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AZ CORP COMMISSION
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Arizona Corporation Commission
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MAR 21 2014

Attorneys for Lago del Oro Water Company

DOCKETED BY

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION
OF LAGO DEL ORO WATER 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-01944A-13-0215

**NOTICE OF FILING REJOINDER
TESTIMONY**

Lago Del Oro Water Company (the "Company") hereby submits this Notice of Filing Rejoinder Testimony in the above-referenced matter. Specifically filed herewith are the Company's Rejoinder Testimonies, which include the following testimonies, along with supporting schedules and/or attachments:

1. Rejoinder Testimony of Ray L. Jones;
2. Rejoinder Testimony of Thomas J. Bourassa (Rate Base); and
3. Rejoinder Testimony of Thomas J. Bourassa (Cost of Capital).

RESPECTFULLY SUBMITTED this 21st day of March, 2014.

FENNEMORE CRAIG, P.C.

ORIGINAL

By _____

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Company

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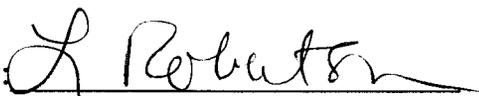
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DOCKET NO: W-01944A-13-0215

REJOINDER TESTIMONY OF
RAY L. JONES
March 21, 2014

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 B. Best Management Practices 3

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1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

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

3 A. My name is Ray L. Jones, P.E. My business address is 25213 N. 49th Drive,
4 Phoenix, Arizona 85083.

5 **Q. ARE YOU THE SAME RAY L. JONES WHO PREVIOUSLY SUBMITTED**
6 **TESTIMONY IN THIS PROCEEDING?**

7 A. Yes.

8 **Q. HAS ANYTHING CHANGED WITH RESPECT TO YOUR**
9 **EMPLOYMENT OR RESPONSIBILITIES?**

10 A. No, I am still owner and principal of ARICOR Water Solutions LC, and I am still
11 testifying on behalf of the Applicant Lago Del Oro Water Company ("LDO" or
12 "Company").

13 **Q. HAVE YOU REVIEWED THE SURREBUTTAL FILING MADE BY**
14 **STAFF?**

15 A. Yes.

16 **Q. WHAT WILL YOU ADDRESS IN THIS REJOINDER TESTIMONY?**

17 A. I will provide testimony in response to the surrebuttal testimony of Michael
18 Thompson, P.E., including his recommendation addressing LDO's compliance
19 with Arizona Department of Water Resources (ADWR) departmental requirements
20 governing water providers and/or community water systems, and concerning his
21 recommendations related to best management practices.

22 **II. REJOINDER TO STAFF**

23 A. **ADWR Compliance**

24 **Q. WHAT IS THE STATUS OF LDO'S COMPLIANCE WITH ADWR'S**
25 **REQUIREMENTS GOVERNING WATER PROVIDERS?**

26 A. After filing this rate case and as a result of compliance checks undertaken pursuant

1 to this rate case, on January 14, 2014 ADWR advised LDO's operational staff that
2 Well No. 19 has not received the appropriate permit for use as a service area well.
3 In response to that notification, LDO Staff conducted a records search to verify the
4 permitting status of Well No. 19. LDO was unable to locate any previous
5 documentation regarding non-compliance, which is interesting given that it has
6 been reported to ADWR as an in use service area well for many years. LDO was
7 also unable to locate any records regarding a service area well permit application to
8 ADWR. In summary, until January 2014, neither ADWR nor LDO were aware
9 that there was any issue with Well No. 19.

10 **Q. WHAT ACTION HAS LDO TAKEN SINCE LEARNING OF THE WELL**
11 **PERMITTING PROBLEM WITH WELL NO. 19?**

12 A. LDO has retained a hydrologic consultant to prepare the required hydrologic
13 analysis and submit a well permit application to ADWR. The permit application
14 was submitted on March 20, 2014. LDO expects the permit to be processed and
15 approved by ADWR within approximately 60 days.

16 **Q. DOES THE COMPANY AGREE WITH STAFF'S RECOMMENDATION**
17 **THAT ANY INCREASE IN RATES APPROVED BY THE COMMISSION**
18 **NOT BECOME EFFECTIVE UNTIL ADWR HAS DETERMINED THAT**
19 **LDO IS IN COMPLIANCE WITH ADWR REQUIREMENTS?**

20 A. No, the Company does not agree with Staff's recommendation. First, as I have
21 noted, this matter is likely to be resolved prior to a decision being issued in this
22 case, making the recommendation unnecessary. However, should ADWR not issue
23 the required permit prior to a decision, LDO does not agree that implementation of
24 new rates should be contingent upon resolution of the permitting discrepancy.

25
26

1 **Q. WHY NOT?**

2 A. Making rates contingent on regulatory compliance is a powerful measure available
3 to the Commission, but it should only be used when conditions warrant extreme
4 measures. Before freezing rates, the Commission should consider the history and
5 nature of the particular compliance matter to determine the seriousness of the issue,
6 the potential harm to ratepayers, and the Company's actions to resolve the issue.
7 Staff's alternate zero tolerance approach is not practical or appropriate in this
8 instance.

9 **Q. HOW CAN THE COMMISSION BE ASSURED THAT THERE IS NO**
10 **HEALTH AND SAFETY RISK?**

11 A. The regulatory compliance at issue in this case is a missing well permit.
12 This permit is related to authority to withdraw specific quantities of groundwater
13 from a specific well and, in the case of a water company with a service area water
14 right like LDO, mostly a paperwork exercise. The lack of a permit does not create
15 any health, safety or service availability issues for LDO's customers. For an
16 unknown reason, this one well in the LDO system does not have the proper permit;
17 all other wells are properly permitted. As indicated, this discrepancy was unknown
18 to both ADWR and LDO for many years. Once notified of the permitting issue,
19 LDO has moved quickly to resolve the issue and has filed the required permit
20 application. Given this lack of actual harm or even the risk of harm, the
21 Commission should reject Staff's recommendation to make rates contingent on
22 compliance as recommended by Staff.

23 **B. Best Management Practices**

24 **Q. HAS THE COMPANY CHANGED ITS POSTION REGARDING BMPS AS**
25 **THE RESULT OF STAFF'S SURREBUTTAL TESTIMONY?**

26 A. No it has not. The Company finds Staff's Surrebuttal testimony confusing and not

1 at all persuasive.

2 **Q. PLEASE EXPLAIN.**

3 A. As explained in my direct and rebuttal testimonies, LDO is enrolled as a regulated
4 Tier II municipal provider in ADWR's Modified Non-Per Capita Conservation
5 Program ("NPCCP"). As a Tier II municipal provider, LDO is required to
6 implement a Public Education Program. In addition to the Public Education
7 Program, LDO is required to implement five BMPs. As stated in my direct
8 testimony, LDO's original BMPs approved by ADWR were:

- 9 • Customer High Water Use Inquiry Resolution
- 10 • Customer High Water Use Notification
- 11 • Leak Detection Program
- 12 • Meter Repair and/or Replacement Program
- 13 • Comprehensive Water System Audit Program

14 As I further stated, LDO subsequently substituted Water Waste Investigations and
15 Information for the originally approved Comprehensive Water System Audit
16 Program BMP. So, LDO's current list of BMPs as follows:

- 17 • Customer High Water Use Inquiry Resolution
- 18 • Customer High Water Use Notification
- 19 • Leak Detection Program
- 20 • Meter Repair and/or Replacement Program
- 21 • Water Waste Investigations

22 In his testimony, Mr. Thompson states that LDO has implemented a Public
23 education program and only one BMP. This is wrong. Furthermore, in his
24 recommendation Mr. Thompson states that the Company may submit "the two
25 approved ADWR BMPs as part of the seven" recommended BMPs (emphasis
26 added). Since LDO has currently implemented a Public Education Program and

1 five separate and distinct BMPs in accordance with ADWR regulation, LDO is not
2 exactly certain what Staff is recommending.

3 **Q. DO YOU AGREE WITH STAFF'S STATEMENT THAT TARIFFED BMPS**
4 **PROVIDE MORE TOOLS TO PREVENT WATER LOSS AT LITTLE OR**
5 **NO EXTRA COST TO THE COMPANY?**

6 A. I do not. ADWR, after extensive consultation with the regulated community,
7 implemented a flexible approach to BMPs. Cities and water companies regulated
8 by ADWR are allowed and encouraged to evaluate results of BMPs to determine
9 what worked and what needs modification. Cities and water companies can then
10 make modifications as needed to improve the effectiveness of the BMPs.
11 If warranted, as was done by LDO in the past, a city or water company can easily
12 substitute a new BMP in place of another BMP. Staff's tarified approach does not
13 allow this flexibility. Instead the Company is locked into a one-size fits all ridged
14 set of requirements for each BMP where any modification could lead to non-
15 compliance with the tariff and where any changes require additional proceedings
16 and approvals. This more ridged and costly approach should be rejected by the
17 Commission as unnecessary duplicative regulation.

18 **Q. DOES THIS CONCLUDE YOUR REJOINDER TESTIMONY?**

19 A. Yes.

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7 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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DOCKET NO: W-01944A-13-0215

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14
15 **REJOINDER TESTIMONY OF**
16 **THOMAS J. BOURASSA**
17

18 **RATE BASE, INCOME STATEMENT, REVENUE REQUIREMENT**
19 **AND RATE DESIGN**

20 **March 21, 2014**
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1 **I. INTRODUCTION AND QUALIFICATION**

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

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

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

6 A. I am testifying in this proceeding on behalf of the applicant, Lago Del Oro Water
7 Company ("LDO" or "Company").

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

10 A. Yes, my direct and rebuttal testimonies were submitted in support of the initial
11 application in this docket. There were two volumes at each stage, one addressing
12 rate base, income statement and rate design, and the other addressing cost of
13 capital. Each of those testimonies included my associated schedules.

14 **Q. WHAT WILL YOU ADDRESS IN THIS REJOINDER TESTIMONY?**

15 A. I will provide rejoinder testimony in response to the surrebuttal filing by Staff.
16 More specifically, this first volume of my rejoinder testimony relates to rate base,
17 income statement and rate design for LDO. My cost of capital rejoinder is
18 contained in a second, separate volume.

19 **II. SUMMARY OF THE COMPANY'S REJOINDER POSITION**

20 **Q. WHAT IS THE REVENUE INCREASE THE COMPANY IS PROPOSING
21 IN THIS REJOINDER TESTIMONY?**

22 A. The Company proposes a total revenue requirement of \$3,030,491, which
23 constitutes an increase in revenues of \$1,148,253, or 61.00 percent over adjusted
24 test year revenues.

25

26

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

3 A. It is the same.

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

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

	<u>Revenue Requirement</u>	<u>Revenue Incr.</u>	<u>% Increase</u>
8 Company-Rebuttal	\$3,030,491	\$1,148,253	61.00%
9 Staff-Surrebuttal	\$2,911,453	\$1,029,215	54.86%
10 Company-Rejoinder	\$3,030,491	\$1,148,253	61.00%

11
12 **III. RATE BASE (B SCHEDULES)**

13 Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE
14 BASE RECOMMENDATIONS.

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

	<u>OCRB</u>	<u>FVRB</u>
16 Company-Rebuttal	\$ 7,363,846	\$ 7,363,846
17 Staff-Surrebuttal	\$ 7,366,456	\$ 7,366,456
18 Company-Rejoinder	\$ 7,363,846	\$ 7,363,846

19
20 Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED
21 ORIGINAL COST RATE BASE.

22 A. Yes. The Company's rejoinder rate base adjustments OCRB are detailed on
23 rebuttal schedules B-2, pages 3 through 7. Rejoinder Schedule B-2, pages 1 and 2,
24 summarize the Company's proposed adjustments and the rejoinder OCRB.
25 The Company is not proposing any changes to its rebuttal adjustments or any
26

1 additional rejoinder adjustments to rate base. The adjustments to rate base are
2 discussed in my rebuttal testimony.¹

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

4 **Q. PLEASE SUMMARIZE THE RECOMMENDED PIS BALANCES OF THE**
5 **PARTIES AND THE DIFFERENCES, IF ANY.**

6 A. The Company and Staff now agree on the PIS balance is \$18,200,199.² Both the
7 Company and Staff agree that plant purchased from an affiliate should reflect the
8 \$3,887,998 original cost and \$1,136,587 of accumulated depreciation.³

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

10 **Q. WHAT ARE THE RECOMMENDED A/D BALANCES OF THE PARTIES?**

11 A. The Company recommends an A/D balance of \$9,977,386, while Staff
12 recommends an A/D balance of \$9,606,122, a difference of \$371,264.
13 The \$371,264 difference represents Staff's reduction to the A/D balance stemming
14 from its reconstruction of A/D using a vintage group procedure, including
15 identification of fully depreciated plant that Staff stops depreciating once the
16 vintage group is fully depreciated.⁴

17 **Q. PLEASE RESPOND TO MS. RIMBACK'S SURREBUTTAL TESTIMONY**
18 **(ON PAGE 7) THAT THE COMPANY'S RECOMMENDED A/D BALANCE**
19 **DOES NOT PROPERLY REFLECTED FULLY DEPRECIATED PLANT?**

20 A. There is no fully depreciated plant as of the end of the test year under the broad
21 group procedure employed by the Company for its depreciation accounting.⁵

22 ¹ Rebuttal Testimony of Thomas J. Bourassa ("Bourassa Rb.") at 3-16.

23 ² See Company Rejoinder Schedule B-2, page 2 and Staff Surrebuttal Schedule MJR-W3.

24 ³ Surrebuttal Testimony of Mary J. Rimback ("Rimback Sb.") at 5.

25 ⁴ Rimback Sb. at 7.

26 ⁵ See Company Rejoinder Schedule B-2, page 3.29. There are no plant accounts in which

1 Staff's fully depreciated plant amounts are the result of Staff applying a vintage
2 group procedure.⁶

3 **Q. DOES THIS MEAN THE VINTAGE GROUP PROCEDURE IS SUPERIOR**
4 **TO THE BROAD GROUP PROCEDURE?**

5 A. No. The broad group procedure is no less accurate than the vintage group
6 procedure.⁷ When breaking down a broad group into vintage groups some vintage
7 groups will be determined to be fully depreciated. It would not be surprising to
8 find vintage year subgroups within a broad group (plant account) that appear to be
9 fully depreciated. This is because under the broad group concept the group is
10 expected have an average life. Some plant in the group will last longer the average
11 useful life, some plant will last exactly the average useful life, and some plant will
12 last less than the average useful life.

13 **Q. PLEASE RESPOND TO THE STAFF'S SURREBUTTAL TESTIMONY ON**
14 **THE COMPANY'S REASONS FOR RETAINING THE BROAD GROUP**
15 **PROCEDURE.**

16 A. I can't. I have discussed the many reasons why the Company opposes the
17 imposition of the vintage group procedure in my rebuttal testimony and will not
18 repeat those here.⁸ But, Staff has not provided any response to my rebuttal
19 testimony.

20

21

22

23 the A/D balance equals the Original Cost balance.

24 ⁶ Rimback Sb. at 7.

25 ⁷ Bourassa Rb. at 11.

26 ⁸ Bourassa Rb. at 10-13.

1 **Q. IN YOUR REBUTTAL TESTIMONY (ON PAGE 11) YOU EXPLAINED**
2 **THAT THE STAFF RECOMMENDED A/D BALANCE REFLECTS**
3 **ANOMALIES SUCH AS STRANDED A/D BALANCES. DID STAFF**
4 **ADDRESS THESE ISSUES?**

5 A. No. I examined the Staff surrebuttal work papers and continue to find vintage
6 groups with a zero plant balance and a corresponding negative A/D balance.
7 I referred to these circumstances as stranded negative A/D balances in my rebuttal
8 testimony because when the plant balance is zero or negative, Staff stops
9 computing depreciation.⁹ The negative A/D balance remains and becomes a
10 permanent balance.

11 **Q. DO YOU HAVE AN EXHIBIT SHOWING THE STRANDED NEGATIVE**
12 **A/D BALANCES INCLUDED IN THE STAFF RECOMMENDED A/D**
13 **BALANCE.**

14 A. Yes. Included as Exhibit TJB-RB-RJ1 is a copy of the Staff plant and A/D
15 reconstruction schedule (2012 only) contained in the Staff work papers. There are
16 several vintage groups that have zero plant balances along with corresponding
17 negative A/D balances. For example, there are zero plant balances and negative
18 A/D balances for vintage groups under accounts 310 – Power Generation
19 Equipment, 311 – Pumping equipment, 320.2 – Chemical Solution Feeders, 340 –
20 Office Furniture and Equipment, 341 – Transportation Equipment, 345 – Power
21 Operated Equipment, and 347 – Miscellaneous Equipment. More specifically, for
22 example, for account 311 – Pumping Equipment and vintage year group 1994, the
23 plant balance is zero and the A/D balance is a negative 58,169 (net book value of a
24 positive \$58,169). These zero plant balances with corresponding negative A/D

25 ⁹ Bourassa Rb. at 11-12.
26

1 balances make no sense.

