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AZ CORP COMMISSION
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Transcript Exhibit(s)

Docket #(s): SW-03437A-13-0292

Arizona Corporation Commission
DOCKETED
MAY 15 2014
DOCKETED BY

Exhibit #: A1-A10, S1-S6A, S7

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

Attorneys for Verde Santa Fe Wastewater Co., Inc.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF VERDE SANTA FE WASTEWATER CO., INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-03437A-13-_____

DIRECT TESTIMONY OF
JASON WILLIAMSON

August 30, 2013

EXHIBIT
A-1
ADMITTED

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I. INTRODUCTION, QUALIFICATIONS AND PURPOSE

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

A. On behalf of the Applicant, Verde Santa Fe Wastewater Co., Inc. ("VSF" or the "Company").

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I'm President and Manager of Pivotal Utility Management, LLC ("Pivotal"). Pivotal manages and/or operates a total of ten water and sewer utilities, eight of which are in Arizona, seven of them regulated by the Commission, including VSF. I'm also Manager of JW Water Holdings, LLC, a Colorado limited liability company ("JW Water"). On May 31, 2013, JW Water acquired three utility companies from Brooke Utilities, Inc. – Payson Water Company ("PWC"), Tonto Basin Water, and Navajo Water. PWC currently has a rate case before the Commission. Notably, though, I am the single common thread between Pivotal and JW Water as the two holding companies have no other common interests.

Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES FOR THE UTILITIES AND HOLDING COMPANIES.

A. I oversee the day-to-day operations and business management functions for Pivotal and JW Water, including providing contract management services for a number of water and sewer system operations. My job includes hiring and firing of employees/ contractors, approving and paying invoices, budgeting and planning, as well as managing ACC-related functions like rate cases and annual report filings.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?

A. Yes, I've testified in several rate proceedings and CC&N proceedings. Most recently, I filed testimony in PWC's rate case.

Q. WHAT IS THE PURPOSE OF THIS DIRECT TESTIMONY?

A. To support the Company's application for rate relief. Specifically, I will provide background on the Company and its operations, and I will address certain aspects of the relief being requested.

II. BACKGROUND ON VSF

Q. PLEASE PROVIDE AN OVERVIEW OF THE COMPANY.

A. VSF provides wastewater service to a master-planned community developed by Verde Santa Fe South Partners near the Town of Cottonwood (the "Development"). VSF had approximately 950 customers at the end of the test-year, including several commercial customers and an effluent customer.

Q. HOW DOES THE COMPANY TREAT INFLUENT AND HOW DOES IT DISCHARGE EFFLUENT?

A. The treatment plant provides primary, secondary, nutrient removal, and disinfection treatment of the raw wastewater, achieving class B+ effluent that is appropriate for irrigation use on the Verde Santa Fe Golf Course ("Golf Course"). Reclaimed water from the treatment plant is disposed of within the Golf Course's ponds located within the Development.

Q. WHEN DID THE COMPANY'S CURRENT RATES FOR SERVICE GO INTO EFFECT?

A. The current rates were approved in Decision No. 60779 (April 8, 1998). The Company has not yet had a general rate case.

Q. HAS THE COMPANY EXPERIENCED ANY GROWTH IN RECENT YEARS?

A. The Development is substantially built-out, and as such, the Company has not seen any significant growth in recent years. The Development and our CC&N currently does not have much additional land or parcels to develop, so we do not expect any future customer growth.

Q. WHY IS VSF FILING FOR NEW RATES AT THIS TIME?

A. Over the past couple years, both the Commission and Staff have urged us to file for new rates as the best means to address an issue with the Golf Course that buys our effluent.

Q. WHAT IS THE ISSUE WITH THE GOLF COURSE?

A. The Golf Course takes all of our effluent, however, for several years now it has refused to pay the tariffed rate ($2.00 per 1000 gallons), which is the amount we bill them. Instead, the Golf Course has steadfastly paid us $0.23 per 1000 gallons.

Q. IF THE GOLF COURSE IS NOT PAYING WHAT YOU ARE REQUIRED TO CHARGE, WHY DO YOU KEEP DELIVERING THE EFFLUENT TO THEM?

A. Because it would cost a lot of money to discharge it somewhere else. This is why we came to the Commission a couple years ago and asked to change our effluent rate.[1] The Commission declined to do so and urged us to file a rate case where the issue could be addressed. This is that rate case.

Q. WHAT DO YOU PROPOSE IN THIS CASE?

A. As explained in Mr. Bourassa's testimony, we propose an effluent rate of $0.23 per 1000 gallons. This is the amount the Golf Course has been paying and the amount

[1] *See* Docket No. SW-03437A-09-0493.

it is willing to pay. They have made it very clear that if we charge more they will use their own well for irrigation water instead of our effluent.

Q. SO THE COMPANY IS ONLY SEEKING A NEW EFFLUENT RATE?

A. No, we also need an overall increase in our revenue requirement, in part because we are reducing the Golf Course's contribution, and in part because it is time for the Company to have a general rate case. Absent a general rate increase, the Company won't be able to recover its operating expenses and its shareholders won't have a reasonable opportunity to recover a fair rate of return on their investment.

III. COMPLIANCE, CONSERVATION, AND CUSTOMER SATISFACTION

Q. WHAT IS VSF'S COMPLIANCE STATUS?

A. To the best of my knowledge, we are in compliance with all ADEQ, ADOR, and ACC rules and regulations regarding the provision of wastewater service in the State of Arizona.

Q. HOW MANY COMPLAINTS HAS THE COMMISSION RECEIVED FROM VSF CUSTOMERS IN THE LAST YEAR?

A. I am not aware of any ACC complaints during the last year.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

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

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REBUTTAL TESTIMONY OF JASON WILLIAMSON

March 13, 2014

EXHIBIT
A-2
ADMITTED

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I. INTRODUCTION AND QUALIFICATIONS 1
II. SLUDGE REMOVAL EXPENSE 1
III. RESPONSE TO STAFF DIRECT 3

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I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

Q. ARE YOU THE SAME JASON WILLIAMSON THAT FILED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes.

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

A. No.

Q. HAVE YOU REVIEWED THE DIRECT FILING MADE BY STAFF?

A. Yes.

Q. WHAT WILL YOU ADDRESS IN THIS REBUTTAL TESTIMONY?

A. The Company is willing to accept Staff's recommended adjustments to operating expenses, Staff's cost of capital and Staff's rate design, however, the Company does propose an additional pro forma adjustment to operating expenses related to sludge removal expense. I will discuss this and the Company's acceptance of Staff's other recommendations in this rebuttal testimony.

II. SLUDGE REMOVAL EXPENSE

Q. YOU MENTIONED AN ADDITIONAL PRO FORMA ADJUSTMENT TO SLUDGE REMOVAL EXPENSE. HAS THIS EXPENSE INCREASED SINCE THE TESY YEAR?

A. Yes, significantly. The test year expense level was $21,327.82. In 2013, the first full year following the test year, sludge expense removal was $38,744.41.

Q. WHY HAS SLUDGE REMOVAL EXPENSE INCREASED SINCE THE TEST YEAR?

A. There are two main factors that have led to our request to increase sludge processing expense. The biggest factor was that in 2013, the Company expanded its sludge bagging system from three to six. This capital investment was necessary as the flows in the Verde Santa Fe development have continued to rise, making sludge management a more critical operational issue. This expansion has caused increases in costs associated with the bagging system, including the dewatering bags, polymer chemical, hauling of the bags to the landfill, and the labor associated with filling and removing the bags daily.

Q. WHAT IS THE SECOND FACTOR?

A. The second component of the additional sludge processing costs arises due to cleaning of the effluent storage ponds on the golf course. These ponds had not been cleaned for many years, and over the winter, the golf course emptied them and found a layer of accumulated sludge on the bottom. It is likely that the sludge were solids from the WWTP that settled and accumulated over that time. This necessitated the Company renting large trash pumps, hoses, and purchasing large dewatering bags for the disposal of the material. In the future, the Company and the Golf Course have agreed that they will be conducting inspections and cleaning of the effluent ponds every other year. As such, we have included 50 percent of the costs from 2013 associated with the pond cleaning. Mr. Bourassa explains this further in his rebuttal testimony.[1]

[1] Rebuttal Testimony of Thomas J. Bourassa at 3:22 – 4:3.

III. RESPONSE TO STAFF DIRECT

Q. YOU TESTIFIED THAT THE COMPANY WAS WILING TO ACCEPT STAFF'S OTHER ADJUSTMENTS. CAN YOU PLEASE ELABORATE?

A. Yes. Staff did not make many adjustments, and none were made to rate base. The Company does not necessarily agree with Staff's adjustments to directors' fees or the equipment lease expenses. Nor do we believe the cost of capital is adequate. But, it is hard to justify fighting Staff on these issues when the amount of additional revenue at stake is relatively low, and given the expense of a contested hearing followed by briefing. As such, we elected to accept Staff's recommendations, including their adjustments, except for our request for a pro forma adjustment to sludge processing expense. We hope Staff will see this as a reasonable request based on a known and measurable change, which would eliminate all issues in dispute between Staff and the Company in this rate case.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

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SEP 16 2013

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

Attorneys for Verde Santa Fe Wastewater Co., Inc.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF VERDE SANTA FE WASTEWATER CO., INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-03437A-13-0292 **NOTICE OF ERRATA**

Verde Santa Fe Wastewater Co., Inc. (the "Company") hereby files this Notice of Errata to correct two items. First, the Company's application for rate relief at p. 1, ¶ 2 mistakenly states that Pivotal Utility Management is the sole shareholder of the Company. An amended page 1 is attached as **Exhibit A**. Second, the Company submits an amended Schedule H-3, page 2. See **Exhibit B** attached hereto. The changes to this schedule do not affect the Company's overall request for rate relief.

RESPECTFULLY SUBMITTED this 16th day of September, 2013.

FENNEMORE CRAIG, P.C.

By _____
Jay L. Shapiro
2394 E. Camelback Road
Suite 600
Phoenix, Arizona 85016
Attorneys for Verde Santa Fe Wastewater Co., Inc.

FENNEMORE CRAIG
A PROFESSIONAL CORPORATION
PHOENIX

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A - 3
ADMITTED

ORIGINAL and thirteen (13) copies of the foregoing were delivered this 16th day of September, 2013, to:

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

COPY of the foregoing was delivered this 12th day of September, 2013, to:

Sarah Harpring, ALJ
Hearing Division
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

Robin Mitchell
Bridget Humphrey
Legal Division
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

Tom Davis
Utilities Division
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

By: Lela Robertson
8503938.1/026985.0002

EXHIBIT A

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

Attorneys for Verde Santa Fe Wastewater Co., Inc.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF VERDE SANTA FE WASTEWATER CO., INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-03437A-13-_____ **APPLICATION**

Verde Santa Fe Wastewater Co., Inc. ("VSF" or the "Company"), hereby applies for an order establishing the fair value of its plant and property used for the provision of public wastewater utility service and, based on such finding, approving permanent rates and charges for utility service designed to produce a fair return thereon. In support thereof, VSF states as follows:

1. VSF is an Arizona public service corporation engaged in providing wastewater utility services in portions of Yavapai County, Arizona, pursuant to a certificate of convenience and necessity granted by the Arizona Corporation Commission (the "Commission"). During the Test Year, VSF served approximately 950 wastewater connections.

2. VSF's business office is located at 7581 E. Academy Blvd., Suite 229, Denver, Colorado 80230 and its telephone number is (720) 949-1384. The Company's primary management contact is Jason Williamson, President and Manager of Pivotal Utility Management.

EXHIBIT B

Verde Santa Fe Wastewater Company, Inc.
Present and Proposed Rates
Test Year Ended December 31, 2012

Exhibit
Schedule H-3
Page 2 (amended)
Witness: Bourassa

Line No.		Present Rates	Proposed Rates
7	Service Line Charge	n/a	Cost

Service Charges:

	Present Rates	Proposed Rates
Establishment (R14-2-603d)	$ 25.00	$ 25.00
Reconnection (Delinquent)	$ 30.00	$ 30.00
Deposit	2 Times Flat Rate ***	2 Times Monthly Minimum Fee
Deposit Interest (annual effective rate)	3.50%	3.50%
Re-establishment within 12 months (R14-2-603d)	*	**
Deferred Payment, per month	N/A	1.5%
Late Payment Penalty	1.5%	1.5%
NSF Check	$ 25.00	$ 25.00
After hours service charge	N/A	$ 35.00

* Months off system times minimum flat fee

** Months off system times minimum monthly fee

*** Will estimate monthly flow from ea. New commercial customer based on design flow rates prescribed by Ten States Standards. Deposit then calculated by tanking monthly flow rate to determine sewer rate. Multiply by 2.5

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April 28, 2000

Arizona Corporation Commission
Utilities Division - Docket Control
1200 West Washington Street
Phoenix, AZ 85007

Re: Verde Santa Fe Water Company, LLC (w-03437A-97-0498)
Rate Review - Due 5/1/00

To Whom It May Concern

Please find enclosed an original and eleven copies of our completed Rate Review Filings for the above-mentioned sewer utility.

The information provided is for the period beginning January 1, 1999, ending December 31, 1999.

Questions regarding this filing should be directed to Jason Williamson @ (303) 660-9211 ext. 14.

Sincerely,

Jason Williamson

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ADMITTED

Company Name: Verde Santa Fe
Docket Number: #60779 Decision Number:
Period Ending: Dec. 31, 1999

RATE REVIEW FILING

	Revenue:	
1	~~Water Sales~~ Wastewater Sales	$ 14,944
2	Other Operating Revenue	$ 6,913
3	**Total Operating Revenue** (Line 1 plus Line 2)	$ 21,857
	Operating Expenses:	
4	Operation and Maintenance	$ ~~60570~~ 53,699
5	Depreciation	$ 6,738
6	Taxes Other than Income	$ 1,752
7	Income Tax	$ 410
8	**Total Operating Expenses** (Sum of lines 4 through 7)	$ 62,599
9	**Operating Income/(Loss)** (Line 3 less Line 8)	$ (40,742)
10	**Rate Base O.C.L.D.** (From Schedule 2)	$ 126,704
11	**Rate of Return - O.C.L.D.** (Line 9 divided by Line 10)	(32.16) %
12	**OPERATING MARGIN** [1] (Line 3 divided by Line 9)	(53.65) %
13	Interest Expense	$ 101
14	**INTEREST COVERAGE** [2] (Line 8 plus Line 7 divided by Line 13)	623.85

NOTE: 1. Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

2. Interest Coverage represents the ability of the Company to pay interest expenses before taxes.

Company Name: **Schedule 2**

Period Ending:

RATE BASE

		Original Cost Rate Base Per Company	
1	Plant in Service	$ 290,934	
2	Accumulated Depreciation	$ 24,700	
3	**NET PLANT** (Line 1 less Line 2)		$ 266,234
4	Plant Advances	$ 0	
5	Customer Meter Deposits	$ 0	
6	**Total Advances** (Line 4 plus Line 5)		$ 0
7	Gross Contributions	$ 153,550	
8	Amortization of Contributions	$ 7,016	
9	**Net Contributions** (Line 7 less Line 8)		$ 146,534
10	1/24 Power [1]	$ 292	
11	1/8 Operation & Maint. [2]	$ 6,712	
12	Inventory	$ 0	
13	Prepayments	$ 0	
14	**Total Other Items** (Sum of Lines 10 through 13)		$ 7,004
15	**Rate Base** (Line 3 less Line 6, less Line 9, plus Line 14)		$ 126,704

NOTE: 1. Line 10 is pumping power expense (Account #615) divided by 24.

2. Line 11 is Line 4 from Schedule 1 divided by 8.

EQUIPMENT LEASE

THIS EQUIPMENT LEASE ("Lease") is entered into among:

Lessor Name and Address
Pivotal Utility Management, LLC
6825 E Tennessee Ave Suite 547
Denver, CO 80224

Lessee Name and Address
Verde Santa Fe Wastewater Company
6825 E Tennessee Ave Suite 547
Denver, CO 80224

TERMS AND CONDITIONS OF LEASE

1. **LEASE.** Upon the terms hereof, Lessor hereby leases to Lessee and Lessee hereby leases from Lessor the equipment and other property ("Equipment") described herein or on any Acceptance Schedule. The Equipment shall also include any and all additions, accessions, replacements, proceeds, substitutions, repairs, and improvements thereto. Lessee hereby authorizes Lessor (i) to correct the items of Equipment described herein or on any Acceptance Schedule (ii) to correctly describe the Equipment actually placed in use and its correct location; and (iii) to insert any serial number or other more specific description or location of the Equipment.

2. **TERM.** This Lease is effective upon the date this Lease is accepted by Lessor at its principal office. The term of this Lease for all items of Equipment shall commence on the date set forth on the Acceptance Schedule and, subject to the provisions hereof, shall continue for the period specified therein. If the date of acceptance ("Acceptance Date") is not stated on the Acceptance Schedule, it shall conclusively be presumed to be the date the first of such items of Equipment is delivered to Lessee; and Lessee in such case authorizes Lessor to at any time insert on the Acceptance Schedule such Acceptance Date. This Lease shall continue until the earlier of (i) the expiration of the Lease term as set forth in the Acceptance Schedule, or (ii) cancellation or terminations of this Lease by Lessor pursuant to the provisions of this Lease.

3. **RENTAL.** As rental for the Equipment, Lessee shall pay to Lessor total rental in the amounts and on the dates indicated in the related Acceptance Schedule. Any advance rental and/or security deposit specified herein, shall be due on the date that Lessee executes the related Acceptance Schedule. Lessee shall not be entitled to any interest on, or discount for, any rental paid before its due date. All rentals shall be paid at the above office of Lessor or at such other office as Lessor may designate by notice to Lessee. All such rentals shall be paid without notice or demand and shall include use, sales or rental taxes which will be computed using the correct applicable rate and will change as such rate changes. The amount of each rental payment and any security deposit set forth in the related Acceptance Schedule, is based upon the estimated cost to Lessor of the Equipment set forth herein, and the total rental and rental payments shall be adjusted proportionately if the actual Lessor's Cost of the Equipment differs from said estimate. As used herein, "Lessor's Cost" means the total cost to Lessor of purchasing and delivering the Equipment and, includes without limitation, installation, erection, taxes and transportation charges. The term "Lessee's Obligations" or "Obligations" shall mean all amounts and obligations of any and every kind and nature now or hereafter owing, arising, or due and payable from Lessee to Lessor, or acts required of Lessee, under this Lease (and any related Acceptance Schedule and all attachments to the Lease or any Acceptance Schedule), howsoever evidenced, created, incurred, acquired or owing, whether primary, secondary, direct, contingent, fixed or otherwise. If any of Lessee's Obligations due hereunder are not paid within five (5) days of the due date thereof, in addition to other amounts owing under Section 14, Lessee shall pay to Lessor, on demand, as additional rental the aggregate amount of such Obligations plus interest at the lesser of 18% per annum or the highest rate permitted by law from the due date until the date paid. For purposes of determining the amount and character of Lessee's Obligations: (i) Lessor has the continuing exclusive right to apply and reapply any and all payments received by Lessor at any time hereafter first towards payment of any additional rent owing or accrued and then toward reduction of any other Obligation; and (ii) the receipt of any check, or other item of payment on account thereof, will not be considered a payment on account thereof until such check or other item of payment is honored when presented for payment.

4. **TAX ELECTION AND WARRANTY.** Lessor and Lessee have elected to treat the Lessor as the owner of the Equipment and characterize this agreement as a lease. Accordingly, Lessor is entitled to any depreciation deductions available on the Equipment. THE EQUIPMENT LEASED HEREUNDER WILL BE USED SOLELY FOR BUSINESS PURPOSES AND NOT FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES.

5. **LESSEE'S OBLIGATIONS ABSOLUTE.** LESSEE'S OBLIGATION TO PAY ALL RENT AND ALL OTHER LESSEE'S OBLIGATIONS ARE ABSOLUTE AND UNCONDITIONAL UNDER ANY AND ALL CIRCUMSTANCES AND SHALL NOT BE AFFECTED BY ANY CIRCUMSTANCES OF ANY CHARACTER WHATSOEVER, INCLUDING, WITHOUT LIMITATION, (a) any

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set-off, counterclaim, deduction, recoupment, defense, abatement or reduction or any right which Lessee may have against Lessor, the manufacturer or vendor of the Equipment, or supplier of any of the Equipment or anyone else for any reason whatsoever; (b) any initial or subsequent defect in the condition, design, installation or operation of, or lack of fitness for use of the Equipment; (c) any damage to, or loss of, all or any part of the Equipment from any cause whatsoever; (d) the existence of any liens with respect to the Equipment; (e) the disaffirmance of this Lease or any other document related hereto; or (f) the prohibition of or interference with the use or possession by Lessee of all or any part of the Equipment, for any reason whatsoever, including without limitation, by reason of (i) claims for patent infringement; (ii) present or future governmental laws, rules or orders; (iii) the insolvency, bankruptcy or reorganization of any person; and (iv) any other cause whether similar or dissimilar to the foregoing, any present or future law to the contrary notwithstanding. Lessee hereby waives, to the extent permitted by applicable law, any and all rights which it may now have or which may at any time hereafter be conferred upon it, by statute or otherwise, to terminate, cancel, quit or surrender the lease of any Equipment. If for any reason whatsoever this Lease shall be terminated in whole or in part by operation of law or otherwise, other than pursuant to full performance by Lessee in accordance with Section 9 hereof, Lessee will nonetheless pay to Lessor an amount equal to each installment of rent at the time such installment would have become due and payable in accordance with the terms hereof. Each payment of rent or other amount paid by Lessee hereunder shall be final and Lessee will not seek to recover all or any part of such payment from Lessor for any reason whatsoever.

6. **DISCLAIMER OF WARRANTIES.** THE LESSOR, NOT BEING THE MANUFACTURER OF THE EQUIPMENT NOR MANUFACTURER'S AGENT, MAKES NO EXPRESS OR IMPLIED WARRANTY OF ANY KIND WHATSOEVER WITH RESPECT TO THE EQUIPMENT INCLUDING, BUT NOT LIMITED TO THE MERCHANTABILITY OF THE EQUIPMENT OR ITS FITNESS FOR ANY PARTICULAR PURPOSE, THE DESIGN OR CONDITION OF THE EQUIPMENT, THE QUALITY OR CAPACITY OF THE EQUIPMENT, THE WORKMANSHIP IN THE EQUIPMENT, THE COMPLIANCE OF THE EQUIPMENT WITH THE REQUIREMENTS OF ANY LAW, RULE, SPECIFICATION OR CONTRACT PERTAINING THERETO, PATENT INFRINGEMENT, OR LATENT DEFECTS. SO LONG AS LESSEE SHALL NOT BE IN DEFAULT HEREUNDER, LESSOR HEREBY ASSIGNS TO LESSEE, WITHOUT RECOURSE, ALL WARRANTIES AND REPRESENTATIONS MADE OR ASSIGNED TO LESSOR BY THE SUPPLIER. LESSEE AGREES THAT IT (AND NOT LESSOR) WILL PERFORM ALL OBLIGATIONS REQUIRED TO BE PERFORMED UNDER ALL AGREEMENTS WITH THE SUPPLIER RELATING TO THE EQUIPMENT. NO ONE HAS AUTHORITY TO ASSUME ON BEHALF OF LESSOR ANY OTHER OBLIGATION IN CONNECTION WITH THE EQUIPMENT WITHOUT WRITTEN AUTHORIZATION OF LESSOR.

7. **EXCLUSION OF DAMAGES.** IN NO EVENT SHALL LESSOR BE LIABLE FOR DAMAGE, LOSS OR EXPENSE (INCLUDING, WITHOUT LIMITATION, SPECIAL, CONSEQUENTIAL OR INCIDENTAL DAMAGES), DIRECTLY OR INDIRECTLY CAUSED BY THE LEASING, OWNERSHIP, POSSESSION, USE, SELECTION, DELIVERY, OPERATION, ERECTION, INSTALLATION, MAINTENANCE, RETURN OR CONDITION OF THE EQUIPMENT, FOR DELAY IN THE PERFORMANCE OF ANY WARRANTY ASSIGNED HEREUNDER OR FROM ANY OTHER CAUSE, INCLUDING FAULT, NEGLIGENCE OR TORT BY LESSOR OR LESSOR'S AGENTS.

8. **INSTALLATION, MAINTENANCE, REPAIR AND PROPER OPERATION.** Lessor will pay all charges of the Supplier for the delivery and installation of the Equipment BUT ALL SUCH DELIVERY AND INSTALLATION SHALL BE THE SOLE RESPONSIBILITY OF THE SUPPLIER AND/OR LESSEE. Lessee shall, at its sole cost, maintain the Equipment in good operating order, repair and condition, ordinary wear and tear excepted, and furnish any and all labor, parts, mechanisms and devices required to keep the Equipment in such condition in accordance with Manufacturer's and/or Supplier's recommended standards. All replacements, substitutions, repairs, additions and accessions shall become the property of the Lessor. Without the prior written consent of the Lessor, Lessee shall not alter or improve the Equipment. Lessee will bear all costs of every nature in connection with the use and operation of the Equipment. Lessee shall cause the Equipment to be used in a careful and proper manner by competent and qualified personnel only and in compliance with applicable operating instructions and all laws and regulations.

