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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY, AN ARIZONA CORPORATION, FOR A 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-01427A-13-
IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-01428A-13-

DIRECT TESTIMONY OF
THOMAS J. BOURASSA

COST OF CAPITAL

February 28, 2013

EXHIBIT
A-4
ADMITTED

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

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

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

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

A. This portion of my direct testimony focuses on cost of capital issues. I will testify in support of Litchfield Park Service Company's ("LPSCO" or "Company") proposed rate of return on its fair value rate base ("FVRB"). I am sponsoring the Company's D Schedules, which are attached to this testimony. There are 22 schedules that support my cost of capital testimony. As noted above, I am also sponsoring direct testimony that addresses the Company's rate base, income statement (revenue and operating expenses), required increase in revenue, and its rate design and proposed rates and charges for service. For convenience, that testimony and my related schedules are contained in a separate volume.

Q. PLEASE SUMMARIZE YOUR COST OF CAPITAL TESTIMONY.

A. I have determined that the cost of equity for the publicly traded water utilities falls in the range of 8.4 percent to 11.9 percent with the midpoint of the range at 10.2 percent. After considering the difference in financial risk and company size

between LPSCO and the publicly traded water utilities, I am recommending a return on equity ("ROE") of 10.0 percent for the Company.

My recommendation is based on consideration of (i) cost of equity estimates using constant growth and multi-stage growth discounted cash flow ("DCF") models, the capital asset pricing model ("CAPM") and the Build-up Method for a sample group of publicly traded water utilities, (ii) my review of the economic conditions expected to prevail during the period in which new rates will be in effect, (iii) my judgments about the risks associated with relatively small utilities like LPSCO that are not captured by the market data of publicly-traded water utilities, (iv) the financial risk associated with the level of debt in LPSCO's capital structure, and (v) additional specific business and operational risks faced by LPSCO.

Q. WHAT IS THE RECOMMENDED CAPITAL STRUCTURE FOR LPSCO?

A. I am recommending a capital structure consisting of 15.87 percent debt and 84.13 percent equity. My recommendation is based upon the actual capital structure at the end of the test year (December 31, 2012).

Q. WHAT IS THE RECOMMENDED COST OF DEBT FOR LPSCO?

A. The effective cost of debt is 6.86 percent inclusive of issuance costs.

Q. WHAT IS THE WEIGHTED AVERAGE COST OF CAPITAL?

A. The weighted cost of capital based upon a capital structure consisting of 15.87 percent debt and 84.13 percent equity, a debt cost of 6.86 percent, and a cost of equity of 10.0 percent is 9.50 percent as shown on Schedule D-1.

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

A. The cost of equity for LPSCO cannot be estimated directly because the Company's equity is not in the form of a publicly traded security so there is no market data for

LPSCO. Consequently, I have assessed the market-based common equity cost rates of companies of relatively similar, but not necessarily identical risk for insight into a recommended common equity cost rate applicable to LPSCO. The DCF, CAPM, and Build-up models using data from a sample of publicly traded water utilities, or proxy group, selected from the *Value Line Investment Survey* serve as starting point in my analysis. Analysis of a proxy group serves as a starting point because no proxy group can be selected to be identical in risk to LPSCO. Therefore, the proxy group's results must be adjusted to reflect the unique relative financial and/or business risks of LPSCO, as I will discuss in detail.

There are six water utilities in my sample: American States Water (AWR), Aqua America (WTR), California Water Company (CWT), Connecticut Water (CTWS), Middlesex Water (MSEX), and SJW Corp. (SJW). As explained later in my testimony, these companies aren't really comparable to LPSCO, but they are water utilities for which market data is available, and the Utilities Division Staff has relied on data for these water utilities for their proxy group in a number of recent water and sewer utility rate cases.

My DCF analyses of my proxy group indicate ROEs in the range of 8.6 percent to 9.7 percent with a midpoint of 9.2 percent. My CAPM analysis, again using the proxy group, indicates ROEs in the range of 8.6 percent to 13.2 percent are appropriate with a midpoint of 10.9 percent. My Build-up Method analysis, also using the same proxy group, indicates ROEs in the range of 8.2 percent to 12.8 percent are appropriate with a midpoint of 10.5 percent. The average of the midpoint estimates is 10.2 percent. The DCF, CAPM, and Build-up results are before consideration of financial risk and company-specific risks such as size.

Given LPSCO's proposed capital structure and relatively small size compared to the larger publicly-traded utilities used in my sample, the regulatory methods and policies used in this jurisdiction, and other company-specific factors, it is my opinion that at the present time a cost of equity of at least 10.0 percent is warranted.

My recommendation of a 10.0 percent ROE balances my judgment about the degree of financial and business risk associated with an investment in LPSCO as well as consideration of the current economic environment. A summary of my cost of equity analysis result is shown on Schedule D-4.1.

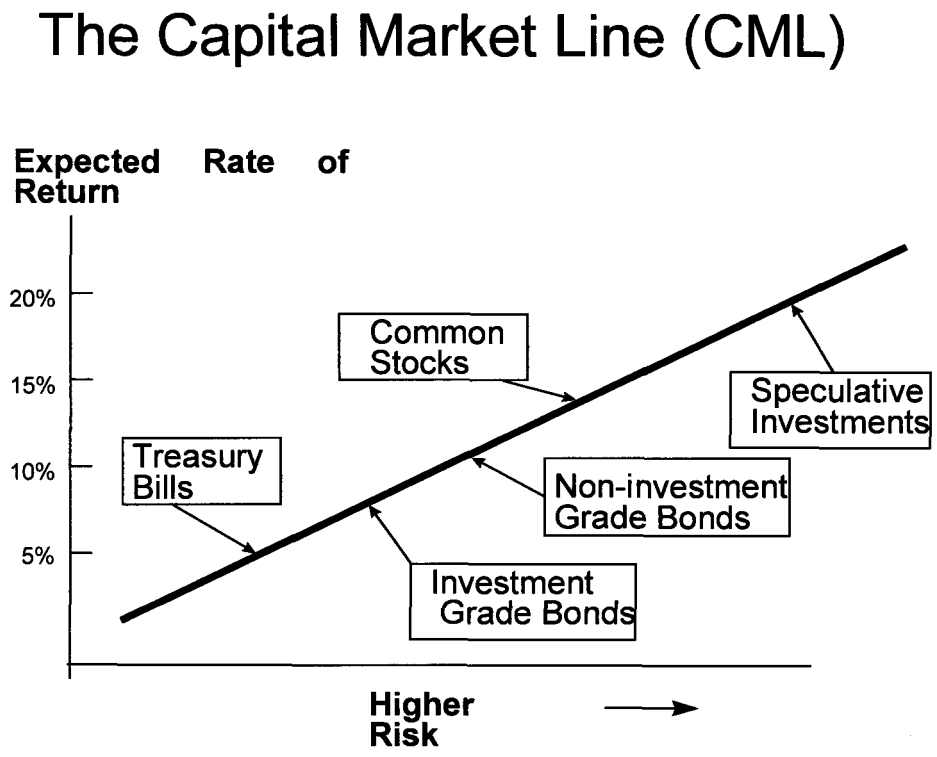
III. OVERVIEW OF THE RELATIONSHIP BETWEEN RISK AND THE EXPECTED RETURN ON AN INVESTMENT

Q. HOW IS THE COST OF EQUITY TYPICALLY ANALYZED?

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

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

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



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

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

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

compensate them for the possibility of loss of either the principal amount invested or the expected annual income from such investment.

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

The capital markets reflect investor expectations and requirements each day through market prices. Prices for stocks and bonds change to reflect investor expectations and the relative attractiveness of one investment relative to others. While the example provided above seems straightforward, returns on common stocks are not directly observable in advance, in contrast to debt or preferred stocks with fixed payment terms. This means that these returns must be estimated from market data. Estimating the cost of equity capital should be a matter of informed judgment about the relative risk of the company in question and the expected rate of return characteristics of other alternative investments.

Q. HOW IS THE COST OF EQUITY TO BE DETERMINED FOR A PARTICULAR UTILITY DETERMINED?

A. The estimation of a utility's cost of equity is complex. It requires an analysis of the factors influencing the cost of various types of capital, such as interest on long-term debt, dividends on preferred stock, and earnings on common equity. The data for such an analysis comes from highly competitive capital markets, where the firm

raises funds by issuing common stock, selling bonds, and borrowing (both long- and short-term) from banks and other financial institutions. In the capital markets, the cost of capital, whether the capital is in the form of debt or equity, is determined by two important factors:

1) The pure or real rate of interest, often called the risk-free rate of interest; and,

2) The uncertainty or risk premium (the compensation the investor requires over and above the real or pure rate of interest for subjecting his capital to additional risk).

Q. PLEASE DISCUSS THESE FACTORS IN GREATER DETAIL.

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

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

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

A. Yes. Conceptually,

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

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

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

A. In the past few years and subsequent to the market turmoil and recession of the 2007-2009 time frame, inflation and capital market costs have generally declined. Interest rates have been lower than in previous decades. Past inflation, as measured by the Consumer Price Index, has been at relatively low levels in the past ten years.

Since emerging from the recent recession of 2008-2009, the economy has grown at a modest and tepid pace. GDP growth for 2010 and 2011 was 3.0 percent and 2.0 percent, respectively. GDP growth slowed for 2012 to 1.6 percent. However, economists view the recent fourth quarter GDP growth for 2012 of a -0.1 percent as a relatively short-term soft patch. Economists view fourth quarter GDP growth setback as the result of such unusual items as the largest cutback in defense spending in 40 years, a decline in exports, and a pullback in manufacturing and inventories. Against these headwinds were rising business investment, consumer spending and housing. While there are still risks to economic growth arising out of

Washington (debt ceiling, spending sequestrations, and tax increases), economists see business investment and housing continuing to improve. With this backdrop, economists see the economy growing at a modest pace with GDP growth in the range of 2.1 to 2.8 percent over the next year.

Q. WHAT ABOUT INTEREST RATES AND THE STATUS OF THE STOCK MARKET?

A. With respect to interest rates, the Federal Reserve lowered the Federal Funds target rate to near zero during the depths of the 2008-2009 recession where it continues to stand at zero to .25 percent. While the move to lower interest rates may have been necessary at the time, the Federal Reserve is left with little latitude to affect new monetary moves going forward. In August 2011, the Federal Reserve announced that it intended to keep interest rates low well into 2013 due, in part, to the expected economic conditions going forward. This news is met with mixed reactions from investors. On the one hand, investors and businesses received some level of certainty regarding interest rates over the next few years. On the other hand, the need to keep interest rates low reflects that the Federal Reserve did not expect economic conditions to improve much over the same period. In January 2012, the Federal Reserve said it is likely to raise interest rates at the end of 2014, but not until then. This announcement continued to reflect that the Federal Reserve did not expect the economy to complete its recovery over the next few years. In October 2012, the Federal Reserve indicated that it anticipated the exceptionally low levels for the federal funds rate were likely to be warranted at least through mid-2015. More recently, the Federal Reserve has stated that it would continue to move forward with its efforts to keep interest rates low through its bond buying

program (QE4[1]) and though the purchasing of mortgage back securities (QE3[2]) at least as long the unemployment rate remains above 6 ½ percent, inflation remains within their target range of 1 to 2 percent, and long-term inflation expectations remain well anchored.

The stock market has recovered from the market lows during the 2007-2008. Prior to 2007, the Dow Jones Industrial Average rose to over 14,000 only to fall more than 50 percent—to the mid-6000 range—during the long bear market which followed. Since then, the DOW has reached the 14,000 level again; although it has not surged far past this level as yet. Improved earnings, low inflation, modest but sustained economic growth, and a highly supportive Federal Reserve are considered key forces in keeping the markets advances in place. Despite the improvement in the stock market, the market remains volatile and many individual investors, stung by the market downturn in 2008, remain on the sidelines for the most part.

Q. IS THERE A RELATIONSHIP BETWEEN THE COST OF EQUITY AND INTEREST RATES?

A. Yes. All things being equal, the cost of equity moves in the same direction as interest rates. Lower interest rates on U.S Treasuries ("risk-free" rate) imply lower equity returns and visa versa. However, as indicated by Equation [1] above,[3] the risk premium required to compensate investors also impacts the cost of equity. Higher risk premiums required by investors imply higher equity costs and vice

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[1] QE4 - Quantitative Easing program 4 announced by Fed December 2012, the Fed announced plans to purchase $40 billion worth of agency mortgage-backed securities per month, and $45 billion worth of longer-term Treasury securities.

[2] QE3 - Quantitative Easing program 3 announced by Fed in September 2012. The Fed plans to purchase mortgage backed securities at a pace of about $40 billion per month until the labor market "improves substantially".

[3] See page 8, *supra*.

versa. Risk premiums are impacted by uncertainty not only with respect to future interest rates, but uncertainty with respect to business and economic conditions, and inflation (or deflation). Risk premiums also reflect other risk factors such business and operation risk, regulatory risk, financial risk, construction risk, and liquidity risk.

Q. IS LPSCO AFFECTED BY THESE SAME MARKET UNCERTAINTIES AND CONCERNS?

A. Yes, in general, all investors are impacted by economic uncertainty, including the Company's investors. Capital costs have risen significantly over the past few years because of this uncertainty. Smaller utilities like LPSCO generally feel the impact worse because of their size, with a relatively small customer base, limited service territory, and a general fact that the water and wastewater industry is very capital intensive. Smaller utilities have a limited or an inability to attract capital. Those that have parent companies with an access to the capital markets still face the problem of the parent's willingness to infuse capital where alternatives for better returns exist.

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

A. On the whole, the water and wastewater utility industry is expected to continue to confront increasing need for infrastructure upgrades and replacement, as well as possible additional demand. *Value Line Investment Survey* (January 18, 2013) continues to stress that many utilities have facilities that are decades old and in need of significant maintenance and, in some cases, massive renovation and replacement. As infrastructure costs continue to climb, many smaller companies are at a serious disadvantage. *Value Line* notes that most of the companies in this sector lack the finances necessary to fund improvements in their own. This will

require outside financing largely from more debt and higher associated interest expense, which will thwart share-earnings and dilute shareholder gains.

Q. WHAT CAN THE COMMISSION DO TO INCENT UTILITIES LIKE LPSCO TO CONTINUE TO MAKE NECESSARY INVESTMENT IN INFRASTRUCTURE?

A. Above all, the Commission can and should recognize that investors have other options. Even when it comes to regulated utilities, those options are almost always better than investing in Arizona. The near uniform adherence to Staff's recommended ROEs for more than a decade now, as I discussed above, has sent industry the message that reduced returns on equity placate ratepayers with lower rates. I will never stop arguing that this is shortsighted. Commissioners, like all elected representatives, are elected to preserve and protect the public interest, today and tomorrow. Obviously the health of the state rests on its ability to attract investment, including investment in new water and wastewater infrastructure. We need a Commission that incents, not discourages investment. The Commission can do that, quite easily in fact, with consistent ROEs that are not consistently at the low end of the spectrum.

Q. FAIR ENOUGH, BUT ISN'T MR. RIGSBY, RUCO'S COST OF CAPITAL EXPERT, FOND OF POINTING OUT THAT YOU KEEP ADVANCING THE SAME FINANCIAL ARGUMENTS AND YOU KEEP HAVING THEM REJECTED?

A. Yes, RUCO and sometimes Staff make this point, as did the ALJ in the last case for this Company. It is an affliction Mr. Rigsby and I have shared for many years as Staff has pretty much dictated the determination of equity returns for more than a decade now. In response, I would make two important points.

First, I have modified my approach to estimating cost of equity in rate cases before this Commission in more ways than I care to count. I have made changes in response to decisions by the Commission and the approaches of Staff and RUCO, sometimes making concessions that I would still prefer not to make. My clients do not hire me to fight just to advance financial theory, and I have had to go with the flow of the reality before the Commission.

Second, the analysis of risk and the applicable financial theory are not like cosmology where new theories come about every day as the advance of technology expands our understanding of the worlds beyond this one. While the way we determine a cost of equity may change, and new models may be developed, the determination of risk is still a fundamentally an exercise that should occur within certain boundaries established by law and sound, objectively verifiable financial theory.

Q. THANK YOU. PLEASE DISCUSS IN MORE DETAIL THE IMPACT OF RISK ON CAPITAL COSTS.

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

Business risk, the basic risk associated with any business undertaking, is the uncertainty associated with the enterprise's day-to-day operations. In essence, it is a function of the normal day-to-day business environment, both locally and nationally. Business risks include the condition of the economy and capital markets, the state of labor markets, regional stability, government regulation, technological obsolescence, and other similar factors that may impact demand for the business product and its cost of production. For utilities, business risk also includes the volatility of revenues due to abnormal weather conditions, degree of operational leverage, regulation, and regulatory climate. Regulation, for example,

can compound the business risk if it is unpredictable in reacting to cost increases both in terms of the time lag and magnitude for recovery of such increases. Regulatory lag makes it difficult to earn a reasonable return, particularly in an inflationary environment and/or when there is significant lag between the timing of investment in capital projects and its recognition in rates. Put simply, the greater the degree of uncertainty regarding the various factors affecting a company's business, the greater the risk of an investment in that company and the greater the compensation required by the investor.

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

An important component of financial risk is construction risk. Construction risk refers to the magnitude of a company's capital budget. If a company has a large construction budget relative to internally generated cash flows it will require external financing. It is important that companies have access to capital funds on reasonable terms and conditions. Utilities are more susceptible to construction risk for two reasons. First, water and wastewater utilities generally have high capital requirements to build plant to serve customers. Second, utilities have a mandated obligation to serve leaving less flexibility both in the timing and discretion of scheduling capital projects. This is compounded by the limited ability to wait for

more favorable market conditions to raise the capital necessary to fund the capital projects.

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

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

A. The Commission's returns on equity for water and sewer utilities over the past decade plus have almost entirely ignored the additional business risk inherent with smaller firms. In almost every case of which I am aware, the cost of equity is almost entirely a reflection of the utility's financial risk relative to the large publicly traded water companies.

Q. WAIT A MINUTE; DIDN'T YOU JUST COMPLAIN THAT THE COMMISSION WAS SETTING RETURNS BASED ON POLITICAL NOT FISCAL FACTORS?

A. Yes, I complained that in the last rate case the Commission's final cost of equity had little to do with finance and almost everything to do with placating ratepayers who were upset that they had to pay for a necessary, used and useful wastewater treatment plant. In that case, like all rate cases, the parties (utility, Staff and RUCO) analyzed LPSCO's financial risk using financial models (DCF and CAPM) and made ROE recommendations. What they did not do and what the Commission

generally does not do is look at the utility's business risk relative to the proxy group(s) used to analyze the cost of equity. That is, the specific problems each business faces and how those things impact its ability to attract capital. In this regard, the Commission typically takes one-size fits all approach and assumes, whether you serve water and sewer to 1 or 1 million customers, you generally face the same risks.

Q. BUT DIDN'T THE COMMISSION CONSIDER THE SPECIFIC FACT THAT LPSCO HAD WAITED TO COME IN FOR NEW RATES IN DETERMINING THE ROE IN THE LAST RATE CASE?

A. Yes, but that is not a risk factor that supports a lower ROE. In fact, the factor would support a higher ROE. An investor whose investment will yield a lower return if he waits too long to seek a return will expect a higher return to compensate him for the additional risk of that type of investment. Besides, in this particular situation, LPSCO explained that the interval between rate cases was due to the acquisition by Algonquin of the Company and the need for the new owner to rehabilitate and expand the Company's wastewater treatment capacity. Now, LPSCO is on a regular cycle for rate cases like most of the Liberty Utilities' systems and the Company is rightly seeking a DSIC in this case to help promote rate gradualism.

IV. THE MEANING OF "JUST AND REASONABLE" RATE OF RETURN

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

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

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

In *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944), the U.S. Supreme Court stated the following regarding the return to owners of a company:

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

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

(1) The rate of return should be similar to the return in businesses with similar or comparable risks;

(2) The return should be sufficient to ensure the confidence in the financial integrity of the utility; and

(3) The return should be sufficient to maintain and support the utility's credit.

Q. HOW HAVE THESE CRITERIA BEEN APPLIED IN REGULATORY PROCEEDINGS?

A. Yes, but the application of the "reasonableness" criteria laid down by the Supreme Court has resulted in controversy. The typical method of computing the overall cost of capital is quite straightforward: it is the composite, weighted cost of the various classes of capital (debt, preferred stock, and common equity) used by the utility. The weighting is done by calculating the proportion that each class of capital bears to total capital. However, there is no consensus regarding the best method of estimating the cost of equity capital. The increasing regulatory use of market-based finance models in equity return determination has not led to a universally accepted means of estimating the ROE. In addition, the market-based results are applied to a book-value investment base, which, as I will discuss, understates the return expected by investors who invest in real markets based on market values.

V. THE ESTIMATED COST OF EQUITY FOR LPSCO

A. The Publicly Traded Utilities That Comprise the Sample Group Used to Estimate the Company's Cost of Equity

Q. PLEASE DESCRIBE THE APPROACH YOU FOLLOWED IN YOUR COST OF CAPITAL ANALYSIS FOR LPSCO.

A. Again, estimating the cost of equity is a matter of informed judgment. The development of an appropriate rate of return for a regulated enterprise involves a determination of the level of risk associated with that enterprise and the determination of an appropriate return for that risk level. Practitioners employ various techniques that provide a link to actual capital market data and assist in defining the various relationships that underlie the equity cost estimation process.

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

Q. ARE THE WATER UTILITIES IN YOUR SAMPLE DIRECTLY COMPARABLE TO LPSCO?

A. No, nor are they readily comparable on an indirect basis given the huge difference in size and scope of service. But, they are utilities for which market data is available. All of them are regulated, they primarily provide water service, although some provide both water and wastewater services, and their primary source of revenues is from regulated services. Therefore, they provide a useful starting point for developing a cost of equity for the Company. I emphasized "starting point" because LPSCO is not publicly traded; there is no market data available for smaller utilities, like LPSCO, that can be used to more directly develop cost of equity estimates, and therefore we can't just glue the results for the large publicly traded companies onto smaller firms like LPSCO and call it a day.

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

A. The comparable earnings standard set forth in the *Hope* and *Bluefield* decisions require the rate of return afforded to utilities be similar to the return in businesses with similar or comparable risks.[4] A proxy group of companies with comparable risk is therefore the starting point in a cost of capital analysis.

[4] See pages 13 – 14, *supra.*

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

The second approach is to select as large a group of utilities as possible that is representative of the utility industry average and make adjustments for any differences between the subject utility and the industry average. Whether one employs the direct approach or the indirect approach, the selection of companies for a proxy group always raises the question of whether it is possible to select a group that are of comparable risk. Further, there is always the question of identifying any differences in investment risk. The electric, natural gas, and water utility industries have witnessed numerous takeovers, restructuring, corporate reorganizations, unbundling, and increased competition over the last decade or so, all of which has made selections of proxy groups more difficult.[7]

The Company's approach utilizes an indirect method. The water companies selected derive the vast majority of their revenues from regulated operations. As shown in Schedule D-4.2, the six water utilities on average derive over 90 percent of the revenues from regulated activities. These companies were also

[5] Roger A. Morin. *New Regulatory Finance* (2006) at 400.
[6] *Id.*
[7] *Id.*

chosen because they are publicly traded, are not in financial distress, and there is a sufficiently long financial and market history from which to perform an analysis.

The bottom line is that the water utility companies in my proxy group are considered representative of the average of the industry, and, as I have stated throughout my testimony, must be adjusted for differences in investment risk.

Q. DOES THE MARKET DATA PROVIDED BY THE WATER PROXY GROUP CAPTURE ALL OF THE MARKET RISKS THAT LPSCO MIGHT FACE IF IT WERE PUBLICLY TRADED?

A. In my opinion, no. As I stated, there is no comparable market data for utility companies the size of LPSCO. The average revenue of the water utility sample companies is over 17 times that of LPSCO, and the average net plant of the water utility sample companies is nearly ten times that of LPSCO. Even the smallest company in the sample group, Connecticut Water, has over three times the net plant of LPSCO, and nearly 4 times the revenues.

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

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

A. Schedule D-4.2 lists the current operating revenues and net plant for the six water utilities as reported by AUS Utility Reports (formerly C.A. Turner Utility Reports)

and LPSCO, respectively. The six sample companies may be generally described as follows:

(1) American States Water (AWR) primarily serves the California market through Golden State Water Company, which provides water services to nearly 256,000 customers within 75 communities in ten counties in the State of California, primarily in Los Angeles, San Bernardino, and Orange counties. AWR also owns an electric utility service provider with over 23,000 customers, but approximately 72 percent of its revenues were derived from commercial and residential water customers. Revenues for AWR were nearly $420 million in 2011 and net plant was nearly $890 million at the end of 2011.

(2) Aqua America (WTR) owns regulated utilities in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, Virginia, Missouri, New York, and Georgia, serving nearly 900,000 customers at the end of 2011. WTR's utility base is diversified among residential water, commercial water, fire protection, industrial water, other water, and wastewater customers. Total revenues for WTR were nearly $730 million in 2011 and net plant was over $3.6 billion at the end of 2011.

(3) California Water Service Group (CWT) owns subsidiaries in California, New Mexico, Washington, and Hawaii, serving nearly 500,000 customers. Revenues for CWT were over $501 million in 2011 and net plant nearly $1.4 billion at the end of 2011.

(4) Connecticut Water Services (CTWS) owns subsidiaries in Connecticut, Maine, Massachusetts, and Rhode Island, serving over

90,000 customers. Revenues for CTWS were over $69 million in 2011 and net plant over $360 million at the end of 2011.

(5) Middlesex Water (MSEX) owns subsidiaries in New Jersey, Delaware and Pennsylvania, serving over 110,000 customers, and provides water service under contract to municipalities in central New Jersey serving a population of over 303,000. Revenues for MSEX were over $102 million in 2011 and net plant was over $422 million at the end of 2011.

(6) SJW Corp. (SJW) owns San Jose Water, which provides water service in a 138 square mile area in San Jose, California, and surrounding communities serving nearly 235,000 customers. Revenues for SJW were $239 million in 2011 and net plant was nearly $731 million at the end of 2011.

Q. HOW DOES LPSCO COMPARE TO THE SAMPLE WATER UTILITIES?

A. It is much smaller. At the end of the test year, the Company had approximately 17,000 water customers and 16,000 wastewater customers. Its revenues totaled approximately $21.5 million, and net plant-in-service was approximately $136.3 million. LPSCO is located in Maricopa, Arizona, and has a very small service territory compared to the sample water companies.

Q. ARE THERE OTHER CHARACTERISTICS OF SMALLER UTILITIES, LIKE LPSCO, THAT INCREASE RISK?

A. Yes. LPSCO has 1.5 to 2 times as much zero cost capital (advances-in-aid of construction and contributions-in-aid of construction) in its capitalization as do the sample water utilities. This is not surprising as smaller utilities, having less access to debt and equity capital, fund more of their utility plant with developer funds. This was certainly the case when the developer SunCor formed LPSCO, before

Algonquin purchased it about ten years ago. All things being the equal, rates are lower as a result. While this is a benefit to ratepayers, a high proportion of zero cost capital increases risk to LPSCO and its stockholders.

LPSCO has an obligation to refund advances, and like debt obligations, refund payments take priority on cash flows over distributions to shareholders or utilizing cash to cover operating expenses or internally fund capital improvements. While advanced plant receives depreciation recovery in rates providing cash flows to make refunds, contributed plant does not and neither type of zero cost capital plant contributes to earnings. Ultimately, both types of zero cost capital have detrimental impacts on the long-term cash flows of the Company. Advanced plant and contributed plant still has to be maintained and eventually has to be replaced. This places additional stress on earnings and increases risk to the Company as the eventual plant replacements will require the Company to raise additional capital to fund the replacements.

Water and sewer utilities are also capital intensive and typically have relatively large construction budgets. Since the last rate case, the Company has added over $13 million of new plant (net of AIAC and CIAC funded plant) and has annual capital budgets for the next 3 years in the range of $1 million to $5 million annually. As I have previously discussed in this testimony, firms with large capital budgets face construction risk (a form of financial risk). The size of a utility's capital budget relative to the size of the utility itself often increases construction risk. Large utilities may be able to fund their capital budgets from their earnings, cash flows, and short-term borrowings. For smaller utilities, like LPSCO, the ability to fund relatively large capital budgets from earnings, cash flows, and short-term debt is difficult without the need for additional outside capital. Fortunately, LPSCO is now owned by Algonquin Power and Utilities Corp. ("APUC"), which

can provide additional capital as required. That is, assuming returns in Arizona can compete with the returns APUC is realizing everywhere else in the U.S. and Canada.

Q. WHAT OTHER RISK FACTORS DISTINGUISH LPSCO FROM THE LARGER SAMPLE WATER UTILITIES?

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

Q. SO LPSCO REALLY ISN'T COMPARABLE TO THE SAMPLE WATER UTILITIES?

A. It really isn't, for the reasons I have stated. Besides the obvious difference in size, constraints on the rate making process in Arizona, coupled with lower returns over the past decade than in most states, makes it difficult to obtain approval of rates that allow Arizona water and wastewater utilities to recover their costs of service let alone their authorized returns. As a result, risks are higher for LPSCO compared to the sample companies that do not operate in Arizona. The required return on equity should be higher too. Unfortunately, as I have testified, the approaches commonly used to estimate a utility's cost of equity require market data, which is not available for smaller companies and utilities operating exclusively in Arizona, like LPSCO, so much larger, public companies must be used as proxies.

The emphasis on proxy is very important. The criteria established by the Supreme Court in decisions such as *Hope* and *Bluefield Water Works* require the use of comparable companies, i.e., companies that would be viewed by investors as

having similar risks. A rational investor would not regard LPSCO as having the same level of risk as WTR or even CTWS - even with LPSCO's lower financial risk - because of the previously mentioned small size characteristics and the regulatory constraints in Arizona. Consequently, the results produced by the DCF and CAPM methodologies, utilizing data for the sample utilities, often understate the appropriate return on equity for a regulated water and wastewater utility provider such as LPSCO.

Q. BUT IF LPSCO IS JUST ONE OF A NUMBER OF UTILITIES OWNED BY A LARGER HOLDING COMPANY, WHY CAN'T THE SAMPLE COMPANIES BE MORE DIRECTLY COMPARED?

A. We are not analyzing an investment in APUC. APUC is the investor, not the investment.

Q. THANK YOU. IS THERE A RELATIONSHIP BETWEEN A UTILITY'S CAPITAL STRUCTURE AND ITS COST OF CAPITAL?

A. Yes. Generally speaking, when a firm engages in debt financing, it exposes itself to greater risk. Once debt becomes significant relative to the total capital structure, the risk increases in a geometric fashion compared to the linear percentage increase in the debt ratio itself. This risk is illustrated by considering the effect of leverage on net earnings. For example, as leverage increases, the equity ratio falls. This creates two adverse effects. First, equity earnings decline rapidly and may even disappear. Second, the "cushion" of equity protection for debt falls. A decline in the protection afforded debt holders, or the possibility of a serious decline in debt protection, will act to increase the cost of debt financing. Therefore, one may conclude that each new financing, whether through debt or equity, impacts the marginal cost of future financing by any alternative method. For a firm already perceived as being over-leveraged, this additional borrowing

would cause the marginal cost of both equity and debt to increase. On the other hand, if the same firm instead successfully employed equity funding, this could actually reduce the real marginal cost of additional borrowing, even if the particular equity issuance occurred at a higher unit cost than an equivalent amount of debt.

Q. HOW DO THE CAPITAL STRUCTURES OF THE SAMPLE WATER UTILITIES COMPARE TO LPSCO?

A. Schedule D-4.3 shows that the pro forma capital structure of LPSCO for this rate case contains about 84 percent equity and 16 percent debt, compared to the average of the water utility sample of 52 percent debt and 48 percent equity.

Having less debt in its capital structure implies that LPSCO has less financial risk than the sample water utilities. However, smaller utilities cannot support the same level of debt as larger utilities. Smaller utilities face higher business and operational risk, as compared to larger utilities, which magnify the financial risk of higher debt levels in their capital structures. The approximately 16 percent of debt in the Company's proposed pro forma capital structure is reasonable given its size and, in my opinion, the lower financial risk is more than offset by the size risk.

B. <u>Overview of the DCF and CAPM Methodologies</u>

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

A. These two broad approaches:

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

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

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

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

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

C. **Explanation of the DCF Model and Its Inputs**

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

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

[2] $P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \ldots. + CF_n/(1+k)^n$

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

Equation (2) can be written to show that the current price (P_0) is also equal to

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

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

Equation [3] is a Market Price version of the DCF model. As with the general form of the DCF model in equation [2], in the Market Price approach the

current stock price (P_0) is the present value of the expected cash inflows. The cash flows are comprised of dividends and the final selling price of the stock. The estimated cost of equity (k) is the rate of return investors expect if they bought the stock at today's price, held the stock and received dividends through the transition period, and then sold it for price (P_t).

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

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

Q. PLEASE CONTINUE WITH YOUR DESCRIPTION OF THE DCF MODEL.

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

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

where CF_1/P_0 is the expected dividend yield and g is the expected long-term dividend (price) growth rate ("g"). The expected dividend yield is computed as the ratio of next period's expected dividend ("CF_1") divided by the current stock price ("P_0"). This form of the DCF model is known as the constant growth DCF model and recognizes that investors expect to receive a portion of their total return in the

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

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

A. There are a number of reasons why caution must be used when applying the DCF model to utility stocks. First, the stock price and dividend yield components may be unduly influenced by structural changes in the industry, such as mergers and acquisitions, which influence investor expectations. Second, the DCF model is based on a number of assumptions that may not be realistic given the current capital market environment. The traditional DCF model assumes that the stock price, book value, dividends, and earnings all grow at the same rate. This has not been historically true for the sample water utility companies. Third, the application of the DCF model produces estimates of the cost of equity that are consistent with investor expectations *only* when the market price of a stock and the stock's book value are approximately the same. The DCF model will understate the cost of equity when the market-to-book ratio exceeds 1.0 and conversely will overstate the cost of equity when the market-to-book ratio is less than 1.0. The reason for this is that the market-derived return produced by the DCF is often applied to book value rate base by regulators. Fourth, the assumption of a constant growth rate may be unrealistic, and there may be difficulty in finding an adequate proxy for the growth rate. Historical growth rates can be downward biased as a result of the impact of anemic historical growth rates in earnings, mergers and acquisitions, restructuring,

unfavorable regulatory decisions, and even abnormal weather patterns. Further, by placing too much emphasis on the past, the estimation of future growth becomes circular.

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

A. First, I computed a current dividend yield (CF_0/P_0). The expected dividend yield (CF_1/P_0) is the current dividend yield (CF_0/P_0) times one plus the growth rate (g). I used the spot price for each of the stocks of the water utilities in the sample group on as reported by the *Value Line Investment Analyzer* for February 15, 2013 for P_0. The current dividend (CF_0) is the dividend for the next year as reported by Value Line. In my schedules, the current dividend yield is denoted as (D_0/P_0), where D_0 is the current dividend and P_0 is the spot stock price. (D_1/P_0) is used to denote the expected dividend yield in the schedules.

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

A. For my primary DCF growth estimate, I have used analyst growth forecasts, where available, from four different, widely-followed sources: *Reuters, Yahoo Finance*[8], and *Value Line Investment Survey*. Schedule D-4.6 reflects the analyst estimates of growth. The currently available estimates from these four sources provide at least two estimates for each of the sample water utility companies. When there is no estimate of forward-looking growth for a utility in the water utilities sample, I have assumed investors expect the growth for that utility to equal the average of growth rates for the other water utilities in the sample.

[8] Yahoo Finance analyst estimates provided by Thompson Financial.

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

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

Q. WHAT OTHER ESTIMATES OF GROWTH DID YOU USE?

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

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

assumption of the DCF model is that the stock price, BVPS, EPS and DPS all grow at the same rate. While I believe the use of historical growth rates gives added recognition to the past that is already incorporated into analyst estimates of growth, I have been criticized in the past for not giving direct consideration to past growth rates in my estimate of growth. So, I have endeavored to remove any basis for the criticism in this case. However, I do so reluctantly because the empirical evidence indicates that analyst estimates of growth are the best measure of growth for use in the DCF for utility stocks.[10]

Q. HAVE YOU USED ANALYST ESTIMATES OF DPS GROWTH?

A. No. While I did not use analyst estimates of DPS growth, the average projected DPS growth rate of 3.8 percent is higher than the historical DPS growth rate of 3.33 percent. Putting this aside, I did not use analyst estimates of dividend growth primarily because there are analyst estimates for dividend growth for only three of the six sample companies. Further, only one source (*Value Line*) provides DPS growth estimates. The wide availability of earnings growth estimates compared to dividend growth estimates indicates a greater reliance by investors on earnings rather than dividends for their investment decisions.

D. <u>Explanation of the CAPM and Its Inputs</u>

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

A. As I already indicated, the CAPM is a type of risk premium methodology that is often depicted graphically in a form identical to the CML. Put simply, the CAPM formula is the sum of a risk-free rate plus a risk premium. It quantifies the additional return required by investors for bearing incremental risk. The risk-free

[10] Gordon, Gordon, and Gould.

rate is the reward for postponing consumption by investing in the market. The risk premium is the additional return compensation for assuming risk.

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

$$(7) \quad k = R_f + \beta(R_m - R_f)$$

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

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

Q. WHAT IS THE RISK-FREE RATE?

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

Q. WHAT IS BETA AND WHAT DOES IT MEASURE?

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

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

There are computational problems surrounding beta. It depends on the return data, the time period used, its duration, the choice of the market index, and whether annual, monthly, or weekly return figures are used. Betas are estimated with error. Based on empirical evidence, high betas will tend to have a positive error (risk is overestimated) and low betas will have a negative error (risk is underestimated).[11]

Q. WHAT DID YOU USE AS THE PROXY OF THE BETA FOR LPSCO?

A. I used the average beta of the sample water utility companies. Betas were obtained from *Value Line Investment Analyzer* (February 15, 2013). *Value Line* is the source for estimated betas that I regularly employ, along with Staff, and it is widely-accepted by financial analysts. The average beta as shown on Schedule D-4.9 is 0.71. I should note that because LPSCO is not publicly traded, LPSCO has no beta. I believe that LPSCO, if it were publicly traded, would have a higher beta than the sample water utility companies.

Q. WHY WOULD LPSCO HAVE A HIGHER BETA?

A. As previously indicated, smaller companies are inherently more risky than larger companies. In Chapter 7 of Morningstar's *Ibbotson SBBI 2012 Valuation Yearbook*, for example, Ibbotson reports that when betas (a measure of market risk) are properly estimated, betas are larger for small companies than for larger companies. As I will explain later, Ibbotson also finds that even after accounting

[11] Eugene F. Fama and Kenneth R. French, "The Capital Asset Pricing Model: Theory and Evidence," *Journal of Economic Perspectives* (Summer 2004) at 25 – 46.

for differences in beta risk, small firms require an additional risk premium over and above the added risk premium indicated by differences in beta risk.

Q. PLEASE EXPLAIN THE MARKET RISK PREMIUM.

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

Since expected returns are not directly observable, historical realized returns are often used as a proxy for expected returns on the basis that the historical market risk premium follows what is known in statistics as a "random walk." If the historical risk premium does follow the random walk, then one should expect the risk premium to remain at its historical mean. Based on this argument, the best estimate of the future market risk premium is the historical mean. Morningstar's *SBBI Valuation Edition 2012 Yearbook* provides historical market returns for various asset classes from 1926 to 2011. This publication also provides market risk premiums over U.S. Treasury bonds, which make it an excellent source for historical market risk premiums.

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

Q. HOW MANY MARKET RISK PREMIUM ESTIMATES DID YOU PREPARE IN CONNECTION WITH YOUR ASSIGNMENT FOR LPSCO?

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

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

A. I used the Morningstar's *Ibbotson SBBI 2012 Valuation Yearbook* measure of the average premium of the market over long-term treasury securities from 1926 through 2011. The average historical market risk premium over long-term treasury securities is 6.6 percent.

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

A. I derived a market risk premium by first using the DCF model to compute an expected market return for each of the past 12 months using *Value Line's* projections of the average dividend yield and median 3-5 year price appreciation (growth) on the *Value Line* 1700 Composite Index. I then subtracted the average 30-year Treasury yield for each month from the expected market returns to arrive at the expected market risk premiums. Finally, I averaged the computed market risk premiums to determine the current market risk premium. The data and computations are shown on Schedule D-4.11. The recent 3-month average current market risk premium is 13.15 percent. Estimates of the current market risk premium have ranged from 11.52 percent to 18.80 percent over the past 12 months averaging 15.28 percent. My 3-month average estimate at 13.15 percent is near the bottom of the 12 month range.

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

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

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

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

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

A. I use long-term expected Treasury bond rates as the measure of the risk-free return for use with both CAPM cost of equity estimates from two sources: the *Blue Chip Financial Forecast* and *Value Line*. Morningstar's *Ibbotson SBBI 2012 Valuation Yearbook* explains on page 55 that the appropriate choice for the risk-free rate is the <u>expected</u> return for long-term Treasury securities. Thus, when determining an estimate of the risk-free rate, it is appropriate to adopt a return that is no less than the expected return on the long-term Treasury bond rate. Both of my CAPM estimates are based on expected interest rates using a current spot estimate (February 15, 2013) and projected estimates of the long-term treasury rates for 2014 and 2015 (from *Blue Chip Financial Forecasts* and *Value Line Selection and*

Opinion). The 2014 to 2015 timeframe is the period when new rates will be in effect for the Company.

E. <u>Explanation of the Build-Up Method and Its Inputs</u>

Q. PLEASE EXPLAIN THE BUILD-UP METHOD FOR ESTIMATING THE COST OF EQUITY.

A. As I already indicated, like the CAPM, the Build-up Method, is a type of risk premium methodology. This is a common and effective method used by appraisers and valuation experts.[12] The Build-up Method is an additive model in which the return on a security is the sum of a risk-free rate and one or more risk premia. Each premium represents the reward an investor receives for taking on a specific risk. The elegance of the Build-up Method is that it does not require an estimate of market beta, which is problematic for non-publicly traded companies such as LPSCO. The Build-up Method can be stated as follows:

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

where k = the expected return

R_f = risk-free rate

RP_m = equity risk premium for the market

RP_s = equity risk premium for size

RP_u = risk premium attributed to the specific company or to the industry (often called the company specific risk premium)

Or alternatively as:

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

where k = the expected return

R_f = risk-free rate

[12] Morningstar *Ibbotson SBBI 2012 Valuation Yearbook*. Chapter 3.

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

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

The data for the equity risk premium for the market (RP_m), the equity risk premium for size (RP_s), and the company specific or industry risk premium (RP_u) can be readily obtained from *Morningstar* and/or other size premium studies such as the *Duff & Phelps* study.[13] *Morningstar* quantifies the size premium separate from the market risk premium by market capitalization as a measure of size, whereas *Duff & Phelps* study quantifies the risk premium (RP_{m+s}) (market premium (RP_m) plus the size premium (RP_s)) by book value of common equity, 5-year average net income, market value of invested capital, total assets (as reported on balance sheet), 5-year average of earnings before interest, income taxes, depreciation and amortization (EBITDA), sales, and number of employees in addition to market capitalization, all of which have been shown to be highly correlated with market returns. I should note that the authors of the *Duff & Phelps* study conclude that, by whatever measures of size are used, the results are clear that there is an inverse relationship between size and historical equity returns – small companies have higher returns than larger companies.[14]

Q. ARE THERE ADVANTAGES TO THE USE OF THE BUILD-UP METHOD OVER THE CAPM FOR ESTIMATING THE COST OF EQUITY?

A. Yes. First, as I mentioned earlier, the Build-up Method does not require a market beta estimate, which is not available for non-public firms. I use the average beta of the large publicly traded water utilities as a <u>proxy</u> for the beta of LPSCO. However, as I also discussed, there are computation problems surrounding beta and

[13] *Duff & Phelps* LLC, *Risk Premium Report 2012.*

[14] *Id.* at 26.

empirical financial data show that beta does not account for all of the risks associated with smaller firms. Second, each of the risk premia used in the Build-up Method can be quantified using data from the equity markets. Third, the various measures of size, including fundamental accounting measures, have a practical benefit of eliminating the need to make a "guesstimate" of size for comparative purposes where market data for determining market value measures of size is not available, particularly for non-public firms.

F. <u>Financial Risk Adjustment</u>

Q. PLEASE EXPLAIN YOUR FINANCIAL RISK ADJUSTMENT TO REFLECT THE COMPANY'S LOWER LEVEL OF DEBT IN ITS CAPITAL STRUCTURE AS COMPARED TO THE SAMPLE WATER UTILITIES.

A. My financial risk estimation is based upon the methodology developed by Professor Hamada of the University of Chicago, which incorporates the beta of a levered firm to that of its unlevered counterpart. The equation is

$$\beta_L = \beta_U[1 + (1 - T)\varphi]$$

where β_L and β_U are the levered and unlevered betas, respectively, T is the tax rate, and φ the leverage, defined as the ratio of debt and equity of the firm. In simple terms, I un-lever the average beta of the six publicly-traded water utilities in my sample using a ratio of the market value of debt and the market value of equity. While I can compute the market value of equity of the sample water utilities based on the current number of shares outstanding and the current stock price, estimating the market value of debt is much more difficult. For purposes of my analysis, I assume the market value of debt is the book value. This is a customary and realistic assumption.[15] Once the unlevered beta is determined, I re-lever the beta

[15] *Morin* at 224.

using the capital structure of LPSCO. For the market value of equity, I multiplied LPSCO's book value of equity times the average market-to-book ratio of the sample water utilities. For LPSCO's debt, I assume the market value of debt is equal to the book value.

The re-levered beta is then used in my CAPM models, and the new CAPM results are compared to my original CAPM results. The computed difference is the basis of my financial risk adjustment.

Q. WHAT IS THE COMPUTED FINANCIAL RISK ADJUSTMENT?

A. A downward adjustment of no more than 80 basis points. Again, however, in my opinion, the beta for LPSCO would be higher than that of the sample water utilities that would have resulted in a lower downward financial risk adjustment. But I have to make some assumptions to work with an approach used by Staff and approved by the Commission in past cases.

G. <u>Company Specific Risk Premium</u>

Q. PLEASE DISCUSS YOUR COMPANY-SPECIFIC RISK PREMIUM.

A. As I testified earlier, LPSCO is not directly comparable to the sample water utilities because of its small size and because of the regulatory environment in Arizona. The characteristics associated with small size such as the lack of diversification, limited revenue and cash flow, small customer base, lack of liquidity, as well as the magnitudes of regulatory and construction risk which are common to smaller water and wastewater utilities regardless of the regulatory jurisdiction. These characteristics and magnitudes of risk are unique only in the sense that the large publicly-traded water utilities (including the companies in the proxy group) do not possess these same characteristics and magnitudes of risk. With respect to Arizona regulation, the use of an historical test year, with limited

out-of-period adjustments, and the lack of automatic adjuster mechanism(s) increase the risk of LPSCO as an investment.

Q. PLEASE DISCUSS SIZE RISK FOR SMALL UTILITY COMPANIES.

A. Investment risk increases as the firm size decreases, all else remaining constant. There is a great deal of empirical evidence that the firm size phenomenon exists. Morningstar's *Ibbotson SBBI 2012 Valuation Yearbook* (Chapter 7) reports that smaller companies have experienced higher returns that are not fully explainable by their higher betas and that beta is inversely related to company size. In other words, smaller companies not only have higher betas but higher returns than larger ones. Even after accounting for differences in beta risk, small companies require an additional risk premium over and above the added risk premium indicated by differences in beta risk. Dr. Zepp also reported evidence that the stocks of small water or wastewater utilities are more risky than the stocks of larger water utilities, such as those in the water utilities sample.[16] Even the California PUC conducted a study that showed smaller water utilities are more risky than larger ones.[17] Based on the evidence, it is clear that investors require higher returns on small company stocks than on large company stocks.

I have included in Schedule D-4.22 the results of a *Morningstar* study using annual data reporting the size premium based upon firm size and return data (i) provided in Morningstar's *Ibbotson SBBI 2012 Valuation Yearbook* and information, and (ii) contained in Dr. Thomas M. Zepp's 2003 article in The Quarterly Review Economic and Finance. I have estimated that a small company risk premium in the range of 99 to 367 basis points is appropriate for LPSCO.

---

[16] Thomas M. Zepp, "Utility Stocks and the Size Effect – Revisited," The Quarterly Review Economics and Finance, Vol. 43, Issue 3, Autumn 2003, 578 – 582.

[17] Staff Report on Issues Related to Small Water Utilities, dated June 10, 1991; LPSCO Decision No. 92-03-093.

Q. WHAT COMPANY SPECIFIC-RISK PREMIUM DO YOU RECOMMEND FOR LPSCO?

A. To be conservative, I recommend a risk premium of at least 50 basis points which is below the bottom end of the range of my risk premium estimates for small firms.

VI. SUMMARY AND CONCLUSIONS

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

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

In the first part of my analysis, I applied two versions of the constant growth DCF model. One uses analyst estimates of growth and the other uses historical growth and analyst expectations. See Schedule D-4.8. The DCF models produce an indicated equity cost in the range of 8.6 percent to 9.7 percent, with a midpoint of 9.2 percent.

In the second part of my analysis, I applied two versions of the CAPM – a historical risk premium CAPM and a current market risk premium CAPM. The CAPM analyses appear in Schedule D-4.12 and produce an indicated cost of equity in the range of 8.4 percent to 13.2 percent, with a midpoint of 10.9 percent.

In the third part of my analysis, I applied the Build-up Method using the *Duff & Phelps* risk premium study data. The Build-up Method analysis appears on Schedule D-4.18 and produce an indicated cost if equity in the range of 8.2 percent to 12.8 percent, with a mid-point of 10.5 percent.

In the fourth part of my analysis, I compute a financial risk adjustment to account for the lower level of debt in LPSCO's pro forma capital structure compared to the sample water utilities. My recommendation is that a downward

financial risk adjustment of no more than 70 basis points be applied to LPSCO's cost of equity. My financial risk adjustment analysis is shown in schedules D-4.19, D-4.20, and D-4.21.

In the fifth part of my analysis, I reviewed the financial literature on the small firm size effect and determined that an appropriate risk premium for small utilities like LPSCO that should be applied to the DCF and CAPM results is the range of 99 to 367 basis points. See Schedule D-4.22. I also considered the risks for LPSCO from Arizona regulation. My recommendation is that an upward adjustment for company-specific risk of no less than 50 basis points be applied to LPSCO's cost of equity.

The range of results of my DCF, CAPM, and Build-up analyses and other risk adjustments is 8.2 percent to 11.7 percent, with a mid-point of 10.0 percent. See Schedule D-4.1.

Q. WHAT EQUITY RETURN DO YOU RECOMMEND?

A. My recommended return on equity is 10.0 percent.

Q. HAVE YOU PREPARED AN ESTIMATE OF THE COST OF EQUITY USING THE BUILD-UP METHOD FOR LPSCO USING DATA FROM MORNINGSTAR?

A. Yes. This Build-up Method using *Morningstar* data is one check on the reasonableness of my recommendation for LPSCO. I estimate the cost of equity for LPSCO to be at least 10.7 percent and up to 14.4 percent. These results are based upon the data from *Morningstar* as contained Table C-1 (the risk-rate would be 2.8 percent,[18] the equity risk premium would be 6.6 percent,[19] the small

[18] Long-term (20 year) U.S. Treasury Bond Yield as of February 15, 2013.

[19] Long-horizon historical equity risk premium – Table A-1 1928-2011.

company risk premium of 6.1 percent[20]) and data contained in Table 3-5, Industry Premia Estimates (negative 4.8 for the water supply industry SIC code 494). The calculation is shown as follows:

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

[2] $k = 2.8\% + 6.6\% + 6.1\% - 4.8\%$

[3] $k = 10.7\%$

The computed 10.7 percent is at the low end. Using more refined data provided by *Morningstar* with respect to the 10th decile firm size based upon market value, the indicated cost of equity would be 14.4 percent for LPSCO.[21]

Q. HAVE YOU PREPARED A COST OF EQUITY ESTIMATE FOR LPSCO USING THE *DUFF & PHELPS* STUDY DATA?

A. Yes. Please see Schedule D-4.18. The estimate for LPSCO has been adjusted for leverage (financial risk) differences between the companies in the size portfolios contained in the study and the water sample companies and LPSCO. Further, like the Build-up Method cost of equity estimate using the *Morningstar* data, the cost of equity estimates includes a downward water industry risk premium adjustment.[22] The indicated cost of equity for LPSCO using the same Build-up Method I employed for my analysis of my water proxy group is 12.83 percent; well above my recommendation of 10.0 percent. Accordingly, I find my recommendation of 10.0 percent appropriately conservative.

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[20] Decile 10 – smallest, market capitalization of $1.028 million to $206.795 million. See Appendix C.

[21] *Morningstar* splits the 10th decile portfolio into two groups; Decile 10a (up to $206.795 million in market capitalization) and Decile 10b (up to $128.672 in market capitalization). If publicly traded, LPSCO would likely fall into the latter group (10b) which has a indicated size premium of 9.8 percent (see Appendix C). Substituting the 9.8 percent size premium for the 6.1 percent in the Build-up formula the result would be 14.4 percent (2.8%+6.6%+9.8%-4.8%).

[22] Note that the risk premium for the water utility industry is negative indicating that water utilities are less risky than the market as a whole.

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

A. Yes.

LITCHFIELD PARK SERVICE COMPANY DBA LIBERTY UTILITIES

THOMAS J. BOURASSA
DIRECT TESTIMONY

COST OF CAPITAL

FEBRUARY 28, 2013

SCHEDULES

Litchfield Park Service Company dba Liberty Utilities
Test Year Ended December 31, 2012
Summary of Cost of Capital

Exhibit
Schedule D-1
Page 1
Witness: Bourassa

Consolidated Capital Structure of Water and Wastewater Division

		Adjusted End of Test Year				Projected Capital Structure			
Line No.	Item of Capital	Dollar Amount	Percent of Total	Cost Rate	Weighted Cost	Dollar Amount	Percent of Total	Cost Rate	Weighted Cost
1	Long-Term Debt	10,420,000	15.87%	6.86%	1.09%	10,120,000	14.76%	6.86%	1.01%
2									
3	Stockholder's Equity	55,240,319	84.13%	10.00%	8.41%	58,464,385	85.24%	10.00%	8.52%
4									
5	Totals	65,660,319	100.00%		9.50%	68,584,385	100.00%		9.54%
6									
7									
8									
9									
10									
11									
12									
13									
14									
15									
16									
17									
18									
19									
20									
21									
22	SUPPORTING SCHEDULES:					RECAP SCHEDULES:			
23	D-1					A-3			
24	D-3								
25	D-4								
26	E-1 Water Division								
27	E-1 Wastewater Division								
28	Testimony								
29									
30									

Litchfield Park Service Company dba Liberty Utilities
Test Year Ended December 31, 2012
Consolidated Cost of Long Term Debt

Exhibit
Schedule D-2
Page 1
Witness: Bourassa

Line No.	Description of Debt	End of Test Year Amount Outstanding	Annual Interest	Effective Interest Rate	Weighted Cost	End of Projected Year Amount Outstanding	Annual Interest	Effective Interest Rate	Weighted Cost
1									
2	1999 IDA	3,390,000	226,452	6.68%	2.17%	3,160,000	211,088	6.68%	2.09%
3	2001 IDA	7,030,000	488,585	6.95%	4.69%	6,960,000	483,720	6.95%	4.78%
4			-	0.00%	0.00%		-	0.00%	0.00%
5			-	0.00%	0.00%		-	0.00%	0.00%
6			-	0.00%	0.00%		-	0.00%	0.00%
7			-	0.00%	0.00%		-	0.00%	0.00%
8			-	0.00%	0.00%		-	0.00%	0.00%
9			-	0.00%	0.00%		-	0.00%	0.00%
10			-	0.00%	0.00%		-	0.00%	0.00%
11									
12									
13	Totals	$ 10,420,000	715,037		6.86%	$ 10,120,000	694,808		6.87%
14									
15									
16	Supporting Schdules:								
17	E-1								
18	E-2								
19									
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									

Litchfield Park Service Company dba Liberty Utilities
Test Year Ended December 31, 2012
Cost of Preferred Stock

Exhibit
Schedule D-3
Page 1
Witness: Bourassa

Line No.		End of Test Year			End of Projected Year		
1							
2							
3	Description	Shares		Dividend	Shares		Dividend
4	of Issue	Outstanding	Amount	Requirement	Outstanding	Amount	Requirement
5							
6							
7	NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING						
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21	SUPPORTING SCHEDULES:			RECAP SCHEDULES:			
22	E-1			D-1			
23							
24							
25							
26							
27							
28							
29							
30							
31							
32							
33							
34							
35							
36							
37							
38							
39							
40							

Litchfield Park Service Company dba Liberty Utilities
Test Year Ended December 31, 2012
Cost of Common Equity

Exhibit
Schedule D-4
Page 1
Witness: Bourassa

Line No.		
1		
2	The Company is proposing a cost of common equity of	10.00% .
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
18	E-1	D-1
19	D-4.1 to D-4.22	
20		

Litchfield Park Service Company dba Liberty Utilities
Summary of Results

Exhibit
Schedule D-4.1
Witness: Bourassa

Line No.	Method	Low	High	Midpoint
1				
2				
3				
4	Method	Low	High	Midpoint
5				
6	Range DCF Constant Growth Estimates[1]	8.6%	9.7%	9.2%
7				
8	Range of CAPM Estimates[2]	8.6%	13.2%	10.9%
9				
10	Build-up Method[3]	8.2%	12.8%	10.5%
11				
12	Average of midpoint estimates	8.4%	11.9%	10.2%
13				
14				
15	Financial Risk Adjustment[4]	-0.7%	-0.7%	-0.7%
16				
17	Small Company Risk Premium[5]	0.5%	0.5%	0.5%
18				
19	Indicated Cost of Equity	8.2%	11.7%	10.0%
20				
21				
22				
23	Recommended Cost of Equity			10.0%
24				
25				
26	[1] See Schedule D-4-8			
27	[2] See Schedule D-4.12			
28	[3] See Schedule D-4.18			
29	[4] See Schedule D-4.21, Testimony			
30	[5] See Schedule D-4.22, Testimony			

Litchfield Park Service Company dba Liberty Utilities
Selected Characteristics of Sample Group of Water Utilities

Exhibit
Schedule D-4.2
Witness: Bourassa

Line No.	Company[1]	% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating	Allowed ROE (%)
4	1. American States	68%	$ 449.7	$ 912.0	A+	A2	9.99
5	2. Aqua America	96%	$ 755.7	$ 3,863.4	AA-	NR	10.33
6	3. California Water	100%	$ 541.5	$ 1,443.1	AA-	NR	9.99
7	4. Connecticut Water	100%	$ 79.8	$ 422.6	A	NR	9.75
8	5. Middlesex	89%	$ 106.6	$ 433.3	A	NR	10.15
9	6. SJW Corp.	96%	$ 261.4	$ 870.5	A	NR	9.99
11	Average	92%	$ 365.8	$ 1,324.2			10.03
13	Litchfield Park Service Company dba Liberty Utilities (Adjusted as of December 31, 2012)	68%	$ 21.5	$ 136.3	NR	NR	

[1]AUS Utility Reports (February 2013).

Litchfield Park Service Company dba Liberty Utilities
Capital Structures

Exhibit
Schedule D-4.3
Witness: Bourassa

No.	Company	Book Value[1] Long-Term Debt	Book Value[1] Common Equity	Market Value[1] Long-Term Debt	Market Value[1] Common Equity
1	1. American States	45.3%	54.7%	25.8%	74.2%
2	2. Aqua America	54.7%	45.3%	27.7%	72.3%
3	3. California Water	51.5%	48.5%	36.5%	63.5%
4	4. Connecticut Water	61.2%	38.8%	41.6%	58.4%
5	5. Middlesex	42.6%	57.4%	30.1%	69.9%
6	6. SJW Corp.	55.8%	44.2%	39.0%	61.0%
7					
8	Average	51.9%	48.1%	33.4%	66.6%
9					
10	Litchfield Park Service Company dba Liberty Utilities (Proforma)	15.9%	84.1%	N/A	N/A

[1] Value Line Analyzer Data (February 15, 2013)
[2] Adjusted Per Schedule D-1

Litchfield Park Service Company dba Liberty Utilities
Comparisons of Past and Future Estimates of Growth

Exhibit
Schedule D-4.4
Witness: Bourassa

Line No.	Company	[1] Price[1]	[2] Book Value[2]	[3] EPS[2]	[4] DPS[2]	[5] Average Col 1-4	[6] Average Future Growth[3]	[7] Average of Future and Historical Growth Col 5-6
		Five-year historical average annual changes						
8	1. American States	7.59%	5.50%	10.50%	3.00%	6.65%	4.75%	5.70%
9	2. Aqua America	3.63%	6.00%	6.00%	8.00%	5.91%	7.39%	6.65%
10	3. California Water	0.69%	5.00%	5.00%	1.00%	2.92%	5.33%	4.13%
11	4. Connecticut Water	7.74%	3.00%	4.00%	1.50%	4.06%	6.80%	5.43%
12	5. Middlesex	4.44%	5.00%	2.00%	1.50%	3.24%	4.85%	4.04%
13	6. SJW Corp.	NMF	4.50%	NMF	5.00%	4.75%	11.00%	7.88%
16	GROUP AVERAGE	4.82%	4.83%	5.50%	3.33%	4.59%	6.69%	5.64%
17	GROUP MEDIAN	4.44%	5.00%	5.00%	2.25%	4.40%	6.07%	5.56%

[1] Average of changes in annual stock prices ending on December 31 through 2012. Data from Yahoo Finance website.
[2] Value Line Analyzer Data, Feburary 15, 2013
[3] See Schedule D-4.6.

Litchfield Park Service Company dba Liberty Utilities
Comparisons of Past and Future Estimates of Growth

Exhibit
Schedule D-4.5
Witness: Bourassa

Line No.	Company	[1] Price[1]	[2] Book Value[2]	[3] EPS[2]	[4] DPS[2]	[5] Average Col 1-4	[6] Average Future Growth[3]	[7] Average of Future and Historical Growth Col 5-6
		Ten-year historical average annual changes						
1	American States	9.71%	5.00%	5.00%	2.00%	5.43%	4.75%	5.09%
2	Aqua America	6.42%	8.50%	7.00%	7.50%	7.36%	7.39%	7.37%
3	California Water	5.72%	5.00%	4.00%	1.00%	3.93%	5.33%	4.63%
4	Connecticut Water	3.13%	4.00%	0.50%	1.50%	2.28%	6.80%	4.54%
5	Middlesex	4.42%	4.50%	2.50%	1.50%	3.23%	4.85%	4.04%
6	SJW Corp.	5.50%	5.50%	2.00%	5.00%	4.50%	11.00%	7.75%
7	GROUP AVERAGE	5.82%	5.42%	3.50%	3.08%	4.45%	6.69%	5.57%
8	GROUP MEDIAN	5.61%	5.00%	3.25%	1.75%	4.21%	6.07%	4.86%

[1] Average of changes in annual stock prices ending December 31, 2012. Data from Yahoo Finance website.
[2] Value Line Analyzer Data, February 15, 2013.
[3] See Schedule D-4.6.

Litchfield Park Service Company dba Liberty Utilities
Analysts Forecasts of Earnings Per Share Growth

Exhibit
Schedule D-4.6
Witness: Bourassa

Line No.	Company	[1] Reuters[1]	[2] Yahoo[1]	[3] Value Line[1]	[4] Average Growth (G) (Cols 1-3)[2]
		ESTIMATES OF EARNINGS GROWTH			
7	1. American States		4.00%	5.50%	4.75%
8	2. Aqua America	7.87%	7.30%	7.00%	7.39%
9	3. California Water	5.00%	5.00%	6.00%	5.33%
10	4. Connecticut Water		6.10%	7.50%	6.80%
11	5. Middlesex		2.70%	7.00%	4.85%
12	6. SJW Corp.		14.00%	8.00%	11.00%
15	GROUP AVERAGE	6.44%	6.52%	6.83%	6.69%
16	GROUP MEDIAN				6.07%

[1] Data as of Feburary 15, 2013

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

Exhibit
Schedule D-4.7
Witness: Bourassa

Litchfield Park Service Company dba Liberty Utilities
Current Dividend Yields for Water Utility Sample Group

Line No.	Company	Curent Stock Price (P_0)[1]	Current Dividend (D_0)[1]	Current Dividend Yield (D_0/P_0)[1]	Average Annual Dividend Yield (D_0/P_0)[1,2]
1					
2					
3					
4					
5					
6	1. American States	$ 51.52	$ 1.10	2.14%	3.20%
7	2. Aqua America	$ 28.42	$ 0.63	2.22%	2.85%
8	3. California Water	$ 19.95	$ 0.62	3.11%	3.36%
9	4. Connecticut Water	$ 29.91	$ 0.94	3.14%	3.62%
10	5. Middlesex	$ 19.46	$ 0.73	3.75%	4.02%
11	6. SJW Corp.	$ 28.09	$ 0.69	2.46%	2.94%
12					
13	Average			2.80%	3.33%
14	Median			2.78%	3.28%
15					
16	[1] Value Line Analyzer Data. Stock prices as of Feburary 15, 2013.				
17	[2] Average Annual Dividend is dividends declared per share for a year divided by the average annual price of the stock in the same year,				
18	expressed as a percentage. For comparison purposes only.				
19					
20					
21					
22					
23					
24					
25					

Litchfield Park Service Company dba Liberty Utilities
Discounted Cash Flow Analysis
DCF Constant Growth

Exhibit
Schedule D-4.8
Witness: Bourassa

Line No.		[1] Average Spot Dividend Yield (D_0/P_0)[1]	[2] Expected Dividend Yield (D_1/P_0)[2]	[3] Growth (g)		[4] Indicated Cost of Equity k=Div Yld + g (Cols 2+3)
8	DCF - Past and Future Growth	2.80%	2.96%	5.64%	3	8.6%
10	DCF - Future Growth	2.80%	2.99%	6.69%	4	9.7%
13	Average	2.80%	2.97%	6.16%		9.2%

[1] Spot Dividend Yield = D_0/P_0. See Schedule D-4.7.
[2] Expected Dividend Yield = $D_1/P_0 = D_0/P_0 * (1+g)$.
[3] Growth rate (g). Average of Past and Future Growth. See Schedule D-4.4, column 7
[4] Growth rate (g). Average of Analyst Estimates Future Growth. See Schedule D-4.6.

Litchfield Park Service Company dba Liberty Utilities
Market Betas

Exhibit
Schedule D-4.9
Witness: Bourassa

Line No.		Company	Beta (β)[1]
1		Company	Beta (β)[1]
2	1.	American States	0.70
3	2.	Aqua America	0.60
4	3.	California Water	0.65
5	4.	Connecticut Water	0.75
6	5.	Middlesex	0.70
7	6.	SJW Corp.	0.85
8			
9		Average	**0.71**
10			
11			
12			
13		[1] Value Line Investment Analyzer data (February 15, 2013)	
14		Note: Beta is a relative measure of the historical sensitivity of a stock's price to overall fluctuations	
15		in the New York Stock Exchange Composite Index. A Beta of 1.50 indicates a stock tends to rise	
16		(or fall) 50% more than the New York Stock Exchange Composite Index. The "Beta coefficient" is	
17		derived from a regression analysis of the relationship between weekly percent-age changes in the	
18		price of a stock and weekly percentage changes in the NYSE Index over a period of five years. In	
19		the case of shorter price histories, a smaller time period is used, but two years is the minimum.	
20		The Betas are adjusted for their long-term tendency to converge toward 1.00.	

Litchfield Park Service Company dba Liberty Utilities
Forecasts of Long-Term Interest Rates
2012-14

Exhibit
Schedule D-4.10
Witness: Bourassa

Line No.	Description	Spot Feb. 15, 2013	2014	2015	Average
1					
2					
3					
4					
5					
6	Blue Chip Consensus Forecasts[1]	3.2%	3.6%	4.3%	3.7%
7					
8	Value Line[2]	3.2%	4.6%	4.5%	4.1%
9					
10	Average				3.9%
11					
12					
13					
14					
15	[1] December 2012 Blue Chip Financial Forecasts consensus forecast of 30 Year U.S.Treasury				
16	[2] Value Line Quarterly forecast, dated February 22, 2013, Long-term Treasury				
17					
18					
19					
20					
21					
22					
23					
24					

Litchfield Park Service Company dba Liberty Utilities
Computation of Current Market Risk Premium

Exhibit
Schedule D-4.11
Witness: Bourassa

Line No.	Month	Dividend Yield (D_0/P_0)[1]	Expected Dividend Yield (D_1/P_0)[2]	+	Growth (g)[3]	=	Expected Market Return (k)	-	Monthly Average 30 Year Treasury Rate[4]	=	Market Risk Premium (MRP)
1											
2											
3											
4	Jan 2011	2.34%	2.60%	+	11.10%	=	13.70%	-	4.52%	=	9.18%
5	Feb	2.41%	2.73%	+	13.16%	=	15.89%	-	4.65%	=	11.24%
6	Mar	2.35%	2.64%	+	12.33%	=	14.97%	-	4.51%	=	10.46%
7	April	1.83%	2.02%	+	10.30%	=	12.32%	-	4.50%	=	7.82%
8	May	1.95%	2.18%	+	11.76%	=	13.94%	-	4.29%	=	9.65%
9	June	1.97%	2.21%	+	12.11%	=	14.32%	-	4.23%	=	10.09%
10	July	2.23%	2.58%	+	15.51%	=	18.09%	-	4.27%	=	13.82%
11	Aug	2.73%	3.24%	+	18.51%	=	21.75%	-	3.65%	=	18.10%
12	Sept	2.88%	3.47%	+	20.40%	=	23.87%	-	3.18%	=	20.69%
13	Oct	2.60%	3.03%	+	16.35%	=	19.38%	-	3.13%	=	16.25%
14	Nov	2.75%	3.24%	+	17.89%	=	21.13%	-	3.02%	=	18.11%
15	Dec 2011	2.70%	3.17%	+	17.41%	=	20.58%	-	2.98%	=	17.60%
16	Jan 2012	2.61%	2.98%	+	14.18%	=	17.16%	-	3.03%	=	14.13%
17	Feb	2.60%	2.99%	+	15.01%	=	18.00%	-	3.11%	=	14.89%
18	Mar	2.36%	2.65%	+	12.33%	=	14.98%	-	3.28%	=	11.70%
19	April	2.62%	3.02%	+	15.22%	=	18.24%	-	3.18%	=	15.06%
20	May	2.86%	3.38%	+	18.12%	=	21.50%	-	2.93%	=	18.57%
21	June	2.73%	3.18%	+	16.59%	=	19.77%		2.70%	=	17.07%
22	July	2.79%	3.29%	+	18.10%	=	21.39%		2.59%	=	18.80%
23	Aug	2.73%	3.17%	+	16.23%	=	19.40%		2.77%	=	16.63%
24	Sept	2.67%	3.07%	+	14.95%	=	18.02%		2.88%	=	15.14%
25	Oct	2.71%	3.14%	+	15.81%	=	18.95%		2.90%	=	16.05%
26	Nov	2.74%	3.15%	+	14.88%	=	18.03%		2.80%	=	15.23%
27	Dec 2012	2.62%	2.95%	+	12.63%	=	15.58%		2.88%	=	12.70%
28	Jan 2013	2.56%	2.86%	+	11.74%	=	14.60%		3.08%	=	11.52%
29											
30											
31	Recommended	2.64%	2.99%	+	13.08%	=	16.07%	-	2.92%	=	13.15%
32											
33	Short-term Trends										
34	Recent Twelve Months Avg	2.67%	3.07%	+	15.13%	=	18.21%	-	2.93%	=	15.28%
35	Recent Nine Months Avg	2.71%	3.13%	+	15.45%	=	18.58%	-	2.84%	=	15.75%
36	Recent Six Months Avg	2.67%	3.06%	+	14.37%	=	17.43%	-	2.89%	=	14.54%
37	Recent Three Months Avg	2.64%	2.99%	+	13.08%	=	16.07%	-	2.92%	=	13.15%
38											
39											

40 [1] Average Current Dividend Yield (D_0/P_0) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks
41 [2] Expected Dividend Yield (D_1/P_0) equals average current dividend yield (D0/P0) times one plus growth rate(g).
42 [3] Average 3-5 year price appreciation (annualized). Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks
43 [4] Monthly average 30 year U.S. Treasury. Federal Reserve.
44

Litchfield Park Service Company dba Liberty Utilities
Capital Asset Pricing Model (CAPM)

Exhibit
Schedule D-4.12
Witness: Bourassa

Line No.		Rf[1]	+	beta[3]	x	Rp		=	k
1									
2									
3	Historical Market Risk Premium CAPM	3.9%	+	0.71	x	6.6%	[4]	=	8.6%
4									
5	Current Market Risk Premium CAPM	3.9%	+	0.71	x	13.1%	[5]	=	13.2%
6									
7	Average								10.9%
8									
9									
10									
11									
12	[1] Forecasts of long-term treasury yields. See Schedule D-4.10.								
13	[2] Value Line Investment Analyzer data. See Schedule D-4.9.								
14	[3] Historical Market Risk Premium from (Rp) MorningStar SBBI 2012 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2011.								
15	[4] *Computed using DCF constant growth method to determine current market return onValue Line 1700 stocks*								
16	and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Schedule D-4.11.								
17									
18									
19									
20									

Litchfield Park Service Company dba Liberty Utilities
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on *Duff and Phelps* Risk Premium Study Data

Schedule D-4.13
Witness: Bourassa

	Company	Symbol	Measures of size (Millions) MV Equity[1]	Book Equity[1]	MVIC[1]	5 Yr Avg. Net Income	Total Assets[2]	5 Yr Avg. EBITDA[3]
1.	American States	AWR	$ 989	$ 416	$ 1,333	$ 32	$ 1,192	$ 120
2.	Aqua America	WTR	$ 3,976	$ 1,260	$ 5,496	$ 113	$ 4,072	$ 407
3.	California Water	CWT	$ 836	$ 451	$ 1,315	$ 37	$ 1,692	$ 128
4.	Connecticut Water	CTWS	$ 263	$ 119	$ 451	$ 10	$ 425	$ 23
5.	Middlesex	MSEX	$ 307	$ 178	$ 440	$ 12	$ 489	$ 38
6.	SJW Corp.	SJW	$ 525	$ 266	$ 861	$ 20	$ 935	$ 87
	Litchfield Park Service Company dba Liberty Utilities		NA	$ 11.0	NA	$ 1.3	$ 29.7	$ 6.4

[1] From Zacks Investment Research data
[2] From Zacks Investment Research. From E-1 for subject utility.
[3] Net Income. From Zacks Investment Research and Company ACC reports

Net Income Data ($ millions)

Company	Symbol	2011	2010	2009	2008	2007	Average
American States	AWR	$ 45.9	$ 33.2	$ 29.5	$ 22.0	$ 28.0	$ 31.7
Aqua America	WTR	$ 143.1	$ 124.0	$ 104.4	$ 97.9	$ 95.0	$ 112.9
California Water	CWT	$ 37.7	$ 37.7	$ 40.6	$ 39.8	$ 31.2	$ 37.4
Connecticut Water	CTWS	$ 11.3	$ 9.8	$ 10.2	$ 9.4	$ 8.8	$ 9.9
Middlesex	MSEX	$ 13.4	$ 14.3	$ 10.0	$ 12.2	$ 11.8	$ 12.4
SJW Corp.	SJW	$ 20.9	$ 24.4	$ 15.2	$ 21.5	$ 19.3	$ 20.2
		2012	2011	2010	2009	2008	Average
Litchfield Park Service Company dba Liberty Utilities		$ 5.8	$ 4.4	$ (0.9)	$ (2.1)	$ (0.7)	$ 1.3

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

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

EBITDA Data ($ millions)

Company	Symbol	2011	2010	2009	2008	2007	Average
American States	AWR	$ 133.3	$ 134.4	$ 122.6	$ 105.9	$ 102.8	$ 119.8
Aqua America	WTR	$ 397.8	$ 473.2	$ 415.2	$ 384.7	$ 364.5	$ 407.1
California Water	CWT	$ 143.3	$ 155.7	$ 125.5	$ 122.1	$ 95.6	$ 128.4
Connecticut Water	CTWS	$ 24.2	$ 22.5	$ 20.3	$ 21.1	$ 27.9	$ 23.2
Middlesex	MSEX	$ 34.6	$ 43.3	$ 34.6	$ 38.6	$ 36.6	$ 37.6
SJW Corp.	SJW	$ 87.1	$ 75.4	$ 93.5	$ 99.7	$ 77.7	$ 86.7
		2012	2011	2010	2009	2008	Average
Litchfield Park Service Company dba Liberty Utilities		$ 9.8	$ 10.1	$ 4.0	$ 4.2	$ 3.7	$ 6.4

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

Litchfield Park Service Company dba Liberty Utilities
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on *Duff and Phelps* **Risk Premium Study Data**

Schedule D-4.14
Witness: Bourassa

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

$RPun_{relevered} = RP_{levered} - W_d/W_e*(\beta_u-\beta_d)*RP_{market}$
Where β_u = unlevered portfolio beta
β_d = debt beta, assumed to be 0.1
W_d = percentage of debt in capital structure
W_e = percentage of equity in capital structure
$RP_{levered}$ = levered realized risk premium

	MV Equity (Table C-1)	Book Equity (Table C-2)	MVIC (Table C-4)	5 Yr Avg. Net Income (Table C-3)	Total Assets (Table C-5)	5 Yr Avg. EBITDA (Table C-6)
Constant	18.475%	15.380%	18.661%	13.224%	17.273%	14.736%
X Coefficient(s)	-3.239%	-2.561%	-3.201%	-2.616%	-2.812%	-2.723%

MRP_{m+s} (unlevered)

	Company	Symbol	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
1.	American States	AWR	8.77%	8.67%	8.66%	9.30%	8.62%	9.08%	8.85%
2.	Aqua America	WTR	6.82%	7.44%	6.69%	7.85%	7.12%	7.63%	7.26%
3.	California Water	CWT	9.01%	8.58%	8.68%	9.11%	8.19%	8.99%	8.76%
4.	Connecticut Water	CTWS	10.64%	10.07%	10.17%	10.62%	9.88%	11.02%	10.40%
5.	Middlesex	MSEX	10.42%	9.62%	10.20%	10.37%	9.71%	10.45%	10.13%
6.	SJW Corp.	SJW	9.66%	9.17%	9.27%	9.81%	8.92%	9.46%	9.38%
	Average (unlevered)		9.22%	8.92%	8.94%	9.51%	8.74%	9.44%	9.13%
	Litchfield Park Service Company dba Liberty Utilities		NA	12.71%	NA	12.94%	13.13%	12.55%	12.83%

Indicated size premium 3.70%

Litchfield Park Service Company dba Liberty Utilities
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on *Duff and Phelps* Risk Premium Study Data

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

Schedule D-4.15
Witness: Bourassa

	Company	Symbol	Unlevered Portfolio Beta (β_u)						
			(Table C-1)	(Table C-2)	(Table C-4)	(Table C-3)	(Table C-5)	(Table C-6)	Average
1.	American States	AWR	0.95	0.96	0.98	0.94	0.94	0.97	0.96
2.	Aqua America	WTR	0.87	0.86	0.81	0.88	0.83	0.84	0.85
3.	California Water	CWT	0.98	0.95	0.95	0.94	0.92	0.97	0.95
4.	Connecticut Water	CTWS	0.96	1.00	0.97	0.97	0.99	1.03	0.99
5.	Middlesex	MSEX	0.96	0.98	0.97	0.97	0.99	0.99	0.98
6.	SJW Corp.	SJW	0.95	0.97	0.97	0.96	0.97	0.95	0.96
	Average		0.95	0.95	0.94	0.94	0.94	0.96	0.95
	Litchfield Park Service Company dba Liberty Utilities		NA	0.98	NA	1.01	1.05	1.03	1.02

Litchfield Park Service Company dba Liberty Utilities
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on *Duff and Phelps* Risk Premium Study Data

Schedule D-4.16
Witness: Bourassa

MRP Estimates Using Duff & Phelps Study (Relevered)
Relevered Realized Risk Premium
$RP_{relevered} = RP_{unlevered} + W_d/W_e*(\beta_u-\beta_d)*RP_{market}$
Where β_u = unlevered portfolio beta
β_d = debt beta, assumed to be 0.1
W_d = percentage of debt in capital structure
W_e = percentage of equity in capital structure
$RP_{unlevered}$ = unlevered realized risk premium from Scehdule D-4.14
RP_{market} = general equity risk premium for the market since 1963 (4.4%)

				MRP_{m+s} (Relevered)						
	Company	Symbol	W_d/W_e	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
1.	American States	AWR	34.8%	10.05%	9.96%	9.97%	10.55%	9.88%	10.38%	10.13%
2.	Aqua America	WTR	38.2%	8.08%	8.69%	7.86%	9.14%	8.32%	8.85%	8.49%
3.	California Water	CWT	57.4%	11.18%	10.68%	10.77%	11.18%	10.22%	11.14%	10.86%
4.	Connecticut Water	CTWS	71.2%	13.27%	12.82%	12.83%	13.28%	12.60%	13.87%	13.11%
5.	Middlesex	MSEX	43.1%	12.01%	11.25%	11.81%	11.98%	11.36%	12.10%	11.75%
6.	SJW Corp.	SJW	63.9%	12.00%	11.56%	11.66%	12.17%	11.31%	11.80%	11.75%
	Average MRP (Relevered)		51.42%	11.10%	10.83%	10.82%	11.38%	10.62%	11.35%	11.02%
	Litchfield Park Service Company dba Liberty Utilities		8.51%	NA	13.03%	NA	13.27%	13.48%	12.89%	13.17%

Litchfield Park Service Company dba Liberty Utilities
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 meterics used in Build-up Method

Schedule D- 4.17
Witness: Bourassa

[1] Estimate of Current Market Risk Premium (**RP_{market}**)	**5.50%**	<<<< Current Duff and Phelps recommendation
[2] Risk Premium Assumed in Duff & Phelps Study (1963-2011)[1]	4.30%	
[3] Equity Risk Premium Adjustment ([1] - [2])	1.20%	
[4] Average MRP (relevered) for publicly traded water companies (from Schedule D-4.16)	11.02%	
[5] MRP (relevered) for publicly traded water companies (**RP_{m+s}**) ([3] + [4])	12.22%	
[6] Equity Risk Premium Adjustment ([3])	1.20%	
[7] Average MRP (relevered) for subject utility company (from Table 4)	13.17%	
[8] MRP (relevered) for subject utility company (**RP_{m+s}**) ([6] + [7])	14.37%	
[9] Industry Risk Premium (From *Ibbotson* for SIC 494 Water Supply Industry Table 3-5)	-4.83%	
[10] Adjustment Factor to Industry Risk Premium ([2] / 6.6%[1])	0.8333	
[11] Adjusted Industry Risk Premium (**R_i**) ([9] x [10])	-4.03%	
[12] Risk Free Rate (**R_f**)[2]	2.49%	

[1] From Duff and Phelps Risk Premium Report 2012.
[2] Yield on 20 Yr U.S. Treasury February 14, 2013 (Federal Reserve)

Litchfield Park Service Company dba Liberty Utilities
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on *Duff and Phelps* Risk Premium Study Data

Schedule D- 4.18
Witness: Bourassa

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 Schedule D-4-17.
- RP_{m+s} = Market risk premium including size premium. See ScheduleD- 4.16
- RP_i = Industry risk premium (adjusted). See Schedule D-4.17.
- RP_u = Company-specific risk premium

	Sample Publicly Traded Water Utilities	Litchfield Park Service Company dba Liberty Utilities
R_f =	2.49%	2.49%
RP_{m+s} =	See Table 4	See Table 4
RP_i =	-4.03%	-4.03%
RP_u =	0.00%	0.00%

			Indicated COE $E(R_i)$						
	Company	Symbol	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
1.	American States	AWR	9.71%	9.62%	9.64%	10.22%	9.54%	10.04%	9.80%
2.	Aqua America	WTR	7.75%	8.35%	7.52%	8.80%	7.99%	8.51%	8.15%
3.	California Water	CWT	10.85%	10.34%	10.44%	10.85%	9.88%	10.80%	10.53%
4.	Connecticut Water	CTWS	12.93%	12.49%	12.49%	12.95%	12.27%	13.53%	12.78%
5.	Middlesex	MSEX	11.67%	10.91%	11.48%	11.64%	11.02%	11.76%	11.41%
6.	SJW Corp.	SJW	11.67%	11.23%	11.32%	11.84%	10.98%	11.46%	11.41%
	Average COE estimate		10.76%	10.49%	10.48%	11.05%	10.28%	11.02%	10.68%
	Litchfield Park Service Company dba Liberty Utilities		NA	12.70%	NA	12.94%	13.14%	12.55%	12.83%

Litchfield Park Service Company dba Liberty Utilities
Financial Risk Computation
Unlevered Beta

Exhibit
Schedule D-4.19
Witness: Bourassa

Line No.		Company	VL Beta β_L[1]	Raw Beta Raw β_L[2]	Tax Rate t[3]	MV Debt D[4]	MV Equity E[4]	Unlevered Raw Beta β_U[5]
5	1.	American States	0.70	0.55	41.7%	25.8%	74.2%	0.46
6	2.	Aqua America	0.60	0.40	32.9%	27.7%	72.3%	0.32
7	3.	California Water	0.65	0.48	40.5%	36.5%	63.5%	0.36
8	4.	Connecticut Water	0.75	0.63	41.3%	41.6%	58.4%	0.44
9	5.	Middlesex	0.70	0.55	32.7%	30.1%	69.9%	0.43
10	6.	SJW Corp.	0.85	0.78	41.1%	39.0%	61.0%	0.57
13		Sample Water Utilitie:	0.71	0.57	38.4%	33.4%	66.6%	0.43

[1] Value Line Investment Analyzer data. See Schedule D-4.13
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 = .33 + (.67) * Raw beta
[2] Raw Beta = (VL beta - .33)/(.67)
[3] Effective tax rates for year ended December 31, 2011.
[4] See Schedule D-4.3
[5] Raw B_u = Raw B_L/ (1+ (1-t)*D/E)

Litchfield Park Service Company dba Liberty Utilities
Financial Risk Computation
Relevered Beta

Exhibit
Schedule D-4.20
Witness: Bourassa

Line No.		Unlevered Raw Beta β_U[1]	MV Book Debt BD[2]	MV Equity Capital EC[2]	Tax Rate t[3]	Relevered Raw Beta $\beta_{RL}=\beta_U(1+(1-t)BD/EC))$ β_{RL}	VL Adjusted Relevered Beta .33 + .67(Raw Beta) β_{RL}
5	Litchfield Park Service Company dba Liberty Utilities	0.43	7.8%	92.2%	38.61%	0.45	0.63

[1] Unlevered Beta from Schedule D-4.14.

