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BEFORE THE ARIZONA CORPORATION COMMISSION

**COMMISSIONERS**

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

2013 DEC 20 P 3:46

ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

Arizona Corporation Commission

**DOCKETED**

DEC 20 2013

DOCKETED BY

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

DOCKET NO. W-03514A-13-0111

IN THE MATTER OF THE APPLICATION OF  
PAYSON WATER CO., INC. FOR AUTHORITY  
TO ISSUE EVIDENCE OF INDEBTEDNESS IN  
AN AMOUNT NOT TO EXCEED \$1,238,000 IN  
CONNECTION WITH INFRASTRUCTURE  
IMPROVEMENTS TO THE UTILITY SYSTEM;  
AND ENCUMBER REAL PROPERTY AND  
PLANT AS SECURITY FOR SUCH  
INDEBTEDNESS.

DOCKET NO. W-03514A-13-0142

**STAFF'S NOTICE OF FILING  
SURREBUTTAL TESTIMONY  
(PHASE 2)**

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") hereby files the Surrebittal Testimony of Staff witnesses Crystal S. Brown, John A. Cassidy and Jian W. Liu in the above-referenced matter.

RESPECTFULLY SUBMITTED this 20<sup>th</sup> day of December, 2013.

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1 Original and thirteen (13) copies of the  
2 foregoing filed this 20<sup>th</sup> day of December,  
2013, with:

3 Docket Control  
4 Arizona Corporation Commission  
4 1200 West Washington Street  
5 Phoenix, Arizona 85007

6 Copy of the foregoing mailed this 20<sup>th</sup>  
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**BEFORE THE ARIZONA CORPORATION COMMISSION**

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SURREBUTTAL

TESTIMONY

OF

CRYSTAL S. BROWN

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

DECEMBER 20, 2013

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**EXECUTIVE SUMMARY  
PAYSON WATER CO., INC.  
DOCKET NOS.  
W-03514A-13-0111 and W-03514A-13-0142**

Staff's surrebuttal testimony responds to Payson Water Company, Inc. ("Payson" or "Company") rebuttal testimony on the following issues:

1. Rate Base
  - a. Unsupported Plant Treated As Contributions In of Construction ("CIAC")
  - b. Unsupported Removal of CIAC Related to Condemnation Sale of Star/Quail Valley System
  
2. Operating Income
  - a. Salaries and Wages Related to Star/Quail Valley System
  - b. \$197,722 Corporate Office Allocation
  - c. Miscellaneous Expense
  - d. Depreciation Expense
  - e. Property Tax Expense

Staff recommends a revenue increase of \$241,822 or 75.45 percent increase over test year revenue of \$320,525. The total annual revenue of \$562,347 produces an operating income of \$27,208 or a 6.40 percent rate of return on an original cost rate base of \$425,129.

1 **INTRODUCTION**

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

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

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

8 A. Yes.  
9

10 **PURPOSE OF SURREBUTTAL TESTIMONY**

11 **Q. What is the purpose of your surrebuttal testimony in this proceeding?**

12 A. The purpose of my surrebuttal testimony in this proceeding is to respond, on behalf of  
13 Staff, to the rebuttal testimony of Mr. Jason Williamson and Mr. Thomas Bourrassa,  
14 witnesses for Payson Water Company, Inc. ("Payson" or "Company").  
15

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

17 A. I will address the issues listed below that are discussed in the rebuttal testimony of Mr.  
18 Bourrassa and Mr. Williamson.

19 1. Rate Base

20 a. Unsupported Plant Treated As Contributions In of Construction ("CIAC")

21 b. Unsupported Removal of CIAC Related to Condemnation Sale of  
22 Star/Quail Valley System

23 2. Operating Income

24 a. Salaries and Wages Related to Star/Quail Valley System

25 b. \$197,722 Corporate Office Allocation

26 c. Miscellaneous Expense

1 d. Depreciation Expense

2 e. Property Tax Expense

3  
4 **Q. Does your silence on any particular issue raised in the Company's rebuttal testimony**  
5 **indicate that Staff agrees with the Company's stated rebuttal position?**

6 A. No. Rather, where I do not respond, I am continuing to rely on my direct testimony.

7  
8 **SUMMARY OF PROPOSED REVENUES**

9 **Q. Please summarize Staff's recommended revenue.**

10 A. Staff recommends a revenue increase of \$241,822 or 75.45 percent increase over test year  
11 revenue of \$320,525. The total annual revenue of \$562,347 produces an operating income  
12 of \$27,208 or a 6.40 percent rate of return on an original cost rate base of \$425,129.

13  
14 **Q. How does Staff's recommended revenue compare to the recommended revenue in**  
15 **Staff's direct testimony?**

16 A. Staff's recommended revenue has increased by \$1,101, from \$561,246 in its direct  
17 testimony to \$562,347 in this testimony.

18  
19 **RATE BASE**

20 **Q. Please summarize Staff's adjustments to Payson's rate base shown on Surrebuttal**  
21 **Schedule CSB-3.**

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

23

TEST YEAR RATE BASE		
Per Company -		Per Staff -
<u>Direct</u>	<u>Difference</u>	<u>Surrebuttal</u>
\$659,457	(\$234,328)	\$425,129

24

1 **Q. How does Staff's recommended rate base compare to the recommended rate base in**  
2 **Staff's direct testimony?**

3 A. Staff's recommended rate base rate is the same as the recommendation made in its direct  
4 testimony.

5  
6 **RATE BASE**

7 *Rate Base Adjustment No. 1 – Unsupported Plant Treated as CIAC*

8 **Q. What percentage of the \$233,733 in unsupported plant costs did Staff recommend to**  
9 **be treated as CIAC?**

10 A. Of the \$233,733 in plant costs for which the Company had no supporting source  
11 documentation, Staff recommended that 30 percent (i.e. \$70,120) be treated as CIAC and  
12 the remaining 70 percent (i.e. \$163,613) be treated as if the Company had paid for the  
13 plant (i.e. equity plant). Staff made this recommendation due to the Company's change in  
14 ownership and the Company's inability to obtain plant invoices for years prior to 2009  
15 from the former owner.

16  
17 **Q. Did Staff review Payson's rebuttal testimony concerning Staff's treatment of the 30**  
18 **percent of unsupported plant treated as CIAC?**

19 A. Yes.

20  
21 **Q. What is the Company's concern?**

22 A. The Company is concerned that Staff did not accept the annual reports and tax  
23 depreciation schedules as evidence that the Company paid for the plant.

1 **Q. What are key objectives in the audit of plant for a regulated water utility?**

2 A. Key objectives in the audit of plant for a regulated water utility are to verify the cost of the  
3 plant with source documentation, to verify the existence and ownership of plant, and to  
4 verify that the amount of plant funded with CIAC is properly reported as CIAC (i.e. a  
5 verification of who paid for the plant).

6  
7 **Q. Were the annual reports and tax depreciation schedules provided by the Company  
8 audited by an independent CPA firm or government auditors?**

9 A. No, the annual reports and tax depreciation schedules provided by the Company were not  
10 audited by an independent CPA firm or government auditors. Therefore, no independent  
11 examination was performed to determine whether or not Payson's plant and CIAC  
12 balances were accurately reported.

13  
14 **Q. What do the unaudited annual reports and tax depreciation schedules show?**

15 A. The unaudited annual reports and tax depreciation schedules show that the financial  
16 information used in the Company's general ledger was *consistent* with the financial  
17 information reported in the Company's annual reports and tax depreciation schedules.  
18 However, because the information shown on these documents is not audited, they do not  
19 provide adequate evidence that the amounts reported in the general ledger are correct.  
20 Further, these schedules do not provide evidence of who paid for the plant.

21  
22 **Q. Is Staff's adjustment consistent with the NARUC and the Arizona Administrative  
23 Code?**

24 A. Yes, making this adjustment is consistent with the recommended audit evidence  
25 considerations outlined in the NARUC Rate Case and Audit Manual which lists invoices  
26 as one of the records to be reviewed during the audit. Staff's adjustment is also consistent

1 with the record keeping requirements of Arizona Administrative Code R14-2-610 D.1  
2 which states, “Each utility shall keep general and auxiliary accounting records reflecting  
3 the cost of its properties . . . and all other accounting and statistical data necessary to give  
4 complete and authentic information as to its properties . . .” (emphasis added).

5  
6 **Q. What is the risk to customers when inadequately supported plant costs are included**  
7 **in plant in service?**

8 A. As Staff stated in its direct testimony, if unsupported costs are not removed, ratepayers are  
9 at risk of paying for non-existent costs. Further, customers are at risk of paying a return  
10 on and a return of plant for which the owner has no investment (i.e. plant which was not  
11 paid for by the owner, such as CIAC).

12  
13 **Q. What are Staff’s recommendations?**

14 A. Staff recommends increasing CIAC by \$70,120 and increasing amortization of CIAC by  
15 \$11,455 resulting in a net decrease to rate base of \$58,665 as shown in column B on  
16 Surrebuttal Schedules CSB-4 and CSB-5.

17  
18 **Q. How does Staff’s recommendation for unsupported plant compare to the**  
19 **recommendation for unsupported plant in Staff’s direct testimony?**

20 A. Staff’s recommendation for unsupported plant is the same as the recommendation made in  
21 its direct testimony.

22

1 *Rate Base Adjustment No. 2 – Unsupported Removal of CIAC Related to Sale of the Star/Quail*  
2 *Valley System*

3 **Q. Did Staff review Payson’s rebuttal testimony concerning Staff’s adjustment to CIAC**  
4 **Related to Sale of the Star/Quail Valley System?**

5 A. Yes.

6  
7 **Q. Is the Company’s understanding of what Staff was questioning regarding the CIAC**  
8 **correct?**

9 A. No, the Company’s understanding is not correct. Mr. Bourassa’s states on page 5, line 15  
10 of his rebuttal testimony, “Ms. Brown questions whether the CIAC removed from the  
11 CIAC balance was really CIAC.” This statement is incorrect. Staff was not questioning  
12 whether or not the \$502,246 that the Company proposed to remove from CIAC due to the  
13 condemnation sale of the Star/Quail Valley system was actually CIAC. Staff  
14 recommended that all of the \$502,246 except the \$77,715 proven to be related to the  
15 condemnation sale *be added back to the CIAC account.*

16  
17 Rather, Staff was seeking adequate evidence to support the Company’s claim that the  
18 \$502,246 in CIAC (which represents over half of the Company’s total \$916,069 CIAC  
19 balance) related solely to the Star/Quail Valley system and thus should be removed from  
20 the Company’s rate base because the Star/Quail Valley system was condemned and sold.

