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IN THE MATTER OF THE APPLICATION OF VALENCIA WATER COMPANY – TOWN DIVISION FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THOUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-01212A-12-0309
IN THE MATTER OF THE APPLICATION OF GLOBAL WATER – PALO VERDE UTILITIES COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. SW-20445A-12-0310
IN THE MATTER OF THE APPLICATION OF WATER UTILITY OF NORTHERN SCOTTSDALE, INC. FOR APPROVAL OF A RATE INCREASE.	DOCKET NO. W-03720A-12-0311
IN THE MATTER OF THE APPLICATION OF WATER UTILITY OF GREATER TONOPAH, INC. FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-02450A-12-0312 W-02451A-12-0313
IN THE MATTER OF THE APPLICATION OF GLOBAL WATER – SANTA CRUZ WATER COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-20446A-12-0314

Arizona Corporation Commission
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IN THE MATTER OF THE APPLICATION OF WILLOW VALLEY WATER COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-01732A-12-0315 **STAFF'S NOTICE OF FILING DIRECT TESTIMONY**

Staff of the Arizona Corporation Commission ("Staff") hereby files the Direct Testimony of Gerald W. Becker, James R. Armstrong, Jian W. Liu, and John A. Cassidy in the above-referenced docket.

RESPECTFULLY SUBMITTED this 8th day of July, 2013.

Maureen A. Scott, Senior Staff Counsel
Wesley C. Van Cleve, Attorney
Brian E. Smith, Attorney
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

Original and thirteen (13) copies of the foregoing filed this 8th day of July, 2013, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

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. . .

. . .

. . .

Copy of the foregoing mailed this
8th day of July, 2013 to:

Michael W. Patten
Timothy J. Sabo
Roshka DeWulf & Patten, PLC
One Arizona Center
400 East Van Buren Street, Suite 800
Phoenix, Arizona 85004
Attorneys for Global Utilities

Mr. Ron Fleming
General Manager, Arizona
Global Water Management
21410 North 19th Avenue, Suite 201
Phoenix, Arizona 85027

Michelle Wood, Counsel
Residential Utility Consumer Office
1110 West Washington Street, Suite 220
Phoenix, Arizona 85007

Jeffrey W. Crockett
Brownstein Hyatt Farber Schreck, LLP
One East Washington Street, Suite 2400
Phoenix, Arizona 85004
Attorneys for New World Properties, Inc.

Garry D. Hays
The Law Offices of Garry D. Hays, PC
1702 East Highland Avenue, Suite 204
Phoenix, Arizona 85016
Attorneys for New World Properties, Inc.

Lawrence V. Robertson, Jr.
Post Office Box 1448
Tubac, Arizona 85646
Attorney for City of Maricopa, Arizona

Denis M. Fitzgibbons
Fitzgibbons Law Offices, PLC
1115 East Cottonwood Lane, Suite 150
Casa Grande, Arizona 85122
City Attorney for the City of Maricopa

Michele Van Quathem
Sheryl A. Sweeney
Ryley Carlock & Applewhite
One North Central Avenue, Suite 1200
Phoenix, Arizona 85004-4417
Attorneys for Maricopa Area
Homeowners Associations

Steven P. Tardiff
44840 West Paitilla Lane
Maricopa, Arizona 85139

Willow Valley Club Association
c/o Gary McDonald, Chairman
1240 Avalon Avenue
Havasu City, Arizona 86404

Dana L. Jennings
42842 West Morning Dove Lane
Maricopa, Arizona 85138

Andy and Marilyn Mausser
20828 North Madison Drive
Maricopa, Arizona 85138

Robert J. Metli, Esq.
Munger Chadwick, PLC
2398 East Camelback Road
Suite 240
Phoenix, Arizona 85016
Attorney for Sierra Negra Ranch LLC
And Sierra Negra Management LLC

Barry W. Becker
Bryan O'Reilly
SNR Management LLC
50 South Jones Boulevard
Suite 101
Las Vegas, Nevada 89107

Kaye Christine

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF VALENCIA WATER COMPANY - TOWN DIVISION FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA	DOCKET NO. W-01212A-12-0309
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IN THE MATTER OF THE APPLICATION OF WATER UTILITY OF NORTHERN SCOTTSDALE FOR APPROVAL OF A RATE INCREASE	DOCKET NO. SW-20445A- 12-0311
IN THE MATTER OF THE APPLICATION OF WATER UTILITY OF GREATER TONOPAH, INC. FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA	DOCKET NO. SW-20445A- 12-0312

IN THE MATTER OF THE APPLICATION OF VALENCIA WATER COMPANY - GREATER BUCKEYE DIVISION FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA	DOCKET NO. SW-20445A- 12-0313
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IN THE MATTER OF THE APPLICATION OF WILLOW VALLEY WATER CO., INC. FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA	DOCKET NO. SW-20445A- 12-0315

DIRECT

TESTIMONY

OF

GERALD BECKER

EXECUTIVE CONSULTANT

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JULY 8, 2013

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EXECUTIVE SUMMARY
VALENCIA WATER COMPANY-TOWN DIVISION, ET AL
DOCKET NO. W-01212A-12-0309, ET AL

Valencia Water Company – Town Division ("Town Division"), Global Water - Palo Verde Utilities Company ("Palo Verde"), Water Utility of Northern Scottsdale ("Northern Scottsdale"), Water Utility of Greater Tonopah ("Tonopah"), Valencia Water Company – Greater Buckeye Division ("Buckeye"), Global Water – Santa Cruz Water Company ("Santa Cruz"), and Willow Valley Water Company ("Willow Valley"), collectively "Global Companies", are certificated Arizona public service corporations that provided water and wastewater utility service during the test year of 2011 in various parts of Arizona. The average number of customers per company during the test year was as follows: Town Division – 5,248, Palo Verde - 15,661; Northern Scottsdale – 74; Tonopah - 326, Buckeye - 625; Santa Cruz - 16,209; and, Willow Valley - 1,511.

On July 9, 2012, the Global Companies filed applications for rate increases, and subsequently filed numerous amendments.

Town Division states that it experienced a ($263,809) test year operating income (loss) resulting in no rate of return. Palo Verde states that it experienced a $3,066,067 test year operating income resulting in a 5.10 percent rate of return. Northern Scottsdale states that it experienced a $21,301 test year operating income loss with a rate of return that is not meaningful (due to a negative rate base) and an operating margin of 14.44 percent. Tonopah states that it experienced a $175,170 test year operating income loss resulting in no rate of return. Buckeye states that it experienced a $49,158 test year operating income resulting in a 7.74 percent rate of return. Santa Cruz states that it experienced a $1,675,030 test year operating income resulting in a 4.41 percent rate of return. Willow Valley states that it experienced a $58,493 test year operating income loss resulting in no rate of return.

Valencia Water Company - Town Division

Town Division proposes a revenue increase of $823,424 or 16.67 percent over the Company proposed test year revenues of $4,940,316 to $5,763,740. The Town Division's proposed revenue increase would produce an operating income of $238,621 for a 10.27 percent rate of return on an OCRB of $2,323,475. The Company proposes to use OCRB as its fair value rate base.

For the Town Division, Staff recommends a revenue increase of $34,665 or 0.70 percent over the test year revenues of $4,940,316 to $4,974,981. The Staff recommended revenue increase would produce an operating income of $147,712 for a 7.50 percent fair value rate of return on a Staff adjusted OCRB of $1,969,496.

Global Water - Palo Verde Utilities Company

Palo Verde proposes a revenue increase of $3,662,560 or 27.94 percent over the Company proposed test year revenues of $13,107,528 to $16,770,088. Palo Verde's proposed revenue increase would produce an operating income of $5,300,691 for a 8.81 percent rate of return on an OCRB of $60,166,756. The Company proposes to use OCRB as its fair value rate base.

For Palo Verde, Staff recommends a revenue increase of $149,593 or 1.14 percent over the test year revenues of $13,107,528 to $13,257,121. The Staff recommended revenue increase would produce an operating income of $3,667,843 for a 7.50 percent fair value rate of return on a Staff adjusted OCRB of $48,904,575.

Water Utility of Northern Scottsdale

Water Utility of Northern Scottsdale ("WUNS") proposes no change to its revenue of $147,513. WUNS's proposed revenue would produce an operating margin of 14.44 percent. WUNS' original cost rate base is negative and not meaningful. The Company proposes to use OCRB as its fair value rate base.

For WUNS, Staff also recommends no change to its revenue of $147,513. Staff's proposed revenue would produce an operating margin of 15.91 percent (based on Staff's adjusted operating income of $23,472). WUNS's original cost rate base is negative and not meaningful. The Company proposes to use OCRB as its fair value rate base.

Water Utility of Greater Tonopah

Tonopah proposes a revenue increase of $677,458 or 326.16 percent over Tonopah's proposed test year revenues of $207,705 to $885,163. Tonopah's proposed revenue increase would produce an operating income of $236,637 for a 10.72 percent rate of return on an OCRB of $2,206,816. The Company proposes to use OCRB as its fair value rate base.

For Tonopah, Staff recommends a revenue increase of $199,983 or 96.28 percent over the test year revenues of $207,705 to $407,689. The Staff recommended revenue increase would produce an operating income of $40,786 and no rate of return and a 10 percent operating margin.

Valencia Water Company Greater Buckeye Division

Buckeye proposes a revenue increase of $36,423 or 7.88 percent over Buckeye's proposed test year revenues of $462,043 to $498,466. Buckeye's proposed revenue increase would produce an operating income of $70,975 for an 11.18 percent rate of return on an OCRB of $634,979. The Company proposes to use OCRB as its fair value rate base.

For Buckeye, Staff recommends a revenue increase of $8,912 or 1.93 percent over the test year revenues of $462,043 to $470,955. The Staff recommended revenue increase would produce an operating income of $47,623 for a 7.50 percent fair value rate of return on a Staff adjusted OCRB of $634,979.

Global Water-Santa Cruz Water Company

Santa Cruz proposes a revenue increase of $2,730,367 or 26.10 percent over Santa Cruz's proposed test year revenues of $10,463,460 to $13,193,827. Santa Cruz's proposed revenue increase would produce an operating income of $3,342,866 for an 8.79 percent rate of return on an OCRB of $38,014,243. The Company proposes to use OCRB as its fair value rate base.

For Santa Cruz, Staff recommends a revenue decrease of $265,199 or 2.53 percent less than the test year revenues of $10,463,460 to $10,198,261. The Staff recommended revenue increase would produce an operating income of $2,071,402 for a 7.50 percent fair value rate of return on a Staff adjusted OCRB of $27,618,694.

Willow Valley Water Co., Inc.

Willow Valley proposes a revenue increase of $507,537 or 72.23 percent over Willow Valley's proposed test year revenues of $702,652 to $1,210,190. Willow Valley's proposed revenue increase would produce an operating income of $250,024 for a 10.60 percent rate of return on an OCRB of $2,359,391. The Company proposes to use OCRB as its fair value rate base.

For Willow Valley, Staff recommends a revenue increase of $404,068 or 57.51 percent over the test year revenues of $702,652 to $1,106,720. The Staff recommended revenue increase would produce an operating income of $170,922 for a 7.50 percent fair value rate of return on a Staff adjusted OCRB of $2,278,955.

INTRODUCTION

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

A. My name is Gerald Becker. I am an Executive Consultant III employed by the Arizona Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Briefly describe your responsibilities as an Executive Consultant III.

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

Q. Please describe your educational background and professional experience.

A. I received a Masters of Business Administration with an emphasis in Accounting from Pace University. I am a Certified Public Accountant and a Certified Internal Auditor. I have participated in multiple rate, financing and other regulatory proceedings. I attended the National Association of Regulatory Utility Commissioners ("NARUC") Utilities Rate School.

I began employment with the Commission as a utilities regulatory analyst in April 2006. Prior to joining the Commission, I worked as an Auditor at the Department of Economic Security and Department of Revenue in the Taxpayer Assistance Section. Prior to those jobs, I worked for 15 years as an Auditor, Analyst, Financial Analyst, and Budget Manager at United Illuminating, an investor-owned electric company in New Haven, CT.

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

A. I am presenting Staff's analysis and recommendations in the areas of rate base (excluding Infrastructure Coordination and Financing Agreements ("ICFA") related matters), operating revenues and expenses, revenue requirement, and rate design in the rate case. Staff witness Jian Liu is presenting Staff's engineering analysis and recommendations. Staff witness James Armstrong is presenting Staff's recommendations regarding ICFA-related matters. Staff witness John Cassidy is presenting Staff's Cost of Capital analysis.

Q. What is the basis of your recommendations?

A. I performed a regulatory audit of the seven Global Companies' applications to determine whether sufficient, relevant, and reliable evidence exists to support the Global Companies' requested rate increases. The regulatory audit consisted of examining and testing the financial information, accounting records, and other supporting documentation and verifying that the accounting principles applied were in accordance with the Commission-adopted NARUC Uniform System of Accounts ("USoA"). I also reviewed the Global Companies' financing applications to determine the propriety and financial impacts of the proposed transactions.

BACKGROUND

Q. Please review the background of these applications.

A. The Global Companies are certificated Arizona public service corporations that provide water or wastewater utility service to customers in various parts of Arizona. On July 9, 2012, the Global Companies filed applications for rate increases, and subsequently filed numerous amendments. On November 20, 2012, a Procedural Order was issued consolidating the seven Dockets.

Valencia Water Company – Town Division's ("Town Division") current rates were authorized in Decision No. 71878, dated September 15, 2010. That Decision authorized a $1,473,012 or 48.49% revenue increase that provided a 7.82 percent fair value rate of return on a $4,240,018 fair value rate base, which was also the original cost rate base ("OCRB").

Global Water - Palo Verde Utilities Company's ("Palo Verde") current rates were authorized in Decision No. 71878, dated September 15, 2010. That Decision authorized a $6,063,392 or 91.26% revenue increase that provided a 7.80 percent fair value rate of return on a $53,314,083 fair value rate base, which was also the OCRB.

Water Utility of Northern Scottsdale ("WUNS") current rates were authorized in Decision No. 70562, dated October 23, 2008. That Decision authorized a $35,108 or 40.01% revenue increase that provided a 13.01 percent operating margin. Rate base was negative and not useful in setting rates.

Water Utility of Greater Tonopah's ("Tonopah") current rates were authorized in Decision No. 71878, dated September 15, 2010. That Decision authorized a $24,283 or 9.36% revenue decrease that provided a 7.82 percent operating margin. Rate base was negative and not useful in setting rates.

Valencia Water Company – Greater Buckeye Division's ("Buckeye") current rates were authorized in Decision No. 71878, dated September 15, 2010. That Decision authorized a $77,259 or 20.31% revenue increase that provided a 7.68 percent fair value rate of return on a $929,057 fair value rate base, which was also the OCRB.

Global Water - Santa Cruz Water Company's ("Santa Cruz") current rates were authorized in Decision No. 71878, dated September 15, 2010. That Decision authorized a $1,542,323 or 16.39% revenue increase that provided a 7.93 percent fair value rate of return on a $39,155,692 fair value rate base, which was also the OCRB.

Willow Valley Water Company's ("Willow Valley") current rates were authorized in Decision No. 71878, dated September 15, 2010. That Decision authorized a $428,047 or 90.40% revenue increase that provided a 7.60 percent fair value rate of return on a $2,251,164 fair value rate base, which was also the original cost rate base.

CONSUMER SERVICE

Q. Please provide a brief history of customer complaints received by the Commission regarding Global.

A. A search of the Consumer Services database reveals from January 1, 2010 through current:

Town Division

2013 – 1 Complaint (1 billing)
Opinions: 1 opinion opposed to the rate case.

2012 – 4 Complaints (3 billing, 1 other)

2011 – 7 Complaints (5 billing, 1 quality of service, 1 disc/termination)

2010 – 2 Complaints (1 deposit, 1 disc/termination)

All complaints have been resolved and closed.

Palo Verde

2013 – 0 Complaints
19 Opinions opposed to the rate case.

2012 – 1 Complaint (1 billing)

2011 – 2 Complaints (1 billing, 1 disc/termination)

2010 – 1 Complaint (1 deposits)

All complaints have been resolved and closed.

WUNS

There are no complaints and opinions received for WUNS.

Tonopah

2013 – 1 Complaint (1 billing)
Opinions: 1 opinion opposed to the rate case.

2012 – 2 Complaints (2 new service)

2011 – 2 Complaints (1 deposits, 1 quality of service)

2010 – 3 Complaints (2 billing, 1 quality of service)

All complaints have been resolved and closed.

Buckeye

2013 – 3 Complaints (3 billing)

2012 – 0 Complaints

2011 – 4 Complaints (2 billing, 1 quality of service, 1 disc/termination)

2010 – 3 Complaints (2 billing, 1 deposits)

All complaints have been resolved and closed.

Santa Cruz

2013 – 10 Complaints (4 billing, 3 deposits, 1 service, 1 quality of service
1 disc/termination)
Opinions: 1040 opinions opposed to the rate case.

2012 – 18 Complaints (10 billing, 2 deposits, 4 quality of service, 1 rate case item, 1 rates & tariffs)
2011 – 52 Complaints (22 billing, 13 deposits, 1 service, 10 quality of service, 4 disconnect/termination, 1 rate case item, 1 other)

2010 – 38 Complaints (19 billing, 7 deposit, 6 quality of service, 5 disc/termination, 1 rates & tariffs)

Three complaints remain open (pending investigation). All other complaints have been resolved and closed.

Willow Valley
2013 – 2 Complaints (1 deposits, 1 rate case items)
Opinions: 108 opinions opposed to the rate case.

2012 – 3 Complaints (3 billing)

2011 – 8 Complaints (3 billing, 5 quality of service)

2010 – 24 Complaints (24 billing)

All complaints have been resolved and closed.

COMPLIANCE

Q. Please provide a summary of the compliance status of the Global Companies.

A. A check of the Utilities Division Compliance Database indicates that there are currently no delinquencies for the Global Companies.

RATE APPLICATION

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

A. The Companies state that they have made significant investments in rate base since the 2008 test year used in their last rate case. The Global Utilities' expenses have also increased, including some expenses caused by federal government regulations, such as the Environmental Protection Agency's ("EPA's") Lead and Copper Rule, Disinfectants and Disinfection By-Products Rules and Groundwater Rule.

SUMMARY OF PROPOSED REVENUES

Q. Please summarize the Company's filing.

A. A summary of the Companies' proposed revenues is shown below.

Company Proposed	Test Year Per Global Companies	Global Companies Proposed Revenue	$ Increase	% Increase
Town Division	$4,940,316	$5,763,740	$823,424	16.67%
Palo Verde	$13,107,528	$16,770,088	$3,662,560	27.94%
No. Scottsdale	$147,513	$147,513	$0	0.00%
Tonopah	$207,705	$885,163	$677,458	326.16%
Buckeye	$462,043	$498,466	$36,423	7.88%
Santa Cruz	$10,463,460	$13,193,827	$2,730,367	26.09%
Willow Valley	$702,652	$1,210,190	$507,538	72.23%
Totals	$30,031,217	$38,468,987	$8,437,770	28.10%

Q. Please summarize Staff's recommended revenue.

A. A summary of the Staff's proposed revenues is shown below.

Staff Recommended	Test Year Per Staff	Staff Recommended	$ Increase	% Increase
Town Division	$4,940,316	$4,974,981	$34,665	0.70%
Palo Verde	$13,107,528	$13,257,121	$149,593	1.14%
No. Scottsdale	$147,513	$147,513	$0	0.00%
Tonopah	$207,705	$407,689	$199,983	96.28%
Buckeye	$462,043	$470,955	$8,912	1.93%
Santa Cruz	$10,463,460	$10,198,261	($265,199)	-2.53%
Willow Valley	$702,652	$1,106,720	$404,068	57.51%
Totals	$30,031,217	$30,563,241	$532,023	1.77%

The above proposed and recommended revenue increases would apply to the customers of each of the Global Companies as discussed below:

Valencia Water Company - Town Division

Town Division proposes a revenue increase of $823,424 or 16.67 percent over the Company proposed test year revenues of $4,940,316 to $5,763,740. The Town Division's proposed revenue increase would produce an operating income of $238,621 for a 10.27 percent rate of return on an OCRB of $2,323,475. The Company proposes to use OCRB as its fair value rate base.

For the Town Division, Staff recommends a revenue increase of $34,665 or 0.70 percent over the test year revenues of $4,940,316 to $4,974,981. The Staff recommended revenue increase would produce an operating income of $147,712 for a 7.50 percent fair value rate of return on a Staff adjusted OCRB of $1,969,496.

Global Water - Palo Verde Utilities Company

Palo Verde proposes a revenue increase of $3,662,560 or 27.94 percent over the Company proposed test year revenues of $13,107,528 to $16,770,088. Palo Verde's proposed revenue increase would produce an operating income of $5,300,691 for a 8.81 percent rate of return on an OCRB of $60,166,756. The Company proposes to use OCRB as its fair value rate base.

For Palo Verde, Staff recommends a revenue increase of $149,593 or 1.14 percent over the test year revenues of $13,107,528 to $13,257,121. The Staff recommended revenue increase would produce an operating income of $3,667,843 for a 7.50 percent fair value rate of return on a Staff adjusted OCRB of $48,904,575.

Water Utility of Northern Scottsdale

Water Utility of Northern Scottsdale ("WUNS") proposes no change to its revenue of $147,513. WUNS's proposed revenue would produce an operating margin of 14.44 percent. WUNS' original cost rate base is negative and not meaningful. The Company proposes to use OCRB as its fair value rate base.

For WUNS, Staff also recommends no change to its revenue of $147,513. Staff's proposed revenue would produce an operating margin of 15.91 percent (based on Staff's adjusted operating income of $23,472). WUNS's original cost rate base is negative and not meaningful. The Company proposes to use OCRB as its fair value rate base.

Water Utility of Greater Tonopah

Tonopah proposes a revenue increase of $677,458 or 326.16 percent over Tonopah's proposed test year revenues of $207,705 to $885,163. Tonopah's proposed revenue increase would produce an operating income of $236,637 for a 10.72 percent rate of return on an OCRB of $2,206,816. The Company proposes to use OCRB as its fair value rate base.

For Tonopah, Staff recommends a revenue increase of $199,983 or 96.28 percent over the test year revenues of $207,705 to $407,689. The Staff recommended revenue increase would produce an operating income of $40,786 and no rate of return and a 10 percent operating margin.

Valencia Water Company Greater Buckeye Division

Buckeye proposes a revenue increase of $36,423 or 7.88 percent over Buckeye's proposed test year revenues of $462,043 to $498,466. Buckeye's proposed revenue increase would produce an operating income of $70,975 for an 11.18 percent rate of return on an OCRB of $634,979. The Company proposes to use OCRB as its fair value rate base.

For Buckeye, Staff recommends a revenue increase of $8,912 or 1.93 percent over the test year revenues of $462,043 to $470,955. The Staff recommended revenue increase would produce an operating income of $47,623 for a 7.50 percent fair value rate of return on a Staff adjusted OCRB of $634,979.

Global Water-Santa Cruz Water Company

Santa Cruz proposes a revenue increase of $2,730,367 or 26.10 percent over Santa Cruz's proposed test year revenues of $10,463,460 to $13,193,827. Santa Cruz's proposed revenue increase would produce an operating income of $3,342,866 for an 8.79 percent rate of return on an OCRB of $38,014,243. The Company proposes to use OCRB as its fair value rate base.

For Santa Cruz, Staff recommends a revenue decrease of $265,199 or 2.53 percent less than the test year revenues of $10,463,460 to $10,198,261. The Staff recommended revenue increase would produce an operating income of $2,071,402 for a 7.50 percent fair value rate of return on a Staff adjusted OCRB of $27,618,694.

Willow Valley Water Co., Inc.

Willow Valley proposes a revenue increase of $507,537 or 72.23 percent over Willow Valley's proposed test year revenues of $702,652 to $1,210,190. Willow Valley's proposed revenue increase would produce an operating income of $250,024 for a 10.60 percent rate of return on an OCRB of $2,359,391. The Company proposes to use OCRB as its fair value rate base.

For Willow Valley, Staff recommends a revenue increase of $404,068 or 57.51 percent over the test year revenues of $702,652 to $1,106,720. The Staff recommended revenue increase would produce an operating income of $170,922 for a 7.50 percent fair value rate of return on a Staff adjusted OCRB of $2,278,955.

Q. What test year did the Global Companies use in this filing?

A. The Global Companies' rate filing is based on the twelve months ended December 31, 2011 ("test year").

Q. Please summarize the rate base and operating income recommendations and adjustments addressed in your testimony for the Global Companies.

A. My testimony addresses the following issues:

Utility Plant in Service ("UPIS") – These adjustments are based on the recommendations made by Staff witness Jian Liu regarding post- test year plant made only to the rate bases of Town Division Palo Verde and Willow Valley, and decrease UPIS by $353,979, $543,461 and $80,436, respectively, to remove plant not in service.

For all systems, except Palo Verde, certain items of plant are reclassified from capstone account 320, Water Treatment Equipment, to account 320.1, Water Treatment Plant, and account 320.2, Solution Chemical Feeders, and from capstone account 330, Distribution Reservoirs and Standpipes, to account 330.1, Storage Tanks and account 330.2, Pressure Tanks.

Contributions in Aid of Construction ("CIAC") – These adjustments are based on the recommendations made by Staff witness James Armstrong made only to the rate bases of Palo Verde, Tonopah, and Santa Cruz, and increase CIAC by $12,714,970, $3,315,024, and $13,059,735, respectively, to recognize as CIAC or hookup fees monies collected through Infrastructure Coordination and Financing Agreements ("ICFAs").

Amortization of CIAC – This adjustment is made only to the rate bases of Palo Verde, Tonopah, and Santa Cruz and increases Amortization of CIAC by $1,996,250, 848,646,

and $2,664,186, respectively, to reflect amortization of Staff's recommended CIAC monies collected through ICFAs.

Net CIAC – These adjustments are based on the recommendations made by Staff witness James Armstrong made only to the rate bases of Palo Verde, Tonopah, and Santa Cruz, and increases *net* CIAC by $10,718,720, $2,466,378, $10,395,549, respectively, to recognize as CIAC monies collected ICFAs.

Purchased Power – These adjustments are made only to the income statements of Town Division, Tonopah, Buckeye, Santa Cruz, and Willow Valley and decrease expenses by $12,401, $878, $504, $15,748, and $4,751, respectively, to remove the purchased pumping power costs related to continuing high water losses.

Chemicals – These adjustments are made only to the income statements of Town Division, Tonopah, Buckeye, Santa Cruz, and Willow Valley and decrease expenses by $898, $412, $95, $1,092, and $6,018, respectively, to remove the chemical expenses related to continuing high water losses.

Bad Debt Expense – This adjustment is made for all the Global Companies and increases (decreases) operating expenses to reflect normalized levels as follows: $1,708 for Town Division; $49,450 for Palo Verde; $1,003 for WUNS; ($2,546) for Tonopah; ($7,460) for Buckeye; $19,319 for Santa Cruz; and ($4,175) for Willow Valley.

Rate Case Expense – This adjustment is made for all the Global Companies and decreases operating expenses to reflect total rate case expense of $400,000 for this proceeding as follows: $17,362 for Town Division; $59,828 for Palo Verde; $247 for WUNS; $1,052 for Tonopah; $2,037 for Buckeye; $52,038 for Santa Cruz; and $4,880 for Willow Valley.

Salaries and Wages – These adjustments are made only to the income statements of Town Division, Palo Verde, Santa Cruz, and Willow Valley and decrease expenses to reflect normalized levels by $39,959, $223,764, $157,960, and $15,369, respectively.

Materials and Supplies – These adjustments are made only to the income statements of Town Division, Santa Cruz, and Willow Valley and decrease expenses to reflect normalized levels by $22,096, $21,656, and $15,453, respectively.

Outside Services/Contractual Services - Professional – These adjustments are made only to the income statements of Town Division, Palo Verde, Santa Cruz, and Willow Valley and decrease expenses to reflect normalized levels by $153,707, $294,223, $346,035, and $17,749, respectively.

Miscellaneous Expenses – This adjustment is made only to the income statement of Willow Valley and decrease expenses to reflect normalized levels by $9,383.

Contractual Services - Testing – This adjustment is made only to the income statement of Willow Valley and decreases expenses by $5,285 to reflect test year levels.

Depreciation Expense – This adjustment is made for all the Global Companies and increases (decreases) operating expenses as follows: ($431,665) for Town Division;

($476,171) for Palo Verde; ($4,292) for WUNS; ($245,777) for Tonopah; $10,210 for Buckeye; ($676,427) for Santa Cruz; and $84,832 for Willow Valley, respectively, to reflect Staff's recommended depreciation and amortization expense.

Income Tax Expense – This adjustment is made for all the Global Companies and increases (decreases) operating expenses to reflect the income tax obligation on Staff's adjusted test year taxable income as follows: $285,617 for Town Division; $491,345 for Palo Verde; $1,365 for WUNS; $154,089 for Tonopah; $6,801 for Buckeye; $695,818 for Santa Cruz; and $21,033 for Willow Valley.

RATE BASE

Fair Value Rate Base

Q. Did the Global Companies prepare schedules showing the elements of Reconstruction Cost New Rate Base?

A. No, the Global Companies did not. The Global Companies requested that their original cost rate bases be treated as their fair value rate bases.

Rate Base Summary

Q. Please summarize Staff's adjustments to the Global Companies' rate bases shown on Schedules GWB-3 and GWB-4 of their respective schedules.

A. Staff made adjustments to only the rate bases of Palo Verde, Santa Cruz, and Tonopah to reflect Staff's recommended CIAC and amortization of CIAC balances. A summary of the Global Companies' proposed and Staff's recommended rate bases follow:

Test Year - Rate Base

	Per Co.	Staff Adjustment	Per Staff
Town Division	$2,323,475	-$353,979	$1,969,496
Palo Verde	$60,166,756	-$11,262,181	$48,904,575
No. Scottsdale	-$181,978	$0	-$181,978
Tonopah	$2,206,816	-$2,466,377	-$259,561
Buckeye	$634,979	$0	$634,979
Santa Cruz	$38,014,243	-$10,395,549	$27,618,694
Willow Valley	$2,359,391	-$80,436	$2,278,955
Totals	$105,523,682	-$24,558,523	$80,965,159

Rate Base Adjustment – Post Test Year Plant ("PTYP")

Q. What did the Company proposes for PTYP?

A. The Company proposes PTYP in the amount of $672,571, $818,395, $106,782, $306,892, $80,436 for Town Division, Palo Verde, Tonopah, Santa Cruz, and Willow Valley, respectively.

Q. Did Staff make any adjustment to PTYP?

A. Yes. Based on Staff's engineering review and reflected in the testimony of Staff witness Jian Liu, Staff determined that certain items of PTYP are not in service and removed $353,978, $543,461, and $80,436 from Town Division, Palo Verde, and Willow Valley, respectively.

Q. What is Staff's recommendation?

A. Staff recommends adjustments to decrease UPIS by $353,978, $543,461, and $80,436 from Town Division, Palo Verde, and Willow Valley, respectively, as shown on Schedules GWB-4 and GWB-5 for the respective system.

Rate Base Adjustment – Plant Reclassifications

Q. What did the Company propose?

A. For all systems except Palo Verde, the Company includes plant balances in capstone account 320, Water Treatment Equipment and capstone account 330, Distribution Reservoirs.

Q. Did Staff make any adjustment to Capstone account 320 Water Treatment Equipment and capstone account 330, Distribution Reservoirs.?

A. Yes. Staff reclassified the amounts from capstone accounts 320, Water Treatment Equipment and 330, Distribution Reservoirs to the appropriate subaccounts as shown below. Being capstone accounts, these accounts do not bear their own unique depreciation rates. Instead, the plant underlying each capstone account bears its own unique depreciation rate and is depreciated accordingly. The adjustments to reclassify the amounts proposed by the Companies to the accounts recommended by Staff are shown in the table below.

Plant Reclassifications

	Account					
	320	320.1	320.2	330	330.1	330.2
Town Division	($4,091,843)	$4,091,843		($4,800,409)	$4,255,136	$545,273
WUNS	($377)	$377		($182,972)	$182,972	
Tonopah	($1,626,520)	$1,625,072	$1,448	($228,655)	$103,612	$125,043
Buckeye	($844,990)	$844,990		($588,494)	$463,799	$124,695
Santa Cruz	($27,095)	$12,553	$14,541	($1,378,273)	$820,301	$557,973
Willow Valley	($572,865)	$303,188	$269,677	($265,900)	$220,751	$45,148
Totals	($7,163,370)	$6,878,343	$285,986	($7,444,373)	$6,046,901	$1,398,462

Q. What is Staff's recommendation?

A. Staff recommends the reclassifications from capstone account 320, Water Treatment Equipment to account 320.1, Water Treatment Plant and account 320.2, Solution Chemical Feeders, and from capstone account 330, Distribution Reservoirs and Standpipes to account 330.1, Storage Tanks and account 330.2, Pressure Tanks, as shown above and on Schedules GWB-4 for each respective system.

Rate Base Adjustment – Contributions In Aid of Construction

Q. What amount of CIAC did the Global Companies include in rate base?

A. The Global Companies included CIAC for all systems except WUNS and Willow Valley. They included $1,860,537, $30,362, $73,118, $407,979 and $82,949 for Town Division, Palo Verde, Tonopah, Buckeye, and Santa Cruz, respectively. The Global Companies also had accumulated amortization related to CIAC in the amounts of $272,596, $0, $13,653, $171,882 and $5,655 for Town Division, Palo Verde, Tonopah, Buckeye, and Santa Cruz, respectively.

Q. Did Staff identify adjustments to CIAC that should be included in the rate bases of Palo Verde, Tonopah, and Santa Cruz?

A. Yes. Staff witness James Armstrong discusses these adjustments in his testimony. Schedules GWB-3 and GWB-4 reflect Mr. Armstrong's recommendations.

Operating Income

Operating Income Summary

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

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

Test Year Revenues, Expenses, and Operating Income

	Town Division	Palo Verde	No. Scottsdale	Tonopah	Buckeye	Santa Cruz	Willow Valley
Revenues	$ 4,940,316	$13,107,528	$147,513	$207,705	$462,043	$10,463,460	$702,652
Expenses	$ 4,813,364	$9,528,270	$124,041	$286,299	$419,800	$ 8,232,612	$774,400
Operating Income	$ 126,952	$3,579,258	$23,472	$(78,593)	$ 42,243	$2,230,848	$(71,747)

Operating Income Adjustment – Excess Water Loss

Q. Did the Global companies experience water losses in excess of 10 percent during the test year?

A. Yes. Town Division, Tonopah, Buckeye, Santa Cruz, and Willow Valley experienced water losses in excess of 10 percent.

Q. Did Staff adjust Purchased Power and Chemicals Expense for these systems?

A. Yes. The Companies' proposed and Staff recommended amounts, and Staff recommended adjustments are shown below.

Purchased Power

	Co Proposed	Staff Rec.	Adjustment	Ref.
Town Division	$ 464,076	$ 451,675	$ (12,401)	GWB-11, -12
Tonopah	$ 22,407	$ 21,529	$ (878)	GWB-11, -12
Buckeye	$ 27,669	$ 27,166	$ (503)	GWB-11, -12
Santa Cruz	$ 768,901	$ 753,153	$ (15,748)	GWB-11, -12
Willow Valley	$ 43,747	$ 38,997	$ (4,750)	GWB-11, -12
	$ 1,326,800	$ 1,292,520	$ (34,280)	

Chemicals

	Co Proposed	Staff Rec.	Adjustment	Ref.
Town Division	$ 33,613	$ 32,715	$ (898)	GWB-11, -12
Tonopah	$ 10,522	$ 10,110	$ (412)	GWB-11, -12
Buckeye	$ 5,234	$ 5,139	$ (95)	GWB-11, -12
Santa Cruz	$ 53,341	$ 52,248	$ (1,093)	GWB-11, -12
Willow Valley	$ 55,422	$ 49,404	$ (6,018)	GWB-11, -12
	$ 158,132	$ 149,616	$ (8,516)	

Q. Why did Staff adjust Purchased Power and Chemicals Expense?

A. These systems have water loss greater than the levels recommended by Staff, as discussed in greater detail by Staff witness, Jian Liu. The cost of the purchased power used to pump the water that is lost does not provide a benefit to customers; consequently, Staff reduced the purchased power cost to correspond to the portion of the water loss that is above Staff's recommended level of 10 percent. Similarly, the cost of chemicals to treat water that is lost does not provide a benefit to customers; consequently, Staff reduced the cost of chemicals to correspond to the portion of the water loss that is above Staff's recommended level of 10 percent.

Q. What is Staff's recommendation?

A. Staff recommends decreasing the purchased power on the income statements of Town Division, Tonopah, Buckeye, Santa Cruz, and Willow Valley and decrease expenses by $12,401, $878, $503, $15,748, and $4,750, respectively, to remove the purchased pumping power costs related to continuing high water losses. Similarly, Staff recommends decreasing chemical expense. These adjustments are made only to the income statements of Town Division, Tonopah, Buckeye, Santa Cruz, and Willow Valley and decrease expenses by $898, $412, $95, $1,093, and $6,018, respectively, to remove the chemical expense related to continuing high water losses.

Operating Income Adjustment – Bad Debt Expense

Q. Did Staff adjust the Bad Debt Expense proposed by the Companies?

A. Yes, the Companies proposed bad debt expense based on the amounts incurred during the test year. Staff recommends that a 3-year normalized amount more accurately reflects the ongoing amounts. The Companies' proposed and Staff recommended amounts, and Staff recommended adjustments are shown below.

Bad Debts

	Co Proposed	Staff Rec.	Adjustment	Ref.
Town Division	$ 30,898	$ 32,606	$ 1,708	GWB-11 & GWB-13
Palo Verde	$ 82,936	$ 132,386	$ 49,450	GWB-11 & GWB-12
WUNS	$ -	$ 1,003	$ 1,003	GWB-11 & GWB-12
Tonopah	$ 4,769	$ 2,223	$ (2,546)	GWB-11 & GWB-13
Buckeye	$ 11,295	$ 3,835	$ (7,460)	GWB-11 & GWB-13
Santa Cruz	$ 53,925	$ 73,244	$ 19,319	GWB-11 & GWB-13
Willow Valley	$ 8,251	$ 4,076	$ (4,175)	GWB-11 & GWB-13
Totals	$ 192,074	$ 249,373	$ 57,299	

Q. What is Staff's recommendation?

A. Staff recommends the following adjustments to the bad debts on the income statements to reflect normalized levels as follows: $1,708 for Town Division; $49,450 for Palo Verde; $1,003 for WUNS; ($2,546) for Tonopah; ($7,460) for Buckeye; $19,319 for Santa Cruz; and ($4,175) for Willow Valley.

Operating Income Adjustment – Rate Case Expense

Q. Did Staff adjust the Regulatory Commission Expense account?

A. Yes.

Q. What is the amount of total rate case expense proposed by the Company?

A. The Companies propose approximately $787,000 to be recovered as part of its rate case expense.

Q. What adjustments did Staff make?

A. Staff has adjusted the rate case expense for each system to reflect total rate case expense of $400,000 which is the same amount approved in the last rate proceeding. A summary of the Companies' proposed and Staff recommended amounts by system is shown below.

Rate Case Expense

	Co Proposed	Staff Rec.	Adjustment	Ref.
Town Division	$ 35,298	$ 17,936	$ (17,362)	GWB-11 & GWB-14
Palo Verde	$ 112,973	$ 53,145	$ (59,828)	GWB-11 & GWB-14
WUNS	$ 502	$ 255	$ (247)	GWB-11 & GWB-14
Tonopah	$ 2,140	$ 1,088	$ (1,052)	GWB-11 & GWB-14
Buckeye	$ 4,142	$ 2,105	$ (2,037)	GWB-11 & GWB-14
Santa Cruz	$ 105,801	$ 53,762	$ (52,039)	GWB-11 & GWB-14
Willow Valley	$ 9,922	$ 5,042	$ (4,880)	GWB-11 & GWB-14
Totals	$ 270,778	$133,333	$ (137,445)	

Q. What is Staff's recommendation?

A. Staff recommends decreasing the rate case expense for all the Global Companies to reflect total rate case expense of $400,000 for this proceeding by the following amounts: $17,362 for Town Division; $59,828 for Palo Verde; $247 for WUNS; $1,052 for Tonopah; $2,037 for Buckeye; $52,039 for Santa Cruz; and $4,880 for Willow Valley.

Operating Income Adjustment – Salaries and Wages

Q. How did the Global Companies calculate their salaries and wages expense?

A. The Global Companies used test year amounts.

Q. Does Staff agree?

A. No. In reviewing the Schedule E-2's included in the Companies' applications; Staff notes significant differences during the 3-year period ending with the test year for the Town Division, Palo Verde, Santa Cruz and Willow Valley. A summary of amounts by company and by year, along with the 3 year average and Staff recommended adjustments are shown below.

Salaries and Wages

	2009	2010	2011	3 year avg	Adjustment
Town Division	$ 732,812	$ 934,314	$ 893,501	$ 853,542	$ (39,959)
Palo Verde	$1,086,546	$1,186,924	$1,472,381	$1,248,617	$ (223,764)
Santa Cruz	$ 971,205	$1,092,586	$1,268,835	$1,110,875	$ (157,960)
Willow Valley	$ 215,782	$ 264,735	$ 263,312	$ 247,943	$ (15,369)
Totals	$3,006,345	$3,478,559	$3,898,029	$3,460,978	$ (437,051)

Q. How did the Company explain the fluctuations?

A. In response to a Staff data request, the Companies attribute the fluctuations due to reduced staffing levels during the economic downturn during the 2008-2009 periods.

Q. What is Staff's recommendation?

A. Staff recommends decreasing the salaries and wages to reflect 3-year normalized amounts, as shown above, and shown on Schedule GWB-11.

Operating Income Adjustment – Materials and Supplies

Q. Similar to salaries and wages above, are there significant fluctuations in Material and Supplies expense?

A. Yes, for the Town Division, Santa Cruz, and Willow Valley companies. As shown on Schedule E-2 of the respective Global Companies' applications, the Companies reported the following materials and supplies. A summary of amounts by company and by year, along with the 3 year average and Staff recommended adjustments are shown below.

Materials & Supplies

	2009	2010	2011	3 year avg	Adjustment
Town Division	$ 22,682	$ 69,827	$ 79,398	$ 57,302	$ (22,096)
Santa Cruz	$ 8,695	$ 21,903	$ 47,783	$ 26,127	$ (21,656)
Willow Valley	$ 13,024	$ 12,620	$ 36,002	$ 20,549	$ (15,453)
Totals	$ 44,401	$ 104,350	$ 163,183	$ 103,978	$ (59,205)

Q. How did the Company explain the fluctuations?

A. In response to a Staff data request, the Companies' explanations include fluctuations due to reduced staffing levels during the economic downturn during the 2008-2009 period, an inconsistency related to the recording of amounts as chemical expense versus materials and supplies, and a one-time event that occurred in 2011.

Q. What is Staff's recommendation?

A. Staff recommends decreasing the materials and supplies expenses, to reflect normalized amounts, as shown above and on Schedule GWB-11.

Operating Income Adjustment – Outside Services

Q. Similar to salaries and wages above, are there significant fluctuations in Outside Services?

A. Yes, for the Town Division, Palo Verde, Santa Cruz, and Willow Valley companies. As shown on Schedule E-2 of the respective Global Companies' applications, the Companies reported the following outside services. Staff has calculated the 2 year average and its recommended adjustment. A summary of amounts by company and by year, along with the 2 year average and Staff recommended adjustments are shown below.

Outside Services

	2009	2010	2011	2 year avg	Adjustment
Town Division	$ 35,943	$ 223,902	$ 531,316	$ 377,609	$ (153,707)
Palo Verde	$ 55	$ 313,096	$ 901,541	$ 607,319	$ (294,222)
Santa Cruz	$ 52,357	$ 361,570	$1,053,640	$ 707,605	$ (346,035)
Willow Valley	$ 13,005	$ 62,003	$ 97,501	$79,752	$ (17,749)
Totals	$ 101,360	$ 960,571	$2,583,998	$1,772,285	$(811,713)

Q. How did the Company explain the fluctuations?

A. In response to a Staff data request, the Companies attribute the abnormally low expenses in 2009 due to prior practices when legal and accounting functions were performed at the parent level and not allocated.

Q. Does Staff agree?

A. Based on a review of the information on the Companies' E-2 schedules, Staff agrees that the amounts recorded in 2009 for this account would not be representative of the activity to be expected during typical prospective years. However, under these circumstances, Staff recommends the use of a 2 year normalization period instead of a 3 year period.

Q. What is Staff's recommendation?

A. Staff recommends decreasing the outside services, as shown above and as shown on Schedule GWB-11.

Operating Income Adjustment – Contractual Services - Testing

Q. What amount did Willow Valley propose for water testing expense?

A. Willow Valley proposed $20,993 for water testing expense.

Q. What is Staff's recommendation?

A. Staff recommends decreasing Contractual Services – Testing by $5,285 from $20,993 to $15,708, as discussed in the Staff engineering report. The adjustment is shown on Schedules GWB-11 and GWB-15B.

Operating Income Adjustment – Depreciation Expense

Q. Please provide a summary of the net depreciation and amortization expense amounts proposed by the Companies for each system, along with Staff's recommended amounts and Staff's recommended adjustments.

A. A summary of the Companies proposed amounts, Staff recommended amounts and adjustments are shown below.

Depreciation

	Co Proposed	Staff Rec.	Adjustment	Ref.
Town Division	$ 2,768,221	$ 2,336,556	$ (431,665)	GWB-11 & GWB-16
Palo Verde	$ 3,519,422	$ 3,043,250	$ (476,172)	GWB-11 & GWB-16
WUNS	$ 64,878	$ 60,586	$ (4,292)	GWB-11 & GWB-16
Tonopah	$ 378,634	$ 132,857	$ (245,777)	GWB-11 & GWB-16
Buckeye	$ 112,146	$ 122,356	$ 10,210	GWB-11 & GWB-16
Santa Cruz	$ 3,613,647	$ 2,937,220	$ (676,427)	GWB-11 & GWB-16
Willow Valley	$ 200,668	$ 285,500	$ 84,832	GWB-11 & GWB-16
Totals	$10,657,616	$ 8,918,325	$(1,739,291)	

Q. What adjustment did Staff make to depreciation expense?

A. Staff adjusted depreciation expense to reflect application of the Staff recommended depreciation rates to Staff recommended plant balances. Staff also amortizes the Staff-recommended CIAC balance in its depreciation expense calculation.

Q. What is Staff's recommendation?

A. Staff recommends adjusting depreciation expense amounts as shown above.

Operating Income Adjustment – Income Taxes

Q. Please provide a summary of the net income tax expense amounts proposed by the Companies for each system, along with Staff's recommended amounts and Staff's recommended adjustments.

A. A summary of the Companies proposed amounts, Staff recommended amounts and adjustments are shown below.

Income Tax Expense

	Co Proposed	Staff Rec.	Adjustment	Ref.
Town Division	$(249,144)	$ 36,473	$ 285,617	GWB-2 &GWB-11
Palo Verde	$682,693	$1,174,037	$ 491,344	GWB-2 & GWB-11
WUNS	$ 13,391	$ 14,755	$ 1,364	GWB-2 & GWB-11
Tonopah	$(197,785)	$ (43,696)	$ 154,089	GWB-2 & GWB-11
Buckeye	$ 5,783	$ 12,584	$ 6,801	GWB-2 & GWB-11
Santa Cruz	$ 98,898	$ 794,716	$ 695,818	GWB-2 & GWB-11
Willow Valley	$(106,730)	$ (95,245)	$ 11,485	GWB-2 & GWB-11
Totals	$247,106	$1,893,626	$1,646,520	

Q. Did Staff make any adjustments to test year Income Tax Expense?

A. Yes. Staff's adjustment reflects Staff's calculation of the income tax expense based upon Staff's adjusted test year taxable income.

Q. What is Staff's recommendation?

A. Staff recommends adjusting the test year Income Tax Expense for the Global Companies as shown above.

OTHER CONSIDERATIONS

Lead Lag Study

Q. Did the Companies provide a lead lag study in support of a cash working capital calculation?

A. No. The Companies did not provide a lead lag study to support a cash working capital component of working capital.

Q. What is the nature of Staff's concern regarding the absence of a lead lag study?

A. In many instances, Class A, B, and C companies have a negative cash working capital which benefits the rate payers and more fairly presents this component of the company's rate bases. Smaller Class D and E companies do not experience negative cash working capital because those companies calculate cash working using the formula method which uses a portion of O & M expenses as its cash working capital.

Q. What is Staff recommending?

A. Staff recommends that the Companies be ordered to perform a lead lag study in support of a cash working capital amount in all future rate proceedings.

Plant Additions

Q. Has Staff completed its review of the Companies' plant additions?

A. No. At this time, Staff has not finished its review of plant additions and reserves opportunity to make adjustments as necessary in its surrebuttal testimony.

Adjustor Mechanism – Central Arizona Groundwater Replenishment District ("CAGRD")

Q. Do any of the Companies presently pay fees to CAGRD?

A. No. However, the Company states that Tonopah has entered into a Member Service Area agreement with CAGRD for a Designation of Assured Water Supply that the Company expects to become effective in 2013. The Company states that there will annual replenishment dues and assessments and proposes to treat those fees as pass-through to customers as was recently approved for Johnson Utilities, LLC in Docket No. WS-02987A-08-0180[1].

Q. What is Staff's recommendation?

A. Staff recommends the approval of a CAGRD adjustor mechanism subject to the same basic requirements of the adjustor mechanism approved for Johnson Utilities, LLC.

Q. Does this conclude your direct testimony?

A. Yes, it does.

[1] See Company application, testimony of Ron Fleming 17 at 8 through 18 at 5.

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DIRECT TESTIMONY OF GERALD BECKER

TABLE OF CONTENTS TO SCHEDULES :

SCH #		TITLE
GWB-	1	REVENUE REQUIREMENT
GWB-	2	GROSS REVENUE CONVERSION FACTOR
GWB-	3	RATE BASE - ORIGINAL COST
GWB-	4	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
GWB-	5	RATE BASE ADJUSTMENT #1 POST TEST YEAR PLANT
GWB-	6	NOT USED
GWB-	7	NOT USED
GWB-	8	NOT USED
GWB-	9	NOT USED
GWB-	10	OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED
GWB-	11	SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR
GWB-	12	OPERATING INCOME ADJUSTMENT #1 - EXCESS WATER LOSS
GWB-	13	OPERATING INCOME ADJUSTMENT #2 - BAD DEBT EXPENSE
GWB-	14	OPERATING INCOME ADJUSTMENT #3 - RATE CASE EXPENSE
GWB-	15	#REF!
GWB-	16	OPERATING INCOME ADJUSTMENT #5 - DEPRECIATION EXPENSE
GWB-	17	OPERATING INCOME ADJUSTMENT #6 - INCOME TAXES
GWB-	18	OPERATING INCOME ADJUSTMENT #7 - PROPERTY TAX EXPENSE GRCF COMPONENT

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Schedule GWB-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	$ 2,323,475	$ 2,323,475	$ 1,969,496	$ 1,969,496
2	Adjusted Operating Income (Loss)	$ (263,809)	$ (263,809)	$ 126,952	$ 126,952
3	Current Rate of Return (L2 / L1)	-11.35%	-11.35%	6.45%	6.45%
4	Required Rate of Return	10.27%	10.27%	7.50%	7.50%
5	Required Operating Income (L4 * L1)	$ 238,621	$ 238,621	$ 147,712	$ 147,712
6	Operating Income Deficiency (L5 - L2)	$ 502,430	$ 502,430	$ 20,760	$ 20,760
7	Gross Revenue Conversion Factor	1.6389	1.6389	1.6698	1.6698
8	Required Revenue Increase (L7 • L6)	$ 823,424	$ 823,424	**$ 34,666**	**$ 34,666**
9	Adjusted Test Year Revenue	$ 4,940,316	$ 4,940,316	$ 4,940,316	$ 4,940,316
10	Proposed Annual Revenue (L8 + L9)	$ 5,763,740	$ 5,763,740	$ 4,974,981	$ 4,974,981
11	Required Increase in Revenue (%)	16.67%	16.67%	0.70%	0.70%
12	Rate of Return on Common Equity (%)	11.44%	11.44%	9.40%	9.40%

References:
Column [A]: Company Schedule A-1
Column (B): Company Schedule A-1
Column (C): Company Schedules A-1, A-2, & D-1
Column (C): Staff Schedules GWB-2, GWB-3, and GWB-10

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Schedule GWB-2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)
	Calculation of Gross Revenue Conversion Factor:			
1	Revenue	100.0000%		
2	Uncollecible Factor (Line 11)	0.4052%		
3	Revenues (L1 - L2)	99.5948%		
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.7078%		
5	Subtotal (L3 - L4)	59.8870%		
6	**Revenue Conversion Factor (L1 / L5)**	1.669812		
	Calculation of Uncollecttible Factor:			
7	Unity	100.0000%		
8	Combined Federal and State Tax Rate (Line 17)	38.5989%		
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%		
10	Uncollectible Rate	0.6600%		
11	Uncollectible Factor (L9 * L10)		0.4052%	
	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 (Line 44)	34.0000%		
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%		
17	Combined Federal and State Income Tax Rate (L13 +L16)		38.5989%	
	Calculation of Effective Property Tax Factor			
18	Unity	100.0000%		
19	Combined Federal and State Income Tax Rate (L17)	38.5989%		
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%		
21	Property Tax Factor (GWB-18, L25)	1.8060%		
22	Effective Property Tax Factor (L20*L21)		1.1089%	
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.7078%
24	Required Operating Income (Schedule GWB-1, Line 5)	$ 147,712		
25	AdjustedTest Year Operating Income (Loss) (Schedule GWB-10, Line 36)	$ 126,952		
26	Required Increase in Operating Income (L24 - L25)		$ 20,760	
27	Income Taxes on Recommended Revenue (Col. (C), L48)	$ 49,524		
28	Income Taxes on Test Year Revenue (Col. (A), L48)	$ 36,473		
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		$ 13,051	
30	Required Revenue Increase (Schedule GWB-1, Line 8)	$ 34,666		
31	Uncollectible Rate (Line 10)	0.6600%		
32	Uncollectible Expense on Recommended Revenue (L30 * L31)	$ 229		
33	Adjusted Test Year Uncollectible Expense - N/A	$ -		
34	Required Increase in Revenue to Provide for Uncollectible Exp.		$ 229	
35	Property Tax with Recommended Revenue (GWB-18, Line 21)	$ 274,306		
36	Property Tax on Test Year Revenue (GWB-18, Col A, L19)	$ 273,680		
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		$ 626	
38	Total Required Increase in Revenue (L26 + L29 + L34+ L37)		$ 34,666	

		(A) Test Year	(B)	(C) Staff Recommended
	Calculation of Income Tax:			
39	Revenue (Sch GWB-10, Col.(C) L4, GWB-1, Col. (D), L10)	$ 4,940,316		$ 4,974,981
40	Operating Expenses Excluding Income Taxes	$ 4,776,890		$ 4,777,745
41	Synchronized Interest (L53)	$ 68,932		$ 68,932
42	Arizona Taxable Income (L39 - L40 - L41)	$ 94,493		$ 128,304
43	Arizona State Income Tax Rate	6.9680%		6.9680%
44	Arizona Income Tax (L42 x L43)	$ 6,584		$ 8,940
45	Federal Taxable Income (L42 - L44)	$ 87,908		$ 119,363
46	Federal Tax	$ 29,889		$ 40,584
47	Total Federal Income Tax	$ 29,889		$ 40,584
48	Combined Federal and State Income Tax (L43 + L47)	$ 36,473		$ 49,524
50	Effective Tax Rate			
	Calculation of Interest Synchronization:			N/A
51	Rate Base (Schedule GWB-3, Col. (C), Line 18)			$ 1,969,496
52	Weighted Average Cost of Debt			3.5000%
53	Synchronized Interest (L50 X L51)			$ 68,932

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Schedule GWB-3

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 53,624,734	$ (353,979)	$ 53,270,755
2	Less: Accumulated Depreciation	9,419,952	-	9,419,952
3	Net Plant in Service	$ 44,204,782	$ (353,979)	$ 43,850,803
	LESS:			
4	Contributions in Aid of Construction (CIAC)	$ 1,860,537	$ -	$ 1,860,537
5	Less: Accumulated Amortization	272,596	-	272,596
6	Net CIAC	1,587,941	-	1,587,941
7	Advances in Aid of Construction (AIAC)	39,299,151	-	39,299,151
8	Imputed Reg AIAC	-		
9	Imputed Reg CIAC	-	-	-
10	Accumulated Deferred Income Tax Credits	1,159,524	-	1,159,524
	Customer Meter Deposits	395,015		395,015
	ADD:			
11	Accumulated Deferred Income Tax Debits	560,324	-	560,324
12	Cash Working Capital	-	-	-
13	Prepayments	-	-	-
		-		
14	Supplies Inventory	-	-	-
15	Projected Capital Expenditures	-	-	-
16	Deferred Debits	-	-	-
17	Purchase Wastewater Treatment Charges	-	-	
18	**Original Cost Rate Base**	$ 2,323,475	$ (353,979)	$ 1,969,496

References:
Column (A), Company Schedule B-2
Column (B): Schedule GWB-4
Column (C): Column (A) + Column (B)

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Schedule GWB-4

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Post Test Year Plant ADJ #1 GWB-5	[C] Reclassification ADJ #2 Per Testimony	[C] STAFF ADJUSTED
	PLANT IN SERVICE:					
1	303	Land and Land Rights	$ 150,432	$ -	$ -	$ 150,432
2	304	Structures and Improvements	1,037,614			1,037,614
3	307	Wells and Springs	1,859,615			1,859,615
4	309	Supply Mains	46,790			46,790
5	310	Power Generation Equipment	67,508			67,508
6	311	Pumping Equipment	8,217,566			8,217,566
7	320	Water Treatment Equipment	4,091,843		(4,091,843)	-
8	320.1	Water Treatment Plant			4,091,843	4,091,843
9	320.2	Solution Chemical Feeders				-
10	330	Distribution Reservoirs and Standpipes	4,800,409		(4,800,409)	-
11	330.1	Storage Tanks			4,255,136	4,255,136
12	330.2	Pressure Tanks			545,273	545,273
13	331	Transmission and Distribution Mains	21,453,994			21,453,994
14	333	Services	3,278,935			3,278,935
15	334	Meters and Meter Installations	1,470,247			1,470,247
16	335	Hydrants	1,981,787			1,981,787
17	336	Backflow Prevention Devices	13,916			13,916
18	339	Other Plant and Miscellaneous Equipment	177,934			177,934
19	340	Office Furniture and Equipment	50,956			50,956
20	341	Transportation Equipment	319,350			319,350
21	343	Tools, Shop and Garage Equipment	94,283			94,283
22	344	Laboratory Equipment	42,598			42,598
23	345	Power Operated Equipment	61,507			61,507
24	346	Communication Equipment	790,032			790,032
25	347	Miscellaneous Equipment	17,310			17,310
26	348	Other Tangible Plant	3,597,358	(353,978)		3,243,380
27	390	Office Furniture	2,753			2,753
28	**Total Plant in Service**		53,624,734	(353,978)	(0)	53,270,755
29						
30	Accumulated Depreciation		9,419,952	-		9,419,952
31	Net Plant in Service		$ 44,204,782	$ (353,978)	$ (0)	$ 43,850,803
32						
33	*LESS:*					
34	Contributions in Aid of Construction (CIAC)		$ 1,860,537		$ -	$ 1,860,537
35	Less: Accumulated Amortization		272,596	-		272,596
36	Net CIAC (L63 - L64)		1,587,941	-	-	1,587,941
37	Advances in Aid of Construction (AIAC)		39,299,151	-	-	39,299,151
38	Imputed Reg Advances		-	-	-	-
39	Imputed Reg CIAC			-	-	-
40	Accumulated Deferred Income Tax Credits		1,159,524			1,159,524
41	Customer Meter Deposits		395,015			395,015
42	*ADD:*					-
43	Accumulated Deferred Income Tax Debits		560,324			560,324
44	Working Capital Allowance					-
51	**Original Cost Rate Base**		$ 2,323,475	$ (353,978)	$ (0)	$ 1,969,496

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Schedule GWB-5

RATE BASE ADJUSTMENT #1 POST TEST YEAR PLANT

LINE NO.	ACCT NO.	Description	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	348	Other Tangible Plant	353,978	(353,978)	-

Disallowed PTYP	
Bales Fill Line	$ 78,750
Buena Vista Fill Line	$ 203,702
SVWDC Optimization	$ 71,526
	$ 353,978

References:
Column [A] : Disallowed Amount reflected in Acct. 348, PTYP, Per Co Schedule B-2.1
Column [B] , Col [C] less Col [A]
Column [C] , Per testimony GWB and Engineering testimony

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Schedule GWB-10

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
		$ -	$ -	$ -	$ 34,666	$ 34,666
1	461 Metered Water Revenue	4,803,374	-	4,803,374	-	4,803,374
2	460 Unmetered Water Revenue	-		-		
3	474 Other Water Revenues	136,942	-	136,942	-	136,942
4	**Total Operating Revenues**	$ 4,940,316	$ -	$ 4,940,316	$ 34,666	$ 4,974,981
5	601 Salary and Wages - Employees	$ 893,501	$ (39,959)	$ 853,542	$ -	$ 853,542
6	610 Purchased Water	269	-	269	-	269
7	615 Purchased Power	464,076	(12,401)	451,675	-	451,675
8	618 Chemicals	33,613	(898)	32,715	-	32,715
9	620 Materials and Supplies	79,398	(22,096)	57,302	-	57,302
10	621 Office Supplies and Expense	62,865	-	62,865	-	62,865
11	630 Outside Services	531,316	(153,707)	377,609	-	377,609
12	635 Contractual Services - Testing	14,571	-	14,571	-	14,571
13	636 Contractual Services - Other	-	-	-	-	-
14	641 Rental of Building/Real Propert	43,412	-	43,412	-	43,412
15	650 Transportation Expenses	88,775	-	88,775		88,775
16	657 Insurance - General Liability	33,142	-	33,142	-	33,142
17	659 Insurance - Other	5,460	-	5,460	-	5,460
18	666 Regulatory Commission Expen	35,298	(17,362)	17,936	-	17,936
19	670 Bad Debt Expense	30,898	1,708	32,606	229	32,835
20	675 Miscellaneous Expenses	79,463	-	79,463	-	79,463
21	403 Depreciation Expense	2,832,046	(431,665)	2,400,381		2,400,381
22	403 Depreciation Expense – CIAC /	(63,825)	-	(63,825)		(63,825)
23	408 Taxes Other Than Income	15,312	-	15,312	-	15,312
24	408.11 Taxes Other Than Income -	273,680	-	273,680	626	274,306
25	409 Income Taxes	(249,144)	285,617	36,473	13,051	49,524
26	**Total Operating Expenses**	5,204,124	(390,761)	4,813,364	13,905	4,827,269
27	**Operating Income (Loss)**	$ (263,809)	$ 390,761	$ 126,952	$ 20,760	$ 147,712

References:
Column (A): Company Schedule C-1
Column (B): Schedule GWB 11
Column (C): Column (A) + Column (B)
Column (D): Schedules GWB 2, Lines 29, 34 and 37
Column (E): Column (C) + Column (D)

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Schedule GWB-11

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Excess Water Loss ADJ #1 GWB-12	[C] Bad Debts Exp ADJ #2 GWB-13	[D] Rate Case Exp ADJ #3 GWB-14	[E] Expense Normalizations ADJ #4 GWB-15	[F] Deprec. Exp ADJ #5 GWB-16	[E] Income Taxes ADJ #6 GWB-17	[H] STAFF ADJUSTED
1	461 Metered Water Revenue	4,803,374	-	-	-	-	-	-	4,803,374
2	460 Unmetered Water Revenue	-							-
3	474 Other Water Revenues	136,942	-	-	-	-	-	-	136,942
4	**Total Operating Revenues**	$ 4,940,316	$ -	$ -	$ -	$ -	$ -	$ -	$ 4,940,316
	Operating Expenses								
5	601 Salary and Wages - Employees	$ 893,501		$ -	$ -	$ (39,959)	$ -		$ 853,542
6	610 Purchased Water	269	-	-	-	-	-	-	269
7	615 Purchased Power	464,076	(12,401)		-	-	-	-	451,675
8	618 Chemicals	33,613	(898)						32,715
9	620 Materials and Supplies	79,398	-	-		(22,096)			57,302
10	621 Office Supplies and Expense	62,865	-	-					62,865
11	630 Outside Services	531,316	-	-		(153,707)			377,609
12	635 Contractual Services - Testing	14,571	-	-					14,571
13	636 Contractual Services - Other	-	-	-					-
14	641 Rental of Building/Real Property	43,412	-	-					43,412
15	650 Transportation Expenses	88,775	-	-	-				88,775
16	657 Insurance - General Liability	33,142	-	-					33,142
17	659 Insurance - Other	5,460	-	-					5,460
18	666 Regulatory Commission Expense –	35,298	-	-	(17,362)				17,936
19	670 Bad Debt Expense	30,898	-	1,708					32,606
20	675 Miscellaneous Expenses	79,463	-	-					79,463
21	403 Depreciation Expense	2,832,046	-	-			(431,665)		2,400,381
22	403 Depreciation Expense – CIAC Amor	(63,825)	-	-					(63,825)
23	408 Taxes Other Than Income	15,312	-	-					15,312
24	408.11 Taxes Other Than Income - Prop	273,680							273,680
25	409 Income Taxes	(249,144)						285,617	36,473
26	**Total Operating Expenses**	$ 5,204,124	$ (13,299)	$ 1,708	$ (17,362)	$ (215,761)	$ (431,665)	$ 285,617	$ 4,813,364
27	**Operating Income**	$ (263,809)	$ 13,299	$ (1,708)	$ 17,362	$ 215,761	$ 431,665	$ (285,617)	$ 126,952

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Schedule GWB-12

OPERATING INCOME ADJUSTMENT #1 - EXCESS WATER LOSS

LINE NO.			
1	One plus allowable water loss		110.00%
2	One plus actual water loss		113.02%
3	Allowable portion		97.33%
4	Disallowable portion		2.67%
5	Power Expense		464,076
6	Disallowance	$	12,401
7	Chemical Expense		33,613
8	Disallowance	$	898

Line 1: Maximum acceptable level of water losses
Line 2: Actual level of water losses
Line 3: Line 2 / line 3
Line 4: 1 minus line 4
Line 6: Line 1 times line 5
Lines 1 - 6: See also testimony GWB

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Schedule GWB-13

OPERATING INCOME ADJUSTMENT #2 - BAD DEBT EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED*
1		$ 30,898	$ 1,708	$ 32,606

References:
Column (A), Company Workpapers
Column (B): Testimony GWB
Column (C): Column (A) + Column (B), Per Co Response to Staff DR 5.8

Adjusted Test Year Revenues GWB-11	$	4,940,316
Bad Debt Expense Rate, per Staff		0.0066
Expected Bad Debt Expense	$	32,606
Co Proposed	$	30,898
	$	1,708

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Schedule GWB-14

OPERATING INCOME ADJUSTMENT #3 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1		$ 35,298	$ (17,362)	$ 17,936

Company Proposed Rate Case Expense

		Total	Palo Verde	Santa Cruz	Town Division	Willow Valley	Tonopah	Buckeye	WUNS
2	Allocation Percentages		39.86%	40.32%	13.45%	3.78%	0.82%	1.58%	0.19%
	Desert Mountain Analytical								
3	Services	$ 122,063	$ 48,652	$ 49,218	$ 16,420	$ 4,616	$ 996	$ 1,927	$ 234
4	Insight Consulting, LLC	$ 216,000	$ 86,094	$ 87,095	$ 29,057	$ 8,168	$ 1,762	$ 3,410	$ 413
5	Roshka Dewulf & Patten, PLC	$ 370,303	$ 147,597	$ 149,313	$ 49,814	$ 14,004	$ 3,021	$ 5,846	$ 709
6	Ullmann & Company P C	$ 78,809	$ 31,412	$ 31,777	$ 10,602	$ 2,980	$ 643	$ 1,244	$ 151
7	Total	$ 787,174	$ 313,756	$ 317,402	$ 105,893	$ 29,768	$ 6,421	$ 12,427	$ 1,506
8	Amortization over 3 years:								
9	Year 1	$ 262,391	$ 104,585	$ 105,801	$ 35,298	$ 9,923	$ 2,140	$ 4,142	$ 502
10	Year 2	$ 262,391	$ 104,585	$ 105,801	$ 35,298	$ 9,923	$ 2,140	$ 4,142	$ 502
11	Year 3	$ 262,391	$ 104,585	$ 105,801	$ 35,298	$ 9,923	$ 2,140	$ 4,142	$ 502
12	Totals	$ 787,174	$ 313,756	$ 317,402	$ 105,893	$ 29,768	$ 6,421	$ 12,427	$ 1,506

Staff Recommended Rate Case Expense

	Description	Total	Palo Verde	Santa Cruz	Town Division	Willow Valley	Tonopah	Buckeye	WUNS
14	Staff Recommended Amount	$ 400,000	$ 159,434	$ 161,287	$ 53,809	$ 15,127	$ 3,263	$ 6,315	$ 765
15	Amortization over 3 years:								
16	Year 1	$ 133,333	$ 53,145	$ 53,762	$ 17,936	$ 5,042	$ 1,088	$ 2,105	$ 255
17	Year 2	$ 133,333	$ 53,145	$ 53,762	$ 17,936	$ 5,042	$ 1,088	$ 2,105	$ 255
18	Year 3	$ 133,333	$ 53,145	$ 53,762	$ 17,936	$ 5,042	$ 1,088	$ 2,105	$ 255
19		$ 400,000	$ 313,756	$ 317,402	$ 105,893	$ 29,768	$ 6,421	$ 12,427	$ 1,506
20	Adjustment Total, by System	$ (129,058)	$ (51,441)	$ (52,038)	$ (17,361)	$ (4,881)	$ (1,053)	$ (2,037)	$ (247)

References:
Column (A), Company Workpapers
Column (B): Line 20 for respective system
Column (C): Line 16 for respective system

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Schedule GWB-15

OPERATING INCOME ADJUSTMENT #4 - EXPENSE NORMALIZATIONS

LINE NO.	ACCT / DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	601 Salary and Wages - Employees	$ 893,501	$ (39,959)	$ 853,542
2	620 Materials and Supplies	$ 79,398	$ (22,096)	$ 57,302
3	630 Outside Services	$ 531,316	$ (153,707)	$ 377,609
		$ 610,714	$ (175,803)	$ 434,911

References:
Column (A), Company Workpapers
Column (B): Testimony GWB
Column (C): Column (A) + Column (B)

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Schedule GWB-16

OPERATING INCOME ADJUSTMENT #5 - DEPRECIATION EXPENSE

LINE NO.	ACCT. NO.	DESCRIPTION	[A] PLANT BALANCE	[B] DEPRECIATION RATE	[C] DEPRECIATION EXPENSE
1	*PLANT IN SERVICE:*				
2	303	Land and Land Rights	150,432	0.00%	-
3	304	Structures and Improvements	1,037,614	3.33%	34,553
4	307	Wells and Springs	1,859,615	3.33%	61,925
5	309	Supply Mains	46,790	2.00%	936
6	310	Power Generation Equipment	67,508	5.00%	3,375
7	311	Pumping Equipment	8,217,566	12.50%	1,027,196
8	320	Water Treatment Equipment	-		-
9	320.1	Water Treatment Plant	4,091,843	3.33%	136,258
10	320.2	Solution Chemical Feeders	-	20.00%	-
11	330	Distribution Reservoirs and Standpipes	-		-
12	330.1	Storage Tanks	4,255,136	2.22%	94,464
13	330.2	Pressure Tanks	545,273	5.00%	27,264
14	331	Transmission and Distribution Mains	21,453,994	2.00%	429,080
15	333	Services	3,278,935	3.33%	109,189
16	334	Meters and Meter Installations	1,470,247	8.33%	122,472
17	335	Hydrants	1,981,787	2.00%	39,636
18	336	Backflow Prevention Devices	13,916	6.67%	928
19	339	Other Plant and Miscellaneous Equipment	177,934	6.67%	11,868
20	340	Office Furniture and Equipment	50,956	6.67%	3,399
21	341	Transportation Equipment	319,350	20.00%	63,870
22	343	Tools, Shop and Garage Equipment	94,283	5.00%	4,714
23	344	Laboratory Equipment	42,598	10.00%	4,260
24	345	Power Operated Equipment	61,507	5.00%	3,075
25	346	Communication Equipment	790,032	10.00%	79,003
26	347	Miscellaneous Equipment	17,310	10.00%	1,731
27	348	Other Tangible Plant	3,243,380	5.00%	162,169
28	390	Office Furniture	2,753	4.50%	124
29		Total Plant	53,270,755		2,421,364
30		Less: Non Depreciable Plant			
31		Land and Land Rights	150,432		
32		Net Depreciable Plant and Depreciation Amounts	$ 53,120,324		$ 2,421,364
33					
34					
35		Amortization of CIAC	$ 1,860,537	4.5583%	$ 84,808
36		Staff Recommended Depreciation Expense			$ 2,336,556
37		Company Proposed Depreciation Expense			$ 2,768,221
38		Staff Adjustment			**$ (431,665)**

	References:
Col [A]	Schedule GWB-4
Col [B]	Proposed Rates per Staff Engineering Report
Col [C]	Col [A] times Col [B]

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Schedule GWB-17

OPERATING INCOME ADJUSTMENT #6 - INCOME TAXES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Income Taxes	$ (249,144)	$ 285,617	$ 36,473

References:
Column (A), Company Schedule C-2
Column (B): Testimony GWB
Column (C): Column (A) + Column (B),
see also Sch. GWB-2, line 48

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Schedule GWB-18

OPERATING INCOME ADJUSTMENT #7 - PROPERTY TAX EXPENSE GRCF COMPONENT

LINE NO.	DESCRIPTION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2011	$ 4,940,316	$ 4,940,316
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	9,880,631	9,880,631
4	Staff Adjusted Test Year Revenues - 2011	4,940,316	
5	Staff Recommended Revenue		4,974,981
6	Subtotal (Line 4 + Line 5)	14,820,947	14,855,612
7	Number of Years	3	3
8	Three Year Average (Line 5 / Line 6)	4,940,316	4,951,871
9	Department of Revenue Mutilplier	2	2
10	Revenue Base Value (Line 7 * Line 8)	9,880,631	9,903,742
11	Plus: 10% of CWIP	265,232	265,232
12	Less: Net Book Value of Licensed Vehicles	43,247	43,247
13	Full Cash Value (Line 10 + Line 11 - Line 12)	10,102,616	10,125,727
14	Assessment Ratio	21.0%	21.0%
15	Assessment Value (Line 13 * Line 14)	2,121,549	2,126,403
16	Composite Property Tax Rate	12.9000%	12.9000%
17	Staff Test Year Adjusted Property Tax Expense (Line 15 * Line 16)	$ 273,680	
18	Company Proposed Property Tax	$ 273,680	
19	Staff Test Year Adjustment (Line 17 - Line 18)	**$ 0**	
20	Property Tax on Staff Recommended Revenue (Line 15 * Line 16)		$ 274,306
21	Staff Test Year Adjusted Property Tax Expense (Line 17)		$ 273,680
22	Increase in Property Tax Due to Increase in Revenue Requirement		**$ 626**
23	Increase in Property Tax Due to Increase in Revenue Requirement (Line 22)		$ 626
24	Increase in Revenue Requirement		$ 34,666
25	Increase in Property Tax Per Dollar Increase in Revenue (Line 23 / Line 24)		1.80600%

REFERENCES:
Line 15: Composite Tax Rate, per Company
Line 18: Company Schedule C-1, Line 36

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DIRECT TESTIMONY OF GERALD BECKER

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GWB	5	RATE BASE ADJUSTMENT #1 POST TEST YEAR PLANT
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GWB	7	NOT USED
GWB	8	NOT USED
GWB	9	NOT USED
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Schedule GWB-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	$ 60,166,756	$ 60,166,756	$ 48,904,575	$ 48,904,575
2	Adjusted Operating Income (Loss)	$ 3,066,067	$ 3,066,067	$ 3,579,258	$ 3,579,258
3	Current Rate of Return (L2 / L1)	5.10%	5.10%	7.32%	7.32%
4	Required Rate of Return	8.81%	8.81%	7.50%	7.50%
5	Required Operating Income (L4 * L1)	$ 5,300,691	$ 5,300,691	$ 3,667,843	$ 3,667,843
6	Operating Income Deficiency (L5 - L2)	$ 2,234,623	$ 2,234,623	$ 88,585	$ 88,585
7	Gross Revenue Conversion Factor	1.639005	1.639005	1.688688	1.688688
8	Required Revenue Increase (L7 * L6)	$ 3,662,560	$ 3,662,560	**$ 149,593**	**$ 149,593**
9	Adjusted Test Year Revenue	$ 13,107,528	$ 13,107,528	$ 13,107,528	$ 13,107,528
10	Proposed Annual Revenue (L8 + L9)	$ 16,770,088	$ 16,770,088	$ 13,257,121	$ 13,257,121
11	Required Increase in Revenue (%)	27.94%	27.94%	1.14%	1.14%
12	Rate of Return on Common Equity (%)	11.44%	11.44%	9.40%	9.40%

References:
Column [A]: Company Schedule A-1
Column (B): Company Schedule A-1
Column (C): Company Schedules A-1, A-2, & D-1
Column (C): Staff Schedules GWB-2, GWB-3, and GWB-10

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Schedule GWB-2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)
	Calculation of Gross Revenue Conversion Factor:			
1	Revenue	100.0000%		
2	Uncollecible Factor (Line 11)	0.6202%		
3	Revenues (L1 - L2)	99.3798%		
4	Combined Federal and State Income Tax and Property Tax Rate (Line 2:	40.1623%		
5	Subtotal (L3 - L4)	59.2176%		
6	**Revenue Conversion Factor (L1 / L5)**	1.688688		
	Calculation of Uncollecttible Factor:			
7	Unity	100.0000%		
8	Combined Federal and State Tax Rate (Line 17)	38.5986%		
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4014%		
10	Uncollectible Rate	1.0100%		
11	Uncollectible Factor (L9 * L10)		0.6202%	
	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 (Line 44)	33.9997%		
16	Effective Federal Income Tax Rate (L14 x L15)	31.6306%		
17	Combined Federal and State Income Tax Rate (L13 +L16)		38.5986%	
	Calculation of Effective Property Tax Factor			
18	Unity	100.0000%		
19	Combined Federal and State Income Tax Rate (L17)	38.5986%		
20	One Minus Combined Income Tax Rate (L18-L19)	61.4014%		
21	Property Tax Factor (GWB-18, L25)	2.5466%		
22	Effective Property Tax Factor (L20*L21)		1.5636%	
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			40.1623%

24	Required Operating Income (Schedule GWB-1, Line 5)	$ 3,667,843	
25	AdjustedTest Year Operating Income (Loss) (Schedule GWB-10, Line 36	$ 3,579,258	
26	Required Increase in Operating Income (L24 - L25)		$ 88,585
27	Income Taxes on Recommended Revenue (Col. (C), L48)	$ 1,229,725	
28	Income Taxes on Test Year Revenue (Col. (A), L48)	$ 1,174,037	
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		$ 55,688
30	Required Revenue Increase (Schedule GWB-1, Line 8)	$ 149,593	
31	Uncollectible Rate (Line 10)	1.0100%	
32	Uncollectible Expense on Recommended Revenue (L30 * L31)	$ 1,511	
33	Adjusted Test Year Uncollectible Expense - N/A	$ -	
34	Required Increase in Revenue to Provide for Uncollectible Exp.		$ 1,511
35	Property Tax with Recommended Revenue (GWB-18, Line 21)	$ 1,067,882	
36	Property Tax on Test Year Revenue (GWB-18, Col A, L19)	$ 1,064,073	
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		$ 3,810
38	Total Required Increase in Revenue (L26 + L29 + L34+ L37)		$ 149,593

		(A) Test Year	(B)	(C) Staff Recommended
	Calculation of Income Tax:			
39	Revenue (Sch GWB-10, Col.(C) L4, GWB-1, Col. (D), L10)	$ 13,107,528		$ 13,257,121
40	Operating Expenses Excluding Income Taxes	$ 8,354,233		$ 8,359,553
41	Synchronized Interest (L53)	$ 1,711,660		$ 1,711,660
42	Arizona Taxable Income (L39 - L40 - L41)	$ 3,041,635		$ 3,185,908
43	Arizona State Income Tax Rate	6.9680%		6.9680%
44	Arizona Income Tax (L42 x L43)	$ 211,941		$ 221,994
45	Federal Taxable Income (L42 - L44)	$ 2,829,694		$ 2,963,914
46	Federal Tax	$ 962,096		$ 1,007,731
47	Total Federal Income Tax	$ 962,096		$ 1,007,731
48	Combined Federal and State Income Tax (L43 + L47)	$ 1,174,037		$ 1,229,725

50 Effective Tax Rate

	Calculation of Interest Synchronization:	
51	Rate Base (Schedule GWB-3, Col. (C), Line 18)	$ 48,904,575
52	Weighted Average Cost of Debt	3.5000%
53	Synchronized Interest (L50 X L51)	$ 1,711,660

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Schedule GWB-3

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 109,787,648	$ (543,461)	$ 109,244,187
2	Less: Accumulated Depreciation	(19,012,634)	-	(19,012,634)
3	Net Plant in Service	$ 90,775,014	$ (543,461)	$ 90,231,553
	LESS:			
4	Contributions in Aid of Construction (CIAC)	$ 30,362	$ 12,714,970	$ 12,745,332
5	Less: Accumulated Amortization	-	1,996,250	1,996,250
6	Net CIAC	30,362	10,718,720	10,749,082
7	Advances in Aid of Construction (AIAC)	27,839,315	-	27,839,315
8	Imputed Reg AIAC	-	-	-
9	Imputed Reg CIAC	-		-
10	Accumulated Deferred Income Tax Credits	2,165,735	-	2,165,735
	Customer Meter Deposits	669,926	-	669,926
	ADD:			
11	Deferred Compensation	49,669		49,669
12	Cash Working Capital	-	-	-
13	Bad Debt	32,615	-	32,615
14	CIAC	- 11,735	-	11,735
15	Projected Capital Expenditures	-	-	-
16	Deferred Gain	3,062	-	3,062
17	Purchase Wastewater Treatment Charges	-		-
18	**Original Cost Rate Base**	$ 60,166,756	$ (11,262,181)	$ 48,904,575

References:
Column (A), Company Schedule B-2
Column (B): Schedule GWB-4
Column (C): Column (A) + Column (B)

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Schedule GWB-4

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Plant ADJ #1 GWB-5	[C] ICFA ADJ #2 (See Armstrong Testimony)	[DI] STAFF ADJUSTED
		PLANT IN SERVICE:				
1	353	Land and Land Rights	$ 186,342	$ -	$ -	$ 186,342
2	354	Structures and Improvements	22,916,934			22,916,934
3	355	Power Generation Equipment	361,096			361,096
4	360	Collection Sewers - Force	3,865,315			3,865,315
5	361	Collection Sewers - Gravity	47,785,285			47,785,285
6	363	Services to Customers	5,244,342			5,244,342
7	364	Flow Measuring Devices	23,636			23,636
8	370	Receiving Wells	1,921,877			1,921,877
9	371	Pumping Equipment	4,039,011			4,039,011
10	374	Reuse Distribution Reservoirs	34,021			34,021
11	375	Reuse Transmission and Distribution System	11,089,457			11,089,457
12	380	Treatment and Disposal Equipment	5,975,575			5,975,575
13	381	Plant Sewers	78,384			78,384
14	382	Outfall Sewer Lines	353,645			353,645
15	389	Other Plant and Miscellaneous Equipment	2,295,565			2,295,565
16	390	Office Furniture and Equipment	403,174			403,174
17	391	Transportation Equipment	173,522			173,522
18	393	Tools, Shop and Garage Equipment	114,250			114,250
19	394	Laboratory Equipment	24,941			24,941
20	395	Power Operated Equipment	41,148			41,148
21	396	Communication Equipment	76,238			76,238
22	397	Miscellaneous Equipment	369,323			369,323
23	398	Other Tangible Plant	2,414,565	(543,461)		1,871,104
32	**Total Plant in Service**		109,787,648	(543,461)	-	109,244,187
33						
34	Accumulated Depreciation		(19,012,634)	-		(19,012,634)
35	Net Plant in Service		$ 90,775,014	$ (543,461)	$ -	$ 90,231,553
36						
37	*LESS:*					
38	Net Contributions in Aid of Construction (CIAC)		$ 30,362		$ 12,714,970	$ 12,745,332
39	Less: Accumulated Amortization		-		1,996,250	1,996,250
40	Net CIAC (L63 - L64)		30,362		10,718,720	10,749,082
41	Advances in Aid of Construction (AIAC)		27,839,315		-	27,839,315
42	Customer Meter Deposits		669,926			669,926
43	Accumulated Deferred Income Tax Credits		2,165,735			2,165,735
44	*ADD:*					-
45	Deferred Tax Assets					-
46	Deferred Gain		3,062			3,062
47	Bad Debt		32,615	-	-	32,615
48	Deferred Compensation		49,669	-	-	49,669
49	CIAC		11,735	-	-	11,735
50	Working Capital		-	-	-	-
51	**Original Cost Rate Base**		$ 60,166,756	$ (543,461)	$ (10,718,720)	$ 48,904,575

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Schedule GWB-5

RATE BASE ADJUSTMENT #1 POST TEST YEAR PLANT

LINE NO.	ACCT NO.	Description	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	398	Other Tangible Plant	543,461	(543,461)	-

Disallowed PTYP

PVUC Lagoon Clean Closure and Conversion	$	543,461

References:
Column [A] : Disallowed Amount reflected in Acct. 348, PTYP, Per Co Schedule B-2.1
Column [B] , Col [C] less Col [A]
Column [C] , Per testimony GWB and Engineering testimony

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Schedule GWB-10

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
1	Flat Rate Revenue	12,423,785	-	12,423,785	149,593	12,573,378
2	Other Sewer Revenues	345,001	-	345,001		345,001
3	Metered Reuse Revenue	338,742	-	338,742	-	338,742
4	**Total Operating Revenues**	$ 13,107,528	$ -	$ 13,107,528	$ 149,593	$ 13,257,121
5	701 Salary and Wages - Employees	$ 1,472,381	$ (223,764)	$ 1,248,617	$ -	$ 1,248,617
6	704 Employee Pensions and Benefi	-	-	-	-	-
7	715 Purchased Power	530,509	-	530,509	-	530,509
8	716 Fuel for Power Production	-	-	-	-	-
9	718 Chemicals	408,431	0	408,431	-	408,431
10	720 Materials and Supplies	114,852	-	114,852	-	114,852
11	721 Office Expense	120,122	-	120,122	-	120,122
12	731 Contractual Services – Professi	901,541	(294,223)	607,319	-	607,319
13	735 Contractual Services - Testing	40,577	-	40,577	-	40,577
14	736 Contractual Services - Other	197,061	-	197,061	-	197,061
15	740 Rents	119,990	-	119,990		119,990
16	742 Rental of Equipment	-	-	-	-	-
17	750 Transportation Expense	76,568	-	76,568	-	76,568
18	755 Insurance Expense	102,147	-	102,147	-	102,147
19	759 Insurance - Other	-	-	-	-	-
20	765 Regulatory Commission Expen:	112,973	(59,828)	53,145	-	53,145
21	767 Rate Case Expense	-	-	-		-
22	770 Bad Debt Expense	82,936	49,450	132,386	1,511	133,897
23	775 Miscellaneous Expenses	485,686	-	485,686	-	485,686
24	403 Depreciation Expense	3,520,714	(476,171)	3,044,542		3,044,542
25	403 Depreciation Expense – CIAC /	(1,292)	-	(1,292)		(1,292)
26	408 Taxes Other Than Income	9,500	-	9,500		9,500
27	408.11 Taxes Other Than Income -	1,064,073	-	1,064,073	3,810	1,067,882
28	409 Income Taxes	682,693	491,345	1,174,037	$ 55,688	$ 1,229,725
29	**Total Operating Expenses**	10,041,461	(513,191)	9,528,270	61,008	9,589,278
30	***Operating Income (Loss)***	$ 3,066,067	$ 513,191	$ 3,579,258	$ 88,585	$ 3,667,843

References:
Column (A): Company Schedule C-1
Column (B): Schedule GWB 11
Column (C): Column (A) + Column (B)
Column (D): Schedules GWB 2, Lines 29, 34 and 37
Column (E): Column (C) + Column (D)

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Schedule GWB-11

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Bad Debts Exp ADJ #1 GWB-12	[C] Rate Case Exp ADJ #2 GWB-13	[D] Expense Normalizations ADJ #3 GWB-14	[E] Deprec. Exp ADJ #4 GWB-15	[F] Income Taxes ADJ #5 GWB-16	[H] STAFF ADJUSTED
1	Flat Rate Revenue	$ 12,423,785	-	-	-	-	-	$ 12,423,785
2	Other Sewer Revenues	345,001						345,001
3	Metered Reuse Revenue	338,742	-	-	-	-	-	338,742
4	**Total Operating Revenues**	$ 13,107,528	$ -	$ -	$ -	$ -	$ -	$ 13,107,528
	Operating Expenses							
5	701 Salary and Wages - Employees	1,472,381	$ -	$ -	$ (223,764)	$ -		1,248,617
6	704 Employee Pensions and Benefits	-	-	-	-	-	-	-
7	715 Purchased Power	530,509		-	-	-	-	530,509
8	716 Fuel for Power Production	-						-
9	718 Chemicals	408,431	-		0			408,431
10	720 Materials and Supplies	114,852	-					114,852
11	721 Office Expense	120,122	-					120,122
12	731 Contractual Services – Professional	901,541	-		(294,223)			607,319
13	735 Contractual Services - Testing	40,577						40,577
14	736 Contractual Services - Other	197,061	-		-			197,061
14	740 Rents	119,990	-		-			119,990
15	742 Rental of Equipment	-	-					-
15	750 Transportation Expense	76,568	-		-			76,568
16	755 Insurance Expense	102,147	-					102,147
16	759 Insurance - Other	-	-					-
17	765 Regulatory Commission Expense	112,973	-	(59,828)				53,145
17	767 Rate Case Expense	-	-					-
18	770 Bad Debt Expense	82,936	49,450					132,386
18	775 Miscellaneous Expenses	485,686	-					485,686
19	403 Depreciation Expense	3,520,714	-			(476,171)		3,044,542
19	403 Depreciation Expense – CIAC Amortization	(1,292)						(1,292)
20	408 Taxes Other Than Income	9,500						9,500
20	408.11 Taxes Other Than Income - Property Taxes	1,064,073						1,064,073
21	409 Income Taxes	682,693	-				491,345	1,174,037
22	**Total Operating Expenses**	$ 10,041,461	$ 49,450	$ (59,828)	$ (517,986)	$ (476,171)	$ 491,345	$ 9,528,270
23	**Operating Income (Loss)**	$ 3,066,067	$ (49,450)	$ 59,828	$ 517,986	$ 476,171	$ (491,345)	$ 3,579,258

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Schedule GWB-12

OPERATING INCOME ADJUSTMENT #1 - BAD DEBT EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED*
1		$ 82,936	$ 49,450	$ 132,386

References:
Column (A), Company Workpapers
Column (B): Testimony GWB
Column (C): Column (A) + Column (B), Per Co Response to Staff DR 5.8

Adjusted Test Year Revenues (Sch C-2)	$	13,107,528
Bad Debt Expense Rate, per Staff		1.01%
Expected Bad Debt Expense	$	132,386
Co Proposed	$	82,936
	$	49,450

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Schedule GWB-13

OPERATING INCOME ADJUSTMENT #2 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED*
1	See Note	$ 112,973	$ (59,828)	$ 53,145

Company Proposed Rate Case Expense

		Total	Palo Verde	Santa Cruz	Town Division	Willow Valley	Tonopah	Buckeye	WUNS
2	Allocation Percentages		39.86%	40.32%	13.45%	3.78%	0.82%	1.58%	0.19%
	Desert Mountain Analytical								
3	Services	$ 122,063	$ 48,652	$ 49,218	$ 16,420	$ 4,616	$ 996	$ 1,927	$ 234
4	Insight Consulting, LLC	$ 216,000	$ 86,094	$ 87,095	$ 29,057	$ 8,168	$ 1,762	$ 3,410	$ 413
5	Roshka Dewulf & Patten, PLC	$ 370,303	$ 147,597	$ 149,313	$ 49,814	$ 14,004	$ 3,021	$ 5,846	$ 709
6	Ullmann & Company P C	$ 78,809	$ 31,412	$ 31,777	$ 10,602	$ 2,980	$ 643	$ 1,244	$ 151
7	Total	$ 787,174	$ 313,756	$ 317,402	$ 105,893	$ 29,768	$ 6,421	$ 12,427	$ 1,506
8	Amortization over 3 years:								
9	Year 1	$ 262,391	$ 104,585	$ 105,801	$ 35,298	$ 9,923	$ 2,140	$ 4,142	$ 502
10	Year 2	$ 262,391	$ 104,585	$ 105,801	$ 35,298	$ 9,923	$ 2,140	$ 4,142	$ 502
11	Year 3	$ 262,391	$ 104,585	$ 105,801	$ 35,298	$ 9,923	$ 2,140	$ 4,142	$ 502
12	Totals	$ 787,174	$ 313,756	$ 317,402	$ 105,893	$ 29,768	$ 6,421	$ 12,427	$ 1,506

Staff Recommended Rate Case Expense

	Description	Total	Palo Verde	Santa Cruz	Town Division	Willow Valley	Tonopah	Buckeye	WUNS
14	Staff Recommended Amount	$ 400,000	$ 159,434	$ 161,287	$ 53,809	$ 15,127	$ 3,263	$ 6,315	$ 765
15	Amortization over 3 years:								
16	Year 1	$ 133,333	$ 53,145	$ 53,762	$ 17,936	$ 5,042	$ 1,088	$ 2,105	$ 255
17	Year 2	$ 133,333	$ 53,145	$ 53,762	$ 17,936	$ 5,042	$ 1,088	$ 2,105	$ 255
18	Year 3	$ 133,333	$ 53,145	$ 53,762	$ 17,936	$ 5,042	$ 1,088	$ 2,105	$ 255
19	Totals	$ 400,000	$ 313,756	$ 317,402	$ 105,893	$ 29,768	$ 6,421	$ 12,427	$ 1,506
20	Adjustment Total, by System	$ (129,058)	$ (51,441)	$ (52,038)	$ (17,361)	$ (4,881)	$ (1,053)	$ (2,037)	$ (247)

For Palo Verde only, Staff notes a discrepancy between the $112,973 on Co. Schedule C-1 and the $104,585 per Company's supporting schedule and as shown above. Staff's adjustment effectively corrects this discrepancy.