[2] Proforma Capital Structure of Company

	BV (in Thousands)			MV (in Thousands)	MV %
Long-term Debt	$ 10,420	1.00		$ 10,420	7.80%
Preferred Stock	$ -	1.00		-	0.0%
Common Stock	$ 55,240	2.22	(a)	122,497	92.2%
Total Capital	$ 65,660			$ 132,917	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 Schedule D-1.

Litchfield Park Service Company dba Liberty Utilities
Financial Risk Computation

Exhibit
Schedule D-4.21
Witness: Bourassa

Line No.											
1	**CAPM**										
2		**Rf**		+	**β**		x	**(Rp)**			**k**
3	Historical Market Risk Premium	3.9%	1	+	0.71	2	x	6.6%	3	=	8.6%
4	Current Market Risk Premium	3.9%	1	+	0.71	2	x	13.1%	4	=	13.2%
5											
6	Average										10.9%
7											
8											
9	**CAPM Relevered Beta**										
10		**Rf**		+	**β**		x	**(Rp)**			**k**
11	Historical Market Risk Premium	3.9%	1	+	0.63	5	x	6.6%	3	=	8.1%
12	Current Market Risk Premium	3.9%	1	+	0.63	5	x	13.1%	4	=	12.2%
13											
14	Average										10.2%
15											
16	Financial Risk Adjustment										**-0.7%**
17											
18											
19	[1] Forecast of long-term treasury yields. See Schedule D-4.10										
20	[2] Value Line Investment Analyzer data. See Schedule D-4.9										
21	[3] Historical Market Risk Premium from (Rp) MorningStar SBBI 2012 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2011										
22	[4] *Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks*										
23	and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Schedule D-4.11										
24	[5] Relevered bata found on Schedule D-4.15										
25											

Litchfield Park Service Company dba Liberty Utilities
Size Premium[1]

Exhibit
Schedule D-4.22
Witness: Bourassa

Line No.		Beta(β)	Size Premium	Risk Premium for Small Water Utilities[7]
6	Mid-Cap Companies[2]	1.12	1.14%	
8	Low-Cap Companies[3]	1.23	1.88%	
10	Micro-Cap Companies[4]	1.36	3.89%	
12	Decile 10[5]	1.41	6.10%	3.67%

		Risk Premium for Small Water Utilities
20	Estimated Risk Premium for small water utilities[6]	0.99%

[1] Data from Table 7-8 of Morningstar, *Ibbotson SBBI 2012 Valuation Yearbook.*
[2] Mid-Cap companies includes companies with market capitalization between $1,621 million and $6,896 million.
[3] Low-Cap companies includes companies with market capitalization between $423 million and $1,620 million.
[4] Micro-Cap companies includes companies with market capitalization less than $422 million.
[5] Decile 10 includes companies with market capitalization between $1.0 million and $206 million.
[6] From Table 2, Thomas M. Zepp, "Utility Stocks and the Size Effect Revisited," *The Quarterly Review of Economics and Finance*, 43 (2003), 578-582.
[7] Computed as the weighted differences between the Decile 10 risk premium and the inidicated risk premiums for the sample water utlities 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.	American States	$ 989	Low-Cap	1.88%	4.22%	0.166667	0.70%
2.	Aqua America	$ 3,976	Mid-Cap	1.14%	4.96%	0.166667	0.83%
3.	California Water	$ 836	Low-Cap	1.88%	4.22%	0.166667	0.70%
4.	Connecticut Water	$ 263	Micro-Cap	3.89%	2.21%	0.166667	0.37%
5.	Middlesex	$ 307	Micro-Cap	3.89%	2.21%	0.166667	0.37%
6.	SJW Corp.	$ 525	Low-Cap	1.88%	4.22%	0.166667	0.70%
	Weighted Size Premium for Small Companies						3.67%

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY, AN ARIZONA CORPORATION, FOR A 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-01427A-13-0043
IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-01428A-13-0042

REBUTTAL TESTIMONY OF CHRISTOPHER D. KRYGIER

October 23, 2013

EXHIBIT
A-5
ADMITTED

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I. INTRODUCTION AND PURPOSE OF TESTIMONY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Christopher D. Krygier, and my business address is 12725 W. Indian School Road, Suite D101, Avondale, AZ 85392.

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

A. On behalf of Applicant Liberty Utilities (Litchfield Park Water & Sewer) Corp., which is generally known as "LPSCO."

Q. WAS YOUR TESTIMONY PREVIOUSLY FILED IN THIS CASE?

A. Yes, my direct testimony was filed on February 28, 2013 as part of the Application.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. I am responding to arguments made by Staff and RUCO in their direct testimonies filed on September 27, 2013. In particular, my rebuttal testimony addresses the following issues:

- Staff Rate Base Adjustment No. 1 – Post Test Year Plant
- RUCO Operating Income Adjustment No. 5 – Declining Usage Adjustment
- RUCO Operating Income Adjustment No. 8 – Employee Pension Benefits
- RUCO Operating Income Adjustment No. 13 – APUC Cost Allocations
- Policy Proposals
    - Distribution System Improvement Charge ("DSIC")
    - Collection System Improvement Charge ("CSIC")
    - System Improvement Benefit Mechanism ("SIB")
    - Property Tax Accounting Deferral
    - Purchased Power Adjustment Mechanism ("PPAM")
    - Balanced Rate Design
    - Income Taxes
- Staff Engineering Recommendations

Q. HAVE YOU BEEN RESPONSIBLE FOR THE COMPANY'S HANDLING OF THIS RATE CASE?

A. Yes. In my capacity as Liberty's Utilities Rates and Regulatory Manager, I am responsible for overseeing all of Liberty's rate cases in Arizona, Texas and Arkansas. In this case, I have coordinated with our outside expert consultant Mr. Bourassa, whose rebuttal testimony addresses the other rate base and operating income issues, as well as rate design and cost of capital. I report directly to Mr. Sorensen, whose rebuttal testimony addresses RUCO Operating Income Adjustment No. 14 (Achievement Pay). I am also responsible for the Company's retention of Dr. Licon, a Professor of Finance at Arizona State University. Dr. Licon will address the big picture overview of cost of capital while Mr. Bourassa addresses the detailed cost of capital analysis.

I was also responsible for overseeing all of the discovery and other less formal efforts by the Company to work with Staff and RUCO to eliminate issues in dispute in this case. For instance, Ms. Hains, the Staff Engineer, conducted an extremely thorough and detailed inspection and analysis of our infrastructure (wells, tanks, treatment plants, etc.), and with the help of her engineering colleagues, of our request for a System Improvement Benefit (SIB). I was in touch with Ms. Hains on a regular basis throughout the past six months, answering her questions and helping her to evaluate our plant. We undertook similar efforts, meeting several times during the past several months with the analysts for Staff and RUCO. While we have not been able to eliminate all of the issues in dispute, we have limited them significantly. This is a direct result of Staff's and RUCO's professionalism, courtesy and willingness to cooperate in an effort to limit the issues in dispute in this case. On behalf of the entire Liberty rate team, I want to express our appreciation of that effort by Staff and RUCO.

II. STAFF RATE BASE ADJUSTMENTS (WASTEWATER)

Q. PLEASE DESCRIBE STAFF'S PROPOSED WASTEWATER DIVISION ADJUSTMENT NO. 1?

A. Staff proposed disallowing $700,000 of plant because this plant – an equalization basin for our Palm Valley Reclamation Plant – is not yet in service. However, it has always been expected that this plant would be in service before the hearing in this matter. Therefore, we understand that Staff recommends denial at this stage, but will include the plant in rate base if the plant is used and useful by the hearing date.

Q. WHAT IS THE STATUS OF THE PROJECT?

A. The project is scheduled to be completed the first week of November. The Company has already scheduled an inspection with Ms. Hains on November 7, 2013 to confirm the plant is in-service. Additionally, we provided updated cost details, approximately $625,000 was incurred to date, along with supporting invoices to the parties on October 17, 2013. The project is estimated to cost approximately $1.2 million with $0 in associated retirements. Finally, LPSCO will provide the remaining final invoices as soon as they are received.

Q. WHAT IS RUCO'S POSITION REGARDING THE EQ BASIN?

A. RUCO included the project in rate base.

III. RUCO OPERATING INCOME ADJUSTMENTS

Q. DOES RUCO PROPOSE DIFFERENT AND/OR ADDITIONAL OPERATING INCOME ADJUSTMENTS THAN STAFF?

A. Yes. RUCO proposed the following Operating Income Adjustments that Staff did not recommend:

A. RUCO Adjustment No. 5 – Declining Usage for Water Division

B. RUCO Adjustment No. 8 – Employee Pension Benefits

C. RUCO Adjustment No. 13 – APUC Cost Allocations

I address each of these below.

A. <u>RUCO Operating Income Adjustment No. 5 - Declining Usage Adjustment</u>

Q. DOES RUCO AGREE WITH THE COMPANY AND STAFF ON THE DECLINING USAGE ADJUSTMENT?

A. No, RUCO reverses the proposed adjustment.

Q. WHY DOES RUCO OPPOSE THE DECLINING USAGE ADJUSTMENT?

A. RUCO says there are several reasons, but Mr. Mease really only offers two - the adjustment is not known and measurable and the Company's analysis "is flawed and should not be relied upon."[1]

Q. IS THE ADJUSTMENT KNOWN AND MEASURABLE?

A. As proposed by Staff and the Company, yes.

Q. PLEASE EXPLAIN.

A. We can't think of this in the usual sense of known and measurable. If Mr. Mease is suggesting that we cannot know today exactly how much revenue we will lose when our customers listen to the conservation signal sent by the Commission through the rate design, I can't really argue that point. But I respectfully suggest his view is too narrow. As Staff recommends, LPSCO is willing to stipulate to the conditions outlined in Decision No. 74081 and cited in Mr. Carlson's Direct Testimony.[2] If RUCO is correct and the adjustment is ultimately flawed, there will be recourse for the ratepayers.

[1] Direct Testimony of Robert B. Mease ("Mease Dt.") at 24-25.

[2] Direct Testimony of Darron W. Carlson ("Carlson Dt.") at 30-32.

Q. WHAT ARE THESE CONDITIONS AND HOW DO THEY PROTECT YOUR CUSTOMERS?

A. The Company will be required to make a filing each year "that details not only the ¾ inch and 1 inch customer usage, but all customer usage."[3] With this data, Staff, and any other party, can make a "recommendation to the Commission to modify or eliminate the water usage adjustment." In other words, under the conditions outlined in Decision No. 74081 and recommended by Staff here, if it becomes known that the Company's revenues are no longer declining due to a rate design that encourages reductions in water use, then the declining usage adjustment can be modified or eliminated based on then measurable data.

Q. WELL, MR. KRYGIER, ISN'T IT POSSIBLE THAT RUCO DID NOT KNOW STAFF WOULD OFFER THESE CONDITIONS WHEN IT FILED ITS TESTIMONY AND MAY AGREE?

A. RUCO may not have known that Staff would support a declining usage subject to those conditions in this case. But it appears to me that the conditions were a suggestion by RUCO in the other docket, so they certainly could have taken that approach in this case as well.[4] I do not know why RUCO would agree to an adjustment with certain conditions for Arizona Water Company but flat out reject it for us.

Q. FAIR ENOUGH, BUT WHY SHOULD THE COMMISSION APPROVE A DECLINING USAGE ADJUSTMENT IN THIS CASE?

A. For the same reasons it recently did so in Decision No. 74081. Mr. Olea testified that that the Commission's successful pursuit of water conservation through tiered

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[3] *Id.* at 32:8-11.

[4] *See* RUCO's Exceptions (filed Sept. 5, 2013 in Docket No. W-01445A-12-0348); RUCO's Notice of Filing Attachment to Exceptions (filed Sept. 6, 2013 in Docket No. W-01445A-12-0348); RUCO's Notice of Filing Amendment to Exceptions (filed Sept. 6, 2013 in Docket No. W-01445A-12-0348).

rate designs, BMPs and other means has reduced water consumption.[5] The Commission has been working for over a decade now to promote conservation, pretty much in every way it can. That's a great thing and Liberty totally supports water conservation. "Because Water Matters Every Day" is not just a publicity slogan. Conservation is engrained into the Algonquin way of doing business.

But, reduced water use also means reduced revenue, and reduced revenues means the utility will not collect the amount of revenue it was authorized. Now that we know the water conservation efforts are working, we need a mechanism to ensure the utility isn't bearing too much of the cost of serving the public interest. This mechanism is the declining usage adjustment.

Q. ARE YOU AWARE OF ANY ANALYSIS TO SUPPORT YOUR SUGGESTION THAT CONSERVATION AND THE RATE DESIGNS USED TO ACHIEVER CONSERVATION ARE IMPACTING THE ABILITY OF WATER UTILITIES TO EARN THEIR REVENUE REQUIREMENT?

A. Yes, Arizona Regulatory Reports recently completed an analysis of 45 water utility rate cases completed since December 2007. The analysis revealed that anywhere from 67% to 86% of the utility companies did not earn their authorized revenue and rate designs were cited as a factor.[6]

Q. WHAT ARE THE IMPLICATIONS TO A UTILITY COMPANY THAT IS PREVENTED FROM COLLECTING ITS AUTHORIZED REVENUE?

A. If a utility cannot collect its authorized revenue, let alone achieve its authorized ROE, it will have to file more rate cases. Obviously, if a utility cannot collect its

[5] Responsive Testimony of Steven M. Olea, (filed May 3, 2013 in Docket No. W-01455A-12-0348) ("Olea (AWC Northern Group Rate Case) Responsive Testimony") at 2:9-22.

[6] Arizona Regulatory Reports, June 2013, Issue 13-1, at 7 (attached as **Exhibit CK-RB1**).

authorized revenue, its financial condition is negatively impacted and its ability to pay its bills and attract capital is jeopardized.

Q. ARE THERE ANY OTHER BENEFITS OF APPROVAL IN THIS CASE?

A. Yes. For one thing, the Company will accept the addition of five more BMPs as recommended part of Ms. Hains testimony, which, if successful, will continue to decrease water consumption within the service territory. Ironically, this further justifies a declining usage adjustment.

Q. THANK YOU. WOULD YOU LIKE TO ADD ANYTHING ELSE IN SUPPORT OF THE RECOMMENDATION BY THE COMPANY AND STAFF TO APPROVE A DECLINING USAGE ADJUSTMENT?

A. I would turn back to Mr. Olea again who recently testified: "Staff has continued to recommend this type of rate design because it believes that the inclining block rates cause ratepayers to conserve water, i.e., use it more efficiently. If this is not the case, then the Staff and the Commission have been wasting their time designing those rates and arguing over them."[7] Approving a declining usage adjustment allows the Commission to promote conservation and offer LPSCO a reasonable opportunity to recover its cost of service. Seems like a win-win to us.

B. <u>RUCO Operating Income Adjustment No. 8 – Employee Pension Benefits</u>

Q. WHAT IS RUCO'S PROPOSED ADJUSTMENT?

A. RUCO proposed a disallowance of $62,199 and $76,431 for the water and wastewater division, respectively.[8]

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[7] Olea (AWC Northern Group Rate Case) Responsive Testimony at 2:11-16.

[8] Mease Dt. at 26:17-18.

Q. WHAT REASONS DID RUCO OFFER IN SUPPORT OF THIS REDUCTION TO OPERATING EXPENSES?

A. RUCO argues first that LPSCO did not make the contribution during the test year and second that LPSCO is under no obligation to make contributions to the plan.

Q. IS THIS TRUE?

A. Yes, and that is why we have met with RUCO again to address their concerns. First, if the adjustment is known and measurable, then the argument that it was not in the test year is of no account. The Commission rules define and authorize and the Commission routinely approves pro forma adjustments.[9] But, Liberty is not interested in recovering an expense from its customers that it is not incurring. In an effort to get RUCO comfortable that the Company is incurring the expense, the Company will provide evidence at the hearing (or with its final briefs) showing that the expense as incurred. We hope with this assurance, RUCO will join the Company and Staff in supporting the recovery of this expense similar to what was recently done with respect to LPSCO's affiliate Liberty Utilities (Rio Rico Water & Sewer) Corp.[10]

C. <u>RUCO Operating Income Adjustment No. 13 – APUC Cost Allocations</u>

Q. BEFORE TURNING TO RUCO'S RECOMMENDED ADJUSTMENT, CAN YOU SUMMARIZE STAFF'S POSITION ON THE COST ALLOCATION AND COMPARE IT TO THE COMPANY'S?

A. Yes, that's actually pretty simple. The Company's position is generally Staff's position as we have generally accepted the small adjustments Mr. Carlson recommended. This is reflected in the C schedules prepared by Mr. Bourassa.

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[9] Ariz. Admin. Code § R14-2-103(A)(3)(i).

[10] Docket No. WS-02676A-12-0196.

Q. OKAY, AND WHAT CORPORATE COST ADJUSTMENT DOES RUCO PROPOSE?

A. RUCO's Adjustment No. 13 proposes to disallow $115,363 and $115,707 from water and wastewater, respectively, related to costs allocated from LPSCO's ultimate parent Algonquin Power and Utilities Corporation or APUC. The specific amounts disallowed by cost category are illustrated in the Table below.

	LPSCO Water	LPSCO Wastewater
Professional Services	$22,527	$21,063
Unitholder Communications	$23,202	$21,694
Trustee / Director Fees	$12,520	$11,706
Employee Stock Purchase Plan	$141	$132
Escrow & Transfer Agent Fees	$2,483	$2,322
Stock Option Expense[11]	$45,557	$42,597
Dues & Memberships	$1,561	$1,460
Total	$115,363	$115,707

Q. DID RUCO CALCULATE THIS DISALLOWANCE CORRECTLY?

A. RUCO made one minor omission that does have a material impact on their adjustment. RUCO neglected to annualize the original cost pool like LPSCO did in its initial application (*see* Water Adjustment No. 10 and Wastewater Adjustment No. 8). Once you take into account the annualization, the adjustments should total $77,314 and $66,238 for the water and wastewater division, respectively.[12]

[11] Stock Option Expense is addressed by Mr. Sorensen as part of the Achievement Pay disallowance proposed by RUCO.

[12] *See* **Exhibit CK-RB2**.

Q. WHAT RATIONALE DID RUCO RELY UPON IN PROPOSING THIS DISALLOWANCE?

A. Mr. Mease says RUCO relied upon Decision No. 72059 (Jan. 6, 2011).[13]

Q. IS THAT IT?

A. Basically, yes. I do not dispute that some corporate costs were disallowed in that decision. The problem is that RUCO seems to have completely ignored one crucial element found a few lines above in that decision where the Commission stated that: "In a future rate case, with additional evidence, the Company may be able to meet its burden to demonstrate that the APT[14] management fees costs provide real, non-duplicative benefits to [Rio Rico Utility] ratepayers, but we find that the Company has not met its burden in this case."[15] (emphasis added)

Q. WHAT IS THE IMPORTANCE OF THIS STATEMENT?

A. First, it is inappropriate and I believe unfair to just read and rely on that one decision. RUCO has participated in every single rate case Liberty has filed in Arizona since it came to the state about a dozen years ago. RUCO knows or should know from that history that the recovery of corporate costs has been an issue in every rate case, but that Liberty and its utilities have continued to try to show the necessity and benefit of the expenses, and that the Commission has not only authorized an increasing percentage of these costs, but explicitly left open the

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[13] Mease Dt. at 29-30 citing Decision No. 72059 at 22:15-18.

[14] APT stands for Algonquin Power Trust, a predecessor name to Algonquin Power & Utilities Corporation.

[15] *Rio Rico Utilities, Inc.*, Decision No. 72059, at 22:4-6.

door for the Company to attempt to recover more of the costs that were authorized last time.[16]

Q. BUT MR. KRYGIER, ISN'T IT POSSIBLE RUCO JUST CONCLUDED AGAIN THAT YOU FAILED TO MEET YOUR BURDEN OF PROOF?

A. That's not what Mr. Mease testified. He said their disallowance is based on that one decision.[17] He does not discuss any of the additional evidence we have provided and therefore has not given the Commission any reason to conclude this time that we came up short.

Q. WHAT HAS THE COMPANY DONE TO MEET THAT BURDEN OF PROOF IN THIS CASE AND SHOW THAT THE COSTS AT ISSUE ARE REASONABLE AND NECESSARY?

A. Several things. First, we provided very detailed documentation to support the underlying costs. This significant documentation was given to Staff and RUCO in an effort to eliminate any issue about lack of supporting documentation. This effort appears to have worked, as the disallowance in dispute does not arise from a claimed lack of support.

Second, we presented new evidence that has not been provided in any prior Liberty rate cases. This new information overwhelmingly demonstrates that many of the costs disallowed by RUCO in this case (and in prior cases) are legal requirements of the Toronto Stock Exchange (TSX). Finally, since the prior rate cases, the Company spent significant time with Commission Staff working through

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[16] *Id.*; *Bella Vista Water Co., Inc.*, Decision No. 72251, at 27:10-13 ("As the parties have reviewed the costs that have been included in the Central Cost Pool, they have identified certain expenses that should have been directly billed to one or another of APUC's facilities, as well as expenses which were not adequately documented or not appropriate to be recovered from utility ratepayers. Each rate case has refined the process.")(emphasis added)

[17] *See* Mease Dt. at 30:1-3.

the details of the corporate cost process and how LPSCO and sister entities benefit from the shared services model.

Q. WHY WASN'T THIS INFORMATION PROVIDED IN PRIOR CASES?

A. I do not know, but that is to Liberty's detriment. We are presenting the additional evidence in this case and RUCO is ignoring it.

Q. CAN YOU ILLUSTRATE HOW THIS ADDITIONAL EVIDENCE SUPPORTS THE NECESSITY AND BENEFIT OF THE COSTS RUCO DISALLOWS?

A. Yes, please see attached **Exhibit CK-RB3**, which is the Company's response to Staff Data Request JMM 5-2. This request, which was also provided to RUCO, detailed that many of the costs that RUCO proposes to disallow are requirements of being a publicly traded entity on the TSX. These costs are the same types of costs that entities traded on the New York Stock Exchange (NYSE) are required to incur. They are a necessary and unavoidable part of a publicly traded entity's cost of doing business. APUC's presence on the TSX is the means by which Liberty obtains capital for investment and I do not think anyone disputes that APUC's access to capital is a benefit to Liberty and its customers in Arizona. If we need access to capital and this is how we do it, then the costs to do it should be included if we show they are required, which we have done in this case.

Q. ANYTHING ELSE?

A. Yes, another example is the Cost Allocation Manuel (CAM) we provided to Staff and RUCO. The CAM details how the parent company allocates expenses and the processes and controls surrounding them.

Q. DO YOU KNOW WHETHER RUCO'S RECOMMENDATION IS CONSISTENT WITH HOW ITS TREATMENT OF THESE COSTS INCURRED BY OTHER UTILITIES?

A. Actually, I do. I took Attachment A of Mr. Mease's Direct Testimony and analyzed all of the rate cases he participated in. They included the following six cases:

1. Arizona Water Company – Docket No. W-01445A-11-0310
2. Pima Utility Company – Docket No. W-02199A-11-0329
3. Tucson Electric Power – Docket No. E-01933A-12-0291
4. Arizona Water Company – Docket No. W-01445A-12-0348
5. UNS Electric – Docket No. E-04204A-12-0504
6. Global Water – W-01212A-12-0309

I did not find any instances where Mr. Mease or anyone else at RUCO recommended significant disallowance of similar costs for any of these utilities except the Global Water case.

Q. ARE ANY OF THESE COMPANIES PUBLICLY TRADED?

A. Yes, Tucson's Electric Power, UNS Electric and Global Water are all Arizona based utilities that are publicly traded entities on either the NYSE or TSX. Nevertheless, besides Global, I couldn't find any instances where costs similar to those disallowed in this case were materially disallowed by RUCO.[18] We really

[18] Other instances in which corporate cost allocations appeared to have been allowed by RUCO without dispute include Docket No. 00-0962 (Arizona Water Company), Docket No. 01-0487 (LPSCO, prior to Liberty Utilities ownership), Docket No. 02-0867 (Arizona-American Water Company), Docket No. 06-0014 (Arizona-American Water Company), Docket No. 06-0491 (Arizona-American Water Company), Docket No. 07-0209 (Arizona-American Water Company), Docket No. 07-0551 (Chaparral City Water Company), Docket No. 10-0382 (Goodman Water Company), Docket No. 10-0517 (Arizona Water Company), Docket No. 11-0329 (Pima Utility Company), Docket No. 09-0206 (UNS Electric), and Docket No. 10-0458 (Southwest Gas Company).

don't know why we are treated so special by RUCO in that we appear to be the only utility that has to regularly fight for recovery of these costs

Q. OKAY, LET'S DISCUSS "THESE COSTS" IN MORE DETAIL. WHAT ARE UNITHOLDER COMMUNICATIONS EXPENSES?

A. Unit holder communication costs are incurred to comply with filing and regulatory requirements of the TSX and to meet the expectations of shareholders.

Q. WHY ARE UNITHOLDER COMMUNICATIONS REASONABLE TO RECOVER IN RATES?

A. LPSCO's ultimate parent, APUC, a publicly traded entity, must issue certain communications subject to the TSX's rules and regulations. If we don't follow the communication requirements of the TSX, we risk delisting. Examples include Section 714[19] of the TSX Company Manuel stating that "TSX may delist securities of a listed issuer that has failed to comply with TSX's Timely Disclosure policy..." Additionally, Section 406 of the TSX Company Manuel states in part that "Companies whose securities are listed on the Exchange are legally obligated to comply with the provisions on timely disclosure..."[20] Finally, the Canadian National Policy 51-201 Disclosure Standards[21] states in Section 4.5 that "Companies who do not comply with an exchange's requirements could find themselves subject to an administrative proceeding before a provincial securities regulator" (emphasis added).

It appears clear to us from these three different sections of rules that if APUC were to violate rules regarding Unitholder Communications it may be in violation of TSX rules and risk being delisted.

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[19] *See* **Exhibit CK-RB4.**
[20] *See* **Exhibit CK-RB5.**
[21] *See* **Exhibit CK-RB6.**

Q. DID YOU PROVIDE THE TSX SECTION 714, SECTION 406 AND NATIONAL POLICY 51-201 TO RUCO?

A. Yes, as part of LPSCO's response to Staff Data Request JMM 5-2, which RUCO also received.

Q. ARE THE RULES REGARDING UNITHOLDER COMMUNICATIONS ON THE TSX SIMILAR TO THE NYSE?

A. Yes. The requirements of the TSX appear no different than publicly traded companies on the NYSE whose Listed Company Manual, Section 202.05 states: "A listed company is expected to release quickly to the public any news or information that might reasonably be expected to materially affect the market for its securities. This is one of the most important and fundamental purposes of the listing agreement which the company enters into with the Exchange" (emphasis added).[22]

Q. YOU MENTIONED "DELISTING." WHAT WOULD THE IMPACTS BE IF APUC WAS DELISTED?

A. Delisiting from the TSX would cut off APUC's access to the capital markets. The Commission has recognized that one of the great benefits of being part of the APUC is the access to capital that the parent is able to provide its subsidiaries, including the Company and its operating affiliates in Arizona.[23]

Q. IF LPSCO WAS A STAND ALONE PUBLICLY TRADED COMPANY, WOULD IT INCUR UNITHOLDER COMMUNICATIONS EXPENSES?

A. Yes, the rules apply to all entities on the exchanges, not just to APUC.

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[22] *See* **Exhibit CK-RB7**.

[23] *Rio Rico Utilities, Inc.*, Decision No. 72059, at 21:19-21.

Q. OKAY. WHAT ARE TRUSTEE/DIRECTOR FEES?

A. Trustee/Director fees are also known as Board of Directors Fees. These fees are compensation provided to the company's Board of Directors in return for providing services to the company in the form of things like strategic oversight, corporate governance and budget reviews among other duties. All publicly traded companies on the TSX or NYSE are required to have a Board of Directors. APUC's Board of Directors has six members.

Q. WHY IS IT REASONABLE TO ALLOW LPSCO TO RECOVER AN ALLOCATED SHARE OF TRUSTEE/DIRECTOR FEES IN RATES?

A. Maintaining a board of directors, especially an independent board not otherwise employed by the entity, is a requirement of the TSX and NYSE. The TSX's Guide to Listing states the following: "Management, including board of directors, should have adequate experience and technical expertise relevant to the company's business and industry as well as adequate public company experience. Companies are required to have at least two independent directors."[24] The NYSE has a similar requirement in Section 303A.01: "Listed companies must have a majority of independent directors. Effective boards of directors exercise independent judgment in carrying out their responsibilities. Requiring a majority of independent directors will increase the quality of board oversight and lessen the possibility of damaging conflicts of interest."[25]

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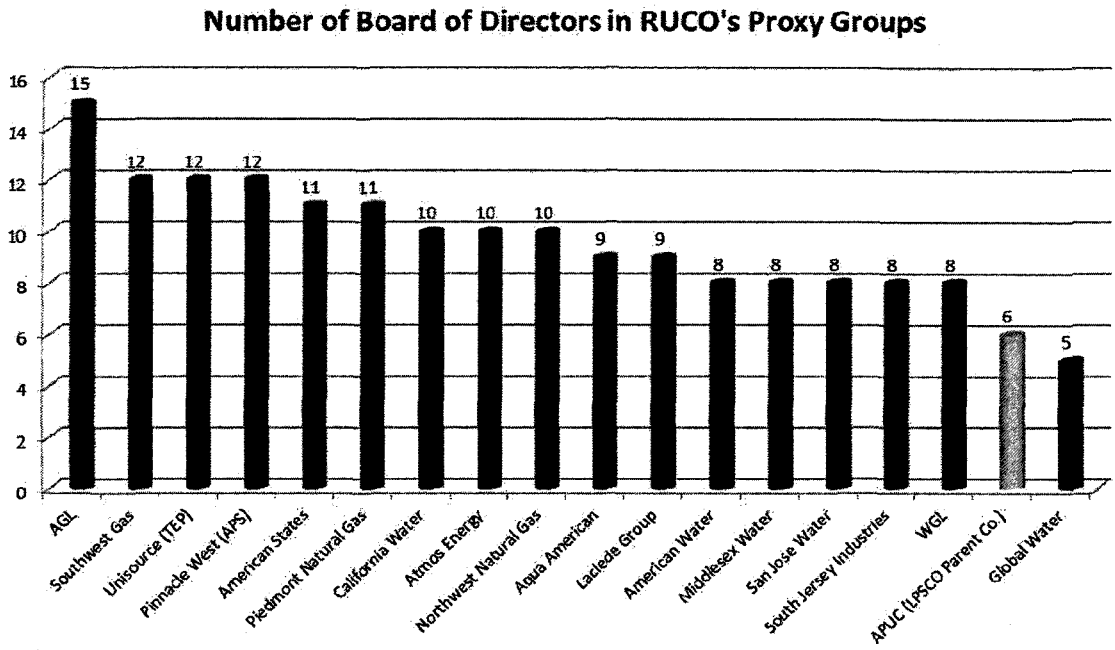
[24] *See* **Exhibit CK-RB8.**

[25] *See* **Exhibit CK-RB9.**

Q. DO YOU KNOW HOW MANY MEMBERS OF THE BOARD OF DIRECTORS OTHER UTILITIES HAVE?

A. We performed an analysis of all of the Boards of Directors in RUCO's cost of capital proxy group used in the last RRUI rate case.[26] The companies contained in the graph below are all publicly traded utilities, most are gas and water utilities. However, Tucson Electric Power, Arizona Public Service and Global Water were also included to bring a direct comparison to other Arizona rate regulated utilities.



Q. WHAT IS THE SIGNIFICANCE OF THE GRAPH ABOVE?

A. The graph reflects two significant conclusions. First, it illustrates how every single publicly traded company maintains a board of directors, just like LPSCO's parent company. Second, it reflects that APUC has a smaller Board of Directors than almost every other utility in the group, reflecting an ultimate cost savings to customers.

[26] Docket No. WS-02676A-12-0196.

Q. DO OTHER PUBLICLY TRADED COMPANIES COMPENSATE THEIR BOARD OF DIRECTORS?

A. Yes, in response to Staff Data Request JMM 5-2, we included 17 examples of utility companies that compensated members of the Board of Directors. This compensation is no different than compensating employees; entities need to compensate members of the board to attract qualifies individuals to the position.

Q. WHY IS IT REASONABLE TO ALLOW LPSCO TO RECOVER AN ALLOCATED SHARE OF THE BOARD OF DIRECTORS FEES IN RATES?

A. Like Unitholder Communication Costs, these fees are necessary for APUC to be able to provide the benefit of access to capital. Without these costs, it cannot operate as a publicly traded entity on the TSX. These are costs that LPSCO would incur if it were a stand-alone publicly traded company; they are similar to those authorized for other publicly traded utilities providing service in Arizona.

Q. NEXT, WHAT ARE ESCROW AND TRANSFER AGENT FEES?

A. Escrow and Transfer Agent fees are expenses incurred in connection with tracking all of APUC'S shareholders of APUC. This is another legal requirement of the TSX and NYSE.

Q. WHY ARE ESCROW & TRANSFER AGENT FEES REASONABLE TO RECOVER IN RATES?

A. TMX Policy 3-1, Section 7 requires that APUC maintain a transfer agent. In particular, Section 7.1 provides that "Each Issuer must maintain a record of its current registered shareholders, a record of each allotment or issuance and a record of each transfer in the registered ownership of its securities."[27] Additionally,

[27] *See* **Exhibit CK-RB10.**

Section 7.2 requires that "While its securities are listed on the Exchange, an Issuer must appoint and maintain a transfer agent and registrar..." (emphasis added). This requirement appears materially identical to the NYSE's requirements in Section 6 of the Listed Company Manuel: "The company must also maintain registrar facilities for all stock of the company listed on the Exchange." (emphasis added).[28] So, again, like Unitholder Communications and Board of Directors Fees, this is a requirement of being a publicly traded entity on the TSX, and therefore necessary for APUC to have access to capital, and these costs would be incurred if LPSCO were a stand-alone entity on a stock exchange.

Q. THE GRAPH ABOVE ALSO REFERENCES EXPENSES RELATED TO EMPLOYEE STOCK PURCHASE PLAN, STOCK OPTION EXPENSE AND DUES & MEMBERSHIPS. WHAT ABOUT THOSE EXPENSES?

A. Yes, these are costs that are known, measureable in the test year. LPSCO would incur these expenses if it were a stand alone entity.

Q. WHAT ABOUT PROFESSIONAL SERVICES FEES, MR. KRYGIER?

A. Professional Services including strategic plan reviews, capital market advisory services, ERP System maintenance, benefits consulting, and other similar professional services. Unlike the costs I have already discussed, these costs do not arise directly from legal requirements of the stock exchanges. Nevertheless, these are important functions of our operations and, by providing these services at the parent level, the subsidiaries are able to benefit from economies of scale. Therefore, these costs on the whole improve APUC's access to and use of capital, which benefits all of its subsidiaries. It follows that an allocated share of these costs should also be recovered in rates.

[28] *See* **Exhibit CK-RB11**.

Q. CAN YOU PLEASE SUMMARIZE WHY THE COMMISSION SHOULD REJECT RUCO'S RECOMMENDATION?

A. As mentioned above, the Commission clearly gave us the opportunity in future rate cases for Liberty to meet its burden of proof and recover these specific expenses as part of its cost of service. RUCO's only argument is citing one case in a long line of cases addressing the issue, nothing more. Ignoring the information we have provided does not mean we have not met our burden of proof. We have. We have shown clearly that the costs RUCO disallows are necessary for APUC to obtain and provide capital to Liberty and its Arizona subsidiaries. Since the Commission has already established that this access to capital is a benefit to customers, there is no reason to disallow these costs as long as the Company meets it burden of proof.

Finally, one of the key assumptions in utility ratemaking is that state public utility commissions serve as the economic "competition" for the monopoly utility. As can been seen in the marketplace, all companies, not just utilities, that are listed on the TSX or NYSE incur these types of costs. If the competitive market is incurring these costs, it seems intuitive that a public utility should be able to recover them.

IV. <u>POLICY PROPOSALS</u>

Q. WHAT POLICY PROPOSALS DID THE COMPANY PROPOSE IN ITS APPLICATION?

A. LPSCO proposed four separate policies centered around the rate gradualism theme. Policy No. 1 was a Distribution System Improvement Charge ("DSIC") and Collection System Improvement Charge ("CSIC") infrastructure recovery mechanism. Policy No. 2 was a Property Tax Accounting Deferral Mechanism. Policy No. 3 was a Purchased Power Adjustment Mechanism ("PPAM"). Policy No. 4 was a Balanced Rate Design. The Company will individually address each

of these except the Property Tax Accounting Deferral Mechanism, which request the Company is withdrawing at this time.

A. <u>Policy Proposal – DSIC / CSIC / SIB</u>

Q. WHAT IS THE COMPANY REQUESTING?

A. Initially, the Company sought approval of a DSIC and CSIC, the second being a DSIC for sewer. However, after the approval of a SIB for Arizona Water Company in Decision No. 73938 (June 27, 2013) in which Liberty Utilities has participated, we modified our request and are now seeking approval of a water and wastewater SIB.

Q. WHAT IS STAFF'S POSITION ON THE SIB?

A. The Company believes Staff recommends approval of a water and wastewater SIB.[29]

Q. WHAT IS RUCO'S POSITION ON THE SIB?

A. RUCO opposes any DSIC-like mechanism, including the SIB. RUCO specifically rejects the SIB for six reasons: (1) the engineering study provided by LPSCO was "not sufficient"; (2) LPSCO did not provide any financial information related to the SIB; (3) the infrastructure replacement is routine in nature; (4) cost savings are not passed onto customers; (5) no state or federal mandate requires the infrastructure replacement; and (6) LPSCO is financially healthy.[30] I will address each of these arguments below.

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[29] Direct Testimony of Dorothy Hains at 9-10 (LPSCO Water Conclusion IX and LPSCO Wastewater Conclusion VI).

[30] Mease Dt. at 38-45.

Q. OKAY, WAS THE ENGINEERING STUDY SUFFICIENT?

A. Yes. The Company's engineering studies in support of the SIB contained over 600 pages of detailed engineering data along the same lines as the data provided by the utility in *Arizona Water Company,* Docket No. 11-0310.

Q. WAS THE FINANCIAL INFORMATION RELATED TO THE SIB ALSO SUFFICIENT?

A. Yes, the Company's report provided cost estimates for the projects along with estimated construction timeframes. I would note though that the SIB approved in *Arizona Water Company,* Docket No. 11-0310, and the related SIB Settlement did not set forth any requirements for "financial information."

Q. OKAY, BUT RUCO IS CORRECT THAT THE INFRASTRUCTURE REPLACEMENT IS ROUTINE IN NATURE, ISN'T IT?

A. That doesn't matter. The SIB is an adjuster whose purpose is to promote rate gradualism by allowing small increases in rates to track new plant improvements between rate cases. In my direct testimony I provided Exhibit CDK-DT1, which exhibit discussed how customers prefer rate gradualism. This exhibit was a statewide Arizona poll conducted in 2012.

Q. WHAT ABOUT THE ARGUMENT THAT COST SAVINGS ARE NOT PASSED ON TO CUSTOMERS?

A. For one thing, it is very hard to quantify cost savings resulting from new plant improvements. Power costs may go down because of new plant that is more efficient but the costs for power may go up. Water loss may be reduced reducing line maintenance costs, but maintenance of other plant may result in the same test year cost. This is why the proposed SIB includes a 100 basis point reduction in the ROE, the most significant customer benefit in the country. This is real money - customers will see a credit on their bills and, as Mr. Olea has recently testified, this

cost savings is the equivalent of another mechanism that might attempt to track cost savings.[31] Second, customers will see any cost savings that RUCO describes in the next rate case. The SIB interval is no more than 5 years between rate cases, but the plant will last much longer. As such, RUCO's perceived short-term challenges should not get in the way of long-term customer benefits that are ultimately in the public interest.

Q. IS IT TRUE THAT NO STATE OR FEDERAL REQUIREMENTS MANDATE THE SIB INFRASTRUCTURE REPLACEMENT?

A. Yes, and like the argument that SIB plant replacement is routine that does not matter. Customers want rate gradualism. I doubt they have preferences whether the plant being replaced is subject to some sort of governmental mandate. RUCO's argument should also carry no weight as it has supported numerous similar adjustors at electric and gas utilities such as Arizona Public Service, Tucson Electric Power and Southwest Gas among others.

Q. LASTLY, THEN, WHY DOES IT MATTER THAT LPSCO IS NOT IN POOR FINANCIAL HEALTH?

A. It doesn't matter and RUCO's approach would send the wrong message, which is essentially that a company should be in financial ruin before regulators find ways to help the company and its customers. RUCO should be thinking of and proposing long-term means to improve utilities and the customer experience, not promoting financial catastrophe to meet adjuster eligibility standards. Besides, customers prefer rate gradualism, a fact RUCO utterly ignores in its continued opposition to the use of this important adjuster mechanism for water and sewer

[31] *See* Rehearing Testimony of Steven M. Olea (filed Oct, 4, 2013 in Docket No. W-01445A-11-0310) ("Olea (AWC Eastern Group Rate Case) Rehearing Testimony") at 8:1-7.

companies in a manner similar to that such adjusters are routinely used, with RUCO's support, for Arizona's gas and electric utilities.

Q. DOES RUCO MAKE ANY OTHER ARGUMENTS REGARDING THE SIB?

A. Yes, RUCO also contends that if LPSCO is awarded a SIB, the authorized ROE should be lowered.[32]

Q. HOW DOES THE COMPANY RESPOND TO RUCO'S ARGUMENT THAT THE ROE MUST BE LOWER IF A SIB IS IN PLACE?[33]

A. The Company can't respond because RUCO didn't prepare any type of analysis or make any effort to explain its position or the change it would recommend. If RUCO decides to try to meets its burden of proof and submit evidence explaining its position that a SIB lowers the ROE, we will respond at that time, if necessary. For now though, we can only state that we disagree with RUCO's unsupported and unexplained assertion that the ROE should be lower if a SIB is approved.

Q. HAS COMMISSION STAFF WEIGHED IN ON WHETHER THE PRESENCE OF A DSIC-LIKE MECHANISM IMPACTS A COMPANY'S RETURN ON EQUITY?

A. Yes. Steve Olea also recently filed testimony on the exact subject and stated the following: "Staff believes the ROE granted to a water utility is not expressly related to whether or not that utility is granted a SIB."[34]

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[32] Mease Dt. at 37:12-18.

[33] *Id.* at 37-38.

[34] Olea (AWC Eastern Group Rate Case) Rehearing Testimony at 2:23-23.

B. Policy Proposal – Purchased Power Adjustment Mechanism (PPAM)

Q. THE COMPANY IS REQUESTING APPROVAL OF A PPAM, RIGHT MR. KRYGIER?

A. Yes, we propose an adjuster that allows us to track changes in our power expense that result from changes in the price we pay for utility service. The PPAM does not allow for recovery of increased power costs simply because we used more electricity.

Q. WHAT IS STAFF'S POSITION ON THE PPAM?

A. Staff recommends approval of the PPAM subject to two conditions: (1) that the Company provide an annual report on purchased power; and (2) that Staff calculate an annual increase or decrease, and provide a Recommended Opinion and Order for Commission approval within 30 days of the Company's annual report.[35] Both of these conditions are acceptable to the Company.

Q. WHAT IS RUCO'S POSITION ON THE PPAM?

A. RUCO opposes the PPAM for four reasons.[36] First, RUCO contends that LPSCO's purchased power expense doesn't fluctuate enough to justify a PPAM. Second, RUCO argues that purchased power does not constitute a large enough portion of LPSCO's operating expenses to justify a PPAM. Third, RUCO claims that authorizing a PPAM creates a disincentive for LPSCO to operate efficiently. Fourth and finally, RUCO maintains that prior Commission precedent prevents a PPAM from being authorized.

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[35] Carlson Dt. at 38:19-24.

[36] Mease Dt. at 47-49.

Q. HOW DOES THE COMPANY RESPOND TO RUCO'S FIRST ARGUMENTS THAT LPSCO'S PURCHASED POWER EXPENSE DOESN'T FLUCTUATE ENOUGH AND ISN'T LARGE ENOUGH TO SUPPORT A PPAM?

A. How much fluctuation is necessary? How big a portion of overall expenses must the expense be? In the absence of any clear standards, or any standards whatsoever, RUCO is merely asking the Commission to act arbitrarily. The point should be that APS is LPSCO's sole power provider and we can't control what prices APS charges. Actually, the Commission decides that.

Q. WILL THE COMPANY OPERATE LESS EFFICIENTLY IF A PPAM IS AUTHORIZED?

A. No, this argument is a ridiculous stretch at best. Real businesses do not just spend money that they do not have to spend. Besides, RUCO missed the point of this PPAM which, as I explained above, will only adjust for changes in price, not quantity. As an example, if the price per power kilowatt hour increases from $0.10 to $0.11, the one penny differential would be multiplied by the number of kilowatt hours in the test year and that would be the proposed adjustment. Therefore, even following RUCO's logic, there is no incentive created by the proposed PPAM to use more power than actually necessary.

Q. DOES COMMISSION PRECEDENT PREVENT APPROVAL OF A PPAM?

A. I will leave the legal arguments to the lawyers. I would note, however, that electric utilities have PPAMs now and water companies used to have them routinely approved by the Commission. That suggests to me there is no legal bar to such adjusters.

Q. SO WHY IS AUTHORIZING A PPAM IN THE PUBLIC INTEREST?

A. Again, rate gradualism. Mostly importantly, customers want regulatory outcomes that support their daily lifestyle. Customers want smaller, more frequent increases.[37]

C. Policy Proposal – Balanced Rate Design

Q. WHAT IS THE COMPANY REQUEST REGARDING RATE DESIGN?

A. The Company requests a rate design that strikes a fair balance between water conservation and revenue stability. Mr. Bourassa discusses the details of LPSCO's, Staff's, and RUCO's proposal. In general, Staff's and RUCO's proposals risk too much revenue instability. As I discussed, we are all for conservation, but enough time has passed to know there is an impact and we need to pay attention to the details of the rate design to avoid unnecessarily burdening the utility with the lion's share of the cost of conservation.

V. STAFF ENGINEERING RECOMMENDATIONS FROM MS. HAINS

Q. WHAT RECOMMENDATIONS DOES STAFF MAKE FOR LPSCO'S WATER DIVISION?

A. Staff makes six recommendations on page 6 of Ms. Hains testimony. LPSCO has no objections to those recommendations.

Q. WHAT RECOMMENDATIONS DOES STAFF MAKE FOR LPSCO'S WASTEWATER DIVISION?

A. Staff makes five recommendations on page 8 of Ms. Hains testimony. LPSCO has no objections to those recommendations.

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[37] *See LPSCO Customer Service Survey,* attached as **Exhibit CK-RB12**. Over 85% of customers stated their preference for smaller, more frequent rate increases.

VI. STAFF RECOMMENDATIONS REGARDING INCOME TAXES

Q. WHAT RECOMMENDATIONS DOES STAFF MAKE REGARDING INCOME TAXES?

A. Staff recommends that the Company present a plan to deal with potential deferred income taxes within 60 days of a Commission decision in the instant case.[38]

Q. WHAT IS THE COMPANY'S RESPONSE TO THIS RECOMMENDATION?

A. It is confusing at best. According to Mr. Carlson's testimony (at p. 32, ls. 14-22), House Bill 2001 was signed by the Governor on February 17, 2011. Even though this bill was signed over two years ago, we are the first company that I am aware of that was signaled out as needing to file a plan to address this issue. The Commission has had dozens of rate cases since House Bill 2001 was signed and I can't find any similar requirements to what Mr. Carlson requests imposed on another utility.

Q. HOW SHOULD THE COMMISSION ADDRESS THIS ISSUE?

A. The Company recommends rejecting Staff's request because Staff has failed to explain why Liberty's rate case warrants special treatment.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

[38] Carlson Dt. at 34:15-18.

EXHIBIT CK-RB1

In Historic Vote, ACC Approves a DSIC Mechanism (Pg. 2)

- *After 14 years, Arizona stopped considering whether or not to adopt Distribution System Improvement Charges (DSICs); and approved on a 4-1 vote Arizona Water Company's request for a DSIC – called the "Systems Improvement Benefit Mechanism" or "SIB."*

Revenue Requirement, Not a Requirement Really (Pg. 7)

- *We look at 45 rate decisions (2007-2011) to see whether or not the "revenue requirement" set by the ACC was actually earned.*

A Simple Way to Streamline Rate Cases, Reduce Rate Case Expense, and Save the ACC Time, Money, and Resources (Pg. 8)

- *If the IRS tax brackets hadn't been adjusted for inflation in 20 years, what tax bracket would you be in? It's time for the ACC to adjust Rule 14-2-103(A)(3)(q) for inflation.*

AIAC turns to CIAC, and Rate Base Evaporates (Pg. 11)

- *AIAC only gets refunded if customer growth occurs – what happens when it doesn't? And can't we reduce the utility company's risk?*

Regulatory Reports Staff, Backgrounds, and emails, Pg. 20

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REGULATORY REPORTS
ED. 2013-1, JUNE 2013

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Revenue Requirement (Not a Requirement Really)

The appropriate rate design is often a matter of high dispute in water utility rate cases. Put simply, the companies often want to include more of the increase in the monthly minimum charge; while the Staff wants to put more of the increase on the commodity rates – and in many cases on the highest tiers of the commodity rates. Companies have long argued that assigning too little of the increase to the monthly minimum charge and/or the first commodity tier results in the revenue requirement being missed. Some research has revealed conclusive proof that this argument has merit.

We looked at 45 water utility rate cases completed since December of 2007 and compared the authorized revenue requirement to the actual revenue these utilities received in subsequent years.[17]

- Of the 21 rate cases we looked at from December 2007 through December 2009:
  - **81%** did not achieve their authorized revenue requirement in 2010,
  - **86%** did not achieve it in 2011, and
  - **76%** did not achieve it in 2012.
- Of the 15 rate cases we looked at from 2010:
  - **87%** did not achieve their authorized revenue requirement in 2011, and
  - **80%** did not achieve it in 2012.
- Of the 9 cases we looked at from 2011:
  - **67%** of the companies did not achieve their authorized revenue requirement in 2012.

Many of the companies that did achieve their revenue requirement benefitted from unusual circumstances such as growth in customer counts or special surcharges.

The evidence is clear: most water utilities do not collect their authorized revenue requirement in the years following a rate case. The rate design is at least partially responsible for this.

How Much Income is Enough?

Another issue faced by small water utilities is uncertainty over how the ACC Staff will determine the appropriate income. We have written before about how the Staff sometimes applies an operating margin to low rate base utilities and sometimes uses a ("nominal") cash flow analysis instead.[18] We've also written before about the inconsistent results that come from applying a consistent operating margin.[19] For small utilities that have positive but low rate bases, applying a consistent rate of return to that rate base can lead to widely varying income results depending on the size of the rate base.
For zero and negative rate base utilities there is currently no policy, the applicant doesn't know whether the Staff will impose an operating margin or some sort of cash flow analysis. And for low rate base utility there is no policy on when the rate base is too small to use a rate of return.

[17] We started with 60 rate cases decided over that period and threw out 15 either because it was unclear what the authorized revenue requirement was or because information on realized revenue was not available.
[18] See issue 12-1, January 2012.
[19] See Issue 11-3, June 15, 2011.

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The California Public Utility Commission (CPUC) has adopted a policy wherein for small water utilities a (generous) operating margin and a rate of return on rate base are calculated and the CPUC uses whichever one is *higher* to set rates.

The CPUC also specifically designates a portion of the income generated by the utility to compensation for the owner and a portion to retained earnings for reinvestment. (This contrasts with Arizona where essentially all of the income generated by a utility can be assigned to pay debt service on a WIFA loan.) Such policies would be very helpful in Arizona. But in the meantime we urge the Commission to simply ask the Staff what level of income the water utility owner will receive under the proposed rates before voting to adopt them. We know of several situations in which the answer is that the owner would receive only a few thousand dollars per year.

A Simple Way to Streamline Rate Cases, Reduce Rate Case Expense, and Save the ACC Time, Money, and Resources

The current utility classification scheme (codified in R14-2-103(A)(3)(q)) was last updated over twenty years ago.[20] That scheme classifies utilities based on their annual Arizona jurisdictional revenue. For water and wastewater utilities the classes are as follows:

TABLE ONE – Existing Classification Table for Water, Wastewater Utilities

Annual Revenue		
Class	**From**	**To**
A	$5,000,000	and up
B	$1,000,000	$5,000,000
C	$250,000	$999,000
D	$50,000	$249,999
E	$-	$50,000
Per Rule 14-2-103(A)(3)(q)		

[20] The current version of R14-2-103 became effective August 31, 1992.

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EXHIBIT CK-RB2

Litchfield Park Sevice Company
Docket No. SW-01428A-13-0042
and W-01427A-13-0043
Test Year Ended December 31, 2012

Water

Water Division
Direct Schedule RBM-27
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OPERATING INCOME ADJUSTMENT NO. 13
APUC COST ALLOCATIONS

Line No.	Description	[A] Company Requested Total APUC Cost Pool	[B] Allocation Factor From APUC To Liberty Utilities	[C] APUC Allocation To Liberty Utilities	*LPSCO Column* Water Annualization -32%	[D] Allocation Factor From Liberty Utilites To Liberty Utilities South	*Formula Revised* [E] Liberty Utilities Allocation To Liberty Utilities South	[F] Allocation Factor From Liberty Utilities South To LPSCO Water	[G] Allocation Factor From Liberty Utilities South To LPSCO Wastewater	[H] Libery Utilities South Allocation To LPSCO Water	[I] Libery Utilities South Allocation To LPSCO Wastewater	[J] RUCO Recommended Allocations Factors Per Decision 72059	[K] RUCO Recommended Allocations LPSCO Water
1	Audit	$ 1,561,911	51.8%	$ 808,566	$ 552,662	22.26%	$ 123,009	28.74%	26.87%	$ 35,347	$ 33,050	100%	$ 35,347
2	Tax	1,169,300	51.8%	605,321	$ 413,757	22.26%	$ 92,089	28.74%	26.87%	26,462	24,742	100%	26,462
3	Legal	635,190	51.8%	328,824	$ 224,762	22.26%	$ 50,025	28.74%	26.87%	14,375	13,441	100%	14,375
4	Professional Services	680,395	51.8%	352,225	$ 240,758	22.26%	$ 53,585	28.74%	26.87%	15,398	14,397	0%	-
5	Unitholder Communications	700,793	51.8%	362,765	$ 247,976	22.26%	$ 55,191	28.74%	26.87%	15,859	14,829	0%	-
6	Trustee / Director Fees	378,154	51.8%	195,762	$ 133,810	22.26%	$ 29,782	28.74%	26.87%	8,558	8,002	0%	-
7	Computer Supplies /Repairs	51,761	51.8%	26,796	$ 18,316	22.26%	$ 4,076	28.74%	26.87%	1,171	1,095	100%	1,171
8	Office Expenses	98,210	51.8%	50,841	$ 34,752	22.26%	$ 7,735	28.74%	26.87%	2,223	2,078	100%	2,223
9	Employee Stock Purchase Plan	4,270	51.8%	2,210	$ 1,511	22.26%	$ 336	28.74%	26.87%	97	90	0%	-
10	Board of Director's Insurance	145,728	51.8%	75,440	$ 51,566	22.26%	$ 11,477	28.74%	26.87%	3,298	3,084	50%	1,649
11	Escrow & Transfer Agent Fees	75,000	51.8%	38,826	$ 26,539	22.26%	$ 5,907	28.74%	26.87%	1,697	1,587	0%	-
12	*Training*	76,343	51.8%	39,521	$ 27,014	22.26%	$ 6,012	28.74%	26.87%	1,728	1,615	100%	1,728
13	Stock Option expense	1,376,013	51.8%	712,331	$ 486,902	22.26%	$ 108,368	28.74%	26.87%	31,140	29,117	0%	-
14	Recruiting	54,095	51.8%	28,004	$ 19,142	22.26%	$ 4,260	28.74%	26.87%	1,224	1,145	100%	1,224
15	Meals and Entertainment	2,315	51.8%	1,198	$ 819	22.26%	$ 182	28.74%	26.87%	52	49	50%	26
16	Rent	84,861	51.8%	43,931	$ 30,028	22.26%	$ 6,683	28.74%	26.87%	1,920	1,796	100%	1,920
17	Communication	78,982	51.8%	40,887	$ 27,948	22.26%	$ 6,220	28.74%	26.87%	1,787	1,671	100%	1,787
18	Dues and Memberships	47,155	51.8%	24,411	$ 16,686	22.26%	$ 3,714	28.74%	26.87%	1,067	998	0%	-
19	Licenses/Fees & Permits	384,904	51.8%	199,256	$ 136,198	22.26%	$ 30,313	28.74%	26.87%	8,711	8,145	100%	8,711
20	Net Other Admin Costs	14,274	51.8%	7,389	$ 5,051	22.26%	$ 1,124	28.74%	26.87%	323	302	100%	323
21	Variance Due to Company's Monthly Allocation Factoring									10,321	26,092	51%	1 5,232
													-
													-
22	Total APUC Allocations Per RUCO	$ 7,619,653		$ 3,944,525			$ 600,088			$ 182,757	$ 187,324		-
23	*Company Water Division's APUC Cost Allocation Requested*												$ 102,177
24	Company Wastewater Division's APUC Cost Allocation Requested												179,491
25	RUCO Recommended Water and Wastewater Division's APUC Cost Allocation Adjustment												$ (77,314)

Note 1:

	Water & Wastewater
Variances by Company Per Responses to RUCO DR 1.08 and Staff 5.2	$ 36,413
RUCO Allowance Factor for the Variances Identifieed by Company	51%

References:

Column [A] - Company response to Staff DR JMM - 10.1(a) confirmed the accruals in that Column were trued-up to Actual Expenses for this rate case.

Litchfield Park Sevice Company
Docket No. SW-01428A-13-0042
and W-01427A-13-0043
Test Year Ended December 31, 2012

WasteWater

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OPERATING INCOME ADJUSTMENT NO. 13
APUC COST ALLOCATIONS

Line No.	Description	[A] Company Requested Total APUC Cost Pool	[B] Allocation Factor From APUC To Liberty Utilities	[C] APUC Allocation To Liberty Utilities	LPSCO Column WasteWater Annualization -39%	[D] Allocation Factor From Liberty Utilites To Liberty Utilities South	Formula Revised [E] Liberty Utilities Allocation To Liberty Utilities South	[F] Allocation Factor From Liberty Utilities South To LPSCO Water	[G] Allocation Factor From Liberty Utilities South To LPSCO Wastewater	[H] Libery Utilities South Allocation To LPSCO Water	[I] Libery Utilities South Allocation To LPSCO Wastewater	[J] RUCO Recommended Allocations Factors Per Decision 72059		[L] RUCO Recommended Allocations LPSCO Sewer
1	Audit	$ 1,561,911	51.8%	$ 808,566	$ 495,773	22.26%	$ 110,343	28.74%	26.87%	$ 31,707	$ 29,647	100%		$ 29,647
2	Tax	1,169,300	51.8%	605,321	$ 371,153	22.26%	$ 82,606	28.74%	26.87%	23,737	22,195	100%		22,195
3	Legal	635,190	51.8%	328,824	$ 201,619	22.26%	$ 44,874	28.74%	26.87%	12,895	12,057	100%		12,057
4	Professional Services	680,395	51.8%	352,225	$ 215,967	22.26%	$ 48,067	28.74%	26.87%	13,812	12,915	0%		-
5	Unitholder Communications	700,793	51.8%	362,785	$ 222,442	22.26%	$ 49,508	28.74%	26.87%	14,226	13,302	0%		-
6	Trustee / Director Fees	378,154	51.8%	195,762	$ 120,032	22.26%	$ 26,715	28.74%	26.87%	7,677	7,178	0%		-
7	Computer Supplies /Repairs	51,761	51.8%	26,796	$ 16,430	22.26%	$ 3,657	28.74%	26.87%	1,051	982	100%		982
8	*Office Expenses*	98,210	51.8%	50,841	$ 31,173	22.26%	$ 6,938	28.74%	26.87%	1,994	1,864	100%		1,864
9	Employee Stock Purchase Plan	4,270	51.8%	2,210	$ 1,355	22.26%	$ 302	28.74%	26.87%	87	81	0%		-
10	Board of Director's Insurance	145,728	51.8%	75,440	$ 46,256	22.26%	$ 10,295	28.74%	26.87%	2,958	2,766	50%		1,383
11	Escrow & Transfer Agent Fees	75,000	51.8%	38,826	$ 23,806	22.26%	$ 5,298	28.74%	26.87%	1,523	1,424	0%		-
12	Training	76,343	51.8%	39,521	$ 24,232	22.26%	$ 5,393	28.74%	26.87%	1,550	1,449	100%		1,449
13	Stock Option expense	1,376,013	51.8%	712,331	$ 436,767	22.26%	$ 97,210	28.74%	26.87%	27,933	26,118	0%		-
14	Recruiting	54,095	51.8%	28,004	$ 17,171	22.26%	$ 3,822	28.74%	26.87%	1,098	1,027	100%		1,027
15	Meals and Entertainment	2,315	51.8%	1,198	$ 735	22.26%	$ 164	28.74%	26.87%	47	44	50%		22
16	Rent	84,861	51.8%	43,931	$ 26,936	22.26%	$ 5,995	28.74%	26.87%	1,723	1,611	100%		1,611
17	Communication	78,982	51.8%	40,887	$ 25,070	22.26%	$ 5,580	28.74%	26.87%	1,603	1,499	100%		1,499
18	*Dues and Memberships*	47,155	51.8%	24,411	$ 14,968	22.26%	$ 3,331	28.74%	26.87%	957	895	0%		-
19	Licenses/Fees & Permits	384,904	51.8%	199,256	$ 122,174	22.26%	$ 27,192	28.74%	26.87%	7,814	7,306	100%		7,306
20	Net Other Admin Costs	14,274	51.8%	7,389	$ 4,531	22.26%	$ 1,008	28.74%	26.87%	290	271	100%		271
21	Variance Due to Company's Monthly Allocation Factoring									10,321	26,092	50%	1	13,078
														-
														-
22	Total APUC Allocations Per RUCO	$ 7,619,653		$ 3,944,525			$ 538,298			$ 165,002	$ 170,723			-
23	Company Water Division's APUC Cost Allocation Requested													$ 94,391
24	*Company Wastewater Division's APUC Cost Allocation Requested*													160,629
25	RUCO Recommended Water and Wastewater Division's APUC Cost Allocation Adjustment													$ (66,238)

Note 1:

	Water & Wastewater
Variances by Company Per Responses to RUCO DR 1.08 and Staff 5.2	$ 36,413
RUCO Allowance Factor for the Variances Identifieed by Company	50%

References:

Column [A] - Company response to Staff DR JMM - 10.1(a) confirmed the accruals in that Column were trued-up to Actual Expenses for this rate case.

EXHIBIT CK-RB3

LITCHFIELD PARK SERVICE COMPANY DBA LIBERTY UTILITIES
DOCKET NOS. W-01427A-13-0043 AND SW-01428A-13-0042
RESPONSE TO STAFF'S FIFTH SET OF DATA REQUESTS

June 3, 2013

Response provided by: Christopher D. Krygier

Title: Utility Rates and Regulatory Manager

Company: Litchfield Park Service Company dba Liberty Utilities

Address: 12725 W. Indian School Road, Suite D101
Avondale, AZ 85392

Company Response Number: JMM – 5.2

Q. Corporate Expense Tie-Out – In the prior rate case, the Company provided an excel spreadsheet in response to Staff data request JMM 5-5, entitled Corporate Expense Buildups.

For illustrative purposes the summary sheet contained the following information, a budget to actual expense for the corporate costs, and a budget to actual expense for LPSCO. The spread sheet also contained the costs pools that are being allocated from the corporate entity which are Audit, Tax Services, Legal, Other Professional Services, Management Fees, Unit Holder Communications, Trustee Fees, Escrow & Transfer Agent Fees, Rent, Licenses/Fees & Permits, Office Expenses, and Depreciation to LPSCO as shown below:

Corporate Cost Build Up

	Corporate Costs		LPSCo	
	Total Budget 2008	Total Actual Oct07-Sep08	Total Budget 2008	Total Actual Oct07-Sep08
Audit	507,000	$984,476	66,531	129,187
Tax Services	265,000	$383,940	34,774	50,382
Legal	300,000	$722,428	39,367	94,800
Other Professional Services	455,000	$448,761	59,707	83,492
Management Fee - Total	636,619	$636,255	83,540	36,425
Unit Holder Communications	314,100	$277,582	41,218	29,532
Trustee Fees	204,000	$225,052	26,770	29,532
Escrow & Transfer Agent Fees	75,000	$63,843	9,842	8,378

Rent	430,739	$295,887	56,523	38,828
Licenses/Fees & Permits	305,000	$128,206	40,023	16,824
Office Expenses	254,000	$761,628	33,331	99,944
Depreciation	204,242	$194,727	26,801	25,553
Total Admin Costs	**3,950,700**	**$5,122,785**	**518,427**	**$642,877**

In addition, the spreadsheet also contained a tab which had a summary of transactions that tied to the various cost pools, as illustrated below:

TRX Date	Account Number String	Category	Natural	Document Number	Debit Amount	Credit Amount	Total
10/22/2007	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	23868093	$3,693.99	$0.00	$3,693.99
11/22/2007	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	24010094	$4,173.49	$0.00	$4,173.49
11/28/2007	1140-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	24803094	$853.65	$0.00	$853.65
11/28/2007	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	24010094.1	$0.00	$236.24	($236.24)
12/24/2007	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	24154095	$3,816.16	$0.00	$3,816.16
1/31/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	1257	$3,623.19	$0.00	$3,623.19
2/28/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	2154	$3,777.86	$0.00	$3,777.86
2/28/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	1932	$200.00	$0.00	$200.00
3/27/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	4284	$420.23	$0.00	$420.23
4/4/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	4436	$4,157.05	$0.00	$4,157.05
4/17/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	4722	$3,823.56	$0.00	$3,823.56
5/26/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	6738	$15,644.68	$0.00	$15,644.68
5/26/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	6784	$8.49	$0.00	$8.49
6/30/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	8007	$4,037.65	$0.00	$4,037.65
7/14/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	7948	$2,002.73	$0.00	$2,002.73
7/30/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	9359	$406.72	$0.00	$406.72
7/31/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	10066	$4,306.04	$0.00	$4,306.04
8/21/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	10572	$3,837.21	$0.00	$3,837.21
9/17/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	12256	$400.22	$0.00	$400.22
9/17/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705	12023	$3,787.54	$0.00	$3,787.54
9/30/2008	1000-1-0000-75-7705-0000	Escrow & Transfer Agent Fees	7705		$1,109.08	$0.00	$1,109.08
		Total Escrow & Transfer Agent Fees					**$63,843.30**

The spreadsheet also had a tab showing the 4 factor allocation of corporate expenses to LPSCO.

The Company in the last rate case then provided Staff with all the invoices over $5,000, and also stated that Staff could choose items under $5,000 for sampling.

Staff is requesting that the same format be followed in this case.

a. Therefore, please provide Staff with spreadsheets in excel format with formula intact that tie corporate allocations from the patent company to LPSCO, in a similar format that was used in the prior case.

RESPONSE:

Please see the attached file labeled "JMM 5-2 - (APUC Corporate Cost Build-Up)". This file contains the Algonquin Power and Utilities Corporation (APUC) allocated administrative costs included in the Company's test year operating expenses as adjusted (Adjustment No. 10 Water and Adjustment No. 8 Wastewater) to reflect cost savings to customers. Cost descriptions are discussed in the Cost Allocation Manual which is attached to this data request as "JMM 5-2 - (APUC Cost Allocation Manuel)". However, for purposes of providing additional information, enclosed below is additional detail regarding Unitholder Communications (also known as shareholder communications), Escrow and Transfer Agent Fees and Board of Directors Fees (also known as Trustee Fees..

Unitholder Communications

APUC, a publicly traded entity, must issue certain communications subject to the Toronto Stock Exchange's (TSX) rules and regulations. Examples include 714[1] of the Toronto Stock Exchange Company Manuel stating that "TSX may delist securities of a listed issuer that has failed to comply with TSX's Timely Disclosure policy..." Additionally, Section 406 of the Toronto Stock Exchange Company Manuel in part states "Companies who securities are listed on the Exchange are legally obligated to comply with the provisions on timely disclosure...[2]". Finally, the Canadian National Policy 51-201 *Disclosure Standards*[3] states in Section 4.5 that "Companies who do not comply with an exchange's requirements could find themselves subject to an administrative proceeding before a provincial securities regulator."

These requirements are no different than publicly traded companies on the New York Stock Exchange (NYSE) whose Listed Company Manual, Section 202.05 states "A listed company is expected to release quickly to the public any news or information which might reasonably be expected to materially affect the market for its securities. This is one of the most important and fundamental purposes of the listing agreement which the company enters into with the Exchange."[4]

Escrow and Transfer Agent Fees

[1] Please see the attached file labeled "JMM 5-2 - (TSEX Section 714 - timely disclosure requirements)"
[2] Please see the attached file labeled "JMM 5-2 - (TSEX Section 406 - timely disclosure requirements)"
[3] Please see the attached file labeled "JMM 5-2 - (National Policy 51-201)"
[4] Please see the attached file labeled "JMM 5-2 - (NYSE, Listed Company Manual, Section 2)"

TMX Policy 3-1, Section 7 requires that APUC maintain a transfer agent. In particular, Section 7.1[5] provides that "Each Issuer must maintain a record of its current registered shareholders, a record of each allotment or issuance and a record of each transfer in the registered ownership of its securities." Additionally, Section 7.2 requires that "While its securities are listed on the Exchange, an Issuer must appoint and maintain a transfer agent and registrar..."

