0000150249

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

2014 FEB -7 P 2:28

AZ CORP COMMISSION
DOCKET CONTROL

ORIGINAL

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

IN THE MATTER OF THE APPLICATION OF CHAPARRAL CITY WATER COMPANY FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASE IN ITS RATES AND CHARGES BASED THEREON.

Docket No. W-02113A-13-0118

NOTICE OF FILING

The Residential Utility Consumer Office hereby provides notice of filing the Surrebuttal Testimony of Jeffrey Michlik and David Parcell, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 7th day of February, 2014.

Daniel W. Pozefsky
Chief Counsel

AN ORIGINAL AND THIRTEEN COPIES of the foregoing filed this 7th day of February, 2014 with:

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

Arizona Corporation Commission
DOCKETED
FEB 07 2014
DOCKETED BY

COPIES of the foregoing hand delivered/ mailed this 7th day of February, 2014 to:

Lyn Farmer
Chief Administrative Law Judge
Hearing Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Janice Alward
Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Steve Olea
Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Michael Hallam
Lewis and Roca LLP
40 N. Central Ave.
Phoenix, Arizona 85004-4429

Leonora Hebenstreit
16632 E. Ashbrook Drive, Unit A
Fountain Hills, Arizona 85268

Leigh Oberfeld-Berger
16623 E. Ashbrook Drive, Unit #2
Fountain Hills, Arizona 85268

Tracey Holland
16224 E. Palisades Blvd
Fountain Hills, Arizona 85268

Gale Evans
Patricia Huffman
16218 E. Palisades Blvd
Fountain Hills, Arizona 85268

Lina Bellenir
16301 East Jacklin Drive
Fountain Hills, Arizona 852168

Andrew McGuire
David A. Pennartz
Landon W. Loveland
Gust Rosenfeld PLC
One E. Washington, Suite 1600
Phoenix, Arizona 85004

By Cheryl Fraulob
Cheryl Fraulob

CHAPARRAL CITY WATER COMPANY

DOCKET NO. W-02113A-13-0118

SURREBUTTAL TESTIMONY

OF

JEFFREY M. MICHLIK

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

FEBRUARY 7, 2014

TABLE OF CONTENTS

Page

ATTACHMENTS

EXECUTIVE SUMMARY - SURREBUTTAL

The Residential Utility Consumer Office ("RUCO") has reviewed Chaparral City Water Company's ("CCWC" or "Company") rebuttal testimony and has made several adjustments based on additional information provided by the Company. RUCO will address the Company's rebuttal issues for rate base, operating income, revenue requirement, and rate design testimonies.

The following are the Company's and RUCO's proposed rate base and adjusted operating income positions as filed in its direct, rebuttal, and surrebuttal testimonies.

Rate Base

Company Direct	Company Rebuttal	RUCO Direct	RUCO Surrebuttal
$27,269,321	$27,769,023	$24,762,495	$24,769,624

Adjusted Operating Income

Company Direct	Company Rebuttal	RUCO Direct	RUCO Surrebuttal
$889,596	$865,297	$1,162,080	$1,195,605

The following tables present the required gross revenue increase as filed by the Company and RUCO in their direct, rebuttal, and surrebuttal testimonies.

Required Dollar Increase in Gross Revenues

Company Direct	Company Rebuttal	RUCO Direct	RUCO Surrebuttal
$3,141,028	$3,089,039	$1,636,808	$1,288,039

Required Percentage Increase in Gross Revenues

Company Direct	Company Rebuttal	RUCO Direct	RUCO Surrebuttal
34.84%	34.27%	18.02%	14.18%

The Company is requesting a rate of return of 9.86 percent in its rebuttal testimony on its fair value rate base ("FVRB") of $27,769,023. RUCO in proposing a rate of return of 7.98 percent on the FVRB of $24,769,624.

Based on RUCO's analysis of the Company's rebuttal filing, RUCO is recommending an inverted three-tiered commodity charge for the 3/4-inch metered customer with monthly minimums based on meter size. The typical bill for 3/4-inch metered residential water customer that consumes an average of 7,870 gallons per month will experience an increase of $5.15 from $37.85 to $42.99.

RUCO recommends that the Company use the group asset per account by vintage year methodology of depreciation on a going forward basis.

INTRODUCTION

Q. Please state your name for the record.

A. My name is Jeffrey M. Michlik.

Q. Have you previously filed testimony regarding this docket?

A. Yes, I have. I filed direct testimony in this docket on December 19, 2013.

Q. What is the purpose of your surrebuttal testimony?

A. My surrebuttal testimony will address the Company's rebuttal positions, proposals and comments pertaining to the adjustments RUCO recommended in direct testimony. In addition, my surrebuttal testimony will also include additional adjustments that RUCO is now recommending.

Q. What areas will you address in your surrebuttal testimony?

A. My surrebuttal testimony will address RUCO's recommended rate base, operating income, revenue requirement, and rate design.

Q. How is your surrebuttal testimony organized?

A. My surrebuttal testimony is presented in four sections. Section I addresses surrebuttal rate base adjustments. Section II addresses surrebuttal operating income adjustments. Section III rate design, and Section IV addresses other issues.

Q. Please identify the schedules that you are sponsoring in RUCO's surrebuttal testimony.

A. I am sponsoring surrebuttal schedules JMM-1 through JMM-25.

I. SURREBUTTAL RATE BASE ADJUSTMENTS

Q. Please summarize the number of rate base adjustments recommended by RUCO in its direct testimony, and recommended by RUCO in its surrebuttal testimony.

A. RUCO recommended six rate base adjustments in its direct testimony, RUCO is now recommending seven rate base adjustments in its surrebuttal testimony. Most of RUCO's rate base adjustments were discussed in RUCO's direct testimony, however, where appropriate RUCO has added new or additional information to address the rebuttal positions of the Company.

Q. Can you please identify the rate base adjustments along with the dollar amounts that RUCO is recommending?

A. Yes, please see the table below that summarizes RUCO's recommended rate base adjustments:

Rate Base Adjustments (Net)

Adjustment No. / Description	
1 – Post-Test Year Plant and Accumulated Depreciation	($1,732,017)
2 – Retirement of Transportation Vehicles	-- 0 –
3 – Asset Retirement Obligation	(889)
4 – Customer Meter Deposits	-- 0 --
5 – Removal of CAP Deferral	(78,206)
6 – Removal of 24 months of AFUDC and Depreciation Expense	(607,898)
7 – Cash Working Capital Allowance	(80,690)
RUCO Total Recommended Rate Base Adjustments	($2,499,700)

See surrebuttal schedule JMM-4.

Q. Are there any new rate base adjustments that RUCO recommends in its surrebuttal testimony?

A. Yes. As will be explained in RUCO rate base adjustment No. 3, RUCO has removed the Company's Asset Retirement Obligation from rate base.

Rate Base Adjustment No. 1 - Post-Test Year Plant and Accumulated Depreciation

Q. Did you address RUCO's adjustment for Post-Test year plant and accumulated depreciation in your direct testimony?

A. Yes.

Q. Do you have anything additional to add in your surrebuttal testimony?

A. Just one. The Company has now included accumulated depreciation as a component of post-test year plant.

Rate Base Adjustment No. 2 – Retirement of Transportation Vehicles

Q. Did you address RUCO's retirement of Transportation Vehicles in your direct testimony?

A. Yes.

Q. Do you have anything additional to add to your surrebuttal testimony?

A. Yes, only that RUCO and the Company are now in agreement with this adjustment.

Rate Base Adjustment No. 3 – Surrebuttal Adjustment to Remove Asset Retirement Obligation ("ARO")

Q. What is an Asset Retirement Obligation?

A. An asset retirement obligation ("ARO") is a liability associated with the eventual retirement of a fixed asset, such as a legal requirement to return a site to its previous condition. According to the Company's 2012 financial statements, this requirement relates to the Company's retirement of some of its wells, which by law need to be properly capped before they are retired.

Q. Does the ARO arise from the Fountain Hills Sanitary District ("FHSD") settlement?

A. Yes. In 2005, the Company entered into an agreement with FHSD whereby the Company agreed to permanently remove from service this well and in return the Company received a settlement of $1,520,000 from FHSD.

Q. Is the Company trying to receive money from ratepayers again in this case through the ARO?

A. Yes.

Q. Why was this adjustment not discussed in your direct testimony?

A. The Company originally believed it had removed all the components of the ARO from rate base and was not seeking any recovery. This necessitated additional data requests to be asked of the Company.

Q. What is RUCO's recommendation?

A. RUCO recommends that $5,252 in account 305 collecting and impounding reservoirs, and $4,364 in associated accumulated depreciation be removed, as shown in surrebuttal schedule JMM-7.

Rate Base Adjustment No. 4 – Customer Deposits

Q. Did you address RUCO's adjustment to customer deposits in your direct testimony?

A. Yes.

Q. Do you have anything additional to add to your surrebuttal testimony?

A. Yes. Based on new information submitted by the Company to RUCO, and to lessen disputes between the parties RUCO has removed this adjustment.

Rate Base Adjustment No. 5 – Removal of Deferred Central Arizona Project ("CAP") Maintenance and Industrial ("M&I") charges

Q. Did you address RUCO's removal of deferred CAP M&I charges in your direct testimony?

A. Yes.

Q. Do you have anything additional to add in your surrebuttal testimony?

A. Yes. Based on the Company's response to RUCO data request 8.05 in which RUCO asked the Company to provide a listing of the CAP water ordered and delivered in acre feet since. The Company provided the following table:

CAP Water Ordered and Delivered in Acre Feet Per Year.

Year	Ordered	Delivered
2013	6,861	5,343
2012	7,145	6,776
2011	6,830	6,430
2010	5,724	6,239
2009	7,129	6,586
2008	7,129	5,684
2007	7,845	7,080
2006	6,500	7,334

By reference of the table, only in years 2006 and 2007 did the actual CAP water delivery to the Company exceed its original 6,978 acre feet CAP allocation and break into the additional CAP allocation acquired in the last rate case of 1,931 acre feet.

Q. To clarify your direct testimony, did you say the Company would never be allowed to recover these deferred M&I costs?

A. No. RUCO recommended these cost continue to be deferred until at least 50 percent of the additional allocation is used and useful consistent with Decision No. 71308.

Q. Did Staff state in its direct testimony, why it supported allowing a 60 month deferral of CAP M&I charges rather than the 48 months authorized in Decision No. 71308?

A. No. They also never stated why they believed the additional CAP allocation is now used and useful.

<u>Rate Base Adjustment No. 6 – Removal of 24 Month Deferral of Allowance for Funds Used During Construction ("AFUDC") and Depreciation Expense</u>

Q. Did you address RUCO's removal of the Company's proposed 24 month deferral of AFUDC and depreciation expense in your direct testimony?

A. Yes.

Q. Do you have anything additional to add in your surrebuttal testimony?

A. Yes.

Q. Does RUCO agree that there is an upfront lag between rate cases when new plant goes into service and is reclassified from construction work in progress (AFUDC stops); and when the plant is rate based in the Company's next rate case?

A. Yes. However, the other side of the story that the Company is not telling is that once the plant is rate based in a future rate case the balance swings back to the Company's favor. Since the Company uses the group method of depreciation, once the plant is rate based the plant continues to earn a return on and a return of investment until it is retired. Under the group method of depreciation which the Company currently uses it is not uncommon for the plant to be over depreciated. In addition, it is not uncommon for Companies to not properly retire plant, as was the situation in the last rate case. Thus rate payers have overpaid through rates for retired or fully depreciated plant. Further, once the plant is retired and is sold ratepayers are not entitled to any of the profits. If the Company seriously wants to have a conversation about deferring AFUDC costs it should first adopt a vintage group depreciation methodology, as will be discussed later.

Rate Base Adjustment No. 7 – Cash Working Capital

Q. Did you address RUCO's adjustments to the Company's Lead/Lag study in your direct testimony?

A. Yes.

Q. Do you have anything additional to add in your surrebuttal testimony?

A. Yes. Only that as a result of operating adjustments made in surrebuttal testimony the cash working capital amount has changed. RUCO is now recommending a decrease of $80,690.

II. SURREBUTTAL OPERATING INCOME ADJUSTMENTS

Q. Please summarize the number of operating income adjustments recommended by RUCO in its direct testimony, and recommended by RUCO in its surrebuttal testimony?

A. RUCO recommended nine operating income adjustments in its direct testimony, and is now recommending ten operating income adjustments in its surrebuttal testimony. Most of RUCO's operating adjustments were discussed in RUCO's direct testimony, however, where appropriate RUCO has added new or additional information to address the rebuttal positions of the Company.

Q. Can you please identify the operating income adjustments along with the dollar amounts that RUCO is recommending?

A. Yes, please see the table below that summarizes RUCO's recommended operating income adjustments:

Operating Income Adjustments (Net)

Adjustment No / Description	
1 – Declining Usage Adjustment	$43,787
2 – Surrebuttal Excess Water Loss Adjustment	45,728
3 – Incentive Pay	14,090
4 – Purchased Water Expense	(87,678)
5 – Corporate Allocation Expense	141,257
6 – Remove Conservation Expense	7,079
7 – Tank Maintenance Expense	202,184
8 – Depreciation Expense	121,167
9 – Property Expense	17,144
10 – Income Tax Expense	(198,750)
RUCO Total Recommended Operating Income adjustments	$306,008

See surrebuttal schedule JMM-13.

Q. Are there any new operating income adjustments that RUCO recommends in its surrebuttal testimony?

A. Yes. As will be explained in RUCO operating income adjustment no. 2, RUCO adopts a Staff recommended adjustment for excess water loss. In addition, RUCO has made additional adjustments to the Company's corporate allocations, in RUCO operating income adjustment no. 5.

<u>Operating Income Adjustment No. 1 – Reverse Declining Usage Adjustment</u>

Q. Did you address RUCO's declining usage adjustment in your direct testimony?

A. Yes.

Q. Do you have anything additional to add to your surrebuttal testimony?

A. Yes.

Q. Although RUCO is still opposed to a declining usage adjustment, if the Commission were inclined to approve a declining usage adjustment in this case, does RUCO agree with the Company's rebuttal position?

A. Yes and No. Moving the compliance filing date from January 31st of each year to March 30th of each year is acceptable to RUCO.

However, the Company's premise is residential tiered rates are causing declining usage, and as a result the Company is not able to meet its revenue requirement. It would be helpful to look at all customer classes not just the residential classes, as proposed by the Company. By looking at all customer classes, one can determine if the declining usage is only isolated to residential customers or to all customer classes. The usage patterns of all customer classes could then be reviewed between rate cases, and any adjustments to rate design could be addressed in the Company's next rate case.

Operating Income Adjustment No. 2 – Surrebuttal Adjustment for Excess Water Loss

Q. Please explain RUCO operating income adjustment no. 2?

A. Based on the direct testimony of Staff witness Gerald W. Becker, RUCO is in agreement with Staff that an adjustment for excess water loss is warranted for the reason cited in Mr. Becker's testimony which was water loss of 13.9 percent.

Q. Was excess water loss also a problem in the Company's last rate case?

A. Yes. Staff's engineering witness in the prior case Mr. Marlin Scott, Jr. noted a 15.9 percent water loss in his engineering report.[1]

Q. In the process of the Company doing its due diligence when purchasing the Company from the prior owner, should the Company have been aware of a potential water loss problem?

A. Yes.

[1] See Direct Testimony of Staff Witness Marlin Scott, Jr., Chaparral City Water Company (Docket No. W-02113A-07-0551.

Q. What is RUCO's surrebuttal recommendation?

A. RUCO, recommends a reduction to purchased water expense of $39,598, fuel and power expense of $20,746, and chemical expense of $4,084, as shown in RUCO surrebuttal schedule JMM-15.

Operating Income Adjustment No. 3 – Incentive Pay

Q. Did you address RUCO incentive pay adjustment in your direct testimony?

A. Yes.

Q. Do you have anything additional to add in your surrebuttal testimony?

A. No.

Operating Income Adjustment No. 4 – Purchased Water Expense

Q. Did you address RUCO's adjustment to purchased water expense in your direct testimony?

A. Yes.

Q. Do you have anything additional to add in your surrebuttal testimony?

A. Yes.

Q. Did the Company provide a revised Central Arizona Project ("CAP") 2014 – 2015 rate schedule?

A. Yes.

Q. Does this CAP rate schedule projects rates out to 2018, as RUCO has done?

A. No, only to 2015.

Q. Under RUCO's deferral of CAP charges does it matter if rates go up or down?

A. No, as stated in RUCO's direct testimony, any over-or-under collection will be trued-up in the Company's next rate case.

Q. Based on prior year CAP rate schedules do rates remain the same or increase?

A. Generally CAP rates remain the same or increase.

Q. Has the Company criticized RUCO's methodology of projecting CAP rates and providing the Company with more money in base rates?

A. Yes. However, given that CAP rates increase or stay the same, and given that RUCO recommends a CAP deferral to true-up charges in the Company's next rate case, RUCO believes its deferral method is sound.

<u>Operating Income Adjustment No. 5 – Corporate Allocation Expense</u>

Q. Did you address RUCO's corporate allocation expenses in your direct testimony?

A. Yes.

Q. Do you have anything additional to add to your surrebuttal testimony?

A. Yes.

Q. In your direct testimony, you stated that RUCO had yet to receive several outstanding data request in regards to corporate allocations. Has RUCO finally received enough information from the outstanding data requests to make additional recommendations?

A. Yes. The Company in early January (2014) provided responses to RUCO's outstanding data requests that were sent to the Company back on November 4, 2013.

Q. Did the delay necessitate additional data requests from RUCO, and as a result, delay the timing of the audit work performed by RUCO?

A. Yes.

Q. Did the Company initially provide RUCO with all invoices over $5,000?

A. No. The Company wanted to provide only invoices over $50,000. The Company stated it would be too burdensome to scan an additional 100 invoices.

Q. Is this troublesome in light of the Company's request for a System Improvement Benefits Mechanism ("SIB") in this case?

A. Yes. If the Commission grants a SIB, in this case, will the Company only provide invoices to Staff and RUCO that are over $50,000 or perhaps set a higher threshold?

Q. Who owns EPCOR?

A. The City of Edmonton.

Q. Where is the corporate headquarters located?

A. At EPCOR Towers, 10423 101 Street NW, Edmonton, Alberta T5H OE8 (see Attachment A).

Q. You mentioned in your direct testimony that RUCO recommended removing all costs from the At-Risk Cost Pool and Public and Governmental Affairs cost pool. What other corporate pools does the corporate office allocate costs down to the Company?

A. Executive and Executive Assistants
Strategic Planning and Development
Regulatory Affairs
Legal Services
Risk, Assurance & Advisory
Corporate Finance (some)
Information Services
Business Transformation
Supply Chain Management (some)
Treasury
Human Resources (some)
Health Safety and Environmental Services

Q. From the corporate cost pool listing above, what additional corporate allocation costs does RUCO recommend be disallowed?

A. RUCO recommends an additional removal of corporate costs (e.g. meal/entertainment, donations, promotions etc.) of $276,272 at the corporate level, which when allocated down to the Company level represents a $2,102 adjustment, as shown in schedule JMM-18.

Q. In its rebuttal testimony did the Company remove some corporate costs?

A. Yes. Two invoices in the amount of $211,065 to Rexall Sports Corp and $75,336 to Northlands, where removed by the Company (see Attachment B).

Q. What corporate category (cost pool) were the amounts removed from?

A. The public and governmental community relations category.

Q. Are RUCO and the Company in agreement that the public and governmental community relations costs have nothing to do with the day to day operations of the Company, and these costs should be borne 100 percent by shareholders?

A. Yes.

Q. Does the Company still take exception to RUCO's removal of At-Risk Cost Pool?

A. Yes. Again, RUCO's position is the At-Risk Cost Pool has nothing to do with the day to day operations of a water system, but more with Company profits.

Q. Are other cities concerned with EPCOR's incentive plans?

A. Yes, see Attachment C. There is a hyper-link on the data request. The information on the hyper-link has been provided after data request A-EWR-02. In fact the preamble seems to suggest an EPCOR bonus scheme primarily driven by profits.

Q. Does RUCO have any general comment about shared service models?

A. Yes. For years companies have continually claimed that ratepayers realize greater benefits from a shared service model than would be realized on a stand-alone basis. The verdict is still out on that claim. However, what is apparent is the "catch me if you can" strategy of passing corporate costs through to ratepayers. With EPCOR its hockey season tickets, entertainment costs, and donations. With Liberty Utilities it was Super Bowl tickets, Lear jets, entertainment costs, and donations.

Q. Are you aware of other municipalities that have taken issue with EPCOR's shared service model?

A. Yes, please see Attachment D. In fact one city council has voted unanimously to buy back its water system.

<u>Operating Income Adjustment No. 6 – Conservation Expense</u>

Q. Did you address RUCO's conservation expense adjustment in your Direct Testimony?

A. Yes.

Q. Do you have anything additional to add to your surrebuttal testimony?

A. No.

<u>Operating Income Adjustment No. 7 – Tank Maintenance Expense</u>

Q. Did you address RUCO's tank maintenance expense adjustment in your direct testimony?

A. Yes.

Q. In Company witness Mr. Stuck's rebuttal testimony, he states that RUCO has changed its position on tank maintenance expense, please comment.

A. Just a few caveats before I address Mr. Stuck's comments. First each case is unique and should be determined on a case by case basis. Second I was not the analyst working on the case for RUCO. Third, positions may change over time. That being said, I will now address Mr. Stuck's rebuttal comments.

Q. What two decisions does Mr. Stuck cite in his rebuttal testimony, as being supportive of the Company's tank maintenance program, and in which RUCO was supportive of in the past?

A. Mr. Stuck cites Decision No. 71410, and Decision No. 72047.

Decision No. 71410

Q. Is the tank maintenance program advocated by the Company in Decision No. 71410[2] the same or is it remotely similar to what the Company has proposed in this case?

A. No. The Company is not proposing a reserve for tank maintenance expense or deferral. Therefore there are no safeguards for ratepayers. At least In Decision No. 71410, the following was proposed:[3]

"The Company proposed a reserve for water tank maintenance expense which would provide an allowance for tank maintenance costs in operating expenses. Under the Company's proposal, the funds collected through rates would be recorded in a deferred liability account labeled reserve for Tank Maintenance, and the Reserve for Tank Maintenance account would be charged as tank maintenance expenses are incurred, reducing the balance of funds reserved. The Company states that in subsequent rate cases, actual tank maintenance expenditures and the reserve account could be reviewed and the annual allowance increased, decreased or remain unchanged on a going forward basis as circumstances warrant, and that all revenue collected would be offset by actual expenditures made to maintain tanks, resulting in no over-collection or under-collection of tank maintenance expense."

[2] Docket No. W-01303A-08-0227 ET AL.
[3] See Decision No. 71410 page 36.

Q. What is the risk for ratepayers if the Company is given a pro-forma adjustment for tank painting maintenance in this case?

A. The tank painting simply does not get done. The Company uses the money to pay other expenses or pays dividends to its shareholders.

Q. What is the second problem with the proposed tank maintenance reserve discussed in Decision No. 71410?

A. The second problem is the Commission rejected the Company's tank maintenance reserve proposal.

"We are not opposed to the Company instituting a 14-year interior coating and exterior painting program for its water tanks. However, we do not believe that it is necessary or reasonable to adopt the Company's proposal for advance funding of a Reserve for Tank Maintenance at this time. Because the tank maintenance expense reserve account balance proposed by the Company is not based on ***known and measurable*** Company expenditures, we find the normalization of tank maintenance expenses proposed by Staff, which is based on a three year average of expenses for each district to be the more reasonable alternative. Staff's normalization adjustment will therefore be adopted for each of the six water districts."

Decision No. 72047

Q. Mr. Stuck also cites the following excerpt form Decision No. 72047, "RUCO opposes the establishment of a tank maintenance expense reserve fund, but did not object to the normalization adjustment proposed by Staff." Please comment?

A. RUCO has reviewed both the RUCO opening brief and reply brief, nowhere in the briefs does RUCO advocate a tank maintenance normalization adjustment. That being said, it is not uncommon for the hearing officer to adopt a parties issue if it was not properly briefed. What is crystal clear is RUCO's position in both its direct testimony, surrebuttal testimony, and briefs, as will be discussed below.

Q. Did RUCO support a tank maintenance reserve in Decision No. 72047?[4]

A. No, RUCO opposed the reserve tor Tank Maintenance in Decision No. 72047, based on Decision No. 71410 as pointed out by RUCO's consultant in that case:[5]

"The Company seeks to collect from ratepayers in advance for tank maintenance. This Company request should be rejected because the tank maintenance expense reserve account balance proposed by the Company is not based on ***known and measureable*** *Company expenditures and therefore, not necessary or reasonable to adopt the Company's proposal for advance funding of a Reserve for Tank Maintenance at this time. As*

---

[4] Docket Nos. W-01303A-09-0343 and SW-01303A-09-0343.
[5] See Direct Testimony of Ralph C. Smith, Docket Nos. W-01303A-09-0343 and SW-01303A-09-0343, page 65, line 16.

noted above, a similar AAWC proposal was opposed by Staff and rejected by the Commission in Decision No. 71410."

Further,

"AAWC's tank painting reserve for Sun City Water would have ratepayers paying for tank painting before the money is expended on tank painting. There is no need for ratepayers to pre-fund tank painting expense.

Additionally, with the large percentage rate increases being requested by AAWC and the poor economy, this seems like a particularly bad time to start forcing ratepayers to pre-pay for expenses that the utility has not yet incurred. Establishing ratepayer pre-funding for a Reserve account also has elements of single issue ratemaking. There is no compelling need to single out tank painting expense for special ratemaking treatment. A normalized allowance for tank painting expense can be reflected in rates based on an average of recent actual experience through the test year, iif the test year amount itself were to be viewed as being abnormal. Establishing a Reserve, on the other hand, would remove incentives to control the expense between rate cases, and would virtually guarantee dollar for dollar recovery by the utility of such expenditures.

Moreover, there is not much, if any, difference in the Tank Maintenance Reserve Fund Accrual that AAWC is requesting in the current rate case and the one recently proposed by AAWC in its last rate case, which was rejected by the Commission. The Commission recently rejected a similar proposal *by AAWC in Docket Nos. W-O1303A-08-0227 et al. which would apparently have applied for all of the water districts for which AAWC had sought rate increases in that case."*[6]

"The Company's request for a tank maintenance reserve fund for Sun City Water in this case is basically the same as in the last case. The Commission rejected the request in the earlier Decision and the Company has not provided any new or different evidence which would persuade RUCO, or this Commission for that matter, to deviate from the Commission's decision in the last case."[7]

Q. Do you have any other comments about Decision No. 72047?

A. Yes. Ironically, Mr. Stuck fails to cite the following:

"The Company also requests authority to establish a deferral account to allow it to defer tank maintenance expenses for the Anthem Water district until the next rate case for the district, at which time the Company may seek recovery of the deferred amounts. ***RUCO does not oppose the establishment of such a deferral account****, as the Company already has such an account in place for the Sun City Water district. We agree with the Company that establishment of such an account is appropriate, and find that it is reasonable and in the public interest to authorize the Company to establish a deferral account to allow it to defer tank maintenance expenses for the Anthem Water district until the next rate case for the district, at which*

[6] See Surrebuttal Testimony of Ralph C. Smith, page 85 line 10.
[7] See RUCO Reply Brief, page 9 line 19.

time the Company may present evidence in support of recovery of the deferred expense amounts for consideration."

Q. Does RUCO understand that tank recoating is an expensive process, and the Company may get short changed between rate cases, and not receive recovery of these expenses?

A. Of course, that is why RUCO is okay with the Company setting up a deferral account in this case ***consistent*** with what was approved in Decision No. 72047.

Q. Do these Decision's support the Company's position as Company witness Mr. Stuck claims?

A. No, However, they do support RUCO's position of ***known and measureable*** and are ***consistent*** with RUCO's position in this case.

Decision No. 74294

Q. Have there been any recent Commission decisions that were not cited in your direct testimony that support RUCO's position of disallowing tank maintenance expenses?

A. Yes, in Decision No. 74294 (dated January 29, 2014),[8] New River Utility Company requested a total of $470,000 to have all of its steel tanks recoated within the next six years, and asked to have this cost amortized over the next 15 years. This resulted in a pro-forma adjustment of $31,333.

[8] Docket No. W-01737A-12-0478.

Q. What was Staff position?

A. Staff's position was that the tank recoating expense was not a historical cost, and was not ***known and measureable***. In addition, Staff was concerned that the money would not be used for tank recoating expenses. This position is ***consistent*** with what RUCO is recommending in this case.

Q. Did the New River Utility Company state that the Commission had approved normalized tank coating expenses, based on projections, in Decision No. 73145?[9]

A. Yes. However, this argument was rejected because this case was part of a settlement agreement. In a settlement agreement none of the parties' positions can be relied on, cited to, or relied upon as precedent.

Q. Was the Company allowed to recover a small portion of its requested tank maintenance expense in that case?

A. Yes, it was noted that:

"In this case, the evidence establishes that New River has an obligation to incur a $130,000 expense for tank painting to be commenced in the next few months."[10]

Q. Were there any compliance requirements placed on New River Utility Company in that case to protect ratepayers?

A. Yes. New River Utility Company must provide as a compliance filing by June 2, 2014, documentation that the tank recoating has been completed.

[9] Arizona-American Water Company Docket No. W-01303A-10-0448.
[10] See Decision No. 74294, page 29, line 21.

Q. Does there appear to be an inconsistency between what Staff recommended in the New River case, and what has been recommended here?

A. Yes, and Staff will need to differentiate the two cases.

Operating Income Adjustment No. 8 – Depreciation Expense

Q. Did you explain RUCO's calculation of depreciation expense in its direct testimony?

A. Yes.

Q. Have you updated your depreciation expense schedule to account for changes in plant?

A. Yes.

Operating Income Adjustment No. 9 – Property Tax Expense

Q. Did you address RUCO's property tax adjustment in direct testimony?

A. Yes.

Q. Would RUCO like to make any changes to its surrebuttal testimony in regards to property tax expense?

A. Yes. Based on Staff's direct testimony, RUCO agrees that a 3 year average of the property tax assessment ratio is appropriate, and therefore, has reduced the property tax ratio from 19.00 percent to 18.50 percent, as shown on RUCO schedule JMM-22.

Operating Income Adjustment No. 10 – Income Tax Expense

Q. Have you recalculated income tax expense based on RUCO's surrebuttal recommended adjusted operating income?

A. Yes, as shown on schedule JMM-23.

Q. Would you like to address any other issues related to income tax expense at this time?

A. Yes. The issue of Excess Deferred Income Taxes, that arises because of House Bill ("HB") 2001.

Q. Did Staff address these issues in the recent Litchfield Park Service Company cases?[11]

A. Yes. On page 33, Staff in its direct testimony asked the Company to first determine the amount of excess deferred income tax related to the change in State income tax, and present a plan, within 60 days of a Commission decision in this matter on how to refund any excess State income tax recoveries to rate payers.

