ORIGINAL NEW APPLICATION

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Arizona Corporation Commission
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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF PAYSON WATER CO., INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: W-03514A-13-0111 **APPLICATION**

Payson Water Co., Inc., an Arizona public service corporation ("PWC" or the "Company"), hereby applies for an order establishing the fair value of its plant and property used for the provision of public water utility service and, based on such finding, approving permanent rates and charges for utility service designed to produce a fair return thereon. In support thereof, PWC states as follows:

1. PWC is an Arizona public service corporation engaged in providing water utility services in portions of Gila County, Arizona, pursuant to certificates of convenience and necessity granted by the Arizona Corporation Commission (the "Commission"). During the Test Year, PWC served approximately 1,114 water connections.

2. PWC's business office is located at 3101 State Rd., Bakersfield, California 93308 and its telephone number is (661) 633-7526. The Company's primary management contact is Robert T. Hardcastle, President of Brooke Utilities, Inc. (the sole shareholder of PWC).

3. The person responsible for overseeing and directing the conduct of this rate application is Mr. Hardcastle. Mr. Hardcastle is assisted by the Company's rate case consultant, Mr. Thomas J. Bourassa, and undersigned legal counsel. Mr. Bourassa's mailing address is 139 W. Wood Drive, Phoenix, Arizona 85029 and his telephone number is (602) 246-7150; his telecopier number is (602) 246-1040, and his e-mail address is tjb114@cox.net. **All discovery, data requests, and other requests for information concerning this Application should be directed to Mr. Hardcastle, including copies by e-mail, as well as to Mr. Bourassa, with a copy to undersigned counsel for the Company, including by e-mail to jshapiro@fclaw.com and wbirk@fclaw.com.**

4. PWC's present rates and charges for utility service were approved by the Commission in Decision No. 62320 (February 17, 2000) and Decision No. 62401 (March 30, 2000), each using a test year ending June 30, 1998. There have been no other changes except those ordered in Decision No. 71902 (September 28, 2010).

5. PWC's revenues from its utility operations are presently inadequate to provide it a fair rate of return on the fair value of its utility plant and property devoted to public service. Operating expenses have caused the revenues produced by the current rates and charges for service to become inadequate to meet operating expenses and provide a reasonable rate of return. Therefore, the Company requests that certain adjustments to its rates and charges for utility service be approved by the Commission so that the Company may recover its operating expenses and have an opportunity to earn a just and reasonable rate of return on the fair value of its property. The Company agrees to use its original cost rate base as its fair value rate base in this proceeding to minimize disputes and reduce rate case expense.

6. Filed concurrently herewith are the schedules required pursuant to A.A.C. R14-2-103 for rate applications by Class "B" utilities. The test year utilized by the

Company in connection with the preparation of such schedules is the 12-month period that ended December, 31, 2012. PWC requests that the Commission utilize such test year in connection with this Application, with appropriate adjustments to obtain a normal or more realistic relationship between revenues, rate base and expenses during the period in which the rates established in this proceeding are in effect.

7. During the test year, PWC's adjusted gross revenues were $320,525 from water utility service. The adjusted operating income (loss) was $182,479, leading to an operating income deficiency of $255,020. The adjusted fair value rate base was $659,457. Thus, the rate of return on PWC's water operations during the test year was negative 27.67 percent.

8. PWC submits that these rates of return are inadequate to allow it to obtain debt, pay a reasonable dividend to its stockholder, maintain a sound credit rating, and/or enable it to attract additional capital on reasonable and acceptable terms in order to continue the investment in utility plant necessary to adequately serve customers.

9. PWC is requesting an increase in water utility revenues equal to $399,785, an increase in revenues of 124.73 percent. The adjustments to PWC's rates and charges that are proposed herein, when fully implemented, will produce a rate of return on the fair value rate base equal to 11.0 percent from water operations.

10. Filed concurrently in support of this Application is the Direct Testimony of Robert T. Hardcastle, providing an overview of PWC and discussing the recent significant system improvements and other changes. Also filed is the Direct Testimony of Thomas J. Bourassa, in two separate volumes—Rate Base, Income Statement and Rate Design, and Cost of Capital—which collectively provide an overview of the Company's rate filing, discussion of the revenue requirement, including the "A" through "F" schedules, development of the rate base and income statement adjustments, cost of equity capital and related issues, proposed rates, including the "H" schedules, and discussion of

the effects of the proposed rates on customers' bills. The Company's "D" Schedules, which concern the cost of capital, are attached to the volume of Mr. Bourassa's testimony on cost of capital.

11. While this rate application goes through sufficiency, PWC will make a separate request for authority to incur long-term debt in the amount of $1,238,000, equal to the amount of the loan being sought from the Water Infrastructure Financing Authority ("WIFA") for financing to interconnect PWC's Mesa Del Caballo system to the C.C. Cragin Pipeline and associated water treatment plant ("WIFA Loan"). The Company's imminent request for financing is discussed in Mr. Bourassa's testimony on Rate Base, Income Statement, and Rate Design.

12. The Company has determined that an annual surcharge of approximately $134,301 will be necessary to maintain its pre-loan cash flow, and, consequently, is requesting approval of a Debt Recovery Surcharge to allow the Company to meet its principal and interest obligations on the amount of the WIFA Loan. Details of PWC's debt surcharge request are addressed in Mr. Bourassa's testimony.

13. In addition to the Debt Recovery Surcharge, the Company is proposing an O&M Cost Recovery Surcharge that will allow it to recover sufficient funds to cash flow the additional O&M costs for the C.C. Cragin Pipeline that are not included in operating expenses. The Company is also proposing a Town of Payson Commodity Cost Recovery Surcharge Mechanism that will allow it to recover sufficient funds to cash flow the additional cost of water from the Town of Payson. These proposed surcharges are more fully described in Mr. Bourassa's testimony.

14. Attached hereto as **Exhibit A** are water plant descriptions and completed water use data sheets for the 2012 calendar year.

WHEREFORE, PWC requests the following relief:

A. That the Commission, upon proper notice and at the earliest possible time, conduct a hearing in accordance with A.R.S. § 40-251 and determine the fair value of PWC's utility water plants and property devoted to providing water utility service;

B. Based upon such determination, that the Commission approve permanent adjustments to the rates and charges for water utility service provided by PWC, as proposed herein, or approve such other rates and charges as will produce a just and reasonable rate of return on the fair value of the Company's utility plants and property;

C. That the Commission approve the additional, necessary adjustments to PWC's rates in the form of a Debt Recovery Surcharge, O&M Cost Recovery Surcharge, and Town of Payson Commodity Cost Recovery Surcharge Mechanism; and

D. That the Commission authorize such other and further relief as may be appropriate to ensure that PWC has an opportunity to earn a just and reasonable return on the fair value of its utility plant and property and as may otherwise be required under Arizona law.

RESPECTFULLY SUBMITTED this 22nd day of April, 2013.

FENNEMORE CRAIG, P.C.

By_____

Jay L. Shapiro
2394 E. Camelback Road
Suite 600
Phoenix, Arizona 85016
Attorneys for Payson Water Co., Inc.

ORIGINAL and fifteen (15) copies of the foregoing, together with the direct testimonies and schedules supporting this application, were delivered this 22nd day of April, 2013, to:

Docket Control
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

By: Maria San Jose

8101648.2/073283.0006

Exhibit A

Geronimo Estates

COMPANY NAME	Payson Water Co., Inc.		
Name of System:	Geronimo Estates	ADEQ Public Water System Number:	PWS 04-028

WATER COMPANY PLANT DESCRIPTION

WELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (gpm)	Casing Depth (Feet)	Casing Diameter (Inches)	Meter Size (inches)	Year Drilled
55-621336	1	5.5	160	6	5/8X3/4	1965
55-515318	2	15	150	6	5/8X3/4	1986
55-631114	1	6	160	6	1	1965

* Arizona Department of Water Resources Identification Number

OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)
none		

BOOSTER PUMPS		FIRE HYDRANTS	
Horsepower	Quantity	Quantity Standard	Quantity Other
5	3	none	
3	1		

STORAGE TANKS		PRESSURE TANKS	
Capacity	Quantity	Capacity	Quantity
15,000	2	500	1
		120	3

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME	Payson Water Co., Inc.		
Name of System:	Geronimo Estates	ADEQ Public Water System Number:	PWS 04-028

WATER COMPANY PLANT DESCRIPTION (CONTINUED)

MAINS

Size (in inches)	Material	Length (in feet)
2	PVC	1631
3	PVC	2268
4	ACP	6794
5		
6		
8		
10		
12		

CUSTOMER METERS

Size (in inches)	Quantity
5/8 X ¾	83
3/4	
1	
1 1/2	
2	
Comp. 3	
Turbo 3	
Comp. 4	
Turbo 4	
Comp. 6	
Turbo 6	

For the following three items, list the utility owned assets in each category for each system.

TREATMENT EQUIPMENT:

2- pellet chlorinators

STRUCTURES:

284 ft. of 6 ft. chain link security fence

1- 10X12 wood building

OTHER:

2- T100GS remote tank monitoring devices

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME:	Payson Water Co., Inc.		
Name of System:	Geronimo Estates	ADEQ Public Water System Number:	PWS 04-028

WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2012

MONTH	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED (Thousands)	GALLONS PURCHASED (Thousands)
JANUARY	82	42	80	
FEBRUARY	83	78	80	
MARCH	84	90	88	
APRIL	84	98	109	
MAY	83	136	147	
JUNE	80	205	220	
JULY	83	190	214	
AUGUST	83	204	191	
SEPTEMBER	83	115	160	
OCTOBER	83	146	165	
NOVEMBER	83	108	110	
DECEMBER	83	83	101	
	TOTALS →	1501	1669	none

What is the level of arsenic for each well on your system? .0048 mg/l
(If more than one well, please list each separately.)

If system has fire hydrants, what is the fire flow requirement? ____GPM for ____hrs

If system has chlorination treatment, does this treatment system chlorinate continuously?
(X) Yes ( ) No

Is the Water Utility located in an ADWR Active Management Area (AMA)?
( ) Yes (X) No

Does the Company have an ADWR Gallons Per Capita Per Day (GPCPD) requirement?
( ) Yes (X) No

If yes, provide the GPCPD amount: n/a

Note: If you are filing for more than one system, please provide separate data sheets for each system.

Deer Creek

COMPANY NAME	Payson Water Co., Inc.		
Name of System:	Deer Creek	ADEQ Public Water System Number:	PWS 04-06 4

WATER COMPANY PLANT DESCRIPTION

WELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (gpm)	Casing Depth (Feet)	Casing Diameter (Inches)	Meter Size (inches)	Year Drilled
55-086809	5	24	260	6	1	1981
55-512278	1	8	260	6	5/8X3/4	1985

* Arizona Department of Water Resources Identification Number

OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)
none		

BOOSTER PUMPS		FIRE HYDRANTS	
Horsepower	Quantity	Quantity Standard	Quantity Other
7.5	2	none	
3	1		

STORAGE TANKS		PRESSURE TANKS	
Capacity	Quantity	Capacity	Quantity
125,000	1	5000	1
		120	1

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME	Payson Water Co., Inc.		
Name of System:	Deer Creek	ADEQ Public Water System Number:	PWS 04-064

WATER COMPANY PLANT DESCRIPTION (CONTINUED)

MAINS

Size (in inches)	Material	Length (in feet)
2	PVC	385
3		
4	PVC	18368
5		
6	PVC	645
8		
10		
12		

CUSTOMER METERS

Size (in inches)	Quantity
5/8 X ¾	115
3/4	2
1	1
1 1/2	
2	
Comp. 3	
Turbo 3	3
Comp. 4	
Turbo 4	
Comp. 6	
Turbo 6	

For the following three items, list the utility owned assets in each category for each system.

TREATMENT EQUIPMENT:

1- pellet chlorinators

STRUCTURES:

846 ft. of 6 ft. chain link security fence
1- 17X30 wood building
1- 7X8 wood building

OTHER:

1- T100GS remote tank monitoring devices

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME:	Payson Water Co., Inc.		
Name of System:	Deer Creek	ADEQ Public Water System Number:	PWS 04-064

WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2012

MONTH	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED (Thousands)	GALLONS PURCHASED (Thousands)
JANUARY	123	357	392	
FEBRUARY	123	379	452	
MARCH	124	371	414	
APRIL	124	551	330	
MAY	122	637	753	
JUNE	122	787	868	
JULY	117	738	959	
AUGUST	119	556	628	
SEPTEMBER	119	537	596	
OCTOBER	119	532	639	
NOVEMBER	120	459	510	
DECEMBER	121	496	426	
	TOTALS →	6405	6974	none

What is the level of arsenic for each well on your system? .005 mg/l
(If more than one well, please list each separately.)

If system has fire hydrants, what is the fire flow requirement? ____GPM for ____hrs

If system has chlorination treatment, does this treatment system chlorinate continuously?
(X) Yes ( ) No

Is the Water Utility located in an ADWR Active Management Area (AMA)?
( ) Yes (X) No

Does the Company have an ADWR Gallons Per Capita Per Day (GPCPD) requirement?
( ) Yes (X) No

If yes, provide the GPCPD amount: n/a

Note: If you are filing for more than one system, please provide separate data sheets for each system.

Meads Ranch

COMPANY NAME	Payson Water Co., Inc.		
Name of System:	Meads Ranch	ADEQ Public Water System Number:	PWS 04-015

WATER COMPANY PLANT DESCRIPTION

WELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (gpm)	Casing Depth (Feet)	Casing Diameter (Inches)	Meter Size (inches)	Year Drilled
55-644405	5	5	160	20	5/8X3/4	1965

* Arizona Department of Water Resources Identification Number

OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)
none		

BOOSTER PUMPS		FIRE HYDRANTS	
Horsepower	Quantity	Quantity Standard	Quantity Other
5	1	none	
3	1		

STORAGE TANKS		PRESSURE TANKS	
Capacity	Quantity	Capacity	Quantity
10,000	2	80	1

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME	Payson Water Co., Inc.		
Name of System:	Meads Ranch	ADEQ Public Water System Number:	PWS 04-015

WATER COMPANY PLANT DESCRIPTION (CONTINUED)

MAINS

Size (in inches)	Material	Length (in feet)
2	PVC	4480
3	PVC	2519
4		
5		
6		
8		
10		
12		

CUSTOMER METERS

Size (in inches)	Quantity
5/8 X ¾	69
3/4	
1	
1 1/2	
2	
Comp. 3	
Turbo 3	
Comp. 4	
Turbo 4	
Comp. 6	
Turbo 6	

For the following three items, list the utility owned assets in each category for each system.

TREATMENT EQUIPMENT:

1- pellet chlorinators

STRUCTURES:

1- 20X8 wood building

OTHER:

1- T100GS remote tank monitoring devices

1- T100G remote tank monitoring device

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME:	Payson Water Co., Inc.		
Name of System:	Meads Ranch	ADEQ Public Water System Number:	PWS 04-015

WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2012

MONTH	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED (Thousands)	GALLONS PURCHASED (Thousands)
JANUARY	69	29	37	
FEBRUARY	69	20	32	
MARCH	69	26	30	
APRIL	69	34	41	
MAY	74	54	62	
JUNE	74	127	135	
JULY	69	108	118	
AUGUST	69	91	112	
SEPTEMBER	69	72	82	
OCTOBER	69	81	90	
NOVEMBER	69	50	58	
DECEMBER	69	40	51	
	TOTALS →	747	853	none

What is the level of arsenic for each well on your system? .0013 mg/l
(If more than one well, please list each separately.)

If system has fire hydrants, what is the fire flow requirement? ____GPM for ____hrs

If system has chlorination treatment, does this treatment system chlorinate continuously?
(X) Yes ( ) No

Is the Water Utility located in an ADWR Active Management Area (AMA)?
( ) Yes (X) No

Does the Company have an ADWR Gallons Per Capita Per Day (GPCPD) requirement?
( ) Yes (X) No

If yes, provide the GPCPD amount: n/a

Note: If you are filing for more than one system, please provide separate data sheets for each system.

Whispering Pines

COMPANY NAME	Payson Water Co., Inc.		
Name of System:	Whispering Pines	ADEQ Public Water System Number:	PWS 04-039

WATER COMPANY PLANT DESCRIPTION

WELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (gpm)	Casing Depth (Feet)	Casing Diameter (Inches)	Meter Size (inches)	Year Drilled
55-621333	1	17	86	6	1	1965
55-621334	2	28	50	6/7.5	1	1960

* Arizona Department of Water Resources Identification Number

OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)
none		

BOOSTER PUMPS		FIRE HYDRANTS	
Horsepower	Quantity	Quantity Standard	Quantity Other
7.5	4	none	

STORAGE TANKS		PRESSURE TANKS	
Capacity	Quantity	Capacity	Quantity
20,000	2	2000	3
		1000	1

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME	Payson Water Co., Inc.		
Name of System:	Whispering Pines	ADEQ Public Water System Number:	PWS 04-039

WATER COMPANY PLANT DESCRIPTION (CONTINUED)

MAINS

Size (in inches)	Material	Length (in feet)
2	PVC,GIP	9113
3	PVC	5262
4	ACP,PVC	18866/42
5		
6		
8		
10		
12		

CUSTOMER METERS

Size (in inches)	Quantity
5/8 X ¾	145
3/4	
1	1
1 1/2	
2	
Comp. 3	
Turbo 3	
Comp. 4	
Turbo 4	
Comp. 6	
Turbo 6	

For the following three items, list the utility owned assets in each category for each system.

TREATMENT EQUIPMENT:

1- pellet chlorinators

STRUCTURES:

OTHER:

1- T100GS remote tank monitoring devices

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME:	Payson Water Co., Inc.		
Name of System:	Whispering Pines	ADEQ Public Water System Number:	PWS 04-039

WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2012

MONTH	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED (Thousands)	GALLONS PURCHASED (Thousands)
JANUARY	151	225	336	
FEBRUARY	151	191	214	
MARCH	151	181	198	
APRIL	151	215	293	
MAY	149	365	382	
JUNE	149	600	791	
JULY	148	933	889	
AUGUST	147	610	607	
SEPTEMBER	147	411	566	
OCTOBER	146	413	540	
NOVEMBER	147	357	376	
DECEMBER	146	243	284	
	TOTALS →	4749	5491	none

What is the level of arsenic for each well on your system? .0003 mg/l
(If more than one well, please list each separately.)

If system has fire hydrants, what is the fire flow requirement? ____GPM for ____hrs

If system has chlorination treatment, does this treatment system chlorinate continuously?
(X) Yes ( ) No

Is the Water Utility located in an ADWR Active Management Area (AMA)?
( ) Yes (X) No

Does the Company have an ADWR Gallons Per Capita Per Day (GPCPD) requirement?
( ) Yes (X) No

If yes, provide the GPCPD amount: n/a

Note: If you are filing for more than one system, please provide separate data sheets for each system.

Flowing Springs

COMPANY NAME	Payson Water Co., Inc.		
Name of System:	Flowing Springs	ADEQ Public Water System Number:	PWS 04-027

WATER COMPANY PLANT DESCRIPTION

WELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (gpm)	Casing Depth (Feet)	Casing Diameter (Inches)	Meter Size (inches)	Year Drilled
55-631115	1	10	150	6	5/8X3/4	1950

* Arizona Department of Water Resources Identification Number

OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)
none		

BOOSTER PUMPS		FIRE HYDRANTS	
Horsepower	Quantity	Quantity Standard	Quantity Other
5	1	none	

STORAGE TANKS		PRESSURE TANKS	
Capacity	Quantity	Capacity	Quantity
15,000	1		
		1000	1

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME	Payson Water Co., Inc.		
Name of System:	Flowing Springs	ADEQ Public Water System Number:	PWS 04-027

WATER COMPANY PLANT DESCRIPTION (CONTINUED)

MAINS

Size (in inches)	Material	Length (in feet)
2	PVC	11638
3		
4	PVC	4010
5		
6		
8		
10		
12		

CUSTOMER METERS

Size (in inches)	Quantity
5/8 X ¾	29
3/4	
1	
1 1/2	
2	
Comp. 3	
Turbo 3	
Comp. 4	
Turbo 4	
Comp. 6	
Turbo 6	

For the following three items, list the utility owned assets in each category for each system.

TREATMENT EQUIPMENT:

92 ft of 6 ft chain link security fence

STRUCTURES:

OTHER:

1- T100GS remote tank monitoring devices

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME: Payson Water Co., Inc.	
Name of System: Flowing Springs	ADEQ Public Water System Number: PWS 04-027

WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2012

MONTH	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED (Thousands)	GALLONS PURCHASED (Thousands)
JANUARY	29	59	63	
FEBRUARY	29	40	41	
MARCH	29	47	51	
APRIL	29	49	52	
MAY	28	86	97	
JUNE	28	181	184	
JULY	27	159	163	
AUGUST	28	127	130	
SEPTEMBER	28	102	110	
OCTOBER	28	126	132	
NOVEMBER	29	56	62	
DECEMBER	29	52	60	
	TOTALS →	1089	1139	none

What is the level of arsenic for each well on your system? .003 mg/l
(If more than one well, please list each separately.)

If system has fire hydrants, what is the fire flow requirement? ____GPM for ____hrs

If system has chlorination treatment, does this treatment system chlorinate continuously?
(X) Yes ( ) No

Is the Water Utility located in an ADWR Active Management Area (AMA)?
( ) Yes (X) No

Does the Company have an ADWR Gallons Per Capita Per Day (GPCPD) requirement?
( ) Yes (X) No

If yes, provide the GPCPD amount: n/a

Note: If you are filing for more than one system, please provide separate data sheets for each system.

Gisela/TCS

COMPANY NAME	Payson Water Co., Inc.		
Name of System:	Gisela/TCS	ADEQ Public Water System Number:	PWS 04-346

WATER COMPANY PLANT DESCRIPTION

WELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (gpm)	Casing Depth (Feet)	Casing Diameter (Inches)	Meter Size (inches)	Year Drilled
55-646162	5	92	50	12	2	1971

* Arizona Department of Water Resources Identification Number

OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)
none		

BOOSTER PUMPS		FIRE HYDRANTS	
Horsepower	Quantity	Quantity Standard	Quantity Other
7.5	4	none	

STORAGE TANKS		PRESSURE TANKS	
Capacity	Quantity	Capacity	Quantity
30,000	1	500	1
50,000	1	1000	1
		2000	1

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME	Payson Water Co., Inc.		
Name of System:	Gisela/TCS	ADEQ Public Water System Number:	PWS 04-346

WATER COMPANY PLANT DESCRIPTION (CONTINUED)

MAINS

Size (in inches)	Material	Length (in feet)
2		
3	PVC	366
4	PVC	9611
5		
6	PVC	7855
8		
10		
12		

CUSTOMER METERS

Size (in inches)	Quantity
5/8 X ¾	159
3/4	
1	3
1 1/2	
2	
Comp. 3	
Turbo 3	
Comp. 4	
Turbo 4	
Comp. 6	
Turbo 6	

For the following three items, list the utility owned assets in each category for each system.

TREATMENT EQUIPMENT:

410 ftof 6 ft chain link security fence

STRUCTURES:

OTHER:

1- T100GS remote tank monitoring devices

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME: Payson Water Co., Inc.	
Name of System: Gisela/TCS	ADEQ Public Water System Number: PWS 04-346

WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2012

MONTH	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED (Thousands)	GALLONS PURCHASED (Thousands)
JANUARY	163	655	563	
FEBRUARY	164	683	668	
MARCH	160	625	566	
APRIL	160	937	818	
MAY	162	1195	1012	
JUNE	162	1789	1524	
JULY	162	1813	1568	
AUGUST	162	1468	1305	
SEPTEMBER	162	1399	1278	
OCTOBER	161	1164	1036	
NOVEMBER	160	943	901	
DECEMBER	162	681	758	
	TOTALS →	13357	12002	none

What is the level of arsenic for each well on your system? .0016 mg/l
(If more than one well, please list each separately.)

If system has fire hydrants, what is the fire flow requirement? ____GPM for ____hrs

If system has chlorination treatment, does this treatment system chlorinate continuously?
(X) Yes ( ) No

Is the Water Utility located in an ADWR Active Management Area (AMA)?
( ) Yes (X) No

Does the Company have an ADWR Gallons Per Capita Per Day (GPCPD) requirement?
( ) Yes (X) No

If yes, provide the GPCPD amount: n/a

Note: If you are filing for more than one system, please provide separate data sheets for each system.

Star Valley/
Quail Valley

COMPANY NAME	Payson Water Co., Inc.		
Name of System:	Star Valley/Quail Valley	ADEQ Public Water System Number:	PWS 04-037

WATER COMPANY PLANT DESCRIPTION

WELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (gpm)	Casing Depth (Feet)	Casing Diameter (Inches)	Meter Size (inches)	Year Drilled
55-501381	2	7	105	6	none	1981
55-605247	2	22	30	8	1	1960
55-519703	1	20	30	6	5/8X3/4	1987
55-538696	1.5	2	300	6	1	1993
55-548773	15	140	240	8/6	3	1995

* Arizona Department of Water Resources Identification Number

OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)
none		

BOOSTER PUMPS		FIRE HYDRANTS	
Horsepower	Quantity	Quantity Standard	Quantity Other
7.5	3	25	
60	1		

STORAGE TANKS		PRESSURE TANKS	
Capacity	Quantity	Capacity	Quantity
15,000 not is use	1		
20,000/30,000	1 each	1000	1 not in use
160,000	1	2000	2

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME	Payson Water Co., Inc.		
Name of System:	Star Valley/Quail Valley	ADEQ Public Water System Number:	PWS 04-037

WATER COMPANY PLANT DESCRIPTION (CONTINUED)

MAINS

Size (in inches)	Material	Length (in feet)
2	PVC,GIP	2255
3		
4	ACP,C900	9133
5		
6	ACP,C900	16690
8	C900	12659
10		
12		

CUSTOMER METERS

Size (in inches)	Quantity
5/8 X ¾	322
3/4	2
1	60
1 1/2	1
2	
Comp. 3	
Turbo 3	
Comp. 4	
Turbo 4	
Comp. 6	
Turbo 6	

For the following three items, list the utility owned assets in each category for each system.

TREATMENT EQUIPMENT:
2- pelley chlorinator

STRUCTURES:
655 ft. of 6 ft. chain link security fence
332 sq. ft. wood frame building
80 sq. ft. wood frame building
150 sq. ft. wood frame building
36 sq. ft. wood frame building

OTHER:
2- T100GS remote tank monitoring devices

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME: Payson Water Co., Inc.	
Name of System: Star Valley/Quail Valley	ADEQ Public Water System Number: PWS 04-037

WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2012

MONTH	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED (Thousands)	GALLONS PURCHASED (Thousands)
JANUARY	365	1515	1740	
FEBRUARY	365	1099	1220	
MARCH	366	1105	1202	
APRIL	366	1677	1774	
MAY				
JUNE				
JULY				
AUGUST				
SEPTEMBER				
OCTOBER				
NOVEMBER				
DECEMBER				
	TOTALS →		5923	none

What is the level of arsenic for each well on your system? .003 mg/l
(If more than one well, please list each separately.)

If system has fire hydrants, what is the fire flow requirement? 1000GPM for 1 hrs

If system has chlorination treatment, does this treatment system chlorinate continuously?
(X) Yes ( ) No

Is the Water Utility located in an ADWR Active Management Area (AMA)?
( ) Yes (X) No

Does the Company have an ADWR Gallons Per Capita Per Day (GPCPD) requirement?
( ) Yes (X) No

If yes, provide the GPCPD amount: n/a

Note: If you are filing for more than one system, please provide separate data sheets for each system.

East Verde Park Estates

COMPANY NAME	Payson Water Co., Inc.		
Name of System:	East Verde Park Estates	ADEQ Public Water System Number:	PWS 04-026

WATER COMPANY PLANT DESCRIPTION

WELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (gpm)	Casing Depth (Feet)	Casing Diameter (Inches)	Meter Size (inches)	Year Drilled
55-621332	1	7	80	8	5/8X3/4	1958
55-661335	1	1.2	40	8	5/8X3/4	1955
55-518599	8	8	100	8	1	1957

* Arizona Department of Water Resources Identification Number

OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)
~~none~~		
Town of Payson	UNKNOWN	SEE ATTACHED

BOOSTER PUMPS		FIRE HYDRANTS	
Horsepower	Quantity	Quantity Standard	Quantity Other
7.5	1	none	

STORAGE TANKS		PRESSURE TANKS	
Capacity	Quantity	Capacity	Quantity
40,000	1		
		2000	2

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME	Payson Water Co., Inc.		
Name of System:	East Verde Park Estates	ADEQ Public Water System Number:	PWS 04-026

WATER COMPANY PLANT DESCRIPTION (CONTINUED)

MAINS

Size (in inches)	Material	Length (in feet)
2	GIP	5992
3		
4	ACP	27311
5		
6		
8		
10		
12		

CUSTOMER METERS

Size (in inches)	Quantity
5/8 X ¾	139
3/4	1
1	
1 1/2	
2	
Comp. 3	
Turbo 3	
Comp. 4	
Turbo 4	
Comp. 6	
Turbo 6	

For the following three items, list the utility owned assets in each category for each system.

TREATMENT EQUIPMENT:
1- pelley chlorinator

STRUCTURES:
128 ft. of 6 ft. chain link security fence

OTHER:
1- T100GS remote tank monitoring devices

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME: Payson Water Co., Inc.	
Name of System: East Verde Park Estates ADEQ Public Water System Number:	PWS 04-026

WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2012

MONTH	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED (Thousands)	GALLONS PURCHASED (Thousands)
JANUARY	143	179		
FEBRUARY	141	251		
MARCH	141	268		
APRIL	141	311		
MAY	141	369		
JUNE	142	494		74
JULY	141	414		74
AUGUST	140	356		15
SEPTEMBER	141	304		
OCTOBER	141	314		26
NOVEMBER	141	242		18
DECEMBER	140	228		
	TOTALS →	3736	5923	207

What is the level of arsenic for each well on your system? .003 mg/l
(If more than one well, please list each separately.)

If system has fire hydrants, what is the fire flow requirement? ____GPM for ____hrs

If system has chlorination treatment, does this treatment system chlorinate continuously?
(X) Yes ( ) No

Is the Water Utility located in an ADWR Active Management Area (AMA)?
( ) Yes (X) No

Does the Company have an ADWR Gallons Per Capita Per Day (GPCPD) requirement?
( ) Yes (X) No

If yes, provide the GPCPD amount: n/a

Note: If you are filing for more than one system, please provide separate data sheets for each system.

	2012 Gallons						
	MdC Water Purchased TOP	MdC Water Purchased WSA	MdC Water Purchased Total	EVP Water Purchased TOP	EVP Water Purchased WSA	EVP Water Purchased Total	Water Purchased Total
January	0	0	0	0	0	0	0
February	0	0	0	0	0	0	0
March	0	0	0	0	0	0	0
April	0	0	0	0	0	0	0
May	51,000	508,000	559,000	0	0	0	559,000
June	286,000	0	286,000	74,000	0	74,000	360,000
July	163,000	0	163,000	74,000	0	74,000	237,000
August	47,000	0	47,000	15,000	0	15,000	62,000
September	0	2,874,000	2,874,000	0	0	0	2,874,000
October	42,000	12,470	54,470	26,000	0	26,000	80,470
November	0	0	0	18,000	0	18,000	18,000
December	0	10,110	10,110	0	0	0	10,110
Total	589,000	3,404,580	3,993,580	207,000	0	207,000	4,200,580

Mesa del Caballo

COMPANY NAME	Payson Water Co., Inc.		
Name of System:	Mesa del Caballo	ADEQ Public Water System Number:	PWS 04-030

WATER COMPANY PLANT DESCRIPTION

WELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (gpm)	Casing Depth (Feet)	Casing Diameter (Inches)	Meter Size (inches)	Year Drilled
55-631113	5	4	104	6	5/8X3/4	1977
55-500270	3	2.2	450	6	5/8X3/4	1981
55-801698	2	0	100	6	5/8X3/4	1984
55-513409	1	3	395	6	5/8X3/4	1986
55-556148	2	8.5	400	6	1	1996
55-801699	1	0	80	6	5/8X3/4	1984
55-631112	0	0	80	6	5/8X3/4	1985

* Arizona Department of Water Resources Identification Number

OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)
55-588967, 55-560398, 55-585747	4,11,9	see attached
Town of Payson	unknown	see attached

BOOSTER PUMPS		FIRE HYDRANTS	
Horsepower	Quantity	Quantity Standard	Quantity Other
7.5	1	none	
5	1		
10	1		
20	1		

STORAGE TANKS		PRESSURE TANKS	
Capacity	Quantity	Capacity	Quantity
40,000	1		
20,000	1	80	2
15,000	3	2000	4

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME	Payson Water Co., Inc.		
Name of System: Mesa del Caballo		ADEQ Public Water System Number:	PWS 04-030

WATER COMPANY PLANT DESCRIPTION (CONTINUED)

MAINS

Size (in inches)	Material	Length (in feet)
2	PVC	738
3	PVC	1422
4	ACP	22,455
5		
6		
8		
10		
12		

CUSTOMER METERS

Size (in inches)	Quantity
5/8 X ¾	363
3/4	
1	1
1 1/2	
2	
Comp. 3	
Turbo 3	
Comp. 4	
Turbo 4	
Comp. 6	
Turbo 6	

For the following three items, list the utility owned assets in each category for each system.

TREATMENT EQUIPMENT:
2- pelley chlorinator

STRUCTURES:
785 ft. of 6 ft. chain link security fence
1- 6X6 wood structure
7- 8X8 concrete block buildings

OTHER:
4- T100GS remote tank monitoring devices

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME: Payson Water Co., Inc.	
Name of System: Mesa del Caballo	ADEQ Public Water System Number: PWS 04-030

WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2012

MONTH	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED (Thousands)	GALLONS PURCHASED (Thousands)
JANUARY	364	1001	1005	
FEBRUARY	361	1010	1170	
MARCH	364	940	977	
APRIL	364	1093	1192	
MAY	361	1125	1187	508
JUNE	362	1279	1226	
JULY	365	1292	1298	
AUGUST	360	1129	1163	
SEPTEMBER	362	1072	1243	2874
OCTOBER	363	1022	1105	12
NOVEMBER	363	951	1003	
DECEMBER	364	1029	1066	10
	TOTALS →	12948	13441	3404

What is the level of arsenic for each well on your system? .003 mg/l
(If more than one well, please list each separately.)

If system has fire hydrants, what is the fire flow requirement? ____GPM for ____hrs

If system has chlorination treatment, does this treatment system chlorinate continuously?
(X) Yes ( ) No

Is the Water Utility located in an ADWR Active Management Area (AMA)?
( ) Yes (X) No

Does the Company have an ADWR Gallons Per Capita Per Day (GPCPD) requirement?
( ) Yes (X) No

If yes, provide the GPCPD amount: n/a

Note: If you are filing for more than one system, please provide separate data sheets for each system.

	2012 Gallons						
	MdC Water Purchased TOP	MdC Water Purchased WSA	MdC Water Purchased Total	EVP Water Purchased TOP	EVP Water Purchased WSA	EVP Water Purchased Total	Water Purchased Total
January	0	0	0	0	0	0	0
February	0	0	0	0	0	0	0
March	0	0	0	0	0	0	0
April	0	0	0	0	0	0	0
May	51,000	508,000	559,000	0	0	0	559,000
June	286,000	0	286,000	74,000	0	74,000	360,000
July	163,000	0	163,000	74,000	0	74,000	237,000
August	47,000	0	47,000	15,000	0	15,000	62,000
September	0	2,874,000	2,874,000	0	0	0	2,874,000
October	42,000	12,470	54,470	26,000	0	26,000	80,470
November	0	0	0	18,000	0	18,000	18,000
December	0	10,110	10,110	0	0	0	10,110
Total	589,000	3,404,580	3,993,580	207,000	0	207,000	4,200,580

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF PAYSON WATER CO., INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: W-03514A-13-_____

DIRECT TESTIMONY OF ROBERT T. HARDCASTLE

April 22, 2013

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I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Robert T. Hardcastle. My business address is 3101 State Rd., Bakersfield, California 93308.

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

A. On behalf of the Applicant, Payson Water Co., Inc. ("PWC" or the "Company").

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I'm the President of Brooke Utilities, Inc. ("BUI"). BUI is the sole shareholder of PWC.

Q. PLEASE BRIEFLY OUTLINE YOUR RESPONSIBILITIES AS PRESIDENT.

A. As the Executive Officer, I'm generally responsible for managing all operational, administrative, financial, and regulatory matters of BUI and its subsidiaries, PWC, Tonto Basin Water Co., Inc., and Navajo Water Co., Inc. Each of these subsidiaries is a public service corporation providing water utility service under regulation by the Arizona Corporation Commission ("Commission"). I'm also the President of PWC and the other BUI's subsidiaries.

Q. HOW LONG HAVE YOU HELD THIS POSITION?

A. I've overseen BUI's interests in Arizona since August 1996.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?

A. Yes, in a number of proceedings, including several rate cases.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. To support the Company's application for rate relief. Specifically, I will provide background on the Company and its operations. I will also summarize the significant capital improvements and other operating cost changes. Finally, I will address certain aspects of the relief being requested, including rate consolidation.

II. OVERVIEW OF PWC

Q. WHEN DID BUI ACQUIRE PWC?

A. In August 1996, BUI acquired C&S Water Company, Inc. ("C&S") and United Utilities, Inc. ("United"). C&S and United together comprised numerous water systems nine of which eventually became PWC: Deer Creek (owned by C&S), and Mead's Ranch, East Verde Estates, Flowing Springs, Geronimo Estates/Elusive Acres, Mesa del Caballo, Whispering Pines, Gisela/Tonto Creek Shores, and Star Valley/Quail Valley (all owned by United). PWC currently owns and operates eight of the systems. As of May 2012, the Star Valley/Quail Valley system was condemned by the Town of Star Valley. I will discuss this later in my testimony.

Q. WHAT HAPPENED TO C&S AND UNITED?

A. In the late 1990's, BUI reorganized seven separate water companies and more than forty systems it had acquired, including C&S and United, into five separate subsidiaries, one being PWC. The reorganization, along operational and geographic lines, was approved by the Commission in Decision No. 60972 (July 19, 1998). Eventually C&S and United were dissolved.

Q. WHEN DID THE COMPANY'S CURRENT RATES FOR SERVICE GO INTO EFFECT?

A. The Company's current rates were approved in C&S Decision No. 62320 (February 17, 2000) and United Decision No. 62401 (March 30, 2000). C&S's rates went into effect on or about March 1, 2000. United's rates went into effect on or about May 1, 2000.[1]

[1] Although Commission approval came in July 1998, the reorganization of C&S and United was contingent upon their filing copies of their franchises and statements from ADEQ that the water provided met the quality standards of the Safe Drinking Water Act. C&S's and United's rate application filings preceded their compliance with the Commission's order and the ultimate formation of PWC.

Q. HOW MANY CUSTOMERS DOES PWC SERVE?

A. As of December 31, 2012, PWC is serving 1,114 customers.

Q. PLEASE DESCRIBE THE COMPANY'S WATER RESOURCES.

A. PWC's exclusive source of water for utility operations is groundwater pumped from wells located within its service area. But, as the Commission is aware, PWC has been challenged with water supply shortages in its Mesa del Caballo system, and to a lesser extent its East Verde Park Estates system, and has had to seek supplemental supply methods. For most of its years of ownership of these systems, the Company has augmented water supplies by hauling water into the systems. Although water hauling continues at times of high demand, the Company has, for several years, been participating in the C.C. Cragin Pipeline Project (the "Cragin Pipeline") which is being developed by the Town of Payson. Once constructed, the Cragin Pipeline will deliver Salt River Project ("SRP") renewable water supplies from the C.C. Cragin Reservoir to Mesa del Caballo's system. I will discuss this project in further detail later in my testimony in the section concerning Mesa del Caballo.

Q. THANK YOU. HAS THE COMPANY EXPERIENCED ANY GROWTH IN RECENT YEARS?

A. No. In fact, the number of active customers has decreased. In 2007, PWC had 1270 active customers and in 2009 it had 1272 active customers.[2]

Q. WHY IS PWC FILING FOR NEW RATES AT THIS TIME?

A. Because the Commission ordered us to do so.[3]

---

[2] Customer count data has been adjusted for the Star Valley/Quail Valley water system.

[3] *See* Decision No. 73774 (March 21, 2013).

Q. BUT ISN'T THE COMPANY SEEKING A SIGNIFICANT INCREASE IN ITS RATES?

A. Yes, a rate increase is sorely needed. Still, we preferred to wait to file this rate application until we had greater certainty on the cost of the Cragin Pipeline.[4] Last fall, we were still finalizing agreements relating to this project. We were still in the process of determining the projected costs involved. Again, we believed it better to postpone the rate case so that we could focus our efforts on the Cragin Pipeline. Furthermore, we knew we'd need to apply for financing and believed those issues would be inextricably linked to a rate case. Our intention was to avoid additional costs and a filing that expended the resources of the Company and the Commission. The Commission didn't agree. As a result, we are filing now as ordered.

Q. HAS THE COMPANY FILED A FINANCING APPLICATION YET?

A. Not yet, however, we plan to file it in the next 30 days while this application goes through sufficiency. Then we will move to consolidate the two dockets.

III. SUMMARY OF RECENT SIGNIFICANT SYSTEM IMPROVEMENTS AND OTHER CHANGES

A. Plant Improvements

Q. YOU MENTIONED THE CRAGIN PIPELINE, WHICH YOU DISCUSS FURTHER BELOW. HAVE THERE BEEN ANY OTHER SIGNIFICANT CAPITAL IMPROVEMENTS TO UTILITY PLANT IN THE PAST FEW YEARS?

A. Since 2006 PWC has completed 24 capital improvement projects with a budgeted value of approximately $102,219. These projects relate specifically to replacement

[4] *See* PWC's Motion for Extension of Time to Comply with Decision No. 71902 as Amended by Decision No. 72679 (filed November 1, 2012 in Docket No. W-03514A-10-0116, *et al.*).

of water supply infrastructure, pressurizing equipment, system pumps, and various control systems. In addition to the capital expenditure projects, PWC has newly installed or replaced 906 meters in its various water systems as part of its regular meter monitoring and replacement program.

Although related to the Cragin Pipeline, I should also mention the pre-construction budget for the project with a budgeted value of $100,000. These latter costs are related to required engineering, groundwater radiography analysis, brush clearing, hydrological analysis, identifying alternative supplemental water supply alternatives, and permits from the U.S. Forest Service, Gila County, and ADEQ. These are the costs we have had to expend in advance in order to be ready to benefit from the Cragin Pipeline.

B. <u>Operating Expenses</u>

Q. HAVE THERE BEEN ANY RECENT, SIGNIFICANT CHANGES OR INCREASES IN OPERATING EXPENSES?

A. Yes. During the last several years, PWC's costs to do business have increased as other businesses have experienced the same thing. The most notable expense increases are related to electrical utility costs, insurance costs, property taxes, telephone costs, and chemical costs related to water treatment. Otherwise, legal costs and expenses related to customer litigation, in significant part resulting from past Commission recommendations, have caused the Company's costs to increase significantly.

C. Condemnation of Star/Quail Valley

Q. MR. HARDCASTLE, YOU MENTIONED EARLIER THAT THE STAR VALLEY/QUAIL VALLEY WATER SYSTEM WAS CONDEMNED BY THE TOWN OF STAR VALLEY. WHEN DID THIS OCCUR?

A. The final order of condemnation was issued in May 2012, during the test year and after a roughly six-month process. The Town of Star Valley took all of the water system facilities in Star Valley/Quail Valley, and the wells, pipes, customer deposits, and customers.

Q. WHAT ABOUT THE CC&N?

A. I am not a lawyer but my understanding is they took that too, or at least the portion that covered that system and those customers. After the court order, we immediately advised the Commission of the condemnation and were notified a little while after that the relevant portion of the service area was deleted from our CC&N.

IV. WATER SUPPLY AND THE MESA DEL CABALLO SYSTEM

A. Water Supply Limitations and the Water Augmentation Surcharge

Q. DOES PWC HAVE ADEQUATE WATER SUPPLY FOR THE MESA DEL CABALLO SYSTEM?

A. It depends. Obviously, there is a seasonal issue, just like in every part of the State of Arizona as far as I know. In addition, it is extremely hard at this point to know how much water is "adequate" for this system.

Q. PLEASE EXPLAIN.

A. The customers of Mesa del Caballo have been subject to extreme water saving measures long enough to have developed an extremist water conservation mindset. As a consequence, it is difficult to ascertain with any accuracy how much water is actually needed if Mesa del Caballo's customer are not subject to voluntary and

mandatory water conservation measures, many of which are extreme.

Q. FAIR ENOUGH. SO HOW BAD DOES THE PROBLEM GET DURING HIGH DEMAND?

A. We know that, despite significant water conservation measures, the Mesa del Caballo water system does not have sufficient supplies of water during the high demand months of May through October. During those periods, the Company has had to purchase supplemental water commodities from the Town of Payson and transport the water to the water system to meet peak demand. If we assume all customers in Mesa del Caballo desire to have water supplies similar to those of their Town of Payson neighbors, the Mesa del Caballo water system would require approximately 9 acre feet per month during the peak demand months and lesser amounts during the non-peak demand months. The agreements PWC has successfully negotiated with SRP and the Town of Payson would be sufficient to meet this demand.

Q. WHAT SOURCES OF WATER ARE CURRENTLY AVAILABLE TO SUPPLY MESA DEL CABALLO?

A. Besides hauling, PWC operated seven of its groundwater wells in 2012. Three of these wells typically have little or no production. The remaining Company wells typically produce less than 20 gallons per minute ("GPM"). Additionally, the Company has entered into three private party Water Sharing Agreements ("WSA's"), under which excess water is purchased from private well owners and co-mingled with the Company's own sources. These three WSA's may produce up to an additional 25 GPM. Two of the WSA's are currently under contract and the third WSA is currently being re-negotiated with the property owner.

Q. CAN MORE WELLS BE DRILLED TO ENHANCE SUPPLY?

A. Of course. However, simply drilling more wells is a superficial, uncertain, and misunderstood solution. Because of geological conditions at Mesa del Caballo it is very difficult to discover economically justifiable water supplies. Mesa del Caballo is located on an outcropping of solid granite. Finding water at Mesa del Caballo is a matter of being lucky enough to site a well in a subterranean location that supports underground water flow. There are no large producing water wells.

According to groundwater radiography studies completed for the Company, and the independent analysis of a third party hydrological consultant, there are two or three seismic faults that intersect the Mesa del Caballo area. There *may* be water available in these locations at depths exceeding 1400 feet. It is not known how much water is available from any of these potential sources. The Company, nor its consultant, can ascertain whether or not sufficient supplies of water are likewise available.

The Company's hydrologist projects that at least three *successful* wells would be required to meet customer demand during peak demand periods. It is not known how many well drilling attempts would be required to produce a successful well. Further, the hydrologist can provide no insight or make projections as to the sustainability of any deep groundwater wells developed in Mesa del Caballo. At best, we were told, they may provide sustainable water for a week or a month or a year or a lifetime. Given the very high costs related to deep well exploration and the uncertainty, the Company's position is that it is not reasonable or prudent to drill additional wells.

Q. ISN'T WATER HAULING EXPENSIVE?

A. Yes, very expensive. It's also slow. Frequently, customers consume transported water supplies as fast as they are delivered to Mesa del Caballo. But when we haul

water, we have wet water for our money.

Q. HOW HAS PWC RECOVERED THAT COST?

A. For the period of ownership through 2010 the Company provided the transported water to customers at its own expense and never sought recovery. But we determined that continuing to do so would likely jeopardize the Company's financial viability, so in March 2010 we applied to the Commission for approval of an interim water augmentation surcharge to help absorb some of the cost.[5]

Q. WAS A SURCHARGE APPROVED?

A. Yes. In Decision No. 71902 (September 28, 2010), the Commission approved a surcharge that is based on the prior month's cost of hauling water and the customer's proportional water usage during that month. It's especially designed to allow the Company to recover some of its costs between the months of May and September when there is an increase in customer demand.

Q. IS THE SURCHARGE STILL IN EFFECT?

A. It is.

Q. IS PWC REQUESTING TO CONTINUE THE SURCHARGE?

A. Yes, because the Company continually finds itself in the position of having to haul in water, and it's likely we'll need to continue to haul it in until the Cragin Pipeline is completed and perhaps even still when it's fully operational. What water is delivered through the Cragin Pipeline will depend on the stored reservoir supplies. Historical data indicates that no supply is highly unlikely; however, it's still possible that supplies could be short or non-existent for a period of time. Although the Company is not prohibited from using the water wells it already has during this period, it is possible that the supplemental supply from those wells may have to be

[5] *See* PWC's Application for Approval of Water Augmentation Surcharge Tariff (filed March 31, 2010 in Docket No. W-03514A-10-0116, *et al.*).

further supplemented by hauled water.

B. Cragin Pipeline

Q. PLEASE DESCRIBE THE CRAGIN PIPELINE AND THE ASSOCIATED COSTS FOR PWC.

A. The Cragin Pipeline would deliver renewable water supplies from the C.C. Cragin reservoir, located about 25 miles northeast of Payson. The Cragin Pipeline route passes literally across the street from the Mesa del Caballo system. Analyses show that an interconnection to the associated Town of Payson water treatment plant would give PWC access to as much as 72 acre-feet of renewable water supplies annually. The cost of the interconnection is estimated at roughly $1,238,000.[6]

Q. WHAT IS THE STATUS OF THE PROJECT?

A. The Company has received ADEQ's Approval to Construct and the U.S. Forest Service's approval to excavate Houston Mesa Road to construct the initial piece of the Cragin Pipeline that will connect to the water treatment plant. We refer to this small initial piece of the project as Phase I and should be ready to start within 30 days.

Q. WHEN IS CONSTRUCTION EXPECTED TO BEGIN?

A. We expect to begin the balance of the project (Phases II and II) in the first quarter of 2014.

Q. WHAT IS THE ANTICIPATED COMPLETION DATE OF THE CRAGIN PIPELINE?

A. According to the Town of Payson, completion of the Cragin Pipeline and the water treatment plant are scheduled to go into September of 2015.

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[6] Direct Testimony of Thomas J. Bourassa – Rate Base, Income Statement as Rate Design ("Bourassa Dt.") at 16.