21  
22 **Q. When did the Company acquire the Star/Quail Valley system?**

23 A. According to the direct testimony of Mr. Robert Hardcastle (p.2, beginning at line 3), the  
24 Star/Quail Valley system was part of the United Systems which was purchased in 1996.

25  
26 In August 1996, BUI acquired C&S Water Company, Inc. (“C&S”)  
27 and United Utilities, Inc. (“United”). C&S and United together  
28 comprised numerous water systems nine of which eventually

1 became PWC: Deer Creek (owned by C&S), and Mead's Ranch,  
2 East Verde Estates, Flowing Springs, Geronimo Estates Elusive  
3 Acres, Mesa del Caballo, Whispering Pines, Giseld Tonto Creek  
4 Shores, and Star Valley/Quail Valley (all owned by United). PWC  
5 currently owns and operates eight of the systems.

6  
7 **Q. When were the current rates for the United Systems approved?**

8 A. According to the direct testimony of Mr. Robert Hardcastle (p.2, beginning at line 19), the  
9 United Systems rates were approved in Decision No. 62401, dated March 30, 2000.

10  
11 The Company's current rates were approved in C&S Decision No.  
12 62320 (February 17, 2000) and United Decision No. 62401 (March  
13 30, 2000). C&S's rates went into effect on or about March 1, 2000.  
14 United's rates went into effect on or about May 1, 2000.

15  
16 **Q. What was the CIAC balance reported for the United Systems in Decision No. 62401?**

17 A. The CIAC balance reported for the United Systems, which is composed of eight water  
18 systems and includes the Star/Quail Valley system, was \$960,903.

19  
20 **Q. Was the CIAC balance broken out by system?**

21 A. No, it was not. Therefore, the amount of CIAC related to the Star/Quail Valley system  
22 could not be identified.

23  
24 **Q. Has the Company provided any additional information to support its claim that the  
25 entire \$502,246 in CIAC related solely to Star/Quail Valley system?**

26 A. No, it has not.  
27

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

2 A. Staff recommends increasing CIAC by \$470,913 and increasing amortization of CIAC by  
3 \$295,250, for a net \$175,663 decrease in rate base as shown on Surrebuttal Schedules  
4 CSB-4 and CSB-6.

5  
6 **Q. How does Staff's recommendation for CIAC compare to the recommendation for  
7 CIAC in Staff's direct testimony?**

8 A. Staff's recommendation for CIAC is the same as the recommendation made in its direct  
9 testimony.

10  
11 *Rate Base - Accumulated Deferred Income Taxes*

12 **Q. What are accumulated deferred income taxes ("ADITs")?**

13 A. Accumulated deferred income taxes ("ADITs") are the accumulated computed tax  
14 differences between income taxes calculated for rate-making purposes and the actual  
15 income taxes that a company pays to the United States Treasury and the State of Arizona.

16  
17 **Q. What is the primary cause of the income tax difference?**

18 A. The primary cause of the income tax difference is that a different amount of depreciation  
19 expense is used to calculate income taxes for ratemaking purposes than is used to calculate  
20 income taxes for federal and state purposes.

21  
22 **Q. Has Staff reviewed the Company's rebuttal testimony concerning the ADIT balance?**

23 A. Yes.  
24

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

2 A. The Company alleges that Staff's adjustment to increase the CIAC balance should also  
3 result in an adjustment to the ADIT balance which, in turn, would increase rate base.  
4

5 **Q. Does Staff agree?**

6 A. No, Staff does not agree. As shown in the table below, there are no tax differences caused  
7 by CIAC. Amortization/depreciation expense associated with CIAC is not recognized in  
8 the calculation of income taxes for ratemaking purposes because only depreciation net of  
9 CIAC amortization is used. Moreover, CIAC amortization is not used in the calculation of  
10 income taxes for federal and state purposes because the Company has no tax basis in the  
11 plant.  
12

For Illustrative Purposes Only Company's Filing	Ratemaking Income Tax Calculation	Difference	IRS Income Tax Calculation
Company Proposed Revenue (From Direct Test.)	\$720,310	\$0	\$720,310
Less: All Expenses Except Depreciation Expense and Income Taxes	<\$526,929>	\$0	<\$526,929>
Less: Depreciation Expense on Investor Funded Plant (\$2,159,387 - \$375,036)	<\$85,632>	\$0	<\$85,632>
Less: <b>Depreciation Expense allowed on CIAC Funded Plant (\$375,036 x 0%)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
Taxable Income	\$107,749	\$0	\$107,749
Multiplied by Tax Rate	40%	40%	40%
<b>Income Taxes Paid</b>	\$43,100	<b>\$0</b>	\$43,100
<b>Income Tax Timing Difference (i.e., ADIT)</b>		<b>\$0</b>	

13  
14 **Q. Ms. Brown, is there any additional information that you would like to bring to the  
15 Commission's attention regarding Mr. Bourassa's ADIT discussion??**

16 A. Yes. Mr. Bourassa's statement that changes in CIAC balances result in changes to ADIT  
17 balances is not supported by the CIAC and ADIT information contained in the Balance  
18 Sheet of the Company's 2012 Annual Report, where Staff noted changes in level of CIAC  
19 between the beginning and the end of the year, but the Company failed to show any

1 change to the reported ADIT balance. In fact, a zero ADIT balance is shown for both the  
2 beginning and the end of the year while the net CIAC balance drops by \$178,341. (See  
3 the lines displaying USoA account 271 and USoA account 272 information.)  
4

5 *Operating Income Adjustment No. 1 – Salaries and Wages*

6 **Q. Did Staff review the Company's rebuttal testimony concerning salaries and wages?**

7 A. Yes.  
8

9 **Q. Does Staff agree?**

10 A. Yes and Staff has changed its schedules accordingly.  
11

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

13 A. Staff recommends salaries and wage expense of \$55,097 which is the same amount  
14 proposed by the Company as shown on Schedules CSB-8 and CSB-9.  
15

16 **Q. How does Staff's recommendation for salaries and wages compare to the  
17 recommendation for salaries and wages in Staff's direct testimony?**

18 A. Staff's recommendation for salaries and wages has increased by \$2,507, from \$52,591 in  
19 Staff's direct testimony to \$55,097 in its surrebuttal testimony.  
20

21 *Operating Income Adjustment No. 3 – \$197,722 Corporate Office Allocation*

22 **Q. Has Staff reviewed the Company's rebuttal testimony concerning the \$197,722  
23 Corporate Office Allocation?**

24 A. Yes.  
25

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

2 A. The Company has three concerns. First, the Company believes that the BUI allocation is  
3 no longer a recurring expense. Second, the Company believes that it is appropriate to use  
4 an estimate of \$173,903 that is not based upon actual test year operating experience that is  
5 adjusted for known and measurable changes. Third, the Company claims that the \$33,545  
6 in bonuses are not actually bonuses, and therefore, should continue to be included in  
7 operating expenses.

8  
9 **Q. Does Staff agree?**

10 A. No, Staff will discuss each separately.  
11

12 *The BUI Overhead Allocation*

13 **Q. The Company states on page 10, line 1 of Mr. Bourassa's testimony that, "Since BUI**  
14 **is no longer the owner of PWC, its overhead allocation is no longer recurring expense**  
15 **going forward." Does Staff agree?**

16 A. No, Staff does not agree as changing who provides a service (i.e. vendor) does not result  
17 in the expense becoming non-recurring. A "non-recurring" expense is defined by whether  
18 or not a cost will continue to be needed in the provision of service. It is not defined by  
19 whether or not the vendor who provides the services (i.e. BUI) changes to a different  
20 vendor (i.e. Pivotal). The cost of administrative and other services provided by the BUI  
21 overhead allocation will continue through a different vendor (i.e. Pivotal).  
22

1 *The Company's \$173,903 Estimate*

2 **Q. What does the Rate Case and Audit Manual Prepared by NARUC Staff**  
3 **Subcommittee on Accounting and Finance (2003) ("NARUC Rate Case and Audit**  
4 **Manual") state concerning adjustments to test year data?**

5 A. On page 15 of the NARUC Rate Case and Audit Manual, it states:

6  
7 *A utility's rate filing commonly begins with test year booked*  
8 *numbers, which are then adjusted to represent anticipated,*  
9 *normalized operations for the period, that the rates will take effect.*  
10 *. . . Several types of adjustments may be included, and these*  
11 *adjustments may be referenced by different names in different*  
12 *jurisdictions. Commonly, these adjustments will include correcting*  
13 *adjustments (e.g., the removal of prior period items from the test*  
14 *year), normalizing adjustments (e.g., adjusting . . . for a normalized*  
15 *level of expenses), and pro forma adjustments (e.g., the reflection of*  
16 *authorized salary increases into the test year figures). In general,*  
17 *the pro forma adjustments can be viewed as a ratemaking attempt to*  
18 *transform the relationship that exists between the elements of cost*  
19 *of service (revenues, expenses, taxes, and investment) during the*  
20 *test year to one that would take place during the period that the rates*  
21 *resulting from the rate proceeding take effect. (Emphasis added).*

22  
23 **Q. Is the use of an estimate appropriate when actual test year data is available?**

24 A. No, the use of an estimate is not appropriate when actual test year data is available. The  
25 NARUC Rate Case and Audit Manual indicates that actual test year data should be  
26 adjusted for known and measurable changes.

27  
28 **Q. Does an estimate that is not based upon actual data lend itself to auditing?**

29 A. No, it does not. The Company puts forth estimates but cannot provide the underlying  
30 basis for the estimates as it admits that there are none.

1 *The Company's \$33,545 in Bonuses*

2 **Q. The Company states on page 11, line 16 of Mr. Bourassa's testimony that, ". . . Ms.**  
3 **Brown recommends removing \$33,545 for so-called bonuses as part of its \$43,260**  
4 **downward adjustment to the BUI overhead allocation. However, this was base**  
5 **compensation, which was not optional – it had to be paid." Does Staff agree?**

6 A. No, Staff does not. The Company provided documentation to show the detail of the  
7 \$197,722 overhead allocation. This documentation explicitly identified the \$33,545 as  
8 "bonuses" as shown on page 1 of Attachment B.