Q. Did Staff reiterate this recommendation in its surrebuttal testimony in that case?

A. Yes, on page 3 of its surrebuttal testimony, Staff stated the following:

> **"Q. Has Staff unfairly singled the Company out with its recommendation?**

[11] Litchfield Park Service Company Docket Nos. SW-01428A-13-0042 and W-01428A-13-0043.

A. No, not at all. In fact, although it has been quite some time since corporate income tax rates have changed; Staff cited a specific previous case in its direct testimony. The Company is the first utility, that Staff is aware of, that is using the new lower state corporate income tax rates in its rate filing.

Q. Is Staff recommending that the Company perform unnecessary or burdensome tasks?

A. No not at all. The Company will need to keep track of any deferred income tax issues as a normal part of its bookkeeping. Staff is just recommending that the Company provide the Commission with a plan to deal with the potential refunding of deferred income taxes arising from new lower corporate income tax rates. This was required by the Commission when the federal corporate income tax rates were lowered by the Tax Reform Act of 1986. Staff continues to support its recommendation (DT page 34, lines 14 -18)."

Q. Did Staff ask the same to be done in this case?

A. No.

Q. What is RUCO's position?

A. RUCO is okay with the plan agreed to by both Staff and the Company in that case. But it seems unfair to ask one water utility company to put together a plan of administration for excessive deferred income taxes and not others.

III. Rate Design

Q. Has RUCO prepared a summary of the Company's present rates, proposed rates, and RUCO's surrebuttal recommended rates for the Company?

A. Yes, see Surrebuttal Schedule JMM-24.

Q. Would you please summarize RUCO's surrebuttal recommended rate design for the 3/4-inch residential customer?

A. RUCO recommends a monthly minimum charge for a 3/4-inch residential customer of $18.77. No gallons are included in the monthly minimum charge. RUCO recommends the residential water commodity rate for the 3/4-inch residential customer of $2.6200 per thousand gallons for 1 to 3,000 gallons, $3.3600 per thousand gallons for 3,001 to 9,000 gallons, and $4.1900 per thousand gallons for any consumption over 9,000 gallons.

Q. Did RUCO prepare a typical bill analysis for a 3/4 inch customer based on its surrebuttal testimony?

A. Yes. Please see schedule JMM-25.

Q. Did you make any changes to the typical bill analysis?

A. Yes. Due to an error in the calculation of the median average, the Company, RUCO and Staff are in agreement that the median usage for the 3/4 residential customer should be 4,892 gallons instead of 12,000 gallons.

Q. What is the rate impact on a 3/4 inch meter residential customer using an average consumption of 7,870 gallons?

A. Under RUCO's recommended rates, a residential 3/4-inch metered customer with an average usage of 7,870 gallons per month will pay $42.99, which is $5.15 more than the current $37.85 or a 13.60 percent increase. By comparison, a residential 3/4-inch metered customer with an average usage of 7,870 gallons per month under the Company's proposed rates would be billed $50.80, which is $12.96 more than the current $37.85 or an increase of 34.23 percent.

Q. Has the Company filed a plan of administration for its low income program?

A. No.

Q. Is RUCO opposed to leaving this document open so that the Company can implement a POA at a later date?

A. No.

IV. Other Issues

System Improvement Benefits ("SIB") Mechanism

Q. Do you have anything additional to add to your surrebuttal testimony in regards to a SIB?

A. Yes.

Q. Regardless of RUCO's current position on the SIB can the Commission require companies to set aside depreciation expense?

A. Yes, under section 40-222:

"The commission may, after hearing, require public service corporations to carry a proper and adequate depreciation account in accordance with regulations and forms of account it prescribes. It may ascertain and fix the proper and adequate rates of depreciation of the several classes of property for each, and each corporation shall conform its depreciation accounts to the rates so ascertained and fixed, and shall set aside the money so provided for out of earnings and carry such money in a depreciation fund and expend the fund, and the income therefrom, only for the purposes and under rules and regulations, both as to original expenditure and subsequent replacement, as the commission prescribes."

Q. Why is there such a push back from the water industry in Arizona on the depreciation set aside?

A. I don't know. If the water and wastewater companies premise is their systems/districts are in dire need of repair, and even with a SIB it is not enough. Then the question becomes why water and wastewater companies won't reinvest the depreciation expense from the SIB into plant replacement infrastructure.

Q. Would this provision benefit ratepayers?

A. Yes. Instead of the Company paying these monies back to shareholders or other affiliates/companies, these monies would be set aside and be used to pay for future replacement plant.

Q. Have you reviewed the rebuttal testimony of Company witness Candace Coleman regarding the SIB, and do you have any comments?

A. Yes, just one. Any way you try to spin it, a SIB is an additional document outside a rate case that will need to be filed, reviewed/analyzed, and reported on.

<u>Sustainable Water Surcharge ("SWS") Mechanism</u>

Q. Have you read the rebuttal testimony of Company witness Jake Landerking regarding the SWS mechanism?

A. Yes.

Q. Please comment on Mr. Landerking's statement that "RUCO requests that a component in the calculation be included for customer growth. The Company disagrees. We are requesting a simple adjuster mechanism that allows for the change in costs to be accounted for. We are worried that adding additional complexity to the mechanism will make it difficult to file and difficult to review by Staff". Is this surprising to you?

A. No not in the least. As mentioned to in my direct testimony these adjuster mechanisms are one sided in favor of the Company and at the very least ratepayers should receive some type of benefit as part of the regulatory compact.

Q. Please respond to Mr. Landerking's comment that this would put some type of additional complexity or burden on both the Company and Staff?

A. Seriously, in comparison to a SIB or ACRM this is a piece of cake. That being said, a simple one line component on the Company's proposed tariff for customer growth would be sufficient. The calculation would not have to be part of the filing, only used as verification.

Q. How did the Company calculate customer growth in this case?

A. The Company in this case utilized a simple two page calculation (see Attachment E) in its initial filling to derive a customer growth amount of $36,974 (i.e. $27,555 + $9,419) for the test year.

Q. Please respond to the Mr. Landerking's comment that somehow the Company is being penalized for proposing a mechanism that allows for complete recovery of this vital expense?

A. As stated in RUCO's direct testimony, RUCO has projected anticipated CAP costs and recommended a deferral and subsequent true-up of any over or under collection be accounted for in the Company's next rate case (less any M&I amount related to the used and useful issue alluded to earlier) as has been historically done.

The SWS mechanism proposed by the Company would cut the regulatory lag between rate cases, and as a result the Company is less ***risky***, since you are truing-up cost every year instead of three or five years. Therefore, if the Company is less ***risky*** your return on equity should be less.

Q. Please comment on Mr. Landerking's statement that the Company opposes a rate case expense recovery surcharge as unnecessary?

A. Just as the Company considers this surcharge that protects ratepayers unnecessary, RUCO considers the SWS unnecessary.

Q. Why has RUCO linked this proposal to the CAP water expense?

A. As stated in my direct testimony the Commission has been transitioning away from traditional ratemaking into surcharges and adjuster mechanisms. This being the case RUCO believes that a few of these should benefit ratepayers.

This surcharge safeguard's ratepayers in the event the Company over-collects on rate case expense. Conversely this surcharge safeguard's the Company in the event of under-collection. So both the ratepayers and Company's interests are protected.

This adjuster was also tied to the CAP water expense to address Staff's concerns in the Pima Case:[12]
"While almost every expense incurred by a utility could be potentially surcharged to customers, it is more appropriate to allow Pima to recover through rates. Including costs in rates can encourage utilities to find efficiencies and economies when operating its businesses."

[12] Pima Utility Company Docket No. W-021994-11-0329 and SW-021994-11-0330.

RUCO generally agrees with that proposition, However, since Staff is in agreement with a SWS, then this argument regarding a rate case expense recovery surcharge is no longer valid.

Q. Does RUCO believe a rate case expense recovery surcharge is valid in this case?

A. Yes. The Commission awarded the Company rate case expense of $280,000 to be amortized over 3 years in Decision No. 71308 (dated October 21, 2009), putting aside the fact that the Company was awarded additional rate case expense in the rehearing. It is now February 7, 2014, and the Company is overearning.

<u>Plant Additions and Deletions</u>

Q. Has RUCO read the direct testimony of Staff witness Mary J. Rimback, and rebuttal testimony of Sheryl L. Hubbard, regarding accumulated depreciation?

A. Yes.

Q. Can you discuss what has happened in the interim between the filings of RUCO's direct and surrebuttal testimony in regards to the Company's plant-in-service?

A. As mentioned and documented in Attachment D of RUCO's direct testimony, the Company was still in the process of gathering invoices from the prior owner, and tying out excel sub-ledgers to support their plant additions and retirements by year and by plant account (schedules that they should have originally filed with their rate case application).

Q. Please elaborate?

A. The Company provided both Staff and RUCO plant invoices above $5,000 for its plant-in-service for the years 2011 and 2012 just prior to the filing of the parties' direct testimony. However, the plant invoices did not tie to a particular plant account. Since the Company did not provide an excel sub-ledger as an intermediary between the plant invoices and the amounts shown on their plant additions and deletions spreadsheet by year and plant account number it was difficult to decipher which invoices belonged to which plant account numbers. The Company then through several supplemental data requests was finally able to tie the invoices to an excel sub-ledger and then back to the plant additions and deletions spreadsheet.

Q. Did the Company provide both RUCO and Staff with audited financial statements from the Company's outside auditors?

A. Yes, this was probably the Company's only saving grace from a complete write-down of its plant-in-service to 2006 levels.

Although the audited financial statements do provide RUCO with some comfort they do not provide RUCO with absolute assurance.

Q. Please explain?

A. The audited financial statements for plant are functionalized, as summarized in note 3 of the Company's financial statements for 2012:

Land	$	271,857
Intangible assets		1,282,734
Source of water supply		3,380,364

Pumping	6,116,712
Water treatment	7,144,157
Transmission and distribution	45,520,225
Other property and equipment	1,901,252
	$ 65,617,301
Accumulated depreciation	$ 25,734,123

These were the numbers the Company started with in its B-2 schedule, column A. However, they do not translate into the level of detail required by the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA").

Q. What problems has RUCO identified with the Company's schedule of plant additions and deletions?

A. The first problem RUCO had with the Company's representations are the plant amounts presented in the Company's plant additions and deletion schedules do not support the amounts presented in the annual reports submitted to the ACC. For example, in account 339 Other Plant and Miscellaneous Equipment the Company's recalculated December 2008 balance was $1,610,687 while the 2008 ACC Annual Report balance reported a total of $134,744. There are numerous other discrepancies between the Company's plant amounts and the amounts submitted to the ACC. The Company has brushed these off as reclassification errors. When questioned about why the Company thought its recalculated numbers were the correct ones the Company could not definitively state why they thought their numbers were correct.[13]

RUCO acknowledges that the total plant balances at the end of each year match those included in the Company's recalculated plant additions and deletions schedule, ACC report, and audited financial statements.

Q. If the plant balances match then why is this problematic?

A. Because each plant account has a different depreciation rate. For example, account 306 Lakes, Rivers, Other Intakes has a depreciation rate of 2.50 percent, while account 341 Transportation Equipment has a depreciation rate of 20 percent. Depending on which account the amount was misclassified-in, could result in a huge difference in accumulated depreciation expense. For illustration purposes, if $1,000,000 were depreciated at 2.50 percent for five years the accumulated depreciation amount would be $125,000, if the same $1,000,000 were depreciated at 20 percent for five years the accumulated depreciation amount would be $1,000,000 a difference of $875,000.

Q. What is the second problem RUCO has with the Company's schedule of plant additions and deletions?

A. RUCO notes that the Company's schedules start with the plant amounts by plant account ***but not the accumulated depreciation balances approved in the last rate case decision No. 71308***. The Company then reverses former Staff witness Mr. Marvin Milsaps previous rate case adjustments to

[13] See RUCO data request 7.02 C, submitted in RUCO's direct testimony Attachment D.

come-up with a 2006 starting test year balance, and then rolls that balance forward, adding back the CAP acquisition adjustment in 2007, and the remainder of Mr. Milsaps adjustments in 2009 and in 2010 (see Attachment F for a copy of the Company's additions and retirements schedules).

Q. In your experience is this common practice in regulatory rate making?

A. No. This is a first for me.

Q. You mentioned that the Company did not provide the beginning accumulated depreciation balances approved in the last decision, with the Company's plant additions. What is common practice?

A. Usually, the Company provides the plant balances and accumulated depreciation balances from the last rate case decision. Then additions and retirements by year and by plant account since the last rate case are recorded, along with the depreciation expense (calculated using the half-year convention), and the accumulated depreciation balances by plant account and by year. Again this is information that the Company should have provided in its initial rate case filing.

Q. Did RUCO in a data request ask for the accumulated depreciation balances for each plant account by year and by plant account?

A. Yes, RUCO asked for the plant accumulated depreciation balances for each plant account (e.g. account 307 Wells) by year since the Company's last rate case, along with the depreciation expense calculation for each plant account by year since the Company's last rate case in excel format.

Q. What did RUCO receive?

A. A mixture of things, some hard coded general ledger accumulated depreciation excel sheets along with some accumulated depreciation sheets calculated using the half-year convention of depreciation, as shown in Attachment G.

Q. So what is the problem?

A. Tie-out problems due to the inconsistent methodologies, which are difficult to decipher.

Q. Did Staff recommend an increase in the Company's accumulated depreciation?

A. Yes. Staff recommended an increase in the amount of $413,399, based on its recalculation of plant accumulated balances since the last rate case.

Q. Why is Staff's accumulated depreciation adjustment higher and depreciation expense adjustment lower than the Company's calculations?

A. Staff has reclassified some plant and removed fully depreciated plant assets from its depreciable plant balance since the last rate case, as a result of using the vintage method of depreciation.

Q. The Company states in its rebuttal testimony it uses the group method approach to calculating depreciation expense. What is the main problem with the group method approach to calculating depreciation expense?

A. Under the group method of depreciation, plant assets are not considered fully depreciated until they are retired. Stated another way plant assets may be fully depreciated, but continue to remain in these plant accounts until they are eventually retired. The group method approach may cause plant assets to be over depreciated.

Q. What are the results of over depreciating plant assets under the group method approach?

A. Ratepayers pay again in rates for plant that has already been fully depreciated.

Q. Why is this method advantageous for the Company?

A. It provides the Company with additional cash flow.

Q. What is the group asset per account by vintage year method of depreciation?

A. Under the group asset per account by vintage year method of depreciation, plant assets which are fully depreciated (although they still may remain in service) and are removed from the plant accounts when calculating depreciation expense.

Q. Has Staff been advocating this methodology for a while?

A. Yes. I believe Staff started recommending this methodology in the Bella Vista Water Company case.[14]

Q. Did Staff again recommend the vintage group method again in the Rio Rico Utilities, Inc. case?[15]

A. Yes.

Q. Even though the group asset per account by vintage year methodology of depreciation was unsuccessful in the first case (Bella Vista) and partially accepted in the second case (Rio Rico) has the Commission ever fully supported this depreciation methodology?

A. Yes recently, in the New River Utility Company case.[16]

Q. Does RUCO have any additional recommendations regarding plant additions and deletions?

A. Yes. That the Company use the group asset per account by vintage year methodology of depreciation on a going forward basis. Further, if the Commission is inclined to adopt this methodology going back to the Company's prior rate case then Staff's adjustment to accumulated depreciation and depreciation expense should be accepted.

---

[14] Docket No. 02465A-09-0411.
[15] Docket No. WS-02676A-12-0196.
[16] See Decision No. 74294 (Docket No. W-01737A-12-0478).

Q. Even if RUCO were in agreement with the SIB, would RUCO recommend a SIB for this Company?

A. No. As demonstrated by the lack of accounting records, and schedules that tie to invoices, the Company would not be a good candidate for a SIB.

Q. Does your silence on any of the issues, matters or findings addressed in the testimony of any of the witnesses for the Company constitute your acceptance of their positions on such issues, matters or findings?

A. No. RUCO limited its discussion to the specific issues outlined above. RUCO's lack of response to any issue in this proceeding should not be construed as agreement with the Company's position in its rebuttal testimony; rather, where there is no response RUCO relies on its original direct testimony.

Q. Does this conclude your surrebuttal testimony?

A. Yes.

Chaparral City Water Company
Docket No. W-02113A-13-0118
Test Year Ended: December 31, 2012

Surrebuttal Testimony of Jeffrey M. Michlik

TABLE OF CONTENTS TO SCHEDULES

Chaparral City Water Company
Docket No. W-02113A-13-0118
Test Year Ended: December 31, 2012

Surrebuttal Schedule JMM-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION		(A) COMPANY FAIR VALUE		(B) RUCO FAIR VALUE
1	Adjusted Rate Base	$	27,269,321	$	24,769,624
2	Adjusted Operating Income (Loss)	$	889,596	$	1,195,605
3	Current Rate of Return (L2 / L1)		3.26%		4.83%
4	Required Rate of Return		10.21%		7.98%
5	Required Operating Income (L4 * L1)	$	2,783,254	$	1,976,616
6	Operating Income Deficiency (L5 - L2)	$	1,893,658	$	781,011
7	Gross Revenue Conversion Factor		1.6587		1.6492
8	Required Revenue Increase (L7 * L6)	$	3,141,028	**$**	**1,288,039**
9	Adjusted Test Year Revenue	$	9,014,985	$	9,080,945
10	Proposed Annual Revenue (L8 + L9)	$	12,156,013	$	10,368,984
11	Required Increase in Revenue (%)		34.84%		14.18%

References:
Column (A): Company Schedule A-1
Column (B): Staff Schedules JMM-3 and JMM-11

Chaparral City Water Company
Docket No. W-02113A-13-0118
Test Year Ended: December 31, 2012

Surrebuttal Schedule JMM-2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	Calculation of Gross Revenue Conversion Factor:				
1	Revenue	100.0000%			
2	Uncollecible Factor (Line 11)	0.5492%			
3	Revenues (L1 - L2)	99.4508%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	38.8151%			
5	Subtotal (L3 - L4)	60.6356%			
6	**Revenue Conversion Factor (L1 / L5)**	1.649195			
	Calculation of Uncollecttible Factor:				
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 23)	38.2900%			
9	One Minus Combined Income Tax Rate (L7 - L8)	61.7100%			
10	Uncollectible Rate	0.8900%			
11	Uncollectible Factor (L9 * L10)	0.5492%			
	Calculation of Effective Tax Rate:				
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.5000%			
14	Federal Taxable Income (L12 - L13)	93.5000%			
15	Applicable Federal Income Tax Rate (Line 55)	34.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	31.7900%			
17	Combined Federal and State Income Tax Rate (L13 +L16)		38.2900%		
	Calculation of Effective Property Tax Factor				
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	38.2900%			
20	One Minus Combined Income Tax Rate (L18-L19)	61.7100%			
21	Property Tax Factor	0.8510%			
22	Effective Property Tax Factor (L20*L21)		0.5251%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			38.8151%	
24	Required Operating Income	$ 1,976,616			
25	AdjustedTest Year Operating Income (Loss)	1,195,605			
26	Required Increase in Operating Income (L24 - L25)		$ 781,011		
27	Income Taxes on Recommended Revenue (Col. [E], L52)	$ 1,072,765			
28	Income Taxes on Test Year Revenue (Col. [B], L52)	588,162			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		484,604		
30	Recommended Revenue Requirement	$ 1,288,039			
31	Uncollectible Rate (Line 10)	0.8900%			
32	Uncollectible Expense on Recommended Revenue (L30*L31)	$ 11,464			
33	Adjusted Test Year Uncollectible Expense	$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)		11,464		
35	Property Tax with Recommended Revenue	$ 244,856			
36	Property Tax on Test Year Revenue	233,894			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		10,961		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		$ 1,288,039		

LINE NO.	*Calculation of Income Tax:*	Test Year		RUCO Recommended
39	Revenue	$ 9,080,945	$ 1,288,039	$ 10,368,984
40	Operating Expenses Excluding Income Taxes	$ 7,297,178		$ 7,319,603
41	Synchronized Interest (L56)	$ 247,696		$ 247,696
42	Arizona Taxable Income (L39 - L40 - L41)	$ 1,536,071		$ 2,801,685
43	Arizona State Income Tax Rate	6.5000%		6.5000%
44	Arizona Income Tax (L42 x L43)	$ 99,845		$ 182,110
45	Federal Taxable Income (L42 - L44)	$ 1,436,226		$ 2,619,576
46	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ 7,500		$ 7,500
47	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	$ 6,250		$ 6,250
48	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ 8,500		$ 8,500
49	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ 91,650		$ 91,650
50	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ 374,417		$ 776,756
51	Total Federal Income Tax	$ 488,317		$ 890,656
52	Combined Federal and State Income Tax (L44 + L51)	$ 588,162		$ 1,072,765
53	Applicable Federal Income Tax Rate [Col. [E], L51 - Col. [B], L51] / [Col. [E], L45 - Col. [B], L45]			34.0000%
	Calculation of Interest Synchronization:			
54	Rate Base	$ 24,769,624		
55	Weighted Average Cost of Debt	1.0000%		
56	Synchronized Interest (L45 X L46)	$ 247,696		

Chaparral City Water Company
Docket No. W-02113A-13-0118
Test Year Ended: December 31, 2012

Surrebuttal Schedule JMM-3

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) RUCO ADJUSTMENTS	(C) RUCO AS ADJUSTED
1	Plant in Service	$ 69,502,064	$ (1,776,008)	$ 67,726,056
2	Less: Accumulated Depreciation	25,734,123	(43,103)	25,691,020
3	Net Plant in Service	$ 43,767,940	$ (1,732,905)	$ 42,035,036
4				
5	*LESS:*			
6				
7	Contributions in Aid of Construction (CIAC)	$ 14,991,871	$ -	$ 14,991,871
8	Less: Accumulated Amortization	2,529,950	-	$ 2,529,950
9	Net CIAC	12,461,921	-	$ 12,461,921
10				
11	Advances in Aid of Construction (AIAC)	4,008,916	-	4,008,916
12				
13	Customer Meter Deposits	1,950	-	1,950
14	Customer Deposits	-	-	-
15	Deferred Income Taxes & Credits	1,271,696	-	1,271,696
17	FHSD Settlement	449,580		449,580
18				
19	*ADD:*			
20				
21				
22	Deferred Debits	686,104	(686,104)	-
23				
24	Working Capital Allowance	1,009,341	(80,690)	928,651
25				
26				
27	**Original Cost Rate Base**	$ 27,269,321	$ (2,499,697)	$ 24,769,624

References:
Column [A]: Company as Filed
Column [B]: Schedule JMM-4
Column (C): Column (A) + Column (B)

Chaparral City Water Company
Docket No. W-02113A-13-0118
Test Year Ended: December 31, 2012

Surrebuttal Schedule JMM-4

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Post-Test Year Plant Ref: Sch JMM-5	[C] ADJ #2 Retirement of Transportation Vehicles Ref: Sch JMM-6	[D] ADJ #3 Asset Retirement obligation Ref: Sch JMM-7	[E] ADJ #4 Customer Deposits Ref: Sch JMM-8	[F] ADJ #5 Removal of CAP Deferral Ref: Sch JMM-9	[G] ADJ #6 Removal of 24 Months AFUDC and Dep. Expense Ref: Sch JMM-10	[H] ADJ #7 Cash Working Capital Allowance Ref: Sch JMM-11	[I] RUCO ADJUSTED
		PLANT IN SERVICE:									
1											
2	301	Organization Cost	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
3	302	Franchise Cost	-	-	-	-	-	-	-	-	-
4	303	Land and Land Rights	1,554,591	-	-	-	-	-	-	-	1,554,591
5	304	Structures and Improvements	1,779,391	-	-	-	-	-	-	-	1,779,391
6	305	Collecting and Impounding Res.	1,019,211	-	-	(5,252)	-	-	-	-	1,013,959
7	306	Lake River and Other Intakes	-	-	-	-	-	-	-	-	-
8	307	Wells and Springs	159,627	-	-	-	-	-	-	-	159,627
9	308	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-	-	-
10	309	Supply Mains	2,201,526	-	-	-	-	-	-	-	2,201,526
11	310	Power Generation Equipment	-	-	-	-	-	-	-	-	-
12	311	Electric Pumping Equipment	5,926,668	-	-	-	-	-	-	-	5,926,668
13	320.1	Water Treatment Plant	-	-	-	-	-	-		-	-
14	320.2	Water Treatment Equipment	6,551,094	-	-	-	-	-		-	6,551,094
15	330.1	Distribution Reservoirs and Standpipes	4,989,253	-	-	-	-	-	-	-	4,989,253
16	331	Transmission and Distribution Mains	24,390,732	-	-	-	-	-	-	-	24,390,732
17	333	Services	10,890,767	-	-	-	-	-		-	10,890,767
18	334	Meters	2,916,068	-	-	-	-	-		-	2,916,068
19	335	Hydrants	2,019,913	-	-	-	-	-	-	-	2,019,913
20	336	Backflow Prevention Devices	-	-	-	-	-	-	-	-	-
21	339	Other Plant and Miscellaneous Equipment	143,521	-	-	-	-	-	-	-	143,521
22	340	Office Furniture and Fixtures	305,068	-	-	-	-	-	-	-	305,068
23	340.1	Computer and Software	-			-	-	-		-	-
24	341	Transportation Equipment	494,662	-	(77,348)	-	-	-	-	-	417,314
25	342	Stores Equipment	-	-	-	-	-	-	-	-	-
26	343	Tools and Work Equipment	190,662	-	-	-	-	-		-	190,662
27	344	Laboratory Equipment	-	-	-	-	-	-	-	-	-
28	345	Power Operated Equipment	-	-	-	-	-	-	-	-	-
29	346	Communications Equipment	43,326	-	-	-	-	-	-	-	43,326
30	347	Miscellaneous Equipment	-	-	-	-	-	-	-	-	-
31	348	Other Tangible Plant	41,221	-	-	-	-	-	-	-	41,221
32		Total Plant in Service - Sub Total	65,617,301	-	(77,348)	(5,252)	-	-	-	-	65,534,701
33											
34		Post Test Year Plant									
35	307	Wells and Springs	793,374	276,206	-	-	-	-	-	-	1,069,580
36	311	Electric Pumping Equipment	130,000	(130,000)	-	-	-	-	-	-	-
37	320.2	Water Treatment Equipment	409,369	(336,334)	-	-	-	-	-	-	73,035
38	330.1	Distribution Reservoirs and Standpipes	1,245,860	(575,439)	-	-	-	-	-	-	670,421
39	331	Transmission and Distribution Mains	353,577	(286,613)	-	-	-	-	-	-	66,964
40	333	Services	410,000	(410,000)	-	-	-	-	-	-	-
41	334	Meters	300,000	(300,000)	-	-	-	-	-	-	-
42	335	Hydrants	10,000	(10,000)	-	-	-	-	-	-	-
43	339	Other Plant and Miscellaneous Equipment	132,558	86,874	-	-	-	-	-	-	219,432
44	341	Transportation Equipment	9,248	389	-	-	-	-	-	-	9,637
45	343	Tools and Work Equipment	31,777	5,158	-	-	-	-	-	-	36,935
46	346	Communications Equipment	59,000	(13,649)	-	-	-	-	-	-	45,351
33		Total Post Test Year Plant	3,884,763	(1,693,408)	-	-	-	-	-	-	2,191,355
34		Total Plant in Service	$ 69,502,064	$ (1,693,408)	$ (77,348)	$ (5,252)	$ -	$ -	$ -	$ -	$ 67,726,056
35		Less: Accumulated Depreciation	25,734,123	38,609	(77,348)	(4,364)	-	-	-	-	25,691,020
36			-	-	-	-		-	-	-	-
37		Net Plant in Service	$ 43,767,940	$ (1,732,017)	$ -	$ (889)	$ -	$ -	$ -	$ -	$ 42,035,036
38											
39		*LESS:*									
40		Contributions in Aid of Construction (CIAC)	$ 14,991,871	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 14,991,871
41		Less: Accumulated Amortization	2,529,950	-	-	-	-	-	-	-	$ 2,529,950
42		Net CIAC (L25 - L26)	12,461,921	-	-	-	-	-	-	-	12,461,921
43		Advances in Aid of Construction (AIAC)	4,008,916	-	-	-	-	-	-	-	4,008,916
44		Customer Meter Deposits	1,950	-	-	-	-	-	-	-	1,950
45		Customer Deposits	-					-			-
46		Deferred Income Taxes & Credits	1,271,696	-	-	-	-	-	-	-	1,271,696
47		FHSD Settlement	449,580	-				-			449,580
48								-			-
49		*ADD:*						-			-
50		Deferred Debits	686,104	-	-	-	-	(78,206)	(607,898)	-	-
51		Working Capital Allowance	1,009,341	-	-	-	-	-	-	(80,690)	928,651
52								-			
53		Original Cost Rate Base	$ 27,269,321	$ (1,732,017)	$ -	$ (889)	$ -	$ (78,206)	$ (607,898)	$ (80,690)	$ 24,769,624

Chaparral City Water Company
Docket No. W-02113A-13-0118
Test Year Ended: December 31, 2012

Surrebuttal Schedule JMM-5

RATE BASE ADJUSTMENT NO. 4 - POST-TEST YEAR PLANT AND ACCUMULATED DEPRECIATION

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] RUCO ADJUSTMENTS	[C] RUCO[1] RECOMMENDED
1	307	Wells and Springs	$ 793,374	$ 276,206	$ 1,069,580
2	311	Electric Pumping Equipment	130,000	(130,000)	-
3	320.2	Water Treatment Equipment	409,369	(336,334)	73,035
4	330.1	Distribution Reservoirs and Standpipes	1,245,860	(575,439)	670,421
5	331	Transmission and Distribution Mains	353,577	(286,613)	66,964
6	333	Services	410,000	(410,000)	-
7	334	Meters	300,000	(300,000)	-
8	335	Hydrants	10,000	(10,000)	-
9	339	Other Plant and Miscellaneous Equipment	132,558	86,874	219,432
10	341	Transportation Equipment	9,248	389	9,637
11	343	Tools and Work Equipment	31,777	5,158	36,935
12	346	Communications Equipment	59,000	(13,649)	45,351
13	Total Test Year Plant		$ 3,884,763	$ (1,693,408)	$ 2,191,355
14					
15	Accumulated Depreciation 1/2 Convention on Post-Test Year Plant		$ -	$ 38,609	$ 38,609
16					
17				1/2 Year	Accumulated
18	RUCO's Calulation of Post-Test Year Accumulated Depreciation		RUCO Recommended	Depreciation Rate	Depreciaiton
19	307	Wells and Springs	$ 1,069,580	1.67%	17,809
20	311	Electric Pumping Equipment	-	6.25%	-
21	320.2	Water Treatment Equipment	73,035	1.67%	1,216
22	330.1	Distribution Reservoirs and Standpipes	670,421	1.11%	7,442
23	331	Transmission and Distribution Mains	66,964	1.00%	670
24	333	Services	-	1.67%	-
25	334	Meters	-	1.67%	-
26	335	Hydrants	-	1.00%	-
27	339	Other Plant and Miscellaneous Equipment	219,432	3.34%	7,318
28	341	Transportation Equipment	9,637	10.00%	964
29	343	Tools and Work Equipment	36,935	2.50%	923
30	346	Communications Equipment	45,351	5.00%	2,268
			$ 2,191,355		$ 38,609

[1] Amounts may not reflect other adjustments.