2 **Q. WHY NOT?**

3 A. The vintage group balances essentially become permanent balances because Staff
4 stops depreciating the vintage group once the plant balances are zero. In the
5 vintage group example discussed above, the depreciation expense is zero. The net
6 book value of a positive \$58,169 is permanent rate base.

7 **Q. DID YOU ASK STAFF TO EXPLAIN THESE ZERO PLANT BALANCES**
8 **AND CORRESPONDING NEGATIVE ACCUMULATED DEPRECIATION**
9 **BALANCES?**

10 A. Yes. I have attached the Staff response to Lago Data request 1.1 as **Exhibit TJB-**
11 **RB-RJ2**. This response does not address the issues created as a result of Staff's
12 application of the vintage group procedure. Instead, Staff avoids answering the
13 data request by pointing to the total plant balance and A/D balance for each plant
14 account, avoiding addressing the underlying vintage group detail. But avoiding
15 these issues is problematic. In practical terms, the Company is left with
16 nonsensical vintage group plant balances that will not only result in plant
17 depreciation accounting issues for the Company going forward, but also permanent
18 negative A/D balances (and permanent positive net book values), as well as create
19 plant and A/D balance reconstruction issues in the next rate case.

20 **Q. IS THE COMPANY DEPRECIATING ITS PLANT BEYOND ITS**
21 **EXPECTED USEFUL LIFE?**

22 A. No, and I do not know why Ms. Rimback claims the Company is doing this.¹⁰
23 Under the broad group procedure there is no fully depreciated plant for the
24 Company. While Staff may have created fully depreciated vintage groups in its

25 ¹⁰ Rimback Sb. at 7.

26

1 application of the vintage group procedure, it does not mean the Company is
2 depreciating plant beyond the expected average useful life of its plant.

3 **C. Advances-in-aid of Construction (AIAC)**

4 **Q. DO THE COMPANY AND STAFF AGREE ON THE AIAC BALANCE?**

5 A. Yes. Both are proposing AIAC balance of \$297,640.¹¹

6 **D. Contributions-in-aid of Construction (CIAC) and Accumulated Amortization**
7 **(AA)**

8 **Q. PLEASE DISCUSS THE PARTIES' RECOMMENDATIONS FOR CIAC**
9 **AND AA.**

10 A. The Company continues to propose CIAC and AA balances of \$852,693 and
11 \$469,879, respectively. Staff continues to propose CIAC and AA balances of
12 \$753,535 and \$282,997, respectively.¹² The Company's proposed balance is based
13 upon a broad group procedure consistent with its depreciation accounting, whereas
14 Staff's proposed balances are based upon a vintage group procedure. I explained
15 the positions of the parties in more detail in my rebuttal testimony.¹³

16 **E. Accumulated Deferred Income Taxes (ADIT)**

17 **Q. PLEASE DISCUSS THE PARTIES' ADIT BALANCE**
18 **RECOMMENDATIONS.**

19 A. The Company is proposing an ADIT balance of \$66,658, whereas Staff proposes
20 an ADIT balance of \$347,588.¹⁴ As I pointed out in my rebuttal testimony, the
21 Staff recommended ADIT does not properly reflect the change in ADITs resulting
22

23 ¹¹ See Staff Surrebuttal Schedule RJM-W3

24 ¹² See *id.*

25 ¹³ Bourassa Rb. at 14.

26 ¹⁴ See Staff Surrebuttal Schedule RJM-W3.

1 from the change in the tax value of plant and is overstated.¹⁵

2 **Q. MS. RIMBACK'S SURREBUTTAL TESTIMONY (ON PAGE 8)**
3 **CONCLUDES THAT THE CHANGE IN BONUS DEPRECIATION IS**
4 **IRRELEVANT TO THE ADIT COMPUTATION. DO YOU AGREE?**

5 A. No, the special bonus depreciation used in the ADIT computation of the net tax
6 value of PIS has a direct impact on the ADIT balance. In the Company's initial
7 filing the bonus depreciation was computed on the plant acquired from an affiliate
8 in 2012 equal to a net book value of \$3,887,998 times 50 percent (or \$1,943,999).
9 In its rebuttal filing, the Company proposed to reduce the book value of this plant
10 by the depreciation the Company would have recorded if the plant were booked at
11 the time the plant was placed into service. The net book value changed from
12 \$3,888,998 to \$2,751,411. As a result, the Company's net tax value and the basis
13 for computing bonus depreciation is no longer \$3,887,998, but rather the net book
14 value of this plant or \$2,751,411 (\$3,887,998 minus \$1,136,587).¹⁶ Accordingly,
15 the maximum amount of bonus depreciation on this plant for tax purposes is
16 reduced by \$568,293, from \$1,943,999 to \$1,375,706 (\$2,751,411 times 50%).¹⁷
17 To use more than \$1,375,706 for bonus depreciation results in an overstatement of
18 ADITs.¹⁸

19 **Q. WOULDN'T THE BONUS DEPRECIATION HAVE BEEN TAKEN IN THE**
20 **YEARS THE ASSETS WERE PLACED INTO SERVICE, NOT 2012?**

21 A. No. The bonus depreciation arises in 2012, and only 2012, because this is when
22

23 ¹⁵ Bourassa Rb. at 15-16.

24 ¹⁶ Rimback Sb. at 5.

25 ¹⁷ Bourassa Rb. at 15.

26 ¹⁸ Bourassa Rb. at 16.

1 the Company actually acquired the plant and the first year special bonus
2 depreciation was available as a tax deduction. The Company could not have taken
3 any special bonus depreciation deduction for tax purposes prior to acquisition as it
4 did not own the plant. Moreover, any book-tax timing difference (ADIT) arising
5 from any assumed past special bonus depreciation is meaningless because the
6 Company never realized any past tax deductions for special bonus depreciation on
7 this plant. In other words, there is no ADIT associated with this plant for years
8 prior to 2012.

9 Even if one assumes Ms. Rimback is correct – that prior special bonus was
10 actually realized by the Company in prior years, the simple fact is that special
11 bonus depreciation was not available in all the years the plant would have been
12 placed into service.¹⁹ Consequently, the special bonus depreciation of \$1,943,500
13 used in the Staff ADIT computation is incorrect and overstated, meaning Staff's
14 recommended ADIT balance is also incorrect and overstated.

15 **Q. DID YOU MENTION THE TAX BONUS DEPRECIATION IN THE**
16 **COMPANY'S ORIGINAL APPLICATION?**

17 **A.** No, and I normally would not have. The tax value computation that reflects special
18 bonus depreciation was included in the work papers provided to Staff. It is
19 common for many details of a utility's filing to be found in the work papers. That
20 said, my rebuttal testimony detailed the issue, yet Staff decided the bonus
21 depreciation issue was "irrelevant."²⁰ I strongly disagree with Staff's position.
22 The bottom line is that if the correct bonus depreciation amount is not used and
23

24 ¹⁹ Special bonus depreciation was not available in 1997, 2005, 2006, and 2007 when some
25 of the plant purchased from an affiliate was originally placed into service.

26 ²⁰ Rimback Sb. at 8.

1 Staff's proposed ADIT balance is adopted, the ratepayer will receive an unjustified
2 windfall as a result of an overstated ADIT balance (which is a reduction to rate
3 base).

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

5 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**
6 **ADJUSTMENTS TO REVENUES?**

7 A. The Company rejoinder adjustments to revenues and/or expenses are detailed on
8 Rebuttal Schedule C-2, pages 1-8. The rejoinder income statement with
9 adjustments is summarized on Rejoinder Schedule C-1, page 1-2. The Company is
10 not proposing any changes to the adjustments it proposed in its rebuttal testimony.
11 These adjustments were discussed in my rebuttal testimony.²¹

12 **A. Contractual Services – Annual Audit**

13 **Q. PLEASE COMMENT ON MS. RIMBACK'S SURREBUTTAL**
14 **TESTIMONY (ON PAGE 9) REGARDING THE COMPANY'S PROPOSED**
15 **ADJUSTMENT TO CONTRACTUAL SERVICES FOR ANNUAL AUDIT**
16 **COSTS.**

17 A. I have a few comments. First, Ms. Rimback testifies that the Company did not
18 provide support for the \$8,000 of annual audit costs. In response, the Company is
19 providing copies of an annual audit engagement letter from Barry & Moore PC,
20 CPAs for the 2013 audit. *See Exhibit TJB-RJ3.* Second, Ms. Rimback also
21 testifies that the term sheet provided in the Company's financing application did
22 not include a requirement for an annual audit. The term sheet may not state that an
23 audit is requirement, but my understanding from the Company is that the bank
24 intends to require an annual audit and this requirement will be contained within the

25 ²¹ Bourassa Rb. at 16-18.
26

1 final loan documents.

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

3 **Q. WHAT ARE THE COMPANY'S PROPOSED RATES?**

4 A. The Company's rejoinder proposed rates are:

5 **MONTHLY SERVICE CHARGES (All Classes, except Golf Course Irrigation and**
6 **Construction/Hydrant)**

7	5/8" x 3/4" Meter	\$ 14.88
8	3/4" Meter	\$ 14.88
9	1" Meter	\$ 24.80
10	1 1/2" Meter	\$ 49.60
11	2" Meter	\$ 79.36
12	3" Meter	\$158.72
13	4" Meter	\$248.00
14	5" Meter	Remove
15	6" Meter	\$496.00
16	8" Meter	\$793.60

17 **MONTHLY SERVICE CHARGES (Golf Course Irrigation and**
18 **Construction/Hydrant)**

19	Golf Course Irrigation	\$200.00
20	Construction/Hydrant	\$0.00
21	Gallons in minimum (all classes, except golf course irrigation)	0
22	Gallons in minimum (golf course irrigation)	0

23 **COMMODITY RATES**

24	5/8"X3/4" Meter – Res.	1 to 4,000	\$ 1.80
25		4,001 to 10,000	\$ 2.98
26		Over 10,000	\$ 4.16

1	5/8"X3/4" Meter – Com., Irr.*	1 to 10,000	\$ 2.98
2		Over 10,000	\$ 4.16
3	3/4" Meter – Res.	1 to 4,000	\$ 1.80
4		4,001 to 10,000	\$ 2.98
5		Over 10,000	\$ 4.16
6	3/4" Meter – Com., Irr.*	1 to 10,000	\$ 2.98
7		Over 10,000	\$ 4.16
8	1" Meter – Res., Com., Irr.*	1 to 17,000	\$ 2.98
9		Over 17,000	\$ 4.16
10	1 1/2" Meter – Res., Com., Irr.*	1 to 34,000	\$ 2.98
11		Over 34,000	\$ 4.16
12	2" Meter – Res., Com., Irr.*	1 to 54,000	\$ 2.98
13		Over 54,000	\$ 4.16
14	3" Meter – Res., Com., Irr.*	1 to 107,000	\$ 2.98
15		Over 107,000	\$ 4.16
16	4" Meter – Res., Com., Irr.*	1 to 167,000	\$ 2.98
17		Over 167,000	\$ 4.16
18	6" Meter – Res., Com., Irr.*	1 to 334,000	\$ 2.98
19		Over 334,000	\$ 4.16
20	8" Meter – Res., Com., Irr.*	1 to 534,000	\$ 2.98
21		Over 534,000	\$ 4.16
22			
23	*Except Golf Course Irrigation		
24			
25	Golf Course Irrigation	All gallons	\$ 0.85
26	Construction/Hydrant	All gallons	\$ 4.16

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

3 A. As shown on Schedule H-2, page 1, the average monthly bill under proposed rates
4 for a 5/8x3/4 inch metered customer using an average 7,047 gallons is \$31.15 –
5 a \$9.66 increase over the present monthly bill or a 44.98 percent increase.

6 **Q. DO YOU HAVE ANY COMMENTS ON THE STAFF RATE DESIGN?**

7 A. Yes. The Staff proposed rates do not produce the Staff revenue requirement. It is
8 short by about \$11,000. I have spoken with Staff about this issue and my
9 understanding is that Staff will fix their rates.

10 **Q. DOES THIS CONCLUDE YOUR REJOINDER TESTIMONY?**

11 A. Yes.

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EXHIBIT
TJB-RJ1

EXHIBIT
TJB-RJ2

**ARIZONA CORPORATION COMMISSION STAFF'S RESPONSES TO
LAGO DEL ORO WATER COMPANY'S
FIRST SET OF DATA REQUESTS
DOCKET NO. W-01944A-13-0215
MARCH 19, 2014**

1.1: Please explain and justify the assets balances contained in the attached Staff work papers which reflect zero original cost and negative accumulated depreciation balances, or negative original cost and negative accumulated depreciation balances. As part of your response, please clarify how these negative balances are not permanent under the Staff method of depreciation as reflected in the Staff work papers.

RESPONSE: Staff reviewed the workpaper which shows the 2012 plant balances, accumulated depreciation and net plant (plant balance less accumulated depreciation). The actual balance is the last line for each plant account. Other calculations show how the balance is computed. Staff and the Company are in agreement as to the Plant Balance of \$18,200,199 as shown on MJR W-4.

- a) The only account with a -0- plant balance is account 320.2. This is not a balance that Staff adjusted. It was included on schedule B-2 of the application at a -0- amount.
- b) Staff does not see any negative plant balances.
- c) Both Staff and the Company calculations reflect some accumulated depreciation with debit balances. The entry for depreciation is debit expense, credit accumulated depreciation. Accumulated depreciation would generally show a credit balance. One reason for a debit instead of a credit balance is related to the treatment of plant retirements. Both Staff and the Company used this treatment.

RESPONDENT: Mary Rimback, Public Utilities Analyst, Utilities Division, Arizona Corporation Commission, 1200 West Washington Street, Phoenix, Arizona 85007

EXHIBIT
TJB-RJ3

BARRY & MOORE, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

February 11, 2014

Mr. James Hubbard, Treasurer
Lago Del Oro Water Company
9532 East Riggs Road
Sun Lakes, AZ 85248

Dear Jim:

We are pleased to confirm our understanding of the services we are to provide for the year ended December 31, 2013 for the Lago Del Oro Water Company.

We will audit the financial statements of Lago Del Oro Water Company, which comprise the balance sheet as of December 31, 2013, and the related statements of income, capitalization, and cash flows for the year then ended, and the related notes to the financial statements.

Audit Objective

The objective of our audit is the expression of an opinion about whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and will include tests of your accounting records and other procedures we consider necessary to enable us to express such opinions. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion or add an emphasis-of-matter or other-matter paragraph. If our opinion is other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or to issue a report as a result of this engagement

Audit Procedures

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of certain assets and liabilities by correspondence with selected customers, creditors, and financial institutions. We will also request written representations from your attorneys as part of the engagements. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entities or to acts by management or employees acting on behalf of the entities.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit are properly planned and performed in accordance with U.S. generally accepted auditing standards. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors, fraudulent financial reporting, or misappropriation of assets that comes to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our audit will include obtaining an understanding of the entities and their environments, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. However, during the audit, we will communicate to you and those charged with governance internal control related matters that are required to be communicated under professional standards.

Management Responsibilities

You agree to assume all management responsibilities for the tax services and any other nonattest services we provide; oversee the services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of the services; and accept responsibility for them.

You are responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles. You are also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional

information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the company from whom we determine it necessary to obtain audit evidence.

Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management representation letters that the effects of any uncorrected misstatements aggregated by us during the current engagements and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the company involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the company received in communications from employees, former employees, regulators, or others. In addition, you are responsible for identifying and ensuring that the entities comply with applicable laws and regulations.

Engagement Administration, Fees, and Other

We understand that your employees will prepare all cash, accounts receivable, and other confirmations we request and will locate any documents selected by us for testing.

Bernie Barry is the engagement partner and is responsible for supervising the engagements and signing the reports.

Our fees for the audit will be at our regular per diem rates, plus out-of-pocket costs, if any. We estimate that our fees will be approximately \$8,000. Billings will be rendered monthly and are payable upon presentation.

During the course of the audit, we may observe opportunities for economy in, or improved controls over, your operations. We will bring such matters to the attention of the appropriate level of management, either orally or in writing.

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagements. If you have any questions, please let us know. If you agree with the terms of our engagements as described in this letter, please indicate your agreement by signing below and returning a scanned copy to us.

Sincerely,

Barry & Moore, P.C.

Barry & Moore, P.C.

LAGO DEL ORO WATER COMPANY

JPMorgan Chase Bank, N.A.

Stub
1 of 1

Check No. 314221
Date 11/08/13

Invoice Number	Inv Date	Payment Advice	Gross	Discount	Net
107	100513	2012 AUDIT	12,400.00		12,400.00
			----- 12,400.00	-----	----- 12,400.00

Vendor No. 71644 Name BARRY & MOORE P C Address 2198 E CAMELBACK RD #370
 PHOENIX AZ 85016-4716



JPMorgan Chase Bank, N.A.
 201 N Central Ave Dept 383
 Phoenix, AZ 85038

91-2/1221

314221

LAGO DEL ORO WATER COMPANY
 9532 E Riggs Rd
 Sun Lakes, AZ 85248-7411

Date	Amount
11/08/13	***12,400.00

Pay

TWELVE THOUSAND FOUR HUNDRED AND 00/100 *****

Dollars

To **BARRY & MOORE,P.C.**
 The **2198 E CAMELBACK RD #370**
 Order **PHOENIX AZ 85016-4716**
 Of



LAGO DEL ORO WATER COMPANY

JPMorgan Chase Bank, N.A.