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

11 A. Staff recommends decreasing miscellaneous expense by \$43,260 as shown on Schedules  
12 CSB-8 and CSB-11.

13  
14 **Q. How does Staff's recommendation for miscellaneous expense compare to the**  
15 **recommendation for miscellaneous expense in Staff's direct testimony?**

16 A. Staff's recommendation for miscellaneous expense is the same as the recommendation  
17 made in its direct testimony.

18  
19 *Operating Income Adjustment No. 5 – Miscellaneous Expense Other*

20 **Q. Did the Company disagree with Staff's removal of \$2,438 related to chemicals**  
21 **expense and \$1,650 for costs related to a consumption report for augmentation costs?**

22 A. Yes.

23

1 **Q. Why did Staff remove the \$2,438 related to chemicals expense and \$1,650 for costs**  
2 **related to a consumption report for augmentation costs?**

3 A. Staff removed \$2,438 for a consumption report regarding water augmentation costs to be  
4 consistent with Staff's recommendation to eliminate the water augmentation surcharge in  
5 Phase I of this proceeding. Staff removed \$2,438 in chemical costs which the Company  
6 stated in response to CSB 2.6 was duplicative as shown in Attachment C.

7  
8 **Q. What is Staff's recommendation?**

9 A. Staff recommends decreasing miscellaneous expense by \$7,007 as shown on Surrebuttal  
10 Schedules CSB-8 and CSB-13.

11  
12 **Q. How does Staff's recommendation for miscellaneous expense compare to the**  
13 **recommendation for miscellaneous expense in Staff's direct testimony?**

14 A. Staff's recommendation for miscellaneous expense is the same as the recommendation  
15 made in its direct testimony.

16  
17 *Operating Income Adjustment No. 7 – Income Taxes*

18 **Q. Did Staff review the Company's rebuttal testimony concerning income tax expense?**

19 A. Yes. The Company indicated that the correct state income tax rate to be used in the  
20 calculation of income taxes is 6.5 percent. The Company has reflected this updated tax  
21 rate in its rebuttal testimony.

22  
23 **Q. Does Staff agree with the Company?**

24 A. Yes, and Staff has revised its income tax calculation accordingly.  
25

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

2 A. Staff recommends increasing income tax expense by \$34,219, from a negative \$109,557 to  
3 a negative \$75,338 as shown on Surrebuttal Schedules CSB-8 and CSB-15.

4  
5 **Q. How does Staff's recommendation for income tax expense compare to the  
6 recommendation for income tax expense in Staff's direct testimony?**

7 A. Staff's recommendation for income tax expense has decreased by \$17, from a negative  
8 \$75,321 in Staff's direct testimony to negative \$75,338 to in Staff's surrebuttal testimony.

9  
10 *Operating Income Adjustment No. 8 – Property Taxes*

11 **Q. Did Staff review the Company's rebuttal testimony concerning property taxes?**

12 A. Yes. The Company indicated that the correct assessment ratio to be used in the  
13 calculation of property taxes is 19%. The Company has reflected this updated ratio in its  
14 rebuttal testimony.

15  
16 **Q. Does Staff agree with the Company?**

17 A. Yes, and Staff has revised its property tax calculation accordingly.

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

20 A. Staff recommends decreasing property tax expense by \$1,052 as shown on Surrebuttal  
21 Schedules CSB-8 and CSB-16.

22  
23 **Q. How does Staff's recommendation for property tax expense compare to the  
24 recommendation for property tax expense in Staff's direct testimony?**

25 A. Staff's recommendation for property tax expense has decreased by \$1,052, from \$21,030  
26 in Staff's direct testimony to \$19,978 in Staff's surrebuttal testimony.

1 *Revenue Requirement*

2 **Q. Has Staff made a correction to the amount of increase recommended for Other**  
3 **Operating Revenues?**

4 A. Yes. In its direct testimony, Staff had captured a \$3,750 recommended increase to other  
5 operating revenues. However, Staff did not intend to recommend this change. Staff has  
6 removed this amount in its surrebuttal testimony.

7  
8 **Q. How does Staff's recommendation for other operating revenues compare to the**  
9 **recommendation for other operating revenues in Staff's direct testimony?**

10 A. Staff's recommendation for other operating revenues has decreased by \$3,750, from  
11 \$10,716 in Staff's direct testimony to \$6,966 in Staff's surrebuttal testimony.

12  
13 **Q. Does this conclude Staff's surrebuttal testimony?**

14 A. Yes, it does.

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST	[B] STAFF ORIGINAL COST
1	Adjusted Rate Base	\$ 659,457	\$ 425,129
2	Adjusted Operating Income (Loss)	\$ (182,479)	\$ (129,641)
3	Current Rate of Return (L2 / L1)	-27.67%	-30.49%
4	Required Rate of Return	11.00%	6.40%
5	Required Operating Income (L4 * L1)	\$ 72,540	\$ 27,208
6	Operating Income Deficiency (L5 - L2)	\$ 255,020	\$ 156,849
7	Gross Revenue Conversion Factor	1.56766	1.54175
8	Increase (Decrease) In Gross Revenue (L7 * L6)	\$ 399,785	\$ 241,822
9	Adjusted Test Year Revenue	\$ 320,525	\$ 320,525
10	Proposed Annual Revenue (L8 + L9)	\$ 720,310	\$ 562,347
11	Required Increase/(Decrease in Revenue) (%) (L8/L9)	124.73%	75.45%

References:

Column [A]: Company Schedules A-1

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

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	35.1387%			
5	Subtotal (L3 - L4)	64.8613%			
6	<b>Revenue Conversion Factor (L1 / L5)</b>	<b>1.541752</b>			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	33.7626%			
9	One Minus Combined Income Tax Rate (L7 - L8)	66.2374%			
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 (Line 53)	29.1578%			
16	Effective Federal Income Tax Rate (L14 x L15)	27.2626%			
17	Combined Federal and State Income Tax Rate (L13 +L16)		33.7626%		
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	33.7626%			
20	One Minus Combined Income Tax Rate (L18-L19)	66.2374%			
21	Property Tax Factor	2.0777%			
22	Effective Property Tax Factor (L20*L21)		1.3762%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			35.1387%	
24	Required Operating Income	\$ 27,208			
25	Adjusted Test Year Operating Income (Loss)	(129,641)			
26	Required Increase in Operating Income (L24 - L25)		\$ 156,849		
27	Income Taxes on Recommended Revenue (Col. [C], L52)	\$ 4,611			
28	Income Taxes on Test Year Revenue (Col. [A], L52)	(75,338)			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		79,949		
30	Recommended Revenue Requirement	\$ 562,347			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L30*L31)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)		-		
35	Property Tax with Recommended Revenue	\$ 25,002			
36	Property Tax on Test Year Revenue	19,978			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		5,024		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		\$ 241,822		
<u>Calculation of Income Tax:</u>					
39	Revenue	\$ 320,525	\$ 241,822	\$ 562,347	
40	Operating Expenses Excluding Income Taxes	\$ 525,505	\$ 5,024	\$ 530,529	
41	Synchronized Interest (L56)	\$ 9,353		\$ 9,353	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ (214,333)		\$ 22,465	
43	Arizona State Income Tax Rate	6.5000%		6.5000%	
44	Arizona Income Tax (L42 x L43)	\$ (13,932)		\$ 1,460	
45	Federal Taxable Income (L42 - L44)	\$ (200,401)		\$ 21,005	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ (7,500)		\$ 3,151	
47	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ (6,250)		\$ -	
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ (8,500)		\$ -	
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ (39,156)		\$ -	
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ -	
51	Total Federal Income Tax	\$ (61,406)		\$ 3,151	
52	Combined Federal and State Income Tax (L44 + L51)	\$ (75,338)		\$ 4,611	
53	Applicable Federal Income Tax Rate [Col. [C], L51 - Col. [A], L51] / [Col. [C], L45 - Col. [A], L45]			29.1578%	
<u>Calculation of Interest Synchronization:</u>					
54	Rate Base	\$ 425,129			
55	Weighted Average Cost of Debt	2.2000%			
56	Synchronized Interest (L45 X L46)	\$ 9,353			

**RATE BASE - ORIGINAL COST**

LINE NO.	(A)	(B)	ADJ NO.	(C)
	COMPANY AS FILED	STAFF ADJUSTMENTS		STAFF AS ADJUSTED
1	\$ 2,159,387	\$ -		\$ 2,159,387
2	1,332,825	-		1,332,825
3	<u>\$ 826,562</u>	<u>\$ -</u>		<u>\$ 826,562</u>
<u>LESS:</u>				
4	\$ -	\$ -		\$ -
5	\$ -	\$ -		\$ -
6	\$ 375,036	\$ 541,033	1	\$ 916,069
7	231,270	306,705	2	537,975
8	<u>\$ 143,766</u>	<u>234,328</u>		<u>\$ 378,094</u>
9	\$ 143,766	\$ 234,328		\$ 378,094
10	\$ -	\$ -		\$ -
11	\$ 23,339	\$ -		\$ 23,339
<u>ADD: Working Capital</u>				
12	\$ -	\$ -		\$ -
13	\$ -	\$ -		\$ -
14	<u>\$ 659,457</u>	<u>\$ (234,328)</u>		<u>\$ 425,129</u>

References:

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

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	Acct.	[A] COMPANY AS FILED	[B]	[C]	[D]
			Adj No.1 Unsupported Plant Treated as CIAC	ADJ No. 2 Unsupported Removal of CIAC Related to Sale of Star/Quail Valley System	STAFF AS ADJUSTED
1	No. Plant Description		Ref: Sch CSB-5	Ref: Sch CSB-6	
2	301 Organization Cost	\$ 221	\$ -	\$ -	\$ 221
3	302 Franchises	-	-	-	-
4	303 Land and Land Rights	16,500	-	-	16,500
5	304 Structures and Improvements	300,078	-	-	300,078
	305 Collecting and Impounding Reservoirs	2,531	-	-	2,531
6	307 Wells and Springs	273,013	-	-	273,013
7	309 Supply Mains	3,681	-	-	3,681
8	310 Power Generation Equipment	8,310	-	-	8,310
9	311 Pumping Equipment	217,608	-	-	217,608
10	320 Water Treatment Equipment	10,567	-	-	10,567
11	330 Distribution Reservoirs and Standpipes	273,800	-	-	273,800
12	330.2 Pressure Tanks	-	-	-	-
13	331 Transmission and Distribution Mains	439,972	-	-	439,972
14	333 Services	81,823	-	-	81,823
15	334 Meters and Meter Installations	199,952	-	-	199,952
16	335 Hydrants	1,171	-	-	1,171
17	336 Backflow Prevention Devices	-	-	-	-
18	339 Other Plant and Miscellaneous Equipment	320,820	-	-	320,820
19	340 Office Furniture and Equipment	-	-	-	-
20	340.1 Computers and Software	-	-	-	-
21	341 Transportation Equipment	-	-	-	-
22	343 Tools, Shop, and Garage Equipment	72	-	-	72
23	344 Laboratory Equipment	-	-	-	-
24	345 Power Operated Equipment	-	-	-	-
25	346 Communication Equipment	9,267	-	-	9,267
26	347 Miscellaneous Equipment	-	-	-	-
27	348 Other Tangible Equipment	-	-	-	-
28	Rounding	1	-	-	1
29	Total Plant in Service	\$ 2,159,387	\$ -	\$ -	\$ 2,159,387
30	Less: Accumulated Depreciation	\$ 1,332,825	\$ -	\$ -	1,332,825
31	Net Plant in Service	\$ 826,562	\$ -	\$ -	\$ 826,562
33	<u>LESS:</u>				
34	Advances in Aid of Construction (AIAC)	\$ -	\$ -	\$ -	\$ -
35	Meter Deposits - Service Line & Meter Advances	\$ -	-	-	-
37	Contributions in Aid of Construction (CIAC)	\$ 375,036	70,120	470,913	916,069
38	Less: Accumulated Amortization of CIAC	\$ 231,270	11,455	295,250	537,975
39	Net CIAC	\$ 143,766	\$ 58,665	\$ 175,663	\$ 378,094
41	Total Advances and Net Contributions	\$ 143,766	\$ 58,665	\$ 175,663	\$ 378,094
43	Customer Deposits	\$ -	-	-	\$ -
44	Accumulated Deferred Taxes	\$ 23,339	-	-	\$ 23,339
46	<u>ADD: Working Capital</u>				
47	Prepayments	\$ -	-	-	\$ -
48		\$ -	-	-	\$ -
49	Total Rate Base	\$ 659,457	\$ (58,665)	\$ (175,663)	\$ 425,129

**RATE BASE ADJUSTMENT NO. 1 - UNSUPPORTED PLANT TREATED AS CIAC**

LINE NO.	DESCRIPTION	[A]	[B]	[C]	
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED	
1	CIAC, Unsupported Plant Treated as CIAC	\$ -	\$ 70,120	\$ 70,120	Line 33
2	Amort of CIAC, Unsupported Plant Treated as CIAC	\$ -	\$ 11,455	\$ 11,455	Line 50
3	Net CIAC, Unsupported Plant Treated as CIAC	\$ -	\$ 58,665	\$ 58,665	

UNSUPPORTED PLANT TREATED AS CIAC			
Description	Plant Selected In Sample	Unsupported Plant Costs	Staff as Adjusted
2006 Plant Addition, Acct No. 307-Wells & Springs	\$ 11,646	\$ -	\$ 11,646
2007 Plant Addition, Acct No. 310-Power Generation Equip.	\$ 20,059	\$ -	\$ 20,059
2002 Plant Addition, Acct No. 311 - Pumping Equipment	\$ 12,580	\$ -	\$ 12,580
2005 Plant Addition, Acct No. 311 - Pumping Equipment	\$ 12,467	\$ -	\$ 12,467
2008 Plant Addition, Acct No. 311 - Pumping Equipment	19,722	-	19,722
<b>Acct No. 311- Pumping Equipment Subtotal</b>	<b>\$ 44,769</b>	<b>\$ -</b>	<b>\$ 44,769</b>
2001 Plant Addition, Acct No. 330-Distr Reserv & Standpipes	\$ 24,296	\$ -	\$ 24,296
2002 Plant Addition, Acct No. 330-Distr Reserv & Standpipes	31,220	-	31,220
2003 Plant Addition, Acct No. 330-Distr Reserv & Standpipes	42,968	-	42,968
<b>Acct No. 331- Transp. &amp; Distrib. Mains Subtotal</b>	<b>\$ 98,484</b>	<b>\$ -</b>	<b>\$ 98,484</b>
2003 Plant Addition, Acct No. 331-Services	\$ 23,284	\$ -	\$ 23,284
2000 Plant Addition, Acct No. 334-Meters	\$ 35,491	\$ -	\$ 35,491
<b>Total</b>	<b>\$ 233,733</b>	<b>\$ -</b>	<b>\$ 233,733</b>
		x	30%
			<b>\$ 70,119.90</b>

CALCULATION OF AMORTIZATION OF CIAC ON UNSUPPORTED PLANT							
Year Added	Plant Additions	Unsupported Plant	Year Transferred To CIAC	Number of Interim Years	Depreciation Rate	Amortization of CIAC	
2000	Meters	\$ 35,491	2000	12.5	8.33%	\$36,955.00	
2001	Distrib Reserviors	\$ 24,296	2001	11.5	2.22%	\$6,202.77	
2002	Pumping Equip	\$ 12,580	2002	10.5	12.50%	\$16,511.25	
2002	Distrib Reserviors	\$ 31,220	2002	10.5	2.22%	\$7,277.38	
2003	Distrib Reserviors	\$ 42,968	2003	9.5	2.22%	\$9,061.95	
2003	Services	\$ 23,284	2003	9.5	3.33%	\$7,365.89	
2005	Pumping Equip	\$ 12,467	2005	7.5	12.50%	\$11,687.81	
2006	Wells and Springs	\$ 11,646	2006	6.5	3.33%	\$5,520.78	
2007	Pwr Gen Equip	\$ 20,059	2007	5.5	5.00%	\$5,516.23	
2008	Pumping Equip	\$ 19,722	2008	4.5	12.50%	\$11,093.63	
		<b>\$ 233,733</b>				<b>\$38,184.33</b>	
					x	30%	
							<b>\$ 11,455.30</b>

References:

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

**RATE BASE ADJUSTMENT NO. 2 -UNSUPPORTED REMOVAL OF CIAC  
RELATED TO SALE OF STAR/QUAIL VALLEY SYSTEM**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Company Proposed Removal of CIAC Related to Sale	\$ -	\$ 548,628	\$ 548,628
2	Amount of Supported CIAC Related to Sale	\$ -	\$ (77,715)	\$ (77,715)
3	Unsupported Removal of CIAC Related to Sale	\$ -	\$ 470,913	\$ 470,913
4				
5	Company Proposed Removal of Amort of CIAC Related to Sale	\$ -	\$ 343,975	\$ 343,975
6	Amort. Of CIAC on \$77,715 Supported CIAC	\$ -	\$ (48,725)	\$ (48,725) Line 26
7	Total Unsupported Removal of Amortization of CIAC	\$ -	\$ 295,250	\$ 295,250
8				
9	Net CIAC	\$ -	\$ 175,663	\$ 175,663

Star/Quail Valley System	
CIAC & Amort of CIAC	% of CIAC That Is Fully Amortized

CIAC for Star Valley Plant (CSB 2.17) \$ 548,628  
Amortization of CIAC for Star Valley Plant (CSB 2.17) \$ 343,975 63% Line 18 / Line 17

Amortization of CIAC on \$77,715 Amount
---

\$ 77,715 From Line 2  
Multiplied by 63% From Line 18  
\$ 48,725

References:

- Column A: Company Schedule B-2
- Column B: Testimony, CSB, Company Data Request Responses CSB 2.16 & CSB 2.17
- Column C: Column [A] + Column [B]

**OPERATING INCOME - TEST YEAR AND STAFF RECOMMENDED**

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
<b>REVENUES:</b>						
1	Metered Water Sales	\$ 313,559		\$ 313,559	\$ 241,822	\$ 555,381
2	Water Sales - Unmetered	-	-	-	-	-
3	Other Operating Revenues	6,966	-	6,966	-	6,966
4	<b>Total Revenues</b>	<u>\$ 320,525</u>	<u>\$ -</u>	<u>\$ 320,525</u>	<u>\$ 241,822</u>	<u>\$ 562,347</u>
<b>EXPENSES:</b>						
7	Salaries and Wages	\$ 55,097	\$ -	1 \$ 55,097	\$ -	\$ 55,097
8	Employee Pensions & Benefits	-	-	-	-	-
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 & Expense	-	-	-	-	-
14	Contractual Services	58,481	(1,683)	2 56,798	-	56,798
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.	-	-	-	-	-
21	Reg. Comm. Exp. - Rate Case	65,000	-	65,000	-	65,000
22	Miscellaneous Expense	235,253	(58,124)	3,4,5 177,129	-	177,129
23	Bad Debt Expense	-	-	-	-	-
24	Depreciation Expense	85,632	(26,198)	6 59,434	-	59,434
25	Taxes Other Than Income	-	-	-	-	-
26	Property Taxes	21,030	(1,052)	19,978	5,024	25,002
27	Income Taxes	(109,557)	34,219	7 (75,338)	79,949	4,611
28	Rounding	(1)	-	(1)	-	(1)
29		-	-	-	-	-
30	<b>Total Operating Expenses</b>	<u>\$ 503,004</u>	<u>\$ (52,838)</u>	<u>\$ 450,166</u>	<u>\$ 84,973</u>	<u>\$ 535,139</u>
31						
32	<b>Operating Income (Loss)</b>	<u>\$ (182,479)</u>	<u>\$ 52,838</u>	<u>\$ (129,641)</u>	<u>\$ 156,849</u>	<u>\$ 27,208</u>