REFERENCES:
Column [A]: Company Filing
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Chaparral City Water Company
Docket No. W-02113A-13-0118
Test Year Ended: December 31, 2012

Surrebuttal Schedule JMM-6

RATE BASE ADJUSTMENT NO. 2 - RETIREMENT OF TRANSPORTATION EQUIPMENT

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] RUCO ADJUSTMENTS	[C] RUCO[1] RECOMMENDED
1	341	Transportation Equipment	$ 494,662	$ (77,348)	$ 417,314
2					
		Accumulated Depreciation	25,734,123	(77,348)	25,656,775

[1] Amounts may not reflect other adjustments.

REFERENCES:
Column [A]: Company Filing
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Chaparral City Water Company
Docket No. W-02113A-13-0118
Test Year Ended: December 31, 2012

Surrebuttal Schedule JMM-7

RATE BASE ADJUSTMENT NO. 3 - ASSET RETIREMENT OBLIGATION

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] RUCO ADJUSTMENTS	[C] RUCO[1] RECOMMENDED
1	305	Collecting and Impounding Res.	$ 1,019,211	$ (5,252)	$ 1,013,959
2					
3		Accumulated Depreciation	25,734,123	(4,364)	25,729,759

[1] Amounts may not reflect other adjustments.

REFERENCES:
Column [A]: Company Filing
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Chaparral City Water Company
Docket No. W-02113A-13-0118
Test Year Ended: December 31, 2012

Surrebuttal Schedule JMM-8

RATE BASE ADJUSTMENT NO. 4 - CUSTOMER DEPOSITS

			[A]	[B]	[C]
LINE NO.	ACCT NO.	DESCRIPTION	COMPANY PROPOSED	RUCO ADJUSTMENTS	RUCO[1] RECOMMENDED
1		Customer Deposits	$ 1,950	$ -	$ 1,950
2					

[1] Amounts may not reflect other adjustments.

REFERENCES:
Column [A]: Company Filing
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Chaparral City Water Company
Docket No. W-02113A-13-0118
Test Year Ended: December 31, 2012

Surrebutal Schedule JMM-9

RATE BASE ADJUSTMENT NO. 5 - REMOVAL OF DEFERRED CENTRAL ARIZONA PROJECT ("CAP") MAINTENANCE AND INDUSTRIAL ("M&I") CHARGES

			[A]	[B]	[C]
LINE NO.	ACCT NO.	DESCRIPTION	COMPANY PROPOSED	RUCO ADJUSTMENTS	RUCO[1] RECOMMENDED
1		Deferred Debits	$ 686,104	$ (78,206)	607,898

[1] Amounts may not reflect other adjustments.

REFERENCES:
Column [A]: Company Filing
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Chaparral City Water Company
Docket No. W-02113A-13-0118
Test Year Ended: December 31, 2012

Surrebuttal Schedule JMM-10

RATE BASE ADJUSTMENT NO. 6 - REMOVAL OF 24 MONTH DEFERRAL OF ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION ("AFUDC") AND DEPRECIATION EXPNESE

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] RUCO ADJUSTMENTS	[C] RUCO[1] RECOMMENDED
		Deferred Debits	$ 686,104	$ (607,898)	$ 78,206

[1] Amounts may not reflect other adjustments.

REFERENCES:
Column [A]: Company Filing
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 7 - CASH WORKING CAPITAL

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] RUCO ADJUSTMENTS	[C] RUCO[1] RECOMMENDED
1		Working Capital Allowance	$ 1,009,341	$ (80,690)	928,651

RUCO's Calculation

(A)	Proforma Test Year Amount (B)	Revenue Lag (Lead) Days (C)	Expense Lag (Lead) Days (D)	Net Lag (Lead) Days Col. C - Col. D (E)	Lead/Lag Factor Col. E/365 (F)	Cash Working Capital Required Col. B * Col. F (G)
OPERATING EXPENSES						
Labor	1,010,022	34.93	13.09	21.84	0.06	60,432
Purchased Water	1,127,229	34.93	43.67	(8.74)	(0.02)	(26,995)
Fuel & Power	611,340	34.93	27.86	7.07	0.02	11,840
Chemicals	116,658	34.93	(79.22)	114.15	0.31	36,483
Waste Disposal & Other Utilities	7,113	34.93	41.90	(6.97)	(0.02)	(136)
Intercompany Support Services	94,150	34.93	29.99	4.94	0.01	1,274
Corporate Allocation	359,073	34.93	30.00	4.93	0.01	4,849
Outside Services	508,106	34.93	88.00	(53.07)	(0.15)	(73,879)
Group Insurance	178,067	34.93	12.00	22.93	0.06	11,186
Pensions	85,086	34.93	67.98	(33.05)	(0.09)	(7,705)
Regulatory Expense	-	-	-	-	-	-
Insurance Other Than Group	73,025	34.93	(26.14)	61.07	0.17	12,218
Customer Accounting (Less Bad Debt Expense)	292,213	34.93	26.53	8.40	0.02	6,724
Rents	1,504	34.93	-	34.93	0.10	144
General Office Expense	164,179	34.93	39.69	(4.76)	(0.01)	(2,142)
Miscellaneous	151,474	34.93	(3.22)	38.15	0.10	15,832
Maintenance Expense	186,430	34.93	17.28	17.65	0.05	9,014
TAXES						
General Taxes-Property	244,856	34.93	213.96	(179.03)	(0.49)	(120,100)
General Taxes-Other	86,320	34.93	3.03	31.90	0.09	7,544
Income Tax	588,162	34.93	37.00	(2.07)	(0.01)	(3,337)
Interest Expense	283,560	34.93	91.25	(56.32)	(0.15)	(43,755)
TOTAL	5,885,006		CASH WORKING CAPITAL REQUIREMENT			(100,507)
			Company Recommended			(19,817)
			RUCO Adjustment			(80,690)

[1] Amounts may not reflect other adjustments.

REFERENCES:
Column [A]: Company Filing
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Chaparral City Water Company
Docket No. W-02113A-13-0118
Test Year Ended: December 31, 2012

Surrebuttal Schedule JMM-12

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND RUCO RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] RUCO TEST YEAR ADJUSTMENTS	[C] RUCO TEST YEAR AS ADJUSTED	[D] RUCO PROPOSED CHANGES	[E] RUCO RECOMMENDED
1	*REVENUES:*					
2	Metered Water Sales	$ 8,915,656	$ 65,960	$ 8,981,616	$ 1,288,039	$ 10,269,655
3	Water Sales-Unmetered	-	-	-	-	-
4	Other Operating Revenue	99,329	-	99,329	-	99,329
5	Intentionally Left Blank	-	-	-	-	-
6	**Total Operating Revenues**	$ 9,014,985	$ 65,960	$ 9,080,945	$ 1,288,039	$ 10,368,984
7						
8	*OPERATING EXPENSES:*					
9	Salaries and Wages	$ 1,024,112	$ (14,090)	$ 1,010,022	$ -	$ 1,010,022
10	Purchased Water	1,065,953	61,276	1,127,229	-	1,127,229
11	Fuel & Power	605,885	5,455	611,340	-	611,340
12	Fuel for Power Production	-	-	-	-	-
13	Chemicals	119,266	(2,608)	116,658	-	116,658
14	Waste Disposal	7,113	-	7,113	-	7,113
15	Intercompany Support Services	94,150	-	94,150	-	94,150
16	Corporate Allocation	500,330	(141,257)	359,073	-	359,073
17	Outside Services	508,106	-	508,106	-	508,106
18	Group Insurance	178,067	-	178,067	-	178,067
19	Pensions	85,086	-	85,086	-	85,086
20	Regulatory Expense	91,668	-	91,668	-	91,668
21	Insurance Other Than Group	73,025	-	73,025	-	73,025
22	Customer Accounting	318,959	-	318,959	11,464	330,423
23	Rents	1,504	-	1,504	-	1,504
24	General Office Expense	164,179	-	164,179	-	164,179
25	Miscellaneous Expenses	158,553	(7,079)	151,474	-	151,474
26	Maintenance Expense	388,614	(202,184)	186,430	-	186,430
27	Depreciation and Amortization Expense	2,014,048	(121,167)	1,892,881	-	1,892,881
28	General Taxes - Property Taxes	251,038	(17,144)	233,894	10,961	244,856
29	General Taxes-Other	86,320		86,320		86,320
30	Income Taxes	389,412	198,750	588,162	484,604	1,072,765
31	Interest on Customer Deposits	-	-	-	-	-
32	**Total Operating Expenses**	$ 8,125,389	$ (240,048)	$ 7,885,340	$ 507,028	$ 8,392,368
33	**Operating Income (Loss)**	$ 889,596	$ 306,008	$ 1,195,605	$ 781,011	$ 1,976,616

References:
Column (A): Company Schedule C-1
Column (B): Schedule JMM-12
Column (C): Column (A) + Column (B)
Column (D): Schedules JMM-20 and JMM-21
Column (E): Column (C) + Column (D)

Chaparral City Water Company
Docket No. W-02113A-13-0118
Test Year Ended: December 31, 2012

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Reverse Declining Usage Expense ADJ #1	[C] Excessive Water Loss ADJ #2	[D] Incentive Pay ADJ #3	[E] Increase Purchase Water Expense ADJ #4	[F] Expense Allocation ADJ #5	[G] Conservation Expense ADJ #6	[H] Tank Maintenance Expense ADJ #7	[I] Depreciation Expense ADJ #8	[J] Property Tax Expense ADJ #9	[K] Income Tax Expense ADJ #10	[L] RUCO ADJUSTED
			Ref: Sch JMM-13	Ref: Sch JMM-14	Ref: Sch JMM-15	Ref: Sch JMM-16	Ref: Sch JMM-17	Ref: Sch JMM-18	Ref: Sch JMM-19	Ref: Sch JMM-20	Ref: Sch JMM-21	Ref: Sch JMM-21	
1	*REVENUES:*												
2	Metered Water Sales	$ 8,915,656	$ 65,960	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 8,981,616
3	Water Sales-Unmetered	-	-	-	-	-	-	-	-	-	-	-	-
4	Other Operating Revenue	99,329	-	-	-	-	-	-	-	-	-	-	99,329
5	Intentionally Left Blank	-	-	-	-	-	-	-	-	-	-	-	-
6	Total Operating Revenues	$ 9,014,985	$ 65,960	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 9,080,945
7													
8	*OPERATING EXPENSES:*												
9	Salaries and Wages	$ 1,024,112	$ -	$ -	$ (14,090)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,010,022
10	Purchased Water	1,065,953	13,196	(39,598)	-	87,678	-	-	-	-	-	-	1,127,229
11	Fuel & Power	605,885	7,501	(2,046)	-	-	-	-	-	-	-	-	611,340
12	Fuel for Power Production	-	-	-	-	-	-	-	-	-	-	-	-
13	Chemicals	119,266	1,476	(4,084)	-	-	-	-	-	-	-	-	116,658
14	Waste Disposal	7,113	-	-	-	-	-	-	-	-	-	-	7,113
15	Intercompany Support Services	94,150	-	-	-	-	-	-	-	-	-	-	94,150
16	Corporate Allocation	500,330	-	-	-	-	(141,257)	-	-	-	-	-	359,073
17	Outside Services	508,106	-	-	-	-	-	-	-	-	-	-	508,106
18	Group Insurance	178,067	-	-	-	-	-	-	-	-	-	-	178,067
19	Pensions	85,086	-	-	-	-	-	-	-	-	-	-	85,086
20	Regulatory Expense	91,668	-	-	-	-	-	-	-	-	-	-	91,668
21	Insurance Other Than Group	73,025	-	-	-	-	-	-	-	-	-	-	73,025
22	Customer Accounting	318,959	-	-	-	-	-	-	-	-	-	-	318,959
23	Rents	1,504	-	-	-	-	-	-	-	-	-	-	1,504
24	General Office Expense	164,179	-	-	-	-	-	-	-	-	-	-	164,179
25	Miscellaneous Expenses	158,553	-	-	-	-	-	(7,079)	-	-	-	-	151,474
26	Maintenance Expense	388,614	-	-	-	-	-	-	(202,184)	-	-	-	186,430
27	Depreciation and Amortization Expense	2,014,048	-	-	-	-	-	-	-	(121,167)	-	-	1,892,881
28	General Taxes - Property Taxes	251,038	-	-	-	-	-	-	-	-	(17,144)	-	233,894
29	General Taxes - Other	86,320											86,320
30	Income Taxes	389,412	-	-	-	-	-	-	-	-	-	198,750	588,162
31	Interest on Customer Deposits	-	-	-	-	-	-	-	-	-	-	-	-
32	Total Operating Expenses	$ 8,125,389	$ 22,173	$ (45,728)	$ (14,090)	$ 87,678	$ (141,257)	$ (7,079)	$ (202,184)	$ (121,167)	$ (17,144)	$ 198,750	$ 7,885,340
33	Operating Income (Loss)	$ 889,596	$ 43,787	$ 45,728	$ 14,090	$ (87,678)	$ 141,257	$ 7,079	$ 202,184	$ 121,167	$ 17,144	$ (198,750)	$ 1,195,605

Chaparral City Water Company
Docket No. W-02113A-13-0118
Test Year Ended: December 31, 2012

Surrebuttal Schedule JMM-14

OPERATING INCOME ADJUSTMENT NO. 1 - REVERSE DECLINING USAGE ADJUSTMENT

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COMPANY PROPOSED	RUCO ADJUSTMENTS	RUCO[1] RECOMMENDED
1	Metered Water Sales	$ 8,915,656	$ 65,960	$ 8,981,616
2				
3	Purchased Water	$ 1,065,953	$ 13,196	$ 1,079,149
4				
5	Fuel and Power	$ 605,885	$ 7,501	$ 613,386
6				
7	Chemicals	$ 119,266	$ 1,476	$ 120,742
8				

[1] Amounts may not reflect other adjustments.

REFERENCES:
Column [A]: Company Filing
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Chaparral City Water Company
Docket No. W-02113A-13-0118
Test Year Ended: December 31, 2012

Surrebuttal Schedule JMM-15

OPERATING INCOME ADJUSTMENT NO. 2 - EXCESS WATER LOSS

		[A]	[B]	[C]
LINE NO.	**DESCRIPTION**	**COMPANY PROPOSED**	**RUCO ADJUSTMENTS**	**RUCO[1] RECOMMENDED**
1	Purchased Water	$ 1,065,953	$ (39,598)	$ 1,026,355
2				
3	Fuel and Power	$ 605,885	$ (2,046)	$ 603,839
4				
5	Chemicals	$ 119,266	$ (4,084)	$ 115,182
6				

[1] Amounts may not reflect other adjustments.

REFERENCES:
Column [A]: Company Filing
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Chaparral City Water Company
Docket No. W-02113A-13-0118
Test Year Ended: December 31, 2012

Surrebuttal Schedule JMM-16

OPERATING INCOME ADJUSTMENT NO. 3 - INCENTIVE PAY

		[A]	[B]	[C]
LINE NO.	**DESCRIPTION**	**COMPANY PROPOSED**	**RUCO ADJUSTMENTS**	**RUCO RECOMMENDED**
1	Salaries and Wages	$ 1,024,112	$ (14,090)	$ 1,010,022

RUCO's Calculation of Incentive Pay	
Incentive pay included in labor expense	$ 28,180
Sharing between ratepayers and shareholders	50.00%
Incentive pay	$ 14,090

REFERENCES:
Column [A]: Company Filing
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Chaparral City Water Company
Docket No. W-02113A-13-0118
Test Year Ended: December 31, 2012

Surrebuttal Schedule JMM-17

OPERATING INCOME ADJUSTMENT NO. 4 - PURCHASED WATER EXPENSE

		[A]	[B]	[C]
LINE NO.	**DESCRIPTION**	**COMPANY PROPOSED**	**RUCO ADJUSTMENTS**	**RUCO[1] RECOMMENDED**
1	Purchased Water	$ 1,065,953	$ 87,678	$ 1,153,631

RUCO's Calculation to Increase CAP M&I Charges	
Future CAP Charge 7,943.5 (a.f.) x $20.80 (average of five years 20 + 21 + 21 + 21 + 21)	$ 165,225
Schedule CAP Allocation 6,861 (a.f.) x $146.20 (average of five years 129 + 138 + 149 + 155 + 160)	1,003,078
Storage at MWD 917 (a.f.) *($16)	(14,672)
Projected CAP Costs	$ 1,153,631
Adjusted Test Year	$ 1,065,953
Recommended Adjustment	$ 87,678

[1] Amounts may not reflect other adjustments.

REFERENCES:
Column [A]: Company Filing
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Chaparral City Water Company
Docket No. W-02113A-13-0118
Test Year Ended: December 31, 2012

Surrebuttal Schedule JMM-18

OPERATING INCOME ADJUSTMENT NO. 5 - CORPORATE ALLOCATION EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] RUCO ADJUSTMENTS	[C] RUCO[1] RECOMMENDED
1	Corporate Allocation	$ 500,330	$ (141,257)	$ 359,073
2				
3	RUCO's Summary of Corporate Allocation Disallowances			
4	At-Risk Compensation	$ 86,489		
5	Corporate Communications	$ 6,687		
6	Operational Communications	$ 2,532		
7	EPCOR Community Essentials Council	$ 5,595		
8	Community Relations	$ 23,222		
9	Corporate Communications	$ 14,630		
	Additional Disallowance for (meal/entertainment, donations, promotions etc.)	$ 2,102		
10	Total	$ 141,257		

[1] Amounts may not reflect other adjustments.

REFERENCES:
Column [A]: Company Filing
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Chaparral City Water Company
Docket No. W-02113A-13-0118
Test Year Ended: December 31, 2012

Surrebuttal Schedule JMM-19

OPERATING INCOME ADJUSTMENT NO. 6 - REMOVE CONSERVATION EXPENSE

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COMPANY PROPOSED	RUCO ADJUSTMENTS	RUCO[1] RECOMMENDED
1	Miscellaneous Expenses	$ 158,553	$ (7,079)	$ 151,474

[1] Amounts may not reflect other adjustments.

REFERENCES:
Column [A]: Company Filing
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Chaparral City Water Company
Docket No. W-02113A-13-0118
Test Year Ended: December 31, 2012

Surrebuttal Schedule JMM-20

OPERATING INCOME ADJUSTMENT NO. 7 - REMOVE TANK MAINTENANCE EXPENSE

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COMPANY PROPOSED	RUCO ADJUSTMENTS	RUCO[1] RECOMMENDED
1	Maintenance Expense	$ 388,614	$ (202,184)	$ 186,430

[1] Amounts may not reflect other adjustments.

REFERENCES:
Column [A]: Company Filing
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Chaparral City Water Company
Docket No. W-02113A-13-0118
Test Year Ended: December 31, 2012

Surrebuttal Schedule JMM-21

OPERATING INCOME ADJUSTMENT NO. 7 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	301	Organization Cost	$ -	$ -	$ -	0.00%	$ -
2	302	Franchise Cost	$ -	$ -	$ -	0.00%	$ -
3	303	Land and Land Rights	$ 1,554,591	$ 1,554,591	$ -	0.00%	$ -
4	304	Structures and Improvements	$ 1,779,391	$ -	$ 1,779,391	3.33%	$ 59,254
5	305	Collecting and Impounding Res.	$ 1,013,959	$ -	$ 1,013,959	2.50%	$ 25,349
6	306	Lake River and Other Intakes	$ -	$ -	$ -	2.50%	$ -
7	307	Wells and Springs	$ 159,627	$ -	$ 159,627	3.33%	$ 5,316
8	308	Infiltration Galleries and Tunnels	$ -	$ -	$ -	6.67%	$ -
9	309	Supply Mains	$ 2,201,526	$ -	$ 2,201,526	2.00%	$ 44,031
10	310	Power Generation Equipment	$ -	$ -	$ -	5.00%	$ -
11	311	Electric Pumping Equipment	$ 5,926,668	$ -	$ 5,926,668	12.50%	$ 740,834
12	320	Water Treatment Plant	$ -	$ -	$ -	3.33%	$ -
13	320	Water Treatment Equipment	$ 6,551,094	$ -	$ 6,551,094	3.33%	$ 218,151
14	330	Distribution Reservoirs and Standpipes	$ 4,989,253	$ -	$ 4,989,253	2.22%	$ 110,761
15	331	Transmission and Distribution Mains	$ 24,390,732	$ -	$ 24,390,732	2.00%	$ 487,815
16	333	Services	$ 10,890,767	$ -	$ 10,890,767	3.33%	$ 362,663
17	334	Meters	$ 2,916,068	$ -	$ 2,916,068	8.33%	$ 242,908
18	335	Hydrants	$ 2,019,913	$ -	$ 2,019,913	2.00%	$ 40,398
19	336	Backflow Prevention Devices	$ -	$ -	$ -	6.67%	$ -
20	339	Other Plant and Miscellaneous Equipment	$ 143,521	$ -	$ 143,521	6.67%	$ 9,573
21	340	Office Furniture and Fixtures	$ 305,068	$ -	$ 305,068	6.67%	$ 20,348
22	340.1	Computer and Software	$ -	$ -	$ -	20.00%	$ -
23	341	Transportation Equipment	$ 417,314	$ -	$ 417,314	20.00%	$ 83,463
24	342	Stores Equipment	$ -	$ -	$ -	4.00%	$ -
25	343	Tools and Work Equipment	$ 190,662	$ -	$ 190,662	5.00%	$ 9,533
26	344	Laboratory Equipment	$ -	$ -	$ -	10.00%	$ -
27	345	Power Operated Equipment	$ -	$ -	$ -	5.00%	$ -
28	346	Communications Equipment	$ 43,326	$ -	$ 43,326	10.00%	$ 4,333
29	347	Miscellaneous Equipment	$ -	$ -	$ -	10.00%	$ -
30	348	Other Tangible Plant	$ 41,221	$ -	$ 41,221	10.00%	$ 4,122
31		Total Plant	$ 65,534,701	$ 1,554,591	$ 63,980,110		$ 2,468,851
32							
33	Post Test Year Plant						
34	307	Wells and Springs	$ 1,069,580	$ -	$ 1,069,580	3.33%	$ 35,617
35	311	Electric Pumping Equipment	$ -	$ -	$ -	12.50%	$ -
36	320.2	Water Treatment Equipment	$ 73,035	$ -	$ 73,035	3.33%	$ 2,432
37	330.1	Distribution Reservoirs and Standpipes	$ 670,421	$ -	$ 670,421	2.22%	$ 14,883
38	331	Transmission and Distribution Mains	$ 66,964	$ -	$ 66,964	2.00%	$ 1,339
39	333	Services	$ -	$ -	$ -	3.33%	$ -
40	334	Meters	$ -	$ -	$ -	3.33%	$ -
41	335	Hydrants	$ -	$ -	$ -	2.00%	$ -
42	339	Other Plant and Miscellaneous Equipment	$ 219,432	$ -	$ 219,432	6.67%	$ 14,636
43	341	Transportation Equipment	$ 9,637	$ -	$ 9,637	20.00%	$ 1,927
44	343	Tools and Work Equipment	$ 36,935	$ -	$ 36,935	5.00%	$ 1,847
45	346	Communications Equipment	$ 45,351	$ -	$ 45,351	10.00%	$ 4,535
46		Total Post Test Year Plant	$ 2,191,355	$ -	$ 2,191,355		$ 77,217
47							
48		Total	$ 67,726,056	$ 1,554,591	$ 66,171,465		$ 2,546,068
49							
50		Composite Depreciation Rate:					3.85%
51		Contributions in Aid of Construction ("CIAC"):					$ 14,991,871
52		Amortization of CIAC:					$ 577,187
53							
54		Depreciation Expense before Amortization of CIAC:					$ 2,546,068
55		Less Amortization of CIAC:					$ 577,187
56		Less FHSD Adjustment Amortization:					$ 76,000
57		Test Year Depreciation Expense - RUCO					$ 1,892,881
58							
59		Depreciation Expense - Company					$ 2,014,048
60							
61		RUCO's Removal of Deferred CAP Charges					$ (15,641)
62							
63		RUCO's Removal of 24 month AFUDC and Depreciation Expense					$ (23,586)
64							
65		Adjusted Depreciation Expense					$ 1,974,821
66							
67		RUCO's Adjustment to Depreciation Expense					$ (81,940)
68							
69		Total Adjustment (lines 61 + 63 + 69)					$ (121,167)
70							

References:
Column [A]: Schedule JMM-11
Column [B]: From Column [A]
Column [C]: Column [A] - Column [B]
Column [D]: Staff's Typical Engineering Depreciation Rates
Column [E]: Column [C] x Column [D]

Chaparral City Water Company
Docket No. W-02113A-13-0118
Test Year Ended: December 31, 2012

Surrebuttal Schedule JMM-22

OPERATING INCOME ADJUSTMENT NO. 9 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] RUCO AS ADJUSTED	[B] RUCO RECOMMENDED
1	RUCO Adjusted Test Year Revenues	$ 9,080,945	$ 9,080,945
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	18,161,890	$ 18,161,890
4	RUCO Recommended Revenue, Per Schedule JMM-1	9,080,945	$ 10,368,984
5	Subtotal (Line 4 + Line 5)	27,242,835	28,530,874
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	9,080,945	$ 9,510,291
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	18,161,890	$ 19,020,583
10	Plus: 10% of CWIP -	161,294	161,294
11	Less: Net Book Value of Licensed Vehicles	-	$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	18,323,184	$ 19,181,877
13	Assessment Ratio	18.5%	18.5%
14	Assessment Value (Line 12 * Line 13)	3,389,789	$ 3,548,647
15	Composite Property Tax Rate (Per Company Schedule)	6.9000%	6.9000%
16			$ -
17	RUCO Test Year Adjusted Property Tax (Line 14 * Line 15)	$ 233,894	
18	Company Proposed Property Tax	251,038	
19			
20	RUCO Test Year Adjustment (Line 16-Line 17)	$ (17,144)	
21	Property Tax - RUCO Recommended Revenue (Line 14 * Line 15)		$ 244,856
22	RUCO Test Year Adjusted Property Tax Expense (Line 16)		$ 233,894
23	Increase in Property Tax Expense Due to Increase in Revenue Requirement		$ 10,961
24			
25	Increase to Property Tax Expense		$ 10,961
26	Increase in Revenue Requirement		1,288,039
27	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		0.850996%

REFERENCES:
Column [A]: Company Filing
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Chaparral City Water Company
Docket No. W-02113A-13-0118
Test Year Ended: December 31, 2012

Surrebuttal Schedule JMM-23

OPERATING INCOME ADJUSTMENT NO. 10 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION		
1			
2			
3			
4	*Calculation of Income Tax:*		Test Year
5	Revenue (Schedule JMM-1)	$	9,080,945
6	Operating Expenses Excluding Income Taxes	$	7,297,178
7	Synchronized Interest (L17)	$	247,696
8	Arizona Taxable Income (L1 - L2 - L3)	$	1,536,071
9	Arizona State Income Tax Rate		6.5000%
10	Arizona Income Tax (L4 x L5)	$	99,845
11	Federal Taxable Income (L4 - L6)	$	1,436,226
12	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$	7,500
13	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	$	6,250
14	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$	8,500
15	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$	91,650
16	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$	374,417
17	Total Federal Income Tax	$	488,317
18	Combined Federal and State Income Tax (L44 + L51)	$	588,162
19			
20			
21	*Calculation of Interest Synchronization:*		
22	Rate Base (Schedule JMM-4)	$	24,769,624
23	Weighted Average Cost of Debt		1.10%
24	Synchronized Interest (L16 x L17)	$	272,466
25			
26			
27	Income Tax - Per RUCO	$	588,162
28	Income Tax - Per Company	$	389,412
29	RUCO Adjustment	$	198,750

REFERENCES:
Column [A]: Company Filing
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Rate Design

Monthly Usage Charge	Present	Company Proposed Rates	RUCO Recommended Rates
Meter Size (All Classes):			
Chaparral Residential 3/4 Inch	$ 16.50	$ 22.20	$ 18.77
Chaparral Residential 1 Inch	27.50	37.03	31.31
Chaparral Residential 1-1/2 Inch	55.00	74.06	62.63
Chaparral Residential 2 Inch	88.00	118.49	100.20
Chaparral Residentail 3 Inch	176.00	236.98	200.40
Chaparral Residentail 4 Inch	275.00	370.29	313.12
Chaparral Residentail 6 Inch	550.00	740.58	626.98
Chaparral Residentail 8 Inch	880.00	1,184.92	1,001.98
Chaparral Residentail 10 Inch	1,265.00	1,703.32	1,440.34
Chaparral Residentail 12 Inch	2,365.00	3,184.47	2,692.82
Chaparral Commercial 3/4 Inch	16.50	22.22	18.77
Chaparral Commercial 1 Inch	27.50	37.03	31.31
Chaparral Commercial 1.5 Inch	55.00	74.06	62.63
Chaparral Commercial 2 Inch	88.00	118.49	100.20
Chaparral Commercial 3 Inch	176.00	236.98	200.40
Chaparral Commercial 4 Inch	275.00	370.29	313.12
Chaparral Commercial 6 Inch	550.00	740.58	626.98
Chaparral Commercial 8 Inch	880.00	1,184.92	1,001.98
Chaparral Commercial 10 Inch	1,265.00	1,703.32	1,440.34
Chaparral Commercial 12 Inch	2,365.00	3,184.47	2,692.82
Chaparral Irrigation 3/4 Inch	16.50	22.22	18.77
Chaparral Irrigation 1 Inch	27.50	37.03	31.31
Chaparral Irrigation 1.5 Inch	55.00	74.06	62.63
Chaparral Irrigation 2 Inch	88.00	118.49	100.20
Chaparral Irrigation 3 Inch	176.00	236.98	200.40
Chaparral Irrigation 4 Inch	275.00	370.29	313.12
Chaparral Irrigation 6 Inch	550.00	740.58	626.98
Chaparral Irrigation 8 Inch	880.00	1,184.92	1,001.98
Chaparral Irrigation 10 Inch	1,265.00	1,703.32	1,440.34
Chaparral Irrigation 12 Inch	2,365.00	3,184.47	2,692.82
Chaparral Hydrant 3/4 Inch	16.50	22.22	18.77
Chaparral Hydrant 1 Inch	27.50	37.03	31.31
Chaparral Hydrant 1.5 Inch	55.00	74.06	62.63
Chaparral Hydrant 2 Inch	88.00	118.49	100.20
Chaparral Hydrant 3 Inch	176.00	236.98	200.40
Chaparral Hydrant 4 Inch	275.00	370.29	313.12
Chaparral Hydrant 6 Inch	550.00	740.58	626.98
Chaparral Hydrant 8 Inch	880.00	1,184.92	1,001.98
Chaparral Hydrant 10 Inch	1,265.00	1,703.32	1,440.34
Chaparral Hydrant 12 Inch	2,365.00	3,184.47	2,692.82
Chaparral Fire Sprinklers (All Meter Sizes)	10.0000	13.47	13.47
Chaparral Low Income 3/4 Inch	N/A	14.70	11.27
Chaparral Low Income 1 Inch	N/A	29.53	23.81