References:
Column (A), Company Workpapers
Column (B): Line 20 for respective system
Column (C): Line 16 for respective system

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Schedule GWB-14

OPERATING INCOME ADJUSTMENT #3 - EXPENSE NORMALIZATIONS

LINE NO.	ACCT / DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED*
1	701 Salary and Wages - Employees	$ 1,472,381	$ (223,764)	$ 1,248,617
2	731 Contractual Services – Professional	$ 901,541	$ (294,223)	$ 607,319
		$ 3,175,972	$ (517,986)	$ 2,657,986

References:
Column (A), Company Workpapers
Column (B): Testimony GWB
Column (C): Column (A) + Column (B)

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Schedule GWB-16

OPERATING INCOME ADJUSTMENT #4 - DEPRECIATION EXPENSE

LINE NO.	ACCT. NO.	DESCRIPTION	[A] PLANT BALANCE	[B] DEPRECIATION RATE	[C] DEPRECIATION EXPENSE
1	*PLANT IN SERVICE:*				
2	351	Organization Cost	-	0.00%	-
3	352	Franchise Cost	-	0.00%	-
4	353	Land and Land Rights	186,342	0.00%	-
5	354	Structures & Improvements	22,916,934	3.33%	763,134
6	355	Power Generating Equipment	361,096	5.00%	18,055
7	360	Collection Sewers - Force	3,865,315	2.00%	77,306
8	361	Collection Sewers - Gravity	47,785,285	2.00%	955,706
9	362	Special Collecting Structures		2.00%	-
10	363	Sevices to Customers	5,244,342	2.00%	104,887
11	364	Flow Measuring Devices	23,636	10.00%	2,364
12	365	Flow Measuring Installations		10.00%	-
13	366	Reuse Services		2.00%	-
14	367	Reuse Meters and Meter Installations		8.33%	-
15	370	Receiving Wells	1,921,877	3.33%	63,999
16	371	Pumping Equipment	4,039,011	12.50%	504,876
17	374	Reuse Distribution Reserviors	34,021	2.50%	851
18	375	Reuse Transmission and Dist. Sys.	11,089,457	2.50%	277,236
19	380	Treatment and Disposal Equipment	5,975,575	5.00%	298,779
20	381	Plant Sewers	78,384	5.00%	3,919
21	382	Outfall Sewer Lines	353,645	3.33%	11,776
22	389	Other Plant and Misc. Equipment	2,295,565	6.67%	153,114
23	390	Office Furniture & Equipment	403,174	6.67%	26,892
24	390.1	Computers & Software		20.00%	-
25	391	Transportation Equipment	173,522	20.00%	34,704
26	392	Stores Equipment		4.00%	-
27	393	Tools, Shop & Garage Equipment	114,250	5.00%	5,713
28	394	Laboratory Equipment	24,941	10.00%	2,494
29	395	Power Operated Equipment	41,148	5.00%	2,057
30	396	Communications Equipment	76,238	10.00%	7,624
31	397	Miscellaneous Equipment	369,323	10.00%	36,932
32	398	Other Tangible Plant	1,871,104	5.00%	93,555
33			109,244,187		3,445,973
34		Less: Non Depreciable Plant			
35		Land and Land Rights	$ 186,342		
36		Net Depreciable Plant and Dep. Amount	$ 109,057,845		$ 3,445,973
37					
38					
39		Amortization of CIAC at Company's Rate	$ 12,745,332	3.1598%	$ 402,723
40		Staff Recommended Depreciation Expense			$ 3,043,250
41		Company Proposed Depreciation Expense			$ 3,519,422
42		Staff Adjustment			**$ (476,171)**

	References:
Col [A]	Schedule GWB-4
Col [B]	Proposed Rates per Staff Engineering Report
Col [C]	Col [A] times Col [B]

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Schedule GWB-17

OPERATING INCOME ADJUSTMENT #5 - INCOME TAXES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Income Taxes	$ 682,693	$ 491,345	$ 1,174,037

References:
Column (A), Company Schedule C-2
Column (B): Testimony GWB
Column (C): Column (A) + Column (B),
see also Sch. GWB-2, line 48

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Schedule GWB-18

OPERATING INCOME ADJUSTMENT #6 - PROPERTY TAX EXPENSE GRCF COMPONENT

LINE NO.	DESCRIPTION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2011	$ 13,107,528	$ 13,107,528
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	26,215,056	26,215,056
4	Staff Adjusted Test Year Revenues - 2011	13,107,528	
5	Staff Recommended Revenue		13,257,121
6	Subtotal (Line 4 + Line 5)	39,322,584	39,472,177
7	Number of Years	3	3
8	Three Year Average (Line 5 / Line 6)	13,107,528	13,157,392
9	Department of Revenue Mutilplier	2	2
10	Revenue Base Value (Line 7 * Line 8)	26,215,056	26,314,785
11	Plus: 10% of CWIP	1,648,165	1,648,165
12	Less: Net Book Value of Licensed Vehicles	7,190	7,190
13	Full Cash Value (Line 10 + Line 11 - Line 12)	27,856,031	27,955,760
14	Assessment Ratio	21.0%	21.0%
15	Assessment Value (Line 13 * Line 14)	5,849,767	5,870,710
16	Composite Property Tax Rate	18.1900%	18.1900%
17	Staff Test Year Adjusted Property Tax Expense (Line 15 * Line 16)	$ 1,064,073	
18	Company Proposed Property Tax	$ 1,064,073	
19	Staff Test Year Adjustment (Line 17 - Line 18)	**$ 0**	
20	Property Tax on Staff Recommended Revenue (Line 15 * Line 16)		$ 1,067,882
21	Staff Test Year Adjusted Property Tax Expense (Line 17)		$ 1,064,073
22	Increase in Property Tax Due to Increase in Revenue Requirement		**$ 3,810**
23	Increase in Property Tax Due to Increase in Revenue Requirement (Line 22)		$ 3,810
24	Increase in Revenue Requirement		$ 149,593
25	Increase in Property Tax Per Dollar Increase in Revenue (Line 23 / Line 24)		2.54660%

REFERENCES:
Line 15: Composite Tax Rate, per Company
Line 18: Company Schedule C-1, Line 36

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DIRECT TESTIMONY OF GERALD BECKER

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GWB-	9	NOT USED
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Schedule GWB-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	$ (181,978)	$ (181,978)	$ (181,978)	$ (181,978)
2	Adjusted Operating Income (Loss)	$ 21,301	$ 21,301	$ 23,472	$ 23,472
3	Current Rate of Return (L2 / L1)	N/A	N/A	N/A	N/A
4	Required Rate of Return	N/A	N/A	N/A	N/A
5	Required Operating Income (L4 * L1)	$ 21,301	$ 21,301	$ 23,472	$ 23,472
	Current Operating Margin (Sch.C.1)	14.44%	14.44%	15.91%	15.91%
6	Operating Income Deficiency (L5 - L2)	$ -	$ -	$ -	$ -
7	Gross Revenue Conversion Factor	1.629	1.629	1.629	1.629
8	Required Revenue Increase (L7 * L6)	$ -	$ -	$ -	$ -
9	Adjusted Test Year Revenue	$ 147,513	$ 147,513	$ 147,513	$ 147,513
10	Proposed Annual Revenue (L8 + L9)	$ 147,513	$ 147,513	$ 147,513	$ 147,513
11	Required Increase in Revenue (%)	0.00%	0.00%	0.00%	0.00%
12	Rate of Return on Common Equity (%)	10.00%	10.00%		

References:
Column [A]: Company Schedule A-1
Column (B): Company Schedule A-1
Column (C): Company Schedules A-1, A-2, & D-1
Column (C): Staff Schedules GWB-2, GWB-3, and GWB-10

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Schedule GWB-2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)
	Calculation of Gross Revenue Conversion Factor:			
1	Revenue	100.0000%		
2	Uncollecible Factor (Line 11)	0.06140%		
3	Revenues (L1 - L2)	99.9386%		
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	38.5989%		
5	Subtotal (L3 - L4)	60.7871%		
6	**Revenue Conversion Factor (L1 / L5)**	**1.645086**		
	Calculation of Uncollecttible Factor:			
7	Unity	100.0000%		
8	Combined Federal and State Tax Rate (Line 17)	38.5989%		
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%		
10	Uncollectible Rate	1.0000%		
11	Uncollectible Factor (L9 * L10)		0.61401%	
	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 (Line 44)	34.0000%		
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%		
17	Combined Federal and State Income Tax Rate (L13 +L16)		38.5989%	
	Calculation of Effective Property Tax Factor			
18	Unity		6.968%	
19	Combined Federal and State Income Tax Rate (L17)	100.0000%		
20	One Minus Combined Income Tax Rate (L18-L19)	6.9680%		
21	Property Tax Factor (GWB-18, L25)	93.0320%		
22	Effective Property Tax Factor (L20*L21)		0.0000%	
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			38.5989%
24	Required Operating Income (Schedule GWB-1, Line 5)	$ 23,472		
25	AdjustedTest Year Operating Income (Loss) (Schedule GWB-10, Line 36)	$ 23,472		
26	Required Increase in Operating Income (L24 - L25)	$ -	$ -	
27	Income Taxes on Recommended Revenue (Col. (C), L48)	$ 43,548		
28	Income Taxes on Test Year Revenue (Col. (A), L48)	$ 14,755		
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)	$ 28,792	$ 28,792	
30	Required Revenue Increase (Schedule GWB-1, Line 8)	$ -		
31	Uncollectible Rate (Line 10)	1.0000%		
32	Uncollectible Expense on Recommended Revenue (L30 * L31)	$ -		
33	Adjusted Test Year Uncollectible Expense - N/A	$ -		
34	Required Increase in Revenue to Provide for Uncollectible Exp.		$ -	
35	Property Tax with Recommended Revenue (GWB-18, Line 21)	$ 3,104		
36	Property Tax on Test Year Revenue (GWB-18, Col A, L19)	$ 3,104		
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		$ -	
38	Total Required Increase in Revenue (L26 + L29 + L34+ L37)		$ 28,792	

		(A) Test Year	(B)	(C) Staff Recommended
	Calculation of Income Tax:			
39	Revenue (Sch GWB-10, Col.(C) L4, GWB-1, Col. (D), L10)	$ 147,513		$ 147,513
40	Operating Expenses Excluding Income Taxes	$ 109,286		$ 34,692
41	Synchronized Interest (L53)	$ -		$ -
42	Arizona Taxable Income (L39 - L40 - L41)	$ 38,228		$ 112,821
43	Arizona State Income Tax Rate	6.9680%		6.9680%
44	Arizona Income Tax (L42 x L43)	$ 2,664		$ 7,861
45	Federal Taxable Income (L42 - L44)	$ 35,564		$ 104,960
46	Federal Tax	$ 12,092		$ 35,686
47	Total Federal Income Tax	$ 12,092		$ 35,686
48	Combined Federal and State Income Tax (L43 + L47)	$ 14,755		$ 43,548
50	Effective Tax Rate			
	Calculation of Interest Synchronization:			N/A
51	Rate Base (Schedule GWB-3, Col. (C), Line 18)			$ (181,978)
52	Weighted Average Cost of Debt		N/A	0.0000%
53	Synchronized Interest (L50 X L51)			$ -

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Schedule GWB-3

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 1,921,063	$ -	$ 1,921,063
2	Less: Accumulated Depreciation	(424,824)	-	(424,824)
3	Net Plant in Service	$ 1,496,239	$ -	$ 1,496,239
	LESS:			
4	Contributions in Aid of Construction (CIAC)	$ -	$ -	$ -
5	Less: Accumulated Amortization	-	-	-
6	Net CIAC	-	-	-
7	Advances in Aid of Construction (AIAC)	1,824,411	-	1,824,411
8	Imputed Reg AIAC	-		
9	Imputed Reg CIAC	-	-	-
10	Accumulated Deferred Income Tax Credits	-	-	-
	Customer Meter Deposits	10,765		10,765
	ADD:			
11	Accumulated Deferred Income Tax Debits	9,246	-	9,246
12	Cash Working Capital	483	-	483
13	Deferred Compensation	232	-	232
		-		
14	CIAC	-	-	-
15	Fixed Asset Depreciation	146,998	-	146,998
16	Deferred Debits	-	-	-
17	Purchase Wastewater Treatment Charges	-	-	
18	**Original Cost Rate Base**	$ (181,978)	$ -	$ (181,978)

References:
Column (A), Company Schedule B-2
Column (B): Schedule GWB-4
Column (C): Column (A) + Column (B)

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Schedule GWB-4

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Reclassifications ADJ #1 Per Testimony	[I] STAFF ADJUSTED
	PLANT IN SERVICE:				
1	303	Land and Land Rights	$ 30,374	$ -	$ 30,374
2	304	Structures and Improvements	20,000		20,000
3	307	Wells and Springs	130,000		130,000
4	309	Supply Mains	-		-
5	310	Power Generation Equipment	-		-
6	311	Pumping Equipment	216,158		216,158
7	320	Water Treatment Equipment	377	(377)	0
8	320.1	Water Treatment Plant		377	377
9	320.2	Solution Chemical Feeders			-
10	330	Distribution Reservoirs and Standpipes	182,972	(182,972)	0
11	330.1	Storage Tanks		182,972	182,972
12	330.2	Pressure Tanks			-
13	331	Transmission and Distribution Mains	1,155,497		1,155,497
14	333	Services	60,047		60,047
15	334	Meters and Meter Installations	11,303		11,303
16	335	Hydrants	108,312		108,312
17	336	Backflow Prevention Devices	775		775
18	339	Other Plant and Miscellaneous Equipment	2,390		2,390
19	340	Office Furniture and Equipment	-		-
20	341	Transportation Equipment	-		-
21	343	Tools, Shop and Garage Equipment	515		515
22	344	Laboratory Equipment	-		-
23	345	Power Operated Equipment	-		-
24	346	Communication Equipment	-		-
25	347	Miscellaneous Equipment	-		-
26	348	Other Tangible Plant	-		-
27	390	Office Furniture & Equipment	2,343		2,343
28	**Total Plant in Service**		1,921,063	-	1,921,063
29					
30	Accumulated Depreciation		(424,824)	-	(424,824)
31	Net Plant in Service		$ 1,496,239	$ -	1,496,239
32					
33	*LESS:*				
34	Contributions in Aid of Construction (CIAC)		$ -		$ -
35	Less: Accumulated Amortization		-	-	-
36	Net CIAC (L63 - L64)		-	-	-
37	Advances in Aid of Construction (AIAC)		1,824,411	-	1,824,411
38	Customer Meter Deposits		10,765		10,765
39	*ADD:*				-
40	Meter deposits		9,246		9,246
41	Bad Debt		483		483
42	Deferred Compensation		232	-	232
43	CIAC		-	-	-
44	Fixed asset depreciation		146,998	-	146,998
45	Prepayments			-	-
48					
49					
50					
51	**Original Cost Rate Base**		$ (181,978)	$ -	$ (181,978)

Global Water - Water Utility of Northern Scottsdale
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Schedule GWB-10

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
		$ -	$ -	$ -	$ -	$ -
1	Metered Water Sales	145,963	-	145,963	-	145,963
2	Water Sales - Unmetered	-		-		
3	Other Operating Revenue	1,550	-	1,550	-	1,550
4	**Total Operating Revenues**	$ 147,513	$ -	$ 147,513	$ -	$ 147,513
5	601 Salary and Wages - Employees	$ 19,787	$ -	$ 19,787	$ -	$ 19,787
6	604 Employee Pensions and Benefits	-	-	-	-	-
7	610 Purchased Water	-	-	-	-	-
8	615 Purchased Power	10,050	-	10,050	-	10,050
9	616 Fuel for Power Production	-	-	-	-	-
10	618 Chemicals	1,286	-	1,286	-	1,286
11	620 Materials and Supplies	(779)	-	(779)	-	(779)
12	620.08 Materials and Supplies	-	-	-	-	-
13	621 Office Supplies and Expense	1,494	-	1,494	-	1,494
14	630 Outside Services	4,483	-	4,483	-	4,483
15	635 Contractual Services - Testing	728	-	728		728
16	636 Contractual Services - Other	-	-	-	-	-
17	641 Rental of Building/Real Property	504	-	504	-	504
18	642 Rental of Equipment	-	-	-	-	-
19	650 Transportation Expenses	1,508	-	1,508	-	1,508
20	657 Insurance - General Liability	475	-	475	-	475
21	659 Insurance - Other	664	-	664		664
22	660 Advertising Expense	-	-	-		-
23	666 Regulatory Commission Expense – Rat	502	-	502	-	502
24	667 Rate Case Expense	-	(247)	(247)		(247)
25	670 Bad Debt Expense	-	1,003	1,003		1,003
26	675 Miscellaneous Expenses	4,137	-	4,137		4,137
27	403 Depreciation Expense	64,552	(4,292)	60,260		60,260
28	403 Depreciation Expense – CIAC Amortiza	326	-	326		326
29	408 Taxes Other Than Income	3,104	-	3,104	-	3,104
30	408.11 Property Taxes	-	-	-		-
31	409 Income Taxes	13,391	1,365	14,755		14,755
32	**Total Operating Expenses**	126,212	(2,171)	124,041	-	124,041
33	**Operating Income (Loss)**	$ 21,301	$ 2,171	$ 23,472	$ -	$ 23,472

References:
Column (A): Company Schedule C-1
Column (B): Schedule GWB 11
Column (C): Column (A) + Column (B)
Column (D): Schedules GWB 2, Lines 29, 34 and 37
Column (E): Column (C) + Column (D)

Global Water - Water Utility of Northern Scottsdale
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Schedule GWB-11

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Bad Debts Exp ADJ #1 GWB-12	[D] Rate Case Exp ADJ #2 GWB-14	[C] Deprec. Exp ADJ #3 GWB-16	[F] Income Taxes ADJ #4 GWB-17	[H] STAFF ADJUSTED
	Revenues						
1	Metered Water Sales	145,963	-	-	-	-	145,963
2	Water Sales - Unmetered	-					-
3	Other Operating Revenue	1,550	-	-	-	-	1,550
4	Total Operating Revenues	$ 147,513	$ -	$ -	$ -	$ -	$ 147,513
	Operating Expenses						
5	601 Salary and Wages - Employees	19,787	$ -	$ -	$ -	$ -	19,787
6	604 Employee Pensions and Benefi	-	-	-	-	-	-
7	610 Purchased Water	-		-	-	-	-
8	615 Purchased Power	10,050					10,050
9	616 Fuel for Power Production	-	-				-
10	618 Chemicals	1,286	-				1,286
11	620 Materials and Supplies	(779)	-				(779)
12	620.08 Materials and Supplies	-	-				-
13	621 Office Supplies and Expense	1,494	-				1,494
14	630 Outside Services	4,483	-				4,483
15	635 Contractual Services - Testing	728	-	-			728
16	636 Contractual Services - Other	-	-				-
17	641 Rental of Building/Real Propert	504	-				504
18	642 Rental of Equipment	-	-				-
19	650 Transportation Expenses	1,508	-				1,508
20	657 Insurance - General Liability	475	-				475
21	659 Insurance - Other	664	-				664
22	660 Advertising Expense	-	-				-
23	666 Regulatory Commission Expen	502	-				502
24	667 Rate Case Expense	-		(247)			(247)
25	670 Bad Debt Expense	-	1,003				1,003
26	675 Miscellaneous Expenses	4,137					4,137
27	403 Depreciation Expense	64,552			(4,292)		60,260
28	403 Depreciation Expense – CIAC /	326					326
29	408 Taxes Other Than Income	3,104	-				3,104
30	408.11 Property Taxes	-					-
31	409 Income Taxes	13,391			-	1,365	14,755
32	**Total Operating Expenses**	$ 126,212	$ 1,003	$ (247)	$ (4,292)	$ 1,365	$ 124,041
33	**Operating Income**	$ 21,301	$ (1,003)	$ 247	$ 4,292	$ (1,365)	$ 23,472

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Schedule GWB-12

OPERATING INCOME ADJUSTMENT #1 - BAD DEBT EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED*
1		$ -	$ 1,003	$ 1,003

References:
Column (A), Company Workpapers
Column (B): Testimony GWB
Column (C): Column (A) + Column (B), Per Co Response to Staff DR 5.8

Adjusted Test Year Revenues (Sch C-2)	$	147,513
Bad Debt Expense Rate, per Staff		0.68%
Expected Bad Debt Expense	$	1,003
Co Proposed	$	-
	$	(1,003)

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Schedule GWB-13

OPERATING INCOME ADJUSTMENT #2 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1		$ 502	$ (247)	$ 255

Company Proposed Rate Case Expense

		Total	Palo Verde	Santa Cruz	Town Division	Willow Valley	Tonopah	Buckeye	WUNS
2	Allocation Percentages		39.86%	40.32%	13.45%	3.78%	0.82%	1.58%	0.19%
	Desert Mountain Analytical								
3	Services	$ 122,063	$ 48,652	$ 49,218	$ 16,420	$ 4,616	$ 996	$ 1,927	$ 234
4	Insight Consulting, LLC	$ 216,000	$ 86,094	$ 87,095	$ 29,057	$ 8,168	$ 1,762	$ 3,410	$ 413
5	Roshka Dewulf & Patten, PLC	$ 370,303	$ 147,597	$ 149,313	$ 49,814	$ 14,004	$ 3,021	$ 5,846	$ 709
6	Ullmann & Company P C	$ 78,809	$ 31,412	$ 31,777	$ 10,602	$ 2,980	$ 643	$ 1,244	$ 151
7	Total	$ 787,174	$ 313,756	$ 317,402	$ 105,893	$ 29,768	$ 6,421	$ 12,427	$ 1,506
8	Amortization over 3 years:								
9	Year 1	$ 262,391	$ 104,585	$ 105,801	$ 35,298	$ 9,923	$ 2,140	$ 4,142	$ 502
10	Year 2	$ 262,391	$ 104,585	$ 105,801	$ 35,298	$ 9,923	$ 2,140	$ 4,142	$ 502
11	Year 3	$ 262,391	$ 104,585	$ 105,801	$ 35,298	$ 9,923	$ 2,140	$ 4,142	$ 502
12	Totals	$ 787,174	$ 313,756	$ 317,402	$ 105,893	$ 29,768	$ 6,421	$ 12,427	$ 1,506

Staff Recommended Rate Case Expense

13	Description	Total	Palo Verde	Santa Cruz	Town Division	Willow Valley	Tonopah	Buckeye	WUNS
14	Staff Recommended Amount	$ 400,000	$ 159,434	$ 161,287	$ 53,809	$ 15,127	$ 3,263	$ 6,315	$ 765
15	Amortization:								
16	Year 1	$ 133,333	$ 53,145	$ 53,762	$ 17,936	$ 5,042	$ 1,088	$ 2,105	$ 255
17	Year 2	$ 133,333	$ 53,145	$ 53,762	$ 17,936	$ 5,042	$ 1,088	$ 2,105	$ 255
18	Year 3	$ 133,333	$ 53,145	$ 53,762	$ 17,936	$ 5,042	$ 1,088	$ 2,105	$ 255
19	Totals	$ 400,000	$ 313,756	$ 317,402	$ 105,893	$ 29,768	$ 6,421	$ 12,427	$ 1,506
20	Adjustment Total, by System	$ (129,058)	$ (51,441)	$ (52,038)	$ (17,361)	$ (4,881)	$ (1,053)	$ (2,037)	$ (247)

References:
Column (A), Company Workpapers
Column (B): Line 20 for respective system
Column (C): Line 16 for respective system

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Schedule GWB-16

OPERATING INCOME ADJUSTMENT #3 - DEPRECIATION EXPENSE

LINE NO.	ACCT. NO.	DESCRIPTION	[A] PLANT BALANCE	[B] DEPRECIATION RATE	[C] DEPRECIATION EXPENSE
	PLANT IN SERVICE:				
1	303	Land and Land Rights	$ 30,374	0.00%	-
2	304	Structures and Improvements	$ 20,000	3.33%	666
3	307	Wells and Springs	$ 130,000	3.33%	4,329
4	309	Supply Mains	$ -	2.00%	-
5	310	Power Generation Equipment	$ -	5.00%	-
6	311	Pumping Equipment	$ 216,158	12.50%	27,020
7	320	Water Treatment Equipment	$ 0	0.00%	-
8	320.1	Water Treatment Plant	$ 377		-
9	320.1	Solution Chemical Feeders	$ -	3.33%	-
10	320.2	Distribution Reservoirs and Standpipes	$ 0	20.00%	0
11	330	Storage Tanks	$ 182,972		-
12	330.1	Pressure Tanks	$ -	2.22%	-
13	331	Transmission and Distribution Mains	$ 1,155,497	2.00%	23,110
14	333	Services	$ 60,047	3.33%	2,000
15	334	Meters and Meter Installations	$ 11,303	8.33%	942
16	335	Hydrants	$ 108,312	2.00%	2,166
17	336	Backflow Prevention Devices	$ 775	6.67%	52
18	339	Other Plant and Miscellaneous Equipment	$ 2,390	6.67%	159
19	340	Office Furniture and Equipment	$ -	6.67%	-
20	341	Transportation Equipment	$ -	20.00%	-
21	343	Tools, Shop and Garage Equipment	$ 515	5.00%	26
22	344	Laboratory Equipment	$ -	10.00%	-
23	345	Power Operated Equipment	$ -	5.00%	-
24	346	Communication Equipment	$ -	10.00%	-
25	347	Miscellaneous Equipment	$ -	10.00%	-
26	348	Other Tangible Plant	$ -	5.00%	-
27	390	Office Furniture & Equipment	$ 2,343	5.00%	117
28			1,921,063		60,586
29		Less: Non Depreciable Plant			
30		Land and Land Rights	$ 30,374		
31		Net Depreciable Plant and Depreciation Amounts	$ 1,890,689		$ 60,586
32					
33					
34		Amortization of CIAC at Company's Rate	$ -	3.2044%	$ -
35		Staff Recommended Depreciation Expense			$ 60,586
36		Company Proposed Depreciation Expense			$ 64,878
37		Staff Adjustment			**$ (4,292)**
38					

	References:
Col [A]	Schedule GWB-4
Col [B]	Proposed Rates per Staff Engineering Report
Col [C]	Col [A] times Col [B]

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Schedule GWB-17

OPERATING INCOME ADJUSTMENT #4 - INCOME TAXES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Income Taxes	$ 13,391	$ 1,365	$ 14,755

References:
Column (A), Company Schedule C-2
Column (B): Testimony GWB
Column (C): Column (A) + Column (B),
see also Sch. GWB-2, line 48

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Schedule GWB-18

OPERATING INCOME ADJUSTMENT #5 - PROPERTY TAX EXPENSE GRCF COMPONENT

LINE NO.	DESCRIPTION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2011	$ 147,513	$ 147,513
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	295,027	295,027
4	Staff Adjusted Test Year Revenues - 2011	147,513	
5	Staff Recommended Revenue		147,513
6	Subtotal (Line 4 + Line 5)	442,540	442,540
7	Number of Years	3	3
8	Three Year Average (Line 5 / Line 6)	147,513	147,513
9	Department of Revenue Mutilplier	2	2
10	Revenue Base Value (Line 7 * Line 8)	295,027	295,027
11	Plus: 10% of CWIP	-	-
12	Less: Net Book Value of Licensed Vehicles	-	-
13	Full Cash Value (Line 10 + Line 11 - Line 12)	295,027	295,027
14	Assessment Ratio	21.0%	21.0%
15	Assessment Value (Line 13 * Line 14)	61,956	61,956
16	Composite Property Tax Rate	5.0100%	5.0100%
17	Staff Test Year Adjusted Property Tax Expense (Line 15 * Line 16)	$ 3,104	
18	Company Proposed Property Tax	$ 3,104	
19	Staff Test Year Adjustment (Line 17 - Line 18)	$ -	
20	Property Tax on Staff Recommended Revenue (Line 15 * Line 16)		$ 3,104
21	Staff Test Year Adjusted Property Tax Expense (Line 17)		$ 3,104
22	Increase in Property Tax Due to Increase in Revenue Requirement		$ -
23	Increase in Property Tax Due to Increase in Revenue Requirement (Line 22)		$ -
24	Increase in Revenue Requirement		$ -
25	Increase in Property Tax Per Dollar Increase in Revenue (Line 23 / Line 24)		

REFERENCES:
Line 15: Composite Tax Rate, per Company
Line 18: Company Schedule C-1, Line 36

Water Utility of Greater Tonopah, Inc.
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DIRECT TESTIMONY OF GERALD BECKER

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GWB-	2	GROSS REVENUE CONVERSION FACTOR
GWB-	3	RATE BASE - ORIGINAL COST
GWB-	4	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
GWB-	5	NOT USED
GWB-	6	NOT USED
GWB-	7	NOT USED
GWB-	8	NOT USED
GWB-	9	NOT USED
GWB-	10	OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED
GWB-	11	SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR
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GWB-	17	OPERATING INCOME ADJUSTMENT #5 - INCOME TAXES
GWB-	18	OPERATING INCOME ADJUSTMENT #6 - PROPERTY TAX EXPENSE GRCF COMPONENT

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Schedule GWB-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	$ 2,206,816	$ 2,206,816	$ (259,561)	$ (259,561)
2	Adjusted Operating Income (Loss)	$ (175,170)	$ (175,170)	$ (78,593)	$ (78,593)
3	Current Rate of Return (L2 / L1)	-7.94%	-7.94%	30.28%	30.28%
4	Required Rate of Return or Operating Margin	10.72%	10.72%	10.00%	10.00%
5	Required Operating Income (L4 * L1)	$ 236,637	$ 236,637	$ 40,786	$ 40,786
6	Operating Income Deficiency (L5 - L2)	$ 411,807	$ 411,807	$ 119,379	$ 119,379
7	Gross Revenue Conversion Factor	1.6451	1.6451	1.6752	1.6752
8	Required Revenue Increase (L7 * L6)	$ 677,458	$ 677,458	**$ 199,983**	**$ 199,983**
9	Adjusted Test Year Revenue	$ 207,705	$ 207,705	$ 207,705	$ 207,705
10	Proposed Annual Revenue (L8 + L9)	$ 885,163	$ 885,163	$ 407,689	$ 407,689
11	Required Increase in Revenue (%)	326.16%	326.16%	96.28%	96.28%
12	Rate of Return on Common Equity (%)	11.44%	11.44%	9.40%	9.40%

References:
Column [A]: Company Schedule A-1
Column (B): Company Schedule A-1
Column (C): Company Schedules A-1, A-2, & D-1
Column (C): Staff Schedules GWB-2, GWB-3, and GWB-10

Water Utility of Greater Tonopah, Inc.
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Schedule GWB-2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)
	Calculation of Gross Revenue Conversion Factor:			
1	Revenue	100.0000%		
2	Uncollecible Factor (Line 11)	0.6570%		
3	Revenues (L1 - L2)	99.3430%		
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.6485%		
5	Subtotal (L3 - L4)	59.6945%		
6	**Revenue Conversion Factor (L1 / L5)**	1.675195		
	Calculation of Uncollecttible Factor:			
7	Unity	100.0000%		
8	Combined Federal and State Tax Rate (Line 17)	38.5989%		
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%		
10	Uncollectible Rate	1.0700%		
11	Uncollectible Factor (L9 * L10)		0.6570%	
	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 (Line 44)	34.0000%		
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%		
17	Combined Federal and State Income Tax Rate (L13 +L16)		38.5989%	
	Calculation of Effective Property Tax Factor			
18	Unity	100.0000%		
19	Combined Federal and State Income Tax Rate (L17)	38.5989%		
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%		
21	Property Tax Factor (GWB-18, L25)	1.7094%		
22	Effective Property Tax Factor (L20*L21)		1.0496%	
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.6485%

24	Required Operating Income (Schedule GWB-1, Line 5)	$ 40,786	
25	AdjustedTest Year Operating Income (Loss) (Schedule GWB-10, Line 36)	$ (78,593)	
26	Required Increase in Operating Income (L24 - L25)		$ 119,379
27	Income Taxes on Recommended Revenue (Col. (C), L48)	$ 31,350	
28	Income Taxes on Test Year Revenue (Col. (A), L48)	$ (43,696)	
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		$ 75,046
30	Required Revenue Increase (Schedule GWB-1, Line 8)	$ 199,983	
31	Uncollectible Rate (Line 10)	1.0700%	
32	Uncollectible Expense on Recommended Revenue (L30 * L31)	$ 2,140	
33	Adjusted Test Year Uncollectible Expense - N/A	$ -	
34	Required Increase in Revenue to Provide for Uncollectible Exp.		$ 2,140
35	Property Tax with Recommended Revenue (GWB-18, Line 21)	$ 14,673	
36	Property Tax on Test Year Revenue (GWB-18, Col A, L19)	$ 11,254	
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		$ 3,419
38	Total Required Increase in Revenue (L26 + L29 + L34+ L37)		$ 199,983

		(A) Test Year	(B)	(C) Staff Recommended
	Calculation of Income Tax:			
39	Revenue (Sch GWB-10, Col.(C) L4, GWB-1, Col. (D), L10)	$ 207,705		$ 407,689
40	Operating Expenses Excluding Income Taxes	$ 329,994		$ 335,553
41	Synchronized Interest (L53)	$ (9,085)		$ (9,085)
42	Arizona Taxable Income (L39 - L40 - L41)	$ (113,204)		$ 81,221
43	Arizona State Income Tax Rate	6.9680%		6.9680%
44	Arizona Income Tax (L42 x L43)	$ (7,888)		$ 5,659
45	Federal Taxable Income (L42 - L44)	$ (105,316)		$ 75,561
46	Federal Tax	$ (35,808)		$ 25,691
47	Total Federal Income Tax	$ (35,808)		$ 25,691
48	Combined Federal and State Income Tax (L43 + L47)	$ (43,696)		$ 31,350
50	Effective Tax Rate			
	Calculation of Interest Synchronization:			N/A
51	Rate Base (Schedule GWB-3, Col. (C), Line 18)			$ (259,561)
52	Weighted Average Cost of Debt			3.50%
53	Synchronized Interest (L50 X L51)			$ (9,085)

Water Utility of Greater Tonopah, Inc.
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Schedule GWB-3

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 5,766,393	$ 0	$ 5,766,394
2	Less: Accumulated Depreciation	1,863,416	-	1,863,416
3	Net Plant in Service	$ 3,902,977	$ 0	$ 3,902,978
	LESS:			
4	Contributions in Aid of Construction (CIAC)	$ 73,118	$ 3,315,024	$ 3,388,142
5	Less: Accumulated Amortization	13,653	848,646	862,299
6	Net CIAC	59,465	2,466,378	2,525,843
7	Advances in Aid of Construction (AIAC)	1,619,985	-	1,619,985
8	Imputed Reg AIAC	-		
9	Imputed Reg CIAC	-	-	-
10	Accumulated Deferred Income Tax Credits	27,797	-	27,797
	Customer Meter Deposits	22,030		22,030
	ADD:			
11	Accumulated Deferred Income Tax Debits	33,116	-	33,116
12	Cash Working Capital	-	-	-
13	Prepayments	-	-	-
		-		
14	Supplies Inventory	-	-	-
15	Projected Capital Expenditures	-	-	-
16	Deferred Debits	-	-	-
17	Purchase Wastewater Treatment Charges	-	-	
18	**Original Cost Rate Base**	$ 2,206,816	$ (2,466,378)	$ (259,561)

References:
Column (A), Company Schedule B-2
Column (B): Schedule GWB-4
Column (C): Column (A) + Column (B)

Water Utility of Greater Tonopah, Inc.
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Schedule GWB-4

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Per Testimony ADJ #1 GWB-5	[C] Per Armstrong Testimony ADJ #2 GWB-6	[I] STAFF ADJUSTED
	PLANT IN SERVICE:					
1	303	Land and Land Rights	$ 177,430	$ -	$ -	$ 177,430
2	304	Structures and Improvements	47,677			47,677
3	307	Wells and Springs	299,601			299,601
4	309	Supply Mains	-			-
5	310	Power Generation Equipment	-			-
6	311	Pumping Equipment	1,787,637			1,787,637
7	320	Water Treatment Equipment	1,626,520	(1,626,520)		0
	320.1	Water Treatment Plant		1,625,072		1,625,072
	320.2	Solution Chemical Feeders		1,448		1,448
8	330	Distribution Reservoirs and Standpipes	228,655	(228,655)		-
	330.1	Storage Tanks		103,612		103,612
	330.2	Pressure Tanks		125,043		125,043
9	331	Transmission and Distribution Mains	890,943			890,943
10	333	Services	43,069			43,069
11	334	Meters and Meter Installations	147,178			147,178
12	335	Hydrants	38,386			38,386
13	336	Backflow Prevention Devices	5,894			5,894
14	339	Other Plant and Miscellaneous Equipment	5,427			5,427
15	340	Office Furniture and Equipment	-			-
16	341	Transportation Equipment	-			-
17	343	Tools, Shop and Garage Equipment	1,977			1,977
18	344	Laboratory Equipment	663			663
19	345	Power Operated Equipment	838			838
20	346	Communication Equipment	12,408			12,408
21	347	Miscellaneous Equipment	5,210			5,210
22	348	Other Tangible Plant	446,880			446,880
23	**Total Plant in Service**		5,766,393	0	-	5,766,394
24						
25	Accumulated Depreciation		1,863,416	-		1,863,416
26	Net Plant in Service		$ 3,902,977	$ 0	$ -	$ 3,902,978
27						
28	*LESS:*					
29	Contributions in Aid of Construction (CIAC)		$ 73,118		$ 3,315,024	$ 3,388,142
30	Less: Accumulated Amortization		13,653		848,646	862,299
31	Net CIAC (L63 - L64)		59,465	-	2,466,378	2,525,843
32	Advances in Aid of Construction (AIAC)		1,619,985	-	-	1,619,985
33	Imputed Reg Advances		-	-	-	-
34	Imputed Reg CIAC			-	-	-
35	Accumulated Deferred Income Tax Credits		27,797			27,797
36	Customer Meter Deposits		22,030			22,030
37	*ADD:*					-
38	Accumulated Deferred Income Tax Debits		33,116			33,116
39	Working Capital Allowance					-
40	**Original Cost Rate Base**		$ 2,206,816	$ 0	$ (2,466,378)	$ (259,561)

Water Utility of Greater Tonopah, Inc.
W-02450A-12-0312
Test Year Ended December 31, 2011

Schedule GWB-10

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
		$ -	$ -	$ -	$ 199,983	$ 199,983
1	461 Metered Water Revenue	202,202	-	202,202	-	202,202
2	460 Unmetered Water Revenue	-		-		
3	474 Other Water Revenues	5,503	-	5,503	-	5,503
4	**Total Operating Revenues**	$ 207,705	$ -	$ 207,705	$ 199,983	$ 407,689
5	601 Salary and Wages - Employees	$ 75,753	$ -	$ 75,753	$ -	$ 75,753
6	610 Purchased Water	960	-	960	-	960
7	615 Purchased Power	22,407	(878)	21,529	-	21,529
8	618 Chemicals	10,522	(412)	10,110	-	10,110
9	620 Materials and Supplies	20,175	-	20,175	-	20,175
10	621 Office Supplies and Expense	3,591	-	3,591	-	3,591
11	630 Outside Services	26,415	-	26,415	-	26,415
12	635 Contractual Services - Testing	5,109	-	5,109	-	5,109
13	636 Contractual Services - Other	-	-	-	-	-
14	641 Rental of Building/Real Propert	2,597	-	2,597	-	2,597
15	650 Transportation Expenses	5,733	-	5,733		5,733
16	657 Insurance - General Liability	1,557	-	1,557	-	1,557
17	659 Insurance - Other	269	-	269	-	269
18	666 Regulatory Commission Expen:	2,140	(1,052)	1,088	-	1,088
19	670 Bad Debt Expense	4,769	(2,546)	2,222	2,140	4,362
20	675 Miscellaneous Expenses	7,221	-	7,221	-	7,221
21	403 Depreciation Expense	380,785	(245,777)	135,008		135,008
22	403 Depreciation Expense – CIAC /	(2,151)	-	(2,151)		(2,151)
23	408 Taxes Other Than Income	1,553	-	1,553	-	1,553
24	408.11 Taxes Other Than Income -	11,254	-	11,254	3,419	14,673
25	409 Income Taxes	(197,785)	154,089	(43,696)	75,046	31,350
26	**Total Operating Expenses**	382,875	(96,577)	286,299	80,604	366,903
27	**Operating Income (Loss)**	$ (175,170)	$ 96,577	$ (78,593)	$ 119,379	$ 40,786

References:
Column (A): Company Schedule C-1
Column (B): Schedule GWB 11
Column (C): Column (A) + Column (B)
Column (D): Schedules GWB 2, Lines 29, 34 and 37
Column (E): Column (C) + Column (D)

Water Utility of Greater Tonopah, Inc.
W-02450A-12-0312
Test Year Ended December 31, 2011

Schedule GWB-11

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Excess Water Loss ADJ #1 GWB-12	[C] Bad Debts Exp ADJ #2 GWB-13	[D] Rate Case Exp ADJ #3 GWB-14	[E] Deprec. Exp ADJ #4 GWB-16	[F] Income Taxes ADJ #5 GWB-17	[H] STAFF ADJUSTED
1	461 Metered Water Revenue	202,202	-	-	-	-	-	202,202
2	460 Unmetered Water Revenue	-						-
3	474 Other Water Revenues	5,503	-	-	-	-	-	5,503
4	**Total Operating Revenues**	$ 207,705	$ -	$ -	$ -	$ -	$ -	$ 207,705
	Operating Expenses							
5	601 Salary and Wages - Employees	$ 75,753		$ -	$ -	$ -	$ -	$ 75,753
6	610 Purchased Water	960	-	-	-	-	-	960
7	615 Purchased Power	22,407	(878)		-	-	-	21,529
8	618 Chemicals	10,522	(412)					10,110
9	620 Materials and Supplies	20,175	-	-				20,175
10	621 Office Supplies and Expense	3,591	-	-				3,591
11	630 Outside Services	26,415	-	-				26,415
12	635 Contractual Services - Testing	5,109	-	-				5,109
13	636 Contractual Services - Other	-	-	-				-
14	641 Rental of Building/Real Property	2,597	-	-				2,597
15	650 Transportation Expenses	5,733	-	-	-			5,733
16	657 Insurance - General Liability	1,557	-	-				1,557
17	659 Insurance - Other	269	-	-				269
18	666 Regulatory Commission Expense –	2,140	-	-	(1,052)			1,088
19	670 Bad Debt Expense	4,769	-	(2,546)				2,222
20	675 Miscellaneous Expenses	7,221	-	-				7,221
21	403 Depreciation Expense	380,785	-	-		(245,777)		135,008
22	403 Depreciation Expense – CIAC Amor	(2,151)	-	-				(2,151)
23	408 Taxes Other Than Income	1,553	-	-				1,553
24	408.11 Taxes Other Than Income - Prop	11,254						11,254
25	409 Income Taxes	(197,785)					154,089	(43,696)
26	**Total Operating Expenses**	$ 382,875	$ (1,290)	$ (2,546)	$ (1,052)	$ (245,777)	$ 154,089	$ 286,299
27	**Operating Income**	$ (175,170)	$ 1,290	$ 2,546	$ 1,052	$ 245,777	$ (154,089)	$ (78,593)

Water Utility of Greater Tonopah, Inc.
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Test Year Ended December 31, 2011

Schedule GWB-12

OPERATING INCOME ADJUSTMENT #1 - EXCESS WATER LOSS

LINE NO.			
1	One plus allowable water loss		110.00%
2	One plus actual water loss		119.91%
3	Allowable portion		91.74%
4	Disallowable portion		8.26%
5	Power Expense		22,407
6	% water pumped in systems greater than 10% loss		47.40%
7	Power Expense, subject to disallowance		10,621
8	Disallowance	$	878
9	Chemical Expense		10,522
10	% water pumped in systems greater than 10% loss		47.40%
11	Chemical Expense, subject to disallowance		4,988
12	Disallowance	$	412

Allocation of total water and power and chemicals by systems with losses greater than 10%:

		Gallons Pumped	Gallons Sold	Water loss (%)
13	**Water System, Totals**			
14	Garden City, PWS 07-037	2,848,000	1,933,000	32.13%
15	Roseview, PWS 07-082	2,773,000	2,432,000	12.30%
16	WPE #1, PWS N/A	600,000	256,000	57.33%
17	WPE #6, PWS 07-733	1,997,000	1,560,000	21.88%
18	Tufte, PWS 07-617	456,000	403,000	11.62%
19	Buckeye Ranch, PWS 07-618	10,432,000	8,718,000	16.43%
20	Dixie, PWS 07-030	4,047,000	3,860,000	4.62%
21	Sunshine, PWS 07-071	17,153,000	16,396,000	4.41%
		40,306,000	35,558,000	11.78%
22	**Less Systems < 10% :**			
23	Dixie, PWS 07-030	4,047,000	3,860,000	4.62%
24	Sunshine, PWS 07-071	17,153,000	16,396,000	4.41%
25	Net Systems > 10%	19,106,000	15,302,000	19.91%
26	% Power and Chemicals,			
27	Subject to Disallowance	47.40%		

Line 1: Maximum acceptable level of water losses
Line 2: Actual level of water losses
Line 3: Line 2 / line 3
Line 4: 1 minus line 4

Water Utility of Greater Tonopah, Inc.
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Schedule GWB-13

OPERATING INCOME ADJUSTMENT #2 - BAD DEBT EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED*
1		$ 4,769	$ (2,546)	$ 2,222

References:
Column (A), Company Workpapers
Column (B): Testimony GWB
Column (C): Column (A) + Column (B), Per Co Response to Staff DR 5.8

Adjusted Test Year Revenues GWB-11	$	207,705
Bad Debt Expense Rate, per Staff		1.07%
Expected Bad Debt Expense	$	2,222
Co Proposed	$	4,769
	$	(2,546)

Water Utility of Greater Tonopah, Inc.
W-02450A-12-0312
Test Year Ended December 31, 2011

Schedule GWB-14

OPERATING INCOME ADJUSTMENT #3 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED*
1		$ 2,140	$ (1,052)	$ 1,088

Company Proposed Rate Case Expense

		Total	Palo Verde	Santa Cruz	Town Division	Willow Valley	Tonopah	Buckeye	WUNS	
2	Allocation Percentages		39.86%	40.32%	13.45%	3.78%	0.82%	1.58%	0.19%	
3	Desert Mountain Analytical Services	$ 122,062.50	$ 48,652.28	$ 49,217.76	$ 16,420.26	$ 4,615.99	$ 995.73	$ 1,926.91	$ 233.57	
4	Insight Consulting, LLC	$ 216,000.00	$ 86,094.37	$ 87,095.02	$ 29,057.05	$ 8,168.39	$ 1,762.02	$ 3,409.84	$ 413.31	
5	Roshka Dewulf & Patten, PLC	$ 370,302.78	$ 147,597.14	$ 149,312.63	$ 49,814.39	$ 14,003.59	$ 3,020.75	$ 5,845.71	$ 708.57	
6	Ullmann & Company P C	$ 78,808.75	$ 31,411.99	$ 31,777.08	$ 10,601.62	$ 2,980.28	$ 642.88	$ 1,244.10	$ 150.80	
7	Total	$ 787,174.03	$ 313,755.78	$ 317,402.49	$ 105,893.32	$ 29,768.25	$ 6,421.38	$ 12,426.56	$ 1,506.25	$ 787,174.03
8	Amortization over 3 years:									
9	Year 1	$ 262,391.34	$ 104,585.26	$ 105,800.83	$ 35,297.77	$ 9,922.75	$ 2,140.46	$ 4,142.19	$ 502.08	
10	Year 2	$ 262,391.34	$ 104,585.26	$ 105,800.83	$ 35,297.77	$ 9,922.75	$ 2,140.46	$ 4,142.19	$ 502.08	
11	Year 3	$ 262,391.34	$ 104,585.26	$ 105,800.83	$ 35,297.77	$ 9,922.75	$ 2,140.46	$ 4,142.19	$ 502.08	
12	Totals	$ 787,174.03	$ 313,755.78	$ 317,402.49	$ 105,893.32	$ 29,768.25	$ 6,421.38	$ 12,426.56	$ 1,506.25	

Staff Recommended Rate Case Expense

		Total	Palo Verde	Santa Cruz	Town Division	Willow Valley	Tonopah	Buckeye	WUNS	
13	Description									
14	Staff Recommended Amount	$ 400,000.00	$ 159,434.01	$ 161,287.07	$ 53,809.36	$ 15,126.64	$ 3,263.00	$ 6,314.52	$ 765.40	$ 400,000.00
15	Amortization:									
16	Year 1	$ 133,333.33	$ 53,144.67	$ 53,762.36	$ 17,936.45	$ 5,042.21	$ 1,087.67	$ 2,104.84	$ 255.13	
17	Year 2	$ 133,333.33	$ 53,144.67	$ 53,762.36	$ 17,936.45	$ 5,042.21	$ 1,087.67	$ 2,104.84	$ 255.13	
18	Year 3	$ 133,333.33	$ 53,144.67	$ 53,762.36	$ 17,936.45	$ 5,042.21	$ 1,087.67	$ 2,104.84	$ 255.13	
19	Totals	$ 400,000.00	$ 313,755.78	$ 317,402.49	$ 105,893.32	$ 29,768.25	$ 6,421.38	$ 12,426.56	$ 1,506.25	
20	Adjustment Total, by System	$ (129,058.01)	$ (51,440.59)	$ (52,038.47)	$ (17,361.32)	$ (4,880.54)	$ (1,052.79)	$ (2,037.35)	$ (246.95)	$ (129,058.01)

References:
Column (A), Company Workpapers
Column (B): Line 20 for respective system
Column (C): Line 16 for respective system

Company ID	Company	Active connection	Percent
202	Palo Verde Utilities Co.	15,831	39.86%
602	Santa Cruz Water Company	16,015	40.32%
618	Valencia Water Company	5,343	13.45%
622	Willow Valley Water Company	1,502	3.78%
630	Water Utility of Greater Tonopah	324	0.82%
634	Water Utility of Greater Buckeye	627	1.58%
622	Water Utility of Northern Scottsdale	76	0.19%
		39,718	100.00%

Water Utility of Greater Tonopah, Inc.
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Schedule GWB-16

OPERATING INCOME ADJUSTMENT #4 - DEPRECIATION EXPENSE

LINE NO.	ACCT. NO.	DESCRIPTION	[A] PLANT BALANCE	[B] DEPRECIATION RATE	[C] DEPRECIATION EXPENSE
1	*PLANT IN SERVICE:*				
2	303	Land and Land Rights	177,430	0.00%	-
3	304	Structures and Improvements	47,677	3.33%	1,588
4	307	Wells and Springs	299,601	3.33%	9,977
5	309	Supply Mains	-	2.00%	-
6	310	Power Generation Equipment	-	5.00%	-
7	311	Pumping Equipment	1,787,637	12.50%	223,455
8	320	Water Treatment Equipment	0		-
	320.1	Water Treatment Plant	1,625,072	3.33%	54,115
	320.2	Solution Chemical Feeders	1,448	20.00%	290
9	330.0	Distribution Reservoirs and Standpipes	-		-
	330.1	Storage Tanks	103,612	2.22%	2,300
	330.2	Pressure Tanks	125,043	5.00%	6,252
10	331	Transmission and Distribution Mains	890,943	2.00%	17,819
11	333	Services	43,069	3.33%	1,434
12	334	Meters and Meter Installations	147,178	8.33%	12,260
13	335	Hydrants	38,386	2.00%	768
14	336	Backflow Prevention Devices	5,894	6.67%	393
15	339	Other Plant and Miscellaneous Equipment	5,427	6.67%	362
16	340	Office Furniture and Equipment	-	6.67%	-
17	341	Transportation Equipment	-	20.00%	-
18	343	Tools, Shop and Garage Equipment	1,977	5.00%	99
19	344	Laboratory Equipment	663	10.00%	66
20	345	Power Operated Equipment	838	5.00%	42
21	346	Communication Equipment	12,408	10.00%	1,241
22	347	Miscellaneous Equipment	5,210	10.00%	521
23	348	Other Tangible Plant	446,880	5.00%	22,344
24			5,766,394		355,325
25		Less: Non Depreciable Plant			
26		Land and Land Rights	177,430		
27		Net Depreciable Plant and Depreciation Amounts	$ 5,588,964		$ 355,325
28					
29		Less: Non Depreciable Plant			
30		Land and Land Rights	$ 177,430		
31		Net Depreciable Plant and Depreciation Amounts	$ 5,411,534		$ 355,325
32					
33					
34		Amortization of CIAC at Company's Rate	$ 3,388,142	6.5661%	$ 222,467
35		Staff Recommended Depreciation Expense			$ 132,857
36		Company Proposed Depreciation Expense			$ 378,634
37		Staff Adjustment			**$ (245,777)**

	References:
Col [A]	Schedule GWB-4
Col [B]	Proposed Rates per Staff Engineering Report
Col [C]	Col [A] times Col [B]

Water Utility of Greater Tonopah, Inc.
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Test Year Ended December 31, 2011

Schedule GWB-17

OPERATING INCOME ADJUSTMENT #5 - INCOME TAXES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Income Taxes	$ (197,785)	$ 154,089	$ (43,696)

References:
Column (A), Company Schedule C-2
Column (B): Testimony GWB
Column (C): Column (A) + Column (B),
see also Sch. GWB-2, line 48

Water Utility of Greater Tonopah, Inc.
W-02450A-12-0312
Test Year Ended December 31, 2011

Schedule GWB-18

OPERATING INCOME ADJUSTMENT #6 - PROPERTY TAX EXPENSE GRCF COMPONENT

LINE NO.	DESCRIPTION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2011	$ 207,705	$ 207,705
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	415,411	415,411
4	Staff Adjusted Test Year Revenues - 2011	207,705	
5	Staff Recommended Revenue		407,689
6	Subtotal (Line 4 + Line 5)	623,116	823,100
7	Number of Years	3	3
8	Three Year Average (Line 5 / Line 6)	207,705	274,367
9	Department of Revenue Mutilplier	2	2
10	Revenue Base Value (Line 7 * Line 8)	415,411	548,733
11	Plus: 10% of CWIP	23,512	23,512
12	Less: Net Book Value of Licensed Vehicles	-	-
13	Full Cash Value (Line 10 + Line 11 - Line 12)	438,923	572,245
14	Assessment Ratio	21.0%	21.0%
15	Assessment Value (Line 13 * Line 14)	92,174	120,171
16	Composite Property Tax Rate	12.2100%	12.2100%
17	Staff Test Year Adjusted Property Tax Expense (Line 15 * Line 16)	$ 11,254	
18	Company Proposed Property Tax	$ 11,254	
19	Staff Test Year Adjustment (Line 17 - Line 18)	**$ (0)**	
20	Property Tax on Staff Recommended Revenue (Line 15 * Line 16)		$ 14,673
21	Staff Test Year Adjusted Property Tax Expense (Line 17)		$ 11,254
22	Increase in Property Tax Due to Increase in Revenue Requirement		**$ 3,419**
23	Increase in Property Tax Due to Increase in Revenue Requirement (Line 22)		$ 3,419
24	Increase in Revenue Requirement		$ 199,983
25	Increase in Property Tax Per Dollar Increase in Revenue (Line 23 / Line 24)		1.70940%

REFERENCES:
Line 15: Composite Tax Rate, per Company
Line 18: Company Schedule C-1, Line 36

Valencia Water Company, Greater Buckeye Division.
W-02451A-12-0313
Test Year Ended December 31, 2011

DIRECT TESTIMONY OF GERALD BECKER

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GWB-	4	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
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GWB-	6	NOT USED
GWB-	7	NOT USED
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GWB-	18	OPERATING INCOME ADJUSTMENT #6 - PROPERTY TAX EXPENSE GRCF COMPONENT

Valencia Water Company, Greater Buckeye Division.
W-02451A-12-0313
Test Year Ended December 31, 2011

Schedule GWB-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	$ 634,979	$ 634,979	$ 634,979	$ 634,979
2	Adjusted Operating Income (Loss)	$ 49,158	$ 49,158	$ 42,243	$ 42,243
3	Current Rate of Return (L2 / L1)	7.74%	7.74%	6.65%	6.65%
4	Required Rate of Return	11.18%	11.18%	7.50%	7.50%
5	Required Operating Income (L4 * L1)	$ 70,975	$ 70,975	$ 47,623	$ 47,623
6	Operating Income Deficiency (L5 - L2)	$ 21,817	$ 21,817	$ 5,381	$ 5,381
7	Gross Revenue Conversion Factor	1.6694	1.6694	1.6563	1.6563
8	Required Revenue Increase (L7 * L6)	$ 36,423	$ 36,423	**$ 8,912**	**$ 8,912**
9	Adjusted Test Year Revenue	$ 462,043	$ 462,043	$ 462,043	$ 462,043
10	Proposed Annual Revenue (L8 + L9)	$ 498,466	$ 498,466	$ 470,955	$ 470,955
11	Required Increase in Revenue (%)	7.88%	7.88%	1.93%	1.93%
12	Rate of Return on Common Equity (%)	11.44%	11.44%	9.40%	9.40%

References:
Column [A]: Company Schedule A-1
Column (B): Company Schedule A-1
Column (C): Company Schedules A-1, A-2, & D-1
Column (C): Staff Schedules GWB-2, GWB-3, and GWB-10

Valencia Water Company, Greater Buckeye Division.
W-02451A-12-0313
Test Year Ended December 31, 2011

Schedule GWB-2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)
	Calculation of Gross Revenue Conversion Factor:			
1	Revenue	100.0000%		
2	Uncollecible Factor (Line 11)	0.5096%		
3	Revenues (L1 - L2)	99.4904%		
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.1155%		
5	Subtotal (L3 - L4)	60.3749%		
6	**Revenue Conversion Factor (L1 / L5)**	1.656318		
	Calculation of Uncollecttible Factor:			
7	Unity	100.0000%		
8	Combined Federal and State Tax Rate (Line 17)	38.5989%		
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%		
10	Uncollectible Rate	0.8300%		
11	Uncollectible Factor (L9 * L10)		0.5096%	
	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 (Line 44)	34.0000%		
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%		
17	Combined Federal and State Income Tax Rate (L13 +L16)		38.5989%	
	Calculation of Effective Property Tax Factor			
18	Unity	100.0000%		
19	Combined Federal and State Income Tax Rate (L17)	38.5989%		
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%		
21	Property Tax Factor (GWB-18, L25)	0.8414%		
22	Effective Property Tax Factor (L20*L21)		0.5166%	
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.1155%

24	Required Operating Income (Schedule GWB-1, Line 5)	$ 47,623	
25	AdjustedTest Year Operating Income (Loss) (Schedule GWB-10, Line 36)	$ 42,243	
26	Required Increase in Operating Income (L24 - L25)		$ 5,381
27	Income Taxes on Recommended Revenue (Col. (C), L48)	$ 15,967	
28	Income Taxes on Test Year Revenue (Col. (A), L48)	$ 12,584	
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		$ 3,382
30	Required Revenue Increase (Schedule GWB-1, Line 8)	$ 8,912	
31	Uncollectible Rate (Line 10)	0.8300%	
32	Uncollectible Expense on Recommended Revenue (L30 * L31)	$ 74	
33	Adjusted Test Year Uncollectible Expense - N/A	$ -	
34	Required Increase in Revenue to Provide for Uncollectible Exp.		$ 74
35	Property Tax with Recommended Revenue (GWB-18, Line 21)	$ 11,738	
36	Property Tax on Test Year Revenue (GWB-18, Col A, L19)	$ 11,663	
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		$ 75
38	Total Required Increase in Revenue (L26 + L29 + L34+ L37)		$ 8,912

		(A) Test Year	(B)	(C) Staff Recommended
	Calculation of Income Tax:			
39	Revenue (Sch GWB-10, Col.(C) L4, GWB-1, Col. (D), L10)	$ 462,043		$ 470,955
40	Operating Expenses Excluding Income Taxes	$ 407,216		$ 407,365
41	Synchronized Interest (L53)	$ 22,224		$ 22,224
42	Arizona Taxable Income (L39 - L40 - L41)	$ 32,603		$ 41,366
43	Arizona State Income Tax Rate	6.9680%		6.9680%
44	Arizona Income Tax (L42 x L43)	$ 2,272		$ 2,882
45	Federal Taxable Income (L42 - L44)	$ 30,331		$ 38,484
46	Federal Tax	$ 10,313		$ 13,084
47	Total Federal Income Tax	$ 10,313		$ 13,084
48	Combined Federal and State Income Tax (L43 + L47)	$ 12,584		$ 15,967

50 Effective Tax Rate

	Calculation of Interest Synchronization:	N/A
51	Rate Base (Schedule GWB-3, Col. (C), Line 18)	$ 634,979
52	Weighted Average Cost of Debt	3.5000%
53	Synchronized Interest (L50 X L51)	$ 22,224

Valencia Water Company, Greater Buckeye Division.
W-02451A-12-0313
Test Year Ended December 31, 2011

Schedule GWB-3

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 3,079,206	$ 0	$ 3,079,206
2	Less: Accumulated Depreciation	1,372,116	-	1,372,116
3	Net Plant in Service	$ 1,707,090	$ 0	$ 1,707,090
	LESS:			
4	Contributions in Aid of Construction (CIAC)	$ 407,979	$ -	$ 407,979
5	Less: Accumulated Amortization	171,882	-	171,882
6	Net CIAC	236,097	-	236,097
7	Advances in Aid of Construction (AIAC)	722,274	-	722,274
8	Imputed Reg AIAC	-		
9	Imputed Reg CIAC	-	-	-
10	Accumulated Deferred Income Tax Credits	112,475	-	112,475
	Customer Meter Deposits	43,597		43,597
	ADD:			
11	Accumulated Deferred Income Tax Debits	42,332	-	42,332
12	Cash Working Capital	-	-	-
13	Prepayments	-	-	-
		-		
14	Supplies Inventory	-	-	-
15	Projected Capital Expenditures	-	-	-
16	Deferred Debits	-	-	-
17	Purchase Wastewater Treatment Charges	-	-	
18	**Original Cost Rate Base**	$ 634,979	$ 0	$ 634,979

References:
Column (A), Company Schedule B-2
Column (B): Schedule GWB-4
Column (C): Column (A) + Column (B)

Valencia Water Company, Greater Buckeye Division.
W-02451A-12-0313
Test Year Ended December 31, 2011

Schedule GWB-4

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Reclassification ADJ #1 Per Testimony.	[I] STAFF ADJUSTED
	PLANT IN SERVICE:				
1	303	Land and Land Rights	$ 27,898	$ -	$ 27,898
2	304	Structures and Improvements	39,296		39,296
3	307	Wells and Springs	115,895		115,895
4	309	Supply Mains	-		-
5	310	Power Generation Equipment	1,738		1,738
6	311	Pumping Equipment	543,761		543,761
7	320	Water Treatment Equipment	844,990	(844,990)	-
8	320.1	Water Treatment Plant		844,990	844,990
9	320.2	Solution Chemical Feeders			-
10	330	Distribution Reservoirs and Standpipes	588,494	(588,494)	-
11	330.1	Storage Tanks		463,799	463,799
12	330.2	Pressure Tanks		124,695	124,695
13	331	Transmission and Distribution Mains	766,900		766,900
14	333	Services	37,406		37,406
15	334	Meters and Meter Installations	37,332		37,332
16	335	Hydrants	40,757		40,757
17	336	Backflow Prevention Devices	5,432		5,432
18	339	Other Plant and Miscellaneous Equipment	4,284		4,284
19	340	Office Furniture and Equipment	-		-
20	341	Transportation Equipment	-		-
21	343	Tools, Shop and Garage Equipment	1,650		1,650
22	344	Laboratory Equipment	-		-
23	345	Power Operated Equipment	-		-
24	346	Communication Equipment	4,751		4,751
25	347	Miscellaneous Equipment	10,089		10,089
26	348	Other Tangible Plant	8,533		8,533
27	**Total Plant in Service**		3,079,206	0	3,079,206
28					
29	Accumulated Depreciation		1,372,116	-	1,372,116
30	Net Plant in Service		$ 1,707,090	$ 0	$ 1,707,090
31					
32	*LESS:*				
33	Contributions in Aid of Construction (CIAC)		407,979		$ 407,979
34	Less: Accumulated Amortization		171,882	-	171,882
35	Net CIAC (L63 - L64)		236,097	-	236,097
36	Advances in Aid of Construction (AIAC)		722,274	-	722,274
37	Imputed Reg Advances		-	-	-
38	Imputed Reg CIAC			-	-
39	Accumulated Deferred Income Tax Credits		112,475		112,475
40	Customer Meter Deposits		43,597		43,597
41	*ADD:*				-
42	Accumulated Deferred Income Tax Debits		42,332		42,332
43	Working Capital Allowance				-
50	**Original Cost Rate Base**		$ 634,979	$ 0	$ 634,979

Valencia Water Company, Greater Buckeye Division.
W-02451A-12-0313
Test Year Ended December 31, 2011

Schedule GWB-10

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
		$ -	$ -	$ -	$ 8,912	$ 8,912
1	461 Metered Water Revenue	449,915	-	449,915	-	449,915
2	460 Unmetered Water Revenue	-		-		
3	474 Other Water Revenues	12,128	-	12,128	-	12,128
4	**Total Operating Revenues**	$ 462,043	$ -	$ 462,043	$ 8,912	$ 470,955
5	601 Salary and Wages - Employees	$ 108,598	$ -	$ 108,598	$ -	$ 108,598
6	610 Purchased Water	51,353	-	51,353	-	51,353
7	615 Purchased Power	27,669	(504)	27,166	-	27,166
8	618 Chemicals	5,234	(95)	5,139	-	5,139
9	620 Materials and Supplies	(2,816)	-	(2,816)	-	(2,816)
10	621 Office Supplies and Expense	5,458	-	5,458	-	5,458
11	630 Outside Services	36,433	-	36,433	-	36,433
12	635 Contractual Services - Testing	3,252	-	3,252	-	3,252
13	636 Contractual Services - Other	-	-	-	-	-
14	641 Rental of Building/Real Propert	4,216	-	4,216	-	4,216
15	650 Transportation Expenses	9,090	-	9,090		9,090
16	657 Insurance - General Liability	2,836	-	2,836	-	2,836
17	659 Insurance - Other	1,509	-	1,509	-	1,509
18	666 Regulatory Commission Expen	4,142	(2,037)	2,105	-	2,105
19	670 Bad Debt Expense	11,295	(7,460)	3,835	74	3,909
20	675 Miscellaneous Expenses	13,302	-	13,302	-	13,302
21	403 Depreciation Expense	137,751	10,210	147,961		147,961
22	403 Depreciation Expense – CIAC /	(25,605)	-	(25,605)		(25,605)
23	408 Taxes Other Than Income	1,722	-	1,722	-	1,722
24	408.11 Taxes Other Than Income -	11,663	-	11,663	75	11,738
25	409 Income Taxes	5,783	6,801	12,584		15,967
26	**Total Operating Expenses**	412,885	6,915	419,800	3,531	423,332
27	**Operating Income (Loss)**	$ 49,158	$ (6,915)	$ 42,243	$ 5,381	$ 47,623

References:
Column (A): Company Schedule C-1
Column (B): Schedule GWB 11
Column (C): Column (A) + Column (B)
Column (D): Schedules GWB 2, Lines 29, 34 and 37
Column (E): Column (C) + Column (D)

Valencia Water Company, Greater Buckeye Division.
W-02451A-12-0313
Test Year Ended December 31, 2011

Schedule GWB-11

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Excess Water Loss ADJ #1 GWB-12	[C] Bad Debts Exp ADJ #2 GWB-13	[D] Rate Case Exp ADJ #3 GWB-14	[E] Deprec. Exp ADJ #4 GWB-16	[F] Income Taxes ADJ #5 GWB-17	[H] STAFF ADJUSTED
1	461 Metered Water Revenue	449,915	-	-	-	-	-	449,915
2	460 Unmetered Water Revenue	-						-
3	474 Other Water Revenues	12,128	-	-	-	-	-	12,128
4	**Total Operating Revenues**	$ 462,043	$ -	$ -	$ -	$ -	$ -	$ 462,043
	Operating Expenses							
5	601 Salary and Wages - Employees	$ 108,598		$ -	$ -	$ -	$ -	$ 108,598
6	610 Purchased Water	51,353	-	-	-	-	-	51,353
7	615 Purchased Power	27,669	(504)		-	-	-	27,166
8	618 Chemicals	5,234	(95)					5,139
9	620 Materials and Supplies	(2,816)	-	-				(2,816)
10	621 Office Supplies and Expense	5,458	-	-				5,458
11	630 Outside Services	36,433	-	-				36,433
12	635 Contractual Services - Testing	3,252	-	-				3,252
13	636 Contractual Services - Other	-	-	-				-
14	641 Rental of Building/Real Property	4,216	-	-				4,216
15	650 Transportation Expenses	9,090	-	-	-			9,090
16	657 Insurance - General Liability	2,836	-	-				2,836
17	659 Insurance - Other	1,509	-	-				1,509
18	666 Regulatory Commission Expense –	4,142	-	-	(2,037)			2,105
19	670 Bad Debt Expense	11,295	-	(7,460)				3,835
20	675 Miscellaneous Expenses	13,302	-	-				13,302
21	403 Depreciation Expense	137,751	-	-		10,210		147,961
22	403 Depreciation Expense – CIAC Amor	(25,605)	-	-				(25,605)
23	408 Taxes Other Than Income	1,722	-	-				1,722
24	408.11 Taxes Other Than Income - Prop	11,663						11,663
25	409 Income Taxes	5,783					6,801	12,584
26	**Total Operating Expenses**	$ 412,885	$ (599)	$ (7,460)	$ (2,037)	$ 10,210	$ 6,801	$ 419,800
27	**Operating Income**	$ 49,158	$ 599	$ 7,460	$ 2,037	$ (10,210)	$ (6,801)	$ 42,243

Valencia Water Company, Greater Buckeye Division.
W-02451A-12-0313
Test Year Ended December 31, 2011

Schedule GWB-12

OPERATING INCOME ADJUSTMENT #1 - EXCESS WATER LOSS

LINE NO.			
1	One plus allowable water loss		110.00%
2	One plus actual water loss		112.04%
3	Allowable portion		98.18%
4	Disallowable portion		1.82%
5	Power Expense		27,669
6	Disallowance	$	504
7	Chemical Expense		5,234
8	Disallowance	$	95

Line 1: Maximum acceptable level of water losses
Line 2: Actual level of water losses
Line 3: Line 2 / line 3
Line 4: 1 minus line 4
Line 6: Line 1 times line 5
Lines 1 - 6: See also testimony GWB

Valencia Water Company, Greater Buckeye Division.
W-02451A-12-0313
Test Year Ended December 31, 2011