9. **LOSS OF DAMAGE.** Lessee shall bear the entire risk of loss, theft, destruction, or damage of the Equipment (herein "Loss or Damage") from any cause whatsoever and shall promptly notify Lessor upon the occurrence of any such events. No Loss or Damage shall relieve Lessee of the obligation to pay rent or of any other Lessee Obligation. In the event of Loss or Damage, Lessee, at the option of Lessor, shall (a) place the Equipment in good condition and repair; or (b) replace the same with like equipment in good condition and repair with clear title thereto in Lessor; or (c) pay to Lessor the total of the following amounts: (i) the total of Lessee's Obligations due and owing at the time of such payment, plus (ii) the replacement value of the Equipment. Upon Lessor's receipt of such payment Lessee and/or Lessee's insurer shall be entitled to Lessor's interest in said item of Equipment for salvage purposes in its then condition and location, as is, without warranty, express or implied and this Lease shall terminate.

10. **LOSS OR DAMAGE INSURANCE.** Lessee agrees, at its expense, to cause the Equipment to be continuously insured against risks of Loss or Damage in an amount (without co-insurance) equal to its then replacement value. Lessee shall furnish to Lessor a certified copy or certificate of such insurance and subsequent renewal certificate(s) when issued. Each such policy or certificate shall be in form and amount and with insurers acceptable to Lessor and shall expressly provide that (i) Lessor or its

assigns shall be a loss payee and all losses shall be payable solely to Lessor or its assigns, (ii) no act or omission of Lessee or any of its officers, agents, employees or representatives shall affect the obligation of the insurer to pay the full amount of any loss, and (iii) such policy may not be canceled or materially altered except upon not less than 30 days prior written notice to Lessor. Lessee hereby irrevocably authorizes Lessor to make, settle and adjust claims under such policy or policies of Loss or Damage insurance and to endorse the name of Lessee on any check or other item of payment for the proceeds thereof; it being understood, however, that unless otherwise directed in writing by Lessor, Lessee shall file in a timely manner all claims under such policy or policies. Lessee may, with the prior written approval of Lessor (which will not be unreasonably withheld) settle and adjust all such claims. Lessor may, at its option, apply the proceeds of said insurance either toward the repair or replacement of the Equipment or the Lessee Obligations. Any excess proceeds shall be the property of Lessor. No insurance shall reduce or affect any of Lessee's Obligations hereof except to the extent that proceeds of such insurance are actually received by Lessor.

11. **INDEMNITY.** Lessee assumes liability for, and hereby agrees to indemnify, protect, save and keep harmless, Lessor, its agents, employees, officers, directors, successors and assigns, from and against, any and all liabilities (including environmental issues), obligations, losses, damages, penalties, claims, actions, suits, costs and expenses (including, but not limited to, reasonable attorneys' fees and costs), of whatsoever kind and nature, imposed on, incurred by or asserted against Lessor, its agents, employees, officers, directors, successors and assigns, in any way relating to or arising out of the ownership, possession, use, selection, delivery, leasing, operation, erection, installation, maintenance, return, surrender, repossession or condition of the Equipment, by operation of law, or any failure on the part of Lessee to perform or comply with any of the terms of this Lease. Lessee agrees that upon written notice by Lessor of the assertion of any claim, action, damage, obligation, liability or lien, Lessee shall assume fully responsibility for the defense thereof. The assumptions of liability and indemnities contained in this paragraph will continue in full force and effect notwithstanding the expiration or other cancellation of this Lease.

12. **LIABILITY INSURANCE.** Lessee shall continuously maintain comprehensive public liability insurance naming both Lessor and its assigns and Lessee as Additional Named Insureds, protecting against claims for bodily injury, death, property and/or economic or environmental damage arising out of the use, ownership, possession, operation or condition of the Equipment. Said insurance shall be in form and amount and with insurers satisfactory to Lessor, and shall provide for not less than 30 days prior written notice to Lessor in the event of any cancellation or material alteration. Lessee shall furnish to Lessor a certified copy or certificate of the policy to said insurance and subsequent renewal certificate(s) when issued.

13. **EVENTS OF DEFAULT.** Lessee shall be in default under this Lease if any of the following events ("Events of Default") shall occur: (a) Lessee shall fail to pay when due, any rental payment pursuant to Section 3; (b) Lessee shall fail to pay when due, any other sum due hereunder or fail to perform any other Obligation of Lessee and such failure shall continue for more than five (5) days after notice thereof from Lessor to Lessee; (c) Lessee fails or neglects to perform, keep or observe any term, provision, condition or covenant contained in this Lease and such failure shall continue for more than five (5) days after notice thereof from Lessor to Lessee; (d) any representation or warranty of Lessee in this Lease is untrue in any material respect; (e) Lessee or any Guarantor of Lessee's Obligations hereunder ("Guarantor") ceases to conduct its business as is now conducted, fails generally to pay its debts as they become due, makes an assignment for the benefit of creditors, or consents to or acquiesces in the appointment of a trustee, receiver, or liquidator of it or any substantial part of its assets; (f) any of Lessee's or Guarantor's shareholders shall take any action contemplating the liquidation or dissolution of Lessee or Guarantor; (g) any bankruptcy, reorganization, arrangement, insolvency, receivership or like petition or proceeding shall be filed or shall be instituted by or against Lessee or any Guarantor on all or substantially all of Lessee's or any Guarantor's property; (h) Lessor shall in good faith deem itself insecure; or (i) Lessee or any Guarantor shall default under any other agreement with Lessor or any other party for money borrowed or property leased.

14. **REMEDIES OF LESSOR.** Upon the occurrence of any Event of Default by Lessee (subject to any applicable grace provisions), Lessor or its agent may, without any further notice, exercise one or more of the following remedies (in accordance with any and all regulatory procedures and/or laws), as Lessor shall elect: (a) declare all unpaid rentals and all other Obligations of Lessee under this Lease to be immediately due and payable or performable; (b) cancel or terminate this Lease as to any or all items of Equipment; (c) take possession of the Equipment wherever found, and for this purpose enter upon the premises of Lessee and remove the same); (d) cause Lessee to promptly assemble and return the Equipment to Lessor in the condition and manner set forth in Section 20; (e) use, hold, sell, lease or otherwise dispose of the Equipment or any items thereof on the premises of Lessee or any other location without affecting the Obligations; (f) sell or lease the Equipment, or any part thereof, at public auction or by private sale or lease at such time or times and upon such terms as Lessor may determine, free and clear of any rights of Lessee and, if notice thereof is required by law, any notice in writing of any such sale or lease by Lessor to Lessee not less than ten (10) days prior to the date thereof shall constitute reasonable notice to Lessee; (g) proceed by appropriate action to enforce performance by Lessee of this Lease or to recover damages for the breach thereof; (h) exercise any and all rights accruing to a lessor under any applicable law upon a default by Lessee. Lessor shall be entitled to recover: (a) all unpaid rentals or other sums which are due and payable for any items of Equipment up to the date of redelivery to or repossession by Lessor; (b) any expenses paid or incurred by Lessor in connection with repossession, insuring, holding, repair and subsequent sale, lease or other disposition of the Equipment, including reasonable attorneys' fees, costs and legal expenses; and all other costs and expenses, including the fees of collection agencies, and other out-of-pocket expenses incurred by Lessor in collecting any of the Lessee's Obligations; (c) the present value of all unpaid rentals to become due under this Lease; (d) the residual

interest of Lessor in the Equipment; (e) interest on the outstanding balance of the aggregate of Lessee's Obligations at the lesser of (i) eighteen percent (18%) per annum or (ii) the maximum per annum rate allowed by applicable law with respect to business purpose transactions involving entities of the same type as Lessee, and; (f) If the Equipment is re-leased, an amount equal to the difference between (i) the present value of all unpaid rentals for any item of Equipment from the date such item of Equipment is re-leased; and (ii) the present value of the re-lease rentals of each item of Equipment that is re-leased for the term of such re-lease or the remaining initial term of this Lease, whichever ends first. ALL PRESENT VALUE COMPUTATIONS SHALL ASSUME A FOUR PERCENT (4%) PER ANNUM DISCOUNT RATE.

None of the remedies under this Lease are intended to be exclusive, but each shall be cumulative and in addition to any other remedy referred to herein or otherwise available to Lessor in law or in equity. Any repossession or subsequent sale or lease by Lessor of any item of Equipment shall not bar an action for a deficiency as herein provided, and the bringing of an action of the entry of judgment against the Lessee shall not bar the Lessor's right to repossess any or all items of Equipment. Lessor may, at its option, use any other method to recover its actual damages in lieu of the method set forth herein. Under no circumstances shall this Lease be construed to permit the recovery of any unearned or non-matured items or recovery in excess of Lessor's actual damages.

15. **JURISDICTION, VENUE, SERVICE OR PROCESS, WAIVER OF JURY TRIAL.** LESSEE HEREBY EXPRESSLY AND IRREVOCABLY AGREES THAT LESSOR MAY BRING ANY ACTION OR CLAIM TO ENFORCE THE PROVISIONS OF THIS LEASE IN THE STATE SHOWN ABOVE AS PART OF THE LESSOR'S ADDRESS ("STATE OF LESSOR"), AND LESSEE CONSENTS TO JURISDICTION OF ANY STATE OR FEDERAL COURT LOCATED WITHIN THE STATE OF LESSOR. LESSEE WAIVES ANY OBJECTION TO VENUE OF ANY ACTION INSTITUTED HEREUNDER AND CONSENTS TO THE GRANTING OF SUCH LEGAL OR EQUITABLE RELIEF AS IS DEEMED APPROPRIATE BY THE COURT. Lessee hereby further irrevocably consents to service of process by registered mail, return receipt requested, directed to Lessee at the address stated above, such service shall be deemed completed seven (7) days after the same shall have been posted and/or service of process in accordance with provisions of the laws of the State of Lessor. Nothing herein shall be deemed to preclude or prevent Lessor from bringing any action or claim to enforce the provisions of this Lease in any other appropriate place or forum. LESSEE WAIVES TRIAL BY JURY IN ANY LITIGATION IN ANY COURT WITH RESPECT TO, IN CONNECTION WITH, OR ARISING OUT OF THIS LEASE, ANY ACCEPTANCE SCHEDULE OR ANY INSTRUMENTS OR DOCUMENTS DELIVERED PURSUANT TO THIS LEASE, OR THE VALIDITY, PROTECTION, INTERPRETATION, COLLECTION OR ENFORCEMENT THEREOF AND OF ANY OF LESSEE'S OBLIGATIONS.

16. **PROCUREMENT.** Lessee either has ordered or shall order the equipment pursuant to a purchase order or other contract of sale ("Supply Contract"), from the vendor, dealer, manufacturer or other supplier ("Supplier"), and has arranged or will arrange for installation and delivery of the Equipment. Lessor shall acquire the Item of Equipment from the Supplier designated by Lessee on terms and conditions negotiated by the Lessee for the purpose of leasing the Equipment to Lessee under this Lease. Lessee hereby agrees to undertake and does undertake, on behalf of Lessor, without charge to Lessor for its services, all responsibility for the performance of all the obligations of Lessor in relation to the supervision over, and participation in, the procurement of materials and services, specifications, changes, services, training, testing, and all related matters, it being the intention that, as between the parties hereto, Lessor shall have no obligation other than the payment of the purchase price, and Lessee is authorized to and shall perform all obligations and exercise all rights of Lessor, including the technical acceptance of the Equipment on delivery. Delivery to Lessor of a Acceptance Schedule shall constitute Lessee's acknowledgment that, as between Lessor and Lessee, with respect to the Item of Equipment described therein, (i) such Item is of a size, design, capacity and manufacture selected by Lessee, (ii) Lessee is satisfied that such Item is suitable for its purpose and that any necessary governmental approvals or permits have been acquired; and (iii) Lessor is not a manufacturer thereof nor a dealer in property of the kind of such Item. Upon the written request of the Lessee, received at least three (3) business days prior to the date that a payment is required to be made to the Supplier pursuant to any such Supply Contract, Lessor shall make any such payments to the Supplier on the requested date.

17. **TITLE.** All Equipment shall remain personal property notwithstanding the manner in which it may be attached to realty, and the title thereto shall remain in Lessor exclusively. Lessee shall keep the Equipment free from all liens and encumbrances. Lessee shall execute any further instruments and assurances reasonably requested from time to time by Lessor to protect Lessor's interest and the interest of any assignee, and shall warrant and defend the title of Lessor to the Equipment from and against the claims of all persons. Lessee shall also cooperate to maintain the status of the Equipment as personal property including, without limitation, the execution of financing statements and the furnishing of waivers with respect to rights in the Equipment from any owners or mortgagees of the real estate on which the Equipment is or will be located. To the extent permitted by law, Lessee hereby authorizes Lessor to sign financing statements on Lessee's behalf. Lessor may file or record any such financing statements, waivers or other instruments in order to protect its interest and the interest of any assignee. Lessee shall pay any applicable filing and abstracting charges. If Lessor supplies Lessee with labels stating that the Equipment is owned by Lessor, Lessee shall affix and maintain same upon a prominent place on each item of Equipment.

18. **TAXES AND OTHER GOVERNMENTAL CHARGES.** Lessee shall promptly pay and indemnify and hold Lessor harmless from all present and future taxes and other governmental charges (including, without limitation, ad valorem of property taxes),

any amounts in lieu of such taxes and charges and any additions to tax, penalties, fines and interest on any of the foregoing, imposed, levied or based upon or in connection with the purchase, ownership, leasing, possession or use of the Equipment, or based upon or measured by rentals or receipts with respect to this Lease. Pursuant to this Section 18, however, Lessee shall not be obligated to pay any taxes on or measured by Lessor's net income. Lessee further agrees to comply with all state and local laws requiring the filing of ad valorem or property tax returns with respect to the Equipment. In case any report or return is required to be made with respect to any Obligation of Lessee under or arising out of this Section, Lessee shall either make such report or return in such manner as will show the ownership of the Equipment in Lessor, file such report or return and send a copy of such report or return to Lessor, or will notify Lessor of such requirement and make such report or return in such manner as shall be satisfactory to Lessor or provide Lessor with any information necessary or appropriate or requested by Lessor to complete such report or return. If not thereby subjecting the Equipment to forfeiture or sale, Lessee may, at its expense, contest in good faith, by appropriate proceedings, the validity or amount of any of the taxes or governmental charges described above and shall keep Lessor informed as to the progress of such contest, provided that prior written notice of any such contest shall be given to Lessor together with security satisfactory to Lessor for the payment of the amount being contested plus any additions to tax, penalties, fines and interest.

19. **OPTIONS OF LESSEE AT END OF TERM.** Upon the expiration of the term of this Lease or any renewal term ("Expiration Date"), Lessee shall have the following mutually exclusive options to be exercised as hereinafter set forth: (a) Fair Market Value Purchase Option permits the Lessee to elect upon written notice at least 90 days prior to the Expiration Date to purchase all (but not less than all) of the Equipment at its then fair market value as mutually agreed to by the parties ("Fair Market Value Purchase"). The Fair Market Value shall not be less than twenty percent (20%) of Lessor's Cost. A written appraisal report shall be furnished to Lessor at least five (5) days before the Expiration Date. The Lessee shall then purchase the Equipment for cash at a price which shall be the higher of twenty percent (20%) of Lessor's Cost or the appraised value. Lessee shall be responsible for all fees, costs, and related expenses of any appraisal. All Equipment shall be sold without recourse or warranty, express or implied, "as is, where is." The sale value, plus applicable sales tax, shall be paid on the Expiration Date; (b) The Fair Market Value Renewal Option permits the Lessee to elect upon at least ninety (90) days written notice prior to the Expiration Date to renew the Lease for two additional years at the then fair market rental as mutually agreed by the parties (however, such rental shall not be less than a rental assuming Lessor's Cost of not less than twenty percent (20%)). Upon the determination of Fair Market Rental, the Rental for the remaining portion of the renewal term will be adjusted and excess rental payments shall be promptly refunded (without interest) to Lessee; and (c) the Return Option permits the Lessee upon at least ninety (90) days written notice prior to the Expiration Date to return the Equipment in accordance with Section 20.

Unless Lessee elects to either purchase the Equipment, renew the Lease or return the Equipment at the Expiration Date in each case by giving notice thereof to Lessor at least ninety (90) days prior to such Expiration Date, the term of this Lease shall be deemed to have been automatically renewed upon the Expiration Date, such renewal term to be for a period of one year and thereafter from year-to-year, provided, however, that subject to Lessor's rights in the event of a default hereunder, Lessor or Lessee may terminate any such renewal term on any anniversary thereof by furnishing ninety (90) day prior written notice to the other party. The rental to be paid by Lessee during such year-to-year renewal terms shall be the same amount as that specified herein for the initial term of this Lease and shall be paid in advance at the same frequency provided in the initial term of this Lease.

During the period of any renewal term provided for in this Section 19, all provisions of this Lease except as specifically herein modified, shall continue in full force and effect.

20. **SURRENDER.** Upon the Expiration Date with regard to any item of Equipment, or upon demand therefor pursuant to Section 14 or other termination of this Lease, Lessee, at its own expense but subject to any and all regulatory procedures and/ or laws, within three (3) days following Expiration Date or upon such demand, will return the Equipment to Lessor at a location Lessor may designate in writing to Lessee at least thirty (30) days prior to such Expiration Date or upon such demand. Lessor will use its best efforts to designate a location within a radius of 500 miles from Lessee's address as stated on this Lease. At the time of such return, the Equipment shall be in substantially the same condition as when received by Lessee, ordinary wear and tear excepted. In the event Lessor or its agent must enter upon the premises where the Equipment is located to affect such surrender, Lessee hereby authorizes such entry and further agrees that Lessor shall not be liable for any cost or charge therefore or for any damages to Lessee's property, real or personal, therefrom. Lessee shall pay all expenses incidental to such surrender. If Lessee fails to surrender the Equipment in accordance with the provisions hereof, all of the Obligations of Lessee shall continue in full force and effect, and Lessor, at its option, may elect to treat the Lessee as holding over the term and to treat the holdover term of this Lease as a year-to-year renewal term described in Section 19.

21. **LESSOR'S RIGHT TO PERFORM LESSEE OBLIGATIONS AND RIGHT TO TERMINATE.** If Lessee shall fail to make any payment or perform any Obligations required of Lessee hereunder, Lessor may (but shall not be obligated to) at any time thereafter make such payment or perform such act or Obligation at the expense of Lessee. Any expense so incurred by Lessor shall constitute additional rental hereunder payable by Lessee to Lessor upon demand. Lessor shall, at any time prior to delivery of any Equipment, have the right to terminate this Lease with respect to such Equipment if: (a) there shall be an adverse change in Lessee's financial condition or credit standing; (b) Lessor otherwise in good faith deems itself insecure; or (c) such Equipment

is not for any reason delivered to Lessee within sixty (60) days after the date of this Lease. If Lessee is not then in default, upon termination by Lessor pursuant to this section Lessor will refund to Lessee any security deposit and/or advance rental with respect to such Equipment, less any actual costs and expenses paid or incurred by Lessor.

22. **RIGHT TO INSPECTION.** As long as Lessee fully performs all of its obligations hereunder, Lessor and/or its assigns may, for the purpose of inspection, at all reasonable business hours, enter from time to time upon any premises where the Equipment is located.

23. **ASSIGNMENT BY LESSOR.** LESSOR MAY AT ANY TIME, WITH OR WITHOUT NOTICE TO LESSEE, TRANSFER, ASSIGN OR GRANT A SECURITY INTEREST IN THIS LEASE, THE RELATED ACCEPTANCE SCHEDULE, OR THE EQUIPMENT LISTED ON ANY SUCH ACCEPTANCE SCHEDULE, OR ANY RENT OR OTHER SUMS DUE OR TO BECOME DUE HEREUNDER, AND IN SUCH EVENT LESSOR'S TRANSFEREE OR ASSIGNEE SHALL HAVE ALL OF LESSOR'S RIGHTS, POWERS, PRIVILEGES AND REMEDIES HEREUNDER. LESSEE ACKNOWLEDGES THAT ANY SUCH TRANSFER, ASSIGNMENT OR GRANT OF A SECURITY INTEREST IN THE INTEREST OF LESSOR IN THE FOREGOING ITEMS WILL NOT MATERIALLY CHANGE THE OBLIGATIONS AND DUTIES OF LESSEE NOR MATERIALLY INCREASE THE BURDEN OF RISK IMPOSED UPON LESSEE. No such assignee or transferee shall be obligated to perform any duty, covenant or condition required to be observed or performed by Lessor, and no such transferee or assignee shall be bound by, or obligated to perform or see to the performance of, any warranty, express or implied, made by Lessor, but each and all of such covenants and agreements of Lessor provided for herein and all representations and warranties shall survive any such transfer or assignment of this Lease and shall be and remain the sole liability of Lessor.

Lessee agrees, if directed by Lessor or by an assignee of Lessor in writing (i) to pay directly to such assignee any rent or other obligation of Lessee now or hereafter owing under this Lease and (ii) to give such assignee any notice required to be given to Lessor hereunder. Any assignee of Lessor shall have all the rights, power, privileges and remedies of Lessor hereunder (whether or not the applicable provisions of the Lease contain express reference to any such assignee) but none of Lessor's obligations; provided, however, no such assignment shall in any way relieve Lessor of any obligation hereunder. Lessee agrees that it shall not assert against any assignee of Lessor, and the rights of such assignee to the rents and other amounts payable by Lessee hereunder shall not be subject to, any claim, set-off, counter-claim, recoupment, abatement or defense of any kind or nature whether by reason of any damage to or loss or destruction of any item or all of the Equipment or any part thereof, or by reason of any defect in or failure of title of Lessor or interruption from whatsoever cause in the use, operation or possession of any item or all of the Equipment, or by reason of any indebtedness or liability howsoever and whenever arising, of the Lessor to Lessee or to any other person, firm or corporation or to any governmental authority, or for any cause whatever, it being the intent hereof that Lessee shall be absolutely and unconditionally obligated to pay all such sums to such assignee. This Lease shall inure to the benefit of the successors and assigns of Lessor.

24. **ASSIGNMENT OR SUBLEASE BY LESSEE.** LESSEE WILL NOT, WITHOUT THE PRIOR WRITTEN CONSENT OF LESSOR, WHICH CONSENT WILL NOT BE UNREASONABLY WITHHELD, SUBLET OR OTHERWISE RELINQUISH POSSESSION OF THE EQUIPMENT OR ASSIGN ANY OF ITS RIGHTS HEREUNDER. ANY ATTEMPTED SUBLEASE OR ASSIGNMENT NOT CONSENTED TO SHALL BE NULL AND VOID. NO SUBLEASE, OTHER RELINQUISHMENT OF THE POSSESSION OF THE EQUIPMENT OR ASSIGNMENT BY LESSEE OF ANY OF ITS RIGHTS OR DELEGATION OF ANY OF ITS OBLIGATIONS HEREUNDER SHALL IN ANY WAY DISCHARGE OR DIMINISH ANY OF LESSEE'S OBLIGATIONS TO LESSOR HEREUNDER. This Lease shall be binding on the successors and personal representatives of Lessee.

25. **SECURITY DEPOSIT.** The security deposit, if any, specified herein shall secure the full performance of Lessee's Obligations hereunder. Such deposit shall not excuse the performance of any such Obligations or prevent a default. Lessor may, in its sole discretion, apply all or part of such security deposit toward discharge of any overdue Lessee Obligation. If upon the expiration of the term specified herein or on any Acceptance Schedule, Lessee shall have fully complied with all of Lessee's Obligations, any unused portion of the security deposit herein or under any such Acceptance Schedule will be refunded to Lessee. Lessor shall have no duty to keep such deposit identifiable or uncommingled, and Lessor shall not be obligated to pay interest on said deposit.

26. **NOTICES.** Lessee shall give Lessor immediate notice of any attachment, judicial process, lien, encumbrance or claim affecting the Equipment, any loss or damage to the Equipment or material accident or casualty arising out of the use, operation or condition of the Equipment, or any change in the location of the Equipment, the residency or principal place of business of Lessee. All notices required or permitted hereunder shall be in writing and shall be deemed duly given if delivered personally or mailed, by registered or certified mail, to the respective addresses of the parties set forth herein or any other address designated by notice served in accordance herewith.

27. **LESSEE'S WARRANTIES.** Lessee warrants to Lessor that: (a) If Lessee is a corporation, partnership, limited liability company, trust or any other type or kind of entity, Lessee is, and shall at all times hereafter continue to be, duly organized, is qualified to transact business in each state where a failure to do so would have a material adverse effect on this Lease, the Equipment or Lessee, and existing in good standing under the laws of the state where it is organized and has duly authorized the

execution and performance of the Lease; (b) this Lease constitutes and will constitute the valid and binding obligation of Lessee in accordance with its terms; (c) the execution and performance of this Lease by Lessee will not violate any law or regulation or, if Lessee is a corporation, Lessee's corporate charter or by-laws, or if Lessee is a limited liability company, Lessee's articles of organization or operating agreement, or if Lessee is a partnership, Lessee's partnership agreement, or if Lessee is trust or any other type or kind of entity, its instruments of organization and co-stating agreements and instruments, nor will it constitute a default under any agreement to which Lessee is now or hereafter a party; (d) all financial statements and information relating to Lessee which have been or may hereafter be submitted by Lessee will accurately and fairly present the financial condition of Lessee in accordance with generally accepted accounting principles consistently applied; and (e) there has been no material adverse change in the financial condition of Lessee since submission of any such financial information to Lessor. Lessee agrees to deliver to Lessor at any time or times hereafter such documents, including, without limitation, certified resolutions and legal opinions, as Lessor may reasonably request to show Lessee's compliance with the foregoing, and consents to any other credit investigation Lessor may make.

28. **LESSEE JOINT AND SEVERAL LIABILITY.** If more than one Lessee is named in this Lease, the liability of each shall be joint and several.

29. **FINANCIAL AND OTHER INFORMATION.** Lessee shall furnish to Lessor such financial and other information about the condition and affairs of Lessee and any Guarantor and about the Equipment as Lessor may from time to time request. Lessee upon request shall provide Lessor with evidence that Lessee has paid all taxes and other charges described in or otherwise complied with Section 18.

