455	869,455	-
25	334 Meters	536,110	-	536,110	536,110	-
26	335 Hydrants	184,803	-	184,803	184,803	-
27	336 Backflow Prevention Devices	2,366	(912)	1,454	1,454	0
28	339 Other Plant and Misc. Equip.	30,527	(1,771)	28,756	28,756	0
29	340 Office Furniture and Fixtures	22,865	-	22,865	22,865	-
30	340.1 Computers and Software	76,919	-	76,919	76,919	-
31	341 Transportation Equipment	121,824	-	121,824	121,824	-
32	342 Stores Equipment	-	-	-	-	-
33	343 Tools and Work Equipment	11,766	-	11,766	11,766	-
34	344 Laboratory Equipment	3,061	-	3,061	3,061	-
35	345 Power Operated Equipment	-	-	-	-	-
36	346 Communications Equipment	147,813	-	147,813	147,813	-
37	347 Miscellaneous Equipment	10,032	-	10,032	278	(9,755)
38	348 Other Tangible Plant	-	-	-	-	-
39	Plant Held for Future Use	-	-	-	-	-
40	TOTALS	\$ 15,784,381	\$ (1,556,826)	\$ 14,227,555	\$ 13,756,125	\$ (471,430)

43 SUPPORTING SCHEDULE

44 B-2, pages 4.1 through 4.6

45 B-2, pages 3.7 through 3.10

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

Exhibit
 Rejoinder Schedule B-2
 Page 5.0
 Witness: Bourassa

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

Line <u>No.</u> 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40	Computed balance at 12/29/2012 per Rebuttal Adjusted balance per Direct at 02/29/2012 Increase (decrease) Adjustment to CIAC/AA CIAC Label	<table border="0" style="width: 100%;"> <tr> <td style="text-align: center; width: 10%;"></td> <td style="text-align: center; width: 10%;"><u>Gross</u></td> <td style="width: 80%;"></td> <td style="text-align: center; width: 10%;"><u>Accumulated</u></td> </tr> <tr> <td></td> <td style="text-align: center;"><u>CIAC</u></td> <td></td> <td style="text-align: center;"><u>Amortization</u></td> </tr> <tr> <td style="text-align: right;">\$</td> <td style="text-align: right;">20,179,119</td> <td></td> <td style="text-align: right;">\$ 8,617,752</td> </tr> <tr> <td style="text-align: right;">\$</td> <td style="text-align: right;"><u>20,179,119</u></td> <td></td> <td style="text-align: right;"><u>\$ 8,797,261</u></td> </tr> <tr> <td style="text-align: right;">\$</td> <td style="text-align: right;">-</td> <td></td> <td style="text-align: right;">\$ (179,509)</td> </tr> <tr> <td style="text-align: right;">\$</td> <td style="text-align: right;"><u>-</u></td> <td></td> <td style="text-align: right;"><u>\$ 179,509</u></td> </tr> <tr> <td></td> <td style="text-align: center;"><u>3a</u></td> <td></td> <td style="text-align: center;"><u>3b</u></td> </tr> </table>		<u>Gross</u>		<u>Accumulated</u>		<u>CIAC</u>		<u>Amortization</u>	\$	20,179,119		\$ 8,617,752	\$	<u>20,179,119</u>		<u>\$ 8,797,261</u>	\$	-		\$ (179,509)	\$	<u>-</u>		<u>\$ 179,509</u>		<u>3a</u>		<u>3b</u>
	<u>Gross</u>		<u>Accumulated</u>																											
	<u>CIAC</u>		<u>Amortization</u>																											
\$	20,179,119		\$ 8,617,752																											
\$	<u>20,179,119</u>		<u>\$ 8,797,261</u>																											
\$	-		\$ (179,509)																											
\$	<u>-</u>		<u>\$ 179,509</u>																											
	<u>3a</u>		<u>3b</u>																											
	<p><u>SUPPORTING SCHEDULES</u></p> <p>E-1</p> <p>B-2, page 5.1</p>																													

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

Line No.	Deferred Income Tax as of February 29, 2012	Water & Sewer Adjusted Book Value	Water & Sewer Tax Value	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Effective Tax Rate	Future Tax Asset Current	Future Tax Asset Non Current	Future Tax Liability Current	Future Tax Liability Non Current
1	Plant-in-Service	\$ 47,110,663 ¹	\$ 10,765,875 ²	100.0%	\$ (3,038,998)	31.60%	-	-	-	(960,323)
2	Accum. Deprec.	(18,414,563) ¹								
3	CIAC	(14,891,228) ³								
4	Fed. Fixed Assets	\$ 13,804,872	\$ 13,804,872	100.0%	\$ (211,034)	6.97%	-	-	-	(14,705)
5	State Fixed Assets	\$ 13,804,872	\$ 13,593,838	100.0%	\$ 593,411 ⁴	38.57%	\$ 228,867	\$ 228,867	\$ -	\$ (975,028)
6	Fed & State AIAC		\$ 593,411 ⁴	100.0%	\$ 593,411 ⁴		\$ -	\$ -	\$ -	\$ -
7	Net Asset (Liability)						\$ (746,161)	\$ 0.6201	\$ (462,717)	\$ (405,395)
8	Allocation Factor - WW-Division (based on rate base before ADIT)								\$ 57,322	
9	Net Asset (Liability) WW Division									
10	DIT Asset (Liability) per Direct									
11	Adjustment to DIT									

Footnotes - See page 2

Line No.

	FEDERAL	STATE
1 Per Rebuttal Adjusted Balances		
2 Computation of Net Tax Value February 29, 2012		
3 Based on 2011 Tax Depreciation report (December 31, 2011)		
4 Unadjusted Cost at December 31, 2011 per federal and state tax depr. report	\$ 28,328,799	\$ 28,328,799
5 Reconciling items not on tax report:		
6 KPMG CIAC related adjustments per KPMG tax basis adjustment	(3,942,541)	(3,942,541)
7 Plant Adds 1/1/2012 to 2/28/2012	2,918,334	2,918,334
8 Land costs not on tax, on books	51,739	51,739
9 2011 Reconciling Difference Book vs. Tax (timing) (see work papers)	(120,225)	(120,225)
10 Rebuttal Proposed Retirements - Water Division	(1,552,416)	(1,552,416)
11 Rebuttal Proposed Retirements - WW Division	(1,600,771)	(1,600,771)
12 Net Unadjusted Cost tax Basis at February 29, 2012	\$ 24,082,920	\$ 24,082,920
13 Reductions		
14 Basis Reduction 2011 and Prior Years per federal and state tax depr. report	\$ (3,066,507)	\$ -
15 KPMG CIAC related adjustments per KPMG tax basis adjustment	1,192,828	1,192,828
16 Accumulated Depreciation 2011 and prior per federal and state tax depr. report	(14,334,167)	(14,640,446)
17 2012 Tax Depreciation on 2011 and prior plant (2 months of 2012) per federal and state tax depr. report	(163,663)	(184,923)
18 2012 Bonus Depreciation estimate (2 months of 2012) per federal and state tax depr. report	(90,811)	
19 2012 Tax Depreciation on plant adds 1/1/2012 to 2/28/2012 (2 months of 2012) per federal and state tax depr. report	(7,912)	(9,728)
20 Rebuttal Proposed Retirements - Water Division	1,552,416	1,552,416
21 Rebuttal Proposed Retirements - WW Division	1,600,771	1,600,771
22 Net Reductions through February 2012	(13,317,045)	(10,489,082)
23 Net tax value of plant-in-service at February 29, 2012	\$ 10,765,875	\$ 13,593,838
24		
25 CIAC (including impact of change to probability of realization)		
26 Gross CIAC per Rebuttal Adjusted Balances	\$ 25,331,792	
27 CIAC reductions/additions	(11,108,889)	
28 A-A per Rebuttal Adjusted Balances	\$ 14,222,903	
29 Net CIAC before unrealized AIAC		
30 Unrealized AIAC Component	\$ 954,749	
31 Adjusted Net AIAC (see footnote 5 below)	70.0%	
32 Unrealized AIAC Component % (1-Realized AIAC Component)	\$ 668,325	
33 Total realizable CIAC	\$ 14,891,228	
34		
35 AIAC (including impact of change in probability of realization)		
36 AIAC per adjusted book balances	\$ 954,749	\$ 954,749
37 AIAC reductions/additions		(668,325)
38 Net AIAC before unrealized portion	\$ 286,425	\$ 286,425
39 Less: Unrealized AIAC (from Note 3, above)		306,987
40 Net realizable AIAC		\$ 593,411
41 Meter and Service Line Installation Charges per Rebuttal Adjusted Balances		
42 Total AIAC		

1 Per Rebuttal Adjusted Balances

2 Computation of Net Tax Value February 29, 2012

3 Based on 2011 Tax Depreciation report (December 31, 2011)

4 Unadjusted Cost at December 31, 2011 per federal and state tax depr. report

5 Reconciling items not on tax report:

6 KPMG CIAC related adjustments per KPMG tax basis adjustment

7 Plant Adds 1/1/2012 to 2/28/2012

8 Land costs not on tax, on books

9 2011 Reconciling Difference Book vs. Tax (timing) (see work papers)

10 Rebuttal Proposed Retirements - Water Division

11 Rebuttal Proposed Retirements - WW Division

12 Net Unadjusted Cost tax Basis at February 29, 2012

13 **Reductions**

14 Basis Reduction 2011 and Prior Years per federal and state tax depr. report

15 KPMG CIAC related adjustments per KPMG tax basis adjustment

16 Accumulated Depreciation 2011 and prior per federal and state tax depr. report

17 2012 Tax Depreciation on 2011 and prior plant (2 months of 2012) per federal and state tax depr. report

18 2012 Bonus Depreciation estimate (2 months of 2012) per federal and state tax depr. report

19 2012 Tax Depreciation on plant adds 1/1/2012 to 2/28/2012 (2 months of 2012) per federal and state tax depr. report

20 Rebuttal Proposed Retirements - Water Division

21 Rebuttal Proposed Retirements - WW Division

22 Net Reductions through February 2012

23 Net tax value of plant-in-service at February 29, 2012

24

25 **CIAC (including impact of change to probability of realization)**

26 Gross CIAC per Rebuttal Adjusted Balances

27 CIAC reductions/additions

28 A-A per Rebuttal Adjusted Balances

29 Net CIAC before unrealized AIAC

30 Unrealized AIAC Component

31 Adjusted Net AIAC (see footnote 5 below)

32 Unrealized AIAC Component % (1-Realized AIAC Component)

33 Total realizable CIAC

34

35 **AIAC (including impact of change in probability of realization)**

36 AIAC per adjusted book balances

37 AIAC reductions/additions

38 Net AIAC before unrealized portion

39 Less: Unrealized AIAC (from Note 3, above)

40 Net realizable AIAC

41 Meter and Service Line Installation Charges per Rebuttal Adjusted Balances

42 Total AIAC

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

Exhibit
 Schedule B-5
 Page 1
 Witness: Bourassa

Line
No.

1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	155,372
3	Pumping Power (1/24 of Pumping Power)		16,186
4	Purchased Water (1/24 of Purchased Water)		-
5	Prepaid Expenses		
6			
7			
8			
9	Total Working Capital Allowance	<u>\$</u>	<u>171,558</u>
10			
11			
12	Working Capital Requested	<u>\$</u>	<u>-</u>
13			
14			
15			
16			
17		<u>Adjusted Test Year</u>	
18	Total Operating Expense	\$	2,442,255
19	Less:		
20	Income Tax	\$	217,250
21	Property Tax		152,135
22	Depreciation		441,434
23	Purchased Water		-
24	Pumping Power		388,461
25	Allowable Expenses	<u>\$</u>	<u>1,242,974</u>
26	1/8 of allowable expenses	<u>\$</u>	<u>155,372</u>

29 SUPPORTING SCHEDULES:
 30 E-1

RECAP SCHEDULES:
 B-1

31
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Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division
 Test Year Ended February 29, 2012
 Income Statement

Exhibit
 Rejoinder Schedule C-1
 Page 1
 Witness: Bourassa

Line No.		Test Year Adjusted Results	Adjustment	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	Revenues					
2	Metered Water Revenues	\$ 2,811,949	\$ (66,993)	\$ 2,744,956	\$ 644,939	\$ 3,389,895
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	42,889	-	42,889		42,889
5		<u>\$ 2,854,838</u>	<u>\$ (66,993)</u>	<u>\$ 2,787,845</u>	<u>\$ 644,939</u>	<u>\$ 3,432,784</u>
6	Operating Expenses					
7	Salaries and Wages	\$ 426,012	32,891	\$ 458,903		\$ 458,903
8	Purchased Water	-	-	-		-
9	Purchased Power	371,378	17,083	388,461		388,461
10	Fuel For Power Production	-	-	-		-
11	Chemicals	3,884	-	3,884		3,884
12	Materials and Supplies	27,517	-	27,517		27,517
13	Management Services - US Liberty Water	257,367	-	257,367		257,367
14	Management Services - Corporate	133,975	(2,557)	131,418		131,418
15	Management Services - Other	15,903	-	15,903		15,903
16	Outside Services - Accounting	167	-	167		167
17	Outside Services - Engineering	-	-	-		-
18	Outside Services- Other	14,205	-	14,205		14,205
19	Outside Services- Legal	4,690	-	4,690		4,690
20	Water Testing	28,231	(4,410)	23,821		23,821
21	Rents - Building	-	-	-		-
22	Rents - Equipment	3,208	-	3,208		3,208
23	Transportation Expenses	89,305	-	89,305		89,305
24	Insurance - General Liability	34,100	-	34,100		34,100
25	Insurance - Vehicle	7,733	-	7,733		7,733
26	Reg. Comm. Exp. - Other	-	-	-		-
27	Reg. Comm. Exp. - Rate Case	87,500	-	87,500		87,500
28	Miscellaneous Expense	85,057	(1,804)	83,253		83,253
29	Bad Debt Expense	-	-	-		-
30	Depreciation and Amortization Expense	551,222	(109,788)	441,434		441,434
31	Taxes Other Than Income	-	-	-		-
32	Property Taxes	155,805	(3,669)	152,135	11,775	163,910
33	Income Tax	181,647	35,603	217,250	244,394	461,644
34		-	-	-		-
35	Total Operating Expenses	<u>\$ 2,478,906</u>	<u>\$ (36,651)</u>	<u>\$ 2,442,255</u>	<u>\$ 256,169</u>	<u>\$ 2,698,424</u>
36	Operating Income	<u>\$ 375,933</u>	<u>\$ (30,342)</u>	<u>\$ 345,590</u>	<u>\$ 388,770</u>	<u>\$ 734,360</u>
37	Other Income (Expense)					
38	Interest Income	(0)	-	(0)		(0)
39	Other income	-	-	-		-
40	Interest Expense	(86,978)	86,978	-		-
41	Other Expense	-	-	-		-
42		-	-	-		-
43	Total Other Income (Expense)	<u>\$ (86,978)</u>	<u>\$ 86,978</u>	<u>\$ (0)</u>	<u>\$ -</u>	<u>\$ (0)</u>
44	Net Profit (Loss)	<u>\$ 288,955</u>	<u>\$ 56,635</u>	<u>\$ 345,590</u>	<u>\$ 388,770</u>	<u>\$ 734,360</u>

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 46 SUPPORTING SCHEDULES:
 47 C-1, page 2

RECAP SCHEDULES:
 A-1

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

Line No.	1	2	3	4	5	6	7	8
	Depreciation	Property Taxes	Declining Usage Adjustment	Revenue Annualization	Staffs Water Testing	Rate Increase UNSE	APUC Allocated Capital Taxes	Miscellaneous Expense
1	Revenues							
2	Metered Water Revenues			10,282				
3	Unmetered Water Revenues							
4	Other Water Revenues							
5								
6	Operating Expenses							
7	Salaries and Wages					17,083		
8	Purchased Water							
9	Purchased Power							
10	Fuel For Power Production							
11	Chemicals							
12	Materials and Supplies							
13	Management Services - US Liberty Water							
14	Management Services - Corporate							(2,557)
15	Management Services - Other							
16	Outside Services - Accounting							
17	Outside Services - Engineering							
18	Outside Services- Other							
19	Outside Services- Legal							
20	Water Testing							
21	Rents - Building							
22	Rents - Equipment							
23	Transportation Expenses							
24	Insurance - General Liability							
25	Insurance - Vehicle							
26	Reg. Comm. Exp. - Other							
27	Reg. Comm. Exp. - Rate Case							
28	Miscellaneous Expense							
29	Bad Debt Expense							
30	Depreciation and Amortization Expense							
31	Taxes Other Than Income							
32	Property Taxes							
33	Income Tax							
34								
35	Total Operating Expenses							
36	Operating Income							
37	Other Income (Expense)							
38	Interest Income							
39	Other Income							
40	Interest Expense							
41	Other Expense							
42								
43	Total Other Income (Expense)							
44	Net Profit (Loss)							
45								
46								
47								
48								

SUPPORTING SCHEDULES:
C-2, pages 1-16

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

Exhibit
 Rejoinder Schedule C-1
 Page 2.2
 Witness: Bourassa

Line No.	9	10	11	12	13	14	15	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	Revenues									
2	Metered Water Revenues							\$ 2,744,956	\$ 644,939	\$ 3,389,895
3	Unmetered Water Revenues									
4	Other Water Revenues									
5								42,889		42,889
6	Operating Expenses							\$ 2,787,845	\$ 644,939	\$ 3,432,784
7	Salaries and Wages	32,891								
8	Purchased Water							\$ 458,903		\$ 458,903
9	Purchased Power									
10	Fuel For Power Production							388,461		388,461
11	Chemicals									
12	Materials and Supplies							3,884		3,884
13	Management Services - US Liberty Water							27,517		27,517
14	Management Services - Corporate							257,367		257,367
15	Management Services - Other							131,418		131,418
16	Outside Services - Accounting							15,903		15,903
17	Outside Services - Engineering							167		167
18	Outside Services- Other									
19	Outside Services- Legal							14,205		14,205
20	Water Testing							4,690		4,690
21	Rents - Building							23,821		23,821
22	Rents - Equipment									
23	Transportation Expenses							3,208		3,208
24	Insurance - General Liability							89,305		89,305
25	Insurance - Vehicle							34,100		34,100
26	Reg. Comm. Exp. - Other							7,733		7,733
27	Reg. Comm. Exp. - Rate Case									
28	Miscellaneous Expense							87,500		87,500
29	Bad Debt Expense							83,253		83,253
30	Depreciation and Amortization Expense									
31	Taxes Other Than Income							441,434		441,434
32	Property Taxes									
33	Income Tax						35,603			
34										
35	Total Operating Expenses							\$ 2,442,255	\$ 256,169	\$ 2,698,424
36	Operating Income							\$ 345,590	\$ 388,770	\$ 734,360
37	Other Income (Expense)									
38	Interest Income							(0)		(0)
39	Other Income									
40	Interest Expense					86,978				
41	Other Expense									
42										
43	Total Other Income (Expense)									
44	Net Profit (Loss)							\$ 345,590	\$ 388,770	\$ 734,360
45										

SUPPORTING SCHEDULES:
 C-2, pages 1-16

RECAP SCHEDULES:
 C-1, page 1

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

Exhibit
 Rejoinder Schedule C-2
 Page 1
 Witness: Bourassa

Line No.	<u>Adjustments to Revenues and Expenses</u>						<u>Subtotal</u>	
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>		
1			Declining					
2		Property	Usage	Revenue	Staff's	Rate Increase		
3	<u>Depreciation</u>	<u>Taxes</u>	<u>Adjustment</u>	<u>Annualization</u>	<u>Water Testing</u>	<u>UNSE</u>		
4	Revenues			10,282	(4,410)		5,872	
5								
6	Expenses	(109,788)	(3,669)			17,083	(173,649)	
7								
8	Operating							
9	Income	109,788	3,669	77,275	10,282	(4,410)	(17,083)	179,521
10								
11	Interest							
12	Expense							
13	Other							
14	Income /							
15	Expense							
16								
17	Net Income	109,788	3,669	77,275	10,282	(4,410)	(17,083)	179,521
18								
19								
20		<u>Adjustments to Revenues and Expenses</u>						
21		<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	<u>Subtotal</u>
22		APUC	Miscellaneous	Employee	Intentionally	Intentionally	Intentionally	
23		Allocated	Expense	Benefits	Left	Left	Left	
24		<u>Capital Taxes</u>			<u>Blank</u>	<u>Blank</u>	<u>Blank</u>	
25	Revenues							5,872
26								
27	Expenses	(2,557)	(1,804)	32,891	-	-	-	(145,119)
28								
29	Operating							
30	Income	2,557	1,804	(32,891)	-	-	-	150,991
31								
32	Interest							
33	Expense	-						
34	Other							
35	Income /							
36	Expense							
37								
38	Net Income	2,557	1,804	(32,891)	-	-	-	150,991
39								
40								
41		<u>Adjustments to Revenues and Expenses</u>						
42		<u>13</u>	<u>14</u>	<u>15</u>	<u>16</u>	<u>17</u>	<u>18</u>	<u>Total</u>
43		Intentionally	Interest	Income				
44		Left	Synchronization	Taxes				
45		<u>Blank</u>						
46	Revenues							5,872
47								
48	Expenses			35,603				(109,516)
49								
50	Operating							
51	Income	-	-	(35,603)	-	-	-	115,388
52								
53	Interest							
54	Expense	-	86,978					86,978
55	Other							
56	Income /							
57	Expense							
58								
59	Net Income	-	86,978	(35,603)	-	-	-	202,365

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

Exhibit
 Rejoinder Schedule C-2
 Page 2
 Witness: Bourassa

Depreciation Expense

Line No.	Acct. No.	Description	Adjusted Original Cost	Non-Depr or Fully Depreciated	Depreciable Adjusted Original Cost	Proposed Rates	Depreciation Expense
1							
2							
3							
4							
5	301	Organization Cost	5,785	(5,785)	-	0.00%	-
6	302	Franchise Cost	417	(417)	-	0.00%	-
7	303	Land and Land Rights	44,194	(44,194)	-	0.00%	-
8	304	Structures and Improvements	3,311,457		3,311,457	3.33%	110,272
9	305	Collecting and Impounding Res.	-		-	2.50%	-
10	306	Lake River and Other Intakes	-		-	2.50%	-
11	307	Wells and Springs	562,937		562,937	3.33%	18,746
12	308	Infiltration Galleries and Tunnels	-		-	6.67%	-
13	309	Supply Mains	279,157		279,157	2.00%	5,583
14	310	Power Generation Equipment	219,360		219,360	5.00%	10,968
15	311	Electric Pumping Equipment	1,601,993		1,601,993	12.50%	200,249
16	320	Water Treatment Equipment	363,442		363,442	3.33%	12,103
17	320.1	Water Treatment Plant	-		-	3.33%	-
18	320.2	Chemical Solution Feeders	-		-	20.00%	-
19	330	Dist. Reservoirs & Standpipe	759,861		759,861	2.22%	16,869
20	330.1	Storage tanks	-		-	2.22%	-
21	330.2	Pressure Tanks	-		-	5.00%	-
22	331	Trans. and Dist. Mains	22,337,893		22,337,893	2.00%	446,758
23	333	Services	2,768,122		2,768,122	3.33%	92,178
24	334	Meters	1,010,366		1,010,366	8.33%	84,163
25	335	Hydrants	572,321		572,321	2.00%	11,446
26	336	Backflow Prevention Devices	6,151		6,151	6.67%	410
27	339	Other Plant and Misc. Equip.	123,778		123,778	6.67%	8,256
28	340	Office Furniture and Fixtures	29,265		29,265	6.67%	1,952
29	340.1	Computers and Software	76,919	(76,919)	-	20.00%	-
30	341	Transportation Equipment	142,188		142,188	20.00%	28,438
31	342	Stores Equipment	-		-	4.00%	-
32	343	Tools and Work Equipment	18,203		18,203	5.00%	910
33	344	Laboratory Equipment	3,061	(3,061)	-	10.00%	-
34	345	Power Operated Equipment	-		-	5.00%	-
35	346	Communications Equipment	212,996		212,996	10.00%	21,300
36	347	Miscellaneous Equipment	5,427		5,427	10.00%	543
37	348	Other Tangible Plant	-		-	10.00%	-
38		TOTALS	\$ 34,455,296	\$ (130,376)	\$ 34,324,919		\$ 1,071,144
39							
40							
41		Less: Amortization of Contributions			\$ 20,179,119	3.1206%	\$ (629,710)
42		Total Depreciation Expense					\$ 441,434
43							
44		Adjusted Test Year Depreciation Expense					551,222
45							
46		Increase (decrease) in Depreciation Expense					(109,788)
47							
48		Adjustment to Revenues and/or Expenses					\$ (109,788)
49							
50		<u>SUPPORTING SCHEDULE</u>					
51		B-2, page 3					

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

Exhibit
 Rejoinder Schedule C-2
 Page 3
 Witness: Bourassa

Property Taxes

Line No.	<u>DESCRIPTION</u>	<u>Test Year as adjusted</u>	<u>Company Recommended</u>
1	Company Adjusted Test Year Revenues	\$ 2,787,845	\$ 2,787,845
2	Weight Factor	<u>2</u>	<u>2</u>
3	Subtotal (Line 1 * Line 2)	5,575,690	5,575,690
4	Company Recommended Revenue	2,787,845	3,432,784
5	Subtotal (Line 4 + Line 5)	8,363,535	9,008,474
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	2,787,845	3,002,825
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	5,575,690	6,005,649
10	Plus: 10% of CWIP (intentionally excluded)	-	-
11	Less: Net Book Value of Licensed Vehicles	20,364	20,364
12	Full Cash Value (Line 9 + Line 10 - Line 11)	5,555,326	5,985,285
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	1,111,065	1,197,057
15	Composite Property Tax Rate - Obtained from ADOR	13.6927%	13.6927%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 152,135	\$ 163,910
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	<u>\$ 152,135</u>	
19	Test Year Property Taxes	<u>\$ 155,805</u>	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	<u>\$ (3,669)</u>	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		<u>\$ 163,910</u>
23	Company Test Year Adjusted Property Tax Expense (Line 18)		<u>\$ 152,135</u>
24	Increase in Property Tax Due to Increase in Revenue Requirement		<u>\$ 11,775</u>
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		\$ 11,775
27	Increase in Revenue Requirement		\$ 644,939
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		1.82570%
29			
30			
31			
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33			
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Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division
Test Year Ended February 29, 2012
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Rejoinder Schedule C-2
Page 4
Witness: Bourassa

Declining Usage Adjustment

Line
No.

