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BEFORE THE ARIZONA CORPORATION COMMISSION

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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
NEW RIVER UTILITY COMPANY FOR A
DETERMINATION OF THE FAIR VALUE OF
ITS UTILITY PLANT AND PROPERTY AND
FOR INCREASES IN ITS WATER RATES
AND CHARGES FOR UTILITY SERVICE
BASED THEREON.

DOCKET NO. W-01737A-12-0478

**STAFF'S NOTICE OF FILING
SURREBUTTAL TESTIMONY**

Staff of the Arizona Corporation Commission ("Staff") hereby files the Surrebuttal Testimony of Crystal S. Brown, Del Smith, and John A. Cassidy in the above docket.

RESPECTFULLY SUBMITTED this 12th day of August 2013.

Brian E. Smith, Attorney
Scott M. Hesla, Attorney
Legal Division
Arizona Corporation Commission
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Original and thirteen (13) copies
of the foregoing filed this
12th day of August 2013 with:

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

Arizona Corporation Commission

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1 Copy of the foregoing mailed this
12th day of August 2013 to:

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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)
NEW RIVER UTILITY COMPANY, AN)
ARIZONA CORPORATION, FOR A)
DETERMINATION OF THE FAIR VALUE)
OF ITS UTILITY PLANT AND PROPERTY)
AND FOR INCREASES IN ITS WATER RATES)
AND CHARGES FOR UTILITY SERVICE)
BASED THEREON.)

DOCKET NO. W-01737A-12-0478

SURREBUTTAL

TESTIMONY

OF

CRYSTAL S. BROWN

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

AUGUST 12, 2013

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**EXECUTIVE SUMMARY
NEW RIVER UTILITY COMPANY
DOCKET NO. W-01737A-12-0478**

Staff recommends a revenue increase of \$422,381 or 33.51 percent increase over test year revenue of \$1,260,428. The total annual revenue of \$1,682,809 produces an operating income of \$492,210 or a 7.80 percent rate of return on a fair value cost rate base of \$6,310,388. Staff's Surrebuttal Testimony responds to New River Utility Company ("New River" or "Company") Rebuttal Testimony on the following issues:

1. Rate Base
 - a. Post-Test Year Plant
 - b. Inadequately Supported Plant
 - c. Plant Retirements
 - d. Accumulated Depreciation
 - e. Contributions In Aid of Construction ("CIAC")
 - f. Amortization of CIAC
 - g. Cash Working Capital

2. Operating Income
 - a. Salaries and Wages
 - b. Contractual Services – Accounting
 - c. Repairs and Maintenance
 - d. Contractual Services – Other
 - e. Rents Expense
 - f. Transportation Expense
 - g. Bad Debt Expense
 - h. Depreciation Expense
 - i. Property Taxes
 - j. Income Taxes
 - k. New River's Loan to Owner
 - l. Purchased Water Tariff

1 **INTRODUCTION**

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

3 A. My name is Crystal S. Brown. I am a Public Utilities Analyst V employed by the Arizona
4 Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business
5 address is 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Are you the same Crystal S. Brown who filed Direct Testimony in this case?**

8 A. Yes.

9
10 **PURPOSE OF SURREBUTTAL TESTIMONY**

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

12 A. The purpose of my Surrebuttal Testimony in this proceeding is to respond, on behalf of
13 Staff, to the Rebuttal Testimony of Mr. Ray Jones who represents New River Utility
14 Company ("New River" or "Company").

15
16 **Q. What issues will you address?**

17 A. I will address the issues listed below that are discussed in the Rebuttal Testimony of the
18 Company's witness Mr. Ray Jones.

19
20 1. Rate Base

- 21
22 a. Post-Test Year Plant
23 b. Inadequately Supported Plant
24 c. Plant Retirements
25 d. Accumulated Depreciation
26 e. Contributions In Aid of Construction ("CIAC")
27 f. Amortization of CIAC
28 g. Cash Working Capital ("CWC")
29

- 1 2. Operating Income
2
3 a. Salaries and Wages
4 b. Contractual Services – Accounting
5 c. Repairs and Maintenance
6 d. Contractual Services – Other
7 e. Rents Expense
8 f. Transportation Expense
9 g. Bad Debt Expense
10 h. Depreciation Expense
11 i. Property Taxes
12 j. Income Taxes
13 k. New River’s Loan to Owner
14 l. Purchased Water Tariff
15

16 **Q. Does your silence on any particular issue raised in the Company’s Rebuttal**
17 **Testimony indicate that Staff agrees with the Company’s stated rebuttal position?**

18 A. No. Rather, where I do not respond, I am continuing to rely on my Direct Testimony.
19

20 **SUMMARY OF PROPOSED REVENUES**

21 **Q. Please summarize Staff’s recommended revenue.**

22 A. Staff recommends a revenue increase of \$422,381 or 33.51 percent increase over test year
23 revenue of \$1,260,428. The total annual revenue of \$1,682,809 produces an operating
24 income of \$492,210 or a 7.80 percent rate of return on a fair value cost rate base of
25 \$6,310,388.
26

27 **Q. Has the weighted average cost of capital (“WACC”) used to develop the revenue**
28 **requirement in Staff’s Direct Testimony changed in Staff’s Surrebuttal Testimony?**

29 A. Yes. In my Direct Testimony, Staff used a 7.6 percent WACC. Staff has since updated
30 the WACC to 7.8 percent as discussed in the Surrebuttal Testimony of Staff witness John
31 Cassidy.

1 **Q. How does Staff's Surrebuttal recommended revenue compare to the recommended**
2 **revenue in Staff's Direct Testimony?**

3 A. Staff's recommended revenue has increased by \$102,664, from \$1,580,145 in its Direct
4 Testimony to \$1,682,809 in its Surrebuttal Testimony, due to various adjustments
5 discussed herein.

6
7 **RATE BASE**

8 **Q. Please summarize Staff's adjustments to New River's rate base shown on Surrebuttal**
9 **Schedule CSB-3.**

10 A. A summary of the Company's proposed and Staff's recommended rate base follows:

11

TEST YEAR RATE BASE		
Per Company		Per Staff -
- <u>Direct</u>	<u>Difference</u>	<u>Surrebuttal</u>
\$7,812,036	(\$1,770,173)	\$6,310,388

12

13 **Q. How does Staff's Surrebuttal recommended rate base compare to the recommended**
14 **rate base in Staff's Direct Testimony?**

15 A. Staff's recommended rate base rate base has increased by \$268,525, from \$6,041,863 in
16 its Direct Testimony to \$6,310,388.

17

18 **PLANT IN SERVICE**

19 *Rate Base Adjustment No. 1 – Post-Test Year Plant*

20 **Q. Did Staff review the Company's Rebuttal Testimony regarding post-test year plant?**

21 A. Yes.

22

1 **Q. Did the Company adopt the \$84,115 in post-test year plant additions that Staff**
2 **recommended in its Direct Testimony?**

3 A. Yes. The Company adopted the \$84,115 in post-test year plant additions Staff
4 recommended.

5
6 **Q. Is the Company proposing additional post-test year plant in its Rebuttal Testimony?**

7 A. Yes. The Company is proposing an additional \$90,998 in post-test year plant; for total
8 post-test year plant of \$175,113 in its Rebuttal Testimony.

9
10 **Q. What information did the Company provide concerning the \$90,998 in additional**
11 **post-test year plant?**

12 A. The Company, in response to data request CSB 8.1, stated the following:

13
14 Subsequent to completing work at Well No 6, the Company began
15 planned work on Well No. 1 to address the noisy operation of the
16 well and reduced output. These issues are believed to be the result
17 of worn pump and line shaft bearings. On June 1, 2013, the newly
18 serviced motor at Well No. 6 failed. This failure caused the
19 Company to again activate the Emergency Interconnect on June 1,
20 2013. The Company relocated the motor from Well No. 3 (a well
21 which is currently out of service due to water quality) to Well No. 6
22 and returned Well No. 6 to operation on June 2, 2013. The
23 Company continues to utilize the Emergency Interconnect at
24 reduced levels and plans to continue using the interconnect at
25 reduced levels until it has completed work on Well No. 1 and
26 determined what permanent repairs or replacement is needed for the
27 Well No. 6 motor.

28

1 **Q. Does Staff agree with the Company that the \$90,998 in post-test year plant should be**
2 **added to plant in service?**

3 A. Yes. The plant was not constructed for growth. The related retirements for the plant have
4 been reflected. The plant will help to resolve water production issues. Staff has reviewed
5 the invoices and has determined that the plant is used and useful.

6
7 **Q. What are Staff's recommendations for original cost rate base ("OCRB") and**
8 **reconstruction cost new rate base ("RCNRB")?**

9 A. Staff recommends increasing Account No. 311, Pumping Equipment for OCRB and
10 RCNRB by \$175,113¹ each. The original cost adjustment is shown on Surrebuttal
11 Schedules CSB-4 and CSB-5 and the reconstruction cost new adjustment is shown on
12 Surrebuttal Schedules CSB-15 and CSB-16.

13
14 **Q. How does Staff's Surrebuttal recommendation for post-test year plant compare to**
15 **the recommendation for post-test year plant in Staff's Direct Testimony?**

16 A. Staff's recommendation for post-test year plant for OCRB and RCNRB has increased by
17 \$90,998 from its Direct Testimony.

18

19 *Rate Base Adjustment No. 2 – Inadequately Supported Plant*

20 **Q. Did Staff review New River's Rebuttal Testimony concerning Staff's disallowance of**
21 **inadequately supported plant?**

22 A. Yes.

23

¹This amount is composed of Staff's recommended \$84,115 in post-test year plant from Staff's direct testimony and an additional \$90,998 in post-test year plant from Staff's surrebuttal testimony.

1 **Q. What are the Company's concerns?**

2 A. The Company has two main concerns. The first concern expressed by the Company is
3 that Staff's recommendation to remove 100 percent of the inadequately supported plant is
4 "excessive and punitive." The second concern is that Staff did not remove the
5 accumulated depreciation related to the plant.

6

7 Amount of Disallowance

8 **Q. Does Staff agree that its adjustment to remove 100 percent of the inadequately**
9 **supported plant is "excessive and punitive"?**

10 A. No. Staff's adjustment is typical. In general, Staff only departs from its recommendation
11 to disallow 100 percent of the inadequately supported costs when the disallowance
12 represents a significantly large percentage of a utility's plant in service. In which case,
13 Staff would treat a portion or all of the inadequately supported plant as CIAC.

14

15 **Q. What percentage of fair value plant in service does Staff's adjustment represent?**

16 A. Staff has recommended a fair value plant in service balance of \$13,089,746; therefore,
17 Staff's fair value adjustment of \$264,855² represents 2.02 percent.

18

19 **Q. Can Staff briefly identify some companies in which Staff has recommended**
20 **disallowance of plant due to inadequate supporting documentation?**

21 A. Yes. Adaman Mutual Water Company (Docket No. W-01997A-12-0501); Bella Vista
22 Water Company (Docket No. W-02465-09-04110); Far West Water and Sewer – Sewer
23 Division (Docket No. WS-03478A-05-0801); and Gold Canyon Sewer Company (Docket
24 No. SW-02519A-06-0015).

25

² (\$222,346 original cost + \$307,365) x 50%= \$264,855

1 **Q. Is Staff's adjustment consistent with the National Association of Regulatory Utility**
2 **Commissioners ("NARUC") and the Arizona Administrative Code?**

3 A. Yes, making this adjustment is consistent with the recommended audit evidence outlined
4 in the NARUC Rate Case and Audit Manual which lists invoices as one of the records to
5 be reviewed during the audit. Staff's adjustment is also consistent with the record keeping
6 requirements of Arizona Administrative Code R14-2-610 D.1 which states, "Each utility
7 shall keep general and auxiliary accounting records reflecting the cost of its properties . . .
8 and all other accounting and statistical data necessary to give complete and authentic
9 information as to its properties . . ." (emphasis added).

10

11 **Q. Did the Company provide any reasons that would warrant departure from the**
12 **record keeping requirements of the NARUC, the Arizona Administrative Code, and**
13 **Staff's typical treatment of inadequately supported plant?**

14 A. No, it has not.

15

16 **Q. Has the Company indicated that it has problems with plant investment record**
17 **keeping that needs to be addressed?**

18 A. Yes. On page 25 of Mr. Jones' Rebuttal Testimony, the Company indicated its
19 willingness to accept the record keeping recommendations that Staff outlines in its Direct
20 Testimony.

21

22 **Q. What is the risk to customers when inadequately supported plant costs are included**
23 **in plant in service?**

24 A. As Staff stated in its Direct Testimony, if unsupported costs are not removed, ratepayers
25 are at risk of paying for non-existent or overstated costs.

26

1 Removing the Accumulated Depreciation Related to the Inadequately Supported Plant

2 **Q. Does Staff agree that Staff should have removed the accumulated depreciation**
3 **related to the inadequately supported plant?**

4 A. Yes. Staff has made the adjustment as discussed in Rate Base Adjustment No. 7
5 "Accumulated Depreciation."
6

7 **Q. What are Staff's recommendations for original cost rate base OCRB and**
8 **reconstruction cost new rate base RCNRB?**

9 A. Staff continues to recommend the removal of \$222,346 for OCRB and \$307,365 for
10 RCNRB for inadequately supported plant. Staff's OCRB adjustment is shown on
11 Surrebuttal Schedules CSB-4 and CSB-6. Staff's RCNRB adjustment is shown on
12 Surrebuttal Schedules CSB-15 and CSB-17.
13

14 **Q. How does Staff's Surrebuttal recommendation for inadequately supported plant**
15 **compare to the recommendation for inadequately supported plant in Staff's Direct**
16 **Testimony?**

17 A. Staff's recommendation for inadequately supported plant is the same as the
18 recommendation made in its Direct Testimony.
19

20 *Rate Base Adjustment No. 6 – Plant Retirements*

21 **Q. Did Staff review the Company's Rebuttal Testimony concerning plant retirements?**

22 A. Yes.
23

24 **Q. Did the Company adopt the \$103,695 in plant retirements that Staff recommended in**
25 **its Direct Testimony?**

26 A. Yes. The Company adopted the \$103,695 in plant retirements that Staff recommended.

1 **Q. Is the Company proposing additional plant retirements?**

2 A. Yes, the Company is proposing to include plant retirements related to the Well No. 1 post-
3 test year plant discussed in Rate Base Adjustment No. 1, Post-Test Year Plant.

4
5 **Q. What amounts does the Company propose for RCNRB?**

6 A. The Company proposes an additional \$62,870 for OCRB and \$88,969 for RCNRB.

7
8 **Q. Does Staff agree with the Company?**

9 A. Yes, and Staff has reflected the plant retirements.

10
11 **Q. Did Staff adjust its RCN value for the Well No. 6 pump?**

12 A. Yes, Staff adopted the Company's RCN value. Consequently, Staff increased the RCN
13 value for the Well No. 6 pump by \$25,456, from \$58,659 to \$84,115 as shown on
14 Surrebuttal Schedule CSB-16.

15
16 **Q. What are Staff's recommendations for OCRB and RCNRB?**

17 A. Staff recommends decreasing Account No. 311, Pumping Equipment by \$166,565 for
18 OCRB and \$225,960 for RCNRB. Staff's adjustment for OCRB is shown on Surrebuttal
19 Schedules CSB-4 and CSB-10. Staff's adjustment for RCNRB is shown on Surrebuttal
20 Schedules CSB-15 and CSB-21.

21
22 **Q. How does Staff's Surrebuttal recommendation for plant retirements compare to the
23 recommendation for plant retirements in Staff's Direct Testimony?**

24 A. Staff's recommendation for OCRB plant retirements has increased by \$62,870 from its
25 Direct Testimony. Staff's recommendation for RCNRB plant retirements has increased by
26 \$114,425 from its Direct Testimony.

1 *Rate Base Adjustment No. 5 – Accumulated Depreciation*

2 **Q. Did Staff review the Company's Rebuttal Testimony concerning accumulated**
3 **depreciation?**

4 A. Yes.

5
6 **Q. What recommended adjustments of Staff's did the Company adopt?**

7 A. The Company adopted all of Staff's adjustments except the accumulated depreciation
8 adjustment on pumps that were fully depreciated the same year they were placed in
9 service (see Surrebuttal Schedule CSB-17, line 81).

10

11 **Q. Is the Company proposing any new adjustments?**

12 A. Yes. The Company is proposing (1) to remove \$62,870 in accumulated depreciation for
13 Well No. 1 retirements, (2) remove \$2,624 in accumulated depreciation related to the
14 other tangible plant reclassification, (3) reduce accumulated depreciation for account no.
15 311, pumping equipment to reflect its recommended five percent depreciation rate, and (4)
16 to restate (i.e., recalculate) the accumulated depreciation for pumping equipment from the
17 end of the last rate case to the end of the instant rate case.

18

19 **Q. Does Staff agree with the Company's proposal to remove \$62,870 in accumulated**
20 **depreciation for Well No. 1 plant retirements and \$2,624 in accumulated**
21 **depreciation pertaining to the other tangible plant reclassification?**

22 A. Yes.

23

1 Q. **Does Staff agree with the Company proposed five percent depreciation rate used to**
2 **calculate its accumulated depreciation adjustment for electric pumping equipment?**

3 A. Yes, Engineering Staff reviewed the Company proposed five percent depreciation rate and
4 found it reasonable. Staff has updated its recommended depreciation expense with the
5 five percent rate as discussed in Operating Income Adjustment No. 15, Depreciation
6 Expense.

7
8 Q. **Does Staff agree with the Company's proposal to restate (i.e., recalculate) the**
9 **accumulated depreciation for pumping equipment from the end of the last rate case**
10 **to the end of the instant rate case?**

11 A. No, Staff does not.

12
13 Q. **Why does Staff not agree with the Company?**

14 A. The Commission in Decision No. 65134 authorized a 12.5 percent depreciation rate for
15 account no. 311, Pumping Equipment. Consequently, this depreciation rate is the only
16 rate that the Company could utilize to recover the annual depreciation of its pumping
17 equipment until the Company receives a different depreciation rate from the Commission.
18 Since the Company has recovered the cost from customers using the Commission
19 authorized 12.5 percent rate and has recorded the annual pumping equipment depreciation
20 expense in the related accumulated depreciation plant account, it would be in violation of
21 the Commission's Decision No. 65134, and sound accounting and ratemaking principles,
22 to restate the accumulated depreciation for pumping equipment using the five percent rate.
23

1 **Q. What are Staff's recommendations for OCRB and RCNRB accumulated**
2 **depreciation?**

3 A. Staff recommends decreasing the OCRB accumulated depreciation by \$107,056 and the
4 RCNRB by \$14,631. Staff's OCRB adjustment is shown on Surrebuttal Schedules CSB-4
5 and CSB-9. Staff's OCRB adjustment is shown on Surrebuttal Schedules CSB-15 and
6 CSB-22.

7
8 **Q. How does Staff's Surrebuttal recommended accumulated depreciation balance**
9 **compare to the recommended accumulated depreciation balance in Staff's Direct**
10 **Testimony?**

11 A. Staff's recommended OCRB accumulated depreciation balance has decreased by \$65,494
12 from its Direct Testimony. Staff's recommended RCNRB accumulated depreciation
13 balance has decreased by \$2,624 from its Direct Testimony.

14
15 Group Method of Depreciation and Over-Depreciation

16 **Q. Does Staff have any concerns regarding the Company's Rebuttal comments**
17 **regarding the group method of depreciation?**

18 A. Yes.

19
20 **Q. What is Staff's concern?**

21 A. On page 9, line 22 of Mr. Jones' Rebuttal Testimony, he states:

22
23 Their comparison of the two methods is based on the false premise
24 that use of the broad group procedure causes over depreciation.
25 **Over depreciation is caused by depreciation rates that are not**
26 **well matched to asset lives --- grouping has nothing to do with**
27 **the problem. (Emphasis added.)**

28

1 Staff's concern is that the Company's statement is incorrect.

2

3 **Q. Why is the Company's statement incorrect?**

4 A. Over-depreciation is the amount that an asset is depreciated beyond its original cost.
5 Over-depreciation is not caused by improperly matched useful lives and depreciation rates
6 as the Company claims but by continuing to depreciate an asset after the original cost of
7 the asset has been fully recovered through depreciation expense.

8

9 **Q. Would you please provide an example?**

10 A. Yes. Take for example, a \$10,000 pump that is installed in the year 2013, is depreciated
11 using the Company proposed 20 year life or 5 percent rate (i.e. $1 / 20 \text{ years} = 5\%$), but
12 remains in service for 25 years. The pump would be fully depreciated in 20 years, or in
13 the year 2033. The total depreciation recovered during the 20 years that the pump is in
14 service (i.e. at the end of the year 2033) would be \$10,000 and depreciation should cease.