30. **NON-WAIVER.** Lessor's failure at any time to require strict performance by Lessee of any provision hereof shall not waive or diminish Lessor's rights thereafter to demand strict performance thereof or of any other provision. None of the provisions of this Lease shall be held to have been waived by any act or knowledge of Lessor, but only by a written instrument executed by Lessor and delivered to Lessee. Waiver of any default shall not be a waiver of any other or subsequent default.

31. **GOVERNING LAW.** THIS LEASE, ANY ACCEPTANCE SCHEDULE, ALL DOCUMENTS ISSUED OR EXECUTED PURSUANT HERETO AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES THEREUNDER AND HEREUNDER SHALL BE GOVERNED BY THE INTERNAL LAW (AND NOT THE CONFLICTS OF LAW) OF THE STATE OF LESSOR.

32. **ARTICLE 2A LEASE.** Lessee and Lessor agree that this Lease is subject to the provisions of, and defined and described in, Article 2A of the Uniform Commercial Code, as amended. Lessee acknowledges that: a) Lessor has not selected, manufactured or supplied the goods; and b) Lessee has reviewed and approved each written Supply Contract covering Equipment purchased from each Supplier as such terms are defined herein and in Article 2A.

33. **LESSEE'S WAIVERS.** Lessee hereby waives any and all rights and remedies conferred upon a Lessee by Article 2A of the Uniform Commercial Code. Lessee also hereby waives any rights now or hereafter conferred by statute, decision, or otherwise, that may require Lessor re-sell, lease or otherwise use any item of Equipment in mitigation of Lessor's damages or that may otherwise limit or modify any of Lessor's rights or remedies under this Lease, at law or in equity.

34. **HEADINGS.** The headings used in the text of this Lease are inserted for reference and convenience only and shall not affect its interpretation.

35. **SEVERABILITY.** If any provision of, or document related to, this Lease is held invalid or unenforceable and cannot be modified to make such provision valid or enforceable, such provision shall be deemed omitted, and the remaining provisions of this Lease shall be severable and remain effective in accordance with their terms.

36. **ENTIRE AGREEMENT.** This Lease contains the entire understanding between the parties and cannot be modified except in a writing signed by both parties. No one except an officer of Lessor shall have authority to vary the written terms and conditions of this Lease. Several copies or counterparts of this Lease may be signed by the parties hereto, but only the original Lease (Lessor's copy) shall be deemed chattel paper for purposes of assignment or transfer under applicable law.

IN WITNESS WHEREOF, each of the Lessees, or their respective authorized representatives, has executed this Lease the day, month and year first appearing below.

Lessor: Pivotal Utility Management, LLC
By:
Its: Managing Member
Dated as of: 6/15/05

Lessee: Verde Santa Fe Wastewater Company
By:
Its: Secretary
Dated as of: 6/15/05

(in months)	Due Date	Payments	First Rental Due Date	Rental Payment*	Payments
120	June ~~1~~ 15, 2005	120	Monthly	$2587.95	First
*Any applicable Sales and / or Use Tax based on the Rental Payment shall be added to the Rental Payment					

Special Provisions

Equipment Lease. Lessor has agreed to lease to Lessee, and Lessee has agreed to lease from Lessor, the Equipment described in this Acceptance Schedule. For additional terms and conditions governing the lease of such Equipment, reference is made to that certain Equipment Lease (which is incorporated by this reference and called the "Lease") entered among Lessor and Lessee. Lessee has read and understands the terms and conditions of the Lease prior to signing it.

Now, therefore, Lessee by executing this Acceptance Schedule hereby warrants and agrees as follows:

a. that Lessee selected the Equipment and Supplier and, if applicable, the manufacturer from whom the Lessor purchased the Equipment; and acknowledges that neither Supplier, the manufacturer nor their respective salesperson is an agent of Lessor;

b. the Acceptance Date is **June ~~1~~ 15, 2005,** and such Equipment is correctly described and is located at the place identified in this Acceptance Schedule;

c. that if the Equipment is not properly installed, does not operate as represented by Supplier or the manufacturer, or is unsatisfactory for any reason, Lessee shall make any claim on account thereof solely against Supplier or the manufacturer and shall nevertheless pay Lessor all rent payable under this Lease; Lessee hereby waives any and all rights, claims and set-offs against the Lessor; and

d. that if for any reason any person files or other wise asserts a mechanic's lien or any other lien at any time against the Equipment or asserts a claim against the Lessor or its assigns, relating to the construction, delivery, transportation, or installation of the Equipment, then Lessee shall indemnify and hold Lessor or its assigns harmless from any such lien or claim.

Lessee hereby accepts the Equipment in accordance with the terms and conditions of the Lease and acknowledges and understands that in reliance upon the matters appearing above, Lessor will cause the purchase price of the Equipment (and all related expenditures including, without limitation, installation expenses, if any, and taxes) to be paid to the Supplier.

Lessee:	Verde Santa Fe Watershed Co.
By:	[signature]
Its:	Secretary
Dated as of:	6/15/05

ACCEPTANCE SCHEDULE #1
Equipment Lease #005-00601

Pivotal Utility Management, LLC ("Lessor") **6825 E. Tennessee Ave., Suite 547** **Denver, Colorado 80224**

Lessee Name and Address
Verde Santa Fe Wastewater Company
c/o Pivotal Operations, LLC 6825 E Tennessee Ave. Suite 547
Denver, CO 80224

Supplier Name and Address
Santec Corporation
220 Malibu Street
Castle Rock, CO 80109

Location of Equipment		
Address: Verde Santa Fe WRF 1001 S. Verde Santa Fe Parkway Cornville, AZ 86325		
City: Cornville	State: Arizona	County: Yavapai

Equipment Description

Quantity	Description of Equipment Leased	Lessor's Cost
1	Horizontal Cylindrical Fiberglass sludge holding tank (12' X 25' = 20,092 gallons)	$19,480.00
1	Vertical Cylindrical Chlorine Contact Tank (8' X 13.5' = 5,076 gallons)	$12,377.00
1	Olympian D150PL 150kW standby generator with Transfer switch	$48,572.00
1	Inline Franklin Miller SS6000 comminutor	$25,815.00
2	Horizontal Cylindrical Fiberglass anoxic tanks (10' X 18.5' = 10,094 gal. each)	$44,656.00
2	Horizontal Cylindrical Fiberglass aeration tanks (12' X 47'-9" = 39,362 gal. each)	$99,100.00
	Freight & Installation	n/a
	Sales Tax	n/a
	Total	$250,000.00

Equipment Rental -- Term, Due Dates, Frequency, Payments, Etc.,

Lease Term	First Rental	No. of Rental	Rental Payments will be made on Anniversary of	Amount of each	Advance

SECRETARY OF STATE

2005 JUN 15 AM 8:20

FILED

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UCC FINANCING STATEMENT

FOLLOW INSTRUCTIONS (front and back) CAREFULLY

A. NAME & PHONE OF CONTACT AT FILER (optional)
Jason Williamson (303) 333-1250

B. SEND ACKNOWLEDGMENT TO: (Name and Address)

Pivotal Utility Management, LLC
6825 E. Tennessee Avenue, Suite 547
Denver, CO 80224

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY 1-3

1. DEBTOR'S EXACT FULL LEGAL NAME - insert only one debtor name (1a or 1b) - do not abbreviate or combine names

1a. ORGANIZATION'S NAME: Verde Santa Fe Wastewater Company

OR

1b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME	SUFFIX

1c. MAILING ADDRESS	CITY	STATE	POSTAL CODE	COUNTRY
6825 E. Tennessee Avenue, Suite 547	Denver	CO	80224	USA

1d. TAX ID #: SSN OR EIN	ADD'L INFO RE ORGANIZATION DEBTOR	1e. TYPE OF ORGANIZATION	1f. JURISDICTION OF ORGANIZATION	1g. ORGANIZATIONAL ID #, if any
86-0885680		Corporation	Arizona	0816377-8 ☐ NONE

2. ADDITIONAL DEBTOR'S EXACT FULL LEGAL NAME - insert only one debtor name (2a or 2b) - do not abbreviate or combine names

2a. ORGANIZATION'S NAME

OR

2b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME	SUFFIX

2c. MAILING ADDRESS	CITY	STATE	POSTAL CODE	COUNTRY

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				☐ NONE

3. SECURED PARTY'S NAME (or NAME of TOTAL ASSIGNEE of ASSIGNOR S/P) - insert only one secured party name (3a or 3b)

3a. ORGANIZATION'S NAME: Pivotal Utility Management, LLC

OR

3b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME	SUFFIX

3c. MAILING ADDRESS	CITY	STATE	POSTAL CODE	COUNTRY
6825 E. Tennessee Avenue, Suite 547	Denver	CO	80224	USA

4. This FINANCING STATEMENT covers the following collateral:

(See Exhibit A)

Note:
This transaction is a true lease. This UCC Financing Statement is filed for notice purposes.

5. ALTERNATIVE DESIGNATION (if applicable): ☒ LESSEE/LESSOR ☐ CONSIGNEE/CONSIGNOR ☐ BAILEE/BAILOR ☐ SELLER/BUYER ☐ AG. LIEN ☐ NON-UCC FILING

6. ☒ This FINANCING STATEMENT is to be filed (for record) (or recorded) in the REAL ESTATE RECORDS. Attach Addendum (if applicable)

7. Check to REQUEST SEARCH REPORT(S) on Debtor(s) (ADDITIONAL FEE) (optional) ☐ All Debtors ☐ Debtor 1 ☐ Debtor 2

8. OPTIONAL FILER REFERENCE DATA

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UCC FINANCING STATEMENT ADDENDUM

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9. NAME OF FIRST DEBTOR (1a or 1b) ON RELATED FINANCING STATEMENT

9a. ORGANIZATION'S NAME

Verde Santa Fe Wastewater Company

OR

9b. INDIVIDUAL'S LAST NAME | FIRST NAME | MIDDLE NAME,SUFFIX

10. MISCELLANEOUS:

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11c. MAILING ADDRESS | CITY | STATE | POSTAL CODE | COUNTRY

11d. TAX ID #: SSN OR EIN | ADD'L INFO RE ORGANIZATION DEBTOR | 11e. TYPE OF ORGANIZATION | 11f. JURISDICTION OF ORGANIZATION | 11g. ORGANIZATIONAL ID #, if any ☐ NONE

12. ☐ ADDITIONAL SECURED PARTY'S or ☐ ASSIGNOR S/P'S NAME - insert only one name (12a or 12b)

12a. ORGANIZATION'S NAME

OR

12b. INDIVIDUAL'S LAST NAME | FIRST NAME | MIDDLE NAME | SUFFIX

12c. MAILING ADDRESS | CITY | STATE | POSTAL CODE | COUNTRY

13. This FINANCING STATEMENT covers ☐ timber to be cut or ☐ as-extracted collateral, or is filed as a ☒ fixture filing.

14. Description of real estate:

PARCEL 407-37-106C8
VERDE SANTA FE PHSE 1 AN IRREG PTN OF
TRACT C LESS RECT PTN IN SW COR PER
3595/661 AND LESS A TRI PTN IN NE CO
R PER 3595/663 SEC 6-15-4E CONT 2.05AC

15. Name and address of a RECORD OWNER of above-described real estate (if Debtor does not have a record interest):

16. Additional collateral description:

17. Check only if applicable and check only one box.

Debtor is a ☐ Trust or ☐ Trustee acting with respect to property held in trust or ☐ Decedent's Estate

18. Check only if applicable and check only one box.

☐ Debtor is a TRANSMITTING UTILITY

☐ Filed in connection with a Manufactured-Home Transaction — effective 30 years

☐ Filed in connection with a Public-Finance Transaction — effective 30 years

Verde Santa Fe Wastewater Company
6825 E. Tennessee Avenue, Suite 547
Denver, CO 80224

EXHIBIT A

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2	Horizontal Cylindrical Fiberglass aeration tanks (12' X 47'-9" = 39,362 gal. each)

6/06/05
11:26:48

Yavapai County Treasurer
Legal Descriptions

TX013DSS
SUBCTL01
VIEW

Parcel	Name
407-37-106C8	FIRST AM TITLE INS CO TR 8248

Description
VERDE SANTA FE PHSE 1 AN IRREG PTN OF TRACT C LESS RECT
PTN IN SW COR PER 3595/661 AND LESS A TRI PTN IN NE CO
R PER 3595/663 SEC 6-15-4E CONT 2.05AC

Attn: Kathy

Bottom

CMD01:Help ---------- C01671 ---------

Ana Wayman-Trujillo, Recorder
OFFICIAL RECORDS OF YAVAPAI COUNTY
PIVOTAL UTILITY MANAGEMENT FS

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06/10/2005 11:49A
14.00 3869347

B-4273 P-889
Page: 1 of 3
FS 3869347

FEE
$5
$8
$
$1
$

UCC FINANCING STATEMENT

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Jason Williamson (303) 383-1250

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Pivotal Utility Management, LLC
6825 E. Tennessee Avenue, Suite 547
Denver, CO 80224

This Document does not conform with requirements of ARS 11-480

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CITY: Denver
STATE: CO
POSTAL CODE: 80224
COUNTRY: USA

1d. TAX ID #: SSN OR EIN: 86-0885680
ADDL INFO RE ORGANIZATION DEBTOR
1e. TYPE OF ORGANIZATION: Corporation
1f. JURISDICTION OF ORGANIZATION: Arizona
1g. ORGANIZATIONAL ID #, if any: 0816377-8 ☐ NONE

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

Attorneys for Verde Santa Fe Wastewater Co., Inc.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF VERDE SANTA FE WASTEWATER CO., INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-03437A-13-_____

DIRECT TESTIMONY OF THOMAS J. BOURASSA

(RATE BASE, INCOME STATEMENT AND RATE DESIGN)

August 30, 2013

EXHIBIT
A-6
ADMITTED

Table of Contents

I. INTRODUCTION AND QUALIFICATION 1
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I. INTRODUCTION AND QUALIFICATION

Q. PLEASE STATE YOUR NAME AND ADDRESS.

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

Q. WHAT IS YOUR PROFESSION AND BACKGROUND?

A. I am a Certified Public Accountant and am self-employed, providing consulting services to utility companies as well as general accounting services. I have a B.S. in Chemistry and Accounting from Northern Arizona University (1980) and an M.B.A. with an emphasis in Finance from the University of Phoenix (1991).

Q. COULD YOU BRIEFLY SUMMARIZE YOUR PRIOR WORK AND REGULATORY EXPERIENCE?

A. Yes. Prior to becoming a private consultant, I was employed by High-Tech Institute, Inc., and served as controller and chief financial officer. Prior to working for High-Tech Institute, I worked as a division controller for the Apollo Group, Inc. Before joining the Apollo Group, I was employed at Kozoman & Kermode, CPAs. In that position, I prepared compilations and other write-up work for water and wastewater utilities, as well as tax returns.

In my private practice, I have prepared and/or assisted in the preparation of several water and wastewater utility rate applications before the Arizona Corporation Commission ("Commission").

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

A. I am testifying in this proceeding on behalf of the Verde Santa Fe Wastewater Co., Inc. ("VSF" or the "Company"). VSF is seeking increases in its rates and charges for wastewater utility service in its certificated service area.

II. OVERVIEW OF THE COMPANY'S REQUEST FOR RATE RELIEF

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. I will testify in support of the Company's proposed adjustments to its rates and charges for wastewater utility service. I am sponsoring the direct schedules, which are filed concurrently herewith in support of the Company's application. I was responsible for the preparation of these schedules based on my investigation and review of VSF's relevant books and records.

For the convenience of the Commission and the parties, the two portions of my direct testimony, each with the relevant schedules attached, are being filed separately in this case. In this volume of my direct testimony, I address the rate base, income statement (revenue and operating expenses), required increase in revenue, and rate design and proposed rates and charges for service. Schedules A through C, E-F, G and H are attached to this portion of my direct testimony. The Company has not prepared a cost of service study and therefore the G schedules are excluded from the filing. The Company is not proposing any significant changes to its flat rate design.

Q. THANK YOU. PLEASE CONTINUE.

A. In the second volume of my direct testimony, to which the D schedules are attached, I address cost of capital. VSF is requesting a return on common equity of 11.0 percent. As shown on Schedule D-1, the Company's capital structure consists of approximately 100 percent equity. The weighted average cost of capital is 11.0 percent.

Q. PLEASE SUMMARIZE THE COMPANY'S APPLICATION.

A. The test year used by VSF is the 12-month period ending December 31, 2012. The Company is requesting an 11.0 percent return on its fair value rate base ("FVRB"). The Company has also proposed certain pro forma adjustments to take

into account known and measurable changes to rate base, expenses and revenues. These pro forma adjustments are consistent with normal ratemaking and are contemplated by the Commission's rules and regulations governing rate applications.[1] These adjustments are necessary to obtain a normal or realistic relationship between revenues, expenses and rate base on a going-forward basis.

The Company's proposed fair value rate base is $421,336. The increase in revenues to provide for recovery of operating expenses and an 11.0 percent return on rate base is approximately $65,213, an increase of 13.60 percent over the adjusted and annualized test year revenues.

III. SCHEDULES

A. Summary of A, E and F Schedules.

Q. PLEASE DESCRIBE THE SCHEDULES LABELED AS A, E, AND F.

A. The A-1 Schedule is a summary of the rate base, operating income, current operating margin, required operating margin, operating income deficiency, and the increase in gross revenues. Revenues at present and proposed and customer classifications are also shown on this schedule.

The A-2 Schedule is a summary of results of operations for the test year, prior years, and a projected year at present rates and proposed rates.

Schedule A-3 is not required for Class C utilities and is excluded.

Schedule A-4 contains the plant construction expenditures, and plant-in-service for the test year and prior years. The projected plant additions are also shown on this schedule.

Schedule A-5 is not required for Class C utilities and is excluded.

[1] *See* A.A.C. R14-2-103.

The E Schedules are based on the Company's actual operating results, as reported by the Company in annual reports filed with the Commission. The E-1 Schedule contains the comparative balance sheet data for the years 2010, 2011, and 2012 ended on December 31.

Schedule E-2, page 1, contains the income statement for the years 2010, 2011, and 2012 ended on December 31.

Schedule E-3 is not required for Class C utilities and is excluded.

Schedule E-4 is not required for Class C utilities and is excluded.

Schedule E-5 contains the Company's plant-in-service at the end of the test year, and one year prior to the end of the test year.

Schedule E-7 contains operating statistics for the years ended 2010, 2011, and 2012 ended on December 31.

Schedule E-8 contains the taxes charged to operations.

The accountant's notes to the financial statements and the financial assumptions used in preparing the rate filing schedules are shown on Schedules E-9 and F-4, respectively, in accordance with the Commission's standard filing requirements. The Company does not prepare audited financial statements.

Schedule F-1 contains the results of operations at the present rates (actual and adjusted), and at proposed rates.

Schedule F-2 not required for Class C utilities and is excluded.

Schedule F-3 shows the Company's projected construction requirements for 2013.

Schedule F-4 contains the assumptions used in developing the adjustments and projections contained in the rate filing.

B. **Rate Base (B Schedules).**

Q. **WOULD YOU EXPLAIN THE RATE BASE SCHEDULES, WHICH ARE LABELED AS THE B SCHEDULES?**

A. Yes. I will start with Schedule B-5, which is the working capital allowance. I used the "formula method" of computing the working capital allowance to reduce costs. However, the Company is not requesting a working capital allowance.

Q. **WHY DIDN'T THE COMPANY PREPARE A LEAD-LAG STUDY AND USE THE RESULTS OF THAT STUDY TO COMPUTE WORKING CAPITAL?**

A. Because the Company is not seeking a working capital allowance and the costs to prepare a lead-lag study outweigh the benefits.

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

A. The Company did not file Schedules B-3 and B-4. To limit issues in dispute and reduce rate case expense, VSF is requesting that its original cost rate base ("OCRB") be used as its FVRB.

Q. **HAVE YOU PREPARED SCHEDULES SHOWING ADJUSTMENTS TO THE ORIGINAL COST RATE BASE?**

A. Yes. Schedule B-2 shows adjustments to the OCRB proposed by the Company. Schedule B-2, pages 2 through 5, provide the supporting information. These adjustments are, in summary:

B-2 adjustment number 1, as shown on Schedule B-2, page 2, adjusts plant-in-service ("PIS"). There is one PIS adjustments included in Adjustment 1. This is shown on Schedule B-2, page 3, and is labeled as adjustment "A."

Adjustment A of B-2 adjustment number 1 adjusts PIS to reflect the reconciliation of the Company's PIS detail per the Company's B-2 plant detail schedule, pages 3.2 to 3.16, to recorded general ledger amounts as reflected on the

E-1 schedule.

Q. PLEASE CONTINUE.

A. Adjustment B-2 shown on Schedule B-2, page 2, adjusts accumulated depreciation ("A/D"). The details of the A/D adjustments are shown on Schedule B-2, page 4. There is one A/D adjustment included in Adjustment 2. This is shown on Schedule B-2, page 4, and is labeled as adjustment "A."

Adjustment A of B-2 adjustment number 2 adjusts A/D balance as reflected on the E-1 schedule to re-computed balance of A/D per the Company's B-2 plant detail schedule, pages 3.2 to 3.16.

Q. PLEASE CONTINUE.

A. Adjustment B-2 shown on Schedule B-2, page 2, adjusts the accumulated amortization balance of contributions-in-aid of construction ("CIAC") to the recomputed amount reflecting the annual depreciation rate for plant-in-service.

Q. ARE THERE ANY OTHER RATE BASE ADJUSTMENTS?

A. No.

Q. HOW WAS THE PROPOSED "FAIR VALUE" RATE BASE SHOWN ON SCHEDULE A-1 DETERMINED?

A. As stated, the FVRB shown on Schedule A-1 is based on OCRB, with no adjustment for the current values of the Company's plant and property.

C. <u>Income Statement (C Schedules).</u>

Q. PLEASE EXPLAIN THE ADJUSTMENTS YOU ARE PROPOSING TO THE REVENUES AND/OR EXPENSES STATEMENT AS SHOWN ON SCHEDULES C-1 AND C-2.

A. The following is a summary of adjustments shown on Schedule C-1:

Adjustment 1 annualizes depreciation expense. The proposed depreciation rate for each component of utility plant is shown on Schedule C-2, page 2.

The Company proposes to use account specific rates on a going forward basis. These proposed depreciation rates are based upon the Commission Staff recommended typical and customary rates.

Adjustment 2 increases the property taxes based on proposed revenues. The details of the computation are shown on Schedule C-2, page 3.

Q. HOW DID YOU COMPUTE THE PROPERTY TAXES AT PROPOSED RATES?

A. To determine full cash value, I used the method employed by the Arizona Department of Revenue - Centrally Valued Properties ("ADOR" or "the Department"). This method determines full cash value by using twice the average of three years of revenue, plus an addition for CWIP and a deduction for the book value of transportation equipment. In the instant case, I used two times the adjusted revenues for the year ending December 31, 2012, and one year of revenues at proposed rates. The assessed value (20 percent of full cash value) was then multiplied by the property tax rate to determine adjusted property tax expense.

Q. IS THIS CONSISTENT WITH PRIOR COMMISSION DECISIONS?

A. Yes. *E.g.*, *Chaparral City Water Company*, Decision No. 68176 (September 30, 2005) at 13, and *Litchfield Park Service Company*, Decision No. 67279 (October 5, 2004).

Q. IS THIS SYNCHRONIZATION OF PROPERTY TAX EXPENSE WITH REVENUES PROPER RATE MAKING?

A. Yes. Like income taxes, property taxes must be adjusted to ensure that the new rates are sufficient to produce the revenue requirement. For this reason, the Commission has repeatedly approved the use of proposed revenues to determine an appropriate level of property tax expense to be recovered through rates.

Q. PLEASE CONTINUE WITH YOUR DESCRIPTION OF THE INCOME STATEMENT ADJUSTMENTS.

A. Adjustment 3 shows the rate case expense estimated by the Company. The Company estimates rate case expense of $100,000. The Company proposes that rate case expense be recovered over ~~three~~ four years because it believes a four-year cycle for future rate cases is reasonable given this utility's circumstances.

Q. HOW DID YOU ARRIVE AT THIS AMOUNT?

A. Based on my experience with rate cases before the Commission, and that of the Company's counsel. Given VSF's size and the anticipated nature, length and complexity of the proceedings, I estimate this rate case to cost a total of $100,000.

Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE INCOME STATEMENT ADJUSTMENTS.

A. Adjustment 4 annualizes revenues to the year-end number of customers. The annualization of revenues is based on the number of customers at the end of the test year, compared to the actual number of customers during each month of the test year. Average revenues per customer by month were computed for the test year and then multiplied by the increase (or decrease) in the number of customers for each month of the test year. The total of the monthly revenue change comprises the revenue annualization. This was done for each customer class.

Adjustment 5 removes a portion of the effluent revenues and other revenues (finance charges) recorded during the test year related to the Verde Santa Fe Golf Course ("Golf Course"). The adjustment reduces effluent revenues from the amount based upon a rate of $2.00 per 1,000 gallons to the amount based upon a rate of $0.23 per 1,000 gallons. With respect to other revenues, all the finance charges for failure to pay the invoiced amounts by the Golf Course that were included in other revenues were removed. The Golf Course has refused to pay the

tariffed charges and the finance charges. Mr. Williamson discusses the effluent charge issues in more detail in his testimony.[2] The Company proposes a rate of $0.23 per 1,000 gallons, the amount the Golf Course actually pays. Therefore, there will be no expected finance charges for the Golf Course on a going forward basis.