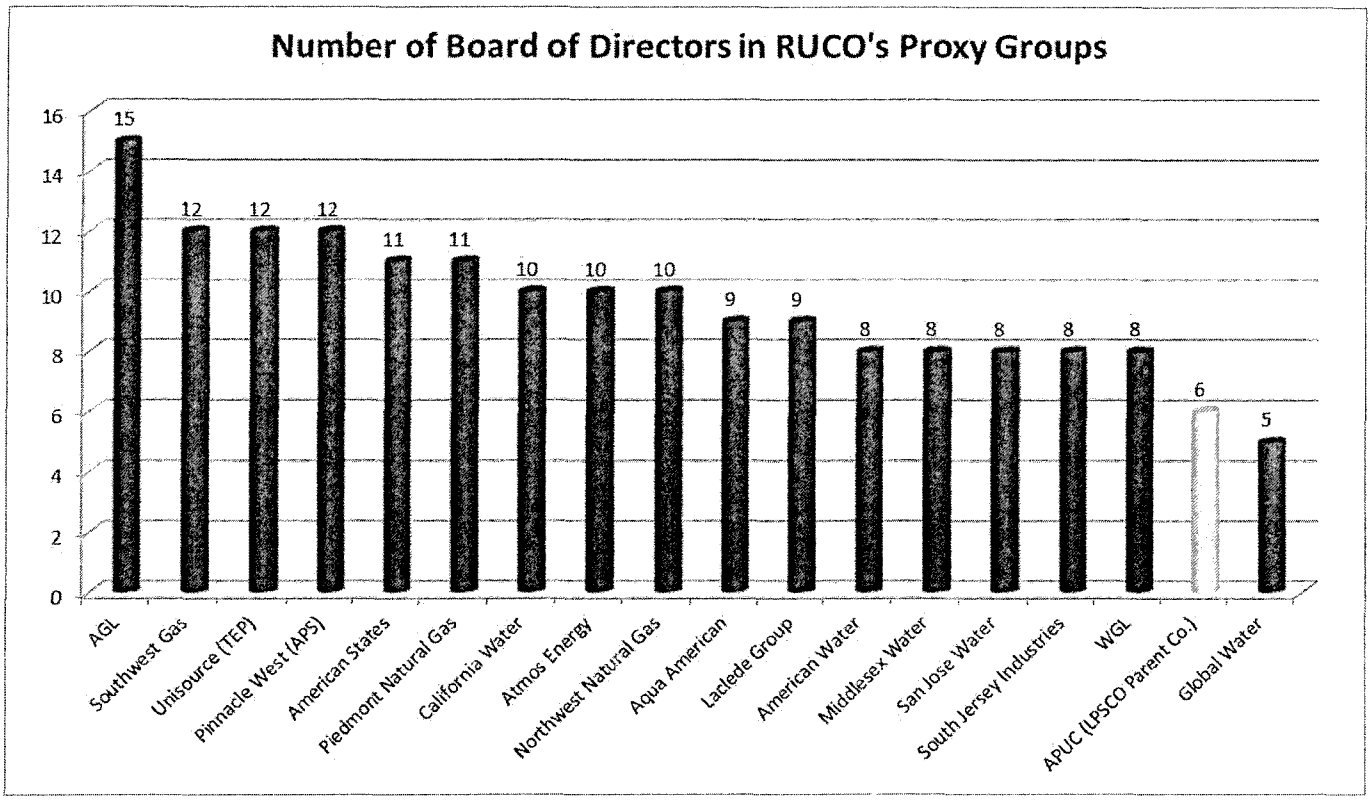
This requirement appears materially identical to the NYSE's requirements in Section 6[6] of the Listed Company Manuel: "The company must also maintain registrar facilities for all stock of the company listed on the Exchange."

Board of Directors Fees

The TSX's Guide to Listing states the following "Management, including board of directors, should have adequate experience and technical expertise relevant to the company's business and industry as well as adequate public company experience. Companies are required to have at least two independent directors.[7]" The NYSE has a similar requirement in Section 303A.01 "Listed companies must have a majority of independent directors. Effective boards of directors exercise independent judgment in carrying out their responsibilities. Requiring a majority of independent directors will increase the quality of board oversight and lessen the possibility of damaging conflicts of interest[8]."

Additionally, as shown in the graph below[9], APUC's Board of Directors is much smaller than comparable boards of directors (taken from a recent RUCO cost of capital proxy group).[10]

[5] Please see the attached file labeled "JMM 5-2 - (TMX Policy 3-1)"
[6] Please see the attached file labeled "JMM 5-2 - (NYSE Section 6 (Agencies, Depositories, Trustees))"
[7] Please see the attached file labeled "JMM 5-2 - (TSEX A Capital Opportunity Guide to Listing)", page 32 of the PDF.
[8] Please see the attached file labeled "JMM 5-2 - (NYSE Listing Requirements for Board of Directors)"
[9] Graph can be found in excel in the file labeled "JMM 5-2 - (Number of Board of Directors in RUCO proxy group (graph))". The support can be found in each company's SEC 14A filing which are included as attachments to this data request, see the 17 files containing the phrase "BOD fees".
[10] Docket No. WS-02676A-12-0196



Corporation Cost Allocation - Monthly Close Process:

The following is a description of how the monthly close process regarding corporate cost allocations work.

At the end of month, the local accounting department based in Avondale closes the books for Liberty's water and wastewater utilities located in Arizona, Missouri, Texas and Illinois. This includes review and allocation (using the 4-factor allocation) from the corporate companies, Liberty Utilities and Algonquin Power and Utilities Corporation. Liberty and APUC send to the local accounting department, bills by department for services in the previous month. The accounting team reviews the bills to ensure that they are charged to the proper accounts. Once the bills are received and account coding reviewed, the accounting team 4-factors each bill via journal to the accounting books of each water and wastewater utility in Arizona, Missouri, Texas and Illinois. The accounting manager signs off on each allocation and then saves the documentation and stores in local files for future audit requests.

EXHIBIT CK-RB4

(4) Failure To Comply With TSX Requirements & Policies

Listing Agreement

Sec. 713.

TSX may delist the securities of a listed issuer that fails to comply with its Listing Agreement or other agreements with TSX, or fails to comply with TSX requirements and policies. Examples of failure to comply with the Listing Agreement include, but are not limited to, failure to obtain the prior consent of TSX to issue additional equity securities; *failure to obtain the consent of TSX before undergoing a* material change in the business if the listed issuer is subject to Section 501; and failure to comply with TSX's requirements for stock options and security based compensation arrangements.

Disclosure Policies

Sec. 714.

- TSX may delist the securities of a listed issuer that has failed to comply with TSX's Timely Disclosure policy (see Sections 406 to 423.8 and 472 to 475) or with disclosure requirements under any securities law to which the listed issuer is subject. In addition, TSX may delist the securities of a listed issuer that is engaged in the business of mineral exploration, development or production if such listed issuer has failed to comply with TSX's "Disclosure Standards for Companies Engaged in Mineral Exploration, Development & Production" (see Appendix B).

Payment of Fees or Charges

Sec. 715.

TSX may suspend from trading and delist the securities of a listed issuer that fails or refuses to pay, when due, any fee or charge payable by the company pursuant to Exchange requirements.

Management

Sec. 716.

TSX requires that each listed issuer must meet on an ongoing basis the management requirements relevant to its category of listing that are described in Section 311 (for Industrial Issuers), Section 316 (for Mining Issuers) and Section 321 (for Oil & Gas Issuers). TSX may delist the securities of a listed issuer that has failed to meet such management requirements.

Upon receipt of a Form 3 (see Section 424) from a listed issuer, or upon notice of a new insider of a listed issuer, TSX will conduct a review of the new director, officer, trustee or insider with a view to determining the suitability of such individual or entity as an insider of the listed issuer. Upon the request of TSX, listed issuers will submit a Personal Information Form (Form 4—Appendix H) for any person so requested. TSX may delist the securities of a listed issuer in the event TSX determines that such individual or entity is not suitable as an insider of the listed issuer.

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EXHIBIT CK-RB5

Sec. 406.

It is a cornerstone policy of the Exchange that all persons investing in securities listed on the Exchange have equal access to information that may affect their investment decisions. Public confidence in the integrity of the Exchange as a securities market requires timely disclosure of material information concerning the business and affairs of companies listed on the Exchange, thereby placing all participants in the market on an equal footing.

- The timely disclosure policy of the Exchange is the primary timely disclosure standard for all TSX listed issuers. National Policy 51-201 *Disclosure Standards* of the CSA, "Disclosure Standards", assists issuers in meeting their legislative disclosure requirements. While the legislative and Exchange timely disclosure requirements differ somewhat, the CSA clearly state in National Policy 51-201 *Disclosure Standards* that they expect listed issuers to comply with the requirements of the Exchange.

To minimize the number of authorities that must be consulted in a particular matter, in the case of securities listed on the Exchange, the Exchange is the relevant contact. The issuer may, of course, consult with the government securities administrator of the particular jurisdiction. In the case of securities listed on more than one stock market, the issuer should deal with each market.

- The requirements of the Exchange and National Policy 51-201 *Disclosure Standards* are in addition to any applicable statutory requirements. The Exchange enforces its own policy. Companies whose securities are listed on the Exchange are legally obligated to comply with the provisions on timely disclosure set out in section 75 of the OSA and the Regulation under the Act. Reference should also be made to National Instrument 71-102 *continuous Disclosure and Other Exemptions Relating to Foreign Issuers*, National Instrument 55-102 *System for Electronic Disclosure by Insiders*, and National Instrument 62-103 *The Early Warning System and Related Take-Over bid and Insider Reporting Issues*.

In addition to the foregoing requirements, companies whose securities are listed on the Exchange and who engage in mineral exploration, development and/or production, must follow the "Disclosure Standards for Companies Engaged in Mineral Exploration, Development and Production" as outlined in Appendix B of this Manual for both their timely and continuous disclosure.

The Market Surveillance Division monitors the timely disclosure policy on behalf of the Exchange.

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EXHIBIT CK-RB6

NATIONAL POLICY 51-201 DISCLOSURE STANDARDS

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4.4 ***External Political, Economic and Social Developments:*** Companies are not generally required to interpret the impact of external political, economic and social developments on their affairs. However, if an external development will have or has had a direct effect on the business and affairs of a company that is both material and uncharacteristic of the effect generally experienced by other companies engaged in the same business or industry, the company is urged to explain, where practical, the particular impact on them. For example, a change in government policy that affects most companies in a particular industry does not require an announcement, but if it affects only one or a few companies in a material way, such companies should make an announcement.

4.5 ***Exchange Policies:*** (1) The Toronto Stock Exchange Inc. (the "TSX") and the TSX Venture Exchange Inc. ("TSX Venture") each have adopted timely disclosure policy statements which include many examples of the types of events or information which may be material. Companies should also refer to the guidance provided in these policies when trying to assess the materiality of a particular fact, change or piece of information.

(2) The TSX and TSX Venture policies require the timely disclosure of "material information". Material information includes both material facts and material changes relating to the business and affairs of a company. The timely disclosure obligations in the exchanges' policies exceed those found in securities legislation. It is not uncommon, or inappropriate, for exchanges to impose requirements on their listed companies which go beyond those imposed by securities legislation.[31] We expect listed companies to comply with the requirements of the exchange they are listed on. Companies who do not comply with an exchange's requirements could find themselves subject to an administrative proceeding before a provincial securities regulator.[32]

PART V - RISKS ASSOCIATED WITH CERTAIN DISCLOSURES

5.1 ***Private Briefings with Analysts, Institutional Investors and other Market Professionals:*** (1) The role that analysts play in seeking out information, analyzing and interpreting it and making recommendations can contribute to a more efficient marketplace. Companies should be sensitive though to the risks involved in private

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31 For example, securities legislation provides that a recognized stock exchange may impose additional requirements within its jurisdiction.

32 See *In the Matter of Air Canada, supra*, note 16. In this case, the parties to the settlement agreed that by disclosing earnings information to 13 analysts and not generally disclosing the information, the company failed to comply with the provisions of the TSX Company Manual and thereby acted contrary to the public interest. In the Excerpt from the Settlement Hearing Containing the Oral Reasons for Decision, the Ontario Securities Commission said, "[w]e feel that it will help foster confidence in the financial markets to know that the law requires, and that good corporations will comply with the requirement for, full disclosure of all material information on a timely basis as required by ... the Toronto Stock Exchange's listing agreement and listing requirements."

EXHIBIT CK-RB7

The determination to impose restrictions is based on a careful inspection of the trading for the latest one week period, defined as the previous Friday through subsequent Thursday, matched against various criteria. Other factors, such as the capitalization turnover, the ratio of last year's average weekly volume to the volume for the period considered, arbitrage, stop order bans, short position, earnings and recent corporate news are also reviewed.

The restriction itself is aimed primarily at eliminating the extension of credit to those who buy a security and sell it the same day seeking a short term profit. Such customers must have the full purchase value in the account prior to the entry of an order. Concomitantly, a broader requirement is usually imposed on all other margin customers in that they must put up the full purchase price within five business days, rather than only the percentage required by the Federal Reserve Board. Cash customers, of course, must in all instances put up 100% of the cost in seven days.

202.05 Timely Disclosure of Material News Developments

A listed company is expected to release quickly to the public any news or information which might reasonably be expected to materially affect the market for its securities. This is one of the most important and fundamental purposes of the listing agreement which the company enters into with the Exchange.

A listed company should also act promptly to dispel unfounded rumors which result in unusual market activity or price variations.

The issuer of income deposit securities traded as a unit shall publicize any change in the terms of the unit, such as changes to the terms and conditions of any of the components (including changes with respect to any original issue discount or other significant tax attributes of any component), or to the ratio of the components within the unit. Such publication shall be made as soon as practicable in relation to the effective date of the change, and should otherwise be made in accordance with the procedures specified in Section 202.06 below. In addition, the issuer must provide information regarding the terms and conditions of the components of the unit (including information with respect to any original issue discount or other significant tax attributes of any component), and the ratio of the components comprising the unit on its website.

202.06 Procedure for Public Release of Information

(A) Immediate Release Policy

Information required to be released quickly to the public under Section 202.05 above should be disclosed by means of any Regulation FD compliant method (or combination of methods). While foreign private issuers are not required to comply with Regulation FD, foreign private issuers must comply with the timely alert policy set forth in Section 202.05 and may do so by any method (or combination of methods) that would constitute compliance with Regulation FD for a domestic U.S. Issuer. While not requiring them to do so, the Exchange encourages listed companies to comply with the immediate release policy by issuing press releases.

The spirit of the immediate release policy is not considered to be violated on weekends where a "Hold for Sunday or Monday A.M.'s" is used to obtain a broad public release of the news. This procedure facilitates the combination of a press

EXHIBIT CK-RB8

TMX | Toronto Stock Exchange | TSX Venture Exchange

A Capital Opportunity

Guide to Listing

LISTING REQUIREMENTS FOR INDUSTRIAL, TECHNOLOGY, RESEARCH & DEVELOPMENT AND REAL ESTATE COMPANIES

TMX | TSX Venture Exchange

Initial Listing Requirements	TSX Venture Tier 1 Industrial / Technology / Life Sciences	TSX Venture Tier 2 Industrial / Technology / Life Sciences	TSX Venture Tier 2 Real Estate or Investment	TSX Venture Tier 2 Other Sector of Business
Net Tangible Assets, Revenue or Arm's Length Financing (as applicable)	$5,000,0000 net tangible assets or $5,000,000 revenue If no revenue, two year management plan demonstrating reasonable likelihood of revenue within 24 months	$750,000 net tangible assets or $500,000 in revenue or $2,000,000 Arm's Length Financing If no revenue, two year management plan demonstrating reasonable likelihood of revenue within 24 months	**Real Estate:** $5,000,000 net tangible assets **Investment:** $10,000,000 net tangible assets	$2,000,000 net tangible assets or $3,000,000 Arm's Length Financing
Adequate Working Capital and Capital Structure	Adequate working capital and financial resources to carry out stated work program or execute business plan for 18 mo. following listing. $200,000 unallocated funds	Adequate working capital and financial resources to carry out stated work program or execute business plan for 12 mo. following listing; $100,000 unallocated funds	Adequate working capital and financial resources to carry out stated work program or execute business plan for 18 mo. following listing. $200,000 unallocated funds	Adequate working capital and financial resources to carry out stated work program or execute business plan for 12 mo. following listing; $100,000 unallocated funds
Property	Issuer has Significant Interest in business or primary asset used to carry on business		**Real Estate:** Issuer has Significant Interest in real property **Investment:** no requirement	
Prior Expenditures and Work Program	History of operations or validation of business		**Real Estate:** no requirement **Investment:** disclosed investment policy	**Real Estate:** no requirement **Investment:** (i) disclosed investment policy and (ii) 50% of available funds must be allocated to at least 2 specific investments
Management and Board of Directors	Management, including board of directors, should have: adequate experience and technical expertise relevant to the company's business and industry as well as adequate public company experience. Companies are required to have at least two independent directors			
Distribution, Market Capitalization and Public Float	Public Float of 1,000,000 shares, 250 Public Shareholders each holding a Board Lot and having no Resale Restrictions on their shares; 20% of issued and outstanding shares in the hands of Public Shareholders	Public Float of 500,000 shares, 200 Public Shareholders each holding a Board Lot and having no Resale Restrictions on their shares; 20% of issued and outstanding shares in the hands of Public Shareholders	Public Float of 1,000,000 shares, 250 Public Shareholders each holding a Board Lot and having no Resale Restrictions on their shares; 20% of issued and outstanding shares in the hands of Public Shareholders	Public Float of 500,000 shares, 200 Public Shareholders each holding a Board Lot and having no Resale Restrictions on their shares; 20% of issued and outstanding shares in the hands of Public Shareholders
Sponsorship	Sponsor Report may be required			

The listing requirements above must be met at the time of listing. Any funds raised or transactions closing concurrent with listing contribute to the company meeting the listing requirements.

(1) Generally includes companies engaged in hardware, software, telecommunications, data communications, information technology and new technologies that are not currently profitable or able to forecast profitability.

(2) Applicants should file a complete set of forecast financial statements covering the current and/or next fiscal year (on a quarterly basis). Forecasts must be accompanied by an auditor's opinion that the forecast complies with the CICA Auditing Standards for future-oriented financial information. Applicants should have at least six months of operating history

(3) Under certain circumstances, deferred development charges or other intangible assets can be included in net tangible asset calculations.

(4) Companies with less than C$2 million in net tangible assets may qualify for listing if the earnings and cash flow requirements for senior companies are met.

(5) "G&A" means general and administration expenses

EXHIBIT CK-RB9

members of the compensation committee continue to be independent, may remain a member of the compensation committee until the earlier of the next annual shareholders' meeting of the listed company or one year from the occurrence of the event that caused the member to be no longer independent.

Disclosure Requirements

If a listed company makes a required Section 303A disclosure in its annual proxy statement, or if the company does not file an annual proxy statement, in its annual report filed with the SEC, it may incorporate such disclosure by reference from another document that is filed with the SEC to the extent permitted by applicable SEC rules. If a listed company is not a company required to file a Form 10-K, then any provision in this Section 303A permitting a company to make a required disclosure in its annual report on Form 10-K filed with the SEC shall be interpreted to mean the annual periodic disclosure form that the listed company does file with the SEC. For example, for a closed-end management investment company, the appropriate form would be the annual Form N-CSR.

Amended: November 25, 2009 (NYSE-2009-89); January 11, 2013 (NYSE-2012-49).

303A.01 Independent Directors

Listed companies must have a majority of independent directors.

Commentary: Effective boards of directors exercise independent judgment in carrying out their responsibilities. Requiring a majority of independent directors will increase the quality of board oversight and lessen the possibility of damaging conflicts of interest.

Amended: November 25, 2009 (NYSE-2009-89).

303A.02 Independence Tests

The following is the operative text of Section 303A.02 effective through June 30, 2013:

In order to tighten the definition of "independent director" for purposes of these standards:

(a) No director qualifies as "independent" unless the board of directors affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company).

Commentary: It is not possible to anticipate, or explicitly to provide for, all circumstances that might signal potential conflicts of interest, or that might bear on the materiality of a director's relationship to a listed company (references to "listed company" would include any parent or subsidiary in a consolidated group with the listed company). Accordingly, it is best that boards making "independence" determinations broadly consider all relevant facts and circumstances. In particular, when assessing the materiality of a director's relationship with the listed company, the board should consider the issue not merely from the standpoint of the director, but also from that of persons or organizations with which the director has an affiliation. Material relationships can include commercial, industrial, banking, consulting, legal, accounting, charitable

EXHIBIT CK-RB10

TMX | TSX Venture Exchange

POLICY 3.1

DIRECTORS, OFFICERS, OTHER INSIDERS & PERSONNEL AND CORPORATE GOVERNANCE

Scope of Policy

This Policy describes the qualifications that Directors, Officers and other Insiders, as well as certain personnel, of an Issuer must meet in order for the Issuer to be listed and remain listed on the Exchange, as well as corporate governance standards and policies required to be implemented by all Issuers. This Policy is not an exhaustive statement of corporate governance requirements applicable to Issuers. Nothing in this Policy limits the obligations and responsibilities imposed on Issuers by applicable corporate and Securities Laws. This Policy must be read in conjunction with applicable corporate and Securities Laws, including National Instrument 58-101 - *Disclosure of Corporate Governance Practices* ("NI 58-101"), National Policy 58-201 - *Corporate Governance Guidelines* ("NP 58-201") and National Instrument 52-110 - *Audit Committees* ("NI 52-110").

The main headings in this Policy are:

1. Definitions
2. Exchange Review of Directors, Officers, Other Insiders & Personnel
3. Initial Listing Requirements
4. Continued Listing Requirements
5. Qualifications and Duties of Directors and Officers
6. Disclosure of Insider Interests
7. Transfer Agent, Registrar and Escrow Agent
8. Security Certificates
9. Dissemination of Information and Insider Trading
10. Unacceptable Trading
11. Corporate Power and Authority
12. Auditors
13. Financial Statements, MD & A and Certification
14. Shareholders' Meetings and Proxies
15. Shareholder Rights Plans
16. Proceeds from Distributions
17. Issuers with Head Office Outside Canada
18. Assessment of a Significant Connection to Ontario
19. Corporate Governance Guidelines
20. Disclosure of Corporate Governance Practices
21. Audit Committees

(a) every Director and Officer must disclose to the board of Directors either in writing or in person at the next Directors' meeting, the nature and extent of any material interest, directly or indirectly, that they have in any material contract or proposed contract with the Issuer. The Director or Officer must make this disclosure as soon as they become aware of the agreement or the intention of the Issuer to consider or enter into the proposed agreement;

(b) the board of Directors must implement procedures so that each material agreement or proposed agreement between the Issuer and any Director or Officer, directly or indirectly, will be considered and approved by a majority of the disinterested Directors; and

(c) the board of Directors must implement procedures to ensure proper public dissemination is made of the material interest of any Officer or Director of the Issuer in any material agreement or proposed agreement between the Issuer and that Director or Officer. The majority of disinterested Directors must consider the proper scope and nature of the disclosure.

7. Transfer Agent, Registrar and Escrow Agent

7.1 Each Issuer must maintain a record of its current registered shareholders, a record of each allotment or issuance and a record of each transfer in the registered ownership of its securities. As these records are complex for a publicly traded company, an Issuer must appoint a registrar and transfer agent to perform these services. In making such appointment, an Issuer must comply with the corporate laws of its incorporating or continuing jurisdiction, which may impose specific requirements for transfer agents and registrars.

7.2 While its securities are listed on the Exchange, an Issuer must appoint and maintain a transfer agent and registrar with a principal office in one or more of Vancouver, British Columbia; Calgary, Alberta; Toronto, Ontario; Montreal, Quebec; or Halifax, Nova Scotia.

7.3 Except for those transfer agents that are listed in Appendix 3A, which have been previously approved as acceptable transfer agents by the Exchange, an applicant seeking to become an acceptable transfer agent under Appendix 3A must be a trust company in good standing under applicable legislation.

7.4 Each class of Listed Shares must be directly transferable at the Issuer's registrar and transfer agent.

EXHIBIT CK-RB11

Section 6 Agencies, Depositories, Trustees

601.00 Services to be Provided by Transfer Agents and Registrars

(A) For Listed Stock

A company having stock listed on the Exchange is required to maintain transfer facilities where:

•All stock of the company listed on the Exchange will be accepted for the purpose of transfer.

•All such stock which is convertible or called for redemption will be accepted for such conversion or redemption.

•All subscription rights issued to holders of listed stock of the company will be accepted for transfer or payment and securities subscribed for will be deliverable; and where all other rights or benefits pertaining to ownership of listed stock of the company, which may be issued, granted or allotted by the company, shall be accepted for transfer, exercise, payment and delivery.

•All dividends declared on stock of the company listed on the Exchange will be payable.

•The company must also maintain registrar facilities for all stock of the company listed on the Exchange. The registrar must be located in close proximity to the location at which the transfer of such securities is serviced directly.

(B) For Listed Bonds

The term "bond" includes any security evidencing indebtedness.

A company having bonds listed on the Exchange is required to maintain facilities where:

•All bonds of the company listed on the Exchange which may be registered as to principal and interest, or as to principal only, may be accepted for registration.

•All such bonds which are convertible or called for redemption will be accepted for such conversion or redemption.

•All rights or benefits pertaining to ownership of listed bonds of the company, and issued, granted or allotted by the company, will be accepted for transfer, payment or exercise.

•Principal of, and interest on, all bonds of the company listed on the Exchange will be payable.

Note: Transfer agents need not notify the Exchange of each issuance of shares, nor is it necessary for registrars to obtain a release from the Exchange before registering additional shares. It is necessary only for transfer agents to notify the Exchange of the number of shares outstanding at the end of each calendar

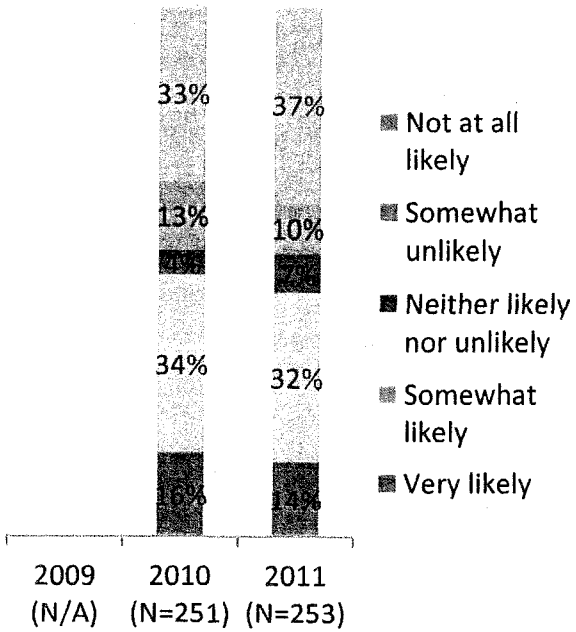
EXHIBIT CK-RB12

Rate Hikes

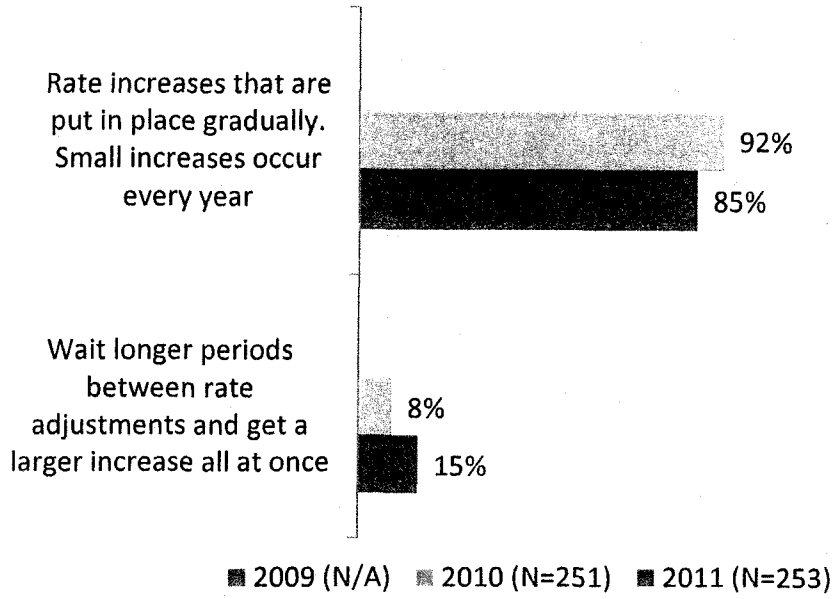
In terms of customer involvement in potential rate hikes, almost half (46%) stated they were very or somewhat likely to attend an informational meeting.

In the case of rate increases the vast majority (85%) preferred having the increases spread out over time with small increases occurring every year.

Likelihood of Attending Informational Meeting



Rate Hike Preference



21a. If rate case informational meetings were held in your community how likely would it be that you would attend?
21c. Regarding rate increases, given the opportunity would you prefer:

FENNEMORE CRAIG, P.C.
Jay L. Shapiro (No. 014650)
Todd Wiley (No. 015358)
2394 E. Camelback Road
Suite 600
Phoenix, Arizona 85016
Attorneys for Liberty Utilities (Litchfield Park Water & Sewer) Corp.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY, AN ARIZONA CORPORATION, FOR A 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-01427A-13-0043
IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-01428A-13-0042

REBUTTAL TESTIMONY OF
THOMAS J. BOURASSA

RATE BASE, INCOME STATEMENT AND RATE DESIGN

October 23, 2013

EXHIBIT
A-6

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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 Applicant Liberty Utilities (Litchfield Park Water & Sewer) Corp. ("LPSCO" or the Company).

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

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

Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?

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

II. SUMMARY OF LPSCO'S REBUTTAL POSITION

Q. WHAT ARE THE REVENUE INCREASES FOR THE WATER AND WASTEWATER DIVISIONS THAT THE COMPANY IS PROPOSING IN THIS REBUTTAL TESTIMONY?

A. For the water division the Company proposes a total revenue requirement of $12,861,040, which constitutes an increase in revenues of $1,674,773, or 14.95

percent over adjusted test year revenues. For the wastewater division, LPSCO proposes a total revenue requirement of $10,856,139, which constitutes an increase in revenues of $493,343, or 4.76 percent over adjusted test year revenues.

Q. HOW DO THESE COMPARE WITH THE COMPANY'S DIRECT FILING?

A. They are both lower. In the direct filing, the Company requested a total revenue requirement of $13,458,545 for the water division, which required an increase in revenues of $2,257,258, or 20.15 percent. In the direct filing, the Company requested a total revenue requirement of $11,020,691 for the wastewater division, which required an increase in revenues of $659,088, or 6.36 percent.

Q. WHAT'S DIFFERENT?

A. In its rebuttal filing, LPSCO has adopted a number of rate base and revenue/expense adjustments recommended by Staff and/or RUCO, as well as proposed a number of adjustments of its own based on known and measurable changes to the test year.

For the water division, the net result of these adjustments is the Company's proposed operating expenses have decreased by $11,324, from $9,176,963 in the direct filing to $9,165,939; and a net decrease of $2,419,810 in rate base from the direct filing of $35,647,602 to $33,227,792.

For the wastewater division, the net result of these adjustments is the Company's proposed operating expenses have decreased by $36,133, from $8,489,987 in the direct filing to $8,453,853; and a net increase of $384,171,204 in rate base from the direct filing of $23,877,697 to $24,264,817.

In addition, the Company has reduced its recommended cost of equity from 10.0 percent in its direct filing to 9.7 percent in its rebuttal filing and its recommended cost of debt from 6.86 percent in its direct filing to 6.4 percent.

The Company is recommending a 9.18 percent rate of return on FVRB based on the Company weighted average cost of capital, which reflects the Company's proposed capital structure of 15.87 percent debt and 84.13 percent equity. I discuss the Company proposed return on equity, cost of debt, and capital structure in my separate rebuttal cost of capital testimony.

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

A. For the water division, the proposed revenue requirements and proposed rate increases are as follows:

	Revenue Requirement	Revenue Incr.	% Increase
Company-Direct	$13,458,545	$2,257,258	20.15%
Staff	$12,276,127	$1,074,737	9.59%
RUCO	$12,371,943	$1,111,850	9.87%
Company Rebuttal	$12,870,058	$1,668,790	14.90%

For the wastewater division, the proposed revenue requirements and proposed rate increases are as follows:

	Revenue Requirement	Revenue Incr.	% Increase
Company-Direct	$11,020,691	$ 659,088	6.36%
Staff	$10,361,603	$ (57,949)	-0.56%
RUCO	$10,399,050	$ 36,254	0.35%
Company Rebuttal	$10,886,824	$ 524,028	5.06%

III. RATE BASE

A. Water Division Rate Base

Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE BASE RECOMMENDATIONS FOR THE WATER DIVISION?

A. Yes, for the water division the rate bases proposed by the parties proposing a rate base in the case, the Company, Staff and RUCO, are as follows:

	OCRB	FVRB
Company-Direct	$35,647,602	$35,647,202
Staff	$33,119,464	$33,119,464
RUCO	$33,245,457	$33,245,457
Company Rebuttal	$33,227,792	$33.227,792

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ORIGINAL COST RATE BASE FOR THE WATER DIVISION?

A. Yes. The Company's rebuttal rate base adjustments to the water division's OCRB are detailed on rebuttal schedules B-2, pages 3 through 8. Rebuttal Schedule B-2, page 1 and 2, summarize the Company's proposed adjustments and the rebuttal OCRB.

1. Plant-in-service (PIS)

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED REBUTTAL ADJUSTMENTS TO PLANT-IN-SERVICE FOR THE WATER DIVISION, AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?

A. Rebuttal B-2 adjustment 1, as summarized on Rebuttal Schedule B-2, page 2, consists of seven adjustments labeled as "A", "B", "C", "D", "E", "F", and "G" on Rebuttal Schedule B-2, page 3.

Adjustment A reflects a true-up to plant accruals totaling $196,725. This adjustment reflects the adoption of Staff's recommendation.[1] RUCO does not propose a similar adjustment.

Adjustment B reflects a reclassification of plant. Normally, a reclassification adjustment results in a net zero adjustment to PIS. However, the net adjustment is ($12,156) because a portion of the plant is being reclassified to the wastewater division PIS. This adjustment reflects the adoption of Staff's recommendation.[2] However, while the net adjustment is the same, there are some minor differences in amounts each party reclassifies within the PIS accounts. For example, the Company proposes to reclassify $23,502 from account 310 – Power Generation Equipment whereas Staff proposes to reclassify $16,947 from this account. There are other minor differences.

Q. WHY ARE THERE THESE MINOR DIFFERENCES?

A. There are inconsistencies between the Staff adjustment contained in their schedules and the detail contained in Staff witness, Dorothy Haines' testimony. The Company followed the details of the reclassification as set forth in Ms. Haines' Direct Testimony (at pages 10 and 11). I cannot explain why Staff's reclassification does not match the detail provided by Ms. Haines. Mr. Carlson refers to Ms. Haines' detail as the basis for Staff's adjustment, so I am relying on Ms. Haines' testimony for the detail.[3]

---

[1] *See* Direct Testimony of Darron W. Carlson ("Carlson Dt.") at 13-14.

[2] Carlson Dt. at 16.

[3] *Id.*

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

A. RUCO proposes a similar reclassification adjustment.[4] RUCO's net adjustment is ($12,320) which is $164 more than either Staff or the Company. The Company has not yet determined why the RUCO net adjustment is higher.

Adjustment C reflects the removal of plant not used and useful totaling $12,156. This adjustment reflects the adoption of Staff's recommendation.[5] However, there are some differences in the detail. I should also note again that the Company followed the details of the reclassification as set forth in Staff witness Dorothy Haines' Direct Testimony (at pages 10) and cannot explain why Staff's reclassification does not match that detail. Staff's entire adjustment of $12,156 adjustment is to account 303 – Land and Land Rights, but the detail provided in Ms. Haines' testimony shows a $6000 adjustment to account 304 – Land and Land Rights and a $6,156 adjustment to account 304 – Structures and Improvements. RUCO does not propose a similar adjustment.

Adjustment D reflects the removal of duplicate invoices recorded to PIS totaling $5,608. This adjustment reflects the adoption of Staff's recommendation.[6] RUCO proposes a similar adjustment, but the adjustment is less at $2,608.[7]

Adjustment E reflects the retirement of transportation equipment totaling $17,555. This adjustment reflects the adoption of Staff's recommendation.[8] RUCO proposes a similar adjustment.[9]

---

[4] *See* Direct Testimony of Robert B. Mease ("Mease Dt.") at 9-10.
[5] Carlson Dt. at 17.
[6] Carlson Dt. at 18.
[7] Mease Dt. at 10.
[8] Carlson Dt. at 18.
[9] Mease Dt. at 10.

Adjustment F reflects various retirements and reclassifications of PIS. During the discovery phase of this case, the Company found additional plant that needed to be retired and also found some additional plant recorded in the wrong accounts. Staff and RUCO do not propose a similar adjustment at this stage of the proceeding. I would not expect them to since this information did not come to light until after the Staff and RUCO filings. Both Staff and RUCO have been provided the details of this adjustment for their consideration.

Adjustment G reflects the adjustment necessary to reconcile the Company proposed plant balances to the detailed support schedule, Schedule B-2, pages 3.8 to 3.12. The adjustment is zero. This reflects that the Company detail plant schedule reflects all of the Company proposed adjustments.

Q. ARE THE ANY REMAINING ISSUES BETWEEN THE COMPANY AND THE OTHER PARTIES REGARDING PLANT-IN-SERVICE?

A. No.

2. <u>Accumulated Depreciation (A/D)</u>

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO ACCUMULATED DEPRECIATION FOR THE WATER DIVISION, AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?

A. Rebuttal B-2 adjustment 2, as summarized on Rebuttal Schedule B-2, page 2, consists of nine adjustments labeled as "A", "B", "C", "D", "E", "F", "G", "H", and "I" on Rebuttal Schedule B-2, page 4.

Adjustment A reflects the A/D adjustments related to the true-up to plant accruals in B-2 adjustment 1A discussed above. Since historical depreciable plant amounts were reduced, an adjustment to A/D should also be made. Staff does not propose an adjustment to A/D even though it also recommended an adjustment for

the true-up of accruals to PIS as I discussed above. Since RUCO did not propose a similar adjustment RUCO does not propose any A/D adjustment for the true-up of accruals.

Adjustment B reflects the A/D adjustment associated with the reclassification of plant discussed in B-2 adjustment 1B above. Since historical depreciable plant amounts were reclassified to accounts with differing depreciation rates, an adjustment to A/D should also be made. The Company proposes a net downward adjustment to A/D of 26,572. Staff also proposes a net downward adjustment to A/D related to its reclassification adjustment, but Staff proposes a net downward adjustment of $27,948.[10] Since there are differences between the Company and Staff with respect to the details of the reclassification, as I discussed above, I would expect the Staff A/D adjustment to be different than the Company's. RUCO also proposes a net downward adjustment to A/D related to its reclassification adjustment, but RUCO proposes a net downward adjustment of $25,981. [11] Since there are differences between the Company and RUCO with respect to the details of the reclassification, as I discussed above, I would also expect the RUCO A/D adjustment to be different than the Company's.

Adjustment C reflects the A/D associated with removal of plant not used and useful, as discussed in B-2 adjustment 1C above. The Company proposes a downward adjustment of $308. Staff does not propose a similar adjustment. However, I believe Staff should have. The Staff detail (provided by Ms. Haines as I discussed above) shows that one of the plant accounts adjusted was account 304 – Structures and Improvements, which is a depreciable plant account. Therefore, an adjustment to A/D should also be made. RUCO does not propose a similar

[10] *See* Staff Schedule DWC-W4, page 1 of 2, adjustment number 5.

[11] Mease Dt. at 14.

adjustment as RUCO has not proposed any adjustment for not used and useful plant.

Adjustment D reflects the A/D associated with the removal of duplicate invoices recorded to PIS discussed in B-2 adjustment 1D above. The Company's adjustment is a downward adjustment to A/D of $380. Staff's downward adjustment is for $130.[12] The Company believes the Staff adjustment is incorrect because it failed to compute the A/D for all of its recommended adjustment to PIS. As can be seen in the details of the Staff A/D adjustment shown on Staff Schedule DWC-W11, Staff only computes an A/D adjustment for account 335 – Hydrants but does not do so for account 304 – Structures and Improvements, which is a depreciable account just like account 335. There is no reason for Staff to ignore the A/D associated with account 304. RUCO proposes a similar A/D adjustment, but the adjustment is less at $130, because its PIS adjustment is less.[13]

Adjustment E reflects the A/D retirement adjustment for the retirement of transportation equipment as discussed in B-2 adjustment 1E above. The Company's A/D adjustment is a downward adjustment of $17,555. The Staff and RUCO A/D adjustments match the Company's adjustment.[14]

Adjustment F reflects a correction to the A/D balance because of an error contained in the Company's original filing. The Company's proposed adjustment increases the A/D balance by $2,454,800. Both Staff and RUCO propose the same adjustment.[15]

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[12] *See* Staff Schedule DWC-W4, page 1 of 3, adjustment number 7.

[13] Mease Dt. at 14.

[14] *See* Staff Schedule DWC-W4, page 1 of 3, adjustment number 8; Mease Dt. at 14.

[15] Carlson Dt. at 13; Mease Dt. at 14.

Adjustment G reflects the adjustment necessary to correct A/D for plant amounts recorded in the wrong years. The Company's proposed adjustment increases the A/D balance by $99,481. Both Staff and RUCO propose the same adjustment.[16]

Adjustment H reflects the A/D adjustments related to the various retirements and reclassifications of PIS as discussed in B-2 adjustment 1F above. The A/D adjustment reduces the A/D balance by $46,613. Staff and RUCO do not propose a similar adjustment as they were not yet aware of this adjustment at the time of their filing.

Adjustment I reflects the adjustment necessary to reconcile the Company proposed A/D balances to the detailed support schedule, Schedule B-2, pages 3.8 to 3.12. The adjustment is an additional downward adjustment to A/D for $32,880. The reduction in A/D arises from the retirement of $17,755 of transportation equipment taken out of service in 2011 and the retirement of $40,196 of transportation equipment taken out of service in 2008. The $32,888 represents depreciation expense that should not have been recorded for 2008 through 2011 on this plant. Staff and RUCO do not propose a similar adjustment to reconcile A/D.

3. Contributions-in-aid of Construction (CIAC)

Q. PLEASE DISCUSS THE COMPANY'S ADJUSTMENT TO THE WATER DIVISION'S CONTRIBUTIONS-IN-AID OF CONSTRUCTION AND ACCUMULASTED AMORTIZATION BALANCES.

A. In rebuttal B-2 adjustment 3, as shown on Schedule B-2, page 2, the Company increases CIAC by $101,234. This adjustment reflects a correction to an error

[16] Carlson Dt. at 15; Mease Dt. at 14.

contained in the original filing CIAC balance. Staff recommends the same adjustment.[17] RUCO also recommends this adjustment. [18]

The Company also recommends a downward adjustment to accumulated amortization of $203,918. The amount of the adjustments recognizes the changes to the annually computed composite amortization rates in the intervening years since the last test year resulting from the Company's proposed PIS adjustments discussed previously. RUCO has made the same adjustment of $203,918 to accumulated amortization.[19] Staff proposes a similar adjustment.[20] However, Staff adjustment is lower at $193,524.

Q. WHY IS THERE A DIFFERENCE?

A. I am not sure at this point. Staff did not provide a schedule showing the reconstruction of the CIAC amortization balance is its filing and I am unable to locate one anywhere in their schedules. I will consult with Staff to identify the cause of the difference.

4. <u>Deferred Income Taxes (DIT)</u>

Q. PLEASE DISCUSS THE COMPANY PROPOSED A REBUTTAL ADJUSTMENT TO DEFERRED INCOME TAXES FOR THE WATER DIVISION.

A. In rebuttal B-2 adjustment 4, as shown on Schedule B-2, page 2, the Company proposes to reduce accumulated deferred income taxes ("ADIT") by $631,432. The details of the computation are shown on Schedule B-2, page 6.0 and 6.1.

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[17] Carlson Dt. at 18-19.
[18] Mease Dt. at 16.
[19] Mease Dt. at 17.
[20] Carlson Dt. at 19.

This adjustment recognizes the Company's rebuttal proposed PIS, A/D, AIAC, and CIAC balances.

Q. DID STAFF AND RUCO PROPOSE ADJUSTMENTS TO DEFERRED INCOME TAXES FOR THE WATER DIVISION?

A. Yes. Both Staff and RUCO propose reductions to ADIT based upon their respective recommended PIS, A/D, AIAC and CIAC balances.[21] The methodology does not appear to be in dispute nor are the tax rates employed.

5. <u>Customer Security Deposits</u>

Q. PLEASE DISCUSS THE COMPANY PROPOSED REBUTTAL ADJUSTMENT TO CUSTOMER METER DEPOSITS.

A. In rebuttal B-2 adjustment 5, as shown on Schedule B-2, page 2, the Company proposes to increase Customer Security Deposits by $7,514. This adjustment reflects the adoption of the Staff recommended adjustment.[22] RUCO proposes a similar adjustment but proposes an adjustment of $7,785.[23]

6. <u>Deferred Regulatory Assets</u>

Q. PLEASE DISCUSS THE COMPANY PROPOSED A REBUTTAL ADJUSTMENT TO REGULATORY ASSETS.

A. In rebuttal B-2 adjustment 6, as shown on Schedule B-2, page 2, the Company proposes to increase deferred regulatory assets by $688. This adjustment reflects the adoption of the RUCO recommended adjustment.[24] Staff does not propose a similar adjustment.

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[21] Carlson Dt. at 20; Mease Dt. at 25-26.

[22] Calrson Dt. at 19.

[23] Mease Dt. at 19.

[24] Carlson Dt. at 19.

7. **Remaining Rate Base Issues**

a. **Customer Meter Deposits**

Q. PLEASE COMMENT ON THE RUCO PROPOSED ADJUSTMENT TO CUSTOMER METER DEPOSITS.

A. RUCO proposes to increase customer meter deposits using a 13-month average of the meter deposit balance. The Company does not agree with this adjustment because it will result in a rate base mismatch between meter deposits and PIS. Put simply, meter deposits fund PIS (meter and service line plant costs). The PIS balance in rate base is a test year-end balance. The meter deposits balance must be stated on the basis as PIS balance otherwise a mismatch will occur.

Q. WHY DOESN'T THE USE OF A 13-MONTH AVERAGE FOR CUSTOMER SECURITY DEPOSITS CREATE A RATE BASE MISMATCH?

A. Customer security deposits are fundamentally different than customer meter deposits. They are used as security for customer bill payment and not for funding plant.

B. **Wastewater Division Rate Base**

Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE BASE RECOMMENDATIONS FOR THE WATER DIVISION?

A. Yes, for the water division the rate bases proposed by the parties proposing a rate base in the case, the Company, Staff and RUCO, are as follows:

	OCRB	FVRB
Company-Direct	$23,877,697	$23,877,697
Staff	$23,424,640	$23,424,640
RUCO	$23,988,000	$23,988,000
Company Rebuttal	$24,099,901	$24,099,901

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ORIGINAL COST RATE BASE FOR THE WATER DIVISION?

A. Yes. The Company's rebuttal rate base adjustments to the wastewater division's OCRB are detailed on rebuttal schedules B-2, pages 3 through 7. Rebuttal Schedule B-2, page 1 and 2, summarize the Company's proposed adjustments and the rebuttal OCRB.

1. <u>Plant-in-service (PIS)</u>

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO PLANT-IN-SERVICE FOR THE WASTEWATER DIVISION, AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?

A. Rebuttal B-2 adjustment 1, as summarized on Rebuttal Schedule B-2, page 2, consists of eight adjustments labeled as "A", "B", "C", "D", "E", "F", "G" and "H" on Rebuttal Schedule B-2, page 3.

Adjustment A reflects an updated estimate of the post-test year plant costs it proposed in the direct filing. Staff has not adopted any Company proposed post-test year plant at this stage of the proceeding.[25] RUCO appears to have adopted the Company direct filing post-test year plant adjustment at this stage of the proceeding since RUCO does not propose a post-test year PIS adjustment. Mr. Krygier explains this adjustment and responds to the Staff testimony on post-test year plant.

Adjustment B reflects the reversal of the Company's post-test year plant retirement amounts it proposed in the direct filing. Staff is not proposing any post-test year plant adjustments and therefore proposes to reverse the Company's direct

[25] Carlson Dt. at 12.

filing post-test year retirement adjustment.[26] RUCO has adopted the Company's proposed direct filing retirement adjustment at this stage of the proceeding. Mr. Krygier explains this adjustment and responds to the Staff testimony.

Adjustment C reflects a true-up to plant accruals totaling $195,445. This adjustment reflects the adoption of Staff's recommendation.[27] RUCO does not propose a similar adjustment.

Adjustment D reflects a reclassification of plant. Normally a reclassification adjustment results in a net zero adjustment to PIS. However, the net adjustment is $12,156 because a portion of the plant is being reclassified from the water division PIS. This adjustment is similar to Staff's recommendation.[28] Staff's net adjustment is $6,000. The difference between the Company proposed amount and Staff is a $6,156 cost related to the Palm Valley WWTP. Ms. Haines' reclassification detail includes this amount in the details of the wastewater plant reclassification found in her testimony (at pages 11 and 12). Ms. Haines does not identify the plant account in which the $6,156 should be included for some unexplained reason, but it is related to treatment and disposal equipment and therefore belongs in the 380 – Treatment and Disposal Equipment account. Mr. Carlson refers to Ms. Haines' detail as the basis for Staff's adjustment, so I assume it serves as the basis of the adjustment in his schedules.[29] RUCO proposes a similar adjustment.[30] RUCO's reclassification amounts are different than the Company's and their adjustments net to zero.

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[26] *Id.*

[27] Carlson Dt. at 14.

[28] Carlson Dt. at 16.

[29] *Id.*

[30] Mease Dt. at 10.

Adjustment E reflects the removal of plant not used and useful totaling $124,546. This adjustment reflects the adoption of Staff's recommendation.[31] RUCO proposed a similar adjustment except it totals only $11,217.[32]

Adjustment F reflects the removal of duplicate invoices recorded to PIS totaling $4,672. This adjustment reflects the adoption of Staff's recommendation.[33] RUCO proposes a similar adjustment, but the adjustment is higher at $9,254.[34]

Adjustment G reflects various retirements and reclassifications of PIS. During the discovery phase of this case, the Company found additional plant that needed to be retired and also found some additional plant recorded in the wrong accounts. Staff and RUCO do not propose a similar adjustment. I would not expect them to have done so yet since this information did not come to light until after the Staff and RUCO filings. Both Staff and RUCO have been provided the details of this adjustment for their consideration.

Adjustment H reflects the adjustment necessary to reconcile the Company proposed plant balances to the detailed support schedule, Schedule B-2, pages 3.8 to 3.12. The adjustment is zero. This reflects that the Company detail plant schedule reflects all of the Company proposed adjustments.

Q. ARE THERE ANY REMAINING ISSUES BETWEEN THE COMPANY AND THE OTHER PARTIES REGARDING PLANT-IN-SERVICE?

A. No.

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[31] Carlson Dt. at 17.
[32] Mease Dt. at 11.
[33] Carlson Dt. at 18.
[34] Mease Dt. at 11.

2. **Accumulated Depreciation (A/D)**

Q. **WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO ACCUMULATED DEPRECIATION FOR THE WASTEWATER DIVISION, AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?**

A. Rebuttal B-2 adjustment 2, as summarized on Rebuttal Schedule B-2, page 2, consists of eight adjustments labeled as "A", "B", "C", "D", "E", "F", "G", and "H" on Rebuttal Schedule B-2, page 4.

Adjustment A reflects the adjustment to A/D for the reversal of the Company's post-test year retirement adjustment as discussed in in B-2 adjustment 1B, above.

Adjustment B reflects the A/D adjustments related to the true-up to plant accruals in B-2 adjustment 1C discussed above. Since historical depreciable plant amounts were reduced an adjustment to A/D should also be made. Staff does not propose an adjustment to A/D even though it also recommended an adjustment for the true-up of accruals to PIS as I discussed above. Since RUCO did not propose a similar adjustment RUCO does not propose any A/D adjustment to the true-up of accruals.

Adjustment B reflects the A/D adjustment associated with the reclassification of plant discussed in B-2 adjustment 1D, above. Since historical depreciable plant amounts were reclassified to accounts with differing depreciation rates an adjustment to A/D should also be made. The Company proposes a net downward adjustment to A/D of 32,185. Staff also proposes a net downward adjustment to A/D related to its reclassification adjustment, but Staff proposes a net

downward adjustment of $18,194.[35] Since there are differences between the Company and Staff with respect to the details of the reclassification, as I discussed in B-2 adjustment 1E above, I would expect the Staff A/D adjustment to be different than the Company's. However, I would not expect Staff's A/D adjustment to be as low as $18,194 low considering the difference in the plant reclassification detail between the Company and Staff was only $6,000. A cursory review of the Staff computations as shown on Schedule DWC-WW9 reveals that Staff used a depreciation rate of 2 percent for flow measuring devices instead of the correct 10 percent rate. Another readily identifiable error is that Staff lists the account 354 – Structures and Improvements years as 2009 and 2011, when the correct years should be 2009 and 2012. Correcting these two errors would bring the Staff adjustment up to at least $31,187.

Adjustment C reflects the A/D associated with removal of plant not used and useful discussed in B-2 adjustment 1E above. The Company proposes a downward adjustment of $5,661 which matches the Staff proposed adjustment amount.[36]

Adjustment D reflects the A/D associated with the removal of duplicate invoices recorded to PIS discussed in B-2 adjustment 1F above. The Company's adjustment is a downward adjustment to A/D of $214. RUCO proposes a similar A/D adjustment for its duplicate invoice PIS adjustment. RUCO's adjustment is higher at $823, reflecting RUCO's larger PIS adjustment for duplicate invoices.[37]

Adjustment G reflects the adjustment necessary to correct A/D for plant amounts recorded in the wrong years. The Company's proposed adjustment

[35] *See* Staff Schedule DWC-W4, page 1 of 2, adjustment number 5.
[36] *See* Staff Schedule DWC-WW4, page 1 of 2, adjustment number 6.
[37] Mease Dt. at 15.

increases the A/D balance by $7,711. Both Staff and RUCO propose the same adjustment.[38]

Adjustment H reflects the A/D adjustments related to the various retirements and reclassifications of PIS discussed above. The A/D adjustment reduces the A/D balance by $10,515. Staff and RUCO do not propose a similar adjustment as they were not yet aware of this adjustment yet at the time of their filing.

Adjustment H reflects the adjustment necessary to reconcile the Company proposed A/D balances to the detailed support schedule, Schedule B-2, pages3.8 to 3.12.

3. Contributions-in-aid of Construction (CIAC)

Q. PLEASE DISCUSS THE COMPANY'S ADJUSTMENT TO THE WASTEWATER DIVISION'S CONTRIBUTIONS-IN-AID OF CONSTRUCTION AND ACCUMULASTED AMORTIZATION BALANCES.

A. In rebuttal B-2 adjustment 3, as shown on Schedule B-2, page 2, the Company increases CIAC by $93,570. This adjustment reflects a correction to an error contained in the original filing CIAC balance. Staff recommends the same adjustment.[39] RUCO also recommends this adjustment. [40]

The Company also recommends a downward adjustment to accumulated amortization of $293,475. The amount of the adjustment recognizes the changes to the annually computed composite amortization rates in the intervening years since the last test year resulting from the Company's proposed plant retirements

[38] Carlson Dt. at 15; Mease Dt. at 14.
[39] Carlson Dt. at 19.
[40] Mease Dt. at 17.

discussed above. The Staff and RUCO proposed adjustment amounts are the same amount as the Company proposed amount.[41]

4. Deferred Income Taxes (DIT)

Q. HAS THE COMPANY PROPOSED A REBUTTAL ADJUSTMENT TO DEFERRED INCOME TAXES FOR THE WASTEWATER DIVISION?

A. Yes. In rebuttal B-2 adjustment 4, as shown on Schedule B-2, page 2, the Company proposes to reduce ADIT by $631,432. The details of the computation are shown on Schedule B-2, page 7.0 and 7.1. This adjustment recognizes the Company's rebuttal proposed PIS, A/D, AIAC, and CIAC balances.

Q. DID STAFF AND RUCO PROPOSE ADJUSTMENTS TO DEFERRED INCOME TAXES FOR THE WASTEWATER DIVISION?

A. Yes. Both Staff and RUCO propose reductions to ADIT based upon their respective recommended PIS, A/D, AIAC and CIAC balances.[42] The methodology does not appear to be in dispute nor are the tax rates employed.

5. Customer Security Deposits

Q. HAS THE COMPANY PROPOSED A REBUTTAL ADJUSTMENT TO CUSTOMER METER DEPOSITS?

A. Yes. In rebuttal B-2 adjustment 5, as shown on Schedule B-2, page 2, the Company proposes to increase Customer Security Deposits by $8,334. This adjustment reflects the adoption of the Staff recommended adjustment.[43] RUCO proposes a similar adjustment but proposes an adjustment of $8,553.[44]

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[41] Carlson Dt. at 19; Mease Dt. at 17.

[42] Carlson Dt. at 20; Mease Dt. at 25-26.

[43] Carlson Dt. at 19.

[44] Mease Dt. at 19.

6. Remaining Rate Base Issues

a. Customer Meter Deposits

Q. PLEASE COMMENT ON THE RUCO PROPOSED ADJUSTMENT TO CUSTOMER METER DEPOSITS.

A. RUCO proposes to increase customer using a 13-month average of the meter deposit balance. The Company does not agree with this adjustment because it will result in a rate base mismatch for the reasons explained in my testimony above (on page 14).

IV. INCOME STATEMENT

A. Water Division Revenue and Expenses

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO REVENUES AND EXPENSES FOR THE WATER DIVISION AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?

A. The Company rebuttal adjustments for the water division are detailed on Rebuttal Schedule C-2, pages 1-12. The rebuttal income statement with adjustments is summarized on Rebuttal Schedule C-1, page 1-2.

Rebuttal adjustment 1 increases depreciation expense. The rebuttal proposed depreciation expense is higher than the direct filing by $11,713. The reduction is primarily due to the impacts of the Company's proposed rebuttal adjustments to PIS and CIAC as discussed above. The Staff and RUCO recommend depreciation expense levels are different than the Company's due to the respective recommended PIS and CIAC balances.

Rebuttal adjustment number 2 increases property tax expense and reflects the rebuttal proposed revenues. Staff, RUCO, and the Company are in agreement on the method of computing property taxes. This method utilizes the ADOR

formula and inputs two years of adjusted revenues plus one year of proposed revenues. I computed the property taxes based on the Company's proposed revenues, and then used the property tax rate and assessment ratio that was used in the direct filing.

Q. ARE THE PARTIES USING THE SAME TAX RATE AND ASSESSMENT RATIOS?

A. Yes.[45]

Q. ANY OTHER DIFFERENCES?

A. Staff and RUCO use different net book values for transportation equipment than the Company. The net book value for transportation equipment the Company utilizes is $96,334 whereas Staff and RUCO use net book values of $107,049 and $63,445, respectively. The different net book values appear to be the result of differences in each of the respective parties' computed A/D balance for transportation equipment.

Q. THANK YOU. PLEASE CONTINUE.

A. Rebuttal adjustment number 3 reduces water testing by $22,062. This adjustment reflects the adoption of RUCO's proposed adjustment to water testing expense.[46] Staff also proposes a reduction to water testing expense, but the Staff adjustment is only $4,464. The Company disagrees with the Staff adjustment and believes the adjustment should be higher.

Rebuttal adjustment number 4 reduces Management Services – US Liberty expense and reflects a corporate expense true-up of $8,420. This adjustment

[45] *See* LPSCO Water Schedule C-2, page 3; Staff Schedule DWC-WW23; RUCO Water Division Schedule RBM-17.

[46] Mease Dt. at 25.

reflects the adoption of Staff's proposed corporate expense true-up adjustment.[47] RUCO does not propose a similar adjustment.

Rebuttal adjustment number 5 reduces Management Services – US Liberty expense and reflects a corporate allocation expense adjustment of $1,829. RUCO also proposes a downward corporate expense allocation adjustment of $115,363.[48] Mr. Krygier responds to the Staff and RUCO testimonies on this issue.[49]

Rebuttal adjustment 6 increases miscellaneous expense by $5,931 for interest expense on customer security deposits. This adjustment reflects the adoption of Staff's proposed adjustment to miscellaneous expense.[50] RUCO also proposes an upward adjustment to miscellaneous expense for interest on security deposits, but RUCO's proposed adjustment is $4,848.[51]

Rebuttal adjustment 7 increases bad debt expense and reflects the reclassification of bad debt expense to the wastewater division. This adjustment reflects the adoption of the RUCO adjustment to bad debt expense.[52] Staff has not proposed a similar adjustment.

Rebuttal adjustment 8 reduces miscellaneous expense by $16,108 and reflects the adoption of RUCO's recommendation to remove certain miscellaneous expenses.[53]

Rebuttal adjustment 9 increases Regulatory Commission Expense Other by $851 to recognize the annualization of amortization expense for the TCE Plume

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[47] Carlson Dt. at 24.
[48] Mease Dt. at 30.
[49] *See* Rebuttal Testimony of Christopher D. Krygier ("Krygier Rb.") at 8-10.
[50] Carlson Dt. at 25.
[51] Mease Dt. at 33.
[52] Mease Dt. at 28.
[53] Mease Dt. at 33..

deferred regulatory asset. Annualization of the amortization expense is similar to the annualization of depreciation expense. The deferred regulatory asset balance increased during the test year and amortization expense only reflected a half year of annualization.

Rebuttal Adjustment 10 reflects the changes to interest expense resulting from interest synchronization using the Company's rebuttal proposed rate base and the weighted cost of debt. All the parties interest synchronize interest expense with rate base.[54]

Rebuttal Adjustment 11 reflects the changes to income taxes at the Company's rebuttal proposed revenues and expenses.

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

A. Yes, the state income tax rate is 6.50% which is the income tax rate in effect through the end of 2014.

Q. DO ALL THE PARIES USE THIS TAX RATE?

A. Yes.[55]

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[54] *See* LPSCO Water Division Schedule C-3, page 2; Staff Schedule DWC-WW2, and RUCO Water Division Schedule RBM-1.

[55] *See* LPSCO Water Division Schedule C-3, page 2; Staff Schedule DWC-W2, and RUCO Water Division Schedule RBM-1.

1. Water Division Remaining Revenue and Expense Issues

a. Declining Usage Adjustment

Q. **PLEASE COMMENT ON THE RUCO TESTIMONY REAGRDING THE COMPANY'S DECLINING USAGE ADJUSTMENT.**

A. Mr. Krygier responds to this issue.[56]

b. RUCO's Liberty Water Adjustment

Q. **PLEASE DISCUSS RUCO'S ADJUSTMENT TO MANAGEMENT SERVICE – LIBERTY WATER.**

A. The Company does not agree with RUCO proposed adjustment to Management Services – Liberty Water for cost related to employee incentives.[57] Mr. Sorenson addresses the reasonableness of including these costs in the Liberty Water allocation and in the operating expenses of LPSCO.[58]

Q. **PLEASE DISCUSS RUCO'S ADJUSTMENT TO SALARIES AND WAGES FOR EMPLOYEE PENSION BENEFITS.**

A. The Company does not agree with RUCO proposed adjustment to Salaries and Wages for cost related to employee pension benefits.[59] Mr. Krygier addresses the reasonableness of including these costs in Salaries and Wages expense of LPSCO.[60]

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[56] Krygier Rb. at 4-7.

[57] Mease Dt. at 32.

[58] *See* Rebuttal Testimony of Greg Sorenson ("Sorenson Rb.") at 1-4.

[59] Mease Dt. at 26-27.

[60] Krygier Rb. at 7-8.

B. **Wastewater Division Revenue and Expenses**

Q. **WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO REVENUES AND EXPENSES FOR THE WASTEWATER DIVISION AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?**

A. The Company rebuttal adjustments for the wastewater division are detailed on Rebuttal Schedule C-2, pages 1-12. The rebuttal income statement with adjustments is summarized on Rebuttal Schedule C-1, page 1-2.

Rebuttal adjustment 1 increases depreciation expense. The rebuttal proposed depreciation expense is higher than the direct filing by $27,613. The reduction is primarily due to the impacts of the Company's proposed rebuttal adjustments to PIS and CIAC as discussed above. Staff and RUCO recommend depreciation expense levels different than the Company due to the different respective recommended PIS and CIAC balances.

Rebuttal adjustment number 2 increases property tax expense and reflects the rebuttal proposed revenues. Staff, RUCO, and the Company are in agreement on the method of computing property taxes. This method utilizes the ADOR formula and inputs two years of adjusted revenues plus one year of proposed revenues. I computed the property taxes based on the Company's proposed revenues, and then used the property tax rate and assessment ratio that was used in the direct filing.

Q. **ARE THE PARTIES USING THE SAME TAX RATE AND ASSESSMENT RATIOS?**

A. Yes.[61]

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[61] *See* LPSCO Wastewater Schedule C-2, page 3; Staff Schedule DWC-WW23; RUCO Wastewater Division Schedule RBM-17.

Q. **ANY OTHER DIFFERENCES?**

A. Staff and RUCO use different net book values for transportation equipment than the Company. The net book value for transportation equipment the Company utilizes is $51,225, whereas Staff and RUCO use net book values of $50,681 and $3,646, respectively. The different net book values appear to be the result of differences in each of the respective parties' computed A/D balance for transportation equipment.

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

A. Rebuttal adjustment number 3 reduces water testing by $27,078 and increases sludge removal expense by $3,410. This adjustment reflects, in part, the adoption of Staff's proposed adjustment to sludge removal expense.[62] Staff also proposes a reduction is water testing expense of $35,730. The Company disagrees with the Staff adjustment amount. The Company does agree with all of the testing expense outlined by Ms. Hains in her testimony (on pages 5-6) with thee exception of the E Coli testing expense. The Company estimates the E Coli testing expense to be $13,580 annually compared to Ms. Hains's estimate of $4.928. The difference in cost is $8,652. Thus the Company's proposed adjustment is equal to the Staff adjustment of for water testing of $35,750 less $8,562.

Rebuttal adjustment number 4 reduces Management Services – US Liberty expense and reflects a corporate expense true-up of $7,420. This adjustment reflects the adoption of Staff's proposed corporate expense true-up adjustment.[63] RUCO does not propose a similar adjustment.

Rebuttal adjustment number 5 reduces Management Services – US Liberty expense reflecting a corporate allocation expense adjustment of $2,521.

[62] Carlson Dt. at 21-22.

[63] Carlson Dt. at 24.

Staff proposes a downward corporate expense allocation adjustment, but Staff proposes a downward adjustment of $23,978.[64] RUCO also proposes a downward corporate expense allocation adjustment, but RUCO proposes a downward adjustment of $115,307.[65] Mr. Krygier responds to the Staff and RUCO testimonies on this issue.[66]

Rebuttal adjustment 6 increases miscellaneous expense by $5,346 for interest expense on customer security deposits. This adjustment reflects the adoption of the Staff proposed adjustment to miscellaneous expense.[67] RUCO also proposes an upward adjustment to miscellaneous expense for interest on security deposits, but RUCO's proposed adjustment is $5,467.[68]

Rebuttal adjustment 7 increases revenues and sludge removal expense. This adjustment reflects the adoption of RUCO's adjustment to revenues and sludge removal expense.[69] Staff does not propose a similar adjustment.

Rebuttal adjustment 8 reduces bad debt expense and reflects the reclassification of bad debt expense to the water division. This adjustment reflects the adoption of the RUCO adjustment to bad debt expense.[70] Staff has not proposed a similar adjustment.

Rebuttal adjustment 9 reduces miscellaneous expense by $342 and reflects the adoption of RUCO's recommendation to remove certain miscellaneous expenses.[71]

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[64] Carlson Dt. at 25.
[65] Mease Dt. at 30.
[66] Krygier at 8-20.
[67] Carlson Dt. at 25.
[68] Mease Dt. at 33.
[69] Mease Dt. at 23.
[70] Mease Dt. at 28.
[71] Mease Dt. at 33.

Rebuttal Adjustment 10 reflects the changes to interest expense resulting from interest synchronization using the Company's rebuttal proposed rate base and the weighted cost of debt. All the parties interest synchronize interest expense with rate base.[72]

Rebuttal Adjustment 11 reflects the changes to income taxes at the Company's rebuttal proposed revenues and expenses.

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

A. Yes, the state income tax rate is 6.50% which is the income tax rate in effect through the end of 2014.

Q. DO ALL OF THE PARIES USE THIS TAX RATE?

A. Yes.[73]

1. <u>Remaining Revenue and Expense Issues</u>

Q. PLEASE IDENTIFY ANY REMAINING ISSUES IN DISPUTE WITH RUCO AND/OR STAFF.

A. I have discussed the issues with respect to employee incentives previously on page 26. My discussion on these issues applies equally to the wastewater division, only the amounts in disputes are different for the wastewater division.

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[72] *See* LPSCO Wastewater Schedule C-3, page 2; Staff Schedule DWC-WW2, and RUCO Wastewater Division Schedule RBM-1.

[73] *See* LPSCO Wastewater Schedule C-3, page 2; Staff Schedule DWC-WW2, and RUCO Wastewater Division Schedule RBM-1.

V. RATE DESIGN

A. Water Division

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

A. The Company's proposed rates are:

MONTHLY SERVICE CHARGES

5/8" x 3/4" Meters	$13.88
3/4" Meters	$13.88
1" Meters – Residential Only	$31.20
1" Meters	$34.70
1 1/2" Meters	$69.40
2" Meters	$111.04
3" Meter	$222.08
4" Meters	$347.00
6" Meter	$694.00
6" Meter – Bulk Resale Only	$575.00
8" Meters	$1,110.40
10" Meters	$1,596.20
12" Meters	$2,984.20
Construction	$0.00

COMMODITY RATES

5/8" X ¾" Meters (Residential)	1 to 3,000	$ 1.00
	3,001 to 11,000	$ 1.95
	11,001 to 30,000	$ 2.94
	Over 30,000	$ 3.36
5/8" X ¾" Meters	1 to 9,000	$ 1.95

	Over 9,000	$ 3.36
¾" Meters (Residential)	1 to 3,000	$ 1.00
	3,001 to 11,000	$ 1.95
	11,001 to 30,000	$ 2.95
	Over 30,000	$ 3.36
¾" Meters	1 to 20,000	$ 1.95
	Over 20,000	$ 3.36
1" Meters (Residential)	1 to 5,000	$ 1.00
	5,001 to 20,000	$ 1.95
	20,001 to 40,000	$ 2.95
	Over 40,000	$ 3.36
1" Meters	1 to 20,000	$ 1.95
	Over 20,000	$ 3.36
1 ½" Meters	1 to 40,000	$ 1.95
	Over 40,000	$ 3.36
2" Meters	1 to 60,000	$ 1.95
	Over 60,000	$ 3.36
3" Meters	1 to 120,000	$ 1.95
	Over 120,000	$ 3.36
4" Meters	1 to 180,000	$ 1.95
	Over 180,000	$ 3.36
6" Meters	1 to 360,000	$ 1.95
	Over 360,000	$ 3.36
8" Meters	1 to 650,000	$ 1.95
	Over 650,000	$ 3.36
8" Meters (Bulk Resale Only)	All Gallons	$ 1.65

10" Meters	1 to 940,000	$ 1.95
	Over 940,000	$ 3.36
12" Meters	1 to 1,200,000	$ 1.95
	Over 1,200,000	$ 3.36
Construction Water	All Gallons	$ 3.36

Q. WHAT IS THE AVERAGE MONTHLY BILL FOR THE 5/8 X 3/4 INCH METERED CUSTOMERS UNDER PRESENT RATES?

A. As shown on Rebuttal Schedule H-2, page 1, the average monthly bill under present rates for a 3/4 inch residential customer (the largest customer class) using an average 9,320 gallons is $24.33.

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

A. As shown on Schedule H-2, page 1, the average monthly bill under proposed rates for a 3/4 inch residential customer using an average 9,320 gallons is $28.07 – a $3.91 increase over the present monthly bill or a 16.08 percent increase.

Q. HAVE YOU MADE ANY CHANGES TO THE RATE DESIGN FROM THE DIRECT FILING?

A. The Company has made two changes to the basic rate design it proposed in its direct filing. First, the Company has lowered the 3rd tier break over points for the 5/8x3/4 inch and ¾ inch metered residential customers from 30,000 gallons to 20,000 gallons. Second, the 3rd tier break-over point for the 1 inch metered residential customers was lowered from 40,000 gallons to 30,000 gallons. These changes were necessary, in part, to prevent customers on larger meter sizes from paying less than these customers at higher levels of water use. The issue is

described as billing cross-over between meter sizes and customer classes and I will discuss this more later in my testimony.

Q. WAS BILLING AMOUNT CROSS-OVER A PROBLEM IN THE COMPANY'S DIRECT FILING RATE DESIGN?

A. No. The problem did not exist in the direct filing rates. As I described in my direct testimony (at pages 21-22), I had to deviate from my intended design for the 3rd tier break-over point for the 1 inch residential customers because of a potential billing cross-over issue. Due to a lower recommended increase in this rebuttal filing, it was necessary to make changes to the break-over points to prevent billing cross-over.

Q. IS THE REVENUE RECOVERY FROM THE MONTHLY MINIMUMS AND THE COMMODITY RATES SIMILAR UNDER THE REBUTTAL RATE DESIGN AS IT WAS IN THE DIRECT FILING RATE DESIGN?

A. Yes. Revenue recovery is roughly the same. Below is a comparison between the Company direct filing rates and its rebuttal rates.

Table 1

Category	Rebuttal % Recovery	Direct % Recovery	Difference
Monthly Minimums	40.54%	40.57%	-0.03%
Lowest Commodity Rate	5.18%	4.95%	0.23%
2nd Lowest Commodity Rate	21.81%	21.36%	0.45%
2nd Highest Commodity Rate	5.37%	7.30%	-1.93%
Highest Commodity Rate	27.10%	25.83%	1.27%
Total Recovery from Commodity Rates	59.46%	59.43%	0.03%
Recovery from two highest cost commodity rates	32.47%	33.13%	0.66%
Recovery from two lowest cost commodity rates	26.99%	26.31%	-0.68%

Q. IS THE COMPANY'S RATE DESIGN CONVERSATION ORIENTED?

A. Yes, in several ways. First, as I mentioned above, we use an inverted tier rate design, meaning the more water used, the higher the per unit cost of water (increasing commodity rates), with which all parties are in agreement should be the case. In fact, LPSCO has proposed a fourth tier for small residential customers of water or more per month. To my knowledge, there are only a few other water utilities in the state with more than 3 tiers and this is certainly the first time this has been proposed by a Liberty utility.[74]

Q. PLEASE COMMENT ON THE PROPOSED RATE DESIGN OF STAFF AND RUCO.

A. Like the Company, Staff and RUCO are proposing an inverted four tier rate design for the 1 inch and smaller residential customers and an inverted two tier design for the 1 inch and smaller non-residential (commercial, irrigation, and multi-family) customers and larger meter sizes for all customer classes.[75] Staff's and RUCO's break-over points also increase with meter size. The first tier commodity rate for the 1 inch and smaller non-residential customers, and larger meter sizes all customer classes is the same as the second tier of the 1 inch and smaller residential customers. The second tier of the larger meter sizes for all customer classes is the same as the fourth tier of the 1 inch and smaller residential customers.[76] Both Staff and RUCO propose changes to one of more of the current break-over points.

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[74] *See* Decisions 71410 (Global Water – Santa Cruz Water, et. al.) and Decision 71878 (Paradise Valley Water).

[75] *See* Staff Errata Schedule DWC-W-1 and RUCO Schedule RBM W RD-1.

[76] *Id.*

Q. WHAT ARE THE PRIMARY DIFFERENCES BETWEEN THE PARTIES ON RATE DESIGN?

A. Staff lowered the monthly minimum charges for the 5/8 inch and ¾ inch residential and non-residential customers from $10.20 to $10.00; a decrease of 2 percent. Staff also decreases the monthly minimum charge for the 1 inch residential customers from $25.50 to $25.00. Staff increases the monthly minimum charge for the 1 inch non-residential customers, but then recommends reductions in the monthly minimums for the larger meters.

Q. WHY DOES STAFF LOWER THE MONTHLY MINIMUMS FOR THE LARGER METER SIZES?

A. In short, it's how Staff determines the monthly minimums. To explain, I need to provide some background. Larger meter monthly minimums are typically scaled based on the flows relative to a 5/8x3/4 inch meter. For example, a 1-1/2 inch meter flows at 5 times that of a 5/8x3/4 inch meter. Therefore, the monthly minimum is 5 times the monthly minimum for a 5/8x3/4 inch meter. The current monthly minimums are scaled and Staff continues to scale the monthly minimums in the instant case.

Since Staff has lowered the monthly minimum charge for a 5/8x3/4 inch meter from $10.20 to $10.00, its proposed larger meter monthly minimums are lower because Staff is scaling off a lower 5/8x3/4 inch monthly minimum. For example, Staff's proposed 1-1/2 inch meter monthly minimum is lowered to $50.00 (5 times $10) from the current monthly minimum of $51.00 (5 times $10.20).[77]

[77] *See* Staff Errata Schedule DWC W-1.

Q. THANK YOU, MR. BOURASSA. PLEASE CONTINUE.

A. The Company also scales the monthly minimums for the larger meters as does Staff. But, since the Company proposes to increase to the monthly minimums for the 5/8x3/4, the larger meter size monthly minimums are all higher than current monthly minimums.

Q. IS IT CUSTOMARY TO SCALE THE MONTHLY MINIMUMS FOR THE LARGER METER SIZES ON THE RELATIVE FLOW FACTORS COMPARED TO A 5/8x3/4 INCH METER?

A. Yes. Since a larger meter has a higher potential demand on the system, it makes sense to charge more for a larger meter. The relative flow factors are a way of quantifying the differences in potential demand and, therefore, serve as a basis for quantifying the monthly minimum that should be paid.

Q. ARE THERE CIRCUMSTANCES WHERE WE DEVIATE FROM HIS PRACTICE?

A. Yes. The current and proposed monthly minimums for the ¾ inch metered customers in the instant case are an example. Here, the current 5/8x3/4 inch and ¾ inch monthly minimums are the same even though a ¾ inch meter flows 1.5 times that of a 5/8x3/4 inch meter. In cases where the majority of customers are served by a ¾ inch meter with relatively few served by 5/8x3/4 inch meters, as is the case for LPSCO, setting the monthly minimums the same makes sense.

Q. DO ALL THE PARTIES PROPOSE A MONTHLY MINIMUM FOR THE ¾ INCH METER THE SAME AS THEIR PROPOSED 5/8x3/4 INCH METER MONTHLY MINIMUM?

A. Yes.

Q. THANK YOU. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE STAFF RATE DESIGN.

A. Staff also proposes to retain the current 2nd tier break-over point for the 5/8 inch and ¾ inch meters of 9,000 gallons which is lower than the Company's proposed 11,000 gallon break-over point. For the 3rd tier break-over point, Staff proposes 20,000 gallons which is the same as the Company now proposes. For the 1 inch residential customer, Staff proposes retain the current 2nd tier break-over point of 20,000 gallons as does the Company. However, for the 3rd tier break-over point, Staff proposes a higher break-over point of 37,000 gallons compared to the Company proposed 30,000 gallons break-over point.