15

16 However, under the group methodology, the pump is not considered fully depreciated
17 until it is retired. Therefore, the pump would continue to be depreciated for an additional
18 5 years, accumulating an additional \$2,500 in depreciation expense (i.e. $\$10,000 \text{ original}$
19 $\text{cost} \times 5\% \text{ depreciation rate} \times 5 \text{ years} = \$2,500$) because it remains in service for five years
20 longer than its estimated 20 year useful life.

21

22 The \$2,500 represents over-depreciation and is caused by use of the group depreciation
23 method. Depreciating an asset beyond its useful life is not in accordance with the
24 NARUC Uniform System of Accounts ("USoA").

25

1 **Q. What is Staff's recommendation?**

2 A. Staff continues to recommend use of the vintage year group method of depreciation.

3

4 *Rate Base Adjustment No. 8 – Contributions In Aid of Construction ("CIAC")*

5 **Q. Did Staff review the Company's Rebuttal Testimony concerning CIAC?**

6 A. Yes.

7

8 **Q. Did the Company's Rebuttal Testimony adopt substantially all of the adjustments**
9 **that Staff recommended in its Direct Testimony?**

10 A. Yes, Staff recommended a CIAC balance of \$1,950,080 in its Direct Testimony. In its
11 Rebuttal Testimony, the Company proposed a CIAC balance of \$1,929,839, a difference
12 of \$20,241.

13

14 **Q. What is the cause of the \$20,241 difference?**

15 A. The \$20,241 is composed of three adjustments proposed by the Company. First, the
16 Company reduced Staff's CIAC balance by \$22,684 to properly reflect the ending balance
17 authorized in the last rate case. Second, the Company updated the refund paid consistent
18 with its responses to Staff's data requests. Third, it allocated a refund overpayment made
19 on the Fulton Advances In Aid of Construction ("AIAC") contract to its other AIAC
20 contracts (see footnote 2 on the Company's Rebuttal Schedule B-2, page 12, line27).

21

22 **Q. Did Staff have any concerns about the Company's proposal to allocate a refund**
23 **overpayment made on the Fulton AIAC contract to its other AIAC contracts?**

24 A. Yes, the Company's proposal is not consistent with Arizona Administrative Code R-14-2-
25 406 D which governs the methodology in which refunds should be calculated and paid.

1 **Q. Notwithstanding the above error, did Staff adopt all of the Company's proposed**
2 **adjustments?**

3 A. Yes. The net effect of the error on rate base would be immaterial after the refund over
4 payment is added back to CIAC and the offsetting amortization of CIAC is increased to
5 reflect the amortization on the additional CIAC. Staff anticipates that the amount would
6 be approximately \$15,000 or .24 percent of the Staff recommended \$6,310,388 fair value
7 rate base ("FVRB").

8
9 **Q. What are Staff's recommendations for OCRB and RCNRB CIAC?**

10 A. Staff recommends increasing OCRB CIAC by \$1,929,840 and increasing RCNRB CIAC
11 by \$3,259,648. Staff's recommended CIAC balances are the same as those proposed by
12 the Company in its Rebuttal Testimony. Staff's OCRB CIAC adjustment is shown on
13 Surrebuttal Schedules CSB-4 and CSB-12. Staff's RCNRB CIAC adjustment is shown on
14 Surrebuttal Schedules CSB-15 and CSB-23.

15
16 **Q. How does Staff's Surrebuttal recommended CIAC balance compare to the**
17 **recommended CIAC balance in Staff's Direct Testimony?**

18 A. Staff's OCRB CIAC recommendation has decreased by \$20,241 from Staff's Direct
19 Testimony. Staff's RCNRB CIAC recommendation has decreased by \$1,087,641 from
20 Staff's Direct Testimony.

21
22 *Rate Base Adjustment No. 9 – Amortization of CIAC*

23 **Q. Did Staff review the Company's Rebuttal Testimony concerning the amortization of**
24 **CIAC?**

25 A. Yes.
26

1 **Q. What were the Company's concerns?**

2 A. The Company indicated that Staff should have used the net AIAC balances that had not
3 been approved by the Commission to transfer to CIAC and the average depreciation rate
4 over the intervening years to calculate the amortization of CIAC.

5
6 **Q. Does Staff agree?**

7 A. Yes.

8
9 **Q. What is Staff's recommendation?**

10 A. Staff recommends decreasing OCRB amortization of CIAC by \$213,264 and decreasing
11 RCNRB amortization of CIAC by \$430,386. Staff's recommended CIAC balances are the
12 same as those proposed by the Company in its rebuttal testimony. Staff's OCRB CIAC
13 adjustment is shown on Surrebuttal Schedules CSB-4 and CSB-12. Staff's RCNRB CIAC
14 adjustment is shown on Surrebuttal Schedules CSB-15 and CSB-23.

15
16 **Q. How does Staff's Surrebuttal recommended OCRB and RCNRB amortization CIAC
17 balance compare to the recommended OCRB and RCNRB amortization CIAC
18 balance in Staff's Direct Testimony?**

19 A. Staff's recommendation for amortization of OCRB CIAC has decreased by \$213,264 from
20 Staff's Direct Testimony. Staff's recommendation for amortization of RCNRB
21 amortization of CIAC has decreased by \$430,386 from Staff's Direct Testimony.

22

1 *Rate Base Adjustment No. 10 – Cash Working Capital (“CWC”)*

2 **Q. Is the inclusion of cash working capital in rate base without a lead-lag study a**
3 **prevalent practice for Class A, B, and C utilities?**

4 A. No, it is not. In Staff’s experience, nearly all recent Class A, B, and C rate case filings
5 support CWC with a lead-lag study. The large majority of filings without a lead-lag study
6 either (1) have not requested CWC or (2) accept Staff’s recommendation to remove CWC
7 from rate base. Very few Class A, B, and C utilities attempt to support CWC by using the
8 formula method.

9
10 **Q. What has the Commission stated concerning use of the formula method to support**
11 **CWC for a Class C Utility?**

12 A. The Commission, in Decision No. 72429, dated June 24, 2011, denied the CWC request
13 for Southland Utilities Company, Inc. stating on page 7, beginning at line 12:

14
15 By looking at actual data, the lead-lag study **determines whether**
16 **there is a revenue lag**, whereas the formula method **assumes** there
17 is. (Emphasis added.)

18
19 Further, the Commission stated on page 7, beginning at line 14:

20
21 21. Commission Rule Arizona Administrative Code (“A.A.C.”)
22 R14-2-103(A)(3)(h) states that an original cost rate base calculation
23 should include a **proper** allowance for working capital. (Emphasis
24 added.)

25
26 22. We do not believe that Southland has demonstrated that \$22,501
27 is a proper allowance for working capital in this case. Southland
28 **relied on the formula method** to calculate this amount, and
29 **supplied no evidence that there is a revenue lag**, other than the
30 \$249 in prepayments allowed by Staffs adjustment. (Emphasis
31 added.)

1 **Q. How did New River calculate the \$96,775 in CWC it proposes to include in rate base?**

2 A. New River calculated CWC using the “formula method” which is equal to one-eighth of
3 the operating expenses less depreciation, rate case expense, taxes, purchased water, and
4 purchased pumping power expense, plus one twenty-fourth of purchased water and
5 purchased pumping power expense.

6

7 **Q. Is it appropriate for a company the size of New River to use the formula method to**
8 **calculate CWC?**

9 A. No, it is not. In general, the formula method is appropriate for only Class D and E
10 companies due to the small size of the utilities, the cost and time involved in performing
11 the lead-lag study, and the relatively minor impact on rate base.

12

13 **Q. What problem is inherent in using the formula method for Class A, B, and C**
14 **utilities?**

15 A. In reality, a utility’s CWC requirement can be positive or negative and thus the resulting
16 adjustments to rate base can be positive or negative;³ however, the formula method always
17 yields a positive result. This flaw effectively ignores CWC provided by rate payers. Had
18 a lead-lag study been conducted, it might have shown that working capital is a negative
19 component of rate base.

20

21 **Q. What is Staff’s recommendation?**

22 A. Staff continues to recommend removing \$96,775 from working capital, as shown on
23 Schedules CSB-4 and CSB-14.

³ A positive number indicates cash was provided by investors to pay operating expenses before receipt of revenues from customers. A negative number indicates customer sales revenue was received by a company prior to the company paying operating expenses.

1 **Q. How does Staff's Surrebuttal recommendation for CWC compare to the**
2 **recommendation for CWC in Staff's Direct Testimony?**

3 A. Staff's recommendation for CWC is the same as the recommendation made in its Direct
4 Testimony.

5
6 **OPERATING INCOME**

7 *Salaries and Wages*

8 **Q. Has the Company proposed hiring an additional employee to address the record**
9 **keeping issues that Staff identified in its Direct Testimony?**

10 A. Yes. The Company has proposed the addition of a new position at a cost of \$48,600.

11
12 **Q. Does Staff agree with the Company's proposal?**

13 A. Staff believes that it would be more cost efficient to attempt to resolve the issues through
14 the proper training of its existing employees. Staff notes that incurring the cost for an
15 additional employee in and of itself would not resolve the record keeping issues. Training
16 is the key and the existing employees are ones who need to receive the required training.
17 In addition, the possible hiring of a new employee is not known and measureable.

18
19 **Q. What is Staff's recommendation?**

20 A. Staff recommends that the Company's proposal be denied.

21
22 *Operating Income Adjustment No. 3 – Repairs and Maintenance Expense*

23 Credit Card Purchases

24 **Q. Has Staff reviewed the Company's Rebuttal Testimony concerning the credit card**
25 **purchases included in repairs and maintenance expense?**

26 A. Yes.

1 **Q. What is the Company's primary concern?**

2 A. The Company disagrees with Staff's allocation of one-third of the \$9,328 in credit charges
3 to the owner and to Cody Farms, an affiliate.

4

5 **Q. What information regarding the \$9,328 in credit card purchases was shown on the**
6 **copies of the owner's credit card bills?**

7 A. For the most part, the only information shown was the date, amount, and the business
8 from which the item(s) were purchased.

9

10 **Q. Why was this information inadequate to support all of the \$9,328 in credit card**
11 **purchases?**

12 A. It was inadequate because a determination of whether these items were needed in the
13 provision of water service could not be made. For example, Home Depot sells shower
14 faucets, garbage disposals, charcoal for barbeque grills, and such other items. Since (1)
15 the purchases were made on the owner's personal credit card and (2) the Company has not
16 provided receipts or invoices showing the individual items purchased, Staff could not
17 determine if the items were needed in the provision of water service.

18

19 **Q. Did Staff allow a portion of the \$9,328?**

20 A. Yes, Staff allowed one-third of the cost or \$3,109.

21

22 **Q. What is Staff's recommendation?**

23 A. Staff continues to recommend allowance of only one-third of the \$9,328 or \$3,109.

24

1 **Q. How does Staff's Surrebuttal recommendation compare to the recommendation in**
2 **Staff's Direct Testimony?**

3 A. Staff's recommendation is the same as the recommendation made in its Direct Testimony.
4

5 Tank Painting Costs

6 **Q. Has Staff reviewed the Company's Rebuttal Testimony concerning tank painting**
7 **costs?**

8 A. Yes.
9

10 **Q. What is the Company's primary concern?**

11 A. Beginning on page 19, line 1 of Mr. Jones' Rebuttal Testimony the Company states that
12 Staff's adjustment to remove the pro forma tank painting adjustment "is nothing more than
13 an attempt to force an affiliate of New River to fund the tank painting rather than New
14 River's customers."
15

16 **Q. Is it the responsibility of customers to provide the cash necessary for tank painting**
17 **prior to the tanks actually being painted?**

18 A. No, it is not. It is the responsibility of the owner to provide the initial cash needed to fund
19 tank painting. Once the tanks have been painted, amortization of the costs may be
20 recovered from customers consistent with general ratemaking principles.
21

22 **Q. Is Staff attempting to force the affiliate to fund tank painting?**

23 A. No, Staff is not. Staff's recommended operating income is \$492,210 and recommended
24 depreciation expense is \$71,127, resulting in cash flow of \$563,338. This cash flow is
25 sufficient to fund the Company's projected \$31,333 in annual tank painting costs.
26

1 **Q. What is Staff's recommendation?**

2 A. Staff continues to recommend disallowance of the Company's pro forma tank painting
3 expense.

4

5 **Q. How does Staff's Surrebuttal recommendation compare to the recommendation in**
6 **Staff's Direct Testimony?**

7 A. Staff's recommendation is the same as the recommendation made in its Direct Testimony.

8

9 *Operating Income Adjustment No. 9 – Contractual Services, Other*

10 **Q. Has Staff reviewed the Company's Rebuttal Testimony concerning Contractual**
11 **Services, Other?**

12 A. Yes.

13

14 **Q. What is the Company's primary concern?**

15 A. The Company indicated that only \$13,489 of the \$47,950 that Staff reclassified for water
16 testing were actually water testing costs. The remaining \$34,461 (i.e., \$47,950 - \$13,489)
17 was for a certified operator.

18

19 **Q. Does Staff agree?**

20 A. Yes, and has revised its calculations accordingly.

21

22 **Q. What is Staff's recommendation?**

23 A. Staff recommends increasing the Contractual Services, Other expense by \$19,671.

24

1 **Q. How does Staff's Surrebuttal recommendation compare to the recommendation in**
2 **Staff's Direct Testimony?**

3 A. Staff's recommendation has increased by \$34,461 from its Direct Testimony.
4

5 *Operating Income Adjustment No. 10 – Rents Expense, Buildings*

6 **Q. Did Staff review the Company's Rebuttal Testimony concerning rents expense,**
7 **buildings?**

8 A. Yes.
9

10 **Q. What was the Company's main concern?**

11 A. The Company stated, "Staff effectively substituted its judgment for Company's
12 management judgment . . ."
13

14 **Q. Please describe the office?**

15 A. The office is a residential house located in a residential neighborhood that was converted
16 into an office.
17

18 **Q. How did Staff determine its recommended monthly rental expense for the office?**

19 A. Staff used a real estate database that uses public property data and similar properties listed
20 for rent to provide a rental amount as a starting point. Staff then compared the amount to
21 a Commission office located near downtown Phoenix and a water utility office located
22 near downtown Tucson. Based on this analysis, the monthly rental amount provided by
23 the real estate database appeared reasonable.
24

1 **Q. How did Staff determine its recommended monthly rental expense for the storage**
2 **area?**

3 A. Staff personally inspected the storage area. Staff found that New River's materials and
4 supplies were housed in a small area (about 10' x 10' area) within a 1,000 square foot
5 room located within the 12,000 square foot storage facility. Based upon this inspection,
6 Staff determined that 1,000 square feet was more than enough space to store all of New
7 River's materials and equipment that needed to be stored indoors. Staff then multiplied
8 the 1,000 square feet by the Company proposed \$3.00 per square foot.

9
10 **Q. What is Staff's recommendation?**

11 A. Staff recommends increasing the Rents, Building expense by \$26,580.

12
13 **Q. How does Staff's Surrebuttal recommendation compare to its Direct Testimony?**

14 A. Staff's recommendation is the same as its Direct Testimony.

15
16 *Operating Income Adjustment No. 11 – Rents Expense, Vehicles*

17 **Q. Did Staff review the Company's Rebuttal Testimony concerning rents expense,**
18 **vehicles?**

19 A. Yes.

20
21 **Q. What were the Company's primary concerns?**

22 A. The Company's primary concerns were that Staff disallowed one of the vehicles that New
23 River rents and that Staff arbitrarily lowered the rental cost of the vehicles.

24

1 **Q. Please describe the vehicles and equipment that the Company rents.**

2 A. According to the Company's response to data request CSB 2.2, the Company rents four
3 trucks, one forklift, and two flatbed trailers. A description of the vehicles and equipment
4 are: a 2006 Chevrolet Silverado 1/2-ton extended cab truck; a 2005 Chevrolet Silverado
5 1/2-ton extended cab truck; a 2005 Chevrolet Silverado 3/4-ton diesel extended cab truck;
6 a 2003 Ford truck; a 1989 forklift; a 1997 flatbed trailer; and a 1999 flatbed trailer.

7
8 **Q. Does New River rent the vehicles from its affiliate, Cody Farms?**

9 A. Yes.

10

11 **Q. Is the owner of Cody Farms also the owner of New River?**

12 A. Yes.

13

14 **Q. Was Staff concerned about the number of vehicles that New River rented from its
15 affiliate, Cody Farms, for the office employees?**

16 A. Yes.

17

18 **Q. Did the job duties of the office employees justify the rental of three vehicles?**

19 A. No, they did not. The job duties of the office employees as provided by the Company
20 would not necessitate a high amount of travel. The meter reading for New River is
21 performed using golf carts that are owned by New River. Further, work related to Cody
22 Farms is conducted out of the New River office. Consequently, Staff considered the rental
23 of three vehicles excessive for the office employees and disallowed the cost of one truck
24 rental.

25

1 **Q. Can the vehicles be used for work conducted on behalf of Cody Farms?**

2 A. Yes.

3

4 **Q. Does the Company maintain a travel log showing who used the vehicles and for what**
5 **purpose?**

6 A. No, it does not.

7

8 **Q. Does the Company's allocation methodology follow the NARUC Guideline for Cost**
9 **Allocations and Affiliate Transactions?**

10 A. No, it does not.

11

12 **Q. Please discuss the NARUC Guideline for Cost Allocations and Affiliate Transactions.**

13 A. One of the principles contained in the Guideline for Cost Allocations and Affiliate
14 Transactions states that:

15

16 The primary cost driver of common costs, or a relevant proxy in the
17 absence of a primary cost driver, should be identified and used to allocate
18 the cost between regulated and non-regulated services or products.
19 (Emphasis added).

20

21 Moreover, the NARUC Guideline for Cost Allocations and Affiliate Transactions states
22 that:

23

24 The indirect costs of each business unit, including the allocated costs of
25 shared services, should be spread to the services or products to which they
26 relate using relevant cost allocators. (Emphasis added).

27

1 **Q. What effect does an unfair allocation of costs have on ratepayers?**

2 A. When costs are improperly identified and allocated, then costs of the unregulated affiliate
3 can be shifted to the captive customers of the regulated utility. This cost shifting results in
4 the captive customers of the regulated utility subsidizing the business operations of the
5 unregulated affiliate. This harms customers by creating artificially higher rates.

6
7 **Q. How did Staff develop the hours used in its calculation of Rents Expense, Vehicles?**

8 A. Staff used the estimated hours provided by the Company in response to data request CSB
9 2.2. For the vehicles for which the Company did not provide an estimate of usage, Staff
10 based the estimated hours on the job duties that would require travel.

11
12 **Q. What is Staff's recommendation for Rents Expense, Vehicles?**

13 A. Staff recommends decreasing the Rents Expense, Vehicles by \$13,164.

14
15 **Q. How does Staff's Supplemental recommendation compare to the recommendation in
16 Staff's Direct Testimony?**

17 A. Staff's recommendation has not changed from its Direct Testimony.

18
19 *Operating Income Adjustment No. 13 – Bad Debt Expense*

20 **Q. Did Staff review the Company's Rebuttal Testimony concerning bad debt expense?**

21 A. Yes.

22
23 **Q. What were the Company's primary concerns?**

24 A. The Company's primary concerns were that Staff inappropriately normalized bad debt
25 expense and that Staff did not recognize bad debt expense in its gross revenue conversion
26 factor calculation.

1 **Q. Does Staff agree that bad debt should be recognized in the gross revenue conversion**
2 **factor calculation?**

3 A. Yes, and Staff has changed its calculation accordingly.
4

5 **Q. Does Staff agree that its adjustment to normalize bad debt expense was**
6 **inappropriate?**

7 A. No, Staff does not. The revenue requirement should be developed using only normal
8 levels of expenses. This concept is a NARUC recognized ratemaking principle that helps
9 to ensure just and reasonable rates.
10

11 **Q. Are Class A, B, & C utilities required to file three years of comparative income**
12 **statements that show the level at which individual expenses were incurred?**

13 A. Yes, Class A, B, & C utilities are required to file Schedule E-2. This schedule presents the
14 revenues and expenses for the test year and two prior years.
15

16 **Q. Can a review of Schedule E-2 help to identify expenses that may not be incurred at**
17 **normal levels?**

18 A. Yes, it can help to identify abnormal levels of expenses. Staff reviews each expense for
19 the test year and compares it to the other years. If an expense is incurred at approximately
20 the same level for each of the three years, then that expense is typically considered to be
21 normal for the test year and no normalization adjustment is necessary. An expense level
22 that varies widely from year to year may not be normal. After investigating why the
23 expense level varied, Staff would make a determination whether or not a normalization
24 adjustment is necessary.
25

1 **Q. What was Staff's justification for normalizing bad debt expense?**

2 A. Staff reviewed the three year comparative data for bad debt expense and found that it
3 varied widely. The bad debt expense was \$0, \$0, and \$7,688 for the years 2009, 2010, and
4 2011, respectively. According to the Company's response to data request CSB 1.33,
5 "prior to the test year bad debt expense was not recorded." The Company provided no
6 support to show that the \$7,688 in bad debt would likely be incurred at approximately the
7 same level on an ongoing basis. Therefore, Staff normalized the expense using three years
8 (i.e., the number of years that Staff anticipates that the Company will file its next rate
9 case).