**References:**

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

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJ #1 Salaries and Wages Ref. Sch CSB-9	(C) ADJ #2 Contractual Services Ref. Sch CSB-10	(D) ADJ #3 Corporate Office Allocation \$197,722 Ref. Sch CSB-11	(E) ADJ #4 Misc. Expense, Beaver Valley Write Off Ref. Sch CSB-12	(F) ADJ #5 Misc. Expense, Other Ref. Sch CSB-13	(G) ADJ #6 Depreciation Expense Ref. Sch CSB-14	(H) ADJ #7 Income Tax Expense Ref. Sch CSB-15	(I) ADJ #8 Property Tax Expense Ref. Sch CSB-16	(J) STAFF ADJUSTED
1	REVENUES:										
1	Metered Water Sales	\$ 313,559	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 313,559
2	Water Sales - Unmetered	-	-	-	-	-	-	-	-	-	-
3	Other Operating Revenues	6,966	-	-	-	-	-	-	-	-	6,966
4	Total Revenues	\$ 320,525	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 320,525
5	OPERATING EXPENSES:										
6	Salaries and Wages	\$ 55,097	-	-	-	-	-	-	-	-	\$ 55,097
7	Employee Pensions & Benefits	-	-	-	-	-	-	-	-	-	-
8	Purchased Power	50,533	-	-	-	-	-	-	-	-	50,533
9	Fuel for Power Production	-	-	-	-	-	-	-	-	-	-
10	Chemicals	2,181	-	-	-	-	-	-	-	-	2,181
11	Repairs and Maintenance	28,089	-	-	-	-	-	-	-	-	28,089
12	Office Supplies & Expense	-	-	-	-	-	-	-	-	-	-
13	Contractual Services	58,481	-	(1,683)	-	-	-	-	-	-	56,798
14	Water Testing	11,000	-	-	-	-	-	-	-	-	11,000
15	Rents	-	-	-	-	-	-	-	-	-	-
16	Transportation Expenses	-	-	-	-	-	-	-	-	-	-
17	Insurance - General Liability	-	-	-	-	-	-	-	-	-	-
18	Insurance - Health and Life	266	-	-	-	-	-	-	-	-	266
19	Reg. Comm. Exp.	-	-	-	-	-	-	-	-	-	-
20	Rate Case	65,000	-	-	-	-	-	-	-	-	65,000
21	Miscellaneous Expense	235,253	-	(43,260)	(43,260)	(7,857)	(7,007)	-	-	-	177,129
22	Bad Debt Expense	-	-	-	-	-	-	-	-	-	-
23	Depreciation Expense	85,632	-	-	-	-	(26,198)	-	-	-	59,434
24	Taxes Other Than Income	-	-	-	-	-	-	-	-	-	-
25	Property Taxes	21,030	-	-	-	-	-	-	-	(1,052)	19,978
26	Income Taxes	(109,557)	-	-	-	-	-	34,219	-	-	(75,338)
27	Rounding	(1)	-	-	-	-	-	-	-	-	(1)
28	Total Operating Expenses	\$ 503,004	\$ -	\$ (1,683)	\$ (43,260)	\$ (7,857)	\$ (7,007)	\$ (26,198)	\$ 34,219	\$ (1,052)	\$ 450,166
29	Operating Income (Loss)	\$ (182,479)	\$ -	\$ 1,683	\$ 43,260	\$ 7,857	\$ 7,007	\$ 26,198	\$ (34,219)	\$ 1,052	\$ (129,641)

**OPERATING INCOME ADJUSTMENT NO. 1 - SALARIES & WAGES**

LINE NO.	DESCRIPTION	[A]	[B]	[C]	
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED	
1	Salaries & Wages	\$ 55,097	\$ -	\$ 55,097	Removed \$2,507 Adj.
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB; Data Request Responses CSB 1.15, 1.24, and 2.11
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 2 - CONTRACTUAL SERVICES

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Contractual Services	\$ 70,679	\$ -	\$ 70,679
2	Legal Expenses Related to Condemnation	\$ (12,198)	\$ (1,683)	\$ (13,881)
3	Total Contractual Services	\$ 58,481	\$ (1,683)	\$ 56,798

References:

- Column A: Company Schedule C-2
- Column B: Testimony, CSB, Data Request Response CSB 1.31
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 3 - \$197,722 Corporate Office Allocation

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Miscellaneous Expense	\$ 37,531	\$ -	\$ 37,531
2				
3	<b>Central Office Overhead Allocation</b>	\$ 197,722	\$ -	\$ 197,722
4	Bonuses	\$ -	\$ (33,545)	\$ (33,545)
5	Star/Quail Valley Costs	\$ -	\$ (9,466)	\$ (9,466)
6	Other (Advertising, Fines, Utility Plant, Gain on Sale)	\$ -	\$ (249)	\$ (249)
7	<b>Subtotal - Central Office Overhead Allocation</b>	\$ 197,722	\$ (43,260)	\$ 154,462
8				
9	Total Miscellaneous Expense (L1 + L7)	\$ 235,253	\$ (43,260)	\$ 191,993

\$197,722 Central Office Overhead Allocation (CSB 1.13, 2.8, 2.10, 2.11, & 2.12)				
Description	Per Company	Difference	Per Staff	
Salaries & Wages	\$ 47,998.99	\$ (4,307.76)	\$ 43,691.23	
Salaries & Wages, Bonuses	\$ 33,544.62	\$ (33,544.62)	\$ -	
Payroll Taxes	\$ 4,939.37	\$ (634.31)	\$ 4,305.06	
Benefits	\$ 3,810.35	\$ (489.32)	\$ 3,321.03	
Building Occupancy Expenses	\$ 81.43	\$ -	\$ 81.43	
Utilities	\$ 3,182.87	\$ -	\$ 3,182.87	
Communications	\$ 7,679.43	\$ -	\$ 7,679.43	
Travel	\$ 13,911.85	\$ -	\$ 7,679.43	
Meals & Entertainment	\$ 577.95	\$ -	\$ 577.95	
Lodging	\$ 2,135.89	\$ -	\$ 2,135.89	
Supplies (Office Expenses)	\$ 14,640.49	\$ (1,881.40)	\$ 12,759.09	
Repairs and Maintenance	\$ 5,181.27	\$ -	\$ 5,181.27	
Bank Charges & Fees	\$ 2,488.32	\$ (319.55)	\$ 2,488.32	
Professional Fees	\$ 31,210.70	\$ -	\$ 31,210.70	
Training & Education	\$ 466.18	\$ -	\$ 466.18	
Advertising & Promotion	\$ 137.87	\$ (137.87)	\$ -	
Dues & Subscriptions	\$ 1,338.34	\$ -	\$ 1,338.34	
Licenses & Permits	\$ 2,685.24	\$ -	\$ 2,685.24	
Fines & Penalties	\$ 12.36	\$ (12.36)	\$ -	
Write Off	\$ 15.75	\$ -	\$ 15.75	
Utility Plant In Service	\$ 948.87	\$ (948.87)	\$ -	
Other General Business	\$ 197.25	\$ -	\$ 197.25	
Property & Casualty Insurance	\$ 997.07	\$ (128.04)	\$ 997.07	
Management Fees	\$ 13,281.62	\$ (1,705.61)	\$ 11,576.01	
Depreciation/Utility Plant In Service (Office Space)	\$ 7,107.99	\$ -	\$ 7,107.99	
(Gain) Loss on Sale of Assets	\$ (849.66)	\$ 849.66	\$ -	
	\$ 197,722.41	\$ (43,260.06)	\$ 148,678	

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(G)	
No. of Payson Customers Excluding Star/Quail Valley (CSB 2.8)	Number of Star/Quail Valley Customers (From Water Co. Plant Descrip Included in Applica)	Total Number of Payson Customers Including Star/Quail Valley Col A + Col B	Description	Amount	Annual Amount Per Customer Col E / Col C	Monthly Amount Per Customer Col F / 12	Monthly Amount Per Customer For Six Months Col G x 6 Months	
49	1114	385	1499	Salaries & Wages	\$ 33,544.62	\$ 22	\$ 1.86	\$ 4,307.76
50	1114	385	1499	Payroll Taxes	\$ 4,939.37	\$ 3	\$ 0.27	\$ 634.31
51	1114	385	1499	Benefits	\$ 3,810.35	\$ 3	\$ 0.21	\$ 489.32
52	1114	385	1499	Suppl. (Office Expenses)	\$ 14,650.49	\$ 10	\$ 0.81	\$ 1,881.40
53	1114	385	1499	Bank Charges & Fees	\$ 2,488.32	\$ 2	\$ 0.14	\$ 319.55
54	1114	385	1499	Prop & Casualty Ins	\$ 997.07	\$ 1	\$ 0.06	\$ 128.04
55	1114	385	1499	Management Fees	\$ 13,281.62	\$ 9	\$ 0.74	\$ 1,705.61
56								\$ 9,466.00

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB; CSB 1.13, CSB 2.8
- Column C: Column [A] + Column [B]

Payson Water Company, Inc.  
Docket No. W-03514A-13-0111  
Test Year Ended December 31, 2012

Surrebuttal Schedule CSB-12

OPERATING INCOME ADJUSTMENT NO. 5 - MISCELLANEOUS EXPENSE, BEAVER DAM WRITE OFF

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Miscellaneous Expense	\$ 227,396	\$ -	\$ 227,396
2	Beaver Dam Write Off (CSB 2.3)	\$ 7,857	\$ (7,857)	\$ -
3	Total Miscellaneous Expense	\$ 235,253	\$ (7,857)	\$ 227,396

References:

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

OPERATING INCOME ADJUSTMENT NO. 4 - MISCELLANEOUS EXPENSE, OTHER

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Miscellaneous Expense	\$ 232,815	\$ -	\$ 232,815
2	Chemicals (CSB 2.6)	\$ 2,438	\$ (2,438)	\$ -
3	Consumption Report Regarding Water Augmentation Costs	\$ 1,650	\$ (1,650)	\$ -
4	Cogsdale - Star Valley Deposit Sort	\$ 825	\$ (825)	\$ -
5	Arizona Department of Revenue	\$ 1,076	\$ (1,076)	\$ -
6	ACC Annual Assessment	\$ 1,018	\$ (1,018)	\$ -
7	Total Miscellaneous Expense	\$ 239,822	\$ (7,007)	\$ 232,815

References:

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

OPERATING INCOME ADJUSTMENT NO. 6 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	301 Organization Cost	\$ 221	\$ (221)	\$ -	0.00%	\$ -
2	302 Franchises	-	-	\$ -	0.00%	\$ -
3	303 Land and Land Rights	16,500	(16,500)	\$ -	0.00%	-
4	304 Structures and Improvements	300,078	-	300,078	3.33%	9,993
5	305 Collecting and Impounding Reservoirs	2,531	-	2,531	3.33%	84
6	306 Lake, River, and Other Intakes	-	-	-	2.50%	-
7	307 Wells and Springs	273,013	-	273,013	3.33%	9,091
8	309 Supply Mains	3,681	-	3,681	2.00%	74
9	310 Power Generation Equipment	8,310	-	8,310	5.00%	416
10	311 Pumping Equipment	217,608	-	217,608	12.50%	27,201
11	320 Water Treatment Equipment	10,567	-	10,567	3.33%	352
12	330 Distribution Reservoirs and Standpipes	273,800	-	273,800	2.22%	6,078
13	330.2 Pressure Tanks	-	-	-	5.00%	-
14	331 Transmission and Distribution Mains	439,972	-	439,972	2.00%	8,799
15	333 Services	81,823	-	81,823	3.33%	2,725
16	334 Meters and Meter Installations	199,952	-	199,952	8.33%	16,656
17	335 Hydrants	1,171	-	1,171	2.00%	23
18	336 Backflow Prevention Devices	-	-	-	6.67%	-
19	339 Other Plant and Miscellaneous Equipment	320,820	-	320,820	6.67%	21,399
20	340 Office Furniture and Equipment	-	-	-	6.67%	-
21	341 Transportation Equipment	-	-	-	20.00%	-
22	340.1 Computers and Software	-	-	-	20.00%	-
23	343 Tools, Shop, and Garage Equipment	72	-	72	5.00%	4
24	344 Laboratory Equipment	-	-	-	10.00%	-
25	345 Power Operated Equipment	-	-	-	5.00%	-
26	346 Communication Equipment	9,267	-	9,267	10.00%	927
27	347 Miscellaneous Equipment	-	-	-	10.00%	-
28	348 Other Tangible Equipment	-	-	-	10.00%	-
29	Total Plant	\$ 2,159,386	\$ (16,721)	\$ 2,142,665		\$ 103,821
30						
31						
32						
33	Composite Depreciation Rate (Depr Exp / Depreciable Plant):	4.85%				
34	CIAC:	\$ 916,069				
35	Amortization of CIAC (Line 33 x Line 34):	\$ 44,387				
36						
37	Depreciation Expense Before Amortization of CIAC:	\$ 103,821				
38	Less Amortization of CIAC:	\$ 44,387				
39	Test Year Depreciation Expense - Staff:	\$ 59,434				
40	Depreciation Expense - Company:	85,632				
41	Staff's Total Adjustment:	\$ (26,198)				

References:

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

OPERATING INCOME ADJUSTMENT NO. 7 - TEST YEAR INCOME TAXES

LINE NO.	<u>DESCRIPTION</u>	(A)	(B)
	<u>Calculation of Income Tax:</u>		
		<u>Test Year</u>	
1	Revenue	\$ 320,525	
2	Less: Operating Expenses - Excluding Income Taxes	\$ 525,505	
3	Less: Synchronized Interest (L17)	\$ 9,353	
4	Arizona Taxable Income (L1- L2 - L3)	\$ (214,333)	
5	Arizona State Income Tax Rate	6.500%	
6	Arizona Income Tax (L4 x L5)		\$ (13,932)
7	Federal Taxable Income (L4 - L6)	\$ (200,401)	
8	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ (7,500)	
9	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ (6,250)	
10	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ (8,500)	
11	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ (39,156)	
12	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -	
13	Total Federal Income Tax		\$ (61,406)
14	Combined Federal and State Income Tax (L6 + L13)		<u>\$ (75,338)</u>
	<u>Calculation of Interest Synchronization:</u>		
15	Rate Base	\$ 425,129	
16	Weighted Average Cost of Debt	<u>2.20%</u>	
17	Synchronized Interest (L16 x L17)	<u>\$ 9,353</u>	
18		Income Tax - Per Staff \$ (75,338)	
19		Income Tax - Per Company \$ (109,557)	
20		Staff Adjustment \$ 34,219	

Payson Water Company, Inc.  
Docket No. W-03514A-13-0111  
Test Year Ended December 31, 2012

Surrebuttal Schedule CSB-16

**OPERATING INCOME ADJUSTMENT NO. 8 - PROPERTY TAX EXPENSE**

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff 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	Staff Recommended Revenue, Per Schedule CSB-1	<u>320,525</u>	\$ 562,347
5	Subtotal (Line 4 + Line 5)	961,575	1,203,397
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	320,525	\$ 401,132
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	641,050	\$ 802,265
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	\$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	641,050	\$ 802,265
13	Assessment Ratio	19.0%	19.0%
14	Assessment Value (Line 12 * Line 13)	121,800	\$ 152,430
15	Composite Property Tax Rate	<u>16.4025%</u>	<u>16.4025%</u>
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 19,978	\$ -
17	Company Proposed Property Tax	<u>21,030</u>	
18	Staff Test Year Adjustment (Line 16-Line 17)	<u>\$ (1,052)</u>	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 25,002
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 19,978
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		<u>\$ 5,024</u>
22	Increase to Property Tax Expense		\$ 5,024
23	Increase in Revenue Requirement		241,822
24	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		2.077650%

Monthly Usage Charge	United System Present	C&S Systems Present	Company Proposed Rates Consolidated	Staff Recommended Rates Consolidated
<b>Meter Size (All Classes):</b>				
5/8 x 3/4 Inch	\$ 16.00	\$ 17.00	\$ 39.24	\$ 20.00
3/4 Inch	18.40	25.50	58.85	33.00
1 Inch	21.28	42.50	98.09	55.00
1 1/2 Inch	32.00	85.00	196.18	110.00
2 Inch	56.00	136.00	313.89	176.00
3 Inch	80.00	255.00	627.78	352.00
4 Inch	128.00	425.00	980.90	550.00
6 Inch	No Tariff	850.00	1,961.80	1,200.00
8 Inch	No Tariff	No Tariff	3,138.88	1,760.00
<b>Commodity Charge - Per 1,000 Gallons</b>				
<b>C&amp;S System (All Meter Sizes)</b>				
Per 1,000 gallons, for all gallons	N/A	\$ 1.4800	N/A	N/A
<b>United Systems (All Meter Sizes)</b>				
First 4,000 gallons	\$ 1.9300	N/A	N/A	N/A
Over 4,000 gallons	2.9900	N/A	N/A	N/A
<b>5/8"x3/4" and 3/4 "Meters (Consolidated)</b>				
First 4,000 gallons	N/A	N/A	\$ 2.7500	N/A
4,001 to 10,000 gallons	N/A	N/A	4.7500	N/A
Over 10,000 gallons	N/A	N/A	6.7500	N/A
First 3,000 gallons	N/A	N/A	N/A	\$ 4.0000
3,001 to 10,000 gallons	N/A	N/A	N/A	7.2000
Over 10,000 gallons	N/A	N/A	N/A	9.6170
<b>1" Meter (Consolidated)</b>				
First 25,000 gallons	N/A	N/A	4.0000	N/A
Over 25,000 gallons	N/A	N/A	4.2500	N/A
First 18,000 gallons	N/A	N/A	N/A	7.2000
Over 18,000 gallons	N/A	N/A	N/A	9.6170
<b>1 1/2" Meter (Consolidated)</b>				
First 50,000 gallons	N/A	N/A	4.0000	N/A
Over 50,000 gallons	N/A	N/A	4.2500	N/A
First 38,000 gallons	N/A	N/A	N/A	7.2000
Over 38,000 gallons	N/A	N/A	N/A	9.6170
<b>2" Meter (Consolidated)</b>				
First 80,000 gallons	N/A	N/A	4.0000	N/A
Over 80,000 gallons	N/A	N/A	4.2500	N/A
First 60,000 gallons	N/A	N/A	N/A	7.2000
Over 60,000 gallons	N/A	N/A	N/A	9.6170
<b>3" Meter (Consolidated)</b>				
First 160,000 gallons	N/A	N/A	4.0000	N/A
Over 160,000 gallons	N/A	N/A	4.2500	N/A
First 120,000 gallons	N/A	N/A	N/A	7.2000
Over 120,000 gallons	N/A	N/A	N/A	9.6170
<b>4" Meter (Consolidated)</b>				
First 250,000 gallons	N/A	N/A	4.0000	N/A
Over 250,000 gallons	N/A	N/A	4.2500	N/A
First 200,000 gallons	N/A	N/A	N/A	7.2000
Over 200,000 gallons	N/A	N/A	N/A	9.6170



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

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	2,903	\$ 21.60	\$ 47.22	\$ 25.62	118.60%
Median Usage	1,434	18.77	43.18	\$ 24.42	130.10%
Staff Recommended					
Average Usage	2,903	\$ 21.60	\$ 31.61	\$ 10.01	46.33%
Median Usage	1,434	18.77	25.74	\$ 6.97	37.13%

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

Gallons	Company Proposed		%	Staff Recommended	
	Present	Proposed		Recommended	%
Consumption	Rates	Rates	Increase	Rates	Increase
-	\$ 16.00	\$ 39.24	145.25%	\$ 20.00	25.00%
1,000	17.93	41.99	134.19%	24.00	33.85%
2,000	19.86	44.74	125.28%	28.00	40.99%
3,000	21.79	47.49	117.94%	32.00	46.86%
4,000	23.72	50.24	111.80%	39.20	65.26%
5,000	26.71	54.99	105.88%	46.40	73.72%
6,000	29.70	59.74	101.14%	53.60	80.47%
7,000	32.69	64.49	97.28%	60.80	85.99%
8,000	35.68	69.24	94.06%	68.00	90.58%
9,000	38.67	73.99	91.34%	75.20	94.47%
10,000	41.66	78.74	89.01%	82.40	97.79%
11,000	44.65	85.49	91.47%	92.02	106.09%
12,000	47.64	92.24	93.62%	101.63	113.34%
13,000	50.63	98.99	95.52%	111.25	119.73%
14,000	53.62	105.74	97.20%	120.87	125.42%
15,000	56.61	112.49	98.71%	130.49	130.50%
16,000	59.60	119.24	100.07%	140.10	135.07%
17,000	62.59	125.99	101.29%	149.72	139.21%
18,000	65.58	132.74	102.41%	159.34	142.96%
19,000	68.57	139.49	103.43%	168.95	146.39%
20,000	71.56	146.24	104.36%	178.57	149.54%
25,000	86.51	179.99	108.06%	226.66	162.00%
30,000	101.46	213.74	110.66%	274.74	170.79%
35,000	116.41	247.49	112.60%	322.83	177.32%
40,000	131.36	281.24	114.10%	370.91	182.36%
45,000	146.31	314.99	115.29%	419.00	186.37%
50,000	161.26	348.74	116.26%	467.08	189.64%
75,000	236.01	517.49	119.27%	707.51	199.78%
100,000	310.76	686.24	120.83%	947.93	205.04%