1		
2	Declining Usage Adjustment	\$ (77,275)
3		
4	Increase (decrease) in Water Testing Expense	<u>(77,275)</u>
5		
6	Adjustment to Revenues	<u>\$ (77,275)</u>
7		
8		
9	Adjustment to Revenue and/or Expense	<u>(77,275)</u>
10		
11	<u>Reference</u>	
12	Testimony	
13		
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19		
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Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division
Test Year Ended February 29, 2012
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Rejoinder Schedule C-2
Page 5
Witness: Bourassa

Revenue Annualization

Line
No.

- 1
- 2
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MSR Revenue Annualization per RUCO

\$ 10,282

Total Revenue from Annualization

\$ 10,282

Adjustment to Revenue and/or Expense

\$ 10,282

SUPPORTING SCHEDULES

Testimony

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

Exhibit
Rejoinder Schedule C-2
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Witness: Bourassa

Water Testing

Line
No.

1		
2	Water Testing Expense per Rebuttal	\$ 23,821
3	Water Testing Expense per Direct	<u>28,231</u>
4	Increase (decrease) in Water Testing Expense	(4,410)
5		
6	Adjustment to Revenues	<u>\$ (4,410)</u>
7		
8		
9	Adjustment to Revenue and/or Expense	<u>(4,410)</u>
10		
11	<u>Reference</u>	
12	Staff Schedule MJR-W15	
13		
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20		

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

Exhibit
Rejoinder Schedule C-2
Page 7
Witness: Bourassa

Purchased Power - UNSE Rate Increase

Line
No.

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

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

Exhibit
Rejoinder Schedule C-2
Page 8
Witness: Bourassa

APUC Allocated Capital Taxes

Line
No.

1		
2	APUC Allocated Capital Taxes	\$ (2,557)
3		
4		
5		
6	Adjustment to Management Services -Corporate	<u>\$ (2,557)</u>
7		
8		
9	Adjustment to Revenue and/or Expense	<u>(2,557)</u>
10		
11	<u>Reference</u>	
12	Staff Schedule MJR-W16	
13	Testimony	
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Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division
Test Year Ended December 31, 2001
Adjustment to Revenues and Expenses
Adjustment Number 8

Exhibit
Rejoinder Schedule C-2
Page 9
Witness: Bourassa

Miscellaneous Expense

Line
No.

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

Exhibit
Rejoinder Schedule C-2
Page 10
Witness: Bourassa

Employee Benefits

Line
No.

1

2

Allocated portion of new employee benefit costs

\$ 32,891

3

4

5

6

Adjustment to Salaries and Wages expense

\$ 32,891

7

8

9

Adjustment to Revenue and/or Expense

32,891

10

11

Reference

12

Testimony

13

Workpapers

14

15

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Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division
Test Year Ended February 29, 2012
Adjustment to Revenues and Expenses
Adjustment Number 10

Exhibit
Rejoinder Schedule C-2
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Witness: Bourassa

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

Exhibit
Rejoinder Schedule C-2
Page 12
Witness: Bourassa

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

Exhibit
Rejoinder Schedule C-2
Page 13
Witness: Bourassa

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

Exhibit
Rejoinder Schedule C-2
Page 14
Witness: Bourassa

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20

Interest Synchronization

Line
 No.

1				
2				
3				
4	Fair Value Rate Base	\$	7,730,108	
5	Weighted Cost of Debt		0.00%	
6	Interest Expense	\$	-	
7				
8	Test Year Interest Expense	\$	86,978	
9				
10	Increase (decrease) in Interest Expense		(86,978)	
11				
12				
13				
14	Adjustment to Revenue and/or Expense	\$	86,978	

Weighted Cost of Debt Computation

	<u>Percent</u>	<u>Cost</u>	<u>Weighted Cost</u>
20	Debt	0.00%	5.70% 0.00%
21	Equity	100.00%	9.50% 9.50%
22	Total	100.00%	9.50%

23
 24
 25
 26
 27
 28
 29
 30

Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division
Test Year Ended February 29, 2012
Adjustment to Revenues and/or Expenses
Adjustment Number 15

Exhibit
Rejoinder Schedule C-2
Page 16
Witness: Bourassa

Line

No.

1 Income Taxes

2

3

4 Computed Income Tax

Test Year
at Present Rates
\$ 217,250

Test Year
at Proposed Rates
\$ 461,644

5 Test Year Income tax Expense

-

217,250

6 Adjustment to Income Tax Expense

\$ 217,250

\$ 244,394

7

8

9

10

11

12

13 SUPPORTING SCHEDULE

14 C-3, page 2

15

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

Exhibit
 Rejoinder Schedule C-3
 Page 1
 Witness: Bourassa

Line No.	<u>Description</u>	Percentage of Incremental Gross <u>Revenues</u>
1	Combined Federal and State Effective Income Tax Rate	38.599%
2		
3	Property Taxes	<u>1.121%</u>
4		
5		
6	Total Tax Percentage	39.720%
7		
8	Operating Income % = 100% - Tax Percentage	60.280%
9		
10		
11		
12		
13	<u>1</u> = Gross Revenue Conversion Factor	
14	Operating Income %	1.6589
15		
16		
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25	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
26	C-3, page 2	A-1
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Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division
 Test Year Ended February 29, 2012

Exhibit
 Rejoinder Schedule C-3
 Page 2
 Witness: Bourassa

GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	(E)	(F)
<i>Calculation of Gross Revenue Conversion Factor:</i>							
1	Revenue	100.0000%					
2	Uncollectible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.7199%					
5	Subtotal (L3 - L4)	60.2801%					
6	Revenue Conversion Factor (L1 / L5)	1.658922					
<i>Calculation of Uncollectible Factor:</i>							
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (L17)	38.5989%					
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
<i>Calculation of Effective Tax Rate:</i>							
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	6.9680%					
14	Federal Taxable Income (L12 - L13)	93.0320%					
15	Applicable Federal Income Tax Rate (L55 Col F)	34.0000%					
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%					
17	Combined Federal and State Income Tax Rate (L13 +L16)		38.5989%				
<i>Calculation of Effective Property Tax Factor</i>							
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	38.5989%					
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%					
21	Property Tax Factor	1.8257%					
22	Effective Property Tax Factor (L20*L21)		1.1210%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.7199%			
24	Required Operating Income	\$ 734,360					
25	Adjusted Test Year Operating Income (Loss)	\$ 345,590					
26	Required Increase in Operating Income (L24 - L25)		\$ 388,770				
27	Income Taxes on Recommended Revenue (Col. (F), L52)	\$ 461,644					
28	Income Taxes on Test Year Revenue (Col. (C), L52)	\$ 217,250					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 244,394				
30	Recommended Revenue Requirement	\$ 3,432,784					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -					
33	Adjusted Test Year Uncollectible Expense	\$ -					
34	Required Increase in Revenue to Provide for Uncollectible Exp.		\$ -				
35	Property Tax with Recommended Revenue	\$ 163,910					
36	Property Tax on Test Year Revenue	\$ 152,135					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		\$ 11,775				
38	Total Required Increase in Revenue (L26 + L29 + L37)		\$ 644,939				

	(A) Test Year			(B) Company			(C) Sewer			(D) Water			(E) Company Recommended			(F) Sewer			(G) Water		
	Total	Company	Sewer	Water	Total	Company	Sewer	Water	Total	Company	Sewer	Water	Total	Company	Sewer	Water	Total	Company	Sewer	Water	
39	Revenue	\$ 4,157,975	\$ 1,370,130	\$ 2,787,845	\$ 5,082,446	\$ 1,649,662	\$ 3,432,784	\$ 3,432,784	\$ 5,082,446	\$ 1,649,662	\$ 3,432,784	\$ 3,432,784	\$ 5,082,446	\$ 1,649,662	\$ 3,432,784	\$ 3,432,784	\$ 5,082,446	\$ 1,649,662	\$ 3,432,784	\$ 3,432,784	
40	Operating Expenses Excluding Income Taxes	3,136,933	911,928	2,225,005	3,153,811	917,032	2,236,779	2,236,779	3,153,811	917,032	2,236,779	2,236,779	3,153,811	917,032	2,236,779	2,236,779	3,153,811	917,032	2,236,779	2,236,779	
41	Synchronized Interest (L47)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ 1,021,042	\$ 458,201	\$ 562,840	\$ 1,928,636	\$ 732,631	\$ 1,196,005	\$ 1,196,005	\$ 1,928,636	\$ 732,631	\$ 1,196,005	\$ 1,196,005	\$ 1,928,636	\$ 732,631	\$ 1,196,005	\$ 1,196,005	\$ 1,928,636	\$ 732,631	\$ 1,196,005	\$ 1,196,005	
43	Arizona State Effective Income Tax Rate (see work papers)		6.9680%	6.9680%	6.9680%	6.9680%	6.9680%	6.9680%	6.9680%	6.9680%	6.9680%	6.9680%	6.9680%	6.9680%	6.9680%	6.9680%	6.9680%	6.9680%	6.9680%	6.9680%	
44	Arizona Income Tax (L42 x L43)	\$ 71,146	\$ 31,927	\$ 39,219	\$ 134,387	\$ 51,050	\$ 83,338	\$ 83,338	\$ 134,387	\$ 51,050	\$ 83,338	\$ 83,338	\$ 134,387	\$ 51,050	\$ 83,338	\$ 83,338	\$ 134,387	\$ 51,050	\$ 83,338	\$ 83,338	
45	Federal Taxable Income (L42- L44)	\$ 949,896	\$ 426,274	\$ 523,622	\$ 1,794,249	\$ 681,582	\$ 1,112,667	\$ 1,112,667	\$ 1,794,249	\$ 681,582	\$ 1,112,667	\$ 1,112,667	\$ 1,794,249	\$ 681,582	\$ 1,112,667	\$ 1,112,667	\$ 1,794,249	\$ 681,582	\$ 1,112,667	\$ 1,112,667	
46																					
47	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 15,000	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	
48	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$ 12,500	\$ 6,250	\$ 6,250	\$ 6,250	\$ 6,250	\$ 6,250	\$ 6,250	\$ 6,250	\$ 6,250	\$ 6,250	\$ 6,250	\$ 6,250	\$ 6,250	\$ 6,250	\$ 6,250	\$ 6,250	\$ 6,250	\$ 6,250	\$ 6,250	
49	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ 17,000	\$ 8,500	\$ 8,500	\$ 8,500	\$ 8,500	\$ 8,500	\$ 8,500	\$ 8,500	\$ 8,500	\$ 8,500	\$ 8,500	\$ 8,500	\$ 8,500	\$ 8,500	\$ 8,500	\$ 8,500	\$ 8,500	\$ 8,500	\$ 8,500	
50	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ 183,300	\$ 91,650	\$ 91,650	\$ 91,650	\$ 91,650	\$ 91,650	\$ 91,650	\$ 91,650	\$ 91,650	\$ 91,650	\$ 91,650	\$ 91,650	\$ 91,650	\$ 91,650	\$ 91,650	\$ 91,650	\$ 91,650	\$ 91,650	\$ 91,650	
51	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ 95,165	\$ 31,033	\$ 64,131	\$ 496,145	\$ 117,838	\$ 264,407	\$ 264,407	\$ 496,145	\$ 117,838	\$ 264,407	\$ 264,407	\$ 496,145	\$ 117,838	\$ 264,407	\$ 264,407	\$ 496,145	\$ 117,838	\$ 264,407	\$ 264,407	
52																					
53	Total Federal Income Tax	\$ 322,965	\$ 144,933	\$ 178,031	\$ 610,045	\$ 231,738	\$ 378,307	\$ 378,307	\$ 610,045	\$ 231,738	\$ 378,307	\$ 378,307	\$ 610,045	\$ 231,738	\$ 378,307	\$ 378,307	\$ 610,045	\$ 231,738	\$ 378,307	\$ 378,307	
54	Combined Federal and State Income Tax (L35 + L42)	\$ 394,111	\$ 176,861	\$ 217,250	\$ 744,432	\$ 282,788	\$ 461,644	\$ 461,644	\$ 744,432	\$ 282,788	\$ 461,644	\$ 461,644	\$ 744,432	\$ 282,788	\$ 461,644	\$ 461,644	\$ 744,432	\$ 282,788	\$ 461,644	\$ 461,644	
55	COMBINED Applicable Federal Income Tax Rate [Col. (D), L53 - Col. (A), L53 / [Col. (D), L45 - Col. (A), L45]				34.0000%				34.0000%				34.0000%								
56	WASTEWATER Applicable Federal Income Tax Rate [Col. (E), L53 - Col. (B), L53] / [Col. (E), L45 - Col. (B), L45]					34.0000%				34.0000%				34.0000%							
57	WATER Applicable Federal Income Tax Rate [Col. (F), L53 - Col. (C), L53] / [Col. (F), L45 - Col. (C), L45]																				

	Sewer	Water
58 Rate Base	\$ 4,735,192	\$ 7,730,108
59 Weighted Average Cost of Debt	0.0000%	0.0000%
60 Synchronized Interest (L59 X L60)	\$ -	\$ -

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

Exhibit
 Rejoinder Schedule H-1
 Page 3
 Witness: Bourassa

Line No.	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	\$ 2,830,180	\$ 3,478,176	\$ 647,996	22.90%	100.00%	100.00%
2	(77,275)	(77,275)	-	0.00%	-	-
3	(7,949)	(8,905)	(956)	12.03%	-0.28%	-0.26%
4	\$ 2,744,956	\$ 3,391,997	\$ 647,040	23.57%		
5						
6	Misc. Revenues	\$ 42,889	\$ -	0.00%	1.52%	1.23%
7	Reconciling Amount	-	(2,102)	0.00%	0.00%	-0.06%
8	Total Water Revenues	\$ 2,787,845	\$ 3,432,784	\$ 644,938	23.13%	0.00%
9						0.00%
10						
11	<u>Revenue Reconciliation</u>					
12						
13	Revenue per bill count before revenue annualization	\$ 2,873,069				
14	Revenue per GL (metered water revenues)	\$ 2,862,761				
15	Adjustments Rev. Accrual Correction	10,308				
16	Adjusted Revenue per GL (metered water revenues)	2,873,069				
17	Difference	\$ 0				
18	Difference %	0.00%				
19	Tolerance %	0.50%				
20	Tolerance Amount + or -	\$ 14,365				
21						
22	Acceptable?					YES
23						
24						
25						
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Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division
 Test Year Ended February 29, 2012
 Customer Summary

Exhibit
 Rejoinder Schedule H-2
 Page 1
 Witness: Bourassa

Line No.	Meter Size, Class	(a) Average Number of Customers at 2/29/2012	Average Consumption	Average Bill		Proposed Increase	
				Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	5/8X3/4 Inch Residential	5,902	7,794 \$	29.75 \$	37.52	7.77	26.13%
2	5/8X3/4 Inch Residential (Low Income)	96	7,658	24.95	31.54	6.59	26.42%
3	3/4 Inch Residential	11	4,316	29.07	39.19	10.12	34.80%
4	1 Inch Residential	35	10,705	58.71	76.03	17.32	29.50%
5	1 Inch Residential (Low Income)	1	6,667	39.88	54.15	14.27	35.79%
6	1 1/2 Inch Residential	3	27,821	141.77	171.60	29.84	21.05%
7	2 Inch Residential	3	19,316	144.24	197.71	53.47	37.07%
8	Subtotal	6,052					
9							
10	5/8X3/4 Inch Commercial	80	8,995 \$	33.25 \$	41.18	7.93	23.84%
11	1 Inch Commercial	49	15,566	73.31	90.85	17.54	23.93%
12	1 1/2 Inch Commercial	10	24,508	129.71	161.50	31.79	24.51%
13	2 Inch Commercial	43	39,263	202.49	258.55	56.06	27.69%
14	3 Inch Commercial	12	173,138	764.86	824.61	59.75	7.81%
15	4 Inch Commercial	6	253,431	1,155.95	1,225.19	69.25	5.99%
16	6 Inch Commercial	1	457,917	2,125.82	2,269.29	143.48	6.75%
17	Subtotal	201					
18							
19	5/8X3/4 Inch Industrial	17	4,422 \$	19.90 \$	27.24	7.33	36.86%
20	2 Inch Industrial	6	167,329	655.88	711.12	55.24	8.42%
21	Subtotal	23					
22							
23	5/8X3/4 Inch Multi-family	7	9,058 \$	33.48 \$	41.42	7.93	23.70%
24	1 1/2 Inch Multi-family	1	11,750	89.21	122.59	33.38	37.41%
25	Subtotal	8					
26							
27	6 Inch Bulk	0	1,908,591	7,406.27	10,009.65	2,603.38	35.15%
28	Fire Lines up to 8 Inch	19	-	5.49 \$	8.68	3.19	58.01%
29							
30							
31	Total	6,303					

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

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

Exhibit
 Rejoinder Schedule H-2
 Page 2
 Witness: Bourassa

Line No.	Meter Size, Class	(a) Average Number of Customers at 2/29/2012	Median Consumption	Median Bill		Proposed Increase	
				Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	5/8X3/4 Inch Residential	5,902	6,000 \$	24.51 \$	32.05	7.54	30.76%
2	5/8X3/4 Inch Residential (Low Income)	96	-	23.32	29.84	6.52	27.96%
3	3/4 Inch Residential	11	4,000	28.15	38.23	10.08	35.79%
4	1 Inch Residential	35	6,000	44.97	61.68	16.71	37.15%
5	1 Inch Residential (Low Income)	1	-	40.71	55.02	14.31	35.15%
6	1 1/2 Inch Residential	3	20,000	113.30	147.75	34.45	30.41%
7	2 Inch Residential	3	14,000	128.72	181.50	52.78	41.00%
8	Subtotal	6,052					
9							
10	5/8X3/4 Inch Commercial	80	3,000 \$	15.75 \$	22.90	7.15	45.40%
11	1 Inch Commercial	49	7,000	47.89	64.73	16.84	35.15%
12	1 1/2 Inch Commercial	10	9,000	81.18	114.20	33.02	40.68%
13	2 Inch Commercial	43	20,500	147.70	201.33	53.63	36.31%
14	3 Inch Commercial	12	24,000	245.76	350.80	105.04	42.74%
15	4 Inch Commercial	6	192,000	932.34	1,019.35	87.01	9.33%
16	6 Inch Commercial	1	425,000	2,006.00	2,163.75	157.75	7.86%
17	Subtotal	201					
18							
19	5/8X3/4 Inch Industrial	17	4,353 \$	10.98 \$	17.35	6.37	58.01%
20	2 Inch Industrial	6	32,667	140.40	193.70	53.30	37.96%
21	Subtotal	23					
22							
23	5/8X3/4 Inch Multi-family	7	8,000 \$	30.35 \$	38.15	7.80	25.70%
24	1 1/2 Inch Multi-family	1	11,000	87.02	120.30	33.28	38.24%
25	Subtotal	8					
26							
27	6 Inch Bulk	0	945,000	3,898.80	5,394.05	1,495.25	38.35%
28	Fire Lines up to 8 Inch	19	- \$	5.49 \$	8.68	3.19	58.01%
29							
30							
31							
32	Total	6,303					

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

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

Line No.	Monthly Usage Charge for: Meter Size (All Classes):	Present Rates	Proposed Rates	Change	Percent Change
1	5/8 Inch	\$ 10.98	\$ 17.35	\$ 6.37	58.01%
2	3/4 Inch	16.47	26.03	9.56	58.01%
3	1 Inch	27.45	43.38	15.93	58.01%
4	1 1/2 Inch	54.90	86.75	31.85	58.01%
5	2 Inch	87.84	138.80	50.96	58.01%
6	3 Inch	175.68	277.60	101.92	58.01%
7	4 Inch	274.50	433.75	159.25	58.01%
8	6 Inch	549.00	867.50	318.50	58.01%
9	8 Inch	878.40	1,388.00	509.60	58.01%
10	10 Inch	1,262.70	1,995.25	732.55	58.01%
11	12 Inch	2,360.70	3,730.25	1,369.55	58.01%

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

13
14
15 Fire Lines 8 Inch (R-14-2-408.B) Per Rule* Per Rule*
16 Fire Lines 10 Inch (R-14-2-408.B) Per Rule* Per Rule*
17 Fire Lines 12 Inch (R-14-2-408.B) Per Rule* Per Rule*

18
19 * 1% of Monthly Minimum for a Comparable Size Meter Connection, but not less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for
20 service lines separate and distinct from the primary water service line.

21
22 Gallons In Minimum (All Classes) - - -
23
24

Commodity Rates (All Classes)	Block	Present Rate	Proposed Rate
25			(Per 1,000 gallons)
26			Present Rate Proposed Rate
27	5/8 Inch	\$ 1.59	\$ 1.85
28	0 gallons to 3,000 gallons	\$ 2.92	\$ 3.05
29	3,001 gallons to 9,000 gallons	\$ 3.64	\$ 3.70
30	over 9,000 gallons		
31			
32	3/4 Inch Meter	\$ 2.92	\$ 3.05
33	0 gallons to 6,000 gallons	\$ 3.64	\$ 3.70
34	over 6,000 gallons		
35			
36	3/4 Inch Meter	\$ 3.05	\$ 3.70
37	0 gallons to 4,500 gallons		
38	over 4,500 gallons		

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

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

Exhibit
 Rejoinder Schedule H-3
 Page 2
 Witness: Bourassa

Line No.	Commodity Rates (All Classes)	Block	(Per 1,000 gallons)	
			Present Rate	Proposed Rate
1				
2				
3				
4	1 Inch Meter	0 gallons to 15,000 gallons over 15,000 gallons	2.92 \$	-
5			3.64 \$	-
6				
7	1 Inch Meter	0 gallons to 22,500 gallons over 22,500 gallons		3.05 \$
8				3.70 \$
9				
10	1.5 Inch Meter	0 gallons to 20,000 gallons over 20,000 gallons	2.92	
11			3.64	
12				
13	1.5 Inch Meter	0 gallons to 45,000 gallons over 45,000 gallons		3.05 \$
14				3.70 \$
15				
16	2 Inch Meter	0 gallons to 57,000 gallons over 57,000 gallons	2.92	
17			3.64	
18				
19	2 Inch Meter	0 gallons to 72,000 gallons over 72,000 gallons		3.05 \$
20				3.70 \$
21				
22	3 Inch Meter	0 gallons to 57,000 gallons over 57,000 gallons	2.92	
23			3.64	
24				
25	3 Inch Meter	0 gallons to 144,000 gallons over 144,000 gallons		3.05 \$
26				3.70 \$
27				
28	4 Inch Meter	0 gallons to 57,000 gallons over 57,000 gallons	2.92	
29			3.64	
30				
31	4 Inch Meter	0 gallons to 225,000 gallons over 225,000 gallons		3.05 \$
32				3.70 \$
33				
34	6 Inch Meter	0 gallons to 125,000 gallons over 125,000 gallons	2.92	
35			3.64	
36				
37	6 Inch Meter	0 gallons to 450,000 gallons over 450,000 gallons		3.05 \$
38				3.70 \$

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

Exhibit
 Rejoinder Schedule H-3
 Page 3
 Witness: Bourassa

Line No.	Commodity Rates (All Classes)				
1					
2	8 Inch Meter	0 gallons to 125,000 gallons over 125,000 gallons	\$	2.92	
3			\$	3.64	
4	8 Inch Meter	0 gallons to 720,000 gallons over 720,000 gallons	\$		3.05
5			\$		3.70
6	10 Inch Meter	0 gallons to 125,000 gallons over 125,000 gallons	\$	2.92	
7			\$	3.64	
8	10 Inch Meter	0 gallons to 1,035,000 gallons over 1,035,000 gallons	\$		3.05
9			\$		3.70
10	12 Inch Meter	0 gallons to 125,000 gallons over 125,000 gallons	\$	2.92	
11			\$	3.64	
12	12 Inch Meter	0 gallons to 1,935,000 gallons over 1,935,000 gallons	\$		3.05
13			\$		3.70
14	6 Inch Bulk	All gallons	\$		3.70
15	NT = No Tariff				
16					
17					
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19					
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Rio Rico Utilities, Inc. dba Liberty Utilities - Water Division
 Changes in Representative Rate Schedules
 Test Year Ended February 29, 2012

Exhibit
 Rejoinder Schedule H-3
 Page 4
 Witness: Bourassa

Line No.	Other Service Charges	Present Rates	Proposed Rates
1	Establishment	\$ 15.00	\$ 15.00
2	Establishment (After Hours)	\$ 25.00	NT
3	Reconnection (Delinquent)	\$ 15.00	\$ 15.00
4	Reconnection (Delinquent) - After Hours	\$ 25.00	NT
5	Meter test (If Correct)	\$ 15.00	\$ 15.00
6	Deposit	*	*
7	Deposit Interest	**	**
8	Reestablishment (within 12 months)	***	***
9	NSF Check	\$ 15.00	\$ 15.00
10	Meter Reread (if Correct)	\$ 20.00	\$ 20.00
11	Late Payment Penalty	1.5% per month	1.5% per month
12	Deferred Payment (R-01-2-409.G)	1.5% per month	1.5% per month
13	Moving meter at customer request (R-14-2-405.B)	at Cost	at Cost
14	Service Calls - Per Hour/After Hours(a)	\$ 40.00	NT
15	Service Charge - After Hours(a)		\$ 40.00

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* 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. R14-2-403(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).