10

11 **Q. What is Staff's recommendation?**

12 A. Staff recommends decreasing bad debt expense by \$5,125.

13

14 **Q. How does Staff's Surrebuttal recommendation compare to its Direct Testimony?**

15 A. Staff's recommendation is the same as its Direct Testimony.

16

17 *New River's Loan to Owner*

18 **Q. Do notes receivables arise from making loans to other entities including affiliates?**

19 A. Yes.

20

21 **Q. Are New River and the Owner two separate legal entities?**

22 A. Yes.

23

24 **Q. As such, should the Owner pay the loan back?**

25 A. Yes. The Company chose to record the transaction as a notes receivable from the owner.
26 By definition, a notes receivable is a written promise to receive a sum of money from

1 another party (in this case, from the owner) on one or more future dates. It would be
2 incompatible with the public interest and sound financial practices for the owner not to
3 repay the notes receivable.

4
5 **Q. What is Staff's recommendation?**

6 A. Staff recommends that the owner pay the loan back.

7
8 **Q. How does Staff's Surrebuttal recommendation compare to its Direct Testimony?**

9 A. Staff's recommendation is the same as its Direct Testimony.

10
11 *Purchased Water Tariff*

12 **Q. Did Staff review the purchased water tariff that the Company prepared in response**
13 **to data request CSB 8.1?**

14 A. Yes.

15
16 **Q. How does the Company-prepared purchased water tariff compare to Staff's**
17 **purchased water tariff?**

18 A. The Company's tariff captures the cost savings related to the purchased pumping power
19 that the Company does not have to pay when it buys water rather than pump the water
20 from its wells. Staff's tariff does not reflect this cost saving.

21
22 **Q. Is Staff withdrawing the purchased water tariff recommended in its Direct**
23 **Testimony?**

24 A. Yes.

25

- 1 **Q. What is Staff's Surrebuttal recommendation?**
- 2 A. Staff recommends the Company-prepared tariff which is attached.
- 3
- 4 **Q. Does this conclude Staff's Surrebuttal Testimony?**
- 5 A. Yes, it does.

ATTACHMENT

PURCHASED WATER TARIFF

TARIFF SCHEDULE

UTILITY: New River Utility Company
DOCKET NO. W-01737A-12-0478

DECISION NO. _____
EFFECTIVE DATE: _____

PURCHASED WATER SURCHARGE

I. Purpose and Applicability

The purpose of the this tariff is to equitably apportion the costs of water purchased through an emergency interconnection with the City of Peoria among New River Utility Company Customers. These charges are applicable to all connections and will be assessed based on usage, 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.

"Avoided Production Costs" means the unit cost of production (cost per 1,000 gallons) avoided by the Company because of the use of water purchased from the City of Peoria rather than pumping groundwater from the Company's wells and booster stations.

"Company" means New River Utility Company.

"Purchased Water Cost" means the actual cost billed by the City of Peoria for water purchased through the emergency interconnection between the City of Peoria's water system and the Company's water system.

"Purchased Water Quantity" means the actual quantity (in thousands of gallons) of water billed by the City of Peoria for water purchased through the emergency interconnection between the City of Peoria's water system and the Company's water system.

"Purchased Water Surcharge" means the surcharge calculated in accordance with Section IV below.

"Surcharge Rate" means the rate per 1,000 gallons that is calculated in accordance with Section III below.

"Water Sold" means the actual quantity (in thousands of gallons) of water sold by the Company to its Customers during the month corresponding to the month in which water was purchased from the City of Peoria through the emergency interconnection between the City of Peoria's water system and the Company's water system.

III. Surcharge Rate Calculation

For each month that the Company purchases water from the City of Peoria through the emergency interconnection between the City of Peoria's water system and the Company's water system, the Company will calculate the Surcharge Rate per the following formula:

$$[\text{Purchased Water Cost} - (\text{Purchased Water Quantity} \times \text{Avoided Production Costs})] / \text{Water Sold}$$

IV. Terms and Conditions

(A) Assessment and Billing of Purchased Water Surcharge: For any month in which water is purchased from the City of Peoria, after completing its billing for the month and receiving Peoria's billing for the month, New River will make the surcharge calculation to determine the Surcharge Rate.

In the following month, New River will bill the Purchased Water Surcharge to its customers. Each individual customer's billing for the Purchased Water Surcharge will be based on that customer's actual usage for the previous month (the month corresponding to the water purchase from Peoria) times the Surcharge Rate.

The Purchased Water Surcharge shall be presented as a separate line item on the customer billing.

(B) Notice to Commission: For any month in which the Company intends to bill customers a Purchased Water Surcharge, the Company shall provide Commission Staff notice of the Company's intent to bill the Purchased Water Surcharge. The notice to Commission Staff shall include the following:

1. The Purchased Water Cost.
2. The Purchased Water Quantity.
3. A copy of the bill received for the purchase of water from the City of Peoria.
4. A description of the system problem necessitating purchasing of water and a description of the action being taken by the Company to resolve the problem, including the date operations did or are expected to return to normal.
5. The dates for beginning and ending purchasing water.
6. A schedule showing the calculation of the Surcharge Rate in excel format with formulas intact, including a schedule showing the determination of the Avoided Production Costs.

REVENUE REQUIREMENT

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY ORIGINAL FAIR VALUE</u>	<u>[B] STAFF ORIGINAL FAIR VALUE</u>
1	Adjusted Rate Base	\$ 7,812,036	\$ 6,310,388
2	Adjusted Operating Income (Loss)	\$ 3,629	\$ 233,559
3	Current Rate of Return (L2 / L1)	0.05%	3.70%
4	Required Rate of Return	8.72%	7.80%
5	Required Operating Income (L4 * L1)	\$ 681,210	\$ 492,210
6	Operating Income Deficiency (L5 - L2)	\$ 677,581	\$ 258,652
7	Gross Revenue Conversion Factor	1.60490	1.63301
8	Increase (Decrease) In Gross Revenue (L7 * L6)	\$ 1,087,449	\$ 422,381
9	Adjusted Test Year Revenue	\$ 1,260,428	\$ 1,260,428
10	Proposed Annual Revenue (L8 + L9)	\$ 2,347,877	\$ 1,682,809
11	Required Increase/(Decrease in Revenue) (%) (L8/L9)	86.28%	33.51%

References:

Column [A]: Company Schedules A-1

Column [B]: Staff Schedules CSB-2, CSB-3, & CSB-15

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.1268%			
3	Revenues (L1 - L2)	99.8732%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	38.6366%			
5	Subtotal (L3 - L4)	61.2366%			
6	Revenue Conversion Factor (L1 / L5)	1.633012			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	37.6414%			
9	One Minus Combined Income Tax Rate (L7 - L8)	62.3586%			
10	Uncollectible Rate	0.2033%			
11	Uncollectible Factor (L9 * L10)	0.1268%			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes	100.0000%			
13	Arizona State Income Tax Rate	4.5400%	From CSB-2, Line 26		
14	Federal Taxable Income (L12 - L13)	95.4600%			
15	Applicable Federal Income Tax Rate (Line 53)	34.6757%			
16	Effective Federal Income Tax Rate (L14 x L15)	33.1014%			
17	Combined Federal and State Income Tax Rate (L13 + L16)		37.6414%		
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	37.6414%			
20	One Minus Combined Income Tax Rate (L18-L19)	62.3586%			
21	Property Tax Factor	1.5960%			
22	Effective Property Tax Factor (L20*L21)		0.9952%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			38.6366%	
24	Required Operating Income	\$ 492,210			
25	Adjusted Test Year Operating Income (Loss)	233,559			
26	Required Increase in Operating Income (L24 - L25)		\$ 258,652		
27	Income Taxes on Recommended Revenue (Col. [C], L52)	\$ 250,318			
28	Income Taxes on Test Year Revenue (Col. [A], L52)	94,188			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		156,130		
30	Recommended Revenue Requirement	\$ 1,682,809			
31	Uncollectible Rate (Line 10)	0.2033%			
32	Uncollectible Expense on Recommended Revenue (L30*L31)	\$ 3,422			
33	Adjusted Test Year Uncollectible Expense	\$ 2,563			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)		859		
35	Property Tax with Recommended Revenue	\$ 67,089			
36	Property Tax on Test Year Revenue	60,348			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		6,741		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		\$ 422,381		
			\$ 7,600		
<u>Calculation of Income Tax:</u>					
39	Revenue	\$ 1,260,428	\$ 422,381	\$ 1,682,809	Test Year
40	Operating Expenses Excluding Income Taxes	\$ 932,681	\$ 7,600	\$ 940,281	Staff Recommended
41	Synchronized Interest (L56)	\$ -		\$ -	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ 327,747		\$ 742,528	
43	Arizona State Income Tax Rate	3.9060%		4.2601%	
44	Arizona Income Tax (L42 x L43)	\$ 12,802		\$ 31,633	
45	Commission Tax Allowance Policy - Federal Taxable Income (L37- L39)	\$ 314,945		\$ 710,895	
46	Commission Tax Allowance Policy - Federal Effective Tax	25.8414%		30.7619%	
47	Commission Tax Allowance Policy - Federal Tax	\$ 81,386		\$ 218,685	
48	Federal Tax on Income Bracket - Not Used	\$ -		\$ -	
49	Federal Tax on Income Bracket - Not Used	\$ -		\$ -	
50	Federal Tax on All Income (See Sch CSB-2, Page 2, Line 27)	\$ -		\$ -	
51	Total Federal Income Tax	\$ 81,387		\$ 218,685	
52	Combined Federal and State Income Tax (L44 + L51)	\$ 94,188		\$ 250,318	
53	Applicable Federal Income Tax Rate [Col. [C], L51 - Col. [A], L51] / [Col. [C], L45 - Col. [A], L45]			34.6757%	
<u>Calculation of Interest Synchronization:</u>					
54	Rate Base	\$ 6,310,388			
55	Weighted Average Cost of Debt	0.0000%			
56	Synchronized Interest (L45 X L46)	\$ -			

Line No.	Description	Test Year		Staff Recommended
1				
2	<u>Calculation of Income Tax:</u>			
3	Revenue	\$ 1,260,428	\$ 422,381	\$ 1,682,809
4	Less: Operating Expenses (Excluding Income Taxes)	932,681	7,600	940,281
5	Less: Synchronized Interest	-	-	-
6	Arizona Taxable Income (Married Filing Jointly)	\$ 327,747	\$ 429,981	\$ 742,528
7	<u>Over</u> <u>But not Over</u> <u>Amount plus</u> %			
8	- 20,000 - 2.59%	\$ -	\$ -	\$ -
9	20,000 50,000 (58) 2.88%	-	-	-
10	50,000 100,000 (149) 3.36%	-	-	-
11	100,000 300,000 (589) 4.24%	-	-	-
12	300,000 999,999,999 (2,078) 4.54%	12,802	-	31,633
13	Arizona Income Tax	\$ 12,802	-	\$ 31,633
14	Federal Taxable Income (Married Filing Jointly)	\$ 314,945	-	\$ 710,895
15	<u>Over</u> <u>But not Over</u> <u>Amount plus</u> %			
16	- 17,000 - 10.00%	\$ -	\$ -	\$ -
17	17,000 69,000 1,700 15.00%	-	-	-
18	69,000 139,350 9,500 25.00%	-	-	-
19	139,350 212,300 27,088 28.00%	-	-	-
20	212,300 379,150 47,514 33.00%	81,386	-	-
21	379,150 9,999,999,999 102,574 35.00%	-	-	218,685
22	Total Federal Income Tax	\$ 81,386	-	\$ 218,685
23				
24	Combined Federal and State Income Tax	\$ 94,188	-	\$ 250,318
25				
26	Applicable Arizona State Tax	3.9060%	-	4.2601%
27	Applicable Federal Income Tax	25.8414%	-	30.7619%
28	Combined Federal and State Tax Rate	29.7474%	-	35.0220%
29				
30	Applicable Arizona State Income Tax Rate (Rate Applicable to Revenue Increase)	-	-	4.5400%
31	Applicable Federal Income Tax Rate (Rate Applicable to Revenue Increase)	-	-	34.6757%
32				

Line No.	Description	Test Year		Staff Recommended
1				
2	<u>Calculation of Income Tax:</u>			
3	Revenue	\$ 1,260,428	\$ 422,381	\$ 1,682,809
4	Less: Operating Expenses (Excluding Income Taxes)	932,681	7,600	940,281
5	Less: Synchronized Interest	-	-	-
6	Arizona Taxable Income (Married Filing Jointly)	\$ 327,747	\$ 429,981	\$ 742,528
7	<u>Over</u> <u>But not Over</u> <u>Amount plus</u> %			
8	- 20,000 - 2.59%	\$ -		\$ -
9	20,000 50,000 (58) 2.88%	-		-
10	50,000 100,000 (149) 3.36%	-		-
11	100,000 300,000 (589) 4.24%	-		-
12	300,000 999,999,999 (2,078) 4.54%	12,802		31,633
13	Arizona Income Tax	\$ 12,802		\$ 31,633
14	Federal Taxable Income (Married Filing Jointly)	\$ 314,945		\$ 710,895
15	<u>Over</u> <u>But not Over</u> <u>Amount plus</u> %			
16	- 17,000 - 10.00%	\$ -		\$ -
17	17,000 69,000 1,700 15.00%	-		-
18	69,000 139,350 9,500 25.00%	-		-
19	139,350 212,300 27,088 28.00%	-		-
20	212,300 379,150 47,514 33.00%	81,386		-
21	379,150 9,999,999,999 102,574 35.00%	-		218,685
22	Total Federal Income Tax	\$ 81,386		\$ 218,685
23				
24	Combined Federal and State Income Tax	\$ 94,188		\$ 250,318
25				
26	Applicable Arizona State Tax	3.9060%		4.2601%
27	Applicable Federal Income Tax	25.8414%		30.7619%
28	Combined Federal and State Tax Rate	29.7474%		35.0220%
29				
30	Applicable Arizona State Income Tax Rate (Rate Applicable to Revenue Increase)			4.5400%
31	Applicable Federal Income Tax Rate (Rate Applicable to Revenue Increase)			34.6757%
32				

RATE BASE - FAIR VALUE

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	ADJ NO.	(C) STAFF AS ADJUSTED
	1	\$ 12,357,233	\$ 732,513	1, 2, 3, 4, 5, 6
2	4,619,188	(60,844)	7	4,558,344
3	<u>7,738,045</u>	<u>793,357</u>		<u>8,531,402</u>
<u>LESS:</u>				
4	\$ -	\$ -		\$ -
5	\$ -	\$ -		\$ -
6	\$ -	\$ 2,594,744	8	\$ 2,594,744
7	-	396,514	9	396,514
8	<u>\$ -</u>	<u>2,198,230</u>		<u>\$ 2,198,230</u>
9	\$ -	\$ 2,198,230		\$ 2,198,230
10	\$ 22,784	\$ -		\$ 22,784
11	\$ -	\$ -		\$ -
<u>ADD: Working Capital</u>				
12	\$ 96,775	\$ (96,775)	10	\$ -
13	\$ -	\$ -		\$ -
14	<u>\$ 7,812,036</u>	<u>\$ (1,501,648)</u>		<u>\$ 6,310,388</u>

References:

Column [A], Company Schedule B-1, Page 1
Column [B]: Schedule CSB-4
Column [C]: Column [A] + Column [B]

FAIR VALUE RATE BASE

LINE NO.	PLANT IN SERVICE	[A]	[B]	[C]	[D]	[E]	[F]
		Original Cost Per Staff	Reconstructed New Cost Per Staff	Total			Fair Value Rate Base Per Staff As Adjusted
1	Acct. No. - Plant Description						
2	302 Franchises	\$ -	\$ -	\$ -	x	50%	\$ -
3	303 Land and Land Rights	75,181	-	75,181	x	50%	\$ 37,591
4	304 Structures and Improvements	84,633	84,633	169,266	x	50%	\$ 84,633
5	307 Wells and Springs	795,021	2,368,472	3,163,493	x	50%	\$ 1,581,747
6	309 Supply Mains	-	-	-	x	50%	\$ -
7	310 Power Generation Equipment	-	-	-	x	50%	\$ -
8	311 Pumping Equipment	978,918	1,196,249	2,175,167	x	50%	\$ 1,087,584
9	320 Water Treatment Equipment	383,055	568,450	951,505	x	50%	\$ 475,753
10	330 Distribution Reservoirs and Standpipes	1,046,963	2,152,303	3,199,266	x	50%	\$ 1,599,633
11	330.2 Pressure Tanks	-	-	-	x	50%	\$ -
12	331 Transmission and Distribution Mains	1,827,529	9,073,009	10,900,537	x	50%	\$ 5,450,269
13	333 Services	350,474	2,564,645	2,915,119	x	50%	\$ 1,457,560
14	334 Meters and Meter Installations	118,343	117,596	235,939	x	50%	\$ 117,970
15	335 Hydrants	313,089	1,953,372	2,266,461	x	50%	\$ 1,133,231
16	336 Backflow Prevention Devices	-	-	-	x	50%	\$ -
17	339 Other Plant and Miscellaneous Equipment	-	-	-	x	50%	\$ -
18	340 Office Furniture and Equipment	19,273	19,273	38,546	x	50%	\$ 19,273
19	340.1 Computers and Software	7,069	7,069	14,138	x	50%	\$ 7,069
20	341 Transportation Equipment	7,712	7,712	15,424	x	50%	\$ 7,712
21	343 Tools, Shop, and Garage Equipment	-	-	-	x	50%	\$ -
22	344 Laboratory Equipment	-	-	-	x	50%	\$ -
23	345 Power Operated Equipment	29,725	29,725	59,450	x	50%	\$ 29,725
24	346 Communication Equipment	-	-	-	x	50%	\$ -
25	347 Miscellaneous Equipment	-	-	-	x	50%	\$ -
26	348 Other Tangible Equipment	-	-	-	x	50%	\$ -
27	Rounding	-	-	-			
28	Total Plant in Service	\$ 6,036,984	\$ 20,142,508	\$ 26,179,493			\$ 13,089,746
29	Less: Accumulated Depreciation	\$ 2,193,784	\$ 6,922,905	\$ 9,116,689	x	50%	4,558,344
30	Net Plant in Service	\$ 3,843,200	\$ 13,219,604	\$ 17,062,804			\$ 8,531,402
32	<u>LESS:</u>						
33	Advances in Aid of Construction (AIAC)	\$ -	\$ -	\$ -	x	50%	\$ -
34	Meter Deposits - Service Line & Meter Advances	\$ -	\$ -	\$ -	x	50%	\$ -
36	Contributions in Aid of Construction (CIAC)	\$ 1,929,840	\$ 3,259,648	\$ 5,189,488	x	50%	\$ 2,594,744
37	Less: Accumulated Amortization of CIAC	\$ 288,183	\$ 504,845	\$ 793,028	x	50%	\$ 396,514
38	Net CIAC	\$ 1,641,657	\$ 2,754,803	\$ 4,396,460			\$ 2,198,230
40	Total Advances and Net Contributions	\$ 1,641,657	\$ 2,754,803	\$ 4,396,460	x	50%	\$ 2,198,230
42	Customer Deposits	\$ 22,784	\$ 22,784	\$ 45,568	x	50%	\$ 22,784
43	Accumulated Deferred Taxes	\$ -	\$ -	\$ -	x	50%	\$ -
45	<u>ADD:</u>						
46	Cash Working Capital Allowance	\$ -	\$ -	\$ -	x	50%	\$ -
47		\$ -	\$ -	\$ -			\$ -
48	Total Rate Base	\$ 2,178,759	\$ 10,442,017	\$ 12,620,776			\$ 6,310,388

New River Utility Company
 Docket No. W-01737A-12-0478
 Test Year Ended December 31, 2011