Q. WILL THE COMPANY SEEK FINANCING FOR THIS PROJECT?

A. Yes. We plan to apply to the Water Infrastructure and Finance Authority ("WIFA") and file a financing application with the Commission by the time this rate application reaches sufficiency. The Company has long been discussing the Cragin Pipeline with WIFA and has placed the project on WIFA's Project Priority List for at least three years.

Q. HOW DOES THE COMPANY PLAN TO RECOVER ITS COSTS?

A. The Company will propose a debt surcharge. Mr. Bourassa discusses this further in his direct testimony.[7]

V. RATE CONSOLIDATION

Q. MR. HARDCASTLE, WHY IS THE COMPANY REQUESTING THAT RATES BE CONSOLIDATED?

A. As I testified earlier, PWC was formed from nine systems with differing rate structures. It's time to change that. It's not efficient and doesn't make sense from a management and administrative standpoint, or a regulatory standpoint.

VI. COMPLIANCE, CONSERVATION, AND CUSTOMER SATISFACTION

Q. WHAT IS PWC'S COMPLIANCE STATUS?

A. To the best of my knowledge, we are in compliance with all ADEQ, ADWR, ADOR, and ACC rules and regulations regarding the provision of water service in the State of Arizona.

Q. HOW MANY COMPLAINTS HAS THE COMMISSION RECEIVED FROM PWC CUSTOMERS IN THE LAST YEAR?

A. The Company typically experiences approximately 50-60 informal complaints from customers annually. Most of these are related to Mesa del Caballo's water augmentation surcharge. In 2012, one customer, joined by one non-customer from

[7] *Id.* at 16 – 18.

Mesa del Caballo, filed formal complaints related to the surcharge. These formal complaints remain undecided.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF PAYSON WATER CO., INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: W-03514A-13-_____

DIRECT TESTIMONY OF THOMAS J. BOURASSA

RATE BASE, INCOME STATEMENT AND RATE DESIGN

April 22, 2013

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I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND ADDRESS.

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

Q. WHAT IS YOUR PROFESSION AND BACKGROUND?

A. I am a Certified Public Accountant and am self-employed, providing consulting services to utility companies as well as general accounting services. I have a B.S. in Chemistry and Accounting from Northern Arizona University (1980) and an M.B.A. with an emphasis in Finance from the University of Phoenix (1991).

Q. COULD YOU BRIEFLY SUMMARIZE YOUR PRIOR WORK AND REGULATORY EXPERIENCE?

A. Yes. Prior to becoming a private consultant, I was employed by High-Tech Institute, Inc., and served as controller and chief financial officer. Prior to working for High-Tech Institute, I worked as a division controller for the Apollo Group, Inc. Before joining the Apollo Group, I was employed at Kozoman & Kermode, CPAs. In that position, I prepared compilations and other write-up work for water and wastewater utilities, as well as tax returns.

In my private practice, I have prepared and/or assisted in the preparation of several water and wastewater utility rate applications before the Arizona Corporation Commission ("Commission"). A copy of my regulatory work experience in attached as **Exhibit TJB-DT1**.

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

A. I am testifying in this proceeding on behalf of the applicant, Payson Water Company ("Payson" or "Company"). Payson is seeking a determination of its fair value rate base and the setting of rates and charges for water utility based on that

finding. Payson provides water utility service in its certificated service area, which area is generally located in northern Gila County, Arizona.

II. OVERVIEW OF THE COMPANY'S REQUEST FOR RATE RELIEF

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. I will testify in support of the Company's proposed adjustments to its rates and charges for water utility service. I am sponsoring the direct schedules, which are filed concurrently herewith in support of the Company's application. I was responsible for the preparation of these schedules based on my investigation and review of Payson's relevant books and records.

For convenience, the two portions of my direct testimony, each with the relevant schedules attached, are being filed separately. In this volume of my direct testimony, I address the rate bases, income statements (revenue and operating expenses), required increases in revenue, and rate designs and proposed rates and charges for service for the Company's water division. Schedules A through C, E-F and H are attached to this portion of my direct testimony. The Company has not prepared a cost of service study (G schedules). Consequently, the G Schedules are omitted.

Q. WHY DIDN'T THE COMPANY PREPARE A COST OF SERVICE STUDY?

A. Because the Commission does not set rates for water utility service based on cost of service, and because the changes to the rate designs the Company is proposing do not necessitate a cost of service study. The substantial expense of doing a cost of service study could not be justified. I have taken a similar approach in other cases without complaint.

Q. THANK YOU. PLEASE CONTINUE.

A. In the second volume of my direct testimony, to which the D schedules are attached, I address cost of capital. Payson is requesting a return on common equity of 11.0 percent. As shown on Schedule D-1, the Company's capital structure consists of approximately 100 percent equity and 0 percent debt. The weighted cost of capital is 11.0 percent.

Q. PLEASE SUMMARIZE THE COMPANY'S APPLICATION.

A. The Company is seeking a revenue increase of 124.73 percent. The test year used by Payson is the 12-month period ending December 31, 2012. The Company is requesting an 11.0 percent return on its fair value rate base ("FVRB"). The Company has also proposed certain pro forma adjustments to take into account known and measurable changes to rate base, expenses and revenues for each division. These pro forma adjustments are consistent with normal ratemaking and are contemplated by the Commission's rules and regulations governing rate applications.[1] These adjustments are necessary to obtain a normal or realistic relationship between revenues, expenses and rate base on a going-forward basis.

The Company's fair value rate base is $659,457. The increase in revenues to provide for recovery of operating expenses and an 11.0 percent return on rate base is approximately $399,785, an increase of approximately 124.73 percent over the adjusted and annualized test year revenues.

[1] *See* A.A.C.R14-2-103.

III. PAYSON'S WATER DIVISION

A. Summary of A, E and F Schedules

Q. MR. BOURASSA, LET'S TURN TO THE COMPANY'S WATER DIVISION SCHEDULES. PLEASE DESCRIBE THE SCHEDULES LABELED AS A, E, AND F.

A. The A-1 Schedule is a summary of the water division rate base, operating income, current operating margin, required operating margin, operating income deficiency, and the increase in gross revenue. An 11.0 percent return on FVRB is requested. The increase in the revenue requirement is $399,785. Revenues at present and proposed customer classifications are also shown on this schedule.

The A-2 Schedule is a summary of results of operations for the test year, prior years, and a projected year at present rates and proposed rates.

Schedule A-3 contains the Company's capital structure for the test year and the two prior years.

Schedule A-4 contains the plant construction and plant-in-service for the test year and prior years. The projected plant additions are also shown on this schedule.

Schedule A-5 is the summary of the Company's changes in financial position (cash flow) for the prior two years, the test year at present rates, and a projected year at present and proposed rates.

The E Schedules are based on the Company's actual operating results, as reported by the Company in annual reports filed with the Commission. The E-1 Schedule contains the comparative balance sheet data the years 2010, 2011, and 2012 ending on December 31.

Schedule E-2, page 1, contains the income statement for the years 2010, 2011, and 2012 ending on December 31.

Schedule E-3 contains the statements of changes in the Company's financial position for the test year and the two prior years.

Schedule E-4 provides the changes in membership equity.

Schedule E-5 contains the Company's plant-in-service at the end of the test year, and one year prior to the end of the test year.

Schedule E-7 contains operating statistics for the years ended 2010, 2011, and 2012 ending on December 31.

Schedule E-8 contains the taxes charged to operations.

The accountant's notes to the financial statements and the financial assumptions used in preparing the rate filing schedules are shown on Schedules E-9 and F-4, respectively, in accordance with the Commission's standard filing requirements.

Schedule F-1 contains the results of operations at the present rates (actual and adjusted) and at proposed rates.

Schedule F-2 contains the summary of changes in financial position (cash flow) for the prior two years, the test year at present rates, and a projected year at present and proposed rates.

Schedule F-3 shows the Company's projected construction requirements for 2013, 2014, and 2015.

Schedule F-4 contains the assumptions used in developing the adjustments and projections contained in the rate filing.

B. <u>Rate Base (B Schedules)</u>

Q. WOULD YOU EXPLAIN THE RATE BASE SCHEDULES, WHICH ARE LABELED AS THE B SCHEDULES?

A. Yes. I will start with Schedule B-5, which is the working capital allowance. I used the "formula method" of computing the working capital allowance to reduce costs.

However, the Company is not requesting a working capital allowance for either division.

Q. WHY DIDN'T THE COMPANY PREPARE A LEAD-LAG STUDY AND USE THE RESULTS OF THAT STUDY TO COMPUTE WORKING CAPITAL?

A. Because the Company is not seeking a working capital allowance and the costs to prepare a lead-lag study outweigh the benefits in this case.

Q. THANK YOU. PLEASE CONTINUE.

A. The Company did not file Schedules B-3 and B-4. To limit issues in dispute and reduce rate case expense, Payson is requesting that its original cost rate base ("OCRB") be used as its FVRB for both of its operating divisions.

Q. HAVE YOU PREPARED SCHEDULES SHOWING ADJUSTMENTS TO THE WATER DIVISION'S ORIGINAL COST RATE BASE?

A. Yes. Schedule B-2 shows adjustments to the water division's OCRB cost rate base proposed by the Company. Schedule B-2, pages 2 through 6, provides the supporting information. These adjustments are, in summary:

B-2 adjustment number 1, as shown on Schedule B-2, page 2, adjusts plant-in-service ("PIS"). There is one plant-in-service adjustment included in Adjustment 1. This adjustment is shown on Schedule B-2, page 3, and is labeled as adjustment "A."

Adjustment A of B-2 adjustment number 1 reflect adjustments to plant-in-service required to reconcile to the reconstruction of PIS from the end of the last test year to the end of the current test year. There is no difference between the recorded PIS balance and the reconstructed PIS balance.

B-2 adjustment 2, as shown on Schedule B-2, page 2, adjusts accumulated depreciation ("A/D"). The details of the accumulated depreciation adjustment are

shown on Schedule B-2, page 4. There is one adjustment shown on this schedule and it is labeled as adjustment "A".

Adjustment A of B-2 adjustment 2 reflects the re-computed accumulated depreciation balance. The reconstruction of the Company's A/D balance is shown on Schedule B-2, pages 3.2 through 3.17.

Q. DO THE PLANT AND ACCUMULATED DEPRECIATION SHOWN ON SCHEDULE B-2 REFLECT THE LAST COMMISSION RATE ORDER?

A. Yes. The plant shown on Schedule B-2 started with the plant-in-service balances approved in Decision No. 62401 (previously United Utilities, Inc.) and Decision No. 62320 (previously C&S Water Company, Inc.),[2] which established the starting values of plant-in-service. Plant additions, retirements, and transfers have been added to and deducted from total plant shown on Schedule B-2, pages 3.2 to 3.17. Pages 3.2 to 3.17 of the schedule also show the details for the accumulated depreciation through the end of the test year using the half-year convention for depreciation.

Q. WHAT DEPRECIATION RATES DID YOU EMPLOY?

A. I employed the rates authorized in the last rate case decisions.

Q. THANK YOU. PLEASE CONTINUE.

A. B-2 adjustment number 3, labeled as 3a and 3b, adjusts contributions in aid of construction ("CIAC") and amortization for CIAC recorded since the prior rate case. The detail of PWC's proposed CIAC adjustments can be found on Schedule B-2, pages 5.0 and 5.1.

B-2 adjustment number 4 reflects deferred income taxes. The Company's computation is based on the adjusted plant-in-service, accumulated depreciation,

[2] *See* Decision 62401 (March 30, 2000) for the prior United Utilities, Inc. system(s) and Decision 62320 (February 17, 2000) for the prior C&S Water Company, Inc. system(s).

AIAC, and CIAC in the instant case and the adjusted tax basis of its assets using the effective tax rates. The detail of the Company's deferred income tax computation is shown on Schedule B-2, page 6.0 and 6.1.

Q. HOW WAS THE PROPOSED "FAIR VALUE" RATE BASE SHOWN ON A-1 DETERMINED?

A. As stated, the FVRB shown on Schedule A-1 is based on OCRB, with no adjustment for the current values of the Company's plant and property.

C. <u>Income Statement (C Schedules)</u>

Q. PLEASE EXPLAIN THE ADJUSTMENTS YOU ARE PROPOSING TO THE WATER DIVISION INCOME STATEMENT AS SHOWN ON SCHEDULES C-1 AND C-2.

A. The following is a summary of adjustments shown on Schedule C-1:

Adjustment 1 annualizes depreciation expense. The proposed depreciation rate for each component of utility plant is shown on Schedule C-2, page 2. The depreciation rates approved in the Company's last rate case were account specific rates. The Company proposes to continue to use these rates.

Adjustment 2 increases the property taxes based on proposed revenues.

Q. HOW DID YOU COMPUTE THE PROPERTY TAXES AT PROPOSED RATES?

A. To determine full cash value, I used the method employed by the Arizona Department of Revenue – Centrally Valued Properties ("ADOR" or "the Department"). This method determines full cash value by using twice the average of three years of revenue, plus an addition for CWIP and a deduction for the book value of transportation equipment. In the instant case, I used two times the adjusted revenues for the year ending December 31, 2012, and one year of

revenues at proposed rates. The assessed value (20 percent of full cash value) was then multiplied by the property tax rate to determine adjusted property tax expense.

Q. IS THIS SYNCHRONIZATION OF PROPERTY TAX EXPENSE WITH REVENUES PROPER RATE MAKING?

A. Yes. Like income taxes, property taxes must be adjusted to ensure that the new rates are sufficient to produce the revenue requirement. For this reason, the Commission uses proposed revenues to determine an appropriate level of property tax expense to be recovered through rates.

Q. PLEASE CONTINUE WITH YOUR DESCRIPTION OF THE INCOME STATEMENT ADJUSTMENTS.

A. Adjustment 3 shows the rate case expense estimated by the Company. The Company estimates rate case expense of $195,000. The Company proposes that rate case expense be recovered over three years because it believes a 3-year cycle for future rate cases is reasonable given this utility's circumstances.

Q. HOW DID YOU ARRIVE AT THIS AMOUNT?

A. I consulted with Mr. Hardcastle and the Company's counsel. There were several factors that led to our estimate. For starters, the consolidation of the rates from 8 systems adds complexity to this case. On top of that, we have the need to address the significant costs being incurred to benefit Mesa del Caballo. Lastly, we had to consider the fact that the Company has spent tens of thousands of dollars defending litigation brought by customers and others, which lead us to conclude that there will likely be interveners taking an active role in this matter. In light of these factors, and the fact that we will have, at minimum, several months of discovery, several rounds of pre-filed testimonies, hearings and briefing, I believe rate case expense of $195,000 is reasonable at this time.

Q. YOU USED THE TERM "ESTIMATE" AND QUALIFIED THE ESTIMATE WITH "AT THIS TIME." WHY?

A. Because I can't see the future, I can only make some guesses based on my experience and legal counsel's. For example, if Staff or customer groups oppose rate consolidation between the systems; if RUCO decides the debt service surcharge is not in the public interest and intervenes; if there is a fight over the Cragin Pipeline, the rate case expense is going to be north of $200,000. If none of those things happen and we resolve all disputed issues with Staff, my estimate is going to be high. There are so many unknowns in this rate case; the bottom line is, I chose the most reasonable number under $200,000 I could and we are going to have to see how it goes.

Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE INCOME STATEMENT ADJUSTMENTS.

A. Adjustment 4 annualizes revenues to the year-end number of customers. The annualization of revenues is based on the number of customers at the end of the test year, compared to the actual number of customers during each month of the test year. Average revenues per customer by month were computed for the test year and then multiplied by the increase (or decrease) in number of customers for each month of the test year. The total of the monthly revenue change comprise the revenue annualization. This was done for each customer class. Of note, the net revenue annualization adjustment takes into consideration the loss of Star Valley/Quail Valley revenues discussed below in adjustment number 5.

Adjustment 5 removes test year recorded revenues and expenses for the Star Valley/Quail Valley system that was condemned by the Town of Star Valley in May of the test year and is no longer part of PWC.[3]

[3] Direct Testimony of Robert T. Hardcastle ("Hardcastle Dt.") at 6:1-14.

Adjustment 6 removes purchased water expense and metered water revenues covered by the Company's water augmentation surcharge approved for the Mesa del Caballo system ("MDC") in Decision No. 71902 (September 28, 2010). A discussion of the Cragin Pipeline is provided by Mr. Hardcastle in his testimony.[4]

Adjustment number 7 removes other non-utility income/expense to eliminate their impact on income taxes.

Adjustment 8 is intentionally left blank.

Adjustment 9 adjusts income taxes to reflect the Company proposed adjusted test year revenues and expenses.

D. <u>Rate Design (H Schedules)</u>

Q. WHAT ARE THE COMPANY'S PRESENT RATES FOR WATER SERVICE?

A. The Company's present rates for the United Systems portion of PWC are:

MONTHLY SERVICE CHARGES	
5/8" x 3/4" Meters	$16.00
3/4" Meters	$18.40
1" Meters	$21.28
1 1/2" Meters	$32.00
2" Meters	$56.00
3" Meter	$80.00
4" Meters	$128.00

[4] *Id.* at 10 – 11.

Gallons included in monthly minimum		0
COMMODITY RATES		
All Meter Sizes	1 to 4,000 gals	$1.93
	Over 4,000 gals	$2.99

The Company's present rates for the C&S Systems portion of PWC are:

MONTHLY SERVICE CHARGES	
5/8" x 3/4" Meters	$17.00
3/4" Meters	$25.50
1" Meters	$42.50
1 1/2" Meters	$85.00
2" Meters	$136.00
3" Meter	$255.00
4" Meters	$425.00
Gallons included in monthly minimum	0
COMMODITY RATES	
All Meter Sizes All gallons	$1.48

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

A. The Company's proposed rates are:

MONTHLY SERVICE CHARGES	
5/8" x 3/4" Meters	$39.24
3/4" Meters	$58.85
1" Meters	$98.09
1 1/2" Meters	$196.18
2" Meters	$313.89

3" Meter		$627.78
4" Meters		$980.90
6" Meter		$1,961.80
8" Meters		$3,138.88

COMMODITY RATES

5/8" x ¾" Meters	1 to 4,000	$2.75
	4,001 to 10,000	$4.75
	Over 10,000	$6.75
¾" Meters (Residential)	1 to 4,000	$2.75
	4,001 to 10,000	$4.75
	Over 10,000	$6.75
1" Meters	1 to 25,000	$4.75
	Over 25,000	$6.75
1 ½" Meters	1 to 50,000	$4.75
	Over 50,000	$6.75
2" Meters	1 to 80,000	$4.75
	Over 80,000	$6.75
3" Meters	1 to 150,000	$4.75
	Over 150,000	$6.75
4" Meters	1 to 250,000	$4.75
	Over 250,000	$6.75
6" Meters	1 to 500,000	$4.75
	Over 500,000	$6.75
8" Meters	1 to 800,000	$4.75
	Over 800,000	$6.75

Q. WHAT METER SIZE ARE THE MAJORITY OF CUSTOMERS ON AND WHAT WAS THE AVERAGE MONTHLY BILL DURING THE TEST YEAR?

A. The largest customer classes are the 5/8x3/4 inch class comprising about 85 percent of customers. As shown on Schedule H-2, page 1, the average monthly bill under present rates for a 5/8x3/4 inch metered customer (United Systems) using an average 2,856 gallons is $21.51. The average monthly bill under present rates for a 5/8x3/4 inch metered customer (C&S Systems) using an average 6,961 gallons is $27.30.

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

A. As shown on Schedule H-2, page 1, the average monthly bill under proposed rates for a 5/8x3/4 inch metered customer (United Systems) using an average 2,856 gallons is $47.09—a $25.58 increase over the present monthly bill or a 118.90 percent increase. The average monthly bill under proposed rates for a 5/8x3/4 inch metered customer (C&S Systems) using an average 6,961 gallons is $64.30—a $37.00 increase over the present monthly bill or a 135.51 percent increase.

Q. IS THE COMPANY PROPOSING CHANGES TO THE CURRENT RATE DESIGNS?

A. Yes. First, the Company is proposing to consolidate rates for all of it systems into one. This makes the most sense since only one system has rates that are not the same as the other 7 remaining systems. Second, the Company is proposing an inverted 3-tier rate design for the smaller metered customers and an inverted 2-tier rate design for the 1-inch and larger metered customers. The Company's current rate designs are single-tier (C&S System) and inverted 2-tier (United System).

The Company's proposed rate design is a typical water conservation rate design that has been adopted by the Commission in the past 10 years.

1. Miscellaneous Charges

Q. IS THE COMPANY PROPOSING CHANGES TO ITS MISCELLANEOUS SERVICE CHARGES?

A. Yes. The Company is proposing to consolidate the miscellaneous charges for all of it systems into one. The Company is proposing the current miscellaneous charges of the United Systems as these charges currently apply to 7 out of the 8 PWC systems.

2. Service Line and Meter Charges

Q. IS THE COMPANY PROPOSING CHANGES TO THE SERVICE LINE AND METER INSTALLATION CHARGES?

A. Yes. The Company is proposing to consolidate the service line and miscellaneous charges for all of it systems into one. The proposed service line and meter installation charges are based upon the most recent Staff Engineering memo of typical costs.[5]

3. MDC Water Augmentation Surcharge

Q. PLEASE EXPLAIN WHY THE COMPANY IS PROPOSING TO CONTINUE CHARGING THE AUTHORIZED MESA DEL CABALLO WATER AUGMENTATION SURCHARGE.

A. As explained by Mr. Hardcastle, PWC may need to continue to haul water to meet MDC system water demand until the Cragin Pipeline is completed and perhaps still when it's fully operational.[6]

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[5] ACC Staff Engineering Memo dated February 21, 2008.

[6] Hardcastle Dt. at 9:16 – 10:1.

4. **Debt Recovery Surcharge**

Q. HOW DOES THE COMPANY INTEND TO FUND THE CAPITAL COSTS OF THE CRAGIN PIPELINE?

A. The Company intends to borrow the funds from the Water Infrastructure and Financing Authority ("WIFA"). The Company plans to apply to WIFA and file a financing application with the Commission by the time this rate application reaches sufficiency. The Company currently estimates it will need to borrow $1,238,000 with an intended a loan term of 20 years and a projected interest rate of 4.2 percent, the Company anticipates annual debt service payments of over $111,000 (including debt reserve payments). Combined with anticipated operation and maintenance fees from Salt River Project ("SRP") and the Town of Payson ("TOP") of $65,000 to $80,000 annually, a commodity cost from TOP of $2.75 per 1,000 gallons, the Company will not be able to meet WIFA's minimum debt service coverage requirements. It makes little sense for the Company to achieve a remedy to the chronic water shortages in Mesa del Caballo only to default on its loan because it cannot afford the payments and/or not be able to pay to get water delivered through the pipeline.

I have included as **Exhibit TJB-RB-DT2**, a computation of the debt service coverage ratio ("DSCR") based upon the Company proposed revenues and expenses, the WIFA debt service requirements using the above estimated loan amount and terms, the anticipated O&M fees, as well as commodity charges from TOP. As shown, the DSCR is estimated to in the range of 0.99 to 1.08 using the $65,000 annual O&M fee estimate and 0.86 to 0.94 using the $80,000 annual O&M fee estimate. The minimum DSCR requirement for a WIFA loan is 1.20. This shows, as I testified earlier, that the Company needs its rates to rise concurrent with the incurrence of these new costs of service.

Q. HOW WILL THE PROPOSED DEBT RECOVERY SURCHARGE WORK?

A. The Company is proposing a Debt Recovery Surcharge Mechanism that will allow it to timely recover sufficient funds to cash flow its debt service requirements. I have included as **Exhibit TJB-RB-DT3** showing how the Debt Recovery Surcharge would be computed.

Q. WOULD THE DEBT RECOVERY SURCHARGE BE CHARGED ONLY TO THE MESA DEL CABALLO CUSTOMERS?

A. Yes. Since the debt is funding a project which is a direct and only benefit to the MDC customers it is appropriate to charge only the MDC customers.

Q. HAVE YOU PREPARED AN ESTIMATE OF THE MONTHLY DEBT RECOVERY SURCHARGE?

A. Yes. An estimate of the monthly surcharge based upon the WIFA loan amount and terms is included as **Exhibit TJB-RB-DT4**. As shown, the estimated monthly surcharge for a 5/8x3/4 inch metered MDC customer would be $30.75.

Q. WHEN WOULD THE DEBT RECOVERY SURCHARGE BE IMPLEMENTED?

A. Only after PWC has completed the Cragin Pipeline project, the costs have been verified by Staff, and it is placed into service. Further, the final WIFA loan amount and terms must be known and the Commission must approve the surcharge calculation.

Q. WOULD THE DEBT RECOVERY SURCHARGE BE TRUED-UP ANNUALLY?

A. Yes. The Company will track the funds received through the surcharge and actual debt payments to identify any over/under recovery of costs. Any over/under recovery will be included in the next year's surcharge computation. A report will

be submitted to the Commission by February 28th supporting each year's computation of the surcharge.

Q. WHEN WOULD THE DEBT RECOVERY SURCHARGE CEASE?

A. In the next rate case, I anticipate the recovery of the capital costs and depreciation would be included in base rates and the Debt Recovery Surcharge could be discontinued.

5. <u>O&M Cost Recovery Surcharge</u>

Q. PLEASE COMMENT ON THE COMPANY'S PROPOSED O&M RECOVERY SURCHARGE.

A. The Company is proposing an O&M Cost Recovery Surcharge Mechanism that will allow it to recover sufficient funds to cash flow the additional O&M costs from SRP and TOP for the Cragin Pipeline that are not included in operating expenses in this case. I have included as **Exhibit TJB-RB-DT5** instructions on how the O&M Recovery Surcharge would be computed. I have also included an estimate of the monthly surcharge as **Exhibit TJB-RB-DT6**. As shown on page 1 of the exhibit, using an estimate of $65,000 for the O&M fees, the monthly surcharge for a 5/8x3/4 inch metered MDC customer is estimated to be $14.90. As shown on page 2 of the exhibit, using an estimate of $80,000 for the O&M fees, the monthly surcharge for a 5/8x3/4 inch metered MDC customer is estimated to be $18.34.

Q. WOULD THE O&M COST RECOVERY SURCHARGE BE CHARGED TO ONLY THE MESA DEL CABALLO CUSTOMERS?

A. Yes. Again, only the MDC receive a benefit from the Cragin Pipeline and it is appropriate to charge the MDC customers only.

Q. WHEN WOULD THE O&M COST RECOVERY SURCHARGE BE IMPLEMENTED?

A. After meeting the conditions for the Debt Recovery surcharge, the O&M surcharge would commence when the annual O&M fees from SRP and TOP have been finalized and the Commission has approved the O&M surcharge computation.

Q. WOULD THE O&M COST RECOVERY SURCHARGE BE TRUED-UP ANNUALLY?

A. Yes. The Company will track the funds received through the surcharge and the actual O&M costs to identify any over/under recovery of costs. Any over/under recovery will be included in the next year's surcharge computation. A report will be submitted to the Commission by February 28th for the each year's computation of the surcharge.

Q. WHEN WOULD THE O&M RECOVERY SURCHARGE CEASE?

A. In the next rate case, I anticipate the recovery of the O&M costs would be included in base rates and the O&M Cost Recovery Surcharge would be discontinued.

6. <u>Town of Payson Commodity Cost Recovery Surcharge</u>

Q. PLEASE COMMENT ON THE COMPANY'S TOWN OF PAYSON COMMODITY COST RECOVERY SURCHARGE.

A. The Company is proposing a Town of Payson Commodity Cost Recovery Surcharge Mechanism that will allow the Company to recover sufficient funds to cash flow the additional cost of water from TOP. The current commodity cost estimate from TOP is $2.75 per 1,000 gallons. The Company would charge customers based upon each customer's usage of water purchased and delivered through the Cragin Pipeline.

Q. WOULD THE COMMODITY COST RECOVERY SURCHARGE BE CHARGED TO ONLY THE MESA DEL CABALLO CUSTOMERS?

A. Yes. These costs are for water that is delivered to and used by MDC customers only. It is appropriate to pass this cost on to only the MDC customers based upon their water usage.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

PAYSON WATER CO., INC.

THOMAS J. BOURASSA
DIRECT TESTIMONY

RATE BASE, INCOME STATEMENT AND RATE DESIGN

APRIL 22, 2013

EXHIBIT TJB – DT1

Exhibit A
RESUME OF THOMAS J. BOURASSA, CPA

EDUCATIONAL BACKGROUND

B.S. Northern Arizona University Chemistry/Accounting (1980)
M.B.A. University of Phoenix with Emphasis in Finance (1991)
C.P.A. State of Arizona (1995)
Continuing Professional Education – In areas of tax, accounting, management, economics, finance, ethics (80 hrs every two years)

MEMBERSHIPS

Arizona Society of CPAs
Water Utilities Association of Arizona
American Water Works Association
Society of Regulatory Financial Analysts

EMPLOYMENT EXPERIENCE

1995 – Present	CPA - Self Employed Consultant to utilities on regulatory matters including all aspects of rate applications (rate base, income statement, cost of capital, cost of service, and rate design), rate reviews, certificates of convenience and necessity (CC&N), CC&N extensions, financing applications, accounting order applications, and off-site facilities hook-up fee applications. Provide expert testimony as required. Consult on various aspects of business, financial and accounting matters including best business practices, generally accepted accounting principles, generally accepted ratemaking principles, project analysis, cash flow analysis, regulatory treatment of certain expenditures and investments, business valuations, and rate reviews. Litigation support services.
1992-1995	Employed by High-Tech Institute, Phoenix, Arizona as Controller and C.F.O.
1989-1992	Employed by Alta Technical School, a division of University of Phoenix as Division Controller.
1985-1989	Employed by M.L.R. Builders, Tampa and Pensacola, Florida as Operations/Accounting Manager

1982-1985	Employed by and part owner in Area Sand and Clay Company, Pensacola, Florida.
1981-1982	Employed by Purdue University, West Lafayette, Indiana as Teaching Assistant.

SUMMARY OF REGULATORY WORK EXPERIENCE AS SELF EMPLOYED CONSULTANT

COMPANY/CLIENT	FUNCTION
Litchfield park Service Company Docket SW-01428A-13-0043 W-01428A-13-0042	Permanent Rate Application – Water and Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, Cost of Service, and Cost of Capital.
Beaver Dam Water Company Docket WS-03067A-12-0232	Permanent Rate Application. Prepared schedules on Plant, Income Statement, Revenue Requirement, and Rate Design.
Rio Rico Utilities Docket WS-02676A-12-0196	Permanent Rate Application – Water and Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Cost of Service, Rate Design, and Cost of Capital.
Vail Water Company Docket No. W-01651B-12-0339	Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Cost of Service, Rate Design, and Cost of Capital.
Avra Water Co-Op. Docket No. W-02126A-11-0480	Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Cost of Service, Rate Design, and Cost of Capital.
Pima Utility Company Docket W-02199A-11-0329 Docket SW-02199A-11-0330	Permanent Rate Application – Water and Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Cost of Service, Rate Design, and Cost of Capital. Work on financing application.
California Pacific Energy Company	Work on preparation of permanent rate application.
Livco Water Company Docket SW-02563A-11-0213	Permanent Rate Application – Water and Sewer. Prepared short-form schedules for Rate Base, Income Statement, Plant, Bill

COMPANY/CLIENT	FUNCTION
	Counts, and Rate Design.
Orange Grove Water Company Docket W-02237A-11-0180	Permanent Rate Application. Prepared schedules on Plant, Income Statement, Revenue Requirement, and Rate Design.
Goodman Water Company Docket W-02500A-10-0382	Permanent Rate Application – Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Doney Park Water Docket W-01416A-10-0450	Permanent Rate Application – Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.
Grimmelmann, et. al. v. Pulte Home Corporation, et. al., case no. CV-08-1878-PHX-FJM, the United States District Court for the District of Arizona.	Consultant to defendant and expert witness for defendant on rates and ratemaking.
Southern Arizona Home Builders Association	Consultant on ratemaking aspects to line extension policies (electric).
H2O Water Company	Valuation
Tierra Linda HOA Water Company	Valuation
Las Quintas Serenas Water Company Docket W-01583A-09-0589	Permanent Rate Application – Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Coronado Utilities Docket SW-04305A-09-0291	Permanent Rate Application – Wastewater. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Little Park Water Company Docket W-02192A-09-0531	Permanent Rate Application. Prepared schedules on Plant, Income Statement, Revenue Requirement, and Rate Design.

COMPANY/CLIENT	FUNCTION
Sahuarita Water Company Docket W-03718A-09-0359	Permanent Rate Application – Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, Cost of Service, and Cost of Capital.
Bella Vista Water Company Southern Sunrise Water Company Northern Sunrise Water Company Docket W-02465A-09-0414 W-02453A-09-0414 W-02454A-09-0414	Permanent Rate Application – Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, Cost of Service, and Cost of Capital.
Rio Rico Utilities, Inc Docket WS-02676A-09-0257	Permanent Rate Application – Water and Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Litchfield park Service Company Docket SW-01428A-09-0103 W-01428A-09-0104	Permanent Rate Application – Water and Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, Cost of Service, and Cost of Capital.
Town of Thatcher v. City of Safford, CV 2007-240, Superior Court of Arizona	Consultant to plaintiff on ratemaking and cost of service.
Valencia Water Company Before the California Public Utility Commission 09-05-002	Cost of Capital
Valley Utilities Docket W-01412A-08-0586	Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.
Black Mountain Sewer Company Docket SW-02361A-08-0609	Permanent Rate Application – Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Far West Water and Sewer Company	Interim Rate Application (Emergency

COMPANY/CLIENT	FUNCTION
Docket WS-03478A-08-0608	Rates)
Farmers Water Company Docket W-01654A-08-0502	Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.
Far West Water and Sewer Company Docket WS-03478A-08-0454	Permanent Rate Application. Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design and Cost of Capital.
Ridgeline Water Company, LLC Docket W-20589A-08-0173	Certificate of Convenience and Necessity – Water. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, and financing.
Sacramento Utilities, Inc. Docket SW-20576A-08-0067	Certificate of Convenience and Necessity – Wastewater. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, and financing.
Johnson Utilities Docket WS-02987A-08-0180	Permanent Rate Application. Water and Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design and Cost of Capital. Participate in 40-252 proceeding.
Orange Grove Water Company Docket W-02237A-08-0455	Permanent Rate Application. Prepared schedules on Plant, Income Statement, Revenue Requirement, and Rate Design.
Far West Water and Sewer Company Docket WS-03478A-07-0442	Financing Application. Prepare schedules to support application.
Oak Creek Water No.1 Docket W-01392A-07-0679	Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.
ICR Water Users Association	Permanent Rate Application. Prepared

COMPANY/CLIENT	FUNCTION
Docket W-02824-07-0388	schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.
Johnson Utilities	Valuation consultant in the matter of the sale of Johnson Utilities assets to the Town of Florence.
H2O, Inc Docket W-02234A-07-0550	Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Chaparral City Water Company Docket W-02113A-07-0551	Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Valley Utilities Docket W-01412A-07-0561	Financing Application. Prepare schedules to support application.
Valley Utilities Docket W-01412A-07-280	Emergency Rate Application. Prepare schedules to support application.
Valley Utilities Docket W-01412A-07-0278	Accounting Order. Assist in preparing definition and scope of costs for deferral for future regulatory consideration and treatment.
Litchfield Park Service Company Docket W-01427A-06-0807	Accounting Order. Assist in preparing definition and scope of costs for deferral for future regulatory consideration and treatment.
Golden Shores Water Company Docket W-01815A-07-0117	Permanent Rate Application. Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Diablo Village Water Company Docket W-02309A-07-0140	Off-site facilities hook-up fee application. Prepare schedules to support application.

COMPANY/CLIENT	FUNCTION
Diablo Village Water Company Docket W-02309A-07-0399	Permanent Rate Application (Class C). Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Sahuarita Water Company (Rancho Sahuarita Water Co.) Docket W-03718A-07-0687	Extension Certificate of Convenience and Necessity – Water. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, and financing.
Utility Source, L.L.C. Docket WS-04235A-06-0303	Permanent Rate Application- Water and Wastewater. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Tierra Buena Water Company	Valuation of Tierra Buena Water Company for estate purposes.
Goodman Water Company Docket W-02500A-06-0281	Permanent Rate Application (Class C). Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, and Cost of Capital.
Links at Coyote Wash Utilities Docket SW-04210A-06-0220	Certificate of Convenience and Necessity – Sewer. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and initial rate design.
New River Utilities Docket W-0173A-06-0171	Extension Certificate of Convenience and Necessity – Water. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, and financing.
Johnson Utilities Docket WS-02987A-04-0501 Docket WS-02987A-04-0177	Extension of Certificate of Convenience and Necessity – Sewer. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and initial rate design.
Bachmann Springs Utility	Permanent Rate Application – Water and

COMPANY/CLIENT	FUNCTION
Docket WS-03953A-07-0073	Sewer. Prepared short-form schedules for Rate Base, Income Statement, Plant, Bill Counts, and Rate Design.
Avra Water Cooperative Docket W-02126A-06-0234	Permanent Rate Application – Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.
Gold Canyon Sewer Company Docket SW-025191A-06-0015	Permanent Rate Application – Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
State of Arizona v. Far West Water and Sewer, No. 1 CA-CR 06-0160	Expert witness on behalf of defendant in penalty phase of case.
Far West Water and Sewer Company Docket WS-03478A-05-0801	Permanent Rate Application – Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Black Mountain Sewer Company Docket SW-02361A-05-0657	Permanent Rate Application – Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Balterra Sewer Company Docket SW-02304A-05-0586	Certificate of Convenience and Necessity – Sewer. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and initial rate design.
Community Water Company of Green Valley Docket W-02304A-05-0830	Permanent Rate Application – Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.
McClain Water Systems Northern Sunrise Water Southern Sunrise Water Docket W-020453A-06-0251	Certificate of Convenience and Necessity – Water. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and initial

COMPANY/CLIENT	FUNCTION
	rate design.
Valley Utilities Water Company Docket W-01412A-04-0376	Off-site facilities hook-up fee application. Prepare schedules to support application.
Valley Utilities Water Company Docket W-01412A-04-0376	Permanent Rate Application – Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, and Revenue Requirement. Assisted in preparation of Rate Design.
Beardsley Water Company Docket W-02074A-04-0358	Permanent Rate Application – Water. Prepared short-form schedules for Rate Base, Income Statement, Plant, Bill Counts, and Rate Design.
Pine Water Company, Inc. Docket W-03512A-03-0279	Interim and Permanent Rate Application, Financing Application - Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Cost of Capital, and Rate Design.
Chaparral City Water Company Docket W-02113A-04-0616	Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, and Income Statement. Assisted in preparation Rate Design.
Tierra Linda Home Owners Association Docket W-0423A-04-0075	Certificate of Convenience and Necessity – Water. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and initial rate design.
Diamond Ventures - Red Rock Utilities Docket WS-04245A-04-0184	Certificate of Convenience and Necessity – Water and Sewer. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and initial rate design.
Arizona-American Water Company, Inc. Docket WS-01303A-02-0867 Docket WS-01303A-02-0868 Docket WS-01303A-02-0869	Permanent Rate Application Water and Sewer (10 divisions). Prepared schedules and testimony on Rate Base, Plant, Income Statement, and Revenue

COMPANY/CLIENT	FUNCTION
Docket WS-01303A-02-0870 Docket WS-01303A-02-0908	Requirement. Assisted in preparation of Rate Design.
Bella Vista Water Company, Inc. Docket W-02465A-01-0776	Permanent Rate Application - Water. Prepared schedules and testimony on Rate Base, Plant, Income Statement, and Revenue Requirement. Assisted in preparation of Cost of Capital and Rate Design.
Green Valley Water Company Docket (2000 Not Filed)	Permanent Rate Application. Prepared schedules and testimony on Rate Base, Plant, Income Statement, and Revenue Requirement. Assisted in preparation of Cost of Capital and Rate Design.
Gold Canyon Sewer Company Docket SW-02519A-00-0638	Permanent Rate Application - Sewer. Prepared schedules and testimony on Rate Base, Plant, Revenue Requirement, and Income Statement. Assisted in preparation of Cost of Capital and Rate Design.
Rio Verde Utilities, Inc. Docket WS-02156A-00-0321	Permanent Rate Application – Water and Sewer. Prepared schedules and testimony on Rate Base, Plant, Revenue Requirement, and Income Statement. Assisted in preparation of Cost of Capital and Rate Design.
Livco Water Company Livco Sewer Company Docket SW-02563A-05-0820	Permanent Rate Application – Water. Prepared short-form schedules for Rate Base, Income Statement, Plant, Bill Counts, and Rate Design.
Livco Water Company Docket SW-02563A-07-0506	Permanent Rate Application – Water and Sewer. Prepared short-form schedules for Rate Base, Income Statement, Plant, Bill Counts, and Rate Design.
Cave Creek Sewer Company	Revenue Requirement, Rate Adjustment and Rate Design - Sewer.
Avra Water Cooperative	Permanent Rate Application – Water.

COMPANY/CLIENT	FUNCTION
Docket W-02126A-00-0269	Assisted in preparation of Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.
Town of Oro Valley	Revenue Requirements, Water Rate Adjustments and Rate Design.
Far West Water Company Docket WS-03478A-99-0144	Permanent Rate Application – Water. Assisted in preparation of schedules for Rate Base, Income Statement, Revenue Requirement, Lead-Lag Study, Cost of Capital, and Rate Design.
MHC Operating Limited Partnership Sedona Venture Wastewater Docket W-	Permanent Rate Application – Sewer. Assisted in preparation of schedules for Rate Base, Plant, Income Statement, and Rate Design.
Vail Water Company Docket W-01651B-99-0406	Permanent Rate Application. Assisted in preparation of schedules for Rate Base, Plant, Income Statement, and Rate Design.
E&T Water Company Docket W-01409A-95-0440	Permanent Rate Application - Water. Assisted in preparation of schedules for Rate Base, Plant, Income Statement, and Rate Design.
New River Utility Docket W-01737A-99-0633	Permanent Rate Application - Water. Assisted in preparation of schedules for Rate Base, Plant, Income Statement, and Rate Design.
Golden Shores Water Docket W-01815A-98-0645	Permanent Rate Application – Water. Assisted in preparation of schedules for Rate Base, Plant, Income Statement, and Rate Design.
Ponderosa Utility Company Docket W-01717A-99-0572	Permanent Rate Application – Water. Assisted in preparation of schedules for Rate Base, Plant, Income Statement, and Rate Design.
Chaparral City Water Company Docket (1999 Not Filed)	Permanent Rate Application - Water. Prepared schedules and testimony on Rate Base, Plant, Revenue Requirement, and

COMPANY/CLIENT	FUNCTION
	Income Statement. Assisted in preparation of Cost of Capital and Rate Design.

PAYSON WATER CO., INC.

THOMAS J. BOURASSA
DIRECT TESTIMONY

RATE BASE, INCOME STATEMENT AND RATE DESIGN

APRIL 22, 2013

EXHIBIT TJB – DT2

Payson Water Company
Test Year Ended December 31, 2012
Debt Service Coverage Ratio at Proposed Rates

Exhibit

Line No.		[A] At $65,000 of O&M Fees with Commodity Costs	[B] At $80,000 of O&M Fees with Commodity Costs
1			
2			
1			
2			
3			
4	[1] Net Income at Proposed Rates	$ 72,540	$ 72,540
5	[2] O&M Fees	(65,000)	(80,000)
6	[3] Town of Payson Commodity Fees[1]	(9,350)	(9,350)
7	[4] Adjusted Net Income at Proposed Rates sum of [1],[2],[3]	$ (1,810)	$ (16,810)
8	[5] Plus: Depreciation and Amortization	85,632	85,632
9	[6] Income Taxes	26,465	26,465
10	[7] Interest Expense	-	-
11	[8] Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) sum of [5],[6],[7]	$ 110,287	$ 95,287
12			
13	[9] Loan Principal and Interest Payments	$ 92,715	$ 92,715
14	[10] Debt Reserve Funding Requirements	18,543	18,543
15	[11] Refunds of Advances	-	-
16	[12] Debt Service Requirements sum of [9],[10],[11]	$ 111,258	$ 111,258
17			
18	[13] Debt Service Coverae Ratio ("DSCR") [8]/[12]	0.99	0.86
19			
20	[1] 3.4 million gallons of water was purchased and hauled in 2012. Commodity rate is estimated to be $2.75 per 1,000 gallons.		
21			
22		[C] At $65,000 of O&M without Commodity Costs	[D] At $80,000 of O&M Fees without Commodity Costs
23			
24			
25			
26			
27	[1] Net Income at Proposed Rates	$ 72,540	$ 72,540
28	[2] O&M Fees	(65,000)	(80,000)
29	[3] Town of Payson Commodity Fees	-	-
30	[4] Adjusted Net Income at Proposed Rates sum of [1],[2],[3]	$ 7,540	$ (7,460)
31	[5] Plus: Depreciation and Amortization	85,632	85,632
32	[6] Income Taxes	26,465	26,465
33	[7] Interest Expense	-	-
34	[8] Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) sum of [5],[6],[7]	$ 119,637	$ 104,637
35			
36	[9] Loan Principal and Interest Payments	$ 92,715	$ 92,715
37	[10] Debt Reserve Funding Requirements	18,543	18,543
38	[11] Refunds of Advances	-	-
39	[12] Debt Service Requirements sum of [9],[10],[11]	$ 111,258	$ 111,258
40			
41	[13] Debt Service Coverae Ratio ("DSCR") [8]/[12]	1.08	0.94
42			

PAYSON WATER CO., INC.

THOMAS J. BOURASSA
DIRECT TESTIMONY

RATE BASE, INCOME STATEMENT AND RATE DESIGN

APRIL 22, 2013

EXHIBIT TJB – DT3

Payson Water Company

Instructions to Calculate the Annual Surcharge Revenue Requirement and Monthly Surcharge for Equivalent 5/8x3/4 Inch Meter

Step 1. Gather the Loan Information
Identify the original loan amount (amount borrowed), interest rate, and term (in years).

Step 2. Determine the Annual Loan Payment
Multiply the loan amount by the relevant payment conversion factor found in Table A.

The relevant conversion factor can be found in Table A by locating the annual payment conversion factor which corresponds to the interest rate and the year of repayment. For example, for an interest rate of 4.2% and Year 1 of repayment, the annual payment conversion factor would be 0.074891.

Make the following calculation to determine the annual payment on the loan:

Annual payment conversion factor
(*) times the loan amount
(=) equals the Annual Loan Payment

Step 3. Determine the Annual Principal Payment on the Loan
Multiply the annual principal factor by the loan amount by the relevant principal payment conversion factor found in Table A.

The relevant conversion factor can be found in Table A by locating the principal payment factor which corresponds to the interest rate and the year of repayment. For example, for an interest rate on 4.2% and Year 1 of repayment, the annual principal conversion factor would be 0.032891.

Make the following calculation to determine the Annual Principal Payment on the loan:

Annual principal payment conversion factor
(*) times the loan amount
(=) equals the Annual Principal Payment

Step 4. Determine the Annual Principal Payment plus Taxes on the Loan
Multiply the annual principal payment on the loan amount as determined in Step 3 by the gross revenue conversion factor. The gross revenue conversion factor reflects the incremental revenue required to allow for the payment of taxes (income taxes and property taxes) for each dollar increase in taxable revenues.

The gross revenue conversion factor will be the figure determined in the rate case proceeding and/or financing application proceeding.

Make the following calculation to determine the Annual Principal Payment plus Taxes on the loan:

Annual principal payment (from Step 3)
(*) times the gross revenue conversion factor
(=) equals the Annual Principal Payment plus Taxes

Step 5. Determine the Annual Interest Payment on the Loan

Multiply the annual principal factor by the loan amount by the relevant interest payment conversion factor found in Table A.

The relevant conversion factor can be found in Table A by locating the interest payment factor which corresponds to the interest rate and the year of repayment. For example, for an interest rate on 4.2% and Year 1 of repayment, the annual interest conversion factor would be 0.042000.

Make the following calculation to determine the Annual Interest Payment on the loan:

Annual interest payment conversion factor
(*) times the loan amount
(=) equals the Annual Interest Payment

Step 6. Determine the Debt Reserve Payment on the Loan
Multiply the annual debt service determined in Step 2 by the relevant factor required in the loan convenants for funding the debt reserve. For the Water infrastructure Financing Authority ("WIFA") loans use a factor of 0.20. The WIFA factor reflects the requirement to fund the restricted cash debt reserve equal to one year of debt service collected over 5 years.

Make the following calculation to determine the Annual Debt Reserve Payment on the loan:

Annual payment on loan (from Step 2)
(*) times debt reserve factor
(=) equals the Annual Debt Reserve Payment

Step 7. Determine the Annual Revenue Requirement on the Loan

Sum the determined components to determine the Annual Debt Service Revenue Requirement associated with the loan.

Make the following calculation to determine the Annual Debt Service Revenue Requirement on the loan:

Annual Principal Payment plus Taxes (from Step 4)
(+) plus the Annual Interest Payment (from Step 5)
(+) plus the Annual Debt Reserve Payment (from Step 6)
(=) equals Annual Debt Service Revenue Requirement

Step 8. Determine the Number of Equivalent 5/8x3/4 Inch Meters

Multiply the NARUC meter capacity factors by the number of current customers for each size meter on the system. The sum the products of all meter sizes equals the total number of equivalent 5/8x3/4 inch meters. Use the following meter capacity factors

Meter Size	Capacity Factor
5/8x3/4 inch	1.0
¾ inch	1.5
1 inch	2.5

Meter Size	Capacity Factor
1 ½ inch	5.0
2 inch	8.0
3 inch	15.0
4 inch	25.0
6 inch	50.0

Step 9. Determine the Annual and Monthly Debt Recovery Surcharge for an Equivalent 5/8x3/4 Inch Meter

Make the following calculation to determine the Annual Debt Recovery Surcharge for an Equivalent 5/8x3/4 Inch Meter:

Annual Revenue Requirement (from Step 7)
(/) divided by total number of equivalent 5/8x3/4 inch meters (from Step 8)
(=) equals the Annual Debt Recovery Surcharge for an Equivalent 5/8x3/4 Inch Meter

Determine the Monthly Debt Recovery Surcharge for an Equivalent 5/8x3/4 Inch Meter by making the following calculation:

Annual Debt Recovery Surcharge for an Equivalent 5/8x3/4 Inch Meter
(/) divided by 12
(=) equals Monthly Debt Recovery Surcharge for an Equivalent 5/8x3/4 Inch Meter

Step 10. Determine the Monthly Debt Recovery Surcharge by Meter size

Multiply the Monthly Debt Recovery Surcharge (from Step 9) by the appropriate NARUC meter capacity factors (found in Step 8) to determine the monthly debt recovery surcharge for all other meter sizes.