Commodity Charge - Per 1,000 Gallons	Present	Company Proposed Rates	RUCO Recommended Rates
3/4" Meter (Residential)			
First 3,000 gallons	$ 2.3100	$ 3.0926	$ 2.6200
3,001 to 9,000 gallons	2.9600	3.9678	3.3600
All gallons over 9,000	3.6100	4.8431	4.1900
3/4" Meter (Commerical)			
First 9,000 gallons	2.9600	3.9678	3.3600
Over 9,000 gallons	3.6100	4.8431	4.1900
1" Meter (Residential and Commercial)			
First 24,000 gallons	2.9600	3.9678	N/A
Over 24,000 gallons	3.6100	4.8431	N/A
1" Meter (Residential and Commercial)			
First 23,000 gallons	N/A	N/A	3.3600
Over 23,000 gallons	N/A	N/A	4.1900
1.5" Meter (Residential and Commercial)			
First 60,000 gallons	2.9600	3.9678	N/A
Over 60,000 gallons	3.6100	4.8431	N/A
1.5" Meter (Residential and Commercial)			
First 59,000 gallons	N/A	N/A	3.3600
Over 59,000 gallons	N/A	N/A	4.1900

Rate Design

2" Meter (Residential and Commercial)			
First 100,000 gallons	2.9600	3.9678	3.3600
Over 100,000 gallons	3.6100	4.8431	4.1900
3" Meter (Residential and Commercial)			
First 225,000 gallons	2.9600	3.9678	N/A
Over 225,000 gallons	3.6100	4.8431	N/A
3" Meter (Residential and Commercial)			
First 218,000 gallons	N/A	N/A	3.3600
Over 218,000 gallons	N/A	N/A	4.1900
4" Meter (Residential and Commercial)			
First 350,000 gallons	2.9600	3.9678	3.3600
Over 350,000 gallons	3.6100	4.8431	4.1900
6" Meter (Residential and Commercial)			
First 725,000 gallons	2.9600	3.9678	3.3600
Over 725,000 gallons	3.6100	4.8431	4.1900
8" Meter (Residential and Commercial)			
First 1,125,000 gallons	2.9600	3.9678	3.3600
Over 1,125,000 gallons	3.6100	4.8431	4.1900
10" Meter (Residential and Commercial)			
First 1,500,000 gallons	2.9600	3.9678	3.3600
Over 1,500,000 gallons	3.6100	4.8431	4.1900
12" Meter (Residential and Commercial)			
First 2,250,000 gallons	2.9600	3.9678	3.3600
Over 2,250,000 gallons	3.6100	4.8431	4.1900
3/4" Meter (Irrigation and Hydrant)			
All Usage	2.9600	3.9678	3.3600
1" Meter (Irrigation and Hydrant)			
All Usage	2.9600	3.9678	3.3600
1.5" Meter (Irrigation and Hydrant)			
All Usage	2.9600	3.9678	3.3600
2" Meter (Irrigation and Hydrant)			
All Usage	2.9600	3.9678	3.3600
3" Meter (Irrigation and Hydrant)			
All Usage	2.9600	3.9678	3.3600
4" Meter (Irrigation and Hydrant)			
All Usage	2.9600	3.9678	3.3600
6" Meter (Irrigation and Hydrant)			
All Usage	2.9600	3.9678	3.3600
8" Meter (Irrigation and Hydrant)			
All Usage	2.9600	3.9678	3.3600
10" Meter (Irrigation and Hydrant)			
All Usage	2.9600	3.9678	3.3600
12" Meter (Irrigation and Hydrant)			
All Usage	2.9600	3.9678	3.3600
Fire Sprinklers (All Meter Sizes)	2.9600	3.9678	3.3600
Standpipe Water Service - 2 Inch	2.9600	3.9678	3.3600
Low Income 3/4 Inch			
First 3,000 gallons	N/A	3.0926	2.6200
3,001 to 9,000 gallons	N/A	3.9678	3.3600
All gallons over 9,000	N/A	4.8431	4.1900
Low Income 3/4 Inch			
First 3,000 gallons	N/A	3.0926	2.6200
3,001 to 9,000 gallons	N/A	3.9678	3.3600
All gallons over 9,000	N/A	4.8431	4.1900

Chaparral City Water Company
Docket No. W-02113A-13-0118
Test Year Ended December 31, 2012

Surrebuttal Schedule JMM-25

Typical Bill Analysis
General Service 3/4-Inch Meter

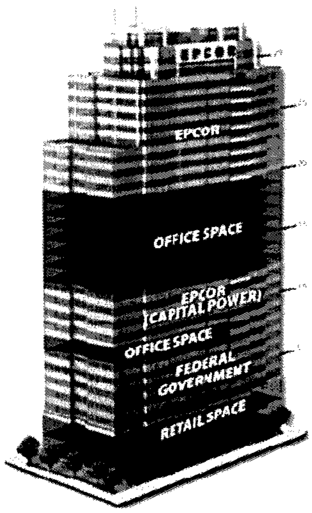
Company Proposed	Gallons		Present Rates		Proposed Rates		Dollar Increase	Percent Increase
Average Usage	7,870	$	37.85	$	50.80	$	12.96	34.23%
Median Usage	4,892	$	29.03	$	38.98	$	9.95	34.29%
RUCO Recommended								
Average Usage	7,870	$	37.85	$	42.99	$	5.15	13.60%
Median Usage	4,892	$	29.03	$	32.99	$	3.96	13.63%

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

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	RUCO Recommended Rates	% Increase
-	$ 16.50	$ 22.20	34.55%	$ 18.77	13.76%
1,000	18.81	25.29	34.46%	21.39	13.72%
2,000	21.12	28.39	34.40%	24.01	13.68%
3,000	23.43	31.48	34.35%	26.63	13.66%
4,000	26.39	35.45	34.31%	29.99	13.64%
5,000	29.35	39.41	34.29%	33.35	13.63%
6,000	32.31	43.38	34.27%	36.71	13.62%
7,000	35.27	47.35	34.25%	40.07	13.61%
8,000	38.23	51.32	34.23%	43.43	13.60%
9,000	41.19	55.28	34.22%	46.79	13.60%
10,000	44.80	60.13	34.21%	50.98	13.79%
11,000	48.41	64.97	34.21%	55.17	13.96%
12,000	52.02	69.81	34.21%	59.36	14.11%
13,000	55.63	74.66	34.20%	63.55	14.24%
14,000	59.24	79.50	34.20%	67.74	14.35%
15,000	62.85	84.34	34.20%	71.93	14.45%
16,000	66.46	89.19	34.20%	76.12	14.54%
17,000	70.07	94.03	34.19%	80.31	14.61%
18,000	73.68	98.87	34.19%	84.50	14.69%
19,000	77.29	103.72	34.19%	88.69	14.75%
20,000	80.90	108.56	34.19%	92.88	14.81%
25,000	98.95	132.77	34.18%	113.83	15.04%
30,000	117.00	156.99	34.18%	134.78	15.20%
35,000	135.05	181.21	34.18%	155.73	15.31%
40,000	153.10	205.42	34.17%	176.68	15.40%
45,000	171.15	229.64	34.17%	197.63	15.47%
50,000	189.20	253.85	34.17%	218.58	15.53%
75,000	279.45	374.93	34.17%	323.33	15.70%
100,000	369.70	496.01	34.16%	428.08	15.79%

Attachment A

Interactive Stacking Plan



Please select a floor from the tower to view the floor plan

The Tower

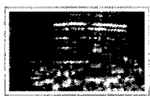
Now officially open, EPCOR Tower is Edmonton's first Downtown high rise office in 22 years. It incorporates advanced technologies from the ground up, meeting the demands of today's sophisticated office tenants with features that provide a competitive business advantage.

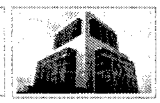
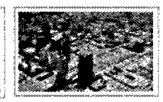
EPCOR Tower is the first completed development on the Station Lands site. Station Lands is a 9.15 acre, mixed-use development site in the heart of Edmonton's dynamic downtown, within 600 feet of Edmonton City Hall. This comprehensive development brings together commercial, retail, residential and recreational space in a unique design.

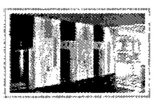
Leasing

Floor Plans

Station Lands Project

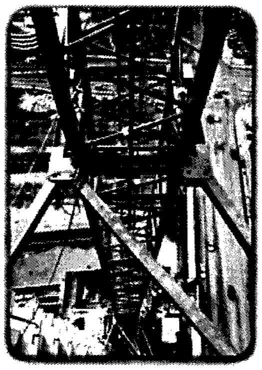






Home The Tower Location Floor by Floor Visuals The Team News Tenants Contact

> Epcor Aerial > Streetview Map

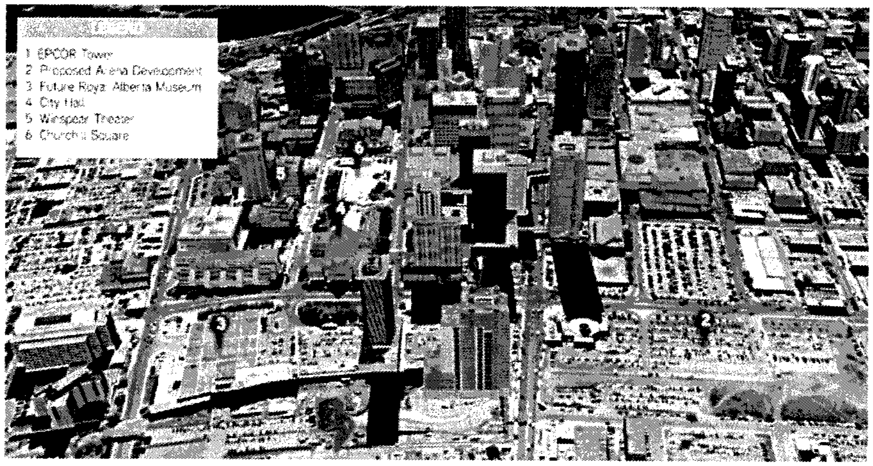


Leasing

Floor Plans

Station Lands Project

Epcor Aerial



Attachment B

ORIGINAL

REXALL SPORTS CORP

RECEIVED
AUG 3 0 2012

Edmonton Oilers Hockey Club | Edmonton Major Junior Hockey Corp. | Katz Baseball Corporation

11230 - 110 Street
Edmonton, Alberta T5G 3H7

SEASON SUMMARY

To: Epcor Utilities Inc.
10065 Jasper Avenue
Edmonton, AB T5J 3B1

July 31, 2012

Suite 2012/2013 season

INVOICE #	DESCRIPTION	AMOUNT
464-5146	Payment Due - 9/1/2012	$201,014.35

Subtotal	$201,014.35
GST (Reg. #87183 0980 RT0001)	$10,050.72
AMOUNT DUE	$211,065.07

BU	RC	PROJ	ACT	LOC	ACCT	INTERCO	AMOUNT
40	727	000000	7350	950	5671	0	201,014.35

CAN ☑ | GST 10,050.72
USD ☐ | Total 211,065.07

Prepared By: [signature]
Approved by (signature): [signature] Date: Aug 28, 2012
Gillian Adams
(Print name of Approver)

We ask that all payments be in the form of EFT or cheques. Please make all cheques payable to: REXALL SPORTS CORP. Please note that all amounts above have been previously discounted by the advertising commissions (if any). If you have any questions or concerns please contact Accounts Receivable at (780) 409-2481 or email at accounts.receivable@edmontonoilers.com.

Rexall Executive Suites

ORIGINAL

RECEIVED
DEC - 7 2012

W

Invoice

NORTHLANDS
Box 1480, Edmonton, Alberta, Canada, T5J 2N5
Phone (780) 471-7101 Fax (780) 471-7153

EPCOR
Marlene Tasse
26th Floor EPCOR Tower
10423 – 101 Street NW
Edmonton, Alberta T5H 0E8

Invoice: **109284** **12/06/12**
Due: **$72,836.01** **01/05/13**
Account: 10171

Customer Copy

EPCOR Christmas Banquet 2012 (64390) Start-End: Tue 11/27/12 - Sat 12/01/12

Order	Description	Units	Rate	Charges
179945	Dinner	1,070.00 PRS	$53.00 / EA	$56,710.00
	Miscellaneous	1.00 EA	787.00 / EA	787.00
	Detail: Showtech Charges Lighting & Rigging for Firefly Theatre = $376.00 Lighting for dance floor (6 x $68.50) = $411.00 Total $787.00			
	Gratuities	17.00 %	59,587.00 100.00 /	10,129.79
	Miscellaneous	1,070.00 EA	1.00 / EA	1,070.00
	Detail: Complimentary Coat Check $1.00/person based on final guarantee			
	Music Tarriff Fee	1.00 EA	174.79 / EVT	174.79
	Bottled Water	6.00 EA	3.50 / EA	21.00
	Corkage	238.00 PRS	12.00 / EA	2,856.00
			Total For Order 179945:	**$71,748.58**
			Total Services:	**$71,748.58**
				3,587.43
			Total Charges:	**$75,336.01**

A/P ... DEC 11 2012

Previous Payments	**Amount**
07/20/12 Deposit-Visa V	$-2,500.00

Invoice Summary

Total Services:	$71,748.58
Total Taxes:	$3,587.43
Total Charges:	$75,336.01
Total Payments:	$-2,500.00
Total Amount Due:	$72,836.01
Gst Registration:	R 101577443

Payment terms according to contract, otherwise net 30 days from invoice date.

Method of Payment accepted:
Cash, Cheque, Vis

BU	RC	PROJ	ACT	LOC	ACCT	INTERCO	AMOUNT
40	727	Ø	7350	950	5652	Ø	69,248.58

CEM722v3

CAN ☒
USD ☐

GST 3,587.43
Total 72,836.01

M Tasse
Dec 7/12.

Prepared By: Mogrit Schat
Approved by: (signature) Date: Dec. 11/12
Gillian Adams
(Print name of Approver)

Attachment C

A-EWR-02

Preamble: EPCOR bonus scheme primarily driven by profits, therefore the employees involved with proposing and managing the TWQM project are personally paid more by offloading costs to White Rock residents, and increasing EPCOR profits.

https://www.google.ca/url?sa=t&rct=j&q=&esrc=s&source=web&cd=3&cad=rja&sqi=2&ved=0CEUQFjAC&url=http%3A%2F%2Fsirepub.edmonton.ca%2Fsirepub%2Fview.aspx%3Fcabinet%3Dpublished_meetings%26fileid%3D113263&ei=FDQHUYjDMMXRigLApYGACA&usg=AFQjCNH9t3bZBohWid3vNFVRRfsVXj3PpQ&sig2=K7LikjIdD7p3yV_Xl5JxcA

Request:

How can the Comptroller ensure that its mandate "To assure that the customers of the utility receive acceptable water service at reasonable rates" is followed if EPCOR employees are paid more if profits are higher vs cost reduction or safety improvements?

Response:

EWR does not speak for the Comptroller, but EWR can speak to some of the issues raised in this information request in relation to EPCOR's incentive plan and how EWR is regulated.

Under EPCOR's incentive plan, incentive compensation is paid to staff when specified operational, safety and financial performance targets are met with the focus on operational and safety performance. For 2013, the incentive plan is comprised of the following components: a 60% weighting on operational performance targets including customer service, water quality and program delivery; a 30% weighting on safety performance targets; and a 10% weighting on targets related to meeting controllable expenses.

Another way that assurance will be gained that customers will receive acceptable water service at reasonable rates is through the Comptroller's regulatory process for filing and approving rates.

Under the Comptroller's process, EWR will be filing a revenue requirement and rate application in 2013 detailing the costs necessary to provide service to customers and these costs and the resulting rates to recover the costs will be tested through a number of steps as determined by the Comptroller. This typically includes detailed information requests to EWR from the Comptroller and registered intervenors and the filing of objections to the application. The Comptroller's process is an open process that ensures that EWR's costs and rates are reasonable and prudent.

Bylaw 15816 – EPCOR Water Services and Wastewater Treatment Bylaw
EWSI Comments on Grant Thornton Report -
("EPCOR Water Services Inc – Review of 2012-2016 PBR Renewal")

EPCOR Water Services Inc. (EWSI) has reviewed the Grant Thorton (GT) Report and provides the following comments on certain conclusions and recommendations outlined in the "Summary of findings" section of the report.

Water Consumption

GT Report Reference: Page 9 Subsection (b)

1. "Reduced average customer water consumption is assumed in the proposed rate structure. If such decreases do not materialize, then EWSI will generate revenue levels higher than those proposed without a corresponding increase in costs. Similarly, growth in customer count is assumed in the proposed rate structure. If growth exceeds the levels anticipated, then EWSI will generate revenue levels higher than those proposed. While costs are legitimately expected to increase, the marginal cost of servicing additional customers should not exceed the incremental revenues. We note that under the current PBR, no mechanisms are provided to ensure incremental revenues produced are held for the benefit of and/or redistributed to ratepayers."

EWSI Comments:

2. EWSI currently takes the risk on water consumption volumes as part of its Performance Based Regulation (PBR) framework. As noted by EWSI in its Rates Report, this risk is significant. Including a mechanism to pass this risk on to customers would significantly add to variability in customers rates on an annual basis and would reduce the rate predictability and stability provided under the current PBR structure.

3. There is as much risk of actual water consumption being lower than forecast as there is of it being higher. If such a mechanism is implemented, then both the benefit/cost of actual consumption being higher/lower than forecast would be passed on to EWSI's customers. It would not be appropriate to transfer the upside risk of consumption to customers with EWSI retaining the downside risk related to consumption. Water consumption is one of the many variables that determine EWSI's revenues and returns over the course of the 5-year PBR term. In the past, EWSI has achieved the approved returns by managing these variables.

4. Historical analysis of water demand has shown a long term continuous reduction in water use per customer. With the continued focus on water conservation in terms of education

program and rate structures, continued reduction in average water consumption is a reasonable expectation. A more significant risk would be that the new rate structure which promotes water conservation will result in even greater reduction in water use per customer than what has been forecasted in the PBR.

Capital Programs

GT Report Reference: Page 9 Subsection (c)

5. "By 2016, this level of capital spending will have increased the rate base for water operations by almost 32% when compared to the 2011 rate base based on total system. While a detailed analysis of the nature and relevance of individual capital project is beyond the scope of our engagement, best practices in other North American jurisdictions suggest that the City should participate in the investment appraisal process to ensure adequate financial regulatory oversight on capital spending, particularly to the extent such spending is in excess of amounts approved through this rate making process."

EWSI Comments:

6. As noted in Attachment 1 of the Rates Report, one of the benefits of PBR is that it provides an efficient regulatory framework by avoiding costly annual reviews inherent in cost of service regulation. While EWSI is open to providing further information to City Council and for the benefit of City Administration to support its annual PBR Progress Reports, EWSI would be concerned about introducing a process that reduces the regulatory efficiency of a PBR framework without a clear benefit of the additional time and cost required.

7. EWSI considers that the existing PBR framework has worked well to define both the return and performance standards, both of which have been met in the past by EWSI. The current PBR structure also includes a process for the City to approve non-routine adjustments (NRAs) in accordance with the criteria provided in the Bylaw. EWSI has historically used NRAs for major, unanticipated deviations from its capital plan. Review of the NRAs application also considers the projected return on equity of EWSI over the 5 year PBR term.

8. It is also important to note that EPCOR Utilities Inc. (EUI) has significant internal controls governing capital spending, including EUI Board approval, Financial Review Council and the Water Capital Steering Committee. These processes provide significant oversight of the capital spending by EWSI.

Cost of Capital

GT Report Reference: Page 10 Subsection (d)

9. "Compared to industry benchmarks, the cost of capital assumptions used by EWSI remain in the upper quartile. While EWSI is subject to commercial risks that may not be directly comparable to industry benchmarks, we note that the cost of capital assumptions used by EWSI continue to differ from the levels approved by the AUC for the RWCG."

EWSI Comments:

10. EWSI considers that the proposed ROE is required for EWSI to maintain its financial sustainability over the long term, to ensure continued investment in utility infrastructure and to maintain its operations and services for the benefit of its customers. A cost of capital expert determined the fair ROE for EWSI of 10.875% based on an evaluation of EWSI's business and financial risks compared to other utilities with similar risks and lines of business. These other utilities included a sample of US and Canadian gas, electric and water utilities.

11. While the proposed ROE is within the top quartile of allowed returns, EWSI considers this to be appropriate considering the risks associated with EWSI's particular PBR framework compared to the risks faced by comparable utilities, including:

- Under a five year PBR term, there is higher forecast risk compared to shorter (e.g. 1, 2 or 3 year) cost of service applications;
- There are no deferral accounts included to pass on actual incurred costs to its customers for highly variable costs, such as chemicals, which can vary significantly with changes in raw water quality. Deferral accounts, common in AUC rate applications, reduce this risk to the utility;
- Average per customer water consumption reflect a declining trend and there is forecast risk of underestimating this decline;
- EWSI collects the majority of its water and wastewater treatment revenue from a consumption-based charge (75%), whereas electric and gas utilities will typically collect a higher proportion of their revenue through a fixed charge. This amplifies consumption risk significantly.

12. The rate of return on EWSI's PBR is not directly comparable with that of the AUC approved rate of return established for the wholesale rates charged to EWSI's regional water customers group (RWCG). Water rates for the RWCG are determined annually based on a cost of service regulation and there is a lower level of risk for the utility compared to the risks in

EWSI's PBR plan noted above. This difference in risks, and the resulting difference in rates of return required, is acknowledged on page 40 of the Grant Thornton Report.

Wastewater Revenues

GT Report Reference: Page 10 Subsection (d)

13. "As part of our review, we identified that revenues generated through the proposed rate structure exceeded the revenue requirements described in the wastewater information package by $2.03 million over the term of PBR III. We understand that EWSI opted to adjust its revenue requirements through an acceleration of the phasing of annual ROE increases. While we emphasize this does not impact the proposed wastewater rate structure, we note that the adjustment could also have been implemented through a reduction in the wastewater rate structure."

EWSI Comments:

14. EWSI's had three objectives in determining the annual forecast level of returns for wastewater operations: (i) not to exceed annual rate increases of 8.0% per year in order to minimize the customer bill impact; (ii) to support a gradual increase in the ROE to 10.875% by the end of 2016 and (iii) to maintain the recommended capital structure of 60% debt and 40% equity. In meeting these three objectives, EWSI accepted a significantly lower average rate return on equity over the 5-year PBR term in comparison to the fair return.

15. As noted above, through the course of reviewing the revenue requirements, it was identified that a correction to EWSI's interest expense and equity return for wastewater operations was required to maintain the recommended capital structure of 60% debt and 40% equity. The correction required a downward adjustment to the forecast interest expenses and an upward adjustment to the equity returns for EWSI's wastewater operations in order to maintain its capital structure over the 5-year PBR term. The impact of these adjustments resulted in an update to EWSI's average annual return on equity to 7.8% compared to its original forecast of 6.6% for the 5-year PBR term.

16. With EWSI's average annual return on equity projected to be 7.8%, it still remains significantly below the recommended level of a fair return for the wastewater utility of 10.875%. Therefore, EWSI considers that its approach to this correction is reasonable and appropriate.

Inflation Adjustment

GT Report Reference: Page 11 Subsection (e)

17. "We note that the proposed changes to the annual inflation adjustment mechanism to the water and wastewater rate-structure will result in a more transparent rate adjustment mechanism based on the reliance towards independently verifiable data sources. We also note that over the term of PBR III and compared to the adjustment mechanism under PBR II, there will be a lesser correlation in rate increases to CPI given the proposed weighting changes which increase the relative importance of labour costs."

EWSI Comments:

18. EWSI has proposed a rate of inflation measured by a weighted average of two components: (i) 65% based on the change in the Consumer Price Index for Alberta and (ii) 35% based on the change in the Average Hourly Earnings (AHE) for Alberta, Industrial Aggregate. The revised weighting of the CPI and Labour components reflects a determination that approximately 70% of corporate service cost allocations relate to salaries and benefits. Based on this, approximately 65% of operating costs are driven by general inflation and 35% are driven by wage and salary inflation. While the component of the inflation factor that is based on Alberta CPI has been reduced from 79% in PBR II to 65% in PBR III, EWSI considers this to be an appropriate reflection of the proportion of its labour costs and other costs.

19. The Alberta AHE Industrial Aggregate series is comprised of multi-industries across Alberta and includes the oil and gas industry as well as several other industries of substantial size (i.e. health care). Therefore, the AHE index is broadly based and is not overly influenced by any particular industry. EWSI competes for talent across a number of industries and therefore, a broadly based index such as the AHE index is appropriate for use as the salary escalation factor for the 2012-2016 PBR. AHE is readily available and verifiable and reflects the geographic market that EWSI is primarily drawing its resources from.

Efficiency Factor

GT Report Reference: Page 11 Subsection (e)

20. "We note that the proposed annual rate adjustment calculation continues to feature a proposed efficiency factor of 0.25%. We echo the conclusions from the independent review of PBR II that the proposed factor is modest in comparison to the industry. Given the prior year increases in operating costs as well as the extent of the capital program contemplated under PBR

III, a higher efficiency factor could be justified to ensure a strong incentive to reduce and control operating and capital costs."

EWSI Comments:

21. EWSI considers that its proposed 0.25% efficiency factor is appropriate given this is the third renewal of its PBR. With each successive 5-year term, it becomes increasingly difficult for utilities to find additional cost savings beyond those already achieved in prior PBR periods. Under the Bylaw, if the actual inflation rate is 1.75% or lower, no efficiency factor will be applied.

22. EWSI's PBR structure is based on prices for chemicals, power and other inputs increasing at the level of inflation. If prices for these inputs increase at levels greater than inflation, EWSI will need to find additional cost savings to offset these price increases and still maintain its proposed rate of return. Refer to EWSI's further comments below on the "Incentives to Innovate".

23. EWSI retained an independent expert, Dr. David Ryan, a Professor with the University of Alberta's Economics Department, to recommend a productivity factor for EWSI's 2012-2016 PBR. Dr. Ryan's analysis and conclusions were provided to Grant Thornton. In Dr. Ryan's report, he concludes "that the most reasonable forecast of productivity growth in the utility industry in Alberta for the next several years is that it will be zero". However, to demonstrate a continuing commitment to its customers to increase operational efficiencies, EWSI proposes to continue to with an efficiency factor of 0.25% for the 2012-2016 PBR.

Operating Costs

GT Report Reference: Page 11 Subsection (e)

24. "Consistent with our finding with respect to capital projects, we note that the City, as regulator, should contemplate an enhanced level of disclosure by EWSI over the term of PBR III with respect to its financial performance with a detailed analysis of variances between actual and forecasted values. As a further step to mitigate future cost increases, the City should contemplate mechanisms which would require prior approval of incremental expenditures before they get aggregated in the revenue requirements."

EWSI Comments:

25. The recommendations to provide "...enhanced level of disclosure over the term with respect to financial performance..." and "...mechanisms which would require prior approval of incremental expenditures before they get aggregated..." suggest a move back to cost of service regulation. As noted in its comments above regarding "Capital Programs" oversight process, EWSI is concerned about eroding the benefits of a PBR mechanism by introducing processes that reduce regulatory efficiency. EWSI is submitting for City Council approval its plan as part of its 5-year PBR Bylaw; having additional process for approvals during the five year term could create duplication of effort and process. EWSI considers that a PBR framework should allow the utility the ability to make operating cost decisions to balance off performance standards and return on equity considerations. The test as to whether EWSI's operating decisions are appropriate lies in past performance history, the returns achieved and the resulting water rates which are reasonable relative to other comparable cities.

Performance Indices

GT Report Reference: Page 11 Subsection (f)

26. The use of indices which are based on the aggregated value of a basket of individual measures dilutes the relative importance of each index and fails to properly account for the criticality of some measures. This is especially relevant in the context where not all measures share the same relative importance and where performance on individual measures are mitigated or averaged. For selected measures that impact critical activities, consideration should be given to creating individual thresholds to ensure minimum performance is consistently achieved.

EWSI Comments:

27. EWSI considers all the performance measures – system reliability, water quality, customer service, environmental and safety performance – to be of comparable importance to ensure a well functioning water and wastewater system. Therefore, energy and attention is applied to all of these five areas as a matter of sound utility management. Further, the existing performance measures have served the City well, as indicated by the relatively positive customer survey results. As a result, EWSI does not see the need to have additional individual measures added to the performance measures.

28. Although EWSI's individual performance measures are grouped for penalty calculations they are reported on individually to City Council and specific initiatives to address missed

performance are followed up on with new initiatives and reported back to City Council in the annual PBR Progress Reports.

Wastewater Customer Service

GT Report Reference: Page 12 Subsection (f)

29. Under the customer services index for wastewater treatment, the measure of number of meetings held may not result in a meaningful measure which reflects customer service nor provide an opportunity to monitor and track improvements. A possible variation to this index could be to measure the ratio of "number of open items during the meetings over the number of items closed within the targeted period". So independently of the number of meetings, EWSI would measure the pro-activeness in responding to the community liaison committee open issues. Other variations to this measure could also be considered.

EWSI Comments:

30. The intent of this measure is to ensure that Gold Bar Wastewater Treatment plant management continues to engage with the Gold Bar community, as has been the case since the plant was owned by the City. Because of major changes to Gold Bar's operations (e.g. Enhanced Primary Treatment) and the lack of historical data with both the new operational configuration and operation of the plant by EWSI, a simple engagement measure was deemed appropriate. Having said that, EWSI will consider alternatives to this measure for discussion with the City.

Biosolids and Supernatant Management

GT Report Reference: Page 12 Subsection (f)

31. "Furthermore, given the relationship between the City's Drainage Branch and the Gold Bar wastewater treatment plant on biosolids management, it would appear that the development of performance measures around biosolids production and supernatant management would be warranted."

EWSI Comments:

32. A mechanism already exists for direct and collaborative interface between Gold Bar Wastewater Treatment Plant and the City's Drainage Branch, in the form of the Gold Bar Management Committee. This Committee, which includes both senior EWSI and City staff, has mandate to jointly manage the interface points between the Wastewater Treatment Plant and the

Drainage Branch. This structure also includes a subcommittee, the Edmonton Biosolids Regional Partnership responsible for the biosolids and supernatant management activities.

<u>Incentive to Innovate</u>

GT Report Reference: Page 12 Subsection (g)

33. "From a financial perspective there is limited incentive for EPCOR to innovate and thus reduce the cost of service delivery to rate payers. The current model is effectively a blend of PBR for service quality related elements and traditional return on rate base for the financial component. To create a full PBR system and incent cost reduction for ratepayers, there has to be an incentive (for EWSI) to innovate and drive down the cost of service delivery. The current efficiency factor is not an incentive for EPCOR to be innovative and more efficient. Based on the current regulatory model, we have made recommendations above to create greater oversight in financial decision making regarding capital and operating matters. Should the rate structure evolve towards more of a full PBR model with incentives for reducing costs to ratepayers, then these oversight mechanisms can be withdrawn."

EWSI Comments:

34. EWSI notes that there are several ways, other than through the efficiency factor, in which EWSI is incented to innovate and find cost savings. These other incentives stem from PBR III revenue requirement and rates which reflect forecast increases in its input prices held at the level of inflation.