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

Exhibit
 Rejoinder Schedule H-3
 Page 5
 Witness: Bourassa

Line

No.

1							
2	<u>Refundable Meter and Service Line Charges</u>						
3							
4		Present			Proposed		
5		Service	Meter	Total	Service	Meter	Total
6		Line	Install-	Present	Line	Install-	Proposed
7		<u>Charge</u>	<u>ation</u>	<u>Charge</u>	<u>Charge</u>	<u>ation</u>	<u>Charge</u>
8		At Cost	<u>Charge</u>	At Cost	At Cost	At Cost	At Cost
9	5/8 x 3/4 Inch	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
10	3/4 Inch	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
11	1 Inch	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
12	1 1/2 Inch	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
13	2 Inch	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
14	3 Inch	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
15	4 Inch	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
16	6 inch	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
17	8 Inch	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
18	10 Inch	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
19	12 Inch	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
20							
21							
22							
23							
24							
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32							
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35							

RIO RICO UTILITIES, INC. DBA LIBERTY UTILITIES

**REJOINDER TESTIMONY OF THOMAS J. BOURASSA
RATE BASE, INCOME STATEMENT AND RATE DESIGN**

MARCH 8, 2013

WASTEWATER DIVISION SCHEDULES

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

Exhibit
 Rejoinder Schedule A-1
 Page 1
 Witness: Bourassa

Line
No.

1	Fair Value Rate Base	\$ 4,735,192
2		
3	Adjusted Operating Income	281,341
4		
5	Current Rate of Return	5.94%
6		
7	Required Operating Income	\$ 449,843
8		
9	Required Rate of Return on Fair Value Rate Base	9.50%
10		
11	Operating Income Deficiency	\$ 168,502
12		
13	Gross Revenue Conversion Factor	1.6589
14		
15	Increase in Gross Revenue	
16	Requirement	\$ 279,532
17		
18	Adjusted Test Year Revenues	\$ 1,370,130
19	Increase in Gross Revenue Revenue Requirement	\$ 279,532
20	Proposed Revenue Requirement	\$ 1,649,662
21	% Increase	20.40%
22		

<u>Customer</u>	<u>Classification</u>	<u>Present</u>	<u>Proposed</u>	<u>Dollar</u>	<u>Percent</u>
		<u>Rates</u>	<u>Rates</u>	<u>Increase</u>	<u>Increase</u>
25	5/8X3/4 Inch Residential	\$ 1,001,239	\$ 1,214,503	\$ 213,264	21.30%
26	5/8X3/4 Inch Residential (Low Income)	26,948	32,687	5,740	21.30%
27	3/4 Inch Residential	5,182	6,286	1,104	21.30%
28	1 Inch Residential	7,304	8,860	1,556	21.30%
29	1 Inch Residential (Low Income)	494	600	105	21.30%
30	1 1/2 Inch Residential	-	-	-	0.00%
31	2 Inch Residential	132	161	28	21.30%
32	5/8X3/4 Inch Commercial	46,018	54,365	8,348	18.14%
33	1 Inch Commercial	56,409	66,068	9,659	17.12%
34	1 1/2 Inch Commercial	17,712	20,544	2,832	15.99%
35	2 Inch Commercial	94,925	110,134	15,209	16.02%
36	3 Inch Commercial	5,376	6,357	982	18.26%
37	4 Inch Commercial	89,951	101,977	12,026	13.37%
38	6 Inch Commercial	33,018	37,604	4,586	13.89%
39	5/8X3/4 Inch Multi-tenant	4,780	5,664	883	18.48%
40	1 1/2 Inch Multi-tenant	1,411	1,686	275	19.47%
41				-	0.00%
42	Revenue Annualization	11,943	14,296	2,353	19.70%
43	Declining Usage Adjustment	(32,713)	(32,713)	-	0.00%
44	Subtotal	\$ 1,370,130	\$ 1,649,079	\$ 278,949	20.36%
45					
46	Other Water Revenues	-	-	-	0.00%
47	Reconciling Amount	-	583	583	0.00%
48	Rounding				0.00%
49	Total of Water Revenues	\$ 1,370,130	\$ 1,649,662	\$ 279,532	20.40%

51
 52 SUPPORTING SCHEDULES:
 53 B-1
 54 C-1
 55 C-3
 56 H-1

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

Exhibit
 Rejoinder Schedule B-1
 Page 1
 Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	\$ 12,655,367	\$ 12,655,367
3	Less: Accumulated Depreciation	4,658,438	4,658,438
4			
5	Net Utility Plant in Service	\$ 7,996,929	\$ 7,996,929
6			
7	<u>Less:</u>		
8	Advances in Aid of Construction	293,794	293,794
9			
10	Contributions in Aid of Construction	5,152,673	5,152,673
11			
12	Accumulated Amortization of CIAC	(2,491,137)	(2,491,137)
13			
14	Customer Meter Deposits	22,963	22,963
15	Deferred Income Taxes & Credits	283,444	283,444
16			
17			
18			
19	<u>Plus:</u>		
20	Unamortized Finance		
21	Charges	-	-
22	Deferred Tax Assets	-	-
23	Allowance for Working Capital	-	-
24			
25			
26	Total Rate Base	\$ 4,735,192	\$ 4,735,192
27			
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			
41	<u>SUPPORTING SCHEDULES:</u>		
42	B-2		
43	B-3		
44	B-5		
45			
46			
47			
48			
49			
50			

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

Exhibit
 Rejoinder Schedule B-2
 Page 1
 Witness: Bourassa

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

45 SUPPORTING SCHEDULES:
 46 B-2, pages 2

RECAP SCHEDULES:
 B-1

47
 48
 49
 50

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

Exhibit
 Rejoinder Schedule B-2
 Page 2
 Witness: Bourassa

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

RECAP SCHEDULES:
 B-1

SUPPORTING SCHEDULES:
 B-2, pages 3-5

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

Line No.	Acct. No.	Description	Plant-in-Service					Rebuttal Adjusted Original Cost
			A Direct Adjusted Original Cost	B Plant Reclassification from Water Division	C Nogales WWTP Plant Reclassification	D Nogales WWTP Plant Reclassification	E Affiliate Profit	
1	351	Organization	5,785				5,785	
2	352	Franchise	417				417	
3	353	Land	7,545				7,545	
4	354	Structures & Improvements	150,294				150,294	
5	355	Power Generation	-				-	
6	360	Collection Sewer Forced	636,023	(315,000)			636,023	
7	361	Collection Sewers Gravity	5,991,654				5,676,239	
8	362	Special Collecting Structures	-			(415)	-	
9	363	Customer Services	1,204,113				1,204,113	
10	364	Flow Measuring Devices	66,339				66,339	
11	366	Reuse Services	-				-	
12	367	Reuse Meters And Installation	-				-	
13	370	Receiving Wells	867,120				867,120	
14	371	Pumping Equipment	1,712,940			(6,866)	1,12,170	
15	374	Reuse Distribution Reservoirs	-				-	
16	375	Reuse Trans. and Dist. System	-				-	
17	380	Treatment & Disposal Equipment	1,128,675		(693,000)		282,033	
18	381	Plant Sewers	13,690				13,690	
19	382	Outfall Sewer Lines	-				-	
20	389	Other Sewer Plant & Equipment	64,928				64,928	
21	390	Office Furniture & Equipment	116,937				116,937	
22	390.1	Computers and Software	4,025				4,025	
23	391	Transportation Equipment	117				117	
24	392	Stores Equipment	-				-	
25	393	Tools, Shop And Garage Equip	5,139				5,139	
26	394	Laboratory Equip	-				-	
27	396	Communication Equip	5,936				5,936	
28	398	Other Tangible Plant	3,913				3,913	
29	398	Nogales WWTP	2,255,600	15,362	1,008,000	153,642	3,432,604	
30			-				-	
31			-				-	
32			-				-	
33			-				-	
34			-				-	
35			-				-	
36			-				-	
37			-				-	
38			-				-	
39			-				-	
40			-				-	
41			-				-	
42			-				-	
43			-				-	
44			-				-	
45			-				-	
46			-				-	
47			-				-	
48			-				-	
49			-				-	
50			-				-	
Plant Held for Future Use			15,362				15,362	
TOTALS			\$ 14,241,191	\$ 15,362	\$ -	\$ (6,866)	\$ (1,593,905)	\$ 12,655,367
Plant-in-Service per Direct							\$ 14,241,191	
Increase (decrease) in Plant-in-Service							\$ (1,585,824)	
Adjustment to Plant-in-Service							\$ (1,585,824)	

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

Exhibit
 Rejoinder Schedule B-2
 Page 3.1
 Witness: Bourassa

Line

No.

1 Reclassification of plant from Water Division

2

3 To WW

From Water

4 Acct.

Acct.

Water

Recorded

5 No.

Description

No.

Description

Year

Adjustment

6

380 Nogales WWTP

320

Water Treatment Equipment

2009

\$ 5,658

7

380 Nogales WWTP

336

Backflow Prevention Devices

2010

7,210

8

380 Nogales WWTP

336

Backflow Prevention Devices

2011

2,494

9

Total

\$ 15,362

10

11

12

13

14

15

16

17

18

19

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43 SUPPORTING SCHEDULE

44 Staff Schedule MJR-W5

45 Testimony

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

Exhibit
 Rejoinder Schedule B-2
 Page 3.2
 Witness: Bourassa

Line

No.

1 Reclassification of plant costs related to Nogales plant

2

3

4 Acct.

5 No. Description

6 380 Treatment & Disposal Equipment

7 380 Treatment & Disposal Equipment

8

9

10 361 Collection Sewers Gravity

11

12

13

14

15

16

17

18

19

20

21

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43 SUPPORTING SCHEDULE

44 RUCO Schedule TJC-7(a)

45 Testimony

Recorded

Year

Adjustment

1997

\$ (338,000)

1998

(355,000)

\$ (693,000)

2005

(315,000)

\$ (1,008,000)

\$ 1,008,000

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

Exhibit
 Rejoinder Schedule B-2
 Page 3.3
 Witness: Bourassa

Line

No.

Reclassification of plant costs related to Nogales plant

1
2
3

4 Acct.

5 No. Description

6 380 Treatment & Disposal Equipment

7 380 Treatment & Disposal Equipment

8 380 Treatment & Disposal Equipment

9 380 Treatment & Disposal Equipment

10 380 Treatment & Disposal Equipment

11 Total

12

13

14

15 Total

16

17

18

19 Nogales WWTP

20

21

22

23

24

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46 SUPPORTING SCHEDULE

47 Staff Schedule MJR-WW5

48 Testimony

Recorded

Year

Adjustment

2008 and Prior \$ (34,237)

2009 \$ (17,798)

2010 \$ (609)

2011 \$ (99,784)

2012 (1,214)

\$ (153,642)

\$ 153,642

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

Exhibit
 Rejoinder Schedule B-2
 Page 3.4
 Witness: Bourassa

Line

No.

1 Plant Retirement

2

3

4

Acct.

Recorded

5

No. Description

Year

Adjustment

6

371 Pumping Equipment

2009

\$ (6,866)

7

8

9

Total

\$ (6,866)

10

11

12

13

14

15

16

17

18

19

20

21

22

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43 SUPPORTING SCHEDULE

44 Staff Schedule MJR-W7

45 Testimony

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

Exhibit
 Rejoinder Schedule B-2
 Page 3.5
 Witness: Bourassa

Line

No.

1 Remove 2012 Affiliate Profit

2

3

4 Acct.

Recorded

5 No. Description

Year

Adjustment

6 371 Pumping Equipment

2012

\$ (415)

7

8

9 Total

\$ (415)

10

11

12

13

14

15

16

17

18

19

20

21

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43 SUPPORTING SCHEDULE

44 Staff Schedule MJR-W9

45 Testimony

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

Exhibit
 Rejoinder Schedule B-2
 Page 3.6
 Witness: Bourassa

Line No.						
1	<u>Plant Retirements</u>					
2						
3						
4	Acct.			Retirement		
5	<u>No.</u>	<u>Description</u>	<u>Description</u>	<u>Year</u>		<u>Adjustment</u>
6	371	Pumping Equipment	1994 Net Plant Adds	2009	\$ (265,342)	
7	371	Pumping Equipment	1995 Net Plant Adds	2009	-	
8	371	Pumping Equipment	1996 Net Plant Adds	2009	(31,512)	
9	371	Pumping Equipment	1997 Net Plant Adds	2009	(383,702)	
10	371	Pumping Equipment	1998 Net Plant Adds	2009	(15,616)	
11	371	Pumping Equipment	1999 Net Plant Adds	2009	-	
12	371	Pumping Equipment	2000 Net Plant Adds	2009	<u>(2,895)</u>	
13			Subtotal			\$ (699,067)
14						
15	371	Pumping Equipment	2001 Net Plant Adds	2010		(29,911)
16	371	Pumping Equipment	2002 Net Plant Adds	2011		(864,926)
17	371	Pumping Equipment	2003 Net Plant Adds	2012		-
18						
19						
20						
21						
22		Total				<u>\$ (1,593,905)</u>
23						
24						
25						
26						
27						
28						
29						
30						
31						
32						
33						
34						
35						
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37						
38						
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40						
41						
42						
43						
44	Testimony					
45						

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

Exhibit
 Rejoinder Schedule B-2
 Page 3.7
 Witness: Bourassa

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

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

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

NARUC Line Account No. No.	Description	Allowed Deprec. Rate	Per Decision 72059		2009				Accum. Deprec. At 12/31/2008	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
			Plant at 12/31/2008	Accum. Deprec. At 12/31/2008															
1	351 Organization	0.00%	5,785	-	-	-	-	-	-	-	-	-	-	-	-	-	5,785	-	
2	352 Franchise	0.00%	417	-	-	-	-	-	-	-	-	-	-	-	-	-	417	-	
3	353 Land	0.00%	7,545	-	-	-	-	-	-	-	-	-	-	-	-	-	7,545	-	
4	354 Structures & Improvements	3.33%	28,548	27,203	294	-	-	-	294	-	-	-	-	-	-	956	28,842	28,159	
5	355 Power Generation	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	360 Collection Sewer Forced	2.00%	636,023	(38,371)	-	-	-	-	-	-	-	-	-	-	-	12,720	636,023	(25,651)	
7	361 Collection Sewers Gravity	2.00%	5,945,962	2,213,553	-	-	-	-	130,091	-	-	-	-	-	-	120,220	6,076,053	2,333,773	
8	362 Special Collecting Structures	2.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	363 Customer Services	2.00%	1,145,530	595,856	7,994	-	-	-	7,994	-	-	-	245	-	-	22,988	1,153,279	618,599	
10	364 Flow Measuring Devices	10.00%	55,988	31,043	8,964	-	-	-	8,964	-	-	-	-	-	-	6,047	64,952	37,090	
11	366 Reuse Services	2.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	367 Reuse Meters And Installation	8.33%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	370 Receiving Wells	3.33%	867,120	238,710	-	-	-	-	-	-	-	-	-	-	-	28,875	867,120	267,585	
14	371 Pumping Equipment	12.50%	1,504,181	1,232,681	112	-	-	-	112	-	-	-	699,067	-	-	144,338	805,225	677,952	
15	374 Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16	375 Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	380 Treatment & Disposal Equipment	5.00%	1,006,848	665,793	14,462	-	-	-	14,462	-	-	-	-	-	-	50,704	1,021,310	716,486	
18	381 Plant Sewers	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	382 Outfall Sewer Lines	3.33%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20	389 Other Sewer Plant & Equipment	6.67%	68,869	65,244	-	-	-	-	-	-	-	-	-	-	-	3,625	68,869	68,869	
21	390 Office Furniture & Equipment	6.67%	110,454	8,021	-	-	-	-	-	-	-	-	-	-	-	7,367	110,454	15,388	
22	390.1 Computers and Software	20.00%	4,025	4,025	-	-	-	-	-	-	-	-	-	-	-	-	4,025	4,025	4,025
23	391 Transportation Equipment	20.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
24	392 Stores Equipment	4.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
25	393 Tools, Shop And Garage Equip	5.00%	4,897	4,156	-	-	-	-	-	-	-	-	-	-	-	245	4,897	4,401	
26	394 Laboratory Equip	10.00%	5,936	5,936	-	-	-	-	-	-	-	-	-	-	-	-	5,936	5,936	
27	396 Communication Equip	10.00%	3,913	2,815	-	-	-	-	-	-	-	-	-	-	-	381	3,913	3,206	
28	388 Other Tangible Plant	10.00%	427,000	53,375	-	-	-	-	-	-	-	-	-	-	-	20,154	427,000	73,529	
29	Nogates WWTP	4.72%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
30			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
31			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
32			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
33			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
34			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
35	Plant Held for Future Use		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
36	TOTALS		11,829,042	5,110,028	161,917	-	-	-	161,917	-	-	245	699,067	-	-	418,631	11,291,647	4,829,348	

Line Account No.	NARUC No.	Description	Allowed Deprec. Rate	2011				Adjusted Plant Retirements (Par Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
				Plant Additions (Par Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements							
1	351	Organization	0.00%	-	-	-	-	-	-	-	-	5,785	-	
2	352	Franchise	0.00%	-	-	-	-	-	-	-	-	417	-	
3	353	Land	0.00%	-	-	-	-	-	-	-	-	7,545	-	
4	354	Structures & Improvements	3.33%	-	-	-	-	-	-	-	-	28,842	28,842	
5	355	Power Generation	5.00%	-	-	-	-	-	-	-	-	-	-	
6	356	Collection Sewer Forced	2.00%	-	-	-	-	-	-	-	-	-	-	
7	361	Collection Sewers Gravity	2.00%	652	-	-	-	-	-	-	12,720	636,023	(210)	
8	362	Special Collecting Structures	2.00%	-	-	-	-	-	-	-	121,530	6,076,813	2,576,825	
9	363	Customer Services	2.00%	7,319	-	-	-	-	-	-	23,869	1,197,120	665,899	
10	364	Flow Measuring Devices	10.00%	-	-	-	-	-	-	-	6,495	64,952	50,080	
11	366	Reuse Services	2.00%	-	-	-	-	-	-	-	-	-	-	
12	367	Reuse Meters And Installation	8.33%	-	-	-	-	-	-	-	-	-	-	
13	370	Receiving Wells	3.33%	-	-	-	-	-	-	-	28,875	867,120	325,335	
14	371	Pumping Equipment	12.50%	94,151	-	-	-	864,926	-	-	59,249	88,603	(93,596)	
15	374	Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-	-	-	-	-	
16	375	Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	-	-	53,510	1,118,499	817,678	
17	380	Treatment & Disposal Equipment	5.00%	99,979	-	-	-	3,400	-	-	-	-	-	
18	381	Plant Sewers	5.00%	-	-	-	-	-	-	-	-	-	-	
19	382	Outfall Sewer Lines	3.33%	-	-	-	-	-	-	-	-	-	-	
20	389	Other Sewer Plant & Equipment	6.67%	-	-	-	-	-	-	-	-	68,869	68,869	
21	390	Office Furniture & Equipment	6.67%	-	-	-	-	-	-	-	7,367	110,454	30,122	
22	390.1	Computers and Software	20.00%	-	-	-	-	-	-	-	-	4,025	4,025	
23	391	Transportation Equipment	20.00%	67	-	-	-	-	-	-	7	67	-	
24	392	Stores Equipment	4.00%	-	-	-	-	-	-	-	-	-	-	
25	393	Tools, Shop And Garage Equip	5.00%	139	-	-	-	-	-	-	248	5,036	4,894	
26	394	Laboratory Equip	10.00%	-	-	-	-	-	-	-	-	-	-	
27	396	Communication Equip	10.00%	-	-	-	-	-	-	-	-	5,936	5,936	
28	398	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-	3,913	3,597	
29		Nogales WWTP	4.72%	-	-	-	-	-	-	-	20,154	427,000	113,838	
30				-	-	-	-	-	-	-	-	-	-	
31				-	-	-	-	-	-	-	-	-	-	
32				-	-	-	-	-	-	-	-	-	-	
33				-	-	-	-	-	-	-	-	-	-	
34		Plant Held for Future Use		-	-	-	-	-	-	-	-	-	-	
35				-	-	-	-	-	-	-	-	-	-	
36		TOTALS		202,307	-	202,307	3,400	864,926	868,326	-	334,026	10,717,020	4,642,140	

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

Line Account No.	Description	Allowed Deprec. Rate	2012 (2 months through 2/29)										Accum. Deprec.
			Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Adjusted Plant Retirements	Plant Adjustments Only	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	
1	351 Organization	0.00%	-	-	-	-	-	-	-	-	-	5,785	-
2	352 Franchise	0.00%	-	-	-	-	-	-	-	-	-	417	-
3	353 Land	0.00%	-	-	-	-	-	-	-	-	7,545	-	
4	354 Structures & Improvements	3.33%	14	121,438	-	121,452	-	-	-	497	150,294	29,339	-
5	355 Power Generation	5.00%	-	-	-	-	-	-	-	-	-	-	1,910
6	360 Collection Sewer Forced	2.00%	-	-	-	-	-	-	-	-	636,023	-	1,910
7	361 Collection Sewers Gravity	2.00%	(85,159)	-	(415)	(85,574)	-	-	-	2,120	5,676,239	2,554,939	-
8	362 Special Collecting Structures	2.00%	7,009	(16)	-	6,993	-	-	-	4,002	1,204,113	669,900	-
9	363 Customer Services	2.00%	1,387	-	-	1,387	-	-	-	1,094	66,339	51,174	-
10	364 Flow Measuring Devices	10.00%	-	-	-	-	-	-	-	-	-	-	-
11	366 Reuse Services	2.00%	-	-	-	-	-	-	-	-	-	-	-
12	367 Reuse Meters And Installation	8.33%	-	-	-	-	-	-	-	-	-	-	-
13	370 Receiving Wells	3.33%	-	-	-	-	-	-	-	-	-	-	-
14	371 Pumping Equipment	12.50%	30,433	-	-	30,433	-	6,866	6,866	4,813	867,120	330,148	-
15	374 Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-	-	2,091	112,170	(68,373)	-
16	375 Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	-	-	-	-	-	-
17	380 Treatment & Disposal Equipment	5.00%	10,176	-	-	10,176	-	-	-	-	-	-	-
18	381 Plant Sewers	5.00%	13,690	-	-	13,690	-	-	-	-	282,033	282,033	57
19	382 Outfall Sewer Lines	3.33%	-	-	-	-	-	-	-	-	13,690	-	-
20	389 Other Sewer Plant & Equipment	6.67%	280	(4,221)	-	(3,941)	-	-	-	-	64,928	64,928	-
21	390 Office Furniture & Equipment	6.67%	6,483	-	-	6,483	-	-	-	1,264	116,937	31,366	-
22	390.1 Computers and Software	20.00%	-	-	-	-	-	-	-	-	4,025	4,025	-
23	391 Transportation Equipment	20.00%	50	-	-	50	-	-	-	3	117	10	-
24	392 Stores Equipment	4.00%	-	-	-	-	-	-	-	-	-	-	-
25	393 Tools, Shop And Garage Equip	5.00%	103	-	-	103	-	-	-	42	5,139	4,937	-
26	394 Laboratory Equip	10.00%	-	-	-	-	-	-	-	-	5,936	5,936	-
27	396 Communication Equip	10.00%	-	-	-	-	-	-	-	65	3,913	3,662	-
28	398 Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-	-	-	-
29	Nogales WWTP	4.72%	1,828,600	-	-	1,828,600	-	-	-	10,552	3,432,604	682,427	-
30			-	-	-	-	-	-	-	-	-	-	-
31			-	-	-	-	-	-	-	-	-	-	-
32			-	-	-	-	-	-	-	-	-	-	-
33			-	-	-	-	-	-	-	-	-	-	-
34	Plant Held for Future Use		-	-	-	-	-	-	-	-	-	-	-
35			-	-	-	-	-	-	-	-	-	-	-
36	TOTALS		1,813,066	117,201	(415)	1,929,852	6,866	6,866	15,362	(23,550)	46,714	12,655,368	4,658,438

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

Line No.	Acct. No.	Description	Accumulated Depreciation									
			A	B	C	D	E	F	G	H	I	
			Direct Adjusted Accum. Depr.	Plant Reclassification from Water Division	Nogales WWTP Plant Reclassification	Nogales WWTP Plant Reclassification	Plant Retirement	2012 Affiliate Profit	Prior Case Affiliate Profit	Plant Retirements	Adjustments to Reconcile to A/D Reconstruction	Rebuttal Adjusted Accum. Depr.
1	351	Organization	-	-	-	-	-	-	-	-	-	-
2	352	Franchise	-	-	-	-	-	-	-	-	-	-
3	353	Land	-	-	-	-	-	-	-	-	-	-
4	354	Structures & Improvements	29,339	-	-	-	-	-	-	-	-	29,339
5	355	Power Generation	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewer Forced	1,910	-	-	-	-	-	-	-	-	1,910
7	361	Collection Sewers Gravity	2,596,939	-	(42,000)	-	-	-	-	-	(0)	2,554,939
8	362	Special Collecting Structures	-	-	-	-	-	-	-	-	-	-
9	363	Customer Services	669,901	-	-	-	-	-	(1)	-	-	669,900
10	364	Flow Measuring Devices	51,174	-	-	-	-	-	-	-	-	51,174
11	366	Reuse Services	-	-	-	-	-	-	-	-	-	-
12	367	Reuse Meters And Installation	-	-	-	-	-	-	-	-	-	-
13	370	Receiving Wells	330,148	-	-	-	-	-	-	-	-	330,148
14	371	Pumping Equipment	1,687,580	-	-	-	(6,866)	(4)	-	(1,593,905)	(145,178)	(58,373)
15	374	Reuse Distribution Reservoirs	-	-	-	-	-	-	-	-	-	-
16	375	Reuse Trans. and Dist. System	-	-	-	-	-	-	-	-	-	-
17	380	Treatment & Disposal Equipment	827,041	-	(502,590)	(12,032)	-	-	-	-	(30,386)	282,033
18	381	Plant Sewers	57	-	-	-	-	-	-	-	-	57
19	382	Outfall Sewer Lines	-	-	-	-	-	-	-	-	-	-
20	389	Other Sewer Plant & Equipment	68,869	-	-	-	-	-	(892)	-	(3,049)	64,928
21	390	Office Furniture & Equipment	31,386	-	-	-	-	-	-	-	-	31,386
22	390.1	Computers and Software	4,025	-	-	-	-	-	-	-	-	4,025
23	391	Transportation Equipment	10	-	-	-	-	-	-	-	-	10
24	392	Stores Equipment	-	-	-	-	-	-	-	-	-	-
25	393	Tools, Shop And Garage Equip	4,937	-	-	-	-	-	-	-	-	4,937
26	394	Laboratory Equip	-	-	-	-	-	-	-	-	-	-
27	396	Communication Equip	5,936	-	-	-	-	-	-	-	-	5,936
28	398	Other Tangible Plant	3,662	-	-	-	-	-	-	-	-	3,662
29	380	Nogales WWTP	124,390	1,415	544,590	12,032	-	-	-	-	0	682,427
30			-	-	-	-	-	-	-	-	-	-
31			-	-	-	-	-	-	-	-	-	-
32			-	-	-	-	-	-	-	-	-	-
33			-	-	-	-	-	-	-	-	-	-
34			-	-	-	-	-	-	-	-	-	-
35			-	-	-	-	-	-	-	-	-	-
36			-	-	-	-	-	-	-	-	-	-
37			-	-	-	-	-	-	-	-	-	-
38			-	-	-	-	-	-	-	-	-	-
39			-	-	-	-	-	-	-	-	-	-
40		Plant Held for Future Use	-	1,415	-	-	-	(4)	-	(893)	(178,614)	4,658,438
41		TOTALS	\$ 6,437,304	\$ 1,415	\$ -	\$ -	\$ (6,866)	\$ -	\$ (4)	\$ (893)	\$ (1,593,905)	\$ 4,658,438
42		Accumulated Depreciation per Books										\$ 6,437,304
43		Increase (decrease) in Accumulated Depreciation										\$ (1,778,866)
44		Adjustment to Accumulated Depreciation										\$ (1,778,866)

SUPPORTING SCHEDULES
B-2, pages 4.1

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

Exhibit
 Rejoinder Schedule B-2
 Page 4.1
 Witness: Bourassa

Line

No.

