

NEW APPLICATION



0000148235

ORIGINAL

Steve Wene, No. 019630
MOYES SELLERS & HENDRICKS LTD.
1850 N. Central Avenue, Suite 1100
Phoenix, Arizona 85004
(602)-604-2189
swene@law-msh.com
Attorneys for Utility Source, L.L.C.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP, CHAIRMAN
GARY PIERCE
BOB BURNS
SUSAN BITTER SMITH
BRENDA BURNS

Arizona Corporation Commission

DOCKETED

SEP 27 2013

DOCKETED BY [Signature]

AZ CORP COMMISSION
DOCKET CONTROL

2013 SEP 21 P 3:54

RECEIVED

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

WS-04235A-13-0331 35A-13-

RATE APPLICATION

Utility Source, L.L.C. ("Company" or "Applicant"), hereby applies for an increase
in its water and wastewater rates.

SUPPORTING DOCUMENTATION

Pursuant to A.A.R. Rule 14-2-103, the Company submits the following
documentation in support of the proposed increase in rates and charges:

- Direct Testimony of Thomas Bourassa re Rate Base, Income Statement and
Rate Design (see Attachment 1);

- 1 • Direct Testimony of Thomas Bourassa re Cost of Capital (*see*
2 Attachment 2);
3
4 • Water Use and Wastewater Flow Data Sheets (*see* Attachment 3); and
5
6 • Plant Descriptions (*see* Attachment 4).

7 RESPECTFULLY SUBMITTED this 27th day of September, 2013.

8 **MOYES SELLERS & HENDRICKS LTD.**

9 
10 _____
11 Steve Wene

12
13 Original and 13 copies of the foregoing
14 filed this 27th day of September, 2013, with:

15 Docket Control
16 Arizona Corporation Commission
17 1200 West Washington
18 Phoenix, Arizona 85007

19 
20 _____
21
22
23
24
25
26
27
28

ATTACHMENT 1

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP, CHAIRMAN
GARY PIERCE
BRENDA BURNS
SUSAN BITTER SMITH
BOB BURNS

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

DOCKET NO: WS-04235A-13-_____

**DIRECT TESTIMONY OF
THOMAS J. BOURASSA
(RATE BASE, INCOME STATEMENT AND RATE DESIGN)**

September 27, 2013

TABLE OF CONTENTS

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

- I. INTRODUCTION AND QUALIFICATIONS1
- II. OVERVIEW OF THE COMPANY’S REQUEST FOR RATE RELIEF2
- III. USLLC’S WATER DIVISION3
 - A. Summary of A, E and F Schedules.3
 - B. Rate Base (B Schedules).....5
 - C. INCOME STATEMENT (C SCHEDULES)7
 - D. Rate Design (H Schedules).....12
 - 1. Other Tariff Changes.17
- IV. USLLC’S WASTEWATER DIVISION.....18
 - A. Summary of A, E and F Schedules.18
 - B. Rate Base (B Schedules).....19
 - C. INCOME STATEMENT (C SCHEDULES)22
 - D. Rate Design (H Schedules).....24
 - 1. Other Tariff Changes.26

1 **I. INTRODUCTION AND QUALIFICATIONS**

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

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

5 **Q. WHAT IS YOUR PROFESSION AND BACKGROUND?**

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

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

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

18 In my private practice, I have prepared and/or assisted in the preparation of
19 several water and wastewater utility rate applications before the Arizona
20 Corporation Commission ("Commission").

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

22 A. I am testifying in this proceeding on behalf of the Utility Source, L.L.C.
23 ("USLLC" or "Company"). USLLC is seeking increases in its rates and charges
24 for water and wastewater service in its certificated service area.

25

26

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

2 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

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

8 For the convenience of the Commission, the two portions of my direct
9 testimony, each with the relevant schedules attached, are being filed separately in
10 this case. In this volume of my direct testimony, I address the rate base, income
11 statement (revenue and operating expenses), required increase in revenue, rate
12 design, and proposed rates and charges for service Company's water and
13 wastewater division. Schedules A through C, E-F and H, labeled separately as
14 "water division" and "wastewater division," are attached to this portion of my
15 direct testimony. The Company has not prepared a cost of service study (G
16 schedules) for either division. Consequently, the G Schedules are omitted.

17 In the second volume of my direct testimony, to which the D schedules are
18 attached, I address cost of capital.

19 **Q. PLEASE SUMMARIZE THE COMPANY'S APPLICATION.**

20 A. The test year used by USLLC is the 12-month period ending December 31, 2012.
21 The Company's consolidated capital structure for ratemaking purposes consists of
22 100% equity and 0% debt. The Company is requesting an 11.0% return on its fair
23 value rate base ("FVRB"). The weighted average cost of capital is 11.0%. The
24 Company has also proposed certain pro forma adjustments to take into account
25 known and measurable changes to rate base, expenses and revenues. These pro
26 forma adjustments are consistent with normal ratemaking and are contemplated by

1 the Commission's rules and regulations governing rate applications. See R14-2-
2 103. These adjustments are necessary to obtain a normal or realistic relationship
3 between revenues, expenses and rate base on a going-forward basis.

4 The Company's FVRB for the water division is \$1,566,542. The revenue
5 increase to provide for recovery of operating expenses and an 11.0% return on rate
6 base will increase revenues \$228,447, an increase of 109.83% over the adjusted
7 and annualized test year revenues.

8 The Company's FVRB for the wastewater division is \$830,945. The
9 increase in revenues to provide for recovery of operating expenses and an 11.0%
10 return on rate base is \$196,760, an increase of 162.23% over the adjusted and
11 annualized test year revenues.

12
13 **III. USLLC'S WATER DIVISION**

14 **A. Summary of A, E and F Schedules.**

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

18 **A.** The A-1 Schedule summarizes the water division's rate base, operating income,
19 current operating margin, required operating margin, operating income deficiency,
20 and increase in gross revenue. Present and proposed revenues and customer
21 classifications are also shown on this schedule.

22 The A-2 Schedule summarizes operation results for the test year, prior
23 years, and a projected year at present and proposed rates.

24 Schedule A-3 is not required for Class C rate applications as is not included.
25
26

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

4 Schedule A-5 is not required for Class C rate applications as is not included.

5 The E Schedules are based on the Company's actual operating results, as
6 reported by the Company in annual reports filed with the Commission. The E-1
7 Schedule contains the comparative balance sheet data for the calendar years 2009,
8 2010, and 2011.

9 Schedule E-2, page 1, contains the income statement for the calendar years
10 2009, 2010, and 2011.

11 Schedule E-3 is not required for Class C rate applications as is not included.

12 Schedule E-4 is not required for Class C rate applications as is not included.

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

15 Schedule E-7 contains operating statistics for the calendar years 2009, 2010,
16 and 2011.

17 Schedule E-8 contains the taxes charged to operations.

18 The accountant's notes to the financial statements and the financial
19 assumptions used in preparing the rate filing schedules are shown on Schedules E-9
20 and F-4, respectively, in accordance with the Commission's standard filing
21 requirements. The Company does not prepare audited financial statements.

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

24 Schedule F-2 4 is not required for Class C rate applications as is not
25 included.

26

1 Schedule F-3 is not required for Class C rate applications and is not
2 included.

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

5 **B. Rate Base (B Schedules).**

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

8 A. Yes. I will start with Schedule B-5, which is the working capital allowance. I used
9 the "formula method" of computing the working capital allowance to reduce costs.
10 However, the Company is not requesting a working capital allowance.

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

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

16 **Q. THANK YOU. PLEASE CONTINUE.**

17 A. The Company did not file Schedules B-3 and B-4. To limit issues in dispute and
18 reduce rate case expense, USLLC is requesting that its water division's OCRB
19 ("OCRB") be used as its FVRB.

20 **Q. HAVE YOU PREPARED SCHEDULES SHOWING ADJUSTMENTS TO**
21 **THE COMPANY'S OCRB?**

22 A. Yes. Schedule B-2 shows adjustments to the Company's water division OCRB
23 cost rate base proposed by the Company. Schedule B-2, pages 2 through 5,
24 provides the supporting information. These adjustments are, in summary:

25 B-2 adjustment number 1, as shown on Schedule B-2, page 2, adjusts plant-
26 in-service. There are two plant-in-service adjustments included in Adjustment 1.

1 These are shown on Schedule B-2, page 3, and are labeled as Adjustment "A" and
2 Adjustment "B".

3 Adjustment A of B-2 adjustment number 1 removes cost for Deep Well #4
4 from plant-in-service. The Company is proposing to remove the costs of Deep
5 Well #4 because it believes Deep Well #4 represents capacity for future customers.

6 Adjustment B of B-2 adjustment number 1 adjusts plant-in-service to reflect
7 the reconstructed balance of plant in service. The details of the reconstruction are
8 shown on the water division Schedule B-2, pages 3.2 to 3.6.

9 **Q. PLEASE CONTINUE.**

10 A. Adjustment B-2 shown on Schedule B-2, page 2, adjusts accumulated depreciation.
11 The details of the accumulated depreciation adjustment are shown a Schedule B-2,
12 page 4. There are two plant-in-service adjustments included in Adjustment 2.
13 These are shown on Schedule B-2, page 4, and are labeled as Adjustments "A" and
14 Adjustment "B".

15 Adjustment A of B-2 adjustment number 2 removes accumulated
16 depreciation associated with Deep Well #4.

17 Adjustment B of B-2 adjustment number 2 adjusts accumulated depreciation
18 reflects the recomputed amounts of accumulated depreciation per the Company's
19 B-2 plant schedule.¹

20 **Q. DO THE WATER DIVISION'S PLANT IN SERVICE AND**
21 **ACCUMULATED DEPRECIATION BALANCES SHOWN ON B-2**
22 **REFLECT THE LAST COMMISSION RATE ORDER?**

23 A. Yes. They also reflect the depreciation rates used for depreciation expense in the
24 last rate case.

25
26 ¹ See Water Division Schedule B-2, pages 3.2 to 3.6.

1 **Q. PLEASE CONTINUE.**

2 A. Adjustment 3 shown on Schedule B-2, page 2, adjusts the accumulated
3 amortization balance of contributions-in-aid of construction ("CIAC") to the
4 recomputed amount reflecting the annual historical composite depreciation rates
5 for plant-in-service.

6 Adjustment 4 shown on Schedule B-2, page 2, increases the customer meter
7 deposits balance to the computed balance per the Company's work papers.

8 **Q. ARE THERE ANY OTHER ADJUSTMENTS TO THE RATE BASE**
9 **COMPONENTS?**

10 A. No.

11 **Q. HOW WAS THE PROPOSED FVRB SHOWN ON A-1 DETERMINED?**

12 A. The FVRB shown on the water division's Schedule A-1 is based on OCRB, with
13 no adjustment for the current values of the water division's plant and property.

14 **C. INCOME STATEMENT (C SCHEDULES)**

15 **Q. PLEASE EXPLAIN THE ADJUSTMENTS YOU ARE PROPOSING TO**
16 **THE WATER DIVISION'S INCOME STATEMENT AS SHOWN ON**
17 **SCHEDULES C-1 AND C-2.**

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

19 Adjustment 1 annualizes depreciation expense. The proposed depreciation
20 rate for each component of utility plant is shown on Schedule C-2, page 2. The
21 depreciation rates approved last rate case were plant account specific. The
22 Company proposes to continue to use account specific rates except the rates it
23 proposes are based upon the typical and customary depreciation rates
24 recommended by Staff Engineering.

25 Adjustment 2 increases the property taxes based on proposed revenues. The
26 details of the computation are shown on Schedule C-2, page 3.

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

3 A. To determine full cash value, I used the method employed by the Arizona
4 Department of Revenue - Centrally Valued Properties (“ADOR” or
5 “Department”). This method determines full cash value by using twice the average
6 of three years of revenue, plus an addition for CWIP and a deduction for the book
7 value of transportation equipment. Here, I used two times the adjusted revenues
8 for the test year, and one year of revenues at proposed rates. The assessed value
9 (20% of full cash value) was then multiplied by the property tax rate to determine
10 adjusted property tax expense.

11 **Q. IS THIS CONSISTENT WITH PRIOR COMMISSION DECISIONS?**

12 A. Yes. *E.g., Chaparral City Water Company*, Decision No. 68176 (September 30,
13 2005) at 13, *LPSCO Utilities*, Decision No. 67279 (October 5, 2004); *LPSCO*
14 *Utilities*, Decision No. 72026 (December 10, 2010).

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

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

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

23 A. Adjustment 3 shows the rate case expense estimated by the Company the water
24 division. The Company estimates rate case expense for the water division of
25 \$50,000. The Company proposes that rate case expense be recovered over five
26 years because it believes a five-year cycle for future rate cases is reasonable given

1 this utility's circumstances. Using a five-year recovery period, the annual rate case
2 expense is \$10,000.

3 **Q. HOW DID YOU ARRIVE AT THIS AMOUNT?**

4 A. Based on my experience with rate cases before the Commission and that of the
5 Company's counsel.

6 **Q. HOW DID YOU ALLOCATE THE RATE CASE EXPENSE?**

7 A. I split the rate case expense evenly between the water and wastewater divisions.²

8 **Q. PLEASE EXPLAIN WHY YOU REFER TO THIS AMOUNT AS AN
9 "ESTIMATE"?**

10 A. Because I can't see the future, I can only make some guesses based on my
11 experience. The specifics of who may intervene, what unique issues may come
12 into dispute, what kind of procedural problems we will encounter, etc. I cannot
13 predict. I know rate cases are lengthy and expensive, but I still have to start with
14 an estimate. If things turn out more complicated than anticipated, the Company
15 will modify its request to account for that increased expense. Conversely, if the
16 case proceeds and rate case expense is lower than expected, we would make an
17 appropriate adjustment downward.

18 **Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE INCOME
19 STATEMENT ADJUSTMENTS FOR THE WATER DIVISION?**

20 A. Adjustment 4 annualizes revenues to the year-end number of customers. The
21 annualization of revenues is based on the number of customers at the end of the test
22 year, compared to the actual number of customers during each month of the test
23 year. Average revenues per customer by month were computed for the test year
24 and then multiplied by the increase (or decrease) in number of customers for each

25 _____
26 ² Size is measured by number of customers. The water division has approximately the same number of
customers as the wastewater division.

1 month of the test year. The total of the monthly revenue change comprise the
2 revenue annualization. This was done for each customer class.

3 Adjustment 5 annualizes purchased power expense based on the additional
4 gallons sold from annualizing revenues to the year-end number of customers in
5 Adjustment 4, above. This adjustment is intended to match the additional expense
6 associated with the revenue annualization.

7 Adjustment 6 removes customer security deposits erroneously included in
8 revenues. Security deposits should have been classified as a liability, not revenue.

9 Adjustment 7 reduces other water revenues to reflect the wastewater
10 division's share of these revenues.

11 Adjustment 8 reflects income taxes based upon the water division's adjusted
12 test year revenue and expense. USLLC is a subchapter S corporation.

13 **Q. PLEASE EXPLAIN THE METHODOLOGY YOU USED FOR THE**
14 **DETERMINATION OF THE INCOME TAX ALLOWANCE IN THE**
15 **INSTANT CASE.**

16 **A.** The basic methodology is summarized as follows:

- 17 1. Identify all the taxable persons or entities and all non-taxable entities
18 who are owners of the utility. If necessary, drill down through all
19 ownership levels until an individual or taxable or nontaxable entity is
20 reached.
- 21 2. Establish an effective or marginal tax rate for each taxable entity.
22 Rather than using presumptive rates such as 28% for all individual
23 taxpayers and 35% for taxable entities, the effective income tax rate
24 for all taxable entities is determined based on the current statutory
25 federal and state income tax rates and the proportionate share of
26 income passed through to each owner. Only the passed through

1 taxable income is considered in computing the effective tax rate for
2 each owner. Other income and deductions which may be available to
3 the owners are ignored so as to prevent cross-subsidization between
4 utility and non-utility operations.

5 3. Calculate a weighted average effective tax rate for the combined
6 ownership.

7 4. Compute the effective tax rate assuming the Company is a subchapter
8 C corporation.

9 5. Use lesser effective tax rate determined in from Step 3 and Step for
10 calculating income tax allowance.

11 **Q. IS THE APPROACH YOU FOLLOWED CONSISTENT THE**
12 **COMMISSION'S POLICY ON INCOME TAXES?**

13 A. Yes.³

14 **Q. WHAT IS AVERAGE EFFECTIVE INCOME TAX RATE USED TO**
15 **COMPUTE THE INCOME TAX ALLOWANCE FOR THE WATER**
16 **DIVISION?**

17 A. In the instant case, as a result of using the approach described above, the effective
18 income tax rate (federal and state) is 19.98%. This rate can be found on Schedule
19 C-3, page 1.

20 **Q. HOW DOES THE COMPUTED OVERALL EFFECTIVE TAX RATE**
21 **COMPARE TO A COMPARABLE C-CORP?**

22 A. The computed overall effective tax rate (federal and state) at proposed revenues for
23 a comparable C-Corp would be 35.32%; 15% greater than the effective tax rate
24 used to compute income taxes for the water division in the instant case.

25

26 ³ See Decision 73739, February 22, 2013.

1 **D. Rate Design (H Schedules).**

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

4 **A. The Company's present rates are:**

5 **MONTHLY SERVICE CHARGES**

6	5/8" x 3/4" Meter	\$ 18.50
7	3/4" Meter	\$ 18.50
8	1" Meter	\$ 46.50
9	1 1/2" Meter	\$ 92.50
10	2" Meter	\$148.00
11	3" Meter	\$296.00
12	4" Meter	\$462.50
13	6" Meter	\$925.00
14	Gallons in minimum	0

15 **COMMODITY RATES**

16	5/8"X3/4" –Res. & Com	1 to 4,000	\$ 4.80
17		4,001 to 9,000	\$ 7.16
18		Over 9,000	\$ 8.60
19	3/4" – Res. & Com.	1 to 4,000	\$ 4.80
20		4,001 to 9,000	\$ 7.16
21		Over 9,000	\$ 8.60
22	1" Meter – Res. & Com.	1 to 27,000	\$ 7.16
23		Over 27,000	\$ 8.60
24	1 1/2" Meter – Res. & Com.	1 to 57,000	\$ 7.16
25		Over 57,000	\$ 8.60
26	2" Meter– Res. & Com.	1 to 94,000	\$ 7.16

1		Over 94,000	\$ 8.60
2	3" Meter- Res. & Com.	1 to 195,000	\$ 7.16
3		Over 195,000	\$ 8.60
4	4" Meter- Res. & Com.	1 to 309,000	\$ 7.16
5		Over 309,000	\$ 8.60
6	6" Meter- Res. & Com.	1 to 615,000	\$ 7.16
7		Over 615,000	\$ 8.60
8	Irrigation Meters	All gallons	\$ 9.26
9			
10	Standpipe/Bulk Water	All gallons	\$10.35
11			
12	Construction Meters	All gallons	\$10.35
13			

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

16 A. The Company's proposed rates are:
17 MONTHLY SERVICE CHARGES

18	5/8" x 3/4" Meter	\$ 41.07
19	3/4" Meter	\$ 41.07
20	1" Meter	\$ 102.68
21	1 1/2" Meter	\$ 205.35
22	2" Meter	\$328.56
23	3" Meter	\$657.12
24	4" Meter	\$1,026.75
25	6" Meter	\$2,053.50
26	Gallons in minimum	0

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

COMMODITY RATES

5/8"X3/4" –Res. & Com	1 to 4,000	\$ 8.25
	4,001 to 9,000	\$15.75
	Over 9,000	\$21.75
3/4" – Res. & Com.	1 to 4,000	\$ 8.25
	4,001 to 9,000	\$15.75
	Over 9,000	\$21.75
1" Meter – Res. & Com.	1 to 27,000	\$15.75
	Over 27,000	\$21.75
1 1/2" Meter – Res. & Com.	1 to 57,000	\$15.75
	Over 57,000	\$21.75
2" Meter– Res. & Com.	1 to 94,000	\$15.25
	Over 94,000	\$21.75
3" Meter– Res. & Com.	1 to 195,000	\$15.25
	Over 195,000	\$21.75
4" Meter– Res. & Com.	1 to 309,000	\$15.25
	Over 309,000	\$21.75
6" Meter– Res. & Com.	1 to 615,000	\$15.25
	Over 615,000	\$21.75
Irrigation Meters	All gallons	\$15.75
Standpipe/Bulk Water	All gallons	\$21.75
Construction Meters	All gallons	\$21.75

////

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

4 A. The largest customer class is the 3/4 inch residential class comprising over 98% of
5 the customer base. As shown on Schedule H-2, page 1, the average monthly bill
6 under present rates for a 3/4 inch residential customer using an average 4,123
7 gallons is \$38.58.

8 **Q. WHAT WILL BE THE 5/8X3/4 INCH RESIDENTIAL CUSTOMER**
9 **AVERAGE MONTHLY BILL UNDER THE NEW RATES?**

10 A. As shown on Schedule H-2, page 1, the average monthly bill under proposed rates
11 for a 3/4 inch residential customer using an average 4,123 gallons is \$76.00 – a
12 \$37.42 increase over the present monthly bill or a 97.01% increase.

13 **Q. IS THE COMPANY'S RATE DESIGN A CONSERVATION ORIENTED**
14 **RATE DESIGN?**

15 A. Yes. Inverted tier rate designs are conservation oriented. The smaller residential
16 meters (5/8"x3/4" and 3/4") are on an inverted three tier rate design and all other
17 meter sizes are on an inverted two tier design.

18 **Q. WHAT ARE THE CHARACTERISTICS OF THE PROPOSED RATE**
19 **DESIGN COMPARED TO THE CURRENT RATE DESIGN?**

20 A. The Company's proposed rates provides somewhat more revenue stability than the
21 current rate design in that it provides for 40.53% of the revenue requirement from
22 monthly minimums. Under present rates 38.76% of revenues are derived from the
23 monthly minimums.⁴ The present rates were designed to recover 40.5% of
24 revenues.⁵ Generally, the portion of revenue derived from the monthly minimums

25 ⁴ See Schedule H-2, pages 3 and 4.

26 ⁵ See Schedule H-2, page 5.

1 should be in the range of 40% to 50% and ideally closer to 50%. So, from the
2 perspective of revenue recovery from the monthly minimums, the Company rate
3 design is comparably less stable than I would like.

4 Further, the proposed rate design shifts revenue recovery from the lowest
5 cost commodity rate to the higher cost commodity rates which translates to less
6 revenue stability. The greatest amount of water conservation will take place with
7 high water usages as these users typically have the greatest amount of discretionary
8 water usage. When conservation occurs, the Company's revenues will erode at a
9 greater rate because the high water users will reduce usage that is subject to the
10 highest commodity rates.

11 **Q. PLEASE EXPLAIN HOW COMMODITY REVENUES ARE SHIFTED**
12 **FROM THE LOWEST COST COMMODITY RATE TO THE HIGHER**
13 **COST COMMODITY RATES.**

14 A. The percentage of test year revenues from the lowest cost commodity rate under
15 present rates is 26.94% while under proposed rates it is 21.84%. To make up the
16 reduction in revenue recovery from the lowest commodity rate, the percentage of
17 revenues recovered from the second highest commodity rate is increased from
18 18.79% under present rates to 19.47% under proposed rates and the percentage of
19 revenues recovered from the highest commodity rate is increased from 15.51%
20 under present rates to 18.15% under proposed rates.⁶

21 By comparison to the prior test year, the present rates adopted in the prior
22 rate case were designed to recover 36.22% of revenues from the lowest commodity
23 rate, 18.95% from the second highest commodity rate, and 4.33% from the highest
24 commodity rate.⁷

25 ⁶ See Schedule H-2, pages 3 and 4.

26 ⁷ See Schedule H-2, page 5.

1 **Q. HAS THE AVERAGE USAGE FOR THE COMPANY'S LARGEST**
2 **CUSTOMER CLASS DECLINED SINCE THE LAST TEST YEAR?**

3 A. Yes. The average monthly usage for a ¾ inch residential customer in the prior test
4 year was 4,740 gallons. In the current test year, the average monthly usage was
5 4,123 gallons.⁸ Under current rates, this reduction in usage translates to water
6 conservation of about 2.45 million gallons (637 gallons times 3,841 annual billings
7 divided by 1 million). It also translates to revenue erosion of at \$10,800 (2.45
8 million times 1,000 times \$4.42). The \$10,800 translates to revenue erosion of
9 about 5%; significant considering the size of the Company.

10

11 **1. Other Tariff Changes.**

12 **Q. IS THE COMPANY PROPOSING ANY CHANGES TO MISCELLANEOUS**
13 **SERVICE CHARGES?**

14 A. Yes. The Company is proposing an after-hours service charge which would apply
15 to all service charges when service is requested after-hours. Accordingly, the
16 Company proposes the current after-hours establishment fee, and after-hours
17 reconnection fee be eliminated.

18 **Q. IS THE COMPANY PROPOSING ANY CHANGES TO ITS REFUNDABLE**
19 **SERVICE LINE AND METER CHARGES?**

20 A. No.

21 ////

22

23

24

25

26 ⁸ See Schedule H-4, page 1 in Docket No. W-04235A-06-303 and Schedule H-4, page 1 in instant case.

1 **IV. USLLC'S WASTEWATER DIVISION**

2 **A. Summary of A, E and F Schedules.**

3 **Q. LET'S TURN TO THE COMPANY'S WASTEWATER DIVISION**
4 **SCHEDULES. PLEASE DESCRIBE THE SCHEDULES LABELED AS A,**
5 **E, AND F.**

6 A. The A-1 Schedule is a summary of the wastewater division's rate base, operating
7 income, current operating margin, required operating margin, operating income
8 deficiency, and the increase in gross revenue. Revenues at present and proposed
9 and customer classifications are also shown on this schedule.

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

12 Schedule A-3 is not required for Class C rate applications as is not included.

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

16 Schedule A-5 is not required for Class C rate applications as is not included.

17 The E Schedules are based on the Company's actual operating results, as
18 reported by the Company in annual reports filed with the Commission. The E-1
19 Schedule contains the comparative balance sheet data for the calendar years 2009,
20 2010, and 2011.

21 Schedule E-2, page 1, contains the income statement for the calendar years
22 2009, 2010, and 2011.

23 Schedule E-3 is not required for Class C rate applications as is not included.

24 Schedule E-4 is not required for Class C rate applications as is not included.

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

1 Schedule E-7 contains operating statistics for the calendar years 2009, 2010,
2 and 2011.

3 Schedule E-8 contains the taxes charged to operations.

4 The accountant's notes to the financial statements and the financial
5 assumptions used in preparing the rate filing schedules are shown on Schedules E-9
6 and F-4, respectively, in accordance with the Commission's standard filing
7 requirements. The Company does not prepare audited financial statements.

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

10 Schedule F-2 4 is not required for Class C rate applications as is not
11 included.

12 Schedule F-3 is not required for Class C rate applications and is not
13 included.

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

16 **B. Rate Base (B Schedules).**

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

19 A. Yes. I will start with Schedule B-5, which is the working capital allowance. I used
20 the "formula method" of computing the working capital allowance to reduce costs.
21 However, the Company is not requesting a working capital allowance.

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

25 A. The costs to prepare a lead-lag study outweigh the benefits.

26 *////*

1 **Q. PLEASE CONTINUE.**

2 A. The Company did not file Schedules B-3 and B-4. To limit issues in dispute and
3 reduce rate case expense, USLLC is requesting that its wastewater division's
4 OCRB be used as its FVRB.

5 **Q. HAVE YOU PREPARED SCHEDULES SHOWING ADJUSTMENTS TO**
6 **THE COMPANY'S OCRB?**

7 A. Yes. Schedule B-2 shows adjustments to the Company's wastewater division
8 OCRB cost rate base proposed by the Company. Schedule B-2, pages 2 through 5,
9 provides the supporting information. These adjustments are, in summary:

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

13 Adjustment A of B-2 adjustment number 1 adjusts plant-in-service to reflect
14 the reconstructed balance of plant in service. The details of the reconstruction are
15 shown on the wastewater division Schedule B-2, pages 3.2 to 3.6.

16 **Q. PLEASE CONTINUE.**

17 A. Adjustment B-2 shown on Schedule B-2, page 2, adjusts accumulated depreciation.
18 The details of the accumulated depreciation adjustment are shown a Schedule B-2,
19 page 4. There is one plant-in-service adjustment included in Adjustment 2. This is
20 shown on Schedule B-2, page 4, and is labeled as Adjustments "A".

21 Adjustment A of B-2 adjustment number 2 adjusts accumulated depreciation
22 reflects the recomputed amounts of accumulated depreciation per the Company's
23 B-2 plant schedule.⁹

24

25

26 ⁹ See Water Division Schedule B-2, pages 3.2 to 3.6.

1 **Q. DO THE WASTEWATER DIVISION'S PLANT IN SERVICE AND**
2 **ACCUMULATED DEPRECIATION BALANCES SHOWN ON B-2**
3 **REFLECT THE LAST COMMISSION RATE ORDER?**

4 A. Yes. They also reflect the depreciation rates used for depreciation expense in the
5 last rate case.

6 **Q. THE ADJUSTMENT TO ACCUMULATED DEPRECIATION IS OVER**
7 **\$2.7 MILLION. WHY IS THE ADJUSTMENT SO LARGE?**

8 A. Two reasons. First, the Company used incorrect depreciation rates since the last
9 test year. Second, the Company did not use half-year convention for computing
10 depreciation. Half-year convention treats plant acquired during the year as being
11 acquired exactly in the middle of the year. This means that only half of the full-
12 year depreciation is taken in the first year. Together, these two errors have resulted
13 in a greatly overstated accumulated depreciation balance through the end of the test
14 year.

15 **Q. PLEASE CONTINUE.**

16 A. Adjustment 3 shown on Schedule B-2, page 2, adjusts the accumulated
17 amortization balance of contributions-in-aid of construction ("CIAC") to the
18 recomputed amount reflecting the annual historical composite depreciation rates
19 for plant-in-service.

20 **Q. ARE THERE ANY OTHER ADJUSTMENTS TO THE RATE BASE**
21 **COMPONENTS?**

22 A. No.

23 **Q. HOW WAS THE PROPOSED FVRB SHOWN ON A-1 DETERMINED?**

24 A. The FVRB shown on the wastewater division's Schedule A-1 is based on OCRB,
25 with no adjustment for the current values of the water division's plant and property.

26

1 year. Average revenues per customer by month were computed for the test year
2 and then multiplied by the increase (or decrease) in number of customers for each
3 month of the test year. The total of the monthly revenue change comprise the
4 revenue annualization. This was done for each customer class.

5 Adjustment 5 annualizes purchased power expense based on the additional
6 gallons billed from annualizing revenues to the year-end number of customers in
7 Adjustment 4, above. This adjustment is intended to match the additional expense
8 associated with the revenue annualization.

9 Adjustment 6 increases other revenues to reflect the wastewater division's
10 share of these revenues.

11 Adjustment 7 reflects income taxes based upon the wastewater division's
12 adjusted test year revenue and expense. The method employed for determination
13 of the effective federal and state tax rates was discussed earlier in my testimony.¹²

14 **Q. WHAT IS AVERAGE EFFECTIVE INCOME TAX RATE USED TO**
15 **COMPUTE THE INCOME TAX ALLOWANCE FOR THE**
16 **WASTEWATER DIVISION?**

17 A. In the instant case, as a result of using the approach described above, the effective
18 income tax rate (federal and state) is 15.77%. This rate can be found on Schedule
19 C-3, page 1.

20 **Q. HOW DOES THE COMPUTED OVERALL EFFECTIVE TAX RATE**
21 **COMPARE TO A COMPARABLE C-CORP?**

22 A. The computed overall effective tax rate (federal and state) at proposed revenues for
23 a comparable C-Corp would be 26.53%, which is 10.8% greater than the effective
24 tax rate used to compute income taxes for the Company's wastewater division.

25
26 ¹² See pages 10– 11, *supra*.

1 **D. Rate Design (H Schedules).**

2 **Q. WHAT ARE THE COMPANY'S PRESENT RATES FOR WASTEWATER**
3 **SERVICE?**

4 A. The Company's present rates are:
5 MONTHLY CHARGE

6	5/8" x 3/4" Meter	\$ 0.00
7	3/4" Meter	\$ 0.00
8	1" Meter	\$ 0.00
9	1 1/2" Meter	\$ 0.00
10	2" Meter	\$ 0.00
11	3" Meter	\$ 0.00
12	4" Meter	\$ 0.00
13	6" Meter	\$ 0.00

14
15 Rate per 1,000 gallons of water use:

16	Residential	\$ 5.84
17	Car washes, laundromats, commercial, manufacturing	\$ 5.71
18	Hotels and motels	\$ 7.66
19	Restaurants	\$ 9.46
20	Industrial Laundries	\$ 8.39
21	Waste Haulers	\$171.20
22	Restaurant Grease	\$149.50
23	Treatment Plant Sludge	\$171.20
24	Treatment Plant Sludge	\$535.00

25
26 ////

1 Q. WHAT ARE THE COMPANY'S PROPOSED RATES FOR
2 WASTEWATER SERVICE?

3 A. The Company's proposed rates are:
4 MONTHLY CHARGE

5	5/8" x 3/4" Meter	\$ 79.50
6	3/4" Meter	\$ 79.50
7	1" Meter	\$132.50
8	1 1/2" Meter	\$265.00
9	2" Meter	\$424.00
10	3" Meter	\$848.00
11	4" Meter	\$1,325.00
12	6" Meter	\$2,650.00

13

14 Rate per 1,000 gallons of water use:

15	Residential	\$ 5.31
16	Car washes, laundromats, commercial, manufacturing	\$ 5.20
17	Hotels and motels	\$ 6.97
18	Restaurants	\$ 8.61
19	Industrial Laundries	\$ 7.63
20	Waste Haulers	\$155.79
21	Restaurant Grease	\$136.32
22	Treatment Plant Sludge	\$155.79
23	Treatment Plant Sludge	\$486.85

24 ////

25 ////

26 ////

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

4 A. The largest customer class is the 3/4 inch residential class comprising nearly 99%
5 of the customer base. As shown on Schedule H-2, page 1, the average monthly bill
6 under present rates for a 3/4 inch residential customer using an average 4,123
7 gallons is \$24.08.

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

10 A. As shown on Schedule H-2, page 1, the average monthly bill under proposed rates
11 for a 3/4 inch residential customer using an average 4,123 gallons is \$74.91 – a
12 \$50.83 increase over the present monthly bill or a 211.13% increase.

13 Q. WHAT CHANGES TO THE RATE DESIGN IS THE COMPANY
14 PROPOSING?

15 A. The Company is proposing monthly minimums determined by meter size to help
16 provide more revenue stability.

17

18 1. Other Tariff Changes.

19 Q. IS THE COMPANY PROPOSING ANY CHANGES TO MISCELLANEOUS
20 SERVICE CHARGES?

21 A. Yes. The Company is proposing an after-hours service charge which would apply
22 to all service charges when service is requested after-hours. Accordingly, the
23 Company proposes the current after-hours establishment fee and after-hours
24 reconnection fee be eliminated.

25 Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

26 A. Yes.

WATER SCHEDULES

Utility Source. LLC - Water Division
 Test Year Ended December 31, 2012
 Computation of Increase in Gross Revenue
 Requirements As Adjusted

Exhibit
 Schedule A-1
 Page 1
 Witness: Bourassa

Line
No.