Staff also generally reduces the break-over points for the larger meter sizes. An exception is the non-residential 1 inch meter where Staff increases the current break-over point of 20,000 gallons to 25,000 gallons. The Company retains the current break-over points for the larger meter sizes.

Finally, Staff proposes to reduce the first tier commodity rate for the 1 inch and smaller residential meters from the current rate of $1.00 per thousand gallons to $0.75 per thousand gallons. Staff also reduces the first tier commodity rate for the 1 inch and smaller non-residential meters and for larger meter sizes for all classes from the current rate of $1.91 per thousand gallons to $1.75 per thousand gallons. By contrast, the Company leaves the first tier commodity rate for the 1 inch and smaller residential meters at the current rate of $1.00 per thousand gallons. For of the 1 inch and smaller non-residential meters and for larger meter sizes for all classes of customers, the Company increases the first tier commodity rate from the current rate of $1.91 per thousand gallons to $1.95 per thousand gallons.

Q. THANK YOU. WHAT ABOUT THE DIFFERENCES BETWEEN THE COMPANY AND RUCO RATE DESIGN?

A. RUCO proposes a $12.00 monthly minimum for the 5/8 inch and ¾ inch meters; an increase of 17.6 percent over the current monthly minimum of $10.20. Like the Company, RUCO increases the monthly minimums for all meter sizes. As with both the Staff and Company rate designs, the RUCO monthly minimums are scaled off the monthly minimum for the 5/8x3/4 inch meter. Since RUCO proposes an increase to the 5/8x3/4 inch meter monthly minimums RUCO's proposed monthly minimums are higher than the current monthly minimums for the larger meters.

RUCO proposes to retain the current 2nd tier break-over point for the 5/8 inch and ¾ inch meters of 9,000 gallons which is lower than the Company's proposed 11,000 gallon break-over point. For the 3rd tier break-over point, RUCO proposes 15,000 gallons which is lower than the Company's proposed 20,000 gallons. For the 1 inch residential customer, RUCO proposes a 2nd tier break-over point of 15,000 gallons which is lower than the current 20,000 gallons break-over point and lower the Company's proposed 20,000 gallons. For the 3rd tier break-over point, RUCO proposes a higher break-over point of 35,000 gallons compared to the Company's proposed 30,000 gallons break-over point.

RUCO also generally reduces the break-over points for the larger meter sizes. The exception is for the non-residential where RUCO increases the break-over point from 20,000 gallons to 22,500 gallons.

Finally, RUCO proposes to reduce the first tier commodity rate for the 1 inch and smaller residential meters from the current rate of $1.00 per thousand gallons to $0.84 per thousand gallons. RUCO also reduces the first tier commodity rate for 1 inch and smaller non-residential meters and for the larger meter sizes for all classes from the current rate of $1.91 per thousand gallons to $1.50 per

thousand gallons. By contrast, the Company leaves the first tier commodity rate for the 1 inch residential and smaller residential meters at the current rate of $1.00 per thousand gallons. For of the 1 inch and smaller non-residential meters and for larger meter sizes for all classes, the Company increases the first tier commodity rate from the current rate of $1.91 per thousand gallons to $1.95 per thousand gallons.

Q. CAN YOU SUMMARIZE THE EFFECT OF THE DIFFERENCES BETWEEN THE COMPANY AND STAFF AND/OR RUCO?

A. Yes. There are a number of effects of which I discuss later in my testimony. First, the Staff and RUCO rate designs contain serious flaws which are a direct result of how they set the break-over points and how they set the commodity rates. The two major flaws in both the Staff and RUCO designs are 1) a customer on a larger meter size will pay less than customers on a smaller meter size at the same level of water use (billing cross-over), and 2) a customer will pay less than the current bill at a wide range of water usage levels.

Second, the revenue recovery is unbalanced in both the Staff and RUCO rate designs. Too much revenue is being recovered from commodity rates and too much revenue is being recovered from the higher priced commodity rates. This will lead to increased revenue instability that diminishes the Company's ability to actually recover its cost of service. Diminishing the Company's ability to recover its cost of service is not in the public interest.

Q. HAS EITHER PARTY EXPLAINED THE RATIONALE FOR THEIR PROPOSED CHANGES TO THE CURRENT BREAK-OVER POINTS AND/OR THE CHANGES TO THE COMMODITY RATES?

A. No.

Q. FROM A BIG PICTURE VIEWPOINT, DOES THE STAFF AND/OR RUCO RATE DESIGN APPEAR REASONABLE?

A. No. Staff recommends an overall revenue increase of approximately 10 percent, yet the average customer bill impact for the largest customer class (3/4 inch residential) will *decrease*. The same is true for RUCO. RUCO recommends an overall revenue increase of approximately 10 percent, yet the the average customer bill impact for the largest customer class (3/4 inch residential) will also *decrease*. That means that water is becoming cheaper for the average ¾ inch residential customer (the largest customer class) even though Staff is recommending an overall rate increase. This is not reasonable, as I explain below, because of the risk it puts on the Company. It also sends the anti-conservation message that water is getting cheaper, as I also discuss in more detail below.

a. <u>Billing Cross Over Issue</u>

Q. PLEASE EXPLAIN IN MORE DETAIL THE SERIOUS FLAWS IN THE STAFF AND/OR RUCO RATE DESIGNS YOU MENTIONED EARLIER?

A. Let's start will the billing cross-over issue. Both the Staff and RUCO proposed rate designs produces circumstances where there are cross-overs in the bill amounts between customer classes.

Q. WHAT DO YOU MEAN BY "CROSS-OVERS," MR. BOURASSA?

A. This phrase describes a situation where a customer on a larger meter size will pay less than a customer on a smaller meter size at a given level of water usage. In designing rates, we should generally try to avoid rate designs that create these situations. Customers may pay the same amounts at certain levels of usage, but not less. If a water conservation pricing message is to be consistent, then customers at higher usage levels should not pay less than others for the same amount of water usage.

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

A. An example of where a cross-over occurs under the Staff rate design is for a 1 inch meter commercial customer and a ¾ inch residential customer. A 1 inch non-residential customer will pay less than a ¾ inch residential customer starting at between 20,000 and 25,000 gallons and above under the Staff rate design. At 25.000 gallons the 1 inch non-residential customer pays $71.43 and the ¾ inch residential customer pays $81.80; $10.37 less.

Q. **DO YOU HAVE AN EXHIBIT SHOWING OCCURANCES OF THESE CROSS-OVERS UNDER THE STAFF RATE DESIGN?**

A. Yes. Attached hereto as Rebuttal **Exhibit TJB-RB1**, are charts of the bill amounts for various customer classes under all the parties' rate designs. At page 1 of the exhibit is a chart for the Company rate design. At page 2 of the exhibit is a chart for the Staff rate design. At page 3 of the exhibit is a chart for the RUCO rate design. The exhibit shows that there are a number of instances where customers on larger meter sizes will see a lower bill than customers on smaller meter sizes under both the Staff and RUCO rate designs. There are no instances of bill cross-over under the Company's rate design.

b. <u>Customers Pay Less for Water Under the Staff and RUCO rates</u>

Q. **PLEASE EXPLAIN IN MORE DETAIL THE FLAW THAT CUSTOMERS WILL PAY LESS UNDER THE STAFF/AND/OR RUCO RATES .**

A. Staff and RUCO rate designs produces circumstances where a customer will pay less under their proposed rates than they currently do. For example, a 1 1/2 inch customer using 37,000 gallons of water will pay $6.92 less under the Staff proposed rates than he/she currently pays. Similarly, a 1-1/2 inch customer using

XX gallons of water will pay $X.XX less under the RUCO rates than he/she currently pays.

Q. CAN YOU EXPLAIN WHY THIS HAPPENS UNDER THE STAFF PROPOSED RATE DESIGN?

A. Yes. Since Staff lowers the monthly minimum for the larger metered customers and lowers the first tier commodity rate as well, billings to the larger metered customers will be less that the current billing up to levels of usage exceeding Staff's recommended break-over point.

Q. DO YOU HAVE AN EXHIBIT SHOWING THE BILL COMPARISON FOR THE LARGER METER SIZES USING THE STAFF PROPOSED RATES?

A. Yes. Included in Rebuttal **Exhibit TJB-RB2** are bill comparisons showing the current and Staff proposed bill amounts at increasing levels usage for the 1-1/2 inch and larger meter sizes (up to 8 inch). Page 1 of the exhibit shows the bill comparison for the 1-1/2 inch meter. The bill under Staff's proposed rates at zero usage is $1.00 less than the current bill. At Staff's proposed break-over point of 37,000 gallons the current bill is greater than the Staff proposed bill by $6.92. It isn't until the customer uses more than 40,000 gallons does the current bill starts to be less than the Staff proposed bill. It is more dramatic for a 4 inch metered customer. Turning to page 3 of the exhibit, you will find, the bill under Staff's proposed rates a zero usage is $5.00 less than the current bill. At Staff's proposed break-over point of 140,000 gallons the current bill is greater than the Staff proposed bill by $21.00. It isn't until the customer uses more than 153,000 gallons does the current bill starts to be less than the Staff proposed bill.

Q. DOES THE FACT THAT THE PROPOSED BILLS WILL BE LESS THAN THE CURRENT BILLS REFLECT A GOOD RATE DESIGN?

A. No. It does not to send the right water conservation message to customers.

Q. PLEASE EXPLAIN WHY THIS HAPPENS UNDER THE RUCO PROPOSED RATE DESIGN.

A. RUCO lowers the current 1st tier commodity rate to $1.50 from $1.91. Although RUCO increase the monthly minimum, customers will Under the RUCO rate design, the current customer bill will be less than RUCO proposed bill in a narrower range of usage levels. The bill comparison for a 1-1/2 inch non-residential meter as shown on page 5 of the exhibit illustrates what I mean. As you will find, the RUCO proposed bill will be less than the current bill starting at a usage level of 22,000 gallons and continue to be less than the current bill until reaching a usage level of 49,000 gallons. I have included the RUCO bill comparisons for meter sizes up to 8 inch in the exhibit. At 37,000 gallons of usage for a 1-1/2 inch non-residential customer (see page 5), the customer pays $6.17 less than the current bill.

c. <u>Staff and RUCO Rate Design Provide Less Revenue Stability</u>

Q. PLEASE DISCUSS THE CONCERNS OVER REVENUE STABILITY AND THE STAFF AND/OR RUCO RATE DESIGNS.

A. The Staff rate design will provide less revenue stability than the Company rate design, the risk I mentioned earlier. Staff's design recovers less than 32 percent of revenues from the monthly minimums, and then recovers a far greater portion of the revenue requirement from the two highest commodity rates than is reasonable. This is a surprisingly risky rate design and a big step back from some of the recent progress we have made, at least with respect to the allocation between monthly minimums and commodity revenue recovery.[78] Below is a comparison between the Company's rebuttal rates and the Staff rates in terms of revenue recovery.

[78] *See* Pima Utility Company, Docket No. W-02199A-11-0329; Rico Rico Utilities, Docket No. WS-

Table 2

Category	LPSCO % Recovery	Staff % Recovery	Difference
Monthly Minimums	40.54%	32.24%	-8.30%
Lowest Commodity Rate	5.18%	3.30%	-1.88%
2nd Lowest Commodity Rate	21.81%	19.95%	-1.86%
2nd Highest Commodity Rate	5.37%	9.72%	4.35%
Highest Commodity Rate	27.10%	34.79%	7.69%
Total Recovery from Commodity Rates	59.46%	67.76%	8.30%
Recovery from two highest cost commodity rates	32.47%	44.51%	12.04%
Recovery from two lowest cost commodity rates	26.99%	34.85%	7.86%

The Staff rate design will lead to even greater amounts of revenue erosion when conservation occurs. One reason for this instability is a greater portion the revenue requirement is recovered via the commodity rates under the Staff rate design than the Company rate design. When conservation occurs, the commodity revenues will decrease to a greater extent under the Staff rate design compared to the Company rate design.

Q. WHY IS THAT THE CASE?

A. When more revenues are expected to be recovered from the commodity rates, a greater amount of revenues are lost. This is because the commodity rates must necessarily be higher when a greater proportion of revenues are recovered from the commodity rates as opposed to the monthly minimums. With each gallon of water being priced at a higher cost, the dollar loss from each gallon lost means more revenues are lost. Additionally, a much greater portion of the commodity revenues

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are recovered from the highest priced commodity rates under the Staff rate design than under the Company rate design. This also translates to more revenue instability.

Q. WHY DO THESE SCENARIOS INCREASE REVENUE INSTABILITY AND THE RISK OF REVENUE EROSION?

A. A loss of a gallon of water at the higher commodity rates means more revenue loss than the loss of a gallon of water at the lower commodity rate. The larger water users typically have the greatest amount of discretionary water and the greatest amount of conservation can be expected to occur from these customers as they will see the highest cost commodity rates.

Q. IF THE GOAL IS TO ACHIEVE CONSERVATION THEN WHY NOT CHARGE THESE CUSTOMERS AS MUCH AS POSSIBLE FOR THEIR WATER USE?

A. Conservation is not the only goal of a sound rate design. Equally important is ensuring the utility recovers its cost of service (revenue requirement), revenue stability. These two goals must be balanced (along with the goal of avoiding cost of service inequities).[79] The Company's proposed rate design promotes conservation by charging the higher water users more per unit of water than the low water users. The higher cost of water sends a conservation pricing signal to the higher water users. This is consistent with the approach the Commission has taken on rate design for more than a decade now, at least in my experience.

On the other hand, the Company's rate design provides for more revenue stability by providing a better balance of revenue recovery between the monthly minimums and the commodity rates. Further, with respect to the commodity

[79] Principles of Water Rates, Fees, and Charges. AWWA Manual M-1 Sixth Edition, American Water Works Association, p.4.

revenues the Company's rate design provides a better balance of revenue recovery across all the commodity rates.

Q. WHAT DO YOU MEAN BY A BETTER BALANCE ACROSS THE COMMODITY RATES?

A. Balance refers to how evenly the commodity revenue is recovered between the lowest priced commodity rate and the highest priced commodity rates. "Perfect" balance would be recovering equal amounts of revenues from the lowest priced commodity rates and the highest priced commodity rates.

That said, Table 2, above, shows that a much greater proportion of the revenues are recovered from the 2 highest cost commodity rates under the Staff rate design than under the Company rate design. Compare 32.46 percent for the Company and 44.51 percent for Staff. Table 2 also shows that a much smaller proportion of the revenues are recovered from the 2 lowest cost commodity rates under the Staff rate design than under the Company rate design. Compare 26.97 percent for the Company and 34.85 percent for Staff. These differences reflect less balance in the Staff rate design.

The difference between the Company and Staff with respect to the balance in the commodity rates can also be found by comparing the multiples of the higher cost commodity rates compared to the lowest priced commodity rate. The higher multiples also reflect the fact that more commodity revenues are needed because less revenue is being recovered from the monthly minimums. In other words, the commodity rates need to be even higher in order to make up revenues not being recovered from the monthly minimums. The higher multiples also reflect the greater proportion of the commodity revenue recovery from the higher priced commodity rates under the Staff rate design as compared to the Company rate

design. Below is a table showing the multiples of the higher priced commodity rates with respect to the lowest commodity rates.

Table 3

Category	LPSCO Multiple	Staff Multiple
Lowest Commodity Rate	1.0	1.0
2nd Lowest Commodity Rate	2.0	2.3
2nd Highest Commodity Rate	3.0	4.7
Highest Commodity Rate	3.4	5.3

Under the Staff rate design, the multiples to the lowest priced commodity rate are much greater than under the Company's rate design. Staff's highest priced commodity rate is $4.00 and its lowest priced commodity rate is $0.75. Thus, the highest priced commodity rate is 5.3 times that of the lowest priced commodity rate. Compare that to the Company multiple of 3.4. This merely confirms what we already know from my earlier testimony, that Staff is proportionately recovering more from the higher priced commodity rates than is the Company. In other words, revenue recovery is shifted to the higher priced commodity rates which leads to increased revenue instability.

Q. DO YOU HAVE SIMILAR REVENUE STABILITY CONCERNS WITH RUCO'S PROPOSED RATE DESIGN?

A. Yes. RUCO's rate design recovers about 38.6 percent of revenues from the monthly minimums. This is much better than Staff's and closer to the Company's 40.58 percent but the objective of the Company's was to reach the 40 percent level in this case.

Q. WHY 40 PERCENT?

A. I my view, because of the high fixed cost nature of water utility costs of service, revenue recovery from the monthly minimums should be closer to 50 percent. 40 percent is a step towards than level. Even RUCO supports moving rate designs in this direction and has testified that RUCO has been recommending a fixed monthly charge revenue recovery at approximately 45 percent in recent cases.[80]

Q. THANK YOU, PLEASE CONTINUE.

A. Like the Staff rate design, the RUCO rate design recovers a far greater portion of the revenue requirement from the two highest commodity rates than under the Company's rates, increasing the risk of revenue erosion. Below is a comparison between the Company's rebuttal rates and the RUCO rates in terms of revenue recovery.

Table 4

Category	LPSCO % Recovery	RUCO % Recovery	Difference
Monthly Minimums	40.54%	38.55%	-1.99%
Lowest Commodity Rate	5.18%	4.55%	-0.63%
2nd Lowest Commodity Rate	21.81%	14.81%	-7.00%
2nd Highest Commodity Rate	5.37%	7.95%	2.58%
Highest Commodity Rate	27.10%	34.15%	7.09%
Total Recovery from Commodity Rates	59.46%	61.45%	1.99%
Recovery from two highest cost commodity rates	32.47%	42.10%	9.63%
Recovery from two lowest cost commodity rates	26.99%	19.36%	-7.63%

[80] Mease Dt. at 49.

Like the Staff rate design, the RUCO rate design is less balanced. The RUCO rate design recovers over 42 percent of the commodity revenues from the two highest commodity rates compared to only about 19 percent from the two lowest commodity rates. Compare this to the Company's 32.47 percent from the two highest commodity rates and 26.97 percent from the two lowest commodity rates. Just as I explained earlier, this will lead to ever greater amounts of revenue instability (revenue erosion) when conservation occurs.

Q. WHAT ARE THE COMMODITY RATE MULTIPLES UNDER THE RUCO RATE DESIGN?

A. Like Staff's, they are greater than those under the Company's rate design, but less so. It makes sense that RUCO's multiples are lower than Staff's because RUCO is proposing more revenue recovery from the monthly minimums, meaning less revenue has to be made up through the commodity rates. But, RUCO still has a much greater multiple than the Company at the highest priced commodity rate.

Below is a table comparing the multiples of the higher priced commodity rates for the Company rate design and RUCO rate design.

Table 5

Category	LPSCO Multiple	RUCO Multiple
Lowest Commodity Rate	1.0	1.0
2nd Lowest Commodity Rate	2.0	1.8
2nd Highest Commodity Rate	3.0	3.2
Highest Commodity Rate	3.4	4.5

RUCO's highest priced commodity rate is 4.5 times its lowest commodity rate. Compare this to the Company multiple of 3.4. This confirms what I described earlier, that there will be a greater amount of revenue recovery at the highest priced

commodity rate under the RUCO design. This, in turn, means a greater risk of revenue erosion.

d. Unwarranted Revenue Shifting Occurs under the Staff and RUCO rate Designs

Q. ANY OTHER CONCERNS WITH THE STAFF AND/OR RUCO RATE DESIGNS?

A. Yes. Staff proposes to lower the first tier commodity rate for the small residential meters from $1.00 to $0.75; a 25 percent reduction.[81] Staff also reduces the current $1.91 2nd tier commodity rate for the 1 inch and smaller residential meters and the 1st tier commodity rate for the non-residential meters to $1.75, an 8.3 percent reduction.[82] I am compelled to continue to testify that reducing the commodity rates sends the wrong conservation signal to customers – that water is cheaper. The Staff proposed rates actually results in rate decreases at the average usage (-7.79 percent) and the median usage (-7.63 percent) for the ¾ inch residential customers; the largest customer class. In only the rarest of instances should the Commission send the price signal to customers that water is becoming cheaper in the desert, especially in a community where the average ¾ inch residential user consumes over 9,000 gallons per month.

RUCO also proposes to reduce the first tier commodity rate for the smaller residential meters. RUCO proposes to reduce the first tier commodity rate from $1.00 to $0.84; a 16 percent reduction.[83] And, like Staff, RUCO reduces the current $1.91 2nd tier commodity rate for the 1 inch and smaller residential meters and the 1st tier commodity rate for the non-residential meters to $1.50; a

[81] *See* Staff Schedule DWC W-1.
[82] *Id.*
[83] *See* RUCO Schedule RBM RD-1.

21.5 percent reduction.[84] As a result, like the Staff proposed rates, the RUCO proposed rates result in rate decreases at the average usage (-4.39 percent) and the median usage (-1.45 percent) for the ¾ inch residential customers. Again, this sends the wrong pricing signal to customers.

Q. DO THE STAFF AND RUCO RATE DESIGNS ALSO SHIFT REVENUE RECOVERY AWAY FROM THE RESIDENTIAL CUSTOMER CLASSS AND ON TO THE OTHER CUSTOMERS CLASSES?

A. Yes. Under the current rate design, the proportion of revenues recovered from the residential class is about 57.9 percent. Under the Staff rate design, it is about 54.9 percent; a decrease of about 3.0 percent. Under the RUCO rate design, it is about 55.8 percent, a decrease of about 2.1 percent.

Q. WHY IS THIS AN ISSUE?

A. From a cost of service standpoint, this revenue shift is not warranted. In the prior rate case for LPSCO it was shown that the 1 inch and smaller metered customers, which is made is made up of primarily residential customers (nearly 96 percent), were already paying less than their cost of service; even under the rates adopted in the last rate case.[85] A further shift in revenues away from the residential class is unwarranted from a cost of service standpoint.

Q. CAN YOU EXPLAIN WHY REVENUE EROSION IS A PROBLEM?

A. Yes. Revenue erosion is bad for utilities, customers and regulators for several reasons. First, collecting the revenue requirement is a significant problem for AZ water utilities. Attached as **Exhibit TJB-RB3** is a recent issue of Regulatory Reports (ed. 2013-1, June 2013). In the issue (at page 7) it was reported that a

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[84] *Id.*

[85] Mr. Bourassa has reviewed the cost of service study from Docket No. W-01427A-13-0043 and finds that using the rates adopted in the rate case the smaller metered customers paid less than their cost of service.

study of 45 water utility rate cases completed since December of 2007 shows the vast majority of these utilities did not achieve their authorized revenue requirement in the year following the decision. The Commission should strive for companies to collect the revenue it authorizes, and a rate design that allows for that recovery is a key component.

Second, revenue erosion, or the inability to collect the authorized revenues, leads to more frequent rate cases. At least half of the rate increase for Rio Rico Utilities in its recent rate case was driven by revenue erosion.[86] It should be obvious that if a company is authorized $10 in revenue but can only collect $8, the utility needs to return to the Commission to ask for additional revenue increases. More frequent rate cases due to revenue erosion never makes customers, the Commission or the utility happy; customers don't like paying higher rates, the Commission doesn't like imposing higher rates on customers, and utilities spend a lot of money on rate cases only to end up with unhappy customers. The Commission recently recognized this in a decision for Arizona Water Company finding that "The Commission understands that a consistent pattern of declining usage, and the diminished revenues that follow, could jeopardize AWC's ability to recover its cost of service, which is contrary to the best interests of AWC, AWC's customers, and the Commission."[87] This is clearly a significant concern.

Q. DOES STAFF RECOGNIZE THAT INVERTED TIER RATES CAUSE CUSTOMERS TO CONSERVE?

A. Yes. In the another recent rate case for Arizona Water, the Staff witness, Mr. Steve Olea, explained why Staff did not oppose a declining usage adjustment and acknowledged that Staff has promoted the implementation and continued use of

[86] Direct Testimony of Greg Sorenson at pages 6 and 7, Docket No. WS-02676A-12-0196.

[87] Decision No. 73736, Page 71, Lines 3-5.

inverted block rates because Staff believes they cause ratepayers to conserve.[88] He also noted that Arizona Department of Water Resources ("ADWR") and the Commission have been approving water conservation tariffs as Best Management Practices ("BMPs") that also lead to more efficient use of water.[89] Finally, he noted that he believed that AWC customers would use less water than in the test year.

Q. HOW MANY BEST MANAGEMENT PRACTICES HAS THE COMPANY IMPLEMENTED?

A. Currently, LPSCO has implemented 5 BMP's and is agreeing to implement an additional 5 BMP's as recommended by Staff.

Q. CAN YOU PLEASE SUMMARIZE WHY THE COMMISSION SHOULD APPROVE THE COMPANY'S PROPOSED WATER RATE DESIGN?

A. Because it provides a greater opportunity for the Company to recover its cost of service; something that, as pointed out in the Regulatory Reports research, is not common in Arizona. Allowing the Company to recover its cost of service makes for a financially healthy utility and decreases the likelihood of future rate cases driven by revenue erosion.

Q. WHY IS YOUR RATE DESIGN MORE BALANCED THAN STAFF OR RUCO'S?

A. It provides for more revenue recovery from the monthly minimums than either the Staff or the RUCO rate designs. This means less revenue recovery from the commodity rates. When conservation occurs it will have less of an impact on revenues, reducing the risk of revenue erosion.

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[88] *See* Responsive Testimony of Steven M. Olea at page 2, Docket No. W-01445A-12-0348.

[89] *Id.*

Another reason why the Company's proposed rates are more stable than either Staff's or RUCO's is the recovery of revenues from the commodity rates is more balanced under the Company's rates. That is, the proportion of commodity revenue recovery from the highest priced commodity rate is less and revenue recovery from the lower priced commodity rates is more. When conservation occurs, it is more likely to occur at the higher usage levels where customers have the greatest amount of discretionary water and will see the highest priced commodity rate, its dollar impact per gallon of water loss will be less. This means less revenue erosion due to conservation.

Q. DOES THE COMPANY EXPECT TO SEE FURTHER WATER CONSERVATION UNDER ITS PROPOSED RATES?

A. Yes. With the exception of the lowest priced commodity rate, all the Company proposed commodity rates are increased over current levels. The highest priced present commodity rate is increased the most. This is not true for the Staff and RUCO designs.

A. <u>Wastewater Division.</u>

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

A. The Company's proposed rates are:

MONTHLY SERVICE CHARGES

Monthly Residential Service	$ 41.08
Multi-Unit Housing - Monthly Per Unit	$ 38.13
Commercial:	
Small Commercial - Monthly Service	$ 69.46
Measured Service:	
Regular Domestic:	

Monthly Service Charge	$ 38.88
Rate Per 1,000 Gallons of Water	$ 3.39
Restaurants, Motels, Grocery Stores & Dry Cleaning Establishments:	
Monthly Service Charge	$ 38.88
Rate Per 1,000 Gallons of Water	$ 4.52
Wigwam Resort:	
Monthly Rate - Per Room	$ 38.13
Main Hotel Facilities - Per Month	$1,509.88
Schools - Monthly Service Rates:	
Elementary Schools	$1,026.78
Middle Schools	$1,207.99
High Schools	$1,207.99
Community College	$1,872.38
Effluent	Market Rate

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

A. As shown on Schedule H-2, page 1, the average monthly bill under proposed rates for a residential customer is $40.97 – a $1.98 increase over the present monthly bill or a 5.08 percent increase

Q. PLEASE COMMENT ON THE PROPOSED RATE DESIGNS OF STAFF AND RUCO?

A. First I should note the RUCO proposed rates do not produce the RUCO recommended revenue requirement. The revenues generated by the RUCO proposed rates are about $20,000 short of RUCO proposed revenue requirement.

That said, all of the parties recommend similar rate designs for the wastewater division. Further, all of the parties spread their respective recommended revenue increases evenly across all classes. As a result, there is nothing really in dispute on the wastewater side of rate design

B. <u>Miscellaneous Charges</u>

Q. IS THERE ANY DISAGREEMENT BETWEEN THE COMPANY AND STAFF ON THE COMPANY'S PROPOSED METER AND SERVICE LINE INSTALLATION CHARGES?

A. No. The Company and Staff are in agreement.

Q. IS THERE ANY DISAGREEMENT BETWEEN THE COMPANY AND STAFF ON THE COMPANY'S PROPOSED MISCELLANEOUS CHARGES?

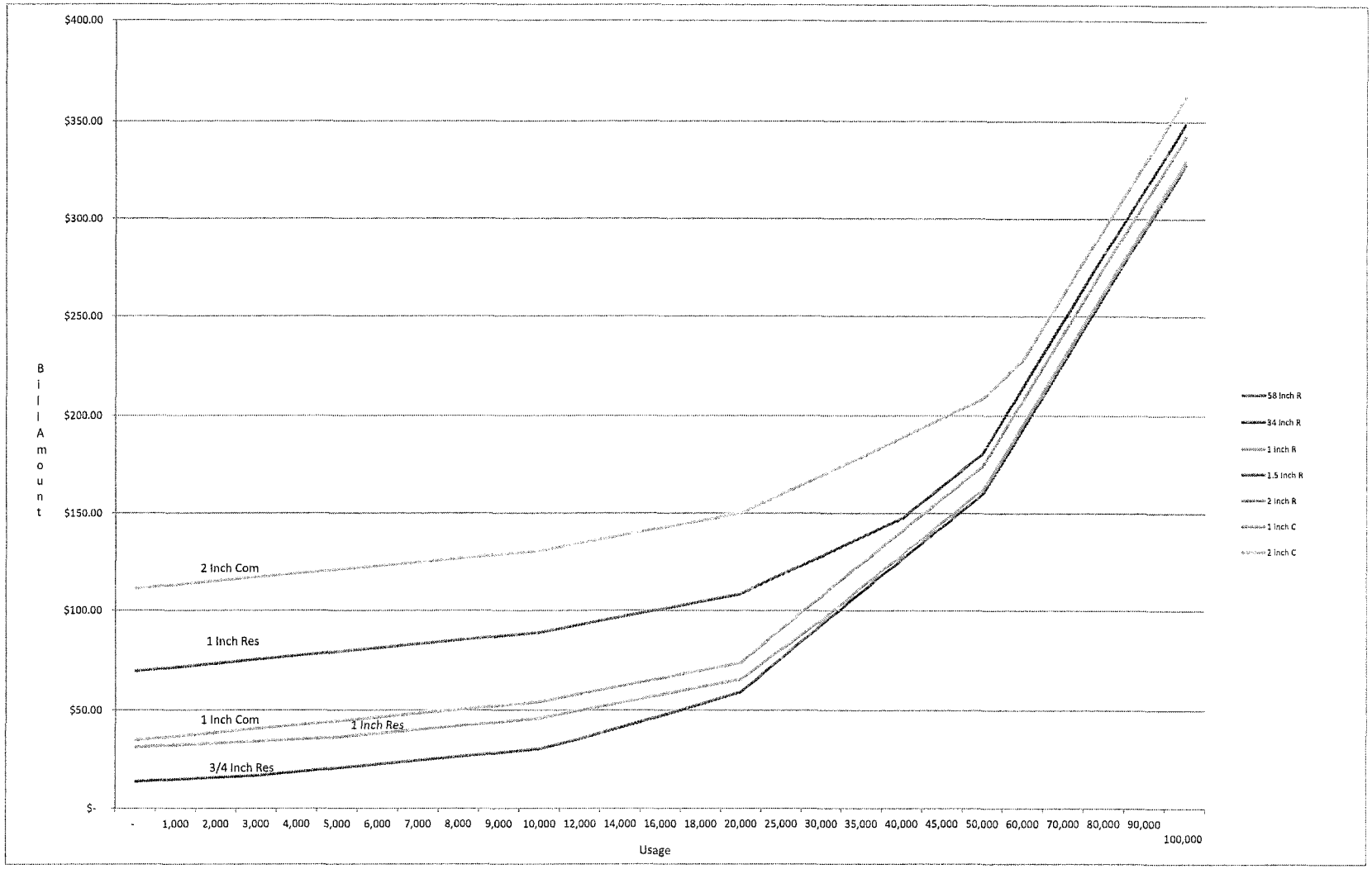
A. No.

Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

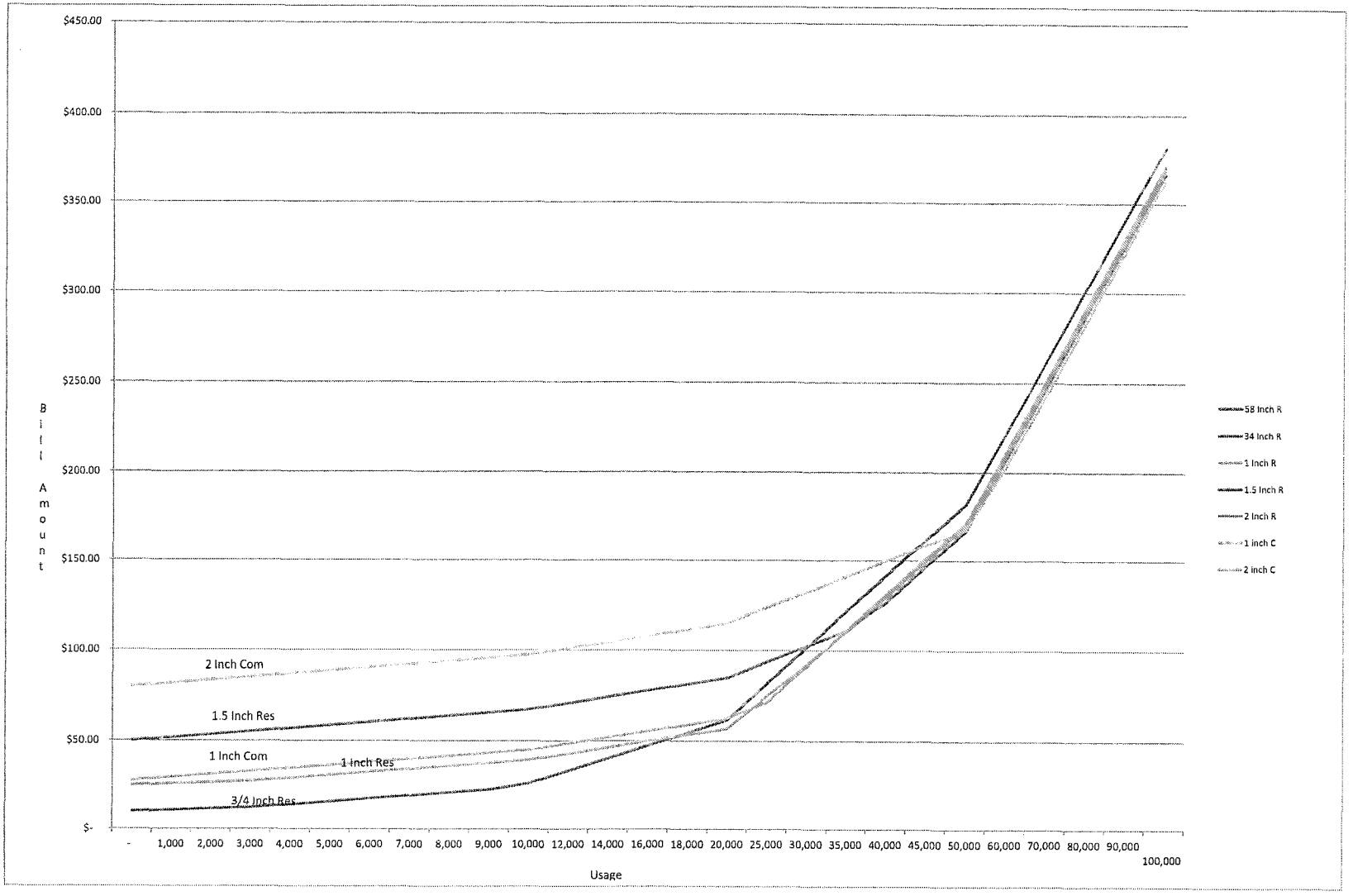
A. Yes.

EXHIBIT TJB-RB1

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Chart of Usage and Bill Amounts - Company Proposed Rates



Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Chart of Usage and Bill Amounts - Staff Proposed Rates



Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Chart of Usage and Bill Amounts - RUCO Proposed Rates

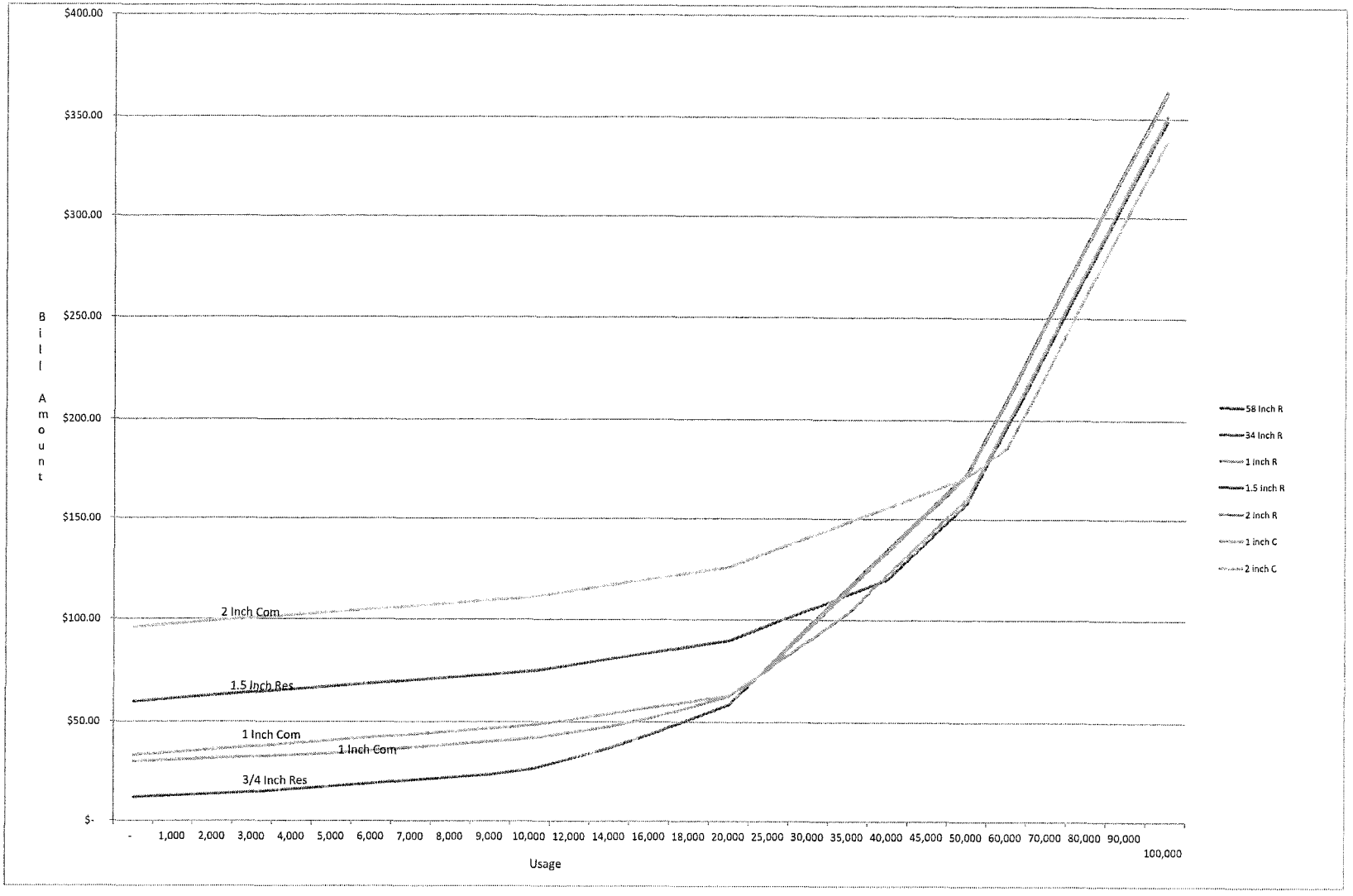


EXHIBIT TJB-RB2

Litchfield Park Service Company - Water Division dba Liberty Utilities

Bill Comparison Present and Staff Proposed Rates

Meter Size: 1 1/2 Inch

Usage	Present Bill	Proposed Bill	Dollar Increase
-	$ 51.00	$ 50.00	$ (1.00)
1,000	52.91	51.75	(1.16)
2,000	54.82	53.50	(1.32)
3,000	56.73	55.25	(1.48)
4,000	58.64	57.00	(1.64)
5,000	60.55	58.75	(1.80)
6,000	62.46	60.50	(1.96)
7,000	64.37	62.25	(2.12)
8,000	66.28	64.00	(2.28)
9,000	68.19	65.75	(2.44)
10,000	70.10	67.50	(2.60)
12,000	73.92	71.00	(2.92)
14,000	77.74	74.50	(3.24)
16,000	81.56	78.00	(3.56)
18,000	85.38	81.50	(3.88)
20,000	89.20	85.00	(4.20)
22,000	93.02	88.50	(4.52)
24,000	96.84	92.00	(4.84)
26,000	100.66	95.50	(5.16)
28,000	104.48	99.00	(5.48)
30,000	108.30	102.50	(5.80)
32,000	112.12	106.00	(6.12)
34,000	115.94	109.50	(6.44)
36,000	119.76	113.00	(6.76)
38,000	123.58	118.75	(4.83)
40,000	127.40	126.75	(0.65)
42,000	133.46	134.75	1.29
44,000	139.52	142.75	3.23
46,000	145.58	150.75	5.17
48,000	151.64	158.75	7.11
50,000	157.70	166.75	9.05
52,000	163.76	174.75	10.99
54,000	169.82	182.75	12.93
56,000	175.88	190.75	14.87
58,000	181.94	198.75	16.81
60,000	188.00	206.75	18.75
62,000	194.06	214.75	20.69
64,000	200.12	222.75	22.63
66,000	206.18	230.75	24.57
68,000	212.24	238.75	26.51
70,000	218.30	246.75	28.45
72,000	224.36	254.75	30.39
74,000	230.42	262.75	32.33
76,000	236.48	270.75	34.27
78,000	242.54	278.75	36.21
80,000	248.60	286.75	38.15
82,000	254.66	294.75	40.09
84,000	260.72	302.75	42.03
86,000	266.78	310.75	43.97
88,000	272.84	318.75	45.91
90,000	278.90	326.75	47.85
92,000	284.96	334.75	49.79
94,000	291.02	342.75	51.73
96,000	297.08	350.75	53.67
98,000	303.14	358.75	55.61
100,000	309.20	366.75	57.55

Present Rates:			
Monthly Minimum:		$	51.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	40,000	$	1.91
Over	40,000	$	3.03
Proposed Rates:			
Monthly Minimum:		$	50.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	37,000	$	1.75
Over	37,000	$	4.00

Litchfield Park Service Company - Water Division dba Liberty Utilities
Bill Comparison Present and Staff Proposed Rates
Meter Size: 2 Inch

Usage	Present Bill	Proposed Bill	Dollar Increase
-	$ 81.60	$ 80.00	$ (1.60)
1,000	83.51	81.75	(1.76)
2,000	85.42	83.50	(1.92)
3,000	87.33	85.25	(2.08)
4,000	89.24	87.00	(2.24)
5,000	91.15	88.75	(2.40)
6,000	93.06	90.50	(2.56)
7,000	94.97	92.25	(2.72)
8,000	96.88	94.00	(2.88)
9,000	98.79	95.75	(3.04)
10,000	100.70	97.50	(3.20)
12,000	104.52	101.00	(3.52)
14,000	108.34	104.50	(3.84)
16,000	112.16	108.00	(4.16)
18,000	115.98	111.50	(4.48)
20,000	119.80	115.00	(4.80)
22,000	123.62	118.50	(5.12)
24,000	127.44	122.00	(5.44)
26,000	131.26	125.50	(5.76)
28,000	135.08	129.00	(6.08)
30,000	138.90	132.50	(6.40)
32,000	142.72	136.00	(6.72)
34,000	146.54	139.50	(7.04)
36,000	150.36	143.00	(7.36)
38,000	154.18	146.50	(7.68)
40,000	158.00	150.00	(8.00)
42,000	161.82	153.50	(8.32)
44,000	165.64	157.00	(8.64)
46,000	169.46	160.50	(8.96)
48,000	173.28	164.00	(9.28)
50,000	177.10	167.50	(9.60)
52,000	180.92	171.00	(9.92)
54,000	184.74	179.00	(5.74)
56,000	188.56	187.00	(1.56)
58,000	192.38	195.00	2.62
60,000	196.20	203.00	6.80
62,000	202.26	211.00	8.74
64,000	208.32	219.00	10.68
66,000	214.38	227.00	12.62
68,000	220.44	235.00	14.56
70,000	226.50	243.00	16.50
72,000	232.56	251.00	18.44
74,000	238.62	259.00	20.38
76,000	244.68	267.00	22.32
78,000	250.74	275.00	24.26
80,000	256.80	283.00	26.20
82,000	262.86	291.00	28.14
84,000	268.92	299.00	30.08
86,000	274.98	307.00	32.02
88,000	281.04	315.00	33.96
90,000	287.10	323.00	35.90
92,000	293.16	331.00	37.84
94,000	299.22	339.00	39.78
96,000	305.28	347.00	41.72
98,000	311.34	355.00	43.66
100,000	317.40	363.00	45.60

Present Rates:			
Monthly Minimum:		$	81.60
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	60,000	$	1.91
Over	60,000	$	3.03
Proposed Rates:			
Monthly Minimum:		$	80.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	52,000	$	1.75
Over	52,000	$	4.00

Litchfield Park Service Company - Water Division dba Liberty Utilities
Bill Comparison Present and Staff Proposed Rates
Meter Size: 4 Inch

Usage	Present Bill	Proposed Bill	Dollar Increase
-	$ 255.00	$ 250.00	$ (5.00)
1,000	256.91	251.75	(5.16)
2,000	258.82	253.50	(5.32)
3,000	260.73	255.25	(5.48)
4,000	262.64	257.00	(5.64)
5,000	264.55	258.75	(5.80)
6,000	266.46	260.50	(5.96)
7,000	268.37	262.25	(6.12)
8,000	270.28	264.00	(6.28)
9,000	272.19	265.75	(6.44)
10,000	274.10	267.50	(6.60)
12,000	277.92	271.00	(6.92)
14,000	281.74	274.50	(7.24)
16,000	285.56	278.00	(7.56)
18,000	289.38	281.50	(7.88)
20,000	293.20	285.00	(8.20)
22,000	297.02	288.50	(8.52)
24,000	300.84	292.00	(8.84)
26,000	304.66	295.50	(9.16)
28,000	308.48	299.00	(9.48)
30,000	312.30	302.50	(9.80)
32,000	316.12	306.00	(10.12)
34,000	319.94	309.50	(10.44)
36,000	323.76	313.00	(10.76)
38,000	327.58	316.50	(11.08)
40,000	331.40	320.00	(11.40)
42,000	335.22	323.50	(11.72)
44,000	339.04	327.00	(12.04)
46,000	342.86	330.50	(12.36)
48,000	346.68	334.00	(12.68)
50,000	350.50	337.50	(13.00)
52,000	354.32	341.00	(13.32)
54,000	358.14	344.50	(13.64)
56,000	361.96	348.00	(13.96)
58,000	365.78	351.50	(14.28)
60,000	369.60	355.00	(14.60)
62,000	373.42	358.50	(14.92)
64,000	377.24	362.00	(15.24)
66,000	381.06	365.50	(15.56)
68,000	384.88	369.00	(15.88)
70,000	388.70	372.50	(16.20)
72,000	392.52	376.00	(16.52)
74,000	396.34	379.50	(16.84)
76,000	400.16	383.00	(17.16)
78,000	403.98	386.50	(17.48)
80,000	407.80	390.00	(17.80)
82,000	411.62	393.50	(18.12)
84,000	415.44	397.00	(18.44)
86,000	419.26	400.50	(18.76)
88,000	423.08	404.00	(19.08)
90,000	426.90	407.50	(19.40)
100,000	446.00	425.00	(21.00)
150,000	541.50	535.00	(6.50)
153,000	547.23	547.00	(0.23)
200,000	659.40	735.00	75.60
250,000	810.90	935.00	124.10

Present Rates:			
Monthly Minimum:		$	255.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	180,000	$	1.91
Over	180,000	$	3.03
Proposed Rates:			
Monthly Minimum:		$	250.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	140,000	$	1.75
Over	140,000	$	4.00

Litchfield Park Service Company - Water Division dba Liberty Utilities
Bill Comparison Present and Staff Proposed Rates
Meter Size: 8 Inch

Usage	Present Bill	Proposed Bill	Dollar Increase
-	$ 841.50	$ 800.00	$ (41.50)
1,000	843.41	801.75	(41.66)
2,000	845.32	803.50	(41.82)
3,000	847.23	805.25	(41.98)
4,000	849.14	807.00	(42.14)
5,000	851.05	808.75	(42.30)
6,000	852.96	810.50	(42.46)
7,000	854.87	812.25	(42.62)
8,000	856.78	814.00	(42.78)
9,000	858.69	815.75	(42.94)
10,000	860.60	817.50	(43.10)
12,000	864.42	821.00	(43.42)
14,000	868.24	824.50	(43.74)
16,000	872.06	828.00	(44.06)
18,000	875.88	831.50	(44.38)
20,000	879.70	835.00	(44.70)
22,000	883.52	838.50	(45.02)
24,000	887.34	842.00	(45.34)
26,000	891.16	845.50	(45.66)
28,000	894.98	849.00	(45.98)
30,000	898.80	852.50	(46.30)
40,000	917.90	870.00	(47.90)
50,000	937.00	887.50	(49.50)
60,000	956.10	905.00	(51.10)
70,000	975.20	922.50	(52.70)
80,000	994.30	940.00	(54.30)
90,000	1,013.40	957.50	(55.90)
100,000	1,032.50	975.00	(57.50)
120,000	1,070.70	1,010.00	(60.70)
122,000	1,074.52	1,013.50	(61.02)
124,000	1,078.34	1,017.00	(61.34)
126,000	1,082.16	1,020.50	(61.66)
128,000	1,085.98	1,024.00	(61.98)
130,000	1,089.80	1,027.50	(62.30)
170,000	1,166.20	1,097.50	(68.70)
210,000	1,242.60	1,167.50	(75.10)
250,000	1,319.00	1,237.50	(81.50)
290,000	1,395.40	1,307.50	(87.90)
330,000	1,471.80	1,377.50	(94.30)
370,000	1,548.20	1,447.50	(100.70)
410,000	1,624.60	1,517.50	(107.10)
450,000	1,701.00	1,587.50	(113.50)
490,000	1,777.40	1,657.50	(119.90)
530,000	1,853.80	1,727.50	(126.30)
570,000	1,930.20	1,797.50	(132.70)
610,000	2,006.60	1,890.00	(116.60)
650,000	2,083.00	2,050.00	(33.00)
665,000	2,111.65	2,110.00	(1.65)
666,000	2,113.56	2,114.00	0.44
690,000	2,159.40	2,210.00	50.60
730,000	2,235.80	2,370.00	134.20
770,000	2,312.20	2,530.00	217.80
810,000	2,388.60	2,690.00	301.40
850,000	2,465.00	2,850.00	385.00
890,000	2,541.40	3,010.00	468.60
930,000	2,617.80	3,170.00	552.20
970,000	2,727.80	3,330.00	602.20
1,010,000	2,849.00	3,490.00	641.00
1,050,000	2,970.20	3,650.00	679.80

Present Rates:			
Monthly Minimum:		$	841.50
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	940,000	$	1.91
Over	940,000	$	3.03
Proposed Rates:			
Monthly Minimum:		$	800.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	600,000	$	1.75
Over	600,000	$	4.00

Litchfield Park Service Company - Water Division dba Liberty Utilities
Bill Comparison Present and RUCO Proposed Rates
Meter Size: 1 1/2 Inch

Usage	Present Bill	Proposed Bill	Dollar Increase
-	$ 51.00	$ 60.00	$ 9.00
1,000	52.91	61.50	8.59
2,000	54.82	63.00	8.18
3,000	56.73	64.50	7.77
4,000	58.64	66.00	7.36
5,000	60.55	67.50	6.95
6,000	62.46	69.00	6.54
7,000	64.37	70.50	6.13
8,000	66.28	72.00	5.72
9,000	68.19	73.50	5.31
10,000	70.10	75.00	4.90
12,000	73.92	78.00	4.08
14,000	77.74	81.00	3.26
16,000	81.56	84.00	2.44
18,000	85.38	87.00	1.62
20,000	89.20	90.00	0.80
22,000	93.02	93.00	(0.02)
24,000	96.84	96.00	(0.84)
26,000	100.66	99.00	(1.66)
28,000	104.48	102.00	(2.48)
30,000	108.30	105.00	(3.30)
32,000	112.12	108.00	(4.12)
34,000	115.94	111.00	(4.94)
36,000	119.76	114.00	(5.76)
38,000	123.58	117.00	(6.58)
40,000	127.40	120.00	(7.40)
42,000	133.46	127.62	(5.84)
44,000	139.52	135.24	(4.28)
46,000	145.58	142.86	(2.72)
48,000	151.64	150.48	(1.16)
50,000	157.70	158.10	0.40
52,000	163.76	165.72	1.96
54,000	169.82	173.34	3.52
56,000	175.88	180.96	5.08
58,000	181.94	188.58	6.64
60,000	188.00	196.20	8.20
62,000	194.06	203.82	9.76
64,000	200.12	211.44	11.32
66,000	206.18	219.06	12.88
68,000	212.24	226.68	14.44
70,000	218.30	234.30	16.00
72,000	224.36	241.92	17.56
74,000	230.42	249.54	19.12
76,000	236.48	257.16	20.68
78,000	242.54	264.78	22.24
80,000	248.60	272.40	23.80
82,000	254.66	280.02	25.36
84,000	260.72	287.64	26.92
86,000	266.78	295.26	28.48
88,000	272.84	302.88	30.04
90,000	278.90	310.50	31.60
92,000	284.96	318.12	33.16
94,000	291.02	325.74	34.72
96,000	297.08	333.36	36.28
98,000	303.14	340.98	37.84
100,000	309.20	348.60	39.40

Present Rates:			
Monthly Minimum:		$	51.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	40,000	$	1.91
Over	40,000	$	3.03
Proposed Rates:			
Monthly Minimum:		$	60.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	40,000	$	1.50
Over	40,000	$	3.81

Litchfield Park Service Company - Water Division dba Liberty Utilities
Bill Comparison Present and RUCO Proposed Rates
Meter Size: 2 Inch Commercial

Usage	Present Bill	Proposed Bill	Dollar Increase
-	$ 81.60	$ 96.00	$ 14.40
1,000	83.51	97.50	13.99
2,000	85.42	99.00	13.58
3,000	87.33	100.50	13.17
4,000	89.24	102.00	12.76
5,000	91.15	103.50	12.35
6,000	93.06	105.00	11.94
7,000	94.97	106.50	11.53
8,000	96.88	108.00	11.12
9,000	98.79	109.50	10.71
10,000	100.70	111.00	10.30
12,000	104.52	114.00	9.48
14,000	108.34	117.00	8.66
16,000	112.16	120.00	7.84
18,000	115.98	123.00	7.02
20,000	119.80	126.00	6.20
22,000	123.62	129.00	5.38
24,000	127.44	132.00	4.56
26,000	131.26	135.00	3.74
28,000	135.08	138.00	2.92
30,000	138.90	141.00	2.10
32,000	142.72	144.00	1.28
34,000	146.54	147.00	0.46
36,000	150.36	150.00	(0.36)
38,000	154.18	153.00	(1.18)
40,000	158.00	156.00	(2.00)
42,000	161.82	159.00	(2.82)
44,000	165.64	162.00	(3.64)
46,000	169.46	165.00	(4.46)
48,000	173.28	168.00	(5.28)
50,000	177.10	171.00	(6.10)
52,000	180.92	174.00	(6.92)
54,000	184.74	177.00	(7.74)
56,000	188.56	180.00	(8.56)
58,000	192.38	183.00	(9.38)
60,000	196.20	186.00	(10.20)
62,000	202.26	193.62	(8.64)
64,000	208.32	201.24	(7.08)
66,000	214.38	208.86	(5.52)
68,000	220.44	216.48	(3.96)
70,000	226.50	224.10	(2.40)
72,000	232.56	231.72	(0.84)
74,000	238.62	239.34	0.72
76,000	244.68	246.96	2.28
78,000	250.74	254.58	3.84
80,000	256.80	262.20	5.40
82,000	262.86	269.82	6.96
84,000	268.92	277.44	8.52
86,000	274.98	285.06	10.08
88,000	281.04	292.68	11.64
90,000	287.10	300.30	13.20
92,000	293.16	307.92	14.76
94,000	299.22	315.54	16.32
96,000	305.28	323.16	17.88
98,000	311.34	330.78	19.44
100,000	317.40	338.40	21.00

Present Rates:			
Monthly Minimum:		$	81.60
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	60,000	$	1.91
Over	60,000	$	3.03

Proposed Rates:			
Monthly Minimum:		$	96.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	60,000	$	1.50
Over	60,000	$	3.81

Litchfield Park Service Company - Water Division dba Liberty Utilities
Bill Comparison Present and RUCO Proposed Rates
Meter Size: 4 Inch

Usage	Present Bill	Proposed Bill	Dollar Increase
-	$ 255.00	$ 300.00	$ 45.00
1,000	256.91	301.50	44.59
2,000	258.82	303.00	44.18
3,000	260.73	304.50	43.77
4,000	262.64	306.00	43.36
5,000	264.55	307.50	42.95
6,000	266.46	309.00	42.54
7,000	268.37	310.50	42.13
8,000	270.28	312.00	41.72
9,000	272.19	313.50	41.31
10,000	274.10	315.00	40.90
12,000	277.92	318.00	40.08
14,000	281.74	321.00	39.26
16,000	285.56	324.00	38.44
18,000	289.38	327.00	37.62
20,000	293.20	330.00	36.80
22,000	297.02	333.00	35.98
24,000	300.84	336.00	35.16
26,000	304.66	339.00	34.34
28,000	308.48	342.00	33.52
30,000	312.30	345.00	32.70
40,000	331.40	360.00	28.60
50,000	350.50	375.00	24.50
60,000	369.60	390.00	20.40
70,000	388.70	405.00	16.30
80,000	407.80	420.00	12.20
90,000	426.90	435.00	8.10
100,000	446.00	450.00	4.00
120,000	484.20	480.00	(4.20)
122,000	488.02	483.00	(5.02)
124,000	491.84	486.00	(5.84)
126,000	495.66	489.00	(6.66)
128,000	499.48	492.00	(7.48)
130,000	503.30	495.00	(8.30)
132,000	507.12	498.00	(9.12)
134,000	510.94	501.00	(9.94)
136,000	514.76	504.00	(10.76)
138,000	518.58	507.00	(11.58)
140,000	522.40	510.00	(12.40)
142,000	526.22	513.00	(13.22)
144,000	530.04	516.00	(14.04)
146,000	533.86	519.00	(14.86)
148,000	537.68	522.00	(15.68)
150,000	541.50	525.00	(16.50)
152,000	545.32	528.00	(17.32)
154,000	549.14	531.00	(18.14)
156,000	552.96	534.00	(18.96)
158,000	556.78	537.00	(19.78)
160,000	560.60	540.00	(20.60)
162,000	564.42	547.62	(16.80)
164,000	568.24	555.24	(13.00)
166,000	572.06	562.86	(9.20)
168,000	575.88	570.48	(5.40)
170,000	579.70	578.10	(1.60)
172,000	583.52	585.72	2.20
174,000	587.34	593.34	6.00
176,000	591.16	600.96	9.80

Present Rates:			
Monthly Minimum:		$	255.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	180,000	$	1.91
Over	180,000	$	3.03
Proposed Rates:			
Monthly Minimum:		$	300.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	160,000	$	1.50
Over	160,000	$	3.81

Litchfield Park Service Company - Water Division dba Liberty Utilities
Bill Comparison Present and RUCO Proposed Rates
Meter Size: 8 Inch

Usage	Present Bill	Proposed Bill	Dollar Increase
-	$ 841.50	$ 960.00	$ 118.50
1,000	843.41	961.50	118.09
2,000	845.32	963.00	117.68
3,000	847.23	964.50	117.27
4,000	849.14	966.00	116.86
5,000	851.05	967.50	116.45
6,000	852.96	969.00	116.04
7,000	854.87	970.50	115.63
8,000	856.78	972.00	115.22
9,000	858.69	973.50	114.81
10,000	860.60	975.00	114.40
12,000	864.42	978.00	113.58
14,000	868.24	981.00	112.76
16,000	872.06	984.00	111.94
18,000	875.88	987.00	111.12
20,000	879.70	990.00	110.30
22,000	883.52	993.00	109.48
24,000	887.34	996.00	108.66
26,000	891.16	999.00	107.84
28,000	894.98	1,002.00	107.02
30,000	898.80	1,005.00	106.20
40,000	917.90	1,020.00	102.10
50,000	937.00	1,035.00	98.00
60,000	956.10	1,050.00	93.90
70,000	975.20	1,065.00	89.80
80,000	994.30	1,080.00	85.70
90,000	1,013.40	1,095.00	81.60
100,000	1,032.50	1,110.00	77.50
120,000	1,070.70	1,140.00	69.30
122,000	1,074.52	1,143.00	68.48
124,000	1,078.34	1,146.00	67.66
126,000	1,082.16	1,149.00	66.84
128,000	1,085.98	1,152.00	66.02
130,000	1,089.80	1,155.00	65.20
170,000	1,166.20	1,215.00	48.80
210,000	1,242.60	1,275.00	32.40
250,000	1,319.00	1,335.00	16.00
290,000	1,395.40	1,395.00	(0.40)
330,000	1,471.80	1,455.00	(16.80)
370,000	1,548.20	1,515.00	(33.20)
410,000	1,624.60	1,575.00	(49.60)
450,000	1,701.00	1,635.00	(66.00)
490,000	1,777.40	1,695.00	(82.40)
530,000	1,853.80	1,755.00	(98.80)
570,000	1,930.20	1,815.00	(115.20)
610,000	2,006.60	1,875.00	(131.60)
650,000	2,083.00	1,935.00	(148.00)
690,000	2,159.40	1,995.00	(164.40)
730,000	2,235.80	2,055.00	(180.80)
770,000	2,312.20	2,115.00	(197.20)
810,000	2,388.60	2,198.10	(190.50)
850,000	2,465.00	2,350.50	(114.50)
890,000	2,541.40	2,502.90	(38.50)
930,000	2,617.80	2,655.30	37.50
970,000	2,727.80	2,807.70	79.90
1,010,000	2,849.00	2,960.10	111.10
1,050,000	2,970.20	3,112.50	142.30
1,090,000	3,091.40	3,264.90	173.50
1,130,000	3,212.60	3,417.30	204.70

Present Rates:			
Monthly Minimum:		$	841.50
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	940,000	$	1.91
Over	940,000	$	3.03
Proposed Rates:			
Monthly Minimum:		$	960.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	800,000	$	1.50
Over	800,000	$	3.81

EXHIBIT TJB-RB3

In Historic Vote, ACC Approves a DSIC Mechanism (Pg. 2)

- *After 14 years, Arizona stopped considering whether or not to adopt Distribution System Improvement Charges (DSICs); and approved on a 4-1 vote Arizona Water Company's request for a DSIC – called the "Systems Improvement Benefit Mechanism" or "SIB."*

Revenue Requirement, Not a Requirement Really (Pg. 7)

- *We look at 45 rate decisions (2007-2011) to see whether or not the "revenue requirement" set by the ACC was actually earned.*

A Simple Way to Streamline Rate Cases, Reduce Rate Case Expense, and Save the ACC Time, Money, and Resources (Pg. 8)

- *If the IRS tax brackets hadn't been adjusted for inflation in 20 years, what tax bracket would you be in? It's time for the ACC to adjust Rule 14-2-103(A)(3)(q) for inflation.*

AIAC turns to CIAC, and Rate Base Evaporates (Pg. 11)

- *AIAC only gets refunded if customer growth occurs – what happens when it doesn't? And can't we reduce the utility company's risk?*

Regulatory Reports Staff, Backgrounds, and emails, Pg. 20

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REGULATORY REPORTS
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In historic vote, ACC approves a DSIC mechanism

On June 12, 2013 ACC voted to approve Arizona's first Distribution System Improvement Charge; the "System Improvement Benefits Mechanism" (SIB), in a case involving Arizona Water Company (AWC).

The long road to the SIB.

The SIB is a type of Distribution System Improvement Charge (DSIC), a ratemaking mechanism pioneered in Pennsylvania and endorsed by the National Association of Regulatory Utility Commissioners (NARUC)[1]. The concept of a DSIC has been talked about in Arizona for many years.

For example, the ACC established a task force to consider water issues in 1998.[2] The Task Force discussed DSICs, and the Task Force Report noted that:

- "Commission Staff is not opposed to implementing a policy similar to Pennsylvania's DISC"[3]
- "RUCO agrees that such a mechanism, if properly designed, has the potential to promote the upgrading of deteriorating water systems, without harmful or biased rate impacts on customers."[4]

However, these recommendations of the water task force were never implemented, and ultimately the task force docket was closed.[5]

After a long period of inaction, DSICs returned to the forefront in recent years, with a number of filings proposing or discussing DSICs. In 2010, the ACC ordered AWC to file a study on DSICs[6], and it separately ordered workshops on various water issues including DSICs.[7] The ACC held a workshop on DSICs on January 14, 2011, with presentations addressing the use of DSICs in other states[8], why DSICs are needed in Arizona[9], the ability of DSICs to reduce water loss and improve human health[10], and the legal basis of DSICs.[11]

AWC becomes the test case

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[1] "Resolution Endorsing and Co-Sponsoring "The Distribution System Improvement Charge", National Association of Regulatory Utility Commissioners adopted February 24, 1999.

[2] Decision No. 60829 (April 24, 1998), Docket No. W-00000C-98-0153.

[3] Interim Report of the Arizona Corporation Commission's Water Task Force, dated October 28, 1999, docketed on January 5, 2000 in Docket No. W-00000C-98-0153, at page 18.

[44] Id.

[5] ACC Administrative Closure Number 73028 (March 6, 2012) (noting issues being addressed in Docket W-00000C-06-0149).

[6] Decision No. 71845 (August 24, 2010).

[7] Decision No. 71878.

[8] Paul Townsley, Arizona-American Water Co., "DSIC: An Important Tool for Water Utilities and their Regulators", presented January 14, 2011; on file in Docket W-0000C-06-0149.

[9] Paul Walker, Insight Consulting, "Distribution System Improvement Charges", presented January 14, 2011; on file in Docket W-0000C-06-0149.

[10] Graham Symmonds, Global Water, "DSICs, Water Loss and Human Health", presented January 14, 2011 on file in Docket W-0000C-06-0149.

[11] Tim Sabo, Roshka, DeWulf, & Patten, "DSIC Legal Overview" presented January 14, 2011; on file in Docket W-0000C-06-0149.

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AWC proposed a DSIC in its Eastern Group rate case.[12] Originally, Staff and RUCO opposed the DSIC, and after the hearing, the ALJ issued a Recommended Opinion and Order (ROO) recommending that the DSIC be denied. During the open meeting, Commissioner Bitter Smith proposed an amendment that the DSIC concept be considered during a "Phase II" of the AWC rate case. The amendment passed.

The Commission's Phase I decision explained:

> AWC has provided plentiful evidence that its Eastern Group systems, most notably the Miami and Bisbee systems, have areas in which the pipes have corroded or otherwise degraded so as to become very fragile and to have leaks and breaks occurring at excessive rates. AWC has also established that the frequency of leaks and breaks in Eastern Group systems is generally increasing and that AWC needs to begin, and arguably already should have been, replacing infrastructure at a much faster rate than it has historically done.
>
> Although we will not authorize a DSIC herein, today, we are supportive of the DSIC type mechanism and therefore we will leave this Docket open to allow the parties the opportunity to enter into discussions regarding AWC's DSIC proposal and other DSIC like proposals Staff may wish to introduce.[13]

The ACC put the Phase II proceedings on a very fast track, ordering that the Phase II ROO be ready in time for the June 11 and 12, 2013 open meeting.

Another topic that prompted extended discussion at the open meeting was whether AWC's approved "return on equity" or ROE should be reduced if a DSIC was approved. RUCO argued that if a DSIC is approved, the ROE should be reduced. However, the ACC did not approve any change to the ROE.

Essentially, the Phase II proceedings became a test case on DSICs, and a number of interested parties intervened in Phase II, including EPCOR, Liberty Utilities, Global Water, the Water Utility Association of Arizona, and the Arizona Investment Council.

After lengthy – and at times intense – settlement discussions, many of the parties agreed to a settlement agreement that included the SIB mechanism. The SIB mechanism includes the following features:

- Projects must be pre-approved to be included in the SIB.
- The SIB mechanism is limited to distribution system projects in the five NARUC accounts listed below:
  1. Transmission and Distribution Mains
  2. Fire Mains
  3. Services;
  4. Meters and Meter Installations
  5. Hydrants.
- A SIB surcharge can only be approved once a utility has a SIB mechanism approved in a rate case.

[12] Docket No. W-01445A-11-0310.
[13] Decision No. 73736 (Feb. 10, 2013) at page 104.

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- The SIB surcharge application must include certain detailed schedules.
- Each annual SIB surcharge is limited to 5% of the revenue requirement in the rate case that approved the SIB.
- No more than five SIB surcharges are allowed between rate cases.
- A specific date for the Company's next rate case will be included for each SIB.
- The SIB revenue requirement is based on the approved weighted average cost of capital applied to the new SIB plant, plus the additional depreciation expense. However, there will be a 5% "efficiency credit" deducted from the SIB revenue requirement.

RUCO was the only party to oppose the settlement agreement. RUCO argued that although the settlement agreement contained many well-thought-out provisions, the very concept of the SIB was illegal; according to RUCO adjustor mechanisms that change rates between rate cases can only be approved for operating expenses. Thus, RUCO argued that because the SIB deals with plant costs and depreciation, it is not a proper or legal adjustor mechanism and must be rejected.

A number of other parties argued that the SIB mechanism was legal, pointing out that the Arsenic Cost Recovery Mechanism (ACRM) also dealt with plant costs.

ROO rejects RUCO's legal challenge, but raises ROE issue

In the Phase II ROO, ALJ Dwight Nodes rejected RUCO's legal arguments, finding that under Arizona law adjustor mechanisms can include plant costs, not just operating expenses.[14] However, he also recommended reducing AWC's ROE from 10.55% to 10.0%, contending that the 10.55% ROE adopted in Phase I was also higher "than would otherwise have been adopted" to address the same infrastructure issues as the SIB.[15]

Several utilities were concerned that they would be worse off if ROE reductions are approved as part of a SIB, and AWC noted that the ROE reduction would cost it $1 million, more than it could hope to gain from the SIB surcharges. AWC, EPCOR, Liberty, Global, and WUAA all filed exceptions on this point, arguing that there should be no link between ROE and the SIB.

SIB approved in dramatic open meeting.

RUCO attorney Dan Pozefsky opened by saying that while RUCO does not agree with the Judge's legal analysis, "it's just greed" for AWC to object to the ROE reduction. With that kind of beginning, it's no surprise that discussion of the SIB mechanism was lengthy (about three hours) and at times dramatic.

Commissioner Pierce responded to the "greed" comment, by noting that while he sometime agrees with RUCO, it's not greed, simply a desire to earn the ROE. He noted that it would be nice to see a water utility earn its allowed ROE and that the allowed ROE is seldom earned. Mr. Pozefsky did not back down; he responded by calling the request to keep the previously-approved 10.55% ROE "extortion".

Staff took a middle line; Utilities Director Steve Olea argued said that Staff supports the existing 10.55% ROE, but can live with a reduced ROE as well. Overall, Mr. Olea emphasized that Staff supports the settlement.

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[14] Phase II ROO filed May 30, 2013, at page 51 (noting that the SIB "is an adjustment mechanism established within a rate case as part of a company's rate structure"); and page 41(noting that ACC has authority to approve an "automatic adjustor mechanism to address specific costs").

[15] ROO, page 55.

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Commissioner Pierce offered an amendment (Pierce # 3) to keep the ROE at 10.55% while allowing the SIB. However, Commissioner Brenda Burns said that she would not support it, expressing concern over combining a 10.55 ROE and a SIB. Commissioner Bitter Smith agreed, noting that her primary goal was to "move forward" with a SIB, and that she generally views the ROE and SIB as "separate issues", but supports the reduction in this case because the 10.55% was specifically tied to the infrastructure issue.

Commission Bob Burns also stated he would not support the amendment, leading Commissioner Pierce to withdraw the amendment because three Commissioners were opposed.

Faced with an apparent loss on the ROE issue, AWC attorney Steve Hirsch said that "the price of admission" for the SIB is too high, and requested that AWC be allowed to withdraw the SIB request, possibly for a SIB to be considered in AWC Northern Group case. At that point, it appeared that AWC would either have to give up 55 basis points of ROE or accept the SIB – and that meant the SIB, and the negotiated SIB settlement would die for lack of Commissioner support.

The Commission then took a break so the various parties could discuss what to do.

After the break, ACC Chief Counsel Janice Alward stated that the ACC could not discuss possibly deferring the SIB discussion to the Northern Group case, because that case was not included in the open meeting notice.

Paul Walker then gave an impassioned plea to approve the SIB without an ROE reduction. He argued that unless the Pierce amendment was approved, the ROE will always be at risk, and that it's not greedy to need to raise capital. Commissioner Bitter Smith said that no other commissioner wants the SIB more than she, and her intent was not to place the ROE at risk in other cases. Her concern was to get the SIB approved "without 2 or 3 years of litigation". She told Mr. Walker, "I share your passion; I don't want to lose the progress we made." Walker responded "how do you avoid litigating with RUCO... RUCO is still going to sue, fine. Let's have the fight." He pointed out that some parts of AWC's Bisbee system have no pipe left, that you have to look at each system on its own, and that 10.55% is not too much for the systems in this case.

Commissioner Pierce expressed the concern that with the lower ROE, the SIB "will become a tool that's rarely used." In response to a question from Commissioner Bitter Smith, Tom Broderick from EPCOR explained how an ROE reduction would put them in a tough place, because they would file a rate case for a number of systems, only some of which would qualify for a SIB, but the ROE reduction would apply to all the systems.

RUCO Director Pat Quinn explained that in his view, the SIB efficiency credit was not big enough, and in the future, RUCO would evaluate each case "on its own" to decide whether to appeal a SIB.

Commissioner Bitter Smith commented that it might be a question of "who do we want to get sued by?", and that she did not want to "walk out of here without a SIB".

Commissioner Pierce then moved his amendment # 3, protecting AWC's authorized ROE while allowing the SIB to move forward; Pierce #3 passed on a 3-2 vote with Chairman Stump, Commissioner Pierce and Commissioner Bitter Smith voting in favor.

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The ACC also approved amendments clarifying how the earnings test would operate (Pierce # 1), and clarifying the ACC's legal authority to approve adjustor mechanisms (Pierce # 2).

The order, as amended, was approved 4-1, with Commissioner Brenda Burns voting no but expressing support for the SIB.

Analysis and implications

After 14 years of talking about DSICs, the ACC has finally approved one. And it's not likely to be an isolated incident. Rather, the Staff intends the SIB mechanism to be a template available for use in other cases. WIFA recently put out a press release noting that Arizona has $7.4 billion in water infrastructure needs.[16] The SIB will be a new tool to help water companies meet this large infrastructure challenge by providing timelier rate adjustments for critically needed distribution system improvements.

But don't think that SIBs are going to be handed out like candy at Halloween. Director Olea has said several times that utilities will have to provide a detailed infrastructure study justifying a SIB before Staff will support a SIB. It is very unlikely that SIBs will be approved for newer systems. Even for older systems, Staff will expect a detailed explanation of the infrastructure problems and a list of specific projects that will be supported by the SIB.

In addition, the SIB settlement agreement provides for at least one of the following criteria to justify a SIB:

1. Water loss over 10%;
2. Plant assets that are fully depreciated and are in need of replacement;
3. Other "engineering, operational or financial justification", including
    a. Documentation of increasing level of repairs or pipe failures.
    b. Meter replacements for systems that have implemented a meter replacement program under Commission Rule 14-2-408(E).
    c. Meter replacements to comply with the Reduction of lead in Drinking Water Act;
    d. Assets that the government requires to be moved, replaced or abandoned, if the utility can show a good faith effort to seek reimbursement for the costs.

Lastly, the 14 year saga of DSICs in Arizona shows the importance of continuing education and advocacy on key issues. While hopefully other proposals will not require 14 years of study, reforms will happen only when stakeholders clearly point out the problem and explain the benefits of the reform and allow time for the Staff and Commissioners to adjust to the new idea and fully evaluate it. Moreover, in the case of the SIB, the process only took off when the industry was able to unite around a single proposal and work together with the Staff to come up with details.

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[16] Water Infrastructure Finance Authority, "Arizona's Water Infrastructure Needs Total $7.4 Billion", released June 7, 2013, citing EPA's "Drinking Water Needs Survey and Assessment."

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Revenue Requirement (Not a Requirement Really)

The appropriate rate design is often a matter of high dispute in water utility rate cases. Put simply, the companies often want to include more of the increase in the monthly minimum charge; while the Staff wants to put more of the increase on the commodity rates – and in many cases on the highest tiers of the commodity rates. Companies have long argued that assigning too little of the increase to the monthly minimum charge and/or the first commodity tier results in the revenue requirement being missed. Some research has revealed conclusive proof that this argument has merit.

We looked at 45 water utility rate cases completed since December of 2007 and compared the authorized revenue requirement to the actual revenue these utilities received in subsequent years.[17]

- Of the 21 rate cases we looked at from December 2007 through December 2009:
  - **81%** did not achieve their authorized revenue requirement in 2010,
  - **86%** did not achieve it in 2011, and
  - **76%** did not achieve it in 2012.
- Of the 15 rate cases we looked at from 2010:
  - **87%** did not achieve their authorized revenue requirement in 2011, and
  - **80%** did not achieve it in 2012.
- Of the 9 cases we looked at from 2011:
  - **67%** of the companies did not achieve their authorized revenue requirement in 2012.

Many of the companies that did achieve their revenue requirement benefitted from unusual circumstances such as growth in customer counts or special surcharges.

The evidence is clear: most water utilities do not collect their authorized revenue requirement in the years following a rate case. The rate design is at least partially responsible for this.

How Much Income is Enough?