1 Reclassification of plant from Water Division

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4 Acct.

5 No. Description

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		Depr	Recorded	Years	Plant	Accumulated
		Rate	Year	thru EOTY	Reclass	Depreciation
				(Half-Year Conv.)	Adjustment	Adjustment
	Nogales WWTP	3.33%	2009	2.67	\$ 5,658	\$ 502
	Nogales WWTP	6.67%	2010	1.67	7,210	802
	Nogales WWTP	6.67%	2011	0.67	2,494	111
	Total				<u>\$ 15,362</u>	<u>\$ 1,415</u>

43 SUPPORTING SCHEDULE

44 B-2 Schedule 3.1

45 Testimony

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

Exhibit
 Rejoinder Schedule B-2
 Page 4.2
 Witness: Bourassa

Line
No.

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

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Depreciation recorded through Oct 2004

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Depreciation recorded Oct 2004 through Feb. 2012

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Reclassification Totals by Account

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SUPPORTING SCHEDULE

44

B-2 Schedule 3.2

45

Testimony

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

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

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

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

Exhibit
 Rejoinder Schedule B-2
 Page 4.3
 Witness: Bourassa

Line
No.

1	<u>Reclassification of Treatment and Disposal Equip. A/D to Nogales WWTP A/D</u>						
2							
3							
4	Acct.		Depr	Recorded	Years	Plant	Accumulated
5	<u>No.</u> <u>Description</u>	<u>Rate</u>	<u>Year</u>	<u>(Half-Year Conv.)</u>	<u>Reclass</u>	<u>Adjustment</u>	<u>Depreciation</u>
6	380 Treatment and Disposal Equipment	5.00%	2008 and Prior	3.67	\$ (34,237)	\$ (6,277)	
7	380 Treatment and Disposal Equipment	5.00%	2009	2.67	\$ (17,798)	(2,373)	
8	380 Treatment and Disposal Equipment	5.00%	2010	1.67	\$ (609)	(51)	
9	380 Treatment and Disposal Equipment	5.00%	2011	0.67	\$ (99,784)	(3,326)	
10	380 Treatment and Disposal Equipment	5.00%	2012	0.08	\$ (1,214)	(5)	
11	Total						(12,032)
12							
13							
14							
15							
16	<u>Reclassification Totals by Account</u>						
17	380 Treatment and Disposal Equipment						\$ (12,032)
18	Nogales WWTP						<u>12,032</u>
19	Total						<u>\$ -</u>
20							
21							
22							
23							
24							
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43	<u>SUPPORTING SCHEDULE</u>						
44	B-2 Schedule 3.3						
45	Testimony						

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

Exhibit
 Rejoinder Schedule B-2
 Page 4.4
 Witness: Bourassa

Line

No.

1 Plant Retirement

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4 Acct.

5 No. Description

6 371 Pumping Equipment

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9 Total

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43 SUPPORTING SCHEDULE

44 B-2 Schedule 3.4

45 Testimony

	Plant Retirement	Accumulated Depreciation
<u>Adjustment</u>	<u>Adjustment</u>	<u>Adjustment</u>
\$ (6,866)	\$	(6,866)

	-
	<u>\$ (6,866)</u>

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

Exhibit
 Rejoinder Schedule B-2
 Page 4.5
 Witness: Bourassa

Line

No.

1 Remove 2012 Affiliate Profit

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<u>Acct. No.</u>	<u>Description</u>	<u>Depr Rate</u>	<u>Recorded Year</u>	<u>Years thru EOTY (Half-Year Conv.)</u>	<u>Plant Adjustment</u>	<u>Accumulated Depreciation Adjustment</u>
371	Pumping Equipment	12.50%	2012	0.083333	\$ (415)	\$ (4)
	Total					\$ (4)

SUPPORTING SCHEDULE

B-2 Schedule 3.5

Testimony

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

Exhibit
 Rejoinder Schedule B-2
 Page 4.6
 Witness: Bourassa

Line
No.

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

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43 SUPPORTING SCHEDULE
 44 B-2 Schedule 3.5
 45 Testimony

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

Exhibit
 Rejoinder Schedule B-2
 Page 4.7
 Witness: Bourassa

Line

No.

1 Plant Retirements

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4 Acct.

5 No. Description

6 371 Electric Pumping Equipment

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11 Total

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43 SUPPORTING SCHEDULE

44 B-2 Schedule 3.6

45 Testimony

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

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

Exhibit
 Rejoinder Schedule B-2
 Page 4.8
 Witness: Bourassa

Line No.			Direct Adjusted Original	B-2 Adjustments	Rebuttal Adjusted Original Cost	A/D Per Reconstruction	Accumulated Depreciation Adjustment
5	Acct. No.	Description	Cost	Cost	Cost	Cost	Cost
1		<u>Accumulated Depreciation (A/D)</u>					
2							
3							
4							
5							
6	351	Organization	-	-	-	-	-
7	352	Franchise	-	-	-	-	-
8	353	Land	-	-	-	-	-
9	354	Structures & Improvements	29,339	-	29,339	29,339	-
10	355	Power Generation	-	-	-	-	-
11	360	Collection Sewer Forced	1,910	-	1,910	1,910	-
12	361	Collection Sewers Gravity	2,596,939	(42,000)	2,554,939	2,554,939	(0)
13	362	Special Collecting Structures	-	-	-	-	-
14	363	Customer Services	669,901	(1)	669,900	669,900	0
15	364	Flow Measuring Devices	51,174	-	51,174	51,174	-
16	366	Reuse Services	-	-	-	-	-
17	367	Reuse Meters And Installation	-	-	-	-	-
18	370	Receiving Wells	330,148	-	330,148	330,148	-
19	371	Pumping Equipment	1,687,580	(1,600,775)	86,805	(58,373)	(145,178)
20	374	Reuse Distribution Reservoirs	-	-	-	-	-
21	375	Reuse Trans. and Dist. System	-	-	-	-	-
22	380	Treatment & Disposal Equipment	827,041	(514,622)	312,419	282,033	(30,386)
23	381	Plant Sewers	57	-	57	57	-
24	382	Outfall Sewer Lines	-	-	-	-	-
25	389	Other Sewer Plant & Equipment	68,869	(892)	67,977	64,928	(3,049)
26	390	Office Furniture & Equipment	31,386	-	31,386	31,386	-
27	390.1	Computers and Software	4,025	-	4,025	4,025	-
28	391	Transportation Equipment	10	-	10	10	-
29	392	Stores Equipment	-	-	-	-	-
30	393	Tools, Shop And Garage Equip	4,937	-	4,937	4,937	-
31	394	Laboratory Equip	-	-	-	-	-
32	396	Communication Equip	5,936	-	5,936	5,936	-
33	398	Other Tangible Plant	3,662	-	3,662	3,662	-
34		Nogales WWTP	124,390	558,037	682,427	682,427	0
35							
36							
37							
38							
39							
40		TOTALS	\$ 6,437,304	\$ (1,600,253)	\$ 4,837,052	\$ 4,658,438	\$ (178,614)
41							
42							
43		<u>SUPPORTING SCHEDULE</u>					
44		B-2, pages 4.1 through 4.5					
45		B-2, pages 3.8 through 3.11					

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

Exhibit
 Rejoinder Schedule B-2
 Page 5
 Witness: Bourassa

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

Line No.		<u>Gross CIAC</u>	<u>Accumulated Amortization</u>
1			
2			
3			
4			
5	Computed balance at 02/29/2012 per Rebuttal	\$ 5,152,673	\$ 2,491,137
6			
7	Adjusted balance at 02/29/2012	<u>\$ 5,152,673</u>	<u>\$ 2,509,975</u>
8			
9	Increase (decrease)	\$ -	\$ (18,837)
10			
11			
12	Adjustment to CIAC/AA CIAC	<u>\$ -</u>	<u>\$ 18,837</u>
13	Label	3a	3b
14			
15			
16			
17			
18			
19	<u>SUPPORTING SCHEDULES</u>		
20	B-2, page 5.1		
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Line No.		FEDERAL	STATE
1	¹ Per Rebuttal Adjusted Balances		
2	² Computation of Net Tax Value February 29, 2012		
3	Based on 2011 Tax Depreciation report (December 31, 2011)		
4	Unadjusted Cost at December 31, 2011 per federal and state tax depr. report	\$ 28,328,799	\$ 28,328,799
5	Reconciling items not on tax report:		
6	KPMG CIAC related adjustments per KPMG tax basis adjustment	(3,942,541)	(3,942,541)
7	Plant Adds 1/1/2012 to 2/28/2012	2,918,334	2,918,334
8	Land costs not on tax, on books	51,739	51,739
9	2011 Reconciling Difference Book vs. Tax (timing) (see work papers)	(120,225)	(120,225)
10	Rebuttal Proposed Retirements - Water Division	(1,552,416)	(1,552,416)
11	Rebuttal Proposed Retirements - WW Division	(1,600,771)	(1,600,771)
12	Net Unadjusted Cost tax Basis at February 29, 2012	\$ 24,082,920	\$ 24,082,920
13			
14	Reductions		
15	Basis Reduction 2011 and Prior Years per federal and state tax depr. report	\$ (3,066,507)	\$ -
16	KPMG CIAC related adjustments per KPMG tax basis adjustment	1,192,828	1,192,828
17	Accumulated Depreciation 2011 and prior per federal and state tax depr. report	(14,334,167)	(14,640,446)
18	2012 Tax Depreciation on 2011 and prior plant (2 months of 2012) per federal and state tax depr. report	(163,663)	(184,923)
19	2012 Bonus Depreciation estimate (2 months of 2012) per federal and state tax depr. report	(90,811)	(9,728)
20	2012 Tax Depreciation on plant adds 1/1/2012 to 2/28/2012 (2 months of 2012) per federal and state tax depr. report	(7,912)	(9,728)
21	Rebuttal Proposed Retirements - Water Division	1,552,416	1,552,416
22	Rebuttal Proposed Retirements - WW Division	1,600,771	1,600,771
23	Net Reductions through February 2012	(13,317,045)	(10,489,082)
24	Net tax value of plant-in-service at February 29, 2012	\$ 10,765,875	\$ 13,593,838
25			
26	³ CIAC (including impact of change to probability of realization)		
27	Gross CIAC per Rebuttal Adjusted Balances	\$ 25,331,792	
28	CIAC reductions/additions		
29	A.A per Rebuttal Adjusted Balances	(11,108,889)	
30			
31			
32			
33	Net CIAC before unrealized AIAC	\$ 14,222,903	
34	Unrealized AIAC Component		
35	Adjusted Net AIAC (see footnote 5 below)	\$ 954,749	
36	Unrealized AIAC Component % (1-Realized AIAC Component)	70.0%	
37			
38	Total realizable CIAC	\$ 668,325	
39			
40			
41	⁴ AIAC (including impact of change in probability of realization)		
42	AIAC per adjusted book balances	\$ 954,749	
43	AIAC reductions/additions		
44	Net AIAC before unrealized portion	\$ (668,325)	
45	Less: Unrealized AIAC (from Note 3, above)	\$ 286,425	
46	Net realizable AIAC	\$ 306,987	
47	Meter and Service Line Installation Charges per Rebuttal Adjusted Balances		
48	Total AIAC	\$ 593,411	
49			

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

Test Year Ended February 29, 2012
 Computation of Working Capital

Schedule B-5
 Page 1
 Witness: Bourassa

Line
No.

1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	71,101
3	Pumping Power (1/24 of Pumping Power)		2,671
4	Purchased Water (1/24 of Purchased Water)		-
5	Prepaid Expenses		
6			
7			
8			
9	Total Working Capital Allowance	<u>\$</u>	<u>73,773</u>
10			
11			
12	Working Capital Requested	<u>\$</u>	<u>-</u>
13			
14			
15			
16			
17		<u>Adjusted Test Year</u>	
18	Total Operating Expense	\$	1,088,789
19	Less:		
20	Income Tax	\$	176,861
21	Property Tax		75,043
22	Depreciation		203,964
23	Purchased Water		-
24	Pumping Power		64,109
25	Allowable Expenses	<u>\$</u>	<u>568,811</u>
26	1/8 of allowable expenses	<u>\$</u>	<u>71,101</u>
27			

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29 SUPPORTING SCHEDULES:

30 C-1

RECAP SCHEDULES:

B-1

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

Exhibit
 Rejoinder Schedule C-1
 Page 1
 Witness: Bourassa

Line No.		Test Year Adjusted Results	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	Revenues					
2	Metered Water Revenues	\$ 1,360,583	\$ 9,546	\$ 1,370,130	\$ 279,532	\$ 1,649,662
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	-	-	-		-
5		<u>\$ 1,360,583</u>	<u>\$ 9,546</u>	<u>\$ 1,370,130</u>	<u>\$ 279,532</u>	<u>\$ 1,649,662</u>
6	Operating Expenses					
7	Salaries and Wages	\$ 131,547	11,811	\$ 143,358		\$ 143,358
8	Purchased Wastewater Treatment	-	165,896	165,896		165,896
9	Sludge Removal Expense	-	-	-		-
10	Purchased Power	61,290	2,819	64,109		64,109
11	Fuel for Power Production	-	-	-		-
12	Chemicals	4,907	-	4,907		4,907
13	Materials and Supplies	4,473	-	4,473		4,473
14	Management Services - US Liberty Water	83,038	-	83,038		83,038
15	Management Services - Corporate	59,292	(836)	58,456		58,456
16	Management Services - Other	172,270	(165,896)	6,374		6,374
17	Contracted Services - Engineering	-	-	-		-
18	Contractual Services- Testing	330	-	330		330
19	Contractual Services - Other	638	-	638		638
20	Contractual Services - Legal	585	-	585		585
21	Equipment Rental	400	-	400		400
22	Rents - Building	-	-	-		-
23	Transportation Expenses	18,066	-	18,066		18,066
24	Insurance - General Liability	11,302	-	11,302		11,302
25	Insurance - Vehicle	2,516	-	2,516		2,516
26	Regulatory Commission Expense	-	-	-		-
27	Reg. Comm. Exp. - Rate Case	29,167	-	29,167		29,167
28	Miscellaneous Expense	16,111	-	16,111		16,111
29	Bad Debt Expense	23,194	-	23,194		23,194
30	Depreciation Expense	359,629	(155,665)	203,964		203,964
31	Taxes Other Than Income	-	-	-		-
32	Property Taxes	74,520	523	75,043	5,103	80,147
33	Income Tax	93,487	83,374	176,861	105,927	282,788
34		-	-	-		-
35	Total Operating Expenses	<u>\$ 1,146,763</u>	<u>\$ (57,974)</u>	<u>\$ 1,088,789</u>	<u>\$ 111,030</u>	<u>\$ 1,199,819</u>
36	Operating Income	<u>\$ 213,820</u>	<u>\$ 67,521</u>	<u>\$ 281,341</u>	<u>\$ 168,502</u>	<u>\$ 449,843</u>
37	Other Income (Expense)					
38	Interest Income	-	-	-		-
39	Other income	-	-	-		-
40	Interest Expense	(52,427)	52,427	-		-
41	Other Expense	-	-	-		-
42		-	-	-		-
43	Total Other Income (Expense)	<u>\$ (52,427)</u>	<u>\$ 52,427</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
44	Net Profit (Loss)	<u>\$ 161,393</u>	<u>\$ 119,947</u>	<u>\$ 281,341</u>	<u>\$ 168,502</u>	<u>\$ 449,843</u>

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 46 SUPPORTING SCHEDULES:
 47 C-1, page 2
 48
 49

RECAP SCHEDULES:
 A-1

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

Exhibit
 Rejoinder Schedule C-1
 Page 2.1
 Witness: Bourassa

Line No.	Revenues	1	2	3	4	5	6	7	8
	Adjusted Results	Depreciation	Property Taxes	Declining Usage Adjustment	Revenue Annualization	Revenue Accrual Fix	UNSE Rate Increase	Staffs APUC Cap. Tax Adj.	Intentionally Left Blank
1	\$ 1,360,583			\$ (32,713)	17,150	\$ 25,110			
2	Metered Water Revenues								
3	Unmetered Water Revenues								
4	Other Water Revenues								
5	Operating Expenses								
6	Salaries and Wages								
7	Purchased Wastewater Treatment								
8	Sludge Removal Expense								
9	Purchased Power								
10	Fuel for Power Production								
11	Chemicals								
12	Materials and Supplies								
13	Management Services - US Liberty Water								
14	Management Services - Corporate								
15	Management Services - Other								
16	Contracted Services - Engineering								
17	Contractual Services - Testing								
18	Contractual Services - Other								
19	Contractual Services - Legal								
20	Equipment Rental								
21	Rents - Building								
22	Transportation Expenses								
23	Insurance - General Liability								
24	Insurance - Vehicle								
25	Regulatory Commission Expense								
26	Reg Comm. Exp. - Rate Case								
27	Miscellaneous Expense								
28	Bad Debt Expense								
29	Depreciation Expense								
30	Taxes Other Than Income								
31	Property Taxes								
32	Income Tax								
33									
34									
35	Total Operating Expenses	\$ 1,146,763	\$ (155,665)	\$ 523	\$ -	\$ -	\$ 2,819	\$ (836)	\$ -
36	Operating Income	\$ 213,820	\$ 155,665	\$ (523)	\$ (32,713)	\$ 17,150	\$ (2,819)	\$ 836	\$ -
37	Other Income (Expense)								
38	Interest Income								
39	Other Income								
40	Interest Expense								
41	Other Expense								
42									
43	Total Other Income (Expense)	\$ (52,427)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
44	Net Profit (Loss)	\$ 161,393	\$ 155,665	\$ (523)	\$ (32,713)	\$ 17,150	\$ (2,819)	\$ 836	\$ -

SUPPORTING SCHEDULES:
 C-2, pages 11-16

Line No.	9 Staff's Expense Recalls	10 Employee Benefits	11 Employee Benefits	12 Intentionally Left Blank	13 Intentionally Left Blank	14 Interest Synchronization	15 Income Taxes	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	Revenues									
2	Metered Water Revenues							\$ 1,370,130	\$ 279,532	\$ 1,649,662
3	Unmetered Water Revenues									
4	Other Water Revenues									
5								\$ 1,370,130	\$ 279,532	\$ 1,649,662
6	Operating Expenses									
7	Salaries and Wages							\$ 143,358	\$	\$ 143,358
8	Purchased Wastewater Treatment	165,896	11,811					165,896		165,896
9	Sludge Removal Expense									
10	Purchased Power							64,109		64,109
11	Fuel for Power Production									
12	Chemicals							4,907		4,907
13	Materials and Supplies							4,473		4,473
14	Management Services - US Liberty Water							83,038		83,038
15	Management Services - Corporate							58,456		58,456
16	Management Services - Other	(165,896)						6,374		6,374
17	Contracted Services - Engineering									
18	Contracted Services - Testing							330		330
19	Contracted Services - Other							638		638
20	Contractual Services - Legal							585		585
21	Equipment Rental							400		400
22	Rents - Building									
23	Transportation Expenses							18,066		18,066
24	Insurance - General Liability							11,302		11,302
25	Insurance - Vehicle							2,516		2,516
26	Regulatory Commission Expense									
27	Reg. Comm. Exp. - Rate Case									
28	Miscellaneous Expense							29,167		29,167
29	Bad Debt Expense							16,111		16,111
30	Depreciation Expense							23,194		23,194
31	Taxes Other Than Income							203,964		203,964
32	Property Taxes									
33	Income Tax							75,043	5,103	80,147
34								176,861	105,927	282,788
35	Total Operating Expenses							\$ 83,374	\$ 111,030	\$ 1,199,819
36	Operating Income							\$ 1,088,789	\$ 168,502	\$ 1,257,291
37	Other Income (Expense)							\$ 281,341	\$	\$ 281,341
38	Interest Income									
39	Other Income									
40	Interest Expense									
41	Other Expense					52,427				
42										
43	Total Other Income (Expense)					\$ 52,427				\$ 52,427
44	Net Profit (Loss)					\$ 52,427				\$ 449,843
45										
46										
47										
48										

SUPPORTING SCHEDULES:
 C-2, pages 1-16

SUPPORTING SCHEDULES:
 C-2, pages 1-16

RECAP SCHEDULES:
 C-1, page 1

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

Exhibit
 Rejoinder Schedule C-2
 Page 1
 Witness: Bourassa

Line No.	<u>Adjustments to Revenues and Expenses</u>						<u>Subtotal</u>	
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>		
1			Declining			UNSE		
2		Property	Usage	Revenue	Revenue	Rate		
3	<u>Depreciation</u>	<u>Taxes</u>	<u>Adjustment</u>	<u>Annualization</u>	<u>Accrual Fix</u>	<u>Increase</u>		
4	Revenues		(32,713)	17,150	25,110		9,546	
5	Expenses	(155,665)	523			2,819	(152,323)	
8	Operating							
9	Income	155,665	(523)	(32,713)	17,150	25,110	(2,819)	161,869
11	Interest							
12	Expense							-
13	Other							-
14	Income /							-
15	Expense							
17	Net Income	155,665	(523)	(32,713)	17,150	25,110	(2,819)	161,869
20		<u>Adjustments to Revenues and Expenses</u>						
21		<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	<u>Subtotal</u>
22		Staff's	Intentionally	Staff's	Employee	Intentionally	Intentionally	
23		APUC Cap.	Left	Expense	Benefits	Left	Left	
24		<u>Tax Adj.</u>	<u>Blank</u>	<u>Recass</u>		<u>Blank</u>	<u>Blank</u>	
25	Revenues							9,546
27	Expenses	(836)	-	-	11,811	-	-	(141,348)
29	Operating							
30	Income	836	-	-	(11,811)	-	-	150,894
32	Interest							
33	Expense	-						-
34	Other							-
35	Income /							-
36	Expense							
38	Net Income	836	-	-	(11,811)	-	-	150,894
41		<u>Adjustments to Revenues and Expenses</u>						
42		<u>13</u>	<u>14</u>	<u>15</u>	<u>16</u>	<u>17</u>	<u>18</u>	<u>Total</u>
43		Intentionally		Income				
44		Left	Interest	Taxes				
45		<u>Blank</u>	<u>Synchronization</u>					
46	Revenues							9,546
48	Expenses			83,374				(57,974)
50	Operating							
51	Income	-	-	(83,374)	-	-	-	67,521
53	Interest							
54	Expense	-	52,427					52,427
55	Other							-
56	Income /							-
57	Expense							
59	Net Income	-	52,427	(83,374)	-	-	-	119,947

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

Exhibit
 Rejoinder Schedule C-2
 Page 2
 Witness: Bourassa

Depreciation Expense

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

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

Exhibit
 Rejoinder Schedule C-2
 Page 3
 Witness: Bourassa

Property Taxes

Line No.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	\$ 1,370,130	\$ 1,370,130
2	Weight Factor	<u>2</u>	<u>2</u>
3	Subtotal (Line 1 * Line 2)	2,740,259	2,740,259
4	Company Recommended Revenue	1,370,130	1,649,662
5	Subtotal (Line 4 + Line 5)	4,110,389	4,389,922
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	1,370,130	1,463,307
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	2,740,259	2,926,614
10	Plus: 10% of CWIP (intentionally excluded)	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	2,740,259	2,926,614
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	548,052	585,323
15	Composite Property Tax Rate - Obtained from ADOR	13.6927%	13.6927%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 75,043	\$ 80,147
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	<u>\$ 75,043</u>	
19	Test Year Property Taxes	<u>\$ 74,520</u>	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	<u>\$ 523</u>	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		<u>\$ 80,147</u>
23	Company Test Year Adjusted Property Tax Expense (Line 18)		<u>\$ 75,043</u>
24	Increase in Property Tax Due to Increase in Revenue Requirement		<u>\$ 5,103</u>
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		\$ 5,103
27	Increase in Revenue Requirement		\$ 279,532
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		1.82570%
29			
30			
31			
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Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division
Test Year Ended February 29, 2012
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Rejoinder Schedule C-2
Page 4
Witness: Bourassa

Declining Usage Adjustment

Line
No.

