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AZ CORP COMMISSION  
BUCKET CONTROL

1 FENNEMORE CRAIG, P.C.  
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Attorneys for Payson Water Co., Inc.  
4

5 **BEFORE THE ARIZONA CORPORATION COMMISSION**

6 IN THE MATTER OF THE APPLICATION  
OF PAYSON WATER CO., INC., AN  
7 ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE FAIR VALUE  
8 OF ITS UTILITY PLANTS AND  
PROPERTY AND FOR INCREASES IN ITS  
9 WATER RATES AND CHARGES FOR  
UTILITY SERVICE BASED THEREON.

DOCKET NO: W-03514A-13-0111

Arizona Corporation Commission

**DOCKETED**

DEC 06 2013

DOCKETED BY

DOCKET NO: W-03514A-13-0142

11 IN THE MATTER OF THE APPLICATION  
OF PAYSON WATER CO., INC., AN  
12 ARIZONA CORPORATION, FOR  
AUTHORITY TO: (1) ISSUE EVIDENCE  
13 OF INDEBTEDNESS IN AN AMOUNT  
NOT TO EXCEED \$1,238,000 IN  
14 CONNECTION WITH INFRASTRUCTURE  
IMPROVEMENTS TO THE UTILITY  
15 SYSTEM; AND (2) ENCUMBER REAL  
PROPERTY AND PLANT AS SECURITY  
16 FOR SUCH INDEBTEDNESS.

**NOTICE OF FILING REBUTTAL  
TESTIMONY**

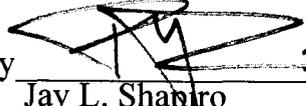
17  
18 Payson Water Co., Inc. ("the "Company") hereby submits this Notice of Filing  
19 Rebuttal Testimony in the above-referenced matter. Specifically filed herewith are the  
20 Company's Rebuttal Testimonies, which include the following testimonies, along with  
21 supporting schedules and/or attachments:

- 22 1. Rebuttal Testimony of Jason Williamson;  
23 2. Rebuttal Testimony of Thomas J. Bourassa (Rate Base); and  
24 3. Rebuttal Testimony of Thomas J. Bourassa (Cost of Capital).  
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RESPECTFULLY SUBMITTED this 6th day of December, 2013.

FENNEMORE CRAIG, P.C.

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

**ORIGINAL** and thirteen (13) copies  
of the foregoing were filed  
this 6th day of December, 2013, with:

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

**COPY** of the foregoing was hand delivered  
this 6th day of December, 2013, to:

Dwight D. Nodes  
Assistant Chief Administrative Law Judge  
Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, AZ 85007

Robin Mitchell, Esq.  
Legal Division  
Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, AZ 85007

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**COPY** of the foregoing was mailed  
this 6th day of December, 2013, to:

Kathleen M. Reidhead  
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J. Stephen Gehring  
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Payson, AZ 85541

By:   
8718325.1/073283.0006

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10 PROPERTY AND FOR INCREASES IN ITS  
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11 UTILITY SERVICE BASED THEREON.

DOCKET NO: W-03514A-13-0111

12 IN THE MATTER OF THE APPLICATION  
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IMPROVEMENTS TO THE UTILITY  
16 SYSTEM; AND (2) ENCUMBER REAL  
PROPERTY AND PLANT AS SECURITY  
17 FOR SUCH INDEBTEDNESS.

DOCKET NO: W-03514A-13-0142

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20 **REBUTTAL TESTIMONY OF**  
21 **JASON WILLIAMSON**

22  
23 **December 6, 2013**  
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Table of Contents

I. INTRODUCTION, PURPOSE AND SUMMARY .....1  
II. COMPLIANCE MATTERS .....2  
III. ADJUSTMENTS FOR UNSUPPORTED PLANT .....4  
IV. NON-REVENUE WATER.....6  
V. BEST MANAGEMENT PRACTICES TARIFFS .....7  
VI. REQUEST FOR EAST VERDE PARK HAULING SURCHARGE .....8

8716341.1/073283.0006

1 **I. INTRODUCTION, PURPOSE AND SUMMARY**

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

3 A. My name is Jason Williamson. My business address is 7581 E. Academy  
4 Boulevard, Suite 229, Denver, Colorado 80230.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

6 A. On behalf of the Applicant, Payson Water Co., Inc. ("PWC" or the "Company").  
7 I became the Company's President effective June 1, 2013, and since then have  
8 been responsible for management of PWC's daily operations, including oversight  
9 of this rate case.

10 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS**  
11 **PROCEEDING?**

12 A. Yes. In Phase I of this consolidated docket, I submitted direct testimony in support  
13 of the Company's request to consolidate and expedite the financing and rate  
14 applications, and testimony in response to the Staff Report. I also testified at the  
15 Phase I hearings in late September 2013.

16 **Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?**

17 A. To respond to recommendations by Staff in its (Phase 2) direct testimony regarding  
18 unsupported plant costs, non-revenue water, and Best Management Practices  
19 tariffs. I will also address the ADEQ and ADWR compliance issues Staff raised.  
20 In addition, the Company is renewing its request for a water hauling surcharge for  
21 the East Verde Park system, which I will explain. Finally, I will respond to Staff's  
22 recommendation regarding the portion of the Company's financing request being  
23 addressed in this phase of the proceeding.

24

25

26

1 **II. COMPLIANCE MATTERS**

2 **Q. MR. LIU RAISES TWO COMPLIANCE ISSUES IN HIS DIRECT**  
3 **TESTIMONY. WOULD YOU PLEASE ADDRESS THESE MATTERS?**

4 A. Yes. Mr. Liu points out that the Company currently has compliance issues with  
5 both ADEQ and ADWR. I will address both.

6 **Q. OKAY, WHAT IS THE ISSUE WITH ADWR?**

7 A. This is purely a paperwork issue - ADWR is evidently missing the 2011 and 2009  
8 annual reports.

9 **Q. WHAT IS THE COMPANY DOING TO ADDRESS THIS MATTER?**

10 A. The previous owner believes these have been submitted, and is looking for copies.  
11 We are preparing new reports for these years just in case the previous owner is  
12 unable to locate them.

13 **Q. WHEN DO YOU EXPECT THIS MATTER TO BE RESOLVED?**

14 A. Within the next 30-45 days.

15 **Q. THANK YOU. LET'S TURN TO THE ISSUE WITH ADEQ. CAN YOU**  
16 **EXPLAIN WHAT IS THE ISSUE THERE?**

17 A. We received a Notice of Violation for some wells located within the Mesa Del  
18 Caballo (MDC) community. There were three issues, one of which related to the  
19 wrong ADWR well number label that has been resolved already. The other two  
20 relate to ADEQ's belief that Approvals to Construct and Approvals of Construction  
21 are required for three wells owned by unaffiliated third parties and from which the  
22 Company gets water to augment its supply for MDC.

23 **Q. WHAT IS THE COMPANY DOING TO ADDRESS THIS MATTER?**

24 A. We have met with ADEQ and subsequently responded to this issue in a letter to  
25 ADEQ dated November 7, 2013, which letter responds to ADEQ's notice and,  
26 among other things, expresses our disagreement with ADEQ's findings of a

1 violation regarding these three wells. I have attached a copy of the letter to my  
2 testimony as **Exhibit JW-RB1**.

3 **Q. WHEN DO YOU EXPECT THIS MATTER TO BE RESOLVED?**

4 A. Since we have fulfilled our response obligations, the ball is in ADEQ's court.  
5 I hope that the matter will now be resolved in a matter of weeks.

6 **Q. STAFF RECOMMENDS THAT NO RATE INCREASES TAKE EFFECT**  
7 **UNTIL THESE MATTERS ARE RESOLVED. WHAT IMPACT WOULD**  
8 **THAT HAVE ON THE COMPANY?**

9 A. Any delay in an increase in rates will have a dramatic impact on the Company.  
10 The Company cannot wait for implementation of rates. Besides the fact that we do  
11 not currently have enough revenue to pay all our bills, such a delay will also have  
12 an impact on our ability to meet the debt service coverage ratios that are required  
13 for the WIFA financing set to close within one month from now. I cannot in good  
14 conscience borrow \$275,000 from WIFA to construct the TOP-MDC line without  
15 at least advising them that if Staff's recommendation is accepted, we may not be  
16 able to meet the required debt service requirements to borrow money from them.

17 **Q. BUT SHOULDN'T THE COMMISSION BE CONCERNED ABOUT THE**  
18 **WELFARE OF YOUR CUSTOMERS?**

19 A. Implementation of the new rates is the best means of ensuring the welfare of our  
20 customers. None of the issues impact water or service quality. The private well  
21 water is tested regularly along with our own well water by ADEQ under our  
22 regular MAP testing. Water quality from the privately owned wells has never been  
23 an issue that I can find.

1 **III. ADJUSTMENTS FOR UNSUPPORTED PLANT**

2 **Q. STAFF MADE TWO SIGNIFICANT RATE BASE ADJUSTMENTS.**  
3 **DO YOU WISH TO ADDRESS THEM?**

4 A. Yes. Mr. Bourassa will also address these two adjustments, and I will leave some  
5 of the more specific number details to him. I will try to provide some explanation  
6 as to why these issues have arisen. I want to start by thanking Staff for its efforts  
7 to work with us regarding support for plant. For a number of reasons, the transition  
8 from the Company's prior owners to JW Water, the investment group I formed to  
9 acquire the Company from Brooke Utilities Inc. ("BUI"), has been difficult.  
10 Access to past recordkeeping has provided one of our biggest challenges.  
11 While we may not necessarily agree with Staff's position or the adjustments  
12 Ms. Brown recommends, we are extremely grateful for their efforts to work with  
13 us.

14 **Q. IS THE AFFIDAVIT REQUESTED BY MS. BROWN ON PAGE 10 OF HER**  
15 **DIRECT TESTIMONY ONE OF THOSE EFFORTS?**

16 A. Yes. Attached as **Exhibit JW-RB2** are two affidavits – one from me and one from  
17 the Company's prior owner, Mr. Hardcastle – which detail the Company's efforts  
18 to provide support, and affirm that it was the Company who paid for the plant.

19 **Q. HOW CAN YOU BE SURE THAT THE COMPANY PAID FOR THE**  
20 **PLANT IN QUESTION?**

21 A. As reflected in the affidavits, although the Company was unable to provide  
22 invoices prior to 2009, the Company did provide annual reports, tax returns, and  
23 supporting schedules from the General Ledger. This documentation corresponds  
24 with the amounts stated in the Company's rate application. As for the source of  
25 funds, the only source available has been investor supplied capital. The Company  
26 did not enter into line extension agreements except for those related to homes with

1 the Star Valley system, and the Company has had no hook-up fee, and there is no  
2 debt on the books.

3 **Q. DO YOU AGREE WITH STAFF'S TESTIMONY (BROWN DT AT 9) THAT**  
4 **INADEQUATELY SUPPORTED PLANT HAS TO BE REMOVED TO**  
5 **REMOVE THE RISK THAT RATEPAYERS WILL PAY OVERSTATED**  
6 **COSTS?**

7 A. No, I don't agree. The plant exists, and its cost isn't zero. The Company wasn't  
8 able to provide all of the invoices requested by Staff but as I explained above,  
9 the Company did provide other documentation that demonstrates the plant at issue  
10 was paid for by the Company or its parent, BUI. The ratepayers aren't paying  
11 overstated costs.

12 **Q. WHY NOT?**

13 A. The only way ratepayers might pay overstated costs is for the plant cost to have  
14 been funded with Advances or Contributions in Aid of Construction and,  
15 additionally, be included in rate base. That hasn't happened here. The Company  
16 used its own money to pay for plant.

17 **Q. HOW DO YOU RESPOND TO STAFF'S CONTENTION THAT "SOURCE**  
18 **DOCUMENTATION" MEANS INVOICES?**

19 A. I don't understand the notion that an invoice is the only acceptable "source  
20 documentation." An invoice details services. But it doesn't actually prove who  
21 paid for the service – where the capital came from. I will try to illustrate by a  
22 simple example.

23 I can have my cousin Steve call a supply house and order a new pump for  
24 Payson. He can give his name and the supply house can write his name on the  
25 invoice. Later, when the pump is installed, PWC sends a check. A week later we  
26 get back an invoice marked "Paid in Full," perhaps with a check number written on

1 it. But the invoice is still in Steve's name. Does this mean the Company did not  
2 fund the cost of the tank? Of course not.

3 This is why I believe the other forms of documentation provided by the  
4 Company do a better job of demonstrating it was the Company who provided the  
5 capital. General ledger entries are made at the time plant is purchased and placed  
6 in service. Tax returns representing what the entity made, owns and spent, are filed  
7 making sure that the utility pays the right amount of income tax. An invoice may  
8 be helpful, but it is not the only or best proof of who paid for something.

9 **Q. THANK YOU. TURNING TO THE SECOND ADJUSTMENT, THE ONE**  
10 **RELATED TO THE STAR VALLEY CONDEMNATION, STAFF SAYS**  
11 **THEY CAN'T BE SURE THE AMOUNTS DEDUCTED ARE CIAC.**  
12 **DO YOU HAVE ANY RESPONSE?**

13 **A.** I believe Tom Bourassa has addressed this issue in his rebuttal testimony, but there  
14 is a very long record of these amounts being shown on the books and tax returns of  
15 the Company as CIAC, going back to before BUI's ownership. This means that  
16 most of these amounts were a part of the previous rate case that was approved in  
17 2000. I don't understand why Staff is just ignoring those prior findings of the  
18 Commission.

19 **IV. NON-REVENUE WATER**

20 **Q. STAFF'S ENGINEER MENTIONED THAT THE PWC SYSTEMS ARE**  
21 **"FRAGILE." WOULD YOU AGREE WITH THAT ASSESSMENT?**

22 **A.** I don't know that I have enough experience to answer that, as we've only been the  
23 owner for six months now. However, as is typical for water systems that are  
24 decades old, they tend to show their age in the form of line leaks, equipment  
25 breakdown, and non-revenue water (aka water loss).

1 Q. SPEAKING OF NON-REVENUE WATER, DO YOU SUPPORT THE  
2 STAFF'S RECOMMENDATIONS ON POST-DECISION  
3 DOCUMENTATION / COMPLIANCE REQUIREMENTS FOR THE  
4 FLOWING SPRINGS, GISELA, MEADS RANCH, WHISPERING PINES  
5 AND GERONIMO ESTATES SYSTEMS?

6 A. It depends. In the case of Flowing Springs, the non-revenue water numbers shown  
7 in Table 2 of the Engineering Report are incorrect. According to the Company's  
8 records and the 2012 annual report, in 2012 1,089,000 gallons were sold and  
9 1,139,000 gallons were pumped. This equals a loss of 4.4 percent. Therefore, the  
10 compliance recommendations do not seem appropriate. Similarly for Gisela,  
11 the 2012 annual report shows that 12,002,000 gallons were sold and 13,357,000  
12 gallons were pumped. This equals 10 percent. The Engineering Report incorrectly  
13 states 16.4 percent. For Geronimo Estates, the numbers are off but only slightly.  
14 The 2012 annual report shows 1,501,000 gallons sold and 1,669,000 gallons  
15 pumped, which is 10 percent. There are other smaller discrepancies in the table,  
16 but the Staff recommendations for non-revenue water reporting for  
17 Flowing Springs, Gisela and Geronimo Estates appear to be based on incorrect  
18 flow numbers.

19 Q. ARE YOU OKAY WITH THE STAFF RECOMMENDATIONS FOR  
20 WATER LOSS REPORTING ON WHISPERING PINES AND  
21 MEADS RANCH?

22 A. Yes.

23 V. BEST MANAGEMENT PRACTICES TARIFFS

24 Q. DOES THE COMPANY ACCEPT STAFF'S RECOMMENDATION?

25 A. Yes. The Company has agreed to adopt the attached to Mr. Liu's testimony as  
26 Attachment JWL. The Company further agrees to notify customers in of their

1 implementation in a form acceptable to Staff.

2 **VI. REQUEST FOR EAST VERDE PARK HAULING SURCHARGE**

3 **Q. STAFF RECOMMENDS THAT THE COMPANY FILE A LONG-TERM**  
4 **PLAN TO ADDRESS WATER SUPPLY ISSUE IN EAST VERDE PARK.**  
5 **DO YOU AGREE THAT THIS SYSTEM HAS A WATER SUPPLY**  
6 **PROBLEM?**

7 A. Yes, but it is nothing like what we experience in MDC. The wells in EVP are like  
8 most well sources in this area – they just do not produce a consistently sustainable  
9 supply in significant quantities, and it is generally uncertain whether there is more  
10 water deeper down. Additionally, SRP, who controls the flow of the East Verde  
11 River, which runs adjacent to EVP, has some claims related to all of the water in  
12 the area. So, whatever the case, it doesn't appear there are any easy solutions or  
13 “low hanging fruit.”

14 **Q. STAFF RECOMMENDS THAT THE COMPANY CONDUCT A STUDY**  
15 **REGARDING THE EVP WATER SUPPLY SITUATION. DO YOU**  
16 **BELIEVE THIS IS A PRUDENT INVESTMENT OF TIME AND MONEY?**

17 A. It might be, if for nothing else, to confirm that there really are no good options.  
18 So, the Company is not really opposed to doing such a study, but it can't do it  
19 without rate relief as we could not even think of funding something like this given  
20 our current financial situation and our focus on getting through next summer.  
21 Therefore, the time frame for completing this study should be at least one year  
22 from a decision in this case.

23 **Q. WHAT DO YOU SUGGEST IN THE NEAR-TERM?**

24 A. We believe the best method to address the unpredictable water supply issues in  
25 EVP is to establish an augmentation tariff, like the one utilized in MDC, and  
26 proposed by the previous owner for EVP in 2011. This seems most equitable, as it

1 would allow the Company to provide this extra service and cost for the occasional  
2 hauling at EVP to be recovered from the customers that need it. The Company's  
3 proposed tariff is attached hereto as **Exhibit JW-RB3**.

4 **Q. WHY DIDN'T THE COMPANY INCLUDE THIS REQUEST IN ITS**  
5 **APPLICATION?**

6 A. I don't know why the prior owner did not include it. But it is the same approach as  
7 has been used in the MDC system and it does not increase the revenue requirement,  
8 so I do not see why the request cannot be evaluated in this rate case.

9 **Q. WHY SHOULD THE COMMISSION APPROVE A WATER HAULING**  
10 **TARIFF FOR EVP WHEN IT JUST TOOK STEPS TO TERMINATE THE**  
11 **ONE FOR MDC?**

12 A. Primarily to provide a revenue-neutral means to recover the costs for augmenting  
13 the water supplies at EVP without impacting the rates for all PWC customers.  
14 Keep in mind that the hauling requirements for EVP have historically been  
15 minimal in comparison to MDC. In the test year, for example, which was the year  
16 with the historically highest water shortages at EVP, hauling costs were around  
17 \$12,000 (which works out to about \$85/ customer). At MDC in 2013 (the worst  
18 year yet for hauling), costs have topped \$88,000 or about \$247 per customer.

19 **VII. COST OF CAPITAL**

20 **Q. WITH REGARD TO THE PHASE 2 FINANCING APPROVAL, WHEN DO**  
21 **YOU EXPECT TO PROCEED WITH THAT PROJECT (CRAGIN**  
22 **PIPELINE)?**

23 A. The timing of this project is out of our hands, but the last update we received from  
24 the Town of Payson estimated completion of the Cragin pipeline in the third  
25 quarter of 2016.

26

1 Q. SO WILL STAFF'S RECOMMENDED FINANCING APPROVAL FOR  
2 PHASE 2 WORK WITH THAT TIMELINE?

3 A. No. Staff is recommending that the approval for the Company to take the loan and  
4 implement the debt surcharge be rescinded within a year of the final order. Based  
5 on a late 2016 completion date, the approvals we need will expire before we need  
6 them.

7 Q. SO SHOULD THE PHASE 2 LOAN AND SURCHARGE APPROVAL BE  
8 PERPETUAL?

9 A. Of course not, but since Staff is recommending we come back in for another rate  
10 case using a 2017 test year, why not allow the loan approval to extend until the  
11 filing of the next rate case? Otherwise, we'll be into the Commission for two  
12 general rate cases and three financing approvals within a 5-year period.  
13 That seems onerous and expensive for our customers too.

14 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

15 A. Yes.

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**EXHIBIT**  
**JW-RB1**

November 7, 2013

Daniel Czecholinski  
Manager, Water Quality Field Service Unit  
Arizona Dept. of Environmental Quality  
1110 W. Washington St.  
Phoenix, AZ 85007

Subject: Payson Water Co. – Mesa Del Caballo  
Response to Notice of Violation dated Aug. 12, 2013

Mr. Czecholinski,

Following up our meeting on October 16, I am writing this letter to respond to the significant violations outlined in the aforementioned NOV.

After reviewing the available files at ADEQ regarding well nos. 55-553798, 55-560398, and 55-585747 (this is the corrected number – previously incorrectly identified as well 55-588967), we have determined that the alleged violations did not occur. A.A.C. section R18-505-B.3. provides a list of exemptions to the rule under which you indicate we are non-compliant. It reads: “An existing public water system shall be exempt from the plan review requirements of this Article if the public water system is in compliance with this Chapter or is making satisfactory progress towards compliance under a schedule approved by the Department if the applicable structural revision, addition, extension, or modification: (a. Has a project cost of \$12,500 or less)”.

As you can see in the attached invoices from Aero Drilling of Payson, AZ, none of these wells had a project cost of \$12,500. The Aero Drilling invoices reflect the well location instead of the well number, so I've provided a table below that summarizes the invoice amounts for each well site:

- Well 55-5532798 (“Gunsight” - 8170 Gunsight Ridge) = \$ 7,968.44
- Well 55-560398 (“Lot #289” - 605 W. Arabian) = \$ 8,309.66
- Well 55-585747 (“E. Barranca” Well) = \$ 6,505.83

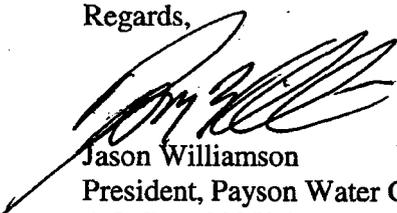
In addition to the exemption related to the project cost, we also believe that the rules referenced in the NOV are clearly only applicable to company-owned wells (and not private wells). As we discussed at the meeting, and as has been conveyed to ADEQ during the May, 2013 inspection as well as prior inspections, Payson Water Company does not own any of the wells referenced

above. Payson Water Company maintains well sharing agreements with the private owners of these wells as a means of augmenting supply.

As a result primarily of the project cost exemption, it is clear under the rule that Payson Water Company is not required to obtain Approvals to Construct OR Approvals of Construction for the well numbers listed in the NOV and referenced above.

Please contact me, or the Payson Water Company Engineer, Jeff Bower, P.E. if you have any questions. We look forward to receiving confirmation from ADEQ of our compliance, and closure of the above-referenced NOV.

Regards,



Jason Williamson  
President, Payson Water Company  
P.O. Box 200595  
Denver, CO 80220  
P. 720-949-1384

CC: Jeff Bower, P.E.  
Tres Rios Consulting Engineers  
(602)989-0342

# **AERO DRILLING & PUMPS, Inc.**

---

P.O. Box 499  
Payson, AZ 85547  
928-474-2376  
Fax: 928-468-6882

---

## **FAX TRANSMISSION COVER SHEET**

---

Date: 10/29/13

To: JEFF @ TRCE

Fax: 480-755-1043

Subject: MESA DEL CABALLO WELLS

Sender: CHRIS MILLER

---

**YOU SHOULD RECEIVE 6 PAGE(S), INCLUDING THIS COVER SHEET.  
IF YOU DO NOT RECEIVE ALL THE PAGES, PLEASE CALL 928-474-2376.**

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**AERO DRILLING & PUMPS, INC.**

**Invoice**

**P.O. BOX 499  
PAYSON, AZ 85547  
(928)474-2376**

DATE INVOICE #  
4/1/1998 5129

**BILL TO  
LISA HARMON  
HC 3 BOX 593-I  
PAYSON, AZ 85541**

**SHIP TO  
MESA DEL CABALLO  
GUNSIGHT**

P.O. NUMBER TERMS REP SHIP VIA F.O.B. PROJECT  
Due on Recpt 4/1/1998

QUANTITY	ITEM CODE	DESCRIPTION	PRICE EACH	AMOUNT
360	WD	Well Drilling	10.00	3,600.00T
21	WDSC06	Steel Casing 6"	7.00	147.00T
360	WDPV4	PVC Casing 4-1/2"	3.00	1,080.00T
20	WDGT	Grout Seal	2.40	48.00T
		Sales Tax	3.90%	190.13

Thank you!

**Total \$5,065.13**

**AERO DRILLING & PUMPS, INC.**

**P.O. BOX 499  
 PRYSON, AZ 85547  
 (928)474-2376**

**Invoice**

DATE INVOICE #  
 12/31/1996 5428

**BILL TO**

**BROOKE UTILITIES, INC  
 P.O. BOX 1807  
 BAKERSFIELD, CA 93303-1807**

**SHIP TO**

**MESA DEL CABALLO  
 LOT#289**

*CALDWELL*

DEAN S.

P.O. NUMBER	TERMS	REP	SHIP	VIA	F.O.B.	PROJECT
0418	Due on Recpt		12/31/1996			

QUANTITY	ITEM CODE	DESCRIPTION	PRICE EACH	AMOUNT
440	WD	Well Drilling	10.00	4,400.00T
21	WDSC06	Steel Casing 6"	7.00	147.00T
440	WDPV4	PVC Casing 4-1/2"	3.00	1,320.00T
20	WDGT	Grout Seal	2.40	48.00T
1	05GS10412	Goulds 5GS10 1HP 230V sub. pump	928.00	928.00T
420	GALV-10	1" Galv. Pipe	1.34	562.80T
430	ESB-104	10-4 Sub Pump Wire	0.89	382.70T
1	AW68-1	6" X 1" Well Seal	36.00	36.00T
4	LBR-1	Labor	45.00	180.00
		Sales Tax	3.90%	305.16

Thank you!

**Total \$8,309.66**

**AERO DRILLING & PUMPS, INC.**

**P.O. BOX 499  
PAYSON, AZ 85547  
(928)474-2376**

**Invoice**

DATE 10/1/1998 INVOICE # 5310

**BILL TO  
BROOKE UTILITIES, INC  
P.O. BOX 1807  
BAKERSFIELD, CA 93303-1807**

**SHIP TO  
MESA DEL CABALLO  
E. BARRANCA**

*COMMUNITY WELL  
BY FINE STATION*

**DEAN S.**

P.O. NUMBER 00233 TERMS Due on Recpt REP SHIP 9/30/1998 VIA F.O.B. PROJECT

QUANTITY	ITEM CODE	DESCRIPTION	PRICE EACH	AMOUNT
400	WDPV4	PVC Casing 4-1/2"	3.00	1,200.00T
1	HF-C	HYDRO FRAC WELL	850.00	850.00T
		Sales Tax	3.90%	79.95

Thank you!

**Total \$2,129.95**

**AERO DRILLING & PUMPS, INC.**

**P.O. BOX 499  
 PRYSON, AZ 85547  
 (928)474-2376**

**Invoice**

DATE 9/19/1996 INVOICE # 5306

**BILL TO**

**BROOKE UTILITIES, INC  
 P.O. BOX 1807  
 BAKERSFIELD, CA 93303-1807**

**SHIP TO**

**MESA DEL CABALLO  
 EAST BARRANCA**

*COMMUNITY PRDP.  
 BY FIRE STATION*

DEAN S.

P.O. NUMBER	TERMS	REP	SHIP	VIA	F.O.B.	PROJECT
00233	Due on Recpt		9/18/1996			

QUANTITY	ITEM CODE	DESCRIPTION	PRICE EACH	AMOUNT
400	WD	Well Drilling	10.00	4,000.00T
22	WDSC06	Steel Casing 6"	7.00	154.00T
20	WDGT	Grout Seal	2.40	48.00T
1	Misc-P	PERMITTING	10.00	10.00
		Sales Tax	3.90%	163.88

Thank you!

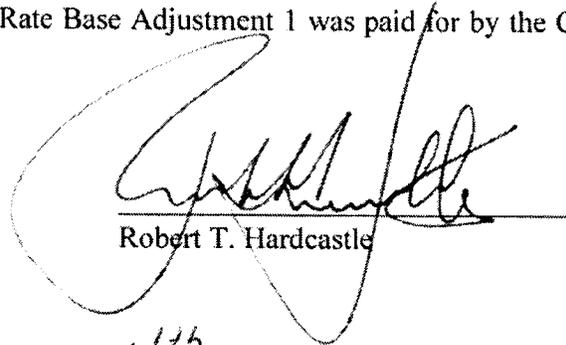
**Total \$4,375.88**

**EXHIBIT**  
**JW-RB2**

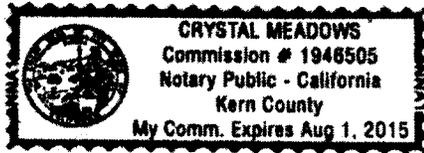


1 no debt at the end of the test year or at the time BUI sold the stock to Mr. Williamson.

2 9. Based on the foregoing, I affirm under oath that the plant at issue in Docket No.  
3 W-03514A-13-0111, and subject to Staff Rate Base Adjustment 1 was paid for by the Company  
4 and/or its shareholder, BUI.

5  
6   
7 Robert T. Hardcastle

8  
9 SUBSCRIBED and sworn to before me this 4<sup>th</sup> day of December, 2013.



14   
15 Notary Public

16 My Commission Expires:

17 August 1, 2015  
18 8705927.1/073283.0006  
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**AFFIDAVIT OF JASON P. WILLIAMSON**

Jason P. Williamson, being duly sworn, deposes and says:

1. I am a resident of Denver County, over 18 years of age, and make this affidavit based on my own personal knowledge.

2. I am President of Payson Water Co., Inc. (the "Company") as of June 2013.

3. In Data Requests CSB 1.3 and CSB 2.15, dated June 27, 2013 and September 12, 2013, respectively, Staff requested "invoices and all other documentation" to support a sampling of costs for plant additions between the years 2000 and 2012, totaling \$448,235.

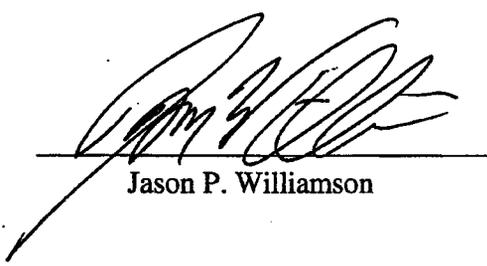
4. It was the Company's prior owner, Brooke Utilities Inc. ("BUI"), who maintained control over the records that Staff requested. The Company worked with BUI to locate invoices, specifically, for the plant additions identified in Data Request CSB 1.3.

5. On August 23, 2013, the Company provided to Staff invoices for plant additions between 2009 and 2012. The Company indicated it was continuing the search for invoices issued between 2000 and 2008. Ultimately, the Company determined it was unable to provide many of these invoices.