Adjustment 6 reduces miscellaneous expense for the bad debt expense recorded during the test year related to the Golf Course test year billings. The adjustment amount is the same amount, in total, as the effluent revenue and other revenue adjustment amounts discussed above.

Adjustment 7 reflects income taxes based upon the Company adjusted test year revenue and expense.

D. <u>Rate Design (H Schedules).</u>

Q. WHAT ARE THE COMPANY'S PRESENT RATES?

A. The Company's present rates are:

MONTHLY SERVICE CHARGES

Residential	$40.00
Commercial	$40.00 times SFE[3]
Effluent (per 1,000 gallons)	$2.00

[2] Direct Testimony of Jason Williamson ("Williamson Dt.") at 3-4.

[3] If a commercial flat rate is necessary, it will be calculated for each commercial customer by dividing the expected design daily flow rate (as prescribed by the Ten State Standards) by one SFE (single family equivalent). One SFE will equal 262 gallons per day (the approved design flow rate per single family unit by ADEQ). The resulting factor will be multiplied by the approved residential flat rate to get the commercial monthly flat rate.

Q. WHAT ARE THE COMPANY'S PROPOSED RATES?

A. The Company's proposed rates are:

MONTHLY SERVICE CHARGES

Residential	$45.68
Commercial	$45.68 times SFE[4]
Effluent (per 1,000 gallons)	$0.23

Q. WHAT IS THE IMPACT OF THE COMPANY PROPOSED RATES ON RESIDENTIAL CUSTOMERS?

A. As shown on Schedule H-2, page 1, the monthly bill under proposed rates for a residential customer is $45.68 – a $5.68 increase over the present monthly bill or a 13.0 percent increase.

Q. IS THE COMPANY PROPOSING TO REDUCE THE EFFLUENT RATE?

A. Yes. The Company is proposing to reduce the effluent rate from $2.00 per 1,000 gallons to $0.23 per 1,000 gallons. Mr. Williamson discusses the proposed effluent rate in his testimony.[5]

1. Other Tariff Changes.

Q. IS THE COMPANY PROPOSING ANY CHANGES TO MISCELLANEOUS SERVICE CHARGES?

A. Yes. The Company is proposing to add an after-hours service charge which applies to all services performed after-hours.

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[4] One SFE is defined as 10 fixtures (sinks and/or toilets and/or showers, etc.). The SFE for a commercial customer will be equal to the number of fixtures divided by 10. If the computed SFE is less than 1.0, the factor will be 1.0 which provides that a commercial customer pays no less than a residential customer.

[5] Williamson Dt. at 3.

Q. IS THE COMPANY PROPOSING ANY CHANGES TO SERVICE LINE INSTALLATION CHARGES?

A. Yes. The Company is proposing service line installations to be charged at cost. Currently, there is no tariff for service line installation charges.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

VERDE SANTA FE WASTEWATER CO., INC.

DIRECT TESTIMONY OF
THOMAS J. BOURASSA

RATE BASE, INCOME STATEMENT AND RATE DESIGN

AUGUST 30, 2013

SCHEDULES

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Schedule A-1
Page 1
Witness: Bourassa

Line No.			
1	Fair Value Rate Base	$	421,336
2			
3	Adjusted Operating Income		(3,950)
4			
5	Current Rate of Return		-0.94%
6			
7	Required Operating Income	$	46,347
8			
9	Required Rate of Return		11.00%
10			
11	Operating Income Deficiency	$	50,297
12			
13	Gross Revenue Conversion Factor		1.2966
14			
15	Increase in Gross Revenue		
16	Requirement	$	65,213
17			
18	Adjusted Test Year Revenues	$	479,551
19	Increase in Gross Revenue Revenue Requirement	$	65,213
20	Proposed Revenue Requirement	$	544,764
21	% Increase		13.60%

	Customer Classification		Present Rates	Proposed Rates	Dollar Increase	Percent Increase
25	Residential		$ 450,680	$ 514,677	$ 63,997	14.20%
26						
27	Commercial	VSF Community Center	$ 1,056	$ 1,056	$ -	0.00%
28	Commercial	Amante Club House	1,536	1,754	218	14.20%
29	Commercial	VSF Golf Course	3,300	3,769	469	14.20%
30	Commercial	Highlands Resort	3,408	3,892	484	14.20%
31						
32						
33	Effluent	VSF Golf Course	$ 65,453	$ 7,527	$ (57,926)	-88.50%
34					-	0.00%
35	Revenue Annualization		$ 2,440	$ 2,786	$ 346	14.20%
36	**Subtotal**		$ 527,873	$ 535,461	$ 7,588	1.44%
37						
38	C-2 Revenue Adjustment		(57,926)	-	57,926	-100.00%
39	Other Water Revenues		9,624	9,624	-	0.00%
40	Reconciling Amount		(20)	(321)	(301)	1505.00%
41	Rounding					0.00%
42	**Total of Water Revenues**		$ 479,551	$ 544,764	$ 65,213	13.60%
43						
44						
45	SUPPORTING SCHEDULES:					
46	B-1					
47	C-1					
48	C-3					
49	H-1					

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Summary of Results of Operations

Exhibit
Schedule A-2
Page 1
Witness: Bourassa

Line No.	Description	Prior Years Ended 12/31/2010	Prior Years Ended 12/31/2011	Test Year Actual 12/31/2012	Test Year Adjusted 12/31/2012	Projected Year Present Rates 12/31/2013	Projected Year Proposed Rates 12/31/2013
1	Gross Revenues	$ 528,770	$ 532,152	$ 540,522	$ 479,551	$ 479,551	$ 544,764
2							
3	Revenue Deductions and	529,272	533,994	530,378	483,501	483,501	498,417
4	Operating Expenses						
5							
6	Operating Income	$ (502)	$ (1,842)	$ 10,144	$ (3,950)	$ (3,950)	$ 46,347
7							
8	Other Income and	3	37	3,692	3,692	3,692	3,692
9	Deductions						
10							
11	Interest Expense	(511)	-	-	-	-	-
12							
13	Net Income	$ (1,010)	$ (1,805)	$ 13,836	$ (258)	$ (258)	$ 50,039
14							
15	Common Shares	7,282	7,282	7,282	7,282	7,282	7,282
16							
17	Earned Per Average						
18	Common Share	(0.14)	(0.25)	1.90	(0.04)	(0.04)	6.87
19							
20	Dividends Paid	-	-	-	-	-	-
21							
22	Dividends Per						
23	Common Share	-	-	-	-	-	-
24							
25	Payout Ratio	-	-	-	-	-	-
26							
27	Return on Average						
28	Invested Capital	-0.01%	-0.18%	1.48%	-0.03%	-0.03%	5.09%
29							
30	Return on Year End						
31	Capital	-0.10%	-0.19%	1.52%	-0.03%	-0.03%	5.04%
32							
33	Return on Average						
34	Common Equity	-0.63%	-0.57%	4.28%	-0.08%	-0.08%	14.08%
35							
36	Return on Year End						
37	Common Equity	-0.31%	-0.57%	4.19%	-0.08%	-0.08%	13.16%
38							
39	Times Bond Interest Earned						
40	Before Income Taxes	(8.75)	-	-	-	-	-
41							
42	Times Total Interest and						
43	Preferred Dividends Earned						
44	After Income Taxes	(0.98)	-	-	-	-	-
45							
46							
47							
48							
49							
50	SUPPORTING SCHEDULES						
51	C-1						
52	E-2						
53	F-1						
54							

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Construction Expenditures
and Gross Utility Plant in Service

Exhibit
Schedule A-4
Page 1
Witness: Bourassa

Line No.		Construction Expenditures	Net Plant Placed in Service	Gross Utility Plant in Service
1				
2				
3				
4	Prior Year Ended 12/31/2010	-	-	1,503,007
5				
6	Prior Year Ended 12/31/2011	20,885	20,885	1,523,892
7				
8	Test Year Ended 12/31/2012	31,640	31,640	1,555,532
9				
10	Projected Year Ended 12/31//2013	41,000	41,000	1,596,532
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34	SUPPORTING SCHEDULES:			
35	B-2			
36	E-5			
37	F-3			
38				
39				
40				

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Summary of Rate Base

Exhibit
Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 1,555,530	$ 1,555,530
3	Less: Accumulated Depreciation	658,177	658,177
4			
5	Net Utility Plant in Service	$ 897,353	$ 897,353
6			
7	Less:		
8	Advances in Aid of Construction	-	-
9			
10	Contributions in Aid of Construction	978,305	978,305
11			
12	Accumulated Amortization of CIAC	(502,287)	(502,287)
13			
14	Customer Meter Deposits	-	-
15	Deferred Income Taxes & Credits	-	-
16			
17			
18			
19	Plus:		
20	Unamortized Finance		
21	Charges	-	-
22	Prepayments	-	-
23	Materials and Supplies	-	-
24	Allowance for Cash Working Capital	-	-
25			
26			
27			
28	Total Rate Base	$ 421,336	$ 421,336
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			
41			
42			
43	SUPPORTING SCHEDULES:		
44	B-2		
45	B-3		
46	B-5		
47	E-1		
48			
49			
50			
51			
52			

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments

Exhibit
Schedule B-2
Page 1
Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Adjustment	Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	$ 1,555,532	(2)	$ 1,555,530
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	676,077	(17,900)	658,177
7				
8				
9	Net Utility Plant			
10	in Service	$ 879,455		$ 897,353
11				
12	**Less:**			
13	Advances in Aid of			
14	Construction	-	-	-
15				
16	Contributions in Aid of			
17	Construction - Gross	978,305	-	978,305
18				
19	Accumulated Amortization of CIAC	(442,538)	(59,749)	(502,287)
20				
21	Customer Meter Deposits	-		-
22	Accumulated Deferred Income Tax	-	-	-
23				-
24				-
25				
26	**Plus:**			
27	Unamortized Finance			
28	Charges	-	-	-
29	Prepayments	-	-	-
30	Materials and Supplies	-	-	-
31	Allowance for Cash Working Capital	-	-	-
32				-
33				
34	Total	$ 343,688		$ 421,336
35				
36				
37				
38				
39				
40				
41				
42				
43				
44				
45	SUPPORTING SCHEDULES:			RECAP SCHEDULES:
46	B-2, pages 2			B-1
47	E-1			
48				
49				
50				

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments

Exhibit
Schedule B-2
Page 2
Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Adjustments 1 Plant-in-Service	2 Accumulated Depreciation	3 CIAC	4 Intentionally Left Blank	5 Intentionally Left Blank	Adjusted at end of Test Year
1	Gross Utility							
2	Plant in Service	$ 1,555,532	(2)					$ 1,555,530
3								
4	**Less:**							
5	Accumulated							
6	Depreciation	676,077		(17,900)				658,177
7								
8								
9	Net Utility Plant							
10	in Service	$ 879,455	$ (2)	$ 17,900	$ -	$ -	$ -	$ 897,353
11								
12	**Less:**							
13	Advances in Aid of							
14	Construction	-						-
15								
16	Contributions in Aid of							
17	Construction (CIAC)	978,305						978,305
18								
19	Accumulated Amort of CIAC	(442,538)			(59,749)			(502,287)
20								
21	Customer Meter Deposits	-						-
22	Accumulated Deferred Income Taxes	-						-
23								
24								
25	**Plus:**							
26	Unamortized Finance							
27	Charges	-						-
28	Prepayments	-						-
29	Materials and Supplies	-						-
30	Allowance for Cash Working Capital	-			-			-
31								
32	Total	$ 343,688	$ (2)	$ 17,900	$ 59,749	$ -	$ -	$ 421,336
33								
34								
35								
36	SUPPORTING SCHEDULES:						RECAP SCHEDULES:	
37	B-2, pages 3-5						B-1	
38	E-1							
39								
40								

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1

Exhibit
Schedule B-2
Page 3
Witness: Bourassa

Plant-in-Service

Line No.	Acct. No.	Description	Actual Orginal Cost	A Adjustments Required to Reconcile to Reconstruction	B Intentionally Left Blank	Adjustments C Intentionally Left Blank	D Intentionally Left Blank	E Intentionally Left Blank	Adjusted Original Cost
6	351	Organization Cost	30,909	-					30,909
7	352	Franchise Cost	-	-					-
8	353	Land and Land Rights	45,400	-					45,400
9	354	Structures & Improvements	108,242	-					108,242
10	355	Power Generation Equipment	-	-					-
11	360	Collection Sewers - Force	-	-					-
12	361.1	Collection Sewers - Gravity	328,735	-					328,735
13	361.2	Manholes & Cleanouts							-
14	362	Special Collecting Structures	-	-					-
15	363	Servcies to Customers	73,179	-					73,179
16	364	Flow Measuring Devices	12,958	-					12,958
17	365	Flow Measuring Installations	-	-					-
18	366	Reuse Services	-	-					-
19	367	Reuse Meters and Meter Installation:	-	-					-
20	370	Receiving Wells	-	-					-
21	371.1	Pumping Equipment - Lift Stations		-					-
22	371.2	Other Pumping Equipment							-
23	371.3	Pumping Equipment - Recharge Wells							-
24	374	Reuse Distribution Reserviors	-	-					-
25	375	Reuse Transmission and Distributior	-	-					-
26	380	Treatment & Disposal Equipment	865,491	-					865,491
27	381	Plant Sewers	-	-					-
28	382	Outfall Sewer Lines	-	-					-
29	389	Other Plant & Misc Equipment	-	-					-
30	390	Office Furniture & Equipment	5,803	-					5,803
31	390.1	Computers & Software	-	-					-
32	391	Transportation Equipment	-	-					-
33	392	Stores Equipment	-	-					-
34	393	Tools, Shop & Garage Equipment	4,676	-					4,676
35	394	Laboratory Equipment	630	-					630
36	395	Power Operated Equipment	-	-					-
37	396	Communication Equipment	-	-					-
38	397	Miscellaneous Equipment	-	-					-
	398	Other Tangible Plant	79,507	-					79,507
39		Rounding	2	(2)					-
40		TOTALS	$ 1,555,532	$ (2)	$ -	$ -	$ -	$ -	$ 1,555,530
41									
42	Plant-in-Service per Books								$ 1,555,532
43									
44	Increase (decrease) in Plant-in-Service								$ (2)
45									
46	Adjustment to Plant-in-Service								$ (2)
47									
48	SUPPORTING SCHEDULES								
49	B-2, pages 3.1								
50									

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 -A

Exhibit
Schedule B-2
Page 3.1
Witness: Bourassa

Line No.	Acct. No.	Description	Recorded Orginal Cost	Plant Per Reconstruction	Adjustment Required
1					
2					
3					
4					
5					
6	351	Organization Cost	30,909	30,909	-
7	352	Franchise Cost	-	-	-
8	353	Land and Land Rights	45,400	45,400	-
9	354	Structures & Improvements	108,242	108,242	-
10	355	Power Generation Equipment	-	-	-
11	360	Collection Sewers - Force	-	-	-
12	361.1	Collection Sewers - Gravity	328,735	328,735	-
13	361.2	Manholes & Cleanouts		-	-
14	362	Special Collecting Structures	-	-	-
15	363	Servcies to Customers	73,179	73,179	-
16	364	Flow Measuring Devices	12,958	12,958	-
17	365	Flow Measuring Installations	-	-	-
18	366	Reuse Services	-	-	-
19	367	Reuse Meters and Meter Installatior	-	-	-
20	370	Receiving Wells	-	-	-
21	371.1	Pumping Equipment - Lift Stations	-	-	-
22	371.2	Other Pumping Equipment		-	-
23	371.3	Pumping Equipment - Recharge Wells		-	-
24	374	Reuse Distribution Reserviors	-	-	-
25	375	Reuse Transmission and Distributio	-	-	-
26	380	Treatment & Disposal Equipment	865,491	865,491	-
27	381	Plant Sewers	-	-	-
28	382	Outfall Sewer Lines	-	-	-
29	389	Other Plant & Misc Equipment	-	-	-
30	390	Office Furniture & Equipment	5,803	5,803	-
31	390.1	Computers & Software	-	-	-
32	391	Transportation Equipment	-	-	-
33	392	Stores Equipment	-	-	-
34	393	Tools, Shop & Garage Equipment	4,676	4,676	-
35	394	Laboratory Equipment	630	630	-
36	395	Power Operated Equipment	-	-	-
37	396	Communication Equipment	-	-	-
38	397	Miscellaneous Equipment	-	-	-
39	398	Other Tangible Plant	79,507	79,507	-
40		Rounding	2		(2)
41		TOTALS	$ 1,555,532	$ 1,555,530	$ (2)
42					
43					
44	SUPPORTING SCHEDULE				
45	B-2, pages 3.2 - 3.16				
46					

Verde Santa Fe Wastewater Company, Inc.
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3 2
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate[1]	NARUC Plant at 12/31/1997	Accum. Deprec. At 12/31/1997	1998 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%	-	-	30,909		30,909			-		-	30,909	-
2	352	Franchise Cost	0.00%	-	-			-			-		-	-	-
3	353	Land and Land Rights	0.00%	-	-	45,400		45,400			-		-	45,400	-
4	354	Structures & Improvements	5.00%	-	-			-			-		-	-	-
5	355	Power Generation Equipment	5.00%	-	-			-			-		-	-	-
6	360	Collection Sewers - Force	5.00%	-	-			-			-		-	-	-
7	361.1	Collection Sewers - Gravity	5.00%	-	-			-			-		-	-	-
8	361.2	Manholes & Cleanouts	5.00%	-	-			-			-		-	-	-
9	362	Special Collecting Structures	5.00%	-	-			-			-		-	-	-
10	363	Servcies to Customers	5.00%	-	-			-			-		-	-	-
11	364	Flow Measuring Devices	5.00%	-	-			-			-		-	-	-
12	365	Flow Measuring Installations	5.00%	-	-			-			-		-	-	-
13	366	Reuse Services	5.00%	-	-			-			-		-	-	-
14	367	Reuse Meters and Meter Installations	5.00%	-	-			-			-		-	-	-
15	370	Receiving Wells	5.00%	-	-			-			-		-	-	-
16	371.1	Pumping Equipment - Lift Stations	5.00%	-	-			-			-		-	-	-
17	371.2	Other Pumping Equipment	5.00%	-	-			-			-		-	-	-
18	371.3	Pumping Equipment - Recharge Wells	5.00%	-	-			-			-		-	-	-
19	374	Reuse Distribution Reserviors	5.00%	-	-			-			-		-	-	-
20	375	Reuse Transmission and Distribution	5.00%	-	-			-			-		-	-	-
21	380	Treatment & Disposal Equipment	5.00%	-	-	209,412		209,412			-		5,235	209,412	5,235
22	381	Plant Sewers	5.00%	-	-			-			-		-	-	-
23	382	Outfall Sewer Lines	5.00%	-	-			-			-		-	-	-
24	389	Other Plant & Misc Equipment	5.00%	-	-			-			-		-	-	-
25	390	Office Furniture & Equipment	5.00%	-	-			-			-		-	-	-
26	390.1	Computers & Software	5.00%	-	-			-			-		-	-	-
27	391	Transportation Equipment	5.00%	-	-			-			-		-	-	-
28	392	Stores Equipment	5.00%	-	-			-			-		-	-	-
29	393	Tools, Shop & Garage Equipment	5.00%	-	-			-			-		-	-	-
30	394	Laboratory Equipment	5.00%	-	-			-			-		-	-	-
31	395	Power Operated Equipment	5.00%	-	-			-			-		-	-	-
32	396	Communication Equipment	5.00%	-	-			-			-		-	-	-
33	397	Miscellaneous Equipment	5.00%	-	-			-			-		-	-	-
34	398	Other Tangible Plant	5.00%	-	-			-			-		-	-	-
35															
36		Sub Total		-	-	285,721	-	285,721	-	-	-	-	5,235	285,721	5,235
37															
38															
39															
40		TOTAL		-	-	285,721	-	285,721	-	-	-	-	5,235	285,721	5,235
41		[1] Decision 60779													

Verde Snata Fe Wastewater Company, Inc.
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.3
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate[1]	1999 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%			-			-		-	30,909	-
2	352	Franchise Cost	0.00%			-			-		-	-	-
3	353	Land and Land Rights	0.00%			-			-		-	45,400	-
4	354	Structures & Improvements	5.00%			-			-		-	-	-
5	355	Power Generation Equipment	5.00%			-			-		-	-	-
6	360	Collection Sewers - Force	5.00%			-			-		-	-	-
7	361.1	Collection Sewers - Gravity	5.00%			-			-		-	-	-
8	361.2	Manholes & Cleanouts	5.00%			-			-		-	-	-
9	362	Special Collecting Structures	5.00%			-			-		-	-	-
10	363	Servcies to Customers	5.00%			-			-		-	-	-
11	364	Flow Measuring Devices	5.00%			-			-		-	-	-
12	365	Flow Measuring Installations	5.00%			-			-		-	-	-
13	366	Reuse Services	5.00%			-			-		-	-	-
14	367	Reuse Meters and Meter Installations	5.00%			-			-		-	-	-
15	370	Receiving Wells	5.00%			-			-		-	-	-
16	371.1	Pumping Equipment - Lift Stations	5.00%			-			-		-	-	-
17	371.2	Other Pumping Equipment	5.00%			-			-		-	-	-
18	371.3	Pumping Equipment - Recharge Wells	5.00%			-			-		-	-	-
19	374	Reuse Distribution Reservioirs	5.00%			-			-		-	-	-
20	375	Reuse Transmission and Distribution	5.00%			-			-		-	-	-
21	380	Treatment & Disposal Equipment	5.00%			-			-		10,471	209,412	15,706
22	381	Plant Sewers	5.00%			-			-		-	-	-
23	382	Outfall Sewer Lines	5.00%			-			-		-	-	-
24	389	Other Plant & Misc Equipment	5.00%			-			-		-	-	-
25	390	Office Furniture & Equipment	5.00%	2,892		2,892			-		72	2,892	72
26	390.1	Computers & Software	5.00%			-			-		-	-	-
27	391	Transportation Equipment	5.00%			-			-		-	-	-
28	392	Stores Equipment	5.00%			-			-		-	-	-
29	393	Tools, Shop & Garage Equipment	5.00%	2,322		2,322			-		58	2,322	58
30	394	Laboratory Equipment	5.00%			-			-		-	-	-
31	395	Power Operated Equipment	5.00%			-			-		-	-	-
32	396	Communication Equipment	5.00%			-			-		-	-	-
33	397	Miscellaneous Equipment	5.00%			-			-		-	-	-
34	398	Other Tangible Plant	5.00%			-			-		-	-	-
35													
36		Sub Total		5,214	-	5,214	-	-	-	-	10,601	290,935	15,836
37													
38													
39													
40		TOTAL		5,214	-	5,214	-	-	-	-	10,601	290,935	15,836
41		[1] Decision 60779											

Verde Snata Fe Wastewater Company, Inc.
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.4
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate[1]	2000 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%			-			-		-	30,909	-
2	352	Franchise Cost	0.00%			-			-		-	-	-
3	353	Land and Land Rights	0.00%			-			-		-	45,400	-
4	354	Structures & Improvements	5.00%	229		229			-		6	229	6
5	355	Power Generation Equipment	5.00%			-			-		-	-	-
6	360	Collection Sewers - Force	5.00%			-			-		-	-	-
7	361.1	Collection Sewers - Gravity	5.00%			-			-		-	-	-
8	361.2	Manholes & Cleanouts	5.00%			-			-		-	-	-
9	362	Special Collecting Structures	5.00%			-			-		-	-	-
10	363	Servcies to Customers	5.00%			-			-		-	-	-
11	364	Flow Measuring Devices	5.00%			-			-		-	-	-
12	365	Flow Measuring Installations	5.00%			-			-		-	-	-
13	366	Reuse Services	5.00%			-			-		-	-	-
14	367	Reuse Meters and Meter Installations	5.00%			-			-		-	-	-
15	370	Receiving Wells	5.00%			-			-		-	-	-
16	371.1	Pumping Equipment - Lift Stations	5.00%			-			-		-	-	-
17	371.2	Other Pumping Equipment	5.00%			-			-		-	-	-
18	371.3	Pumping Equipment - Recharge Wells	5.00%			-			-		-	-	-
19	374	Reuse Distribution Reserviors	5.00%			-			-		-	-	-
20	375	Reuse Transmission and Distribution	5.00%			-			-		-	-	-
21	380	Treatment & Disposal Equipment	5.00%	1,280		1,280			-		10,503	210,692	26,209
22	381	Plant Sewers	5.00%			-			-		-	-	-
23	382	Outfall Sewer Lines	5.00%			-			-		-	-	-
24	389	Other Plant & Misc Equipment	5.00%			-			-		-	-	-
25	390	Office Furniture & Equipment	5.00%			-			-		145	2,692	217
26	390.1	Computers & Software	5.00%			-			-		-	-	-
27	391	Transportation Equipment	5.00%			-			-		-	-	-
28	392	Stores Equipment	5.00%			-			-		-	-	-
29	393	Tools, Shop & Garage Equipment	5.00%			-			-		116	2,322	174
30	394	Laboratory Equipment	5.00%			-			-		-	-	-
31	395	Power Operated Equipment	5.00%			-			-		-	-	-
32	396	Communication Equipment	5.00%			-			-		-	-	-
33	397	Miscellaneous Equipment	5.00%			-			-		-	-	-
34	398	Other Tangible Plant	5.00%			-			-		-	-	-
35													
36		Sub Total		1,509	-	1,509	-	-	-	-	10,769	292,444	26,605
37													
38													
39													
40		TOTAL		1,509	-	1,509	-	-	-	-	10,769	292,444	26,605
41		[1] Decision 60779											