Typical Bill Analysis for C&S System  
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	6,961	\$ 27.30	\$ 64.30	\$ 37.00	135.53%
Median Usage	4,500	23.66	52.62	\$ 28.96	122.38%
<b>Staff Recommended</b>					
Average Usage	6,961	\$ 27.30	\$ 60.52	\$ 33.22	121.66%
Median Usage	4,500	23.66	42.80	\$ 19.14	80.90%

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

Gallons	Company			Staff	
	Present	Proposed	%	Recommended	%
Consumption	Rates	Rates	Increase	Rates	Increase
-	\$ 17.00	\$ 39.24	130.82%	\$ 20.00	17.65%
1,000	18.48	41.99	127.22%	24.00	29.87%
2,000	19.96	44.74	124.15%	28.00	40.28%
3,000	21.44	47.49	121.50%	32.00	49.25%
4,000	22.92	50.24	119.20%	39.20	71.03%
5,000	24.40	54.99	125.37%	46.40	90.16%
6,000	25.88	59.74	130.83%	53.60	107.11%
7,000	27.36	64.49	135.71%	60.80	122.22%
8,000	28.84	69.24	140.08%	68.00	135.78%
9,000	30.32	73.99	144.03%	75.20	148.02%
10,000	31.80	78.74	147.61%	82.40	159.12%
11,000	33.28	85.49	156.88%	92.02	176.49%
12,000	34.76	92.24	165.36%	101.63	192.39%
13,000	36.24	98.99	173.15%	111.25	206.98%
14,000	37.72	105.74	180.33%	120.87	220.43%
15,000	39.20	112.49	186.96%	130.49	232.87%
16,000	40.68	119.24	193.12%	140.10	244.40%
17,000	42.16	125.99	198.84%	149.72	255.12%
18,000	43.64	132.74	204.17%	159.34	265.11%
19,000	45.12	139.49	209.15%	168.95	274.45%
20,000	46.60	146.24	213.82%	178.57	283.20%
25,000	54.00	179.99	233.31%	226.66	319.73%
30,000	61.40	213.74	248.11%	274.74	347.46%
35,000	68.80	247.49	259.72%	322.83	369.22%
40,000	76.20	281.24	269.08%	370.91	386.76%
45,000	83.60	314.99	276.78%	419.00	401.19%
50,000	91.00	348.74	283.23%	467.08	413.27%
75,000	128.00	517.49	304.29%	707.51	452.74%
100,000	165.00	686.24	315.90%	947.93	474.50%

Attachment A

SALARIES AND WAGE EXPENSE  
COMPANY'S RESPONSE TO DATA REQUEST CSB 2.11







**Attachment B**

**BONUS**

**COMPANY'S RESPONSE TO DATA REQUEST CSB 1.13**

# Payson Water Co.

## Overhead Allocation Criteria

Based on Locations Count 2012

CSB 1.13

Company	System	Count	% Allocation
13	GE/EA	03	95
13	EVP	04	161
13	SQV	05	0
13	DC	06	132
13	MR	07	74
13	MDC	08	417
13	WP	09	176
13	FS	10	32
13	TCS	11	224
<b>TOTALS</b>			<b>1311</b>
			<b>100%</b>

Description	YEAR TOTAL											
	DECEMBER	NOVEMBER	OCTOBER	SEPTEMBER	AUGUST	JULY	JUNE	MAY	APRIL	MARCH	FEBRUARY	JANUARY
<b>Salary and Wages</b>												
Officers	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Salary	43,595.26	3,396.27	3,111.80	3,283.50	3,303.14	3,396.85	3,400.14	3,305.63	4,202.31	4,321.62	4,275.08	4,391.44
Hourly	4,403.73	470.73	724.34	445.59	370.29	310.68	208.63	426.24	224.75	137.59	166.89	308.36
Overtime	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bonus	33,544.62	1,575.10	1,760.75	3,336.79	1,483.30	1,482.70	1,484.14	1,855.52	12,849.01	4,084.31	1,815.25	4,084.31
Contract Labor	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Payroll Taxes</b>												
Fica	3,523.14	94.80	92.42	311.76	211.73	213.70	206.45	221.35	913.58	400.24	258.51	415.15
Medicare	1,116.19	52.34	51.78	77.25	49.53	49.99	48.52	51.76	213.66	93.62	60.46	97.10
Futa	44.19	0.00	0.00	0.21	0.00	0.05	0.00	-0.51	0.00	0.62	1.93	41.89
Sui	255.85	0.00	0.00	0.92	0.00	0.21	0.00	-2.19	0.00	4.35	11.12	241.44
<b>Benefits</b>												
Workers Compensation	668.71	152.70	57.81	34.84	33.75	34.78	35.68	91.76	40.36	68.06	40.26	78.71
Health Insurance	2,940.74	252.73	257.60	250.54	253.84	254.36	252.92	240.85	293.51	293.05	293.05	298.27
Life Insurance	37.15	3.11	3.11	3.11	3.15	3.11	3.12	3.12	3.81	3.81	3.81	3.88
401 (k) Plan Contributions	163.75	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	163.75	0.00
<b>Building Occupancy Expenses</b>												
Rent	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Maintenance	81.43	0.00	0.00	0.00	11.39	3.00	0.00	55.10	0.00	11.93	0.00	0.00
Repairs	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Utilities</b>												
Gas / Electricity	2,607.20	244.45	120.87	60.82	172.46	236.52	60.15	172.85	273.19	278.86	393.64	315.84
Water / Sewer	190.39	13.93	37.37	6.45	25.81	0.00	6.51	48.76	0.00	7.96	23.75	0.00







*Attachment C*

**CHEMICALS EXPENSE  
COMPANY'S RESPONSE TO DATA REQUEST CSB 2.6**

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

September 23, 2013

Response provided by: Jason Williamson  
Title: President  
Company: Payson Water Company  
Address: 7581 E. Academy Blvd., Suite 229  
Denver, CO 80230

Company Response Number: CSB – 2.6

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- Q. Miscellaneous Expense, Chemicals – This is a follow-up to CSB 1.30. In the list of expenses composing the \$243,699.64 in miscellaneous expense, there are chemical expenses that total of \$2,438. There is also \$2,181 for chemicals on Schedule C-1.
- a. Please state whether or not the amount is duplicative. If not, please explain and provide supporting invoices for the \$2,438 amount.
  - b. Please provide the chemicals expense amount for the years 2010 and 2011.

**RESPONSE:**

- a. Yes, the amount is duplicative in the \$243,699 of miscellaneous expense but the \$2,181 shown on Schedule C-1 is not duplicative as it is not included in the \$235,989 of Miscellaneous Expense shown on the Schedule C-1.
- b. Chemical expense in 2011 was \$588 and was \$422 in 2010.

**BEFORE THE ARIZONA CORPORATION COMMISSION**

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

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

DOCKET NO. W-03514A-13-0111

IN THE MATTER OF THE APPLICATION OF )  
PAYSON WATER CO. INC., FOR AUTHORITY )  
TO ISSUE EVIDENCE OF INDEBTEDNESS )  
IN AN AMOUNT NOT TO EXCEED \$1,238,000 )  
IN CONNECTION WITH INFRASTRUCTURE )  
IMPROVEMENTS TO THE UTILITY SYSTEM; )  
AND ENCUMBER REAL PROPERTY AND )  
PLANT AS SECURITY FOR SUCH )  
INDEBTEDNESS. )

DOCKET NO. W-03514A-13-0142

SURREBUTTAL  
TESTIMONY  
OF  
JOHN A. CASSIDY  
PUBLIC UTILITIES ANALYST  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION

DECEMBER 20, 2013

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**EXECUTIVE SUMMARY  
PAYSON WATER COMPANY  
DOCKET NO. W-03514A-13-0111, ET AL.**

Staff continues to recommend a capital structure for Payson Water Company ("Company") of 52.8 percent debt and 47.2 percent equity, a 9.0 percent return on equity ("ROE"), a 4.2 percent cost of debt for the Company, and a 6.4 percent overall rate of return.

The Commission should reject the Company's proposed 11.0 percent ROE for the following reasons:

Mr. Bourassa's primary Future Growth DCF model relies exclusively on analysts' forecasts of earnings per share growth, and the estimates derived from his Future Growth DCF model are effectively assigned a 75 percent weight to his overall DCF estimate. Mr. Bourassa's historical dividend growth estimate in his Past and Future Growth DCF model is inflated through the use of growth in average annual share price as a proxy to estimate dividend growth. Mr. Bourassa's CAPM estimates are inflated due to use of a forecasted risk-free rate. Mr. Bourassa's proposed ROE has been inflated by an upward adjustment for financial risk and a small company risk premium.

1 **I. INTRODUCTION**

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

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

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

8 A. Yes, I am.

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

11 A. The purpose of my surrebuttal testimony is to respond to the cost of capital rebuttal  
12 testimony of Payson Water Company (“Payson Water” or “Company”) witness, Mr.  
13 Thomas J. Bourassa (“Mr. Bourassa’s Rebuttal”).

14  
15 **Q. Please explain how Staff’s surrebuttal testimony is organized.**

16 A. Staff’s surrebuttal testimony is presented in four sections. Section I is this introduction.  
17 Section II presents Staff’s comments on the rebuttal testimony of the Company’s cost of  
18 capital witness, Mr. Bourassa. Finally, Section III presents Staff’s cost of capital  
19 recommendations.