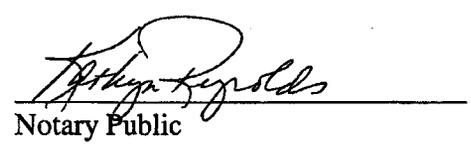
6. The Company discussed with Staff other ways to support the costs. Consequently, between October 18 and October 29, 2013, the Company provided its annual reports for 2000-2008, BUI's tax returns, and schedules from the General Ledger that corresponded both with the Company's tax return and the annual reports filed with the ACC.

7. After reviewing this information, it became clear that the plant assets were purchased by the Company, and that BUI's accounting practices were sound. The amounts filed in the Company's rate application corresponded to the IRS-filed tax returns as well as the ACC-filed annual reports.

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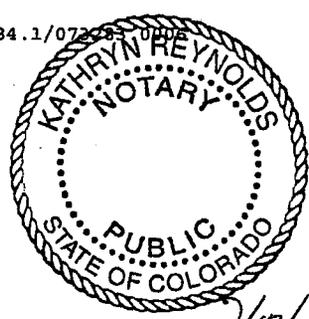
  
\_\_\_\_\_  
Jason P. Williamson

SUBSCRIBED and sworn to before me this 5<sup>th</sup> day of December, 2013.

  
\_\_\_\_\_  
Notary Public

My Commission Expires: 2/17/15

8712284.1/072250000



My Commission Expires 2/17/15

**EXHIBIT**  
**JW-RB3**

		Revised	SHEET NO.	1.1
Payson Water Co., Inc.	East Verde Park	Revised	SHEET NO	
Docket No. W-03514A-13-0111 et al.				
	(Name of Service Area)			

**CURTAILMENT PLAN FOR: PAYSON WATER CO., INC.**

ADEQ Public Water System: East Verde Park Water System (#04-026)

**APPLICABILITY**

Payson Water Company, Inc. (the "Company") is authorized by the Arizona Corporation Commission to curtail water service to all customers within its certificated area under the terms and conditions listed in this tariff. As needed, this tariff will be implemented by the Company for customers of the East Verde Park water system ("Water System"). This tariff supersedes the Curtailment Plan approved in Decision No. 67281 (May 5, 2005).

The curtailment plan shall become part of the Arizona Department of Environmental Quality Emergency Operations Plan for the Company.

The Company shall notify its customers of this new tariff as part of its next regularly scheduled billing after the effective date of the tariff or no later than sixty (60) days after the effective date of this tariff.

For the purposes of this curtailment plan the term "Peak Season" shall be defined as the period from May 1 through September 30 annually. The term "Off-Peak Season" shall be defined as all other periods not defined as Peak Season.

The Company shall provide a copy of the curtailment tariff to any EVP customer upon request.

**EXEMPTIONS:** Customers who use 4,000 gallons or less per month based on a twelve (12) month rolling average are exempt from the mandatory reduction in daily use requirements as outlined in Stage 3, Stage 4 and Stage 5 of this tariff. This is because these customers are already leading a conservative water lifestyle, and mandatory percentage reductions will likely require the loss of use of water essential to health and safety. However, all other restrictions during mandatory conservation periods will still apply.

<b>ISSUED:</b>			<b>EFFECTIVE:</b>	
	Month	Day	Year	Month
				Day
				Year
	ISSUED BY: Jason Williamson			
	7581 E. Academy Boulevard, Suite 229			
	Denver, Co 80230			

		Revised	SHEET NO.	1.2
Payson Water Co., Inc.	East Verde Park	Revised	SHEET NO	
Docket No. W-03514A-13-0111 et al.				
	(Name of Service Area)			

## STAGES

### Stage 1 Exists When:

Water System's storage level is 85% or more of capacity and there are no known problems with production or storage.

Restrictions: Under Stage 1 conditions the water system is deemed to be operating normally and no curtailment is necessary, except as follows: (a) no outside watering is permitted on Mondays; (b) outside water is permitted on Tuesdays, Thursdays, and Saturdays for customers with street addresses ending with an odd number; (c) outside water is permitted on Wednesdays, Fridays, and Sundays for customers with street addresses ending with an even number; (d) during the Peak Season outdoor watering using spray or any form of irrigation shall be conducted only during the hours of 8:00 p.m. and 12:00 Midnight, or during the hours of 3:00 a.m. and 7:00 a.m.

Water Augmentation: Under Stage 1 conditions, no water augmentation is required.

Notice: Under Stage 1 conditions, no notice is required.

### Stage 2 Exists When:

Water System's storage level is less than 85% of capacity but more than 70% of capacity for at least forty-eight (48) consecutive hours. Further, the Company has identified operational circumstances such as a steadily declining water table, increasing draw down threatening pump operations, or decreasing well production creating a reasonable belief that the Water System will be unable to meet anticipated sustained water demand.

Restrictions: Under Stage 2 conditions **voluntary** conservation measures should be employed by customers to reduce water consumption by at least 20% as measured on a daily use basis. Further water use restrictions shall include: (a) no outside watering is permitted on Monday's, Thursdays, and Fridays; (b) outside water is permitted on Tuesdays and Saturdays for customers with street addresses ending with an odd number; (c) outside water is permitted on Wednesdays and Sundays for customers with street addresses ending with an even number; (d) during the Peak Season outdoor watering using spray or airborne irrigation shall be conducted only during the hours of 8:00 p.m. and 12:00 Midnight, or during the hours of 3:00 a.m. and 7:00 a.m.

Water Augmentation: Under Stage 2 conditions no water augmentation is required.

ISSUED:			EFFECTIVE:	
	Month Day Year			Month Day Year
		ISSUED BY: Jason Williamson		
		7581 E. Academy Boulevard, Suite 229		
		Denver, Co 80230		
		\		

		Revised	SHEET NO.	1.3
Payson Water Co., Inc.	East Verde Park	Revised	SHEET NO	
Docket No. W-03514A-13-0111 et al.				
	(Name of Service Area)			

**Notice:** Under Stage 2 conditions the Company is required to notify customers by (a) door-to-door delivery of written notices at each service address; or, (b) by changing local water conservation staging signs; or, (c) by means of electronic mail; or, (d) by means of any other reasonable means of notification of customers of the Water System; of the imposition of the Curtailment Tariff, the applicable Curtailment Stage, a general description of conditions leading to Stage 2 conditions, and a need to conserve water.

**Stage 3 Exists When:**

Water System's storage level is less than 70% of capacity but more than 60% of capacity for at least twenty-four (24) consecutive hours. Further, the Company has identified-operational circumstances such as a steadily declining water table, increasing draw down threatening pump operations, or decreasing well production creating a reasonable belief that the Water System will be unable to meet anticipated sustained water demand.

**Restrictions:** Under Stage 3 conditions **mandatory** conservation measures should be employed by customers to reduce water consumption; by at least 30% as measured on a daily use basis. Further water use restrictions shall include: (a) no outside watering is permitted on Mondays, Thursdays, and Fridays.; (b) outside water is permitted on Tuesdays and Saturdays for customers with street addresses ending with an odd number; (c) outside water is permitted on Wednesdays and Sundays for customers with street addresses ending with an even number; (d) during the Peak Season outdoor watering using spray or airborne irrigation shall be conducted only during the hours of 8:00 p.m. and 12:00 Midnight, or during the hours of 3:00 a.m. and 7:00 a.m. Under Stage 3 conditions the Company shall inform customers of the Water System of the **mandatory** restriction to employ water conservation measures to reduce daily consumption by 30%. Failure of customers to comply with this requirement may result in service disconnection as described by this Curtailment Plan. Under Stage 3 conditions, the following uses of water are strictly prohibited: (1) outdoor irrigation of lawns, trees, shrubs, or any plant life, except as otherwise provided herein; (2) washing of any vehicle; (3) use of water for dust control or outdoor cleaning uses; (4) use of outdoor drip irrigation or misting systems of any kind, except as otherwise provided herein; (5) use of water to fill swimming pools, spas, fountain, fish ponds, or ornamental water features; (6) all construction water; (7) restaurant or convenience store patrons shall be served water only on request; and, (8) any other water intensive activity. Under Stage 3 conditions the Water System is prohibited from supplying water to any standpipe and the installation of new water meters and new service lines is prohibited.

**Water Augmentation:** Under Stage 3 conditions the Company will undertake reasonable measures to augment its well production until such time that Stage 2 conditions are achieved for forty-eight (48) consecutive hours. In all cases where the Company employs water augmentation the Water System's Water Augmentation Surcharge shall become applicable.

ISSUED:			EFFECTIVE:	
	Month Day Year			Month Day Year
		ISSUED BY: Jason Williamson		
		7581 E. Academy Boulevard, Suite 229		
		Denver, Co 80230		

		Revised	SHEET NO.	1.4
Payson Water Co., Inc.	East Verde Park	Revised	SHEET NO	
Docket No. W-03514A-13-0111 et al.				
	(Name of Service Area)			

**Notice:** Under Stage 3 conditions the Company is required to notify customers by (a) door-to-door delivery of written notices at each service address; or, (b) by changing local water conservation staging signs; or, (c) by means of electronic mail; or, (d) by means of any other reasonable means of notification of customers of the Water System; of the imposition of the Curtailment Tariff, the applicable Curtailment Stage, a general description of conditions leading to Stage 3 conditions, and a need to conserve water.

**Enforcement:** Once the Company has properly provided notice of Stage 3 conditions, the failure of a customer to comply with this Curtailment Plan within twenty-four (24) hours of receiving notice of its violation of this Curtailment Plan may result in the immediate disconnection of service, without further notice, in accordance with Arizona Administrative Code R14-2-410 (B)(1)(d). The reconnection fee for a violation of a Stage 3 curtailment notice shall be:

First offense:	\$200
Second offense: (see also Reconnection Fees Section)	\$350
Third offense:	\$750

If a customer believes their water service has been disconnected in error, the customer may contact the Commission's Consumer Services Section at (800) 222-7000 to initiate further investigation.

**Stage 4 Exists When:**

Water System's storage level is less than 60% of capacity, but more than 50% of capacity for at least twenty-four (24) consecutive hours. Further, the Company has identified operational circumstances such as a steadily declining water table, increasing draw down threatening pump operations, or decreasing well production creating a reasonable belief that the Water System will be unable to meet anticipated sustained water demand.

**Restrictions:** Under Stage 4 conditions **mandatory** conservation measures should be employed by customers to reduce water consumption; by at least 40% as measured on a daily use basis. Further water use restrictions shall include: (a) no outside watering is permitted on Mondays, Thursdays, Fridays, and Sundays; (b) outside watering is permitted on Tuesdays for customers with street addresses ending with an odd number; (c) outside water is permitted on Wednesdays for customers with street addresses ending with an even number; (d) during the Peak Season outdoor watering using spray or airborne irrigation shall be conducted only during the hours of 8:00 p.m. and 12:00 Midnight, or during the hours of 3:00 a.m. and 7:00 a.m. Under Stage 4 conditions the Company shall inform customers of the Water System's **mandatory** restriction to employ water conservation measures to reduce daily water consumption by 40%. Failure of customers to comply with this requirement may result in service disconnection as described by this Curtailment Plan. Under Stage 4 conditions the following uses of water are strictly prohibited: (1) outdoor irrigation of lawns, trees, shrubs, or any plant life, except as otherwise provided herein;

ISSUED:		EFFECTIVE:	
	Month Day Year		Month Day Year
	ISSUED BY: Jason Williamson		
	7581 E. Academy Boulevard, Suite 229		
	Denver, Co 80230		

		Revised	SHEET NO.	1.5
Payson Water Co., Inc.	East Verde Park	Revised	SHEET NO	
Docket No. W-03514A-13-0111 et al.				
	(Name of Service Area)			

(2) washing of any vehicle; (3) use of water for dust control or outdoor cleaning uses; (4) use of outdoor drip irrigation or misting systems of any kind, except as otherwise provided herein; (5) use of water to fill swimming pools, spas, fountain, fish ponds, or ornamental water features; (6) all construction water; (7) restaurant or convenience store patrons shall be served water only on request; and, (8) any other water intensive activity. Under Stage 4 conditions the Water System is prohibited from supplying water to any standpipe and the installation of new water meters and new service lines is prohibited.

**Water Augmentation:** Under Stage 4 conditions the Company will undertake reasonable measures to augment its well production until such time that Stage 3 conditions are achieved for forty-eight (48) consecutive hours. In all cases where the Company employs water augmentation the Water System's Water Augmentation Surcharge shall become applicable.

**Notice:** Under Stage 4 conditions the Company is required to notify customers by (a) door-to-door delivery of written notices at each service address; or, (b) by changing local water conservation staging signs; or, (c) by means of electronic mail; or, (d) by means of any other reasonable means of notification of customers of the Water System; of the imposition of the Curtailment Tariff, the applicable Curtailment Stage, a general description of conditions leading to Stage 4 conditions, and a need to conserve water.

**Enforcement:** Once the Company has properly provided notice of Stage 4 conditions, the failure of a customer to comply with this Curtailment Plan within twenty-four (24) hours of receiving notice of its violation of this Curtailment Plan may result in the immediate disconnection of service, without further notice, in accordance with Arizona Administrative Code R14-2-410 (B)(1)(d). The reconnection fee for a violation of a Stage 4 curtailment notice shall be:

First offense:	\$400
Second offense: (see also Reconnection Fees Section)	\$750
Third offense:	\$1,500

If a customer believes their water service has been disconnected in error the customer may contact the Commission's Consumer Services Section at (800) 222-7000 to initiate further investigation.

**Stage 5 Exists When:**

Water System's storage level is less than 50% of capacity for at least twelve (12) consecutive hours. Further, the Company has identified operational circumstances such as a steadily declining water table, increasing draw down threatening pump operations, or decreasing well production creating a reasonable belief that the Water System will be unable to meet anticipated sustained water demand.

ISSUED:		EFFECTIVE:	
	Month Day Year		Month Day Year
		ISSUED BY: Jason Williamson	
		7581 E. Academy Boulevard, Suite 229	
		Denver, Co 80230	



		Revised	SHEET NO.	1.7
Payson Water Co., Inc.	East Verde Park	Revised	SHEET NO	
Docket No. W-03514A-13-0111 et al.	(Name of Service Area)			

**NOTICE**

If the Company elects to provide customer water conservation-stage notice by use of local sign postings the Company shall post and maintain at least two (2) signs per water system in noticeable locations that include the entrance to major subdivisions indicating the Company is operating under its Curtailment Plan Tariff, beginning with Stage 1. Each signs shall be at least four feet by four feet and color-coded to denote the current stage, as follows:

- Stage 1 — Green
- Stage 2 — Blue
- Stage 3 — Yellow
- Stage 4 — Orange
- Stage 5 — Red

The Company shall notify the Consumer Services Division of the Utilities Division at least;

- Twelve (12) hours prior to entering Stage 2.
- Six (6) hours prior to entering Stage 3.
- Six (6) hours prior to entering Stage 4.
- Four (4) hours prior to entering Stage 5.

**RECONNECTION FEES**

All reconnection fees shall be cumulative for a calendar year regardless of the Stage that an offense occurs. For example, if a customer fails to meet the requirements of a water conservation stage, observe required water conservation measures under a Stage 3 condition, and after receiving notice that a water conservation stage is in effect, the reconnection fee will be \$200. If the same customer in the same calendar year commits an offense under Stage 5 conditions, the reconnection fee shall be \$1,500. By May 15 and October 15 annually, the Company shall provide the Director of the Utilities Division with a list of customers who paid reconnection fees for failure to comply with the mandatory provisions of the Curtailment Plan Tariff.

Any customer who has service disconnected according to this Curtailment Plan Tariff more than once during a calendar year shall have those terminations count against them in the next calendar year for purposes of establishing the reconnection fee, should another disconnection occur.

ISSUED:			EFFECTIVE:	
	Month Day Year			Month Day Year
		ISSUED BY: Jason Williamson		
		7581 E. Academy Boulevard, Suite 229		
		Denver, Co 80230		

		Revised	SHEET NO.	1.8
Payson Water Co., Inc.	East Verde Park	Revised	SHEET NO	
Docket No. W-03514A-13-0111 et al.				
	(Name of Service Area)			

### WATER CONSUMPTION CALCULATION OF "DAILY USE"

For the purpose of calculating "daily use" under the Restriction section of Stage 2, Stage 3, Stage 4, and Stage 5 water conservation conditions, the following definition shall apply:

Daily use is determined by taking the customer water meter reading today and subtracting from the customer's meter reading yesterday. This daily use amount is multiplied by 30 days to obtain a calculated monthly use. This monthly use is then compared to the higher of: (a) the immediately preceding month's actual water consumption, or (b) water consumption for the same month in any one of the two previous years for the same service location, to determine if the customer reduced his/her water consumption by at least the required Stage's percentage. The water customer should reduce their daily water consumption from the higher monthly water consumption of either (a) or (b).

**Example:** Customer meter reads 986654 today. Customer meter read 986354 yesterday. The difference in meter reads is 300 gallons for one day or 9,000 gallons for 30 days. Customer's actual use in the same month in any one of the two previous years was 6,000 (b) gallons. Customer is in violation of Stage 3 mandatory water conservation conditions because his/her current "daily use" calculation is greater than his/her higher monthly use of (a) 7,000 gallons. Under Stage 3, the customer is required to reduce consumption by 30% of the 7,000 gallons or 2,100 gallons, 7,000 - 2,100 is 4,900. So the customer's daily use needs to be about 165 gallons per day.

<b>ISSUED:</b>			<b>EFFECTIVE:</b>	
	Month	Day	Year	Month Day Year
	ISSUED BY: Jason Williamson			
	7581 E. Academy Boulevard, Suite 229			
	Denver, Co 80230			

		Revised	SHEET NO.	2.0
Payson Water Co., Inc.		Revised	SHEET NO.	
Docket No. W-03514A-10-0116 et al.				
	(Name of Service Area)			

**EMERGENCY INTERIM**  
**WATER AUGMENTATION SURCHARGE TARIFF**

**WATER CONSUMPTION CALCULATION OF "DAILY USE"**

For the purpose of calculating "daily use" under the Restriction section of Stage 2, Stage 3, Stage 4, and Stage 5 water conservation conditions, the following definition shall apply:

Daily use is determined by taking the customer water meter reading today and subtracting from the customer's meter reading yesterday. This daily use amount is multiplied by 30 days to obtain a calculated monthly use. This monthly use is then compared to the higher of: (a) the immediately preceding month's actual water consumption, or (b) water consumption for the same month in any one of the two previous years for the same service location, to determine if the customer reduced his/her water consumption by at least the required Stage's percentage. The water customer should reduce their daily water consumption from the higher monthly water consumption of either (a) or (b).

**Example:** Customer meter reads 986654 today. Customer meter read 986354 yesterday. The difference in meter reads is 300 gallons for one day or 9,000 gallons for 30 days. Customer's actual use in the same month in any one of the two previous years was 6,000 (b) gallons. Customer is in violation of Stage 3 mandatory water conservation conditions because his/her current "daily use" calculation is greater than his/her higher monthly use of (a) 7,000 gallons. Under Stage 3, the customer is required to reduce consumption by 30% of the 7,000 gallons or 2,100 gallons, 7,000 - 2,100 is 4,900. So the customer's daily use needs to be about 165 gallons per day.

**Applicability** – This interim surcharge shall be in effect between May 1 and September 30 of each year, beginning in 2014, until the conclusion of Payson Water Company's next rate proceeding. It shall only apply to customers served on the East Verde Park water system.

**Calculation** – Each customer's monthly surcharge shall be calculated based on the company's prior month's water hauling costs, and compared to the customer's water usage during that particular month. The only costs recovered by the company through this interim surcharge will be the cost of the water supply and transportation costs; there will be no administrative costs or profit of this surcharge.

<b>ISSUED:</b>		<b>EFFECTIVE:</b>	
Month Day Year		Month Day Year	
	ISSUED BY: Jason Williamson		
	7581 E. Academy Boulevard, Suite 229		
	Denver, Co 80230		

1 FENNEMORE CRAIG, P.C.  
2 Jay L. Shapiro (No. 014650)  
3 2394 E. Camelback Road, Suite 600  
4 Phoenix, Arizona 85016  
5 Telephone (602) 916-5000

6 Attorneys for Payson Water Co., Inc.

7 **BEFORE THE ARIZONA CORPORATION COMMISSION**

8 IN THE MATTER OF THE APPLICATION  
9 OF PAYSON WATER CO., INC., AN  
10 ARIZONA CORPORATION, FOR A  
11 DETERMINATION OF THE FAIR VALUE  
12 OF ITS UTILITY PLANTS AND  
13 PROPERTY AND FOR INCREASES IN ITS  
14 WATER RATES AND CHARGES FOR  
15 UTILITY SERVICE BASED THEREON.

DOCKET NO: W-03514A-13-0111

16 IN THE MATTER OF THE APPLICATION  
17 OF PAYSON WATER CO., INC., AN  
18 ARIZONA CORPORATION, FOR  
19 AUTHORITY TO: (1) ISSUE EVIDENCE  
20 OF INDEBTEDNESS IN AN AMOUNT  
21 NOT TO EXCEED \$1,238,000 IN  
22 CONNECTION WITH INFRASTRUCTURE  
23 IMPROVEMENTS TO THE UTILITY  
24 SYSTEM; AND (2) ENCUMBER REAL  
25 PROPERTY AND PLANT AS SECURITY  
26 FOR SUCH INDEBTEDNESS.

DOCKET NO: W-03514A-13-0142

27 **REBUTTAL TESTIMONY OF  
28 THOMAS J. BOURASSA**

29 **RATE BASE, INCOME STATEMENT AND RATE DESIGN**

30 **December 6, 2013**

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Table of Contents

I. INTRODUCTION AND QUALIFICATIONS .....1  
II. SUMMARY OF THE COMPANY’S REBUTTAL POSITION .....1  
III. RATE BASE .....3  
    A. Plant-in-Service (PIS) .....3  
    B. Accumulated Depreciation (A/D) .....4  
    C. Contributions-in-Aid of Construction (CIAC) .....4  
    D. Accumulated Deferred Income Tax .....6  
IV. INCOME STATEMENT (C SCHEDULES).....8  
    1. Remaining Revenue and Expense Issues ..... 13  
V. RATE DESIGN (H SCHEDULES)..... 13  
    1. Miscellaneous Charges ..... 16  
    2. Service Line and Meter Charges ..... 17  
    3. Debt Recovery Surcharge ..... 17  
    4. O&M Cost Recovery Surcharge ..... 22  
    B. Town of Payson Commodity Cost Recovery Surcharge ..... 23

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1 **I. INTRODUCTION AND QUALIFICATIONS**

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

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

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

6 A. I am testifying in this proceeding on behalf of the applicant, Payson Water  
7 Company ("PWC" or "Company").

8 **Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THE**  
9 **INSTANT CASE?**

10 A. Yes, my direct testimony was submitted in support of the initial application in this  
11 docket. There were two volumes, one addressing rate base, income statement and  
12 rate design, and the other addressing cost of capital.

13 **Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?**

14 A. I will provide rebuttal testimony in response to the direct filing by Staff.  
15 More specifically, this first volume of my rebuttal testimony relates to rate base,  
16 income statement and rate design for PWC. In a second, separate volume of my  
17 rebuttal testimony, I will present an update to the Company's requested cost of  
18 capital as well as provide responses to Staff on the cost of capital and rate of return  
19 applied to the fair value rate base, and the determination of operating income.

20 **II. SUMMARY OF THE COMPANY'S REBUTTAL POSITION**

21 **Q. WHAT IS THE REVENUE INCREASE THE COMPANY IS PROPOSING**  
22 **IN THIS REBUTTAL TESTIMONY?**

23 A. The Company proposes a total revenue requirement of \$680,797, which constitutes  
24 an increase in revenues of \$360,272, or 112.40 percent over adjusted test year  
25 revenues.

26

1 Q. HOW DOES THIS COMPARE WITH THE COMPANY'S DIRECT  
2 FILING?

3 A. It is lower. In the direct filing, the Company requested a total revenue requirement  
4 of \$720,310, which required an increase in revenues of \$399,785, or  
5 124.73 percent.

6 Q. WHAT'S DIFFERENT?

7 A. In its rebuttal filing, PWC has adopted a number of rate base and revenue/expense  
8 adjustments recommended by Staff, as well as proposed a number of adjustments  
9 of its own based on known and measurable changes to the test year. The net result  
10 of these adjustments is the Company's proposed operating expenses have  
11 decreased by \$20,785, from \$503,004 in the direct filing to \$482,220. There is  
12 also a small increase of \$784 in rate base from the direct filing of \$659,457 to  
13 \$660,266 due to a proposed change in the state income tax rate that impacts the  
14 accumulated deferred income tax balance in rate base.

15 Q. WHAT ARE THE PROPOSED REVENUE REQUIREMENTS AND RATE  
16 INCREASES FOR THE COMPANY AND STAFF AT THIS STAGE OF  
17 THE PROCEEDING?

18 A. The proposed revenue requirements and proposed rate increases are as follows:

	<u>Revenue Requirement</u>	<u>Revenue Incr.</u>	<u>% Increase</u>
19 Company-Direct	\$720,310	\$399,785	124.73%
20 Staff	\$561,246	\$240,721	75.10%
21 Company-Rebuttal	\$680,787	\$360,272	112.40%

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1 **III. RATE BASE**

2 **Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE**  
3 **BASE RECOMMENDATIONS.**

4 A. Yes, the rate bases proposed by the Company and Staff are as follows:

	<u>OCRB</u>	<u>FVRB</u>
5 Company-Direct	\$ 659,457	\$ 659,457
6 Staff	\$ 425,129	\$ 425,129
7 Company Rebuttal	\$ 660,266	\$ 660,266

8  
9  
10 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**  
11 **ORIGINAL COST RATE BASE?**

12 A. Yes. The Company's rebuttal rate base adjustments OCRB are detailed on rebuttal  
13 schedules B-2, pages 3 through 6. Rebuttal Schedule B-2, page 1 and 2,  
14 summarize the Company's proposed adjustments and the rebuttal OCRB.

15 A. **Plant-in-Service (PIS)**

16 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**  
17 **REBUTTAL ADJUSTMENTS TO PLANT-IN-SERVICE FOR AND**  
18 **IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM**  
19 **STAFF?**

20 A. The Company is not proposing any adjustments to PIS. Both the Company and  
21 Staff agree on a PIS balance of \$2,159,387.<sup>1</sup>

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<sup>1</sup> See Payson Schedule B-2, page 1 and Staff Schedule CSB-3.

1           **B.     Accumulated Depreciation (A/D)**

2   **Q.    WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**  
3       **REBUTTAL ADJUSTMENTS TO ACCUMULATED DEPRECIATION**  
4       **FOR AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED**  
5       **FROM STAFF?**

6   A.    The Company is not proposing any adjustments to A/D. Both the Company and  
7       Staff agree on an A/D balance of \$1,332,825.<sup>2</sup>

8           **C.     Contributions-in-Aid of Construction (CIAC)**

9   **Q.    WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**  
10       **REBUTTAL ADJUSTMENTS TO CONTRIBUTIONS-IN-AID OF**  
11       **CONSTRUCTION AND/OR ACCUMULATED AMORTIZATION AND**  
12       **IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM**  
13       **STAFF?**

14   A.    The Company is not proposing any adjustments to CIAC or accumulated  
15       amortization (AA) and continues to propose CIAC and AA balances of \$375,036  
16       and \$213,231, respectively.

17   **Q.    DO THE COMPANY AND STAFF AGREE ON THE CIAC AND AA**  
18       **BALANCES?**

19   A.    Staff is proposing CIAC and AA balances of \$916,069 and \$537,795, respectively,  
20       an increase over the Company proposed CIAC and AA balances of \$541,033 and  
21       A.A. by \$306,705, respectively.<sup>3</sup> Staff's proposed increases to CIAC and AA are  
22       based upon two separate adjustments. The first is for so-called unsupported plant  
23       for which Staff adds \$70,120 to CIAC and \$11,455 to AA.<sup>4</sup> The second is for the

24  
25       <sup>2</sup> See Payson Schedule B-2, page 1 and Staff Schedule CSB-3.

26       <sup>3</sup> See Staff Schedule CSB-3.

<sup>4</sup> See Direct Testimony of Crystal S. Brown ("Brown Dt.") at 10.

1 allegedly unsupported removal of CIAC related to the condemnation of the  
2 Star/Quail Valley system for which Staff adds \$470,913 to CIAC and \$295,250 to  
3 AA.<sup>5</sup>

4 **Q. PLEASE COMMENT ON THE FIRST OF THE TWO STAFF'S RATE**  
5 **BASE REDUCTIONS?**

6 A. As discussed in Mr. Williamson's rebuttal testimony, the Company was unable to  
7 provide some invoices requested by Staff for some plant items.<sup>6</sup> However, we did  
8 provide other evidence of the plant costs and the source of payment, including the  
9 affidavits affirming payment that were requested by Staff in Ms. Brown's direct  
10 testimony.<sup>7</sup> All of this is evidence that the Company paid for the plant and we  
11 believe Staff will now reverse the first of its two adjustments. Doing so would  
12 increase PWC's rate base by \$58,665.

13 **Q. THANK YOU. WHAT ABOUT THE OTHER ADJUSTMENT BY STAFF?**

14 A. In this adjustment, which reduces rate base by another \$175,663, Ms. Brown  
15 questions whether the CIAC removed from the CIAC balance after the  
16 condemnation was really CIAC.<sup>8</sup> As an initial point, I have to say that there is  
17 some irony between these two adjustments. In her first adjustment, Ms. Brown  
18 assumed plant for which there are no invoices was CIAC; then, in her second  
19 adjustment, she assumed that plant that was funded by CIAC wasn't.

20 **Q. BASED ON THE EVIDENCE YOU DISCUSSED ABOVE WE KNOW**  
21 **THAT THE SO-CALLED UNSUPPORTED PLANT WASN'T CIAC.**  
22 **DO WE ALSO KNOW THAT THE STAR VALLEY PLANT WAS CIAC?**

23 A. With regard to the Star/Quail Valley system related CIAC adjustments,

24 <sup>5</sup> Brown Dt. at 13.

25 <sup>6</sup> Rebuttal Testimony of Jason Williamson ("Williamson Rb.") at 4.

26 <sup>7</sup> Brown Dt. at 10:14-19.

<sup>8</sup> *Id.* at 12.

1 the Company's internal records all reflect the CIAC and AA that were removed  
2 were for the Star/Quail Valley systems. The Company records include a CIAC  
3 schedule detailing the source of the CIAC and the balance of CIAC and AA.  
4 On this schedule, which was provided to Staff, you will find that nearly all of the  
5 CIAC was recorded before Brooke Utilities, Inc. ("BUI") acquired the predecessor  
6 utilities, United Utilities and C&S Water, in 1996. These records continued to  
7 reflect this CIAC on PWC's books and records, consistent with the predecessor's,  
8 until the CIAC was removed from the CIAC balance following the condemnation.