Another issue faced by small water utilities is uncertainty over how the ACC Staff will determine the appropriate income. We have written before about how the Staff sometimes applies an operating margin to low rate base utilities and sometimes uses a ("nominal") cash flow analysis instead.[18] We've also written before about the inconsistent results that come from applying a consistent operating margin.[19] For small utilities that have positive but low rate bases, applying a consistent rate of return to that rate base can lead to widely varying income results depending on the size of the rate base.
For zero and negative rate base utilities there is currently no policy, the applicant doesn't know whether the Staff will impose an operating margin or some sort of cash flow analysis. And for low rate base utility there is no policy on when the rate base is too small to use a rate of return.

[17] We started with 60 rate cases decided over that period and threw out 15 either because it was unclear what the authorized revenue requirement was or because information on realized revenue was not available.
[18] See issue 12-1, January 2012.
[19] See Issue 11-3, June 15, 2011.

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The California Public Utility Commission (CPUC) has adopted a policy wherein for small water utilities a (generous) operating margin and a rate of return on rate base are calculated and the CPUC uses whichever one is *higher* to set rates.

The CPUC also specifically designates a portion of the income generated by the utility to compensation for the owner and a portion to retained earnings for reinvestment. (This contrasts with Arizona where essentially all of the income generated by a utility can be assigned to pay debt service on a WIFA loan.) Such policies would be very helpful in Arizona. But in the meantime we urge the Commission to simply ask the Staff what level of income the water utility owner will receive under the proposed rates before voting to adopt them. We know of several situations in which the answer is that the owner would receive only a few thousand dollars per year.

A Simple Way to Streamline Rate Cases, Reduce Rate Case Expense, and Save the ACC Time, Money, and Resources

The current utility classification scheme (codified in R14-2-103(A)(3)(q)) was last updated over twenty years ago.[20] That scheme classifies utilities based on their annual Arizona jurisdictional revenue. For water and wastewater utilities the classes are as follows:

TABLE ONE – Existing Classification Table for Water, Wastewater Utilities

Annual Revenue		
Class	From	To
A	$5,000,000	and up
B	$1,000,000	$5,000,000
C	$250,000	$999,000
D	$50,000	$249,999
E	$-	$50,000
Per Rule 14-2-103(A)(3)(q)		

[20] The current version of R14-2-103 became effective August 31, 1992.

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These classifications are relevant because they determine the amount of information necessary for a rate case filing and whether a hearing is necessary. It should be noted that the class distinction is based on the company's *requested* revenue not their current revenue.

We believe that 20 years is far too long to go without an update to these classifications. The consumer price index (the most widely used measure of inflation) has increased 65% since these classifications were established in 1992. The classifications should certainly be adjusted to account for the effects of inflation over time. And the ACC should modify the rule so that the classification table is adjusted for inflation every three years. Equally importantly, we have all been working with these classifications for some time now and it is well worth it to use that experience to come up with rational and useful changes to the classifications.

Because the numbers are over 20 years old, small companies that were never intended to undergo difficult, costly rate cases are now being treated as though the rule intended that they be – the result of that unadjusted rule is that inflation has pushed small companies into higher regulatory burdens. That increases rate case complexity – requiring more legal, financial, accounting, and engineering support; and more hearings than necessary. A certain side effect is that many small companies look at the complexity of the rate application and process that comes from a higher classification, and they simply opt to not file.

If we were simply to update the classifications for inflation it would shake out as follows:

TABLE TWO – Classification Table for Water, Wastewater Utilities, Adjusted for CPI (1992-2012)

Annual Revenue		
Class	From	To
A	$8,265,770	and up
B	$1,653,154	$8,265,770
C	$413,288	$1,651,501
D	$82,658	$413,287
E	$-	$82,658
R14-2-103(A)(3)(q), updated for inflation		

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But we need not limit ourselves to a simple inflation update. Rounding the above numbers up provides the following classifications:

TABLE THREE – Classification Table for Water, Wastewater Utilities, Adjusted for CPI, and Rounded

Annual Revenue		
Class	From	To
A	$10,000,000	and up
B	$2,000,000	$10,000,000
C	$500,000	$2,000,000
D	$100,000	$500,000
E	$-	$100,000

Based on our experience the above classifications would provide real relief to smaller water utilities that are in need of rate cases.

<u>The biggest issue here is the break between the D and C classes.</u>
D and E class utilities can file the "short form" application process while A, B and C-class utilities must file the long form application. The above classification scheme would make many more utilities eligible to use the short form process. Under the short form process no hearing is necessary and the filing requirements are less stringent. We have dealt with many utilities over the past several years that need a rate increase that would, if approved, put their annual revenue over $250,000. These are, by definition, small utilities with limited resources and a large part of their necessary increase stems only from inflation. Allowing many of these utilities to utilize the short form process could benefit them and their customers – and it would save the ACC time and resources, allowing Staff to focus on the larger cases and issues. Given the large number of utilities that fall into this category, and that have infrastructure issues that need to be addressed, it is in the Commission's own best interest to streamline their application process.

While changing the class revenue breaks would be beneficial, we must point out that it would not be a panacea. Reduced filing requirements will provide little benefit if other parties lengthen and complicate the process with excessive data requests. Doing without a hearing will not be helpful if Staff takes an overly adversarial approach during their processing of the short form application. In the end, this (or any) policy change will have limited positive impact unless it is combined with a more constructive approach, i.e., adopting the view that the utility is not the enemy of its customers and striving to find a fair balance between investor needs and customer concerns.

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Editor's Note: 99.99% of normal people go comatose reading articles about the different depreciation and amortization approaches of AIAC and CIAC.
That said, we have made the article below, "AIAC turns to CIAC, and Rate Base Evaporates" as understandable and straightforward as possible – if Arizona adopts this proposal, we could increase the investment value of small companies without increasing the rates customers have to pay. That would lead to increased equity investment, easier financing for small companies, and an increase in the ability to acquire and consolidate smaller companies into larger holding companies.

AIAC turns to CIAC, and Rate Base Evaporates

Refundable Advances in Aid of Construction (AIAC) are a widespread method of funding plant. Under an AIAC agreement a party agrees to fund plant construction needed to serve it under the condition that the amount provided (or the cost of the plant provided) will be refunded according to a growth based formula over (usually) 10 or 20 years.

In many cases the full amount is not refunded in the requisite number of years, usually because growth occurred more slowly than anticipated. In some cases the amount of AIAC still on the books when the AIAC contract expires is significant.

When this happens the AIAC on the books converts to Contributions in Aid of Construction (CIAC.) One would think this is no big deal, both AIAC and CIAC have the same impact on a company's rate base so what difference would this make in ratemaking? Well, this is ratemaking, so it is never simple. In fact, when large amounts of AIAC convert to CIAC it can have devastating impacts on a company's rate base.

However, a straightforward policy change could greatly mitigate this effect without impacting customers.

The policy question is: How to amortize CIAC that results from AIAC refund obligations expiring?

We'll use a simple example to explain it. First, consider how "pure" CIAC is treated. Suppose $100 of plant is contributed to a company, the plant balance and the CIAC balance are both increased by $100. Over time, the plant depreciates and the CIAC is amortized at the same rate so that, over the years, the rate base is never affected: The CIAC and plant perfectly offset each other:

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TABLE ONE –Treatment of CIAC Funding and Plant in Rate Base

Treatment of $100 plant funded by CIAC			
	a	b	(a-b)
Year	*Plant*	*CIAC*	*Impact on Rate Base*
0	100	100	0
1	95	95	0
2	90	90	0
3	85	85	0
4	80	80	0
5	75	75	0
6	70	70	0
7	65	65	0
8	60	60	0
9	55	55	0
10	50	50	0
11	45	45	0
12	40	40	0
13	35	35	0
14	30	30	0
15	25	25	0
16	20	20	0
17	15	15	0
18	10	10	0
19	5	5	0
20	0	0	0
CIAC Amortization Rate			5%
Plant Depreciation Rate			5%

But if the plant is funded with AIAC, and growth doesn't follow, revenues don't increase and the AIAC isn't refunded, then things are different. The AIAC balance does not amortize but the plant it funds does depreciate. This creates a mismatch between the treatment of the plant and the capital that was used to fund the plant. After ten years the un-refunded AIAC converts to CIAC and begins being amortized. Table 2 shows what happens (assuming all of the AIAC converts to CIAC to keep the example simple.)

In Tables 2 and 3 in this article, we are showing the effect when no AIAC is refunded – which occurs when growth does not materialize. The general problem holds true when AIAC is only partially funded – which occurs when growth occurs more slowly than predicted.

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TABLE TWO – Effect of AIAC Conversion to CIAC on Rate Base (Traditional w/o AIAC Refund)

Treatment of $100 plant edition funded with AIAC				
	a	b	c	(a-b-c)
Year	*Plant*	*CIAC*	*AIAC*	*Impact on Rate Base*
0	100	0	100	0
1	95	0	100	-5
2	90	0	100	-10
3	85	0	100	-15
4	80	0	100	-20
5	75	0	100	-25
6	70	0	100	-30
7	65	0	100	-35
8	60	0	100	-40
9	55	0	100	-45
10	50	0	100	-50
11	45	100	0	-55
12	40	95	0	-55
13	35	90	0	-55
14	30	85	0	-55
15	25	80	0	-55
16	20	75	0	-55
17	15	70	0	-55
18	10	65	0	-55
19	5	60	0	-55
20	0	55	0	-55
21	0	50	0	-50
22	0	45	0	-45
23	0	40	0	-40
24	0	35	0	-35
25	0	30	0	-30
26	0	25	0	-25
27	0	20	0	-20
28	0	15	0	-15
29	0	10	0	-10
30	0	5	0	-5
31	0	0	0	0
CIAC Amortization Rate			5%	
Plant Depreciation Rate			5%	

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So in the out years the mismatch between plant depreciation and CIAC amortization has a negative effect on rate base. In the above example, 20 plus years after the plant is built and after it is fully depreciated it is still pulling the rate base down.

This mismatch can be resolved by increasing the CIAC amortization balance so that it reflects amortization that matches the depreciation of the plant:

TABLE THREE –Treatment of CIAC Funding and Plant in Rate Base (With Amortization)

Treatment of $100 plant edition funded with AIAC, Alternative Proposal				
	a	B	c	(a-b-c)
Year	*Plant*	*CIAC*	*AIAC*	*Impact on Rate Base*
0	100	0	100	0
1	95	0	100	-5
2	90	0	100	-10
3	85	0	100	-15
4	80	0	100	-20
5	75	0	100	-25
6	70	0	100	-30
7	65	0	100	-35
8	60	0	100	-40
9	55	0	100	-45
10	50	0	100	-50
11	45	**45**	0	0
12	40	**40**	0	0
13	35	**35**	0	0
14	30	**30**	0	0
15	25	**25**	0	0
16	20	**20**	0	0
17	15	**15**	0	0
18	10	**10**	0	0
19	5	**5**	0	0
20	0	**0**	0	0
CIAC Amortization Rate				5%
Plant Depreciation Rate				5%

Many smaller Arizona utilities have a considerable amount of AIAC that is not likely to be refunded on their books. In many cases the original AIAC contracts were entered into by previous owners who had interests other than the long term health of the utility.

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Smaller utilities with a lot of depreciated plant and a small positive rate base can see their rate base plunge deep into negative territory upon the expiration of a few large AIAC contracts. This destroys the utility's balance sheet and turns it into an investment black hole. This makes bank financing very difficult; it makes attracting equity investment impossible.

But in terms of rates there isn't much difference. Since low and negative rate base utility rates are set on an operating margin or cash flow basis the rate base doesn't really affect rates. So with the policy change described above the Commission could take a significant step towards protecting the financial viability of private water utilities *without impacting rates*.

Did we miss an important issue or case? Let us know. Working on a case we should follow? Let us know and we will track it. Have a question or a regulatory issue? Let us know - that's what we do.

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Paul Walker served as advisor to Chairman Marc Spitzer at the ACC; worked on Governor Jane Dee Hull's negotiating and lobbying team during the Indian Gaming Compacts; and was on the staff of U.S. Congressman John J. Rhodes, III. Paul specializes in regulatory analysis, lobbying, and consulting. In addition, Paul was elected to the national board of directors of ConservAmerica – a 6,000 member Republican organization working to improve the environment through market-based policies at the national level; he chairs Arizonans for Responsible Water Policy – a trade group comprised of large water companies advocating for long-term water policy changes; and serves on the Arizona Power Plant and Line Siting Committee, a statutory board comprised of elected and appointed officials that determines the environmental and economic compatibility of power plant and electric transmission line applications.

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LITCHFIELD PARK SERVICE COMPANY DBA LIBERTY UTILITIES

THOMAS BOURASSA
REBUTTAL TESTIMONY

OCTOBER 23, 2013

WATER DIVISION

REBUTTAL SCHEDULES

Litchfield Park Service Company - Water Division dba Liberty Utilities
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	$ 33,227,792
2		
3	Adjusted Operating Income	2,035,629
4		
5	Current Rate of Return	6.13%
6		
7	Required Operating Income	$ 3,049,083
8		
9	Required Rate of Return on Fair Value Rate Base	9.18%
10		
11	Operating Income Deficiency	$ 1,013,454
12		
13	Gross Revenue Conversion Factor	1.6466
14		
15	Increase in Gross Revenue	
16	Requirement	$ 1,668,790
17		
18	Adjusted Test Year Revenues	$ 11,201,268
19	Increase in Gross Revenue Revenue Requirement	$ 1,668,790
20	Proposed Revenue Requirement	$ 12,870,058
21	% Increase	14.90%
22		

23	**Customer**		**Present**	**Proposed**	**Dollar**	**Percent**
24	**Classification**		**Rates**	**Rates**	**Increase**	**Increase**
25	5/8x3/4 Inch	Residential	$ 11,824	$ 14,345	$ 2,521	21.32%
26	3/4 Inch	Residential	3,047,017	3,415,174	368,157	12.08%
27	3/4 Inch	Residential - Low Income	7,293	7,757	464	6.36%
28	1 Inch	Residential	3,360,696	3,981,180	620,484	18.46%
29	1 Inch	Residential - Low Income	8,528	11,098	2,570	30.14%
30	1.5 Inch	Residential	44,871	52,309	7,438	16.58%
31	2 Inch	Residential	4,981	5,886	905	18.17%
32	4 Inch	Residential	-	-	-	0.00%
33	5/8x3/4 Inch	Commercial	245	333	88	36.08%
34	3/4 Inch	Commercial	8,987	10,685	1,699	18.90%
35	1 Inch	Commercial	28,013	33,745	5,732	20.46%
36	1.5 Inch	Commercial	118,831	137,671	18,840	15.85%
37	2 Inch	Commercial	684,406	807,345	122,939	17.96%
38	4 Inch	Commercial	242,692	272,348	29,656	12.22%
39	8 Inch	Commercial	10,786	14,027	3,241	30.05%
40	10 Inch	Commercial	36,262	42,203	5,941	16.38%
41	5/8x3/4 Inch	Irrigation	906	1,071	165	18.23%
42	3/4 Inch	Irrigation	58,536	67,354	8,819	15.07%
43	1 Inch	Irrigation	292,670	337,167	44,496	15.20%
44	1.5 Inch	Irrigation	342,197	388,790	46,594	13.62%
45	2 Inch	Irrigation	1,777,002	2,008,098	231,096	13.00%
46	4 Inch	Irrigation	140,026	159,349	19,323	13.80%
47	1 Inch	MF	1,558	2,264	706	45.30%
48	1.5 Inch	MF	47,101	54,084	6,984	14.83%
49	2 Inch	MF	320,997	376,103	55,106	17.17%
50	4 Inch	MF	47,487	54,277	6,790	14.30%
51	5/8x3/4 Inch	Fire	28,594	38,847	10,253	35.86%
52	3/4 Inch	Fire	2,879	3,910	1,031	35.81%
53	1 Inch	Fire	275	374	99	35.95%
54		Hydrant	68,030	75,439	7,409	10.89%
55		Sweeper	700	776	76	10.89%
56	8 Inch	Goodyear	128,952	142,421	13,469	10.44%
57	4 Inch	VUI	3,060	4,164	1,104	36.08%
58	Declining Usage Adjustment		(58,703)	(58,703)	-	0.00%
59	Revenue Annualization		147,042	173,966	26,923	18.31%
60	**Subtotal**		$ 10,964,740	$ 12,635,858	$ 1,671,118	15.24%
61						
62	Other Water Revenues		235,723	235,723	(0)	0.00%
63	Reconciling Amount		805	(1,523)	(2,328)	-289.19%
64	Rounding				-	0.00%
65	**Total of Water Revenues**		$ 11,201,268	$ 12,870,058	$ 1,668,790	14.90%
66						
67						

68 SUPPORTING SCHEDULES:
69 B-1
70 C-1
71 C-3
72 H-1

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Summary of Rate Base

Exhibit
Rebuttal Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 90,867,014	$ 90,867,014
3	Less: Accumulated Depreciation	18,927,597	18,927,597
4			
5	Net Utility Plant in Service	$ 71,939,416	$ 71,939,416
6			
7	Less:		
8	Advances in Aid of Construction	30,374,274	30,374,274
9			
10	Contributions in Aid of Construction	7,425,812	7,425,812
11			
12	Accumulated Amortization of CIAC	(1,285,854)	(1,285,854)
13			
14	Customer Meter Deposits	1,271,802	1,271,802
15	Custmer Security Deposits	147,661	147,661
16	Accumulated Deferred Income Tax	868,997	868,997
17			
18			
19	Plus:		
20			
21	Deferred Regulatory Assets TCE Plume	91,067	91,067
22	Deferred Tax Assets	-	-
23	Allowance for Working Capital	-	-
24			
25			
26	Total Rate Base	$ 33,227,792	$ 33,227,792
27			
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			
41	SUPPORTING SCHEDULES:		
42	B-2		
43	B-3		
44	B-5		
45	E-1		
46			
47			
48			
49			
50			

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 1
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Proforma Adjustment	Rebuttal Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	$ 91,151,411	(284,397)	$ 90,867,014
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	16,514,086	2,413,511	18,927,597
7				
8				
9	Net Utility Plant			
10	in Service	$ 74,637,324		$ 71,939,416
11				
12	**Less:**			
13	Advances in Aid of			
14	Construction	30,374,274	-	30,374,274
15				
16	Contributions in Aid of			
17	Construction - Gross	7,324,578	101,234	7,425,812
18				
19	Accumulated Amortization of CIAC	(1,489,772)	203,918	(1,285,854)
20				
21	Customer Meter Deposits	1,271,802	-	1,271,802
22	Custmer Security Deposits	140,147	7,514	147,661
23	Accumulated Deferred Income Tax	1,459,075	(590,078)	868,997
24				-
25				-
26				
27	**Plus:**			
28				
29	Deferred Regulatory Assets TCE Plume	90,381	686	91,067
30	Prepayments	-		-
31	Materials and Supplies	-		-
32	Working capital	-	-	-
33				-
34				
35	Total	$ 35,647,602		$ 33,227,792
36				
37				
38				
39				
40				
41				
42				
43				
44				
45				
46	SUPPORTING SCHEDULES:			RECAP SCHEDULES:
47	B-2, pages 2			B-1
48	E-1			
49				
50				
51				

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments

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Line No.		Adjusted at End of Test Year	Proforma Adjustments 1 Plant-in-Service	2 Accumulated Depreciation	3 CIAC	4 ADIT	5 Customer Deposits	6 Regulatory Assets	7 Intentionally Left Blank	Rebuttal Adjusted at end of Test Year
1	Gross Utility									
2	Plant in Service	$ 91,151,411	(284,397)							90,867,014
3										
4	**Less:**									
5	Accumulated									
6	Depreciation	16,514,086		2,413,511						18,927,597
7										
8										
9	Net Utility Plant									
10	in Service	$ 74,637,324	$ (284,397)	$ (2,413,511)	$ -	$ -	$ -	$ -	$ -	$ 71,939,416
11										
12	**Less:**									
13	Advances in Aid of									
14	Construction	30,374,274				-				
15										30,374,274
16	Contributions in Aid of									
17	Construction (CIAC)	7,324,578			101,234					
18										7,425,812
19	Accumulated Amort of CIAC	(1,489,772)			203,918					
20										(1,285,854)
21	Customer Meter Deposits	1,271,802								1,271,802
22	Customer Security Deposits	140,147					7,514			147,661
23	Accumulated Deferred Income Taxes	1,459,075				(590,078)				868,997
24										
25										
26	**Plus:**									
27										
28	Deferred Regulatory Assets TCE Plume	90,381						686		
29	Prepayments	-								91,067
30	Materials and Supplies	-								
31	Allowance for Cash Working Capital	-								
32										-
33	Total	$ 35,647,602	$ (284,397)	$ (2,413,511)	$ (305,152)	$ 590,078	$ (7,514)	$ 686	$ -	# $ 33,227,792
34										
35										
36										
37	SUPPORTING SCHEDULES:						RECAP SCHEDULES:			
38	B-2, pages 3-8						B-1			
39	E-1									
40										
41										

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1

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Rebuttal Schedule B-2
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Plant-in-Service

Line No.	Acct. No.	Description	Adjusted Orginal Cost	A True-up of Accruals	B Plant Reclassification	C Plant Not Used and Useful	D Duplicate Invoices	E Retirement Transportation Equipment	F Retirements and Reclassification	G Adjustments to Reconcile Plant to Reconstruction	Rebuttal Adjusted Original Cost
				Adjustments							
6	301	Organization Cost	21,100							-	21,100
7	302	Franchise Cost	-							-	-
8	303	Land and Land Rights	1,456,278			(6,000)				-	1,450,278
9	304	Structures and Improvements	28,000,916	(178,617)	(2,776,772)	(6,156)	(3,000)			-	25,036,371
10	305	Collecting and Impounding Res.	-							-	-
11	306	Lake River and Other Intakes	-							-	-
12	307	Wells and Springs	3,097,345	(18,108)	134,878					(0)	3,214,114
13	308	Infiltration Galleries and Tunnels	-							-	-
14	309	Supply Mains	-							-	-
15	310	Power Generation Equipment	207,020		18,111					-	225,130
16	311	Electric Pumping Equipment	897,792		(23,502)					-	874,290
17	320	Water Treatment Equipment	-							-	-
18	320.1	Water Treatment Plant	1,696,759		1,728,635					-	3,425,394
19	320.2	Chemical Solution Feeders	-							-	-
20	330	Dist. Reservoirs & Standpipe	492,176							-	492,176
21	330.1	Storage tanks	-		901,841					-	901,841
22	330.2	Pressure Tanks	-							-	-
23	331	Trans. and Dist. Mains	40,259,045						(2,859)	0	40,256,187
24	333	Services	5,350,963							-	5,350,963
25	334	Meters	4,759,560							-	4,759,560
26	335	Hydrants	3,304,755				(2,608)			0	3,302,148
27	336	Backflow Prevention Devices	38,387							-	38,387
28	339	Other Plant and Misc. Equip.	259,531							-	259,531
29	340	Office Furniture and Fixtures	651,098		6,555					-	657,653
30	340.1	Computers and Software	-		7,995					-	7,995
31	341	Transportation Equipment	307,592					(17,555)	(55,341)	1	234,697
32	342	Stores Equipment	37,143							-	37,143
33	343	Tools and Work Equipment	47,434							-	47,434
34	344	Laboratory Equipment	5,803							-	5,803
35	345	Power Operated Equipment	-						18,003	(0)	18,003
36	346	Communications Equipment	128,402							-	128,402
37	347	Miscellaneous Equipment	-							-	-
38	348	Other Tangible Plant	132,312		(9,897)					-	122,414
39		Rounding								(1)	(1)
40		TOTALS	$ 91,151,411	$ (196,725)	$ (12,156)	$ (12,156)	$ (5,608)	$ (17,555)	$ (40,196)	$ 0	$ 90,867,014
41											
42		Adjusted Plant-in-Service									$ 91,151,411
43											
44		Increase (decrease) in Plant-in-Service									$ (284,397)
45											
46		Adjustment to Plant-in-Service									$ (284,397)
47											
48		SUPPORTING SCHEDULES									
49		B-2, pages 3.1 to 3.7									

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
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Line No.			
1	True-Up of Accruals		
2			
3			
4	Acct.		
5	No.	Description	Adjustment
6	304	Structures and Improvements	(178,617)
7	307	Wells and Springs	(18,108)
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
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26			
27			
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40		TOTALS	$ (196,725)
41			
42	SUPPORTING SCHEDULE		
43	Staff Adjustment #3		
44			
45			

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - B

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Rebuttal Schedule B-2
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Witness: Bourassa

Line No.

1 Reclassification of Plant

Acct. No.	Description	Adjustment
304	Structures and Improvements	(2,776,772)
307	Wells and Springs	134,878
310	Power Generation Equipment	18,111
311	Electric Pumping Equipment	(23,502)
320.1	Water Treatment Plant	1,728,635
330.1	Storage tanks	901,841
340	Office Furniture and Fixtures	6,555
340.1	Computers and Software	7,995
348	Other Tangible Plant	(9,897)
	TOTALS	$ (12,156)

SUPPORTING SCHEDULE
Staff Adjustment #5
Staff Table 8 - Reclassification

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - C

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Rebuttal Schedule B-2
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Witness: Bourassa

Line No.			
1	Plant Not Used and Useful		
2			
3			
4	Acct.		
5	No.	Description	Adjustment
6	303	Land and Land Rights	(6,000)
7	304	Structures and Improvements	(6,156)
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
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23			
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27			
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40		TOTALS	$ (12,156)
41			
42	SUPPORTING SCHEDULE		
43	Staff Adjustment #6		
44	Staff Table 6 - Not Used and Useful Plant Items		
45			

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - D

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Line No.			
1	Plant Not Used and Useful		
2			
3			
4	Acct.		
5	No.	Description	Adjustment
6	304	Structures and Improvements	(3,000)
7	335	Hydrants	(2,608)
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
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27			
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40		TOTALS	$ (5,608)
41			
42	SUPPORTING SCHEDULE		
43	Staff Adjustment #7		
44			
45			

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - E

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Line No.			
1	Retirement of Transportation Equipment		
2			
3			
4	Acct.		
5	No.	Description	Adjustment
6	341	Transportation Equipment	(17,555)
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
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26			
27			
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40		TOTALS	$ (17,555)
41			
42	SUPPORTING SCHEDULE		
43	Staff Adjustment #7		
44			
45			

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - F

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Rebuttal Schedule B-2
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Witness: Bourassa

Line No.

1 Retirements

Acct. No.	Description	Year Reflected on B-2 Plant[1]	Adjustment
341	Transportation Equipment	2008	$ (40,196)
			$ (40,196)

10 Reclassifications

Acct. No.	Description	Year	Year Reflected on B-2 Plant[1]	Adjustment
341	Transportation Equipment		see below	$ (15,144)
331	Trans. and Dist. Mains	2012	2012	3,985
345	Power Operated Equipment	2008	2008	18,003
331	Trans. and Dist. Mains	2006	2008	(6,844)
				$ -

40 Total Adjustment $ (40,196)

42 SUPPORTING SCHEDULE
43 Work papers - Supplemental Response to RUCO 6.01

45 [1] *Post last test year end date*

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - G

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Rebuttal Schedule B-2
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Line No.

1 *Reconciliation of Plant to Plant Reconstruction*

Line	Acct. No.	Description	Adjusted Orginal Cost	B-2 Adjustments	Rebuttal Adjusted Orginal Cost	Rebuttal Plant Per Reconstruction	Difference
6	301	Organization Cost	21,100	-	21,100	21,100	-
7	302	Franchise Cost	-	-	-	-	-
8	303	*Land and Land Rights*	1,456,278	(6,000)	1,450,278	1,450,278	-
9	304	Structures and Improvements	28,000,916	(2,964,545)	25,036,371	25,036,371	-
10	305	Collecting and Impounding Res.	-	-	-	-	-
11	306	Lake River and Other Intakes	-	-	-	-	-
12	307	Wells and Springs	3,097,345	116,770	3,214,114	3,214,114	(0)
13	308	Infiltration Galleries and Tunnels	-	-	-	-	-
14	309	Supply Mains	-	-	-	-	-
15	310	Power Generation Equipment	207,020	18,111	225,130	225,130	-
16	311	Electric Pumping Equipment	897,792	(23,502)	874,290	874,290	-
17	320	Water Treatment Equipment	-	-	-	-	-
18	320.1	Water Treatment Plant	1,696,759	1,728,635	3,425,394	3,425,394	-
19	320.2	Chemical Solution Feeders	-	-	-	-	-
20	330	Dist. Reservoirs & Standpipe	492,176	-	492,176	492,176	-
21	330.1	Storage tanks	-	901,841	901,841	901,841	-
22	330.2	Pressure Tanks	-	-	-	-	-
23	331	Trans. and Dist. Mains	40,259,045	(2,859)	40,256,187	40,256,187	0
24	333	Services	5,350,963	-	5,350,963	5,350,963	-
25	334	Meters	4,759,560	-	4,759,560	4,759,560	-
26	335	Hydrants	3,304,755	(2,608)	3,302,147	3,302,148	0
27	336	Backflow Prevention Devices	38,387	-	38,387	38,387	-
28	339	Other Plant and Misc. Equip.	259,531	-	259,531	259,531	-
29	340	Office Furniture and Fixtures	651,098	6,555	657,653	657,653	-
30	340.1	Computers and Software	-	7,995	7,995	7,995	-
31	341	Transportation Equipment	307,592	(72,896)	234,696	234,697	1
32	342	Stores Equipment	37,143	-	37,143	37,143	-
33	343	Tools and Work Equipment	47,434	-	47,434	47,434	-
34	344	Laboratory Equipment	5,803	-	5,803	5,803	-
35	345	Power Operated Equipment	-	18,003	18,003	18,003	(0)
36	346	Communications Equipment	128,402	-	128,402	128,402	-
37	347	Miscellaneous Equipment	-	-	-	-	-
38	348	Other Tangible Plant	132,312	(9,897)	122,414	122,414	-
39		Rounding					(1)
40		TOTALS	$ 91,151,411	$ (284,397)	$ 90,867,014	$ 90,867,015	$ 0

43 SUPPORTING SCHEDULE
44 B-2, pages 3.1 through 3.6
45 B-2, pages 3.8 through 3.12

Litchfield Park Service Company - Water Division
dba Liberty Utilities
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
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				Per Decision		2008									
Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	Plant at 9/30/2008	Accum. Deprec. At 9/30/2008	Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Adjusted Plant Retirements	Salvage A/D Only	3 months Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	21,100	-	-			-		-		-	21,100	-
2	302	Franchise Cost	0.00%	-	-	-			-		-		-	-	-
3	303	Land and Land Rights	0.00%	1,284,595	-	(367,902)	-		(367,902)		-		-	916,693	-
4	304	Structures & Improvements	3.33%	24,649,251	404,869	(1,026,408)	(20,938)		(1,047,346)		-		200,845	23,601,905	605,714
5	305	Collecting & Impounding Reservoirs	2.50%	-	-	-			-		-		-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-	-	-			-		-		-	-	-
7	307	Wells & Springs	3.33%	2,393,491	631,793	163	-		163		-		19,926	2,393,653	651,720
8	308	Infiltration Galleries	6.67%	-	-	-			-		-		-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-			-		-		-	-	-
10	310	Power Generation Equipment	5.00%	202,269	56,403	-			-		-		2,528	202,269	58,932
11	311	Pumping Equipment	12.50%	917,055	598,038	11,723	-		11,723	420,594	420,594		22,269	508,184	199,713
12	320	Water Treatment Equipment	3.33%	-	-				-		-		-	-	-
13	320.1	Water Treatment Plants	3.33%	1,337,824	41,009	(46,530)			(46,530)		-		10,944	1,291,294	51,953
14	320.2	Solution Chemical Feeders	20.00%	-	-	-			-		-		-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	439,244	174,417	600	-		600		-		2,439	439,844	176,856
16	330.1	Storage Tanks	2.22%	-	-	-			-		-		-	-	-
17	330.2	Pressure Tanks	5.00%	-	-	-			-		-		-	-	-
18	331	Transmission & Distribution Mains	2.00%	28,918,695	3,844,739	724,203	(10,868)	(6,844)	706,491		-		146,360	29,625,186	3,991,099
19	333	Services	3.33%	4,245,838	900,699	164,164	(15,625)		148,539		-		35,965	4,394,377	936,664
20	334	Meters	8.33%	4,133,092	1,931,628	5,723			5,723		-		86,131	4,138,815	2,017,760
21	335	Hydrants	2.00%	2,055,781	163,913	91,012			91,012		-		10,506	2,146,793	174,420
22	336	Backflow Prevention Devices	6.67%	38,387	7,546	-			-		-		640	38,387	8,186
23	339	Other Plant & Misc Equipment	6.67%	259,531	33,497	-			-		-		4,328	259,531	37,825
24	340	Office Furniture & Equipment	6.67%	551,757	124,987	-			-		-		9,201	551,757	134,187
25	340.1	Computers & Software	20.00%	-	-	-			-		-		-	-	-
26	341	Transportation Equipment	20.00%	174,415	83,060	-		(11,159)	(11,159)	40,196	40,196		7,437	123,060	50,301
27	342	Stores Equipment	4.00%	31,711	1,586	-			-		-		317	31,711	1,903
28	343	Tools, Shop & Garage Equipment	5.00%	23,350	7,113	-			-		-		292	23,350	7,405
29	344	Laboratory Equipment	10.00%	-	-	-			-		-		-	-	-
30	345	Power Operated Equipment	5.00%	-	-	-		18,003	18,003		-		113	18,003	113
31	346	Communication Equipment	10.00%	119,710	21,730	-			-		-		2,993	119,710	24,723
32	347	Miscellaneous Equipment	10.00%	-	-	-			-		-		-	-	-
33	348	Other Tangible Plant	10.00%	-	-	2,475			2,475		-		31	2,475	31
34		Plant Held for Future Use							-		-		-	-	-
35															
36		TOTALS		71,797,096	9,027,027	(440,777)	(47,431)	-	(488,208)	460,790	460,790	-	563,265	70,848,098	9,129,503

Litchfield Park Service Company - Water Division
dba Liberty Utilities
Plant Additions and Retirements

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Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2009 Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-		-	-		-		-	21,100	-
2	302	Franchise Cost	0.00%	-		-	-		-		-	-	-
3	303	Land and Land Rights	0.00%	92,495	-	-	92,495		-		-	1,009,188	-
4	304	Structures & Improvements	3.33%	1,190,719	(21,984)	(1,036,948)	131,787		-		788,138	23,733,692	1,393,852
5	305	Collecting & Impounding Reservoirs	2.50%	-		-	-		-		-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-		-	-		-		-	-	-
7	307	Wells & Springs	3.33%	501,310	(773)	65,920	566,457		-		89,140	2,960,110	740,860
8	308	Infiltration Galleries	6.67%	-		-	-		-		-	-	-
9	309	Raw Water Supply Mains	2.00%	-		-	-		-		-	-	-
10	310	Power Generation Equipment	5.00%	-		-	-		-		10,113	202,269	69,045
11	311	Pumping Equipment	12.50%	21,214	-	10,851	32,065	35,008	35,008		63,339	505,241	228,044
12	320	Water Treatment Equipment	3.33%			-	-		-		-	-	-
13	320.1	Water Treatment Plants	3.33%	2,479	(24,987)	287,816	265,308		-		47,417	1,556,602	99,370
14	320.2	Solution Chemical Feeders	20.00%	-		-	-		-		-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	-	-	-	-		-		9,765	439,844	186,621
16	330.1	Storage Tanks	2.22%	-		664,366	664,366		-		7,374	664,366	7,374
17	330.2	Pressure Tanks	5.00%	-		-	-		-		-	-	-
18	331	Transmission & Distribution Mains	2.00%	1,906,160	(18,664)	-	1,887,496		-		611,379	31,512,683	4,602,477
19	333	Services	3.33%	1,580,515	-	-	1,580,515		-		172,648	5,974,892	1,109,312
20	334	Meters	8.33%	51,571		-	51,571		-		346,911	4,190,386	2,364,671
21	335	Hydrants	2.00%	309,661		-	309,661		-		46,032	2,456,454	220,452
22	336	Backflow Prevention Devices	6.67%	-		-	-		-		2,560	38,387	10,746
23	339	Other Plant & Misc Equipment	6.67%	-		-	-		-		17,311	259,531	55,135
24	340	Office Furniture & Equipment	6.67%	-		-	-		-		36,802	551,757	170,990
25	340.1	Computers & Software	20.00%	-		7,995	7,995		-		800	7,995	800
26	341	Transportation Equipment	20.00%	-		-	-		-		24,612	123,060	74,913
27	342	Stores Equipment	4.00%	-		-	-		-		1,268	31,711	3,171
28	343	Tools, Shop & Garage Equipment	5.00%	-		-	-		-		1,168	23,350	8,573
29	344	Laboratory Equipment	10.00%	-		-	-		-		-	-	-
30	345	Power Operated Equipment	5.00%	-		-	-		-		900	18,003	1,013
31	346	Communication Equipment	10.00%	-		-	-		-		11,971	119,710	36,694
32	347	Miscellaneous Equipment	10.00%	-		-	-		-		-	-	-
33	348	Other Tangible Plant	10.00%	15,420		-	15,420		-		1,019	17,895	1,049
34		Plant Held for Future Use				-	-		-		-	-	-
35													
36		TOTALS		5,671,544	(66,408)	0	5,605,136	35,008	35,008	-	2,290,668	76,418,226	11,385,163

Litchfield Park Service Company - Water Division
dba Liberty Utilities
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.10
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2010 Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-		-	-		-		-	21,100	-
2	302	Franchise Cost	0.00%	-		-	-		-		-	-	-
3	303	Land and Land Rights	0.00%	430,531	(53)	-	430,478		-		-	1,439,666	-
4	304	Structures & Improvements	3.33%	1,284,065	(3,776)	(1,245,500)	34,789		-		790,911	23,768,481	2,184,763
5	305	Collecting & Impounding Reservoirs	2.50%	-		-	-		-		-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-		-	-		-		-	-	-
7	307	Wells & Springs	3.33%	56,518	-	-	56,518		-		99,513	3,016,628	840,373
8	308	Infiltration Galleries	6.67%	-		-	-		-		-	-	-
9	309	Raw Water Supply Mains	2.00%	-		-	-		-		-	-	-
10	310	Power Generation Equipment	5.00%	-		-	-		-		10,113	202,269	79,159
11	311	Pumping Equipment	12.50%	61,729	-	13,620	75,349	20,920	20,920		66,557	559,670	273,681
12	320	Water Treatment Equipment	3.33%			-	-		-		-	-	-
13	320.1	Water Treatment Plants	3.33%	353,630	(34)	1,215,221	1,568,817		-		77,956	3,125,420	177,326
14	320.2	Solution Chemical Feeders	20.00%	-		-	-		-		-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	-	-	-	-		-		9,765	439,844	196,385
16	330.1	Storage Tanks	2.22%	-		20,000	20,000		-		14,971	684,366	22,345
17	330.2	Pressure Tanks	5.00%	-		-	-		-		-	-	-
18	331	Transmission & Distribution Mains	2.00%	1,611,724	(3,139)	-	1,608,585		-		646,339	33,121,267	5,248,817
19	333	Services	3.33%	307,502	(207)	-	307,294		-		204,080	6,282,186	1,313,392
20	334	Meters	8.33%	167,302		-	167,302		-		356,027	4,357,688	2,720,698
21	335	Hydrants	2.00%	221,507	(2,608)	-	218,899		-		51,318	2,675,353	271,770
22	336	Backflow Prevention Devices	6.67%	-		-	-		-		2,560	38,387	13,307
23	339	Other Plant & Misc Equipment	6.67%	-		-	-		-		17,311	259,531	72,446
24	340	Office Furniture & Equipment	6.67%	-		6,555	6,555		-		37,021	558,312	208,010
25	340.1	Computers & Software	20.00%	-		-	-		-		1,599	7,995	2,399
26	341	Transportation Equipment	20.00%	4,845		-	4,845		-		25,097	127,905	100,009
27	342	Stores Equipment	4.00%	3,688		-	3,688		-		1,342	35,399	4,513
28	343	Tools, Shop & Garage Equipment	5.00%	939		-	939		-		1,191	24,289	9,764
29	344	Laboratory Equipment	10.00%	-		-	-		-		-	-	-
30	345	Power Operated Equipment	5.00%	-		-	-		-		900	18,003	1,913
31	346	Communication Equipment	10.00%	-		-	-		-		11,971	119,710	48,665
32	347	Miscellaneous Equipment	10.00%	-		-	-		-		-	-	-
33	348	Other Tangible Plant	10.00%	20,924		(9,897)	11,027		-		2,341	28,922	3,390
34		Plant Held for Future Use					-		-		-	-	-
35													
36		TOTALS		4,524,902	(9,816)	(0)	4,515,085	20,920	20,920	-	2,428,883	80,912,392	13,793,126

Litchfield Park Service Company - Water Division
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Plant Additions and Retirements

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Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2011 Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-		-		-			-		-	21,100	-
2	302	Franchise Cost	0.00%	-		-		-			-		-	-	-
3	303	Land and Land Rights	0.00%	8,476	(6,188)	-		2,288			-		-	1,441,954	-
4	304	Structures & Improvements	3.33%	549,237	(8,757)	(494,324)		46,156			-		792,259	23,814,637	2,977,022
5	305	Collecting & Impounding Reservoirs	2.50%	-		-		-			-		-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-		-		-			-		-	-	-
7	307	Wells & Springs	3.33%	19,010	(686)	68,958		87,282			-		101,907	3,103,910	942,279
8	308	Infiltration Galleries	6.67%	-		-		-			-		-	-	-
9	309	Raw Water Supply Mains	2.00%	-		-		-			-		-	-	-
10	310	*Power Generation Equipment*	5.00%	4,596		18,111		22,706			-		10,681	224,976	89,840
11	311	Pumping Equipment	12.50%	220,561	(3,315)	(47,974)		169,271	1,327		1,327		80,455	727,615	352,809
12	320	Water Treatment Equipment	3.33%			-		-			-		-	-	-
13	320.1	Water Treatment Plants	3.33%	28,534	(223)	225,598		253,908			-		108,304	3,379,328	285,630
14	320.2	Solution Chemical Feeders	20.00%	-		-		-			-		-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	53,676	(1,344)	-		52,332			-		10,345	492,176	206,731
16	330.1	Storage Tanks	2.22%	-		217,475		217,475			-		17,607	901,841	39,952
17	330.2	Pressure Tanks	5.00%	-		-		-			-		-	-	-
18	331	Transmission & Distribution Mains	2.00%	5,388,147	(8,802)	-		5,379,345			-		716,219	38,500,612	5,965,036
19	333	Services	3.33%	382,109	(944)	-		381,165			-		215,543	6,663,351	1,528,936
20	334	Meters	8.33%	267,613	(4,811)	-		262,802			-		373,941	4,620,489	3,094,639
21	335	Hydrants	2.00%	512,885	(573)	-		512,312			-		58,630	3,187,665	330,400
22	336	Backflow Prevention Devices	6.67%	-		-		-			-		2,560	38,387	15,867
23	339	Other Plant & Misc Equipment	6.67%	-		-		-			-		17,311	259,531	89,757
24	340	Office Furniture & Equipment	6.67%	9,928		-		9,928			-		37,571	568,240	245,581
25	340.1	Computers & Software	20.00%	-		-		-			-		1,599	7,995	3,998
26	341	Transportation Equipment	20.00%	26,185	(636)	-		25,550	17,555		17,555		26,380	135,900	108,835
27	342	Stores Equipment	4.00%	1,116		-		1,116			-		1,438	36,515	5,952
28	343	Tools, Shop & Garage Equipment	5.00%	578		-		578			-		1,229	24,867	10,993
29	344	Laboratory Equipment	10.00%	-		-		-			-		-	-	-
30	345	Power Operated Equipment	5.00%	-		-		-			-		900	18,003	2,813
31	346	Communication Equipment	10.00%	3,986	(49)	-		3,937			-		12,168	123,647	60,833
32	347	Miscellaneous Equipment	10.00%	-		-		-			-		-	-	-
33	348	*Other Tangible Plant*	10.00%	44,349		-		44,349			-		5,110	73,271	8,500
34		Plant Held for Future Use		-				-			-		-	-	-
35															
36		TOTALS		7,520,985	(36,328)	(12,156)	-	7,472,500	18,882	-	18,882	-	2,592,158	88,366,010	16,366,402

Litchfield Park Service Company - Water Division
dba Liberty Utilities
Plant Additions and Retirements

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Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2012 Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Plant only B-2 Adjust	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-			-	-		-		-	-	21,100	-
2	302	Franchise Cost	0.00%	-			-	-		-		-	-	-	-
3	303	Land and Land Rights	0.00%	8,324			8,324	-		-		-	-	1,450,278	-
4	304	Structures & Improvements	3.33%	1,405,618	(5,268)	(178,617)	1,221,734	-		-		65,110	813,369	25,036,371	3,855,501
5	305	Collecting & Impounding Reservoirs	2.50%	-			-	-		-		-	-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-			-	-		-		-	-	-	-
7	307	Wells & Springs	3.33%	142,604	(726)	(18,108)	123,770	13,565		13,565		-	105,195	3,214,114	1,033,909
8	308	Infiltration Galleries	6.67%	-			-	-		-		-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-			-	-		-		-	-	-	-
10	310	Power Generation Equipment	5.00%	155			155	-		-		-	11,253	225,130	101,092
11	311	Pumping Equipment	12.50%	147,387	(712)		146,675	-		-		14,698	100,119	874,290	467,627
12	320	Water Treatment Equipment	3.33%				-	-		-		-	-	-	-
13	320.1	Water Treatment Plants	3.33%	46,116	(50)		46,066	-		-		-	113,299	3,425,394	398,928
14	320.2	Solution Chemical Feeders	20.00%	-			-	-		-		-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	-	-		-	-		-		-	10,926	492,176	217,657
16	330.1	Storage Tanks	2.22%	-			-	-		-		-	20,021	901,841	59,973
17	330.2	Pressure Tanks	5.00%	-			-	-		-		-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	1,808,114	(8,947)	3,985	1,803,153	47,578		47,578		1,827	787,568	40,256,187	6,706,853
19	333	Services	3.33%	(1,200,817)	(1,065)		(1,201,882)	110,506		110,506		-	200,038	5,350,963	1,618,468
20	334	Meters	8.33%	233,873	(3,333)		230,540	91,470		91,470		7,444	390,679	4,759,560	3,401,292
21	335	Hydrants	2.00%	120,585	(2,471)		118,114	3,631		3,631		-	64,898	3,302,148	391,667
22	336	Backflow Prevention Devices	6.67%	-			-	-		-		-	2,560	38,387	18,428
23	339	Other Plant & Misc Equipment	6.67%	-			-	-		-		568	17,311	259,531	107,636
24	340	Office Furniture & Equipment	6.67%	89,413			89,413	-		-		-	40,884	657,653	286,464
25	340.1	Computers & Software	20.00%	-			-	-		-		-	1,599	7,995	5,597
26	341	Transportation Equipment	20.00%	111,782	(1,468)	(3,985)	106,328	7,532		7,532		-	37,060	234,697	138,363
27	342	Stores Equipment	4.00%	628			628	-		-		-	1,473	37,143	7,425
28	343	Tools, Shop & Garage Equipment	5.00%	22,870	(303)		22,567	-		-		-	1,808	47,434	12,800
29	344	Laboratory Equipment	10.00%	5,803			5,803	-		-		-	290	5,803	290
30	345	Power Operated Equipment	5.00%	-			-	-		-		-	900	18,003	3,713
31	346	Communication Equipment	10.00%	4,827	(72)		4,755	-		-		498	12,602	128,402	73,934
32	347	Miscellaneous Equipment	10.00%	-			-	-		-		-	-	-	-
33	348	Other Tangible Plant	10.00%	49,143			49,143	-		-		1,695	9,784	122,414	19,980
34		Plant Held for Future Use					-			-			-	-	-
35															
36		TOTALS		2,996,426	(24,414)	(196,725)	2,775,287	274,282	-	274,282	-	91,841	2,743,636	90,867,015	18,927,597

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2

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Accumulated Depreciation

Line No.	Acct. No.	Description	Adjusted Accum. Depr.	A True-Up of Accruals	B Plant Reclassification	C Plant Not Used and Useful	D Duplicate Invoices	Adjustments E Retirement Trans. Equip	F Annualized Depreciation	G Plant Additions Wrong Yrs	H Retirements and Reclassifications	I Adjustments to Reconcile A/D to Reconstruction	Rebuttal Adjusted Accum. Depr.
6	301	Organization Cost	21,100						(21,100)	-		-	-
7	302	Franchise Cost	-						-	-		-	-
8	303	Land and Land Rights	-						-	-		-	-
9	304	*Structures and Improvements*	3,036,910	(2,974)	(249,236)	(308)	(250)		1,006,248	65,110		-	3,855,501
10	305	Collecting and Impounding Re:	-						-	-		-	-
11	306	Lake River and Other Intakes	-						-	-		-	-
12	307	Wells and Springs	915,114	(301)	11,127				107,969	-		(0)	1,033,909
13	308	Infiltration Galleries and Tunne	-						-	-		-	-
14	309	Supply Mains	-						-	-		-	-
15	310	Power Generation Equipment	87,092		1,358				12,642	-		-	101,092
16	311	Electric Pumping Equipment	759,242		9				(306,323)	14,698		-	467,627
17	320	Water Treatment Equipment	-						-	-		-	-
18	320.1	Water Treatment Plant	199,379		145,981				53,569	-		-	398,928
19	320.2	Chemical Solution Feeders	-						-	-		-	-
20	330	Dist. Reservoirs & Standpipe	205,453						12,204	-		-	217,657
21	330.1	Storage tanks	-		59,973				-	-		-	59,973
22	330.2	Pressure Tanks	-						-	-		-	-
23	331	Trans. and Dist. Mains	5,947,658						757,892	1,827	(525)	0	6,706,853
24	333	Services	1,409,855						208,613	-		-	1,618,468
25	334	Meters	2,960,806						433,042	7,444		-	3,401,292
26	335	Hydrants	335,259				(130)		56,539	-		0	391,667
27	336	Backflow Prevention Devices	15,227						3,201	-		-	18,428
28	339	Other Plant and Misc. Equip.	85,429						21,638	568		-	107,636
29	340	Office Furniture and Fixtures	239,369		1,093				46,003	-		-	286,464
30	340.1	Computers and Software	-		5,597				-	-		-	5,597
31	341	Transportation Equipment	200,543					(17,555)	43,604	-	(55,341)	(32,888)	138,363
32	342	Stores Equipment	5,839						1,586	-		-	7,425
33	343	Tools and Work Equipment	11,341						1,459	-		-	12,800
34	344	Laboratory Equipment	290						(0)	-		-	290
35	345	Power Operated Equipment	-						-	-	3,713	(0)	3,713
36	346	Communications Equipment	58,472						14,964	498		-	73,934
37	347	Miscellaneous Equipment	-						-	-		-	-
38	348	Other Tangible Plant	19,709		(2,474)				1,049	1,695		-	19,980
39			-										-
40		TOTALS	$ 16,514,086	$ (3,275)	$ (26,572)	$ (308)	$ (380)	$ (17,555)	$ 2,454,800	$ 91,841	$ (52,152)	$ (32,888)	$ 18,927,597
41													
42	Adjusted Accumulated Depreciation												$ 16,514,086
43													
44	Increase (decrease) in Accumulated Depreciation												$ 2,413,511
45													
46	*Adjustment to Accumulated Depreciation*												$ 2,413,511
47													
48	SUPPORTING SCHEDULES												
49	B-2, pages 4.1 through 4.9												

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - A

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Line No.

1 A/D related to True-up of Accruals

Acct. No.	Description	Orginal Cost	Depr Rate	Years	A/D
304	Structures and Improvements	(178,617)	3.33%	0.50	(2,974)
307	Wells and Springs	(18,108)	3.33%	0.50	(301)
	TOTALS	$ (196,725)			$ (3,275)

SUPPORTING SCHEDULE
Schedule B-2, page 3.1

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - B

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Line No.

1 Reclassification of Plant - A/D

Line	Acct. No.	Description	Year	Depr Rate	Years	Plant Adjustment	A/D Adjustment
6	304	Structures and Improvements	2009	3.33%	3.5	$ (1,036,948)	$ (120,856)
7	304	Structures and Improvements	2010	3.33%	2.5	(1,245,500)	(103,688)
8	304	Structures and Improvements	2011	3.33%	1.5	(494,324)	(24,691)
9	Subtotal					**$ (2,776,772)**	**$ (249,236)**
10	307	Wells and Springs	2009	3.33%	3.5	65,920	7,683
11	307	Wells and Springs	2010	3.33%	2.5	-	-
12	307	Wells and Springs	2011	3.33%	1.5	68,958	3,444
13	Subtotal					**$ 134,878**	**$ 11,127**
14	310	Power Generation Equipment	2009	5.00%	3.5	-	-
15	310	Power Generation Equipment	2010	5.00%	2.5	-	-
16	310	Power Generation Equipment	2011	5.00%	1.5	18,111	1,358
17	Subtotal					**$ 18,111**	**$ 1,358**
18	311	Electric Pumping Equipment	2009	12.50%	3.5	10,851	4,747
19	311	Electric Pumping Equipment	2010	12.50%	2.5	13,620	4,256
20	311	Electric Pumping Equipment	2011	12.50%	1.5	(47,974)	(8,995)
21	Subtotal					**$ (23,502)**	**$ 9**
22	320.1	Water Treatment Plant	2009	3.33%	3.5	287,816	33,545
23	320.1	Water Treatment Plant	2010	3.33%	2.5	1,215,221	101,167
24	320.1	Water Treatment Plant	2011	3.33%	1.5	225,598	11,269
25	Subtotal					**$ 1,728,635**	**$ 145,981**
26	330.1	Storage tanks	2009	2.22%	3.5	664,366	51,621
27	330.1	Storage tanks	2010	2.22%	2.5	20,000	1,110
28	330.1	Storage tanks	2011	2.22%	1.5	217,475	7,242
29	Subtotal					**$ 901,841**	**$ 59,973**
30	340	Office Furniture and Fixtures	2009	6.67%	3.5	-	-
31	340	Office Furniture and Fixtures	2010	6.67%	2.5	6,555	1,093
32	340	Office Furniture and Fixtures	2011	6.67%	1.5	-	-
33	Subtotal					**$ 6,555**	**$ 1,093**
34	340.1	Computers and Software	2009	20.00%	3.5	7,995	5,597
35	340.1	Computers and Software	2010	20.00%	2.5	-	-
36	340.1	Computers and Software	2011	20.00%	1.5	-	-
37	Subtotal					**$ 7,995**	**$ 5,597**
38	348	Other Tangible Plant	2009	10.00%	3.5	-	-
39	348	Other Tangible Plant	2010	10.00%	2.5	(9,897)	(2,474)
40	348	Other Tangible Plant	2011	10.00%	1.5	-	-
41	Subtotal					**$ (9,897)**	**$ (2,474)**
44		TOTALS				**$ (12,156)**	**$ (26,572)**

46 SUPPORTING SCHEDULE
47 Schedule B-2, page 3.2

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - C

Exhibit
Rebuttal Schedule B-2
Page 4.3
Witness: Bourassa

Line No.

1 Plant Not Used and Useful

Acct. No.	Description	Year	Depr Rate	Years	Plant Adjustment	A/D Adjustment
303	Land and Land Rights	2011	0.00%	1.5	(6,000)	-
304	Structures and Improvements	2011	3.33%	1.5	(6,156)	(308)
	TOTALS				$ (12,156)	$ (308)

SUPPORTING SCHEDULE
Schedule B-2, page 3.3

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - D

Exhibit
Rebuttal Schedule B-2
Page 4.4
Witness: Bourassa

Line No.

1 Duplicate Invoices

Acct. No.	Description	Year	Depr Rate	Years	Plant Adjustment	A/D Adjustment
304	Structures and Improvements	2010	3.33%	2.5	(3,000)	(250)
335	Hydrants	2010	2.00%	2.5	(2,608)	(130)
	TOTALS				$ (5,608)	$ (380)

SUPPORTING SCHEDULE
Staff Adjustment #7

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - E

Exhibit
Rebuttal Schedule B-2
Page 4.5
Witness: Bourassa

Line No.

1 Retirement of Transportation Equipment - A/D

Acct. No.	Description	Year of Retirement	Adjustment
341	Transportation Equipment	2011	(17,555)
	Plant Held for Future Use		
	TOTALS		$ (17,555)

SUPPORTING SCHEDULE
Staff Adjustment #7

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - F

Exhibit
Rebuttal Schedule E
Page 4.6
Witness: Bourassa

Line No.

1 Accumulated Depreciation - Annualization Correction

Acct. No.	Description	Adjusted Orginal Cost	Rebuttal Adjusted Orginal Cost	Annualized Depreciation Correction
301	Organization Cost	21,100	-	(21,100)
302	Franchise Cost	-	-	-
303	Land and Land Rights	-	-	-
304	Structures and Improvements	3,036,910	4,043,158	1,006,248
305	Collecting and Impounding Res.	-	-	-
306	Lake River and Other Intakes	-	-	-
307	Wells and Springs	915,114	1,023,083	107,969
308	Infiltration Galleries and Tunnels	-	-	-
309	Supply Mains	-	-	-
310	Power Generation Equipment	87,092	99,734	12,642
311	Electric Pumping Equipment	759,242	452,920	(306,323)
320	Water Treatment Equipment	-		-
320.1	Water Treatment Plant	199,379	252,948	53,569
320.2	Chemical Solution Feeders	-	-	-
330	Dist. Reservoirs & Standpipe	205,453	217,657	12,204
330.1	Storage tanks	-	-	-
330.2	Pressure Tanks	-	-	-
331	Trans. and Dist. Mains	5,947,658	6,705,550	757,892
333	Services	1,409,855	1,618,468	208,613
334	Meters	2,960,806	3,393,848	433,042
335	Hydrants	335,259	391,798	56,539
336	Backflow Prevention Devices	15,227	18,428	3,201
339	Other Plant and Misc. Equip.	85,429	107,068	21,638
340	Office Furniture and Fixtures	239,369	285,371	46,003
340.1	Computers and Software	-	-	-
341	Transportation Equipment	200,543	244,147	43,604
342	Stores Equipment	5,839	7,425	1,586
343	Tools and Work Equipment	11,341	12,800	1,459
344	Laboratory Equipment	290	290	(0)
345	Power Operated Equipment	-	-	-
346	Communications Equipment	58,472	73,436	14,964
347	Miscellaneous Equipment	-	-	-
348	Other Tangible Plant	19,709	20,759	1,049
	Plant Held for Future Use			-
	TOTALS	$ 16,514,086	$ 18,968,887	$ 2,454,800

SUPPORTING SCHEDULE
Staff Adjustment #2

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - G

Exhibit
Rebuttal Schedule E
Page 4.7
Witness: Bourassa

Line No.

1 Accumulated Depreciation - Plant Additions in Wrong Years

Acct. No.	Description	Depreciation Correction
301	Organization Cost	-
302	Franchise Cost	-
303	Land and Land Rights	-
304	Structures and Improvements	65,110
305	Collecting and Impounding Res.	-
306	Lake River and Other Intakes	-
307	Wells and Springs	-
308	Infiltration Galleries and Tunnels	-
309	Supply Mains	-
310	Power Generation Equipment	-
311	Electric Pumping Equipment	14,698
320	Water Treatment Equipment	-
320.1	Water Treatment Plant	-
320.2	Chemical Solution Feeders	-
330	Dist. Reservoirs & Standpipe	-
330.1	Storage tanks	-
330.2	Pressure Tanks	-
331	Trans. and Dist. Mains	1,827
333	Services	-
334	Meters	7,444
335	Hydrants	-
336	Backflow Prevention Devices	-
339	Other Plant and Misc. Equip.	568
340	Office Furniture and Fixtures	-
340.1	Computers and Software	-
341	Transportation Equipment	-
342	Stores Equipment	-
343	Tools and Work Equipment	-
344	Laboratory Equipment	-
345	Power Operated Equipment	-
346	Communications Equipment	498
347	Miscellaneous Equipment	-
348	Other Tangible Plant	1,695
	TOTALS	$ 91,841

SUPPORTING SCHEDULE
Work papers

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - H

Exhibit
Rebuttal Schedule B-2
Page 4.8
Witness: Bourassa

Line No.								
1	Retirements A/D							
2								
3								
4	Acct.							
5	No.	Description	Year of Retirement					Adjustment
6	341	Transportation Equipment	2008					(40,196)
7								
8	Total							$ (40,196)
9								
10								
11	Reclassifications A/D							
12								
13	Acct.			Depr			Plant	A/D
14	No.	Description	Year	Rate	Years[1]		Adjustment	Adjustment
15	341	Transportation Equipment	2012	20.00%	0.5		$ (3,985)	$ (399)
16	341	Transportation Equipment	2008	20.00%	4.125		(18,003)	(14,853)
17	341	Transportation Equipment	2008	20.00%	4.125		6,844	5,646
18	Subtotal						$ (15,144)	$ (9,605)
19								
20	331	Trans. and Dist. Mains	2012	2.00%	0.5		$ 3,985	$ 40
21	345	Power Operated Equipment	2008	5.00%	4.125		18,003	3,713
22	331	Trans. and Dist. Mains	2008	2.00%	4.125		(6,844)	(565)
23	Subtotal						$ 15,144	$ 3,188
24								
25	Total							$ (6,416)
26								
27								
28								
29								
30								
31								
32								
33								
34								
35								
36								
37								
38								
39		Total Adjustment						$ (46,613)
40								
41	SUPPORTING SCHEDULE							
42	Schedule B-2, page 3.6							
43	Work papers							
44								
45	[1] Post last test year end date							

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - I

Exhibit
Rebuttal Schedule B-2
Page 4.9
Witness: Bourassa

Line No.

1 Reconciliation of A/D to A/D Reconstruction

Acct. No.	Description	Adjusted Orginal Cost A/D	B-2 Adjustments	Rebuttal Adjusted Orginal Cost A/D	Rebuttal A/D Per Reconstruction	Difference
301	Organization Cost	21,100	(21,100)	-	-	-
302	Franchise Cost	-	-	-	-	-
303	Land and Land Rights	-	-	-	-	-
304	Structures and Improvements	3,036,910	818,591	3,855,501	3,855,501	-
305	Collecting and Impounding Res.	-	-	-	-	-
306	Lake River and Other Intakes	-	-	-	-	-
307	Wells and Springs	915,114	118,795	1,033,909	1,033,909	(0)
308	Infiltration Galleries and Tunnels	-	-	-	-	-
309	Supply Mains	-	-	-	-	-
310	Power Generation Equipment	87,092	14,000	101,092	101,092	-
311	Electric Pumping Equipment	759,242	(291,615)	467,627	467,627	-
320	Water Treatment Equipment	-	-	-	-	-
320.1	Water Treatment Plant	199,379	199,550	398,928	398,928	-
320.2	Chemical Solution Feeders	-	-	-	-	-
330	Dist. Reservoirs & Standpipe	205,453	12,204	217,657	217,657	-
330.1	Storage tanks	-	59,973	59,973	59,973	-
330.2	Pressure Tanks	-	-	-	-	-
331	Trans. and Dist. Mains	5,947,658	759,195	6,706,853	6,706,853	0
333	Services	1,409,855	208,613	1,618,468	1,618,468	-
334	Meters	2,960,806	440,486	3,401,292	3,401,292	-
335	Hydrants	335,259	56,408	391,667	391,667	0
336	Backflow Prevention Devices	15,227	3,201	18,428	18,428	-
339	Other Plant and Misc. Equip.	85,429	22,207	107,636	107,636	-
340	Office Furniture and Fixtures	239,369	47,096	286,464	286,464	-
340.1	Computers and Software	-	5,597	5,597	5,597	-
341	Transportation Equipment	200,543	(29,292)	171,251	138,363	(32,888)
342	Stores Equipment	5,839	1,586	7,425	7,425	-
343	Tools and Work Equipment	11,341	1,459	12,800	12,800	-
344	Laboratory Equipment	290	(0)	290	290	-
345	Power Operated Equipment	-	3,713	3,713	3,713	(0)
346	Communications Equipment	58,472	15,462	73,934	73,934	-
347	Miscellaneous Equipment	-	-	-	-	-
348	Other Tangible Plant	19,709	271	19,980	19,980	-
	Plant Held for Future Use					-
	TOTALS	$ 16,514,086	$ 2,446,399	$ 18,960,485	$ 18,927,597	$ (32,888)

SUPPORTING SCHEDULE
B-2, pages 4.1 through 4.8
B-2, pages 3.8 through 3.12

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 3

Exhibit
Rebuttal Schedule B-2
Page 5
Witness: Bourassa

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

Line No.		Gross CIAC	Accumulated Amortization
1			
2			
3			
4			
5	Computed balance at 12/31/2012	$ 7,425,812	$ 1,285,854
6			
7	Adjusted balance at 12/31/2012	$ 7,324,578	$ 1,489,772
8			
9	Increase (decrease)	$ 101,234	$ (203,918)
10			
11			
12	Adjustment to CIAC/AA CIAC	$ 101,234	$ 203,918
13	Label	3a	3b
14			
15			
16			
17			
18			
19	SUPPORTING SCHEDULES		
20	E-1		
21	B-2, page 5.1 to 5.4		
22			
23			
24			
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39			
40			

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Contributions-in-aid of Construction and Amortization
Adjustment 4

Exhibit
Rebuttal Schedule B-2
Page 5.1
Witness: Bourassa

Line No.		Depr'n Rate	GL Account	Balance at 9/30/2008	2008 Activity	Balance at 12/31/2008	2009 Activity	Balance at 12/31/2009
1								
2								
3	Wells & Sprngs Contributed	3.33%	8600.2.0100.10.1615.0011	-		-	499,000	499,000
4			Prior to Nov 2002					
5								
6	Amortization				-		8,308	
7	Accum Amort.		8600.2.0000.10.1641.0100	-	-	-	8,308	8,308
8								
9	Pumping Equipment - Contribu	12.50%	8600.2.0100.10.1615.0011	15,219		15,219	-	15,219
10			Prior to Nov 2002					
11								
12	Amortization				476		1,902	
13	Accum Amort.		8600.2.0000.10.1641.0100	18,824	476	19,300	1,902	21,202
14								
15								
16	Trans/Dist Main Contributed	2.00%	8600.2.0100.10.1615.0020	2,846,725		2,846,725		2,846,725
17								
18								
19	Amortization				14,234		56,935	
20	Accum Amort.		8600.2.0000.10.1641.0100	742,400	14,234	756,634	56,935	813,568
21								
22	Services Contributed	3.33%	8600.2.0100.10.1615.0013	151,402		151,402	448,505	599,907
23								
24								
25	Amortization				1,260		12,509	
26	Accum Amort.		8600.2.0000.10.1641.0100	36,723	1,260	37,983	12,509	50,492
27								
28	Meters Contributed	8.33%	8600.2.0100.10.1615.0021	29,899		29,899		29,899
29								
30								
31	Amortization				191			
32	Accum Amort.		8600.2.0000.10.1641.0100	29,708	191	29,899	-	29,899
33								
34	Hydrants Contributed	2.00%	8600.2.0100.10.1615.0022	52,935		52,935		52,935
35								
36								
37	Amortization				265		1,059	
38	Accum Amort.		8600.2.0000.10.1641.0100	33,051	265	33,316	1,059	34,375
39								
40	Land Contributed	0.00%	8600.2.0100.10.1615.0022	-		-	92,495	92,495
41								
42								
43					-		-	
44				-	-	-	-	-
45								
46	**Total CIAC Water**			**3,096,180**		**3,096,180**		**4,136,180**
27								
28								
29	**Total Accum Amort.**			**860,706**		**877,131**		**957,844**

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Contributions-in-aid of Construction and Amortization
Adjustment 4

Exhibit
Schedule B-2
Page 5.2
Witness: Bourassa

Line No.		Depr'n Rate	GL Account	2010 Activity	Balance at 12/31/2010	2011 Activity	Balance at 12/31/2011
1							
2							
3	Wells & Sprngs Contributed	3.33%	8600.2.0100.10.1615.0011	-			
4			Prior to Nov 2002		499,000		499,000
5							
6	Amortization						
7	Accum Amort.		8600.2.0000.10.1641.0100	16,617		16,617	
8				16,617	24,925	16,617	41,542
9	Pumping Equipment - Contribı	12.50%	8600.2.0100.10.1615.0011	-			
10			Prior to Nov 2002		15,219	25,353	40,572
11							
12	Amortization						
13	Accum Amort.		8600.2.0000.10.1641.0100	1,902		3,487	
14				1,902	23,104	3,487	26,591
15							
16	Trans/Dist Main Contributed	2.00%	8600.2.0100.10.1615.0020				
17					2,846,725	-	2,846,725
18							
19	Amortization						
20	Accum Amort.		8600.2.0000.10.1641.0100	56,935		56,935	
21				56,935	870,503	56,935	927,437
22	Services Contributed	3.33%	8600.2.0100.10.1615.0013				
23					599,907		599,907
24							
25	Amortization						
26	Accum Amort.		8600.2.0000.10.1641.0100	19,977		19,977	
27				19,977	70,469	19,977	90,446
28	Meters Contributed	8.33%	8600.2.0100.10.1615.0021				
29					29,899		29,899
30							
31	Amortization						
32	Accum Amort.		8600.2.0000.10.1641.0100				
33				-	29,899	-	29,899
34	Hydrants Contributed	2.00%	8600.2.0100.10.1615.0022				
35					52,935		52,935
36							
37	Amortization						
38	Accum Amort.		8600.2.0000.10.1641.0100	1,059		1,059	
39				1,059	35,433	1,059	36,492
40	Land Contributed	0.00%	8600.2.0100.10.1615.0022				
41					92,495		92,495
42							
43							
44				-		-	
45				-	-	-	-
46	**Total CIAC Water**						
27					**4,136,180**		**4,161,533**
28							
29	**Total Accum Amort.**						
					1,054,334		**1,152,407**

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Contributions-in-aid of Construction and Amortization
Adjustment 4

Exhibit
Rebuttal Schedule B-2
Page 5.3
Witness: Bourassa

Line No.		Depr'n Rate	GL Account	2012 Activity	Balance at 12/31/2012
1					
2					
3	Wells & Sprngs Contributed	3.33%	8600.2.0100.10.1615.0011	-	499,000
4			Prior to Nov 2002		
5					
6	Amortization			16,617	
7	Accum Amort.		8600.2.0000.10.1641.0100	16,617	58,158
8					
9	Pumping Equipment - Contribı	12.50%	8600.2.0100.10.1615.0011	-	40,572
10			Prior to Nov 2002		
11					
12	Amortization			5,071	
13	Accum Amort.		8600.2.0000.10.1641.0100	5,071	31,663
14					
15					
16	Trans/Dist Main Contributed	2.00%	8600.2.0100.10.1615.0020	3,046,493	5,893,218
17					
18					
19	Amortization			87,399	
20	Accum Amort.		8600.2.0000.10.1641.0100	87,399	1,014,837
21					
22	Services Contributed	3.33%	8600.2.0100.10.1615.0013	172,302	772,209
23					
24					
25	Amortization			22,846	
26	Accum Amort.		8600.2.0000.10.1641.0100	22,846	113,292
27					
28	Meters Contributed	8.33%	8600.2.0100.10.1615.0021		29,899
29					
30					
31	Amortization				
32	Accum Amort.		8600.2.0000.10.1641.0100	-	29,899
33					
34	Hydrants Contributed	2.00%	8600.2.0100.10.1615.0022	45,484	98,419
35					
36					
37	Amortization			1,514	
38	Accum Amort.		8600.2.0000.10.1641.0100	1,514	38,006
39					
40	Land Contributed	0.00%	8600.2.0100.10.1615.0022		92,495
41					
42					
43				-	
44				-	-
45					
46	**Total CIAC Water**				**7,425,812**
27					
28					
29	**Total Accum Amort.**				**1,285,854**

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 4

Exhibit
Rebuttal Schedule B-2
Page 6.0
Witness: Bourassa

Deferred Income Tax as of December 31, 2012

Line No.			Water & Sewer Adjusted Book Value	Water & Sewer 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
6		Plant-in-Service	$ 162,176,584 [1]								
7		Accum. Deprec.	(32,494,918) [1]								
8		CIAC	(59,777,267) [3]								
9	Fed.	Fixed Assets	$ 69,904,399	$ 47,469,626 [2]	100.0%	$ (22,434,774)	31.79%		-		(7,132,015)
11	State	Fixed Assets	$ 69,904,399	$ 74,127,914 [2]	100.0%	$ 4,223,514	6.500%		274,528		-
13	Fed &State	AIAC		13,973,563 [4]	100.0%	$ 13,973,563 [4]	38.29%		$ 5,350,477		
15								$ -	$ 5,625,006	$ -	$ (7,132,015)
17		Net Asset (Liability)						$ (1,507,009)			
19		Allocation Factor - Water-Division (based on rate base before ADIT)						0.5766			
21		Net Asset (Liability) Water Division						$ (868,997)			
23		Adjusted DIT Asset (Liability)						$ (1,459,075)			
25		Adjustment to DIT						$ (590,078)			

Footnotes - See page 7.1

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 5

Exhibit
Rebuttal Schedule B-2
Page 6.1
Witness: Bourassa

Line No.		FEDERAL			STATE		
1	[1] **Per adjusted book balances, land not included**						
2							
3	**2 Computation of Net Tax Value December 31, 2012**						
4							
5	*Based on 2012 Tax Depreciation report (December 31, 2012) as amended*						
6	Unadjusted Cost at December 31, 2012 per federal and state tax depr. report	$ 85,943,311			$ 84,887,919		
7	Reconciling Items not on tax report:						
8	Land on Tax and not on included in adjusted plant balance	(1,055,392)			-		
9	FA Accrual on not on tax report	6,391,333			6,391,333		
10	Proposed Plant Retirements	(1,712,539)			(1,712,539)		
11	Post Test Year plant	1,200,000			1,200,000		
12							
13							
14					-		
15	Net Unadjusted Cost tax Basis at December 31, 2012			$ 90,766,713			$ 90,766,713
16							
17	Reductions						
18	Basis Reduction 2012 and Prior Years per federal and state tax depr. report	$ (25,331,094)			$ -		
19	Accumulated Depreciation 2012 and prior per federal and state tax depr. report	(19,678,532)			(18,351,338)		
20	Proposed Plant Retirements	1,712,539			1,712,539		
21							
22							
23							
24							
25				(43,297,087)			(16,638,799)
26	Net Reductions through December 31, 2012			$ 47,469,626			$ 74,127,914
27	Net tax value of plant-in-service at December 31. 2012						
28							
29	[3] **CIAC (including impact of change to probability of realization)**						
30	Gross CIAC per adjusted book balances		$ 35,802,727				
31	CIAC reductions/addtions						
32	A.A per adjusted book balances	$ (5,439,155)					
33		-					
34			(5,439,155)				
35	Net CIAC before unrealized AIAC			$ 30,363,572			
36							
37	Unrealized AIAC Component						
38	AIAC per adjusted book balances		$ 42,019,564				
39	Adjusted Net AIAC (see footnote 5 below)		70.0%				
40	Unrealized AIAC Component % (1-Realized AIAC Component)			$ 29,413,695			
41				$ 59,777,267			
42	Total realizable CIAC						
43							
44	[4] **AIAC (including impact of change in probability of realization)**						
45	AIAC per adjusted book balances			$ 42,019,564			
46	Less: Unrealized AIAC (from Note 3, above)			$ (29,413,695)			
47							
48	Subtotal			$ 12,605,869			
49	Meter and Service Line Installation Charges per adjusted book balances			1,367,694			
50	Total realizable AIAC			$ 13,973,563			
51							

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 5

Exhibit
Rebuttal Schedule B-2
Page 7
Witness: Bourassa

Line No.			
1	Customer Security Deposits		
2			
3	Adjustment to Customer Security Deposits based upon a 13 month average	$	7,514
4			
5			
6			
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42	SUPPORTING SCHEDULE		
43	Staff Adjustment #10		
44			
45			

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 6

Exhibit
Rebuttal Schedule B-2
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Line No.			
1	Regulatory Assets		
2			
3	Adjustment for additional Regulatory Asset amounts	$	686
4			
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13			
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41			
42	SUPPORTING SCHEDULE		
43	RUCO Adjustment #10		
44			
45			

Litchfield Park Service Company - Water Division dba Liberty Utilities
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)	$	506,180
3	Pumping Power (1/24 of Pumping Power)		37,647
4	Purchased Water (1/24 of Purchased Water)		-
5	Prepaid Expenses		
6			
7			
8			
9	Total Working Capital Allowance	$	543,827
10			
11			
12	Working Capital Requested	$	-
13			
14			
15			
16			Rebuttal
17			Adjusted Test Year
18	Total Operating Expense	$	9,165,639
19	Less:		
20	Income Tax	$	1,053,673
21	Property Tax		531,421
22	Depreciation		2,627,581
23	Purchased Water		-
24	Pumping Power		903,527
25	Allowable Expenses	$	4,049,437
26	1/8 of allowable expenses	$	506,180
27			
28			
29	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
30	E-1	B-1	
31			
32			
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Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 1
Witness: Bourassa

Line No.		Adjusted Test Year Results	Adjustment	Rebuttal Adjusted Test Year Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**					
2	Metered Water Revenues	$ 10,965,545	$ -	$ 10,965,545	$ 1,668,790	$ 12,634,335
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	235,723	-	235,723		235,723
5		$ 11,201,268	$ -	$ 11,201,268	$ 1,668,790	$ 12,870,058
6	**Operating Expenses**					
7	Salaries and Wages	$ 1,069,839	-	$ 1,069,839		$ 1,069,839
8	Purchased Water	2,615	-	2,615		2,615
9	Purchased Power	903,527	-	903,527		903,527
10	Fuel For Power Production	-	-	-		-
11	Chemicals	208,080	-	208,080		208,080
12	Materials and Supplies	91,139	-	91,139		91,139
13	Management Services - US Liberty Water	1,260,835	(10,249)	1,250,586		1,250,586
14	Management Services - Corporate	781,023	-	781,023		781,023
15	Management Services - Other	-	-	-		-
16	Outside Services - Accounting	9,271	-	9,271		9,271
17	Outside Services - Engineering	-	-	-		-
18	Outside Services- Other	103,412	-	103,412		103,412
19	Outside Services- Legal	19,865	-	19,865		19,865
20	Water Testing	66,942	(22,062)	44,880		44,880
21	Rents - Building	-	-	-		-
22	Rents - Equipment	7,229	-	7,229		7,229
23	Transportation Expenses	103,726	-	103,726		103,726
24	Insurance - General Liability	88,374	-	88,374		88,374
25	Insurance - Vehicle	20,825	-	20,825		20,825
26	Reg. Comm. Exp. - Other	19,721	851	20,572		20,572
27	Reg. Comm. Exp. - Rate Case	65,800	-	65,800		65,800
28	Miscellaneous Expense	151,237	(10,177)	141,060		141,060
29	Bad Debt Expense	(76)	21,216	21,140		21,140
30	Depreciation and Amortization Expense	2,615,868	11,713	2,627,581		2,627,581
31	Taxes Other Than Income	-	-	-		-
32	Property Taxes	559,122	(27,701)	531,421	26,505	557,926
33	Income Tax	1,028,589	25,084	1,053,673	628,831	1,682,504
34			-	-		-
35	**Total Operating Expenses**	$ 9,176,963	$ (11,324)	$ 9,165,639	$ 655,336	$ 9,820,974
36	**Operating Income**	$ 2,024,305	$ 11,324	$ 2,035,629	$ 1,013,454	$ 3,049,083
37	**Other Income (Expense)**					
38	Interest Income	-	-	-		-
39	Other income	-	-	-		-
40	Interest Expense	(388,078)	50,600	(337,479)		(337,479)
41	Other Expense	-	-	-		-
42		-	-	-		-
43	***Total Other Income (Expense)***	$ (388,078)	$ 50,600	$ (337,479)	$ -	$ (337,479)
44	**Net Profit (Loss)**	$ 1,636,227	$ 61,924	$ 1,698,151	$ 1,013,454	$ 2,711,605
45						
46	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
47	C-1, page 2				A-1	
48	E-2					
49						