35. While EWSI's forecast revenue requirement for 2012-2016 reflects increases in certain costs above inflation, these are only related to higher volume/activity levels (driven by regulatory, reliability, City of Edmonton requirements, etc.) and all input prices are assumed to increase based on the inflation rate (as measured by CPI and AHE). Therefore, EWSI retains the risk associated with input prices for capital and operating costs rising above inflation and is driven to find cost savings to offset any increases in input prices above inflation.

36. EWSI considers that there is a high probability of certain key input prices rising above inflation which will result in strong incentives to find offsetting cost savings, for instance:

- Chemical prices
- Power prices – Under PBR III, power prices are forecast to increase at CPI. However, EWSI has a power price contract for the next five years based on power prices increasing at rates much higher than forecast CPI.

- Interest rates – Under PBR III, the cost of new debt is forecast to be 5.89%, which is based on the 2012 forecast held constant for the 5-year period. EWSI will need to mitigate the impacts of higher than forecast interest rates.
- Construction materials costs – If Alberta faces another construction boom in the next 5-year period, EWSI could face rapidly increasing materials costs at level above CPI.

37. Another way EWSI is incented to find cost savings is if there is a significant reduction in water consumption compared to EWSI's forecast. This occurred during PBR II and caused EWSI to have to manage a significant reduction in revenues relative to forecast.

Attachment D

White Rock thirsts for control of municipal water supply

CBC News Posted: Jun 12, 2013 12:17 PM PT Last Updated: Jun 12, 2013 2:30 PM PT

White Rock city councillors have voted unanimously to try to buy the municipality's water system from the private corporation that owns it.

City councillors voted on Monday to enter into negotiations to buy the city's water assets from Epcor, a company run by the City of Edmonton.

Mayor Wayne Baldwin says the decision was based purely on its financial model. White Rock is one of the only cities in the province that doesn't own its water supply.

"We're looking at doing something that's in the best interest of the taxpayers with respect to their money."

Former city councillor Margaret Woods, who led the push to buy back the water supply, says it make financial sense.

"Why should the taxpayers pay the City of Edmonton for their water? You're making the profits of one community for the benefit of another community."

- **Read more about the White Rock Accountable Water Committee's campaign**

Earlier this year, Epcor announced upgrades to comply with Fraser Health standards by 2016 would cost up to $22 million.

Woods says the city can now explore other solutions instead of financing those expensive upgrades.

"Rather than spending $22 million, there are other options, and one of the options was to join the Metro Vancouver system."

But council will have to decide quickly what it wants to do. The city has until Monday to submit a decision to the province's Comptroller of Water Rights.

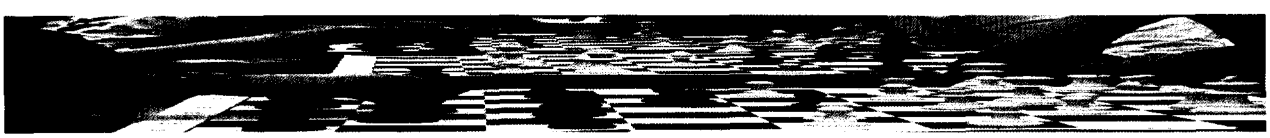
Stay Connected with CBC News

Latest British Columbia News

Mobile Facebook Podcasts Twitter Alerts Newsletter

- School bus crash near Vernon blamed on icy road
- Sochi Winter Olympics' orca whale exhibit sparks outrage
- Assisted suicide appeal to be heard by Supreme Court audio
- 1 killed in 4-vehicle crash in South Vancouver
- Power still out for many areas of Northern B.C.

Must Watch

- 

  Chess club big at elementary school

  2:34

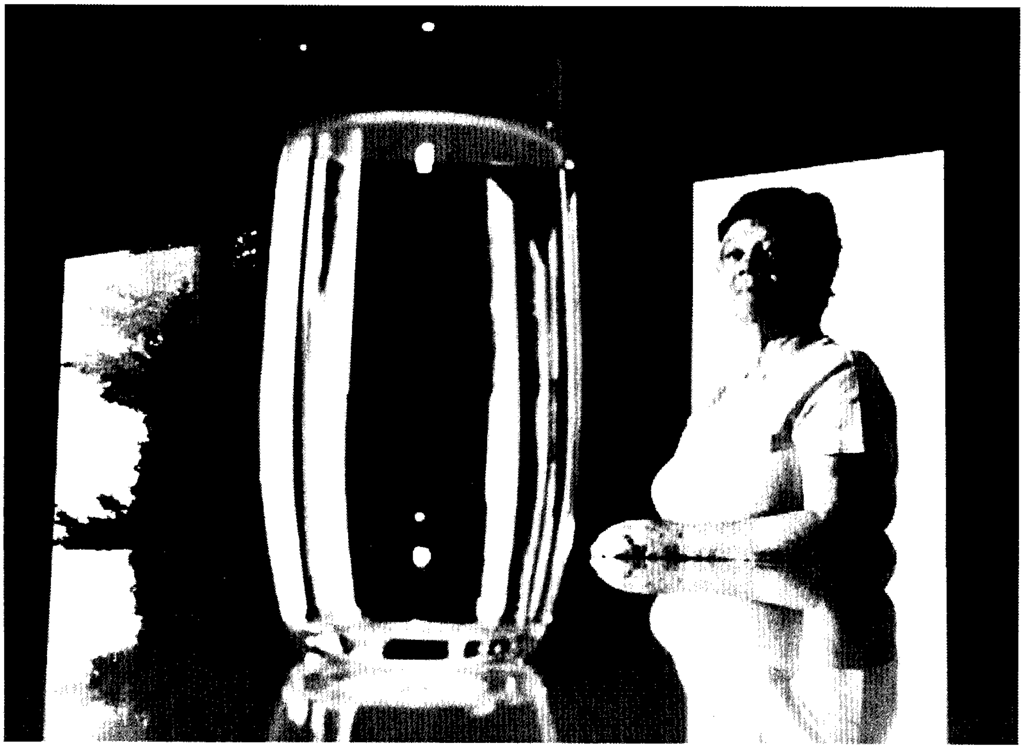
  At Lord Selkirk, focus on playing seems to be a winning formula

-

now

Former councillor urges White Rock to buy water utility

Christopher Poon / Surrey Now
May 30, 2013 01:00 AM



Former White Rock councillor Margaret Woods would like the city to purchase its own water supply, saying it's wrong for Edmonton-based EPCOR to make money off of taxpayers. Photograph by: Kevin Hill

Former White Rock councillor Margaret Woods would like the city to purchase its own water supply, saying it's wrong for Edmonton-based EPCOR to make money off of taxpayers. Photograph by: Kevin Hill

With White Rock council expected to receive a staff report in the coming weeks on the possibility of the city purchasing its own water utility, one resident stood before council Monday urging it to "do the right thing" and go ahead with the purchase.

On behalf of the White Rock Accountable Water Committee, former city councillor Margaret Woods made the case that the city should take the plunge and purchase its own water supply from Edmonton-based EPCOR rather than allowing the company to move forward with its proposed upgrading of the utility.

Earlier this year, EPCOR announced plans to upgrade the city's water supply in two phases, which will come at a combined cost of $22 million.

The first phase will include the chlorination of the water supply by 2016, while the second would include arsenic and manganese treatment. The cost will be $12 million and $10 million respectively.

However, Woods argued that if the taxpayers of White Rock are going to be spending so much anyway, now is the time for the city to purchase its own water supply. She said as it stands, the City of Edmonton is essentially making money off of White Rock's water system, as EPCOR pays an annual dividend to the Albertan city.

"The residents of White Rock contribute to that dividend," said Woods. "It collects over $2 million (a year) from residents and businesses of White Rock. So if the city doesn't buy (the utility) the people will pay over $22 million with nothing to show."

Woods also noted that if the city did end up purchasing the water supply, it could look into hooking up with the GVRD water system, which already has the arsenic and manganese treatment in place, which could save the city $10 million.

"It's going to cost us one way or another... so doesn't it make sense for the City of White Rock to make the money, not Edmonton?" said Woods. "Let's do it today. For the people here, and future generations."

Council is expected to hear staff recommendations at the June 10 council meeting. cpoon@thenownewspaper.com

Twitter @questionchris

Attachment E

Chaparral City Water Company
Test Year Ended December 31, 2012
Income Statement Adjustment SLH-3, Page 1 of 2

Exhibit
Schedule C-2
Page 6
Witness: Hubbard

Line No.	Annualize Year End Revenue - Residential:	Residential				
1						
2						
3						
4		5/8 x 3/4"	1"	1-1/2"	2"	3"
5	*Customer Growth Statistics*					
6	From Schedule H-2					
7	Average Customers	8,308	4,327	25	38	2
8	Average Monthly Gallons	7,870	10,780	33,407	71,775	82,636
9						
10	Actual TYE Bills	8,331	4,351	25	38	2
11	Mo Customer Growth Bills	23	24	0	0	0
12	(Line 10 - Line 7)					
13						
14	Mo Cust Growth Volumes (1,000 gals)	181	259	-	-	-
15	(Line 11 x Line 8 / 1,000)					
16						
17						
18						
19	*Customer Growth Revenue:*					
20	Meter Charge	$ 16.50	$ 27.50	$55.00	$ 88.00	$ 176.00
21	Volumetric - 1st block limit	*3,000*	*24,000*	*60,000*	*100,000*	225,000
22	1st block rate	$2.3100	$2.9600	$2.9600	$2.9600	$2.9600
23	2nd block limit	9,000	infinite	infinite	infinite	infinite
24	2nd block rate	$2.9600	$3.6100	$3.6100	$3.6100	$3.6100
25	3rd block rate	$3.6100				
26						
27	Annual Revenue per Additional Bill	$454.14	$712.92	$1,846.56	$3,605.40	$5,047.20
28	times Customer Growth Bills (Line 11)	$10,445.28	$17,110.08	$0.00	$0.00	$0.00
29						
30	Total Residential					$27,555

Chaparral City Water Company
Test Year Ended December 31, 2012
Income Statement Adjustment SLH-3, Page 2 of 2

Exhibit
Schedule C-2
Page 7
Witness: Hubbard

Line No.	Annualize Year End Revenue - Commercial:							
1								
2								
3		Commercial						
4		5/8 x 3/4"	1"	1-1/2"	2"	3"	4"	6"
5	*Customer Growth Statistics*							
6	From Schedule H-2							
7	Average Customers	118	144	67	65	3	4	2
8	Average Monthly Gallons	9,645	14,836	36,607	63,293	73,585	188,750	360,667
9								
10	Actual TYE Bills	120	143	70	66	3	4	2
11	Mo Customer Growth Bills	2	(1)	3	1	0	0	0
12	(Line 10 - Line 7)							
13								
14	Mo Cust Growth Volumes (1,000 gals)	19	(15)	110	63	-	-	-
15	(Line 11 x Line 8 / 1,000)							
16								
17								
18								
19	*Customer Growth Revenue:*							
20	Meter Charge	$ 16.50	$ 27.50	$ 55.00	$ 88.00	$ 176.00	$ 275.00	$ 550.00
21	Volumetric - 1st block limit	9,000	24,000	60,000	100,000	225,000	350,000	725,000
22	1st block rate	$2.9600	$2.9600	$2.9600	$2.9600	$2.9600	$2.9600	$2.9600
23	2nd block limit	infinite	infinite	infinite	infinite	infinite	infinite	infinite
24	2nd block rate	$3.6100	$3.6100	$3.6100	$3.6100	$3.6100	$3.6100	$3.6100
25								
26								
27	Annual Revenue per Additional Bill	$545.62	$856.92	$1,960.32	$3,304.20	$4,725.72	$10,004.40	$19,410.84
28	times Customer Growth Bills (Line 11)	$1,091.24	($856.92)	$5,880.96	$3,304.20	$0.00	$0.00	$0.00
29								
30	Total Commercial					Total Commercial		$9,419

Attachment F

Chaparral City Water Company

Test Year Ended December 31, 2012

Plant in Service Reconciliation

Supporting Workpaper

Schedule B-2

Witness: Hubbard

Line No.	G/L Account	Sub. Account	Description	Approved in Dec No. 71308 (10/21/09) Annual Depr. Rate	Monthly Depr. Rate	Approved Dec. 71309 December 2006 TY	Reverse CAP Allocation (MEM Adj #2)	Reverse MEM (Adj #6) Capitalize Expenses	Reverse Retire Wells (MEM Adj #7)	Plant in Service December 2006 Before GRC Adjs
No. 2 3 4 5			Reconcile Chaparral City Water's Plant to Amounts Previously Approved							
		301	Organization	0.00%	0.00%					
6		302	Franchises	0.00%	0.00%	-				-
7		303	Land and Land Rights	0.00%	0.00%	1,551,858	(1,280,000)		34,062	305,919
8		304	Structures & Improvements	3.33%	0.28%	1,529,642		(11,590)	596	1,518,648
9		305	Collecting and Impounding Reservoirs	2.50%	0.21%	-			6,548	6,548
10		306	Lakes, Rivers, Other Intakes	2.50%	0.21%	-			-	-
11		307	Wells	3.33%	0.28%	159,627			172,438	332,065
12		308	Infiltration Galleries & Tunnels	6.67%	0.56%	-			-	-
13		309	Supply Mains	2.00%	0.17%	-			-	-
14		310	Power Generation Equipment	5.00%	0.42%	-			-	-
15		311	Pumping Equipment	12.50%	1.04%	1,588,246		(26,084)	(55,254)	1,483,614
16		320	Water Treatment Plant	3.33%	0.28%	5,786,640			1,976,860	7,757,814
17		330	Distribution Reservoirs & Standpipes	2.22%	0.19%	6,512,148			1,658,272	8,170,420
18		331	Transmission & Distribution Mains	2.00%	0.17%	18,953,054			(1,502,420)	17,450,634
19		333	Services	3.33%	0.28%	7,496,339			(106,409)	7,389,930
20		334	Meters & Meter Installation	8.33%	0.69%	2,736,866			(11,193)	2,722,117
21		335	Hydrants	2.00%	0.17%	1,224,985			(53,352)	1,171,633
22		336	Backflow Prevention Devices	0.00%	0.00%	-			-	-
23		339	Other Plant & Misc. Equipment	6.67%	0.56%	1,717,229			(106,542)	1,610,687
24		340	Office Furniture & Equipment	6.67%	0.56%	272,173			(1,814)	270,359
25		341	Transportation Equipment	20.00%	1.67%	535,315			-	535,315
26		342	Stores Equipment	4.00%	0.33%	-			-	-
27		343	Tools, Ship & Garage Equipment	5.00%	0.42%	149,365			-	149,365
28		344	Laboratory Equipment	10.00%	0.83%	-			-	-
29		345	Power Operated Equipment	5.00%	0.42%	-			-	-
30		346	Communication Equipment	10.00%	0.83%	39,105			-	39,105
31		347	Miscellaneous Equipment	10.00%	0.83%	-			106,542	106,542
32		348	Other Tangible Plant	10.00%	0.83%	-			-	-
33			Subtotal			50,252,592	(1,280,000)	(37,674)	2,118,334	51,020,715
34										
35			General Office Plant Allocation			875,470				
36										
37			Total Authorized Plant in Service			51,128,062				
38										
39				ACC Annual Report						51,020,714
40										
41					Difference					(1)
42										Adjusted to Annual Report

Chaparral City Water Company

Test Year Ended December 31, 2012

Plant in Service Reconciliation

Line No.	G/L Account	Sub. Account	Description	Additions 2007	Retirements 2007	Adjustments 2007	Balance December 2007	2007 ACC Annual Report	Difference
No.			Reconcile Chaparral City Water's Plant						
2			to Amounts Previously Approved						
		301	Organization				$ -		$ -
6		302	Franchises				-	$ -	-
7		303	Land and Land Rights	1,282,733.63			1,588,653	1,588,654	1
8		304	Structures & Improvements	26,359.16			1,545,007	1,545,008	1
9		305	Collecting and Impounding Reservoirs				6,548	-	(6,548)
10		306	Lakes, Rivers, Other Intakes				-	-	-
11		307	Wells				332,065	332,065	-
12		308	Infiltration Galleries & Tunnels				-	-	-
13		309	Supply Mains				-	-	-
14		310	Power Generation Equipment				-	-	-
15		311	Pumping Equipment	1,211,840.14			2,695,454	2,695,454	(0)
16		320	Water Treatment Plant	389,983.20	1,072.24		8,146,725	8,146,725	0
17		330	Distribution Reservoirs & Standpipes	1,688,598.76	5,419.85		9,853,599	9,860,147	6,548
18		331	Transmission & Distribution Mains	2,040,825.43	20,187.59		19,471,272	19,471,272	0
19		333	Services	888,035.07			8,277,965	8,277,965	(0)
20		334	Meters & Meter Installation				2,722,117	2,722,117	-
21		335	Hydrants	298,183.91			1,469,817	1,469,817	0
22		336	Backflow Prevention Devices				-	-	-
23		339	Other Plant & Misc. Equipment				1,610,687	1,940,072	329,385
24		340	Office Furniture & Equipment	12,057.66	5,199.01		277,218	277,217	(1)
25		341	Transportation Equipment	65,258.23	55,374.77		545,198	545,199	1
26		342	Stores Equipment				-	-	-
27		343	Tools, Ship & Garage Equipment	6,950.37	6,860.02		149,455	149,456	1
28		344	Laboratory Equipment				-	-	-
29		345	Power Operated Equipment	788.50			789	789	1
30		346	Communication Equipment	4,221.85			43,327	43,326	(1)
31		347	Miscellaneous Equipment	222,843.40			329,385	-	(329,385)
32		348	Other Tangible Plant				-	-	-
33			Subtotal	8,138,679	94,113	-	59,065,281	59,065,283	2
34									
35			General Office Plant Allocation						
36									
37			Total Authorized Plant in Service					59,065,283	2
38									
39							59,065,283		
40									
41							2		
42									

Chaparral City Water Company

Test Year Ended December 31, 2012

Plant in Service Reconciliation

Line No.

No. Reconcile Chaparral City Water's Plant
2 to Amounts Previously Approved

Line No.	G/L Account	Sub. Account	Description	Additions 2008	Retirements 2008	Adjustments 2008	Ending Balance December 2008	2008 ACC Annual Report	Difference
3									
4									
5									
		301	Organization				$ -		$ -
6		302	Franchises				-	-	-
7		303	Land and Land Rights				1,588,653	1,588,654	1
8		304	Structures & Improvements	159,982.67		(22.07)	1,705,012	1,705,012	0
9		305	Collecting and Impounding Reservoirs				6,548	-	(6,548)
10		306	Lakes, Rivers, Other Intakes				-	-	-
11		307	Wells				332,065	337,317	5,252
12		308	Infiltration Galleries & Tunnels				-	-	-
13		309	Supply Mains				-	-	-
14		310	Power Generation Equipment				-	-	-
15		311	Pumping Equipment	804,971.44	27,624.24		3,472,801	5,278,130	1,805,329
16		320	Water Treatment Plant	76,342.28	37,668.35		8,185,399	8,185,399	0
17		330	Distribution Reservoirs & Standpipes	20,905.68	17,093.00		9,857,412	9,858,707	1,295
18		331	Transmission & Distribution Mains	1,844,922.77	24,395.40	52,344.61	21,239,455	21,239,455	0
19		333	Services	1,241,156.87	206,176.63	(3,433.07)	9,316,378	9,316,378	(0)
20		334	Meters & Meter Installation	118,995.60			2,841,113	2,841,112	(1)
21		335	Hydrants	240,439.75		2,413.16	1,707,844	1,707,843	(1)
22		336	Backflow Prevention Devices				-	-	-
23		339	Other Plant & Misc. Equipment				1,610,687	134,744	(1,475,943)
24		340	Office Furniture & Equipment	144.93		312.75	277,050	277,049	(1)
25		341	Transportation Equipment	17,079.99	45,865.23	(31,522.05)	547,935	547,936	1
26		342	Stores Equipment				-	-	-
27		343	Tools, Ship & Garage Equipment	1,895.44			151,351	169,747	18,396
28		344	Laboratory Equipment				-	-	-
29		345	Power Operated Equipment	17,607.10			18,396	-	(18,396)
30		346	Communication Equipment				43,327	43,326	(1)
31		347	Miscellaneous Equipment				329,385	-	(329,385)
32		348	Other Tangible Plant				-	-	-
33			Subtotal	4,544,445	358,823	20,093	63,230,809	63,230,809	(0)
34									
35			General Office Plant Allocation						
36									
37			Total Authorized Plant in Service	4,544,445	358,823	20,093	63,230,809	63,230,809	(0)
38									
39							63,230,809		
40									
41							(0)		
42									

Chaparral City Water Company

Test Year Ended December 31, 2012

Plant in Service Reconciliation

Line No.	G/L Account	Sub. Account	Description	Additions 2009	Retirements 2009	Adjustments 2009	Ending Balance December 2009	2009 ACC Annual Report	Difference
No.			Reconcile Chaparral City Water's Plant to Amounts Previously Approved						
2									
3									
4									
5									
		301	Organization				$ -		$ -
6		302	Franchises				-	-	-
7		303	Land and Land Rights			34,063.34	1,554,589	1,554,591	2
8		304	Structures & Improvements	17,599.98			1,722,612	1,722,612	0
9		305	Collecting and Impounding Reservoirs				6,548	-	(6,548)
10		306	Lakes, Rivers, Other Intakes				-	-	-
11		307	Wells		106,816.30	65,621.56	159,627	159,627	(0)
12		308	Infiltration Galleries & Tunnels				-	-	-
13		309	Supply Mains				-	-	-
14		310	Power Generation Equipment				-	-	-
15		311	Pumping Equipment	468,725.07	20,955.33	(55,253.28)	3,975,824	5,793,460	1,817,636
16		320	Water Treatment Plant	226,943.76	2,012,183.41	(34,063.34)	6,434,223	6,434,223	0
17		330	Distribution Reservoirs & Standpipes			1,660,938.99	8,196,473	8,203,020	6,547
18		331	Transmission & Distribution Mains	832,027.17	3,831.50	(1,498,539.53)	23,566,190	23,566,190	0
19		333	Services	718,240.27	114,215.00	(89,658.84)	10,010,062	10,010,062	(0)
20		334	Meters & Meter Installation	21,977.21		(11,192.82)	2,874,283	2,874,282	(1)
21		335	Hydrants	203,025.75	49,579.86	(42,305.11)	1,903,595	1,903,594	(1)
22		336	Backflow Prevention Devices				-	-	-
23		339	Other Plant & Misc. Equipment				1,610,687	134,744	(1,475,943)
24		340	Office Furniture & Equipment	3,782.15	2,266.26	(1,814.00)	280,380	280,379	(1)
25		341	Transportation Equipment				547,935	547,936	1
26		342	Stores Equipment				-	-	-
27		343	Tools, Ship & Garage Equipment				151,351	169,747	18,396
28		344	Laboratory Equipment				-	-	-
29		345	Power Operated Equipment				18,396	-	(18,396)
30		346	Communication Equipment				43,327	43,327	0
31		347	Miscellaneous Equipment	12,307.23			341,693	-	(341,693)
32		348	Other Tangible Plant				-	-	-
33			Subtotal	2,504,629	2,309,848	27,797	63,397,793	63,397,794	1
34									
35			General Office Plant Allocation						
36									
37			Total Authorized Plant in Service	2,504,629	2,309,848	27,797	63,397,793	63,397,794	1
38									
39								63,397,794	
40									
41									
42									

Chaparral City Water Company

Test Year Ended December 31, 2012

Plant in Service Reconciliation

Line No.	G/L Account	Sub. Account	Description	Additions 2010	Retirements 2010	Adjustments 2010	Ending Balance December 2010	2010 ACC Annual Report	Difference
No.			Reconcile Chaparral City Water's Plant						
2			to Amounts Previously Approved						
3									
4									
5									
		301	Organization				$ -		$ -
6		302	Franchises				-	$ -	-
7		303	Land and Land Rights				1,554,589	1,554,591	2
8		304	Structures & Improvements				1,722,612	1,722,612	0
9		305	Collecting and Impounding Reservoirs				6,548	-	(6,548)
10		306	Lakes, Rivers, Other Intakes				-	-	-
11		307	Wells				159,627	159,627	(0)
12		308	Infiltration Galleries & Tunnels				-	-	-
13		309	Supply Mains				-	-	-
14		310	Power Generation Equipment				-	-	-
15		311	Pumping Equipment				3,975,824	5,801,210	1,825,386
16		320	Water Treatment Plant				6,434,223	6,434,223	0
17		330	Distribution Reservoirs & Standpipes				8,196,473	8,203,020	6,547
18		331	Transmission & Distribution Mains	16,339.50	916.04		23,581,613	23,581,613	(0)
19		333	Services	408,787.74	144,043.22		10,274,807	10,274,807	(0)
20		334	Meters & Meter Installation				2,874,283	2,874,282	(1)
21		335	Hydrants	45,929.60	1,744.00		1,947,780	1,947,780	(0)
22		336	Backflow Prevention Devices				-	-	-
23		339	Other Plant & Misc. Equipment				1,610,687	165,737	(1,444,950)
24		340	Office Furniture & Equipment			(1.31)	280,381	280,380	(1)
25		341	Transportation Equipment			33,030.63	514,905	514,905	0
26		342	Stores Equipment				-	-	-
27		343	Tools, Ship & Garage Equipment				151,351	169,747	18,396
28		344	Laboratory Equipment				-	-	-
29		345	Power Operated Equipment				18,396	-	(18,396)
30		346	Communication Equipment				43,327	43,327	0
31		347	Miscellaneous Equipment	38,742.76			380,435	-	(380,435)
32		348	Other Tangible Plant				-	-	-
33			Subtotal	509,800	146,703	33,029	63,727,860	63,727,861	1
34									
35			General Office Plant Allocation						
36									
37			Total Authorized Plant in Service	509,800	146,703	33,029	63,727,860	63,727,861	1
38									
39								63,727,861	
40									
41									
42									

Chaparral City Water Company

Test Year Ended December 31, 2012

Plant in Service Reconciliation

Line No.	G/L Account	Sub. Account	Description	Additions 2011	Retirements 2011	Adjustments 2011	Ending Balance December 2011	2011 ACC Annual Report	Difference
No.	Reconcile Chaparral City Water's Plant to Amounts Previously Approved								
2									
3									
4									
5									
		301	Organization				$ -		$ -
6		302	Franchises				-	$ -	-
7		303	Land and Land Rights				1,554,589	1,554,591	2
8		304	Structures & Improvements	25,885			1,748,497	1,731,983	(16,514)
9		305	Collecting and Impounding Reservoirs				6,548	1,012,241	1,005,693
10		306	Lakes, Rivers, Other Intakes				-	-	-
11		307	Wells				159,627	159,628	1
12		308	Infiltration Galleries & Tunnels				-	-	-
13		309	Supply Mains				-	2,201,526	2,201,526
14		310	Power Generation Equipment				-	-	-
15		311	Pumping Equipment	37,782			4,013,606	5,838,992	1,825,386
16		320	Water Treatment Plant	37,208	8,041		6,463,390	6,479,904	16,514
17		330	Distribution Reservoirs & Standpipes				8,196,473	4,989,253	(3,207,220)
18		331	Transmission & Distribution Mains	28,618	217,897		23,392,334	23,412,896	20,562
19		333	Services	627,477			10,902,284	10,890,767	(11,517)
20		334	Meters & Meter Installation	82,281	40,496		2,916,068	2,916,068	0
21		335	Hydrants	92,006	10,828		2,028,958	2,019,913	(9,045)
22		336	Backflow Prevention Devices				-	-	-
23		339	Other Plant & Misc. Equipment				1,610,687	165,737	(1,444,950)
24		340	Office Furniture & Equipment	24,687			305,068	305,068	(0)
25		341	Transportation Equipment		20,243		494,662	494,662	0
26		342	Stores Equipment				-	-	-
27		343	Tools, Ship & Garage Equipment		1,911		149,440	167,836	18,396
28		344	Laboratory Equipment				-	-	-
29		345	Power Operated Equipment				18,396	-	(18,396)
30		346	Communication Equipment				43,327	43,326	(1)
31		347	Miscellaneous Equipment				380,435	-	(380,435)
32		348	Other Tangible Plant				-	-	-
33			Subtotal	955,944	299,416	-	64,384,388	64,384,391	3
34									
35			General Office Plant Allocation						
36									
37			Total Authorized Plant in Service	955,944	299,416	-	64,384,388	64,384,391	3
38									
39								64,384,390	
40									
41									
42									

Chaparral City Water Company

Test Year Ended December 31, 2012

Plant in Service Reconciliation

Line No.	G/L Account	Sub. Account	Description	Additions 2012	Retirements 2012	Adjustments 2012	Ending Balance December 2012	2012 ACC Annual Report	Difference
No.			Reconcile Chaparral City Water's Plant to Amounts Previously Approved						
2									
3									
4									
5									
		301	Organization				$ -		$ -
6		302	Franchises				-	0	-
7		303	Land and Land Rights				1,554,589	1,554,591	2
8		304	Structures & Improvements	47,408			1,795,905	1,779,391	(16,514)
9		305	Collecting and Impounding Reservoirs	6,970			13,518	1,013,959	1,000,441
10		306	Lakes, Rivers, Other Intakes				-	0	-
11		307	Wells				159,627	159,627	(0)
12		308	Infiltration Galleries & Tunnels				-	0	-
13		309	Supply Mains				-	2,201,526	2,201,526
14		310	Power Generation Equipment				-	0	-
15		311	Pumping Equipment	87,676			4,101,283	5,926,668	1,825,385
16		320	Water Treatment Plant	71,190			6,534,580	6,551,094	16,514
17		330	Distribution Reservoirs & Standpipes				8,196,473	4,989,253	(3,207,220)
18		331	Transmission & Distribution Mains	977,835			24,370,169	24,395,984	25,815
19		333	Services				10,902,284	10,890,767	(11,517)
20		334	Meters & Meter Installation				2,916,068	2,916,068	0
21		335	Hydrants				2,028,958	2,019,913	(9,045)
22		336	Backflow Prevention Devices				-	0	-
23		339	Other Plant & Misc. Equipment	19,005			1,629,692	184,742	(1,444,950)
24		340	Office Furniture & Equipment				305,068	305,068	(0)
25		341	Transportation Equipment				494,662	494,662	0
26		342	Stores Equipment				-	0	-
27		343	Tools, Ship & Garage Equipment	22,827			172,266	190,662	18,396
28		344	Laboratory Equipment				-	0	-
29		345	Power Operated Equipment				18,396	0	(18,396)
30		346	Communication Equipment				43,327	43,326	(1)
31		347	Miscellaneous Equipment				380,435	0	(380,435)
32		348	Other Tangible Plant				-	0	-
33			Subtotal	1,232,912	-	-	65,617,300	65,617,301	1
34									
35			General Office Plant Allocation						
36									
37			Total Authorized Plant in Service	1,232,912	-	-	65,617,300	65,617,301	1
38									
39								65,617,301	
40									
41									
42									