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

11
12 SUPPORTING SCHEDULES

13 Testimony

14

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

Exhibit
Rejoinder Schedule C-2
Page 5
Witness: Bourassa

Revenue Annualization

Line
No.

1		
2		
3	Revenue Annualization Per Rebuttal	\$ 11,943
4	Revenue Annualization Per Direct	<u>(5,207)</u>
5	Increase (decrease) in Revenue Annualization	17,150
6		
7		
8	Total Revenue from Annualization	<u>\$ 17,150</u>
9		
10		
11	Adjustment to Revenue and/or Expense	<u>\$ 17,150</u>
12		

13 SUPPORTING SCHEDULES

14 C-2 pages 5.1 to 5.16

15 H-1

16

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

Exhibit
Rejoinder Schedule C-2
Page 6
Witness: Bourassa

Revenue Accrual

Line
No.

1		
2	Correct Revenue Accrual Adjustment per Rebuttal	\$ 66,999
3	Correct Revenue Accrual Adjustment per Direct	<u>41,889</u>
4	Increase (decrease) in Revenue Accrual Correction	\$ <u>25,110</u>
5		
6	Adjustment to Revenues	<u>\$ 25,110</u>
7		
8		
9	Adjustment to Revenue and/or Expense	<u>25,110</u>

10
11 Reference
12 Testimony
13 Work papers
14
15
16
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Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division
Test Year Ended February 29, 2012
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Rejoinder Schedule C-2
Page 7
Witness: Bourassa

Purchased Power - UNSE Rate Increase

Line
No.

1			
2	Test Year Adjusted Purchased Power Expense	\$	61,290
3	Anticipated UNSE rate increase (as %)		4.60%
4	Increase in Purchased Power Expense		2,819
5			
6	Adjustment to Purchased Power Expense	<u>\$</u>	<u>2,819</u>
7			
8			
9	Adjustment to Revenue and/or Expense	<u></u>	<u>2,819</u>

10
11 Reference
12 Testimony
13 Work papers
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Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division
Test Year Ended February 29, 2012
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Rejoinder Schedule C-2
Page 8
Witness: Bourassa

APUC Allocated Capital Taxes

Line

No.

1

2

APUC Allocated Capital Taxes

(836)

3

4

5

6

Adjustment to Management Services -Corporate

\$ (836)

7

8

9

Adjustment to Revenue and/or Expense

(836)

10

11

Reference

12

Staff Schedule MJR-W16

13

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

Exhibit
Rejoinder Schedule C-2
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Witness: Bourassa

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

Exhibit
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Page 10
Witness: Bourassa

Reclassification of Expenses

Line

No.

1

2

Management Services - Other

\$ (165,896)

3

Purchased Wastewater Treatment

165,896

4

5

6

Net Adjustment

\$ -

7

8

9

Adjustment to Revenue and/or Expense

-

10

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Reference

12

Testimony

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Work papers

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Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division
Test Year Ended February 29, 2012
Adjustment to Revenues and Expenses
Adjustment Number 10

Exhibit
Rejoinder Schedule C-2
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Employee Benefits

Line
No.

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

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Rejoinder Schedule C-2
Page 12
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Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division
Test Year Ended February 29, 2012
Adjustment to Revenues and Expenses
Adjustment Number 12

Exhibit
Rejoinder Schedule C-2
Page 13
Witness: Bourassa

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- No.
- 1
- 2
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Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division
Test Year Ended February 29, 2012
Adjustment to Revenues and Expenses
Adjustment Number 13

Exhibit
Rejoinder Schedule C-2
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Witness: Bourassa

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Line

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- 20

Interest Synchronization

Line				
<u>No.</u>				
1				
2				
3				
4	Fair Value Rate Base	\$	4,735,192	
5	Weighted Cost of Debt		0.00%	
6	Interest Expense	\$	-	
7				
8	Test Year Interest Expense		<u>\$ 52,427</u>	
9				
10	Increase (decrease) in Interest Expense		(52,427)	
11				
12				
13				
14	Adjustment to Revenue and/or Expense	<u>\$</u>	<u>52,427</u>	
15				
16				
17	<u>Weighted Cost of Debt Computation</u>			
18	<u>Pro forma Capital Structure</u>			
19		<u>Percent</u>	<u>Cost</u>	<u>Weighted</u> <u>Cost</u>
20	Debt	0.00%	5.70%	0.00%
21	Equity	<u>100.00%</u>	9.50%	<u>9.50%</u>
22	Total	100.00%		9.50%
23				
24				
25				
26				
27				
28				
29				
30				

Rio Rico Utilities, Inc. dba Liberty Utilities - Wastewater Division
Test Year Ended February 29, 2012
Adjustment to Revenues and/or Expenses
Adjustment Number 15

Exhibit
Rejoinder Schedule C-2
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Line
No.

1 Income Taxes

2

3

4 Computed Income Tax

Test Year
at Present Rates
\$ 176,861

Test Year
at Proposed Rates
\$ 282,788

5 Test Year Income tax Expense

-

176,861

6 Adjustment to Income Tax Expense

\$ 176,861

\$ 105,927

7

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13 SUPPORTING SCHEDULE

14 C-3, page 2

15

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

25 SUPPORTING SCHEDULES:
 26 C-3, page 2

RECAP SCHEDULES:
 A-1

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GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Gross Revenue Conversion Factor:</u>							
1	Revenue		100.0000%				
2	Uncollectible Factor (Line 11)		0.0000%				
3	Revenues (L1 - L2)		100.0000%				
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)		39.7199%				
5	Subtotal (L3 - L4)		60.2801%				
6	Revenue Conversion Factor (L1 / L5)		1.658922				
<u>Calculation of Uncollectible Factor:</u>							
7	Unity		100.0000%				
8	Combined Federal and State Tax Rate (L17)		38.5989%				
9	One Minus Combined Income Tax Rate (L7 - L8)		61.4011%				
10	Uncollectible Rate		0.0000%				
11	Uncollectible Factor (L9 * L10)			0.0000%			
<u>Calculation of Effective Tax Rate:</u>							
12	Operating Income Before Taxes (Arizona Taxable Income)		100.0000%				
13	Arizona State Income Tax Rate		6.9680%				
14	Federal Taxable Income (L12 - L13)		93.0320%				
15	Applicable Federal Income Tax Rate (L55, Col E)		34.0000%				
16	Effective Federal Income Tax Rate (L14 x L15)		31.6309%				
17	Combined Federal and State Income Tax Rate (L13 +L16)			38.5989%			
<u>Calculation of Effective Property Tax Factor</u>							
18	Unity		100.0000%				
19	Combined Federal and State Income Tax Rate (L17)		38.5989%				
20	One Minus Combined Income Tax Rate (L18-L19)		61.4011%				
21	Property Tax Factor		1.8257%				
22	Effective Property Tax Factor (L20*L21)			1.1210%			
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)				39.7199%		

24	Required Operating Income	\$	449,843				
25	Adjusted Test Year Operating Income (Loss)	\$	281,341				
26	Required Increase in Operating Income (L24 - L25)			\$	168,502		
27	Income Taxes on Recommended Revenue (Col. (E), L52)	\$	282,788				
28	Income Taxes on Test Year Revenue (Col. (B), L54)	\$	176,861				
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)			\$	105,927		
30	Recommended Revenue Requirement	\$	1,649,662				
31	Uncollectible Rate (Line 10)		0.0000%				
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$	-				
33	Adjusted Test Year Uncollectible Expense	\$	-				
34	Required Increase in Revenue to Provide for Uncollectible Exp.			\$	-		
35	Property Tax with Recommended Revenue	\$	80,147				
36	Property Tax on Test Year Revenue	\$	75,043				
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)			\$	5,103		
38	Total Required Increase in Revenue (L26 + L29 + L37)			\$	279,533		

	(A) Test Year			(B) Sewer			(C) Water			(D) Company Recommended			(E) Sewer			(F) Water			
	Total	Company		Total	Company		Total	Company		Total	Company		Total	Company		Total	Company		
<u>Calculation of Income Tax:</u>																			
39	Revenue	\$	4,157,975	\$	1,370,130	\$	2,787,845	\$	5,082,446	\$	1,649,662	\$	3,432,784	\$	3,153,811	\$	917,032	\$	2,236,779
40	Operating Expenses Excluding Income Taxes	\$	3,136,933	\$	911,928	\$	2,225,005	\$	3,153,811	\$	917,032	\$	2,236,779	\$	3,153,811	\$	917,032	\$	2,236,779
41	Synchronized Interest (L47)	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
42	Arizona Taxable Income (L39 - L40 - L41)	\$	1,021,042	\$	458,201	\$	562,840	\$	1,928,636	\$	732,631	\$	1,196,005	\$	968,000	\$	230,375	\$	968,000
43	Arizona State Effective Income Tax Rate (see work papers)		6.9680%		6.9680%		6.9680%		6.9680%		6.9680%		6.9680%		6.9680%		6.9680%		6.9680%
44	Arizona Income Tax (L42 x L43)	\$	71,146	\$	31,927	\$	39,219	\$	134,387	\$	51,050	\$	83,338	\$	134,387	\$	51,050	\$	83,338
45	Federal Taxable Income (L42- L44)	\$	949,896	\$	426,274	\$	523,622	\$	1,794,249	\$	681,582	\$	1,112,667	\$	1,794,249	\$	681,582	\$	1,112,667
46																			
47	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$	15,000	\$	7,500	\$	7,500	\$	7,500	\$	7,500	\$	7,500	\$	7,500	\$	7,500	\$	7,500
48	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$	12,500	\$	6,250	\$	6,250	\$	6,250	\$	6,250	\$	6,250	\$	6,250	\$	6,250	\$	6,250
49	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$	17,000	\$	8,500	\$	8,500	\$	8,500	\$	8,500	\$	8,500	\$	8,500	\$	8,500	\$	8,500
50	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$	183,300	\$	91,650	\$	91,650	\$	91,650	\$	91,650	\$	91,650	\$	91,650	\$	91,650	\$	91,650
51	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$	95,165	\$	31,033	\$	64,131	\$	496,145	\$	117,838	\$	264,407	\$	496,145	\$	117,838	\$	264,407
52																			
53	Total Federal Income Tax	\$	322,965	\$	144,933	\$	178,031	\$	610,045	\$	231,738	\$	378,307	\$	610,045	\$	231,738	\$	378,307
54	Combined Federal and State Income Tax (L35 + L42)	\$	394,111	\$	176,861	\$	217,250	\$	744,432	\$	282,788	\$	461,644	\$	744,432	\$	282,788	\$	461,644
55	COMBINED Applicable Federal Income Tax Rate [Col. (D), L53 - Col. (A), L53] / [Col. (D), L45 - Col. (A), L45]								34.0000%										
56	WASTEWATER Applicable Federal Income Tax Rate [Col. (E), L53 - Col. (B), L53] / [Col. (E), L45 - Col. (B), L45]																		
57	WATER Applicable Federal Income Tax Rate [Col. (F), L53 - Col. (C), L53] / [Col. (F), L45 - Col. (C), L45]																		

<u>Calculation of Interest Synchronization:</u>		Sewer	Water
58	Rate Base	\$ 4,735,192	\$ 7,730,108
59	Weighted Average Cost of Debt	0.0000%	0.0000%
60	Synchronized Interest (L45 X L46)	\$ -	\$ -

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

Exhibit
 Rejoinder Schedule H-1
 Page 3
 Witness: Bourassa

Line No.	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present WW Revenues	Percent of Proposed WW Revenues
1	\$ 1,390,900	\$ 1,667,496	\$ 276,596	19.89%	100.00%	100.00%
2	(32,713)	(32,713)	-	0.00%	-	-
3	11,943	14,296	2,352.78	19.70%	0.86%	0.86%
4	\$ 1,370,130	\$ 1,649,079	\$ 278,949	20.36%		
5						
6	\$ -	\$ -	\$ -	0.00%	0.00%	0.00%
7	-	583	583	0.00%	0.00%	0.03%
8	\$ 1,370,130	\$ 1,649,662	\$ 279,532	20.40%	0.00%	0.00%
9						
10						
11	<u>Revenue Reconciliation</u>					
12						
13	Revenue per bill count before revenue annualization	\$ 1,390,900				
14	Revenue per GL (metered water revenues)	\$ 1,323,901				
15	Adjustments Rev. Accrual Correction	66,999				
16	Adjusted Revenue per GL (metered water revenues)	1,390,900				
17	Difference	\$ 0				
18	Difference %	0.00%				
19	Tolerance %	0.50%				
20	Tolerance Amount + or -	\$ 6,955				
21						
22	Acceptable?					YES
23						
24						
25						
26						
27						
28						
29						
30						
31						
32						
33						
34						
35						
36						
37						
38						

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

Exhibit
 Rejoinder Schedule H-2
 Page 1
 Witness: Bourassa

Line No.	Meter Size, Class	(a) Average Number of Customers at 2/29/2012	Average Bill		Proposed Increase	
			Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	5/8X3/4 Inch Residential	1,819	\$ 45.88	\$ 55.65	9.77	21.30%
2	5/8X3/4 Inch Residential (Low Income)	58	39.00	47.30	8.31	21.30%
3	3/4 Inch Residential	8	52.88	64.14	11.26	21.30%
4	1 Inch Residential	9	64.64	78.41	13.77	21.30%
5	1 Inch Residential (Low Income)	1	54.94	66.65	11.70	21.30%
6	1 1/2 Inch Residential	-	95.44	115.77	20.33	21.30%
7	2 Inch Residential	0	132.38	160.58	28.20	21.30%
8	Subtotal	1,895				
9						
10	5/8X3/4 Inch Commercial	56	\$ 51.93	\$ 62.41	10.47	20.17%
11	1 Inch Commercial	41	103.43	121.69	18.27	17.66%
12	1 1/2 Inch Commercial	7	203.02	235.82	32.81	16.16%
13	2 Inch Commercial	27	285.88	331.89	46.00	16.09%
14	3 Inch Commercial	1	333.94	395.05	61.11	18.30%
15	4 Inch Commercial	4	1,873.98	2,124.52	250.54	13.37%
16	6 Inch Commercial	0	2,898.52	3,297.76	399.24	13.77%
17	Subtotal	138				
18						
19	5/8X3/4 Inch Multi-tenant	6	\$ 58.09	\$ 69.28	11.19	19.26%
20	1 1/2 Inch Multi-tenant	1	117.62	140.52	22.90	19.47%
21	Subtotal	7				
22						
23						
24						
25						
26	Total	2,039				

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

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

Exhibit
 Rejoinder Schedule H-2
 Page 2
 Witness: Bourassa

Line No.	Meter Size, Class	(a) Average Number of Customers at 2/29/2012	Median Consumption	Median Bill		Proposed Rates	Proposed Amount	Proposed Increase Amount	Proposed Increase Percent
				Present Rates	Present Rates				
1	5/8X3/4 Inch Residential	1,819	-	\$ 45.88	\$ 55.65	9.77	21.30%	9.77	21.30%
2	5/8X3/4 Inch Residential (Low Income)	58	-	39.00	47.30	8.31	21.30%	8.31	21.30%
3	3/4 Inch Residential	8	-	52.88	64.14	11.26	21.30%	11.26	21.30%
4	1 Inch Residential	9	-	64.64	78.41	13.77	21.30%	13.77	21.30%
5	1 Inch Residential (Low Income)	1	-	54.94	66.65	11.70	21.30%	11.70	21.30%
6	1 1/2 Inch Residential	-	-	95.44	115.77	20.33	21.30%	20.33	21.30%
7	2 Inch Residential	0	-	132.38	160.58	28.20	21.30%	28.20	21.30%
8	Subtotal	1,895							
9									
10	5/8X3/4 Inch Commercial	56	4,000	\$ 45.88	\$ 55.65	9.77	21.30%	9.77	21.30%
11	1 Inch Commercial	41	8,000	69.31	83.62	14.31	20.65%	14.31	20.65%
12	1 1/2 Inch Commercial	7	5,000	95.44	115.77	20.33	21.30%	20.33	21.30%
13	2 Inch Commercial	27	20,000	193.09	228.33	35.24	18.25%	35.24	18.25%
14	3 Inch Commercial	1	26,500	321.69	381.37	59.69	18.55%	59.69	18.55%
15	4 Inch Commercial	4	375,000	2,060.39	2,332.55	272.16	13.21%	272.16	13.21%
16	6 Inch Commercial	0	199,500	1,548.56	1,791.20	242.64	15.67%	242.64	15.67%
17	Subtotal	138							
18									
19	5/8X3/4 Inch Multi-tenant	6	9,000	\$ 55.22	\$ 66.08	10.86	19.66%	10.86	19.66%
20	1 1/2 Inch Multi-tenant	1	11,000	114.12	136.62	22.50	19.71%	22.50	19.71%
21	Subtotal	7							
22									
23									
24									
25									
26	Total	2,039							

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

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

Exhibit
 Rejoinder Schedule H-3
 Page 1
 Witness: Bourassa

Line No.	Monthly Minimum Charge for: Meter Size (All Classes):	Present Rates	Proposed Rates	Change	Percent Change
1	5/8 Inch	\$ 45.88	\$ 55.65	\$ 9.77	21.30%
2	3/4 Inch	52.88	64.14	11.26	21.30%
3	1 Inch	64.64	78.41	13.77	21.30%
4	1 1/2 Inch	95.44	115.77	20.33	21.30%
5	2 Inch	132.38	160.58	28.20	21.30%
6	3 Inch	230.62	279.74	49.12	21.30%
7	4 Inch	341.83	414.64	72.81	21.30%
8	6 Inch	649.58	787.94	138.36	21.30%
9	8 Inch	944.45	1,145.62	201.17	21.30%
10	10 Inch	1,415.24	1,716.69	301.45	21.30%
11	12 Inch	2,012.57	2,441.25	428.68	21.30%
12					
13					
14					
15					
16					
17					
18					
19					
20					
21	Commodity Rates				
22	(Commercial and Multi-tenant Only)				
23					
24	All Meter Sizes				
25					
26					
27					
28					
29					
30					
31					
32					
33	Low Income Tariff - A 15% discount is available to qualified residential customers meeting the low income qualifications.				
34	Participation is limited to a maximum 725 customers.				
35					
36					
37	NT = No Tariff				
38					

Block	Present Rate	Proposed Rate
0 gallons to 7,000 gallons	\$ -	\$ -
over 7,000 gallons	\$ 4.67	\$ 5.21

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

NT = No Tariff

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

Exhibit
 Rejoinder Schedule H-3
 Page 2
 Witness: Bourassa

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

13
 14
 15

16 * Per Commission Rule A.A.C. R-14-2-603(B)
 17 ** Per Commission Rule A.A.C. R-14-2-603(B)
 18 *** Per Commission Rule A.A.C. R14-2-603(D) - Months off the system times the monthly minimum.

19
 20 (a) No charge for service calls during normal working hours.

21
 22 IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM
 23 ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE
 24 TAX. PER COMMISSION RULE 14-2-608D(5).

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

Exhibit
Rejoinder Schedule H-3
Page 3
Witness: Bourassa

Line

No.

1

2 Service Line Installation Charges

3

4

5

6

7

8 Service Line Size

Present

Proposed

Charge

Charge

9 4 Inch

At Cost

At Cost

10 6 Inch

At Cost

At Cost

11 8 Inch

At Cost

At Cost

12 10 Inch

At Cost

At Cost

13 12 Inch

At Cost

At Cost

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32 N/T = No Tariff

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1 FENNEMORE CRAIG
2 A Professional Corporation
3 Jay L. Shapiro (No. 014650)
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BEFORE THE ARIZONA CORPORATION COMMISSION

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

DOCKET NO: WS-02676A-12-0196

REJOINDER TESTIMONY OF

GREG SORENSEN

March 8, 2013

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I. INTRODUCTION AND PURPOSE OF TESTIMONY..... 1
II. MERIT PAY (RUCO OPERATING INCOME ADJUSTMENT NO. 12) 1
III. INCENTIVE PAY (RUCO OPERATING INCOME ADJUSTMENT NO. 11)..... 2
IV. EMPLOYEE BENEFITS PLAN ADJUSTMENT 4

7984559.2/080191.0012

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

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

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

5 **Q. DID YOU PREVIOUSLY PROVIDE TESTIMONY ON BEHALF OF RIO**
6 **RICO UTILITIES IN THIS CASE?**

7 A. Yes, my direct testimony was filed on May 31, 2012 with Rio Rico Utilities
8 (“RRUI” or the “Company”) application, and my rebuttal testimony was filed on
9 January 28, 2013.

10 **Q. WHAT IS THE PURPOSE OF YOUR REJOINDER TESTIMONY IN THIS**
11 **PROCEEDING?**

12 A. To further support RRUI’s application for rate relief by responding to testimony by
13 Staff and RUCO regarding merit pay, incentive pay, and employee benefits.

14 **II. MERIT PAY (RUCO OPERATING INCOME ADJUSTMENT NO. 12)**

15 **Q. WHAT IS “MERIT PAY”, MR. SORENSEN?**

16 A. Liberty’s merit pay is annual wage adjustment given based an employee’s
17 performance and current pay within a given salary range. This adjustment is
18 reflected in employee’s paychecks they receive on a bi-weekly basis.

19 **Q. DID YOU RESPOND TO MR. COLEY’S OPERATING INCOME**
20 **ADJUSTMENT NO. 12 RELATED TO MERIT PAY IN YOUR REBUTTAL**
21 **TESTIMONY?**

22 A. Yes, I did.
23
24
25
26

1 Q. DID MR. COLEY MAKE ANY ADJUSTMENT IN HIS SURREBUTTAL
2 TESTIMONY RELATED TO MERIT PAY?

3 A. Mr. Coley removed RUCO Operating Income Adjustment No. 12 from his
4 schedules.¹

5 Q. DID STAFF MAKE ANY ADJUSTMENT RELATED TO MERIT PAY IN
6 ITS DIRECT OR SURREBUTTAL?

7 A. No, Staff did not. I believe all parties are in agreement on this matter now.

8 **III. INCENTIVE PAY (RUCO OPERATING INCOME ADJUSTMENT NO. 11)**

9 Q. HOW DOES INCENTIVE PAY DIFFER FROM MERIT PAY?

10 A. Liberty incentive pay is compensation based on company targets and individual
11 performance. Incentive pay is an annual one-time payment made to the employee.

12 Q. MR. SORENSEN, DID YOU REVIEW RUCO'S SURREBUTTAL
13 TESTIMONY REGARDING INCENTIVE PAY?

14 A. Yes, I did.

15 Q. DID RUCO MAKE ANY NEW OR ADDITIONAL ARGUMENTS IN
16 SURREBUTTAL TESTIMONY?

17 A. No.

18 Q. DID STAFF MAKE ANY ADJUSTMENT RELATED TO INCENTIVE PAY,
19 EITHER IN DIRECT OR SURREBUTTAL, OR ADDRESS ANY OF THE
20 POINTS MADE IN YOUR REBUTTAL TESTIMONY?

21 A. No.

22

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26 ¹ Surrebuttal Testimony of Timothy J. Coley at 23:12-16.

1 Q. DID RUCO REFUTE ANY OF THE ARGUMENTS MADE IN REBUTTAL
2 REGARDING INCENTIVE PAY?

3 A. No. RUCO did not dispute that the cost was incurred during the test year.²
4 My testimony establishes that the cost is known, measurable, and was incurred
5 during the test year. Additionally, I addressed that incentive pay of a similar level
6 occurred in previous years and is anticipated to recur in the future.³ This cost of a
7 recurring nature is established as a cost of service expense that will continue to
8 exist on a going-forward basis for ratemaking purposes. Finally, RUCO did not
9 refute that Liberty's incentives are reasonable and prudent expenses because the
10 incentives are based on metrics such as Customer Experience, Employee Programs,
11 and Operational and Health and Safety measures. These incentive bases provide
12 benefits to customers each day as employees are incented to provide customers
13 excellent service and protect the public health and safety.

14 Q. HAS RUCO ALWAYS PROPOSED A SIMILAR ADJUSTMENT IN CASES
15 IT HAS PARTICIPATED IN?

16 A. I do not believe RUCO always make this type of adjustment. In fact, I reviewed
17 RUCO's adjustments in the last case involving RRUI and there were no incentive
18 pay adjustments proposed even though Liberty employees have been on an
19 incentive pay system as long as I've been at the Company, which pre-dates the last
20 RRUI test year.