Verde Snata Fe Wastewater Company, Inc.
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.5
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate[1]	2001 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%			-			-		-	30,909	-
2	352	Franchise Cost	0.00%			-			-		-	-	-
3	353	Land and Land Rights	0.00%			-			-		-	45,400	-
4	354	Structures & Improvements	5.00%	212		212			-		17	441	22
5	355	Power Generation Equipment	5.00%			-			-		-	-	-
6	360	Collection Sewers - Force	5.00%			-			-		-	-	-
7	361.1	Collection Sewers - Gravity	5.00%	328,735		328,735			-		8,218	328,735	8,218
8	361.2	Manholes & Cleanouts	5.00%			-			-		-	-	-
9	362	Special Collecting Structures	5.00%			-			-		-	-	-
10	363	Servcies to Customers	5.00%	73,179		73,179			-		1,829	73,179	1,829
11	364	Flow Measuring Devices	5.00%			-			-		-	-	-
12	365	Flow Measuring Installations	5.00%			-			-		-	-	-
13	366	Reuse Services	5.00%			-			-		-	-	-
14	367	Reuse Meters and Meter Installations	5.00%			-			-		-	-	-
15	370	Receiving Wells	5.00%			-			-		-	-	-
16	371.1	Pumping Equipment - Lift Stations	5.00%			-			-		-	-	-
17	371.2	Other Pumping Equipment	5.00%			-			-		-	-	-
18	371.3	Pumping Equipment - Recharge Wells	5.00%			-			-		-	-	-
19	374	Reuse Distribution Reserviors	5.00%			-			-		-	-	-
20	375	Reuse Transmission and Distribution	5.00%			-			-		-	-	-
21	380	Treatment & Disposal Equipment	5.00%	177		177			-		10,539	210,869	36,748
22	381	Plant Sewers	5.00%			-			-		-	-	-
23	382	Outfall Sewer Lines	5.00%			-			-		-	-	-
24	389	Other Plant & Misc Equipment	5.00%			-			-		-	-	-
25	390	Office Furniture & Equipment	5.00%	29		29			-		145	2,921	362
26	390.1	Computers & Software	5.00%			-			-		-	-	-
27	391	Transportation Equipment	5.00%			-			-		-	-	-
28	392	Stores Equipment	5.00%			-			-		-	-	-
29	393	Tools, Shop & Garage Equipment	5.00%			-			-		116	2,322	290
30	394	Laboratory Equipment	5.00%			-			-		-	-	-
31	395	Power Operated Equipment	5.00%			-			-		-	-	-
32	396	Communication Equipment	5.00%			-			-		-	-	-
33	397	Miscellaneous Equipment	5.00%			-			-		-	-	-
34	398	Other Tangible Plant	5.00%			-			-		-	-	-
35													
36		Sub Total		402,332	-	402,332	-	-	-	-	20,865	694,776	47,470
37													
38													
39													
40		TOTAL		402,332	-	402,332	-	-	-	-	20,865	694,776	47,470
41		[1] Decision 60779											

Verde Snata Fe Wastewater Company, Inc.
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.6
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate[1]	2002 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%			-			-		-	30,909	-
2	352	Franchise Cost	0.00%			-			-		-	-	-
3	353	Land and Land Rights	0.00%			-			-		-	45,400	-
4	354	Structures & Improvements	5.00%			-			-		22	441	45
5	355	Power Generation Equipment	5.00%			-			-		-	-	-
6	360	Collection Sewers - Force	5.00%			-			-		-	-	-
7	361.1	Collection Sewers - Gravity	5.00%			-			-		16,437	328,735	24,655
8	361.2	Manholes & Cleanouts	5.00%			-			-		-	-	-
9	362	Special Collecting Structures	5.00%			-			-		-	-	-
10	363	Servcies to Customers	5.00%			-			-		3,659	73,179	5,488
11	364	Flow Measuring Devices	5.00%			-			-		-	-	-
12	365	Flow Measuring Installations	5.00%			-			-		-	-	-
13	366	Reuse Services	5.00%			-			-		-	-	-
14	367	Reuse Meters and Meter Installations	5.00%			-			-		-	-	-
15	370	Receiving Wells	5.00%			-			-		-	-	-
16	371.1	Pumping Equipment - Lift Stations	5.00%			-			-		-	-	-
17	371.2	Other Pumping Equipment	5.00%			-			-		-	-	-
18	371.3	Pumping Equipment - Recharge Wells	5.00%			-			-		-	-	-
19	374	Reuse Distribution Reserviors	5.00%			-			-		-	-	-
20	375	Reuse Transmission and Distribution	5.00%			-			-		-	-	-
21	380	Treatment & Disposal Equipment	5.00%	88,506		88,506			-		-	-	-
22	381	Plant Sewers	5.00%			-			-		12,756	299,375	49,504
23	382	Outfall Sewer Lines	5.00%			-			-		-	-	-
24	389	Other Plant & Misc Equipment	5.00%			-			-		-	-	-
25	390	Office Furniture & Equipment	5.00%			-			-		-	-	-
26	390.1	Computers & Software	5.00%			-			-		146	2,921	508
27	391	Transportation Equipment	5.00%			-			-		-	-	-
28	392	Stores Equipment	5.00%			-			-		-	-	-
29	393	Tools, Shop & Garage Equipment	5.00%			-			-		-	-	-
30	394	Laboratory Equipment	5.00%			-			-		116	2,322	406
31	395	Power Operated Equipment	5.00%			-			-		-	-	-
32	396	Communication Equipment	5.00%			-			-		-	-	-
33	397	Miscellaneous Equipment	5.00%			-			-		-	-	-
34	398	Other Tangible Plant	5.00%			-			-		-	-	-
35											-	-	-
36		Sub Total		88,506	-	88,506	-	-	-	-	33,136	783,282	80,606
37													
38											-	-	-
39													
40		TOTAL		88,506	-	88,506	-	-	-	-	33,136	783,282	80,606
41		[1] Decision 60779											

Verde Snata Fe Wastewater Company, Inc.
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.7
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate[1]	2003 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%			-			-		-	30,909	-
2	352	Franchise Cost	0.00%			-			-		-	-	-
3	353	Land and Land Rights	0.00%			-			-		-	45,400	-
4	354	Structures & Improvements	5.00%			-			-		22	441	67
5	355	Power Generation Equipment	5.00%			-			-		-	-	-
6	360	Collection Sewers - Force	5.00%			-			-		-	-	-
7	361.1	Collection Sewers - Gravity	5.00%			-			-		16,437	328,735	41,092
8	361.2	Manholes & Cleanouts	5.00%			-			-		-	-	-
9	362	Special Collecting Structures	5.00%			-			-		-	-	-
10	363	Servcies to Customers	5.00%			-			-		3,659	73,179	9,147
11	364	Flow Measuring Devices	5.00%			-			-		-	-	-
12	365	Flow Measuring Installations	5.00%			-			-		-	-	-
13	366	Reuse Services	5.00%			-			-		-	-	-
14	367	Reuse Meters and Meter Installations	5.00%			-			-		-	-	-
15	370	Receiving Wells	5.00%			-			-		-	-	-
16	371.1	Pumping Equipment - Lift Stations	5.00%			-			-		-	-	-
17	371.2	Other Pumping Equipment	5.00%			-			-		-	-	-
18	371.3	Pumping Equipment - Recharge Wells	5.00%			-			-		-	-	-
19	374	Reuse Distribution Reserviors	5.00%			-			-		-	-	-
20	375	Reuse Transmission and Distribution	5.00%			-			-		-	-	-
21	380	Treatment & Disposal Equipment	5.00%			-			-		14,969	299,375	64,472
22	381	Plant Sewers	5.00%			-			-		-	-	-
23	382	Outfall Sewer Lines	5.00%			-			-		-	-	-
24	389	Other Plant & Misc Equipment	5.00%			-			-		-	-	-
25	390	Office Furniture & Equipment	5.00%			-			-		146	2,921	654
26	390.1	Computers & Software	5.00%			-			-		-	-	-
27	391	Transportation Equipment	5.00%			-			-		-	-	-
28	392	Stores Equipment	5.00%			-			-		-	-	-
29	393	Tools, Shop & Garage Equipment	5.00%			-			-		116	2,322	522
30	394	Laboratory Equipment	5.00%			-			-		-	-	-
31	395	Power Operated Equipment	5.00%			-			-		-	-	-
32	396	Communication Equipment	5.00%			-			-		-	-	-
33	397	Miscellaneous Equipment	5.00%			-			-		-	-	-
34	398	Other Tangible Plant	5.00%			-			-		-	-	-
35													
36		Sub Total		-	-	-	-	-	-	-	35,349	783,282	115,955
37													
38											-	-	-
39													
40		TOTAL		-	-	-	-	-	-	-	35,349	783,282	115,955
41		[1] Decision 60779											

Verde Snata Fe Wastewater Company, Inc.
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.8
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate[1]	2004 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%			-			-		-	30,909	-
2	352	Franchise Cost	0.00%			-			-		-	-	-
3	353	Land and Land Rights	0.00%			-			-		-	45,400	-
4	354	Structures & Improvements	5.00%			-			-		22	441	89
5	355	Power Generation Equipment	5.00%			-			-		-	-	-
6	360	Collection Sewers - Force	5.00%			-			-		-	-	-
7	361.1	Collection Sewers - Gravity	5.00%			-			-		16,437	328,735	57,529
8	361.2	Manholes & Cleanouts	5.00%			-			-		-	-	-
9	362	Special Collecting Structures	5.00%			-			-		-	-	-
10	363	Servcies to Customers	5.00%			-			-		3,659	73,179	12,806
11	364	Flow Measuring Devices	5.00%			-			-		-	-	-
12	365	Flow Measuring Installations	5.00%			-			-		-	-	-
13	366	Reuse Services	5.00%			-			-		-	-	-
14	367	Reuse Meters and Meter Installations	5.00%			-			-		-	-	-
15	370	Receiving Wells	5.00%			-			-		-	-	-
16	371.1	Pumping Equipment - Lift Stations	5.00%			-			-		-	-	-
17	371.2	Other Pumping Equipment	5.00%			-			-		-	-	-
18	371.3	Pumping Equipment - Recharge Wells	5.00%			-			-		-	-	-
19	374	Reuse Distribution Reserviors	5.00%			-			-		-	-	-
20	375	Reuse Transmission and Distribution	5.00%			-			-		-	-	-
21	380	Treatment & Disposal Equipment	5.00%	4,093		4,093			-		15,071	303,468	79,543
22	381	Plant Sewers	5.00%			-			-		-	-	-
23	382	Outfall Sewer Lines	5.00%			-			-		-	-	-
24	389	Other Plant & Misc Equipment	5.00%			-			-		-	-	-
25	390	Office Furniture & Equipment	5.00%	615		615			-		161	3,536	816
26	390.1	Computers & Software	5.00%			-			-		-	-	-
27	391	Transportation Equipment	5.00%			-			-		-	-	-
28	392	Stores Equipment	5.00%			-			-		-	-	-
29	393	Tools, Shop & Garage Equipment	5.00%	2,365		2,365			-		175	4,687	698
30	394	Laboratory Equipment	5.00%			-			-		-	-	-
31	395	Power Operated Equipment	5.00%			-			-		-	-	-
32	396	Communication Equipment	5.00%			-			-		-	-	-
33	397	Miscellaneous Equipment	5.00%			-			-		-	-	-
34	398	Other Tangible Plant	5.00%			-			-		-	-	-
35													
36		Sub Total		7,073	-	7,073	-	-	-	-	35,525	790,355	151,480
37													
38											-	-	-
39													
40		TOTAL		7,073	-	7,073	-	-	-	-	35,525	790,355	151,480
41		[1] Decision 60779											

Verde Snata Fe Wastewater Company, Inc.
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.9
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate[1]	2005 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%			-			-		-	30,909	-
2	352	Franchise Cost	0.00%			-			-		-	-	-
3	353	Land and Land Rights	0.00%			-			-		-	45,400	-
4	354	Structures & Improvements	5.00%	1,041		1,041			-		48	1,482	137
5	355	Power Generation Equipment	5.00%			-			-		-	-	-
6	360	Collection Sewers - Force	5.00%			-			-		-	-	-
7	361.1	Collection Sewers - Gravity	5.00%			-			-		16,437	328,735	73,965
8	361.2	Manholes & Cleanouts	5.00%			-			-		-	-	-
9	362	Special Collecting Structures	5.00%			-			-		-	-	-
10	363	Servcies to Customers	5.00%			-			-		3,659	73,179	16,465
11	364	Flow Measuring Devices	5.00%	9,458		9,458			-		236	9,458	236
12	365	Flow Measuring Installations	5.00%			-			-		-	-	-
13	366	Reuse Services	5.00%			-			-		-	-	-
14	367	Reuse Meters and Meter Installations	5.00%			-			-		-	-	-
15	370	Receiving Wells	5.00%			-			-		-	-	-
16	371.1	Pumping Equipment - Lift Stations	5.00%			-			-		-	-	-
17	371.2	*Other Pumping Equipment*	5.00%			-			-		-	-	-
18	371.3	Pumping Equipment - Recharge Wells	5.00%			-			-		-	-	-
19	374	Reuse Distribution Reserviors	5.00%			-			-		-	-	-
20	375	Reuse Transmission and Distribution	5.00%			-			-		-	-	-
21	380	Treatment & Disposal Equipment	5.00%	30,389		30,389			-		15,933	333,857	95,477
22	381	Plant Sewers	5.00%			-			-		-	-	-
23	382	Outfall Sewer Lines	5.00%			-			-		-	-	-
24	389	Other Plant & Misc Equipment	5.00%			-			-		-	-	-
25	390	Office Furniture & Equipment	5.00%	2,267		2,267			-		233	5,803	1,049
26	390.1	Computers & Software	5.00%			-			-		-	-	-
27	391	Transportation Equipment	5.00%			-			-		-	-	-
28	392	Stores Equipment	5.00%			-			-		-	-	-
29	393	Tools, Shop & Garage Equipment	5.00%	(11)		(11)			-		234	4,676	932
30	394	Laboratory Equipment	5.00%			-			-		-	-	-
31	395	Power Operated Equipment	5.00%			-			-		-	-	-
32	396	Communication Equipment	5.00%			-			-		-	-	-
33	397	Miscellaneous Equipment	5.00%			-			-		-	-	-
34	398	Other Tangible Plant	5.00%			-			-		-	-	-
35													
36		Sub Total		43,144	-	43,144	-	-	-	-	36,781	833,499	188,261
37													
38													
39											-	-	-
40		TOTAL		43,144	-	43,144	-	-	-	-	36,781	833,499	188,261
41		[1] Decision 60779											

Verde Santa Fe Wastewater Company, Inc.
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.10
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate[1]	2006 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%			-			-		-	30,909	-
2	352	Franchise Cost	0.00%			-			-		-	-	-
3	353	Land and Land Rights	0.00%			-			-		-	45,400	-
4	354	Structures & Improvements	5.00%	98,958		98,958			-		2,548	100,440	2,685
5	355	Power Generation Equipment	5.00%			-			-		-	-	-
6	360	Collection Sewers - Force	5.00%			-			-		-	-	-
7	361.1	Collection Sewers - Gravity	5.00%			-			-		16,437	328,735	90,402
8	361.2	Manholes & Cleanouts	5.00%			-			-		-	-	-
9	362	Special Collecting Structures	5.00%			-			-		-	-	-
10	363	Servcies to Customers	5.00%			-			-		3,659	73,179	20,124
11	364	Flow Measuring Devices	5.00%	3,500		3,500			-		560	12,958	797
12	365	Flow Measuring Installations	5.00%			-			-		-	-	-
13	366	Reuse Services	5.00%			-			-		-	-	-
14	367	Reuse Meters and Meter Installations	5.00%			-			-		-	-	-
15	370	Receiving Wells	5.00%			-			-		-	-	-
16	371.1	Pumping Equipment - Lift Stations	5.00%			-			-		-	-	-
17	371.2	Other Pumping Equipment	5.00%			-			-		-	-	-
18	371.3	Pumping Equipment - Recharge Wells	5.00%			-			-		-	-	-
19	374	Reuse Distribution Reservioirs	5.00%			-			-		-	-	-
20	375	Reuse Transmission and Distribution	5.00%			-			-		-	-	-
21	380	Treatment & Disposal Equipment	5.00%	380,075		380,075			-		26,195	713,932	121,671
22	381	Plant Sewers	5.00%			-			-		-	-	-
23	382	Outfall Sewer Lines	5.00%			-			-		-	-	-
24	389	*Other Plant & Misc Equipment*	5.00%			-			-		-	-	-
25	390	Office Furniture & Equipment	5.00%			-			-		290	5,803	1,339
26	390.1	Computers & Software	5.00%			-			-		-	-	-
27	391	Transportation Equipment	5.00%			-			-		-	-	-
28	392	Stores Equipment	5.00%			-			-		-	-	-
29	393	Tools, Shop & Garage Equipment	5.00%			-			-		234	4,676	1,166
30	394	Laboratory Equipment	5.00%			-			-		-	-	-
31	395	Power Operated Equipment	5.00%			-			-		-	-	-
32	396	Communication Equipment	5.00%			-			-		-	-	-
33	397	Miscellaneous Equipment	5.00%			-			-		-	-	-
34	398	Other Tangible Plant	5.00%	76,394		76,394			-		1,910	76,394	1,910
35													
36		Sub Total		558,927	-	558,927	-	-	-	-	51,833	1,392,426	240,094
37													
38											-	-	-
39													
40		TOTAL		558,927	-	558,927	-	-	-	-	51,833	1,392,426	240,094
41		[1] Decision 60779											

Verde Snata Fe Wastewater Company, Inc.
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.11
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate[1]	2007 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%			-			-		-	30,909	-
2	352	Franchise Cost	0.00%			-			-		-	-	-
3	353	Land and Land Rights	0.00%			-			-		-	45,400	-
4	354	Structures & Improvements	5.00%	4,698		4,698			-		5,139	105,138	7,824
5	355	Power Generation Equipment	5.00%			-			-		-	-	-
6	360	Collection Sewers - Force	5.00%			-			-		-	-	-
7	361.1	Collection Sewers - Gravity	5.00%			-			-		16,437	328,735	106,839
8	361.2	Manholes & Cleanouts	5.00%			-			-		-	-	-
9	362	Special Collecting Structures	5.00%			-			-		-	-	-
10	363	Servcies to Customers	5.00%			-			-		3,659	73,179	23,783
11	364	Flow Measuring Devices	5.00%		(648)	(648)			-		632	12,310	1,429
12	365	Flow Measuring Installations	5.00%			-			-		-	-	-
13	366	Reuse Services	5.00%			-			-		-	-	-
14	367	Reuse Meters and Meter Installations	5.00%			-			-		-	-	-
15	370	Receiving Wells	5.00%			-			-		-	-	-
16	371.1	Pumping Equipment - Lift Stations	5.00%			-			-		-	-	-
17	371.2	Other Pumping Equipment	5.00%			-			-		-	-	-
18	371.3	Pumping Equipment - Recharge Wells	5.00%			-			-		-	-	-
19	374	Reuse Distribution Reserviors	5.00%			-			-		-	-	-
20	375	Reuse Transmission and Distribution	5.00%			-			-		-	-	-
21	380	Treatment & Disposal Equipment	5.00%	17,801		17,801			-		36,142	731,733	157,813
22	381	Plant Sewers	5.00%			-			-		-	-	-
23	382	Outfall Sewer Lines	5.00%			-			-		-	-	-
24	389	Other Plant & Misc Equipment	5.00%			-			-		290	5,803	1,630
25	390	Office Furniture & Equipment	5.00%			-			-		-	-	-
26	390.1	Computers & Software	5.00%			-			-		-	-	-
27	391	Transportation Equipment	5.00%			-			-		234	4,676	1,399
28	392	Stores Equipment	5.00%			-			-		-	-	-
29	393	Tools, Shop & Garage Equipment	5.00%			-			-		-	-	-
30	394	Laboratory Equipment	5.00%			-			-		-	-	-
31	395	Power Operated Equipment	5.00%			-			-		-	-	-
32	396	Communication Equipment	5.00%			-			-		-	-	-
33	397	Miscellaneous Equipment	5.00%			-			-		-	-	-
34	398	Other Tangible Plant	5.00%	1,353		1,353			-		3,854	77,747	5,763
35													
36		Sub Total		23,852	(648)	23,204	-	-	-	-	66,386	1,415,630	306,480
37													
38											-	-	-
39													
40		TOTAL		23,852	(648)	23,204	-	-	-	-	66,386	1,415,630	306,480
41		[1] Decision 60779											

Verde Snata Fe Wastewater Company, Inc.
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.12
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate[1]	2008 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%			-			-		-	30,909	-
2	352	Franchise Cost	0.00%			-			-		-	-	-
3	353	Land and Land Rights	0.00%			-			-		-	45,400	-
4	354	Structures & Improvements	5.00%	1,868		1,868			-		5,304	107,006	13,128
5	355	Power Generation Equipment	5.00%			-			-		-	-	-
6	360	Collection Sewers - Force	5.00%			-			-		-	-	-
7	361.1	Collection Sewers - Gravity	5.00%			-			-		16,437	328,735	123,276
8	361.2	Manholes & Cleanouts	5.00%			-			-		-	-	-
9	362	Special Collecting Structures	5.00%			-			-		-	-	-
10	363	Servcies to Customers	5.00%			-			-		3,659	73,179	27,442
11	364	Flow Measuring Devices	5.00%		648	648			-		632	12,958	2,060
12	365	Flow Measuring Installations	5.00%			-			-		-	-	-
13	366	Reuse Services	5.00%			-			-		-	-	-
14	367	Reuse Meters and Meter Installations	5.00%			-			-		-	-	-
15	370	Receiving Wells	5.00%			-			-		-	-	-
16	371.1	Pumping Equipment - Lift Stations	5.00%			-			-		-	-	-
17	371.2	Other Pumping Equipment	5.00%			-			-		-	-	-
18	371.3	Pumping Equipment - Recharge Wells	5.00%			-			-		-	-	-
19	374	Reuse Distribution Reserviors	5.00%			-			-		-	-	-
20	375	Reuse Transmission and Distribution	5.00%			-			-		-	-	-
21	380	Treatment & Disposal Equipment	5.00%	11,682		11,682			-		36,879	743,415	194,692
22	381	Plant Sewers	5.00%			-			-		-	-	-
23	382	Outfall Sewer Lines	5.00%			-			-		-	-	-
24	389	Other Plant & Misc Equipment	5.00%			-			-		-	-	-
25	390	Office Furniture & Equipment	5.00%			-			-		290	5,803	1,920
26	390.1	Computers & Software	5.00%			-			-		-	-	-
27	391	Transportation Equipment	5.00%			-			-		-	-	-
28	392	Stores Equipment	5.00%			-			-		-	-	-
29	393	Tools, Shop & Garage Equipment	5.00%	630		630			-		250	5,306	1,649
30	394	Laboratory Equipment	5.00%			-			-		-	-	-
31	395	Power Operated Equipment	5.00%			-			-		-	-	-
32	396	Communication Equipment	5.00%			-			-		-	-	-
33	397	Miscellaneous Equipment	5.00%			-			-		-	-	-
34	398	Other Tangible Plant	5.00%			-			-		3,887	77,747	9,651
35													
36		Sub Total		14,180	648	14,828	-	-	-	-	67,337	1,430,458	373,817
37													
38											-	-	-
39													
40		TOTAL		14,180	648	14,828	-	-	-	-	67,337	1,430,458	373,817
41		[1] Decision 60779											

Verde Snata Fe Wastewater Company, Inc.
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.13
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec Rate[1]	2009 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%			-			-		-	30,909	-
2	352	Franchise Cost	0.00%			-			-		-	-	-
3	353	Land and Land Rights	0.00%			-			-		-	45,400	-
4	354	Structures & Improvements	5.00%	1,236		1,236			-		5,381	108,242	18,509
5	355	Power Generation Equipment	5.00%			-			-		-	-	-
6	360	Collection Sewers - Force	5.00%			-			-		-	-	-
7	361.1	Collection Sewers - Gravity	5.00%			-			-		16,437	328,735	139,712
8	361.2	Manholes & Cleanouts	5.00%			-			-		-	-	-
9	362	Special Collecting Structures	5.00%			-			-		-	-	-
10	363	Servcies to Customers	5.00%			-			-		3,659	73,179	31,101
11	364	Flow Measuring Devices	5.00%			-			-		648	12,958	2,708
12	365	Flow Measuring Installations	5.00%			-			-		-	-	-
13	366	Reuse Services	5.00%			-			-		-	-	-
14	367	Reuse Meters and Meter Installations	5.00%			-			-		-	-	-
15	370	Receiving Wells	5.00%			-			-		-	-	-
16	371.1	Pumping Equipment - Lift Stations	5.00%			-			-		-	-	-
17	371.2	Other Pumping Equipment	5.00%			-			-		-	-	-
18	371.3	Pumping Equipment - Recharge Wells	5.00%			-			-		-	-	-
19	374	Reuse Distribution Reservions	5.00%			-			-		-	-	-
20	375	Reuse Transmission and Distribution	5.00%			-			-		-	-	-
21	380	Treatment & Disposal Equipment	5.00%	39,092		39,092			-		38,148	782,507	232,840
22	381	Plant Sewers	5.00%			-			-		-	-	-
23	382	Outfall Sewer Lines	5.00%			-			-		-	-	-
24	389	Other Plant & Misc Equipment	5.00%			-			-		-	-	-
25	390	Office Furniture & Equipment	5.00%			-			-		290	5,803	2,210
26	390.1	Computers & Software	5.00%			-			-		-	-	-
27	391	Transportation Equipment	5.00%			-			-		-	-	-
28	392	Stores Equipment	5.00%			-			-		-	-	-
29	393	Tools, Shop & Garage Equipment	5.00%		(630)	(630)			-		250	4,676	1,898
30	394	Laboratory Equipment	5.00%		630	630			-		16	630	16
31	395	Power Operated Equipment	5.00%			-			-		-	-	-
32	396	Communication Equipment	5.00%			-			-		-	-	-
33	397	Miscellaneous Equipment	5.00%			-			-		-	-	-
34	398	Other Tangible Plant	5.00%	1,760		1,760			-		3,931	79,507	13,582
35													
36		Sub Total		42,088	-	42,088	-	-	-	-	68,760	1,472,546	442,576
37													
38											-	-	-
39													
40		TOTAL		42,088	-	42,088	-	-	-	-	68,760	1,472,546	442,576
41		[1] Decision 60779											