Attachment G

Chaparral City Water Company
Docket No. W-02113A-13-0118

Response to Data Request No. RUCO 7.05 1st Supplement

Row Labels	**Sum of Accum Deprec**
271210-1-1-	(1,527,213.25)
271220-1-1-	(348,463.55)
271230-1-1-	(59,342.51)
271240-1-1-	(438,114.54)
271250-1-1-	(70,720.16)
271260-1-1-	(71,297.54)
303600-1-1-	0.00
304200-1-1-	63,345.53
304300-1-1-	125,819.42
304400-1-1-	32,879.48
304500-1-1-	493,170.22
305000-1-1-	683,895.50
307000-1-1-	(9,316.29)
309000-1-1-	1,477,461.70
311000-1-1-	5,016,103.48
320100-1-1-	1,503,631.08
330000-1-1-	1,529,748.23
331001-1-1-	8,472,352.06
333000-1-1-	2,551,906.48
334100-1-1-	2,423,379.36
335000-1-1-	413,304.53
339100-1-1-	638.73
339500-1-1-	57,345.15
340100-1-1-	226,215.80
341100-1-1-	494,662.37
343000-1-1-	88,854.42
345000-1-1-	17,314.46
346200-1-1-	43,326.48
347000-1-1-	41,221.33
Grand Total	**23,232,107.97**

SOUTHERN CALIFORNIA WATER COMPANY
DEPRECIATION PROVISION - 2007
Chaparral- Co 500
RATES EFFECTIVE

Acct	Description	Fixed Capital 12/31/2006	Rate	Accrual	2007 Expense	Accum Depre'n as of 12/31/07 FINAL	
301	Organization		0.00	0.00	**0.00**		
302	Franchises and Consents		0.00	0.00	**0.00**		
303	Other Intangible Plant	34,063	0.00	0.00	**0.00**	**639**	
303	Other Intangible Plant-Conservation		0.00	0.00	**0.00**	**-**	
306/7	Land and Land Rights	271,857	0.00	0.00	**0.00**		
311	Structures and Improvements - Supply		3.33	0.00	**0.00**		
312	Collecting and Impounding Reservoirs	1,006,989	2.50	25,174.72	**25,174.72**	**553,547**	
313	Lake, River and Other Intakes		2.50	0.00	**0.00**		
314	Springs and Tunnels		0.00	0.00	**0.00**		
315	Wells	332,065	3.33	11,057.77	**11,057.77**	**65,990**	
316	Supply Mains	3,621,713	2.00	72,434.26	**72,434.26**	**1,195,789**	
317	Other Sources of Supply Plant		0.00	0.00	**0.00**		
321	Structures and Improvements - Pumping	190,044	3.33	6,328.46	**6,328.46**	**31,700**	
324	Pumping Equipment	1,483,614	12.50	185,451.77	**185,451.77**	**1,019,908**	
325	Other Pumping Plant	1,650,197	12.50	206,274.62	**206,274.62**	**410,765**	
331	Structures and Improvements - Treatment	517,411	3.33	17,229.79	**17,229.79**	**31,960**	
332	Water Treatment Equipment	7,757,814	3.33	258,335.21	**246,289.74**	**2,356,570**	
341	Structures and Improvements - T & D	9,623	3.33	320.45	**320.45**	**7,108**	
342	Reservoirs and Tanks	3,543,013	2.22	78,654.90	**78,654.90**	**978,339**	
343	Transmission and Distribution Mains	17,450,634	2.00	349,012.68	**261,375.80**	**6,303,711**	
345	Services	7,389,930	3.33	246,084.66	**240,781.41**	**1,475,063**	
346	Meters	2,722,117	8.33	226,752.33	**152,589.24**	**1,258,939**	
348	Hydrants	1,171,633	2.00	23,432.65	**22,257.31**	**270,147**	
349	Other Transmission & Distribution Plant	25,811	6.67	1,721.57	**1,721.57**	**18,350**	
371	Structures & Improvements - General	801,570	3.33	26,692.29	**26,692.29**	**355,958**	
372	Office Furniture and Equipment	175,374	6.67	11,697.42	**11,697.42**	**92,197**	
37271	Computer	45,680	20.00	9,135.96	**9,135.96**		
37272	Software	11,180	20.00	2,236.09	**2,236.09**		
37273	Peripherals	38,125	20.00	7,624.90	**7,624.90**		
373	Transportation Equipment	535,315	20.00	107,063.05	**89,932.96**	**195,865**	
375	Laboratory Equipment		0.00	0.00	**0.00**		
376	Communication Equipment	39,105	10.00	3,910.46	**3,284.79**	**29,514**	
377	Power Operated Equipment		0.00	0.00	**0.00**		
378	Tool, Shop and Garage Equipment	149,365	5.00	7,468.26	**6,273.34**	**44,243**	
379	Other General Plant	41,221	3.33	0.00	**0.00**	**41,221**	
390	Other Tangible Property		10.00	0.00	**0.00**		
391	Utility Plant Purchased		0.00	0.00	**0.00**		
391	Utility Plant Purchased - non-depreciable		0.00	0.00	**0.00**		
various	Capital Lease Projects		0.00	0.00	**0.00**		
	Transfer from Accelerated Depreciation		0.00	0.00	**0.00**		
	Total for Amortization	34,063	0.00	0	**0**		
	Total for Depreciation	50,709,543	3.72	1,884,094	**1,684,819.56**	16,737,523	
	Total Non-Depreciable	271,857	n/a	0	**0**		
	Total Plant in Service	51,015,463	2.50	1,884,094.27	**1,684,819.56**	**16,737,559**	***Dep. Reserve per 2007 Financials***
					Depreciation Expense per 2007 Financials	**36**	

CHAPARRAL CITY WATER COMPANY
DEPRECIATION PROVISION - 2009
COMPANY 500
RATES EFFECTIVE

Acct	Description	Fixed Capital 12/31/2008	Composite Rate	Accrual	Contributions Capital	Contributions Accrual	OVERHEAD Acct	OVERHEAD Amount	Expense
301	Organization	0	0.00	0.00	0.00	0.00		0.00	0.00
302	Franchises and Consents	0	0.00	0.00	0.00	0.00		0.00	0.00
303	Other Intangible Plant	1,316,797	0.00	0.00	0.00	0.00		0.00	0.00
303	Other Intangible Plant-Conservation	0	0.00	0.00	0.00	0.00		0.00	0.00
306/7	Land and Land Rights	271,857	0.00	0.00	0.00	0.00		0.00	0.00
311	Structures and Improvements - Supply	0	3.33	0.00	0.00	0.00		0.00	0.00
312	Collecting and Impounding Reservoirs	1,006,989	2.50	25,174.72	0.00	0.00		0.00	25,174.72
313	Lake, River and Other Intakes	0	2.50	0.00	0.00	0.00		0.00	0.00
314	Springs and Tunnels	0	0.00	0.00	0.00	0.00		0.00	0.00
315	Wells	332,065	3.33	11,057.77	0.00	0.00		0.00	11,057.77
316	Supply Mains	3,700,065	2.00	74,001.30	0.00	0.00		0.00	74,001.30
317	Other Sources of Supply Plant	0	0.00	0.00	0.00	0.00		0.00	0.00
321	Structures and Improvements - Pumping	190,044	3.33	6,328.46	0.00	0.00		0.00	6,328.46
324	Pumping Equipment	3,472,802	12.50	434,100.19	0.00	0.00		0.00	434,100.19
325	Other Pumping Plant	1,805,328	12.50	225,666.02	0.00	0.00		0.00	225,666.02
331	Structures and Improvements - Treatment	539,646	3.33	17,970.20	0.00	0.00		0.00	17,970.20
332	Water Treatment Equipment	8,185,399	3.33	272,573.79	394,464.26	13,135.66		0.00	259,438.13
341	Structures and Improvements - T & D	169,971	3.33	5,660.04	0.00	0.00		0.00	5,660.04
342	Reservoirs and Tanks	5,151,653	2.22	114,366.69	2,135,667.93	47,411.83		0.00	66,954.86
343	Transmission and Distribution Mains	21,239,455	2.00	424,789.10	7,968,626.38	159,372.53		0.00	265,416.57
345	Services	9,316,378	3.33	310,235.39	401,546.03	13,371.48		0.00	296,863.91
346	Meters	2,841,112	8.33	236,664.66	1,636,972.50	136,359.81		0.00	100,304.85
348	Hydrants	1,707,843	2.00	34,156.86	236,619.32	4,732.39		0.00	29,424.48
349	Other Transmission & Distribution Plant	93,523	6.67	6,237.97	0.00	0.00		0.00	6,237.97
371	Structures & Improvements - General	805,351	3.33	26,818.20	0.00	0.00		0.00	26,818.20
372	Office Furniture and Equipment	277,049	6.67	18,479.19	0.00	0.00		0.00	18,479.19
37271	Computer	0	20.00	0.00	0.00	0.00		0.00	0.00
37272	Software	0	20.00	0.00	0.00	0.00		0.00	0.00
37273	Peripherals	0	20.00	0.00	0.00	0.00		0.00	0.00
373	Transportation Equipment	547,936	20.00	109,587.11	0.00	0.00	*14303*	25,205.03	84,382.07
375	Laboratory Equipment	0	0.00	0.00	0.00	0.00		0.00	0.00
376	Communication Equipment	43,326	10.00	4,332.65	0.00	0.00	*14303*	996.51	3,336.14
377	Power Operated Equipment	18,396	0.00	0.00	0.00	0.00	*14303*	0.00	0.00
378	Tool, Shop and Garage Equipment	151,351	5.00	7,567.55	0.00	0.00	*14311*	1,740.54	5,827.01
379	Other General Plant	41,221	3.33	0.00	0.00	0.00		0.00	0.00
390	Other Tangible Property	0	10.00	0.00	0.00	0.00		0.00	0.00
391	Utility Plant Purchased	0	0.00	0.00	0.00	0.00		0.00	0.00
391	Utility Plant Purchased - non-depreciable	0	0.00	0.00	0.00	0.00		0.00	0.00
various	Capital Lease Projects		0.00	0.00	0.00	0.00		0.00	0.00
	Transfer from Accelerated Depreciation		0.00	0.00	0.00	0.00		0.00	0.00
	Total for Amortization	1,316,797	0.00	0	0	0		0	0
	Total for Depreciation	61,636,903	3.84	2,365,768	12,773,896	374,384		27,942	1,963,442
	Total Non-Depreciable	271,857		0	0	0		0	0
	Total Plant in Service	63,225,557		2,365,768	12,773,896	374,384		27,942	**1,963,442**

S:\Cases-Active\Water-Sewer\Chaparral (13-0118)\Discovery\CCWC Responses to RUCO\RUCO DR #7\RUCO 7.04 2009 Acc. Depr and Expense (2.4.38 CCWC - Book Depreciation) [2009 Depr Exp] 43,447

2,006,889

11/18/13

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
BOB STUMP, Chairman
GARY PIERCE
BRENDA BURNS
SUSAN BITTER SMITH
BOB BURNS

IN THE MATTER OF THE APPLICATION OF CHAPARRAL CITY WATER COMPANY FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASE IN ITS RATES AND CHARGES BASED THEREON	DOCKET NO. W-02113A-13-0118

SURREBUTTAL TESTIMONY

OF

DAVID C. PARCELL
PRESIDENT
TECHNICAL ASSOCIATES, INC.

ON BEHALF OF

RESIDENTIAL UTILITY CONSUMERS OFFICE

FEBRUARY 7, 2014

TABLE OF CONTENTS

INTRODUCTION

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

A. My name is David C. Parcell. I am President of Technical Associates, Inc. My business address is 9030 Stony Point Parkway, Suite 580, Richmond, VA 23235.

Q. Are you the same David C. Parcell who filed Direct Testimony on behalf of the Residential Utility Consumer Office ("RUCO") on December 9, 2013?

A. Yes, I am.

Q. What is the purpose of your current testimony?

A. My present testimony is prepared to respond to the Rebuttal Testimony of Chaparral City Water Company ("Chaparral City") witness Pauline M. Ahern.

Q. How have you organized your responses to Ms. Ahern's Rebuttal Testimony concerning the common equity cost rate?

A. Ms. Ahern's Rebuttal Testimony addresses applications of three cost of equity models – DCF, CAPM, and CE. Her Rebuttal Testimony also addresses her proposed credit risk and business risk adjustments. Accordingly, my Surrebuttal Testimony addresses each of these concepts in turn.

Q. Have you prepared an exhibit in support of your testimony?

A. Yes, I have prepared one exhibit, identified as Exhibit__(DCP-2). This is comprised of 8 schedules.

DISCOUNTED CASH FLOW MODEL (DCF)

Q. Please proceed with Ms. Ahern's comments on your implementation of the DCF model. Ms. Ahern maintains in her Rebuttal Testimony on pages 36-37 that the DCF model has a tendency to mis-specify investors' required return rates, and thus, the cost of equity for a utility when the market price of utility stocks exceeds the book value. Do you agree with this position?

A. No, I do not. Knowledgeable and/or informed investors are well aware of the fact that most utilities have their rates set based on the book value of their assets (i.e., rate base and capital structure). This knowledge is reflected in the prices that investors are willing to pay for stocks and thus is reflected in DCF cost rates. To make a modification of the DCF cost rates, as Ms. Ahern implicitly proposes, amounts to an attempt to "reprice" stock values in order to develop a DCF cost rate more in line with what she thinks the results should be. This is clearly a violation of the principle of "efficient markets", which Ms. Ahern cites extensively in her Rebuttal Testimony. If one believes that markets are efficient, there is no reason to modify either stock prices or market models that are based on stock prices.

Q. On page 30, lines 8-11 of her Rebuttal Testimony, Ms. Ahern maintains that exclusive reliance on analysts' forecasts of earnings per share is appropriate in a DCF context. Do you have any comments on this?

A. Yes, I do. I first note that I do not criticize her for using analysts' forecasts of EPS as on one component of growth in her interpretation of the DCF model. In fact, I use EPS forecasts in my DCF analyses as well. What I criticize her for is the exclusive reliance on EPS forecasts and her criticism of any witness who considers alternative growth indicators. As I indicate in my Direct Testimony, investors have a multitude of information available to use in making investment decisions. It is overly simplistic to believe that all investors rely exclusively on EPS forecasts, yet that is what Ms. Ahern is implicitly assuming.

Q. Is Ms. Ahern inconsistent in her claim that the DCF model "understates" investors required returns?

A. Yes, she is. First she claims (page 15, lines 27-28) that the DCF model is "predicated" on the Efficient Market Hypothesis." Then she maintains (pages 20-22 and elsewhere) that the DCF model produces "understated" results. It cannot be both ways. If the financial markets are, in effect, efficient, the DCF model results are, by definition, reflective of these efficient conditions.

Q. Why is it improper to rely exclusively on EPS forecasts in a DCF analysis?

A. There are several reasons why it is not appropriate to rely exclusively on analysts' forecasts in the DCF context. First, it is not realistic to believe that all investors rely exclusively on a single factor, such as analysts' forecasts of EPS, in making their investment decisions. Investors have an abundance of available information to assist them in evaluating stocks; EPS forecasts are only one of many such statistics.

Second, Value Line – one of Ms. Ahern's sources of EPS projections – publishes a large number of both historic and forecasted data, as well as ratios, for publicly-traded companies. Presumably, both types of information are published for the consideration of its subscribers/investors. Yet, Ms. Ahern considers only one factor – and only the forecast version of EPS in her analyses.

Third, the vast majority of information available to investors, by both individual companies in the form of annual reports and offering circulars, and by investment publications such as Value Line, is historic data. One such source of historic data is published by Ms. Ahern's firm – AUS Utility Reports. It is neither realistic nor logical to maintain that investors only consider projected (estimated) data to the total exclusion of historic (actual) data.

Fourth, the experience over the past several years should be a clear signal to investors that analysts cannot accurately predict EPS levels. Few, if any, analysts predicted the decline in security prices in the tech market crash of 2000-2002, as well as the financial crisis of 2008 and 2009.[1] Thus, relying only on forecasted EPS levels, while ignoring historic EPS levels and other factors, cannot and will not produce accurate results.

In summary, investors are now very much aware of recent failures of security analysts to accurately predict EPS growth. These problems clearly call into question the reliance on

---

1 As demonstration of this, see "Security Analysts and their Recommendations," (http://thismatter.com/money/stocks/valuation/security-analysts.htm).

analysts' forecasts as the only source of growth in a DCF context. As a result, the landscape has changed in recent years and investors have ample reasons to doubt the reliability of such forecasts at the present time. In light of the above, it is problematic to rely exclusively on such forecasts in determining the cost of equity for Chaparral City.

Q. Are you aware of any recent analyses and comments on the accuracy of analysts' forecasts?

A. Yes, I am. A 2010 study by McKinsey & Company, titled, "Equity Analysts: Still Too Bullish" concludes that "after almost a decade of stricter regulation, analysts' earnings forecasts continue to be excessively optimistic." I have attached as copy of this study as Exhibit ___(DCP-2), Schedule 1. The significance of this study, as well as the points I raised previously, is that investors should be hesitant to rely exclusively on analysts' forecasts in making investment decisions.

Q. Has the United States Securities and Exchange Commission issued any reports that address the exclusive reliance of analysts' recommendations?

A. Yes. In a 2010 "Investor Alert: Analyzing Analyst Recommendations" the Securities and Exchange Commission ("SEC") made the following statement:

> As a general matter, investors should not rely solely on an analyst's recommendation when deciding whether to buy, hold, or sell a stock. Instead, they should also do their own research – such as reading the prospectus for new companies or for public companies, the quarterly and annual reports filed with the SEC – to confirm whether a particular investment is appropriate for them in light of their individual financial circumstances.

The SEC "Investor Alert" (attached as Exhibit ___(DCP-2), Schedule 2) also cites potential conflicts of interest that analysts face. This "Investor Alert" thus also calls into question the exclusive reliance on analysts' forecasts, as proposed by Ms. Ahern.

Q. On pages 27-29 of her Rebuttal Testimony, Ms. Ahern states her belief that "sustainable growth" (which both you and Mr. Cassady employ) is "circular and ignores the basic principle of rate base/rate of return regulation." Do you agree with this assertion?

A. No, I do not. Sustainable growth is a long-standing and integral part of the estimation of the growth rate in a DCF analysis. For example, the Federal Energy Regulatory Commission ("FERC") routinely uses "fundamental growth," or sustainable growth, as one of two estimates of growth in its preferred DCF model for electric utilities.

<u>CAPITAL ASSET PRICING MODEL (CAPM)</u>

Q. What is the first point Ms. Ahern addresses in her Rebuttal Testimony on the CAPM issue?

A. Ms. Ahern's first point is to express her disagreement with my position that the CAPM specifically recognizes the risk of a particular company or industry, whereas the simple risk premium does not (per pages 37-38 of her Rebuttal Testimony). Ms. Ahern states her opinion that I am "incorrect" in my position. I disagree with her on this point.

Ms. Ahern's position apparently focuses only on the use of public utility bond yields in her interpretation of the risk premium analysis which she believes properly recognizes the risk of the subject company. This is misleading in terms of its ability to measure risk comparability. My CAPM analysis uses a specific measure of risk (i.e., beta) that reflects the relative stock price variability of specific stocks, or groups of similar-risk stocks. As such, the beta component in a CAPM analysis does specifically recognize the risk of the subject company, unlike the risk premium that essentially assigns the same cost of equity for all utilities with the same bond rating.

Q. Ms. Ahern states her belief, on pages 39-40 of her Rebuttal Testimony, that your use of 20-year U.S. Treasury Bonds ignores the fact that both the cost of capital and ratemaking are prospective." Do you have any comments on her position?

A. Yes, I do. Given that Ms. Ahern's risk premium model relies on historic risk premiums dating back to 1926, I find her statement to be inconsistent with her own analyses. Nevertheless, my use of 20 year U.S. Treasury bonds uses the most recent three-month average yields, which is more properly described as "current yields," rather than her description as "historic yields."

I also note that Ms. Ahern again makes reference to the efficient market hypothesis in this section of her testimony. As I indicated previously, her DCF analyses implicitly assumes that markets are not efficient that that stock prices (i.e., DCF cost rates) do not reflect the cost of capital. I respectfully submit that she cannot have it both ways.

Q. On pages 39 and 40 of her Rebuttal Testimony, Ms. Ahern maintains that your CAPM analysis should have used forecasted yields on U.S. Treasury Bonds rather than the current yields you used. What is your response to her assertion?

A. I disagree with Ms. Ahern. It is proper to use the current yield as the risk-free rate in a CAPM context. This is the case since the current yield is known and measurable and reflects investors' collective assessment of all capital market conditions. Prospective interest rates, in contrast, are not measurable and not achievable. For example, if the current yield on 20-year U.S. Treasury Bonds is 3.5 percent, this reflects the rate that investors can actually receive on their investment. Investors cannot receive a prospective yield on their investments since such a yield is not actual but rather speculative.

Use of the current yield in a DCF context is similar to using the current risk-free rate in a CAPM context. Analysts do not use prospective stock prices as the basis for the dividend yield in a DCF analysis, as use of prospective stock prices is speculative. Use of current stock prices is appropriate, as this is consistent with the efficient market hypothesis that Ms. Ahern cites throughout her Rebuttal Testimony. Likewise, current levels of interest rates reflect all current information (i.e., the efficient market hypothesis) and should be used as the risk-free rate in the CAPM.

Q. Ms. Ahern states, on pages 41-45 of her Rebuttal Testimony, that it is improper to consider geometric mean returns in the determination of a risk premium and that only arithmetic returns are appropriate. Do you agree with this position?

A. No, I do not. It is apparent that investors have access to both types of returns when they make investment decisions.

In fact, it is noteworthy that mutual fund investors regularly receive reports on their own funds, as well as prospective funds they are considering investing in, which show only geometric returns. Based on this, I find it difficult to accept Ms. Ahern's position that only arithmetic returns are appropriate.

Q. Does Ms. Ahern use Value Line information in her cost of capital analyses?

A. Yes, she does. She has in fact cited Value Line reports on various water utilities on her Exhibit PMA-2, Schedules 4R and 6R.

Q. Do the value line reports show historic and prospective growth rates for the water utilities?

A. Yes, they do.

Q. Do these value line reports show historic and prospective returns on an arithmetic basis?

A. No, they do not.

Q. Do the value line reports show historic and prospective returns on a geometric, or compound growth rate basis?

A. Yes, they do. See Exhibit___(DCP-2), Schedule 3, which describes Value Line's method of calculating growth rates. As a result, any investor reviewing Value Line, as Ms. Ahern does, would be using geometric growth rates.

Q. Is it your position that only geometric growth rates should be used?

A. No. I believe that both arithmetic and geometric growth rates should be used as I have done in my Direct Testimony on page 22 and Exhibit___(DCP-1) Schedule 7. This is the case because investors have access to both and presumably use both. This is also consistent with the efficient market hypothesis, which Ms. Ahern cites.

Q. On pages 45-46, Ms. Ahern also takes issue with your use of achieved rates of return on book equity in deriving the equity risk premium in your CAPM analysis. What is your response to this?

A. I disagree with Ms. Ahern. As I indicate on pages 21-22 in my Direct Testimony, I used measures of both book returns and market returns in developing my CAPM market risk premium components. The rates (i.e., prices) of public utilities are set based upon the book values of their rate base and capital structures, as well as the book levels of expenses and revenues. As such, it is appropriate to consider the level of return on book equity in the determination of the cost of equity (which is applied to the book level of common equity). I also note that the risk premium I derive from my use of book rates of return is the highest of the three risk premiums I considered in my CAPM analyses.

Q. On pages 47-49 of her Rebuttal Testimony, Ms. Ahern maintains you should have incorporated an empirical CAPM in your analyses. Do you agree?

A. No, I do not agree. Ms. Ahern advocates what she describes as an "empirical" CAPM analysis. This form of the CAPM assumes that beta for an industry understates the industry's volatility and thus, risk and it is necessary to substitute the overall market's beta (i.e., 1.0) for one-fourth of the industry's actual beta. Ms. Ahern assumes that the appropriate beta in a CAPM analysis is a combination of the actual industry beta with a 75 percent weight and a beta of 1 with a 25 percent weight.

The use of an empirical CAPM overstates the cost of equity for companies with betas below that of the market. What the empirical CAPM actually does is inflate the CAPM cost for the selected company or industry on one-fourth of its equity and assumes that one-fourth of the company has the risk of the overall market. This is not appropriate for Chaparral City or for other utilities.

Q. Do you agree with Ms. Ahern's recalculation of your CAPM analyses, on pages 49-50 and Schedule 8 of her Rebuttal Testimony, in which she has re-done your CAPM analyses?

A. No, I do not. For the same reasons I have previously indicated in this Surrebuttal Testimony, her proposed manipulations of my CAPM analyses are not appropriate.

Q. Ms. Ahern claims, on page 50, lines 25-27 through page 51, lines 1-6 of her Rebuttal Testimony and her Schedule 9R, that risk premiums have increased from 2009 to the present. What is your response to this claim?

A. Ms. Ahern's claim selectively uses the beginning point of her comparison as the period ending 2009. However, this was in the midst of the financial crisis cited in my Direct Testimony and is not an appropriate beginning point for such an historical comparison of risk premiums.

The table below indicates that risk premiums, tabulated using Morningstar (Ibbotson) data, have declined since the period prior to the Great Recession:

	Geometric Returns			Arithmetic Returns		
Period Ending	Stocks	Gov't Bonds	Risk Premium	Stocks	Gov't Bonds	Risk Premium
2006	10.4	5.4	5.0	12.3	5.8	6.5
2007	10.4	5.5	4.9	12.3	5.8	6.5
2008	9.6	5.7	3.9	11.7	6.1	5.6
2009	9.8	5.4	4.4	11.8	5.8	6.0
2010	9.9	5.5	4.4	11.9	5.9	6.0
2011	9.8	5.7	4.1	11.8	6.1	5.7
2012	9.8	5.7	4.1	11.8	6.1	5.7

This indicates that risk premiums have declined from those that prevailed in prior years, both those periods prior to the Great Recession and those periods since 2009.

COMPARABLE EARNINGS (CE) METHOD

Q. On page 55 of her Rebuttal Testimony, Ms. Ahern indicates her belief that your association of market-to-book ratios and returns on equity are "not supported by either the academic literature nor by a historical analysis of the experience of unregulated companies." What is your response to this?

A. I disagree with Ms. Ahern on this point. Clearly, public utilities have their rates regulated (i.e., set) based upon their book value of rate base and capital structure. Investors are aware of this relationship (i.e., efficient market hypothesis, to again quote Ms. Ahern). Any reference to the experience of unregulated companies, as is evident in Ms. Ahern's rebuttal testimony, simply misses the point of public utility regulation.

Q. On pages 56-58 of her Rebuttal Testimony, Ms. Ahern states that she has "performed an analysis to determine the existence of a direct relationship between the market-to-book ratios of unregulated companies and their earned rates of return on book common equity." Is her study relevant for public utilities?

A. No, it is not. Ms. Ahern's study applies to the S&P 500, which is predominately made up of unregulated firms. Many unregulated firms, such as energy producing companies and technology-related companies, have book values that do not reflect the actual value of their underlying assets. As a result, the prices they charge are not related to the book value of their assets.

Utilities, in contrast, have their rates established based upon the book values of their assets (i.e., rate base) and liabilities/common equity (i.e., capital structure). As a result, book value is very relevant for utilities.

Q. Ms. Ahern states, on pages 58-59 of her Rebuttal Testimony, that any proxy group selected for a CE analysis should be "broad based" and not include other utilities. Do you agree?

A. No, I do not. Ms. Ahern maintains that a proxy group selected for use in a CE analysis "should exclude utilities to avoid circularity since the achieved returns on book common equity of utilities, being a function of the regulatory process, are substantially influenced by regulatory awards." In reality, this is the reason that utility returns should be considered in a CE analysis.

I do not regard the use of utility returns as being circular. In contrast, use of utility returns is necessary and appropriate in order to conform to the "relative risk" dictates of the Bluefield and Hope decisions cited in my Direct Testimony. Contrary to Ms. Ahern's position, it is appropriate to consider the impact of regulatory awards since these reflect the same types of analyses (i.e., DCF, CAPM, and CE) that should be utilized in the current proceeding.

Q. On page 55, Ms. Ahern asserts her belief that there is no direct relationship between market-to-book ratios and returns on equity. What is your response to this?

A. Ms. Ahern is essentially stating that there is no relationship between earnings and stock prices. This is the case since the book value is an element in both ROE and M/B. It follows from this that her logic is that EPS and stock prices are not related. This, of course, runs counter to her DCF analyses that only consider EPS growth.

Q. Does Ms. Ahern recognize the concept of market-to-book ratios in her Rebuttal Testimony?

A. Yes, she does. On page 35, lines 1-3 of her Rebuttal Testimony, Ms. Ahern "assumed" that Chaparral City had the same market-to-book value as the average sample water utility.

MS. AHERN'S "CORRECTED CONCLUSION OF MR. PARCELL'S COST OF COMMON EQUITY"

Q. On pages 59-60 of her Rebuttal Testimony, Ms. Ahern presents what she describes as "corrections" to your DCF, CAPM and CE results. Do you agree with these "corrections?"

A. No, I do not. In fact, her analyses are not "corrections" at all, but rather reflect her criticisms of my Direct Testimony and the substitution of her model inputs for my inputs. As I have described above, her criticisms and "corrections" are without merit and do not reflect proper implementations of the DCF, CAPM and CE analyses.

Q. Based upon your review of Ms. Ahern's Rebuttal Testimony, do you still recommend a ROE for Chaparral City of 9.35 percent?

A. Yes, I do. There is nothing in Ms. Ahern's Rebuttal Testimony that causes me to change my analyses, data sources or recommendations.

<u>BUSINESS RISKS ADJUSTMENT PROPOSED BY MS. AHERN</u>

Q. Ms. Ahern maintains, on pages 60-62 of her Rebuttal Testimony, that Chaparral City is a small company and its own size implies it should be rewarded with a higher rate of return. Do you have any response to this?

A. Yes, I do. As I have noted in my Direct Testimony on pages 12-13 and 32, Chaparral City does not access equity markets for new common equity. Chaparral City's equity is provided by its parent companies. As a result, the perceived small size of Chaparral City should not be considered as a factor in establishing its cost of equity.

Q. Is it proper to compare the size of Chaparral City to the water proxy companies and make risk comparisons based upon the size differentials between them?

A. No, it is not proper. Most of the proxy water utilities have multiple subsidiaries that operate in different jurisdictions. Following Ms. Ahern's reasoning, each of the subsidiaries of the proxy water utility utilities should be considered as more risky than the proxy group since, by definition, they would have to be smaller. This reasoning is flawed, since these individual water company subsidiaries do not raise their equity capital directly from investors, but rather do so as a consolidated entity.

Q. Do you agree with the proposition that Chaparral City should be entitled to a size or credit risk adjustment?

A. No, I do not. As I indicated on pages 12-13 of my Direct Testimony, Chaparral City is a subsidiary of EPCOR Utilities, Inc., which in turn is owned by the City of Edmonton. Chaparral City does not have rated debt and, as a subsidiary of EPCOR Utilities, does not have publicly-traded common stock and correspondingly have published risk factors such as beta, Safety or financial strength from publications such as Value Line. In fact, even Chaparral City's ultimate parent (i.e., City of Edmonton) does not have publicly-traded stock.