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	Acct. No.	PLANT IN SERVICE Description	COMPANY AS FILED	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)
				Adj. No. 1 Post-Test Year Plant	Adj. No. 2 Inadequately Supported Plant	Adj. No. 3 Unrecorded Plant	Adj. No. 4 Expensed Plant	Adj. No. 5 Other Tangible Plant Releas	Adj. No. 6 Plant Retirements	Adj. No. 7 Accumulated Depreciation	Adj. No. 8 CIAC	Adj. No. 9 Amortization of CIAC	Adj. No. 10 Cash Working Capital Allowance	STAFF AS ADJUSTED	
				Ref. Sch CSB-5	Ref. Sch CSB-6	Ref. Sch CSB-7	Ref. Sch CSB-8	Ref. Sch CSB-9	Ref. Sch CSB-10	Ref. Sch CSB-11	Ref. Sch CSB-12	Ref. Sch CSB-13	Ref. Sch CSB-14		
1				\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	302	Franchises	75,181												75,181
3	303	Land and Land Rights	84,633												84,633
4	304	Structures and Improvements	795,021												795,021
5	307	Wells and Springs	-												-
6	309	Supply Mains	-												-
7	310	Power Generation Equipment	939,631												939,631
8	311	Pumping Equipment	383,055												383,055
9	320	Water Treatment Equipment	1,046,963												1,046,963
10	330	Distribution Reservoirs and Standpipes	-												-
11	330.2	Pressure Tanks	-												-
12	331	Transmission and Distribution Mains	1,402,013												1,402,013
13	333	Services	236,325												236,325
14	334	Meters and Meter Installations	126,139												126,139
15	335	Hydrants	193,193												193,193
16	336	Backflow Prevention Devices	-												-
17	339	Other Plant and Miscellaneous Equipment	19,273												19,273
18	340	Office Furniture and Equipment	1,200												1,200
19	340.1	Computers and Software	-												-
20	341	Transportation Equipment	-												-
21	343	Tools, Shop, and Garage Equipment	-												-
22	344	Laboratory Equipment	-												-
23	345	Power Operated Equipment	115,725												115,725
24	346	Communication Equipment	-												-
25	347	Miscellaneous Equipment	-												-
26	348	Other Tangible Equipment	26,239												26,239
27		Rounding	-												-
28		Total Plant in Service	\$ 5,444,591	\$ 175,113	\$ (222,346)	\$ 787,955	\$ 18,236	\$ -	\$ (166,565)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,036,984
29		Less: Accumulated Depreciation	\$ 2,300,840	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (107,056)	\$ -	\$ -	\$ -	\$ -	\$ 2,193,784
30		Net Plant in Service	\$ 3,143,751	\$ 175,113	\$ (222,346)	\$ 787,955	\$ 18,236	\$ -	\$ (166,565)	\$ 107,056	\$ -	\$ -	\$ -	\$ -	\$ 3,843,200
32		LESS:													
33		Advances in Aid of Construction (AIAC)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
34		Meter Deposits - Service Line & Meter Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
36		Contributions in Aid of Construction (CIAC)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
37		Less: Accumulated Amortization of CIAC	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
38		Net CIAC	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
39		Total Advances and Net Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
40		Customer Deposits	\$ 22,784	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,784
43		Accumulated Deferred Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
44		Cash Working Capital Allowance	\$ 96,775	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 96,775
45		ADD:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
46		Cash Working Capital Allowance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
47			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
48		Total Rate Base	\$ 3,217,742	\$ 175,113	\$ (222,346)	\$ 787,955	\$ 18,236	\$ -	\$ (166,565)	\$ 107,056	\$ (1,929,840)	\$ 288,183	\$ -	\$ (96,775)	\$ 2,178,759

ORIGINAL COST RATE BASE ADJUSTMENT NO. 1 - POST TEST-YEAR PLANT

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Acct No. 311, Pumping Equipment	\$ 939,631	\$ -	\$ 939,631
2	Emergency Repair of Well Pump No. 6	\$ -	\$ 84,115	\$ 84,115
3	Moving Pump from Well No. 3 to Well No.6	\$ -	\$ 2,029	\$ 2,029
4	Well No. 1 Pump & Electrical Refurbishment	\$ -	\$ 88,969	\$ 88,969
5	Adjusted Test Year Plant	\$ 939,631	\$ 175,113	\$ 1,114,744

References:

- Column [A]: Company Schedule B-2
- Column [B]: Testimony, CSB
- Column [C]: Column [A] + Column [B]

ORIGINAL COST RATE BASE ADJUSTMENT NO. 2 - INADEQUATELY SUPPORTED PLANT COSTS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		PLANT SELECTED IN SAMPLE	UNSUPPORTED PLANT COSTS	STAFF AS ADJUSTED
1	2001 Plant Addition, Acct No. 311 - Pumping Equipment	\$ 163,163	\$ -	\$ 163,163
2	2003 Plant Addition, Acct No. 311 - Pumping Equipment	12,096	-	12,096
3	Acct No. 311- Pumping Equipment Subtotal	\$ 175,259	\$ -	\$ 175,259
4				
5	2010 Plant Addition, Acct No. 320-Water Treatment Equip.	\$ 381,395	\$ -	\$ 381,395
6				
7	2002 Plant Addition, Acct No. 331-Transp. & Distrib. Mains	\$ 119,606	\$ (119,606)	\$ - Missing documentation
8	2004 Plant Addition, Acct No. 331-Transp. & Distrib. Mains	42,500	(13,444)	29,056 Missing documentation
9	2008 Plant Addition, Acct No. 331-Transp. & Distrib. Mains	5,366	-	5,366 Amount corrected in RB Adj. 2
10	2009 Plant Addition, Acct No. 331-Transp. & Distrib. Mains	7,000	-	7,000 Amount corrected in RB Adj. 2
11	Acct No. 331- Transp. & Distrib. Mains Subtotal	\$ 174,472	\$ (133,050)	\$ 41,422
12				
13	2006 Plant Addition, Acct No. 334-Meters	\$ 3,296	\$ (3,296)	\$ - Missing documentation
14	2011 Plant Addition, Acct No. 334-Meters	12,713	-	12,713
15	Acct No. 334- Meters Subtotal	\$ 16,009	\$ (3,296)	\$ 12,713
16				
17	2005 Plant Addition, Acct No. 345-Power Operated Equipmnt	\$ 86,000	\$ (86,000)	\$ - Missing documentation
18				
19	2011 Plant Addition, Acct No. 348-Other Tangible Equipment	\$ 26,239	\$ -	\$ 26,239
20				
21	Total	\$ 859,374	\$ (222,346)	\$ 637,028

References:

- Column A: Company Schedule B-2
- Column B: Testimony, CSB, Company Data Request Responses CSB 1.3
- Column C: Column [A] + Column [B]

ORIGINAL COST RATE BASE ADJUSTMENT NO. 3 - UNRECORDED PLANT

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Acct No. 331 - Mains	\$ 1,402,013	\$ 553,910	\$ 1,955,923
2	Acct No. 333 - Services	\$ 236,325	\$ 114,149	\$ 350,474
3	Acct No. 334 - Hydrants	\$ 193,193	\$ 119,896	\$ 313,089
4	Total	\$ 1,831,531	\$ 787,955	\$ 2,619,486

Data Request Reference	Acct No. 331 Mains	Acct No. 333 Services	Acct No. 335 Hydrants	Total
CSB 3.1	\$ 163,807	\$ 31,397	\$ 35,277	\$ 230,481
CSB 3.2	\$ 200,350	\$ 28,050	\$ 31,500	\$ 259,900
CSB 3.2	\$ 113,600	\$ 42,925	\$ 35,000	\$ 191,525
CSB 3.3	\$ 76,153	\$ 11,777	\$ 18,119	\$ 106,049
	\$ 553,910	\$ 114,149	\$ 119,896	\$ 787,955

Year	Acct No. 331 Mains	Acct No. 333 Services	Acct No. 335 Hydrants
CSB 3.1 2004	\$ 139,413	\$ 18,924	\$ 21,166
CSB 3.2 2004	\$ 95,200	\$ 34,850	\$ 28,000
CSB 3.1 2005	\$ 24,394	\$ 12,473	\$ 14,111
CSB 3.2 2005	\$ 200,350	\$ 28,050	\$ 31,500
CSB 3.2 2005	\$ 18,400	\$ 8,075	\$ 7,000
CSB 3.3 2006	\$ 76,153	\$ 11,777	\$ 18,119
	\$ 553,910	\$ 114,149	\$ 119,896

References:

- Column A: Company Schedule B-2
- Column B: Testimony, CSB; Data Request Response CSB 3.1, 3.2, & 3.3
- Column C: Column [A] + Column [B]

ORIGINAL COST RATE BASE ADJUSTMENT NO. 4 - EXPENSED PLANT

LINE NO.	Description	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	331 - Mains	\$ 1,402,013	\$ 4,656	\$ 1,406,669
2	340.1 - Computers and Software	\$ -	\$ 7,069	\$ 7,069
3	341 - Transportation Equipment	\$ 1,200	\$ 6,512	\$ 7,712
4		\$ 1,403,213	\$ 13,581	\$ 14,781
5				
6				
7	PLANT COSTS REMOVED FROM REPAIRS & MAINTENANCE ACCOUNT (CSB 1-22)			
8	Acct. No.	Date	Description	Amount
9	340.1	12/31/10	Meter Reading Software	\$ 7,069.00
10				
11				
12	PLANT COSTS REMOVED FROM TRANSPORTATION EXPENSE ACCOUNT (CSB 1.31 & CSB 6.6)			
13	Acct. No.	Year	Description	Amount
14	341	2011	Transportation Equipment	\$ 6,511.81
15				
16				
17	PLANT COSTS REMOVED FROM CONTRACTUAL SERVICES LEGAL (CSB 6.5)			
18	Acct. No.	Year	Description	Amount
19	331	2011	Interconnection Agreement	\$ 4,655.65

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB, Company Data Request Responses CSB 1-25, 1-29, & 1-35
- Column C: Column [A] + Column [B]

ORIGINAL COST RATE BASE ADJUSTMENT NO. 5 - OTHER TANGIBLE PLANT RECLASSIFICATION

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (CSB 3.4 f 3)	STAFF AS ADJUSTED
1	Acct. No. 311 - Pumping Equipment	\$ 939,631	26,239	965,870
2	Acct No. 348 - Other Tangible Plant	26,239	(26,239)	-
3	Plant Total	\$ 965,870	\$ -	\$ 965,870

References:

Column A: Company Schedule B-2

Column B: Testimony, CSB; Data Request Response 3.4 (f) (3)

Column C: Column [A] + Column [B]

ORIGINAL COST RATE BASE ADJUSTMENT NO. 6 - PLANT RETIREMENTS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Acct. No. 311 - Pumping Equipment	\$ 939,631	\$ (162,065)	\$ 777,566
2	Acct. No. 334 -Meters and Meter Installations	\$ 126,139	\$ (4,500)	\$ 121,639
3		<u>\$ 1,065,770</u>	<u>\$ (166,565)</u>	<u>\$ 899,205</u>

LINE NO.	Acct. No.	Acct. Description	Replacement Cost				Amount
8	311	Pumping Equip	\$ 29,056	x	50%	=	\$ 14,527.91
9	311	Pumping Equip	\$ 9,964	x	50%	=	\$ 4,981.90
10	311	Pumping Equip	\$ 4,800	x	50%	=	\$ 2,400.00
11	311	Pumping Equip	\$ 1,387	x	50%	=	\$ 693.38
12	311	Pumping Equip	\$ 4,312	x	50%	=	\$ 2,155.82
13	311	Air compressor	\$ 5,315	x	50%	=	\$ 2,657.58
14	311	Pumping Equip	\$ 26,239	x	50%	=	\$ 13,119.46
15			<u>\$81,072.05</u>				<u>\$ 40,536.03</u>
17	334	Meters	\$ 9,000	x	50%	=	\$ 4,500.00
19			<u>\$90,072.05</u>				<u>\$ 45,036.03</u>

LINE NO.	Data Request	Invoice ID #	Site No.	Year Added	Account No.	Description	Amount
24	CSB 1.3 & 3.7	29	Well No.1	2004	311	Pumping Equip	\$ 29,056
25	CSB 1.3 & 3.7	n/a	Well No.1	2003	311	Pumping Equip	\$ 9,964
26	CSB 3.7	n/a	Storage Tank #1	2006	311	Pumping Equip	\$ 4,800
27	CSB 1.3 & 3.8	14	Not specified	2010	311	Pumping Equip	\$ 1,387
28	CSB 1.3 & 3.8	18	Not specified	2010	311	Pumping Equip	\$ 4,312
29	CSB 1.3 & 3.8	36	Well No.6	2010	311	air compressor	\$ 5,315
30	CSB 1.3	27	Well No.3	2011	311	Pumping Equip	\$ 26,239
31	CSB 3.8	n/a	n/a	2011	334	Meters	\$ 9,000
32							\$ 90,072
34	RETIREMENTS RELATED TO EMERGENCY REPAIR OF PUMP FOR WELL NO. 6						
35		2000	311	Pumping Equipment			\$ 58,659
37	RETIREMENTS RELATED TO WELL NO. 1						
38		2004	311	Pumping Equipment			\$ 44,447
39		1997	311	Pumping Equipment			\$ 18,423
							\$ 62,870

References:

- Column [A]: Company Schedule B-2
- Column [B]: Testimony, CSB
- Column [C]: Column [A] + Column [B]

ORIGINAL COST RATE BASE ADJUSTMENT NO. 7 - ACCUMULATED DEPRECIATION

LINE NO.	NARUC Acct No.	NARUC PLANT DESCRIPTION Per Exh RLJ-DTD, Sch B-2.1, Page 12	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	304	Structures & Improvements	\$ 31,130	\$ -	\$ 31,130
2	307	Wells & Springs	\$ 374,796	\$ -	\$ 374,796
3	311	Pumping Equipment	\$ 939,631	\$ (200,146)	\$ 739,485
4	320	Water Treatment Equip	\$ 19,078	\$ -	\$ 19,078
5	330	Distribution Reservoirs and Standpipes	\$ 282,757	\$ -	\$ 282,757
6	331	Transmission and Distribution Mains	\$ 318,835	\$ 64,099	\$ 382,934
7	333	Services	\$ 112,317	\$ 22,305	\$ 134,622
8	334	Meters and Meter Installations	\$ 112,517	\$ (4,500)	\$ 108,017
9	335	Hydrants	\$ 45,222	\$ 13,810	\$ 59,032
10	340	Office Furniture and Equipment	\$ 17,177	\$ -	\$ 17,177
11	341	Transportation Equipment	\$ 1,200	\$ -	\$ 1,200
12	345	Power Operated Equipment	\$ 43,556	\$ -	\$ 43,556
13	348	Other Tangible Equipment	\$ 2,624	\$ (2,624)	\$ 0
14		Total Accumulated Depreciation	\$ 2,300,840	\$ (107,056)	\$ 2,193,784

ACCUMULATED DEPRECIATION RELATED TO UNRECORDED MAINS, ACCT NO 331

Data Request	Year Placed In Service	Acct No.	Description	Plant Cost	Number of Interim Years	Depreciation Rate	Accumulated Depreciation
17							
18							
19	CSB 3.1	2004	331 Mains	\$ 139,413	6.5	2.00%	\$18,124
20	CSB 3.2	2004	331 Mains	\$ 95,200	6.5	2.00%	\$12,376
21				\$ 234,613			\$30,500
22							
23	CSB 3.1	2005	331 Mains	\$ 24,394	5.5	2.00%	\$2,683
24	CSB 3.2	2005	331 Mains	\$ 200,350	5.5	2.00%	\$22,039
25	CSB 3.2	2005	331 Mains	\$ 18,400	5.5	2.00%	\$2,024
26				\$ 243,144			\$26,746
27							
28	CSB 3.3	2006	331 Mains	\$ 76,153	4.5	2.00%	\$6,854
29				\$553,910			\$64,099

ACCUMULATED DEPRECIATION RELATED TO UNRECORDED SERVICES, ACCT NO 333

Data Request	Year Placed In Service	Acct No.	Description	Plant Cost	Number of Interim Years	Depreciation Rate	Accumulated Depreciation
31							
32							
33							
34	CSB 3.1	2004	331 Services	\$ 18,924	6.5	3.33%	\$4,096
35	CSB 3.2	2004	331 Services	\$ 34,850	6.5	3.33%	\$7,543
36				\$ 53,774			\$11,639
37							
38	CSB 3.1	2005	331 Services	\$ 12,473	5.5	3.33%	\$2,284
39	CSB 3.2	2005	331 Services	\$ 28,050	5.5	3.33%	\$5,137
40	CSB 3.2	2005	331 Services	\$ 8,075	5.5	3.33%	\$1,479
41				\$ 48,598			\$8,901
42							
43	CSB 1.2 & 3.3	2006	331 Services	\$ 11,777	4.5	3.33%	\$1,765
44				\$114,149			\$22,305

ACCUMULATED DEPRECIATION RELATED TO UNRECORDED HYDRANTS, ACCT NO 335

Data Request	Year Placed In Service	Acct No.	Description	Plant Cost	Number of Interim Years	Depreciation Rate	Accumulated Depreciation
46							
47							
48							
49	CSB 3.1	2004	331 Hydrants	\$ 21,166	6.5	2.00%	\$2,752
50	CSB 3.2	2004	331 Hydrants	\$ 28,000	6.5	2.00%	\$3,640
51				\$ 49,166			\$6,392
52							
53	CSB 3.1	2005	331 Hydrants	\$ 14,111	5.5	2.00%	\$1,552
54	CSB 3.2	2005	331 Hydrants	\$ 31,500	5.5	2.00%	\$3,465
55	CSB 3.2	2005	331 Hydrants	\$ 7,000	5.5	2.00%	\$770
56				\$ 52,611			\$5,787
57							
58	CSB 1.2 & 3.3	2006	331 Hydrants	\$ 18,119	4.5	2.00%	\$1,631
59				\$119,896			\$13,810

ACCUMULATED DEPRECIATION RELATED TO RETIREMENTS

Data Request	Plant Retirement	Acct No.	Description	Plant Cost	Number of Interim Years	Depreciation Rate	Amount Removed from Accum Depr
61							
62							
63							
64	CSB 3.7	Schedule CSB-10	311 Pumping Equip	\$ (162,065)	n/a	n/a	\$ (162,065)
65	CSB 3.7	Schedule CSB-10	334 Meters	\$ (4,500)	n/a	n/a	\$ (4,500)
66				\$ (166,565)			\$ (166,565)

ACCUMULATED DEPRECIATION ADJUSTMENT ON PUMPS FULLY DEPRECIATED IN SAME YEAR PLACED IN SERVICE

Col A	Col B	Col C	Col D	Col E	Col F	Col G	Col H	Col I	Col J
Year	Schedule	Acct No.	Description	Plant Cost	Number of Interim Years	Depreciation Rate	Col E x Col F x Col G	Recorded Depreciation	Difference Col H - Col I
68									
69									
70									
71									
72	2003	Exhibit RLJ-DT2, Sch B-2.1, P4	311 Pumping Equip	\$ 12,096	7.5	12.5%	\$ 11,340	\$ 12,096	\$ (756)
73	2004	Exhibit RLJ-DT2, Sch B-2.1, P5	311 Pumping Equip	\$ 30,911	6.5	12.5%	\$ 25,115	\$ 30,911	\$ (5,796)
74	2005	Exhibit RLJ-DT2, Sch B-2.1, P6	311 Pumping Equip	\$ 43,166	5.5	12.5%	\$ 29,677	\$ 43,166	\$ (13,489)
75	2010	Data Requ Resp 1.3 Invoice ID #27	311 Pumping Equip	\$ 26,239	2.5	12.5%	\$ 8,200	\$ 26,239	\$ (18,039)
76				\$ 112,412			\$ 74,332	\$ 112,412	\$ (38,081)

ACCUMULATED DEPRECIATION RELATED TO OTHER TANGIBLE PLANT RECLASSIFICATION

Data Request	Schedule	Acct No.	Description	Plant Cost	Number of Interim Years	Depreciation Rate	Amount Removed from Accum Depr
77							
78							
79							
80							
81	3.4 (f) (3)	Sch CSB-9 & Company Rebuttal Test	348 Othr Tang. Plant	\$ 26,239	1	10.0%	\$ 2,624

**ORIGINAL COST RATE BASE
ADJUSTMENT NO. 8 - CONTRIBUTIONS IN AID OF CONSTRUCTION ("CIAC")**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		PER COMPANY	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	CIAC from Last Rate Case	\$ -	\$ 1,157,105	\$ 1,157,105
2	CIAC from Intervening Years (Unapproved)	\$ -	\$ 772,735	\$ 772,735
3	Total CIAC	\$ -	\$ 1,929,840	\$ 1,929,840