PAYSON WATER CO., INC.

THOMAS J. BOURASSA
DIRECT TESTIMONY

RATE BASE, INCOME STATEMENT AND RATE DESIGN

APRIL 22, 2013

EXHIBIT TJB – DT4

Payson Water Company
Proposed Debt Recovery Surcharge - Long-Term Debt
Computation

Exhibit

Line No.			
1			
2	**STEP 1**		
3	[1] Loan Principal	$	1,238,000
4	[2] Interest Rate (annual)[1]		4.20%
5	[3] Term (in years)		20
6	**STEP 2**		
7	[4] Annual Payment Conversion Factor (from Table A)		0.074891
8	[5] Annual Loan Payament [1] x [4]	$	92,715
9	**STEP 3**		
10	[6] Annual Principal Conversion Factor (from Table A)		0.032891
11	[7] Annual Principal Payment [1] x [6]	$	40,719
12	**STEP 4**		
13	[8] Tax Factor (from Schedule A-1)		1.5659
14	[9] Annual Principal Payment plus Taxes [7] X [8]	$	63,762
15	**STEP 5**		
16	[10] Annual Interest Conversion Factor (from Table A)		0.042000
17	[11] Annual Interest Payment [1] x [10]	$	51,996
18	**STEP 6**		
19	[12] Annual Debt Reserve Payment [5] x 20%[2]	$	18,543
20	**STEP 7**		
21	[13]Total Annual Debt Service Revenue Requirement [9] + [11] + [12]	$	134,301
22			
23	**STEP 8**		
24	[14] Number of Current Customers		363
25			

26 Computation of Equivalent 5/8 Inch Meters

27					
28			2012	AWWA Meter	
29		Portion of	Year-end Customers	Flow	Equivalent
30	Meter Size	Anticipated Growth	Mesa Del Caballo	Factor	5/8 Inch Meters
31	5/8 Inch	99.72%	362	1.0	362
32	3/4 Inch	0.28%	1	1.5	2
33	1 Inch	0.00%	-	2.5	-
34	1 1/2 Inch	0.00%	-	5.0	-
35	2 Inch	0.00%	-	8.0	-
36	3 inch	0.00%	-	16.0	-
37	4 Inch	0.00%	-	25.0	-
38	6 Inch	0.00%	-	50.0	-
39	8 Inch	0.00%	-	80.0	-
40	10 Inch	0.00%	-	115.0	-
41	12 Inch	0.00%	-	215.0	-
42	Totals	100.00%	363		364
43					
44	[15] Total Equivalent 5/8 Inch Meters				364
45					
46	**STEP 9**				
47					
48	[16] Annual Detb Service Revenue Requirement =[13]				$ 134,301
49					
50	[17] Annual Debt Recovery Surcharge for Equivalent 5/8 Inch Metered Customer (rounded) [16] / [15]				$ 369
51					
52	[18] Monthly Debt Recovery Surcharge for Equivalent 5/8 Inch Metered Customer before tax (rounded) [17] / 12				$ 30.75
53					
54	**STEP 10**				
55	Debt Recovery Surcharge by Meter Size				
56	Meter Size				
57	5/8 Inch	$	30.75		
58	3/4 Inch	$	46.13	Scaled on 5/8 meter flow	
59	1 Inch	$	76.88	Scaled on 5/8 meter flow	
60	1 1/2 Inch	$	153.75	Scaled on 5/8 meter flow	
61	2 Inch	$	246.00	Scaled on 5/8 meter flow	
62	3 inch	$	492.00	Scaled on 5/8 meter flow	
63	4 Inch	$	768.75	Scaled on 5/8 meter flow	
64	6 Inch	$	1,537.50	Scaled on 5/8 meter flow	
65	8 Inch	$	2,460.00	Scaled on 5/8 meter flow	
66	10 Inch	$	3,536.25	Scaled on 5/8 meter flow	
67	12 Inch	$	6,611.25	Scaled on 5/8 meter flow	
68					

PAYSON WATER CO., INC.

THOMAS J. BOURASSA
DIRECT TESTIMONY

RATE BASE, INCOME STATEMENT AND RATE DESIGN

APRIL 22, 2013

EXHIBIT TJB – DT5

Payson Water Company

Instructions to Calculate the Monthly O&M Recovery Surcharge

Step 1. Determine the Annual O&M Fees to be Recovered
Identify the O&M fees to be recovered.

Step 2. Determine the Number of Equivalent 5/8x3/4 Inch Meters

Multiply the NARUC meter capacity factors by the number of current customers for each size meter on the system. The sum the products of all meter sizes equals the total number of equivalent 5/8x3/4 inch meters. Use the following meter capacity factors

Meter Size	Capacity Factor
5/8x3/4 inch	1.0
¾ inch	1.5
1 inch	2.5
1 ½ inch	5.0
2 inch	8.0
3 inch	15.0
4 inch	25.0
6 inch	50.0

Step 3. Determine the Annual and Monthly O&M Recovery Surcharge for an Equivalent 5/8x3/4 Inch Meter

Make the following calculation to determine the Annual O&M Recovery Surcharge for an Equivalent 5/8x3/4 inch Meter:

Annual O&M Fees to Be Recovered (from Step 1)
(/) divided by total number of equivalent 5/8x3/4 inch meters (from Step 2)
(=) equals the Annual O&M Recovery Surcharge for an Equivalent 5/8x3/4 Inch Meter

Determine the Monthly Debt Recovery Surcharge for an Equivalent 5/8x3/4 inch Meter by making the following calculation:

Annual O&M Recovery Surcharge for an Equivalent 5/8x3/4 Inch Meter
(/) divided by 12
(=) equals Monthly O&M Recovery Surcharge for an Equivalent 5/8x3/4 Inch Meter

Step 4. Determine the Monthly O&M Recovery Surcharge by Meter Size for All Other Meter Sizes.

Multiply the Monthly O&M Recovery Surcharge (from Step 3) by the appropriate NARUC meter capacity factors (found in Step 2) to determine the monthly debt recovery surcharge for all other meter sizes.

PAYSON WATER CO., INC.

THOMAS J. BOURASSA
DIRECT TESTIMONY

RATE BASE, INCOME STATEMENT AND RATE DESIGN

APRIL 22, 2013

EXHIBIT TJB – DT6

Payson Water Company
Proposed O&M Recovery Surcharge
Computation

Exhibit
Page 1

Line No.			
1	**STEP 1**		
2	[1] Total O&M fees to be recovered	$	65,000
3			
4	**STEP 2**		
5	Number of Current Customers		363
6			
7	Computation of Equivalent 5/8 Inch Meters		

Line No.	Meter Size	Portion of Anticipated Growth	Year-end Customers Mesa Del Caballo	AWWA Meter Flow Factor	Equivalent 5/8 Inch Meters
12	5/8 Inch	99.72%	362	1.0	362
13	3/4 Inch	0.28%	1	1.5	2
14	1 Inch	0.00%	-	2.5	-
15	1 1/2 Inch	0.00%	-	5.0	-
16	2 Inch	0.00%	-	8.0	-
17	3 inch	0.00%	-	16.0	-
18	4 Inch	0.00%	-	25.0	-
19	6 Inch	0.00%	-	50.0	-
20	8 Inch	0.00%	-	80.0	-
21	10 Inch	0.00%	-	115.0	-
22	12 Inch	0.00%	-	215.0	-
23	Totals	100.00%	363		364

Line No.			
25	[2] Total Equivalent 5/8 Inch Meters		364
26			
27	**STEP 3**		
28	[3] Annual Costs Expected to be Funded by Surcharge = [1]	$	65,000
29			
30	[4] Annual Surcharge for Equivalent 5/8 Inch Metered Customer ([3] / [2]	$	178.82
31			
32	[5] Monthly Surcharge for Equivalent 5/8 Inch Metered Customer (rounded) ([4] / 12	$	14.90
33			
34	**STEP 4**		
35	O&M Recovery Surcharge by Meter Size		

Line No.	Meter Size			
37	5/8 Inch	$	14.90	[5]
38	3/4 Inch	$	22.35	Scaled on 5/8 meter flow
39	1 Inch	$	37.25	Scaled on 5/8 meter flow
40	1 1/2 Inch	$	74.51	Scaled on 5/8 meter flow
41	2 Inch	$	119.21	Scaled on 5/8 meter flow
42	3 inch	$	238.43	Scaled on 5/8 meter flow
43	4 Inch	$	372.54	Scaled on 5/8 meter flow
44	6 Inch	$	745.08	Scaled on 5/8 meter flow
45	8 Inch	$	1,192.13	Scaled on 5/8 meter flow
46	10 Inch	$	1,713.69	Scaled on 5/8 meter flow
47	12 Inch	$	3,203.86	Scaled on 5/8 meter flow

Line No.	Customer Monthly Bill Impact	Current Mon. Bill	Mon. Surcharge	Total Mon.Bill	% Increase
50	5/8 Inch metered customer at average use of 9,264 gals.	$ 30.21	$ 14.90	$ 45.11	49.33%

Payson Water Company
Proposed O&M Recovery Surcharge
Computation

Exhibit
Page 2

Line No.			
1	**STEP 1**		
2	[1] Total O&M fees to be recovered	$	80,000
3			
4	**STEP 2**		
5	Number of Current Customers		363
6			
7	Computation of Equivalent 5/8 Inch Meters		

	Meter Size	Portion of Anticipated Growth	Year-end Customers Mesa Del Caballo	AWWA Meter Flow Factor	Equivalent 5/8 Inch Meters
12	5/8 Inch	99.72%	362	1.0	362
13	3/4 Inch	0.28%	1	1.5	2
14	1 Inch	0.00%	-	2.5	-
15	1 1/2 Inch	0.00%	-	5.0	-
16	2 Inch	0.00%	-	8.0	-
17	3 inch	0.00%	-	16.0	-
18	4 Inch	0.00%	-	25.0	-
19	6 Inch	0.00%	-	50.0	-
20	8 Inch	0.00%	-	80.0	-
21	10 Inch	0.00%	-	115.0	-
22	12 Inch	0.00%	-	215.0	-
23	Totals	100.00%	363		364

24			
25	[2] Total Equivalent 5/8 Inch Meters		364
26			
27	**STEP 3**		
28	[3] Annual Costs Expected to be Funded by Surcharge = [1]	$	80,000
29			
30	[4] Annual Surcharge for Equivalent 5/8 Inch Metered Customer ([3] / [2]	$	220.08
31			
32	[5] Monthly Surcharge for Equivalent 5/8 Inch Metered Customer (rounded) ([4] / 12	$	18.34
33			
34	**STEP 4**		
35	O&M Recovery Surcharge by Meter Size		

36	Meter Size			
37	5/8 Inch	$	18.34	[5]
38	3/4 Inch	$	27.51	Scaled on 5/8 meter flow
39	1 Inch	$	45.85	Scaled on 5/8 meter flow
40	1 1/2 Inch	$	91.70	Scaled on 5/8 meter flow
41	2 Inch	$	146.72	Scaled on 5/8 meter flow
42	3 inch	$	293.44	Scaled on 5/8 meter flow
43	4 Inch	$	458.50	Scaled on 5/8 meter flow
44	6 Inch	$	917.00	Scaled on 5/8 meter flow
45	8 Inch	$	1,467.20	Scaled on 5/8 meter flow
46	10 Inch	$	2,109.10	Scaled on 5/8 meter flow
47	12 Inch	$	3,943.10	Scaled on 5/8 meter flow
48				

49	Customer Monthly Bill Impact	Current Mon. Bill	Mon. Surcharge	Total Mon.Bill	% Increase
50	5/8 Inch metered customer at average use of 9,264 gals.	$ 30.21	$ 18.34	$ 48.55	60.71%

51
51
52
53
54
55

PAYSON WATER CO., INC.

THOMAS J. BOURASSA
DIRECT TESTIMONY

RATE BASE, INCOME STATEMENT AND RATE DESIGN

APRIL 22, 2013

SCHEDULES

Payson Water Company
Test Year Ended December 31, 2012
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Schedule A-1
Page 1
Witness: Bourassa

Line No.			
1	Fair Value Rate Base	$	659,457
2			
3	Adjusted Operating Income		(182,479)
4			
5	Current Rate of Return		-27.67%
6			
7	Required Operating Income	$	72,540
8			
9	Required Rate of Return on Fair Value Rate Base		11.00%
10			
11	*Operating Income Deficiency*	$	255,020
12			
13	Gross Revenue Conversion Factor		1.5677
14			
15	Increase in Gross Revenue		
16	Requirement	$	399,785
17			
18	Adjusted Test Year Revenues	$	320,525
19	Increase in Gross Revenue Revenue Requirement	$	399,785
20	Proposed Revenue Requirement	$	720,310
21	% Increase		124.73%
22			

23	**Customer**		**Present**		**Proposed**		**Dollar**	**Percent**
24	**Classification**		**Rates**		**Rates**		**Increase**	**Increase**
25	5/8x3/4 Inch US	$	287,143	$	632,117	$	344,974	120.14%
26	5/8x3/4 Inch C&S		52,037		136,187		84,150	161.71%
27	3/4 Inch US		1,860		4,510		2,650	142.51%
28	1 Inch US		7,430		28,660		21,229	285.72%
29	1 Inch C&S		566		2,862		2,296	405.40%
30								
31	Revenue Annualization		(36,021)		(91,013)		(54,992)	152.67%
32	**Subtotal**	$	313,015	$	713,323	$	400,308	127.89%
33								
34	Other Water Revenues		6,966		6,966		-	0.00%
35	Reconciling Amount		544		21		(523)	-96.14%
36							-	0.00%
37	**Total of Water Revenues**	$	320,525	$	720,310	$	399,785	124.73%
38								
39								
40								
41	SUPPORTING SCHEDULES:							
42	B-1							
43	C-1							
44	C-3							
45	H-1							

Payson Water Company
Test Year Ended December 31, 2012
Summary of Results of Operations

Exhibit
Schedule A-2
Page 1
Witness: Bourassa

Line No.	Description	Prior Years Ended 12/31/2010	Prior Years Ended 12/31/2011	Test Year Actual 12/31/2012	Test Year Adjusted 12/31/2012	Projected Year Present Rates 12/31/2013	Projected Year Proposed Rates 12/31/2013
1	Gross Revenues	$ 447,464	$ 497,039	$ 394,908	$ 320,525	$ 320,525	$ 720,310
3	Revenue Deductions and Operating Expenses	558,716	589,763	591,309	503,004	503,004	647,770
6	Operating Income	$ (111,252)	$ (92,724)	$ (196,401)	$ (182,479)	$ (182,479)	$ 72,540
8	Other Income and Deductions	(516,000)	(650)	756,319	-	-	-
11	Interest Expense	(23)	(10)	(14)	-	-	-
13	Net Income	$ (627,275)	$ (93,384)	$ 559,904	$ (182,479)	$ (182,479)	$ 72,540
15	Common Shares	1,000	1,000	1,000	1,000	1,000	1,000
17	Earned Per Average Common Share	(627.28)	(93.38)	559.90	(182.48)	(182.48)	72.54
20	Dividends Paid	-	-	-	-	-	-
22	Dividends Per Common Share	-	-	-	-	-	-
25	Payout Ratio	-	-	-	-	-	-
27	Return on Average Invested Capital	-46.24%	-8.41%	51.51%	-15.64%	-15.43%	6.13%
30	Return on Year End Capital	-54.94%	-8.64%	51.19%	-15.64%	-15.23%	6.06%
33	Return on Average Common Equity	-77.38%	-20.74%	81.90%	-58.41%	-20.92%	7.26%
36	Return on Year End Common Equity	-126.20%	-23.13%	58.11%	-82.50%	-23.36%	7.00%
39	Times Bond Interest Earned Before Income Taxes	-	-	-	-	-	-
42	Times Total Interest and Preferred Dividends Earned After Income Taxes	-	-	-	-	-	-

50 SUPPORTING SCHEDULES
51 C-1
52 E-2
53 F-1
54

Payson Water Company
Test Year Ended December 31, 2012
Summary of Capital Structure

Exhibit
Schedule A-3
Page 1
Witness: Bourassa

Line No.	Description:	Prior Years Ended 12/31/2010	Prior Years Ended 12/31/2011	Test Year 12/31/2012	Projected Year 12/31/2013
1					
2					
3	Short-Term Debt	-	-	-	-
3					
4	Long-Term Debt	-	-	-	-
5					
6	Total Debt	$ -	$ -	$ -	$ -
7					
8					
9	Preferred Stock	-	-	-	-
10					
11	Common Equity	497,039	403,655	963,559	781,080
12					
13					
14	Total Capital & Debt	$ 497,039	$ 403,655	$ 963,559	$ 781,080
15					
16					
17	Capitalization Ratios:				
18					
19	Long-Term Debt	0.00%	0.00%	0.00%	0.00%
20					
21	Total Debt	0.00%	0.00%	0.00%	0.00%
22					
23					
24	Preferred Stock	-	-	-	-
25					
26	Common Equity	100.00%	100.00%	100.00%	100.00%
27					
28					
29	Total Capital	100.00%	100.00%	100.00%	100.00%
30					
31					
32	Weighted Cost of				
33	Senior Capital	0.00%	0.00%	0.00%	0.00%
34					
35					
36					
37					
38					
39					
40					
41					
42					
43					
44					
45	SUPPORTING SCHEDULES:				
46	E-1				
47	D-1				
48					
49					
50					

Payson Water Company
Test Year Ended December 31, 2012
Construction Expenditures
and Gross Utility Plant in Service

Exhibit
Schedule A-4
Page 1
Witness: Bourassa

Line No.		Construction Expenditures	Net Plant Placed in Service	Gross Utility Plant in Service
1				
2				
3				
4	Prior Year Ended 12/31/2010	189,771	189,771	2,707,142
5				
6	Prior Year Ended 12/31/2011	25,142	18,996	2,726,138
7				
8	Test Year Ended 12/31/2012	(246,433)	(566,751)	2,159,387
9				
10	Projected Year Ended 12/31/2013	116,400	116,400	2,275,787
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34	SUPPORTING SCHEDULES:			
35	B-2			
36	E-5			
37	F-3			
38				
39				
40				

Payson Water Company
Test Year Ended December 31, 2012
Summary Statements of Cash Flows

Exhibit
Schedule A-5
Page 1
Witness: Bourassa

Line No.		Prior Year Ended 12/31/2010	Prior Year Ended 12/31/2011	Test Year Ended 12/31/2012	Projected Year Present Rates 12/31/2013	Projected Year Proposed Rates 12/31/2013
5	Cash Flows from Operating Activities					
6	Net Income	$ (627,275)	$ (93,384)	$ 559,904	$ (182,479)	$ 72,540
7	Adjustments to reconcile net income to net cash					
8	provided by operating activities:					
9	Depreciation and Amortization	48,853	57,181	68,142	85,632	85,632
10	Other -Adjustments	2	(2)	4,529		
11	Changes in Certain Assets and Liabilities:					
12	Accounts Receivable	-	-	-		
13	Unbilled Revenues	-	-	-		
14	Materials and Supplies Inventory	-	-	-		
15	Prepaid Expenses	-	-	-		
16	Deferred Charges	-	-	-		
17	Notes Receivable	238,213	74,089	(637,794)		
18	Accounts Payable	-	-	(20)		
19	Intercompany payable	-	-	-		
20	Customer Meter Deposits	-	-	-		
21	Taxes Payable	529,978	(12,742)	(542)		
22	Other assets and liabilities	-	-	-		
23	Rounding	-	-	-		
24	Net Cash Flow provided by Operating Activities	$ 189,771	$ 25,142	$ (5,781)	$ (96,848)	$ 158,172
25	Cash Flow From Investing Activities:					
26	Capital Expenditures	(189,771)	(25,142)	246,433	(116,400)	(116,400)
27	Plant Held for Future Use	-	-	-		
28	Changes in debt reserve fund	-	-	-		
29	Net Cash Flows from Investing Activities	$ (189,771)	$ (25,142)	$ 246,433	$ (116,400)	$ (116,400)
30	Cash Flow From Financing Activities					
31	Change in Restricted Cash	-	-	-		
32	Proceeds from Long-Term Debt	-	-	-		
33	Net receipt of contributions in aid of construction	-	-	(158,270)	-	-
34	Net receipts of advances in aid of construction	-	-	(82,382)	-	-
35	Repayments of Long-Term Debt	-	-	-	-	-
36	Distributions/Dividends Paid	-	-	-	-	-
37	Deferred Financing Costs	-	-	-	-	-
38	Paid in Capital	-	-	-	-	-
39	Net Cash Flows Provided by Financing Activities	$ -	$ -	$ (240,652)	$ -	$ -
40	Increase(decrease) in Cash and Cash Equivalents	-	-	-	(213,248)	41,772
41	Cash and Cash Equivalents at Beginning of Year	-	-	-	-	-
42	Cash and Cash Equivalents at End of Year	$ -	$ -	$ -	$ (213,248)	$ 41,772

47 SUPPORTING SCHEDULES:
48 E-3
49 F-2

Payson Water Company
Test Year Ended December 31, 2012
Summary of Rate Base

Exhibit
Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 2,159,387	$ 2,159,387
3	Less: Accumulated Depreciation	1,332,825	1,332,825
4			
5	Net Utility Plant in Service	$ 826,561	$ 826,561
6			
7	Less:		
8	Advances in Aid of Construction	-	-
9			
10	Contributions in Aid of Construction	375,036	375,036
11			
12	Accumulated Amortization of CIAC	(231,270)	(231,270)
13			
14	Customer Meter Deposits	-	-
15	Deferred Income Taxes & Credits	23,339	23,339
16			
17			
18			
19	Plus:		
20	Unamortized Finance		
21	Charges	-	-
22	Prepayments	-	-
23	Materials and Supplies	-	-
24	Allowance for Working Capital	-	-
25			
26			
27			
28	Total Rate Base	$ 659,457	$ 659,457
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			
41			
42			
43	SUPPORTING SCHEDULES:		
44	B-2		
45	B-3		
46	B-5		
47	E-1		
48			
49			
50			
51			
52			

Payson Water Company
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments

Exhibit
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	$ 2,159,387	-	$ 2,159,387
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	1,419,514	(86,688)	1,332,825
7				
8				
9	Net Utility Plant			
10	in Service	$ 739,873		$ 826,561
11				
12	**Less:**			
13	Advances in Aid of			
14	Construction	-	-	-
15				
16	Contributions in Aid of			
17	Construction - Gross	375,036	(0)	375,036
18				
19	Accumulated Amortization of CIAC	(260,099)	28,829	(231,270)
20				
21	Customer Meter Deposits	-		-
22	Accumulated Deferred Income Tax	-	23,339	23,339
23				-
24				-
25				
26	**Plus:**			
27	Unamortized Finance			
28	Charges	-	-	-
29	Prepayments	-	-	-
30	Materials and Supplies	-	-	-
31	Working capital	-	-	-
32				-
33				
34	Total	$ 624,936		$ 659,457
35				
36				
37				
38				
39				
40				
41				
42				
43				
44				
45	SUPPORTING SCHEDULES:			RECAP SCHEDULES:
46	B-2, pages 2			B-1
47	E-1			
48				
49				
50				

Payson Water Company
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments

Exhibit
Schedule B-2
Page 2
Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Adjustments 1 Plant-in-Service	2 Accumulated Depreciation	3 CIAC	4 ADIT	5 Intentionally Left Blank	Adjusted at end of Test Year
1	Gross Utility							
2	Plant in Service	$ 2,159,387	-					$ 2,159,387
3								
4	**Less:**							
5	Accumulated							
6	Depreciation	1,419,514		(86,688)				1,332,825
7								
8								
9	Net Utility Plant							
10	in Service	$ 739,873	$ -	$ 86,688	$ -	$ -	$ -	$ 826,561
11								
12	**Less:**							
13	Advances in Aid of							
14	Construction	-						-
15								
16	Contributions in Aid of							
17	Construction (CIAC)	375,036			(0)			375,036
18								
19	Accumulated Amort of CIAC	(260,099)			28,829			(231,270)
20								
21	Customer Meter Deposits	-						-
22	Accumulated Deferred Income Taxes	-				23,339		23,339
23								
24								
25	**Plus:**							
26	Unamortized Finance							
27	Charges	-						-
28	Prepayments	-						-
29	Materials and Supplies	-						-
30	Allowance for Cash Working Capital	-			-			-
31								
32	Total	$ 624,936	$ -	$ 86,688	$ (28,829)	$ (23,339)	$ -	$ 659,457
33								
34								
35								
36	SUPPORTING SCHEDULES:						RECAP SCHEDULES:	
37	B-2, pages 3-5						B-1	
38	E-1							
39								
40								

Payson Water Company
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1

Exhibit
Schedule B-2
Page 3
Witness: Bourassa

Plant-in-Service

Line No.	Acct. No.	Description	Actual Orginal Cost	A Difference to Reconstruction	B Intentionally Left Blank	C Intentionally Left Blank	D Intentionally Left Blank	E Intentionally Left Blank	Adjusted Original Cost
1				Adjustments					
6	301	Organization Cost	221	-					221
7	302	Franchise Cost	-	-					-
8	303	Land and Land Rights	16,500	-					16,500
9	304	Structures and Improvements	300,078	-					300,078
10	305	Collecting and Impounding Res.	2,531	-					2,531
11	306	Lake River and Other Intakes	-	-					-
12	307	Wells and Springs	273,013	-					273,013
13	308	Infiltration Galleries and Tunnels	-	-					-
14	309	Supply Mains	3,681	-					3,681
15	310	Power Generation Equipment	8,310	-					8,310
16	311	Electric Pumping Equipment	217,608	-					217,608
17	320	Water Treatment Equipment	10,567	-					10,567
18	320.1	Water Treatment Plant	-	-					-
19	320.2	Chemical Solution Feeders	-	-					-
20	330	Dist. Reservoirs & Standpipe	273,800	-					273,800
21	330.1	Storage tanks	-	-					-
22	330.2	Pressure Tanks	-	-					-
23	331	Trans. and Dist. Mains	439,972	-					439,972
24	333	Services	81,823	-					81,823
25	334	Meters	199,952	-					199,952
26	335	Hydrants	1,171	-					1,171
27	336	Backflow Prevention Devices	-	-					-
28	339	Other Plant and Misc. Equip.	320,820	-					320,820
29	340	Office Furniture and Fixtures	-	-					-
30	340.1	Computers and Software	-	-					-
31	341	Transportation Equipment	-	-					-
32	342	Stores Equipment	-	-					-
33	343	Tools and Work Equipment	72	-					72
34	344	Laboratory Equipment	-	-					-
35	345	Power Operated Equipment	-	-					-
36	346	Communications Equipment	9,267	-					9,267
37	347	Miscellaneous Equipment	-	-					-
38	348	Other Tangible Plant	-	-					-
39		Plant Held for Future Use							-
40		TOTALS	$ 2,159,387	$ -	$ -	$ -	$ -	$ -	$ 2,159,387
41									
42	Plant-in-Service per Books								$ 2,159,387
43									
44	Increase (decrease) in Plant-in-Service								$ -
45									
46	Adjustment to Plant-in-Service								$ -
47									
48	SUPPORTING SCHEDULES								
49	B-2, pages 3.1								
50									

Payson Water Company
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 -A

Exhibit
Schedule B-2
Page 3.1
Witness: Bourassa

Line No.	Acct. No.	Description	Recorded Orginal Cost	Plant Per Reconstruction	Difference
1					
2					
3					
4					
5					
6	301	Organization Cost	221	221	-
7	302	Franchise Cost	-	-	-
8	303	Land and Land Rights	16,500	16,500	-
9	304	Structures and Improvements	300,078	300,078	-
10	305	Collecting and Impounding Res.	2,531	2,531	-
11	306	Lake River and Other Intakes	-	-	-
12	307	Wells and Springs	273,013	273,013	-
13	308	Infiltration Galleries and Tunnels	-	-	-
14	309	Supply Mains	3,681	3,681	-
15	310	Power Generation Equipment	8,310	8,310	-
16	311	Electric Pumping Equipment	217,608	217,608	-
17	320	Water Treatment Equipment	10,567	10,567	-
18	320.1	Water Treatment Plant	-	-	-
19	320.2	Chemical Solution Feeders	-	-	-
20	330	Dist. Reservoirs & Standpipe	273,800	273,800	-
21	330.1	Storage tanks	-	-	-
22	330.2	Pressure Tanks	-	-	-
23	331	Trans. and Dist. Mains	439,972	439,972	-
24	333	Services	81,823	81,823	-
25	334	Meters	199,952	199,952	-
26	335	Hydrants	1,171	1,171	-
27	336	Backflow Prevention Devices	-	-	-
28	339	Other Plant and Misc. Equip.	320,820	320,820	-
29	340	Office Furniture and Fixtures	-	-	-
30	340.1	Computers and Software	-	-	-
31	341	Transportation Equipment	-	-	-
32	342	Stores Equipment	-	-	-
33	343	Tools and Work Equipment	72	72	-
34	344	Laboratory Equipment	-	-	-
35	345	Power Operated Equipment	-	-	-
36	346	Communications Equipment	9,267	9,267	-
37	347	Miscellaneous Equipment	-	-	-
38	348	*Other Tangible Plant*	-	-	-
39		Plant Held for Future Use			-
40		TOTALS	$ 2,159,387	$ 2,159,387	$ -
41					
42					
43	SUPPORTING SCHEDULE				
44	B-2, pages 3.2 - 3.17				
45					

Payson Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.2
Witness: Boura:

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate Before	Allowed Deprec. Rate After[1]	Per Decision 62320 Order Plant at 6/30/1998	Per Decision 62320 Accum. Deprec. At 6/30/1998	Per Decision 62401 Order Plant at 6/30/1998	Per Decision 62401 Accum. Deprec. At 6/30/1998	Per Decisions 62320 & 62401 Plant at 6/30/1998	Per Decisions 62320 & 62401 Accum. Deprec. At 6/30/1998
1	301	Organization Cost	0.00%	0.00%	300				300	-
2	302	Franchise Cost	0.00%	0.00%					-	-
3	303	Land and Land Rights	0.00%	0.00%	4,000		25,566		29,566	-
4	304	Structures & Improvements	5.00%	3.18%	275	163	265,810	98,799	266,085	98,961
5	305	Collecting & Impounding Reservoirs	5.00%	3.18%					-	-
6	306	Lake, River, Canal Intakes	5.00%	3.18%					-	-
7	307	Wells & Springs	5.00%	3.18%	4,000	2,367	448,232	166,603	452,232	168,970
8	308	Infiltration Galleries	5.00%	3.18%					-	-
9	309	Raw Water Supply Mains	5.00%	3.18%					-	-
10	310	Power Generation Equipment	5.00%	3.18%					-	-
11	311	Pumping Equipment	5.00%	3.18%	11,615	6,873	157,874	58,680	169,489	65,553
12	320	Water Treatment Equipment	5.00%	3.18%	869	514	4,663	1,733	5,532	2,247
13	320.1	Water Treatment Plants	5.00%	3.18%					-	-
14	320.2	Solution Chemical Feeders	5.00%	3.18%					-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	3.18%	10,384	6,144	322,244	119,775	332,628	125,919
16	330.1	Storage Tanks	5.00%	3.18%					-	-
17	330.2	Pressure Tanks	5.00%	3.18%					-	-
18	331	Transmission & Distribution Mains	5.00%	3.18%	58,515	34,624	641,234	238,340	699,749	272,964
19	333	Services	5.00%	3.18%	13,925	8,240	132,857	49,382	146,782	57,621
20	334	Meters	5.00%	3.18%	11,741	6,947	115,170	42,807	126,911	49,755
21	335	Hydrants	5.00%	3.18%					-	-
22	336	Backflow Prevention Devices	5.00%	3.18%					-	-
23	339	Other Plant & Misc Equipment	5.00%	3.18%			569,795	211,787	569,795	211,787
24	340	Office Furniture & Equipment	5.00%	3.18%					-	-
25	340.1	Computers & Software	5.00%	3.18%					-	-
26	341	Transportation Equipment	5.00%	3.18%					-	-
27	342	Stores Equipment	5.00%	3.18%					-	-
28	343	Tools, Shop & Garage Equipment	5.00%	3.18%					-	-
29	344	Laboratory Equipment	5.00%	3.18%					-	-
30	345	Power Operated Equipment	5.00%	3.18%					-	-
31	346	Communication Equipment	5.00%	3.18%					-	-
32	347	Miscellaneous Equipment	5.00%	3.18%					-	-
33	348	Other Tangible Plant	5.00%	3.18%					-	-
34									-	-
35										
36		TOTALS			115,624	65,872	2,683,445	987,905	2,799,069	1,053,777

[1] Weighted average rate of United Utilities and C&S Water

Payson Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.3
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate Before	Allowed Deprec. Rate After[1]	1998 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	0.00%			-			-	300	-
2	302	Franchise Cost	0.00%	0.00%			-			-	-	-
3	303	Land and Land Rights	0.00%	0.00%			-			-	29,566	-
4	304	Structures & Improvements	5.00%	3.18%			-			6,652	266,085	105,614
5	305	Collecting & Impounding Reservoirs	5.00%	3.18%			-			-	-	-
6	306	Lake, River, Canal Intakes	5.00%	3.18%			-			-	-	-
7	307	Wells & Springs	5.00%	3.18%			-			11,306	452,232	180,276
8	308	Infiltration Galleries	5.00%	3.18%			-			-	-	-
9	309	Raw Water Supply Mains	5.00%	3.18%			-			-	-	-
10	310	Power Generation Equipment	5.00%	3.18%			-			-	-	-
11	311	Pumping Equipment	5.00%	3.18%			-			4,237	169,489	69,790
12	320	Water Treatment Equipment	5.00%	3.18%			-			138	5,532	2,386
13	320.1	Water Treatment Plants	5.00%	3.18%			-			-	-	-
14	320.2	*Solution Chemical Feeders*	5.00%	3.18%			-			-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	3.18%			-			8,316	332,628	134,235
16	330.1	Storage Tanks	5.00%	3.18%			-			-	-	-
17	330.2	Pressure Tanks	5.00%	3.18%			-			-	-	-
18	331	Transmission & Distribution Mains	5.00%	3.18%			-			17,494	699,749	290,458
19	333	Services	5.00%	3.18%			-			3,670	146,782	61,291
20	334	Meters	5.00%	3.18%			-			3,173	126,911	52,928
21	335	Hydrants	5.00%	3.18%			-			-	-	-
22	336	Backflow Prevention Devices	5.00%	3.18%			-			-	-	-
23	339	Other Plant & Misc Equipment	5.00%	3.18%			-			14,245	569,795	226,032
24	340	Office Furniture & Equipment	5.00%	3.18%			-			-	-	-
25	340.1	Computers & Software	5.00%	3.18%			-			-	-	-
26	341	Transportation Equipment	5.00%	3.18%			-			-	-	-
27	342	Stores Equipment	5.00%	3.18%			-			-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	3.18%			-			-	-	-
29	344	Laboratory Equipment	5.00%	3.18%			-			-	-	-
30	345	Power Operated Equipment	5.00%	3.18%			-			-	-	-
31	346	Communication Equipment	5.00%	3.18%			-			-	-	-
32	347	Miscellaneous Equipment	5.00%	3.18%			-			-	-	-
33	348	Other Tangible Plant	5.00%	3.18%			-			-	-	-
34							-			-	-	-
35												
36		TOTALS			-	-	-	-	-	69,230	2,799,069	1,123,007

[1] Weighted average rate of United Utilities and C&S Water

Payson Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.4
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate Before	Allowed Deprec. Rate After[1]	1999 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	0.00%			-			-	300	-
2	302	Franchise Cost	0.00%	0.00%			-			-	-	-
3	303	Land and Land Rights	0.00%	0.00%			-			-	29,566	-
4	304	Structures & Improvements	5.00%	3.18%			-			13,304	266,085	118,918
5	305	Collecting & Impounding Reservoirs	5.00%	3.18%			-			-	-	-
6	306	Lake, River, Canal Intakes	5.00%	3.18%			-			-	-	-
7	307	Wells & Springs	5.00%	3.18%			-			22,612	452,232	202,887
8	308	Infiltration Galleries	5.00%	3.18%			-			-	-	-
9	309	Raw Water Supply Mains	5.00%	3.18%			-			-	-	-
10	310	Power Generation Equipment	5.00%	3.18%			-			-	-	-
11	311	Pumping Equipment	5.00%	3.18%			-			8,474	169,489	78,265
12	320	Water Treatment Equipment	5.00%	3.18%			-			277	5,532	2,662
13	320.1	Water Treatment Plants	5.00%	3.18%			-			-	-	-
14	320.2	Solution Chemical Feeders	5.00%	3.18%			-			-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	3.18%			-			16,631	332,628	150,866
16	330.1	Storage Tanks	5.00%	3.18%			-			-	-	-
17	330.2	Pressure Tanks	5.00%	3.18%			-			-	-	-
18	331	Transmission & Distribution Mains	5.00%	3.18%			-			34,987	699,749	325,445
19	333	Services	5.00%	3.18%			-			7,339	146,782	68,630
20	334	Meters	5.00%	3.18%			-			6,346	126,911	59,273
21	335	Hydrants	5.00%	3.18%			-			-	-	-
22	336	Backflow Prevention Devices	5.00%	3.18%			-			-	-	-
23	339	Other Plant & Misc Equipment	5.00%	3.18%			-			28,490	569,795	254,521
24	340	Office Furniture & Equipment	5.00%	3.18%			-			-	-	-
25	340.1	Computers & Software	5.00%	3.18%			-			-	-	-
26	341	Transportation Equipment	5.00%	3.18%			-			-	-	-
27	342	Stores Equipment	5.00%	3.18%			-			-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	3.18%			-			-	-	-
29	344	Laboratory Equipment	5.00%	3.18%			-			-	-	-
30	345	Power Operated Equipment	5.00%	3.18%			-			-	-	-
31	346	Communication Equipment	5.00%	3.18%			-			-	-	-
32	347	Miscellaneous Equipment	5.00%	3.18%			-			-	-	-
33	348	Other Tangible Plant	5.00%	3.18%			-			-	-	-
34							-			-	-	-
35												
36		TOTALS			-	-	-	-	-	138,460	2,799,069	1,261,467

[1] Weighted average rate of United Utilities and C&S Water

Payson Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.5
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate Before	Allowed Deprec. Rate After[1]	2000 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Sale/Transfer of Assets	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	0.00%	-		-				-	300	-
2	302	Franchise Cost	0.00%	0.00%			-				-	-	-
3	303	Land and Land Rights	0.00%	0.00%			-		(7,175)		-	22,391	-
4	304	Structures & Improvements	5.00%	3.18%			-		(71,733)	(38,532)	8,368	194,352	88,754
5	305	Collecting & Impounding Reservoirs	5.00%	3.18%			-				-	-	-
6	306	Lake, River, Canal Intakes	5.00%	3.18%			-				-		
7	307	Wells & Springs	5.00%	3.18%			-		(124,796)	(65,398)	14,170	327,436	151,660
8	308	Infiltration Galleries	5.00%	3.18%			-				-	-	-
9	309	Raw Water Supply Mains	5.00%	3.18%	495		495				9	495	14
10	310	Power Generation Equipment	5.00%	3.18%	6,793		6,793				123	6,793	407
11	311	Pumping Equipment	5.00%	3.18%			-		(29,223)	(23,032)	5,630	140,266	60,862
12	320	Water Treatment Equipment	5.00%	3.18%	1,751		1,751				233	7,283	2,314
13	320.1	Water Treatment Plants	5.00%	3.18%			-				-		
14	320.2	Solution Chemical Feeders	5.00%	3.18%			-				-		
15	330	Distribution Reservoirs & Standpipes	5.00%	3.18%			-		(52,367)	(47,035)	11,139	280,261	114,970
16	330.1	Storage Tanks	5.00%	3.18%			-				-		
17	330.2	Pressure Tanks	5.00%	3.18%			-				-		
18	331	Transmission & Distribution Mains	5.00%	3.18%			-		(145,056)	(94,460)	22,799	554,693	253,784
19	333	Services	5.00%	3.18%			-		(37,285)	(19,942)	4,658	109,497	53,346
20	334	Meters	5.00%	3.18%	35,491		35,491				5,258	162,402	50,267
21	335	Hydrants	5.00%	3.18%	1,589		1,589				29	1,589	172
22	336	Backflow Prevention Devices	5.00%	3.18%			-				-		
23	339	Other Plant & Misc Equipment	5.00%	3.18%			-		(159,906)	(82,907)	17,806	409,889	189,420
24	340	Office Furniture & Equipment	5.00%	3.18%			-				-		-
25	340.1	Computers & Software	5.00%	3.18%			-				-		-
26	341	Transportation Equipment	5.00%	3.18%			-				-	-	-
27	342	Stores Equipment	5.00%	3.18%			-				-		-
28	343	Tools, Shop & Garage Equipment	5.00%	3.18%			-				-	-	-
29	344	Laboratory Equipment	5.00%	3.18%			-				-		-
30	345	Power Operated Equipment	5.00%	3.18%			-				-	-	-
31	346	Communication Equipment	5.00%	3.18%			-				-	-	-
32	347	Miscellaneous Equipment	5.00%	3.18%			-				-		-
33	348	Other Tangible Plant	5.00%	3.18%			-				-	-	-
34							-				-	-	-
35													
36		TOTALS			46,119	-	46,119	-	(627,540)	(371,306)	90,224	2,217,648	965,972

[1] Weighted average rate of United Utilities and C&S Water

Payson Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.6
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate Before	Allowed Deprec. Rate After[1]	2001 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	0.00%	-		-	-		-	300	-
2	302	Franchise Cost	0.00%	0.00%	-		-	-		-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-		-	-		-	22,391	-
4	304	Structures & Improvements	5.00%	3.18%	-		-	-		6,180	194,352	94,934
5	305	Collecting & Impounding Reservoirs	5.00%	3.18%	-		-	-		-	-	-
6	306	Lake, River, Canal Intakes	5.00%	3.18%			-			-	-	-
7	307	Wells & Springs	5.00%	3.18%	12,930		12,930	-		10,618	340,366	162,278
8	308	Infiltration Galleries	5.00%	3.18%	-		-	-		-	-	-
9	309	Raw Water Supply Mains	5.00%	3.18%	-		-	-		16	495	30
10	310	Power Generation Equipment	5.00%	3.18%	-		-	-		216	6,793	623
11	311	Pumping Equipment	5.00%	3.18%	17,395		17,395	-		4,737	157,660	65,599
12	320	Water Treatment Equipment	5.00%	3.18%	3,504		3,504	-		287	10,786	2,602
13	320.1	Water Treatment Plants	5.00%	3.18%			-			-	-	-
14	320.2	Solution Chemical Feeders	5.00%	3.18%			-			-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	3.18%	24,296		24,296	-		9,299	304,557	124,269
16	330.1	Storage Tanks	5.00%	3.18%			-			-	-	-
17	330.2	Pressure Tanks	5.00%	3.18%			-			-	-	-
18	331	Transmission & Distribution Mains	5.00%	3.18%	15,791		15,791	-		17,890	570,484	271,675
19	333	Services	5.00%	3.18%	-		-	-		3,482	109,497	56,828
20	334	Meters	5.00%	3.18%	11,723		11,723	-		5,351	174,124	55,618
21	335	Hydrants	5.00%	3.18%	-		-	-		51	1,589	222
22	336	Backflow Prevention Devices	5.00%	3.18%			-			-	-	-
23	339	Other Plant & Misc Equipment	5.00%	3.18%	-		-	-		13,034	409,889	202,455
24	340	Office Furniture & Equipment	5.00%	3.18%			-			-	-	-
25	340.1	Computers & Software	5.00%	3.18%			-			-	-	-
26	341	Transportation Equipment	5.00%	3.18%	-		-	-		-	-	-
27	342	Stores Equipment	5.00%	3.18%			-			-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	3.18%	-		-	-		-	-	-
29	344	Laboratory Equipment	5.00%	3.18%			-			-	-	-
30	345	Power Operated Equipment	5.00%	3.18%	-		-	-		-	-	-
31	346	Communication Equipment	5.00%	3.18%	-		-	-		-	-	-
32	347	Miscellaneous Equipment	5.00%	3.18%			-			-	-	-
33	348	Other Tangible Plant	5.00%	3.18%	-		-	-		-	-	-
34							-			-	-	-
35												
36		TOTALS			85,638	-	85,638	-	-	71,161	2,303,285	1,037,133

[1] Weighted average rate of United Utilities and C&S Water

Payson Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.7
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate Before	Allowed Deprec. Rate After[1]	2002 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	0.00%	-		-	-		-	300	-
2	302	Franchise Cost	0.00%	0.00%	-		-	-		-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-		-	-		-	22,391	-
4	304	Structures & Improvements	5.00%	3.18%	-		-	-		6,180	194,352	101,115
5	305	Collecting & Impounding Reservoirs	5.00%	3.18%	-		-	-		-	-	-
6	306	Lake, River, Canal Intakes	5.00%	3.18%			-			-	-	-
7	307	Wells & Springs	5.00%	3.18%	-		-	-		10,824	340,366	173,102
8	308	Infiltration Galleries	5.00%	3.18%	-		-	-		-	-	-
9	309	Raw Water Supply Mains	5.00%	3.18%	-		-	-		16	495	46
10	310	Power Generation Equipment	5.00%	3.18%	-		-	-		216	6,793	839
11	311	Pumping Equipment	5.00%	3.18%	12,580		12,580	-		5,214	170,241	70,813
12	320	Water Treatment Equipment	5.00%	3.18%	2,416		2,416	-		381	13,203	2,983
13	320.1	Water Treatment Plants	5.00%	3.18%			-			-	-	-
14	320.2	Solution Chemical Feeders	5.00%	3.18%			-			-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	3.18%	31,220		31,220	-		10,181	335,776	134,450
16	330.1	Storage Tanks	5.00%	3.18%			-			-	-	-
17	330.2	Pressure Tanks	5.00%	3.18%			-			-	-	-
18	331	Transmission & Distribution Mains	5.00%	3.18%	19,233		19,233	-		18,447	589,717	290,122
19	333	Services	5.00%	3.18%	-		-	-		3,482	109,497	60,310
20	334	Meters	5.00%	3.18%	18,215		18,215	-		5,827	192,339	61,445
21	335	Hydrants	5.00%	3.18%	-		-	-		51	1,589	273
22	336	Backflow Prevention Devices	5.00%	3.18%			-			-	-	-
23	339	Other Plant & Misc Equipment	5.00%	3.18%	-		-	-		13,034	409,889	215,489
24	340	Office Furniture & Equipment	5.00%	3.18%			-			-	-	-
25	340.1	Computers & Software	5.00%	3.18%			-			-	-	-
26	341	Transportation Equipment	5.00%	3.18%	-		-	-		-	-	-
27	342	Stores Equipment	5.00%	3.18%			-			-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	3.18%	-		-	-		-	-	-
29	344	Laboratory Equipment	5.00%	3.18%			-			-	-	-
30	345	Power Operated Equipment	5.00%	3.18%	-		-	-		-	-	-
31	346	Communication Equipment	5.00%	3.18%	-		-	-		-	-	-
32	347	Miscellaneous Equipment	5.00%	3.18%			-			-	-	-
33	348	Other Tangible Plant	5.00%	3.18%	-		-	-		-	-	-
34							-			-	-	-
35												
36		TOTALS			83,664	-	83,664	-	-	73,853	2,386,949	1,110,986

[1] Weighted average rate of United Utilities and C&S Water

Payson Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.8
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate Before	Allowed Deprec. Rate After[1]	2003 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	0.00%	-		-	-		-	300	-
2	302	Franchise Cost	0.00%	0.00%	-		-	-		-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-		-	-		-	22,391	-
4	304	Structures & Improvements	5.00%	3.18%	-		-	-		-	194,352	101,115
5	305	Collecting & Impounding Reservoirs	5.00%	3.18%	-		-	-		-	-	-
6	306	Lake, River, Canal Intakes	5.00%	3.18%			-			-	-	-
7	307	Wells & Springs	5.00%	3.18%	-		-	-		-	340,366	173,102
8	308	Infiltration Galleries	5.00%	3.18%	-		-	-		-	-	-
9	309	Raw Water Supply Mains	5.00%	3.18%	-		-	-		-	495	46
10	310	Power Generation Equipment	5.00%	3.18%	-		-	-		-	6,793	839
11	311	Pumping Equipment	5.00%	3.18%	5,033		5,033	-		-	175,274	70,813
12	320	Water Treatment Equipment	5.00%	3.18%	-		-	-		-	13,203	2,983
13	320.1	Water Treatment Plants	5.00%	3.18%			-			-	-	-
14	320.2	Solution Chemical Feeders	5.00%	3.18%			-			-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	3.18%	42,968		42,968	19,250		-	359,495	115,200
16	330.1	Storage Tanks	5.00%	3.18%			-			-	-	-
17	330.2	Pressure Tanks	5.00%	3.18%			-			-	-	-
18	331	Transmission & Distribution Mains	5.00%	3.18%	6,979		6,979	-		-	596,696	290,122
19	333	Services	5.00%	3.18%	-		-	-		-	109,497	60,310
20	334	Meters	5.00%	3.18%	23,284		23,284	-		-	215,623	61,445
21	335	Hydrants	5.00%	3.18%	-		-	-		-	1,589	273
22	336	Backflow Prevention Devices	5.00%	3.18%			-			-	-	-
23	339	Other Plant & Misc Equipment	5.00%	3.18%	-		-	-		-	409,889	215,489
24	340	Office Furniture & Equipment	5.00%	3.18%			-			-	-	-
25	340.1	Computers & Software	5.00%	3.18%			-			-	-	-
26	341	Transportation Equipment	5.00%	3.18%	-		-	-		-	-	-
27	342	Stores Equipment	5.00%	3.18%			-			-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	3.18%	-		-	-		-	-	-
29	344	Laboratory Equipment	5.00%	3.18%			-			-	-	-
30	345	Power Operated Equipment	5.00%	3.18%	-		-	-		-	-	-
31	346	Communication Equipment	5.00%	3.18%	3,417		3,417	-		-	3,417	-
32	347	Miscellaneous Equipment	5.00%	3.18%			-			-	-	-
33	348	Other Tangible Plant	5.00%	3.18%	-		-	-		-	-	-
34							-			-	-	-
35												
36		TOTALS			81,681	-	81,681	19,250	-	-	2,449,380	1,091,736