1	Fair Value Rate Base	\$ 1,566,542
2		
3	Adjusted Operating Income	(8,265)
4		
5	Current Rate of Return	-0.53%
6		
7	Required Operating Income	\$ 172,320
8		
9	Required Rate of Return	11.00%
10		
11	Operating Income Deficiency	\$ 180,584
12		
13	Gross Revenue Conversion Factor	1.2650
14		
15	Increase in Gross Revenue	
16	Requirement	\$ 228,447
17		
18	Adjusted Test Year Revenues	\$ 208,004
19	Increase in Gross Revenue Revenue Requirement	\$ 228,447
20	Proposed Revenue Requirement	\$ 436,451
21	% Increase	109.83%
22		

<u>Customer</u>	<u>Classification</u>	<u>Present</u>	<u>Proposed</u>	<u>Dollar</u>	<u>Percent</u>
		<u>Rates</u>	<u>Rates</u>	<u>Increase</u>	<u>Increase</u>
25	3/4 Inch Residential	\$ 159,301	\$ 328,907	\$ 169,606	106.47%
26	3/4 Inch Commercial	322	817	495	154.04%
27	2 Inch Commercial	38,120	90,010	51,891	136.13%
28	2 Inch Irrigation	1,776	3,943	2,167	122.00%
29					
30	Bulk/Construction	3,482	7,344	3,862	110.90%
31					
32	Revenue Annualization	328	639	311	94.86%
33	Subtotal	\$ 203,328	\$ 431,660	\$ 228,331	112.30%
34					
35	Other Water Revenues	5,261	5,261	-	0.00%
36	Reconciling Amount	(585)	(469)	116	-19.83%
37				-	0.00%
38	Total of Water Revenues	\$ 208,004	\$ 436,452	\$ 228,447	109.83%

41 SUPPORTING SCHEDULES:

- 42 B-1
- 43 C-1
- 44 C-3
- 45 H-1

Utility Source. LLC - Water Division
 Test Year Ended December 31, 2012
 Summary of Results of Operations

Exhibit
 Schedule A-2
 Page 1
 Witness: Bourassa

Line No.	Description	Prior Years Ended		Test Year		Projected Year	
		12/31/2010	12/31/2011	Actual 12/31/2012	Adjusted 12/31/2012	Present Rates 12/31/2013	Proposed Rates 12/31/2013
1	Gross Revenues	\$ 209,071	\$ 212,316	\$ 214,550	\$ 208,004	\$ 208,004	\$ 436,451
2							
3	Revenue Deductions and	302,184	321,113	264,688	216,269	216,269	264,132
4	Operating Expenses						
5							
6	Operating Income	\$ (93,113)	\$ (108,797)	\$ (50,138)	\$ (8,265)	\$ (8,265)	\$ 172,320
7							
8	Other Income and	-	-	-	-	-	-
9	Deductions						
10							
11	Interest Expense	-	-	-	-	-	-
12							
13	Net Income	\$ (93,113)	\$ (108,797)	\$ (50,138)	\$ (8,265)	\$ (8,265)	\$ 172,320
14							
15	Common Shares	460,314	460,314	460,314	460,314	460,314	460,314
16							
17	Earned Per Average						
18	Common Share	(0.20)	(0.24)	(0.11)	(0.02)	(0.02)	0.37
19							
20	Dividends Paid	-	-	-	-	-	-
21							
22	Dividends Per						
23	Common Share	-	-	-	-	-	-
24							
25	Payout Ratio	-	-	-	-	-	-
26							
27	Return on Average						
28	Invested Capital	-0.69%	-3.42%	-1.64%	-0.41%	-0.42%	8.75%
29							
30	Return on Year End						
31	Capital	-2.86%	-3.49%	-1.67%	-0.41%	-0.43%	8.88%
32							
33	Return on Average						
34	Common Equity	-6.17%	-3.68%	-1.77%	-0.29%	-0.30%	6.00%
35							
36	Return on Year End						
37	Common Equity	-3.08%	-3.76%	-1.80%	-0.29%	-0.30%	5.82%
38							
39	Times Bond Interest Earned						
40	Before Income Taxes	-	-	-	-	-	-
41							
42	Times Total Interest and						
43	Preferred Dividends Earned						
44	After Income Taxes	-	-	-	-	-	-
45							
46							
47							
48							
49							
50	<u>SUPPORTING SCHEDULES</u>						
51	C-1						
52	E-2						
53	F-1						
54							

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Construction Expenditures
and Gross Utility Plant in Service

Exhibit
Schedule A-4
Page 1
Witness: Bourassa

<u>Line No.</u>	<u>Construction Expenditures</u>	<u>Net Plant Placed in Service</u>	<u>Gross Utility Plant in Service</u>
1			
2			
3			
4	Prior Year Ended 12/31/2010	-	3,959,487
5			
6	Prior Year Ended 12/31/2011	23,932	3,983,419
7			
8	Test Year Ended 12/31/2012	2,119	3,985,539
9			
10	Projected Year Ended 12/31/2013	-	3,985,539
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			
26			
27			
28			
29			
30			
31			
32			
33			
34	<u>SUPPORTING SCHEDULES:</u>		
35	B-2		
36	E-5		
37	F-3		
38			
39			
40			

Utility Source. LLC - Water Division
 Test Year Ended December 31, 2012
 Summary of Rate Base

Exhibit
 Schedule B-1
 Page 1
 Witness: Bourassa

Line No.	<u>Original Cost Rate base</u>	<u>Fair Value Rate Base</u>
1		
2	Gross Utility Plant in Service	\$ 2,496,640
3	Less: Accumulated Depreciation	<u>726,406</u>
4		
5	Net Utility Plant in Service	\$ 1,770,234
6		
7	<u>Less:</u>	
8	Advances in Aid of Construction	-
9		
10	Contributions in Aid of Construction	294,745
11		
12	Accumulated Amortization of CIAC	(96,938)
13		
14	Customer Meter Deposits	5,885
15	Deferred Income Taxes & Credits	-
16		
17		
18		
19	<u>Plus:</u>	
20	Unamortized Finance	
21	Charges	-
22	Prepayments	-
23	Materials and Supplies	-
24	Allowance for Working Capital	-
25		
26		
27		
28	Total Rate Base	<u>\$ 1,566,542</u>
29		
30		
31		
32		
33		
34		
35		
36		
37		
38		
39		
40		
41		
42		
43	<u>SUPPORTING SCHEDULES:</u>	
44	B-2	
45	B-3	
46	B-5	
47	E-1	
48		
49		
50		
51		
52		

Utility Source. LLC - Water Division
 Test Year Ended December 31, 2012
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Schedule B-2
 Page 1
 Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Adjustment	Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	\$ 3,985,539	(1,488,899)	\$ 2,496,640
3				
4	Less:			
5	Accumulated			
6	Depreciation	1,097,233	(370,828)	726,406
7				
8				
9	Net Utility Plant			
10	in Service	\$ 2,888,305		\$ 1,770,234
11				
12	Less:			
13	Advances in Aid of			
14	Construction	-	-	-
15				
16	Contributions in Aid of			
17	Construction - Gross	294,745	-	294,745
18				
19	Accumulated Amortization of CIAC	(91,842)	(5,096)	(96,938)
20				
21	Customer Meter Deposits	-	5885	5,885
22	Accumulated Deferred Income Tax	-	-	-
23				-
24				-
25				-
26	Plus:			
27	Unamortized Finance			
28	Charges	-	-	-
29	Prepayments	-	-	-
30	Materials and Supplies	-	-	-
31	Working capital	-	-	-
32				-
33				
34	Total	\$ 2,685,402		\$ 1,566,542
35				
36				
37				
38				
39				
40				
41				
42				
43				
44				
45	<u>SUPPORTING SCHEDULES:</u>			<u>RECAP SCHEDULES:</u>
46	B-2, pages 2			B-1
47	E-1			
48				
49				
50				

Utility Source, LLC - Water Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments

Line No.	Description	Proforma Adjustments					Adjusted at end of Test Year
		1 Actual at End of Test Year	2 Plant-in-Service	3 Accumulated Depreciation	4 Customer Security Deposits	5 Intentionally Left Blank	
1	Gross Utility Plant in Service	\$ 3,985,539	(1,488,899)				\$ 2,496,640
2							
3	Less:						
4	Accumulated Depreciation	1,097,233	(370,828)				726,406
5							
6							
7							
8							
9	Net Utility Plant in Service	\$ 2,888,305	\$ (1,488,899)	\$ 370,828	\$ -	\$ -	\$ 1,770,234
10							
11							
12	Less:						
13	Advances in Aid of Construction	-					-
14							
15							
16	Contributions in Aid of Construction (CIAC)	294,745					294,745
17							
18							
19	Accumulated Amort of CIAC	(91,842)		(5,096)			(96,938)
20							
21	Customer Meter Deposits	-				5,885	5,885
22	Accumulated Deferred Income Taxes	-					-
23							
24							
25	Plus:						
26	Unamortized Finance Charges	-					-
27							
28	Prepayments	-					-
29	Materials and Supplies	-					-
30	Allowance for Cash Working Capital	-					-
31							
32	Total	\$ 2,685,402	\$ (1,488,899)	\$ 370,828	\$ 5,096	\$ (5,885)	\$ 1,566,542
33							
34							
35							

SUPPORTING SCHEDULES:
B-2, pages 3-5

RECAP SCHEDULES:
B-1

Utility Source, LLC - Water Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1

Line No.	Acct. No.	Description	Plant-in-Service					Adjusted Original Cost
			A	B	C	D	E	
			Actual Original Cost	Deep Well #4 Costs	Adjustments To Reconcile Plant To Reconstruction	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank
1			-	-	-	-	-	-
2			-	-	-	-	-	-
3			-	-	-	-	-	-
4			-	-	-	-	-	-
5		Organization Cost	-	-	-	-	-	-
6	301	Franchise Cost	210,000	-	-	-	210,000	-
7	302	Land and Land Rights	81,748	(8,751)	-	-	72,997	-
8	303	Structures and Improvements	-	-	-	-	-	-
9	304	Collecting and Impounding Res.	-	-	-	-	-	-
10	305	Lake River and Other Intakes	-	-	-	-	-	-
11	306	Wells and Springs	2,831,962	(1,478,423)	-	-	1,353,539	-
12	307	Infiltration Galleries and Tunnels	-	-	-	-	-	-
13	308	Supply Mains	-	-	-	-	-	-
14	309	Power Generation Equipment	89,125	-	-	-	89,125	-
15	310	Electric Pumping Equipment	158,711	-	-	-	158,711	-
16	311	Water Treatment Plant	5,487	-	-	-	5,487	-
17	320	Water Treatment Plant	-	-	-	-	-	-
18	320.1	Chemical Solution Feeders	-	-	-	-	-	-
19	320.2	Dist. Reservoirs & Standpipe	321,452	-	-	-	321,452	-
20	330	Storage tanks	-	-	-	-	-	-
21	330.1	Pressure Tanks	-	-	-	-	-	-
22	330.2	Trans. and Dist. Mains	161,632	-	-	-	161,632	-
23	331	Services	86,250	-	-	-	86,250	-
24	333	Meters	-	-	-	-	-	-
25	334	Hydrants	34,500	-	-	-	34,500	-
26	335	Backflow Prevention Devices	-	-	-	-	-	-
27	336	Other Plant and Misc. Equip.	-	-	-	-	-	-
28	339	Office Furniture and Fixtures	-	(1,725)	-	-	-	-
29	340	Computers and Software	4,672	-	-	-	2,947	-
30	340.1	Transportation Equipment	-	-	-	-	-	-
31	341	Stores Equipment	-	-	-	-	-	-
32	342	Tools and Work Equipment	-	-	-	-	-	-
33	343	Laboratory Equipment	-	-	-	-	-	-
34	344	Power Operated Equipment	-	-	-	-	-	-
35	345	Communications Equipment	-	-	-	-	-	-
36	346	Miscellaneous Equipment	-	-	-	-	-	-
37	347	Other Tangible Plant	-	-	-	-	-	-
38	348	Plant Held for Future Use	-	-	-	-	-	-
39		TOTALS	\$ 3,985,539	\$ (1,488,899)	\$ -	\$ -	\$ 2,496,640	\$ -
40								
41								
42		Plant-in-Service per Books					\$ 3,985,539	
43								
44		Increase (decrease) in Plant-in-Service					\$ (1,488,899)	
45								
46		Adjustment to Plant-in-Service					\$ (1,488,899)	
47								
48		SUPPORTING SCHEDULES						
49		B-2, pages 3.1						
50		B-2, pages 3.2						

Utility Source, LLC - Water Division
 Test Year Ended December 31, 2012
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 1 - A

Exhibit
 Schedule B-2
 Page 3.1
 Witness: Bourassa

Line No.	Acct. No. Description	Prior Rate Case Deep Well #4 Costs	2006-2012 Deep Well #4 Costs	Total Deep Well #4 Costs	Required Adjustment
1	<u>Remove Deep Well #4 Costs</u>				
2					
3					
4					
5					
6	301 Organization Cost			-	-
7	302 Franchise Cost			-	-
8	303 Land and Land Rights			-	-
9	304 Structures and Improvements		8,751	8,751	(8,751)
10	305 Collecting and Impounding Res.			-	-
11	306 Lake River and Other Intakes			-	-
12	307 Wells and Springs	727,046	751,377	1,478,423	(1,478,423)
13	308 Infiltration Galleries and Tunnels			-	-
14	309 Supply Mains			-	-
15	310 Power Generation Equipment			-	-
16	311 Electric Pumping Equipment			-	-
17	320 Water Treatment Equipment			-	-
18	320.1 Water Treatment Plant			-	-
19	320.2 Chemical Solution Feeders			-	-
20	330 Dist. Reservoirs & Standpipe			-	-
21	330.1 Storage tanks			-	-
22	330.2 Pressure Tanks			-	-
23	331 Trans. and Dist. Mains			-	-
24	333 Services			-	-
25	334 Meters			-	-
26	335 Hydrants			-	-
27	336 Backflow Prevention Devices			-	-
28	339 Other Plant and Misc. Equip.			-	-
29	340 Office Furniture and Fixtures		1,725	1,725	(1,725)
30	340.1 Computers and Software			-	-
31	341 Transportation Equipment			-	-
32	342 Stores Equipment			-	-
33	343 Tools and Work Equipment			-	-
34	344 Laboratory Equipment			-	-
35	345 Power Operated Equipment			-	-
36	346 Communications Equipment			-	-
37	347 Miscellaneous Equipment			-	-
38	348 Other Tangible Plant			-	-
39	Plant Held for Future Use			-	-
40	TOTALS	\$ 727,046	\$ 761,853	\$ 1,488,899	\$ (1,488,899)
41					
42					
43	<u>SUPPORTING SCHEDULE</u>				
44	Work papers				
45	Testimony				

Utility Source, LLC - Water Division
 Test Year Ended December 31, 2012
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 1 - B

Exhibit
 Schedule B-2
 Page 3.2
 Witness: Bourassa

Line No.	Acct. No.	Description	Recorded Original Cost	Removed Deep Well #4 Costs	Adjusted Original Cost	Plant Per Reconstruction	Difference
1	<u>Reconciliation to Reconstructed Plant-in-Service</u>						
2							
3							
4	301	Organization Cost	-		-	-	-
5	302	Franchise Cost	-		-	-	-
6	303	Land and Land Rights	210,000		210,000	210,000	-
7	304	Structures and Improvements	81,748	(8,751)	72,997	72,997	-
8	305	Collecting and Impounding Res.	-		-	-	-
9	306	Lake River and Other Intakes	-		-	-	-
10	307	Wells and Springs	2,831,962	(1,478,423)	1,353,539	1,353,539	-
11	308	Infiltration Galleries and Tunnels	-		-	-	-
12	309	Supply Mains	-		-	-	-
13	310	Power Generation Equipment	89,125	(1,725)	87,400	87,400	-
14	311	Electric Pumping Equipment	158,711		158,711	158,711	-
15	320	Water Treatment Equipment	5,487		5,487	5,487	-
16	320.1	Water Treatment Plant	-		-	-	-
17	320.2	Chemical Solution Feeders	-		-	-	-
18	330	Dist. Reservoirs & Standpipe	321,452		321,452	321,452	-
19	330.1	Storage tanks	-		-	-	-
20	330.2	Pressure Tanks	-		-	-	-
21	331	Trans. and Dist. Mains	161,632		161,632	161,632	-
22	333	Services	86,250		86,250	86,250	-
23	334	Meters	-		-	-	-
24	335	Hydrants	34,500		34,500	34,500	-
25	336	Backflow Prevention Devices	-		-	-	-
26	339	Other Plant and Misc. Equip.	-		-	-	-
27	340	Office Furniture and Fixtures	4,672		4,672	4,672	-
28	340.1	Computers and Software	-		-	-	-
29	341	Transportation Equipment	-		-	-	-
30	342	Stores Equipment	-		-	-	-
31	343	Tools and Work Equipment	-		-	-	-
32	344	Laboratory Equipment	-		-	-	-
33	345	Power Operated Equipment	-		-	-	-
34	346	Communications Equipment	-		-	-	-
35	347	Miscellaneous Equipment	-		-	-	-
36	348	Other Tangible Plant	-		-	-	-
37		Plant Held for Future Use	-		-	-	-
38		TOTALS	\$ 3,985,539	\$ (1,488,899)	\$ 2,496,640	\$ 2,496,640	\$ -
39							
40							
41							
42							
43	<u>SUPPORTING SCHEDULE</u>						
44	B-2, pages 3.3 - 3.9						
45							

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	Per Decision 70140		2006				Accum. Deprec. At 12/31/2005	Plant at 12/31/2005	Plant Additions (Per Books)	Adjusted Plant Additions	Plant Retirements (Per Books)	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
				Plant at 12/31/2005	Accum. Deprec. At 12/31/2005	Plant Additions (Per Books)	Adjusted Plant Additions	Plant Retirements (Per Books)	Adjusted Plant Retirements										
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	210,000	-	-	-	-	-	210,000	-	-	-	-	-	-	-	210,000	-
4	304	Structures & Improvements	3.33%	72,997	3,646	-	-	-	-	72,997	-	-	-	-	-	2,431	72,997	6,077	-
5	305	Collecting & Impounding Reservoirs	2.50%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.33%	2,071,821	103,487	-	-	-	-	2,071,821	-	-	-	-	-	68,992	2,071,821	172,479	-
8	308	Infiltration Galleries	6.67%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	87,400	6,555	-	-	-	-	87,400	-	-	-	-	-	4,370	87,400	10,925	-
11	311	Pumping Equipment	12.50%	158,711	29,758	-	-	-	-	158,711	-	-	-	-	-	19,839	158,711	49,587	-
12	320	Water Treatment Equipment	3.33%	5,487	274	-	-	-	-	5,487	-	-	-	-	-	183	5,487	457	-
13	320.1	Water Treatment Plants	3.33%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	20.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	321,452	10,704	-	-	-	-	321,452	-	-	-	-	-	7,136	321,452	17,841	-
16	330.1	Storage Tanks	2.22%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	147,200	4,416	-	-	-	-	147,200	-	-	-	-	-	2,944	147,200	7,360	-
19	333	Services	3.33%	86,250	4,308	-	-	-	-	86,250	-	-	-	-	-	2,872	86,250	7,180	-
20	334	Meters	8.33%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
21	335	Hydrants	2.00%	34,500	1,035	-	-	-	-	34,500	-	-	-	-	-	690	34,500	1,725	-
22	336	Backflow Prevention Devices	6.67%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	6.67%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	6.67%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	20.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	20.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	4.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	10.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	10.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
34		Plant Held for Future Use		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
35				-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
36		TOTALS		3,195,618	164,185	-	-	-	-	3,195,618	-	-	-	-	-	109,456	3,195,618	273,641	-

Utility Source, LLC - Water Division
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.5
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2008					Accum. Deprec.			
				Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Adjusted Plant Retirements		Salvage A/D Only	Depreciation (Calculated)	Plant Balance
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	210,000	-	-
4	304	Structures & Improvements	3.33%	6,251	-	6,251	-	-	2,535	79,248	11,043	-
5	305	Collecting & Impounding Reservoirs	2.50%	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.33%	-	-	-	-	-	68,992	2,071,821	310,462	-
8	308	Infiltration Galleries	6.67%	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	1,725	-	1,725	-	-	4,413	89,125	19,708	-
11	311	Pumping Equipment	12.50%	-	-	-	-	-	19,839	158,711	89,275	-
12	320	Water Treatment Equipment	3.33%	-	-	-	-	-	183	5,487	822	-
13	320.1	Water Treatment Plants	3.33%	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	20.00%	-	-	-	-	-	7,136	321,452	32,113	-
15	330	Distribution Reservoirs & Standpipes	2.22%	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	2.22%	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	-	-	-	-	-	2,944	147,200	13,248	-
19	333	Services	3.33%	-	-	-	-	-	2,872	86,250	12,825	-
20	334	Meters	8.33%	-	-	-	-	-	-	-	-	-
21	335	Hydrants	2.00%	-	-	-	-	-	680	34,500	3,105	-
22	336	Backflow Prevention Devices	6.67%	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	6.67%	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	6.67%	2,552	-	2,552	-	-	85	2,552	85	-
25	340.1	Computers & Software	20.00%	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	20.00%	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	4.00%	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	10.00%	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	10.00%	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-	-
34		Plant Held for Future Use		-	-	-	-	-	-	-	-	-
35				-	-	-	-	-	-	-	-	-
36		TOTALS		10,528	-	10,528	-	-	109,689	3,206,346	482,786	-

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2009				Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
				Plant Additions (Per Books)	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments				
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	
3	303	Land and Land Rights	0.00%	-	-	-	-	-	210,000	-	
4	304	Structures & Improvements	3.33%	-	-	-	2,639	-	79,248	13,682	
5	305	Collecting & Impounding Reservoirs	2.50%	-	-	-	-	-	-	-	
6	306	Lake, River, Canal Intakes	2.50%	-	-	-	-	-	-	-	
7	307	Wells & Springs	3.33%	753,141	753,141	-	-	81,531	2,824,962	391,994	
8	308	Infiltration Galleries	6.67%	-	-	-	-	-	-	-	
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	
10	310	Power Generation Equipment	5.00%	-	-	-	-	4,456	89,125	24,164	
11	311	Pumping Equipment	12.50%	-	-	-	-	19,839	158,711	109,114	
12	320	Water Treatment Equipment	3.33%	-	-	-	-	183	5,487	1,005	
13	320.1	Water Treatment Plants	3.33%	-	-	-	-	-	-	-	
14	320.2	Solution Chemical Feeders	20.00%	-	-	-	-	-	-	-	
15	330	Distribution Reservoirs & Standpipes	2.22%	-	-	-	-	-	-	-	
16	330.1	Storage Tanks	2.22%	-	-	-	-	-	-	-	
17	330.2	Pressure Tanks	5.00%	-	-	-	-	7,136	321,452	39,249	
18	331	Transmission & Distribution Mains	2.00%	-	-	-	-	-	-	-	
19	333	Services	3.33%	-	-	-	-	2,944	147,200	16,192	
20	334	Meters	8.33%	-	-	-	-	2,872	86,250	15,797	
21	335	Hydrants	2.00%	-	-	-	-	690	34,500	3,795	
22	336	Backflow Prevention Devices	6.67%	-	-	-	-	-	-	-	
23	339	Other Plant & Misc Equipment	6.67%	-	-	-	-	-	-	-	
24	340	Office Furniture & Equipment	6.67%	-	-	-	-	170	2,552	255	
25	340.1	Computers & Software	20.00%	-	-	-	-	-	-	-	
26	341	Transportation Equipment	20.00%	-	-	-	-	-	-	-	
27	342	Stores Equipment	4.00%	-	-	-	-	-	-	-	
28	343	Tools, Shop & Garage Equipment	5.00%	-	-	-	-	-	-	-	
29	344	Laboratory Equipment	10.00%	-	-	-	-	-	-	-	
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	
31	346	Communication Equipment	10.00%	-	-	-	-	-	-	-	
32	347	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	
33	348	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	
34		Plant Held for Future Use		-	-	-	-	-	-	-	
35				-	-	-	-	-	-	-	
36		TOTALS		753,141	753,141	-	-	122,461	3,959,487	615,247	

Utility Source, LLC - Water Division
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.7
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2010					Accum. Deprec.				
				Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments		Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	210,000	-	-	-
4	304	Structures & Improvements	3.33%	-	-	-	-	-	-	79,248	2,639	16,321	-
5	305	Collecting & Impounding Reservoirs	2.50%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.33%	-	-	-	-	-	-	2,824,962	94,071	486,065	-
8	308	Infiltration Galleries	6.67%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	-	-	-	-	-	-	89,125	4,456	28,621	-
11	311	Pumping Equipment	12.50%	-	-	-	-	-	-	158,711	19,839	128,953	-
12	320	Water Treatment Equipment	3.33%	-	-	-	-	-	-	5,487	183	1,188	-
13	320.1	Water Treatment Plants	3.33%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	20.00%	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	2.22%	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	-	321,452	7,136	46,386	-
18	331	Transmission & Distribution Mains	2.00%	-	-	-	-	-	-	-	-	-	-
19	333	Services	3.33%	-	-	-	-	-	-	-	-	-	-
20	334	Meters	8.33%	-	-	-	-	-	-	-	-	-	-
21	335	Hydrants	2.00%	-	-	-	-	-	-	690	-	-	-
22	336	Backflow Prevention Devices	6.67%	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	6.67%	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	6.67%	-	-	-	-	-	-	147,200	2,944	19,136	-
25	340.1	Computers & Software	20.00%	-	-	-	-	-	-	86,250	2,872	18,669	-
26	341	Transportation Equipment	20.00%	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	4.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	-	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	10.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	10.00%	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-	-	-
34		Plant Held for Future Use		-	-	-	-	-	-	-	-	-	-
35				-	-	-	-	-	-	-	-	-	-
36		TOTALS		-	-	-	-	-	-	3,959,487	135,001	750,248	-

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2011						Accum. Deprec.				
				Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements		Salvage A/D Only	Depreciation (Calculated)	Plant Balance	
1	301	Organization Cost	0.00%											
2	302	Franchise Cost	0.00%											
3	303	Land and Land Rights	0.00%											
4	304	Structures & Improvements	3.33%	2,500		2,500						2,681	210,000	19,001
5	305	Collecting & Impounding Reservoirs	2.50%											
6	306	Lake, River, Canal Intakes	2.50%											
7	307	Wells & Springs	3.33%	7,000		7,000						94,188	2,831,962	580,253
8	308	Infiltration Galleries	6.67%											
9	309	Raw Water Supply Mains	2.00%											
10	310	Power Generation Equipment	5.00%									4,456	89,125	33,077
11	311	Pumping Equipment	12.50%									19,839	158,711	148,792
12	320	Water Treatment Equipment	3.33%									183	5,487	1,370
13	320.1	Water Treatment Plants	3.33%											
14	320.2	Solution Chemical Feeders	20.00%									7,136	321,452	53,522
15	330	Distribution Reservoirs & Standpipes	2.22%											
16	330.1	Storage Tanks	2.22%											
17	330.2	Pressure Tanks	5.00%											
18	331	Transmission & Distribution Mains	2.00%	14,432		14,432						3,088	161,632	22,224
19	333	Services	3.33%									2,872	86,250	21,541
20	334	Meters	8.33%											
21	335	Hydrants	2.00%									690	34,500	5,175
22	336	Backflow Prevention Devices	6.67%											
23	339	Other Plant & Misc Equipment	6.67%											
24	340	Office Furniture & Equipment	6.67%									170	2,552	596
25	340.1	Computers & Software	20.00%											
26	341	Transportation Equipment	20.00%											
27	342	Stores Equipment	4.00%											
28	343	Tools, Shop & Garage Equipment	5.00%											
29	344	Laboratory Equipment	10.00%											
30	345	Power Operated Equipment	5.00%											
31	346	Communication Equipment	10.00%											
32	347	Miscellaneous Equipment	10.00%											
33	348	Other Tangible Plant	10.00%											
34		Plant Held for Future Use												
35		TOTALS		23,932		23,932					135,303	3,983,419	885,551	

Utility Source, LLC - Water Division
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.9
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2012		Plant Additions (Per Books)	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Plant Adjustments	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
				Plant Additions (Per Books)	Adjusted Plant Additions										
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	-	210,000	-	-
4	304	Structures & Improvements	3.33%	-	-	-	-	-	-	(8,751)	(1,062)	2,722	72,997	20,662	-
5	305	Collecting & Impounding Reservoirs	2.50%	-	-	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-	-	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.33%	-	-	-	-	-	-	(1,478,423)	(293,372)	94,304	1,353,539	381,185	-
8	308	Infiltration Galleries	6.67%	-	-	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	-	-	-	-	-	-	-	-	4,456	87,400	37,145	-
11	311	Pumping Equipment	12.50%	-	-	-	-	-	-	-	-	19,839	158,711	168,630	-
12	320	Water Treatment Equipment	3.33%	-	-	-	-	-	-	-	-	183	5,487	1,553	-
13	320.1	Water Treatment Plants	3.33%	-	-	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	20.00%	-	-	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	-	-	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	2.22%	-	-	-	-	-	-	-	-	7,136	321,452	60,668	-
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	-	-	-	-	-	-	-	-	3,233	161,632	25,457	-
19	333	Services	3.33%	-	-	-	-	-	-	-	-	2,872	86,250	24,413	-
20	334	Meters	8.33%	-	-	-	-	-	-	-	-	690	34,500	5,865	-
21	335	Hydrants	2.00%	-	-	-	-	-	-	-	-	-	-	-	-
22	336	Backflow Prevention Devices	6.67%	-	-	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	6.67%	-	-	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	6.67%	-	-	-	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	20.00%	-	-	-	2,119	-	-	-	-	-	4,672	837	-
26	341	Transportation Equipment	20.00%	-	-	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	4.00%	-	-	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	10.00%	-	-	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	10.00%	-	-	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-	-	-	-	-
34		Plant Held for Future Use		-	-	-	-	-	-	-	-	-	-	-	-
35		TOTALS		2,119	-	-	2,119	-	-	(1,488,899)	(294,821)	135,676	2,496,640	726,406	-

Utility Source, LLC - Water Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2

Accumulated Depreciation

Line No.	Acct. No.	Description	Per Books Accum. Depr.	Adjustments			Adjusted Accum. Depr.
				A Remove Deep Well #4 A/D	B Adjustments To Reconcile Plant To Reconstruction	C Intentionally Left Blank	
					D Intentionally Left Blank	E Intentionally Left Blank	
1		Organization Cost	-	-	-	-	-
2	301	Franchise Cost	-	-	-	-	-
3	302	Land and Land Rights	-	-	-	-	-
4	303	Structures and Improvements	23,757	(1,062)	(2,034)	-	20,662
5	304	Collecting and Impounding Res.	-	-	-	-	-
6	305	Lake River and Other Intakes	-	-	-	-	-
7	306	Wells and Springs	823,015	(293,372)	(148,457)	-	381,185
8	307	Infiltration Galleries and Tunnels	-	-	-	-	-
9	308	Supply Mains	-	-	-	-	-
10	309	Power Generation Equipment	25,901	(388)	11,632	-	37,145
11	310	Electric Pumping Equipment	46,124	-	122,506	-	168,630
12	311	Water Treatment Equipment	1,595	-	(42)	-	1,553
13	320	Water Treatment Plant	-	-	-	-	-
14	320.1	Chemical Solution Feeders	-	-	-	-	-
15	320.2	Dist. Reservoirs & Standpipe	93,419	-	(32,761)	-	60,658
16	330	Storage tanks	-	-	-	-	-
17	330.1	Pressure Tanks	-	-	-	-	-
18	330.2	Trans. and Dist. Mains	46,973	(21,516)	(653)	-	25,457
19	331	Services	25,066	-	-	-	24,413
20	333	Meters	-	-	-	-	-
21	334	Hydrants	10,026	-	(4,161)	-	5,865
22	335	Backflow Prevention Devices	-	-	-	-	-
23	336	Other Plant and Misc. Equip.	-	-	-	-	-
24	339	Office Furniture and Fixtures	1,358	(621)	-	-	837
25	340	Computers and Software	-	-	-	-	-
26	340.1	Transportation Equipment	-	-	-	-	-
27	341	Stores Equipment	-	-	-	-	-
28	342	Tools and Work Equipment	-	-	-	-	-
29	343	Laboratory Equipment	-	-	-	-	-
30	344	Power Operated Equipment	-	-	-	-	-
31	345	Communications Equipment	-	-	-	-	-
32	346	Miscellaneous Equipment	-	-	-	-	-
33	347	Other Tangible Plant	-	-	-	-	-
34	348	TOTALS	\$ 1,097,233	\$ (294,821)	\$ (76,006)	\$ -	\$ 726,406
35		Accumulated Depreciation per Books					\$ 1,097,233
36		Increase (decrease) in Accumulated Depreciation					\$ (370,828)
37		Adjustment to Accumulated Depreciation					\$ (370,828)

Utility Source, LLC - Water Division
 Test Year Ended December 31, 2012
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 2 - A

Exhibit
 Schedule B-2
 Page 4.2
 Witness: Bourassa

Line
No.
 1
 2
 3
 4
 5
 6
 7
 8
 9
 10
 11
 12
 13
 14
 15
 16
 17
 18
 19
 20
 21
 22
 23
 24
 25
 26
 27
 28
 29
 30
 31
 32
 33
 34
 35
 36
 37
 38
 39
 40
 41
 42
 43
 44
 45

Deep Well #4 Accumulated Depreciation

Acct. No.	Description	Original Cost	Depreciation Basis	Accumulated Depreciation	Required Adjustment to A/D
307	Wells and Springs from prior rate case (recorded in 2004)	\$ 727,076	8.5 years @ 3.33%	\$ 205,799	\$ (205,799)
307	Wells and Springs (recorded in 2009)	751,377	3.5 years @ 3.33%	87,573	(87,573)
	Subtotal	\$ 1,478,452		\$ 293,372	\$ (293,372)
304	Structures and Improvements (recorded in 2008)	\$ 6,251	4.5 years @ 3.33%	\$ 937	\$ (937)
304	Structures and Improvements (recorded in 2011)	2,500	1.5 years @ 3.33%	125	(125)
	Subtotal	\$ 8,751		\$ 1,062	\$ (1,062)
310	Power Generation Equipment (recorded in 2008)	\$ 1,725	4.5 years @ 5%	\$ 388	\$ (388)
	TOTALS	\$ 1,488,928		\$ 294,821	\$ (294,821)

SUPPORTING SCHEDULE
 Testimony

Utility Source, LLC - Water Division
 Test Year Ended December 31, 2012
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 2 - B

Exhibit
 Schedule B-2
 Page 4.2
 Witness: Bourassa

Line

<u>Reconciliation to Reconstructed Accumulated Depreciation</u>						
Line No.	Acct. No. Description	Recorded Accumulated Depreciation	Removed Deep Well #4 Accumulated Depreciation	Adjusted Accumulated Depreciation	Accumulated Depreciation Per Plant Reconstruction	Difference
6	301	Organization Cost	-	-	-	-
7	302	Franchise Cost	-	-	-	-
8	303	Land and Land Rights	-	-	-	-
9	304	Structures and Improvements	23,757	(1,062)	22,696	20,662 (2,034)
10	305	Collecting and Impounding Res.	-	-	-	-
11	306	Lake River and Other Intakes	-	-	-	-
12	307	Wells and Springs	823,015	(293,372)	529,643	381,185 (148,457)
13	308	Infiltration Galleries and Tunnels	-	-	-	-
14	309	Supply Mains	-	-	-	-
15	310	Power Generation Equipment	25,901	(388)	25,513	37,145 11,632
16	311	Electric Pumping Equipment	46,124	-	46,124	168,630 122,506
17	320	Water Treatment Equipment	1,595	-	1,595	1,553 (42)
18	320.1	Water Treatment Plant	-	-	-	-
19	320.2	Chemical Solution Feeders	-	-	-	-
20	330	Dist. Reservoirs & Standpipe	93,419	-	93,419	60,658 (32,761)
21	330.1	Storage tanks	-	-	-	-
22	330.2	Pressure Tanks	-	-	-	-
23	331	Trans. and Dist. Mains	46,973	-	46,973	25,457 (21,516)
24	333	Services	25,066	-	25,066	24,413 (653)
25	334	Meters	-	-	-	-
26	335	Hydrants	10,026	-	10,026	5,865 (4,161)
27	336	Backflow Prevention Devices	-	-	-	-
28	339	Other Plant and Misc. Equip.	-	-	-	-
29	340	Office Furniture and Fixtures	1,358	-	1,358	837 (521)
30	340.1	Computers and Software	-	-	-	-
31	341	Transportation Equipment	-	-	-	-
32	342	Stores Equipment	-	-	-	-
33	343	Tools and Work Equipment	-	-	-	-
34	344	Laboratory Equipment	-	-	-	-
35	345	Power Operated Equipment	-	-	-	-
36	346	Communications Equipment	-	-	-	-
37	347	Miscellaneous Equipment	-	-	-	-
38	348	Other Tangible Plant	-	-	-	-
39		Plant Held for Future Use	-	-	-	-
40		TOTALS	\$ 1,097,233	\$ (294,821)	\$ 802,412	\$ 726,406 (76,006)

43 SUPPORTING SCHEDULE

44 B-2, pages 4.1

45 B-2, pages 3.3 - 3.9

Utility Source. LLC - Water Division
 Test Year Ended December 31, 2012
 Original Cost Rate Base Proforma Adjustments
 Adjustment 3

Exhibit
 Schedule B-2
 Page 5.0
 Witness: Bourassa

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

Line No.		Gross CIAC	Accumulated Amortization
1			
2			
3			
4			
5	Computed balance at end of test year	\$ 294,745	\$ 96,938
6			
7	Book balance at end of test year	<u>\$ 294,745</u>	<u>\$ 91,842</u>
8			
9	Increase (decrease)	\$ -	\$ 5,096
10			
11			
12	Adjustment to CIAC/AA CIAC	<u>\$ -</u>	<u>\$ (5,096)</u>
13	Label	3a	3b
14			
15			
16			
17			
18			
19	<u>SUPPORTING SCHEDULES</u>		
20	E-1		
21	B-2, page 5.1		
22			
23			
24			
25			
26			
27			
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			

Utility Source, LLC - Water Division
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 4
Customer Deposits

Exhibit
Schedule B-2
Page 6.0
Witness: Bourassa

Line

No.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35

Computed balance at end of test year

\$ 5,885

Book balance at end of test year

\$ -

Increase (decrease)

\$ 5,885

SUPPORTING SCHEDULES

Testimony

Work papers

Utility Source. LLC - Water Division
 Test Year Ended December 31, 2012
 Computation of Working Capital

Exhibit
 Schedule B-5
 Page 1
 Witness: Bourassa

Line
No.