Litchfield Park Service Company - Water Division
dba Liberty Utilities
Test Year Ended December 31, 2012
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 2.1
Witness: Bourassa

Line No.		LABEL>>>>> Adjusted Test Year Results	1 Depreciation	2 Property Taxes	3 Water Testing	4 Corporate Expense True-up	5 Corporate Allocation Expense	6 Interest on Customer Desposits	7 Bad Debt Expense	8 Misc. Expense	9 Amortization Regulatory Assets
1	**Revenues**										
2	Metered Water Revenues	$ 10,965,545									
3	Unmetered Water Revenues	-									
4	Other Water Revenues	235,723									
5		$ 11,201,268	$ -	$ -	$ -	$ -	$ -	$ -	$ -		$ -
6	**Operating Expenses**										
7	Salaries and Wages	$ 1,069,839									
8	Purchased Water	2,615									
9	Purchased Power	903,527									
10	*Fuel For Power Production*	-									
11	Chemicals	208,080									
12	Materials and Supplies	91,139									
13	Management Services - US Liberty Water	1,260,835				(8,420)	(1,829)				
14	Management Services - Corporate	781,023									
15	Management Services - Other	-									
16	Outside Services - Accounting	9,271									
17	Outside Services - Engineering	-									
18	Outside Services- Other	103,412									
19	Outside Services- Legal	19,865									
20	Water Testing	66,942			(22,062)						
21	Rents - Building	-									
22	Rents - Equipment	7,229									
23	Transportation Expenses	103,726									
24	Insurance - General Liability	88,374									
25	*Insurance - Vehicle*	20,825									
26	Reg. Comm. Exp. - Other	19,721									851
27	Reg. Comm. Exp. - Rate Case	65,800									
28	Miscellaneous Expense	151,237						5,931		(16,108)	
29	Bad Debt Expense	(76)							21,216		
30	Depreciation and Amortization Expense	2,615,868	11,713								
31	Taxes Other Than Income	-									
32	Property Taxes	559,122		(27,701)							
33	Income Tax	1,028,589									
34											
35	**Total Operating Expenses**	$ 9,176,963	$ 11,713	$ (27,701)	$ (22,062)	$ (8,420)	$ (1,829)	$ 5,931	$ 21,216	$ (16,108)	$ 851
36	**Operating Income**	$ 2,024,305	$ (11,713)	$ 27,701	$ 22,062	$ 8,420	$ 1,829	$ (5,931)	$ (21,216)	$ 16,108	$ (851)
37	**Other Income (Expense)**										
38	Interest Income	-									
39	Other income	-									
40	Interest Expense	(388,078)									
41	Other Expense	-									
42		-									
43	**Total Other Income (Expense)**	$ (388,078)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
44	**Net Profit (Loss)**	$ 1,636,227	$ (11,713)	$ 27,701	$ 22,062	$ 8,420	$ 1,829	$ (5,931)	$ (21,216)	$ 16,108	$ (851)
45											
46	SUPPORTING SCHEDULES:										
47	C-2										
48	E-2										

Litchfield Park Service Company - Water Division
dba Liberty Utilities
Test Year Ended December 31, 2012
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 2.2
Witness: Bourassa

Line No.		10 Interest Synch.	11 Income Taxes	12 Intentionally Left Blank	13 Intentionally Left Blank	14 Intentionally Left Blank	15 Intentionally Left Blank	16 Intentionally Left Blank	17 Intentionally Left Blank	Rebuttal Adjusted Test Year Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**											
2	Metered Water Revenues									$ 10,965,545	$ 1,668,790	$ 12,634,335
3	Unmetered Water Revenues									-		-
4	Other Water Revenues									235,723		235,723
5		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 11,201,268	$ 1,668,790	$ 12,870,058
6	**Operating Expenses**											
7	Salaries and Wages									$ 1,069,839		$ 1,069,839
8	Purchased Water									2,615		2,615
9	Purchased Power									903,527		903,527
10	Fuel For Power Production									-		-
11	Chemicals									208,080		208,080
12	Materials and Supplies									91,139		91,139
13	Management Services - US Liberty Water									1,250,586		1,250,586
14	Management Services - Corporate									781,023		781,023
15	Management Services - Other									-		-
16	Outside Services - Accounting									9,271		9,271
17	Outside Services - Engineering									-		-
18	Outside Services- Other									103,412		103,412
19	Outside Services- Legal									19,865		19,865
20	Water Testing									44,880		44,880
21	Rents - Building									-		-
22	Rents - Equipment									7,229		7,229
23	Transportation Expenses									103,726		103,726
24	Insurance - General Liability									88,374		88,374
25	Insurance - Vehicle									20,825		20,825
26	Reg. Comm. Exp. - Other									20,572		20,572
27	Reg. Comm. Exp. - Rate Case									65,800		65,800
28	Miscellaneous Expense									141,060		141,060
29	Bad Debt Expense									21,140		21,140
30	Depreciation and Amortization Expense									2,627,581		2,627,581
31	Taxes Other Than Income									-		-
32	Property Taxes									531,421	26,505	557,926
33	Income Tax		25,084							1,053,673	628,831	1,682,504
34												
35	**Total Operating Expenses**	$ -	$ 25,084	$ -	$ -	$ -	$ -	$ -	$ -	$ 9,165,639	$ 655,336	$ 9,820,974
36	**Operating Income**	$ -	$ (25,084)	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,035,629	$ 1,013,454	$ 3,049,083
37	**Other Income (Expense)**											
38	Interest Income						-			-		-
39	Other income									-		-
40	Interest Expense	50,600								(337,479)		(337,479)
41	Other Expense									-		-
42										-		-
43	**Total Other Income (Expense)**	$ 50,600	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (337,479)	$ -	$ (337,479)
44	**Net Profit (Loss)**	$ 50,600	$ (25,084)	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,698,151	$ 1,013,454	$ 2,711,605
45												
46	SUPPORTING SCHEDULES:											
47	C-2											
48	E-2											

RECAP SCHEDULES:
C-1, page 1

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustments to Revenues and Expenses

Exhibit
Rebuttal Schedule C-2
Page 1
Witness: Bourassa

Line No.		Adjustments to Revenues and Expenses						
		1	2	3	4	5	6	
		Depreciation	Property Taxes	Water Testing	Corporate Expense True-up	Corporate Allocation Expense	Interest on Customer Desposits	Subtotal
4	Revenues							-
6	Expenses	11,713	(27,701)	(22,062)	(8,420)	(1,829)	5,931	(42,368)
9	Operating Income	(11,713)	27,701	22,062	8,420	1,829	(5,931)	42,368
12	Interest Expense							-
15	Other Income / Expense							-
17	Net Income	(11,713)	27,701	22,062	8,420	1,829	(5,931)	42,368

Line No.		Adjustments to Revenues and Expenses						
		7	8	9	10	11	12	
		Bad Debt Expense	Misc. Expense	Amortization Regulatory Assets	Interest Synch.	Income Taxes	Intentionally Left Blank	Total
25	Revenues							-
27	Expenses	21,216	(16,108)	851		25,084	-	(11,324)
30	Operating Income	(21,216)	16,108	(851)	-	(25,084)	-	11,324
33	Interest Expense	-			50,600			50,600
36	Other Income / Expense							-
38	Net Income	(21,216)	16,108	(851)	50,600	(25,084)	-	61,924

Litchfield Park Service Company - Water Division dba Liberty Utilities
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	Adjusted Original Cost	Proposed Rates	Depreciation Expense
1					
2					
3					
4					
5	301	Organization Cost	21,100	0.00%	-
6	302	Franchise Cost	-	0.00%	-
7	303	Land and Land Rights	1,450,278	0.00%	-
8	304	Structures and Improvements	25,036,371	3.33%	833,711
9	305	Collecting and Impounding Res.	-	2.50%	-
10	306	Lake River and Other Intakes	-	2.50%	-
11	307	Wells and Springs	3,214,114	3.33%	107,030
12	308	Infiltration Galleries and Tunnels	-	6.67%	-
13	309	Supply Mains	-	2.00%	-
14	310	Power Generation Equipment	225,130	5.00%	11,257
15	311	Electric Pumping Equipment	874,290	12.50%	109,286
16	320	Water Treatment Equipment	-	3.33%	-
17	320.1	Water Treatment Plant	3,425,394	3.33%	114,066
18	320.2	Chemical Solution Feeders	-	20.00%	-
19	330	Dist. Reservoirs & Standpipe	492,176	2.22%	10,926
20	330.1	Storage tanks	901,841	2.22%	20,021
21	330.2	Pressure Tanks	-	5.00%	-
22	331	Trans. and Dist. Mains	40,256,187	2.00%	805,124
23	333	Services	5,350,963	3.33%	178,187
24	334	Meters	4,759,560	8.33%	396,471
25	335	Hydrants	3,302,148	2.00%	66,043
26	336	Backflow Prevention Devices	38,387	6.67%	2,560
27	339	Other Plant and Misc. Equip.	259,531	6.67%	17,311
28	340	Office Furniture and Fixtures	657,653	6.67%	43,865
29	340.1	Computers and Software	7,995	20.00%	1,599
30	341	Transportation Equipment	234,697	20.00%	46,939
31	342	Stores Equipment	37,143	4.00%	1,486
32	343	Tools and Work Equipment	47,434	5.00%	2,372
33	344	Laboratory Equipment	5,803	10.00%	580
34	345	Power Operated Equipment	18,003	5.00%	900
35	346	Communications Equipment	128,402	10.00%	12,840
36	347	Miscellaneous Equipment	-	10.00%	-
37	348	Other Tangible Plant	122,414	10.00%	12,241
38		TOTALS	$ 90,867,015		$ 2,794,816
39					
40			Gross CIAC	Amort. Rate	
41	Less: Amortization of Contributions				
	307	Wells and Springs	$ 499,000	3.3300%	$ (16,617)
42	311	Electric Pumping Equipment	$ 40,572	12.5000%	(5,071)
43	331	Trans. and Dist. Mains	$ 5,893,218	2.0000%	(117,864)
44	333	Services	$ 772,209	3.3300%	(25,715)
45	334	Meters	$ 29,899	8.3300%	- *
46	335	Hydrants	$ 98,419	2.0000%	(1,968)
47			$ 6,834,317		$ (167,235)
48	Total Depreciation Expense				$ 2,627,581
49					
50	Adjusted Test Year Depreciation Expense				2,615,868
51					
52	Increase (decrease) in Depreciation Expense				11,713
53					
54	Adjustment to Revenues and/or Expenses				$ 11,713
55					
56	SUPPORTING SCHEDULE				
57	B-2, page 3				

*Fully Depreciated/Amortized

Litchfield Park Service Company - Water Division dba Liberty Utilities
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.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	$ 11,201,268	$ 11,201,268
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	22,402,536	22,402,536
4	Company Recommended Revenue	11,201,268	12,870,058
5	Subtotal (Line 4 + Line 5)	33,603,803	35,272,593
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	11,201,268	11,757,531
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	22,402,536	23,515,062
10	Plus: 10% of CWIP (intentionally excluded)	-	-
11	Less: Net Book Value of Licensed Vehicles	96,334	96,334
12	Full Cash Value (Line 9 + Line 10 - Line 11)	22,306,202	23,418,729
13	Assessment Ratio	19.0%	19.0%
14	Assessment Value (Line 12 * Line 13)	4,238,178	4,449,558
15	Composite Property Tax Rate - Obtained from ADOR	12.5389%	12.5389%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	$ 531,421	$ 557,926
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	$ 531,421	
19	Adjusted Test Year Property Taxes	$ 559,122	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	**$ (27,701)**	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		$ 557,926
23	Company Test Year Adjusted Property Tax Expense (Line 18)		$ 531,421
24	Increase in Property Tax Due to Increase in Revenue Requirement		**$ 26,505**
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		$ 26,505
27	Increase in Revenue Requirement		$ 1,668,790
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		1.58826%
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Rebuttal Schedule C-2
Page 4
Witness: Bourassa

Water Testing

Line No.			
1			
2			
3	Recommended Water Testing Expense	$	44,880
4			
5	Adjusted Test Year Water Testing Expense		66,942
6			
7	Increase(decrease) Rate Case Expense	$	(22,062)
8			
9	Adjustment to Revenue and/or Expense	$	(22,062)
10			
11			
12	Reference		
13	RUCO Adjustment #6		
14	Testimony		
15			
16			
17			
18			
19			
20			

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Rebuttal Schedule C-2
Page 5
Witness: Bourassa

Corporate Allocation True-Up

Line No.			
1			
2			
3			
4	Corporate Allocation True-up	$	(29,297)
5			
6	% Allocation to Water		28.74%
7			
8	Total Adjustment to Management Services - US Liberty Water	$	(8,420)
9			
10			
11	Adjustment to Revenue and/or Expense	$	(8,420)
12			
13	SUPPORTING SCHEDULES		
14	Staff Adjustment #2		
15			
16			
17			
18			
19			
20			

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Rebuttal Schedule C-2
Page 6
Witness: Bourassa

Corporate Allocation Expense Adjustment

Line No.			
1			
2	Corporate Allocation Expense Adjustment	$	(1,829)
3			
4			
5			
6	Total Adjustment to Management Services - US Liberty Water	$	(1,829)
7			
8			
9	Adjustment to Revenue and/or Expense		(1,829)
10			
11	Reference		
12	Testimony		
13	Work Papers		
14			
15			
16			
17			
18			
19			
20			

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Rebuttal Schedule C-2
Page 7
Witness: Bourassa

Interest on Customer Security Deposits

Line No.			
1			
2	Interest on Customer Deposits	$	5,931
3			
4			
5			
6	Adjustment to Miscellaneous Expense	$	5,931
7			
8			
9	Adjustment to Revenue and/or Expense		5,931
10			
11	*Reference*		
12	Staff Adjustment #4		
13	Testimony		
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2001
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Rebuttal Schedule C-2
Page 8
Witness: Bourassa

Bad Debt Expense

Line No.			
1			
2	Allocated Bad Debt Expense - Water Division	$	21,216
3			
4			
5			
6	Increase in Bad Debt Expense	$	21,216
7			
8			
9	Adjustment to Revenue and/or Expense		21,216
10			
11	Reference		
12	RUCO Adjustment #11		
13			
14			
15			
16			
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19			
20			

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2001
Adjustment to Revenues and Expenses
Adjustment Number 8

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Rebuttal Schedule C-2
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Witness: Bourassa

Miscellaneous Expense

Line No.			
1			
2	Miscellanous Expense Adjustment	$	(16,108)
3			
4			
5	Adjustment to Miscellaneous Expense	$	(16,108)
6			
7			
8			
9	Adjustment to Revenue and/or Expense	$	(16,108)
10			
11	Reference		
12	RUCO Adjustment 15		
13			
14			
15			
16			
17			
18			
19			
20			

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 9

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Amortization of Regulatory Assets

Line No.			
1			
2	Adjusted TCE Plume Balance per B-2	$	91,067
3	Amortization rate		10.00%
4	Annual Amortization	$	9,107
5			
6	Test Year Amortization		8,256
7			
8	Adjustment to Regulatory Expense - Other	$	851
9			
10			
11	Adjustment to Revenue and/or Expense		851
12			
13	Reference		
14	Testimony		
15			
16			
17			
18			
19			
20			

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 10

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Witness: Bourassa

Interest Synchronization

Line No.			
1			
2			
3			
4	Fair Value Rate Base	$ 33,227,792	
5	Weighted Cost of Debt	1.02%	
6	Interest Expense		$ 337,479
7			
8	Test Year Interest Expense		$ 388,078
9			
10	Increase (decrease) in Interest Expense		(50,600)
11			
12			
13			
14	Adjustment to Revenue and/or Expense		$ 50,600
15			
16			
17	Weighted Cost of Debt Computation		
18			Weighted
19		Percent	Cost	Cost
20	Debt	15.87%	6.40%	1.02%
21	Equity	84.13%	9.70%	8.16%
22	Total	100.00%		9.18%
23				
24				
25				
26				
27				
28				
29				
30				

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and/or Expenses
Adjustment Number 11

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Witness: Bourassa

Line No.		Test Year at Present Rates	Test Year at Proposed Rates
1	Income Taxes		
2			
3			
4	Computed Income Tax	$ 1,053,673	$ 1,682,504
5	Test Year Income tax Expense	-	1,053,673
6	Adjustment to Income Tax Expense	$ 1,053,673	$ 628,831
7			
8			
9			
10			
11			
12			
13	SUPPORTING SCHEDULE		
14	C-3, page 2		
15			
16			
17			
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30			

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Computation of Gross Revenue Conversion Factor

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Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Combined Federal and State Effective Income Tax Rate	38.290%
2		
3	Property Taxes	0.980%
4		
5		
6	Total Tax Percentage	39.270%
7		
8	Operating Income % = 100% - Tax Percentage	60.730%
9		
10		
11		
12		
13	1 = Gross Revenue Conversion Factor	
14	Operating Income %	1.6466
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
26	C-3, page 2	A-1
27		
28		
29		
30		
31		
32		
33		
34		
35		
36		
37		
38		
39		
40		

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012

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Rebuttal Schedule C-3
Page 2
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GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	[E]	[F]
	Calculation of Gross Revenue Conversion Factor:						
1	Revenue	100.0000%					
2	Uncollecible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.2701%					
5	Subtotal (L3 - L4)	60.7299%					
6	**Revenue Conversion Factor (L1 / L5)**	1.646636					
	Calculation of Uncollectible Factor:						
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (L17)	38.2900%					
9	One Minus Combined Income Tax Rate (L7 - L8)	61.7100%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
	Calculation of Effective Tax Rate:						
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	6.5000%					
14	Federal Taxable Income (L12 - L13)	93.5000%					
15	Applicable Federal Income Tax Rate (L55 Col F)	34.0000%					
16	Effective Federal Income Tax Rate (L14 x L15)	31.7900%					
17	Combined Federal and State Income Tax Rate (L13 +L16)		38.2900%				
	Calculation of Effective Property Tax Factor						
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	38.2900%					
20	*One Minus Combined Income Tax Rate (L18-L19)*	61.7100%					
21	Property Tax Factor	1.5883%					
22	Effective Property Tax Factor (L20*L21)		0.9801%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.2701%			
24	Required Operating Income	$ 3,049,083					
25	AdjustedTest Year Operating Income (Loss)	$ 2,035,629					
26	Required Increase in Operating Income (L24 - L25)		$ 1,013,454				
27	Income Taxes on Recommended Revenue (Col. (F), L52)	$ 1,682,504					
28	Income Taxes on Test Year Revenue (Col. (C), L52)	$ 1,053,673					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		$ 628,831				
30	Recommended Revenue Requirement	$ 12,870,058					
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	$ 557,926					
36	Property Tax on Test Year Revenue	$ 531,421					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		$ 26,505				
38	Total Required Increase in Revenue (L26 + L29 + L37)		$ 1,668,790				

		(A)	(B)	(C)	(D)	[E]	[F]
		Test Year			Company Recommended		
		Total		Water	Total		Water
	Calculation of Income Tax:						
39	Revenue	$ 11,201,268		$ 11,201,268	$ 12,870,058		$ 12,870,058
40	Operating Expenses Excluding Income Taxes	8,111,965		8,111,965	8,138,470		8,138,470
41	Synchronized Interest (L47)	337,479		337,479	337,479		337,479
42	Arizona Taxable Income (L39 - L40 - L41)	$ 2,751,824		$ 2,751,824	$ 4,394,110		$ 4,394,109
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)	$ 178,869		$ 178,869	$ 285,617		$ 285,617
45	Federal Taxable Income (L42- L44)	$ 2,572,955		$ 2,572,955	$ 4,108,493		$ 4,108,492
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	$ 8,500		$ 8,500
50	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ 91,650		$ 91,650	$ 91,650		$ 91,650
51	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ 760,905		$ 760,905	$ 1,282,988		$ 1,282,987
52							
53	Total Federal Income Tax	$ 874,805		$ 874,805	$ 1,396,888		$ 1,396,887
54	Combined Federal and State Income Tax (L35 + L42)	$ 1,053,673		$ 1,053,673	$ 1,682,505		$ 1,682,504

55	COMBINED Applicable Federal Income Tax Rate [Col. [D], L53 - Col. [A], L53 / [Col. [D], L45 - Col. [A], L45]	34.0000%		
56	WASTEWATER Applicable Federal Income Tax Rate [Col. [E], L53 - Col. [B], L53] / [Col. [E], L45 - Col. [B], L45]		0.0000%	
57	WATER Applicable Federal Income Tax Rate [Col. [F], L53 - Col. [C], L53] / [Col. [F], L45 - Col. [C], L45]			34.0000%

			Water
	Calculation of Interest Synchronization:		
58	Rate Base		$ 33,227,792
59	Weighted Average Cost of Debt		1.0157%
60	Synchronized Interest (L59 X L60)		$ 337,479

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Rebuttal Schedule H-1
Page 1
Witness: Bourassa

Line No.	Meter Size	Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	5/8x3/4 Inch	Residential	$ 11,824	$ 14,345	$ 2,521	21.32%	0.11%	0.11%
2	3/4 Inch	Residential	3,047,017	3,415,174	368,157	12.08%	27.20%	26.54%
3	3/4 Inch	Residential - Low Income	7,293	7,757	464	6.36%	0.07%	0.06%
4	1 Inch	Residential	3,360,696	3,981,180	620,484	18.46%	30.00%	30.93%
5	1 Inch	Residential - Low Income	8,528	11,098	2,570	30.14%	0.08%	0.09%
6	1.5 Inch	Residential	44,871	52,309	7,438	16.58%	0.40%	0.41%
7	2 Inch	Residential	4,981	5,886	905	18.17%	0.04%	0.05%
8	4 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
9								
10		Subtotal	6,485,210	7,487,749	1,002,539	15.46%	57.90%	58.18%
11								
12	5/8x3/4 Inch	Commercial	$ 245	$ 333	$ 88	36.08%	0.00%	0.00%
13	3/4 Inch	Commercial	8,987	10,685	1,699	18.90%	0.08%	0.08%
14	1 Inch	Commercial	28,013	33,745	5,732	20.46%	0.25%	0.26%
15	1.5 Inch	Commercial	118,831	137,671	18,840	15.85%	1.06%	1.07%
16	2 Inch	Commercial	684,406	807,345	122,939	17.96%	6.11%	6.27%
17	4 Inch	Commercial	242,692	272,348	29,656	12.22%	2.17%	2.12%
18	8 Inch	Commercial	10,786	14,027	3,241	30.05%	0.10%	0.11%
19	10 Inch	Commercial	36,262	42,203	5,941	16.38%	0.32%	0.33%
20								
21		Subtotal	$ 1,130,221	$ 1,318,357	$ 188,136	16.65%	10.09%	10.24%
22								
23								
24	5/8x3/4 Inch	Irrigation	$ 906	$ 1,071	$ 165	18.23%	0.01%	0.01%
25	3/4 Inch	Irrigation	58,536	67,354	8,819	15.07%	0.52%	0.52%
26	1 Inch	Irrigation	292,670	337,167	44,496	15.20%	2.61%	2.62%
27	1.5 Inch	Irrigation	342,197	388,790	46,594	13.62%	3.05%	3.02%
28	2 Inch	Irrigation	1,777,002	2,008,098	231,096	13.00%	15.86%	15.60%
29	4 Inch	Irrigation	140,026	159,349	19,323	13.80%	1.25%	1.24%
30								
31		Subtotal	$ 2,611,336	$ 2,961,830	$ 350,493	13.42%	23.31%	23.01%
32								
33	1 Inch	MF	1,558	2,264	$ 706		0.01%	0.02%
34	1.5 Inch	MF	47,101	54,084	6,984		0.42%	0.42%
35	2 Inch	MF	320,997	376,103	55,106		2.87%	2.92%
36	4 Inch	MF	47,487	54,277	6,790		0.42%	0.42%
37		Subtotal	$ 417,143	$ 486,729	$ 69,586	16.68%	3.72%	3.78%
38								
39	5/8x3/4 Inch	Fire	$ 28,594	$ 38,847	$ 10,253	35.86%	0.26%	0.30%
40	3/4 Inch	Fire	2,879	3,910	1,031	35.81%	0.03%	0.03%
41	1 Inch	Fire	275	374	99	35.95%	0.00%	0.00%
42		Hydrant	68,030	75,439	7,409	10.89%	0.61%	0.59%
43		Sweeper	700	776	76	10.89%	0.01%	0.01%
44	8 Inch	Goodyear	128,952	142,421	13,469	10.44%	1.15%	1.11%
45	4 Inch	VUI	3,060	4,164	1,104	36.08%	0.03%	0.03%
46	Total Revenues Before Annualization		10,876,400	12,520,596	$ 1,643,015	15.11%	97.10%	97.28%
47								

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Rebuttal Schedule H-1
Page 2
Witness: Bourassa

Revenue Annualization

Line No.	Meter Size	Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Additional Bills	Additional Gallons to be Pumped (In 1,000's)
1								
2								
3								
4								
5	5/8x3/4 Inch	Residential	$ 49	$ 60	11	23.01%	3	14
6	3/4 Inch	Residential	34,533	39,492	4,959	14.36%	1,429	12,169
7	3/4 Inch	Residential - Low Income	251	273	22	8.97%	13	91
8	1 Inch	Residential	96,691	116,015	19,324	19.99%	2,257	28,881
9	1 Inch	Residential - Low Income	2,131	2,781	649	30.47%	74	600
9	1.5 Inch	Residential	-	-	-	0.00%	-	-
10	2 Inch	Residential	-	-	-	0.00%	-	-
11	4 Inch	Residential	-	-	-	0.00%	-	-
12								
13		Subtotal	$ 133,655	$ 158,621	24,966	18.68%	3,776	41,755
14								
15	5/8x3/4 Inch	Commercial	$ -	$ -	-	0.00%	-	-
16	3/4 Inch	Commercial	(153)	(181)	(27)	0.00%	(7)	(43)
17	1 Inch	Commercial	42	52	10	22.61%	1	9
18	1.5 Inch	Commercial	-	-	-	0.00%	-	-
19	2 Inch	Commercial	4,680	5,425	745	15.92%	22	1,430
20	4 Inch	Commercial	-	-	-	0.00%	-	-
21	8 Inch	Commercial	-	-	-	0.00%	-	-
22	10 Inch	Commercial	-	-	-	0.00%	-	-
23					-			
24		Subtotal	$ 4,569	$ 5,296	50,659	1108.67%	16	1,396
25								
26								
27	5/8x3/4 Inch	Irrigation	$ -	$ - $	-	0.00%	-	-
28	3/4 Inch	Irrigation	22	26	4	17.72%	1	6
29	1 Inch	Irrigation	(1,420)	(1,631)	(210)	0.00%	(17)	(443)
30	1.5 Inch	Irrigation	(4,253)	(4,826)	(573)	0.00%	(18)	(1,367)
31	2 Inch	Irrigation	7,873	8,922	1,049	13.32%	18	2,507
32	4 Inch	Irrigation	6,460	7,339	879	13.61%	5	2,032
33								
34		Subtotal	$ 8,682	$ 9,830	1,148	13.22%	(11)	2,735
35								
36	1 Inch	MF	$ -	$ - $	-	0.00%	-	-
37	1.5 Inch	MF	-	-	-	0.00%	-	-
38	2 Inch	MF	(183)	(214)	(32)	0.00%	(1)	(53)
39	4 Inch	MF	-	-	-	0.00%	-	-
40		Subtotal	$ (183)	$ (214) $	(32)	0.00%	(1)	(53)
41								
42	5/8x3/4 Inch	Fire	$ 237	$ 321	85	35.80%	23	1
43	3/4 Inch	Fire	82	112	29	35.87%	8	0
44	1 Inch	Fire	-	-	-	0.00%	-	-
45								
46	8 Inch	Goodyear	-	-	-	0.00%	-	-
47	4 Inch	VUI	-	-	-	0.00%	-	-
48								
49	Total Revenue Annualization		$ 147,042	$ 173,966 $	76,855	52.27%	3,780	45,832
50								

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Rebuttal Schedule H-1
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Line No.		Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1							
2							
3	Subtotal Metered Revenues	$ 10,876,400	$ 12,520,596	$ 1,644,195	15.12%	97.10%	97.28%
4	Declining Usage Adjustment	(58,703)	(58,703)	-	0.00%	-0.52%	-0.46%
5	Subtotal Revenue Annualization	147,042	173,966	26,923	18.31%	1.31%	1.35%
6	Total Metered Revenues	$ 10,964,740	$ 12,635,858	$ 1,671,118	15.24%	97.89%	98.18%
7							
8	Misc. Revenues	$ 235,723	$ 235,723	(0)	0.00%	2.10%	1.83%
9	Reconciling Amount to GL	805	(1,523)	(2,328)	-289.19%	0.01%	-0.01%
10	Total Water Revenues	$ 11,201,268	$ 12,870,058	$ 1,668,790	14.90%	100.00%	100.00%
11							

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Customer Summary

Exhibit
Rebuttal Schedule H-2
Page 1
Witness: Bourassa

Line No.		Meter Size, Class	(a) Average Number of Customers at 12/31/2012	Average Consumption	Average Bill Present Rates	Average Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	5/8x3/4 Inch	Residential	58	4,277	$ 15.64	$ 19.37	3.73	23.86%
2	3/4 Inch	Residential	9,320	8,827	24.33	28.24	3.91	16.08%
3	3/4 Inch	Residential - Low Income	29	7,138	19.47	21.21	1.74	8.93%
4	1 Inch	Residential	5,835	13,707	44.58	53.18	8.60	19.29%
5	1 Inch	Residential - Low Income	24	8,161	28.89	37.68	8.79	30.44%
6	1.5 Inch	Residential	26	40,907	130.15	150.45	20.30	15.60%
7	2 Inch	Residential	2	53,542	183.86	215.45	31.58	17.18%
8	4 Inch	Residential	-	-	255.00	347.00	92.00	36.08%
9		Subtotal	15,293					
10								
11	5/8x3/4 Inch	Commercial	2	-	$ 10.20	$ 13.88	3.68	36.08%
12	3/4 Inch	Commercial	31	6,052	21.76	25.68	3.92	18.03%
13	1 Inch	Commercial	44	12,065	48.54	58.23	9.68	19.95%
14	1.5 Inch	Commercial	54	51,926	163.53	187.47	23.94	14.64%
15	2 Inch	Commercial	253	57,587	191.59	223.33	31.74	16.57%
16	4 Inch	Commercial	7	926,238	2,859.90	3,205.36	345.46	12.08%
17	8 Inch	Commercial	1	30,000	898.80	1,168.90	270.10	30.05%
18	10 Inch	Commercial	1	895,000	2,882.45	3,341.45	459.00	15.92%
19		Subtotal	393					
20								
21	5/8x3/4 Inch	Irrigation	3	6,528	$ 22.67	$ 26.61	3.94	17.39%
22	3/4 Inch	Irrigation	119	12,057	36.65	41.70	5.05	13.77%
23	1 Inch	Irrigation	232	30,391	95.18	108.61	13.43	14.11%
24	1.5 Inch	Irrigation	98	90,421	280.18	316.82	36.64	13.08%
25	2 Inch	Irrigation	249	187,244	581.75	655.58	73.83	12.69%
26	4 Inch	Irrigation	8	466,516	1,466.94	1,660.70	193.75	13.21%
27		Subtotal	708					
28								
29	1 Inch	MF	5	2,717	25.67	37.42	11.75	45.78%
30	1.5 Inch	MF	16	71,146	221.77	252.05	30.28	13.65%
31	2 Inch	MF	112	64,098	208.62	241.81	33.19	15.91%
32	4 Inch	MF	3	393,611	1,246.04	1,415.73	169.69	13.62%
33		Subtotal	136					
34								
35	5/8x3/4 Inch	Fire	232	35	$ 10.27	$ 13.95	3.68	35.86%
36	3/4 Inch	Fire	23	43	10.28	13.96	3.68	35.81%
37	1 Inch	Fire	1	-	22.95	31.20	8.25	35.95%
38		Hydrant	13	148,689	$ 450.53	$ 499.59	49.07	10.89%
39	8 Inch	Goodyear	2	3,248,000	5,373.00	5,934.20	561.20	10.44%
40	4 Inch	VUI	1	0	255.00	347.00	92	36.08%
41		Total	16,802					
42								

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

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Customer Summary

Exhibit
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Witness: Bourassa

Line No.		Meter Size, Class	(a) Average Number of Customers at 12/31/2012	Median Consumption	Median Bill Present Rates	Median Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	5/8 Inch	Residential	58	4,000	$ 15.11	$ 18.83	3.72	24.62%
2	3/4 Inch	Residential	9,320	7,000	20.84	24.68	3.84	18.43%
3	3/4 Inch	Residential - Low Income	29	6,000	17.62	19.32	1.70	9.65%
4	1 Inch	Residential	5,835	10,000	37.50	45.95	8.45	22.53%
5	1 Inch	Residential - Low Income	24	8,000	28.63	37.37	8.74	30.54%
6	1.5 Inch	Residential	26	34,000	115.94	135.70	19.76	17.04%
7	2 Inch	Residential	2	28,500	136.04	166.62	30.58	22.48%
8	4 Inch	Residential	-	-	255.00	347.00	92.00	36.08%
9		Subtotal	15,293					
10								
11	5/8 Inch	Commercial	2	-	$ 10.20	$ 13.88	3.68	36.08%
12	3/4 Inch	Commercial	31	2,000	14.02	17.78	3.76	26.82%
13	1 Inch	Commercial	44	4,000	33.14	42.50	9.36	28.24%
14	1.5 Inch	Commercial	54	24,000	96.84	116.20	19.36	19.99%
15	2 Inch	Commercial	253	20,000	119.80	150.04	30.24	25.24%
16	4 Inch	Commercial	7	507,500	1,591.13	1,798.40	207.28	13.03%
17	8 Inch	Commercial	1	30,000	898.80	1,168.90	270.10	30.05%
18	10 Inch	Commercial	1	947,000	2,989.61	3,452.72	463.11	15.49%
19		Subtotal	393					
20								
21	5/8 Inch	Irrigation	3	4,000	$ 17.84	$ 21.68	3.84	21.52%
22	3/4 Inch	Irrigation	119	5,000	19.75	23.63	3.88	19.65%
23	1 Inch	Irrigation	232	12,000	48.42	58.10	9.68	19.99%
24	1.5 Inch	Irrigation	98	47,000	148.61	170.92	22.31	15.01%
25	2 Inch	Irrigation	249	115,186	363.41	413.46	50.05	13.77%
26	4 Inch	Irrigation	8	163,000	566.33	664.85	98.52	17.40%
27		Subtotal	708					
28								
29	1 Inch	MF	5	2,000	24.95	36.70	11.75	47.09%
30	1.5 Inch	MF	16	12,000	73.92	92.80	18.88	25.54%
31	2 Inch	MF	112	33,000	144.63	175.39	30.76	21.27%
32	4 Inch	MF	3	167,000	573.97	672.65	98.68	17.19%
33		Subtotal	136					
34								
35	5/8 Inch	Fire	232	-	$ 10.20	$ 13.88	3.68	36.08%
36	3/4 Inch	Fire	23	-	$ 10.20	$ 13.88	3.68	36.08%
37	1 Inch	Fire	1	-	$ 22.95	$ 31.20	8.25	35.95%
38		Hydrant	13	21,000	64	71	6.93	10.89%
39	8 Inch	Goodyear	2	-	501.00	575.00	74.00	14.77%
40	4 Inch	VUI	1	0	255.00	347.00	92	36.08%
41		Total	16,802					
42								

43 (a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.
44

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Present and Proposed Rates

Exhibit
Rebuttal Schedule H-3
Page 1
Witness: Bourassa

Line No.	Monthly Usage Charge for:	Present Rates	Proposed Rates	Change	Percent Change
1	Meter Size (All Classes):				
2	5/8x3/4 Inch	$ 10.20	$ 13.88	$ 3.68	36.08%
2	3/4 Inch - Residential	10.20	13.88	3.68	36.08%
3	3/4 Inch	10.20	13.88	3.68	36.08%
3	1 Inch - Residential	22.95	31.20	8.25	35.95%
4	1 Inch	25.50	34.70	9.20	36.08%
4	1 1/2 Inch	51.00	69.40	18.40	36.08%
5	2 Inch	81.60	111.04	29.44	36.08%
6	3 Inch	163.20	222.08	58.88	36.08%
7	4 Inch	255.00	347.00	92.00	36.08%
8	6 Inch	510.00	694.00	184.00	36.08%
9	8 Inch - Bulk Water Only	501.00	575.00	74.00	14.77%
10	8 Inch	841.50	1,110.40	268.90	31.95%
11	10 Inch	1,173.00	1,596.20	423.20	36.08%
12	12 Inch	2,193.00	2,984.20	791.20	36.08%
13					
14	Construction - Hydrants	$ -	$ -		
15					
16	Gallons In Minimum (All Meter Sizes and Classes)	-	-		
17					
18			(Per 1,000 gallons)		
19	**Commodity Rates**		**Present**	**Proposed**	
20	**(Residential, Commercial, Industrial)**	**Block**	**Rate**	**Rate**	
21					
22	5/8x3/4 Inch and 3/4 Inch Meter - Residential	0 gallons to 3,000 gallons	$ 1.00	N/A	
23		3,001 gallons to 9,000 gallons	$ 1.91	N/A	
24		over 9,000 gallons	$ 3.03	N/A	
25					
26	5/8x3/4 Inch and 3/4 Inch Meter - Residential	0 gallons to 3,000 gallons	N/A	$ 1.00	
27		3,001 gallons to 11,000 gallons	N/A	$ 1.95	
28		11,001 gallons to 20,000 gallons	N/A	$ 2.95	
29		over 20,000 gallons	N/A	$ 3.36	
30					
31	5/8x3/4 Inch and 3/4 Inch Meter - Com., Irr.	0 gallons to 9,000 gallons	$ 1.91	$ 1.95	
32		over 9,000 gallons	$ 3.03	$ 3.36	
33					
34	1 Inch Meter - Residential, MF	0 gallons to 5,000 gallons	$ 1.00	N/A	
35		5,001 gallons to 20,000 gallons	$ 1.91	N/A	
36		over 20,000 gallons	$ 3.03	N/A	
37					
38	1 Inch Meter - Residential, MF	0 gallons to 5,000 gallons	N/A	$ 1.00	
39		5,001 gallons to 20,000 gallons	N/A	$ 1.95	
40		20,001 gallons to 30,000 gallons	N/A	$ 2.95	
41		over 30,000 gallons	N/A	$ 3.36	
42					
43	NT = No Tariff				

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Present and Proposed Rates

Exhibit
Rebuttal Schedule H-3
Page 2
Witness: Bourassa

Line No.	Commodity Rates (Residential, Commercial, Industrial)	Block	(Per 1,000 gallons) Present Rate	Proposed Rate
5	1 Inch Meter - All Classes, except Residential	0 gallons to 20,000 gallons	$ 1.91	$ 1.95
6		over 20,000 gallons	$ 3.03	$ 3.36
8	1.5 Inch Meter - All Classes	0 gallons to 40,000 gallons	$ 1.91	$ 1.95
9		over 40,000 gallons	$ 3.03	$ 3.36
11	2 Inch Meter - All Classes	0 gallons to 60,000 gallons	$ 1.91	$ 1.95
12		over 60,000 gallons	$ 3.03	$ 3.36
14	3 Inch Meter -All Classes	0 gallons to 120,000 gallons	$ 1.91	$ 1.95
15		over 120,000 gallons	$ 3.03	$ 3.36
17	4 Inch Meter- All Classes	0 gallons to 180,000 gallons	$ 1.91	$ 1.95
18		over 180,000 gallons	$ 3.03	$ 3.36
20	6 Inch Meter - All Classes	0 gallons to 360,000 gallons	$ 1.91	$ 1.95
21		over 360,000 gallons	$ 3.03	$ 3.36
23	8 Inch Meter - Bulk resale only	All gallons	$ 1.50	$ 1.65
25	8 Inch Meter - All Classes	0 gallons to 650,000 gallons	$ 1.91	$ 1.95
26		over 650,000 gallons	$ 3.03	$ 3.36
28	10 Inch Meter - All Classes	0 gallons to 940,000 gallons	$ 1.91	$ 1.95
29		over 940,000 gallons	$ 3.03	$ 3.36
31	12 Inch Meter - All Classes	0 gallons to 1,248,000 gallons	$ 1.91	$ 1.95
32		over 1,248,000 gallons	$ 3.03	$ 3.36
38	**Construction- Hydrants**	All gallons	$ 3.03	$ 3.36

Litchfield Park Service Company - Water Division dba Liberty Utilities
Changes in Representative Rate Schedules
Test Year Ended December 31, 2012

Exhibit
Rebuttal Schedule H-3
Page 3
Witness: Bourassa

Line No.	Other Service Charges	Present Rates	Proposed Rates
1			
2			
3	Other Service Charges	Present Rates	Proposed Rates
4	Establishment (Regular Hours) per Rule R14-2-403D **(a)**	$ 20.00	$ 20.00
5	Establishment (After Hours) per Rule R14-2-403D **(a)**	$ 40.00	NT
6	Re-Establishment of Service per Rule R14-2-403D **(a)**	(b)	(b)
7	Reconnection (Regular Hours) per Rule R14-2-403D **(a)**	$ 50.00	$ 20.00
8	Reconnection (After Hours) per Rule R14-2-403D **(a)**	$ 65.00	NT
9	Meter Test (if correct) per Rule R14-2-408F **(c)**	$ 25.00	$ 25.00
10	Meter Reread per Rule R14-2-408C (if correct)	$ 5.00	$ 5.00
11	Fire Hydrant Meter Relocation	NT	$ 50.00
12	Fire Hydrant Meter Repair	NT	Cost
13	NSF Check per Rule R14-2-409F **(a)**	$ 20.00	$ 25.00
14	Deferred Payment, Per Month	1.50%	1.50%
15	Late Charge	(c)	(c)
16	Service Calls - Per Hour/After Hours(d)	$ 40.00	$ 40.00
17	Deposit Requirements	(f)	(f)
18	Deposit Interest	3.50%	6.00%
19	Meter and Service lines	see H-3, page 4	
20	Main Extension Tariff	at Cost	at Cost
21			
22			
23			

24 (a) Charges applicable to water service.
25 (b) Minimum charge times number of full months off the system. per Rule R14-2-403(D).
26 (c) Greater of $5.00 of 1.5% of upaid balance.
27 (d) Afer horus service charge is appropirate when it is at the customer's requres or convenience. It compensates the utility
28 for additional expenses incurred for providing after-hours services. It is appropriate to apply this charge for any utility
29 service provided after hours at the customers request or for the customer's convenience.
30 (e) Per ACC Rules R14-2-403(B) Residential - two times the average bill.
31 Commercial - two and one-half times the average bill.
32
33
34 IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM
35 ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE
36 TAX. PER COMMISSION RULE 14-2-409D(5).
37
38

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Meter and Service Line Charges

Exhibit
Rebuttal Schedule H-3
Page 4
Witness: Bourassa

Refundable Meter and Service Line Charges

	Present Service Line Charge	Present Meter Install-ation Charge	Total Present Charge	Proposed Service Line Charge	Proposed Meter Install-ation Charge	Total Proposed Charge
5/8 x 3/4 Inch	$ 385.00	$ 135.00	$ 520.00	$ 385.00	$ 135.00	$ 520.00
3/4 Inch	385.00	215.00	600.00	385.00	215.00	600.00
1 Inch	435.00	255.00	690.00	435.00	255.00	690.00
1 1/2 Inch	470.00	465.00	935.00	470.00	465.00	935.00
2 Inch / Turbine	630.00	965.00	1,595.00	630.00	965.00	1,595.00
2 Inch / Compound	630.00	1,690.00	2,320.00	630.00	1,690.00	2,320.00
3 Inch / Turbine	805.00	1,470.00	2,275.00	805.00	1,470.00	2,275.00
3 Inch / Compound	845.00	2,265.00	3,110.00	845.00	2,265.00	3,110.00
4 Inch / Turbine	1,170.00	2,350.00	3,520.00	1,170.00	2,350.00	3,520.00
4 Inch / Compound	1,230.00	3,245.00	4,475.00	1,230.00	3,245.00	4,475.00
6 Inch / Turbine	1,730.00	4,545.00	6,275.00	1,730.00	4,545.00	6,275.00
6 Inch / Compound	1,770.00	6,280.00	8,050.00	1,770.00	6,280.00	8,050.00
8 Inch & Larger	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost

N/T = No Tariff

Hydrant Meter Deposit*	Present Charge	Proposed Charge
5/8 x 3/4 Inch	$ 135.00	$ 135.00
3/4 Inch	215.00	215.00
1 Inch	255.00	255.00
1 1/2 Inch	465.00	465.00
2 Inch / Turbine	965.00	965.00
2 Inch / Compound	1,690.00	1,690.00
3 Inch / Turbine	1,470.00	1,470.00
3 Inch / Compound	2,265.00	2,265.00
4 Inch / Turbine	2,350.00	2,350.00
4 Inch / Compound	3,245.00	3,245.00
6 Inch / Turbine	4,545.00	4,545.00
6 Inch / Compound	6,280.00	6,280.00
8 Inch & Larger	At Cost	At Cost

* Shall have a non-interest bearing deposit of the amount indicated , refundable in its entirety upon return of the meter in good condition and payment of the final bill.

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Hook-Up Fees

Exhibit
Rebuttal Schedule H-3
Page 5
Witness: Bourassa

Line No.			Present Charge		Proposed Charge
1					
2	**Off-site Facilities Hook-up Fee**				
3					
4			Present		Proposed
5			Charge		Charge
6	5/8 x 3/4 Inch	$	1,800	$	1,800
7	3/4 Inch		2,700		2,700
8	1 Inch		4,500		4,500
9	1 1/2 Inch		9,000		9,000
10	2 Inch		14,400		14,400
11	3 Inch		28,800		28,800
12	4 Inch		45,000		45,000
13	6 Inch or Larger		90,000		NT
14	6 Inch		NT		90,000
15	8 Inch		NT		144,000
16	10 Inch		NT		310,500
17	12 Inch		NT		967,500
18					
19					
20					
21	NT = No Tariff				
22					
23					
24					
25					
26					
27					
28					
29					
30					
31					
32					
33					
34					
35					
36					

LITCHFIELD PARK SERVICE COMPANY DBA LIBERTY UTILITIES

THOMAS BOURASSA
REBUTTAL TESTIMONY

OCTOBER 23, 2013

WASTEWATER DIVISION

REBUTTAL SCHEDULES

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
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	$	24,264,817
2			
3	Adjusted Operating Income		1,908,943
4			
5	Current Rate of Return		7.87%
6			
7	Required Operating Income	$	2,226,614
8			
9	Required Rate of Return on Fair Value Rate Base		9.18%
10			
11	Operating Income Deficiency	$	317,671
12			
13	Gross Revenue Conversion Factor		1.6496
14			
15	Increase in Gross Revenue		
16	Requirement	$	524,028
17			
18	Adjusted Test Year Revenues	$	10,362,796
19	Increase in Gross Revenue Revenue Requirement	$	524,028
20	Proposed Revenue Requirement	$	10,886,824
21	% Increase		5.06%
22			

23	Customer		Present		Proposed		Dollar	Percent
24	Classification		Rates		Rates		Increase	Increase
25	Residential	$	7,214,632	$	7,601,361	$	386,729	5.36%
26	Residential - Low Income		23,862		25,141		1,279	5.36%
27	Residential HOA 145		67,843		71,479		3,637	5.36%
28	Residential HOA 172		80,475		84,789		4,314	5.36%
29	Residential HOA 560		262,013		276,058		14,045	5.36%
30	Multi-Unit 3		10,423		10,981		559	5.36%
31	Multi-Unit 5		4,524		4,766		243	5.36%
32	Multi-Unit 6		6,948		7,321		372	5.36%
33	Multi-Unit 7		109,439		115,305		5,867	5.36%
34	Multi-Unit 8		6,948		7,321		372	5.36%
35	Multi-Unit 13		62,102		65,431		3,329	5.36%
36	Multi-Unit 15		267,082		281,399		14,317	5.36%
37	Multi-Unit 16		6,948		7,321		372	5.36%
38	Multi-Unit 17		7,383		7,779		396	5.36%
39	Multi-Unit 22		9,554		10,066		512	5.36%
40	Multi-Unit 43		18,674		19,675		1,001	5.36%
41	Multi-Unit 78		33,874		35,690		1,816	5.36%
42	Multi-Unit 84		36,480		38,435		1,956	5.36%
43	Multi-Unit 123		106,833		112,560		5,727	5.36%
44	Multi-Unit 282		122,467		129,032		6,565	5.36%
45	Small Commercial		75,094		79,115		4,021	5.35%
46	Regular Domestic		438,612		462,069		23,456	5.35%
47	Restaurant, Motels, Grocery, Dry Cleaning		375,664		395,758		20,094	5.35%
48	Wigwam Resort - Per Room		143,312		150,995		7,682	5.36%
49	Wigwam Resort - Main		17,200		18,120		920	5.35%
50	Elementary Schools		70,174		73,928		3,754	5.35%
51	Middle and High Schools		55,039		57,984		2,945	5.35%
52	Community College		21,327		22,469		1,141	5.35%
53	Effluent Sales		72,967		72,967		-	0.00%
54	Revenue Annualization		126,683		133,650		6,967	5.50%
55								
56	**Subtotal**	$	9,854,576	$	10,378,964	$	524,387	5.32%
57								
58	Other Water Revenues		508,220		508,220		-	0.00%
59	Reconciling Amount		-		(359)		(359)	0.00%
60	Rounding						-	0.00%
61	**Total of Water Revenues**	$	10,362,796	$	10,886,825	$	524,028	5.06%
62								
63								
64	*SUPPORTING SCHEDULES:*							
65	B-1							
66	C-1							
67	C-3							
68	H-1							

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Summary of Rate Base

Exhibit
Rebuttal Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 74,595,805	$ 74,595,805
3	Less: Accumulated Depreciation	13,567,321	13,567,321
4			
5	Net Utility Plant in Service	$ 61,028,484	$ 61,028,484
6			
7	Less:		
8	Advances in Aid of Construction	11,645,290	11,645,290
9			
10	Contributions in Aid of Construction	28,376,915	28,376,915
11			
12	Accumulated Amortization of CIAC	(4,153,301)	(4,153,301)
13			
14	Customer Meter Deposits	95,892	95,892
15	Customer Security Deposits	163,774	163,774
16	Accumulated Deferred Income Tax	635,096	635,096
17			
18			
19	Plus:		
20	Unamortized Finance		
21	Charges	-	-
22	Deferred Tax Assets	-	-
23	Allowance for Working Capital	-	-
24			
25			
26	Total Rate Base	$ 24,264,817	$ 24,264,817
27			
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			
41	SUPPORTING SCHEDULES:		
42	B-2		
43	B-3		
44	B-5		
45	E-1		
46			
47			
48			
49			
50			

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 1
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Proforma Adjustment	Rebuttal Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	$ 74,024,532	571,273	$ 74,595,805
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	13,244,186	323,134	13,567,321
7				
8				
9	Net Utility Plant			
10	in Service	$ 60,780,346		$ 61,028,484
11				
12	**Less:**			
13	Advances in Aid of			
14	Construction	11,645,290	-	11,645,290
15				
16	Contributions in Aid of			
17	Construction - Gross	28,470,485	(93,570)	28,376,915
18				
19	Accumulated Amortization of CIAC	(4,446,775)	293,475	(4,153,301)
20				
21	Customer Meter Deposits	95,892		95,892
22	Customer Security Deposits	155,440	8,334	163,774
23	Accumulated Deferred Income Tax	982,318	(347,221)	635,096
24				-
25				-
26				
27	**Plus:**			
28	Unamortized Finance			
29	Charges	-		-
30	Prepayments	-		-
31	Materials and Supplies	-		-
32	Working capital	-	-	-
33				-
34				
35	Total	$ 23,877,697		$ 24,264,817
36				
37				
38				
39				
40				
41				
42				
43				
44				
45				
46	SUPPORTING SCHEDULES:			RECAP SCHEDULES:
47	B-2, pages 2			B-1
48	E-1			
49				
50				
51				

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 2
Witness: Bourassa

Line No.		Adjusted at End of Test Year	1 Plant-in-Service	2 Accumulated Depreciation	Proforma Adjustments 3 CIAC	4 ADIT	5 Customer Deposits	6 Intentionally Left Blank	Rebuttal Adjusted at end of Test Year
1	Gross Utility								
2	Plant in Service	$ 74,024,532	571,273						$ 74,595,805
3									
4	**Less:**								
5	Accumulated								
6	Depreciation	13,244,186		323,134					13,567,321
7									
8									
9	Net Utility Plant								
10	in Service	$ 60,780,346	$ 571,273	$ (323,134)	$ -	$ -	$ -	$ -	$ 61,028,484
11									
12	**Less:**								
13	Advances in Aid of								
14	Construction	11,645,290				-			11,645,290
15									
16	Contributions in Aid of								
17	Construction (CIAC)	28,470,485			(93,570)				28,376,915
18									
19	Accumulated Amort of CIAC	(4,446,775)			293,475				(4,153,301)
20									
21	Customer Meter Deposits	95,892							95,892
22	Customer Security Deposits	155,440					8,334		163,774
23	Accumulated Deferred Income Taxes	982,318				(347,221)			635,096
24									
25									
26	**Plus:**								
27	Unamortized Finance								
28	Charges	-							-
29	Prepayments								
30	Materials and Supplies								
31	Allowance for Cash Working Capital	-							-
32									
33	Total	$ 23,877,697	$ 571,273	$ (323,134)	$ (199,905)	$ 347,221	$ (8,334)	$ -	$ 24,264,817
34									
35									
36									
37	SUPPORTING SCHEDULES:						RECAP SCHEDULES:		
38	B-2, pages 3-8						B-1		
39	E-1								
40									
41									

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1

Exhibit
Rebuttal Schedule B-2
Page 3
Witness: Bourassa

Plant-in-Service

Line No.	Acct. No.	Description	Adjusted Orginal Cost	A Post Test Year Plant	B Post Test Year Retirements	C Accrual True-Up	D Plant Reclassification	E Plant Not Used and Useful	F Duplicate Invoices	G Retirements and Reclassification	H Adjustments to Reconcile Plant to Reconstruction	Rebuttal Adjusted Original Cost
				Adjustments								
6	351	Organization	-								-	-
7	352	Franchise	-								-	-
8	353	Land	1,850,582					(11,217)	(3,409)		0	1,835,956
9	354	Structures & Improvements	24,208,314	1,200,000		199,000	(525,110)	(113,329)			-	24,968,875
10	355	Power Generation	603,332						(400)		0	602,932
11	360	Collection Sewer Forced	1,162,597								-	1,162,597
12	361	Collection Sewers Gravity	31,886,680				41,564				-	31,928,245
13	362	Special Collecting Structures	-								-	-
14	363	Customer Services	76,190								-	76,190
15	364	Flow Measuring Devices	46,210				36,618				-	82,828
16	366	Reuse Services	4,057,660								-	4,057,660
17	367	Reuse Meters And Installation	44,753								-	44,753
18	370	Receiving Wells	860,393								-	860,393
19	371	Pumping Equipment	799,481				61,670				-	861,150
20	374	Reuse Distribution Reservoirs	62,286								-	62,286
21	375	Reuse Trans. and Dist. System	420,334								-	420,334
22	380	Treatment & Disposal Equipment	5,585,470	(1,000,000)	300,000		476,749				-	5,362,219
23	381	Plant Sewers	47,802								-	47,802
24	382	Outfall Sewer Lines	343,681								-	343,681
25	389	Other Sewer Plant & Equipment	871,498				(43,005)		(864)	6,193	-	833,823
26	390	Office Furniture & Equipment	275,740								-	275,740
27	390	Computers and Software	-								-	-
28	391	Transportation Equipment	33,497							(13,303)	-	20,194
29	392	Stores Equipment	8,968								-	8,968
30	393	Tools, Shop And Garage Equip	145,631				(15,681)				-	129,950
31	394	Laboratory Equip	186,348				836				-	187,184
32	395	Power Operated Equip	28,090				(21,485)				-	6,605
33	396	Communication Equip	418,996			(3,555)					-	415,441
34	398	Other Tangible Plant	-								-	-
35			-								-	-
36			-								-	-
37			-								-	-
38			-								-	-
39												-
40		Plant Held for Future Use										-
41		TOTALS	$ 74,024,532	$ 200,000	$ 300,000	$ 195,445	$ 12,156	$ (124,546)	$ (4,673)	$ (7,110)	$ 0	$ 74,595,805
42												
43		Plant-in-Service per Books										$ 74,024,532
44												
45		Increase (decrease) in Plant-in-Service										$ 571,273
46												
47		Adjustment to Plant-in-Service										$ 571,273
48												
49		SUPPORTING SCHEDULES										
50		B-2, pages 3.1 to 3.9										
51												

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
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.

1 Post Test Year Plant True-up

Acct. No.	Description		Adjustment
380	Treatment & Disposal Equipment	remove amount proposed in Direct	$ (1,000,000)
354	Structures & Improvements	True-up estimate based on actual costs to date	$ 1,200,000
	Net Adjustment		$ 200,000

SUPPORTING SCHEDULE
Testimony
Work papers

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - B

Exhibit
Rebuttal Schedule B-2
Page 3.2
Witness: Bourassa

Line No.				
1	Post Test Year Plant Retirements			
2				
3				
4	Acct.			
5	No.	Description		Adjustment
6	380	Treatment & Disposal Equipment	remove amount proposed in Direct	$ 300,000
7				
8	380	Treatment & Disposal Equipment	true-up to actual cost	-
9				
10				
11				
12				
13				
14				
15				
16				
17				
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36				
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38				
39				
40				
41		Net Adjustment		$ 300,000
42				
43	SUPPORTING SCHEDULE			
44	Testimony			
45				

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - C

Exhibit
Rebuttal Schedule B-2
Page 3.3
Witness: Bourassa

Line No.			
1	Accrual True-up		
2			
3			
4	Acct.		
5	No.	Description	Cost
6	354	Structures & Improvements	$ 199,000
7	396	Communication Equip	(3,555)
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
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26			
27			
28			
29			
30			
31			
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35			
36			
37			
38			
39			
40	Net Adjustment		$ 195,445
41			
42			
43	SUPPORTING SCHEDULE		
44	Staff Adjustment #3		
45			

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - D

Exhibit
Rebuttal Schedule B-2
Page 3.4
Witness: Bourassa

Line No.			
1	Plant Reclassification		
2			
3			
4	Acct.		
5	No.	Description	Cost
6	354	Structures & Improvements	$ (525,110)
7	361	Collection Sewers Gravity	41,564
8	364	Flow Measuring Devices	36,618
9	371	Pumping Equipment	61,670
10	380	Treatment & Disposal Equipment	476,749
11	389	Other Sewer Plant & Equipment	(43,005)
12	393	Tools, Shop And Garage Equip	(15,681)
13	394	Laboratory Equip	836
14	395	Power Operated Equipment	(21,485)
15			
16			
17			
18			
19			
20			
21			
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23			
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25			
26			
27			
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36			
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38			
39			
40	Net Adjustment		$ 12,156
41			
42			
43	SUPPORTING SCHEDULE		
44	Staff Table 6 - Reclassification		
45	Testimony		

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - E

Exhibit
Rebuttal Schedule B-2
Page 3.5
Witness: Bourassa

Line No.			
1	Plant Not Used and Useful		
2			
3			
4	Acct.		
5	No.	Description	Cost
6	353	Land	$ (11,217)
7	354	Structures & Improvements	(113,329)
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
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19			
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29			
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34			
35			
36			
37			
38			
39			
40	Net Adjustment		$ (124,546)
41			
42			
43	SUPPORTING SCHEDULE		
44	Staff Adjustment #6		
45			

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - F

Exhibit
Rebuttal Schedule B-2
Page 3.6
Witness: Bourassa

Line No.			
1	Duplicate Invoices		
2			
3			
4	Acct.		
5	No.	Description	Cost
6	353	Land	$ (3,409)
7	355	Power Generation	(400)
8	389	Other Sewer Plant & Equipment	(864)
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
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27			
28			
29			
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31			
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38			
39			
40	Net Adjustment		$ (4,673)
41			
42			
43	SUPPORTING SCHEDULE		
44	Staff Adjustment #7		
45			

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - G

Exhibit
Rebuttal Schedule B-2
Page 3.7
Witness: Bourassa

Line No.

1 Retirements

Acct. No.	Description	Year	Adjustment
341	Transportation Equipment	2008	$ (7,110)
			$ (7,110)

10 Reclassifications

Acct. No.	Description	Year	Year Reflected on B-2 Plant[1]	Adjustment
341	Transportation Equipment		see below	$ (6,193)
389	Other Sewer Plant & Equipment	2008	2008	6,193
				$ -

40 Total Adjustment $ (7,110)

42 SUPPORTING SCHEDULE
43 Work papers - Supplemental Response to RUCO 6.01

45 [1] Post last test year end date

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - H

Exhibit
Rebuttal Schedule B-2
Page 3.8
Witness: Bourassa

Reconciliation of Plant to Plant Reconstruction

Line No.	Acct. No.	Description	Adjusted Orginal Cost	B-2 Adjustments	Rebuttal Adjusted Orginal Cost	Rebuttal Plant Per Reconstruction	Difference
6	351	Organization	$ -	$ -	$ -	$ -	$ -
7	352	Franchise	-	-	-	-	-
8	353	Land	1,850,582	(14,626)	1,835,956	1,835,956	0
9	354	Structures & Improvements	24,208,314	760,561	24,968,875	24,968,875	-
10	355	Power Generation	603,332	(400)	602,932	602,932	0
11	360	Collection Sewer Forced	1,162,597	-	1,162,597	1,162,597	-
12	361	Collection Sewers Gravity	31,886,680	41,564	31,928,245	31,928,245	-
13	362	Special Collecting Structures	-	-	-	-	-
14	363	Customer Services	76,190	-	76,190	76,190	-
15	364	Flow Measuring Devices	46,210	36,618	82,828	82,828	-
16	366	Reuse Services	4,057,660	-	4,057,660	4,057,660	-
17	367	Reuse Meters And Installation	44,753	-	44,753	44,753	-
18	370	Receiving Wells	860,393	-	860,393	860,393	-
19	371	Pumping Equipment	799,481	61,670	861,150	861,150	-
20	374	Reuse Distribution Reservoirs	62,286	-	62,286	62,286	-
21	375	Reuse Trans. and Dist. System	420,334	-	420,334	420,334	-
22	380	Treatment & Disposal Equipment	5,585,470	(223,251)	5,362,219	5,362,219	-
23	381	Plant Sewers	47,802	-	47,802	47,802	-
24	382	Outfall Sewer Lines	343,681	-	343,681	343,681	-
25	389	Other Sewer Plant & Equipment	871,498	(37,675)	833,823	833,823	-
26	390	Office Furniture & Equipment	275,740	-	275,740	275,740	-
27	390.1	Computers and Software	-	-	-	-	-
28	391	Transportation Equipment	33,497	(13,303)	20,194	20,194	-
29	392	Stores Equipment	8,968	-	8,968	8,968	-
30	393	Tools, Shop And Garage Equip	145,631	(15,681)	129,950	129,950	-
31	394	Laboratory Equip	186,348	836	187,184	187,184	-
32	395	Power Operated Equipment	28,090	(21,485)	6,605	6,605	-
33	396	Communication Equip	418,996	(3,555)	415,441	415,441	-
34	398	Other Tangible Plant	-	-	-	-	-
40		Plant Held for Future Use					-
41		TOTALS	$ 74,024,532	$ 571,272	$ 74,595,804	$ 74,595,805	$ 0

SUPPORTING SCHEDULE
B-2, pages 3.1 through 3.7
B-2, pages 3.8 through 3.12

Litchfield Park Service Company - WW Division
dba Liberty Utilities
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.8
Witness: Bourassa

				Per Decision		2008									
Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	Plant at 9/30/2008	Accum. Deprec. At 9/30/2008	Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	*Organization*	*0.00%*	-	-	-			-		-		-	-	-
2	352	Franchise	0.00%	-	-	-			-		-		-	-	-
3	353	Land	0.00%	1,783,426	-	-			-		-		-	1,783,426	-
4	354	Structures & Improvements	3.33%	18,720,541	1,470,581	(233,680)	(20,663)		(254,342)		-		154,790	18,466,199	1,625,370
5	355	Power Generation	5.00%	548,674	107,121	-			-		-		6,858	548,674	113,980
6	360	Collection Sewer Forced	2.00%	1,161,105	(207,785)	-			-		-		5,806	1,161,105	(201,979)
7	361	Collection Sewers Gravity	2.00%	23,094,661	2,850,025	681,674	(7,514)		674,161		-		117,159	23,768,822	2,967,184
8	362	Special Collecting Structures	2.00%	-	-	-			-		-		-	-	-
9	363	Customer Services	2.00%	-	-	-			-		-		-	-	-
10	364	Flow Measuring Devices	10.00%	47,019	19,320	-			-		-		1,175	47,019	20,495
11	366	Reuse Services	2.00%	3,789,468	482,984	160,400	(59)		160,341		-		19,348	3,949,808	502,332
12	367	Reuse Meters And Installation	8.33%	52,331	7,610	1,535			1,535		-		1,106	53,866	8,716
13	370	Receiving Wells	3.33%	860,393	175,322	-			-		-		7,163	860,393	182,484
14	371	Pumping Equipment	12.50%	1,759,801	959,964	7,696			7,696		-		55,114	1,767,496	1,015,078
15	374	Reuse Distribution Reservoirs	2.50%	62,825	1,959	-			-		-		393	62,825	2,352
16	375	Reuse Trans. and Dist. System	2.50%	414,315	3,884	-			-		-		2,589	414,315	6,474
17	380	Treatment & Disposal Equipment	5.00%	5,431,228	1,365,496	(36,423)			(36,423)		-		67,663	5,394,805	1,433,159
18	381	*Plant Sewers*	*5.00%*	47,788	6,531	-			-		-		597	47,788	7,128
19	382	Outfall Sewer Lines	3.33%	343,681	70,253	-			-		-		2,861	343,681	73,114
20	389	Other Sewer Plant & Equipment	6.67%	605,548	41,241	(11,446)		6,193	(5,253)		-		10,054	600,295	51,294
21	390	Office Furniture & Equipment	6.67%	198,772	58,516	12,496			12,496		-		3,419	211,268	61,935
22	390.1	Computers and Software	20.00%	-	-	-			-		-		-	-	-
23	391	Transportation Equipment	20.00%	26,078	10,505	3,368		(6,193)	(2,825)	7,110	7,110		1,056	16,143	4,450
24	392	Stores Equipment	4.00%	8,968	2,156	-			-		-		90	8,968	2,246
25	393	Tools, Shop And Garage Equip	5.00%	56,167	8,241	4,879			4,879		-		733	61,046	8,973
26	394	Laboratory Equip	10.00%	173,948	60,590	-			-		-		4,349	173,948	64,939
26	395	Power Operated Equipment	5.00%	-	-	-			-		-		-	-	-
26	396	Communication Equip	10.00%	418,996	195,163	-			-		-		10,475	418,996	205,638
28	398	Other Tangible Plant	10.00%	-	-	-			-		-		-	-	-
29				-	-	-			-		-		-	-	-
30					-				-		-		-	-	-
31					-				-		-		-	-	-
32					-				-		-		-	-	-
33					-				-		-		-	-	-
34		*Plant Held for Future Use*							-		-		-	-	-
35															
36		TOTALS		59,605,733	7,689,676	590,500	(28,236)	-	562,264	7,110	7,110	-	472,796	60,160,887	8,155,362

Litchfield Park Service Company - WW Division
dba Liberty Utilities
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.9
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2009 Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization	0.00%	-		-	-			-	-	-
2	352	Franchise	0.00%	-		-	-			-	-	-
3	353	Land	0.00%	68,263	(11,217)	-	57,046			-	1,840,472	-
4	354	Structures & Improvements	3.33%	643,865	(6,430)	(465,350)	172,085			617,790	18,638,284	2,243,160
5	355	Power Generation	5.00%	7,457	(400)	-	7,058			27,610	555,731	141,590
6	360	Collection Sewer Forced	2.00%	1,200		-	1,200			23,234	1,162,305	(178,745)
7	361	Collection Sewers Gravity	2.00%	3,132,384	(18,762)	41,564	3,155,186			506,928	26,924,008	3,474,112
8	362	Special Collecting Structures	2.00%	-		-	-			-	-	-
9	363	Customer Services	2.00%	-		-	-			-	-	-
10	364	*Flow Measuring Devices*	10.00%	-		36,618	36,618			6,533	83,637	27,028
11	366	Reuse Services	2.00%	107,733		-	107,733			80,073	4,057,541	582,405
12	367	Reuse Meters And Installation	8.33%	-		-	-			4,487	53,866	13,203
13	370	Receiving Wells	3.33%	-		-	-			28,651	860,393	211,136
14	371	Pumping Equipment	12.50%	59,896		5,048	64,944			224,996	1,832,441	1,240,074
15	374	Reuse Distribution Reservoirs	2.50%	-		-	-			1,571	62,825	3,922
16	375	Reuse Trans. and Dist. System	2.50%	-		-	-			10,358	414,315	16,832
17	380	Treatment & Disposal Equipment	5.00%	38,942		424,288	463,230			281,321	5,858,034	1,714,480
18	381	Plant Sewers	5.00%	-		-	-			2,389	47,788	9,518
19	382	Outfall Sewer Lines	3.33%	-		-	-			11,445	343,681	84,558
20	389	Other Sewer Plant & Equipment	6.67%	78,761		(43,005)	35,756			41,232	636,051	92,526
21	390	Office Furniture & Equipment	6.67%	-		-	-			14,092	211,268	76,026
22	390.1	Computers and Software	20.00%	-		-	-			-	-	-
23	391	Transportation Equipment	20.00%	-		-	-			3,229	16,143	7,679
24	392	Stores Equipment	4.00%	-		-	-			359	8,968	2,605
25	393	Tools, Shop And Garage Equip	5.00%	-		-	-			3,052	61,046	12,026
26	394	Laboratory Equip	10.00%	-		836	836			17,437	174,785	82,375
26	395	Power Operated Equipment	5.00%	-		-	-			-	-	-
26	396	Communication Equip	10.00%	-		-	-			41,900	418,996	247,538
28	398	Other Tangible Plant	10.00%	-		-	-			-	-	-
29				-		-	-			-	-	-
30							-			-	-	-
31							-			-	-	-
32							-			-	-	-
33							-			-	-	-
34		Plant Held for Future Use					-			-	-	-
35												
36		TOTALS		4,138,501	(36,809)	0	4,101,693	-	-	1,948,686	64,262,579	10,104,048

Litchfield Park Service Company - WW Division
dba Liberty Utilities
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.10
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2010 Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization	0.00%	-	-	-	-			-	-	-
2	352	Franchise	0.00%	-		-	-			-	-	-
3	353	Land	0.00%	1,613	(3,409)	-	(1,796)			-	1,838,676	-
4	354	Structures & Improvements	3.33%	-	-	-	-			620,655	18,638,284	2,863,815
5	355	Power Generation	5.00%	800		-	800			27,807	556,531	169,397
6	360	Collection Sewer Forced	2.00%	-		-	-			23,246	1,162,305	(155,499)
7	361	Collection Sewers Gravity	2.00%	1,324,126	(7,422)	-	1,316,704			551,647	28,240,712	4,025,759
8	362	Special Collecting Structures	2.00%	-		-	-			-	-	-
9	363	Customer Services	2.00%	15,630		-	15,630			156	15,630	156
10	364	Flow Measuring Devices	10.00%	-		-	-			8,364	83,637	35,392
11	366	Reuse Services	2.00%	-		-	-			81,151	4,057,541	663,556
12	367	Reuse Meters And Installation	8.33%	-		-	-			4,487	53,866	17,690
13	370	Receiving Wells	3.33%	-		-	-			28,651	860,393	239,787
14	371	Pumping Equipment	12.50%	36,683		-	36,683	935,300		172,892	933,824	477,666
15	374	Reuse Distribution Reservoirs	2.50%	-		-	-			1,571	62,825	5,493
16	375	Reuse Trans. and Dist. System	2.50%	-		-	-			10,358	414,315	27,189
17	380	Treatment & Disposal Equipment	5.00%	35,345		-	35,345			293,785	5,893,380	2,008,265
18	381	Plant Sewers	5.00%	-		-	-			2,389	47,788	11,907
19	382	Outfall Sewer Lines	3.33%	-		-	-			11,445	343,681	96,003
20	389	Other Sewer Plant & Equipment	6.67%	33,548	(864)	-	32,684			43,515	668,735	136,041
21	390	Office Furniture & Equipment	6.67%	10,777		-	10,777			14,451	222,046	90,477
22	390.1	Computers and Software	20.00%	-		-	-			-	-	-
23	391	Transportation Equipment	20.00%	-		-	-			3,229	16,143	10,908
24	392	*Stores Equipment*	4.00%	-		-	-			359	8,968	2,964
25	393	Tools, Shop And Garage Equip	5.00%	2,936		-	2,936			3,126	63,982	15,151
26	394	Laboratory Equip	10.00%	-		-	-			17,478	174,785	99,854
26	395	Power Operated Equipment	5.00%	-		-	-			-	-	-
26	396	Communication Equip	10.00%	-		-	-			41,900	418,996	289,436
28	398	Other Tangible Plant	10.00%	-		-	-			-	-	-
29				-		-	-			-	-	-
30							-			-	-	-
31							-			-	-	-
32							-			-	-	-
33							-			-	-	-
34		Plant Held for Future Use					-			-	-	-
35												
36		TOTALS		1,461,458	(11,694)	-	1,449,764	935,300	-	1,962,660	64,777,043	11,131,408

Litchfield Park Service Company - WW Division
dba Liberty Utilities
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.11
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2011 Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization	0.00%	-		-	-			-	-	-
2	352	Franchise	0.00%	-		-	-			-	-	-
3	353	Land	0.00%	-		-	-			-	1,838,676	-
4	354	Structures & Improvements	3.33%	455,088	(126,691)	-	328,396			626,123	18,966,680	3,489,938
5	355	Power Generation	5.00%	48,087		-	48,087			29,029	604,618	198,425
6	360	Collection Sewer Forced	2.00%	-		-	-			23,246	1,162,305	(132,253)
7	361	Collection Sewers Gravity	2.00%	3,563,023	(2,268)	-	3,560,755			600,422	31,801,467	4,626,181
8	362	Special Collecting Structures	2.00%	-		-	-			-	-	-
9	363	Customer Services	2.00%	35,240		-	35,240			665	50,870	821
10	364	Flow Measuring Devices	10.00%	-		-	-			8,364	83,637	43,756
11	366	Reuse Services	2.00%	-		-	-			81,151	4,057,541	744,707
12	367	Reuse Meters And Installation	8.33%	-		-	-			4,487	53,866	22,177
13	370	Receiving Wells	3.33%	-		-	-			28,651	860,393	268,438
14	371	Pumping Equipment	12.50%	44,147	(782)	6,000	49,364	4,702		119,519	978,486	592,483
15	374	Reuse Distribution Reservoirs	2.50%	-		-	-			1,571	62,825	7,063
16	375	Reuse Trans. and Dist. System	2.50%	5,005		-	5,005			10,420	419,320	37,610
17	380	Treatment & Disposal Equipment	5.00%	69,624	(1,025)	6,156	74,756			296,538	5,968,136	2,304,803
18	381	Plant Sewers	5.00%	-		-	-			2,389	47,788	14,296
19	382	Outfall Sewer Lines	3.33%	-		-	-			11,445	343,681	107,448
20	389	Other Sewer Plant & Equipment	6.67%	36,091		-	36,091			45,808	704,826	181,849
21	390	Office Furniture & Equipment	6.67%	9,304		-	9,304			15,121	231,350	105,598
22	390.1	Computers and Software	20.00%	-		-	-			-	-	-
23	391	Transportation Equipment	20.00%	-		-	-			3,229	16,143	14,136
24	392	Stores Equipment	4.00%	-		-	-			359	8,968	3,322
25	393	Tools, Shop And Garage Equip	5.00%	29,211	(485)	-	28,726			3,917	92,709	19,069
26	394	Laboratory Equip	10.00%	5,476	(187)	-	5,289			17,743	180,073	117,597
26	395	Power Operated Equipment	5.00%	-		-	-			-	-	-
26	396	Communication Equip	10.00%	-		-	-			41,900	418,996	331,337
28	398	Other Tangible Plant	10.00%	-			-			-	-	-
29				-			-			-	-	-
30							-			-	-	-
31							-			-	-	-
32							-			-	-	-
33							-			-	-	-
34		Plant Held for Future Use					-			-	-	-
35												
36		TOTALS		4,300,296	(131,438)	12,156	4,181,015	4,702	-	1,972,095	68,953,355	13,098,801

Litchfield Park Service Company - WW Division
dba Liberty Utilities
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.12
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2012 Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	PTY Plant	PTY Retirement	Plant Balance	Accum. Deprec.
1	351	Organization	0.00%	-		-	-	-		-	-	-			-	-
2	352	Franchise	0.00%	-		-	-	-		-	-	-			-	-
3	353	Land	0.00%	(2,541)	(179)	-	(2,720)	-		-	-	-			1,835,956	-
4	354	Structures & Improvements	3.33%	5,164,696	182,339	(59,760)	5,287,274	485,079		485,079	6,478	711,547	1,200,000		24,968,875	3,722,884
5	355	Power Generation	5.00%	4,604		-	4,604	6,291		6,291	-	30,189			602,932	222,323
6	360	Collection Sewer Forced	2.00%	292		-	292	-		-	-	23,249			1,162,597	(109,004)
7	361	Collection Sewers Gravity	2.00%	165,891	(1,400)	-	164,491	37,713		37,713	407	637,297			31,928,245	5,226,172
8	362	Special Collecting Structures	2.00%	-		-	-	-		-	-	-			-	-
9	363	Customer Services	2.00%	25,356	(37)	-	25,320	-		-	-	1,271			76,190	2,092
10	364	Flow Measuring Devices	10.00%	-		-	-	809		809	-	8,323			82,828	51,269
11	366	Reuse Services	2.00%	118		-	118	-		-	23	81,152			4,057,660	825,882
12	367	Reuse Meters And Installation	8.33%	(4,774)		-	(4,774)	4,339		4,339	-	4,107			44,753	21,945
13	370	Receiving Wells	3.33%	-		-	-	-		-	-	28,651			860,393	297,089
14	371	Pumping Equipment	12.50%	257,054	(796)	50,622	306,880	393,199	31,017	424,216	-	114,977			861,150	283,244
15	374	Reuse Distribution Reservoirs	2.50%	-		-	-	539		539	-	1,564			62,286	8,088
16	375	Reuse Trans. and Dist. System	2.50%	1,013		-	1,013	-		-	803	10,496			420,334	48,908
17	380	Treatment & Disposal Equipment	5.00%	8,503	(66)	46,304	54,742	660,659		660,659	-	283,259			5,362,219	1,927,403
18	381	Plant Sewers	5.00%	14		-	14	-		-	-	2,390			47,802	16,686
19	382	Outfall Sewer Lines	3.33%	-		-	-	-		-	-	11,445			343,681	118,892
20	389	Other Sewer Plant & Equipment	6.67%	136,494		-	136,494	7,497		7,497	-	51,314			833,823	225,666
21	390	Office Furniture & Equipment	6.67%	44,390		-	44,390	-		-	-	16,911			275,740	122,510
22	390.1	Computers and Software	20.00%	-		-	-	-		-	-	-			-	-
23	391	Transportation Equipment	20.00%	4,051		-	4,051	-		-	-	3,634			20,194	17,770
24	392	Stores Equipment	4.00%	-		-	-	-		-	-	359			8,968	3,681
25	393	Tools, Shop And Garage Equip	5.00%	53,206	(284)	(15,681)	37,241	-		-	-	5,566			129,950	24,635
26	394	Laboratory Equip	10.00%	7,144	(34)	-	7,111	-		-	-	18,363			187,184	135,959
26	395	Power Operated Equipment	5.00%	28,090		(21,485)	6,605	-		-	-	165			6,605	165
26	396	Communication Equip	10.00%	-	(3,555)	-	(3,555)	-		-	-	41,722			415,441	373,059
28	398	Other Tangible Plant	10.00%	-			-	-		-	-	-			-	-
29							-	-		-		-			-	-
30							-			-		-			-	-
31							-			-		-			-	-
32							-			-		-			-	-
33							-			-		-			-	-
34		Plant Held for Future Use					-			-		-			-	-
35																
36		TOTALS		5,893,603	175,989	-	6,069,592	1,596,125	31,017	1,627,142	7,711	2,087,950	1,200,000	-	74,595,805	13,567,321

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2

Exhibit
Rebuttal Schedule B-2
Page 4
Witness: Bourassa

Accumulated Depreciation

Line No.	Acct. No.	Description	Adjusted Accum. Depr.	A Post Test Year Retirement	B Accrual True-Up	C Plant Reclassification	D Plant Not Used and Useful	Adjustments E Duplicate Invoices	F Plant Addtions Wrong Yrs	G Retirements and Reclassification	H Adjustments to Reconcile A/D to Reconstruction	Rebuttal Adjusted Accum. Depr.
6	351	Organization	-						-		-	-
7	352	Franchise	-						-		-	-
8	353	Land	-						-		-	-
9	354	Structures & Improvements	3,773,984		3,313	(55,232)	(5,661)		6,478		-	3,722,884
10	355	Power Generation	222,393					(70)	-		0	222,323
11	360	Collection Sewer Forced	(109,004)						-		-	(109,004)
12	361	Collection Sewers Gravity	5,222,855			2,910			407		-	5,226,172
13	362	Special Collecting Structures	-						-		-	-
14	363	Customer Services	2,092						-		-	2,092
15	364	Flow Measuring Devices	38,453			12,816			-		-	51,269
16	366	Reuse Services	825,859						23		-	825,882
17	367	Reuse Meters And Installation	21,945						-		-	21,945
18	370	Receiving Wells	297,089						-		-	297,089
19	371	Pumping Equipment	276,747			6,497			-		-	283,244
20	374	Reuse Distribution Reservoirs	8,088						-		-	8,088
21	375	Reuse Trans. and Dist. System	48,106						803		-	48,908
22	380	Treatment & Disposal Equipment	1,551,533	300,000		75,870			-		-	1,927,403
23	381	Plant Sewers	16,686						-		-	16,686
24	382	Outfall Sewer Lines	118,892						-		-	118,892
25	389	Other Sewer Plant & Equipment	234,145			(10,039)		(144)	-	1,704	-	225,666
26	390	Office Furniture & Equipment	122,510						-		-	122,510
27	390.1	Computers and Software	-						-		-	-
28	391	Transportation Equipment	33,497						-	(12,219)	(3,508)	17,770
29	392	Stores Equipment	3,681						-		-	3,681
30	393	Tools, Shop And Garage Equip	25,027			(392)			-		-	24,635
31	394	Laboratory Equip	135,667			293			-		-	135,959
32	395	Power Operated Equipment	702			(537)			-		-	165
33	396	Communication Equip	373,237		(178)				-		-	373,059
34	398	Other Tangible Plant	-						-		-	-
35			-									-
36			-									-
37			-									-
38			-									-
39												-
40		Plant Held for Future Use										-
41		TOTALS	$ 13,244,186	$ 300,000	$ 3,136	$ 32,185	$ (5,661)	$ (214)	$ 7,711	$ (10,515)	$ (3,508)	$ 13,567,321
42												
43	Adjusted Accumulated Depreciation											$ 13,244,186
44												
45	Increase (decrease) in Accumulated Depreciation											$ 323,134
46												
47	Adjustment to Accumulated Depreciation											$ 323,134
48												
49	SUPPORTING SCHEDULES											
50	B-2, pages 4.1 through 4.7											
51												

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
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.