AIAC From Last Rate Case		Amount
CSB 1.9	Fulton Homes	\$ 1,713,206
CSB 1.9	Dehaven	\$ 101,899
CSB 1.9	Beazer	\$ 419,027
CSB 1.9	Payne	\$ -
CSB 1.9	School District	\$ 974,036
CSB 1.9	Deer Valley Service	\$ 61,897
CSB 1.9	Payne Resources	\$ 35,817
		\$ 3,305,882
Refunds on AIAC		
CSB 1.9	Refunds on Fulton AIAC	\$ (1,752,147)
CSB 1.9	Refunds on Dehaven AIAC	\$ (47,819)
CSB 1.9	Refunds on Beazer AIAC	\$ (265,522)
CSB 1.9	Refunds on School District	\$ (66,752)
CSB 1.9	Refunds on Deer Valley Service	\$ (5,000)
CSB 1.9	Refunds on Payne Resources	\$ (11,537)
Total Refund Payments on AIAC Contracts		\$ (2,148,777)
Amount transferred to CIAC		\$ 1,157,105

AIAC Added During Intervening Years		Amount
CSB 1.10 & 3.1	Arrowhead Ranch Office Park, LLC	\$ 230,481
CSB 1.11 & 3.2	Cody Farms	\$ 259,900
CSB 1.11 & 3.2	Riverstone Estates (Columbia I & II)	\$ 158,050
CSB 1.11 & 3.2	Riverstone Estates (Columbia I & II)	\$ 33,475
CSB 1.12 & 3.3	Arrowhead Ranch Industrial Park	\$ 106,050
		\$ 787,956
Refunds on AIAC		
CSB 1.10 (d)	Refunds on Arrowhead Ranch Office	\$ (7,330)
CSB 1.11 (d)	Refunds on Cody Farms	\$ (4,596)
CSB 1.11 (d)	Refunds on Riverstone (Columbia)	\$ (3,295)
CSB 1.12 (d)	Refunds on Arrowhead Ranch Office	\$ -
		\$ (15,221)
Amount transferred to CIAC		\$ 772,735

Unapproved

2009 per CSB 1.10

2006 per Sch B-2.1, p.7

2009 per Sch B-2.1, p.10

References:

- Column A: Company Schedule B-1
- Column B: Testimony, CSB; Data Request Response CSB 2-11
- Column C: Column [A] + Column [B]

ORIGINAL COST RATE BASE ADJUSTMENT NO. 9
AMORTIZATION OF CONTRIBUTIONS IN AID OF CONSTRUCTION ("CIAC")

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Amortization of CIAC	\$ -	\$ 288,183	\$ 288,183

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

New River Utility Company
Docket No. W-01737A-12-0478
Test Year Ended December 31, 2011

Surrebuttal Schedule CSB-14

**ORIGINAL COST RATE BASE
ADJUSTMENT NO. 9 - CASH WORKING CAPITAL ALLOWANCE**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		PER COMPANY	ADJUSTMENT	PER STAFF
1	Cash Working Capital Allowance	\$ 96,775	\$ (96,775)	\$ -

References:

- Column A: Company Schedule B-2
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

RECONSTRUCT COST NEW ("RCN") Rate Base Adjustments

Line No.	Schedule Reference	Acct. No.	Original Cost	Handy-Whitman	Reconstruct Cost New
RCN Rate Base Adj. No. 1 - Post-Test Year Plant (Emergency Well Repair)					
1					
2	Sch CSB-5	311	Electric Pumping Equip	84,115	1 1 84,115
3	Sch CSB-5	311	Electric Pumping Equip	2,029	1 1 2,029
4	Sch CSB-5	311	Electric Pumping Equip	88,969	1 1 88,969
5	Sch CSB-5			175,113	175,113
6					
RCN Rate Base Adj. No. 2 - Inadequately Supported Plant					
8	Sch CSB-5	331	Mains	119,606	561 342 196,196
9	Sch CSB-5			13,444	561 357 21,126
10	Sch CSB-5			133,050	217,322
11					
12	Sch CSB-5	334	Meters	3,296	525 428 4,043
13					
14	Sch CSB-5	348	Power Operated Equip.	86,000	1 1 86,000
15					
16					
RCN Rate Base Adj. No. 3 - Unrecorded Plant					
18	Engr Report	304	Structures & Improvmnts	84,633	1 1 84,633
19					
20	Sch CSB-6	331	Mains	234,613	561 357 368,678
21	Sch CSB-6			243,144	561 392 347,969
22	Sch CSB-6			76,153	561 420 101,719
23				553,910	818,365
24					
25	Sch CSB-6	333	Services (Mains)	53,774	483 315 82,453
26	Sch CSB-6			48,598	483 341 68,835
27	Sch CSB-6			11,777	483 362 15,714
28	Sch CSB-6			114,149	167,002
29					
30	Sch CSB-6	335	Hydrants (Mains)	49,166	672 550 60,072
31	Sch CSB-6			52,611	672 565 62,574
32	Sch CSB-6			18,119	672 610 19,961
33	Sch CSB-6			119,896	142,607
34					
35					
RCN Rate Base Adj. No. 4 - Expensed Plant					
37	Sch CSB-7	340.1	Computers	7,069	1 1 7,069
38		341	Transportation Equipment	6,512	1 1 6,512
39		331	Mains	4,656	1 1 4,656
40					
RCN Rate Base Adj. No. 5 - Other Tangible Plant Reclassification					
42	Sch CSB-8	311	Pumping Equip.	26,239	1 1 26,239
43					
44					
RCN Rate Base Adj. No. 6 - Plant Retirements					
46	Sch CSB-9	311	Pumping Equip.	14,528	760 569 19,405
47	Sch CSB-9	311	Pumping Equip.	4,982	760 546 6,935
48	Sch CSB-9	311	Pumping Equip.	2,400	760 619 2,947
49	Sch CSB-9	311	Pumping Equip.	693	760 701 751
50	Sch CSB-9	311	Pumping Equip.	2,156	760 701 2,337
51	Sch CSB-9	311	Pumping Equip.	2,658	760 701 2,882
52	Sch CSB-9	311	Pumping Equip.	13,119	1 1 13,119
53				40,536	48,376
54					
55	PTY Pump	311	Pumping Equip.	84,115	1 1 84,115 Was \$58,659 in Direct
56					
57	PTY Pump	311	Pumping Equip. - Well No. 1		59,367
58	PTY Pump	311	Pumping Equip. - Well No. 1		29,602
59					88,969
60					
61	Sch CSB-9	334	Meters	4,500	1 1 4,500
				Total Plant Retirements	225,960

RECONSTRUCT COST NEW RATE BASE ADJUSTMENT NO. 7 - ACCUMULATED DEPRECIATION

LINE NO.	NARUC Acct No.	NARUC PLANT DESCRIPTION PER SCH B-4	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1		304 Structures & Improvements	\$ -	\$ -	\$ -
2		307 Wells & Springs	\$ 2,103,420	\$ -	\$ 2,103,420
3		311 Pumping Equipment	\$ 641,846	\$ (152,165)	\$ 489,682
4		320 Water Treatment Equip	\$ 41,837	\$ -	\$ 41,837
5		330 Distribution Reservoirs and Standpipes	\$ 662,512	\$ -	\$ 662,512
6		331 Transmission and Distribution Mains	\$ 1,938,047	\$ 95,359	\$ 2,033,406
7		333 Services	\$ 961,784	\$ 32,809	\$ 994,593
8		334 Meters and Meter Installations	\$ 112,517	\$ (4,500)	\$ 108,017
9		335 Hydrants	\$ 411,016	\$ 16,489	\$ 427,505
10		340 Office Furniture and Equipment	\$ 17,177	\$ -	\$ 17,177
11		341 Transportation Equipment	\$ 1,200	\$ -	\$ 1,200
12		345 Power Operated Equipment	\$ 43,556	\$ -	\$ 43,556
13		348 Other Tangible Equipment	\$ 2,624	\$ (2,624)	\$ 0
14		Total Accumulated Depreciation	\$ 6,937,536	\$ (14,631)	\$ 6,922,905

ACCUMULATED DEPRECIATION RELATED TO UNRECORDED MAINS, ACCT NO 331

Data Request	Year Placed In Service	Acct No.	Description	RCN Plant Cost	Number of Interim Years	Depreciation Rate	Accumulated Depreciation
21	CSB 3.1	2004	331 Mains	\$ 219,078	6.5	2.00%	\$28,480
22	CSB 3.2	2004	331 Mains	\$ 149,600	6.5	2.00%	\$19,448
23				\$ 368,678			\$47,928
25	CSB 3.1	2005	331 Mains	\$ 34,911	5.5	2.00%	\$3,840
26	CSB 3.2	2005	331 Mains	\$ 286,725	5.5	2.00%	\$31,540
27	CSB 3.2	2005	331 Mains	\$ 26,333	5.5	2.00%	\$2,897
28				\$ 347,969			\$38,277
30	CSB 1.2 & 3.3	2006	331 Mains	\$ 101,719	4.5	2.00%	\$9,155
31				\$818,365			\$85,359

ACCUMULATED DEPRECIATION RELATED TO UNRECORDED SERVICES, ACCT NO 333

Data Request	Year Placed In Service	Acct No.	Description	RCN Plant Cost	Number of Interim Years	Depreciation Rate	Accumulated Depreciation
38	CSB 3.1	2004	331 Services	\$ 29,017	6.5	3.33%	\$6,281
39	CSB 3.2	2004	331 Services	\$ 53,437	6.5	3.33%	\$11,566
40				\$ 82,453			\$17,847
42	CSB 3.1	2005	331 Services	\$ 17,667	5.5	3.33%	\$3,236
43	CSB 3.2	2005	331 Services	\$ 39,731	5.5	3.33%	\$7,277
44	CSB 3.2	2005	331 Services	\$ 11,438	5.5	3.33%	\$2,095
45				\$ 68,835			\$12,607
47	CSB 1.2 & 3.3	2006	331 Services	\$ 15,714	4.5	3.33%	\$2,355
48				\$167,002			\$32,809

ACCUMULATED DEPRECIATION RELATED TO UNRECORDED HYDRANTS, ACCT NO 335

Data Request	Year Placed In Service	Acct No.	Description	RCN Plant Cost	Number of Interim Years	Depreciation Rate	Accumulated Depreciation
54	CSB 3.1	2004	331 Hydrants	\$ 25,861	6.5	2.00%	\$3,362
55	CSB 3.2	2004	331 Hydrants	\$ 34,211	6.5	2.00%	\$4,447
56				\$ 60,072			\$7,809
58	CSB 3.1	2005	331 Hydrants	\$ 16,783	5.5	2.00%	\$1,846
59	CSB 3.2	2005	331 Hydrants	\$ 37,465	5.5	2.00%	\$4,121
60	CSB 3.2	2005	331 Hydrants	\$ 8,326	5.5	2.00%	\$916
61				\$ 62,574			\$6,883
63	CSB 1.2 & 3.3	2006	331 Hydrants	\$ 19,061	4.5	2.00%	\$1,796
64				\$142,607			\$16,489

ACCUMULATED DEPRECIATION RELATED TO RETIREMENTS

Data Request	Reference	Acct No.	Description	RCN Plant Cost	Number of Interim Years	Depreciation Rate	Amnt Removed from Acc Depr
69	CSB 3.7 Schedule CSB-7	311	Pumping Equip	\$ (48,376)	n/a	n/a	\$ (48,376)
70	CSB 3.7 Schedule CSB-7	334	Meters	\$ (4,500)	n/a	n/a	\$ (4,500)
71				\$ (52,876)			\$ (52,876)

ACCUMULATED DEPRECIATION ADJUSTMENT ON PUMPS FULLY DEPRECIATED IN SAME YEAR PLACED IN SERVICE

Col A	Col B	Col C	Col D	Col E	Col F	Col G	Col H	Col I	Col J	
Year	Reference	Acct No.	Description	RCN Plant Cost	Number of Interim Years	Depreciation Rate	Depr Expense Col E x Col F x Col G	Recorded Depreciation	Difference Col H - Col I	
77	2003	Exhibit RLJ-DT2, Sch B-2.1, P4	311	Pumping Equip	\$ 16,837	7.5	12.5%	\$ 15,785	\$ 16,837	\$ (1,052)
78	2004	Exhibit RLJ-DT2, Sch B-2.1, P5	311	Pumping Equip	\$ 41,287	6.5	12.5%	\$ 33,546	\$ 41,287	\$ (7,741)
79	2005	Exhibit RLJ-DT2, Sch B-2.1, P6	311	Pumping Equip	\$ 53,693	5.5	12.5%	\$ 36,914	\$ 53,693	\$ (16,779)
80	2010	Data Requ Resp 1.3 Invoice ID #27	311	Pumping Equip	\$ 28,447	2.5	12.5%	\$ 8,890	\$ 28,447	\$ (19,558)
81				\$ 140,264			\$ 95,134	\$ 140,264	\$ (45,130)	

ACCUMULATED DEPRECIATION RELATED TO POST-TEST YEAR RELATED RETIREMENT

Year	Reference	Acct No.	Description	RCN Cost
84	2000	RCN Rate Adj No. 1	311 Pumping Equip	\$ (58,659)

ACCUMULATED DEPRECIATION RELATED TO OTHER TANGIBLE PLANT RECLASSIFICATION

Data Request	Schedule	Acct No.	Description	Plant Cost	Number of Interim Years	Depreciation Rate	Amount Removed from Accum Depr
89	3.4 (f) (3)	Sch CSB-9 & Company Rebuttal Test	348 Othr Tang. Plant	\$ 26,239	1	10.0%	\$ 2,624

Column A: Company Exhibit RLJ-DT2, Schedule B-2.1, Page 12
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

New River Utility Company
Docket No. W-01737A-12-0478
Test Year Ended December 31, 2011

Surrebuttal Schedule CSB-18

Reconstruction?

**RECONSTRUCT COST NEW RATE BASE
ADJUSTMENT NO. 8 - CONTRIBUTIONS IN AID OF CONSTRUCTION ("CIAC")**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		PER COMPANY	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	CIAC from Last Rate Case	\$ -	\$ 2,117,237	\$ 2,117,237
2	CIAC from Intervening Years	\$ -	\$ 1,142,411	\$ 1,142,411
3	Total CIAC	\$ -	\$ 3,259,648	\$ 3,259,648
4				

References:

- Column A: Company Schedule B-1
- Column B: Testimony, CSB; Data Request Response CSB 2-11
- Column C: Column [A] + Column [B]

RECONSTRUCT COST NEW RATE BASE
ADJUSTMENT NO. 9 - AMORTIZATION OF CONTRIBUTIONS IN AID OF CONSTRUCTION ("CIAC")

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Amortization of CIAC	\$ -	\$ 504,845	\$ 504,845

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

New River Utility Company
Docket No. W-01737A-12-0478
Test Year Ended December 31, 2011

Surrebuttal Schedule CSB-20

**RECONSTRUCT COST NEW RATE BASE
ADJUSTMENT NO. 10 - CASH WORKING CAPITAL ALLOWANCE**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		PER COMPANY	ADJUSTMENT	PER STAFF
1	Cash Working Capital Allowance	\$ 96,775	\$ (96,775)	\$ -

References:

- Column A: Company Schedule B-2
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

OPERATING INCOME - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A]	[B]	[C]	[D]	[E]
		COMPANY TEST YEAR AS FILED	STAFF TEST YEAR ADJUSTMENTS	STAFF TEST YEAR AS ADJUSTED	STAFF PROPOSED CHANGES	STAFF RECOMMENDED
REVENUES:						
1	Metered Water Sales	\$ 1,234,701		\$ 1,234,701	\$ 419,321	\$ 1,654,022
2	Water Sales - Unmetered	-	-	-	-	-
3	Other Operating Revenues	25,727	-	25,727	3,060	28,787
4	Total Revenues	\$ 1,260,428	\$ -	\$ 1,260,428	\$ 422,381	\$ 1,682,809
EXPENSES:						
7	Salaries and Wages	\$ 77,200	\$ -	\$ 77,200	\$ -	\$ 77,200
8	Salaries and Wages-Officers & Directors	210,000	-	210,000	-	210,000
9	Employee Pensions & Benefits	22,326	14,400	36,726	-	36,726
10	Purchased Power	159,775	-	159,775	-	159,775
11	Chemicals	15,338	(11,957)	3,381	-	3,381
12	Repairs and Maintenance	108,314	(56,273)	52,041	-	52,041
13	Office Supplies Expense	-	15,466	15,466	-	15,466
14	Contractual Services - Accounting	8,428	(2,423)	6,005	-	6,005
15	Contractual Services - Legal	23,128	(16,231)	6,897	-	6,897
16	Contractual Services - Management Fees	75,000	(75,000)	-	-	-
17	Contractual Services - Testing	-	10,636	10,636	-	10,636
18	Contractual Services - Other	54,479	(7,307)	47,172	-	47,172
19	Rent - Building	-	26,580	26,580	-	26,580
20	Rent - Equipment	24,000	(13,164)	10,836	-	10,836
21	Transportation Expense	26,580	(13,329)	13,251	-	13,251
22	Insurance - General Liability	6,003	-	6,003	-	6,003
23	Insurance - Workman's Compensation	872	-	872	-	872
24	Reg. Comm. Exp. - Rate Case	50,000	-	50,000	-	50,000
25	Reg. Comm. Exp. - Other	-	-	-	-	-
26	Bad Debt Expense	7,688	(5,125)	2,563	859	3,422
27	Miscellaneous Expense	61,587	(16,790)	44,797	-	44,797
28	Depreciation Expense	245,585	(174,458)	71,127	-	71,127
29	Taxes Other Than Income	19,638	-	19,638	-	19,638
30	Property Taxes	60,348	-	60,348	6,741	67,089
31	Income Taxes	510	93,678	94,188	156,130	250,318
32	Interest Expense - Customer Deposits	-	1,367	1,367	-	1,367
33	Total Operating Expenses	\$ 1,256,799	\$ (229,930)	\$ 1,026,869	\$ 163,729	\$ 1,190,599
34						
35	Operating Income (Loss)	\$ 3,629	\$ 229,930	\$ 233,559	\$ 255,592	\$ 492,210

References:

- Column (A): Company Schedule C-1
- Column (B): Schedule CSB-16
- Column (C): Column (A) + Column (B)
- Column (D): Schedules CSB-1 and CSB-2
- Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	REVENUES/DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Employee Benefits Expense	[C] ADJ #2 Chemicals & Maintenance Expense	[D] ADJ #3 Repair & Maintenance Expense	[E] ADJ #4 Office Supplies Expense	[F] ADJ #5 Contractual Services - Accounting	[G] ADJ #6 Contractual Services - Legal	[H] ADJ #7 Contractual Services - Management Fees	[I] ADJ #8 Contractual Services - Water Testing	[J] ADJ #9 Contractual Services - Other	[K] Subtotal
		Ref. Sch CSB-23	Ref. Sch CSB-24	Ref. Sch CSB-25	Ref. Sch CSB-26	Ref. Sch CSB-27	Ref. Sch CSB-28	Ref. Sch CSB-29	Ref. Sch CSB-30	Ref. Sch CSB-31		
1	Metered Water Sales	\$ 1,234,701										\$ 1,234,701
2	Water Sales - Unmetered											
3	Other Operating Revenues	25,727										25,727
4	Total Revenues	\$ 1,260,428	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$ 1,260,428
5	OPERATING EXPENSES:											
6	Salaries and Wages	\$ 77,200										\$ 77,200
7	Salaries and Wages-Officers & Directors	210,000										210,000
8	Employee Pensions & Benefits	22,326	14,400									36,726
9	Purchased Power	159,775										159,775
10	Chemicals	15,338	(11,957)									3,381
11	Repairs and Maintenance	108,314		(56,273)								52,041
12	Office Supplies Expense				15,466							15,466
13	Contractual Services - Accounting	8,428				(2,423)						6,005
14	Contractual Services - Legal	23,128					(16,231)					7,897
15	Contractual Services - Management Fees	75,000						(75,000)				0
16	Contractual Services - Testing	54,479							10,636		(7,307)	47,172
17	Contractual Services - Other											
18	Rent - Buildings											
19	Rent - Equipment	24,000										24,000
20	Transportation Expense	26,580										26,580
21	Insurance - General Liability	6,003										6,003
22	Insurance - Workman's Compensation	872										872
23	Reg. Comm. Exp. - Rate Case	50,000										50,000
24	Reg. Comm. Exp. - Other											
25	Bad Debt Expense	7,688										7,688
26	Miscellaneous Expense	61,587										61,587
27	Depreciation Expense	245,585										245,585
28	Taxes Other Than Income	19,638										19,638
29	Property Taxes	60,348										60,348
30	Income Taxes	510										510
31	Interest Expense - Customer Deposits											
32	Total Operating Expenses	\$ 1,256,799	\$ 14,400	\$ (56,273)	\$ 15,466	\$ (2,423)	\$ (16,231)	\$ (75,000)	\$ 10,636	\$ (7,307)	\$	\$ 1,128,110
33	Operating Income (Loss)	\$ 3,629	\$ (14,400)	\$ 56,273	\$ (15,466)	\$ 2,423	\$ 16,231	\$ 75,000	\$ (10,636)	\$ 7,307	\$	\$ 132,318