1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	10,786
3	Pumping Power (1/24 of Pumping Power)		2,783
4	Purchased Water (1/24 of Purchased Water)		-
5	Prepaid Expenses		
6			
7			
8			
9	Total Working Capital Allowance	<u>\$</u>	<u>13,569</u>
10			
11			
12	Working Capital Requested	<u>\$</u>	<u>-</u>
13			
14			
15			
16			
17		<u>Adjusted Test Year</u>	
18	Total Operating Expense	\$	216,269
19	Less:		
20	Income Tax	\$	(2,064)
21	Property Tax		7,530
22	Depreciation		57,728
23	Purchased Water		-
24	Pumping Power		66,787
25	Allowable Expenses	<u>\$</u>	<u>86,288</u>
26	1/8 of allowable expenses	<u>\$</u>	<u>10,786</u>
27			
28			
29	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>	
30	E-1	B-1	
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			

Utility Source, LLC - Water Division
 Test Year Ended December 31, 2012
 Income Statement

Exhibit
 Schedule C-1
 Page 1
 Witness: Bourassa

Line No.		Test Year Book Results	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	Revenues					
2	Metered Water Revenues	\$ 202,415	\$ 328	\$ 202,743	\$ 228,447	\$ 431,190
3	Unmetered Water Revenues	-	-	-	-	-
4	Other Water Revenues	12,135	(6,873)	5,261		5,261
5		<u>\$ 214,550</u>	<u>\$ (6,546)</u>	<u>\$ 208,004</u>	<u>\$ 228,447</u>	<u>\$ 436,451</u>
6	Operating Expenses					
7	Salaries and Wages	\$ -	-	\$ -		\$ -
8	Purchased Water	-	-	-		-
9	Purchased Power	66,690	97	66,787		66,787
10	Fuel For Power Production	-	-	-		-
11	Chemicals	1,460	-	1,460		1,460
12	Materials and Supplies	12,257	-	12,257		12,257
13	Office Supplies and Expense	2,399	-	2,399		2,399
14	Contractual Services - Accounting	20,253	-	20,253		20,253
15	Contractual Services - Professional	9,651	-	9,651		9,651
16	Contractual Services - Maintenance	-	-	-		-
17	Contractual Services - Other	-	-	-		-
18	Water Testing	8,107	-	8,107		8,107
19	Rents	-	-	-		-
20	Transportation Expenses	-	-	-		-
21	Insurance - General Liability	2,186	-	2,186		2,186
22	Insurance - Health and Life	-	-	-		-
23	Reg. Comm. Exp. - Other	-	-	-		-
24	Reg. Comm. Exp. - Rate Case	-	10,000	10,000		10,000
25	Miscellaneous Expense	19,976	-	19,976		19,976
26	Bad Debt Expense	-	-	-		-
27	Depreciation and Amortization Expense	114,998	(57,270)	57,728		57,728
28	Taxes Other Than Income	-	-	-		-
29	Property Taxes	6,711	819	7,530	2,757	10,287
30	Income Tax	-	(2,064)	(2,064)	45,106	43,042
31	Total Operating Expenses	<u>\$ 264,688</u>	<u>\$ (48,419)</u>	<u>\$ 216,269</u>	<u>\$ 47,863</u>	<u>\$ 264,132</u>
32	Operating Income	<u>\$ (50,138)</u>	<u>\$ 41,873</u>	<u>\$ (8,265)</u>	<u>\$ 180,584</u>	<u>\$ 172,320</u>
33	Other Income (Expense)					
34	Interest Income	-	-	-		-
35	Other income	-	-	-		-
36	Interest Expense	-	-	-		-
37	Other Expense	-	-	-		-
38		-	-	-		-
39	Total Other Income (Expense)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
40	Net Profit (Loss)	<u>\$ (50,138)</u>	<u>\$ 41,873</u>	<u>\$ (8,265)</u>	<u>\$ 180,584</u>	<u>\$ 172,320</u>

41
 42 SUPPORTING SCHEDULES:
 43 C-1, page 2
 44 E-2
 45

RECAP SCHEDULES:
 A-1

Utility Source, LLC - Water Division
 Test Year Ended December 31, 2012
 Income Statement

Exhibit
 Schedule C-1
 Page 2
 Witness: Bourassa

Line No.	1	2	3	4	5	6	7	8	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
Label	Depreciation	Property Taxes	Rate Case Expense	Revenue Annualization	Purchased Power	Security Deposits	Other Water Revenues	Income Taxes			
1									\$ 202,743	\$ 228,447	\$ 431,190
2	202,415			328					5,261		5,261
3	12,135					(1,612)	(5,261)		208,004	228,447	436,451
4	214,550			328		(1,612)	(5,261)				
5											
6											
7											
8											
9	66,690				97				66,787		66,787
10											
11											
12	1,460								1,460		1,460
13	12,257								12,257		12,257
14	2,399								2,399		2,399
15	20,253								20,253		20,253
16	9,651								9,651		9,651
17											
18	8,107								8,107		8,107
19											
20											
21	2,186								2,186		2,186
22											
23											
24			10,000						10,000		10,000
25	19,976								19,976		19,976
26											
27	114,998								57,728		57,728
28											
29	6,711	819							7,530	2,757	10,287
30									(2,064)	46,106	43,042
31	264,688	819	10,000		97				216,269	47,863	264,132
32	(50,138)	(57,270)	(10,000)	328	(97)	(1,612)	(5,261)	2,064	(8,265)	180,584	172,320
33											
34											
35											
36											
37											
38											
39											
40	(50,138)	57,270	(10,000)	328	(97)	(1,612)	(5,261)	2,064	(8,265)	180,584	172,320
41											
42											
43											
44											

RECAP SCHEDULES:
 C-1, page 1

Utility Source. LLC - Water Division
 Test Year Ended December 31, 2012
 Adjustments to Revenues and Expenses

Exhibit
 Schedule C-2
 Page 1
 Witness: Bourassa

Line No.	<u>Adjustments to Revenues and Expenses</u>						<u>Subtotal</u>	
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>		
1								
2	Depreciation	Property	Rate Case	Revenue	Purchased	Security		
3	<u>Expense</u>	<u>Taxes</u>	<u>Expense</u>	<u>Annualization</u>	<u>Power</u>	<u>Deposits</u>		
4	Revenues			328		(1,612)	(1,284)	
5								
6	Expenses	(57,270)	819	10,000	97		(46,354)	
7								
8	Operating							
9	Income	57,270	(819)	(10,000)	328	(97)	(1,612)	45,070
10								
11	Interest							
12	Expense							
13	Other							
14	Income /							
15	Expense							
16								
17	Net Income	57,270	(819)	(10,000)	328	(97)	(1,612)	45,070
18								
19								
20		<u>Adjustments to Revenues and Expenses</u>					<u>Subtotal</u>	
21		<u>7</u>	<u>8</u>					
22		Other	Income					
23		Water	Taxes					
24		<u>Revenues</u>						
25	Revenues	(5,261)					(6,546)	
26								
27	Expenses		(2,064)	-	-	-	(48,419)	
28								
29	Operating							
30	Income	(5,261)	2,064	-	-	-	-	41,873
31								
32	Interest							
33	Expense							
34	Other							
35	Income /							
36	Expense							
37								
38	Net Income	(5,261)	2,064	-	-	-	-	41,873
39								
40								

Utility Source. LLC - Water Division
 Test Year Ended December 31, 2012
 Adjustments to Revenues and Expenses
 Adjustment Number 1

Exhibit
 Schedule C-2
 Page 2
 Witness: Bourassa

Depreciation Expense

Line No.	Acct. No.	Description	Adjusted Original Cost	Non-depreciable/ Fully Depreciated	Adjusted Original Cost	Proposed Rates	Depreciation Expense
1							
2							
3							
4							
5	301	Organization Cost	-	-	-	0.00%	-
6	302	Franchise Cost	-	-	-	0.00%	-
7	303	Land and Land Rights	210,000	(210,000)	-	0.00%	-
8	304	Structures and Improvements	72,997	-	72,997	3.33%	2,431
9	305	Collecting and Impounding Res.	-	-	-	2.50%	-
10	306	Lake River and Other Intakes	-	-	-	2.50%	-
11	307	Wells and Springs	1,353,539	-	1,353,539	3.33%	45,073
12	308	Infiltration Galleries and Tunnels	-	-	-	6.67%	-
13	309	Supply Mains	-	-	-	2.00%	-
14	310	Power Generation Equipment	89,125	-	89,125	5.00%	4,456
15	311	Electric Pumping Equipment	158,711	-	158,711	12.50%	-
16	320	Water Treatment Equipment	5,487	-	5,487	3.33%	183
17	320.1	Water Treatment Plant	-	-	-	3.33%	-
18	320.2	Chemical Solution Feeders	-	-	-	20.00%	-
19	330	Dist. Reservoirs & Standpipe	321,452	-	321,452	2.22%	7,136
20	330.1	Storage tanks	-	-	-	2.22%	-
21	330.2	Pressure Tanks	-	-	-	5.00%	-
22	331	Trans. and Dist. Mains	161,632	-	161,632	2.00%	3,233
23	333	Services	86,250	-	86,250	3.33%	2,872
24	334	Meters	-	-	-	8.33%	-
25	335	Hydrants	34,500	-	34,500	2.00%	690
26	336	Backflow Prevention Devices	-	-	-	6.67%	-
27	339	Other Plant and Misc. Equip.	-	-	-	6.67%	-
28	340	Office Furniture and Fixtures	2,947	-	2,947	6.67%	197
29	340.1	Computers and Software	-	-	-	20.00%	-
30	341	Transportation Equipment	-	-	-	20.00%	-
31	342	Stores Equipment	-	-	-	4.00%	-
32	343	Tools and Work Equipment	-	-	-	5.00%	-
33	344	Laboratory Equipment	-	-	-	10.00%	-
34	345	Power Operated Equipment	-	-	-	5.00%	-
35	346	Communications Equipment	-	-	-	10.00%	-
36	347	Miscellaneous Equipment	-	-	-	10.00%	-
37	348	Other Tangible Plant	-	-	-	10.00%	-
38		TOTALS	\$ 2,496,640	\$ (210,000)	\$ 2,286,640		\$ 66,270
39							
40							
41		Less: Amortization of Contributions			Gross CIAC	Amort. Rate	
42		Total Depreciation Expense			\$ 294,745	2.8981%	\$ (8,542)
43							\$ 57,728
44		Adjusted Test Year Depreciation Expense					114,998
45							
46		Increase (decrease) in Depreciation Expense					(57,270)
47							
48		Adjustment to Revenues and/or Expenses					\$ (57,270)
49							
50		<u>SUPPORTING SCHEDULE</u>					
51		B-2, page 3					

*Fully Depreciated

Utility Source. LLC - Water Division
 Test Year Ended December 31, 2012
 Adjustment to Revenues and Expenses
 Adjustment Number 2

Exhibit
 Schedule C-2
 Page 3
 Witness: Bourassa

Property Taxes

Line No.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	\$ 208,004	\$ 208,004
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	416,008	416,008
4	Company Recommended Revenue	208,004	436,451
5	Subtotal (Line 4 + Line 5)	624,012	852,460
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	208,004	284,153
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	416,008	568,306
10	Plus: 10% of CWIP (intentionally excluded)	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	416,008	568,306
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	83,202	113,661
15	Composite Property Tax Rate - Obtained from ADOR	9.0503%	9.0503%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 7,530	\$ 10,287
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	\$ 7,530	
19	Test Year Property Taxes	\$ 6,711	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	\$ 819	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		\$ 10,287
23	Company Test Year Adjusted Property Tax Expense (Line 18)		\$ 7,530
24	Increase in Property Tax Due to Increase in Revenue Requirement		\$ 2,757
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		\$ 2,757
27	Increase in Revenue Requirement		\$ 228,447
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		1.20671%
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Schedule C-2
Page 4
Witness: Bourassa

Rate Case Expense

Line			
<u>No.</u>			
1			
2			
3	Estimated Rate Case Expense	\$	50,000
4			
5	Estimated Amortization Period in Years		5
6			
7	Annual Rate Case Expense	<u>\$</u>	<u>10,000</u>
8			
9	Test Year Rate Case Expense	\$	-
10			
11	Increase(decrease) Rate Case Expense	<u>\$</u>	<u>10,000</u>
12			
13	Adjustment to Revenue and/or Expense	<u>\$</u>	<u>10,000</u>
14			
15			
16	<u>Reference</u>		
17	Testimony		
18			
19			
20			

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Schedule C-2
Page 5
Witness: Bourassa

Revenue Annualization

Line
No.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20

Revenue Annualization

\$ 328

Total Revenue from Annualization

\$ 328

Adjustment to Revenue and/or Expense

\$ 328

SUPPORTING SCHEDULES

C-2 pages 5.1

H-1

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Schedule C-2
Page 6
Witness: Bourassa

Purchased Power

Line
No.

1		
2	Test year purchased power expense	\$ 66,690
3	Gallons sold in test year (in 1,000's)	20,309
4	Cost per 1,000 gallons	\$ 3.28
5		
6	Additional gallons fold from annualization (in 1,000's)	29.69
7	Additional purchased power cost	\$ 97.50
8		
9		
10	Adjustment to purchased power expense (rounded)	<u>\$ 97</u>
11		
12		
13	Adjustment to Revenue and/or Expense	<u>97</u>
14		
15	<u>Reference</u>	
16	Testimony	
17	Work papers	
18		
19		
20		

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Schedule C-2
Page 7
Witness: Bourassa

Security Deposits

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

Test Year Security Deposits recorded as revenues

\$ (1,612)

Adjustment to Revenues

\$ (1,612)

Adjustment to Revenue and/or Expense

(1,612)

Reference

Testimony

Work papers

Utility Source. LLC - Water Division
Test Year Ended December 31, 2001
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Schedule C-2
Page 8
Witness: Bourassa

Allocate Misc. Service Charge Revenues

Line
No.

1		
2	Test year misc revenues recorded on water division books	\$ 12,135
3	Adjustment to remove security deposits (see adjustment #6)	\$ (1,612)
4	Net misc. revenues recorded on water division's books	<u>\$ 10,522</u>
5	Allocation percentage	50%
6	Wastewater division's share of misc. revenues	\$ 5,261
7		
8		
9		
10	Adjustment to Revenue and/or Expense	<u>\$ (5,261)</u>
11		
12		
13		
14		
15	<u>SUPPORTING SCHEDULES</u>	
16	Testimony	
17		
18		
19		
20		
21		
22		

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Adjustment to Revenues and/or Expenses
Adjustment Number 8

Exhibit
Schedule C-2
Page 9
Witness: Bourassa

Line
No.

1 Income Taxes

2

3

4 Computed Income Tax

Test Year
at Present Rates
\$ (2,064)

Test Year
at Proposed Rates
\$ 43,042

5 Test Year Income tax Expense

-

(2,064)

6 Adjustment to Income Tax Expense

\$ (2,064)

\$ 45,106

7

8

9

10

11

12

13 SUPPORTING SCHEDULE

14 C-3, page 2

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

Utility Source. LLC - Water Division
 Test Year Ended December 31, 2012
 Computation of Gross Revenue Conversion Factor

Exhibit
 Schedule C-3
 Page 1
 Witness: Bourassa

Line No.	<u>Description</u>	Percentage of Incremental Gross <u>Revenues</u>
1	Combined Federal and State Effective Income Tax Rate	19.986%
2		
3	Property Taxes	0.966%
4		
5		
6	Total Tax Percentage	20.951%
7		
8	Operating Income % = 100% - Tax Percentage	79.049%
9		
10		
11		
12		
13	<u>1</u> = Gross Revenue Conversion Factor	
14	Operating Income %	1.2650
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
26	C-3, page 2	A-1
27		
28		
29		
30		
31		
32		
33		
34		
35		
36		
37		
38		
39		
40		

Utility Source, LLC - Water Division
 Test Year Ended December 31, 2012

Exhibit
 Schedule C-3
 Page 2
 Witness: Bourassa

GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Gross Revenue Conversion Factor:</u>							
1	Revenue		100.0000%				
2	Uncollectible Factor (Line 11)		0.0000%				
3	Revenues (L1 - L2)		100.0000%				
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)		20.9513%				
5	Subtotal (L3 - L4)		79.0487%				
6	Revenue Conversion Factor (L1 / L5)		1.265044				
<u>Calculation of Uncollectible Factor:</u>							
7	Unity		100.0000%				
8	Combined Federal and State Tax Rate (L17)		19.9858%				
9	One Minus Combined Income Tax Rate (L7 - L8)		80.0142%				
10	Uncollectible Rate		0.0000%				
11	Uncollectible Factor (L9 * L10)		0.0000%				
<u>Calculation of Effective Tax Rate:</u>							
12	Operating Income Before Taxes (Arizona Taxable Income)		100.0000%				
13	Arizona State Income Tax Rate		3.1460%				
14	Federal Taxable Income (L12 - L13)		96.8540%				
15	Applicable Federal Income Tax Rate (L55 Col F)		17.3868%				
16	Effective Federal Income Tax Rate (L14 x L15)		16.8398%				
17	Combined Federal and State Income Tax Rate (L13 +L16)		19.9858%				
<u>Calculation of Effective Property Tax Factor:</u>							
18	Unity		100.0000%				
19	Combined Federal and State Income Tax Rate (L17)		19.9858%				
20	One Minus Combined Income Tax Rate (L18-L19)		80.0142%				
21	Property Tax Factor		1.2067%				
22	Effective Property Tax Factor (L20*L21)		0.9655%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)		20.9513%				
24	Required Operating Income	\$	172,320				
25	Adjusted Test Year Operating Income (Loss)	\$	(8,265)				
26	Required Increase in Operating Income (L24 - L25)	\$	180,584				
27	Income Taxes on Recommended Revenue (Col. (F), L52)	\$	43,042				
28	Income Taxes on Test Year Revenue (Col. (C), L52)	\$	(2,064)				
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)	\$	45,106				
30	Recommended Revenue Requirement	\$	436,451				
31	Uncollectible Rate (Line 10)	\$	0.0000%				
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$	-				
33	Adjusted Test Year Uncollectible Expense	\$	-				
34	Required Increase in Revenue to Provide for Uncollectible Exp.	\$	-				
35	Property Tax with Recommended Revenue	\$	10,287				
36	Property Tax on Test Year Revenue	\$	7,530				
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)	\$	2,757				
38	Total Required Increase in Revenue (L26 + L29 + L37)	\$	228,447				

	(A) Test Year		(B) Water		(C) Total		(D) Company Recommended		(E) Water		(F) Total	
	Total		Total		Total		Total		Total		Total	
39	Revenue	\$ 208,004	\$ 208,004	\$ 218,333	\$ 436,451	\$ 436,451	\$ 436,451	\$ 436,451	\$ 221,090	\$ 221,090	\$ 436,451	\$ 436,451
40	Operating Expenses Excluding Income Taxes	218,333	218,333	-	218,333	-	218,333	-	-	-	218,333	218,333
41	Synchronized Interest (L47)	-	-	-	-	-	-	-	-	-	-	-
42	Arizona Taxable Income (L39 - L40 - L41)	\$(10,329)	\$(10,329)	\$(10,329)	\$(21,658)	\$(21,658)	\$(21,658)	\$(21,658)	\$(21,658)	\$(21,658)	\$(21,658)	\$(21,658)
43	Arizona State Effective Income Tax Rate (see work papers)	3.1460%	3.1460%	3.1460%	3.1460%	3.1460%	3.1460%	3.1460%	3.1460%	3.1460%	3.1460%	3.1460%
44	Arizona Income Tax (L42 x L43)	\$(325)	\$(325)	\$(325)	\$(650)	\$(650)	\$(650)	\$(650)	\$(650)	\$(650)	\$(650)	\$(650)
45	Federal Taxable Income (L42 x L44)	\$(10,004)	\$(10,004)	\$(10,004)	\$(20,008)	\$(20,008)	\$(20,008)	\$(20,008)	\$(20,008)	\$(20,008)	\$(20,008)	\$(20,008)
46	Federal Tax Rate	17.3868%	17.3868%	17.3868%	17.3868%	17.3868%	17.3868%	17.3868%	17.3868%	17.3868%	17.3868%	17.3868%
47	Federal Tax	\$(1,739)	\$(1,739)	\$(1,739)	\$(3,478)	\$(3,478)	\$(3,478)	\$(3,478)	\$(3,478)	\$(3,478)	\$(3,478)	\$(3,478)
48												
49												
50												
51												
52	Total Federal Income Tax	\$(1,739)	\$(1,739)	\$(1,739)	\$(3,478)	\$(3,478)	\$(3,478)	\$(3,478)	\$(3,478)	\$(3,478)	\$(3,478)	\$(3,478)
53	Combined Federal and State Income Tax (L35 + L42)	\$(2,064)	\$(2,064)	\$(2,064)	\$(4,128)	\$(4,128)	\$(4,128)	\$(4,128)	\$(4,128)	\$(4,128)	\$(4,128)	\$(4,128)
54												
55	COMBINED Applicable Federal Income Tax Rate [Col. (D), L53 - Col. (A), L53 / [Col. (D), L45 - Col. (A), L45]				17.3868%							
56	WASTEWATER Applicable Federal Income Tax Rate [Col. (E), L53 - Col. (B), L53] / [Col. (E), L45 - Col. (B), L45]				0.0000%							
57	WATER Applicable Federal Income Tax Rate [Col. (F), L53 - Col. (C), L53] / [Col. (F), L45 - Col. (C), L45]											17.3868%

Calculation of Interest Synchronization:

58	Rate Base	\$ 1,566,542	\$ 1,566,542
59	Weighted Average Cost of Debt	0.0000%	0.0000%
60	Synchronized Interest (L59 X L60)	\$ -	\$ -

Utility Source. LLC - Water Division
 Test Year Ended December 31, 2012
 Comparative Balance Sheets

Exhibit
 Schedule E-1
 Page 1
 Witness: Bourassa

(DO NOT PRINT)

Line No.		Test Year Ended 12/31/2012	Year Ended 12/31/2011	Year Ended 12/31/2010	Prior Year Ended 12/31/2009
1	ASSETS				
2	Plant In Service	\$ 3,985,539	\$ 3,983,419	\$ 3,959,487	\$ 3,959,487
3	Non-Utility Plant	-	-	-	-
4	Construction Work in Progress	74,120	70,120	79,620	-
5	Less: Accumulated Depreciation	(1,097,233)	(964,131)	(822,322)	(682,452)
6	Net Plant	<u>\$ 2,962,426</u>	<u>\$ 3,089,408</u>	<u>\$ 3,216,785</u>	<u>\$ 3,277,035</u>
7					
8	Debt Reserve Fund	\$ -	\$ -	\$ -	\$ -
9					
10	Total Debt Reserve Funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
11					
12	CURRENT ASSETS				
13	Cash and Equivalents	\$ 2,467	\$ 250	\$ 12,733	\$ 1,766
14	Restricted Cash	-	-	-	-
15	Accounts Receivable, Net	31,974	26,915	21,402	27,183
16	Inter-Division Receivable	-	-	-	-
17	Notes Receivable	-	-	-	-
18	Materials and Supplies	-	-	-	-
19	Prepayments	-	-	-	-
20	Other Current Assets	372	80	25	3,425
21	Total Current Assets	<u>\$ 34,814</u>	<u>\$ 27,245</u>	<u>\$ 34,159</u>	<u>\$ 32,374</u>
22					
23	Unamortized Debt Discount	\$ -	\$ -	\$ -	\$ -
24	Accumulated Deferred Income Taxes	\$ -	\$ -	\$ -	\$ -
25	Deferred Debits	\$ -	\$ -	\$ -	\$ -
26					
27	Other Assets	\$ -	\$ -	\$ -	\$ 13,841
28					
29	TOTAL ASSETS	<u>\$ 2,997,239</u>	<u>\$ 3,116,654</u>	<u>\$ 3,250,944</u>	<u>\$ 3,323,250</u>
30					
31					
32	LIABILITIES AND MEMBER'S EQUITY				
33					
34	Member's Equity	\$ 2,787,005	\$ 2,890,155	\$ 3,019,943	\$ 3,083,910
35					
36	Long-Term Debt	\$ -	\$ -	\$ -	\$ -
37					
38	CURRENT LIABILITIES				
39	Accounts Payable	\$ 7,331	\$ 12,790	\$ 6,488	\$ 4,022
40	Current Portion of Long-Term Debt	-	-	-	-
41	Payables to Associated Companies	-	-	-	-
42	Security Deposits	-	-	-	-
43	Customer Meter Deposits, Current	-	-	-	-
44	Accrued Taxes	-	-	-	-
45	Accrued Interest	-	-	-	-
46	Other Current Liabilities	-	-	-	-
47	Total Current Liabilities	<u>\$ 7,331</u>	<u>\$ 12,790</u>	<u>\$ 6,488</u>	<u>\$ 4,022</u>
48	DEFERRED CREDITS				
49	Customer Meter Deposits, less current	\$ -	\$ -	\$ -	\$ -
50	Advances in Aid of Construction	-	-	-	-
51	Accumulated Deferred Income Taxes	-	-	-	-
52	Contributions In Aid of Construction	294,745	294,745	294,745	294,745
53	Accumulated Amortization	(91,842)	(81,037)	(70,232)	(59,427)
54	Total Deferred Credits	<u>\$ 202,903</u>	<u>\$ 213,708</u>	<u>\$ 224,513</u>	<u>\$ 235,318</u>
55					
56	Total Liabilities & Member Equity	<u>\$ 2,997,239</u>	<u>\$ 3,116,654</u>	<u>\$ 3,250,944</u>	<u>\$ 3,323,250</u>
57					
58					
59					
60	<u>SUPPORTING SCHEDULES:</u>		<u>RECAP SCHEDULES:</u>		
61			A-3		

Utility Source. LLC - Water Division
 Test Year Ended December 31, 2012
 Comparative Income Statements

Exhibit
 Schedule E-2
 Page 1
 Witness: Bourassa

Line No.		Test Year Ended 12/31/2012	Prior Year Ended 12/31/2011	Prior Year Ended 12/31/2010
1	Revenues			
2	Metered Water Revenues	\$ 202,415	\$ 201,979	\$ 201,308
3	Unmetered Water Revenues	-	-	-
4	Other Water Revenues	12,135	10,336	7,763
5	Total Revenues	\$ 214,550	\$ 212,316	\$ 209,071
6	Operating Expenses			
7	Salaries and Wages	\$ -	\$ -	\$ -
8	Purchased Water	-	-	-
9	Purchased Power	66,690	53,828	68,073
10	Fuel For Power Production	-	-	-
11	Chemicals	1,460	1,313	1,412
12	Repairs and Maintenance	12,257	60,935	3,009
13	Office Supplies and Expense	2,399	2,312	3,652
14	Contractual Services - Accounting	20,253	19,015	20,019
15	Contractual Services - Professional	9,651	10,927	10,304
16	Contractual Services - Maintenance	-	-	-
17	Contractual Services - Other	-	-	-
18	Water Testing	8,107	14,058	18,168
19	Rents	-	-	-
20	Transportation Expenses	-	-	-
21	Insurance - General Liability	2,186	2,199	2,429
22	Insurance - Health and Life	-	-	-
23	Reg. Comm. Exp. - Other	-	-	-
24	Reg. Comm. Exp. - Rate Case	-	-	20,551
25	Miscellaneous Expense	19,976	19,643	21,249
26	Bad Debt Expense	-	-	111
27	Depreciation and Amortization Expense	114,998	124,776	124,195
28	Taxes Other Than Income	-	-	-
29	Property Taxes	6,711	12,108	9,012
30	Income Tax	-	-	-
31		-	-	-
32		-	-	-
33	Total Operating Expenses	\$ 264,688	\$ 321,113	\$ 302,184
34	Operating Income	\$ (50,138)	\$ (108,797)	\$ (93,113)
35	Other Income (Expense)			
36	Interest Income	-	-	-
37	Other Income	-	-	-
38	Interest Expense	-	-	-
39	Other Expense	-	-	-
40	Gain (loss) on Disposal of Equip	-	-	-
41	Total Other Income (Expense)	\$ -	\$ -	\$ -
42	Net Profit (Loss)	\$ (50,138)	\$ (108,797)	\$ (93,113)

43
 44
 45
 46 SUPPORTING SCHEDULES:
 47
 48

Utility Source. LLC - Water Division
 Test Year Ended December 31, 2012
 Detail of Plant in Service

Exhibit
 Schedule E-5
 Page 1
 Witness: Bourassa

Line No.	Acct. No.	Plant Description	Plant Balance at <u>12/31/2011</u>	Plant Additions, Reclass- ifications or or <u>Retirements</u>	Plant Balance at <u>12/31/2012</u>
1					
2	301	Organization Cost	\$ -	\$ -	\$ -
3	302	Franchise Cost	-	-	-
4	303	Land and Land Rights	210,000	-	210,000
5	304	Structures & Improvements	81,748	-	81,748
6	305	Collecting & Impounding Reservoirs	-	-	-
7	306	Lake, River, Canal Intakes	-	-	-
8	307	Wells & Springs	2,831,962	-	2,831,962
9	308	Infiltration Galleries	-	-	-
10	309	Raw Water Supply Mains	-	-	-
11	310	Power Generation Equipment	89,125	-	89,125
12	311	Pumping Equipment	158,711	-	158,711
13	320	Water Treatment Equipment	5,487	-	5,487
14	320	Water Treatment Plants	-	-	-
15	320.2	Solution Chemical Feeders	-	-	-
16	330.0	Distribution Reservoirs & Standpipes	321,452	-	321,452
17	330	Storage Tanks	-	-	-
18	330.2	Pressure Tanks	-	-	-
19	331	Transmission & Distribution Mains	161,632	-	161,632
20	333	Services	86,250	-	86,250
21	334	Meters	-	-	-
22	335	Hydrants	34,500	-	34,500
23	336	Backflow Prevention Devices	-	-	-
24	339	Other Plant & Misc Equipment	-	-	-
25	340	Office Furniture & Equipment	2,552	2,119	4,672
26	340.1	Computers & Software	-	-	-
27	341	Transportation Equipment	-	-	-
28	342	Stores Equipment	-	-	-
29	343	Tools, Shop & Garage Equipment	-	-	-
30	344	Laboratory Equipment	-	-	-
31	345	Power Operated Equipment	-	-	-
32	346	Communication Equipment	-	-	-
33	347	Miscellaneous Equipment	-	-	-
34	348	Other Tangible Plant	-	-	-
35		Plant Held for Future Use	-	-	-
36					
37					
38		Rounding			
39		TOTAL WATER PLANT	<u>\$ 3,983,419</u>	<u>\$ 2,119</u>	<u>\$ 3,985,539</u>

40
 41 SUPPORTING SCHEDULES
 42 Work Papers
 43 B-2 pages 3.1 to 3.4
 44

RECAP SCHEDULES:
 A-4
 E-1

Utility Source. LLC - Water Division
 Test Year Ended December 31, 2012
 Operating Statistics

Exhibit
 Schedule E-7
 Page 1
 Witness: Bourassa

Line No.		Test Year Ended <u>12/31/2012</u>	Prior Year Ended <u>12/31/2011</u>	Prior Year Ended <u>12/31/2010</u>
1	<u>WATER STATISTICS:</u>			
2				
3				
4				
5	Total Gallons Sold (in Thousands)	20,309	20,545	23,039
6				
7				
8				
9	Water Revenues from Customers:	\$ 202,415	\$ 201,979	\$ 201,308
10				
11				
12	Year End Number of Customers ¹	325	326	322
13				
14				
15	Annual Gallons (in Thousands)			
16	Sold Per Year End Customer	62	63	72
17				
18				
19				
20	Annual Revenue per Year End Customer	\$ 622.82	\$ 619.57	\$ 625.18
21				
22	Pumping Cost Per 1,000 Gallons	\$ 3.2838	\$ 2.6200	\$ 2.9547
23	Purchased Water Cost per 1,000 Gallons	\$ -	\$ -	\$ -
24				
25	¹ Active connections.			

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Taxes Charged to Operations

Exhibit
Schedule E-8
Page 1
Witness: Bourassa

Line No.	Description	Test Year Ended 12/31/2012	Prior Year Ended 12/31/2011	Prior Year Ended 12/31/2010
1	<u>Description</u>			
2				
3	State Income Taxes	\$ -	\$ -	\$ -
4	Federal Income Taxes	-	-	-
5	Payroll Taxes	-	-	-
6	Property Taxes	6,711	12,108	9,012
7				
8	Totals	<u>\$ 6,711</u>	<u>\$ 12,108</u>	<u>\$ 9,012</u>
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34				
35				
36				
37				
38				
39				
40				

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Notes To Financial Statements

Exhibit
Schedule E-9
Page 1
Witness: Bourassa

Line
No.

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24
- 25
- 26
- 27
- 28
- 29
- 30
- 31
- 32
- 33
- 34
- 35
- 36
- 37
- 38
- 39
- 40

The Company does not conduct independent audits

Utility Source. LLC - Water Division
 Test Year Ended December 31, 2012
 Projected Income Statements - Present & Proposed Rates

Exhibit
 Schedule F-1
 Page 1
 Witness: Bourassa

Line No.		Test Year Actual Results	At Present Rates Year Ended 12/31/2013	At Proposed Rates Year Ended 12/31/2013
1	Revenues			
2	Metered Water Revenues	\$ 202,415	\$ 202,743	\$ 431,190
3	Unmetered Water Revenues	-	-	-
4	Other Water Revenues	12,135	5,261	5,261
5		<u>\$ 214,550</u>	<u>\$ 208,004</u>	<u>\$ 436,451</u>
6	Operating Expenses			
7	Salaries and Wages	\$ -	\$ -	\$ -
8	Purchased Water	-	-	-
9	Purchased Power	66,690	66,787	66,787
10	Fuel For Power Production	-	-	-
11	Chemicals	1,460	1,460	1,460
12	Materials and Supplies	12,257	12,257	12,257
13	Office Supplies and Expense	2,399	2,399	2,399
14	Contractual Services - Accounting	20,253	20,253	20,253
15	Contractual Services - Professional	9,651	9,651	9,651
16	Contractual Services - Maintenance	-	-	-
17	Contractual Services - Other	-	-	-
18	Water Testing	8,107	8,107	8,107
19	Rents	-	-	-
20	Transportation Expenses	-	-	-
21	Insurance - General Liability	2,186	2,186	2,186
22	Insurance - Health and Life	-	-	-
23	Reg. Comm. Exp. - Other	-	-	-
24	Reg. Comm. Exp. - Rate Case	-	10,000	10,000
25	Miscellaneous Expense	19,976	19,976	19,976
26	Bad Debt Expense	-	-	-
27	Deprec. and Amort. Exp.	114,998	57,728	57,728
28	Taxes Other Than Income	-	-	-
29	Property Taxes	6,711	7,530	10,287
30	Income Tax	-	(2,064)	43,042
31	Total Operating Expenses	<u>\$ 264,688</u>	<u>\$ 216,269</u>	<u>\$ 264,132</u>
32	Operating Income	<u>\$ (50,138)</u>	<u>\$ (8,265)</u>	<u>\$ 172,320</u>
33	Other Income (Expense)			
34	Interest Income	-	-	-
35	Other income	-	-	-
36	Interest Expense	-	-	-
37	Other Expense	-	-	-
38	Gain/Loss Sale of Fixed Assets	-	-	-
39	Total Other Income (Expense)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
40	Net Profit (Loss)	<u>\$ (50,138)</u>	<u>\$ (8,265)</u>	<u>\$ 172,320</u>

43 SUPPORTING SCHEDULES:

44 C-1

45

46

47

Utility Source, LLC - Water Division
 Test Year Ended December 31, 2012
 Projected Construction Requirements

Exhibit
 Schedule F-3
 Page 1
 Witness: Bourassa

Line No.	Account Number	Plant Asset:	Test Year	2013
1				
2				
3				
4	301	Organization Cost	\$	-
5	302	Franchise Cost		-
6	303	Land and Land Rights		-
7	304	Structures and Improvements		-
8	305	Collecting and Impounding Res.		-
9	306	Lake River and Other Intakes		-
10	307	Wells and Springs		-
11	308	Infiltration Galleries and Tunnels		-
12	309	Supply Mains		-
13	310	Power Generation Equipment		-
14	311	Electric Pumping Equipment		-
15	320	Water Treatment Equipment		-
16	320.1	Water Treatment Plant		-
17	320.2	Chemical Solution Feeders		-
18	330	Dist. Reservoirs & Standpipe		-
19	330.1	Storage tanks		-
20	330.2	Pressure Tanks		-
21	331	Trans. and Dist. Mains		-
22	333	Services		-
23	334	Meters		-
24	335	Hydrants		-
25	336	Backflow Prevention Devices		-
26	339	Other Plant and Misc. Equip.		-
27	340	Office Furniture and Fixtures	2,119	-
28	340.1	Computers and Software		-
29	341	Transportation Equipment		-
30	342	Stores Equipment		-
31	343	Tools and Work Equipment		-
32	344	Laboratory Equipment		-
33	345	Power Operated Equipment		-
34	346	Communications Equipment		-
35	347	Miscellaneous Equipment		-
36	348	Other Tangible Plant		-
37	Total		\$ 2,119	\$ -
38				
39				
40				

Utility Source. LLC - Water Division
Test Year Ended December 31, 2012
Assumptions Used in Rate Filing

Exhibit
Schedule F-4
Page 1
Witness: Bourassa

Line
No.

- 1 Property Taxes were computed using the method used by the Arizona Department
- 2 of Revenue modified for ratemaking.
- 3
- 4 Projected construction expenditures are shown on Schedule A-4.
- 5
- 6 Expense adjustments are shown on Schedule C2, and are explained in the testimony.
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24
- 25
- 26
- 27
- 28
- 29
- 30
- 31
- 32
- 33
- 34
- 35
- 36
- 37
- 38
- 39
- 40

Utility Source, LLC - Water Division
 Analysis of Revenue by Detailed Class
 Test Year Ended December 31, 2012

Exhibit
 Schedule H-2
 Page 2
 Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	(a) Average Number of Customers at 12/31/2012	Median Bill		Median Consumption	Proposed Increase		Percent of Customers
			Present Rates	Proposed Rates		Dollar Amount	Percent Amount	
1	3/4 Inch Residential	320	\$ 41.28	\$ 81.95	\$ 40.67	98.51%	98.16%	
2	3/4 Inch Commercial	1	\$ 41.28	\$ 114.95	73.67	178.45%	0.31%	
3	2 Inch Commercial	3	613.40	1,352.31	738.91	120.46%	0.92%	
4	2 Inch Irrigation	1	\$ 148.00	\$ 328.56	\$ 180.56	122.00%	0.31%	
5								
6	Construction/Bulk	1	437.69	921.97	484.28	110.65%	0.31%	
7								
8								
9								
10								
11	Totals	326					100.00%	
12								
13	Actual Year End Number of Customers:	327						
14								
15								
16								
17								
18								

Utility Source, LLC - Water Division
 Revenue Breakdown Summary
 Present Rates

Exhibit
 Schedule H-2
 Page 3
 Witness: Bourassa

		Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
3/4 Inch	Residential	\$ 71,262	\$ 54,684	\$ 23,774	\$ 9,908	\$ 159,629
3/4 Inch	Commercial	\$ 222	\$ 89	\$ 11	\$ -	\$ 322
2 Inch	Commercial	\$ 5,328	\$ 14,424	\$ 18,368	\$ -	\$ 38,120
2 Inch	Irrigation	\$ 1,776	\$ -	\$ -	\$ -	\$ 1,776
Construction/Bulk		\$ 222	\$ 3,260	\$ -	\$ -	\$ 3,482
TOTALS		<u>\$ 78,810</u>	<u>\$ 72,457</u>	<u>\$ 42,153</u>	<u>\$ 9,908</u>	<u>\$ 203,328</u>
Percent of Total		38.76%	35.64%	20.73%	4.87%	100.00%
Cumulative %		38.76%	74.40%	95.13%	100.00%	

	Amount	% of Revenues
<u>Monthly Minimum Revenues</u>	\$ 78,810	38.76%

<u>Commodity Revenues</u>		
Lowest Commodity Rate	\$ 54,773	26.94%
Middle Commodity Rate	\$ 38,209	18.79%
Highest Commodity rate	\$ 31,536	15.51%
Subtotal Commodity Revenues	<u>\$ 124,518</u>	61.24%

Total Revenues	<u>\$ 203,328</u>	100.00%
----------------	-------------------	---------

Utility Source, LLC - Water Division
 Revenue Breakdown Summary
 Proposed Rates

Exhibit
 Schedule H-2
 Page 4
 Witness: Bourassa

		Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
3/4 Inch	Residential	\$ 158,202	\$ 93,988	\$ 52,297	\$ 25,059	\$ 329,545
3/4 Inch	Commercial	\$ 493	\$ 291	\$ 33	\$ -	\$ 817
2 Inch	Commercial	\$ 11,828	\$ 31,729	\$ 46,454	\$ -	\$ 90,010
2 Inch	Irrigation	\$ 3,943	\$ -	\$ -	\$ -	\$ 3,943
Construction/Bulk		\$ 493	\$ 6,851	\$ -	\$ -	\$ 7,344
TOTALS		<u>\$ 174,958</u>	<u>\$ 132,860</u>	<u>\$ 98,783</u>	<u>\$ 25,059</u>	<u>\$ 431,660</u>
Percent of Total		40.53%	30.78%	22.88%	5.81%	100.00%
Cummulative %		40.53%	71.31%	94.19%	100.00%	

	Amount	% of Revenues
<u>Monthly Minimum Revenues</u>	\$ 174,958	40.53%
<u>Commodity Revenues</u>		
Lowest Commodity Rate	\$ 94,280	21.84%
Middle Commodity Rate	\$ 84,058	19.47%
Highest Commodity rate	\$ 78,364	18.15%
Subtotal Commodity Revenues	<u>\$ 256,701</u>	<u>59.47%</u>
Total Revenues	<u>\$ 431,660</u>	<u>100.00%</u>

Utility Source, LLC - Water Division
 Revenue Breakdown Summary
 Approved Rates and Bill Counts from Prior Case

Exhibit
 Schedule H-2
 Page 5
 Witness: Bourassa

		Present Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
3/4 Inch Residential	\$	152,070	\$ 138,593	\$ 59,231	\$ 14,992	\$ 364,885
3/4 Inch Commercial	\$	-	\$ -	\$ -	\$ -	\$ -
1.5 Inch Commercial	\$	1,110	\$ 4,622	\$ 1,055	\$ -	\$ 6,787
2 Inch Commercial	\$	1,776	\$ 7,611	\$ 1,572	\$ -	\$ 10,960
2 Inch Irrigation	\$	-	\$ -	\$ -	\$ -	\$ -
Construction/Bulk	\$	-	\$ -	\$ -	\$ -	\$ -
TOTALS	\$	154,956	\$ 150,826	\$ 61,858	\$ 14,992	\$ 382,631
Percent of Total		40.50%	39.42%	16.17%	3.92%	100.00%
Cummulative %		40.50%	79.92%	96.08%	100.00%	

	Amount	% of Revenues
<u>Monthly Minimum Revenues</u>	\$ 154,956	40.50%
<u>Commodity Revenues</u>		
Lowest Commodity Rate	\$ 138,593	36.22%
Middle Commodity Rate	\$ 72,519	18.95%
Highest Commodity rate	\$ 16,564	4.33%
Subtotal Commodity Revenues	\$ 227,675	59.50%
Total Revenues	\$ 382,631	100.00%

Utility Source, LLC - Water Division
 Test Year Ended December 31, 2012
 Present and Proposed Rates

Exhibit
 Schedule H-3
 Page 1

Line No.	Monthly Usage Charge for: Meter Size (All Classes):	Present Rates	Proposed Rates	Change	Percent Change
1	5/8x3/4 Inch	\$ 18.50	\$ 41.07	\$ 22.57	122.00%
2	3/4 Inch	18.50	41.07	22.57	122.00%
3	1 Inch	46.50	102.68	56.18	120.81%
4	1 1/2 Inch	92.50	205.35	112.85	122.00%
5	2 Inch	148.00	328.56	180.56	122.00%
6	3 Inch	296.00	657.12	361.12	122.00%
7	4 Inch	462.50	1,026.75	564.25	122.00%
8	6 Inch	925.00	2,053.50	1,128.50	122.00%
9					
10					
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					
21					
22					
23					
24					
25					
26					
27					
28					
29					
30					
31					
32					
33					
34					
35					
36					
37					
38					
39					
40					
41					

Block	Present Rate	Proposed Rate
1 gallons to 4,000 gallons	\$ 4.80	\$ 8.25
4,001 gallons to 9,000 gallons	\$ 7.16	\$ 15.75
over 9,000 gallons	\$ 8.60	\$ 21.75
1 gallons to 4,000 gallons	\$ 4.80	\$ 8.25
4,001 gallons to 9,000 gallons	\$ 7.16	\$ 15.75
over 9,000 gallons	\$ 8.60	\$ 21.75
1 gallons to 27,000 gallons	\$ 4.80	\$ 15.75
over 27,000 gallons	\$ 7.16	\$ 21.75
Over Minimum up to 57,000 gallons	\$ 4.80	\$ 15.75
Over 57,000 gallons	\$ 7.16	\$ 21.75
1 gallons to 94,000 gallons	\$ 4.80	\$ 15.75
over 94,000 gallons	\$ 7.16	\$ 21.75
1 gallons to 195,000 gallons	\$ 4.80	\$ 15.75
over 195,000 gallons	\$ 7.16	\$ 21.75

NT = No Tariff

Utility Source, LLC - Water Division
Test Year Ended December 31, 2012
Present and Proposed Rates

Line No.	Commodity Rates	Block	Present Rate	Proposed Rate
(Per 1,000 gallons)				
3	4 Inch Meter (Residential, Commercial)	1 gallons to 309,000 gallons over 309,000 gallons	4.80 \$	15.75
4			7.16 \$	21.75
7	6 Inch Meter (Residential, Commercial)	1 gallons to 615,000 gallons over 615,000 gallons	4.80 \$	15.75
8			7.16 \$	21.75
10	Irrigation Meters	All gallons	9.26 \$	15.75
12	Standpipe or Bulk	All gallons	10.35 \$	21.75
14	Construction	All gallons	10.35 \$	21.75
42	Construction/Standpipe	All gallons	NT	21.75
43				
44				

NT = No Tariff

Utility Source, LLC - Water Division
 Present and Proposed Rates
 Test Year Ended December 31, 2012

Line No.	Meter and Service Line Charges ¹	Present Service Line Charge	Present Meter Installation Charge	Total Present Charge	Proposed Service Line Charge	Proposed Meter Installation Charge	Total Proposed Charge
7	5/8 x 3/4 Inch	\$ 520.00	\$ 135.00	\$ 655.00	\$ 385.00	\$ 135.00	\$ 520.00
8	3/4 Inch	575.00	205.00	780.00	415.00	205.00	620.00
9	1 Inch	660.00	265.00	925.00	465.00	265.00	730.00
10	1 1/2 Inch	900.00	475.00	1,375.00	520.00	475.00	995.00
11	2 Inch Turbo	1,525.00	995.00	2,520.00	800.00	995.00	1,795.00
12	2 Inch, Compound	2,320.00	1,840.00	4,160.00	800.00	1,840.00	2,640.00
13	3 Inch Turbo	2,275.00	1,620.00	3,895.00	1,015.00	1,620.00	2,635.00
14	3 Inch, compound	3,110.00	2,495.00	5,605.00	1,135.00	2,495.00	3,630.00
15	4 Inch Turbo	3,360.00	2,570.00	5,930.00	1,430.00	2,570.00	4,000.00
16	4 Inch, compound	4,475.00	3,545.00	8,020.00	1,610.00	3,545.00	5,155.00
17	6 Inch Turbo	6,035.00	4,925.00	10,960.00	2,150.00	4,925.00	7,075.00
18	6 Inch, compound	8,050.00	6,820.00	14,870.00	2,270.00	6,820.00	9,090.00

¹ Based on ACC Staff Engineering Memo dated February 21, 2008

Other Charges:

Establishment	\$ 20.00
Establishment (After Hours)	\$ 40.00
Reconnection (Delinquent)	\$ 50.00
Reconnection (After hours)	\$ 40.00
Meter Test	\$ 20.00
Minimum Deposit Requirement	PER RULE
Deposit Interest	PER RULE
Re-establishment (Within 12 months)	PER RULE
NSF Check	\$ 20.00
Deferred Payment, per month	1.5%
Meter Re-read	\$ 10.00
Late Charge	1.5%
Customer requested Meter Test	\$ 20.00
After hours service charge	\$ 40.00
Moving Customer Meter (at customer request)	Cost

\$ 20.00
*Removed
\$ 50.00
*Removed
\$ 20.00
PER RULE
PER RULE
PER RULE
\$ 20.00
1.5%
\$ 10.00
1.5%
\$ 20.00
\$ 40.00
Cost

(a) \$ 5.00 minimum or 1.5% of unpaid balance whichever is greater.