Stub
1 of 1

Check No. 314221
Date 11/08/13

Invoice Number	Inv Date	Payment Advice	Gross	Discount	Net
107	100513	2012 AUDIT	12,400.00		12,400.00
			----- 12,400.00	-----	----- 12,400.00

Vendor No. 71644 Name BARRY & MOORE P C

apcheck

BARRY & MOORE, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

INVOICE

TO: Lago Del Oro Water Company
9532 E. Riggs Rd.
Sun Lakes, AZ 85248

Client #: 12100
Invoice #: 107
Date: October 5, 2013

For Professional Services Rendered:

Examination of December 31, 2012 financial statements.	\$ 7,100
Initial audit procedures required for December 31, 2011 balances.	2,400
Review of historical book/tax differences and provide assistance in calculating deferred taxes.	2,150
Review of 2012 company prepared income tax returns.	750

Total \$ 12,400

Please include client number and invoice number on check.

Current: \$12,400.00 | Over 30: \$0.00 | Over 60: \$0.00 | Over 90: \$0.00 | Over 120: \$0.00 | Total: \$12,400.00

7700400 8405116 A 150881
7700400 8405116 A 150881
7700400 8405116 A 150881

57,100 2012 Audit
2,400 Beginning Balance
2,150 Deferred Tax
750 2012 Taxes

RECEIVED

OCT 31 2013

JRH

RATE BASE SCHEDULES

Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Computation of Increase in Gross Revenue
 Requirements As Adjusted

Exhibit
 Rejoinder Schedule A-1
 Page 1
 Witness: Bourassa

Line
 No.

1	Fair Value Rate Base				\$	7,363,846		
2								
3	Adjusted Operating Income					(54,838)		
4								
5	Current Rate of Return					-0.74%		
6								
7	Required Operating Income				\$	647,208		
8								
9	Required Rate of Return on Fair Value Rate Base					8.79%		
10								
11	Operating Income Deficiency				\$	702,046		
12								
13	Gross Revenue Conversion Factor					1.6356		
14								
15	Increase in Gross Revenue Requirement				\$	1,148,253		
16								
17								
18	Adjusted Test Year Revenues				\$	1,882,238		
19	Increase in Gross Revenue Revenue Requirement				\$	1,148,253		
20	Proposed Revenue Requirement				\$	3,030,491		
21	% Increase					61.00%		
22								
23	Customer			Present		Proposed	Dollar	Percent
24	Classification			Rates		Rates	Increase	Increase
25	5/8x3/4 Inch Residential	\$	1,576,999	\$	2,419,025	\$	842,026	53.39%
26	3/4 Inch Residential		35,011		57,126		22,114	63.16%
27	1 Inch Residential		20,819		36,336		15,518	74.54%
28	1 1/2 Inch Residential		1,651		2,999		1,348	81.61%
29	2 Inch Residential		9,934		19,649		9,715	97.79%
30								
31	5/8x3/4 Inch Commercial	\$	-	\$	-	\$	-	0.00%
32	3/4 Inch Commercial		6,728		10,623		3,895	57.89%
33	1 Inch Commercial		25,016		54,114		29,098	116.32%
34	1 1/2 Inch Commercial		6,996		12,890		5,894	84.25%
35	2 Inch Commercial		37,067		75,211		38,144	102.91%
36	3 Inch Commercial		5,924		12,538		6,614	111.66%
37	6 Inch Commercial		30,305		72,585		42,279	139.51%
38								
39	5/8x3/4 Inch Irrigation	\$	-	\$	-	\$	-	0.00%
40	3/4 Inch Irrigation		2,052		3,517		1,465	71.38%
41	1 Inch Irrigation		1,370		2,559		1,189	86.79%
42	1 1/2 Inch Irrigation		410		789		379	92.51%
43	2 Inch Irrigation		37,490		75,232		37,743	100.67%
44	3 Inch Irrigation		4,044		8,329		4,285	105.98%
45	4 Inch Irrigation		1,047		3,106		2,059	196.71%
46	Golf Course Irrigation		59,823		142,232		82,409	137.75%
47								
48	5/8x3/4 Inch Construction	\$	1,750	\$	2,611		861	49.21%
49							-	0.00%
50	Revenue Annualization	\$	386	\$	1,563		1,177	305.15%
51	Subtotal	\$	1,864,821	\$	3,013,034	\$	1,148,212	61.57%
52								
53	Other Water Revenues	\$	17,117	\$	17,117	\$	-	0.00%
54	Reconciling Amount		299		340		41	13.71%
55	Rounding						-	0.00%
56	Total of Water Revenues	\$	1,882,237	\$	3,030,491	\$	1,148,253	61.00%
57								
58								
59	<u>SUPPORTING SCHEDULES:</u>							
60	B-1							
61	C-1							
62	C-3							
63	H-1							

Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Summary of Rate Base

Exhibit
 Rejoinder Schedule B-1
 Page 1
 Witness: Bourassa

<u>Line No.</u>		<u>Original Cost</u> <u>Rate base</u>	<u>Fair Value</u> <u>Rate Base</u>
1			
2	Gross Utility Plant in Service	\$ 18,200,198	\$ 18,200,198
3	Less: Accumulated Depreciation	<u>9,977,386</u>	<u>9,977,386</u>
4			
5	Net Utility Plant in Service	\$ 8,222,812	\$ 8,222,812
6			
7	<u>Less:</u>		
8	Advances in Aid of Construction	297,640	297,640
9			
10	Contributions in Aid of Construction	852,693	852,693
11			
12	Accumulated Amortization of CIAC	(469,879)	(469,879)
13			
14	Customer Meter Deposits	111,854	111,854
15	Customer Security Deposits	-	-
16	Accumulated Deferred Income Tax	66,658	66,658
17			
18			
19	<u>Plus:</u>		
20			
21	Deferred Regulatory Assets TCE Plume	-	-
22	Deferred Tax Assets	-	-
23	Allowance for Working Capital	-	-
24			
25			
26	Total Rate Base	<u>\$ 7,363,846</u>	<u>\$ 7,363,846</u>

- 41 SUPPORTING SCHEDULES:
 42 B-2
 43 B-3
 44 B-5
 45 E-1
 46
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Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Rejoinder Schedule B-2
 Page 1
 Witness: Bourassa

Line No.		Adjusted at End of <u>Test Year</u>	Proforma <u>Adjustment</u>	Proposed Adjusted at end of <u>Test Year</u>
1	Gross Utility			
2	Plant in Service	\$ 18,200,198	-	\$ 18,200,198
3				
4	Less:			
5	Accumulated			
6	Depreciation	8,840,798	1,136,588	9,977,386
7				
8				
9	Net Utility Plant			
10	in Service	\$ 9,359,400		\$ 8,222,812
11				
12	Less:			
13	Advances in Aid of			
14	Construction	297,640	-	297,640
15				
16	Contributions in Aid of			
17	Construction - Gross	852,693	-	852,693
18				
19	Accumulated Amortization of CIAC	(469,879)	-	(469,879)
20				
21	Customer Meter Deposits	111,854	-	111,854
22	Customer Security Deposits	-	-	-
23	Accumulated Deferred Income Tax	279,359	(212,701)	66,658
24				-
25				-
26				
27	Plus:			
28				
29	Deferred Regulatory Assets TCE Plume	-		-
30	Prepayments	-		-
31	Materials and Supplies	-		-
32	Working capital	-	-	-
33				-
34				
35	Total	<u>\$ 8,287,733</u>		<u>\$ 7,363,846</u>

46 SUPPORTING SCHEDULES:
 47 B-2, pages 2
 48 E-1

RECAP SCHEDULES:
 B-1

49
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 51

Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Original Cost Rate Base Proforma Adjustments

Line No.	Adjusted at End of Test Year	1	Plant-in-Service	2	Accumulated Depreciation	3	CIAC	4	AIAC	5	ADIT	Proposed Adjusted at end of Test Year
1	Gross Utility Plant in Service	\$ 18,200,198	-	-	-	-	-	-	-	-	-	\$ 18,200,198
2												
3												
4	Less:											
5	Accumulated Depreciation	8,840,798		1,136,588								9,977,386
6												
7												
8												
9	Net Utility Plant in Service	\$ 9,359,400	\$ -	\$ (1,136,588)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,222,812
10												
11												
12	Less:											
13	Advances in Aid of Construction	297,640										297,640
14												
15												
16	Contributions in Aid of Construction (CIAC)	852,693										852,693
17												
18												
19	Accumulated Amort of CIAC	(469,879)										(469,879)
20												
21	Customer Meter Deposits	111,854										111,854
22	Customer Security Deposits	-										-
23	Accumulated Deferred Income Taxes	279,359								(212,701)		66,658
24												
25												
26	Plus:											
27												
28	Deferred Regulatory Assets	-										-
29	Prepayments	-										-
30	Materials and Supplies	-										-
31	Allowance for Cash Working Capital	-										-
32												
33	Total	\$ 8,287,733	\$ -	\$ (1,136,588)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 212,701	\$ -	\$ 7,363,846
34												
35												
36												
37												
38												
39												
40												
41												

SUPPORTING SCHEDULES:
 B-1

RECAP SCHEDULES:
 B-1

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

Exhibit
Rejoinder Schedule B-2
Page 3.1
Witness: Bourassa

Line

No.

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Lago Del Oro Water Company
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - B

Exhibit
Rejoinder Schedule B-2
Page 3.2
Witness: Bourassa

Line

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Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 1 - C

Exhibit
 Rejoinder Schedule B-2
 Page 3.3
 Witness: Bourassa

Line
 No.

<u>Reconciliation of Plant to Plant Reconstruction</u>		Adjusted	B-2	Rebuttal	Plant	Proposed
Acct.		Original		Adjusted	Per	Plant
No.	Description	Cost	Adjustments	Original	Reconstruction	Adjustment
301	Organization Cost	-	-	-	-	-
302	Franchise Cost	-	-	-	-	-
303	Land and Land Rights	42,608	-	42,608	42,608	-
304	Structures and Improvements	359,681	-	359,681	359,681	-
305	Collecting and Impounding Res.	-	-	-	-	-
306	Lake River and Other Intakes	-	-	-	-	-
307	Wells and Springs	2,164,423	-	2,164,423	2,164,423	-
308	Infiltration Galleries and Tunnels	-	-	-	-	-
309	Supply Mains	-	-	-	-	-
310	Power Generation Equipment	187,864	-	187,864	187,864	-
311	Electric Pumping Equipment	3,585,660	-	3,585,660	3,585,660	-
320	Water Treatment Equipment	-	-	-	-	-
320.1	Water Treatment Plant	-	-	-	-	-
320.2	Chemical Solution Feeders	24,640	-	24,640	24,640	-
330	Dist. Reservoirs & Standpipe	-	-	-	-	-
330.1	Storage tanks	1,758,175	-	1,758,175	1,758,175	-
330.2	Pressure Tanks	321,969	-	321,969	321,969	-
331	Trans. and Dist. Mains	6,083,805	-	6,083,805	6,083,805	-
333	Services	1,888,741	-	1,888,741	1,888,741	-
334	Meters	504,321	-	504,321	504,321	-
335	Hydrants	718,857	-	718,857	718,857	-
336	Backflow Prevention Devices	-	-	-	-	-
339	Other Plant and Misc. Equip.	-	-	-	-	-
340	Office Furniture and Fixtures	36,758	-	36,758	36,758	-
340.1	Computers and Software	-	-	-	-	-
341	Transportation Equipment	89,569	-	89,569	89,569	-
342	Stores Equipment	-	-	-	-	-
343	Tools and Work Equipment	-	-	-	-	-
344	Laboratory Equipment	-	-	-	-	-
345	Power Operated Equipment	55,787	-	55,787	55,787	-
346	Communications Equipment	351,219	-	351,219	351,219	-
347	Miscellaneous Equipment	26,122	-	26,122	26,122	-
348	Other Tangible Plant	-	-	-	-	-
	Plant Held for Future Use	-	-	-	-	-
TOTALS		\$ 18,200,199	\$ -	\$ 18,200,199	\$ 18,200,199	\$ -

43 SUPPORTING SCHEDULE
 44 B-2, pages 3.1 through 3.2
 45 B-2, pages 3.4 through 3.29

Lago Del Oro Water Company

Test Year Ended December 31, 2012

Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

Exhibit
Rejoinder Schedule B-2
Page 3.4
Witness: Jones/Bourassa

Line No.	NARUC No.	Description	Per Decision No. 56464 - 04/29/1989				Current Books			
			(1) Book Plant at 4/30/1988	(2) Dec 56464 Adjust- ments	(3) Adjusted Plant at 4/30/1988 (1)+(2)	(4) Dec 65134 Accum Depr 4/30/1988	(5) Net Plant 4/30/1988 (3)-(4)	(6) Book Plant ¹ at 4/30/1988	(7) Allocated Accum Depr 4/30/1988	(8) Net Plant 4/30/1988 (6)-(7)
1	301	Organization Cost	275		275					
2	302	Franchise Cost								
3	303	Land and Land Rights	3,200		3,200		3,200		3,200	
4	304	Structures & Improvements								
5	305	Collecting & Impounding Reservoirs								
6	306	Lake, River, Canal Intakes								
7	307	Wells & Springs	106,318		106,318		84,804	14,812	69,992	
8	308	Infiltration Galleries								
9	309	Raw Water Supply Mains								
10	310	Power Generation Equipment								
11	311	Pumping Equipment	220,818		220,818		164,378	28,711	135,667	
12	320	Water Treatment Equipment								
13	320.1	Water Treatment Plants								
14	320.2	Solution Chemical Feeders								
15	330	Distribution Reservoirs & Standpipes	116,880		116,880					
16	330.1	Storage Tanks								
17	330.2	Pressure Tanks								
18	331	Transmission & Distribution Mains	452,026		452,026		212,474	37,112	175,362	
19	333	Services	2,943		2,943		10,509	1,836	8,673	
20	334	Meters	25,131		25,131		328,100	57,308	270,792	
21	335	Hydrants					90,880	15,875	75,015	
22	336	Backflow Prevention Devices					23,128	4,040	19,088	
23	339	Other Plant & Misc Equipment					28,000	4,891	23,109	
24	340	Office Furniture & Equipment	1,240		1,240					
25	340.1	Computers & Software					5,227	913	4,314	
26	341	Transportation Equipment								
27	342	Stores Equipment								
28	343	Tools, Shop & Garage Equipment								
29	344	Laboratory Equipment								
30	345	Power Operated Equipment					1,165	203	962	
31	346	Communication Equipment								
32	347	Miscellaneous Equipment					2,200	384	1,816	
33	348	Other Tangible Plant	25,243		25,243					
34		TOTAL	954,074		954,074	166,065	787,989	954,075	166,065	787,990

Line No.	NARUC No.	Description	Allowed Deprec. Rate	Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	1999		Depreciation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
								Unbooked Plant Retirements	Adjusted Plant Retirements				
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	42,608	-	42,608
4	304	Structures & Improvements	5.00%	7,094	-	7,094	-	-	3,260	66,755	10,731	-	58,023
5	305	Collecting & Impounding Reservoirs	5.00%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	5.00%	-	-	-	-	-	60,415	1,208,309	158,603	-	1,049,506
8	308	Infiltration Galleries	5.00%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	5.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	-	-	-	-	-	1,572	31,449	5,504	-	25,945
11	311	Pumping Equipment	5.00%	61,977	-	61,977	-	10,113	101,049	2,046,921	206,040	-	1,840,881
12	320	Water Treatment Equipment	5.00%	-	-	-	-	-	25,009	500,186	43,766	-	456,421
13	320.1	Water Treatment Plants	5.00%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	616	-	616	-	-	90	2,117	(488)	-	2,605
15	330	Distribution Reservoirs & Standpipes	5.00%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	5.00%	-	-	-	-	-	49,890	997,801	224,419	-	773,382
17	330.2	Pressure Tanks	5.00%	-	-	-	-	-	7,601	152,023	10,894	-	141,128
18	331	Transmission & Distribution Mains	5.00%	11,019	-	11,019	-	-	106,197	2,129,456	584,737	-	1,544,720
19	333	Services	5.00%	6,400	-	6,400	-	-	24,482	492,847	173,091	-	319,756
20	334	Meters	5.00%	37,998	-	37,998	-	-	10,469	228,388	66,400	-	162,988
21	335	Hydrants	5.00%	-	-	-	-	-	12,850	256,992	82,255	-	174,737
22	336	Backflow Prevention Devices	5.00%	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	-	-	-	-	-	596	11,918	3,254	-	8,664
24	340	Office Furniture & Equipment	5.00%	-	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	5.00%	2,283	-	2,283	-	-	2,568	52,492	(18,200)	-	70,692
26	341	Transportation Equipment	5.00%	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	5.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	-	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	5.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	2,176	43,513	11,464	-	32,049
31	346	Communication Equipment	5.00%	11,575	-	11,575	-	-	10,669	219,168	26,141	-	193,027
32	347	Miscellaneous Equipment	5.00%	3,147	-	3,147	-	-	896	19,488	3,275	-	16,213
33	348	Other Tangible Plant	5.00%	-	-	-	-	-	-	-	-	-	-
34		TOTAL		142,109	-	142,109	-	10,113	419,791	8,504,434	1,581,088	-	6,913,346