Verde Snata Fe Wastewater Company, Inc.
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.14
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate[1]	2010 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%			-			-		-	30,909	-
2	352	Franchise Cost	0.00%			-			-		-	-	-
3	353	Land and Land Rights	0.00%			-			-		-	45,400	-
4	354	Structures & Improvements	5.00%			-			-		5,412	108,242	23,921
5	355	Power Generation Equipment	5.00%			-			-		-	-	-
6	360	Collection Sewers - Force	5.00%			-			-		-	-	-
7	361.1	Collection Sewers - Gravity	5.00%			-			-		16,437	326,735	156,149
8	361.2	Manholes & Cleanouts	5.00%			-			-		-	-	-
9	362	Special Collecting Structures	5.00%			-			-		-	-	-
10	363	Servcies to Customers	5.00%			-			-		3,659	73,179	34,760
11	364	Flow Measuring Devices	5.00%			-			-		648	12,958	3,356
12	365	Flow Measuring Installations	5.00%			-			-		-	-	-
13	366	Reuse Services	5.00%			-			-		-	-	-
14	367	Reuse Meters and Meter Installations	5.00%			-			-		-	-	-
15	370	Receiving Wells	5.00%			-			-		-	-	-
16	371.1	Pumping Equipment - Lift Stations	5.00%			-			-		-	-	-
17	371.2	Other Pumping Equipment	5.00%			-			-		-	-	-
18	371.3	Pumping Equipment - Recharge Wells	5.00%			-			-		-	-	-
19	374	Reuse Distribution Reserviors	5.00%			-			-		-	-	-
20	375	Reuse Transmission and Distribution	5.00%			-			-		-	-	-
21	380	Treatment & Disposal Equipment	5.00%	30,459		30,459			-		39,887	812,966	272,727
22	381	Plant Sewers	5.00%			-			-		-	-	-
23	382	Outfall Sewer Lines	5.00%			-			-		-	-	-
24	389	Other Plant & Misc Equipment	5.00%			-			-		-	-	-
25	390	Office Furniture & Equipment	5.00%			-			-		290	5,803	2,500
26	390.1	Computers & Software	5.00%			-			-		-	-	-
27	391	Transportation Equipment	5.00%			-			-		-	-	-
28	392	Stores Equipment	5.00%			-			-		234	4,676	2,132
29	393	Tools, Shop & Garage Equipment	5.00%			-			-		32	630	47
30	394	Laboratory Equipment	5.00%			-			-		-	-	-
31	395	Power Operated Equipment	5.00%			-			-		-	-	-
32	396	Communication Equipment	5.00%			-			-		-	-	-
33	397	Miscellaneous Equipment	5.00%			-			-		3,975	79,507	17,557
34	398	Other Tangible Plant	5.00%			-			-				
35													
36		Sub Total		30,459	-	30,459	-	-	-	-	70,573	1,503,005	513,150
37													
38											-	-	-
39													
40		TOTAL		30,459	-	30,459	-	-	-	-	70,573	1,503,005	513,150
41		[1] Decision 60779											

Verde Snata Fe Wastewater Company, Inc.
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.15
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate[1]	2011 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%			-			-		-	30,909	-
2	352	Franchise Cost	0.00%			-			-		-	-	-
3	353	Land and Land Rights	0.00%			-			-		-	45,400	-
4	354	Structures & Improvements	5.00%			-			-		5,412	106,242	29,333
5	355	Power Generation Equipment	5.00%			-			-		-	-	-
6	360	Collection Sewers - Force	5.00%			-			-		-	-	-
7	361.1	Collection Sewers - Gravity	5.00%			-			-		16,437	328,735	172,586
8	361.2	Manholes & Cleanouts	5.00%			-			-		-	-	-
9	362	Special Collecting Structures	5.00%			-			-		-	-	-
10	363	Servcies to Customers	5.00%			-			-		3,659	73,179	38,419
11	364	Flow Measuring Devices	5.00%			-			-		648	12,958	4,004
12	365	Flow Measuring Installations	5.00%			-			-		-	-	-
13	366	Reuse Services	5.00%			-			-		-	-	-
14	367	Reuse Meters and Meter Installations	5.00%			-			-		-	-	-
15	370	Receiving Wells	5.00%			-			-		-	-	-
16	371.1	Pumping Equipment - Lift Stations	5.00%			-			-		-	-	-
17	371.2	Other Pumping Equipment	5.00%			-			-		-	-	-
18	371.3	Pumping Equipment - Recharge Wells	5.00%			-			-		-	-	-
19	374	Reuse Distribution Reserviors	5.00%			-			-		-	-	-
20	375	Reuse Transmission and Distribution	5.00%			-			-		-	-	-
21	380	Treatment & Disposal Equipment	5.00%	20,885		20,885			-		41,170	833,851	313,897
22	381	Plant Sewers	5.00%			-			-		-	-	-
23	382	Outfall Sewer Lines	5.00%			-			-		-	-	-
24	389	Other Plant & Misc Equipment	5.00%			-			-		-	-	-
25	390	Office Furniture & Equipment	5.00%			-			-		290	5,803	2,790
26	390.1	Computers & Software	5.00%			-			-		-	-	-
27	391	Transportation Equipment	5.00%			-			-		-	-	-
28	392	Stores Equipment	5.00%			-			-		-	-	-
29	393	Tools, Shop & Garage Equipment	5.00%			-			-		234	4,676	2,366
30	394	Laboratory Equipment	5.00%			-			-		32	630	79
31	395	Power Operated Equipment	5.00%			-			-		-	-	-
32	396	Communication Equipment	5.00%			-			-		-	-	-
33	397	Miscellaneous Equipment	5.00%			-			-		-	-	-
34	398	Other Tangible Plant	5.00%			-			-		3,975	79,507	21,533
35													
36		Sub Total		20,885	-	20,885	-	-	-	-	71,857	1,523,890	585,007
37													
38											-	-	-
39													
40		TOTAL		20,885	-	20,885	-	-	-	-	71,857	1,523,890	585,007
41		[1] Decision 60779											

Verde Santa Fe Wastewater Company, Inc.
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3.16
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate[1]	2012 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%			-			-		-	30,909	-
2	352	Franchise Cost	0.00%			-			-		-	-	-
3	353	Land and Land Rights	0.00%			-			-		-	45,400	-
4	354	Structures & Improvements	5.00%			-			-		5,412	108,242	34,745
5	355	Power Generation Equipment	5.00%			-			-		-	-	-
6	360	Collection Sewers - Force	5.00%			-			-		-	-	-
7	361.1	Collection Sewers - Gravity	5.00%			-			-		16,437	328,735	189,023
8	361.2	Manholes & Cleanouts	5.00%			-			-		-	-	-
9	362	Special Collecting Structures	5.00%			-			-		-	-	-
10	363	Servcies to Customers	5.00%			-			-		3,659	73,179	42,078
11	364	Flow Measuring Devices	5.00%			-			-		648	12,958	4,652
12	365	Flow Measuring Installations	5.00%			-			-		-	-	-
13	366	Reuse Services	5.00%			-			-		-	-	-
14	367	Reuse Meters and Meter Installations	5.00%			-			-		-	-	-
15	370	Receiving Wells	5.00%			-			-		-	-	-
16	371.1	Pumping Equipment - Lift Stations	5.00%			-			-		-	-	-
17	371.2	Other Pumping Equipment	5.00%			-			-		-	-	-
18	371.3	Pumping Equipment - Recharge Wells	5.00%			-			-		-	-	-
19	374	Reuse Distribution Reserviors	5.00%			-			-		-	-	-
20	375	Reuse Transmission and Distribution	5.00%			-			-		-	-	-
21	380	Treatment & Disposal Equipment	5.00%	31,640		31,640			-		42,484	865,491	356,380
22	381	Plant Sewers	5.00%			-			-		-	-	-
23	382	Outfall Sewer Lines	5.00%			-			-		-	-	-
24	389	Other Plant & Misc Equipment	5.00%			-			-		-	-	-
25	390	Office Furniture & Equipment	5.00%			-			-		290	5,803	3,080
26	390.1	Computers & Software	5.00%			-			-		-	-	-
27	391	Transportation Equipment	5.00%			-			-		-	-	-
28	392	Stores Equipment	5.00%			-			-		-	-	-
29	393	Tools, Shop & Garage Equipment	5.00%			-			-		234	4,676	2,600
30	394	Laboratory Equipment	5.00%			-			-		32	630	110
31	395	Power Operated Equipment	5.00%			-			-		-	-	-
32	396	Communication Equipment	5.00%			-			-		-	-	-
33	397	Miscellaneous Equipment	5.00%			-			-		-	-	-
34	398	Other Tangible Plant	5.00%			-			-		3,975	79,507	25,508
35													
36		Sub Total		31,640	-	31,640	-	-	-	-	73,170	1,555,530	658,177
37													
38											-	-	-
39													
40		TOTAL		31,640	-	31,640	-	-	-	-	73,170	1,555,530	658,177
41		[1] Decision 60779											

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2

Exhibit
Schedule B-2
Page 4
Witness: Bourassa

Accumulated Depreciation

Line No.	Acct. No.	Description	Per Books Accum. Depr.	A Adjustments Required to Reconcile to Reconstruction	B Intentionally Left Blank	Adjustments C Intentionally Left Blank	D Intentionally Left Blank	E Intentionally Left Blank	Adjusted Accum. Depr.
1	351	Organization Cost	23,954	(23,954)					-
2	352	Franchise Cost	-	-					-
3	353	Land and Land Rights	-	-					-
4	354	Structures & Improvements	25,785	8,960					34,745
5	355	Power Generation Equipment	-	-					-
6	360	Collection Sewers - Force	-	-					-
7	361.1	Collection Sewers - Gravity	147,931	41,092					189,023
8	361.2	Manholes & Cleanouts	-	-					-
9	362	Special Collecting Structures	-	-					-
10	363	Servcies to Customers	32,931	9,147					42,078
11	364	Flow Measuring Devices	8,160	(3,508)					4,652
12	365	Flow Measuring Installations	-	-					-
13	366	Reuse Services	-	-					-
14	367	Reuse Meters and Meter Installations	-	-					-
15	370	Receiving Wells	-	-					-
16	371.1	Pumping Equipment - Lift Stations	-	-					-
17	371.2	Other Pumping Equipment	-	-					-
18	371.3	Pumping Equipment - Recharge Wells		-					-
19	374	Reuse Distribution Reserviors		-					-
20	375	Reuse Transmission and Distribution	-	-					-
21	380	Treatment & Disposal Equipment	-	-					-
22	381	Plant Sewers	405,260	(48,880)					356,380
23	382	Outfall Sewer Lines	-	-					-
24	389	Other Plant & Misc Equipment	-	-					-
25	390	Office Furniture & Equipment	-	-					-
26	390.1	Computers & Software	3,638	(558)					3,080
27	391	Transportation Equipment	-	-					-
28	392	Stores Equipment	-	-					-
29	393	Tools, Shop & Garage Equipment	-	-					-
30	394	Laboratory Equipment	2,627	(27)					2,600
31	395	Power Operated Equipment	284	(174)					110
32	396	Communication Equipment	-	-					-
33	397	Miscellaneous Equipment	-	-					-
34	398	Other Tangible Plant	-	-					-
35		Rounding	25,508	-					25,508
36		TOTALS	(1)	1					-
37			$ 676,077	$ (17,900)	$ -	$ -	$ -	$ -	$ 658,177
38		Accumulated Depreciation per Books							$ 676,077
39		Increase (decrease) in Accumulated Depreciation							$ (17,900)
40		Adjustment to Accumulated Depreciation							$ (17,900)
41									
42		SUPPORTING SCHEDULES							
43		B-2, pages 4.1							

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 -A

Exhibit
Schedule B-2
Page 4.1
Witness: Bourassa

Line No.	Acct. No.	Description	Recorded Accumulated Depreciation	Accumulated Depreciation Per Plant Reconstruction	Adjustment Required
1					
2					
3					
4					
5					
6	351	Organization Cost	23,954	-	(23,954)
7	352	Franchise Cost		-	-
8	353	Land and Land Rights		-	-
9	354	Structures & Improvements	25,785	34,745	8,960
10	355	Power Generation Equipment		-	-
11	360	Collection Sewers - Force		-	-
12	361.1	Collection Sewers - Gravity	147,931	189,023	41,092
13	361.2	Manholes & Cleanouts		-	
14	362	Special Collecting Structures		-	-
15	363	Servcies to Customers	32,931	42,078	9,147
16	364	Flow Measuring Devices	8,160	4,652	(3,508)
17	365	Flow Measuring Installations		-	-
18	366	Reuse Services		-	-
19	367	Reuse Meters and Meter Installations		-	-
20	370	Receiving Wells		-	-
21	371.1	Pumping Equipment - Lift Stations		-	-
22	371.2	Other Pumping Equipment		-	
23	371.3	Pumping Equipment - Recharge Wells		-	
24	374	Reuse Distribution Reserviors		-	-
25	375	Reuse Transmission and Distribution		-	-
26	380	Treatment & Disposal Equipment	405,260	356,380	(48,880)
27	381	Plant Sewers		-	-
28	382	Outfall Sewer Lines		-	-
29	389	Other Plant & Misc Equipment		-	-
30	390	Office Furniture & Equipment	3,638	3,080	(558)
31	390.1	Computers & Software		-	-
32	391	Transportation Equipment		-	-
33	392	Stores Equipment		-	-
34	393	Tools, Shop & Garage Equipment	2,627	2,600	(27)
35	394	Laboratory Equipment	284	110	(174)
36	395	Power Operated Equipment		-	-
37	396	Communication Equipment		-	-
38	397	Miscellaneous Equipment		-	-
39	398	Other Tangible Plant	25,508	25,508	
40		Rounding	(1)	-	1
41		TOTALS	$ 676,077	$ 658,177	$ (17,900)
42					
43					
44	SUPPORTING SCHEDULE				
45	B-2, pages 3.2 - 3.16				
46					

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 3

Exhibit
Schedule B-2
Page 5.0
Witness: Bourassa

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

Line No.		Gross CIAC	Accumulated Amortization
1			
2			
3			
4			
5	Computed balance at end of test year	$ 978,305	$ 502,287
6			
7	Book balance at end of test year	$ 978,305	$ 442,538
8			
9	Increase (decrease)	$ -	$ 59,749
10			
11			
12	Adjustment to CIAC/AA CIAC	$ -	$ (59,749)
13	Label	3a	3b
14			
15			
16			
17			
18			
19	SUPPORTING SCHEDULES		
20	E-1		
21	B-2, page 5.1		
22			
23			
24			
25			
26			
27			
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Contributions-in-aid of Construction (CIAC)

Exhibit
Schedule B-2
Page 5.1
Witness: Bourassa

Line No.		Balance 12/31/1997	1998 Additions	1998 Balance	1999 Additions	1999 Balance	2000 Additions	2000 Balance	2001 Additions	2001 Balance	2002 Additions	2002 Balance
5	CIAC	-	77,550	77,550	76,000	153,550	(100)	153,450	401,915	555,365	-	555,365
7	Amortization	-										
8	Amortization Rate			5.0000%		5.0000%		5.0000%		5.0000%		5.0000%
9	Amortization (1/2 yr convention)			1,939		5,778		7,675		17,720		27,768
10	Accumulated Amortization			1,939		7,716		15,391		33,112		60,880
12	Net CIAC	-	77,550	75,611	76,000	145,834	(100)	138,059	401,915	522,253	-	494,485

Line No.		2003 Additions	2003 Balance	2004 Additions	2004 Balance	2005 Additions	2005 Balance	2006 Additions	2006 Balance	2007 Additions	2007 Balance
20	CIAC	-	555,365	-	555,365	-	555,365	422,940	978,305	-	978,305
24	Amortization Rate										
25	Amortization (1/2 yr convention)		5.0000%		5.0000%		5.0000%		5.0000%		5.0000%
26	Accumulated Amortization		27,768		27,768		27,768		38,342		48,915
28	Net CIAC		88,648		116,416		144,185		182,526		231,442
		-	466,717	-	438,949	-	411,180	422,940	795,779	-	746,863

Line No.		2008 Additions	2008 Balance	2009 Additions	2009 Balance	2010 Additions	2010 Balance	2011 Additions	2011 Balance	2012 Additions	2012 Balance
37	CIAC	-	978,305	-	978,305	-	978,305	-	978,305	-	978,305
40	Amortization Rate										
41	Amortization (1/2 yr convention)		5.0000%		5.0000%		5.0000%		5.0000%		5.0000%
42	Accumulated Amortization		48,915		48,915		48,915		48,915		48,915
44	Net CIAC		280,357		329,272		378,187		427,103		476,018
		-	697,948	-	649,033	-	600,118	-	551,202	-	502,287

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Computation of Working Capital

Exhibit
Schedule B-5
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	45,924
3	Pumping Power (1/24 of Pumping Power)		1,540
4	Purchased Water (1/24 of Purchased Water)		1,540
5			
6			
7			
8			
9	Total Working Capital Allowance	$	49,005
10			
11			
12	**Cash Working Capital Requested**	$	-
13			
14			
15			
16			
17			Adjusted Test Year
18	Total Operating Expense	$	483,501
19	Less:		
20	Income Tax	$	(1,045)
21	Property Tax		21,173
22	Depreciation		22,039
23	Purchased Water		36,970
24	Pumping Power		36,970
25	Allowable Expenses	$	367,394
26	1/8 of allowable expenses	$	45,924
27			
28			
29	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
30	E-1	B-1	
31			
32			
33			
34			
35			
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40			

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Income Statement

Exhibit
Schedule C-1
Page 1
Witness: Bourassa

Line No.		Test Year Book Results	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**					
2	Flat Rate Revenues	$ 459,960	$ 2,440	$ 462,400	$ 65,213	$ 527,613
3	Unmetered Water Revenues	65,453	(57,926)	7,527		7,527
4	Other Water Revenues	15,109	(5,485)	9,624		9,624
5		$ 540,522	$ (60,971)	$ 479,551	$ 65,213	$ 544,764
6	**Operating Expenses**					
7	Salaries and Wages	$ 31,683	-	$ 31,683		$ 31,683
8	Purchased Wastewater Treatment	-	-	-		-
9	Sludge Removal	21,328	-	21,328		21,328
10	Purchased Power	36,970	-	36,970		36,970
11	Chemicals	13,584	-	13,584		13,584
12	Materials and Supplies	5,772	-	5,772		5,772
13	Office Supplies and Expense	-	-	-		-
14	Contractual Services - Accounting	-	-	-		-
15	Contractual Services - Professional	5,130	-	5,130		5,130
16	Contractual Services - Maintenance	-	-	-		-
17	Contractual Services - Other	227,098	-	227,098		227,098
18	Water Testing	9,784	-	9,784		9,784
19	Rents	31,055	-	31,055		31,055
20	Transportation Expenses	4,103	-	4,103		4,103
21	Insurance - General Liability	5,108	-	5,108		5,108
22	Insurance - Health and Life	-	-	-		-
23	Reg. Comm. Exp. - Other	2,355	-	2,355		2,355
24	Reg. Comm. Exp. - Rate Case	-	25,000	25,000		25,000
25	Miscellaneous Expense	85,775	(63,411)	22,364		22,364
26	Bad Debt Expense	-	-	-		-
27	Depreciation and Amortization Expense	27,296	(5,257)	22,039		22,039
28	Taxes Other Than Income	-	-	-		-
29	Property Taxes	23,337	(2,164)	21,173	960	22,133
30	Income Tax	-	(1,045)	(1,045)	13,956	12,911
31			-	-		-
32	**Total Operating Expenses**	$ 530,378	$ (46,877)	$ 483,501	$ 14,916	$ 498,417
33	**Operating Income**	$ 10,144	$ (14,094)	$ (3,950)	$ 50,297	$ 46,347
34	**Other Income (Expense)**					
35	Interest Income	-	-	-		-
36	Other income	3,726	-	3,726		3,726
37	Interest Expense	-	-	-		-
38	Other Expense	(34)	-	(34)		(34)
39		-	-	-		-
40	**Total Other Income (Expense)**	$ 3,692	$ -	$ 3,692	$ -	$ 3,692
41	**Net Profit (Loss)**	$ 13,836	$ (14,094)	$ (258)	$ 50,297	$ 50,039
42						
43	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
44	C-1, page 2				A-1	
45	E-2					
46						

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Income Statement

Exhibit
Schedule C-1
Page 2
Witness: Bourassa

Line No.		LABEL>>>>> Test Year Book Results	1 Depreciation	2 Property Taxes	3 Rate Case Expense	4 Revenue Annualization	5 Golf Course Revenue/Expense Adjustment	6 Golf Course Bad Debt Expense	7 Income Taxes	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**											
2	Flat Rate Revenues	$ 459,960				$ 2,440				$ 462,400	$ 65,213	$ 527,613
3	Measured Revenues	65,453					(57,926)			7,527		7,527
4	Other Revenues	15,109					(5,485)			9,624		9,624
5		$ 540,522	$ -	$ -	$ -	$ 2,440	$ (63,411)		$ -	$ 479,551	$ 65,213	$ 544,764
6	**Operating Expenses**											
7	Salaries and Wages	$ 31,683								$ 31,683		$ 31,683
8	Purchased Wastewater Treatment	-								-		-
9	Sludge Removal	21,328								21,328		21,328
10	Purchased Power	36,970								36,970		36,970
11	Chemicals	13,584								13,584		13,584
12	Materials and Supplies	5,772								5,772		5,772
13	Office Supplies and Expense	-								-		-
14	Contractual Services - Accounting	-								-		-
15	Contractual Services - Professional	5,130								5,130		5,130
16	Contractual Services - Maintenance	-								-		-
17	Contractual Services - Other	227,098								227,098		227,098
18	Water Testing	9,784								9,784		9,784
19	Rents	31,055								31,055		31,055
20	Transportation Expenses	4,103								4,103		4,103
21	Insurance - General Liability	5,108								5,108		5,108
22	Insurance - Health and Life	-								-		-
23	Reg. Comm. Exp. - Other	2,355								2,355		2,355
24	Reg. Comm. Exp. - Rate Case	-			25,000					25,000		25,000
25	Miscellaneous Expense	85,775						(63,411)		22,364		22,364
26	Bad Debt Expense	-								-		-
27	Deprec. and Amort. Exp.	27,296	(5,257)							22,039		22,039
28	Taxes Other Than Income	-								-		-
29	Property Taxes	23,337		(2,164)						21,173	960	22,133
30	Income Tax	-							(1,045)	(1,045)	13,956	12,911
31												
32	**Total Operating Expenses**	$ 530,378	$ (5,257)	$ (2,164)	$ 25,000	$ -	$ -	$ (63,411)	$ (1,045)	$ 483,501	$ 14,916	$ 498,417
33	**Operating Income**	$ 10,144	$ 5,257	$ 2,164	$ (25,000)	$ 2,440	$ (63,411)	$ 63,411	$ 1,045	$ (3,950)	$ 50,297	$ 46,347
34	**Other Income (Expense)**											
35	Interest Income	-								-		-
36	Other income	3,726								3,726		3,726
37	Interest Expense	-								-		-
38	Other Expense	(34)								(34)		(34)
39		-								-		-
40	**Total Other Income (Expense)**	$ 3,692	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,692	$ -	$ 3,692
41	**Net Profit (Loss)**	$ 13,836	$ 5,257	$ 2,164	$ (25,000)	$ 2,440	$ (63,411)	$ 63,411	$ 1,045	$ (258)	$ 50,297	$ 50,039
42												
43	SUPPORTING SCHEDULES:											
44	C-2											
45	E-2											

RECAP SCHEDULES:
C-1, page 1

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Adjustments to Revenues and Expenses

Exhibit
Schedule C-2
Page 1
Witness: Bourassa

Line No.		Adjustments to Revenues and Expenses						
		1	2	3	4	5	6	Subtotal
		Depreciation Expense	Property Taxes	Rate Case Expense	Revenue Annualization	Golf Course Revenue/Expense Adjustment	Golf Course Bad Debt Expense	
4	Revenues				2,440	(63,411)		(60,971)
6	Expenses	(5,257)	(2,164)	25,000			(63,411)	(45,832)
8 9	Operating Income	5,257	2,164	(25,000)	2,440	(63,411)	63,411	(15,139)
11 12	Interest Expense						-	-
13 14 15	Other Income / Expense							-
17	Net Income	5,257	2,164	(25,000)	2,440	(63,411)	63,411	(15,139)

Line No.		Adjustments to Revenues and Expenses						
21		7	8	9	10	11	12	Subtotal
23 24		Income Taxes						
25	Revenues							(60,971)
27	Expenses	(1,045)	-	-	-	-	-	(46,877)
29 30	Operating Income	1,045	-	-	-	-	-	(14,094)
32 33	Interest Expense							-
34 35 36	Other Income / Expense							-
38	Net Income	1,045	-	-	-	-	-	(14,094)