* After hours service charge will apply when service requested by customer after hours.

Utility Source, LLC - Water Division
Bill Comparison of Present and Proposed Rates
Residential 3/4 Inch Meter
Customer Classification
Test Year Ended December 31, 2012
(Excludes all Revenue Related Taxes)

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase	
-	\$ 18.50	\$ 41.07	\$ 22.57	122.00%	
1,000	23.30	49.32	26.02	111.67%	
2,000	28.10	57.57	29.47	104.88%	
3,000	32.90	65.82	32.92	100.06%	
4,000	37.70	74.07	36.37	96.47%	
5,000	44.86	89.82	44.96	100.22%	
6,000	52.02	105.57	53.55	102.94%	
7,000	59.18	121.32	62.14	105.00%	
8,000	66.34	137.07	70.73	106.62%	
9,000	73.50	152.82	79.32	107.92%	
10,000	82.10	174.57	92.47	112.63%	
12,000	99.30	218.07	118.77	119.61%	
14,000	116.50	261.57	145.07	124.52%	
16,000	133.70	305.07	171.37	128.18%	
18,000	150.90	348.57	197.67	130.99%	
20,000	168.10	392.07	223.97	133.24%	
25,000	211.10	500.82	289.72	137.24%	
30,000	254.10	609.57	355.47	139.89%	
35,000	297.10	718.32	421.22	141.78%	
40,000	340.10	827.07	486.97	143.18%	
45,000	383.10	935.82	552.72	144.28%	
50,000	426.10	1,044.57	618.47	145.15%	
60,000	512.10	1,262.07	749.97	146.45%	
70,000	598.10	1,479.57	881.47	147.38%	
80,000	684.10	1,697.07	1,012.97	148.07%	
90,000	770.10	1,914.57	1,144.47	148.61%	
100,000	856.10	2,132.07	1,275.97	149.04%	
Average Usage	4,123	\$ 38.58	\$ 76.00	\$ 37.42	97.01%
Median Usage	4,500	\$ 41.28	\$ 81.95	\$ 40.67	98.51%

Present Rates:
Monthly Minimum: \$ 18.50
Gallons in Minimum: -
Charge Per 1,000 Gallons
Up to 4,000 \$ 4.80
Up to 9,000 \$ 7.16
Over 9,000 \$ 8.60

Proposed Rates:
Monthly Minimum: \$ 41.07
Gallons in Minimum: -
Charge Per 1,000 Gallons
Up to 4,000 \$ 8.25
Up to 9,000 \$ 15.75
Over 9,000 \$ 21.75

Utility Source, LLC - Water Division
 Bill Comparison of Present and Proposed Rates
 Commercial 3/4 Inch Meter
 Customer Classification
 Test Year Ended December 31, 2012
 (Excludes all Revenue Related Taxes)

Exhibit
 Schedule H-4
 Page 2
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 18.50	\$ 41.07	\$ 22.57	122.00%
1,000	23.30	56.82	33.52	143.86%
2,000	28.10	72.57	44.47	158.26%
3,000	32.90	88.32	55.42	168.45%
4,000	37.70	104.07	66.37	176.05%
5,000	44.86	125.82	80.96	180.47%
6,000	52.02	147.57	95.55	183.68%
7,000	59.18	169.32	110.14	186.11%
8,000	66.34	191.07	124.73	188.02%
9,000	73.50	212.82	139.32	189.55%
10,000	82.10	234.57	152.47	185.71%
12,000	99.30	278.07	178.77	180.03%
14,000	116.50	321.57	205.07	176.03%
16,000	133.70	365.07	231.37	173.05%
18,000	150.90	408.57	257.67	170.76%
20,000	168.10	452.07	283.97	168.93%
25,000	211.10	560.82	349.72	165.67%
30,000	254.10	669.57	415.47	163.51%
35,000	297.10	778.32	481.22	161.97%
40,000	340.10	887.07	546.97	160.83%
45,000	383.10	995.82	612.72	159.94%
50,000	426.10	1,104.57	678.47	159.23%
60,000	512.10	1,322.07	809.97	158.17%
70,000	598.10	1,539.57	941.47	157.41%
80,000	684.10	1,757.07	1,072.97	156.84%
90,000	770.10	1,974.57	1,204.47	156.40%
100,000	856.10	2,192.07	1,335.97	156.05%
Average Usage	26.50	67.33	40.82	154.04%
1,667	\$	\$	\$	
Median Usage	41.28	114.95	73.67	178.45%
4,500	\$	\$	\$	

Present Rates:
 Monthly Minimum: \$ 18.50
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 Up to 4,000 \$ 4.80
 Over 9,000 \$ 7.16
 Over 9,000 \$ 8.60

Proposed Rates:
 Monthly Minimum: \$ 41.07
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 Up to 4,000 \$ 15.75
 Over 4,000 \$ 21.75

Utility Source, LLC - Water Division
 Bill Comparison of Present and Proposed Rates
 Commercial 2 Inch Meter
 Customer Classification
 Test Year Ended December 31, 2012

Exhibit
 Schedule H-4
 Page 3
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 148.00	\$ 328.56	\$ 180.56	122.00%
1,000	155.16	344.31	189.15	121.91%
2,000	162.32	360.06	197.74	121.82%
3,000	169.48	375.81	206.33	121.74%
4,000	176.64	391.56	214.92	121.67%
5,000	183.80	407.31	223.51	121.61%
6,000	190.96	423.06	232.10	121.54%
7,000	198.12	438.81	240.69	121.49%
8,000	205.28	454.56	249.28	121.43%
9,000	212.44	470.31	257.87	121.38%
10,000	219.60	486.06	266.46	121.34%
12,000	233.92	517.56	283.64	121.26%
14,000	248.24	549.06	300.82	121.18%
16,000	262.56	580.56	318.00	121.12%
18,000	276.88	612.06	335.18	121.06%
20,000	291.20	643.56	352.36	121.00%
25,000	327.00	722.31	395.31	120.89%
30,000	362.80	801.06	438.26	120.80%
35,000	398.60	879.81	481.21	120.73%
40,000	434.40	958.56	524.16	120.66%
45,000	470.20	1,037.31	567.11	120.61%
50,000	506.00	1,116.06	610.06	120.57%
60,000	577.60	1,273.56	695.96	120.49%
70,000	649.20	1,431.06	781.86	120.43%
80,000	720.80	1,588.56	867.76	120.39%
90,000	792.40	1,746.06	953.66	120.35%
100,000	872.64	1,939.56	1,066.92	122.26%
Average Usage	\$ 1,004.10	\$ 2,272.04	\$ 1,267.94	126.28%
Median Usage	\$ 613.40	\$ 1,352.31	\$ 738.91	120.46%

Present Rates:
 Monthly Minimum: \$ 148.00
 Gallons in Minimum Charge Per 1,000 Gallons -
 Up to 94,000 \$ 7.16
 Over 94,000 \$ 8.60

Proposed Rates:
 Monthly Minimum: \$ 328.56
 Gallons in Minimum Charge Per 1,000 Gallons -
 Up to 94,000 \$ 15.75
 Over 94,000 \$ 21.75

Utility Source, LLC - Water Division
 Bill Comparison of Present and Proposed Rates
 Customer Classification 2 Inch Irrigation
 Test Year Ended December 31, 2012

Exhibit
 Schedule H-4
 Page 4
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 148.00	\$ 328.56	\$ 180.56	122.00%
1,000	157.26	350.31	193.05	122.76%
2,000	166.52	372.06	205.54	123.43%
3,000	175.78	393.81	218.03	124.04%
4,000	185.04	415.56	230.52	124.58%
5,000	194.30	437.31	243.01	125.07%
6,000	203.56	459.06	255.50	125.52%
7,000	212.82	480.81	267.99	125.92%
8,000	222.08	502.56	280.48	126.30%
9,000	231.34	524.31	292.97	126.64%
10,000	240.60	546.06	305.46	126.96%
12,000	259.12	589.56	330.44	127.52%
14,000	277.64	633.06	355.42	128.01%
16,000	296.16	676.56	380.40	128.44%
18,000	314.68	720.06	405.38	128.82%
20,000	333.20	763.56	430.36	129.16%
25,000	379.50	872.31	492.81	129.86%
30,000	425.80	981.06	555.26	130.40%
35,000	472.10	1,089.81	617.71	130.84%
40,000	518.40	1,198.56	680.16	131.20%
45,000	564.70	1,307.31	742.61	131.51%
50,000	611.00	1,416.06	805.06	131.76%
60,000	703.60	1,633.56	929.96	132.17%
70,000	796.20	1,851.06	1,054.86	132.49%
80,000	888.80	2,068.56	1,179.76	132.74%
90,000	981.40	2,286.06	1,304.66	132.94%
100,000	1,074.00	2,503.56	1,429.56	133.11%

Present Rates:
 Monthly Minimum: \$ 148.00
 Gallons in Minimum: -
 Charge Per 1,000 Gallons
 Up to 999,999,999 \$ 9.26
 Over 999,999,999 \$ 9.26

Proposed Rates:
 Monthly Minimum: \$ 328.56
 Gallons in Minimum: -
 Charge Per 1,000 Gallons
 Up to 999,999,999 \$ 21.75
 Over 999,999,999 \$ 21.75

Average Usage	\$ 148.00	\$ 328.56	\$ 180.56	122.00%
Median Usage	\$ 148.00	\$ 328.56	\$ 180.56	122.00%

Utility Source, LLC - Water Division
 Bill Comparison of Present and Proposed Rates
 Construction Water
 Customer Classification
 Test Year Ended December 31, 2012
 (Excludes all Revenue Related Taxes)

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 18.50	\$ 41.07	\$ 22.57	0.00%
1,000	28.85	62.82	33.97	117.75%
2,000	39.20	84.57	45.37	115.74%
3,000	49.55	106.32	56.77	114.57%
4,000	59.90	128.07	68.17	113.81%
5,000	70.25	149.82	79.57	113.27%
6,000	80.60	171.57	90.97	112.87%
7,000	90.95	193.32	102.37	112.56%
8,000	101.30	215.07	113.77	112.31%
9,000	111.65	236.82	125.17	112.11%
10,000	122.00	258.57	136.57	111.94%
12,000	142.70	302.07	159.37	111.68%
14,000	163.40	345.57	182.17	111.49%
16,000	184.10	389.07	204.97	111.34%
18,000	204.80	432.57	227.77	111.22%
20,000	225.50	476.07	250.57	111.12%
25,000	277.25	584.82	307.57	110.94%
30,000	329.00	693.57	364.57	110.81%
35,000	380.75	802.32	421.57	110.72%
40,000	432.50	911.07	478.57	110.65%
45,000	484.25	1,019.82	535.57	110.60%
50,000	536.00	1,128.57	592.57	110.55%
60,000	639.50	1,346.07	706.57	110.49%
70,000	743.00	1,563.57	820.57	110.44%
80,000	846.50	1,781.07	934.57	110.40%
90,000	950.00	1,998.57	1,048.57	110.38%
100,000	1,053.50	2,216.07	1,162.57	110.35%
Average Usage	290.19	612.02	\$ 321.83	110.90%
Median Usage	437.69	921.97	\$ 484.28	110.65%

Present Rates:
 Monthly Minimum:
 Gallons in Minimum
 Charge Per 1,000 Gallons \$ 18.50
 All Gallons \$ -
 All Gallons \$ 10.35

Proposed Rates:
 Monthly Minimum:
 Gallons in Minimum
 Charge Per 1,000 Gallons \$ 41.07
 All Gallons \$ -
 All Gallons \$ 21.75

Utility Source, LLC - Water Division
 Test Year Ended December 31, 2012
 Residential 3/4 Inch Meter

Exhibit
 Schedule H-5
 Page 1
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumulative Billing	Cumulative Gals (1,000s)
1	1,000	22	15	6	3	11	6	21	33	20	4	7	7	81	81	-
1,001	2,000	27	29	31	29	29	20	18	39	41	24	29	23	315	396	158
2,001	3,000	49	24	41	43	61	40	21	53	47	53	37	32	478	874	875
3,001	4,000	55	68	58	79	73	53	30	65	47	67	52	55	693	1,567	2,608
4,001	5,000	54	50	57	73	62	36	21	64	67	63	67	75	698	2,265	5,051
5,001	6,000	35	55	53	48	44	31	39	56	61	45	65	47	579	2,844	7,657
6,001	7,000	33	33	35	24	14	32	25	24	42	23	29	45	359	3,203	9,632
7,001	8,000	16	15	17	10	12	25	22	17	23	15	13	10	195	3,398	10,899
8,001	9,000	12	8	10	2	9	15	18	6	2	10	6	10	108	3,506	11,709
9,001	10,000	5	8	4	2	2	20	14	6	5	7	6	3	82	3,588	12,406
10,001	12,000	5	7	4	3	1	9	8	5	1	7	3	5	58	3,646	12,957
12,001	14,000	3	4	1	1	1	13	28	5	9	2	3	7	77	3,723	13,804
14,001	16,000	3	2	1	1	-	10	22	2	1	-	3	-	45	3,768	14,389
16,001	18,000	1	-	-	-	-	5	12	1	-	-	-	1	20	3,788	14,689
18,001	20,000	-	-	1	-	-	3	12	-	1	-	-	-	17	3,805	14,978
20,001	25,000	-	-	-	-	-	1	12	-	-	-	-	-	13	3,818	15,225
25,001	30,000	-	-	-	-	-	-	13	-	-	-	-	-	13	3,831	15,518
30,001	35,000	-	-	-	-	-	-	7	-	-	-	-	-	8	3,839	15,738
35,001	40,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3,839	15,738
40,001	45,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3,839	15,738
45,001	50,000	-	-	-	-	-	-	1	-	-	-	-	-	1	3,840	15,780
50,001	60,000	-	-	-	-	-	-	-	-	-	-	-	1	-	3,840	15,780
60,001	70,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3,841	15,835
70,001	80,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3,841	15,835
80,001	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3,841	15,835
90,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3,841	15,835
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,841	15,835
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,841	15,835
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,841	15,835

Totals	320	318	319	318	319	320	323	320	320	320	320	320	321	3,841	4,123	15,835
Average Usage	320	318	319	318	319	320	323	320	320	320	320	320	321	3,841	4,123	15,835
Median Usage	320	318	319	318	319	320	323	320	320	320	320	320	321	3,841	4,500	15,835
Average # Customers	320	318	319	318	319	320	323	320	320	320	320	320	321	3,841	320	15,835
Change in Number of Customers	320	318	319	318	319	320	323	320	320	320	320	320	321	3,841	1	15,835

Utility Source, LLC - Water Division
 Test Year Ended December 31, 2012
 Customer Classification Construction Water

Exhibit
 Schedule H-5
 Page 5
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumulative Billing	Cumulative Gals (1,000s)													
1	1,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-													
1,001	2,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-													
2,001	3,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-													
3,001	4,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-													
4,001	5,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-													
5,001	6,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-													
6,001	7,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-													
7,001	8,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-													
8,001	9,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-													
9,001	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-													
10,001	12,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-													
12,001	14,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-													
14,001	16,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-													
16,001	18,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-													
18,001	20,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-													
20,001	25,000	1	-	-	-	1	-	-	-	-	-	-	-	5	5	113													
25,001	30,000	-	-	1	-	-	-	-	-	1	-	-	-	6	11	278													
30,001	35,000	-	-	-	-	-	-	-	-	-	-	-	-	1	12	315													
35,001	40,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	315													
40,001	45,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	315													
45,001	50,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	315													
50,001	60,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	315													
60,001	70,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	315													
70,001	80,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	315													
80,001	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	315													
90,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	315													
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-													
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-													
Totals														1	1	1	1	1	1	1	1	1	1	1	1	1	12	26,251	40,501

Average Usage
 Median Usage
 Average # Customers
 Change in Number of Customers

WASTEWATER SCHEDULES

Utility Source. LLC - Wastewater Division
 Test Year Ended December 31, 2012
 Computation of Increase in Gross Revenue
 Requirements As Adjusted

Exhibit
 Schedule A-1
 Page 1
 Witness: Bourassa

Line
No.

1	Fair Value Rate Base	\$	830,945
2			
3	Adjusted Operating Income		(72,257)
4			
5	Current Rate of Return		-8.70%
6			
7	Required Operating Income	\$	91,404
8			
9	Required Rate of Return		11.00%
10			
11	Operating Income Deficiency	\$	163,661
12			
13	Gross Revenue Conversion Factor		1.2022
14			
15	Increase in Gross Revenue Requirement	\$	196,760
16			
17			
18	Adjusted Test Year Revenues	\$	121,284
19	Increase in Gross Revenue Revenue Requirement	\$	196,760
20	Proposed Revenue Requirement	\$	318,044
21	% Increase		162.23%
22			

<u>Customer Classification</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
25 3/4 Inch Residential	\$ 92,479	\$ 287,729	\$ 195,250	211.13%
26 3/4 Inch Commercial	114	740	626	547.81%
27 2 Inch Commercial	23,698	23,473	(225)	-0.95%
28			-	0.00%
29 Revenue Annualization	173	741	567	327.23%
30 Subtotal	\$ 116,465	\$ 312,683	\$ 196,218	168.48%
31				
32 Other Water Revenues	5,261	5,261	-	0.00%
33 Reconciling Amount	(442)	100	542	-122.62%
34 Rounding			-	0.00%
35 Total of Water Revenues	\$ 121,284	\$ 318,044	\$ 196,760	162.23%

36
 37
 38 SUPPORTING SCHEDULES:
 39 B-1
 40 C-1
 41 C-3
 42 H-1

Utility Source, LLC - Wastewater Division
 Test Year Ended December 31, 2012
 Summary of Results of Operations

Exhibit
 Schedule A-2
 Page 1
 Witness: Bourassa

Line No.	Description	Prior Years Ended		Test Year		Projected Year	
		12/31/2010	12/31/2011	Actual 12/31/2012	Adjusted 12/31/2012	Present Rates 12/31/2013	Proposed Rates 12/31/2013
1	Gross Revenues	\$ 123,132	\$ 116,436	\$ 115,849	\$ 121,284	\$ 121,284	\$ 121,284
2							
3	Revenue Deductions and	209,054	195,286	198,428	193,541	193,541	226,640
4	Operating Expenses						
5							
6	Operating Income	\$ (85,922)	\$ (78,850)	\$ (82,579)	\$ (72,257)	\$ (72,257)	\$ (105,356)
7							
8	Other Income and	-	-	-	-	-	-
9	Deductions						
10							
11	Interest Expense	-	-	-	-	-	-
12							
13	Net Income	\$ (85,922)	\$ (78,850)	\$ (82,579)	\$ (72,257)	\$ (72,257)	\$ (105,356)
14							
15	Common Shares	460,314	460,314	460,314	460,314	460,314	460,314
16							
17	Earned Per Average						
18	Common Share	(0.19)	(0.17)	(0.18)	(0.16)	(0.16)	(0.23)
19							
20	Dividends Paid	-	-	-	-	-	-
21							
22	Dividends Per						
23	Common Share	-	-	-	-	-	-
24							
25	Payout Ratio	-	-	-	-	-	-
26							
27	Return on Average						
28	Invested Capital	-0.69%	-7.06%	-7.60%	-7.05%	-7.22%	-10.52%
29							
30	Return on Year End						
31	Capital	-7.54%	-7.20%	-7.66%	-7.05%	-7.38%	-10.77%
32							
33	Return on Average						
34	Common Equity	-17.38%	-8.15%	-8.78%	-7.94%	-8.04%	-11.94%
35							
36	Return on Year End						
37	Common Equity	-8.69%	-8.33%	-8.83%	-8.27%	-8.37%	-12.70%
38							
39	Times Bond Interest Earned						
40	Before Income Taxes	-	-	-	-	-	-
41							
42	Times Total Interest and						
43	Preferred Dividends Earned						
44	After Income Taxes	-	-	-	-	-	-
45							
46							
47							
48							
49							
50	<u>SUPPORTING SCHEDULES</u>						
51	C-1						
52	E-2						
53	F-1						
54							

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Construction Expenditures
and Gross Utility Plant in Service

Exhibit
Schedule A-4
Page 1
Witness: Bourassa

<u>Line No.</u>	<u>Construction Expenditures</u>	<u>Net Plant Placed in Service</u>	<u>Gross Utility Plant in Service</u>
1			
2			
3			
4	Prior Year Ended 12/31/2010	-	1,395,151
5			
6	Prior Year Ended 12/31/2011	-	1,395,151
7			
8	Test Year Ended 12/31/2012	2,120	1,397,271
9			
10	Projected Year Ended 12/31//2013	-	1,397,271
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			
26			
27			
28			
29			
30			
31			
32			
33			
34	<u>SUPPORTING SCHEDULES:</u>		
35	B-2		
36	E-5		
37	F-3		
38			
39			
40			

Utility Source. LLC - Wastewater Division
 Test Year Ended December 31, 2012
 Summary of Rate Base

Exhibit
 Schedule B-1
 Page 1
 Witness: Bourassa

Line No.	<u>Original Cost</u> <u>Rate base</u>	<u>Fair Value</u> <u>Rate Base</u>
1		
2	\$ 1,397,271	\$ 1,397,271
3	Less: Accumulated Depreciation	455,064
4		
5	Net Utility Plant in Service	\$ 942,207
6		
7	<u>Less:</u>	
8	Advances in Aid of Construction	-
9		
10	Contributions in Aid of Construction	197,973
11		
12	Accumulated Amortization of CIAC	(86,711)
13		
14	Customer Meter Deposits	-
15	Deferred Income Taxes & Credits	-
16		
17		
18		
19	<u>Plus:</u>	
20	Unamortized Finance	
21	Charges	-
22	Prepayments	-
23	Materials and Supplies	-
24	Allowance for Working Capital	-
25		
26		
27		
28	Total Rate Base	\$ 830,945
29		
30		
31		
32		
33		
34		
35		
36		
37		
38		
39		
40		
41		
42		
43	<u>SUPPORTING SCHEDULES:</u>	
44	B-2	
45	B-3	
46	B-5	
47	E-1	
48		
49		
50		
51		
52		

Utility Source. LLC - Wastewater Division
 Test Year Ended December 31, 2012
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Schedule B-2
 Page 1
 Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Adjustment	Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	\$ 1,397,271	-	\$ 1,397,271
3				
4	Less:			
5	Accumulated			
6	Depreciation	384,674	70,390	455,064
7				
8				
9	Net Utility Plant			
10	in Service	\$ 1,012,597		\$ 942,207
11				
12	Less:			
13	Advances in Aid of			
14	Construction	-	-	-
15				
16	Contributions in Aid of			
17	Construction - Gross	197,973	-	197,973
18				
19	Accumulated Amortization of CIAC	(70,406)	(16,305)	(86,711)
20				
21	Customer Meter Deposits	-		-
22	Accumulated Deferred Income Tax	-	-	-
23				-
24				-
25				
26	Plus:			
27	Unamortized Finance			
28	Charges	-	-	-
29	Prepayments	-	-	-
30	Materials and Supplies	-	-	-
31	Working capital	-	-	-
32				-
33				
34	Total	\$ 885,030		\$ 830,945

45 SUPPORTING SCHEDULES:

46 B-2, pages 2

47 E-1

48

49

50

RECAP SCHEDULES:

B-1

Utility Source, LLC - Wastewater Division
 Test Year Ended December 31, 2012
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Schedule B-2
 Page 2
 Witness: Bourassa

Line No.	Description	<u>Proforma Adjustments</u>					Adjusted at end of Test Year
		1 Actual at End of Test Year	2 Plant-in-Service	3 Accumulated Depreciation	4 Intentionally Left Blank	5 Intentionally Left Blank	
1	Gross Utility Plant in Service	\$ 1,397,271	-				\$ 1,397,271
2							
3							
4	Less:						
5	Accumulated Depreciation	384,674	70,390				455,064
6							
7							
8							
9	Net Utility Plant in Service	\$ 1,012,597	\$ (70,390)	\$ -	\$ -	\$ -	\$ 942,207
10							
11							
12	Less:						
13	Advances in Aid of Construction	-					-
14							
15							
16	Contributions in Aid of Construction (CIAC)	197,973					197,973
17							
18							
19	Accumulated Amort of CIAC	(70,406)		(16,305)			(86,711)
20							
21	Customer Meter Deposits	-					-
22	Accumulated Deferred Income Taxes	-					-
23							
24							
25	Plus:						
26	Unamortized Finance Charges	-					-
27							
28	Prepayments	-					-
29	Materials and Supplies	-					-
30	Allowance for Cash Working Capital	-					-
31							
32	Total	\$ 885,030	\$ (70,390)	\$ 16,305	\$ -	\$ -	\$ 830,945
33							
34							
35							

SUPPORTING SCHEDULES:
 B-1

SUPPORTING SCHEDULES:
 B-2, pages 3-5
 E-1

Utility Source. LLC - Wastewater Division
 Test Year Ended December 31, 2012
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 1 -A

Exhibit
 Schedule B-2
 Page 3.1
 Witness: Bourassa

Line

No.

1 Reconciliation to Reconstructed Plant-in-Service

2

3

4	Acct.	Recorded	Plant	Adjustment
5	<u>No.</u> <u>Description</u>	<u>Original</u>	<u>Per</u>	<u>Required</u>
6		<u>Cost</u>	<u>Reconstruction</u>	
6	351 Organization Cost	-	-	-
7	352 Franchise Cost	-	-	-
8	353 Land and Land Rights	105,000	105,000	-
9	354 Structures & Improvements	56,350	56,350	-
10	355 Power Generation Equipment	2,879	2,879	-
11	360 Collection Sewers - Force	-	-	-
12	361 Collection Sewers - Gravity	260,553	260,553	-
13	362 Special Collecting Structures	-	-	-
14	363 Services to Customers	60,375	60,375	-
15	364 Flow Measuring Devices	-	-	-
16	365 Flow Measuring Installations	-	-	-
17	366 Reuse Services	3,450	3,450	-
18	367 Reuse Meters and Meter Installior	-	-	-
19	370 Receiving Wells	-	-	-
20	371 Pumping Equipment	-	-	-
21	374 Reuse Distribution Reservoirs	-	-	-
22	375 Reuse Transmission and Distributio	-	-	-
23	380 Treatment & Disposal Equipment	903,992	903,992	-
24	381 Plant Sewers	-	-	-
25	382 Outfall Sewer Lines	-	-	-
26	389 Other Plant & Misc Equipment	-	-	-
27	390 Office Furniture & Equipment	4,672	4,672	-
28	390.1 Computers & Software	-	-	-
29	391 Transportation Equipment	-	-	-
30	392 Stores Equipment	-	-	-
31	393 Tools, Shop & Garage Equipment	-	-	-
32	394 Laboratory Equipment	-	-	-
33	395 Power Operated Equipment	-	-	-
34	396 Communication Equipment	-	-	-
35	397 Miscellaneous Equipment	-	-	-
36	398 Other Tangible Plant	-	-	-
37	TOTALS	\$ 1,397,271	\$ 1,397,271	\$ -

38

39

40 SUPPORTING SCHEDULE

41 B-2, pages 3.2 - 3.8

42

Rio Rico Utilities - Sewer Division
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.2
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	Per Decision 7/0140		2006				Accum. Deprec. 12/31/2005	Plant at 12/31/2005	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.	
				Plant at 12/31/2005	Accum. Deprec. At 12/31/2005	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)													Retirement Adjustments
1	351	Organization	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
2	352	Franchise	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	353	Land	0.00%	105,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	105,000	-	-
4	354	Structures & Improvements	3.33%	56,350	2,815	-	-	-	-	-	-	-	-	-	-	-	-	-	1,876	56,350	4,691	-
5	355	Power Generation	5.00%	2,879	216	-	-	-	-	-	-	-	-	-	-	-	-	-	144	2,879	360	-
6	360	Collection Sewer Forced	2.00%	-	7,817	-	-	-	-	-	-	-	-	-	-	-	-	-	5,211	260,553	13,028	-
7	361	Collection Sewers Gravity	2.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	362	Special Collecting Structures	2.00%	60,375	1,811	-	-	-	-	-	-	-	-	-	-	-	-	-	1,208	60,375	3,019	-
9	363	Customer Services	2.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	364	Flow Measuring Devices	10.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	365	Flow Measuring Installations	10.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	366	Reuse Services	2.00%	3,450	518	-	-	-	-	-	-	-	-	-	-	-	-	-	69	3,450	587	-
12	367	Reuse Meters And Installation	8.33%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	370	Receiving Wells	3.33%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	371	Pumping Equipment	12.50%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	374	Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16	375	Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	380	Treatment & Disposal Equipment	5.00%	890,485	66,786	-	-	-	-	-	-	-	-	-	-	-	-	-	44,524	890,485	111,311	-
18	381	Plant Sewers	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	382	Outfall Sewer Lines	3.33%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20	389	Other Sewer Plant & Equipment	6.67%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
21	390	Office Furniture & Equipment	6.67%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
22	390.1	Computers and Software	20.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
23	391	Transportation Equipment	20.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
24	392	Stores Equipment	4.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
25	393	Tools, Shop And Garage Equip	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
26	394	Laboratory Equip	10.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
26	395	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
26	396	Communication Equip	10.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
26	397	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
26	398	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
29				-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
30				-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
31				-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
32				-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
33				-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
34				-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
35				-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
36		TOTALS		1,379,092	79,962	-	-	-	-	-	-	-	-	-	-	-	-	-	53,032	1,379,092	132,995	-

Utility Source, LLC - Wastewater Division
 Revenue Annualization to Year End Customers: Residential 3/4 Inch Meter
 Test Year Ended December 31, 2012

Exhibit
 Schedule
 Page 5.1
 Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	321	321	321	321	321	321	321
2	Actual Customers	320	318	319	318	319	320	323
3	Increase in Number of Customers/Bills	1	3	2	3	2	1	(2)
4	Average Revenue / Present Rates	\$ 20.51	\$ 21.79	\$ 21.07	\$ 18.91	\$ 17.64	\$ 29.57	\$ 49.08
5	Revenue Annualization / Present Rates	\$ 21	\$ 65	\$ 42	\$ 57	\$ 35	\$ 30	\$ (98)
6								
7	Increase in Number of Customers	1	3	2	3	2	1	(2)
8	Average Revenue / Proposed Rates	\$ 71.66	\$ 72.83	\$ 72.18	\$ 70.21	\$ 69.05	\$ 79.91	\$ 97.67
9	Revenue Annualization / Proposed Rates	\$ 72	\$ 218	\$ 144	\$ 211	\$ 138	\$ 80	\$ (195)
10	Additional Gallons to be Produced	3,511	11,195	7,217	9,714	6,042	5,063	(16,809)

Line No.		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
15	Year End Number of Customers	321	321	321	321	321	
16	Actual Customers	323	320	320	320	321	
17	Increase in Number of Customers/Bills	(2)	1	1	1	-	11
18	Average Revenue / Present Rates	\$ 21.62	\$ 23.26	\$ 20.61	\$ 21.31	\$ 23.26	
19	Revenue Annualization / Present Rates	\$ (43)	\$ 23	\$ 21	\$ 21	\$ -	\$ 173
20							
21	Increase in Number of Customers	(2)	1	1	1	-	
22	Average Revenue / Proposed Rates	\$ 72.67	\$ 74.17	\$ 71.75	\$ 72.39	\$ 74.17	
23	Revenue Annualization / Proposed Rates	\$ (43)	\$ 23	\$ 21	\$ 21	\$ -	\$ 741
24	Additional Gallons to be Produced	(7,403)	3,983	3,529	3,649	-	29,690

Rio Rico Utilities - Sewer Division
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.4
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2008					Accum. Deprec.	
				Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments		Adjusted Plant Retirements
1	351	Organization	0.00%	-	-	-	-	-	-	-
2	352	Franchise	0.00%	-	-	-	-	-	-	-
3	353	Land	0.00%	-	-	-	-	-	-	-
4	354	Structures & Improvements	3.33%	-	-	-	-	-	-	-
5	355	Power Generation	5.00%	-	-	-	-	-	-	-
6	360	Collection Sewer Forced	2.00%	-	-	-	-	-	-	-
7	361	Collection Sewers Gravity	2.00%	-	-	-	-	-	-	-
8	362	Special Collecting Structures	2.00%	-	-	-	-	-	-	-
9	363	Customer Services	2.00%	-	-	-	-	-	-	-
10	364	Flow Measuring Devices	10.00%	-	-	-	-	-	-	-
10	365	Flow Measuring Installations	10.00%	-	-	-	-	-	-	-
10	366	Reuse Services	2.00%	-	-	-	-	-	-	-
12	367	Reuse Meters And Installation	8.33%	-	-	-	-	-	-	-
13	370	Receiving Walls	3.33%	-	-	-	-	-	-	-
14	371	Pumping Equipment	12.50%	-	-	-	-	-	-	-
15	374	Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-	-
16	375	Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	-	-
17	380	Treatment & Disposal Equipment	5.00%	13,507	-	13,507	-	-	-	-
18	381	Plant Sewers	5.00%	-	-	-	-	-	-	-
19	382	Outfall Sewer Lines	3.33%	-	-	-	-	-	-	-
20	389	Other Sewer Plant & Equipment	6.67%	-	-	-	-	-	-	-
21	390	Office Furniture & Equipment	6.67%	2,552	-	2,552	-	-	-	-
22	390.1	Computers and Software	20.00%	-	-	-	-	-	-	-
23	391	Transportation Equipment	20.00%	-	-	-	-	-	-	-
24	392	Stores Equipment	4.00%	-	-	-	-	-	-	-
25	393	Tools, Shop And Garage Equip	5.00%	-	-	-	-	-	-	-
26	394	Laboratory Equip	10.00%	-	-	-	-	-	-	-
26	395	Power Operated Equipment	5.00%	-	-	-	-	-	-	-
26	396	Communication Equip	10.00%	-	-	-	-	-	-	-
26	397	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-
26	398	Other Tangible Plant	10.00%	-	-	-	-	-	-	-
29				-	-	-	-	-	-	-
30				-	-	-	-	-	-	-
31				-	-	-	-	-	-	-
32				-	-	-	-	-	-	-
33				-	-	-	-	-	-	-
34				-	-	-	-	-	-	-
35				-	-	-	-	-	-	-
36		TOTALS		16,059	-	16,059	-	53,455	1,395,151	239,482

Rio Rico Utilities - Sewer Division
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.5
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2009					Accum. Deprec.			
				Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments		Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)
1	351	Organization	0.00%	-	-	-	-	-	-	-	-	-
2	352	Franchise	0.00%	-	-	-	-	-	-	-	-	-
3	353	Land	0.00%	-	-	-	-	-	-	105,000	-	-
4	354	Structures & Improvements	3.33%	-	-	-	-	-	1,876	56,350	10,321	-
5	355	Power Generation	5.00%	-	-	-	-	-	144	2,879	792	-
6	360	Collection Sewer Forced	2.00%	-	-	-	-	-	-	260,553	28,661	-
7	361	Collection Sewers Gravity	2.00%	-	-	-	-	-	-	60,375	6,641	-
8	362	Special Collecting Structures	2.00%	-	-	-	-	-	-	-	-	-
9	363	Customer Services	10.00%	-	-	-	-	-	-	-	-	-
10	364	Flow Measuring Devices	10.00%	-	-	-	-	-	-	-	-	-
10	365	Flow Measuring Installations	2.00%	-	-	-	-	-	-	3,450	794	-
10	366	Reuse Services	8.33%	-	-	-	-	-	69	-	-	-
12	367	Reuse Meters And Installation	3.33%	-	-	-	-	-	-	-	-	-
13	370	Receiving Wells	12.50%	-	-	-	-	-	-	-	-	-
14	371	Pumping Equipment	2.50%	-	-	-	-	-	-	-	-	-
15	374	Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-	-	-	-
16	375	Reuse Trans. and Dist. System	5.00%	-	-	-	-	-	-	-	-	-
17	380	Treatment & Disposal Equipment	5.00%	-	-	-	-	-	45,200	903,992	245,896	-
18	381	Plant Sewers	5.00%	-	-	-	-	-	-	-	-	-
19	382	Outfall Sewer Lines	3.33%	-	-	-	-	-	-	-	-	-
20	389	Other Sewer Plant & Equipment	6.67%	-	-	-	-	-	-	-	-	-
21	390	Office Furniture & Equipment	20.00%	-	-	-	-	-	170	2,552	255	-
22	390.1	Computers and Software	20.00%	-	-	-	-	-	-	-	-	-
23	391	Transportation Equipment	4.00%	-	-	-	-	-	-	-	-	-
24	392	Stores Equipment	5.00%	-	-	-	-	-	-	-	-	-
25	383	Tools, Shop And Garage Equip	10.00%	-	-	-	-	-	-	-	-	-
26	394	Laboratory Equip	5.00%	-	-	-	-	-	-	-	-	-
26	395	Power Operated Equipment	10.00%	-	-	-	-	-	-	-	-	-
26	396	Communication Equip	10.00%	-	-	-	-	-	-	-	-	-
26	397	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-	-
26	398	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-	-
29				-	-	-	-	-	-	-	-	-
30				-	-	-	-	-	-	-	-	-
31				-	-	-	-	-	-	-	-	-
32				-	-	-	-	-	-	-	-	-
33				-	-	-	-	-	-	-	-	-
34				-	-	-	-	-	-	-	-	-
35				-	-	-	-	-	-	-	-	-
36		TOTALS		-	-	-	-	-	53,878	1,395,151	293,360	-