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2001													
				Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Unbooked Plant Retirements	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant			
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	304	Structures & Improvements	5.00%	74,199	-	74,199	-	-	-	-	-	-	-	42,608	-	42,608	-
5	305	Collecting & Impounding Reservoirs	5.00%	-	-	-	-	-	-	-	-	-	-	142,954	19,462	123,492	-
6	306	Lake, River, Canal Intakes	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	308	Infiltration Galleries	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	135,000	-	135,000	-	-	-	-	-	-	-	166,449	12,023	154,425	-
11	311	Pumping Equipment	5.00%	785,764	-	785,764	-	-	-	50,419	-	-	-	2,884,536	301,368	2,583,168	-
12	320	Water Treatment Equipment	5.00%	7,687	-	7,687	-	-	-	-	-	-	-	625,070	100,325	524,744	-
13	320.1	Water Treatment Plants	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	5.00%	190,000	-	190,000	-	-	-	-	-	-	-	1,187,801	328,949	858,852	-
17	330.2	Pressure Tanks	5.00%	37,264	-	37,264	-	-	-	-	-	-	-	231,151	30,168	200,983	-
18	331	Transmission & Distribution Mains	5.00%	370,594	-	370,594	-	-	-	-	-	-	-	3,105,259	852,339	2,252,921	-
19	333	Services	5.00%	216,381	-	216,381	-	-	-	-	-	-	-	877,348	240,394	636,954	-
20	334	Meters	5.00%	21,192	-	21,192	-	-	-	-	-	-	-	272,079	90,456	181,623	-
21	335	Hydrants	5.00%	41,350	-	41,350	-	-	-	-	-	-	-	439,082	119,543	319,539	-
22	336	Backflow Prevention Devices	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	12,926	-	12,926	-	-	-	5,702	-	-	-	20,005	(1,630)	21,635	-
24	340	Office Furniture & Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	5.00%	5,408	-	5,408	-	-	-	11,275	-	-	-	63,584	(23,101)	86,685	-
27	342	Stores Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	5.00%	5,229	-	5,229	-	-	-	-	-	-	-	43,513	15,815	27,698	-
32	347	Miscellaneous Equipment	5.00%	3,683	-	3,683	-	-	-	-	-	-	-	225,336	48,259	177,077	-
33	348	Other Tangible Plant	5.00%	-	-	-	-	-	-	-	-	-	-	24,782	5,437	19,345	-
34		TOTAL		1,906,688	-	1,906,688	11,275	56,121	67,396	-	552,061	12,003,469	2,452,277	9,551,192	-	-	-

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2011		2011		Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
				Plant Additions	Plant Adjustments	Adjusted Plant Additions	Unbooked Plant Retirements					
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	42,608	-	42,608
4	304	Structures & Improvements	5.00%	-	-	-	-	11,848	-	236,958	119,555	117,402
5	305	Collecting & Impounding Reservoirs	5.00%	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	5.00%	-	-	-	-	83,394	-	1,667,882	1,142,055	525,827
8	308	Infiltration Galleries	5.00%	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	5.00%	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	-	-	-	-	4,872	-	97,446	(9,721)	107,167
11	311	Pumping Equipment	5.00%	21,287	-	21,287	4,200	152,099	3,050,532	1,044,945	2,005,588	-
12	320	Water Treatment Equipment	5.00%	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	5.00%	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	4,055	-	4,055	-	446	10,937	1,872	9,066	-
15	330	Distribution Reservoirs & Standpipes	5.00%	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	5.00%	18,040	-	18,040	-	74,457	1,498,166	963,670	534,497	-
17	330.2	Pressure Tanks	5.00%	1,414	-	1,414	-	11,524	231,190	141,582	89,607	-
18	331	Transmission & Distribution Mains	5.00%	8,972	-	8,972	-	214,968	4,303,840	2,853,276	1,450,564	-
19	333	Services	5.00%	25,911	-	25,911	-	78,353	1,580,007	898,032	681,975	-
20	334	Meters	5.00%	-	-	-	-	24,493	489,850	304,333	185,517	-
21	335	Hydrants	5.00%	-	-	-	-	26,445	528,893	375,536	153,357	-
22	336	Backflow Prevention Devices	5.00%	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	1,106	-	1,106	-	-	-	-	-	-
24	340	Office Furniture & Equipment	5.00%	-	-	-	-	1,514	30,838	8,170	22,668	-
25	340.1	Computers & Software	5.00%	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	5.00%	-	-	-	-	3,526	66,451	(27,059)	93,511	-
27	342	Stores Equipment	5.00%	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	5.00%	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	-	-	-	-	2,789	55,787	41,686	14,091	-
31	346	Communication Equipment	5.00%	42,104	-	42,104	-	13,998	301,021	168,366	132,655	-
32	347	Miscellaneous Equipment	5.00%	-	-	-	-	1,388	27,763	1,968	25,795	-
33	348	Other Tangible Plant	5.00%	-	-	-	-	-	-	-	-	-
34												
35		TOTAL		122,888	8,137	122,888	4,200	706,114	14,220,170	8,028,276	6,191,894	

Accumulated Depreciation

Line No.	Acct. No.	Description	Adjusted Accum. Depr.	A		B		C		D	E	Proposed Adjusted Accum. Depr.
				Purchased Plant A/D Adj.	Intentionally Left Blank	Adjustments to Reconcile A/D to Reconstruction	Intentionally Left Blank	Intentionally Left Blank				
6	301	Organization Cost	-	-	-	-	-	-	-	-	-	-
7	302	Franchise Cost	-	-	-	-	-	-	-	-	-	-
8	303	Land and Land Rights	-	-	-	-	-	-	-	-	-	-
9	304	Structures and Improvements	123,773	16,508	-	-	-	-	-	-	-	140,281
10	305	Collecting and Impounding Res.	-	-	-	-	-	-	-	-	-	-
11	306	Lake River and Other Intakes	-	-	-	-	-	-	-	-	-	-
12	307	Wells and Springs	1,237,863	74,481	-	-	-	-	-	-	-	1,312,344
13	308	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-	-	-	-
14	309	Supply Mains	-	-	-	-	-	-	-	-	-	-
15	310	Power Generation Equipment	9,102	9,372	-	-	-	-	-	-	-	18,474
16	311	Electric Pumping Equipment	1,268,371	82,196	-	-	-	-	-	-	-	1,350,567
17	320	Water Treatment Equipment	-	-	-	-	-	-	-	-	-	-
18	320.1	Water Treatment Plant	-	-	-	-	-	-	-	-	-	-
19	320.2	Chemical Solution Feeders	1,726	-	-	-	-	-	-	-	-	1,726
20	330	Dist. Reservoirs & Standpipe	-	-	-	-	-	-	-	-	-	-
21	330.1	Storage tanks	989,447	48,478	-	-	-	-	-	-	-	1,047,925
22	330.2	Pressure Tanks	153,633	13,387	-	-	-	-	-	-	-	167,020
23	331	Trans. and Dist. Mains	3,112,967	747,934	-	-	-	-	-	-	-	3,860,901
24	333	Services	984,751	79,977	-	-	-	-	-	-	-	1,064,728
25	334	Meters	329,187	-	-	-	-	-	-	-	-	329,187
26	335	Hydrants	406,730	60,726	-	-	-	-	-	-	-	467,456
27	336	Backflow Prevention Devices	-	-	-	-	-	-	-	-	-	-
28	339	Other Plant and Misc. Equip.	-	-	-	-	-	-	-	-	-	-
29	340	Office Furniture and Fixtures	9,860	-	-	-	-	-	-	-	-	9,860
30	340.1	Computers and Software	-	-	-	-	-	-	-	-	-	-
31	341	Transportation Equipment	(23,159)	-	-	-	-	-	-	-	-	(23,159)
32	342	Stores Equipment	-	-	-	-	-	-	-	-	-	-
33	343	Tools and Work Equipment	-	-	-	-	-	-	-	-	-	-
34	344	Laboratory Equipment	-	-	-	-	-	-	-	-	-	-
35	345	Power Operated Equipment	44,485	-	-	-	-	-	-	-	-	44,485
36	346	Communications Equipment	183,184	3,529	-	-	-	-	-	-	-	186,713
37	347	Miscellaneous Equipment	(1,121)	0	-	-	-	-	-	-	-	(1,121)
38	348	Other Tangible Plant	-	-	-	-	-	-	-	-	-	-
39		Loss on Plant Disposal	-	-	-	-	-	-	-	-	-	-
40		TOTALS	\$ 8,840,798	\$ 1,136,588	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,977,386
41		Adjusted Accumulated Depreciation per Direct	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,840,798
42		Increase (decrease) in Accumulated Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,136,588
43		Adjustment to Accumulated Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,136,588

SUPPORTING SCHEDULES
B-2 pages 4.1, 4.2 and 4.3

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

Exhibit
 Rejoinder Schedule B-2
 Page 4.1
 Witness: Bourassa

Line

No.

1 A/D on Purchased Plant

2

3

4

Acct.

Original

5

No. Description

Cost

6

301 Organization Cost

-

7

302 Franchise Cost

-

8

303 Land and Land Rights

-

9

304 Structures and Improvements

16,508

10

305 Collecting and Impounding Res.

-

11

306 Lake River and Other Intakes

-

12

307 Wells and Springs

74,481

13

308 Infiltration Galleries and Tunnels

-

14

309 Supply Mains

-

15

310 Power Generation Equipment

9,372

16

311 Electric Pumping Equipment

82,196

17

320 Water Treatment Equipment

-

18

320.1 Water Treatment Plant

-

19

320.2 Chemical Solution Feeders

-

20

330 Dist. Reservoirs & Standpipe

-

21

330.1 Storage tanks

48,478

22

330.2 Pressure Tanks

13,387

23

331 Trans. and Dist. Mains

747,934

24

333 Services

79,977

25

334 Meters

-

26

335 Hydrants

60,726

27

336 Backflow Prevention Devices

-

28

339 Other Plant and Misc. Equip.

-

29

340 Office Furniture and Fixtures

-

30

340.1 Computers and Software

-

31

341 Transportation Equipment

-

32

342 Stores Equipment

-

33

343 Tools and Work Equipment

-

34

344 Laboratory Equipment

-

35

345 Power Operated Equipment

-

36

346 Communications Equipment

3,529

37

347 Miscellaneous Equipment

0

38

348 Other Tangible Plant

-

39

Plant Held for Future Use

-

40

TOTALS

\$1,136,588

41

42

43

SUPPORTING SCHEDULE

44

B-2, pages 3.1 through 3.2

45

B-2, pages 3.4 through 3.29

Lago Del Oro Water Company
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - B

Exhibit
Rejoinder Schedule B-2
Page 4.2
Witness: Bourassa

Line

No.

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Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 2 - C

Exhibit
 Rejoinder Schedule B-2
 Page 4.3
 Witness: Bourassa

Line
 No.

<u>Reconciliation of A/D to A/D Reconstruction</u>						
Acct. No.	Description	Adjusted Original Cost	B-2 Adjustments	A/D Adjusted Original Cost	A/D Per Reconstruction	Proposed A/D Adjustment
6	301 Organization Cost	-	-	-	-	-
7	302 Franchise Cost	-	-	-	-	-
8	303 Land and Land Rights	-	-	-	-	-
9	304 Structures and Improvements	123,773	16,508	140,281	140,281	-
10	305 Collecting and Impounding Res.	-	-	-	-	-
11	306 Lake River and Other Intakes	-	-	-	-	-
12	307 Wells and Springs	1,237,863	74,481	1,312,344	1,312,344	-
13	308 Infiltration Galleries and Tunnels	-	-	-	-	-
14	309 Supply Mains	-	-	-	-	-
15	310 Power Generation Equipment	9,102	9,372	18,474	18,474	-
16	311 Electric Pumping Equipment	1,268,371	82,196	1,350,567	1,350,567	-
17	320 Water Treatment Equipment	-	-	-	-	-
18	320.1 Water Treatment Plant	-	-	-	-	-
19	320.2 Chemical Solution Feeders	1,726	-	1,726	1,726	-
20	330 Dist. Reservoirs & Standpipe	-	-	-	-	-
21	330.1 Storage tanks	999,447	48,478	1,047,925	1,047,925	-
22	330.2 Pressure Tanks	153,633	13,387	167,020	167,020	-
23	331 Trans. and Dist. Mains	3,112,967	747,934	3,860,901	3,860,901	-
24	333 Services	984,751	79,977	1,064,728	1,064,728	-
25	334 Meters	329,187	-	329,187	329,187	-
26	335 Hydrants	406,730	60,726	467,456	467,456	-
27	336 Backflow Prevention Devices	-	-	-	-	-
28	339 Other Plant and Misc. Equip.	-	-	-	-	-
29	340 Office Furniture and Fixtures	9,860	-	9,860	9,860	-
30	340.1 Computers and Software	-	-	-	-	-
31	341 Transportation Equipment	(23,159)	-	(23,159)	(23,159)	-
32	342 Stores Equipment	-	-	-	-	-
33	343 Tools and Work Equipment	-	-	-	-	-
34	344 Laboratory Equipment	-	-	-	-	-
35	345 Power Operated Equipment	44,485	-	44,485	44,485	-
36	346 Communications Equipment	183,184	3,529	186,713	186,713	-
37	347 Miscellaneous Equipment	(1,121)	0	(1,121)	(1,121)	-
38	348 Other Tangible Plant	-	-	-	-	-
39	Loss on Plant Diposal	-	-	-	-	-
40	TOTALS	\$ 8,840,798	\$ 1,136,588	\$ 9,977,386	\$ 9,977,386	\$ -

43 SUPPORTING SCHEDULE
 44 B-2, pages 4.1 through 4.2
 45 B-2, pages 3.4 through 3.29

Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Original Cost Rate Base Proforma Adjustments
 Adjustment 3

Exhibit
 Rejoinder Schedule B-2
 Page 5
 Witness: Bourassa

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

Line			
<u>No.</u>			
1			
2			
3		<u>Gross</u>	<u>Accumulated</u>
4		<u>CIAC</u>	<u>Amortization</u>
5	Computed balance at 12/31/2012	\$ 852,693	\$ 469,879
6			
7	Book balance at 12/31/2012	<u>\$ 852,693</u>	<u>\$ 469,879</u>
8			
9	Increase (decrease)	\$ -	\$ -
10			
11			
12	Adjustment to CIAC/AA CIAC	<u>\$ -</u>	<u>\$ -</u>
13	Label	3a	3b
14			
15			
16			
17			
18			
19	<u>SUPPORTING SCHEDULES</u>		
20	E-1		
21	B-2, page 5.1 to 5.4		
22			
23			
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Lago Del Oro Water Company
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 4
Advances-in-Aid of Construction (AIAC)

Exhibit
Rejoinder Schedule B-2
Page 6
Witness: Bourassa

Line
No.

1		
2		
3		
4	Computed balance	\$ 297,640
5		
6	Adjusted balance at per Direct	<u>\$ 297,640</u>
7		
8	Increase (decrease)	\$ -
9		

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SUPPORTING SCHEDULES

E-1
Work papers

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
1										
2										
3										
4										
5										
6	Plant-in-Service	\$ 18,200,198 ¹								
7	Accum. Deprec.	(9,977,386) ¹								
8	C/IAC	(591,162) ³								
9	Fed. Fixed Assets	\$ 7,631,650	\$ 6,887,424 ²	100.0%	\$ (744,227)	31.30%		-		(232,913)
10	State Fixed Assets	\$ 7,631,650	\$ 9,019,802 ²	100.0%	\$ 1,388,151	6.50%		90,230		-
11	Fed & State AIAC		201,146 ⁴	100.0%	\$ 201,146 ⁴	37.80%		76,025		
12										
13										
14										
15										
16										
17	Net Asset (Liability)						\$ (66,658)	\$ 166,255	\$ -	\$ (232,913)
18										
19										
20	Adjusted DIT Asset (Liability) per Direct						\$ (279,359)			
21	Adjustment to DIT						\$ (212,701)			
22										
23										
24										
25										
26										
27										
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Footnotes - See page 7.1

Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Computation of Working Capital

Exhibit
 Rejoinder Schedule B-5
 Page 1
 Witness: Bourassa

Line
No.