Schedule GWB-13

OPERATING INCOME ADJUSTMENT #2 - BAD DEBT EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED*
1		$ 11,295	$ (7,460)	$ 3,835

References:
Column (A), Company Workpapers
Column (B): Testimony GWB
Column (C): Column (A) + Column (B), Per Co Response to Staff DR 5.8

Adjusted Test Year Revenues GWB-11	$	462,043
Bad Debt Expense Rate, per Staff		0.83%
Expected Bad Debt Expense	$	3,835
Co Proposed	$	11,295
	$	(7,460)

Valencia Water Company, Greater Buckeye Division.
W-02451A-12-0313
Test Year Ended December 31, 2011

Schedule GWB-14

OPERATING INCOME ADJUSTMENT #3 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED*
1		$ 4,142	$ (2,037)	$ 2,105

Company Proposed Rate Case Expense

		Total	Palo Verde	Santa Cruz	Town Division	Willow Valley	Tonopah	Buckeye	WUNS
2	Allocation Percentages		39.86%	40.32%	13.45%	3.78%	0.82%	1.58%	0.19%
3	Desert Mountain Analytical Services	$ 122,063	$ 48,652	$ 49,218	$ 16,420	$ 4,616	$ 996	$ 1,927	$ 234
4	Insight Consulting, LLC	$ 216,000	$ 86,094	$ 87,095	$ 29,057	$ 8,168	$ 1,762	$ 3,410	$ 413
5	Roshka Dewulf & Patten, PLC	$ 370,303	$ 147,597	$ 149,313	$ 49,814	$ 14,004	$ 3,021	$ 5,846	$ 709
6	Ullmann & Company P C	$ 78,809	$ 31,412	$ 31,777	$ 10,602	$ 2,980	$ 643	$ 1,244	$ 151
7	Total	$ 787,174	$ 313,756	$ 317,402	$ 105,893	$ 29,768	$ 6,421	$ 12,427	$ 1,506
8	Amortization over 3 years:								
9	Year 1	$ 262,391	$ 104,585	$ 105,801	$ 35,298	$ 9,923	$ 2,140	$ 4,142	$ 502
10	Year 2	$ 262,391	$ 104,585	$ 105,801	$ 35,298	$ 9,923	$ 2,140	$ 4,142	$ 502
11	Year 3	$ 262,391	$ 104,585	$ 105,801	$ 35,298	$ 9,923	$ 2,140	$ 4,142	$ 502
12	Totals	$ 787,174	$ 313,756	$ 317,402	$ 105,893	$ 29,768	$ 6,421	$ 12,427	$ 1,506

Staff Recommended Rate Case Expense

	Description	Total	Palo Verde	Santa Cruz	Town Division	Willow Valley	Tonopah	Buckeye	WUNS
14	Staff Recommended Amount	$ 400,000	$ 159,434	$ 161,287	$ 53,809	$ 15,127	$ 3,263	$ 6,315	$ 765
15	Amortization:								
16	Year 1	$ 133,333	$ 53,145	$ 53,762	$ 17,936	$ 5,042	$ 1,088	$ 2,105	$ 255
17	Year 2	$ 133,333	$ 53,145	$ 53,762	$ 17,936	$ 5,042	$ 1,088	$ 2,105	$ 255
18	Year 3	$ 133,333	$ 53,145	$ 53,762	$ 17,936	$ 5,042	$ 1,088	$ 2,105	$ 255
19	Totals	$ 400,000	$ 313,756	$ 317,402	$ 105,893	$ 29,768	$ 6,421	$ 12,427	$ 1,506
20	Adjustment Total, by System	$ (129,058)	$ (51,441)	$ (52,038)	$ (17,361)	$ (4,881)	$ (1,053)	$ (2,037)	$ (247)

References:
Column (A), Company Workpapers
Column (B): Line 20 for respective system
Column (C): Line 16 for respective system

Valencia Water Company, Greater Buckeye Division.
W-02451A-12-0313
Test Year Ended December 31, 2011

Schedule GWB-16

OPERATING INCOME ADJUSTMENT #4 - DEPRECIATION EXPENSE

LINE NO.	ACCT. NO.	DESCRIPTION	[A] PLANT BALANCE	[B] DEPRECIATION RATE	[C] DEPRECIATION EXPENSE
1	*PLANT IN SERVICE:*				
2	303	Land and Land Rights	27,898	0.00%	-
3	304	Structures and Improvements	39,296	3.33%	1,309
4	307	Wells and Springs	115,895	3.33%	3,859
5	309	Supply Mains	-	2.00%	-
6	310	Power Generation Equipment	1,738	5.00%	87
7	311	Pumping Equipment	543,761	12.50%	67,970
8	320	Water Treatment Equipment	-	0.00%	-
9	320.1	Water Treatment Plant	844,990	3.33%	28,138
10	320.2	Solution Chemical Feeders	-	20.00%	-
11	330	Distribution Reservoirs and Standpipes	-	0.00%	-
12	330.1	Storage Tanks	463,799	2.22%	10,296
13	330.2	Pressure Tanks	124,695	5.00%	6,235
14	331	Transmission and Distribution Mains	766,900	2.00%	15,338
15	333	Services	37,406	3.33%	1,246
16	334	Meters and Meter Installations	37,332	8.33%	3,110
17	335	Hydrants	40,757	2.00%	815
18	336	Backflow Prevention Devices	5,432	6.67%	362
19	339	Other Plant and Miscellaneous Equipment	4,284	6.67%	286
20	340	Office Furniture and Equipment	-	6.67%	-
21	341	Transportation Equipment	-	20.00%	-
22	343	Tools, Shop and Garage Equipment	1,650	5.00%	83
23	344	Laboratory Equipment	-	10.00%	-
24	345	Power Operated Equipment	-	5.00%	-
25	346	Communication Equipment	4,751	10.00%	475
26	347	Miscellaneous Equipment	10,089	10.00%	1,009
27	348	Other Tangible Plant	8,533	5.00%	427
28		Totals	3,079,206		141,044
29		Less: Non Depreciable Plant			
30		Land and Land Rights	27,898		
31		Net Depreciable Plant and Depreciation Amounts	$ 3,051,308		$ 141,044
32					
33		Amortization of CIAC at Company's Rate	$ 407,979	4.5805%	$ 18,688
34		Staff Recommended Depreciation Expense			$ 122,356
35		Company Proposed Depreciation Expense			$ 112,146
36		Staff Adjustment			**$ 10,210**

	References:
Col [A]	Schedule GWB-4
Col [B]	Proposed Rates per Staff Engineering Report
Col [C]	Col [A] times Col [B]

Valencia Water Company, Greater Buckeye Division.
W-02451A-12-0313
Test Year Ended December 31, 2011

Schedule GWB-17

OPERATING INCOME ADJUSTMENT #5 - INCOME TAXES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Income Taxes	$ 5,783	$ 6,801	$ 12,584

References:
Column (A), Company Schedule C-2
Column (B): Testimony GWB
Column (C): Column (A) + Column (B),
see also Sch. GWB-2, line 48

Valencia Water Company, Greater Buckeye Division.
W-02451A-12-0313
Test Year Ended December 31, 2011

Schedule GWB-18

OPERATING INCOME ADJUSTMENT #6 - PROPERTY TAX EXPENSE GRCF COMPONENT

LINE NO.	DESCRIPTION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2011	$ 462,043	$ 462,043
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	924,086	924,086
4	Staff Adjusted Test Year Revenues - 2011	462,043	
5	Staff Recommended Revenue		470,955
6	Subtotal (Line 4 + Line 5)	1,386,129	1,395,041
7	Number of Years	3	3
8	Three Year Average (Line 5 / Line 6)	462,043	465,014
9	Department of Revenue Mutilplier	2	2
10	Revenue Base Value (Line 7 * Line 8)	924,086	930,027
11	Plus: 10% of CWIP	(3)	(3)
12	Less: Net Book Value of Licensed Vehicles	-	-
13	Full Cash Value (Line 10 + Line 11 - Line 12)	924,083	930,024
14	Assessment Ratio	21.0%	21.0%
15	Assessment Value (Line 13 * Line 14)	194,057	195,305
16	Composite Property Tax Rate	6.0100%	6.0100%
17	Staff Test Year Adjusted Property Tax Expense (Line 15 * Line 16)	$ 11,663	
18	Company Proposed Property Tax	$ 11,663	
19	Staff Test Year Adjustment (Line 17 - Line 18)	**$ (0)**	
20	Property Tax on Staff Recommended Revenue (Line 15 * Line 16)		$ 11,738
21	Staff Test Year Adjusted Property Tax Expense (Line 17)		$ 11,663
22	Increase in Property Tax Due to Increase in Revenue Requirement		**$ 75**
23	Increase in Property Tax Due to Increase in Revenue Requirement (Line 22)		$ 75
24	Increase in Revenue Requirement		$ 8,912
25	Increase in Property Tax Per Dollar Increase in Revenue (Line 23 / Line 24)		0.84140%

REFERENCES:
Line 15: Composite Tax Rate, per Company
Line 18: Company Schedule C-1, Line 36

Global Water - Santa Cruz Water Company (Santa Cruz)
Docket No. WS-03478A-12-0314
Test Year Ended December 31, 2011

DIRECT TESTIMONY OF GERALD BECKER

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GWB-	3	RATE BASE - ORIGINAL COST
GWB-	4	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
GWB-	5	NOT USED
GWB-	6	NOT USED
GWB-	7	NOT USED
GWB-	8	NOT USED
GWB-	9	NOT USED
GWB-	10	OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED
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GWB-	13	OPERATING INCOME ADJUSTMENT #2 - BAD DEBT EXPENSE
GWB-	14	OPERATING INCOME ADJUSTMENT #3 - RATE CASE EXPENSE
GWB-	15	OPERATING INCOME ADJUSTMENT #4 - EXPENSE NORMALIZATIONS
GWB-	16	OPERATING INCOME ADJUSTMENT #5 - DEPRECIATION EXPENSE
GWB-	17	OPERATING INCOME ADJUSTMENT #6 - INCOME TAXES
GWB-	18	OPERATING INCOME ADJUSTMENT #7 - PROPERTY TAX EXPENSE GRCF COMPONENT

Global Water - Santa Cruz Water Company (Santa Cruz)
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Schedule GWB-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	$ 38,014,243	$ 38,014,243	$ 27,618,694	$ 27,618,694
2	Adjusted Operating Income (Loss)	$ 1,675,030	$ 1,675,030	$ 2,230,848	$ 2,230,848
3	Current Rate of Return (L2 / L1)	4.41%	4.41%	8.08%	8.08%
4	Required Rate of Return	8.79%	8.79%	7.50%	7.50%
5	Required Operating Income (L4 * L1)	$ 3,342,866	$ 3,342,866	$ 2,071,402	$ 2,071,402
6	)perating Income Deficiency (L5 - L2)	$ 1,667,836	$ 1,667,836	$ (159,446)	$ (159,446)
7	Gross Revenue Conversion Factor	1.637072	1.637072	1.663243	1.663243
8	Required Revenue Increase (L7 * L6)	$ 2,730,367	$ 2,730,367	**$ (265,199)**	**$ (265,199)**
9	Adjusted Test Year Revenue	$ 10,463,460	$ 10,463,460	$ 10,463,460	$ 10,463,460
10	Proposed Annual Revenue (L8 + L9)	$ 13,193,827	$ 13,193,827	$ 10,198,261	$ 10,198,261
11	Required Increase in Revenue (%)	26.10%	26.10%	-2.53%	-2.53%
12	:ate of Return on Common Equity (%)	11.44%	11.44%	9.40%	9.40%

References:
Column [A]: Company Schedule A-1
Column (B): Company Schedule A-1
Column (C): Company Schedules A-1, A-2, & D-1
Column (C): Staff Schedules GWB-2, GWB-3, and GWB-10

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Schedule GWB-2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)
	Calculation of Gross Revenue Conversion Factor:			
1	Revenue	100.0000%		
2	Uncollecible Factor (Line 11)	0.4298%		
3	Revenues (L1 - L2)	99.5702%		
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.4467%		
5	Subtotal (L3 - L4)	60.1235%		
6	**Revenue Conversion Factor (L1 / L5)**	1.663243		
	Calculation of Uncollecttible Factor:			
7	Unity	100.0000%		
8	Combined Federal and State Tax Rate (Line 17)	38.5989%		
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%		
10	Uncollectible Rate	0.7000%		
11	Uncollectible Factor (L9 * L10)		0.42981%	
	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 (Line 44)	34.0000%		
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%		
17	Combined Federal and State Income Tax Rate (L13 +L16)		38.5989%	
	Calculation of Effective Property Tax Factor			
18	Unity	100.0000%	6.968%	
19	Combined Federal and State Income Tax Rate (L17)	38.5989%		
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%		
21	Property Tax Factor (GWB-18, L25)	1.3808%		
22	Effective Property Tax Factor (L20*L21)		0.8478%	
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.4467%
24	Required Operating Income (Schedule GWB-1, Line 5)	$ 2,071,402		
25	AdjustedTest Year Operating Income (Loss) (Schedule GWB-10, Line 36)	$ 2,230,848		
26	Required Increase in Operating Income (L24 - L25)		$ (159,446)	
27	Income Taxes on Recommended Revenue (Col. (C), L48)	$ 694,482		
28	Income Taxes on Test Year Revenue (Col. (A), L48)	$ 794,716		
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		$ (100,234)	
30	Required Revenue Increase (Schedule GWB-1, Line 8)	$ (265,199)		
31	Uncollectible Rate (Line 10)	0.7000%		
32	Uncollectible Expense on Recommended Revenue (L30 * L31)	$ (1,856)		
33	Adjusted Test Year Uncollectible Expense - N/A	$ -		
34	Required Increase in Revenue to Provide for Uncollectible Exp.		$ (1,856)	
35	Property Tax with Recommended Revenue (GWB-18, Line 21)	$ 433,210		
36	Property Tax on Test Year Revenue (GWB-18, Col A, L19)	$ 436,871		
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		$ (3,662)	
38	Total Required Increase in Revenue (L26 + L29 + L34+ L37)		$ (265,198)	

		(A) Test Year	(B)	(C) Staff Recommended
	Calculation of Income Tax:			
39	Revenue (Sch GWB-10, Col.(C) L4, GWB-1, Col. (D), L10)	$ 10,463,460		$ 10,198,261
40	Operating Expenses Excluding Income Taxes	$ 7,437,895		$ 7,432,377
41	Synchronized Interest (L53)	$ 966,654		$ 966,654
42	Arizona Taxable Income (L39 - L40 - L41)	$ 2,058,910		$ 1,799,230
43	Arizona State Income Tax Rate	6.9680%		6.9680%
44	Arizona Income Tax (L42 x L43)	$ 143,465		$ 125,370
45	Federal Taxable Income (L42 - L44)	$ 1,915,445		$ 1,673,859
46	Federal Tax	$ 651,251		$ 569,112
47	Total Federal Income Tax	$ 651,251		$ 569,112
48	Combined Federal and State Income Tax (L43 + L47)	$ 794,716		$ 694,482
50	Effective Tax Rate			
	Calculation of Interest Synchronization:			N/A
51	Rate Base (Schedule GWB-3, Col. (C), Line 18)			$ 27,618,694
52	Weighted Average Cost of Debt			3.5000%
53	Synchronized Interest (L50 X L51)			$ 966,654

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Schedule GWB-3

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 90,376,391	$ -	$ 90,376,391
2	Less: Accumulated Depreciation	19,047,719	-	19,047,719
3	Net Plant in Service	$ 71,328,672	$ -	$ 71,328,672
	LESS:			
4	Contributions in Aid of Construction (CIAC)	$ 82,949	$ 13,059,735	$ 13,142,684
5	Less: Accumulated Amortization	5,655	2,664,186	2,669,841
6	Net CIAC	77,294	10,395,549	10,472,843
7	Advances in Aid of Construction (AIAC)	33,414,961	-	33,414,961
8	Imputed Reg AIAC	-		
9	Imputed Reg CIAC	-	-	-
10	Accumulated Deferred Income Tax Credits	-	-	-
	Customer Meter Deposits	1,193,499		1,193,499
	ADD:			
11	Accumulated Deferred Income Tax Debits	194	-	194
12	Cash Working Capital	18,800	-	18,800
13	Deferred Compensation	50,256	-	50,256
		-		
14	CIAC	29,820	-	29,820
15	Fixed Asset Depreciation	1,272,256	-	1,272,256
16	Deferred Debits	-	-	-
17	Purchase Wastewater Treatment Charges	-	-	
18	**Original Cost Rate Base**	$ 38,014,243	$ (10,395,549)	$ 27,618,694

References:
Column (A), Company Schedule B-2
Column (B): Schedule GWB-4
Column (C): Column (A) + Column (B)

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Schedule GWB-4

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Per Armstrong Testimony ADJ #2	[C] Reclassification ADJ #1 GWB-5	[I] STAFF ADJUSTED
	PLANT IN SERVICE:					
1	303	Land and Land Rights	$ 62,847	$ -	$ -	$ 62,847
2	304	Structures and Improvements	9,566,104			9,566,104
3	306	Lake, River and Other Intakes	1,855			1,855
4	307	Wells and Springs	4,459,478			4,459,478
5	309	Supply Mains	2,340,773			2,340,773
6	310	Power Generation Equipment	324,955			324,955
7	311	Pumping Equipment	6,782,543			6,782,543
8	320	Water Treatment Equipment	27,095		(27,095)	-
	320.1	Water Treatment Plant			12,553	12,553
	320.2	Solution Chemical Feeders			14,541	14,541
9	330	Distribution Reservoirs and Standpipes	1,378,273		(1,378,273)	-
	330.1	Storage Tanks			820,301	820,301
	330.2	Pressure Tanks			557,973	557,973
10	331	Transmission and Distribution Mains	44,363,056			44,363,056
11	333	Services	4,645,439			4,645,439
12	334	Meters and Meter Installations	3,792,641			3,792,641
13	335	Hydrants	4,340,020			4,340,020
14	336	Backflow Prevention Devices	15,144			15,144
15	339	Other Plant and Miscellaneous Equipment	769,912			769,912
16	340	Office Furniture and Equipment	505,281			505,281
17	341	Transportation Equipment	585,195			585,195
18	343	Tools, Shop and Garage Equipment	71,996			71,996
19	344	Laboratory Equipment	103,063			103,063
20	345	Power Operated Equipment	60,372			60,372
21	346	Communication Equipment	640,845			640,845
22	347	Miscellaneous Equipment	85,226			85,226
23	348	Other Tangible Plant	5,448,566			5,448,566
24	390	Office Furniture & Equipment	5,712			5,712
25	**Total Plant in Service**		90,376,391	-		90,376,391
26						
27	Accumulated Depreciation		19,047,719	-		19,047,719
28	Net Plant in Service		$ 71,328,672	$ -	$ -	$ 71,328,672
29						
30	*LESS:*					
31	Contributions in Aid of Construction (CIAC)		$ 82,949	$ 13,059,735	$ -	$ 13,142,684
32	Less: Accumulated Amortization		5,655	2,664,186		2,669,841
33	Net CIAC (L63 - L64)		77,294	10,395,549	-	10,472,843
34	Advances in Aid of Construction (AIAC)		33,414,961	-		33,414,961
35	Customer Meter Deposits		1,193,499			1,193,499
36	*ADD:*					-
37	Deferred Gains		194			194
38	Bad Debt		18,800			18,800
39	Deferred Compensation		50,256	-	-	50,256
40	CIAC		29,820	-	-	29,820
41	Fixed Asset depreciation		1,272,256	-	-	1,272,256
42	Prepayments			-	-	-
43	Projected Capital Expenditures		-	-	-	-
44	Deferred Debits			-	-	-
45	**Original Cost Rate Base**		$ 38,014,243	$(10,395,549)	$ -	$ 27,618,694

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Schedule GWB-10

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
		$ -	$ -	$ -	$ -	$ -
1	Metered Water Sales	10,083,750	-	10,083,750	$ (265,199)	9,818,551
2	Water Sales - Unmetered	-		-		
3	Other Operating Revenue	379,710	-	379,710		379,710
4	**Total Operating Revenues**	$ 10,463,460	$ -	$ 10,463,460	$ (265,199)	$ 10,198,261
5	601 Salary and Wages - Employees	$ 1,268,835	$ (157,960)	$ 1,110,875	$ -	$ 1,110,875
6	604 Employee Pensions and Benefits	-	-	-	-	-
7	610 Purchased Water	-	-	-	-	-
8	615 Purchased Power	768,901	(15,748)	753,153	-	753,153
9	616 Fuel for Power Production	-	-	-	-	-
10	618 Chemicals	53,341	(1,092)	52,248	-	52,248
11	620 Materials and Supplies	47,783	(21,656)	26,127	-	26,127
12	620.08 Materials and Supplies	-	-	-	-	-
13	621 Office Supplies and Expense	90,035	-	90,035	-	90,035
14	630 Outside Services	1,053,640	(346,035)	707,605	-	707,605
15	635 Contractual Services - Testing	32,871	-	32,871		32,871
16	636 Contractual Services - Other	-	-	-	-	-
17	641 Rental of Building/Real Property	121,973	-	121,973	-	121,973
18	642 Rental of Equipment	-	-	-	-	-
19	650 Transportation Expenses	67,733	-	67,733	-	67,733
20	657 Insurance - General Liability	74,487	-	74,487	-	74,487
21	659 Insurance - Other	26,232	-	26,232		26,232
22	660 Advertising Expense	-	-	-		-
23	666 Regulatory Commission Expense – Rat	105,801	(52,038)	53,762	-	53,762
24	667 Rate Case Expense	-	-	-		-
25	670 Bad Debt Expense	53,925	19,319	73,244	(1,856)	71,388
26	675 Miscellaneous Expenses	373,190	-	373,190		373,190
27	403 Depreciation Expense	3,617,417	(676,427)	2,940,990		2,940,990
28	403 Depreciation Expense – CIAC Amortiza	(3,770)	-	(3,770)		(3,770)
29	408 Taxes Other Than Income	40,010	-	40,010	-	40,010
30	408.11 Taxes Other Than Income - Property	897,129	-	897,129	(3,662)	893,467
31	408.13 Taxes Other Than Income - Other Ta	-	-	-		-
32	409 Income Taxes	98,898	695,818	794,716	$ (100,234)	694,482
33	**Total Operating Expenses**	8,788,430	(555,818)	8,232,612	(105,752)	8,126,860
34	**Operating Income (Loss)**	$ 1,675,030	$ 555,818	$ 2,230,848	$ (159,447)	$ 2,071,401

References:
Column (A): Company Schedule C-1
Column (B): Schedule GWB 11
Column (C): Column (A) + Column (B)
Column (D): Schedules GWB 2, Lines 29, 34 and 37
Column (E): Column (C) + Column (D)

Schedule GWB-11

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SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Excess Water Loss ADJ #1 GWB-12	[C] Bad Debts Exp ADJ #2 GWB-13	[D] Rate Case Exp ADJ #3 GWB-14	[E] Expense Normalizations ADJ #4 GWB-15	[F] Deprec. Exp ADJ #5 GWB-16	[G] Income Taxes ADJ #6 GWB-14	[H] STAFF ADJUSTED
	Revenues								
1	Metered Water Sales	10,083,750	-	-	-	-		-	10,083,750
2	Water Sales - Unmetered	-							-
3	Other Operating Revenue	379,710	-	-	-	-		-	379,710
4	Total Operating Revenues	$ 10,463,460	$ -	$ -	$ -	$ -		$ -	$ 10,463,460
	Operating Expenses								
5	601 Salary and Wages - Employees	1,268,835		-	-	(157,960)	$ -	$ -	$ 1,110,875
6	604 Employee Pensions and Benefits	-			-	-	-	-	-
7	610 Purchased Water	-			-		-	-	-
8	615 Purchased Power	768,901	(15,748)						753,153
9	616 Fuel for Power Production	-	-			-			-
10	618 Chemicals	53,341	(1,092)						52,248
11	620 Materials and Supplies	47,783	-			(21,656)			26,127
12	620.08 Materials and Supplies	-	-						-
13	621 Office Supplies and Expense	90,035	-						90,035
14	630 Outside Services	1,053,640	-			(346,035)			707,605
15	635 Contractual Services - Testing	32,871	-		-				32,871
16	636 Contractual Services - Other	-	-						-
17	641 Rental of Building/Real Property	121,973	-						121,973
18	642 Rental of Equipment	-	-						-
19	650 Transportation Expenses	67,733	-						67,733
20	657 Insurance - General Liability	74,487	-						74,487
21	659 Insurance - Other	26,232	-						26,232
22	660 Advertising Expense	-	-						-
23	666 Regulatory Commission Expense – Ra	105,801	-		(52,038)				53,762
24	667 Rate Case Expense	-							-
25	670 Bad Debt Expense	53,925		19,319					73,244
26	675 Miscellaneous Expenses	373,190							373,190
27	403 Depreciation Expense	3,617,417	-	-			(676,427)		2,940,990
28	403 Depreciation Expense – CIAC Amortiz	(3,770)							(3,770)
29	408 Taxes Other Than Income	40,010		-					40,010
30	408.11 Taxes Other Than Income - Proper	897,129							897,129
31	408.13 Taxes Other Than Income - Other	-							-
32	409 Income Taxes	98,898						695,818	794,716
33	**Total Operating Expenses**	$ 8,788,430	$ (16,840)	$ 19,319	$ (52,038)	$ (525,651)	$ (676,427)	$ 695,818	$ 8,232,612
34	**Operating Income**	$ 1,675,030	$ 16,840	$ (19,319)	$ 52,038	$ 525,651	$ 676,427	$ (695,818)	$ 2,230,848

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Schedule GWB-12

OPERATING INCOME ADJUSTMENT #1 - EXCESS WATER LOSS

LINE NO.			
1	One plus allowable water loss		110.00%
2	One plus actual water loss		112.30%
3	Allowable portion		97.95%
4	Disallowable portion		2.05%
5	Power Expense		768,901
6	Disallowance	$	15,748
7	Chemical Expense		53,341
8	Disallowance	$	1,092

Line 1: Maximum acceptable level of water losses
Line 2: Actual level of water losses
Line 3: Line 2 / line 3
Line 4: 1 minus line 4
Line 6: Line 1 times line 5
Lines 1 - 6: See also testimony GWB

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Schedule GWB-13

OPERATING INCOME ADJUSTMENT #2 - BAD DEBT EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED*
1		$ 53,925	$ 19,319	$ 73,244

References:
Column (A), Company Workpapers
Column (B): Testimony GWB
Column (C): Column (A) + Column (B), Per Co Response to Staff DR 5.8

Adjusted Test Year Revenues GWB-11	$	10,463,460
Bad Debt Expense Rate, per Staff		0.70%
Expected Bad Debt Expense	$	73,244
Co Proposed	$	53,925
	$	(19,319)

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Schedule GWB-14

OPERATING INCOME ADJUSTMENT #3 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED*
1		$ 105,801	$ (52,038)	$ 53,762

Company Proposed Rate Case Expense

		Total	Palo Verde	Santa Cruz	Town Division	Willow Valley	Tonopah	Buckeye	WUNS
2	Allocation Percentages		39.86%	40.32%	13.45%	3.78%	0.82%	1.58%	0.19%
3	Desert Mountain Analytical Services	$ 122,063	$ 48,652	$ 49,218	$ 16,420	$ 4,616	$ 996	$ 1,927	$ 234
4	Insight Consulting, LLC	$ 216,000	$ 86,094	$ 87,095	$ 29,057	$ 8,168	$ 1,762	$ 3,410	$ 413
5	Roshka Dewulf & Patten, PLC	$ 370,303	$ 147,597	$ 149,313	$ 49,814	$ 14,004	$ 3,021	$ 5,846	$ 709
6	Ullmann & Company P C	$ 78,809	$ 31,412	$ 31,777	$ 10,602	$ 2,980	$ 643	$ 1,244	$ 151
7	Total	$ 787,174	$ 313,756	$ 317,402	$ 105,893	$ 29,768	$ 6,421	$ 12,427	$ 1,506
8	Amortization over 3 years:								
9	Year 1	$ 262,391	$ 104,585	$ 105,801	$ 35,298	$ 9,923	$ 2,140	$ 4,142	$ 502
10	Year 2	$ 262,391	$ 104,585	$ 105,801	$ 35,298	$ 9,923	$ 2,140	$ 4,142	$ 502
11	Year 3	$ 262,391	$ 104,585	$ 105,801	$ 35,298	$ 9,923	$ 2,140	$ 4,142	$ 502
12	Totals	$ 787,174	$ 313,756	$ 317,402	$ 105,893	$ 29,768	$ 6,421	$ 12,427	$ 1,506

Staff Recommended Rate Case Expense

13	Description	Total	Palo Verde	Santa Cruz	Town Division	Willow Valley	Tonopah	Buckeye	WUNS
14	Staff Recommended Amount	$ 400,000	$ 159,434	$ 161,287	$ 53,809	$ 15,127	$ 3,263	$ 6,315	$ 765
15	Amortization:								
16	Year 1	$ 133,333	$ 53,145	$ 53,762	$ 17,936	$ 5,042	$ 1,088	$ 2,105	$ 255
17	Year 2	$ 133,333	$ 53,145	$ 53,762	$ 17,936	$ 5,042	$ 1,088	$ 2,105	$ 255
18	Year 3	$ 133,333	$ 53,145	$ 53,762	$ 17,936	$ 5,042	$ 1,088	$ 2,105	$ 255
19	Totals	$ 400,000	$ 313,756	$ 317,402	$ 105,893	$ 29,768	$ 6,421	$ 12,427	$ 1,506
20	Adjustment Total, by System	$ (129,058)	$ (51,441)	$ (52,038)	$ (17,361)	$ (4,881)	$ (1,053)	$ (2,037)	$ (247)

References:
Column (A), Company Workpapers
Column (B): Line 20 for respective system
Column (C): Line 16 for respective system

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Schedule GWB-15

OPERATING INCOME ADJUSTMENT #4 - EXPENSE NORMALIZATIONS

LINE NO.	ACCT / DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED*
1	601 Salary and Wages - Employees	$ 1,268,835	$ (157,960)	$ 1,110,875
2	620 Materials and Supplies	$ 47,783	$ (21,656)	$ 26,127
3	630 Outside Services	$ 1,053,640	$ (346,035)	$ 707,605
		$ 1,233,610	$ (367,691)	$ 865,919

References:
Column (A), Company Workpapers
Column (B): Testimony GWB
Column (C): Column (A) + Column (B)

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Schedule GWB-16

OPERATING INCOME ADJUSTMENT #5 - DEPRECIATION EXPENSE

LINE NO.	ACCT. NO.	DESCRIPTION	[A] PLANT BALANCE	[B] DEPRECIATION RATE	[C] DEPRECIATION EXPENSE
1	*PLANT IN SERVICE:*				
2	303	Land and Land Rights	$ 62,847	0.00%	-
3	304	Structures and Improvements	9,566,104	3.33%	318,551
4	306	Lake, River and Other Intakes	1,855	2.50%	46
5	307	Wells and Springs	4,459,478	3.33%	148,501
6	309	Supply Mains	2,340,773	2.00%	46,815
7	310	Power Generation Equipment	324,955	5.00%	16,248
8	311	Pumping Equipment	6,782,543	12.50%	847,818
9	320	Water Treatment Equipment	-	0.00%	-
10	320.1	Water Treatment Plant	12,553	3.33%	418
11	320.2	Solution Chemical Feeders	14,541	20.00%	2,908
12	330	Distribution Reservoirs and Standpipes	-	0.00%	-
13	330.1	Storage Tanks	820,301	2.22%	18,211
14	330.2	Pressure Tanks	557,973	5.00%	27,899
15	331	Transmission and Distribution Mains	44,363,056	2.00%	887,261
16	333	Services	4,645,439	3.33%	154,693
17	334	Meters and Meter Installations	3,792,641	8.33%	315,927
18	335	Hydrants	4,340,020	2.00%	86,800
19	336	Backflow Prevention Devices	15,144	6.67%	1,010
20	339	Other Plant and Miscellaneous Equipment	769,912	6.67%	51,353
21	340	Office Furniture and Equipment	505,281	6.67%	33,702
22	341	Transportation Equipment	585,195	20.00%	117,039
23	343	Tools, Shop and Garage Equipment	71,996	5.00%	3,600
24	344	Laboratory Equipment	103,063	10.00%	10,306
25	345	Power Operated Equipment	60,372	5.00%	3,019
26	346	Communication Equipment	640,845	10.00%	64,085
27	347	Miscellaneous Equipment	85,226	10.00%	8,523
28	348	Other Tangible Plant	5,448,566	5.00%	272,428
29	390	Office Furniture & Equipment	5,712	5.00%	286
30		Total Utility Plant in Service	90,376,391		3,437,447
31		Less: Non Depreciable Plant			
32		Land and Land Rights	$ 62,847		
33		Net Depreciable Plant and Depreciation Amounts	$ 90,313,544		$ 3,437,447
34					
35		Amortization of CIAC	$ 13,142,684	3.8061%	$ 500,227
36		Staff Recommended Depreciation Expense			$ 2,937,220
37		Company Proposed Depreciation Expense			$ 3,613,647
38		Staff Adjustment			**$ (676,427)**

	References:
Col [A]	Schedule GWB-4
Col [B]	Proposed Rates per Staff Engineering Report for Non Allocated Plant
Col [C]	Col [A] times Col [B]

Global Water - Santa Cruz Water Company (Santa Cruz)
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Schedule GWB-17

OPERATING INCOME ADJUSTMENT #6 - INCOME TAXES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Income Taxes	$ 98,898	$ 695,818	$ 794,716

References:
Column (A), Company Schedule C-2
Column (B): Testimony GWB
Column (C): Column (A) + Column (B),
see also Sch. GWB-2, line 48

Global Water - Santa Cruz Water Company (Santa Cruz)
Docket No. WS-03478A-12-0314
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Schedule GWB-18

OPERATING INCOME ADJUSTMENT #7 - PROPERTY TAX EXPENSE GRCF COMPONENT

LINE NO.	DESCRIPTION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2011	$ 10,463,460	$ 10,463,460
2	Weight Factor	2	2
3	Subtotal (Line 1 • Line 2)	20,926,920	20,926,920
4	Staff Adjusted Test Year Revenues - 2011	10,463,460	
5	Staff Recommended Revenue		10,198,262
6	Subtotal (Line 4 + Line 5)	31,390,379	31,125,182
7	Number of Years	3	3
8	Three Year Average (Line 5 / Line 6)	10,463,460	10,375,061
9	Department of Revenue Mutilplier	2	2
10	Revenue Base Value (Line 7 • Line 8)	20,926,920	20,750,121
11	Plus: 10% of CWIP	243,735	243,735
12	Less: Net Book Value of Licensed Vehicles	77,783	77,783
13	Full Cash Value (Line 10 + Line 11 - Line 12)	21,092,872	20,916,073
14	Assessment Ratio	20.0%	20.0%
15	Assessment Value (Line 13 * Line 14)	4,218,574	4,183,215
16	Composite Property Tax Rate	10.3559%	10.3559%
17	Staff Test Year Adjusted Property Tax Expense (Line 15 • Line 16)	$ 436,871	
18	Company Proposed Property Tax	$ 897,129	
19	Staff Test Year Adjustment (Line 17 - Line 18)	**$ (460,258)**	
20	Property Tax on Staff Recommended Revenue (Line 15 * Line 16)		$ 433,210
21	Staff Test Year Adjusted Property Tax Expense (Line 17)		$ 436,871
22	Increase in Property Tax Due to Increase in Revenue Requirement		**$ (3,662)**
23	Increase in Property Tax Due to Increase in Revenue Requirement (Line 22)		$ (3,662)
24	Increase in Revenue Requirement		$ (265,198)
25	Increase in Property Tax Per Dollar Increase in Revenue (Line 23 / Line 24)		1.38079%

REFERENCES:
Line 15: Composite Tax Rate, per Company
Line 18: Company Schedule C-1, Line 36

Global Water - Willow Valley Water Company (Willow Valley)
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DIRECT TESTIMONY OF GERALD BECKER

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GWB- 4	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
GWB- 5	RATE BASE ADJUSTMENT #1 POST TEST YEAR PLANT
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GWB- 7	NOT USED
GWB- 8	NOT USED
GWB- 9	NOT USED
GWB- 10	OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED
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GWB- 18	OPERATING INCOME ADJUSTMENT #8 - PROPERTY TAX EXPENSE GRCF COMPONENT

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Schedule GWB-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	$ 2,359,391	$ 2,359,391	$ 2,278,955	$ 2,278,955
2	Adjusted Operating Income (Loss)	$ (58,493)	$ (58,493)	$ (71,747)	$ (71,747)
3	Current Rate of Return (L2 / L1)	-2.48%	-2.48%	-3.15%	-3.15%
4	Required Rate of Return	10.60%	10.60%	7.50%	7.50%
5	Required Operating Income (L4 * L1)	$ 250,024	$ 250,024	$ 170,922	$ 170,922
6	Operating Income Deficiency (L5 - L2)	$ 308,517	$ 308,517	$ 242,669	$ 242,669
7	Gross Revenue Conversion Factor	1.645086	1.645086	1.665100	1.665100
8	Required Revenue Increase (L7 * L6)	$ 507,537	$ 507,537	**$ 404,068**	**$ 404,068**
9	Adjusted Test Year Revenue	$ 702,652	$ 702,652	$ 702,652	$ 702,652
10	Proposed Annual Revenue (L8 + L9)	$ 1,210,190	$ 1,210,190	$ 1,106,720	$ 1,106,720
11	Required Increase in Revenue (%)	72.23%	72.23%	57.51%	57.51%
12	Rate of Return on Common Equity (%)	11.44%	11.44%	9.40%	9.40%

References:
Column [A]: Company Schedule A-1
Column (B): Company Schedule A-1
Column (C): Company Schedules A-1, A-2, & D-1
Column (C): Staff Schedules GWB-2, GWB-3, and GWB-10

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Schedule GWB-2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)
	Calculation of Gross Revenue Conversion Factor:			
1	Revenue	100.0000%		
2	Uncollecible Factor (Line 11)	0.3561%		
3	Revenues (L1 - L2)	99.6439%		
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.5874%		
5	Subtotal (L3 - L4)	60.0564%		
6	**Revenue Conversion Factor (L1 / L5)**	1.665100		
	Calculation of Uncollecttible Factor:			
7	Unity	100.0000%		
8	Combined Federal and State Tax Rate (Line 17)	38.5989%		
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%		
10	Uncollectible Rate	0.5800%		
11	Uncollectible Factor (L9 * L10)		0.3561%	
	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 (Line 44)	34.0000%		
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%		
17	Combined Federal and State Income Tax Rate (L13 +L16)		38.5989%	
	Calculation of Effective Property Tax Factor			
18	Unity	100.0000%		
19	Combined Federal and State Income Tax Rate (L17)	38.5989%		
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%		
21	Property Tax Factor (GWB-18, L25)	1.6100%		
22	Effective Property Tax Factor (L20*L21)		0.9886%	
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.5874%

24	Required Operating Income (Schedule GWB-1, Line 5)	$ 170,922		
25	AdjustedTest Year Operating Income (Loss) (Schedule GWB-10, Line 36)	$ (71,747)		
26	Required Increase in Operating Income (L24 - L25)		$ 242,669	
27	Income Taxes on Recommended Revenue (Col. (C), L48)	$ 57,306		
28	Income Taxes on Test Year Revenue (Col. (A), L48)	$ (95,245)		
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		$ 152,550	
30	Required Revenue Increase (Schedule GWB-1, Line 8)	$ 404,068		
31	Uncollectible Rate (Line 10)	0.5800%		
32	Uncollectible Expense on Recommended Revenue (L30 * L31)	$ 2,344		
33	Adjusted Test Year Uncollectible Expense - N/A	$ -		
34	Required Increase in Revenue to Provide for Uncollectible Exp.		$ 2,344	
35	Property Tax with Recommended Revenue (GWB-18, Line 21)	$ 40,437		
36	Property Tax on Test Year Revenue (GWB-18, Col A, L19)	$ 33,931		
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		$ 6,506	
38	Total Required Increase in Revenue (L26 + L29 + L34+ L37)		$ 404,068	

		(A) Test Year	(B)	(C) Staff Recommended
	Calculation of Income Tax:			
39	Revenue (Sch GWB-10, Col.(C) L4, GWB-1, Col. (D), L10)	$ 702,652		$ 1,106,721
40	Operating Expenses Excluding Income Taxes	$ 869,645		$ 878,494
41	Synchronized Interest (L53)	$ 79,763		$ 79,763
42	Arizona Taxable Income (L39 - L40 - L41)	$ (246,756)		$ 148,464
43	Arizona State Income Tax Rate	6.9680%		6.9680%
44	Arizona Income Tax (L42 x L43)	$ (17,194)		$ 10,345
45	Federal Taxable Income (L42 - L44)	$ (229,562)		$ 138,119
46	Federal Tax	$ (78,051)		$ 46,961
47	Total Federal Income Tax	$ (78,051)		$ 46,961
48	Combined Federal and State Income Tax (L43 + L47)	$ (95,245)		$ 57,306

50 Effective Tax Rate

	Calculation of Interest Synchronization:	N/A
51	Rate Base (Schedule GWB-3, Col. (C), Line 18)	$ 2,278,955
52	Weighted Average Cost of Debt	3.5000%
53	Synchronized Interest (L50 X L51)	$ 79,763

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Schedule GWB-3

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 5,113,538	$ (80,436)	$ 5,033,102
2	Less: Accumulated Depreciation	(1,742,556)	-	(1,742,556)
3	Net Plant in Service	$ 3,370,982	$ (80,436)	$ 3,290,546
	LESS:			
4	Contributions in Aid of Construction (CIAC)	$ -	$ -	$ -
5	Less: Accumulated Amortization		-	-
6	Net CIAC	-	-	-
7	Advances in Aid of Construction (AIAC)	610,760	-	610,760
8	Imputed Reg AIAC	-		
9	Imputed Reg CIAC	-	-	-
10	Accumulated Deferred Income Tax Credits	391,114	-	391,114
	Customer Meter Deposits	36,233		36,233
	ADD:			
11	Accumulated Deferred Income Tax Debits	26,516	-	26,516
12	Cash Working Capital	-	-	-
13	Deferred Compensation	-	-	-
14	CIAC	-	-	-
15	Fixed Asset Depreciation	-	-	-
16	Deferred Debits	-	-	-
17	Purchase Wastewater Treatment Charges	-	-	
18	**Original Cost Rate Base**	$ 2,359,391	$ (80,436)	$ 2,278,955

References:
Column (A), Company Schedule B-2
Column (B): Schedule GWB-4
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Reclassification ADJ #1 GWB-5	[I] STAFF ADJUSTED
	PLANT IN SERVICE:				
1	303	Land and Land Rights	$ 18,293	$ -	$ 18,293
2	304	Structures and Improvements	464,273		464,273
3	306	Lake, River and Other Intakes	-		-
4	307	Wells and Springs	1,623,786		1,623,786
5	309	Supply Mains	5,441		5,441
6	310	Power Generation Equipment	10,751		10,751
7	311	Pumping Equipment	537,335		537,335
8	320	Water Treatment Equipment	572,865	(572,865)	-
9	320.1	Water Treatment Plant		303,188	303,188
10	320.2	Solution Chemical Feeders		269,677	269,677
11	330	Distribution Reservoirs and Standpipes	265,900	(265,900)	-
12	330.1	Storage Tanks		220,751	220,751
13	330.2	Pressure Tanks		45,148	45,148
14	331	Transmission and Distribution Mains	670,561		670,561
15	333	Services	96,681		96,681
16	334	Meters and Meter Installations	533,416		533,416
17	335	Hydrants	47,803		47,803
18	336	Backflow Prevention Devices	1,024		1,024
19	339	Other Plant and Miscellaneous Equipment	20,318		20,318
20	340	Office Furniture and Equipment	22,646		22,646
21	341	Transportation Equipment	21,527		21,527
22	343	Tools, Shop and Garage Equipment	43,388		43,388
23	344	Laboratory Equipment	9,508		9,508
24	345	Power Operated Equipment	38,925		38,925
25	346	Communication Equipment	13,877		13,877
26	347	Miscellaneous Equipment	90,659	(80,436)	10,223
27	348	Other Tangible Plant	3,937		3,937
28	390	Office Furniture & Equipment	625		625
29					
30	**Total Plant in Service**		5,113,538	(80,436)	5,033,102
31	Accumulated Depreciation		(1,742,556)	-	(1,742,556)
32	Net Plant in Service		$ 3,370,982	$ (80,436)	$ 3,290,546
33					
34	*LESS:*				
35	Net Contributions in Aid of Construction (CIAC)		$ -		$ -
36	Advances in Aid of Construction (AIAC)		610,760	-	610,760
37	Customer Meter Deposits		36,233		36,233
38	Deferred Income Tax Credits		391,114		391,114
39					
40	*ADD:*				
41	Unamortized Finance Charges		-		-
42	Deferred Income Tax Assets		-		-
43	Meter Deposits		16,555		16,555
44	Deferred Gain		794		794
45	Bad debt		4,414		4,414
46	Deferred compensation		4,754	-	4,754
47	CIAC		-	-	-
48	Working Capital		-	-	-
49	Utility Plant Acquisition Adjustment		-	-	-
50				-	
51	**Original Cost Rate Base**		$ 2,359,391	$ (80,436)	$ 2,278,955
52					
53					

Supporting Schedules:
B-2
B-3
E-1
B-5

Recap Schedules:
A-1

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Schedule GWB-5

RATE BASE ADJUSTMENT #1 POST TEST YEAR PLANT

LINE NO.	ACCT NO.	Description	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	348	Miscellaneous Equipment	80,436	(80,436)	-

Disallowed PTYP	
SCADA - WVWC	$ 80,436

References:
Column [A] : Disallowed Amount reflected in Acct. 348, PTYP, Per Co Schedule B-2.1
Column [B] , Col [C] less Col [A]
Column [C] , Per testimony GWB and Engineering testimony

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Schedule GWB-10

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION		[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
			$ -	$ -	$ -	$ -	$ -
1	Metered Water Sales		689,274	-	689,274	404,069	1,093,343
2	Water Sales - Unmetered		-		-		
3	Other Operating Revenue		13,378	-	13,378	-	13,378
4	**Total Operating Revenues**		$ 702,652	$ -	$ 702,652	$ 404,069	$ 1,106,721
5	601	Salary and Wages - Employees	$ 263,312	$ (15,369)	$ 247,943	$ -	$ 247,943
6	604	Employee Pensions and Benefits	-	-	-	-	-
7	610	Purchased Water	-	-	-	-	-
8	615	Purchased Power	43,747	(4,751)	38,997	-	38,997
9	616	Fuel for Power Production	-	-	-	-	-
10	618	Chemicals	55,422	(6,018)	49,404	-	49,404
11	620	Materials and Supplies	36,002	(15,453)	20,549	-	20,549
12	621	Office Supplies and Expense	27,025	-	27,025	-	27,025
13	630	Outside Services	97,501	(17,749)	79,752	-	79,752
14	635	Contractual Services - Testing	20,993	(5,285)	15,708	-	15,708
15	636	Contractual Services - Other	-	-	-		-
16	641	Rental of Building/Real Property	10,241	-	10,241	-	10,241
17	642	Rental of Equipment	-	-	-	-	-
18	650	Transportation Expenses	24,173	-	24,173	-	24,173
19	657	Insurance - General Liability	7,125	-	7,125	-	7,125
20	659	Insurance - Other	4,218	-	4,218	-	4,218
21	666	Regulatory Commission Expense – Rate C	9,922	(4,880)	5,042		5,042
22	667	Rate Case Expense	-	-	-		-
23	670	Bad Debt Expense	8,251	(4,175)	4,075	2,344	6,419
24	675	Miscellaneous Expenses	24,563	(9,383)	15,180		15,180
25	403	Depreciation Expense	200,668	84,832	285,500		285,500
26	408	Taxes Other Than Income	782	-	782		782
27	408	Taxes Other Than Income - Property Taxe	33,931	-	33,931	6,506	40,437
28	409	Income Taxes	(106,730)	11,486	(95,245)	152,550	57,306
29	**Total Operating Expenses**		761,145	13,254	774,400	161,400	935,799
30	**Operating Income (Loss)**		$ (58,493)	$ (13,254)	$ (71,747)	$ 242,669	$ 170,922

References:
Column (A): Company Schedule C-1
Column (B): Schedule GWB 11
Column (C): Column (A) + Column (B)
Column (D): Schedules GWB 2, Lines 29, 34 and 37
Column (E): Column (C) + Column (D)

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Schedule GWB-11

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	SCRIPTION	[A] COMPANY AS FILED	[B] Excess Water Loss ADJ #1 GWB-12	[C] Bad Debts Exp ADJ #2 GWB-13	[D] Rate Case Exp ADJ #3 GWB-14	[E] Expense Normalizations ADJ #4 GWB-15A	[E] Water Testing ADJ #5 GWB-15B	[F] Deprec. Exp ADJ #6 GWB-16	Income Taxes ADJ #7 GWB-17	[H] STAFF ADJUSTED
1	**Revenues**									
1	Metered Water Sales	$ 689,274	$ -	$ -	$ -	$ -		$ -		$ 689,274
2	Water Sales - Unmetered	-								-
3	Other Operating Revenue	13,378	-	-	-	-		-		13,378
4	Total Operating Revenues	$ 702,652	$ -	$ -	$ -	$ -		$ -		$ 702,652
	Operating Expenses									
5	601 Salary and Wages - Employees	263,312		-	-	(15,369)	-	-		247,943
6	604 Employee Pensions and Benefits	-	-	-	-	-	-	-		-
7	610 Purchased Water	-			-		-	-		-
8	615 Purchased Power	43,747	(4,751)							38,997
9	616 Fuel for Power Production	-	-	-						-
10	618 Chemicals	55,422	(6,018)	-		-				49,404
11	620 Materials and Supplies	36,002	-	-		(15,453)				20,549
12	621 Office Supplies and Expense	27,025	-	-		-				27,025
13	630 Outside Services	97,501	-	-		(17,749)				79,752
14	635 Contractual Services - Testing	20,993	-	-		-	(5,285)			15,708
15	636 Contractual Services - Other	-	-	-	-	-				-
16	641 Rental of Building/Real Property	10,241	-	-		-				10,241
17	642 Rental of Equipment	-	-	-		-				-
18	650 Transportation Expenses	24,173	-	-		-				24,173
19	657 Insurance - General Liability	7,125	-	-		-				7,125
20	659 Insurance - Other	4,218	-	-		-				4,218
21	666 Regulatory Commission Expense – Rate Case	9,922	-	-	(4,880)	-				5,042
22	667 Rate Case Expense	-	-	-		-				-
23	670 Bad Debt Expense	8,251	-	(4,175)		-				4,075
24	675 Miscellaneous Expenses	24,563				(9,383)				15,180
25	403 Depreciation Expense	200,668						84,832		285,500
26	408 Taxes Other Than Income	782								782
27	408 Taxes Other Than Income - Property Taxes	33,931								33,931
28	409 Income Taxes	(106,730)							11,486	(95,245)
29	**Total Operating Expenses**	$ 761,145	$ (10,769)	$ (4,175)	$ (4,880)	$ (57,954)	$ (5,285)	$ 84,832	$ 11,486	$ 774,400
30	**Operating Income (Loss)**	$ (58,493)	$ 10,769	$ 4,175	$ 4,880	$ 57,954	$ 5,285	$ (84,832)	$ (11,486)	$ (71,747)

Global Water - Willow Valley Water Company (Willow Valley)
Docket No. W-01732A-12-0315
Test Year Ended December 31, 2011

Schedule GWB-12

OPERATING INCOME ADJUSTMENT #1 - EXCESS WATER LOSS

LINE NO.			
1	One plus allowable water loss		110.00%
2	One plus actual water loss		123.40%
3	Allowable portion		89.14%
4	Disallowable portion		10.86%
5	Power Expense		43,747
6	Disallowance	$	4,751
7	Chemical Expense		55,422
8	Disallowance	$	6,018

Line 1: Maximum acceptable level of water losses
Line 2: Actual level of water losses
Line 3: Line 2 / line 3
Line 4: 1 minus line 4
Line 6: Line 1 times line 5
Lines 1 - 6: See also testimony GWB

Global Water - Willow Valley Water Company (Willow Valley)
Docket No. W-01732A-12-0315
Test Year Ended December 31, 2011

Schedule GWB-13

OPERATING INCOME ADJUSTMENT #2 - BAD DEBT EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED*
1		$ 8,251	$ (4,175)	$ 4,075

References:
Column (A), Company Workpapers
Column (B): Testimony GWB
Column (C): Column (A) + Column (B), Per Co Response to Staff DR 5.8

Adjusted Test Year Revenues GWB-11	$	702,652
Bad Debt Expense Rate, per Staff		0.58%
Expected Bad Debt Expense	$	4,075
Co Proposed	$	8,251
	$	(4,175)

Global Water - Willow Valley Water Company (Willow Valley)
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Test Year Ended December 31, 2011

Schedule GWB-14

OPERATING INCOME ADJUSTMENT #3 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1		$ 9,922	$ (4,880)	$ 5,042

Company Proposed Rate Case Expense

		Total	Palo Verde	Santa Cruz	Town Division	Willow Valley	Tonopah	Buckeye	WUNS
2	Allocation Percentages		39.86%	40.32%	13.45%	3.78%	0.82%	1.58%	0.19%
	Desert Mountain Analytical								
3	Services	$ 122,063	$ 48,652	$ 49,218	$ 16,420	$ 4,616	$ 996	$ 1,927	$ 234
4	Insight Consulting, LLC	$ 216,000	$ 86,094	$ 87,095	$ 29,057	$ 8,168	$ 1,762	$ 3,410	$ 413
5	Roshka Dewulf & Patten, PLC	$ 370,303	$ 147,597	$ 149,313	$ 49,814	$ 14,004	$ 3,021	$ 5,846	$ 709
6	Ullmann & Company P C	$ 78,809	$ 31,412	$ 31,777	$ 10,602	$ 2,980	$ 643	$ 1,244	$ 151
7	Total	$ 787,174	$ 313,756	$ 317,402	$ 105,893	$ 29,768	$ 6,421	$ 12,427	$ 1,506
8	Amortization over 3 years:								
9	Year 1	$ 262,391	$ 104,585	$ 105,801	$ 35,298	$ 9,923	$ 2,140	$ 4,142	$ 502
10	Year 2	$ 262,391	$ 104,585	$ 105,801	$ 35,298	$ 9,923	$ 2,140	$ 4,142	$ 502
11	Year 3	$ 262,391	$ 104,585	$ 105,801	$ 35,298	$ 9,923	$ 2,140	$ 4,142	$ 502
12	Totals	$ 787,174	$ 313,756	$ 317,402	$ 105,893	$ 29,768	$ 6,421	$ 12,427	$ 1,506

Staff Recommended Rate Case Expense

13	Description	Total	Palo Verde	Santa Cruz	Town Division	Willow Valley	Tonopah	Buckeye	WUNS
14	Staff Recommended Amount	$ 400,000	$ 159,434	$ 161,287	$ 53,809	$ 15,127	$ 3,263	$ 6,315	$ 765
15	Amortization:								
16	Year 1	$ 133,333	$ 53,145	$ 53,762	$ 17,936	$ 5,042	$ 1,088	$ 2,105	$ 255
17	Year 2	$ 133,333	$ 53,145	$ 53,762	$ 17,936	$ 5,042	$ 1,088	$ 2,105	$ 255
18	Year 3	$ 133,333	$ 53,145	$ 53,762	$ 17,936	$ 5,042	$ 1,088	$ 2,105	$ 255
19	Totals	$ 400,000	$ 313,756	$ 317,402	$ 105,893	$ 29,768	$ 6,421	$ 12,427	$ 1,506
20	Adjustment Total, by System	$ (129,058)	$ (51,441)	$ (52,038)	$ (17,361)	$ (4,881)	$ (1,053)	$ (2,037)	$ (247)

References:
Column (A), Company Workpapers
Column (B): Line 20 for respective system
Column (C): Line 16 for respective system

Global Water - Willow Valley Water Company (Willow Valley)
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Schedule GWB-15A

OPERATING INCOME ADJUSTMENT #4 - EXPENSE NORMALIZATIONS

LINE NO.	ACCT / DESCRIPTION		[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED*
1	601	Salary and Wages - Employees	$ 263,312	$ (15,369)	$ 247,943
2	620	Materials and Supplies	$ 36,002	$ (15,453)	$ 20,549
3	630	Outside Services	$ 97,501	$ (17,749)	$ 79,752
4	675	Miscellaneous Expenses	$ 24,563	$ (9,383)	$ 15,180
			$ 421,378	$ (57,954)	$ 363,424

References:
Column (A), Company Workpapers
Column (B): Testimony GWB
Column (C): Column (A) + Column (B)

Global Water - Willow Valley Water Company (Willow Valley)
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Schedule GWB-15B

OPERATING INCOME ADJUSTMENT #5 - WATER TESTING EXPENSE

LINE NO.	ACCT / DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Contractual Services - Testing	$ 20,993	$ (5,285)	$ 15,708

References:
Column (A), Company Workpapers
Column (B): Testimony GWB
Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT #6 - DEPRECIATION EXPENSE

LINE NO.	ACCT. NO.	DESCRIPTION	[A] PLANT BALANCE	[B] DEPRECIATION RATE	[C] DEPRECIATION EXPENSE
1	*PLANT IN SERVICE:*				
2	303	Land and Land Rights	$ 18,293	0.00%	-
3	304	Structures and Improvements	464,273	3.33%	15,460
4	306	Lake, River and Other Intakes	-	2.50%	-
5	307	Wells and Springs	1,623,786	3.33%	54,072
6	309	Supply Mains	5,441	2.00%	109
7	310	Power Generation Equipment	10,751	5.00%	538
8	311	Pumping Equipment	537,335	12.50%	67,167
9	320	Water Treatment Equipment	-	0.00%	-
10	320.1	Water Treatment Plant	303,188	3.33%	10,096
11	320.2	Solution Chemical Feeders	269,677	20.00%	53,935
12	330	Distribution Reservoirs and Standpipes	-	0.00%	-
13	330.1	Storage Tanks	220,751	2.22%	4,901
14	330.2	Pressure Tanks	45,148	5.00%	2,257
15	331	Transmission and Distribution Mains	670,561	2.00%	13,411
16	333	Services	96,681	3.33%	3,219
17	334	Meters and Meter Installations	533,416	8.33%	44,434
18	335	Hydrants	47,803	2.00%	956
19	336	Backflow Prevention Devices	1,024	6.67%	68
20	339	Other Plant and Miscellaneous Equipment	20,318	6.67%	1,355
21	340	Office Furniture and Equipment	22,646	6.67%	1,510
22	341	Transportation Equipment	21,527	20.00%	4,305
23	343	Tools, Shop and Garage Equipment	43,388	5.00%	2,169
24	344	Laboratory Equipment	9,508	10.00%	951
25	345	Power Operated Equipment	38,925	5.00%	1,946
26	346	Communication Equipment	13,877	10.00%	1,388
27	347	Miscellaneous Equipment	10,223	10.00%	1,022
28	348	Other Tangible Plant	3,937	5.00%	197
29	390	Office Furniture & Equipment	625	5.00%	31
30			5,033,102		285,500
31		Less: Non Depreciable Plant			
32		Land and Land Rights	18,293		
33		Net Depreciable Plant and Depreciation Amounts	$ 5,014,809		$ 285,500
34					
35					
36		Amortization of CIAC	$ -	5.6931%	$ -
37		Staff Recommended Depreciation Expense			$ 285,500
38		Company Proposed Depreciation Expense			$ 200,668
39		Staff Adjustment			**$ 84,832**

	References:
Col [A]	Schedule GWB-4
Col [B]	Proposed Rates per Staff Engineering Report
Col [C]	Col [A] times Col [B]

Global Water - Willow Valley Water Company (Willow Valley)
Docket No. W-01732A-12-0315
Test Year Ended December 31, 2011

Schedule GWB-17

OPERATING INCOME ADJUSTMENT #7 - INCOME TAXES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Income Taxes	$ (106,730)	$ 11,486	$ (95,245)

References:
Column (A), Company Schedule C-2
Column (B): Testimony GWB
Column (C): Column (A) + Column (B),
see also Sch. GWB-2, line 48

Global Water - Willow Valley Water Company (Willow Valley)
Docket No. W-01732A-12-0315
Test Year Ended December 31, 2011

Schedule GWB-18

OPERATING INCOME ADJUSTMENT #8 - PROPERTY TAX EXPENSE GRCF COMPONENT

LINE NO.	DESCRIPTION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2011	$ 702,652	$ 702,652
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	1,405,305	1,405,305
4	Staff Adjusted Test Year Revenues - 2011	702,652	
5	Staff Recommended Revenue		1,106,723
6	Subtotal (Line 4 + Line 5)	2,107,957	2,512,028
7	Number of Years	3	3
8	Three Year Average (Line 5 / Line 6)	702,652	837,343
9	Department of Revenue Mutilplier	2	2
10	Revenue Base Value (Line 7 * Line 8)	1,405,305	1,674,686
11	Plus: 10% of CWIP	47	47
12	Less: Net Book Value of Licensed Vehicles	340	340
13	Full Cash Value (Line 10 + Line 11 - Line 12)	1,405,012	1,674,393
14	Assessment Ratio	21.0%	21.0%
15	Assessment Value (Line 13 * Line 14)	295,052	351,622
16	Composite Property Tax Rate	11.5000%	11.5000%
17	Staff Test Year Adjusted Property Tax Expense (Line 15 * Line 16)	$ 33,931	
18	Company Proposed Property Tax	$ 33,931	
19	Staff Test Year Adjustment (Line 17 - Line 18)	**$ 0**	
20	Property Tax on Staff Recommended Revenue (Line 15 * Line 16)		$ 40,437
21	Staff Test Year Adjusted Property Tax Expense (Line 17)		$ 33,931
22	Increase in Property Tax Due to Increase in Revenue Requirement		**$ 6,506**
23	Increase in Property Tax Due to Increase in Revenue Requirement (Line 22)		$ 6,506
24	Increase in Revenue Requirement		$ 404,071
25	Increase in Property Tax Per Dollar Increase in Revenue (Line 23 / Line 24)		1.61000%

REFERENCES:
Line 15: Composite Tax Rate, per Company
Line 18: Company Schedule C-1, Line 36

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF VALENCIA WATER COMPANY – TOWN DIVISION FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-01212A-12-0309
IN THE MATTER OF THE APPLICATION OF GLOBAL WATER – PALO VERDE UTILITIES COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. SW-20445A-12-0310
IN THE MATTER OF THE APPLICATION OF WATER UTILITY OF NORTHERN SCOTTSDALE, INC. FOR APPROVAL OF A RATE INCREASE.	DOCKET NO. W-03720A-12-0311
IN THE MATTER OF THE APPLICATION OF WATER UTILITY OF GREATER TONOPAH, INC. FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-02450A-12-0312

IN THE MATTER OF THE APPLICATION OF VALENCIA WATER COMPANY – GREATER BUCKEYE DIVISION FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-02451A-12-0313
IN THE MATTER OF THE APPLICATION OF GLOBAL WATER – SANTA CRUZ WATER COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-20446A-12-0314
IN THE MATTER OF THE APPLICATION OF WILLOW VALLEY WATER COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-01732A-12-0315

DIRECT

TESTIMONY

OF

JAMES R. ARMSTRONG

CHIEF ACCOUNTANT

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JULY 8, 2013

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EXECUTIVE SUMMARY
VALENCIA WATER COMPANY-TOWN DIVISION, ET AL
DOCKET NO. W-01212A-12-0309, ET AL

Staff Witness James Armstrong supports Staff's recommendations regarding the regulatory treatment to be given to the funds received by the Global Water Parent entity ("Global Parent") under the Infrastructure Coordination and Financing Agreements ("ICFAs" or "ICFA Agreements") entered into between Global Parent and various real estate developers. The ICFA is unique to Global Parent. Staff is not aware of any other water, or wastewater service provider in the United States that utilizes these agreements. Global Parent has used these agreements as a means to implement what it calls its "Total Water Management" Plan. In his testimony filed in the Global ACC-regulated utilities ("Global Parent Utilities") last rate case, Global Parent Utilities witness Mr. Hill described an ICFA as a voluntary contract between Global Parent and a landowner which provide for Global Parent to coordinate the planning, financing and construction of off-site water, wastewater and recycled water plant. According to Mr. Hill, the Global Parent Utilities will own and operate this plant when construction is complete.

To-date, Global Parent has entered into approximately 180 ICFA-like agreements. The ICFA agreements encompass the following systems in the City of Maricopa in Pinal County: Palo Verde (wastewater) and Santa Cruz (water). In addition, there are several ICFAs related to the following systems: Greater Tonopah (water) and Hassyampa Utility Company ("HUC") (wastewater), and Picacho Cove. HUC and Picacho Cover have no customers at this time and are not included in this rate case. Through December 31, 2012, Global Parent received approximately $69 million in fees under the terms of these ICFA agreements. Estimates indicate that Global Parent could be entitled to receive as much as $1.476 billion in ICFA fees over several decades. The Global Parent Utilities applications addresses only the ICFA fees received through the end of 2011, which approximated $67 million, however Staff's recommendations address all ICFA fees received through the end of 2012 or approximately $69 million.

In the current consolidated Global Parent Utilities rate filings, Staff recommends that the Commission order Global Parent not to enter into any new ICFA agreements. Staff believes there are entirely too many issues, risks, and unanswered questions related to the continuing reliance on ICFAs as the means used to financially support regional water and wastewater infrastructure development. Staff also believes that the ICFAs blur the line between Global Parent and its operating utilities, its Global Parent Utilities. The uncertainty and open ended nature of these agreements leave both Global Parent, the Global Parent Utilities, and its ratepayers subject to significant exposure and risk.

In Global Parent Utilities' 2009 rate case, the Commission in Decision No. 71878, treated $32 million of the ICFA funds as supporting excess capacity; and set that investment aside for future ratemaking treatment within the Palo Verde and Santa Cruz operating divisions. The balance of the ICFA funds received were imputed as Contributions in Aid of Construction ("CIAC") and deducted from the rate base of the three systems covered by the then existing ICFA agreements (Santa Cruz, Palo Verde and Greater Tonopah). However, the Commission

indicated in Decision No. 71878 that it was leaving open the possibility that the treatment afforded ICFA fees could be different in a future rate case.

The Global Parent Utilities argue for reversal of the ICFA fee-related decisions made by the Commission in Decision No. 71878, issued in the Global Parent Utilities' consolidated 2009 rate case filings.

Staff recommends that the ICFA fees previously designated as supporting Global Parent's excess capacity investments no longer be treated in this manner. From Staff's analysis, it cannot be concluded with specificity where any portion of the ICFA funds were utilized, therefore Staff recommends that this previous ICFA fee use designation be ended. Staff further recommends that the Commission approve hook-up fee tariffs for all of Global Parent Utilities. Mr. Armstrong explains how the ICFA fees received through the end of 2012 should be imputed as hook-up fees for ratemaking purposes, and he explains Staff's recommendations regarding how future ICFA fees would be linked to the payments required under the new hook-up fee tariffs. Mr. Armstrong's testimony discusses the need to segregate funds within the regulated utilities to ensure that the money needed for infrastructure development will be there when needed. The various measures recommended by Mr. Armstrong are meant to protect and safeguard the utilities' ratepayers from any exposure and risk that they may now face under the ICFAs.

Finally, Mr. Armstrong also discusses financial gains generated by Global Parent's non-ACC-regulated affiliates related to the early cash-outs of developer line extension refunds, and Mr. Armstrong recommends that Global Parent be directed by the Commission to develop and submit a Code-of-Conduct Policy addressing the parameters of acceptable business activities engaged in between non-regulated affiliates and the ACC-regulated Global Parent Utilities.

INTRODUCTION

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

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

Q. Please describe your educational background and professional experience.

A. I hold a Bachelor of Science degree with a concentration in Finance, and a Master of Business Administration degree with a concentration in Accounting, both from Kansas State University. I am a Certified Public Accountant. My professional experience includes serving on the staff of the Kansas Corporation Commission, the staff of the Residential Utility Consumer's Office in Arizona, and on the staff of the Oklahoma Corporation Commission. In addition, I worked as Manager of Rates for Oklahoma Natural Gas Company for approximately twelve years, and for approximately two years, I was a regulatory consultant to Westar Energy operating out of Topeka, Kansas. I joined the ACC Staff in September, 2012 as the Chief Accountant for the Utilities Division.

SCOPE OF TESTIMONY

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

A. I will address and support Staff's recommendations related to Global Parent's use of Infrastructure Coordination and Financing Agreements ("ICFAs" or "ICFA agreements") and to what I believe are some important considerations the Commission should weigh in addressing ICFA-related questions or issues.

During the course of my testimony I will refer to various Global Parent business units. Generally my discussions will address the Global Water Parent business entity as "Global

Parent." References to the Global Parent Utilities will refer to one or more of Global Parent's ACC-regulated water and wastewater operating entities. Generally a reference to the pending docket or instant docket should be interpreted as a reference to one or more of the six rate change filings docketed by the Global Parent Utilities, which were consolidated for processing by ACC Procedural Order on November 30, 2012.

Finally, I will also be providing comments to the Commission regarding financial gains generated by Global Parent's **unregulated business** from selling the contractual rights to receive future refunds associated with certain line extension agreements of the Global Parent Utilities.

INTRODUCTORY ICFA AGREEMENT DISCUSSION

Q. Mr. Armstrong, please begin by explaining what an "ICFA" agreement" is?

A. In direct testimony filed by Global Parent Utilities witness Mr. Hill in Docket No. SW-20445A-09-0077 et. al. the following overview was used to describe the ICFA agreements:

> An ICFA (Infrastructure Coordination and Financing Agreement) is a voluntary contract between Global Parent and a landowner. These contracts provide for Global Parent to coordinate the planning, financing and construction of off-site water, wastewater and recycled water plant. The Global Utilities will own and operate this plant when construction is complete. Under the ICFAs, Global Parent is responsible for funding both the planning and construction of water, wastewater and recycled water plant. The landowners who enter into the ICFAs agree to cooperate with Global Parent's plant planning and construction process. ICFAs formalize the cooperation between the landowner and Global, but also provide fees which allow Global Parent to impress conservation and consolidation into the regional planning initiatives. These fees are intended to recover a portion of the carrying costs for the very expensive facilities required to implement effective water conservation and, in some cases, to fund Global Parent's acquisition of existing utilities.

The fees referred to in this explanation are also called "landowner payments." The amount of the landowner payments vary from agreement to agreement but generally run from $1,950 to $5,500 per equivalent dwelling unit. Global Parent has entered into approximately 180 separate ICFA (or ICFA-like) agreements, and through the end of 2011 the company received approximately $67 million in ICFA fees from developers and landowners. An additional $2.4 million in ICFA fees was received during 2012. Estimates suggest that Global Parent could be entitled to receive (over several decades) as much as $1.476 billion in ICFA fees under the provisions of these existing agreements. (Support for calculation these average ICFA landowner fees, and for the estimated total ICFA fees that could be received, can be found within Attachment D to my direct testimony.)

The level of future ICFA fees is entirely dependent upon if, and when, the underlying planned residential developments actually build out, and upon the landowner fee cost escalators applicable to future ICFA fee receipts.

In my opinion, other important considerations related to understanding the structure and function of the Global Parent ICFA agreements include the following:

1. Global Parent was created in the housing boom and the ICFA agreements were an outgrowth of that economic environment;
2. The ICFA arrangements only have value because of the underlying ACC-authorized Certificates of Convenience and Necessity ("CCN") and the agreements contain express provisions for termination if the Commission does not grant the underlying regulated global utilities a CCN for the area covered by the ICFA;
3. ICFAs are "voluntary contracts" between Global Parent and a landowner;

4. ICFAs are structured to take responsibility for water planning away from developers/homebuilders;
5. ICFAs are different from main extension agreements – ICFA funds can be used to support regional planning, while main extension agreement funds are limited to paying for facilities;
6. The structure of the ICFA contracts arguably blur the line between the Global Parent holding company and the Global Parent Utilities;
7. ICFAs are not a tax-efficient source of funding;
8. ICFAs have the potential for generating extremely large, but uneven, cash inflows for Global Parent (corresponding directly to the receipt of ICFA funds), and Global Parent has committed to planning, coordinating, developing, and financing large infrastructure investments. The timing associated with Global Parent's numerous commitments under the ICFAs, and the cash outflows associated with meeting these commitments also involve extremely large, but uncertain and uneven, cash flow requirements;
9. Global Parent has never contended that ICFAs are non-jurisdictional to the ACC;
10. Developers have provided ICFA funds to Global Parent which, comingled with equity and debt provided by Global Parent, have been used for the provision of utility service, whether through acquisitions, carrying costs, or plant construction; and,
11. In Decision No. 71878, the Commission left open the possibility that the treatment afforded ICFAs could be different in a future rate case.

Source references for each of these ICFA agreement-related considerations are presented in Attachment A to my direct testimony.

Q. Mr. Armstrong, you made reference to additional ICFA fees of approximately $2.4 million received during 2012. Were these additional fees captured in the Global Parent Utilities' original rate change applications?

A. No. The company's filing only addressed the ICFA fees received through the end of 2011 (the chosen test year is the calendar year ending December 31, 2011). However, Staff's ICFA discussions and recommendations address all ICFA fees received through the end of 2012.

Q. Mr. Armstrong, do you have a Schedule that summarizes the ICFA-related pro forma adjustments proposed by the Global Parent Utilities for its various operating entities?

A. Yes, Attachment B shows the ICFA-fee links between the Global Parent Utilities' actual rate base levels at the end of the test year, and the rate base levels proposed in the Company's rate filings. The data included in Attachment B was derived from the Global Parent Utilities' rate filings and through informal inquiries made to the Global Parent Utilities. Column A presents the rate base levels from the Commission's Order in the last Global Parent Utilities rate case (Docket No. SW-20445A-09-0077 et al). Column H presents the as filed rate base in the current rate case. Columns D, E, and G all relate to the ICFA fee pro forma adjustments proposed by the Global Parent Utilities. Attachment B is for informational purposes only; the data does not represent specific findings or recommendations being made by Staff.

Q. Please summarize the Global Parent Utilities' current request to the Commission regarding the funds received under these ICFA agreements.

A. As discussed by witness Mr. Walker, the Company continues to support using ICFA funds to cover the carrying costs on regional infrastructure investments, funding acquisitions and acquisition premiums, using ICFA funds to offset the income tax liability generated for the Global Parent by ICFA funds. Further, the company supports allowing any residual funds to be imputed as Contributions in Aid of Construction ("CIAC"), which would be recognized as a reduction to rate base. The Global Parent Utilities seeks the reversal of the decision reached by the Commission in the last rate case that treated approximately $25 million of ICFA fees as CIAC.

Q. Has Global Parent's rationale and support of it ICFAs evolved over time?

A. Yes, Global Parent has placed varying levels of emphasis on the importance of, or the relative significance of, the various possible applications for which ICFA funds could be used. For example, using ICFA funds to pay carrying costs on regional infrastructure investments was previously a primary focus of the company. In fact, on page 3, line 20, of the comments filed by Global Parent on June 24, 2006, in Docket No. 06-0149, it was noted that carrying costs were "central" to the ICFA agreements. In some ICFA agreements the required landowner payments are almost exclusively described as representing an approximation of the carrying costs associated with interest and capitalized interest associated with financing water and wastewater infrastructure for the benefit of the landowner until the infrastructure is included in rate base and thus generating revenues to cover these carrying costs. In the Global Parent Utilities' current arguments, the importance of carrying costs are just mentioned in passing (in Mr. Walker's direct testimony), whereas the primary focus is now on ICFA fee support for acquisitions and for the payment of income taxes.

In many regards the Global Parent's ICFA-issue discussions (and the responsive positions of the parties that have participated in previous ICFA-issue debates that played out in previous ACC dockets or water issue workshops) have been a moving target, which in my opinion has added to the complexity of the considerations the Commission must weigh in reaching its decision regarding the regulatory treatment of the ICFA funds in the pending Global Parent Utilities' rate filings.

STAFF'S ICFA ISSUE REVIEW PLAN

Q. Mr. Armstrong, can you provide an overview of the review process Staff used in developing its ICFA recommendations in this docket?

A. Yes. Staff's review process consisted of the following steps:

a. Reviewed current rate case filing support;
b. Gathered ICFA-related data and information from past ACC dockets and water workshops;
c. Held meetings with Global Parent personnel to discuss ICFA history, the Company's Total Water Management plan, and other ICFA-related matters;
d. Reviewed discovery from a past Global Parent Utilities rate filing docket and issued discovery in the instant docket;
e. Reviewed water system acquisition due diligence work papers at the Global Parent corporate office;
f. Reviewed Ullmann & Company, P.A.'s attestation report on ICFAs;
g. Reviewed select ICFA Agreements;
h. Reviewed previous Staff Reports issued on the subject of ICFAs and alternative financing arrangements;
i. Reviewed annual financial statements issued by Global Parent; and,
j. Reviewed other financial data provided to Staff by Global Parent.

As with most regulatory issue investigations, Staff incorporated additional steps as consideration of evidence warranted.

Q. Mr. Armstrong, were Global Parent personnel generally cooperative and helpful in assisting Staff with its review of the ICFA issue?

A. Yes. Staff has been pleased with the assistance provided by Company personnel and outside consultants, and with the company's willingness to help facilitate the quick turnaround of Staff's formal and informal requests for information.

ICFA REVENUE RECOGNITION

Q. Mr. Armstrong, the language within the ICFA agreements identifies a number of responsibilities that Global Parent, also referred to as the "Coordinator" in these agreements, is assuming or will be required to deliver, in response to the receipt of the ICFA landowner payments. Can you list some of these responsibilities or deliverables?

A. Yes. Under these agreements Global Parent agrees to:

1. Coordinate construction of services for water and wastewater treatment facilities;
2. Finance and assume responsibility for the carrying costs associated with regional infrastructure investments;
3. Arrange and coordinate the provision of utility services to the property;
4. Obtain "will serve" letters for the provision of utility service to the property;
5. Where applicable, help facilitate including landowner's property in an expanded CC&N;
6. Execute line and main extension agreements with developers;
7. Develop master utility plans; and,
8. Facilitate water and wastewater service acquisitions and consolidations.

Many of these Global Parent responsibilities are typically assumed directly by the regulated utilities responsible for providing water and/or wastewater to the area.

Q. Has Staff been able to determine the portion of the individual landowner payments attributable to each of these deliverables?

A. No. Unfortunately, the information received from Global Parent suggests that in negotiating the level of landowner payment required under any particular ICFA agreement, there was no effort made to match up a specific portion of each payment with the resulting obligation(s) Global Parent was incurring. Staff issued several data requests to Global Parent asking for information along this line, including STF-8.6, STF 8.10, STF 8.11, and STF 8.12. (Refer to Attachment F to my direct testimony.) The Company's response was that the amount of the required landowner payments ultimately agreed to under each separate ICFA agreement was the result of very high level, or macro level, discussions/analysis, and that Global Parent did not perform detailed calculations or undertake any detailed cash-flow analysis in reaching agreement with regards to what would be a reasonable landowner payment under each agreement.

Q. Mr. Armstrong, are there generally accepted accounting principles ("GAAP") that might provide guidance allocating the ICFA landowner payments to the various obligations Global Parent has under these agreements?

A. Normally yes. GAAP contain a number of accounting guidelines that have relevance. Revenue recognition is a cornerstone of accrual accounting, along with the matching principle. Generally revenues are recognized when obligations under the agreement have been met and when collectability is reasonably assured.

For arrangements that have multiple deliverables, a relatively new GAAP (October 2009) could have relevance. This GAAP is codified as Topic 605. The purpose behind applying this accounting pronouncement, entitled "Multiple-Deliverable Revenue Arrangements," is to provide a clearer picture of the economic realities of such arrangements. At first

glance it appears that application of this accounting guide could be of major significance to sorting through what level of revenue dollars should be assigned to each of the various ICFA deliverables. Unfortunately, the stated effective date for this pronouncement was applicable to arrangements entered into or materially modified in fiscal periods beginning on, or after, June 15, 2010, which is after the effective dates of all of the ICFA agreements of which I am aware. Global Parent, consistent with accounting community guidance, has indicated that it was the company's intent to apply this new GAAP to agreements entered into on or after July 1, 2010.

Q. Why would having this ICFA fund breakout be helpful to the Commission?

A. In my opinion, having such external-purpose support would have helped define the relative value associated with the various deliverables (by valuing the revenues to be received in meeting the obligations Global incurred under each element of delivery) under the ICFAs and, in turn could have helped in determining a fair and reasonable allocation/assignment of the ICFA funds for ratemaking purposes.

Q. Mr. Armstrong, do you have additional comments regarding your assessment of the ICFA landowner payments?

A. Yes, however, before further addressing the ICFA landowner payment issue, I would first like to discuss the approach taken by the Global Parent in its due diligence related to water and wastewater system acquisitions.

SUMMARY OF GLOBAL PARENT'S WATER AND WASTEWATER SYSTEM ACQUISITIONS

Q. Please identify the Global Parent water system acquisitions.

A. The acquisitions included the following systems:

System	Year Acquired	Purchase Price **
Palo Verde Utilities Company and Santa Cruz	2004	$ 33,762,427
Cave Creek and Pacer Equities	2005	7,025,924
Sonoran Utilities	2005	18,550,000
West Maricopa Combine	2006	54,369,889
Francisco Grande *	2006	8,000,000
CP Water	2006	1,250,000
Balterra Sewer	2008	1,456,765

* Global Parent recently informed Staff that the proposed Francisco Grande system acquisition has been cancelled.

** Agrees with the figures presented on page 16 of the Ullmann Report.

WATER AND WASTEWATER SYSTEM ACQUISITION DUE DILIGENCE

Q. Mr. Armstrong, you previously noted that you reviewed Global Parent's due diligence support related to these acquisitions. Please explain Staff's findings regarding the due diligence Global Parent engaged in when acquiring these water and wastewater systems.

A. In response to Staff Data Request No. STF-2.1 (d), Staff was offered access to the Global Parent's due diligence work papers related to these acquisitions. I reviewed these documents on March 20, 2013, at the company's corporate office in North Phoenix.

Upon my arrival, I was provided access to 21 boxes of documents and a copy of the "Due Diligence Checklists" used by Global Parent in connection with these potential acquisitions. I was also provided an index that covered 19 of the 21 boxes of information made available for my review. Each checklist contained almost 200 steps. Global Parent used consultants to complete many of these steps. Of particular interest was the detail of

these due diligence efforts. Staff found discussions regarding the existence of office equipment leases with payments as low as $40 a month. Staff also found evidence indicating that future capital expenditure requirements were evaluated as part of Global Parent's Due Diligence efforts.