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² Rebuttal Testimony of Greg Sorensen ("Sorensen Rb.") at 4:1-2.

³ *Id.* at 5:1-7.

1 **IV. EMPLOYEE BENEFITS PLAN ADJUSTMENT**

2 **Q. MR. SORENSEN, IN YOUR REBUTTAL TESTIMONY, DID YOU**
3 **PROPOSE AN ADJUSTMENT RELATED TO A CHANGE IN THE**
4 **COMPANY'S BENEFITS COSTS?**

5 A. Yes, I did.

6 **Q. DID ANY OF THE PARTIES TAKE A POSITION REGARDING YOUR**
7 **ADJUSTMENT?**

8 A. Yes, RUCO conditionally accepted our adjustment, dependent upon the data we
9 supplied relating to their Thirteenth Set of Data Requests. Staff did not accept our
10 adjustment and listed a number of arguments against it.⁴

11 **Q. HAVE YOU SUPPLIED RUCO WITH THE REQUESTED SUPPORT FOR**
12 **YOUR ADJUSTMENT?**

13 A. Yes, the information was provided in the Company's response to RUCO Data
14 Request 13.1. Staff received the information as well. If RUCO or Staff has
15 additional questions, we'd be happy to supply them with any additional
16 information they feel is needed in order to fully evaluate this ongoing operating
17 expense.

18 **Q. WOULD YOU PLEASE ADDRESS STAFF'S LISTED OPPOSITION TO**
19 **YOUR BENEFIT PLAN ADJUSTMENT?**

20 A. Certainly. Staff makes nine separate claims in one-half page of testimony all
21 stating why the adjustment should not be made.⁵ However, none of these claims is
22 supported by evidence, research or analysis. They are simply one-sentence
23 allegations or questions that lack support and should be rejected for the reasons I
24 explain below.

25 _____
⁴ See Surrebuttal Testimony of Mary J. Rimback at 20.

26 ⁵ *Id.*

1 **Q. WHAT WAS STAFF'S FIRST UNSUPPORTED ARGUMENT?**

2 A. First, Staff says that it don't have enough time to review the issue. However, I
3 would point out that Staff did not send one data request in order to attempt to
4 understand the adjustment, the cause of it, or the basis and support for it. On the
5 other hand, RUCO has made a legitimate effort to understand the adjustment, has
6 sent data requests to seek out applicable information, and is evaluating the
7 adjustment on its merits. We appreciate RUCO's efforts in this matter. What is
8 puzzling is that items often arise in a rate case that must be addressed by the other
9 parties, and we always find time to do so. In this docket, Staff changed its ROE
10 from direct to surrebuttal, but the Company can't credibly claim to reject Staff's
11 ROE analysis simply due to lack of time to evaluate it.

12 **Q. THANK YOU, PLEASE CONTINUE.**

13 A. Staff's second unsupported allegation is that we had not informed them of the
14 change to benefit costs when we learned of it in Q4 2012. First, let me say that we
15 learned of the change in the plan the second week of November. However, we did
16 not have the full quantification of the cost until January, at which time we notified
17 Staff and RUCO verbally that there may be an adjustment coming in our rebuttal to
18 be filed in late January. In hindsight, I can wish we had notified Staff earlier.
19 But, I do not believe it would have provided them with any additional material than
20 what is now available, and has been supplied to RUCO for their evaluation
21 purposes.

22 **Q. WHAT ARE STAFF'S THIRD, FOURTH AND FIFTH UNSUPPORTED**
23 **ALLEGATION?**

24 A. Staff raised a concern that perhaps benefits should not be standardized across the
25 US, but should be regionalized. Staff also alleged that the cost to hire an employee
26 may differ in various parts of the country, so standardizing may not be appropriate.

1 Additionally, Staff questioned whether benefits should be standardized for water,
2 sewer, electric and gas utilities. Again, Staff just tossed these out without
3 explanation or support, but Staff is now selectively ignoring that there are costs and
4 benefits to being part of a larger entity. I would say that, in general, large
5 publically traded companies tend to standardize things like Health and Safety
6 programs, as well as put a huge focus on Safety in general. At Liberty, we believe
7 “safety” is baked into our DNA, and is a part of everything we do. Certainly there
8 comes a cost with a focus on safety, and that is part of being a big company. Of
9 course, there are also benefits.

10 Our large, national footprint of over 600 employees has allowed us to gain
11 more favorable health insurance rates from insurance carriers. If Liberty were
12 restricted to a “regional” player as Staff suggests might be preferable, our
13 insurance costs would actually go up, significantly.⁶ Our national size and status
14 allows us to obtain better pricing for benefits than our Arizona operations alone
15 would allow.

16 In response to Staff’s concerns on standardization across the different types
17 of utilities, I would say that since we are one company at Liberty Utilities, we
18 should strive to treat our employees as equally as possible, and this extends to
19 benefits. Imagine if in Missouri, where we have gas, water, and sewer companies,
20 Liberty employees in the same vicinity had vastly different benefits. You would
21 create significant inequities and have unhappy employees. Imagine if the ACC did
22 the same thing . . . if the Hearing Division had different benefits from the
23 Securities Division? To take the analogy further, do State of Arizona employees in
24 Phoenix have different benefits than those in Nogales? What about Federal
25

26 ⁶ See Exhibit GS-RJ1.

1 employees in New Hampshire? Do they have different benefits than those
2 employees in Arizona? Entities tend to standardize their benefits offerings to their
3 employees to the greatest extent possible, which creates advantages of scale, and
4 administrative efficiencies. It is far easier and more efficient to maintain one
5 medical plan rather than ten different plans.

6 Staff also wonders whether the cost to hire employees in RRUI's service
7 territory is greater than, less than, or equal to the cost in other parts of the country.
8 We address this as part of the employee's wages. The cost of an operator in
9 Rio Rico is not the same as the cost of an operator in Phoenix. Our operators', or
10 CSRs', wages reflect this difference. This is about benefits, not salaries.

11 **Q. WHAT WAS STAFF'S SIXTH UNSUPPORTED ALLEGATION?**

12 A. Staff asked whether the consultant's report was available to review. Although
13 Staff raises this question, the information was not sought in a data request. We did
14 supply a contract, invoices and other documentation to RUCO in response to their
15 requests, a copy of which was supplied to Staff.

16 **Q. WHAT WAS STAFF'S SEVENTH UNSUPPORTED ALLEGATION?**

17 A. Staff questioned whether the benefits are actually being provided. They are, and
18 the cost is being reflected on the Companies' books in 2013. This cost is known,
19 measurable, and reflects an ongoing cost of the utility to provide services to its
20 customers.

21 **Q. WHAT IS STAFF'S FINAL UNSUPPORTED ALLEGATION?**

22 A. Finally, Staff asks why RRUI believes it has to provide incremental benefits to
23 attract and retain talented employees in a high unemployment economic
24 environment. First, we believe in treating all our employees fairly and
25 compensating them appropriately. I know I have received many complaints or
26 concerns from employees over the years as to why their friends at local

1 municipalities participate in pension plans while Liberty doesn't provide such an
2 opportunity. This puts us at a recruiting and retention disadvantage. As to Staff's
3 concept of providing employees in a depressed market with lower benefit levels, I
4 would point to my earlier comments. Good employers don't do things like that,
5 and good employees don't work on those terms. We want to create a positive work
6 experience for our employees so that they will create a positive experience for our
7 customers. Again, I don't believe that the State of Arizona provides lesser benefits
8 to its employees in Nogales compared to Phoenix because Nogales is a high
9 unemployment economic environment, or that the Federal Government eliminates
10 medical insurance for boarder agents in Nogales because it has higher
11 unemployment than border agents in, say, San Diego.

12 **Q. DO YOU HAVE ANY FURTHER COMMENTS?**

13 A. I don't believe Staff refutes my testimony that the amounts are known and
14 measurable,⁷ that the expense will occur on a recurring, go-forward basis,⁸ that
15 these costs are specific to Liberty, approximately 25% for shared services staff
16 located in Avondale, AZ, and approximately 75% to RRUI based employees,⁹ and
17 that the expense benefits customers.¹⁰

18 **Q. DOES THIS CONCLUDE YOUR REJOINDER TESTIMONY?**

19 A. Yes.

20

21

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23

24 ⁷ Sorensen Rb. at 6:8-11.

25 ⁸ *Id.* at 6:12-13.

26 ⁹ *Id.* at 6:19-22.

¹⁰ *Id.* at 7:5-7.

RIO RICO UTILITIES, INC. DBA LIBERTY UTILITIES

REJOINDER TESTIMONY OF GREG SORENSEN

MARCH 8, 2013

EXHIBIT GS-RJ1



ESTABLISHED 1977

March 1, 2013

Mr. Graham Craig, CHRP CCP CBP GRP
Liberty Utilities
2845 Bristol Circle
Oakville, Ontario L6H 7H7

Re: Health Insurance: Liberty South Plan Costing

Dear Graham:

I am writing in follow up to our conversation regarding the benefits of consolidation under the Liberty National health insurance programs.

Each state's health insurance market is unique in terms of plan designs, offerings and rating methodology which is determined by group size. The pricing of premiums and renewals are based on several factors, including- industry, demographic and claims experience of the specific group.

It is difficult to derive average employer plan pricing in a specific region; therefore to provide a more accurate benchmark our office solicited an Arizona Blue Cross quote based on a Liberty South population for Rio Rico. Below is a summary and comparison:

Monthly Prem	Liberty National Plan	Arizona Blue Cross
Single	\$538	\$522
Two Person	\$1075	\$1148
Family	\$1533	\$1671
Office Visit	\$20 PCP + \$20 Specialist	\$25 PCP + \$40 Specialist
Deductible	\$250	\$250
Out of Pocket Max	\$1000	\$2000
Rx Card	\$10/30/50	\$15/35/65/120

There are numerous benefits not illustrated in the above comparison that make combining individual entities under one plan for standardization:

1. Increased economies of scale resulting in lower administrative costs.

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P: 518.523.8100 • F: 518.523.8105 • W: BurnhamBenefitAdvisors.com

2. Future claim stability via a larger population taking advantage of the "Law of Large Numbers". For example, several large claimants will not significantly impact the experience as the risk is spread.
3. Increased negotiating power with insurers.
4. Additional funding opportunities available with a larger group that can achieve potential cost savings (contingent premium arrangements and self-insurance). For example, the dental and vision plans have been at a creditable size for self-insuring since 2007. Transitioning from fully insured to a self insured platform resulted in average annual savings of \$40,000/Year.

If you have any questions or need additional information, please do not hesitate to contact me.

Sincerely,



Mark L. Crawford
Partner

1 FENNEMORE CRAIG
2 A Professional Corporation
3 Jay L. Shapiro (No. 014650)
4 2394 E. Camelback Road, Suite 600
5 Phoenix, Arizona 85016
6 Telephone (602) 916-5000
7 Attorneys for Rio Rico Utilities, Inc.

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE
APPLICATION OF RIO RICO
UTILITIES, INC., AN ARIZONA
CORPORATION, FOR A
DETERMINATION OF THE FAIR
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ITS WATER AND WASTEWATER
RATES AND CHARGES FOR UTILITY
SERVICE BASED THEREON.

DOCKET NO: WS-02676A-12-0196

REJOINDER TESTIMONY OF

CHRISTOPHER D. KRYGIER

March 8, 2013

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I. INTRODUCTION AND PURPOSE OF TESTIMONY..... 1
II. RRUI REQUESTS APPROVAL OF A DSIC AND A CSIC..... 1

7982528.1/080191.0012

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

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

3 A. My name is Christopher D. Krygier, and my business address is 12725 W. Indian
4 School Road, Suite D101, Avondale, AZ 85392.

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

7 A. Yes, my direct testimony was filed on May 31, 2012 with the Company's
8 application, and my rebuttal testimony was filed on January 28, 2013.

9 **Q. WHAT IS THE PURPOSE OF YOUR REJOINDER TESTIMONY IN THIS**
10 **PROCEEDING?**

11 A. My rejoinder testimony addresses one issue – the Company's request for approval
12 of a Distribution System Improvement Charge ("DSIC") and Collection System
13 Improvement Charge ("CSIC"). There are no material differences in the DSIC and
14 CSIC that bear on my testimony at this stage of this proceeding so my testimony
15 generally references only the DSIC when the discussion would refer equally to
16 both. In the course of discussing this issue, I will also address Staff's suggested
17 System Betterment Cost Recovery mechanism ("SBCR") and the Sustainable
18 Water Loss Improvement Program ("SWIP") raised in my direct testimony.

19 **II. RRUI REQUESTS APPROVAL OF A DSIC AND A CSIC**

20 **Q. IN YOUR REBUTTAL TESTIMONY YOU TESTIFIED THAT RRUI**
21 **WANTS A DSIC JUST LIKE ARIZONA WATER COMPANY IS**
22 **GETTING. IS THAT CORRECT?**

23 A. Yes, and a CSIC modeled after the DSIC we hoped would be approved for Arizona
24 Water.

25

26

1 **Q. HAS THE COMMISSION APPROVED A DSIC FOR ARIZONA WATER?**

2 A. Not yet. The Commission met on February 12, 2013 and voted to (1) approve new
3 rates for Arizona Water based on the finding of its fair value rate base, and (2) send
4 Arizona Water's DSIC request back for further discussion.¹ RRUI was granted
5 intervention and is a party to that proceeding.

6 **Q. WHAT IS HAPPENING IN THAT PROCEEDING?**

7 A. On February 21, 2013, Judge Nodes issued a procedural order setting dates that
8 would bring this second phase of Arizona Water's rate case to a conclusion by
9 early June of this year. Thereafter, Staff noticed settlement discussions and all of
10 the parties met on March 4, 2013 to see if they could agree on a DSIC mechanism.

11 **Q. WAS THERE AGREEMENT?**

12 A. Yes. Arizona Water, Staff and RUCO, and the other representatives of the
13 water/wastewater utility industry in Arizona hammered out what I believe will
14 become the model or template for DSICs and CSICs in Arizona.

15 **Q. WERE YOU A PARTICIPANT IN THE SETTLEMENT DISCUSSIONS?**

16 A. Yes. While I am not at liberty to discuss the specifics of our discussions, I am
17 providing this overview because I relied on the Arizona Water DSIC for our
18 request in this case. As I explained in my rebuttal, the momentum on DSIC-like
19 mechanisms has progressed well past the SWIP we requested in the direct filing.

20 **Q. THEN MR. KRYGIER, IN YOUR ASSESSMENT, WHERE DO WE STAND
21 NOW IN THIS CASE?**

22 A. From Liberty Utilities' perspective, we are still in a holding pattern until the
23 Commission in early June concludes the DSIC phase of Arizona Water's rate case.
24 Although we have reached an agreement on what that DSIC should look like, it is
25 in the process of being documented while I am writing this rejoinder testimony.

26 ¹ Decision No. 73736 (February 20, 2013) at 104:22-25.

1 After the agreement is executed, we will file testimony in support and then
2 Judge Nodes will produce a ROO that the Commission will consider in early June.
3 That is why RRUI joined Staff in requesting that the DSIC issue be bifurcated in
4 this case. That would allow the Commission to finish with Arizona Water's
5 request so that we could apply the template to us.

6 **Q. IS LIBERTY UTILITIES PREPARED TO GO FORWARD ON THIS**
7 **MATTER IF IT IS NOT SEVERED?**

8 A. Of course. We would take the DSIC agreed upon in Arizona Water and use it to
9 illustrate our request for a DSIC and CSIC for RRUI. If Staff continued to advance
10 its suggested SBCR, we would explain why it is not an adequate DSIC-substitute
11 and why Staff's recommendation should be rejected, and we would defend our
12 DSIC request from attack by Staff and/or RUCO. However, given the unique
13 status of our request for a DSIC in this case in light of the parallel proceeding for
14 Arizona Water, we would prefer to handle our request in an orderly fashion after
15 we have a final template from the Arizona Water case from which to work.

16 **Q. THE COMPANY IS STILL OPPOSED TO THE SBCR?**

17 A. Yes.

18 **Q. RRUI STILL DISAGREES WITH MR. RIGSBY'S TESTIMONY**
19 **OPPOSING THE DSIC?**

20 A. Yes.

21 **Q. ANYTHING ELSE, MR. KRYGIER?**

22 A. Just to reiterate that we are in a rather unusual position. Through no fault of the
23 parties to our case, the same issue is being addressed by some of the same parties
24 in another case that is slightly out in front of us. We want a DSIC and CSIC for
25 RRUI and will go a roundabout way to get there if need be. But we hope to have
26

1 the Commission-approved DSIC in our hands before adjudicating that issue in this
2 case.

3 **Q. WHY NOT JUST DELAY THE WHOLE CASE?**

4 A. Because it would be unnecessary and unfair. Again, no one is at fault for the
5 strange procedural posture of this case, nor do we need to decide the DSIC issue in
6 order to determine our fair value rate base and set rates thereon. That's why I say,
7 if we have to go at this before we know what happened in the Arizona Water case,
8 the roundabout way, we will because rate relief is critical. We just hope not to
9 have to proceed until we have the Arizona Water model in hand.

10 **Q. DOES THIS CONCLUDE YOUR REJOINDER TESTIMONY?**

11 A. Yes.

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5

6 **BEFORE THE ARIZONA CORPORATION COMMISSION**
7

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

DOCKET NO: WS-02676A-12-0196

14
15
16 **REJOINDER TESTIMONY OF**
17 **THOMAS J. BOURASSA**
18 **COST OF CAPITAL**
19

20 **March 8, 2013**
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1 **I. INTRODUCTION AND QUALIFICATIONS**

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

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

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

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

8 **Q. DID YOU ALSO PREPARE REBUTTAL TESTIMONY ON THOSE ISSUES**
9 **IN THIS DOCKET?**

10 A. Yes, my rebuttal testimony on rate base, income statement, revenue requirement
11 and rate design is being filed in a separate volume at the same time as this
12 testimony. In this volume, I present my cost of capital rejoinder testimony. Also
13 attached are two exhibits, which are discussed below.

14 **II. SUMMARY OF REJOINDER TESTIMONY AND THE PROPOSED COST**
15 **OF CAPITAL FOR THE COMPANY**

16 **A. Summary of Company’s Rejoinder Recommendation**

17 **Q. WHAT IS THE SCOPE OF THIS VOLUME OF YOUR REJOINDER**
18 **TESTIMONY?**

19 A. I will provide updates of my cost of capital analysis and recommended rate of
20 return using more recent financial data. I also will provide rejoinder testimony as
21 appropriate to the surrebuttal testimony of Staff witness John Cassidy and RUCO
22 witness William Rigsby.

23 **Q. HAS THE COMPANY CHANGED ITS POSITION WITH RESPECT TO**
24 **THE CAPITAL STRUCTURE?**

25 A. Yes, the Company is now accepting Staff’s and RUCO’s 100 percent equity capital
26 structure.

1 **Q. WHY IS THE COMPANY ADOPTING THE OTHER PARTIES'**
2 **POSITIONS ON THE CAPITAL STRUCTURE?**

3 A. To eliminate issues between the parties. In direct, Staff rejected our recommended
4 capital structure and recommended 100 percent equity capital structures.¹ Then, in
5 his surrebuttal, Mr. Rigsby changed his position – from agreeing with our direct
6 position to agreeing with Staff's direct position.²

7 **Q. BUT DIDN'T RRUI COMMIT TO INFUSE 20 PERCENT DEBT AS PART**
8 **OF RRUI'S LAST RATE CASE?**

9 A. Yes. RRUI upheld its commitment to infuse 20 percent debt and did so in its
10 application and rebuttal testimony, however to eliminate issues between the parties
11 RRUI is adopting Staff's and RUCO's recommended capital structure.

12 **Q. HAVE YOU UPDATED YOUR COST OF CAPITAL ANALYSIS?**

13 A. Yes, for two reasons. First, both Staff and RUCO provided recent updates to their
14 respective cost of capital analyses. It has been approximately two months since I
15 prepared my rebuttal analysis and I felt it was necessary. Second, I updated my
16 analysis to reflect the change in the capital structure, which has less financial risk.
17 The table below summarizes the results of my updated analysis:

18

<u>Method</u>	<u>Low</u>	<u>High</u>	<u>Midpoint</u>
Range DCF Constant Growth Estimates	8.6%	9.7%	9.2%
Range of CAPM Estimates	8.6%	12.7%	10.6%
Average of DCF and CAPM midpoint estimates	<u>8.6%</u>	<u>11.2%</u>	<u>9.9%</u>

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25 ¹ Direct Testimony of John A. Cassidy at 34.

26 ² See Surrebuttal Testimony of William A. Rigsby ("Rigsby Sb.") at 6.

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<u>Method</u>	<u>Low</u>	<u>High</u>	<u>Midpoint</u>
Financial Risk Adjustment	-0.9%	-0.9%	-0.9%
Specific Company Risk Premium	<u>0.8%</u>	<u>0.8%</u>	<u>0.8%</u>
Indicated Cost of Equity	8.5%	11.1%	9.8%

The schedules containing my updated cost of capital analysis are attached to this rejoinder testimony.

My 9.5 percent return on equity (“ROE”) recommendation is lower than the mid-point of the results of my analysis. My recommendation balances my judgment about the degree of financial and business risk associated with an investment in RRUI as well as consideration of the current economic environment.

Q. PLEASE SUMMARIZE YOUR RECOMMENDED REJOINDER RATE OF RETURN ON RATE BASE.

A. Using a 100 percent equity capital structure, the weighted average cost of capital (“WACC”) is 9.5 percent. The WACC is reflected on Rejoinder Schedule D-1. The Company’s recommend return on rate base is the 9.5 percent WACC.

Q. HAVE YOU UPDATED YOUR COST OF EQUITY ESTIMATE FOR RRUI USING *DUFF & PHELPS* RISK PREMIUM STUDY DATA?

A. Yes, as shown in **Exhibit TJB-COC-RJ1**. The results are as follows:³

<u>Stock Symbol</u>	<u>Company</u>	<u>Cost of Equity</u>
AWR	American States Water Co.	9.92%
WTR	Aqua America	8.21%
CWT	California Water Services Group	10.67%

³ See **Exhibit TJB-COC-RJ1**, Table 6.

1	<u>Stock</u>		<u>Cost of</u>
2	<u>Symbol</u>	<u>Company</u>	<u>Equity</u>
3	CTWS	Connecticut Water Services	12.29%
4	MSEX	Middlesex Water Company	11.61%
5	SJW	SJW Corp.	11.73%
6		Average	10.74%
7		RRUI	13.89%

8

9 **Q. HOW DO THE *DUFF & PHELPS* COST OF EQUITY ESTIMATES**
10 **COMPARE TO YOUR UPDATED DCF AND CAPM RESULTS?**

11 A. The results of my DCF and CAPM analyses for the publicly traded water
12 companies compare favorably to the build-up method using the *Duff & Phelps*
13 study data. The mid-point of my DCF and CAPM results is 10.0 percent, which is
14 below at the midpoint of the ranges of estimates produced by the build-up method
15 using the *Duff & Phelps* study data which range from 8.21 percent to 12.29 percent
16 with a midpoint of 10.25 percent. Second, and more importantly, the results of my
17 models of 9.8 is below the mid-point of the range of estimates for RRUI using both
18 build-up methods (one using the *Morningstar* data⁴ and the other using the *Duff &*
19 *Phelps* study data) which range from 10.8 percent to 13.7 percent with a mid-point
20 of 12.3 percent. Accordingly, I find my recommendation of a 9.5 percent return on
21 equity appropriately conservative.

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26 ⁴ See Direct Testimony of Thomas J. Bourassa – Cost of Capital at 44 – 45.

1 **B. Summary of the Staff and RUCO recommendations**

2 **Q. PLEASE SUMMARIZE THE RESPECTIVE RECOMMENDATIONS OF**
3 **STAFF AND RUCO FOR THE RATE OF RETURN ON FAIR VALUE**
4 **RATE BASE AT THIS STAGE OF THE PROCEEDING.**

5 A. As explained above, Staff continues to recommend a capital structure consisting of
6 0 percent debt and 100 percent equity.⁵ Staff has lowered its cost of equity
7 recommendation from 8.4 percent to 8.2 percent based on the average cost of
8 equity produced by its updated DCF and CAPM models, a financial risk
9 adjustment and an economic assessment adjustment.⁶ Based on its capital structure
10 recommendation, Staff determined the WACC for RRUI to be 8.2 percent.⁷

11 RUCO has revised its recommendation regarding RRUI’s capital structure
12 from a capital structure consisting of 20 percent debt and 80 percent equity to 0
13 percent debt and 100 percent equity.⁸ RUCO has also lowered its recommended
14 cost of equity from 9.0 percent to 8.25 percent based, in part, on the results of its
15 updated DCF and CAPM methods and the change in the capital structure.⁹

16 **Q. PLEASE COMPARE THE PARTIES’ RESPECTIVE COST OF EQUITY**
17 **ESTIMATES AND RECOMMENDATIONS.**

18 A. The respective parties’ cost of equity recommendations are summarized below:

19 Party	DCF	CAPM	Average	Recommended
20 RRUI	8.5%	11.1%	9.8%	9.5%
21 Staff	8.8%	8.2%	8.5%	8.2%
22 RUCO	8.36%	6.25%	7.31%	8.25%

23 ⁵ Surrebuttal Testimony of John A. Cassidy at 4.

24 ⁶ *Id.* at 5.

25 ⁷ *Id.*

26 ⁸ Rigsby Sb. at 6.