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Adjustments to Revenues and Expenses
Adjustment Number 1

Exhibit
Schedule C-2
Page 2
Witness: Bourassa

Depreciation Expense

Line No.	Acct. No.	Description	Original Cost	Non-depreciable/ Fully Depreciated	Adjusted Original Cost	Proposed Rates	Depreciation Expense
5	351	Organization Cost	30,909	(30,909)	-	0.00%	-
6	352	Franchise Cost	-	-	-	0.00%	-
7	353	Land and Land Rights	45,400	(45,400)	-	0.00%	-
8	354	Structures & Improvements	108,242		108,242	3.33%	3,604
9	355	Power Generation Equipment	-		-	5.00%	-
10	360	Collection Sewers - Force	-		-	2.00%	-
11	361.1	Collection Sewers - Gravity	328,735		328,735	2.00%	6,575
12	361.2	Manholes & Cleanouts	-			2.00%	-
13	362	Special Collecting Structures	-		-	2.00%	-
14	363	Servcies to Customers	73,179		73,179	2.00%	1,464
15	364	Flow Measuring Devices	12,958		12,958	10.00%	1,296
16	365	Flow Measuring Installations	-		-	10.00%	-
17	366	Reuse Services	-		-	2.00%	-
18	367	Reuse Meters and Meter Installations	-		-	8.33%	-
19	370	Receiving Wells	-		-	3.57%	-
20	371.1	Pumping Equipment - Lift Stations	-		-	10.00%	-
21	371.2	Other Pumping Equipment	-		-	10.00%	-
22	371.3	Pumping Equipment - Recharge Well	-		-	10.00%	-
23	374	Reuse Distribution Reserviors	-		-	2.50%	-
24	375	Reuse Transmission and Distribution	-		-	2.00%	-
25	380	Treatment & Disposal Equipment	865,491		865,491	5.00%	43,275
26	381	Plant Sewers	-	-	-	5.00%	-
27	382	Outfall Sewer Lines	-		-	3.33%	-
28	389	Other Plant & Misc Equipment	-		-	6.67%	-
29	390	Office Furniture & Equipment	5,803		5,803	6.67%	387
30	390.1	Computers & Software	-		-	20.00%	-
31	391	Transportation Equipment	-		-	20.00%	-
32	392	Stores Equipment	-		-	4.00%	-
33	393	Tools, Shop & Garage Equipment	4,676		4,676	10.00%	468
34	394	Laboratory Equipment	630		630	10.00%	63
35	395	Power Operated Equipment	-		-	5.00%	-
36	396	Communication Equipment	-		-	10.00%	-
37	397	Miscellaneous Equipment	-		-	10.00%	-
38	398	Other Tangible Plant	79,507		79,507	10.00%	7,951
41					-	10.00%	-
42		TOTALS	$ 1,555,530	$ (76,309)	$ 1,479,221		$ 65,081

		Gross CIAC	Amort. Rate	
45	Less: Amortization of Contributions	$ 978,305	4.3997%	$ (43,043)
46	Total Depreciation Expense			$ 22,039
48	Adjusted Test Year Depreciation Expense			27,296
50	Increase (decrease) in Depreciation Expense			(5,257)
52	Adjustment to Revenues and/or Expenses			$ (5,257)

54 SUPPORTING SCHEDULE
55 *B-2, page 3*

*Fully Depreciated

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 2

Exhibit
Schedule C-2
Page 3
Witness: Bourassa

Property Taxes

Line No.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	$ 479,551	$ 479,551
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	959,102	959,102
4	Company Recommended Revenue	479,551	544,764
5	Subtotal (Line 4 + Line 5)	1,438,653	1,503,866
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	479,551	501,289
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	959,102	1,002,577
10	Plus: 10% of CWIP (intentionally excluded)	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	959,102	1,002,577
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	191,820	200,515
15	Composite Property Tax Rate - Obtained from ADOR	11.0379%	11.0379%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	$ 21,173	$ 22,133
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	$ 21,173	
19	Test Year Property Taxes	$ 23,337	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	**$ (2,164)**	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		$ 22,133
23	Company Test Year Adjusted Property Tax Expense (Line 18)		$ 21,173
24	Increase in Property Tax Due to Increase in Revenue Requirement		**$ 960**
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		$ 960
27	Increase in Revenue Requirement		$ 65,213
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		1.47171%
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Schedule C-2
Page 4
Witness: Bourassa

Rate Case Expense

Line No.			
1			
2			
3	Estimated Rate Case Expense	$	100,000
4			
5	Estimated Amortization Period in Years		4
6			
7	Annual Rate Case Expense	$	25,000
8			
9	Test Year Rate Case Expense	$	-
10			
11	Increase(decrease) Rate Case Expense	$	25,000
12			
13	Adjustment to Revenue and/or Expense	$	25,000
14			
15			
16	Reference		
17	Testimony		
18			
19			
20			

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Schedule C-2
Page 5
Witness: Bourassa

Revenue Annualization

Line No.			
1			
2			
3			
4	Revenue Annualization	$	2,440
5			
6			
7			
8	Total Revenue from Annualization	$	2,440
9			
10			
11	Adjustment to Revenue and/or Expense	$	2,440
12			
13	SUPPORTING SCHEDULES		
14	C-2 page 5.1		
15	H-1		
16			
17			
18			
19			
20			

Verde Santa Fe Wastewater Company, Inc.
Revenue Annualization to Year End Customers: Residential
Test Year Ended December 31, 2012

Exhibit
Schedule C-2
Page 5.1
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	944	944	944	944	944	944	944
2	Actual Customers	946	933	938	924	937	938	938
3	Increase in Number of Customers/Bills	(2)	11	6	20	7	6	6
4	Average Revenue / Present Rates	$ 40.00	$ 40.00	$ 40.00	$ 40.00	$ 40.00	$ 40.00	$ 40.00
5	Revenue Annualization / Present Rates	$ (80)	$ 440	$ 240	$ 800	$ 280	$ 240	$ 240
6								
7	Increase in Number of Customers	(2)	11	6	20	7	6	6
8	Average Revenue / Proposed Rates	$ 45.68	$ 45.68	$ 45.68	$ 45.68	$ 45.68	$ 45.68	$ 45.68
9	Revenue Annualization / Proposed Rates	$ (91)	$ 502	$ 274	$ 914	$ 320	$ 274	$ 274
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11								
12								
13								
14		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec		Total Year
15	Year End Number of Customers	944	944	944	944	944		
16	Actual Customers	930	945	946	948	944		
17	Increase in Number of Customers/Bills	14	(1)	(2)	(4)	-		61
18	Average Revenue / Present Rates	$ 40.00	$ 40.00	$ 40.00	$ 40.00	$ 40.00		
19	Revenue Annualization / Present Rates	$ 560	$ (40)	$ (80)	$ (160)	$ -		$ 2,440
20								
21	Increase in Number of Customers	14	(1)	(2)	(4)	-		
22	Average Revenue / Proposed Rates	$ 45.68	$ 45.68	$ 45.68	$ 45.68	$ 45.68		
23	Revenue Annualization / Proposed Rates	$ 560	$ (40)	$ (80)	$ (160)	$ -		$ 2,786
24	Additional Gallons to be Produced	-	-	-	-	-		-

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Schedule C-2
Page 6
Witness: Bourassa

Golf Course Effluent Revenue/Expense Adjustment

Line No.			
1			
2	Test Year Golf Course Effluent Revenues at $0.23 per 1,000 gallons	$	7,527
3	Test Year Golf Course Effluent Revenues at $2.00 per 1,000 gallons		65,453
4	Adjustment to metered revenues	$	(57,926)
5			
6	Expected Golf Course finance charges	$	-
7	Test Year Golf Course finance charges recorded as other revenue		5,485
8	Adjustment to other revenues	$	(5,485)
9			
10			
11			
12			
13			
14			
15	Adjustment to Revenue and/or Expense	$	(63,411)
16			
17			
18	SUPPORTING SCHEDULES		
19	Testimony		
20			

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Schedule C-2
Page 7
Witness: Bourassa

Remove Golf Course Revenue Bad Debt Expense

Line No.			
1			
2	Expected Golf Course bad debt expense	$	-
3	Test Year Golf Course bad debt expense		63,411
4	Adjustment to miscellaneous expense	$	(63,411)
5			
6			
7			
8			
9			
10	Adjustment to Revenue and/or Expense	$	(63,411)
11			
12			
13			
14			
15	SUPPORTING SCHEDULES		
16	Testimony		
17			
18			
19			
20			

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Adjustment to Revenues and/or Expenses
Adjustment Number 7

Exhibit
Schedule C-2
Page 8
Witness: Bourassa

Line No.		Test Year at Present Rates	Test Year at Proposed Rates
1	Income Taxes		
2			
3			
4	Compauted Income Tax	$ (717)	$ 8,501
5	Test Year Income tax Expense	-	(717)
6	Adjustment to Income Tax Expense	$ (717)	$ 9,217
7			
8			
9			
10			
11			
12			
13	SUPPORTING SCHEDULE		
14	C-3, page 2		
15			
16			
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Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Computation of Gross Revenue Conversion Factor

Exhibit
Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Combined Federal and State Effective Income Tax Rate	21.721%
2		
3	Property Taxes	1.152%
4		
5		
6	Total Tax Percentage	22.873%
7		
8	Operating Income % = 100% - Tax Percentage	77.127%
9		
10		
11		
12		
13	1 = Gross Revenue Conversion Factor	
14	Operating Income %	1.2966
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
26	C-3, page 2	A-1
27		
28		
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Verde Santa Fe Wastewater Company, Inc.
Test Year Ended December 31, 2012

Exhibit
Schedule C-3
Page 2
Witness: Bourassa

GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	(E)	(F)
	Calculation of Gross Revenue Conversion Factor:						
1	Revenue	100.0000%					
2	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)	22.8731%					
5	Subtotal (L3 - L4)	77.1269%					
6	**Revenue Conversion Factor (L1 / L5)**	1.296565					
	Calculation of Uncollectible Factor:						
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (L17)	21.7211%					
9	One Minus Combined Income Tax Rate (L7 - L8)	78.2789%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
	Calculation of Effective Tax Rate:						
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	6.9680%					
14	*Federal Taxable Income (L12 - L13)*	93.0320%					
15	Applicable Federal Income Tax Rate (L55 Col F)	15.8581%					
16	Effective Federal Income Tax Rate (L14 x L15)	14.7531%					
17	Combined Federal and State Income Tax Rate (L13 +L16)		21.7211%				
	Calculation of Effective Property Tax Factor:						
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	21.7211%					
20	One Minus Combined Income Tax Rate (L18-L19)	78.2789%					
21	Property Tax Factor	1.4717%					
22	Effective Property Tax Factor (L20*L21)		1.1520%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			22.8731%			
24	Required Operating Income	$ 46,347					
25	AdjustedTest Year Operating Income (Loss)	$ (3,950)					
26	Required Increase in Operating Income (L24 - L25)		$ 50,297				
27	Income Taxes on Recommended Revenue (Col. (F), L52)	$ 12,911					
28	Income Taxes on Test Year Revenue (Col. (C), L52)	$ (1,045)					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		$ 13,956				
30	Recommended Revenue Requirement	$ 544,764					
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	$ 22,133					
36	Property Tax on Test Year Revenue	$ 21,173					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		$ 960				
38	Total Required Increase in Revenue (L26 + L29 + L37)		$ 65,213				

		(A)	(B)	(C)	(D)	(E)	(F)
		Test Year			Company Recommended		
		Total		Wastewater	Total		Wastewater
	Calculation of Income Tax:						
39	Revenue	$ 479,551		$ 479,551	$ 544,764		$ 544,764
40	Operating Expenses Excluding Income Taxes	484,546		484,546	485,506		485,506
41	Synchronized Interest (L47)	-		-	-		-
42	Arizona Taxable Income (L39 - L40 - L41)	$ (4,995)		$ (4,995)	$ 59,258		$ 59,258
43	Arizona State Effective Income Tax Rate (see work papers)	6.9680%		6.9680%	6.9680%		6.9680%
44	Arizona Income Tax (L42 x L43)	$ (348)		$ (348)	$ 4,129		$ 4,129
45	Federal Taxable Income (L42- L44)	$ (4,647)		$ (4,647)	$ 55,129		$ 55,129
46							
47	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ (697)	$ -	$ (697)	$ 7,500	$ -	$ 7,500
48	Federal Tax on Second Income Bracket ($50,001 - $75,000) @ 25%	$ -	$ -	$ -	$ 1,282	$ -	$ 1,282
49	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ -	$ -	$ -	$ -	$ -	$ -
50	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ -	$ -	$ -	$ -	$ -	$ -
51	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ -	$ -	$ -	$ -	$ -	$ -
52							
53	Total Federal Income Tax	$ (697)		$ (697)	$ 8,782		$ 8,782
54	Combined Federal and State Income Tax (L35 + L42)	$ (1,045)		$ (1,045)	$ 12,911		$ 12,911

55 COMBINED Applicable Federal Income Tax Rate [Col. [D], L53 - Col. [A], L53 / (Col. [D], L45 - Col. [A], L45] 15.8581%
56 WASTEWATER Applicable Federal Income Tax Rate [Col. [E], L53 - Col. [B], L53] / (Col. [E], L45 - Col. [B], L45]
57 WATER Applicable Federal Income Tax Rate [Col. [F], L53 - Col. [C], L53] / (Col. [F], L45 - Col. [C], L45] 15.8581%

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Comparative Balance Sheets

Exhibit
Schedule E-1
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2012	Year Ended 12/31/2011	Year Ended 12/31/2010
1	**ASSETS**			
2	Plant In Service	$ 1,555,532	$ 1,523,892	$ 1,503,007
3	Non-Utility Plant	-	-	-
4	Construction Work in Progress	-	-	-
5	Less: Accumulated Depreciation	(676,077)	(604,666)	(535,905)
6	Net Plant	$ 879,455	$ 919,226	$ 967,102
7				
8	Debt Reserve Fund	$ -	$ -	$ -
9				
10		$ -	$ -	$ -
11				
12	CURRENT ASSETS			
13	Cash and Equivalents	$ 5,645	$ 7,224	$ 1,004
14	Restricted Cash	-	-	-
15	Accounts Receivable, Net	24,310	30,800	34,801
16	Inter-Division Receivable			
17	Notes Receivable	-	-	-
18	Materials and Supplies	-	-	-
19	Prepayments	-	-	-
20	Other Current Assets	1,240	(2,168)	348
21	Total Current Assets	$ 31,195	$ 35,856	$ 36,153
22				
23	Unamortized Debt Discount			
24	Accumulated Deferred Income Taxes			
25	Deferred Debits	$ -	$ -	$ -
26				
27	Other Assets	$ -	$ -	$ -
28				
29	TOTAL ASSETS	$ 910,650	$ 955,082	$ 1,003,255
30				
31				
32	**LIABILITIES AND STOCKHOLDER'S EQUITY**			
33				
34	Stockholder's Equity	$ 330,308	$ 316,471	$ 321,133
35				
36	Long-Term Debt	$ -	$ -	$ -
37				
38	CURRENT LIABILITIES			
39	Accounts Payable	$ 35,768	$ 38,471	$ 38,497
40	Current Portion of Long-Term Debt	-	-	-
41	Payables to Associated Companies	-	-	-
42	Security Deposits	-	-	-
43	Customer Meter Deposits, Current	7,324	6,404	8,644
44	Accrued Taxes	-	-	-
45	Accrued Interest	-	-	-
46	Other Current Liabilities	1,483	13,854	11,711
47	Total Current Liabilities	$ 44,575	$ 58,729	$ 58,852
48	DEFERRED CREDITS			
49	Customer Meter Deposits, less current	$ -	$ -	$ -
50	Advances in Aid of Construction	-	-	-
51	Accumulated Deferred Income Taxes	-	-	-
52	Contributions In Aid of Construction	978,305	978,305	978,305
53	Accumulated Amortization	(442,538)	(398,423)	(355,035)
54	Total Deferred Credits	$ 535,767	$ 579,882	$ 623,270
55				
56	Total Liabilities & Stockholder Equity	$ 910,650	$ 955,082	$ 1,003,255
57				
58				
59				
60	SUPPORTING SCHEDULES:		RECAP SCHEDULES:	
61			A-3	

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Comparative Income Statements

Exhibit
Schedule E-2
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2012	Prior Year Ended 12/31/2011	Prior Year Ended 12/31/2010
1	**Revenues**			
2	Flat Rate Revenues	$ 459,960	$ 456,867	$ 453,974
3	Measured Revenues	65,453	64,174	63,005
4	Other Revenues	15,109	11,111	11,791
5	**Total Revenues**	$ 540,522	$ 532,152	$ 528,770
6	**Operating Expenses**			
7	Salaries and Wages	$ 31,683	$ 27,870	$ 50,703
8	Purchased Wastewater Treatment	-	-	-
9	Sludge Removal	21,328	27,705	12,309
10	Purchased Power	36,970	41,900	37,263
11	Chemicals	13,584	11,873	7,327
12	Materials and Supplies	5,772	3,248	4,162
13	Office Supplies and Expense	-	-	-
14	Contractual Services - Accounting	-	-	-
15	Contractual Services - Professional	5,130	1,657	4,576
16	Contractual Services - Maintenance	-	-	-
17	Contractual Services - Other	227,098	221,846	211,093
18	Contractual Services - Testing	9,784	10,250	8,324
19	Rents	31,055	31,055	28,467
20	Transportation Expenses	4,103	2,854	2,758
21	Insurance - General Liability	5,108	5,852	7,466
22	Insurance - Health and Life	-	-	-
23	Reg. Comm. Exp. - Other	2,355	9,183	24,753
24	Reg. Comm. Exp. - Rate Case	-	-	-
25	Miscellaneous Expense	85,775	92,266	92,333
26	Bad Debt Expense	-	-	-
27	Depreciation and Amortization Expense	27,296	25,374	24,113
28	Taxes Other Than Income	-	-	-
29	Property Taxes	23,337	21,061	17,089
30	Income Tax	-	-	(3,464)
31				
32	**Total Operating Expenses**	$ 530,378	$ 533,994	$ 529,272
33	**Operating Income**	$ 10,144	$ (1,842)	$ (502)
34	**Other Income (Expense)**			
35	Interest Income	-	-	3
36	Other Income	3,726	71	-
37	Interest Expense	-	-	(511)
38	Other Expense	(34)	(34)	-
39	Gain (loss) on Disposal of Equip			
40	**Total Other Income (Expense)**	$ 3,692	$ 37	$ (508)
41	**Net Profit (Loss)**	$ 13,836	$ (1,805)	$ (1,010)
42				
43				
44				
45	SUPPORTING SCHEDULES:			
46				
47				

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Detail of Plant in Service

Exhibit
Schedule E-5
Page 1
Witness: Bourassa

Line No.	Acct. No.	Plant Description	Plant Balance at 12/31/2011	Plant Additions, Reclass-ications or or Retirements	Plant Balance at 12/31/2012
1					
2	351	Organization Cost	$ 30,909	$ -	$ 30,909
3	352	Franchise Cost	-	-	-
4	353	Land and Land Rights	45,400	-	45,400
5	354	Structures & Improvements	108,242	-	108,242
6	355	Power Generation Equipment	-	-	-
7	360	Collection Sewers - Force	-	-	-
8	361.1	Collection Sewers - Gravity	328,735	-	328,735
9	361.2	Manholes & Cleanouts	-	-	-
10	362	Special Collecting Structures	-	-	-
11	363	Servcies to Customers	73,179	-	73,179
12	364	Flow Measuring Devices	12,958	-	12,958
13	365	Flow Measuring Installations	-	-	-
14	366	Reuse Services	-	-	-
15	367	Reuse Meters and Meter Installations	-	-	-
16	370	Receiving Wells	-	-	-
17	371.1	Pumping Equipment - Lift Stations	-	-	-
18	371.2	Other Pumping Equipment	-	-	-
19	371.3	Pumping Equipment - Recharge Wells	-	-	-
20	374	Reuse Distribution Reserviors	-	-	-
21	375	Reuse Transmission and Distribution	-	-	-
22	380	Treatment & Disposal Equipment	833,851	31,640	865,491
23	381	Plant Sewers	-	-	-
24	382	Outfall Sewer Lines	-	-	-
25	389	Other Plant & Misc Equipment	-	-	-
26	390	Office Furniture & Equipment	5,803	-	5,803
27	390.1	Computers & Software	-	-	-
28	391	Transportation Equipment	-	-	-
29	392	Stores Equipment	-	-	-
30	393	Tools, Shop & Garage Equipment	4,676	-	4,676
31	394	Laboratory Equipment	630	-	630
32	395	Power Operated Equipment	-	-	-
33	396	Communication Equipment	-	-	-
34	397	Miscellaneous Equipment	-	-	-
35	398	Other Tangible Plant	79,507	-	79,507
36					
37					
38		Rounding			
39		TOTAL WATER PLANT	$ 1,523,890	$ 31,640	$ 1,555,530
40					
41	SUPPORTING SCHEDULES			RECAP SCHEDULES:	
42	Work Papers			A-4	
43	B-2 pages 3.1 to 3.4			E-1	
44					

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Operating Statistics

Exhibit
Schedule E-7
Page 1
Witness: Bouras

Line No.		Test Year Ended 12/31/2012	Prior Year Ended 12/31/2011	Prior Year Ended 12/31/2010
1	WATER STATISTICS:			
2				
3				
4				
5	Total Treated (in Thousands)	32,039	32,120	31,129
6				
7				
8				
9	Revenues from Customers:	$ 459,960	$ 456,867	$ 453,974
10				
11				
12				
13				
14	Year End Number of Services	955	946	951
15				
16				
17	Annual Gallons (in Thousands)			
18	Treated Per Year End Service	34	34	33
19				
20				
21				
22	Annual Revenue per Year End Customer	$ 481.63	$ 482.95	$ 477.36
23				
24	Pumping Cost Per 1,000 Gallons	$ 0.6657	$ 0.8625	$ 0.3954
25	Purchased Water Cost per 1,000 Gallons	$ -	$ -	$ -

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Taxes Charged to Operations

Exhibit
Schedule E-8
Page 1
Witness: Bourassa

Line No.	Description	Test Year Ended 12/31/2012	Prior Year Ended 12/31/2011	Prior Year Ended 12/31/2010
1	Description			
2				
3	State Income Taxes	$ -	$ -	$ -
4	Federal Income Taxes	-	-	(3,464)
5	Payroll Taxes	2,252	1,981	3,603
6	Property Taxes	23,337	21,061	17,089
7				
8	Totals	$ 25,589	$ 23,042	$ 17,228
9				
10				
11				
12				
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Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Notes To Financial Statements

Exhibit
Schedule E-9
Page 1
Witness: Bourassa

The Company does not conduct independent audits, reviews and/or compilations. Accordingly, there are no notes which are typically associated with these financial statements. Management makes the following notations to the finanical statements contained herein:

Significant Accounting Policies - The Company prepares its financial statements in accordance with accounting principles generally accepted in the United States of America and the accounting records of the are are maintained in accordance with the uniform system of accounts as prescribed by the National Association of Regulatory Utility Commissioners (USOA 1996). Significant accounting policies are as follows:

Utility Plant - Property, plant and equipment is stated at cost less accumulated depreciation provided on a straight-line basis.

Depreciation rates for asset classes of utility property, plant and equipment are established by the Commission. The cost of additions, including betterments and replacements of units of utility fixed assets are charged to utility property, plant and equipment. When units of utility property are replaced, renewed or retired, their cost plus removal or disposal costs, less salvage proceeds, is charged to accumulated depreciation.

Revenue Recognition - Revenues are recognized on the accrual method. Under this method, revenue is recognized when earned rather than when collected, and expenses are recognized when incurred rathet than when paid.

Contributions in Aid of Construction - Contributions in aid of construction (CIAC) are nonrefundable contributions by developers and customers for plant expansion. In addition, this amount includes the remaining balance, if any, of advances in aid of construction at the end of the repayment period. The contributions in aid of construction are being amortized at a rate equal to the rate allowed for depreciation, as a reduction of depreciation expense

Advances in Aid of Construction - Customer advances for construction are subject to refund in accordance with agreements approved by the Arizona Corporation Commission. Agreements provide for refunds which are typically equal to 10 percent of annual water revenue generated from the expansion. The repayments are for a maximum agreed upon period or until repaid in full. Any balance remaining at the end of the agreed-upon period for repayment becomes a contribution in aid of construction.