Staff's review of these due diligence work papers was not designed to re-evaluate Global Parent's ultimate decision to acquire a particular acquisition target. I was primarily interested in determining the depth and scope of the company's due diligence efforts.

Q. Mr. Armstrong, how would you compare your findings related to Global Parent's water system acquisition due diligence and the business decision due diligence associated with negotiating the size of the landowner payments under the ICFA agreements?

A. Based upon the depth of the landowner payment negotiations revealed in response to Staff's discovery, I concluded that the approaches taken appear to be very different.

As I previously noted, the company's response regarding how the level of landowner payments were negotiated indicated that the size of the required landowner payments ultimately agreed to under each ICFA agreement was the result of very high level, or macro level, discussions or analysis. Such response further indicated that Global Parent did not perform detailed calculations or undertake any detailed cash-flow analysis in reaching agreement with regard to what a reasonable landowner payment would be under each agreement. Conversely, the due diligence undertaken by the Global Parent with regards to possible acquisitions appears to have involved very detailed analysis of economic, legal, and financial considerations.

This contrast is startling when we consider the fact that the water system acquisitions involve less than $125 million in initial financial commitments, while Global Parent's direct long-term delivery obligations under the ICFA agreements could exceed $1.4 billion, since Global Parent has committed to providing infrastructure investments to make its Total Water Management plans a reality in the areas covered by the ICFAs. The magnitude of Global Parent's ultimate obligations under the ICFAs could be measured in the billions of dollars when we include both Global Parent's direct obligations and the infrastructure investments that could be partially supported through line extension agreements.

ICFA AGREEMENT-RELATED CASH FLOW CONCERNS

Q. Mr. Armstrong, please expand upon the potential significance of this finding.

A. The timing and magnitude of the revenue/cash inflows from the ICFA landowner payments are going to be very different from the cash outflows required by Global Parent's commitments under these agreements.

Anytime a going concern is faced with significant cash flow timing differences, such as when cash receipts or inflows occur far ahead of the future required cash outflows, caution must be exercised to assure that money is not spent on other indulgences, leaving the bank accounts empty (so to speak) when it comes time to actually fund the entity's obligations.

Q. Mr. Armstrong, would even the prospect of not having funds available to meet future financial commitments represent a risk that Global Parent's management should be cognizant of, proactively concerned about, and preemptively addressing?

A. Yes.

Q. Did you find evidence that Global Parent's management is aware of the fact that both the water and wastewater industries in general and Global Parent in particular, face significant financial, business, environmental, and other types of risks going forward?

A. Yes. Such risks are identified and discussed in detail in Global Parent's financial statement footnotes. They were also identified and discussed in detail in the company's December 16, 2010, common stock placement prospectus.

Q. Mr. Armstrong, does the fact that "ICFAs are structured to take responsibility for water system planning away from homebuilders," increase the capital risk exposure of Global Parent?

A. Yes. Staff believes it is logical to conclude that the shift of this capital investment risk to Global Parent is one of the major incentives to developers for entering into ICFA agreements. Obviously such a transfer of responsibility away from developers increase the level of risks being assumed by Global Parent.

The existence of this capital risk exposure was discussed in some detail on page 4 of the comments filed by Global Parent in Docket No. W-00000C-06-0149, the generic evaluation of the regulatory impact from the use of non-traditional financing arrangements by water utilities and their affiliates, opened by ACC Legal Staff memorandum in March of 2006. A copy of this page is contained in Attachment A to my direct testimony under the support tab for important ICFA agreement consideration No. 4

Q. Has the company provided evidence showing that it has, or is, assessing its obligations under the ICFAs and the business and financial risks associated with the obligations?

A. Based upon the responses provided by the company to Staff data request No. STF-13-7 issued on this subject, I conclude that, to date, the Company's assessment of these risks may be less than adequate. For example, STF-13-7 (a) asks, "Did Global undertake a formal cash flow forecast related to the receipt of ICFA funds and the outflows that were going to be required as Global meets its short and long-term obligations under the ICFA Agreements? Please explain." The company's response was, "No, Global did not undertake a formal cash flow analysis related to the ICFAs."

Q. Mr. Armstrong, would you also agree that most of the $1.4 billion in potential ICFA agreement cash flows to the Global Parent is prospective, so that adequate cash flow planning could still be undertaken and managed?

A. Yes, and I would add that hopefully the Global Parent has this long-range cash flow planning consideration well in hand…or that it gets it well in hand very shortly. Never-the-less, Staff raised its concerns based upon the information it has been provided.

It is important to note that even though the potential cash inflows from the ICFA agreements are substantial, the ICFA funds will not be sufficient to cover all of Global Parent's cash-flow requirements. Therefore, Staff would expect Global Parent's planning model to also incorporate other sources of funding, such as timely placed debt and equity issuances.

STAFF RECOMMENDED CASH FLOW ANALYSIS AND OTHER REPORTING

Q. Mr. Armstrong, does Staff believe the risks associated with future ICFA arrangement cash flows, inclusive of the cash flows associated with the obligations falling to Global Parent as a result of signing these agreements, are significant enough to justify the Commission requiring the company to undertake ongoing and detailed cash flow analysis, and to provide the Commission with the results of this analysis on a recurring schedule?

A. Yes. Staff recommends the Commission require Global Parent to provide detailed cash inflow and outflow forecasts on an annual basis, until otherwise ordered by the Commission. Such reports would need to be provided by May 1st of each year (or shortly after the company's formal annual report to shareholders has been distributed if this distribution occurs after May 1st) and each annual report would summarize the ICFA cash inflows and outflows from the previous calendar year. The report should also include forecasted annual cash inflows and outflows for at least each of the subsequent five years. The Global Parent should clearly spell out the assumptions used in making its forecasts. In subsequent years, the company should be required to identify and explain all changes that have been made to the previous assumptions. These annual cash flow forecasts should include assumptions made with regards to the sources of funds coming from debt and equity placements as well as from ICFAs and general operations. Global Parent should also be required to identify the individuals involved in making these forecasts, and for reviewing and approving these forecasts and the underlying assumptions.

Q. To be clear, Staff is making this recommendation regarding annual reports to be required from the Global Parent even though the ACC-regulated water and wastewater utilities are not signatory parties to these ICFA agreements?

A. Yes. As previously noted by Staff and other parties, there is, at best, a blurred line between the Global Parent and the regulated Global Parent Utilities under the provisions/obligations associated with these ICFA agreements. Global Parent caused this blurring by including deliverables traditionally provided by regulated utilities in the list of obligations Global Parent/ICFA agreement Coordinator. While I am certainly not attempting to express a legal opinion regarding the ICFA-linked Global Parent/Global Parent Utilities relationships, Staff believes it is clear that the ICFA agreement obligations of Global Parent have significant implications for the ACC-regulated entities. In my opinion, the presence of this vested regulated utility interest (and ratepayer interest) justifies the Commission requiring this reporting by Global Parent.

Whether this information comes directly from Global Parent, from the Global Parent Utilities, or the Global Parent and the Global Parent Utilities collectively, we will leave up to the company. However, the information must be provided in a timely manner by a knowledgeable and responsible party; and its accuracy must be attested to by all of the regulated entities and Global Parent. In the end, Staff's interest in receiving and evaluating this cash flow data is related to the impact these ICFA related cash flows could have on both the immediate and long-term rates required to be paid by the rate payers of the Global Parent Utilities.

Q. Mr. Armstrong do the Global Parent Utilities have vested interest in Global Parent's performance under the ICFAs?

A. Yes, many of the ICFA agreement-related activities assumed by the Global Parent as the activity Coordinator would traditionally be the responsibility of the underlying Global Parent Utilities. Since the Global Parent has agreed to assume these responsibilities, the regulated utilities (and their ratepayers) have a vested interest in the Global Parent completing or meeting these responsibilities in a safe, reliable, financially responsible, and timely manner.

Staff would also note that hook-up fees could have been used to fund and otherwise address many of the Coordinator responsibilities. The use of hook-up fees represent a more traditional infrastructure financing alternative that clearly falls under the Commission's jurisdiction.

Q. Mr. Armstrong, did Staff raise concerns regarding ICFA cash flows, and more specifically the tracking of ICFA funds, during the processing of the company's 2009 rate case, Docket No. SW-20445A-09-0077, et al?

A. Yes.

Q. Hasn't the Company indicated that it established separate segregated bank accounts for the ICFA funds in response to Staff's previous concerns?

A. Yes. The establishment of separate accounts is discussed by Global Parent Utilities' witness Mr. Walker on page 19, lines 6 through 8. The establishment of these separate ICFA bank accounts at the conclusion of the Global Parent Utilities' last rate case was also addressed in the company's response to Staff Data Request No. STF-8.45.

Q. Has establishing these separate ICFA bank accounts helped to provide assurance that the ICFA funds received subsequent to their establishment will be available to meet the Global Parent's ICFA-driven obligations in the years to come?

A. Unfortunately it has not. The company's response to STF-8.45 indicates that once the funds are initially placed in the segregated ICFA bank accounts, the funds are then transferred out of these accounts and combined with the Company's general bank account. The company provided Staff with "confidential" copies of the bank statements related to this segregated account and a review of those statements confirms that the funds deposited into this account are routinely (and almost immediately) transferred out of this account and into what Staff's presumes is the company's general purpose bank account.

The limited ICFA fee segregation steps taken to date by the Global Parent are not adequate. Prospectively, a portion of the future ICFA cash inflows need to be truly separated from the Global Parent's general bank account funds. Not truly separating these funds only heightens Staff's concerns regarding how the future commitments under the ICFA agreements will be financed.

Q. Mr. Armstrong, you are proposing that a further segregation of funds take place in this case; can you identify the portion of the future ICFA fees that would be subject to true cash balance segregation?

A. Yes. As I will discuss in detail later in my testimony, Staff recommends that the portion of future landowner payments that would, in turn, be imputed as "hook-up fees" would need to be separated from the Global Parent bank accounts and placed into the accounts established for hook-up fees at the utility company level. Such funds are to be used ONLY for regulated water/wastewater entity infrastructure investment needs as delineated in the Hook-up Fee Tariffs. There are also other potential funds to be received in

conjunction with main extension agreements, that should be segregated as well at the utility level.

Global Parent would not be allowed to "borrow" these funds for its purposes.

Q. **How can Staff recommend that the Commission place requirements on Global Parent when it is not a party to this Docket?**

A. Since Global Parent is a critical part of this case, Staff is recommending that it become a party to this proceeding.

STAFF RECOMMENDED TREATMENT OF ICFA FEES – FUTURE RECEIPTS AND CURRENT RECEIPTS

Q: Mr. Armstrong, is Staff making separate recommendations regarding the regulatory treatment to be given to the ICFA funds received through the end of 2012 and the future ICFA landowner payments to be received?

A. Yes. Staff's recommendations will address the ICFA funds received through December 31, 2012, and the ICFA landowner payments to be received in the future under separate recommendations.

REGULATORY TREATMENT OF FUTURE ICFA AGREEMENT FUNDS

Q. Mr. Armstrong, please address Staff's recommendations regarding the future receipt of ICFA landowner payments.

A. First, Staff recommends that the Commission direct Global Parent to cease entering into new ICFA agreements. Staff believes there are entirely too many issues, risks, and unanswered questions related to the continuing reliance on new ICFA agreements as the

means used to financially support regional water and wastewater infrastructure development.

Staff specifically recommends that hook-up fee tariffs be approved for all of the Global Parent Utilities' operations. The hook-up fee would be $2,000 for every new meter set regardless of whether the new hook-up is located within an area covered by an ICFA agreement or not. This $2,000 fee would apply to both water and wastewater new meter set requests. If a request for new service included both water service and wastewater service, the $2,000 hook-up fee would apply to each service request (i.e., $4,000 total). Attachment E to my testimony contains the standard hook-up fee tariff Staff is recommending.

Staff witness Mr. Liu co-sponsors the Attachment E hook-up fee tariff.

Generally, required hook-up fees are paid by the party requesting service. However, with regards to the receipt of future landowner payments under the existing ICFAs, Staff recommends that Global Parent be required to pay the hook-up fee out of the ICFA fees received. Such payment would need to be made to the appropriate underlying Global Parent Utility, and these hook-up fees would be maintained in separate bank accounts as required by the tariff. As previously noted, these funds could not be used by, or loaned to, the Global Parent and the funds must be used to support allowable infrastructure investments made by the regulated utility. The Global Parent Utilities must track the receipt and use of these funds in detail. In the future, the net unamortized hook-up fee balances would be recognized as rate base reductions to the extent such funds have been used to support actual used and useful rate base investments. Amortization of these hook-up fees would not begin until the funds were actually used to support rate base

investments. The hook-up fee amortization period would correspond to the depreciable life of the underlying asset, and the annual hook-up fee amortization would be recognized as an offset to recoverable depreciation expense when establishing the Company's annual cost of providing service to its customers. The Global Parent and Global Parent Utilities should submit a plan to the Commission for segregating these funds as well as other funds necessary to fund infrastructure to serve customers.

Q. How would the balance of the future ICFA fees be treated for rate making purposes?

A. The balance of the ICFA funds ultimately received, after covering the required hook-up fee, would effectively be available for use by the Global Parent to cover infrastructure investment carrying costs, pay income taxes, fund system acquisitions, or fund the other deliverables required under the ICFA agreements.

While it is Staff's recommendation that the Global Parent effectively maintain control and discretion over the use of these residual funds, the receipt and use of these residual funds would need to be identified and explained in the required annual cash flow reporting addressed earlier in my testimony.

STAFF RECOMMENDATIONS REGARDING ICFA FUNDS RECEIVED TO DATE

Q. Mr. Armstrong, can you provide a time period breakout of the ICFA fees cash flows received through the end of 2012?

A. Yes. The following is a recap of the ICFA fees received through the end of 2012:

Time Period	ICFA Funds Received
Through 2008 Per Order No. 71878 **	$60,084,123
2009 – 2011	6,532,558
2012	2,240,892
Total	$69,037,252

** A minor variance exists in reconciling the figures referenced in this Order.

Q. Mr. Armstrong, do you have an Attachment that particularizes the development of this $69,037,252 in total ICFA fees received through the end of 2012?

A. Yes. Please refer to Attachment C to my direct testimony. Column A of this Attachment shows the breakout of ICFA fees addressed in Exhibit B to Commission Decision No. 71878 issued in the 2009 consolidated Global Parent Utilities' rate cases. Columns B and C show the ICFA fees received since 2008 and column D presents the total ICFAs received through December 31, 2012. Column E of this Attachment shows Staff's ICFA/CIAC amortization through the end of 2012 so Column F represents the total net ICFA fees through the end of 2012.

I would note that there is a small level of ICFA fees attributable to Global Parent Utility operations not being addressed in the currently consolidated rate case filings. These ICFA fees relate to Hassayampa Utility Company ("HUC") and Picacho Cove. The regulated utilities of Global which are not a part of this case are hereby put on notice that they will need to file hookup fee tariffs and that the same treatment of ICFAs Staff is recommending in this case will apply to them. To simplify matters, Global should consider bringing HUC and Picacho Cove into this case as well.

Q. What is Staff's recommendation regarding ICFA fees received through the end of 2012?

A. Staff recommends that the ICFA fees received through 2012 be treated in the following manner:

1. The ICFA dollars previously attributed to supporting excess capacity (in Commission Decision No. 71878) would no longer be recognized as supporting this excess capacity. Within Exhibit B of this Decision, the total level of ICFAs supporting excess capacity was $32,391,318. Within the Global Water Utilities' filings, the total level of ICFAs now shown as supporting excess capacity is $39,000,655 (an increase of $6,609,337). However, Staff recommends that the level of ICFAs effectively released should be held at the $32,391,318 level identified in the previous Commission Decision. The Company acknowledged that its level of investment in this excess capacity infrastructure has not increased since the previous Commission finding, so no additional ICFAs have been needed to support this investment.

   For now, this investment is to remain classified as excess capacity, and Staff reserves its right to address the regulatory treatment to be afforded this investment in a future Global rate case when, and if, the investment is argued to be used and useful by the company.

2. Staff recommends capturing $23,580,646 in ICFA fee-related rate base reductions. Of this amount, $10,718,719 is to be reduced from the Palo Verde system rate base, $10,395,549 is to be recognized as a reduction to the Santa Cruz rate base, and $2,466,378 is to be recognized as a Greater Tonopah system rate base reduction.

These rate base reductions represent net imputed hook-up fee equivalents since the amounts are net of the amortization that would have been recorded through the end of 2012. These adjustments are presented in columns G and J of Attachment C to my direct testimony.

The hook-up fees, and accumulated hook-up fee amortization through December 31, 2012, for each system are as follows:

	Greater Tonopah	**Palo Verde**	**Santa Cruz**
Gross Hook-Up Fee	3,315,024	12,714,970	13,059,735
Accumulated Amort.	848,646	1,996,250	2,664,186
Net Hook -Up Fees	2,466,378	10,718,719	10,395,549

3. All remaining ICFA fees received through the end of 2012 are to be assumed to be available to the Global Parent to fund carrying costs, pay income taxes, fund acquisitions, or for any other coordinator deliverables addressed in the ICFA agreements.

ICFA landowner payments received after 2012, but before the approval of the referenced hook-up fee tariffs, would also be subject to the rate base imputation recommendations Staff is making regarding the regulatory treatment of ICFA fees received through the end of 2012. This would be done in the Global Parent Utilities' next rate case for the three systems covered by ICFA agreements – Palo Verde, Santa Cruz, and Greater Tonopah.

Q. Mr. Armstrong, please provide more details regarding how Staff calculated the net imputed hook-up fee figures shown in columns G and J of your Attachment C.

A. The following three considerations are the primary drivers in deriving these figures: Staff's $2,000 recommended hook-up fee, the $3,742 simple average ICFA fee level expected to be received over the full term of the ICFA agreements, and the $2,778 simple average ICFA fee level received through the end of 2012.

The actual receipt of the landowner fees by Global Parent are subject to certain "phase completion provisions" outlined in the respective ICFA Agreements, and the average fee received will vary by operating system, and the average fee received will vary by year. However, Staff believes using these simple averages is a reasonable accommodation for purposes of quantifying the net imputed hook-up fee rate base reductions in the pending consolidated Global Parent Utilities' rate filings.

Staff also used the following relationships derived from the three considerations just noted. $2,000 represents 53.45% of the average ICFA agreement fee while the simple average ICFA fee received through the end of 2012 only represents 74.24% of the average ICFA fee associated with all ICFA agreements.

Thus, in calculating these rate base adjustments, Staff applied 39.68% (53.45% * 74.24% = 39.68%) to the total ICFA fees received through the end of 2012 and then captured the accumulated ICFA/CIAC amortization that would have been recorded through the end of 2012 to reach these three rate base reductions recommendations. To derive the appropriate level of Accumulated Amortization to be captured, Staff utilized the effective annual depreciation rates applicable to each system provided to Staff by the Company. Work

papers supporting these calculations are included in Attachments B and C to my direct testimony.

REGULATORY RECOGNITION OF ACQUISITION ADJUSTMENTS

Q. Mr. Armstrong, does Staff have any general comments regarding Global Parent Utilities' arguments related to the recognition of acquisition adjustments for rate making purposes?

A. Yes. First, I would note that Global Parent Utilities are not seeking recognition of any level of acquisition premium as a rate base increase in its instant consolidated rate filings. The Global Parent Utilities attempt to build a general argument for recognition of acquisition premiums around the reality that, in some instances, small water company acquisitions may be in the public interest. However, the company does not tie the magnitude of the acquisition premium paid to any clear and quantifiable benefits to ratepayers. The company does not appear to attach any significance to the "amount" of the acquisition premium paid, as if it is not relevant at all. However, the magnitude of the premium is highly relevant.

With regards to the acquisition premiums paid by Global Parent, Staff would note that these premiums were paid in order to position Global Parent for future growth. Agreeing to pay these acquisition premiums represents risky investment decisions that should fall 100% to the Company's stockholders, who could eventually recognize financial gains, as these acquired service territories build out, unless the Company can meet the factors set out in Citizens Utilities Company, Docket No. W-01032A-00-0192.

On page 6 of Paul Walker's direct testimony, he states in his arguments to the Commission regarding the use of ICFA funds to pay for acquisition premiums, "let the

beneficiary bear the burden." Mr. Walker suggests that water service customers are the ultimate beneficiaries of these acquisitions. While Staff certainly hopes that customers do benefit from these acquisitions, the reality is that the ultimate beneficiaries associated with the paying of acquisition premiums are the stockholders and it is the stockholders who should bear this burden.

Q. Mr. Armstrong, to the best of your knowledge were any of the dollars paid in acquisition premiums used to improve the systems acquired or to address existing operational problems?

A. No. The company acknowledged in response to Staff data request No. STF 8.44, that none of the paid acquisition premiums were used to address operational problems. Also company witness Mr. Walker noted on page 5, lines 1 and 2 of his direct testimony that the acquisition premiums funds were not invested in rate base.

Q. Mr. Armstrong, in general what criteria would need to be met before the Commission could consider including part of an acquisition premium in a regulated utility's rate base?

A. In Citizens Utilities Company Docket No. W-01032A-00-0192, Staff noted that recovery of any acquisition premium would need to be based upon the utility's ability to "demonstrate that clear, quantifiable and substantial net benefits have been realized by ratepayers in the affected areas which would not have been realized had the transaction not occurred." Staff continues to recommend that these criteria be met before it would even consider making a recommendation to the Commission that part, or all, of an acquisition premium be included in rate base. There may be other criteria Staff or the Commission would need to consider.

STAFF COMMENTS REGARDING INDEPENDENT REVIEW OF ICFA AGREEMENTS

Q. Mr. Armstrong, on page 2 of the direct testimony filed by Global Parent Utilities' witness Mr. Walker, a reference is made to an independent audit that was to be completed to address certain questions regarding the Global Parent ICFA Agreements. Does Staff have any comments to share with the Commission regarding the report that came out of that audit?

A. Yes. The first, and perhaps one of the most important points Staff wants to make is that the engagement undertaken by Ullmann & Company, P.C. ("Ullmann") was not, and was never intended to be, an "audit." Use of the word audit is technically incorrect. While Staff understands that the term audit can be used in a very generic sense to mean any investigation conducted by a professional auditing firm, like a Certified Public Accounting firm, the accounting services undertaken by Ullmann were "attestations" and did not constitute an audit. An attestation is a written communication by a certified public accountant that expresses a conclusion about the reliability of an assertion that is the responsibility of another party.

The Ullmann Report only addresses ICFA agreements and ICFA funds received through 2008.

Pages 8 through 12 of the Ullman Report show a list of ICFA agreements and ICFA-type agreements entered into by Global Parent and various developers. With the assistance of the company, Staff was able to roll the data forward in order to get a list of the ICFA agreements and ICFA fee receipts through the end of 2012. The only comment Staff has to share regarding this information is that the report does not make clear the fact that most future ICFA landowner payment amounts (the per unit fee amounts shown close to the

middle of these pages) are subject to CPI-type payment escalators, so the potential total future payments (shown in the far right column) could be substantially higher than the $1,418,588,775 shown on page 12.

Q. Mr. Armstrong, does Staff have any comments regarding the Schedule of Net Plant Assets and Specified Cash Resources shown on page 14 of the Ullmann report?

A. Yes. This Schedule appears to be the result of Agreed-Upon Procedure Step 3 (described on page 5 of this report). Staff generally believes the intent of this Schedule was to show that Global Parent could have funded all plant investment activity made during this time period through the non-ICFA sources of funding captured on this Schedule. While Staff would agree that the data as presented could lead one to that conclusion (there is still a relatively small funding shortfall shown on the initial version of this schedule), other source and use of funds schedules could have been developed based upon other "prime assumptions." In the Ullmann report the prime assumption (or goal) was to show that plant additions could have been funded through a reliance of non-ICFA funds. The results from this exercise do not really prove anything, though again I would agree that there is validity to the conclusion that this is one possibility. At a minimum, such a possible conclusion does add creditability to Staff's current recommendation (already discussed) that the ICFA funds previously designated by the Commission as supporting excess capacity CWIP can be "released" in the Commission's decision in the instant Global Parent Utilities' dockets.

Q. Can we then conclude from the Ullman report that the bulk of the ICFA funds were probably used to fund acquisitions?

A. No, we cannot simply reach that conclusion based upon what Staff sees in this report.

Q. Please explain why such a conclusion could be in error.

A. The first problem is that the cash flow analysis prioritizes the use of funds and assumes that the non-ICFA sources of funds shown in the analysis are used to fund utility plant before any ICFA funds are used to fund plant. Such an assumption is inconsistent with reality. Since cash is fungible, no specific funding sources can be assigned to any specific use of funds. Instead, all sources of funds collectively provide a single pool of funds from which every use is funded as needed.

Second, this source and use of funds statement is point-in-time specific. In this instance, the information summarized is as of the end of each respective calendar year. A detailed analysis of the company's day-to-day cash flow demands throughout the year would reveal a different picture than what we see only at year end.

An example of this day-to-day timing consideration can be seen when looking at the data in the 2008 column. Staff notes the Global Parent apparently borrowed $60,429,910 in short-term debt sometime during 2008. The data, as presented, suggests that this $60,429,910 was used to fund the net plant additions made in 2008. While it would be logical to assume that these plant investments were made periodically throughout the year, it is also logical to assume that the short-term borrowing drawdowns did not match the cash outflows associated with the plant additions. Thus on any given day, the matchup associated with the company's actual infrastructure investment-related cash outflows and the cash inflows noted on this schedule could have been much different than is shown at year end.

Third, Staff believes that we are still missing some element of cash flow information. For example, let's start with the $4.8 million cash funding shortfall indicated at the bottom of

the last column of page 14. Then, if we turn to page 16, we can see (with a little addition not actually shown on this page) that the total dollars paid out under the various system acquisitions through the end of 2008 was approximately $85.5 million. (the total of the figures in column B). Adding these two figures together we get total cash outflows of $90.3 million. Finally, by turning to page 12 of this report we see that Global Parent only received $60.1 million from the ICFA Agreements through 2008 (the sum of the five funds collected columns). Obviously, a simple comparison of these two totals ($90.3 million in cash outflows and $60.1 million in cash inflows) indicates that something of significance is missing here.

Q. Mr. Armstrong, did Staff attempt to identify the element or elements of cash flow that are missing?

A. No. My point here is simply that, while I am reasonably sure Ullmann & Company P.A. did provide the deliverables called for under their engagement, the Commission needs to be very careful in drawing specific conclusions from the page 14 data shown in this report.

Q. Mr. Armstrong, please turn to page 16 of the Ullmann report, which is the Schedule showing the seven water and wastewater acquisitions completed by Global Parent between 2005 and 2008. Does Staff have any comments regarding the information on this page?

A. Since this page does not reflect column totals, Staff would note that this Schedule shows Global has agreed to pay a total of $124,415,005 for these seven systems. The net book value of the plant being acquired, minus AIAC, was $12,331,452. Therefore, Global Parent paid $112,083,553 in acquisition premiums. *

*As previously noted, the planned acquisition of the Francisco Grande Utility Company has been cancelled.

MAIN EXTENSION AGREEMENT REFUND "CASH-OUTS"

Q. Mr. Armstrong, you mentioned at the outset of your testimony that you would also be providing comments related to the role Global Parent played in facilitating the early cash-out of refund obligations to certain developers. Please explain this issue.

A. As a part of my initial evaluation of the Global Parent Utilities' rate filings, I reviewed the Global Parent's 2011 annual report to shareholders. On pages 25 and 26 of the footnotes to this report, I noted the following discussion:

> ....the Company's unregulated business generates gains by selling the contractual rights to receive future refunds associated with line extension agreements of GWRI's regulated utilities. Our regulated utilities have various agreements with real estate developers and builders (the "Developers"), whereby funds, water infrastructure, or wastewater infrastructure are provided to us by the Developers and are considered refundable advances for construction. We continually look for opportunities where Developers are willing to sell their rights to receive refunds under such agreements for a discounted lump sum payment. Once the Company acquires the refund rights from the Developer, we are able to transfer such rights to third parties interested in a long-term stream of refund payments. Typically, we purchase these contractual rights from the respective Developers immediately before we completed the sale of those rights. The difference between the proceeds we receive and the amounts we paid to the developer is recognized as a gain and presented as a component of **unregulated revenue** when certain circumstances are met.

The discussion goes on to indicate that approximately $1.4 million in such gains was recorded in 2011.

On page 10 of the footnotes to Global Parent's 2012 audited financial statements, the company makes the following declaration with regards to facilitating future line extension refund cash-outs: "...we view the activity as a new line of business and the Company has the ability and intent to pursue opportunities of similar transactions in the future."

Staff issued discovery related to this issue under data requests STF-1.7 and STF-1.15. Much of the data provided was deemed to be CONFIDENTIAL by Global Parent.

Q. Please continue with your discussion and recommendations.

A. Staff believes that, like the Coordinator role assumed by Global Parent under the ICFA Agreements, the company's actions, and planned course of actions with regards to pursuing this "new line of business," again blur the dividing line between regulated and non-regulated operations.

Staff is concerned that the unregulated Global Parent businesses apparently have the ability to "farm" such information for financial gain. In my opinion, by its own admission through stamping some of the responses provided to Staff's data request STF-1.7 as being confidential, the company is acknowledging that is has taken advantage of its relationship to its regulated entities by allowing access to confidential information to an unregulated affiliate.

While Staff is not making a specific recommendation regarding the gains from this activity actually booked by Global Parent's unregulated entities in 2011 and 2012, Staff does recommend that the Commission should direct the Global Parent Utilities to develop and submit a written "Code-of-Conduct" to help define appropriate, and inappropriate, inter-affiliate activities with the Global Parent.

Incumbent regulated utilities possess extensive information about customers. Such information can be a valuable commodity, as evidenced by the gains booked by Global Parent. Having a written Code-of-Conduct that must be followed should help protect the rights of customers and help head off possible preferential treatment abuse.

Q. Does this conclude your direct testimony?

A. Yes, it does.

ORIGINAL

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

ARIZONA CORPORATION COMMISSION

AZ CORP COMMISSION
DOCKET CONTROL
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December 5, 2012

Garry D. Hays
Law Offices of Garry D. Hays.
1702 E. Highland Ave., Suite 204
Phoenix, Arizona 85016

RE: Tusayan Ventures, L.L.C. – Application for a Certificate of Convenience and Necessity (CC&N) Docket No. W-20828A-11-0475
THIRD REQUEST FOR EXTENSION OF TIME TO RESPOND TO STAFF'S JANUARY 26, 2012 INSUFFICIENCY LETTER

Dear Mr. Hays:

Staff has received your third request for an extension of time, of one year, to respond to Staff's January 26, 2012 Insufficiency Letter. As you are aware, the above mentioned application was filed on December 28, 2011 and to date the application is still insufficient. Staff acknowledges receiving additional information from you on November 9, 2012, but there are a lot of unanswered questions.

If the Company wishes to pursue the application, please submit the remainder of the information by June 1, 2013. Staff would most likely recommend that this docket be closed if the remainder of the information is not submitted by June 1, 2013 (approximately 18 months after the application was filed).

If you have any questions concerning this matter, please do not hesitate to contact me at 602-542-0840 or Marlin Scott, Jr. at 602-542-7272.

Very truly yours,

Blessing N. Chukwu
Executive Consultant III

Arizona Corporation Commission
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DEC 05 2012
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BNC
cc: Docket Control
Del Smith
Lyn Farmer
Brian Bozzo
ConnieWalczak

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

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ARIZONA CORPORATION COMMISSION

August 7, 2012

Garry D. Hays
Law Offices of Garry D. Hays.
1702 E. Highland Ave., Suite 204
Phoenix, Arizona 85016

RE: Tusayan Ventures, L.L.C. – Application for a Certificate of Convenience and Necessity (CC&N) Docket No. W-20828A-11-0475
SECOND REQUEST FOR EXTENSION OF TIME TO RESPOND TO STAFF'S JANUARY 26, 2012 INSUFFICIENCY LETTER

Dear Mr. Hays:

Staff has received your second request for an extension of time to respond to Staff's January 26, 2012 Insufficiency Letter. As you are aware, the above mentioned application was filed on December 28, 2011 and to date the application is still insufficient. Staff notes your efforts in beginning the United States Forest Service ("USFS") directed Environmental Assessment (EA) process and hiring a NEPA Consultant, Westland Resources, to help you with the application.

If the Company wishes to pursue the application, please file the response to the January 26, 2012 Insufficiency Letter by November 6, 2012. After November 6, 2012, if the Company fails to respond to the January 26, 2012 Insufficiency Letter, Staff may request that the case be administratively closed.

If you have any questions concerning this matter, please do not hesitate to contact me at 602-542-0840 or Marlin Scott, Jr. at 602-542-7272.

Very truly yours,

Blessing N. Chukwu
Executive Consultant III

Arizona Corporation Commission
DOCKETED
AUG 08 2012
DOCKETED BY

BNC
cc: Docket Control
Del Smith
Lyn Farmer
Brian Bozzo
ConnieWalczak

Global Water Utilities

Docket No. W-01212A-12-0309, et al

James R. Armstrong

Direct Testimony

Attachment A

Other important considerations related to understanding the structure and purpose of Global's ICFA agreements include the following:

1. Global Water was created in the housing boom and the ICFA agreements were an outgrowth of that economic environment;

Docket No. SW-0357A-09-0077 et al, Global witness Mr. Hill direct testimony, page 16, line 9

2. The ICFA arrangements only have value because CCNs and the agreements contain express provisions for termination if the Commission does not grant the underlying regulated global utilities a CCN for the area covered by the ICFA;

Docket No. SW-0357A-09-0077 et al, Global witness Mr. Hill direct testimony, page 33, lines 5 through 7; Global water workshop comments, pages 5 and 15

3. ICFAs are "voluntary contracts" between Global Parent and a landowner;

Docket No. SW-0357A-09-0077 et al, Global witness Mr. Hill direct testimony, page 31, line 6 and 7; Docket No. SW-0357A-09-0077 et al, Global witness Mr. Rowell direct testimony, page 15, line 9 and 10 Global water workshop comments, page 4, line 18

4. ICFAs are structured to take responsibility for water planning away from homebuilders;

Docket No. SW-02445A-09-0077 et al, Global witness Mr. Hill rebuttal testimony, page 7, line 15. Page 4 of Global comments filed June 23, 2006 in Docket No. 06-0149.

5. ICFAs are different from main extension agreements – ICFA funds can be used to support regional planning, while main extension agreement funds are limited to paying for facilities.

Global water workshop comments, pages 9 and 10.

6. The structure of the ICFA contracts arguably blurs the line between the holding company and the utility;

Direct testimony of Arizona Water Company witness Mr. Garfield, Docket No. W-01445A-06-0200, page 7, line 1 through page 8, line 2.

7. ICFAs are not a tax-efficient source of funding;

ACC Order No. 71878, pages 27 and 28. Direct testimony of John Thornton on behalf of Arizona Water Company, Docket No. W-01445A-06-0200, page 27, line 22 through page 28, line 11.

8. ICFAs have the potential for generating extremely large, but uneven, cash flows for Global, and (corresponding directly to the receipt of ICFA funds), Global Parent has committed to planning, coordinating, developing, and financing large infrastructure investments which also involve uncertain, and uneven, cash flows requirements;

Refer to ICFA coordinator responsibilities discussion summarized in direct testimony of Mr. Armstrong, page 8. Provisions of ICFA Agreements discussing landowner payments and "coordinator's obligations. Global Parent is the coordinator in the ICFA agreements. Ullmann Report, page 12.

9. Global has never contended that ICFAs are non-jurisdictional to the ACC;

Docket No. SW-02445A-09-0077 et al, Global witness Mr. Hill rebuttal testimony, page 21, line 19.

10. Developers have provided ICFA funds to Global Parent which, comingled with equity and debt provided by Global Parent, have been used for the provision of utility service, whether through acquisitions, carrying costs, or plant construction;

Commission finding in Order No. 71878, page 30, lines 15 - 18

11. In Decision No. 71878, the Commission left open the possibility that the treatment afforded ICFAs could be different in a future rate case.

Commission finding in Order No. 71878, page 31, lines 15 - 18

Global Water
Docket No. W-01212A-12-0309 et al

James R. Armstrong
Direct Testimony

Attachment A
ICFA Agreement – Important Consideration No. 1 Support

Global Water was created in the housing boom and the ICFA agreements were an outgrowth of that economic environment.

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE APPLICATION OF GLOBAL WATER – PALO VERDE UTILITIES COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. SW-03575A-09-

Direct Testimony

of

Trevor T. Hill

February 20, 2009

Our state faces major challenges on the path to recovery. Predictions are that job growth will not improve until 2010 and our housing market will not recover until 2012 at the earliest. The Arizona growth engine has stopped. This does not mean Arizona will not recover. Housing affordability has improved (as a result of falling home prices), and Arizona continues to be home to vibrant companies which will again grow. In fact, the US Census Bureau believes that Arizona will move into the top ten most populous states by 2030, growing by 109% to 10.7 million people.[16]

Global Water was created in a housing boom and a record drought. Our company is designed to handle explosive growth and difficult weather conditions. This does not mean that we cannot handle downturns, or that wet years obviate the need for total water management. As explained later in this testimony, Global Water has reduced its staffing, reorganized its operations, and embarked on new business platforms such as Global Green Billing. We are retooling and adapting to today's conditions, but we continue to believe that Arizona's future will involve growth and water scarcity – and our collective ability to manage those two challenges will determine our state's success.

Q. How has Global Water responded to the economic downturn?

A. Global Water has addressed this issue by reducing expenses and conserving capital through the following:

1. Economies and Efficiencies Task Force (EETF)

The EETF is chartered with the responsibility of determining methods and practices to reduce operating costs to a minimum acceptable level consistent with ensuring compliant operations at all times. The goal of the EETF is to review operating costs associated with

[16] US Census Bureau, Press Release CB05-02, April 21, 2005. Attached at Attachment Hill-11.

Global Water
Docket No. W-01212A-12-0309 et al

James R. Armstrong
Direct Testimony

Attachment A
ICFA Agreement – Important Consideration No. 2 Support

The ICFA arrangements only have value because of the underlying ACC-authorized Certificates of Convenience and Necessity ("CCN") and the agreements contain express provisions for termination if the Commission does not grant the underlying regulated global utilities a CCN for the area covered by the ICFA.

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68389

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE APPLICATION OF GLOBAL WATER – PALO VERDE UTILITIES COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. SW-03575A-09-

Direct Testimony

of

Trevor T. Hill

February 20, 2009

Q. What areas are covered by ICFAs?

A. Maps showing areas covered by ICFAs are included as Attachment Hill-10.

Q. Do the ICFAs grant some type of monopoly or right to serve those areas?

A. Absolutely not. Only the Commission can do that through the CC&N process. In fact, the ICFAs contain express provisions for termination if the Commission does not grant the Global Utilities a CC&N for the area covered by the ICFA. Furthermore, the ICFA mechanism is a voluntary financing methodology offered to landowners. Landowners always have the choice to enter into standard main and line extension agreements.

Q. How do ICFAs relate to conservation?

A. First of all, they eliminate the developer-financed approach which almost always builds the lowest-capital cost solution and ignores both long-term costs such as energy and treatment, and avoids investing in water recycling and recharge.

Second, ICFAs allow for many developers to support one regional plan. The ICFAs contain a 'most favored nation' term in ICFAs, which assures developers that no competing developer (in the same group of ICFAs) has struck a 'better deal' with Global. Additionally, ICFAs allowed us to consolidate and acquire CC&Ns – I use the term CC&N rather than utility because the vast majority of our acquisition efforts didn't yield us usable and well-designed utilities, we were always buying CC&N rights that had long ago accrued to undercapitalized providers who had neither the interest not the capability of enacting meaningful regional planning.

Finally, ICFAs allowed Global to partially offset the carrying costs of emplacing $200+ million of utility plant in a five-year period. And that scope of investment was needed to provide maximum water recycling. In the case of Palo Verde and Santa Cruz, in an area

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
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William A. Mundell
Marc Spitzer
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Director Utilities

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IN THE MATTER OF THE COMMISSION'S GENERIC EVALUATION OF THE REGULATORY IMPACT FROM THE USE OF NON-TRADITIONAL FINANCING ARRANGEMENTS BY WATER UTILITIES AND THEIR AFFILIATES

Docket No. W-00000C-06-0149

Global's Comments

Santa Cruz Water Company, LLC; Palo Verde Utilities Company, LLC; Global Water – Santa Cruz Water Company; Global Water – Palo Verde Utilities Company; Cave Creek Water Company; and Hassayampa Utility Company (the "Global Utilities") and Global Water Resources, LLC ("Global Parent")(collectively "Global") hereby provide their comments regarding this docket.

I. Introduction.

We appreciate the opportunity to provide comments concerning the important subject of non-traditional financing arrangements. Arizona has rapid growth combined with limited water resources. We have carefully analyzed the issues facing our State – the Colorado River is, according to ADWR, overallocated by millions of acre-feet per year, Arizona is in a very long drought period, ADWR has been stymied by litigation in its efforts to enact meaningful gallons per capita per day regulations, and the twin pressures of growth and arsenic compliance are overwhelming small water companies. In this situation, it is essential that we find ways to maximize the use of our water resources, while minimizing any potential adverse environmental effects. Growth, arsenic compliance and the drought have stretched – sometimes beyond the breaking point – the resources of small water and wastewater providers. These small utilities often

ICFAs require main extension agreements with the Global Utilities, which must be approved under A.A.C. R14-2-406. In addition, the ICFAs carefully respect the Commission's authority over the CC&N process. Utility service will not be provided to the land until the Commission approves a CC&N, and until a main extension agreement is in place and approved under A.A.C. R14-2-406. If the Commission denies a CC&N for the area, the landowner "may terminate this Agreement without recourse to either party". ICFA § 7.

B. The ICFAs allow conservation, consolidation, and cooperation.

1. Conservation.

Water conservation is critically important to the future of our state. For example, a recent report from a committee of the Arizona Department of Water Resources finds that Pinal County has limited groundwater. Recent calculations show that the Pinal Active Management Area ("AMA") has a renewable groundwater supply of about 82,000 acre feet per year on an average annual basis[1]. This represents real "wet water" that will be physically available and can be safely withdrawn over the long term without depleting the aquifer. Yet more than 272,000 acres of land have been issued Irrigation Grandfathered Rights.[2] At an extinguishment value of 1.5 AF/acre, this represents a potential draw of 408,000 acre feet of "paper water" that could be allocated for withdrawal. Relying on paper water alone will not be sufficient. The water conservation triad can close this substantial gap between paper water and wet water - but only if it is put into effect.

Each element of the water conservation triad – reclaimed water, surface water, and water recharged into the aquifer – requires substantial capital. Traditional financing methods are designed to fund only the facilities absolutely necessary to meet the minimum regulatory requirements. It is akin to aiming to get a "D minus" and barely pass. Triad-level facilities are simply not built using traditional methods. Conservation requires doing far more than the minimum. Effective conservation requires – and the Commission should expect – "A plus" work.

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[1] From the Pinal Active Management Area Groundwater User's Advisory Committee "Assured Water Supply Modifications Concepts" draft dated December 29, 2005.

[2] *Id.*

ROSHKA DEWULF & PATTEN, PLC
ONE AR[illegible]A CENTER
400 EAST VAN B[illegible] STREET - SUITE 800
PHOENIX, ARIZONA 85004
TELEPHONE NO 602-256-6100
FACSIMILE 602-256-6800

retains full authority over the CC&N process. If the CC&N is not granted, the ICFA has little value, and the landowner has the option of cancelling it. This means that Global Parent is taking an entrepreneurial risk – a risk not appropriate for any regulated utility, such as the Global Utilities. If growth fails to develop as planned, it is Global Parent that will have sunk large amounts of money into unused infrastructure. In addition, the Commission, through its Staff, will still review the related main extension agreements in accordance with A.A.C. R14-2-406. The Commission also retains full authority over the Global Utilities, including their rates and service quality.

- **The nature of the "per dwelling unit" fees charged by GWR.**

These fees are based on the carrying costs of the capital necessary to serve the development. In addition, other costs may be factored in, such as the cost of acquiring an existing utility, or the costs of acquiring access to surface water. The fees are negotiated. The developers who sign the ICFAs are typically very sophisticated. The same fees apply to an entire area, so that there is no discrimination. This means that Global Parent is often negotiating with multiple developers at once.

- **From afar, they resemble "hook-up" fees? Are they? If so, please explain the legal basis for these fees when GWR is not a Public Service Corporation (PSC).**

The ICFA fees are not hook up fees. A key difference is that hook-up fees can only be used for a single purpose - to fund specific future infrastructure, while ICFA fees can be used for many purposes, such as funding consolidation and conservation efforts. In addition, hook-up fees are mandatory, while ICFA fees are entirely voluntary. Inside the existing CC&N area of a Global Utility, the landowner always has the option of signing a traditional main extension agreement. Outside the current CC&N area, the landowner can always request service from another utility, or even form its own utility if allowed by the Commission. Additional differences between ICFAs and hook up fees are discussed in Section II.D above.

ROSHKA DEWULF & PATTEN, PLC
ONE AR A CENTER
400 EAST VAN BU STREET - SUITE 800
PHOENIX, ARIZONA 85004
TELEPHONE NO 602-256-6100
FACSIMILE 602-256-6800

Global Water
Docket No. W-01212A-12-0309 et al

James R. Armstrong
Direct Testimony

Attachment A
ICFA Agreement – Important Consideration No. 3 Support

ICFAs are "voluntary contracts" between Global Parent and a landowner.

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68389

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE APPLICATION OF GLOBAL WATER – PALO VERDE UTILITIES COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. SW-03575A-09-

Direct Testimony

of

Trevor T. Hill

February 20, 2009

Global Water has used the ICFA to implement the policy vision that Global Water and the Commission share. In that context, we believe that Global Water and the Commission can reach agreement on the accounting mechanism for this valuable tool.

Q. What is an ICFA?

A. An ICFA (Infrastructure Coordination and Financing Agreement) is a voluntary contract between Global Parent and a landowner. These contracts provide for Global Parent to coordinate the planning, financing and construction of off-site water, wastewater and recycled water plant. The Global Utilities will own and operate this plant when construction is complete. Under the ICFAs, Global Parent is responsible for funding both the planning and construction of water, wastewater and recycled water plant. This is a significant investment for Global Parent. The landowners who enter into the ICFAs agree to cooperate with Global Parent's plant planning and construction process. ICFAs formalize the cooperation between the landowner and Global, but also provide fees which allow Global Parent to impress conservation and consolidation into the regional planning initiatives. These fees are intended to recover a portion of the carrying costs for the very expensive facilities required to implement effective water conservation and, in some cases, to fund Global Parent's acquisition of existing utilities.

Q. Does Global Parent pay taxes on the revenues received under ICFAs?

A. Yes. We pay taxes on ICFAs as part of our consolidated revenues – tax liability on the $60 million received is $24 million.

Q. Please describe the fees contained within the ICFAs.

A. ICFAs typically require landowners to pay a fee related to acquisition of utilities and the carrying costs of the funds associated with plant planning and construction to Global Parent. Importantly, most of these fees are typically due at the time of final plat approval,

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
KRISTIN K. MAYES, Chairman
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BOB STUMP

IN THE MATTER OF THE APPLICATION OF GLOBAL WATER – PALO VERDE UTILITIES COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. SW-03575A-09-

Direct Testimony

of

Matthew J. Rowell

February 20, 2009

A. Yes. Hook up fees require that developers (or end use customers) contribute to the water or wastewater utility. Hook up fees are specifically designed to cover actual plant investment. The ICFA fees, however, are not covering actual plant investment. Global Parent makes that investment. ICFA fees partially offset Global Parent's carrying costs. Another key difference is that hook-up fees are typically not taxable income for water or wastewater utilities. In contrast, Global Parent pays taxes on the ICFA fees. A final key difference is that hook-up fees are mandatory tariffed fees paid to the regulated utility. In contrast, ICFAs are purely voluntary, and the ICFA fees are not paid to the regulated utility. The ICFA fees are the result of voluntary negotiations between Global Parent and developers and landowners.

Q. Should the ICFA fees be treated as advances or contributions (AIAC or CIAC?)

A. No. The per EDU fees contained in ICFAs are intended to offset the carrying costs of plant investments *not* the actual plant investment itself. Advances and contributions are designed to cover the actual plant investment itself. Also, Global Parent pays a significant amount of tax on the per EDU fees collected through the ICFAs. Water and wastewater main extension agreements that create AIAC and CIAC typically include "gross-up" provisions that apply should those fees be found to be taxable. In contrast, ICFA fees cannot be grossed-up.

Q. What effect does the ICFA method of financing have on utilities' balance sheets (compared to traditional advances or contributions in aid of construction)?

A. The ICFAs do not have any direct impact on the utilities' balance sheets. The funds received through the ICFAs are revenues for Global Parent that help offset some of the carrying costs of plant construction, or acquisition payments for the purchase of other utilities. Because of this, Global Parent has been able to invest equity in plant which implements the "Total Water Management" conservation strategy for its subsidiary

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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE COMMISSION'S GENERIC EVALUATION OF THE REGULATORY IMPACT FROM THE USE OF NON-TRADITIONAL FINANCING ARRANGEMENTS BY WATER UTILITIES AND THEIR AFFILIATES

Docket No. W-00000C-06-0149

Global's Comments

Santa Cruz Water Company, LLC; Palo Verde Utilities Company, LLC; Global Water – Santa Cruz Water Company; Global Water – Palo Verde Utilities Company; Cave Creek Water Company; and Hassayampa Utility Company (the "Global Utilities") and Global Water Resources, LLC ("Global Parent")(collectively "Global") hereby provide their comments regarding this docket.

I. Introduction.

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infrastructure to meet the triad of water conservation on a regional scale and cover the time value of the equity it invests – and if Global Parent has overestimated growth, Global Parent, not the regulated utility, not the developer, bears the risk.

In enacting our 3C approach, Global Parent undertakes significant entrepreneurial risk. The ICFAs allow Global Parent to reduce its financial exposure as it emplaces hundreds of millions of dollars in infrastructure that is far beyond the norm for any water/wastewater provider, public or private. Global Parent is financing and building the infrastructure necessary to address water scarcity in a fast-growing region – if the growth slows, however, that infrastructure will wait a very long time before becoming 'used and useful'. Such a risk is inappropriate for a regulated utility, such as the Global Utilities, but well within the capability of the Global Parent's owners. The ICFAs reduce Global Parent's risk by providing compensation for the carrying costs – not the principal – of Global Parent's investment. The ICFAs also shields the Global Utilities from these growth-related risks.

Another central concept is openness. The ICFAs are recorded, public documents. The ICFAs are negotiated in a transparent process that where each landowner in an area is offered the same terms. In fact, many ICFAs contain "most favored nation" clauses, which provide that if any other landowner in the area is offered better terms, the protected landowner gets the benefit of those terms. The execution of an ICFA is also a voluntary action on the part of the land owner. Traditional financing methodologies are available at the option of the land owner.

The ICFA payments provide for payments tied to various events. Typically, all or a large portion of the ICFA carrying costs are payable at the time of plat approval. For example, in the case of the ICFA attached to Commissioner Mundell's letter, all the fees are payable upon plat approval. ICFA § 4. In other cases, some of the ICFA fees are payable at certain other defined events, such as when certain permits or certificates are approved.

The ICFAs carefully avoid infringing on the Commission's powers. The ICFAs do not cover rates for utility services, and the Commission, as always, has full authority over the rates charged by the Global Utilities. Likewise, the main extension process is respected. In fact, the

ROSHKA DEWULF & PATTEN, PLC
ONE AR[illegible]A CENTER
400 EAST VAN B[illegible] STREET - SUITE 800
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FACSIMILE 602-256-6800

Global Water
Docket No. W-01212A-12-0309 et al

James R. Armstrong
Direct Testimony

Attachment A
ICFA Agreement – Important Consideration No. 4 Support

ICFAs are structured to take responsibility for water system planning away from developers/homebuilders.

DOCKET NOs. SW-02445A-09-0077 *et al.*

Rebuttal Testimony
of
Trevor T. Hill

November 20, 2009

community does to its water affects the environment, and affects everyone's water. So, if China poisons water with its industrial waste that will affect more than China. And if Arizona continues to waste its water, or to ignore the long-term costs of using coal to pump water 334 miles uphill, Arizona will affect more than itself.

And on the positive side of the ledger – if Arizona decides to be the world's leader in Total Water Management, if we decide to be the most water-wise place in the world, we will be able to prove technologies and systems that will then be exported globally and we will save millions of people from water crises. I think it's important that the Commission understand clearly that that is what Global Water is about – that is our goal, that is our mission, and that has driven all of our decisions (yes, even the ICFA was based on that view).

Q. How does the ICFA relate to that view?

A. In two ways. First, ICFAs take water planning away from homebuilders – so water is not about "fueling growth" in the short term, it's about sustaining communities and the environment, simultaneously. Second, ICFAs are structured so that no developer-owned water "utility" can compete – Global Parent wears all the risks of permitting, financing, growth, used and useful determinations, safety, and public-private relationships. This is how we came to have so many sections of CC&N area.

Q. What are the results of that effort?

A. In the Maricopa area, we use 40% less water than our neighbors. In the planned Belmont area, we will use 60% less water to sustain that community. In Belmont, we will be down to 0.2 acre-feet per house per year, from 0.5. And developers support us, because of the risk-bearing that Global Parent incurs. In the absence of these measures, economic

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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE COMMISSION'S GENERIC EVALUATION OF THE REGULATORY IMPACT FROM THE USE OF NON-TRADITIONAL FINANCING ARRANGEMENTS BY WATER UTILITIES AND THEIR AFFILIATES	Docket No. W-00000C-06-0149 **Global's Comments**

Santa Cruz Water Company, LLC; Palo Verde Utilities Company, LLC; Global Water – Santa Cruz Water Company; Global Water – Palo Verde Utilities Company; Cave Creek Water Company; and Hassayampa Utility Company (the "Global Utilities") and Global Water Resources, LLC ("Global Parent")(collectively "Global") hereby provide their comments regarding this docket.

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infrastructure to meet the triad of water conservation on a regional scale and cover the time v of the equity it invests – and if Global Parent has overestimated growth, Global Parent, not the regulated utility, not the developer, bears the risk.

Risk

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ROSHKA DEWULF & PATTEN, PLC
ONE ARIZONA CENTER
400 EAST VAN BUREN STREET - SUITE 800
PHOENIX, ARIZONA 85004
TELEPHONE NO 602-256-6100
FACSIMILE 602-256-6800

Global Water
Docket No. W-01212A-12-0309 et al

James R. Armstrong
Direct Testimony

Attachment A
ICFA Agreement – Important Consideration No. 5 Support

ICFAs are different from main extension agreements – ICFA funds can be used to support regional planning, while main extension agreement funds are limited to paying for facilities.

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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE COMMISSION'S GENERIC EVALUATION OF THE REGULATORY IMPACT FROM THE USE OF NON-TRADITIONAL FINANCING ARRANGEMENTS BY WATER UTILITIES AND THEIR AFFILIATES

Docket No. W-00000C-06-0149

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The ICFAs also allow cooperation with developers. For example, Global Parent has worked with developers to buy troubled systems using ICFAs. In addition, the ICFAs do not require developers to borrow money to make huge upfront payments to the utility, as often happens with main extensions. By restructuring the timing of payments, Global Parent is able to make the ICFAs attractive to developers, who agree to the other aspects of the ICFA – such as promotion of reclaimed water and surrender of groundwater wells – as part of the package.

C. ICFAs are not main extensions.

ICFAs are very different from main extension agreements. The ability to do regional planning, the timing of when facilities are constructed and when developers pay, who actually does the construction, and the functions that can be financed are all sharply different. In addition the parties are different, because utilities are parties to main extension agreements but not ICFAs.

A key difference is in regional planning. Main extensions are done on a parcel by parcel basis. A developer pays for the facilities need to serve their development only. A.A.C. R14-2-406(B)(1). This typically results in things like small, highly inefficient "package" treatment plants. In contrast, under the ICFA, Global plans and constructs regional facilities to gain economies of scale. For example, Global puts in large 48 inch collection mains. Under a main extension approach, multiple smaller lines would eventually be constructed instead, often running parallel to each other.

The timing of construction is also different. Main extensions must be processed in the "order received." A.A.C. R14-2-406(J). If a utility gets main extension requests for opposite ends of its service area at the same time, it must build them both, rather than waiting for neighboring development to fill in. This reinforces the tendency to build small, inefficient facilities because the utility can't afford to "upsize" them for future growth. Under the ICFA, Global Parent is able to coordinate the timing of construction. This reinforces Global Parent's ability to plan and build large regional facilities.

Moreover, under a main extension approach, the construction is usually done by the developer, who then turns the facilities over to the utility. In contrast, under the ICFA, "off-site"

ROSHKA DEWULF & PATTEN, PLC
ONE AP[illegible]A CENTER
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PHOENIX, ARIZONA 85004
TELEPHONE NO 602-256-6100
FACSIMILE 602-256-6800

facilities are utility built. This results in developers building homes, and utilities building utility plant.

Most fundamentally, ICFAs and main extension agreements pay for different things. Main extensions can only pay for facilities. A.A.C. R14-2-406(B)(1). ICFAs only pay the carrying costs associated with the provision of facilities. And they can be used for many things that are not facilities at all. This includes forming new utilities, consolidating existing utilities, paying for CAP reservation fees, and paying for the protection of canal systems.

D. ICFAs are not like hook-up fees.

There are also many differences between ICFAs and hook-up fees. For example, hook-up fees are mandatory, while ICFAs are voluntary. In addition, hook-up fees result in high levels of contributions in aid of construction ("CIAC"), while ICFAs result in equity.

Hook-up fees are allowed only for specific future infrastructure.[1] In contrast, the ICFA allows the utility to control the timing of construction. More importantly, hook-up fees are limited to infrastructure.[2] In contrast, as noted above, ICFAs can be used for many important uses other than physical infrastructure, such as the consolidation of utilities.

III. <u>The P3s are in the public interest.</u>

The P3s are not financing agreements. Instead, they merely provide for cooperation between Global and the cities. The P3s are public documents adopted after open and full deliberation by the Cities of Maricopa and Casa Grande. The P3s with Maricopa and Casa Grande are attached as Exhibits B and C, respectively. The P3s serve many beneficial purposes. They help the cities cope with growth. Indeed, one of the core purposes of the P3s is to help the cities manage growth in accordance with Arizona's Growing Smarter and Growing Smarter Plus laws. Casa Grande P3, page 1. For example, Global must prepare an annual "Plan for Growth" for the city's planning area. *Id.* at ¶ 10. Global will also share its Geographical Information

[1] See Staff Memorandum filed June 8, 2006 in Docket No. W-01303A-06-0284.
[2] *Id.*

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Global Water
Docket No. W-01212A-12-0309 et al

James R. Armstrong
Direct Testimony

Attachment A
ICFA Agreement – Important Consideration No. 6 Support

The structure of the ICFA contracts arguably blur the line between the Global Parent holding company and the regulated utility.

BEFORE THE ARIZONA CORPORATION COMMISSION

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ARIZONA WATER COMPANY, an Arizona corporation, Complainant, vs. GLOBAL WATER RESOURCES, LLC, a foreign limited liability company; GLOBAL WATER RESOURCES, INC., a Delaware corporation; GLOBAL WATER MANAGEMENT, LLC, a foreign limited liability company; SANTA CRUZ WATER COMPANY, LLC, an Arizona limited liability corporation; PALO VERDE UTILITIES COMPANY, LLC, an Arizona limited liability corporation; GLOBAL WATER - SANTA CRUZ WATER COMPANY, an Arizona corporation; GLOBAL WATER – PALO VERDE UTILITIES COMPANY, an Arizona corporation; JOHN AND JANE DOES 1-20; ABC ENTITIES I - XX, Respondents.	DOCKET NOS. W-01445A-06-0200 SW-20458A-06-0200 W-20446A-06-0200 W-03576A-06-0200 SW-03575A-06-0200 **CERTIFICATE OF FILING OF SUPPLEMENTAL DIRECT TESTIMONY AND EXHIBITS**

Arizona Water Company is today filing the supplemental direct testimony and exhibits of its witnesses William M. Garfield, Joseph D. Harris and John S. Thornton.

RESPECTFULLY SUBMITTED this 30th day of November, 2007.

ARIZONA WATER COMPANY

By: Robert W. Geake

Robert W. Geake
Vice President and General Counsel
ARIZONA WATER COMPANY
Post Office Box 29006
Phoenix, Arizona 85038-9006

and

Steven A. Hirsch
Rodney W. Ott
BRYAN CAVE LLP
Two North Central Avenue, Ste. 2200
Phoenix, Arizona 85004-4406

CARFIELD DIRECT
06-0200

Q. Can you cite any specific similarities between the activities of water utilities owned by public service corporations and municipally owned water utilities?

A. Yes. All water utilities, whether owned and operated by public service corporations or municipalities, must perform the following activities:

1. Read water meters.
2. Render water bills.
3. Collect customer payments.
4. Establish, re-establish, and disconnect water service.
5. Maintain a meter repair, maintenance, and replacement program to ensure meter accuracy.
6. Install water services.
7. Install, maintain, and replace water mains, fire hydrants, valves.
8. Operate water treatment facilities.
9. Respond to customer complaints, questions, or concerns.
10. Establish conditions of service and other terms for the provision of water service.
11. Establish construction standards for water distribution, supply, treatment, storage, pumping and other water utility infrastructure.
12. Prepare capital improvement plans and financing plans for funding utility infrastructure.

Q. How does the foregoing differ from the Global Respondents or between their affiliates?

A. Unlike nearly every other public and privately owned water utility in Arizona, the above-listed water utility activities are <u>not</u> performed by Santa Cruz Water Company but are instead performed by Global Water Management, an entity not presently subject to the

Two North Central Avenue, Suite 2200
Phoenix, Arizona 85004-4406
(602) 364-7000

Commission's regulation and which is aggressively seeking to avoid the Commission's scrutiny.

Q. Does Arizona Water Company perform any cost analysis concerning customer revenues and their relationship to the cost of installing water system infrastructure, such as in extending water service to new developments?

A. Yes. Arizona Water Company reviews the cost of water utility infrastructure and compares it to the revenues expected from the customers to be connected to such utility infrastructure. If the cost of such utility infrastructure is disproportionate to the expected revenues, Arizona Water Company requires the developer to advance the cost of such utility infrastructure as a refundable advance for construction. Through my review of information provided by Global through data responses including numerous ICFAs executed by Global, I have learned that Global, in contrast has committed its regulated utilities, such as Santa Cruz Water Company, to extend water utility infrastructure up to the boundaries of each development all at the cost and risk of Santa Cruz Water Company. Although the method of funding this utility infrastructure is characterized in the ICFAs as equity funding from Global into Santa Cruz Water Company, our witnesses' reviews determined that the real method of funding is through debt incurred by Global, but with repayment of the borrowed money to the creditors assured through mortgaging the operating revenues of Santa Cruz Water Company. Mr. Harris and Mr. Thornton address this in their supplemental direct testimony. Although the utilities are not parties to the ICFAs, Global forces Santa Cruz Water Company to bear the risk and financial burden of installing utility infrastructure whose cost is disproportionate to the expected revenues. In fact, Global admits that most of the utility infrastructure being constructed by Santa Cruz Water Company and Palo Verde Utilities Company is at Global's direction (but presumably at Santa Cruz Water Company's and Palo Verde Utilities Company's cost), is serving no one, and it very likely won't serve

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Global Water
Docket No. W-01212A-12-0309 et al

James R. Armstrong
Direct Testimony

Attachment A
ICFA Agreement – Important Consideration No. 7 Support

ICFAs are not a tax-efficient source of funding.

BEFORE THE ARIZONA CORPORATION CC

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Arizona Corporation Commission
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IN THE MATTER OF THE APPLICATION OF GLOBAL WATER – PALO VERDE UTILITIES COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. SW-20445A-09-0077
IN THE MATTER OF THE APPLICATION OF VALENCIA WATER COMPANY – GREATER BUCKEYE DIVISION FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-02451A-09-0078
IN THE MATTER OF THE APPLICATION OF WILLOW VALLEY WATER COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-01732A-09-0079
IN THE MATTER OF THE APPLICATION OF GLOBAL WATER – SANTA CRUZ WATER COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-20446A-09-0080
IN THE MATTER OF THE APPLICATION OF WATER UTILITY OF GREATER TONOPAH FOR THE ESTABLISHMENT OF JUST AND	DOCKET NO. W-02450A-09-0081

REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	
IN THE MATTER OF THE APPLICATION OF VALENCIA WATER COMPANY – TOWN DIVISION FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-01212A-09-0082 DECISION NO. **71878** **OPINION AND ORDER**

PUBLIC COMMENTS: December 1, 2009, Maricopa, Arizona.

DATES OF HEARING: December 10 (Pre-Hearing Conference), 14, 17, 18, 21 and 28, 2009

PLACE OF HEARING: Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE: Teena Wolfe

IN ATTENDANCE: Kristin K. Mayes, Chairman
Gary Pierce, Commissioner
Sandra D. Kennedy, Commissioner
Bob Stump, Commissioner

APPEARANCES: Mr. Timothy Sabo and Mr. Michael W. Patten, ROSHKA, DeWULF & PATTEN, PLC, on behalf of Applicants;

Mr. Daniel Pozefsky, Chief Counsel, on behalf of the Residential Utility Consumer Office;

Mr. Garry D. Hays, GARRY D. HAYS, PC, on behalf of New World Properties;

Mr. Greg Patterson, on behalf of the Water Utility Association of Arizona;

Mr. Court S. Rich and Mr. Ryan Hurley, ROSE LAW GROUP, INC., on behalf of the City of Maricopa;

Mr. Rick Fernandez, *in propria persona*; and

Mr. Wesley Van Cleve, Ms. Ayesha Vohra, and Mr. Charles Hains, Staff Attorneys, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

difference if it could be shown that the use of IDA bonds to fund plant displaced ICFA funds as a source for the money used to construct plant.[145] Staff asserts that because cash is fungible and ICFA fees were deposited into the same account as investor proceeds and bond proceeds, it makes no difference if the IDA bond proceeds were used or the ICFA fees were used to fund the construction of plant.[146] Staff states that ultimately, it is Staff's position that developer provided funds should be treated as CIAC regardless of how they are used.[147] Staff states that no matter how the transaction is structured, the developer ultimately receives service from one of the Global Utilities in return for paying the ICFA fees.[148]

d. Tax Liability and Global Parent Expenses

Applicants assert that the proposed imputation of CIAC for all the ICFA fees is erroneous because the imputation is for gross ICFA fees instead of for after-tax net income to Global Parent from ICFAs.[149] Applicants contend that Global Parent could invest ICFA revenues in plant only after it paid its expenses and satisfied its tax liabilities, and that only then would the ICFA fees be available for utility purposes.[150] Applicants state that Global Parent incurred $24,057,683 in tax liability from the total $60,084,123 in ICFA revenues, and therefore calculate net ICFA revenues of $34,859,816.[151] Global Applicants argue that under the matching principle, Global Parent expenses must also be deducted from the ICFA revenues before any imputation of CIAC is made.[152]

i. Tax Liability on ICFA Fees

In regard to the issue of ICFA related tax liability, Staff states that because Global Parent is organized as an LLC, a non-taxable entity, the income from Global Parent flows through to the members untaxed.[153] If a member does not have offsetting tax losses from other sources, the member

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A. That's correct.
Tr. at 885-886.

[145] Staff Reply Br. at 4.
[146] *Id.* at 4-5.
[147] Staff Br. at 28.
[148] *Id.* at 29.
[149] Co. Br. at 30.
[150] *Id.* at 33-34.
[151] Direct Testimony of Company witness Trevor Hill (Exh. A-7) at 32.
[152] Co. Reply Br. at 19; Co. Br. at 33, citing to Rebuttal Testimony of Matthew Rowell at 35 and Rejoinder Testimony of Matthew Rowell (Exh. A-15) at 6-7.
[153] Surrebuttal Testimony of Linda Jaress (Exh. S-11) at 4.

pays taxes on his or her share of the earnings of the LLC, or if the LLC suffers net losses, those losses can offset the profits from the members' other business interests.[154] Staff states that it appears that members of Global Parent decided that the LLC would make distributions to the members in amounts sufficient to pay the income tax on the earnings of the LLC allocated to each member.[155] Staff states that another decision made by the members was for the Global Parent to account for the ICFA fees received from developers as revenue to the Global Parent, and not as contributions to the Global Utilities, and that this decision resulted in the proceeds from the ICFAs becoming taxable to the members.[156] Staff does not believe that the choice to structure Global Parent and the ICFA contracts in such a way that makes the ICFA proceeds taxable to the members constitutes a valid reason for the Commission to recognize the income tax effect of the ICFA fees on the members' personal income taxes.[157] Staff contends that the ICFA fees replace contributions and advances which are not taxable to a utility and therefore, taxes on the fees should not be recognized.[158]

Applicants argue that Global Parent's choice of corporate structure is irrelevant, because even if Global Parent were organized as a corporation, the ICFA fees would still generate a tax liability for Global Parent.[159] WUAA argues that "taxes paid to the IRS on ICFAs did not go into rate base and are not a component of the items to be removed from rate base,"[160] and that if ICFAs are determined to be taxable CIAC, then it should be treated net of taxes.[161]

Applicants argue that the only difference is that instead of Global Parent directly paying the government, the funds are paid to the members, who then pay the government.[162] However, as Staff points out, Applicants provided no evidence to show whether the LLC members in fact realized a tax liability on the ICFA fees.[163] The tax liability of $24,057,683 represents Global Parent's calculated estimation of the personal tax liability of its members.[164] Global Parent chose to distribute this

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[154] *Id.*
[155] *Id.*
[156] *Id.*
[157] *Id* at 5.
[158] *Id.*
[159] Co. Br. at 34.
[160] WUAA Br. at 8.
[161] *Id.* at 9.
[162] Co. Reply Br. at 20
[163] Staff Reply Br. at 4.
[164] Tr. at 169-170.

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Gary Pierce

BEFORE THE ARIZONA CORPORATION COMMISSION

ARIZONA WATER COMPANY, an Arizona corporation, Complainant, vs. GLOBAL WATER RESOURCES, LLC, a foreign limited liability company; GLOBAL WATER RESOURCES, INC., a Delaware corporation; GLOBAL WATER MANAGEMENT, LLC, a foreign limited liability company; SANTA CRUZ WATER COMPANY, LLC, an Arizona limited liability corporation; PALO VERDE UTILITIES COMPANY, LLC, an Arizona limited liability corporation; GLOBAL WATER - SANTA CRUZ WATER COMPANY, an Arizona corporation; GLOBAL WATER – PALO VERDE UTILITIES COMPANY, an Arizona corporation; JOHN AND JANE DOES 1-20; ABC ENTITIES I - XX, Respondents.	DOCKET NOS. W-01445A-06-0200 SW-20445A-06-0200 W-20446A-06-0200 W-03576A-06-0200 SW-03575A-06-0200 **PRE-FILED SUPPLEMENTAL DIRECT TESTIMONY OF JOHN S. THORNTON ON BEHALF OF ARIZONA WATER COMPANY**

Bryan Cave LLP
Two North Central Avenue, Suite 2200
Phoenix, Arizona 85004-4406
(602) 364-7000

landowner or developer to GWR LLC might be one reason developers and landowners would prefer ICFAs over MXAs. The problem is that there is no effective protection for the operating utilities (such as ringfencing) to insulate them should financial difficulties hit GWR LLC. In fact, just the opposite is true: GWR LLC and the operating utilities are closely linked, as I discussed in the IDA and Wells Fargo credit sections of my testimony above. In the ICFA, GWR LLC agrees to provide utility service in exchange for fees. GWR LLC would then have to invest the balance above and beyond the ICFA fee through its own capital sources. In this way, the GWR LLC group increases its capital at risk in the project. The increased company investment should eventually be conveyed to the appropriate utility. The problem here is that GWR LLC keeps the fee (and might or might not reinvest it in the utility) but the business and financial risks are eventually borne by the operating utility because if GWR LLC suffers financially, then the operating utilities will eventually suffer.

In a MXA, the developer constructs or pays for the main extension and the developer is reimbursed over time if (and only if) the project is completed and ratepayers actually use and pay for the utility services. If the development falters then the MXA refunds decrease and typically the remaining balance becomes CIAC. Under the MXA, the developer bears the risk. Therefore, the assertion that the ICFA insulates the utility from risk is specious.

The ICFAs Are Tax-Inefficient and Reduce Available Investment in Local Infrastructure

Q. EARLIER, YOU DISCUSSED HOW ICFAS ARE REVENUES TO GWR LLC. ARE THEY TAXED?

A. Yes, ICFA revenues are taxable to GWR LLC and as such each Member pays personal income tax on those revenues. GWR LLC must distribute cash so that Members can pay their

Phoenix, Arizona 85004-4406
(602) 364-7000

income tax bills. That leaves less cash to reinvest in local infrastructure. For example, let's say GWR LLC takes in $10,000,000 in ICFA revenues in one year. Its members will, for example, face a 35 percent Federal income tax rate and a 7 percent State of Arizona tax rate, or 42 percent. So, $4,200,000 must be distributed out to meet those tax obligations. That leaves $5,800,000 to be reinvested in the systems. However, if the $10,000,000 were taken in from developers as an Advance In Aid of Construction ("AIAC") under a MXA, then all $10,000,000 would be available to invest in the utility system because those funds are not taxed. Therefore, the ICFA mechanism harms utility and ratepayer interests by reducing the investment available to build local infrastructure.

Q. HOW MUCH TAX PAID COULD HAVE BEEN USED FOR LOCAL INVESTMENT TO DATE?

A. GWR LLC reported $45,348,775.13 of taxable ICFA income on returns through 2007 on which it has paid $18,320,905.15, according to GWR LLC's report on ICFA revenues included as Exhibit JST-15.

The ICFAs Will Result in Higher Rates Compared to MXAs

Q. WILL ICFAS RESULT IN HIGHER UTILITY RATES COMPARED TO MXAS?

A. Yes, ICFAs will result in higher utility rates compared to MXAs. This result is easy to see because developer advances to AIAC are used to offset rate base dollar for dollar. Another way to think of the offset is to use AIAC as a line item in the rate of return calculation as a cost-free source of capital (and leave rate base alone). However, the ICFA funds, to the extent that they are reinvested in the local utility, appear as an equity investment. So, rather that appearing as an

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Global Water
Docket No. W-01212A-12-0309 et al

James R. Armstrong
Direct Testimony

Attachment A
ICFA Agreement – Important Consideration No. 8 Support

ICFAs have the potential for generating extremely large, but uneven, cash flows for Global (corresponding directly to the receipt of ICFA funds), and Global Parent has committed to planning, coordinating, developing, and financing large infrastructure investments. The timing associated with Global's numerous commitments under the ICFAs also involve extremely large, but uncertain and uneven, cash flow requirements.

Q. Mr. Armstrong, the language within the ICFA agreements identifies a number of responsibilities that Global Parent, also referred to as the "coordinator" in these agreements, is assuming, or will be required to deliver, in response to the receipt of the ICFA landowner payments. First, can you list some of these responsibilities or deliverables?

A. Yes. Under these agreements the coordinator agrees to:

1. Coordinate construction of services for water and wastewater treatment facilities;
2. Finance and assume responsibility for the carrying costs associated with regional infrastructure investments;
3. Arrange and coordinate the provision of utility services to the property;
4. Obtain "will serve" letters for the provision of utility service to the property;
5. Where applicable, help facilitate including landowner's property in an expanded CC&N;
6. Execute line and main extension agreements with developers;
7. Develop master utility plans; and,
8. Facilitate and water and wastewater service acquisitions and consolidations.

Q. Has Staff been able to determine the portion of the individual landowner payments that were attributable to each of these deliverables?

A. No. Unfortunately, the information received from Global suggests that in negotiating the level of landowner payment required under a specific ICFA agreement, there was no specific effort made to match up a portion of each payment with the resulting obligation(s) Global was incurring. Staff issued several data requests to Global asking for information along this line, including STF-8.6, STF 8.10, STF 8.11, and STF 8.12. (Refer to Attachment B to my direct testimony.) The Company's response was that the amount of the required landowner payments ultimately agreed to under each separate ICFA

OPEN MEETING AGENDA ITEM

BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMM
Director - Utilities

COMMISSIONERS

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

IN THE MATTER OF THE COMMISSION'S GENERIC EVALUATION OF THE REGULATORY IMPACTS FROM THE USE OF NON-TRADITIONAL FINANCING ARRANGEMENTS BY WATER UTILITIES AND THEIR AFFILIATES.	DOCKET NO. W-00000C-06-0149 **STAFF'S NOTICE OF FILING**

Attached is the Report of Ullmann & Company, P.C. on Applying Agreed Upon Procedures with respect to the Schedule of Infrastructure Coordination and Finance Agreements ("ICFAs"), the Schedule of Net Plant Assets and Specified Cash Resources and the Schedule of Utility System Acquisitions of Global Water Resources, Inc. as of December 31, 2008.

RESPECTFULLY SUBMITTED this 21st day of December, 2012.

Charles H. Hains, Esq.
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

Original and Thirteen (13) Copies filed this 21st day of December, 2012, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

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Global Water Resources, Inc.
Schedule of Infrastructure Coordination and Finance Agreements (ICFA)
Agreements Signed Prior to December 31, 2008

Party(ies) to agreement [1]	Effective date (executed)	Recordation number	Estimated number of connections	Per unit fee	Total estimated fees collectable	Funds collected as of December 31, 2004 [3]	2005 [3]	2006 [3]	2007 [3]	2008 [3]	Funds eligible for receipt after December 31, 2008 [2,3]
Hacienda	1/26/2004		167	1,950	325,650	193,050	130,650	-	1,950	-	-
Hacienda	1/26/2004		110	1,950	214,500	163,800	50,700	-	-	-	-
Hacienda	1/27/2004		61	1,950	118,950	-	50,700	-	68,250	-	-
Maracay	2/9/2004		178	1,950	347,100	120,900	167,700	1,950	56,550	-	-
Ryland [7]	10/28/2003		152	1,950	296,400	105,300	187,200	3,900	-	-	-
Ryland [7]	10/28/2003		148	1,950	288,600	66,300	208,650	13,650	-	-	-
TOTAL OTHER AGREEMENTS SIMILAR IN NATURE TO ICFA					5,470,062	1,627,000	2,425,800	891,150	270,650	87,750	167,712
OTHER AGREEMENTS [6]											
Cottonwood Land Group VIII, LLC	3/16/2004		1,290	1,900	2,451,000	-	2,451,000	-	-	-	-
Land Solutions Maricopa LLC [8]	10/15/2003				400,000	-	197,500	-	-	-	202,500
Lennar Communities [8]	10/27/2003		902		200,000	-	-	200,000	-	-	-
Maricopa Meadows, LLC [8,9]	12/3/2004		108	1,900	205,200	-	205,200	-	-	-	-
Maricopa Meadows, LLC [8,9]	12/3/2004		124	1,900	235,600	-	235,600	-	-	-	-
Maricopa Meadows, LLC [8,9]	12/3/2004		114	1,900	216,600	-	216,600	-	-	-	-
TOTAL OTHER AGREEMENTS					3,708,400	-	3,305,900	200,000	-	-	202,500
TOTAL ICFAS, OTHER AGREEMENTS, AND OTHER AGREEMENTS SIMILAR IN NATURE TO ICFA					1,477,925,748	4,998,566	20,543,309	25,939,677	4,656,470	3,946,100	1,418,588,775

Additional Information

[1] Parties include Global Water Resources, Inc., its subsidiaries, and/or its predecessors.

[2] Amounts may include funds whose receipt are contingent upon Global Water Resources, Inc. satisfying certain conditions. See the agreed upon procedures report for a description of the conditions Global must satisfy for receipt of the majority of the funds.

Additional footnotes are defined in the Independent Accountants' Findings section on page 13.

Global Water
Docket No. W-01212A-12-0309 et al

James R. Armstrong
Direct Testimony

Attachment A
ICFA Agreement – Important Consideration No. 9 Support

Global has never contended that ICFAs are non-jurisdictional to the ACC.

DOCKET NOs. SW-02445A-09-0077 *et al.*

Rebuttal Testimony
of
Trevor T. Hill

November 20, 2009

The Commission is expert in conducting economic, systemic, and financial benefits analysis. I am not familiar with how, or whether the Commission evaluates societal benefits, so I would offer my view that the appropriate test for societal benefits is this:

> The goal of sustainable water resources development and management is to meet water needs reliably and equitably for current and future generations by designing integrated and adaptable systems, optimizing water-use efficiency, and making continuous efforts toward preservation and restoration of natural ecosystems.[20]

Q. Do you have any concluding remarks regarding the ICFAs?

A. Yes. I believe there is no debate that the consolidation of small undercapitalized utilities is a good thing. It is important to emphasize that such consolidation should not take place at the regulated utility level (e.g., Santa Cruz should not be buying other water companies.) Rather, consolidation should take place at the holding company level. Since ICFAs were used as a tool to effectuate consolidation they had to be executed at the holding company (GWR) level. Because of this, revenue generated by the ICFAs is parent-level revenue and thus is taxable. Ignoring the tax liability associated with the ICFA revenues is inappropriate regardless of the regulatory treatment ultimately decided upon for the ICFA revenue.

Global has never contended that ICFAs are non-jurisdictional. Global has always contended that ICFAs are in the public interest and that upon examination the Commission would conclude that as well. Global's position on ICFAs has been consistent: they are a tool that allows for consolidation and that offsets the carrying costs associated with emplacing regionally scaled infrastructure. The ICFA revenue available to use for these purposes is offset by the tax liability generated by those revenues. Also, as Staff points out, parent-level expenses (that are not allocated to the utilities) also offset the ICFA

[20] *Id.*, Page 7.

Global Water
Docket No. W-01212A-12-0309 et al

James R. Armstrong
Direct Testimony

Attachment A
ICFA Agreement – Important Consideration No. 10 Support

Developers have provided ICFA funds to Global Parent which, comingled with equity and debt provided by Global Parent, have been used for the provision of utility service, whether through acquisitions, carrying costs, or plant construction.

BEFORE THE ARIZONA CORPORATION C

COMMISSIONERS

KRISTIN K. MAYES - Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

Arizona Corporation Commission
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IN THE MATTER OF THE APPLICATION OF GLOBAL WATER – PALO VERDE UTILITIES COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. SW-20445A-09-0077
IN THE MATTER OF THE APPLICATION OF VALENCIA WATER COMPANY – GREATER BUCKEYE DIVISION FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-02451A-09-0078
IN THE MATTER OF THE APPLICATION OF WILLOW VALLEY WATER COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-01732A-09-0079
IN THE MATTER OF THE APPLICATION OF GLOBAL WATER – SANTA CRUZ WATER COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-20446A-09-0080
IN THE MATTER OF THE APPLICATION OF WATER UTILITY OF GREATER TONOPAH FOR THE ESTABLISHMENT OF JUST AND	DOCKET NO. W-02450A-09-0081

REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	
IN THE MATTER OF THE APPLICATION OF VALENCIA WATER COMPANY – TOWN DIVISION FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-01212A-09-0082 DECISION NO. 71878 **OPINION AND ORDER**

PUBLIC COMMENTS: December 1, 2009, Maricopa, Arizona.