9 **Q. WERE YOU INVOLVED AT THAT TIME?**

10 A. No, but while I don't know the whole story on the acquisitions, the CIAC schedule  
11 had to have come from somewhere based upon something. Remember, there are  
12 limited sources for CIAC (hook-up fees (HUFs) and expired LXAs, generally, and  
13 utilities do not just make up CIAC because without the corresponding plant,  
14 they are reducing their own rate base. Neither the Company, nor its predecessors  
15 appear to have ever had a HUF tariff, and the only place the Company has ever  
16 done any type of extension agreements is the Star Valley system.<sup>9</sup> So I take these  
17 as facts, and have no reason to question the Company's removal of CIAC after the  
18 condemnation.

19 **D. Accumulated Deferred Income Tax**

20 **Q. PLEASE DISCUSS THE COMPANY PROPOSED A REBUTTAL**  
21 **ADJUSTMENT TO DEFERRED INCOME TAX.**

22 A. In rebuttal B-2 adjustment 4, as shown on Schedule B-2, page 2, the Company  
23 proposes to reduce accumulated deferred income taxes ("ADIT") by \$794. While  
24 the Company's proposed PIS, A/D, AIAC, and CIAC balance have not changed,  
25

26 <sup>9</sup> Williamson Rb. at 4-5.

1 the Company is proposing a reduction to the state income tax rate. This is the  
2 cause of the reduction in the ADIT balance. The details of the computation are  
3 shown on Schedule B-2, page 6.0 and 6.1.

4 **Q. DID STAFF PROPOSE AN ADJUSTMENT TO THE ACCUMULATED**  
5 **DEFERRED INCOME TAX BALANCE?**

6 A. No. But, Staff should have. The ADIT balance in PWC's direct filing reflected the  
7 Company's proposed PIS, A/D, AIAC, and CIAC balances. Staff proposed to  
8 increase the CIAC and accumulated amortization balances, which has an impact on  
9 ADIT. Staff's ADIT balance should be a net deferred tax asset and an increase to  
10 rate base rather than a net deferred tax liability and a reduction to rate base.  
11 The failure to adjust the ADIT balance causes an understatement of Staff's rate  
12 base.

13 **Q. BASED ON THE STAFF PROPOSED PIS, A/D, CIAC, AND AIC**  
14 **BALANCES, WHAT SHOULD STAFF'S ADIT BALANCE BE?**

15 A. It should be a deferred tax asset of \$56,216, not a net deferred liability of \$23,339  
16 as shown on Staff Schedule CSB-3. A net deferred tax asset is an addition to rate  
17 base rather than a reduction. I have included at Rebuttal **Exhibit TJB-RB1** a  
18 schedule showing the computation of the correct ADIT balance. The change in the  
19 Staff rate base should be an increase of \$79,555 (\$56,216 tax asset less -\$23,330  
20 tax liability).

21 **Q. WHAT SHOULD THE RATE BASE BE USING THE CORRECTED ADIT**  
22 **BALANCE?**

23 A. The Staff rate base should be \$504,684 and not \$425,129 if the corrected ADIT  
24 balance is used. It is computed as follows:

25  
26

1	Staff Proposed Rate Base	\$425,129
2	Plus: Change in ADIT Balance	<u>79,555</u>
3	Corrected Rate Base	\$504,684

4 **Q. DOES THIS CORRECTED NUMBER INCORPORATE BOTH OF THE**  
5 **STAFF ADJUSTMENTS YOU DISCUSSED ABOVE?**

6 A. Yes. Hopefully, in its surrebuttal filing Staff will correct this inadvertent oversight  
7 and put back the rate base in dispute by reversing its two adjustments.

8 **Q. ARE THERE ANY OTHER RATE BASE ISSUES BETWEEN THE**  
9 **PARTIES?**

10 A. No.

11 **IV. INCOME STATEMENT (C SCHEDULES)**

12 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**  
13 **ADJUSTMENTS TO REVENUES AND EXPENSES FOR THE WATER**  
14 **DIVISION AND IDENTIFY ANY ADJUSTMENTS YOU HAVE**  
15 **ACCEPTED FROM STAFF?**

16 A. The Company rebuttal adjustments to revenues and/or expenses are detailed on  
17 Rebuttal Schedule C-2, pages 1-10. The rebuttal income statement with  
18 adjustments is summarized on Rebuttal Schedule C-1, page 1-2.

19 Rebuttal adjustment 1 reflects the annualized depreciation and amortization  
20 expense based on the Company proposed PIS and CIAC balances. There is no  
21 change to depreciation and amortization expense at this stage because the  
22 Company is not proposing changes to either its PIS or CIAC balances. The Staff  
23 recommend depreciation and amortization expense level is lower because Staff is  
24 proposing to increase the CIAC balance as I discussed above.

25 Rebuttal adjustment number 2 reflects property tax expense at the Company  
26 rebuttal proposed revenue level. The Company proposes a reduction to property

1 taxes based upon a lower assessment ratio of 19 percent compared to its direct  
2 filing of 20 percent. The Company is proposing an assessment ratio of 19 percent  
3 because it reflects the recently passed House Bill 2001 (“H.B. 2001”), which enacts  
4 a known and measurable change commencing in 2014.

5 **Q. DOES STAFF RECOMMEND AN ASSESSMENT RATIO OF 19**  
6 **PERCENT?**

7 A. No. The Staff schedules reflect an assessment ratio of 20 percent.<sup>10</sup>

8 **Q. DO THE COMPANY AND STAFF AGREE ON THE METHODOLOGY**  
9 **FOR COMPUTING PROPERTY TAXES?**

10 A. Yes. Staff and the Company are in agreement on the method of computing  
11 property taxes. This method utilizes the modified ADOR formula. For the  
12 adjusted test year property taxes I used three years of adjusted test year revenues.  
13 For computing property taxes at proposed rates, I use two years of adjusted  
14 revenues plus one year of proposed revenues.

15 **Q. ARE THE PARTIES USING THE SAME PROPERTY TAX RATES?**

16 A. Yes.<sup>11</sup>

17 **Q. THANK YOU. PLEASE CONTINUE.**

18 A. Rebuttal adjustment number 3 reduced Contractual Services expense by \$1,683.  
19 This adjustment reflects the adoption of the Staff proposed adjustment to  
20 contractual services.<sup>12</sup>

21 Rebuttal adjustment number 4 reflects the Company’s proposal to remove  
22 from Miscellaneous expense the overhead allocation expense from BUI totaling  
23

24

25 <sup>10</sup> See Staff Schedule CSB-16.

26 <sup>11</sup> See Rebuttal Schedule C-2, page 3 and Staff Schedule CSB-16.

<sup>12</sup> Brown Dt. at 15.

1 \$197,722. Since BUI is no longer the owner of PWC, its overhead allocation is no  
2 longer recurring expense going forward.

3 Rebuttal adjustment number 5 reflects the Company's proposal to include in  
4 Contractual Services – Management expense management costs from its new  
5 owner, JW Water Holdings, LLC. (“JW Water”), totaling \$173,903. Since JW  
6 Water's costs are more reflective of the costs PWC will incur when new rates are  
7 in effect.

8 **Q. DOES STAFF PROPOSE TO REMOVE ALL OF THE BUI OVERHEAD**  
9 **ALLOCATION?**

10 A. No. Staff retains the BUI overhead allocation amount after making some  
11 adjustments to it. Specifically, Staff adjusts the BUI overhead allocation of  
12 \$197,722 for disallowed “bonuses” and Star Valley related costs totaling \$43,260,  
13 resulting in a total expense of \$148,678 (\$197,722 minus \$43,260).<sup>13</sup>

14 **Q. DIDN'T THE COMPANY PROVIDE AN ESTIMATE OF SIMILAR COSTS**  
15 **UNDER THE NEW OWNERSHIP OF JW WATER?**

16 A. Yes. Attached as Rebuttal Exhibit TJB-RB2 is the response to Staff data request  
17 CSB 2.8 providing the details of the new management costs from JW Water.

18 **Q. PLEASE COMMENT ON STAFF'S EXPLANATION AS TO WHY IT IS**  
19 **RETAINING THE BUI CORPORATE ALLOCATION AMOUNT.**

20 A. Staff explains that the corporate office allocation (management fee) from  
21 JW Water is not known and measureable and therefore Staff retained the BUI  
22 overhead costs.<sup>14</sup> However, the BUI overhead allocation is clearly non-recurring.  
23 We know that PWC will not incur the BUI costs in the future and therefore they do  
24 not serve as the best representation of these types of cost going forward. The best

25 <sup>13</sup> Brown Dt. at 17.

26 <sup>14</sup> *Id.*

1 estimate of cost that PWC will incur when new rates are in effect is the  
2 management fee amount provided by JW Water. The amount is based on contract.

3 **Q. HAS THE SUBSTITUTION OF OVERHEAD AND OTHER OPERATING**  
4 **COSTS BEEN ALLOWED BY THIS COMMISSION IN THE PAST WHEN**  
5 **A UTILITY IS NO LONGER OWNED BY THE SAME COMPANY?**

6 A. Yes.<sup>15</sup> In Decision 67093 for Arizona-American Water Company (“Arizona-  
7 American”) the Commission adopted Arizona-American’s pro forma adjustment to  
8 remove Citizens Utility Company’s 2001 test year corporate allocations and  
9 salaries and wages and replace them with Arizona Water Works overhead, service  
10 company charges, and salaries and wages.

11 **Q. ASSUMING THE COMMISSION AGREED WITH THE STAFF POSITION**  
12 **IN THIS CASE, DOES THE COMPANY AGREE WITH STAFF’S**  
13 **RECOMMENDED \$148,678 ADJUSTED BUI OVERHEAD ALLOCATION**  
14 **AMOUNT?**

15 A. No. First, to be clear, we are fighting over the way the past owners compensated  
16 employees. That’s because Ms. Brown recommends removing \$33,545 for so-  
17 called bonuses as part of its \$43,260 downward adjustment to the BUI overhead  
18 allocation.<sup>16</sup> However, this was base compensation, which was not optional – it  
19 had to be paid. So, Staff’s downward adjustment to the BUI overhead allocation of  
20 \$197,722 should be just \$9,715 (\$43,260 minus \$33,545). The BUI overhead  
21 allocation included in operating expenses should be \$188,007 (\$197,722 minus  
22 \$9,715) and not \$148,678.

25 <sup>15</sup> See Decision No. 67093 (June 30, 2004) at 17.

26 <sup>16</sup> Brown Dt. at 17.

1 Q. **THANK YOU. PLEASE CONTINUE WITH YOUR EXPLANATION OF**  
2 **THE COMPANY PROPOSED REBUTTAL ADJUSTMENTS TO**  
3 **REVENUES AND EXPENSES.**

4 A. Rebuttal adjustment number 6 reflects the Company's proposal to remove from  
5 Miscellaneous expense Beaver Dam write-off expenses totaling \$7,857.  
6 This adjustment reflects the Company's adoption of Staff's recommendation.<sup>17</sup>

7 Rebuttal adjustment number 7 reflects the Company's proposal to remove  
8 from Miscellaneous expense \$825 of cost related to Star Valley, \$1,076 of sales  
9 taxes paid to the Arizona Department of Revenue, and \$1,018 of Arizona  
10 Corporation Commission assessment fees. This adjustment also reflects the  
11 adoption of the Staff recommendations.<sup>18</sup> The Company does not agree with  
12 Staff's recommendation to remove \$2,438 related to chemicals expense or \$1,650  
13 of costs related to consumption report reporting for augmentation costs.<sup>19</sup>  
14 These two costs are ongoing and will be incurred in the future.

15 Adjustments 8 is intentionally left blank.

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

18 Q. **DOES THE COMPANY'S PROPOSED INCOME TAX EXPENSE**  
19 **REFLECT THE REDUCTION IN THE STATE INCOME TAX RATE?**

20 A. Yes, the state income tax rate is reduced from 6.968 percent to 6.50 percent, which  
21 a reflection of the enacted H.B. 2001's reduction to the income tax rate for 2014.

22 Q. **DOES STAFF PROPOSE A 6.5 PERCENT STATE INCOME TAX RATE?**

23 A. No, Staff proposes a state income tax rate of 6.968 percent.<sup>20</sup>

24 <sup>17</sup> Brown Dt. at 19.

25 <sup>18</sup> *Id.* at 20.

26 <sup>19</sup> *Id.*

<sup>20</sup> *See* Staff Schedule DWC-W2.

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**1. Remaining Revenue and Expense Issues**

**Q. ARE THERE ANY REMAINING REVENUE AND/OR EXPENSE ISSUES BETWEEN THE PARTIES?**

A. Yes. Staff proposes to reduce salaries and wages by \$2,507.<sup>21</sup> Staff explains that this is the share of salaries and wages attributed to the Star/Quail Valley system which has been sold.<sup>22</sup> However, the salaries and wages paid during the test year will remain the same, it will just be allocated over fewer systems. The Town did not condemn a portion of an employee, and the Company did not reduce salaries because its system is smaller. So, removing any salary and wage amount only serves to deprive PWC from recovering all of the salaries and wages it will pay going forward.

**V. RATE DESIGN (H SCHEDULES)**

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

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

5/8" x 3/4" Meters	\$25.42
3/4" Meters	\$38.12
1" Meters	\$63.54
1 1/2" Meters	\$127.08
2" Meters	\$203.32
3" Meter	\$406.64
4" Meters	\$635.38
6" Meter	\$1270.75

<sup>21</sup> Brown Dt. at 14.

<sup>22</sup> *Id.*

1	8" Meters		\$2,033.20
2			
3	COMMODITY RATES		
4	5/8" x 3/4" Meters	1 to 3,000	\$5.90
5		3,001 to 10,000	\$7.65
6		Over 10,000	\$9.15
7	3/4" Meters (Residential)	1 to 3,000	\$5.90
8		3,001 to 10,000	\$7.65
9		Over 10,000	\$9.15
10	1" Meters	1 to 18,000	\$7.65
11		Over 18,000	\$9.15
12	1 1/2" Meters	1 to 40,000	\$7.65
13		Over 40,000	\$9.15
14	2" Meters	1 to 60,000	\$7.65
15		Over 60,000	\$9.15
16	3" Meters	1 to 120,000	\$7.65
17		Over 120,000	\$9.15
18	4" Meters	1 to 200,000	\$7.65
19		Over 200,000	\$9.15
20	6" Meters	1 to 450,000	\$7.65
21		Over 450,000	\$9.15
22	8" Meters	1 to 750,000	\$7.65
23		Over 750,000	\$9.15
24			
25			
26			

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

3 A. As shown on Schedule H-2, page 1, the average monthly bill under proposed rates  
4 for a 5/8x3/4 inch metered customer (former United Systems) using an average  
5 2,856 gallons is \$42.27 – a \$20.75 increase over the present monthly bill or a  
6 96.47 percent increase. The average monthly bill under proposed rates for a  
7 5/8x3/4 inch metered customer (former C&S Systems) using an average 6,961  
8 gallons is \$46.11 – a \$46.11 increase over the present monthly bill or a 168.90  
9 percent increase.

10 **Q. HAVE YOU CHANGED THE COMPANY PROPOSED RATE DESIGN?**

11 A. Yes. To help eliminate issues between the parties, I have lowered the monthly  
12 minimums, increased the commodity rates, and adopted the Staff break-over points  
13 to reflect similar revenue recovery from the monthly minimums. Attached as  
14 Rebuttal **Exhibit TJB-RB3** are schedules showing the revenue recovery from the  
15 monthly minimums and the commodity rates under the Company and the Staff rate  
16 designs. The percentage recovery from the monthly minimums for the Company  
17 and Staff are 50.89 percent and 49.08 percent, respectively.

18 **Q. WHAT IS THE MAJOR DIFFERENCE IN RATE DESIGNS?**

19 A. The Company's rate design balances the recovery from the commodity rate  
20 differently. The percentage revenue recovery at the highest commodity rate is  
21 lower than Staff's. The Company's rate design recovers 10.84 percent at the  
22 highest commodity rate while the Staff rate design recovers 13.06 percent.  
23 To make up for less recovery from the highest commodity rate, the Company's rate  
24 design recovers more from the first tier commodity rates. The Company proposes  
25 to recover 19.59 of revenues from the first commodity rate whereas Staff proposes  
26 to recover 16.33 percent the first commodity rate. I believe that a lower level of

1 recovery from the highest commodity rate is warranted because it will expose the  
2 Company to less revenue erosion when conservation occurs. The greatest amount  
3 of conservation is more likely from higher water users than lower water users  
4 because high water users typically have the greatest amount of discretionary water.

5 PWC cannot afford to absorb much revenue erosion. If excessive revenue  
6 erosion takes place, the Company will be back in for new rates very shortly and  
7 spend money it cannot afford on another rate case. Revenue erosion will also lead  
8 to higher rate increases in the future, which is something the Commission should  
9 consider when adopting a rate design.

10 **Q. DOES THE COMPANY KNOW HOW MUCH REVENUE EROSION HAS**  
11 **OCCURRED IN THE PAST?**

12 A. No. This is the first rate case for PWC, and the first for the systems in quite some  
13 time. It is also the first time an inverted three-tier conservation oriented rate design  
14 is being proposed. Given problem that Arizona utilities more often than not are  
15 unable to recover their revenue requirements (cost of service),<sup>23</sup> I am concerned  
16 that revenue erosion will be a problem for PWC, even under the Company's  
17 proposed rates.

18 **1. Miscellaneous Charges**

19 **Q. ARE STAFF AND THE COMPANY IN AGREEMENT ON THE**  
20 **PROPOSED MISCELLANEOUS SERVICE CHARGES?**

21 A. Yes.

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<sup>23</sup> Regulatory Reports Ed. 2013-1, June 2013 at 7.

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**2. Service Line and Meter Charges**

**Q. ARE STAFF AND THE COMPANY IN AGREEMENT ON THE PROPOSED SERVICE LINE AND METER INSTALLATION CHARGES?**

**A. Yes.**

**3. Debt Recovery Surcharge**

**Q. DOES THE COMPANY AGREE WITH STAFF ON THE DEBT RECOVERY SURCHARGE MECHANISM FOR THE SECOND PHASE OF THE CRAGIN PIPELINE PROJECT AS OUTLINED BY STAFF IN MR. CASSIDY'S TESTIMONY?**

**A. Not entirely. There are two recommendations Staff makes that concern the Company. First, in recommendation number 8 (on page 9), Staff recommends that if PWC does not draw down the funds within one year of the date of the decision that the loan and surcharge be rescinded. At this point, the Company believes the project will be delayed until sometime in 2016, which is well beyond the one year period contemplated by the Staff recommendation.<sup>24</sup> In fact, a big reason behind the Phase 1 financing was to try to solve the Mesa del Caballo system water supply problems sooner because of the delay in the Cragin project. The Company can certainly file status reports, but the Company does not control this project and must be ready when the Town says it is time to pay.**

**Q. WHY CAN'T THE COMPANY COME IN FOR RATE RELIEF AFTER THE LOAN IS TAKEN DOWN AND THE PAYMENT FOR THE COMPANY'S SHARE OF THE CRAGIN PROJECT IS MADE?**

**A. Because PWC could not afford to pay the debt service. Ideally, a utility is able to service its debt from the revenue requirement it is authorized. In other words, the utility pays its principal, interest, and any other debt payment requirements such as**

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<sup>24</sup> See Responsive Testimony of Jason Williamson (filed September 23, 2013) ("Williamson Rt.") at 9.

1 debt reserve payments out of the revenues it receives. However, when future plant  
2 is needed and the utility does not have the revenues to service the new debt  
3 (or even quality for the loan), the Commission can provide the revenues the utility  
4 needs to service the debt through a debt surcharge. This is particularly true of a  
5 small company like PWC.

6 **Q. WHAT HAPPENS TO THE SURCHARGE IN A SUBSEQUENT RATE**  
7 **CASE?**

8 A. Eventually, like all debt surcharges, they are eliminated in the next rate case and  
9 the necessary revenues (return on and of the plant investment in rate base) is  
10 embedded in new rates. In short, the debt surcharge revenues are the revenues the  
11 utility would otherwise be allowed to recover but for the plant not being completed  
12 and the utility not being able to service the debt from existing revenues. And here,  
13 the approvals and surcharge need to be ready when the Town tells the Company it  
14 is time, something over which the Company has no control.

15 **Q. WHAT IS THE OTHER RECOMMENDATION THAT CONCERNS THE**  
16 **COMPANY?**

17 A. Recommendation number 10 (on page 9 and 10), is Staff's recommendation that  
18 the debt service reserve portion of the debt recovery surcharge be treated as a  
19 regulatory liability, amortized over 20 years, and deducted from rate base.  
20 However, while the Commission decided that the debt reserve fund payments were  
21 to be treated as a deferred regulatory liability in Phase 1, when a very small amount  
22 of money was at issue, it did not specify how it would be treated on a long term  
23 basis. Nor did the Commission authorize the deferred regulatory liability be  
24 amortized over 20 years. In short, Staff's recommendation assumes the deferred  
25 regulatory liability will be treated just like CIAC, which is deducted from rate base  
26 and amortized over the life of the assets the contributions fund.

1           The Company objects to CIAC or any CIAC-like treatment because 1) the  
2 revenues collected under that surcharge are no more CIAC than the revenues  
3 required to provide a return on and of any other plant investment funded with debt  
4 and/or equity, and 2) it will have adverse future impacts on earnings (not allowing  
5 the Company to recover its full cost of capital) and cash flows (reducing the  
6 Company's ability to pay its debt service).

7 **Q. WHAT HAPPENS IF THE SURCHARGE REVENUES ARE TREATED AS**  
8 **CIAC OR CIAC LIKE?**

9 A. Treatment of the debt surcharge revenues collected from customers as CIAC or  
10 CIAC-like will have the unintended consequence of depriving the Company of the  
11 ability to fully recover its investment and its cost of capital on the debt funded  
12 investment in the future. Rate base will be reduced (because the CIAC or CIAC  
13 like collections will be a deduction from rate base). This will lead to lower  
14 earnings than are necessary to cover capital costs and lower depreciation recovery  
15 that reduces the cash flow needed to service the loan. The future WIFA loan  
16 payments on the approximately \$905,000 will stay the same, but the Company will  
17 have less cash flow (depreciation and operating income) to service the WIFA loan.

18 **Q. CAN YOU ILLUSTRATE YOUR POINT THAT THE OPERATING**  
19 **INCOME AND DEPRECIATION IN A FUTURE RATE CASE WILL BE**  
20 **LOWER, RESULTING IN THE COMPANY'S INABILITY TO COVER ITS**  
21 **COST OF CAPITAL AND SERVICE ITS DEBT?**

22 A. Yes. Let's assume the Company obtains the loan, builds the plant and files its next  
23 rate case five years later. Also assume the annual \$14,239 of debt service reserve  
24 payments<sup>25</sup> collected through the debt surcharge will be in place for the five years.

25  
26 <sup>25</sup> See Schedule JAC-2 for Staff computed annual debt service reserve payment of \$14,328.70 or \$14,329.

1 Also assume the depreciation rate is 5.0 percent and the interest rate is 4.2 percent.  
 2 Considering only the \$905,000 plant investment, the rate base with and without the  
 3 debt service reserve payment proceeds treated as CIAC at the end of the fifth year  
 4 would be as follows:

5  
 6 Table 1

	Surcharge Not Treated as <u>CIAC</u>	Surcharge Treated as <u>CIAC</u>
7 Plant-in-Service	\$ 905,000	\$ 905,000
8 A/D <sup>26</sup>	(203,625)	(203,625)
9 Net Plant	<u>\$ 701,375</u>	<u>\$ 701,375</u>
10		
11 Less: CIAC <sup>27</sup>	\$ -	\$ 71,645
12 A.A. CIAC		( 8,955)
13 Rate Base	<u>\$ 701,375</u>	<u>\$ 638,685</u>

14  
 15 As can be seen, the rate base is significantly less if the surcharge revenues are  
 16 treated as CIAC. This will result in less operating income (earnings) being  
 17 afforded to the Company in the next rate case. Operating income will be  
 18 significantly much less than interest expense (the capital cost).

19 To illustrate, the Year 5 required operating income, interest expense for  
 20 following year, and net income would be as follows:

21  
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 23  
 24  
 25 <sup>26</sup> Accumulated depreciation at 5% for 5 years using half-year convention for first year is \$905,000 times  
 5% times 4.5.

26 <sup>27</sup> CIAC balance equals 5 years of \$14,239 of debt service reserve payments.

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Table 2

	Surcharge Not Treated as <u>CIAC</u>	Surcharge Treated as <u>CIAC</u>
Cost of Debt	4.2%	4.2%
Required Operating Income (Rate Base x Cost of Debt)	\$ 29,458	\$ 26,825
Less: Interest Expense (year 6)	\$ (29,982)	\$ (29,982)
Net Income	<u>\$ (524)</u>	<u>\$ (3,157)</u>

The operating income determined from the rate base that includes CIAC is much lower and significantly less than the interest expense. In fact, the operating income of \$26,825 covers only about 90 percent of the interest expense. The operating income determined from the rate base that does not include CIAC covers nearly 100 percent of the interest expense. Remember, the interest expense is the cost of capital.

**Q. WHAT ABOUT CASH FLOW?**

A. The following is a year 6 cash flow computation:

Table 3

	Surcharge Not Treated as <u>CIAC</u>	Surcharge Treated as <u>CIAC</u>
Operating Income	\$ 29,458	\$ 26,825
Depreciation, net of amortization <sup>28</sup>	\$ 45,250	\$ 41,668
Cash Flow	\$ 74,708	\$ 68,493
Annual Debt Service (principal + interest)	\$ 71,643	\$ 71,643
Debt Service Coverage Ratio	1.04	0.96

<sup>28</sup> Amortization equals the CIAC balance of \$71,645 times 5 percent.

1 This illustrates that the lower operating income and depreciation that will be  
2 afforded the Company when the debt surcharge is treated as CIAC provides  
3 significantly less cash flow. In the example above, the debt service coverage ratio  
4 is below 1, meaning there is not enough cash flow in order to pay the annual debt  
5 service.

6 **Q. SHOULD ANY PART OF THE WIFA LOAN SURCHARGE BE TREATED**  
7 **AS CIAC?**

8 A. No, for the reasons I discussed above. CIAC is someone else's money being used  
9 to fund plant. This is still the Company's money, it is just earmarked until the next  
10 rate case so that the Commission and the utility and the lender can ensure the  
11 money is there to pay the loan. Taking away rate base because the Company  
12 cannot afford to finance plant without the surcharge seems punitive and  
13 inequitable.

14 **4. O&M Cost Recovery Surcharge**

15 **Q. PLEASE COMMENT ON THE STAFF RECOMMENDATION**  
16 **REGARDING THE COMPANY'S PROPOSAL FOR AN O&M RECOVERY**  
17 **SURCHARGE MECHANISM.**

18 A. Staff recommends denial of the Company proposed O&M surcharge mechanism.<sup>29</sup>  
19 Staff explains that approval of the mechanism is premature because the costs are  
20 not known and measurable at this time.<sup>30</sup> The Staff explanation would make sense  
21 if the Company were asking for a specific surcharge amount at this time. But, the  
22 Company is not. The Company is seeking a surcharge mechanism such that when  
23 the O&M costs for PWC's share of the Cragin Pipeline operation and maintenance  
24 (O&M) expenses from Salt River Project ("SRP") and the Town are known and

25 <sup>29</sup> Brown Dt. at 22.

26 <sup>30</sup> *Id.*

1 measurable, the Company would submit its computation of the surcharge and  
2 request approval from the Commission, as outline in my direct testimony at pages  
3 20 and 21. The Company's request for approval of a surcharge mechanism is no  
4 different than the debt recovery surcharge mechanism that simply defines the  
5 mechanism and requires the Company to submit its computation for approval by  
6 the Commission.<sup>31</sup>

7 **Q. CAN PWC AFFORD TO PAY THE O&M COSTS CHARGED TO THE**  
8 **COMPANY FROM SRP AND TOP?**

9 A. No. The Company currently anticipates the O&M costs to be \$65,000 annually.<sup>32</sup>  
10 This is a significant amount of money and the Company cannot afford without  
11 recovery.

12 **B. Town of Payson Commodity Cost Recovery Surcharge**

13 **Q. PLEASE COMMENT ON THE STAFF TESTIMONY REGARDING**  
14 **COMPANY TOWN OF PAYSON COMMODITY COST RECOVERY**  
15 **SURCHARGE.**

16 A. Staff has not commented on the Company's proposal for a commodity cost  
17 recovery surcharge (purchased water surcharge) in its Phase 2 testimony. I assume  
18 the testimony provided by Staff on Phase 1 of this proceeding is the current Staff  
19 position.

20 **Q. CAN YOU BRIEFLY STATE YOUR UNDERSTANDING OF THE STAFF**  
21 **POSITION IS BASED ON THE STAFF TESTIMONY IN PHASE 1?**

22 A. Yes. Staff recommended approval of the TOP commodity cost recovery surcharge  
23 and made recommendations on how it was to be computed.<sup>33</sup> The Company's

24 <sup>31</sup> Direct Testimony of John A. Cassidy's (regarding the WIFA loan surcharge) at Recommendation No 6.

25 <sup>32</sup> Bourassa Dt. at 20.

26 <sup>33</sup> Staff's Phase 1 Report (filed September 18, 2013) at 4.

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disagreement on how the surcharge would be computed focused on Staff's recommendation that the commodity rate revenue be deducted from the surcharge amount.<sup>34</sup> The Company objected to deducting all of the commodity rate revenue from the surcharge because the commodity rates are designed to recover a portion of the Company's cost of service through the commodity rates and the rest through the monthly fixed charges, and that cost of service will not include the TOP charges for water. Those costs will be recovered under the proposed surcharge. There are no TOP water charges in either the Staff's or the Company's proposed revenue requirements in the instant case. In fact, there are no purchased water costs of any kind in the parties proposed revenue requirements. The TOP purchased water cost is an incremental expense over and above the cost of service that will be embedded in the rates approved in the instant case. Therefore, deducting the commodity rate revenue only serves to deprive the Company of recovering its full cost of service.

**Q. HAS THE COMPANY PREPARED A PROPOSED TARIFF THAT SHOWS HOW COMPUTATION OF THE TOP COMMODITY COST SURCHARGE SHOULD BE MADE?**

A. Yes.<sup>35</sup>

**Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?**

A. Yes.

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<sup>34</sup> Responsive Testimony of Thomas J. Bourassa (filed September 23, 2013) at 7.  
<sup>35</sup> Williamson Rt. at Exhibit JW-RT1.