1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	78,175
3	Pumping Power (1/24 of Pumping Power)		-
4	Purchased Water (1/24 of Purchased Water)		18,451
5	Prepaid Expenses		
6			
7			
8			
9	Total Working Capital Allowance	<u>\$</u>	<u>96,626</u>
10			
11			
12	Working Capital Requested	<u>\$</u>	<u>-</u>
13			
14			
15			
16			
17			
			<u>Adjusted Test Year</u>
18	Total Operating Expense	\$	1,937,076
19	Less:		
20	Income Tax	\$	(85,942)
21	Property Tax		93,667
22	Depreciation		861,127
23	Purchased Water		442,823
24	Pumping Power		-
25	Allowable Expenses	<u>\$</u>	<u>625,401</u>
26	1/8 of allowable expenses	<u>\$</u>	<u>78,175</u>

29 SUPPORTING SCHEDULES:

30 E-1

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RECAP SCHEDULES:

B-1

Lago Del Oro Water Company
Test Year Ended December 31, 2012
Income Statement

Exhibit
Rejoinder Schedule C-1
Page 1
Witness: Bourassa

Line No.		Test Year Adjusted Results	Adjustment	Rejoinder Test Year Adjusted Results	Proposed Rate Increase	Rejoinder Adjusted with Rate Increase
1	Revenues					
2	Metered Water Revenues	\$ 1,865,121	\$ -	\$ 1,865,121	\$ 1,148,253	\$ 3,013,374
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	17,117	-	17,117		17,117
5		<u>\$ 1,882,238</u>	<u>\$ -</u>	<u>\$ 1,882,238</u>	<u>\$ 1,148,253</u>	<u>\$ 3,030,491</u>
6	Operating Expenses					
7	Salaries and Wages	\$ 169,991	-	\$ 169,991		\$ 169,991
8	Employee Pensions and Benefits	35,228	-	35,228		35,228
9	Purchased Water	-	-	-		-
10	Purchased Power	442,823	-	442,823		442,823
11	Fuel For Power Production	-	-	-		-
12	Chemicals	21,969	-	21,969		21,969
13	Materials and Supplies	80,299	-	80,299		80,299
14	Office Supplies and Expense	66,431	-	66,431		66,431
15	Contractual Services - Engineering	-	-	-		-
16	Contractual Services - Accounting	533	8,000	8,533		8,533
17	Contractual Services - Legal	166	-	166		166
18	Contractual Services - Other	57,785	-	57,785		57,785
19	Contractual Services - Testing	22,433	5,392	27,825		27,825
20	Rents	9,435	-	9,435		9,435
21	Transportation Expenses	42,440	-	42,440		42,440
22	Insurance - Vehicle	5,165	-	5,165		5,165
23	Insurance - General Liability	20,083	-	20,083		20,083
24	Reg. Comm. Exp. - Other	855	-	855		855
25	Reg. Comm. Exp. - Rate Case	55,000	-	55,000		55,000
26	Bad Debt Expense	4,922	-	4,922		4,922
27	Miscellaneous Expense	19,274	-	19,274		19,274
28	Depreciation and Amortization Expense	861,127	-	861,127		861,127
29	Taxes Other Than Income	-	-	-		-
30	Property Taxes	98,597	(4,930)	93,667	19,635	113,302
31	Income Tax	(128,849)	42,906	(85,942)	426,572	340,629
32		-	-	-		-
33	Total Operating Expenses	<u>\$ 1,885,708</u>	<u>\$ 51,368</u>	<u>\$ 1,937,076</u>	<u>\$ 446,207</u>	<u>\$ 2,383,283</u>
34	Operating Income	<u>\$ (3,470)</u>	<u>\$ (51,368)</u>	<u>\$ (54,838)</u>	<u>\$ 702,046</u>	<u>\$ 647,208</u>
35	Other Income (Expense)					
36	Interest Income	-	-	-		-
37	Other income	-	-	-		-
38	Interest Expense	(204,322)	106,088	(98,234)		(98,234)
39	Other Expense	-	-	-		-
40		-	-	-		-
41	Total Other Income (Expense)	<u>\$ (204,322)</u>	<u>\$ 106,088</u>	<u>\$ (98,234)</u>	<u>\$ -</u>	<u>\$ (98,234)</u>
42	Net Profit (Loss)	<u>\$ (207,792)</u>	<u>\$ 54,720</u>	<u>\$ (153,072)</u>	<u>\$ 702,046</u>	<u>\$ 548,975</u>

44 SUPPORTING SCHEDULES:
45 C-1, page 2
46 E-2
47

RECAP SCHEDULES:
A-1

Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Income Statement

Exhibit
 Rejoinder Schedule C-1
 Page 2.1
 Witness: Bourassa

Line No.	Revenues	1 Adjusted Results	2 Property Taxes	3 Staff Water Testing Adjustment	4 Financial Audit Costs	5 Water Testing
1	Metered Water Revenues	\$ 1,865,121				
2	Unmetered Water Revenues	-				
3	Other Water Revenues	17,117				
4		\$ 1,882,238	\$ -	\$ -	\$ -	\$ -
5	Operating Expenses					
6	Salaries and Wages	\$ 169,991				
7	Employee Pensions and Benefits	35,228				
8	Purchased Water	-				
9	Fuel For Power Production	442,823				
10	Chemicals	-				
11	Materials and Supplies	21,969				
12	Office Supplies and Expense	80,299				
13	Contractual Services - Engineering	66,431				
14	Contractual Services - Accounting	-				
15	Contractual Services - Legal	533			8,000	
16	Contractual Services - Other	166				
17	Contractual Services - Testing	57,785		(548)		5,940
18	Rents	22,433				
19	Transportation Expenses	9,435				
20	Insurance - Vehicle	42,440				
21	Insurance - General Liability	5,165				
22	Reg. Comm. Exp. - Other	20,083				
23	Reg. Comm. Exp. - Rate Case	855				
24	Bad Debt Expense	55,000				
25	Miscellaneous Expense	4,922				
26	Depreciation and Amortization Expense	19,274				
27	Taxes Other Than Income	861,127				
28	Property Taxes	-	(4,930)			
29	Income Tax	98,597				
30		(128,849)				
31						
32						
33	Total Operating Expenses	\$ 1,885,708	\$ (4,930)	\$ (548)	\$ 8,000	\$ 5,940
34	Operating Income	\$ (3,470)	\$ 4,930	\$ 548	\$ (8,000)	\$ (5,940)
35	Other Income (Expense)					
36	Interest Income	-				
37	Other Income	-				
38	Interest Expense	(204,322)				
39	Other Expense	-				
40						
41	Total Other Income (Expense)	\$ (204,322)	\$ -	\$ -	\$ -	\$ -
42	Net Profit (Loss)	\$ (207,792)	\$ 4,930	\$ 548	\$ (8,000)	\$ (5,940)

SUPPORTING SCHEDULES:
 C-2
 E-2

Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Income Statement

Exhibit
 Rejoinder Schedule C-1
 Page 2.2
 Witness: Bourassa

Line No.	6	7	8	9	10	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Rejoinder Adjusted with Rate Increase
1	Interest Synch.					\$ 1,865,121	\$ 1,148,253	\$ 3,013,374
2	Revenues							
3	Metered Water Revenues							
4	Unmetered Water Revenues							
5	Other Water Revenues					17,117		17,117
6						\$ 1,882,238	\$ 1,148,253	\$ 3,030,491
7	Operating Expenses							
8	Salaries and Wages					\$ 169,991		\$ 169,991
9	Employee Pensions and Benefits					35,228		35,228
10	Purchased Water							
11	Fuel For Power Production					442,823		442,823
12	Chemicals							
13	Materials and Supplies					21,969		21,969
14	Office Supplies and Expense					80,299		80,299
15	Contractual Services - Engineering					66,431		66,431
16	Contractual Services - Accounting							
17	Contractual Services - Legal							
18	Contractual Services - Other							
19	Contractual Services - Testing							
20	Rents					8,533		8,533
21	Transportation Expenses					166		166
22	Insurance - Vehicle					57,785		57,785
23	Insurance - General Liability					27,825		27,825
24	Reg. Comm. Exp. - Other					9,435		9,435
25	Reg. Comm. Exp. - Rate Case					42,440		42,440
26	Bad Debt Expense					20,083		20,083
27	Miscellaneous Expense					855		855
28	Depreciation and Amortization Expense					55,000		55,000
29	Taxes Other Than Income					4,922		4,922
30	Property Taxes					19,274		19,274
31	Income Tax					861,127		861,127
32								
33	Total Operating Expenses					93,667	19,635	113,302
34	Operating Income					(85,942)	426,572	340,629
35	Other Income (Expense)							
36	Interest Income							
37	Other Income							
38	Interest Expense							
39	Other Expense							
40								
41	Total Other Income (Expense)							
42	Net Profit (Loss)					\$ 1,937,076	\$ 446,207	\$ 2,383,283
43						\$ (54,838)	\$ 702,046	\$ 647,208
44								
45								
46								

SUPPORTING SCHEDULES:
 C-1, page 1

SUPPORTING SCHEDULES:
 C-2
 E-2

Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Adjustments to Revenues and Expenses

Exhibit
 Rejoinder Schedule C-2
 Page 1
 Witness: Bourassa

Line No.	<u>Adjustments to Revenues and Expenses</u>							
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>		
	<u>Depreciation</u>	<u>Property Taxes</u>	<u>Water Testing Expense</u>	<u>Outside Financial Audit Costs</u>	<u>Additional Water Testing Expense</u>	<u>Interest Synch.</u>	<u>Subtotal</u>	
1								
2								
3								
4	Revenues						-	
5								
6	Expenses	-	(4,930)	(548)	8,000	5,940	8,462	
7								
8	Operating							
9	Income	-	4,930	548	(8,000)	(5,940)	(8,462)	
10								
11	Interest							
12	Expense					106,088	106,088	
13	Other							
14	Income /							
15	Expense						-	
16								
17	Net Income	-	4,930	548	(8,000)	(5,940)	97,626	
18								
19								
20		<u>Adjustments to Revenues and Expenses</u>						
21		<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	
22			<u>Intentionally</u>	<u>Intentionally</u>	<u>Intentionally</u>	<u>Intentionally</u>	<u>Intentionally</u>	
23		<u>Income</u>	<u>Left</u>	<u>Left</u>	<u>Left</u>	<u>Left</u>	<u>Left</u>	
24		<u>Taxes</u>	<u>Blank</u>	<u>Blank</u>	<u>Blank</u>	<u>Blank</u>	<u>Blank</u>	
25	Revenues						-	
26								
27	Expenses	42,906	-	-	-	-	51,368	
28								
29	Operating							
30	Income	(42,906)	-	-	-	-	(51,368)	
31								
32	Interest							
33	Expense	-					106,088	
34	Other							
35	Income /							
36	Expense						-	
37								
38	Net Income	(42,906)	-	-	-	-	54,720	
39								
40								

Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Adjustments to Revenues and Expenses
 Adjustment Number 1

Exhibit
 Rejoinder Schedule C-2
 Page 2
 Witness: Bourassa

Depreciation Expense

Line

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Acct. No.	Description	Original Cost	Non-Depr. or Fully Depr. Plant	Adjusted Original Cost	Proposed Rates	Depreciation Expense
301	Organization Cost	\$ -		\$ -	0.00%	\$ -
302	Franchise Cost	-		-	0.00%	-
303	Land and Land Rights	42,608	(42,608)	-	0.00%	-
304	Structures and Improvements	359,681		359,681	3.33%	11,977
305	Collecting and Impounding Res.	-		-	2.50%	-
306	Lake River and Other Intakes	-		-	2.50%	-
307	Wells and Springs	2,164,423		2,164,423	3.33%	72,075
308	Infiltration Galleries and Tunnels	-		-	6.67%	-
309	Supply Mains	-		-	2.00%	-
310	Power Generation Equipment	187,864		187,864	5.00%	9,393
311	Electric Pumping Equipment	3,585,660		3,585,660	12.50%	448,207
320	Water Treatment Equipment	-		-	3.33%	-
320.1	Water Treatment Plant	-		-	3.33%	-
320.2	Chemical Solution Feeders	24,640		24,640	20.00%	4,928
330	Dist. Reservoirs & Standpipe	-		-	2.22%	-
330.1	Storage tanks	1,758,175		1,758,175	2.22%	39,031
330.2	Pressure Tanks	321,969		321,969	5.00%	16,098
331	Trans. and Dist. Mains	6,083,805		6,083,805	2.00%	121,676
333	Services	1,888,741		1,888,741	3.33%	62,895
334	Meters	504,321		504,321	8.33%	42,010
335	Hydrants	718,857		718,857	2.00%	14,377
336	Backflow Prevention Devices	-		-	6.67%	-
339	Other Plant and Misc. Equip.	-		-	6.67%	-
340	Office Furniture and Fixtures	36,758		36,758	6.67%	2,452
340.1	Computers and Software	-		-	20.00%	-
341	Transportation Equipment	89,569		89,569	20.00%	17,914
342	Stores Equipment	-		-	4.00%	-
343	Tools and Work Equipment	-		-	5.00%	-
344	Laboratory Equipment	-		-	10.00%	-
345	Power Operated Equipment	55,787		55,787	5.00%	2,789
346	Communications Equipment	351,219		351,219	10.00%	35,122
347	Miscellaneous Equipment	26,122		26,122	10.00%	2,612
348	Other Tangible Plant	-		-	10.00%	-
	TOTALS	\$ 18,200,199	\$ (42,608)	\$ 18,157,591		\$ 903,558

				<u>Gross CIAC</u>	<u>Amort. Rate</u>	
41	Less: Amortization of Contributions			\$ 852,693	4.9762%	\$ (42,432)
42						-
43						-
44				<u>\$ -</u>		<u>\$ (42,432)</u>
45	Total Depreciation Expense					\$ 861,127
46						
47	Adjusted Test Year Depreciation Expense					861,127
48						
49	Increase (decrease) in Depreciation Expense					\$ -
50						
51	Adjustment to Revenues and/or Expenses					\$ -
52						

SUPPORTING SCHEDULE

B-2, page 3

*Fully Depreciated/Amortized

Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Adjustment to Revenues and Expenses
 Adjustment Number 2

Exhibit
 Rejoinder Schedule C
 Page 3
 Witness: Bourassa

Property Taxes

Line No.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	\$ 1,882,238	\$ 1,882,238
2	Weight Factor	<u>2</u>	<u>2</u>
3	Subtotal (Line 1 * Line 2)	3,764,476	3,764,476
4	Company Recommended Revenue	1,882,238	3,030,491
5	Subtotal (Line 4 + Line 5)	5,646,713	6,794,967
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	1,882,238	2,264,989
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	3,764,476	4,529,978
10	Plus: 10% of CWIP (intentionally excluded)	-	-
11	Less: Net Book Value of Licensed Vehicles	112,728	112,728
12	Full Cash Value (Line 9 + Line 10 - Line 11)	3,651,748	4,417,250
13	Assessment Ratio	19.0%	19.0%
14	Assessment Value (Line 12 * Line 13)	693,832	839,278
15	Composite Property Tax Rate - Obtained from ADOR	13.5000%	13.5000%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 93,667	\$ 113,302
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	<u>\$ 93,667</u>	
19	Test Year Property Taxes	<u>\$ 98,597</u>	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	<u>\$ (4,930)</u>	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		<u>\$ 113,302</u>
23	Company Test Year Adjusted Property Tax Expense (Line 18)		<u>\$ 93,667</u>
24	Increase in Property Tax Due to Increase in Revenue Requirement		<u>\$ 19,635</u>
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		\$ 19,635
27	Increase in Revenue Requirement		\$ 1,148,253
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		1.71000%
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			

Lago Del Oro Water Company
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Rejoinder Schedule C-2
Page 4
Witness: Bourassa

Water Testing Expense

Line
No.

1		
2		
3	Staff Recommended Water Testing Expense	\$ 21,885
4		
5	Adjusted Text Year Water Testing Expense	\$ 22,433
6	Increase(decrease) Rate Case Expense	<u>\$ (548)</u>
7		
8	Adjustment to Revenue and/or Expense	<u>\$ (548)</u>
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		
19	<u>Reference</u>	
20	Staf Adjustment 1	

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

Exhibit
Rejoinder Schedule C-2
Page 5
Witness: Bourassa

Outside Audit Costs

Line

No.

1

2

3

4

Costs for required annual audits related to debt financing

\$

8,000

5

6

7

8

Adjustment to Contractual Services - Accounting

\$

8,000

9

10

11

Adjustment to Revenue and/or Expense

\$

8,000

12

13

SUPPORTING SCHEDULES

14

Testimony

15

16

17

18

19

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Lago Del Oro Water Company
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Rejoinder Schedule C-2
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Water Testing Expense

Line

No.

1
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EPA Unregulated Contaminant Monitoring Required Testing Rule 3	\$	32,280
LDO allocattion		92.00%
LDO allocated share of costs	\$	29,698
Amortization period (years)		5
Annual Amortization of Testing Expoense	\$	5,940
Adjustment to Revenue and/or Expense	\$	<u>5,940</u>

SUPPORTING SCHEDULES

Testimony

Lago Del Oro Water Company
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
 Rejoinder Schedule C-2
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 Witness: Bourassa

Interest Synchronization

Line
No.