DATES OF HEARING: December 10 (Pre-Hearing Conference), 14, 17, 18, 21 and 28, 2009

PLACE OF HEARING: Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE: Teena Wolfe

IN ATTENDANCE: Kristin K. Mayes, Chairman
Gary Pierce, Commissioner
Sandra D. Kennedy, Commissioner
Bob Stump, Commissioner

APPEARANCES: Mr. Timothy Sabo and Mr. Michael W. Patten, ROSHKA, DeWULF & PATTEN, PLC, on behalf of Applicants;

Mr. Daniel Pozefsky, Chief Counsel, on behalf of the Residential Utility Consumer Office;

Mr. Garry D. Hays, GARRY D. HAYS, PC, on behalf of New World Properties;

Mr. Greg Patterson, on behalf of the Water Utility Association of Arizona;

Mr. Court S. Rich and Mr. Ryan Hurley, ROSE LAW GROUP, INC., on behalf of the City of Maricopa;

Mr. Rick Fernandez, *in propria persona*; and

Mr. Wesley Van Cleve, Ms. Ayesha Vohra, and Mr. Charles Hains, Staff Attorneys, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

providing utility service within the service territories of the Utilities included in these consolidated rate applications. Neither is it disputed that landowners and developers in the service territories of WUGT, Palo Verde, and Santa Cruz paid Global Parent ICFA fees pursuant to ICFA agreements, through which Global Parent agreed to provide utility service to the landowners/developers. Applicants request that the Commission put aside the normal regulatory ratemaking treatment of contributions that were given in exchange for utility service, because Global's innovative means of collecting and spending the contributions allows it to pursue total water management goals. This Commission is tasked with protecting the interests of utilities and ratepayers alike, and this important task requires a careful balancing. One of the foremost tenets of ratemaking is unchanging, however, when making a determination that affects both utility and ratepayer, and that is the inclusion in rates of the cost of providing utility service. We must ensure that captive monopoly ratepayers pay for the costs of providing utility service, but no more. Part of that cost of service includes a fair and reasonable return to the provider of the utility service on funds that it has invested in the utility in order to provide reasonable and adequate service to its ratepaying customers. Here, Applicants have not "invested" ICFA funds for the purpose of providing utility service. Rather, developers have provided ICFA funds to Global Parent which, commingled with equity and debt provided by Applicants' parent company, have been used for the provision of utility service, whether through acquisitions, carrying costs, or plant construction. Allowing developer contributed funds to remain in rate base would require captive ratepayers to pay Applicants a return on developer-provided ICFA funds, which would violate fundamental ratemaking principles and would unjustly and unreasonably enrich Applicants at ratepayer expense. For the reasons set forth in the arguments of Maricopa, RUCO and Staff, Staff's CIAC adjustments are just, reasonable, and in the public interest, and will be adopted.

We believe the Commission should commence a generic investigation which looks at how best to achieve the Commission's objectives with regard to encouraging the acquisition of troubled water companies and the development of regional infrastructure where appropriate. As part of this proceeding, we would like stakeholders, including Global and Staff, to also address in workshops whether ICFAs, or other mechanisms, if properly segregated and accounted for, could be utilized to

Global Water
Docket No. W-01212A-12-0309 et al

James R. Armstrong
Direct Testimony

Attachment A
ICFA Agreement – Important Consideration No. 11 Support

In Decision No. 71878, the Commission left open the possibility that the treatment afforded ICFAs could be different in a future rate case.

BEFORE THE ARIZONA CORPORATION CO

COMMISSIONERS

KRISTIN K. MAYES - Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

Arizona Corporation Commission
DOCKETED
SEP 15 2010
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IN THE MATTER OF THE APPLICATION OF GLOBAL WATER – PALO VERDE UTILITIES COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. SW-20445A-09-0077
IN THE MATTER OF THE APPLICATION OF VALENCIA WATER COMPANY – GREATER BUCKEYE DIVISION FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-02451A-09-0078
IN THE MATTER OF THE APPLICATION OF WILLOW VALLEY WATER COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-01732A-09-0079
IN THE MATTER OF THE APPLICATION OF GLOBAL WATER – SANTA CRUZ WATER COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-20446A-09-0080
IN THE MATTER OF THE APPLICATION OF WATER UTILITY OF GREATER TONOPAH FOR THE ESTABLISHMENT OF JUST AND	DOCKET NO. W-02450A-09-0081

REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	
IN THE MATTER OF THE APPLICATION OF VALENCIA WATER COMPANY – TOWN DIVISION FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-01212A-09-0082 DECISION NO. **71878** **OPINION AND ORDER**

PUBLIC COMMENTS:	December 1, 2009, Maricopa, Arizona.
DATES OF HEARING:	December 10 (Pre-Hearing Conference), 14, 17, 18, 21 and 28, 2009
PLACE OF HEARING:	Phoenix, Arizona
ADMINISTRATIVE LAW JUDGE:	Teena Wolfe
IN ATTENDANCE:	Kristin K. Mayes, Chairman Gary Pierce, Commissioner Sandra D. Kennedy, Commissioner Bob Stump, Commissioner
APPEARANCES:	Mr. Timothy Sabo and Mr. Michael W. Patten, ROSHKA, DeWULF & PATTEN, PLC, on behalf of Applicants; Mr. Daniel Pozefsky, Chief Counsel, on behalf of the Residential Utility Consumer Office; Mr. Garry D. Hays, GARRY D. HAYS, PC, on behalf of New World Properties; Mr. Greg Patterson, on behalf of the Water Utility Association of Arizona; Mr. Court S. Rich and Mr. Ryan Hurley, ROSE LAW GROUP, INC., on behalf of the City of Maricopa; Mr. Rick Fernandez, *in propria persona*; and Mr. Wesley Van Cleve, Ms. Ayesha Vohra, and Mr. Charles Hains, Staff Attorneys, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

finance the actual acquisition of troubled water companies, subject to Commission approval.

Additionally, we would also like stakeholders to address whether ICFAs, or some other mechanism, if properly segregated and accounted for, would be appropriate for use in covering such expenses as a portion of the carrying costs associated with unused regional water and wastewater facilities or infrastructure which meets the Commission's objectives. Additionally, we would like the question of whether other mechanisms not addressed in this case would be appropriate in inducing such regional water and wastewater infrastructure, and the acquisition of troubled water companies, such as acquisition adjustments, rate premiums, or Distribution System Investment Charges. Therefore, we will require Staff to notice and facilitate, and Global to participate in, stakeholder workshops designed to address these issues, and make recommendations to the Commission on the issues discussed in the workshops, including whether it is appropriate to adopt the recommendations in the next Global Utility rate case, as well as other future rate cases. The workshops shall be noticed and held in the existing Generic Docket.

While we decline to approve the Applicants' requested treatment of ICFAs in this Order, we believe the issue could be more fully informed by the Commission's workshop process. In the event that the workshop process leads to recommendations for a different treatment of ICFAs than in this Order, the Applicants may request review of ICFAs in accordance with the workshop recommendations in a future rate case.

C. Fair Value Rate Base Summary

Applicants did not prepare schedules showing the elements of Reconstruction Cost New Rate Base ("RCND").[170] Instead, Applicants requested that their Original Cost Rate Base ("OCRB") be treated as their Fair Value Rate Base ("FVRB").[171] Based on the discussion of rate base issues set forth above, we find the Applicants' FVRB to be as follows:

Palo Verde	Valencia-Greater Buckeye	Willow Valley	Santa Cruz	WUGT	Valencia-Town
$53,314,083	$929,057	$2,251,164	$39,155,692	($4,186,150)	$4,240,018

[170] Direct Testimony of Company witness Gregory Barber (Exh. A-20) at 16.
[171] *Id.*

Global Water
Docket No. WS-02676A-12-0309 et al

Staff - James Armstrong - direct
Attachment No. C

	A	B	C	D	E	F	G	H	I	J	K
							39.68%				
	Order No. 71878 Exhibit B	ICFA Fees Received Since Last Rate Case 2009 - 2011	2012	ICFAs Through 12/31/2012	Staff Amortiz Thru 2012	Staff Net as of 12/31/2012	Imputed Net Hook-Up Fee	Applicable System	Company Filed but Adjusted Thru 2012	Staff Recommended Rate Base Adjustment	Staff Rate Base less Imputed Net Hook-Up fee
Palo Verde - excess capacity	14,449,976			14,449,976							
Palo Verde - rate base reduction	10,991,128	3,299,622	611,890	14,902,640							
Total Palo Verde	25,441,104			29,352,616							
Santa Cruz - excess capacity	17,941,342			17,941,342							
Santa Cruz - rate base reduction	6,600,076	3,182,936	590,252	10,373,264							
Total Santa Cruz	24,541,418			28,314,606							
Greater Tonopah	7,085,645	50,000	1,218,750	8,354,395	(2,138,725)	6,215,670	(2,466,378)	Tonopah	1,704,428	(2,466,378)	(761,950)
Excess Capacity	32,391,318			32,391,318		32,391,318					
Palo Verde - rate base reduction	10,991,128	3,299,622	611,890	14,902,640	(2,339,715)	12,562,926	(10,718,719)	Palo Verde	59,571,262	(10,718,719)	48,852,543
Santa Cruz - rate base reduction	6,600,076	3,182,936	590,252	10,373,264	(2,116,146)	8,257,118	(10,395,549)	Santa Cruz	37,758,067	(10,395,549)	27,362,518
Sub-total	57,068,167	6,532,558	2,420,892	66,021,617	(6,594,585)	59,427,031					
HUC	2,140,455			2,140,455		2,140,455					
Picahci Cove	500,500		-	500,500		500,500					
Unexplained	374,680			374,680		374,680					
	60,083,802	6,532,558	2,420,892	69,037,252	(6,594,585)	62,442,666					
	60,084,123			68,987,572		6,594,585					
variance	321			(49,680)		69,037,252	(23,580,646)	45,456,606	99,033,757	(23,580,646)	75,453,111
								(2,140,455)	HUC		
								(500,500)	Picahci Cove		
								(6,594,585)	Amortized		
								36,221,065	Net ICFAs to Company		

file:Global - Armstrong Attachment C - Staff ICFA rate base reduction recommendations

Global Water Resources,
Inc
Through 12/31/2012

Attachment D

file:Schedule of ICFA Agmts and Payt Through 2012 by Area - Armstrong rcap tab and average payment calculation

Builder/Owner/GW Reference	Estimated number of connections	Per unit fee	Total estimated fees collectable	Funds collected as of December 31, 2004	2005	2006	2007	2008	2009	2010	2011	2012	Grand Total		
GRAND TOTAL ALL AGREEMENTS	394,314	3,742	$ 1,475,538,498	$ 4,998,566	$ 20,543,309	$ 25,939,677	$ 4,656,470	$ 3,946,100	$ 3,696,252	$ 273,740	$ 2,512,566	$ 2,420,892	$ 68,987,572	24,837 2,778	2,778

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Global Water Resources, Inc
Through 12/31/2012

fileGlobal - Armstrong Attachments C and D - Staff ICFA rate base reduction recommendations

Attachment D

Builder/Owner/GW Reference	Estimated number of connections	Per unit fee	Total estimated fees collectable	Funds collected as of December 31, 2004	2005	2006	2007	2008	2009	2010	2011	2012	Grand Total		
SCWC and PVUC Original CC&N Area															
Fulton Homes	891	1,950	$ 1,737,450	235,950	840,450	522,600	124,400	-	-	-	-	-	1,723,400	884	1,950
Subtotal	**891**		**$ 1,737,450**	**235,950**	**840,450**	**522,600**	**124,400**	**-**	**-**	**-**	**-**	**-**	**1,723,400**		
Maracay	178	1,950	$ 347,100	$ 120,900	$ 167,700	$ 1,950	$ 56,550	$ -	$ -	$ -	$ -	$ -	$ 347,100	178	1,950
Centex	176	1,950	$ 343,200	$ 79,950	$ 220,350	$ 42,900	$ -	$ -	$ -	$ -	$ -	$ -	$ 343,200	176	1,950
Hacienda	167	1,950	$ 325,650	$ 193,050	$ 130,650	$ -	$ 1,950	$ -	$ -	$ -	$ -	$ -	$ 325,650	167	1,950
Engle	123	1,950	$ 239,850	$ 52,650	$ 115,050	$ 3,900	$ 3,900	$ 50,700	$ 1,950	$ -	$ -	$ -	$ 228,150	117	1,950
Engle	138	1,950	$ 269,100		$ 64,350	$ 56,550	$ 15,600	$ 40,950	$ -	$ -	$ -	$ -	$ 177,450	91	1,950
Engle	2	1,950	$ 3,900		$ -	$ -	$ -	$ 3,900	$ -	$ -	$ -	$ -	$ 3,900	2	1,950
Centex	191	1,950	$ 372,450	$ 13,650	$ 179,400	$ 175,500	$ -	$ -	$ 3,900	$ -	$ -	$ -	$ 372,450	191	1,950
Ryland	152	1,950	$ 296,400	$ 105,300	$ 187,200	$ 3,900	$ -	$ -	$ -	$ -	$ -	$ -	$ 296,400	152	1,950
Hacienda	110	1,950	$ 214,500	$ 163,800	$ 50,700	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 214,500	110	1,950
Hacienda	61	1,950	$ 118,950	$ -	$ 50,700	$ -	$ 68,250	$ -	$ -	$ -	$ -	$ -	$ 118,950	61	1,950
Avante	163	1,794	$ 292,422	$ 249,667	$ -	$ -	$ -	$ -	$ -		$ -	$ -	$ 249,667	139	1,794
Brown	161	1,950	$ 313,950	$ 60,450	$ 191,100	$ 70,200	$ -	$ (7,800)	$ -	$ -	$ -	$ -	$ 313,950	161	1,950
Brown	10	1,950	$ 19,500	$ -	$ 19,500	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 19,500	10	1,950
Ryland	148	1,950	$ 288,600	$ 66,300	$ 208,650	$ 13,650	$ -	$ -	$ -	$ -	$ -	$ -	$ 288,600	148	1,950
Avante	160	1,794	$ 287,040	$ 285,333		$ -	$ -	$ -	$ -		$ -	$ -	$ 285,333	159	1,794
Subtotal	**1,940**		**$ 3,732,612**	**$ 1,391,050**	**$ 1,585,350**	**$ 368,550**	**$ 146,250**	**$ 87,750**	**$ 5,850**	**$ -**	**$ -**	**$ -**	**$ 3,584,800**		
Meritage/Hacienda Homes	498	2300	$ 1,145,400		$ 1,145,400	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,145,400	498	2,300
Meritage/Hacienda Homes	661	2300	$ 1,520,300		$ -	$ 1,611,518	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,611,518	701	2,300
Meritage/Hacienda Homes	507	2300	$ 1,166,100		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	-	
Meritage/Hacienda Homes	617	2300	$ 1,419,100		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	-	
Subtotal	**2283**		**$ 5,250,900**	**$ -**	**$ 1,145,400**	**$ 1,611,518**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 2,756,918**		
Engle Homes	29	4,200	$ 121,800		$ 129,839	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 129,839	31	4,200
Engle Homes	683	4,650	$ 3,175,950	$ 3,130,941	$ 44,872	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,175,813	683	4,650
Meritage	862		$ -		$ -	$ -	$ -	$ -	$ 2,550,000	$ -	$ -	$ 500,000	$ 3,050,000	689	4,425
Subtotal	**1,574**		**$ 3,297,750**	**$ 3,130,941**	**$ 174,711**	**$ -**	**$ -**	**$ -**	**$ 2,550,000**	**$ -**	**$ -**	**$ 500,000**	**$ 6,355,652**		
DR Horton	925	2,300	$ 2,127,500		$ -	$ 2,246,224	$ -	$ -	$ -		$ -	$ -	$ 2,246,224	977	2,300
DR Horton	1,370	2,300	$ 3,151,000		$ -	$ 3,415,602	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,415,602	1,485	2,300
Subtotal	**2,295**		**$ 5,278,500**	**$ -**	**$ -**	**$ 5,661,826**	**$ -**	**$ -**	**$ -**		**$ -**	**$ -**	**$ 5,661,826**		
Standard Pacific	116	2,300	$ 266,800		$ 266,800	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 266,800	116	2,300
Parcel 2 (45 x115) Morrison	99	2,300	$ 227,700		$ 227,700	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 227,700	99	2,300
Standard Pacific	106	2,300	$ 243,800		$ 243,800	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 243,800	106	2,300
Centex	126	2,300	$ 289,800		$ 289,800	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 289,800	126	2,300
Centex	140	2,300	$ 322,000		$ 322,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 322,000	140	2,300
Centex	119	2,300	$ 273,700		$ 273,700	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 273,700	119	2,300
Centex	143	2,300	$ 328,900		$ 328,900	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 328,900	143	2,300
Parcel 8 (70 x125) Morrison	97	2,300	$ 223,100		$ 223,100	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 223,100	97	2,300
Standard Pacific	103	2,300	$ 236,900		$ 236,900	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 236,900	103	2,300
Parcel 10 (55 x115) Richmond	138	2,300	$ 317,400		$ 317,400	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 317,400	138	2,300
Parcel 11 (70 x125) Richmond	146	2,300	$ 335,800		$ 335,800	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 335,800	146	2,300
Standard Pacific	86	2,300	$ 197,800		$ 197,800	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 197,800	86	2,300
Centex	128	2,300	$ 294,400		$ 294,400	$ -	$ -	$ -	$ -	$ 18,216	$ -	$ -	$ 312,616	136	2,300
Centex	132	2,300	$ 303,600		$ 303,600	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 303,600	132	2,300
Parcel 15 (45 x110) Curtis Landholdings	144	2,300	$ 331,200		$ 331,200	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 331,200	144	2,300

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Builder/Owner/GW Reference	Estimated number of connections	Per unit fee	Total estimated fees collectable	Funds collected as of December 31, 2004	2005	2006	2007	2008	2009	2010	2011	2012	Grand Total		
Parcel 16 (50 x 115) Curtis Landholdings	125	2,300	$ 287,500	$	$ 287,500	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 287,500	125	2,300
Our Lady of Grace	182	2,300	$ 418,600	$	$ 418,600	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 418,600	182	2,300
Shea Commercial	194	2,300	$ 445,602	$	$ -	$ -	$ 497,194	$ -	$ -	$ -	$ -	$ -	$ 497,194	216	2,300
Shea Commercial	33	2,300	$ 75,900	$	$ -	$ -	$ -	$ -	$ -	$ -	99,421	$ -	$ 99,421	43	2,300
Shea Commercial	194	2,300	$ 445,602	$	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	-	
Lead Charter School	8	2,300	$ 18,216	$	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	-	
Hope Community Church	10	2,300	$ 22,287	$	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	-	
Parcel F - commercial/MF	110	2,300	$ 253,589	$	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	-	
Parcel B - commercial	166	2,300	$ 381,322	$	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	-	
Parcel C - commercial	130	2,300	$ 299,074	$	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	-	
Interra	34	2,300	$ 78,053	$	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	-	
Interra	168	2,300	$ 386,400	$	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	-	
Subtotal	3,176		$ 7,305,044	$ -	$ 4,899,000	$ -	$ 497,194	$ -	$ -	$ 18,216	$ 99,421	$ -	$ 5,513,831	-	

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Builder/Owner/GW Reference	Estimated number of connections	Per unit fee	Total estimated fees collectable	Funds collected as of December 31, 2004	2005	2006	2007	2008	2009	2010	2011	2012	Grand Total		
Performance Construction	640	2,200	$ 1,408,000		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -		
Subtotal	640		$ 1,408,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -		
Newport Holdings, Inc.	700	2,200	$ 1,540,000		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -		
Subtotal	700		$ 1,540,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -		
Elliott	215	2,200	$ 473,000		$ 473,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 473,000	215	2,200
Ryland	202	2,200	$ 444,400		$ 444,400	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 444,400	202	2,200
Elliott	230	2,200	$ 506,000		$ 506,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 506,000	230	2,200
Elliott	143	2,200	$ 314,600		$ -	$ -	$ -	$ -	$ 157,299	$ 157,299	$ -	$ -	$ 314,598	143	2,200
Subtotal	790		$ 1,738,000	$ -	$ 1,423,400	$ -	$ -	$ -	$ 157,299	$ 157,299	$ -	$ -	$ 1,737,998		
Chandler Boys Ventures, LLC (small commercial)	3	3,000	$ 9,000		$ -	$ -	$ -	$ -	$ 9,000	$ -	$ -	$ -	$ 9,000	3	3,000
Subtotal	3		$ 9,000	$ -	$ -	$ -		$ -	$ 9,000	$ -	$ -	$ -	$ 9,000		
Total – SCWC and PVUC Original CC&N Area	14292		$ 31,297,256	$ 4,757,941	$ 10,068,311	$ 8,164,494	$ 767,844	$ 87,750	$ 2,722,149	$ 175,515	$ 99,421	$ 500,000	$ 27,343,424		

$ 27,343,424.47

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Builder/Owner/GW Reference	Estimated number of connections	Per unit fee	Total estimated fees collectable	Funds collected as of December 31, 2004	2005	2006	2007	2008	2009	2010	2011	2012	Grand Total		
SCWC and PVUC – Eastern Exp															
Neely	560	2,800	$ 1,568,000		-	-	-	-	-	-	-	-	-		
Subtotal	560		$ 1,568,000	-	-	-	-	-	-	-	-	-	-		
Neely	560	2,800	$ 1,568,000		-	-	-	-	-	-	-	-	-		
Subtotal	560		$ 1,568,000	-	-	-	-	-	-	-	-	-	-		
Neely	560	2,800	$ 1,568,000		-	-	-	-	-	-	-	-	-		
	560		$ 1,568,000	-	-	-	-	-	-	-	-	-	-		
Neely	560	2,800	$ 1,568,000		-	-	-	-	-	-	-	-	-		
Subtotal	560		$ 1,568,000	-	-	-	-	-	-	-	-	-	-		
Commercial	110	2,800	$ 309,120		-	-	-	-	-	-	-	-	-		
Subtotal	110		$ 309,120	-	-	-	-	-	-	-	-	-	-		
Shea Homes	560	2,800	$ 1,568,000	28,000	1,540,000	-	-	-	-	-	-	-	1,568,000	560	2,800
Ryland	229	2,800	$ 641,200	11,450	629,750	-	-	-	-	-	-	-	641,200	229	2,800
Morrison	188	2,800	$ 526,400	9,400	517,000	-	-	-	-	-	-	-	526,400	188	2,800
Shea Homes	1,185	2,800	$ 3,318,000	60,000	534,600	-	2,982,915	-	-	-	-	-	3,577,515	1,278	2,800
Subtotal	2,162		$ 6,053,600	108,850	3,221,350	-	2,982,915	-	-	-	-	-	6,313,115		
Lennar	103	2,800	$ 288,400	2,575	285,825	-	-	-	-	-	-	-	288400	103	2,800
Lennar	138	2,800	$ 386,400	3,450	382,950	-	-	-	-	-	-	-	386400	138	2,800
DR Horton	122	2,800	$ 341,600	3,050	338,550	-	-	-	-	-	-	-	341600	122	2,800
Lennar	102	2,800	$ 285,600	2,550	283,050	-	-	-	-	-	-	-	285600	102	2,800
DR Horton	111	2,800	$ 310,800	2,775	308,025	-	-	-	-	-	-	-	310800	111	2,800
Lennar	123	2,800	$ 344,400	3,075	341,325	-	-	-	-	-	-	-	344400	123	2,800
Lennar	122	2,800	$ 341,600	3,050	338,550	-	-	-	-	-	-	-	341600	122	2,800
Subtotal	821		$ 2,298,800	20,525	2,278,275	-	-	-	-	-	-	-	2298800		
WestPac	1,306	2,800	$ 3,656,800	32,650	631,656	-	-	-	-	-	-	-	664,306	237	2,800
Subtotal	1,306		$ 3,656,800	32,650	631,656	-	-	-	-	-	-	-	664,306		
WestPac	-	2,800	$ -	3,600	(3,600)	-	-	-	-	-	-	-	-		
Subtotal	-		$ -	3,600	(3,600)	-	-	-	-	-	-	-	-		
Cook/El Dorado, LLC	1,078	2,800	$ 3,018,400		-	-	-	269,500	-	-	-	-	269,500	96	2,800
Subtotal	1,078		$ 3,018,400	-	-	-	-	269,500	-	-	-	-	269,500		
Little/El Dorado, LLC	1,082	2,800	$ 3,029,600		-	-	-	270,500	-	-	-	-	270,500	97	2,800
Subtotal	1,082		$ 3,029,600	-	-	-	-	270,500	-	-	-	-	270,500		
Paul Gore	1,028	2,800	$ 2,878,400		-	-	-	257,000	-	-	-	-	257,000	92	2,800
Subtotal	1,028		$ 2,878,400	-	-	-	-	257,000	-	-	-	-	257,000		
Ray Christrian	322	2,800	$ 901,600		-	-	-	-	-	-	-	-	-		
Subtotal	322		$ 901,600	-	-	-	-	-	-	-	-	-	-		
Western Pinal	284	2,800	$ 795,200		-	-	-	14,200	-	-	-	-	14,200	5	2,800
Subtotal	284		$ 795,200	-	-	-	-	14,200	-	-	-	-	14,200		
Maricopa-Casa Grande Hwy 813	1,838	2,800	$ 5,146,400		-	-	-	439,900	-	-	-	-	439,900	157	2,800
Subtotal	1,838		$ 5,146,400	-	-	-	-	439,900	-	-	-	-	439,900		
W half of Sec 10 T5S R4E	1,930	2,800	$ 5,404,000		-	-	-	68,500	-	-	-	-	68,500	24	2,800

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Builder/Owner/GW Reference	Estimated number of connections	Per unit fee	Total estimated fees collectable	Funds collected as of December 31, 2004	2005	2006	2007	2008	2009	2010	2011	2012	Grand Total
Subtotal	1,930		$ 5,404,000	-	-	-	-	68,500	-	-	-	-	68,500
SWQ Sec 4 T5S R4E	1,120	2,800	$ 3,136,000		-	-	-	-	-	-	-	-	-
Subtotal	1,120		$ 3,136,000	-	-	-	-	-	-	-	-	-	-
SWQ and SEQ of NWQ	560	2,800	$ 1,568,000		-	-	-	-	-	-	-	-	-
Subtotal	560		$ 1,568,000	-	-	-	-	-	-	-	-	-	-

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Builder/Owner/GW Reference	Estimated number of connections	Per unit fee	Total estimated fees collectable	Funds collected as of December 31, 2004	2005	2006	2007	2008	2009	2010	2011	2012	Grand Total		
SC/PV Southwest Expansion MAL, LLC (Bill Lund)/Westpac	2,100	3,300	$ 6,930,000	-	52,500	1,050,000	-	-	-	-	-	-	10,595,821 1,102,500	334	3,300
Subtotal	**2,100**		**$ 6,930,000**	**-**	**52,500**	**1,050,000**	**-**	**-**	**-**	**-**	**-**	**-**	**1,102,500**		
Trend Homes, Inc. / Westpac	72	3,300	$ 237,600	-	1,800	-	-	-	-	-	-	-	1,800	1	3,300
Subtotal	**72**		**$ 237,600**			**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		
Amarillo Creek Unit 1 / Shea Homes	600	3,300	$ 1,980,000	-	15,000	1,965,000	-	-	-	-	-	-	1,980,000	600	3,300
Amarillo Creek Unit 2 / Westpac	773	3,300	$ 2,550,900	-	19,325	386,500	-	-	-	-	-	-	405,825	123	3,300
Amarillo Creek Unit 3 / Westpac	776	3,300	$ 2,560,800	-	19,400	388,000	-	-	-	-	-	-	407,400	123	3,300
Subtotal	**2,149**		**$ 7,091,700**	**-**	**53,725**	**2,739,500**	**-**	**-**	**-**	**-**	**-**	**-**	**2,793,225**		
Amarillo Creek South, LLC and Desert Cedars, LLC	1,068	3,300	$ 3,522,750	-	26,700	534,000	-	-	-	-	-	-	560,700	170	3,300
Subtotal	**1,068**		**$ 3,522,750**	**-**	**26,700**	**534,000**	**-**	**-**	**-**	**-**	**-**	**-**	**560,700**		
CHI Construction Company	1,225	3,300	$ 4,042,500	-	30,625	-	-	612,500	-	-	-	-	643,125	195	3,300
Subtotal	**1,225**		**$ 4,042,500**	**-**	**30,625**	**-**	**-**	**612,500**	**-**	**-**	**-**	**-**	**643,125**		
HAM Maricopa, L.L.C.	148	3,300	$ 488,400		-		-	-	-	-	-	-	-	1	-
Subtotal	**148**		**$ 488,400**	**-**	**-**	**3,700**	**-**	**-**	**-**	**-**	**-**	**-**	**3,700**		
HAM Papago, L.L.C.	416	3,300	$ 1,372,746	-	-	-	-	-	-	-	-	-	-		
Subtotal	**416**		**$ 1,372,746**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		
HAM-Mesa, L.L.C.	2,361	3,300	$ 7,791,284	-	-	-	-	-	-	-	-	-	-		
Subtotal	**2,361**		**$ 7,791,284**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		
Pecan Woods, LLC	581	3,300	$ 1,917,300	-	14,525	290,500	-	-	-	-	-	-	305,025	92	3,300
Subtotal	**581**		**$ 1,917,300**	**-**	**14,525**	**290,500**	**-**	**-**	**-**	**-**	**-**	**-**	**305,025**		
Terrazo/Miller & White 815, LLC	2,834	3,300	$ 9,352,200	-	73,092	-	-	-	-	-	-	-	73,092	22	3,300
Subtotal	**2,834**		**$ 9,352,200**	**-**	**73,092**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**73,092**		
HAM Maricopa, L.L.C./HAM Queen Creek, LLC	1,107	3,300	$ 3,652,541	-	-	-	-	-	-	-	-	-	-		
Subtotal	**1,107**		**$ 3,652,541**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		
HAMs and Trusts	4,145	3,300	$ 13,678,500	-	-	103,625	-	-	-	-	-	-	103,625	31	3,300
Subtotal	**4,145**		**$ 13,678,500**	**-**	**-**	**103,625**	**-**	**-**	**-**	**-**	**-**	**-**	**103,625**		
Hidden Valley Ranch 1, LLC	3,010	3,300	$ 9,933,000	-	-	-	-	-	-	75,250	-	-	75,250	23	3,300
Subtotal	**3,010**		**$ 9,933,000**	**-**	**-**	**-**	**-**	**-**	**-**	**75,250**	**-**	**-**	**75,250**		
Hidden Valley Ranch 2, LLC	919	3,300	$ 3,032,700	-	-	-	-	-	-	22,975	-	-	22,975	7	3,300
Subtotal	**919**		**$ 3,032,700**	**-**	**-**	**-**	**-**	**-**	**-**	**22,975**	**-**	**-**	**22,975**		
Dennis & Carolyn Peed	539	3,300	$ 1,778,700	-	-	-	-	-	-	-	-	-	-		
Subtotal	**539**		**$ 1,778,700**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		
RJ2, LLC / Maricopa Opus	725	3,300	$ 2,392,500	-	-	18,125	-	-	-	-	-	-	18,125	5	3,300
Subtotal	**725**		**$ 2,392,500**	**-**	**-**	**18,125**	**-**	**-**	**-**	**-**	**-**	**-**	**18,125**		
Vineyards, LLC	1,120	3,300	$ 3,696,000	-	-	24,000	-	-	-	-	-	-	24,000	7	3,300
Subtotal	**1,120**		**$ 3,696,000**	**-**	**-**	**24,000**	**-**	**-**	**-**	**-**	**-**	**-**	**24,000**		

Global Water Resources, Inc
Through 12/31/2012

Attachment D

Builder/Owner/GW Reference	Estimated number of connections	Per unit fee	Total estimated fees collectable	Funds collected as of December 31, 2004	2005	2006	2007	2008	2009	2010	2011	2012	Grand Total
RAJAC Dev Real Estate Partners, LLC	560	3,300	$ 1,848,000	-	-	-	-	-	-	-	-	-	-
Subtotal	560		$ 1,848,000	-	-	-	-	-	-	-	-	-	-
				-									
Stanfield Holdings, LLC	1,036	3,300	$ 3,418,800	-	-	-	-	-	-	-	-	-	-
Subtotal	1,036		$ 3,418,800	-	-	-	-	-	-	-	-	-	-
Langley Farms	280	3,300	$ 924,000	-	-	-	-	-	-	-	-	-	-
Subtotal	280		$ 924,000	-	-	-	-	-	-	-	-	-	-

Global Water Resources,
Inc
Through 12/31/2012

fileGlobal - Armstrong Attachments C and D - Staff ICFA rate base redution recommendations

Attachment D

Builder/Owner/GW Reference	Estimated number of connections	Per unit fee	Total estimated fees collectable	Funds collected as of December 31, 2004	2005	2006	2007	2008	2009	2010	2011	2012	Grand Total		
Pinal 347	792	3,300	$ 2,613,600	-	27,050	-	-	-	-	-	150,000	283,755	460,805	140	3,300
Subtotal	792		$ 2,613,600	-	27,050	-	-	-	-	-	150,000	283,755	460,805		
Total SC/PV Southwest Expansion	27,186		$ 89,714,821	$ -	$ 280,017	$ 4,763,450	$ -	$ 612,500	$ -	$ 98,225	$ 150,000	$ 283,755	$ 6,187,947		
													$ 6,187,947		

Global Water Resources, Inc
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Attachment D

fileGlobal - Armstrong Attachments C and D - Staff ICFA rate base redution recommendations

Builder/Owner/GW Reference	Estimated number of connections	Per unit fee	Total estimated fees collectable	Funds collected as of December 31, 2004	2005	2006	2007	2008	2009	2010	2011	2012	Grand Total		
SC/PV 387 District															
Lennar Communities	902		$ 200,000	-	-	200,000	-	-	-	-	-	-	200,000	105	1,900
Desert Cedars/Alterra	1,432	1,900	$ 2,720,800	-	-	-	-	-	-	-	-	-	-		
Subtotal	2,334		$ 2,920,800	-	-	200,000	-	-	-	-	-	-	200,000		
Red Valley	575	1,900	$ 1,092,500		-	-	-	-	-	-	-	-	-		
Subtotal	575		$ 1,092,500	-	-	-	-	-	-	-	-	-	-		
Pulte Home	122	1,900	$ 231,800		231,800	-	-	-	-	-	-	-	231,800	122	1,900
Pulte Home	91	600	$ 54,600		54,600	-	-	-	-	-	-	-	54,600	91	600
Pulte Home	80	2,500	$ 200,000		200,000	-	-	-	-	-	-	-	200,000	80	2,500
Dietz-Crane	208	1,900	$ 395,200		-	395,200	-	-	-	-	-	-	395,200	208	1,900
Dietz-Crane	250	1,900	$ 475,000		-	475,000	-	-	-	-	-	-	475,000	250	1,900
Pulte Home	249	1,900	$ 473,100		-	473,100	-	-	-	-	-	-	473,100	249	1,900
Subtotal	1,000		$ 1,829,700	-	486,400	1,343,300	-	-	-	-	-	-	1,829,700		
KB Homes	317	1,900	$ 602,300		-	-	-	-	602,300	-	-	-	602,300	317	1,900
Subtotal	317		$ 602,300	-	-	-	-	-	602,300	-	-	-	602,300		
McDavid Office Park	192	1,900	$ 364,800		-	-	-	-	-	-	-	-	-		
Subtotal	192		$ 364,800	-	-	-	-	-	-	-	-	-	-		
Vistoso	1,507	2,800	$ 4,219,600		-	-	-	-	-	-	-	-	-		
Subtotal	1,507		$ 4,219,600	-	-	-	-	-	-	-	-	-	-		
	1,488	2,800	$ 4,166,400		-	-	-	-	-	-	-	-	-		
Subtotal	1,488		$ 4,166,400	-	-	-	-	-	-	-	-	-	-		
	1,474	2,800	$ 4,127,200		-	-	-	-	-	-	-	-	-		
Subtotal	1,474		$ 4,127,200	-	-	-	-	-	-	-	-	-	-		
Maricopa Meadows, LLC	108	1,900	$ 205,200	-	205,200	-	-	-	-	-	-	-	205,200	108	1,900
Maricopa Meadows, LLC	124	1,900	$ 235,600	-	235,600	-	-	-	-	-	-	-	235,600	124	1,900
Maricopa Meadows, LLC	114	1,900	$ 216,600	-	216,600	-	-	-	-	-	-	-	216,600	114	1,900
Subtotal	346		$ 657,400	-	657,400	-	-	-	-	-	-	-	657,400		
Land Solutions Maricopa LLC			$ 400,000	-	197,500	-	-	-	-	-	-	-	197,500	104	1,900
Subtotal	0		$ 400,000	-	197,500	-	-	-	-	-	-	-	197,500		
LLC	1,290	1,900	$ 2,451,000	-	2,451,000	-	-	-	-	-	-	-	2,451,000	1,290	
Subtotal	1,290		$ 2,451,000	-	2,451,000	-	-	-	-	-	-	-	2,451,000		
Engle Homes	537	1,900	$ 1,020,300		-	1,068,093	-	-	-	-	-	-	1,068,093	562	1,900
K. Hovnanian Great Western Homes	282	1,900	$ 535,800		-	560,898	-	-	-	-	-	-	560,898	295	1,900
Morrison Homes	133	1,900	$ 252,700		-	264,537	-	-	-	-	-	-	264,537	139	1,900
Omega/Murphy Land	220	1,900	$ 418,000		-	437,580	-	-	-	-	-	-	437,580	230	1,900
Subtotal	1,172		$ 2,226,800	-	-	2,331,108	-	-	-	-	-	-	2,331,108		
Total SC/PV 387 District	11,695		$ 25,058,500	$ -	$ 3,792,300	$ 3,874,408	$ -	$ -	$ 602,300	$ -	$ -	$ -	$ 8,269,008		
													$ 8,269,008		

Global Water Resources, Inc
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Attachment D

fileGlobal - Armstrong Attachments C and D - Staff ICFA rate base reduition recommendations

Builder/Owner/GW Reference	Estimated number of connections	Per unit fee	Total estimated fees collectable	Funds collected as of December 31, 2004	2005	2006	2007	2008	2009	2010	2011	2012	Grand Total		
SC/PV Southeast Expansion															
Carranza Associates / Turner Dunn	280	3,600	$ 1,008,000	-	-	-	-	-	-	-	-	-	-		
Subtotal	**280**		**$ 1,008,000**	-	-	-	-	-	-	-	-	-	-		
Stanfield Estates / Turner Dunn	334	3,600	$ 1,202,400	-	-	-	-	-	-	-	-	-	-		
Subtotal	**334**		**$ 1,202,400**	-	-	-	-	-	-	-	-	-	-		
Dart Property / Terry Button	2,170	3,600	$ 7,812,000	-	-	-	-	-	-	-	-	-	-		
Subtotal	**2,170**		**$ 7,812,000**	-	-	-	-	-	-	-	-	-	-		
Santa Cruz Land Co / Santa Cruz Ranch / Anderson Val Vista 6	4,157	3,600	$ 14,965,200	-	103,925	-	-	-	-	-	-	-	103,925	29	3,600
Subtotal	**4,157**		**$ 14,965,200**	-	103,925	-	-	-	-	-	-	-	103,925		
SCR, LLC / Scott Cole & Bryan Hartman	2,359	3,600	$ 8,492,400	-	49,750	-	-	-	-	-	-	-	49,750	14	3,600
Subtotal	**2,359**		**$ 8,492,400**	-	49,750	-	-	-	-	-	-	-	49,750		
JP Holdings LP / Solana Ranch North	2,335	3,600	$ 8,406,000	-	58,375	-	-	-	-	-	-	-	58,375	16	3,600
Subtotal	**2,335**		**$ 8,406,000**	-	58,375	-	-	-	-	-	-	-	58,375		
Anderson & Barnes 580 LLP / Solana Ranch South	2,030	3,600	$ 7,308,000	-	50,750	-	-	-	-	-	-	-	50,750	14	3,600
Subtotal	**2,030**		**$ 7,308,000**	-	50,750	-	-	-	-	-	-	-	50,750		
120 Townsend (Yount)	700	3,840	$ 2,688,000	-	-	-	-	-	-	-	-	-	-		
Subtotal	**700**		**$ 2,688,000**	-	-	-	-	-	-	-	-	-	-		
NS120 (Yount)	420	3,840	$ 1,612,800	-	-	-	-	-	-	-	-	-	-		
Subtotal	**420**		**$ 1,612,800**	-	-	-	-	-	-	-	-	-	-		
Montgomery 156 (Yount)	546	3,840	$ 2,096,640	-	-	-	-	-	-	-	-	-	-		
Subtotal	**546**		**$ 2,096,640**	-	-	-	-	-	-	-	-	-	-		
CG 215 (Yount)	753	3,840	$ 2,891,520	-	-	-	-	-	-	-	-	-	-		
Subtotal	**753**		**$ 2,891,520**	-	-	-	-	-	-	-	-	-	-		
Casa Grande Montgomery240 (Yount)	840	3,840	$ 3,225,600	-	-	-	-	-	-	-	-	-	-		
Subtotal	**840**		**$ 3,225,600**	-	-	-	-	-	-	-	-	-	-		
RRY Casa Grande 320 (Yount)	1,120	3,840	$ 4,300,800	-	-	-	-	-	-	-	-	-	-		
Subtotal	**1,120**		**$ 4,300,800**	-	-	-	-	-	-	-	-	-	-		
SVVM 80 (Yount)	280	3,840	$ 1,075,200	-	-	-	-	-	-	-	-	-	-		
Subtotal	**280**		**$ 1,075,200**	-	-	-	-	-	-	-	-	-	-		
VV Monty (Yount)	210	3,840	$ 806,400	-	-	-	-	-	-	-	-	-	-		
Subtotal	**210**		**$ 806,400**	-	-	-	-	-	-	-	-	-	-		
RRY Real Estate (Yount)	140	3,840	$ 537,600	-	-	-	-	-	-	-	-	-	-		
Subtotal	**140**		**$ 537,600**	-	-	-	-	-	-	-	-	-	-		
Robin R Yount LTD (Yount)	140	3,840	$ 537,600	-	-	-	-	-	-	-	-	-	-		
Subtotal	**140**		**$ 537,600**	-	-	-	-	-	-	-	-	-	-		

Global Water Resources, Inc
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Builder/Owner/GW Reference	Estimated number of connections	Per unit fee	Total estimated fees collectable	Funds collected as of December 31, 2004	2005	2006	2007	2008	2009	2010	2011	2012	Grand Total
Richard and Dana (Yount)	140	3,840	$ 537,600		-	-	-	-	-		-	-	
Subtotal	140		$ 537,600	-	-	-	-	-	-	-	-	-	-
Bruce and Karen (Yount)	140	3,840	$ 537,600		-	-	-	-	-		-	-	
Subtotal	140		$ 537,600	-	-	-	-	-	-	-	-	-	-
Sacaton BL (Yount)	980	3,840	$ 3,763,200		-	-	-	-	-		-	-	
Subtotal	980		$ 3,763,200	-	-	-	-	-	-	-	-	-	-
Trading Post Road LLC (Yount)	210	3,600	$ 756,000		-	-	-	-	-		-	-	
Subtotal	210		$ 756,000	-	-	-	-	-	-	-	-	-	-
Chartwell Casa Grande (Yount)	140	3,840	$ 537,600		-	-	-	-	-		-	-	
Subtotal	140		$ 537,600	-	-	-	-	-	-	-	-	-	-
Polich - Non Pulte	4,256	3,840	$ 16,343,040		-	-	-	-	-		-	-	
Subtotal	4,256		$ 16,343,040	-	-	-	-	-	-	-	-	-	-
Polich - Pulte	5,194	3,840	$ 19,944,960		-	-	-	-	-	-	-	-	
Subtotal	5,194		$ 19,944,960	-	-	-	-	-	-	-	-	-	-
CRW Holdings, LLC (Mark Williams)	105	3,600	$ 378,000		-	-	-	-	-	-	-	-	
Subtotal	105		$ 378,000	-	-	-	-	-	-	-	-	-	-
Val Vista & Montgomery (Mark Williams)	140	3,600	$ 504,000		-	-	-	-	-	-	-	-	
Subtotal	140		$ 504,000	-	-	-	-	-	-	-	-	-	-
Williams Trusts (Mark Williams)	560	3,600	$ 2,016,000		-	-	-	-	-	-	-	-	
Subtotal	560		$ 2,016,000	-	-	-	-	-	-	-	-	-	-
Blevins	560	3,600	$ 2,016,000		-	-	-	-	-	-	-	-	
Subtotal	560		$ 2,016,000	-	-	-	-	-	-	-	-	-	-
Kronwald Family Trust	280	3,600	$ 1,008,000		-	-	-	-	-	-	-	-	
Subtotal	280		$ 1,008,000	-	-	-	-	-	-	-	-	-	-
Henry McMillan and Alexander McMillan	88	3,600	$ 316,800	-	-	-	-	-	-	-	-	-	
Subtotal	88		$ 316,800	-	-	-	-	-	-	-	-	-	-
Teel 80 (Reinbold)	287	3,600	$ 1,033,200		-	-	-	-	-	-	-	-	
Subtotal	287		$ 1,033,200	-	-	-	-	-	-	-	-	-	-
Ken Lowman	280	3,600	$ 1,008,000	-	-	-	-	-	-	-	-	-	
Subtotal	280		$ 1,008,000	-	-	-	-	-	-	-	-	-	-
Tim Nyberg / Hampden and Chambers	2,825	3,600	$ 10,170,000		-	-	-	-	-	-	-	-	
Subtotal	2,825		$ 10,170,000	-	-	-	-	-	-	-	-	-	-

Global Water Resources, Inc
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Attachment D

fileGlobal - Armstrong Attachments C and D - Staff ICFA rate base redution recommendations

Builder/Owner/GW Reference	Estimated number of connections	Per unit fee	Total estimated fees collectable	Funds collected as of December 31, 2004	2005	2006	2007	2008	2009	2010	2011	2012	Grand Total
ROB-LIN Marketing (Vistoso)	4,298	3,600	$ 15,472,800		-	-	-	-	-	-	-	-	
Subtotal	4,298		$ 15,472,800	-	-	-	-	-	-	-	-	-	-
Vistoso Partners / Jorde Hacienda	10,920	3,600	$ 39,312,000		-	-	-	-	-	-	-	-	
Subtotal	10,920		$ 39,312,000	-	-	-	-	-	-	-	-	-	-
ABCDW, LLC (Vistoso Stanfield 1942)	6,797	3,600	$ 24,469,200		-	-	-	-	-	-	-	-	
Subtotal	6,797		$ 24,469,200	-	-	-	-	-	-	-	-	-	-
Vanderbilt Farms, LLC (Thude/Vistoso)	6,720	3,600	$ 24,192,000		-	-	-	-	-	-	-	-	
Subtotal	6,720		$ 24,192,000	-	-	-	-	-	-	-	-	-	-
Langley Stanfield Estates (Hay Hollow)	1,544	3,600	$ 5,558,400		-	-	-	-	-	-	-	-	
Subtotal	1,544		$ 5,558,400	-	-	-	-	-	-	-	-	-	-
Langley Properties Stanmar 160)	560	3,600	$ 2,016,000		-	-	-	-	-	-	-	-	
Subtotal	560		$ 2,016,000	-	-	-	-	-	-	-	-	-	-
Langley Properties (CCB Standfield Estates)	336	3,600	$ 1,209,600		-	-	-	-	-	-	-	-	
Subtotal	336		$ 1,209,600	-	-	-	-	-	-	-	-	-	-
Matt Montgomery/SPD, INC	4,200	3,600	$ 15,120,000	-	-	-	-	-	-	-			
Subtotal	4,200		$ 15,120,000	-	-	-	-	-	-	-	-	-	-
El Dorado: Parker Estates	2,240	3,500	$ 7,840,000		-	-	-	-	-	-	-	-	
Subtotal	2,240		$ 7,840,000	-	-	-	-	-	-	-	-	-	-
El Dorado: Hondo 640	2,240	3,500	$ 7,840,000		-	-	-	-	-	-	-	-	
Subtotal	2,240		$ 7,840,000	-	-	-	-	-	-	-	-	-	-
El Dorado: Rio Lobo, LLC	2,240	3,500	$ 7,840,000		-	-	-	-	-	-	-	-	
Subtotal	2,240		$ 7,840,000	-	-	-	-	-	-	-	-	-	-
Terbus Investments	140	3,600	$ 504,000		-	-	-	-	-	-	-	-	
Subtotal	140		$ 504,000	-	-	-	-	-	-	-	-	-	-
Douglas Payne	280	3,600	$ 1,008,000		-	-	-	-	-	-	-	-	
Subtotal	280		$ 1,008,000	-	-	-	-	-	-	-	-	-	-
Total SC/PV Southeast Expansion	77,514		$ 282,218,160	-	-	262,800	-	-	-	-	-	-	262,800
													262,800

Global Water Resources, Inc
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Attachment D

fileGlobal - Armstrong Attachments C and D - Staff ICFA rate base redution recommendations

Builder/Owner/GW Reference	Estimated number of connections	Per unit fee	Total estimated fees collectable	Funds collected as of December 31, 2004	2005	2006	2007	2008	2009	2010	2011	2012	Grand Total		
SC/PV N/NW/2nd SW Expansion															
Ari D'Jong / Vistoso	7,301	4,000	$ 29,204,000	-	-	-	-	-	-	-	-	-	-		
Subtotal	7,301		$ 29,204,000	-	-	-	-	-	-	-	-	-	-		
JEKE Group (NW parcel)	560	4,000	$ 2,240,000	-	-	-	-	-	-	-	-	-	-		
Subtotal	560		$ 2,240,000	-	-	-	-	-	-	-	-	-	-		
Southern Dunes	234	4,000	$ 936,000	-	-	-	-	-	-	-	-	-	-		
Subtotal	234		$ 936,000	-	-	-	-	-	-	-	-	-	-		
Hogenes Dairy	2,667	3,600	$ 9,601,200	-	-	-	-	-	-	-	-	-	-		
Subtotal	2,667		$ 9,601,200	-	-	-	-	-	-	-	-	-	-		
TOTTR (JCON)	27	4,000	$ 108,000	-	-	-	-	-	-	-	-	-	-		
Subtotal	27		$ 108,000	-	-	-	-	-	-	-	-	-	-		
	26	4,000	$ 104,000	-	-	-	-	-	-	-	-	-	-		
Subtotal	26		$ 104,000	-	-	-	-	-	-	-	-	-	-		
Redfield	117	3,600	$ 422,100	-	-	-	-	-	-	-	-	-	-		
Subtotal	117		$ 422,100	-	-	-	-	-	-	-	-	-	-		
Sunset Mountain Dev. Group	1,260	4,000	$ 5,040,000	-	-	-	-	-	-	-	-	-	-		
Subtotal	1,260		$ 5,040,000	-	-	-	-	-	-	-	-	-	-		
Maracay Homes	932	3,200	$ 2,982,400	-	-	-	-	-	-	-	-	-	-		
Subtotal	932		$ 2,982,400	-	-	-	-	-	-	-	-	-	-		
Kelly Anderson	2,240	3,100	$ 6,944,000	-	-	-	23,300	-	-	-	-	-	23,300	7	3,200
Subtotal	2,240		$ 6,944,000	-	-	-	23,300	-	-	-	-	-	-		
Eagle Shadow	1,323	3,100	$ 4,101,300	-	-	-	-	-	-	-	-	-	-		
Subtotal	1,323		$ 4,101,300	-	-	-	-	-	-	-	-	-	-		
Hartman Ranch	2,240	3,100	$ 6,944,000	-	-	-	-	-	48,171	-	-	-	48,171	16	3,100
Subtotal	2,240		$ 6,944,000	-	-	-	-	-	48,171	-	-	-	-		
Legacy Charter School at San Travasa	72	3,100	$ 223,200	-	-	-	-	-	-	-	-	-	-		
Subtotal	72		$ 223,200	-	-	-	-	-	-	-	-	-	-		

Global Water Resources, Inc
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Attachment D

Builder/Owner/GW Reference	Estimated number of connections	Per unit fee	Total estimated fees collectable	Funds collected as of December 31, 2004	2005	2006	2007	2008	2009	2010	2011	2012	Grand Total		
San Travasa	1,190	3,100	$ 3,689,000		-	-	-	-	273,632	-	-	-	273,632	88	3,100
CAC at San Travasa	821	3,100	$ 2,545,100			-	-	-	-	-	2,263,145	418,388	2,681,532	865	3,100
Subtotal	**2,011**		**$ 6,234,100**	-		-	-	-	**273,632**	-	**2,263,145**	**418,388**	**2,955,164**		
HBE Farms	1,120	3,100	$ 3,472,000		-	-	-	-	-	-	-	-			
Subtotal	**1,120**		**$ 3,472,000**	-	-	-	-	-	-	-	-	-	-		
Chris Whitt	70	4,000	$ 280,000		-	-	-	-	-	-	-	-			
Subtotal	**70**		**$ 280,000**	-	-	-	-	-	-	-	-	-	-		
Brian Stevenson	88	3,600	$ 315,000	-	-	-	-	-	-	-	-	-			

Global Water Resources, Inc
Through 12/31/2012

Attachment D

fileGlobal - Armstrong Attachments C and D - Staff ICFA rate base redution recommendations

Builder/Owner/GW Reference	Estimated number of connections	Per unit fee	Total estimated fees collectable	Funds collected as of December 31, 2004	2005	2006	2007	2008	2009	2010	2011	2012	Grand Total		
Subtotal	88		$ 315,000	-	-	-	-	-	-	-	-	-	-		
KSK Land Ventures (Geddes)	280	3,600	$ 1,008,000	-	-	-	-	-	-	-	-	-	-		
Subtotal	280		$ 1,008,000	-	-	-	-	-	-	-	-	-	-		
Nicholas Toronto	140	3,600	$ 504,000	-	-	-	-	-	-	-	-	-	-		
Subtotal	140		$ 504,000	-	-	-	-	-	-	-	-	-	-		
Quassey Holdings	280	3,600	$ 1,008,000	-	-	-	-	-	-	-	-	-	-		
Subtotal	280		$ 1,008,000	-	-	-	-	-	-	-	-	-	-		
Ivett Aviles	32	3,600	$ 115,920	-	-	-	-	-	-	-	-	-	-		
Subtotal	32		$ 115,920	-	-	-	-	-	-	-	-	-	-		
Dana Byron	25	3,600	$ 88,200	-	-	-	-	-	-	-	-	-	-		
Subtotal	25		$ 88,200	-	-	-	-	-	-	-	-	-	-		
Byron/Tse	18	3,600	$ 63,000	-	-	-	-	-	-	-	-	-	-		
Subtotal	18		$ 63,000	-	-	-	-	-	-	-	-	-	-		
Dana Byron	30	3,600	$ 109,242	-	-	-	-	-	-	-	-	-	-		
Subtotal	30		$ 109,242	-	-	-	-	-	-	-	-	-	-		
Byron/Macclium	32	3,600	$ 115,920	-	-	-	-	-	-	-	-	-	-		
Subtotal	32		$ 115,920	-	-	-	-	-	-	-	-	-	-		
Walton Cactus Springs	1,050	3,600	$ 3,780,000	-	-	-	-	26,250	-	-	-	-	26,250	7	3,600
Subtotal	1,050		$ 3,780,000	-	-	-	-	26,250	-	-	-	-	26,250		
Beauchene LP(Ray Christian)	140	3,600	$ 504,000	-	-	-	-	-	-	-	-	-	-		
Subtotal	140		$ 504,000	-	-	-	-	-	-	-	-	-	-		
Gene Montemore	18	3,600	$ 63,000	-	-	-	-	-	-	-	-	-	-		
Subtotal	18		$ 63,000	-	-	-	-	-	-	-	-	-	-		
Redfield Financial Partners V	140	3,600	$ 504,000	-	-	-	-	-	-	-	-	-	-		
Subtotal	140		$ 504,000	-	-	-	-	-	-	-	-	-	-		
Rio Blanco	970	3,600	$ 3,492,720	-	-	22,925	-	-	-	-	-	-	22,925	6	3,600
Subtotal	970		$ 3,492,720	-	-	22,925	-	-	-	-	-	-	22,925		
Redfield Financial	140	4,000	$ 560,000	-	-	-	-	-	-	-	-	-	-		
Subtotal	140		$ 560,000	-	-	-	-	-	-	-	-	-	-		
Cando Ranch	266	3,600	$ 957,600	-	-	-	-	-	-	-	-	-	-		
Subtotal	266		$ 957,600	-	-	-	-	-	-	-	-	-	-		
Ray Morrow	56	3,600	$ 201,600	-	-	-	-	-	-	-	-	-	-		
Subtotal	56		$ 201,600	-	-	-	-	-	-	-	-	-	-		
K Investment Enterprises	420	3,600	$ 1,512,000	-	-	-	-	-	-	-	-	-	-		
Subtotal	420		$ 1,512,000	-	-	-	-	-	-	-	-	-	-		
Redfield Ring	140	3,600	$ 504,000	-	-	-	-	-	-	-	-	-	-		
Subtotal	140		$ 504,000	-	-	-	-	-	-	-	-	-	-		
Redfield Financial	280	3,600	$ 1,008,000	-	-	-	-	-	-	-	-	-	-		
	420	3,600	$ 1,512,000												
Subtotal	700		$ 2,520,000	-	-	-	-	-	-	-	-	-	-		

Global Water Resources, Inc
Through 12/31/2012

Attachment D

Builder/Owner/GW Reference	Estimated number of connections	Per unit fee	Total estimated fees collectable	Funds collected as of December 31, 2004	2005	2006	2007	2008	2009	2010	2011	2012	Grand Total
DYE Equities	2,240	3,600	$ 8,064,000		-	-	-	-	-	-	-	-	
Subtotal	2,240		$ 8,064,000	-	-	-	-	-	-	-	-	-	-
Kevin Norby	18	3,600	$ 63,000		-	-	-	-	-	-	-	-	
Subtotal	18		$ 63,000	-	-	-	-	-	-	-	-	-	-
NF 26 Land	648	3,600	$ 2,331,000		-	-	-	-	-	-	-	-	
Subtotal	648		$ 2,331,000	-	-	-	-	-	-	-	-	-	-
Total SC/PV N/NW/2nd SW Expansion	30,069		$ 107,220,502	$ -	$ -	$ 22,925	$ 23,300	$ 26,250	$ 321,803	$ -	$ 2,263,145	$ 418,388	$ 3,075,810
													$ 3,075,810

Global Water Resources,
Inc
Through 12/31/2012

Attachment D

fileGlobal - Armstrong Attachments C and D - Staff ICFA rate base redution recommendations

Builder/Owner/GW Reference	Estimated number of connections	Per unit fee	Total estimated fees collectable	Funds collected as of December 31, 2004	2005	2006	2007	2008	2009	2010	2011	2012	Grand Total		
SC/PV Future Southeast															
Legends Ranch (Southeast II)	25,000	3150/3600	$ 88,650,000	-	-	-	882,411	1,000,000	-	-	-	-	1,882,411	558	3,375
Subtotal	25,000		$ 88,650,000	-	-	-	882,411	1,000,000	-	-	-	-	1,882,411		
Total SC/PV Future Southeast (FG/CP Transfer to SC/PV Areas)	25,000		$ 88,650,000	-	-	-	882,411	1,000,000	-	-	-	-	1,882,411		
SC/PV Future Southwest													1,882,411		
Midway	18,154	4,000	$ 72,615,340		-	-	-	-	-	-	-	-			
Subtotal	18,154		$ 72,615,340	-	-	-	-	-	-	-	-	-	-		
Total SC/PV Future Southeast (FG/CP Transfer to SC/PV Areas)	18,154		$ 72,615,340	-	-	-	-	-	-	-	-	-	-		
													-		
Picacho Cove Existing and															
La Osa	59,500	2,800	$ 166,600,000		-	-	-	-	-	-	-	-			
Citrus Orchards	8,000	5,015	$ 40,120,000		-	500,500	-	-	-		-	-			
Subtotal	67500		$ 206,720,000	$ -	$ -	$ 500,500	$ -	$ -	$ -	$ -	$ -	$ -	$ 500,500	100	5,015
Total Picacho Cove Existing	67500		$ 206,720,000	$ -	$ -	$ 500,500	$ -	$ -	$ -	$ -	$ -	$ -	$ 500,500		

Global Water Resources, Inc
Through 12/31/2012

fileGlobal - Armstrong Attachments C and D - Staff ICFA rate base reduction recommendations

Attachment D

Builder/Owner/GW Reference	Estimated number of connections	Per unit fee	Total estimated fees collectable	Funds collected as of December 31, 2004	2005	2006	2007	2008	2009	2010	2011	2012	Grand Total		
													$ 500,500		
HUC/Balterra/WUGT															
Hassayampa Ranch	5,700	2,650	$ 15,105,000	-	275,000	-	-	100,000	50,000	-	-	-			
Subtotal	5,700		$ 15,105,000	-	275,000	-	-	100,000	50,000	-	-	-	425,000	160	2,650
Silver Water/Springs Ranch (Vegas)	8,622	5,500	$ 47,421,000	-	-	5,819,850	-	-	-	-	-	-			
Subtotal	8,622		$ 47,421,000	-	-	5,819,850	-	-	-	-	-	-	5,819,850	1,058	5,500
Copperleaf Development	3,750	5,500	$ 20,625,000	-	-	2,531,250	-	-	-	-	-	1,218,750			
Subtotal	3,750		$ 20,625,000	-	-	2,531,250	-	-	-	-	-	1,218,750	3,750,000	682	5,500
I10-339th	1,100	5,500	$ 6,050,000	-	-	-	-	375,000	-		-	-			
Subtotal	1,100		$ 6,050,000	-	-	-	-	375,000	-	-	-	-	375,000	68	5,500
Belmont	87,500	5,000	$ 437,500,000	75,000	-	-	-	425,000	-	-	-	-			
Subtotal	87500		$ 437,500,000	$ 75,000	$ -	$ -	$ -	$ 425,000	$ -	$ -	$ -	$ -	$ 500,000	100	5,000
Total HUC/Balterra/WUGT	106,672		$ 526,701,000	$ 75,000	$ 275,000	$ 8,351,100	$ -	$ 900,000	$ 50,000	$ -	$ -	$ 1,218,750	$ 10,869,850		
													$ 10,869,850		
GRAND TOTAL ALL AGREEMENTS	394,314	3,742	$ 1,475,538,498	$ 4,998,566	$ 20,543,309	$ 25,939,677	$ 4,656,470	$ 3,946,100	$ 3,696,252	$ 273,740	$ 2,512,566	$ 2,420,892	$ 68,987,572	24,837	2,778
														2,778	
Total CC&R Agreements			$ 5,470,062	$ 1,627,000	$ 2,425,800	$ 891,150	$ 270,650	$ 87,750	$ 5,850	$ -	$ -	$ -	$ 5,308,200		
Total Master Utility Agreement			$ 3,708,400	$ -	$ 3,305,900	$ 200,000	$ -	$ -	$ -	$ -	$ -	$ -	3,505,900		
Total ICFAs, Including Those Not Recorded with the County			$ 1,466,360,036	$ 3,371,566	$ 14,811,609	$ 24,848,527	$ 4,385,820	$ 3,858,350	$ 3,690,402	$ 273,740	$ 2,512,566	$ 2,420,892	$ 60,173,472		
Total SC/PV Agreements Including CP			$ 742,117,498	$ 4,923,566	$ 20,268,309	$ 17,088,077	$ 4,656,470	$ 3,046,100	$ 3,690,402	$ 273,740	$ 2,512,566	$ 1,202,142	$ 57,617,222		
Total Picacho Cove Agreements			$ 206,720,000	$ -	$ -	$ 500,500	$ -	$ -	$ 3,690,402	$ -	$ -	$ -	$ 500,500		
Total HUC/Balterra/WUGT			$ 526,701,000	$ 75,000	$ 275,000	$ 8,351,100	$ -	$ 900,000	$ 3,690,402	$ -	$ -	$ 1,218,750	$ 10,869,850		

GLOBAL WATER

ATTACHMENT E

ARMSTRONG DIRECT

TARIFF SCHEDULE

UTILITY: _____ DECISION NO. _____

DOCKET NO. _____ EFFECTIVE DATE: _____

OFF-SITE HOOK-UP FEE (WATER)

I. Purpose and Applicability

The purpose of the off-site hook-up fees payable to _____ ("the Company") pursuant to this tariff is to equitably apportion the costs of constructing additional off-site facilities necessary to provide water production, delivery, storage and pressure among all new service connections. These charges are applicable to all new service connections established after the effective date of this tariff undertaken via Main Extension Agreements or requests for service not requiring a Main Extension Agreement. The charges are one-time charges and are payable as a condition to Company's establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-401 of the Arizona Corporation Commission's ("Commission") rules and regulations governing water utilities shall apply in interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with Company for the installation of water facilities to serve new service connections, and may include Developers and/or Builders of new residential subdivisions and/or commercial and industrial properties.

"Company" means _____.

"Main Extension Agreement" means any agreement whereby an Applicant agrees to advance the costs of the installation of water facilities necessary to the Company to serve new service connections within a development, or installs such water facilities necessary to serve new service connections and transfer ownership of such water facilities to the Company, which agreement shall require the approval of the Commission pursuant to A.A.C. R-14-2-406, and shall have the same meaning as "Water Facilities Agreement" or "Line Extension Agreement."

"Off-site Facilities" means wells, storage tanks and related appurtenances necessary for proper operation, including engineering and design costs. Offsite facilities may also include booster pumps, pressure tanks, transmission mains and related appurtenances necessary for proper operation if these facilities are not for the exclusive use of the applicant and will benefit the entire water system.

"Service Connection" means and includes all service connections for single-family residential, commercial, industrial or other uses, regardless of meter size.

III. Off-Site Water Hook-up Fee

For each new service connection, the Company shall collect an off-site hook-up fee derived from the following table:

OFF-SITE WATER HOOK-UP FEE TABLE		
Meter Size	**Size Factor**	**Total Fee**
5/8" x 3/4"	1	$
3/4"	1.5	$
1"	2.5	$
1-1/2"	5	$
2"	8	$
3"	16	$
4"	25	$
6" or larger	50	$

IV. Terms and Conditions

(A) Assessment of One Time Off-Site Hook-up Fee: The off-site hook-up fee may be assessed only once per parcel, service connection, or lot within a subdivision (similar to meter and service line installation charge).

(B) Use of Off-Site Hook-up Fee: Off-site hook-up fees may only be used to pay for capital items of off-site facilities or for repayment of loans obtained to fund the cost of installation of off-site facilities. Off-site hook-up fees shall not be used to cover repairs, maintenance, or operational costs.

(C) Time of Payment:

1) For those requiring a Main Extension Agreement: In the event that the Applicant is required to enter into a Main Extension Agreement, whereby the Applicant agrees to advance the costs of installing mains, valves, fittings, hydrants and other on-site improvements or construct such improvements in order to extend service in accordance with R-14-2-406(B), payment of the hook-up fees required hereunder shall be made by the Applicant no later than 15 calendar days after receipt of notification from the Company that the Utilities Division of the Arizona Corporation Commission has approved the Main Extension Agreement in accordance with R-14-2-406(M).

2) For those connecting to an existing main: In the event that the Applicant is not required to enter into a Main Extension Agreement, the hook-up fee charges hereunder shall be due and payable at the time the meter and service line installation fee is due and payable.

(D) Off-Site Facilities Construction By Developer: Company and Applicant may agree to construction of off-site facilities necessary to serve a particular development by Applicant, which facilities are then conveyed to Company. In that event, Company shall credit the total cost of such off-site facilities as an offset to off-site hook-up fees due under this Tariff. If the total cost of the off-site facilities constructed by Applicant and conveyed to Company is less than the applicable off-site hook-up fees under this Tariff, Applicant shall pay the remaining amount of off-site hook-up fees owed hereunder. If the total cost of the off-site facilities contributed by Applicant and conveyed to Company is more than the applicable off-site hook-up fees under this Tariff, Applicant shall be refunded the difference upon acceptance of the off-site facilities by the Company.

(E) Failure to Pay Charges; Delinquent Payments: The Company will not be obligated to make an advance commitment to provide or to actually provide water service to any Applicant in the event that the Applicant has not paid in full all charges hereunder. Under no circumstances will the Company set a meter or otherwise allow service to be established if the entire amount of any payment due hereunder has not been paid.

(F) Large Subdivision and/or Development Projects: In the event that the Applicant is engaged in the development of a residential subdivision and/or development containing more than 150 lots, the Company may, in its discretion, agree to payment of off-site hook-up fees in installments. Such installments may be based on the residential subdivision and/or development's phasing, and should attempt to equitably apportion the payment of charges hereunder based on the Applicant's construction schedule and water service requirements. In the alternative, the Applicant shall post an irrevocable letter of credit in favor of the Company in a commercially reasonable form, which may be drawn by the Company consistent with the actual or planned construction and hook up schedule for the subdivision and/or development.

(G) Off-Site Hook-Up Fees Non-refundable: The amounts collected by the Company as hook-up fees pursuant to the off-site hook-up fee tariff shall be non-refundable contributions in aid of construction.

(H) Use of Off-Site Hook-Up Fees Received: All funds collected by the Company as off-site hook-up fees shall be deposited into a separate interest bearing bank account and used solely for the purposes of paying for the costs of installation of off-site facilities, including repayment of loans obtained for the installation of off-site facilities that will benefit the entire water system.

(I) Off-Site Hook-up Fee in Addition to On-site Facilities: The off-site hook-up fee shall be in addition to any costs associated with the construction of on-site facilities under a Main Extension Agreement.

(J) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site hook-up fees, or if the off-site hook-up fee has been terminated by order of the Arizona Corporation Commission, any funds remaining in the bank account shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.

(K) Fire Flow Requirements: In the event the Applicant for service has fire flow requirements that require additional facilities beyond those facilities whose costs were included in the off-site hook-up fee, and which are contemplated to be constructed using the proceeds of the off-site hook-up Fee, the Company may require the Applicant to install such additional facilities as are required to meet those additional fire flow requirements, as a non-refundable contribution, in addition to the off-site hook-up fee.

(L) Status Reporting Requirements to the Commission: The Company shall submit a calendar year Off-Site Hook-Up Fee status report each January 31st to Docket Control for the prior twelve (12) month period, beginning January 31, 20__, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the physical location/address of the property in respect of which such fee was paid, the amount of money spent from the account, the amount of interest earned on the funds within the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.

Attachment F

Staff Data Requests and Company Responses Referenced in Direct Testimony of James R. Armstrong

Valencia Water Company – Town Division (W-01212A-12-0309)
Global Water – Palo Verde Utilities Company (SW-20445A-12-0310)
Water Utility of Northern Scottsdale (W-03720A-12-0311)
Water Utility of Greater Tonopah (W-02450A-12-0312)
Valencia Water Company – Greater Buckeye Division (W-02451A-12-0313)
Global Water – Santa Cruz Water Company (W-20446A-12-0314)
Willow Valley Water Company (W-01732A-12-0315)

RESPONSES TO STAFF'S EIGHTH SET OF DATA REQUESTS
Dated February 28, 2013

Subject: All information responses should ONLY be provided in searchable PDF, DOC or EXCEL files via email or electronic media.

STF 8.6 Referring to page 11 of the Ullmann Report. Provide a copy of ICFAs with parties simply noted as "various" dated 12-20-2007, 2008-0061205.

a. Why are the per dwelling unit Landowner Payments so much higher for this set of ICFAs ($5,000) than most of the ICFA Landowner Payments?

b. Provide a copy of all information provided to Ullmann to support the information shown for this line item. (If this is voluminous, Staff is willing to review this information at the Global office.)

RESPONSE:

a. ICFAs are not cost-of-service, invoice-type, agreements wherein every element is priced. They are not contracts that can be broken out into discrete elements because the ICFA parties recognized that the issues addressed in ICFAs are and remain macro-issues.

ICFAs exist in the Phoenix and Pinal AMAs. In the Phoenix portion, the ICFAs exist in the Lower Hassayampa Sub-basin, and in Pinal, the far-western portion of the county.

- Each of those areas has the following characteristics:
  - significant water challenges;
    - in Pinal County, the area had platted several times more homes than the entire-AMA's renewable water budget could possibly support; and
    - in the Phoenix AMA area, the ADWR had issued analyses of Assured Water Supply that allocated three times more water than existed in the Hassayampa Sub-basin.
  - significant amounts of potentially developable land, if the water resource could be bolstered;

- the only way to bolster the water resource was through regional scale water reclamation and reuse – which had to be emplaced in the face of growth, and which therefore would expose Global to carrying cost issues when and if the growth failed to develop as expected.
    - The Southwest Plant issue in the City of Maricopa area bears out that carrying cost issue - $32 million of plant that the ACC ordered built still sits idle, unused, and out of rate base, several years after construction.

- utilities with significant operational issues that were limiting, and would continue to limit, the potential development planned and platted in the area;
    - the utilities had service areas, economic expectations, and thus were able to demand and receive market prices in excess of book value – creating acquisition premium issues in the Sonoran/387 acquisition and the West Maricopa Combine situation.

In that context, neither party in the ICFA wanted to do a piece-by-piece valuation of every element (growth's demands, the water scarcity, the acquisition premiums, etc.) The developers and Global understood the nexus between growth and water, and the need for regional water reuse performed by a strong utility. The developers and Global understood as well that the ICFAs themselves should not negatively affect the highly-competitive home development sector by imposing different pricing and/or by providing different timing for developers in the same region.

The end result was we achieved consensus pricing for each development area – the affected developers in each area of each region debated the macro issues with Global and amongst each other and we wound up with consensus prices that ensured Global would have enough funding to deal with the acquisitions and the carrying costs of the regional infrastructure that would serve the developers' interests in bringing growth to each area.

Subject: All information responses should ONLY be provided in searchable PDF, DOC or EXCEL files via email or electronic media.

Separating the pieces of an ICFA and expecting each to "work" independently is akin to taking apart a plane and expecting to see the fuselage, landing gear, and wings, each fly through the air. The ICFA, like an airplane, makes sense as a whole entity that does something rather difficult in and of itself.

ICFAs balance competing developer interests, the pressures of water-scarce areas, the time value of money, and the long-run interests of the customers and the environment – and it consolidates troubled water companies without imposing acquisition costs on the customers. The results are borne out in our results (as shown in the testimony of Mr. Fleming on improved service quality and on operational costs; and Mr. Walker on solving troubled situations.)

Keeping in mind the above considerations, the Far West Valley (where this set of ICFAs covers) represented a different situation than that found in other areas served by Global. The areas in question were being served by utilities (West Maricopa Combine) with large service territories which could not support development and Global planned for advanced recycling solutions for the area.

b. Ullman was provided with a copy of the ICFA dated 12-20-2007, recording number 2008-0061205. For your reference, a copy of each ICFA through 2009 was provided to Staff on May 12, 2009 in Dockets 09-0077 et al, as Bates Nos. GW(09-RATE)000123 to GW(09-RATE)007740. A copy of the CD with these documents is provided in response to STF 8.66.

RESPONDENT:

STF DR 8.6.a: Paul Walker, Insight Consulting

STF DR 8.6.b: Ron Fleming, President, Regulated Utilities Division

Valencia Water Company – Town Division (W-01212A-12-0309)
Global Water – Palo Verde Utilities Company (SW-20445A-12-0310)
Water Utility of Northern Scottsdale (W-03720A-12-0311)
Water Utility of Greater Tonopah (W-02450A-12-0312)
Valencia Water Company – Greater Buckeye Division (W-02451A-12-0313)
Global Water – Santa Cruz Water Company (W-20446A-12-0314)
Willow Valley Water Company (W-01732A-12-0315)

RESPONSES TO STAFF'S EIGHTH SET OF DATA REQUESTS
Dated February 28, 2013

Subject: All information responses should ONLY be provided in searchable PDF, DOC or EXCEL files via email or electronic media.

STF 8.10 Please refer to Attachment A to this series of data requests (which was taken from the ICFA dated December 30, 2006 entered into between Global and CHI Construction Company), and explain how the Coordinator and Developer ultimately determined that a $3,600 per equivalent dwelling unit Landowner Payment was reasonable?

RESPONSE:

ICFAs were never intended to be a cost of service, or invoice-type, contract. The parties to the contracts were and are sophisticated parties with significant backgrounds in real estate development; utility operations and planning; and capital financing. Each side in the ICFA was aware of the need for water resources in water-scarce regions – the developer(s) wanted to ensure the opportunity for development in a fair, unbiased way; Global wanted to ensure it retained maximum flexibility to emplace regional-scale infrastructure that would provide long-term water supplies at the lowest operational cost.

Global wanted to ensure that it alone was able to plan and coordinate utility services across these regions. The results are shown in the water savings in Maricopa (3 billion gallons saved in 8 years – enough to provide the city with nearly two years of water); and the operational costs in Maricopa versus the formerly-West Maricopa Combine (WMC) utilities (as evidenced in Mr. Fleming's testimony, our ICFA utilities have the lowest operational costs in not just the Global family of companies, but against our Arizona peers).

Global and the developers also recognized that to achieve each side's goals (growth and equality of service for the developers; regional planning and control for Global) there would need to be acquisitions from time to time. The Sonoran/387 entities and WMC were necessary prerequisites toward each ICFA party's goals.

See also the response to STF 8.6.a.

RESPONDENT: Paul Walker, Insight Consulting

Valencia Water Company – Town Division (W-01212A-12-0309)
Global Water – Palo Verde Utilities Company (SW-20445A-12-0310)
Water Utility of Northern Scottsdale (W-03720A-12-0311)
Water Utility of Greater Tonopah (W-02450A-12-0312)
Valencia Water Company – Greater Buckeye Division (W-02451A-12-0313)
Global Water – Santa Cruz Water Company (W-20446A-12-0314)
Willow Valley Water Company (W-01732A-12-0315)

RESPONSES TO STAFF'S EIGHTH SET OF DATA REQUESTS
Dated February 28, 2013

Subject: All information responses should ONLY be provided in searchable PDF, DOC or EXCEL files via email or electronic media.

Valencia Water Company – Town Division (W-01212A-12-0309)
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RESPONSES TO STAFF'S EIGHTH SET OF DATA REQUESTS
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STF 8.11 How much of this $3,600 per equivalent dwelling unit fee is attributable to each of the following Coordinator provided services:

a. Acquisitions

b. Carrying costs

c. Facilitation, arranging, and coordinating various services

d. Providing "will serve" letters

e. A provision for income taxes

f. Other (please also list any other services for which Coordinator is being compensated out of this $3,600)

RESPONSE:

The Company does not break down the pricing within the ICFA.

RESPONDENT: Ron Fleming, President Regulated Utilities Division

Valencia Water Company – Town Division (W-01212A-12-0309)
Global Water – Palo Verde Utilities Company (SW-20445A-12-0310)
Water Utility of Northern Scottsdale (W-03720A-12-0311)
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RESPONSES TO STAFF'S EIGHTH SET OF DATA REQUESTS
Dated February 28, 2013

Subject: All information responses should ONLY be provided in searchable PDF, DOC or EXCEL files via email or electronic media.

STF 8.12 Provide a copy of all documents and workpapers used, or relied upon, by Global and CHI Construction to quantify this $3,600 Landowner Payment. For example, in quantifying the level of expected carrying costs, Staff would expect to receive a worksheet showing the anticipated infrastructure investments, the timing of those investments, and the annual and cumulative carrying cost attributable to the underlying infrastructure investments.

RESPONSE:

Please see the response to STF 8.6.a and 8.10.

RESPONDENT: Paul Walker, Insight Consulting

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF VALENCIA WATER COMPANY – TOWN DIVISION FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-01212A-12-0309
IN THE MATTER OF THE APPLICATION OF GLOBAL WATER – PALO VERDE UTILITIES COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. SW-20445A-12-0310
IN THE MATTER OF THE APPLICATION OF WATER UTILITY OF NORTHERN SCOTTSDALE, INC. FOR APPROVAL OF A RATE INCREASE.	DOCKET NO. W-03720A-12-0311
IN THE MATTER OF THE APPLICATION OF WATER UTILITY OF GREATER TONOPAH, INC. FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-02450A-12-0312

IN THE MATTER OF THE APPLICATION OF VALENCIA WATER COMPANY – GREATER BUCKEYE DIVISION FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-02451A-12-0313
IN THE MATTER OF THE APPLICATION OF GLOBAL WATER – SANTA CRUZ WATER COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-20446A-12-0314
IN THE MATTER OF THE APPLICATION OF WILLOW VALLEY WATER COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-01732A-12-0315

DIRECT

TESTIMONY

OF

JIAN W. LIU

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JULY 8, 2013

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ATTACHMENTS

OFF-SITE HOOK-UP FEE (WATER) ..... A

OFF-SITE FACILITIES HOOK-UP FEE (WASTEWATER) ..... B

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Engineering Report for Palo Verde Utilities Company JWL-7

INTRODUCTION

Q. Please state your name and business address.

A. My name is Jian W. Liu. My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. By whom and in what position are you employed?

A. I am employed by the Arizona Corporation Commission ("Commission" or "ACC") as a Utilities Engineer - Water/Wastewater in the Utilities Division.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since October 2005.

Q. What are your responsibilities as a Utilities Engineer - Water/Wastewater?

A. My main responsibilities are to inspect, investigate and evaluate water and wastewater systems. This includes obtaining data, preparing reconstruction cost new and/or original cost studies, investigative reports, interpreting rules and regulations, and to suggest corrective action and provide technical recommendations on water and wastewater system deficiencies. I also provide written and oral testimony in rate cases and other cases before the Commission.

Q. How many companies have you analyzed for the Utilities Division?

A. I have analyzed more than 40 companies fulfilling these various responsibilities for Utilities Division Staff ("Staff").

Q. Have you previously testified before this Commission?

A. Yes, I have testified on numerous occasions before this Commission.

Q. What is your educational background?

A. I am a Ph.D. Candidate in Geotechnical Engineering from Arizona State University ("ASU"). I have a Master of Science Degree in Natural Science from ASU and a Master of Science Degree in Civil Engineering from Institute of Rock & Soil Mechanics ("IRSM"), Academy of Sciences, China.