**EXHIBIT**  
**TJB-RB1**

Line No.	Deferred Income Tax as of December 31, 2012	Staff Proposed Adjusted Book Value	Tax Value	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Effective Tax Rate	Future Tax Asset Current	Future Tax Asset Non Current	Future Tax Liability Current	Future Tax Liability Non Current
1										
2										
3										
4										
5										
6		Plant-in-Service	\$ 2,159,387 <sup>1</sup>							
7		Accum. Deprec.	(1,332,825) <sup>1</sup>							
8		CIAC	(378,094) <sup>3</sup>							
9		Fed. Fixed Assets	\$ 448,467	100.0% <sup>2</sup>	\$ 167,233	27.08%		45,285		
10										
11		State Fixed Assets	\$ 448,467	100.0% <sup>2</sup>	\$ 167,233	6.50%		10,870		
12										
13		Fed & St AIAC		100.0% <sup>4</sup>	\$ -	33.58%				
14										
15										
16										
17		Net Asset (Liability)					\$ -	\$ 56,155	\$ -	\$ -
18										
19										
20										
21		Net Asset (Liability)					\$ 56,155			
22										
23		DIT Asset (Liability) per Books					\$ (23,339)			
24										
25		Adjustment to DIT					\$ (79,494)			
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Footnotes - See page 2

Payson Water Company  
 Test Year Ended December 31, 2012  
 Staff Corrected ADIT Computation

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48

<sup>1</sup> Per Rebuttal Adjusted Balances			
<sup>2</sup> Computation of Net Tax Value December 31, 2012			
	Based on 2012 Tax Depreciation report (December 31, 2012)	\$ 2,159,341	\$ 2,159,341
	Unadjusted Cost at December 31, 2012 per federal and state tax depr. report	-	-
	Reconciling items not on tax report:	-	-
		-	-
		-	-
		-	-
		-	-
		-	-
		-	-
	Net Unadjusted Cost tax Basis at December 31, 2012	\$ 2,159,341	\$ 2,159,341
<b>Reductions</b>			
	Basis Reduction 2012 and Prior Years per federal and state tax depr. report	-	-
	Accumulated Depreciation 2012 and prior per federal and state tax depr. report	(1,543,641)	(1,543,641)
		-	-
		-	-
		-	-
		-	-
		-	-
		-	-
	Net Reductions through December 31, 2012	(1,543,641)	(1,543,641)
	Net tax value of plant-in-service at December 31, 2012	\$ 615,700	\$ 615,700

<sup>3</sup> CIAC (including impact of change to probability of realization)

Gross CIAC per Adjusted Balances	\$ 916,069	
CIAC reductions/additions		
A.A per Adjusted Balances	(537,975)	
Net CIAC before unrealized AIAC	\$ 378,094	
Unrealized AIAC Component		
Adjusted Net AIAC (see footnote 5 below)	\$ -	
Unrealized AIAC Component % (1-Realized AIAC Component)	70.0%	
Total realizable CIAC	\$ 378,094	

<sup>4</sup> AIAC (including impact of change in probability of realization)

AIAC per adjusted book balances	\$ -	
AIAC reductions/additions		
Net AIAC before unrealized portion	\$ -	
Less: Unrealized AIAC (from Note 3, above)	\$ -	
Net realizable AIAC	\$ -	
Meter and Service Line Installation Charges per Adjusted Balances	\$ -	
Total AIAC	\$ -	

**EXHIBIT**  
**TJB-RB2**

**PAYSON WATER COMPANY  
DOCKET NO. W-03514A-13-0111  
RESPONSE TO STAFF'S SECOND SET OF DATA REQUESTS**

September 23, 2013

Response provided by: Thomas J. Bourassa, CPA

Title: Rate Consultant

Address: 139 W. Wood Drive  
Phoenix, Arizona 85029

Company Response Number: CSB – 2.8

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Q. Company Proposed Adjustment(s) Related to \$197,722 Overhead Allocation – This is a follow-up to CSB 1.16 (b). In your response you stated, *“During the test year, the Company received an overhead allocation from its parent company. However, after the test year, the stock of the Company was sold and the Company no longer receives this allocation . . . the Company suggests that a proforma adjustment is necessary to reflect the current costs . . .”* In regards to your response, please answer or provide the following:

- a. The amount of and the NARUC account(s) to be charged for the proforma adjustment(s) that the Company proposes.
- b. An explanation for each proforma adjustment made including a schedule showing the calculation of each proforma adjustment.
- c. Documentation to support the actual costs or estimates used in the calculation of the proforma adjustment(s).

**RESPONSE:**

- a. The Company expects to record management fees in NARUC account 634 – Contractual Services – Management Fees.
- b. The Company intends to remove the Brooke Utilities overhead allocation of \$197,712 included in 675 - Miscellaneous Expense for Payson Water Company. The Company further intends to reflect management fees

totaling \$173,903 from JW Water Holdings, LLC in 634 - Contractual Services – Management Fees. The following is a computation of the estimated management fees Payson Water Company expects to incur:

**Management Fee Computation**

<b>Expense</b>	<b><u>Annual Estimate</u></b>
Bank Fees and Charges	\$ 211.36
Computer and Internet Expenses	\$ 460.00
Dues and Subscriptions	\$ 348.00
Insurance Expense	\$ 9,664.00
Meals and Entertainment	\$ 373.96
Office Supplies	\$ 900.00
Payroll Expenses	\$ 22,149.97
Postage and Delivery	\$ 211.12
Printing and Reproduction	\$ 563.04
Professional Fees	\$ -
Accounting	\$ 3,659.68
Billing & Customer Service	\$ 124,578.00
Legal Expenses	\$ 10,484.00
Management	\$ 166,104.00
Other Consulting	\$ 4,500.00
<b>Total Professional Fees</b>	<b>\$ 309,325.68</b>
Rent Expense	\$ 9,000.00
Travel Expense	\$ 6,930.92
<b>Total Expense</b>	<b>\$ 360,138.05</b>

**Management Fee Calculation**

<u>Utility</u>	<u>Customer count</u>	<u>% of total</u>	<u>Allocated Cost</u>	<u>Annual Cost Per Cust.</u>	<u>Monthly Cost per Cust.</u>
Navajo	307	13.31%	\$ 47,924.74	\$ 156.11	\$ 13.01
Payson Tonto Basin	1114	48.29%	\$ 173,902.81	\$ 156.11	\$ 13.01
	886	38.40%	\$ 138,310.49	\$ 156.11	\$ 13.01
	<b>2307</b>	<b>100.00%</b>	<b>\$ 360,138.05</b>		

- c. See response to (b) above. The management fees are an estimate because at this time there is very little ownership experience with the utilities acquired from Brooke Utilities.

**EXHIBIT**  
**TJB-RB3**

Payson Water Company  
 Revenue Breakdown Summary  
 Company Proposed Rates

Attachment  
 Page 1

	Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
5/8x3/4 Inch US	\$ 288,816	\$ 104,773	\$ 87,353	\$ 32,791	\$ 513,732
5/8x3/4 Inch C&S	\$ 49,102	\$ 24,853	\$ 37,033	\$ 39,894	\$ 150,881
3/4 Inch US	\$ 1,830	\$ 767	\$ 1,392	\$ 343	\$ 4,332
1 Inch US	\$ 1,525	\$ 737	\$ 114	\$ -	\$ 2,377
1 Inch C&S	\$ 1,525	\$ 819	\$ -	\$ -	\$ 2,344
<b>TOTALS</b>	<b>\$ 342,798</b>	<b>\$ 131,948</b>	<b>\$ 125,892</b>	<b>\$ 73,028</b>	<b>\$ 673,665</b>
Percent of Total	50.89%	19.59%	18.69%	10.84%	100.00%
Cummulative %	50.89%	70.47%	89.16%	100.00%	

Payson Water Company - Staff Revenue Proof  
 Revenue Breakdown Summary  
 Staff Proposed Rates

Attachment  
 Page 2

	Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
5/8x3/4 Inch US	\$ 227,280	\$ 71,032	\$ 82,214	\$ 32,286	\$ 412,812
5/8x3/4 Inch C&S	\$ 38,640	\$ 16,849	\$ 34,855	\$ 39,279	\$ 129,623
3/4 Inch US	\$ 1,584	\$ 520	\$ 1,310	\$ 338	\$ 3,752
1 Inch US	\$ 1,320	\$ 694	\$ 113	\$ -	\$ 2,127
1 Inch C&S	\$ 1,320	\$ 770	\$ -	\$ -	\$ 2,090
<b>TOTALS</b>	<b>\$ 270,144</b>	<b>\$ 89,866</b>	<b>\$ 118,491</b>	<b>\$ 71,903</b>	<b>\$ 550,404</b>
Percent of Total	49.08%	16.33%	21.53%	13.06%	100.00%
Cummulative %	49.08%	65.41%	86.94%	100.00%	

**PAYSON WATER COMPANY**

**THOMAS BOURASSA  
REBUTTAL TESTIMONY**

**DECEMBER 6, 2013**

**REBUTTAL SCHEDULES**

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

Exhibit  
 Rebuttal Schedule A-1  
 Page 1  
 Witness: Bourassa

Line  
No.

1	Fair Value Rate Base	\$ 660,266
2		
3	Adjusted Operating Income	(161,695)
4		
5	Current Rate of Return	-24.49%
6		
7	Required Operating Income	\$ 72,629
8		
9	Required Rate of Return on Fair Value Rate Base	11.00%
10		
11	Operating Income Deficiency	\$ 234,324
12		
13	Gross Revenue Conversion Factor	1.5375
14		
15	Increase in Gross Revenue	
16	Requirement	\$ 360,272
17		
18	Adjusted Test Year Revenues	\$ 320,525
19	Increase in Gross Revenue Revenue Requirement	\$ 360,272
20	Proposed Revenue Requirement	\$ 680,797
21	% Increase	112.40%

<u>Customer Classification</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
25 5/8x3/4 Inch US	\$ 287,143	\$ 572,318	\$ 285,175	99.31%
26 5/8x3/4 Inch C&S	52,037	149,234	97,197	186.78%
27 3/4 Inch US	1,860	4,605	2,745	147.63%
28 1 Inch US	7,430	22,933	15,502	208.64%
29 1 Inch C&S	1,178	2,344	1,165	98.88%
30				
31 Revenue Annualization	(36,021)	(77,768)	(41,747)	115.90%
32 <b>Subtotal</b>	<b>\$ 313,627</b>	<b>\$ 673,665</b>	<b>\$ 360,038</b>	<b>114.80%</b>
33				
34 Other Water Revenues	6,966	6,966	-	0.00%
35 Reconciling Amount	(68)	165	233	-342.65%
36 Rounding			1	0.00%
37 <b>Total of Water Revenues</b>	<b>\$ 320,525</b>	<b>\$ 680,796</b>	<b>\$ 360,272</b>	<b>112.40%</b>

41 SUPPORTING SCHEDULES:

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

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

Exhibit  
 Rebuttal Schedule B-1  
 Page 1  
 Witness: Bourassa

Line No.	<u>Original Cost</u> <u>Rate base</u>	<u>Fair Value</u> <u>Rate Base</u>
1		
2	Gross Utility Plant in Service	
3	\$ 2,159,387	\$ 2,159,387
4	Less: Accumulated Depreciation	
5	<u>1,332,825</u>	<u>1,332,825</u>
6		
7	Net Utility Plant in Service	
8	\$ 826,561	\$ 826,561
9		
10	<u>Less:</u>	
11	Advances in Aid of Construction	-
12		
13	Contributions in Aid of Construction	375,036
14		375,036
15	Accumulated Amortization of CIAC	(231,270)
16		(231,270)
17	Customer Meter Deposits	-
18	Deferred Income Taxes & Credits	22,530
19		22,530
20		
21	<u>Plus:</u>	
22	Unamortized Finance	
23	Charges	-
24	Prepayments	-
25	Materials and Supplies	-
26	Allowance for Working Capital	-
27		
28	Total Rate Base	
29	<u>\$ 660,266</u>	<u>\$ 660,266</u>
30		
31		
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43	<u>SUPPORTING SCHEDULES:</u>	
44	B-2	
45	B-3	
46	B-5	
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**Payson Water Company**  
 Test Year Ended December 31, 2012  
 Original Cost Rate Base Proforma Adjustments

Exhibit  
 Rebuttal Schedule B-2  
 Page 1  
 Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Adjustment	Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	\$ 2,159,387	-	\$ 2,159,387
3				
4	<b>Less:</b>			
5	Accumulated			
6	Depreciation	1,332,825	-	1,332,825
7				
8				
9	Net Utility Plant			
10	in Service	\$ 826,561		\$ 826,561
11				
12	<b>Less:</b>			
13	Advances in Aid of			
14	Construction	-	-	-
15				
16	Contributions in Aid of			
17	Construction - Gross	375,036	-	375,036
18				
19	Accumulated Amortization of CIAC	(231,270)	-	(231,270)
20				
21	Customer Meter Deposits	-		-
22	Accumulated Deferred Income Tax	23,339	(809)	22,530
23				-
24				-
25				
26	<b>Plus:</b>			
27	Unamortized Finance			
28	Charges	-	-	-
29	Prepayments	-	-	-
30	Materials and Supplies	-	-	-
31	Working capital	-	-	-
32				-
33				
34	<b>Total</b>	<b>\$ 659,457</b>		<b>\$ 660,266</b>

45 SUPPORTING SCHEDULES:

46 B-2, pages 2

47 E-1

48

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RECAP SCHEDULES:

B-1

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

Line No.	Adjusted at End of Test Year	1 Plant-in-Service	2 Accumulated Depreciation	3 Proforma Adjustments CIAC	4 ADIT	5 Intentionally Left Blank	Rebuttal Adjusted at end of Test Year
1	\$ 2,159,387	-	-	-	-	-	\$ 2,159,387
2							
3							
4							
5							
6	1,332,825	-	-	-	-	-	1,332,825
7							
8							
9							
10	\$ 826,561	-	-	-	-	-	\$ 826,561
11							
12							
13							
14							
15							
16							
17	375,036	-	-	-	-	-	375,036
18							
19	(231,270)	-	-	-	-	-	(231,270)
20							
21							
22	23,339	-	-	-	(809)	-	22,530
23							
24							
25							
26							
27							
28							
29							
30							
31							
32	\$ 659,457	-	-	-	809	-	\$ 660,266
33							
34							
35							
36							
37							
38							
39							
40							

SUPPORTING SCHEDULES:  
 B-1

RECAP SCHEDULES:  
 B-2, pages 3-5

Line No.	Acct. No.	Description	Actual Original Cost	A Reconciliation Adjustments to Reconcile PIS to Reconstruction	B			C			E Intentionally Left Blank	Adjusted Original Cost
					Intentionally Left Blank							
1		Organization Cost	221									221
2		Franchise Cost	-									-
3		Land and Land Rights	16,500									16,500
4		Structures and Improvements	300,078									300,078
5		Collecting and Impounding Res.	2,531									2,531
6		Lake River and Other Intakes	-									-
7		Wells and Springs	273,013									273,013
8		Infiltration Galleries and Tunnels	-									-
9		Supply Mains	3,681									3,681
10		Power Generation Equipment	8,310									8,310
11		Electric Pumping Equipment	217,608									217,608
12		Water Treatment Equipment	10,567									10,567
13		Water Treatment Plant	-									-
14		Chemical Solution Feeders	-									-
15		Dist. Reservoirs & Standpipe	273,800									273,800
16		Storage tanks	-									-
17		Pressure Tanks	-									-
18		Trans. and Dist. Mains	-									-
19		Services	439,972									439,972
20		Meters	81,823									81,823
21		Hydrants	199,952									199,952
22		Backflow Prevention Devices	1,171									1,171
23		Other Plant and Misc. Equip.	-									-
24		Office Furniture and Fixtures	320,820									320,820
25		Computers and Software	-									-
26		Transportation Equipment	-									-
27		Stores Equipment	-									-
28		Tools and Work Equipment	72									72
29		Laboratory Equipment	-									-
30		Power Operated Equipment	-									-
31		Communications Equipment	-									-
32		Miscellaneous Equipment	9,267									9,267
33		Other Tangible Plant	-									-
34		Plant Held for Future Use	-									-
35		TOTALS	\$ 2,159,387	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,159,387
36		Plant-in-Service per Books										\$ 2,159,387
37		Increase (decrease) in Plant-in-Service										\$ -
38		Adjustment to Plant-in-Service										\$ -

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

Exhibit  
 Rebuttal Schedule B-2  
 Page 3.1  
 Witness: Bourassa

Line

No.  
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Acct. No.	Description	Adjusted Original Cost	Plant Per Reconstruction	Difference
301	Organization Cost	221	221	-
302	Franchise Cost	-	-	-
303	Land and Land Rights	16,500	16,500	-
304	Structures and Improvements	300,078	300,078	-
305	Collecting and Impounding Res.	2,531	2,531	-
306	Lake River and Other Intakes	-	-	-
307	Wells and Springs	273,013	273,013	-
308	Infiltration Galleries and Tunnels	-	-	-
309	Supply Mains	3,681	3,681	-
310	Power Generation Equipment	8,310	8,310	-
311	Electric Pumping Equipment	217,608	217,608	-
320	Water Treatment Equipment	10,567	10,567	-
320.1	Water Treatment Plant	-	-	-
320.2	Chemical Solution Feeders	-	-	-
330	Dist. Reservoirs & Standpipe	273,800	273,800	-
330.1	Storage tanks	-	-	-
330.2	Pressure Tanks	-	-	-
331	Trans. and Dist. Mains	439,972	439,972	-
333	Services	81,823	81,823	-
334	Meters	199,952	199,952	-
335	Hydrants	1,171	1,171	-
336	Backflow Prevention Devices	-	-	-
339	Other Plant and Misc. Equip.	320,820	320,820	-
340	Office Furniture and Fixtures	-	-	-
340.1	Computers and Software	-	-	-
341	Transportation Equipment	-	-	-
342	Stores Equipment	-	-	-
343	Tools and Work Equipment	72	72	-
344	Laboratory Equipment	-	-	-
345	Power Operated Equipment	-	-	-
346	Communications Equipment	9,267	9,267	-
347	Miscellaneous Equipment	-	-	-
348	Other Tangible Plant	-	-	-
	Plant Held for Future Use	-	-	-
	<b>TOTALS</b>	<b>\$ 2,159,387</b>	<b>\$ 2,159,387</b>	<b>\$ -</b>

SUPPORTING SCHEDULE

B-2, pages 3.2 - 3.17

Payson Water Company  
Plant Additions and Retirements

Exhibit  
Rejoinder Schedule B-2  
Page 3.2  
Witness: Bourassa

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

<sup>1</sup>Weighted average rate of United Utilities and C&S Water

Payson Water Company  
 Plant Additions and Retirements

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

<sup>1</sup>Weighted average rate of United Utilities and C&S Water

Payson Water Company  
 Plant Additions and Retirements

Line No.	NARUC Account No.	Description	1999									
			Allowed Deprec. Rate Before	Allowed Deprec. Rate After <sup>1</sup>	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	0.00%	-	-	-	-	-	300	-	-
2	302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	29,566	-	-
4	304	Structures & Improvements	5.00%	3.18%	-	-	-	-	13,304	286,085	118,918	-
5	305	Collecting & Impounding Reservoirs	5.00%	3.18%	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	3.18%	-	-	-	-	-	-	-	-
7	307	Wells & Springs	5.00%	3.18%	-	-	-	-	22,612	452,232	202,887	-
8	308	Infiltration Galleries	5.00%	3.18%	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	5.00%	3.18%	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	5.00%	3.18%	-	-	-	-	8,474	169,489	78,265	-
12	320	Water Treatment Equipment	5.00%	3.18%	-	-	-	-	277	5,532	2,662	-
13	320.1	Water Treatment Plants	5.00%	3.18%	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	3.18%	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	3.18%	-	-	-	-	16,631	332,628	150,866	-
16	330.1	Storage Tanks	5.00%	3.18%	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	3.18%	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	5.00%	3.18%	-	-	-	-	34,987	699,749	325,445	-
19	333	Services	5.00%	3.18%	-	-	-	-	7,339	146,762	68,630	-
20	334	Meters	5.00%	3.18%	-	-	-	-	6,346	126,911	59,273	-
21	335	Hydrants	5.00%	3.18%	-	-	-	-	-	-	-	-
22	336	Backflow Prevention Devices	5.00%	3.18%	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	3.18%	-	-	-	-	28,490	569,795	254,521	-
24	340	Office Furniture & Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	5.00%	3.18%	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
27	342	Stores Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
31	346	Communication Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	5.00%	3.18%	-	-	-	-	-	-	-	-
34												
35												
36		TOTALS							138,460	2,799,069	1,261,467	

<sup>1</sup> Weighted average rate of United Utilities and C&S Water

NARUC		2000											
Line No.	Account No.	Description	Allowed Deprec. Rate Before	Allowed Deprec. Rate After <sup>1</sup>	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Sale/Transfer of Assets	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	300	-
2	302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-	-	-	-	(7,175)	-	-	22,391	-
4	304	Structures & Improvements	5.00%	3.18%	-	-	-	-	(71,733)	(98,532)	8,368	194,352	88,754
5	305	Collecting & Impounding Reservoirs	5.00%	3.18%	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	3.18%	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	5.00%	3.18%	-	-	-	-	(124,796)	(65,398)	14,170	327,436	151,660
8	308	Infiltration Galleries	5.00%	3.18%	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	5.00%	3.18%	485	-	485	-	-	-	9	495	14
10	310	Power Generation Equipment	5.00%	3.18%	6,793	-	6,793	-	-	-	123	6,793	407
11	311	Pumping Equipment	5.00%	3.18%	-	-	-	-	(29,223)	(23,032)	5,630	140,266	60,862
12	320	Water Treatment Equipment	5.00%	3.18%	1,751	-	1,751	-	-	-	233	7,283	2,314
13	320.1	Water Treatment Plants	5.00%	3.18%	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	3.18%	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	3.18%	-	-	-	-	(52,367)	(47,035)	11,139	280,261	114,970
16	330.1	Storage Tanks	5.00%	3.18%	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	3.18%	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	5.00%	3.18%	-	-	-	-	-	-	-	-	-
19	333	Services	5.00%	3.18%	-	-	-	-	(145,056)	(94,460)	22,799	554,693	253,784
20	334	Meters	5.00%	3.18%	-	-	-	-	(37,285)	(19,942)	4,658	109,497	53,346
21	335	Hydrants	5.00%	3.18%	35,491	-	35,491	-	-	-	29	1,589	172
22	336	Backflow Prevention Devices	5.00%	3.18%	1,589	-	1,589	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	5.00%	3.18%	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	5.00%	3.18%	-	-	-	-	-	-	-	-	-
34													
35													
36		TOTALS			46,119	-	46,119	-	(627,540)	(371,306)	90,224	2,217,648	965,972

<sup>1</sup> Weighted average rate of United Utilities and C&S Water

Payson Water Company  
Plant Additions and Retirements

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

<sup>1</sup> Weighted average rate of United Utilities and C&S Water

Payson Water Company  
Plant Additions and Retirements

Exhibit  
Rejoinder Schedule B-2  
Page 3.7  
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate Before	Allowed Deprec. Rate After <sup>1</sup>	2002					Accum. Deprec.	
					Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only		Depreciation (Calculated)
1	301	Organization Cost	0.00%	0.00%	-	-	-	-	-	300	-
2	302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	22,391	-
4	304	Structures & Improvements	5.00%	3.18%	-	-	-	-	6,180	194,352	101,115
5	305	Collecting & Impounding Reservoirs	5.00%	3.18%	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	3.18%	-	-	-	-	-	-	-
7	307	Wells & Springs	5.00%	3.18%	-	-	-	-	10,824	340,366	173,102
8	308	Infiltration Galleries	5.00%	3.18%	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	5.00%	3.18%	-	-	-	-	16	495	46
10	310	Power Generation Equipment	5.00%	3.18%	-	-	-	-	-	6,793	839
11	311	Pumping Equipment	5.00%	3.18%	12,560	-	12,560	-	216	170,241	70,813
12	320	Water Treatment Equipment	5.00%	3.18%	2,416	-	2,416	-	381	13,203	2,983
13	320.1	Water Treatment Plants	5.00%	3.18%	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	3.18%	31,220	-	31,220	-	-	335,776	134,450
15	330	Distribution Reservoirs & Standpipes	5.00%	3.18%	-	-	-	-	-	-	-
16	330.1	Storage Tanks	5.00%	3.18%	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	3.18%	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	5.00%	3.18%	19,233	-	19,233	-	18,447	589,717	290,122
19	333	Services	5.00%	3.18%	-	-	-	-	3,482	109,497	60,310
20	334	Meters	5.00%	3.18%	18,215	-	18,215	-	5,827	192,339	61,445
21	335	Hydrants	5.00%	3.18%	-	-	-	-	51	1,589	273
22	336	Backflow Prevention Devices	5.00%	3.18%	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	3.18%	-	-	-	-	13,034	408,889	215,489
24	340	Office Furniture & Equipment	5.00%	3.18%	-	-	-	-	-	-	-
25	340.1	Computers & Software	5.00%	3.18%	-	-	-	-	-	-	-
26	341	Transportation Equipment	5.00%	3.18%	-	-	-	-	-	-	-
27	342	Stores Equipment	5.00%	3.18%	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	3.18%	-	-	-	-	-	-	-
29	344	Laboratory Equipment	5.00%	3.18%	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	3.18%	-	-	-	-	-	-	-
31	346	Communication Equipment	5.00%	3.18%	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	5.00%	3.18%	-	-	-	-	-	-	-
33	348	Other Tangible Plant	5.00%	3.18%	-	-	-	-	-	-	-
34											
35											
36		TOTALS			83,664	-	83,664	-	73,853	2,386,949	1,110,966

<sup>1</sup> Weighted average rate of United Utilities and C&S Water

Payson Water Company  
Plant Additions and Retirements

NARUC		2003										
Line No.	Account No.	Description	Allowed Deprec. Rate Before	Allowed Deprec. Rate After <sup>1</sup>	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	300	-
2	302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	22,391	-
4	304	Structures & Improvements	5.00%	3.18%	-	-	-	-	-	-	194,352	101,115
5	305	Collecting & Impounding Reservoirs	5.00%	3.18%	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	3.18%	-	-	-	-	-	-	-	-
7	307	Wells & Springs	5.00%	3.18%	-	-	-	-	-	-	340,366	173,102
8	308	Infiltration Galleries	5.00%	3.18%	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	5.00%	3.18%	-	-	-	-	-	-	495	46
10	310	Power Generation Equipment	5.00%	3.18%	-	-	-	-	-	-	6,793	839
11	311	Pumping Equipment	5.00%	3.18%	5,033	-	5,033	-	-	-	175,274	70,813
12	320	Water Treatment Equipment	5.00%	3.18%	-	-	-	-	-	-	13,203	2,983
13	320.1	Water Treatment Plants	5.00%	3.18%	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	3.18%	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	3.18%	42,968	-	42,968	19,250	-	-	359,495	115,200
16	330.1	Storage Tanks	5.00%	3.18%	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	3.18%	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	5.00%	3.18%	6,979	-	6,979	-	-	-	596,696	290,122
19	333	Services	5.00%	3.18%	-	-	-	-	-	-	109,497	60,310
20	334	Meters	5.00%	3.18%	23,284	-	23,284	-	-	-	215,623	61,445
21	335	Hydrants	5.00%	3.18%	-	-	-	-	-	-	1,589	273
22	336	Backflow Prevention Devices	5.00%	3.18%	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	3.18%	-	-	-	-	-	-	409,889	215,489
24	340	Office Furniture & Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	5.00%	3.18%	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
27	342	Stores Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
31	346	Communication Equipment	5.00%	3.18%	3,417	-	3,417	-	-	-	3,417	-
32	347	Miscellaneous Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	5.00%	3.18%	-	-	-	-	-	-	-	-
34												
35												
36		TOTALS			81,681	-	81,681	19,250	-	-	2,449,360	1,091,736

<sup>1</sup> Weighted average rate of United Utilities and C&S Water

NARUC		Description		Allowed Deprec. Rate Before	Allowed Deprec. Rate After <sup>1</sup>	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost		0.00%	0.00%	-	-	-	-	-	-	300	-
2	302	Franchise Cost		0.00%	0.00%	-	-	-	-	-	-	-	-
3	303	Land and Land Rights		0.00%	0.00%	(0)	-	(0)	(0)	-	-	22,391	-
4	304	Structures & Improvements		5.00%	3.18%	0	-	0	0	6,180	6,180	194,352	107,295
5	305	Collecting & Impounding Reservoirs		5.00%	3.18%	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes		5.00%	3.18%	-	-	-	-	-	-	-	-
7	307	Wells & Springs		5.00%	3.18%	(0)	-	(0)	(0)	10,824	10,824	340,366	183,926
8	308	Infiltration Galleries		5.00%	3.18%	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains		5.00%	3.18%	(0)	-	(0)	(0)	16	16	485	61
10	310	Power Generation Equipment		5.00%	3.18%	(0)	-	(0)	(0)	216	216	6,793	1,055
11	311	Pumping Equipment		5.00%	3.18%	6,241	-	6,241	6,241	5,673	5,673	181,515	76,486
12	320	Water Treatment Equipment		5.00%	3.18%	0	-	0	0	420	420	13,203	3,403
13	320.1	Water Treatment Plants		5.00%	3.18%	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders		5.00%	3.18%	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes		5.00%	3.18%	196	-	196	196	11,435	11,435	359,691	126,635
16	330.1	Storage Tanks		5.00%	3.18%	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks		5.00%	3.18%	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains		5.00%	3.18%	370	-	370	370	18,981	18,981	597,066	309,103
19	333	Services		5.00%	3.18%	-	-	-	-	3,482	3,482	109,497	63,792
20	334	Meters		5.00%	3.18%	8,741	-	8,741	8,741	6,996	6,996	224,364	88,440
21	335	Hydrants		5.00%	3.18%	-	-	-	-	51	51	1,589	323
22	336	Backflow Prevention Devices		5.00%	3.18%	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment		5.00%	3.18%	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment		5.00%	3.18%	-	-	-	-	-	-	-	-
25	340.1	Computers & Software		5.00%	3.18%	-	-	-	-	-	-	-	-
26	341	Transportation Equipment		5.00%	3.18%	-	-	-	-	-	-	-	-
27	342	Stores Equipment		5.00%	3.18%	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment		5.00%	3.18%	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment		5.00%	3.18%	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment		5.00%	3.18%	-	-	-	-	-	-	-	-
31	346	Communication Equipment		5.00%	3.18%	4,361	-	4,361	4,361	178	178	7,778	178
32	347	Miscellaneous Equipment		5.00%	3.18%	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant		5.00%	3.18%	-	-	-	-	-	-	-	-
34													
35													
36		TOTALS				19,909	-	19,909	19,909	77,485	77,485	2,469,289	1,169,221