20  
21 **II. STAFF RESPONSE TO COMPANY’S COST OF CAPITAL WITNESS MR.  
22 THOMAS J. BOURASSA**

23 **Q. Please summarize the capital structure, cost of debt, cost of equity, and overall rate  
24 of return proposed in Mr. Bourassa’s rebuttal.**

25 A. Mr. Bourassa’s rebuttal continues to propose a capital structure consisting of 0.0 percent  
26 debt and 100.0 percent equity, a 0.0 percent cost of debt, and an 11.0 percent cost of

1 equity. As a consequence, Mr. Bourassa continues to propose a weighted average cost of  
2 capital for Payson Water of 11.0 percent.

3  
4 **Q. Has Staff changed its recommendation from its direct testimony?**

5 A. No.

6  
7 **Q. How does Staff respond to Mr. Bourassa's assertion that Staff's recommended pro**  
8 **forma capital structure for the Company consisting of 52.8 percent debt and 47.2**  
9 **percent equity creates a mismatch between rate base and invested equity capital?**

10 A. Pursuant to a request made by the Company, Payson Water's rate and financing  
11 applications were consolidated, and Staff's recommended pro forma capital structure mix  
12 is reflective of the Company's desire to consolidate its rate and financing filings.  
13 Furthermore, Staff's recommendations in these consolidated dockets give consideration to  
14 the following factors which have been identified within the various filing support  
15 documents proffered by the Company: (1) that the rate and financing dockets are linked  
16 by an underlying asset encumbrance; (2) that on frequent occasions, the Company has  
17 acknowledged that it is making an extraordinary request of Staff and the Commission in  
18 seeking expedited relief by the end of 2013 (a goal which the Company's acknowledges  
19 can only be achieved through an extraordinary and "cooperative effort"); (3) that  
20 positioning the Company to be able to meet WIFA's 1.2 minimum DSC requirement was  
21 decisively important; and (4) that the new capital structure resulting from the approval of  
22 the Company's financing application "is more balanced and favors ratepayers as the cost  
23 of debt is less than the cost of equity." Staff believes that its collective recommendations  
24 in the Company's two consolidated filings are very reasonable when viewed within the  
25 unique and extraordinary rate request processing environment dictated and delineated by  
26 Payson Water's petition.

1 Furthermore, as clearly expressed in Staff recommendation item No. 11 contained in the  
2 Phase I financing Staff Report (dated September 18, 2103) filed in the pending  
3 consolidated dockets, it has always been Staff's intent to have rate case recommendations  
4 that would be focused on providing the Company with a reasonable opportunity to achieve  
5 the 1.2 DSC required under the WIFA loan covenants. Staff's rate case recommendations  
6 using the Staff recommended capital structure mix, coupled with its WIFA surcharge  
7 recommendations, meet this clearly communicated goal. Thus, Mr. Bourassa's assertion  
8 that Staff's recommended capital structure results in a "mismatch" is without merit, as  
9 Staff's recommended capital structure in this consolidated docket was driven by the  
10 Company's unique and extraordinary petition.  
11

12 **III. STAFF RECOMMENDATIONS**

13 **Q. Based on Staff's review of Mr. Bourassa's rebuttal testimony, is Staff proposing a**  
14 **different ROE and ROR for the Company in this testimony than in Staff's direct**  
15 **testimony?**

16 **A. No.**  
17

18 **Q. Does this conclude your surrebuttal testimony?**

19 **A. Yes, it does.**

**BEFORE THE ARIZONA CORPORATION COMMISSION**

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

IN THE MATTER OF THE APPLICATION OF ) DOCKET NO. W-03514A-13-0111  
PAYSON WATER CO., INC., AN ARIZONA )  
CORPORATION, FOR 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. )

IN THE MATTER OF THE APPLICATION OF ) DOCKET NO. W-03514A-13-0142  
PAYSON WATER CO., INC., FOR AUTHORITY )  
TO ISSUE EVIDENCE OF INDEBTEDNESS IN )  
AN AMOUNT NOT TO EXCEED \$1,238,000 IN )  
CONNECTION WITH INFRASTRUCTURE )  
IMPROVEMENTS TO THE UTILITY SYSTEM )  
AND ENCUMBER REAL PROPERTY AND )  
PLANT AS SECURITY FOR SUCH )  
INDEBTEDNESS. )

SURREBUTTAL

TESTIMONY

OF

JIAN W. LIU

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

DECEMBER 20, 2013

**EXECUTIVE SUMMARY  
PAYSON WATER COMPANY  
DOCKET NOS. W-03514A-13-0111 AND W-03514A-13-0142**

Staff continues to recommend that any increase in rates and charges approved in this proceeding not become effective until the first day of the month following the Company's filing of an updated Arizona Department of Environmental Quality ("ADEQ") Drinking Water Compliance Status Report indicating that the Company is in compliance with ADEQ requirements for all its water systems.

The following two recommendations replace recommendations 1 and 2 in my direct testimony:

1. Staff recommends that Payson Water Company, Inc. ("PWC" or "Company") monitor the Gisela water system and submit the gallons pumped and sold to determine the non-account water for one full year. The Company should coordinate when it reads the well meters each month with customer billing so that an accurate accounting is determined. The results of this monitoring and reporting shall be docketed as a compliance item in this case within 13 months of the effective date of the order issued in this proceeding. If the reported water loss is greater than 10 percent the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 13 months of the effective date of the order issued in this proceeding.
  
2. Staff recommends that PWC prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less for its Geronimo Estates, Meads Ranch, and Whispering Pines water systems. The water loss reduction report shall be docketed as a compliance item within 90 days of the effective date of the order issued in this proceeding. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent.

1 INTRODUCTION

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

3 A. My name is Jian W. Liu. My job title is Water/Wastewater Engineer. My place of  
4 employment is the Arizona Corporation Commission (“ACC” or “Commission”), Utilities  
5 Division (“Staff”), 1200 West Washington Street, Phoenix, Arizona 85007.

6  
7 **Q. Are you the same Jian W. Liu who filed Direct Testimony in this case?**

8 A. Yes, I am.

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

11 A. The purpose of my Surrebuttal Testimony in this proceeding is to discuss, on behalf of  
12 Staff, Arizona Department of Environmental Quality (“ADEQ”) compliance, water loss  
13 and water supply in the East Verde Park Estates issues regarding Payson Water Company,  
14 Inc. (“PWC” or “Company”).

15  
16 **Q. What is The PWC’s position regarding ADEQ compliance?**

17 A. Mr. Jason Williamson, in his rebuttal testimony, states that “Any delay in an increase in  
18 rates will have a dramatic impact on the Company”.

19  
20 **Q. What is the Staff’s opinion regarding the ADEQ compliance issue?**

21 A. PWC is responsible for ensuring its system complies with ADEQ requirements and the  
22 water delivered to customers meets water quality standards. This issues to be resolved  
23 are:

- 24  
25 1. Well does not have a well vent.



1 **Q. Do you have any other corrections to your direct testimony?**

2 **A.** Yes, the following two recommendations should supersede my recommendations 1 and 2  
3 in my direct testimony because of the corrections in above Table 2:

4  
5 1. Staff recommends that PWC monitor the Gisela water system and submit the  
6 gallons pumped and sold to determine the non-account water for one full year.  
7 The Company should coordinate when it reads the well meters each month with  
8 customer billing so that an accurate accounting is determined. The results of this  
9 monitoring and reporting shall be docketed as a compliance item in this case  
10 within 13 months of the effective date of the order issued in this proceeding. If the  
11 reported water loss is greater than 10 percent the Company shall prepare a report  
12 containing a detailed analysis and plan to reduce water loss to 10 percent or less.  
13 If the Company believes it is not cost effective to reduce the water loss to less than  
14 10 percent, it should submit a detailed cost benefit analysis to support its opinion.  
15 In no case shall the Company allow water loss to be greater than 15 percent. The  
16 water loss reduction report or the detailed analysis, whichever is submitted, shall  
17 be docketed as a compliance item within 13 months of the effective date of the  
18 order issued in this proceeding.

19  
20 2. Staff recommends that PWC prepare a report containing a detailed analysis and  
21 plan to reduce water loss to 10 percent or less for its Geronimo Estates, Meads  
22 Ranch, and Whispering Pines water systems. The water loss reduction report shall  
23 be docketed as a compliance item within 90 days of the effective date of the order  
24 issued in this proceeding. If the Company believes it is not cost effective to reduce  
25 the water loss to less than 10 percent, it should submit a detailed cost benefit

1 analysis to support its opinion. In no case shall the Company allow water loss to  
2 be greater than 15 percent.

3  
4 **Q. Does the Company agree with Staff's water loss calculation for the Geronimo Estates**  
5 **water system?**

6 A. No. The PWC shows 10 percent water loss versus 10.21 percent by Staff.  
7 Staff agrees with the Company that the Geronimo Estates water loss is near the threshold  
8 of 10 percent. Staff continues to recommend the above recommendation #2 for the  
9 Geronimo Estates water system.

10  
11 **Q. Is the Company opposed to Staff's recommendation that the Company conduct a**  
12 **study regarding the East Verde Park Estates water system water supply situation?**

13 A. No. The Company does request that the time frame for completing this study should be at  
14 least one year from a decision in this case. PWC's request is reasonable. Therefore, Staff  
15 recommends that the Company file documentation showing the Company's long-term  
16 plan to address its water supply problem in the East Verde Park Estates water system.  
17 This documentation should be filed as a compliance item with Docket Control within  
18 twelve months of the effective date of the Commission Decision in this matter. Staff  
19 further recommends that a moratorium on new connections be implemented in the East  
20 Verde Park Estates water system until the Company can solve the water supply shortages.

21  
22  
23 **Q. Did you attempt to address every issue the Company raised in its Rebuttal**  
24 **Testimony?**

25 A. No. Staff limited its discussion to the specific issue as outlined above. Staff's lack of  
26 response to any issue in this proceeding should not be construed as agreement with the

1           Company's position in its Rebuttal Testimony; rather where there is no response, Staff  
2           relies on its original Direct Testimony.

3

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

5   **A.   Yes, it does.**