Rio Rico Utilities - Sewer Division
Plant Additions and Retirements

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2010					Accum. Deprec.			
				Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments		Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)
1	351	Organization	0.00%	-	-	-	-	-	-	-	-	-
2	352	Franchise	0.00%	-	-	-	-	-	-	-	-	-
3	353	Land	0.00%	-	-	-	-	-	-	105,000	-	-
4	354	Structures & Improvements	3.33%	-	-	-	-	-	1,876	56,350	12,197	-
5	355	Power Generation	5.00%	-	-	-	-	-	144	2,879	936	-
6	360	Collection Sewer Forced	2.00%	-	-	-	-	-	-	-	-	-
7	361	Collection Sewers Gravity	2.00%	-	-	-	-	-	5,211	260,553	33,872	-
8	362	Special Collecting Structures	2.00%	-	-	-	-	-	1,208	60,375	7,849	-
9	363	Customer Services	2.00%	-	-	-	-	-	-	-	-	-
10	364	Flow Measuring Devices	10.00%	-	-	-	-	-	-	-	-	-
10	365	Flow Measuring Installations	10.00%	-	-	-	-	-	-	-	-	-
10	366	Reuse Services	2.00%	-	-	-	-	-	69	3,450	863	-
12	367	Reuse Meters And Installation	8.33%	-	-	-	-	-	-	-	-	-
13	370	Receiving Wells	3.33%	-	-	-	-	-	-	-	-	-
14	371	Pumping Equipment	12.50%	-	-	-	-	-	-	-	-	-
15	374	Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-	-	-	-
16	375	Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	-	-	-	-
17	380	Treatment & Disposal Equipment	5.00%	-	-	-	-	-	-	-	-	-
18	381	Plant Sewers	5.00%	-	-	-	-	-	45,200	903,992	291,096	-
19	382	Outfall Sewer Lines	3.33%	-	-	-	-	-	-	-	-	-
20	389	Other Sewer Plant & Equipment	6.67%	-	-	-	-	-	-	-	-	-
21	390	Office Furniture & Equipment	6.67%	-	-	-	-	-	170	2,552	426	-
22	390.1	Computers and Software	20.00%	-	-	-	-	-	-	-	-	-
23	391	Transportation Equipment	20.00%	-	-	-	-	-	-	-	-	-
24	392	Stores Equipment	4.00%	-	-	-	-	-	-	-	-	-
25	393	Tools, Shop And Garage Equip	5.00%	-	-	-	-	-	-	-	-	-
26	394	Laboratory Equip	10.00%	-	-	-	-	-	-	-	-	-
26	395	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-
26	396	Communication Equip	10.00%	-	-	-	-	-	-	-	-	-
26	397	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-	-
26	398	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-	-
29				-	-	-	-	-	-	-	-	-
30				-	-	-	-	-	-	-	-	-
31				-	-	-	-	-	-	-	-	-
32				-	-	-	-	-	-	-	-	-
33				-	-	-	-	-	-	-	-	-
34				-	-	-	-	-	-	-	-	-
35				-	-	-	-	-	-	-	-	-
36		TOTALS		-	-	-	-	-	53,878	1,395,151	347,237	-

Rio Rico Utilities - Sewer Division
Plant, Additions and Retirements

Exhibit
Schedule B-2
Page 3.7
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2011					Accum. Deprec.
				Plant Additions (Per Books)	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	
1	351	Organization	0.00%	-	-	-	-	-	-
2	352	Franchise	0.00%	-	-	-	-	-	-
3	353	Land	0.00%	-	-	-	-	105,000	-
4	354	Structures & Improvements	3.33%	-	-	-	1,876	56,350	14,073
5	355	Power Generation	5.00%	-	-	-	144	2,879	1,080
6	360	Collection Sewer Forced	2.00%	-	-	-	-	-	-
7	361	Collection Sewers Gravity	2.00%	-	-	-	5,211	260,553	39,083
8	362	Special Collecting Structures	2.00%	-	-	-	-	-	-
9	363	Customer Services	2.00%	-	-	-	1,208	60,375	9,056
10	364	Flow Measuring Devices	10.00%	-	-	-	-	-	-
10	365	Flow Measuring Installations	10.00%	-	-	-	-	-	-
10	366	Reuse Services	2.00%	-	-	-	69	3,450	932
12	367	Reuse Meters And Installation	8.33%	-	-	-	-	-	-
13	370	Receiving Wells	3.33%	-	-	-	-	-	-
14	371	Pumping Equipment	12.50%	-	-	-	-	-	-
15	374	Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-
16	375	Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	-
17	380	Treatment & Disposal Equipment	5.00%	-	-	-	-	-	-
18	381	Plant Sewers	5.00%	-	-	-	45,200	903,992	336,296
19	382	Outfall Sewer Lines	3.33%	-	-	-	-	-	-
20	389	Other Sewer Plant. & Equipment	6.67%	-	-	-	-	-	-
21	390	Office Furniture & Equipment	6.67%	-	-	-	170	2,552	596
22	390.1	Computers and Software	20.00%	-	-	-	-	-	-
23	391	Transportation Equipment	20.00%	-	-	-	-	-	-
24	392	Stores Equipment	4.00%	-	-	-	-	-	-
25	393	Tools, Shop And Garage Equip	5.00%	-	-	-	-	-	-
26	394	Laboratory Equip	10.00%	-	-	-	-	-	-
26	395	Power Operated Equipment	5.00%	-	-	-	-	-	-
26	396	Communication Equip	10.00%	-	-	-	-	-	-
26	397	Miscellaneous Equipment	10.00%	-	-	-	-	-	-
26	398	Other Tangible Plant	10.00%	-	-	-	-	-	-
29				-	-	-	-	-	-
30				-	-	-	-	-	-
31				-	-	-	-	-	-
32				-	-	-	-	-	-
33				-	-	-	-	-	-
34				-	-	-	-	-	-
35				-	-	-	-	-	-
36		TOTALS		-	-	-	53,878	1,395,151	401,115

Rio Rico Utilities - Sewer Division
Plant Additions and Retirements

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2012					Accum. Deprec.			
				Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments		Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)
1	351	Organization	0.00%	-	-	-	-	-	-	-	-	-
2	352	Franchise	0.00%	-	-	-	-	-	-	-	-	-
3	353	Land	0.00%	-	-	-	-	-	-	105,000	-	-
4	354	Structures & Improvements	3.33%	-	-	-	-	-	1,876	56,350	15,950	-
5	355	Power Generation	5.00%	-	-	-	-	-	144	2,879	1,224	-
6	360	Collection Sewer Forced	2.00%	-	-	-	-	-	-	-	-	-
7	361	Collection Sewers Gravity	2.00%	-	-	-	-	-	-	-	-	-
8	362	Special Collecting Structures	2.00%	-	-	-	-	-	5,211	260,553	44,294	-
9	363	Customer Services	2.00%	-	-	-	-	-	1,208	60,375	10,264	-
10	364	Flow Measuring Devices	10.00%	-	-	-	-	-	-	-	-	-
11	365	Flow Measuring Installations	10.00%	-	-	-	-	-	-	-	-	-
12	366	Reuse Services	2.00%	-	-	-	-	-	69	3,450	1,001	-
13	370	Receiving Wells	8.33%	-	-	-	-	-	-	-	-	-
14	371	Pumping Equipment	12.50%	-	-	-	-	-	-	-	-	-
15	374	Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-	-	-	-
16	375	Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	-	-	-	-
17	380	Treatment & Disposal Equipment	5.00%	-	-	-	-	-	-	-	-	-
18	381	Plant Sewers	5.00%	-	-	-	-	-	-	-	-	-
19	382	Outfall Sewer Lines	3.33%	-	-	-	-	-	-	-	-	-
20	389	Other Sewer Plant & Equipment	6.67%	-	-	-	-	-	-	-	-	-
21	390	Office Furniture & Equipment	6.67%	2,119	-	2,119	-	-	-	4,672	837	-
22	390.1	Computers and Software	20.00%	-	-	-	-	-	-	-	-	-
23	391	Transportation Equipment	20.00%	-	-	-	-	-	-	-	-	-
24	392	Stores Equipment	4.00%	-	-	-	-	-	-	-	-	-
25	393	Tools, Shop And Garage Equip	5.00%	-	-	-	-	-	-	-	-	-
26	394	Laboratory Equip	10.00%	-	-	-	-	-	-	-	-	-
26	395	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-
26	396	Communication Equip	10.00%	-	-	-	-	-	-	-	-	-
26	397	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-	-
26	398	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-	-
29				-	-	-	-	-	-	-	-	-
30				-	-	-	-	-	-	-	-	-
31				-	-	-	-	-	-	-	-	-
32				-	-	-	-	-	-	-	-	-
33				-	-	-	-	-	-	-	-	-
34				-	-	-	-	-	-	-	-	-
35				-	-	-	-	-	-	-	-	-
36		TOTALS		2,119	-	2,119	-	-	53,948	1,397,271	455,064	-

Accumulated Depreciation

Line No.	Description	Acct. No.	Per Books Accum. Depr.	A		B		C		D		E	
				Adjustments Required to Reconcile to Reconstruction	Intentionally Left Blank	Adjustments Required to Reconcile to Reconstruction	Intentionally Left Blank	Adjustments Required to Reconcile to Reconstruction	Intentionally Left Blank	Adjustments Required to Reconcile to Reconstruction	Intentionally Left Blank		
1	Organization Cost	351	-	-	-	-	-	-	-	-	-	-	-
2	Franchise Cost	352	-	-	-	-	-	-	-	-	-	-	-
3	Land and Land Rights	353	-	-	-	-	-	-	-	-	-	-	-
4	Structures & Improvements	354	16,774	(824)	-	-	-	-	-	-	-	-	15,950
5	Power Generation Equipment	355	857	367	-	-	-	-	-	-	-	-	1,224
6	Collection Sewers - Force	360	-	-	-	-	-	-	-	-	-	-	-
7	Collection Sewers - Gravity	361	77,560	(33,266)	-	-	-	-	-	-	-	-	44,294
8	Special Collecting Structures	362	-	10,264	-	-	-	-	-	-	-	-	10,264
9	Services to Customers	363	17,972	(17,972)	-	-	-	-	-	-	-	-	-
10	Flow Measuring Devices	364	-	1,001	-	-	-	-	-	-	-	-	1,001
11	Flow Measuring Installations	365	-	-	-	-	-	-	-	-	-	-	-
12	Reuse Services	366	1,027	(1,027)	-	-	-	-	-	-	-	-	-
13	Reuse Meters and Meter Installations	367	-	-	-	-	-	-	-	-	-	-	-
14	Receiving Wells	370	-	-	-	-	-	-	-	-	-	-	-
15	Pumping Equipment	371	-	381,495	-	-	-	-	-	-	-	-	381,495
16	Reuse Distribution Reservoirs	374	-	-	-	-	-	-	-	-	-	-	-
17	Reuse Transmission and Distribution	375	-	-	-	-	-	-	-	-	-	-	-
18	Treatment & Disposal Equipment	380	269,094	(268,257)	-	-	-	-	-	-	-	-	837
19	Plant Sewers	381	-	-	-	-	-	-	-	-	-	-	-
20	Outfall Sewer Lines	382	-	-	-	-	-	-	-	-	-	-	-
21	Other Plant & Misc Equipment	389	-	-	-	-	-	-	-	-	-	-	-
22	Office Furniture & Equipment	390	1,391	(1,391)	-	-	-	-	-	-	-	-	-
23	Computers & Software	390.1	-	-	-	-	-	-	-	-	-	-	-
24	Transportation Equipment	391	-	-	-	-	-	-	-	-	-	-	-
25	Stores Equipment	392	-	-	-	-	-	-	-	-	-	-	-
26	Tools, Shop & Garage Equipment	393	-	-	-	-	-	-	-	-	-	-	-
27	Laboratory Equipment	394	-	-	-	-	-	-	-	-	-	-	-
28	Power Operated Equipment	395	-	-	-	-	-	-	-	-	-	-	-
29	Communication Equipment	396	-	-	-	-	-	-	-	-	-	-	-
30	Miscellaneous Equipment	397	-	-	-	-	-	-	-	-	-	-	-
31	Other Tangible Plant	398	-	-	-	-	-	-	-	-	-	-	-
32	TOTALS		\$ 384,674	\$ 70,390	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 455,064
33	Accumulated Depreciation per Books												\$ 384,674
34	Increase (decrease) in Accumulated Depreciation												\$ 70,390
35	Adjustment to Accumulated Depreciation												\$ 70,390

Utility Source. LLC - Wastewater Division
 Test Year Ended December 31, 2012
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 2 -A

Exhibit
 Schedule B-2
 Page 4.1
 Witness: Bourassa

Line

No.

<u>Reconciliation to Reconstructed Accumulated Depreciation</u>			
		Recorded	Accumulated
		Accumulated	Depreciation
Acct.		Depreciation	Per Plant
<u>No.</u>	<u>Description</u>	<u>Depreciation</u>	<u>Reconstruction</u>
			<u>Adjustment</u>
			<u>Required</u>
6	351 Organization Cost	-	-
7	352 Franchise Cost	-	-
8	353 Land and Land Rights	-	-
9	354 Structures & Improvements	16,774	15,950
10	355 Power Generation Equipment	857	1,224
11	360 Collection Sewers - Force	-	-
12	361 Collection Sewers - Gravity	77,560	44,294
13	362 Special Collecting Structures	-	10,264
14	363 Services to Customers	17,972	-
15	364 Flow Measuring Devices	-	1,001
16	365 Flow Measuring Installations	-	-
17	366 Reuse Services	1,027	-
18	367 Reuse Meters and Meter Installations	-	-
19	370 Receiving Wells	-	-
20	371 Pumping Equipment	-	381,495
21	374 Reuse Distribution Reservoirs	-	-
22	375 Reuse Transmission and Distribution	-	-
23	380 Treatment & Disposal Equipment	269,094	837
24	381 Plant Sewers	-	-
25	382 Outfall Sewer Lines	-	-
26	389 Other Plant & Misc Equipment	-	-
27	390 Office Furniture & Equipment	1,391	-
28	390.1 Computers & Software	-	-
29	391 Transportation Equipment	-	-
30	392 Stores Equipment	-	-
31	393 Tools, Shop & Garage Equipment	-	-
32	394 Laboratory Equipment	-	-
33	395 Power Operated Equipment	-	-
34	396 Communication Equipment	-	-
35	397 Miscellaneous Equipment	-	-
36	398 Other Tangible Plant	-	-
37	TOTALS	\$ 384,674	\$ 455,064
			\$ 70,390

38

39

40 SUPPORTING SCHEDULE

41 B-2, pages 3.2 - 3.8

42

Utility Source, LLC - Wastewater Division
 Test Year Ended December 31, 2012
 Original Cost Rate Base Proforma Adjustments
 Adjustment 3

Exhibit
 Schedule B-2
 Page 5.0
 Witness: Bourassa

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

Line No.		Gross CIAC	Accumulated Amortization
1			
2			
3			
4			
5	Computed balance at end oif test year	\$ 197,973	\$ 86,711
6			
7	Book balance at end of test year	<u>\$ 197,973</u>	<u>\$ 70,406</u>
8			
9	Increase (decrease)	\$ -	\$ 16,305
10			
11			
12	Adjustment to CIAC/AA CIAC	<u>\$ -</u>	<u>\$ (16,305)</u>
13	Label	3a	3b
14			
15			
16			
17			
18			
19	<u>SUPPORTING SCHEDULES</u>		
20	E-1		
21	B-2, page 5.1		
22			
23			
24			
25			
26			
27			
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			

Utility Source. LLC - Wastewater Division
 Test Year Ended December 31, 2012
 Computation of Working Capital

Exhibit
 Schedule B-5
 Page 1
 Witness: Bourassa

Line			
<u>No.</u>			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	14,749
3	Pumping Power (1/24 of Pumping Power)		1,092
4	Purchased Water (1/24 of Purchased Water)		527
5	Prepaid Expenses		
6			
7			
8			
9	Total Working Capital Allowance	<u>\$</u>	<u>16,369</u>
10			
11			
12	Working Capital Requested	<u>\$</u>	<u>-</u>
13			
14			
15			
16			
17		<u>Adjusted Test Year</u>	
18	Total Operating Expense	\$	193,541
19	Less:		
20	Income Tax	\$	(13,545)
21	Property Tax		4,476
22	Depreciation		45,744
23	Purchased Water		12,659
24	Pumping Power		26,213
25	Allowable Expenses	<u>\$</u>	<u>117,994</u>
26	1/8 of allowable expenses	<u>\$</u>	<u>14,749</u>
27			
28			
29	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>	
30	E-1	B-1	
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			

Utility Source, LLC - Wastewater Division
Test Year Ended December 31, 2012
Income Statement

Exhibit
Schedule C-1
Page 1
Witness: Bourassa

Line No.		Test Year Book Results	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	Revenues					
2	Flat Rate Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
3	Unmetered Water Revenues	115,849	173	116,023		116,023
4	Other Water Revenues	-	5,261	5,261		5,261
5		<u>\$ 115,849</u>	<u>\$ 5,435</u>	<u>\$ 121,284</u>	<u>\$ -</u>	<u>\$ 121,284</u>
6	Operating Expenses					
7	Salaries and Wages	\$ -	-	\$ -		\$ -
8	Purchased Water	-	-	-		-
9	Purchased Power	26,174	39	26,213		26,213
10	Sludge Removal	12,659	-	12,659		12,659
11	Chemicals	5,400	-	5,400		5,400
12	Materials and Supplies	7,187	-	7,187		7,187
13	Office Supplies and Expense	2,446	-	2,446		2,446
14	Contractual Services - Accounting	20,135	-	20,135		20,135
15	Contractual Services - Professional	1,920	-	1,920		1,920
16	Contractual Services - Maintenance	-	-	-		-
17	Contractual Services - Other	46,650	-	46,650		46,650
18	Water Testing	5,669	-	5,669		5,669
19	Rents	-	-	-		-
20	Transportation Expenses	3,250	-	3,250		3,250
21	Insurance - General Liability	2,186	-	2,186		2,186
22	Insurance - Health and Life	-	-	-		-
23	Reg. Comm. Exp. - Other	-	-	-		-
24	Reg. Comm. Exp. - Rate Case	-	10,000	10,000		10,000
25	Miscellaneous Expense	13,152	-	13,152		13,152
26	Bad Debt Expense	-	-	-		-
27	Depreciation and Amortization Expense	46,013	(269)	45,744		45,744
28	Taxes Other Than Income	-	-	-		-
29	Property Taxes	5,588	(1,112)	4,476	2,420	6,896
30	Income Tax	-	(13,545)	(13,545)	30,679	17,134
31		-	-	-		-
32	Total Operating Expenses	<u>\$ 198,428</u>	<u>\$ (4,887)</u>	<u>\$ 193,541</u>	<u>\$ 33,099</u>	<u>\$ 226,640</u>
33	Operating Income	<u>\$ (82,579)</u>	<u>\$ 10,322</u>	<u>\$ (72,257)</u>	<u>\$ (33,099)</u>	<u>\$ (105,356)</u>
34	Other Income (Expense)					
35	Interest Income	-	-	-		-
36	Other income	-	-	-		-
37	Interest Expense	-	-	-		-
38	Other Expense	-	-	-		-
39		-	-	-		-
40	Total Other Income (Expense)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
41	Net Profit (Loss)	<u>\$ (82,579)</u>	<u>\$ 10,322</u>	<u>\$ (72,257)</u>	<u>\$ (33,099)</u>	<u>\$ (105,356)</u>

42
43 SUPPORTING SCHEDULES:
44 C-1, page 2
45 E-2
46

RECAP SCHEDULES:
A-1

Utility Source, LLC - Wastewater Division
 Test Year Ended December 31, 2012
 Income Statement

Exhibit
 Schedule C-1
 Page 2
 Witness: Bourassa

Line No.	Revenues	1	2	3	4	5	6	7	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
LABEL>>>>	Test Year Book Results	Depreciation	Property Taxes	Rate Case Expense	Revenue Annualization	Purchased Power	Other Wastewater Revenues	Income Taxes	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	Revenues										
2	Flat Rate Revenues				173				116,023	196,760	312,783
3	Measured Revenues						5,261		5,261		5,261
4	Other Water Revenues								121,284	196,760	318,044
5											
6	Operating Expenses										
7	Salaries and Wages										
8	Purchased Water					39			26,213		26,213
9	Purchased Power								12,659		12,659
10	Sludge Removal								5,400		5,400
11	Chemicals								7,187		7,187
12	Materials and Supplies								2,446		2,446
13	Office Supplies and Expense								20,135		20,135
14	Contractual Services - Accounting								1,920		1,920
15	Contractual Services - Professional										
16	Contractual Services - Maintenance								46,650		46,650
17	Contractual Services - Other								5,669		5,669
18	Water Testing										
19	Rents										
20	Transportation Expenses								3,250		3,250
21	Insurance - General Liability								2,186		2,186
22	Insurance - Health and Life										
23	Insurance - Other										
24	Reg. Comm. Exp. - Rate Case								10,000		10,000
25	Miscellaneous Expense								13,152		13,152
26	Bad Debt Expense										
27	Deprec. and Amort. Exp.										
28	Taxes Other Than Income										
29	Property Taxes										
30	Income Tax										
31											
32	Total Operating Expenses	198,428	(269)	(1,112)	173	39		(13,545)	193,541	33,059	226,640
33	Operating Income	(82,579)	269	1,112		(39)	5,261	13,545	(72,257)	163,661	91,404
34	Other Income (Expense)										
35	Interest Income										
36	Other Income										
37	Interest Expense										
38	Other Expense										
39											
40	Total Other Income (Expense)										
41	Net Profit (Loss)	(82,579)	269	1,112	173	(39)	5,261	13,545	(72,257)	163,661	91,404
42											
43											
44											
45											

RECAP SCHEDULES:
 C-1, page 1

SUPPORTING SCHEDULES:
 C-2
 E-2

Utility Source, LLC - Wastewater Division
 Test Year Ended December 31, 2012
 Adjustments to Revenues and Expenses

Exhibit
 Schedule C-2
 Page 1
 Witness: Bourassa

Line No.	<u>Adjustments to Revenues and Expenses</u>						<u>Subtotal</u>	
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u> Other Wastewater Revenues		
2	Depreciation Expense	Property Taxes	Rate Case Expense	Revenue Annualization	Purchased Power			
4	Revenues			173		5,261	5,435	
6	Expenses	(269)	(1,112)	10,000	39	-	8,658	
8	Operating Income	269	1,112	(10,000)	173	(39)	5,261	(3,223)
11	Interest Expense							
13	Other Income / Expense							
17	Net Income	269	1,112	(10,000)	173	(39)	5,261	(3,223)
20		<u>Adjustments to Revenues and Expenses</u>						
21		<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	<u>Subtotal</u>
23	Income Taxes							
25	Revenues							5,435
27	Expenses	(13,545)	-	-	-	-	-	(4,887)
29	Operating Income	13,545	-	-	-	-	-	10,322
32	Interest Expense							
34	Other Income / Expense							
38	Net Income	13,545	-	-	-	-	-	10,322

Utility Source. LLC - Wastewater Division
 Test Year Ended December 31, 2012
 Adjustment to Revenues and Expenses
 Adjustment Number 2

Exhibit
 Schedule C-2
 Page 3
 Witness: Bourassa

Property Taxes

Line No.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	\$ 121,284	\$ 121,284
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	242,568	242,568
4	Company Recommended Revenue	121,284	318,044
5	Subtotal (Line 4 + Line 5)	363,851	560,612
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	121,284	186,871
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	242,568	373,741
10	Plus: 10% of CWIP (intentionally excluded)	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	242,568	373,741
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	48,514	74,748
15	Composite Property Tax Rate - Obtained from ADOR	9.2262%	9.2262%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 4,476	\$ 6,896
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	\$ 4,476	
19	Test Year Property Taxes	\$ 5,588	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	\$ (1,112)	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		\$ 6,896
23	Company Test Year Adjusted Property Tax Expense (Line 18)		\$ 4,476
24	Increase in Property Tax Due to Increase in Revenue Requirement		\$ 2,420
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		\$ 2,420
27	Increase in Revenue Requirement		\$ 196,760
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		1.23016%
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Schedule C-2
Page 4
Witness: Bourassa

Rate Case Expense

Line
No.

1			
2			
3	Estimated Rate Case Expense	\$	50,000
4			
5	Estimated Amortization Period in Years		5
6			
7	Annual Rate Case Expense	<u>\$</u>	<u>10,000</u>
8			
9	Test Year Rate Case Expense	\$	-
10			
11	Increase(decrease) Rate Case Expense	<u>\$</u>	<u>10,000</u>
12			
13	Adjustment to Revenue and/or Expense	<u>\$</u>	<u>10,000</u>
14			
15			
16	<u>Reference</u>		
17	Testimony		
18			
19			
20			

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Schedule C-2
Page 5
Witness: Bourassa

Revenue Annualization

Line
No.

1

2

3

4

Revenue Annualization

\$ 173

5

6

7

8

Total Revenue from Annualization

\$ 173

9

10

11

Adjustment to Revenue and/or Expense

\$ 173

12

13

SUPPORTING SCHEDULES

14

C-2 pages 5.1

15

H-1

16

17

18

19

20

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Schedule C-2
Page 6
Witness: Bourassa

Purchased Power

Line
No.

1		
2	Test year purchased power expense	\$ 26,174
3	Test year billed gallons (in 1,000's)	20,006
4	Cost oer 1,000 gallons	\$ 1.31
5		
6	Additional billed gallons from annualization (in 1,000's)	29.69
7	Additional purchased power expense	\$ 38.84
8		
9		
10	Adjustment to Revenue and/or Expense	<u>\$ 39</u>

11

12

13 SUPPORTING SCHEDULES

14 C-2 pages 5.1 to 5.4

15 H-1

16

17

18

19

20

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Schedule C-2
Page 7
Witness: Bourassa

Allocate Misc. Service Charge Revenues

Line		
<u>No.</u>		
1		
2	Test year misc revenues recorded on water division books	\$ 12,135
3	Adjustment to remove security deposits (see adjustment #6)	\$ (1,612)
4	Net misc. revenues recorded on water division's books	<u>\$ 10,522</u>
5	Allocation percentage	50%
6	Wastewater division's share of misc. revenues	\$ 5,261
7		
8		
9		
10	Adjustment to Revenue and/or Expense	<u>\$ 5,261</u>
11		
12		
13		
14		
15	<u>SUPPORTING SCHEDULES</u>	
16	Testimony	
17		
18		
19		
20		
21		
22		
23		

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Adjustment to Revenues and/or Expenses
Adjustment Number 7

Exhibit
Schedule C-2
Page 8
Witness: Bourassa

Line
No.

1 Income Taxes

2

3

4 Computed Income Tax

Test Year
at Present Rates
\$ (13,545)

Test Year
at Proposed Rates
\$ 17,134

5 Test Year Income tax Expense

-

(13,545)

6 Adjustment to Income Tax Expense

\$ (13,545)

\$ 30,679

7

8

9

10

11

12

13 SUPPORTING SCHEDULE

14 C-3, page 2

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Computation of Gross Revenue Conversion Factor

Exhibit
Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Combined Federal and State Effective Income Tax Rate	15.786%
2		
3	Property Taxes	<u>1.036%</u>
4		
5		
6	Total Tax Percentage	16.822%
7		
8	Operating Income % = 100% - Tax Percentage	83.178%
9		
10		
11		
12		
13	<u>1</u> = Gross Revenue Conversion Factor	
14	Operating Income %	1.2022
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
26	C-3, page 2	A-1
27		
28		
29		
30		
31		
32		
33		
34		
35		
36		
37		
38		
39		
40		

Utility Source, LLC - Wastewater Division
 Test Year Ended December 31, 2012

Exhibit
 Schedule C-3
 Page 2
 Witness: Bourassa

GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	(E)	(F)
<i>Calculation of Gross Revenue Conversion Factor:</i>							
1	Revenue	100.0000%					
2	Uncollectible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	16.8221%					
5	Subtotal (L3 - L4)	83.1779%					
6	Revenue Conversion Factor (L1 / L5)	1.202242					
<i>Calculation of Uncollectible Factor:</i>							
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (L17)	15.7861%					
9	One Minus Combined Income Tax Rate (L7 - L8)	84.2139%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
<i>Calculation of Effective Tax Rate:</i>							
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	2.8109%					
14	Federal Taxable Income (L12 - L13)	97.1891%					
15	Applicable Federal Income Tax Rate (L55 Col F)	13.3505%					
16	Effective Federal Income Tax Rate (L14 x L15)	12.9752%					
17	Combined Federal and State Income Tax Rate (L13 +L16)		15.7861%				
<i>Calculation of Effective Property Tax Factor</i>							
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	15.7861%					
20	One Minus Combined Income Tax Rate (L18-L19)	84.2139%					
21	Property Tax Factor	1.2032%					
22	Effective Property Tax Factor (L20*L21)		1.0360%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			16.8221%			
24	Required Operating Income	\$ 91,404					
25	Adjusted Test Year Operating Income (Loss)	\$ (72,257)					
26	Required Increase in Operating Income (L24 - L25)		\$ 163,661				
27	Income Taxes on Recommended Revenue (Col. (F), L52)	\$ 17,134					
28	Income Taxes on Test Year Revenue (Col. (C), L52)	\$ (13,545)					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 30,679				
30	Recommended Revenue Requirement	\$ 318,044					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -					
33	Adjusted Test Year Uncollectible Expense	\$ -					
34	Required Increase in Revenue to Provide for Uncollectible Exp.		\$ -				
35	Property Tax with Recommended Revenue	\$ 6,896					
36	Property Tax on Test Year Revenue	\$ 4,476					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		\$ 2,420				
38	Total Required Increase in Revenue (L26 + L29 + L37)		\$ 196,760				

	(A) Test Year		(B) Wastewater		(C) Test Year		(D) Company Recommended		(E) Wastewater		(F) Company Recommended	
	Total		Total		Total		Total		Total		Total	
39	Revenue	\$ 121,284	\$ 121,284	\$ 207,086	\$ 207,086	\$ 121,284	\$ 318,044	\$ 318,044	\$ 209,506	\$ 209,506	\$ 318,044	\$ 318,044
40	Operating Expenses Excluding Income Taxes	207,086	207,086	-	-	207,086	209,506	209,506	-	-	209,506	209,506
41	Synchronized Interest (L47)	-	-	-	-	-	-	-	-	-	-	-
42	Arizona Taxable Income (L39 - L40 - L41)	\$ (85,802)	\$ (85,802)	2,8109%	2,8109%	(85,802)	108,538	108,538	2,8109%	2,8109%	108,538	108,538
43	Arizona State Effective Income Tax Rate (see work papers)	2.8109%	2.8109%				3,051	3,051			3,051	3,051
44	Arizona Income Tax (L42 x L43)	\$ (2,412)	\$ (2,412)				105,487	105,487			105,487	105,487
45	Federal Taxable Income (L42 - L44)	\$ (83,390)	\$ (83,390)				13,3505%	13,3505%			13,3505%	13,3505%
46	Federal Tax Rate	13.3505%	13.3505%				14,083	14,083			14,083	14,083
47	Federal Tax	\$ (11,133)	\$ (11,133.00)									
48												
49												
50												
51												
52												
53	Total Federal Income Tax	\$ (11,133)	\$ (11,133)				14,083	14,083			14,083	14,083
54	Combined Federal and State Income Tax (L35 + L42)	\$ (13,545)	\$ (13,545)				17,134	17,134			17,134	17,134

55 **COMBINED** Applicable Federal Income Tax Rate [Col. (D), L53 - Col. (A), L53 / [Col. (D), L45 - Col. (A), L45] 13.3505%

56 **WASTEWATER** Applicable Federal Income Tax Rate [Col. (E), L53 - Col. (B), L53] / [Col. (E), L45 - Col. (B), L45] 13.3505%

57 **WATER** Applicable Federal Income Tax Rate [Col. (F), L53 - Col. (C), L53] / [Col. (F), L45 - Col. (C), L45] 13.3505%

Calculation of Interest Synchronization:

	Water	Wastewater
58 Rate Base	\$ 1,566,542	\$ 830,945
59 Weighted Average Cost of Debt	0.0000%	0.0000%
60 Synchronized Interest (L59 X L60)	\$ -	\$ -

Utility Source, LLC - Wastewater Division
 Test Year Ended December 31, 2012
 Comparative Balance Sheets

Exhibit
 Schedule E-1
 Page 1
 Witness: Bourassa

(DO NOT PRINT)

Line No.		Test Year Ended 12/31/2012	Year Ended 12/31/2011	Year Ended 12/31/2010	Prior Year Ended 12/31/2009
1	ASSETS				
2	Plant In Service	\$ 1,397,271	\$ 1,395,151	\$ 1,395,151	\$ 1,395,151
3	Non-Utility Plant	-	-	-	-
4	Construction Work in Progress	-	-	-	-
5	Less: Accumulated Depreciation	(384,674)	(337,677)	(289,751)	(240,467)
6	Net Plant	<u>\$ 1,012,597</u>	<u>\$ 1,057,474</u>	<u>\$ 1,105,400</u>	<u>\$ 1,154,685</u>
7					
8	Debt Reserve Fund	\$ -	\$ -	\$ -	\$ -
9					
10		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
11					
12	CURRENT ASSETS				
13	Cash and Equivalents	\$ 2,467	\$ 250	\$ 12,733	\$ 1,766
14	Restricted Cash	-	-	-	-
15	Accounts Receivable, Net	61,974	36,915	21,402	27,183
16	Inter-Division Receivable	-	-	-	-
17	Notes Receivable	-	-	-	-
18	Materials and Supplies	-	-	-	-
19	Prepayments	-	-	-	-
20	Other Current Assets	372	80	25	3,425
21	Total Current Assets	<u>\$ 64,814</u>	<u>\$ 37,245</u>	<u>\$ 34,159</u>	<u>\$ 32,374</u>
22					
23	Unamortized Debt Discount	\$ -	\$ -	\$ -	\$ -
24	Accumulated Deferred Income Taxes	\$ -	\$ -	\$ -	\$ -
25	Deferred Debits	\$ -	\$ -	\$ -	\$ -
26					
27	Other Assets	\$ -	\$ -	\$ -	\$ 13,841
28					
29	TOTAL ASSETS	<u>\$ 1,077,411</u>	<u>\$ 1,094,720</u>	<u>\$ 1,139,560</u>	<u>\$ 1,200,900</u>
30					
31					
32	LIABILITIES AND MEMBER'S EQUITY				
33					
34	Member's Equity	\$ 935,204	\$ 946,079	\$ 988,938	\$ 1,044,461
35					
36	Long-Term Debt	\$ -	\$ -	\$ -	\$ -
37					
38	CURRENT LIABILITIES				
39	Accounts Payable	\$ 7,331	\$ 12,790	\$ 6,488	\$ 4,022
40	Current Portion of Long-Term Debt	-	-	-	-
41	Payables to Associated Companies	-	-	-	-
42	Security Deposits	-	-	-	-
43	Customer Meter Deposits, Current	-	-	-	-
44	Accrued Taxes	-	-	-	-
45	Accrued Interest	-	-	-	-
46	Other Current Liabilities	7,309	-	-	-
47	Total Current Liabilities	<u>\$ 14,640</u>	<u>\$ 12,790</u>	<u>\$ 6,488</u>	<u>\$ 4,022</u>
48	DEFERRED CREDITS				
49	Customer Meter Deposits, less current	\$ -	\$ -	\$ -	\$ -
50	Advances in Aid of Construction	-	-	-	-
51	Accumulated Deferred Income Taxes	-	-	-	-
52	Contributions In Aid of Construction	197,973	197,973	197,973	197,973
53	Accumulated Amortization	(70,406)	(62,123)	(53,840)	(45,557)
54	Total Deferred Credits	<u>\$ 127,567</u>	<u>\$ 135,850</u>	<u>\$ 144,133</u>	<u>\$ 152,416</u>
55					
56	Total Liabilities & Member Equity	<u>\$ 1,077,411</u>	<u>\$ 1,094,720</u>	<u>\$ 1,139,560</u>	<u>\$ 1,200,900</u>

60 SUPPORTING SCHEDULES:
 61

RECAP SCHEDULES:
 A-3

Utility Source, LLC - Wastewater Division
 Test Year Ended December 31, 2012
 Comparative Income Statements

Exhibit
 Schedule E-2
 Page 1
 Witness: Bourassa

Line No.		Test Year Ended 12/31/2012	Prior Year Ended 12/31/2011	Prior Year Ended 12/31/2010
1	Revenues			
2	Flat Rate Revenues	\$ -	\$ -	\$ -
3	Measured Revenues	115,849	116,436	123,132
4	Other Revenues	-	-	-
5	Total Revenues	\$ 115,849	\$ 116,436	\$ 123,132
6	Operating Expenses			
7	Salaries and Wages	\$ -	\$ -	\$ -
8	Purchased Water	-	-	-
9	Purchased Power	26,174	27,931	21,365
10	Sludge Removal	12,659	8,474	12,970
11	Chemicals	5,400	3,219	3,630
12	Materials and Supplies	7,187	11,311	14,715
13	Office Supplies and Expense	2,446	2,235	2,503
14	Contractual Services - Accounting	20,135	19,015	17,229
15	Contractual Services - Professional	1,920	1,918	2,294
16	Contractual Services - Maintenance	-	-	-
17	Contractual Services - Other	46,650	46,550	48,100
18	Contractual Services - Testing	5,669	-	-
19	Rents	-	-	-
20	Transportation Expenses	3,250	4,500	9,087
21	Insurance - General Liability	2,186	2,199	2,429
22	Insurance - Health and Life	-	-	-
23	Reg. Comm. Exp. - Other	-	-	-
24	Reg. Comm. Exp. - Rate Case	-	-	7,130
25	Miscellaneous Expense	13,152	12,034	12,275
26	Bad Debt Expense	-	-	747
27	Depreciation and Amortization Expense	46,013	45,871	45,871
28	Taxes Other Than Income	-	-	-
29	Property Taxes	5,588	10,030	8,709
30	Income Tax	-	-	-
31		-	-	-
32		-	-	-
33	Total Operating Expenses	\$ 198,428	\$ 195,286	\$ 209,054
34	Operating Income	\$ (82,579)	\$ (78,850)	\$ (85,922)
35	Other Income (Expense)			
36	Interest Income	-	-	-
37	Other Income	-	-	-
38	Interest Expense	-	-	-
39	Other Expense	-	-	-
40	Gain (loss) on Disposal of Equip	-	-	-
41	Total Other Income (Expense)	\$ -	\$ -	\$ -
42	Net Profit (Loss)	\$ (82,579)	\$ (78,850)	\$ (85,922)
43				
44				
45				
46	<u>SUPPORTING SCHEDULES:</u>			
47				
48				

Utility Source, LLC - Wastewater Division
 Test Year Ended December 31, 2012
 Detail of Plant in Service

Exhibit
 Schedule E-5
 Page 1
 Witness: Bourassa

Line No.	Acct. No.	Plant Description	Plant Balance at 12/31/2011	Plant Additions, Reclass- ifications or or Retirements	Plant Balance at 12/31/2012
1					
2	301	Organization Cost	\$ -	\$ -	\$ -
3	302	Franchise Cost	-	-	-
4	303	Land and Land Rights	105,000	-	105,000
5	304	Structures & Improvements	56,350	-	56,350
6	305	Collecting & Impounding Reservoirs	2,879	-	2,879
7	306	Lake, River, Canal Intakes	-	-	-
8	307	Wells & Springs	260,553	-	260,553
9	308	Infiltration Galleries	-	-	-
10	309	Raw Water Supply Mains	60,375	-	60,375
11	310	Power Generation Equipment	-	-	-
12	311	Pumping Equipment	-	-	-
13	320	Water Treatment Equipment	3,450	-	3,450
14	320	Water Treatment Plants	-	-	-
15	320.2	Solution Chemical Feeders	-	-	-
16	330.0	Distribution Reservoirs & Standpipes	-	-	-
17	330	Storage Tanks	-	-	-
18	330.2	Pressure Tanks	-	-	-
19	331	Transmission & Distribution Mains	903,992	-	903,992
20	333	Services	-	-	-
21	334	Meters	-	-	-
22	335	Hydrants	-	-	-
23	336	Backflow Prevention Devices	2,552	2,119	4,672
24	339	Other Plant & Misc Equipment	-	-	-
25	340	Office Furniture & Equipment	-	-	-
26	340.1	Computers & Software	-	-	-
27	341	Transportation Equipment	-	-	-
28	342	Stores Equipment	-	-	-
29	343	Tools, Shop & Garage Equipment	-	-	-
30	344	Laboratory Equipment	-	-	-
31	345	Power Operated Equipment	-	-	-
32	346	Communication Equipment	-	-	-
33	347	Miscellaneous Equipment	-	-	-
34	348	Other Tangible Plant	-	-	-
35		Plant Held for Future Use	-	-	-
36					
37					
38		Rounding			
39		TOTAL WATER PLANT	<u>\$ 1,395,151</u>	<u>\$ 2,119</u>	<u>\$ 1,397,271</u>
40					
41		<u>SUPPORTING SCHEDULES</u>			<u>RECAP SCHEDULES:</u>
42		Work Papers			A-4
43		B-2 pages 3.1 to 3.4			E-1
44					

Utility Source. LLC - Wastewater Division
 Test Year Ended December 31, 2012
 Operating Statistics

Exhibit
 Schedule E-7
 Page 1
 Witness: Bouras

Line No.		Test Year Ended <u>12/31/2012</u>	Prior Year Ended <u>12/31/2011</u>	Prior Year Ended <u>12/31/2010</u>
1	<u>WATER STATISTICS:</u>			
2				
3				
4				
5	Total Gallons Sold (in Thousands)			
6				
7				
8				
9	Water Revenues from Customers:	\$ -	\$ -	\$ -
10				
11				
12				
13				
14	Year End Number of Customers			
15				
16				
17	Annual Gallons (in Thousands)			
18	Sold Per Year End Customer	#DIV/0!	#DIV/0!	#DIV/0!
19				
20				
21				
22	Annual Revenue per Year End Customer	#DIV/0!	#DIV/0!	#DIV/0!
23				
24	Pumping Cost Per 1,000 Gallons	#DIV/0!	#DIV/0!	#DIV/0!
25	Purchased Water Cost per 1,000 Gallons	\$ -	\$ -	\$ -

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Taxes Charged to Operations

Exhibit
Schedule E-8
Page 1
Witness: Bourassa

Line No.	Description	Test Year Ended 12/31/2012	Prior Year Ended 12/31/2011	Prior Year Ended 12/31/2010
1	<u>Description</u>			
2				
3	State Income Taxes	\$ -	\$ -	\$ -
4	Federal Income Taxes	-	-	-
5	Payroll Taxes	-	-	-
6	Property Taxes	5,588	10,030	8,709
7				
8	Totals	<u>\$ 5,588</u>	<u>\$ 10,030</u>	<u>\$ 8,709</u>
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34				
35				
36				
37				
38				
39				
40				

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Notes To Financial Statements

Exhibit
Schedule E-9
Page 1
Witness: Bourassa

Line
No.