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR CONTINUED

LINE NO.	DESCRIPTION	[L] ADJ #10	[M] ADJ #11	[N] ADJ #12	[O] ADJ #13	[P] ADJ #14	[Q] ADJ #15	[R] ADJ #16	[S] ADJ #17	[U]
		Rents Buildings Ref. Sch CSB-32	Rents Equipment (Vehicles) Ref. Sch CSB-33	Transportation Expense Ref. Sch CSB-34	Bad Debt Expense Ref. Sch CSB-35	Miscellaneous Expense Ref. Sch CSB-36	Depreciation Expense Ref. Sch CSB-37	Income Tax Allowance Ref. Sch CSB-38	Interest Expense on Customer Deposits Ref. Sch CSB-39	STAFF ADJUSTED
1	REVENUES:									
2	Metered Water Sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,234,701
3	Water Sales - Unmetered	-	-	-	-	-	-	-	-	-
4	Other Operating Revenues	-	-	-	-	-	-	-	-	-
5	Total Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,727
6	OPERATING EXPENSES:									
7	Salaries and Wages	-	-	-	-	-	-	-	-	77,200
8	Salaries and Wages-Officers & Directors	-	-	-	-	-	-	-	-	210,000
9	Employee Pensions & Benefits	-	-	-	-	-	-	-	-	36,726
10	Purchased Power	-	-	-	-	-	-	-	-	189,775
11	Chemicals	-	-	-	-	-	-	-	-	3,391
12	Repairs and Maintenance	-	-	-	-	-	-	-	-	52,041
13	Office Supplies Expense	-	-	-	-	-	-	-	-	15,466
14	Contractual Services - Accounting	-	-	-	-	-	-	-	-	6,005
15	Contractual Services - Legal	-	-	-	-	-	-	-	-	6,897
16	Contractual Services - Management Fees	-	-	-	-	-	-	-	-	-
17	Contractual Services - Testing	-	-	-	-	-	-	-	-	10,636
18	Contractual Services - Other	-	-	-	-	-	-	-	-	47,172
19	Rent - Buildings	26,580	(13,164)	-	-	-	-	-	-	26,580
20	Rent - Equipment	-	-	(13,329)	-	-	-	-	-	10,836
21	Transportation Expense	-	-	-	-	-	-	-	-	13,251
22	Insurance - General Liability	-	-	-	-	-	-	-	-	6,003
23	Insurance - Workman's Compensation	-	-	-	-	-	-	-	-	872
24	Reg. Comm. Exp. - Rate Case	-	-	-	-	-	-	-	-	50,000
25	Reg. Comm. Exp. - Other	-	-	-	-	-	-	-	-	-
26	Bad Debt Expense	-	-	-	(5,125)	-	-	-	-	-
27	Miscellaneous Expense	-	-	-	-	(16,790)	-	-	-	2,563
28	Depreciation Expense	-	-	-	-	-	(174,458)	-	-	44,797
29	Taxes Other Than Income	-	-	-	-	-	-	-	-	71,127
30	Property Taxes	-	-	-	-	-	-	-	-	19,638
31	Income Taxes	-	-	-	-	-	-	93,678	-	60,348
32	Interest Expense - Customer Deposits	-	-	-	-	-	-	-	1,367	94,188
33	Total Operating Expenses	\$ 26,580	\$ (13,164)	\$ (13,329)	\$ (5,125)	\$ (16,790)	\$ (174,458)	\$ 93,678	\$ 1,367	\$ 1,026,869
34	Operating Income (Loss)	\$ (26,580)	\$ 13,164	\$ 13,329	\$ 5,125	\$ 16,790	\$ 174,458	\$ (93,678)	\$ (1,367)	\$ 233,559

OPERATING INCOME ADJUSTMENT NO. 1 - EMPLOYEE PENSIONS AND BENEFITS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Employee Pensions and Benefits	\$ 22,326	\$ -	\$ 22,326
2	Reclassified from Management Fees	-	14,400	14,400
3	Total	\$ 22,326	\$ 14,400	\$ 36,726

References:

Column A: Company Schedule C-2

Column B: Testimony, CSB; Data Request CSB 1.20 c

Column C: Column [A] + Column [B]

New River Utility Company
Docket No. W-01737A-12-0478
Test Year Ended December 31, 2011

Surrebuttal Schedule CSB-24

OPERATING INCOME ADJUSTMENT NO. 2 - CHEMICALS EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Chemicals Expense	\$ 15,338	\$ (11,957)	\$ 3,381

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB; Data Request CSB 1.21
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 3 - REPAIRS AND MAINTENANCE EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	2011 Actual Repairs & Maintenance Expense	\$ 76,981	\$ -	\$ 76,981
2	Inadequately Supported Credit Card Purchases	-	(24,475)	(24,475) From Line 43
3	Company Pro forma Adj for Tank Painting	31,333	(31,333)	-
4	Staff Pro forma Adj for Arsenic Media	-	15,000	15,000 From Line 53
5	Office Suppl Exp Incorrectly Included In R&M	-	(15,466)	(15,466) CSB 1.22
6	Total Repairs & Maintenance	\$ 108,314	\$ (56,273)	\$ 52,041

Repair & Maintenance Related Purchases Made On Personal Credit Card
CSB 1.22 & CSB 6.7

11	Home Depot	\$ 1,137.37		
12	Lowe's	8.77		
13	A&G Turf	321.59		
14	QT	443.06		
15	AZ Lawn King	26.74		
16	Wagner Equipment	963.29		
17	Dunn Edwards	24.40		
18	Amerigas Propane	70.70		
19	USPS	461.49		
20	Harbor Freight	119.98		
21	Ace Hardware	564.23		
22	Dealer's Tire Supply	621.39		
23	Hardware Plus	29.40		
24	S&S Tire Peoria	1,174.78		
25	Border's Turf & Tractor	32.83		
26	Danny's Family Car Wash	82.99		
27	Bigham Equipment	310.33		
28	Fed Ex	37.32		
29	Sprinkler World	761.49		
30	WW Grainger	113.84		
31	Chevy's 2040	58.99		
32	Office Max	472.17		
33	AOL Service	310.80		
34	Ever Ready Glass	195.00		
35	Firestone	952.50		
36	Thunderbird Automotive	32.55		
37		9,328.00	Total To Be Allocated	
38		x 33.33%		
39	Allowed Personal Credit Card Purchases	3,109.02	33.33% To Owner; 33.33% to Cody Farms, 33.33% New River	
40				
41		\$ 27,583.80	Total Purchases on Personal Credit Card	
42		\$ (3,109.02)	Allocation to New River	
43	Staff's Adjustment	\$ 24,474.78	Amount Disallowed	

**Normalized
Arsenic Media
Costs
CSB 3.9 & 5.3**

51	Actual Cost of Arsenic Media	\$ 75,000
52	Divided by	5 Years
53		\$ 15,000

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB; Data Request CSB 1.22 & CSB 3.9
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 4 - OFFICE SUPPLIES EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Office Supplies Expense	\$ -	\$ -	\$ -
2	To Reclassify from Rep & Maint to Off Suppl	-	15,466	15,466
3	Total	\$ -	\$ 15,466	\$ 15,466

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB; Data Request CSB 1.22
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 5 - CONTRACTUAL SERVICES, ACCOUNTING

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Contractual Services, Accounting	\$ 8,428	\$ (2,423)	\$ 6,005
2				
3				
4				
5				
6				
7	Work performed for billcounts		\$ 2,423	CSB 1.25

Thomas Bourassa Invoice

References:

- Column A: Company Schedule C-1 & E-2
- Column B: Testimony, CSB; Data Request CSB 2-16
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 6 - CONTRACTUAL SERVICES, LEGAL

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Contractual Services, Legal	\$ 23,128	\$ -	\$ 23,128
2	Incorrectly Booked to New River (CSB 1.26)	-	(2,005)	(2,005)
3	Incorrectly Booked to New River (CSB 6.5)	-	(419)	(419)
4	To Remove Unsupported Cost (CSB 6.5)	-	(1,716)	(1,716)
5	To Normalize Costs Related to Payment Dispute	-	(7,435)	(7,435)
6	To Capitalize Costs Related To Interconnection	-	(4,656)	(4,656)
7		\$ 23,128	\$ (16,231)	\$ 6,897

Vendor	Description	Amount
Fennemore Craig	Interconnection Agreement	\$ 3,891
Riley Carlock	Interconnection Agreement	\$ 765
		\$ 4,656

	Normalized Costs	
Legal Costs Related to Payment Dispute With Customer	\$ 7,531	CSB 6.6
Legal Costs Related To Title To Well	\$ 3,621	CSB 6.6
Total Costs to Be Normalized	\$ 11,152	
Normalized using three years	3	
Normalized amount	\$ 3,717	
Total Costs to Be Normalized	\$ 11,152	
Less: Normalized amount	\$ (3,717)	
Staff's Adjustment	\$ 7,435	

References:

- Column A: Company Schedule C-1 & E-2
- Column B: Testimony, CSB; Data Request CSB 1.26
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 7 - CONTRACTUAL SERVICES, MANAGEMENT FEES

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Contractual Services, Management Fees	\$ 75,000	\$ -	\$ 75,000
2	To Reclassify Employee Benefits (Employee Housing)	-	(14,400)	(14,400)
3	To Reclassify Rental of Workshop Space	-	(12,000)	(12,000)
4	To Reclassify Rental of Bus. Off. & 87th Ave Booster Plant Prop	-	(48,600)	(48,600)
5		\$ 75,000	\$ (75,000)	\$ -
6				
7				
8				

Data Request	Amount	Description
CSB 1.27 (a)	\$ 75,000	Management Fees
CSB 1.20	\$ (14,400)	Employee Benefit (Housing)
CSB 1.16	\$ (12,000)	Rental of Workshop Space
CSB 6.1	\$ (48,600)	Rental of Business Off & 87th Ave Booster Plant Property
	\$ -	

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 8 - CONTRACT SRVCS., WATER TESTING EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Contractual Services - Testing	\$ -	\$ -	\$ -
2	Reclassified from Contractual Srvcs, Other	-	13,489	13,489
3	To Remove Company's Water Testing Exp	-	(13,489)	(13,489)
4	To Reflect Staff's Water Testing Expense	-	10,636	10,636
5	Total	\$ -	\$ 10,636	\$ 10,636

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB; Data Request CSB 1.29
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 9 - CONTRACTUAL SERVICES, OTHER

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Contractual Services, Other	\$ 54,479	\$ -	\$ 54,479
2	Reclassified from Chemicals Expense	-	11,957	11,957
3	To Reclassify Water Testing Expenses	-	(13,489)	(13,489) Co.'s Rebuttal
4	To Remove Legal Costs Related to Affiliate	-	(5,775)	(5,775) From Line 8
5		<u>\$ 54,479</u>	<u>\$ (7,307)</u>	<u>\$ 47,172</u>
6				
7				
8	Griffin & Associates (CSB 1.29)	\$	5,775	Legal Expense
9				

References:

Column A: Company Schedule C-2

Column B: Testimony, CSB; Company Data Request Response to CSB 1.29

Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 10 - RENT, BUILDINGS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Rent, Buildings	\$ -	\$ -	\$ -
2	Reclassified from Mgmt Fees, Workshop		12,000	12,000
3	To Adjust to Staff's Recommended Costs		(9,000)	(9,000)
4	Staff's Recommended Workshop Rent Costs	-	3,000	3,000 From Line 20
5				
6	Reclassified from Mgmt Fees, Bus. Off. & 87th Ave Booster Plant Prop	-	48,600	48,600
7	To Adjust to Staff's Recommended Costs		(25,020)	(25,020)
8	Staff's Recommended Rent Costs for Business Office	-	23,580	23,580 From Line 32
9				
10	Total for Workshop and Business Office	-	26,580	26,580

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Calculation of Workshop Rental Cost

Cost for Renting 4,000 sq. ft. Workshop Facility	\$ 12,000	Per Year
Divided By	4,000	Square Feet
Cost Per Square Foot	\$ 3	
Multiplied by Staff Recommended Squ Footage	1,000	Square Feet
Staff's Recommended Annual Cost	\$ 3,000	For Workshop
Annual Workshop Facility Cost	\$ 12,000	Per Company
Less:	\$ 3,000	Staff's Recommended Annual Cost
	\$ 9,000	Staff's Adjustment

Calculation of Business Off. Rental Cost

Staff's Recommended	\$ 1,965	Per Month
Multiplied by	12	Months
Staff's Recommended Annual Cost	\$ 23,580	for Business Office
Annual Workshop Facility Cost	\$ 48,600	Per Company
Less:	\$ 23,580	Staff's Recommended Annual Cost
	\$ 25,020	Staff's Adjustment

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB; Data Request CSB 6.1 & 6.2
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 11 - RENT, EQUIPMENT (VEHICLES)

LINE NO.	DESCRIPTION			[A]	[B]	[C]	
				COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED	
1	Rent, Equipment (Vehicles)			\$ 22,000	\$ (13,164)	\$ 8,836	
2							
3							
4							
5		Estimated			Avg. Est.		
6		Monthly	Work		Number of		
7		Lease Cost	Days In	Daily	Days Used	Monthly	Annual
8		CSB 2.2	Month	Rate	Per Month	Cost	Cost
9	Bob Fletcher's Truck	\$ 400	22	\$ 18.18	11	\$ 200.00	\$ 2,400.00
10	Karen Fletcher's Truck	\$ 400	22	\$ 18.18	0	\$ -	\$ -
11	Florintino Ibbera's Truck	\$ 400	22	\$ 18.18	22	\$ 400.00	\$ 4,800.00
12	Tracy Dagleich's Truck	\$ 200	22	\$ 9.09	11	\$ 100.00	\$ 1,200.00
13	1997 Trailer	\$ 100	22	\$ 4.55	3	\$ 13.64	\$ 163.64
14	1999 Trailer	\$ 100	22	\$ 4.55	1	\$ 4.55	\$ 54.55
15		\$ 1,600				\$ 718.18	\$ 8,618.18
16							
17	1989 Forklift	\$ 400	22	\$ 18.18	1	\$ 18.18	\$ 218.18
18	Total	\$ 2,000				\$ 736.36	\$ 8,836.36

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB; Data Request CSB 2-2
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 12 - TRANSPORTATION EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Transportation Expense, Gas & Oil Costs	\$ 17,314	\$ -	\$ 17,314
2	To Remove Oil & Gas Costs of Disallowed Truck	-	(2,797)	(2,797) From line 20
3	Transportation Expense, Repair & Maintenance	9,265	-	9,265
4	To Remove Costs of the Affiliate	-	(4,020)	(4,020) CSB 6.6
5	To Capitalize Engine Rebuild Costs	-	(6,512)	(6,512) CSB 6.6
6		<u>\$ 26,580</u>	<u>\$ (13,329)</u>	<u>\$ 13,251</u>
7				
8				
9	Gas and Oil Costs for all Vehicles	\$	17,314	
10	Less: Costs to be Normalized	\$	(2,106)	
11	Less: Costs to be Normalized	\$	(4,021)	
12	Costs for 4 Vehicles	\$	11,188	
13	Divided by		4 Vehicles	
14		\$	2,797	Oil and Gas Costs Per Vehicle
15			x 3 Vehicles	
16		\$	8,391	Oil and Gas Costs for 3 Vehicles
17				
18		\$	11,188	Total Gas and Oil Purchases
19		\$	8,391	Amount Allowed from line 16
20	Staff's Adjustment	\$	2,797	Oil and Gas costs disallowed for truck
21				

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB; Data Request CSB 1.31 and 6.6
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 14 - MISCELLANEOUS EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Miscellaneous Expense	\$ 61,587	\$ -	\$ 61,587
2	To Remove Meals and Entertainment	-	(13,427)	(13,427)
4	To Remove Donations	-	(3,363)	(3,363)
5	To Remove Business Promotions Costs	-	(3,597)	(3,597)
6		\$ 61,587	\$ (16,790)	\$ 44,797
7				
8				
9				
10				
11		\$ 550.00	\$ 1,000.00	\$ 2,096.81
12		300.00	500.00	1,000.00
13		6,500.00	1,313.02	500.00
14		1,048.80	500.00	3,596.81
15		226.25	50.00	
16		137.77	\$ 3,363	
17		181.85		
18		828.36		
19		364.71		
20		311.42		
21		216.77		
22		417.49		
23		108.84		
24		56.08		
25		460.47		
26		656.40		
27		427.29		
		45.72		
		460.85		
		128.16		
		\$ 13,427		

Data Request CSB 1.19		
Meals and Entertainment	Donations	Business Promotions
\$ 550.00	\$ 1,000.00	\$ 2,096.81
300.00	500.00	1,000.00
6,500.00	1,313.02	500.00
1,048.80	500.00	3,596.81
226.25	50.00	
137.77	\$ 3,363	
181.85		
828.36		
364.71		
311.42		
216.77		
417.49		
108.84		
56.08		
460.47		
656.40		
427.29		
45.72		
460.85		
128.16		
\$ 13,427		

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB;
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 15 - DEPRECIATION EXPENSE ON ORIGINAL COAST TEST YEAR PLANT

LINE NO.	DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	302 Franchises	\$ -	\$ -	\$ -	0.00%	\$ -
2	303 Land and Land Rights	75,181	(75,181)	-	0.00%	-
3	304 Structures and Improvements	84,633	-	84,633	3.33%	2,818
4	306 Lake, River, and Other Intakes	-	-	-	2.50%	-
5	307 Wells and Springs	795,021	-	795,021	3.33%	26,474
6	309 Supply Mains	-	-	-	2.00%	-
7	310 Power Generation Equipment	-	-	-	5.00%	-
8	311 Pumping Equipment	978,918	(812,922)	165,996	5.00%	8,300
9	320 Water Treatment Equipment	383,055	-	383,055	3.33%	12,756
10	330 Distribution Reservoirs and Standpipes	1,046,963	-	1,046,963	2.22%	23,243
11	330.2 Pressure Tanks	-	-	-	5.00%	-
12	331 Transmission and Distribution Mains	1,827,529	-	1,827,529	2.00%	36,551
13	333 Services	350,474	-	350,474	3.33%	11,671
14	334 Meters and Meter Installations	118,343	-	118,343	8.33%	9,858
15	335 Hydrants	313,089	-	313,089	2.00%	6,262
16	336 Backflow Prevention Devices	-	-	-	6.67%	-
17	339 Other Plant and Miscellaneous Equipment	-	-	-	6.67%	-
18	340 Office Furniture and Equipment	19,273	-	19,273	6.67%	1,286
19	340.1 Computers and Software	7,069	-	7,069	20.00%	1,414
20	341 Transportation Equipment	7,712	(1,200)	6,512	20.00%	1,302
21	343 Tools, Shop, and Garage Equipment	-	-	-	5.00%	-
22	344 Laboratory Equipment	-	-	-	10.00%	-
23	345 Power Operated Equipment	29,725	-	29,725	5.00%	1,486
24	346 Communication Equipment	-	-	-	10.00%	-
25	347 Miscellaneous Equipment	-	-	-	10.00%	-
26	348 Other Tangible Equipment	-	-	-	10.00%	-
27	Total Plant	\$ 6,036,984	\$ (889,303)	\$ 5,147,681		\$ 143,420

31	Composite Depreciation Rate (Depr Exp / Depreciable Plant):	2.79%
32	CIAC:	\$ 2,594,744
33	Amortization of CIAC (Line 31 x Line 32):	\$ 72,292
35	Depreciation Expense Before Amortization of CIAC:	\$ 143,420
36	Less Amortization of CIAC:	\$ 72,292
37	Test Year Depreciation Expense - Staff:	\$ 71,127
38	Depreciation Expense - Company:	245,585
39	Staff's Total Adjustment:	\$ (174,458)

Year Placed In Service	Acct. No. 311 Pumping Equip.
2003	\$ 12,096
2004	\$ 30,911
2005	\$ 43,166
2010	\$ 26,239
	<u>\$ 112,412</u>

References:

- Column [A]: Schedule CSB-4
- Column [B]: From Column [A]
- Column [C]: Column [A] - Column [B]
- Column [D]: Engineering Staff Report
- Column [E]: Column [C] x Column [D]

OPERATING INCOME ADJUSTMENT NO. 16 - INCOME TAX ALLOWANCE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Income Tax Allowance on Test Year Revenue	\$ 510	\$ 93,678	\$ 94,188