[1] Weighted average rate of United Utilities and C&S Water

Payson Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.9
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate Before	Allowed Deprec. Rate After[1]	2004 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	0.00%	-		-			-	300	-
2	302	Franchise Cost	0.00%	0.00%	-		-			-	-	-
3	303	Land and Land Rights	0.00%	0.00%	(0)		(0)			-	22,391	-
4	304	Structures & Improvements	5.00%	3.18%	0		0			6,180	194,352	107,295
5	305	Collecting & Impounding Reservoirs	5.00%	3.18%	-		-			-	-	-
6	306	Lake, River, Canal Intakes	5.00%	3.18%	-		-			-	-	-
7	307	Wells & Springs	5.00%	3.18%	(0)		(0)			10,824	340,366	183,926
8	308	Infiltration Galleries	5.00%	3.18%	-		-			-	-	-
9	309	Raw Water Supply Mains	5.00%	3.18%	(0)		(0)			16	495	61
10	310	Power Generation Equipment	5.00%	3.18%	(0)		(0)			216	6,793	1,055
11	311	Pumping Equipment	5.00%	3.18%	6,241		6,241			5,673	181,515	76,486
12	320	Water Treatment Equipment	5.00%	3.18%	0		0			420	13,203	3,403
13	320.1	*Water Treatment Plants*	5.00%	3.18%	-		-			-	-	-
14	320.2	Solution Chemical Feeders	5.00%	3.18%	-		-			-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	3.18%	196		196			11,435	359,691	126,635
16	330.1	Storage Tanks	5.00%	3.18%	-		-			-	-	-
17	330.2	Pressure Tanks	5.00%	3.18%	-		-			-	-	-
18	331	Transmission & Distribution Mains	5.00%	3.18%	370		370			18,981	597,066	309,103
19	333	Services	5.00%	3.18%	-		-			3,482	109,497	63,792
20	334	Meters	5.00%	3.18%	8,741		8,741			6,996	224,364	68,440
21	335	Hydrants	5.00%	3.18%	-		-			51	1,589	323
22	336	Backflow Prevention Devices	5.00%	3.18%	-		-			-	-	-
23	339	Other Plant & Misc Equipment	5.00%	3.18%	-		-			13,034	409,889	228,524
24	340	Office Furniture & Equipment	5.00%	3.18%	-		-			-	-	-
25	340.1	Computers & Software	5.00%	3.18%	-		-			-	-	-
26	341	Transportation Equipment	5.00%	3.18%	-		-			-	-	-
27	342	Stores Equipment	5.00%	3.18%	-		-			-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	3.18%	-		-			-	-	-
29	344	Laboratory Equipment	5.00%	3.18%	-		-			-	-	-
30	345	Power Operated Equipment	5.00%	3.18%	-		-			-	-	-
31	346	Communication Equipment	5.00%	3.18%	4,361		4,361			178	7,778	178
32	347	Miscellaneous Equipment	5.00%	3.18%	-		-			-	-	-
33	348	Other Tangible Plant	5.00%	3.18%	-		-			-	-	-
34							-			-	-	-
35												
36		TOTALS			19,909	-	19,909	-	-	77,485	2,469,289	1,169,221

[1] Weighted average rate of United Utilities and C&S Water

Payson Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.10
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate Before	Allowed Deprec. Rate After[1]	2005 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	0.00%	-		-	-		-	300	-
2	302	Franchise Cost	0.00%	0.00%	-		-	-		-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-		-	-		-	22,391	-
4	304	Structures & Improvements	5.00%	3.18%	-		-	-		6,180	194,352	113,476
5	305	Collecting & Impounding Reservoirs	5.00%	3.18%	-		-	-		-	-	-
6	306	Lake, River, Canal Intakes	5.00%	3.18%			-			-	-	-
7	307	Wells & Springs	5.00%	3.18%	-		-	-		10,824	340,366	194,749
8	308	Infiltration Galleries	5.00%	3.18%	-		-	-		-	-	-
9	309	Raw Water Supply Mains	5.00%	3.18%	-		-	-		16	495	77
10	310	Power Generation Equipment	5.00%	3.18%	-		-	-		216	6,793	1,271
11	311	Pumping Equipment	5.00%	3.18%	6,921	5,546	12,467	680		5,960	193,302	81,765
12	320	Water Treatment Equipment	5.00%	3.18%	-	61	61	-		421	13,264	3,824
13	320.1	Water Treatment Plants	5.00%	3.18%			-			-	-	-
14	320.2	Solution Chemical Feeders	5.00%	3.18%			-			-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	3.18%			-	-		11,438	359,691	138,073
16	330.1	Storage Tanks	5.00%	3.18%			-			-	-	-
17	330.2	Pressure Tanks	5.00%	3.18%			-			-	-	-
18	331	Transmission & Distribution Mains	5.00%	3.18%			-	-		18,987	597,066	328,089
19	333	Services	5.00%	3.18%	-		-	-		3,482	109,497	67,274
20	334	Meters	5.00%	3.18%	8,741	2,749	11,490	-		7,317	235,854	75,758
21	335	Hydrants	5.00%	3.18%	-		-	-		51	1,589	374
22	336	Backflow Prevention Devices	5.00%	3.18%			-			-	-	-
23	339	Other Plant & Misc Equipment	5.00%	3.18%	-		-	-		13,034	409,889	241,558
24	340	Office Furniture & Equipment	5.00%	3.18%			-			-	-	-
25	340.1	Computers & Software	5.00%	3.18%			-			-	-	-
26	341	Transportation Equipment	5.00%	3.18%	-		-	-		-	-	-
27	342	Stores Equipment	5.00%	3.18%			-			-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	3.18%	53		53	-		1	53	1
29	344	Laboratory Equipment	5.00%	3.18%			-			-	-	-
30	345	Power Operated Equipment	5.00%	3.18%	-		-	-		-	-	-
31	346	Communication Equipment	5.00%	3.18%	-		-	-		247	7,778	425
32	347	Miscellaneous Equipment	5.00%	3.18%			-			-	-	-
33	348	Other Tangible Plant	5.00%	3.18%	-		-	-		-	-	-
34							-			-	-	-
35												
36		TOTALS			15,715	8,356	24,072	680	-	78,174	2,492,681	1,246,715

[1] Weighted average rate of United Utilities and C&S Water

Payson Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.11
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate Before	Allowed Deprec. Rate After[1]	2006 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	0.00%	-		-	-		-	300	-
2	302	Franchise Cost	0.00%	0.00%	-		-	-		-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-		-	-		-	22,391	-
4	304	Structures & Improvements	5.00%	3.18%	4,919		4,919	-		6,259	199,271	119,734
5	305	Collecting & Impounding Reservoirs	5.00%	3.18%	-		-	-		-	-	-
6	306	Lake, River, Canal Intakes	5.00%	3.18%			-			-	-	-
7	307	Wells & Springs	5.00%	3.18%	11,646		11,646	-		11,009	352,012	205,758
8	308	Infiltration Galleries	5.00%	3.18%	-		-	-		-	-	-
9	309	Raw Water Supply Mains	5.00%	3.18%	117		117	-		18	612	95
10	310	Power Generation Equipment	5.00%	3.18%	873		873	-		230	7,666	1,501
11	311	Pumping Equipment	5.00%	3.18%	9,323		9,323	-		6,295	202,625	88,061
12	320	Water Treatment Equipment	5.00%	3.18%	-		-	-		422	13,264	4,246
13	320.1	Water Treatment Plants	5.00%	3.18%			-			-	-	-
14	320.2	Solution Chemical Feeders	5.00%	3.18%			-			-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	3.18%	-		-	-		11,438	359,691	149,511
16	330.1	Storage Tanks	5.00%	3.18%			-			-	-	-
17	330.2	Pressure Tanks	5.00%	3.18%			-			-	-	-
18	331	Transmission & Distribution Mains	5.00%	3.18%	-		-	-		18,987	597,066	347,076
19	333	Services	5.00%	3.18%	751		751	-		3,494	110,248	70,768
20	334	Meters	5.00%	3.18%	16,339		16,339	-		7,760	252,193	83,518
21	335	Hydrants	5.00%	3.18%	-		-	-		51	1,589	424
22	336	Backflow Prevention Devices	5.00%	3.18%			-			-	-	-
23	339	Other Plant & Misc Equipment	5.00%	3.18%	-		-	-		13,034	409,889	254,592
24	340	Office Furniture & Equipment	5.00%	3.18%			-			-	-	-
25	340.1	Computers & Software	5.00%	3.18%			-			-	-	-
26	341	Transportation Equipment	5.00%	3.18%	-		-	-		-	-	-
27	342	Stores Equipment	5.00%	3.18%			-			-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	3.18%	-		-	-		2	53	3
29	344	Laboratory Equipment	5.00%	3.18%			-			-	-	-
30	345	Power Operated Equipment	5.00%	3.18%	-		-	-		-	-	-
31	346	Communication Equipment	5.00%	3.18%	-		-	-		247	7,778	673
32	347	Miscellaneous Equipment	5.00%	3.18%			-			-	-	-
33	348	Other Tangible Plant	5.00%	3.18%	-		-	-		-	-	-
34							-			-	-	-
35												
36		TOTALS			43,967	-	43,967	-	-	79,245	2,536,648	1,325,960

[1] Weighted average rate of United Utilities and C&S Water

Payson Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.12
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate Before	Allowed Deprec. Rate After[1]	2007 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	0.00%	-		-			-	300	-
2	302	Franchise Cost	0.00%	0.00%	-		-			-	-	-
3	303	Land and Land Rights	0.00%	0.00%	0		0			-	22,391	-
4	304	Structures & Improvements	5.00%	3.18%	12,811		12,811			6,541	212,082	126,275
5	305	Collecting & Impounding Reservoirs	5.00%	3.18%	-		-			-	-	-
6	306	Lake, River, Canal Intakes	5.00%	3.18%	-		-			-		-
7	307	Wells & Springs	5.00%	3.18%	3,563		3,563			11,251	355,575	217,009
8	308	Infiltration Galleries	5.00%	3.18%	-		-			-	-	-
9	309	Raw Water Supply Mains	5.00%	3.18%	0		0			19	612	114
10	310	Power Generation Equipment	5.00%	3.18%	0		0			244	7,666	1,745
11	311	Pumping Equipment	5.00%	3.18%	20,059		20,059			6,762	222,684	94,823
12	320	Water Treatment Equipment	5.00%	3.18%	-		-			422	13,264	4,667
13	320.1	Water Treatment Plants	5.00%	3.18%	-		-			-		-
14	320.2	Solution Chemical Feeders	5.00%	3.18%	-		-			-		-
15	330	Distribution Reservoirs & Standpipes	5.00%	3.18%	0		0			11,438	359,691	160,949
16	330.1	Storage Tanks	5.00%	3.18%	-		-			-		-
17	330.2	Pressure Tanks	5.00%	3.18%	-		-			-		-
18	331	Transmission & Distribution Mains	5.00%	3.18%	0		0			18,987	597,066	366,063
19	333	Services	5.00%	3.18%	790		790			3,518	111,038	74,287
20	334	Meters	5.00%	3.18%	11,104		11,104			8,196	263,297	91,714
21	335	Hydrants	5.00%	3.18%	-		-			51	1,589	475
22	336	Backflow Prevention Devices	5.00%	3.18%	-		-			-		-
23	339	Other Plant & Misc Equipment	5.00%	3.18%	3,703		3,703			13,093	413,592	267,686
24	340	Office Furniture & Equipment	5.00%	3.18%	-		-			-		-
25	340.1	Computers & Software	5.00%	3.18%	-		-			-		-
26	341	Transportation Equipment	5.00%	3.18%	-		-			-	-	-
27	342	Stores Equipment	5.00%	3.18%	-		-			-		-
28	343	Tools, Shop & Garage Equipment	5.00%	3.18%	-		-			2	53	4
29	344	Laboratory Equipment	5.00%	3.18%	-		-			-		-
30	345	Power Operated Equipment	5.00%	3.18%	-		-			-	-	-
31	346	Communication Equipment	5.00%	3.18%	4,798		4,798			324	12,576	996
32	347	Miscellaneous Equipment	5.00%	3.18%	-		-			-		-
33	348	Other Tangible Plant	5.00%	3.18%	-		-			-	-	-
34					-		-			-	-	-
35												
36		TOTALS			56,829	-	56,829	-	-	80,847	2,593,477	1,406,807

[1] Weighted average rate of United Utilities and C&S Water

Payson Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.13
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate Before	Allowed Deprec. Rate After[1]	2008 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	0.00%	-		-	-		-	300	-
2	302	Franchise Cost	0.00%	0.00%	-		-	-		-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-		-	-		-	22,391	-
4	304	Structures & Improvements	5.00%	3.18%	4,523		4,523	-		6,816	216,605	133,091
5	305	Collecting & Impounding Reservoirs	5.00%	3.18%	3,435		3,435	-		55	3,435	55
6	306	Lake, River, Canal Intakes	5.00%	3.18%			-			-	-	-
7	307	Wells & Springs	5.00%	3.18%	11,551		11,551	-		11,491	367,126	228,500
8	308	Infiltration Galleries	5.00%	3.18%	-		-	-		-	-	-
9	309	Raw Water Supply Mains	5.00%	3.18%	-		-	-		19	612	134
10	310	Power Generation Equipment	5.00%	3.18%	-		-	-		244	7,666	1,989
11	311	Pumping Equipment	5.00%	3.18%	19,722		19,722	-		7,395	242,406	102,218
12	320	Water Treatment Equipment	5.00%	3.18%	439		439	-		429	13,703	5,096
13	320.1	Water Treatment Plants	5.00%	3.18%			-			-	-	-
14	320.2	Solution Chemical Feeders	5.00%	3.18%			-			-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	3.18%	11,870		11,870	-		11,627	371,561	172,576
16	330.1	Storage Tanks	5.00%	3.18%			-			-	-	-
17	330.2	Pressure Tanks	5.00%	3.18%			-			-	-	-
18	331	Transmission & Distribution Mains	5.00%	3.18%	-		-	-		18,987	597,066	385,050
19	333	Services	5.00%	3.18%	-		-	-		3,531	111,038	77,818
20	334	Meters	5.00%	3.18%	1,757		1,757	-		8,401	265,054	100,115
21	335	Hydrants	5.00%	3.18%	-		-	-		51	1,589	525
22	336	Backflow Prevention Devices	5.00%	3.18%			-			-	-	-
23	339	Other Plant & Misc Equipment	5.00%	3.18%	7,406		7,406	-		13,270	420,998	280,956
24	340	Office Furniture & Equipment	5.00%	3.18%			-			-	-	-
25	340.1	Computers & Software	5.00%	3.18%			-			-	-	-
26	341	Transportation Equipment	5.00%	3.18%	-		-	-		-	-	-
27	342	Stores Equipment	5.00%	3.18%			-			-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	3.18%	45		45	-		2	98	7
29	344	Laboratory Equipment	5.00%	3.18%			-			-	-	-
30	345	Power Operated Equipment	5.00%	3.18%	-		-	-		-	-	-
31	346	Communication Equipment	5.00%	3.18%	-		-	-		400	12,576	1,396
32	347	Miscellaneous Equipment	5.00%	3.18%			-			-	-	-
33	348	Other Tangible Plant	5.00%	3.18%	-		-	-		-	-	-
34							-			-	-	-
35												
36		TOTALS			60,749	-	60,749	-	-	82,717	2,654,226	1,489,524

[1] Weighted average rate of United Utilities and C&S Water

Payson Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.14
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate Before	Allowed Deprec. Rate After[1]	2009 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	0.00%	-		-	-		-	300	-
2	302	Franchise Cost	0.00%	0.00%	-		-	-		-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-		-	-		-	22,391	-
4	304	Structures & Improvements	5.00%	3.18%	-		-	-		6,888	216,605	139,979
5	305	Collecting & Impounding Reservoirs	5.00%	3.18%	-		-	-		109	3,435	164
6	306	Lake, River, Canal Intakes	5.00%	3.18%			-			-	-	-
7	307	Wells & Springs	5.00%	3.18%	-		-	-		11,675	367,126	240,174
8	308	Infiltration Galleries	5.00%	3.18%	-		-	-		-	-	-
9	309	Raw Water Supply Mains	5.00%	3.18%	-		-	-		19	612	153
10	310	Power Generation Equipment	5.00%	3.18%	962		962	-		259	8,628	2,248
11	311	Pumping Equipment	5.00%	3.18%	14,818		14,818	-		7,944	257,224	110,162
12	320	Water Treatment Equipment	5.00%	3.18%	-		-	-		436	13,703	5,532
13	320.1	Water Treatment Plants	5.00%	3.18%			-			-	-	-
14	320.2	Solution Chemical Feeders	5.00%	3.18%			-			-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	3.18%	-		-	-		11,816	371,561	184,392
16	330.1	Storage Tanks	5.00%	3.18%			-			-	-	-
17	330.2	Pressure Tanks	5.00%	3.18%			-			-	-	-
18	331	Transmission & Distribution Mains	5.00%	3.18%	-		-	-		18,987	597,066	404,036
19	333	Services	5.00%	3.18%	-		-	-		3,531	111,038	81,349
20	334	Meters	5.00%	3.18%	2,576		2,576	-		8,470	267,629	108,585
21	335	Hydrants	5.00%	3.18%	-		-	-		51	1,589	576
22	336	Backflow Prevention Devices	5.00%	3.18%			-			-	-	-
23	339	Other Plant & Misc Equipment	5.00%	3.18%	674		674	-		13,398	421,672	294,354
24	340	Office Furniture & Equipment	5.00%	3.18%			-			-	-	-
25	340.1	Computers & Software	5.00%	3.18%			-			-	-	-
26	341	Transportation Equipment	5.00%	3.18%	-		-	-		-	-	-
27	342	Stores Equipment	5.00%	3.18%			-			-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	3.18%	-		-	-		3	98	10
29	344	Laboratory Equipment	5.00%	3.18%			-			-	-	-
30	345	Power Operated Equipment	5.00%	3.18%	-		-	-		-	-	-
31	346	Communication Equipment	5.00%	3.18%	-		-	-		400	12,576	1,796
32	347	Miscellaneous Equipment	5.00%	3.18%			-			-	-	-
33	348	Other Tangible Plant	5.00%	3.18%	-		-	-		-	-	-
34							-			-	-	-
35												
36		TOTALS			19,029	-	19,029	-	-	83,985	2,673,256	1,573,510

[1] Weighted average rate of United Utilities and C&S Water

Payson Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.15
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate Before	Allowed Deprec. Rate After[1]	2010 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	0.00%	-		-	-		-	300	-
2	302	Franchise Cost	0.00%	0.00%	-		-	-		-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-		-	-		-	22,391	-
4	304	Structures & Improvements	5.00%	3.18%	-		-	-		6,888	216,605	146,867
5	305	Collecting & Impounding Reservoirs	5.00%	3.18%	-		-	-		109	3,435	273
6	306	Lake, River, Canal Intakes	5.00%	3.18%			-			-	-	-
7	307	Wells & Springs	5.00%	3.18%	2,815		2,815	-		11,719	369,941	251,893
8	308	Infiltration Galleries	5.00%	3.18%	-		-	-		-	-	-
9	309	Raw Water Supply Mains	5.00%	3.18%	-		-	-		19	612	173
10	310	Power Generation Equipment	5.00%	3.18%	-		-	-		274	8,628	2,522
11	311	Pumping Equipment	5.00%	3.18%	20,453		20,453	-		8,505	277,677	118,667
12	320	Water Treatment Equipment	5.00%	3.18%	636		636	-		446	14,339	5,978
13	320.1	Water Treatment Plants	5.00%	3.18%			-			-	-	-
14	320.2	Solution Chemical Feeders	5.00%	3.18%			-			-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	3.18%	-		-	-		11,816	371,561	196,208
16	330.1	Storage Tanks	5.00%	3.18%			-			-	-	-
17	330.2	Pressure Tanks	5.00%	3.18%			-			-	-	-
18	331	Transmission & Distribution Mains	5.00%	3.18%	-		-	-		18,987	597,066	423,023
19	333	Services	5.00%	3.18%	-		-	-		3,531	111,038	84,880
20	334	Meters	5.00%	3.18%	293		293	-		8,515	267,923	117,100
21	335	Hydrants	5.00%	3.18%	-		-	-		51	1,589	626
22	336	Backflow Prevention Devices	5.00%	3.18%			-			-	-	-
23	339	Other Plant & Misc Equipment	5.00%	3.18%	9,689		9,689	-		13,563	431,362	307,918
24	340	Office Furniture & Equipment	5.00%	3.18%			-			-	-	-
25	340.1	Computers & Software	5.00%	3.18%			-			-	-	-
26	341	Transportation Equipment	5.00%	3.18%	-		-	-		-	-	-
27	342	Stores Equipment	5.00%	3.18%			-			-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	3.18%	-		-	-		3	98	13
29	344	Laboratory Equipment	5.00%	3.18%			-			-	-	-
30	345	Power Operated Equipment	5.00%	3.18%	-		-	-		-	-	-
31	346	Communication Equipment	5.00%	3.18%	-		-	-		400	12,576	2,196
32	347	Miscellaneous Equipment	5.00%	3.18%			-			-	-	-
33	348	Other Tangible Plant	5.00%	3.18%	-		-	-		-	-	-
34							-			-	-	-
35												
36		TOTALS			33,886	-	33,886	-	-	84,827	2,707,142	1,658,336

[1] Weighted average rate of United Utilities and C&S Water

Payson Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.16
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate Before	Allowed Deprec. Rate After[1]	2011 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	0.00%	-		-	-		-	300	-
2	302	Franchise Cost	0.00%	0.00%	-		-	-		-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-		-	-		-	22,391	-
4	304	Structures & Improvements	5.00%	3.18%	-		-	-		6,888	216,605	153,755
5	305	Collecting & Impounding Reservoirs	5.00%	3.18%	-		-	-		109	3,435	382
6	306	Lake, River, Canal Intakes	5.00%	3.18%			-			-	-	-
7	307	Wells & Springs	5.00%	3.18%	553		553	-		11,773	370,493	263,666
8	308	Infiltration Galleries	5.00%	3.18%	-		-	-		-	-	-
9	309	Raw Water Supply Mains	5.00%	3.18%	-		-	-		19	612	192
10	310	Power Generation Equipment	5.00%	3.18%	-		-	-		274	8,628	2,797
11	311	Pumping Equipment	5.00%	3.18%	11,973		11,973	-		9,020	289,650	127,688
12	320	Water Treatment Equipment	5.00%	3.18%	-		-	-		456	14,339	6,434
13	320.1	Water Treatment Plants	5.00%	3.18%			-			-	-	-
14	320.2	*Solution Chemical Feeders*	5.00%	3.18%			-			-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	3.18%	-		-	-		11,816	371,561	208,023
16	330.1	Storage Tanks	5.00%	3.18%			-			-	-	-
17	330.2	Pressure Tanks	5.00%	3.18%			-			-	-	-
18	331	Transmission & Distribution Mains	5.00%	3.18%	-		-	-		18,987	597,066	442,010
19	333	Services	5.00%	3.18%	-		-	-		3,531	111,038	88,411
20	334	Meters	5.00%	3.18%	2,462		2,462	-		8,559	270,384	125,659
21	335	Hydrants	5.00%	3.18%	-		-	-		51	1,589	677
22	336	Backflow Prevention Devices	5.00%	3.18%			-			-	-	-
23	339	Other Plant & Misc Equipment	5.00%	3.18%	4,009		4,009	-		13,781	435,371	321,699
24	340	Office Furniture & Equipment	5.00%	3.18%			-			-	-	-
25	340.1	Computers & Software	5.00%	3.18%			-			-	-	-
26	341	Transportation Equipment	5.00%	3.18%	-		-	-		-	-	-
27	342	Stores Equipment	5.00%	3.18%			-			-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	3.18%	-		-	-		3	98	16
29	344	Laboratory Equipment	5.00%	3.18%			-			-	-	-
30	345	Power Operated Equipment	5.00%	3.18%	-		-	-		-	-	-
31	346	Communication Equipment	5.00%	3.18%	-		-	-		400	12,576	2,596
32	347	Miscellaneous Equipment	5.00%	3.18%			-			-	-	-
33	348	Other Tangible Plant	5.00%	3.18%	-		-	-		-	-	-
34							-			-	-	-
35												
36		TOTALS			18,996	-	18,996	-	-	85,668	2,726,138	1,744,004

[1] *Weighted average rate of United Utilities and C&S Water*

Payson Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.17
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate Before	Allowed Deprec. Rate After[1]	2012 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Sale/Transfer of Assets	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	0.00%	-		-		(79)	-	-	221	-
2	302	Franchise Cost	0.00%	0.00%	-		-		-	-	-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-		-		(5,891)	(4,320)	-	16,500	(4,320)
4	304	Structures & Improvements	5.00%	3.18%	167,258		167,258		(83,785)	(42,903)	8,215	300,078	119,067
5	305	Collecting & Impounding Reservoirs	5.00%	3.18%	-		-		(904)	(104)	95	2,531	373
6	306	Lake, River, Canal Intakes	5.00%	3.18%			-				-	-	-
7	307	Wells & Springs	5.00%	3.18%	-		-		(97,481)	(73,245)	10,232	273,013	200,653
8	308	Infiltration Galleries	5.00%	3.18%	-		-		-	-	-	-	-
9	309	Raw Water Supply Mains	5.00%	3.18%	3,230		3,230		(161)	(56)	68	3,681	204
10	310	Power Generation Equipment	5.00%	3.18%	1,952		1,952		(2,270)	(817)	269	8,310	2,249
11	311	Pumping Equipment	5.00%	3.18%	5,063		5,063		(77,105)	(35,267)	8,065	217,608	100,486
12	320	Water Treatment Equipment	5.00%	3.18%	-		-		(3,773)	(1,792)	396	10,567	5,038
13	320.1	Water Treatment Plants	5.00%	3.18%			-				-	-	-
14	320.2	Solution Chemical Feeders	5.00%	3.18%			-				-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	3.18%	-		-		(97,762)	(58,120)	10,261	273,800	160,164
16	330.1	Storage Tanks	5.00%	3.18%			-				-	-	-
17	330.2	Pressure Tanks	5.00%	3.18%			-				-	-	-
18	331	Transmission & Distribution Mains	5.00%	3.18%	-		-		(157,094)	(122,207)	16,489	439,972	336,291
19	333	Services	5.00%	3.18%	-		-		(29,215)	(24,363)	3,066	81,823	67,115
20	334	Meters	5.00%	3.18%	753		753		(71,186)	(34,665)	7,478	199,952	98,472
21	335	Hydrants	5.00%	3.18%	-		-		(418)	(197)	44	1,171	524
22	336	Backflow Prevention Devices	5.00%	3.18%			-				-	-	-
23	339	Other Plant & Misc Equipment	5.00%	3.18%	-		-		(114,551)	(89,482)	12,023	320,820	244,240
24	340	Office Furniture & Equipment	5.00%	3.18%			-				-	-	-
25	340.1	Computers & Software	5.00%	3.18%			-				-	-	-
26	341	Transportation Equipment	5.00%	3.18%	-		-		-	-	-	-	-
27	342	Stores Equipment	5.00%	3.18%			-				-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	3.18%	-		-		(26)	(3)	3	72	16
29	344	Laboratory Equipment	5.00%	3.18%			-				-	-	-
30	345	Power Operated Equipment	5.00%	3.18%	-		-		-	-	-	-	-
31	346	Communication Equipment	5.00%	3.18%	-		-		(3,309)	(690)	347	9,267	2,253
32	347	Miscellaneous Equipment	5.00%	3.18%			-				-	-	-
33	348	Other Tangible Plant	5.00%	3.18%	-		-		-	-	-	-	-
34							-				-	-	-
35													
36		TOTALS			178,257	-	178,257	-	(745,009)	(488,232)	77,053	2,159,387	1,332,825

[1] *Weighted average rate of United Utilities and C&S Water*

Payson Water Company
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2

Exhibit
Schedule B-2
Page 4
Witness: Bourassa

Accumulated Depreciation

Line No.	Acct. No.	Description	Per Books Accum. Depr.	A Difference to Reconstruction	B Intentionally Left Blank	Adjustments C Intentionally Left Blank	D Intentionally Left Blank	E Intentionally Left Blank	Adjusted Accum. Depr.
6	301	Organization Cost	221	(221)					-
7	302	Franchise Cost	-	-					-
8	303	Land and Land Rights	12,568	(16,888)					(4,320)
9	304	Structures and Improvements	126,661	(7,593)					119,067
10	305	Collecting and Impounding Res.	360	13					373
11	306	Lake River and Other Intakes	-	-					-
12	307	Wells and Springs	213,033	(12,379)					200,653
13	308	Infiltration Galleries and Tunnels	-	-					-
14	309	Supply Mains	219	(15)					204
15	310	Power Generation Equipment	2,500	(250)					2,249
16	311	Electric Pumping Equipment	103,344	(2,858)					100,486
17	320	Water Treatment Equipment	5,305	(268)					5,038
18	320.1	Water Treatment Plant	-	-					-
19	320.2	Chemical Solution Feeders	-	-					-
20	330	Dist. Reservoirs & Standpipe	170,556	(10,392)					160,164
21	330.1	Storage tanks	-	-					-
22	330.2	Pressure Tanks	-	-					-
23	331	Trans. and Dist. Mains	350,146	(13,855)					336,291
24	333	Services	70,579	(3,464)					67,115
25	334	Meters	101,322	(2,850)					98,472
26	335	Hydrants	585	(61)					524
27	336	Backflow Prevention Devices	-	-					-
28	339	Other Plant and Misc. Equip.	259,924	(15,684)					244,240
29	340	Office Furniture and Fixtures	-	-					-
30	340.1	Computers and Software	-	-					-
31	341	Transportation Equipment	-	-					-
32	342	Stores Equipment	-	-					-
33	343	Tools and Work Equipment	4	12					16
34	344	Laboratory Equipment	-	-					-
35	345	Power Operated Equipment	-	-					-
36	346	Communications Equipment	2,187	66					2,253
37	347	Miscellaneous Equipment	-	-					-
38	348	Other Tangible Plant	-	-					-
39									-
40		TOTALS	$ 1,419,514	$ (86,688)	$ -	$ -	$ -	$ -	$ 1,332,825
41									
42		Accumulated Depreciation per Books							$ 1,419,514
43									
44		Increase (decrease) in Accumulated Depreciation							$ (86,688)
45									
46		Adjustment to Accumulated Depreciation							$ (86,688)
47									
48		SUPPORTING SCHEDULES							
49		B-2, pages 4.1							
50		B-2, pages 4.2							

Payson Water Company
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 -A

Exhibit
Schedule B-2
Page 4.1
Witness: Bourassa

Line No.	Acct. No.	Description	Recorded Accumulated Depreciation	Accumulated Depreciation Per Plant Reconstruction	Difference
1					
2					
3					
4					
5					
6	301	Organization Cost	221	-	(221)
7	302	Franchise Cost	-	-	-
8	303	Land and Land Rights	12,568	(4,320)	(16,888)
9	304	Structures and Improvements	126,661	119,067	(7,593)
10	305	Collecting and Impounding Res.	360	373	13
11	306	Lake River and Other Intakes	-	-	-
12	307	Wells and Springs	213,033	200,653	(12,379)
13	308	Infiltration Galleries and Tunnels	-	-	-
14	309	Supply Mains	219	204	(15)
15	310	Power Generation Equipment	2,500	2,249	(250)
16	311	Electric Pumping Equipment	103,344	100,486	(2,858)
17	320	Water Treatment Equipment	5,305	5,038	(268)
18	320.1	Water Treatment Plant	-	-	-
19	320.2	Chemical Solution Feeders	-	-	-
20	330	Dist. Reservoirs & Standpipe	170,556	160,164	(10,392)
21	330.1	Storage tanks	-	-	-
22	330.2	Pressure Tanks	-	-	-
23	331	Trans. and Dist. Mains	350,146	336,291	(13,855)
24	333	Services	70,579	67,115	(3,464)
25	334	Meters	101,322	98,472	(2,850)
26	335	Hydrants	585	524	(61)
27	336	Backflow Prevention Devices	-	-	-
28	339	Other Plant and Misc. Equip.	259,924	244,240	(15,684)
29	340	Office Furniture and Fixtures	-	-	-
30	340.1	Computers and Software	-	-	-
31	341	Transportation Equipment	-	-	-
32	342	Stores Equipment	-	-	-
33	343	Tools and Work Equipment	4	16	12
34	344	Laboratory Equipment	-	-	-
35	345	Power Operated Equipment	-	-	-
36	346	Communications Equipment	2,187	2,253	66
37	347	Miscellaneous Equipment	-	-	-
38	348	Other Tangible Plant	-	-	-
39				-	-
40		TOTALS	$ 1,419,514	$ 1,332,825	$ (86,688)
41					
42					
43	SUPPORTING SCHEDULE				
44	B-2, pages 3.2 - 3.17				
45					

Payson Water Company
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 3

Exhibit
Schedule B-2
Page 5.0
Witness: Bourassa

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

Line No.		Gross CIAC	Accumulated Amortization
1			
2			
3			
4			
5	Computed balance at 09/30/2012	$ 375,036	$ 231,270
6			
7	Book balance at 09/30/2012	$ 375,036	$ 260,099
8			
9	Increase (decrease)	$ (0)	$ (28,829)
10			
11			
12	Adjustment to CIAC/AA CIAC	$ (0)	$ 28,829
13	Label	3a	3b
14			
15			
16			
17			
18			
19	SUPPORTING SCHEDULES		
20	E-1		
21	B-2, page 5.1		
22			
23			
24			
25			
26			
27			
28			
29			
30			
31			
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37			
38			
39			
40			

Payson Water Company
Test Year Ended December 31, 2012
Contributions-in-aid of Construction (CIAC)

Exhibit
Schedule B-2
Page 5.1
Witness: Bourassa

Line No.		Dec. No. 62401 Balance 6/30/1998	1998 Additions	1998 Balance 9/30/2009	1999 Additions	1999 Balance 10/30/2009	2000 Additions	2000 Balance 9/30/2011	2001 Additions	2001 Balance 9/30/2012	2002 Additions	2002 Balance	2003 Additions	2003 Balance
5	CIAC	960,903		960,903		960,903	(77,129)	883,774		883,774		883,774		883,774
7	Amortization	192,220												
8	Amortization Rate			5.00%		5.00%		3.65%		3.20%		3.20%		3.20%
9	Amortization (1/2 yr convention)			48,045		48,045		33,665		28,281		28,281		28,281
10	Accumulated Amortization			240,265		288,310	(77,129)	244,847		273,127		301,408		329,689
12	Net CIAC	768,683	-	720,638	-	672,593	-	638,927	-	610,647	-	582,366	-	554,085

Line No.		2004 Additions	2004 Balance 12/31/1993	2005 Additions	2005 Balance 12/31/1993	2006 Additions	2006 Balance 12/31/1993	2007 Additions	2007 Balance 12/31/1993	2008 Additions	2008 Balance 12/31/1993	2009 Additions	2009 Balance 12/31/1993
20	CIAC												
21			883,774	-	883,774	-	883,774	-	883,774	(6,492)	877,282	-	877,282
23	Amortization Rate												
24	Amortization (1/2 yr convention)		3.20%		3.20%		3.20%		3.20%		3.20%		3.20%
25	Accumulated Amortization		28,281		28,281		28,281		28,281		28,177		28,073
26			357,970		386,250		414,531		442,812	-	470,989		499,062
27	Net CIAC												
28		-	525,804	-	497,524	-	469,243	-	440,962	(6,492)	406,293	-	378,220

Line No.		2010 Additions	2010 Balance 12/31/1993	2011 Additions	2011 Balance 12/31/1993	2012 Additions	2012 Balance 12/31/1993
37	CIAC	-	877,282	-	877,282	(502,246)	375,036
40	Amortization Rate		3.20%		3.20%		3.20%
41	Amortization (1/2 yr convention)		28,073		28,073		20,037
42	Accumulated Amortization		527,135		555,208	(343,975)	231,270
44	Net CIAC	-	350,147	-	322,074	(158,271)	143,766

Payson Water Company
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 5

Exhibit
Schedule B-2
Page 6.0
Witness: Bourassa

Line No.			Water & Sewer Adjusted Book Value	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		**Deferred Income Tax as of December 31, 2012**									
6		Plant-in-Service	$ 2,159,387 [1]								
7		Accum. Deprec.	(1,332,825) [1]								
8		CIAC	(143,766) [3]								
9	Fed.	Fixed Assets	$ 682,796	$ 615,700 [2]	100.0%	$ (67,096)	27.82%		-		(18,664)
11	State	Fixed Assets	$ 682,796	$ 615,700 [2]	100.0%	$ (67,096)	6.97%		-		(4,675)
13	Fed &St:	AIAC		- [4]	100.0%	$ - [4]	34.78%		$ -		
15								$ -	$ -	$ -	$ (23,339)
17		Net Asset (Liability)						$ (23,339)			
21		Net Asset (Liability)						$ (23,339)			
23		DIT Asset (Liability) per Books						$ -			
25		Adjustment to DIT						$ 23,339			

Footnotes - See page 2

Payson Water Company
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 5

Exhibit
Schedule B-2
Page 6.1
Witness: Bourassa

Line No.		FEDERAL			STATE		
1	[1] **Per Rebuttal Adjusted Balances**						
2	[2] **Computation of Net Tax Value December 31, 2012**						
3	Based on 2012 Tax Depreciation report (December 31, 2012)						
4	Unadjusted Cost at December 31, 2012 per federal and state tax depr. report	$ 2,159,341			$ 2,159,341		
5	Reconciling Items not on tax report:						
6					-		
7					-		
8					-		
9					-		
					-		
10					-		
11	Net Unadjusted Cost tax Basis at December 31, 2012			$ 2,159,341			$ 2,159,341
12							
13	Reductions						
14	Basis Reduction 2012 and Prior Years per federal and state tax depr. report	$ -			$ -		
15	Accumulated Depreciation 2012 and prior per federal and state tax depr. report	(1,543,641)			(1,543,641)		
16					-		
17					-		
18					-		
19					-		
20		-			-		
21		-			-		
22	Net Reductions through December 31, 2012			(1,543,641)			(1,543,641)
23	Net tax value of plant-in-service at December 31, 2012			$ 615,700			$ 615,700
24							
25	[3] **CIAC (including impact of change to probability of realization)**						
26							
27	Gross CIAC per Adjusted Balances		$ 375,036				
28	CIAC reductions/addtions						
29	A.A perAdjusted Balances	$ (231,270)					
30							
31			(231,270)				
32	Net CIAC before unrealized AIAC			$ 143,766			
33							
34	Unrealized AIAC Component						
35	Adjusted Net AIAC (see footnote 5 below)		$ -				
36	Unrealized AIAC Component % (1-Realized AIAC Component)		70.0%				
37				$ -			
38	Total realizable CIAC			$ 143,766			
39							
40	[4] **AIAC (including impact of change in probability of realization)**						
41	AIAC per adjusted book balances		$ -				
42	AIAC reductions/additions						
43	Net AIAC before unrealized portion			$ -			
44	Less: Unrealized AIAC (from Note 3, above)			$ -			
45	Net realizable AIAC			$ -			
46	Meter and Service Line Installation Charges per Adjusted Balances			-			
47	Total AIAC			$ -			
48							

Payson Water Company
Test Year Ended December 31, 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)	$	56,921
3	Pumping Power (1/24 of Pumping Power)		2,106
4	Purchased Water (1/24 of Purchased Water)		-
5	Prepaid Expenses		
6			
7			
8			
9	Total Working Capital Allowance	$	59,026
10			
11			
12	**Working Capital Requested**	**$**	**-**
13			
14			
15			
16			
17		Adjusted Test Year	
18	Total Operating Expense	$	503,004
19	Less:		
20	Income Tax	$	(109,557)
21	Property Tax		21,030
22	Depreciation		85,632
23	Purchased Water		-
24	Pumping Power		50,533
25	Allowable Expenses	$	455,367
26	1/8 of allowable expenses	$	56,921
27			
28			
29	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
30	E-1	B-1	
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			

Payson Water Company
Test Year Ended December 31, 2012
Income Statement

Exhibit
Schedule C-1
Page 1
Witness: Bourassa

Line No.		Test Year Book Results	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**					
2	Metered Water Revenues	$ 386,877	$ (73,318)	$ 313,559	$ 399,785	$ 713,344
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	8,031	(1,065)	6,966		6,966
5		$ 394,908	$ (74,383)	$ 320,525	$ 399,785	$ 720,310
6	**Operating Expenses**					
7	Salaries and Wages	$ 55,097	-	$ 55,097		$ 55,097
8	Purchased Water	51,953	(51,953)	-		-
9	Purchased Power	56,482	(5,949)	50,533		50,533
10	Fuel For Power Production	-	-	-		-
11	Chemicals	2,438	(257)	2,181		2,181
12	Repairs and Maintenance	28,136	(47)	28,089		28,089
13	Office Supplies and Expense	-	-	-		-
14	Contractual Services	70,679	(12,198)	58,481		58,481
15		-	-	-		-
16		-	-	-		-
17		-	-	-		-
18	Water Testing	11,000	-	11,000		11,000
19	Rents	-	-	-		-
20	Transportation Expenses	-	-	-		-
21	Insurance - General Liability	-	-	-		-
22	Insurance - Health and Life	266	-	266		266
23	Reg. Comm. Exp. - Other	-	-	-		-
24	Reg. Comm. Exp. - Rate Case	-	65,000	65,000		65,000
25	Miscellaneous Expense	235,989	(736)	235,253		235,253
26		-	-	-		-
27	Depreciation and Amortization Expense	68,142	17,490	85,632		85,632
28	Taxes Other Than Income	-	-	-		-
29	Property Taxes	11,127	9,903	21,030	8,743	29,773
30	Income Tax	-	(109,557)	(109,557)	136,022	26,465
31			-	-		-
32	**Total Operating Expenses**	$ 591,309	$ (88,305)	$ 503,004	$ 144,765	$ 647,770
33	**Operating Income**	$ (196,401)	$ 13,922	$ (182,479)	$ 255,020	$ 72,540
34	**Other Income (Expense)**					
35	Interest Income	-	-	-		-
36	Other income	610	(610)	-		-
37	Interest Expense	(14)	14	-		-
38	Other Expense	-	-	-		-
39	Gain(loss) on Disposal of Fixed Assets	755,709	(755,709)	-		-
40	***Total Other Income (Expense)***	$ 756,305	$ (756,305)	$ -	$ -	$ -
41	**Net Profit (Loss)**	$ 559,904	$ (742,383)	$ (182,479)	$ 255,020	$ 72,540
42						
43	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
44	C-1, page 2				A-1	
45	E-2					
46						

Payson Water Company
Test Year Ended December 31, 2012
Income Statement

Exhibit
Schedule C-1
Page 2.1
Witness: Bourassa

Line No.		LABEL>>>>> Test Year Book Results	1 Depreciation	2 Property Taxes	3 Rate Case Expense	4 Revenue Annualization	5 SV/QV Revenue/Expense Adjustments
1	**Revenues**						
2	Metered Water Revenues	$ 386,877				$ 6,982	(43,003)
3	Unmetered Water Revenues	-					
4	Other Water Revenues	8,031					(1,065)
5		$ 394,908	$ -	$ -	$ -	$ 6,982	$ (44,068)
6	**Operating Expenses**						
7	Salaries and Wages	$ 55,097					
8	Purchased Water	51,953					
9	Purchased Power	56,482					(5,949)
10	Fuel For Power Production	-					
11	Chemicals	2,438					(257)
12	Repairs and Maintenance	28,136					(47)
13	Office Supplies and Expense	-					
14	Contractual Services	70,679					(12,198)
15		-					
16		-					
17		-					
18	Water Testing	11,000					
19	Rents	-					
20	Transportation Expenses	-					
21	Insurance - General Liability	-					
22	Insurance - Health and Life	266					
23	Reg. Comm. Exp. - Other	-					
24	Reg. Comm. Exp. - Rate Case	-			65,000		
25	Miscellaneous Expense	235,989					(736)
26		-					
27	Depreciation and Amortization Expense	68,142	17,490				
28	Taxes Other Than Income	-					
29	Property Taxes	11,127		9,903			
30	Income Tax	-					
31							
32	**Total Operating Expenses**	$ 591,309	$ 17,490	$ 9,903	$ 65,000	$ -	$ (19,187)
33	**Operating Income**	$ (196,401)	$ (17,490)	$ (9,903)	$ (65,000)	$ 6,982	$ (24,881)
34	**Other Income (Expense)**						
35	Interest Income	-					
36	Other income	610					
37	Interest Expense	(14)					
38	Other Expense	-					
39	Gain(loss) on Disposal of Fixed Assets	755,709					
40	**Total Other Income (Expense)**	$ 756,305	$ -	$ -	$ -	$ -	$ -
41	**Net Profit (Loss)**	$ 559,904	$ (17,490)	$ (9,903)	$ (65,000)	$ 6,982	$ (24,881)
42							
43	SUPPORTING SCHEDULES:						
44	C-2						
45	E-2						

Payson Water Company
Test Year Ended December 31, 2012
Income Statement

Exhibit
Schedule C-1
Page 2.2
Witness: Bourassa

Line No.		6 MDC Water Augmentation Surcharge Adjustments	7 Remove Other Inc./Exp.	8 Intentionally Left Blank	9 Income Taxes	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**							
2	Metered Water Revenues	(37,297)				$ 313,559	$ 399,785	$ 713,344
3	Unmetered Water Revenues					-		-
4	Other Water Revenues					6,966		6,966
5		$ (37,297)	$ -	$ -	$ -	$ 320,525	$ 399,785	$ 720,310
6	**Operating Expenses**							
7	Salaries and Wages					$ 55,097		$ 55,097
8	Purchased Water	(51,953)				-		-
9	Purchased Power					50,533		50,533
10	Fuel For Power Production					-		-
11	Chemicals					2,181		2,181
12	Repairs and Maintenance					28,089		28,089
13	Office Supplies and Expense					-		-
14	Contractual Services					58,481		58,481
15						-		-
16						-		-
17						-		-
18	Water Testing					11,000		11,000
19	Rents					-		-
20	Transportation Expenses					-		-
21	Insurance - General Liability					-		-
22	Insurance - Health and Life					266		266
23	Reg. Comm. Exp. - Other					-		-
24	Reg. Comm. Exp. - Rate Case					65,000		65,000
25	Miscellaneous Expense					235,253		235,253
26						-		-
27	Depreciation and Amortization Expense					85,632		85,632
28	Taxes Other Than Income					-		-
29	Property Taxes					21,030	8,743	29,773
30	Income Tax				(109,557)	(109,557)	136,022	26,465
31								
32	**Total Operating Expenses**	$ (51,953)	$ -	$ -	$ (109,557)	$ 503,004	$ 144,765	$ 647,770
33	**Operating Income**	$ 14,656	$ -	$ -	$ 109,557	$ (182,479)	$ 255,020	$ 72,540
34	**Other Income (Expense)**							
35	Interest Income					-		-
36	Other income		(610)			-		-
37	Interest Expense		14			-		-
38	Other Expense		-			-		-
39	Gain(loss) on Disposal of Fixed Assets		(755,709)			-		-
40	**Total Other Income (Expense)**	$ -	$ (756,305)	$ -	$ -	$ -	$ -	$ -
41	**Net Profit (Loss)**	$ 14,656	$ (756,305)	$ -	$ 109,557	$ (182,479)	$ 255,020	$ 72,540
42								
43	SUPPORTING SCHEDULES:							
44	C-2							
45	E-2							

RECAP SCHEDULES:
C-1, page 1

Payson Water Company
Test Year Ended December 31, 2012
Adjustments to Revenues and Expenses

Exhibit
Schedule C-2
Page 1
Witness: Bourassa

Line No.		Adjustments to Revenues and Expenses						
		1	2	3	4	5	6	Subtotal
1						SV/QV	MDC	
2		Depreciation	Property	Rate Case	Revenue	Revenue/Expense	Water Augmentation	
3		Expense	Taxes	Expense	Annualization	Adjustments	Surcharge Adjustments	
4	Revenues				6,982	(44,068)	(37,297)	(74,383)
5								
6	Expenses	17,490	9,903	65,000	-	(19,187)	(51,953)	21,252
7								
8	Operating							
9	Income	(17,490)	(9,903)	(65,000)	6,982	(24,881)	14,656	(95,636)
10								
11	Interest							
12	Expense							-
13	Other							
14	Income /							-
15	Expense							
16								
17	Net Income	(17,490)	(9,903)	(65,000)	6,982	(24,881)	14,656	(95,636)
18								
19								
20		Adjustments to Revenues and Expenses						
21		7	8	9	10	11	12	Subtotal
22			Intentionally		Intentionally	Intentionally	Intentionally	
23		Remove	Left	Income	Left	Left	Left	
24		Other Inc./Exp.	Blank	Taxes	Blank	Blank	Blank	
25	Revenues							(74,383)
26								
27	Expenses			(109,557)	-	-	-	(88,305)
28								
29	Operating							
30	Income	-	-	109,557	-	-	-	13,922
31								
32	Interest							
33	Expense	14						14
34	Other							
35	Income /	(756,319)						(756,319)
36	Expense							
37								
38	Net Income	(756,305)	-	109,557	-	-	-	(742,383)
39								
40								

Payson Water Company
Test Year Ended December 31, 2012
Adjustments to Revenues and Expenses
Adjustment Number 1