As a result, Chaparral City's ratepayers should not be charged water rates which reflect in incremental return to reflect the size of the Company. Such an increment is not justified and not appropriate.

Q. Can you provide any evidence that "size" or "Business Risk" Adjustments are not generally recognized as risk factors in regulatory proceedings such as this one?

A. Yes, I can. The table below reflects the average size (as measured by net plant) and currently authorized returns on equity for various types of regulated utilities:

Industry	Average Net Plant	Average Authorized ROE
Electric	$16,273.7	10.46%
Combination Electric-Gas	$14,732.8	10.37%
Natural Gas	$3,961.9	10.59%
Water	$2,323.2	9.97%

Source: AUS Utility Reports, January 2014.

As this indicates, water utilities are the smallest type of utility, yet, they have the lowest average authorized returns on equity. This is indicative that size, per se, should not govern the level of return on equity.

Q. Have the risks of the water proxy group changed since 2009?

A. Yes, they have declined in a relative sense. I have prepared Exhibit ___(DCP-2), Schedule 4 to show a comparison of the risk indicators at the current time (as shown on Exhibit___(DCP-1) Schedule 11 of my Direct Testimony) and in 2009. This indicates that, of the four sets of risk indicators, three show declines in risk indicators from 2009 to the present time.

CREDIT RISK ADJUSTMENT PROPOSED BY MS. AHERN

Q. In her Rebuttal Testimony, Ms. Ahern continues to propose a "credit risk adjustment" for Chaparral City. What is the basis of her proposal?

A. Ms. Ahern's credit risk adjustment is based upon her perception that Chaparral City would have a lower credit rating than the proxy water utilities, if it had a credit rating. As a result, she maintains that Chaparral City should have a higher cost of equity.

Q. What is your response to Ms. Ahern's assertion, on pages 68-69 of her Rebuttal Testimony, that Chaparral City would have a Baa/BBB credit rating if it had rated debt?

A. This is speculation by Ms. Ahern. Her perceptions are apparently based on her statement that Chaparral City's immediate parent (i.e., EPCOR Water (USA)) has BBB+ ratings.

Q. Have you found any indications that Chaparral City's immediate parent – EPCOR Water (USA) - has rated debt?

A. No, I have not. Standard & Poor's website does not identify EPCOR Water (USA) as an entity that is rated by this organization.

In addition, in response to RUCO 6.04, which requested the credit ratings of Chaparral City and its affiliates and owners(s), the only entity cited with credit ratings was EPCOR Utilities, Inc.

Q. Ms. Ahern states, on page 68 of her Rebuttal Testimony, that the "bond rating agencies link the bond ratings of subsidiary companies with those of their parent holding companies." What are the ratings of EPCOR Utilities, Inc. the holding company of Chaparral City?

A. This information is contained in a June 2013 "Investor Presentation" of EPCOR Utilities, Inc. Page 4 of this document cites the following:

> "Stand alone credit is BBB+ (S&P) and A(low) (DBRS) – no credit support from City"

As I note below these ratings incorporate a capital structure with a much lower ratio of common equity than is maintained by Chaparral City.

Q. Have you reviewed the basis for the BBB+ credit rating of EPCOR Utilities, Inc. by Standard & Poor's?

A. Yes, I have. As noted above, the response to RUCO 6.04 listed the ratings of EPCOR Utilities, Inc. One of the attachments to this response was a July 25, 2013 Standard & Poor's Research Update on EPCOR Utilities, Inc., titled "EPCOR Utilities Inc. Outlook Revised to Positive on Strengthening Business Risk Profile; 'BBB+' Rating Affirmed," which is attached as Exhibit___(DCP-2) Schedule 5. In this report, Standard & Poor's noted the following:

> **Rating Action**
>
> On July 25, 2013, Standard & Poor's Ratings Services revised its outlook on Edmonton, Alta.-based EPCOR Utilities Inc. (EUI) to positive from stable. At the same time, Standard & Poor's affirmed its 'BBB+' long-term corporate credit and senior unsecured debt ratings on the company.
>
> The outlook revision reflects our view that EPCOR's business risk profile will continue to strengthen with the increasing proportion of cash flow from its water and electricity transmission regulated businesses, along with the continued sale of its investment in Capital Power L.P. (CPLP).

> **Rationale**
>
> . . .
>
> EUI's businesses include owning and operating water and waste water treatment facilities and distribution infrastructure, electricity transmission and distribution networks, and the provision of regulated rate option and electricity supply services. The Company also provides other services to Edmonton, including installation and maintenance of street lights, traffic signals, and light rail transit.
>
> EPCOR's business risk profile continues to strengthen as the proportion of its cash flow from regulated businesses continues to increase. At present, 80% of the company's EBITDA is from its regulated electricity and water services businesses. We forecast this to rise to 90% in the medium term as EUI continues to follow its strategy of "wires and water." Overall, the utility continues to operate at or above industry averages for operational efficiency.
>
> . . .
>
> **Outlook**
>
> The positive outlook reflects our view that the increase of the regulated water and electricity utility businesses in relation to the unregulated businesses will continue to strengthen EPCOR's business risk profile. EUI's strong operating performance further support this view.
>
> We would likely raise the ratings if EPCOR continues its focus on increasing the water and electricity utilities businesses while maintaining adjusted FFO-to-debt of at least 14%.

This indicates that EPCOR Utilities, Inc. would likely have higher ratings in the absence of its non-regulated operations. The negative impact of the non-regulated operations has the effect of challenging Ms. Ahern's conclusion that Chaparral City (on a perceived stand-alone basis) would have lower credit ratings that the proxy water utilities.

Standard & Poor's ratings for EPCOR Utilities, Inc. also need to be taken in the context of the capital structure of this entity. As I have shown elsewhere in my Surrebuttal Testimony, this entity has maintained common equity ratios of less than 60 percent, which is substantially less than those of Chaparral City.

OTHER RESPONSES TO MS. AHERN'S REBUTTAL TESTIMONY

Q. On page 9, lines 5-13 of her Rebuttal Testimony, Ms. Ahern cites her "review of several representative Commission decisions from 2006 through 2013" in her discussion of the capital structure issue in this proceeding. Have you examined any "representative Commission decisions" with regard to the cost of common equity for water utilities?

A. Yes, I have. I have prepared Exhibit___(DCP-2), Schedule 6 to indicate the most recently Commission-awarded returns on equity for water utilities. As this indicates, the vast majority (i.e., 18 of 20) recently-authorized returns on equity for Arizona water utilities have been 10.0 percent or less.

CAPITAL STRUCTURE

Q. Are you aware that Staff Witness John A. Cassidy is proposing an adjustment to the Chaparral City capital structure in this proceeding?

A. Yes, I am. It is my understanding that Mr. Cassidy is proposing use of a hypothetical capital structure with 60 percent common equity and 40 percent long-term debt in place of the 83.4 percent common equity and 16.60 percent long-term debt proposed by Chaparral City. Ms. Ahern cites an 18.83 percent debt ratio (and implicit 81.17 percent common equity ratio) in her rebuttal to me on page 68 of her Rebuttal Testimony.

Q. How does the Staff's proposal differ from the capital structure you used in your Direct Testimony?

A. My Direct Testimony utilized the actual capital structure ratios of Chaparral City (Pages 2 and 15-16, as well as Schedule 1). I stated in my Direct Testimony (Pages 2 and 16) that "Chaparral City's capital structure contains significantly more equity (in percentage terms) than the proxy utilities used to estimate the cost of common equity. This is correspondingly a factor that should be considered in establishing the cost of equity in this proceeding." I note that my Direct Testimony did not make any adjustment to the Company's cost of common equity (or capital structure) to account for this "significantly more equity" that Chaparral City maintains, relative to the proxy water utilities.

Q. Since your Direct Testimony was filed, have you become aware of any new information that impacts the proper capital structure for Chaparral City?

A. Yes, I have. In the process of preparing my Direct Testimony, I submitted (through RUCO) a data request (RUCO 6.03) requesting the "capital structures of Chaparral City, its affiliated companies and its parent(s)…for each year 2008-2012." Chaparral City's response, attached as Exhibit___(DCP-2), Schedule 7, provided only balance sheets for Chaparral City and no information for affiliated and parent(s) companies. RUCO subsequently submitted a follow-up data request (RUCO 11.02) requesting the information not provided in the response to RUCO 6.03. A copy of this response is attached as Exhibit___(DCP-2), Schedule 8.

The information contained in this latter response reveals the following comparisons of the respective common equity ratios of Chaparral City and its affiliated and parent companies:

Company	2008	2009	2010	2011	2012
Chaparral City	79%	79%	81%	82%	86%
EPCOR Utilities, Inc.	46%	57%	59%	58%	54%
EPCOR Transmission Inc.	34%	38%	37%	40%	32%
EPCOR Distribution Inc.	39%	41%	42%	39%	41%
EPCOR Water Arizona	38%	38%	38%	40%	39%
EPCOR Energy Alberta, Inc.	36%	40%	40%	24%	40%
EPCOR Water Services Inc. (Edmonton & Region Water)	38%	41%	42%	42%	40%
EPCOR Water Services Inc. (Edmonton Wastewater)		37%	46%	41%	41%
EPCOR White Rock Water Inc.	-16%	-20%	-26%	-13%	-14%
EPCOR Water (West) Inc.	35%	7%	-1%	29%	28%

It is obvious from the above comparison that Chaparral City stands out in stark contrast to the other operations of EPCOR Utilities in terms of capital structure ratios. As noted above, Chaparral City also has a significantly different common equity ratio than the proxy companies employed to estimate the Company's cost of equity.

Q. Do you believe that Mr. Cassidy's use of a hypothetical capital structure for Chaparral City is a legitimate manner in which to recognize the Company's higher common equity ratio versus that of other water utilities?

A. Yes, I do. It apparent that Chaparral City's capital structure ratios are significantly higher than both the proxy water utilities and the Company's affiliated and parent companies. As a result, I do not believe that it is proper to use the Company's requested capital structure in this proceeding.

Q. What capital structure do you now propose for Chaparral City?

A. I endorse the hypothetical capital structure proposed by Staff Witness Cassidy. This contains 60 percent common equity and 40 percent common equity. I note that, even this capital structure contains more common equity than is the case for the proxy group and Chaparral City's affiliated and parent companies.

Q. What is your proposed cost of capital recommendation using this capital structure?

A. My cost of capital recommendation is as follows:

Capital Item	Percent	Cost	Wgt. Cost
Debt	40.00%	5.92%	2.37%
Common Equity	60.00%	9.35%	5.61%
Total Cost of Capital			7.98%

Q. Does this conclude your Surrebuttal Testimony?

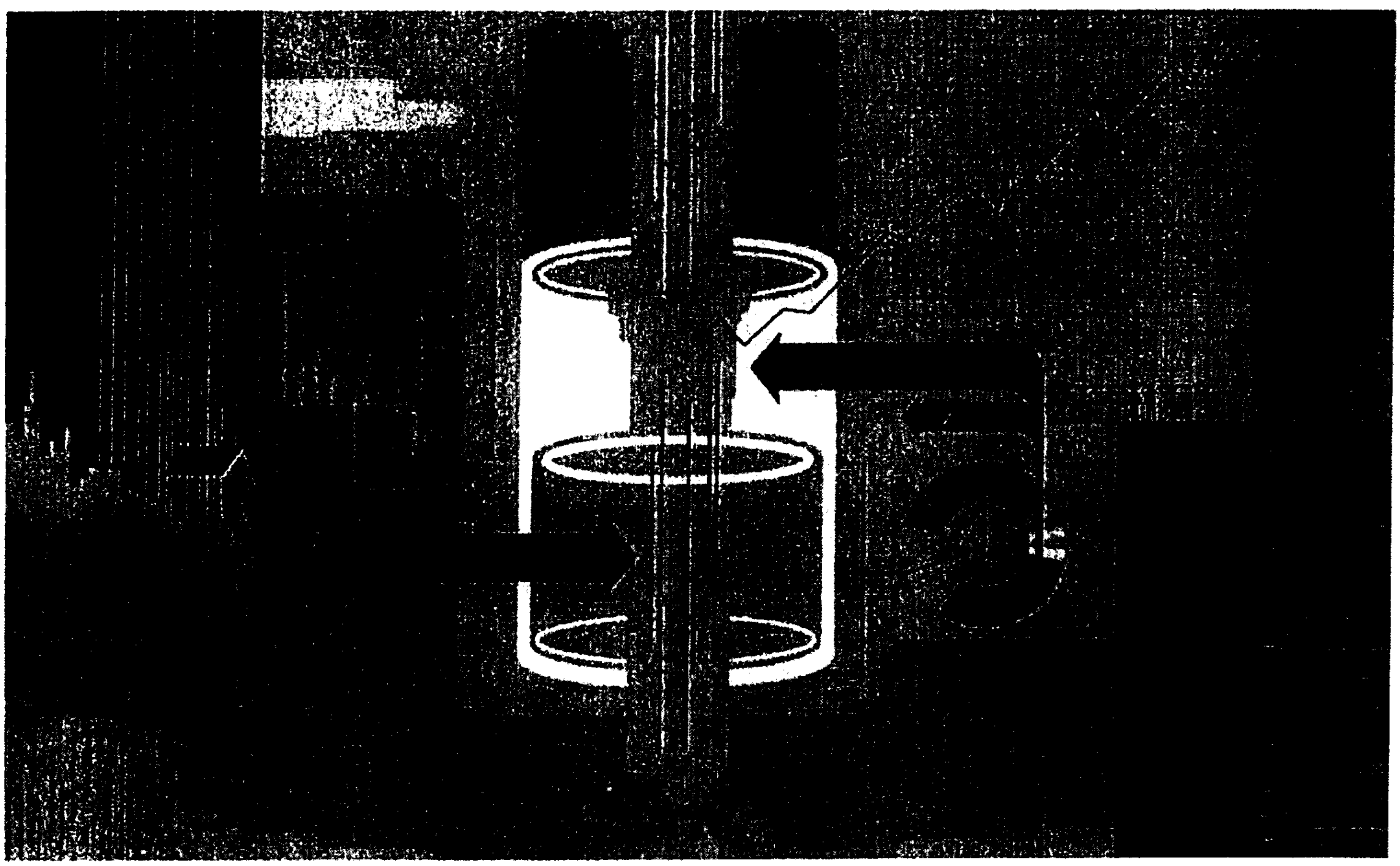
A. Yes, it does.

Exhibit___(DCP-2)
Schedule 1
Page 1 of 5

McKinsey on Finance

Number 35,
Spring 2010

Perspectives on Corporate Finance and Strategy



Equity analysts: Still too bullish

After almost a decade of stricter regulation, analysts' earnings forecasts continue to be excessively optimistic.

Marc H. Goedhart, Rishi Raj, and Abhishek Saxena

No executive would dispute that analysts' forecasts serve as an important benchmark of the current and future health of companies. To better understand their accuracy, we undertook research nearly a decade ago that produced sobering results. Analysts, we found, were typically overoptimistic, slow to revise their forecasts to reflect new economic conditions, and prone to making increasingly inaccurate forecasts when economic growth declined.[1]

Alas, a recently completed update of our work only reinforces this view—despite a series of rules and regulations, dating to the last decade, that were intended to improve the quality of the analysts' long-term earnings forecasts, restore investor confidence in them, and prevent conflicts of interest.[2] For executives, many of whom go to great lengths to satisfy Wall Street's expectations in their financial reporting and long-term strategic moves, this is a cautionary tale worth remembering.

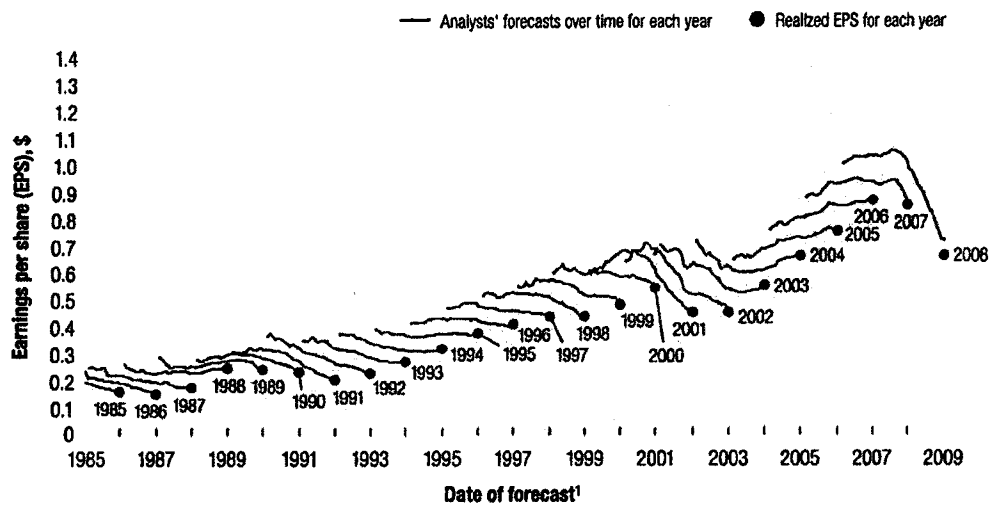
Exceptions to the long pattern of excessively optimistic forecasts are rare, as a progression of consensus earnings estimates for the S&P 500 shows (Exhibit 1). Only in years such as 2003 to 2006, when strong economic growth generated actual earnings that caught up with earlier predictions, do forecasts actually hit the mark.

Exhibit 1

Off the mark

With few exceptions, aggregate earnings forecasts exceed realized earnings per share.

S&P 500 companies



¹Monthly forecasts.

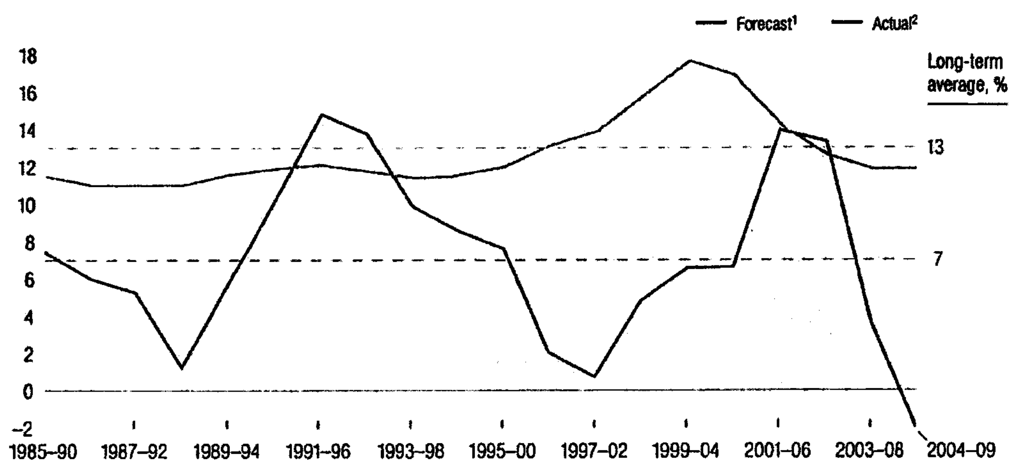
Source: Thomson Reuters I/B/E/S Global Aggregates; McKinsey analysis

Exhibit 2

Overoptimistic

Actual growth surpassed forecasts only twice in 25 years—both times during the recovery following a recession.

Earnings growth for S&P 500 companies, 5-year rolling average, %



¹Analysts' 5-year forecasts for long-term consensus earnings-per-share (EPS) growth rate. Our conclusions are same for growth based on year-over-year earnings estimates for 3 years.

²Actual compound annual growth rate (CAGR) of EPS; 2009 data are not yet available, figures represent consensus estimate as of Nov 2009.

Source: Thomson Reuters I/B/E/S Global Aggregates; McKinsey analysis

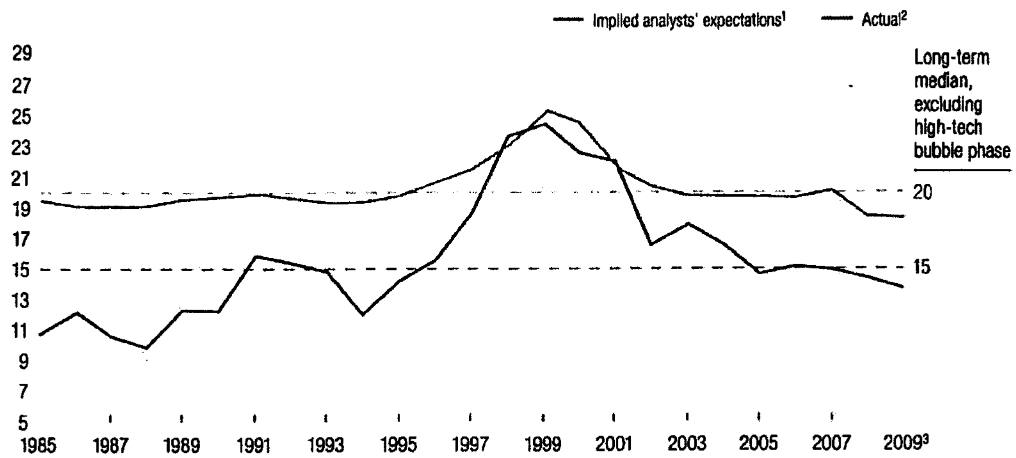
Exhibit___(DCP-2)
Schedule 1
Page 4 of 5

Exhibit 3

Less giddy

Capital market expectations are more reasonable.

Actual P/E ratio vs P/E ratio implied by analysts' forecasts, S&P 500 composite index



[1] P/E ratio based on 1-year-forward earnings-per-share (EPS) estimate and estimated value of S&P 500. Estimated value assumes: for first 5 years, EPS growth rate matches analysts' estimates then drops smoothly over next 10 years to long-term continuing-value growth rate; continuing value based on growth rate of 6%; return on equity is 13.5% (long-term historical median for S&P 500), and cost of equity is 9.5% in all periods.
[2] Observed P/E ratio based on S&P 500 value and 1-year-forward EPS estimate.
[3] Based on data as of Nov 2009.

Source: Thomson Reuters I/B/E/S Global Aggregates; McKinsey analysis

This pattern confirms our earlier findings that analysts typically lag behind events in revising their forecasts to reflect new economic conditions. When economic growth accelerates, the size of the forecast error declines; when economic growth slows, it increases.[3] So as economic growth cycles up and down, the actual earnings S&P 500 companies report occasionally coincide with the analysts' forecasts, as they did, for example, in 1988, from 1994 to 1997, and from 2003 to 2006.

Moreover, analysts have been persistently overoptimistic for the past 25 years, with estimates ranging from 10 to 12 percent a year,[4] compared with actual earnings growth of 6 percent.[5]

Over this time frame, actual earnings growth surpassed forecasts in only two instances, both during the earnings recovery following a recession (Exhibit 2). On average, analysts' forecasts have been almost 100 percent too high.[6]

Capital markets, on the other hand, are notably less giddy in their predictions. Except during the market bubble of 1999–2001, actual price-to-earnings ratios have been 25 percent lower than implied P/E ratios based on analyst forecasts (Exhibit 3). What's more, an actual forward P/E ratio[7] of the S&P 500 as of November 11, 2009—14—is consistent with long-term earnings growth of 5 percent.[8] This assessment is more reasonable, considering that long-term earnings growth for the market as a whole is unlikely to differ significantly from growth in GDP,[9] as prior McKinsey research has shown.[10] Executives, as the evidence indicates, ought to base their strategic decisions on what they see happening in their industries rather than respond to the pressures of forecasts, since even the market doesn't expect them to do so. o

[1] Marc H. Goedhart, Brendan Russell, and Zane D. Williams, "Prophets and profits," mckinseyquarterly.com, October 2001.
[2] US Securities and Exchange Commission (SEC) Regulation Fair Disclosure (FD), passed in 2000, prohibits the selective disclosure of material information to some people but not others. The Sarbanes–Oxley Act of 2002 includes provisions specifically intended to help restore investor confidence in the reporting of securities' analysts, including a code of conduct for them and a requirement to disclose knowable conflicts of interest. The Global Settlement of 2003 between regulators and ten of the largest US investment firms aimed to prevent conflicts of interest between their analyst and investment businesses.
[3] The correlation between the absolute size of the error in forecast earnings growth (S&P 500) and GDP growth is –0.55.
[4] Our analysis of the distribution of five-year earnings growth (as of March 2005) suggests that analysts forecast growth of more than 10 percent for 70 percent of S&P 500 companies.
[5] Except 1998–2001, when the growth outlook became excessively optimistic.
[6] We also analyzed trends for three-year earnings-growth estimates based on year-on-year earnings estimates provided by the analysts, where the sample size of analysts' coverage is bigger. Our conclusions on the trend and the gap vis-à-vis actual earnings growth does not change.
[7] Market-weighted and forward-looking earnings-per-share (EPS) estimate for 2010.
[8] Assuming a return on equity (ROE) of 13.5 percent (the long-term historical average) and a cost of equity of 9.5 percent—the long-term real cost of equity (7 percent) and inflation (2.5 percent).
[9] Real GDP has averaged 3 to 4 percent over past seven or eight decades, which would indeed be consistent with nominal growth of 5 to 7 percent given current inflation of 2 to 3 percent.
[10] Timothy Koller and Zane D. Williams, "What happened to the bull market?" mckinseyquarterly.com, November 2001.

Marc Goedhart (Marc_Goedhart@McKinsey.com) is a consultant in McKinsey's Amsterdam office; **Rishi Raj** (Rishi_Raj@McKinsey.com) and **Abhishek Saxena** (Abhishek_Saxena@McKinsey.com) are consultants in the Delhi office.

Analyzing Analyst Recommendations

Research analysts study publicly traded companies and make recommendations on the securities of those companies. Most specialize in a particular industry or sector of the economy. They exert considerable influence in today's marketplace. Analysts' recommendations or reports can influence the price of a company's stock—especially when the recommendations are widely disseminated through television appearances or through other electronic and print media. The mere mention of a company by a popular analyst can temporarily cause its stock to rise or fall—even when nothing about the company's prospects or fundamentals has recently changed.

Analysts often use a variety of terms—buy, strong buy, near-term or long-term accumulate, near-term or long-term over-perform or under-perform, neutral, hold—to describe their recommendations. But the meanings of these terms can differ from firm to firm. Rather than make assumptions, investors should carefully read the definitions of all ratings used in each research report. They should also consider the firm's disclosures regarding what percentage of all ratings fall into either "buy," "hold/neutral," and "sell" categories.

While analysts provide an important source of information in today's markets, investors should understand the potential conflicts of interest analysts might face. For example, some analysts work for firms that underwrite or own the securities of the companies the analysts cover. Analysts themselves sometimes own stocks in the companies they cover—either directly or indirectly, such as through employee stock-purchase pools in which they and their colleagues participate.

As a general matter, investors should not rely solely on an analyst's recommendation when deciding whether to buy, hold, or sell a stock. Instead, they should also do their own research—such as reading the prospectus for new companies or for public companies, the quarterly and annual reports filed with the SEC—to confirm whether a particular investment is appropriate for them in light of their individual financial circumstances. This alert discusses the potential conflicts of interest analysts face, describes the New York Stock Exchange (NYSE) and FINRA rules concerning analyst recommendations, and provides tips for researching investments.

Who Analysts Are and Who They Work for

Analysts historically have served an important role, promoting the efficiency of our markets by ferreting out facts and offering valuable insights on companies and industry trends. Analysts generally fall into one of three categories:

Sell-side analysts typically work for full-service broker-dealers and make recommendations on the securities they cover. Many of the more popular sell-side analysts work for prominent brokerage firms that also provide investment banking services for corporate clients—including companies whose securities the analysts cover.

Buy-side analysts typically work for institutional money managers—such as mutual funds, hedge funds, or investment advisers—that purchase securities for their own accounts. They counsel their employers on which securities to buy, hold, or sell and stand to make money when they make good calls.

Independent analysts typically aren't associated with firms that underwrite the securities they cover. They often sell their research reports on a subscription or other basis. Some firms that have discontinued their investment banking operations now market themselves as more independent than multi-service firms, emphasizing their lack of conflicts of interest.

Potential Conflicts of Interest

Many analysts work in a world with built-in conflicts of interest and competing pressures. On the one hand, sell-side firms want their individual investor clients to be successful over time because satisfied long-term investors are a key to a firm's long-term reputation and success. A well-respected investment research team is an important service to customers.

At the same time, however, several factors can create pressure on an analyst's independence and objectivity. The existence of these factors does not necessarily mean that the research analyst is biased. But investors should take them into account before making an investment decision. Some of these factors include:

- **Investment Banking Relationships**—When companies issue new securities, they hire investment bankers for advice on structuring the deal and for help with the actual offering. Underwriting a company's securities offerings and providing other investment banking services can bring in more money for firms than revenues from brokerage operations or research reports. Here's what an investment banking relationship may mean:

    1. **The analyst's firm may be underwriting the offering**—If so, the firm has a substantial interest—both financial and with respect to its reputation—in assuring that the offering is successful. Analysts are often an integral part of the investment banking team for initial public offerings—assisting with "due diligence" research into the company, participating in investor road shows, and helping to shape the deal. Upbeat research reports and positive recommendations published after the offering is completed may "support" new stock issued by a firm's investment banking clients.

    2. **Client companies prefer favorable research reports—** Unfavorable analyst reports may hurt the firm's efforts to

nurture a lucrative, long-term investment banking relationship. An unfavorable report might alienate the firm's client or a potential client and could cause a company to look elsewhere for future investment banking services.

3. **Positive reports attract new clients**—Firms must compete with one another for investment banking business. Favorable analyst coverage of a company may induce that company to hire the firm to underwrite a securities offering. A company might be unlikely to hire an underwriter to sell its stock if the firm's analyst has a negative view of the stock.

- **Brokerage Commissions**—Brokerage firms usually don't charge for their research reports. But a positive-sounding analyst report can help firms make money indirectly by generating more purchases and sales of covered securities—which, in turn, result in additional brokerage commissions.

- **Analyst Compensation**—Brokerage firms' compensation arrangements can put pressure on analysts to issue positive research reports and recommendations. For example, some firms link compensation and bonuses—directly or indirectly—to the number of investment banking deals the analyst lands or to the profitability of the firm's investment banking division.

- **Ownership Interests in the Company**—An analyst, other employees, and the firm itself may own significant positions in the companies an analyst covers. Analysts may also participate in employee stock-purchase pools that invest in companies they cover. And in a growing trend called "venture investing," an analyst's firm or colleagues may acquire a stake in a start-up by obtaining discounted, pre-IPO shares. These practices allow an analyst, the firm he or she works for, or both to profit, directly or indirectly, from owning securities in companies the analyst covers.