1

2

The Company does not conduct independent audits

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40

Utility Source. LLC - Wastewater Division
 Test Year Ended December 31, 2012
 Projected Income Statements - Present & Proposed Rates

Exhibit
 Schedule F-1
 Page 1
 Witness: Bourassa

Line No.		Test Year Actual Results	At Present Rates Year Ended 12/31/2013	At Proposed Rates Year Ended 12/31/2013
1	Revenues			
2	Metered Water Revenues	\$ -	\$ -	\$ -
3	Unmetered Water Revenues	115,849	116,023	116,023
4	Other Water Revenues	-	5,261	5,261
5		<u>\$ 115,849</u>	<u>\$ 121,284</u>	<u>\$ 121,284</u>
6	Operating Expenses			
7	Salaries and Wages	\$ -	\$ -	\$ -
8	Purchased Water	-	-	-
9	Purchased Power	26,174	26,213	26,213
10	Sludge Removal	12,659	12,659	12,659
11	Chemicals	5,400	5,400	5,400
12	Materials and Supplies	7,187	7,187	7,187
13	Office Supplies and Expense	2,446	2,446	2,446
14	Contractual Services - Accounting	20,135	20,135	20,135
15	Contractual Services - Professional	1,920	1,920	1,920
16	Contractual Services - Maintenance	-	-	-
17	Contractual Services - Other	46,650	46,650	46,650
18	Water Testing	5,669	5,669	5,669
19	Rents	-	-	-
20	Transportation Expenses	3,250	3,250	3,250
21	Insurance - General Liability	2,186	2,186	2,186
22	Insurance - Health and Life	-	-	-
23	Reg. Comm. Exp. - Other	-	-	-
24	Reg. Comm. Exp. - Rate Case	-	10,000	10,000
25	Miscellaneous Expense	13,152	13,152	13,152
26	Bad Debt Expense	-	-	-
27	Deprec. and Amort. Exp.	46,013	45,744	45,744
28	Taxes Other Than Income	-	-	-
29	Property Taxes	5,588	4,476	6,896
30	Income Tax	-	(13,545)	17,134
31				
32	Total Operating Expenses	<u>\$ 198,428</u>	<u>\$ 193,541</u>	<u>\$ 226,640</u>
33	Operating Income	<u>\$ (82,579)</u>	<u>\$ (72,257)</u>	<u>\$ (105,356)</u>
34	Other Income (Expense)			
35	Interest Income	-	-	-
36	Other income	-	-	-
37	Interest Expense	-	-	-
38	Other Expense	-	-	-
39	Gain/Loss Sale of Fixed Assets	-	-	-
40	Total Other Income (Expense)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
41	Net Profit (Loss)	<u><u>\$ (82,579)</u></u>	<u><u>\$ (72,257)</u></u>	<u><u>\$ (105,356)</u></u>

SUPPORTING SCHEDULES:

C-1

42
43
44
45
46
47
48

Utility Source. LLC - Wastewater Division
 Test Year Ended December 31, 2012
 Projected Construction Requirements

Exhibit
 Schedule F-3
 Page 1
 Witness: Bourassa

Line No.	Account	<u>Test Year</u>	<u>2013</u>
1	2		
3	4	\$	
	301 Organization Cost	-	
	302 Franchise Cost	-	
	303 Land and Land Rights	-	
	304 Structures and Improvements	-	
	305 Collecting and Impounding Res.	-	
	306 Lake River and Other Intakes	-	
	307 Wells and Springs	-	
	308 Infiltration Galleries and Tunnels	-	
	309 Supply Mains	-	
	310 Power Generation Equipment	-	
	311 Electric Pumping Equipment	-	
	320 Water Treatment Equipment	-	
	320.1 Water Treatment Plant	-	
	320.2 Chemical Solution Feeders	-	
	330 Dist. Reservoirs & Standpipe	-	
	330.1 Storage tanks	-	
	330.2 Pressure Tanks	-	
	331 Trans. and Dist. Mains	-	
	333 Services	-	
	334 Meters	-	
	335 Hydrants	-	
	336 Backflow Prevention Devices	2,119	
	339 Other Plant and Misc. Equip.	-	
	340 Office Furniture and Fixtures	-	
	340.1 Computers and Software	-	
	341 Transportation Equipment	-	
	342 Stores Equipment	-	
	343 Tools and Work Equipment	-	
	344 Laboratory Equipment	-	
	345 Power Operated Equipment	-	
	346 Communications Equipment	-	
	347 Miscellaneous Equipment	-	
	348 Other Tangible Plant	-	
37	Total	<u>\$ 2,119</u>	<u>\$ -</u>
38			
39			
40			

Utility Source. LLC - Wastewater Division
Test Year Ended December 31, 2012
Assumptions Used in Rate Filing

Exhibit
Schedule F-4
Page 1
Witness: Bourassa

Line
No.

- 1 Property Taxes were computed using the method used by the Arizona Department
- 2 of Revenue modified for ratemaking.
- 3
- 4 Projected construction expenditures are shown on Schedule A-4.
- 5
- 6 Expense adjustments are shown on Schedule C2, and are explained in the testimony.
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24
- 25
- 26
- 27
- 28
- 29
- 30
- 31
- 32
- 33
- 34
- 35
- 36
- 37
- 38
- 39
- 40

Utility Source, LLC - Wastewater Division
 Analysis of Revenue by Detailed Class
 Test Year Ended December 31, 2012

Exhibit
 Schedule H-2
 Page 1
 Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	(a) Average Number of Customers at 12/31/2012	Average Consumption	Average Bill		Proposed Increase		Percent of Customers
				Present Rates	Proposed Rates	Dollar Amount	Percent Amount	
1	3/4 Inch Residential	320	4,123 \$	24.08 \$	74.91 \$	50.83	211.13%	98.77%
2	3/4 Inch Commercial	1	1,667	9.52	61.66	52.14	547.81%	0.31%
3	2 Inch Commercial	3	115,286	658.29	652.04	(6.25)	-0.95%	0.93%
4								
5								
6								
7								
8								
9								
10								
11								
12	Totals	<u>324</u>						
13								
14	Actual Year End Number of Customers:	<u>325</u>						
15								
16								
17								
18								
19								
								<u><u>100.00%</u></u>

Utility Source, LLC - Wastewater Division
 Analysis of Revenue by Detailed Class
 Test Year Ended December 31, 2012

Exhibit
 Schedule H-2
 Page 2
 Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	(a) Average Number of Customers at 12/31/2012	Median Bill		Proposed Increase		Percent of Customers
			Present Rates	Proposed Rates	Dollar Amount	Percent Amount	
1	3/4 Inch Residential	320	20.44 \$	71.60 \$	51.16 \$	250.30%	98.77%
2	3/4 Inch Commercial	1	8.57 \$	60.79	52.23	609.80%	0.31%
3	2 Inch Commercial	3	371.15	390.75	19.60	5.28%	0.93%
4							
5							
6							
7							
8							
9							
10							
11	Totals	324					
12							
13	Actual Year End Number of Customers:	325					
14							
15							
16							
17							
18							

100.00%

Utility Source, LLC - Wastewater Division
 Present and Proposed Rates
 Test Year Ended December 31, 2012

Exhibit
 Schedule H-3
 Page 1
 Witness: Bourassa

Line No.	Customer Classification and Meter Size (Residential, Commercial)	Present Rates	Proposed Rates
1	Monthly Usage Charge for:		
2	5/8 x 3/4 Inch	\$ -	\$ 53.00
3	3/4 Inch	-	79.50
4	1 Inch	-	132.50
5	1 1/2 Inch	-	265.00
6	2 Inch	-	424.00
7	3 Inch	-	848.00
8	4 Inch	-	1,325.00
9	6 Inch	-	2,650.00
10			
11	<u>Gallons In Minimum</u>		
12	<u>All Meter Sizes</u>	-	-
13			
14	<u>Rate per 1,000 Gallons of Water Usage</u>		
15	Residential	\$ 5.84	\$ 5.31
16	Commercial and Industrial		
17	Car washes, laudromats, Commercial, Manufacturing	5.71	5.20
18	Hotels, Motels	7.66	6.97
19	Restaurarants	9.46	8.61
20	Industrial Laundries	8.39	7.63
21	Waste haulers	171.20	155.79
22	Restuarant Grease	149.80	136.32
23	Treatment Plant Sludge	171.20	155.79
24	Mud Sump Waste	535.00	486.85
25			
26			
27			
28			
29			
30			

Utility Source, LLC - Wastewater Division
 Bill Comparison of Present and Proposed Rates
 Residential 3/4 Inch Meter
 Customer Classification
 Test Year Ended December 31, 2012
 (Excludes all Revenue Related Taxes)

Exhibit
 Schedule H-4
 Page 1
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ -	\$ 53.00	\$ 53.00	0.00%
1,000	5.84	58.31	\$ 52.47	898.53%
2,000	11.68	63.63	\$ 51.95	444.77%
3,000	17.52	68.94	\$ 51.42	293.51%
4,000	23.36	74.26	\$ 50.90	217.88%
5,000	29.20	79.57	\$ 50.37	172.51%
6,000	35.04	84.89	\$ 49.85	142.26%
7,000	40.88	90.20	\$ 49.32	120.65%
8,000	46.72	95.52	\$ 48.80	104.44%
9,000	52.56	100.83	\$ 48.27	91.84%
10,000	58.40	106.14	\$ 47.74	81.75%
12,000	70.08	116.77	\$ 46.69	66.63%
14,000	81.76	127.40	\$ 45.64	55.82%
16,000	93.44	138.03	\$ 44.59	47.72%
18,000	105.12	148.66	\$ 43.54	41.42%
20,000	116.80	159.29	\$ 42.49	36.38%
25,000	146.00	185.86	\$ 39.86	27.30%
30,000	175.20	212.43	\$ 37.23	21.25%
35,000	204.40	239.00	\$ 34.60	16.93%
40,000	233.60	265.58	\$ 31.98	13.69%
45,000	262.80	292.15	\$ 29.35	11.17%
50,000	292.00	318.72	\$ 26.72	9.15%
60,000	350.40	371.86	\$ 21.46	6.13%
70,000	408.80	425.01	\$ 16.21	3.96%
80,000	467.20	478.15	\$ 10.95	2.34%
90,000	525.60	531.30	\$ 5.70	1.08%
100,000	584.00	584.44	\$ 0.44	0.08%
Average Usage				
4,123	\$ 24.08	\$ 74.91	\$ 50.83	211.13%
Median Usage				
3,500	\$ 20.44	\$ 71.60	\$ 51.16	250.30%

Present Rates:
 Monthly Minimum:
 Gallons in Minimum
 Charge Per 1,000 Gallons
 All gallons \$ 5.84

Proposed Rates:
 Monthly Minimum:
 Gallons in Minimum
 Charge Per 1,000 Gallons
 All gallons \$ 5.31

Utility Source, LLC - Wastewater Division
 Bill Comparison of Present and Proposed Rates
 Commercial 3/4 Inch Meter
 Customer Classification
 Test Year Ended December 31, 2012
 (Excludes all Revenue Related Taxes)

Exhibit
 Schedule H-4
 Page 2
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase	Present Rates:
-	\$ -	\$ 53.00	\$ 53.00	0.00%	Monthly Minimum:
1,000	5.71	58.20	\$ 52.49	919.20%	Gallons in Minimum
2,000	11.42	63.39	\$ 51.97	455.10%	Charge Per 1,000 Gallons
3,000	17.13	68.59	\$ 51.46	300.40%	All gallons
4,000	22.84	73.78	\$ 50.94	223.05%	
5,000	28.55	78.98	\$ 50.43	176.64%	
6,000	34.26	84.18	\$ 49.92	145.70%	
7,000	39.97	89.37	\$ 49.40	123.60%	
8,000	45.68	94.57	\$ 48.89	107.02%	
9,000	51.39	99.76	\$ 48.37	94.13%	
10,000	57.10	104.96	\$ 47.86	83.82%	
12,000	68.52	115.35	\$ 46.83	68.35%	
14,000	79.94	125.75	\$ 45.81	57.30%	
16,000	91.36	136.14	\$ 44.78	49.01%	
18,000	102.78	146.53	\$ 43.75	42.57%	
20,000	114.20	156.92	\$ 42.72	37.41%	
25,000	142.75	182.90	\$ 40.15	28.13%	
30,000	171.30	208.88	\$ 37.58	21.94%	
35,000	199.85	234.86	\$ 35.01	17.52%	
40,000	228.40	260.84	\$ 32.44	14.20%	
45,000	256.95	286.82	\$ 29.87	11.63%	
50,000	285.50	312.81	\$ 27.31	9.56%	
60,000	342.60	364.77	\$ 22.17	6.47%	
70,000	399.70	416.73	\$ 17.03	4.26%	
80,000	456.80	468.69	\$ 11.89	2.60%	
90,000	513.90	520.65	\$ 6.75	1.31%	
100,000	571.00	572.61	\$ 1.61	0.28%	
Average Usage					
1,667	\$ 9.52	\$ 61.66	\$ 52.14	547.81%	\$ 53.00
Median Usage					
1,500	\$ 8.57	\$ 60.79	\$ 52.23	609.80%	\$ -

Proposed Rates:
 Monthly Minimum:
 Gallons in Minimum
 Charge Per 1,000 Gallons
 All gallons

Utility Source, LLC - Wastewater Division
 Bill Comparison of Present and Proposed Rates
 Customer Classification: Commercial 2 Inch Meter
 Test Year Ended December 31, 2012

Exhibit
 Schedule H-4
 Page 3
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase	
-	\$ -	\$ 53.00	\$ 53.00	0.00%	
1,000	5.71	58.20	\$ 52.49	919.20%	
2,000	11.42	63.39	\$ 51.97	455.10%	
3,000	17.13	68.59	\$ 51.46	300.40%	
4,000	22.84	73.78	\$ 50.94	223.05%	
5,000	28.55	78.98	\$ 50.43	176.64%	
6,000	34.26	84.18	\$ 49.92	145.70%	
7,000	39.97	89.37	\$ 49.40	123.60%	
8,000	45.68	94.57	\$ 48.89	107.02%	
9,000	51.39	99.76	\$ 48.37	94.13%	
10,000	57.10	104.96	\$ 47.86	83.82%	
12,000	68.52	115.35	\$ 46.83	68.35%	
14,000	79.94	125.75	\$ 45.81	57.30%	
16,000	91.36	136.14	\$ 44.78	49.01%	
18,000	102.78	146.53	\$ 43.75	42.57%	
20,000	114.20	156.92	\$ 42.72	37.41%	
25,000	142.75	182.90	\$ 40.15	28.13%	
30,000	171.30	208.88	\$ 37.58	21.94%	
35,000	199.85	234.86	\$ 35.01	17.52%	
40,000	228.40	260.84	\$ 32.44	14.20%	
45,000	256.95	286.82	\$ 29.87	11.63%	
50,000	285.50	312.81	\$ 27.31	9.56%	
60,000	342.60	364.77	\$ 22.17	6.47%	
70,000	399.70	416.73	\$ 17.03	4.26%	
80,000	456.80	468.69	\$ 11.89	2.60%	
90,000	513.90	520.65	\$ 6.75	1.31%	
100,000	571.00	572.61	\$ 1.61	0.28%	
Average Usage	115,286	\$ 658.29	\$ 652.04	\$ (6.25)	-0.95%
Median Usage	65,000	\$ 371.15	\$ 390.75	\$ 19.60	5.28%

Present Rates:
 Monthly Minimum:
 Gallons in Minimum
 Charge Per 1,000 Gallons
 All gallons \$ 5.71

Proposed Rates:
 Monthly Minimum:
 Gallons in Minimum
 Charge Per 1,000 Gallons
 All gallons \$ 5.20

ATTACHMENT 2

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP, CHAIRMAN
GARY PIERCE
BRENDA BURNS
SUSAN BITTER SMITH
BOB BURNS

DOCKET NO: SW-03437A-13

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

**DIRECT TESTIMONY OF
THOMAS J. BOURASSA
(COST OF CAPITAL)
September 27, 2013**

TABLE OF CONTENTS

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

I. INTRODUCTION AND QUALIFICATIONS.....1

II. SUMMARY OF TESTIMONY AND THE PROPOSED COST OF CAPITAL FOR THE COMPANY1

III. OVERVIEW OF THE RELATIONSHIP BETWEEN RISK AND THE EXPECTED RETURN ON AN INVESTMENT4

IV. THE MEANING OF “JUST AND REASONABLE” RATE OF RETURN 17

V. THE ESTIMATED COST OF EQUITY FOR USLLC 19

 a. The Publicly Traded Utilities That Comprise the Sample Group Used to Estimate the Company’s Cost of Equity. 19

 b. Overview of the DCF and CAPM Methodologies 28

 c. Explanation of the DCF Model and Its Inputs 30

 d. Explanation of the CAPM and Its Inputs 35

 e. Explanation of the Build-Up Method and Its Inputs 40

 f. Summary and Conclusions 44

1 **I. INTRODUCTION AND QUALIFICATIONS**

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

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

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

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

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

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

14 A. This portion of my direct testimony focuses on cost of capital issues. I will testify
15 in support of Utility Source, LLC's ("USLLC" or "Company") proposed rate of
16 return on its fair value rate base ("FVRB"). I am sponsoring the Company's D
17 Schedules, which are attached to this testimony. There are 22 schedules that
18 support my cost of capital testimony. As noted above, I am also sponsoring direct
19 testimony that addresses the Company's rate base, income statement (revenue and
20 operating expenses), required increase in revenue, and its rate design and proposed
21 rates and charges for service. For convenience, that testimony and my related
22 schedules are contained in separate volumes.

23 **Q. PLEASE SUMMARIZE YOUR COST OF CAPITAL TESTIMONY.**

24 A. I have determined that the cost of equity for the publicly traded water utilities falls
25 in the range of 8.5% to 11.7% with the midpoint of the range at 10.1%. After
26 considering the differences in business and financial risk between USLLC and the

1 publicly traded water utilities, I am recommending a return on equity (“ROE”) of
2 11.0% for the USLLC.

3 **Q. SO USLLC FALLS AT THE HIGHER END OF THE RANGE OF**
4 **RETURNS?**

5 A. Yes, and I’m being conservative at 11.0%. Given USLLC’s small service area and
6 other characteristics, USLLC is clearly a greater investment risk than Aqua-
7 America or one of the other giant, publicly traded utility holding companies.

8 **Q. WHAT IS THE RECOMMENDED CAPITAL STRUCTURE FOR USLLC?**

9 A. The actual capital structure at the end of the test year (December 31, 2012)
10 consisted of 0% debt and 100% equity.

11 **Q. WHAT IS THE WEIGHTED AVERAGE COST OF CAPITAL?**

12 A. The weighted cost of capital based on a capital structure consisting of 0% debt and
13 100% equity is 11.0% as shown on Schedule D-1.

14 **Q. PLEASE SUMMARIZE THE APPROACH YOU USED TO ESTIMATE**
15 **THE COST OF EQUITY FOR THE COMPANY.**

16 A. The cost of equity for USLLC cannot be estimated directly. The Company’s equity
17 is not in the form of a publicly traded security so there is no market data for
18 USLLC. Consequently, I have assessed the market-based common equity cost
19 rates of companies of relatively similar, but not necessarily identical risk for insight
20 into a recommended common equity cost rate applicable to USLLC. The DCF,
21 CAPM, and Build-up models using data from a sample of publicly traded water
22 utilities, or proxy group, selected from the *Value Line Investment Survey* serve as
23 the starting point in my analysis. Analysis of a proxy group serves as a starting
24 point because no proxy group can be selected to be identical in risk to USLLC.
25 Therefore, the proxy group's results must be adjusted to reflect the relative, and
26 specific financial and/or business risks of the subject utility, in this case USLLC, as

1 I will discuss in detail.

2 There are six water utilities in my sample: American States Water (AWR),
3 Aqua America (WTR), California Water Company (CWT), Connecticut Water
4 (CTWS), Middlesex Water (MSEX), and SJW Corp. (SJW). As explained later in
5 my testimony, these companies aren't really comparable to USLLC, but they are
6 water utilities for which market data is available. They are also the utilities Staff
7 consistently relies on for their proxy group in water and sewer utility rate cases.

8 Consistent with my past practice and the Commission's past practices in
9 prior cases, my specification of the DCF model is based on both historical growth
10 **and** a variety of analysts' growth projections, current indicated annual dividends,
11 and actual stock price information. Similarly, my CAPM model is specified with
12 actual **and** projected market data with respect to Treasury yields, Beta estimates
13 from Value Line, market risk premia data from *Morningstar* and *Value Line*.

14 In assessing the results of my DCF, CAPM, and Build-up analyses, I
15 considered several specific risk trends, including the effect of a potential rise in
16 interest rates. In my view, this approach appropriately balances practical concerns
17 regarding certain underlying assumptions associated with each methodology or
18 approach used to determine a cost of equity.

19 **Q. DID YOU CONSIDER OTHER FACTORS, IN ADDITION TO THE**
20 **ANALYSES DESCRIBED ABOVE, IN ORDER TO DETERMINE THE**
21 **APPROPRIATE ROE FOR USLLC?**

22 A. Yes, in addition to the 3 distinct analyses discussed above, I considered the
23 following: (1) the economic conditions expected to prevail during the period in
24 which new rates will be in effect; (2) the financial risks associated with the
25 Company's pro forma capital structure; (3) the incremental business risks
26 associated with the Company's relatively small size; and (4) an assessment of the

1 business risks associated with USLLC relative to the large publicly traded utilities.
2 While I did not include any explicit adjustments to my ROE estimates for these
3 factors, I did take them into consideration when determining where, within a
4 reasonable range of analytical results from the DCF, CAPM and Build-Up
5 methods, the Company's required ROE rightly falls.

6 After considering the differences in risk between an investment in USLLC
7 and the publicly traded water utilities, I am recommending an ROE of 11.0% for
8 the Company. A summary of my cost of equity analysis results are shown on
9 Schedule D-4.1.

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

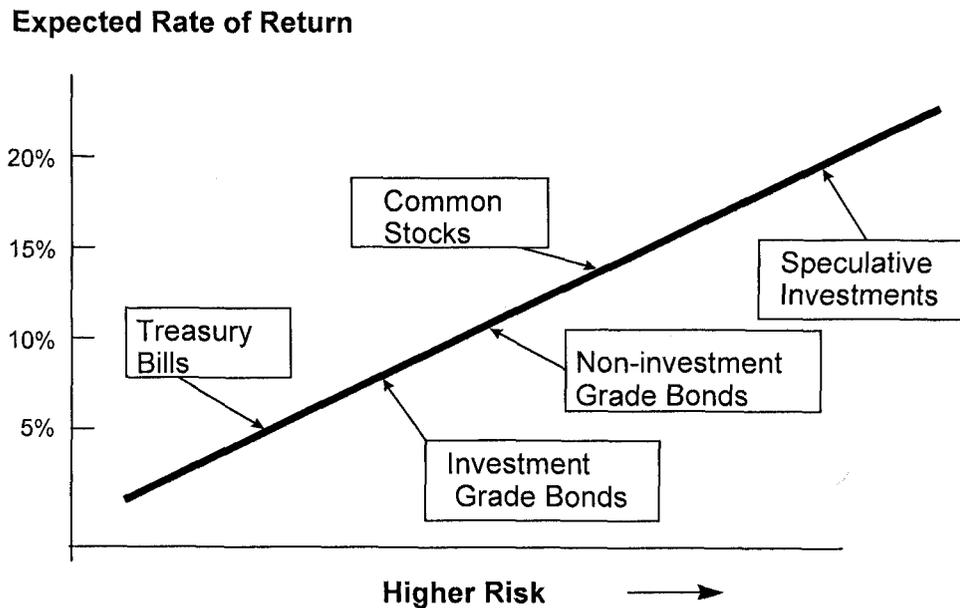
12 **Q. HOW IS THE COST OF EQUITY TYPICALLY ANALYZED?**

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

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

22 A. Yes. The following graph depicts the risk-return relationship that has become
23 widely known as the Capital Market Line ("CML"). The CML illustrates in a
24 general way the risk-return relationship.
25
26

The Capital Market Line (CML)



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

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

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

1 or the expected annual income from such investment.

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

11 The capital markets reflect investor expectations and requirements each day
12 through market prices. Prices for stocks and bonds change to reflect investor
13 expectations and the relative attractiveness of one investment relative to others.
14 While the example provided above seems straightforward, returns on common
15 stocks are not directly observable in advance, in contrast to debt or preferred stocks
16 with fixed payment terms. This means that these returns must be estimated from
17 market data. Blind adherence to the results of any model is not, in my professional
18 opinion, reasonable. Estimating the cost of equity capital should be a matter of
19 informed judgment about the relative risk of the company in question and the
20 expected rate of return characteristics of other alternative investments taking into
21 account all available information to investors.

22 **Q. SO THEN, HOW IS THE COST OF EQUITY FOR A PARTICULAR**
23 **UTILITY DETERMINED?**

24 **A.** As I said, the estimation of a utility's cost of equity requires analysis of all
25 information that would be available to an investor. It requires an analysis of the
26 factors influencing the cost of various types of capital, such as interest on long-

1 term debt, dividends on preferred stock, and earnings on common equity. The data
2 for such an analysis comes from highly competitive capital markets, where the firm
3 raises funds by issuing common stock, selling bonds, and by borrowing (both long-
4 and short-term) from banks and other financial institutions. In the capital markets,
5 the cost of capital, whether the capital is in the form of debt or equity, is
6 determined by two important factors:

- 7 1) The pure or real rate of interest, often called the risk-free rate of
8 interest; and,
- 9 2) The uncertainty or risk premium (the compensation the investor
10 requires over and above the real or pure rate of interest for subjecting
11 his capital to additional risk).

12 **Q. PLEASE DISCUSS THESE TWO CRITICAL FACTORS IN GREATER**
13 **DETAIL.**

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

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

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

3 A. Yes. Conceptually,

4
5 [1] Required Return for Common Stocks = Return on a risk-free asset + Risk Premium
6

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

12 **Q. WHAT ABOUT THE CURRENT ECONOMIC CONDITIONS IN THE U.S.**

13 A. Since emerging from the recent recession of 2008-2009, the economy has grown at
14 a modest and tepid pace. Annualized GDP growth for 2010, 2011, and 2012 were
15 3.0%, 1.7%, and 2.2%, respectively. Annualized GDP growth for the first and
16 second quarter 2013 was 1.1% and 2.5%, respectively. Consensus estimates are
17 that the U.S. economy will grow at a pace of just 1.4% for 2013 and 2.3% for 2014.
18 Beyond 2014, economists see GDP growth to remain modest at 2.9% to 3.2%.
19 Based upon a review of the Value Line Selection and Opinion – Quarterly
20 Economic Review (August 23, 2013), economists view the modest growth in the
21 economy since the recession with inflation remaining in check as a sign that the
22 present recovery may be fairly long and uninterrupted, but a return to faster rates of
23 growth is unlikely.

24 Possible headwinds to economic growth continue to remain and include the
25 drag on the economy from automatic spending cuts by the government, expiring
26 federal stimulus spending, further reductions to discretionary spending, the U.S.

1 debt ceiling, unresolved economic and political issues in Europe, China's economic
2 slowing, and the continued turmoil in the Middle East.

3 **Q. WHAT HAS BEEN THE RECENT EXPERIENCE IN THE U.S. CAPITAL**
4 **MARKETS?**

5 A. That depends on the day of the question and your definition of "recent". The stock
6 market has recovered from the lows of 2008 recession and has even reached new
7 record highs. Improved earnings, low inflation, modest but sustained economic
8 growth, and a highly supportive Federal Reserve ("Fed") are considered key forces
9 in the rise in the markets over the past several years and in keeping the markets
10 advances in place. In the first seven months of 2013, for example, the DJIA was
11 up by over 18%. The gains in the stock market have been spurred on by a highly
12 supportive Fed over the past several years. The Fed's easy money programs have
13 pushed up assets prices and kept interest rates low in an attempt to spur spending
14 and hiring in the broader economy. However, recent comments by the Fed that it
15 may begin curtailing its asset purchases as the economy improves have caused
16 Treasury yields to rise and stock market sell-offs as investors try to gauge how
17 soon the Fed will act. In June, the three major indexes (DJIA, NASDAQ, S&P
18 500) lost 4-5% of value in a matter of weeks after the Fed indicated it could begin
19 reducing its asset purchases by the end of the year or in early 2014. Then, after the
20 Fed clarified its statements on the curtailment of its asset purchases, the stock
21 market rose again to new highs in late July 2013. Most recently (August 15, 2013),
22 the three major market indicators each lost about 2-4% of value in a matter of a few
23 weeks. This was after recent positive economic news that the job market was
24 improving. Ironically, this news also reinforced investors' fears that Fed may
25 decide that the economy is strong enough to begin reducing its asset purchases as
26

1 early as September.¹

2 **Q. WHAT ABOUT INTEREST RATES?**

3 A. With respect to interest rates, the Federal Open Market Committee ("FOMC")
4 lowered the Federal Funds target rate to near zero during the depths of the 2008-
5 2009 recession where it continues to stand at zero to .25%. While the move to
6 lower interest rates may have been necessary at the time, the FOMC was left with
7 little latitude to affect new monetary moves going forward. The FOMC took
8 several extraordinary actions to provide additional support to the economic
9 recovery. The FOMC implemented several programs², called Quantitative Easing
10 ("QE"), which were meant to stimulate the economy and bring unemployment
11 down.

12
13 ¹ "Stock's Surge Showing Cracks", Wall Street Journal, August 16, 2013.

14 ² The following is a brief description and timeline of the FOMC's actions from Wikipedia.org
15 Quantitative Easing 1 (QE1, December 2008 to March 2010) - On November 25, 2008, the Fed announced that it
16 would purchase up to \$600 billion in agency mortgage-backed securities (MBS) and agency debt. On December 1,
17 Chairman Bernanke provided further details in a speech. On December 16, the program was formally launched by the
18 FOMC. On March 18, 2009, the FOMC announced that the program would be expanded by an additional \$750
19 billion in purchases of agency MBS and agency debt and \$300 billion in purchases of Treasury securities.

20 Quantitative Easing 2 (QE2, November 2010 to June 2011) - On November 3, 2010, the Fed announced that it
21 would purchase \$600 billion of longer dated treasuries, at a rate of \$75 billion per month. That program, popularly
22 known as "QE2", concluded in June 2011.

23 Operation Twist (2011) - The Federal Open Market Committee concluded its September 21, 2011 Meeting by
24 announcing the implementation of Operation Twist. This is a plan to purchase \$400 billion of bonds with maturities
25 of 6 to 30 years and to sell bonds with maturities less than 3 years, thereby extending the average maturity of the
26 Fed's own portfolio. This is an attempt to do what Quantitative Easing (QE) tried to do, without printing more money
and without expanding the Fed's balance sheet, therefore hopefully avoiding the inflationary pressure associated with
QE. This announcement brought a bout of risk aversion in the equity markets and strengthened the US Dollar,
whereas QE I had weakened the USD and supported the equity markets. Further, on June 20, 2012 the Federal Open
Market Committee announced an extension to the Twist program by adding additionally \$267 billion thereby
extending it throughout 2012.

Quantitative easing 3 (QE3) - On September 13, 2012, the Fed announced a third round of quantitative easing (QE3).
This new round of quantitative easing provided for an open-ended commitment to purchase \$40 billion agency
mortgage-backed securities per month until the labor market improves "substantially".

Quantitative easing 4 (QE4) - The Federal Open Market Committee voted to order a fourth round of quantitative
easing (QE4) on December 12, 2012. This round authorized up to \$40 billion worth of agency mortgage-backed
securities per month, and \$45 billion worth of longer-term Treasury securities.

1 The Fed's bond buying programs were meant to drive down borrowing
2 costs, push-up asset prices, and encourage more spending and hiring in the broader
3 economy. Utilities, REITS, and other sectors have benefited from the Fed's
4 aggressive bond-buying program, which has kept longer term interest rates low.³
5 The Fed's extraordinary stimulus policies have not only kept longer-term interest
6 rates low, while pumping billions of dollars into the financial markets over the past
7 several years. This caused investors to seek out stocks that paid high dividends,
8 pumping up the value of these investment assets. As recently noted in a Wall
9 Street Journal article describing a recent sell-off of dividend paying stocks, stocks
10 that have benefited from very low interest rates are taking a hit from rising bond
11 yields.⁴

12 Even more recently, the author of a Wall Street Journal article noted that the
13 financial markets, enlivened by the fuel of the Fed's easy-money policies have
14 begun to pull back as the FOMC announced it could start winding down its \$85
15 billion a month bond buying program later this year and end it by mid-2014.⁵
16 According to the author, the FOMC is "setting up a high stakes test to see if the
17 economy and the financial markets can stand on their own."⁶ This test is currently
18 being played out in the markets. It's anyone's guess how bumpy the road forward
19 is going to be.

20 ////

21 ////

22 ////

23 ////

24 _____
25 ³ "Dividend Stocks Fall Victim to Fed", The Wall Street Journal, June 3, 2013.

26 ⁴ *Id.*

⁵ "Markets Flinch as Fed Eyes Easy-Money End", The Wall Street Journal, June 20, 2013.

⁶ *Id.*

1 **Q. IF I UNDERSTAND YOU CORRECTLY MR. BOURASSA, THE FACT**
2 **THAT THE FED HAS DRIVEN DOWN LONGER TERM INTEREST**
3 **RATES TO HISTORICAL LOWS AND PUMPED UP THE FINANCIAL**
4 **MARKET IS CAUSE FOR CONCERN?**

5 A. Yes. On the one hand, the Fed is suggesting the U.S. economy may be strong
6 enough to stand on its own. On the other hand, investors are beginning to price
7 the uncertainty over whether the Fed is correct. In other words, it is not whether
8 the Fed will withdraw its financial stimulus, but rather, can it. Adding to this
9 uncertainty is not only whether the Fed can continue its extraordinary stimulus
10 but also whether continued financial stimulus will be effective. All this adds to the
11 difficulty in estimating a cost of equity at the present time.

12 **Q. PLEASE EXPLAIN.**

13 A. The Fed's extraordinary efforts to stimulate the economy will eventually come to
14 an end. Current assessments of equity costs may be far lower than the true longer-
15 term costs. But all of this has been artificial, and when it is gone, the financial
16 market values will likely pull back further as investors reassess their appetite for
17 risk. We are already beginning to see this happen. The major market indexes have
18 pulled back from record highs and may continue to do so. Over the long term
19 interest rates will rise. Bond values have already started to drop and yields have
20 begun to rise. The yields on longer term U.S. Treasuries have risen significantly
21 over the past year. The average monthly 10 year U.S. Treasury yield reached a low
22 of 1.53% in July of 2012 and increased to 2.58% in July of 2013; an increase of
23 103 basis points. Similarly, the average monthly 30 year U.S. Treasury yield
24 reached a low of 2.59% in July of 2012 and increased to 3.61% in July of 2013; an
25 increase of 102 basis points. It appears that as the Fed's extraordinary stimulus
26 programs come to an end interest rates will return to historic norms, which will

1 result in considerable increases from where interest rates are now.⁷

2 **Q. THANK YOU. CAN YOU EXPLAIN THE RELATIONSHIP BETWEEN**
3 **THE COST OF EQUITY AND INTEREST RATES?**

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

14 **Q. IS USLLC AFFECTED BY THESE SAME MARKET UNCERTAINTIES**
15 **AND CONCERNS?**

16 A. Of course. First, all investors are impacted by economic uncertainty including the
17 Company’s investors. As the federal government takes away the ladders that
18 pulled us out of the Great Recession, no one knows whether the economy will be
19 able to stand on its own. Every investor, every person with a paycheck, every
20 consumer will feel these impacts, good or bad. Second, smaller utilities like
21 USLLC generally feel the negative impacts worse because of their size, small
22 customer base, limited service territory, and a general fact that the water and
23 wastewater industry is very capital intensive. Smaller utilities have a limited
24 ability, and sometimes an inability to attract capital.

25
26 ⁷ 10 year average annual yield for 10 year U.S. Treasury is 3.67%. 10 year average annual yield for 20 year U.S. Treasury is 4.32%. Note there is incomplete data for the 30 year U.S. Treasury.

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

3 A. On the whole, the water and wastewater utility industry is expected to continue to
4 confront increasing need for infrastructure upgrades and replacement, as well as
5 possible additional demand. *Value Line Investment Survey* (July 19, 2013)
6 continues to stress that many water utilities have facilities that are decades old and
7 in need of significant maintenance and, in some cases, massive renovation and
8 replacement. As infrastructure costs continue to climb, many smaller companies
9 are at a serious disadvantage. *Value Line* notes that investors in water utilities
10 should always focus on how much of a utility will have to spend relative to its size,
11 and how it will finance these expenditures. *Value Line* notes that most of the
12 companies in this sector lack the finances necessary to fund improvements on their
13 own. This will require outside financing largely from more debt and higher
14 associated interest expense, which will thwart share-earnings and dilute
15 shareholder gains. Finally, *Value Line* focuses attention to the role of regulators
16 and the challenge that utilities face. As *Value Line* points out, a utility is always at
17 risk of spending prudently but then being denied the right to earn a fair return on its
18 investments.