Exhibit
Schedule C-2
Page 2
Witness: Bourassa

Depreciation Expense

Line No.	Acct. No.	Description	Original Cost	Non-depreciable/ Fully Depreciated	Adjusted Original Cost	Proposed Rates	Depreciation Expense
1							
2							
3							
4							
5	301	Organization Cost	221	(221)	-	0.00%	-
6	302	Franchise Cost	-	-	-	0.00%	-
7	303	Land and Land Rights	16,500	(16,500)	-	0.00%	-
8	304	Structures and Improvements	300,078		300,078	3.33%	9,993
9	305	Collecting and Impounding Res.	2,531		2,531	2.50%	63
10	306	Lake River and Other Intakes	-		-	2.50%	-
11	307	Wells and Springs	273,013		273,013	3.33%	9,091
12	308	Infiltration Galleries and Tunnels	-		-	6.67%	-
13	309	Supply Mains	3,681		3,681	2.00%	74
14	310	Power Generation Equipment	8,310		8,310	5.00%	415
15	311	Electric Pumping Equipment	217,608		217,608	12.50%	27,201
16	320	Water Treatment Equipment	10,567		10,567	3.33%	352
17	320.1	Water Treatment Plant	-		-	3.33%	-
18	320.2	Chemical Solution Feeders	-		-	20.00%	-
19	330	Dist. Reservoirs & Standpipe	273,800		273,800	2.22%	6,078
20	330.1	Storage tanks	-		-	2.22%	-
21	330.2	Pressure Tanks	-		-	5.00%	-
22	331	Trans. and Dist. Mains	439,972		439,972	2.00%	8,799
23	333	Services	81,823		81,823	3.33%	2,725
24	334	Meters	199,952	-	199,952	8.33%	16,656
25	335	Hydrants	1,171		1,171	2.00%	23
26	336	Backflow Prevention Devices	-	-	-	6.67%	-
27	339	Other Plant and Misc. Equip.	320,820		320,820	6.67%	21,399
28	340	Office Furniture and Fixtures	-		-	6.67%	-
29	340.1	Computers and Software	-		-	20.00%	-
30	341	Transportation Equipment	-	-	-	20.00%	-
31	342	Stores Equipment	-		-	4.00%	-
32	343	Tools and Work Equipment	72		72	5.00%	4
33	344	Laboratory Equipment	-		-	10.00%	-
34	345	Power Operated Equipment	-		-	5.00%	-
35	346	Communications Equipment	9,267		9,267	10.00%	927
36	347	Miscellaneous Equipment	-		-	10.00%	-
37	348	Other Tangible Plant	-		-	10.00%	-
38		TOTALS	$ 2,159,387	$ (16,721)	$ 2,142,666		$ 103,800
39							
40					Gross CIAC	Amort. Rate	
41	Less: Amortization of Contributions				$ 375,036	4.8444%	$ (18,168)
42	Total Depreciation Expense						$ 85,632
43							
44	Adjusted Test Year Depreciation Expense						68,142
45							
46	Increase (decrease) in Depreciation Expense						17,490
47							
48	Adjustment to Revenues and/or Expenses						$ 17,490
49							
50	SUPPORTING SCHEDULE						
51	B-2, page 3				*Fully Depreciated		

Payson Water Company
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 2

Exhibit
Schedule C-2
Page 3
Witness: Bourassa

Property Taxes

Line No.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	$ 320,525	$ 320,525
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	641,050	641,050
4	Company Recommended Revenue	320,525	720,310
5	Subtotal (Line 4 + Line 5)	961,575	1,361,360
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	320,525	453,787
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	641,050	907,573
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)	641,050	907,573
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	128,210	181,515
15	Composite Property Tax Rate - Obtained from ADOR	16.4025%	16.4025%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	$ 21,030	$ 29,773
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	$ 21,030	
19	Test Year Property Taxes	$ 11,127	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	**$ 9,903**	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		$ 29,773
23	Company Test Year Adjusted Property Tax Expense (Line 18)		$ 21,030
24	Increase in Property Tax Due to Increase in Revenue Requirement		**$ 8,743**
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		$ 8,743
27	Increase in Revenue Requirement		$ 399,785
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		2.18700%
29			
30			
31			
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40			

Payson Water Company
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Schedule C-2
Page 4
Witness: Bourassa

Rate Case Expense

Line No.			
1			
2			
3	Estimated Rate Case Expense	$	195,000
4			
5	Estimated Amortization Period in Years		3
6			
7	Annual Rate Case Expense	$	65,000
8			
9	Test Year Rate Case Expense	$	-
10			
11	Increase(decrease) Rate Case Expense	$	65,000
12			
13	Adjustment to Revenue and/or Expense	$	65,000
14			
15			
16	Reference		
17	Testimony		
18			
19			
20			

Payson Water Company
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Schedule C-2
Page 5
Witness: Bourassa

Revenue Annualization Adjustments

Line No.			
1			
2			
3	Revenue Annualization	$	(36,021)
4	Star Valley /Quail Valley Revenues included in annualization		43,003
5			
6			
7	Adjusted Revenue from Annualization	$	6,982
8			
9			
10	Adjustment to Revenue and/or Expense	$	6,982
11			
12	SUPPORTING SCHEDULES		
13	C-2 pages 5.1 to 5.4		
14	C-2 Page 6		
15	Work papers		
16			
17			
18			
19			
20			

Payson Water Company
5/8x3/4 Inch (United Systems)
Customers to Year End Levels
Test Year Ended December 31, 2012

Exhibit
Schedule C-2
Page 5.1
Witness: Bourassa

Line No.		Month of Jan-12	Month of Feb-12	Month of Mar-12	Month of Apr-12	Month of May-12	Month of Jun-12	Month of Jul-12
1	Year End Number of Customers	947	947	947	947	947	947	947
2	Actual Customers	1,228	1,246	1,238	1,238	1,227	945	942
3	Increase in Number of Customers/Bills	(281)	(299)	(291)	(291)	(280)	2	5
4	Average Revenue / Present Rates	$ 20.96	$ 20.71	$ 20.67	$ 21.70	$ 21.50	$ 23.40	$ 23.73
5	Revenue Annualization / Present Rates	$ (5,891)	$ (6,193)	$ (6,015)	$ (6,316)	$ (6,021)	$ 47	$ 119
6								
7	Increase in Number of Customers	(281)	(299)	(291)	(291)	(280)	2	5
8	Average Revenue / Proposed Rates	$ 46.31	$ 45.95	$ 45.89	$ 47.36	$ 47.08	$ 49.77	$ 50.24
9	Revenue Annualization / Proposed Rates	$ (13,013)	$ (13,739)	$ (13,354)	$ (13,783)	$ (13,182)	$ 100	$ 251
10	Additional Gallons to be Produced	(722,637)	(730,099)	(704,112)	(860,049)	(798,359)	7,663	20,008
11								
12		Month	Month	Month	Month	Month		Total
13		of	of	of	of	of		Year
14		Aug-12	Sep-12	Oct-12	Nov-12	Dec-12		
15	Year End Number of Customers	947	947	947	947	947		
16	Actual Customers	953	942	948	939	947		
17	Increase in Number of Customers/Bills	(6)	5	(1)	8	-		(1,429)
18	Average Revenue / Present Rates	$ 22.11	$ 21.52	$ 21.39	$ 20.62	$ 20.45		
19	Revenue Annualization / Present Rates	$ (133)	$ 108	$ (21)	$ 165	$ -		$ (30,152)
20								
21	Increase in Number of Customers	(6)	5	(1)	8	-		
22	Average Revenue / Proposed Rates	$ 47.94	$ 47.10	$ 46.92	$ 45.82	$ 45.58		
23	Revenue Annualization / Proposed Rates	$ (133)	$ 108	$ (21)	$ 165	$ -		$ (66,452)
24	Additional Gallons to be Produced	(18,994)	14,296	(2,795)	19,160	-		(3,775,919)

Payson Water Company
5/8x3/4 Inch (C&S Systems)
Customers to Year End Levels
Test Year Ended December 31, 2012

Exhibit
Schedule C-2
Page 5.2
Witness: Bourassa

Line No.		Month of Jan-12	Month of Feb-12	Month of Mar-12	Month of Apr-12	Month of May-12	Month of Jun-12	Month of Jul-12
1	Year End Number of Customers	161	161	161	161	161	161	161
2	Actual Customers	149	158	162	155	159	159	161
3	Increase in Number of Customers/Bills	12	3	(1)	6	2	2	-
4	Average Revenue / Present Rates	$ 23.20	$ 23.26	$ 22.68	$ 25.90	$ 28.10	$ 33.49	$ 33.60
5	Revenue Annualization / Present Rates	$ 278	$ 70	$ (23)	$ 155	$ 56	$ 67	$ -
6								
7	Increase in Number of Customers	12	3	(1)	6	2	2	-
8	Average Revenue / Proposed Rates	$ 51.15	$ 51.32	$ 49.80	$ 59.81	$ 66.86	$ 86.42	$ 86.94
9	Revenue Annualization / Proposed Rates	$ 614	$ 154	$ (50)	$ 359	$ 134	$ 173	$ -
10	Additional Gallons to be Produced	50,301	12,685	(3,840)	36,100	15,001	22,278	-
11								
12								
13								
14		Month of Aug-12	Month of Sep-12	Month of Oct-12	Month of Nov-12	Month of Dec-12		Total Year
15	Year End Number of Customers	161	161	161	161	161		
16	Actual Customers	160	161	162	159	161		
17	Increase in Number of Customers/Bills	1	-	(1)	2	-		26
18	Average Revenue / Present Rates	$ 30.50	$ 29.91	$ 27.62	$ 25.79	$ 23.26		
19	Revenue Annualization / Present Rates	$ 30	$ -	$ (28)	$ 52	$ -		$ 659
20								
21	Increase in Number of Customers	1	-	(1)	2	-		
22	Average Revenue / Proposed Rates	$ 74.55	$ 72.66	$ 65.31	$ 59.44	$ 51.33		
23	Revenue Annualization / Proposed Rates	$ 30	$ -	$ (28)	$ 52	$ -		$ 1,512
24	Additional Gallons to be Produced	9,119	-	(7,173)	11,875	-		146,345

Payson Water Company
3/4 Inch (United Systems)
Customers to Year End Levels
Test Year Ended December 31, 2012

Exhibit
Schedule C-2
Page 5.3
Witness: Bourassa

Line No.		Month of Jan-12	Month of Feb-12	Month of Mar-12	Month of Apr-12	Month of May-12	Month of Jun-12	Month of Jul-12
1	Year End Number of Customers	4	4	4	4	4	4	4
2	Actual Customers	5	5	5	5	5	4	4
3	Increase in Number of Customers/Bills	(1)	(1)	(1)	(1)	(1)	-	-
4	Average Revenue / Present Rates	$ 28.21	$ 30.61	$ 30.61	$ 34.19	$ 34.19	$ 50.04	$ 47.80
5	Revenue Annualization / Present Rates	$ (28)	$ (31)	$ (31)	$ (34)	$ (34)	$ -	$ -
6								
7	Increase in Number of Customers	(1)	(1)	(1)	(1)	(1)	-	-
8	Average Revenue / Proposed Rates	$ 73.18	$ 76.98	$ 76.98	$ 82.68	$ 82.68	$ 111.86	$ 106.79
9	Revenue Annualization / Proposed Rates	$ (73)	$ (77)	$ (77)	$ (83)	$ (83)	$ -	$ -
10	Additional Gallons to be Produced	(4,701)	(5,501)	(5,501)	(6,701)	(6,701)	-	-
11								
12								
13								
14		Month of Aug-12	Month of Sep-12	Month of Oct-12	Month of Nov-12	Month of Dec-12		Total Year
15	Year End Number of Customers	4	4	4	4	4		
16	Actual Customers	3	4	4	4	4		
17	Increase in Number of Customers/Bills	1	-	-	-	-		(4)
18	Average Revenue / Present Rates	$ 45.56	$ 35.09	$ 34.72	$ 31.73	$ 28.36		
19	Revenue Annualization / Present Rates	$ 46	$ -	$ -	$ -	$ -		$ (112)
20								
21	Increase in Number of Customers	1	-	-	-	-		
22	Average Revenue / Proposed Rates	$ 101.73	$ 84.11	$ 83.51	$ 78.76	$ 73.42		
23	Revenue Annualization / Proposed Rates	$ 46	$ -	$ -	$ -	$ -		$ (291)
24	Additional Gallons to be Produced	10,501	-	-	-	-		(18,602)

Payson Water Company
1 Inch (United Systems)
Customers to Year End Levels
Test Year Ended December 31, 2012

Exhibit
Schedule C-2
Page 5.4
Witness: Bourassa

Line No.		Month of Jan-12	Month of Feb-12	Month of Mar-12	Month of Apr-12	Month of May-12	Month of Jun-12	Month of Jul-12
1	Year End Number of Customers	2	2	2	2	2	2	2
2	Actual Customers	20	56	52	52	52	2	2
3	Increase in Number of Customers/Bills	(18)	(54)	(50)	(50)	(50)	-	-
4	Average Revenue / Present Rates	$ 25.29	$ 27.52	$ 28.69	$ 32.62	$ 28.18	$ 40.96	$ 45.45
5	Revenue Annualization / Present Rates	$ (455)	$ (1,486)	$ (1,434)	$ (1,631)	$ (1,409)	$ -	$ -
6								
7	Increase in Number of Customers	(18)	(54)	(50)	(50)	(50)	-	-
8	Average Revenue / Proposed Rates	$ 107.95	$ 113.44	$ 116.32	$ 122.85	$ 115.08	$ 136.09	$ 143.22
9	Revenue Annualization / Proposed Rates	$ (1,943)	$ (6,126)	$ (5,816)	$ (6,142)	$ (5,754)	$ -	$ -
10	Additional Gallons to be Produced	(37,358)	(174,559)	(191,850)	(260,602)	(178,870)	-	-
11								
12								
13								
14		Month of Aug-12	Month of Sep-12	Month of Oct-12	Month of Nov-12	Month of Dec-12		Total Year
15	Year End Number of Customers	2	2	2	2	2		
16	Actual Customers	2	2	2	2	2		
17	Increase in Number of Customers/Bills	-	-	-	-	-		(222)
18	Average Revenue / Present Rates	$ 36.48	$ 31.99	$ 26.11	$ 26.11	$ 26.11		
19	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -		$ (6,416)
20								
21	Increase in Number of Customers	-	-	-	-	-		
22	Average Revenue / Proposed Rates	$ 128.97	$ 121.84	$ 109.97	$ 109.97	$ 109.97		
23	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -		$ (25,781)
24	Additional Gallons to be Produced	-	-	-	-	-		(843,238)

Payson Water Company
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Schedule C-2
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Witness: Bourassa

Star Valley/Quail Valley Revenue/Expense Adjustment

Line No.				
1	Remove Test Year Revenues for Star Valley/Quail Valley System			
2				
3	Recorded T.Y. Metered Revenues from Star Valley		$	(43,003)
4	Recorded T.Y. Misc Revenues from Star Valley			(1,065)
5	Total Increase (decrease) in Revenue		$	(44,068)
6				
7				
8	Adjustment to Revenue and/or Expense		$	(44,068)
9				
10	SUPPORTING SCHEDULES			
11	Testimony			
12	Work papers			
13				
14	Remove Purchased Power for Star Valley/Quail Valley System			
15				
16	Test Year Purchased Power Expense		$	56,482
17	Gallons Sold in Test Year (in 1,000s)			51,230
18	Cost per 1,000 gallons		$	1.10
19				
20	Removed Star Valley/Quail Valley Gallons Sold (in 1,000s)			(5,396)
21	Cost per 1,000 gallons (from above)		$	1.10
22	Increase (decrease) in Purchased Power Expense		$	(5,949)
23				
24	Adjustment to Revenue and/or Expense		$	(5,949)
25				
26	Remove Chemicals for Star Valley/Quail Valley System			
27				
28	Test Year Chemicals Expense		$	2,438
29	Gallons Sold in Test Year (in 1,000s)			51,230
30	Cost per 1,000 gallons		$	0.05
31				
32	Removed Star Valley/Quail Valley Gallons Sold (in 1,000s)			(5,396)
33	Cost per 1,000 gallons (from above)		$	0.05
34	Increase (decrease) in Chemicals Expense		$	(257)
35				
36	Adjustment to Revenue and/or Expense		$	(257)
37				
38	Remove Other Operating Expense for Star Valley/Quail Valley System			
39	Remove Recorded T.Y. Repairs and Maintenance Expense		$	(47)
40	Remove Recorded T.Y. Miscellaneous Expense			
41	Bad Debt Expense	$ (606)		
42	Travel and Lodging	(130)		
43	Total Removed Miscellaneous Expense		$	(736)
44	Remove Recorded Professional Fees		$	(12,198)
45				
46	Total Increase (decrease) in Other Operating Expense		$	(12,981)
47				
48	Adjustment to Revenue and/or Expense		$	(12,981)
49				
50	SUPPORTING SCHEDULES			
51	Work papers			
52				
53				

Payson Water Company
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Schedule C-2
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Witness: Bourassa

Water Augmentation Surcharge Adjustments

Line No.			
1			
2	Remove Purchased Water Expense Recovered via Water Water Augmentation Surcharge		
3			
4	Remove Purchased Water expense covered by surcharge	$	(51,953)
5			
6	Adjustment to Purchased Water expense	$	(51,953)
7			
8			
9	Adjustment to Revenue and/or Expense	$	(51,953)
10			
11	Remove Water Water Augmentation Surcharge Revenues		
12	Remove Water Augmentation Surcharge Revenues	$	(51,953)
13	Related Commodity Revenues included in Bill Counts		14,656
14	Adjustment to Metered Revenues	$	(37,297)
15			
16			
17	Adjustment to Revenue and/or Expense	$	(37,297)
18			
19	SUPPORTING SCHEDULES		
20	C-1, page 2.1		
21	Work papers		
22			
23			
24			
25			

Payson Water Company
Test Year Ended December 31, 2001
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Schedule C-2
Page 8
Witness: Bourassa

Remove Other Income/Expense

Line No.			
1			
2	Interest Income	$	-
3	Other income		(610)
4	Interest Expense		14
5	Other Expense		-
6	Gain(loss) on Disposal of Fixed Assests		(755,709)
7	Total	$	(756,305)
8			
9			
10	Adjustment to Revenue and/or Expense	$	(756,305)
11			
12	Reference		
13	Testimony		
14	C-1, page 2.1		
15			
16			
17			
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Payson Water Company
Test Year Ended December 31, 2001
Adjustment to Revenues and Expenses
Adjustment Number 8

Exhibit
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Witness: Bourassa

Intentionally Left Blank

Line No.
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Payson Water Company
Test Year Ended December 31, 2012
Adjustment to Revenues and/or Expenses
Adjustment Number 9

Exhibit
Schedule C-2
Page 10
Witness: Bourassa

Line No.		Test Year at Present Rates	Test Year at Proposed Rates
1	Income Taxes		
2			
3			
4	Compauted Income Tax	$ (109,557)	$ 26,465
5	Test Year Income tax Expense	-	(109,557)
6	Adjustment to Income Tax Expense	$ (109,557)	$ 136,022
7			
8			
9			
10			
11			
12			
13	SUPPORTING SCHEDULE		
14	C-3, page 2		
15			
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Payson Water Company
Test Year Ended December 31, 2012
Computation of Gross Revenue Conversion Factor

Exhibit
Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Combined Federal and State Effective Income Tax Rate	34.785%
2		
3	Property Taxes	1.426%
4		
5		
6	Total Tax Percentage	36.211%
7		
8	Operating Income % = 100% - Tax Percentage	63.789%
9		
10		
11		
12		
13	1 = Gross Revenue Conversion Factor	
14	Operating Income %	1.5677
15		
16		
17		
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21		
22		
23		
24		
25	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
26	C-3, page 2	A-1
27		
28		
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Payson Water Company
Test Year Ended December 31, 2012

Exhibit
Schedule C-3
Page 2
Witness: Bourassa

GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	[E]	[F]
	Calculation of Gross Revenue Conversion Factor:						
1	Revenue	100.0000%					
2	Uncollecible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	36.2108%					
5	Subtotal (L3 - L4)	63.7892%					
6	**Revenue Conversion Factor (L1 / L5)**	1.567664					
	Calculation of Uncollectible Factor:						
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (L17)	34.7845%					
9	One Minus Combined Income Tax Rate (L7 - L8)	65.2155%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
	Calculation of Effective Tax Rate:						
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	6.9680%					
14	Federal Taxable Income (L12 - L13)	93.0320%					
15	Applicable Federal Income Tax Rate (L55 Col F)	29.9000%					
16	Effective Federal Income Tax Rate (L14 x L15)	27.8165%					
17	Combined Federal and State Income Tax Rate (L13 +L16)		34.7845%				
	Calculation of Effective Property Tax Factor						
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	34.7845%					
20	One Minus Combined Income Tax Rate (L18-L19)	65.2155%					
21	Property Tax Factor	2.1870%					
22	Effective Property Tax Factor (L20*L21)		1.4263%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			36.2108%			
24	Required Operating Income	$ 72,540					
25	AdjustedTest Year Operating Income (Loss)	$ (182,479)					
26	Required Increase in Operating Income (L24 - L25)		$ 255,020				
27	Income Taxes on Recommended Revenue (Col. (F), L52)	$ 26,465					
28	Income Taxes on Test Year Revenue (Col. (C), L52)	$ (109,557)					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		$ 136,022				
30	Recommended Revenue Requirement	$ 720,310					
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	$ 29,773					
36	Property Tax on Test Year Revenue	$ 21,030					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		$ 8,743				
38	Total Required Increase in Revenue (L26 + L29 + L37)		$ 399,785				

		(A)	(B)	(C)	(D)	[E]	[F]
		Test Year			Company Recommended		
	Calculation of Income Tax:	Total		Water	Total		Water
39	Revenue	$ 320,525		$ 320,525	$ 720,310		$ 720,310
40	Operating Expenses Excluding Income Taxes	612,561		612,561	621,305		621,305
41	Synchronized Interest (L47)	-		-	-	-	-
42	Arizona Taxable Income (L39 - L40 - L41)	$ (292,037)	$ -	$ (292,037)	$ 99,005	$ -	$ 99,005
43	Arizona State Effective Income Tax Rate (see work papers)	6.9680%		6.9680%	6.9680%		6.9680%
44	Arizona Income Tax (L42 x L43)	$ (20,349)	$ -	$ (20,349)	$ 6,899	$ -	$ 6,899
45	Federal Taxable Income (L42- L44)	$ (271,687)	$ -	$ (271,687)	$ 92,106	$ -	$ 92,106
46							
47	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ (7,500)	$ -	$ (7,500)	$ 7,500		$ 7,500
48	Federal Tax on Second Income Bracket ($50,001 - $75,000) @ 25%	$ (6,250)	$ -	$ (6,250)	$ 6,250		$ 6,250
49	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ (8,500)	$ -	$ (8,500)	$ 5,816		$ 5,816
50	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ (66,958)	$ -	$ (66,958)	$ -		$ -
51	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ -	$ -	$ -	$ -		$ -
52							
53	Total Federal Income Tax	$ (89,208)	$ -	$ (89,208)	$ 19,566	$ -	$ 19,566
54	Combined Federal and State Income Tax (L35 + L42)	$ (109,557)	$ -	$ (109,557)	$ 26,465	$ -	$ 26,465

55 COMBINED Applicable Federal Income Tax Rate [Col. [D], L53 - Col. [A], L53 / [Col. [D], L45 - Col. [A], L45] 29.9000%

56

57 WATER Applicable Federal Income Tax Rate [Col. [F], L53 - Col. [C], L53] / [Col. [F], L45 - Col. [C], L45] 29.9000%

	Calculation of Interest Synchronization:		Water
58	Rate Base	$ -	$ 659,457
59	Weighted Average Cost of Debt	0.0000%	0.0000%
60	Synchronized Interest (L59 X L60)	$ -	$ -

Payson Water Company
Test Year Ended December 31, 2012
Comparative Balance Sheets

Exhibit
Schedule E-1
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2012	Year Ended 12/31/2011	Year Ended 12/31/2010
1	**ASSETS**			
2	Plant In Service	$ 2,159,387	$ 2,726,138	$ 2,707,142
3	Non-Utility Plant	1,860	-	-
4	Construction Work in Progress	-	174,380	168,234
5	Less: Accumulated Depreciation	(1,419,514)	(1,819,610)	(1,734,357)
6	Net Plant	$ 741,733	$ 1,080,908	$ 1,141,019
7				
8	Debt Reserve Fund	$ -	$ -	$ -
9				
10		$ -	$ -	$ -
11				
12	CURRENT ASSETS			
13	Cash and Equivalents	$ -	$ -	$ -
14	Restricted Cash	-	-	-
15	Accounts Receivable, Net	-	-	-
16	Note Receivable from Assoc. Co.	352,015	-	-
17	Notes Receivable	-	-	-
18	Materials and Supplies	-	-	-
19	Prepayments	-	-	-
20	Other Current Assets	-	(542)	695
21	Total Current Assets	$ 352,015	$ (542)	$ 695
22				
23	Unamortized Debt Discount			
24	Accumulated Deferred Income Taxes			
25	Deferred Debits	$ -	$ -	$ -
26				
27	Other Assets	$ -	$ -	$ -
28				
29	TOTAL ASSETS	$ 1,093,748	$ 1,080,366	$ 1,141,714
30				
31				
32	**LIABILITIES AND STOCKHOLDERS' EQUITY**			
33				
34	Stockholder's Equity	$ 963,559	$ 403,655	$ 497,039
35				
36	Long-Term Debt	$ -	$ -	$ -
37				
38	CURRENT LIABILITIES			
39	Accounts Payable	$ 15,252	$ 15,272	$ 15,272
40	Current Portion of Long-Term Debt	-	-	-
41	Payables to Associated Companies	-	285,779	211,690
42	Security Deposits	-	-	-
43	Customer Meter Deposits, Current	-	-	-
44	Accrued Taxes	-	-	-
45	Accrued Interest	-	-	-
46	Other Current Liabilities	-	-	13,979
47	Total Current Liabilities	$ 15,252	$ 301,051	$ 240,941
48	DEFERRED CREDITS			
49	Customer Meter Deposits, less current	$ -	$ -	$ -
50	Advances in Aid of Construction	-	82,382	82,382
51	Accumulated Deferred Income Taxes	-	-	-
52	Contributions In Aid of Construction	375,036	877,282	877,282
53	Accumulated Amortization	(260,099)	(584,004)	(555,930)
54	Total Deferred Credits	$ 114,937	$ 375,660	$ 403,734
55				
56	Total Liabilities & Common Equity	$ 1,093,748	$ 1,080,366	$ 1,141,714
57				
58				
59				
60	SUPPORTING SCHEDULES:		RECAP SCHEDULES:	
61			A-3	

Payson Water Company
Test Year Ended December 31, 2012
Comparative Income Statements

Exhibit
Schedule E-2
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2012	Prior Year Ended 12/31/2011	Prior Year Ended 12/31/2010
1	**Revenues**			
2	Metered Water Revenues	$ 386,877	$ 474,116	$ 437,162
3	Unmetered Water Revenues	-	-	-
4	Other Water Revenues	8,031	22,923	10,302
5	**Total Revenues**	$ 394,908	$ 497,039	$ 447,464
6	**Operating Expenses**			
7	Salaries and Wages	$ 55,097	$ 56,886	$ 51,561
8	Purchased Water	51,953	46,604	24,322
9	Purchased Power	56,482	60,782	60,310
10	Fuel For Power Production	-	-	-
11	Chemicals	2,438	-	42
12	Repairs and Maintenance	28,136	22,692	15,492
13	Office Supplies and Expense	-	-	-
14	Contractual Services	70,679	48,621	41,021
15				
16		-	-	-
17		-	-	
18	Water Testing	11,000	17,916	14,124
19	Rents	-	-	-
20	Transportation Expenses	-	-	-
21	Insurance - General Liability	-	-	-
22	Insurance - Health and Life	266	2,614	2,374
23	Reg. Comm. Exp. - Other	-	-	-
24	Reg. Comm. Exp. - Rate Case	-	-	-
25	Miscellaneous Expense	235,989	251,575	276,983
26		-	-	-
27	Depreciation and Amortization Expense	68,142	57,181	48,853
28	Taxes Other Than Income	-	-	-
29	Property Taxes	11,127	24,892	23,634
30	Income Tax	-	-	-
31		-	-	-
32		-	-	-
33	**Total Operating Expenses**	$ 591,309	$ 589,763	$ 558,716
34	**Operating Income**	$ (196,401)	$ (92,724)	$ (111,252)
35	**Other Income (Expense)**			
36	Interest Income	-	-	-
37	Other Income	610	-	-
38	Interest Expense	(14)	(10)	(23)
39	Other Expense	-	(650)	(516,000)
40	Gain (loss) on Disposal of Equip	755,709		
41	**Total Other Income (Expense)**	$ 756,305	$ (660)	$ (516,023)
42	**Net Profit (Loss)**	$ 559,904	$ (93,384)	$ (627,275)
43				
44				
45				
46	SUPPORTING SCHEDULES:			
47				
48				

Payson Water Company
Test Year Ended December 31, 2012
Comparative Statements of Cash Flows

Exhibit
Schedule E-3
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2012	Prior Year Ended 12/31/2011	Prior Year Ended 12/31/2010
1				
2				
3	Cash Flows from Operating Activities			
4	Net Income	$ 559,904	$ (93,384)	$ (627,275)
5	Adjustments to reconcile net income to net cash			
6	provided by operating activities:			
7	Depreciation and Amortization	68,142	57,181	48,853
8	Depreciation Adjustments	4,529	(2)	2
9	Changes in Certain Assets and Liabilities:			
10	Accounts Receivable			
11	Unbilled Revenues			
12	Materials and Supplies Inventory			
13	Prepaid Expenses			
14	Deferred Charges			
15	Receivables/Payables to Associated Co.	(637,794)	74,089	238,213
16	Accounts Payable	(20)		
17	Customer Meter and Security Deposits			
18	Taxes Payable			
19	Other assets and liabilities	(542)	(12,742)	529,978
20				
21	Rounding			
22	Net Cash Flow provided by Operating Activities	$ (5,781)	$ 25,142	$ 189,771
23	Cash Flow From Investing Activities:			
24	Capital Expenditures	246,433	(25,142)	(189,771)
25	Plant Held for Future Use			
26	Changes in Special Funds			
27	Net Cash Flows from Investing Activities	$ 246,433	$ (25,142)	$ (189,771)
28	Cash Flow From Financing Activities			
29	Change in Restricted Cash			
30	Proceeds from Long-Term Debt			
31	Net receipt of contributions in aid of construction	(158,270)	-	
32	Net receipts of advances in aid of construction	(82,382)	-	-
33	Repayments of Long-Term Debt	-	-	
34	Distributions			
35	Deferred Financing Costs			
36	Paid in Capital			
37	Net Cash Flows Provided by Financing Activities	$ (240,652)	$ -	$ -
38	Increase(decrease) in Cash and Cash Equivalents	-	-	-
39	Cash and Cash Equivalents at Beginning of Year	-	-	-
40	Cash and Cash Equivalents at End of Year	$ -	$ -	$ -
41				
42				
43	SUPPORTING SCHEDULES:		RECAP SCHEDULES:	
44	Workpapers/cashflow water.xls		A-5	
45				

Payson Water Company
Test Year Ended December 31, 2012
Statement of Changes in Stockholder's Equity

Exhibit
Schedule E-4
Page 1
Witness: Bourassa

Line No.		Stockholder's Equity	Paid-in Capital	Retained Earnings	Total
1					
2					
3					
4	Balance, December 31, 2009	$ 646,630	$ 364,385	$ 113,299	$ 1,124,314
5	Addnl Paid In Capital Adjustment	-			-
6	Distributions			-	-
7	Rounding			-	-
8	Net Income			(627,275)	(627,275)
9					
10	Balance, December 31, 2010	$ 646,630	$ 364,385	$ (513,976)	$ 497,039
11	Adjustment			-	-
12	Distributions			-	-
13	Rounding				-
14	Net Income			(93,384)	(93,384)
15					
16	Balance, December31, 2011	$ 646,630	$ 364,385	$ (607,360)	$ 403,655
17	Addnl Paid In Capital Adjustment	-			-
18	Distributions			-	-
19	Rounding				-
20	Net Income			559,904	559,904
21					
22	Balance, December 31, 2012	$ 646,630	$ 364,385	$ (47,456)	$ 963,559
23					
24					
25					
26					
27					
28					
29	SUPPORTING SCHEDULES:			RECAP SCHEDULES:	
30				E-1	
31					
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39					
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Payson Water Company
Test Year Ended December 31, 2012
Detail of Plant in Service

Exhibit
Schedule E-5
Page 1
Witness: Bourassa

Line No.	Acct. No.	Plant Description	Plant Balance at 12/31/2011	Plant Additions, Reclass-ications or or Retirements	Plant Balance at 12/31/2012
1					
2	301	Organization Cost	300	$ (79)	221
3	302	Franchise Cost	-	-	-
4	303	Land and Land Rights	22,391	(5,891)	16,500
5	304	Structures & Improvements	216,605	83,473	300,078
6	305	Collecting & Impounding Reservoirs	3,435	(904)	2,531
7	306	Lake, River, Canal Intakes	-	-	-
8	307	Wells & Springs	370,493	(97,481)	273,013
9	308	Infiltration Galleries	-	-	-
10	309	Raw Water Supply Mains	612	3,069	3,681
11	310	Power Generation Equipment	8,628	(318)	8,310
12	311	Pumping Equipment	289,650	(72,041)	217,608
13	320	Water Treatment Equipment	14,339	(3,773)	10,567
14	320	Water Treatment Plants	-	-	-
15	320.2	Solution Chemical Feeders	-	-	-
16	330.0	Distribution Reservoirs & Standpipes	371,561	(97,762)	273,800
17	330	Storage Tanks	-	-	-
18	330.2	Pressure Tanks	-	-	-
19	331	Transmission & Distribution Mains	597,066	(157,094)	439,972
20	333	Services	111,038	(29,215)	81,823
21	334	Meters	270,384	(70,433)	199,952
22	335	Hydrants	1,589	(418)	1,171
23	336	Backflow Prevention Devices	-	-	-
24	339	Other Plant & Misc Equipment	435,371	(114,551)	320,820
25	340	Office Furniture & Equipment	-	-	-
26	340.1	Computers & Software	-	-	-
27	341	Transportation Equipment	-	-	-
28	342	Stores Equipment	-	-	-
29	343	Tools, Shop & Garage Equipment	98	(26)	72
30	344	Laboratory Equipment	-	-	-
31	345	Power Operated Equipment	-	-	-
32	346	Communication Equipment	12,576	(3,309)	9,267
33	347	Miscellaneous Equipment	-	-	-
34	348	Other Tangible Plant	-	-	-
35		Plant Held for Future Use		-	
36					
37					
38		Rounding			
39		TOTAL WATER PLANT	$ 2,726,138	$ (566,752)	$ 2,159,387
40					
41	SUPPORTING SCHEDULES			RECAP SCHEDULES:	
42	Work Papers			A-4	
43	B-2 pages 3.1 to 3.17			E-1	
44					

Payson Water Company
Test Year Ended December 31, 2012
Operating Statistics

Exhibit
Schedule E-7
Page 1
Witness: Bouras

Line No.		Test Year Ended 12/31/2012	Prior Year Ended 12/31/2011	Prior Year Ended 12/31/2010
1	WATER STATISTICS:			
2				
3				
4				
5	Total Gallons Sold (in Thousands)	51,230	67,777	66,965
6				
7				
8				
9	Water Revenues from Customers:	$ 386,877	$ 474,116	$ 437,162
10				
11				
12				
13				
14	Year End Number of Customers	1,116	1,485	1,498
15				
16				
17	Annual Gallons (in Thousands)			
18	Sold Per Year End Customer	46	46	45
19				
20				
21				
22	Annual Revenue per Year End Customer	$ 346.66	$ 319.27	$ 291.83
23				
24	Pumping Cost Per 1,000 Gallons	$ 1.1025	$ 0.8968	$ 0.9006
25	Purchased Water Cost per 1,000 Gallons	$ -	$ -	$ -

Payson Water Company
Test Year Ended December 31, 2012
Taxes Charged to Operations

Exhibit
Schedule E-8
Page 1
Witness: Bourassa

Line No.	Description	Test Year Ended 12/31/2012	Prior Year Ended 12/31/2011	Prior Year Ended 12/31/2010
1	Description			
2				
3	State Income Taxes	$ -	$ -	$ -
4	Federal Income Taxes	-	-	-
5	Payroll Taxes	4,490	4,518	3,936
6	Property Taxes	11,127	24,892	23,634
7				
8	Totals	$ 15,617	$ 29,410	$ 27,570
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Payson Water Company
Test Year Ended December 31, 2012
Notes To Financial Statements

Exhibit
Schedule E-9
Page 1
Witness: Bourassa

Line No.	
1	
2	The Company does not conduct independent audits
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Payson Water Company
Test Year Ended December 31, 2012
Projected Income Statements - Present & Proposed Rates

Exhibit
Schedule F-1
Page 1
Witness: Bourassa

Line No.		Test Year Actual Results	At Present Rates Year Ended 12/31/2013	At Proposed Rates Year Ended 12/31/2013
1	**Revenues**			
2	Metered Water Revenues	$ 386,877	$ 313,559	$ 713,344
3	Unmetered Water Revenues	-	-	-
4	Other Water Revenues	8,031	6,966	6,966
5		$ 394,908	$ 320,525	$ 720,310
6	**Operating Expenses**			
7	Salaries and Wages	$ 55,097	$ 55,097	$ 55,097
8	Purchased Water	51,953	-	-
9	Purchased Power	56,482	50,533	50,533
10	Fuel For Power Production	-	-	-
11	Chemicals	2,438	2,181	2,181
12	Repairs and Maintenance	28,136	28,089	28,089
13	Office Supplies and Expense	-	-	-
14	Contractual Services	70,679	58,481	58,481
15	Water Testing	11,000	11,000	11,000
16	Rents	-	-	-
17	Transportation Expenses	-	-	-
18	Insurance - General Liability	-	-	-
19	Insurance - Health and Life	266	266	266
20	Reg. Comm. Exp. - Other	-	-	-
21	Reg. Comm. Exp. - Rate Case	-	65,000	65,000
22	Miscellaneous Expense	235,989	235,253	235,253
23	Depreciation and Amortization Expense	68,142	85,632	85,632
24	Taxes Other Than Income	-	-	-
25	Property Taxes	11,127	21,030	29,773
26	Income Tax	-	(109,557)	26,465
27	**Total Operating Expenses**	$ 591,309	$ 503,004	$ 647,770
28	**Operating Income**	$ (196,401)	$ (182,479)	$ 72,540
29	**Other Income (Expense)**			
30	Interest Income	-	-	-
31	Other income	610	-	-
32	Interest Expense	(14)	-	-
33	Other Expense	-	-	-
34	Gain/Loss Sale of Fixed Assets	755,709	-	-
35	**Total Other Income (Expense)**	$ 756,305	$ -	$ -
36	**Net Profit (Loss)**	$ 559,904	$ (182,479)	$ 72,540
37				
38				
39	SUPPORTING SCHEDULES:			
40	C-1			
41				
42				
43				

Payson Water Company
Test Year Ended December 31, 2012
Projected Statements of Changes in Financial Position
Present and Proposed Rates

Exhibit
Schedule F-2
Page 1
Witness: Bourassa

Line No.		Actual Test Year Ended 12/31/2012	At Present Rates Year Ended 12/31/2013	At Proposed Rates Year Ended 12/31/2013
1				
2				
3				
4				
5	Cash Flows from Operating Activities			
6	Net Income	$ 559,904	$ (182,479)	$ 72,540
7	Adjustments to reconcile net income to net cash			
8	provided by operating activities:			
9	Depreciation and Amortization	68,142	85,632	85,632
10	Depreciation Adjustments	4,529		
11	Changes in Certain Assets and Liabilities:			
12	Accounts Receivable	-		
13	Unbilled Revenues	-		
14	Materials and Supplies Inventory	-		
15	Prepaid Expenses	-		
16	Deferred Charges	-		
17	Notes Receivable	(637,794)		
18	Accounts Payable	(20)		
19	Intercompany payable	-		
20	Customer Meter Deposits	-		
21	Taxes Payable	(542)		
22	Other assets and liabilities	-		
23	Rounding	-		
24	Net Cash Flow provided by Operating Activities	$ (5,781)	$ (96,848)	$ 158,172
25	Cash Flow From Investing Activities:			
26	Capital Expenditures	246,433	(116,400)	(116,400)
27	Plant Held for Future Use	-		
28	Changes in debt reserve fund	-		
29	Net Cash Flows from Investing Activities	$ 246,433	$ (116,400)	$ (116,400)
30	Cash Flow From Financing Activities			
31	Change in Restricted Cash	-	-	-
32	Change in net amounts due to parent and affiliates	-		
33	Net Receipt contributions in aid of construction	(158,270)	-	-
34	Net receipts of advances in aid of construction	(82,382)	-	-
35	Repayments of Long-Term Debt	-	-	-
36	Dividends Paid	-	-	-
37	Deferred Financing Costs	-	-	-
38	Paid in Capital	-	-	-
39	Net Cash Flows Provided by Financing Activities	$ (240,652)	$ -	$ -
40	Increase(decrease) in Cash and Cash Equivalents	-	(213,248)	41,772
41	Cash and Cash Equivalents at Beginning of Year	-	-	-
42	Cash and Cash Equivalents at End of Year	$ -	$ (213,248)	$ 41,772
43				
44				
45				
46	SUPPORTING SCHEDULES:			
47	E-3			
48				
49				
50				
51				

Payson Water Company
Test Year Ended December 31, 2012
Projected Construction Requirements

Exhibit
Schedule F-3
Page 1
Witness: Bourassa

Line No.	Account Number	Plant Asset:	Test Year	2013	2014	2015
1						
2	Account					
3	Number	Plant Asset:	Test Year	2013	2014	2015
4	301	Organization Cost	$ -			
5	302	Franchise Cost	-			
6	303	Land and Land Rights	-		10,000	
7	304	Structures and Improvements	167,258		2,500	
8	305	Collecting and Impounding Res.	-			
9	306	Lake River and Other Intakes	-			
10	307	Wells and Springs	-			
11	308	Infiltration Galleries and Tunnels	-			
12	309	Supply Mains	3,230			
13	310	Power Generation Equipment	1,952			
14	311	Electric Pumping Equipment	5,063	6,000		
15	320	Water Treatment Equipment	-			
16	320.1	Water Treatment Plant	-			
17	320.2	Chemical Solution Feeders	-			
18	330	Dist. Reservoirs & Standpipe	-		16,500	
19	330.1	Storage tanks	-			
20	330.2	Pressure Tanks	-			
21	331	Trans. and Dist. Mains	-	110,400	450,400	1,000,000
22	333	Services	-			
23	334	Meters	753			
24	335	Hydrants	-			
25	336	Backflow Prevention Devices	-			
26	339	Other Plant and Misc. Equip.	-			
27	340	Office Furniture and Fixtures	-			
28	340.1	Computers and Software	-			
29	341	Transportation Equipment	-			
30	342	Stores Equipment	-			
31	343	Tools and Work Equipment	-			
32	344	Laboratory Equipment	-			
33	345	Power Operated Equipment	-			
34	346	Communications Equipment	-			
35	347	Miscellaneous Equipment	-			
36	348	Other Tangible Plant	-			
37	Total		$ 178,257	$ 116,400	$ 479,400	$ 1,000,000
38						
39						
40						

Payson Water Company
Test Year Ended December 31, 2012
Assumptions Used in Rate Filing

Exhibit
Schedule F-4
Page 1
Witness: Bourassa

Line No.	
1	Property Taxes were computed using the method used by the Arizona Department
2	of Revenue modified for ratemaking.
3	
4	Projected construction expenditures are shown on Schedule A-4.
5	
6	Expense adjustments are shown on Schedule C2, and are explained in the testimony.
7	
8	Income taxes were computed using statutory state and federal income tax rates.
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Payson Water Company
Test Year Ended December 31, 2012
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Schedule H-1
Page 1

Line No.	Meter Size	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	5/8x3/4 Inch US	$ 287,143	$ 632,117	$ 344,974	120.14%	89.59%	87.76%
2	5/8x3/4 Inch C&S	52,037	136,187	84,150	161.71%	16.23%	18.91%
3	3/4 Inch US	1,860	4,510	2,650	142.51%	0.58%	0.63%
4	1 Inch US	7,430	28,660	21,229	285.72%	2.32%	3.98%
5	1 Inch C&S	566	2,862	2,296	405.40%	0.18%	0.40%
6							
7							
8	Total Revenuers before Annualization	$ 349,036	$ 804,335	$ 455,299	130.44%	108.90%	111.67%
9							
10							
11							
12	Meter Size	Company Present Revenues	Staff Proposed Revenues	Dollar Change	Percent Change	Percent of Present	Percent of Proposed	Schedule
13			Revenue Annualization					
14	5/8x3/4 Inch US	$ (30,152)	$ (66,452)	$ (36,300)	120.39%	-9.41%	-9.23%	C-2, page 5.1
15	5/8x3/4 Inch C&S	659	1,512	853	129.51%	0.21%	0.21%	C-2, page 5.2
16	3/4 Inch US	(112)	(291)	(179)	159.02%	-0.04%	-0.04%	C-2, page 5.3
17	1 Inch US	(6,416)	(25,781)	(19,366)	301.84%	-2.00%	-3.58%	C-2, page 5.4
18	1 Inch C&S	-	-	-	0.00%	0.00%	0.00%	
19								
20								
21	Total Revenue Annualization	$ (36,021)	$ (91,013)	$ (54,992)	152.67%	-11.24%	-12.64%	
22								
23	Total Revenues with Rev. Annual.	$ 313,015	$ 713,323	$ 400,308	127.89%	97.66%	99.03%	
24								
25	Misc. Serv. Rev.	8,031	8,031	-	0.00%	2.506%	1.115%	
26	Star Valley/Quail Valley Misc. Serv. Rev.	(1,065)	(1,065)	-	0.00%	-0.332%	-0.148%	
27	Unreconciled Difference to C-1	544	21	(523)	-96.14%	0.170%	0.003%	
28								
29	Total Revenues	$ 320,525	$ 720,310	$ 399,785	124.73%	100.00%	100.00%	
30								

Payson Water Company
Test Year Ended December 31, 2012
Analysis of Revenue by Detailed Class

Exhibit
Schedule H-2
Page 1
Witness: Bourassa

Line No.	Meter Size	(a) Average Number of Customers at 12/31/2012	Average Consumption	Revenues Present Rates	Revenues Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	5/8x3/4 Inch US	1,066	2,856	$ 21.51	$ 47.09	$ 25.58	118.90%
2	5/8x3/4 Inch C&S	159	6,961	27.30	64.30	37.00	135.51%
3	3/4 Inch US	4	7,077	35.32	84.47	49.15	139.15%
4	1 Inch US	21	3,870	28.75	116.47	87.72	305.13%
5	1 Inch C&S	2	4,459	28.75	116.47	87.72	305.13%
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16	Totals	1,252					
17							

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

Payson Water Company
Test Year Ended December 31, 2012
Analysis of Median Bill by Detailed Class

Exhibit
Schedule H-2
Page 2
Witness: Bourassa

Line No.	Meter Size and Class	(a) Average Number of Customers at 12/31/2012	Median Consumption	Median Bill Present Rates	Median Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	5/8x3/4 Inch US	1,066	2,500	$ 20.83	$ 46.11	$ 25.29	121.42%
	5/8x3/4 Inch C&S	159	4,500	23.66	52.61	28.95	122.36%
2	3/4 Inch US	4	6,500	33.60	81.73	48.13	143.28%
3	1 Inch US	21	2,500	26.11	109.97	83.86	321.24%
4	1 Inch C&S	2	3,500	22.18	114.72	92.54	417.20%
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15	Totals	-					
16							
17							

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

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Payson Water Company
Test Year Ended December 31, 2012
Present and Proposed Rates

Exhibit
Schedule H-3
Page 1
Witness: Bourassa

Line No.		United Systems Present Rates	C&S Systems Present Rates	Consolidated Proposed Rates
1				
2				
3	**Monthly Usage Charge for:**			
4	Meter Size :			
5	5/8 Inch	$ 16.00	$ 17.00	$ 39.24
6	3/4 Inch	18.40	$ 25.50	58.85
7	1 Inch	21.28	$ 42.50	98.09
8	1 1/2 Inch	32.00	$ 85.00	196.18
9	2 Inch	56.00	$ 136.00	313.89
10	3 Inch	80.00	$ 255.00	627.78
11	4 Inch	128.00	$ 425.00	980.90
12	6 Inch	NT	$ 850.00	1,961.80
13	8 Inch	NT	NT	3,138.88
14				
15				
16				
17				
18				
19				
20	Gallons In Minimum	-	-	
21				

(Per 1,000 gallons)

Line No.	Commodity Rates	Block	United Systems Present Rate	C&S Systems Present Rate	Consolidated Proposed Rate
22					
23					
24					
25	**Commodity Rates**	**Block**			
26	All Meter Sizes	0 gallons to 4,000 gallons	$ 1.93		
27		over 4,000 gallons	$ 2.99		
28					
29	All Meter Sizes	All gallons		$ 1.48	
30					
31	5/8 Inch and 3/4 Inch	0 gallons to 4,000 gallons			$ 2.75
32		4,001 gallons to 10,000 gallons			$ 4.75
33		over 10,000 gallons			$ 6.75
34					
35	1 Inch	0 gallons to 25,000 gallons			$ 4.75
36		over 25,000 gallons			$ 6.75
37					
38	1 1/2 Inch	0 gallons to 50,000 gallons			$ 4.75
39		over 50,000 gallons			$ 6.75
40					
41	2 Inch	0 gallons to 80,000 gallons			$ 4.75
42		over 80,000 gallons			$ 6.75
43					

Payson Water Company
Test Year Ended December 31, 2012
Present and Proposed Rates

Exhibit
Schedule H-3
Page 2
Witness: Bourassa

Line No.	Commodity Rates (Residential, Commercial, Industrial)	Block	(Per 1,000 gallons) United Systems Present Rate	C&S Systems Present Rate	Consolidated Proposed Rate
1					
2					
3	**Commodity Rates**				
4	**(Residential, Commercial, Industrial)**	**Block**	**United Systems Present Rate**	**C&S Systems Present Rate**	**Consolidated Proposed Rate**
5					
6	3 Inch	0 gallons to 160,000 gallons			$ 4.75
7		over 160,000 gallons			$ 6.75
8					
9	4 Inch	0 gallons to 250,000 gallons			$ 4.75
10		over 250,000 gallons			$ 6.75
11					
12	6 Inch	0 gallons to 500,000 gallons			$ 4.75
13		over 500,000 gallons			$ 6.75
14					
15	8 Inch	0 gallons to 800,000 gallons			$ 4.75
16		over 800,000 gallons			$ 6.75
17					
18					
19					
20					
21					
22					
23					
24					
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37					

Payson Water Company
Changes in Representative Rate Schedules
Test Year Ended December 31, 2012