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
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- 10
- 11
- 12
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- 29
- 30

	\$	7,363,846	
Fair Value Rate Base			
Weighted Cost of Debt		1.33%	
Interest Expense	\$	98,234	
Test Year Interest Expense	\$	<u>204,322</u>	
Increase (decrease) in Interest Expense		(106,088)	
Adjustment to Revenue and/or Expense	\$	<u><u>106,088</u></u>	

Weighted Cost of Debt Computation

	<u>Percent</u>	<u>Cost</u>	<u>Weighted</u> <u>Cost</u>
Debt	29.00%	4.60%	1.33%
Equity	<u>71.00%</u>	<u>10.50%</u>	<u>7.46%</u>
Total	100.00%		8.79%

Lago Del Oro Water Company
Test Year Ended December 31, 2012
Adjustment to Revenues and/or Expenses
Adjustment Number 7

Exhibit
Rejoinder Schedule C-2
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Witness: Bourassa

Line
No.
1
2
3
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Income Taxes

	<u>Test Year at Present Rates</u>	<u>Test Year at Proposed Rates</u>
Computed Income Tax	\$ (85,942)	\$ 340,629
Test Year Income tax Expense	(128,849)	(85,942)
Adjustment to Income Tax Expense	<u>\$ 42,906</u>	<u>\$ 426,572</u>

SUPPORTING SCHEDULE

C-3, page 2

Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Computation of Gross Revenue Conversion Factor

Exhibit
 Rejoinder Schedule C-3
 Page 1
 Witness: Bourassa

Line No.	<u>Description</u>	Percentage of Incremental Gross <u>Revenues</u>
1	Combined Federal and State Effective Income Tax Rate	37.796%
2		
3	Property Taxes	<u>1.064%</u>
4		
5		
6	Total Tax Percentage	38.860%
7		
8	Operating Income % = 100% - Tax Percentage	61.140%
9		
10		
11		
12		
13	<u>1</u> = Gross Revenue Conversion Factor	
14	Operating Income %	1.6356

25 SUPPORTING SCHEDULES:

26 C-3, page 2

RECAP SCHEDULES:

A-1

27
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GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Gross Revenue Conversion Factor:</u>							
1	Revenue		100.0000%				
2	Uncollectible Factor (Line 11)		0.0000%				
3	Revenues (L1 - L2)		100.0000%				
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)		38.8596%				
5	Subtotal (L3 - L4)		61.1404%				
6	Revenue Conversion Factor (L1 / L5)		1.635580				
<u>Calculation of Uncollectible Factor:</u>							
7	Unity		100.0000%				
8	Combined Federal and State Tax Rate (L17)		37.7959%				
9	One Minus Combined Income Tax Rate (L7 - L8)		62.2041%				
10	Uncollectible Rate		0.0000%				
11	Uncollectible Factor (L9 * L10)			0.0000%			
<u>Calculation of Effective Tax Rate:</u>							
12	Operating Income Before Taxes (Arizona Taxable Income)		100.0000%				
13	Arizona State Income Tax Rate		6.5000%				
14	Federal Taxable Income (L12 - L13)		93.5000%				
15	Applicable Federal Income Tax Rate (L55 Col F)		33.4716%				
16	Effective Federal Income Tax Rate (L14 x L15)		31.2959%				
17	Combined Federal and State Income Tax Rate (L13 +L16)			37.7959%			
<u>Calculation of Effective Property Tax Factor:</u>							
18	Unity		100.0000%				
19	Combined Federal and State Income Tax Rate (L17)		37.7959%				
20	One Minus Combined Income Tax Rate (L18-L19)		62.2041%				
21	Property Tax Factor		1.7100%				
22	Effective Property Tax Factor (L20*L21)			1.0637%			
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)				38.8596%		
24	Required Operating Income	\$	647,208				
25	Adjusted Test Year Operating Income (Loss)	\$	(54,838)				
26	Required Increase in Operating Income (L24 - L25)	\$		\$	702,046		
27	Income Taxes on Recommended Revenue (Col. (F), L52)	\$	340,629				
28	Income Taxes on Test Year Revenue (Col. (C), L52)	\$	(85,942)				
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)	\$		\$	426,572		
30	Recommended Revenue Requirement	\$	3,030,491				
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	\$	113,302				
36	Property Tax on Test Year Revenue	\$	93,667				
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)	\$		\$	19,635		
38	Total Required Increase in Revenue (L26 + L29 + L37)	\$		\$	1,148,253		

	Test Year			Company Recommended			
	(A)	(B)	(C)	(D)	(E)	(F)	
<u>Calculation of Income Tax:</u>							
39	Revenue	\$	1,882,238	\$	3,030,491	\$	3,030,491
40	Operating Expenses Excluding Income Taxes		2,023,018		2,042,653		2,042,653
41	Synchronized Interest (L47)		98,234		98,234		98,234
42	Arizona Taxable Income (L39 - L40 - L41)	\$	(239,014)	\$	(239,014)	\$	889,605
43	Arizona State Effective Income Tax Rate (see work papers)		6.5000%		6.5000%		6.5000%
44	Arizona Income Tax (L42 x L43)	\$	(15,536)	\$	(15,536)	\$	57,824
45	Federal Taxable Income (L42- L44)	\$	(223,478)	\$	(223,478)	\$	831,781
46							
47	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$	(7,500)	\$	(7,500)	\$	7,500
48	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$	(6,250)	\$	(6,250)	\$	6,250
49	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$	(8,500)	\$	(8,500)	\$	8,500
50	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$	(48,156)	\$	(48,156)	\$	91,650
51	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$	-	\$	-	\$	168,905
52							
53	Total Federal Income Tax	\$	(70,406)	\$	(70,406)	\$	282,805
54	Combined Federal and State Income Tax (L35 + L42)	\$	(85,942)	\$	(85,942)	\$	340,629
55	COMBINED Applicable Federal Income Tax Rate [Col. (D), L53 - Col. (A), L53 / [Col. (D), L45 - Col. (A), L45]				33.4716%		
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]						33.4716%

Calculation of Interest Synchronization:
 Rate Base
 Weighted Average Cost of Debt
 Synchronized Interest (L59 X L60)

	Water
	\$ 7,363,846
	1.3340%
	\$ 98,234

Line No.	Customer Classification and/or Meter Size	Average Number of Customers at 12/31/2012	Average Bill		Proposed Increase		Percent of Customers
			Present Rates	Proposed Rates	Dollar Amount	Percent Amount	
1	5/8x3/4 Inch Residential	6,050	\$ 21.49	\$ 31.16	\$ 9.68	45.03%	95.07%
2	3/4 Inch Residential	114	\$ 25.30	\$ 37.47	12.17	48.13%	1.79%
3	1 Inch Residential	53	32.46	54.70	22.24	68.51%	0.83%
4	1 1/2 Inch Residential	2	68.80	123.11	54.31	78.93%	0.03%
5	2 Inch Residential	12	67.59	131.00	63.41	93.81%	0.19%
6							
7	5/8x3/4 Inch Commercial	-	12.40	14.88	2.48	20.00%	0.00%
8	3/4 Inch Commercial	35	14.85	24.89	10.04	67.65%	0.55%
9	1 Inch Commercial	16	126.52	263.86	137.34	108.55%	0.26%
10	1 1/2 Inch Commercial	12	48.39	89.31	40.93	84.58%	0.19%
11	2 Inch Commercial	20	153.96	287.33	133.37	86.63%	0.31%
12	3 Inch Commercial	2	246.82	470.65	223.84	90.69%	0.03%
13	6 Inch Commercial	4	629.66	1,332.48	702.82	111.62%	0.06%
14							
15	5/8x3/4 Inch Irrigation	-	12.40	14.88	2.48	20.00%	0.00%
16	3/4 Inch Irrigation	8	19.76	33.03	13.27	67.13%	0.13%
17	1 Inch Irrigation	3	41.51	69.69	28.17	67.87%	0.04%
18	1 1/2 Inch Irrigation	1	34.15	65.74	31.59	92.51%	0.02%
19	2 Inch Irrigation	22	58.544	259.18	117.40	82.81%	0.35%
20	3 Inch Irrigation	2	61,159	340.97	172.49	102.38%	0.03%
21	4 Inch Irrigation	1	86.93	258.80	171.88	197.73%	0.02%
22							
23	Golf Course Irrigation	2	2,492.64	5,926.34	3,433.70	137.75%	0.03%
24							
25	5/8x3/4 Inch Hydrant/Construction	5	28.28	45.02	16.74	59.20%	0.08%
26							
27							
28							
29	Totals	6,363					100.00%
30							
31	Actual Year End Number of Customers:	6,356					
32							
33							
34							
35							
36							

Lago Del Oro Water Company
 Analysis of Revenue by Detailed Class
 Test Year Ended December 31, 2012

Exhibit
 Rebuttal Schedule H-2
 Page 2
 Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	Average Number of Customers at 12/31/2012	Median Consumption	Present Rates	Median Bill Proposed Rates	Proposed Dollar Amount	Proposed Increase Percent Amount	Percent of Customers
1	5/8x3/4 Inch Residential	6,050	\$ 5,500	\$ 18.70	\$ 26.55	\$ 7.85	41.98%	95.07%
2	3/4 Inch Residential	114	\$ 6,500	\$ 20.50	\$ 29.53	\$ 9.03	44.05%	1.79%
3	1 Inch Residential	53	\$ 6,500	\$ 26.10	\$ 44.17	\$ 18.07	69.23%	0.83%
4	1 1/2 Inch Residential	2	\$ 22,500	\$ 64.90	\$ 116.65	\$ 51.75	79.74%	0.03%
5	2 Inch Residential	12	\$ 3,500	\$ 42.70	\$ 89.79	\$ 47.09	110.28%	0.19%
7	5/8x3/4 Inch Commercial	-	\$ -	\$ 12.40	\$ 14.88	\$ 2.48	20.00%	0.00%
8	3/4 Inch Commercial	35	\$ 1,500	\$ 12.40	\$ 19.35	\$ 6.95	56.05%	0.55%
9	1 Inch Commercial	16	\$ 3,500	\$ 20.70	\$ 35.23	\$ 14.53	70.19%	0.26%
10	1 1/2 Inch Commercial	12	\$ 12,000	\$ 46.00	\$ 85.36	\$ 39.36	85.57%	0.19%
11	2 Inch Commercial	20	\$ 37,500	\$ 103.90	\$ 191.11	\$ 87.21	83.94%	0.31%
12	3 Inch Commercial	2	\$ 86,850	\$ 214.73	\$ 417.53	\$ 202.80	94.45%	0.03%
13	6 Inch Commercial	4	\$ 500	\$ 128.00	\$ 497.49	\$ 369.49	288.66%	0.06%
15	5/8x3/4 Inch Irrigation	-	\$ -	\$ 12.40	\$ 14.88	\$ 2.48	20.00%	0.00%
16	3/4 Inch Irrigation	8	\$ 2,500	\$ 13.30	\$ 22.33	\$ 9.03	67.89%	0.13%
17	1 Inch Irrigation	3	\$ 1,500	\$ 18.00	\$ 29.27	\$ 11.27	62.61%	0.04%
18	1 1/2 Inch Irrigation	1	\$ 5,500	\$ 34.30	\$ 65.99	\$ 31.69	92.39%	0.02%
19	2 Inch Irrigation	22	\$ 32,500	\$ 94.90	\$ 176.21	\$ 81.31	85.68%	0.35%
20	3 Inch Irrigation	2	\$ 70,000	\$ 184.40	\$ 367.32	\$ 182.92	99.20%	0.03%
21	4 Inch Irrigation	1	\$ 3,500	\$ 86.70	\$ 258.43	\$ 171.73	198.07%	0.02%
23	Golf Course Irrigation	2	\$ 5,511,000	\$ 2,039.07	\$ 4,884.35	\$ 2,845.28	139.54%	0.03%
25	5/8x3/4 Inch Hydrant/Construction	5	\$ 500	\$ 12.40	\$ 2.08	\$ (10.32)	-83.23%	0.08%
29	Totals	6,363						100.00%
31	Actual Year End Number of Customers:	6,356						

Line No.	Monthly Usage Charge for: Meter Size (All Classes):	Present Rates	Proposed Rates	Change	Percent Change
1	5/8x3/4 Inch	\$ 12.40	\$ 14.88	\$ 2.48	20.00%
2	3/4 Inch	12.40	14.88	2.48	20.00%
3	1 Inch	18.00	24.80	6.80	37.78%
4	1 1/2 Inch	28.00	49.60	21.60	77.14%
5	2 Inch	40.00	79.36	39.36	98.40%
6	3 Inch	62.00	158.72	96.72	156.00%
7	4 Inch	84.00	248.00	164.00	195.24%
8	5 Inch	106.00	Remove	NM	NM
9	6 Inch	128.00	496.00	368.00	287.50%
10	8 Inch	150.00	793.60	643.60	429.07%
11	Golf Course Irrigation	-	200.00	200.00	NM
12	Construction/Hydrant	-	-	-	NM
13		NT	-	-	NM
14	Gallons In Minimum (all classes, except golf course irrigation)	2,000	-	-	-
15		-	-	-	-
16	Gallons In Minimum (golf course irrigation)	-	-	-	-
17		-	-	-	-
18		-	-	-	-
19		-	-	-	-
20		-	-	-	-
21	<u>Commodity Rates (per 1,000 gallons)</u>				
22	5/8x3/4 Inch (all classes, except golf course irrigation)	\$	1.80	\$	1.80
23					
24	5/8x3/4 Inch - Residential			\$ 1.80	
25				\$ 2.98	
26				\$ 4.16	
27					
28					
29	5/8x3/4 Inch - Commercial, Irrigation (except golf course irrigation)			\$ 2.98	
30				\$ 4.16	
31					
32	3/4 Inch Meter (all classes, except golf course irrigation)	\$	1.80	\$	1.80
33					
34	3/4 Inch Meter - Residential			\$ 1.80	
35				\$ 2.98	
36				\$ 4.16	
37					
38	3/4 Inch Meter - Commercial, Irrigation (except golf course irrigation)			\$ 2.98	
39				\$ 4.16	
40					
41					
42					
43					
44					
45	NM = not meaningful				
46	NT = No Tariff				
47					

Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Present and Proposed Rates

Line No.	Commodity Rates (per 1,000 gallons)	Block	Present Rate	Proposed Rate
1	1 Inch Meter (all classes, except golf course irrigation)	Over Minimum	\$ 1.80	
2				
3	1 Inch Meter (all classes, except golf course irrigation, hydrant)	1 gallons to 17,000 gallons over 17,000 gallons		\$ 2.98
4				\$ 4.16
5				
6	1.5 Inch Meter (all classes, except golf course irrigation)	Over Minimum	\$ 1.80	
7				
8	1.5 Inch Meter - (all classes, except golf course irrigation, hydrant)	1 gallons to 34,000 gallons over 34,000 gallons		\$ 2.98
9				\$ 4.16
10				
11	2 Inch Meter (all classes, except golf course irrigation)	Over Minimum	\$ 1.80	
12				
13	2 Inch Meter - (all classes, except golf course irrigation, hydrant)	1 gallons to 54,000 gallons over 54,000 gallons		\$ 2.98
14				\$ 4.16
15				
16	3 Inch Meter (all classes, except golf course irrigation)	Over Minimum	\$ 1.80	
17				
18	3 Inch Meter - (all classes, except golf course irrigation, hydrant)	1 gallons to 107,000 gallons over 107,000 gallons		\$ 2.98
19				\$ 4.16
20				
21	4 Inch Meter (all classes, except golf course irrigation)	Over Minimum	\$ 1.80	
22				
23	4 Inch Meter - (all classes, except golf course irrigation, hydrant)	1 gallons to 167,000 gallons over 167,000 gallons		\$ 2.98
24				\$ 4.16
25				
26	5 Inch Meter (all classes, except golf course irrigation)	Over Minimum	\$ 1.80	
27				
28	5 Inch Meter - (all classes, except golf course irrigation, hydrant)	Over Minimum		Remove
29				
30	6 Inch Meter (all classes, except golf course irrigation)	Over Minimum	\$ 1.80	
31				
32	6 Inch Meter - (all classes, except golf course irrigation, hydrant)	1 gallons to 334,000 gallons over 334,000 gallons		\$ 2.98
33				\$ 4.16
34				
35	8 Inch Meter (all classes, except golf course irrigation)	Over Minimum	\$ 1.80	
36				
37	8 Inch Meter - (all classes, except golf course irrigation, hydrant)	1 gallons to 534,000 gallons over 534,000 gallons		\$ 2.98
38				\$ 4.16
39				
40	Golf Course Irrigation	All gallons	\$ 0.37	\$ 0.85
41	Hydrant/Construction	All gallons	NT	\$ 4.16
42				
43				
44				
45				
46				
47				
48	NT = No Tariff			

Lago Del Oro Water Company
Present and Proposed Rates
Test Year Ended December 31, 2012

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 Rebuttal Schedule H-3
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 Witness: Bourassa

Line
 No.