<sup>1</sup>Weighted average rate of United Utilities and C&S Water

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

<sup>1</sup>Weighted average rate of United Utilities and C&S Water

NARUC		2006										
Line No.	Account No.	Description	Allowed Deprec. Rate Before	Allowed Deprec. Rate After	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	300	-
2	302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	22,391	-
4	304	Structures & Improvements	5.00%	3.18%	4,919	-	4,919	-	-	6,259	199,271	119,734
5	305	Collecting & Impounding Reservoirs	5.00%	3.18%	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	3.18%	-	-	-	-	-	-	-	-
7	307	Wells & Springs	5.00%	3.18%	11,646	-	11,646	-	-	11,009	352,012	205,758
8	308	Infiltration Galleries	5.00%	3.18%	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	5.00%	3.18%	117	-	117	-	-	18	612	95
10	310	Power Generation Equipment	5.00%	3.18%	873	-	873	-	-	230	7,866	1,501
11	311	Pumping Equipment	5.00%	3.18%	9,323	-	9,323	-	-	6,295	202,625	88,061
12	320	Water Treatment Equipment	5.00%	3.18%	-	-	-	-	-	422	13,264	4,246
13	320.1	Water Treatment Plants	5.00%	3.18%	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	3.18%	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	3.18%	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	5.00%	3.18%	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	3.18%	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	5.00%	3.18%	-	-	-	-	-	-	-	-
19	333	Services	5.00%	3.18%	751	-	751	-	-	18,987	597,066	347,076
20	334	Meters	5.00%	3.18%	16,339	-	16,339	-	-	3,494	110,248	70,768
21	335	Hydrants	5.00%	3.18%	-	-	-	-	-	7,760	252,193	83,518
22	336	Backflow Prevention Devices	5.00%	3.18%	-	-	-	-	-	51	1,589	424
23	339	Other Plant & Misc Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	5.00%	3.18%	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
27	342	Stores Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	3.18%	-	-	-	-	-	2	53	3
29	344	Laboratory Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
31	346	Communication Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	5.00%	3.18%	-	-	-	-	-	247	7,778	673
33	348	Other Tangible Plant	5.00%	3.18%	-	-	-	-	-	-	-	-
34												
35												
36		TOTALS			43,967	-	43,967	-	-	79,245	2,536,648	1,325,960

<sup>1</sup> Weighted average rate of United Utilities and C&S Water

Payson Water Company  
Plant Additions and Retirements

Exhibit  
Rejoinder Schedule B-2  
Page 3.12  
Witness: Bourassa

NARUC		Description		Allowed Deprec. Rate Before	Allowed Deprec. Rate After <sup>1</sup>	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost		0.00%	0.00%	-	-	-	-	-	-	300	-
2	302	Franchise Cost		0.00%	0.00%	-	-	-	-	-	-	-	-
3	303	Land and Land Rights		0.00%	0.00%	0	-	0	-	-	-	22,391	-
4	304	Structures & Improvements		5.00%	3.18%	12,811	-	12,811	-	6,541	6,541	212,082	126,275
5	305	Collecting & Impounding Reservoirs		5.00%	3.18%	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes		5.00%	3.18%	-	-	-	-	-	-	-	-
7	307	Wells & Springs		5.00%	3.18%	3,563	-	3,563	-	11,251	11,251	355,575	217,009
8	308	Infiltration Galleries		5.00%	3.18%	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains		5.00%	3.18%	0	-	0	-	19	19	612	114
10	310	Power Generation Equipment		5.00%	3.18%	0	-	0	-	244	244	7,668	1,745
11	311	Pumping Equipment		5.00%	3.18%	20,059	-	20,059	-	6,762	6,762	222,684	94,823
12	320	Water Treatment Equipment		5.00%	3.18%	-	-	-	-	422	422	13,264	4,667
13	320.1	Water Treatment Plants		5.00%	3.18%	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders		5.00%	3.18%	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes		5.00%	3.18%	0	-	0	-	11,438	11,438	359,691	160,949
16	330.1	Storage Tanks		5.00%	3.18%	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks		5.00%	3.18%	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains		5.00%	3.18%	0	-	0	-	18,987	18,987	597,066	366,063
19	333	Services		5.00%	3.18%	790	-	790	-	3,518	3,518	111,038	74,287
20	334	Meters		5.00%	3.18%	11,104	-	11,104	-	8,196	8,196	263,297	91,714
21	335	Hydrants		5.00%	3.18%	-	-	-	-	51	51	1,589	475
22	336	Backflow Prevention Devices		5.00%	3.18%	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment		5.00%	3.18%	3,703	-	3,703	-	13,093	13,093	413,592	267,686
24	340	Office Furniture & Equipment		5.00%	3.18%	-	-	-	-	-	-	-	-
25	340.1	Computers & Software		5.00%	3.18%	-	-	-	-	-	-	-	-
26	341	Transportation Equipment		5.00%	3.18%	-	-	-	-	-	-	-	-
27	342	Stores Equipment		5.00%	3.18%	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment		5.00%	3.18%	-	-	-	-	2	2	53	4
29	344	Laboratory Equipment		5.00%	3.18%	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment		5.00%	3.18%	-	-	-	-	-	-	-	-
31	346	Communication Equipment		5.00%	3.18%	4,798	-	4,798	-	324	324	12,576	996
32	347	Miscellaneous Equipment		5.00%	3.18%	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant		5.00%	3.18%	-	-	-	-	-	-	-	-
34													
35													
36		TOTALS				56,829	-	56,829	-	80,847	80,847	2,593,477	1,406,807

<sup>1</sup> Weighted average rate of United Utilities and C&S Water

Payson Water Company  
Plant Additions and Retirements

Exhibit  
Rejoinder Schedule B-2  
Page 3.13  
Witness: Bourassa

NARUC		2008										
Line No.	Account No.	Description	Allowed Deprec. Rate Before	Allowed Deprec. Rate After <sup>1</sup>	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	300	-
2	302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	22,391	-
4	304	Structures & Improvements	5.00%	3.18%	4,523	-	4,523	-	-	6,816	216,605	133,091
5	305	Collecting & Impounding Reservoirs	5.00%	3.18%	3,435	-	3,435	-	-	55	3,435	55
6	306	Lake, River, Canal Intakes	5.00%	3.18%	-	-	-	-	-	-	-	-
7	307	Wells & Springs	5.00%	3.18%	11,551	-	11,551	-	-	11,491	387,126	228,500
8	308	Infiltration Galleries	5.00%	3.18%	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	5.00%	3.18%	-	-	-	-	-	19	612	134
10	310	Power Generation Equipment	5.00%	3.18%	-	-	-	-	-	244	7,666	1,989
11	311	Pumping Equipment	5.00%	3.18%	19,722	-	19,722	-	-	7,395	242,406	102,218
12	320	Water Treatment Equipment	5.00%	3.18%	439	-	439	-	-	429	13,703	5,096
13	320.1	Water Treatment Plants	5.00%	3.18%	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	3.18%	11,870	-	11,870	-	-	11,627	371,561	172,576
15	330	Distribution Reservoirs & Standpipes	5.00%	3.18%	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	5.00%	3.18%	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	3.18%	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	5.00%	3.18%	-	-	-	-	-	18,987	597,066	385,050
19	333	Services	5.00%	3.18%	-	-	-	-	-	3,531	111,038	77,818
20	334	Meters	5.00%	3.18%	1,757	-	1,757	-	-	8,401	265,054	100,115
21	335	Hydrants	5.00%	3.18%	-	-	-	-	-	51	1,589	525
22	336	Backflow Prevention Devices	5.00%	3.18%	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	3.18%	7,406	-	7,406	-	-	13,270	420,998	280,956
24	340	Office Furniture & Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	5.00%	3.18%	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
27	342	Stores Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	3.18%	45	-	45	-	-	2	98	7
29	344	Laboratory Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
31	346	Communication Equipment	5.00%	3.18%	-	-	-	-	-	400	12,576	1,396
32	347	Miscellaneous Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	5.00%	3.18%	-	-	-	-	-	-	-	-
34												
35												
36		TOTALS			60,749	-	60,749	-	-	82,717	2,654,226	1,489,524

<sup>1</sup>Weighted average rate of United Utilities and C&S Water

NARUC		Description		Allowed Deprec. Rate Before	Allowed Deprec. Rate After <sup>1</sup>	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost		0.00%	0.00%	-	-	-	-	-	-	300	-
2	302	Franchise Cost		0.00%	0.00%	-	-	-	-	-	-	-	-
3	303	Land and Land Rights		0.00%	0.00%	-	-	-	-	-	-	22,391	-
4	304	Structures & Improvements		5.00%	3.18%	-	-	-	-	6,888	6,888	216,605	139,979
5	305	Collecting & Impounding Reservoirs		5.00%	3.18%	-	-	-	-	109	109	3,435	164
6	306	Lake, River, Canal Intakes		5.00%	3.18%	-	-	-	-	-	-	-	-
7	307	Wells & Springs		5.00%	3.18%	-	-	-	-	11,675	11,675	367,126	240,174
8	308	Infiltration Galleries		5.00%	3.18%	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains		5.00%	3.18%	-	-	-	-	-	19	612	153
10	310	Power Generation Equipment		5.00%	3.18%	962	-	962	-	259	259	8,628	2,248
11	311	Pumping Equipment		5.00%	3.18%	14,818	-	14,818	-	7,944	7,944	257,224	110,162
12	320	Water Treatment Equipment		5.00%	3.18%	-	-	-	-	436	436	13,703	5,632
13	320.1	Water Treatment Plants		5.00%	3.18%	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders		5.00%	3.18%	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes		5.00%	3.18%	-	-	-	-	11,816	11,816	371,561	184,392
16	330.1	Storage Tanks		5.00%	3.18%	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks		5.00%	3.18%	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains		5.00%	3.18%	-	-	-	-	-	18,987	597,066	404,036
19	333	Services		5.00%	3.18%	-	-	-	-	-	3,531	111,038	81,349
20	334	Meters		5.00%	3.18%	2,576	-	2,576	-	8,470	8,470	267,629	108,565
21	335	Hydrants		5.00%	3.18%	-	-	-	-	-	51	1,589	576
22	336	Backflow Prevention Devices		5.00%	3.18%	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment		5.00%	3.18%	674	-	674	-	13,398	13,398	421,672	294,354
24	340	Office Furniture & Equipment		5.00%	3.18%	-	-	-	-	-	-	-	-
25	340.1	Computers & Software		5.00%	3.18%	-	-	-	-	-	-	-	-
26	341	Transportation Equipment		5.00%	3.18%	-	-	-	-	-	-	-	-
27	342	Stores Equipment		5.00%	3.18%	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment		5.00%	3.18%	-	-	-	-	-	3	98	10
29	344	Laboratory Equipment		5.00%	3.18%	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment		5.00%	3.18%	-	-	-	-	-	-	-	-
31	346	Communication Equipment		5.00%	3.18%	-	-	-	-	-	400	12,576	1,796
32	347	Miscellaneous Equipment		5.00%	3.18%	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant		5.00%	3.18%	-	-	-	-	-	-	-	-
34													
35													
36		TOTALS				19,029	-	19,029	-	-	83,985	2,673,266	1,573,510

<sup>1</sup>Weighted average rate of United Utilities and C&S Water

NARUC		2010									
Line No.	Description	Allowed Deprec. Rate Before	Allowed Deprec. Rate After <sup>1</sup>	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301 Organization Cost	0.00%	0.00%	-	-	-	-	-	-	300	-
2	302 Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-
3	303 Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	22,391	-
4	304 Structures & Improvements	5.00%	3.18%	-	-	-	-	6,888	6,888	216,605	146,867
5	305 Collecting & Impounding Reservoirs	5.00%	3.18%	-	-	-	-	109	109	3,435	273
6	306 Lake, River, Canal Intakes	5.00%	3.18%	-	-	-	-	-	-	-	-
7	307 Wells & Springs	5.00%	3.18%	2,815	-	2,815	-	-	11,719	369,941	251,893
8	308 Infiltration Galleries	5.00%	3.18%	-	-	-	-	-	-	-	-
9	309 Raw Water Supply Mains	5.00%	3.18%	-	-	-	-	-	19	612	173
10	310 Power Generation Equipment	5.00%	3.18%	-	-	-	-	-	274	8,628	2,522
11	311 Pumping Equipment	5.00%	3.18%	20,453	-	20,453	-	-	8,505	277,677	118,667
12	320 Water Treatment Equipment	5.00%	3.18%	636	-	636	-	-	446	14,339	5,978
13	320.1 Water Treatment Plants	5.00%	3.18%	-	-	-	-	-	-	-	-
14	320.2 Solution Chemical Feeders	5.00%	3.18%	-	-	-	-	-	-	-	-
15	330 Distribution Reservoirs & Standpipes	5.00%	3.18%	-	-	-	-	-	11,816	371,561	196,208
16	330.1 Storage Tanks	5.00%	3.18%	-	-	-	-	-	-	-	-
17	330.2 Pressure Tanks	5.00%	3.18%	-	-	-	-	-	-	-	-
18	331 Transmission & Distribution Mains	5.00%	3.18%	-	-	-	-	-	-	-	-
19	333 Services	5.00%	3.18%	-	-	-	-	-	18,987	597,066	423,023
20	334 Meters	5.00%	3.18%	293	-	293	-	-	3,531	111,038	84,880
21	335 Hydrants	5.00%	3.18%	-	-	-	-	-	8,515	267,923	117,100
22	336 Backflow Prevention Devices	5.00%	3.18%	-	-	-	-	-	51	1,589	626
23	339 Other Plant & Misc Equipment	5.00%	3.18%	9,689	-	9,689	-	-	13,563	431,362	307,918
24	340 Office Furniture & Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
25	340.1 Computers & Software	5.00%	3.18%	-	-	-	-	-	-	-	-
26	341 Transportation Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
27	342 Stores Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
28	343 Tools, Shop & Garage Equipment	5.00%	3.18%	-	-	-	-	-	3	98	13
29	344 Laboratory Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
30	345 Power Operated Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
31	346 Communication Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
32	347 Miscellaneous Equipment	5.00%	3.18%	-	-	-	-	-	400	12,576	2,196
33	348 Other Tangible Plant	5.00%	3.18%	-	-	-	-	-	-	-	-
34											
35											
36	TOTALS			33,686	-	33,686	-	-	84,827	2,707,142	1,658,336

<sup>1</sup>Weighted average rate of United Utilities and C&S Water

Payson Water Company  
Plant Additions and Retirements

Exhibit  
Rejoinder Schedule B-2  
Page 3.16  
Witness: Bourassa

NARUC		2011										
Line No.	Account No.	Description	Allowed Deprec. Rate Before	Allowed Deprec. Rate After <sup>1</sup>	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	300	-
2	302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	22,391	-
4	304	Structures & Improvements	5.00%	3.18%	-	-	-	-	-	6,888	216,605	153,755
5	305	Collecting & Impounding Reservoirs	5.00%	3.18%	-	-	-	-	-	109	3,435	382
6	306	Lake, River, Canal Intakes	5.00%	3.18%	-	-	-	-	-	-	-	-
7	307	Wells & Springs	5.00%	3.18%	553	-	553	-	-	11,773	370,493	263,666
8	308	Infiltration Galleries	5.00%	3.18%	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	5.00%	3.18%	-	-	-	-	-	19	612	192
10	310	Power Generation Equipment	5.00%	3.18%	-	-	-	-	-	274	8,628	2,797
11	311	Pumping Equipment	5.00%	3.18%	11,973	-	11,973	-	-	9,020	289,650	127,688
12	320	Water Treatment Equipment	5.00%	3.18%	-	-	-	-	-	456	14,339	6,434
13	320.1	Water Treatment Plants	5.00%	3.18%	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	3.18%	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	3.18%	-	-	-	-	-	11,816	371,561	208,023
16	330.1	Storage Tanks	5.00%	3.18%	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	5.00%	3.18%	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	5.00%	3.18%	-	-	-	-	-	18,987	597,066	442,010
19	333	Services	5.00%	3.18%	-	-	-	-	-	3,531	111,038	88,411
20	334	Meters	5.00%	3.18%	2,462	-	2,462	-	-	8,559	270,384	125,659
21	335	Hydrants	5.00%	3.18%	-	-	-	-	-	51	1,589	677
22	336	Backflow Prevention Devices	5.00%	3.18%	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	3.18%	4,009	-	4,009	-	-	13,781	435,371	321,699
24	340	Office Furniture & Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	5.00%	3.18%	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
27	342	Stores Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	3.18%	-	-	-	-	-	3	98	16
29	344	Laboratory Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
31	346	Communication Equipment	5.00%	3.18%	-	-	-	-	-	400	12,576	2,596
32	347	Miscellaneous Equipment	5.00%	3.18%	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	5.00%	3.18%	-	-	-	-	-	-	-	-
34												
35												
36		TOTALS			18,986	-	18,986	-	-	85,668	2,726,138	1,744,004

<sup>1</sup> Weighted average rate of United Utilities and C&S Water

Payson Water Company  
Plant Additions and Retirements

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

<sup>1</sup> Weighted average rate of United Utilities and C&S Water

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

Accumulated Depreciation

Line No.	Acct. No.	Description	Per Books Accum. Depr.	A Reconciliation Adjustments to Reconcile A/D to Reconstruction	B		C		D		E	
					Intentionally Left Blank							
1	301	Organization Cost	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	(4,320)	-	-	-	-	-	-	-	-	(4,320)
4	304	Structures and Improvements	119,067	-	-	-	-	-	-	-	-	119,067
5	305	Collecting and Impounding Res.	373	-	-	-	-	-	-	-	-	373
6	306	Lake River and Other Intakes	-	-	-	-	-	-	-	-	-	-
7	307	Wells and Springs	200,653	-	-	-	-	-	-	-	-	200,653
8	308	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-	-	-	-
9	309	Supply Mains	204	-	-	-	-	-	-	-	-	204
10	310	Power Generation Equipment	2,249	-	-	-	-	-	-	-	-	2,249
11	311	Electric Pumping Equipment	100,486	-	-	-	-	-	-	-	-	100,486
12	312	Water Treatment Equipment	5,038	-	-	-	-	-	-	-	-	5,038
13	320.1	Water Treatment Plant	-	-	-	-	-	-	-	-	-	-
14	320.2	Chemical Solution Feeders	-	-	-	-	-	-	-	-	-	-
15	330	Dist. Reservoirs & Standpipe	160,164	-	-	-	-	-	-	-	-	160,164
16	330.1	Storage tanks	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	-	-	-	-	-	-	-	-	-	-
18	331	Trans. and Dist. Mains	336,291	-	-	-	-	-	-	-	-	336,291
19	333	Services	67,115	-	-	-	-	-	-	-	-	67,115
20	334	Meters	98,472	-	-	-	-	-	-	-	-	98,472
21	335	Hydrants	524	-	-	-	-	-	-	-	-	524
22	336	Backflow Prevention Devices	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant and Misc. Equip.	244,240	-	-	-	-	-	-	-	-	244,240
24	340	Office Furniture and Fixtures	-	-	-	-	-	-	-	-	-	-
25	340.1	Computers and Software	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	-	-	-	-	-	-	-	-	-	-
28	343	Tools and Work Equipment	16	-	-	-	-	-	-	-	-	16
29	344	Laboratory Equipment	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	-	-	-	-	-	-	-	-	-	-
31	346	Communications Equipment	2,253	-	-	-	-	-	-	-	-	2,253
32	347	Miscellaneous Equipment	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	-	-	-	-	-	-	-	-	-	-
34		TOTALS	\$ 1,332,825	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,332,825
35		Accumulated Depreciation per Books										\$ 1,332,825
36		Increase (decrease) in Accumulated Depreciation										\$ -
37		Adjustment to Accumulated Depreciation										\$ -

SUPPORTING SCHEDULES

B-2, pages 4, 1

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

Exhibit  
 Rebuttal Schedule B-2  
 Page 4.1  
 Witness: Bourassa

Line No.	Acct. No.	Description	Recorded Accumulated Depreciation	Accumulated Depreciation Per Plant Reconstruction	Difference
1					
2					
3					
4					
5					
6	301	Organization Cost	-	-	-
7	302	Franchise Cost	-	-	-
8	303	Land and Land Rights	(4,320)	(4,320)	-
9	304	Structures and Improvements	119,067	119,067	-
10	305	Collecting and Impounding Res.	373	373	-
11	306	Lake River and Other Intakes	-	-	-
12	307	Wells and Springs	200,653	200,653	-
13	308	Infiltration Galleries and Tunnels	-	-	-
14	309	Supply Mains	204	204	-
15	310	Power Generation Equipment	2,249	2,249	-
16	311	Electric Pumping Equipment	100,486	100,486	-
17	320	Water Treatment Equipment	5,038	5,038	-
18	320.1	Water Treatment Plant	-	-	-
19	320.2	Chemical Solution Feeders	-	-	-
20	330	Dist. Reservoirs & Standpipe	160,164	160,164	-
21	330.1	Storage tanks	-	-	-
22	330.2	Pressure Tanks	-	-	-
23	331	Trans. and Dist. Mains	336,291	336,291	-
24	333	Services	67,115	67,115	-
25	334	Meters	98,472	98,472	-
26	335	Hydrants	524	524	-
27	336	Backflow Prevention Devices	-	-	-
28	339	Other Plant and Misc. Equip.	244,240	244,240	-
29	340	Office Furniture and Fixtures	-	-	-
30	340.1	Computers and Software	-	-	-
31	341	Transportation Equipment	-	-	-
32	342	Stores Equipment	-	-	-
33	343	Tools and Work Equipment	16	16	-
34	344	Laboratory Equipment	-	-	-
35	345	Power Operated Equipment	-	-	-
36	346	Communications Equipment	2,253	2,253	-
37	347	Miscellaneous Equipment	-	-	-
38	348	Other Tangible Plant	-	-	-
39					
40		TOTALS	\$ 1,332,825	\$ 1,332,825	\$ -

41  
 42  
 43 SUPPORTING SCHEDULE  
 44 B-2, pages 3.2 - 3.17  
 45

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

Exhibit  
 Schedule B-2  
 Page 5.0  
 Witness: Bourassa

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

Line  
No.  
 1  
 2  
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 40

	<u>Gross CIAC</u>	<u>Accumulated Amortization</u>
Computed balance at 09/30/2012	\$ 375,036	\$ 231,270
Adjusted balance at 09/30/2012	<u>\$ 375,036</u>	<u>\$ 231,270</u>
Increase (decrease)	\$ -	\$ -
Adjustment to CIAC/AA CIAC	<u>\$ -</u>	<u>\$ -</u>
Label	<u>3a</u>	<u>3b</u>

SUPPORTING SCHEDULES  
 E-1  
 B-2, page 5.1

Line No.	Description	1998		1999		2000		2001		2002		2003	
		Additions	Balance 9/30/2009	Additions	Balance 10/30/2009	Additions	Balance 9/30/2011	Additions	Balance 9/30/2012	Additions	Balance 12/31/1993	Additions	Balance 12/31/1993
1	Dec. No. 62401												
2	Balance 6/30/1998		960,903		960,903		883,774		883,774		883,774		883,774
3													
4	CIAC					(77,129)							
5													
6	Amortization		5.00%		5.00%								
7	Amortization Rate		48,045		48,045								
8	Amortization (1/2 yr convention)		240,265		286,310	(77,129)							
9	Accumulated Amortization												
10													
11													
12	Net CIAC		720,638		672,593		639,927		610,647		582,366		554,085
13													
14													
15													
16													
17													
18													
19													
20	CIAC												
21													
22													
23	Amortization Rate		3.20%		3.20%								
24	Amortization (1/2 yr convention)		28,281		28,281								
25	Accumulated Amortization		357,970		386,250								
26													
27	Net CIAC		525,804		497,524		469,243		440,962		406,293		378,220
28													
29													
30													
31													
32													
33													
34													
35													
36													
37	CIAC												
38													
39													
40	Amortization Rate		3.20%		3.20%								
41	Amortization (1/2 yr convention)		28,073		28,073								
42	Accumulated Amortization		527,135		555,208								
43													
44	Net CIAC		350,147		322,074		293,766		265,495		237,220		209,050
45													

Line No.	Description	2004		2005		2006		2007		2008		2009	
		Additions	Balance 12/31/1993										
17			883,774		883,774		883,774		883,774		877,282		877,282
18													
19													
20	CIAC												
21													
22													
23	Amortization Rate		3.20%		3.20%								
24	Amortization (1/2 yr convention)		28,281		28,281								
25	Accumulated Amortization		357,970		386,250								
26													
27	Net CIAC		525,804		497,524		469,243		440,962		406,293		378,220
28													
29													
30													
31													
32													
33													
34													
35													
36													
37	CIAC												
38													
39													
40	Amortization Rate		3.20%		3.20%								
41	Amortization (1/2 yr convention)		28,073		28,073								
42	Accumulated Amortization		527,135		555,208								
43													
44	Net CIAC		350,147		322,074		293,766		265,495		237,220		209,050
45													

Line No.	Description	2010		2011		2012	
		Additions	Balance 12/31/1993	Additions	Balance 12/31/1993	Additions	Balance 12/31/1993
37	CIAC		877,282		877,282		877,282
38							
39							
40	Amortization Rate		3.20%		3.20%		3.20%
41	Amortization (1/2 yr convention)		28,073		28,073		28,073
42	Accumulated Amortization		527,135		555,208		583,281
43							
44	Net CIAC		350,147		322,074		293,766
45							

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

Line No.	Deferred Income Tax as of December 31, 2012	Adjusted Book Value	Tax Value	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Effective Tax Rate	Future Tax Asset Current	Future Tax Asset Non Current	Future Tax Liability Current	Future Tax Liability Non Current
1										
2										
3										
4										
5										
6	Plant-in-Service	\$ 2,159,387 <sup>1</sup>								
7	Accum. Deprec.	(1,332,825) <sup>1</sup>								
8	CIAC	(143,766) <sup>3</sup>								
9	Fed. Fixed Assets	\$ 682,796	\$ 615,700 <sup>2</sup>	100.0%	\$ (67,096)	27.08%				(18,169)
10										
11	State Fixed Assets	\$ 682,796	\$ 615,700 <sup>2</sup>	100.0%	\$ (67,096)	6.50%				(4,361)
12										
13	Fed & St. AIAC		- <sup>4</sup>	100.0%	\$ - <sup>4</sup>	33.58%		\$ -		
14										
15										
16										
17	Net Asset (Liability)						\$ (22,530)			
18										
19										
20										
21	Net Asset (Liability)						\$ (22,530)			
22										
23	DIT Asset (Liability) per Books						\$ (23,339)			
24										
25	Adjustment to DIT									
26										
27										
28										
29										
30										
31										
32										
33										
34										
35										
36										
37										
38										
39										
40										

Footnotes - See page 2

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

**Payson Water Company**  
Test Year Ended December 31, 2012  
Computation of Working Capital

Exhibit  
Rebuttal Schedule B-5  
Page 1  
Witness: Bourassa

Line  
No.

1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	52,314
3	Pumping Power (1/24 of Pumping Power)		2,106
4	Purchased Water (1/24 of Purchased Water)		-
5	Prepaid Expenses		
6			
7			
8			
9	Total Working Capital Allowance	\$	<u>54,420</u>
10			
11			
12	<b>Working Capital Requested</b>	\$	<u>-</u>
13			
14			
15			
16			
17		<u>Adjusted Test Year</u>	
18	Total Operating Expense	\$	482,220
19	Less:		
20	Income Tax	\$	(92,438)
21	Property Tax		19,978
22	Depreciation		85,632
23	Purchased Water		-
24	Pumping Power		<u>50,533</u>
25	Allowable Expenses	\$	<u>418,515</u>
26	1/8 of allowable expenses	\$	<u>52,314</u>
27			

28  
29 SUPPORTING SCHEDULES:  
30 E-1

RECAP SCHEDULES:  
B-1

31  
32  
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**Payson Water Company**  
 Test Year Ended December 31, 2012  
 Income Statement

Exhibit  
 Rebuttal Schedule C-1  
 Page 1  
 Witness: Bourassa

Line No.		Test Year Book Results	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	<b>Revenues</b>					
2	Metered Water Revenues	\$ 313,559	\$ -	\$ 313,559	\$ 360,272	\$ 673,831
3	Unmetered Water Revenues	-	-	-	-	-
4	Other Water Revenues	6,966	-	6,966	-	6,966
5		<u>\$ 320,525</u>	<u>\$ -</u>	<u>\$ 320,525</u>	<u>\$ 360,272</u>	<u>\$ 680,797</u>
6	<b>Operating Expenses</b>					
7	Salaries and Wages	\$ 55,097	-	\$ 55,097	-	\$ 55,097
8	Purchased Water	-	-	-	-	-
9	Purchased Power	50,533	-	50,533	-	50,533
10	Fuel For Power Production	-	-	-	-	-
11	Chemicals	2,181	-	2,181	-	2,181
12	Repairs and Maintenance	28,089	-	28,089	-	28,089
13	Office Supplies and Expense	-	-	-	-	-
14	Contractual Services	58,481	(1,683)	56,798	-	56,798
15	Contractual Services - Management Fees	-	173,903	173,903	-	173,903
16	Water Testing	11,000	-	11,000	-	11,000
17	Rents	-	-	-	-	-
18	Transportation Expenses	-	-	-	-	-
19	Insurance - General Liability	-	-	-	-	-
20	Insurance - Health and Life	266	-	266	-	266
21	Reg. Comm. Exp. - Other	-	-	-	-	-
22	Reg. Comm. Exp. - Rate Case	65,000	-	65,000	-	65,000
23	Miscellaneous Expense	235,253	(209,072)	26,181	-	26,181
24	Depreciation and Amortization Expense	85,632	-	85,632	-	85,632
25	Taxes Other Than Income	-	-	-	-	-
26	Property Taxes	21,030	(1,051)	19,978	7,485	27,463
27	Income Tax	(109,557)	17,119	(92,438)	118,463	26,025
28		-	-	-	-	-
29	<b>Total Operating Expenses</b>	<u>\$ 503,004</u>	<u>\$ (20,785)</u>	<u>\$ 482,220</u>	<u>\$ 125,948</u>	<u>\$ 608,168</u>
30	<b>Operating Income</b>	<u>\$ (182,479)</u>	<u>\$ 20,785</u>	<u>\$ (161,695)</u>	<u>\$ 234,324</u>	<u>\$ 72,629</u>
31	<b>Other Income (Expense)</b>					
32	Interest Income	-	-	-	-	-
33	Other income	-	-	-	-	-
34	Interest Expense	-	-	-	-	-
35	Other Expense	-	-	-	-	-
36	Gain(loss) on Disposal of Fixed Assets	-	-	-	-	-
37	<b>Total Other Income (Expense)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
38	<b>Net Profit (Loss)</b>	<u>\$ (182,479)</u>	<u>\$ 20,785</u>	<u>\$ (161,695)</u>	<u>\$ 234,324</u>	<u>\$ 72,629</u>