⁹ *Id.*

1 C. Comments on the Cost of Equity Results and Recommendations of Staff
2 and RUCO

3 Q. WHY HAS MR. RIGSBY CHANGED HIS RECOMMENDATION
4 REGARDING THE CAPITAL STRUCTURE?

5 A. I do not know because Mr. Rigsby does not explain why he changed his
6 recommendation only that he decided to recommend a 100 percent equity capital
7 structure.¹⁰

8 Q. HAS MR. RIGSBY EXPLAINED WHY HIS COST OF EQUITY
9 RECOMMENDATION CHANGED FROM 9.0 PERCENT TO 8.25
10 PERCENT?

11 A. Mr. Rigsby explains that his lower 8.25 percent takes into consideration the lower
12 financial risk associated with a capital structure that contains no debt.¹¹

13 Q. DID MR. RIGSBY QUANTIFY THE FINANCIAL RISK ADJUSTMENT
14 THROUGH THE USE OF THE HAMADA METHOD OR SOME OTHER
15 METHOD?

16 A. No. The 75 basis point reduction from 9.0 percent to 8.25 percent appears to be
17 another one of Mr. Rigsby's subjective judgments that cannot be verified or
18 replicated; like his estimates of growth for his DCF model.¹²

19 Q. IF MR. RIGSBY DID USE THE HAMADA METHOD TO COMPUTE A
20 FINANCIAL RISK ADJUSTMENT, WHAT WOULD IT BE?

21 A. Using the Hamada method, Mr. Rigsby's financial risk adjustment would be no
22 more than 40 basis points. His recommended cost of equity would be 8.6 percent,
23 not 8.25 percent.

24
25 ¹⁰ *Id.*

26 ¹¹ *Id.* at 7.

26 ¹² Rebuttal Testimony of Thomas J. Bourassa – Cost of Capital (“Bourassa COC Rb.”) at 25.

1 Q. DOESN'T MR. RIGSBY, ON PAGES 10 AND 11 OF HIS TESTIMONY,
2 EXPLAIN HOW HE DETERMINED THE GROWTH RATES FOR HIS
3 DCF MODEL IN RESPONSE TO YOUR REBUTTAL COMMENT THAT
4 HIS DCF GROWTH RATES CANNOT BE VERIFIED OR REPLICATED?

5 A. Despite Mr. Rigsby's additional explanation of how he estimates his growth rates,
6 he avoids disclosing the key inputs necessary to estimate the internal or retention
7 growth rate he employs. Consequently, his method of estimating his growth rates
8 remains subjective and cannot be verified or replicated. The key point of my
9 rebuttal testimony remains the same; his approach allows him to simply select a
10 growth rate that falls somewhere within a broad range that cannot be verified.¹³

11 Q. HAVE YOU IGNORED THE FACT THAT RRUI IS OWNED BY A LARGE
12 PUBLICLY TRADED COMPANY?

13 A. No, contrary to Mr. Rigsby's assertion.¹⁴ I have taken into consideration RRUI's
14 access to capital through its parent company.¹⁵ My recommended size risk
15 premium reflects a consideration of RRUI's access to capital.¹⁶ That said, I also
16 stand by my statement that it is the investment (RRUI), and not the investor
17 (RRUI's parent), that is analyzed for purposes of establishing the cost of equity.¹⁷

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23 _____
¹³ *Id.* at 24 – 25.

24 ¹⁴ Rigsby Sb. at 10.

25 ¹⁵ Bourassa COC Rb. at 18.

26 ¹⁶ *Id.*

¹⁷ *Id.*

1 Q. PLEASE COMMENT ON THE 2012-2017 PROJECTED RETURNS FOR
2 BOTH THE WATER UTILITY PROXY GROUP AND THE GAS PROXY
3 GROUP THAT MR. RIGSBY COMPLAINS YOU DID NOT CONSIDER IN
4 YOUR REBUTTAL TESTIMONY?

5 A. I would agree with Mr. Rigsby that the projected book returns for 2012 to 2017 for
6 my water proxy group average 9.69 percent.¹⁸ Whether it is the 10.30 percent for
7 the 2015 to 2017 I computed in my rebuttal testimony or 9.7 percent (9.69) for
8 2012 to 2017 as Rigsby states, they are both considerably higher than both the
9 results of his models at 7.13 percent and his 8.25 percent recommended cost of
10 equity.

11 Q. WHAT IS THE DIFFERENCE IN YOUR PROXY GROUP AND MR.
12 RIGSBY'S PROXY GROUP?

13 A. Mr. Rigsby excludes Connecticut Water (CTWS), whereas I exclude American
14 Water (AWK).

15 Q. WHY DO YOU EXCLUDE AMERICAN WATER FROM YOUR PROXY
16 GROUP?

17 A. For two reasons. First, there is relative little market history for American Water to
18 make reliable judgments about future financial performance. Mr. Rigsby admits
19 there is only 4 years of data.¹⁹ Second, and more importantly, American Water is
20 very, very, very large. It is has nearly 4 times the revenues and 4 times the net
21 plant as the next largest water utility (Aqua America) making it even less relevant
22 to a cost of capital analysis concerning a small water utility like RRUI.

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24
25

¹⁸ Rigsby Sb. at 9.

26 ¹⁹ See Direct Testimony of William A. Rigsby at 20.

1 Q. WHY DOES MR. RIGSBY EXCLUDE CONNECTICUT WATER?

2 A. Mr. Rigsby says it is because *Value Line* does not provide the same type of forward
3 looking information that it provides on the six water utilities in his proxy group.²⁰

4 Q. IS THIS TRUE?

5 A. No. Value Line currently provides the same forward looking information for
6 Connecticut Water as the other water utilities in Mr. Rigsby's water proxy group.

7 Q. WHAT WOULD BE VALUE LINE'S PROJECTED RETURNS ASSUMING
8 ALL SEVEN UTILITIES WERE CONSIDERED?

9 A. Mr. Rigsby points out that the 2012-2017 projected returns for his proxy group plus
10 Connecticut Water is 9.55 percent.²¹ Again, still considerably higher than either
11 the results of his models at 7.13 percent or his 8.25 recommended cost of equity.

12 Q. WHAT ABOUT MR. RIGSBY'S GAS PROXY GROUP?

13 A. *Value Line* (December 7, 2012) projects the following returns on equity for the
14 nine gas utilities in RUCO's proxy group:

15	AGL Resources, Inc. (GAS)	10.2%
16	Atmos Energy Corp. (ATO)	8.0%
17	Laclede Group (LG)	10.0%
18	New Jersey Resources (NJR)	14.7%
19	Northwest Gas Co. (NWN)	9.8%
20	Piedmont Natural Gas Co. (PNY)	12.0%
21	South Jersey Industries, Inc. (SJI)	14.3%
22	Southwest Gas (SWX)	9.8%
23	WGL Holdings, Inc. (SJW)	<u>10.1%</u>
24	Average	11.0%

25 ²⁰ *Id.* at 24.

26 ²¹ Rigsby Sb. at 9.

1 I should point out while Mr. Rigsby mentions his water proxy group's 2012-2017
2 projected book returns are 9.55 percent, he does not mention that his gas proxy
3 group's 2012-2017 projected book returns is 11.0 percent. The midpoint of his
4 water proxy group and gas proxy group is 10.30 percent, which makes his 8.25
5 percent recommendation all the more unbelievable.

6 **Q. WHAT IS THE SIGNIFICANCE OF ALL OF THESE PROJECTED BOOK**
7 **RETURNS?**

8 A. For one, they are all much higher than either the Staff or RUCO returns produced
9 by their respective models before any consideration of financial risk or other risks.
10 The average of Staff's DCF and CAPM results is 8.5 percent. The average of
11 RUCO's DCF and CAPM results is 7.13 percent.

12 For another, since we are applying a return to a book value rate base, book
13 equity returns have relevance. Additionally, if we are to meet the comparable
14 earnings standards set forth in *Federal Power Commission v. Hope Natural Gas*
15 *Co.*, 320 U.S. 591, 603 (1944) and *Bluefield Water Works and Improvement Co. v.*
16 *Public Service Commission of West Virginia*, 262 U.S. 679, 692-93 (1923), then a
17 comparison to book returns is an essential element.

18 **Q. WHAT ABOUT DIFFERENCES IN FINANCIAL RISK BETWEEN THE**
19 **PROXY GROUPS AND RRUI?**

20 A. If the difference in financial risk is considered and assuming the appropriate
21 financial risk adjustment is Staff's 90 basis point downward adjustment (which is
22 based on book values), the indicated return would fall between 8.6 percent and 10.1
23 percent with a midpoint of 9.4 percent. Of course, the 9.4 percent does not
24 consider other risk factors such as size. Putting that aside, the 9.4 percent is still
25 much higher than the Staff recommended 8.2 percent ROE and RUCO's
26 recommended 8.25 percent.

1 Q. PLEASE COMMENT ON MR. CASSIDY'S SUREBUTTAL TESTIMONY
2 CONCERNING THE USE OF BOOK VALUES IN THE HAMADA
3 METHOD.

4 A. Mr. Cassidy makes the very point I have been attempting to make throughout my
5 rebuttal testimony and now here. That is, the inputs and assumptions Staff uses in
6 their approach to the cost of capital depress the results. Assuming book values are
7 appropriate in a market based method, like the Hamada method, is a bad
8 assumption that ultimately results in an overstatement of the financial risk
9 adjustment and an understatement of the cost of equity.

10 Q. WILL RRUI HAVE SUFFICIENT EARNINGS TO PAY DIVIDENDS AT A
11 LEVEL COMPARABLE TO THE PUBLICLY TRADED WATER UTILITY
12 COMPANIES IF STAFF'S RETURN ON EQUITY IS ADOPTED?

13 A. No. In fact, in order for the Company to pay dividends the payout ratio will exceed
14 100 percent of earnings; which is not sustainable. The same problem exists under
15 RUCO's recommended equity return.

16 Q. HAVE YOU PREPARED AN EXHIBIT TO SHOW THE COMPUTATIONS
17 OF THE PAYOUT RATIOS?

18 A. Yes. Attached hereto is **Exhibit TJB-COC-RJ2**. Table 1 of the exhibit shows the
19 computations using the Staff recommendations. Table 2 of the exhibit shows the
20 computations using the RUCO recommendations. Table 3 of the exhibit shows the
21 computations using the Company's recommendations. The payout ratio for Staff is
22 94 percent; the payout ratio for RUCO is 93 percent; and, the payout ratio for the
23 Company is 76 percent.

24 Q. WHAT IS THE PAYOUT RATIO FOR THE PUBLICLY TRADED WATER
25 UTILITIES?

26 A. The 5 year average payout ratio is 71 percent.

1 Q. DOES A UTILITY HAVE TO SUPPORT ITS CAPITAL WITH ITS
2 EARNINGS?

3 A. Yes. All invested capital must be supported as each dollar of capital has an
4 earnings requirement. Whether each dollar is recognized in rate base, it
5 nevertheless has capital costs and these costs must be absorbed by earnings from
6 existing investments. As Dr. Morin states:

7 The totality of a company's capital has to be
8 serviced... Therefore, the allowed rate of return on common
9 equity is applicable to the total common equity component of
10 the total investments of the utility company. Anything less
11 than that has the direct and immediate effect of reducing
12 common equity return below the level needed to meet the
13 capital attraction and the comparable earnings standards
14 articulated in the Hope and Bluefield decisions. To apply an
15 allowed rate of return to a rate base that does not maintain the
16 integrity of that capital does not enable the company to attract
17 capital.²²

14 Q. WHAT WOULD HAPPEN TO THE VALUE OF AN INVESTMENT IN
15 RRUI IF IT PAID DIVIDENDS IN THE SAME PROPORTION OF
16 EARNINGS AS THE PUBLICLY TRADED UTILITIES?

17 A. The value of the equity investment in RRUI would necessarily decrease. Let me
18 explain. Using the figures in Table 1, if RRUI paid out 71 percent of its net
19 earnings, comparable to the publicly traded water utilities, it would pay dividends
20 totaling about \$668,189 (Staff's required operating income \$941,124 times
21 71 percent). This would translate to a dividend yield of only 2.17 percent
22 (\$668,189 cash divided by \$13,495,513 book equity divided by 2.28 market-book
23 ratio). However, investors expect a dividend yield of 3.1 percent according to
24 Staff, so the value of an investment in RRUI would need to decrease to
25

26 ²² Roger A. Morin, *The New Regulatory Finance*, chapter 4 (2006) at 497 – 498.

1 \$21,554,483 million (\$668,189 divided by 3.1 percent) from a market value of
2 \$30,765,210 (\$13,493,513 book equity times 2.28 market-to-book ratio). In other
3 words, RRUI's investors will lose approximately \$9,210,726 of investment value
4 (\$21,554,483 minus \$30,765,210). The market-to-book ratios would drop
5 precipitously from the 2.28 of the publicly traded water utilities from to 1.60
6 (\$21,554,483 divided by \$13,495,513).

7 **Q. WOULD THE REDUCTION IN THE VALUE OF EQUITY BE SIMILAR**
8 **UNDER THE RUCO RECOMMENDATIONS?**

9 A. Yes.

10 **Q. WHAT WOULD THE RATE OF RETURN THAT IS APPLIED TO**
11 **STAFF'S PROPOSED RATE BASE NEED TO BE IN ORDER FOR THE**
12 **COMPANY TO BE COMPARABLE TO THE PUBLICLY TRADED**
13 **WATER COMPANIES?**

14 A. 10.8 percent. Let me explain. If RRUI has a payout ratio of 71 percent, then it
15 must have earnings of about \$1,343,849 (\$13,495,513 book equity times
16 7.07 percent Staff book dividend yield divided by 71 percent payout ratio). Staff's
17 proposed rate base (water and wastewater combined) is \$12,395,518, so the return
18 required is 10.8 percent (\$1,343,849 divided by \$12,395,518). RUCO's
19 recommended rate base is somewhat lower at \$12,270,684 which would mean a
20 higher required return than 10.8 percent.

21 **Q. BUT MR. BOURASSA, ISN'T IT THE RATE BASE WE RECOGNIZE AS**
22 **THE COMPANY'S INVESTMENT IN RATE MAKING?**

23 A. Yes. Putting aside Dr. Morin's comments above, and determining the required
24 earnings on rate base, then RRUI must have earnings of \$1,234,314 in order to be
25 comparable to the publicly traded companies (\$12,395,518 Staff combined rate
26 base for water and wastewater times 7.07 percent Staff book dividend yield divided

1 by 71 percent payout ratio). The return required is 9.96 percent (\$1,234,314
2 divided by \$12,395,518).

3 Similarly, under the RUCO recommendations, RRUI must have earnings of
4 \$1,209,785 (\$12,270,684 RUCO combined rate base for water and wastewater
5 times 7.00% RUCO book dividend yield divided by 71 percent payout ratio).
6 The return required is 9.86 percent (\$1,209,785 divided by \$12,270,684).

7 **Q. ANY FINAL THOUGHTS?**

8 A. Yes. Either way you look at it, the Staff recommended return on equity of 8.2
9 percent and the RUCO recommended return on equity of 8.25 percent fail the
10 comparable earnings test and the capital attraction standards set forth in *Hope* and
11 *Bluefield*.

12 **Q. DOES THAT CONCLUDE YOUR REJOINDER TESTIMONY ON COST**
13 **OF CAPITAL?**

14 A. Yes, although my silence on any of the issues, matters or findings addressed in the
15 testimony of Staff and/or RUCO does not constitute my acceptance of their
16 positions on such issues, matters or findings.

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RIO RICO UTILITIES, INC. DBA LIBERTY UTILITIES

REJOINDER TESTIMONY OF THOMAS J. BOURASSA

COST OF CAPITAL

MARCH 8, 2013

EXHIBIT TJB-COC-RJ1

Rio Rico Utilities, Inc. dba Liberty Utilities
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
 Based on *Duff and Phelps Risk Premium Study Data*

TABLE 1

	Company	Symbol	Measures of size (Millions)						
			MV Equity ¹	Book Equity ¹	MVIC ¹	5 Yr Avg. Net Income	Total Assets ²	5 Yr Avg. EBITDA ³	
1.	American States	AWR	\$ 1,039	\$ 408	\$ 1,380	\$ 32	\$ 1,192	\$ 120	
2.	Aqua America	WTR	\$ 4,129	\$ 1,251	\$ 5,525	\$ 113	\$ 4,072	\$ 407	
3.	California Water	CWT	\$ 862	\$ 450	\$ 1,344	\$ 37	\$ 1,692	\$ 128	
4.	Connecticut Water	CTWS	\$ 260	\$ 119	\$ 395	\$ 10	\$ 425	\$ 23	
5.	Middlesex	MSEX	\$ 310	\$ 177	\$ 442	\$ 12	\$ 489	\$ 38	
6.	SJW Corp.	SJW	\$ 517	\$ 264	\$ 861	\$ 20	\$ 935	\$ 87	

Rio Rico Utilities, Inc. dba Liberty Utilities

NA \$ 11.0 NA \$ 0.1 \$ 29.7 \$ 1.9

¹ From Zacks Investment Research data

² From Zacks Investment Research. From E-1 for subject utility.

³ Net Income. From Zacks Investment Research and Company ACC reports

Net Income Data

Company	Symbol	2011	2010	2009	2008	2007	Average
American States	AWR	\$ 45.9	\$ 33.2	\$ 29.5	\$ 22.0	\$ 28.0	\$ 31.7
Aqua America	WTR	\$ 143.1	\$ 124.0	\$ 104.4	\$ 97.9	\$ 95.0	\$ 112.9
California Water	CWT	\$ 37.7	\$ 37.7	\$ 40.6	\$ 39.8	\$ 31.2	\$ 37.4
Connecticut Water	CTWS	\$ 11.3	\$ 9.8	\$ 10.2	\$ 9.4	\$ 8.8	\$ 9.9
Middlesex	MSEX	\$ 13.4	\$ 14.3	\$ 10.0	\$ 12.2	\$ 11.8	\$ 12.4
SJW Corp.	SJW	\$ 20.9	\$ 24.4	\$ 15.2	\$ 21.5	\$ 19.3	\$ 20.2
Rio Rico Utilities, Inc. dba Liberty Utilities		\$ (2.8)	\$ 0.8	\$ 0.8	\$ 0.6	\$ 1.0	\$ 0.1

Net Income data for publicly traded water utilities from Zacks Investment Research and/or Yahoo Finance

⁴ Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA). From Zacks Investment Research and Company ACC reports.

EBITDA Data

Company	Symbol	2011	2010	2009	2008	2007	Average
American States	AWR	\$ 133.3	\$ 134.4	\$ 122.6	\$ 105.9	\$ 102.8	\$ 119.8
Aqua America	WTR	\$ 397.8	\$ 473.2	\$ 415.2	\$ 384.7	\$ 364.5	\$ 407.1
California Water	CWT	\$ 143.3	\$ 155.7	\$ 125.5	\$ 122.1	\$ 95.6	\$ 128.4
Connecticut Water	CTWS	\$ 24.2	\$ 22.5	\$ 20.3	\$ 21.1	\$ 27.9	\$ 23.2
Middlesex	MSEX	\$ 34.6	\$ 43.3	\$ 34.6	\$ 38.6	\$ 36.6	\$ 37.6
SJW Corp.	SJW	\$ 87.1	\$ 75.4	\$ 93.5	\$ 99.7	\$ 77.7	\$ 86.7
Rio Rico Utilities, Inc. dba Liberty Utilities		\$ 1.4	\$ 4.0	\$ 1.9	\$ 0.8	\$ 1.2	\$ 1.9

EBITDA data for publicly traded water utilities from Zacks Investment Research and/or Yahoo Finance

EBITDA data for subject utility from E-1 and/or ACC reports

Rio Rico Utilities, Inc. dba Liberty Utilities
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
 Based on *Duff and Phelps* Risk Premium Study Data

MRP_{mr+s} Estimates Using Duff & Phelps Study (Unlevered)

Assumes 100% Equity and 0% debt

Data Smoothing with Regression Analysis

Smoothed Premium (RP_{mr+s}) = Constant + X Coefficients * Log(Relevant Metric)

$$RP_{unlevered} = RP_{levered} - W_d W_e (\beta_U - \beta_d) \cdot RP_{market}$$

Where β_U = unlevered portfolio beta

β_d = debt beta, assumed to be 0.1

W_d = percentage of debt in capital structure

W_e = percentage of equity in capital structure

RP_{levered} = levered realized risk premium

TABLE 2

Constant X Coefficient(s)	MV Equity (Table C-1)	Book Equity (Table C-2)	MVIC (Table C-4)	5 Yr Avg. Net Income (Table C-3)	Total Assets (Table C-5)	5 Yr Avg. EBITDA (Table C-6)	
	18.475% -3.239%	15.380% -2.561%	18.661% -3.201%	13.224% -2.616%	17.273% -2.812%	14.736% -2.723%	
	MRP_{mr+s} (unlevered)						
	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
1. American States	8.70%	8.70%	8.61%	9.30%	8.62%	9.08%	8.83%
2. Aqua America	6.76%	7.45%	6.68%	7.85%	7.12%	7.63%	7.25%
3. California Water	8.97%	8.59%	8.65%	9.11%	8.19%	8.99%	8.75%
4. Connecticut Water	10.65%	10.07%	10.35%	10.62%	9.88%	11.02%	10.43%
5. Middlesex	10.41%	9.62%	10.19%	10.37%	9.71%	10.45%	10.12%
6. SJW Corp.	9.69%	9.18%	9.27%	9.81%	8.92%	9.46%	9.39%
Average (unlevered)	9.20%	8.93%	8.96%	9.51%	8.74%	9.44%	9.13%
Rio Rico Utilities, Inc. dba Liberty Utilities	NA	12.71%	NA	16.23%	13.13%	14.01%	14.02%
							Indicated size premium 4.89%

Rio Rico Utilities, Inc. dba Liberty Utilities
 COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
 Based on *Duff and Phelps* Risk Premium Study Data

Unlevered Portfolio Beta
 (from 2012 Duff & Phelps RP Study - Table C)

TABLE 3

	Company	Symbol	Unlevered Portfolio Beta (β_u)							
			(Table C-1)	(Table C-2)	(Table C-4)	(Table C-3)	(Table C-5)	(Table C-6)	Average	
1.	American States	AWR	0.95	0.96	0.98	0.94	0.94	0.94	0.97	0.96
2.	Aqua America	WTR	0.87	0.86	0.81	0.88	0.83	0.83	0.84	0.85
3.	California Water	CWT	0.98	0.95	0.95	0.94	0.92	0.97	0.97	0.95
4.	Connecticut Water	CTWS	0.96	1.00	0.97	0.97	0.99	1.03	0.99	0.99
5.	Middlesex	MSEX	0.96	0.98	0.97	0.97	0.99	0.99	0.99	0.98
6.	SJW Corp.	SJW	0.95	0.97	0.97	0.96	0.97	0.95	0.95	0.96
	Average		0.95	0.95	0.94	0.94	0.94	0.96	0.96	0.95
	Rio Rico Utilities, Inc. dba Liberty Utilities		0.95	0.98	1.00	1.01	1.05	1.03	1.00	1.00

Rio Rico Utilities, Inc. dba Liberty Utilities
 COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
 Based on *Duff and Phelps* Risk Premium Study Data

MRP Estimates Using Duff & Phelps Study (Relevered)

Relevered Realized Risk Premium

$$RP_{\text{relevered}} = RP_{\text{unlevered}} + W_d W_e (\beta_u - \beta_d) * RP_{\text{market}}$$

Where β_u = unlevered portfolio beta

β_d = debt beta, assumed to be 0.1

W_d = percentage of debt in capital structure

W_e = percentage of equity in capital structure

$RP_{\text{unlevered}}$ = unlevered realized risk premium from Table 2

RP_{market} = general equity risk premium for the market since 1963 (4.4%)

TABLE 4

	Symbol	Company	MRP _{ms} (Relevered)									
			W _d /W _e	MV Equity	Book Equity	MVIC	Net Income	Total Assets	5 Yr Avg. EBITDA	5 Yr Avg. Net Income	Total Assets	Average
1.	AWR	American States	32.7%	9.90%	9.91%	9.85%	10.48%	9.81%	10.30%	9.81%	10.30%	10.04%
2.	WTR	Aqua America	33.8%	7.88%	8.55%	7.71%	8.99%	8.18%	8.71%	8.18%	8.71%	8.34%
3.	CWT	California Water	55.8%	11.08%	10.63%	10.69%	11.13%	10.16%	11.08%	10.16%	11.08%	10.79%
4.	CTWS	Connecticut Water	52.0%	12.58%	12.08%	12.30%	12.57%	11.87%	13.10%	11.87%	13.10%	12.42%
5.	MSEX	Middlesex	42.6%	11.98%	11.24%	11.79%	11.96%	11.34%	12.08%	11.34%	12.08%	11.73%
6.	SJW	SJW Corp.	66.5%	12.12%	11.67%	11.75%	12.27%	11.41%	11.89%	11.41%	11.89%	11.85%
		Average MRP (Relevered)	47.26%	10.92%	10.68%	10.68%	11.23%	10.46%	11.19%	10.46%	11.19%	10.86%
		Rio Rico Utilities, Inc. dba Liberty Utilities	0.00%	NA	12.71%	NA	16.23%	13.13%	14.01%	13.13%	14.01%	14.02%

Rio Rico Utilities, Inc. dba Liberty Utilities
 COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
 Based on Duff and Phelps Risk Premium Study Data

Equity Risk Premium Adjustment and Other metrics used in Build-up Method

TABLE 5

[1] Estimate of Current Market Risk Premium (RP_{market})	5.50%	<<<< Current Duff and Phelps recommendation
[2] Risk Premium Assumed in Duff & Phelps Study (1963-2011) ¹	4.30%	
[3] Equity Risk Premium Adjustment ([1] - [2])	1.20%	
[4] Average MRP (relevered) for publicly traded water companies (from Table 4)	10.86%	
[5] MRP (relevered) for publicly traded water companies (RP_{mkt}) ([3] + [4])	12.06%	
[6] Equity Risk Premium Adjustment ([3])	1.20%	
[7] Average MRP (relevered) for subject utility company (from Table 4)	14.02%	
[8] MRP (relevered) for subject utility company (RP_{mkt}) ([6] + [7])	15.22%	
[9] Industry Risk Premium (From Ibbotson for SIC 494 Water Supply Industry Table 3-5)	-4.83%	
[10] Adjustment Factor to Industry Risk Premium ([2] / 6.6%) ¹	0.8333	
[11] Adjusted Industry Risk Premium (R_i) ([9] x [10])	-4.03%	
[12] Risk Free Rate (R_f) ²	2.65%	

¹ From Duff and Phelps Risk Premium Report 2012.