Meter and Service Line Charges

	Present Service Line Charge	Present Meter Install- ation Charge	Total Present Charge	Proposed Service Line Charge ¹	Proposed Meter Install- ation Charge ¹	Total Proposed Charge ¹
7	5/8 x 3/4 Inch		\$ 250.00	\$ 385.00	\$ 135.00	\$ 520.00
8	3/4 Inch		\$ 275.00	415.00	205.00	620.00
9	1 Inch		\$ 300.00	465.00	265.00	730.00
10	1 1/2 Inch		\$ 450.00	520.00	475.00	995.00
11	2 Inch		\$ 625.00			
12	2 Inch Turbo		NT	800.00	995.00	1,795.00
13	2 Inch, Compound		NT	800.00	1,840.00	2,640.00
14	3 Inch		\$ 800.00			
15	3 Inch Turbo		NT	1,015.00	1,620.00	2,635.00
16	3 Inch, compound		NT	1,135.00	2,495.00	3,630.00
17	4 Inch		\$ 975.00			
18	4 Inch Turbo		NT	1,430.00	2,570.00	4,000.00
19	4 Inch, compound		NT	1,610.00	3,545.00	5,155.00
20	5 Inch		\$ 1,150.00			
21	6 inch		\$ 1,325.00			
22	6 Inch Turbo		NT	2,150.00	4,925.00	7,075.00
23	6 Inch, compound		NT	2,270.00	6,820.00	9,090.00
24	8 Inch		\$ 1,500.00			
25	8 Inch or Larger		NT	Cost	Cost	Cost

27 ¹ Based on ACC Staff Engineering Memo dated February 21, 2008
 28 NT = No Tariff

30 Other Charges:

	Present	Proposed
33 Establishment	\$ 25.00	\$ 25.00
34 Reestablishment After Hours	\$ 30.00	NT
35 Reestablishment within 12 months	*	*
36 Reconnection/Delinquent	\$ 25.00	\$ 25.00
37 Meter Test (if correct)	\$ 30.00	\$ 30.00
38 Meter Re-read (if correct)	\$ 15.00	\$ 15.00
39 Deposit	**	**
40 Deposit Interest	**	**
41 NSF Check	\$ 10.00	\$ 10.00
42 Deferred Payment, per month	15% per annum	1.5% per month
43 Late Payment Fee (per month)	NT	1.5% per month
44 After hours service charge	NT	\$ 30.00
45		
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51
 52 * Number of months off the system times the monthly minimum.
 53 ** Per Rule R14-2-403.B
 54
 55 NT = No Tariff

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Telephone (602) 916-5000

4 Attorneys for Lago Del Oro Water Company
5

6

7

BEFORE THE ARIZONA CORPORATION COMMISSION

8

9 IN THE MATTER OF THE APPLICATION
10 OF LAGO DEL ORO WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
11 DETERMINATION OF THE FAIR VALUE
OF ITS UTILITY PLANTS AND
PROPERTY AND FOR INCREASES IN ITS
12 WATER RATES AND CHARGES FOR
UTILITY SERVICE BASED THEREON.

DOCKET NO: W-01944A-13-0215

13

14

15

REJOINDER TESTIMONY OF

16

THOMAS J. BOURASSA

17

18

(COST OF CAPITAL)

19

March 21, 2014

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TABLE OF CONTENTS

I. INTRODUCTION AND QUALIFICATION 1

I. SUMMARY OF REJOINDER TESTIMONY AND THE PROPOSED COST OF CAPITAL FOR THE COMPANY..... 1

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

 B. Summary of the Recommendations of Staff..... 2

 C. Responses to Staff’s Surrebuttal Testimony 3

8998845.1/058113.0008

1 **I. INTRODUCTION AND QUALIFICATION**

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

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

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

6 A. I am testifying in this proceeding on behalf of the applicant, Lago Del Oro Water
7 Company ("LDO" or "Company").

8 **Q. ARE YOU THE SAME THOMAS J. BOURASSA THAT FILED DIRECT
9 AND REBUTTAL TESTIMONY ON RATE BASE, INCOME STATEMENT,
10 REVENUE REQUIREMENT AND RATE DESIGN IN THIS DOCKET?**

11 A. Yes.

12 **Q. DID YOU ALSO PREPARE DIRECT AND REBUTTAL TESTIMONY ON
13 COST OF CAPITAL ON BEHALF OF LDO IN THIS CASE?**

14 A. Yes.

15 **Q. DID YOU ALSO PREPARE REJOINDER TESTIMONY ON INCOME
16 STATEMENT, REVENUE REQUIREMENT AND RATE DESIGN IN THIS
17 DOCKET?**

18 A. Yes, my rejoinder testimony on rate base, income statement, revenue requirement
19 and rate design is being filed in a separate volume at the same time as this
20 testimony. In this volume, I present my cost of capital rejoinder testimony

21 **I. SUMMARY OF REJOINDER TESTIMONY AND THE PROPOSED COST
22 OF CAPITAL FOR THE COMPANY**

23 **A. Summary of Company's Rejoinder Recommendation**

24 **Q. HAVE YOU UPDATED YOUR COST OF CAPITAL ANALYSIS?**

25 A. No. I updated my cost of capital analysis on my rebuttal testimony filed on
26 February 14, 2014. I updated my cost of capital in my rebuttal testimony because

1 of the significant period of time between the Company's direct filing and its
2 rebuttal filing. I did not feel the need to provide an additional update at this time
3 because my rebuttal update is less than 1 month old.

4 **Q. PLEASE SUMMARIZE YOUR RECOMMENDED REJOINER COST OF**
5 **DEBT AND EQUITY, AND YOUR RECOMMENDED REJOINER RATE**
6 **OF RETURN ON RATE BASE.**

7 A. I continue to recommend a cost of equity of 10.50 percent based on my most recent
8 cost of capital analysis. The results of my cost of capital analysis can be found in
9 my rebuttal testimony.¹ The Company's recommended capital structure consists of
10 29 percent debt and 71 percent common equity as shown on Rejoinder Schedule D-
11 1. The Company's recommended cost of debt is 4.6 percent. Based the
12 Company's recommended cost of equity, cost of debt and capital structure, the
13 Company's weighted cost of capital ("WACC") is 8.79 percent, as shown on
14 Rejoinder Schedule D-1.

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

16 **Q. PLEASE SUMMARIZE THE COST OF DEBT AND EQUITY**
17 **RECOMMENDED BY STAFF, AND THE STAFF RECOMMENDATIONS**
18 **FOR THE RATE OF RETURN ON FAIR VALUE RATE BASE.**

19 A. Staff has updated its cost of capital analysis in its surrebuttal testimony and
20 recommends a cost of equity of 9.7 percent based on the average cost of equity
21 produced by its DCF models and a 60 basis point economic assessment
22 adjustment.² This is a 60 basis point increase over Staff's direct. Staff also
23

24 ¹ See Rebuttal Testimony of Thomas J. Bourassa – Cost of Capital ("Bourassa COC Rb.")
at 1-2.

25 ² See Surrebuttal Testimony of John A. Cassidy ("Cassidy Sb.") at 6.
26

1 recommends a capital structure consisting of 29 percent debt and 71 percent
2 equity.³ Based on Staff's recommended capital structure, Staff determined the
3 WACC for Pima to be 8.2 percent.⁴

4 **C. Responses to Staff's Surrebuttal Testimony**

5 **Q. PLEASE RESPOND TO MR. CASSIDY'S SURREBUTTAL TESTIMONY**
6 **(ON PAGE 4) THAT REALIZED HISTORICAL RETURNS DO NOT**
7 **RELLECT THE COST OF EQUITY.**

8 A. I find Mr. Cassidy's testimony perplexing. Mr. Cassidy's DCF growth rates are
9 heavily dependent on historical information. He uses 10 year historical measures
10 of growth to develop his prospective (forward looking) cost of equity estimates.⁵
11 Looking at past realized returns is no different. Mr. Cassidy simply cannot have it
12 both ways. If historical growth rates are relevant to developing investor
13 expectations of the future, historical returns (what investors actually realized) are
14 no less relevant. Accordingly, Mr. Cassidy's complaints (on page 3 of his
15 surrebuttal testimony) about my analysis of the implied growth rate of 9.0 percent
16 using 3-year historical total returns are unfounded. Investors look at all available
17 information (both historical and prospective) when developing their expectations of
18 the future.

19 **Q. DO YOU HAVE ANY COMMENT REGARDING MR. CASSIDY'S**
20 **SURREBUTTAL TESTIMONY (ON PAGE 5) REGARDING THE LOWER**
21 **CURRENT MARKET RISK PREMIUM FOR YOUR CAPM MODEL?**

22
23
24 ³ *Id.*

25 ⁴ *Id.*

26 ⁵ *Id.*

1 A. I have a few comments. First, I do not dispute that my analysis of the current
2 market risk premium (“MRP”) used in my current MRP CAPM indicates that the
3 MRP is lower than when I estimated it for my direct testimony. I have pointed out
4 that even my approach to estimating the current MRP is subject to volatility, but
5 less so than the approach Staff has used in the past for estimating the current
6 MRP.⁶

7 Second, I would note that Staff has abandoned the CAPM in this case and
8 exclusively relies on its DCF models to estimate the cost of equity. Staff can offer
9 its own explanation, but it sure looks like the CAPM has been abandoned by Staff
10 because of the unreasonably low results being produced.

11 Third, despite my lower current MRP estimate, my over-all cost of equity
12 results have increase from 9.9 percent in my direct testimony to 10.2 percent in my
13 rebuttal testimony. Staff’s cost of equity estimated has also increased, from 9.3
14 percent in its direct testimony to 9.7 percent in it surrebuttal testimony. So, at least
15 both parties agree that the indicated cost of equity has increased.

16 Fourth and finally, my recommendation of 10.5 percent for LDO, which has
17 remained the same throughout this case, is well within the range of the cost of
18 equity estimates of 9.0 percent to 11.4 percent developed using three different
19 approaches to the cost of equity rather than just one approach as Staff has done.
20 Further, a 10.5 percent return is conservative given the higher business risks
21 associated with LDO.⁷

22 **Q. DOES THIS CONCLUDE YOUR REJOINDER TESTIMONY?**

23 A. Yes.

24 _____
25 ⁶ Direct Testimony of Thomas J. Bourassa – Cost of Capital at 40-41.

26 ⁷ Bourassa COC Rb. at 3, 10.

D SCHEDULES

Proforma Capital Structure

Line No.	Item of Capital	Dollar Amount	Percent of Total	Cost Rate	Weighted Cost
1	Long-Term Debt	\$ 2,751,411	29.00%	4.60%	1.33%
3	Stockholder's Equity	6,740,138	71.00%	10.50%	7.46%
5	Totals	\$ 9,491,549	100.00%		8.79%

SUPPORTING SCHEDULES:

- 23 D-1
- 24 D-3
- 25 D-4
- 26 E-1
- 27 Testimony
- 28
- 29
- 30

Lago Del Oro Water Company
 Test Year Ended December 31, 2012
 Cost of Long Term Debt

Exhibit
 Rejoinder Schedule D-2
 Page 1
 Witness: Bourassa

Line No.	Description of Debt	End of Test Year			End of Projected Year		
		Amount Outstanding	Annual Interest	Effective Interest Rate	Amount Outstanding	Annual Interest	Effective Interest Rate
1							
2		-	-	0.00%	-	-	0.00%
3		-	-	0.00%	-	-	0.00%
4		-	-	0.00%	-	-	0.00%
5		-	-	0.00%	-	-	0.00%
6		-	-	0.00%	-	-	0.00%
7		-	-	0.00%	-	-	0.00%
8		-	-	0.00%	-	-	0.00%
9		-	-	0.00%	-	-	0.00%
10		-	-	0.00%	-	-	0.00%
11							
12							
13	Totals	\$ -	-		\$ -	-	
14							
15							
16	Supporting Schedules:						
17	E-1						
18	E-2						
19							
20							
21							
22							
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30							

Supporting Schedules:

E-1
 E-2

Lago Del Oro Water Company
Test Year Ended December 31, 2012
Cost of Preferred Stock

Exhibit
Rejoinder Schedule D-3
Page 1
Witness: Bourassa

Line
No.

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

7 NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING

21 SUPPORTING SCHEDULES:
22 E-1

RECAP SCHEDULES:
D-1

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Lago Del Oro Water Company
Test Year Ended December 31, 2012
Cost of Common Equity

Exhibit
Rejoinder Schedule D-4
Page 1
Witness: Bourassa

Line
No.

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The Company is proposing a cost of common equity of

10.50% .

SUPPORTING SCHEDULES:

E-1

D-4.1 to D-4.16

RECAP SCHEDULES:

D-1

Lago Del Oro Water Company
Summary of Results

Exhibit
Rejoinder Schedule D-4.1
Witness: Bourassa

Line No.	Method	Median Result
1		
2		
3		
4		
5		
6	DCF Constant Growth Estimates ¹	9.0%
7		
8	CAPM Estimates ²	9.1%
9		
10	Build-up Method Estimates ³	11.4%
11		
12	Mid-point	10.2%
13		
14		
15		
16	Recommended Cost of Equity ⁴	10.5%
17		
18		

1 See Rejoinder Schedule D-4-8
2 See Rejoinder Schedule D-4.12
3 See Rejoinder Schedule D-4.18
4 Testimony

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Lago Del Oro Water Company
Selected Characteristics of Sample Group of Water Utilities

Exhibit
Rejoinder Schedule D-4.2
 Witness: Bourassa

Line No.	Company ¹	% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating	Allowed ROE (%)
1	1. American States	60%	\$ 474.6	\$ 968.5	A+	A2	9.99
2	2. Aqua America	89%	\$ 767.5	\$ 4,090.4	AA-	NR	10.29
3	3. California Water	100%	\$ 571.9	\$ 1,505.2	AA-	NR	9.99
4	4. Connecticut Water	97%	\$ 89.4	\$ 461.8	A	NR	9.75
5	5. Middlesex	89%	\$ 114.5	\$ 442.8	A	NR	10.15
6	6. SJW Corp.	96%	\$ 272.1	\$ 860.4	A	NR	9.99
10	Average	89%	\$ 381.7	\$ 1,388.2			10.03
13	Lago Del Oro Water Company	100%	\$ 1.9	\$ 9.4	NR	NR	
14	(Adjusted as of December 31, 2012)						

¹AUS Utility Reports (January 2014).

Lago Del Oro Water Company
Capital Structures

Exhibit
Rejoinder Schedule D-4.3
Witness: Bourassa

No.	Company	Book Value ¹		Market Value ¹	
		Long-Term Debt	Common Equity	Long-Term Debt	Common Equity
1	American States	42.3%	57.7%	23.5%	76.5%
2	Aqua America	52.7%	47.3%	27.1%	72.9%
3	California Water	47.8%	52.2%	31.6%	68.4%
4	Connecticut Water	49.2%	50.8%	32.5%	67.5%
5	Middlesex	42.0%	58.0%	28.6%	71.4%
6	SJW Corp.	55.0%	45.0%	38.9%	61.1%
10	Average	48.2%	51.8%	30.4%	69.6%
13	Lago Del Oro Water Company (Proforma)	41.1%	58.9%	N/A	N/A

¹ Value Line Analyzer Data (February 7, 2014)

² Adjusted Per Rejoinder Schedule D-1

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Lago Del Oro Water Company
Comparisons of Past and Future Estimates of Growth

Line No.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	<u>Five-year historical average annual changes</u>						
	Price ¹	Book Value ²	EPS ²	DPS ²	Average Col 1-4	Average Future Growth ³	Historical Growth Col 5-6
1	9.12%	5.50%	11.50%	4.50%	7.66%	3.33%	5.49%
2	5.40%	6.00%	7.50%	7.50%	6.60%	7.13%	6.87%
3	2.03%	4.50%	5.50%	1.50%	3.38%	6.33%	4.86%
4	7.90%	4.50%	6.50%	2.00%	5.23%	5.50%	5.36%
5	4.56%	4.00%	2.50%	1.50%	3.14%	3.35%	3.24%
6	5.14%	3.50%	NMF	4.00%	4.21%	10.75%	7.48%
7							
8	1. American States						
9	2. Aqua America						
10	3. California Water						
11	4. Connecticut Water						
12	5. Middlesex						
13	6. SJW Corp.						
14							
15							
16	GROUP AVERAGE	4.67%	6.70%	3.50%	5.04%	6.07%	5.55%
17	GROUP MEDIAN	5.27%	6.50%	3.00%	4.72%	5.92%	5.43%
18							
19							
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29							

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

² Value Line Analyzer Data, February 7, 2014

³ See Rejoinder Schedule D-4.6.

Lago Del Oro Water Company
Comparisons of Past and Future Estimates of Growth

Exhibit
Rejoinder Schedule D-4.5
 Witness: Bourassa

Line No.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	<u>Ten-year historical average annual changes</u>						
Company	Price ¹	Book Value ²	EPS ²	DPS ²	Average Col 1-4	Average Future Growth ³	Average of Future and Historical Growth Col 5-6
1. American States	10.41%	5.00%	6.50%	3.00%	6.23%	3.33%	4.78%
2. Aqua America	7.70%	8.50%	7.00%	7.50%	7.68%	7.13%	7.40%
3. California Water	6.27%	5.00%	5.00%	1.00%	4.32%	6.33%	5.33%
4. Connecticut Water	4.80%	4.50%	1.50%	1.50%	3.07%	5.50%	4.29%
5. Middlesex	5.14%	4.50%	3.50%	1.50%	3.66%	3.35%	3.50%
6. SJW Corp.	6.99%	5.50%	4.00%	5.00%	5.37%	10.75%	8.06%
GROUP AVERAGE	6.88%	5.50%	4.58%	3.25%	5.05%	6.07%	5.56%
GROUP MEDIAN	6.63%	5.00%	4.50%	2.25%	4.84%	5.92%	5.05%

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

² Value Line Analyzer Data, February 7, 2014.