Exhibit
Schedule H- 3
Page 3
Witness: Bourassa

Line No.		United Systems Present Rates	C&S Systems Present Rates	Consolidated Proposed Rates
1				
2				
3	Other Service Charges			
4	Establishment	$ 20.00	$ 20.00	$ 20.00
5	Establishment (After Hours)	35.00	35.00	35.00
6	Reconnection (Delinquent)	20.00	20.00	20.00
7	Reconnection (Delinquent and After Hours)	30.00	30.00	30.00
8	Meter Test (If meter reading correctly)	25.00	20.00	25.00
9	Deposit	*	*	*
10	Deposit Interest*	6.00%	6.00%	6.00%
11	Re-Establishment (With-in 12 Months)	**	**	**
12	NSF Check	$ 17.50	$ 10.00	$ 17.50
13	Deferred Payment, Per Month	1.50%	1.50%	1.50%
14	Meter Re-Read (if correct)	$ 15.00	$ 10.00	$ 15.00
15	Late Charge per month (per R-14-2-409G(6))	1.50%	1.50%	1.50%
16				
17				
18				
19				
20				
21				
22				
23				
24	* PER COMMISSION RULE (R14-2-403.B)			
25	** Months off system times the minimum. PER COMMISSION RULE (R14-2-403.D)			
26				
27	N/T = No tariff.			
28				
29				
30	IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM			
31	ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE			
32	TAX. PER COMMISSION RULE (14-2-409.D 5).			
33				
34	ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS,			
35	AND ALL APPLICABLE TAXES.			
36				
37				

Payson Water Company
Test Year Ended December 31, 2012
Service Charges
Meter and Service Line Charges

Exhibit
Schedule H-3
Page 4
Witness: Bourassa

Line No.		United Systems Present Total Charge	C&S Systems Present Total Charge	Proposed Service Line Charge*	Proposed Meter Install-ation Charge*	Total Proposed Charge*
1						
2						
3						
4						
5						
6	5/8 x 3/4 Inch	$ 430.00	$ 430.00	$ 445.00	$ 155.00	$ 600.00
7	3/4 Inch	480.00	480.00	445.00	255.00	700.00
8	1 Inch	550.00	550.00	495.00	315.00	810.00
9	1 1/2 Inch	775.00	775.00	550.00	525.00	1,075.00
10	2 Inch	1,305.00	1,305.00			
11	2 Inch / Turbine			830.00	1,045.00	1,875.00
12	2 Inch / Compound			830.00	1,890.00	2,720.00
13	3 Inch	1,815.00	1,815.00			
14	3 Inch / Turbine			1,045.00	1,670.00	2,715.00
15	3 Inch / Compound			1,165.00	2,545.00	3,710.00
16	4 Inch	2,860.00	2,860.00			
17	4 Inch / Turbine			1,490.00	3,670.00	5,160.00
18	4 Inch / Compound			1,670.00	3,645.00	5,315.00
19	6 Inch	NA	5,275.00			
20	6 Inch / Turbine			2,210.00	5,025.00	7,235.00
21	6 Inch / Compound			2,330.00	6,920.00	9,250.00
22	8 Inch			At Cost	At Cost	At Cost
23						
24						
25						
26	*Based on Staff update of typical service line and meter installation charges dated					
27	February 21, 2008.					
28						

Payson Water Company
Bill Comparison Present and Proposed Rates
Meter Size: 5/8x3/4 Inch (United Systems)

Exhibit
Schedule H-4
Page 1
Witness: Bourassa

Line No.	Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1					
2					
3	-	$ 16.00	$ 39.24	$ 23.24	145.23%
4	1,000	17.93	41.99	24.06	134.17%
5	2,000	19.86	44.74	24.88	125.26%
6	3,000	21.79	47.49	25.70	117.93%
7	4,000	23.72	50.24	26.52	111.79%
8	5,000	26.71	54.99	28.28	105.86%
9	6,000	29.70	59.74	30.04	101.13%
10	7,000	32.69	64.49	31.80	97.27%
11	8,000	35.68	69.24	33.56	94.05%
12	9,000	38.67	73.99	35.32	91.33%
13	10,000	41.66	78.74	37.08	89.00%
14	12,000	47.64	92.24	44.60	93.61%
15	14,000	53.62	105.74	52.12	97.20%
16	16,000	59.60	119.24	59.64	100.06%
17	18,000	65.58	132.74	67.16	102.40%
18	20,000	71.56	146.24	74.68	104.35%
19	25,000	86.51	179.99	93.48	108.05%
20	30,000	101.46	213.74	112.28	110.66%
21	35,000	116.41	247.49	131.08	112.60%
22	40,000	131.36	281.24	149.88	114.10%
23	50,000	161.26	348.74	187.48	116.26%
24	60,000	191.16	416.24	225.08	117.74%
25	70,000	221.06	483.74	262.68	118.83%
26	80,000	250.96	551.24	300.28	119.65%
27	90,000	280.86	618.74	337.88	120.30%
28	100,000	310.76	686.24	375.48	120.83%
29					
30					
31	Average Usage				
32	2,856	$ 21.51	$ 47.09	$ 25.58	118.90%
33	Median Usage				
34	2,500	$ 20.83	$ 46.11	$ 25.29	121.42%

Present Rates:			
Monthly Minimum:		$	16.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	4,000	$	1.93
Over	4,000	$	2.99
		$	2.99
Arsenic Surcharge		$	-
Proposed Rates:			
Monthly Minimum:		$	39.24
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	4,000	$	2.75
Up to	10,000	$	4.75
Over	10,000	$	6.75
Arsenic Surcharge		$	-

Payson Water Company
Bill Comparison Present and Proposed Rates
Meter Size: 5/8x3/4 Inch (C&S Systems)

Exhibit
Schedule H-4
Page 2
Witness: Bourassa

Line No.	Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1					
2					
3	-	$ 17.00	$ 39.24	$ 22.24	130.80%
4	1,000	18.48	41.99	23.51	127.20%
5	2,000	19.96	44.74	24.78	124.13%
6	3,000	21.44	47.49	26.05	121.48%
7	4,000	22.92	50.24	27.32	119.18%
8	5,000	24.40	54.99	30.59	125.35%
9	6,000	25.88	59.74	33.86	130.82%
10	7,000	27.36	64.49	37.13	135.69%
11	8,000	28.84	69.24	40.40	140.07%
12	9,000	30.32	73.99	43.67	144.02%
13	10,000	31.80	78.74	46.94	147.60%
14	12,000	34.76	92.24	57.48	165.35%
15	14,000	37.72	105.74	68.02	180.32%
16	16,000	40.68	119.24	78.56	193.11%
17	18,000	43.64	132.74	89.10	204.16%
18	20,000	46.60	146.24	99.64	213.81%
19	25,000	54.00	179.99	125.99	233.31%
20	30,000	61.40	213.74	152.34	248.10%
21	35,000	68.80	247.49	178.69	259.72%
22	40,000	76.20	281.24	205.04	269.08%
23	50,000	91.00	348.74	257.74	283.23%
24	60,000	105.80	416.24	310.44	293.42%
25	70,000	120.60	483.74	363.14	301.11%
26	80,000	135.40	551.24	415.84	307.12%
27	90,000	150.20	618.74	468.54	311.94%
28	100,000	165.00	686.24	521.24	315.90%
29					
30					
31	Average Usage				
32	6,961	$ 27.30	$ 64.30	$ 37.00	135.51%
33	Median Usage				
34	4,500	$ 23.66	$ 52.61	$ 28.95	122.36%

Present Rates:			
Monthly Minimum:		$	17.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
All gallons		$	1.48
Arsenic Surcharge		$	-
Proposed Rates:			
Monthly Minimum:		$	39.24
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	4,000	$	2.75
Up to	10,000	$	4.75
Over	10,000	$	6.75
Arsenic Surcharge		$	-

Payson Water Company
Bill Comparison Present and Proposed Rates
Meter Size: 3/4 Inch (United Systems)

Exhibit
Schedule H-4
Page 3
Witness: Bourassa

Line No.	Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1					
2					
3	-	$ 18.40	$ 58.85	$ 40.45	219.86%
4	1,000	20.33	61.60	41.27	203.02%
5	2,000	22.26	64.35	42.09	189.10%
6	3,000	24.19	67.10	42.91	177.40%
7	4,000	26.12	69.85	43.73	167.43%
8	5,000	29.11	74.60	45.49	156.28%
9	6,000	32.10	79.35	47.25	147.21%
10	7,000	35.09	84.10	49.01	139.68%
11	8,000	38.08	88.85	50.77	133.34%
12	9,000	41.07	93.60	52.53	127.91%
13	10,000	44.06	98.35	54.29	123.23%
14	12,000	50.04	111.85	61.81	123.53%
15	14,000	56.02	125.35	69.33	123.77%
16	16,000	62.00	138.85	76.85	123.96%
17	18,000	67.98	152.35	84.37	124.12%
18	20,000	73.96	165.85	91.89	124.25%
19	25,000	88.91	199.60	110.69	124.50%
20	30,000	103.86	233.35	129.49	124.68%
21	35,000	118.81	267.10	148.29	124.82%
22	40,000	133.76	300.85	167.09	124.92%
23	50,000	163.66	368.35	204.69	125.07%
24	60,000	193.56	435.85	242.29	125.18%
25	70,000	223.46	503.35	279.89	125.25%
26	80,000	253.36	570.85	317.49	125.31%
27	90,000	283.26	638.35	355.09	125.36%
28	100,000	313.16	705.85	392.69	125.40%
29					
30					
31	Average Usage				
32	7,077	$ 35.32	$ 84.47	$ 49.15	139.15%
33	Median Usage				
34	6,500	$ 33.60	$ 81.73	$ 48.13	143.28%

Present Rates:

Monthly Minimum:		$	18.40
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	4,000	$	1.93
Over	4,000	$	2.99

Proposed Rates:

Monthly Minimum:		$	58.85
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	4,000	$	2.75
Up to	10,000	$	4.75
Over	10,000	$	6.75

Payson Water Company
Bill Comparison Present and Proposed Rates
Meter Size: 1 Inch (United Systems)

Exhibit
Schedule H-4
Page 4
Witness: Bourassa

Line No.	Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1					
2					
3	-	$ 21.28	$ 98.09	$ 76.81	360.95%
4	1,000	23.21	102.84	79.63	343.08%
5	2,000	25.14	107.59	82.45	327.96%
6	3,000	27.07	112.34	85.27	315.00%
7	4,000	29.00	117.09	88.09	303.76%
8	5,000	31.99	121.84	89.85	280.87%
9	6,000	34.98	126.59	91.61	261.89%
10	7,000	37.97	131.34	93.37	245.90%
11	8,000	40.96	136.09	95.13	232.25%
12	9,000	43.95	140.84	96.89	220.46%
13	10,000	46.94	145.59	98.65	210.16%
14	12,000	52.92	155.09	102.17	193.07%
15	14,000	58.90	164.59	105.69	179.44%
16	16,000	64.88	174.09	109.21	168.33%
17	18,000	70.86	183.59	112.73	159.09%
18	20,000	76.84	193.09	116.25	151.29%
19	25,000	91.79	216.84	125.05	136.23%
20	30,000	106.74	250.59	143.85	134.77%
21	35,000	121.69	284.34	162.65	133.66%
22	40,000	136.64	318.09	181.45	132.79%
23	50,000	166.54	385.59	219.05	131.53%
24	60,000	196.44	453.09	256.65	130.65%
25	70,000	226.34	520.59	294.25	130.00%
26	80,000	256.24	588.09	331.85	129.51%
27	90,000	286.14	655.59	369.45	129.12%
28	100,000	316.04	723.09	407.05	128.80%
29					
30					
31	Average Usage				
32	3,870	$ 28.75	$ 116.47	$ 87.72	305.13%
33	Median Usage				
34	2,500	$ 26.11	$ 109.97	$ 83.86	321.24%

Present Rates:

Monthly Minimum:		$	21.28
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	4,000	$	1.93
Over	4,000	$	2.99

Proposed Rates:

Monthly Minimum:		$	98.09
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	25,000	$	4.75
Over	25,000	$	6.75

Payson Water Company
Bill Comparison Present and Proposed Rates
Meter Size: 1 Inch (C&S Systems)

Exhibit
Schedule H-4
Page 5
Witness: Bourassa

Line No.	Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1					
2					
3	-	$ 17.00	$ 98.09	$ 81.09	477.00%
4	1,000	18.48	102.84	84.36	456.49%
5	2,000	19.96	107.59	87.63	439.03%
6	3,000	21.44	112.34	90.90	423.97%
7	4,000	22.92	117.09	94.17	410.86%
8	5,000	24.40	121.84	97.44	399.34%
9	6,000	25.88	126.59	100.71	389.14%
10	7,000	27.36	131.34	103.98	380.04%
11	8,000	28.84	136.09	107.25	371.88%
12	9,000	30.32	140.84	110.52	364.51%
13	10,000	31.80	145.59	113.79	357.83%
14	12,000	34.76	155.09	120.33	346.17%
15	14,000	37.72	164.59	126.87	336.35%
16	16,000	40.68	174.09	133.41	327.95%
17	18,000	43.64	183.59	139.95	320.69%
18	20,000	46.60	193.09	146.49	314.36%
19	25,000	54.00	216.84	162.84	301.56%
20	30,000	61.40	250.59	189.19	308.13%
21	35,000	68.80	284.34	215.54	313.28%
22	40,000	76.20	318.09	241.89	317.44%
23	50,000	91.00	385.59	294.59	323.73%
24	60,000	105.80	453.09	347.29	328.25%
25	70,000	120.60	520.59	399.99	331.67%
26	80,000	135.40	588.09	452.69	334.34%
27	90,000	150.20	655.59	505.39	336.48%
28	100,000	165.00	723.09	558.09	338.24%
29					
30					
31	Average Usage				
32	4,459	$ 23.60	$ 119.27	$ 95.67	405.40%
33	Median Usage				
34	3,500	$ 22.18	$ 114.72	$ 92.54	417.20%

Present Rates:			
Monthly Minimum:		$	17.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
All gallons		$	1.48
Proposed Rates:			
Monthly Minimum:		$	98.09
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	25,000	$	4.75
Over	25,000	$	6.75

Payson Water Company
Test Year Ended December 31, 2012
Meter Size: 5/8x3/4 Inch (United Systems)

Exhibit
Schedule H-5
Page 1
Witness: Bourassa

Usage From:	Usage To:	Month of Jan-12	Month of Feb-12	Month of Mar-12	Month of Apr-12	Month of May-12	Month of Jun-12	Month of Jul-12	Month of Aug-12	Month of Sep-12	Month of Oct-12	Month of Nov-12	Month of Dec-12	Total Year	Cumul-ative Billing	Cumul-ative Gallons
-	-	225	272	234	188	181	116	122	104	124	113	130	202	2,011	2,011	-
1	1,000	241	222	254	257	260	193	201	246	235	247	272	215	2,843	4,854	1,422,922
1,001	2,000	192	171	181	165	200	120	126	135	146	162	162	150	1,910	6,764	4,288,877
2,001	3,000	172	163	179	170	170	119	104	127	124	116	108	122	1,674	8,438	8,474,714
3,001	4,000	120	127	139	136	144	90	88	79	80	73	84	86	1,246	9,684	12,836,337
4,001	5,000	106	111	98	97	77	70	65	69	66	73	64	68	964	10,648	17,174,819
5,001	6,000	58	77	61	78	60	54	64	58	51	56	45	45	707	11,355	21,063,672
6,001	7,000	35	37	37	57	37	52	33	33	34	26	25	13	419	11,774	23,787,382
7,001	8,000	24	27	22	29	24	23	23	33	22	24	16	17	284	12,058	25,917,524
8,001	9,000	15	14	9	11	16	24	22	14	21	11	6	9	172	12,230	27,379,610
9,001	10,000	12	6	5	9	12	19	17	11	4	13	4	2	114	12,344	28,462,667
10,001	11,000	5	5	2	11	11	5	12	6	8	5	7	4	81	12,425	29,313,207
11,001	12,000	4	-	5	6	5	9	11	9	2	5	6	4	66	12,491	30,072,240
12,001	13,000	3	1	1	3	7	6	5	3	2	4	2	1	38	12,529	30,547,259
13,001	14,000	1	4	1	6	3	4	5	2	6	1	1	2	36	12,565	31,033,277
14,001	15,000	3	1	2	2	4	7	2	1	-	2	-	-	24	12,589	31,381,289
15,001	16,000	3	2	2	2	2	6	4	3	3	4	-	2	33	12,622	31,892,806
16,001	17,000	-	1	2	1	3	1	1	1	2	5	-	-	17	12,639	32,173,314
17,001	18,000	-	2	-	1	2	1	8	2	-	-	-	-	16	12,655	32,453,322
18,001	19,000	2	1	1	1	-	5	4	4	-	2	1	1	22	12,677	32,860,333
19,001	20,000	1	-	-	-	1	1	1	1	-	-	2	-	7	12,684	32,996,837
20,001	21,000	1	-	-	-	2	-	4	-	1	1	-	-	9	12,693	33,181,341
21,001	22,000	-	1	-	-	2	3	1	2	3	2	1	-	15	12,708	33,503,849
22,001	23,000	-	-	-	1	-	1	3	2	3	-	1	-	11	12,719	33,751,354
23,001	24,000	-	-	1	1	1	-	1	2	2	-	-	1	9	12,728	33,962,859
24,001	25,000	-	1	-	-	-	-	-	-	1	2	-	-	4	12,732	34,060,861
25,001	26,000	1	-	-	1	-	1	-	1	1	-	-	-	5	12,737	34,188,363
26,001	27,000	1	-	1	-	-	1	1	1	-	-	-	1	6	12,743	34,347,366
27,001	28,000	1	-	-	1	-	3	2	-	-	-	-	-	7	12,750	34,539,870
28,001	29,000	1	-	-	-	-	3	3	1	-	-	-	-	8	12,758	34,767,874
29,001	30,000	1	-	-	-	-	1	-	-	-	-	-	-	2	12,760	34,826,875
30,001	31,000	-	-	-	-	-	1	3	-	-	-	-	-	4	12,764	34,948,877
31,001	32,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,764	34,948,877
32,001	33,000	-	-	-	-	-	1	-	-	-	-	-	-	1	12,765	34,981,377
33,001	34,000	-	-	-	-	-	1	1	-	-	-	-	-	2	12,767	35,048,378
34,001	35,000	-	-	-	-	-	-	-	-	-	-	1	1	2	12,769	35,117,379
35,001	36,000	-	-	-	-	-	1	-	-	-	-	-	-	1	12,770	35,152,880
36,001	37,000	-	-	-	-	-	-	1	-	-	-	-	-	1	12,771	35,189,380
37,001	38,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,771	35,189,380
38,001	39,000	-	-	-	-	1	1	-	-	-	1	-	-	3	12,774	35,304,882
39,001	40,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,774	35,304,882
40,001	41,000	-	-	-	-	-	-	2	1	-	-	-	-	3	12,777	35,426,383
41,001	42,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,777	35,426,383
42,001	43,000	-	-	-	1	-	-	-	1	-	-	-	-	2	12,779	35,511,384
43,001	44,000	-	-	-	-	-	1	-	-	-	-	-	-	1	12,780	35,554,885
44,001	45,000	-	-	-	2	-	-	-	-	1	-	-	-	3	12,783	35,688,386
45,001	46,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,783	35,688,386
46,001	47,000	-	-	-	-	-	-	-	1	-	-	-	-	1	12,784	35,734,887
47,001	48,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,784	35,734,887
48,001	49,000	-	-	-	-	-	1	-	-	-	-	-	-	1	12,785	35,783,387
49,001	50,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,785	35,783,387
50,001	51,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,785	35,783,387

Payson Water Company
Test Year Ended December 31, 2012
Meter Size: 5/8x3/4 Inch (United Systems)

Exhibit
Schedule H-5
Page 1
Witness: Bourassa

Usage From:	Usage To:	Month of Jan-12	Month of Feb-12	Month of Mar-12	Month of Apr-12	Month of May-12	Month of Jun-12	Month of Jul-12	Month of Aug-12	Month of Sep-12	Month of Oct-12	Month of Nov-12	Month of Dec-12	Total Year	Cumul-ative Billing	Cumul-ative Gallons
51,001	52,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,785	35,783,387
52,001	53,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,785	35,783,387
53,001	54,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,785	35,783,387
54,001	55,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,785	35,783,387
55,001	56,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,785	35,783,387
56,001	57,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,785	35,783,387
57,001	58,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,785	35,783,387
58,001	59,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,785	35,783,387
59,001	60,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,785	35,783,387
60,001	61,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,785	35,783,387
61,001	62,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,785	35,783,387
62,001	63,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,785	35,783,387
63,001	64,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,785	35,783,387
64,001	65,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,785	35,783,387
65,001	66,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,785	35,783,387
66,001	67,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,785	35,783,387
67,001	68,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,785	35,783,387
68,001	69,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,785	35,783,387
69,001	70,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,785	35,783,387
70,001	71,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,785	35,783,387
71,001	72,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,785	35,783,387
72,001	73,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,785	35,783,387
73,001	74,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,785	35,783,387
74,001	75,000	-	-	-	-	1	-	1	-	-	-	-	-	2	12,787	35,932,388
75,001	76,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,787	35,932,388
76,001	77,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,787	35,932,388
77,001	78,000	-	-	-	-	1	-	-	-	-	-	-	-	1	12,788	36,009,889
78,001	79,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,788	36,009,889
79,001	80,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,788	36,009,889
80,001	81,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,788	36,009,889
81,001	82,000	-	-	-	-	-	-	-	-	-	-	1	-	1	12,789	36,091,389
82,001	83,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,789	36,091,389
83,001	84,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,789	36,091,389
84,001	85,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,789	36,091,389
85,001	86,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,789	36,091,389
86,001	87,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,789	36,091,389
87,001	88,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,789	36,091,389
88,001	89,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,789	36,091,389
89,001	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,789	36,091,389
90,001	91,000	-	-	1	-	-	-	-	-	-	-	-	-	1	12,790	36,181,890
91,001	92,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,790	36,181,890
92,001	93,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,790	36,181,890
93,001	94,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,790	36,181,890
94,001	95,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,790	36,181,890
95,001	96,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,790	36,181,890
96,001	97,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,790	36,181,890
97,001	98,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,790	36,181,890
98,001	99,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,790	36,181,890
99,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,790	36,181,890
102,880	102,880	-	-	-	1	-	-	-	-	-	-	-	-	1	12,791	36,284,770
129,680	129,680	-	-	-	-	-	-	1	-	-	-	-	-	1	12,792	36,414,450
121,930	121,930	-	-	-	-	-	-	-	-	-	-	-	1	1	12,793	36,536,380

Payson Water Company
Test Year Ended December 31, 2012
Meter Size: 5/8x3/4 Inch (United Systems)

Exhibit
Schedule H-5
Page 1
Witness: Bourassa

Usage From:	Usage To:	Month of Jan-12	Month of Feb-12	Month of Mar-12	Month of Apr-12	Month of May-12	Month of Jun-12	Month of Jul-12	Month of Aug-12	Month of Sep-12	Month of Oct-12	Month of Nov-12	Month of Dec-12	Total Year	Cumul-ative Billing	Cumul-ative Gallons
	-													-	12,793	36,536,380
	-													-	12,793	36,536,380
	Totals	1,228	1,246	1,238	1,238	1,227	945	942	953	942	948	939	947	12,793		

Average Usage	2,856
Median Usage	2,500
Average # Customers	1,066
Change in Number of Customers	(281)

Payson Water Company
Test Year Ended December 31, 2012
Meter Size: 5/8x3/4 Inch (C&S Systems)

Exhibit
Schedule H-5
Page 2
Witness: Bourassa

Usage From:	Usage To:	Month of Jan-12	Month of Feb-12	Month of Mar-12	Month of Apr-12	Month of May-12	Month of Jun-12	Month of Jul-12	Month of Aug-12	Month of Sep-12	Month of Oct-12	Month of Nov-12	Month of Dec-12	Total Year	Cumul-ative Billing	Cumul-ative Gallons
-	-	18	16	12	12	14	17	14	18	15	16	13	17	182	182	-
1	1,000	32	29	26	18	18	18	18	19	17	24	24	26	269	451	134,635
1,001	2,000	17	18	24	20	13	7	12	9	14	13	23	20	190	641	419,730
2,001	3,000	16	20	21	11	11	8	5	14	13	14	12	16	161	802	822,310
3,001	4,000	16	9	20	14	10	8	11	9	12	12	8	18	147	949	1,336,884
4,001	5,000	11	16	16	11	11	10	9	9	9	8	15	16	141	1,090	1,971,454
5,001	6,000	8	16	15	13	12	7	7	9	8	9	14	12	130	1,220	2,686,519
6,001	7,000	4	7	6	12	7	6	5	7	8	8	5	8	83	1,303	3,226,061
7,001	8,000	6	5	6	9	10	7	9	6	6	6	5	10	85	1,388	3,863,603
8,001	9,000	7	4	4	11	10	6	2	9	5	7	7	1	73	1,461	4,484,140
9,001	10,000	3	1	4	3	7	2	3	5	6	5	5	6	50	1,511	4,959,165
10,001	11,000	1	4	1	2	5	5	7	2	4	2	3	3	39	1,550	5,368,684
11,001	12,000	2	3	3	2	3	7	5	3	5	4	1	1	39	1,589	5,817,204
12,001	13,000	1	2	-	2	5	3	4	6	3	5	2	-	33	1,622	6,229,720
13,001	14,000	1	2	-	2	2	2	5	3	2	3	4	-	26	1,648	6,580,733
14,001	15,000	-	1	2	-	1	4	4	-	3	4	-	-	19	1,667	6,856,243
15,001	16,000	1	-	-	1	3	3	4	2	3	2	2	1	22	1,689	7,197,254
16,001	17,000	-	-	-	4	1	3	3	4	3	-	3	1	22	1,711	7,560,265
17,001	18,000	-	-	-	-	2	1	-	-	3	3	2	-	11	1,722	7,752,770
18,001	19,000	-	-	-	1	1	3	1	6	1	1	2	2	18	1,740	8,085,779
19,001	20,000	-	1	-	1	1	3	3	3	-	1	-	-	13	1,753	8,339,286
20,001	21,000	1	-	-	1	-	-	1	-	4	3	-	-	10	1,763	8,544,291
21,001	22,000	-	1	1	-	1	2	5	1	2	1	1	-	15	1,778	8,866,798
22,001	23,000	1	2	-	1	1	4	2	-	2	2	2	-	17	1,795	9,249,307
23,001	24,000	-	-	-	-	2	4	-	2	1	-	1	-	10	1,805	9,484,312
24,001	25,000	-	-	-	1	-	1	2	-	-	1	-	-	5	1,810	9,606,814
25,001	26,000	-	-	-	-	-	1	1	2	1	1	1	-	7	1,817	9,785,318
26,001	27,000	-	-	-	-	1	1	2	-	1	1	-	-	6	1,823	9,944,321
27,001	28,000	-	-	-	-	-	1	1	-	-	-	1	2	5	1,828	10,081,823
28,001	29,000	-	-	-	-	2	1	-	1	1	-	-	-	5	1,833	10,224,326
29,001	30,000	-	1	-	-	-	2	2	1	1	1	1	-	9	1,842	10,489,830
30,001	31,000	-	-	-	-	-	-	2	-	1	1	-	-	4	1,846	10,611,832
31,001	32,000	-	-	-	-	-	-	1	-	2	-	1	-	4	1,850	10,737,834
32,001	33,000	-	-	-	-	1	1	1	-	-	-	-	-	3	1,853	10,835,336
33,001	34,000	1	-	-	-	-	-	1	-	-	-	-	-	2	1,855	10,902,337
34,001	35,000	-	-	-	-	-	-	-	1	-	2	-	-	3	1,858	11,005,838
35,001	36,000	-	-	-	-	-	1	-	1	-	-	-	-	2	1,860	11,076,839
36,001	37,000	1	-	-	1	-	-	1	1	1	-	-	-	5	1,865	11,259,342
37,001	38,000	-	-	-	-	1	-	-	1	-	1	-	1	4	1,869	11,409,344
38,001	39,000	-	-	-	-	-	1	-	-	-	-	-	-	1	1,870	11,447,844
39,001	40,000	-	-	-	-	-	-	1	-	-	-	1	-	2	1,872	11,526,845
40,001	41,000	-	-	-	-	-	1	1	-	-	-	-	-	2	1,874	11,607,846
41,001	42,000	-	-	-	-	-	-	1	-	-	-	-	-	1	1,875	11,649,347
42,001	43,000	-	-	-	-	1	1	-	-	-	-	-	-	2	1,877	11,734,348
43,001	44,000	-	-	-	-	-	1	1	1	-	1	-	-	4	1,881	11,908,350
44,001	45,000	-	-	1	-	-	-	-	-	-	-	-	-	1	1,882	11,952,850
45,001	46,000	-	-	-	-	1	-	-	-	-	-	-	-	1	1,883	11,998,351
46,001	47,000	1	-	-	-	-	-	-	1	-	-	-	-	2	1,885	12,091,352
47,001	48,000	-	-	-	-	-	1	-	1	1	-	-	-	3	1,888	12,233,853
48,001	49,000	-	-	-	-	-	1	-	-	2	-	-	-	3	1,891	12,379,355
49,001	50,000	-	-	-	1	-	-	-	1	-	-	-	-	2	1,893	12,478,356
50,001	51,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,893	12,478,356

Payson Water Company
Test Year Ended December 31, 2012
Meter Size: 5/8x3/4 Inch (C&S Systems)

Exhibit
Schedule H-5
Page 2
Witness: Bourassa

Usage From:	Usage To:	Month of Jan-12	Month of Feb-12	Month of Mar-12	Month of Apr-12	Month of May-12	Month of Jun-12	Month of Jul-12	Month of Aug-12	Month of Sep-12	Month of Oct-12	Month of Nov-12	Month of Dec-12	Total Year	Cumul-ative Billing	Cumul-ative Gallons
51,001	52,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,893	12,478,356
52,001	53,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,893	12,478,356
53,001	54,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,893	12,478,356
54,001	55,000	-	-	-	-	1	-	-	-	-	-	-	-	1	1,894	12,532,856
55,001	56,000	-	-	-	-	-	2	-	1	-	-	-	-	3	1,897	12,699,358
56,001	57,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,897	12,699,358
57,001	58,000	-	-	-	-	-	1	-	-	-	-	-	-	1	1,898	12,756,858
58,001	59,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,898	12,756,858
59,001	60,000	-	-	-	1	-	1	1	-	-	-	-	-	3	1,901	12,935,360
60,001	61,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,901	12,935,360
61,001	62,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,901	12,935,360
62,001	63,000	-	-	-	-	-	-	1	-	-	-	-	-	1	1,902	12,997,860
63,001	64,000	-	-	-	-	-	-	1	1	-	-	-	-	2	1,904	13,124,861
64,001	65,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,904	13,124,861
65,001	66,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,904	13,124,861
66,001	67,000	-	-	-	-	-	-	-	-	1	-	-	-	1	1,905	13,191,362
67,001	68,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,905	13,191,362
68,001	69,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,905	13,191,362
69,001	70,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,905	13,191,362
70,001	71,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,905	13,191,362
71,001	72,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,905	13,191,362
72,001	73,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,905	13,191,362
73,001	74,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,905	13,191,362
74,001	75,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,905	13,191,362
75,001	76,000	-	-	-	-	-	-	1	-	-	-	-	-	1	1,906	13,266,862
76,001	77,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,906	13,266,862
77,001	78,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,906	13,266,862
78,001	79,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,906	13,266,862
79,001	80,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,906	13,266,862
80,001	81,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,906	13,266,862
81,001	82,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,906	13,266,862
82,001	83,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,906	13,266,862
83,001	84,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,906	13,266,862
84,001	85,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,906	13,266,862
85,001	86,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,906	13,266,862
86,001	87,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,906	13,266,862
87,001	88,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,906	13,266,862
88,001	89,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,906	13,266,862
89,001	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,906	13,266,862
90,001	91,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,906	13,266,862
91,001	92,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,906	13,266,862
92,001	93,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,906	13,266,862
93,001	94,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,906	13,266,862
94,001	95,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,906	13,266,862
95,001	96,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,906	13,266,862
96,001	97,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,906	13,266,862
97,001	98,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,906	13,266,862
98,001	99,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,906	13,266,862
99,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,906	13,266,862
357,300	357,300													-	1,906	13,266,862
118,400	118,400													-	1,906	13,266,862
327,400	327,400													-	1,906	13,266,862

Payson Water Company
Test Year Ended December 31, 2012

Meter Size: 5/8x3/4 Inch (C&S Systems)

Exhibit
Schedule H-5
Page 2
Witness: Bourassa

Usage From:	Usage To:	Month of Jan-12	Month of Feb-12	Month of Mar-12	Month of Apr-12	Month of May-12	Month of Jun-12	Month of Jul-12	Month of Aug-12	Month of Sep-12	Month of Oct-12	Month of Nov-12	Month of Dec-12	Total Year	Cumul-ative Billing	Cumul-ative Gallons
102,162	102,162													-	1,906	13,266,862
109,400	109,400													-	1,906	13,266,862
232,400	232,400													-	1,906	13,266,862
164,900	164,900													-	1,906	13,266,862
119,700	119,700													-	1,906	13,266,862
514,226	514,226													-	1,906	13,266,862
103,700	103,700													-	1,906	13,266,862
110,600	110,600													-	1,906	13,266,862
181,100	181,100													-	1,906	13,266,862
	-													-	1,906	13,266,862
	-													-	1,906	13,266,862
	-													-	1,906	13,266,862
Totals		149	158	162	155	159	159	161	160	161	162	159	161	1,906		

Average Usage	6,961
Median Usage	4,500
Average # Customers	159
Change in Number of Customers	12

Payson Water Company
Test Year Ended December 31, 2012
Meter Size: 3/4 Inch (United Systems)

Exhibit
Schedule H-5
Page 3
Witness: Bourassa

Usage From:	Usage To:	Month of Jan-12	Month of Feb-12	Month of Mar-12	Month of Apr-12	Month of May-12	Month of Jun-12	Month of Jul-12	Month of Aug-12	Month of Sep-12	Month of Oct-12	Month of Nov-12	Month of Dec-12	Total Year	Cumul-ative Billing	Cumul-ative Gallons
-	-	-	-	-	-	-	-	-	-	-	1	1	-	2	2	-
1	1,000	-	-	-	-	-	-	1	-	1	-	-	1	3	5	1,502
1,001	2,000	-	-	-	-	-	-	-	-	-	-	-	-	-	5	1,502
2,001	3,000	1	-	-	-	-	-	-	-	-	-	-	-	1	6	4,002
3,001	4,000	-	-	1	-	2	-	-	-	-	-	-	-	3	9	14,504
4,001	5,000	2	2	-	1	-	1	-	-	-	-	-	1	7	16	46,007
5,001	6,000	1	1	2	1	-	-	-	-	-	-	1	-	6	22	79,010
6,001	7,000	1	2	2	1	1	-	-	-	1	1	-	1	10	32	144,015
7,001	8,000	-	-	-	1	-	-	-	1	-	-	-	1	3	35	166,517
8,001	9,000	-	-	-	-	1	-	-	-	-	-	1	-	2	37	183,518
9,001	10,000	-	-	-	1	-	1	-	-	1	1	1	-	5	42	231,020
10,001	11,000	-	-	-	-	-	-	1	-	-	-	-	-	1	43	241,521
11,001	12,000	-	-	-	-	1	-	-	1	1	1	-	-	4	47	287,523
12,001	13,000	-	-	-	-	-	-	-	1	-	-	-	-	1	48	300,023
13,001	14,000	-	-	-	-	-	-	1	-	-	-	-	-	1	49	313,524
14,001	15,000	-	-	-	-	-	-	-	-	-	-	-	-	-	49	313,524
15,001	16,000	-	-	-	-	-	1	-	-	-	-	-	-	1	50	329,024
16,001	17,000	-	-	-	-	-	-	-	-	-	-	-	-	-	50	329,024
17,001	18,000	-	-	-	-	-	-	-	-	-	-	-	-	-	50	329,024
18,001	19,000	-	-	-	-	-	1	-	-	-	-	-	-	1	51	347,525
19,001	20,000	-	-	-	-	-	-	-	-	-	-	-	-	-	51	347,525
20,001	21,000	-	-	-	-	-	-	1	-	-	-	-	-	1	52	368,025
21,001	22,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
22,001	23,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
23,001	24,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
24,001	25,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
25,001	26,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
26,001	27,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
27,001	28,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
28,001	29,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
29,001	30,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
30,001	31,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
31,001	32,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
32,001	33,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
33,001	34,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
34,001	35,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
35,001	36,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
36,001	37,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
37,001	38,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
38,001	39,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
39,001	40,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
40,001	41,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
41,001	42,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
42,001	43,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
43,001	44,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
44,001	45,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
45,001	46,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
46,001	47,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
47,001	48,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
48,001	49,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
49,001	50,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025

Payson Water Company
Test Year Ended December 31, 2012
Meter Size: 3/4 Inch (United Systems)

Exhibit
Schedule H-5
Page 3
Witness: Bourassa

Usage From:	Usage To:	Month of Jan-12	Month of Feb-12	Month of Mar-12	Month of Apr-12	Month of May-12	Month of Jun-12	Month of Jul-12	Month of Aug-12	Month of Sep-12	Month of Oct-12	Month of Nov-12	Month of Dec-12	Total Year	Cumul-ative Billing	Cumul-ative Gallons
50,001	51,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
51,001	52,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
52,001	53,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
53,001	54,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
54,001	55,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
55,001	56,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
56,001	57,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
57,001	58,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
58,001	59,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
59,001	60,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
60,001	61,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
61,001	62,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
62,001	63,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
63,001	64,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
64,001	65,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
65,001	66,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
66,001	67,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
67,001	68,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
68,001	69,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
69,001	70,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
70,001	71,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
71,001	72,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
72,001	73,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
73,001	74,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
74,001	75,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
75,001	76,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
76,001	77,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
77,001	78,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
78,001	79,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
79,001	80,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
80,001	81,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
81,001	82,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
82,001	83,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
83,001	84,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
84,001	85,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
85,001	86,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
86,001	87,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
87,001	88,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
88,001	89,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
89,001	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
90,001	91,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
91,001	92,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
92,001	93,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
93,001	94,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
94,001	95,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
95,001	96,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
96,001	97,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
97,001	98,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
98,001	99,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
99,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	52	368,025
	-													-	52	368,025

Payson Water Company
Test Year Ended December 31, 2012
Meter Size: 3/4 Inch (United Systems)

Exhibit
Schedule H-5
Page 3
Witness: Bourassa

Usage From:	Usage To:	Month of Jan-12	Month of Feb-12	Month of Mar-12	Month of Apr-12	Month of May-12	Month of Jun-12	Month of Jul-12	Month of Aug-12	Month of Sep-12	Month of Oct-12	Month of Nov-12	Month of Dec-12	Total Year	Cumulative Billing	Cumulative Gallons
-														-	52	368,025
Totals		5	5	5	5	5	4	4	3	4	4	4	4	52		

Average Usage	7,077
Median Usage	6,500
Average # Customers	4
Change in Number of Customers	(1)

Payson Water Company
Test Year Ended December 31, 2012
Meter Size: 1 Inch (United Systems)

Exhibit
Schedule H-5
Page 4
Witness: Bourassa

Usage From:	Usage To:	Month of Jan-12	Month of Feb-12	Month of Mar-12	Month of Apr-12	Month of May-12	Month of Jun-12	Month of Jul-12	Month of Aug-12	Month of Sep-12	Month of Oct-12	Month of Nov-12	Month of Dec-12	Total Year	Cumul-ative Billing	Cumul-ative Gallons
-	-	3	8	5	-	2	-	-	-	-	-	-	-	18	18	-
1	1,000	3	7	7	9	10	-	-	-	-	-	-	-	36	54	18,018
1,001	2,000	5	3	8	5	10	-	1	1	-	1	1	1	36	90	72,036
2,001	3,000	6	11	9	11	7	1	-	-	-	-	-	-	45	135	184,559
3,001	4,000	2	7	8	2	5	-	-	-	1	1	1	1	28	163	282,573
4,001	5,000	1	11	3	6	4	-	-	-	-	-	-	-	25	188	395,085
5,001	6,000	(1)	4	5	3	4	-	-	-	-	-	-	-	15	203	477,593
6,001	7,000	2	2	1	4	4	-	-	-	1	-	-	-	14	217	568,600
7,001	8,000	(2)	1	-	3	2	-	-	-	-	-	-	-	4	221	598,602
8,001	9,000	-	-	-	-	-	-	-	-	-	-	-	-	-	221	598,602
9,001	10,000	-	1	-	-	3	-	-	-	-	-	-	-	4	225	636,604
10,001	11,000	-	-	-	2	(1)	-	-	-	-	-	-	-	1	226	647,104
11,001	12,000	-	-	1	3	-	-	-	1	-	-	-	-	5	231	704,607
12,001	13,000	-	-	1	-	-	-	-	-	-	-	-	-	1	232	717,107
13,001	14,000	1	-	1	1	-	1	-	-	-	-	-	-	4	236	771,109
14,001	15,000	-	-	1	-	-	-	-	-	-	-	-	-	1	237	785,610
15,001	16,000	-	-	-	-	1	-	-	-	-	-	-	-	1	238	801,110
16,001	17,000	-	-	1	1	1	-	-	-	-	-	-	-	3	241	850,612
17,001	18,000	-	-	1	-	-	-	1	-	-	-	-	-	2	243	885,613
18,001	19,000	-	-	-	1	-	-	-	-	-	-	-	-	1	244	904,113
19,001	20,000	-	1	-	-	-	-	-	-	-	-	-	-	1	245	923,614
20,001	21,000	-	-	-	-	-	-	-	-	-	-	-	-	-	245	923,614
21,001	22,000	-	-	-	-	-	-	-	-	-	-	-	-	-	245	923,614
22,001	23,000	-	-	-	-	-	-	-	-	-	-	-	-	-	245	923,614
23,001	24,000	-	-	-	-	-	-	-	-	-	-	-	-	-	245	923,614
24,001	25,000	-	-	-	-	-	-	-	-	-	-	-	-	-	245	923,614
25,001	26,000	-	-	-	-	-	-	-	-	-	-	-	-	-	245	923,614
26,001	27,000	-	-	-	-	-	-	-	-	-	-	-	-	-	245	923,614
27,001	28,000	-	-	-	-	-	-	-	-	-	-	-	-	-	245	923,614
28,001	29,000	-	-	-	1	-	-	-	-	-	-	-	-	1	246	952,114
29,001	30,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
30,001	31,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
31,001	32,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
32,001	33,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
33,001	34,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
34,001	35,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
35,001	36,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
36,001	37,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
37,001	38,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
38,001	39,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
39,001	40,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
40,001	41,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
41,001	42,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
42,001	43,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
43,001	44,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
44,001	45,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
45,001	46,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
46,001	47,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
47,001	48,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114

Payson Water Company
Test Year Ended December 31, 2012
Meter Size: 1 Inch (United Systems)

Exhibit
Schedule H-5
Page 4
Witness: Bourassa

Usage From:	Usage To:	Month of Jan-12	Month of Feb-12	Month of Mar-12	Month of Apr-12	Month of May-12	Month of Jun-12	Month of Jul-12	Month of Aug-12	Month of Sep-12	Month of Oct-12	Month of Nov-12	Month of Dec-12	Total Year	Cumul-ative Billing	Cumul-ative Gallons
48,001	49,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
49,001	50,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
50,001	51,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
51,001	52,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
52,001	53,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
53,001	54,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
54,001	55,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
55,001	56,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
56,001	57,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
57,001	58,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
58,001	59,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
59,001	60,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
60,001	61,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
61,001	62,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
62,001	63,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
63,001	64,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
64,001	65,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
65,001	66,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
66,001	67,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
67,001	68,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
68,001	69,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
69,001	70,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
70,001	71,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
71,001	72,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
72,001	73,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
73,001	74,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
74,001	75,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
75,001	76,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
76,001	77,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
77,001	78,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
78,001	79,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
79,001	80,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
80,001	81,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
81,001	82,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
82,001	83,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
83,001	84,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
84,001	85,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
85,001	86,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
86,001	87,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
87,001	88,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
88,001	89,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
89,001	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
90,001	91,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
91,001	92,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
92,001	93,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
93,001	94,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
94,001	95,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
95,001	96,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
96,001	97,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114

Payson Water Company
Test Year Ended December 31, 2012
Meter Size: 1 Inch (United Systems)

Exhibit
Schedule H-5
Page 4
Witness: Bourassa

Usage From:	Usage To:	Month of Jan-12	Month of Feb-12	Month of Mar-12	Month of Apr-12	Month of May-12	Month of Jun-12	Month of Jul-12	Month of Aug-12	Month of Sep-12	Month of Oct-12	Month of Nov-12	Month of Dec-12	Total Year	Cumul-ative Billing	Cumul-ative Gallons
97,001	98,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
98,001	99,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
99,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	246	952,114
	-													-	246	952,114
	-													-	246	952,114
	-													-	246	952,114
	-													-	246	952,114
	-													-	246	952,114
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	-													-	246	952,114
	-													-	246	952,114
	-													-	246	952,114
	-													-	246	952,114
	-													-	246	952,114
Totals		20	56	52	52	52	2	2	2	2	2	2	2	246		

Average Usage	3,870
Median Usage	2,500
Average # Customers	21
Change in Number of Customers	(18)

Payson Water Company
Test Year Ended December 31, 2012
Meter Size: 1 Inch (C&S Systems)

Exhibit
Schedule H-5
Page 5
Witness: Bourassa

Usage From:	Usage To:	Month of Jan-12	Month of Feb-12	Month of Mar-12	Month of Apr-12	Month of May-12	Month of Jun-12	Month of Jul-12	Month of Aug-12	Month of Sep-12	Month of Oct-12	Month of Nov-12	Month of Dec-12	Total Year	Cumul-ative Billing	Cumul-ative Gallons
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1	1,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1,001	2,000	-	-	-	-	1	-	-	-	-	-	-	1	2	2	3,001
2,001	3,000	1	1	1	-	-	-	-	-	-	2	1	-	6	8	18,004
3,001	4,000	-	-	-	1	-	1	1	1	1	-	1	1	7	15	42,508
4,001	5,000	-	-	1	-	-	-	-	-	1	-	-	-	2	17	51,509
5,001	6,000	1	-	-	-	-	-	-	1	-	-	-	-	2	19	62,510
6,001	7,000	-	1	-	1	1	-	-	-	-	-	-	-	3	22	82,011
7,001	8,000	-	-	-	-	-	-	-	-	-	-	-	-	-	22	82,011
8,001	9,000	-	-	-	-	-	-	1	-	-	-	-	-	1	23	90,512
9,001	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	23	90,512
10,001	11,000	-	-	-	-	-	-	-	-	-	-	-	-	-	23	90,512
11,001	12,000	-	-	-	-	-	-	-	-	-	-	-	-	-	23	90,512
12,001	13,000	-	-	-	-	-	-	-	-	-	-	-	-	-	23	90,512
13,001	14,000	-	-	-	-	-	-	-	-	-	-	-	-	-	23	90,512
14,001	15,000	-	-	-	-	-	-	-	-	-	-	-	-	-	23	90,512
15,001	16,000	-	-	-	-	-	-	-	-	-	-	-	-	-	23	90,512
16,001	17,000	-	-	-	-	-	1	-	-	-	-	-	-	1	24	107,012
17,001	18,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
18,001	19,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
19,001	20,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
20,001	21,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
21,001	22,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
22,001	23,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
23,001	24,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
24,001	25,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
25,001	26,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
26,001	27,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
27,001	28,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
28,001	29,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
29,001	30,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
30,001	31,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
31,001	32,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
32,001	33,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
33,001	34,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
34,001	35,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
35,001	36,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
36,001	37,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
37,001	38,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
38,001	39,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
39,001	40,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
40,001	41,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
41,001	42,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
42,001	43,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
43,001	44,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
44,001	45,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
45,001	46,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
46,001	47,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
47,001	48,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012

Payson Water Company
Test Year Ended December 31, 2012
Meter Size: 1 Inch (C&S Systems)

Exhibit
Schedule H-5
Page 5
Witness: Bourassa

Usage From:	Usage To:	Month of Jan-12	Month of Feb-12	Month of Mar-12	Month of Apr-12	Month of May-12	Month of Jun-12	Month of Jul-12	Month of Aug-12	Month of Sep-12	Month of Oct-12	Month of Nov-12	Month of Dec-12	Total Year	Cumul-ative Billing	Cumul-ative Gallons
48,001	49,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
49,001	50,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
50,001	51,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
51,001	52,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
52,001	53,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
53,001	54,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
54,001	55,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
55,001	56,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
56,001	57,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
57,001	58,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
58,001	59,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
59,001	60,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
60,001	61,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
61,001	62,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
62,001	63,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
63,001	64,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
64,001	65,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
65,001	66,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
66,001	67,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
67,001	68,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
68,001	69,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
69,001	70,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
70,001	71,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
71,001	72,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
72,001	73,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
73,001	74,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
74,001	75,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
75,001	76,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
76,001	77,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
77,001	78,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
78,001	79,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
79,001	80,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
80,001	81,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
81,001	82,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
82,001	83,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
83,001	84,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
84,001	85,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
85,001	86,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
86,001	87,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
87,001	88,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
88,001	89,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
89,001	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
90,001	91,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
91,001	92,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
92,001	93,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
93,001	94,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
94,001	95,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
95,001	96,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
96,001	97,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012

Payson Water Company
Test Year Ended December 31, 2012
Meter Size: 1 Inch (C&S Systems)

Exhibit
Schedule H-5
Page 5
Witness: Bourassa

Usage From:	Usage To:	Month of Jan-12	Month of Feb-12	Month of Mar-12	Month of Apr-12	Month of May-12	Month of Jun-12	Month of Jul-12	Month of Aug-12	Month of Sep-12	Month of Oct-12	Month of Nov-12	Month of Dec-12	Total Year	Cumul-ative Billing	Cumul-ative Gallons
97,001	98,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
98,001	99,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
99,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	107,012
	-													-	24	107,012
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	-													-	24	107,012
	-													-	24	107,012
														-	24	107,012
	-															
Totals		2	2	2	2	2	2	2	2	2	2	2	2	24		

Average Usage	4,459
Median Usage	3,500
Average # Customers	2
Change in Number of Customers	-

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Attorneys for Payson Water Co., Inc.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF PAYSON WATER CO., INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: W-03514A-13-_____

DIRECT TESTIMONY OF THOMAS J. BOURASSA

COST OF CAPITAL

April 22, 2013

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I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND ADDRESS.

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

Q. ARE YOU THE SAME THOMAS J. BOURASSA THAT CONCURRENTLY FILED DIRECT TESTIMONY ON RATE BASE, INCOME STATEMENT, REVENUE REQUIREMENT AND RATE DESIGN IN THIS DOCKET?