² Yield on 20 Yr U.S. Treasury January 11, 2013 (Federal Reserve)

Rio Rico Utilities, Inc. dba Liberty Utilities
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
 Based on *Duff and Phelps Risk Premium Study Data*

Cost of Equity (COE) Estimate using Build-up Method

$$E(R_i) = R_f + RP_{m+s} + RP_i + RP_u$$

Where:

$E(R_i)$ = Expected (indicated) rate of return

R_f = Risk-free rate of return. See Table 5.

RP_{m+s} = Market risk premium including size premium. See Table 4.

RP_i = Industry risk premium (adjusted) See Table 5.

RP_u = Company-specific risk premium

TABLE 6

Sample Publicly Traded Water Utilities
 Rio Rico Utilities, Inc. dba Liberty Utilities
 $R_f =$ 2.65%
 $RP_{m+s} =$ See Table 4
 $RP_i =$ -4.03%
 $RP_u =$ 0.00%

	Indicated COE E(R _i)									
	MV	Book	5 Yr Avg.	Total	5 Yr Avg.	Average	Symbol	Company		
	Equity	Equity	Net Income	Assets	EBITDA	Equity				
1. American States	9.73%	9.73%	10.30%	9.63%	10.13%	9.73%	AWR	American States		
2. Aqua America	7.71%	8.38%	8.81%	8.01%	8.53%	7.71%	WTR	Aqua America		
3. California Water	10.90%	10.45%	10.51%	9.99%	10.91%	10.90%	CWT	California Water		
4. Connecticut Water	12.40%	11.91%	12.39%	11.70%	12.93%	12.40%	CTWS	Connecticut Water		
5. Middlesex	11.81%	11.06%	11.79%	11.17%	11.90%	11.81%	MSEX	Middlesex		
6. SJW Corp.	11.94%	11.49%	12.09%	11.23%	11.72%	11.94%	SJW	SJW Corp.		
Average COE estimate	10.75%	10.50%	11.06%	10.29%	11.02%	10.75%				
Rio Rico Utilities, Inc. dba Liberty Utilities	NA	12.54%	16.05%	12.96%	13.83%	13.84%				

RIO RICO UTILITIES, INC. DBA LIBERTY UTILITIES

REJOINDER TESTIMONY OF THOMAS J. BOURASSA

COST OF CAPITAL

MARCH 8, 2013

EXHIBIT TJB-COC-RJ2

Table 1 – Staff Recommendations and Actual Equity in Capital Structure

[1]	Total Equity per Direct Schedule D-1	\$13,493,513
[2]	% Equity per Rejoinder D-1	100%
[3]	Book Value of Equity [1] x[2]	\$13,493,513
[4]	Expected Dividend Yield per Staff	3.10%
[5]	Current market-to-book ratio publicly traded water utilities	2.28
[6]	Book Value Dividend Yield [4] x [5]	7.07%
[7]	Cash Dividend [3] x[6]	\$953,721
[8]	Staff Recommended Operating Income (W and WW)	\$1,013,480
[9]	Less: Annual Interest Expense	\$0
[10]	Earnings Available for Dividends [8] - [9]	\$1,013,480
[11]	Less: Dividends [7]	\$953,721
[12]	Retained Earnings [10] - [11]	\$59,759
[13]	Pay-out ratio [11]/[10]	94%

Table 2 – RUCO Recommendations and Actual Equity in Capital Structure

[1]	Total Equity per Direct Schedule D-1	\$13,493,513
[2]	% Equity per Rejoinder D-1	100%
[3]	Book Value of Equity [1] x[2]	\$13,493,513
[4]	Expected Dividend Yield per RUCO	3.07%
[5]	Current market-to-book ratio publicly traded water utilities	2.28
[6]	Book Value Dividend Yield [4] x [5]	7.00%
[7]	Cash Dividend [3] x[6]	\$944,492
[8]	RUCO Recommended Operating Income (W and WW)	\$1,010,331
[9]	Less: Annual Interest Expense	\$0
[10]	Earnings Available for Dividends [8] - [9]	\$1,010,331
[11]	Less: Dividends [7]	\$944,492
[12]	Retained Earnings [10] - [11]	\$65,839
[13]	Pay-out ratio [11]/[10]	93%

Table 3 – RRUI Recommendations and Actual Equity in Capital Structure

[1]	Total Equity per Direct Schedule D-1	\$13,493,513
[2]	% Equity per Rejoinder D-1	100%
[3]	Book Value of Equity [1] x[2]	\$13,493,513
[4]	Expected Dividend Yield per D-4.7	2.92%
[5]	Current market-to-book ratio publicly traded water utilities	2.28
[6]	Book Value Dividend Yield [4] x [5]	6.66%
[7]	Cash Dividend [3] x[6]	\$898,344
[8]	RRUI Recommended Operating Income (W and WW)	\$1,184,203
[9]	Less: Annual Interest Expense	\$0
[10]	Earnings Available for Dividends [8] - [9]	\$1,184,203
[11]	Less: Dividends [7]	\$898,344
[12]	Retained Earnings [10] - [11]	\$285,859
[13]	Pay-out ratio [11]/[10]	76%

RIO RICO UTILITIES, INC. DBA LIBERTY UTILITIES

REJOINDER TESTIMONY OF THOMAS J. BOURASSA

COST OF CAPITAL

MARCH 8, 2013

D SCHEDULES

Rio Rico Utilities, Inc. dba Liberty Utilities
 Test Year Ended February 29, 2012
 Summary of Cost of Capital

Consolidated Capital Structure of Water and Wastewater Division

Porforma Capital Structure

Line No.	Item of Capital	Percent of Total	Cost Rate	Weighted Cost
1	Long-Term Debt	0.00%	0.00%	0.00%
2				
3	Stockholder's Equity	100.00%	9.50%	9.50%
4				
5	Totals	100.00%		9.50%
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SUPPORTING SCHEDULES:

- D-1
- D-3
- D-4
- Testimony

RECAP SCHEDULES:
 A-1

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

Rio Rico Utilities, Inc. dba Liberty Utilities
 Test Year Ended February 29, 2012
 Cost of Long Term Debt

Exhibit
 Schedule D-2
 Page 1
 Witness: Bourassa

Line No.	Description of Debt	End of Test Year				End of Projected Year			
		Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost	Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost
1									
2		-	-	0.000%	0.000%	-	-	0.000%	0.000%
3		-	-	0.000%	0.000%	-	-	0.000%	0.000%
4		-	-	0.000%	0.000%	-	-	0.000%	0.000%
5		-	-	0.000%	0.000%	-	-	0.000%	0.000%
6		-	-	0.000%	0.000%	-	-	0.000%	0.000%
7		-	-	0.000%	0.000%	-	-	0.000%	0.000%
8		-	-	0.000%	0.000%	-	-	0.000%	0.000%
9		-	-	0.000%	0.000%	-	-	0.000%	0.000%
10		-	-	0.000%	0.000%	-	-	0.000%	0.000%
11									
12									
13	Totals	\$ -	-		0.000%	\$ -	-		0.000%
14									
15									

Supporting Schedules:

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Rio Rico Utilities, Inc. dba Liberty Utilities
Test Year Ended February 29, 2012
Cost of Preferred Stock

Exhibit
Schedule D-3
Page 1
Witness: Bourassa

Line
No.
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	<u>End of Test Year</u>			<u>End of Projected Year</u>		
Description of Issue	Shares Outstanding	Amount	Dividend Requirement	Shares Outstanding	Amount	Dividend Requirement
NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING						

SUPPORTING SCHEDULES:

RECAP SCHEDULES:
D-1

Rio Rico Utilities, Inc. dba Liberty Utilities
Test Year Ended February 29, 2012
Cost of Common Equity

Exhibit
Schedule D-4
Page 1
Witness: Bourassa

Line

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The Company is proposing a cost of common equity of 10.30% .

SUPPORTING SCHEDULES:

D-4.1 to D-4.16

RECAP SCHEDULES:

D-1

Rio Rico Utilities, Inc. dba Liberty Utilities
 Summary of Results

Exhibit
 Rejoinder Schedule D-4.1

Line No.	Method	Low	High	Midpoint
1				
2				
3				
4				
5				
6	Range DCF Constant Growth Estimates ¹	8.6%	9.7%	9.2%
7				
8	Range of CAPM Estimates ²	8.6%	12.7%	10.6%
9				
10				
11				
12	Average of midpoint estimates	8.6%	11.2%	9.9%
13				
14				
15	Financial Risk Adjustment ³	-0.9%	-0.9%	-0.9%
16				
17	Small Company Risk Premium ⁴	0.8%	0.8%	0.8%
18				
19	Indicated Cost of Equity	8.5%	11.1%	9.8%
20				
21				
22				
23	Recommended Cost of Equity			9.5%
24				
25				
26				
27				
28				
29				
30				

¹ See Schedule D-4-8

² See Schedule D-4.12

³ See Schedule D-4.13, Testimony

⁴ See Schedule D-4.16, Testimony

Rio Rico Utilities, Inc. dba Liberty Utilities
Selected Characteristics of Sample Group of Water Utilities

Exhibit
Rejoinder Schedule D-4.2

Line No.	Company ¹	% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating	Allowed ROE
1	1. American States	68%	\$ 449.7	\$ 912.0	A+	A2	9.99
2	2. Aqua America	96%	\$ 755.7	\$ 3,863.4	AA-	NR	10.33
3	3. California Water	100%	\$ 541.5	\$ 1,443.1	AA-	NR	9.99
4	4. Connecticut Water	100%	\$ 79.8	\$ 422.6	A	NR	9.75
5	5. Middlesex	89%	\$ 106.6	\$ 433.3	A	NR	10.15
6	6. SJW Corp.	96%	\$ 261.4	\$ 870.5	A	NR	9.99
10	Average	92%	\$ 365.8	\$ 1,324.2			10.03
13	Rio Rico Utilities, Inc. dba Liberty Utilities (Adjusted as of February 29, 2012)	68%	\$ 4.2	\$ 28.2	NR	NR	

¹AUS Utility Reports (March 2013).

Rio Rico Utilities, Inc. dba Liberty Utilities
Capital Structures

Exhibit
Rejoinder Schedule D-4.3

No.	Company	Book Value ¹		Market Value ¹	
		Long-Term Debt	Common Equity	Long-Term Debt	Common Equity
1	1. American States	45.5%	54.5%	24.7%	75.3%
2	2. Aqua America	52.7%	47.3%	25.3%	74.7%
3	3. California Water	51.7%	48.3%	35.8%	64.2%
4	4. Connecticut Water	53.2%	46.8%	34.2%	65.8%
5	5. Middlesex	42.8%	57.2%	29.9%	70.1%
6	6. SJW Corp.	56.6%	43.4%	39.9%	60.1%
7	Average	50.4%	49.6%	31.6%	68.4%
8	Rio Rico Utilities, Inc. dba Liberty Utilities (Proforma)	0.0%	100.0%	N/A	N/A

¹ Value Line Analyzer Data (March 6, 2013)

² Adjusted Per Schedule D-1

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Rio Rico Utilities, Inc. dba Liberty Utilities
Current Dividend Yields for Water Utility Sample Group

Exhibit
Rejoinder Schedule D-4.7

Line No.	Company	Current Stock Price (P ₀) ¹	Current Dividend (D ₀) ¹	Current Dividend Yield (D ₀ /P ₀) ¹	Average Annual Dividend Yield (D _a /P ₀) ^{1,2}
1	1. American States	\$ 55.29	\$ 1.10	1.99%	3.20%
2	2. Aqua America	\$ 29.73	\$ 0.63	2.12%	2.85%
3	3. California Water	\$ 20.63	\$ 0.62	3.01%	3.36%
4	4. Connecticut Water	\$ 29.54	\$ 0.94	3.18%	3.62%
5	5. Middlesex	\$ 19.75	\$ 0.73	3.70%	4.02%
6	6. SJW Corp.	\$ 27.79	\$ 0.69	2.48%	2.94%
7	Average			2.75%	3.33%
8	Median			2.74%	3.28%

¹ Value Line Analyzer Data. Stock prices as of March 6, 2013.

² Average Annual Dividend is dividends declared per share for a year divided by the average annual price of the stock in the same year, expressed as a percentage. For comparison purposes only.

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25

Rio Rico Utilities, Inc. dba Liberty Utilities
Discounted Cash Flow Analysis
DCF Constant Growth

Exhibit
Rejoinder Schedule D-4.8

Line No.	[1] Average Spot Dividend Yield $(D_0/P_0)^1$	[2] Expected Dividend Yield $(D_1/P_0)^2$	[3] Growth (g)	[4] Indicated Cost of Equity $k = \text{Div Yield} + g$ (Cols 2+3)
8	2.75%	2.90%	5.73% ³	8.6%
10	2.75%	2.93%	6.76% ⁴	9.7%
Average	2.75%	2.92%	6.25%	9.2%

¹ Spot Dividend Yield = D_0/P_0 . See Schedule D-4.7.

² Expected Dividend Yield = $D_1/P_0 = D_0/P_0 * (1+g)$.

³ Growth rate (g). Average of Past and Future Growth. See Schedule D-4.4, column 7

⁴ Growth rate (g). Average of Analyst Estimates Future Growth. See Schedule D-4.6.

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28

Rio Rico Utilities, Inc. dba Liberty Utilities
Market Betas

Exhibit
Rejoinder Schedule D-4.9

Line No.	Company	Beta (B) ¹
1	American States	0.70
2	Aqua America	0.60
3	California Water	0.65
4	Connecticut Water	0.75
5	Middlesex	0.70
6	SJW Corp.	0.85
7		
8		
9	Average	0.71
10		
11		
12		
13		

¹ Value Line Investment Analyzer data (March 6, 2013)

Note: Beta is a relative measure of the historical sensitivity of a stock's price to overall fluctuations in the New York Stock Exchange Composite Index. A Beta of 1.50 indicates a stock tends to rise (or fall) 50% more than the New York Stock Exchange Composite Index. The "Beta coefficient" is derived from a regression analysis of the relationship between weekly percent-age changes in the price of a stock and weekly percentage changes in the NYSE Index over a period of five years. In the case of shorter price histories, a smaller time period is used, but two years is the minimum. The Betas are adjusted for their long-term tendency to converge toward 1.00.

19
20

Rio Rico Utilities, Inc. dba Liberty Utilities
 Forecasts of Long-Term Interest Rates
 2012-14

Exhibit
 Rejoinder Schedule D-4.10

Line No.	Description	Spot Feb. 2013	2014	2015	Average
6	Blue Chip Consensus Forecasts ¹	3.2%	3.6%	4.3%	3.7%
8	Value Line ²	3.2%	4.6%	4.5%	4.1%
10	Average				3.9%

¹ December 2012 Blue Chip Financial Forecasts consensus forecast of 30 Year U.S. Treasury

² Value Line Quarterly forecast, dated February 22, 2013, Long-term Treasury

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24

Rio Rico Utilities, Inc. dba Liberty Utilities
Computation of Current Market Risk Premium

Exhibit
Rejoinder Schedule D-4.11

Line No.	Dividend Yield ($D_t/P_{0,t}$) ¹	Expected Dividend Yield ($D_t/P_{0,t}$) ²	+ Growth (g) ³	= Expected Market Return (k)	Monthly Average 30 Year Treasury Rate ⁴	= Market Risk Premium (MRP)
1						
2						
3	Month					
4	Jan 2011	2.34%	+	11.10%	4.52%	9.18%
5	Feb	2.41%	+	13.16%	4.65%	11.24%
6	Mar	2.35%	+	12.33%	4.51%	10.46%
7	April	1.83%	+	10.30%	4.50%	7.82%
8	May	1.95%	+	11.76%	4.29%	9.65%
9	June	1.97%	+	12.11%	4.23%	10.09%
10	July	2.23%	+	15.51%	4.27%	13.82%
11	Aug	2.73%	+	18.51%	3.65%	18.10%
12	Sept	2.88%	+	20.40%	3.18%	20.69%
13	Oct	2.60%	+	16.35%	3.13%	16.25%
14	Nov	2.75%	+	17.89%	3.02%	18.11%
15	Dec 2011	2.70%	+	17.41%	2.98%	17.60%
16	Jan 2012	2.61%	+	14.18%	3.03%	14.13%
17	Feb	2.60%	+	15.01%	3.11%	14.89%
18	Mar	2.36%	+	12.33%	3.28%	11.70%
19	April	2.62%	+	15.22%	3.18%	15.06%
20	May	2.86%	+	18.12%	2.93%	18.57%
21	June	2.73%	+	16.59%	2.70%	17.07%
22	July	2.79%	+	18.10%	2.59%	18.80%
23	Aug	2.73%	+	16.23%	2.77%	16.63%
24	Sept	2.67%	+	14.95%	2.88%	15.14%
25	Oct	2.71%	+	15.81%	2.90%	16.05%
26	Nov	2.74%	+	14.88%	2.80%	15.23%
27	Dec 2012	2.62%	+	12.63%	2.88%	12.70%
28	Jan 2013	2.56%	+	11.74%	3.08%	11.52%
29	Feb	2.60%	+	13.13%	3.17%	12.90%
30						
31	Recommended	2.59%	+	12.50%	3.04%	12.37%
32						
33	Short-term Trends					
34	Recent Twelve Months Avg	2.67%	+	14.98%	2.93%	15.11%
35	Recent Nine Months Avg	2.68%	+	14.90%	2.86%	15.12%
36	Recent Six Months Avg	2.65%	+	13.86%	2.95%	13.92%
37	Recent Three Months Avg	2.59%	+	12.50%	3.04%	12.37%
38						
39						

¹ Average Current Dividend Yield (D_t/P_0) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

² Expected Dividend Yield (D_t/P_0) equals average current dividend yield (D_0/P_0) times one plus growth rate(g).

³ Average 3-5 year price appreciation (annualized). Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

⁴ Monthly average 30 year U.S. Treasury. Federal Reserve.

Rio Rico Utilities, Inc. dba Liberty Utilities
 Capital Asset Pricing Model (CAPM)

Exhibit
 Rejoinder Schedule D-4.12

Line No.									
1		Rf ¹	+	beta ³	x	Rp	=	k	
2									
3	Historical Market Risk Premium CAPM	3.9%	+	0.71	x	6.6%	=	8.6%	
4									
5	Current Market Risk Premium CAPM	3.9%	+	0.71	x	12.4%	=	12.7%	
6									
7	Average								10.6%
8									
9									
10									
11									
12									
13									
14									
15									
16									
17									
18									
19									
20									

¹ Forecasts of long-term treasury yields. See Schedule D-4.10.

² Value Line Investment Analyzer data. See Schedule D-4.9.

³ Historical Market Risk Premium from (Rp) MorningStar SBB1 2012 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2011.

⁴ Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Schedule D-4.11.

Rio Rico Utilities, Inc. dba Liberty Utilities
Financial Risk Computation

Exhibit
Rejoinder Schedule D-4.13

Line No.									
1									
2									
3									
4									
5									
6									
7									
8									
9									
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11									
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15									
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17									
18									
19									
20									
21									
22									
23									
24									
25									

	CAPM								
	Historical Market Risk Premium	Rf	+	β	x	(Rp)	=	k	
	Current Market Risk Premium	3.9%	1	0.71	2	6.6%	3	8.6%	
	Average	3.9%	1	0.71	2	12.4%	4	12.7%	
									10.7%
	CAPM Relevered Beta								
	Historical Market Risk Premium	Rf	+	β	x	(Rp)	=	k	
	Current Market Risk Premium	3.9%	1	0.62	5	6.6%	3	8.0%	
	Average	3.9%	1	0.62	5	12.4%	4	11.6%	
	Financial Risk Adjustment								9.8%
									-0.9%

¹ Forecast of long-term treasury yields. See Schedule D-4.10
² Value Line Investment Analyzer data. See Schedule D-4.9
³ Historical Market Risk Premium from (Rp) MorningStar SBB1 2012 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2011
⁴ Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Schedule D-4.11
⁵ Relevered beta found on Schedule D-4.15

Exhibit
Rejoinder Schedule D-4.14

Rio Rico Utilities, Inc. dba Liberty Utilities
Financial Risk Computation
Unlevered Beta

Line No.	Company	VL Beta β_{L1}	Raw Beta β_{L2}	Tax Rate t^3	MV Debt D^4	MV Equity E^4	Unlevered Raw Beta β_{L5}
1							
2							
3							
4							
5	1. American States	0.70	0.55	41.7%	24.7%	75.3%	0.46
6	2. Aqua America	0.60	0.40	32.9%	25.3%	74.7%	0.33
7	3. California Water	0.65	0.48	40.5%	35.8%	64.2%	0.36
8	4. Connecticut Water	0.75	0.63	41.3%	34.2%	65.8%	0.48
9	5. Middlesex	0.70	0.55	32.7%	29.9%	70.1%	0.43
10	6. SJW Corp.	0.85	0.78	41.1%	39.9%	60.1%	0.56
11							
12							
13	Sample Water Utilitie:	0.71	0.57	38.4%	31.6%	68.4%	0.44
14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							
30							

¹ Value Line Investment Analyzer data. See Schedule D-4.13

Value Line uses the historical data of the stock, but assumes that a security's beta moves toward the market average over time. The formula is as follows:

Adjusted beta = .33 + (.67) * Raw beta

² Raw Beta = (VL beta - .33)/(.67)

³ Effective tax rates per Value Line Analyzer Data (March 6, 2013).

⁴ See Schedule D-4.3

⁵ Raw B_u = Raw $B_L / (1 + (1-t)D/E)$

Rio Rico Utilities, Inc. dba Liberty Utilities
Financial Risk Computation
Relevered Beta

Line No.	Unlevered Raw Beta β_{UL}^1	MV Book Debt $\frac{BD^2}{EC^2}$	MV Equity Capital $\frac{EC^2}{EC^2}$	Tax Rate t^3	Relevered Raw Beta $\beta_{RL} = \beta_U (1 + (1-t)BD/EC)$	VL Adjusted Relevered Beta β_{RL}
4	0.44	0.0%	100.0%	38.60%	0.44	0.62

5 Rio Rico Utilities, Inc. dba Liberty Utilities

¹ Unlevered Beta from Schedule D-4.14.

² Proforma Capital Structure of Company

	BV (in Thousands)	MV (in Thousands)	MV %
Long-term Debt	\$ -	\$ -	0.00%
Preferred Stock	\$ -	\$ -	0.0%
Common Stock	\$ 100	\$ 228 (a)	100.0%
Total Capital	\$ 100	\$ 228	100.0%

(a) Current market-to-book ratio of sample water utilities. See work papers.

³ Current Tax rate based on test year at proposed rates.

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26

Rio Rico Utilities, Inc. dba Liberty Utilities
Size Premium¹

Exhibit
Rejoinder Schedule D-4.16

Line No.	<u>Beta(β)</u>	<u>Size Premium</u>	<u>Risk Premium for Small Water Utilities⁷</u>
1			
2			
3			
4			
5			
6	1.12	1.14%	
7			
8	1.23	1.88%	
9			
10	1.36	3.89%	
11			
12	1.41	6.10%	3.67%
13			
14			
15			
16			
17			
18			
19			

Risk Premium for Small Water Utilities

Estimated Risk Premium for small water utilities⁶

0.99%

¹ Data from Table 7-8 of Morningstar, *Ibbotson S&P 500 2012 Valuation Yearbook*.
² Mid-Cap companies includes companies with market capitalization between \$1,621 million and \$6,896 million.
³ Low-Cap companies includes companies with market capitalization between \$423 million and \$1,620 million.
⁴ Micro-Cap companies includes companies with market capitalization less than \$422 million.
⁵ Decile 10 includes companies with market capitalization between \$1.0 million and \$206 million.
⁶ From Table 2, Thomas M. Zepp, "Utility Stocks and the Size Effect Revisited," *The Quarterly Review of Economics and Finance*, 43 (2003), 578-582.
⁷ Computed as the weighted differences between the Decile 10 risk premium and the indicated risk premiums for the sample water utilities as shown below. Excludes risk due to differences in beta.

Market Cap.	(Millions)	Class	Size Premium	Difference to Decile 10	Weight	Weighted Size Premium
1.	\$ 1,039	Low-Cap	1.88%	4.22%	0.166667	0.70%
2.	\$ 4,129	Mid-Cap	1.14%	4.96%	0.166667	0.83%
3.	\$ 862	Low-Cap	1.88%	4.22%	0.166667	0.70%
4.	\$ 260	Micro-Cap	3.89%	2.21%	0.166667	0.37%
5.	\$ 310	Micro-Cap	3.89%	2.21%	0.166667	0.37%
6.	\$ 517	Low-Cap	1.88%	4.22%	0.166667	0.70%
Weighted Size Premium for Small Companies						3.67%

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