³ See Rejoinder Schedule D-4.6.

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

Lago Del Oro Water Company
 Analysts Forecasts of Earnings Per Share Growth

Exhibit
 Rejoinder Schedule D-4.6
 Witness: Bourassa

Line No.	[1]	[2]	[3]	[4]
	ESTIMATES OF EARNINGS GROWTH			
	<u>Yahoo</u> ¹	<u>Zacks</u> ¹	<u>Line</u> ¹	Average Growth (G) <u>(Cols 1-3)</u> ²
1.	American States	2.00%	7.00%	3.33%
2.	Aqua America	5.60%	10.00%	7.13%
3.	California Water	6.00%	7.00%	6.33%
4.	Connecticut Water	5.00%	6.50%	5.50%
5.	Middlesex	2.70%	4.00%	3.35%
6.	SJW Corp.	14.00%	7.50%	10.75%
	GROUP AVERAGE	5.75%	7.00%	6.07%
	GROUP MEDIAN	4.65%		5.92%

¹ Data as of February 7, 2014

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

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

Lago Del Oro Water Company
 Current Dividend Yields for Water Utility Sample Group

Line No.	Company	Average 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	American States	\$ 28.16	\$ 0.86	3.05%	3.15%
2	Aqua America	\$ 23.66	\$ 0.64	2.71%	2.80%
3	California Water	\$ 22.35	\$ 0.68	3.04%	3.36%
4	Connecticut Water	\$ 34.06	\$ 0.99	2.91%	3.62%
5	Middlesex	\$ 20.75	\$ 0.76	3.66%	3.96%
6	SJW Corp.	\$ 28.15	\$ 0.75	2.66%	2.95%
13	Average			3.01%	3.31%
14	Median			2.97%	3.26%

¹ Yahoo Finance. 60 day average of stock prices as of February 7, 2014.

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

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

Lago Del Oro Water Company
 Discounted Cash Flow Analysis
 DCF Constant Growth

Exhibit
 Rejoinder Schedule D-4.8
 Witness: Bourassa

Line No.	[1]	[2]	[3]	[4]
	Dividend Yield $(D_0/P_0)^1$	Expected Dividend Yield $(D_1/P_0)^2$	Growth (g)	Indicated Cost of Equity $k = \text{Div Yld} + g$ (Cols 2+3)
8	DCF - Past and Future Growth	3.01%	5.55% ³	8.7%
10	DCF - Future Growth	3.01%	6.07% ⁴	9.3%
13	Average	3.01%	5.81%	9.0%
15	Median	3.01%	5.81%	9.0%

1 Spot Dividend Yield = D_0/P_0 . See Rejoinder 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 Rejoinder Schedule D-4.4, column 7

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

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

Lago Del Oro Water Company
Market Betas

Exhibit
Rejoinder Schedule D-4.9
Witness: Bourassa

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

¹ Value Line Investment Analyzer data (February 7, 2014)

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.

Lago Del Oro Water Company
 Forecasts of Long-Term Interest Rates

Exhibit
 Rejoinder Schedule D-4.10
 Witness: Bourassa

Line No.	Description	Fed Reserve Average Jan 14	2015	2016	Average
1					
2					
3					
4					
5					
6	Blue Chip Consensus Forecasts ¹	3.77%	4.30%	4.40%	4.20%
7					
8	Value Line ²	3.77%	4.30%	4.70%	4.30%
9					
10	Average				4.25%
11					
12					
13					
14					

¹ Dec 2013 Blue Chip Financial Forecasts consensus long-term forecast of 30 Year U.S. Treasury

² Value Line Quarterly forecast, dated Nov 22, 2013, Long-term Treasury

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Exhibit
Rejoinder Schedule D-4.11
Witness: Bourassa

Lago Del Oro Water Company
Computation of Current Market Risk Premium

Line No.	Month	Dividend Yield (D_t/P_t) ¹	Expected Dividend Yield (D_{t+1}/P_t) ²	Growth (g) ³	Expected Market Return (k)	Monthly Average 30 Year Treasury Rate ⁴	Market Risk Premium (MRP)
1							
2							
3							
4	Dec 2011	2.27%	2.60%	+ 14.52%	= 17.12%	= 2.98%	= 14.14%
5	Jan 2012	2.19%	2.45%	+ 11.76%	= 14.21%	= 3.03%	= 11.18%
6	Feb	2.18%	2.46%	+ 12.82%	= 15.28%	= 3.11%	= 12.17%
7	Mar	2.24%	2.54%	+ 13.51%	= 16.05%	= 3.28%	= 12.77%
8	April	2.19%	2.47%	+ 12.99%	= 15.46%	= 3.18%	= 12.28%
9	May	2.41%	2.78%	+ 15.26%	= 18.04%	= 2.93%	= 15.11%
10	June	2.37%	2.70%	+ 14.02%	= 16.72%	= 2.70%	= 14.02%
11	July	2.45%	2.82%	+ 15.18%	= 18.00%	= 2.59%	= 15.41%
12	Aug	2.35%	2.67%	+ 13.51%	= 16.18%	= 2.77%	= 13.41%
13	Sept	2.29%	2.57%	+ 12.29%	= 14.86%	= 2.88%	= 11.98%
14	Oct	2.36%	2.67%	+ 13.16%	= 15.83%	= 2.90%	= 12.93%
15	Nov	2.31%	2.59%	+ 12.29%	= 14.88%	= 2.80%	= 12.08%
16	Dec 2012	2.22%	2.45%	+ 10.48%	= 12.93%	= 2.88%	= 10.05%
17	Jan 2013	2.16%	2.37%	+ 9.92%	= 12.29%	= 3.08%	= 9.21%
18	Feb	2.24%	2.49%	+ 11.22%	= 13.71%	= 3.17%	= 10.54%
19	Mar	2.17%	2.39%	+ 9.92%	= 12.31%	= 3.16%	= 9.15%
20	April	2.11%	2.31%	+ 9.44%	= 11.75%	= 2.93%	= 8.82%
21	May	2.07%	2.26%	+ 8.97%	= 11.22%	= 3.11%	= 8.11%
22	June	2.14%	2.35%	+ 9.73%	= 12.08%	= 3.40%	= 8.68%
23	July	2.02%	2.18%	+ 7.79%	= 9.97%	= 3.61%	= 6.36%
24	Aug	2.14%	2.33%	+ 8.97%	= 11.30%	= 3.76%	= 7.54%
25	Sept	2.10%	2.27%	+ 8.00%	= 10.27%	= 3.79%	= 6.48%
26	Oct	2.00%	2.14%	+ 7.19%	= 9.33%	= 3.68%	= 5.65%
27	Nov	1.99%	2.13%	+ 6.98%	= 9.11%	= 3.80%	= 5.31%
28	Dec 2013	1.93%	2.05%	+ 6.16%	= 8.21%	= 3.89%	= 4.32%
29	Jan 2014	2.01%	2.15%	+ 6.78%	= 8.93%	= 3.77%	= 5.16%
30							
31							
32	Recommended	2.03%	2.18%	+ 7.35%	= 9.52%	= 3.78%	= 7.18%
33							
34	Short-term Trends						
35	Recent Twelve Months Avg	2.08%	2.25%	+ 8.43%	= 10.68%	= 3.51%	= 7.18%
36	Recent Nine Months Avg	2.04%	2.21%	+ 7.84%	= 10.05%	= 3.65%	= 6.40%
37	Recent Six Months Avg	2.03%	2.18%	+ 7.35%	= 9.52%	= 3.78%	= 5.74%
38	Recent Three Months Avg	1.98%	2.11%	+ 6.64%	= 8.75%	= 3.82%	= 4.93%
39							
40							

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

² Expected Dividend Yield (D_{t+1}/P_t) equals average current dividend yield (D_t/P_t) times one plus growth rate (g).

³ Median 3-5 year price appreciation (annualized). Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

⁴ Monthly average 30 year U.S. Treasury. Federal Reserve.

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

Exhibit
 Rejoinder Schedule D.4.13
 Witness: Bourassa

Company	Measures of size (Millions)						
	MV Equity ¹	Book Equity ¹	MVIC ¹	5 Yr Avg. Net Income	Total Assets ²	5 Yr Avg. EBITDA ³	
American States	\$ 1,084	\$ 454	\$ 1,417	\$ 37	\$ 1,281	\$ 130	
Aqua America	\$ 4,150	\$ 1,386	\$ 5,694	\$ 133	\$ 4,859	\$ 422	
California Water	\$ 939	\$ 474	\$ 1,373	\$ 41	\$ 1,996	\$ 140	
Connecticut Water	\$ 371	\$ 185	\$ 550	\$ 11	\$ 579	\$ 24	
Middlesex	\$ 328	\$ 181	\$ 459	\$ 13	\$ 562	\$ 38	
SJW Corp.	\$ 526	\$ 275	\$ 862	\$ 21	\$ 1,087	\$ 89	
Lago Del Oro Water Company	NA	\$ 9.5	NA	\$ 0.1	\$ 11.1	\$ 0.4	

¹ From Zacks Investment Research data

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

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

Company	Net Income Data (\$ millions)						
	2012	2011	2010	2009	2008	Average	
American States	\$ 54.0	\$ 45.9	\$ 33.2	\$ 29.5	\$ 22.0	\$ 36.9	
Aqua America	\$ 197.0	\$ 143.1	\$ 124.0	\$ 104.4	\$ 97.9	\$ 133.3	
California Water	\$ 49.0	\$ 37.7	\$ 37.7	\$ 40.6	\$ 39.8	\$ 40.9	
Connecticut Water	\$ 14.0	\$ 11.3	\$ 9.8	\$ 10.2	\$ 9.4	\$ 10.9	
Middlesex	\$ 14.0	\$ 13.4	\$ 14.3	\$ 10.0	\$ 12.2	\$ 12.8	
SJW Corp.	\$ 22.0	\$ 20.9	\$ 24.4	\$ 15.2	\$ 21.5	\$ 20.8	
Lago Del Oro Water Company	\$ (0.0)	\$ 0.1	\$ 0.1	\$ 0.2	\$ 0.1	\$ 0.1	

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

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

Company	EBITDA Data (\$ millions)						
	2012	2011	2010	2009	2008	Average	
American States	\$ 154.0	\$ 133.3	\$ 134.4	\$ 122.6	\$ 105.9	\$ 130.0	
Aqua America	\$ 439.0	\$ 397.8	\$ 473.2	\$ 415.2	\$ 384.7	\$ 422.0	
California Water	\$ 151.0	\$ 143.3	\$ 155.7	\$ 125.5	\$ 122.1	\$ 139.5	
Connecticut Water	\$ 30.0	\$ 24.2	\$ 22.5	\$ 20.3	\$ 21.1	\$ 23.6	
Middlesex	\$ 39.0	\$ 34.6	\$ 43.3	\$ 34.6	\$ 38.6	\$ 38.0	
SJW Corp.	\$ 90.0	\$ 87.1	\$ 75.4	\$ 93.5	\$ 99.7	\$ 89.1	
Lago Del Oro Water Company	\$ (0.1)	\$ 0.2	\$ 0.2	\$ 1.0	\$ 0.9	\$ 0.4	

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

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

MRP_{ms} Estimates Using Duff & Phelps Study (Unlevered)

Assumes 100% Equity and 0% debt
 Data Smoothing with Regression Analysis

Smoothed Premium (RP_{ms}) = Constant + X Coefficients * Log(Relevant Metric)

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

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

Constant
 X Coefficient(s)

	Company	Symbol
1.	American States	AWR
2.	Aqua America	WTR
3.	California Water	CWT
4.	Connecticut Water	CTWS
5.	Middlesex	MSEX
6.	SJW Corp.	SJW

Average (unlevered)

Lago Del Oro Water Company

Exhibit

Rejoinder Schedule D.4.14

Witness: Bourassa

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

MRP_{ms} (unlevered)

MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
8.76%	8.72%	8.70%	9.24%	8.68%	9.09%	8.87%
6.90%	7.50%	6.79%	7.79%	7.07%	7.70%	7.29%
8.96%	8.68%	8.74%	9.12%	8.15%	9.01%	8.78%
10.24%	9.71%	10.01%	10.61%	9.65%	11.11%	10.22%
10.42%	9.73%	10.25%	10.43%	9.68%	10.54%	10.18%
9.76%	9.27%	9.39%	9.89%	8.88%	9.54%	9.45%
9.17%	8.94%	8.98%	9.51%	8.68%	9.50%	9.13%
NA	12.98%	NA	15.87%	14.44%	15.80%	14.77%

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

Exhibit
 Rejoinder Schedule D.4.15
 Witness: Bourassa

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

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

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

MRP Estimates Using Duff & Phelps Study (Relevered)

Relevered Realized Risk Premium

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

Where β_u = unlevered portfolio beta

β_d = debt beta, assumed to be 0.1

W_d = percentage of debt in capital structure

W_e = percentage of equity in capital structure

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

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

Exhibit
 Rejoinder Schedule D.4.16
 Witness: Bourassa

	Company	Symbol	MRP _{nt+s} (Relevered)						Average
			W _d /W _e	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	5 Yr Avg. EBITDA	
1.	American States	AWR	30.7%	9.92%	9.91%	9.88%	10.41%	9.88%	10.04%
2.	Aqua America	WTR	37.2%	8.18%	8.82%	8.06%	9.09%	8.29%	8.56%
3.	California Water	CWT	46.3%	10.79%	10.47%	10.51%	10.89%	9.89%	10.56%
4.	Connecticut Water	CTWS	48.1%	12.10%	11.62%	11.89%	12.49%	11.57%	12.13%
5.	Middlesex	MSEX	40.1%	11.97%	11.36%	11.84%	12.00%	11.29%	11.77%
6.	SJW Corp.	SJW	63.7%	12.28%	11.80%	11.91%	12.44%	11.36%	11.96%
	Average MRP (Relevered)		44.35%	10.87%	10.66%	10.68%	11.22%	10.38%	10.84%
	Lago Del Oro Water Company		12.18%	NA	13.46%	NA	16.36%	14.96%	15.27%

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

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

Exhibit
 Rejoinder Schedule D.4.17
 Witness: Bourassa

[1] Estimate of Current Market Risk Premium (RP_{market})	5.00%	<<<< Current Duff and Phelps recommendation
[2] Risk Premium Assumed in Duff & Phelps Study (1963-2012) ¹	4.50%	
[3] Equity Risk Premium Adjustment ([1] - [2])	0.50%	
[4] Average MRP (relevered) for publicly traded water companies (from Rejoinder Schedule D-4.16)	10.84%	
[5] MRP_{m+s} (relevered) for publicly traded water companies (RP_{m+s}) ([3] + [4])	11.34%	
[6] Equity Risk Premium Adjustment ([3])	0.50%	
[7] Average MRP (relevered) for subject utility company (from Table 4)	15.27%	
[8] MRP (relevered) for subject utility company (RP_{m+s}) ([6] + [7])	15.77%	
[9] Industry Risk Premium (From <i>Ibbotson</i> for SIC 494 Water Supply Industry Table 3-5)	-4.92%	
[10] Adjustment Factor to Industry Risk Premium ([2] / 6.7%) ¹	0.7463	
[11] Adjusted Industry Risk Premium (R_i) ([9] x [10])	-3.67%	
[12] Risk Free Rate (R_f) ²	3.42%	

¹ From Duff and Phelps Risk Premium Report 2013.

² Yield on 20 Yr U.S. Treasury Feb 6, 2014 (Federal Reserve)

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

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

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

Where:

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

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

RP_{m+s} = Market risk premium including size premium. See Rejoinder Schedule D-4.17.

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

RP_u = Company-specific risk premium

Exhibit
 Rejoinder Schedule D.4.18
 Witness: Bourassa

Sample Publicly Traded Water Utilities	Lago Del Oro Water Company
R_f =	3.42%
RP_{m+s} =	See Sched. D-4.16
RP_i =	-3.67%
RP_u =	0.00%

Indicated COE E(R_i)

	Symbol	Company	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
1.	AWR	American States	10.16%	10.16%	10.12%	10.66%	10.13%	10.51%	10.29%
2.	WTR	Aqua America	8.43%	9.07%	8.31%	9.34%	8.54%	9.16%	8.81%
3.	CWT	California Water	11.04%	10.72%	10.76%	11.14%	10.14%	11.05%	10.81%
4.	CTWS	Connecticut Water	12.35%	11.86%	12.14%	12.74%	11.82%	13.37%	12.38%
5.	MSEX	Middlesex	12.22%	11.60%	12.09%	12.25%	11.54%	12.40%	12.02%
6.	SJW	SJW Corp.	12.53%	12.05%	12.16%	12.68%	11.63%	12.22%	12.21%
		Average COE estimate	11.12%	10.91%	10.93%	11.47%	10.63%	11.45%	11.09%
		Median COE Estimate	11.63%	11.16%	11.43%	11.70%	10.84%	11.64%	11.41%
		Lago Del Oro Water Company	NA	13.71%	NA	16.61%	15.21%	16.56%	15.52%