From Sch CSB-2, P.1

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB; Schedule CSB-2
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 17 - INTEREST EXPENSE ON CUSTOMER DEPOSITS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Interest Expense on Customer Deposits	\$ -	\$ 1,367	\$ 1,367

Customer Deposits Balance \$ 22,784
Multiplied by 6.0%
\$ 1,367

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB; Data Request CSB 1.21
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 10 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 1,260,428	\$ 1,260,428
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	2,520,856	\$ 2,520,856
4	Staff Recommended Revenue, Per Schedule CSB-1	1,260,428	\$ 1,682,809
5	Subtotal (Line 4 + Line 5)	3,781,284	4,203,665
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	1,260,428	\$ 1,401,222
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	2,520,856	\$ 2,802,443
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	\$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	2,520,856	\$ 2,802,443
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	504,171	\$ 560,489
15	Composite Property Tax Rate	11.9697%	11.9697%
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 60,348	\$ -
17	Company Proposed Property Tax	60,348	
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ (0)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 67,089
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 60,348
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 6,741
22	Increase to Property Tax Expense		\$ 6,741
23	Increase in Revenue Requirement		422,381
24	Increase to Property Tax per Dollar Increase in Revenue (Line 19/Line 20)		1.595960%

Monthly Minimum Charge	Present	Company Proposed Rates	Staff Recommended Rates
Meter Size (All Classes):			
5/8 x 3/4 Inch	\$ 7.50	\$ 14.00	\$ 12.40
3/4 Inch	7.50	14.00	12.40
1 Inch	18.75	35.00	21.00
1 1/2 Inch	37.50	70.00	43.00
2 Inch	60.00	112.00	68.00
3 Inch	120.00	224.00	136.00
4 Inch	190.00	350.00	212.00
6 Inch	375.00	700.00	425.00
8 Inch	750.00	1,400.00	680.00
Gallons Included In Monthly Minimum Charge	0	0	0
Commodity Charge - Per 1,000 Gallons			
<u>5/8" x 3/4" Meter</u>			
First 12,000 gallons	\$ 1.2000	N/A	N/A
12,000 to 18,000 gallons	1.4000	N/A	N/A
Over 18,000 gallons	1.6000	N/A	N/A
First 4,000 gallons	N/A	1.1000	N/A
4,001 to 10,000 gallons	N/A	2.5800	N/A
Over 10,000 gallons	N/A	3.2000	N/A
First 4,000 gallons	N/A	N/A	\$ 1.0000
4,001 to 11,000 gallons	N/A	N/A	2.0000
Over 11,000 gallons	N/A	N/A	3.1200
<u>3/4" Meter</u>			
First 12,000 gallons	\$ 1.2000	N/A	N/A
12,000 to 18,000 gallons	1.4000	N/A	N/A
Over 18,000 gallons	1.6000		
First 4,000 gallons	N/A	1.1000	N/A
4,001 to 10,000 gallons	N/A	2.5800	N/A
Over 10,000 gallons	N/A	3.2000	N/A
First 4,000 gallons	N/A	1.1000	1.0000
4,001 to 11,000 gallons	N/A	2.5800	2.0000
Over 11,000 gallons	N/A	3.2000	3.1200
<u>1" Meter</u>			
First 12,000 gallons	\$ 1.2000	N/A	N/A
12,000 to 18,000 gallons	1.4000	N/A	N/A
Over 18,000 gallons	1.6000		
First 25,000 gallons	N/A	2.5800	N/A
Over 25,000 gallons	N/A	3.2000	N/A
First 16,000 gallons	N/A	N/A	2.0000
Over 16,000 gallons	N/A	N/A	3.1200
<u>1 1/2" Meter</u>			
First 12,000 gallons	\$ 1.2000	N/A	N/A
12,000 to 18,000 gallons	1.4000	N/A	N/A
Over 18,000 gallons	1.6000		
First 50,000 gallons	N/A	2.5800	N/A
Over 50,000 gallons	N/A	3.2000	N/A
First 33,000 gallons	N/A	N/A	2.0000
Over 33,000 gallons	N/A	N/A	3.1200

2" Meter

First 12,000 gallons	\$ 1.2000	N/A	N/A
12,000 to 18,000 gallons	1.4000	N/A	N/A
Over 18,000 gallons	1.6000		
First 50,000 gallons	N/A	2.5800	N/A
Over 50,000 gallons	N/A	3.2000	N/A
First 53,000 gallons	N/A	N/A	2.0000
Over 53,000 gallons	N/A	N/A	3.1200

3" Meter

First 12,000 gallons	\$ 1.2000	N/A	N/A
12,000 to 18,000 gallons	1.4000	N/A	N/A
Over 18,000 gallons	1.6000		
First 50,000 gallons	N/A	2.5800	N/A
Over 50,000 gallons	N/A	3.2000	N/A
First 111,000 gallons	N/A	N/A	2.0000
Over 111,000 gallons	N/A	N/A	3.1200

4" Meter

First 12,000 gallons	\$ 1.2000	N/A	N/A
12,000 to 18,000 gallons	1.4000	N/A	N/A
Over 18,000 gallons	1.6000		
First 50,000 gallons	N/A	2.5800	N/A
Over 50,000 gallons	N/A	3.2000	N/A
First 176,000 gallons	N/A	N/A	2.0000
Over 176,000 gallons	N/A	N/A	3.1200

6" Meter

First 12,000 gallons	\$ 1.2000	N/A	N/A
12,000 to 18,000 gallons	1.4000	N/A	N/A
Over 18,000 gallons	1.6000		
First 50,000 gallons	N/A	2.5800	N/A
Over 50,000 gallons	N/A	3.2000	N/A
First 364,000 gallons	N/A	N/A	2.0000
Over 364,000 gallons	N/A	N/A	3.1200

8" Meter

First 12,000 gallons	\$ 1.2000	N/A	N/A
12,000 to 18,000 gallons	1.4000	N/A	N/A
Over 18,000 gallons	1.6000		
First 50,000 gallons	N/A	2.5800	N/A
Over 50,000 gallons	N/A	3.2000	N/A
First 589,000 gallons	N/A	N/A	2.0000
Over 589,000 gallons	N/A	N/A	3.1200

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

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	11,183	\$ 20.92	\$ 37.67	\$ 16.75	80.05%
Median Usage	8,762	18.01	30.69	\$ 12.67	70.34%
Staff Recommended					
Average Usage	11,183	\$ 20.92	\$ 30.97	\$ 10.05	48.05%
Median Usage	8,762	18.01	25.92	\$ 7.91	43.91%

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

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ 7.50	\$ 14.00	86.67%	\$ 12.40	65.33%
1,000	8.70	15.10	73.56%	13.40	54.02%
2,000	9.90	16.20	63.64%	14.40	45.45%
3,000	11.10	17.30	55.86%	15.40	38.74%
4,000	12.30	18.40	49.59%	16.40	33.33%
5,000	13.50	20.98	55.41%	18.40	36.30%
6,000	14.70	23.56	60.27%	20.40	38.78%
7,000	15.90	26.14	64.40%	22.40	40.88%
8,000	17.10	28.72	67.95%	24.40	42.69%
9,000	18.30	31.30	71.04%	26.40	44.26%
10,000	19.50	33.88	73.74%	28.40	45.64%
11,000	20.70	37.08	79.13%	30.40	46.86%
12,000	21.90	40.28	83.93%	33.52	53.06%
13,000	23.30	43.48	86.61%	36.64	57.25%
14,000	24.70	46.68	88.99%	39.76	60.97%
15,000	26.10	49.88	91.11%	42.88	64.29%
16,000	27.50	53.08	93.02%	46.00	67.27%
17,000	28.90	56.28	94.74%	49.12	69.97%
18,000	30.30	59.48	96.30%	52.24	72.41%
19,000	31.90	62.68	96.49%	55.36	73.54%
20,000	33.50	65.88	96.66%	58.48	74.57%
25,000	41.50	81.88	97.30%	74.08	78.51%
30,000	49.50	97.88	97.74%	89.68	81.17%
35,000	57.50	113.88	98.05%	105.28	83.10%
40,000	65.50	129.88	98.29%	120.88	84.55%
45,000	73.50	145.88	98.48%	136.48	85.69%
50,000	81.50	161.88	98.63%	152.08	86.60%
75,000	121.50	241.88	99.08%	230.08	89.37%
100,000	161.50	321.88	99.31%	308.08	90.76%

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) DOCKET NO. W-01737A-12-0478
NEW RIVER UTILITY COMPANY, AN)
ARIZONA CORPORATION, FOR A)
DETERMINATION OF THE FAIR VALUE OF)
ITS UTILITY PLANT AND PROPERTY AND)
FOR INCREASES IN ITS WATER RATES)
AND CHARGES FOR UTILITY SERVICE)
BASED THEREON.)
_____)

SURREBUTTAL TESTIMONY

OF

DEL SMITH

UTILITIES ENGINEER SUPERVISOR

ARIZONA CORPORATION COMMISSION

UTILITIES DIVISION

AUGUST 12, 2013

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**SURREBUTTAL TESTIMONY
NEW RIVER UTILITY COMPANY
DOCKET NO. W-01737A-12-0478**

Recommendations

1. Staff recommends that New River Utility Company (“Company”) file with Docket Control, as a compliance item in this docket, within 90 days of the effective date of a decision in this proceeding, at least seven Best Management Practices (“BMPs”) in the form of tariffs that substantially conform to the templates created by Staff for Commission review and approval. These BMP templates are available on the Commission’s website. The Company may request recovery of the actual costs associated with the implemented BMPs in its next general rate application.
2. Staff recommends that the Company use a 20 year life and 5 percent rate for its plant in National Association of Regulatory Utility Commissioners Account No. 311 (pumping equipment) going forward.

Conclusions

1. The Company’s proposed rate base adjustment RB1 proposes to include plant costs in rate base related to recent well motor and well pump replacements and electrical system upgrades. Based on information provided by the Company, Staff concludes that these were legitimate costs that were reasonably incurred.

1 **INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Del Smith. My business address is 1200 West Washington Street, Phoenix,
4 Arizona 85007.

5
6 **Q. By whom are you employed and what is your position?**

7 A. I am employed by the Arizona Corporation Commission (“ACC” or “Commission”) in its
8 Utilities Division. My title is Engineering Supervisor.

9
10 **Q. Briefly describe your responsibilities as Engineering Supervisor.**

11 A. In my capacity as Engineering Supervisor, I provide recommendations and technical
12 assistance to the Commissioners and to other staff members on matters that come before
13 the Commission involving utilities such as New River Utility Company (“Company”) and
14 other water service providers operating in the State. In addition, I am responsible for
15 supervising other Staff members who work in the Engineering Section of the Utilities
16 Division. Those Staff members include water and wastewater engineers, electrical
17 engineers and an information technology specialist.

18
19 **Q. Please describe your educational background and professional experience.**

20 A. I graduated from Arizona State University in 1976 with a Bachelor of Science Degree in
21 Engineering Technology. Prior to joining the Commission in 1985 as a Utilities
22 Consultant, I had worked for a telephone operating company for twelve years where I held
23 positions in network planning and design. Since joining the Commission, I have worked
24 on hundreds of issues that have come before this Commission.

25

1 **Q. Did you submit Direct Testimony on behalf of the Utilities Division?**

2 A. No I did not. Marlin Scott filed Direct Testimony in this proceeding for the Utilities
3 Division ("Staff"). The testimony filed by Mr. Scott presented Staff's engineering
4 evaluation and recommendations in this proceeding. Due to his recent retirement, I will
5 be sponsoring Mr. Scott's Direct Testimony at the hearing in this matter.
6

7 **PURPOSE OF TESTIMONY**

8 **Q. What is the purpose of your Surrebuttal Testimony?**

9 A. To respond to the Rebuttal Testimony filed by Ray L. Jones on behalf of the Company.
10 My testimony addresses the Company's Rate Base adjustment RB1, the Company's
11 adjustment to address over depreciation of pumping equipment in National Association of
12 Regulatory Utility Commissioners ("NARUC") Account No. 311 and the Company's
13 position on Best Management Practices ("BMPs").
14

15 **RATE BASE ADJUSTMENT RB1**

16 **Q. Please explain the Company's rate base adjustment RB1.**

17 A. Adjustment RB1 proposes to include plant costs in rate base related to recent well motor
18 and well pump replacements and electrical system upgrades.
19

20 **Q. What are your comments regarding the Company's rate base adjustment RB1?**

21 A. Based on information provided by the Company, it appears these were legitimate costs
22 that were reasonably incurred.
23

1 **DEPRECIATION ADJUSTMENT**

2 **Q. Please explain the Company's adjustment to address over depreciation of pumping**
3 **equipment.**

4 A. The Company claims that Staff's recommended depreciation rate of 12.5 percent per year
5 for pumping equipment (NARUC Account No. 311) does not match the expected lives of
6 the Company's pumping plant. At a rate of 12.5 percent the pumping equipment becomes
7 fully depreciated in eight years. The Company suggests that a 20 year life which equates
8 to a depreciation rate of 5 percent would be more appropriate for the Company's pumping
9 equipment.

10
11 **Q. Does Staff believe that the Company should use the 20 year life and 5 percent rate**
12 **for its plant in NARUC Account No. 311 going forward?**

13 A. Yes. To that end I have attached to my Surrebuttal Testimony Exhibit A which includes
14 an amended Table I-1. Table I-1 listed the depreciation rates by NARUC Account that
15 Marlin Scott recommended in his Direct Testimony filed on June 26, 2013. Table I-1, as
16 amended and attached in Exhibit A, includes a 20 year life and 5 percent rate for the
17 Company's plant in NARUC Account No. 311 (Pumping Equipment). Staff recommends
18 that the depreciation rates listed in amended Table I-1 attached in Exhibit A be used by the
19 Company going forward.

20
21 **BMPS**

22 **Q. What is the Company's position on BMPs?**

23 A. Staff recommends that the Company file at least seven BMPs in the form of tariffs that
24 substantially conform to the templates created by Staff for Commission review and
25 approval. Mr. Jones stated that the Company does not agree with Staff's recommendation
26 because it is excessive and duplicative, taking the Company beyond what is required by

1 the Arizona Department of Water Resources' ("ADWR"). Mr. Jones also stated the
2 Company is already enrolled with ADWR's Modified Non-Per Capita Conservation
3 Program ("Modified NPCCP") that requires the Company to implement the Public
4 Education Program ("PEP") and one additional BMP.

5
6 **Q. First, could you provide a brief background of the BMPs?**

7 **A.** Yes. In 2008, ADWR added a new regulatory program for the ADWR Third Management
8 Plan for Active Management Areas ("AMAs"). The new program, called Modified
9 NPCCP, addresses large municipal water providers (cities, towns and private water
10 companies serving more than 250 acre-feet per year) and was developed in conjunction
11 with stakeholders from all AMAs. Participation in the program is required for all large
12 municipal water providers in AMAs that do not have a Designation of Assured Water
13 Supply and that are not regulated as a large untreated water provider or an institutional
14 provider.

15
16 The Modified NPCCP is a performance-based program that requires participating
17 providers to implement water conservation measures that result in water use efficiency in
18 their service areas. A water provider regulated under the program must implement a
19 required PEP and choose one or more additional BMPs based on its size, as defined by its
20 total number of water service connections. The provider must select the additional BMPs
21 from the list included in the Modified NPCCP Program. The BMPs are a mix of
22 technical, policy, and information conservation efforts.

23
24 Although the implementation of the Modified NPCCP is required of large municipal water
25 providers within an AMA, the Commission has adopted the BMPs for implementation by
26 Commission regulated water companies.

1 **Q. Could you also provide a background on how Staff decided on the number of BMPs**
2 **it is recommending in this case?**

3 A. Yes. In April of 2011, Staff had in-house discussions regarding the implementation of
4 BMPs. Based on the knowledge of ADWR's requirements to implement the Modified
5 NPCCP (a PEP and one or more additional BMPs based on the customer base size) and
6 the understanding of the Commissioners' desire for additional BMPs above a water
7 company's ADWR requirements, it was decided by the Utilities Director to recommend
8 the number of BMPs based on the size of a water utility as follows:

9

10 Class A – 10 BMPs

11 Class B – 7 BMPs

12 Class C – 5 BMPs

13 Class D & E – 3 BMPs

14

15 With the adoption of this guideline, Staff was primarily looking for consistency when
16 recommending the number of BMPs to be implemented for a water utility.

17

18 **Q. Do you agree that filing the BMPs with the Commission is duplication of State**
19 **regulatory oversight?**

20 A. No, I do not. Basically, the difference between the ADWR and ACC filing is the ACC
21 requires the BMPs to be filed in tariff form. The ACC requires the BMPs be filed in tariff
22 form for implementation, notification of water company/customer requirements, and
23 notification of steps for service termination, if needed. The ADWR filing does not
24 address these issues. Having ACC approved BMP tariffs give a water company more
25 tools to prevent water loss, at a little to no extra cost to the Company.

26

1 **Q. Are you aware of another State regulation under the terms of which the Commission**
2 **requires water utilities to file a tariff with the ACC for implementation?**

3 A. Yes, the Backflow Prevention Tariff. The backflow prevention program falls under the
4 Arizona Department of Environment Quality (“ADEQ”) regulation and, if a water utility
5 is to implement this ADEQ requirement, the water utility must file this Backflow
6 Prevention Tariff for implementation, notification of water company/customer
7 requirements, and notification of steps for service termination, if needed.

8
9 **Q. Based on the Company’s Rebuttal Testimony, has Staff’s recommendation regarding**
10 **the BMPs changed?**

11 A. No. Staff still recommends that the Company file with Docket Control, as a compliance
12 item in this docket, within 90 days of the effective date of a decision in this proceeding, at
13 least seven BMPs in the form of tariffs that substantially conform to the templates created
14 by Staff for Commission review and approval. These BMP templates are available on the
15 Commission’s website. The Company may submit the two approved ADWR BMPs as
16 part of the seven and may request recovery of the actual costs associated with the
17 implemented BMPs in its next general rate application.

18
19 **Q. Does this conclude your Surrebuttal Testimony?**

20 A. Yes, it does.

Table I-1. Water 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	20	5.00
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. 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.
2. 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.

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF)
NEW RIVER UTILITY COMPANY, AN)
ARIZONA CORPORATION, FOR A)
DETERMINATION OF THE FAIR VALUE)
OF ITS UTILITY PLANT AND PROPERTY)
AND FOR INCREASES IN ITS WATER)
RATES AND CHARGES FOR UTILITY)
SERVICE BASED THEREON.)
_____)

DOCKET NO. W-01737A-12-0478

SURREBUTTAL

TESTIMONY

OF

JOHN A. CASSIDY

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

AUGUST 12, 2013

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**EXECUTIVE SUMMARY
NEW RIVER UTILITY COMPANY
DOCKET NO. W-01737A-12-0478**

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

Capital Structure – Staff continues to recommend that the Commission adopt a capital structure for New River Utility Company (“Company”) for this proceeding consisting of 0.0 percent debt and 100.0 percent equity.

Cost of Equity – Staff recommends that the Commission adopt an 8.9 percent return on equity (“ROE”) for the Company. Staff’s estimated ROE for the Company is based on the average of its discounted cash flow (“DCF”) method and capital asset pricing model (“CAPM”) cost of equity methodology estimates for the sample companies of 8.6 percent for the DCF and 7.9 percent for the CAPM. Staff’s recommended ROE includes an upward economic assessment adjustment of 60 basis points (0.6 percent). Staff’s Direct Testimony recommended a ROE of 8.8 percent.

Cost of Debt – Staff continues to recommend that the Commission adopt a 0.0 percent cost of debt, as the Company has no debt in its capital structure.

Fair Value Rate of Return – Staff recommends that the Commission adopt a fair value rate of return (“FVROR”) of 7.8 percent for the Company. Staff’s Direct Testimony recommended a FVROR of 7.6 percent.

Mr. Jones’ Testimony – The Commission should reject the 10.0 percent cost of equity proposed by Mr. Jones because it is not supported by any market based cost of equity estimation analysis.

1 **I. INTRODUCTION**

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

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

6
7 **Q. Are you the same John A. Cassidy who filed Direct Testimony in this case?**

8 A. Yes, I am.

9
10 **Q. What is the purpose of your Surrebuttal Testimony in this rate proceeding?**

11 A. The purpose of my Surrebuttal Testimony is to report on Staff’s updated cost of capital
12 analysis with its recommendations concerning New River Utility Company’s (“New
13 River” or “Company”) cost of capital and overall fair value rate of return (“FVROR”), and
14 to respond to the cost of capital Rebuttal Testimony of Company witness, Ray L. Jones
15 (“Mr. Jones’ Rebuttal”).