19 Q. PLEASE DISCUSS IN MORE DETAIL THE IMPACT OF RISK ON
20 CAPITAL COSTS.

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

23 Business risk, the basic risk associated with any business undertaking, is the
24 uncertainty associated with the enterprise's day-to-day operations. In essence, it is
25 a function of the normal day-to-day business environment, both locally and
26 nationally. Business risks include the condition of the economy and capital

1 markets, the state of labor markets, regional stability, government regulation,
2 technological obsolescence, and other similar factors that may impact demand for
3 the business product and its cost of production. For utilities, business risk also
4 includes the volatility of revenues due to abnormal weather conditions, degree of
5 operational leverage, regulation, and regulatory climate. Regulation, for example,
6 can compound the business risk if it is unpredictable in reacting to cost increases
7 both in terms of the time lag and magnitude for recovery of such increases.
8 Regulatory lag makes it difficult to earn a reasonable return, particularly in an
9 inflationary environment and/or when there is significant lag between the timing of
10 investment in capital projects and its recognition in rates. Put simply, the greater
11 the degree of uncertainty regarding the various factors affecting a company's
12 business, the greater the risk of an investment in that company and the greater the
13 compensation required by the investor.

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

22 An important component of financial risk is construction risk. Construction
23 risk refers to the magnitude of a company's capital budget. If a company has a
24 large construction budget relative to internally generated cash flows it will require
25 external financing. It is important that companies have access to capital funds on
26 reasonable terms and conditions. Utilities are more susceptible to construction risk

1 for two reasons. First, water and wastewater utilities generally have high capital
2 requirements to build plant to serve customers. Second, utilities have a mandated
3 obligation to serve leaving less flexibility both in the timing and discretion of
4 scheduling capital projects. This is compounded by the limited ability to wait for
5 more favorable market conditions to raise the capital necessary to fund the capital
6 projects.

7 Although often discussed separately, the two types of risks (business and
8 financial) are interrelated. Specifically, a common equity investor may seek to
9 offset exposure to high financial risk by investing in a firm perceived to have a low
10 degree of business risk. In other words, the total risk to an investor would be high
11 if the enterprise was characterized as a high business risk with a large portion of its
12 permanent capital financed with senior debt. To attract capital under these
13 circumstances, the firm would have to offer higher rates of return to its common
14 equity investors.

15 **Q. HOW HAS THE COMMISSION GENERALLY TREATED THESE TWO**
16 **TYPES OF RISK IN THE COST OF CAPITAL ANALYSIS?**

17 A. The Commission's returns on equity for water and sewer utilities over the past
18 decade plus have almost entirely ignored the additional business risk inherent with
19 smaller firms. In almost every case of which I am aware, the cost of equity is
20 almost entirely a reflection of the utility's financial risk relative to the large
21 publicly traded water companies as illustrated by the narrowly tailored results of
22 financial models. I respectfully disagree that this plug and play approach to the
23 cost of equity results in a fair and reasonable return that is commensurate with
24 other similar entities of like risk. As a result, I continue to testify that the models,
25 the DCF and the CAPM, are part of a tool-kit of useful tools to determine an ROE,
26 but not sufficient tools alone to complete the task of setting just and reasonable

1 rates of return. Informed judgment requires more.

2 **IV. THE MEANING OF “JUST AND REASONABLE” RATE OF RETURN**

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

5 A. Yes. In 1923, the U.S. Supreme Court set forth the following criteria for
6 determining whether a rate of return is reasonable in *Bluefield Water Works and*
7 *Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679,
8 692-93 (1923):

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

22 In *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591
23 (1944), the U.S. Supreme Court stated the following regarding the return to owners
24 of a company:

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

320 U.S. at 603.

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

- 1 (1) The rate of return should be similar to the return in businesses with
2 similar or comparable risks;
- 3 (2) The return should be sufficient to ensure the confidence in the
4 financial integrity of the utility; and
- 5 (3) The return should be sufficient to maintain and support the utility's
6 credit.

7 **Q. HAVE THESE CRITERIA BEEN APPLIED IN REGULATORY**
8 **PROCEEDINGS?**

9 A. Yes, but the application of the "reasonableness" criteria laid down by the Supreme
10 Court has resulted in controversy. The typical method of computing the overall
11 cost of capital is quite straightforward: it is the composite, weighted cost of the
12 various classes of capital (debt, preferred stock, and common equity) used by the
13 utility. The weighting is done by calculating the proportion that each class of
14 capital bears to total capital.

15 However, as should be obvious from my testimony so far, there is no
16 consensus regarding the best method of estimating the cost of equity capital. The
17 increasing regulatory use of market-based finance models in equity return
18 determination has not led to a universally accepted means of estimating the ROE.
19 In addition, the market-based results, particularly from the DCF model, are used
20 and applied to a book-value investment base, which, as I will discuss, understates
21 the return expected by investors who invest in real markets based on market values.

22 ////
23 ////
24 ////
25 ////
26 ////

1 **V. THE ESTIMATED COST OF EQUITY FOR USLLC**

2 **a. The Publicly Traded Utilities That Comprise the Sample Group Used to**
3 **Estimate the Company's Cost of Equity.**

4 **Q. PLEASE DESCRIBE THE APPROACH YOU FOLLOWED IN YOUR**
5 **COST OF CAPITAL ANALYSIS FOR USLLC.**

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

13 **Q. ARE THE WATER UTILITIES IN YOUR SAMPLE DIRECTLY**
14 **COMPARABLE TO USLLC?**

15 A. No, nor are they readily comparable on an indirect basis given the huge difference
16 in size and scope of service territory. But, they are utilities for which market data
17 is available. All of them are regulated, some provide both water and wastewater
18 services, and their primary source of revenues is from regulated services.
19 Therefore, they provide a useful **starting point** for developing a cost of equity for
20 the Company.

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

23 A. The comparable earnings standard set forth in the *Hope* and *Bluefield* decisions
24 require the rate of return afforded to utilities be similar to the return in businesses
25
26

1 with similar or comparable risks.⁸ A proxy group of companies with comparable
2 risk is therefore the starting point in a cost of capital analysis.

3 There are two broad approaches to choosing a proxy group.⁹ The first
4 approach consists of selecting pure-play companies that are directly comparable in
5 risk to the subject utility. The companies are chosen using strict criteria with an
6 attempt to identify companies with the same investment risk as the subject utility.
7 There are several qualitative measures that influence investors' assessment of risk
8 that can be used to screen companies. These include SIC classification, bond
9 ratings, beta risk, business risk scores, size, percentage of revenues from regulated
10 operations, common equity ratio, geographical location, etc.¹⁰

11 The second approach is to select as large a group of utilities as possible that
12 is representative of the utility industry average and make adjustments for any
13 differences between the subject utility and the industry average. Whether one
14 employs the direct approach or the indirect approach, the selection of companies
15 for a proxy group always raises the question of whether it is possible to select a
16 group that are of comparable risk. Further, there is always the question of
17 identifying any differences in investment risk. The electric, natural gas, and water
18 utility industries have witnessed numerous takeovers, restructuring, corporate
19 reorganizations, unbundling, and increased competition over the last decade or so,
20 all of which has made selections of proxy groups more difficult.¹¹

21 The Company's approach utilizes an indirect method. The water companies
22 selected derive the vast majority of their revenues from regulated operations. As
23 shown in Schedule D-4.2, the six water utilities on average derive about 90% of the
24

25 ⁸ Bourassa Dt. at 13-14.

⁹ *Morin* at 400.

¹⁰ *Id.*

¹¹ *Id.*

1 revenues from regulated activities. These companies were also chosen because
2 they are publicly traded, are not in financial distress, and there is a sufficiently long
3 financial and market history from which to perform an analysis.

4 The bottom line is that the water utility companies in my proxy group are
5 considered representative of the average of the industry, and, as I have stated
6 throughout my testimony, any resulting analysis must take into account the real and
7 practical differences in investment risk compared to the subject utility, USLLC in
8 this case.

9 **Q. SO THE MARKET DATA PROVIDED BY THE WATER PROXY GROUP**
10 **DOESN'T CAPTURE ALL OF THE MARKET RISKS THAT USLLC**
11 **MIGHT FACE IF IT WERE PUBLICLY TRADED?**

12 A. In my opinion, no. As I stated, there is no comparable market data for utility
13 companies the size of USLLC. The average revenue of the water utility sample
14 companies is over 1,142 times that of USLLC, and the average net plant of the
15 water utility sample companies is over 339 times that of USLLC. Even the
16 smallest company in the sample group, Connecticut Water, has over 113 times the
17 net plant of USLLC, and over 257 times the revenues.

18 Putting aside the size aspect, an investment in the Company is not a liquid
19 investment. If an investor invests in any of the publicly traded utilities and is not
20 happy with the returns, he/she may sell his/her stock within minutes while
21 liquidating an investment in USLLC could take years. This is liquidity risk.
22 Liquidity risk is a significant risk to an investment in non-publicly traded
23 companies like USLLC. Some researchers believe that the size premium
24 phenomenon for smaller companies in the public markets is, in part, a reflection of
25 liquidity risk.¹²

26 ¹² Risk Premium Report 2013, Duff and Phelps, LLC, at 39.

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

3 A. Schedule D-4.2 lists the current operating revenues and net plant for the six water
4 utilities as reported by AUS Utility Reports (formerly C.A. Turner Utility Reports)
5 and USLLC, respectively. The six (6) sample companies may be generally
6 described as follows:

7 (1) American States Water (AWR) primarily serves the California
8 market through Golden State Water Company, which provides water
9 services to nearly 256,000 customers within 75 communities in ten
10 counties in the State of California, primarily in Los Angeles, San
11 Bernardino, and Orange counties. AWR also owns an electric utility
12 service provider with over 23,000 customers, but 72% of its revenues
13 were derived from commercial and residential water customers.
14 Revenues for AWR were nearly \$467 million in 2012 and net plant
15 was nearly \$918 million at the end of 2012.

16 (2) Aqua America (WTR) owns regulated utilities in Pennsylvania,
17 Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana,
18 and Virginia serving nearly 931,000 customers at the end of 2012.
19 WTR's utility base is diversified among residential water,
20 commercial water, fire protection, industrial water, other water, and
21 wastewater customers. Total revenues for WTR were nearly \$758
22 million in 2012 and net plant was over \$3.9 billion at the end of
23 2012.

24 (3) California Water Service Group (CWT) owns subsidiaries in
25 California, New Mexico, Washington, and Hawaii, serving nearly
26 501,000 customers. Revenues for CWT were over \$559 million in

1 2012 and net plant nearly \$1.5 billion at the end of 2012.

2 (4) Connecticut Water Services (CTWS) owns subsidiaries in
3 Connecticut, Maine, Massachusetts, and Rhode Island, serving nearly
4 122,000 customers. Revenues for CTWS were nearly \$84 million in
5 2012 and net plant nearly \$448 million at the end of 2012.

6 (5) Middlesex Water (MSEX) owns subsidiaries in New Jersey,
7 Delaware and Pennsylvania, serving over 112,000 customers, and
8 provides water service under contract to municipalities in central
9 New Jersey serving a population of over 303,000. Revenues for
10 MSEX were over \$110 million in 2012 and net plant was over \$435
11 million at the end of 2012.

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

17 **Q. HOW DOES USLLC COMPARE TO THE SAMPLE WATER UTILITIES?**

18 A. It is much smaller. At the end of the test year, the Company had 327 water
19 customers and 325 wastewater customers. Its revenues totaled approximately
20 \$330,000, and net plant-in-service was approximately \$4.0 million. USLLC is
21 located in Coconino County, Arizona, and has a very small service territory
22 compared to the sample water companies.

23 **Q. ARE THERE OTHER CHARACTERISTICS OF SMALLER UTILITIES
24 LIKE USLLC THAT INCREASE RISK?**

25 A. Yes. Water and sewer utilities are also capital intensive and typically have
26 relatively large construction budgets. As I have previously discussed in this

1 testimony, firms with large capital budgets face construction risk (a form of
2 financial risk). The size of a utility's capital budget relative to the size of the utility
3 itself often increases construction risk. Large utilities are more able to fund their
4 capital budgets from their earnings, cash flows, and short-term and long-term
5 borrowings. Publicly traded utilities can issue new stock to raise capital. For
6 smaller utilities like USLLC, the ability to fund relatively large capital budgets
7 from earnings, cash flows, and short-term debt is difficult, if not impossible,
8 without reliance upon additional outside capital or long-term debt, which may not
9 be easy to attract.

10 **Q. WHAT OTHER RISK FACTORS DISTINGUISH USLLC FROM THE**
11 **LARGER SAMPLE WATER UTILITIES?**

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

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

21 The co-efficient of variance of earnings is a reflection of the distributions of
22 earnings. It is meaningful when measured against the distribution of earnings of
23 alternative investments, like the water utilities in my water proxy group. The co-
24 efficient of variance of earnings can be quantified using a relatively simple
25 formula:¹³

26 ¹³ Tuller, Lawrence W., *The Small Business Valuation Book*, Adams Media Corporation, 1994. p.89.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

[A] Co-efficient of Variance of Earnings = Standard Deviation of Operating Income¹⁴/Mean of Operating Income

Using this measure, the greater the co-efficient of variance of earnings, the greater the risk to investors of not receiving expected returns.¹⁵ Below are the computed co-efficient of variance of earnings results using the most recent 5 years of historical data for my water proxy group and USLLC:

<u>Company</u>	<u>Symbol</u>	<u>Business Risk Coefficient of variance of earnings</u>
American States	AWR	0.282
Aqua America	WTR	0.144
California Water	CWT	0.055
Connecticut Water	CTWS	0.211
Middlesex	MSEX	0.127
SJW Corp.	SJW	0.171
Average of Water Utilities		0.165
USLLC		1.436

What these results show is that when using the co-efficient of variance of earnings as a measure of business risk, USLLC carries 8.7 times the risk compared to the average water utility in my proxy group (1.436 divided by 0.165).

The second method of measuring business risk, or operating leverage, reflects both the sales fluctuations and the impact of operating costs on earnings. Operating leverage is expressed as:¹⁶

[B] Operating leverage = Percent Change in Operating Income¹⁷/Percent Change in Sales

¹⁴ Operating income is defined as earnings before interest and taxes (EBIT)

¹⁵ Tuller at 89.

¹⁶ *Id.*

1
2 Using this measure, the greater the operating leverage, the greater the business
3 risk.¹⁸ Below are the computed operating leverage results using the most recent 5
4 years of historical data for my water proxy group and USLLC:

5

<u>Company</u>	<u>Symbol</u>	<u>Operating Leverage</u>
American States	AWR	2.58
Aqua America	WTR	0.44
California Water	CWT	0.51
Connecticut Water	CTWS	2.01
Middlesex	MSEX	4.06
SJW Corp.	SJW	1.92
Average of Water Utilities		1.92
USLLC		15.51

6
7
8
9
10
11
12

13 To interpret these results, with respect to the water proxy group, a 1.0%
14 change in sales revenue results in a 1.92% change in operating income. In contrast,
15 for USLLC a 1.0% change in sales results in a 15.51% change in operating income.
16 What these results show is that the operating leverage of USLLC creates a greater
17 business risk compared to the average water utility in my proxy group.

18 **Q. SO USLLC IS NOT COMPARABLE TO THE SAMPLE WATER**
19 **UTILITIES?**

20 **A.** Correct. Besides the obvious difference in size, constraints on the rate making
21 process in Arizona, coupled with lower returns over the past decade than most
22 states, make it difficult to obtain approval of rates that allow Arizona water and
23 wastewater utilities to recover their costs of service let alone their authorized
24 returns. As a result, risks are higher for USLLC compared to the sample
25

26 ¹⁷ Operating income is defined as earnings before interest and taxes (EBIT)

¹⁸ Tuller at 90-91.

1 companies that do not operate in Arizona and the required return on equity should
2 be higher too.

3 That's why the sample companies must be viewed as proxies. The criteria
4 established by the Supreme Court in decisions such as *Hope* and *Bluefield Water*
5 *Works* require the use of comparable companies, i.e., companies that would be
6 viewed by investors as having similar risks. A rational investor would not regard
7 USLLC as having the same level of risk as WTR or even CTWS - even with
8 USLLC's somewhat lower financial risk - because of the previously mentioned
9 higher business risks due to its small size and the regulatory constraints in Arizona.
10 Consequently, the results produced by the DCF and CAPM methodologies,
11 utilizing data for the sample utilities, often understate the appropriate return on
12 equity for a regulated water and wastewater utility provider such as USLLC. This
13 is why I have testified that those results must be put into a larger analysis and not
14 just at the end of the equation.

15 **Q. IS THERE A RELATIONSHIP BETWEEN A UTILITY'S CAPITAL**
16 **STRUCTURE AND ITS COST OF CAPITAL?**

17 A. Yes. Generally speaking, when a firm engages in debt financing, it exposes itself
18 to greater risk. Once debt becomes significant relative to the total capital structure,
19 the risk increases in a geometric fashion compared to the linear percentage increase
20 in the debt ratio itself. This risk is illustrated by considering the effect of leverage
21 on net earnings. For example, as leverage increases, the equity ratio falls. This
22 creates two adverse effects. First, equity earnings decline rapidly and may even
23 disappear. Second, the "cushion" of equity protection for debt falls. A decline in
24 the protection afforded debt holders, or the possibility of a serious decline in debt
25 protection, will act to increase the cost of debt financing. Therefore, one may
26 conclude that each new financing, whether through debt or equity, impacts the

1 marginal cost of future financing by any alternative method. For a firm already
2 perceived as being over-leveraged, this additional borrowing would cause the
3 marginal cost of both equity and debt to increase. On the other hand, if the same
4 firm instead successfully employed equity funding, this could actually reduce the
5 real marginal cost of additional borrowing, even if the particular equity issuance
6 occurred at a higher unit cost than an equivalent amount of debt.

7 **Q. HOW DO THE CAPITAL STRUCTURES OF THE SAMPLE WATER**
8 **UTILITIES COMPARE TO USLLC?**

9 A. They all have much more debt. But it is unrealistic to expect small companies like
10 USLLC to carry significant debt levels.

11 **Q. DOES THE DIFFERENCE IN DEBT LEVELS IMPACT THE COST OF**
12 **EQUITY FOR USLLC?**

13 A. Having less debt in its capital structure implies that USLLC has less financial risk
14 than the sample water utilities. But the higher business risks of USLLC more than
15 offset the lower financial risk. Smaller utilities face higher business and operational
16 risk, as compared to larger utilities, which can magnify the financial risk of higher
17 debt levels in their capital structures.

18 **b. Overview of the DCF and CAPM Methodologies**

19 **Q. PLEASE EXPLAIN THE GENERAL APPROACHES TO ESTIMATING**
20 **THE COST OF CAPITAL.**

21 A. These two broad approaches:

- 22 1) identify comparable-risk sample companies and estimate the cost of
23 capital directly, or,
- 24 2) find the location of the CML and estimate the relative risk of the
25 company, which jointly determines the cost of capital.

26 The DCF model is an example of a method falling into the first general

1 approach. It is a direct method, but uses only a subset of the total capital market
2 evidence. The DCF model rests on the premise that the fundamental value of an
3 asset (stock) is its ability to generate future cash flows to the owner of that asset
4 (stock). I will explain the DCF model in detail below, but for now, the DCF is
5 simply the sum of a stock's expected dividend yield and the expected long-term
6 growth rate. Dividend yields are readily available, but long-term growth estimates
7 are not.

8 The CAPM is an example of a method falling into the second general
9 approach. It uses information on all securities rather than a small subset. I will
10 also explain the CAPM in more detail below. For now, the CAPM is a risk-return
11 relationship, often depicted graphically as the CML. The CAPM is the sum of a
12 risk-free return and a risk premium.

13 The Build-up Risk Premium method ("Build-up Method") is another
14 example of a method falling into the second general approach. I will explain the
15 Build-up Method in more detail later. For now, the Build-up method, like the
16 CAPM, is a risk-return relationship. The Build-up Method is the sum of a risk-free
17 return and a risk premium. However, rather than a single risk premium as is used
18 in the CAPM, the risk premium in the Build-up Method is made up of one or more
19 risk premia. Each risk premium represents the reward an investor receives for
20 taking on a specific risk.

21 Each of these three methods has its own way of measuring investor
22 expectations. In the final analysis, ROE estimates are subjective and should be
23 based on sound, informed judgment rationally articulated and supported by
24 competent evidence. I have applied several versions of the DCF, two versions of
25 the CAPM, and a Build-up method to "bracket" the fair cost of equity capital for
26 USLLC, but without taking into account the additional risks that USLLC

1 possesses.

2 **c. Explanation of the DCF Model and Its Inputs**

3 **Q. PLEASE EXPLAIN IN DETAIL THE DCF METHOD OF ESTIMATING**
4 **THE COST OF EQUITY.**

5 A. The DCF model is based on the concept that the current price of a share of stock is
6 equal to the present value of future cash flows from the purchase of the stock. In
7 other words, the DCF model is an attempt to replicate the market valuation process
8 that sets the price investors are willing to pay for a share of a company's stock. It
9 rests on the assumption that investors rely on the expected returns (i.e., cash flow
10 they expect to receive) to set the price of a security. The DCF model in its most
11 general form is:

12
$$[2] \quad P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \dots + CF_n/(1+k)^n$$

13 where k is the cost of equity; n is a very large number; P_0 is the current stock price;
14 and, CF_1, CF_2, \dots, CF_n are all the expected future cash flows expected to be received
15 in periods 1, 2, ... n .

16 Equation [2] can be written to show that the current price (P_0) is also equal
17 to:

18
$$[3] \quad P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \dots + P_t/(1+k)^t$$

19 where P_t is the price expected to be received at the end of the period t . If the future
20 price (P_t) included a premium (an expected increase in the stock price or capital
21 gain), the price the investor would pay today (in anticipation of receiving that
22 premium) would increase. In other words, by estimating the cash flows from the
23 purchase of a stock in the form of dividends and capital gains, we can calculate the
24 investor's required rate of return, i.e., the rate of return an investor presumptively
25 used in bidding the current price to the stock (P_0) to its current level.

26 Equation [3] is a Market Price version of the DCF model. As with the

1 general form of the DCF model in Equation [2], in the Market Price approach the
2 current stock price (P_0) is the present value of the expected cash inflows. The cash
3 flows are comprised of dividends and the final selling price of the stock. The
4 estimated cost of equity (k) is the rate of return investors expect if they bought the
5 stock at today's price, held the stock and received dividends through the transition
6 period, and then sold it for price (P_t).

7 **Q. CAN YOU PROVIDE AN EXAMPLE TO ILLUSTRATE THE MARKET**
8 **PRICE VERSION OF THE DCF MODEL?**

9 A. Yes. Assume an investor buys a share of common stock for \$40. If the expected
10 dividend during the coming year is \$2.00, then the expected dividend yield is 5%
11 ($\$2.00/\$40 = 5.0\%$). If the stock price is also expected to increase to \$43.00 after
12 one year, this \$3.00 expected gain adds an additional 7.5% to the expected total
13 rate of return ($\$3.00/\$40 = 7.5\%$). Thus, the investor buying the stock at \$40 per
14 share, expects a total return of 12.5% (5% dividend yield plus 7.5% price
15 appreciation). The total return of 12.5% is the appropriate measure of the cost of
16 capital because this is the rate of return that caused the investor to commit \$40 of
17 his capital by purchasing the stock.

18 **Q. PLEASE CONTINUE WITH YOUR DESCRIPTION OF THE DCF**
19 **MODEL.**

20 A. Under the assumption that future cash flows are expected to grow at a constant rate
21 (“g”), Equation [2] can be solved for k and rearranged into the simple form:

$$22 \quad [4] \quad k = CF_1/P_0 + g$$

23 where CF_1/P_0 is the expected dividend yield and g is the expected long-term
24 dividend (price) growth rate (“g”). The expected dividend yield is computed as the
25 ratio of next period's expected dividend (“ CF_1 ”) divided by the current stock price
26 (“ P_0 ”). This form of the DCF model is known as the constant growth DCF model

1 and recognizes that investors expect to receive a portion of their total return in the
2 form of current dividends and the remainder through future dividends and capital
3 (price) appreciation. A key assumption of this form of the model is that investors
4 expect that same rate of return (k) every year and that market price grows at the
5 same rate as dividends. This has not been historically true for the water utility
6 sample, as shown by the data in Schedule D-4.4 and Schedule D-4.5. As a result,
7 estimates of long-term growth rates (g) should take this into account.

8 **Q. ARE THERE ANY CONCERNS ABOUT APPLYING THE DCF MODEL**
9 **TO UTILITY STOCKS?**

10 A. There are a number of reasons why caution must be used when applying the DCF
11 model to utility stocks. First, the stock price and dividend yield components may
12 be unduly influenced by structural changes in the industry, such as mergers and
13 acquisitions, which influence investor expectations. Second, the DCF model is
14 based on a number of assumptions that may not be realistic given the current
15 capital market environment. The traditional DCF model assumes that the stock
16 price, book value, dividends, and earnings all grow at the same rate. This has not
17 been historically true for the sample water utility companies, and there is much
18 uncertainty looking forward. Third, the application of the DCF model produces
19 estimates of the cost of equity that are consistent with investor expectations only
20 when the market price of a stock and the stock's book value are approximately the
21 same. The DCF model will understate the cost of equity when the market-to-book
22 ratio exceeds 1.0 and conversely will overstate the cost of equity when the market-
23 to-book ratio is less than 1.0. The reason for this is that the market-derived return
24 produced by the DCF is often applied to book value rate base by regulators.
25 Fourth, the assumption of a constant growth rate may be unrealistic, and there may
26 be difficulty in finding an adequate proxy for the growth rate. Historical growth

1 rates can be downward biased as a result of the impact of anemic historical growth
2 rates in earnings, mergers and acquisitions, restructuring, unfavorable regulatory
3 decisions, and even abnormal weather patterns. Further, by placing too much
4 emphasis on the past, the estimation of future growth becomes circular.

5 **Q. LET'S TURN TO THE SPECIFIC INPUTS USED IN YOUR DCF MODELS.**
6 **WHAT DATA HAVE YOU USED TO COMPUTE THE EXPECTED**
7 **DIVIDEND YIELD (CF_1/P_0) IN YOUR MODELS?**

8 A. First, I computed a current dividend yield (CF_0/P_0). The expected dividend yield
9 (CF_1/P_0) is the current dividend yield (CF_0/P_0) times one plus the growth rate (g). I
10 used the 60-day average stock price for each of the water utilities' stocks in the
11 sample group as reported by the *Yahoo Finance* for P_0 . The current dividend (CF_0)
12 is the current dividend as reported by Value Line. In my schedules, the current
13 dividend yield is denoted as (D_0/P_0), where D_0 is the current dividend and P_0 is the
14 spot stock price. (D_1/P_0) is used to denote the expected dividend yield in the
15 schedules.

16 **Q. WHAT MEASURES OF GROWTH ("g") HAVE YOU USED?**

17 A. For my primary DCF growth estimate, I have used analyst growth forecasts, where
18 available, from three different, widely followed sources: *Zacks Investment*
19 *Research*, *Yahoo Finance*, and *Value Line Investment Survey*. Schedule D-4.6
20 reflects the analyst estimates of growth. The currently available estimates from
21 these four sources provide at least two estimates for each of the sample water
22 utility companies. When there is no estimate of forward-looking growth for a
23 utility in the water utilities sample, I assume that investors expect the growth for
24 that utility to equal the average of growth rates for the other water utilities in the
25 sample.

26 ////

1 **Q. WHY DID YOU USE FORECASTED GROWTH RATES AS YOUR**
2 **PRIMARY ESTIMATE OF GROWTH?**

3 A. The DCF model requires estimates of growth that investors expect in the future and
4 not past estimates of growth that have already occurred. Accordingly, I use
5 analysts' forecasts of growth as a primary estimate of growth. Logically, in
6 estimating future growth, financial institutions and analysts have taken into account
7 all relevant historical information on a company as well as other more recent
8 information.¹⁹ To the extent that past results provide useful indications of future
9 growth prospects, analysts' forecasts would already incorporate that information.
10 In addition, a stock's current price reflects known historic information on that
11 company, including its past earnings history. Any further recognition of the past
12 will double count what has already occurred. Therefore, forward-looking growth
13 rates should be used.

14 **Q. WHAT OTHER ESTIMATES OF GROWTH DID YOU USE?**

15 A. I used the 5-year historical average growth rates in the stock price, book value per
16 share ("BVPS"), earnings per share ("EPS") and dividends per share ("DPS")
17 along with the average of analyst expectations. Using the historical average of
18 growth in price, BVPS, EPS, and DPS is reasonable because investors know that,
19 in equilibrium, common stock prices, BVPS, EPS and DPS will all grow at the
20 same rate and would take information about changes in stock prices and growth in
21 BVPS into account when they price utilities' stocks. As I stated earlier, a basic
22 assumption of the DCF model is that the stock price, BVPS, EPS and DPS all grow

23
24 ¹⁹ David A. Gordon, Myron J. Gordon and Lawrence I. Gould, "Choice Among Methods of Estimating Share Yield,"
25 *Journal of Portfolio Management* (Spring 1989) 50-55. Gordon, Gordon and Gould found that a consensus of
26 analysts' forecasts of earnings per share growth for the next five years provides a more accurate estimate of growth
required in the DCF model than three different historical measures of growth (historical EPS, historical DPS, and
historical retention growth). They explain that this result makes sense because analysts would take into account such
past growth as indicators of future growth as well as any new information.

1 at the same rate. While I believe the use of historical growth rates gives added
2 recognition to the past that is already incorporated into analyst estimates of growth,
3 I have been criticized in the past for not giving direct consideration to past growth
4 rates in my estimate of growth. So, I have endeavored to remove any basis for the
5 criticism in this case. However, I still agree that the empirical evidence indicates
6 that analyst estimates of growth for utility stocks are the best measure of growth for
7 use in the DCF for utility stocks.²⁰

8 **Q. HAVE YOU USED ANALYST ESTIMATES OF DPS GROWTH?**

9 A. No. While I did not use analyst estimates of DPS growth, the average projected
10 DPS growth rate of 5.17% is higher than the historical DPS growth rate of 3.33%.
11 Putting this aside, I did not use analyst estimates of dividend growth primarily
12 because only one source (*Value Line*) provides DPS growth estimates. The wide
13 availability of earnings growth estimates compared to dividend growth estimates
14 indicates a greater reliance by investors on earnings rather than dividends for their
15 investment decisions.

16 **d. Explanation of the CAPM and Its Inputs**

17 **Q. PLEASE EXPLAIN THE CAPM METHODOLOGY FOR ESTIMATING**
18 **THE COST OF EQUITY.**

19 A. As I already indicated, the CAPM is a type of risk premium methodology that is
20 often depicted graphically in a form identical to the CML. Put simply, the CAPM
21 formula is the sum of a risk-free rate plus a risk premium. It quantifies the
22 additional return required by investors for bearing incremental risk. The risk-free
23 rate is the reward for postponing consumption by investing in the market. The risk
24 premium is the additional return compensation for assuming risk.

25
26

²⁰ Gordon, Gordon, and Gould.

1 The CAPM formula provides a formal risk-return relationship premised on
2 the idea that only market risk matters, as measure by beta. The CAPM formula is:

3 [5] $k = R_f + \beta(R_m - R_f)$

4 where k is the expected return, R_f is the risk-free rate, R_m is the market return, ($R_f -$
5 R_m) is the market risk premium, and β is beta.

6 The difficulty with the CAPM is that it is a prospective or forward-looking
7 model while most of the capital market data required to match the input variables
8 above is historical.

9 **Q. WHAT IS THE RISK-FREE RATE?**

10 A. It is the return on an investment with no risk. The U.S. Treasury rate serves as the
11 basis for the risk-free rate because the yields are directly observable in the market
12 and are backed by the U.S. Government. Practically speaking, short-term rates are
13 volatile, fluctuate widely and are subject to more random disturbances than long-
14 term rates. In short, long-term Treasury rates are preferred for these reasons and
15 because long-term rates are more appropriately matched to securities with an
16 indefinite life or long-term investment horizon.

17 **Q. WHAT IS BETA AND WHAT DOES IT MEASURE?**

18 A. Beta is a measure of the relative risk of a security in relation to the market. In
19 other words, it is a measure of the sensitivity of a security to the market as a whole.
20 This sensitivity is also known as systematic risk. It is estimated by regressing a
21 security's excess returns against a market portfolio's excess returns. The slope of
22 the regression line is the beta.

23 Beta for the market is 1.0. A security with a beta greater than 1.0 is
24 considered riskier than the market. A security with a beta less than 1.0 is
25 considered less risky than the market.

26

1 There are computational problems surrounding beta. It depends on the
2 return data, the time period used, its duration, the choice of the market index, and
3 whether annual, monthly, or weekly return figures are used. Betas are estimated
4 with error. Based on empirical evidence, high betas will tend to have a positive
5 error (risk is overestimated) and low betas will have a negative error (risk is
6 underestimated).²¹

7 **Q. WHAT DID YOU USE AS THE PROXY OF THE BETA FOR USLLC?**

8 A. I used the average beta of the sample water utility companies. Betas were obtained
9 from *Value Line Investment Analyzer* (August 5, 2013). *Value Line* is the source
10 for estimated betas that I regularly employ, along with Staff, and it is widely
11 accepted by financial analysts. The average beta as shown on Schedule D-4.9 is
12 0.71. I should note that because USLLC is not publicly traded, USLLC has no
13 beta. I believe that USLLC, if it were publicly traded, would have a higher beta
14 than the sample water utility companies.

15 **Q. WHY WOULD USLLC HAVE A HIGHER BETA?**

16 A. As previously indicated, smaller companies are inherently more risky than larger
17 companies. In Chapter 7 of Morningstar's *Ibbotson SBBI 2013 Valuation*
18 *Yearbook*, for example, Ibbotson reports that when betas (a measure of market risk)
19 are properly estimated, betas are larger for small companies than for larger
20 companies. As I will explain later, Ibbotson also finds that even after accounting
21 for differences in beta risk, small firms require an additional risk premium over and
22 above the added risk premium indicated by differences in beta risk.

23 ////

24 ////

25 _____
26 ²¹ Eugene F. Fama and Kenneth R. French, "The Capital Asset Pricing Model: Theory and Evidence," *Journal of Economic Perspectives* (Summer 2004) 25-46.

1 **Q. PLEASE EXPLAIN THE MARKET RISK PREMIUM.**

2 A. The market-risk premium ($R_m - R_f$) is the return an investor expects to receive as
3 compensation for market risk. It is the expected market return minus the risk-free
4 rate. Approaches for estimating the market risk premium can be historical or
5 prospective.

6 Since expected returns are not directly observable, historical realized returns
7 are often used as a proxy for expected returns on the basis that the historical market
8 risk premium follows what is known in statistics as a “random walk.” If the
9 historical risk premium does follow the random walk, then one should expect the
10 risk premium to remain at its historical mean. Based on this argument, the best
11 estimate of the future market risk premium is the historical mean. *Morningstar*
12 provides historical market returns for various asset classes from 1926 to 2012.
13 This publication also provides market risk premiums over U.S. Treasury bonds,
14 which make it an excellent source for historical market risk premiums.

15 Prospective market risk premium estimation approaches necessarily require
16 examining the returns expected from common equities and bonds. One method
17 employs applying the DCF model to a representative market index such as the
18 Value Line 1700 stocks (the *Value Line* Composite Index). The expected return
19 from the DCF is measured for a number of periods of time, and then subtracted
20 from the prevailing risk-free rate for each period to arrive at market risk premium
21 for each period. The market risk premium subsequently employed in the CAPM is
22 the average market risk premium of the overall period.

23 **Q. HOW MANY MARKET RISK PREMIUM ESTIMATES DID YOU**
24 **PREPARE IN CONNECTION WITH YOUR ASSIGNMENT FOR USLLC?**

25 A. I prepared two market risk premium estimates: A historical market risk premium
26 and a current market risk premium.

1 Q. HOW DID YOU ESTIMATE THE HISTORICAL MARKET RISK
2 PREMIUM?

3 A. I used *Morningstar's* measure of the average premium of the market over long-
4 term treasury securities from 1926 through 2012. The average historical market
5 risk premium over long-term treasury securities is 6.7%.

6 Q. HOW DID YOU ESTIMATE THE CURRENT MARKET RISK PREMIUM?

7 A. I derived a market risk premium by, first, using the DCF model to compute an
8 expected market return for each of the past 12 months using *Value Line's*
9 projections of the median dividend yield and median 3-5 year price appreciation
10 (growth) on the *Value Line* 1700 Composite Index. I then subtracted the average
11 30-year Treasury yield for each month from the expected market returns to arrive
12 at the expected market risk premiums. Finally, I averaged the computed market
13 risk premiums to determine the current market risk premium. The data and
14 computations are shown on Schedule D-4.11. The recent 6 month average current
15 market risk premium is 8.61%. Estimates of the current market risk premium have
16 ranged from 8.11% to 13.41% over the past 12 months averaging 10.11%. My 6-
17 month average estimate at 8.61% is near the bottom of the 12 month range.

18 Q. HAS STAFF EMPLOYED A CURRENT MARKET RISK PREMIUM IN
19 THE PAST?

20 A. Yes. However, their estimation of the current market risk premium has been
21 somewhat different. Staff uses a DCF model to compute the current market risk
22 premium as I do, but Staff also uses a single spot estimate using the median
23 annualized projected 3-5 year price appreciation on the *Value Line* 1700 stocks in
24 conjunction the median dividend yield on the *Value Line* 1700 stocks.

25 ////

26 ////

1 Q. WHY DO YOU BELIEVE THAT YOUR APPROACH IS MORE
2 APPROPRIATE?

3 A. The accuracy of the expected risk premium is greatly enhanced by increasing the
4 number of periods used to estimate it. Staff typically computes a market risk
5 premium based on a single point in time, which makes estimates extremely
6 volatile, so much so that the expected market risk premium estimate can change by
7 as much as 300 basis points (or more) each time it is estimated.

8 Q. WHAT DO YOU ADOPT AS THE RETURN FOR THE RISK-FREE RATE?

9 A. I use long-term expected Treasury bond rates as the measure of the risk-free return
10 for use with both CAPM cost of equity estimates from two sources: the *Blue Chip*
11 *Financial Forecast* and *Value Line*. Ibbotson explains on page 55 of *Morningstar*
12 that the appropriate choice for the risk-free rate is the expected return for long-term
13 Treasury securities. Thus, when determining an estimate of the risk-free rate, it is
14 appropriate to adopt a return that is no less than the expected return on the long-
15 term Treasury bond rate. Both of my CAPM estimates are based on expected
16 interest rates using a recent monthly average estimate (August 2013) and projected
17 estimates of the long-term treasury rates for 2014 and 2015 (from *Blue Chip*
18 *Financial Forecasts* and *Value Line Selection and Opinion – Quarterly Economic*
19 *Forecast*). The 2014 to 2015 timeframe is the period when new rates will be in
20 effect for the Company.