39  
 40 SUPPORTING SCHEDULES:  
 41 C-1, page 2  
 42 E-2  
 43

RECAP SCHEDULES:  
 A-1

Line No.	1	2	3	4	5
	Depreciation	Property Taxes	Contractual Services	Misc. Expense Brooke Utilities OH	Management Fees JW Holdings
1	Test Year Book Results				
2	Metered Water Revenues	\$ 313,559			
3	Unmetered Water Revenues	-			
4	Other Water Revenues	6,966			
5		\$ 320,525	\$ -	\$ -	\$ -
6	<b>Operating Expenses</b>				
7	Salaries and Wages	\$ 55,097			
8	Purchased Water	-			
9	Purchased Power	50,533			
10	Fuel For Power Production	-			
11	Chemicals	2,181			
12	Repairs and Maintenance	28,089			
13	Office Supplies and Expense	-			
14	Contractual Services	58,481	(1,683)		
15	Contractual Services - Management				173,903
16	Water Testing	11,000			
17	Rents	-			
18	Transportation Expenses	-			
19	Insurance - General Liability	-			
20	Insurance - Health and Life	266			
21	Reg. Comm. Exp. - Other	-			
22	Reg. Comm. Exp. - Rate Case	65,000			
23	Miscellaneous Expense	235,253		(197,722)	
24	Depreciation and Amortization Expense	85,632			
25	Taxes Other Than Income	-			
26	Property Taxes	21,030		(1,051)	
27	Income Tax	(109,557)			
28					
29	<b>Total Operating Expenses</b>	\$ 503,004	\$ (1,683)	\$ (197,722)	\$ 173,903
30	<b>Operating Income</b>	\$ (182,479)	\$ 1,683	\$ 197,722	\$ (173,903)
31	<b>Other Income (Expense)</b>				
32	Interest Income	-			
33	Other Income	-			
34	Interest Expense	-			
35	Other Expense	-			
36	Gain(loss) on Disposal of Fixed Assets	-			
37	<b>Total Other Income (Expense)</b>	\$ -	\$ -	\$ -	\$ -
38	<b>Net Profit (Loss)</b>	\$ (182,479)	\$ 1,683	\$ 197,722	\$ (173,903)
39					
40	<b>SUPPORTING SCHEDULES:</b>				
41	C-2				
42	E-2				

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

Exhibit  
 Rebuttal Schedule C-1  
 Page 2.2  
 Witness: Bourassa

Line No.	Revenues	6	7	8	9	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	Metered Water Revenues					\$ 313,559	\$ 360,272	\$ 673,831
2	Unmetered Water Revenues					-	-	-
3	Other Water Revenues					6,966	6,966	6,966
4						\$ 320,525	\$ 360,272	\$ 680,797
5	<b>Operating Expenses</b>							
6	Salaries and Wages					\$ 55,097	\$	\$ 55,097
7	Purchased Water					-	-	-
8	Purchased Power					50,533	50,533	50,533
9	Fuel For Power Production					-	-	-
10	Chemicals					2,181	2,181	2,181
11	Repairs and Maintenance					28,089	28,089	28,089
12	Office Supplies and Expense					-	-	-
13	Contractual Services					56,798	56,798	56,798
14	Contractual Services - Management					173,903	173,903	173,903
15	Water Testing					11,000	11,000	11,000
16	Rents					-	-	-
17	Transportation Expenses					-	-	-
18	Insurance - General Liability					-	-	-
19	Insurance - Health and Life					266	266	266
20	Reg. Comm. Exp. - Other					-	-	-
21	Reg. Comm. Exp. - Rate Case					-	-	-
22	Miscellaneous Expense		(7,857)			65,000	65,000	65,000
23	Depreciation and Amortization Expense					26,181	26,181	26,181
24	Taxes Other Than Income					85,632	85,632	85,632
25	Property Taxes					-	7,485	27,463
26	Income Tax				17,119	(92,438)	118,463	26,025
27								
28								
29	<b>Total Operating Expenses</b>					\$ 482,220	\$ 125,948	\$ 608,168
30	<b>Operating Income</b>					\$ (161,695)	\$ 234,324	\$ 72,629
31	<b>Other Income (Expense)</b>							
32	Interest Income					-	-	-
33	Other Income					-	-	-
34	Interest Expense					-	-	-
35	Other Expense					-	-	-
36	Gain(loss) on Disposal of Fixed Assets					-	-	-
37	<b>Total Other Income (Expense)</b>							
38	<b>Net Profit (Loss)</b>					\$ (161,695)	\$ 234,324	\$ 72,629

SUPPORTING SCHEDULES:  
 C-1, page 1  
 E-2

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

Exhibit  
 Rebuttal Schedule C-2  
 Page 1  
 Witness: Bourassa

Line No.	<u>Adjustments to Revenues and Expenses</u>						<u>Subtotal</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	
1							
2	<u>Depreciation</u>	<u>Property</u>	<u>Contractual</u>	<u>Misc. Expense</u>	<u>Management Fees</u>	<u>Misc. Expense</u>	
3	<u>Expense</u>	<u>Taxes</u>	<u>Services</u>	<u>Brooke Utilites OH</u>	<u>JW Holdings</u>	<u>Beaver Dam Write-off</u>	
4	Revenues						-
5							
6	Expenses	(1,051)	(1,683)	(197,722)	173,903	(7,857)	(34,410)
7							
8	Operating						
9	Income	1,051	1,683	197,722	(173,903)	7,857	34,410
10							
11	Interest						
12	Expense						-
13	Other						
14	Income /						-
15	Expense						
16							
17	Net Income	1,051	1,683	197,722	(173,903)	7,857	34,410
18							
19							
20		<u>Adjustments to Revenues and Expenses</u>					
21	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	<u>Subtotal</u>
22		Intentionally		Intentionally	Intentionally	Intentionally	
23	Misc. Expense	Left	Income	Left	Left	Left	
24	Non-Recurring	Blank	Taxes	Blank	Blank	Blank	
25	Revenues						-
26							
27	Expenses	(3,493)	17,119	-	-	-	(20,785)
28							
29	Operating						
30	Income	3,493	(17,119)	-	-	-	20,785
31							
32	Interest						
33	Expense						-
34	Other						
35	Income /						-
36	Expense						
37							
38	Net Income	3,493	(17,119)	-	-	-	20,785
39							
40							

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

Exhibit  
 Rebuttal Schedule C-2  
 Page 2  
 Witness: Bourassa

Depreciation Expense

Line No.	Acct. No.	Description	Original Cost	Non-depreciable/ Fully Depreciated	Adjusted Original Cost	Proposed Rates	Depreciation Expense
1							
2							
3							
4							
5	301	Organization Cost	221	(221)	-	0.00%	-
6	302	Franchise Cost	-	-	-	0.00%	-
7	303	Land and Land Rights	16,500	(16,500)	-	0.00%	-
8	304	Structures and Improvements	300,078	-	300,078	3.33%	9,993
9	305	Collecting and Impounding Res.	2,531	-	2,531	2.50%	63
10	306	Lake River and Other Intakes	-	-	-	2.50%	-
11	307	Wells and Springs	273,013	-	273,013	3.33%	9,091
12	308	Infiltration Galleries and Tunnels	-	-	-	6.67%	-
13	309	Supply Mains	3,681	-	3,681	2.00%	74
14	310	Power Generation Equipment	8,310	-	8,310	5.00%	415
15	311	Electric Pumping Equipment	217,608	-	217,608	12.50%	27,201
16	320	Water Treatment Equipment	10,567	-	10,567	3.33%	352
17	320.1	Water Treatment Plant	-	-	-	3.33%	-
18	320.2	Chemical Solution Feeders	-	-	-	20.00%	-
19	330	Dist. Reservoirs & Standpipe	273,800	-	273,800	2.22%	6,078
20	330.1	Storage tanks	-	-	-	2.22%	-
21	330.2	Pressure Tanks	-	-	-	5.00%	-
22	331	Trans. and Dist. Mains	439,972	-	439,972	2.00%	8,799
23	333	Services	81,823	-	81,823	3.33%	2,725
24	334	Meters	199,952	-	199,952	8.33%	16,656
25	335	Hydrants	1,171	-	1,171	2.00%	23
26	336	Backflow Prevention Devices	-	-	-	6.67%	-
27	339	Other Plant and Misc. Equip.	320,820	-	320,820	6.67%	21,399
28	340	Office Furniture and Fixtures	-	-	-	6.67%	-
29	340.1	Computers and Software	-	-	-	20.00%	-
30	341	Transportation Equipment	-	-	-	20.00%	-
31	342	Stores Equipment	-	-	-	4.00%	-
32	343	Tools and Work Equipment	72	-	72	5.00%	4
33	344	Laboratory Equipment	-	-	-	10.00%	-
34	345	Power Operated Equipment	-	-	-	5.00%	-
35	346	Communications Equipment	9,267	-	9,267	10.00%	927
36	347	Miscellaneous Equipment	-	-	-	10.00%	-
37	348	Other Tangible Plant	-	-	-	10.00%	-
38		<b>TOTALS</b>	<b>\$ 2,159,387</b>	<b>\$ (16,721)</b>	<b>\$ 2,142,666</b>		<b>\$ 103,800</b>
39							
40							
41		Less: Amortization of Contributions			\$ 375,036	4.8444%	\$ (18,188)
42		Total Depreciation Expense					\$ 85,632
43							
44		Adjusted Test Year Depreciation Expense					85,632
45							
46		Increase (decrease) in Depreciation Expense					-
47							
48		Adjustment to Revenues and/or Expenses					\$ -
49							
50		<u>SUPPORTING SCHEDULE</u>					
51		B-2, page 3			*Fully Depreciated		

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

Exhibit  
 Rebuttal Schedule C-2  
 Page 3  
 Witness: Bourassa

Property Taxes

Line No.	<u>DESCRIPTION</u>	<u>Test Year as adjusted</u>	<u>Company Recommended</u>
1	Company Adjusted Test Year Revenues	\$ 320,525	\$ 320,525
2	Weight Factor	<u>2</u>	<u>2</u>
3	Subtotal (Line 1 * Line 2)	641,050	641,050
4	Company Recommended Revenue	320,525	680,797
5	Subtotal (Line 4 + Line 5)	961,575	1,321,847
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	320,525	440,616
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	641,050	881,231
10	Plus: 10% of CWIP (intentionally excluded)	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	641,050	881,231
13	Assessment Ratio	19.0%	19.0%
14	Assessment Value (Line 12 * Line 13)	121,799	167,434
15	Composite Property Tax Rate - Obtained from ADOR	16.4025%	16.4025%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 19,978	\$ 27,463
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	<u>\$ 19,978</u>	
19	Test Year Property Taxes	<u>\$ 21,030</u>	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	<u>\$ (1,051)</u>	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		<u>\$ 27,463</u>
23	Company Test Year Adjusted Property Tax Expense (Line 18)		<u>\$ 19,978</u>
24	Increase in Property Tax Due to Increase in Revenue Requirement		<u>\$ 7,485</u>
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		\$ 7,485
27	Increase in Revenue Requirement		\$ 360,272
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		2.07765%
29			
30			
31			
32			
33			
34			
35			
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37			
38			
39			
40			

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

Exhibit  
Rebuttal Schedule C-2  
Page 4  
Witness: Bourassa

Contractual Services

Line		
<u>No.</u>		
1		
2		
3	Remove Legal Expense Related to Condemnation	\$ (1,683)
4		
5		
6		
7		
8		
9		
10		
11	Increase(decrease) Contractual Services	<u>\$ (1,683)</u>
12		
13	Adjustment to Revenue and/or Expense	<u>\$ (1,683)</u>
14		
15		
16	<u>Reference</u>	
17	Staff Adjustment #2	
18	Testimony	
19		
20		

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

Exhibit  
Rebuttal Schedule C-2  
Page 5  
Witness: Bourassa

Miscellaneous Expense

Line

No.

1	Remove Brooke Utilities Overhead Allocation	
2		
3	Brooke Utilities Overhead Allocation recorded in Test Year	\$ (197,722)
4		
5		
6		
7	Increase(decrease) Miscellaneous Expense	<u>\$ (197,722)</u>
8		
9		
10	Adjustment to Revenue and/or Expense	<u>\$ (197,722)</u>
11		
12	<u>SUPPORTING SCHEDULES</u>	
13	Testimony	
14		
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19		
20		

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

Exhibit  
Rebuttal Schedule C-2  
Page 6  
Witness: Bourassa

Contractual Services - Management

Line			
<u>No.</u>			
1	<u>Management Fees - JW Holdings</u>		
2			
3	Management Fee	\$	173,903
4			
5			
6			
7			
8	Total Increase (decrease) in Contractual Services - Management	<u>\$</u>	<u>173,903</u>
9			
10			
11	Adjustment to Revenue and/or Expense	<u>\$</u>	<u>173,903</u>
12			
13	<u>SUPPORTING SCHEDULES</u>		
14	Testimony		
15			
16			
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19			
20			

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

Exhibit  
Rebuttal Schedule C-2  
Page 7  
Witness: Bourassa

Miscellaneous Expense

Line  
No.  
1  
2  
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25

Remove Beaver Dam Bad Debt Expenses

Beaver Dam Bad Debt Expense

\$ (7,857)

Adjustment to Purchased Water expense

\$ (7,857)

Adjustment to Revenue and/or Expense

\$ (7,857)

SUPPORTING SCHEDULES

Staff Adjustment #5

Testimony

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

Exhibit  
Rebuttal Schedule C-2  
Page 8  
Witness: Bourassa

Miscellaneous Expense

Line

No.

1

2 Remove Non-Recurring Expenses

3

4 Cogsdale - Star Valley Deposit Sort

\$ (825)

5 Arizona Department of Revenue

(1,650)

6 ACC Annual Assessment

(1,018)

7 Total

(3,493)

8

9

10 Increase (decrease) to Miscellaneous Expense

\$ (3,493)

11

12

13 Adjustment to Revenue and/or Expense

\$ (3,493)

14

15 Reference

16 Testimony

17

18

19

20

**Payson Water Company**  
Test Year Ended December 31, 2001  
Adjustment to Revenues and Expenses  
Adjustment Number 8

Exhibit  
Rebuttal Schedule C-2  
Page 9  
Witness: Bourassa

Intentionally Left Blank

Line  
No.  
1  
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**Payson Water Company**  
 Test Year Ended December 31, 2012  
 Adjustment to Revenues and Expenses  
 Adjustment Number 8

Exhibit  
 Schedule C-2  
 Page 9  
 Witness: Bourassa

Interest Synchronization

Line  
No.

1				
2				
3				
4	Fair Value Rate Base	\$	660,266	
5	Weighted Cost of Debt		0.00%	
6	Interest Expense		\$	-
7				
8	Test Year Interest Expense		<u>\$</u>	<u>-</u>
9				
10	Increase (decrease) in Interest Expense			-
11				
12				
13				
14	Adjustment to Revenue and/or Expense		<u><u>\$</u></u>	<u><u>-</u></u>
15				
16				

17	<u>Weighted Cost of Debt Computation</u>			
18				
19		<u>Percent</u>	<u>Cost</u>	<u>Weighted Cost</u>
20	Debt	0.00%	0.00%	0.00%
21	Equity	<u>100.00%</u>	11.00%	<u>11.00%</u>
22	Total	100.00%		11.00%
23				
24				
25				
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27				
28				
29				
30				

**Payson Water Company**  
Test Year Ended December 31, 2012  
Adjustment to Revenues and/or Expenses  
Adjustment Number 9

Exhibit  
Rebuttal Schedule C-2  
Page 10  
Witness: Bourassa

Line  
No.

	<b>Test Year at Present Rates</b>	<b>Test Year at Proposed Rates</b>
1 <u>Income Taxes</u>		
2		
3		
4 Computed Income Tax	\$ (92,438)	\$ 26,025
5 Test Year Income tax Expense	-	(92,438)
6 Adjustment to Income Tax Expense	<u>\$ (92,438)</u>	<u>\$ 118,463</u>
7		
8		
9		
10		
11		
12		
13 <u>SUPPORTING SCHEDULE</u>		
14 C-3, page 2		
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**Payson Water Company**  
 Test Year Ended December 31, 2012  
 Computation of Gross Revenue Conversion Factor

Exhibit  
 Rebuttal Schedule C-3  
 Page 1  
 Witness: Bourassa

Line No.	<u>Description</u>	Percentage of Incremental Gross <u>Revenues</u>
1	Combined Federal and State Effective Income Tax Rate	33.579%
2		
3	Property Taxes	<u>1.380%</u>
4		
5		
6	Total Tax Percentage	34.959%
7		
8	Operating Income % = 100% - Tax Percentage	65.041%
9		
10		
11		
12		
13	<u>1</u> = Gross Revenue Conversion Factor	
14	Operating Income %	1.5375
15		
16		
17		
18		
19		
20		
21		
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23		
24		
25	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
26	C-3, page 2	A-1
27		
28		
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GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Gross Revenue Conversion Factor:</u>							
1	Revenue	100.0000%					
2	Uncollectible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	34.9591%					
5	Subtotal (L3 - L4)	65.0409%					
6	Revenue Conversion Factor (L1 / L5)	1.537495					
<u>Calculation of Uncollectible Factor:</u>							
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (L17)	33.5791%					
9	One Minus Combined Income Tax Rate (L7 - L8)	66.4209%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
<u>Calculation of Effective Tax Rate:</u>							
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	6.5000%					
14	Federal Taxable Income (L12 - L13)	93.5000%					
15	Applicable Federal Income Tax Rate (L55 Col F)	28.9617%					
16	Effective Federal Income Tax Rate (L14 x L15)	27.0791%					
17	Combined Federal and State Income Tax Rate (L13 +L16)		33.5791%				
<u>Calculation of Effective Property Tax Factor</u>							
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	33.5791%					
20	One Minus Combined Income Tax Rate (L18-L19)	66.4209%					
21	Property Tax Factor	2.0776%					
22	Effective Property Tax Factor (L20*L21)		1.3800%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)				34.9591%		
24	Required Operating Income	\$ 72,629					
25	Adjusted Test Year Operating Income (Loss)	\$ (161,895)					
26	Required Increase in Operating Income (L24 - L25)		\$ 234,324				
27	Income Taxes on Recommended Revenue (Col. (F), L52)	\$ 26,025					
28	Income Taxes on Test Year Revenue (Col. (C), L52)	\$ (92,438)					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 118,463				
30	Recommended Revenue Requirement	\$ 680,797					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -					
33	Adjusted Test Year Uncollectible Expense	\$ -					
34	Required Increase in Revenue to Provide for Uncollectible Exp.		\$ -				
35	Property Tax with Recommended Revenue	\$ 27,463					
36	Property Tax on Test Year Revenue	\$ 19,978					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		\$ 7,485				
38	Total Required Increase in Revenue (L26 + L29 + L37)		\$ 360,272				

	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Income Tax:</u>						
39	Revenue	\$ 320,525		\$ 320,525	\$ 680,797	\$ 680,797
40	Operating Expenses Excluding Income Taxes	574,658		574,658	582,143	582,143
41	Synchronized Interest (L47)	-		-	-	-
42	Arizona Taxable Income (L39 - L40 - L41)	\$(254,133)	\$ -	\$(254,133)	\$ 98,654	\$ 98,654
43	Arizona State Effective Income Tax Rate (see work papers)	6.5000%		6.5000%	6.5000%	6.5000%
44	Arizona Income Tax (L42 x L43)	\$(16,519)	\$ -	\$(16,519)	\$ 6,412	\$ 6,412
45	Federal Taxable Income (L42- L44)	\$(237,614)	\$ -	\$(237,614)	\$ 92,241	\$ 92,241
46						
47	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$(7,500)	\$ -	\$(7,500)	\$ 7,500	\$ 7,500
48	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$(6,250)	\$ -	\$(6,250)	\$ 6,250	\$ 6,250
49	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$(8,500)	\$ -	\$(8,500)	\$ 5,862	\$ 5,862
50	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$(53,670)	\$ -	\$(53,670)	\$ -	\$ -
51	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -	\$ -	\$ -	\$ -	\$ -
52						
53	Total Federal Income Tax	\$(75,920)	\$ -	\$(75,920)	\$ 19,612	\$ 19,612
54	Combined Federal and State Income Tax (L35 + L42)	\$(92,438)	\$ -	\$(92,438)	\$ 26,025	\$ 26,025
55	COMBINED Applicable Federal Income Tax Rate [Col. (D), L53 - Col. (A), L53 / [Col. (D), L45 - Col. (A), L45]				28.9617%	
56						
57	WATER Applicable Federal Income Tax Rate [Col. (F), L53 - Col. (C), L53] / [Col. (F), L45 - Col. (C), L45]					28.9617%

		Water
58	Rate Base	\$ 660,266
59	Weighted Average Cost of Debt	0.0000%
60	Synchronized Interest (L59 X L60)	\$ -



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

Exhibit  
 Rebuttal Schedule H-2  
 Page 1  
 Witness: Bourassa

Line No.	Meter Size	(a)	Average Consumption	Revenues		Proposed Increase	
		Average Number of Customers at 12/31/2012		Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	5/8x3/4 Inch US	1,066	2,856 \$	21.51 \$	42.27 \$	20.75	96.47%
2	5/8x3/4 Inch C&S	159	6,961	27.30	73.41	46.11	168.90%
3	3/4 Inch US	4	7,077	35.32	87.01	51.69	146.35%
4	1 Inch US	21	3,870	28.75	93.15	64.40	223.99%
5	1 Inch C&S	2	4,459	49.10	97.65	48.55	98.88%
6							
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8							
9							
10							
11							
12							
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14							
15							
16	Totals	<u>1,252</u>					

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

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

Exhibit  
 Rebuttal Schedule H-2  
 Page 2  
 Witness: Bourassa

Line No.	Meter Size and Class	(a)	Median Bill		Proposed Increase		
		Average Number of Customers at 12/31/2012	Median Consumption	Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	5/8x3/4 Inch US	1,066	2,500	\$ 20.83	\$ 40.17	\$ 19.34	92.87%
	5/8x3/4 Inch C&S	159	4,500	23.66	54.59	30.93	130.73%
2	3/4 Inch US	4	6,500	33.60	82.60	49.00	145.86%
3	1 Inch US	21	2,500	26.11	82.66	56.56	216.65%
4	1 Inch C&S	2	3,500	47.68	90.31	42.63	89.41%
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15	Totals	<u>          </u>	<u>          </u>				
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(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

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

Exhibit  
 Rebuttal Schedule H-3  
 Page 1  
 Witness: Bourassa

Line No.	United Systems Present Rates	C&S Systems Present Rates	Consolidated Proposed Rates
1			
2			
3			
4	<b>Monthly Usage Charge for:</b>		
5	<u>Meter Size:</u>		
6	\$ 16.00	\$ 17.00	\$ 25.42
7	18.40	25.50	38.12
8	21.28	42.50	63.54
9	32.00	85.00	127.08
10	56.00	136.00	203.32
11	80.00	255.00	406.64
12	128.00	425.00	635.38
13	NT	850.00	1,270.75
14	NT	NT	2,033.20
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Gallons In Minimum

	(Per 1,000 gallons)	
	United Systems Present Rate	Consolidated Proposed Rate
<b>Block</b>		
0 gallons to 4,000 gallons	\$ 1.93	\$ 5.90
over 4,000 gallons	\$ 2.99	\$ 7.65
All gallons	\$ 1.48	\$ 9.15
0 gallons to 3,000 gallons		\$ 5.90
3,001 gallons to 10,000 gallons		\$ 7.65
over 10,000 gallons		\$ 9.15
0 gallons to 18,000 gallons		\$ 7.65
over 18,000 gallons		\$ 9.15
0 gallons to 40,000 gallons		\$ 7.65
over 40,000 gallons		\$ 9.15
0 gallons to 60,000 gallons		\$ 7.65
over 60,000 gallons		\$ 9.15

Commodity Rates

All Meter Sizes

All Meter Sizes

5/8 Inch and 3/4 Inch

1 Inch

1 1/2 Inch

2 Inch

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

Exhibit  
 Schedule H-3  
 Page 2  
 Witness: Bourassa

Line No.	Commodity Rates (Residential, Commercial, Industrial)	Block	(Per 1,000 gallons)	
			United Systems Present Rate	Consolidated Proposed Rate
1				
2				
3				
4				
5				
6	3 Inch	0 gallons to 120,000 gallons over 120,000 gallons	\$	7.65
7			\$	9.15
8	4 Inch	0 gallons to 200,000 gallons over 250,000 gallons	\$	7.65
9			\$	9.15
10				
11				
12	6 Inch	0 gallons to 450,000 gallons over 450,000 gallons	\$	7.65
13			\$	9.15
14				
15	8 Inch	0 gallons to 750,000 gallons over 750,000 gallons	\$	7.65
16			\$	9.15
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**Payson Water Company**  
**Changes in Representative Rate Schedules**  
**Test Year Ended December 31, 2012**

Exhibit  
 Rebuttal Schedule H- 3  
 Page 3  
 Witness: Bourassa

Line  
 No.

	<b>United Systems Present Rates</b>	<b>C&amp;S Systems Present Rates</b>	<b>Consolidated Proposed Rates</b>
1			
2			
3	<u>Other Service Charges</u>		
4	\$ 25.00	\$ 25.00	\$ 25.00
5	35.00	35.00	remove
6	20.00	20.00	20.00
7	30.00	30.00	remove
8	25.00	20.00	25.00
9	*	*	*
10	6.00%	6.00%	6.00%
11	**	**	**
12	\$ 17.50	\$ 10.00	\$ 17.50
13	1.50%	1.50%	1.50%
14	\$ 15.00	\$ 10.00	\$ 15.00
15	1.50%	1.50%	1.50%
16	NT	NT	\$35.00

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\* PER COMMISSION RULE (R14-2-403.B)  
 \*\* Months off system times the minimum. PER COMMISSION RULE (R14-2-403.D)  
 N/T = No tariff.  
 IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE TAX. PER COMMISSION RULE (14-2-409.D 5).  
 ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS, AND ALL APPLICABLE TAXES.

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

Exhibit  
 Rebuttal Schedule H-3  
 Page 4  
 Witness: Bourassa  
 REVISED

Line  
No.

	<b>United Systems Present Total Charge</b>	<b>C&amp;S Systems Present Total Charge</b>	<b>Proposed Service Line Charge*</b>	<b>Proposed Meter Install- ation Charge*</b>	<b>Total Proposed Charge*</b>
1					
2					
3					
4					
5					
6	\$ 430.00	\$ 430.00	\$ 445.00	\$ 155.00	\$ 600.00
7	480.00	480.00	445.00	255.00	700.00
8	550.00	550.00	495.00	315.00	810.00
9	775.00	775.00	550.00	525.00	1,075.00
10	1,305.00	1,305.00			
11			830.00	1,045.00	1,875.00
12			830.00	1,890.00	2,720.00
13	1,815.00	1,815.00			
14			1,045.00	1,670.00	2,715.00
15			1,165.00	2,545.00	3,710.00
16	2,860.00	2,860.00			
17			1,490.00	2,670.00	4,160.00
18			1,670.00	3,645.00	5,315.00
19	NA	5,275.00			
20			2,210.00	5,025.00	7,235.00
21			2,330.00	6,920.00	9,250.00
22			At Cost	At Cost	At Cost

23  
 24  
 25  
 26  
 27  
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\*Based on Staff update of typical service line and meter installation charges dated February 21, 2008.

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2 2394 E. Camelback Road, Suite 600  
3 Phoenix, Arizona 85016  
Telephone (602) 916-5000

4 Attorneys for Payson Water Co., Inc.

5  
6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

7  
8 IN THE MATTER OF THE APPLICATION  
9 OF PAYSON WATER CO., INC., AN  
10 ARIZONA CORPORATION, FOR A  
11 DETERMINATION OF THE FAIR VALUE  
OF ITS UTILITY PLANTS AND  
PROPERTY AND FOR INCREASES IN ITS  
WATER RATES AND CHARGES FOR  
UTILITY SERVICE BASED THEREON.

DOCKET NO: W-03514A-13-0111

12 IN THE MATTER OF THE APPLICATION  
13 OF PAYSON WATER CO., INC., AN  
14 ARIZONA CORPORATION, FOR  
15 AUTHORITY TO: (1) ISSUE EVIDENCE  
16 OF INDEBTEDNESS IN AN AMOUNT  
17 NOT TO EXCEED \$1,238,000 IN  
CONNECTION WITH INFRASTRUCTURE  
IMPROVEMENTS TO THE UTILITY  
SYSTEM; AND (2) ENCUMBER REAL  
PROPERTY AND PLANT AS SECURITY  
FOR SUCH INDEBTEDNESS.

DOCKET NO: W-03514A-13-0142

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20 **REBUTTAL TESTIMONY OF  
THOMAS J. BOURASSA**

21  
22 **COST OF CAPITAL**

23  
24 **December 6, 2013**

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Table of Contents

I. INTRODUCTION AND QUALIFICATIONS ..... 1

II. SUMMARY OF REBUTTAL TESTIMONY AND THE PROPOSED COST OF CAPITAL FOR THE COMPANY ..... 1

    A. Summary of Company’s Rebuttal Recommendation ..... 1

    B. Summary of the Staff Recommendations ..... 4

    C. Rebuttal to the Cost of Equity Recommendations of Staff ..... 6

        1. The Staff Pro Forma Capital Structure Creates a Mismatch Between Rate Base and PWC’s Invested Equity Capital ..... 6

        2. Relative Risks ..... 10

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**I. INTRODUCTION AND QUALIFICATIONS**

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

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

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

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

**Q. YOU ARE THE SAME TOM BOURASSA THAT FILED DIRECT TESTIMONY IN THIS CASE?**

A. Yes, in two volumes, one addressing only cost of capital.

**Q. DID YOU ALSO PREPARE REBUTTAL TESTIMONY ON THE OTHER, ISSUES IN THIS DOCKET?**

A. Yes, my rebuttal testimony on rate base, income statement, revenue requirement and rate design is being filed in a separate volume at the same time as this testimony. In this volume, I present my cost of capital rebuttal testimony. Also attached is my exhibit, which is discussed below.

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

**A. Summary of Company's Rebuttal Recommendation**

**Q. WHAT IS THE SCOPE OF THIS VOLUME OF YOUR REBUTTAL TESTIMONY?**

A. I will provide updates of my cost of capital analysis and recommended rate of return using more recent financial data. I also will provide rebuttal responses as appropriate to the direct testimony of Staff witness Mr. John Cassidy.

1 **Q. HAS THE INDICATED RETURN ON EQUITY CHANGED SINCE THE**  
2 **DIRECT FILING WAS MADE?**

3 A. Yes, but not significantly. I continue to recommend a return on equity ("ROE") of  
4 11.0 percent for PWC. The table below summarizes the results of my updated  
5 analysis:

6	<u>Method</u>	<u>Low</u>	<u>High</u>	<u>Midpoint</u>
7				
8	Range DCF Constant Growth Estimates	8.5%	9.1%	8.8%
9	Range of CAPM Estimates	8.7%	10.7%	9.7%
10	Range of Build Up Method	<u>8.9%</u>	<u>12.4%</u>	<u>10.7%</u>
11	Average of DCF and CAPM midpoint			
12	estimates	8.7%	10.7%	9.7%
13	Financial Risk Adjustment	-0.6%	-0.6%	-0.6%
14	Specific Company Risk Premium	<u>2.0%</u>	<u>2.0%</u>	<u>2.0%</u>
15	<b>Indicated Cost of Equity</b>	<b>10.7%</b>	<b>12.1%</b>	<b>11.1%</b>

16  
17 The schedules containing my updated cost of capital analysis are attached to this  
18 rebuttal testimony.

19 To summarize, my 11.0 percent ROE recommendation balances my  
20 judgment about the degree of financial and business risk associated with an  
21 investment in PWC, as well as consideration of the current economic environment.