Q. Briefly describe your pertinent work experience.

A. From 1982 to 2000, I was employed by IRSM, SCS Engineers, and URS Corporation as a Civil and Environmental Engineer. In 2000, I joined the Arizona Department of Environmental Quality ("ADEQ"). My responsibilities with ADEQ included review and approval of water distribution systems, sewer distribution systems, and on-site wastewater treatment facilities. I remained with ADEQ until transferring to the Commission in October 2005.

Q. Please state your professional membership, registrations, and licenses.

A. I am a licensed professional civil engineer in the State of Arizona.

PURPOSE OF TESTIMONY

Q. What was your assignment in this rate proceeding?

A. My assignment was to provide Staff's engineering evaluation of the subject rate proceeding. I reviewed Global Water's application and responses to data requests, and I inspected the water and wastewater systems. This testimony and its attachments present Staff's engineering evaluation. The findings of my engineering evaluation are contained in the Engineering Reports that I have prepared for this proceeding. The reports are included as Exhibits JWL-1 through JWL-7 in this pre-filed testimony.

Q. Did Global Water propose a Distribution System Improvement Charge ("DSIC") for Willow Valley, Santa Cruz, Valencia Town and Greater Buckeye Divisions, and Greater Tonopah, and a Collection System Improvement Charge ("CSIC") for Palo Verde in this proceeding?

A. Yes.

Q. Has Staff recommended approval of a DSIC or CSIC in other docket?

A. No, but Staff has recommended approval of a SIB Mechanism.

Q. Did Global Water provide the associated supporting documentation for engineering Staff to review to determine if approval of a SIB would be appropriate in this case?

A. No. Therefore, Staff recommends that a SIB not be approved.

Q. Does Staff recommend that hook-up fee tariffs be approved for all of Global Water's ACC-regulated water and wastewater operations in this proceeding?

A. Yes. The standard hook-up fee tariffs Staff is recommending are included in my testimony as Attachments A and B. The actual fees are based on meter size with 5/8"x 3/4" meter being at $2,000. Larger meters use the meter multiplier to determine their price.

ENGINEERING REPORTS

Q. Please describe the information contained in your Engineering Reports.

A. The Reports are divided into three general sections: 1) *Executive Summary*; 2) *Engineering Report Discussion*, and 3) *Engineering Report Exhibits.* The *Discussion* section for Water System can be further divided into ten subsections: A) Location of Company; B) Description of the Water System; C) Maricopa County Environmental

Services Department ("MCESD") Compliance or ADEQ Compliance; D) ACC Compliance; E) Arizona Department Of Water Resources ("ADWR") compliance; F) Water Testing Expenses, G) Water Usage, H) Growth; I) Depreciation Rates; and J) Other Issues. The *Discussion* section for Wastewater System is divided into eight subsections: A) Location of Company; B) Description of the Wastewater System; C) Wastewater Flow; D) Growth; E) ADEQ Compliance; F) ACC Compliance; G) Depreciation Rates; and H) Other Issues.

RECOMMENDATIONS AND CONCLUSIONS

Q. What are Staff's conclusions and recommendations regarding the Company's operations?

A. Staff's conclusions and recommendations regarding the Company's operations are listed below.

Valencia Water Company - Town Division ("Valencia-Town")

CONCLUSIONS:

1. ADEQ or its formally delegated agent, the Maricopa County Environmental Services Department ("MCESD"), reported that the Valencia-Town drinking water system (Public Water System ("PWS") 07-078) is currently delivering water that meets water quality standards required by 40 C.F.R. 141 (Title 40 Code of Federal Regulations Part 141 National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.

2. Valencia-Town is located in the Phoenix Active Management Area ("AMA") and is subject to its AMA reporting and conservation requirements. Staff received an ADWR compliance status report dated March 13, 2013. ADWR reported that Valencia-Town is currently in compliance with departmental requirements governing water providers and/or community water systems.

3. Staff concludes that the Valencia-Town drinking water system has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.

4. Valencia-Town has an approved Curtailment Plan Tariff on file with the Commission.

5. Valencia-Town has a Backflow Prevention Tariff on file with the Commission.

6. Valencia-Town has ten approved Best Management Practice tariffs on file with the Commission.

7. A check with the Utilities Division Compliance Section showed no delinquent compliance items for Valencia-Town.

8. Valencia-Town submitted five post-test year plant additions for inclusion in rate base. Only post-test year plant additions 3) and 4) were in service during my inspection on April 11, 2013. (See Exhibit JWL-1)

RECOMMENDATIONS:

1. In the prior rate case, Valencia-Town adopted Staff's typical and customary water depreciation rates. These rates are presented in Table B of the report and it is recommended that the Valencia-Town continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category.

2. Staff recommends the annual water testing expense of $14,571 reported by the Valencia-Town be used for purposes of this application.

3. Valencia-Town has not requested any changes in its service line and meter installation charges that were approved in its last rate application. Therefore, Staff recommends continued use of the Company's current meter and service line installation charges.

4. Staff recommends that within 90 days of a Decision in this matter Valencia-Town file with Docket Control, as a compliance item in this docket, a detailed plan demonstrating how Valencia-Town will reduce its water loss to less than 10 percent. If the Valencia-Town finds that reduction of water loss to less than 10 percent is not cost-effective, Valencia-Town should submit, within 90 days of a Decision in this matter, a detailed cost analysis and explanation demonstrating why water loss reduction to less than 10 percent is not cost-effective.

Water Utility of Northern Scottsdale ("WUNS")

CONCLUSIONS:

1. ADEQ or its formally delegated agent, MCESD, reported that the WUNS drinking water system PWS Number 07-179 is currently delivering water that meets water quality standards required by 40 C.F.R. 141 (Title 40 Code of Federal Regulations Part 141 National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.

2. WUNS is located in the Phoenix AMA and is subject to its AMA reporting and conservation requirements. Staff received an ADWR compliance status report dated March 13, 2013. ADWR reported that WUNS is currently in compliance with departmental requirements governing water providers and/or community water systems.

3. Staff concludes that the WUNS drinking water system has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.

4. WUNS has an approved Curtailment Plan Tariff on file with the Commission.

5. WUNS has a Backflow Prevention Tariff on file with the Commission.

6. A check with the Utilities Division Compliance Section showed no delinquent compliance items for WUNS.

RECOMMENDATIONS:

1. In the prior rate case, WUNS adopted Staff's typical and customary water depreciation rates. These rates are presented in Table B and it is recommended that the WUNS continue to use these depreciation rates by individual NARUC.

2. Staff recommends the annual water testing expense of $728 reported by the WUNS be used for purposes of this application.

3. WUNS has not requested any changes in its service line and meter installation charges that were approved in its last rate application. Therefore, Staff recommends continued use of the WUNS's current meter and service line installation charges.

4. Staff recommends that WUNS monitor its water system and submit the gallons pumped and sold to determine the non-account water for one full year. WUNS should coordinate when it reads the well meters each month with customer billing so that an accurate accounting is determined. The results of this monitoring and reporting shall be docketed as a compliance item in this case within 13 months of the effective date of the order issued in this proceeding. If the reported water loss is greater than 10 percent WUNS shall prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If WUNS believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 13 months of the effective date of the order issued in this proceeding.

5. Staff recommends that WUNS adopt the three BMPs approved in Decision No. 73268 for the other Global Companies with customer counts less than 5000. Staff further recommends that the WUNS shall notify its customers, in a form acceptable to Staff, of the BMP tariffs authorized in this proceeding and their effective date by means of either

an insert in the next regularly scheduled billing or by a separate mailing and shall provide copies of the BMP tariffs to any customer, upon request.

Water Utility of Greater Tonopah, Inc. ("WUGT")

CONCLUSIONS:

1. ADEQ or its formally delegated agent, the MCESD, reported that the WUGT drinking water systems are currently delivering water that meets water quality standards required by 40 C.F.R. 141 (Title 40 Code of Federal Regulations Part 141 National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.

2. WUGT is located in the Phoenix AMA and is subject to its AMA reporting and conservation requirements. Staff received an ADWR compliance status report dated March 13, 2013. ADWR reported that WUGT is currently in compliance with departmental requirements governing water providers and/or community water systems.

3. A check with the ACC Utilities Division Compliance Section showed no delinquent compliance items for WUGT.

4. WUGT has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.

5. ACC Utilities Division Staff ("Staff") concludes that the WUGT has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.

6. WUGT has three approved Best Management Practice ("BMP") tariffs on file with the Commission.

7. Staff has inspected and verified completion of the three post-test year plant additions. These three post-test year plant additions were in-service during Staff's inspection on April 11, 2013. (See Exhibit JWL-3)

RECOMMENDATIONS:

1. Staff recommends that WUGT file each May a report covering the previous calendar year (with the first report due in May 2014 to cover the year of 2013) that contains all work activities undertaken in accordance with Decision No. 71878 regarding the WUGT's plan for reducing water loss below 10 percent. Staff further recommends that the written report continue until the water loss for all WUGT water systems is 10 percent or less for one full calendar year.

2. Staff recommends the annual water testing expense of $5,108 reported by WUGT be used for purposes of this application.

3. In the prior rate case, WUGT adopted Staff's typical and customary water depreciation rates. These rates are presented in Table B and it is recommended that the WUGT continue to use these depreciation rates by individual NARUC category.

4. WUGT has not requested any changes in its service line and meter installation charges that were approved in its last rate application. Therefore, Staff recommends continued use of WUGT's current meter and service line installation charges.

Valencia Water Company - Greater Buckeye Division ("Valencia Greater Buckeye")

CONCLUSIONS:

1. ADEQ or its formally delegated agent, the MCESD, reported that the Valencia Greater Buckeye drinking water systems are currently delivering water that meets water quality standards required by 40 C.F.R. 141 (Title 40 Code of Federal Regulations Part 141 National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.

2. Valencia Greater Buckeye is located in the Phoenix AMA and is subject to its AMA reporting and conservation requirements. Staff received an ADWR compliance status report dated March 13, 2013. ADWR reported that Valencia Greater Buckeye is currently in compliance with departmental requirements governing water providers and/or community water systems.

3. A check with the Utilities Division Compliance Section showed no delinquent compliance items for Valencia Greater Buckeye.

4. Valencia Greater Buckeye has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.

5. Staff concludes that Valencia Greater Buckeye has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.

6. Valencia Greater Buckeye has three approved Best Management Practice ("BMP") tariffs on file with the Commission.

RECOMMENDATIONS:

1. In the prior rate case, Valencia Greater Buckeye adopted Staff's typical and customary water depreciation rates. These rates are presented in Table B and it is recommended that the Valencia Greater Buckeye continue to use these depreciation rates by individual NARUC category.

2. Staff recommends the annual water testing expense of $3,252 reported by the Valencia Greater Buckeye be used for purposes of this application.

3. Staff recommends that Valencia Greater Buckeye file each May a report covering the previous year (Start in May 2014 to cover the year of 2013) that contains all work activities undertaken in accordance with Decision No. 71878 regarding the plan for reducing water loss to below 10 percent. The written report should continue until Staff receives a report that the water loss for all Valencia Greater Buckeye water systems is 10 percent or less for one full year (12 months).

4. Valencia Greater Buckeye reports that the Bulfer/Primrose water system PWS 07-114 sold more water than it pumped in test year 2011. The quantity of water sold cannot exceed the quantity of water pumped for the same period of time which suggests that the water use data reported is invalid. Staff recommends that the Valencia Greater Buckeye monitor the Bulfer/Primrose water system and submit the gallons pumped and sold to determine the non-account water for one full year. The Valencia Greater Buckeye should coordinate when it reads the well meters each month with customer billing so that an accurate accounting is determined.

5. Valencia Greater Buckeye has not requested any changes in its service line and meter installation charges that were approved in its last rate application. Therefore, Staff recommends continued use of the Valencia Greater Buckeye's current meter and service line installation charges.

Santa Cruz Water Company ("Santa Cruz")

CONCLUSIONS:

1. ADEQ regulates the Santa Cruz Water System under ADEQ PWS 11-131. ADEQ reported that Santa Cruz is currently delivering water that meets water quality standards required by 40 C.F.R. 141 (Title 40 Code of Federal Regulations Part 141 National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.

2. Santa Cruz is located in the Pinal AMA and is subject to its AMA reporting and conservation requirements. Staff received an ADWR compliance status report dated March 13, 2013. ADWR reported that Santa Cruz is currently in compliance with departmental requirements governing water providers and/or community water systems.

3. Staff concludes that Santa Cruz has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.

4. A check with the Utilities Division Compliance Section showed no delinquent compliance items for Santa Cruz.

5. Staff has inspected and verified completion of the post-test year plant additions. These two post-test year plant additions were in-service during Staff inspection on April 19, 2013.

6. Santa Cruz has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission. (See Exhibit JWL-5)

7. Santa Cruz has ten approved Best Management Practice tariffs on file with the Commission.

RECOMMENDATIONS:

1. In the prior rate case, Santa Cruz adopted Staff's typical and customary water depreciation rates. These rates are presented in Table B and it is recommended that the Santa Cruz continue to use these depreciation rates by individual NARUC category.

2. Staff recommends the annual water testing expense of $32,871 reported by the Santa Cruz be used for purposes of this application.

3. Santa Cruz has not requested any changes in its service line and meter installation charges that were approved in its last rate application. Therefore, Staff recommends continued use of the Santa Cruz's current meter and service line installation charges.

4. Staff recommends that within 90 days of a Decision in this matter Santa Cruz file with Docket Control, as a compliance item in this docket, a detailed plan demonstrating how the Santa Cruz will reduce its water loss to less than 10 percent. If Santa Cruz finds that reduction of water loss to less than 10 percent is not cost-effective, the Company should submit, within 90 days of a Decision in this matter, a detailed cost analysis and explanation demonstrating why water loss reduction to less than 10 percent is not cost-effective.

Willow Valley Water ("Willow Valley")

CONCLUSIONS:

1. ADEQ reported that the Willow Valley drinking water systems are currently delivering water that meets water quality standards required by 40 C.F.R. 141 (Title 40 Code of Federal Regulations Part 141 National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.

2. Willow Valley is not located in any AMA and is not subject to any AMA reporting and conservation requirements. ADWR reported that Willow Valley is currently in compliance with departmental requirements governing water providers and/or community water systems.

3. A check with the Utilities Division Compliance Section showed no delinquent compliance items for Willow Valley.

4. Willow Valley has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.

5. Willow Valley also has three approved Best Management Practice ("BMP") tariffs on file with the Commission.

6. Staff concludes that Willow Valley has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.

7. Staff inspected the plant facilities on April 16, 2013. The post-test year plant addition was not in-service during Staff's inspection. According to Willow Valley project has been delayed and will not be completed until late 2013. (See Exhibit JWL-6)

RECOMMENDATIONS:

1. In the prior rate case, Willow Valley adopted Staff's typical and customary water depreciation rates. These rates are presented in Table B and it is recommended that the Willow Valley continue to use these depreciation rates by individual NARUC category.

2. Staff recommends the annual water testing expense of $15,708 be used for purposes of this application.

3. Staff recommends that Willow Valley file each May a report covering the previous calendar year (with the first report due in May 2014 to cover the year of 2013) that contains all work activities undertaken in accordance with Decision No. 71878 regarding the Willow Valley's plan for reducing water loss below 10 percent. Staff further recommends that the written report continue until the water loss for all Willow Valley water systems is 10 percent or less for one full calendar year.

4. Willow Valley has not requested any changes in its service line and meter installation charges that were approved in its last rate application. Therefore, Staff recommends continued use of the Willow Valley's current meter and service line installation charges.

Palo Verde Utilities Company ("Palo Verde")

CONCLUSIONS:

1. ADEQ regulates Palo Verde under Permit No. 49076. Per an April 16, 2013, Compliance Status Report issued by ADEQ, during the period of January 1st, 2012 through December 31st, 2012, there were more than 200 times when daily exceedance for turbidity occurred, other violations were also reported by ADEQ.

2. A check with the Utilities Division Compliance Section showed no delinquent compliance items for Palo Verde.

3. All of the post-test year plant additions except West Lagoon Clean Closure were in-service during Staff's inspection. (See Exhibit JWL-7)

4. Staff concludes that Palo Verde has adequate treatment capacity to serve the existing customer base and reasonable growth.

RECOMMENDATIONS:

1. In the prior rate case, Palo Verde adopted Staff's typical and customary depreciation rates. These rates are presented in Table G-1 and it is recommended that the Palo Verde continue to use these depreciation rates by individual NARUC category.

2. Staff recommends the annual testing expense of $40,577 reported by Palo Verde be used for purposes of this application.

3. Staff recommends that any increase in rates and charges approved in this proceeding not become effective until the first day of the month following Palo Verde's filing of an updated ADEQ Compliance Status Report indicating that Palo Verde is in compliance with ADEQ requirements.

Q. Does this conclude your Direct Testimony?

A. Yes, it does.

TARIFF SCHEDULE

UTILITY: Global Water
DOCKET NO.: W-01212A-12-0309 et al

DECISION NO. _____
EFFECTIVE DATE: _____

OFF-SITE HOOK-UP FEE (WATER)

I. Purpose and Applicability

The purpose of the off-site hook-up fees payable to _____("the Company") pursuant to this tariff is to equitably apportion the costs of constructing additional off-site facilities necessary to provide water production, delivery, storage and pressure among all new service connections. These charges are applicable to all new service connections established after the effective date of this tariff undertaken via Main Extension Agreements or requests for service not requiring a Main Extension Agreement. The charges are one-time charges and are payable as a condition to Company's establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-401 of the Arizona Corporation Commission's ("Commission") rules and regulations governing water utilities shall apply in interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with Company for the installation of water facilities to serve new service connections, and may include Developers and/or Builders of new residential subdivisions and/or commercial and industrial properties.

"Company" means _____.

"Main Extension Agreement" means any agreement whereby an Applicant agrees to advance the costs of the installation of water facilities necessary to the Company to serve new service connections within a development, or installs such water facilities necessary to serve new service connections and transfer ownership of such water facilities to the Company, which agreement shall require the approval of the Commission pursuant to A.A.C. R-14-2-406, and shall have the same meaning as "Water Facilities Agreement" or "Line Extension Agreement."

"Off-site Facilities" means wells, storage tanks and related appurtenances necessary for proper operation, including engineering and design costs. Offsite facilities may also include booster pumps, pressure tanks, transmission mains and related appurtenances necessary for proper operation if these facilities are not for the exclusive use of the applicant and will benefit the entire water system.

"Service Connection" means and includes all service connections for single-family residential, commercial, industrial or other uses, regardless of meter size.

III. Off-Site Water Hook-up Fee

For each new service connection, the Company shall collect an off-site hook-up fee derived from the following table:

OFF-SITE HOOK-UP FEE TABLE		
Meter Size	**Size Factor**	**Total Fee**
5/8" x 3/4 "	1	$2,000
3/4"	1.5	$3,000
1"	2.5	$5,000
1-1/2 "	5	$10,000
2"	8	$16,000
3"	16	$32,000
4"	25	$50,000
6" or larger	50	$100,000

IV. Terms and Conditions

(A) Assessment of One Time Off-Site Hook-up Fee: The off-site hook-up fee may be assessed only once per parcel, service connection, or lot within a subdivision (similar to meter and service line installation charge).

(B) Use of Off-Site Hook-up Fee: Off-site hook-up fees may only be used to pay for capital items of off-site facilities or for repayment of loans obtained to fund the cost of installation of off-site facilities. Off-site hook-up fees shall not be used to cover repairs, maintenance, or operational costs.

(C) Time of Payment:

1) For those requiring a Main Extension Agreement: In the event that the Applicant is required to enter into a Main Extension Agreement, whereby the Applicant agrees to advance the costs of installing mains, valves, fittings, hydrants and other on-site improvements or construct such improvements in order to extend service in accordance with R-14-2-406(B), payment of the hook-up fees required hereunder shall be made by the Applicant no later than 15 calendar days after receipt of notification from the Company that the Utilities Division of the Arizona Corporation Commission has approved the Main Extension Agreement in accordance with R-14-2-406(M).

2) For those connecting to an existing main: In the event that the Applicant is not required to enter into a Main Extension Agreement, the hook-up fee charges hereunder shall be due and payable at the time the meter and service line installation fee is due and payable.

(D) Off-Site Facilities Construction By Developer: Company and Applicant may agree to construction of off-site facilities necessary to serve a particular development by Applicant, which facilities are then conveyed to Company. In that event, Company shall credit the total cost of such off-site facilities as an offset to off-site hook-up fees due under this Tariff. If the total cost of the off-site facilities constructed by Applicant and conveyed to Company is less than the applicable off-site hook-up fees under this Tariff, Applicant shall pay the remaining amount of off-site hook-up fees owed hereunder. If the total cost of the off-site facilities contributed by Applicant and conveyed to Company is more than the applicable off-site hook-up fees under this Tariff, Applicant shall be refunded the difference upon acceptance of the off-site facilities by the Company.

(E) Failure to Pay Charges; Delinquent Payments: The Company will not be obligated to make an advance commitment to provide or to actually provide water service to any Applicant in the event that the Applicant has not paid in full all charges hereunder. Under no circumstances will the Company set a meter or otherwise allow service to be established if the entire amount of any payment due hereunder has not been paid.

(F) Large Subdivision and/or Development Projects: In the event that the Applicant is engaged in the development of a residential subdivision and/or development containing more than 150 lots, the Company may, in its discretion, agree to payment of off-site hook-up fees in installments. Such installments may be based on the residential subdivision and/or development's phasing, and should attempt to equitably apportion the payment of charges hereunder based on the Applicant's construction schedule and water service requirements. In the alternative, the Applicant shall post an irrevocable letter of credit in favor of the Company in a commercially reasonable form, which may be drawn by the Company consistent with the actual or planned construction and hook up schedule for the subdivision and/or development.

(G) Off-Site Hook-Up Fees Non-refundable: The amounts collected by the Company as hook-up fees pursuant to the off-site hook-up fee tariff shall be non-refundable contributions in aid of construction.

(H) Use of Off-Site Hook-Up Fees Received: All funds collected by the Company as off-site hook-up fees shall be deposited into a separate interest bearing bank account and used solely for the purposes of paying for the costs of installation of off-site facilities, including repayment of loans obtained for the installation of off-site facilities that will benefit the entire water system.

(I) Off-Site Hook-up Fee in Addition to On-site Facilities: The off-site hook-up fee shall be in addition to any costs associated with the construction of on-site facilities under a Main Extension Agreement.

(J) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site hook-up fees, or if the off-site hook-up fee has been terminated by order of the Arizona Corporation Commission, any funds remaining in the bank account shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.

(K) Fire Flow Requirements: In the event the Applicant for service has fire flow requirements that require additional facilities beyond those facilities whose costs were included in the off-site hook-up fee, and which are contemplated to be constructed using the proceeds of the off-site hook-up Fee, the Company may require the Applicant to install such additional facilities as are required to meet those additional fire flow requirements, as a non-refundable contribution, in addition to the off-site hook-up fee.

(L) Status Reporting Requirements to the Commission: The Company shall submit a calendar year Off-Site Hook-Up Fee status report each January 31st to Docket Control for the prior twelve (12) month period, beginning January 31, 2015, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the physical location/address of the property in respect of which such fee was paid, the amount of money spent from the account, the amount of interest earned on the funds within the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.

TARIFF SCHEDULE

UTILITY: Global Water
DOCKET NO.: W-01212A-12-0309 et al

DECISION NO. _____
EFFECTIVE DATE: _____

OFF-SITE FACILITIES HOOK-UP FEE (WASTEWATER)

I. Purpose and Applicability

The purpose of the off-site facilities hook-up fees payable to _____ ("the Company") pursuant to this tariff is to equitably apportion the costs of constructing additional off-site facilities necessary to provide wastewater treatment plant facilities among all new service laterals. These charges are applicable to all new service laterals established after the effective date of this tariff undertaken via Collection Main Extension Agreements or requests for service not requiring a Collection Main Extension Agreement. The charges are one-time charges and are payable as a condition to Company's establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-601 of the Arizona Corporation Commission's ("Commission") rules and regulations governing sewer utilities shall apply in interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with Company for the installation of wastewater facilities to serve new service laterals, and may include Developers and/or Builders of new residential subdivisions and/or commercial and industrial properties.

"Company" means _____.

"Collection Main Extension Agreement" means any agreement whereby an Applicant agrees to advance the costs of the installation of wastewater facilities necessary to the Company to serve new service laterals within a development, or installs such wastewater facilities necessary to serve new service laterals and transfer ownership of such wastewater facilities to the Company, which agreement does not require the approval of the Commission pursuant to A.A.C. R-14-2-606, and shall have the same meaning as "Wastewater Facilities Agreement".

"Off-site Facilities" means the wastewater treatment plant, sludge disposal facilities, effluent disposal facilities and related appurtenances necessary for proper operation, including engineering and design costs. Offsite facilities may also include lift stations, transportation mains and related appurtenances necessary for proper operation if these facilities are not for the exclusive use of the Applicant and benefit the entire wastewater system.

"Service Lateral" means and includes all service laterals for single-family residential, commercial, industrial or other uses.

III. Off-Site Facilities Hook-up Fee

For each new service lateral, the Company shall collect an off-site facilities hook-up fee as listed in the following table:

OFF-SITE WASTEWATER HOOK-UP FEE TARIFF TABLE		
Service Lateral Size	Factor	Fee
4-inch	1	$2,000
6-inch	2.25	$4,500
8-inch	4	$8,000
10-inch	6.25	$12,500

IV. Terms and Conditions

(A) Assessment of One Time Off-Site Facilities Hook-up Fee: The off-site facilities hook-up fee may be assessed only once per parcel, service lateral, or lot within a subdivision (similar to a service lateral installation charge).

(B) Use of Off-Site Facilities Hook-up Fee: Off-site facilities hook-up fees may only be used to pay for capital items of off-site facilities, or for repayment of loans obtained to fund the cost of installation of off-site facilities. Off-site hook-up fees shall not be used to cover repairs, maintenance, or operational costs.

(C) Time of Payment:

(1) For those requiring a Collection Main Extension Agreement: In the event that the Applicant is required to enter into a Collection Main Extension Agreement, whereby Applicant agrees to advance the costs of on-site improvements or construct such improvements, payment of the fees required hereunder shall be made by the Applicant when payment is made for the on-site improvements or 30 days after the Collection Main Extension Agreement is executed, whichever is later.

(2) For those connecting to an existing main: In the event that the Applicant is not required to enter into a Collection Main Extension Agreement, the hook-up fee charges hereunder shall be due and payable at the time wastewater service is requested for the property.

(D) Off-Site Facilities Construction by Developer: Company and Applicant may agree to construction of off-site facilities necessary to serve a particular development by Applicant, which facilities are then conveyed to Company. In that event, Company shall credit the total cost of such off-site facilities as an offset to off-site hook-up fees due under this Tariff. If the total cost of the off-site facilities constructed by Applicant and conveyed to Company is less than the applicable off-site hook-up fees under this Tariff, Applicant shall pay the remaining amount of off-site hook-up fees owed hereunder. If the total cost of the off-site facilities contributed by Applicant and conveyed to Company is more than the applicable off-site hook-up fees under this

Tariff, Applicant shall be refunded the difference upon acceptance of the off-site facilities by the Company.

(E) Failure to Pay Charges; Delinquent Payments: The Company will not be obligated to make an advance commitment to provide or to actually provide wastewater service to any Applicant in the event that the Applicant has not paid in full all charges hereunder. Under no circumstances will the Company connect service or otherwise allow service to be established if the entire amount of any payment due hereunder has not been paid.

(F) Large Subdivision and/or Development Projects: In the event that the Applicant is engaged in the development of a residential subdivision and/or development containing more than 150 lots, the Company may, in its discretion, agree to payment of off-site hook-up fees in installments. Such installments may be based on the residential subdivision and/or development's phasing, and should attempt to equitably apportion the payment of charges hereunder based on the Applicant's construction schedule and wastewater service requirements. In the alternative, the Applicant shall post an irrevocable letter of credit in favor of the Company in a commercially reasonable form, which may be drawn by the Company consistent with the actual or planned construction and hook up schedule for the subdivision and/or development.

(G) Off-Site Hook-Up Fees Non-refundable: The amounts collected by the Company as hook-up fees pursuant to the off-site facilities hook-up fee tariff shall be non-refundable contributions in aid of construction.

(H) Use of Off-Site Hook-Up Fees Received: All funds collected by the Company as off-site facilities hook-up fees shall be deposited into a separate interest bearing bank account and used solely for the purposes of paying for the costs of installation of off-site facilities, including repayment of loans obtained for the installation of off-site facilities.

(I) Off-Site Facilities Hook-up Fee in Addition to On-site Facilities: The off-site facilities hook-up fee shall be in addition to any costs associated with the construction of on-site facilities under a Collection Main Extension Agreement.

(J) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site facilities hook-up fees, or if the off-site facilities hook-up fee has been terminated by order of the Arizona Corporation Commission, any funds remaining in the bank account shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.

(K) Status Reporting Requirements to the Commission: The Company shall submit a calendar year Off-Site Facilities Hook-Up Fee status report each January 31st to Docket Control for the prior twelve (12) month period, beginning January 31, 2015, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the physical location/address of the property in respect of which such fee was paid, the amount of money spent from the account, the amount of interest earned on the funds within the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.

EXHIBIT JWL-1

ENGINEERING REPORT FOR

VALENCIA WATER COMPANY, INC.,

DOCKET NO. W-01212A-12-0309 (RATES)

JIAN W LIU

May 22, 2013

Engineering Report for:
Valencia Water Company, Inc. for a Rate Increase
Docket No. W-01212A-12-0309 (Rates)

By: Jian W Liu
Utilities Engineer

May 22, 2013

EXECUTIVE SUMMARY

CONCLUSIONS:

1. Arizona Department of Environmental Quality ("ADEQ") or its formally delegated agent, the Maricopa County Environmental Services Department ("MCESD"), reported that the Valencia Water Company - Town Division ("Valencia-Town" or "Company") drinking water system (Public Water System ("PWS") 07-078) is currently delivering water that meets water quality standards required by 40 C.F.R. 141 (Title 40 Code of Federal Regulations Part 141 National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4. (MCESD report dated April 1, 2013).

2. Valencia-Town is located in the Phoenix Active Management Area ("AMA") and is subject to its AMA reporting and conservation requirements. Staff received an Arizona Department of Water Resources ("ADWR") compliance status report dated March 13, 2013. ADWR reported that Valencia-Town is currently in compliance with departmental requirements governing water providers and/or community water systems.

3. Staff concludes that the Valencia-Town drinking water system has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth rate.

4. The Company has an approved Curtailment Plan Tariff on file with the Commission.

5. The Company has a Backflow Prevention Tariff on file with the Commission.

6. Valencia-Town has ten approved Best Management Practice tariffs on file with the Commission.

7. A check with the Utilities Division Compliance Section showed no delinquent compliance items for Valencia-Town. (ACC Compliance Section Email dated May 17, 2013).

8. The Company submitted five post-test year plant additions for inclusion in rate base. Only post-test year plant additions 3) and 4) were in service during my inspection on April 11, 2013. (see Section L for details).

RECOMMENDATIONS

1. In the prior rate case, the Company adopted Staff's typical and customary water depreciation rates. These rates are presented in Table B and it is recommended that the Company continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.

2. Staff recommends the annual water testing expense of $14,571 reported by the Company be used for purposes of this application.

3. The Company has not requested any changes in its service line and meter installation charges that were approved in its last rate application. Therefore, Staff recommends continued use of the Company's current meter and service line installation charges.

4. Staff recommends that within 90 days of a Decision in this matter the Company file with Docket Control, as a compliance item in this docket, a detailed plan demonstrating how the Company will reduce its water loss for Valencia-Town to less than 10 percent. If the Company finds that reduction of water loss to less than 10 percent is not cost-effective, the Company should submit, within 90 days of a Decision in this matter, a detailed cost analysis and explanation demonstrating why water loss reduction to less than 10 percent is not cost-effective.

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A. LOCATION OF COMPANY

Valencia Water Company - Town Division ("Valencia-Town" or "Company") is located approximately 40 miles west of downtown Phoenix in Maricopa County with a certificated area covering approximately 7,500 acres. Figure 1 shows the location of Valencia-Town within Maricopa County and Figure 2 shows the certificated area.

B. DESCRIPTION OF THE WATER SYSTEM

The plant facilities were visited on April 11, 2013, by Jian Liu, Staff Utilities Engineer, in the accompaniment of Ron Fleming, Harold Thomas, Larry Thomas and Joel Wade of the Company.

The facility consists of 9 active wells with total pumping capacity of 4,195 gallon per minute ("GPM"), 7 arsenic treatment systems ("ATS"), 18 storage tanks with total storage capacity of 4,833,000 gallons, hydro-pneumatic systems and a distribution system serving approximately 5,350 active connections. Staff concludes that the Valencia-Town has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.

(Tabular Description of Water System)

Well Data (active wells only)

ADWR ID No.	Pump HP	Pump GPM	Casing Depth(ft)	Casing Size(in)	Meter Size(in)	Year Drilled
55- 201740 Sonoran Vista NE	150	700	645	11	6	2004
55- 202399 Riata Well #2	125	525	660	11	8	2004
55- 202400 Bales School Well	50	750	550	11	4	2004
55- 207806 4th & Central	25	410	820	11	6	2006
55- 577508 4th & Baseline Large Well #2	60	600	620	8	6	2000
55- 592220 Blue Hills Deep Well #2	60	350	580	11	6	2002
55- 595258 Sonoran Vista SW	75	500	750	11	6	2003
55- 599204 Blue Hills Shallow Well #1	20	110	320	9	4	2003
55- 599950 7th & Alarcon Large Well #2	50	250	800	10	4	2004
Total Production	-	4195	-	-	-	-

Note: GPM = gallons per minute.

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
25,000	2	1,000	1	5	4
50,000	3	2,000	1	15	6
100,000	2	3,000	1	20	4
128,000	1	5,000	8	25	4
180,000	1	6,000	2	30	3
195,000	1	12,000	1	40	11
215,000	1			50	9
240,000	1			60	2
500,000	2			100	2
550,000	1			125	2
750,000	1			150	3
900,000	1			200	2
1,000,000	1				
Total 4,833,000					

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
1	79	5/8x3/4	5,453	835
2	2,068	3/4	21	
3	1,415	1	112	
4	24,461	1.5	26	
6	56,183	2	133	
8	332,881	3	2	
10	7,010	6	4	
12	76,314			
16	50,019			
18	8,026			
Unknown	1,754			
		Total Metered Connections	5,751	

C. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE ("ADEQ")

ADEQ or its formally delegated agent, the Maricopa County Environmental Services Department ("MCESD"), reported that the Valencia-Town drinking water system (Public Water System ("PWS") 07-078) is currently delivering water that meets water quality standards required by 40 C.F.R. 141 (Title 40 Code of Federal Regulations Part 141 National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4. (MCESD report dated April 1, 2013)

D. ARIZONA CORPORATION COMMISSION ("ACC") COMPLIANCE

A check with the Utilities Division Compliance Section showed no delinquent compliance items for Valencia-Town. (ACC Compliance Section Email dated May 17, 2013)

E. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

Valencia-Town is located in the Phoenix Active Management Area ("AMA") and is subject to its AMA reporting and conservation requirements. Staff received an ADWR compliance status report dated March 13, 2013. ADWR reported that Valencia-Town is currently in compliance with departmental requirements governing water providers and/or community water systems.

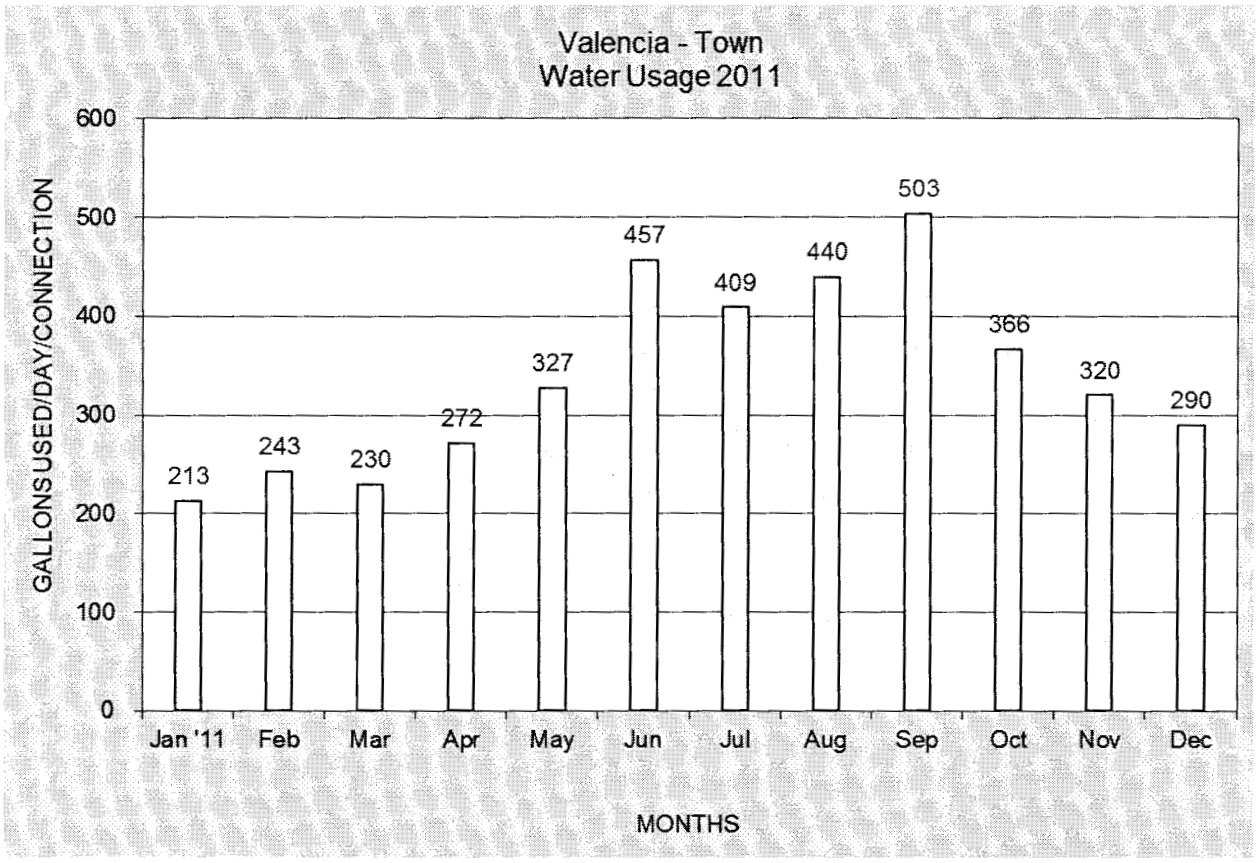
F. WATER TESTING EXPENSES

The Company reported a total testing expense of $14,570.72 during the test year, the Company provided invoices and other documents to support this amount. Staff has reviewed the information provided by the Company and recommends the Company's reported annual testing expense of $14,571(rounded) be used for purposes of this application.

G. WATER USE

Water Sold

Based on the information provided by the Company, water use for the year 2011 is presented below. The high monthly domestic water use was 503 gal/day per service connection in September and the low monthly domestic water use was 213 gal/day per service connection in January. The average annual use was 339 gal/day per service connection.



Non-account Water

Non-account water should be 10% or less and never more than 15%. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing. The Company reported 751,697,000 gallons pumped and 653,827,000 gallons sold, resulting in a water loss of 13.02% for 2011.

Staff recommends that within 90 days of a Decision in this matter the Company file with Docket Control, as a compliance item in this docket, a detailed plan demonstrating how the Company will reduce its water loss for Valencia-Town to less than 10 percent. If the Company finds that reduction of water loss to less than 10 percent is not cost-effective, the Company should submit, within 90 days of a Decision in this matter, a detailed cost analysis and explanation demonstrating why water loss reduction to less than 10 percent is not cost-effective.

H. GROWTH

In July 2009, the Company had 5,019 active customers and in December 31, 2011, the Company had 5,343 active customers. The customer base grew at approximately 2.5% per year

from July 2009 to December 2011. The Company estimates that the customer base will grow at approximately 2 to 3% per year for the next 5 years.

I. DEPRECIATION RATES

In the prior rate case, the Company adopted Staff's typical and customary water depreciation rates. These rates are presented in Table B and it is recommended that the Company continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.

Table B. Depreciation Rates

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

344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

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

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

J. CURTAILMENT PLAN AND BACKFLOW PREVENTION TARIFFS

The Company has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.

Valencia-Town has ten approved Best Management Practice tariffs on file with the Commission.

K. METER AND SERVICE LINE INSTALLATION CHARGES

The Company has not requested any changes in its service line and meter installation charges that were approved in its last rate application. Therefore, Staff recommends continued use of the Company's current meter and service line installation charges.

L. POST-TEST YEAR PLANT

The Company submitted five post-test year plant additions for inclusion in rate base. These five post-test year project additions are as follows:

	Construction Status (As April 11, 2013)
1) Bales Fill Line;	Pending
2) Buena Vista Fill Line;	Pending
3) Pima Road Waterline;	Completed
4) West Valley Region Supervisory Control and Data Acquisition ("SCADA") - Command Station Improvements	Completed
5) Sonoran Vista Water Distribution Center Optimization	Pending

Staff has inspected and verified completion of the post-test year plant additions Items numbered 3) and 4) above. These two post-test year plant additions were in-service during Staff's inspection on April 11, 2013.

Valencia Water Company
Docket No. W-01212A-12-0309

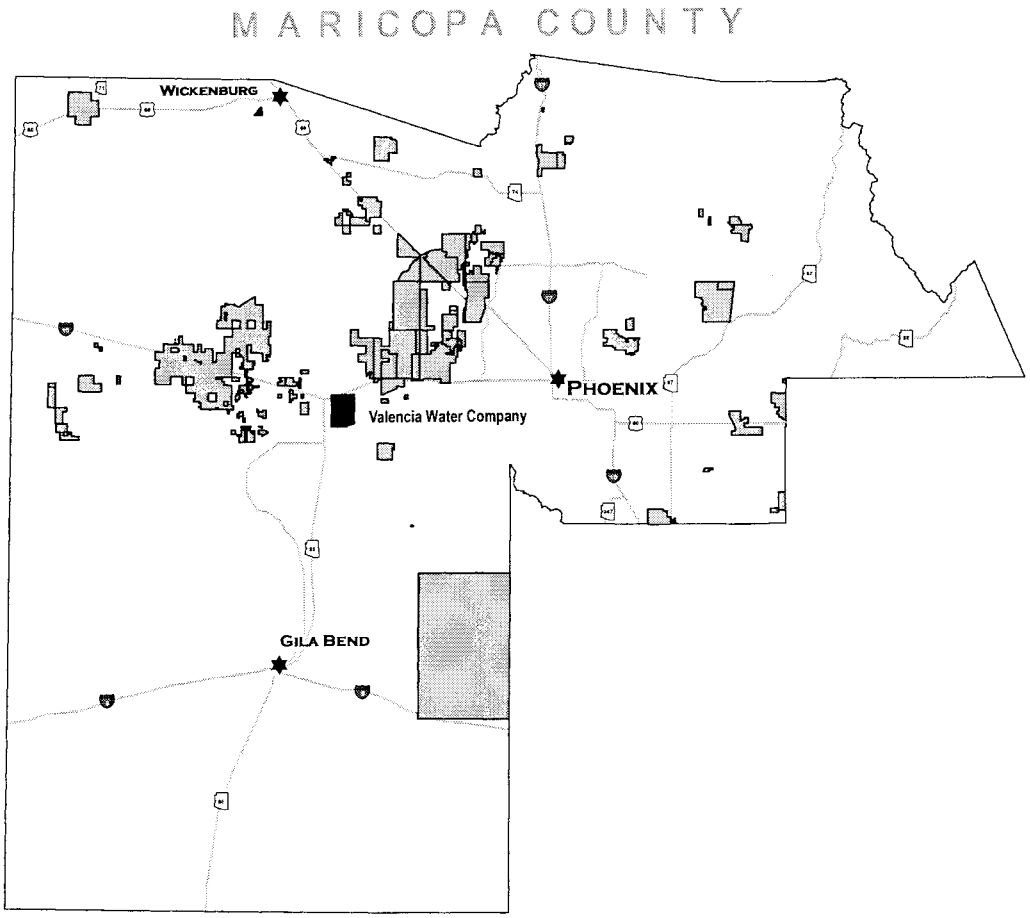


Figure 1. County Map

Valencia Water Company
Docket No. W-01212A-12-0309

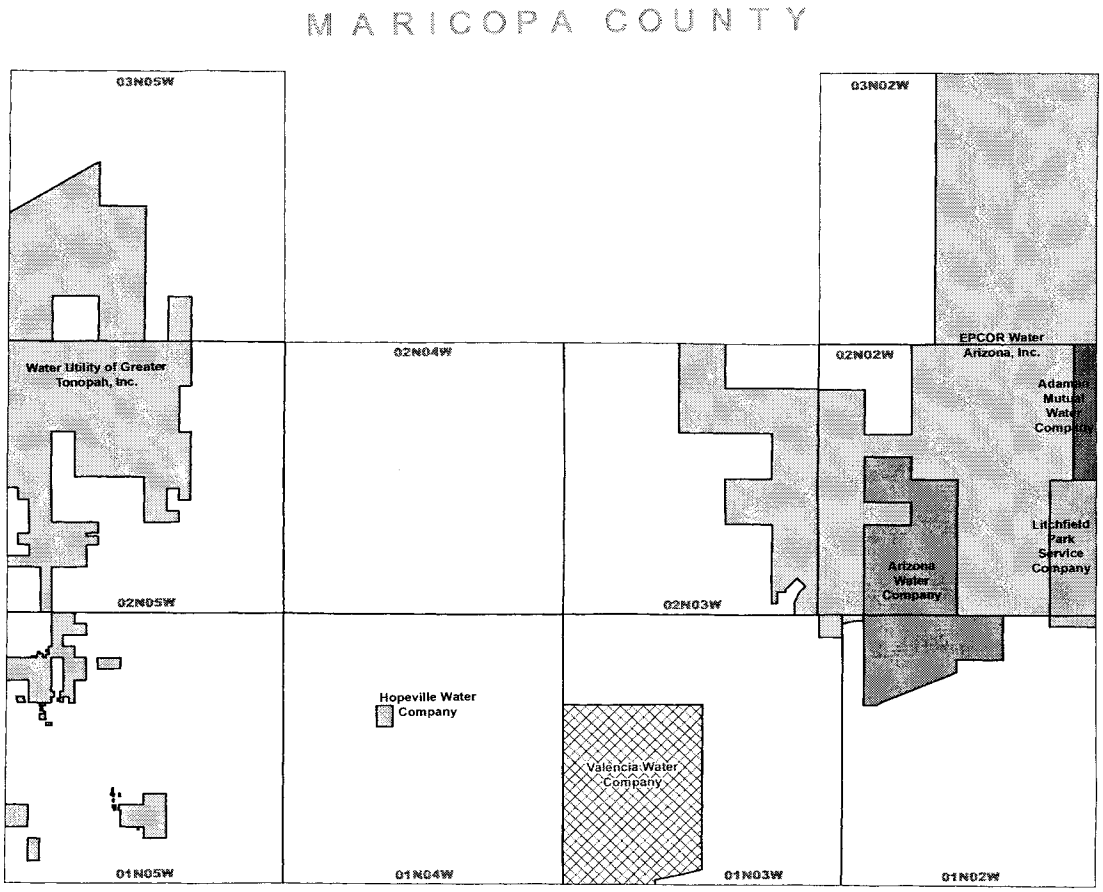


Figure 2. Certificated Area

EXHIBIT JWL-2

ENGINEERING REPORT FOR

WATER UTILITY OF NORTHERN SCOTTSDALE

DOCKET NO. W-03720A-12-0311 (RATES)

JIAN W LIU

May 28, 2013

Engineering Report for:
Water Utility of Northern Scottsdale for a Rate Increase
Docket No. W-03720A-12-0311 (Rates)

By: Jian W Liu
Utilities Engineer

May 28, 2013

EXECUTIVE SUMMARY

CONCLUSIONS:

1. Arizona Department Of Environmental Quality ("ADEQ") or its formally delegated agent, the Maricopa County Environmental Services Department ("MCESD"), reported that the Water Utility of Northern Scottsdale ("WUNS" or "Company") drinking water system (Public Water System ("PWS") Number 07-179) is currently delivering water that meets water quality standards required by 40 C.F.R. 141 (Title 40 Code of Federal Regulations Part 141 National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4. (MCESD report dated April 1, 2013).

2. WUNS is located in the Phoenix Active Management Area ("AMA") and is subject to its AMA reporting and conservation requirements. Staff received an Arizona Department of Water Resources ("ADWR") compliance status report dated March 13, 2013. ADWR reported that WUNS is currently in compliance with departmental requirements governing water providers and/or community water systems.

3. Staff concludes that the WUNS drinking water system has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth rate.

4. The Company has an approved Curtailment Plan Tariff on file with the Commission.

5. The Company has a Backflow Prevention Tariff on file with the Commission.

6. A check with the Utilities Division Compliance Section showed no delinquent compliance items for WUNS. (ACC Compliance Section Email dated April 3, 2013).

RECOMMENDATIONS

1. In the prior rate case, the Company adopted Staff's typical and customary water depreciation rates. These rates are presented in Table B and it is recommended that the Company continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.

2. Staff recommends the annual water testing expense of $728 reported by the Company be used for purposes of this application.

3. The Company has not requested any changes in its service line and meter installation charges that were approved in its last rate application. Therefore, Staff recommends continued use of the Company's current meter and service line installation charges.

4. Staff recommends that the Company monitor the WUNS water system and submit the gallons pumped and sold to determine the non-account water for one full year. The Company should coordinate when it reads the well meters each month with customer billing so that an accurate accounting is determined. The results of this monitoring and reporting shall be docketed as a compliance item in this case within 13 months of the effective date of the order issued in this proceeding. If the reported water loss is greater than 10 percent the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 13 months of the effective date of the order issued in this proceeding.

5. Staff recommends that WUNS adopt the three BMPs approved in Decision No. 73268 for the other Global Companies with customer counts less than 5,000. Staff further recommends that WUNS notify its customers, in a form acceptable to Staff, of the BMP tariffs authorized in this proceeding and their effective date by means of either an insert in the next regularly scheduled billing or by a separate mailing and shall provide copies of the BMP tariffs to any customer, upon request.

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County Map ..... FIGURE 1

Certificated Area ..... FIGURE 2

A. LOCATION OF COMPANY

The Water Utility of Northern Scottsdale ("WUNS" or "Company") water system is located approximately 40 miles northeast of downtown Phoenix in Maricopa County with a certificated area covering approximately 3/4 of a square mile. Figure 1 shows the location of WUNS within Maricopa County and Figure 2 shows the certificated area.

B. DESCRIPTION OF THE WATER SYSTEM

The plant facilities were visited on April 12, 2013, by Jian Liu, Staff Utilities Engineer, in the accompaniment of Harold Thomas, and Larry Thomas of the Company.

The facility follows a typical configuration found in small water systems. It consists of two wells, one 5,000 gallon pressure tank, one 250,000 gallon storage tank and a distribution system serving 76 active connections. Staff concludes that WUNS has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.

(Tabular Description of Water System)

Well Data (active wells only)

	Well No 1	Well No 2	Total Pump Yield
ADWR ID No.	55-565172	55-586186	
Casing Size	8 inch	8 inch	-
Casing Depth	1,000 ft	1,000 ft	-
Pump Size	15 Hp	15 Hp	-
Pump Yield	80 gal/min	80 gal/min	160 gal/min

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
250,000	1	5,000	1	100	1
				25	2
Total 250,000					

Distribution Mains

Diameter (inch)	Length(ft)
6	175
8	23,555
10	16,803
12	6,810
16	70

Meters

Size (inch)	Quantity
1	72
1 1/2	5
2	1
Total Metered Connections	78

C. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE ("ADEQ")

ADEQ or its formally delegated agent, the Maricopa County Environmental Services Department (MCESD), reported that the WUNS drinking water system (Public Water System ("PWS") Number 07-179) is currently delivering water that meets water quality standards required by 40 C.F.R. 141 (Title 40 Code of Federal Regulations Part 141 National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4. (MCESD report dated April 1, 2013)

D. ARIZONA CORPORATION COMMISSION ("ACC") COMPLIANCE

A check with the Utilities Division Compliance Section showed no delinquent compliance items for WUNS. (ACC Compliance Section Email dated April 3, 2013).

E. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

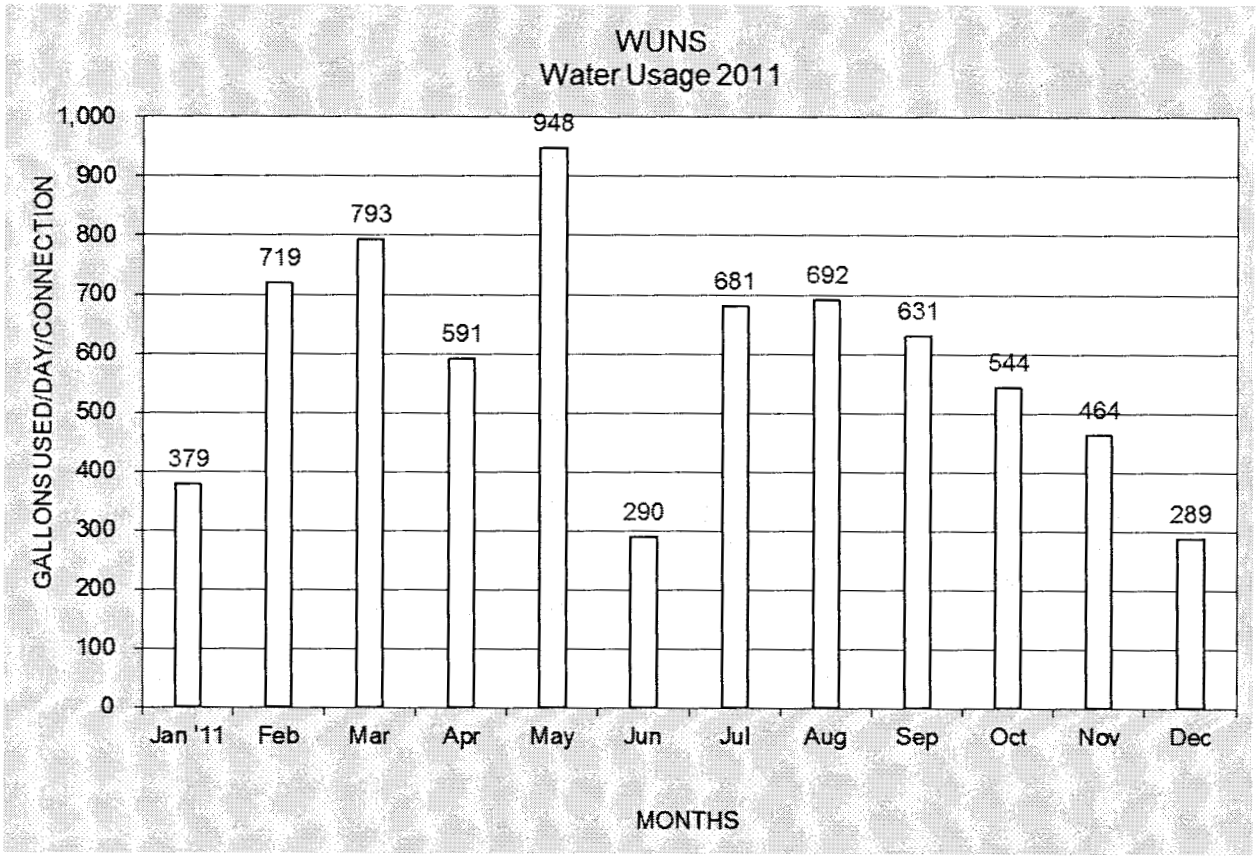
WUNS is located in the Phoenix Active Management Area ("AMA") and is subject to its AMA reporting and conservation requirements. Staff received an ADWR compliance status report dated March 13, 2013. ADWR reported that WUNS is currently in compliance with departmental requirements governing water providers and/or community water systems.

F. WATER TESTING EXPENSES

The Company reported a total testing expense of $728.03 during the test year, the Company provided invoices and other documents to support this amount. Staff has reviewed the information provided by the Company and recommends the Company's reported annual testing expense of $728 (rounded) be used for purposes of this application.

G. WATER USE

Based on the information provided by the Company, water use for the year 2011 is presented below. The high monthly domestic water use was 948 gal/day per service connection in May and the low monthly domestic water use was 289 gal/day per service connection in December. The average annual use was 585 gal/day per service connection.



Non-account Water

Non-account water should be 10% or less and never more than 15%. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing. The Company reported 15,382,000 gallons pumped and 15,829,000 gallons sold[1], resulting in a water loss of -2.91% for 2011. The quantity of water sold cannot exceed the quantity of water pumped for the same period of time which suggests that the water use data reported is invalid.

Staff recommends that the Company monitor the WUNS water system and submit the gallons pumped and sold to determine the non-account water for one full year. The Company should coordinate when it reads the well meters each month with customer billing so that an accurate accounting is determined. The results of this monitoring and reporting shall be docketed as a compliance item in this case within 13 months of the effective date of the order issued in this proceeding. If the reported water loss is greater than 10 percent the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 13 months of the effective date of the order issued in this proceeding.

H. GROWTH

In December 2007 the Company had 74 active customers and in December 2011, the Company had 76 active customers. Growth expected to be minimal.

I. DEPRECIATION RATES

In the prior rate case, the Company adopted Staff's typical and customary water depreciation rates. These rates are presented in Table B and it is recommended that the Company continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.

Table B. Depreciation Rates

[1] Company states "sold more than pumped" because of back-billing. There is a time difference between read the meters and billing cycles.

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

NOTES:

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

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

J. CURTAILMENT PLAN AND BACKFLOW PREVENTION TARIFFS

The Company has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.

The Company does not have an approved Best Management Practices ("BMPs") tariff. In Decision No. 73268, ACC approved the following three BMPs for Global Water - Santa Cruz Water Company, Valencia Water Company - Town Division, Valencia Water Company - Greater Buckeye Division, Water Utility of Greater Tonopah and Willow Valley Water Company.

- **Local and/or Regional Messaging Program Tariff - BMP 1.1: A** program for the Company to actively participate in a water conservation campaign with local or regional advertising.

- **Meter Repair and/or Replacement Tariff - BMP 4.2: A** program for the Utility to systematically assess all in-service water meters (including Company production meters) in its water service area to identify under-registering meters and to repair or replace them.

- **Water System Tampering Tariff - BMP 5.2:** The purpose of this tariff is to promote the conservation of groundwater by enabling the Utility to bring an action for damages or to enjoin any activity against a person who tampers with the water system.

Staff recommends that WUNS adopt the three BMPs approved in Decision No. 73268with customer counts less than 5,000.

Staff further recommends that the WUNS shall notify their customers, in a form acceptable to Staff, of the BMP tariffs authorized in this proceeding and their effective date by means of either an insert in the next regularly scheduled billing or by a separate mailing and shall provide copies of the BMP tariffs to any customer, upon request.

K. METER AND SERVICE LINE INSTALLATION CHARGES

The Company has not requested any changes in its service line and meter installation charges that were approved in its last rate application. Therefore, Staff recommends continued use of the Company's current meter and service line installation charges.

Water Utility of Northern Scottsdale
Docket No. W-03720A-12-0311

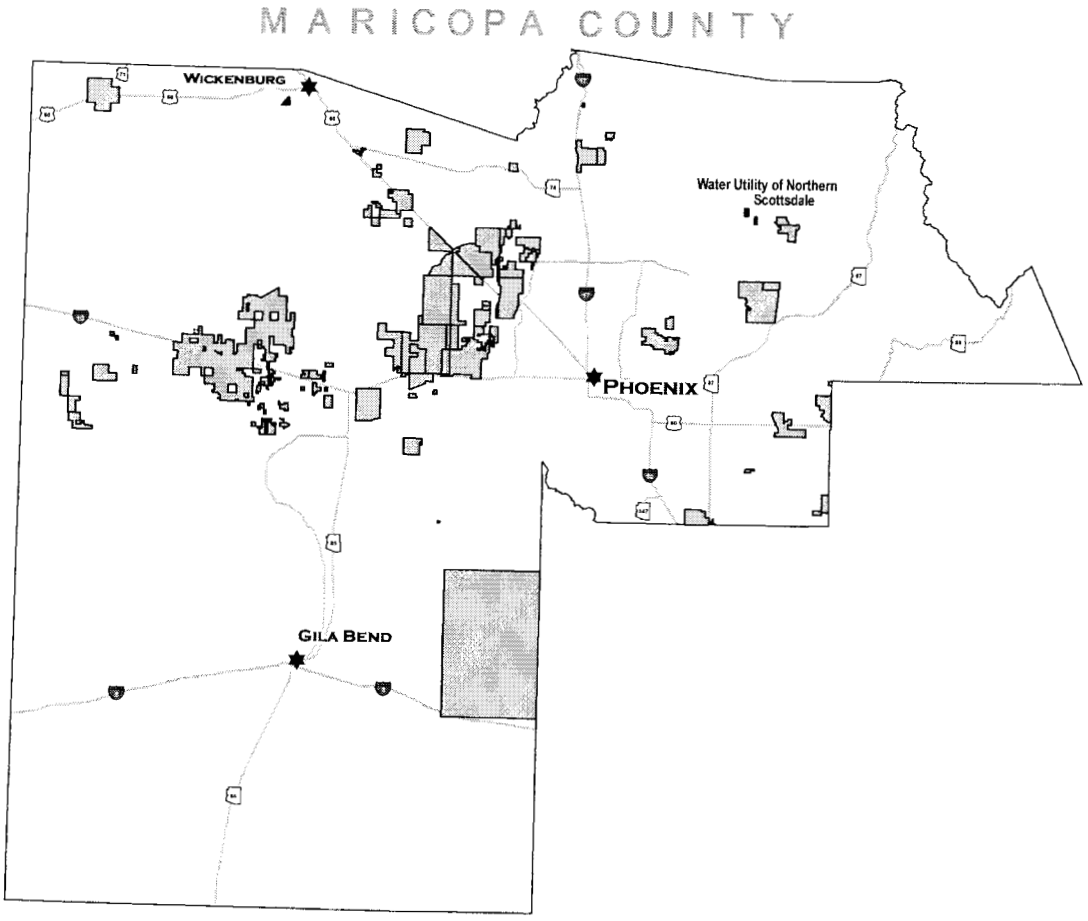


Figure 1. County Map

Water Utility of Northern Scottsdale
Docket No. W-03720A-12-0311

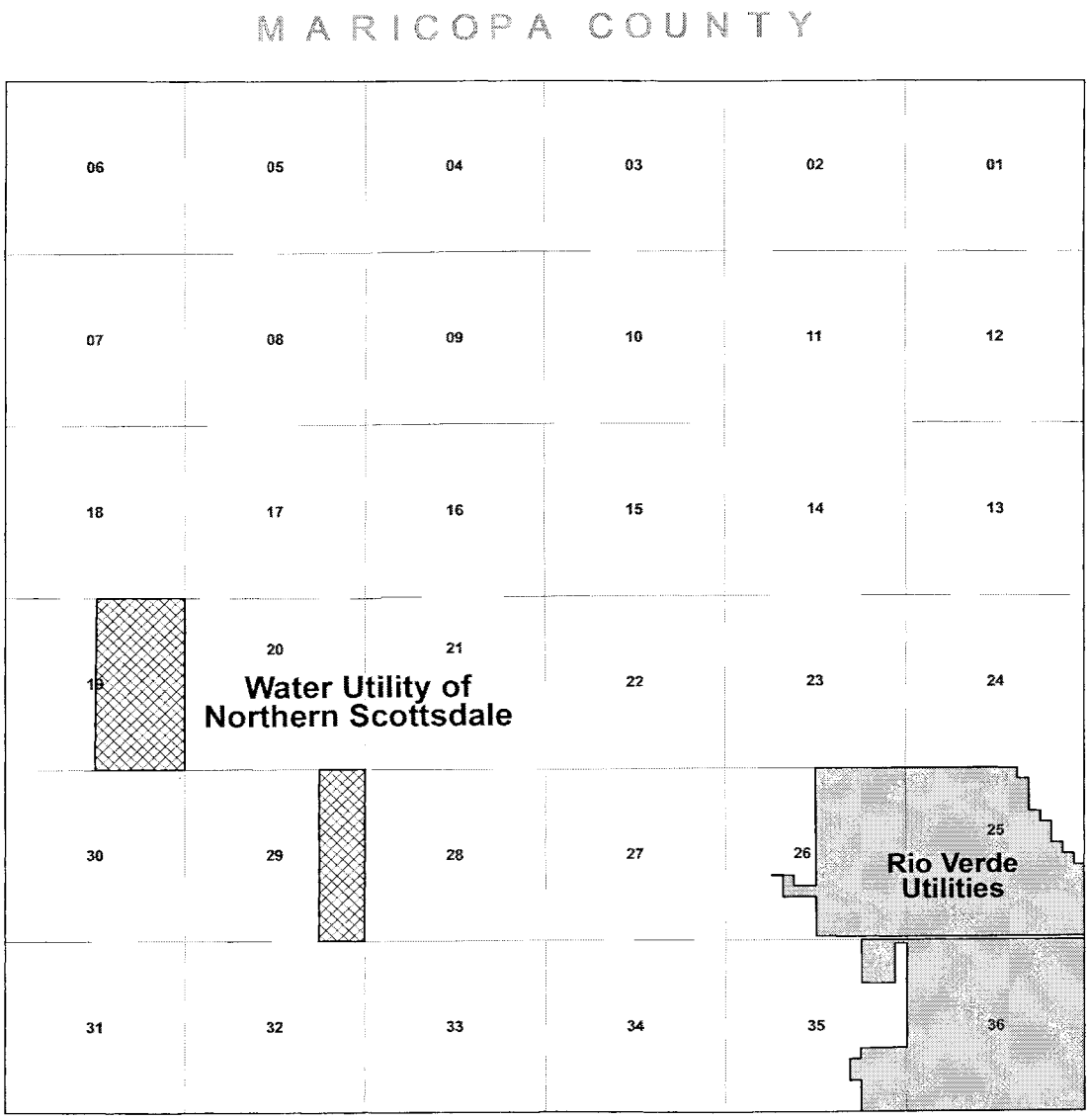


Figure 2. Certificated Area

EXHIBIT JWL-3

ENGINEERING REPORT FOR

WATER UTILITY OF GREATER TONOPAH, INC.

DOCKET NO. W-02450A-12-0312 (RATES)

JIAN W LIU

June 6, 2013

Engineering Report for WATER UTILITY OF GREATER TONOPAH, INC.

Docket No. W-02450A-12-0312 (Rates)

By: Jian Liu
Utilities Engineer

June 6, 2013

CONCLUSIONS

1. Arizona Department of Environmental Quality ("ADEQ") or its formally delegated agent, the Maricopa County Environmental Services Department ("MCESD"), reported that the Water Utility of Greater Tonopah, Inc. ("WUGT" or "Company") drinking water systems are currently delivering water that meets water quality standards required by 40 C.F.R. 141 (Title 40 Code of Federal Regulations Part 141 National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.

2. WUGT is located in the Phoenix Active Management Area ("AMA") and is subject to its AMA reporting and conservation requirements. Staff received an Arizona Department of Water Resources ("ADWR") compliance status report dated March 13, 2013. ADWR reported that WUGT is currently in compliance with departmental requirements governing water providers and/or community water systems.

3. A check with the Arizona Corporation Commission ("ACC" or "Commission") Utilities Division Compliance Section showed no delinquent compliance items for WUGT.

4. The Company has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.

5. ACC Utilities Division Staff ("Staff") concludes that WUGT has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.

6. WUGT has three approved Best Management Practice ("BMP") tariffs on file with the Commission.

7. Staff has inspected and verified completion of the three post-test year plant additions. These three post-test year plant additions were in-service during Staff's inspection on April 11, 2013. (See Section 1 for more details).

RECOMMENDATIONS

1. Staff recommends that the Company file each May a report covering the previous calendar year (with the first report due in May 2014 to cover the year of 2013) that contains all work activities undertaken in accordance with Decision No. 71878 regarding the Company's plan for reducing water loss below 10 percent. Staff further recommends that the written report continue until the water loss for all WUGT water systems is 10 percent or less for one full calendar year.

2. Staff recommends the annual water testing expense of $5,108 reported by the Company be used for purposes of this application.

3. In the prior rate case, the Company adopted Staff's typical and customary water depreciation rates. These rates are presented in Table B and it is recommended that the Company continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.

4. The Company has not requested any changes in its service line and meter installation charges that were approved in its last rate application. Therefore, Staff recommends continued use of the Company's current meter and service line installation charges.

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A. LOCATION OF COMPANY

Water Utility of Greater Tonopah, Inc. ("WUGT" or "Company") is located approximately 60 miles west of downtown Phoenix in Maricopa County with a certificated area covering approximately 65,600 acres, or approximately 102 square miles. Figure 1 shows the location of WUGT within Maricopa County and Figure 2 shows the certificated area.

B. DESCRIPTION OF THE WATER SYSTEMS

The plant facilities were visited on April 11, 2013, by Jian Liu, Staff Utilities Engineer, in the accompaniment of Ron Fleming, Harold Thomas, Larry Thomas and Joel Wade of the Company. The Company operates eight independent water systems with brief descriptions as follows:

1. Garden City, Public Water System ("PWS") 07-037: This system consists of a well that pumps water into two storage tanks, a booster pump then pumps the water to a pressure tank before delivery to customers through the distribution system. This system serves 15 active connections.

2. Roseview, PWS 07-082: This system consists of a well that pumps water into a storage tank, two booster pumps then pump the water to a pressure tank before delivery to customers through the distribution system. This system serves 18 active connections. There is a point of use reverse osmosis arsenic treatment system for each service connection.

3. West Phoenix Estates ("WPE") #1, PWS N/A: This system consists of a well that pumps water into a storage tank, a booster pump then pumps the water to two pressure tanks before delivery to customers through the distribution system. This system serves 5 active connections. There is a point of use reverse osmosis arsenic treatment system for each service connection.

4. WPE #6, PWS 07-733: This system consists of a well, one arsenic/fluoride treatment system, three storage tanks, one pressure tank and a distribution system. This system serves 25 active connections.

5. Tufte, PWS 07-617: This system consists of a well that pumps water into a storage tank, a booster pump then pumps the water to a pressure tank before delivery to customers through the distribution system. This system serves 5 active connections. There is a point of use reverse osmosis arsenic treatment system for each service connection.

6. Buckeye Ranch, PWS 07-618: This system consists of a well, one arsenic treatment system, one storage tank, a pressure tank and a distribution system. This system serves 87 active connections.

7. Dixie, PWS 07-030: This system consists of a well that pumps water into two storage tanks, a booster pump then pumps the water to a pressure tank before delivery to customers through the distribution system. This system serves 37 active connections.

8. Sunshine, PWS 07-071: This system consists of a well, one arsenic treatment system, one storage tank, a pressure tank and a distribution system. This system serves 132 active connections.

Combined detailed plant facility listings are as follows:

Table 1. Well Data (active wells only)

Location/No.	ADWR ID No.	Pump Hp	Pump GPM	Casing Size	Casing Depth (Feet)	Meter Size	Year Drilled
Garden City	55-804131	5	30	8"	927	2"	1961
Roseview	55-802143	5	30	16"	1000	1 1/2"	1960
WPE #1	55-600209	3	26	8"	365	2"	1967
WPE #6	55-802145	5	25	8"	600	2"	1978
Tufte	55-802144	2	20	8"	400	1 1/2"	1977
Buckeye Ranch	55-802962	10	150	16"	900	4"	1955
Dixie	55-639586	5	40	16"	367	2"	1948
Sunshine	55-802141	7.5	100	8"	200	3"	1976

Garden City, PWS 07-037

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
12,000	2	2,000	1	5	1
Total 24,000					

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
4	15,663	5/8x3/4	14	None
6	4,697	1	3	
		1.5	1	
		Total Metered Connections	18	

Roseview, PWS 07-082

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
7,600	1	1,000	1	3	2
Total 7,600					

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
		5/8x3/4	20	None
6	6,494	3/4	1	
		Total Metered Connections	21	

WPE #1, PWS N/A

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
5,000	1	30	2	5	1
Total 5,000					

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
		5/8x3/4	6	None
4	33,100	1	2	
		Total Metered Connections	8	

WPE #6, PWS 07-733

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
18,000	1	2,000	1	7.5	2
10,000	1				
9,500	1				
Total 37,500					

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
4	36,511	5/8x3/4	29	None
6	7,532			
8	4,476			
		Total Metered Connections	29	

Tufte, PWS 07-617

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
5,400	1	800	1	5	1
Total 5,400					

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
2	41	5/8x3/4	7	None
4	579			
6	4,317			
10	21			
		Total Metered Connections	7	

Buckeye Ranch, PWS 07-618

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
222,000	1	1,500	1	7.5	1
150,000	1			10	3
Total 372,000				100	1

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
4	31,317	5/8x3/4	91	14
6	8,488	3/4	1	
8	7,776	1	4	
Unknown	62	2	1	
		3	1	
		Total Metered Connections	98	

Dixie, PWS 07-030

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
10,000	1	500	1	5	1
5,000	1				
Total 15,000					

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
2	10,475	5/8x3/4	40	None
3	1,464	3/4		
4	3,553	1	1	
8	2,075			
		Total Metered Connections	41	

Sunshine, PWS 07-071

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
100,000	1	5,000	1	30	2
Total 100,000					

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
2	106	5/8x3/4	138	
4	27,155	3/4	2	
6	11,925	1	3	
8	14,659	1.5	1	
12	7,725	2	1	
14	207	6	1	
		Total Metered Connections	146	

C. WATER USE

Water Sold

Based on the information provided by the Company on its Water Use Data Sheets, water use for the year 2011 is presented below for each system.

Water Use, gallons per day ("GPD") per connection

Water System Name	High	Low	Average
Garden City, PWS 07-037	528 in July	155 in Jan.	337
Roseview, PWS 07-082	539 in June	175 in Jan.	354
WPE #1, PWS N/A	180 in June	105 in Jan.	153
WPE #6, PWS 07-733	256 in Sept	107 in Jan.	180
Tufte, PWS 07-617	263 in July	129 in May	187
Buckeye Ranch, PWS 07-618	344 in Aug.	176 in Jan.	274
Dixie, PWS 07-030	394 in Sept.	155 in Jan.	290
Sunshine, PWS 07-071	481 in Oct.	164 in Jan.	339

Non-Account Water

For each water system, the Company reported the following gallons pumped and gallons sold in 2011, which Staff used to determine the water loss per system:

Table 2. Water Loss

Water System	Gallons Pumped	Gallons Sold	Water loss (%)
Garden City, PWS 07-037	2,848,000	1,933,000	32.13
Roseview, PWS 07-082	2,773,000	2,432,000	12.30
WPE #1, PWS N/A	600,000	256,000	57.33
WPE #6, PWS 07-733	1,997,000	1,560,000	21.88
Tufte, PWS 07-617	456,000	403,000	11.62
Buckeye Ranch, PWS 07-618	10,432,000	8,718,000	16.43
Dixie, PWS 07-030	4,047,000	3,860,000	4.62
Sunshine, PWS 07-071	17,153,000	16,396,000	4.41

Non-account water should be 10% or less and never more than 15%. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing.

Decision No. 71878 (September 15, 2010) requires the 10 Global water systems, to file a detailed plan demonstrating how the various systems will reduce their water loss to less than 10 percent. On December 14, 2010, Global Water filed a plan for reducing water loss to below 10 percent in the 10 Global Utilities' water systems, including six of the WUGT water systems:

1. Garden City, PWS 07-037
2. WPE #1, PWS N/A
3. WPE #6, PWS 07-733
4. Tufte, PWS 07-617
5. Buckeye Ranch, PWS 07-618
6. Dixie, PWS 07-030

Water loss for the above water systems (except Dixie) continued to exceed the recommended threshold of 10 percent in 2011, also water loss for the Roseview water system increased from approximately 8.30% in 2008 to 12.30% in 2011. Staff recommends that the Company file each May a report covering the previous calendar year (with the first report due in May 2014 to cover the year of 2013) that contains all work activities undertaken in accordance

with Decision No. 71878 regarding the Company's plan for reducing water loss below 10 percent. Staff further recommends that the written report continue until the water loss for all WUGT water systems is 10 percent or less for one full calendar year.

D. GROWTH

In July 2009, WUGT had 311 customers, and in December 2011, the Company had 324 customers. The customer base grew at approximately 1.7% per year from July 2009 to December 2011. The Company estimates that the customer base will grow at approximately 1 percent per year for the next 5 years.

Staff concludes that the WUGT has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.

E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE ("ADEQ")

Compliance

ADEQ or its formally delegated agent, the Maricopa County Environmental Services Department ("MCESD"), reported that the Valencia Greater Buckeye drinking water systems are currently delivering water that meets water quality standards required by 40 C.F.R. 141 (Title 40 Code of Federal Regulations Part 141 National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4. (MCESD report dated April 1, 2013).

Water Testing Expense

The Company reported a total testing expense of $5,108.40 during the test year, the Company provided invoices and other documents to support this amount. Staff has reviewed the information provided by the Company and recommends the Company's reported annual testing expense of $5,108 (rounded) be used for purposes of this application.

F. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

WUGT is located in the Phoenix Active Management Area ("AMA") and is subject to ADWR AMA reporting and conservation requirements. ADWR reported that WUGT is currently in compliance with departmental requirements governing water providers and/or community water systems. (ADWR compliance status report dated March 13, 2013).

G. ARIZONA CORPORATION COMMISSION ("ACC") COMPLIANCE

A check with the Utilities Division Compliance Section showed no delinquent compliance items for WUGT. (ACC Compliance Section Email dated May 17, 2013)

H. DEPRECIATION RATES

In the prior rate case, the Company adopted Staff's typical and customary water depreciation rates. These rates are presented in Table B and it is recommended that the Company continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.

Table B. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	3	33.33
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00

344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

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

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

I. POST-TEST YEAR PLANT

The Company submitted three post-test year plant additions for inclusion in rate base. These three post-test year project additions are as follows:

	Construction Status (As April 11, 2013)
1) WPE #6 Electrical Upgrades;	Completed
2) WPE #6 Improve fluoride treatment;	Completed
3) WPE #6 Tank and Well Replacement	Completed

Staff has inspected and verified completion of the post-test year plant additions above. These three post-test year plant additions were in-service during Staff's inspection on April 11, 2013.

J. OTHER ISSUES

1. Curtailment, Backflow Prevention and Best Management Practice ("BMP") Tariffs

WUGT has approved Curtailment and Backflow Prevention tariffs on file with the ACC.

The Company also has three approved BMP tariffs on file with the Commission.

2. Service Line and Meter Installation Charges

The Company has not requested any changes in its service line and meter installation charges that were approved in its last rate application. Therefore, Staff recommends continued use of the Company's current meter and service line installation charges.

Water Utility of Greater Tonopah
Docket No. W-02450A-12-0312 (Rates)

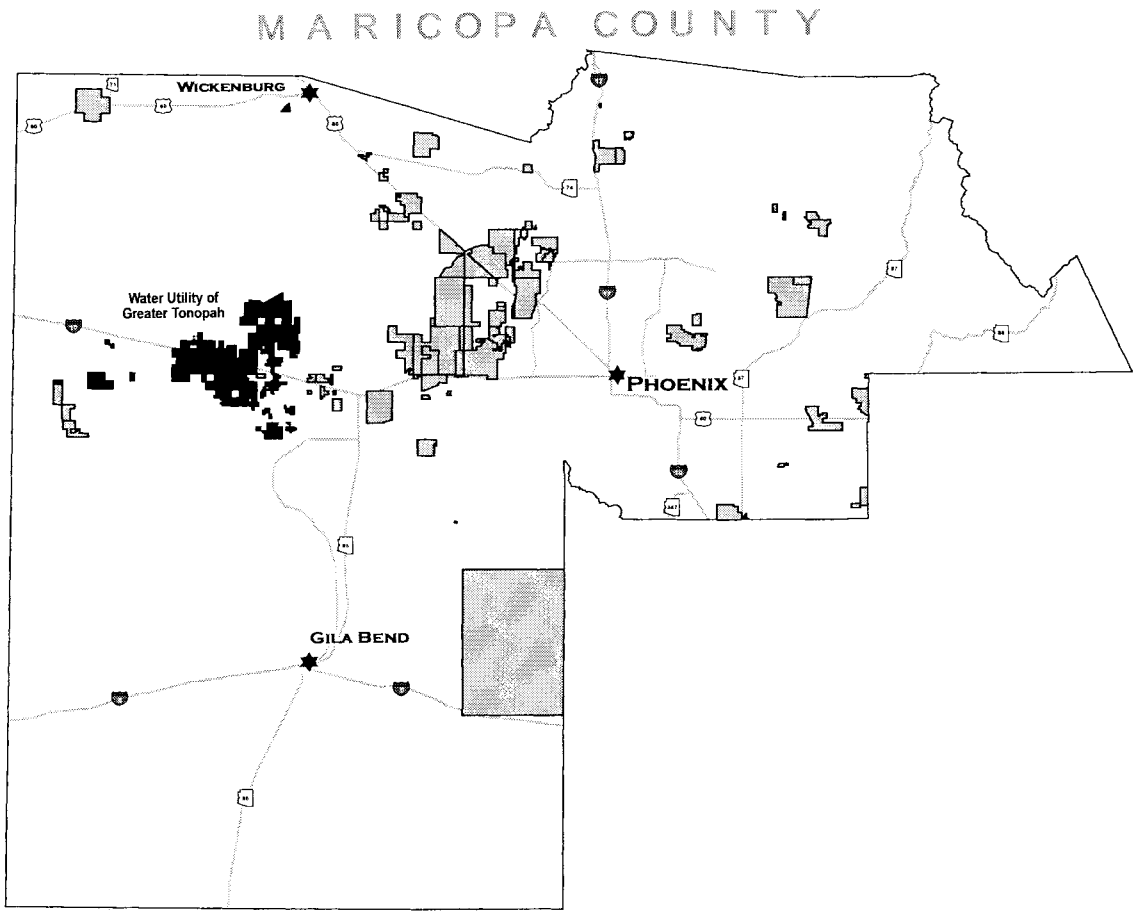

Figure 1. Maricopa County Map

Water Utility of Greater Tonopah
Docket No. W-02450A-12-0312 (Rates)

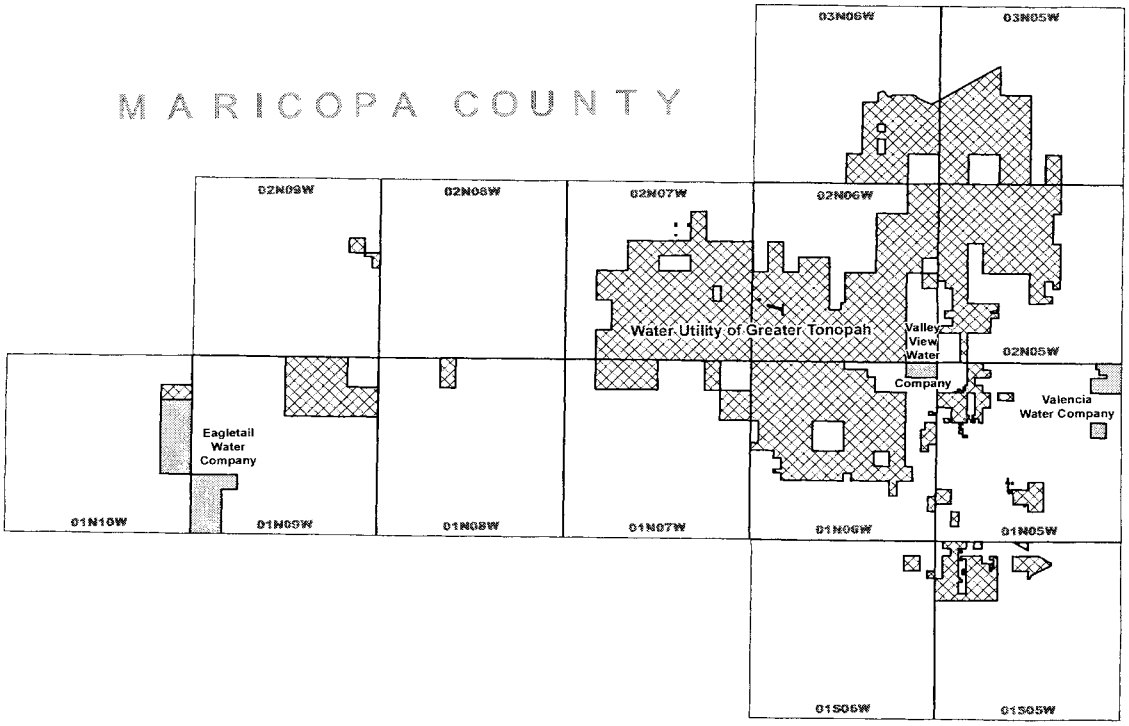

Figure 2. Certificated Areas

EXHIBIT JWL-4

ENGINEERING REPORT FOR VALENCIA WATER COMPANY – GREATER BUCKEYE DIVISION

DOCKET NO. W-02451A-12-0313 (RATES)

JIAN W LIU

May 28, 2013

Engineering Report for VALENCIA WATER COMPANY - GREATER BUCKEYE DIVISION

Docket No. W-02451A-12-0313 (Rates)

By: Jian Liu
Utilities Engineer

May 28, 2013

CONCLUSIONS

1. Arizona Department of Environmental Quality ("ADEQ") or its formally delegated agent, the Maricopa County Environmental Services Department ("MCESD"), reported that the Valencia Water Company - Greater Buckeye Division ("Valencia Greater Buckeye" or "Company") drinking water systems are currently delivering water that meets water quality standards required by 40 C.F.R. 141 (Title 40 Code of Federal Regulations Part 141 National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4. (MCESD report dated April 1, 2013)

2. Valencia Greater Buckeye is located in the Phoenix Active Management Area ("AMA") and is subject to its AMA reporting and conservation requirements. Staff received an Arizona Department of Water Resources ("ADWR") compliance status report dated March 13, 2013. ADWR reported that Valencia Greater Buckeye is currently in compliance with departmental requirements governing water providers and/or community water systems.