A. Yes, and all of my background information and testimony regarding my qualifications are contained in that portion of my direct testimony.

II. SUMMARY OF TESTIMONY AND THE PROPOSED COST OF CAPITAL FOR THE COMPANY

Q. WHAT IS THE PURPOSE OF THIS PORTION OF YOUR DIRECT TESTIMONY?

A. This portion of my direct testimony focuses on cost of capital issues. I will testify in support of Payson Water Company's ("PWC" or the "Company") proposed rate of return on its fair value rate base ("FVRB"). I am sponsoring the Company's D Schedules, which are attached to this testimony. There are 22 schedules that support my cost of capital testimony. As noted above, I am also sponsoring direct testimony that addresses the Company's rate base, income statement (revenue and operating expenses), required increase in revenue, and its rate design and proposed rates and charges for service. For convenience, that testimony and my related schedules are contained in a separate volume.

Q. PLEASE SUMMARIZE YOUR COST OF CAPITAL TESTIMONY.

A. I have determined that the cost of equity for the publicly traded water utilities falls in the range of 8.5 percent to 11.4 percent with the midpoint of the range at 9.9 percent. After considering the difference in financial risk and company size

between PWC and the publicly traded water utilities, I am recommending a return on equity ("ROE") of 11.0 percent for the Company.

My recommendation is based on consideration of (i) cost of equity estimates using constant growth and multi-stage growth discounted cash flow ("DCF") models, the capital asset pricing model ("CAPM") and the Build-up Method for a sample group of publicly traded water utilities; (ii) my review of the economic conditions expected to prevail during the period in which new rates will be in effect; (iii) my judgments about the risks associated with relatively small utilities like PWC that are not captured by the market data of publicly-traded water utilities; (iv) the financial risk associated with the high level of debt in PWC's capital structure; and (v) additional specific business and operational risks faced by PWC.

Q. WHAT IS THE RECOMMENDED CAPITAL STRUCTURE FOR PWC?

A. I am recommending a capital structure consisting of 0 percent debt and 100 percent equity. My recommendation is based upon the adjusted capital structure of the Company at the end of the test year (December 31, 2012).

Q. WHAT IS THE WEIGHTED AVERAGE COST OF CAPITAL?

A. The weighted cost of capital ("WACC") based upon a capital structure consisting of 0 percent debt and 100 percent equity, and a cost of equity of 11.0 percent, is 11.0 percent as shown on Schedule D-1.

Q. PLEASE SUMMARIZE THE APPROACHES YOU USED TO ESTIMATE THE COST OF EQUITY FOR THE COMPANY.

A. The cost of equity for PWC cannot be estimated directly because the Company's equity is not in the form of a publicly traded security so there is no market data for PWC. Consequently, I have assessed the market-based common equity cost rates of companies of relatively similar, but not necessarily identical risk for insight into a recommended common equity cost rate applicable to PWC. The DCF, CAPM,

and Build-up models using data from a sample of publicly traded water utilities, or proxy group, selected from the *Value Line Investment Survey* serve as starting point in my analysis. Analysis of a proxy group serves as a starting point because no proxy group can be selected to be identical in risk to PWC. Therefore, the proxy group's results must be adjusted to reflect the unique relative financial and/or business risks of PWC, as I will discuss in detail.

There are six water utilities in my sample: American States Water (AWR), Aqua America (WTR), California Water Company (CWT), Connecticut Water (CTWS), Middlesex Water (MSEX), and SJW Corp. (SJW). As explained later in my testimony, these companies aren't directly comparable to PWC, but they are water utilities for which market data is available, and the Utilities Division Staff has relied on data for these water utilities for their proxy group in a number of recent water and sewer utility rate cases.

My DCF analyses of my proxy group indicate ROEs in the range of 8.7 percent to 9.7 percent with a midpoint of 9.2 percent. My CAPM analysis, again using the proxy group, indicates ROEs in the range of 8.7 percent to 12.4 percent are appropriate with a midpoint of 10.5 percent. My Build-up Method analysis, also using the same proxy group, indicates ROEs in the range of 8.1 percent to 12.1 percent are appropriate with a midpoint of 10.1 percent. The average of the midpoint estimates is 9.9 percent. The DCF, CAPM, and Build-up results are before consideration of financial risk and company-specific risks such as size.

Given PWC's proposed capital structure and relatively small size compared to the larger publicly-traded utilities used in my sample, the regulatory methods and policies used in this jurisdiction, and other company-specific factors, it is my

opinion that at the present time a cost of equity of at least 11.0 percent is warranted.

My recommendation of an 11.0 percent ROE balances my judgment about the degree of financial and business risk associated with an investment in PWC, as well as consideration of the current economic environment. A summary of my cost of equity analysis result is shown on Schedule D-4.1.

III. OVERVIEW OF THE RELATIONSHIP BETWEEN RISK AND THE EXPECTED RETURN ON AN INVESTMENT

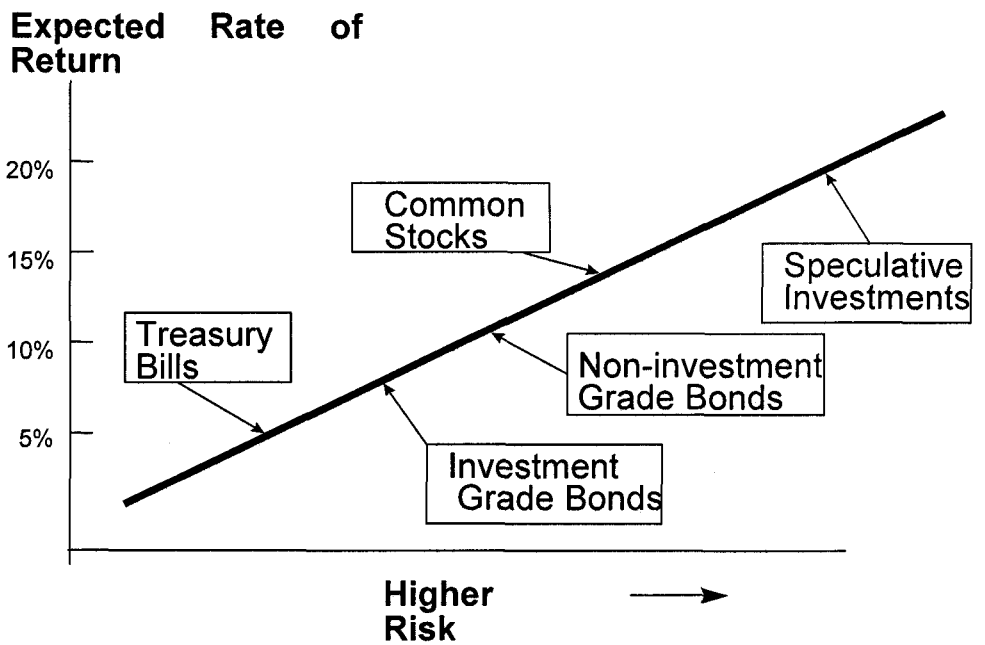
Q. HOW IS THE COST OF EQUITY TYPICALLY ANALYZED?

A. The cost of equity is the rate of return that equity investors expect to receive on their investment. Investors can choose from numerous investment options, not simply publicly traded stock. Investments have varying degrees of risk, ranging from relatively low risk assets such as Treasury securities to somewhat higher risk corporate bonds to even higher risk common stocks. As the level of risk increases, investors require higher returns on their investment. Finance models that are used to estimate the cost of equity often rely on this basic concept.

Q. CAN YOU ILLUSTRATE THE CAPITAL MARKET RISK-RETURN CONCEPT?

A. Yes. The following graph depicts the risk-return relationship that has become widely known as the Capital Market Line ("CML"). The CML illustrates in a general way the risk-return relationship.

The Capital Market Line (CML)



The CML can be viewed as a continuum of the available investment opportunities for investors. Investment risk increases move upward and to the right along the CML. Again, the return required by investors increases with the risk.

Q. HOW DOES THE RISK-RETURN TRADE OFF CONCEPT WORK IN THE CAPITAL MARKET?

A. As indicated by the CML, the allocation of capital in a free market economy is based upon the relative risk of, and expected return from, an investment. In general, investors rank investment opportunities in the order of their relative risks. Investment alternatives in which the expected return is commensurate with the perceived risk become viable investment options. If all other factors remain equal, the greater the risk, the higher the rate of return investors will require to compensate them for the possibility of loss of either the principal amount invested or the expected annual income from such investment.

Short-term Treasury bills provide a high degree of certainty and in nominal terms (after considering inflation) are considered virtually risk free. Long-term bonds and preferred stocks, having priority claims to assets and fixed income payments, are relatively low risk, but are not risk free. The market values of long-term bonds often fluctuate when government policies or other factors cause interest rates to change. Common stocks are higher and to the right on the CML continuum because they are exposed to more risk. Common stock risk includes the nature of the underlying business and financial strength of the issuing corporation as well as market-wide factors, such as general changes in capital costs.

The capital markets reflect investor expectations and requirements each day through market prices. Prices for stocks and bonds change to reflect investor expectations and the relative attractiveness of one investment relative to others. While the example provided above seems straightforward, returns on common stocks are not directly observable in advance, in contrast to debt or preferred stocks with fixed payment terms. This means that these returns must be estimated from market data. Estimating the cost of equity capital should be a matter of informed judgment about the relative risk of the company in question and the expected rate of return characteristics of other alternative investments.

Q. HOW IS THE COST OF EQUITY TO BE DETERMINED FOR A PARTICULAR UTILITY?

A. The estimation of a utility's cost of equity is complex. It requires an analysis of the factors influencing the cost of various types of capital, such as interest on long-term debt, dividends on preferred stock, and earnings on common equity. The data for such an analysis comes from highly competitive capital markets, where the firm raises funds by issuing common stock, selling bonds, and borrowing (both long- and short-term) from banks and other financial institutions. In the capital markets,

the cost of capital, whether the capital is in the form of debt or equity, is determined by two important factors:

1) The pure or real rate of interest, often called the risk-free rate of interest; and,

2) The uncertainty or risk premium (the compensation the investor requires over and above the real or pure rate of interest for subjecting his capital to additional risk).

Q. PLEASE DISCUSS THESE FACTORS IN GREATER DETAIL.

A. The pure rate of interest essentially reflects both the time preference for and the productivity of capital. From the standpoint of the individual, it is the rate of interest required to induce the individual to forgo present consumption and offer the funds thus saved to others for a specified length of time. Moreover, the pure rate of interest concept is based on the assumption that no uncertainty affects the investment undertaken by the individual, i.e., there is no doubt that the periodic interest payments will be made and the principal returned at the end of the time period. In reality, investments without any risk do not exist. Every commitment of funds involves some degree of uncertainty.

Turning to the second factor affecting the cost of capital, it is generally accepted that the higher the degree of uncertainty, the higher the cost of capital. Investors are regarded as risk adverse and require that the rate of return increase as the risk(s) (uncertainty) associated with an investment increase(s).

Q. CAN YOU PROVIDE SOME PERSPECTIVE ON YOUR PREVIOUS DISCUSSION WITH RESPECT TO RETURNS ON COMMON STOCKS?

A. Yes. Conceptually,

[1] Required Return for Common Stocks = Return on a risk-free asset + Risk Premium

where the risk premium investors require for common stocks will be higher than the risk premium they require for investment grade bonds. This relationship is depicted in the graph of the CML above. As I will discuss later in this testimony, this concept is the basis of risk premium methods, such as the CAPM, that are used to estimate the cost of equity.

Q. WHAT HAS BEEN THE RECENT EXPERIENCE IN THE U.S. CAPITAL MARKETS AND THE ECONOMY IN GENERAL?

A. In the past few years, and subsequent to the market turmoil and recession of the 2007-2009 time frame, inflation and capital market costs have generally declined. Interest rates have been lower than in previous decades, and inflation, as measured by the Consumer Price Index, has been at relatively low levels in the past ten years.

Since emerging from the recent recession of 2007-2009, the economy has grown at a modest and tepid pace. GDP growth for 2010 and 2011 was 3.0 percent and 2.0 percent, respectively. GDP growth slowed for 2012 to 1.6 percent. However, economists view the recent fourth quarter GDP growth for 2012 of a negative 0.1 percent as a relatively short-term soft patch. More specifically, economists view fourth quarter GDP growth setback as the result of such unusual items as the largest cutback in defense spending in 40 years, a decline in exports, and a pullback in manufacturing and inventories. Against these headwinds were rising business investment, consumer spending and housing. While there are still risks to economic growth arising out of Washington (debt ceiling, spending sequestrations, and tax increases), economists see business investment and housing continuing to improve. With this backdrop, economists see the economy growing at a modest pace with GDP growth in the range of 2.1 to 2.8 percent over the next year.

Q. WHAT ABOUT INTEREST RATES AND THE STATUS OF THE STOCK MARKET?

A. With respect to interest rates, the Federal Reserve lowered the Federal Funds target rate to near zero during the depths of the 2007-2009 recession where it continues to stand at zero to .25 percent. While the move to lower interest rates may have been necessary at the time, the Federal Reserve is left with little latitude to affect new monetary moves going forward. In August 2011, the Federal Reserve announced that it intended to keep interest rates low well into 2013 due, in part, to the expected economic conditions going forward. This news met with mixed reactions from investors. On the one hand, investors and businesses received some level of certainty regarding interest rates over the next few years. On the other hand, the need to keep interest rates low reflects that the Federal Reserve did not expect economic conditions to improve much over the same period.

Thereafter, in January 2012, the Federal Reserve said it was likely to raise interest rates at the end of 2014, but not until then. This announcement continued to reflect that the Federal Reserve did not expect the economy to complete its recovery over the next few years. In October 2012, the Federal Reserve indicated that it anticipated the exceptionally low levels for the federal funds rate were likely to be warranted at least through mid-2015. More recently, the Federal Reserve has stated that it would continue to move forward with its efforts to keep interest rates low through its bond buying program (QE4[1]) and through the purchasing of mortgage backed securities (QE3[2]), at least as long the unemployment rate remains

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[1] QE4 - Quantitative Easing program 4 announced by Fed December 2012, the Fed announced plans to purchase $40 billion worth of agency mortgage-backed securities per month, and $45 billion worth of longer-term Treasury securities.

[2] QE3 - Quantitative Easing program 3 announced by Fed in September 2012. The Fed plans to purchase mortgage backed securities at a pace of about $40 billion per month until the labor market "improves substantially."

above 6 ½ percent, inflation remains within their target range of 1 to 2 percent, and long-term inflation expectations remain well anchored.

The stock market has recovered from the market lows during the 2007-2008 timeframe. Prior to 2007, the Dow Jones Industrial Average rose to over 14,000 only to fall more than 50 percent—to the mid-6000 range—during the long bear market which followed. Since then, the DOW has reached and even surpassed the 14,000 level. Improved earnings, low inflation, modest but sustained economic growth, and a highly supportive Federal Reserve are considered key forces in keeping the markets advances in place. Despite the improvement in the stock market, the market remains volatile and many individual investors, stung by the market downturn in 2008, remain on the sidelines for the most part.

Q. IS THERE A RELATIONSHIP BETWEEN THE COST OF EQUITY AND INTEREST RATES?

A. Yes. All things being equal, the cost of equity moves in the same direction as interest rates. Lower interest rates on U.S Treasuries ("risk-free" rate) imply lower equity returns and visa versa. However, as indicated by Equation [1] above,[3] the risk premium required to compensate investors also impacts the cost of equity. Higher risk premiums required by investors imply higher equity costs and vice versa. Risk premiums are impacted by uncertainty not only with respect to future interest rates, but uncertainty with respect to business and economic conditions, and inflation (or deflation). Risk premiums also reflect other investment specific risk factors such business and operation risk, regulatory risk, financial risk, construction risk, and liquidity risk.

[3] See page 7, *supra*.

Q. IS PWC AFFECTED BY THESE SAME MARKET UNCERTAINTIES AND CONCERNS?

A. Yes, in general, all investors are impacted by economic uncertainty, including the Company's investors. Smaller utilities like PWC generally feel the impact worse because of their size, with a relatively small customer base, limited service territory, and a general fact that the water and wastewater industry is very capital intensive. Smaller utilities have a limited or an inability to attract capital. However, even those that have parent companies with access to the capital markets still face the problem of the parent's willingness to infuse capital where alternatives for better returns exist.

Q. DOES THE COMPANY'S PARENT HAVE ACCESS TO THE CAPITAL MARKETS?

A. No.

Q. WHAT RECENT DEVELOPMENTS IN THE WATER UTILITY INDUSTRY ARE AFFECTING INVESTMENTS?

A. On the whole, the water and wastewater utility industry is expected to continue to confront an increasing need for infrastructure upgrades and replacement, as well as possible additional demand. *Value Line Investment Survey* (January 18, 2013) continues to stress that many utilities have facilities that are decades old and in need of significant maintenance and, in some cases, massive renovation and replacement. As infrastructure costs continue to climb, many smaller companies are at a serious disadvantage. *Value Line* notes that most of the companies in this sector lack the finances necessary to fund improvements on their own. This will require outside financing largely from more debt and higher associated interest expense, which will thwart share-earnings and dilute shareholder gains.

Q. THANK YOU. PLEASE DISCUSS IN MORE DETAIL THE IMPACT OF RISK ON CAPITAL COSTS.

A. With reference to specific utilities, risk is often discussed as consisting of two separate types of risk: business risk and financial risk.

Business risk, the basic risk associated with any business undertaking, is the uncertainty associated with the enterprise's day-to-day operations. In essence, it is a function of the normal day-to-day business environment, both locally and nationally. Business risks include the condition of the economy and capital markets, the state of labor markets, regional stability, government regulation, technological obsolescence, and other similar factors that may impact demand for the business product and its cost of production. For utilities, business risk also includes the volatility of revenues due to abnormal weather conditions, degree(s) of operational leverage, and regulatory climate.

Q. BUT HASN'T THE COMMISSION IGNORED BUSINESS RISK IN THE DETERMINATION OF COST OF CAPITAL OF WATER AND SEWER COMPANIES?

A. Yes, but that does not mean business risk does not exist or that it doesn't impact the cost of capital. Regulation, for example, can compound the business risk if it is unpredictable in reacting to cost increases both in terms of the time lag and magnitude for recovery of such increases. Regulatory lag makes it difficult to earn a reasonable return, particularly in an inflationary environment and/or when there is significant lag between the timing of investment in capital projects and its recognition in rates. Put simply, the greater the degree of uncertainty regarding the various factors affecting a company's business, the greater the risk of an investment in that company and the greater the compensation required by the investor.

Q. HOW WOULD YOU CONTRAST FINANCIAL RISK?

A. Financial risk concerns the distribution of business risk among the various capital investors in the utility. As I discussed earlier, permanent capital is normally divided into three categories: long-term debt, preferred stock, and common equity. Because common equity owners have only a residual claim on earnings after debt and preferred stockholders are paid, financial risk tends to be concentrated in that element of the firm's capital structure. Thus, a decision by management to raise additional capital by issuing additional debt concentrates even more of the financial risk of the utility in the common equity owners.

An important component of financial risk is construction risk. Construction risk refers to the magnitude of a company's capital budget. If a company has a large construction budget relative to internally generated cash flows it will require external financing, and it is important that such companies have access to capital funds on reasonable terms and conditions. Utilities are more susceptible to construction risk for two reasons. First, water and wastewater utilities generally have high capital requirements to build plant to serve customers. Second, utilities have a mandated obligation to serve demand within their service areas, leaving less flexibility both in the timing and discretion of scheduling capital projects since demand is largely influenced by external factors or events. This is compounded by the limited ability to wait for more favorable market conditions to raise the capital necessary to fund the capital projects.

Although often discussed separately, the two types of risks (business and financial) are interrelated. Specifically, a common equity investor may seek to offset exposure to high financial risk by investing in a firm perceived to have a low degree of business risk. In other words, the total risk to an investor would be high if the enterprise was characterized as a high business risk with a large portion of its

permanent capital financed with senior debt. To attract capital under these circumstances, the firm would have to offer higher rates of return to its common equity investors.

Q. THEN HOW HAS THE COMMISSION IGNORED BUSINESS RISK IN THE COST OF CAPITAL ANALYSIS?

A. In almost every case of which I am aware, the cost of equity is almost entirely a reflection of the utility's financial risk relative to the large publicly traded water companies. What the Commission generally does not do is look at the utility's business risk relative to the proxy group(s) used to analyze the cost of equity, or relative to other utilities that may be more similar but not share unique risks. That is, the specific problems each utility faces and how those things impact its ability to attract capital. In this regard, the Commission typically takes a one-size fits all approach and assumes, whether you serve water and sewer to 1 or 1 million customers, you generally face the same risks.

Q. IF THE COMMISSION HAS CONSISTENTLY IGNORED BUSINESS RISK, WHY ARE YOU RAISING IT?

A. Because, as I said, business risk exists and impacts the cost of capital, even if the strict and unfortunate adherence to Staff's current "plug and play" models gives no room for consideration of this risk. Besides, things actually do change. In the past few years, the Commission has ceased to deduct restricted cash (hook-up fees) in bank accounts from rate base, approved income tax recovery for tax efficient pass-through entities, and approval of a DSIC-like mechanism is forthcoming. So, I will continue to explain that business risk impacts the cost of capital and continue to hope the Commission gives it due consideration.

Q. SO YOU WANT THE COMMISSION TO DO SOMETHING ELSE TO BENEFIT SHAREHOLDERS AT THE EXPENSE OF RATEPAYERS?

A. No, all these things have done—proper recognition of hook-up fees, recovery of taxes, a DSIC like mechanism—is bring the scale back closer to "in balance." Utilities want these things so they can attract capital, provide good quality service, and actually have a reasonable opportunity to earn their authorized returns. Likewise, to be just and reasonable, that return should consider the unique business risks the utility faces. Like the Company, whose customers cannot afford the risk and cost associated with finding new water supplies.[4]

IV. THE MEANING OF "JUST AND REASONABLE" RATE OF RETURN

Q. HAVE THE COURTS SET FORTH ANY CRITERIA THAT GOVERN THE RATE OF RETURN THAT A UTILITY'S RATES SHOULD PRODUCE?

A. Yes. In 1923, the U.S. Supreme Court set forth the following criteria for determining whether a rate of return is reasonable in *Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679, 692-93 (1923):

> A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments on other business undertakings which are attended by corresponding risks and uncertainties .... The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market, and business conditions generally.

[4] *See* Direct Testimony of Robert T. Hardcastle at 7 – 9.

In *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944), the U.S. Supreme Court stated the following regarding the return to owners of a company:

> [T]he return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.

In summary, under *Hope* and *Bluefield*:

(1) The rate of return should be similar to the return in businesses with similar or comparable risks;

(2) The return should be sufficient to ensure the confidence in the financial integrity of the utility; and

(3) The return should be sufficient to maintain and support the utility's credit.

Q. HAVE THESE CRITERIA BEEN APPLIED IN REGULATORY PROCEEDINGS; AND, IF SO, WITH WHAT RESULTS?

A. Yes, but the application of the "reasonableness" criteria laid down by the Supreme Court has resulted in controversy. The typical method of computing the overall cost of capital is quite straightforward: it is the composite, weighted cost of the various classes of capital (debt, preferred stock, and common equity) used by the utility. The weighting is done by calculating the proportion that each class of capital bears to total capital. However, there is no consensus regarding the best method of estimating the cost of equity capital. The increasing regulatory use of market-based finance models in equity return determination has not led to a universally accepted means of estimating the ROE. In addition, the market-based results are applied to a book-value investment base, which, as I will discuss,

understates the return expected by investors who invest in real markets based on "real time" or current market values.

V. THE ESTIMATED COST OF EQUITY FOR PWC

A. The Publicly Traded Utilities That Comprise the Sample Group Used to Estimate the Company's Cost of Equity

Q. PLEASE DESCRIBE THE APPROACH YOU FOLLOWED IN YOUR COST OF CAPITAL ANALYSIS FOR PWC.

A. Again, just to summarize, estimating the cost of equity is a matter of informed judgment. The development of an appropriate rate of return for a regulated enterprise involves a determination of the level of risk associated with that enterprise and the determination of an appropriate return for that risk level. Practitioners employ various techniques that provide a link to actual capital market data and assist in defining the various relationships that underlie the equity cost estimation process.

Since PWC is not publicly traded, the information required to directly estimate its cost of equity is not available. Accordingly, as previously noted, I used a sample group of water utilities as a *starting point* to develop an appropriate cost of equity for PWC. There are six water utilities included in the sample group: American States Water (AWR), Aqua America (WTR), California Water (CWT), Connecticut Water (CTWS), Middlesex Water (MSEX), and SJW Corp. (SJW). All these companies are followed by the *Value Line Investment Survey.*

Q. ARE THE WATER UTILITIES IN YOUR SAMPLE DIRECTLY COMPARABLE TO PWC?

A. No, nor are they readily comparable on an indirect basis given the huge difference in size and scope of service. But, they are utilities for which market data is available. All of them are regulated, they primarily provide water service, although

some provide both water and wastewater services, and their primary source of revenues is from regulated services. Therefore, they provide a useful *starting point* for developing a cost of equity for the Company. I emphasized "starting point" because PWC is *not publicly traded*; there is no market data available for smaller utilities, like PWC, that can be used to more directly develop cost of equity estimates. Therefore, we can't just glue the results for the large publicly traded companies onto smaller firms like PWC and call it a day. That's generally the difference between my approach and Staff's.

Q. BRIEFLY, WHY IS A PROXY GROUP NECESSARY IN A COST OF CAPITAL ANALYSIS AND HOW IS IT SELECTED?

A. The comparable earnings standard set forth in the *Hope* and *Bluefield* decisions requires the rate of return afforded to utilities be similar to the return in businesses with similar or comparable risks.[5] A proxy group of companies with comparable risk is therefore the starting point in a cost of capital analysis.

There are two broad approaches to choosing a proxy group.[6] The first approach consists of selecting pure-play companies that are *directly* comparable in risk to the subject utility. The companies are chosen using strict criteria with an attempt to identify companies with the *same* investment risk as the subject utility. There are several qualitative measures that influence investors' assessment of risk that can be used to screen companies. These include SIC classification, bond ratings, beta risk, business risk scores, size, percentage of revenues from regulated operations, common equity ratio, geographical location, etc.[7]

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[5] See pages 13 – 14, *supra.*

[6] Roger A. Morin. *New Regulatory Finance* (2006) at 400.

[7] *Id.*

The second approach is to select as large a group of utilities as possible that is representative of the utility industry average and make adjustments for any differences between the subject utility and the industry average. Whether one employs the direct approach or the indirect approach, the selection of companies for a proxy group always raises the question of whether it is possible to select a group that is of comparable risk. Further, there is always the question of identifying any differences in investment risk. The electric, natural gas, and water utility industries have witnessed numerous takeovers, restructuring, corporate reorganizations, unbundling, and increased competition over the last decade or so, all of which has made selections of proxy groups more difficult.[8]

The approach adopted for the Company utilizes an indirect method. The water companies selected derive the vast majority of their revenues from regulated operations. As shown in Schedule D-4.2, the six water utilities on average derive over 90 percent of the revenues from regulated activities. These companies were also chosen because they are publicly traded, are not in financial distress, and there is a sufficiently long financial and market history from which to perform an analysis.

The bottom line is that the water utility companies in my proxy group are considered representative of the average of the industry, and, as I have stated throughout my testimony, must be adjusted for differences in investment risk relative to a small water company in rural Arizona with limited access to water supplies.

[8] *Id.*

Q. DOES THE MARKET DATA PROVIDED BY THE WATER PROXY GROUP CAPTURE ALL OF THE MARKET RISKS THAT PWC MIGHT FACE IF IT WERE PUBLICLY TRADED?

A. In my opinion, no. As I stated, there is no directly comparable market data for utility companies the size of PWC. For example, the average revenue of the water utility sample companies is over 1219 times that of PWC, and the average net plant of the water utility sample companies is over 1600 times that of PWC. Even the smallest company in the sample group, Connecticut Water, has over 511 times the net plant of PWC, and over 266 times the revenues.

Putting aside the size aspect, an investment in the Company is not a liquid investment. If an investor invests in any of the publicly traded utilities and is not happy with the returns, he/she may sell his/her stock within minutes while liquidating an investment in PWC could take years. This is liquidity risk—a significant risk to an investment in non-publicly traded companies like PWC. Some researchers believe that the size premium phenomenon for smaller companies in the public markets is, in part, a reflection of liquidity risk.

Q. PLEASE PROVIDE A GENERAL DESCRIPTION OF THE WATER UTILITIES IN YOUR SAMPLE.

A. Schedule D-4.2 lists the current operating revenues and net plant for the six water utilities as reported by AUS Utility Reports (formerly C.A. Turner Utility Reports) and PWC, respectively. The six sample companies may be generally described as follows:

(1) American States Water (AWR) primarily serves the California market through Golden State Water Company, which provides water services to nearly 256,000 customers within 75 communities in 10 counties in the State of California, primarily in Los Angeles,

San Bernardino, and Orange counties. AWR also owns an electric utility service provider with over 23,000 customers, but approximately 72 percent of its revenues were derived from commercial and residential water customers. Revenues for AWR were nearly $467 million in 2012 and net plant was nearly $918 million at the end of 2012.

(2) Aqua America (WTR) owns regulated utilities in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and Virginia, serving nearly 931,000 customers at the end of 2012. WTR's utility base is diversified among residential water, commercial water, fire protection, industrial water, other water, and wastewater customers. Total revenues for WTR were nearly $758 million in 2012 and net plant was over $3.9 billion at the end of 2012.

(3) California Water Service Group (CWT) owns subsidiaries in California, New Mexico, Washington, and Hawaii, serving nearly 501,000 customers. Revenues for CWT were over $559 million in 2012 and net plant nearly $1.5 billion at the end of 2012.

(4) Connecticut Water Services (CTWS) owns subsidiaries in Connecticut, Maine, Massachusetts, and Rhode Island, serving nearly 122,000 customers. Revenues for CTWS were nearly $84 million in 2012 and net plant nearly $448 million at the end of 2012.

(5) Middlesex Water (MSEX) owns subsidiaries in New Jersey, Delaware and Pennsylvania, serving over 112,000 customers, and provides water service under contract to municipalities in central New Jersey serving a population of over 303,000. Revenues for

MSEX were over $110 million in 2012 and net plant was over $435 million at the end of 2012.

(6) SJW Corp. (SJW) owns San Jose Water, which provides water service in a 138 square mile area in San Jose, California, and surrounding communities serving nearly 238,000 customers. Revenues for SJW were nearly $262 million in 2012 and net plant was nearly $832 million at the end of 2012.

Q. HOW DOES PWC COMPARE TO THE SAMPLE WATER UTILITIES?

A. It is much smaller. At the end of the test year, the Company had approximately 1,100 water customers. Its revenues totaled approximately $400,000, and net plant-in-service was approximately $826,000. PWC is located in Gila County, Arizona, and has a very small service territory compared to the sample water companies.

Q. ARE THERE OTHER CHARACTERISTICS OF SMALLER UTILITIES, LIKE PWC, THAT INCREASE RISK?

A. Yes. Water and sewer utilities are also capital intensive and typically have relatively large construction budgets. As I have previously discussed in this testimony, firms with large capital budgets face construction risk (a form of financial risk). The size of a utility's capital budget relative to the size of the utility itself often increases construction risk. Large utilities are more able to fund their capital budgets from their earnings, cash flows, and short-term borrowings. For smaller utilities, like PWC, the ability to fund relatively large capital budgets from earnings, cash flows, and short-term debt is difficult, if not impossible, without reliance upon additional outside capital.

Q. WHAT OTHER RISK FACTORS DISTINGUISH PWC FROM THE LARGER SAMPLE WATER UTILITIES?

A. There are a number of factors including the differences in regulatory environments, differences in the type of test year used for rate making, and differences in the available regulatory mechanisms for recovery of costs outside of a rate case. All these factors have an impact on the ability of a utility to actually earn its authorized return.

Business risk, or the uncertainty of earnings, is a direct reflection of these and the other factors I have discussed. There are two quantitative measures for measuring business risk. The first is the co-efficient of variance of earnings and the second is operating leverage.

The co-efficient of variance of earnings is a reflection of the distributions of earnings. It is meaningful when measured against the distribution of earnings of alternative investments, like the water utilities in my water proxy group. The co-efficient of variance of earnings can be quantified using a relatively simple formula:[9]

[1] Co-efficient of Variance of Earnings = Standard Deviation of Operating Income[10]/Mean of Operating Income

Using this measure, the greater the co-efficient of variance of earnings, the greater the risk to investors of not receiving expected returns.[11] Below are the computed

[9] Tuller, Lawrence W., *The Small Business Valuation Book*, Adams Media Corporation, 1994. p.89.
[10] Operating income is defined as earnings before interest and taxes (EBIT).
[11] *Tuller* at 89.

co-efficient of variance of earnings results using the most recent 5 years of historical data for my water proxy group and PWC:

Company	Symbol	Business Risk Co-efficient of variance of earnings
American States	AWR	0.282
Aqua America	WTR	0.144
California Water	CWT	0.055
Connecticut Water	CTWS	0.211
Middlesex	MSEX	0.127
SJW Corp.	SJW	0.171
Average of Water Utilities		0.165
PWC		0.762

What these results show is that when using the co-efficient of variance of earnings as a measure of business risk, PWC carries 4.6 times the risk compared to the average water utility in my proxy group (0.762 divided by 0.165).

The second method of measuring business risk, or operating leverage, reflects both the sales fluctuations and the impact of operating costs on earnings. Operating leverage is expressed as: [12]

[2] Operating leverage = Percent Change in Operating Income[13]/ Percent Change in Sales

Using this measure, the greater the operating leverage, the greater the business risk.[14] Below are the computed operating leverage results using the most recent 5 years of historical data for my water proxy group and PWC:

[12] *Id.*

[13] Operating income is defined as earnings before interest and taxes (EBIT).

Company	Symbol	Operating Leverage
American States	AWR	2.58
Aqua America	WTR	0. 44
California Water	CWT	0.51
Connecticut Water	CTWS	2.01
Middlesex	MSEX	4.06
SJW Corp.	SJW	1.92
Average of Water Utilities		1.92
PWC		28.52

To interpret these results, with respect to the water proxy group, a 1.0 percent change in sales revenue results in a 1.92 percent change in operating income whereas for PWC, a 1.0 percent change in sales results in a 28.52 percent change in operating income. What these results show is that the operating leverage of PWC creates a greater business risk compared to the average water utility in my proxy group.

Q. SO PWC REALLY ISN'T COMPARABLE TO THE SAMPLE WATER UTILITIES?

A. It really isn't, for the reasons I have stated. Besides the obvious difference in size, business risk, operating leverage, and financial risk, constraints on the rate making process in Arizona, coupled with lower returns over the past decade than in most states, makes it difficult to obtain approval of rates that allow Arizona water and wastewater utilities to recover their costs of service let alone their authorized returns. As a result, risks are higher for PWC compared to the sample companies that do not operate in Arizona. Thus, the required return on equity should be higher too. Unfortunately, as I have testified, the approaches commonly used to estimate a utility's cost of equity require market data, which is not available for

[14] *Tuller* at 90 – 91.

smaller companies and utilities operating exclusively in Arizona, like PWC, so much larger, public companies must be used as *proxies*.

The emphasis on *proxy* is very important. The criteria established by the Supreme Court in decisions such as *Hope* and *Bluefield Water Works* require the use of comparable companies, i.e., companies that would be viewed by investors as having similar risks. A rational investor would not regard PWC as having the same level of risk as WTR or even CTWS—even with PWC's lower financial risk—because of the previously mentioned small size characteristics and the regulatory constraints in Arizona. Consequently, the results produced by the DCF and CAPM methodologies, utilizing data for the sample utilities, often understate the appropriate return on equity for a regulated water and wastewater utility provider such as PWC.

Q. THANK YOU. IS THERE A RELATIONSHIP BETWEEN A UTILITY'S CAPITAL STRUCTURE AND ITS COST OF CAPITAL?

A. Yes. Generally speaking, when a firm engages in debt financing, it exposes itself to greater risk. Once debt becomes significant relative to the total capital structure, the risk increases in a geometric fashion compared to the linear percentage increase in the debt ratio itself. This risk is illustrated by considering the effect of leverage on net earnings. For example, as leverage increases, the equity ratio falls. This creates two adverse effects. First, equity earnings decline rapidly and may even disappear. Second, the "cushion" of equity protection for debt falls. A decline in the protection afforded debt holders, or the possibility of a serious decline in debt protection, will act to increase the cost of debt financing. Therefore, one may conclude that each new financing, whether through debt or equity, impacts the marginal cost of future financing by any alternative method. For a firm already perceived as being over-leveraged, this additional borrowing

would cause the marginal cost of both equity and debt to increase. On the other hand, if the same firm instead successfully employed equity funding, this could actually reduce the real marginal cost of additional borrowing, even if the particular equity issuance occurred at a higher unit cost than an equivalent amount of debt.

Q. HOW DO THE CAPITAL STRUCTURES OF THE SAMPLE WATER UTILITIES COMPARE TO PWC?

A. Schedule D-4.3 shows that the capital structure of PWC for this rate case contains 0 percent debt and 100 percent equity, compared to the average of the water utility sample of 52 percent debt and 48 percent equity.

The 0 percent of debt in the Company's capital structure is much lower than the publicly traded water utilities. Having more debt in its capital structure implies that PWC has more financial risk than the sample water utilities. One way to measure financial risk is by calculating the degree of financial leverage. This is expressed by the formula:[15]

[3] Degree of financial leverage = Percent Change in Net Income/Percent Change in Operating Income

Using this measure, the greater the degree of financial leverage, the greater the financial risk.[16] Below are the computed financial leverage results using the most recent 5 years of historical data for my water proxy group and PWC:

[15] *Tuller* at 91.
[16] *Id.* at 90 – 91.

Company	Symbol	Degree of Financial Leverage
American States	AWR	1.57
Aqua America	WTR	2.15
California Water	CWT	1.90
Connecticut Water	CTWS	0.18
Middlesex	MSEX	0.79
SJW Corp.	SJW	1.34
Average of Water Utilities		1.32
PWC		1.00

To interpret these results, with respect to the water proxy group, a 1.0 percent change in operating income results in a 1.32 percent change in net income whereas for PWC, a 1.0 percent change in operating income results in a 1.0 percent change in net income. What these results show is that financial leverage has less effect on the shareholders of PWC compared to the average water utility in my proxy group. This makes sense as PWC has no debt in its capital structure.

B. Overview of the DCF and CAPM Methodologies

Q. PLEASE EXPLAIN THE GENERAL APPROACHES TO ESTIMATING THE COST OF CAPITAL.

A. These two broad approaches:

1) identify comparable-risk sample companies and estimate the cost of capital directly; or,

2) find the location of the CML and estimate the relative risk of the company, which jointly determines the cost of capital.

The DCF model is an example of a method falling into the first general approach. It is a direct method, but uses only a subset of the total capital market evidence. The DCF model rests on the premise that the fundamental value of an

asset (stock) is its ability to generate future cash flows to the owner of that asset (stock). I will explain the DCF model in detail in a moment, but for now, the DCF is simply the sum of a stock's expected dividend yield and the expected long-term growth rate. Dividend yields are readily available, but long-term growth estimates are not.

The CAPM is an example of a method falling into the second general approach. It uses information on all securities rather than a small subset. I will explain the CAPM in more detail later. For now, the CAPM is a risk-return relationship, often depicted graphically as the CML. The CAPM is the sum of a risk-free return and a risk premium.

The Build-up Method is another example of a method falling into the second general approach. I will explain the Build-up Method in more detail later. For now, the Build-up Method, like the CAPM, is a risk-return relationship. The Build-up Method is the sum of a risk-free return and a risk premium. However, rather than a single risk premium as is used in the CAPM, the risk premium in the Build-up Method is made up of one or more risk premia. Each risk premium represents the reward an investor receives for taking on a specific risk.

Each of these three methods has its own way of measuring investor expectations. In the final analysis, ROE estimates are subjective and should be based on sound, informed judgment rationally articulated and supported by competent evidence. I have applied several versions of the DCF, two versions of the CAPM, and a Build-up Method to "bracket" the fair cost of equity capital for PWC, but without taking into account the additional risks that PWC possesses.

C. Explanation of the DCF Model and Its Inputs

Q. PLEASE EXPLAIN IN DETAIL THE DCF METHOD OF ESTIMATING THE COST OF EQUITY.

A. The DCF model is based on the concept that the current price of a share of stock is equal to the present value of future cash flows from the purchase of the stock. In other words, the DCF model is an attempt to replicate the market valuation process that sets the price investors are willing to pay for a share of a company's stock. It rests on the assumption that investors rely on the expected returns (i.e., cash flow they expect to receive) to set the price of a security. The DCF model in its most general form is:

[2] $P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \ldots + CF_n/(1+k)^n$

where k is the cost of equity; n is a very large number; P_0 is the current stock price; and $CF_1, CF_2, \ldots CF_n$ are all the expected future cash flows expected to be received in periods 1, 2, … n.

Equation (2) can be written to show that the current price (P_0) is also equal to

[3] $P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \ldots + P_t/(1+k)^t$

where P_t is the price expected to be received at the end of the period t. If the future price (P_t) included a premium (an expected increase in the stock price or capital gain), the price the investor would pay today (in anticipation of receiving that premium) would increase. In other words, by estimating the cash flows from the purchase of a stock in the form of dividends and capital gains, we can calculate the investor's required rate of return, i.e., the rate of return an investor presumptively used in bidding the current price to the stock (P_0) to its current level.

Equation [3] is a Market Price version of the DCF model. As with the general form of the DCF model in equation [2], in the Market Price approach the

current stock price (P_0) is the present value of the expected cash inflows. The cash flows are comprised of dividends and the final selling price of the stock. The estimated cost of equity (k) is the rate of return investors expect if they bought the stock at today's price, held the stock and received dividends through the transition period, and then sold it for price (P_t).

Q. CAN YOU PROVIDE AN EXAMPLE TO ILLUSTRATE THE MARKET PRICE VERSION OF THE DCF MODEL?

A. Yes. Assume an investor buys a share of common stock for $40. If the expected dividend during the coming year is $2.00, then the expected dividend yield is 5 percent ($2.00/$40 = 5.0 percent). If the stock price is also expected to increase to $43.00 after one year, this $3.00 expected gain adds an additional 7.5 percent to the expected total rate of return ($3.00/$40 = 7.5 percent). Thus, the investor buying the stock at $40 per share expects a total return of 12.5 percent (5 percent dividend yield plus 7.5 percent price appreciation). The total return of 12.5 percent is the appropriate measure of the cost of capital because this is the rate of return that caused the investor to commit $40 of his capital by purchasing the stock.

Q. PLEASE CONTINUE WITH YOUR DESCRIPTION OF THE DCF MODEL.

A. Under the assumption that future cash flows are expected to grow at a constant rate ("g"), equation [2] can be solved for k and rearranged into the simple form:

$$[4] \quad k = CF_1/P_0 + g$$

where CF_1/P_0 is the expected dividend yield and g is the expected long-term dividend (price) growth rate ("g"). The expected dividend yield is computed as the ratio of next period's expected dividend ("CF_1") divided by the current stock price ("P_0"). This form of the DCF model is known as the constant growth DCF model and recognizes that investors expect to receive a portion of their total return in the

form of current dividends and the remainder through future dividends and capital (price) appreciation. A key assumption of this form of the model is that investors expect that same rate of return (k) every year and that market price grows at the same rate as dividends. This has not been historically true for the water utility sample, as shown by the data in Schedule D-4.4 and Schedule D.4.5. As a result, estimates of long-term growth rates (g) should take this into account.

Q. ARE THERE ANY CONCERNS ABOUT APPLYING THE DCF MODEL TO UTILITY STOCKS?

A. There are a number of reasons why caution must be used when applying the DCF model to utility stocks. First, the stock price and dividend yield components may be unduly influenced by structural changes in the industry, such as mergers and acquisitions, which influence investor expectations. Second, the DCF model is based on a number of assumptions that may not be realistic given the current capital market environment. The traditional DCF model assumes that the stock price, book value, dividends, and earnings all grow at the same rate. This has not been historically true for the sample water utility companies.

Third, the application of the DCF model produces estimates of the cost of equity that are consistent with investor expectations *only* when the market price of a stock and the stock's book value are approximately the same. The DCF model will understate the cost of equity when the market-to-book ratio exceeds 1.0 and conversely will overstate the cost of equity when the market-to-book ratio is less than 1.0. The reason for this is that the market-derived return produced by the DCF is often applied to book value rate base by regulators. Fourth, the assumption of a constant growth rate may be unrealistic, and there may be difficulty in finding an adequate proxy for the growth rate. Historical growth rates can be downward biased as a result of the impact of anemic historical growth rates in earnings,

mergers and acquisitions, restructuring, unfavorable regulatory decisions, and even abnormal weather patterns. Further, by placing too much emphasis on the past, the estimation of future growth becomes circular.

Q. LET'S TURN TO THE SPECIFIC INPUTS USED IN YOUR DCF MODELS. WHAT DATA HAVE YOU USED TO COMPUTE THE EXPECTED DIVIDEND YIELD (CF_1/P_0) IN YOUR MODELS?

A. First, I computed a current dividend yield (CF_0/P_0). The expected dividend yield (CF_1/P_0) is the current dividend yield (CF_0/P_0) times one plus the growth rate (g). I used the spot price for each of the stocks of the water utilities in the sample group on as reported by the *Value Line Investment Analyzer* for March 6, 2013 for P_0. The current dividend (CF_0) is the dividend for the next year as reported by Value Line. In my schedules, the current dividend yield is denoted as (D_0/P_0), where D_0 is the current dividend and P_0 is the spot stock price. (D_1/P_0) is used to denote the expected dividend yield in the schedules.

Q. WHAT MEASURES OF GROWTH ("g") HAVE YOU USED?

A. For my primary DCF growth estimate, I have used analyst growth forecasts, where available, from four different, widely-followed sources: *Reuters, Zacks, Yahoo Finance*,[17] and *Value Line*. Schedule D-4.6 reflects the analyst estimates of growth. The currently available estimates from these four sources provide at least two estimates for each of the sample water utility companies. When there is no estimate of forward-looking growth for a utility in the water utilities sample, I have assumed investors expect the growth for that utility to equal the average of growth rates for the other water utilities in the sample.

[17] Yahoo Finance analyst estimates provided by Thompson Financial.

Q. WHY DID YOU USE FORECASTED GROWTH RATES AS YOUR PRIMARY ESTIMATE OF GROWTH?

A. The DCF model requires estimates of growth that investors expect in the future and not past estimates of growth that have already occurred. Accordingly, I use analysts' forecasts of growth as a primary estimate of growth. Logically, in estimating future growth, financial institutions and analysts have taken into account all relevant historical information on a company as well as other more recent information.[18] To the extent that past results provide useful indications of future growth prospects, analysts' forecasts would already incorporate that information. In addition, a stock's current price reflects known historic information on that company, including its past earnings history. Any further recognition of the past will double count what has already occurred. Therefore, forward-looking growth rates should be used.

Q. WHAT OTHER ESTIMATES OF GROWTH DID YOU USE?

A. I use the 5-year historical average growth rates in the stock price, book value per share ("BVPS"), earnings per share ("EPS") and dividends per share ("DPS") along with the average of analyst expectations. Using the historical average of growth in price, BVPS, EPS, and DPS is reasonable because investors know that, in equilibrium, common stock prices, BVPS, EPS and DPS will all grow at the same rate and would take information about changes in stock prices and growth in BVPS into account when they price utilities' stocks. As I stated either, a basic

[18] David A. Gordon, Myron J. Gordon and Lawrence I Gould, "Choice Among Methods of Estimating Share Yield," *Journal of Portfolio Management* (Spring 1989) 50-55. Gordon, Gordon and Gould found that a consensus of analysts' forecasts of earnings per share growth for the next five years provides a more accurate estimate of growth required in the DCF model than three different historical measures of growth (historical EPS, historical DPS, and historical retention growth). They explain that this result makes sense because analysts would take into account such past growth as indicators of future growth as well as any new information.

assumption of the DCF model is that the stock price, BVPS, EPS and DPS all grow at the same rate. While I believe the use of historical growth rates gives added recognition to the past that is already incorporated into analyst estimates of growth, I have been criticized in the past for not giving direct consideration to past growth rates in my estimate of growth. So, I have endeavored to remove any basis for the criticism in this case. However, I do so reluctantly because the empirical evidence indicates that analyst estimates of growth are the best measure of growth for use in the DCF for utility stocks.[19]

Q. HAVE YOU USED ANALYST ESTIMATES OF DPS GROWTH?

A. No. While I did not use analyst estimates of DPS growth, the average projected DPS growth rate of 3.8 percent is higher than the historical DPS growth rate of 3.33 percent. Putting this aside, I did not use analyst estimates of dividend growth primarily because there are analyst estimates for dividend growth for only three of the six sample companies. Further, only one source (*Value Line*) provides DPS growth estimates. The wide availability of earnings growth estimates compared to dividend growth estimates indicates a greater reliance by investors on earnings rather than dividends for their investment decisions.

D. Explanation of the CAPM and Its Inputs

Q. PLEASE EXPLAIN THE CAPM METHODOLOGY FOR ESTIMATING THE COST OF EQUITY.

A. As I already indicated, the CAPM is a type of risk premium methodology that is often depicted graphically in a form identical to the CML. Put simply, the CAPM formula is the sum of a risk-free rate plus a risk premium. It quantifies the additional return required by investors for bearing incremental risk. The risk-free

[19] Gordon, Gordon, and Gould.

rate is the reward for postponing consumption by investing in the market. The risk premium is the additional return compensation for assuming risk.

The CAPM formula provides a formal risk-return relationship premised on the idea that only market risk matters, as measure by beta. The CAPM formula is:

$$(7) \quad k = R_f + \beta(R_m - R_f)$$

where k is the expected return, R_f is the risk-free rate, R_m is the market return, $(R_f - R_m)$ is the market risk premium, and β is beta.

The difficulty with the CAPM is that it is a prospective or forward-looking model while most of the capital market data required to match the input variables above is historical.

Q. WHAT IS THE RISK-FREE RATE?

A. It is the return on an investment with no risk. The U.S. Treasury rate serves as the basis for the risk-free rate because the yields are directly observable in the market and are backed by the U.S. government. Practically speaking, short-term rates are volatile, fluctuate widely and are subject to more random disturbances than long-term rates. In short, long-term Treasury rates are preferred for these reasons, and because long-term rates are more appropriately matched to securities with an indefinite life or long-term investment horizon.