16
17 **Q. Please explain how Staff’s Surrebuttal Testimony is organized.**

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

22

1 **II. COST OF EQUITY AND OVERALL FAIR VALUE RATE OF RETURN**

2 **Q. Is Staff recommending a different capital structure for New River in its Surrebuttal**
3 **Testimony than it did in Direct Testimony?**

4 A. No. Staff continues to recommend a capital structure consisting of 0.0 percent debt and
5 100.0 percent common equity.

6
7 **Q. Has Staff updated its analysis concerning the Company's cost of equity since filing**
8 **Direct Testimony in this proceeding?**

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

10
11 **Q. What is Staff's updated estimate for the cost of equity?**

12 A. Staff's updated estimate for the cost of equity is 8.3 percent. This figure is derived from
13 cost of equity estimates which range from 8.6 percent for the discounted cash flow
14 ("DCF") method to 7.9 percent for the capital asset pricing model ("CAPM") estimation
15 methodologies, as shown in Surrebuttal Schedule JAC-3. In Direct Testimony, Staff's
16 cost of equity estimate was 8.2 percent.¹

17
18 **Q. In its Surrebuttal Testimony, does Staff continue to recommend the 60 basis point**
19 **(0.6 percent) upward economic assessment adjustment to New River's cost of equity**
20 **that it recommended in its Direct Testimony?**

21 A. Yes.
22

¹ In Direct Testimony, Staff derived cost of equity estimates of 8.6 percent from the DCF method and 7.7 percent from the CAPM.

1 **Q. What return on equity (“ROE”) is Staff recommending for New River?**

2 A. Staff recommends an 8.9 percent ROE. Staff’s recommended ROE represents Staff’s
3 updated 8.3 percent cost of equity, plus Staff’s upward 60 basis point economic
4 assessment adjustment ($8.9\% = 8.3\% + 0.6\%$).

5
6 **Q. Did Staff update its analysis concerning the Company’s overall fair value rate of
7 return?**

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

9
10 **Q. Does Staff’s updated cost of equity analysis result in a change to Staff’s weighted
11 average cost of capital?**

12 A. Yes. Based upon its updated cost of equity analysis, Staff’s weighted average cost of
13 capital for New River is 8.9 percent, as shown in Surrebuttal Schedule JAC-1. In Direct
14 Testimony, Staff’s weighted average cost of capital was 8.8 percent.

15
16 **Q. What FVROR does Staff recommend for New River?**

17 A. Staff recommends a 7.8 percent FVROR for the Company, as shown in Surrebuttal
18 Schedule JAC-1.² Staff’s FVROR calculation represents New River’s weighted average
19 cost of capital, less an inflation adjustment/accretion return of 1.1 percent ($8.9\% - 1.1\% =$
20 7.8%).

21
22 **Q. In calculating its updated inflation adjustment/accretion return for the Company,
23 did Staff employ the same methodology used in its Direct Testimony?**

24 A. Yes. Details of Staff’s updated inflation adjustment/accretion return calculation are
25 presented in Surrebuttal Schedule JAC-2.

² In Direct Testimony, Staff recommended a FVROR of 7.6 percent for New River.

1 **III. STAFF RESPONSE TO COMPANY'S COST OF CAPITAL WITNESS MR. RAY**
2 **L. JONES**

3 **Q. In Direct Testimony, Mr. Jones provided no market based support for his proposed**
4 **10.0 percent cost of equity. Does he provide such market based support in Rebuttal**
5 **Testimony?**

6 A. No. Mr. Jones' Rebuttal Testimony continues to rely upon a review of authorized returns
7 granted by the Commission in recent cases as the basis for his proposed 10.0 percent cost
8 of equity. In Direct Testimony, Mr. Jones based his proposed 10.0 percent cost of equity
9 on a review of the returns authorized in six recent dockets;³ in Rebuttal Testimony, he
10 expands his review to include authorized returns from ten recent dockets, four of which
11 were among the six dockets reviewed for purposes of his Direct Testimony.⁴

12
13 **Q. For purposes of establishing the rates to be charged customers by a public utility in**
14 **a regulatory proceeding, why is it appropriate that the estimated cost of equity be**
15 **market based?**

16 A. It is appropriate because the cost of equity can only be determined in the marketplace,
17 wherein it manifests itself as the investors' *expected* return. As noted in Staff's Direct
18 Testimony, there is an opportunity cost associated with choosing one investment over
19 another of equivalent risk.⁵ Markets are efficient, and with so many investment
20 opportunities to choose from, investors will seek out those stocks offering the highest
21 returns available for a given level of risk; bidding up the share price of stocks deemed to
22 be undervalued, and selling off those shares deemed to be overvalued. Through this

³ See Jones Direct, p.16.

⁴ See Jones Rebuttal, p. 29, Table 1- Recent Returns on Equity Granted by the Commission. Among the ten dockets reviewed, four had previously been reviewed by Mr. Jones for purposes of his Direct testimony: Bermuda Water (Docket No. W-01812A-10-0521; Decision No. 72892), Indiada Water/East Slope Water (Docket No. W-02031A-10-0168; Decision No. 73091); Arizona Water – Western Group (Docket No. W-01445A-10-0517; Decision No. 73144); and Arizona-American Water (Docket No. W-01303A-10-0448; Decision No. 73145).

⁵ See Cassidy Direct, p. 4, lines 5-8.

1 process, the market determines an entity's cost of equity.⁶ Authorized returns on equity
2 are not the equivalent of the cost of equity, and thus should not be relied upon.
3

4 **Q. Aside from Mr. Jones reliance upon authorized returns to estimate the cost of**
5 **equity, does Staff have other concerns regarding his proposed 10.0 percent return**
6 **on equity for New River?**

7 A. Yes. As noted in Staff's Direct Testimony,⁷ financial risk is proportional to the level of
8 debt financing employed in a firm's capital structure; the higher the percentage of debt,
9 the greater the exposure to financial risk. Furthermore, equity shareholders require
10 compensation for exposure to financial risk.⁸ As noted earlier, New River has a capital
11 structure consisting of 100.0 percent equity and 0.0 percent debt; thus, the Company has
12 no exposure to financial risk. In contrast, as shown in Table 1 of Mr. Jones' Rebuttal (p.
13 29) Testimony, the average capital structure of the ten sample companies selected by Mr.
14 Jones is more highly leveraged, consisting of 66.49 percent equity and 33.51 percent
15 debt. Nevertheless, despite having no exposure to financial risk, Mr. Jones proposes a
16 *higher* cost of equity (i.e., 10.0 percent) for New River than his sample average ROE
17 (i.e., 9.85 percent). Staff has prepared a restatement of Mr. Jones' Rebuttal Table-1
18 which corrects for several minor errors contained therein. Staff's restatement appears in
19 Surrebuttal Exhibit JAC-A.⁹
20

⁶ See Cassidy Direct, p. 7, lines 15-19.

⁷ See Cassidy Direct, page 11, lines 11-13.

⁸ See Cassidy Direct, page 33, lines 12-15.

⁹ See Cassidy Surrebuttal Exhibit JAC-A. The corrections were made to the authorized ROE for Chino Meadows II Water Co. (corrected, 9.60%), and the authorized ROE for UNS Gas Corp. (corrected, 9.75%). These corrections resulted in a reduction to Mr. Jones' sample average authorized ROE from 9.85 percent to 9.83 percent.

1 **Q. Did Mr. Jones make a downward financial risk adjustment to his estimated cost of**
2 **equity for New River in recognition of the Company's lack of exposure to financial**
3 **risk relative to his sample companies?**

4 A. No, he did not.
5

6 **Q. Did Staff make a downward financial risk adjustment to its estimated cost of equity**
7 **for New River in recognition of the Company's lack of exposure to financial risk?**

8 A. No. For reasons noted in its Direct Testimony,¹⁰ Staff elected not to make a downward
9 financial risk adjustment to its cost of equity estimate for the Company. However, if
10 New River were a utility with access to the capital markets, making such a downward
11 adjustment would have been warranted. As shown in Surrebuttal Schedule JAC-4,
12 Staff's updated sample average capital structure consists of 50.3 percent debt and 49.7
13 percent equity. Thus, to properly reflect the absence of financial risk exposure associated
14 with New River's 100.0 percent equity capital structure relative to that of Staff's sample
15 companies, a downward adjustment to Staff's recommended cost of equity for New River
16 could have been appropriate.
17

18 **Q. How does Staff respond to the concerns raised by Mr. Jones relating to the cost of**
19 **equity recommended by Staff in Direct Testimony in the pending Global Water**
20 **("Global") consolidated rate dockets?**

21 A. Staff would note that the Global rate dockets are on-going so it would not be appropriate
22 for Staff to expand upon, or otherwise attempt to clarify the basis of its arguments in the
23 Global dockets in this New River docket. However, Staff does want to make one point
24 for purpose of clarifying the record in this New River docket. That point is that Staff's
25 cost of equity analysis in the Global dockets was actually completed before its analysis in

¹⁰ See Cassidy Direct, pages 33-34.

1 the New River docket, but testimony was not filed on the original timeline in the Global
2 dockets due to a two month filing date extension approved by the Commission.

3

4 **IV. STAFF RECOMMENDATIONS**

5 **Q. What are Staff's recommendations for the Company's cost of capital?**

6 A. Staff recommends the following for New River's cost of capital:

7

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

9 2. A 0.0 percent cost of debt.

10 3. An 8.9 percent cost of equity (which includes a 60 basis point (0.6 percent) upward
11 economic assessment adjustment).

12 4. A 7.8 percent FVROR.

13

14 **Q. Does this conclude your Surrebuttal Testimony?**

15 A. Yes, it does.

New River Utility Company Cost of Capital Calculation
 Capital Structure &
 Weighted Average Cost of Capital &
 Fair Value Rate of Return
 Staff Recommended and Company Proposed

[A] <u>Description</u>	[B] <u>Weight (%)</u>	[C] <u>Cost</u>	[D] <u>Weighted Cost</u>
Staff Recommended Structure			
Debt	0.0%	0.0%	0.0%
Common Equity	100.0%	8.9%	<u>8.9%</u>
Weighted Average Cost of Capital			<u>1.1%</u>
Less: Accretion Return			<u>7.8%</u>
Fair Value Rate of Return			
Company Proposed Structure			
Debt	0.0%	0.0%	0.0%
Common Equity	100.0%	10.0%	<u>10.0%</u>
Weighted Average Cost of Capital			<u>10.00%</u>
Less: Accretion Return			<u>1.28%</u>
Fair Value Rate of Return			<u>8.72%</u>

[D] : [B] x [C]

Supporting Schedules: JAC-3 and JAC-4.

New River Utility Company Cost of Capital Calculation
 Inflation Adjustment (Accretion Return)
 Included in the Fair Value Rate of Return
 Staff Recommended

<u>Description</u>	
Weighted Average Cost of Capital	8.9% ¹
Less: Modified Inflation Adjustment/Accretion Return	1.1% ²
Fair Value Rate of Return	<u>7.8%</u>

¹ Schedule JAC-1

² Calculation of Modified Inflation Adjustment/Accretion Return:

30-Year Treasury Yield (as of 7/17/2013) -- Nominal ³	3.57%
Less: 30-Year Treasury Yield (@ 7/17/2013) -- Real ³	1.29%
Return Required by Investors due to Inflation (Accretion Return)	2.28%
Times: 50% factor ⁴	0.5
Inflation Adjustment (rounded to one decimal point)	1.1%

³ <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/default.aspx>

⁴ This factor recognizes that the OCRB represents 50% of the FVRB, and that the OCRB includes no inflation.

Note: The above Fair Value Rate of Return calculation is consistent with the methodology adopted in Decision No. 71308 (dated October 21, 2009) with one exception. Specifically, the methodology adopted in Decision No. 71308 utilized a 20-year Treasury yield to determine the return required by investors due to inflation (i.e., accretion yield), as this was the longest term Treasury Inflation Protected Securities ("TIPS") instrument available at the time. However, beginning on February 22, 2010, the Treasury initiated the sale of a new 30-year TIP security, and expanded its analysis to allow for the calculation of an inflation adjustment/accretion return based upon a 30-year Treasury yield. Accordingly, Staff's analysis incorporates the use of a 30-year Treasury yield in order to more accurately reflect the impact of inflation over the life of the Company's plant as reflected in its weighted average depreciation/amortization rate.

New River Utility Company Cost of Capital Calculation
 Final Cost of Equity Estimates
 Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
DCF Method				
Constant Growth DCF Estimate		$\frac{D_1/P_0}{2.9\%}$	+ α^2	= $\frac{k}{7.9\%}$
Multi-Stage DCF Estimate			+ 5.0%	= $\frac{9.2\%}{8.6\%}$
Average DCF Estimate				=
CAPM Method				
Historical Market Risk Premium ³	R_f	β^5	x (R_p)	= $\frac{k}{7.0\%}$
Current Market Risk Premium ⁴	1.9%	0.71	x 7.2% ⁶	=
Average CAPM Estimate	3.6%	0.71	x 7.3% ⁷	= $\frac{8.7\%}{7.9\%}$
			Average of Overall Estimates	8.3%
			Economic Assessment Adjustment	<u>0.6%</u>
			Sub-Total	8.9%
			Financial risk adjustment	<u>0.0%</u>
			Total	8.9%

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 2013 Ibbotson S&P Classic Yearbook data

7 Testimony

New River Utility Company Cost of Capital Calculation
Average Capital Structure of Sample Water Utilities

[A]	[B]	[C]	[D]
<u>Company</u>	<u>Debt</u>	<u>Common Equity</u>	<u>Total</u>
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%
York Water	<u>45.0%</u>	<u>55.0%</u>	<u>100.0%</u>
<i>Average Sample Water Utilities</i>	50.3%	49.7%	100.0%
New River - Actual Capital Structure	0.0%	100.0%	100.0%

Source:

Sample Water Companies from Value Line

New River Utility Company Cost of Capital Calculation
 Growth in Earnings and Dividends
 Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
<u>Company</u>	Dividends Per Share 2002 to 2012 <u>DPS¹</u>	Dividends Per Share Projected <u>DPS¹</u>	Earnings Per Share 2002 to 2012 <u>EPS^{1,2}</u>	Earnings Per Share Projected <u>EPS¹</u>
American States Water	3.9%	7.2%	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%	3.5%	3.2%	2.7%
Middlesex Water	1.6%	1.6%	2.1%	5.0%
SJW Corp	4.4%	4.9%	4.2%	6.3%
York Water	<u>4.4%</u>	<u>3.8%</u>	<u>6.1%</u>	<u>4.6%</u>
Average Sample Water Utilities	3.6%	5.2%	5.1%	4.8%

1 Value Line

2 Negative values are inconsistent with the DCF, accordingly, they are excluded from the average.

New River Utility Company Cost of Capital Calculation
Sustainable Growth
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]
<u>Company</u>	Retention Growth 2002 to 2012 <u>br</u>	Retention Growth Projected <u>br</u>	Stock Financing Growth <u>vs</u>	Sustainable Growth 2002 to 2012 <u>br + vs</u>	Sustainable Growth Projected <u>br + vs</u>
American States Water	3.8%	5.1%	1.6%	5.5%	6.8%
California Water	2.4%	3.2%	1.6%	4.0%	4.8%
Aqua America	3.9%	4.4%	2.0%	5.9%	6.4%
Connecticut Water	2.0%	3.0%	3.7%	5.7%	6.8%
Middlesex Water	1.2%	2.8%	3.3%	4.5%	6.1%
SJW Corp	3.5%	3.8%	0.1%	3.6%	3.9%
York Water	<u>2.2%</u>	<u>2.8%</u>	<u>4.7%</u>	<u>6.9%</u>	<u>7.5%</u>
Average Sample Water Utilities	2.7%	3.6%	2.4%	5.1%	6.0%

[B]: Value Line

[C]: Value Line

[D]: Value Line and MSN Money

[E]: [B]+[D]

[F]: [C]+[D]

New River Utility Company Cost of Capital Calculation
 Selected Financial Data of Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Company	Symbol	Spot Price 7/17/2013	Book Value	Mkt To Book	Value Line Beta β	Raw Beta β_{raw}
American States Water	AWR	58.68	23.43	2.5	0.70	0.52
California Water	CWT	20.99	11.57	1.8	0.65	0.45
Aqua America	WTR	32.74	9.87	3.3	0.60	0.37
Connecticut Water	CTWS	29.64	13.91	2.1	0.75	0.60
Middlesex Water	MSEX	21.68	11.94	1.8	0.70	0.52
SJW Corp	SJW	27.44	15.15	1.8	0.85	0.75
York Water	YORW	21.12	8.08	2.6	0.70	0.52
Average				2.3	0.71	0.53

[C]: Msn Money

[D]: Value Line

[E]: [C] / [D]

[F]: Value Line

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

New River Utility Company Cost of Capital Calculation
 Calculation of Expected Infinite Annual Growth in Dividends
 Sample Water Utilities

[A]	[B]
<u>Description</u>	<u>g</u>
DPS Growth - Historical ¹	3.6%
DPS Growth - Projected ¹	5.2%
EPS Growth - Historical ¹	5.1%
EPS Growth - Projected ¹	4.8%
Sustainable Growth - Historical ²	5.1%
<u>Sustainable Growth - Projected²</u>	<u>6.0%</u>
Average	5.0%

¹ Schedule JAC-5

² Schedule JAC-6

New River Utility Company Cost of Capital Calculation
 Multi-Stage DCF Estimates
 Sample Water Utilities

[A] Company	[B] Current Mkt. Price (P_0) ¹ 7/17/2013	[C]	[D]	[E] Projected Dividends ² (Stage 1 growth) (D_t)		[F]	[G] Stage 2 growth ³ (g_n)	[H] Equity Cost Estimate (K) ⁴
		d_1	d_2	d_3	d_4			
American States Water	58.7	1.52	1.60	1.68	1.76	6.5%	9.0%	
California Water	21.0	0.65	0.68	0.72	0.75	6.5%	9.5%	
Aqua America	32.7	0.74	0.78	0.82	0.86	6.5%	8.6%	
Connecticut Water	29.6	1.02	1.07	1.12	1.18	6.5%	9.8%	
Middlesex Water	21.7	0.76	0.79	0.83	0.88	6.5%	9.8%	
SJW Corp	27.4	0.74	0.77	0.81	0.85	6.5%	9.1%	
York Water	21.1	0.55	0.58	0.61	0.64	6.5%	9.0%	

Average 9.2%

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

- 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 Ray L. Jones Rebuttal Table 1
Recent Returns on Equity Granted by the Commission

<u>Line</u>	<u>Company</u>	<u>Docket No.</u>	<u>Decision No.</u>	<u>Date</u>	<u>Authorized ROE</u>	<u>Capital Structure</u>	
						<u>Debt</u>	<u>Equity</u>
1	Southwest Gas Corp. ¹	G-01551A-10-0458	72723	6-Jan-12	9.50%	47.70%	52.30%
2	Bermuda Water Co.	W-01812A-10-0521	72892	17-Feb-12	8.82%	0.00%	100.00%
3	Chino Meadows II Water Co. ²	W-02370A-10-0519	72896	21-Feb-12	9.60%	0.00%	100.00%
4	Indiada Water Co.	W-02031A-10-0168, et al.	73091	5-Apr-12	10.00%	0.00%	100.00%
5	Arizona Water Co. - Western Group	W-01445A-10-0517	73144	1-May-12	10.00%	49.03%	50.97%
6	Arizona-American Water Co.	W-01303A-10-0448	73145	1-May-12	10.60%	58.73%	41.27%
7	UNS Gas Corp. ³	G-04204A-11-0158	73142	1-May-12	9.75%	49.18%	50.82%
8	Arizona Public Service Co.	E-01345A-11-0224	73183	24-May-12	10.00%	46.06%	53.94%
9	Pima Utility Co.	W-02199A-11-0329, et al.	73573	21-Nov-12	9.49%	35.36%	64.64%
10	Arizona Water Co. - Eastern Group	W-01445A-11-0310	73736	20-Feb-13	10.55%	49.03%	50.97%
11							
12	Average				9.83%	33.51%	66.49%
13							
14	New River Utility Co.					0.00%	100.00%

¹ As per the terms of a Settlement agreement, Decision No. 72723 authorized Southwest Gas an ROE of 9.5%, plus a mechanism for full revenue decoupling.
² As per Decision No 72896, Chino Meadows II was authorized an ROE of 9.6%, not 10.0% as represented by Mr. Jones (Jones Rebuttal, Table 1, p. 29).
³ As per Decision No 73142, UNS Gas was authorized an ROE of 9.75%, not 9.5% as represented by Mr. Jones (Jones Rebuttal, Table 1, p. 29).