22 **Q. WHAT IS THE RECOMMENDED CAPITAL STRUCTURE FOR PWC?**

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

26

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

2 A. The weighted cost of capital ("WACC") is 11 percent based upon a capital  
3 structure consisting of 0 percent debt and 100 percent equity, and a cost of equity  
4 of 11.0 percent, as shown on Schedule D-1.

5 **Q. ISN'T PWC A LOT MORE RISKY THAN THE SAMPLE COMPANIES,**  
6 **AND EVEN MOST OF THE OTHER WATER UTILITIES REGULATED**  
7 **BY THE COMMISSION?**

8 A. Yes, unless you are only looking at one thing – financial risk. By every other  
9 measure, PWC is a very risky investment. PWC is a very small water company  
10 operating in an area that is chronically water starved, with some specific systems  
11 that face severe water supply problems. To the extent additional supplies may be  
12 available, they are too uncertain, too expensive for such a small customer base  
13 and/or run afoul of SRP's water interests. And, to make matters worse, the  
14 Company is losing money at a very rapid pace. This Company and its new  
15 shareholders face significant risk.

16 **Q. BUT DIDN'T THEY JUST BUY THE COMPANY, MEANING IT IS AT**  
17 **LEAST A FAIRLY LIQUID ASSET?**

18 A. Not necessarily. Yes, there recently was a sale. I won't comment on the purchase  
19 price and whether it reflected all of this utility's current issues, because I simply  
20 don't know and do not think it matters now. Given the problems the new owners  
21 have discovered, and the current financial picture, I doubt the new owners could  
22 sell it right now for less than they paid.

23 **Q. ARE YOU SUGGESTING THEY WANT OUT ALREADY?**

24 A. Not at all. I am merely explaining why this Company is currently a very high risk  
25 utility and why the ROE should reflect those risks. Actually, the new owners want  
26

1 very much to turn this utility around and they are working very hard to do it.  
2 Unfortunately, as I discuss below, Staff's recommended ROE will strongly  
3 discourage the investment this utility needs to become a profitable enterprise.

4 **B. Summary of the Staff Recommendations**

5 **Q. PLEASE SUMMARIZE THE STAFF COST OF CAPITAL**  
6 **RECOMMENDATIONS IN THIS RATE CASE.**

7 A. Staff is recommending a pro forma capital structure consisting of 52.8 percent debt  
8 and 47.2 percent equity, with a 9 percent recommended ROE.<sup>1</sup> Staff bases its  
9 pro forma capital structure on the imputation of \$1.179 million of WIFA funding  
10 future plant into the capital structure of PWC.<sup>2</sup> As a result of this pro forma  
11 adjustment, Staff's determined cost of equity of 9.0 percent is reduced to an actual  
12 return on equity equal to only 6.4 percent.

13 **Q. IS THIS A REASONABLE RETURN ON RATE BASE?**

14 A. No, whether it is 9 percent or 6.4 percent, such a return falls well below any  
15 possible reasonable return for a utility with PWC's current risk profile. As usual,  
16 Staff used its strict application of its CAPM and DCF and came up with an average  
17 cost of equity of 8.4 percent.<sup>3</sup> Staff did not consider firm size or firm-specific risks  
18 in its analysis. So, if it wasn't for Staff's made up economic assessment  
19 adjustment (EAA) of 60 basis points,<sup>4</sup> Staff would have the Company earn an even  
20 lower return on equity, equal to 8.4 percent, which under Staff's approach would  
21 have resulted in a WACC under 6 percent. This just shows that Staff's  
22 recommendations fall far short of being reasonable in this case.

23  
24 <sup>1</sup> Direct Testimony of John A. Cassidy ("Cassidy Dt.") at 33.

25 <sup>2</sup> *Id.* at 6-7.

26 <sup>3</sup> *Id.* at 39.

<sup>4</sup> *Id.* at 33.

1 Q. OKAY, CAN YOU ILLUSTRATE AND SUMMARIZE THE PARTIES'  
 2 RESPECTIVE COST OF EQUITY ESTIMATES AND  
 3 RECOMMENDATIONS AT THIS STAGE OF THE PROCEEDING.

4 A. The parties' cost of equity recommendations are summarized below:

Party	DCF	CAPM	Build-Up	Average	Financial Risk/EAA /SC	Adjusted	Recommended
PWC	8.8%	9.7%	10.7%	9.7%	1.4%	11.1%	11.0%
Staff	8.8%	8.0%	N/A	8.4%	0.6%	9.0%	9.0%

10 Q. PLEASE SUMMARIZE YOUR CONCERNS WITH STAFF'S  
 11 RECOMMENDATIONS

12 A. I find the following with respect to the Staff recommendations in the instant case:

- 14 • Staff's Pro Forma Capital Structure Creates a Mismatch Between Rate Base and Invested Equity Capital - Staff effectively provided a 6.4 percent return on PWC's equity capital invested in rate base. This is 260 basis points below Staff's illusory 9.0 percent ROE. Staff's anemic 6.4 percent ROE will place PWC in a financial death spiral.
- 18 • Staff's Recommendation Fails to Recognize the Risks Associated with an Investment in PWC - Because Staff fails to account for the differences in risk between the publicly traded utilities and PWC. If the Staff recommendations are adopted PWC will not be able to attract capital as it won't be able to ensure confidence in its financial integrity, and maintain and support its credit

22 I have limited my testimony to these two findings as nothing more needs to be said.  
 23 Debating the inputs to the financial models, as I have done in numerous other  
 24 proceeding before this Commission,<sup>5</sup> is not productive and a waste of resources in

25 <sup>5</sup> See, e.g., *Chaparral City Water Company*, Docket No. W-021138A-07-0551; *Litchfield Park Service Company*, Docket No. SW-01428A-09-0103, et al.; *Liberty Utilities (Bella Vista Water) Corp.*,  
 26 Docket No., W-02465A-09-0411, et al.; *Pima Utility Company*, Docket No. W-021198-11-0329, et al.;

1 this case. Simple common sense should prevail. Providing a 6.4 percent on equity  
2 capital invested in rate base when other water utilities in Arizona are allowed to  
3 earn significantly more is simply not fair or reasonable, or realistic.

4 **C. Rebuttal to the Cost of Equity Recommendations of Staff**

5 **1. The Staff Pro Forma Capital Structure Creates a Mismatch**  
6 **Between Rate Base and PWC's Invested Equity Capital**

7 **Q. PLEASE COMMENT ON THE STAFF RECOMMENDED PRO FORMA**  
8 **CAPITAL STRUCTURE.**

9 A. The Staff pro forma capital structure creates a mismatch between rate base and  
10 PWC's invested capital funding the Staff recommended rate base.

11 **Q. CAN YOU EXPLAIN WHAT YOU MEAN BY A MISMATCH?**

12 A. Yes. At the end of the test year, PWC's capital structure consisted of 100 percent  
13 equity. Total invested capital in the capital structure was approximately  
14 \$1.05 million, all of which was equity capital. The Staff rate base is also a test  
15 year-end rate base, and is therefore funded with 100 percent equity. Ignoring this  
16 reality, Staff adds future debt capital of \$1.179 million but its rate base does not  
17 reflect any additional plant investment which would be funded by this debt.

18 **Q. WHAT DO YOU MEAN BY FUTURE DEBT CAPITAL?**

19 A. The Company has preliminarily made arrangements with WIFA to borrow money  
20 to fund its share of the construction of the Cragin Pipeline project. While \$275,000  
21 of that amount is scheduled to be funded early next year for the construction of the  
22 TOP-MDC interconnect, none of the debt existed at the end of the test year, none  
23 of the debt exists now, and most of the debt will be borrowed at least a couple years in  
24 the future, if ever.

---

25 *Rio Rico Utilities, Inc.*, Docket No. WS-02676A-12-0196; *Litchfield Park Service Company*, Docket No.  
26 SW-01428A-13-0042, *et al.*

1 **Q. WAIT, ARE YOU SAYING THE COMPANY MAY NOT GO THROUGH**  
2 **WITH THE CRAGIN PROJECT?**

3 A. No, not at all. I am saying that it has not yet borrowed almost a million dollars and  
4 it does not know for sure when it will borrow that money. Until it does, there is no  
5 basis to include it in the capital structure and create a mismatch. Under the Staff  
6 recommendation, PWC effectively has \$2.2 million of invested capital,  
7 52.8 percent of which is debt and 47.2 percent of which is equity. However, the  
8 rate base is still only funded with equity capital because the future projected cost of  
9 the Cragin Pipeline is not in rate base.

10 **Q. WHAT IS THE RESULT OF ADDING FUTURE DEBT TO THE**  
11 **INVESTED CAPITAL OF PWC AND PROPOSING A STRUCTURE**  
12 **CONSISTING OF 52.8 PERCENT DEBT AND 47.2 PERCENT EQUITY?**

13 A. As discussed above, by treating 52.8 percent of PWC's existing equity capital as  
14 lower cost debt capital, Staff effectively provides a 6.4 percent return on equity  
15 capital, which is 260 basis points below Mr. Cassidy's recommended 9.0 percent  
16 ROE. In other words, Mr. Cassidy's 9.0 percent ROE recommendation, which is  
17 already unreasonably low for this utility, is merely an illusion. The shareholder  
18 will only get the opportunity to earn an effective return of 6.4 percent.

19 **Q. WHY DO YOU SAY THE 9.0 PERCENT IS ALREADY TOO LOW?**

20 A. In contrast, recent ROEs authorized by the Commission for much larger water  
21 utilities averaged 9.7 percent.<sup>6</sup> Further, the projected and authorized ROE of the  
22 much larger and less risky publicly traded utilities in Mr. Cassidy' water proxy  
23

24 <sup>6</sup> *Arizona Water Company (Northern Group)*, Decision No. 74081 (September 23, 2013) ROE 10.00%;  
25 *Far West Water & Sewer, Inc.*, Decision No. 74097 (September 23, 2013) ROE 9.50%; *Ray Water*  
26 *Company, Inc.*, Decision No. 74084 (September 23, 2013) ROE 9.10%; *Rio Rico Utilities, Inc.*,  
Decision No. 73996 (July 30, 2013) ROE 9.20%; *Arizona Water Company (Eastern Group)*, Decision No.  
73736 (February 20, 2013) ROE 10.50%.

1 group are 9.9 percent and 10.03 percent, respectively.<sup>7</sup> These three comparable  
2 earnings measures are well above Staff's 9.0 ROE, and hundreds of basis points  
3 above Staff's effective ROE of 6.4 percent.

4 **Q. IS THAT ALL?**

5 A. If providing a return of only 6.4 percent on equity capital investment isn't enough,  
6 to add insult to injury, Staff creates a fictitious income tax deduction through  
7 interest synchronization in the computation of its income tax expense.<sup>8</sup> This results  
8 in an understatement of income taxes in the revenue requirement. Since PWC's  
9 actual income tax expense will be higher, the actual net income to the equity  
10 investment will be less than 6.4 percent.

11 **Q. HASN'T THE COMMISSION APPROVED HYPOTHETICAL CAPITAL  
12 STRUCTURES WITH SYNCHRONIZED INTEREST IN OTHER CASES?**

13 A. Yes, in some cases, but it is not a common practice and usually there is some  
14 compelling reason given for rejecting the actual capital structure. Here, Staff is  
15 simply bringing future possible debt into the picture and I can't see any good  
16 reason for it, unless they are trying to lower the Company's effective return, which  
17 is not a good reason.

18 **Q. COULD PWC EVEN QUALIFY FOR THE \$1.179 MILLION LOAN STAFF  
19 IMPUTES INTO ITS CAPITAL STRUCTURE?**

20 A. No. Based on the Staff recommendations, PWC would have a DSC of just 1.03.  
21 The WIFA minimum requirement is 1.2.<sup>9</sup> But it is worse. PWC would not have  
22 enough cash flow to meet other WIFA requirements such as payments to the WIFA  
23 debt payment reserve. In other words, under Staff's rates PWC would default on

24 <sup>7</sup> Rebuttal Testimony of Thomas J. Bourassa – Cost of Capital (filed October 23, 2013 in Docket No. SW-  
25 01428A-13-0042, et al.) at 9-10.

<sup>8</sup> See Staff Schedule CSB-2, line 41.

26 <sup>9</sup> Direct Testimony of John A. Cassidy Dt. (regarding the WIFA loan surcharge) at 4.

1 the debt Staff has introduced on a pro forma basis.

2 **Q. WASN'T EXPECTED FUTURE DEBT USED IN THE RECENT**  
3 **PIMA UTILITY COMPANY RATE CASE TO DEVELOP A PRO FORMA**  
4 **CAPITAL STRUCTURE?**

5 A. Yes, however, the circumstances in the Pima Utility Company ("Pima") rate case  
6 were much different.<sup>10</sup>

7 **Q. HOW ARE THE TWO SITUATIONS DIFFERENT?**

8 A. In the Pima case, the expected future debt was used to determine a capital structure  
9 using an equity-for-debt exchange and a debt-for-debt exchange methodology.  
10 After the exchanges there was approximately the same amount of total capital in  
11 the pro forma capital structure as there was in the test year-end capital structure.  
12 Here, Staff's exchange results in a more than doubling of the total capital in PWC's  
13 capital structure.

14 **Q. CAN YOU PLEASE EXPLAIN HOW THE PRO FORMA CAPITAL**  
15 **STRUCTURE WAS DETERMINED IN THE PIMA RATE CASE?**

16 A. Yes. Rebuttal Exhibit TJB-COC-RB1 is Pima's Rejoinder Schedule D-1, page 2  
17 (Docket No. W-02199A-11-0329, et al.) and it shows how the pro forma capital  
18 structure consisting of 35.36 percent debt and 64.64 percent equity was determined  
19 in that rate case.<sup>11</sup> The adjusted equity capital at the end of the test year was  
20 \$17,801,736 (line 6 in exhibit) and the total debt capital at the end of the test year  
21 was \$6,125,000 (line 11 in the exhibit) for total capital of \$23,926,736  
22 (\$17,801,716 plus \$6,125,000). After the exchange of equity-for debt and debt-for  
23 debt, the total capital equaled \$23,671,736, which was within 1 percent of the  
24 adjusted test year-end capital in the capital structure of PIMA.

25 <sup>10</sup> See Decision No. 73573 (November 21, 2012).

26 <sup>11</sup> See *id.* at 30.

1 Q. BUT WEREN'T SOME OF THE DEBT PROCEEDS IN THE PIMA RATE  
2 CASE INTENDED TO BE USED FOR FUTURE CAPITAL  
3 IMPROVEMENTS?

4 A. Yes. But, the debt was already incurred by the time the rates went into effect.  
5 Moreover, the methodology used to determine the pro forma capital structure for  
6 Pima didn't add additional capital to the test year-end capital structure. Had Staff  
7 proposed a methodology in the Pima rate case that added capital to the capital  
8 structure, I am sure Pima would have objected. I was the rate consultant in that  
9 case and I certainly would have recognized the inequity of doing so, just as I am  
10 doing in the instant case.

11 2. Relative Risks

12 Q. PLEASE COMMENT ON THE DIFFERENCES IN RISK BETWEEN PWC  
13 AND THE PUBLICLY TRADED WATER UTILITIES.

14 A. One obvious difference in risk is business risk. PWC has nearly 5 times more  
15 business risk compared to the publicly traded water utilities as measured by the co-  
16 efficient of variance of earnings.<sup>12</sup> Uncertainty in earnings is risk to an investor.  
17 The business risk is also apparent from a simple common sense perspective.  
18 The Company can't pay its bills, is being sued by its customers over past events,  
19 has water supply shortages, limited, risky, high-cost solutions and a small number  
20 of customers over which to spread the cost. I mean no disrespect to Mr. Cassidy,  
21 but the notion that the Company is substantially less risky than Aqua America is  
22 ludicrous.

23 A second difference in risk is operating leverage. Changes in expenses  
24 have a much greater impact on operating income for PWC than the publicly traded  
25

26 <sup>12</sup> Direct Testimony of Thomas J. Bourassa – Cost of Capital (“Bourassa COC”) at 25.

1 utilities.<sup>13</sup> A large publicly traded water utility can more easily handle changes in  
2 operating expenses without having a disproportional impact on earnings.  
3 PWC earnings are more volatile and therefore PWC is more risky in the eyes of  
4 investors. And, because PWC is affected by changes in operating expenses and  
5 revenue to a greater extent it is more vulnerable to financial distress. That is, it  
6 can't pay its vendors in a timely way or at all.

7 **Q. IS THAT OCCURRING NOW WITH THIS COMPANY?**

8 A. Yes, I can certainly testify that PWC currently cannot pay its consultant and  
9 attorneys the amounts it is being billed. Although it is making some small  
10 payments, it will be next year after new rates are approved before it can finish  
11 paying its rate case expense. Cash flow problems are also impacting PWC's ability  
12 to pay other necessary expenses.

13 A third difference risk is PWC's small service territory itself. While PWC  
14 may have a monopoly, it has very limited growth potential. The publicly traded  
15 water utilities have much larger service territories, are more geographically diverse,  
16 and have much greater growth potential. Being more geographically diverse the  
17 publicly traded water utilities are less impacted by regional economic downturns  
18 and/or weather that could impact water sales. Further, the publicly traded water  
19 utilities are not subject to one regulatory jurisdiction. A poor decision in one  
20 jurisdiction has a smaller impact on the publicly traded water utilities than it does  
21 for PWC.

22 A fourth difference in risk is construction risk, which I have already  
23 discussed some in my testimony. PWC has water supply problems that require  
24 significantly higher investment relative to its size than the large publicly traded  
25

---

26 <sup>13</sup> Bourassa COC Dt. at 26.

1 water utilities. Staff even admits PWC's water system is "fragile."<sup>14</sup> That said, as  
2 I mentioned in my direct testimony, the size of a utility's capital budget relative to  
3 the size of the utility itself often increases construction risk. Large utilities are  
4 more able to fund their capital budgets from their earnings, cash flows, and short-  
5 term borrowings. For smaller utilities, like PWC, the ability to fund relatively  
6 large capital budgets from earnings, cash flows, and short-term debt is difficult, if  
7 not impossible, without reliance upon additional outside capital.<sup>15</sup>

8 A final difference is liquidity. Risk-averse investors require higher expected  
9 returns if the asset's liquidity risk is greater.<sup>16</sup> Since PWC is not publicly traded,  
10 an investment in PWC is illiquid compared to an investment in a publicly traded  
11 company and therefore has greater liquidity risk and a higher cost of capital.

12 All of these additional risks compared to the publicly traded water utilities  
13 are simply ignored by Staff. Again, a rational investor is not going to view an  
14 equity investment in PWC as having the same risk as the purchase of publicly  
15 traded stock in a substantially larger utility such as Aqua America, American States  
16 Water or California Water Service. If the differences in risk between small utilities  
17 like PWC and the large publicly traded water utilities used to estimate the cost of  
18 equity are ignored, PWC's equity cost will be understated and unreasonable.  
19 PWC will not be able to attract capital, ensure confidence in its financial integrity,  
20 and maintain and support its credit.

21  
22  
23  
24 <sup>14</sup> Direct Testimony of Jian W. Liu, Engineering Report at 12.

<sup>15</sup> Bourassa COC Dt. at 23.

25 <sup>16</sup> Yakov Amihud and Haim Mendelson, "Asset Pricing and the Bid-Ask Spread." *Journal of Financial*  
26 *Economics* 17, 1986. Viral Acharya and Lasse Heje Pedersen, "Asset pricing with liquidity risk." *Journal*  
*of Financial Economics* 77, 2005.

1 **Q. WILL PWC HAVE SUFFICIENT EARNINGS TO PAY DIVIDENDS AT A**  
 2 **LEVEL COMPARABLE TO THE PUBLICLY TRADED WATER UTILITY**  
 3 **COMPANIES IF STAFF'S RETURN ON EQUITY IS ADOPTED?**

4 A. No. In fact, the dividend payout ratio will need to be 388 percent of earnings,  
 5 which far exceeds the 67 percent recent three year historical average payout ratio  
 6 for the publicly traded utilities and the projected 3-5 year average payout ratio of  
 7 62 percent. I have illustrated this in the table below:

8  
 9 **Table 1 – Staff Recommendations and Actual Equity in Capital Structure**

10	[1] Book Value of Equity per PWC Schedule D-1	\$1,050,247
11	[2] Expected Dividend Yield per Staff Schedule JAC-3	3.00%
12	[3] Current market-to-book ratio publicly traded water utilities Staff Schedule JAC-7	2.2
13	[4] Book Value Dividend Yield [2] x [3]	6.60%
14	[5] Cash Dividend [1] x[4]	\$69,316
15	[6] Staff Recommended Operating Income per Staff Schedule CSB-7	\$27,209
16	[7] Less: Annual Interest Expense per Staff - Interest Synchronized Per Staff Schedule CSB-2	\$9,353
17	[8] Earnings Available for Dividends [6] - [7]	<u>\$17,856</u>
18	[9] Less: Dividends [5]	<u>\$69,316</u>
19	[10] Retained Earnings [8] - [9]	(\$51,460)
20	[11] Pay-out ratio [9]/[8]	388%

21 **Q. BUT, MR. BOURASSA, ISN'T IT THE RATE BASE WE RECOGNIZE AS**  
 22 **THE COMPANY'S INVESTMENT IN RATE MAKING?**

23 A. Yes. Putting aside the importance of servicing all of a utility's invested capital in  
 24 order to maintain its credit and attract capital, the dividend payout ratio just using  
 25 rate base would still need to be 157 percent of earnings. I have illustrated this in  
 26 the table below:

**Table 1 – Staff Recommendations and Staff Rate Base**

[1]	Rate Base per Staff Schedule CSB-1	\$425,127
[2]	Expected Dividend Yield per Staff Schedule JAC-3	3.00%
[3]	Current market-to-book ratio publicly traded water utilities Staff Schedule JAC-7	2.2
[4]	Book Value Dividend Yield [2] x [3]	6.60%
[5]	Cash Dividend [1] x[4]	\$28,059
[6]	Staff Recommended Operating Income per Staff Schedule CSB-7	\$27,209
[7]	Less: Annual Interest Expense per Staff - Interest Synchronized Per Staff Schedule CSB-2	\$9,353
[8]	Earnings Available for Dividends [6] - [7]	\$17,856
[9]	Less: Dividends [5]	\$28,058
[10]	Retained Earnings [8] - [9]	(\$10,362)
[11]	Pay-out ratio [9]/[8]	157%

**Q. DOES IT MAKE A DIFFERENCE WHETHER PWC CAN OR CANNOT PAY DIVIDENDS?**

A. It certainly does. According to Mr. Cassidy, an investment in PWC is comparable to the risk of an investment in of the publicly traded water utilities in his proxy group.<sup>17</sup> If that is the case, then PWC should pay dividends and at a rate comparable to the publicly traded utilities in his proxy group. If PWC can't or doesn't pay dividends, an investor would be better off investing in one of Mr. Cassidy water proxy group companies.

**Q. WHAT WOULD THE RATE OF RETURN THAT IS APPLIED TO STAFF'S PROPOSED RATE BASE NEED TO BE IN ORDER FOR THE COMPANY TO BE COMPARABLE TO THE OTHER PUBLICLY TRADED WATER COMPANIES?**

A. At least 9.85 percent. Putting aside the importance of servicing all of a utility's invested capital in order to maintain its credit and attract capital, and determining

<sup>17</sup> Cassidy Dt. at 3, 44.

1 the required earnings on rate base, then the required return on rate base must be 9.8  
 2 percent which translates to a cost of equity of 9.8 percent since this rate base is  
 3 funded entirely with equity capital. Using the Staff recommended rate base from  
 4 Table 2 instead of the equity balance as the starting point, the derivation of the 9.8  
 5 percent would be as follows:

6		
7	[1] Staff Rate Base per Schedule CSB-1	\$425,129
8	[2] Percent equity	100%
9	[3] Equity portion funding rate base	\$425,129
10	[4] Book Dividend Rate	6.6%
11	[5] Required Dividend Payout Ratio	0.67
12	[6] Required Net Income [3] times [4] divided by [5]	\$41,878
13	[7] Interest Expense	\$0
14	[8] Required Operating Income [4] plus [5]	\$41,878
15	[9] Recommended Rate Base	\$425,129
16	[10] Required Return on Rate Base [8] divided by [9] times 100	9.85%

17  
 18 **Q. BASED ON YOUR PAYOUT RATIO ANALYSIS, WHAT SHOULD BE**  
 19 **THE RETURN ON EQUITY?**

20 A. It should be at least 9.80 percent. However, 9.8 percent would still be too low to  
 21 service all of PWC's equity capital of approximately \$1.05 million.

22 **Q. DOES A UTILITY HAVE TO SUPPORT ITS CAPITAL WITH ITS**  
 23 **EARNINGS?**

24 A. Yes. All invested capital must be supported as each dollar of capital has an  
 25 earnings requirement. Whether each dollar is recognized in rate base,  
 26 it nevertheless has capital costs. Earnings from existing investments must absorb

1 these costs. As Dr. Morin states:

2  
3 The totality of a company's capital has to be serviced...  
4 Therefore, the allowed rate of return on common equity is  
5 applicable to the total common equity component of the total  
6 investments of the utility company. Anything less than that  
7 has the direct and immediate effect of reducing common  
8 equity return below the level needed to meet the capital  
9 attraction and the comparable earnings standards articulated  
10 in the Hope and Bluefield decisions. *To apply an allowed  
11 rate of return to a rate base that does not maintain the  
12 integrity of that capital does not enable the company to  
13 attract capital.*<sup>18</sup> (emphasis added)

14 **Q. WHAT WOULD HAPPEN TO THE VALUE OF AN INVESTMENT IN  
15 PWC, USING THE STAFF RECOMMENDATIONS, IF PWC PAID  
16 DIVIDENDS IN THE SAME PROPORTION OF EARNINGS AS THE  
17 PUBLICLY TRADED UTILITIES?**

18 **A.** The value of the equity investment in PWC would necessarily decrease. Under the  
19 Staff recommendations, the value of equity would decrease by over \$1.7 million,  
20 which means the Company's value would drop below book value.

21 **Q. CAN YOU EXPLAIN THAT PLEASE, MR. BOURASSA?**

22 **A.** Yes. If PWC paid out 67 percent of its net earnings, comparable to the publicly  
23 traded water utilities, it would pay dividends totaling about \$18,229 (Staff's net  
24 earnings income \$27,208 times 67 percent). This would translate to a dividend  
25 yield of only 0.79 percent (\$18,229 cash divided by \$1,050,247 book equity  
26 divided by 2.2 market-book ratio). However, investors expect a dividend yield of  
3.0 percent according to Staff (*see* Staff Schedule JAC-3), so the value of an  
investment in PWC would need to decrease to \$607,633 (\$18,229 divided by

---

<sup>18</sup> Roger A. Morin, *New Regulatory Finance* at 495-496 (Public Utility Reports, Inc. 2006) ("Morin").

1 3.0 percent) from a market value of \$2,310,543 (\$1,050,247 book equity times  
2 2.2 market-to-book ratio). In other words, PWC's investors will lose  
3 approximately \$1,702,910 of investment value (\$2,310,543 minus \$607,633),  
4 a loss of nearly three-quarters of the value of their investment. The market-to-book  
5 ratios would immediately drop from the 2.2 of the publicly traded water utilities to  
6 0.58 (\$607,633 divided by \$1,050,247).

7 **Q. WHAT CONCLUSIONS CAN BE DRAWN FROM THE DIVIDEND**  
8 **PAYOUT RATIO ANALYSIS?**

9 A. This analysis further supports why the recommendation of the Staff would  
10 diminish PWC's ability to attract capital and ensure the confidence in its financial  
11 integrity. It is a mixed message to compare PWC to a proxy group and then expect  
12 PWC to pay out dividends at a rate far greater than the publicly traded utilities in  
13 order to attract capital on the same terms or otherwise face a devaluation of the  
14 value of the shareholder's investment. It is also further evidence of why Staff's  
15 recommendation, at 9.0 percent or 6.4 percent, is plainly unreasonable.

16 **Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY ON COST OF**  
17 **CAPITAL?**

18 A. Yes.

19

20

21

22

23

24

25

26

**EXHIBIT**  
**TJB COC-RB1**

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010

Exhibit  
Rejoinder Schedule D-1  
Page 2  
Witness: Bourassa

Computation of Consolidated Capital Structure

Line

No.

1	Equity Distribution		
2	Per E-1 Water	\$	12,160,028
3	Per E-1 Wastewater		7,272,375
4	Water A/D Adjustments per Direct		588,942
5	Sewer A/D Adjustments per Direct		(2,219,610)
6	Subtotal		<u>17,801,736</u>
7	Equity Distribution		(2,500,000)
8	Net Equity Balance	\$	<u>15,301,736</u>
9			
10	Debt		
11	Balance end of Test year	\$	6,125,000
12	2011 principal payments		<u>(1,755,000)</u>
13	Subtotal		4,370,000
14	Increase in Debt		<u>4,000,000</u>
15	Net Debt Balance	\$	<u>8,370,000</u>
16			
17	Total Capital	\$	23,671,736
18	% Debt		35.36%
19	% Equity		64.64%
20			

**PAYSON WATER COMPANY**

**THOMAS BOURASSA  
REBUTTAL TESTIMONY**

**DECEMBER 6, 2013**

**REBUTTAL D SCHEDULES**

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

Exhibit  
 Rebuttal Schedule D-1  
 Page 1  
 Witness: Bourassa

Capital Structure

Line No.	Item of Capital	<u>Adjusted End of Test Year</u>				<u>Projected Capital Structure</u>			
		Dollar Amount	Percent of Total	Cost Rate	Weighted Cost	Dollar Amount	Percent of Total	Cost Rate	Weighted Cost
1	Long-Term Debt	-	0.00%	0.00%	0.00%	-	0.00%	0.00%	0.00%
3	Stockholder's Equity	1,050,247	100.00%	11.00%	11.00%	867,768	100.00%	11.00%	11.00%
5	Totals	1,050,247	100.00%		11.00%	867,768	100.00%		11.00%

SUPPORTING SCHEDULES:

23 Direct D-1  
 24 Testimony

RECAP SCHEDULES:

**Payson Water Company**  
Test Year Ended December 31, 2012  
Cost of Common Equity

Exhibit  
Rebuttal Schedule D-4  
Page 1  
Witness: Bourassa

Line  
No.

- 1
- 2
- 3
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The Company is proposing a cost of common equity of 11.00% .