Q. WHAT IS BETA AND WHAT DOES IT MEASURE?

A. Beta is a measure of the relative risk of a security in relation to the market. In other words, it is a measure of the sensitivity of a security to the market as a whole. This sensitivity is also known as systematic risk. It is estimated by regressing a security's excess returns against a market portfolio's excess returns. The slope of the regression line is the beta.

Beta for the market is 1.0. A security with a beta greater than 1.0 is considered riskier than the market. A security with a beta less than 1.0 is considered less risky than the market.

There are computational problems surrounding beta. It depends on the return data, the time period used, its duration, the choice of the market index, and whether annual, monthly, or weekly return figures are used. Betas are estimated with error. Based on empirical evidence, high betas will tend to have a positive error (risk is overestimated) and low betas will have a negative error (risk is underestimated).[20]

Q. WHAT DID YOU USE AS THE PROXY OF THE BETA FOR PWC?

A. I used the average beta of the sample water utility companies. Betas were obtained from *Value Line Investment Analyzer* (March 6, 2013). *Value Line* is the source for estimated betas that I regularly employ, along with Staff, and it is widely accepted by financial analysts. The average beta as shown on Schedule D-4.9 is 0.71. I should note that because PWC is not publicly traded, PWC has no beta. I believe that PWC, if it were publicly traded, would have a higher beta than the sample water utility companies.

Q. WHY WOULD PWC HAVE A HIGHER BETA?

A. As previously indicated, smaller companies are inherently more risky than larger companies. In Chapter 7 of Morningstar's *Ibbotson SBBI 2013 Valuation Yearbook*, for example, Ibbotson reports that when betas (a measure of market risk) are properly estimated, betas are larger for small companies than for larger companies. As I will explain later, Ibbotson also finds that even after accounting

[20] Eugene F. Fama and Kenneth R. French, "The Capital Asset Pricing Model: Theory and Evidence," *Journal of Economic Perspectives* (Summer 2004) 25-46.

for differences in beta risk, small firms require an additional risk premium over and above the added risk premium indicated by differences in beta risk.

Q. PLEASE EXPLAIN THE MARKET RISK PREMIUM.

A. The market-risk premium (R_m-R_f) is the return an investor expects to receive as compensation for market risk. It is the expected market return minus the risk-free rate. Approaches for estimating the market risk premium can be historical or prospective.

Since expected returns are not directly observable, historical realized returns are often used as a proxy for expected returns on the basis that the historical market risk premium follows what is known in statistics as a "random walk." If the historical risk premium does follow the random walk, then one should expect the risk premium to remain at its historical mean. Based on this argument, the best estimate of the future market risk premium is the historical mean. Morningstar's *SBBI Valuation Edition 2013 Yearbook* provides historical market returns for various asset classes from 1926 to 2012. This publication also provides market risk premiums over U.S. Treasury bonds, which make it an excellent source for historical market risk premiums.

Prospective market risk premium estimation approaches necessarily require examining the returns expected from common equities and bonds. One method employs applying the DCF model to a representative market index such as the Value Line 1700 stocks (the *Value Line* Composite Index). The expected return from the DCF is measured for a number of periods of time, and then subtracted from the prevailing risk-free rate for each period to arrive at market risk premium for each period. The market risk premium subsequently employed in the CAPM is the average market risk premium of the overall period.

Q. HOW MANY MARKET RISK PREMIUM ESTIMATES DID YOU PREPARE IN CONNECTION WITH YOUR ASSIGNMENT FOR PWC?

A. I prepared two market risk premium estimates: An historical market risk premium and a current market risk premium.

Q. HOW DID YOU ESTIMATE THE HISTORICAL MARKET RISK PREMIUM?

A. I used the Morningstar's *Ibbotson SBBI 2013 Valuation Yearbook* measure of the average premium of the market over long-term treasury securities from 1926 through 2012. The average historical market risk premium over long-term treasury securities is 6.7 percent.

Q. HOW DID YOU ESTIMATE THE CURRENT MARKET RISK PREMIUM?

A. I derived a market risk premium by first using the DCF model to compute an expected market return for each of the past 12 months using *Value Line's* projections of the average dividend yield and average 3-5 year price appreciation (growth) on the *Value Line* 1700 Composite Index. I then subtracted the average 30-year Treasury yield for each month from the expected market returns to arrive at the expected market risk premiums. Finally, I averaged the computed market risk premiums to determine the current market risk premium. The data and computations are shown on Schedule D-4.11. The recent 3-month average current market risk premium is 12.01 percent. Estimates of the current market risk premium have ranged from 11.52 percent to 18.80 percent over the past 12 months averaging 15.11 percent. My 3-month average estimate at 12.01 percent is near the bottom of the 12-month range.

Q. HAS STAFF EMPLOYED A CURRENT MARKET RISK PREMIUM IN THE PAST?

A. Yes. However, their estimation of the current market risk premium was somewhat different. Staff uses a DCF model to compute the current market risk premium as I do. However, Staff also uses a single spot estimate using the median annualized projected 3-5 year price appreciation on the *Value Line* 1700 stocks in conjunction the median dividend yield on the *Value Line* 1700 stocks.

Q. WHY DO YOU BELIEVE THAT YOUR APPROACH IS MORE APPROPRIATE?

A. Staff typically computes a market risk premium based on a single point in time, which makes estimates extremely volatile, so much so that the expected market risk premium estimate can change by as much as 700 basis points (or more) each time it is estimated. The accuracy of the expected risk premium is greatly enhanced by increasing the number of periods used to estimate it.

Q. WHAT DO YOU ADOPT AS THE RETURN FOR THE RISK-FREE RATE?

A. I use long-term expected Treasury bond rates as the measure of the risk-free return for use with both CAPM cost of equity estimates from two sources: the *Blue Chip Financial Forecast* and *Value Line*. Morningstar's *Ibbotson SBBI 2013 Valuation Yearbook* explains on page 55 that the appropriate choice for the risk-free rate is the *expected* return for long-term Treasury securities. Thus, when determining an estimate of the risk-free rate, it is appropriate to adopt a return that is no less than the expected return on the long-term Treasury bond rate. Both of my CAPM estimates are based on expected interest rates using a recent month average (March 6, 2013) and projected estimates of the long-term treasury rates for 2014 and 2015 (from *Blue Chip Financial Forecasts* and *Value Line Selection and*

Opinion). The 2014 to 2015 timeframe and beyond is the period when new rates will be in effect for the Company.

E. Explanation of the Build-Up Method and Its Inputs

Q. PLEASE EXPLAIN THE BUILD-UP METHOD FOR ESTIMATING THE COST OF EQUITY.

A. As I already indicated, like the CAPM, the Build-up Method, is a type of risk premium methodology. This is a common and effective method used by appraisers and valuation experts.[21] The Build-up Method is an additive model in which the return on a security is the sum of a risk-free rate and one or more risk premia. Each premium represents the reward an investor receives for taking on a specific risk. The elegance of the Build-up Method is that it does not require an estimate of market beta, which is problematic for non-publicly traded companies such as PWC. The Build-up Method can be stated as follows:

[1] $k = R_f + RP_m + RP_s +/- RP_u$

where k = the expected return

R_f = risk-free rate

RP_m = equity risk premium for the market

RP_s = equity risk premium for size

RP_u = risk premium attributed to the specific company or to the industry (often called the company specific risk premium)

Or alternatively as:

[2] $k = R_f + RP_{ms} +/- RP_u$

where k = the expected return

R_f = risk-free rate

[21] Morningstar *Ibbotson SBBI 2013 Valuation Yearbook*. Chapter 3.

RP_{m+s} = equity risk premium for the market and size

RP_u = risk premium attributed to the specific company or to the industry (often call the company specific risk premium)

The data for the equity risk premium for the market (RP_m), the equity risk premium for size (RP_s), and the company specific or industry risk premium (RP_u) can be readily obtained from *Morningstar* and/or other size premium studies such as the *Duff & Phelps* study.[22] *Morningstar* quantifies the size premium separate from the market risk premium by market capitalization as a measure of size, whereas *Duff & Phelps* study quantifies the risk premium (RP_{m+s}) (market premium (RP_m) plus the size premium (RP_s)) by book value of common equity, 5-year average net income, market value of invested capital, total assets (as reported on balance sheet), 5-year average of earnings before interest, income taxes, depreciation and amortization (EBITDA), sales, and number of employees in addition to market capitalization, all of which have been shown to be highly correlated with market returns. I should note that the authors of the *Duff & Phelps* study conclude that, by whatever measures of size are used, the results are clear that there is an inverse relationship between size and historical equity returns—small companies have higher returns than larger companies.[23]

Q. ARE THERE ADVANTAGES TO THE USE OF THE BUILD-UP METHOD OVER THE CAPM FOR ESTIMATING THE COST OF EQUITY?

A. Yes. First, as I mentioned earlier, the Build-up Method does not require a market beta estimate, which is not available for non-public firms. I use the average beta of the large publicly traded water utilities as a *proxy* for the beta of PWC. However, as I also discussed, there are computation problems surrounding beta and

[22] *Duff & Phelps* LLC, *Risk Premium Report 2013*.

[23] *Id.* at 26.

empirical financial data show that beta does not account for all of the risks associated with smaller firms. Second, each of the risk premia used in the Build-up Method can be quantified using data from the equity markets. Third, the various measures of size, including fundamental accounting measures, have a practical benefit of eliminating the need to make a "guesstimate" of size for comparative purposes where market data for determining market value measures of size is not available, particularly for non-public firms.

F. Financial Risk Adjustment

Q. PLEASE EXPLAIN YOUR FINANCIAL RISK ADJUSTMENT TO REFLECT THE COMPANY'S LOWER LEVEL OF DEBT IN ITS CAPITAL STRUCTURE AS COMPARED TO THE SAMPLE WATER UTILITIES.

A. My financial risk estimation is based upon the methodology developed by Professor Hamada of the University of Chicago, which incorporates the beta of a levered firm to that of its unlevered counterpart. The equation is

$$\beta_L = \beta_U[1 + (1 - T)\varphi]$$

where β_L and β_U are the levered and unlevered betas, respectively, T is the tax rate, and φ the leverage, defined as the ratio of debt and equity of the firm. In simple terms, I un-lever the average beta of the six publicly-traded water utilities in my sample using a ratio of the market value of debt and the market value of equity. While I can compute the market value of equity of the sample water utilities based on the current number of shares outstanding and the current stock price, estimating the market value of debt is much more difficult. For purposes of my analysis, I assume the market value of debt is the book value. This is a customary and realistic assumption.[24] Once the unlevered beta is determined, I re-lever the beta

[24] *Morin* at 224.

using the capital structure of PWC. For the market value of equity, I multiplied PWC's book value of equity times the average market-to-book ratio of the sample water utilities. For PWC's debt, I assume the market value of debt is equal to the book value.

The re-levered beta is then used in my CAPM models, and the new CAPM results are compared to my original CAPM results. The computed difference is the basis of my financial risk adjustment.

Q. WHAT IS THE COMPUTED FINANCIAL RISK ADJUSTMENT?

A. A downward adjustment of no less than 90 basis points. Again, however, in my opinion, the beta for PWC would be higher than that of the sample water utilities that would have resulted in a lower downward financial risk adjustment. But I have to make some assumptions to work with an approach used by Staff and approved by the Commission in past cases.

G. Company Specific Risk Premium

Q. PLEASE DISCUSS YOUR COMPANY-SPECIFIC RISK PREMIUM.

A. As I testified earlier, PWC is not directly comparable to the sample water utilities because of its small size and because of the regulatory environment in Arizona. The characteristics associated with small size such as the lack of diversification, limited revenue and cash flow, small customer base, lack of liquidity, as well as the magnitudes of regulatory and construction risk are common to smaller water and wastewater utilities regardless of the regulatory jurisdiction. These characteristics and magnitudes of risk are unique only in the sense that the large publicly-traded water utilities (including the companies in the proxy group) do not possess these same characteristics and magnitudes of risk. With respect to Arizona regulation, the use of an historical test year, with limited out-of-period adjustments, and the

historic limited availability of automatic adjuster mechanisms increase the risk of PWC as an investment.

Q. PLEASE DISCUSS SIZE RISK FOR SMALL UTILITY COMPANIES.

A. Investment risk increases as the firm size decreases, all else remaining constant. There is a great deal of empirical evidence that the firm size phenomenon exists. Morningstar's *Ibbotson SBBI 2013 Valuation Yearbook* (Chapter 7) reports that smaller companies have experienced higher returns that are not fully explainable by their higher betas and that beta is inversely related to company size. In other words, smaller companies not only have higher betas but higher returns than larger ones. Even after accounting for differences in beta risk, small companies require an additional risk premium over and above the added risk premium indicated by differences in beta risk. Dr. Zepp also reported evidence that the stocks of small water or wastewater utilities are more risky than the stocks of larger water utilities, such as those in the water utilities sample.[25] Even the California PUC conducted a study that showed smaller water utilities are more risky than larger ones.[26] Based on the evidence, it is clear that investors require higher returns on small company stocks than on large company stocks.

I have included in Schedule D-4.22 the results of a *Morningstar* study using annual data reporting the size premium based upon firm size and return data (i) provided in Morningstar's *Ibbotson SBBI 2013 Valuation Yearbook* and information, and (ii) contained in Dr. Thomas M. Zepp's 2003 article in The Quarterly Review Economic and Finance. I have estimated that a small company risk premium in the range of 99 to 365 basis points is appropriate for PWC.

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[25] Thomas M. Zepp, "Utility Stocks and the Size Effect – Revisited," The Quarterly Review Economics and Finance, Vol. 43, Issue 3, Autumn 2003, 578-582.

[26] Staff Report on Issues Related to Small Water Utilities, dated June 10, 1991; CPUC Decision 92-03-093.

Q. WHAT COMPANY SPECIFIC-RISK PREMIUM DO YOU RECOMMEND FOR PWC?

A. To be conservative, I recommend a risk premium of at least 200 basis points, which is lower end of the range of my risk premium estimates for small firms.

VI. SUMMARY AND CONCLUSIONS

Q. HAVE YOU PREPARED A SCHEDULE THAT SUMMARIZES YOUR EQUITY COST ESTIMATES AND PRESENTS YOUR RECOMMENDATIONS?

A. Yes. The equity cost estimates and my recommendations are summarized in Schedule D-4.1.

In the first part of my analysis, I applied two versions of the constant growth DCF model. One uses analyst estimates of growth and the other uses historical growth and analyst expectations. See Schedule D-4.8. The DCF models produce an indicated equity cost in the range of 8.7 percent to 9.7 percent, with a midpoint of 9.2 percent.

In the second part of my analysis, I applied two versions of the CAPM – a historical risk premium CAPM and a current market risk premium CAPM. The CAPM analyses appear in Schedule D-4.12 and produce an indicated cost of equity in the range of 8.7 percent to 12.4 percent, with a midpoint of 10.5 percent.

In the third part of my analysis, I applied the Build-up Method using the *Duff & Phelps* risk premium study data. The Build-up Method analysis appears on Schedule D-4.18 and produces an indicated cost of equity in the range of 8.1 percent to 12.1 percent, with a mid-point of 10.1 percent.

In the fourth part of my analysis, I compute a financial risk adjustment to account for the lower level of debt in PWC's pro forma capital structure compared to the sample water utilities. My recommendation is that a downward financial risk

adjustment of no more than 90 basis points be applied to PWC's cost of equity. My financial risk adjustment analysis is shown in schedules D-4.19, D-4.20, and D-4.21.

In the fifth part of my analysis, I reviewed the financial literature on the small firm size effect and determined that an appropriate risk premium for small utilities like PWC that should be applied to the DCF and CAPM results is the range of 99 to 365 basis points. See Schedule D-4.22. I also considered the risks for PWC from Arizona regulation. My recommendation is that an upward adjustment for company-specific risk of no less than 200 basis points be applied to PWC's cost of equity.

The range of results of my DCF, CAPM, and Build-up analyses and other risk adjustments is 9.6 percent to 12.5 percent, with a mid-point of 11.0 percent. See Schedule D-4.1.

Q. WHAT EQUITY RETURN DO YOU RECOMMEND?

A. My recommended return on equity for PWC is 11.0 percent.

Q. HAVE YOU PREPARED AN ESTIMATE OF THE COST OF EQUITY USING THE BUILD-UP METHOD FOR PWC USING DATA FROM MORNINGSTAR?

A. Yes. This Build-up Method using *Morningstar* data is one check on the reasonableness of my recommendation for PWC. I estimate the cost of equity for PWC to be at least 10.2 percent and up to 15.9 percent. These results are based upon the data from *Morningstar* as contained Table C-1 (the risk-rate would be 2.4 percent,[27] the equity risk premium would be 6.7 percent,[28] the small company risk

[27] Long-term (20 year) U.S. Treasury Bond Yield as of March 6, 2013.

[28] Long-horizon historical equity risk premium – Table A-1 1928-2012.

premium of 6.0 percent[29]) and data contained in Table 3-5, Industry Premia Estimates (negative 4.9 for the water supply industry SIC code 494). The calculation is shown as follows:

[1] $k = R_f + RP_m + RP_s +/- RP_u$

[2] $k = 2.4\% + 6.7\% + 6.0\% - 4.9\%$

[3] $k = 10.2\%$

The computed 10.2 percent is at the low end. Using more refined data provided by *Morningstar* with respect to the 10th decile firm size based upon market value, the indicated cost of equity would be 15.9 percent for PWC.[30]

Q. HAVE YOU PREPARED A COST OF EQUITY ESTIMATE FOR PWC USING THE *DUFF & PHELPS* STUDY DATA?

A. Yes. Please see Schedule D-4.18. The estimate for PWC has been adjusted for leverage (financial risk) differences between the companies in the size portfolios contained in the study and the water sample companies and PWC. Further, like the Build-up Method cost of equity estimate using the *Morningstar* data, the cost of equity estimates includes a downward water industry risk premium adjustment.[31] The indicated cost of equity for PWC using the same Build-up Method I employed for my analysis of my water proxy group is 15.7 percent; well above my recommendation of 11.0 percent. Accordingly, I find my recommendation of 11.0 percent appropriately conservative.

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[29] Decile 10z – smallest, market capitalization of $1.139 million to $96.164 million. See Appendix C.

[30] *Morningstar* splits the 10th decile portfolio into four groups: Decile 10w (up to $253.761 million in market capitalization); Decile 10x (up to $212.031 million in market capitalization); Decile 10y (up to $165.600 million in market capitalization); and Decile 10z (up to $96.164 million in market capitalization). If publicly traded, PWC would likely fall into the latter group (10z) which has an indicated size premium of 11.65 percent (see Appendix C). Substituting the 11.65 percent size premium for the 6.0 percent in the Build-up formula the result would be 15.85 percent (2.4%+6.7%+11.65%-4.9%).

[31] Note that the risk premium for the water utility industry is negative indicating that water utilities are less risky than the market as a whole.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY ON COST OF CAPITAL?

A. Yes.

8111950.1/073283.0006

PAYSON WATER CO., INC.

THOMAS J. BOURASSA
DIRECT TESTIMONY

COST OF CAPITAL

APRIL 22, 2013

SCHEDULES

Payson Water Company
Test Year Ended December 31, 2012
Summary of Cost of Capital

Exhibit
Schedule D-1
Page 1
Witness: Bourassa

Capital Structure

Line No.	Item of Capital	Adjusted End of Test Year Dollar Amount	Adjusted End of Test Year Percent of Total	Adjusted End of Test Year Cost Rate	Adjusted End of Test Year Weighted Cost	Projected Capital Structure Dollar Amount	Projected Capital Structure Percent of Total	Projected Capital Structure Cost Rate	Projected Capital Structure Weighted Cost
1	Long-Term Debt	-	0.00%	0.00%	0.00%	-	0.00%	0.00%	0.00%
2									
3	Stockholder's Equity	1,054,974	100.00%	11.00%	11.00%	852,591	100.00%	11.00%	11.00%
4									
5	Totals	1,054,974	100.00%		11.00%	852,591	100.00%		11.00%
6									
7									
8	**A/D adjustment**		**$ 91,415**						
9									
10									
11									
12									
13									
14									
15									
16									
17									
18									
19									
20									
21									
22	SUPPORTING SCHEDULES:					RECAP SCHEDULES:			
23	D-1					A-3			
24	D-3								
25	D-4								
26	E-1								
27	Testimony								
28									
29									
30									

Payson Water Company
Test Year Ended December 31, 2012
Cost of Long Term Debt

Exhibit
Schedule D-2
Page 1
Witness: Bourassa

Line No.	Description of Debt	End of Test Year Amount Outstanding	Annual Interest	Effective Interest Rate	Weighted Cost	End of Projected Year Amount Outstanding	Annual Interest	Effective 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									
16	Supporting Schdules:								
17	E-1								
18	E-2								
19	Work papers								
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									

Payson Water Company
Test Year Ended December 31, 2012
Cost of Preferred Stock

Exhibit
Schedule D-3
Page 1
Witness: Bourassa

Line No.		End of Test Year			End of Projected Year		
1							
2							
3	Description	Shares		Dividend	Shares		Dividend
4	of Issue	Outstanding	Amount	Requirement	Outstanding	Amount	Requirement
5							
6							
7	NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING						
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21	SUPPORTING SCHEDULES:			RECAP SCHEDULES:			
22	E-1			D-1			
23							
24							
25							
26							
27							
28							
29							
30							
31							
32							
33							
34							
35							
36							
37							
38							
39							
40							

Payson Water Company
Test Year Ended December 31, 2012
Cost of Common Equity

Exhibit
Schedule D-4
Page 1
Witness: Bourassa

Line No.		
1		
2	The Company is proposing a cost of common equity of	11.00% .
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
18	D-4.1 to D-4.22	D-1
19		
20		

Payson Water Company
Summary of Results

Exhibit
Schedule D-4.1
Witness: Bourassa

Line No.	Method	Low	High	Midpoint
6	Range DCF Constant Growth Estimates[1]	8.7%	9.7%	9.2%
8	Range of CAPM Estimates[2]	8.7%	12.4%	10.5%
10	Build-up Method[3]	8.1%	12.1%	10.1%
12	Average of midpoint estimates	8.5%	11.4%	9.9%
15	Financial Risk Adjustment[4]	-0.9%	-0.9%	-0.9%
17	Small Company Risk Premium[5]	2.0%	2.0%	2.0%
19	Indicated Cost of Equity	9.6%	12.5%	11.0%
23	Recommended Cost of Equity			10.5%

[1] See Schedule D-4-8
[2] See Schedule D-4.12
[3] See Schedule D-4.18
[4] See Schedule D-4.21, Testimony
[5] See Schedule D-4.22, Testimony

Payson Water Company
Selected Characteristics of Sample Group of Water Utilities

Exhibit
Schedule D-4.2
Witness: Bourassa

Line No.	Company[1]	% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating	Allowed ROE (%)
4	1. American States	68%	$ 449.7	$ 912.0	A+	A2	9.99
5	2. Aqua America	96%	$ 755.7	$ 3,863.4	AA-	NR	10.33
6	3. California Water	100%	$ 541.5	$ 1,443.1	AA-	NR	9.99
7	4. Connecticut Water	100%	$ 79.8	$ 422.6	A	NR	9.75
8	5. Middlesex	89%	$ 106.6	$ 433.3	A	NR	10.15
9	6. SJW Corp.	96%	$ 261.4	$ 870.5	A	NR	9.99
11	Average	92%	$ 365.8	$ 1,324.2			10.03
13	Payson Water Company (Adjusted as of December 31, 2012)	100%	$ 0.3	$ 0.8	NR	NR	

[1]AUS Utility Reports (March 2013).

Payson Water Company
Capital Structures

Exhibit
Schedule D-4.3
Witness: Bourassa

No.	Company	Book Value[1] Long-Term Debt	Book Value[1] Common Equity	Market Value[1] Long-Term Debt	Market Value[1] Common Equity
1	American States	45.5%	54.5%	24.7%	75.3%
2	Aqua America	52.7%	47.3%	25.3%	74.7%
3	California Water	51.7%	48.3%	35.8%	64.2%
4	Connecticut Water	53.2%	46.8%	34.2%	65.8%
5	Middlesex	42.8%	57.2%	29.9%	70.1%
6	SJW Corp.	56.6%	43.4%	39.9%	60.1%
	Average	50.4%	49.6%	31.6%	68.4%
	Payson Water Company (Adjusted as of Deceomber 31, 2012)	100.0%	0.0%	N/A	N/A

[1] Value Line Analyzer Data (March 6, 2013)
[2] Adjusted Per Schedule D-1

Payson Water Company
Comparisons of Past and Future Estimates of Growth

Exhibit
Schedule D-4.4
Witness: Bourassa

Line No.	Company	[1] Price[1]	[2] Book Value[2]	[3] EPS[2]	[4] DPS[2]	[5] Average Col 1-4	[6] Average Future Growth[3]	[7] Average of Future and Historical Growth Col 5-6
		Five-year historical average annual changes						
8	1. American States	9.12%	5.50%	10.50%	3.00%	7.03%	5.88%	6.45%
9	2. Aqua America	5.40%	6.00%	6.00%	8.00%	6.35%	6.27%	6.31%
10	3. California Water	2.03%	5.00%	5.00%	1.00%	3.26%	5.75%	4.50%
11	4. Connecticut Water	7.90%	3.00%	4.00%	1.50%	4.10%	6.80%	5.45%
12	5. Middlesex	4.56%	5.00%	2.00%	1.50%	3.26%	4.85%	4.06%
13	6. SJW Corp.	NMF	4.50%	NMF	5.00%	4.75%	11.00%	7.88%
16	GROUP AVERAGE	5.80%	4.83%	5.50%	3.33%	4.79%	6.76%	5.77%
17	GROUP MEDIAN	5.40%	5.00%	5.00%	2.25%	4.43%	6.07%	5.88%

[1] Average of changes in annual stock prices ending on December 31 through 2012. Data from Yahoo Finance website.
[2] Value Line Analyzer Data, March 6, 2013
[3] See Schedule D-4.6.

Payson Water Company
Comparisons of Past and Future Estimates of Growth

Exhibit
Schedule D-4.5
Witness: Bourassa

Line No.	Company	[1] Price[1]	[2] Book Value[2]	[3] EPS[2]	[4] DPS[2]	[5] Average Col 1-4	[6] Average Future Growth[3]	[7] Average of Future and Historical Growth Col 5-6
		Ten-year historical average annual changes						
1	American States	10.41%	5.00%	5.00%	2.00%	5.60%	5.88%	5.74%
2	Aqua America	7.70%	8.50%	7.00%	7.50%	7.68%	6.27%	6.97%
3	California Water	6.27%	5.00%	4.00%	1.00%	4.07%	5.75%	4.91%
4	Connecticut Water	4.80%	4.00%	0.50%	1.50%	2.70%	6.80%	4.75%
5	Middlesex	5.14%	4.50%	2.50%	1.50%	3.41%	4.85%	4.13%
6	SJW Corp.	6.99%	5.50%	2.00%	5.00%	4.87%	11.00%	7.94%
7	GROUP AVERAGE	6.88%	5.42%	3.50%	3.08%	4.72%	6.76%	5.74%
8	GROUP MEDIAN	6.63%	5.00%	3.25%	1.75%	4.47%	6.07%	5.32%

[1] Average of changes in annual stock prices ending December 31, 2012. Data from Yahoo Finance website.
[2] Value Line Analyzer Data, March 6, 2013.
[3] See Schedule D-4.6.

Payson Water Company
Analysts Forecasts of Earnings Per Share Growth

Exhibit
Schedule D-4.6
Witness: Bourassa

Line No.	Company	[1] Reuters[1]	[2] Yahoo[1]	[3] Zacks[1]	[4] Value Line[1]	[5] Average Growth (G) (Cols 1-4)[2]
		ESTIMATES OF EARNINGS GROWTH				
7	1. American States	6.00%	6.00%	6.00%	5.50%	5.88%
8	2. Aqua America	6.27%	4.90%	6.90%	7.00%	6.27%
9	3. California Water	6.00%	6.00%	5.00%	6.00%	5.75%
10	4. Connecticut Water		6.10%		7.50%	6.80%
11	5. Middlesex	neg	2.70%		7.00%	4.85%
12	6. SJW Corp.		14.00%		8.00%	11.00%
15	GROUP AVERAGE	6.09%	6.62%	5.97%	6.83%	6.76%
16	GROUP MEDIAN					6.07%

[1] Data as of March 6, 2013

[2] Where no data available or single estimate, average of other utilities assumed to estimate for utility.

Payson Water Company
Current Dividend Yields for Water Utility Sample Group

Exhibit
Schedule D-4.7
Witness: Bourassa

Line No.	Company	Curent Stock Price (P_0)[1]	Current Dividend (D_0)[1]	Current Dividend Yield (D_0/P_0)[1]	Average Annual Dividend Yield (D_0/P_0)[1,2]
6	1. American States	$ 55.29	$ 1.10	1.99%	3.20%
7	2. Aqua America	$ 29.73	$ 0.63	2.12%	2.85%
8	3. California Water	$ 20.63	$ 0.62	3.01%	3.36%
9	4. Connecticut Water	$ 29.54	$ 0.94	3.18%	3.62%
10	5. Middlesex	$ 19.75	$ 0.73	3.70%	4.02%
11	6. SJW Corp.	$ 27.79	$ 0.69	2.48%	2.94%
13	Average			2.75%	3.33%
14	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.

Payson Water Company
Discounted Cash Flow Analysis
DCF Constant Growth

Exhibit
Schedule D-4.8
Witness: Bourassa

Line No.		[1]	[2]	[3]	[4]
		Average Spot Dividend Yield (D_0/P_0)[1]	Expected Dividend Yield (D_1/P_0)[2]	Growth (g)	Indicated Cost of Equity k=Div Yld + g (Cols 2+3)
8	DCF - Past and Future Growth	2.75%	2.90%	5.77% [3]	8.7%
10	DCF - Future Growth	2.75%	2.93%	6.76% [4]	9.7%
13	Average	2.75%	2.92%	6.27%	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.

Payson Water Company
Market Betas

Exhibit
Schedule D-4.9
Witness: Bourassa

Line No.	Company	Beta (β)[1]
1		
2	1. American States	0.70
3	2. Aqua America	0.60
4	3. California Water	0.65
5	4. Connecticut Water	0.75
6	5. Middlesex	0.70
7	6. SJW Corp.	0.85
8		
9	Average	**0.71**
10		
11		
12		
13	[1] *Value Line Investment Analyzer data (March 6, 2013)*	
14	Note: Beta is a relative measure of the historical sensitivity of a stock's price to overall fluctuations	
15	in the New York Stock Exchange Composite Index. A Beta of 1.50 indicates a stock tends to rise	
16	(or fall) 50% more than the New York Stock Exchange Composite Index. The "Beta coefficient" is	
17	derived from a regression analysis of the relationship between weekly percent-age changes in the	
18	price of a stock and weekly percentage changes in the NYSE Index over a period of five years. In	
19	the case of shorter price histories, a smaller time period is used, but two years is the minimum.	
20	The Betas are adjusted for their long-term tendency to converge toward 1.00.	

Payson Water Company
Forecasts of Long-Term Interest Rates
2012-14

Exhibit
Schedule D-4.10
Witness: Bourassa

Line No.	Description	Spot Feb-13	2014	2015	Average
1					
2					
3					
4					
5					
6	Blue Chip Consensus Forecasts[1]	3.2%	3.6%	4.3%	3.7%
7					
8	Value Line[2]	3.2%	4.6%	4.5%	4.1%
9					
10	Average				3.9%
11					
12					
13					
14					
15	[1] December 2012 Blue Chip Financial Forecasts consensus long-term forecast of 30 Year U.S.Treasury				
16	[2] Value Line Quarterly forecast, dated February 22, 2013, Long-term Treasury				
17					
18					
19					
20					
21					
22					
23					
24					

Payson Water Company
Computation of Current Market Risk Premium

Exhibit
Schedule D-4.11
Witness: Bourassa

Line No.	Month	Dividend Yield (D_0/P_0)[1]	Expected Dividend Yield (D_1/P_0)[2]	+	Growth (g)[3]	=	Expected Market Return (k)	-	Monthly Average 30 Year Treasury Rate[4]	=	Market Risk Premium (MRP)
4	Dec 2011	2.70%	3.17%	+	17.41%	=	20.58%	-	2.98%	=	17.60%
5	Jan 2012	2.61%	2.98%	+	14.18%	=	17.16%	-	3.03%	=	14.13%
6	Feb	2.60%	2.99%	+	15.01%	=	18.00%	-	3.11%	=	14.89%
7	Mar	2.36%	2.73%	+	15.68%	=	18.41%	-	3.28%	=	15.13%
8	April	2.62%	3.02%	+	15.27%	=	18.29%	-	3.18%	=	15.11%
9	May	2.86%	3.38%	+	18.12%	=	21.50%	-	2.93%	=	18.57%
10	June	2.73%	3.18%	+	16.59%	=	19.77%		2.70%	=	17.07%
11	July	2.79%	3.29%	+	18.10%	=	21.39%		2.59%	=	18.80%
12	Aug	2.73%	3.17%	+	16.23%	=	19.40%		2.77%	=	16.63%
13	Sept	2.67%	3.07%	+	14.95%	=	18.02%		2.88%	=	15.14%
14	Oct	2.71%	3.14%	+	15.81%	=	18.95%		2.90%	=	16.05%
15	Nov	2.74%	3.15%	+	14.88%	=	18.03%		2.80%	=	15.23%
16	Dec 2012	2.62%	2.95%	+	12.63%	=	15.58%		2.88%	=	12.70%
17	Jan 2013	2.56%	2.86%	+	11.74%	=	14.60%		3.08%	=	11.52%
18	Feb	2.60%	2.94%	+	13.13%	=	16.07%		3.17%	=	12.90%
19	Mar	2.52%	2.82%	+	11.94%	=	14.76%		3.16%	=	11.60%
20											
21	Recommended	2.56%	2.87%	+	12.27%	=	15.14%	-	3.14%	=	12.01%
22											
23	Short-term Trends										
24	Recent Twelve Months Avg	2.68%	3.08%	+	14.95%	=	18.03%	-	2.92%	=	15.11%
25	Recent Nine Months Avg	2.66%	3.04%	+	14.38%	=	17.42%	-	2.91%	=	14.51%
26	Recent Six Months Avg	2.63%	2.98%	+	13.36%	=	16.33%	-	3.00%	=	13.33%
27	Recent Three Months Avg	2.56%	2.87%	+	12.27%	=	15.14%	-	3.14%	=	12.01%

[1] Average Current Dividend Yield (D_0/P_0) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

[2] Expected Dividend Yield (D_1/P_0) equals average current dividend yield (D0/P0) 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.

Payson Water Company
Capital Asset Pricing Model (CAPM)

Exhibit
Schedule D-4.12
Witness: Bourassa

Line No.		Rf[1]	+	beta[3]	x	Rp		=	k
1									
2									
3	Historical Market Risk Premium CAPM	3.9%	+	0.71	x	6.7%	[4]	=	8.7%
4									
5	Current Market Risk Premium CAPM	3.9%	+	0.71	x	12.0%	[5]	=	12.4%
6									
7	Average								10.5%
8									
9									
10									
11									
12	[1] Forecasts of long-term treasury yields. See Schedule D-4.10.								
13	[2] Value Line Investment Analyzer data. See Schedule D-4.9.								
14	[3] Historical Market Risk Premium from (Rp) MorningStar SBBI 2013 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2012.								
15	[4] Computed using DCF constant growth method to determine current market return onValue Line 1700 stocks								
16	and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Schedule D-4.11.								
17									
18									
19									
20									

Payson Water Company
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on *Duff and Phelps* Risk Premium Study Data

Schedule D-4.13
Witness: Bourassa

	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	$ 37	$ 1,281	$ 130
2.	Aqua America	WTR	$ 4,129	$ 1,251	$ 5,525	$ 133	$ 4,859	$ 422
3.	California Water	CWT	$ 862	$ 450	$ 1,344	$ 41	$ 1,996	$ 140
4.	Connecticut Water	CTWS	$ 260	$ 119	$ 395	$ 11	$ 579	$ 24
5.	Middlesex	MSEX	$ 310	$ 177	$ 442	$ 13	$ 562	$ 38
6.	SJW Corp.	SJW	$ 517	$ 264	$ 861	$ 21	$ 1,087	$ 89
	Payson Water Company		NA	$ 0.6	NA	$ (0.0)	$ 2.6	$ (0.0)

[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 ($ millions)

Company	Symbol	2012	2011	2010	2009	2008	Average
American States	AWR	$ 54.0	$ 45.9	$ 33.2	$ 29.5	$ 22.0	$ 36.9
Aqua America	WTR	$ 197.0	$ 143.1	$ 124.0	$ 104.4	$ 97.9	$ 133.3
California Water	CWT	$ 49.0	$ 37.7	$ 37.7	$ 40.6	$ 39.8	$ 40.9
Connecticut Water	CTWS	$ 14.0	$ 11.3	$ 9.8	$ 10.2	$ 9.4	$ 10.9
Middlesex	MSEX	$ 14.0	$ 13.4	$ 14.3	$ 10.0	$ 12.2	$ 12.8
SJW Corp.	SJW	$ 22.0	$ 20.9	$ 24.4	$ 15.2	$ 21.5	$ 20.8
Payson Water Company		$ 0.6	$ (0.1)	$ (0.6)	$ (0.1)	$ 0.0	$ (0.0)

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 ($ millions)

Company	Symbol	2012	2011	2010	2009	2008	Average
American States	AWR	$ 154.0	$ 133.3	$ 134.4	$ 122.6	$ 105.9	$ 130.0
Aqua America	WTR	$ 439.0	$ 397.8	$ 473.2	$ 415.2	$ 384.7	$ 422.0
California Water	CWT	$ 151.0	$ 143.3	$ 155.7	$ 125.5	$ 122.1	$ 139.5
Connecticut Water	CTWS	$ 30.0	$ 24.2	$ 22.5	$ 20.3	$ 21.1	$ 23.6
Middlesex	MSEX	$ 39.0	$ 34.6	$ 43.3	$ 34.6	$ 38.6	$ 38.0
SJW Corp.	SJW	$ 90.0	$ 87.1	$ 75.4	$ 93.5	$ 99.7	$ 89.1
Payson Water Company		$ (0.1)	$ (0.0)	$ (0.1)	$ 0.0	$ 0.1	$ (0.0)

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

Payson Water Company
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on *Duff and Phelps* Risk Premium Study Data

Schedule D-4.14
Witness: Bourassa

MRP_{m+s} Estimates Using Duff & Phelps Study (Unlevered)
Assumes 100% Equity and 0% debt
Data Smoothing with Regression Analysis
Smoothed Premium (RP_{m+s}) = Constant + X Coefficients * Log(Relevent Metric)

$RPun_{relevered} = RP_{levered} - W_d/W_e*(\beta_u-\beta_d)*RP_{market}$
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

	MV Equity (Table C-1)	Book Equity (Table C-2)	MVIC (Table C-4)	5 Yr Avg. Net Income (Table C-3)	Total Assets (Table C-5)	5 Yr Avg. EBITDA (Table C-6)
Constant	18.448%	15.453%	18.701%	13.312%	17.363%	14.836%
X Coefficient(s)	-3.193%	-2.533%	-3.173%	-2.600%	-2.793%	-2.717%

MRP_{m+s} (unlevered)

	Company	Symbol	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
1.	American States	AWR	8.82%	8.84%	8.74%	9.24%	8.68%	9.09%	8.90%
2.	Aqua America	WTR	6.90%	7.61%	6.83%	7.79%	7.07%	7.70%	7.32%
3.	California Water	CWT	9.07%	8.73%	8.77%	9.12%	8.15%	9.01%	8.81%
4.	Connecticut Water	CTWS	10.74%	10.20%	10.46%	10.61%	9.65%	11.11%	10.46%
5.	Middlesex	MSEX	10.49%	9.76%	10.31%	10.43%	9.68%	10.54%	10.20%
6.	SJW Corp.	SJW	9.78%	9.32%	9.39%	9.89%	8.88%	9.54%	9.47%
	Average (unlevered)		9.30%	9.08%	9.08%	9.51%	8.68%	9.50%	9.19%
	Payson Water Company		NA	15.98%	NA	NMF	16.22%	NMF	16.10%

Indicated size premium 6.91%

Payson Water Company
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on *Duff and Phelps* Risk Premium Study Data

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

Schedule D-4.15
Witness: Bourassa

	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	0.94	0.96	0.95	0.95	0.97	0.95	0.95
2.	Aqua America	WTR	0.87	0.89	0.86	0.88	0.83	0.82	0.86
3.	California Water	CWT	0.98	0.96	0.95	0.95	0.94	0.96	0.96
4.	Connecticut Water	CTWS	0.96	0.98	0.97	0.97	0.99	1.03	0.98
5.	Middlesex	MSEX	0.96	1.00	0.98	0.97	0.99	0.99	0.98
6.	SJW Corp.	SJW	0.98	0.98	0.98	0.99	0.97	0.95	0.98
	Average		0.95	0.96	0.95	0.95	0.95	0.95	0.95
	Payson Water Company		NA	0.98	NA	1.01	1.05	1.03	1.02

Payson Water Company
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on *Duff and Phelps* Risk Premium Study Data

Schedule D-4.16
Witness: Bourassa

MRP Estimates Using Duff & Phelps Study (Relevered)
Relevered Realized Risk Premium
$RP_{relevered} = RP_{unlevered} + W_d/W_e*(\beta_u-\beta_d)*RP_{market}$
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
$RP_{unlevered}$ = unlevered realized risk premium from Scehdule D-4.14
RP_{market} = general equity risk premium for the market since 1963.

			MRP_{m+s} (Relevered)							
	Company	Symbol	W_d/W_e	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
1.	American States	AWR	32.7%	10.05%	10.11%	9.99%	10.49%	9.97%	10.34%	10.16%
2.	Aqua America	WTR	33.8%	8.07%	8.81%	7.98%	8.97%	8.18%	8.80%	8.47%
3.	California Water	CWT	55.8%	11.29%	10.89%	10.91%	11.26%	10.26%	11.17%	10.96%
4.	Connecticut Water	CTWS	52.0%	12.75%	12.26%	12.50%	12.65%	11.73%	13.28%	12.53%
5.	Middlesex	MSEX	42.6%	12.14%	11.49%	11.99%	12.10%	11.39%	12.25%	11.89%
6.	SJW Corp.	SJW	66.5%	12.42%	11.95%	12.02%	12.55%	11.49%	12.08%	12.09%
	Average MRP (Relevered)		47.26%	11.12%	10.92%	10.90%	11.34%	10.50%	11.32%	11.02%
	Payson Water Company		0.00%	NA	15.98%	NA	NMF	16.22%	NMF	16.10%

Payson Water Company
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 meterics used in Build-up Method

Schedule D- 4.17
Witness: Bourassa

[1] Estimate of Current Market Risk Premium (RP_{market})	**5.00%**	<<<< Current Duff and Phelps recommendation
[2] Risk Premium Assumed in Duff & Phelps Study (1963-2012)[1]	4.50%	
[3] Equity Risk Premium Adjustment ([1] - [2])	0.50%	
[4] Average MRP (relevered) for publicly traded water companies (from Schedule D-4.16)	11.02%	
[5] MRP (relevered) for publicly traded water companies (RP_{m+s}) ([3] + [4])	11.52%	
[6] Equity Risk Premium Adjustment ([3])	0.50%	
[7] Average MRP (relevered) for subject utility company (from Table 4)	16.10%	
[8] MRP (relevered) for subject utility company (RP_{m+s}) ([6] + [7])	16.60%	
[9] Industry Risk Premium (From *Ibbotson* for SIC 494 Water Supply Industry Table 3-5)	-4.92%	
[10] Adjustment Factor to Industry Risk Premium ([2] / 6.7%[1])	0.7463	
[11] Adjusted Industry Risk Premium (R_i) ([9] x [10])	-3.67%	
[12] Risk Free Rate (R_f)[2]	2.77%	

[1] From Duff and Phelps Risk Premium Report 2013.
[2] Yield on 20 Yr U.S. Treasury March 6, 2013 (Federal Reserve)

Payson Water Company
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on *Duff and Phelps* Risk Premium Study Data

Schedule D- 4.18
Witness: Bourassa

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 Schedule D-4-17.
- RP_{m+s} = Market risk premium including size premium. See ScheduleD- 4.16
- RP_i = Industry risk premium (adjusted). See Schedule D-4.17.
- RP_u = Company-specific risk premium

	Sample *Publicly Traded* Water Utilities	Payson Water Company
R_f =	2.77%	2.77%
RP_{m+s} =	See Table 4	See Table 4
RP_i =	-3.67%	-3.67%
RP_u =	0.00%	0.00%

	Company	Symbol	Indicated COE $E(R_i)$ MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
1.	American States	AWR	9.65%	9.71%	9.59%	10.09%	9.56%	9.94%	9.76%
2.	Aqua America	WTR	7.67%	8.41%	7.58%	8.57%	7.77%	8.40%	8.07%
3.	California Water	CWT	10.88%	10.49%	10.51%	10.85%	9.86%	10.77%	10.56%
4.	Connecticut Water	CTWS	12.35%	11.86%	12.10%	12.25%	11.33%	12.88%	12.13%
5.	Middlesex	MSEX	11.74%	11.08%	11.59%	11.70%	10.99%	11.85%	11.49%
6.	SJW Corp.	SJW	12.02%	11.55%	11.62%	12.15%	11.09%	11.68%	11.68%
	Average COE estimate		10.72%	10.52%	10.50%	10.94%	10.10%	10.92%	10.61%
	Payson Water Company		NA	15.58%	NA	NMF	15.81%	NMF	15.70%

Payson Water Company
Financial Risk Computation
Unlevered Beta

Exhibit
Schedule D-4.19
Witness: Bourassa

Line No.		Company	VL Beta β_L [1]	Raw Beta Raw β_L [2]	Tax Rate t [3]	MV Debt D [4]	MV Equity E [4]	Unlevered Raw Beta β_U [5]
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
13		Sample Water Utilitie:	0.71	0.57	38.4%	31.6%	68.4%	0.44

[1] Value Line Investment Analyzer data. See Schedule D-4.9
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 for year ended December 31, 2011.
[4] See Schedule D-4.3
[5] Raw B_u = Raw B_L / (1+ (1-t)*D/E)

Payson Water Company
Financial Risk Computation
Relevered Beta

Exhibit
Schedule D-4.20
Witness: Bourassa

Line No.		Unlevered Raw Beta β_U[1]	MV Book Debt BD[2]	MV Equity Capital EC[2]	Tax Rate t[3]	Relevered Raw Beta $\beta_{RL}=\beta_U(1+(1-t)BD/EC))$ β_{RL}	VL Adjusted Relevered Beta .33 + .67(Raw Beta) β_{RL}
5	Payson Water Company	0.44	0.0%	100.0%	22.47%	0.44	0.62

[1] Unlevered Beta from Schedule D-4.14.

[2] Proforma Capital Structure of Company

	BV (in Thousands)		MV (in Thousands)	MV %
Long-term Debt	$ -	1.00	$ -	0.00%
Preferred Stock	$ -	1.00	-	0.0%
Common Stock	$ 1,055	2.28	(a) 2,403	100.0%
Total Capital	$ 1,055		$ 2,403	100.0%

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

[3] Current Tax rate based on test year ending 12/31/2012. See Schedule D-1.

Payson Water Company
Financial Risk Computation

Exhibit
Schedule D-4.21
Witness: Bourassa

Line No.											
1	**CAPM**										
2		**Rf**		+	**β**		x	**(Rp)**			**k**
3	Historical Market Risk Premium	3.9%	1	+	0.71	2	x	6.7%	3	=	8.7%
4	Current Market Risk Premium	3.9%	1	+	0.71	2	x	12.0%	4	=	12.4%
5											
6	Average										10.6%
7											
8											
9	**CAPM Relevered Beta**										
10		**Rf**		+	**β**		x	**(Rp)**			**k**
11	Historical Market Risk Premium	3.9%	1	+	0.62	5	x	6.7%	3	=	8.1%
12	Current Market Risk Premium	3.9%	1	+	0.62	5	x	12.0%	4	=	11.3%
13											
14	Average										9.7%
15											
16	Financial Risk Adjustment										**-0.9%**
17											
18											

19 [1] Forecast of long-term treasury yields. See Schedule D-4.10
20 [2] Value Line Investment Analyzer data. See Schedule D-4.9
21 [3] Historical Market Risk Premium from (Rp) MorningStar SBBI 2012 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2011
22 [4] Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks
23 and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Schedule D-4.11
24 [5] Relevered bata found on Schedule D-4.15
25

Payson Water Company
Size Premium[1]

Exhibit
Schedule D-4.22
Witness: Bourassa

Line No.		Beta(β)	Size Premium	Risk Premium for Small Water Utilities[7]
6	Mid-Cap Companies[2]	1.12	1.12%	
8	Low-Cap Companies[3]	1.23	1.85%	
10	Micro-Cap Companies[4]	1.36	3.81%	
12	Decile 10[5]	1.42	6.03%	3.65%

	Risk Premium for Small Water Utilities
Estimated Risk Premium for small water utilities[6]	0.99%

[1] Data from Table 7-8 of Morningstar, *Ibbotson SBBI 2013 Valuation Yearbook.*
[2] Mid-Cap companies includes companies with market capitalization between $1,912 million and $7,687 million.
[3] Low-Cap companies includes companies with market capitalization between $514 million and $1,909 million.
[4] Micro-Cap companies includes companies with market capitalization less than $514 million.
[5] Decile 10 includes companies with market capitalization between $1.14 million and $254 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 inidicated risk premiums for the sample water utlities 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.	American States	$ 1,039	Low-Cap	1.85%	4.18%	0.166667	0.70%
2.	Aqua America	$ 4,129	Mid-Cap	1.14%	4.89%	0.166667	0.82%
3.	California Water	$ 862	Low-Cap	1.85%	4.18%	0.166667	0.70%
4.	Connecticut Water	$ 260	Micro-Cap	3.81%	2.22%	0.166667	0.37%
5.	Middlesex	$ 310	Micro-Cap	3.81%	2.22%	0.166667	0.37%
6.	SJW Corp.	$ 517	Low-Cap	1.85%	4.18%	0.166667	0.70%
	Weighted Size Premium for Small Companies						3.65%