1 A/D -Post Test Year Plant Retirements

Acct. No.	Description		Adjustment
380	Treatment & Disposal Equipment	remove amount proposed in Direct	$ 300,000
380	Treatment & Disposal Equipment	true-up to actual cost	-
	Net Adjustment		$ 300,000

SUPPORTING SCHEDULE
Testimony

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - B

Exhibit
Rebuttal Schedule B-2
Page 4.2
Witness: Bourassa

Line No.						
1	A/D - Accrual True-up					
2						
3						
4	Acct.		Orginal			
5	No.	Description	Cost	Depr Rate	Years	A/D
6	354	Structures & Improvements	199,000	3.33%	0.50	3,313
7	396	Communication Equip	(3,555)	10.00%	0.50	(178)
8						
9						
10						
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26						
27						
28						
29						
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33						
34						
35						
36						
37						
38						
39						
40	Net Adjustment					$ 3,136
41						
42						
43	SUPPORTING SCHEDULE					
44	Staff Adjustment #3					
45						

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - C

Exhibit
Rebuttal Schedule B-2
Page 4.3
Witness: Bourassa

Line No.							
1	A/D - Plant Reclassification						
2							
3							
4	Acct.			Depr		Plant	A/D
5	No.	Description	Year	Rate	Years	Adjustment	Adjustment
6	354	Structures & Improvements	2009	3.33%	3.5	$ (465,350)	$ (54,237)
7	354	Structures & Improvements	2011	3.33%	1.5	-	-
8	354	Structures & Improvements	2012	3.33%	0.5	(59,760)	(995)
9	Subtotal					**$ (525,110)**	**$ (55,232)**
10	361	Collection Sewers Gravity	2009	2.00%	3.5	41,564	2,910
11	361	Collection Sewers Gravity	2011	2.00%	1.5	-	-
12	361	Collection Sewers Gravity	2012	2.00%	0.5	-	-
13	Subtotal					**$ 41,564**	**$ 2,910**
14	364	Flow Measuring Devices	2009	10.00%	3.5	36,618	12,816
15	364	Flow Measuring Devices	2011	10.00%	1.5	-	-
16	364	Flow Measuring Devices	2012	10.00%	0.5	-	-
17	Subtotal					**$ 36,618**	**$ 12,816**
18	371	Pumping Equipment	2009	12.50%	3.5	5,048	2,208
19	371	Pumping Equipment	2011	12.50%	1.5	6,000	1,125
20	371	Pumping Equipment	2012	12.50%	0.5	50,622	3,164
21	Subtotal					**$ 61,670**	**$ 6,497**
22	380	Treatment & Disposal Equipment	2009	5.00%	3.5	424,288	74,250
23	380	Treatment & Disposal Equipment	2011	5.00%	1.5	6,156	462
24	380	Treatment & Disposal Equipment	2012	5.00%	0.5	46,304	1,158
25	Subtotal					**$ 476,749**	**$ 75,870**
26	389	Other Sewer Plant & Equipment	2009	6.67%	3.5	(43,005)	(10,039)
27	389	Other Sewer Plant & Equipment	2011	6.67%	1.5	-	-
28	389	Other Sewer Plant & Equipment	2012	6.67%	0.5	-	-
29	Subtotal					**$ (43,005)**	**$ (10,039)**
30	393	Tools, Shop And Garage Equip	2009	5.00%	3.5	-	-
31	393	Tools, Shop And Garage Equip	2011	5.00%	1.5	-	-
32	393	Tools, Shop And Garage Equip	2012	5.00%	0.5	(15,681)	(392)
33	Subtotal					**$ (15,681)**	**$ (392)**
34	394	Laboratory Equip	2009	10.00%	3.5	836	293
35	394	Laboratory Equip	2011	10.00%	1.5	-	-
36	394	Laboratory Equip	2012	10.00%	0.5	-	-
37	Subtotal					**$ 836**	**$ 293**
38	395	Power Operated Equipment	2009	5.00%	3.5	-	-
39	395	Power Operated Equipment	2011	5.00%	1.5	-	-
40	395	Power Operated Equipment	2012	5.00%	0.5	(21,485)	(537)
41	Subtotal					**$ (21,485)**	**$ (537)**
42							
43							
44	Net Adjustment					**$ 12,156**	**$ 32,185**
45							
46	SUPPORTING SCHEDULE						
47	Staff Table 6 - Reclassification						
48	Testimony						
49							

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - D

Exhibit
Rebuttal Schedule B-2
Page 4.4
Witness: Bourassa

Line No.

1 A/D Plant Not Used and Useful

Acct. No.	Description	Orginal Cost	Depr Rate	Years	A/D
353	Land	(11,217)	0.00%	3.50	-
354	Structures & Improvements	(113,329)	3.33%	1.50	(5,661)

40 Net Adjustment $ (5,661)

43 SUPPORTING SCHEDULE
44 Staff Adjustment #6

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - E

Exhibit
Rebuttal Schedule B-2
Page 4.5
Witness: Bourassa

Line No.

1 A/D Duplicate Invoices

	Acct. No.	Description	Orginal Cost	Depr Rate	Years	A/D
6	353	Land	$ (3,409)	0.00%	2.50	$ -
7	355	Power Generation	(400)	5.00%	3.50	(70)
8	389	Other Sewer Plant & Equipment	(864)	6.67%	2.50	(144)

40 Net Adjustment $ (214)

43 SUPPORTING SCHEDULE
44 Staff Adjustment #7

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - F

Exhibit
Rebuttal Schedule B-2
Page 4.6
Witness: Bourassa

Line No.

1 Accumulated Depreciation - Plant Additions in Wrong Years

Acct. No.	Description	Depreciation Correction
351	Organization	$ -
352	Franchise	-
353	Land	-
354	Structures & Improvements	6,478
355	Power Generation	-
360	Collection Sewer Forced	-
361	Collection Sewers Gravity	407
362	Special Collecting Structures	-
363	Customer Services	-
364	Flow Measuring Devices	-
366	Reuse Services	23
367	Reuse Meters And Installation	-
370	Receiving Wells	-
371	Pumping Equipment	-
374	Reuse Distribution Reservoirs	-
375	Reuse Trans. and Dist. System	803
380	Treatment & Disposal Equipment	-
381	Plant Sewers	-
382	Outfall Sewer Lines	-
389	Other Sewer Plant & Equipment	-
390	Office Furniture & Equipment	-
390.1	Computers and Software	-
391	Transportation Equipment	-
392	Stores Equipment	-
393	Tools, Shop And Garage Equip	-
394	Laboratory Equip	-
395	Power Operated Equipment	-
396	Communication Equip	-
398	Other Tangible Plant	-
	Plant Held for Future Use	
	TOTALS	$ 7,711

SUPPORTING SCHEDULE
B-2, pages 4.1 through 4.3
B-2, pages 3.6 through 3.10

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - G

Exhibit
Rebuttal Schedule B-2
Page 4.7
Witness: Bourassa

Line No.

1 Retirements A/D

Acct. No.	Description	Year of Retirement	Adjustment
341	Transportation Equipment	2008	(7,110)
Total			$ (7,110)

11 Reclassifications A/D

Acct. No.	Description	Year	Depr Rate	Years[1]	Plant Adjustment	A/D Adjustment
341	Transportation Equipment	2008	20.00%	4.125	$ (6,193)	$ (5,109)
Subtotal					$ (6,193)	$ (5,109)
389	Other Sewer Plant & Equipment	2008	6.67%	4.125	$ 6,193	$ 1,704
Subtotal					$ 6,193	$ 1,704
Total						$ (3,405)

39 Total Adjustment $ (10,515)

41 SUPPORTING SCHEDULE
42 Schedule B-2, page 3.6
43 Work papers

45 [1] Post last test year end date

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - H

Exhibit
Rebuttal Schedule B-2
Page 4.8
Witness: Bourassa

Line No.

1 Reconciliation of A/D to A/D Reconstruction

Acct. No.	Description	Adjusted Orginal Cost	B-2 Adjustments	Rebuttal Adjusted Orginal Cost	Rebuttal Plant Per Reconstruction	Difference
351	Organization	$ -	$ -	$ -	$ -	$ -
352	Franchise	-	-	-	-	-
353	Land	-	-	-	-	-
354	Structures & Improvements	3,773,984	(51,101)	3,722,884	3,722,884	-
355	Power Generation	222,393	(70)	222,323	222,323	0
360	Collection Sewer Forced	(109,004)	-	(109,004)	(109,004)	-
361	Collection Sewers Gravity	5,222,855	3,317	5,226,172	5,226,172	-
362	Special Collecting Structures	-	-	-	-	-
363	Customer Services	2,092	-	2,092	2,092	-
364	Flow Measuring Devices	38,453	12,816	51,269	51,269	-
366	Reuse Services	825,859	23	825,882	825,882	-
367	Reuse Meters And Installation	21,945	-	21,945	21,945	-
370	Receiving Wells	297,089	-	297,089	297,089	-
371	Pumping Equipment	276,747	6,497	283,244	283,244	-
374	Reuse Distribution Reservoirs	8,088	-	8,088	8,088	-
375	Reuse Trans. and Dist. System	48,106	803	48,908	48,908	-
380	Treatment & Disposal Equipment	1,551,533	375,870	1,927,403	1,927,403	-
381	Plant Sewers	16,686	-	16,686	16,686	-
382	Outfall Sewer Lines	118,892	-	118,892	118,892	-
389	Other Sewer Plant & Equipment	234,145	(8,480)	225,666	225,666	-
390	Office Furniture & Equipment	122,510	-	122,510	122,510	-
390.1	Computers and Software	-	-	-	-	-
391	Transportation Equipment	33,497	(12,219)	21,278	17,770	(3,508)
392	Stores Equipment	3,681	-	3,681	3,681	-
393	Tools, Shop And Garage Equip	25,027	(392)	24,635	24,635	-
394	Laboratory Equip	135,667	293	135,959	135,959	-
395	Power Operated Equipment	702	(537)	165	165	-
396	Communication Equip	373,237	(178)	373,059	373,059	-
398	Other Tangible Plant	-	-	-	-	-
	Plant Held for Future Use					-
	TOTALS	$ 13,244,186	$ 326,642	$ 13,570,828	$ 13,567,321	$ (3,508)

SUPPORTING SCHEDULE
B-2, pages 4.1 through 4.7
B-2, pages 3.7 through 3.11

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 3

Exhibit
Rebuttal Schedule B-2
Page 5
Witness: Bourassa

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

Line No.		Gross CIAC	Accumulated Amortization
1			
2			
3			
4			
5	Computed balance at 12/31/2012	$ 28,376,915	$ 4,153,301
6			
7	Adjusted balance at 12/31/2012	$ 28,470,485	$ 4,446,775
8			
9	Increase (decrease)	$ (93,570)	$ (293,475)
10			
11			
12	Adjustment to CIAC/AA CIAC	$ (93,570)	$ 293,475
13	Label	3a	3b
14			
15			
16			
17			
18			
19	SUPPORTING SCHEDULES		
20	E-1		
21	B-2, page 5.1 - 5.3		
22			
23			
24			
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Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Contributions-in-aid of Construction and Amortization
Adjustment 3

Exhibit
Rebuttal Schedule B-2
Page 5.1
Witness: Bourassa

Line No.		Depr'n Rate	GL Account	9/30/2008	2008 Activity	Balance at 12/31/2008	2009 Activity	Balance at 12/31/2009
1								
2								
3	Collection Sewers Contributed	2.00%	8600.2.0200.10.1615.0026	17,134,023	706,018	17,840,041	2,870,602	20,710,643
4								
5								
6	Amortization				87,435		385,507	
7	Accum Amort.		8600.2.0000.10.1641.0100	1,576,589	87,435	1,664,024	385,507	2,049,531
8								
9	Services Contributed	2.00%	8600.2.0200.10.1615.0016	1,509,762	140,400	1,650,162	698,724	2,348,886
10								
11								
12	Amortization				7,900		39,990	
13	Accum Amort.		8600.2.0000.10.1641.0100	495,529	7,900	503,429	39,990	543,419
14								
15	**Total CIAC Sewer**			**18,643,786**		**19,490,203**		**23,059,529**
16								
17								
18	***Total Accum Amort.***			**2,072,117**		**2,167,452**		**2,592,950**
19								
20								
21								
22								
23								
24								
25								

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Contributions-in-aid of Construction and Amortization
Adjustment 3

Exhibit
Rebuttal Schedule B-2
Page 5.2
Witness: Bourassa

Line No.		Depr'n Rate	GL Account	2010 Activity	Balance at 12/31/2010	2011 Activity	Balance at 12/31/2011
1							
2							
3	Collection Sewers Contributed	2.00%	8600.2.0200.10.1615.0026	1,079,042	21,789,685	3,955,923	25,745,608
4							
5							
6	Amortization			425,003		475,353	
7	Accum Amort.		8600.2.0000.10.1641.0100	425,003	2,474,534	475,353	2,949,887
8							
9	Services Contributed	2.00%	8600.2.0200.10.1615.0016	15,630	2,364,516	34,990	2,399,506
10							
11							
12	Amortization			47,134		47,640	
13	Accum Amort.		8600.2.0000.10.1641.0100	47,134	590,553	47,640	638,193
14							
15	**Total CIAC Sewer**				**24,154,201**		**28,145,114**
16							
17							
18	**Total Accum Amort.**				**3,065,087**		**3,588,080**
19							
20							
21							
22							
23							
24							
25							

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Contributions-in-aid of Construction and Amortization
Adjustment 3

Exhibit
Rebuttal Schedule B-2
Page 5.3
Witness: Bourassa

Line No.		Depr'n Rate	GL Account	2012 Activity	Balance at 12/31/2012
1					
2					
3	Collection Sewers Contributed	2.00%	8600.2.0200.10.1615.0026	-	25,745,608
4					
5					
6	Amortization			514,912	
7	Accum Amort.		8600.2.0000.10.1641.0100	514,912	3,464,799
8					
9	Services Contributed	2.00%	8600.2.0200.10.1615.0016	231,801	2,631,307
10					
11					
12	Amortization			50,308	
13	Accum Amort.		8600.2.0000.10.1641.0100	50,308	688,501
14					
15	**Total CIAC Sewer**				**28,376,915**
16					
17					
18	**Total Accum Amort.**				**4,153,301**
19					
20					
21					
22					
23					
24					
25					

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 4

Exhibit
Rebuttal Schedule B-2
Page 6.0
Witness: Bourassa

Deferred Income Tax as of February 29, 2012

Line No.			Water & Sewer Adjusted Book Value	Water & Sewer 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
6		Plant-in-Service	$ 162,176,584 [1]								
7		Accum. Deprec.	(32,494,918) [1]								
8		CIAC	(59,777,267) [3]								
9	Fed.	Fixed Assets	$ 69,904,399	$ 47,469,626 [2]	100.0%	$ (22,434,774)	31.79%		-		(7,132,015)
11	State	Fixed Assets	$ 69,904,399	$ 74,127,914 [2]	100.0%	$ 4,223,514	6.500%		274,528		-
13	Fed &State	AIAC		13,973,563 [4]	100.0%	$ 13,973,563 [4]	38.29%		$ 5,350,477		
15								$ -	$ 5,625,006	$ -	$ (7,132,015)
17		Net Asset (Liability)						$ (1,507,009)			
19		Allocation Factor - Wastewwater-Division (based on rate base before ADIT)						0.4214			
21		Net Asset (Liability) Wastewater Division						$ (635,096)			
23		Adjusted DIT Asset (Liability)						$ (982,318)			
25		Adjustment to DIT						$ (347,221)			

Footnotes - See page 7.1

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 3

Exhibit
Rebuttal Schedule B-2
Page 7.1
Witness: Bourassa

Line No.		FEDERAL			STATE		
1	[1] **Per adjusted book balances, land not included**						
2							
3	[2] **Computation of Net Tax Value December 31, 2012**						
4							
5	Based on 2012 Tax Depreciation report (December 31, 2012) as amended						
6	Unadjusted Cost at December 31, 2012 per federal and state tax depr. report	$ 85,943,311			$ 84,887,919		
7	Reconciling Items not on tax report:						
8	Land on Tax and not on included in adjusted plant balance	(1,055,392)			-		
9	FA Accrual on not on tax report	6,391,333			6,391,333		
10	Proposed Plant Retirements	(1,712,539)			(1,712,539)		
11	Post Test Year plant	1,200,000			1,200,000		
12	Post Test Year Plant Retirement				-		
13	Plant Held for Future Use				-		
14					-		
15	Net Unadjusted Cost tax Basis at December 31, 2012			$ 90,766,713			$ 90,766,713
16							
17	Reductions						
18	Basis Reduction 2012 and Prior Years per federal and state tax depr. report	$ (25,331,094)			$ -		
19	Accumulated Depreciation 2012 and prior per federal and state tax depr. report	(19,678,532)			(18,351,338)		
20	Proposed Plant Retirements	1,712,539			1,712,539		
21	Post Test Year retirement	-			-		
22	Plant Held for Future Use	-			-		
23							
24							
25				(43,297,087)			(16,638,799)
26	Net Reductions through December 31, 2012			$ 47,469,626			$ 74,127,914
27	Net tax value of plant-in-service at December 31. 2012						
28							
29	[3] **CIAC (including impact of change to probability of realization)**						
30	Gross CIAC per adjusted book balances		$ 35,802,727				
31	CIAC reductions/addtions						
32	A.A per adjusted book balances	$ (5,439,155)					
33		-					
34			(5,439,155)				
35	Net CIAC before unrealized AIAC			$ 30,363,572			
36							
37	Unrealized AIAC Component						
38	AIAC per adjusted book balances		$ 42,019,564				
39	Adjusted Net AIAC (see footnote 5 below)		70.0%				
40	Unrealized AIAC Component % (1-Realized AIAC Component)			$ 29,413,695			
41				$ 59,777,267			
42	Total realizable CIAC						
43							
44	[4] **AIAC (including impact of change in probability of realization)**						
45	AIAC per adjusted book balances			$ 42,019,564			
46	Less: Unrealized AIAC (from Note 3, above)			$ (29,413,695)			
47							
48	Subtotal			$ 12,605,869			
49	Meter and Service Line Installation Charges per adjusted book balances			1,367,694			
50	Total realizable AIAC			$ 13,973,563			
51							

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 5

Exhibit
Rebuttal Schedule B-2
Page 7
Witness: Bourassa

Line No.			
1	Customer Secutiry Deposits		
2			
3	Adjustment to Customer Security Deposits based upon a 13 month average	$	8,334
4			
5			
6			
7			
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42	SUPPORTING SCHEDULE		
43	Staff Adjustment #10		
44			
45			

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
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)	$	778,102
3	Pumping Power (1/24 of Pumping Power)		25,068
4	Purchased Water (1/24 of Purchased Water)		1,111
5	Prepaid Expenses		
6			
7			
8			
9	Total Working Capital Allowance	$	804,281
10			
11			
12	Working Capital Requested	$	-
13			
14			
15			
16			Rebuttal
17			Adjusted Test Year
18	Total Operating Expense	$	8,453,853
19	Less:		
20	Income Tax	$	1,031,551
21	Property Tax		547,273
22	Depreciation		21,921
23	Purchased Water		26,656
24	Pumping Power		601,635
25	Allowable Expenses	$	6,224,817
26	1/8 of allowable expenses	$	778,102
27			
28			
29	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
30	E-1	B-1	
31			
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Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 1
Witness: Bourassa

Line No.		Adjusted Test Year Results	Adjustment	Rebuttal Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**					
2	Metered Water Revenues	$ 9,853,383	$ 1,193	$ 9,854,576	$ 524,028	$ 10,378,604
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	508,220	-	508,220		508,220
5		$ 10,361,603	$ 1,193	$ 10,362,796	$ 524,028	$ 10,886,824
6	**Operating Expenses**					
7	Salaries and Wages	$ 1,168,151	-	$ 1,168,151		$ 1,168,151
8	Purchased Water	26,656	-	26,656		26,656
9	Purchased Power	601,635	-	601,635		601,635
10	Slude Removal Expense	234,893	3,423	238,316		238,316
11	Fuel for Power Production	-	-	-		-
12	Chemicals	357,986	-	357,986		357,986
13	Materials and Supplies	86,994	-	86,994		86,994
14	Management Services - US Liberty Water	1,469,058	(9,941)	1,459,117		1,459,117
15	Management Services - Corporate	698,951	-	698,951		698,951
16	Management Services - Other	-	-	-		-
17	Outside Services - Accounting	2,161	-	2,161		2,161
18	Outside Services - Engineering	-	-	-		-
19	Outside Services- Other	222,303	-	222,303		222,303
20	Outside Services- Legal	25,746	-	25,746		25,746
21	Water Testing	57,735	(27,078)	30,657		30,657
22	Rents - Office	40,007	-	40,007		40,007
23	Equipment Rental	3,076	-	3,076		3,076
24	Transportation Expenses	26,465	-	26,465		26,465
25	Insurance - General Liability	57,823	-	57,823		57,823
26	Insurance - Vehicle	11,506	-	11,506		11,506
27	Reg. Comm. Exp. - Other	14,189	-	14,189		14,189
28	Reg. Comm. Exp. - Rate Case	74,200	-	74,200		74,200
29	Miscellaneous Expense	77,293	3,498	80,791		80,791
30	Bad Debt Expense	45,215	(23,294)	21,921		21,921
31	Depreciation and Amortization Expense	1,598,765	27,613	1,626,378		1,626,378
32	Taxes Other Than Income	-	-	-	-	-
33	Property Taxes	576,026	(28,753)	547,273	9,248	556,521
34	Income Tax	1,013,153	18,398	1,031,551	197,110	1,228,661
35	**Total Operating Expenses**	$ 8,489,987	$ (36,133)	$ 8,453,853	$ 206,358	$ 8,660,211
36	**Operating Income**	$ 1,871,616	$ 37,326	$ 1,908,943	$ 317,671	$ 2,226,613
37	**Other Income (Expense)**					
38	Interest Income	-	-	-		-
39	Other income	-	-	-		-
40	Interest Expense	(259,945)	13,499	(246,446)		(246,446)
41	Other Expense	-	-	-		-
42		-	-	-		-
43	**Total Other Income (Expense)**	$ (259,945)	$ 13,499	$ (246,446)	$ -	$ (246,446)
44	**Net Profit (Loss)**	$ 1,611,671	$ 50,825	$ 1,662,497	$ 317,671	$ 1,980,167
45						
46	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
47	C-1, page 2				A-1	
48	E-2					
49						

Litchfield Park Service Company - WW Division
dba Liberty Utilities
Test Year Ended December 31, 2012
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 2.1
Witness: Bourassa

Line No.		LABEL>>>>> Adjusted Test Year Results	1 Depreciation	2 Property Taxes	3 Water Testing	4 Corporate Allocation True-up	5 Corporate Allocation Expense	6 Interest on Customer Dep.	7 Revenue Expense Annualization	8 Bad Debt Expense	9 Misc. Expense
1	***Revenues***										
2	Metered Water Revenues	$ 9,853,383							$ 1,193		
3	Unmetered Water Revenues	-									
4	Other Water Revenues	508,220									
5		$ 10,361,603	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,193	$ -	
6	**Operating Expenses**										
7	Salaries and Wages	$ 1,168,151									
8	Purchased Water	26,656									
9	Purchased Power	601,635							-		
10	Sludge Removal Expense	234,893			3,410				13		
11	Fuel for Power Production	-									
12	Chemicals	357,986									
13	Materials and Supplies	86,994									
14	Management Services - US Liberty Water	1,469,058				(7,420)	(2,521)				
15	Management Services - Corporate	698,951									
16	Management Services - Other	-									
17	Outside Services - Accounting	2,161									
18	Outside Services - Engineering	-									
19	Outside Services- Other	222,303									
20	Outside Services- Legal	25,746									
21	Water Testing	57,735			(27,078)						
22	Rents - Office	40,007									
23	Equipment Rental	3,076									
24	Transportation Expenses	26,465									
25	Insurance - General Liability	57,823									
26	Insurance - Vehicle	11,506									
27	Reg. Comm. Exp. - Other	14,189									
28	Reg. Comm. Exp. - Rate Case	74,200									
29	Miscellaneous Expense	77,293						5,346	(1,506)		(342)
30	Bad Debt Expense	45,215								(23,294)	
31	Depreciation and Amortization Expense	1,598,765	27,613								
32	Taxes Other Than Income	-									
33	Property Taxes	576,026		(28,753)							
34	Income Tax	1,013,153									
35	**Total Operating Expenses**	$ 8,489,987	$ 27,613	$ (28,753)	$ (23,668)	$ (7,420)	$ (2,521)	$ 5,346	$ (1,493)	$ (23,294)	$ (342)
36	**Operating Income**	$ 1,871,616	$ (27,613)	$ 28,753	$ 23,668	$ 7,420	$ 2,521	$ (5,346)	$ 2,686	$ 23,294	$ 342
37	**Other Income (Expense)**										
38	Interest Income	-									
39	Other income	-									
40	Interest Expense	(259,945)									
41	Other Expense	-									
42		-									
43	**Total Other Income (Expense)**	$ (259,945)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
44	**Net Profit (Loss)**	$ 1,611,671	$ (27,613)	$ 28,753	$ 23,668	$ 7,420	$ 2,521	$ (5,346)	$ 2,686	$ 23,294	$ 342
45											
46	SUPPORTING SCHEDULES:										
47	C-2										
48	E-2										

Litchfield Park Service Company - WW Division
dba Liberty Utilities
Test Year Ended December 31, 2012
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 2.2
Witness: Bourassa

Line No.		10 Interest Synch.	11 Income Taxes	12 Intentionally Left Blank	13 Intentionally Left Blank	14 Intentionally Left Blank	15 Intentionally Left Blank	16 Intentionally Left Blank	17 Intentionally Left Blank	Rebuttal Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**											
2	Metered Water Revenues									$ 9,854,576	$ 524,028	$ 10,378,604
3	Unmetered Water Revenues									-		-
4	Other Water Revenues									508,220		508,220
5		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 10,362,796	$ 524,028	$ 10,886,824
6	**Operating Expenses**											
7	Salaries and Wages									$ 1,168,151		$ 1,168,151
8	Purchased Water									26,656		26,656
9	Purchased Power									601,635		601,635
10	Sludge Removal Expense									238,316		238,316
11	Fuel for Power Production									-		-
12	Chemicals									357,986		357,986
13	Materials and Supplies									86,994		86,994
14	Management Services - US Liberty Water									1,459,117		1,459,117
15	Management Services - Corporate									698,951		698,951
16	Management Services - Other									-		-
17	Outside Services - Accounting									2,161		2,161
18	Outside Services - Engineering									-		-
19	Outside Services- Other									222,303		222,303
20	Outside Services- Legal									25,746		25,746
21	Water Testing									30,657		30,657
22	Rents - Office									40,007		40,007
23	Equipment Rental									3,076		3,076
24	Transportation Expenses									26,465		26,465
25	Insurance - General Liability									57,823		57,823
26	Insurance - Vehicle									11,506		11,506
27	Reg. Comm. Exp. - Other									14,189		14,189
28	Reg. Comm. Exp. - Rate Case									74,200		74,200
29	Miscellaneous Expense									80,791		80,791
30	Bad Debt Expense									21,921		21,921
31	Depreciation and Amortization Expense									1,626,378		1,626,378
32	Taxes Other Than Income									-		-
33	Property Taxes									547,273	9,248	556,521
34	Income Tax		18,398							1,031,551	197,110	1,228,661
35	**Total Operating Expenses**	$ -	$ 18,398	$ -	$ -	$ -	$ -	$ -	$ -	$ 8,453,853	$ 206,358	$ 8,660,211
36	**Operating Income**	$ -	$ (18,398)	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,908,943	$ 317,671	$ 2,226,613
37	**Other Income (Expense)**											
38	Interest Income						-			-		-
39	Other income									-		-
40	Interest Expense	13,499								(246,446)		(246,446)
41	Other Expense									-		-
42										-		-
43	**Total Other Income (Expense)**	$ 13,499	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (246,446)	$ -	$ (246,446)
44	**Net Profit (Loss)**	$ 13,499	$ (18,398)	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,662,497	$ 317,671	$ 1,980,167
45												
46	SUPPORTING SCHEDULES:											
47	C-2											
48	E-2											

RECAP SCHEDULES:
C-1, page 1

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustments to Revenues and Expenses

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Rebuttal Schedule C-2
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Line No.		Adjustments to Revenues and Expenses						
		1	2	3	4	5	6	Subtotal
		Depreciation	Property Taxes	Water Testing	Corporate Allocation True-up	Corporate Allocation Expense	Interest on Customer Dep.	
4	Revenues							-
6	Expenses	27,613	(28,753)	(23,668)	(7,420)	(2,521)	5,346	(29,403)
9	Operating Income	(27,613)	28,753	23,668	7,420	2,521	(5,346)	29,403
12	Interest Expense							-
14	Other Income / Expense							-
17	Net Income	(27,613)	28,753	23,668	7,420	2,521	(5,346)	29,403

Line No.		Adjustments to Revenues and Expenses						
		7	8	9	10	11	12	Total
		Revenue Expense Annualization	Bad Debt Expense	Misc. Expense	Interest Synch.	Income Taxes	Intentionally Left Blank	
25	Revenues	1,193						1,193
27	Expenses	(1,493)	(23,294)	(342)	-	18,398	-	(36,133)
30	Operating Income	2,686	23,294	342	-	(18,398)	-	37,326
33	Interest Expense	-			13,499			13,499
36	Other Income / Expense							-
38	Net Income	2,686	23,294	342	13,499	(18,398)	-	50,825

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustments to Revenues and Expenses
Adjustment Number 1

Exhibit
Rebuttal Schedule C-2
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Depreciation Expense

Line No.	Acct. No.	Description	Adjusted Original Cost	Proposed Rates	Depreciation Expense
1					
2					
3					
4					
5	351	Organization	-	0.00%	-
6	352	Franchise	-	0.00%	-
7	353	Land	1,835,956	0.00%	-
8	354	Structures & Improvements	24,968,875	3.33%	831,464
9	355	Power Generation	602,932	5.00%	30,147
10	360	Collection Sewer Forced	1,162,597	2.00%	23,252
11	361	Collection Sewers Gravity	31,928,245	2.00%	638,565
12	362	Special Collecting Structures	-	2.00%	-
13	363	Customer Services	76,190	2.00%	1,524
14	364	Flow Measuring Devices	82,828	10.00%	8,283
15	366	Reuse Services	4,057,660	2.00%	81,153
16	367	Reuse Meters And Installation	44,753	8.33%	3,728
17	370	Receiving Wells	860,393	3.33%	28,651
18	371	Pumping Equipment	861,150	12.50%	107,644
19	374	Reuse Distribution Reservoirs	62,286	2.50%	1,557
20	375	Reuse Trans. and Dist. System	420,334	2.50%	10,508
21	380	Treatment & Disposal Equipment	5,362,219	5.00%	268,111
22	381	Plant Sewers	47,802	5.00%	2,390
23	382	Outfall Sewer Lines	343,681	3.33%	11,445
24	389	Other Sewer Plant & Equipment	833,823	6.67%	55,616
25	390	Office Furniture & Equipment	275,740	6.67%	18,392
26	390.1	Computers and Software	-	20.00%	-
27	391	Transportation Equipment	20,194	20.00%	4,039
28	392	Stores Equipment	8,968	4.00%	359
29	393	Tools, Shop And Garage Equip	129,950	5.00%	6,497
30	394	Laboratory Equip	187,184	10.00%	18,718
31	395	Power Operated Equipment	6,605	5.00%	330
32	396	Communication Equip	415,441	10.00%	41,544
33	398	Other Tangible Plant	-	10.00%	-
34			-		-
35					-
36					-
37					-
38					-
39		TOTALS	$ 74,595,805		$ 2,193,916
40					
41	Less: Amortization of Contributions		Gross CIAC	Amort. Rate	
42	361	Collection Sewers Gravity	$ 25,745,608	2.0000%	$ (514,912)
43	363	Customer Services	2,631,307	2.0000%	$ (52,626)
44			$ 28,376,915		
45	Total Depreciation Expense				$ 1,626,378
46					
47	Adjusted Test Year Depreciation Expense				1,598,765
48					
49	Increase (decrease) in Depreciation Expense				27,613
50					
51	Adjustment to Revenues and/or Expenses				$ 27,613
52					
53	SUPPORTING SCHEDULE				
54	B-2, page 3				

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
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.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	$ 10,362,796	$ 10,362,796
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	20,725,592	20,725,592
4	Company Recommended Revenue	10,362,796	10,886,824
5	Subtotal (Line 4 + Line 5)	31,088,388	31,612,416
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	10,362,796	10,537,472
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	20,725,592	21,074,944
10	Plus: 10% of CWIP (intentionally excluded)	-	-
11	Less: Net Book Value of Licensed Vehicles	51,225	51,225
12	Full Cash Value (Line 9 + Line 10 - Line 11)	20,674,367	21,023,719
13	Assessment Ratio	19.0%	19.0%
14	Assessment Value (Line 12 * Line 13)	3,928,130	3,994,507
15	Composite Property Tax Rate - Obtained from ADOR	13.9322%	13.9322%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	$ 547,273	$ 556,521
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	$ 547,273	
19	Adjusted Test Year Property Taxes	$ 576,026	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	**$ (28,753)**	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		$ 556,521
23	Company Test Year Adjusted Property Tax Expense (Line 18)		$ 547,273
24	Increase in Property Tax Due to Increase in Revenue Requirement		**$ 9,248**
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		$ 9,248
27	Increase in Revenue Requirement		$ 524,028
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		1.76474%
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Rebuttal Schedule C-2
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Witness: Bourassa

Water Testing Expense

Line No.			
1			
2			
3	Sludge Removal Expense Adjustment	$	3,410
4			
5	Water Testing Expense Adjustment		(27,078)
6			
7			
8			
9			
10			
11	Increase(decrease) in Expense	$	(23,668)
12			
13	Adjustment to Revenue and/or Expense	$	(23,668)
14			
15			
16	Reference		
17	Testimony		
18			
19			
20			

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 4

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Corporate Allocation True-Up

Line No.			
1			
2			
3			
4	Corporate Allocation True-Up Adjustment	$	(7,420)
5			
6			
7			
8	Total Adjustment to Management Services - US Liberty Water	$	(7,420)
9			
10			
11	Adjustment to Revenue and/or Expense	$	(7,420)
12			
13	SUPPORTING SCHEDULES		
14	Staff Adjustment #2		
15	Testimony		
16			
17			
18			
19			
20			

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 5

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Rebuttal Schedule C-2
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Witness: Bourassa

Corporate Allocation Expense Adjustment

Line No.			
1			
2	Corporate Allocation Expense Adjustment	$	(2,521)
3			
4			
5			
6	Total Adjustment to Management Services - US Liberty Water	$	(2,521)
7			
8			
9	Adjustment to Revenue and/or Expense		(2,521)
10			
11	Reference		
12	Testimony		
13	Work papers		
14			
15			
16			
17			
18			
19			
20			

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Rebuttal Schedule C-2
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Witness: Bourassa

Interest on Customer Security Deposits

Line No.			
1			
2	Interest on Customer Deposits	$	5,346
3			
4			
5			
6	Adjustment to Miscellaneous Expense	$	5,346
7			
8			
9	Adjustment to Revenue and/or Expense		5,346
10			
11	Reference		
12	Staff Adjustment #4		
13	Testimony		
14			
15			
16			
17			
18			
19			
20			

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Rebuttal Schedule C-2
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Witness: Bourassa

Revenue and Expense Annualization

Line No.			
1			
2			
3	Revenue Annualization for Res Low Income	$	1,193
4			
5	Increase (decrease) in Revenues	$	1,193
6			
7	Annualized Purchase Power	$	54
8	Annualized Sudge Removal		13
9	Annualized Postage		(1,506)
10			
11	Increase (decrease) in Expenses	$	(1,439)
12			
13			
14			
15			
16			
17			
18	Reference		
19	RUCO Adjustment #3		
20	Testimony		

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 8

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Witness: Bourassa

Bad Debt Expense

Line No.			
1			
2	Reclassify Bad Debt Expense to Water Division		(23,294)
3			
4			
5			
6	Adjustment to Bad Debt Expense	$	(23,294)
7			
8			
9	Adjustment to Revenue and/or Expense	$	(23,294)
10			
11	Reference		
12	RUCO Adjustment #11		
13			
14			
15			
16			
17			
18			
19			
20			

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 9

Exhibit
Rebuttal Schedule C-2
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Witness: Bourassa

Miscellaneous Expense

Line No.			
1			
2	Miscellanous Expense Adjustment	$	(342)
3			
4			
5	Adjustment to Miscellaneous Expense	$	(342)
6			
7			
8			
9	Adjustment to Revenue and/or Expense	$	(342)
10			
11	Reference		
12	RUCO Adjustment 15		
13			
14			
15			
16			
17			
18			
19			
20			

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 10

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Rebuttal Schedule C-2
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Interest Synchronization

Line No.			
1			
2			
3			
4	Fair Value Rate Base	$ 24,264,817	
5	Weighted Cost of Debt	1.02%	
6	Interest Expense		$ 246,446
7			
8	Test Year Interest Expense		$ 259,945
9			
10	Increase (decrease) in Interest Expense		(13,499)
11			
12			
13			
14	Adjustment to Revenue and/or Expense		$ 13,499
15			
16			
17	Weighted Cost of Debt Computation		
18	Pro forma Capital Structure		

19		Percent	Cost	Weighted Cost
20	Debt	15.87%	6.40%	1.02%
21	Equity	84.13%	9.70%	8.16%
22	Total	100.00%		9.18%

23
24
25
26
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28
29
30

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and/or Expenses
Adjustment Number 11

Exhibit
Rebuttal Schedule C-2
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Witness: Bourassa

Line No.		Test Year at Present Rates	Test Year at Proposed Rates
1	Income Taxes		
2			
3			
4	Compauted Income Tax	$ 1,031,551	$ 1,228,661
5	Test Year Income tax Expense	-	1,031,551
6	Adjustment to Income Tax Expense	$ 1,031,551	$ 197,110
7			
8			
9			
10			
11			
12			
13	SUPPORTING SCHEDULE		
14	C-3, page 2		
15			
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Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Computation of Gross Revenue Conversion Factor

Exhibit
Rebuttal Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Combined Federal and State Effective Income Tax Rate	38.290%
2		
3	Property Taxes	1.089%
4		
5		
6	Total Tax Percentage	39.379%
7		
8	Operating Income % = 100% - Tax Percentage	60.621%
9		
10		
11		
12		
13	1 = Gross Revenue Conversion Factor	
14	Operating Income %	1.6496
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
26	C-3, page 2	A-1
27		
28		
29		
30		
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36		
37		
38		
39		
40		

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012

Exhibit
Rebuttal Schedule C-3
Page 2
Witness: Bourassa

GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	[E]	[F]
	Calculation of Gross Revenue Conversion Factor:						
1	Revenue	100.0000%					
2	Uncollecible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.3790%					
5	Subtotal (L3 - L4)	60.6210%					
6	**Revenue Conversion Factor (L1 / L5)**	1.649594					
	Calculation of Uncollectible Factor:						
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (L17)	38.2900%					
9	One Minus Combined Income Tax Rate (L7 - L8)	61.7100%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
	Calculation of Effective Tax Rate:						
12	*Operating Income Before Taxes (Arizona Taxable Income)*	*100.0000%*					
13	Arizona State Income Tax Rate	6.5000%					
14	Federal Taxable Income (L12 - L13)	93.5000%					
15	Applicable Federal Income Tax Rate (L55, Col E)	34.0000%					
16	Effective Federal Income Tax Rate (L14 x L15)	31.7900%					
17	Combined Federal and State Income Tax Rate (L13 +L16)		38.2900%				
	Calculation of Effective Property Tax Factor						
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	38.2900%					
20	One Minus Combined Income Tax Rate (L18-L19)	61.7100%					
21	Property Tax Factor	1.7647%					
22	Effective Property Tax Factor (L20*L21)		1.0890%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.3790%			
24	Required Operating Income	$ 2,226,614					
25	AdjustedTest Year Operating Income (Loss)	$ 1,908,943					
26	Required Increase in Operating Income (L24 - L25)		$ 317,671				
27	Income Taxes on Recommended Revenue (Col. (E), L52)	$ 1,228,661					
28	Income Taxes on Test Year Revenue (Col. (B), L54)	$ 1,031,551					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		$ 197,110				
30	Recommended Revenue Requirement	$ 10,886,824					
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	$ 556,521					
36	Property Tax on Test Year Revenue	$ 547,273					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		$ 9,248				
38	Total Required Increase in Revenue (L26 + L29 + L37)		$ 524,029				

		(A)	(B)	(C)	(D)	[E]	[F]
		Test Year			Company Recommended		
	Calculation of Income Tax:	Total	Sewer		Total	Sewer	
39	Revenue	$ 10,362,796	$ 10,362,796		$ 10,886,824	$ 10,886,824	
40	Operating Expenses Excluding Income Taxes	$ 7,422,303	$ 7,422,303		$ 7,431,551	$ 7,431,551	
41	Synchronized Interest (L47)	$ 246,446	$ 246,446		$ 246,446	$ 246,446	
42	Arizona Taxable Income (L39 - L40 - L41)	$ 2,694,047	$ 2,694,047		$ 3,208,829	$ 3,208,829	
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)	$ 175,113	$ 175,113		$ 208,574	$ 208,574	
45	Federal Taxable Income (L42- L44)	$ 2,518,934	$ 2,518,934		$ 3,000,255	$ 3,000,255	
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		$ 8,500	$ 8,500	
50	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ 91,650	$ 91,650		$ 91,650	$ 91,650	
51	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ 742,538	$ 742,538		$ 906,187	$ 906,187	
52							
53	Total Federal Income Tax	$ 856,438	$ 856,438		$ 1,020,087	$ 1,020,087	
54	Combined Federal and State Income Tax (L35 + L42)	$ 1,031,551	$ 1,031,551		$ 1,228,661	$ 1,228,661	

55	COMBINED Applicable Federal Income Tax Rate [Col. [D], L53 - Col. [A], L53 / [Col. [D], L45 - Col. [A], L45]	34.0000%		
56	WASTEWATER Applicable Federal Income Tax Rate [Col. [E], L53 - Col. [B], L53] / [Col. [E], L45 - Col. [B], L45]		34.0000%	
57	WATER Applicable Federal Income Tax Rate [Col. [F], L53 - Col. [C], L53] / [Col. [F], L45 - Col. [C], L45]			0.0000%

		Sewer	
	Calculation of Interest Synchronization:		
58	Rate Base	$ 24,264,817	
59	Weighted Average Cost of Debt	1.0157%	
60	Synchronized Interest (L45 X L46)	$ 246,446	

Litchfield Park Service Company - Wastewater Division dba Liberty Utilities
Revenue Summary
With Annualized Revenues to Year End Number of Customers
Test Year Ended December 31, 2012

Exhibit
Rebuttal Schedule H-1
Page 1
Witness: Bourassa

Line No.	Customer Classification	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Sewer Revenues	Percent of Proposed Sewer Revenues
1	Residential	$ 7,214,632	$ 7,601,361	$ 386,729	5.36%	69.62%	69.82%
2	Residential - Low Income	23,862	25,141	1,279	5.36%	0.23%	0.23%
3	Residential HOA 145	67,843	71,479	3,637	5.36%	0.65%	0.66%
4	Residential HOA 172	80,475	84,789	4,314	5.36%	0.78%	0.78%
5	Residential HOA 560	262,013	276,058	14,045	5.36%	2.53%	2.54%
6	Subtotal	$ 7,648,824	$ 8,058,828	$ 410,004	5.36%	73.81%	74.02%
7							
8	Multi-Unit Housing						
9	Multi-Unit 3	$ 10,423	$ 10,981	$ 559	5.36%	0.10%	0.10%
10	Multi-Unit 5	4,524	4,766	243	5.36%	0.04%	0.04%
11	Multi-Unit 6	6,948	7,321	372	5.36%	0.07%	0.07%
12	Multi-Unit 7	109,439	115,305	5,867	5.36%	1.06%	1.06%
13	Multi-Unit 8	6,948	7,321	372	5.36%	0.07%	0.07%
14	Multi-Unit 13	62,102	65,431	3,329	5.36%	0.60%	0.60%
15	Multi-Unit 15	267,082	281,399	14,317	5.36%	2.58%	2.58%
16	Multi-Unit 16	6,948	7,321	372	5.36%	0.07%	0.07%
17	Multi-Unit 17	7,383	7,779	396	5.36%	0.07%	0.07%
18	Multi-Unit 22	9,554	10,066	512	5.36%	0.09%	0.09%
19	Multi-Unit 43	18,674	19,675	1,001	5.36%	0.18%	0.18%
20	Multi-Unit 78	33,874	35,690	1,816	5.36%	0.33%	0.33%
21	Multi-Unit 84	36,480	38,435	1,956	5.36%	0.35%	0.35%
22	Multi-Unit 123	106,833	112,560	5,727	5.36%	1.03%	1.03%
23	Multi-Unit 282	122,467	129,032	6,565	5.36%	1.18%	1.19%
24							
25	Subtotal	$ 809,679	$ 853,082	$ 43,404	5.36%	7.81%	7.84%
26							
27	Small Commercial	$ 75,094	$ 79,115	4,021	5.35%	0.72%	0.73%
28	Measured Service:						
29	Regular Domestic	$ 438,612	$ 462,069	23,456	5.35%	4.23%	4.24%
30	Restaurant, Motels, Grocery, Dry Cleaning	375,664	395,758	20,094	5.35%	3.63%	3.64%
31	Subtotal	$ 814,276	$ 857,826	$ 43,550	5.35%	7.86%	7.88%
32							
33	Wigwam Resort - Per Room	$ 143,312	$ 150,995	$ 7,682	5.36%	1.38%	1.39%
34	Wigwam Resort - Main	17,200	18,120	920	5.35%	0.17%	0.17%
35	Subtotal	$ 160,512	$ 169,115	$ 8,603	5.36%	1.55%	1.55%
36							
37	Elementary Schools	$ 70,174	$ 73,928	$ 3,754	5.35%	0.68%	0.68%
38	Middle and High Schools	55,039	57,984	2,945	5.35%	0.53%	0.53%
39	Community College	21,327	22,469	1,141	5.35%	0.21%	0.21%
40	Subtotal	$ 146,540	$ 154,380	$ 7,840	5.35%	1.41%	1.42%
41							
42	Effluent Sales	72,967	72,967	-	0.00%	0.70%	0.67%
43	Total Revenues Before Revenues Annualization	$ 9,727,893	$ 10,245,314	$ 517,421	5.32%	93.87%	94.11%

Litchfield Park Service Company - Wastewater Division dba Liberty Utilities
Revenue Summary
With Annualized Revenues to Year End Number of Customers
Test Year Ended December 31, 2012

Exhibit
Rebuttal Schedule H-1
Page 2
Witness: Bourassa

Line No.	Customer Classification	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Sewer Revenues	Percent of Proposed Sewer Revenues
1							
2	Revenue Annualization						
3	Residential	$ 128,534	$ 135,424	$ 6,890	5.36%	1.24%	1.24%
4							
5	Small Commercial	66	69	4	5.35%	0.00%	0.00%
6	Measured Service:						
7	Regular Domestic	(1,644)	(1,732)	(88)	5.35%	-0.02%	-0.02%
8	Restaurant, Motels, Grocery, Dry Cleaning	3,014	3,175	161	5.35%	0.03%	0.03%
9	Effluent Sales	(3,287)	(3,287)	-	0.00%	-0.03%	-0.03%
10	Subtotal Revenue Annualization	$ 126,683	$ 133,650	$ 6,967	5.50%	1.22%	1.23%
11							
12	Misc Service Revenues						
13	Misc Revenues	$ 463,236	$ 463,236	$ -	0.00%	4.47%	4.26%
14	Third Party Revenues (not on GL)	$ 44,984	$ 44,984	-	0.00%	0.43%	0.41%
15	Reconciling Amount to C-1	0	(359)	(359)	0.00%	0.00%	0.00%
16	Totals	$ 10,362,796	$ 10,886,825	$ 524,028	5.06%	100.00%	100.00%
17							
18	Reconciliation of Revenues						
19	Revenues per GL	$ 10,161,315					
20	Revenue Accural Fix	29,814					
21	Adjusted GL Revenues	$ 10,191,129					
22							
23	Revenues before Annualization	$ 10,191,129					
24							
25	**Difference**	(0)					
26							
27							
28							
29							
30							
31							
32							
33							
34							
35							
36							
37							
38							
39							
40							
41							
42							
43							
44							

Litchfield Park Service Company - Wastewater Division dba Liberty Utilities
Test Year Ended December 31, 2012
Analysis of Revenue by Detailed Class
Special Rate Commercial Customers Pay Standard Commerical Rate

Rebuttal Schedule H-2
Page 1
Witness: Bourassa

Line No.	Customer Classification	Average Number of Customers at 12/31/2012	Average Water Use	Average Bill Present Rates	Average Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	Residential	15,692	N/A	$ 38.99	$ 41.08	$ 2.09	5.360%
2	Residential - Low Income						
3	Residential HOA 145	1	N/A	5,653.55	5,956.60	303.05	5.360%
4	Residential HOA 172	1	N/A	6,706.28	7,065.76	359.48	5.360%
5	Residential HOA 560	1	N/A	21,834.40	23,004.80	1,170.40	5.360%
6							
7	Multi-Unit Housing						
8	Multi-Unit 3	8	N/A	108.57	114.39	5.82	5.361%
9	Multi-Unit 5	2	N/A	180.95	190.65	9.70	5.361%
10	Multi-Unit 6	4	N/A	144.76	152.52	7.76	5.361%
11	Multi-Unit 7	36	N/A	253.33	266.91	13.58	5.361%
12	Multi-Unit 8	2	N/A	289.52	305.04	15.52	5.361%
13	Multi-Unit 13	11	N/A	470.47	495.69	25.22	5.361%
14	Multi-Unit 15	41	N/A	542.85	571.95	29.10	5.361%
15	Multi-Unit 16	1	N/A	579.04	610.08	31.04	5.361%
16	Multi-Unit 17	1	N/A	615.23	648.21	32.98	5.361%
17							
18	Multi-Unit 22	1	N/A	796.18	838.86	42.68	5.361%
19	Multi-Unit 43	1	N/A	1,556.17	1,639.59	83.42	5.361%
20	Multi-Unit 84	1	N/A	3,039.96	3,202.92	162.96	5.361%
21	Multi-Unit 78	1	N/A	2,822.82	2,974.14	151.32	5.361%
22	Multi-Unit 123	2	N/A	4,451.37	4,689.99	238.62	5.361%
23	Multi-Unit 282	1	N/A	10,205.58	10,752.66	547.08	5.361%
24							
25	Small Commercial	95	N/A	65.93	69.46	3.53	5.354%
26	Measured Service:						
27	Regular Domestic	169	55,837	216.71	228.29	11.59	5.348%
28	Restaurant, Motels, Grocery, Dry Cleaning	72	92,066	432.79	455.94	23.15	5.349%
29							
30	Wigwam Resort - Per Room	1	N/A	11,942.70	12,582.90	640.20	5.361%
31	Wigwam Resort - Main	1	N/A	1,433.30	1,509.98	76.68	5.350%
32							
33	Elementary Schools	6	N/A	975	1,027	52.14	5.350%
34	Middle and High Schools	4	N/A	1,147	1,208	61.35	5.350%
35	Community College	1	N/A	1,777	1,872	95.09	5.350%
36							
37	Effluent Sales ($125 per acre foot)	0	2,964,633	1,127	1,127	-	0.000%
38	Effluent Sales ($100 per acre foot)	4	4,321,326	1,340	1,340	-	0.000%
39	Effluent Sales ($200 per acre foot)	0	2,308,900	1,593	1,593	-	0.000%
40	Total	16,161					
41							
42							

Litchfield Park Service Company - Wastewater Division dba Liberty Utilities
Present and Proposed Rates
Test Year Ended December 31, 2012

Exhibit
Rebuttal Schedule H-3
Page 1
Witness: Bourassa

Line No.	Customer Classification	Present Rates	Proposed Rates	Change	Percent Change
1					
2					
3					
4	**Monthly Charge for:**				
5	Monthly Residential Service	$ 38.99	$ 41.08	$ 2.09	5.36%
6					
7	Multi-Unit Housing - Monthly per Unit	$ 36.19	$ 38.13	$ 1.94	5.36%
8					
9	Commercial:				
10	Small Commercial - Monthly Service	$ 65.93	$ 69.46	$ 3.53	5.35%
11	Measured Service:				
12	Regular Domestic:				
13	Monthly Service Charge	$ 36.91	$ 38.88	$ 1.97	5.34%
14	Commodity Charge per 1,000 gallons	$ 3.22	$ 3.39	$ 0.17	
15					
16	Restaurant, Motels, Grocery Stores & Dry Cleaning Estab.[1]				
17	Monthly Service Charge	$ 36.91	$ 38.88	$ 1.97	5.34%
18	Commodity Charge per 1,000 gallons	$ 4.30	$ 4.53	$ 0.23	
19					
20	Wigwam Resort:				
21	Monthly Rate - Per Room	$ 36.19	$ 38.13	$ 1.94	5.36%
22	Main Hotel Facilities - Per Month	$ 1,433.30	$ 1,509.98	$ 76.68	5.35%
23					
24	Schools - Monthly Service Rates:				
25	Elementary Schools	$ 974.64	$ 1,026.78	$ 52.14	5.35%
26	Middile Schools	$ 1,146.64	$ 1,207.99	$ 61.35	5.35%
27	High Schools	$ 1,146.64	$ 1,207.99	$ 61.35	5.35%
28	Community College	$ 1,777.29	$ 1,872.38	$ 95.09	5.35%
29					
30	Effluent[2]	Market	Market		
31					

32 [1] Motels without restuarants charged multi-unit monthly rate.

33 [2] *Market Rate - Maximum effluent rate shall not exceed $430 per acre foot based on a potable water rate of $1.32 per thousand*
34 gallons.
35

Litchfield Park Service Company - Wastewater Division dba Liberty Utilities
Changes in Representative Rate Schedules
Test Year Ended December 31, 2012

Exhibit
Rebuttal Schedule H-3
Page 2
Witness: Bourassa

Line No.	Other Service Charges	Present Rates	Proposed Rates
1	Establishment (Regular Hours) per Rule R14-2-603D **(a)**	$ 20.00	$ 20.00
2	Establishment (After Hours) per Rule R14-2-603D **(a)**	$ 40.00	NT
3	Re-Establishment of Service per Rule R14-2-603D **(a)**	(b)	(b)
4	Reconnection (Regular Hours) per Rule R14-2-603D **(a)**	$ 50.00	$ 20.00
5	Reconnection (After Hours) per Rule R14-2-603D **(a)**	$ 65.00	NT
6	NSF Check, per Rule R14-2-608E **(a)**	$ 25.00	$ 25.00
7	Deferred Payment, Per Month	1.50%	1.50%
8	Late Charge (c)	(c)	(c)
9	Service Calls - Per Hour/After Hours**(e)**	$ 40.00	$ 40.00
10	Deposit Requirement	(e)	(e)
11	Deposit Interest	3.50%	6.00%
12	Service Lateral Connection Charge- All Sizes	(f)	(f)
13	Main Extension Tariff, per Rule R14-2-606B	(g)	(g)
14			
15			
16			

17 (a) Charges are applicable to wastewater service.
18 (b) Minimum charge times number of full months off the system. per Rule R14-2-603D.
19 (c) Greater of $5.00 or 1.5% of unpaid balance.
20 (d) No charge for service calls during normal working hours.
21 (e) Afer horus service charge is appropirate when it is at the customer's requres or convenience. It compensates the utility
22 for additional expenses incurred for providing after-hours services. It is appropriate to apply this charge for any utility
23 service provided after hours at the customers request or for the customer's convenience.
24 (e) Per ACC Rules R14-2-603B Residential - two times the average bill.
25 Non-residential - two and one-half times the average bill.
26 (f) At cost. Customer/Developer shall install or cuase to be installed all Service Laterals as a
27 non-refundable contribution-in-aid of construction..
28 (g) All Main Extensions shall be completed at cost and shall be treated as non-refundable
29 contribution-in-aid of construction.
30
31
32 IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM
33 ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE
34 TAX. PER COMMISSION RULE 14-2-409D(5).
35
36
37
38
39

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY, AN ARIZONA CORPORATION, FOR A 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-01427A-13-0043
IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-01428A-13-0042

REBUTTAL TESTIMONY OF
GREG SORENSEN

October 23, 2013

EXHIBIT
A-7

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I. INTRODUCTION AND PURPOSE OF TESTIMONY 1

II. SECTION 2 – ACHIEVEMENT PAY (RUCO ADJUSTMENT 14 FOR WATER AND SEWER) 1

8602061.1/060199.0028

I. INTRODUCTION AND PURPOSE OF TESTIMONY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Greg Sorensen. My business address is 12725 W. Indian School Road, Suite D-101, Avondale, AZ 85392.

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

A. On behalf of Applicant Liberty Utilities (Litchfield Park Water & Sewer) Corp. which is generally known as "LPSCO".

Q. ARE YOU THE SAME GREG SORENSEN THAT PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THIS CASE?

A. Yes. My direct testimony was filed on February 28, 2013 as part of the Application.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. At this time I am only responding to RUCO's proposed disallowance of Achievement Pay, RUCO Adjustment No. 14.

II. SECTION 2 – ACHIEVEMENT PAY (RUCO ADJUSTMENT 14 FOR WATER AND SEWER)

Q. WHAT ADJUSTMENT DID RUCO PROPOSE REGARDING ACHIEVEMENT PAY?

A. RUCO proposed disallowing $138,887 and $128,034 of achievement pay for the water and wastewater divisions, respectively. RUCO offers three separate reasons for its recommended adjustment: (1) both shareholders and customers gain from incentive programs; (2) future cost levels are uncertain; and (3) precedent supports an equal sharing.[1] None of these reasons, together or separate, supports RUCO's adjustment.

[1] Direct Testimony of Robert B. Mease at 31:12 – 32:19.

Q. WHY NOT?

A. Because we are talking about test year operating expenses. The amounts we're seeking to recover were actually expensed during the test year as part of Liberty's normal salaries and wages expense. No one is arguing that it was unreasonable or prudent to pay those amounts. In other words, this is a cost of service and costs of service and shareholders do not generally share in paying operating expenses (chemicals, purchased power, water testing expenses, etc.).

Q. THAT'S TRUE, MR. SORENSEN GENERALLY, BUT ISN'T IT THE SHAREHOLDER THAT GETS THE LION'S SHARE OF THE BENEFIT OF BONUSES?

A. No, absolutely not. I can't speak for how it works elsewhere but Liberty's achievement pay is based on metrics such as Customer Experience, Employee programs, Operational Excellence, Safety, Efficiency, and personal performance. We are measuring how well an employee served the customer's needs.

Q. ARE BONUS PAYMENTS AN IMPORTANT RECRUITING AND RETENTION TOOL?

A. Yes, and the use of terms like incentive pay or bonuses do not really capture what we do.

Q. HOW WOULD YOU DESCRIBE LIBERTY'S MODEL?

A. Bonuses or incentive programs are just a part of an employee's overall or total compensation. We hold some back and label it a bonus and it creates a continuing incentive. It is about a total compensation package and how it is apportioned during the year and that's where the focus should be. This total compensation has to be market competitive or, all other things being equal, employees will leave for what they perceive to be a better paying job. This will then lead to higher turnover for the utility and a degradation of service to the customer. A similar concept

applies to recruiting new employees to come to work at Liberty. When a candidate is considering coming to work here, one of the primary considerations they make is the compensation and benefits package. We have to design our pay and benefits packages to be market competitive.

Q. BUT HOW DO WE KNOW THAT YOU WILL PAY THE SAME AMOUNT IN THE FUTURE?

A. We don't. Nor do we know how much we will pay for power, fuel, paper clips or our lawyers. We are using a test year to set rates and we have asked to use the test year number. However, as I write this, we are accruing similar expense level for incentive pay to be paid in 2014. Furthermore, it is possible one person that got their bonus in the test year won't one year in the future. It is also possible we will have a new employee and pay them a bonus too, like Mr. Krygier as an example who was hired in 2012. The point is this is how we pay our employees and every test year provides a snap shot of the amount we will pay every year. Liberty strives to maintain a consistently high level of service and, frankly I think every Liberty employee expects to receive their total compensation package every year because they do their jobs well. I know I do.

Q. SO LPSCO / LIBERTY HAS HISTORICALLY PAID BONUSES?

A. Yes, that's the point. Like any expense, the year to year amount may vary slightly but the program is there, it is a recurring expense that will continue and the test year provides a reasonable expense level.

Q. SINCE THE END OF THE TEST YEAR HAS LPSCO / LIBERTY MAINTAINED THE SAME LEVEL OF EXPENSE?

A. Yes, we have maintained the same or slightly higher level of the expected expense. Our most recent annual payment was in April 2013.

Q. DOES LIBERTY HAVE ANY EVIDENCE REGARDING RUCO'S TREATMENT OF THIS EXPENSE FOR OTHER UTILITIES?

A. We do not believe RUCO always makes this type of adjustment. In fact, I reviewed RUCO's adjustments involving RRUI[2] and there were no incentive pay adjustments proposed even though Liberty employees have been on an incentive pay system as long as I've been at the Company, which pre-dates the last LPSCO test year. RUCO does cite five gas and electric utility decisions, which RUCO believes supports its position,[3] however, I can cite several cases that support our position and illustrate how inconsistent RUCO is in its recommendations:

- 0% disallowance Decision No. 70372 (Arizona-American Water Company: Anthem Water and Anthem/Agua Fria Wastewater)
- 0% disallowance Decision No. 72059 (LPSCO sister company, Rio Rico Utilities, Inc.)
- 30% disallowance Decision No. 70351 (Arizona-American Water Company)
- 30% disallowance Decision No. 71410 (Arizona-American Water Company)
- 100% disallowance Decision No. 72047 (Arizona-American Water Company)

Q. WHY IS AUTHORIZING THIS EXPENSE IN THE PUBLIC INTEREST?

A. First, achievement pay is an important tool in recruiting employees to the company. Second, achievement pay is not purely a financial measure but rather is represented by a balanced approach which evaluates such things as customer service, operational reliability and employee development. Third, RUCO's position on the issue is extremely inconsistent from case to case without explanation. Fourth, this expense was incurred and will be a continuing expense going forward that helps us provide quality utility service to our customers.

---

[2] Docket No. WS-02676A-09-0257. RRUI is Rio Rico Utilities, Inc., a sister entity to LPSCO.
[3] Direct Testimony of Robert B. Mease at 32:7.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY, AN ARIZONA CORPORATION, FOR A 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-01427A-13-0043
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REBUTTAL TESTIMONY OF
THOMAS J. BOURASSA

COST OF CAPITAL

October 23, 2013

EXHIBIT
A-8

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8602372.1/060199.0028

FENNEMORE CRAIG
A PROFESSIONAL CORPORATION
PHOENIX

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 Applicant Liberty Utilities (Litchfield Park Water & Sewer) Corp. ("LPSCO" or the "Company").

Q. DID YOU ALSO PREPARE REBUTTAL TESTIMONY ON RATE BASE 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 are two exhibits, which are 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 and RUCO witness Mr. Robert Mease. The Company has also retained Dr. Wendell Licon, PhD from Arizona State University ("ASU") to provide rebuttal testimony on cost of capital.

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

A. Yes, but not significantly. The table below summarizes the results of my updated analysis:

Method	Low	High	Midpoint
Range DCF Constant Growth Estimates	8.6%	9.3%	9.0%
Range of CAPM Estimates	8.8%	11.0%	9.9%
Range of Build Up Method	8.7%	12.6%	10.6%
Average of DCF and CAPM midpoint estimates	8.7%	11.0%	9.8%
Financial Risk Adjustment	-0.6%	-0.6%	-0.6%
Specific Company Risk Premium	0.5%	0.5%	0.5%
Indicated Cost of Equity	**8.7%**	**10.9%**	**9.7%**

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

To summarize, my 9.7 percent ROE recommendation balances my judgment about the degree of financial and business risk associated with an investment in LPSCO, as well as consideration of the current economic environment.

Q. IS THIS LOWER THAN THE COST OF EQUITY ESTIMATES IN YOUR DIRECT TESTIMONY?

A. Yes. In February 2013, my cost of equity estimate was 10.0 percent compared to my current estimate of 9.7 percent.

Q. WHAT IS YOUR RECOMMENDED COST OF CAPITAL?

A. The Company's recommended capital structure consists of 15.87 percent debt and 84.13 percent common equity as shown on Rebuttal Schedule D-1. Based on my updated cost of capital analysis, I am recommending a cost of equity of 9.7 percent, as I explained above. The Company is adopting Staff's recommended cost of debt of 6.4 percent. Based on the foregoing, the Company's weighted average cost of capital ("WACC") is 9.18 percent, as shown on Rebuttal Schedule D-1.

	Capital Structure	Cost	Wtd Cost
Equity	84.13%	9.70%	8.16%
Debt	15.87%	6.40%	1.02%
Total	100.00%		9.18%

Q. HOW HAVE ECONOMIC CONDITIONS CHANGED SINCE YOU PREPARED YOUR COST OF CAPITAL ANALYSIS IN FEBRUARY 2013?

A. While expected GDP growth is similar now compared to February 2013 forecasts, interest rates are rising. With respect to economic growth, consensus estimates are that the economy will grow at a very modest annualized rate of 2.0 to 2.5 percent for the 3rd and 4th quarter of 2013 and 2.7 percent to 3.0 percent in 2014.[1]

In the meantime, however, the long-term interest rate has risen by about 60 basis points, a nearly 20 percent rise.[2] There have also been larger increases in the shorter term U.S. Treasuries.[3] The rise in interest rates has been largely due to

[1] *Value Line* Selection & Opinion, October 18, 2013.
[2] Average monthly 30 Year U.S. Treasury bond yield for February 2013 was 3.17 percent compared to 3.39 percent for September 2013; an approximate increase of 62 basis points.
[3] Average monthly 10 Year U.S. Treasury bond yield for February 2013 was 1.98 percent compared to 2.81 percent for September 2013; an approximately increase of about 83 basis points.

the Federal Reserve indicating that it intended to begin curtailing its $85 billion per month bond buying program by September 2013 on the expectation that the economic conditions would warrant it. The Federal Reserve's current bond buying program is one of a number of quantitative easing programs the Federal Reserve has implemented since the financial crisis of 2008. These programs have helped to drive interest rates to historical lows in order to promote economic growth and to mitigate risks to economic activity. But the Fed's low-interest policies have also boosted stock values at a pace beyond what future profitability of this asset class can sustain. Either value growth will slow or outright adjustments appear inevitable as the Fed curtails quantitative easing.[4]

That said, September 2013 came and went and the Federal Reserve decided to await more evidence that confirmed the improvement in the economy.[5] Based upon comments from the most recent Federal Open Market Committee meeting (September 2013), a majority of analysts expect the Fed to begin curtailing quantitative easing by December 2013 with the intent to end it by the second half of 2015.[6] Long-term interest rates remain elevated from a year ago. For example, the average monthly 30 year U.S. Treasury bond yield in September 2012 was 3.18 percent compared to 3.79 percent for September 2013; an approximately 60 basis point difference.

[4] "Dow off 206 after Bernanke sees end to Fed easing," *MSN Money* (C. Blaine), June 19, 2013.
[5] *Blue Chip Financial Forecast*, October 2013.
[6] *Id.*

Q. HOW HAS THE ANALYSTS' OUTLOOK FOR THE WATER UTILITY INDUSTRY CHANGED SINCE YOU PREPARED YOUR COST OF CAPITAL ANALYSIS IN FEBRUARY 2013?

A. The most recent *Value Line* report for the water utility industry places particular emphasis on the need for significant capital investment to address aging infrastructure as well as on regulatory risk.[7] *Value Line* succinctly states the intertwined issue:

> The potential problem is that water systems are in such poor condition that a substantial amount of capital expenditures have to be made. This means that water bills will have to be raised significantly for all of the new investment. This is where politics gets involved. Ratepayers (i.e. voters) do not like their bills raised, even if the increase is to pay for prudent investment. On the other hand, if utilities don't believe they are getting fair treatment, regulators know that the utilities will stop investing in their systems.[8]

Q. PLEASE SUMMARIZE THE IMPLICATIONS OF THE LARGER ECONOMIC TRENDS AND INDUSTRY CHALLENGES.

A. As interest rates continue to rise and the need to continue replacing infrastructure becomes very real, attracting capital investment will be vital. One of the most effective ways to attract capital investment is awarding fair returns on equity investment. As I discuss further, the other ROEs recommended by the parties don't meet that expectation, which, as Dr. Licon explains, will have the effect of devaluing LPSCO and making it harder and more expensive to attract capital.

---

[7] *Value Line Water Industry,* Ratings and Reports, October 18, 2013.
[8] *Id.*

B. Summary of the Staff and RUCO Recommendations

Q. PLEASE SUMMARIZE THE RESPECTIVE RECOMMENDATIONS OF STAFF AND RUCO FOR THE RATE OF RETURN ON FAIR VALUE RATE BASE.

A. Staff is recommending a capital structure consisting of 15.9 percent debt and 84.1 percent equity.[9] Staff determined a cost of equity of 8.4 percent based on the average cost of equity produced by its DCF and CAPM models, a financial risk adjustment and an economic assessment adjustment (EAA).[10] Staff also determined the cost of debt to be 6.4 percent. Staff used a sample of seven publicly traded water utilities; six of which are the same as those I used in my analysis.[11] Staff did not consider firm size or firm-specific risks in its analysis. Based on its capital structure recommendation, Staff determined the WACC for LPSCO to be 8.1 percent.[12]

RUCO did not perform any sort of meaningful cost of capital analysis. Instead, RUCO relied on its cost of capital prepared in the Rio Rico Utilities rate case that was decided on July 30, 2013.[13] RUCO recommends the return on equity of 9.2 percent adopted in that proceeding.[14] RUCO is recommending a capital structure of 15.87 percent debt and 85.13 percent equity, with a cost of debt of 6.86 percent.[15] Based on its recommended capital structure, RUCO determined the WACC for LPSCO to be 8.83 percent.[16]

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[9] Direct Testimony of John A. Cassidy ("Cassidy Dt.") at 38.
[10] *Id.* at 39.
[11] Staff has added York Water (YORW) to its proxy group.
[12] Cassidy Dt. at 47.
[13] Direct Testimony of Robert B. Mease ("Mease Dt.") at 35. *See also Rio Rico Utilities, Inc.*, Decision No. 73996.
[14] *Id.* at 37.
[15] *Id.* at 36, 37.
[16] *Id.*

Q. HAS THE COMPANY'S PROPOSED CAPITAL STRUCTURE CHANGED?

A. No, but as I noted above, we accepted Staff's cost of debt of 6.4 percent, which is lower than the cost of debt of 6.86 percent I used in the direct filing.

Q. PLEASE COMPARE THE PARTIES' RESPECTIVE COST OF EQUITY ESTIMATES AND RECOMMENDATIONS AT THIS STAGE OF THE PROCEEDING.

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

Party	DCF	CAPM	Build-Up	Average	Financial Risk/EAA	Adjusted	Recommended
LPSCO	9.0%	9.9%	10.6%	9.8%	-.1%	9.8%	9.7%
Staff	8.7%	8.1%	N/A	8.4%	0%	8.4%	8.4%
RUCO	N/A	N/A	N/A	N/A	N/A	N/A	9.2%

C. The ROE Recommended by LPSCO is the Only Recommendation in This Case that Meets the Standards Set Forth in *Hope* and *Bluefield*

Q. PLEASE SUMMARIZE WHY YOU BELIEVE THE STAFF AND RUCO COST OF EQUITY RECOMMENDATIONS DO NOT MEET THE COMPARABLE EARNINGS STANDARDS SET FORTH IN *HOPE* AND *BLUEFIELD*.

A. The comparable earnings standard set forth in the *Hope* and *Bluefield* decisions require that the rate of return afforded to utilities be similar to the return in businesses with similar or comparable risks.[17] Neither of the other two parties' cost of capital recommendations for LPSCO meet this standard. Almost every meaningful comparison of Staff's and RUCO's recommendations with other comparative data suggests that their recommendations fall far short. In summary, there are several reasons:

[17] Direct Testimony of Thomas J. Bourassa (Cost of Capital) ("Bourassa COC Dt.") at 17-18.