SUPPORTING SCHEDULES:  
D-4.1 to D-4.22

RECAP SCHEDULES:  
D-1

Payson Water Company  
Summary of Results

Exhibit  
Rebuttal Schedule D-4.1  
Witness: Bourassa

Line No.	Method	Low	High	Midpoint
1				
2				
3				
4				
5				
6	Range DCF Constant Growth Estimates <sup>1</sup>	8.5%	9.1%	8.8%
7				
8	Range of CAPM Estimates <sup>2</sup>	8.7%	10.7%	9.7%
9				
10	Build-up Method <sup>3</sup>	8.9%	12.4%	10.7%
11				
12	Average of midpoint estimates	8.7%	10.7%	9.7%
13				
14				
15	Financial Risk Adjustment <sup>4</sup>	0.1%	0.1%	0.1%
16				
17	Small Company Risk Premium <sup>5</sup>	2.0%	2.0%	2.0%
18				
19	Indicated Cost of Equity	10.8%	12.8%	11.8%
20				
21				
22				
23	Recommended Cost of Equity			11.0%
24				
25				
26	1 See Rebuttal Schedule D-4-8			
27	2 See Rebuttal Schedule D-4.12			
28	3 See Rebuttal Schedule D-4.18			
29	4 See Rebuttal Schedule D-4.21, Testimony			
30	5 See Rebuttal Schedule D-4.22, Testimony			

**Payson Water Company  
Selected Characteristics of Sample Group of Water Utilities**

**Exhibit  
Rebuttal Schedule D-4.2  
Witness: Bourassa**

Line No.	Company <sup>1</sup>	% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating	Allowed ROE (%)
1	1. American States	59%	\$ 477.2	\$ 946.7	A+	A2	9.99
2	2. Aqua America	96%	\$ 777.7	\$ 4,025.1	AA-	NR	10.29
3	3. California Water	100%	\$ 565.7	\$ 1,490.3	AA-	NR	9.99
4	4. Connecticut Water	100%	\$ 86.2	\$ 455.4	A	NR	9.75
5	5. Middlesex	88%	\$ 115.6	\$ 440.8	A	NR	10.15
6	6. SJW Corp.	96%	\$ 269.2	\$ 844.4	A	NR	9.99
7	Average	90%	\$ 381.9	\$ 1,367.1			10.03
8	Payson Water Company (Adjusted as of December 31, 2012)	100%	\$ 0.3	\$ 0.8	NR	NR	

<sup>1</sup>AUS Utility Reports (October 2013).

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

**Payson Water Company  
Capital Structures**

**Exhibit  
Rebuttal Schedule D-4.3  
Witness: Bourassa**

No.	Company	Book Value <sup>1</sup>		Market Value <sup>1</sup>	
		Long-Term Debt	Common Equity	Long-Term Debt	Common Equity
1					
2					
3					
4	1. American States	42.3%	57.7%	22.8%	77.2%
5	2. Aqua America	52.7%	47.3%	26.8%	73.2%
6	3. California Water	47.8%	52.2%	31.2%	68.8%
7	4. Connecticut Water	49.2%	50.8%	32.0%	68.0%
8	5. Middlesex	42.0%	58.0%	27.5%	72.5%
9	6. SJW Corp.	55.0%	45.0%	39.5%	60.5%
10					
11	Average	48.2%	51.8%	30.0%	70.0%
12					
13	Payson Water Company				
14	(Adjusted as of Deceomber 31, 2012)	100.0%	0.0%	N/A	N/A
15					
16					

<sup>1</sup> Value Line Analyzer Data (November 29, 2013)

<sup>2</sup> Adjusted Per Rebuttal Schedule D-1

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24  
25  
26  
27  
28

Line No.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	<u>Five-year historical average annual changes</u>						
	Company	Price <sup>1</sup>	Book Value <sup>2</sup>	EPS <sup>2</sup>	DPS <sup>2</sup>	Average Col 1-4	Average Future Growth <sup>3</sup>
1	1. American States	9.12%	5.50%	11.50%	4.50%	7.66%	5.49%
2	2. Aqua America	5.40%	6.00%	7.50%	7.50%	6.60%	6.82%
3	3. California Water	2.03%	4.50%	5.50%	1.50%	3.38%	4.77%
4	4. Connecticut Water	7.90%	4.50%	6.50%	2.00%	5.23%	5.28%
5	5. Middlesex	4.56%	4.00%	2.50%	1.50%	3.14%	3.24%
6	6. SJW Corp.	NMF	3.50%	NMF	4.00%	3.75%	7.25%
7							
8							
9							
10							
11							
12							
13							
14							
15							
16	GROUP AVERAGE	5.80%	4.67%	6.70%	3.50%	4.96%	5.48%
17	GROUP MEDIAN	5.40%	4.50%	6.50%	3.00%	4.49%	5.39%
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							

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

<sup>2</sup> Value Line Analyzer Data, November 29, 2013

<sup>3</sup> See Rebuttal Schedule D-4.6.

**Payson Water Company**  
**Comparisons of Past and Future Estimates of Growth**

**Exhibit**  
**Rebuttal Schedule D-4.5**  
**Witness: Bourassa**

Line No.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	<u>Ten-year historical average annual changes</u>						
	<u>Company</u>	<u>Price<sup>1</sup></u>	<u>Book Value<sup>2</sup></u>	<u>EPS<sup>2</sup></u>	<u>DPS<sup>2</sup></u>	<u>Average Col 1-4</u>	<u>Average Future Growth<sup>3</sup></u>
1	1. American States	10.41%	5.00%	6.50%	3.00%	6.23%	4.78%
2	2. Aqua America	7.70%	8.50%	7.00%	7.50%	7.68%	7.35%
3	3. California Water	6.27%	5.00%	5.00%	1.00%	4.32%	5.24%
4	4. Connecticut Water	4.80%	4.50%	1.50%	1.50%	3.07%	4.20%
5	5. Middlesex	5.14%	4.50%	3.50%	1.50%	3.66%	3.50%
6	6. SJW Corp.	6.99%	5.50%	4.00%	5.00%	5.37%	8.06%
7							
8							
9							
10							
11							
12							
13							
14							
15	GROUP AVERAGE	6.88%	5.50%	4.58%	3.25%	5.05%	5.52%
16	GROUP MEDIAN	6.63%	5.00%	4.50%	2.25%	4.84%	5.01%
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							

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

<sup>2</sup> Value Line Analyzer Data, November 29, 2013.

<sup>3</sup> See Rebuttal Schedule D-4.6.



**Payson Water Company**  
**Current Dividend Yields for Water Utility Sample Group**

**Exhibit**  
**Rebuttal Schedule D-4.7**  
 Witness: Bourassa

Line No.	Company	Current Stock Price (P <sub>0</sub> ) <sup>1</sup>	Current Dividend (D <sub>0</sub> ) <sup>1</sup>	Current Dividend Yield (D <sub>0</sub> /P <sub>0</sub> ) <sup>1</sup>	Average Annual Dividend Yield (D <sub>0</sub> /P <sub>0</sub> ) <sup>1,2</sup>
1	1. American States	\$ 29.18	\$ 0.82	2.81%	3.20%
2	2. Aqua America	\$ 24.07	\$ 0.62	2.58%	2.85%
3	3. California Water	\$ 22.86	\$ 0.67	2.93%	3.36%
4	4. Connecticut Water	\$ 34.75	\$ 0.99	2.85%	3.62%
5	5. Middlesex	\$ 21.98	\$ 0.76	3.46%	4.02%
6	6. SJW Corp.	\$ 27.46	\$ 0.74	2.69%	2.94%
7	<b>Average</b>			<b>2.89%</b>	<b>3.33%</b>
8	<b>Median</b>			<b>2.83%</b>	<b>3.28%</b>

<sup>1</sup> Value Line Analyzer Data. Stock prices as of November 29, 2013.

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

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

**Payson Water Company**  
**Discounted Cash Flow Analysis**  
**DCF Constant Growth**

**Exhibit**  
**Rebuttal Schedule D-4.8**  
**Witness: Bourassa**

Line No.	[1] Average Spot Dividend Yield ( $D_0/P_0$ ) <sup>1</sup>	[2] Expected Dividend Yield ( $D_1/P_0$ ) <sup>2</sup>	[3] Growth (g)	[4] Indicated Cost of Equity $k = \text{Div Yield} + g$ (Cols 2+3)
8	2.89%	3.04%	5.48% <sup>3</sup>	8.5%
10	2.89%	3.06%	5.99% <sup>4</sup>	9.1%
Average	2.89%	3.05%	5.74%	8.8%

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

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

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

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

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28

**Payson Water Company  
Market Betas**

**Exhibit  
Rebuttal Schedule D-4.9  
Witness: Bourassa**

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

<u>Company</u>	<u>Beta (β)<sup>1</sup></u>
1. American States	0.65
2. Aqua America	0.60
3. California Water	0.60
4. Connecticut Water	0.75
5. Middlesex	0.75
6. SJW Corp.	0.85
Average	<b>0.70</b>

<sup>1</sup> Value Line Investment Analyzer data (November 29, 2013)

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

**Payson Water Company**  
**Forecasts of Long-Term Interest Rates**  
**2012-14**

**Exhibit**  
**Rebuttal Schedule D-4.10**  
**Witness: Bourassa**

Line No.	Description	Spot <u>October 2013<sup>3</sup></u>	<u>2014</u>	<u>2015</u>	<u>Average</u>
1					
2					
3					
4					
5					
6	Blue Chip Consensus Forecasts <sup>1</sup>	3.7%	4.0%	4.2%	4.0%
7					
8	Value Line <sup>2</sup>	3.7%	4.0%	4.3%	4.0%
9					
10	Average				4.0%
11					
12					
13					
14					

<sup>1</sup> December 2012 Blue Chip Financial Forecasts consensus long-term forecast of 30 Year U.S. Treasury

<sup>2</sup> Value Line Quarterly forecast, dated November 22, 2013, Long-term Treasury

<sup>3</sup> Federal Reserve Monthly Average - 30-Year U.S. Treasury

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

Payson Water Company  
 Computation of Current Market Risk Premium

Line No.	Month	Dividend Yield ( $D_t/P_t$ ) <sup>1</sup>	Expected Dividend Yield ( $D_t/P_t$ ) <sup>2</sup>	+ Growth (g) <sup>3</sup>	= Expected Market Return (k)	-	Monthly Average 30 Year Treasury Rate <sup>4</sup>	=	Market Risk Premium (MRP)
4	Jan 2012	2.61%	2.98%	+ 14.18%	= 17.16%	-	3.03%	=	14.13%
5	Feb	2.60%	2.99%	+ 15.01%	= 18.00%	-	3.11%	=	14.89%
6	Mar	2.36%	2.65%	+ 12.33%	= 14.98%	-	3.28%	=	11.70%
7	April	2.62%	3.02%	+ 15.22%	= 18.24%	-	3.18%	=	15.06%
8	May	2.86%	3.38%	+ 18.12%	= 21.50%	-	2.93%	=	18.57%
9	June	2.73%	3.18%	+ 16.59%	= 19.77%	-	2.70%	=	17.07%
10	July	2.79%	3.29%	+ 18.10%	= 21.39%	-	2.59%	=	18.80%
11	Aug	2.73%	3.17%	+ 16.23%	= 19.40%	-	2.77%	=	16.63%
12	Sept	2.67%	3.07%	+ 14.95%	= 18.02%	-	2.88%	=	15.14%
13	Oct	2.71%	3.14%	+ 15.81%	= 18.95%	-	2.90%	=	16.05%
14	Nov	2.74%	3.15%	+ 14.88%	= 18.03%	-	2.80%	=	15.23%
15	Dec 2012	2.62%	2.95%	+ 12.63%	= 15.58%	-	2.88%	=	12.70%
16	Jan 2013	2.56%	2.86%	+ 11.74%	= 14.60%	-	3.08%	=	11.52%
17	Feb	2.60%	2.94%	+ 13.13%	= 16.07%	-	3.17%	=	12.90%
18	Mar	2.52%	2.82%	+ 11.94%	= 14.76%	-	3.16%	=	11.60%
19	April	2.46%	2.74%	+ 11.40%	= 14.14%	-	2.93%	=	11.21%
20	May	2.47%	2.73%	+ 10.70%	= 13.43%	-	3.11%	=	10.32%
21	June	2.54%	2.83%	+ 11.49%	= 14.32%	-	3.40%	=	10.92%
22	July	2.40%	2.63%	+ 9.51%	= 12.14%	-	3.61%	=	8.53%
23	Aug	2.52%	2.79%	+ 10.57%	= 13.36%	-	3.76%	=	9.60%
24	Sept	2.47%	2.70%	+ 9.46%	= 12.16%	-	3.79%	=	8.37%
25	Oct								
26									
27									
28	Recommended	2.48%	2.74%	+ 10.35%	= 13.08%	-	3.53%	=	9.55%
29									
30	<u>Short-term Trends</u>								
31	Recent Twelve Months Avg	2.54%	2.83%	+ 11.59%	= 14.42%	-	3.24%	=	11.17%
32	Recent Nine Months Avg	2.50%	2.77%	+ 11.02%	= 13.80%	-	3.37%	=	10.43%
33	Recent Six Months Avg	2.48%	2.74%	+ 10.35%	= 13.08%	-	3.53%	=	9.55%
34	Recent Three Months Avg	2.50%	2.75%	+ 10.02%	= 12.76%	-	3.78%	=	8.99%
35									
36									
37									

<sup>1</sup> Average Current Dividend Yield ( $D_t/P_t$ ) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

<sup>2</sup> Expected Dividend Yield ( $D_t/P_t$ ) equals average current dividend yield ( $D_0/P_0$ ) times one plus growth rate(g).

<sup>3</sup> Average 3-5 year price appreciation (annualized). Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

<sup>4</sup> Monthly average 30 year U.S. Treasury. Federal Reserve.

**Payson Water Company  
Capital Asset Pricing Model (CAPM)**

**Exhibit  
Rebuttal Schedule D-4.12  
Witness: Bourassa**

Line No.	Rf <sup>1</sup>	+	beta <sup>3</sup>	x	Rp	=	k	
3	4.0%	+	0.70	x	6.7%	=	8.7%	
5	4.0%	+	0.70	x	9.5%	=	10.7%	
7	<b>Average</b>							9.7%

<sup>1</sup> Forecasts of long-term treasury yields. See Rebuttal Schedule D-4.10.

<sup>2</sup> Value Line Investment Analyzer data. See Rebuttal Schedule D-4.9.

<sup>3</sup> Historical Market Risk Premium from (Rp) MorningStar SBBi 2013 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2012.

<sup>4</sup> Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Rebuttal Schedule D-4.11.

18  
19  
20

**Payson Water Company**  
**COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD**  
**Based on Duff and Phelps Risk Premium Study Data**

Rebuttal Schedule D-4.13  
 Witness: Bourassa

Company	Measures of size (Millions)						
	MV Equity <sup>1</sup>	Book Equity <sup>1</sup>	MVIC <sup>1</sup>	5 Yr Avg. Net Income	Total Assets <sup>2</sup>	5 Yr Avg. EBITDA <sup>3</sup>	
1. American States	\$ 1,123	\$ 454	\$ 1,456	\$ 37	\$ 1,281	\$ 130	
2. Aqua America	\$ 4,222	\$ 1,386	\$ 5,766	\$ 133	\$ 4,859	\$ 422	
3. California Water	\$ 960	\$ 474	\$ 1,395	\$ 41	\$ 1,996	\$ 140	
4. Connecticut Water	\$ 379	\$ 185	\$ 557	\$ 11	\$ 579	\$ 24	
5. Middlesex	\$ 347	\$ 181	\$ 479	\$ 13	\$ 562	\$ 38	
6. SJW Corp.	\$ 514	\$ 275	\$ 849	\$ 21	\$ 1,087	\$ 89	
Payson Water Company	NA	\$ 0.6	NA	\$ (0.0)	\$ 2.6	\$ (0.0)	

<sup>1</sup> From Zacks Investment Research data

<sup>2</sup> From Zacks Investment Research. From E-1 for subject utility.

<sup>3</sup> Net Income. From Zacks Investment Research and Company ACC reports

Company	Net Income Data (\$ millions)						
	2012	2011	2010	2009	2008	Average	
American States	\$ 54.0	\$ 45.9	\$ 33.2	\$ 29.5	\$ 22.0	\$ 36.9	
Aqua America	\$ 197.0	\$ 143.1	\$ 124.0	\$ 104.4	\$ 97.9	\$ 133.3	
California Water	\$ 49.0	\$ 37.7	\$ 37.7	\$ 40.6	\$ 39.8	\$ 40.9	
Connecticut Water	\$ 14.0	\$ 11.3	\$ 9.8	\$ 10.2	\$ 9.4	\$ 10.9	
Middlesex	\$ 14.0	\$ 13.4	\$ 14.3	\$ 10.0	\$ 12.2	\$ 12.8	
SJW Corp.	\$ 22.0	\$ 20.9	\$ 24.4	\$ 15.2	\$ 21.5	\$ 20.8	
Payson Water Company	\$ 0.6	\$ (0.1)	\$ (0.6)	\$ (0.1)	\$ 0.0	\$ (0.0)	

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

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

Company	EBITDA Data (\$ millions)						
	2012	2011	2010	2009	2008	Average	
American States	\$ 154.0	\$ 133.3	\$ 134.4	\$ 122.6	\$ 105.9	\$ 130.0	
Aqua America	\$ 439.0	\$ 397.8	\$ 473.2	\$ 415.2	\$ 384.7	\$ 422.0	
California Water	\$ 151.0	\$ 143.3	\$ 155.7	\$ 125.5	\$ 122.1	\$ 139.5	
Connecticut Water	\$ 30.0	\$ 24.2	\$ 22.5	\$ 20.3	\$ 21.1	\$ 23.6	
Middlesex	\$ 39.0	\$ 34.6	\$ 43.3	\$ 34.6	\$ 38.6	\$ 38.0	
SJW Corp.	\$ 90.0	\$ 87.1	\$ 75.4	\$ 93.5	\$ 99.7	\$ 89.1	
Payson Water Company	\$ (0.1)	\$ (0.0)	\$ (0.1)	\$ 0.0	\$ 0.1	\$ (0.0)	

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

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

Payson Water Company  
**COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD**  
 Based on *Duff and Phelps Risk Premium Study Data*

**MRP<sub>m+s</sub> Estimates Using Duff & Phelps Study (Unlevered)**

Assumes 100% Equity and 0% debt  
 Data Smoothing with Regression Analysis  
**Smoothed Premium (RP<sub>m+s</sub>) = Constant + X Coefficients \* Log(Relevant Metric)**

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

Where  $\beta_u$  = unlevered portfolio beta

$\beta_d$  = debt beta, assumed to be 0.1

$W_d$  = percentage of debt in capital structure

$W_e$  = percentage of equity in capital structure

$RP_{levered}$  = levered realized risk premium

Constant  
 X Coefficient(s)

Rebuttal Schedule D-4.14  
 Witness: Bourassa

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

**MRP<sub>m+s</sub> (unlevered)**

MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
8.71%	8.72%	8.66%	9.24%	8.68%	9.09%	8.85%
6.87%	7.50%	6.77%	7.79%	7.07%	7.70%	7.28%
8.93%	8.68%	8.72%	9.12%	8.15%	9.01%	8.77%
10.22%	9.71%	9.99%	10.61%	9.65%	11.11%	10.21%
10.34%	9.73%	10.20%	10.43%	9.68%	10.54%	10.15%
9.79%	9.27%	9.41%	9.89%	8.88%	9.54%	9.46%
9.14%	8.94%	8.96%	9.51%	8.68%	9.50%	9.12%
NA	15.98%	NA	NMF	16.22%	NMF	16.10%

Symbol  
 AWR  
 WTR  
 CWT  
 CTWS  
 MSEX  
 SJW

Company

- American States
- Aqua America
- California Water
- Connecticut Water
- Middlesex
- SJW Corp.

Average (unlevered)

Payson Water Company

Indicated size premium 6.98%

Payson Water Company  
 COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD  
 Based on *Duff and Phelps Risk Premium Study Data*

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

Rebuttal Schedule D-4.15  
 Witness: Bourassa

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

Payson Water Company  
 COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD  
 Based on Duff and Phelps Risk Premium Study Data

MRP Estimates Using Duff & Phelps Study (Relevered)

Relevered Realized Risk Premium

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

Where  $\beta_u$  = unlevered portfolio beta

$\beta_d$  = debt beta, assumed to be 0.1

$W_d$  = percentage of debt in capital structure

$W_e$  = percentage of equity in capital structure

$RP_{\text{unlevered}}$  = unlevered realized risk premium from Schedule D-4.14

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

Rebuttal Schedule D-4.16  
 Witness: Bourassa

	Symbol	Company	MRP <sub>mps</sub> (Relevered)									
			W <sub>d</sub> /W <sub>e</sub>	MV Equity	Book Equity	MVIC	Net Income	Total Assets	5 Yr Avg. EBITDA	5 Yr Avg. Average		
1.	American States		29.6%	9.83%	9.87%	9.80%	10.37%	9.84%	10.22%	9.99%		
2.	Aqua America		36.6%	8.14%	8.80%	8.02%	9.07%	8.27%	8.89%	8.53%		
3.	California Water		45.3%	10.72%	10.43%	10.45%	10.85%	9.86%	10.76%	10.51%		
4.	Connecticut Water		47.1%	12.04%	11.58%	11.83%	12.46%	11.53%	13.08%	12.09%		
5.	Middlesex		37.9%	11.80%	11.27%	11.70%	11.92%	11.20%	12.06%	11.66%		
6.	SJW Corp.		65.4%	12.38%	11.86%	12.00%	12.50%	11.44%	12.04%	12.04%		
	Average MRP (Relevered)		43.63%	10.82%	10.63%	10.63%	11.19%	10.36%	11.17%	10.80%		
	Payson Water Company		50.17%	NA	17.97%	NA	NMF	18.36%	NMF	18.16%		

Payson Water Company  
**COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD**  
 Based on *Duff and Phelps* Risk Premium Study Data

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

Rebuttal Schedule D-4.17  
 Witness: Bourassa

[1] Estimate of Current Market Risk Premium ( $RP_{market}$ )	5.00%	<<<< Current Duff and Phelps recommendation
[2] Risk Premium Assumed in Duff & Phelps Study (1963-2012) <sup>1</sup>	4.50%	
[3] Equity Risk Premium Adjustment ([1] - [2])	0.50%	
[4] Average MRP (relevered) for publicly traded water companies (from Rebuttal Schedule D-4.16)	10.80%	
[5] MRP (relevered) for publicly traded water companies ( $RP_{mrs}$ ) ([3] + [4])	11.30%	
[6] Equity Risk Premium Adjustment ([3])	0.50%	
[7] Average MRP (relevered) for subject utility company (from Table 4)	18.16%	
[8] MRP (relevered) for subject utility company ( $RP_{mrs}$ ) ([6] + [7])	18.66%	
[9] Industry Risk Premium (From Ibbotson for SIC 494 Water Supply Industry Table 3-5)	-4.92%	
[10] Adjustment Factor to Industry Risk Premium ([2] / 6.7%) <sup>1</sup>	0.7463	
[11] Adjusted Industry Risk Premium ( $R_i$ ) ([9] x [10])	-3.67%	
[12] Risk Free Rate ( $R_f$ ) <sup>2</sup>	3.52%	

<sup>1</sup> From Duff and Phelps Risk Premium Report 2013.

<sup>2</sup> Yield on 20 Yr U.S. Treasury November 27, 2013 (Federal Reserve)

Payson Water Company  
 COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD  
 Based on *Duff and Phelps Risk Premium Study Data*

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

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

Where:

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

$R_f$  = Risk-free rate of return. See Rebuttal Schedule D-4-17.

$RP_{m+s}$  = Market risk premium including size premium. See Schedule D-4.16

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

$RP_u$  = Company-specific risk premium

Rebuttal Schedule D- 4.18  
 Witness: Bourassa

Publicly Traded	Sample
Utilities	Payson Water Company
3.52%	3.52%
See Table 4	See Table 4
-3.67%	-3.67%
0.00%	0.00%

	Indicated COE E(R <sub>i</sub> )					
	MV	Book	5 Yr Avg.	Total	5 Yr Avg.	Average
Symbol	Equity	Equity	Net Income	Assets	EBITDA	
1. American States	10.17%	10.22%	10.72%	10.19%	10.57%	10.34%
2. Aqua America	8.49%	9.14%	9.42%	8.62%	9.24%	8.88%
3. California Water	11.07%	10.78%	11.20%	10.20%	11.11%	10.86%
4. Connecticut Water	12.39%	11.93%	12.80%	11.88%	13.43%	12.43%
5. Middlesex	12.15%	11.61%	12.27%	11.55%	12.41%	12.00%
6. SJW Corp.	12.73%	12.21%	12.85%	11.79%	12.39%	12.39%
Average COE estimate	11.17%	10.98%	11.54%	10.71%	11.52%	11.15%
Payson Water Company	NA	18.32%	NMF	18.71%	NMF	18.51%

**Payson Water Company  
Financial Risk Computation  
Unlevered Beta**

**Exhibit  
Rebuttal Schedule D-4.19  
Witness: Bourassa**

Line No.	Company	VL Beta $\beta_L^1$	Raw Beta $\frac{Raw \beta_L^2}{D^4}$	Tax Rate $t^3$	MV Debt $\frac{D^4}{E^4}$	MV Equity $\frac{E^4}{E^4}$	Unlevered Raw Beta $\beta_{UL}^5$
1	American States	0.65	0.45	39.9%	22.8%	77.2%	0.38
2	Aqua America	0.60	0.37	39.0%	26.8%	73.2%	0.30
3	California Water	0.60	0.37	37.5%	31.2%	68.8%	0.29
4	Connecticut Water	0.75	0.60	32.0%	32.0%	68.0%	0.45
5	Middlesex	0.75	0.60	33.9%	27.5%	72.5%	0.48
6	SJW Corp.	0.85	0.75	41.1%	39.5%	60.5%	0.54
11							
12							
13	Sample Water Utilities	0.70	0.52	37.2%	30.0%	70.0%	0.41
14							
15							
16							
17							
18							
19							

<sup>1</sup> Value Line Investment Analyzer data. See Rebuttal Schedule D-4.9  
<sup>2</sup> Value Line uses the historical data of the stock, but assumes that a security's beta moves toward the market average over time. The formula is as follows:  
Adjusted beta = .35 + (.67) \* Raw beta  
<sup>3</sup> Raw Beta = (VL beta - .35)/(.67)  
<sup>4</sup> Effective tax rates for year ended December 31, 2012.  
<sup>5</sup> See Rebuttal Schedule D-4.3  
<sup>6</sup> Raw  $B_u$  = Raw  $B_L / (1 + (1-t)^*D/E)$

Payson Water Company  
Financial Risk Computation  
Relevered Beta

Exhibit  
Rebuttal Schedule D-4.20  
Witness: Bourassa

Line No.	Unlevered Raw Beta $\beta_{UL}$	MV Book Debt $BD^2$	MV Equity Capital $EC^2$	Tax Rate $t^2$	Relevered Raw Beta $\beta_{RL} = \beta_U (1 + (1-t)BD/EC)$	Adjusted Relevered Beta $\beta_{BL}$
5	0.41	33.4%	66.6%	36.21%	0.54	0.71

Payson Water Company

1 Unlevered Beta from Rebuttal Schedule D-4.14.

2 Proforma Capital Structure of Company.

	BV	MV	MV	MV
	(in Thousands)	(in Thousands)	(in Thousands)	%
Long-term Debt	\$ 52.8	\$ 1.00	\$ 53	33.40%
Preferred Stock	-	1.00	-	0.0%
Common Stock	\$ 47.2	2.23 (a)	105	66.6%
Total Capital	\$ 100		\$ 158	100.0%

(a) Current market-to-book ratio of sample water utilities. See work papers.

3 Current Tax rate based on test year ending 12/31/2012. See Rebuttal Schedule D-1.

**Payson Water Company  
Financial Risk Computation**

**Exhibit  
Rebuttal Schedule D-4.21  
Witness: Bourassa**

Line No.								
1	<u>CAPM</u>							
2		Rf	+	$\beta$	x	(Rp)	=	k
3	Historical Market Risk Premium	4.0%	1	0.70	x	6.7%	3	8.7%
4	Current Market Risk Premium	4.0%	1	0.70	x	9.5%	4	10.7%
5								
6	Average							9.7%
7								
8								
9	<u>CAPM Relevered Beta</u>							
10		Rf	+	$\beta$	x	(Rp)	=	k
11	Historical Market Risk Premium	4.0%	1	0.71	x	6.7%	3	8.8%
12	Current Market Risk Premium	4.0%	1	0.71	x	9.5%	4	10.8%
13								
14	Average							9.8%
15								
16	Financial Risk Adjustment							<u>0.1%</u>
17								
18								
19								
20								
21								
22								
23								
24								
25								

<sup>1</sup> Forecast of long-term treasury yields. See Rebuttal Schedule D-4.10  
<sup>2</sup> Value Line Investment Analyzer data. See Rebuttal Schedule D-4.9  
<sup>3</sup> Historical Market Risk Premium from (Rp) MorningStar SBB1 2013 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2012  
<sup>4</sup> Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Rebuttal Schedule D-4.11  
<sup>5</sup> Relevered beta found on Rebuttal Schedule D-4.15

**Payson Water Company  
Size Premium<sup>1</sup>**

**Exhibit  
Rebuttal Schedule D-4.22  
Witness: Bourassa**

Line No.	Beta( $\beta$ )	Size Premium	Risk Premium for Small Water Utilities <sup>7</sup>
1			
2			
3			
4			
5			
6	1.12	1.12%	
7			
8	1.23	1.85%	
9			
10	1.36	3.81%	
11			
12	1.42	6.03%	3.65%
13			
14			
15			
16			
17			
18			
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41			

**Estimated Risk Premium for small water utilities<sup>6</sup>**

**Risk Premium for Small Water Utilities**

0.99%

<sup>1</sup> Data from Table 7-8 of Morningstar, *Ibbotson S&P 2013 Valuation Yearbook*.  
<sup>2</sup> Mid-Cap companies includes companies with market capitalization between \$1,912 million and \$7,687 million.  
<sup>3</sup> Low-Cap companies includes companies with market capitalization between \$514 million and \$1,909 million.  
<sup>4</sup> Micro-Cap companies includes companies with market capitalization less than \$514 million.  
<sup>5</sup> Decile 10 includes companies with market capitalization between \$1.14 million and \$254 million.  
<sup>6</sup> From Table 2, Thomas M. Zepp, "Utility Stocks and the Size Effect Revisited," *The Quarterly Review of Economics and Finance*, 43 (2003), 578-582.  
<sup>7</sup> Computed as the weighted differences between the Decile 10 risk premium and the indicated risk premiums for the sample water utilities as shown below. Excludes risk due to differences in beta.

Market Cap. (Millions)	Class	Size Premium	Difference to Decile 10	Weight	Weighted Size Premium
\$ 1,123	Low-Cap	1.85%	4.18%	0.1666667	0.70%
\$ 4,222	Mid-Cap	1.14%	4.89%	0.1666667	0.82%
\$ 960	Low-Cap	1.85%	4.18%	0.1666667	0.70%
\$ 379	Micro-Cap	3.81%	2.22%	0.1666667	0.37%
\$ 347	Micro-Cap	3.81%	2.22%	0.1666667	0.37%
\$ 514	Low-Cap	1.85%	4.18%	0.1666667	0.70%
Weighted Size Premium for Small Companies					3.65%