Disclosure and Recent Rule Changes

The rules of the NYSE and FINRA require analysts in some circumstances to disclose certain conflicts of interest when recommending the purchase or sale of a specific security. On May 10, 2002, the SEC approved proposed changes to these rules, strengthening the disclosures that analysts and firms must make. The NYSE and FINRA decided upon an implementation schedule of between 60 and 180 calendar days for the new rules in order to provide reasonable time periods for firms to develop and implement policies, procedures and systems to comply with the new requirements. These rules implement key structural reforms aimed at increasing analysts' independence and further managing conflicts of interest. They also require increased disclosure of conflicts in research reports and public appearances. Key provisions of the rules include the following:

- **No Promises of Favorable Research** — NYSE and FINRA rules now prohibit analysts from offering a favorable research rating or specific price target to induce investment banking business from companies. The rule changes also impose "quiet periods" that bar a firm that is acting as manager or co-manager of a securities offering from issuing a report on a company within 40 days after an initial public offering or within 10 days after a secondary offering for an inactively traded company.

Significance of the Change: Promising research coverage to a company will not be as attractive if the research may not be issued within the initial days following the offering.

- **Limitations on Relationships and Communications** — The rule changes prohibit research analysts from being supervised by the investment banking department. In addition, investment banking personnel are prohibited from discussing research reports with analysts prior to distribution, unless staff from the firm's legal/compliance department monitor those communications. Analysts are also prohibited from sharing draft research reports with the target companies, other than to check facts after approval from the firm's legal/compliance department.

  Significance of the Change: These provisions help protect research analysts from influences that could impair their objectivity and independence.

- **Analyst Compensation** — The rule changes bar securities firms from tying an analyst's compensation to specific investment banking transactions. Furthermore, if an analyst's compensation is based on the firm's general investment banking revenues, that fact must be disclosed in the firm's research reports.

  Significance of the Change: Prohibiting compensation from specific investment banking transactions significantly curtails a potentially major influence on research analysts' objectivity.

- **Firm Compensation** — The rule changes require a securities firm to disclose in a research report if it managed or co-managed a public offering of equity securities for the company or if it received any compensation for investment banking services from the company in the past 12 months. A firm also must disclose if it expects to receive or intends to seek compensation for investment banking services from the company during the next 3 months.

  Significance of the Change: Requiring securities firms to disclose compensation from investment banking clients can alert investors to potential biases in their recommendations.

- **Restrictions on Personal Trading by Analysts** — The rule changes bar analysts and members of their households from investing in a company's securities prior to its initial public offering if the company is in the business sector that the analyst covers. In addition, the rule changes require "blackout periods" that prohibit analysts from trading securities of the companies they follow for 30 days before and 5 days after they issue a research report about the company, and also prohibits analysts from trading against their most recent recommendations—subject to exceptions for unanticipated significant changes in the personal financial circumstances of the beneficial owner of a research analyst account.

Significance of the Change: Prohibiting analysts from trading around the time they issue research reports should reduce conflicts arising from personal financial interests.

- **Disclosures of Financial Interests in Covered Companies** — The rule changes require analysts to disclose if they own shares of recommended companies. Firms are also required to disclose if they own 1% or more of a company's equity securities as of the previous month end.

  Significance of the Change: Requiring analysts and securities firms to disclose financial interests can alert investors to potential biases in their recommendations.

- **Disclosures in Research Reports Regarding the Firm's Ratings** — The rule changes require firms to clearly explain in research reports the meaning of all ratings terms they use, and this terminology must be consistent with its plain meaning. Additionally, firms must provide the percentage of all the ratings that they have assigned to buy / hold / sell categories and the percentage of investment banking clients in each category. Firms are also required to provide a graph or chart that plots the historical price movements of the security and indicates those points at which the firm initiated and changed ratings and price targets for the company.

  Significance of the Change: These disclosures will assist investors in deciding what value to place on a securities firm's ratings and provide them with better information to assess its research.

- **Disclosures During Public Appearances by Analysts** — The rule changes require disclosures from analysts during public appearances, such as television or radio interviews. Guest analysts will have disclose if they or their firm have a position in the stock; if the company is an investment banking client of the firm; if the analyst or a member of the analyst's household is an officer, director or advisory board member of the recommended issuer; and other material conflicts.

> **Significance of the Change**: This disclosure will inform investors who learn of analyst opinions and ratings through the media — rather than in written research reports — of analyst and firm conflicts.

What Conflicts May Mean to You

The fact that an analyst—or the analyst's firm—may have a conflict of interest does not mean that his or her recommendation is flawed or unwise. But it's a fact you should know and consider in assessing whether the recommendation is wise *for you*.

It's up to you to educate yourself to make sure that any investments you choose match your goals and tolerance for risk. Remember that analysts generally do not function as your financial adviser when they make recommendations—they're not providing individually tailored investment advice, and they're not taking your personal circumstances into consideration.

Uncovering Conflicts

In addition to paying close attention to the disclosures that firms and analysts make, here are some steps you can take to assess whether and to what extent analyst conflicts may exist:

Identify the Underwriter

Before you buy, confirm whether the analyst's firm underwrote a recommended company's stock by looking at the prospectus, which is part of the registration statement for the offering. Note that firms are required to disclose in research reports whether they managed or co-managed a public offering. You'll find a list of the lead or managing underwriters on the front cover of both the preliminary and final copies of the prospectus. By convention, the name of the lead underwriter—the firm that stands to make the most money on the deal—will appear first, and any co-managers will generally be listed second in alphabetical order. Other firms participating in the deal will be listed only in the "Underwriting" or "Plan of Distribution" sections of the final supplement to the prospectus. You can search for registration statements using the SEC's EDGAR database at www.sec.gov/edgar.shtml. The final supplement to the prospectus will appear in EDGAR as a "424" filing.

Research Ownership Interests

A company's registration statement and its annual report on Form 10-K will tell you who the beneficial owners of more than five percent of a class of equity securities are. Research reports on a company must disclose whether the securities firm issuing the report (or any of its affiliates) beneficially owns one percent or more of any class of common equity securities of the subject company. The issuer's registration statement will also tell you about private sales of the company's securities during the past three years. In addition to the disclosure requirements in the new rules, you may be able to ascertain ownership by checking the following SEC forms:

- **Schedules 13D and 13G**—Any person who acquires a beneficial ownership of more than five percent must file a Schedule 13D. Schedule 13G is a much abbreviated version of Schedule 13D that is only available for use by a limited category of "persons," such as banks, broker-dealers, or insurance companies.

- **Forms 3, 4, and 5**—Officers, directors, and beneficial owners of more than 10 percent must report their holdings—and any changes in their holdings—to the SEC on Forms 3, 4, and 5.

- **Form 144**—If an analyst or a firm holds "restricted" securities from the company—meaning those acquired in an unregistered, private sale from the issuer or its affiliates—then investors can find out whether the analyst or the firm recently sold the stock by researching their Form 144 filings.

As of November 4, 2002, all statements of beneficial ownership on Schedules 13D and 13G (including those relating to the securities of foreign private issuers) must be submitted electronically using the SEC's EDGAR system. If you can't find a form on EDGAR, please refer to information on "How to Request Public Documents" at http://www.sec.gov/answers/publicdocs.htm. Or check the "Quotes" section of the Nasdaq Stock Market's website at http://quotes.nasdaq.com/

Unlock the Mystery of "Lock-ups"

If the analyst's firm acquired ownership interests through venture investing, the shares generally will be subject to a "lock-up" agreement during and after the issuer's initial public offering. Lock-up agreements prohibit company insiders—including employees, their friends and family, and venture capitalists—from selling their shares for a set period of time without the underwriter's permission. While the underwriter can choose to end a lock-up period early—whether because of market conditions, the performance of the offering, or other factors—lock-ups generally last for 180 days after the offering's registration statement becomes effective.

After the lock-up period ends, the firm may be able to sell the stock. If you're considering investing in a company that has recently conducted an initial public offering, you'll want to check whether a lock-up agreement is in effect and when it expires or if the underwriter waived any lock-up restrictions. This is important information because a company's stock price may be affected by the prospect of lock-up shares being sold into the market when the lock-up ends. It is also a data point you can consider when assessing research reports issued just before a lock-up period expires—which are sometimes known as "booster shot" reports.

To find out whether a company has a lock-up agreement, check the "Underwriting" or "Plan of Distribution" sections of the prospectus. That's where companies must disclose that information. You can contact the company's shareholder relations department to ask for its prospectus, or use the SEC's EDGAR database if the company has filed its prospectus electronically. If you can't find a form on EDGAR, please refer to information on "How to Request Public Documents" at http://www.sec.gov/answers/publicdocs.htm. There are also commercial websites you can use for free that track when companies' lock-up agreements expire. The SEC does not endorse these websites and makes no representation about any of the information or services contained on these websites.

How You Can Protect Yourself

We advise all investors to do their homework before investing. If you purchase a security solely because an analyst said the company was one of his or her "top picks," you may be doing yourself a disservice. Especially if the company is one you've never heard of, take time to investigate:

- When assessing a firm's research report of a company, be sure to read all of the disclosures about the firm and analysts' conflicts of interest and the types of research recommendations that the firm has made.
- Research the company's financial reports using the SEC's EDGAR database at http://www.sec.gov/edgar.shtml, or call the company for copies. If you can't analyze them on your own, ask a trusted professional for help.
- Find out if a lock-up period is about to expire or whether the underwriter waived it. While that may not necessarily affect your decision to buy, it may put an analyst recommendation in perspective.
- Confirm whether the analyst's firm underwrote one of the company's recent stock offerings—especially its IPO.
- Learn as much as you can about the company by reading independent news reports, commercial databases, and reference books. Your local library may have these and other resources.
- Talk to your broker or financial adviser and ask questions about the company and its prospects. But bear in mind that if your broker's firm issued a positive report on a company, your broker will be hard-pressed to contradict it. Be sure to ask your broker whether a particular investment is suitable for you in light of your

financial circumstances.

Above all, always remember that even the soundest recommendation from the most trust-worthy analyst may not be a good choice for you. That's one reason we caution investors never to rely solely on an analyst's recommendation when buying or selling a stock. Before you act, ask yourself whether the decision fits with your goals, your time horizon, and your tolerance for risk. Know what you're buying—or selling—and why.

http://www.sec.gov/investor/pubs/analysts.htm

We have provided this information as a service to investors. It is neither a legal interpretation nor a statement of SEC policy. If you have questions concerning the meaning or application of a particular law or rule, please consult with an attorney who specializes in securities law.

Home | Previous Page

Modified: 08/30/2010

HOW TO INVEST IN COMMON STOCKS

A Guide to Using

THE VALUE LINE INVESTMENT SURVEY

GLOSSARY

Aaa Corporate Bond Rate—the average yield on corporate bonds rated Aaa by Moody's Investors Service. Bonds that are rated Aaa are judged to be of the best quality.

Accrual Accounting—a method of matching income and expenses in the period they are actually applicable, regardless of the date of collection or payment.

Adjustable-Rate Mortgage Loans (ARMs) (Bank and Thrift Industries)—mortgage loans on which the interest rate charged by the lender is adjusted in accordance with a stipulated, publicly available cost-of-funds index, such as the yield on one-year Treasury bills. (*See Fixed-Rate Mortgage Loans.*)

After market—the market for replacement parts and accessories for a product or group of products. The Auto Parts (Replacement) Industry participates in the automotive after market.

After-Tax Corporate Profits—*see Corporate Profits.*

AFUDC—*see Allowance for Funds Used During Construction.*

Allowance for Funds Used During Construction (Electric Utility Industries)—a non cash credit to income consisting of equity and debt components. This non cash income results from construction work in progress and is expected to be converted into cash income at a future date.

American Depository Receipts (ADRs)—since most other nations do not allow stock certificates to leave the country, a foreign company will arrange for a trustee (typically a large bank) to issue ADRs (sometimes called American Depositary Shares, or ADSs) representing the actual, or underlying, shares. Each ADR is equivalent to a specified number of shares (the ratio is shown in a footnote on the Value Line page).

American Stock Exchange Composite—a market-capitalization weighted index of the prices of the stocks traded on the American Stock Exchange.

Annual Change D-J Industrials (Investment Companies)—the annual change from year end to year end in the Dow Jones Industrial Average, expressed as a percentage.

Annual Change in Net Asset Value (Investment Companies)—the change in percentage terms of the net asset value per share at the end of any given year from what it was at the end of the preceding year, adjusted for any capital gains distributions made during the year.

Annual Rates of Change (Per Share)—compounded annual rates of change of per-share sales, cash flow, earnings, dividends, and book value (or other industry-specific per-share figures) over the past ten years and five years and estimated over the coming three to five years. All forecasted rates of change are computed from the average figure for the past three-year period to an average for a future three-year period. If data for a three-year base period are not available, a two- or one-year base may be used.

Annual Total Return—the capital gain or loss plus the sum of dividend disbursements expected over the next three to five years, all divided by the recent price and expressed as an average annual rate.

Arbitrage—the simultaneous purchase of an asset in one market and sale of the same asset, or assets equivalent to the asset purchased, in another market. Often referred to as "classical arbitrage," this type of transaction should result in a risk-free profit. Risk Arbitrage refers to transactions in stocks involved in takeover activity.

Arbitrageur—a person or organization that engages in arbitrage activity.

Arithmetic Average—a simple mean. Items to be averaged are added and their sum is divided by the number of items. The result is an arithmetic, or simple, average (or mean).

ARM—*see Adjustable-Rate Mortgage Loans.*

Exhibit ___(DCP-2)
Schedule 4

COMPARISON OF RISK INDICATORS FOR WATER PROXY GROUP IN 2009 AND 2013

	Value Line Safety		Value Line Beta		Value Line Financial Strength		Standard & Poor's Stock Ranking	
Company	2009	2014	2009	2014	2009	2014	2009	2014
American States Water Company	3	2	0.95	0.65	B++	A	B+	A-
American Water Works Company		3		0.65		B+		
Aqua America Inc.	3	2	0.90	0.60	B+	B++	A	A
Artesian Resources Corp.		3		0.55		B		A-
California Water Service, Inc.	2	3	1.05	0.60	B++	B++	B+	A-
Middlesex Water	2	2	0.80	0.75	B+	B++	B+	A-
SJW Corporation	3	3	1.05	0.85	B+	B+	A-	B+
York Water Co.	2	2	0.65	0.70	B++	B+	B+	A
Average -- All Companies	2.5	2.5	0.90	0.67	B+/B++	B+/B++	B+/A-	A-
Average -- excl Am Water Works and Artesian Resources.	2.5	2.33	0.90	0.69	B+/B++	B+/B++	B+/A-	A-

Sources: Value Line Investment Survey and Standard & Poor's Stock Guide, 2009 and 2014.

STANDARD
& POOR'S
RATINGS SERVICES

RatingsDirect®

Research Update:

EPCOR Utilities Inc. Outlook Revised To Positive On Strengthening Business Risk Profile; 'BBB+' Rating Affirmed

Primary Credit Analyst:
Stephen R Goltz, Toronto (1) 416-507-2592; stephen.goltz@standardandpoors.com

Secondary Contact:
Gerald F Hannochko, Toronto (1) 416-507-2589; gerald.hannochko@standardandpoors.com

Table Of Contents

Research Update:

EPCOR Utilities Inc. Outlook Revised To Positive On Strengthening Business Risk Profile; 'BBB+' Rating Affirmed

Overview

- We are revising our outlook on EPCOR Utilities Inc. to positive from stable.
- We are also affirming our 'BBB+' long-term corporate credit and senior unsecured debt ratings on the company.
- We base the outlook revision on our view of EPCOR's strengthening business risk profile.

Rating Action

On July 25, 2013, Standard & Poor's Ratings Services revised its outlook on Edmonton, Alta.-based EPCOR Utilities Inc. (EUI) to positive from stable. At the same time, Standard & Poor's affirmed its 'BBB+' long-term corporate credit and senior unsecured debt ratings on the company.

The outlook revision reflects our view that EPCOR's business risk profile will continue to strengthen with the increasing proportion of cash flow from its water and electricity transmission regulated businesses, along with the continued sale of its investment in Capital Power L.P. (CPLP).

Rationale

The ratings on EUI reflect Standard & Poor's view of the company's "strong" business risk profile and "significant" financial risk profile (as per our criteria).

EUI's stand-alone credit profile is 'bbb+'. Standard & Poor's 'BBB+' long-term corporate credit rating on the company reflects its criteria for government-related entities, and its view of a "low" likelihood of extraordinary government support weighting the following assessments:

- EPCOR's "limited importance" based on our criteria as a provider of electricity transmission and distribution and water and wastewater to Edmonton, a service that a private-sector entity could undertake; and
- Its "limited" link with the government, given the company's ever-increasing operations outside of the city.

EUI's businesses include owning and operating water and waste water treatment facilities and distribution infrastructure, electricity transmission and distribution networks, and the provision of regulated rate option and electricity supply services. The company also provides other services to Edmonton, including installation and maintenance of street lights, traffic signals, and light rail transit.

EPCOR's business risk profile continues to strengthen as the proportion of its cash flow from regulated businesses continues to increase. At present, 80% of the company's EBITDA is from its regulated electricity and water services businesses. We forecast this to rise to 90% in the medium term as EUI continues to follow its strategy of "wires and water." Overall, the utility continues to operate at or above industry averages for operational efficiency.

Although EPCOR has access to capital markets to fund acquisitions and its development activities, it still relies in part on its ability to sell its investment in CPLP to fund the equity portion. To date, EUI has been able to make a number of sales and has significantly reduced its investment in Capital Power to the current 29%. We forecast this trend to continue; in addition to providing the equity for such acquisitions and development, this reduces its exposure to the higher-risk generation segment.

Liquidity

We believe EPCOR has adequate liquidity as per our criteria. Sources divided by uses will exceed 1.2x over the next 12 months. Our assessment incorporates the following expectations and assumptions:

- The company continues to have solid relationships with its banks, a generally high standing in credit markets, and generally very prudent risk management.
- Liquidity sources include forecast funds from operations (FFO; including distributions from CPLP) of approximately C$300 million in the next 12 months and undrawn available committed facilities of about C$500 million.
- Uses of liquidity in the next 12 months include committed capital spending of about C$350 million, C$18 million in debt maturities, and C$141 million in shareholder distributions.
- As of March 31, 2013, EUI complied with its covenants.

In addition, the company has a committed bank facility expressly for letters of credit (LCs). Accordingly, we do not add the extra liquidity for this facility but do not reduce other bank facility availability for LCs.

Outlook

The positive outlook reflects our view that the increase of the regulated water and electricity utilities businesses in relation to the unregulated businesses will continue to strengthen EPCOR's business risk profile. EUI's strong operating performance further support this view.

We would likely raise the ratings if EPCOR continues its focus on increasing the water and electricity utilities businesses while maintaining adjusted

FFO-to-debt of at least 14%.

A negative rating action is possible during our two-year outlook period if adjusted FFO-to-debt falls and stays below 10%-12%. This could occur if the company decides to pursue a large acquisition or development project funded with large amounts of debt.

Related Criteria And Research

- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Key Credit Factors: Business And Financial Risks In The Investor-Owned Utilities Industry, Nov. 26, 2008
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- 2008 Corporate Criteria: Ratios And Adjustments, April 15, 2008

Ratings List

EPCOR Utilities Inc.

Outlook Revised To Positive		
	To	From
Corporate credit rating	BBB+/Positive/--	BBB+/Stable/--
Rating Affirmed		
Senior unsecured debt	BBB+	

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Exhibit___(DCP-2)
Schedule 6

RECENT AUTHORIZED RETURNS ON COMMON EQUITY FOR ARIZONA WATER UTILITIES

Utility	Decision	Date	Return on Equity
Far West Water & Sewer, Inc.	ROO only	8/29/2013	9.50%
Arizona Water Company -- Northern Group (2 systems)	Settlement Agreement	8/27/2013	10.00%
Rio Rico Utilities, Inc.	73996	7/30/2013	
Water			9 20%
Waste Water			9.20%
Arizona Water Company -- Eastern Group (6 systems)	73736	2/20/2013	10.55%
Pima Utility Company	73573	11/21/2012	9.49%
AZ-American Water Co. (3 systems)	73145	5/2/2012	10.60%
Arizona Water Company -- Western Group (3 systems)	73144 approved settlement	5/1/2012	10.00%
GoodmanWater Company	72897	2/21/2012	NA
Rio Rico Utilities, Inc.	72059	1/6/2011	
Water			9.50%
Waste Water			9.50%
Litchfiled Park Service Co.	72026	12/10/2010	
Water			8.01%
Waste Water			8.01%
Global Utilities	71878	9/14/2010	
Palo Verde			9.00%
Valencial/Gr. Buckeye			9.00%
WUGT			N/A
Willow			9.00%
Santa Cruz			9.00%
Valencial/Town			9.00%
Arizona Water Company (17 systems)	71845	8/25/2010	9.50%
Litchfiled Park Service Co.	Application Filed		
Water			9.20%
Waste Water			9.20%

Source: Information compiled by RUCO from Arizona Corporation Commission decisions.

COMPANY: CHAPARRAL CITY WATER COMPANY
DOCKET NO: W-02113A-13-0118

Response provided by: Sheryl L. Hubbard
Title: Director, Regulatory & Rates

Address: 2355 W. Pinnacle Peak Road, Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 6.03

Q: Please provide a schedule that shows the capital structures of Chaparral City, its affiliated companies and its parent(s) (including short-term debt, long-term debt, preferred stock and common equity) for each year 2008 to 2012.

A: A schedule of the capital structures of Chaparral City Water Company does not exist. In lieu of a schedule, the balance sheets containing the year end balances of short-term debt, long-term debt, preferred stock, and common equity for each year 2008 to 2012 are attached.

COMPANY: CHAPARRAL CITY WATER COMPANY
DOCKET NO: W-02113A-13-0118

Response provided by: Sheryl L. Hubbard
Title: Director, Regulatory & Rates

Address: 2355 W. Pinnacle Peak Road, Suite 300
Phoenix, AZ 85027

Company Response Number: 11.02

Q: Capital Structure – This is a follow-up to RUCO data request 6.3 which asked the following:
"Please provide a schedule that shows the capital structures of Chaparral City, its affiliated companies and its parent(s) (including short-term debt, long-term debt, preferred stock and common equity) for each year 2008 to 2012."

The Company responded by stating:
"A schedule of the capital structures of Chaparral City Water Company does not exist. In lieu of a schedule, the balance sheets containing the year end balances of short-term debt, long-term debt, preferred stock, and common equity for each year 2008 to 2012 are attached."

Thank you for the information you provided, however it is not fully responsive to RUCO's data request.
Please provide the following information:

a. The Capital Structure of EPCOR's parent company in Canada, EPCOR Utilities Inc. As part of your response, include the short-term debt, long-term debt, preferred stock, and common equity for the years 2008 through 2013, as a dollar amount and as a percentage of the total capital structure.
b. The Capital Structure of EPCOR Water Arizona Inc.'s individual districts (e.g. Anthem, Sun City, Sun City West etc.) As part of your response, include the short-term debt, long-term debt, preferred stock, and common equity for the years 2008 through 2013, as a dollar amount and as a percentage of the total capital structure.
c. The Capital Structure of any other affiliated companies (e.g. EPCOR White Rock Water Inc.) As part of your response, include the short-term debt, long-term debt, preferred stock, and common equity for the years 2008 through 2013, as a dollar amount and as a percentage of the total capital structure.

A. a. Please see attachment labeled "RUCO 11.02 a. Capital Structure-EUI EDTI.xlsx".

b. Please see attachment labeled "RUCO 11.02 b. Capital Structure-EPCOR Water AZ.xlsx".

c. Please see attachment labeled "RUCO 11.02 c. Capital Structure-CCWC Affiliates.xlsx".

IAPARRAL CITY WATER COMPANY
)CKET NO. W-02113A-13-0118

:SPONSE TO DATA REQUEST NO. RUCO 11.02 a.

EPCOR Utilities Inc.
Year End Capital Structure 2008-2012
(In millions of dollars)

	CDN GAAP 2008		CDN GAAP 2009		IFRS 2010		IFRS 2011		IFRS 2012	
	$	%	$	%	$	%	$	%	$	%
Short term debt	166	3%	225	5%	219	5%	17	0%	14	0
Long term debt	2,702	51%	1,692	39%	1,453	36%	1,682	42%	1,956	47%
Preferred shares	-	-	-	-	-	-	-	-	-	-
Common shares	24	0%	24	1%	24	1%	24	1%	24	1%
Retained Earnings/(Deficit)	2,429	46%	2,446	56%	2,318	58%	2,327	57%	2,210	53%
Total	5,321	100%	4,387	100%	4,014	100%	4,050	100%	4,204	100%

EPCOR Transmission Inc.
Year End Capital Structure 2008-2012
(In millions of dollars)

	2008		2009		2010		2011		2012	
	$	%	$	%	$	%	$	%	$	%
Short term debt	2	1%	-	0%	32	9%	(2)	-1%	116	25%
Long term debt	181	65%	184	62%	182	54%	205	61%	203	43%
Preferred shares	-	0%	-	0%	-	0%	-	-	-	-
Common shares	63	22%	72	24%	72	21%	72	21%	72	15%
Retained Earnings/(Deficit)	34	12%	42	14%	53	16%	63	19%	77	17%
Total	280	100%	298	100%	339	100%	338	100%	468	100%

EPCOR Distribution Inc.
Year End Capital Structure 2008-2012
(In millions of dollars)

	2008		2009		2010		2011		2012	
	$	%	$	%	$	%	$	%	$	%
Short term debt	3	1%	6	1%	41	8%	40	7%	17	3%
Long term debt	272	61%	277	57%	272	51%	341	55%	370	57%
Preferred shares	-	0%	-	0%	-	0%	-	-	-	-
Common shares	128	29%	152	31%	152	28%	152	25%	166	26%
Retained Earnings/(Deficit)	45	10%	50	10%	70	13%	85	14%	98	15%
Total	449	100%	486	100%	535	100%	619	100%	652	100%

CHAPARRAL CITY WATER COMPANY
DOCKET NO. W-02113A-13-0118

RESPONSE TO DATA REQUEST NO. RUCO 11.02 b.

EPCOR Water Arizona
Capital Structure 2008-2012
(In thousands of dollars)

	2008		2009		2010		2011		2012	
	$	%	$	%	$	%	$	%	$	%
Long- term debt	194,768	48%	184,112	-	195,565	47%	195,454	48%	240,337	61%
Short-term debt	57,941	14%	69,340	17%	60,318	15%	49,090	12%		0%
Preferred shares	-	-	-	-	-	-	-	-	-	-
Common Equity	154,506	38%	154,666	38%	156,292	38%	160,704	40%	152,248	39%
Total	407,215	100%	408,119	55%	412,175	100%	405,249	100%	392,586	100%

Notes:
During the years 2008 - 2011, EPCOR Water AZ was owned by American Water Company

CHAPARRAL CITY WATER COMPANY
DOCKET NO. W-02113A-13-0118

RESPONSE TO DATA REQUEST NO. RUCO 11.02 c.

EPCOR Energy Alberta Inc.
Capital Structure 2008-2012
(In thousands of dollars)

	2008		2009		2010		2011		2012	
	$	%	$	%	$	%	$	%	$	%
Short term debt	1,349	1%	-	-	-	-	31,894	23%	-	-
Long term debt	73,958	63%	73,958	60%	73,958	59%	73,958	53%	73,958	60%
Preferred shares	-	-	-	-	-	-	-	-	-	-
Common shares	101,257	86%	101,257	83%	86,257	69%	70,257	50%	70,257	57%
Retained Earnings/(Deficit)	(58,707)	-50%	(52,818)	-43%	(35,626)	-29%	(35,872)	-26%	(20,792)	-17%
Total	117,857	100%	122,397	100%	124,589	100%	140,237	100%	123,423	100%

Notes:
EEAI provides services to regulated and non-regulated customers.
For the years requested the regulatory earnings of EEAI are return on approved cost of service, not return on rate base.
The information provided is for EEAI as a whole (regulated and non-regulated) and is taken from the audited EEAI financial statements for the particular year.
Values reflect old CGAAP to 2010 and IFRS thereafter.

CHAPARRAL CITY WATER COMPANY
DOCKET NO. W-02113A-13-0118

Exhibit___(DCP-2)
Schedule 8
Page 5 of 5

RESPONSE TO DATA REQUEST NO. RUCO 11.02 c.

EPCOR Water Canada - Regulated Entities
Capital Structure 2008-2012 - End of Year Balances
(In thousands of dollars)

EPCOR Water Services Inc. (Edmonton & Region Water - Including Fire Protection & Wholesale Water)

	2008		2009		2010		2011		2012	
	$	%	$	%	$	%	$	%	$	%
Short term debt	30,720	5%	15,115	2%	4,188	1%	13,468	2%	32,630	4%
Long term debt	391,893	58%	409,601	57%	427,158	57%	445,991	56%	483,975	57%
Equity:										
Preferred shares	-	0%	-	0%	-	-	-	-	-	-
Common shares	-	0%	-	0%	-	-	-	0%	-	0%
Retained Earnings/(Deficit)	258,912	38%	290,071	41%	315,984	42%	330,882	42%	337,811	40%
Total	681,526	100%	714,787	100%	747,331	100%	790,341	100%	854,416	100%

EPCOR Water Services Inc. (Edmonton Wastewater)

	2008		2009		2010		2011		2012	
	$	%	$	%	$	%	$	%	$	%
Short term debt			40,189	17%	38,729	15%	39,685	15%	32,790	12%
Long term debt			105,435	46%	99,408	39%	113,520	44%	127,132	47%
Equity:										
Preferred shares			-	-	-	-	-	-	-	-
Contributed surplus			82,082	36%	106,832	42%	92,332	36%	90,082	34%
Retained Earnings/(Deficit)			3,079	1%	8,973	4%	13,618	5%	17,954	7%
Total	-	0%	230,784	100%	253,941	100%	259,154	100%	267,957	100%

EPCOR White Rock Water Inc. (Regulated & Non-Regulated Operations)

	2008		2009		2010		2011		2012	
	$	%	$	%	$	%	$	%	$	%
Short term debt	4,272	36%	4,584	39%	5,505	46%	4,546	36%	5,958	44%
Long term debt	9,600	80%	9,600	81%	9,600	80%	9,600	76%	9,600	71%
Equity:										
Preferred shares	-	-	-	-	0	-	0	0	0	0
Contributed surplus	0	0%	0	0%	-	0%	2,000	16%	2,000	15%
Retained Earnings/(Deficit)	(1,873)	-16%	(2,330)	-20%	(3,155)	-26%	(3,586)	-29%	(3,985)	-29%
Total	11,999	100%	11,854	100%	11,951	100%	12,560	100%	13,574	100%

EPCOR Water (West) Inc. (Regulated & Non-Regulated Operations)

	2008		2009		2010		2011		2012	
	$	%	$	%	$	%	$	%	$	%
Short term debt	90	2%	1,354	35%	3,014	59%	1,127	25%	3,024	44%
Long term debt	2,352	62%	2,272	59%	2,187	42%	2,098	46%	2,004	29%
Preferred shares	-	-	-	-	-	-	-	-	-	-
Equity:										
Contributed surplus	-	0%	-	0%	-	0%	1,800	40%	1,800	26%
Retained Earnings/(Deficit)	1,342	35%	257	7%	(54)	-1%	(493)	-11%	120	2%
Total	3,784	100%	3,883	100%	5,147	100%	4,532	100%	6,948	100%