- Actual Earned Proxy Group ROE - The current average of actual return on equity for Staff's water proxy group is 9.2 percent. This is 80 basis points above the Staff recommendation of 8.4 percent.

- Projected Proxy Group ROEs - The 3-5 year projected earned equity returns for Staff water proxy group is 9.9 percent. This is 150 basis points above the Staff recommendation and 70 basis points above the RUCO recommendation.

- Authorized Proxy Group ROEs - The average authorized return for the publicly traded utilities is 10 percent. This is 160 basis points above the Staff recommendation and 80 basis points above the RUCO recommendation.

- NYU Stern School Analysis - Based on an analysis of the ratio of allowed equity returns to debt costs for publicly traded water utilities conducted by the New York University Stern Business School, the indicated cost of equity for LPSCO should be 10.7 percent. This is 230 basis points above the Staff recommendation and 150 basis points above the RUCO recommendation.

- Commission Precedent - Based on an analysis of the ratio of allowed equity returns to debt costs for Arizona Class A and B water and wastewater utilities prepared by the Company, the indicated cost of equity for LPSCO should be 10 percent. This is 160 basis points above the Staff recommendation and 80 basis points above the RUCO recommendation.

- Dividend Payout Analysis - Based on a dividend payout ratio analysis, the Company cannot pay dividends at a rate comparable to the publicly traded water utilities. This impedes LPSCO ability to attract capital. In order to pay dividends at a comparable rate, the required return on equity needs to be between 9.8 percent and 11.4 percent; 140 to 300 basis points above the Staff recommendation and 60 to 220 basis points above the RUCO recommendation.

- Staff and RUCO fail to account for the differences in risk between the publicly traded utilities and LPSCO.

D. Rebuttal to the Cost of Equity Recommendations of Staff and RUCO

1. Actual, Authorized and Earned Proxy Group ROEs

Q. HOW DO THE PARTIES' RECOMMENDATIONS COMPARE TO OTHER FORECASTS OF COMMON EQUITY RETURNS AND CURRENTLY AUTHORIZED RETURNS?

A. They are much lower. *Value Line*, a reputable publication used by the Company and Staff cost of capital witnesses in the instant case, publishes forecasts of returns on common equity for larger publicly traded companies. Six water utilities are included in my sample group while Staff includes seven. Staff has recently added York Water (YORW) to its proxy group. *Value Line* (October 18, 2013) shows projected returns on equity for those water utilities:

Company	2012	2013	2014	2016-18
American States Water (AWR)	11.9%	12.5%	12.0%	11.5%
Aqua America (WTR)	11.0%	12.0%	12.0%	12.5%
California Water (CWT)	9.0%	7.0%	8.0%	9.5%
Connecticut Water (CTWS)	7.3%	9.0%	9.5%	8.5%
Middlesex Water (MSEX)	7.8%	8.0%	8.5%	9.0%
SJW Corp. (SJW)	8.1%	8.5%	8.5%	8.5%
York Water. (YORW)	9.3%	9.5%	10.0%	10.0%
Averages	9.2%	9.5%	9.8%	9.9%

Furthermore, the currently authorized ROEs for the sample water utility companies as reported by AUS Utility Reports (October 2013) average 10.03 percent. They are as follows:

Company	
American States Water (AWR)	9.99%
Aqua America (WTR)	10.29%
California Water (CWT)	9.99%
Connecticut Water (CTWS)	9.75%
Middlesex Water (MSEX)	10.15%
SJW Corp. (SJW)	9.99%
York Water. (YORW)	NM
Average	**10.03%**

Q. WHAT CONCLUSIONS CAN BE DRAWN FROM THE RETURN DATA YOU JUST PRESENTED, MR. BOURASSA?

A. For one, they are all much higher than the Staff returns produced by their models, before any consideration of financial or other risks. For another, since we are applying a return to a book value rate base, book equity returns have relevance. In fact, if we are to meet the comparable earnings standards set forth in *Hope* and *Bluefield,* then a comparison to book returns is an essential element. These utilities' rates will be in effect during approximately the same time period as LPSCO. Yet, if the Staff or RUCO recommendation is adopted, LSPCO will be allowed to earn much less, failing the *Hope and Bluefield* standard.

2. NYU Stern School Analysis & Commission Precedent

Q. HAVE YOU LOOKED AT RELATIONSHIPS BETWEEN THE COST OF EQUITY AND THE COST OF DEBT TO ASSIST YOU IN DETERMINING THE REASONABLENESS OF ALL OF THE PARTIES RECOMMENDATIONS IN THE INSTANT CASE?

A. Yes. First, I reviewed a study conducted by the New York University, Stern School of Business that reported the current ratios of the cost of equity to the cost of debt for publicly traded utilities and several industry sectors, including electric, gas, and water. Based on that review, the indicated comparable cost of equity for an investment in LPSCO should be 10.69 percent. Next, I conducted an analysis of adopted costs of equity and cost of debt for Class A and B utilities in Arizona since 2004. Based on my analysis, the indicated comparable cost of equity for LPSCO should be at 10.05 percent.

Q. WHAT IS THE NEW YORK UNIVERSITY, STERN SCHOOL OF BUSINESS?

A. The Leonard N. Stern School of Business at New York University is one of the nation's top business schools. U.S. News & World Report annually ranks the undergraduate and graduate schools and programs at American universities. The Stern School currently holds the following rankings from U.S. News:

- #10 Best Business School in America
- #9 in Accounting
- #3 in Finance
- #6 in Executive MBA
- #10 in Information Systems
- #5 in International Business

Q. DOES THE STERN SCHOOL PUBLISH AN ANNUAL REPORT THAT EVALUATES THE CURRENT COSTS OF DEBT AND EQUITY FOR EVERY SECTOR OF THE U.S. ECONOMY?

A. It does, and I am relying on data from the 2013 study to evaluate the effectiveness of the Staff's approach to cost of equity analysis in this testimony.

Q. WHAT IS THE KEY METRIC FOR YOUR ANALYSIS?

A. I looked at the relationship between real world equity and debt costs for every regulated industry, and in particular the U.S. water utility sector. The Stern Review evaluates 11 water companies throughout the U.S. and, while each company has its own unique debt and equity costs, the important metric is the equity to debt ratio of cost.

Q. WHAT IS A EQUITY TO DEBT RATIO OF COST?

A. It is the difference between the cost of debt and the cost of equity.

Q. DOESN'T DEBT ALWAYS COST LESS THAN EQUITY?

A. It does, and if one reflects on the difference in the claims that debt holders and equity owners have on the assets and the income of an entity, it's easy and obvious to see why debt would be cheaper. Debt holders have a claim on the assets of the company and first rights to the income of the company.

Q. WHAT DOES THAT MEAN IN PRACTICAL TERMS?

A. It means that if the company remains viable, and generates income (i.e., the revenue generated by the company's activities is greater than the costs associated with the company's activities), the first people to get their share of that income are debt holders. So they face less risk of being paid back for their investment.

Now, if the company runs into difficulties and has to declare bankruptcy, the assets of the company have to be divided among the owners of the company. The first rights on those assets are held by debt owners; so if the company fails, the

debt holders face less risk of losing all their investment in the company. Equity holders, or shareholders, are the ones who usually get wiped out in a bankruptcy.

So, that's why debt costs less than equity – when a company issues debt, the purchasers know they have the first claim on any income, and if the company fails, they have the first rights to the assets of the company. Equity owners therefore face greater risk. In economics, risk is compensated by return – the more risk an investor faces, the more return they demand.

Q. WHAT IS THE CURRENT EQUITY TO DEBT COST RATIO FOR UTILITIES IN THE U.S., ACCORDING TO THE STERN REVIEW?

A. It is as follows:

STERN REVIEW OF U.S. UTILITY SECTORS	COD/COE RATIO IN STERN REVIEW	STERN REVIEW OF U.S. UTILITY SECTORS	COD/COE RATIO IN STERN REVIEW
ELECTRIC (CENTRAL U.S.) 20 UTILITIES	2.248	POWER GENERATION 101 ENTITIES	2.256
ELECTRIC (EASTERN U.S.) 17 UTILITIES	1.876	TELECOM UTILITIES (23 UTILITIES)	2.565
ELECTRIC (WESTERN U.S.) 15 UTILITIES	2.274		
NATURAL GAS UTILITIES (27 UTILITIES)	1.594		
WATER UTILITIES (11 UTILITIES)	1.67		

Q. SO THE EQUITY TO DEBT COST RATIOS FOR NATURAL GAS UTILITIES AND WATER UTILITIES ARE THE LOWEST?

A. That's correct. That indicates that natural gas utilities and water utilities are regarded as the least risky equity investments in the U.S. utility sector.

Q. DOES ANYTHING STRIKE YOU IN THAT RESULT?

A. The first thing that strikes me is that RUCO's past analyses consistently use natural gas utilities as proxies for water utilities in their cost of equity models. And, by using natural gas utilities as proxies, they are understating the actual cost of equity for water utilities.

Q. WOULD YOU EXPECT ARIZONA'S EQUITY TO DEBT COST RATIOS TO MIRROR THE STERN REVIEW FINDINGS?

A. I would. I have put every company that Staff and RUCO use as a proxy, and that is also included in the Stern Review the table below. Notably, every one of Staff and RUCO's proxies is in the Stern Review of cost of capital, real world data, circa 2013.

Staff Proxy Companies	**RUCO Proxy Companies**
Water Utilities	**Water Utilities**
American States	American Water Works
California Water	American States
Aqua America	California Water
Connecticut Water	Middlesex Water
Middlesex Water	SJW Corp
SJW Corp	Aqua America
York Water[18]	

[18] York Water is a recent addition to the Staff water proxy group.

RUCO Proxy Companies

Natural Gas Utilities
AGL Resources
Atmos Energy
LaClede Group
New Jersey Resources
Northwest Natural Gas
Piedmont Natural Gas
South Jersey Industries
Southwest Gas
WGL Holdings

Q. SO IT APPEARS THAT THE STERN REVIEW AND STAFF AND RUCO ALL INCLUDED THE SAME COMPANIES?

A. The Stern Review is actually broader, it includes 11 publicly traded water utilities throughout the U.S., and 27 publicly traded natural gas utilities. Therefore, one can have more confidence in the Stern Review's conclusions because they include many more companies. Now, again, I want to emphasize that I am not comparing the costs of debt and the costs of equity for each company because every company has unique circumstances. What we need to look at is the real world results and the best way to measure that is through the average equity to debt cost ratio.

Q. WHAT DOES THE STERN REVIEW CONCLUDE REGARDING THE EQUITY TO DEBT COST RATIO FOR WATER UTILITIES IN THE UNITED STATES IN 2012?

A. The result in the Stern Review is that the equity to debt cost ratio for water utilities in the United States in 2012 was 1.67. That is, equity costs 1.67 times more than debt for water utilities as of 2013.

Q. WHAT DOES THE STERN REVIEW CONCLUDE REGARDING THE EQUITY TO DEBT COST RATIO FOR NATURAL GAS UTILITIES IN THE UNITED STATES IN 2012?

A. The result in the Stern Review is that the equity to debt cost ratio for natural gas utilities in the United States in 2012 was 1.594. That is, equity costs 1.594 times more than debt for natural gas utilities as of 2013.

Q. WHAT ABOUT ARIZONA? WHAT IS THE AVERAGE EQUITY TO DEBT COST RATIO FOR ARIZONA WATER UTILITIES?

A. Using 2012 Corporation Commission decisions for water utilities only, the ratio of cost was 1.855. I would note that I also excluded Arizona-American Water Company's 2012 decision in Docket No. 10-0448, which had an equity to debt cost ratio of 5.0 because Arizona-American has a very high proportion of intercompany, short term debt that was priced below 1 percent. To include that 5.0 ratio would have unfairly increased the Arizona average equity to debt cost ratio up to 2.9. The appropriate number is 1.855.

Q. WHAT ABOUT ARIZONA'S 2013 DECISIONS FOR WATER UTILITIES?

A. So far, the average equity to debt cost ratio for Arizona water utility decisions from the Corporation Commission has averaged 1.57.

Q. ARE THE ARIZONA 2013 EQUITY TO DEBT RATIOS FOR WATER UTILITIES HIGHER THAN NORMAL FOR THE CORPORATION COMMISSION?

A. They are not. Here are the average equity to debt ratios for Class A and B water utility decisions from the Corporation Commission dating back to 2004:

- 2013: 1.57
- 2012: 1.855
- 2011: 1.46
- 2010: 1.585
- 2009: 1.859
- 2008: 1.555
- 2007: 1.703
- 2006: 1.92
- 2005: 1.445
- 2004: 1.503

The range of equity to debt cost ratios since 2004 is 1.445 to 1.92; an average of 1.647 and a median of 1.578. The Arizona 2013 average ratio of 1.57 is well within the range and lower than the average and approximately at the mid-point.

Q. WHAT IS THE EQUITY TO DEBT COST RATIO IN STAFF'S TESTIMONY IN THIS CASE?

A. Staff's equity to debt cost ratio in this case is 1.31; well below the low end of the range since 2004.

Q. IN THE PAST FIVE YEARS HAVE YOU FOUND ANY EQUITY TO DEBT COST RATIO THAT LOW?

A. Yes, in 2010, Staff and the Commission issued a equity to debt cost ratio of 1.24 to Litchfield Park Service Company. That was far and away the lowest ratio that year; the average that year for water utilities was 1.585.

Q. WAS THAT BECAUSE LPSCO HAD THE HIGHEST LEVEL OF EQUITY OF ANY OF THOSE COMPANIES?

A. It did have the highest level of equity, 82.14; but in that same year Black Mountain Sewer Corporation had 80 percent equity and received a equity to debt cost ratio of 1.63.

Q. WERE THERE ANY OTHER COMPANIES IN THE PAST FIVE YEARS THAT HAD AN EQUITY TO DEBT COST RATIO NEAR WHAT STAFF IS PROPOSING IN THIS CASE?

A. Yes, in 2008, Gold Canyon Sewer Company received an equity to debt cost ratio of 1.02. That was far and away the lowest ratio that year; the average that year was 1.555.

Q. SO IN THE PAST FIVE YEARS, THE THREE LOWEST RATIOS WERE ALL FOR COMPANIES OWNED BY LIBERTY UTILITIES?

A. That's correct.

Q. WHAT IS THE AVERAGE DEBT/EQUITY STRUCTURE FOR U.S. WATER UTILITIES?

A. The Stern Review shows that it is 43 percent debt, 57 percent equity.

Q. SO LIBERTY UTILITIES' ENTITIES DO HAVE HIGHER THAN AVERAGE EQUITY. SHOULDN'T THAT HAVE AN EFFECT ON THEIR ROE?

A. Yes it should, and it does. In 2013, the lowest ROE granted to any water utility was to Liberty's Rio Rico Utilities, 9.2 percent. Liberty agrees that its ROE should be lower due to less financial risk, but it still has to be rational. In the Rio Rico case, Liberty asked for an ROE of 9.5 while the average company recommendation for all the other water companies was 11.02. Liberty recognizes its ROE should be lower because of the lower level of debt its corporate structure. In the recent Rio Rico case, Liberty asked for a 9.5 ROE because of that structure. Liberty received an ROE 66 basis points lower than its peers – and Liberty believes that was a fair result that properly and accurately reflects the reduced risk because of our low use of debt. But Staff's recommended ROE in this case is 146 basis points lower than the Commission's year to date average ROE for water utilities. And the

year to date average equity to debt cost ratio for water utilities is 1.57; Staff is recommending a 1.31 ratio for LPSCO. That fails as a matter of fairness and as a matter of economic reality when compared to the Stern Review real world data.

Q. WHAT WOULD BE THE INDICATED COST OF EQUITY USING THE STERN RATIO OF 1.67 AND STAFF'S RECOMMENDED COST OF DEBT OF 6.4 PERCENT?

A. 10.69 percent (1.67 times 6.4 percent).

Q. WHAT WOULD BE THE INDICATED COST OF EQUITY USING THE ARIZONA 2013 AVERAGE RATIO OF 1.57 AND STAFF'S RECOMMENDED COST OF DEBT OF 6.4 PERCENT?

A. 10.05 percent (1.57 times 6.4 percent).

Q. WHAT CONCLUSIONS CAN BE DRAWN FROM THE STERN SCHOOL ANALYSIS AND COMMISSION PRECEDENT ANALYSIS?

A. These two analysis further bolster LPSCO's argument that the recommendations of the other parties in this case continue to fail the *Hope and Bluefield* comparable earnings standard. This is evident when the Stern School and Commission precedent imply ROE's of 10.69 percent and 10.05 percent when the other parties recommend 9.2 percent and 8.4 percent.

3. Dividend Payout Analysis

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

A. No. In fact, the dividend payout ratio will need to exceed 90 percent of earnings; which far exceeds the 67 percent recent three historical average payout ratio for the publicly traded utilities. The projected 3-5 year average payout ratio is expected to be 62 percent.

Q. HAVE YOU PREPARED AN EXHIBIT TO SHOW THE COMPUTATIONS OF THE PAYOUT RATIOS?

A. Yes, and I have also included RUCO's because a similar problem exists under RUCO's recommended equity return, although to a lesser degree than Staff's. In Rebuttal **Exhibit TJB-COC-RB1**, Table 1 of the exhibit shows the computations using the Staff recommendations and Table 2 shows the computations using the RUCO recommendations. The payout ratio for Staff is 92 percent; the payout ratio for RUCO is 85 percent.

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. 10.62 percent. Let me explain. Using the amounts shown in Table 1, the derivation of the 10.62 percent would be as follows:

[1] Equity Balance	$55,220,328
[2] Book Dividend Rate	6.6%
[3] Required Dividend Payout Ratio	0.67
[4] Required Net Income [1] divided by [2] divided by [3]	$5,439,614
[5] Interest Expense	$565,461
[6] Required Operating Income [4] plus [5]	$6,005,075
[7] Recommended Rate Base (water and wastewater)	$56,544,104
[8] Required Return on Rate Base [6] divided by [7] times 100	10.62%

Q. THE 10.62 PERCENT RETURN WOULD BE COMPARABLE TO THE WEIGHTED AVERAGE COST OF CAPITAL. CORRECT?

A. Yes, and based on a capital structure consisting of 84.1 percent equity and 15.9 percent debt with a debt cost of 6.4%, the required equity return would need to be 11.42 percent. The computation is shown as follows:

	Cost	Percent	Weighted Cost
Long-term Debt	6.4%	15.9%	1.02%
Equity	**11.42%**	84.1%	9.60%
			10.62%

With respect to the RUCO recommendations, a similar analysis using the amounts shown in Table 2 would result in a required return on rate base of 10.59 percent and a required equity return of 11.38 percent.

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

A. Yes. Putting aside the importance of servicing all of a utility's invested capital in order to maintain its credit and attract capital, and determining the required earnings on rate base, then the required return on rate base must be 9.28 percent which translates to a cost of equity of 9.82 percent. Using the Staff recommended rate base from Table 1 instead of the equity balance as the starting point, the derivation of the 9.28 percent and the 9.82 percent would be as follows:

[1] Recommended Rate Base	$56,544,104
[2] Percent equity	84.1%
[3] Equity portion funding rate base	$47,553,591
[2] Book Dividend Rate	6.6%

[3] Required Dividend Payout Ratio	0.67
[4] Required Net Income [1] divided by [2] divided by [3]	$4,684,383
[5] Interest Expense	$565,461
[6] Required Operating Income [4] plus [5]	$5,249,844
[7] Recommended Rate Base (water and wastewater)	$56,544,104
[8] Required Return on Rate Base [6] divided by [7] times 100	9.28%

	Cost	Percent	Weighted Cost
Long-term Debt	6.4%	15.9%	1.02%
Equity	**9.82%**	84.1%	8.26%
			9.28%

Similarly, under the RUCO recommendations found in Table 2, the return required on rate base is 9.37 percent, which translates to a required equity return of 9.93 percent.

Q. BASED ON YOUR PAYOUT RATIO ANALYSIS WHAT SHOULD BE THE RETURN ON EQUITY?

A. It should be in the range of 9.8 percent to 11.4 percent; much higher than either the Staff or RUCO recommendation.

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

A. Yes. All invested capital must be supported as each dollar of capital has an earnings requirement. Whether each dollar is recognized in rate base, it

nevertheless has capital costs. These costs must be absorbed by earnings from existing investments. As Dr. Morin states:

> The totality of a company's capital has to be serviced... Therefore, the allowed rate of return on common equity is applicable to the total common equity component of the total investments of the utility company. Anything less than that has the direct and immediate effect of reducing common equity return below the level needed to meet the capital attraction and the comparable earnings standards articulated in the Hope and Bluefield decisions. *To apply an allowed rate of return to a rate base that does not maintain the integrity of that capital does not enable the company to attract capital.*[19] (emphasis added)

Q. WHAT WOULD HAPPEN TO THE VALUE OF AN INVESTMENT IN LPSCO IF, USING THE STAFF RECOMMENDATIONS, IT PAID DIVIDENDS IN THE SAME PROPORTION OF EARNINGS AS THE PUBLICLY TRADED UTILITIES?

A. The value of the equity investment in LPSCO would necessarily decrease. Under the Staff recommendations, the value of equity would decrease by over $25 million.

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

A. Yes. Using the figures in Table 1 of **Exhibit TJB-COC-RB1**, if LPSCO paid out 67 percent of its net earnings, comparable to the publicly traded water utilities, it would pay dividends totaling about $2,689,803 (Staff's net earnings income $4,014,632 times 67 percent). This would translate to a dividend yield of only 2.21 percent ($2,689,803 cash divided by $55,220,328 book equity 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

[19] Roger A. Morin, *New Regulatory Finance* at 497-498 (Public Utility Reports, Inc. 2006) ("Morin").

LPSCO would need to decrease to $89,660,100 million ($2,689,803 divided by 3.0 percent) from a market value of $121,484,722 ($55,220,328 book equity times 2.2 market-to-book ratio). In other words, LPSCO's investors will lose approximately $31,824,622 of investment value ($121,484,722 minus $89,660,100), a loss of over a quarter of the value of their investment. The market-to-book ratios would immediately drop from the 2.2 of the publicly traded water utilities to 1.62 ($89,660,100 divided by $55,220,328).

Q. WOULD THEIR BE A SIMILAR REDUCTION IN THE VALUE OF EQUITY UNDER THE RUCO RECOMMENDATIONS?

A. Yes, but not as great. The point is that with the prospect of a devaluation of investment due to an equity return that is insufficient, investors are less likely to invest and the ability to attract capital is greatly diminished. Investors would invest in the publicly traded utility companies rather than a utility like LPSCO under such circumstances.

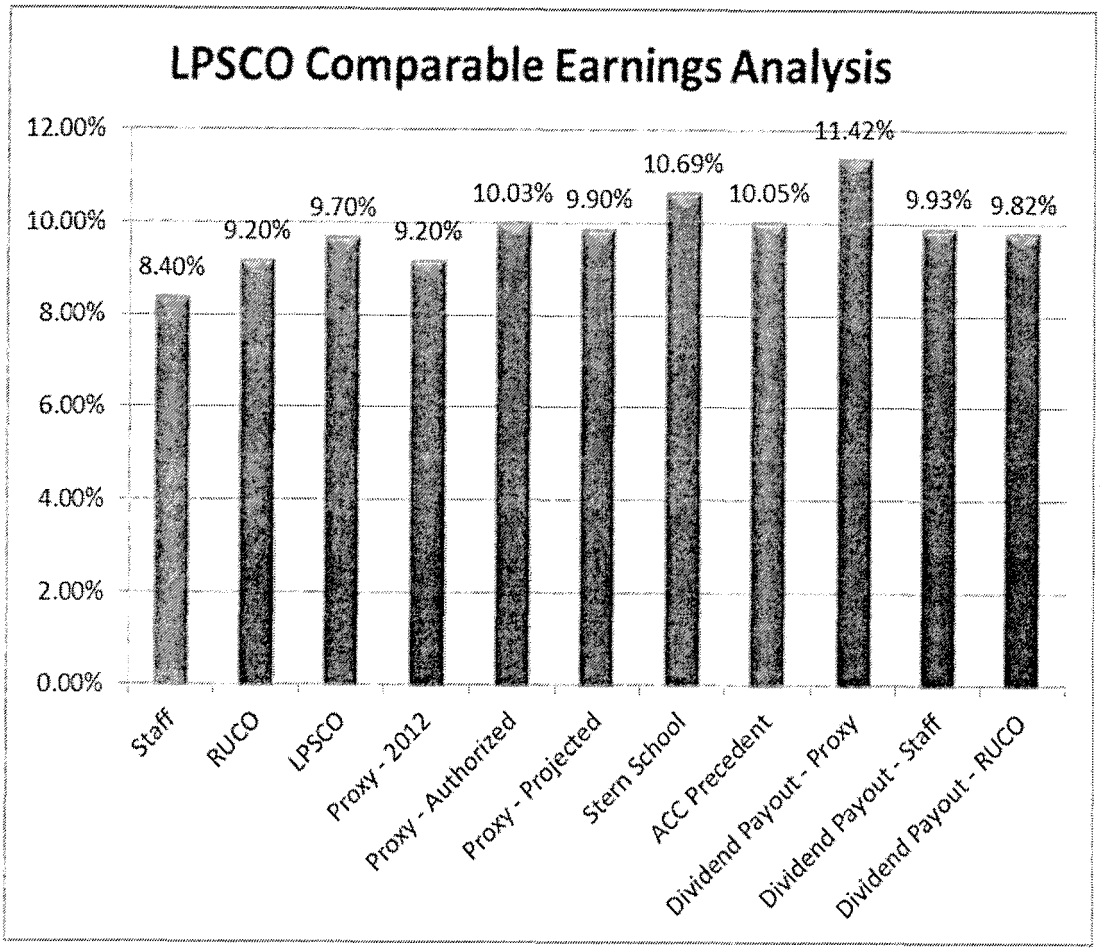
Q. WHAT CONCLUSIONS CAN BE DRAWN FROM THE DIVIDEND PAYOUT ANALYSIS?

A. This analysis further supports why the recommendations of the other parties continue to fail the *Hope and Bluefield* comparable earnings standard. It is a mixed message to compare LPSCO to a proxy group and then ask to LPSCO pay out dividends at a rate far greater than the publicly traded utilities in order to attract capital on the same terms or otherwise face a devaluation of the value of their investment.

Q. PLEASE SUMMARIZE THE TOTALITY OF THE ROE COMPARISONS YOU COMPLETED.

A. In short, I completed six separate analyses that illustrated from a broad high level that any way the data is cut, the recommendations of the parties fail the *Hope and*

Bluefield comparable earnings standard.[20] Below is a chart of the results of my analyses and the recommendations of all of the parties in this case.



[20] Earned Proxy Group ROE, Authorized Proxy Group ROE, Projected Proxy Group ROE, Stern School Analysis, Commission Precedent and Dividend Payout Analysis.

4. Other Comments on Staff's Testimony

a. Market-to-Book Ratio Should be 1.0

Q. PLEASE COMMENT ON MR. CASSIDY'S DISCUSSION (AT PAGE 21 OF HIS DIRECT TESTIMONY) REGARDING THE FINANCIAL IMPLICATIONS OF A MARKET-TO-BOOK RATIO OF GREATER THAN 1.0.

A. There are a number of reasons investors may bid up market prices for stocks above book values other than an expectation that a water utility will earn more than its cost of equity. One reason is that investors may expect a city or some other public entity to condemn all or part of a water utility, meaning the municipality will acquire the assets at the fair market value. Water utilities typically have assets that have a value based on reproduction cost that is well in excess of book value, and investors would be aware that a condemnation award may be well in excess of book values, even if the utility earns no more than its cost of equity.

Second, investors may anticipate a merger or acquisition that produces premium prices. With such anticipated sale prices well above book values, a water utility would also be priced above book value even if the water utility made no more than its cost of equity. There are other reasons as well. These include (1) public utility commissions do not issues orders simultaneously in all jurisdictions, (2) not all of a company's earnings are regulated, (3) regulatory expenses, revenue and rate base adjustments may cause accounting returns to differ from those calculated on a rate case basis, (4) actual sales do not equal sales assumed in a rate case, (5) market expected ROEs change frequently while rate-case authorized ROEs do not, and (6) regulated subsidiaries constitute only a piece of a holding company pie.

The argument that utilities are earning more than their cost of capital because the market-to-book ratio is greater than 1.0 is superficial. It is also superficial to state, as Mr. Cassidy does, that one would expect market forces to move the stock price lower, close to a market-to-book ratio of 1.0, to reflect investor expectations of reduced expected future cash flows. His statement ignores all of the things of importance to investors and why it is reasonable to expect market-to-book rations to exceed 1.0 even if water utilities are expected to earn no more than their costs of equity. If regulators were to force the market-to-book ratios to 1.0 by intentionally lowering the allowed returns, such action would place utilities at a disadvantage in competing for investment capital with industrials and other unregulated companies, whose stock trade well above book value.

b. Staff's Financial Risk Adjustment & Economic Assessment Adjustment

Q. PLEASE COMMENT ON STAFF'S FINANCIAL RISK ADJUSTMENT.

A. Staff recommends a 60 basis point reduction in the cost of equity to reflect the lower financial risk of LPSCO's 84 percent equity capital structure.[21] However, Staff's financial risk adjustment is overstated because Staff uses book values in its estimation of the financial risk adjustment. Based upon the correct use of the Hamada approach using market values, Staff's financial risk adjustment should be no more than 20 basis points. Simply correcting Staff's financial risk adjustment for the use of market values rather than book values, Staff's ROE should be 8.8 percent not 8.4 percent.

[21] Cassidy Dt. at 3.

Q. PLEASE EXPLAIN IN MORE DETAIL WHY STAFF'S FINANCIAL RISK ADJUSTMENT IS OVERSTATED.

A. Staff's financial risk adjustment is overstated because Staff uses book values rather than conceptually correct market values for debt and equity in calculating the risk adjustment using the Hamada formula. Professor Hamada developed his equation using market values, not recorded book costs.[22] This is logical given that the Hamada formula is an extension of the CAPM, which is a market-based model that does not consider book or accounting data. The critical component, beta, is an estimate of a security's risk based on its volatility relative to the market as a whole. Therefore, it would makes no sense to un-lever and re-lever the sample group's average beta to account for the effect of financial leverage using book equity, as Staff has done in this case. In fact, numerous authorities state that market values must be used in estimating the effect of leverage on a security's risk.[23]

Q. DO YOU HAVE OTHER CONCERNS THAT COULD RESULT IN THE OVERSTATEMENT OF THE FINANCIAL RISK ADJUSTMENT?

A. The beta used in the Hamada formula is the average beta of Staff's sample publicly traded water utilities. LPSCO is a riskier investment than any of the sample utilities. Consequently, it would have a higher beta than the average of the sample group. Assuming LPSCO has the same beta as the publicly traded water utilities overstates the adjustment.

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[22] "Effects of the Firm's Capital Structure on Systematic Risk of Common Stock," *Journal of Finance*, Vol. 27 No. 2 (May 1972) 435 – 453.

[23] *See, e.g.,* Morin at 223-224; Richard A. Brealey, Stewart C. Myers and Franklin Allen, *Principles of Corporate Finance* 516-20 (McGraw Hill/Irwin 8th ed. 2006); Tim Koller, Marc Goedhart and David Wessels, *Valuation: Measuring and Managing the Value of Companies* 312-13 (John Wiley & Sons, Inc. 4th ed. 2005); Shannon, P. Pratt, *Cost of Capital – Estimations and Applications* 83-85 (John Wiley & Sons 2nd ed. 2002);

Q. PLEASE COMMENT ON STAFF'S ECONOMIC RISK ASSESSMENT.

A. I can't, at least not in any meaningful way. Staff does not explain the basis for this adjustment in its testimony.[24] There is no analysis, study or authoritative reference upon which Mr. Cassidy's judgment rests for me to consider. Of course, I agree with Staff that the current economic environment supports increased ROEs. Interest rates have risen in the past year and are expected to increase as the Fed curtails its easy money policies. That said, I have just never seen an adjustment of this type from Staff or anyone else until recently. When economic conditions were far worse a few years ago, Staff never advanced an EAA. I am left a bit perplexed by the whole thing, but my skepticism, and the fact that the EAA has popped into existence out of nowhere, lead me to conclude that it is an ill-considered band-aid to cover up an unreasonably low ROE. Recall that without the EAA, Staff's ROE model would be only 7.8 percent (8.4 percent average of Staff's models less financial risk adjustment of 60 basis points).[25] A 7.8 percent return on equity is an a return that would be worse than LPSCO's current 8.01 percent; which to my knowledge is still the lowest authorized ROE in the country.

E. <u>Responses to Staff's Criticisms of the Company's Cost of Capital Analysis</u>

Q. PLEASE COMMENT ON TO MR. CASSIDY'S TESTIMONY (AT PAGE 46) CRITICIZING YOU FOR CONSIDERING THE DIFFERENCES IN RISK DUE TO THE SIZE OF LPSCO COMPARED TO THE PUBLICLY TRADED SAMPLE UTILITIES.

A. Mr. Cassidy does not dispute that smaller companies are more risky than larger companies. Staff simply opines that the Commission has not allowed a risk premium for size in the past.[26]

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[24] Cassidy Dt. at 37.
[25] *Id.* at 36.
[26] *Id.* at 46.

Q. WHY DOES SIZE MATTER IN THE ANALYSIS OF A UTILITY'S COST OF CAPITAL?

A. There are many reasons why smaller utilities are more risky than larger utilities. I have discussed these reasons extensively in my direct testimony and will not repeat that testimony here.[27] The simple fact is that a rational investor is not going to view an equity investment in LPSCO as having the same risk as the purchase of publicly traded stock in a substantially larger utility such as Aqua America, American States Water or California Water Service. That does not mean we can't use the sample companies as proxies, it means we can't ignore the plethora of evidence that firm size does matter. If the differences in risk between small utilities like LPSCO and the large, publicly traded water utilities used to estimate the cost of equity are ignored, LPSCO's equity cost will be understated and unreasonable.

Q. IS FIRM SIZE A UNIQUE RISK?

A. No. The firm size is a systematic risk factor.[28] We know that based on empirical financial data that the firm size phenomenon is real. The *Duff & Phelps* study data upon which the build-up method I employ in the instant case is just one example. Moreover, we know that the capital asset pricing model is incomplete and does not fully account for the higher returns that are needed on small company stocks. In other words, the higher risks associated with smaller firms is not fully accounted for by beta.

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[27] Bourassa COC Dt. at 21-26, 43-45.

[28] Shannon P. Pratt and Roger J. Grabowski. *Cost of Capital: Applications and Examples, Fourth Edition.* John Wiley and Sons, 2010. p. 56.

With respect to the relationship between firm size and return, *Morningstar* states:

> One of the most remarkable discoveries of modern finance is that of a relationship between firm size and return. The relationship cuts across the entire size spectrum but is most evident among smaller companies which have higher returns than larger ones. Many studies have looked at the effect of firm size and return...[29]

With respect to the CAPM, *Morningstar* states:

> The firm size phenomenon is remarkable in several ways. First, the greater risk of small stocks does not, in the context of the capital asset pricing model (CAPM), fully account for their higher returns over the long term. In the CAPM only systematic, or beta risk, is rewarded; small company stocks have had returns in excess of those implied by their betas.[30]

Q. IS THERE A QUANTIFIABLE DIFFERENCE IN RISK BETWEEN LPSCO AND THE PUBLICLY TRADED WATER COMPANIES?

A. Yes. Business risk, or the uncertainty of earnings, is a direct reflection of the factors I have discussed in my direct testimony. The quantitative measure for business risk is called the co-efficient of variance of earnings.

The co-efficient of variance of earnings is a reflection of the distributions of earnings. It is meaningful when measured against the distribution of earnings of alternative investments, like the water utilities in my water proxy group. The co-efficient of variance of earnings can be quantified using a relatively simple formula:[31]

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[29] Morningstar, *Ibbotson SBBI 2013 Valuation Yearbook,* at 85.
[30] *Id.* at 87.
[31] Tuller, Lawrence W., *The Small Business Valuation Book*, Adams Media Corporation, 1994. p.89.

[1] Co-efficient of Variance of Earnings = Standard Deviation of Operating Income[32]/Mean of Operating Income.

Using this measure, the greater the co-efficient of variance of earnings, the greater the risk to investors of not receiving expected returns.[33] Below are the computed co-efficient of variance of earnings results using the most recent five (5) years of historical data for my water proxy group and LPSCO:

Company	Symbol	Business Risk Co-efficient of variance of earnings
American States	AWR	0.282
Aqua America	WTR	0.144
California Water	CWT	0.055
Connecticut Water	CTWS	0.211
Middlesex	MSEX	0.127
SJW Corp.	SJW	0.171
Average of Water Utilities		0.165
LPSCO		1.203

Q. WHAT DO THESE RESULTS SHOW?

A. What these results show is that when using the co-efficient of variance of earnings as a measure of business risk, LPSCO carries over seven (7) times the risk compared to the average water utility in my proxy group (1.203 divided by 0.165). Investors consider the variability of earnings when pricing stocks. Consider the heavy reporting of earnings from the various reporting institutions and publications

[32] Operating income is defined as earnings before interest and taxes (EBIT).
[33] Tuller at 89.

and reaction to those earnings reports by investors, which are reflected in market stock prices. This metric alone would lead one to conclude that the market beta for LPSCO, if it were publicly traded, would be much higher than the water proxy group. A higher beta would lead to a higher cost of equity.

Q. MR. CASSIDY ALSO CRITICIZES YOU (ON PAGE 39 OF HIS DIRECT TESTIMONY) FOR RELYING EXCLUSIVELY ON ANALYSTS FORECASTS OF GROWTH IN THE DCF MODEL. IS THIS TRUE?

A. No. I rely on both historical growth rates and forecasts of growth. I just give more weight to the analyst forecasts of growth. It is important to note that Mr. Cassidy disagrees with the additional weight I give the analyst forecasts, but he is not saying these forecasts have no merit, nor did I rely solely on analyst forecasts of growth. The dispute between Mr. Cassidy and me comes down to something between 50 percent and my "greater" emphasis. In my direct testimony, I explained why a weight greater than 50 percent should be given to analysts' estimates.[34]

Q. ARE ANALYSTS' FORECASTS OF GROWTH "OVERLY OPTIMISTIC"?

A. Not according to the Gordon, Gordon and Gould who found that analyst estimates are the best proxies for DCF growth when estimating the cost of equity for utilities using the DCF.[35] But the level of accuracy of analysts' forecasts is an after-the-fact evaluation with little relevance to the issues at hand here. As Dr. Morin explains:

> Because of the dominance of institutional investors and their influence on individual investors, analysts' forecasts of long-run growth rates provide a sound basis for estimating required returns. Financial analysts exert a strong influence on the expectations of many investors who do not possess the resources to make their own forecasts, that is, they are a cause of g. *The accuracy of these forecasts in the sense of whether*

[34] Bourassa COC Dt. at 33.
[35] *Id.*

> *they turn out to be correct is not at issue here, as long as they reflect widely held expectations.* As long as the forecasts are typical and/or influential in that they are consistent with current stock price levels, they are relevant. The use of analysts' forecasts in the DCF model is sometimes denounced on the grounds that it is difficult to forecast earnings and dividends for only one year, let alone for longer time periods. *This objection is unfounded, however, because it is present investor expectations that are being priced; it is the consensus forecast that is embedded in price and therefore in required return, and not the future as it will turn out to be.* (emphasis added.)[36]

What really matters is that analysts' forecasts strongly influence investors and hence the market prices they are willing to pay for stocks. Analysts' growth rates influence the prices investors will pay for stocks and thus impact the dividend yields. The dividend yields change until the sum of the dividend yield plus the growth rate equals investors' perceived cost of equity. Had the growth forecasts been lower – as Mr. Cassidy suggests they should be – the stock prices would be lower and dividend yields would be higher, but there would not necessarily be any difference in the ultimate estimate of the cost of equity.

Q. HAS MR. CASSIDY OFFERED ANY EVIDENCE THAT INVESTORS DO NOT RELY ON ANALYST ESTIMATES?

A. No. Nor does he offer any evidence of the extent investors rely on historical growth or on analyst estimates of future growth. Mr. Cassidy offers no quantitative or conceptual argument to rebut the conclusions of Gordon, Gordon, and Gould (cited in my direct[37]), and offers no evidence that any of the measures of past growth he has used – historical EPS, historical DPS, historical sustainable growth –

[36] Morin at 298.
[37] Bourassa COC Dt. at 33.

provide a better forecast of future growth for utilities than analysts' estimates of growth.

Q. PLEASE RESPOND TO MR. CASSIDY'S TESTIMONY (ON PAGE 43 OF HIS DIRECT) THAT USE OF THE HISTORICAL STOCK PRICE GROWTH IS AN INAPPROPRIATE PROXY FOR THE GROWTH RATE IN THE DCF MODEL.

A. As I explained in my direct testimony (at page 33), using the historical growth in the stock price is reasonable because investors know that, in equilibrium, common stock prices, BVPS, EPS and DPS will all grow at the same rate. Investors would take information about changes in stock prices into account when they price utilities' stocks. As I hope Mr. Cassidy would acknowledge, the traditional DCF model assumes that the stock price, book value, dividends, and earnings all grow at the same rate. This has not been historically true for the sample water utility companies.[38] So, using the historical growth in stock prices is an appropriate proxy measure for growth.

Q. DO YOU HAVE EVIDENCE THAT THE GROWTH FORECASTS USED BY STAFF ARE SIGNIFICANTLY UNDERSTATED?

A. Yes. The 3-year historical annualized total return for the water utility stocks reported by *Value Line* (October 18, 2012) is 12.85 percent.[39] This indicated return would imply a growth rate for the DCF model of 9.85 percent.[40] Compare this to Staff's 5.0 percent growth rate. Even the growth rate based on analyst estimates

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[38] *Id.* at 31.

[39] A stock's total return is the percentage increase in the value of a shareholder's investment, assuming reinvestment of all dividends and adjusted for any stock splits.

[40] Solving the DCF model as set forth in Mr. Bourassa's Direct Testimony (at page 31) yields $g = k - D_1/P_0$. Substituting Staff's dividend yield of 3.0 for D1/P0 and the 12.85 percent for k we get: $k = 9.85 - 12.85 - 3.0$.

that I use of 6.13 percent falls far short of the implied growth rate investors have realized over the past 3 years.

Even my DCF cost of equity estimates using exclusively analyst's forecasts of growth from approximately three years ago would not have predicted the annualized return of 12.85 percent for the publicly traded utilities. In the Sahuarita Water Company rate case (Docket No. W-03718-09-0359), my DCF estimate using exclusively analyst estimates of growth was 10.8 percent.[41] But my 10.8 percent was far more accurate than Staff's 8.9 percent constant growth DCF estimate in that case.[42] In other words, even when using forecasts of earnings growth, the indicated cost of equity can vastly understate the cost of equity.

Q. DOESN'T MR. CASSIDY USE 3-5 YEAR PRICE APPRECIATION POTENTIAL AS A GROWTH PROXY FOR THE DCF WHEN ESTIMATING THE CURRENT MARKET RISK PREMIUM FOR HIS CAPM?

A. Yes.[43] Mr. Cassidy refers to the Value Line projected 3-5 year per share growth in his testimony (at pages 31 and 32), which is Value Line's 3-5 year stock price appreciation. Mr. Cassidy is criticizing me for something he does in his own analysis.

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[41] *See* Sahuarita Water Company Rejoinder Schedule D-4.8, Sahuarita Water Company, Docket No. W-03718A-09-0359.
[42] *See* Staff Surrebuttal Schedule JCM-3, Sahuarita Water Company, Docket No. W-03718A-09-0359.
[43] Cassidy Dt. at 31-32.

Q. DID YOU USE AVERAGE STOCK PRICES TO CALCULATE THE DIVIDEND YIELD ON SCHEDULE D-4.7 OF YOUR DIRECT TESTIMONY AS MR. CASSIDY CLAIMS (PAGE 45 OF HIS TESTIMONY)?

A. No. I used the spot price on February 15, 2013. That said, the use of an average stock price may be appropriate depending on the circumstances.

Q. MR. CASSIDY ALSO CRITICIZES YOU (ON PAGE 45 OF HIS TESTIMONY) FOR USING A FORECASTED INTEREST RATE FOR THE RISK-FREE RATE IN YOUR CAPM. PLEASE RESPOND.

A. I use both a current interest rate as well as forecasted interest rates on 30 year U.S. Treasury Bonds as a proxy to my risk-free rate for the CAPM. Like analysts' forecasts of growth, I believe investors rely on this information. If investors did not rely on this information, *Value Line*, *Blue Chip* and others would not provide this information. Mr. Cassidy provides no evidence that investors do not rely on this information, nor does he provide any support for his claim that the use of a forecasted interest rate only serves to overstate the cost of equity.

Q. ANY FINAL THOUGHTS?

A. Yes. The bottom line to me is that Staff witnesses input data into the DCF and CAPM models mechanically without considering the reasons for using those inputs. And Staff's inputs have long been skewed in an effort to keep down the cost of equity and the low results of their models bear this out. Dr. Licon discusses this extensively in his testimony. Finally, as another more local reasonableness test, I examined the returns on equity currently authorized for Southwest Gas and Arizona Public Service Company. Both of these publicly traded companies have beta's approximately the same as the average beta of Staff's water proxy group. As reported by AUS Utility Reports (October 2013), Southwest Gas and Pinnacle

West Capital Corp., the parent of Arizona Public Service Company, have authorized returns of 10.2 percent and 11 percent, respectively. These companies have betas of .75 and .70, respectively, which are similar to the average beta of Staff's water proxy group of .71. Since only market risk as measured by beta matters to Mr. Cassidy, then why are these two companies allowed to earn 180 to 260 basis points more than he recommends for LPSCO? An investor would be better off investing in these two companies rather than LSPCO from that stand point; never mind the fact that the investor could sell his stock on Southwest or APS in minutes if he was unhappy with his/her return.

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

A. Yes, although my silence on any of the issues, matters or findings addressed in the testimony of Staff and/or RUCO does not constitute my acceptance of their positions on such issues, matters or findings.

EXHIBIT
TJB-COC-RB1

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Dividend Payout Ratio Analysis

Table 1 – Staff Recommendations and Actual Equity in Capital Structure

[1]	Total Capital	$65,660,319
[2]	% Equity Staff recommendation	84.10%
[3]	Book Value of Equity [1] x[2]	$55,220,328
[4]	Expected Dividend Yield per Staff Schedule JAC-3	3.00%
[5]	Current market-to-book ratio publicly traded water utilities	2.2
[6]	Book Value Dividend Yield [4] x [5]	6.60%
[7]	Cash Dividend [3] x[6]	$3,644,542
[8]	Staff Recommended Operating Income (W and WW)	$4,580,073
[9]	Less: Annual Interest Expense - Staff Synchronized	$565,441
[10]	Earnings Available for Dividends [8] - [9]	$4,014,632
[11]	Less: Dividends [7]	$3,644,542
[12]	Retained Earnings [10] - [11]	$370,090
[13]	Pay-out ratio [11]/[10]	91%

Table 2 – RUCO Recommendations and Actual Equity in Capital Structure

[1]	Total Capital	$65,660,319
[2]	% Equity RUCO recommendation	84.13%
[3]	Book Value of Equity [1] x[2]	$55,240,319
[4]	Expected Dividend Yield per Company D-4.7[1]	3.19%
[5]	Current market-to-book ratio publicly traded water utilities	2.15
[6]	Book Value Dividend Yield [4] x [5]	6.86%
[7]	Cash Dividend [3] x[6]	$ 3,789,203
[8]	RUCO Recommended Operating Income (W and WW)	$5,052,943
[9]	Less: Annual Interest Expense - RUCO Synchronized	$623,073
[10]	Earnings Available for Dividends [8] - [9]	$4,429,870
[11]	Less: Dividends [7]	$3,789,203
[12]	Retained Earnings [10] - [11]	$640,667
[13]	Pay-out ratio [11]/[10]	86%

[1] RUCO did not prepare a cost of capital analysis so the LPSCO cost of capital indicated dividend yield is used. A dividend yield of 3.19 percent as shown is approximately equal to RUCO indicated dividend yield of the RUCO proxy group of 3.2 percent in the recent Rio Rico Utilities rate case (Docket N. WS-02679A-12-0196).

LITCHFIELD PARK SERVICE COMPANY DBA LIBERTY UTILITIES

THOMAS BOURASSA
REBUTTAL TESTIMONY

OCTOBER 23, 2013

COST OF CAPITAL

REBUTTAL SCHEDULE D

Litchfield Park Service Company dba Liberty Utilities
Test Year Ended December 31, 2012
Summary of Cost of Capital

Exhibit
Rebuttal Schedule D-1
Page 1
Witness: Bourassa

Consolidated Capital Structure of Water and Wastewater Division

Line No.	Item of Capital	Adjusted End of Test Year Dollar Amount	Adjusted End of Test Year Percent of Total	Adjusted End of Test Year Cost Rate	Adjusted End of Test Year Weighted Cost	Projected Capital Structure Dollar Amount	Projected Capital Structure Percent of Total	Projected Capital Structure Cost Rate	Projected Capital Structure Weighted Cost
1	Long-Term Debt	10,420,000	15.87%	6.40%	1.02%	10,120,000	15.11%	6.40%	0.97%
2									
3	Stockholder's Equity	55,240,319	84.13%	9.93%	8.35%	56,876,546	84.89%	9.93%	8.43%
4									
5	Totals	65,660,319	100.00%		9.37%	66,996,546	100.00%		9.40%
6									
7									
8									
9									
10									
11									
12									
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15									
16									
17									
18									
19									
20									
21									
22	SUPPORTING SCHEDULES:					RECAP SCHEDULES:			
23	Testimony								
24									
25									
26									
27									
28									
29									
30									

Litchfield Park Service Company dba Liberty Utilities
Summary of Results

Exhibit
Rebuttal Schedule D-4.1
Witness: Bourassa

Line No.	Method	Low	High	Midpoint
1				
2				
3				
4	DCF Constant Growth Estimates[1]	8.6%	9.3%	9.0%
5				
6	CAPM Estimates[2]	8.8%	11.0%	9.9%
7				
8	Build-up Method[3]	8.7%	12.6%	10.6%
9				
10	Average of midpoint estimates	8.7%	11.0%	9.8%
11				
12				
13	Financial Risk Adjustment[4]	-0.6%	-0.6%	-0.6%
14				
15	Small Company Risk Premium[5]	0.5%	0.5%	0.5%
16				
17	Indicated Cost of Equity	8.6%	10.9%	9.7%
18				
19				
20				
21				
22	Recommended Cost of Equity			9.7%
23				
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			

Litchfield Park Service Company dba Liberty Utilities
Selected Characteristics of Sample Group of Water Utilities

Exhibit
Rebuttal Schedule D-4.2
Witness: Bourassa

Line No.	Company[1]	% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating	Allowed ROE (%)
4	1. American States	59%	$ 477.2	$ 946.7	A+	A2	9.99
5	2. Aqua America	96%	$ 777.7	$ 4,025.1	AA-	NR	10.29
6	3. California Water	100%	$ 565.7	$ 1,490.3	AA-	NR	9.99
7	4. Connecticut Water	100%	$ 86.2	$ 455.4	A	NR	9.75
8	5. Middlesex	88%	$ 115.6	$ 440.8	A	NR	10.15
9	6. SJW Corp.	96%	$ 269.2	$ 844.4	A	NR	9.99
11	Average	90%	$ 381.9	$ 1,367.1			10.03
13	Litchfield Park Service Company dba Liberty Utilities (Adjusted as of December 31, 2012)	68%	$ 21.5	$ 135.4	NR	NR	

[1]AUS Utility Reports (October 2013).

Litchfield Park Service Company dba Liberty Utilities
Capital Structures

Exhibit
Rebuttal Schedule D-4.3
Witness: Bourassa

No.	Company	Book Value[1] Long-Term Debt	Book Value[1] Common Equity	Market Value[1] Long-Term Debt	Market Value[1] Common Equity
1	American States	42.1%	57.9%	23.8%	76.2%
2	Aqua America	51.7%	48.3%	25.6%	74.4%
3	California Water	44.5%	55.5%	30.9%	69.1%
4	Connecticut Water	49.0%	51.0%	33.8%	66.2%
5	Middlesex	42.4%	57.6%	28.6%	71.4%
6	SJW Corp.	53.1%	46.9%	36.8%	63.2%
7	Average	47.1%	52.9%	29.9%	70.1%
8	Litchfield Park Service Company dba Liberty Utilities (Proforma)	15.9%	84.1%	N/A	N/A

[1] Value Line Analyzer Data (October 14, 2013)
[2] *Adjusted Per Schedule D-1*

Litchfield Park Service Company dba Liberty Utilities
Comparisons of Past and Future Estimates of Growth

Exhibit
Rebuttal Schedule D-4.4
Witness: Bourassa

Line No.	Company	[1] Price[1]	[2] Book Value[2]	[3] EPS[2]	[4] DPS[2]	[5] Average Col 1-4	[6] Average Future Growth[3]	[7] Average of Future and Historical Growth Col 5-6
		Five-year historical average annual changes						
8	1. American States	7.59%	5.50%	11.50%	4.50%	7.27%	3.33%	5.30%
9	2. Aqua America	3.63%	6.00%	7.50%	7.50%	6.16%	7.73%	6.95%
10	3. California Water	0.69%	4.50%	5.50%	1.50%	3.05%	6.25%	4.65%
11	4. Connecticut Water	7.74%	4.50%	6.50%	2.00%	5.18%	5.33%	5.26%
12	5. Middlesex	4.44%	4.00%	2.50%	1.50%	3.11%	3.35%	3.23%
13	6. SJW Corp.	NMF	3.50%	NMF	4.00%	3.75%	10.75%	7.25%
16	GROUP AVERAGE	4.82%	4.67%	6.70%	3.50%	4.75%	6.13%	5.44%
17	GROUP MEDIAN	4.44%	4.50%	6.50%	3.00%	4.47%	5.79%	5.28%

[1] Average of changes in annual stock prices ending on December 31 through 2012. Data from Yahoo Finance website.
[2] Value Line Analyzer Data, October 14, 2013
[3] See Rebuttal Schedule D-4.6.

Litchfield Park Service Company dba Liberty Utilities
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]
1								
2								Average of Future and Historical Growth
3								
4		**Ten-year historical average annual changes**					Average Future	
5			Book			Average		
6	Company	Price[1]	Value[2]	EPS[2]	DPS[2]	Col 1-4	Growth[3]	Col 5-6
7	1. American States	9.71%	5.00%	6.50%	3.00%	6.05%	3.33%	4.69%
8	2. Aqua America	6.42%	8.50%	7.00%	7.50%	7.36%	7.73%	7.54%
9	3. California Water	5.72%	5.00%	5.00%	1.00%	4.18%	6.25%	5.21%
10	4. Connecticut Water	3.13%	4.50%	1.50%	1.50%	2.66%	5.33%	4.00%
11	5. Middlesex	4.42%	4.50%	3.50%	1.50%	3.48%	3.35%	3.42%
12	6. SJW Corp.	5.50%	5.50%	4.00%	5.00%	5.00%	10.75%	7.87%
13								
14								
15	GROUP AVERAGE	5.82%	5.50%	4.58%	3.25%	4.79%	6.13%	5.46%
16	GROUP MEDIAN	5.61%	5.00%	4.50%	2.25%	4.59%	5.79%	4.95%
17								
18								
19								

20 [1] Average of changes in annual stock prices ending December 31, 2012. Data from Yahoo Finance website.
21 [2] Value Line Analyzer Data, October 14, 2013.
22 [3] See Rebuttal Schedule D-4.6.
23
24
25
26
27
28

Litchfield Park Service Company dba Liberty Utilities
Analysts Forecasts of Earnings Per Share Growth

Exhibit
Rebuttal Schedule D-4.6
Witness: Bourassa

Line No.	Company	[1] Reuters[1]	[2] Yahoo[1]	[3] Value Line[1]	[4] Average Growth (G) (Cols 1-3)[2]
		ESTIMATES OF EARNINGS GROWTH			
1	1. American States	2.00%	2.00%	6.00%	3.33%
2	2. Aqua America	7.40%	5.80%	10.00%	7.73%
3	3. California Water		6.00%	6.50%	6.25%
4	4. Connecticut Water	5.00%	5.00%	6.00%	5.33%
5	5. Middlesex		2.70%	4.00%	3.35%
6	6. SJW Corp.		14.00%	7.50%	10.75%
7	GROUP AVERAGE	4.80%	5.92%	6.67%	6.13%
8	GROUP MEDIAN				5.79%

[1] Data as of October 14, 2013

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

Exhibit
Rebuttal Schedule D-4.7
Witness: Bourassa

Litchfield Park Service Company dba Liberty Utilities
Current Dividend Yields for Water Utility Sample Group

Line No.	Company	Curent Stock Price (P_0)[1]	Current Dividend (D_0)[1]	Current Dividend Yield (D_0/P_0)[1]	Average Annual Dividend Yield (D_0/P_0)[1,2]
1	1. American States	$ 27.50	$ 0.82	2.98%	3.20%
2	2. Aqua America	$ 24.60	$ 0.62	2.52%	2.85%
3	3. California Water	$ 20.20	$ 0.67	3.32%	3.36%
4	4. Connecticut Water	$ 31.81	$ 0.99	3.11%	3.62%
5	5. Middlesex	$ 21.09	$ 0.76	3.60%	4.02%
6	6. SJW Corp.	$ 28.71	$ 0.74	2.58%	2.94%
7					
8	Average			3.02%	3.33%
9	Median			3.05%	3.28%

[1] Value Line Analyzer Data. Stock prices as of October 14, 2013.

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

Litchfield Park Service Company dba Liberty Utilities
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)[1]	[2] Expected Dividend Yield (D_1/P_0)[2]	[3] Growth (g)		[4] Indicated Cost of Equity k=Div Yld + g (Cols 2+3)
8	DCF - Past and Future Growth	3.02%	3.18%	5.44%	3	8.6%
10	DCF - Future Growth	3.02%	3.20%	6.13%	4	9.3%
13	Average	3.02%	3.19%	5.78%		9.0%

[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.

Litchfield Park Service Company dba Liberty Utilities
Market Betas

Exhibit
Rebuttal Schedule D-4.9
Witness: Bourassa

Line No.	Company	Beta (β)[1]
1		
2	1. American States	0.70
3	2. Aqua America	0.60
4	3. California Water	0.65
5	4. Connecticut Water	0.75
6	5. Middlesex	0.70
7	6. SJW Corp.	0.85
8		
9	Average	**0.71**
10		
11		
12		

[1] Value Line Investment Analyzer data (October 14, 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.

Litchfield Park Service Company dba Liberty Utilities
Forecasts of Long-Term Interest Rates
2012-14

Exhibit
Rebuttal Schedule D-4.10
Witness: Bourassa

Line No.	Description	Spot[1] Oct. 14, 2013	2014[2,3]	2015[2,3]	Average
1					
2					
3					
4					
5					
6	Blue Chip Consensus Forecasts	3.8%	4.1%	4.2%	4.0%
7					
8	Value Line	3.8%	4.1%	4.5%	4.1%
9					
10	Average				4.1%
11					
12					
13					
14	[1] Federal Reserve				
15	[2] October 2013 Blue Chip Financial Forecasts consensus forecast of 30 Year U.S.Treasury				
16	[3] Value Line Quarterly forecast, dated August 23, 2013, Long-term Treasury				
17					
18					
19					
20					
21					
22					
23					
24					

Litchfield Park Service Company dba Liberty Utilities
Computation of Current Market Risk Premium

Exhibit
Rebuttal Schedule D-4.11
Witness: Bourassa

Line No.	Month	Dividend Yield (D_0/P_0)[1]	Expected Dividend Yield (D_1/P_0)[2]	+	Growth (g)[3]	=	Expected Market Return (k)	-	Monthly Average 30 Year Treasury Rate[4]	=	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%
27	Recommended	2.48%	2.74%	+	10.52%	=	13.26%	-	3.43%	=	9.83%
29	Short-term Trends										
30	Recent Twelve Months Avg	2.55%	2.86%	+	11.94%	=	14.80%	-	3.22%	=	11.58%
31	Recent Nine Months Avg	2.50%	2.78%	+	11.10%	=	13.89%	-	3.33%	=	10.55%
32	Recent Six Months Avg	2.48%	2.74%	+	10.52%	=	13.26%	-	3.43%	=	9.83%
33	Recent Three Months Avg	2.46%	2.71%	+	9.85%	=	12.55%	-	3.72%	=	8.83%

36 [1] Average Current Dividend Yield (D_0/P_0) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks
37 [2] Expected Dividend Yield (D_1/P_0) equals average current dividend yield (D_0/P_0) times one plus growth rate(g).
38 [3] Average 3-5 year price appreciation (annualized). Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks
39 [4] Monthly average 30 year U.S. Treasury. Federal Reserve.

Litchfield Park Service Company dba Liberty Utilities
Capital Asset Pricing Model (CAPM)

Exhibit
Rebuttal Schedule D-4.12
Witness: Bourassa

Line No.		Rf[1]	+	beta[3]	x	Rp		=	k
1									
2									
3	Historical Market Risk Premium CAPM	4.1%	+	0.71	x	6.7%	[4]	=	8.8%
4									
5	Current Market Risk Premium CAPM	4.1%	+	0.71	x	9.8%	[5]	=	11.0%
6									
7	Average								9.9%
8									
9									
10									
11									
12	[1] Forecasts of long-term treasury yields. See Rebuttal Schedule D-4.10.								
13	[2] Value Line Investment Analyzer data. See Rebuttal Schedule D-4.9.								
14	[3] Historical Market Risk Premium from (Rp) MorningStar SBBI 2013 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2012.								
15	[4] Computed using DCF constant growth method to determine current market return onValue Line 1700 stocks								
16	and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Rebuttal Schedule D-4.11.								
17									
18									
19									
20									

Litchfield Park Service Company dba Liberty Utilities
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	Symbol	Measures of size (Millions) MV Equity[1]	Book Equity[1]	MVIC[1]	5 Yr Avg. Net Income	Total Assets[2]	5 Yr Avg. EBITDA[3]
1.	American States	AWR	$ 1,064	$ 457	$ 1,397	$ 37	$ 1,281	$ 130
2.	Aqua America	WTR	$ 4,337	$ 1,393	$ 5,827	$ 133	$ 4,859	$ 422
3.	California Water	CWT	$ 964	$ 538	$ 1,394	$ 41	$ 1,996	$ 140
4.	Connecticut Water	CTWS	$ 350	$ 186	$ 529	$ 11	$ 579	$ 24
5.	Middlesex	MSEX	$ 333	$ 181	$ 467	$ 13	$ 562	$ 38
6.	SJW Corp.	SJW	$ 577	$ 296	$ 912	$ 21	$ 1,087	$ 89
	Litchfield Park Service Company dba Liberty Utilities		NA	$ 11.0	NA	$ 1.3	$ 29.7	$ 6.4

[1] From Zacks Investment Research data
[2] From Zacks Investment Research. From E-1 for subject utility.
[3] Net Income. From Zacks Investment Research and Company ACC reports

Net Income Data ($ millions)

Company	Symbol	2012	2011	2010	2009	2008	Average
American States	AWR	$ 54.0	$ 45.9	$ 33.2	$ 29.5	$ 22.0	$ 36.9
Aqua America	WTR	$ 197.0	$ 143.1	$ 124.0	$ 104.4	$ 97.9	$ 133.3
California Water	CWT	$ 49.0	$ 37.7	$ 37.7	$ 40.6	$ 39.8	$ 40.9
Connecticut Water	CTWS	$ 14.0	$ 11.3	$ 9.8	$ 10.2	$ 9.4	$ 10.9
Middlesex	MSEX	$ 14.0	$ 13.4	$ 14.3	$ 10.0	$ 12.2	$ 12.8
SJW Corp.	SJW	$ 22.0	$ 20.9	$ 24.4	$ 15.2	$ 21.5	$ 20.8
		2012	2011	2010	2009	2008	Average
Litchfield Park Service Company dba Liberty Utilities		$ 5.8	$ 4.4	$ (0.9)	$ (2.1)	$ (0.7)	$ 1.3

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

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

EBITDA Data ($ millions)

Company	Symbol	2012	2011	2010	2009	2008	Average
American States	AWR	$ 154.0	$ 133.3	$ 134.4	$ 122.6	$ 105.9	$ 130.0
Aqua America	WTR	$ 439.0	$ 397.8	$ 473.2	$ 415.2	$ 384.7	$ 422.0
California Water	CWT	$ 151.0	$ 143.3	$ 155.7	$ 125.5	$ 122.1	$ 139.5
Connecticut Water	CTWS	$ 30.0	$ 24.2	$ 22.5	$ 20.3	$ 21.1	$ 23.6
Middlesex	MSEX	$ 39.0	$ 34.6	$ 43.3	$ 34.6	$ 38.6	$ 38.0
SJW Corp.	SJW	$ 90.0	$ 87.1	$ 75.4	$ 93.5	$ 99.7	$ 89.1
		2012	2011	2010	2009	2008	Average
Litchfield Park Service Company dba Liberty Utilities		$ 9.8	$ 10.1	$ 4.0	$ 4.2	$ 3.7	$ 6.4

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

Litchfield Park Service Company dba Liberty Utilities
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on *Duff and Phelps* Risk Premium Study Data

Rebuttal Schedule D-4.14
Witness: Bourassa

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

$RPun_{relevered} = RP_{levered} - W_d/W_e*(\beta_u-\beta_d)*RP_{market}$
Where β_u = unlevered portfolio beta
β_d = debt beta, assumed to be 0.1
W_d = percentage of debt in capital structure
W_e = percentage of equity in capital structure
$RP_{levered}$ = levered realized risk premium

	MV Equity (Table C-1)	Book Equity (Table C-2)	MVIC (Table C-4)	5 Yr Avg. Net Income (Table C-3)	Total Assets (Table C-5)	5 Yr Avg. EBITDA (Table C-6)
Constant	18.475%	15.380%	18.661%	13.224%	17.273%	14.736%
X Coefficient(s)	-3.239%	-2.561%	-3.201%	-2.616%	-2.812%	-2.723%

MRP_{m+s} (unlevered)

	Company	Symbol	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
1.	American States	AWR	8.67%	8.57%	8.59%	9.12%	8.53%	8.98%	8.75%
2.	Aqua America	WTR	6.69%	7.33%	6.61%	7.67%	6.91%	7.59%	7.13%
3.	California Water	CWT	8.81%	8.39%	8.60%	9.01%	7.99%	8.90%	8.61%
4.	Connecticut Water	CTWS	10.24%	9.57%	9.94%	10.51%	9.50%	11.00%	10.13%
5.	Middlesex	MSEX	10.30%	9.60%	10.12%	10.33%	9.54%	10.43%	10.05%
6.	SJW Corp.	SJW	9.53%	9.05%	9.19%	9.78%	8.74%	9.43%	9.28%
	Average (unlevered)		9.04%	8.75%	8.84%	9.40%	8.54%	9.39%	8.99%
	Litchfield Park Service Company dba Liberty Utilities		NA	12.71%	NA	12.94%	13.13%	12.55%	12.83%

Indicated size premium 3.84%

Litchfield Park Service Company dba Liberty Utilities
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on *Duff and Phelps* Risk Premium Study Data

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

Rebuttal Schedule D-4.15
Witness: Bourassa

	Company	Symbol	Unlevered Portfolio Beta (β_u)						
			(Table C-1)	(Table C-2)	(Table C-4)	(Table C-3)	(Table C-5)	(Table C-6)	Average
1.	American States	AWR	0.95	0.96	0.98	0.94	0.94	0.97	0.96
2.	Aqua America	WTR	0.87	0.86	0.81	0.88	0.83	0.84	0.85
3.	California Water	CWT	0.98	0.95	0.95	0.94	0.92	0.97	0.95
4.	Connecticut Water	CTWS	0.96	1.00	0.97	0.97	0.99	1.03	0.99
5.	Middlesex	MSEX	0.96	0.98	0.97	0.97	0.99	0.99	0.98
6.	SJW Corp.	SJW	0.95	0.97	0.97	0.96	0.97	0.95	0.96
	Average		0.95	0.95	0.94	0.94	0.94	0.96	0.95
	Litchfield Park Service Company dba Liberty Utilities		NA	0.98	NA	1.01	1.05	1.03	1.02

Litchfield Park Service Company dba Liberty Utilities
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on *Duff and Phelps* Risk Premium Study Data

Rebuttal Schedule D-4.16
Witness: Bourassa

MRP Estimates Using Duff & Phelps Study (Relevered)
Relevered Realized Risk Premium

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

Where β_u = unlevered portfolio beta

β_d = debt beta, assumed to be 0.1
W_d = percentage of debt in capital structure
W_e = percentage of equity in capital structure
$RP_{unlevered}$ = unlevered realized risk premium from Scehdule D-4.14
RP_{market} = general equity risk premium for the market since 1963 (4.4%)

	Company	Symbol	W_d/W_e	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
			MRP_{m+s} (Relevered)							
1.	American States	AWR	31.2%	9.81%	9.72%	9.78%	10.25%	9.66%	10.15%	9.90%
2.	Aqua America	WTR	34.4%	7.83%	8.45%	7.66%	8.82%	7.98%	8.68%	8.24%
3.	California Water	CWT	44.7%	10.50%	10.02%	10.23%	10.62%	9.57%	10.57%	10.25%
4.	Connecticut Water	CTWS	51.1%	12.12%	11.54%	11.85%	12.42%	11.46%	13.04%	12.07%
5.	Middlesex	MSEX	40.1%	11.79%	11.11%	11.62%	11.83%	11.07%	11.97%	11.56%
6.	SJW Corp.	SJW	58.1%	11.66%	11.23%	11.36%	11.93%	10.91%	11.55%	11.44%
	Average MRP (Relevered)		43.25%	10.62%	10.35%	10.42%	10.98%	10.11%	10.99%	10.58%
	Litchfield Park Service Company dba Liberty Utilities		8.77%	NA	13.04%	NA	13.28%	13.49%	12.90%	13.18%

Litchfield Park Service Company dba Liberty Utilities
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 meterics used in Build-up Method

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 (1963-2011)[1]	4.30%	
[3] Equity Risk Premium Adjustment ([1] - [2])	0.70%	
[4] Average MRP (relevered) for publicly traded water companies (from Rebuttal Schedule D-4.16)	10.58%	
[5] MRP (relevered) for publicly traded water companies (RP_{m+s}) ([3] + [4])	11.28%	
[6] Equity Risk Premium Adjustment ([3])	0.70%	
[7] Average MRP (relevered) for subject utility company (from Table 4)	13.18%	
[8] MRP (relevered) for subject utility company (RP_{m+s}) ([6] + [7])	13.88%	
[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%[1])	0.7463	
[11] Adjusted Industry Risk Premium (R_i) ([9] x [10])	-3.67%	
[12] Risk Free Rate (R_f)[2]	3.46%	

[1] From Duff and Phelps Risk Premium Report 2012.
[2] Yield on 20 Yr U.S. Treasury October 10, 2013 (Federal Reserve)

Litchfield Park Service Company dba Liberty Utilities
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on *Duff and Phelps* Risk Premium Study Data

Schedule D- 4.18
Witness: Bourassa

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*
- **Rf = Risk-free rate of return. See Rebuttal Schedule D-4-17.**
- RP_{m+s} **= Market risk premium including size premium. See ScheduleD- 4.16**
- **RPi = Industry risk premium (adjusted). See Rebuttal Schedule D-4.17.**
- RP_u **= Company-specific risk premium**

	Sample Publicly Traded Water Utilities	Litchfield Park Service Company dba Liberty Utilities
R_f =	3.46%	3.46%
RP_{m+s} =	See Table 4	See Table 4
RP_i =	-3.67%	-3.67%
RP_u =	0.00%	0.00%

Indicated COE $E(R_i)$

	Company	Symbol	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
1.	American States	AWR	10.30%	10.21%	10.26%	10.74%	10.15%	10.64%	10.38%
2.	Aqua America	WTR	8.32%	8.94%	8.14%	9.31%	8.47%	9.17%	8.73%
3.	California Water	CWT	10.99%	10.51%	10.72%	11.11%	10.06%	11.06%	10.74%
4.	Connecticut Water	CTWS	12.61%	12.03%	12.34%	12.90%	11.95%	13.53%	12.56%
5.	Middlesex	MSEX	12.27%	11.60%	12.10%	12.32%	11.56%	12.45%	12.05%
6.	SJW Corp.	SJW	12.14%	11.71%	11.85%	12.41%	11.40%	12.04%	11.93%
	Average COE estimate		11.11%	10.83%	10.90%	11.47%	10.60%	11.48%	11.06%
	Litchfield Park Service Company dba Liberty Utilities		NA	13.53%	NA	13.77%	13.98%	13.39%	13.67%

Litchfield Park Service Company dba Liberty Utilities
Financial Risk Computation
Unlevered Beta

Exhibit
Rebuttal Schedule D-4.19
Witness: Bourassa

Line No.		Company	VL Beta β_L [1]	Raw Beta Raw β_L [2]	Tax Rate t[3]	MV Debt D[4]	MV Equity E[4]	Unlevered Raw Beta β_U [5]
5	1.	American States	0.70	0.55	39.9%	23.8%	76.2%	0.46
6	2.	Aqua America	0.60	0.40	39.0%	25.6%	74.4%	0.33
7	3.	California Water	0.65	0.48	37.5%	30.9%	69.1%	0.38
8	4.	Connecticut Water	0.75	0.63	32.0%	33.8%	66.2%	0.47
9	5.	Middlesex	0.70	0.55	33.9%	28.6%	71.4%	0.43
10	6.	SJW Corp.	0.85	0.78	41.1%	36.8%	63.2%	0.58
13		Sample Water Utilitie:	0.71	0.57	37.2%	29.9%	70.1%	0.45

[1] Value Line Investment Analyzer data. See Rebuttal Schedule D-4.13
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 = .33 + (.67) * Raw beta
[2] Raw Beta = (VL beta - .33)/(.67)
[3] Effective tax rates for year ended December 31, 2011.
4 See Rebuttal Schedule D-4.3
[5] Raw B_u = Raw B_L/ (1+ (1-t)*D/E)

Litchfield Park Service Company dba Liberty Utilities
Financial Risk Computation
Relevered Beta

Exhibit
Rebuttal Schedule D-4.20
Witness: Bourassa

Line No.		Unlevered Raw Beta β_U[1]	MV Book Debt BD[2]	MV Equity Capital EC[2]	Tax Rate t[3]	Relevered Raw Beta $\beta_{RL}=\beta_U(1+(1-t)BD/EC))$ β_{RL}	VL Adjusted Relevered Beta .33 + .67(Raw Beta) β_{RL}
5	Litchfield Park Service Company dba Liberty Utilities	0.45	8.1%	91.9%	38.61%	0.47	0.64

1 Unlevered Beta from Rebuttal Schedule D-4.14.

[2] Proforma Capital Structure of Company

	BV (in Thousands)			MV (in Thousands)	MV %
Long-term Debt	$ 10,420	1.00		$ 10,420	8.10%
Preferred Stock	$ -	1.00		-	0.0%
Common Stock	$ 55,240	2.15	(a)	118,784	91.9%
Total Capital	$ 65,660			$ 129,204	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 Schedule D-1.

Litchfield Park Service Company dba Liberty Utilities
Financial Risk Computation

Exhibit
Rebuttal Schedule D-4.21
Witness: Bourassa

Line No.											
1	**CAPM**										
2		**Rf**		+	**β**		x	**(Rp)**			**k**
3	Historical Market Risk Premium	4.1%	1	+	0.71	2	x	6.7%	3	=	8.8%
4	Current Market Risk Premium	4.1%	1	+	0.71	2	x	9.8%	4	=	11.0%
5											
6	Average										9.9%
7											
8											
9	**CAPM Relevered Beta**										
10		**Rf**		+	**β**		x	**(Rp)**			**k**
11	Historical Market Risk Premium	4.1%	1	+	0.64	5	x	6.7%	3	=	8.3%
12	Current Market Risk Premium	4.1%	1	+	0.64	5	x	9.8%	4	=	10.3%
13											
14	Average										9.3%
15											
16	Financial Risk Adjustment										**-0.6%**
17											
18											

19 [1] Forecast of long-term treasury yields. See Rebuttal Schedule D-4.10
20 [2] Value Line Investment Analyzer data. See Rebuttal Schedule D-4.9
21 [3] Historical Market Risk Premium from (Rp) MorningStar SBBI 2013 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2012
22 [4] Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks
23 and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Rebuttal Schedule D-4.11
24 [5] Relevered bata found on Rebuttal Schedule D-4.15
25

Litchfield Park Service Company dba Liberty Utilities
Size Premium[1]

Exhibit
Rebuttal Schedule D-4.22
Witness: Bourassa

Line No.		Beta(β)	Size Premium	Risk Premium for Small Water Utilities[7]
6	Mid-Cap Companies[2]	1.12	1.14%	
8	Low-Cap Companies[3]	1.23	1.88%	
10	Micro-Cap Companies[4]	1.36	3.89%	
12	Decile 10[5]	1.42	6.10%	3.72%

		Risk Premium for Small Water Utilities
20	Estimated Risk Premium for small water utilities[6]	0.99%

[1] Data from Table 7-8 of Morningstar, *Ibbotson SBBI 2013 Valuation Yearbook.*
[2] Mid-Cap companies includes companies with market capitalization between $1,912 million and $7,687 million.
[3] Low-Cap companies includes companies with market capitalization between $512 million and $1,909 million.
[4] Micro-Cap companies includes companies with market capitalization less than $512 million.
[5] Decile 10 includes companies with market capitalization between $1.1 million and $254 million.
[6] From Table 2, Thomas M. Zepp, "Utility Stocks and the Size Effect Revisited," *The Quarterly Review of Economics and Finance*, 43 (2003), 578-582.
[7] Computed as the weighted differences between the Decile 10 risk premium and the inidicated risk premiums for the sample water utlities 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.	American States	$ 1,064	Low-Cap	1.85%	4.25%	0.1666667	0.71%
2.	Aqua America	$ 4,337	Mid-Cap	1.12%	4.98%	0.1666667	0.83%
3.	California Water	$ 964	Low-Cap	1.85%	4.25%	0.1666667	0.71%
4.	Connecticut Water	$ 350	Micro-Cap	3.81%	2.29%	0.1666667	0.38%
5.	Middlesex	$ 333	Micro-Cap	3.81%	2.29%	0.1666667	0.38%
6.	SJW Corp.	$ 577	Low-Cap	1.85%	4.25%	0.1666667	0.71%
	Weighted Size Premium for Small Companies						3.72%