21 e. Explanation of the Build-Up Method and Its Inputs

22 Q. PLEASE EXPLAIN THE BUILD-UP RISK PREMIUM METHODOLOGY
23 FOR ESTIMATING THE COST OF EQUITY.

24 A. As I already indicated, like the CAPM, the Build-up method is a type of risk
25 premium methodology. This is a common and effective method used by appraisers
26

1 and valuation experts.²² The Build-up Method is an additive model in which the
2 return on a security is the sum of a risk-free rate and one or more risk premia.
3 Each premium represents the reward an investor receives for taking on a specific
4 risk. An attractive feature of the Build-up Method is that it does not require an
5 estimate of market beta, which is problematic for non-publicly traded companies
6 such as USLLC. The Build-up Method can be stated as follows:

7 [6] $k = R_f + RP_m + RP_s +/- RP_u$

8 where k = the expected return

9 R_f = risk-free rate

10 RP_m = equity risk premium for the market

11 RP_s = equity risk premium for size

12 RP_u = risk premium attributed to the specific company or to the industry
13 (oftened call the company specific risk premium)

14 Or alternatively as:

15 [7] $k = R_f + RP_{ms} +/- RP_u$

16 where k = the expected return

17 R_f = risk-free rate

18 RP_{m+s} = equity risk premium for the market and size

19 RP_u = risk premium attributed to the specific company or to the industry
20 (often call the company specific risk premium)

21 The data for the equity risk premium for the market (RP_m), the equity risk
22 premium for size (RP_s), and the company specific or industry risk premium (RP_u)
23 can be readily obtained from *Morningstar* and/or other size premium studies such
24 as the *Duff & Phelps* study.²³ *Morningstar* quantifies the size premium separate

25
26 ²² Morningstar Ibbotson SBBi 2013 Valuation Yearbook. Chapter 3.

²³ Duff & Phelps LLC, *Risk Premium Report 2013*.

1 from the market risk premium by market capitalization as a measure of size
2 whereas *Duff & Phelps* study quantifies the risk premium (RP_{m+s}) (market premium
3 (RP_m) plus the size premium (RP_s)) by book value of common equity, 5 year
4 average net income, market value of invested capital, total assets (as reported on
5 balance sheet), 5-year average of earnings before interest, income taxes,
6 depreciation and amortization (EBITDA), sales, and number of employees in
7 addition to market capitalization – all of which have been shown to be highly
8 correlated with market returns. I should note that the authors of the *Duff & Phelps*
9 study conclude that, by whatever measures of size are used, the results are clear
10 that there is an inverse relationship between size and historical equity returns –
11 small companies have higher returns than larger companies.²⁴

12 **Q. ARE THERE ADVANTAGES TO THE USE OF THE BUILD-UP RISK**
13 **PREMIUM METHODOLOGY OVER THE CAPM FOR ESTIMATING**
14 **THE COST OF EQUITY?**

15 A. Yes. First, as I mentioned earlier, the Build-up Method does not require a market
16 beta estimate, which is not available for non-public firms. I used the average beta
17 of the large publicly traded water utilities as a proxy for the beta of USLLC.
18 However, there are computation problems surrounding beta and empirical financial
19 data showing that beta does not account for all of the risks associated with smaller
20 firms. Second, each of the risk premia used in the Build-up Method can be
21 quantified using data from the equity markets. Third, the various measures of size
22 including fundamental accounting measures have a practical benefit of eliminating
23 the need to make a “guesstimate” of size for comparative purposes where market
24 data for determining market value measures of size is not available, particularly for
25 non-public firms.

26 ²⁴ Duff & Phelps at 26.

1 Q. HAVE YOU PREPARED ANY ESTIMATES THAT HELP TO SERVE AS A
2 CHECK ON YOUR COST OF EQUITY RECOMMENDATION FOR
3 USLLC?

4 A. Yes. I prepared two alternative estimates. The first uses the Build-up method and
5 employs *Morningstar* data. I estimate the cost of equity for USLLC to be at least
6 10.6% and up to 14.3%. These results are based upon the data from *Morningstar*
7 as contained in Table C-1 and current interest rates (the risk-rate would be 3.4%,²⁵
8 the equity risk premium would be 6.7%,²⁶ the small company risk premium of
9 6.0%²⁷) and data contained in Table 3-5 – Industry Premia Estimates (negative 4.9
10 for the water supply industry SIC code 494). The calculation is shown as follows:

$$11 \quad k = R_f + RP_m + RP_s +/- RP_u$$

$$12 \quad k = 3.4\% + 6.7\% + 6.0\% - 4.9\%$$

$$13 \quad k = 11.2\%$$

14 The computed 11.2% is at the low end. Using more refined data provided by
15 *Morningstar* with respect to the 10th decile firm size based upon market value, the
16 indicated cost of equity would be 14.9% for USLLC.²⁸

17 The second estimate for USLLC uses the *Duff & Phelps* data and employs
18 the same Build-up method I employed for my analysis of my water proxy group.
19 The result is 15.02%; well above my recommendation of 11%.

20 These two checks indicate a cost of equity in the range of 11.2% to 15.02%
21 with a mid-point of 13.1%. Accordingly, I find my recommendation of 11.0%
22 conservative, as I mentioned in the intro to this testimony.

23 ²⁵ Long-term (20 year) U.S. Treasury Bond Yield as of August 5, 2013.

24 ²⁶ Long-horizon historical equity risk premium – Table A-1 1928-2012.

25 ²⁷ Decile 10 – smallest, market capitalization of \$1.028 million to \$206.795 million. See Appendix C.

26 ²⁸ *Morningstar* splits the 10th decile portfolio into two groups; Decile 10a (up to \$253761 million in market capitalization) and Decile 10b (up to \$165,600 in market capitalization). If publicly traded, USLLC would likely fall into the latter group (10b) which has an indicated size premium of 9.7% (see Appendix C). Substituting the 9.7% size premium for the 6.0% in the build-up formula the result would be 14.9% (3.4%+6.7%+9.7%-4.9%).

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

f. Summary and Conclusions

Q. HAVE YOU PREPARED A SCHEDULE THAT SUMMARIZES YOUR EQUITY COST ESTIMATES AND PRESENTS YOUR RECOMMENDATIONS?

A. Yes. The equity cost estimates and my recommendations are summarized in Schedule D-4.1.

In the first part of my analysis, I applied two versions of the constant growth DCF model. One uses analyst estimates of growth and the other uses historical growth and analyst expectations. See Schedules D-4.8. The DCF models produce an indicated equity cost of 8.5%.

In the second part of my analysis, I applied two versions of the CAPM – a historical risk premium CAPM and a current market risk premium CAPM. The CAPM analyses appear in Schedule D-4.12 and produce an indicated cost of equity of 9.6%.

In the third part of my analysis, I applied the Build-up method using the Duff and Phelps risk premium study data. The build-up method analysis appears on Schedule D-4.18 and produces an indicated cost of equity of 11.7%.

In the fourth part of my analysis, I prepared cost of equity estimates for USLLC that serve a check of my recommendation of 11.0%. Those estimates are in the range of 11.2% to 15.02% with a mid-point of 13.1%.

The range of results of my DCF, CAPM, and Build-up analyses and other risk adjustments is 8.5% to 11.7%, with a mid-point of 10.1%. After a consideration of the risks associated with USLLC compared to the publicly traded utility companies, I conclude the required cost of equity is above the median of 10.1% and that 11.0% is conservative.

////

1 Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY ON COST OF
2 CAPITAL?

3 A. Yes.

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

Utility Source, LLC
Test Year Ended December 31, 2012
Summary of Cost of Capital

Consolidated Capital Structure

Line No.	Item of Capital	Actual End of Test Year			Projected Capital Structure				
		Dollar Amount	Percent of Total	Cost Rate	Weighted Cost	Dollar Amount	Percent of Total	Cost Rate	Weighted Cost
1	Long-Term Debt	-	0.00%	0.00%	0.00%	-	0.00%	0.00%	0.00%
2									
3	Stockholder's Equity	3,722,209	100.00%	11.00%	11.00%	3,649,952	100.00%	11.00%	11.00%
4									
5	Totals	3,722,209	100.00%			3,649,952	100.00%		11.00%
6									
7									
8									
9									
10									
11									
12									
13									
14									
15									
16									
17									
18									
19									
20									
21									
22									
23									
24									
25									
26									
27									
28	Testimony								
29									
30									

RECAP SCHEDULES:
A-3

SUPPORTING SCHEDULES:
D-1
D-3
D-4
E-1

Utility Source, LLC
Test Year Ended December 31, 2012
Cost of Preferred Stock

Exhibit
Schedule D-3
Page 1
Witness: Bourassa

Line
No.
1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40

	<u>End of Test Year</u>			<u>End of Projected Year</u>		
Description of Issue	Shares Outstanding	Amount	Dividend Requirement	Shares Outstanding	Amount	Dividend Requirement

NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING

SUPPORTING SCHEDULES:
E-1

RECAP SCHEDULES:
D-1

Utility Source, LLC
Test Year Ended December 31, 2012
Cost of Common Equity

Exhibit
Schedule D-4
Page 1
Witness: Bourassa

Line
No.

1

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

The Company is proposing a cost of common equity of

11.00% .

SUPPORTING SCHEDULES:

E-1

D-4.1 to D-4.18

RECAP SCHEDULES:

D-1

Utility Source, LLC
Summary of Results

Exhibit
Schedule D-4.1
Witness: Bourassa

<u>Line</u>	<u>No.</u>	<u>Method</u>	<u>Median Result</u>
	1		
	2		
	3		
	4		
	5		
	6	DCF Constant Growth Estimates ¹	8.5%
	7		
	8	CAPM Estimates ²	9.9%
	9		
	10	Build-up Method Estimates ³	11.7%
	11		
	12	Mid-point	10.1%
	13		
	14		
	15		
	16	Recommended Cost of Equity ⁴	11.0%
	17		
	18		

¹ See Schedule D-4-8

² See Schedule D-4.12

³ See Schedule D-4.18

⁴ Testimony

20
21
22
23

Utility Source, LLC
Selected Characteristics of Sample Group of Water Utilities

Exhibit
Schedule D-4.2
 Witness: Bourassa

Line No.	Company ¹	% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating	Allowed ROE (%)
1	American States	59%	\$ 470.8	\$ 929.5	A+	A2	9.99
2	Aqua America	96%	\$ 780.3	\$ 3,971.2	AA-	NR	10.33
3	California Water	100%	\$ 554.7	\$ 1,468.6	AA-	NR	9.99
4	Connecticut Water	100%	\$ 85.0	\$ 449.6	A	NR	9.75
5	Middlesex	88%	\$ 113.9	\$ 437.6	A	NR	10.15
6	SJW Corp.	96%	\$ 260.5	\$ 829.4	A	NR	9.99
10	Average	90%	\$ 377.5	\$ 1,347.7			10.03
13	Utility Source, LLC	100%	\$ 0.3	\$ 4.0	NR	NR	

(Adjusted as of December 31, 2012)

¹AUS Utility Reports (July 2013).

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

Utility Source, LLC
Capital Structures

Exhibit
Schedule D-4.3
Witness: Bourassa

No.	Company	Book Value ¹		Market Value ¹	
		Long-Term Debt	Common Equity	Long-Term Debt	Common Equity
1	1. American States	42.2%	57.8%	23.5%	76.5%
2	2. Aqua America	52.7%	47.3%	25.5%	74.5%
3	3. California Water	51.7%	48.3%	36.2%	63.8%
4	4. Connecticut Water	53.2%	46.8%	34.6%	65.4%
5	5. Middlesex	42.0%	58.0%	29.2%	70.8%
6	6. SJW Corp.	55.0%	45.0%	40.1%	59.9%
10	Average	49.5%	50.5%	31.5%	68.5%
13	Utility Source, LLC (Proforma)	0.0%	100.0%	N/A	N/A

¹ Value Line Analyzer Data (Aug 5, 2013)

² Adjusted Per Schedule D-1

17
18
19
20
21
22
23
24
25
26
27
28

Utility Source, LLC
Comparisons of Past and Future Estimates of Growth

Line No.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	Five-year historical average annual changes						
	<u>Price</u> ¹	<u>Book Value</u> ²	<u>EPS</u> ²	<u>DPS</u> ²	<u>Average Col 1-4</u>	<u>Average Future Growth</u> ³	<u>Average of Future and Historical Growth Col 5-6</u>
1	9.12%	5.50%	11.50%	4.50%	7.66%	3.00%	5.33%
2	5.40%	6.00%	7.50%	7.50%	6.60%	6.07%	6.33%
3	2.03%	5.00%	5.00%	1.00%	3.26%	5.83%	4.55%
4	7.90%	3.00%	4.00%	1.50%	4.10%	5.33%	4.72%
5	4.56%	4.00%	2.50%	1.50%	3.14%	3.35%	3.24%
6	NMF	3.50%	NMF	4.00%	3.75%	10.75%	7.25%
7							
8	1. American States						
9	2. Aqua America						
10	3. California Water						
11	4. Connecticut Water						
12	5. Middlesex						
13	6. SJW Corp.						
14							
15							
16	GROUP AVERAGE	4.50%	6.10%	3.33%	4.75%	5.72%	5.24%
17	GROUP MEDIAN	5.40%	5.00%	2.75%	3.93%	5.58%	5.02%
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							

¹ Average of changes in annual stock prices ending on December 31 through 2012. Data from Yahoo Finance website.

² Value Line Analyzer Data, Aug 5, 2013

³ See Schedule D-4.6.

Utility Source, LLC
Comparisons of Past and Future Estimates of Growth

Exhibit
Schedule D-4.5
 Witness: Bourassa

Line No.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
3	<u>Ten-year historical average annual changes</u>						
4		Book			Average	Average	Average of
5		Value ²	EPS ²	DPS ²	Col 1-4	Future Growth ³	Future and Historical Growth
6	Price ¹						Col 5-6
7	10.41%	5.00%	6.50%	3.00%	6.23%	3.00%	4.61%
8	7.70%	8.50%	7.00%	7.50%	7.68%	6.07%	6.87%
9	6.27%	5.00%	4.00%	1.00%	4.07%	5.83%	4.95%
10	4.80%	4.00%	0.50%	1.50%	2.70%	5.33%	4.02%
11	5.14%	4.50%	3.50%	1.50%	3.66%	3.35%	3.50%
12	6.99%	5.50%	4.00%	5.00%	5.37%	10.75%	8.06%
15	6.88%	5.42%	4.25%	3.25%	4.95%	5.72%	5.34%
16	6.63%	5.00%	4.00%	2.25%	4.72%	5.58%	4.78%
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							

¹ Average of changes in annual stock prices ending December 31, 2012. Data from Yahoo Finance website.

² Value Line Analyzer Data, Aug 5, 2013.

³ See Schedule D-4.6.

Utility Source, LLC
Analysts Forecasts of Earnings Per Share Growth

Exhibit
Schedule D-4.6
 Witness: Bourassa

Line No.	[1]	[2]	[3]	[4]
	ESTIMATES OF EARNINGS GROWTH			
	<u>Yahoo¹</u>	<u>Zacks¹</u>	<u>Value Line¹</u>	<u>Average Growth (G) (Cols 1-3)²</u>
1.	2.00%	2.00%	5.00%	3.00%
2.	4.90%	5.30%	8.00%	6.07%
3.	6.00%	6.00%	5.50%	5.83%
4.	5.00%	5.00%	6.00%	5.33%
5.	2.70%		4.00%	3.35%
6.	14.00%		7.50%	10.75%
7.				
8.				
9.				
10.				
11.				
12.				
13.				
14.				
15.	5.77%	4.58%	6.00%	5.72%
16.				5.58%
17.				
18.				
19.				
20.				
21.				
22.				
23.				
24.				
25.				
26.				
27.				
28.				

¹ Data as of August 5, 2013

² Where no data available or single estimate, average of other utilities assumed to estimate for utility.

Utility Source, LLC
 Current Dividend Yields for Water Utility Sample Group

Line No.	Company	Average Stock Price (P ₀) ¹	Current Dividend (D _n) ¹	Current Dividend Yield (D _n /P ₀) ¹	Average Annual Dividend Yield (D _a /P ₀) ^{1,2}
1	1. American States	\$ 56.10	\$ 1.27	2.26%	3.15%
2	2. Aqua America	\$ 32.12	\$ 0.67	2.09%	2.80%
3	3. California Water	\$ 20.33	\$ 0.62	3.05%	3.36%
4	4. Connecticut Water	\$ 29.00	\$ 0.94	3.24%	3.62%
5	5. Middlesex	\$ 20.21	\$ 0.74	3.66%	3.96%
6	6. SJW Corp.	\$ 26.85	\$ 0.71	2.64%	2.95%
13	Average			2.82%	3.31%
14	Median			2.85%	3.26%

¹ Yahoo Finance. 60 day average of stock prices as of Aug 5, 2013.

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

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

Utility Source, LLC
Discounted Cash Flow Analysis
DCF Constant Growth

Exhibit
Schedule D-4.8
Witness: Bourassa

Line No.	[1]	[2]	[3]	[4]
	Dividend Yield $(D_1/P_0)^1$	Expected Dividend Yield $(D_1/P_0)^2$	Growth (g)	Indicated Cost of Equity $k = \text{Div Yld} + g$ (Cols 2+3)
8	2.82%	2.97%	5.24% ³	8.2%
9	2.82%	2.99%	5.72% ⁴	8.7%
10	2.82%	2.98%	5.48%	8.5%
11	2.82%	2.98%	5.48%	8.5%
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				

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

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

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

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

Utility Source, LLC
Market Betas

Exhibit
Schedule D-4.9
Witness: Bourassa

Line

<u>No.</u>	<u>Company</u>	<u>Beta (β)¹</u>
1	American States	0.70
2	Aqua America	0.60
3	California Water	0.65
4	Connecticut Water	0.75
5	Middlesex	0.70
6	SJW Corp.	0.85
9	Average	0.71

¹ Value Line Investment Analyzer data (Aug 5, 2013)
Note: Beta is a relative measure of the historical sensitivity of a stock's price to overall fluctuations in the New York Stock Exchange Composite Index. A Beta of 1.50 indicates a stock tends to rise (or fall) 50% more than the New York Stock Exchange Composite Index. The "Beta coefficient" is derived from a regression analysis of the relationship between weekly percent-age changes in the price of a stock and weekly percentage changes in the NYSE Index over a period of five years. In the case of shorter price histories, a smaller time period is used, but two years is the minimum. The Betas are adjusted for their long-term tendency to converge toward 1.00.

Line No.	Description	Average Aug-13	2014	2015	Average
1					
2					
3					
4					
5					
6	Blue Chip Consensus Forecasts ¹	3.76% ¹	4.20% ²	4.80% ²	4.50%
7					
8	Value Line ²	3.76% ¹	4.10% ³	4.50% ³	4.30%
9					
10	Average				4.40%
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					
21					
22					
23					
24					

¹ Federal Reserve Monthly Average 30 Year U.S. Treasury
² June 2013 Blue Chip Financial Forecasts consensus long-term forecast of 30 Year U.S. Treasury
³ Value Line Quarterly forecast, dated August 23, 2013, Long-term Treasury

Utility Source, LLC
Computation of Current Market Risk Premium

Line No.	Month	Dividend Yield (D_t/P_t) ¹	Expected Dividend Yield (D_t/P_t) ²	Growth (g) ³	Expected Market Return (k)	Monthly Average 30 Year Treasury Rate ⁴	Market Risk Premium (MRP)
4	Dec 2011	2.27%	2.60%	14.52%	17.12%	2.98%	14.14%
5	Jan 2012	2.19%	2.45%	11.76%	14.21%	3.03%	11.18%
6	Feb	2.18%	2.46%	12.82%	15.28%	3.11%	12.17%
7	Mar	2.24%	2.54%	13.51%	16.05%	3.28%	12.77%
8	April	2.19%	2.47%	12.99%	15.46%	3.18%	12.28%
9	May	2.41%	2.78%	15.26%	18.04%	2.93%	15.11%
10	June	2.37%	2.70%	14.02%	16.72%	2.70%	14.02%
11	July	2.45%	2.82%	15.18%	18.00%	2.59%	15.41%
12	Aug	2.35%	2.67%	13.51%	16.18%	2.77%	13.41%
13	Sept	2.29%	2.57%	12.29%	14.86%	2.88%	11.98%
14	Oct	2.36%	2.67%	13.16%	15.83%	2.90%	12.93%
15	Nov	2.31%	2.59%	12.29%	14.88%	2.80%	12.08%
16	Dec 2012	2.22%	2.45%	10.48%	12.93%	2.88%	10.05%
17	Jan 2013	2.16%	2.37%	9.92%	12.29%	3.08%	9.21%
18	Feb	2.24%	2.49%	11.22%	13.71%	3.17%	10.54%
19	Mar	2.17%	2.39%	9.92%	12.31%	3.16%	9.15%
20	April	2.11%	2.31%	9.44%	11.75%	2.93%	8.82%
21	May	2.07%	2.26%	8.97%	11.22%	3.11%	8.11%
22	June	2.14%	2.35%	9.73%	12.08%	3.40%	8.68%
23	July	2.02%	2.18%	7.79%	9.97%	3.61%	6.36%
24	Recommended	2.13%	2.33%	9.51%	11.84%	3.23%	8.61%
27	Short-term Trends						
28	Recent Twelve Months Avg	2.20%	2.44%	10.73%	13.17%	3.06%	10.11%
29	Recent Nine Months Avg	2.16%	2.38%	9.97%	12.35%	3.13%	9.22%
30	Recent Six Months Avg	2.13%	2.33%	9.51%	11.84%	3.23%	8.61%
31	Recent Three Months Avg	2.08%	2.26%	8.83%	11.09%	3.37%	7.72%

1 Median Current Dividend Yield (D_t/P_t) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks
2 Expected Dividend Yield (D_t/P_t) equals average current dividend yield (D_t/P_t) times one plus growth rate(g).
3 Median 3-5 year price appreciation (annualized). Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks
4 Monthly average 30 year U.S. Treasury. Federal Reserve.

Utility Source, LLC
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
 Based on *Duff and Phelps Risk Premium Study Data*

Exhibit
 Schedule D.4.13
 Witness: Bourassa

Company	Measures of size (Millions)					
	MV Equity ¹	Book Equity ¹	MVIC ¹	5 Yr Avg. Net Income	Total Assets ²	5 Yr Avg. EBITDA ³
American States	\$ 1,083	\$ 455	\$ 1,415	\$ 37	\$ 1,281	\$ 130
Aqua America	\$ 4,507	\$ 1,385	\$ 6,051	\$ 133	\$ 4,859	\$ 422
California Water	\$ 850	\$ 450	\$ 1,332	\$ 41	\$ 1,996	\$ 140
Connecticut Water	\$ 255	\$ 119	\$ 391	\$ 11	\$ 579	\$ 24
Middlesex	\$ 319	\$ 181	\$ 451	\$ 13	\$ 562	\$ 38
SJW Corp.	\$ 502	\$ 275	\$ 838	\$ 21	\$ 1,087	\$ 89
Utility Source, LLC	NA	\$ 3.7	NA	\$ (0.1)	\$ 11.1	\$ 0.4

¹ From Zacks Investment Research data

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

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

Company	Net Income Data (\$ millions)					
	2012	2011	2010	2009	2008	Average
American States	\$ 54.0	\$ 45.9	\$ 33.2	\$ 29.5	\$ 22.0	\$ 36.9
Aqua America	\$ 197.0	\$ 143.1	\$ 124.0	\$ 104.4	\$ 97.9	\$ 133.3
California Water	\$ 49.0	\$ 37.7	\$ 37.7	\$ 40.6	\$ 39.8	\$ 40.9
Connecticut Water	\$ 14.0	\$ 11.3	\$ 9.8	\$ 10.2	\$ 9.4	\$ 10.9
Middlesex	\$ 14.0	\$ 13.4	\$ 14.3	\$ 10.0	\$ 12.2	\$ 12.8
SJW Corp.	\$ 22.0	\$ 20.9	\$ 24.4	\$ 15.2	\$ 21.5	\$ 20.8
Utility Source, LLC	(0.13)	(0.19)	(0.18)	(0.15)	(0.03)	(0.1)

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

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

Company	EBITDA Data (\$ millions)					
	2012	2011	2010	2009	2008	Average
American States	\$ 154.0	\$ 133.3	\$ 134.4	\$ 122.6	\$ 105.9	\$ 130.0
Aqua America	\$ 439.0	\$ 397.8	\$ 473.2	\$ 415.2	\$ 384.7	\$ 422.0
California Water	\$ 151.0	\$ 143.3	\$ 155.7	\$ 125.5	\$ 122.1	\$ 139.5
Connecticut Water	\$ 30.0	\$ 24.2	\$ 22.5	\$ 20.3	\$ 21.1	\$ 23.6
Middlesex	\$ 39.0	\$ 34.6	\$ 43.3	\$ 34.6	\$ 38.6	\$ 38.0
SJW Corp.	\$ 90.0	\$ 87.1	\$ 75.4	\$ 93.5	\$ 99.7	\$ 89.1
Utility Source, LLC	\$ 0.0	\$ (0.0)	\$ (0.0)	\$ 0.02	\$ 0.02	\$ 0.42

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

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

Utility Source, LLC
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
 Based on *Duff and Phelps Risk Premium Study Data*

Exhibit
 Schedule D.4.14
 Witness: Bourassa

MRP_{m+s} Estimates Using Duff & Phelps Study (Unlevered)
 Assumes 100% Equity and 0% debt
 Data Smoothing with Regression Analysis
Smoothed Premium (RP_{m+s}) = Constant + X Coefficients * Log(Relevant Metric)

$$RP_{unlevered} = RP_{levered} - W_d / W_e * (\beta_d - \beta_u) * RP_{market}$$

Where β_u = unlevered portfolio beta

β_d = debt beta, assumed to be 0.1

W_d = percentage of debt in capital structure

W_e = percentage of equity in capital structure

$RP_{levered}$ = levered realized risk premium

MV Equity (Table C-1)	Book Equity (Table C-2)	MVIC (Table C-4)	5 Yr Avg. Net Income (Table C-3)	Total Assets (Table C-5)	5 Yr Avg. EBITDA (Table C-6)
18.448%	15.453%	18.701%	13.312%	17.363%	14.836%
-3.193%	-2.533%	-3.173%	-2.600%	-2.793%	-2.717%

Constant
 X Coefficient(s)

MRP_{m+s} (unlevered)

Symbol	Company	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
AWR	American States	8.76%	8.72%	8.70%	9.24%	8.68%	9.09%	8.87%
WTR	Aqua America	6.78%	7.50%	6.70%	7.79%	7.07%	7.70%	7.26%
CWT	California Water	9.09%	8.73%	8.79%	9.12%	8.15%	9.01%	8.81%
CTWS	Connecticut Water	10.76%	10.20%	10.48%	10.61%	9.65%	11.11%	10.47%
MSEX	Middlesex	10.45%	9.73%	10.28%	10.43%	9.68%	10.54%	10.19%
SJW	SJW Corp.	9.82%	9.27%	9.43%	9.89%	8.88%	9.54%	9.47%
	Average (unlevered)	9.28%	9.03%	9.06%	9.51%	8.68%	9.50%	9.18%
	Utility Source, LLC	NA	14.01%	NA	NMF	14.44%	15.86%	14.77%

Utility Source, LLC
 COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
 Based on *Duff and Phelps Risk Premium Study Data*

Exhibit
 Schedule D.4.15
 Witness: Bourassa

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

1. 2. 3. 4. 5. 6.	Company	Symbol	Unlevered Portfolio Beta (β_u)						Average
			(Table C-1)	(Table C-2)	(Table C-4)	(Table C-3)	(Table C-5)	(Table C-6)	
	American States	AWR	0.94	0.96	0.95	0.95	0.97	0.95	0.95
	Aqua America	WTR	0.87	0.89	0.86	0.88	0.83	0.82	0.86
	California Water	CWT	0.98	0.96	0.95	0.95	0.94	0.96	0.96
	Connecticut Water	CTWS	0.96	0.98	0.97	0.97	0.99	1.03	0.98
	Middlesex	MSEX	0.96	1.00	0.98	0.97	0.99	0.99	0.98
	SJW Corp.	SJW	0.98	0.98	0.98	0.99	0.97	0.95	0.98
	Average		0.95	0.96	0.95	0.95	0.95	0.95	0.95
	Utility Source, LLC		NA	0.98	NA	1.01	1.05	1.03	1.02

Utility Source, LLC
 COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
 Based on Duff and Phelps Risk Premium Study Data

Exhibit
 Schedule D.4.16
 Witness: Bourassa

MRP Estimates Using Duff & Phelps Study (Relevered)

Relevered Realized Risk Premium

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

Where β_u = unlevered portfolio beta

β_d = debt beta, assumed to be 0.1

W_d = percentage of debt in capital structure

W_e = percentage of equity in capital structure

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

RP_{market} = general equity risk premium for the market since 1963.

1. 2. 3. 4. 5. 6.	Company	MRP _{mts} (Relevered)									
		Symbol	W _d /W _e	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average	
	American States	AWR	30.7%	9.92%	9.91%	9.88%	10.41%	9.89%	10.27%	10.04%	
	Aqua America	WTR	34.3%	7.97%	8.71%	7.87%	8.99%	8.19%	8.81%	8.43%	
	California Water	CWT	56.7%	11.34%	10.93%	10.95%	11.29%	10.29%	11.20%	11.00%	
	Connecticut Water	CTWS	53.0%	12.81%	12.30%	12.55%	12.69%	11.77%	13.32%	12.57%	
	Middlesex	MSEX	41.2%	12.05%	11.40%	11.91%	12.05%	11.33%	12.19%	11.82%	
	SJW Corp.	SJW	66.8%	12.47%	11.92%	12.07%	12.56%	11.50%	12.09%	12.10%	
	Average MRP (Relevered)		47.11%	11.09%	10.86%	10.87%	11.33%	10.49%	11.32%	10.99%	
	Utility Source, LLC		0.00%	NA	14.01%	NA	NMF	14.44%	15.86%	14.77%	

Utility Source, LLC
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
 Based on *Duff and Phelps* Risk Premium Study Data

Exhibit
 Schedule D.4.17
 Witness: Bourassa

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

[1] Estimate of Current Market Risk Premium (RP_{market})	5.00%	<<<< Current Duff and Phelps recommendation
[2] Risk Premium Assumed in Duff & Phelps Study (1963-2012) ¹	4.50%	
[3] Equity Risk Premium Adjustment ([1] - [2])	0.50%	
[4] Average MRP (relevered) for publicly traded water companies (from Schedule D-4.16)	10.99%	
[5] MRP (relevered) for publicly traded water companies (RP_{mws}) ([3] + [4])	11.49%	
[6] Equity Risk Premium Adjustment ([3])	0.50%	
[7] Average MRP (relevered) for subject utility company (from Table 4)	14.77%	
[8] MRP (relevered) for subject utility company (RP_{mws}) ([6] + [7])	15.27%	
[9] Industry Risk Premium (From <i>Ibbotson</i> for SIC 494 Water Supply Industry Table 3-5)	-4.92%	
[10] Adjustment Factor to Industry Risk Premium ([2] / 6.7%) ¹	0.7463	
[11] Adjusted Industry Risk Premium (R_i) ([9] x [10])	-3.67%	
[12] Risk Free Rate (R_f) ²	3.42%	

¹ From Duff and Phelps Risk Premium Report 2013.

² Yield on 20 Yr U.S. Treasury August 5, 2013 (Federal Reserve)

Utility Source, LLC
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
 Based on *Duff and Phelps Risk Premium Study Data*

Exhibit
 Schedule D-4.18
 Witness: Bourassa

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

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

Where:

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

R_f = Risk-free rate of return. See Schedule D-4.17.

RP_{mrs} = Market risk premium including size premium. See Schedule D-4.16.

RP_i = Industry risk premium (adjusted). See Schedule D-4.17.

RP_u = Company-specific risk premium

	Sample
	Publicly Traded
	Water
	<u>Utilities</u>
	<u>Utility Source, LLC</u>
R_f =	3.42%
RP_{mrs} =	See Sched. D-4.16
RP_i =	-3.67%
RP_u =	0.00%

Indicated COE E(R_i)

	MV	Book	5 Yr Avg.	Total	5 Yr Avg.	Average
	Equity	Equity	Net Income	Assets	EBITDA	
1. American States	10.17%	10.16%	10.66%	10.13%	10.52%	10.29%
2. Aqua America	8.22%	8.96%	9.24%	8.44%	9.06%	8.67%
3. California Water	11.59%	11.17%	11.20%	10.54%	11.45%	11.25%
4. Connecticut Water	13.06%	12.55%	12.80%	12.02%	13.57%	12.82%
5. Middlesex	12.29%	11.65%	12.16%	11.58%	12.44%	12.07%
6. SJW Corp.	12.72%	12.17%	12.32%	11.75%	12.34%	12.35%
Average COE estimate	11.34%	11.11%	11.12%	10.74%	11.56%	11.24%
Median COE Estimate	11.94%	11.41%	11.68%	11.06%	11.90%	11.66%
Utility Source, LLC	NA	14.26%	NA	14.69%	16.11%	15.02%

Symbol
 AWR
 WTR
 CWT
 CTWS
 MSEX
 SJW

Company

ATTACHMENT 3

COMPANY NAME: <i>UTILITY SOURCE, LLC</i>	
Name of System: <i>Flagstaff Meadows Water System</i>	ADEQ Public Water System Number: <i>03300</i>

WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2011

MONTH	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED (Thousands)	GALLONS PURCHASED (Thousands)
JANUARY	393	1,472	1,669	
FEBRUARY	395	1,522	1,587	
MARCH	397	1,428	1,562	
APRIL	401	1,332	1,483	
MAY	398	1,311	1,478	
JUNE	400	2,019	2,005	
JULY	408	3,151	2,894	
AUGUST	413	1,680	1,759	
SEPTEMBER	413	1,706	1,795	
OCTOBER	414	1,501	1,684	
NOVEMBER	417	1,540	1,654	
DECEMBER	420	1,647	1,798	
TOTALS →		20,309	21,368	0

What is the level of arsenic for each well on your system? <.001 mg/l
(If more than one well, please list each separately.)

If system has fire hydrants, what is the fire flow requirement? 1000 GPM for 2 hrs

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

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

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

If yes, provide the GPCPD amount: _____

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

COMPANY NAME <i>UTILITY SOURCE, LLC</i>
Name of System: <i>Flagstaff Meadows Wastewater Treatment Plant</i> Wastewater Inventory Number (if applicable):

WASTEWATER FLOWS

MONTH/YEAR (Most Recent 12 Months)	NUMBER OF SERVICES	TOTAL MONTHLY SEWAGE FLOW	SEWAGE FLOW ON PEAK DAY
January	393	1,649,968	65,402
February	395	1,500,037	60,700
March	397	1,944,054	89,701
April	401	1,801,817	68,104
May	398	1,681,730	61,965
June	400	1,597,263	68,450
July	408	2,006,708	80,588
August	413	2,131,347	80,568
September	413	1,942,012	80,568
October	414	1,576,746	63,183
November	417	1,436,085	57,054
December	420	1,653,040	60,551

**PROVIDE THE FOLLOWING INFORMATION AS APPLICABLE
PER WASTEWATER SYSTEM**

Method of Effluent Disposal (leach field, surface water discharge, reuse, injection wells, groundwater recharge, evaporation ponds, etc.)	Surface Water Discharge
Groundwater Permit Number	N/A
ADEQ Aquifer Protection Permit Number	P104083
ADEQ Reuse Permit Number	R-104083
EPA NPDES Permit Number	AZ 0024708

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

ATTACHMENT 4

COMPANY NAME *UTILITY SOURCE, LLC*

Name of System: *Flagstaff Meadows Water System* **ADEQ Public Water System Number:** *03300*

WATER COMPANY PLANT DESCRIPTION

WELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (gpm)	Casing Depth (Feet)	Casing Diameter (Inches)	Meter Size (inches)	Year Drilled
55-203241	125 HP	72 gpm	2,801'	10"	2"	2004
55-598834	50 HP	23 gpm	2,100'	8"	1"	2003
55-593267	10 HP	11 gpm	1,947'	8"	3/4"	2002
55-559096	2 HP	7 gpm	240'	6"	3/4"	1997
See attached for	Additional	Wells				

* Arizona Department of Water Resources Identification Number

OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)
N/A		

BOOSTER PUMPS		FIRE HYDRANTS	
Horsepower	Quantity	Quantity Standard	Quantity Other
15 HP	2	34	
75 HP	1		

STORAGE TANKS		PRESSURE TANKS	
Capacity	Quantity	Capacity	Quantity
442,000 gal	1	200 gal	1
258,000 gal	1		

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

ADWR ID Number	Pump Horsepower	Pump Yield (gpm)	Casing Depth (Feet)	Casing Diameter (Inches)	Meter Size (Inches)	Year Drilled
55-598623	2 hp	10 gpm	300'	6"		2004
55-564258	2 hp	12 gpm	300'	7"		1998
55-515324	1 hp	5 gpm	105'	8"	3/4	1987
55-503545	1hp	10 gpm	215'	7"	3/4	1982
55-206887	210 hp	280 gpm	2900'	10"	4	2005

COMPANY NAME *UTILITY SOURCE, LLC*

Name of System: *Flagstaff Meadows Water System*

ADEQ Public Water System Number: *03300*

WATER COMPANY PLANT DESCRIPTION (CONTINUED)

MAINS

Size (in inches)	Material	Length (in feet)
2		
3		
4		
5		
6	C-900	900
8	C-900	14,563
10		
12	C-900	5,890

CUSTOMER METERS

Size (in inches)	Quantity
5/8 X 3/4	
3/4	328
1	
1 1/2	
2	3
Comp. 3	
Turbo 3	
Comp. 4	
Turbo 4	
Comp. 6	
Turbo 6	

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

TREATMENT EQUIPMENT: Peristaltic pump for CL2 injection

STRUCTURES: One pump house, 3 well houses & storage facility, 6' retaining wall around facility, 400' in length

OTHER:

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

COMPANY NAME <i>UTILITY SOURCE, LLC</i>	
Name of System: <i>Flagstaff Meadows Wastewater Treatment Plant</i>	Wastewater Inventory Number (if applicable):

WASTEWATER COMPANY PLANT DESCRIPTION
TREATMENT FACILITY

TYPE OF TREATMENT (Extended Aeration, Step Aeration, Oxidation Ditch, Aerobic Lagoon, Anaerobic Lagoon, Trickling Filter, Septic Tank, Wetland, Etc.)	Extended aeration, stepfeed system
DESIGN CAPACITY OF PLANT (Gallons Per Day)	37,500 gpd Plant #1 100,000 gpd Plant #2

LIFT STATION FACILITIES

Location	Quantity of Pumps	Horsepower Per Pump	Capacity Per Pump (GPM)	Wet Well Capacity (gals)
Pilot Travel Center	2	1.5 HP	50 gpm	1,500 gal
Flagstaff Meadows WWTP	2	3 HP	150gpm	8,000 gal

FORCE MAINS

Size	Material	Length (Feet)
4-inch	SDR-35	2,200'
6-inch		

MANHOLES

Type	Quantity
Standard	60
Drop	

CLEANOUTS

Quantity
1

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

COMPANY NAME *UTILITY SOURCE, LLC*

Name of System: *Flagstaff Meadows Wastewater Treatment Plant* **Wastewater Inventory Number (if applicable):**

WASTEWATER COMPANY PLANT DESCRIPTION (CONTINUED)

COLLECTION MAINS

SERVICES

Size (in inches)	Material	Length (in feet)
4		
6		
8	SDR-35	16,224
10		
12	SDR-35	360
15		
18		
21		
24		
30		

Size (in inches)	Material	Quantity
4	SDR-35	327
6	SDR-35	3
8		
12		
15		

FOR THE FOLLOWING FIVE ITEMS, LIST THE UTILITY OWNED ASSETS IN EACH CATEGORY PER WASTEWATER SYSTEM

SOLIDS PROCESSING AND HANDLING FACILITIES	21,928 gal sludge holding tank-sludge hauled away 3,500 gal sludge holding tank-sludge hauled away
DISINFECTION EQUIPMENT (Chlorinator, Ultra-Violet, Etc.)	1 Peristaltic chemical pump
FILTRATION EQUIPMENT (Rapid Sand, Slow Sand, Activated Carbon, Etc.)	Mixed media filter continuous backwash
STRUCTURES (Buildings, Fences, Etc.)	700 sq ft building 2 - 12' wide rolling gates 6' cinder block fence; 376 in length
OTHER (Laboratory Equipment, Tools, Vehicles, Standby Power Generators, Etc.)	

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