3. A check with the Utilities Division Compliance Section showed no delinquent compliance items for Valencia Greater Buckeye. (ACC Compliance Section Email dated May 17, 2013)

4. Valencia Greater Buckeye has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.

5. Staff concludes that the Valencia Greater Buckeye has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.

6. Valencia Greater Buckeye has three approved Best Management Practice ("BMP") tariffs on file with the Commission.

RECOMMENDATIONS

1. In the prior rate case, the Company adopted Staff's typical and customary water depreciation rates. These rates are presented in Table B and it is recommended that the Company continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.

2. Staff recommends the annual water testing expense of $3,252 reported by the Company be used for purposes of this application.

3. Staff recommends that Company file each May a report covering the previous year (Start in May 2014 to cover the year of 2013) that contains all work activities undertaken in accordance with Decision No. 71878 regarding the plan for reducing water loss to below 10 percent. The written report should continue until Staff receives a report that the water loss for all Valencia Greater Buckeye water systems is 10 percent or less for one full year (12 months).

4. The Company reported that the Bulfer/Primrose water system (Public Water System ("PWS") 07-114) sold more water than it pumped in test year 2011. The quantity of water sold cannot exceed the quantity of water pumped for the same period of time which suggests that the water use data reported is invalid. Staff recommends that the Company monitor the Bulfer/Primrose water system and submit the gallons pumped and sold to determine the non-account water for one full year. The Company should coordinate when it reads the well meters each month with customer billing so that an accurate accounting is determined.

5. The Company has not requested any changes in its service line and meter installation charges that were approved in its last rate application. Therefore, Staff recommends continued use of the Company's current meter and service line installation charges.

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A. LOCATION OF COMPANY

Valencia Water Company - Greater Buckeye Division ("Valencia Greater Buckeye" or "Company") is located approximately 40 miles west of downtown Phoenix in Maricopa County with a certificated area covering approximately 4,300 acres. Figure 1 shows the location of Valencia Greater Buckeye within Maricopa County and Figure 2 shows the certificated area which consists of separate parcels in and around the Town of Buckeye.

B. DESCRIPTION OF THE WATER SYSTEMS

The plant facilities were visited on April 11, 2013, by Jian Liu, Staff Utilities Engineer, in the accompaniment of Ron Fleming, Harold Thomas, Larry Thomas and Joel Wade of the Company. The Company operates four independent water systems with brief descriptions as follows:

1. Sun Valley/Sweetwater I, Public Water System ("PWS") 07-195: This system consists of a well that pumps water into a 125,000 gallon storage tank, three booster pumps then pump the water to a 3,000 gallon pressure tank before delivery to customers through the distribution system. This system serves 393 active service connections.

2. Sweetwater II, PWS 07-129: This system is currently being operated as a consecutive water system to the City of Goodyear. This system serves 89 active service connections.

3. Bulfer/ Primrose, PWS 07-114: This system consists of a well (producing approximately 40 gpm) that pumps water into a 130,000 gallon storage tank, three booster pumps then pump the water to a 2,400 gallon pressure tank before delivery to customers through distribution system. This system serves 89 active service connections

4. Sonoran Ridge, PWS 07-732: This system consists of a well (producing approximately 150 gpm), one arsenic treatment system, a 250,000 gallon storage tank, 5,000 gallon pressure tank and distribution system. This system serves 56 active service connections.

Combined detailed plant facility listings are as follows:

Table 1. Well Data (active wells only)

Location/No.	ADWR ID #	Pump Hp	Pump GPM	Casing Size	Casing Depth (Feet)	Meter Size
Sun Valley/ Sweetwater I	55-800947	30	275	20"	747	6"
Bulfer/ Primrose	55-618513	5	40	8"	273	1 1/2"
Sonoran Ridge	55-572657	30	150	6"	700	4"

Sun Valley/ Sweetwater I, PWS 07-195

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
125,000	1	3,000	1	20	1
				25	2
Total 125,000					

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
4	12,305	5/8x3/4	418	42
6	73,265	3/4	2	
8	13,825	1	7	
10	2,268			
		Total Metered Connections	427	

Bulfer/ Primrose, PWS 07-114

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
130,000	1	2,400	1	25	1
				10	2
Total 130,000					

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
4	1,321	5/8x3/4	83	10
6	563	1	8	
8	5,534			
Unknown	6,655			
		Total Metered Connections	91	

Sonoran Ridge, PWS 07-732

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
250,000	1	5,000	1	20	2
				30	1
Total 250,000					

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
6	117	5/8x3/4	21	34
8	6,031	1	41	
10	4,468			
12	640			
16	91			
		Total Metered Connections	62	

Staff concludes that the Valencia Greater Buckeye has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.

C. WATER USE

Water Sold

Based on the information provided by the Company on its Water Use Data Sheets, water use for the year 2011 is presented below for each system.

Water Use, gallons per day ("GPD") per connection

Water System Name	High	Low	Average
Sun Valley/Sweetwater I	368 in July	163 in Jan.	274
Bulfer/Primrose	410 in July	208 in Mar.	324
Sonoran Ridge	587 in Sept.	196 in Jan.	332
Sweetwater II	370 in May	195 in Jan.	304

Non-Account Water

For each water system, the Company reported the following gallons pumped and gallons sold in 2011, which Staff used to determine the water loss per system:

Table 2. Water Loss

Water System	Gallons Sold	Gallons Pumped	Water loss (%)
Sun Valley/Sweetwater I, PWS 07-195	38,736,000	43,166,000	10.26
Bulfer/Primrose, PWS 07-114	10,548,000	10,150,000	-3.92
Sonoran Ridge, PWS 07-732	6,825,000	8,369,000	18.45
Sweetwater II, PWS 07-129	9,982,000	11,612,000*	14.04

*Note: Gallons Purchased.

Non-account water should be 10 percent or less and never more than 15 percent. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing.

Decision No. 71878 (September 15, 2010) requires the 10 Global water systems, to file a detailed plan demonstrating how the various systems will reduce their water loss to less than 10 percent. On December 14, 2010, Global Water filed a plan for reducing water loss to below 10 percent in the 10 Global Utilities' water systems, including two of the Valencia Greater Buckeye water systems:

- PWS 07-195 Sun Valley/Sweetwater I
- PWS 07-129 Sweetwater II

Water loss for the above two water systems continued to exceed the Staff's recommended threshold of 10 percent in 2011, also water loss for the Sonoran Ridge water system jumped from approximately 9.30% in 2008 to 18.45% in 2011. Staff recommends that the Company file each May a report covering the previous calendar year (with the first report due in May 2014 to cover the year of 2013) that contains all work activities undertaken in accordance with Decision No. 71878 regarding the Company's plan for reducing water loss below 10 percent. Staff further recommends that the written report continue until the water loss for all Valencia Greater Buckeye water systems is 10 percent or less for one full calendar year.

The Bulfer/Primrose water system (PWS 07-114) more water sold than it pumped in 2011. This suggests that the water use data reported by the Company is invalid since the quantity of water sold to customers cannot exceed the quantity of water pumped at the source for the same period of time. Staff recommends that the Company monitor the Bulfer/Primrose water system and submit in its Annual Report filed with the Commission the gallons pumped and sold to determine the non-account water for one full year. The Company should coordinate when it reads the well meters each month with customer billing so that an accurate accounting is determined.

D. GROWTH

In July 2009, the Company had 600 customers, and in December 2011, the Company had 626 customers. The customer base grew at approximately 1.7% per year from July 2009 to December 2011. The Company estimates that the customer base will grow at approximately 1 percent per year for the next 5 years.

E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE ("ADEQ")

Compliance

ADEQ or its formally delegated agent, the Maricopa County Environmental Services Department ("MCESD"), reported that the Valencia Greater Buckeye drinking water systems are currently delivering water that meets water quality standards required by 40 C.F.R. 141 (Title 40 Code of Federal Regulations Part 141 National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4. (MCESD report dated April 1, 2013)

Water Testing Expense

The Company reported a total testing expense of $3,251.93 during the test year, the Company provided invoices and other documents to support this amount. Staff has reviewed the

information provided by the Company and recommends the Company's reported annual testing expense of $3,252 (rounded) be used for purposes of this application.

F. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

Valencia Greater Buckeye is located in the Phoenix Active Management Area ("AMA") and is subject to ADWR AMA reporting and conservation requirements. ADWR reported that Valencia Greater Buckeye is currently in compliance with departmental requirements governing water providers and/or community water systems. (ADWR compliance status report dated March 13, 2013).

G. ARIZONA CORPORATION COMMISSION ("ACC") COMPLIANCE

A check with the Utilities Division Compliance Section showed no delinquent compliance items for Valencia Greater Buckeye. (ACC Compliance Section Email dated May 17, 2013)

H. DEPRECIATION RATES

In the prior rate case, the Company adopted Staff's typical and customary water depreciation rates. These rates are presented in Table B and it is recommended that the Company continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.

Table B. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		

330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	3	33.33
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

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

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

I. OTHER ISSUES

1. Curtailment, Backflow Prevention and Best Management Practice ("BMP") Tariffs

Valencia Greater Buckeye has approved Curtailment and Backflow Prevention tariffs on file with the ACC.

The Company also has three approved BMP tariffs on file with the Commission.

2. Service Line and Meter Installation Charges

The Company has not requested any changes in its service line and meter installation charges that were approved in its last rate application. Therefore, Staff recommends continued use of the Company's current meter and service line installation charges.

Valencia Water Company - Greater Buckeye Division
Docket No. W-01212A-12-0313 (Rates)

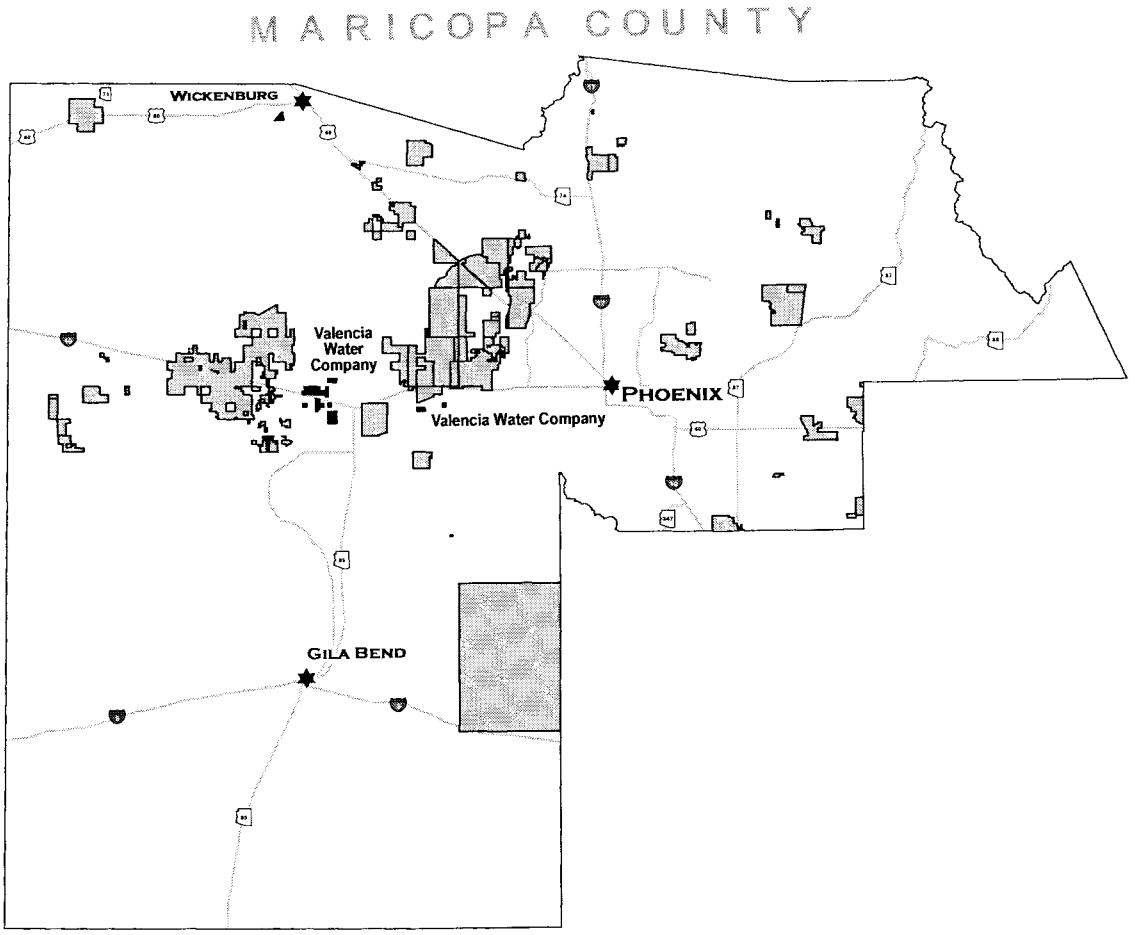

Figure 1. County Map

Valencia Water Company - Greater Buckeye Division
Docket No. W-01212A-12-0313 (Rates)

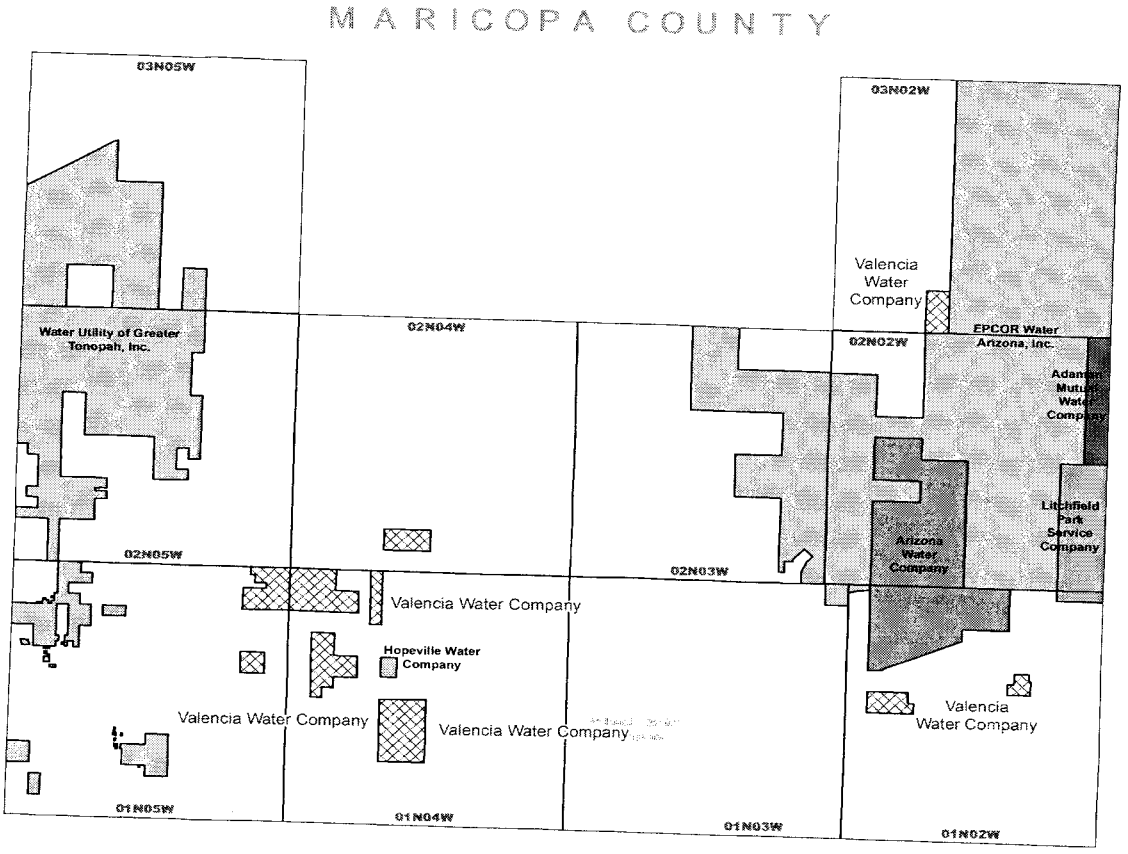

Figure 2. Certificated Areas

EXHIBIT JWL-5

ENGINEERING REPORT FOR

SANTA CRUZ WATER COMPANY

DOCKET NO. W-20446A-12-0314 (RATES)

JIAN W LIU

May 28, 2013

Engineering Report for:
Santa Cruz Water Company for a Rate Increase
Docket No. W-20446A-12-0314 (Rates)

By: Jian W Liu
Utilities Engineer

May 28, 2013

EXECUTIVE SUMMARY

CONCLUSIONS:

1. Arizona Department Of Environmental Quality ("ADEQ") regulates the Santa Cruz Water Company ("Santa Cruz" or "Company")'s Water System under ADEQ Public Water System ("PWS") #11-131. ADEQ reported that the Santa Cruz is currently delivering water that meets water quality standards required by 40 C.F.R. 141 (Title 40 Code of Federal Regulations Part 141 National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4. (ADEQ report dated April 8, 2013).

2. Santa Cruz is located in the Pinal Active Management Area ("AMA") and is subject to its AMA reporting and conservation requirements. Staff received an Arizona Department of Water Resources ("ADWR") compliance status report dated March 13, 2013. ADWR reported that Santa Cruz is currently in compliance with departmental requirements governing water providers and/or community water systems.

3. Staff concludes that Santa Cruz has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.

4. A check with the Utilities Division Compliance Section showed no delinquent compliance items for Santa Cruz. (Compliance Section email dated March 14, 2013).

5. Staff has inspected and verified completion of the post-test year plant additions. These two post-test year plant additions were in-service during Staff inspection on April 19, 2013. (see Section L for details).

6. Santa Cruz has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.

7. Santa Cruz has ten approved Best Management Practice tariffs on file with the Commission.

RECOMMENDATIONS

1. In the prior rate case, the Company adopted Staff's typical and customary water depreciation rates. These rates are presented in Table B and it is recommended that the Company continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.

2. Staff recommends the annual water testing expense of $32,871 reported by the Company be used for purposes of this application.

3. The Company has not requested any changes in its service line and meter installation charges that were approved in its last rate application. Therefore, Staff recommends continued use of the Company's current meter and service line installation charges.

4. Staff recommends that within 90 days of a Decision in this matter the Company file with Docket Control, as a compliance item in this docket, a detailed plan demonstrating how the Company will reduce its water loss for Santa Cruz to less than 10 percent. If the Company finds that reduction of water loss to less than 10 percent is not cost-effective, the Company should submit, within 90 days of a Decision in this matter, a detailed cost analysis and explanation demonstrating why water loss reduction to less than 10 percent is not cost-effective.

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Certificated Area ..... FIGURE 2

A. LOCATION OF COMPANY

Global Water - Santa Cruz Water Company ("Santa Cruz" or "Company") is an Arizona public service corporation authorized to provide water service within portions of Pinal County, Arizona. Santa Cruz provided water service to approximately 16,000 active customers as of December 31, 2011. Figure 1 shows the location of Santa Cruz within Pinal County and Figure 2 shows the certificated area.

B. DESCRIPTION OF THE WATER SYSTEM

The plant facilities were visited on April 19, 2013, by Jian Liu, Staff Utilities Engineer, in the accompaniment of Ron Fleming, Patrick Giles, Sarah Mahler and Joel Wade of the Company.

The facility consists of 6 active wells with total pumping capacity of 11,315 gallon per minute ("GPM") for potable water use, 4 active wells with total pumping capacity of 4,530 GPM for construction, golf course, irrigation, and lake water use purposes only, 5 storage tanks with total storage capacity of 6,500,000 gallons, hydro-pneumatic systems and a distribution system serving approximately 16,000 active connections. Staff concludes that the Santa Cruz has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.

(Tabular Description of Water System)

Well Data (active wells only)

ADWR ID No.	Pump HP	Pump GPM	Casing Depth(ft)	Casing Size(in)	Meter Size(in)	Year Drilled
55- 612737 Smith	100	1070	1000	20	8	1972
55- 617338 Vance	250	1965	300	20	10	1973
55- 621407 Neely West	250	1980	700	12	10	1955
55- 621406 Neely North	400	2000	1000	12	12	1955
55- 509941 Rancho Mirage Well#1	200	1500	1100	16	12	1985
55- 621410 Porter *	100	1000	400	20	10	1955
55- 801069 Cobblestone *	200	1280	600	12	10	1957
55- 624037 Glennwilde *	200	1650	1992	18	8	1965
55- 622132 Maricopa Meadows *	UNK	600	600	20	4	1976
55- 220627 Rancho Mirage Well#2	300	2800	990	20	12	2011
Total Production	-	11,315	-	-	-	-

Note: GPM = gallons per minute.

* These wells are used for construction, golf course and common area irrigation, and lake water use purposes only

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
500,000	2				
1,500,000	2	10,000	5		
2,500,000	1			40	4
				50	5
				75	5
				150	5
Total 6,500,000				200	1

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
2	518			
6	37,820	5/8x3/4	1,826	2,113
8	914,878	3/4	15,017	
10	1,540	1	84	
12	183,414	1.5	57	
16	182,991	2	154	
20	23,583	3	5	
24	14,640	4	2	
30	6771			
		Total Metered Connections	17,145	

C. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE ("ADEQ")

ADEQ regulates the Company's Water System under ADEQ Public Water System ("PWS") #11-131. ADEQ reported that the Santa Cruz is currently delivering water that meets water quality standards required by 40 C.F.R. 141 (Title 40 Code of Federal Regulations Part 141 National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4. (ADEQ report dated April 8, 2013).

D. ARIZONA CORPORATION COMMISSION ("ACC") COMPLIANCE

A check with the Utilities Division Compliance Section showed no delinquent compliance items for the Company. (Compliance Section email dated March 14, 2013)

E. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

Santa Cruz is located in the Pinal Active Management Area ("AMA") and is subject to its AMA reporting and conservation requirements. Staff received an ADWR compliance status report dated March 13, 2013. ADWR reported that Santa Cruz is currently in compliance with departmental requirements governing water providers and/or community water systems.

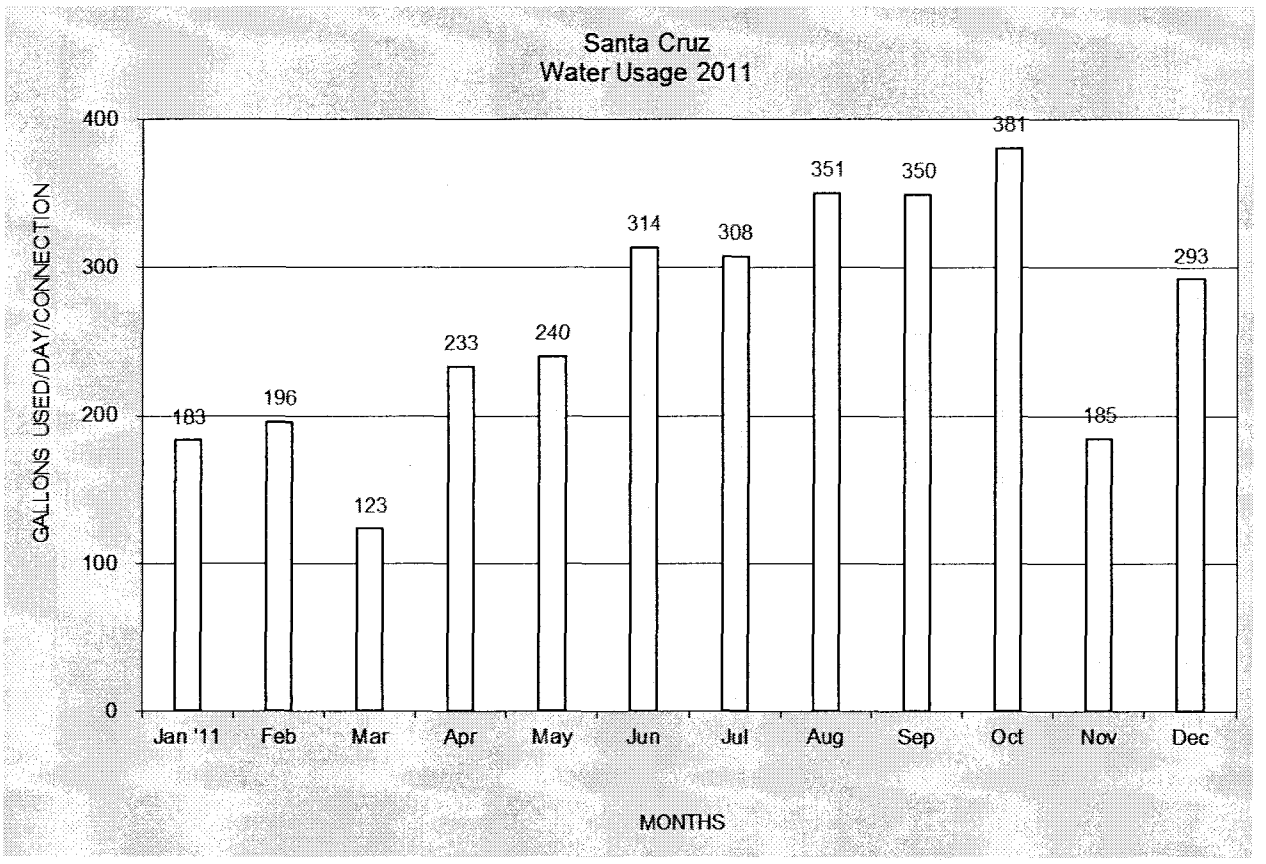
F. WATER TESTING EXPENSES

The Company reported a total testing expense of $32,870.98 during the test year, the Company provided invoices and other documents to support this amount. Staff has reviewed the information provided by the Company and recommends the Company's reported annual testing expense of $32,871(rounded) be used for purposes of this application.

G. WATER USE

Water Sold

Based on the information provided by the Company, water use for the year 2011 is presented below. The high monthly domestic water use was 381 gal/day per service connection in October and the low monthly domestic water use was 123 gal/day per service connection in March. The average annual use was 263 gal/day per service connection.



Non-account Water

Non-account water should be 10% or less and never more than 15%. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing. The Company reported 1,740,941,000 gallons pumped and 1,526,802,000 gallons sold, resulting in a water loss of 12.30% for 2011 which exceeds Staff's recommended threshold of 10 percent.

Santa Cruz reported approximately 3% water loss in test year 2008. Since water loss jumped from 3% to 12% for Santa Cruz from year 2008 to 2011, Staff recommends that within 90 days of a Decision in this matter the Company file with Docket Control, as a compliance item in this docket, a detailed plan demonstrating how the Company will reduce its water loss for Santa Cruz to less than 10 percent. If the Company finds that reduction of water loss to less than 10 percent is not cost-effective, the Company should submit, within 90 days of a Decision in this matter, a detailed cost analysis and explanation demonstrating why water loss reduction to less than 10 percent is not cost-effective.

H. GROWTH

In December 2007, Santa Cruz's customer base was 15,717 customers. In December 2011, the Company had 16,015 customers. The customer base grew at approximately 0.5% per year from year 2007 to 2011. The Company estimates that the customer base will grow at approximately 2% per year for the next 5 years.

I. DEPRECIATION RATES

In the prior rate case, the Company adopted Staff's typical and customary water depreciation rates. These rates are presented in Table B and it is recommended that the Company continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.

Table B. Depreciation Rates

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

NOTES:

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

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

J. CURTAILMENT PLAN AND BACKFLOW PREVENTION TARIFFS

Santa Cruz has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.

Santa Cruz has ten approved Best Management Practice tariffs on file with the Commission.

K. METER AND SERVICE LINE INSTALLATION CHARGES

The Company has not requested any changes in its service line and meter installation charges that were approved in its last rate application. Therefore, Staff recommends continued use of the Company's current meter and service line installation charges.

L. POST-TEST YEAR PLANT

The Company submitted two post-test year plant additions for inclusion in rate base. These two post-test year project additions are as follows:

	Construction Status (As April 19, 2013)
1) Edison Road Waterline Extension;	Completed
2) Rancho El Dorado Water Distribution Campus Chlorination System Replacement;	Completed

Staff has inspected and verified completion of the post-test year plant additions 1) and 2) above. These two post-test year plant additions were in-service during Staff's inspection on April 19, 2013.

Global Water - Santa Cruz Water Company
Docket No. W-20446A-12-0314

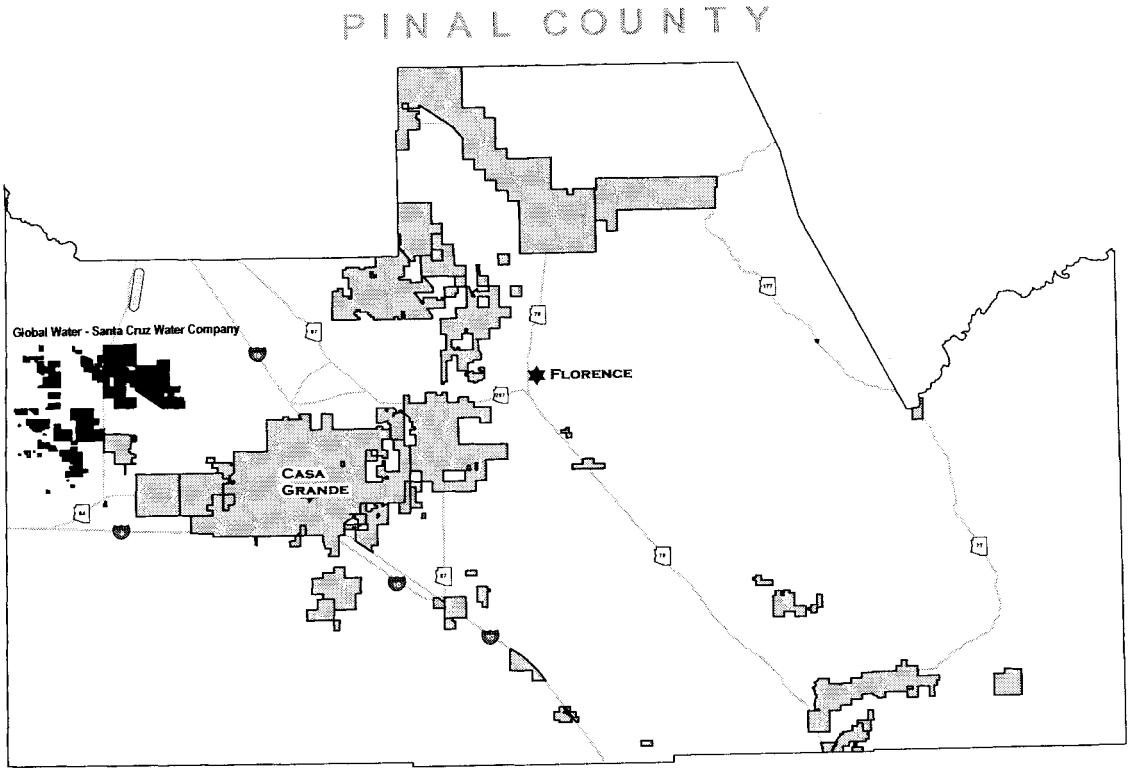


Figure 1. County Map

Global Water - Santa Cruz Water Company
Docket No. W-20446A-12-0314

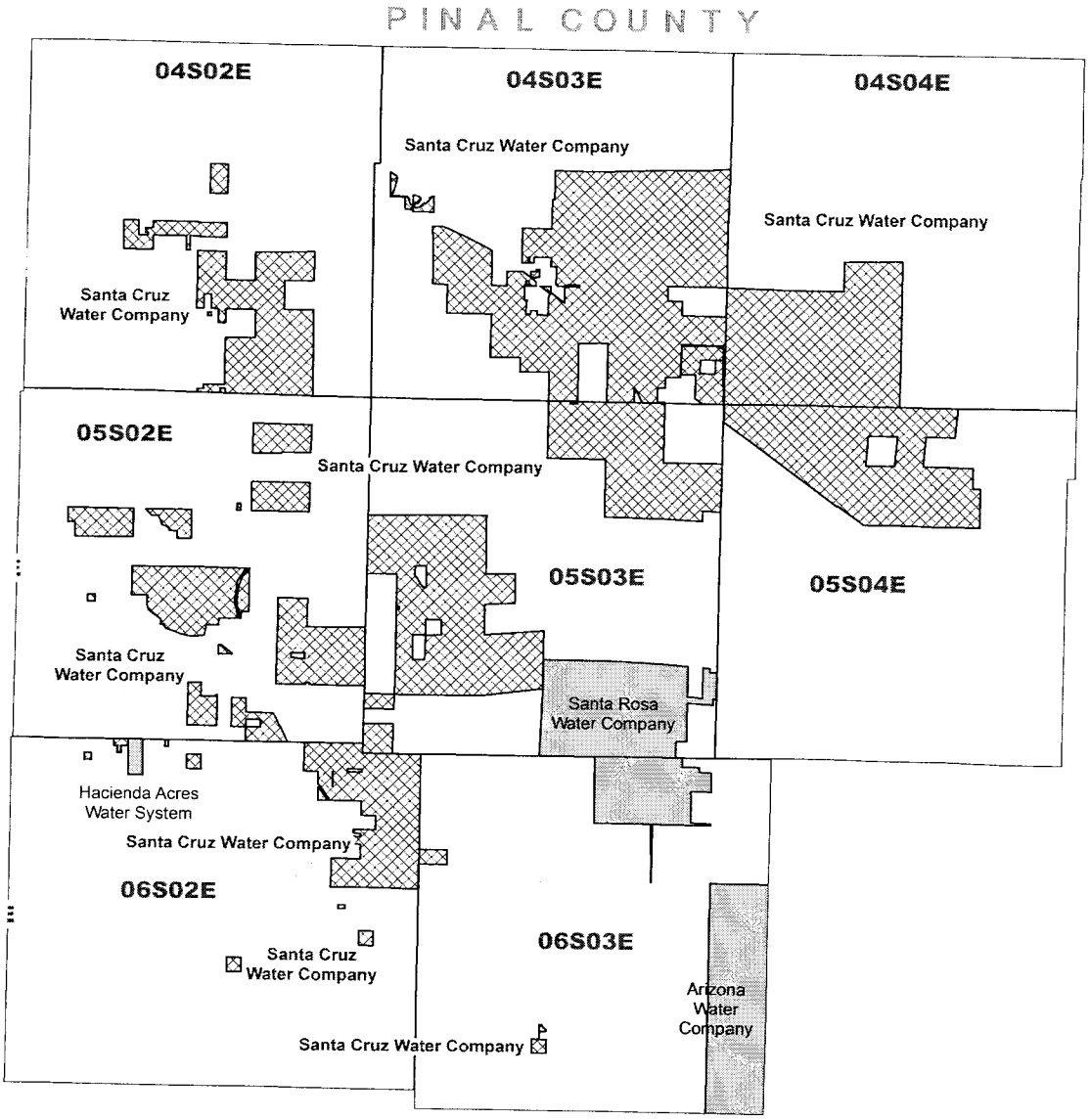


Figure 2. Certificated Area

EXHIBIT JWL-6

ENGINEERING REPORT FOR

WILLOW VALLEY WATER CO., INC.

DOCKET NO. W-01732A-12-0315 (RATES)

JIAN W LIU

June 3, 2013

Engineering Report for WILLOW VALLEY WATER CO., INC.

Docket No. W-01732A-12-0315 (Rates)

By: Jian Liu
Utilities Engineer

June 3, 2013

CONCLUSIONS

1. Arizona Department of Environmental Quality ("ADEQ") reported that the Willow Valley Water Co., Inc. ("Willow Valley" or the "Company") drinking water systems are currently delivering water that meets water quality standards required by 40 C.F.R. 141 (Title 40 Code of Federal Regulations Part 141 National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4. (ADEQ report dated April 8, 2013).

2. The Company is not located in any Active Management Area ("AMA") and is not subject to any AMA reporting and conservation requirements. ADWR reported that Willow Valley is currently in compliance with departmental requirements governing water providers and/or community water systems. (ADWR compliance status report dated March 13, 2013).

3. A check with the Utilities Division Compliance Section showed no delinquent compliance items for Willow Valley. (ACC Compliance Section Email dated May 17, 2013).

4. Willow Valley has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.

5. The Company also has three approved Best Management Practice ("BMP") tariffs on file with the Commission.

6. Staff concludes that Willow Valley has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.

7. Staff inspected the plant facilities on April 16, 2013. The post-test year plant addition was not in-service during Staff's inspection. According to the Company project has been delayed and will not be completed until late 2013. (see Section I for details).

RECOMMENDATIONS

1. In the prior rate case, the Company adopted Staff's typical and customary water depreciation rates. These rates are presented in Table B and it is recommended that the Company continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.

2. Staff recommends the annual water testing expense of $15,708 (rounded) be used for purposes of this application.

3. Staff recommends that the Company file each May a report covering the previous calendar year (with the first report due in May 2014 to cover the year of 2013) that contains all work activities undertaken in accordance with Decision No. 71878 regarding the Company's plan for reducing water loss below 10 percent. Staff further recommends that the written report continue until the water loss for all Willow Valley water systems is 10 percent or less for one full calendar year.

4. The Company has not requested any changes in its service line and meter installation charges that were approved in its last rate application. Therefore, Staff recommends continued use of the Company's current meter and service line installation charges.

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A. LOCATION OF COMPANY

Willow Valley Water Co., Inc. ("Willow Valley" or the "Company") is an Arizona public service corporation authorized to provide water service within portions of Mohave County, Arizona. Willow Valley provides service to approximately 1,500 active connections. Figure 1 shows the location of Willow Valley within Mohave County and Figure 2 shows the certificated area.

B. DESCRIPTION OF THE WATER SYSTEMS

The plant facilities were visited on April 16, 2013, by Jian Liu, Staff Utilities Engineer, in the accompaniment of Joel Wade, and Justin Waters of the Company. The Company operates two independent water systems. Brief descriptions of the two systems are as follows:

1. King Street, Public Water System ("PWS") 08-040: This system consists of two wells producing a total of 800 gallons per minute ("gpm"), three storage tanks, eight booster pumps, three pressure tanks, Iron and Manganese removal systems and a distribution system. This system served 1,374 active connections at the end of 2011.

2. Lake Cimarron, PWS 08-129: This system consists of two wells, producing a total of 415 gpm, a storage tank, four booster pumps, a pressure tank and a distribution system. There is an Iron and Manganese removal system. This system served 128 active connections at the end of 2011.

Detailed plant facility listings are as follows:

King Street, PWS 08-040

Well Data (active wells only)

Location/No.	ADWR ID	Pump Hp	Pump GPM	Casing Size	Casing Depth (Feet)	Meter Size
Unit 17 - Secondary	55-603949	15	300	8"	100	4"
Unit 17 - Primary	55-208170	30	500	9"	120	6"
Total Production	-	-	800	-	-	-

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
163,000	1	14,000	1	15	6
47,000	1	5,200	1	30	1
96,000	1	2,200	1	40	1
Total 306,000					

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
2	904	5/8x3/4	1,450	46
3	1,587	3/4	9	
4	68,093	1	15	
6	28,368	1.5	2	
8	4,220	2	2	
Unknown	122	4	2	
		6	2	
		Total Metered Connections	1,482	

Lake Cimarron, PWS 08-129

Well Data (active wells only)

Location/No.	ADWR ID #	Pump Hp	Pump GPM	Casing Size	Casing Depth (Feet)	Meter Size
Lake Cimarron Small	55-604161	10	225	6"	100	4"
Lake Cimarron Large	55-604160	7.5	190	12"	60	4"
Total Production	-	-	415	-	-	-

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
196,000	1	5,800	1	20	2
				25	2
Total 196,000					

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
4	297	5/8x3/4	130	19
6	880	3/4	1	
8	11,866	2	1	
10	6,161	Total Metered Connections	132	

C. WATER USE

Water Sold

Based on the information provided by the Company in its Water Use Data Sheets, water use for the year 2011 is presented below for each system.

Water Use, gallons per day ("GPD") per connection

Water System Name	High	Low	Average
King Street, PWS 08-040	189 in Sept.	111 in Feb&Mar	136
Lake Cimarron, PWS 08-129	246 in Sept.	152 in Nov.	177

Non-Account Water

For each water system, the Company reported the following gallons pumped and gallons sold in 2011, which Staff used to determine the water loss per system:

Water Loss

Water System	Gallons Pumped	Gallons Sold	Water loss (%)
King Street, PWS 08-040	89,824,000	68,713,000	23.5
Lake Cimarron, PWS 08-129	10,806,000	8,300,000	23.19

Non-account water should be 10 percent or less and never more than 15 percent. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing.

Decision No. 71878 (September 15, 2010) requires the 10 Global water systems, to file a detailed plan demonstrating how the various systems will reduce their water loss to less than 10 percent. On December 14, 2010, Global Water filed a plan for reducing water loss to below 10 percent in the 10 Global Utilities' water systems, including the two Willow Valley water systems:

- King Street, PWS 08-040
- Lake Cimarron, PWS 08-129

Water loss for the above two water systems continued to exceed the Staff's recommended threshold of 10 percent in 2011. Staff recommends that the Company file each May a report covering the previous calendar year (with the first report due in May 2014 to cover the year of 2013) that contains all work activities undertaken in accordance with Decision No. 71878 regarding the Company's plan for reducing water loss below 10 percent. Staff further recommends that the written report continue until the water loss for all Willow Valley water systems is 10 percent or less for one full calendar year.

D. GROWTH

In July 2009, the Company had 1,528 customers, and in December 2011, the Company had 1,502 customers. Willow Valley lost 26 customers from July 2009 to December 2011. The Company estimates that the customer base will remain the same (with little or no growth) for the next 5 years.

Staff concludes that the Willow Valley has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.

E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE ("ADEQ")

Compliance

ADEQ reported that the Willow Valley drinking water systems are currently delivering water that meets water quality standards required by 40 C.F.R. 141 (Title 40 Code of Federal Regulations Part 141 National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4. (ADEQ report dated April 8, 2013).

Water Testing Expense

Willow Valley reported a total testing expense of $20,992.93 during the test year, the Company provided invoices and other documents to support this amount.

Willow Valley reported the following annual water testing expense for last 4 years (rounded):

Year 2009 - $16,874
Year 2010 - $11,252
Year 2011 - $20,993
Year 2012 - $13,712

Therefore, average annual water testing expense from 2009 to 2012 is $15,707.75. Staff reviewed these expenses and supporting documentation provided by the Company. Staff recommends the annual water testing expense of $15,708 (rounded) be used for purposes of this application.

F. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

The Company is not located in any Active Management Area ("AMA") and is not subject to any ADWR AMA reporting and conservation requirements. ADWR reported that Willow Valley is currently in compliance with departmental requirements governing water providers and/or community water systems. (ADWR compliance status report dated March 13, 2013).

G. ARIZONA CORPORATION COMMISSION ("ACC") COMPLIANCE

A check with the ACC Utilities Division Compliance Section showed no delinquent compliance items for the Company. (ACC Compliance Section Email dated May 17, 2013).

H. DEPRECIATION RATES

In the prior rate case, the Company adopted Staff's typical and customary water depreciation rates. These rates are presented in Table B and it is recommended that the Company continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.

Table B. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	3	33.33
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

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

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

I. POST-TEST YEAR PLANT

The Company submitted one post-test year plant addition for inclusion in rate base, the West Valley Region Supervisory Control and Data Acquisition ("SCADA") system for Willow Valley Water Company.

Staff inspected the plant facilities on April 16, 2013. This post-test year plant addition was not in-service during Staff's inspection. According to the Company its SCATA project has been delayed and will not be completed until late 2013.

J. OTHER ISSUES

1. Curtailment, Backflow Prevention and Best Management Practice ("BMP") Tariffs

Willow Valley has approved Curtailment and Backflow Prevention tariffs on file with the ACC.

The Company also has three approved BMP tariffs on file with the Commission.

2. Service Line and Meter Installation Charges

The Company has not requested any changes in its service line and meter installation charges that were approved in its last rate application. Therefore, Staff recommends continued use of the Company's current meter and service line installation charges.

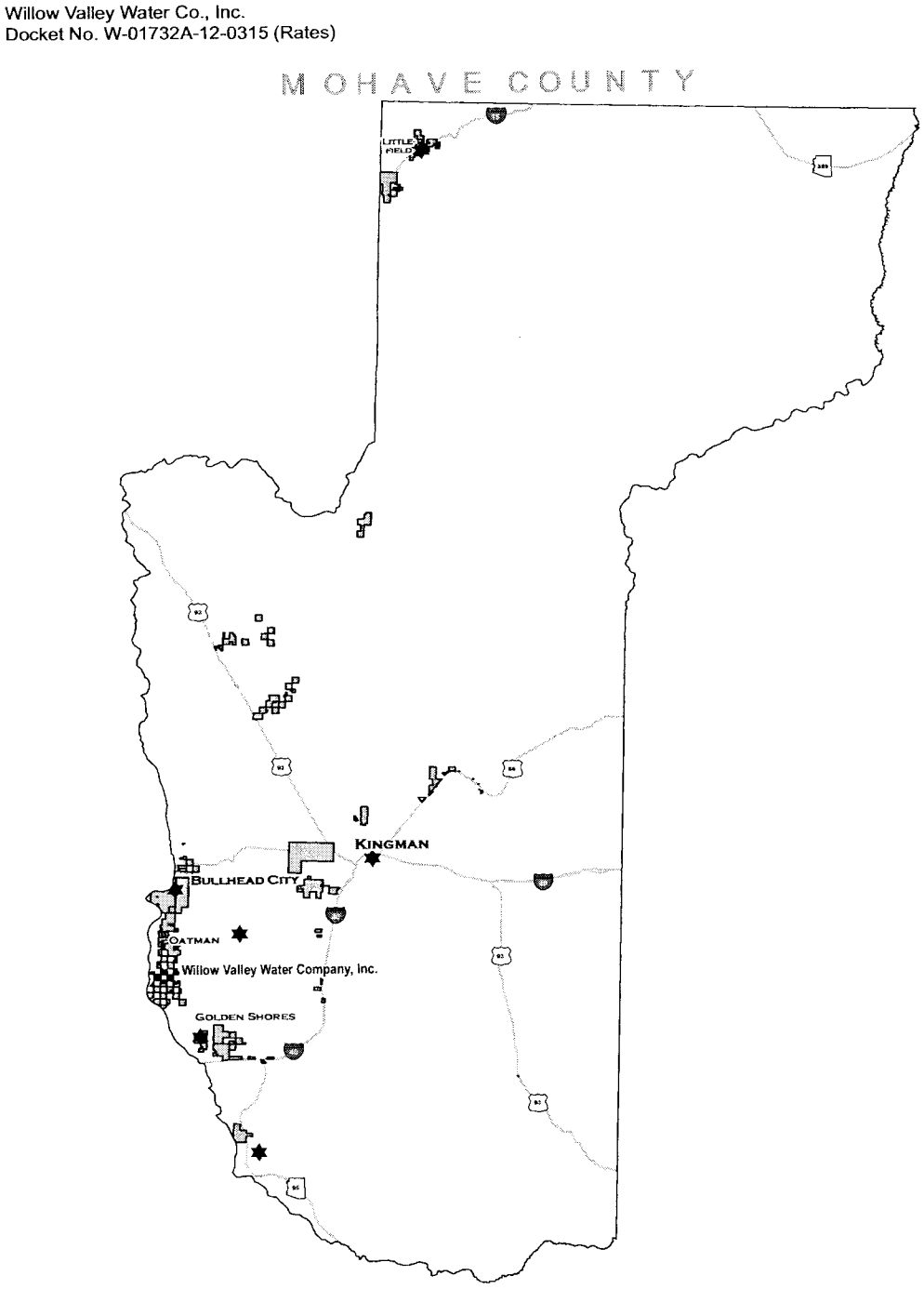

Figure 1. County Map

Willow Valley Water Co., Inc.
Docket No. W-01732A-12-0315 (Rates)

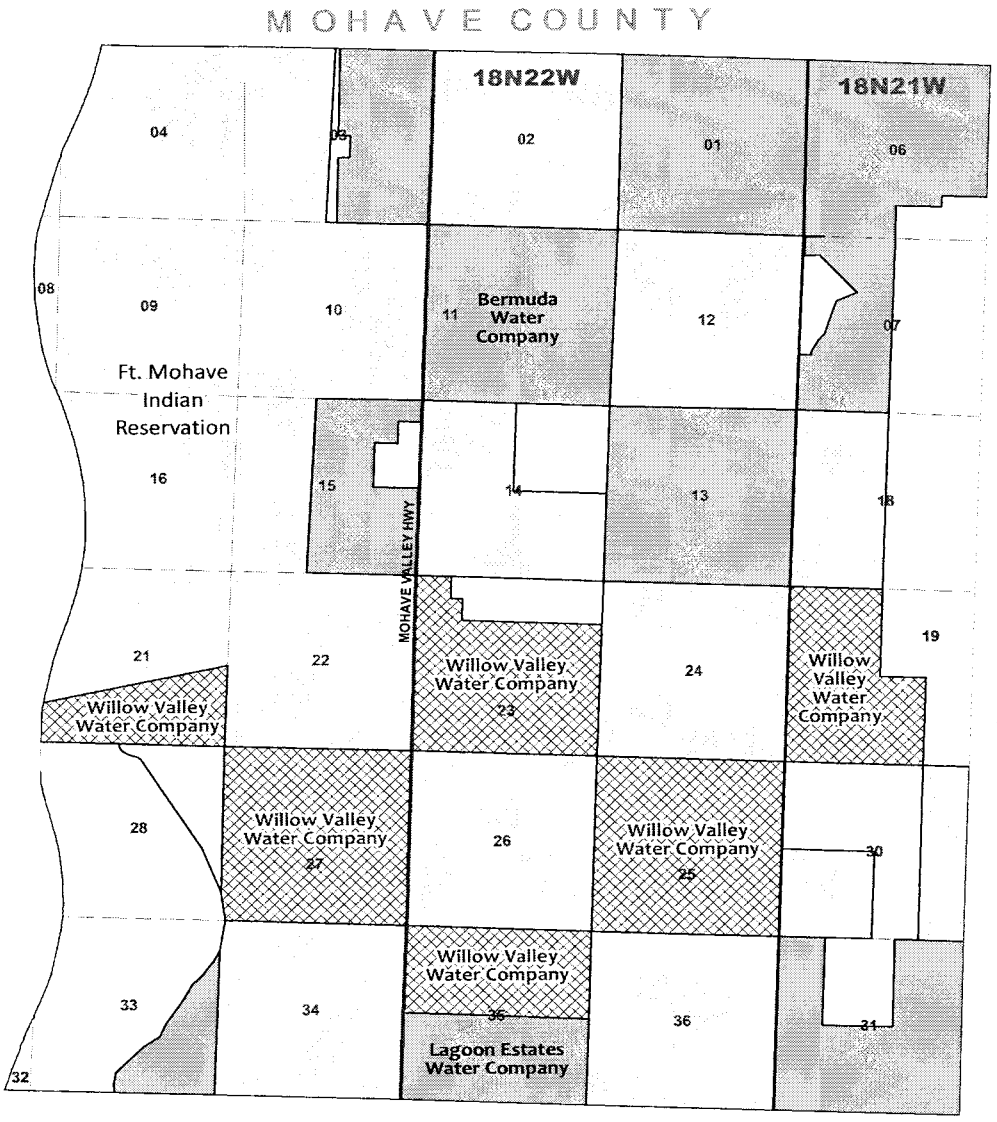

Figure 2. Certificated Areas

EXHIBIT JWL-7

ENGINEERING REPORT FOR

GLOBAL WATER-PALO VERDE UTILITIES COMPANY

DOCKET NO. SW-20445A-12-0310 (RATES)

JIAN W LIU

June 18, 2013

Engineering Report
For Global Water-Palo Verde Utilities Company
Docket No. SW-20445A-12-0310
(Rate Increase Application)

By Jian W Liu

June 18, 2013

EXECUTIVE SUMMARY

CONCLUSIONS:

1. Arizona Department of Environmental Quality ("ADEQ") regulates the Global Water-Palo Verde Utilities Company ("Palo Verde" or "Company") under Permit No. 49076. Per an April 16, 2013, Compliance Status Report issued by ADEQ, during the period of January 1st, 2012 through December 31st, 2012, there were more than 200 times when daily exceedance for turbidity occurred, other violations were also reported by ADEQ.

2. A check with the Utilities Division Compliance Section showed no delinquent compliance items for Palo Verde.

3. All of the post-test year plant additions except West Lagoon Clean Closure were in-service during Staff's inspection. (See Section 1 for more details).

4. Staff concludes that Palo Verde has adequate treatment capacity to serve the existing customer base and reasonable growth.

RECOMMENDATIONS:

1. In the prior rate case, the Company adopted Staff's typical and customary depreciation rates. These rates are presented in Table G-1 and it is recommended that the Company continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.

2. Staff recommends the annual testing expense of $40,577 reported by the Company be used for purposes of this application.

3. Staff recommends that any increase in rates and charges approved in this proceeding not become effective until the first day of the month following the Company's filing of an updated ADEQ Compliance Status Report indicating that the Company is in compliance with ADEQ requirements.

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ATTACHMENT

ADEQ COMPLIANCE STATUS REPORT 1

A. LOCATION OF COMPANY

Global Water-Palo Verde Utilities Company ("Palo Verde" or "Company") is an Arizona public service corporation authorized to provide wastewater service within portions of Pinal County, Arizona. Palo Verde provided wastewater service to approximately 15,800 active customers as of December 31, 2011. Figure 1 shows the location of Palo Verde within Pinal County and Figure 2 shows the certificated area.

B. DESCRIPTION OF THE WASTEWATER SYSTEM

Palo Verde owns and operates an enclosed three million gallon per day ("MGD") sequential batch reactor ("SBR") treatment plant, sand filters, ultra violet disinfection units and an effluent reuse and surface water disposal system to serve its customers.

The plant facilities were visited on April 19, 2013, by Jian Liu, Staff Utilities Engineer, in the accompaniment of Ron Fleming, Patrick Giles, Sarah Mahler and Joel Wade of the Company.

Lift Stations

Location	Quantity of Pumps	Horsepower per Pump	Capacity per Pump (GPM)	Wet Well Capacity (gals.)
Rancho El Dorado	1	15	1,100	23,095
Rancho El Dorado	2	20	1,000	328,000
Cobblestone	2	18	1,200	8,900
McDavid	2	70	650	15,000
Maricopa Groves	2	40	750	24,600
Alterra	2	15	690	13,200
Tortosa	2	5	300	10,300
PVWR Influent	2	100	5,000	328,000

Mains

Name	Length (Feet)	Length (Miles)
Force Mains	57,132	10.82
Reclaimed Water Mains	156,589	29.66
Collection Mains	1,043,778	197.69

Manholes

Type	Quantity
Standard	3,547

Service Laterals

Diameter	Length (Feet)
4-inch	21,669
Unknown	3
Total:	21,672

C. WASTEWATER FLOW

Based on the information provided by the Company, wastewater flow for the year 2011 is presented in Figure 3. For the average daily flows, January and February 2011 experienced the highest flow of 146 gallons per day ("GPD") per connection, and July 2011 experienced the lowest flow of 121 GPD per connection. The average annual wastewater flow was 133 GPD per connection.

For the peak day flows, January 2011 experienced the highest flow of 167 GPD per connection, and July 2011 experienced the lowest flow of 132 GPD per connection.

D. GROWTH

In July 2009, the Company had 14,997 customers. In December 2011, the Company had 15,831 customers. The customer base grew at approximately 2.22% per year from July 2009 to December 2011. The Company estimates that the customer base will grow at approximately 2% per year for the next 5 years.

Staff concludes that Palo Verde has adequate treatment capacity to serve the existing customer base and reasonable growth.

E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE

ADEQ regulates the Palo Verde wastewater treatment plant under Permit No. 49076. Per an April 16, 2013 Compliance Status Report issued by ADEQ, during the period of January 1st, 2012 through December 31st, 2012, there were more than 200 times when daily exceedance for

turbidity occurred, other violations were also reported by ADEQ. Please see Attachment 1: ADEQ Compliance Status Report for more details.

Staff recommends that any increase in rates and charges approved in this proceeding not become effective until the first day of the month following the Company's filing of an updated ADEQ Compliance Status Report indicating that the Company is in compliance with ADEQ requirements.

F. ARIZONA CORPORATION COMMISSION ("ACC") COMPLIANCE

A check with the Utilities Division Compliance Section showed no delinquent compliance items. (ACC Compliance Section Email dated March 12, 2013).

G. DEPRECIATION RATES

In the prior rate case, the Company adopted Staff's typical and customary depreciation rates. These rates are presented in Table G-1 and it is recommended that the Company continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.

Table G-1. Wastewater Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
354	Structures & Improvements	30	3.33
355	Power Generation Equipment	20	5.00
360	Collection Sewers – Force	50	2.0
361	Collection Sewers- Gravity	50	2.0
362	Special Collecting Structures	50	2.0
363	Services to Customers	50	2.0
364	Flow Measuring Devices	10	10.0
365	Flow Measuring Installations	10	10.00
366	Reuse Services	50	2.00
367	Reuse Meters & Meter Installations	12	8.33
370	Receiving Wells	30	3.33
371	Pumping Equipment	8	12.50
374	Reuse Distribution Reservoirs	40	2.50
375	Reuse Transmission & Distribution System	40	2.50
380	Treatment & Disposal Equipment	20	5.0
381	Plant Sewers	20	5.0
382	Outfall Sewer Lines	30	3.33
389	Other Plant & Miscellaneous Equipment	15	6.67
390	Office Furniture & Equipment	15	6.67
390.1	Computers & Software	5	20.0
391	Transportation Equipment	5	20.0
392	Stores Equipment	25	4.0
393	Tools, Shop & Garage Equipment	20	5.0
394	Laboratory Equipment	10	10.0
395	Power Operated Equipment	20	5.0
396	Communication Equipment	10	10.0
397	Miscellaneous Equipment	10	10.0
398	Other Tangible Plant	----	----

NOTE: Acct. 398, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

H. Palo Verde Utilities Company Testing Expenses

The Company reported a total testing expense of $40,576.80 during the test year, the Company provided invoices and other documents to support this amount. Staff has reviewed the information provided by the Company and recommends the Company's reported annual testing expense of $40,577 (rounded) be used for purposes of this application.

I. POST-TEST YEAR PLANT

The Company submitted eight post-test year plant additions for inclusion in rate base. These eight post-test year project additions are as follows:

	Construction Status (As April 19, 2013)
1) Campus I Water Reclamation Facility - - Phase 3 Expansion	Completed
2) Pipe Odor Control	Completed
3) West Lagoon Clean Closure and Conversion	Ready to serve
4) PEQB	Completed
5) SWR Manhole Rehabilitation and LS Improvement - - Phase I	Completed
6) Water Reclamation Facility Headworks Rehab	Completed
7) Sewer Manhole Rehab	Completed
8) Edison Road Sewer Line Extension	Completed

Staff has inspected and verified completion of the post-test year plant additions above. According to the Company the West Lagoon (as listed item 3) above) has been cleaned of all solids and is ready to be operational as a recycled water holding facility. This Lagoon was completely empty not being used during Staff's inspection on April 19, 2013.

All of the post-test year plant additions listed above were in-service during Staff's inspection except item 3).

Global Water - Palo Verde Utilities Company
Docket No. SW-20445A-12-0310

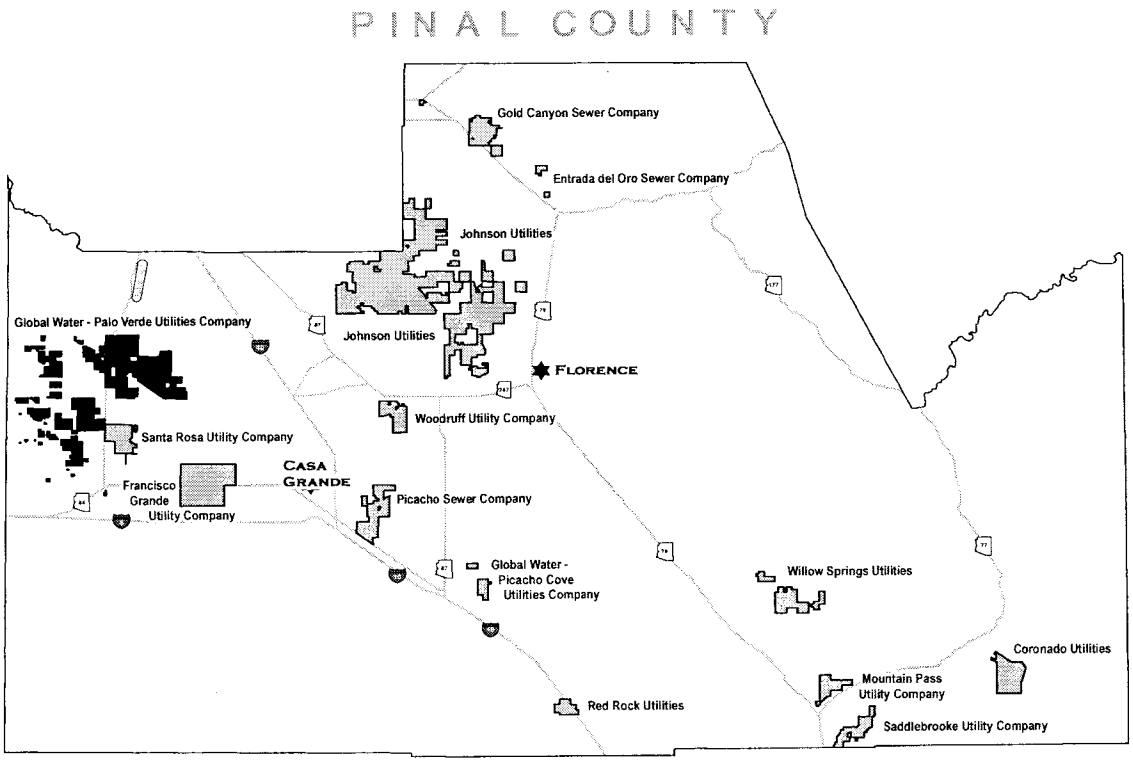

FIGURE 1 COUNTY MAP

Global Water - Palo Verde Utilities Company
Docket No. SW-20445A-12-0310

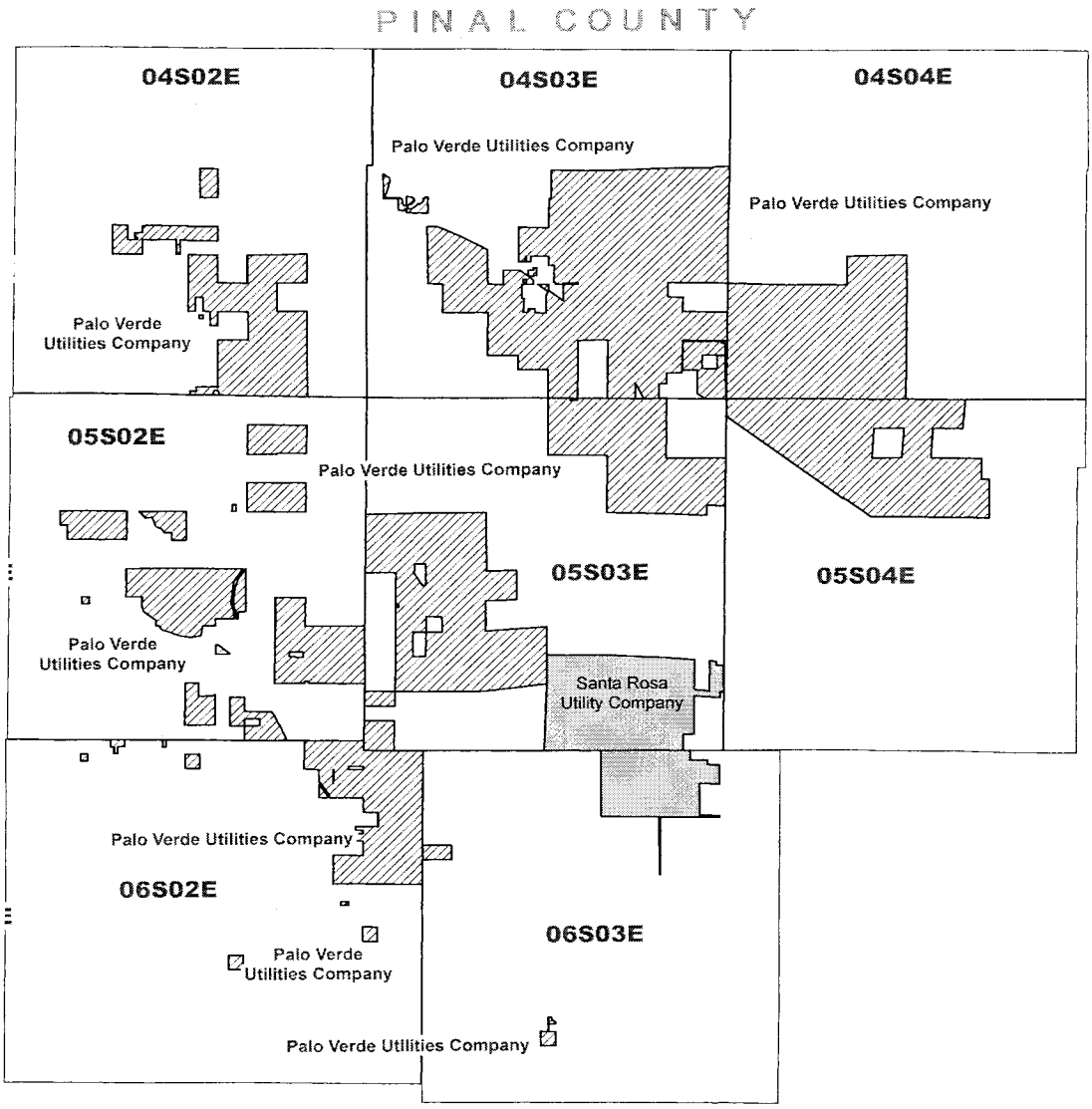

Figure 2 CERTIFICATED AREA

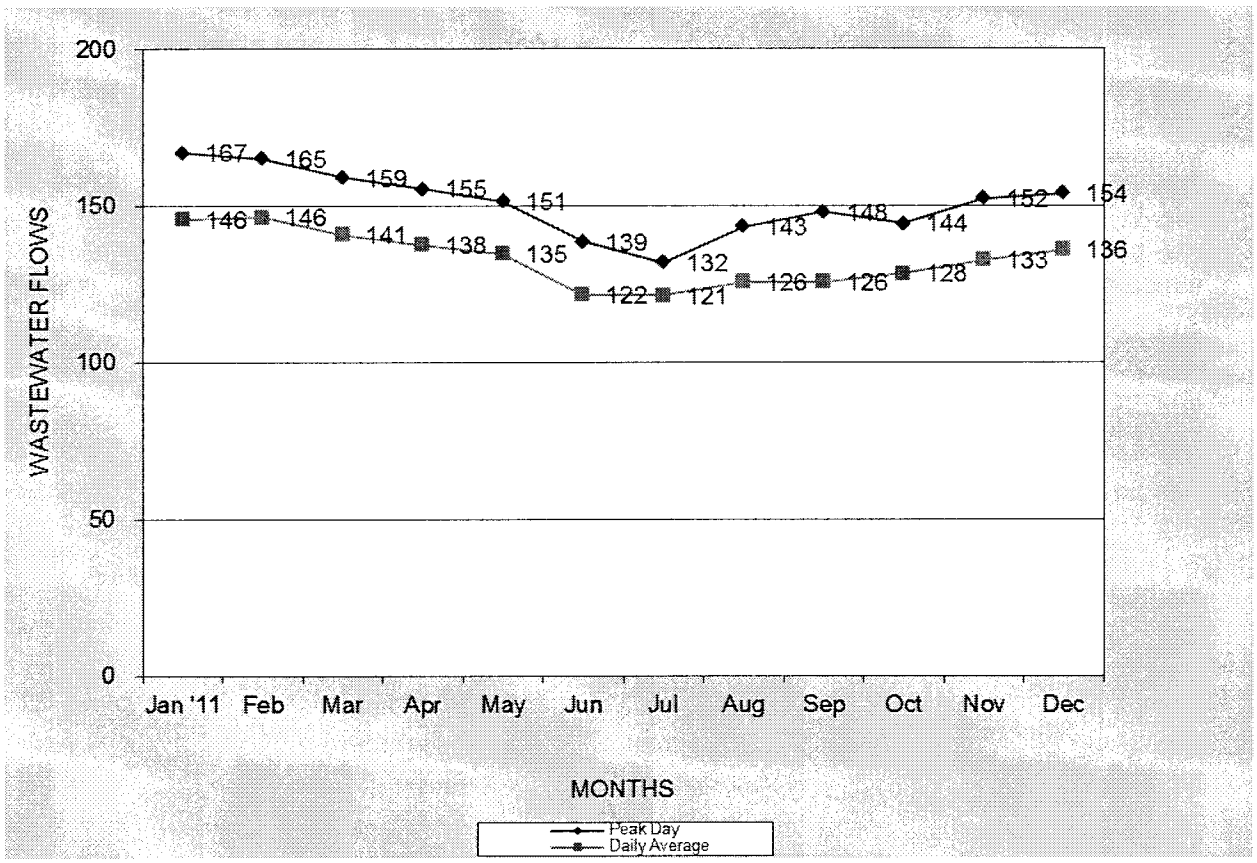

FIGURE 3 WASTEWATER FLOW

ATTACHMENT 1

ADEQ Compliance Status Report

Janice K. Brewer
Governor

ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY

1110 West Washington Street • Phoenix, Arizona 85007
(602) 771-2300 • www.azdeq.gov

Henry R. Darwin
Director

April 16, 2013

Arizona Corporation Commission
Mr. Jian Liu, Utilities Engineer
1200 W. Washington
Phoenix, Arizona 85007

RE: Compliance Status for Palo Verde Utilities WRF, Inventory number 105228, Place ID 5048, Permit number 49076 and 46128.

Dear Mr. Liu,
Your request for an evaluation of the compliance status for the above facility is completed. Our records indicate that above facility has Aquifer Protection Permit (APP) number 49076 and AZPDES permit number 46128 issued on 03/02/2010 and 2/24/2009 respectively.

Review of the APP reporting requirements and self-monitoring results that have been submitted for the period of 1/1/2012 through 12/31/2012 indicate there are monitoring or reporting violations during the period as follows.

1. Eighty one daily exceedance for turbidity - class A, at monitoring point 112749 during the 3rd quarter 2012.
2. Twenty six daily exceedance for turbidity - class A, at monitoring point 112749 during the 4th quarter 2012.
3. Ninety two daily exceedance for daily average turbidity – class A, at monitoring point 112749 during the 3rd quarter 2012.
4. Thirty daily exceedance for daily average turbidity – class A, at monitoring point 112749 during the 4th quarter 2012.
5. Nine daily exceedance for e-coli at effluent pump station, at monitoring point 112746 during the 3rd quarter 2012.
6. Nine daily exceedance for e-coli at effluent pump station, at monitoring point 112749 during the 3rd quarter 2012.

Review of the AZPDES reporting requirements and self-monitoring results that have been submitted for the period of 1/1/2012 through 1/31/2013 indicate there are monitoring or reporting violations during the period as follows.

1. Single concentration average exceedance for total cyanide for month of January 2012, once every two weeks frequency at monitoring point 125014.

2. Single concentration maximum exceedance for e-coli for month of April 2012, four times a month frequency at monitoring point 125014.
3. Single concentration average exceedance for e-coli for month of April 2012, four times a month frequency at monitoring point 125014
4. Single concentration maximum exceedance for total cyanide for month of January 2013, once every two weeks at monitoring point 125014.

It should be understood that the compliance status of a facility may change from time to time based upon monitoring results or a facility inspection. This compliance review is based on the most current information available at the time the review was completed.

Sincerely,

Kathryn Boland

Kathryn Boland, Manager, Data Unit
Water Quality Compliance Section
Office: 602-771-4513 Fax: 602-771-4505
boland.kathryn@azdeq.gov

cc: Ron Fleming
Susan Armijo
Facility file

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF VALENCIA WATER COMPANY – TOWN DIVISION FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-01212A-12-0309
IN THE MATTER OF THE APPLICATION OF GLOBAL WATER – PALO VERDE UTILITIES COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. SW-20445A-12-0310
IN THE MATTER OF THE APPLICATION OF WATER UTILITY OF NORTHERN SCOTTSDALE, INC. FOR APPROVAL OF A RATE INCREASE.	DOCKET NO. W-03720A-12-0311
IN THE MATTER OF THE APPLICATION OF WATER UTILITY OF GREATER TONOPAH, INC. FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-02450A-12-0312

IN THE MATTER OF THE APPLICATION OF VALENCIA WATER COMPANY – GREATER BUCKEYE DIVISION FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-02451A-12-0313
IN THE MATTER OF THE APPLICATION OF GLOBAL WATER – SANTA CRUZ WATER COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-20446A-12-0314
IN THE MATTER OF THE APPLICATION OF WILLOW VALLEY WATER COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. W-01732A-12-0315

DIRECT

TESTIMONY

OF

JOHN A. CASSIDY

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JULY 8, 2013

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EXECUTIVE SUMMARY
VALENCIA WATER COMPANY-TOWN DIVISION, ET AL
DOCKET NO. W-01212A-12-0309, ET AL

The direct testimony of Staff witness John A. Cassidy addresses the following issues:

Capital Structure – Staff recommends that the Commission adopt a consolidated capital structure for the Global Utilities ("Global Parent Utilities" or "Companies") for this proceeding consisting of 57.8 percent debt and 42.2 percent equity.

Cost of Equity – Staff recommends that the Commission adopt a 9.4 percent return on equity ("ROE") for the Companies. Staff's estimated ROE for the Companies is based on an economic assessment adjustment and the results of its DCF and CAPM cost of equity methodology estimates for the sample companies of 8.9 percent for the capital asset pricing model ("CAPM") and 8.6 percent for the discounted cash flow method ("DCF").

Cost of Debt – Staff recommends that the Commission adopt a 6.1 percent cost of debt for the Companies.

Overall Fair Value Rate of Return – Staff recommends that the Commission adopt a 7.5 percent overall fair value rate of return.

Mr. Rowells's Testimony – The Commission should reject the Companies' proposed 11.44 percent ROE for the following reasons:

> Mr. Rowell's methodology erroneously assumes that accounting based realized returns on equity ("ROE") are reflective of investor expectations of the cost of equity, and he assigns a two-thirds weighting to the results derived from his comparable earnings analysis and only a one-third weighting to the combined results derived from his market-based DCF and CAPM analyses. The samples used by Mr. Rowell in his comparable earnings analysis differ from those in both his DCF and CAPM analyses, with his comparable earnings sample consisting of fourteen publicly-traded utility companies (7 water, 7 natural gas), his DCF sample consisting of fifteen companies (8 water, 7 natural gas) and his CAPM sample consisting of sixteen companies (8 water, 8 natural gas). A natural gas company excluded from his comparable earnings sample (AGL Resources) is included in his CAPM sample, and among the natural gas companies in that sample has the highest beta coefficient. Mr. Rowell calculates his realized ROE comparable earnings estimate on a weighted average basis, resulting in the gas sample companies having a disproportionate (i.e., 3-to-1) influence on his estimate relative to the water sample companies. The natural gas company (UGI Corporation) selected to replace AGL Resources in his comparable earnings sample accounts for almost 20 percent (19.73%) of his overall comparable earnings estimate, yet Mr. Rowell makes no adjustment to reduce UGI's weighting factor by removing that portion of UGI's earnings/common equity not subject to domestic rate regulation in the United States. Collectively, the natural gas sample weighting factor in Mr. Rowell's comparable earnings analysis is overstated by

35.85 percent, due to the failure to similarly reduce the earnings/common equity component of other natural gas sample companies having significant non-regulated operating revenues. Mr. Rowell's constant growth DCF estimates rely exclusively on analysts' forecasts for earnings per share growth, and the dividend yield has been upwardly adjusted by means of annual compounding. Mr. Rowell's CAPM analyses employ an historical average risk-free rate, measured over the 32-year period January 1, 1980 - December 31, 2011, rather than a current spot intermediate- or long-term U.S. Treasury rate. Mr. Rowell's recommended cost of equity includes an upward 120 basis point Arizona Risk Premium adjustment to compensate the Companies for regulatory/small-size risk.

I. INTRODUCTION

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

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

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

A. I am responsible for the examination of financial and statistical information included in utility rate applications and other financial matters, including studies to estimate the cost of capital component in rate filings used to determine the overall revenue requirement, and for preparing written reports, testimonies and schedules to present Staff's recommendations to the Commission on these matters.

Q. Please describe your educational background and professional experience.

A. I hold a Bachelor of Arts degree in History from Arizona State University, a Master of Library Science degree from the University of Arizona, and a Master of Business Administration degree with an emphasis in Finance from Arizona State University. While pursuing my MBA degree, I was inducted into Beta Gamma Sigma, the National Business Honor Society. I have passed the CPA exam, but opted not to pursue certification. I have worked professionally as a librarian, financial consultant and tax auditor and served as Staff's cost of capital witness in rate case evidentiary proceedings in my current as well as in a past tenure as a Commission employee.

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

A. My testimony provides Staff's recommended capital structure, return on equity ("ROE") and overall fair value rate of return ("FVROR") for establishing the revenue requirements for the Global Utilities' ("Global Parent Utilities" or "Companies") pending rate application.

Q. Please provide a brief description of Global.

A. The seven public service corporations seeking rate relief in this docket (collectively, the "Global Parent Utilities") consist of three Class "A" utilities (Global Water - Santa Cruz Water Company, Global Water - Palo Verde Utilities Company, and Valencia Water Company - Town Division), one Class "B" utility (Willow Valley Water Company), two Class "C" utilities (Valencia Water Company - Greater Buckeye Division and Water Utility of Greater Tonopah), and one Class "D" utility (Water Utility of Northern Scottsdale). The Global Parent Utilities provide water and wastewater utility service to metered customers in parts of Maricopa, Mohave and Pinal Counties, Arizona, pursuant to certificates of convenience and necessity granted by the Commission.

The Global Parent Utilities are owned by Global Water Resources, LLC ("GWR"), a limited liability corporation organized in 2003 to acquire, own, and manage a portfolio of water and wastewater utilities in the southwestern United States. An affiliate company, Global Water Management, LLC ("GWM") was formed to provide business development, management, construction project management, operations, and administrative services to GWR and all its regulated subsidiaries. In 2005, Global Water, Inc. ("GWI"), an Arizona corporation, was established as a subsidiary of GWR to acquire, own, and manage a portfolio of water and wastewater utilities. The Global Parent Utilities, as well as the unregulated Global affiliates noted above, are ultimately owned by Global Water

Resources, Inc. ("GWRI" or "Global Parent"), a publicly-traded entity listed on the Toronto Stock Exchange.

Summary of Testimony and Recommendations

Q. Briefly summarize how Staff's cost of capital testimony is organized.

A. Staff's cost of capital testimony is presented in eleven sections. Section I is this introduction. Section II discusses the concept of weighted average cost of capital ("WACC"). Section III presents the concept of capital structure and presents Staff's recommended capital structure for the Global Parent Utilities in this proceeding. Section IV presents Staff's cost of debt for the Global Parent Utilities. Section V discusses the concepts of ROE and risk. Section VI presents the methods employed by Staff to estimate the Global Parent Utilities' ROE. Section VII presents the findings of Staff's ROE analysis. Section VIII presents additional factors considered in developing the cost of equity estimate for the Global Parent Utilities. Section IX presents Staff's FVROR recommendation. Section X presents Staff's comments on the direct testimony of the Company's witness, Mr. Matthew J. Rowell. Finally, section XI presents the conclusions.

Q. Have you prepared any exhibits to accompany your testimony?

A. Yes. I prepared ten schedules (JAC-1 to JAC-9) and Exhibits JAC-A and JAC-B in support Staff's cost of capital analysis.

Q. What is Staff's Fair Value Rate of Return ("FVROR")?

A. Staff recommends a 7.5 percent overall FVROR, as shown in Schedule JAC-1. The FVROR is calculated from the capital structure, ROE and cost of debt. Staff's capital structure is composed of 57.8 percent debt and 42.2 percent equity. Staff's estimated ROE for the Company is based on the results of its DCF and CAPM cost of equity methodology

estimates for the sample companies of 8.9 percent for the capital asset pricing model ("CAPM") and 8.6 percent for the discounted cash flow method ("DCF"), and includes a 60 basis point upward economic assessment adjustment.

Global Parent Utilities' Proposed Overall Fair Value Rate of Return

Q. Briefly summarize the Global Parent Utilities' proposed capital structure, cost of debt, ROE and overall FVROR for this proceeding.

A. As shown in Schedule JAC-1, the Global Parent Utilities proposes a different capital structure and cost of debt for each of the seven Global Parent Utilities operating units, and a uniform 11.44 percent ROE. As a consequence, the resulting overall FVROR is unique for each operating unit, as summarized in Table 1:

Table 1

Global Parent Utilities Operating Units	WACC/ROR
Palo Verde Utilities Company	8.81%
Santa Cruz Water Company	8.79%
Valencia Water Company – Town Division	10.55%
Valencia Water Company – Greater Buckeye[1]	11.18%
Water Utility of Greater Tonopah	10.72%
Willow Valley Water Company	10.60%
Water Utility of Northern Scottsdale	11.44%

II. THE WEIGHTED AVERAGE COST OF CAPITAL

Q. Briefly explain the cost of capital concept.

A. The cost of capital is the opportunity cost of choosing one investment over others with equivalent risk. In other words, the cost of capital is the return that stakeholders expect

[1] Schedule D-1 of the Company's application shows 11.18% which is the mathematically correct calculation based on the Company's supporting data. Table MJR 11 of Mr. Rowell's direct testimony shows 11.07%.

for investing their financial resources in a determined business venture over another business venture.

Q. What is the overall cost of capital?

A. The overall cost of capital for a firm issuing a variety of securities (i.e., stock and indebtedness) represents an average of the various cost rates on all securities issued by the firm adjusted to reflect the relative weighting of each security within the firm's capital structure. Thus, for any given firm, the overall cost of capital is the firm's weighted average cost of capital.

Q. How is the WACC calculated?

A. The WACC is calculated by adding the weighted expected returns of a firm's securities. The WACC formula is:

Equation 1.

$$WACC = \sum_{i=1}^{n} W_i * r_i$$

In this equation, W_i is the weight given to the ith security (the proportion of the ith security relative to the portfolio) and r_i is the expected return on the ith security.

Q. Can you provide an example demonstrating application of Equation 1?

A. Yes. For this example, assume that an entity has a capital structure composed of 60 percent debt and 40 percent equity. Also, assume that the embedded cost of debt is 6.0 percent and the expected return on equity, i.e., the cost of equity, is 10.5 percent. Calculation of the WACC is as follows:

WACC = (60% * 6.0%) + (40% * 10.5%)

WACC = 3.60% + 4.20%

WACC = 7.80%

The weighted average cost of capital in this example is 7.80 percent. The entity in this example would need to earn an overall rate of return of 7.80 percent to cover its cost of capital.

III. CAPITAL STRUCTURE

Background

Q. Please explain the capital structure concept.

A. The capital structure of a firm is the relative proportions of each type of security: short-term debt, long-term debt (including capital leases), preferred stock and common stock--that are used to finance the firm's assets.

Q. How is the capital structure expressed?

A. The capital structure of a company is expressed as the percentage of each component of the capital structure (capital leases, short-term debt, long-term debt, preferred stock and common stock) relative to the entire capital structure.

As an example, the capital structure for an entity that is financed by $20,000 of short-term debt, $85,000 of long-term debt (including capital leases), $15,000 of preferred stock and $80,000 of common stock is shown in Table 2.

Table 2

Component			%
Short-Term Debt	$20,000	($20,000/$200,000)	10.0%
Long-Term Debt	$85,000	($85,000/$200,000)	42.5%
Preferred Stock	$15,000	($15,000/$200,000)	7.5%
Common Stock	$80,000	($80,000/$200,000)	40.0%
Total	$200,000		100%

The capital structure in this example is composed of 10.0 percent short-term debt, 42.5 percent long-term debt, 7.5 percent preferred stock and 40.0 percent common stock.

Global Parent Utilities' Capital Structure

Q. What capital structure does the Global Parent Utilities propose?

A. As noted, the Global Parent Utilities propose a different capital structure for each of its seven operating units. The capital structures for Palo Verde and Santa Cruz are developed from an imputation of Industrial Development Authority ("IDA") bond debt carried on the books of the Global Parent,[2] while the capital structures for the other Global Parent Utilities are based on the respective debt and equity balances of each as of the December 31, 2011, test-year end (See Rowell Direct, p. 3, lines 5-8).

[2] In the 2009 Global rate case (Docket No. SW-20445A-09-0077 et al), Global proposed a similar imputation of IDA debt to Palo Verde and Santa Cruz, and such imputation was accepted by all parties.

Q. How do the proposed Global Parent Utilities capital structures compare to capital structures of publicly-traded water utilities?

Schedule JAC-4 shows the capital structures of six publicly-traded water companies ("sample water companies" or "sample water utilities") as of December 31, 2012. The average capital structure for the sample water utilities is comprised of approximately 51.2 percent debt and 48.8 percent equity. As presented in Schedule JAC- 1, a review of the individual capital structures proposed for the Global Parent Utilities indicates that only Palo Verde (51.7% debt, 48.3% equity) and Santa Cruz (54.5% debt, 45.5% equity) have capital structures comparable to the average sample water utility capital structure, with Santa Cruz being the only Global Parent Utilities system more highly leveraged (54.5% debt) than the sample average capital structure (51.2% debt). In all other cases, the Global Parent Utilities proposed capital structures are far less leveraged (i.e., more equity rich) than the sample average capital structure, with Valencia – Town Division having the highest (21.3%) and Northern Scottsdale the lowest (0.0%) percentage of debt.[3]

Staff's Capital Structure

Q. What is Staff's recommended capital structure for the Global Parent Utilities in this proceeding?

A. Staff recommends a single, consolidated capital structure in this proceeding, one composed of both the aggregate combined debt and equity positions of all seven Global Parent Utilities, updated as of December 31, 2012. Staff's recommended capital structure consists of 57.8 percent debt and 42.2 percent equity ($126,205,263 long-term debt and $92,101,433 common equity).

[3] Schedule MJR 11 of Rowell Direct erroneously shows the capital structure for the Consolidated West Valley (Valencia – Town, Valencia – Greater Buckeye and Water Utility of Greater Tonopah combined) as 22.41% debt and 77.59% equity. The mathematically correct capital structure using the amounts for the individual systems is composed of 18.33% debt and 81.67% equity.

Q. Why is Staff recommending the use of a consolidated capital structure for purposes of setting rates in this docket?

A. Staff recommends the use of a consolidated capital structure to recognize that management controls how to distribute the amounts of debt and equity capital available among the various individual systems that comprise the Global Parent Utilities. Ratepayers in the individual systems should not be subject to higher or lower capital costs relative to the other systems in the Global Parent Utilities due to these management decisions. Using a consolidate capital structure provides uniform capital costs among the individual systems to provide a measure of equity to ratepayers while providing full cost recovery for the Company. As proposed by the Company, rates for each of the seven Global Parent Utilities would be set based upon unique capital structures and debt costs (the Company proposes a uniform 11.44 percent cost of equity for all of the Global Parent Utilities).

Q. Why did Staff choose to update its recommended capital structure as of December 31, 2012, for purposes of setting rates in this docket?

A. The Global Parent Utilities filed its Application(s) in this docket on July 9, 2012, utilizing a December 31, 2011, test-year end, and the capital structures proposed by the Company are reflective of the Global Parent Utilities' financial position as of that date. More than 18-months have elapsed since December 31, 2011, and upon learning of changes which took place to the various Global Parent Utilities capital structures in calendar year 2012, Staff elected to update its capital structure to reflect those known and measureable changes for purposes of setting rates in this docket. Updating the capital structure to use more current rather than dated or stale information is a normal practice for Staff in similar circumstances.

Q. For the reasons noted above, should the Global Parent Utilities proposed capital structures be relied upon for purposes of setting rates in this docket?

A. No, they should not.

IV. COST OF DEBT

Q. What is the basis for the Global Parent Utilities proposed cost of debt in this proceeding?

A. The Companies' proposed cost of debt reflects the Global Parent Utilities embedded cost of debt, inclusive of the IDA bond debt imputed to Palo Verde and Santa Cruz, as of December 31, 2011. The IDA bond debt imputed from the parent was allocated to Palo Verde ($62,047,253) and Santa Cruz ($50,745,824) as a function of the relative values of capital projects funded by each system, respectively, through IDA bond debt proceeds. Of the remaining five Global Parent Utilities capital structures, four contained debt provided through loans issued by the Water Infrastructure Financing Authority of Arizona ("WIFA"): Valencia – Town Division ($3,436,964); Valencia – Buckeye Division ($117,418); Greater Tonopah ($440,989); and Willow Valley ($417,008). Additionally, Valencia – Buckeye Division's capital structure includes a Stewart Title (Garcia) loan ($17,168), while the capital structure of Northern Scottsdale carried no debt.

Q. How have the capital structures of the individual Global Parent Utilities changed since the December 31, 2011, test-year end date?

A. Two notable events occurred during the 2012 calendar year which impacted the debt component of the various Global Parent Utilities' capital structures. First, in June, 2012, Global secured an additional $7,625,000 of tax-exempt IDA revenue bonds ("Series 2012A Bonds") and $6,375,000 of taxable IDA revenue bonds ("Series 2012B Bonds")

through the Industrial Development Authority for the County of Pima, Arizona.[4] Subsequently, in August, 2012, Global repaid its outstanding WIFA loan debt in full.[5] If this new IDA bond debt were to be imputed to Palo Verde and Santa Cruz in a manner similar to that previously done, its impact would be confined only to those two Global Parent Utilities capital structures. However, repayment of the WIFA loan debt effectively converts three of the four Global Parent Utilities' (Valencia – Town Division, Greater Tonopah and Willow Valley) capital structures to 100 percent equity, while leaving another (Valencia – Buckeye Division) with a much diminished debt component (i.e., the Stewart Title (Garcia) loan). While covenants of IDA bonds restrict the locations where the proceeds can be expended, GWR and GWRI manage their capital structures and have flexibility in determining the amount of debt and equity available for use in the individual systems.

Q. What cost of debt is Staff recommending?

A. Staff's debt includes the debt included by the Global Parent Utilities which consist of $112,793,007 in IDA bonds issued prior to 2011 at 6.46 percent and $12,186 for the Stewart Title (Garcia) loan at 8.00 percent. Staff's debt also includes the IDA bonds issued in 2012, which is $13,400,000 at 3.30 percent.

V. RETURN ON EQUITY

Background

Q. Please define the term "cost of equity capital."

A. The cost of equity is the rate of return that investors expect to earn on their investment in a business entity given its risk. In other words, the cost of equity to the entity is the

[4] Global Water Resources, Inc., *Consolidated Financial Statements as of and for the Years Ended December 31, 2012 and 2011*, p. 17.
[5] *Ibid.*

investors' expected rate of return on other investments of similar risk. As investors have a wide selection of stocks to choose from, they will choose stocks with similar risks but higher returns. Therefore, the market determines the entity's cost of equity.

Q. Is there a correlation between interest rates and the cost of equity?

A. Yes, there is a positive correlation between interest rates and the cost of equity, as the two tend to move in the same direction. This relationship is reflected in the CAPM formula. The CAPM is a market-based model employed by Staff for estimating the cost of equity. The CAPM is further discussed in Section VI of this testimony.

Q. What has been the general trend of interest rates in recent years?

A. A chronological chart of interest rates is a good tool to show interest rate history and identify trends. Chart 1 graphs intermediate U.S. treasury rates from January 4, 2002, to May 31, 2013.

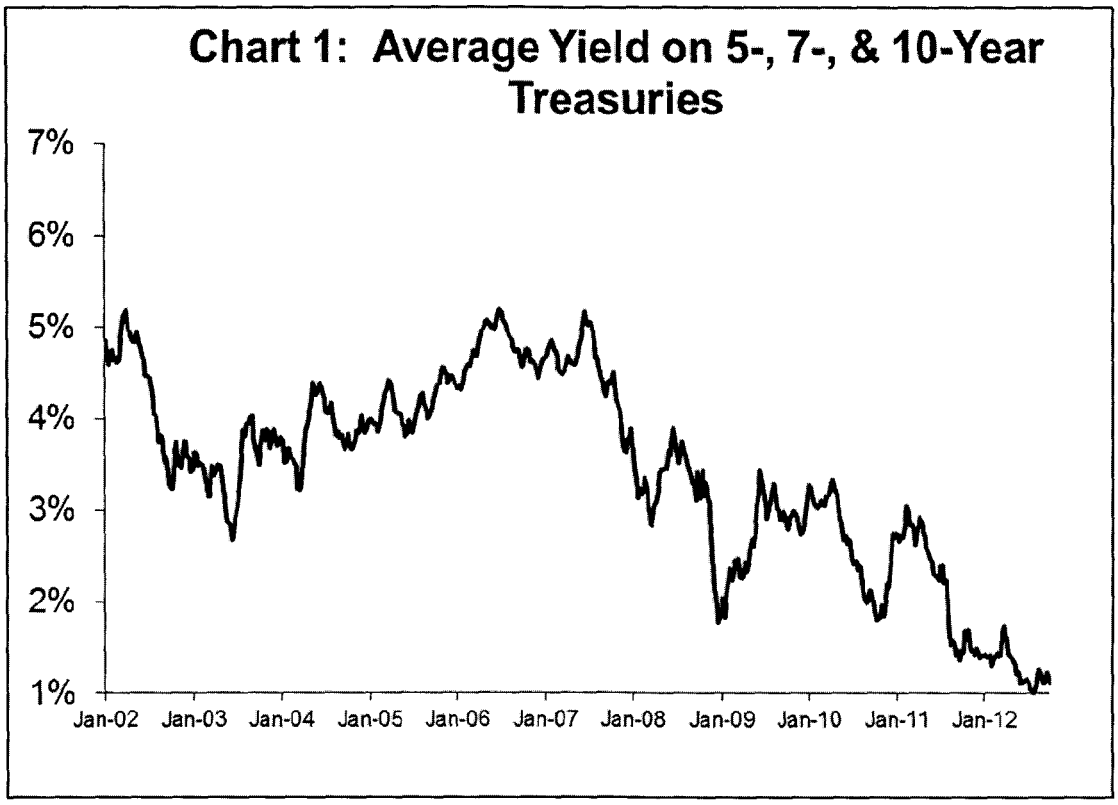

Chart 1 shows that intermediate-term interest rates trended downward from 2002 to mid-2003, trended upward through mid-2007, and have generally trended down since that time.

Q. What has been the general trend in interest rates longer term?

A. U.S. Treasury rates from January 1962- May 2013 are shown in Chart 2. The chart shows that interest rates trended upward through the mid-1980s and have trended downward over the last 25 years.

Source: Federal Reserve

Q. Do these trends suggest anything in terms of cost of equity?

A. Yes. As previously noted, interest rates and the cost of equity tend to move in the same direction; therefore, the cost of equity has declined in the past 25 years.

Q. Do actual returns represent the cost of equity?

A. No. The cost of equity represents investors' *expected* returns and not realized returns.

Q. Is there any information available that leads to an understanding of the relationship between the equity returns required for a regulated water utility and those required in the market as a whole?

A. Yes. A comparison of betas, a component of the CAPM discussed in Section VI, for the water utility industry and the market provide insight into this relationship. In theory, the

market has a beta value of 1.0, with stocks bearing greater risk (less risk) than the market having beta values higher than (lower than) 1.0, respectively. Furthermore, in accordance with the CAPM, the cost of equity capital moves in the same direction as beta. Therefore, because the average beta value (0.71)[6] for a water utility is less than 1.0, the required return on equity for a regulated water utility is below that of the market as a whole.

Risk

Q. Please define risk in relation to cost of capital.

A. Risk, as it relates to an investment, is the variability or uncertainty of the returns on a particular security. Investors are risk averse and require a greater potential return to invest in relatively greater risk opportunities, i.e., investors require compensation for taking on additional risk. Risk is generally separated into two components. Those components are market risk (systematic risk) and non-market risk (unsystematic risk, diversifiable risk or firm-specific risk).

Q. What is market risk?

A. Market risk, or systematic risk, is the risk associated with an investment that cannot be reduced through diversification. Market risk stems from factors that affect all securities, such as recessions, war, inflation and high interest rates. Since these factors affect the entire market they cannot be eliminated through diversification. Market risk does not impact each security to the same degree. The degree to which a given security's return is affected by market fluctuations can be measured using Beta. Beta reflects the business risk and the financial risk of a security.

[6] See Schedule JAC-7.

Q. Please define business risk.

A. Business risk is the fluctuation of earnings inherent in a firm's operations and environment, such as competition and adverse economic conditions that may impair its ability to provide returns on investment. Companies in the same industry or similar lines of business tend to experience the same fluctuations in business cycles.

Q. Please define financial risk.

A. Financial risk is the fluctuation of earnings, inherent in the use of debt financing, that may impair a firm's ability to provide adequate return; the higher the percentage of debt in a firm's capital structure, the greater its exposure to financial risk.

Q. Do business risk and financial risk affect the cost of equity?

A. Yes.

Q. Is a firm subject to any other risk?

A. Yes. Firms are also subject to unsystematic or firm-specific risk. Examples of unsystematic risk include losses caused by labor problems, nationalization of assets, loss of a big client or weather conditions. Investors can eliminate firm-specific risk by holding a diverse portfolio; thus, it is not of concern to diversified investors.

Q. How does Global Parent Utilities financial risk exposure compare to that of Staff's sample group of water companies?

A. JAC-4 shows the capital structures of Staff's six sample water companies as of December 30, 2012, and Schedule JAC-1 presents the proposed capital structures for each of the seven Global Parent Utilities as of the December 31, 2011 test-year end. As shown, the sample water utilities were capitalized with approximately 51.2 percent debt and 48.8

percent equity. In contrast, the proposed Global Parent Utilities' capital structures generally consist of less debt and more equity, with Santa Cruz being the only Global Parent Utility having greater exposure to financial risk (i.e., 54.5% debt) than the sample average capital structure (51.2% debt). Thus, as proposed by the Companies, the capital structures of the collective Global Parent Utilities bears less financial risk than does Staff's sample companies.

Q. As regards financial risk exposure, how does Staff's recommended capital structure compare to that of Staff's sample group of water companies?

A. As shown in Schedule JAC-1, Staff recommends a consolidated capital structure of 57.8 percent debt and 42.2 percent equity. Staff's recommended consolidated capital structure suggests that the collective Global Parent Utilities bear slightly more financial risk exposure than does Staff's sample average capital structure, which consists of 51.2 percent debt and 48.8 percent equity.

Q. Does Staff recommend an upward adjustment to the COE to compensate the Global Parent Utilities for financial risk exposure?

A. No. Staff considers a capital structure composed of between 40–60 percent debt to be reasonably balanced and economically efficient, and thus does not recommend an upward financial risk adjustment to the cost of equity in those instances. While it is true that a company should be compensated for financial risk, there is a range within which no adjustment should be made, and Staff considers the Global Parent Utilities' 57.8 percent debt level to be within that range.

Q. Is firm-specific risk measured by beta?

A. No. Firm-specific risk is not measured by beta.

Q. Is the cost of equity affected by firm-specific risk?

A. No. Since firm-specific risk can be eliminated through diversification, it does not affect the cost of equity.

Q. Can investors expect additional returns for firm-specific risk?

A. No. Investors who hold diversified portfolios can eliminate firm-specific risk and, consequently, do not require any additional return. Since investors who choose to be less than fully-diversified must compete in the market with fully-diversified investors, the former cannot expect to be compensated for unique risk.

VI. ESTIMATING THE COST OF EQUITY

Introduction

Q. Did Staff directly estimate the cost of equity for the Global Parent Utilities?

A. No. Although the Global Parent is a publicly-traded company listed on the Toronto Stock Exchange, its stock is thinly traded. Accordingly, Staff was unable to directly estimate its market cost of equity due to the lack of firm-specific market data. Instead, Staff estimated the Companies' cost of equity indirectly, using a representative sample group of publicly traded water utilities as a proxy for the Global Parent Utilities. Use of a sample is appropriate, as it reduces the sample error resulting from random fluctuations in the market at the time the information is gathered.

Q. What water utilities did Staff select for its proxy group of sample companies?

A. Staff's sample consists of the following six publicly-traded water utilities: American States Water, California Water, Aqua America, Connecticut Water Services, Middlesex Water and SJW Corp. Staff chose these companies because they are publicly-traded and receive the majority of their earnings from regulated operations.

Q. What models did Staff implement to estimate the Global Parent Utilities' cost of equity?

A. Staff used two market-based models to estimate the cost of equity for the Global Parent Utilities: the DCF model and the CAPM.

Q. Please explain why Staff chose the DCF and CAPM models.

A. Staff chose to use the DCF and CAPM models because they are widely-recognized market-based models and have been used extensively to estimate the cost of equity. An explanation of the DCF and CAPM models follows.

Discounted Cash Flow Model Analysis

Q. Please provide a brief summary of the theory upon which the DCF method of estimating the cost of equity is based.

A. The DCF method of stock valuation is based on the theory that the value of an investment is equal to the sum of the future cash flows generated from the aforementioned investment discounted to the present time. This method uses expected dividends, market price and dividend growth rate to calculate the cost of capital. Professor Myron Gordon pioneered the DCF method in the 1960s. The DCF method has become widely used to estimate the cost of equity for public utilities due to its theoretical merit and its simplicity. Staff used the financial information for the relevant six sample companies in the DCF model and averaged the results to determine an estimated cost of equity for the sample companies.

Q. Does Staff use more than one version of the DCF?

A. Yes. Staff uses two versions of the DCF model: the constant-growth DCF and the multi-stage or non-constant growth DCF. The constant-growth DCF assumes that an entity's

dividends will grow indefinitely at the same rate. The multi-stage growth DCF model assumes the dividend growth rate will change at some point in the future.

The Constant-Growth DCF

Q. What is the mathematical formula used in Staff's constant-growth DCF analysis?

A. The constant-growth DCF formula used in Staff's analysis is:

Equation 2:

$$K = \frac{D_1}{P_0} + g$$

where:

K = the cost of equity
D_1 = the expected annual dividend
P_0 = the current stock price
g = the expected infinite annual growth rate of dividends

Equation 2 assumes that the entity has a constant earnings retention rate and that its earnings are expected to grow at a constant rate. According to Equation 2, a stock with a current market price of $10 per share, an expected annual dividend of $0.45 per share and an expected dividend growth rate of 3.0 percent per year has a cost of equity to the entity of 7.5 percent reflected by the sum of the dividend yield ($0.45/ $10 = 4.5 percent) and the 3.0 percent annual dividend growth rate.

Q. How did Staff calculate the expected dividend yield (D_1/P_0) component of the constant-growth DCF formula?

A. Staff calculated the expected yield component of the DCF formula by dividing the expected annual dividend (D_1) by the spot stock price (P_0) after the close of market on April 3, 2013, as reported by *MSN Money*.

Q. Why did Staff use the April 3, 2013, spot price rather than a historical average stock price to calculate the dividend yield component of the DCF formula?

A. The current, rather than historic, market price is used in order to be consistent with financial theory. In accordance with the Efficient Market Hypothesis, the current stock price is reflective of all available information relating to the stock, and as such reveals investors' expectations of future returns. Use of historical average stock prices illogically discounts the most recent information in favor of less recent information. The latter is stale and is representative of underlying conditions that may have changed.

Q. How did Staff estimate the dividend growth (g) component of the constant-growth DCF model represented by Equation 2?

A. The dividend growth component used by Staff is determined by the average of six different estimation methods, as shown in Schedule JAC-8. Staff calculated historical and projected growth estimates on dividend-per-share ("DPS"),[7] earnings-per-share ("EPS")[8] and sustainable growth bases.

Q. Why did Staff examine EPS growth to estimate the dividend growth component of the constant-growth DCF model?

A. Historic and projected EPS growth are used because dividends are related to earnings. Dividend distributions may exceed earnings in the short run, but cannot continue indefinitely. In the long term, dividend distributions are dependent on earnings.

[7] Derived from information provided by *Value Line*.
[8] Derived from information provided by *Value Line*.

Q. How did Staff estimate historical DPS growth?

A. Staff estimated historical DPS growth by calculating a compound annual DPS growth rate for each of its sample companies over the 10-year period, 2002-2012. As shown in Schedule JAC-5, the average historical DPS growth rate for the sample was 3.4 percent.

Q. How did Staff estimate projected DPS growth?

A. Staff calculated an average of the projected DPS growth rates for the sample water utilities from *Value Line* through the period, 2016-2018. The average projected DPS growth rate is 5.2 percent, as shown in Schedule JAC-5.

Q. How did Staff estimate historical EPS growth rate?

A. Staff estimated historical EPS growth by calculating a compound annual EPS growth rate for each of its sample companies over the 10-year period, 2002-2012. As shown in Schedule JAC-5, the average historical EPS growth rate for the sample was 4.9 percent.

Q. How did Staff estimate projected EPS growth?

A. Staff calculated an average of the projected EPS growth rates for the sample water utilities from *Value Line* through the period, 2016-2018. The average projected EPS growth rate is 4.7 percent, as shown in Schedule JAC-5.

Q. How does Staff calculate its historical and projected sustainable growth rates?

A. Historical and projected sustainable growth rates are calculated by adding their respective retention growth rate terms (br) to their respective stock financing growth rate terms (vs), as shown in Schedule JAC-6.

Q. What is retention growth?

A. Retention growth is the growth in dividends due to the retention of earnings. The retention growth concept is based on the theory that dividend growth cannot be achieved unless the company retains and reinvests some of its earnings. The retention growth is used in Staff's calculation of sustainable growth shown in Schedule JAC-6.

Q. What is the formula for the retention growth rate?

A. The retention growth rate is the product of the retention ratio and the book/accounting return on equity. The retention growth rate formula is:

Equation 3:

$$\text{Retention Growth Rate} = br$$

where: b = the retention ratio (1 – dividend payout ratio)
r = the accounting/book return on common equity

Q. How did Staff calculate the average historical retention growth rate (br) for the sample water utilities?

A. Staff calculated the mean of the 10-year average historical retention rate for each sample company over the period, 2002-2012. As shown in Schedule JAC-6, the historical average retention (br) growth rate for the sample is 2.8 percent.

Q. How did Staff estimate its projected retention growth rate (br) for the sample water utilities?

A. Staff used the retention growth projections for the sample water utilities for the period, 2016-2018, from *Value Line*. As shown in Schedule JAC-6, the projected average retention growth rate for the sample companies is 3.8 percent.

Q. When can retention growth provide a reasonable estimate of future dividend growth?

A. The retention growth rate is a reasonable estimate of future dividend growth when the retention ratio is reasonably constant and the entity's market price to book value ("market-to-book ratio") is expected to be 1.0. The average retention ratio has been reasonably constant in recent years. However, the market-to-book ratio for the sample water utilities is 2.1, notably higher than 1.0, as shown in Schedule JAC-7.

Q. Is there any financial implication of a market-to-book ratio greater than 1.0?

A. Yes. A market-to-book ratio greater than 1.0 implies that investors expect an entity to earn an accounting/book return on its equity that exceeds its cost of equity. The relationship between required returns and expected cash flows is readily observed in the fixed securities market. For example, assume an entity contemplating issuance of bonds with a face value of $10 million at either 6 percent or 8 percent and, thus, paying annual interest of $600,000 or $800,000, respectively. Regardless of investors' required return on similar bonds, investors will be willing to pay more for the bonds if issued at 8 percent than if the bonds are issued at 6 percent. For example, if the current interest rate required by investors is 6 percent, then they would bid $10 million for the 6 percent bonds and more than $10 million for the 8 percent bonds. Similarly, if equity investors require a 9 percent return and expect an entity to earn accounting/book returns of 13 percent, the market will bid up the price of the entity's stock to provide the required return of 9 percent.

Q. How has Staff generally recognized a market-to-book ratio exceeding 1.0 in its cost of equity analyses in recent years?

A. Staff has assumed that investors expect the market-to-book ratio to remain greater than 1.0. Given that assumption, Staff has added a stock financing growth rate (vs) term to the retention ratio (br) term to calculate its historical and projected sustainable growth rates.

Q. Do the historical and projected sustainable growth rates Staff uses to develop its DCF cost of equity in this case continue to include a stock financing growth rate term?

A. Yes.

Q. What is stock financing growth?

A. Stock financing growth is the growth in an entity's dividends due to the sale of stock by that entity. Stock financing growth is a concept derived by Myron Gordon and discussed in his book *The Cost of Capital to a Public Utility.*[9] Stock financing growth is the product of the fraction of the funds raised from the sale of stock that accrues to existing shareholders (v) and the fraction resulting from dividing the funds raised from the sale of stock by the existing common equity (s).

[9] Gordon, Myron J. *The Cost of Capital to a Public Utility*. MSU Public Utilities Studies, Michigan, 1974. pp 31-35.

Q. What is the mathematical formula for the stock financing growth rate?

A. The mathematical formula for stock financing growth is:

Equation 4:

$$\text{Stock Financing Growth} = vs$$

where: v = Fraction of the funds raised from the sale of stock that accrues to existing shareholders

s = Funds raised from the sale of stock as a fraction of the existing common equity

Q. How is the variable *v* presented above calculated?

A. Variable v is calculated as follows:

Equation 5:

$$v = 1 - \left(\frac{book\ value}{market\ value} \right)$$

For example, assume that a share of stock has a $30 book value and is selling for $45. Then, to find the value of v, the formula is applied:

$$v = 1 - \left(\frac{30}{45} \right)$$

In this example, v is equal to 0.33.

Q. How is the variable *s* presented above calculated?

A. Variable s is calculated as follows:

Equation 6:

$$s = \frac{\text{Funds raised from the issuance of stock}}{\text{Total existing common equity before the issuance}}$$

For example, assume that an entity has $150 in existing equity, and it sells $30 of stock. Then, to find the value of *s*, the formula is applied:

$$s = \left(\frac{30}{150}\right)$$

In this example, *s* is equal to 20.0 percent.

Q. What is the *vs* term when the market-to-book ratio is equal to 1.0?

A. A market-to-book ratio of 1.0 reflects that investors expect an entity to earn a book/accounting return on their equity investment equal to the cost of equity. When the market-to-book ratio is equal to 1.0, none of the funds raised from the sale of stock by the entity accrues to the benefit of existing shareholders, i.e., the term *v* is equal to zero (0.0). Consequently, the *vs* term is also equal to zero (0.0). When stock financing growth is zero, dividend growth depends solely on the *br* term.

Q. What is the effect of the *vs* term when the market-to-book ratio is greater than 1.0?

A. A market-to-book ratio greater than 1.0 reflects that investors expect an entity to earn a book/accounting return on their equity investment greater than the cost of equity. Equation 5 shows that, when the market-to-book ratio is greater than 1.0, the *v* term is also greater than zero. The excess by which new shares are issued and sold over book value per share of outstanding stock is a contribution that accrues to existing stockholders in the form of a higher book value. The resulting higher book value leads to higher expected earnings and dividends. Continued growth from the *vs* term is dependent upon the continued issuance and sale of additional shares at a price that exceeds book value per share.

Q. What *vs* estimate did Staff calculate from its analysis of the sample water utilities?

A. Staff estimated an average stock financing growth of 1.9 percent for the sample water utilities, as shown in Schedule JAC-6.

Q. What would occur if an entity had a market-to-book ratio greater than 1.0 as a result of investors expecting earnings to exceed its cost of equity, and subsequently experienced newly-authorized rates equal only to its cost of equity?

A. Holding all other factors constant, one would expect market forces to move the company's stock price lower, closer to a market-to-book ratio of 1.0, to reflect investor expectations of reduced expected future cash flows.

Q. If the average market-to-book ratio of Staff's sample water utilities were to fall to 1.0 due to authorized ROEs equaling their cost of equity, would inclusion of the vs term be necessary to Staff's constant-growth DCF analysis?

A. No. As discussed above, when the market-to-book ratio is equal to 1.0, no portion of the funds raised from the sale of stock by the entity accrues to the benefit of existing shareholders because the *v* term is equal to zero; thus, the *vs* term is also equal to zero. When the market-to-book ratio equals 1.0, dividend growth depends solely on the *br* term. Staff's inclusion of the *vs* term assumes that the market-to-book ratio continues to exceed 1.0, and that the sample water utilities will continue to issue and sell stock at prices above book value with the effect of benefitting existing shareholders.

Q. What are Staff's historical and projected sustainable growth rates?

A. Staff's estimated historical sustainable growth rate is 4.7 percent based on an analysis of earnings retention for the sample water companies. Staff's projected sustainable growth

rate is 5.7 percent based on retention growth projected by *Value Line.* Schedule JAC-6 presents Staff's estimates of the sustainable growth rate.

Q. What is Staff's expected infinite annual growth rate in dividends?

A. Staff's expected dividend growth rate (g) is 4.8 percent, which is the average of historical and projected DPS, EPS, and sustainable growth estimates. Staff's calculation of the expected infinite annual growth rate in dividends is shown in Schedule JAC-8.

Q. What is Staff's constant-growth DCF estimate for the sample utilities?

A. Staff's constant-growth DCF estimate is 7.8 percent, as shown in Schedule JAC-3.

The Multi-Stage DCF

Q. Why did Staff implement the multi-stage DCF model to estimate the Global Parent Utilities' cost of equity?

A. Staff generally uses the multi-stage DCF model to consider the assumption that dividends may not grow at a constant rate. The multi-stage DCF uses two stages of growth, the first stage (near-term) having a four-year duration, followed by the second stage (long-term) of constant growth.

Q. What is the mathematical formula for the multi-stage DCF?

A. The multi-stage DCF formula is shown in the following equation:

Equation 7 :

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

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

Q. What steps did Staff take to implement its multi-stage DCF cost of equity model?

A. First, Staff projected future dividends for each of the sample water utilities using near-term and long-term growth rates. Second, Staff calculated the internal rate of return (cost of equity) which equates the present value of the forecasted dividends to the current stock price for each of the sample water utilities. Lastly, Staff calculated an overall sample average cost of equity estimate.

Q. How did Staff calculate near-term (stage-1) growth?

A. The stage-1 growth rate is based on *Value Lines*' projected dividends for the next twelve months, when available, and on the average dividend growth (g) rate of 4.8 percent, calculated in Staff's constant DCF analysis for the remainder of the stage.

Q. How did Staff estimate long-term (stage-2) growth?

A. Staff calculated the stage-2 growth rate using the arithmetic mean rate of growth in Gross Domestic Product ("GDP") from 1929 to 2012.[10] Using the GDP growth rate assumes that the water utility industry is expected to grow at the same rate as the overall economy.

Q. What is the historical GDP growth rate that Staff used to estimate stage-2 growth?

A. Staff used 6.5 percent to estimate the stage-2 growth rate.

Q. What is Staff's multi-stage DCF estimate for the sample utilities?

A. Staff's multi-stage DCF estimate is 9.3 percent, as shown in Schedule JAC-3.

Q. What is Staff's overall DCF estimate for the sample utilities?

A. Staff's overall DCF estimate is 8.6 percent. Staff calculated the overall DCF estimate by averaging the constant growth DCF (7.8%) and multi-stage DCF (9.3%) estimates, as shown in Schedule JAC-3.

Capital Asset Pricing Model

Q. Please describe the CAPM.

A. The CAPM is used to determine the prices of securities in a competitive market. The CAPM model describes the relationship between a security's investment risk and its market rate of return. Under the CAPM, an investor requires the expected return of a security to equal the rate on a risk-free security plus a risk premium. The model also assumes that investors will sufficiently diversify their investments to eliminate any non-systematic or unique risk.[11] In 1990, Professors Harry Markowitz, William Sharpe, and

[10] www.bea.doc.gov.

[11] The CAPM makes the following assumptions: 1) single holding period; 2) perfect and competitive securities market; 3) no transaction costs; 4) no restrictions on short selling or borrowing; 5) the existence of a risk-free rate; and 6) homogeneous expectations.

Merton Miller earned the Nobel Prize in Economic Sciences for their contribution to the development of the CAPM.

Q. Did Staff use the same sample water utilities in its CAPM and DCF cost of equity estimation analyses?

A. Yes. Staff's CAPM cost of equity estimation analysis uses the same sample water companies as did its DCF cost of equity estimation analysis.

Q. What is the mathematical formula for the CAPM?

A. The mathematical formula for the CAPM is:

Equation 8:

$$K = R_f + \beta (R_m - R_f)$$

where:

R_f	=	risk free rate
R_m	=	return on market
β	=	beta
$R_m - R_f$	=	market risk premium
K	=	expected return

The equation shows that the expected return (K) on a risky asset is equal to the risk-free interest rate (R_f) plus the product of the market risk premium ($R_m - R_f$) multiplied by the beta (β) coefficient, where beta represents the riskiness of the investment relative to the market.

Q. What is the risk-free rate?

A. The risk-free rate is the rate of return of an investment free of default risk.

Q. What does Staff use as surrogates to represent estimations of the risk-free rates of interest in its historical and current market risk premium CAPM methods?

A. Staff uses separate parameters as surrogates for the estimations of the risk-free rates of interest for the historical market risk premium CAPM cost of equity estimation and the current market risk premium CAPM cost of equity estimation. Staff uses the average of three (5-, 7-, and 10-year) intermediate-term U.S. Treasury securities' spot rates in its historical market risk premium CAPM cost of equity estimation, and the 30-year U.S. Treasury bond spot rate in its current market risk premium CAPM cost of equity estimation. Rates on U.S. Treasuries are largely verifiable and readily available.

Q. What does beta measure?

A. Beta is a measure of a security's price volatility, or systematic risk, relative to the market as a whole. Since systematic risk cannot be diversified away, it is the only risk that is relevant when estimating a security's required return. Using a baseline market beta of 1.0, a security having a beta value less than 1.0 will be less volatile (i.e., less risky) than the market. A security with a beta value greater than 1.0 will be more volatile (i.e., more risky) than the market.

Q. How did Staff estimate the Global Parent Utilities' beta?

A. Staff used the average of the *Value Line* betas for the sample water utilities as a proxy for the Companies' beta. Schedule JAC-7 shows the *Value Line* betas for each of the sample water utilities. The 0.71 average beta for the sample water utilities is Staff's estimated beta for the Global Parent Utilities. A security having a beta value of 0.71 is less volatile

than the market as a whole, and thus requires a lower return on equity than does the overall market.

Q. What is the market risk premium ($R_m - R_f$)?

A. The market risk premium is the expected return on the market, minus the risk-free rate. Simplified, it is the return an investor expects as compensation for market risk.

Q. What did Staff use for the market risk premium?

A. Staff uses separate calculations for the market risk premium in its historical and current market risk premium CAPM methods.

Q. How did Staff calculate an estimate for the market risk premium in its historical market risk premium CAPM method?

A. Staff uses the intermediate-term government bond income returns published in the Ibbotson Associates' *Stocks, Bonds, Bills, and Inflation 2013 Yearbook* to calculate the historical market risk premium. Ibbotson Associates calculates the historical risk premium by averaging the historical arithmetic differences between the S&P 500 and the intermediate-term government bond income returns for the period 1926-2012. Staff's historical market risk premium estimate is 7.2 percent, as shown in Schedule JAC-3.

Q. How did Staff calculate an estimate for the market risk premium in its current market risk premium CAPM method?

A. Staff solves equation 8 above to arrive at a market risk premium using a DCF-derived expected return (K) of 14.67 (2.2 + 12.47[12]) percent using the expected dividend yield (2.2 percent over the next twelve months) and the annual per share growth rate (12.47 percent)

[12] The three to five year price appreciation is 60%. $1.60^{0.25} - 1 = 12.47\%$.

that *Value Line* projects for all dividend-paying stocks under its review[13] along with the current long-term risk-free rate (30-year Treasury note at 3.05 percent) and the market's average beta of 1.0. Staff calculated the current market risk premium as 11.62 percent,[14] as shown in Schedule JAC-3.

Q. What is the result of Staff's historical market risk premium CAPM and current market risk premium CAPM cost of equity estimations for the sample utilities?

A. Staff's cost of equity estimates are 6.4 percent using the historical market risk premium CAPM and 11.3 percent using the current market risk premium CAPM.

Q. What is Staff's overall CAPM estimate for the sample utilities?

A. Staff's overall CAPM cost of equity estimate is 8.9 percent which is the average of the historical market risk premium CAPM (6.4 percent) and the current market risk premium CAPM (11.3 percent) estimates, as shown in Schedule JAC-3.

VII. SUMMARY OF STAFF'S COST OF EQUITY ANALYSIS

Q. What is the result of Staff's constant-growth DCF analysis to estimate the cost of equity for the sample water utilities?

A. Schedule JAC-3 shows the result of Staff's constant-growth DCF analysis. The result of Staff's constant-growth DCF analysis is as follows:

$$k = 3.0\% + 4.8\%$$

$$k = \mathbf{7.8\%}$$

[13] October 26, 2012 issue date.
[14] 14.67% = 3.05% + (1) (11.62%).

Staff's constant-growth DCF estimate of the cost of equity for the sample water utilities is 7.8 percent.

Q. What is the result of Staff's multi-stage DCF analysis to estimate of the cost of equity for the sample utilities?

A. Schedule JAC-9 shows the result of Staff's multi-stage DCF analysis. The result of Staff's multi-stage DCF analysis is:

Company	**Equity Cost Estimate (k)**
American States Water	8.7%
California Water	9.7%
Aqua America	8.5%
Connecticut Water	9.8%
Middlesex Water	10.2%
SJW Corp	9.2%
Average	**9.3%**

Staff's multi-stage DCF estimate of the cost of equity for the sample water utilities is 9.3 percent.

Q. What is Staff's overall DCF estimate of the cost of equity for the sample utilities?

A. Staff's overall DCF estimate of the cost of equity for the sample utilities is 8.6 percent. Staff calculated an overall DCF cost of equity estimate by averaging Staff's constant growth DCF (7.8 percent) and Staff's multi-stage DCF (9.3 percent) estimates, as shown in Schedule JAC-3.

Q. What is the result of Staff's historical market risk premium CAPM analysis to estimate of the cost of equity for the sample utilities?

A. Schedule JAC-3 shows the result of Staff's CAPM analysis using the historical risk premium estimate. The result is as follows:

$$k = 1.3\% + 0.71 * 7.2\%$$

$$k = 6.4\%$$

Staff's CAPM estimate (using the historical market risk premium) of the cost of equity for the sample water utilities is 6.4 percent.

Q. What is the result of Staff's current market risk premium CAPM analysis to estimate the cost of equity for the sample utilities?

A. Schedule JAC-3 shows the result of Staff's CAPM analysis using the current market risk premium estimate. The result is:

$$k = 3.1\% + 0.71 * 11.6\%$$

$$k = 11.3\%$$

Staff's CAPM estimate (using the current market risk premium) of the cost of equity to the sample water utilities is 11.3 percent.

Q. What is Staff's overall CAPM estimate of the cost of equity for the sample utilities?

A. Staff's overall CAPM estimate for the sample utilities is 8.9 percent. Staff's overall CAPM estimate is the average of the historical market risk premium CAPM (6.4 percent) and the current market risk premium CAPM (11.3 percent) estimates, as shown in Schedule JAC-3.

Q. Please summarize the results of Staff's cost of equity analysis for the sample utilities.

A. The following table shows the results of Staff's cost of equity analysis:

Table 2

Method	Estimate
Average DCF Estimate	8.6%
Average CAPM Estimate	8.9%
Overall Average	**8.8%**

Staff's average estimate of the cost of equity to the sample water utilities is 8.8 percent.

VIII. OTHER COST OF EQUITY ESTIMATE FACTORS

Q. Please compare the Global Parent Utilities' capital structure to that of the six sample water companies.

A. The average capital structure for the sample water utilities is composed of 51.2 percent debt and 48.8 percent equity, as shown in Schedule JAC-4. The Companies have proposed a capital structure unique to each of the seven Global Parent Utilities operating units, and as noted earlier, with the exception of the capital structure proposed for Santa Cruz, the remaining six capital structures are less leveraged than the average sample water utilities' capital structure. Accordingly, as proposed by the Companies, Global Parent stockholders bear less financial risk than the sample water utilities.

Q. Does financial risk affect Global Parent Utilities' cost of equity?

A. As previously discussed, financial risk is a component of market risk and investors require compensation for market risk. The capital structures as proposed by the Global Parent Utilities suggest that its financial risk and cost of equity are less than that of the average sample water companies. On the contrary, the financial risk associated with Staff's

recommended consolidated capital structure for the Global Parent Utilities is greater than the sample water companies with a corresponding implication for its cost of equity.

Q. Is Staff recommending any financial risk adjustment to the Global Parent Utilities' cost of equity related to financial risk?

A. No. Staff normally applies two criteria in assessing whether application of a downward financial risk adjustment is appropriate. The first consideration is whether the utility has a reasonably economical capital structure. Staff considers a capital structure composed of no more than 60 percent equity to meet this condition. If equity exceeds 60 percent, Staff considers application of a downward financial risk adjustment to be appropriate if the utility meets the second criteria. The second condition is whether the utility has access to equity capital markets. Since the Global Parent Utilities have access to the equity capital markets through Global Parent, a downward financial risk adjustment to the Global Parent Utilities cost of equity for each of the individual systems except Santa Cruz and Palo Verde would be appropriate with the capital structures the Companies propose. However, Staff's recommended consolidated capital structure composed of 42.2 percent debt and 57.8 percent equity for the Global Parent Utilities is within the range (any composition of debt and equity between 40 percent and 60 percent) Staff considers to be reasonably balanced and economically efficient, and thus does not warrant any financial risk adjustment to the cost of equity. Staff's methodology for applying a financial risk adjustment encourages a utility with access to the equity capital markets to use that access to manage its capital structure with economic efficiency and encourages a utility that lacks access to the equity capital markets to maintain a healthy capital structure.

Q. Did Staff consider factors other than the results of its technical models in its cost of equity analysis?

A. Yes. In consideration of the relatively uncertain status of the economy and the market that currently exists, Staff is proposing an Economic Assessment Adjustment to the cost of equity. In this case, Staff recommends a 60 basis point (0.6 percent) upward Economic Assessment Adjustment, as shown in Schedule JAC-3.

IX. RATE OF RETURN RECOMMENDATION

Q. What overall fair value rate of return did Staff determine for the Global Parent Utilities?

A. Staff determined a 7.5 percent FVROR for the Companies, as shown in Schedule JAC-1 and the following table:

Table 3

	Weight	Cost	Weighted Cost
Long-term Debt	57.8%	6.1%	3.5%
Common Equity	42.2%	9.4%	4.0%
Overall FVROR			**7.5%**

X. STAFF RESPONSE TO COMPANIES' COST OF CAPITAL WITNESS MR. MATTHEW J. ROWELL

Q. Please summarize Mr. Rowell's methodology and recommendations.

A. Mr. Rowell recommends an 11.44 percent ROE based on estimates derived from two DCF analyses (constant growth and multi-stage), three CAPM analyses, and a comparable earnings analysis. In each of his cost of equity estimation methodologies, Mr. Rowell utilizes a sample which includes both publicly-traded water and natural gas utility

1 companies; however, the make-up of each sample differs.[15] For purposes of his
2 recommended cost of equity, Mr. Rowell assumes that realized returns on equity are
3 reflective of investor expectations of the cost of equity, and he provides one-third weight
4 to the market-based results derived from his DCF and CAPM analyses and two-thirds
5 weight to the estimates derived from his comparable earnings analysis. For purposes of
6 his comparable earnings analysis, Mr. Rowell calculates a weighted average sample ROE,
7 utilizing fiscal year 2011 financial information. Mr. Rowell's recommended ROE
8 includes a 65-basis point upward risk adjustment for firm-specific risk.
9
10 **Q. Does Staff consider it appropriate for this Commission to rely on the cost of equity**
11 **estimates derived from Mr. Rowell's comparable earnings analysis for purposes of**
12 **establishing new rates for the Global Parent Utilities in this docket?**
13 A. No, and for several reasons. First, the cost of equity is determined by investor activity in
14 the capital markets, where market forces revealing of investor expectations ultimately
15 determine the value of equity securities traded on a daily basis. Mr. Rowell's comparable
16 earnings analysis is predicated on the mistaken notion that realized ROE's, and not
17 investor expectations, are the determinant of the cost of equity. Second, by its nature the
18 cost of equity is a forward looking concept, revealing of an investor's opportunity cost
19 associated with a given equity investment. By using realized ROEs as an indicator of the
20 cost of equity in his comparable earnings analysis, however, Mr. Rowell uses what he,

[15] For purposes of his comparable earnings analysis, Mr. Rowell's sample includes seven water companies (American States Water, Aqua America, California Water, Connecticut Water, Middlesex Water, SJW Corporation and York Water) and seven natural gas companies (Atmos Energy, Laclede Group, New Jersey Resources, Northwest Natural Gas, Piedmont Natural Gas, UGI Corporation and WGL Holdings). (Rowell Direct, pp. 26-27, and Schedule MJR-1) Mr. Rowell's DCF sample includes eight water companies (American States Water, Aqua America, California Water, Connecticut Water, Middlesex Water, SJW Corporation, York Water and Artesian Resources) and seven natural gas companies (Atmos Energy, Laclede Group, New Jersey Resources, Northwest Natural Gas, Piedmont Natural Gas, UGI Corporation and WGL Holdings). (Rowell Direct, Schedules MJR-2, MJR-3 and MJR-4) Mr. Rowell's CAPM sample includes eight water companies (American States Water, Aqua America, California Water, Connecticut Water, Middlesex Water, SJW Corporation, York Water and Artesian Resources) and eight natural gas companies (AGL Resources, Atmos Energy, Laclede Group, New Jersey Resources, Northwest Natural Gas, Piedmont Natural Gas, UGI Corporation and WGL Holdings). (Rowell Direct, Schedule MJR-6)

himself, terms "a backward looking accounting measurement" for the cost of equity.[16] Third, implicit in the adoption of Mr. Rowell's comparable earnings analysis as a proxy for the Global Parent Utilities' cost of equity is the notion that the returns on equity authorized by other regulatory jurisdictions are appropriate for the Global Parent Utilities, and that this Commission should embrace them for purposes of setting rates in this docket. Doing so, however, would be inappropriate, as this Commission has no knowledge of the rate-setting particulars surrounding each of Mr. Rowell's sample companies, or their relevance to the Global Parent Utilities. Lastly, to establish rates based upon Mr. Rowell's comparable earnings analysis gives rise to the issue of circularity, wherein returns based upon comparisons with realized or authorized returns on equity established in other regulatory proceedings are assumed to be appropriate going forward, irrespective of the current market level of the cost of equity as determined by investors. To rely on the results of a comparable earnings analysis serves to ignore market forces, which is why the Arizona Court of Appeals has strongly criticized the use of a comparable earnings analysis composed of a sample group of utilities for rate making purposes.[17]

Q. How did Mr. Rowell select his comparable earnings sample?

A. As a universe from which to choose, Mr. Rowell began by considering the six publicly-traded water utility companies used by Staff in its cost of capital analysis (American States Water, Aqua America, California Water, Connecticut Water, Middlesex Water and SJW Corporation), and the nine natural gas companies used by the Residential Utility Consumer Office ("RUCO") in its cost of capital analysis (AGL Resources, Atmos Energy, Laclede Group, New Jersey Resources, Northwest Natural Gas, Piedmont Natural Gas, South Jersey Industries, Southwest Gas and WGL Holdings). From the group of nine

[16] Rowell Direct, page 4, lines 6-8.
[17] See *Sun City Water Co. v. Arizona Corp. Comm'n,* 26 Ariz. 464, 556 P.2d 1126 (1976).

natural gas companies considered, Mr. Rowell removed the companies having the highest (South Jersey Industries, 14.31%) and lowest (Southwest Gas, 4.51%) realized ROEs, and he also excluded AGL Resources from consideration due to significant one-time expenses associated with a merger. Mr. Rowell then replaced AGL Resources in the sample with another natural gas utility, UGI Corporation.[18]

Q. In his testimony, does Mr. Rowell explain why he selected UGI Corporation to replace AGL Resources in his comparable earnings sample?

A. No. However, based upon his own testimony, one can infer that Mr. Rowell's selection of UGI Corporation for his comparable earnings sample reflects an element of subjectivity, and not objectivity, on his part, for when discussing the relative merits of the comparable earnings method compared to that of the DCF and CAPM models, Mr. Rowell states that "the only subjective decision the analyst must make is the selection of the companies to include in the sample."[19]

Q. What water companies does Mr. Rowell include in his comparable earnings sample?

A. Mr. Rowell includes the six publicly-traded water utilities initially considered for inclusion noted above, plus a seventh water utility, York Water.

Q. In his testimony, does Mr. Rowell indicate the reason for adding York Water to his comparable earnings sample?

A. No, he does not. Mr. Rowell makes no mention of York Water in his discussion of the selection of his comparable earnings sample (See Rowell Direct, pp. 26-27).

[18] Rowell Direct, p. 26.
[19] Rowell Direct, p. 22, lines 19-21.

Q. Please explain Mr. Rowell's comparable earnings methodology and how he arrived at his 10.47 percent estimated cost of equity.

A. Mr. Rowell's comparable earnings methodology employs a weighted average calculation to estimate the cost of equity. As shown in Schedule MJR-1, Mr. Rowell begins by calculating the realized ROE for each of his water and natural gas sample companies, utilizing the realized net income and equity positions of each for the 2011 fiscal year. Mr. Rowell then calculates an equity weighting factor for each sample company, dividing the equity position of each by the total combined sample equity (a figure not presented in MJR-1). For purposes of arriving at his comparable earnings estimated cost of equity, Mr. Rowell then multiplies the realized ROE achieved by each sample company by its respective equity weighting factor, with the sum of those values equating to his 10.47 percent weighted average ROE.

Q. In his testimony, does Mr. Rowell state the reason he elected to use a weighted average calculation for his comparable earnings estimate?

A. Yes. Mr. Rowell utilized a weighted average ROE calculation in order to produce an estimate of the average return accruing to *each dollar* of equity in the sample. He considered doing so appropriate, as "taking a simple average of returns produces a number that overstates the influence of the smaller utilities in the sample." (See Rowell Direct, p. 28, lines 16-21)

Q. Has Staff prepared a schedule which would shed additional light upon Mr. Rowell's comparable earnings methodology?

A. Yes. Staff has prepared a restatement of Mr. Rowell's Schedule MJR-1 for that purpose. Although his comparable earnings sample consists of seven water companies and seven natural gas companies, as shown in Exhibit JAC-A, Mr. Rowell's use of a weighted

average calculation significantly skews the data such that his comparable earnings estimate is disproportionately influenced by the natural gas companies in the sample. Specifically, the relative weighting of the gas sample, as measured by common equity, is more than three times greater (75.45%) that of the water sample (24.55%). That the average (i.e., simple average) realized return on equity of the gas sample (10.75%) exceeds by 139 basis points that of the water sample (9.36%) only serves to further exacerbate this disproportionate influence.[20]

Q. What is Staff's comment on Mr. Rowell's replacement of AGL Resources with UGI Corporation in his comparable earnings sample?

A. As noted earlier, Mr. Rowell excluded AGL Resources from consideration for his comparable earnings sample, replacing it with UGI Corporation. As shown in Exhibit JAC-A, UGI Corporation experienced a realized ROE of 11.78 percent in fiscal year 2011. Although another natural gas company in Mr. Rowell's sample experienced a higher realized ROE (New Jersey Resources, 13.05%), on a weighted average basis no other company in the sample had a larger impact upon Mr. Rowell's comparable earnings estimate than did UGI, accounting for fully 19.73 percent of the sample weighted average ROE (2.07% / 10.49% = 19.73%).

Q. Does Staff have any additional observations concerning Mr. Rowell's inclusion of UGI Corporation in his comparable earnings sample?

A. Yes. As noted, of the fourteen companies selected by Mr. Rowell for inclusion in his comparable earnings sample, UGI Corporation had the single largest impact upon his weighted average estimate. However, among UGI's five operating segments, two are not

[20] Differences between the 10.49 percent sample weighted average ROE, as shown in Exhibit JAC-1, and the 10.47 percent weighted average ROE, as shown in Schedule MJR-1, are attributable to Mr. Rowell having used total equity, rather than common equity, in his ROE calculations.

subject to domestic rate regulation in the United States; UGI's International Propane segment, and its Midstream & Marketing segment, which accounted for 17 and 22 percent, respectively, of 2011 UGI corporate net income.[21] For purposes of his comparable earnings analysis, therefore, Mr. Rowell should have made a downward adjustment of 39 percent (17% + 22%) to both UGI's net income and an appropriate downward adjustment to common equity to reflect this fact, but no such adjustments were made. As a consequence, as presented in Schedule MJR-1, the weighted average ROE for UGI Corporation has been significantly overstated, resulting in a corresponding overstatement to Mr. Rowell's weighted average sample ROE estimate.

Q. Did Staff conduct research to see if, like UGI, the other natural gas companies included in Mr. Rowell's comparable earnings sample had fiscal year 2011 operational income derived from non-regulated segments, and if so, what were Staff's findings?

A. Yes. As shown in Exhibit JAC-B, with the exception of only one company (Piedmont Natural Gas), each of Mr. Rowell's comparable earnings gas sample companies derived a portion of their fiscal 2011 operational revenues from non-regulated operations, with the overall average (i.e., arithmetic mean) being 35.85 percent of total revenues for all seven companies combined -- including Piedmont Natural Gas.

Q. Based on the data shown in Exhibit JAC-B, what additional conclusions can be drawn regarding Mr. Rowell's comparable earnings analysis?

A. The data presented in Exhibit JAC-B provide further evidence that Mr. Rowell's comparable earnings estimate for the cost of equity has been overstated. Having utilized a weighted average methodology for purposes of his comparable earnings analysis, Mr.

[21] 2011 UGI Annual Report to Shareholders.

Rowell should have made an adjustment to remove that portion of the earnings attributable to non-regulated operations from net income, and a corresponding reduction to common equity for each sample gas company. In failing to do so, Mr. Rowell's weighted average comparable earnings ROE is significantly overstated.

Q. Turning now to Mr. Rowell's DCF analyses, does his DCF sample consist of the same fourteen companies selected for inclusion in his comparable earnings sample?

A. No, it does not. Although Mr. Rowell states in his testimony that the same companies presented in his comparable earnings sample are used in his DCF analyses (See Rowell Direct, p. 30, lines 2-4), that statement is incomplete, as a review of Schedules MJR-2, MJR-3 and MJR-4 reveal that his DCF sample consists of fifteen companies; the same fourteen (7 water, 7 gas) companies making up his comparable earnings sample, plus an additional water company, Artesian Resources Corporation.

Q. In his testimony, does Mr. Rowell state why he elected to include Artesian Resources in his DCF sample?

A. No. The Direct testimony sponsored by Mr. Rowell makes no mention of Artesian Resources, and one learns that it has been included in his DCF sample only when referring to DCF schedules MJR-2, MJR-3, and MJR-4.

Q. Has Staff reviewed the above referenced schedules to determine if Mr. Rowell's inclusion of Artesian Resources in his DCF sample served to benefit his overall DCF results?

A. Yes. Review of Schedule MJR-2 indicates that Artesian Resources has the second highest current dividend yield (3.90%) among the eight sample water utilities. Review of Schedule MJR 3 indicates that Artesian Resources' dividend growth rate (4.81%)

represented the median sample estimate among the combined 15 sample companies. Finally, review of Schedule MJR-4 indicates that Artesian Resources' multistage DCF growth rate (9.90%) placed it among the top one-third among all sample companies. Based upon this cursory review, it appears that inclusion of Artesian Water in Mr. Rowell's DCF sample served to benefit his overall DCF estimate.

Q. For purposes of estimating the beta coefficient in his CAPM analysis, does Mr. Rowell use the same sample companies as those which were included in his DCF sample?

A. No. Although Mr. Rowell claims to have used the "same sample of utilities" in his CAPM analysis as those which were included in his Comparable Earnings and DCF analyses (Rowell Direct, p. 45, lines 23-24), a review of Schedule MJR-6 indicates that there are actually sixteen companies in his CAPM sample - the fifteen companies included in his DCF sample plus the natural gas company which he had previously excluded from his comparable earnings sample, AGL Resources.

Q. Does this mean that Mr. Rowell has included both UGI Corporation and AGL Resources in the same sample?

A. Yes. Although Mr. Rowell had previously excluded AGL Resources from his comparable earnings sample and replaced it with UGI Corporation, he has included both companies in his CAPM sample. A review of Schedule MJR-6 shows that both are included in the sample, with AGL Resources having the highest beta coefficient (0.75) of all the natural gas companies included in the sample.

Q. Does Mr. Rowell provide an explanation as to why he has included AGL Resources in his CAPM sample?

A. No.

Q. Is it a concern that Mr. Rowell used different companies in his various samples without an adequate explanation?

A. Yes. In this instance, there is no apparent good reason for the variances in the samples selected.

Q. Does Staff have any comments on Mr. Rowell's sole reliance on analysts' forecasts to estimate DPS growth in his constant growth DCF analysis?

A. Yes. Generally, analysts' forecasts are known to be overly optimistic. Sole use of analysts' forecasts to calculate the expected dividend growth rate, (g), serves to inflate that component of the DCF model and, consequently, the estimated cost of equity. Also, exclusive reliance on analysts' forecasts of earnings growth to forecast DPS is inappropriate because it assumes that investors do not look at other relevant information such as historical dividend and earnings growth.

Q. How does Staff respond to Mr. Rowell's statement that "the value g in the DCF model is defined as the *expected future* growth rate," and that analysts' forecasts are "the best proxy we have for the expected future growth rate of a given company"?[22]

A. The appropriate growth rate to use in the DCF model is the dividend growth rate expected by *investors*, not by analysts. Investors are assumed to be rational, and as such will want to take into consideration all relevant available information prior to making an investment

[22] Rowell Direct, page 31, lines 6-9.

decision. Therefore, it is reasonable to assume that investors would consider both historical measures of past growth, as well as analysts' forecasts of future growth.

Q. Does Staff have evidence to support its assertion that exclusive reliance on analysts' forecasts of earnings growth in the DCF model would result in inflated cost of equity estimates?

A. Yes. Experts in the financial community have commented on the optimism in analysts' forecasts of future earnings.[23] A study cited by David Dreman in his book *Contrarian Investment Strategies: The Next Generation* found that *Value Line* analysts were optimistic in their forecasts by 9 percent annually, on average for the 1987 – 1989 period. Another study conducted by David Dreman found that between 1982 and 1997, analysts overestimated the growth of earnings of companies in the S&P 500 by 188 percent.

Burton Malkiel, of Princeton University, conducted a study of the 1- and 5-year earnings forecasts made by some of the most respected names in the investment business. His results showed that when compared with actual earnings growth rates, the 5-year forecasts made by professional analysts were far less accurate than estimates derived from several naïve forecasting models, such as the long-run growth rate in national income. In the following excerpt from his book, A Random Walk Down Wall Street, Professor Malkiel discusses the results of his study:

> When confronted with the poor record of their five-year growth estimates, *the security analysts honestly, if sheepishly, admitted that five years ahead is really too far in advance to make reliable projections*. They protested that although long-term projections are admittedly important, they really ought to be judged on their ability to project earnings changes one year ahead. Believe it or

[23] See Seigel, Jeremy J. Stocks for the Long Run. 2002. McGraw-Hill. New York. p. 100. Dreman, David. Contrarian Investment Strategies: The Next Generation. 1998. Simon & Schuster. New York. pp. 97-98. Malkiel, Burton G. A Random Walk Down Wall Street. 2003. W.W. Norton & Co. New York. p. 175.
Testimony of Professors Myron J. Gordon and Lawrence I. Gould, consultant to the Trial Staff (Common Carrier Bureau), FCC Docket 79-63, p. 95.

> not, it turned out that their one-year forecasts were even worse than their five-year projections.
>
> The analysts fought back gamely. They complained that it was unfair to judge their performance on a wide cross section of industries, because earnings for high-tech firms and various "cyclical" companies are notoriously hard to forecast. *"Try us on utilities," one analyst confidently asserted. At the time they were considered among the most stable group of companies because of government regulation. So we tried it and they didn't like it. Even the forecasts for the stable utilities were far off the mark.*[24] (Emphasis added)

Q. Are investors aware of the problems related to analysts' forecasts?

A. Yes. In addition to books, there are numerous published articles appearing in *The Wall Street Journal* and other financial publications that cast doubt on the accuracy of research analysts' forecasts.[25] Investors, being keenly aware of these inherent biases in forecasts, will use other methods to assess future growth.

Q. Should DPS growth be considered in a DCF analysis?

A. Yes. As previously stated in section VI of this testimony, the current market price of a stock is equal to the present value of all expected future dividends, not future earnings. Professor Jeremy Siegel from the Wharton School of Finance stated:

> Note that the price of the stock is always equal to the present value of all future *dividends* and not the present value of future earnings. Earnings not paid to investors can have value only if they are paid as dividends or other cash disbursements at a later date. Valuing

[24] Malkiel, Burton G. A Random Walk Down Wall Street. 2003. W.W. Norton & Co. New York. p. 175

[25] See Smith, Randall & Craig, Suzanne. "Big Firms Had Research Ploy: Quiet Payments Among Rivals." *The Wall Street Journal.* April 30, 2003. Brown, Ken. "Analysts: Still Coming Up Rosy." *The Wall Street Journal.* January 27, 2003. p. C1. Karmin, Craig. "Profit Forecasts Become Anybody's Guess." *The Wall Street Journal.* January 21, 2003. p. C1. Gasparino, Charles. "Merrill Lynch Investigation Widens." *The Wall Street Journal.* April 11, 2002. p. C4. Elstein, Aaron. "Earnings Estimates Are All Over the Map." *The Wall Street Journal.* August 2, 2001. p. C1. Dreman, David. "Don't Count on those Earnings Forecasts." *Forbes.* January 26, 1998. p. 110.

> stock as the present discounted value of future earnings is manifestly wrong and greatly overstates the value of the firm.[26]

For valuation purposes, therefore, earnings paid out in the form of a dividend have paramount relevancy to investors. Dividends, unlike earnings, cannot be manipulated or overstated. Thus, historical DPS growth should receive appropriate consideration when estimating the market cost of equity in the DCF model.

Q. Turning to Mr. Rowell's CAPM analyses, what risk-free rates does Mr. Rowell use in his three CAPM methodology?

A. In his CAPM analyses, Mr. Rowell uses historical risk-free rates (R_f) in each of his three CAPM analyses. The risk-free rates used represent a 32-year average intermediate-term (8.4%) and long-term (10.2%) U.S. Treasury rate, covering the period January 1, 1980 – December 31, 2011.

Q. Does Staff agree with Mr. Rowell's use of an historical risk-free interest rate?

A. No. The appropriate risk-free interest rate to be used is the current rate borne by investors in the market. Use of an historical risk-free rate in the CAPM should be avoided, as it reflects stale information. Cost of equity has a positive correlation with interest rates both of which vary over time.

[26] Seigel, Jeremy J. Stocks for the Long Run. 2002. McGraw-Hill. New York. P. 93.

Q. In his testimony, Mr. Rowell asserts that the small size of the Global Parent Utilities relative to the sample companies warrants an upward adjustment to the cost of equity in order to conform to the "corresponding risk" standard as established by the *Hope* and *Bluefield* decisions.[27] Does Staff agree?

A. While Staff would agree with the general proposition that smaller companies are riskier than larger companies, empirical research has demonstrated that a small company risk premium adjustment to the cost of equity is unwarranted for regulated utilities. Annie Wong, of Western Connecticut State University, conducted a study on utility stocks to determine if the so-called size effect exists in the utility industry, and she writes as follows:

> The fact that the two samples show different, though weak, results indicates that utility and industrial stocks do not share the same characteristics. First, given firm size, utility stocks are consistently less risky than industrial stocks. Second, industrial betas tend to decrease with firm size but utility betas do not. These findings may be attributed to the fact that all public utilities operate in an environment with regional monopolistic power and regulated financial structure. As a result, the business and financial risks are very similar among the utilities regardless of their size. Therefore, utility betas would not necessarily be expected to be related to firm size.
>
> The object of this study is to examine if the size effect exists in the utility industry. After controlling for equity values, there is some weak evidence that firm size is a missing factor from the CAPM for the industrial but not for the utility stocks. *This implies that although the size phenomenon has been strongly documented for industrials, the findings suggest that there is no need to adjust for the firm size in utility regulations.* [emphasis added].[28]

[27] Rowell Direct, p. 49, lines 7-14.
[28] Annie Wong, "Utility Stock and the Size Effect: An Empirical Analysis," *Journal of the Midwest Finance Association*, (1993), p.98.

To underscore this point, Paschall and Hawkins write as follows:

> A size premium does not automatically apply in every case. Each privately held company should be analyzed to determine if a size premium is appropriate in its particular case. There can be unusual circumstances where a small company has risk characteristics that make it far less risky than the average company, warranting the use of a very low equity risk premium. One possible example of this is a private water utility (monopoly situation, very low risk, near-guarantee of payments).[29]

Q. Does Staff have any comment regarding Mr. Rowell's proposed 120 basis point upward Arizona Risk Premium[30] adjustment to the cost of equity to compensate the Global Parent Utilities for regulatory/small company risk?

A. Yes. The Commission previously ruled in Decision No. 64282[31] for Arizona Water that firm size does not warrant recognition of a risk premium stating, "We do not agree with the Company's proposal to assign a risk premium to Arizona Water based on its size relative to other publicly traded water utilities…." The Commission confirmed its previous ruling in Decision No. 64727[32] for Black Mountain Gas agreeing with Staff that "the 'firm size phenomenon' does not exist for regulated utilities, and that therefore there is no need to adjust for risk for small firm size in utility regulation." All companies have firm-specific risks; therefore, the existence of unique risks for a company does not lead to the conclusion that its total risk is greater than other entities. Moreover, as previously discussed, investors cannot expect compensation for firm-specific risk since it can be eliminated through diversification. Finally, as discussed above, the Global Parent Utilities are a subsidiary of GWR and ultimately GWRI, and the latter (i.e., Global Parent) is a

[29] Michael A. Paschall and George B. Hawkins, "Do Smaller Companies Warrant a Higher Discount Rate for Risk?: The 'Size Effect' Debate," *CCH Business Valuation Alert*, Vol. 1, Issue No. 2, December 1999.
[30] The 120 basis point upward adjustment to the cost of equity is referred to as such in the table appearing on p. 53 of Mr. Rowell's Direct testimony.
[31] Dated December 28, 2001.
[32] Dated April 17, 2002.

publicly-traded entity listed on the Toronto Stock Exchange. Therefore, the Global Parent Utilities are similarly situated to the subsidiaries of the sample water companies.

XI. CONCLUSION

Q. Please summarize Staff's recommendations.

A. Staff recommends that the Commission adopt a 7.5 percent FVROR for the Global Parent Utilities based on a consolidated capital structure composed of 57.8 percent debt and 42.2 percent equity, Staff's 9.4 percent cost of equity estimate and 6.1 percent cost of debt.

Q. Does this conclude your direct testimony?

A. Yes, it does.

Global Utilities Cost of Capital Calculation
Capital Structure
And Weighted Average Cost of Capital
Staff Recommended and Company Proposed

[A]	[B]	[C]	[D]
Description	Weight (%)	Cost	Weighted Cost
Staff Recommended Structure			
Debt	57.8%	6.1%	3.5%
Common Equity	42.2%	9.4%	4.0%
Weighted Average Cost of Capital			**7.5%**
Company Proposed Structures:			
Palo Verde			
Debt	51.7%	6.36%	3.29%
Common Equity	48.3%	11.44%	5.52%
Weighted Average Cost of Capital			**8.81%**
Santa Cruz			
Debt	54.5%	6.58%	3.59%
Common Equity	45.5%	11.44%	5.21%
Weighted Average Cost of Capital			**8.79%**
Valencia - Town Division			
Debt	21.3%	7.25%	1.55%
Common Equity	78.7%	11.44%	9.00%
Weighted Average Cost of Capital			**10.55%**
Valencia - Buckeye Division			
Debt	5.1%	6.29%	0.32%
Common Equity	94.9%	11.44%	10.86%
Weighted Average Cost of Capital			**11.18%**
Greater Tonopah			
Debt	14.0%	6.32%	0.88%
Common Equity	86.0%	11.44%	9.84%
Weighted Average Cost of Capital			**10.72%**
Willow Valley			
Debt	12.5%	4.72%	0.59%
Common Equity	87.5%	11.44%	10.01%
Weighted Average Cost of Capital			**10.60%**
Northern Scottsdale			
Debt	0.0%	0.0%	0.00%
Common Equity	100.0%	11.4%	11.44%
Weighted Average Cost of Capital			**11.44%**

[D] : [B] x [C]

Supporting Schedules: JAC-3 and JAC-4.

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Global Utilities Cost of Capital Calculation
Final Cost of Equity Estimates
Sample Water Utilities

[A]	[B]		[C]		[D]		[E]
DCF Method			D_1/P_0 [1]	+	g [2]	=	k
Constant Growth DCF Estimate			3.0%	+	4.8%	=	7.8%
Multi-Stage DCF Estimate						=	9.3%
Average DCF Estimate							**8.6%**
CAPM Method	Rf	+	β [5]	x	(Rp)	=	k
Historical Market Risk Premium[3]	1.3%	+	0.71	x	7.2% [6]	=	6.4%
Current Market Risk Premium[4]	3.1%	+	0.71	x	11.6% [7]	=	11.3%
Average CAPM Estimate							**8.9%**
					Average of Overall Estimates		**8.8%**
					Economic Assessment Adjustment		**0.6%**
					Sub-Total		**9.4%**
					Financial risk adjustment		0.0%
					Total		**9.4%**

1 MSN Money and Value Line

2 Schedule JAC-8

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

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

5 Value Line

6 Historical Market Risk Premium (Rp) calculated from Ibbotson Associates SBBI 2013 Yearbook data

7 Testimony

Global Utilities Cost of Capital Calculation
Average Capital Structure of Sample Water Utilities

[A]	[B]	[C]	[D]
Company	Debt	Common Equity	Total
American States Water	43.3%	56.7%	100.0%
California Water	54.2%	45.8%	100.0%
Aqua America	55.2%	44.8%	100.0%
Connecticut Water	55.3%	44.7%	100.0%
Middlesex Water	43.1%	56.9%	100.0%
SJW Corp	56.2%	43.8%	100.0%
Average Sample Water Utilities	**51.2%**	**48.8%**	**100.0%**
Global - Consolidated Capital Structure	**57.8%**	**42.2%**	**100.0%**

Source:
Sample Water Companies from Value Line

Global Utilities Cost of Capital Calculation
Growth in Earnings and Dividends
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
Company	Dividends Per Share 2002 to 2012 DPS[1]	Dividends Per Share Projected DPS[1]	Earnings Per Share 2002 to 2012 EPS[1,2]	Earnings Per Share Projected EPS[1]
American States Water	3.9%	6.0%	7.7%	1.2%
California Water	1.2%	7.4%	5.0%	5.8%
Aqua America	7.7%	8.3%	7.3%	8.0%
Connecticut Water	1.7%	2.8%	3.2%	2.1%
Middlesex Water	1.6%	1.6%	2.1%	5.0%
SJW Corp	4.4%	4.9%	4.2%	6.3%
Average Sample Water Utilities	**3.4%**	**5.2%**	**4.9%**	**4.7%**

1 Value Line

2 Negative values are inconsistent with the DCF, accordingly, they are excluded from the average.

Global Utilities Cost of Capital Calculation
Sustainable Growth
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]
Company	Retention Growth 2002 to 2012 br	Retention Growth Projected br	Stock Financing Growth vs	Sustainable Growth 2002 to 2012 br + vs	Sustainable Growth Projected br + vs
American States Water	3.8%	5.6%	1.6%	5.4%	7.2%
California Water	2.4%	3.2%	1.5%	3.9%	4.7%
Aqua America	3.9%	4.4%	1.9%	5.8%	6.3%
Connecticut Water	2.0%	3.0%	3.6%	5.6%	6.7%
Middlesex Water	1.2%	2.8%	2.8%	4.0%	5.6%
SJW Corp	3.5%	3.8%	0.1%	3.6%	3.9%
Average Sample Water Utilities	**2.8%**	**3.8%**	**1.9%**	**4.7%**	**5.7%**

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

Global Utilities Cost of Capital Calculation
Selected Financial Data of Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Company	Symbol	Spot Price 4/3/2013	Book Value	Mkt To Book	*Value Line* Beta *β*	Raw Beta *β raw*
American States Water	AWR	**55.58**	23.12	2.4	**0.70**	0.52
California Water	CWT	**19.69**	11.45	1.7	**0.65**	0.45
Aqua America	WTR	**31.27**	9.74	3.2	**0.60**	0.37
Connecticut Water	CTWS	**28.30**	13.81	2.0	**0.75**	0.60
Middlesex Water	MSEX	**19.23**	11.82	1.6	**0.70**	0.52
SJW Corp	SJW	**25.89**	15.02	1.7	**0.85**	0.75
Average				**2.1**	**0.71**	**0.53**

[C]: Msn Money

[D]: Value Line

[E]: [C] / [D]

[F]: Value Line

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

Global Utilities Cost of Capital Calculation
Calculation of Expected Infinite Annual Growth in Dividends
Sample Water Utilities

[A]	[B]
Description	g
DPS Growth - Historical[1]	3.4%
DPS Growth - Projected[1]	5.2%
EPS Growth - Historical[1]	4.9%
EPS Growth - Projected[1]	4.7%
Sustainable Growth - Historical[2]	4.7%
Sustainable Growth - Projected[2]	5.7%
Average	**4.8%**

1 Schedule JAC-5

2 Schedule JAC-6

Global Utilities Cost of Capital Calculation
Multi-Stage DCF Estimates
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[H]	[I]
Company	Current Mkt. Price (P_o)[1]	Projected Dividends[2] (Stage 1 growth) (D_t)				Stage 2 growth[3] (g_n)	Equity Cost Estimate (K)[4]
	4/3/2013	d_1	d_2	d_3	d_4		
American States Water	55.6	1.30	1.37	1.43	1.50	6.5%	8.7%
California Water	19.7	0.66	0.69	0.72	0.76	6.5%	9.7%
Aqua America	31.3	0.67	0.70	0.73	0.77	6.5%	8.5%
Connecticut Water	28.3	0.98	1.03	1.08	1.13	6.5%	9.8%
Middlesex Water	19.2	0.75	0.78	0.82	0.86	6.5%	10.2%
SJW Corp	25.9	0.74	0.78	0.82	0.86	6.5%	9.2%

Average **9.3%**

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

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

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

Staff Restatement of Matthew J. Rowell Schedule MJR-1
Calculation of Comparable Earnings ROE

			Fiscal Year 2011				
			[A]	[B]	[C]	[D]	[E]
	Sample Companies		**Net Income**	**Common Equity**	**Realized ROE**	**Equity Weight**	**Weighted ROE**
1	American States Water	AWR	$ 45,859	$ 408,666	11.22%	3.63%	0.41%
2	Aqua America	WTR	143,069	1,251,313	11.43%	11.11%	1.27%
3	California Water	CWT	37,712	449,829	8.38%	3.99%	0.33%
4	Connecticut Water	CTWS	11,262	118,189	9.53%	1.05%	0.10%
5	Middlesex Water	MSEX	13,241	176,981	7.48%	1.57%	0.12%
6	SJW Corp	SJW	20,878	264,004	7.91%	2.34%	0.19%
7	York Water Co.	YORW	9,084	95,265	9.54%	0.85%	0.08%
8	Atmos Energy Corp	ATO	207,601	2,255,421	9.20%	20.03%	1.84%
9	Laclede Group, inc.	LG	63,825	573,331	11.13%	5.09%	0.57%
10	New Jersey Resources Corporation	NJR	101,299	776,257	13.05%	6.89%	0.90%
11	Northwest Natural Gas Co.	NWN	63,898	714,488	8.94%	6.34%	0.57%
12	Piedmont Natural Gas Company	PNY	113,568	996,923	11.39%	8.85%	1.01%
13	UGI CORP	UGI	232,900	1,977,700	11.78%	17.56%	2.07%
14	WGL Holdings, inc	WGL	117,050	1,202,715	9.73%	10.68%	1.04%
15							
16	Sample Total Common Equity			$ 11,261,082		100.00%	
17							
18	Sample Weighted Average ROE						10.49%
19							
20							
21			**Relative Weightings:**	**Water Sample**		24.55%	
22				**Gas Sample**		75.45%	
23							
24							
25			**Average Realized ROE:**	**Water Sample**	9.36%		
26				**Gas Sample**	10.75%		

Key:
[A]: Net Income (Source: SEC Form 10-K, Income Statement, Fiscal Year 2011)
[B]: Common Equity (Source: SEC Form 10-K, Balance Sheet, for period ending Fiscal Year 2011)
[C]: [A]/[B]
[D]: [B]/Sample Total Common Equity
[E]: [C]*[D]

Note: Differences between the 10.49% sample weighted average ROE above and the 10.47% weighted ROE, as shown in Schedule MJR-1, are attributable to Mr. Rowell basing his calculations on Total Equity, not Common Equity.

Regulated and Non-regulated Operating Revenues
of Mr. Rowell's Comparable Earnings
Natural Gas Sample Companies

			Operating Revenues -- Fiscal Year 2011		
	Company	Ticker	Total Revenues ($ 1,000s)	Nonregulated Revenues ($ 1,000s)	Nonregulated %
1	Atmos Energy	ATO	$ 4,347,634	$ 1,729,513	39.78%
2	Laclede Group	LG	1,603,307	669,375	41.75%
3	New Jersey Resources	NJR	3,009,209	1,996,997	66.36%
4	Northwest Natural Gas	NWN	369,433	26,463	7.16%
5	Piedmont Natural Gas	PNY	1,433,905	-	0.00%
6	UGI Corp.	UGI	6,091,300	2,548,400	41.84%
7	WGL Holdings	WGL	2,751,501	1,486,921	54.04%
8					
9	**Sample Average**				35.85%

Source: Form 10-Ks filed with the SEC by ATO, LG, NJR, NWN, PNY, UGI and WGL, for the 2011 Fiscal Year.