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Projected Income Statements - Present & Proposed Rates

Exhibit
Schedule F-1
Page 1
Witness: Bourassa

Line No.		Test Year Actual Results	At Present Rates Year Ended 12/31/2013	At Proposed Rates Year Ended 12/31/2013
1	**Revenues**			
2	Metered Water Revenues	$ 459,960	$ 462,400	$ 527,613
3	Unmetered Water Revenues	65,453	7,527	7,527
4	Other Water Revenues	15,109	9,624	9,624
5		$ 540,522	$ 479,551	$ 544,764
6	**Operating Expenses**			
7	Salaries and Wages	$ 31,683	$ 31,683	$ 31,683
8	Purchased Wastewater Treatment	-	-	-
9	Sludge Removal	21,328	21,328	21,328
10	Purchased Power	36,970	36,970	36,970
11	Chemicals	13,584	13,584	13,584
12	Materials and Supplies	5,772	5,772	5,772
13	Office Supplies and Expense	-	-	-
14	Contractual Services - Accounting	-	-	-
15	Contractual Services - Professional	5,130	5,130	5,130
16	Contractual Services - Maintenance	-	-	-
17	Contractual Services - Other	227,098	227,098	227,098
18	Water Testing	9,784	9,784	9,784
19	Rents	31,055	31,055	31,055
20	Transportation Expenses	4,103	4,103	4,103
21	Insurance - General Liability	5,108	5,108	5,108
22	Insurance - Health and Life	-	-	-
23	Reg. Comm. Exp. - Other	2,355	2,355	2,355
24	Reg. Comm. Exp. - Rate Case	-	25,000	25,000
25	Miscellaneous Expense	85,775	22,364	22,364
26	Bad Debt Expense	-	-	-
27	Deprec. and Amort. Exp.	27,296	22,039	22,039
28	Taxes Other Than Income	-	-	-
29	Property Taxes	23,337	21,173	22,133
30	Income Tax	-	(1,045)	12,911
31				
32	**Total Operating Expenses**	$ 530,378	$ 483,501	$ 498,417
33	**Operating Income**	$ 10,144	$ (3,950)	$ 46,347
34	**Other Income (Expense)**			
35	Interest Income	-	-	-
36	Other income	3,726	3,726	3,726
37	Interest Expense	-	-	-
38	Other Expense	(34)	(34)	(34)
39	Gain/Loss Sale of Fixed Assets	-	-	-
40	**Total Other Income (Expense)**	$ 3,692	$ 3,692	$ 3,692
41	**Net Profit (Loss)**	$ 13,836	$ (258)	$ 50,039
42				
43				
44	SUPPORTING SCHEDULES:			
45	C-1			
46				
47				
48				

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Projected Construction Requirements

Exhibit
Schedule F-3
Page 1
Witness: Bourassa

Line No.	Account Number	Plant Asset:	Test Year	2013
1				
2	Account			
3	Number	Plant Asset:	Test Year	2013
4	351	Organization Cost	$ -	
5	352	Franchise Cost	-	
6	353	Land and Land Rights	-	
7	354	Structures & Improvements	-	
8	355	Power Generation Equipment	-	
9	360	Collection Sewers - Force		
10	361.1	Collection Sewers - Gravity		
11	361.2	Manholes & Cleanouts		
12	362	Special Collecting Structures	-	
13	363	Servcies to Customers	-	
14	364	Flow Measuring Devices	-	
15	365	Flow Measuring Installations	-	
16	366	Reuse Services	-	
17	367	Reuse Meters and Meter Installations	-	
18	370	Receiving Wells	-	
19	371.1	Pumping Equipment - Lift Stations	-	20,000
20	371.2	Other Pumping Equipment	-	
21	371.3	Pumping Equipment - Recharge Wells	-	
22	374	Reuse Distribution Reserviors	-	
23	375	Reuse Transmission and Distribution	-	
24	380	Treatment & Disposal Equipment	31,640	21,000
25	381	Plant Sewers	-	
26	382	Outfall Sewer Lines	-	
27	389	Other Plant & Misc Equipment	-	
28	390	Office Furniture & Equipment	-	
29	390.1	Computers & Software	-	
30	391	Transportation Equipment	-	
31	392	Stores Equipment	-	
32	393	Tools, Shop & Garage Equipment	-	
33	394	Laboratory Equipment	-	
34	395	Power Operated Equipment	-	
35	396	Communication Equipment	-	
36	397	Miscellaneous Equipment	-	
37	398	Other Tangible Plant	-	
38				
39				
40	Total		$ 31,640	$ 41,000
41				
42				
43				

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Assumptions Used in Rate Filing

Exhibit
Schedule F-4
Page 1
Witness: Bourassa

Line No.	
1	Property Taxes were computed using the method used by the Arizona Department
2	of Revenue modified for ratemaking.
3	
4	Projected construction expenditures are shown on Schedule A-4.
5	
6	Expense adjustments are shown on Schedule C2, and are explained in the testimony.
7	
8	Income taxes were computed using statutory state and federal income tax rates.
9	
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Verde Santa Fe Wastewater Company, Inc.
Revenue Summary
Test Year Ended December 31, 2012

Exhibit
Schedule H-1
Page 1
Witness: Bourassa

Line No.	Classification		Total Revenues at Present Rates	Total Revenues at Proposed Rates	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	Residential		$ 450,680	$ 514,677	$ 63,997	14.20%	93.98%	94.48%
2								
3	Commercial	VSF Community Center	1,056	1,056	-	0.00%	0.22%	0.19%
4	Commercial	Amante Club House	1,536	1,754	218	14.20%	0.32%	0.32%
5	Commercial	VSF Golf Course Club House	3,300	3,769	469	14.20%	0.69%	0.69%
6	Commercial	Highlands Resort	3,408	3,892	484	14.20%	0.71%	0.71%
7								
8								
9	Effluent	VSF Golf Course	65,453	7,527	(57,926)	-88.50%	13.65%	1.38%
10								
11								
12	**Subtotals of Revenues**		$ 525,433	$ 532,674	$ 7,242	1.38%	109.57%	97.78%
13	**Revenue Annualizations:**							
14								
15	Residential		$ 2,440	$ 2,786	$ 346	14.20%	0.51%	0.51%
16								
17								
16								
17								
18	**Subtotal Revenue Annualization**		2,440	2,786	346	14.20%	0.51%	0.58%
19								
20	**Total Revenues w/ Annualization**		$ 527,873	$ 535,461	$ 7,588	1.44%	110.08%	98.29%
21								
22	**C-2 Revenue Adjustments**		$ (57,926)	$ -	$ 57,926	-100.00%	-12.08%	0.00%
23	**Misc Revenues**		9,624	9,624	-	0.00%	2.01%	1.77%
24	**Reconciling Amount**		(20)	(321)	(301)	1505.00%	0.00%	-0.06%
25	**Total Revenues**		$ 479,551	$ 544,764	$ 65,213	13.60%	100.00%	100.00%
26								
27								

Verde Santa Fe Wastewater Company, Inc.
Analysis of Revenue by Detailed Class
Test Year Ended December 31, 2012

Exhibit
Schedule H-2
Page 1
Witness: Bourassa

Line No.		Customer Classification	Average Number of Customers at 12/31/2012	Average Consumption	Average Bill Present Rates	Average Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount	Percent of Customers
1	Residential		939	-	$ 40.00	$ 45.68	$ 5.68	14.20%	99.58%
2									
3	Commercial	VSF Community Center	1	-	88.00	88.00	-	0.00%	0.11%
4	Commercial	Amante Club House	1	-	128.00	146.18	18.18	14.20%	0.11%
5	Commercial	VSF Golf Course Club House	1	-	275.00	314.05	39.05	14.20%	0.11%
6	Commercial	Highlands Resort	-	-	284.00	1,831.77	1,547.77	544.99%	0.00%
7									
8	Effluent	VSF Golf Course	1	2,727,194	$ 5,454.39	$ 627.25	$ (4,827.13)	-88.50%	0.11%
9									
10									
11									
12									
13									
14									
15									
16	Totals		943						100.00%
17									
18	Actual Year End Number								
19	of Customers:		948						
20									
21									
22									
23									

Verde Santa Fe Wastewater Company, Inc.
Analysis of Revenue by Detailed Class
Test Year Ended December 31, 2012

Exhibit
Schedule H-2
Page 2
Witness: Bourassa

Line No.	Customer Classification		Average Number of Customers at 12/31/2012	Median Consumption	Median Bill Present Rates	Median Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount	Percent of Customers
1	Residential		939	-	$ 40.00	$ 45.68	$ 5.68	14.20%	99.47%
2									
3	Commercial	VSF Community Center	1	-	$ 88.00	$ 88.00	-	0.00%	0.11%
4	Commercial	Amante Club House	1	-	128.00	146.18	18.18	14.20%	0.11%
5	Commercial	VSF Golf Course	1	-	$ 275.00	$ 314.05	39.05	14.20%	0.11%
6	Commercial	Highlands Resort	1	-					
7									
8	Effluent	VSF Golf Course	1	2,696,615	$ 5,393.23	$ 620.22	$ (4,773.01)	-88.50%	0.11%
9									
10									
11									
12									
13									
14									
15	Totals		944						99.89%
16									
17	Actual Year End Number								
18	of Customers:		948						
19									
20									
21									
22									

Verde Santa Fe Wastewater Company, Inc.
Test Year Ended December 31, 2012
Present and Proposed Rates

Exhibit
Schedule H-3
Page 1

Line No.	Monthly Usage Charge for:		Present Rates		Proposed Rates		Change	Percent Change
1								
2	Residential		$ 40.00		$ 45.68		$ 5.68	14.20%
2	Commercial		40.00	xSFE (see Note 1)	45.68	xSFE (see Note 2)	5.68	14.20%
3								
4								
5								
6								
7	*Effluent (all meter sizes)*	*All gallons*	$ 2.00	*per 1,000 gallons*	$ 0.23	per 1,000 gallons	(1.77)	-88.50%
8								
9								
10								
11								

12 Note 1: If a commercial flat rate is necessary, it will be calculated for each commercial customer by dividing the expected design daily flow rate (as prescribed by
13 the Ten State Standards) by one SFE (single family equivalent). One SFE will equal 262 gallons per day (the approved design flow rate per single family unit by ADEQ.
14 *The resulting factor will be multiplied by the approved residential flat rate to get the commercial monthly flat rate.*
15
16 Note 2: One SFE is defined as 10 fixtures (sinks and/or toilets and/or showers, etc). The SFE for a commercial customer will be equal to the number of fixtures
17 divided by 10. If the computed SFE is less than 1.0, the factor will be 1.0 which provides that a commercial customer pays no less than a residential customer.
18
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Verde Santa Fe Wastewater Company, Inc.
Present and Proposed Rates
Test Year Ended December 31, 2012

Exhibit
Schedule H-3
Page 2
Witness: Bourassa

Line No.		Present Rates	Proposed Rates
7	Service Line Charge	n/a	Cost

Other Charges:

	Present Rates	Proposed Rates
Establishment	$ 25.00	$ 25.00
Reconnection (Delinquent)	$ 30.00	$ 30.00
Deposit	PER RULE	PER RULE
Deposit Interest (annual effective rate)	3.50%	3.50%
Re-establishment (Within 12 months)	PER RULE	PER RULE
Deferred Payment, per month	NT	1.5%
Late Payment Penalty	1.5%	1.5%
NSF Check	$ 25.00	$ 25.00
After hours service charge	NT	$ 35.00

Verde Santa Fe Wastewater Company, Inc.
Bill Comparison of Present and Proposed Rates
Customer Classification Residential
Test Year Ended December 31, 2012
(Excludes all Revenue Related Taxes)

Exhibit
Schedule H-4
Page 1
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 40.00	$ 45.68	$ 5.68	14.20%

Present Rates:
Monthly Charge: $ 40.00

Proposed Rates:
Monthly Charge: $ 45.68

Verde Santa Fe Wastewater Company, Inc.
Bill Comparison of Present and Proposed Rates
Customer Classification: Commercial (Verde Santa Fe Community Center)
Test Year Ended December 31, 2012

Exhibit
Schedule H-4
Page 2
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 88.00	$ 88.00	$ -	0.00%

Present Rates:
Monthly Charge: $ 88.00

Proposed Rates:
Monthly Charge: $ 88.00

Verde Santa Fe Wastewater Company, Inc.
Bill Comparison of Present and Proposed Rates
Customer Classification: Commercial (Amante Club
Test Year Ended December 31, 2012

Exhibit
Schedule H-4
Page 3
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 128.00	$ 146.18	$ 18.18	14.20%

Present Rates:
Monthly Charge: $ 128.00

Proposed Rates:
Monthly Charge: $ 146.18

Verde Santa Fe Wastewater Company, Inc.
Bill Comparison of Present and Proposed Rates
Customer Classification: Commercial (VSF Golf)
Test Year Ended December 31, 2012
(Excludes all Revenue Related Taxes)

Exhibit
Schedule H-4
Page 4
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 275.00	$ 314.05	$ 39.05	14.20%

Present Rates:
Monthly Charge: $ 275.00

Proposed Rates:
Monthly Charge: $ 314.05

Verde Santa Fe Wastewater Company, Inc.
Bill Comparison of Present and Proposed Rates
Customer Classification Commercial (Highlands Re
Test Year Ended December 31, 2012

Exhibit
Schedule H-4
Page 5
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 284.00	$ 324.33	$ 40.33	14.20%

Present Rates:
Monthly Charge: $ 284.00

Proposed Rates:
Monthly Charge: $ 324.33

Verde Santa Fe Wastewater Company, Inc.
Bill Comparison of Present and Proposed Rates
Customer Classification Effluent
Test Year Ended December 31, 2012

Exhibit
Schedule H-4
Page 6
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ -	$ -	$ -	0.00%
1,000	2.00	0.23	$ (1.77)	-88.50%
2,000	4.00	0.46	$ (3.54)	-88.50%
3,000	6.00	0.69	$ (5.31)	-88.50%
4,000	8.00	0.92	$ (7.08)	-88.50%
5,000	10.00	1.15	$ (8.85)	-88.50%
6,000	12.00	1.38	$ (10.62)	-88.50%
7,000	14.00	1.61	$ (12.39)	-88.50%
8,000	16.00	1.84	$ (14.16)	-88.50%
9,000	18.00	2.07	$ (15.93)	-88.50%
10,000	20.00	2.30	$ (17.70)	-88.50%
12,000	24.00	2.76	$ (21.24)	-88.50%
14,000	28.00	3.22	$ (24.78)	-88.50%
16,000	32.00	3.68	$ (28.32)	-88.50%
18,000	36.00	4.14	$ (31.86)	-88.50%
20,000	40.00	4.60	$ (35.40)	-88.50%
25,000	50.00	5.75	$ (44.25)	-88.50%
30,000	60.00	6.90	$ (53.10)	-88.50%
35,000	70.00	8.05	$ (61.95)	-88.50%
40,000	80.00	9.20	$ (70.80)	-88.50%
45,000	90.00	10.35	$ (79.65)	-88.50%
50,000	100.00	11.50	$ (88.50)	-88.50%
60,000	120.00	13.80	$ (106.20)	-88.50%
70,000	140.00	16.10	$ (123.90)	-88.50%
80,000	160.00	18.40	$ (141.60)	-88.50%
90,000	180.00	20.70	$ (159.30)	-88.50%
100,000	200.00	23.00	$ (177.00)	-88.50%
Average Usage				
2,727,194	$ 5,454.39	$ 627.25	$ (4,827.13)	-88.50%
Median Usage				
2,696,615	$ 5,393.23	$ 620.22	$ (4,773.01)	-88.50%

Present Rates:

Monthly Minimum:	$	-
Gallons in Minimum		-
Charge Per 1,000 Gallons		
All gallons	$	2.00

Proposed Rates:

Monthly Minimum:	$	-
Gallons in Minimum		-
Charge Per 1,000 Gallons		
All gallons	$	0.23

Verde Santa Fe Wastewater Company, Inc.
Test Year Ended December 31, 2012
Customer Classification: Residential

Exhibit
Schedule H-5
Page 1
Witness: Bourassa

	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul-ative Billing
	946	933	938	924	937	938	938	930	945	946	948	944	11,267	11,267
													-	11,267
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													-	11,267
Total	946	933	938	924	937	938	938	930	945	946	948	944	11,267	

Average Usage	-
Median Usage	-
Average # Customers	939
Change in Number of Customers	(2)

Verde Santa Fe Wastewater Company, Inc.
Test Year Ended December 31, 2012
Customer Classification: Commercial (Verde Santa Fe Community Center)
SFE = 2.2

Exhibit
Schedule H-5
Page 2
Witness: Bourassa

	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul-ative Billing
	1	1	1	1	1	1	1	1	1	1	1	1	12	12
													-	12
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Total	1	1	1	1	1	1	1	1	1	1	1	1	12	

Average Usage	-
Median Usage	-
Average # Customers	1
Change in Number of Customers	-

Verde Santa Fe Wastewater Company, Inc.
Test Year Ended December 31, 2012
Customer Classification: Commercial (Amante Club House)
SFE = 3.2

Exhibit
Schedule H-5
Page 3
Witness: Bourassa

	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul-ative Billing
	1	1	1	1	1	1	1	1	1	1	1	1	12	12
													-	12
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													-	12
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													-	12
Total	1	1	1	1	1	1	1	1	1	1	1	1	12	

Average Usage	-
Median Usage	-
Average # Customers	1
Change in Number of Customers	-

Verde Santa Fe Wastewater Company, Inc.
Test Year Ended December 31, 2012
Customer Classification: Commercial (VSF Golf)
SFE = 6.875

Exhibit
Schedule H-5
Page 4
Witness: Bourassa

	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
	1	1	1	1	1	1	1	1	1	1	1	1	12
													-
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Total	1	1	1	1	1	1	1	1	1	1	1	1	12

Average Usage	-
Median Usage	-
Average # Customers	1
Change in Number of Customers	-

Verde Santa Fe Wastewater Company, Inc.
Test Year Ended December 31, 2012
Customer Classification Commercial (Highlands Resort)
SFE = 7.1

Exhibit
Schedule H-5
Page 5
Witness: Bourassa

	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul-ative Billing
	1	1	1	1	1	1	1	1	1	1	1	1	12	12
													-	12
													-	12
													-	12
													-	12
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													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
Totals	1	1	1	1	1	1	1	1	1	1	1	1	12	

Average Usage	-
Median Usage	-
Average # Customers	1
Change in Number of Customers	-

Verde Santa Fe Wastewater Company, Inc.
Test Year Ended December 31, 2012
Customer Classification Effluent

Exhibit
Schedule H-5
Page 6
Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul-ative Billing	Cumul-ative Gals (1,000s
-	-													-	-	-
1,001	2,000													-	-	-
2,001	3,000													-	-	-
3,001	4,000													-	-	-
4,001	5,000													-	-	-
5,001	6,000													-	-	-
6,001	7,000													-	-	-
7,001	8,000													-	-	-
8,001	9,000													-	-	-
9,001	10,000													-	-	-
10,001	12,000													-	-	-
12,001	14,000													-	-	-
14,001	16,000													-	-	-
16,001	18,000													-	-	-
18,001	20,000													-	-	-
20,001	25,000													-	-	-
25,001	30,000													-	-	-
30,001	35,000													-	-	-
35,001	40,000													-	-	-
40,001	45,000													-	-	-
45,001	50,000													-	-	-
50,001	60,000													-	-	-
60,001	70,000													-	-	-
70,001	80,000													-	-	-
80,001	90,000													-	-	-
90,001	100,000													-	-	-
2,452,200	2,452,200													-	-	-
2,507,890	2,507,890						1							-	-	-
2,592,760	2,592,760													-	-	-
2,676,740	2,676,740										1			1	1	2,452
2,676,850	2,676,850									1				1	2	4,960
2,681,920	2,681,920											1		1	3	7,553
2,711,310	2,711,310		1						1				1	1	4	10,230
2,715,490	2,715,490			1										1	5	12,906
2,720,330	2,720,330	1					1							1	6	15,588
2,755,670	2,755,670													1	7	18,300
2,915,290	2,915,290			1										1	8	21,015
3,319,880	3,319,880					1								1	9	23,735
	-													1	10	26,491
														1	11	29,406
														1	12	32,726
Totals		1	1	2	-	1	2	-	1	1	1	1	1	12	12	32,726

Average Usage	2,727,194
Median Usage	2,696,615
Average # Customers	1
Change in Number of Customers	-

FENNEMORE CRAIG, P.C.
Jay L. Shapiro (No. 014650)
2394 E. Camelback Road
Suite 600
Phoenix, Arizona 85016

Attorneys for Verde Santa Fe Wastewater Co., Inc.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF VERDE SANTA FE WASTEWATER CO., INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-03437A-13-_____

DIRECT TESTIMONY OF
THOMAS J. BOURASSA

(COST OF CAPITAL)

August 30, 2013

EXHIBIT
A-7
ADMITTED

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8453935.1/026985.0002

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND ADDRESS.

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

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

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

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

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

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

Q. PLEASE SUMMARIZE YOUR COST OF CAPITAL TESTIMONY.

A. I have determined that the cost of equity for the publicly traded water utilities falls in the range of 8.5 percent to 11.7 percent with the midpoint of the range at 10.1 percent. After considering the differences in business and financial risk between

VSF and the publicly traded water utilities, I am recommending a return on equity ("ROE") of 11.0 percent for the VSF.

Q. SO VSF FALLS AT THE HIGHER END OF THE RANGE OF RETURNS?

A. Yes, and I'm being conservative at 11.0 percent. Given VSF's small service area and the possibility this Commission will order significant capital improvements as discussed in Mr. Williamson's direct testimony, VSF is clearly a greater investment risk than Aqua-America or one of the other giant, publicly traded utility holding companies.

Q. WHAT IS THE RECOMMENDED CAPITAL STRUCTURE FOR VSF?

A. The actual capital structure at the end of the test year (December 31, 2012) consisted 0 percent debt and 100 percent equity.

Q. WHAT IS THE WEIGHTED AVERAGE COST OF CAPITAL?

A. The weighted cost of capital based a capital structure consisting of 0 percent debt and 100 percent equity is 11.0 percent as shown on Schedule D-1.

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

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

business risks of the subject utility, in this case VSF, as I will discuss in detail.

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

Consistent with my past practice and the Commission's past practices in prior cases, my specification of the DCF model is based on both historical growth and a variety of analysts' growth projections, current indicated annual dividends, and actual stock price information. Similarly, my CAPM model is specified with actual *and* projected market data with respect to Treasury yields, Beta estimates from Value Line, market risk premia data from *Morningstar* and *Value Line*.

In assessing the results of my DCF, CAPM, and Build-up analyses, I considered several specific risk trends, including the effect of a potential rise in interest rates. In my view, this approach appropriately balances practical concerns regarding certain underlying assumptions associated with each methodology or approach used to determine a cost of equity.

Q. DID YOU CONSIDER OTHER FACTORS, IN ADDITION TO THE ANALYSES DESCRIBED ABOVE, IN ORDER TO DETERMINE THE APPROPRIATE ROE FOR VSF?

A. Yes, in addition to the 3 distinct analyses discussed above, I considered the following: (1) the economic conditions expected to prevail during the period in which new rates will be in effect; (2) the financial risks associated with the Company's pro forma capital structure; (3) the incremental business risks associated with the Company's relatively small size; and (4) an assessment of the

business risks associated with VSF relative to the large publicly traded utilities. While I did not include any explicit adjustments to my ROE estimates for these factors, I did take them into consideration when determining where, within a reasonable range of analytical results from the DCF, CAPM and Build-Up methods, the Company's required ROE rightly falls.

After considering the differences in risk between an investment in VSF and the publicly traded water utilities, I am recommending an ROE of 11.0 percent for the Company. A summary of my cost of equity analysis results are shown on Schedule D-4.1.

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

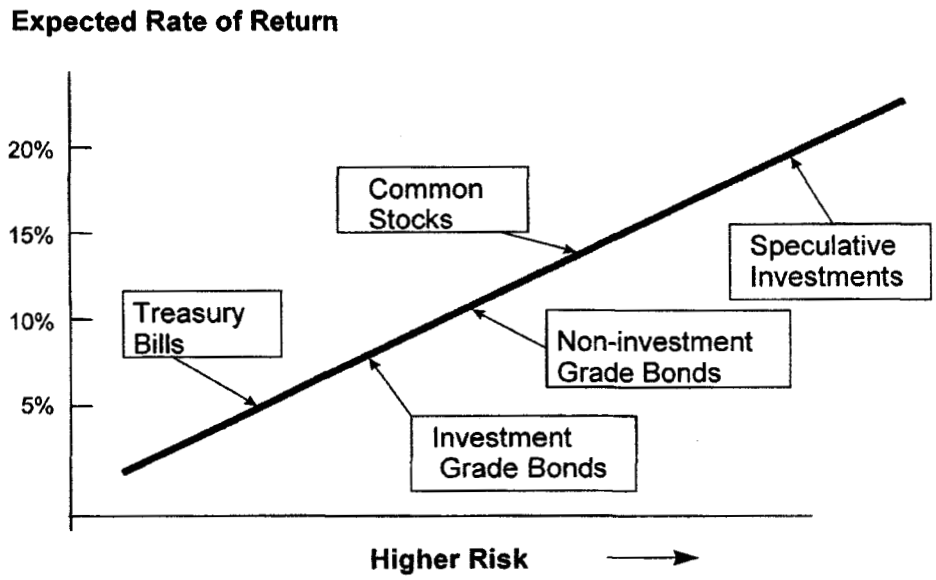
Q. HOW IS THE COST OF EQUITY TYPICALLY ANALYZED?

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

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

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

The Capital Market Line (CML)



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

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

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

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

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

Q. SO THEN, HOW IS THE COST OF EQUITY DETERMINED FOR A PARTICULAR UTILITY?

A. As I said, the estimation of a utility's cost of equity requires analysis of all information that would be available to an investor. It requires an analysis of the factors influencing the cost of various types of capital, such as interest on long-term debt, dividends on preferred stock, and earnings on common equity. The data

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

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

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

Q. PLEASE DISCUSS THESE TWO CRITICAL FACTORS IN GREATER DETAIL.

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

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

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

A. Yes. Conceptually,

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

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

Q. WHAT ABOUT THE CURRENT ECONOMIC CONDITIONS IN THE U.S.?

A. Since emerging from the recent recession of 2008-2009, the economy has grown at a modest and tepid pace. GDP growth for 2010, 2011, and 2012 were 3.0 percent, 1.7 percent, and 2.2 percent, respectively. GDP growth for the first quarter 2013 was 1.8 percent. Current estimates are that GDP growth declined to just 1.0 percent for the second quarter of 2013. Consensus estimates are that the U.S. economy will grow at a modest pace of 2.4 percent to 2.7 percent over the next 2 quarters. For 2014, economists view the U.S. economy growing at a pace of 2.8 percent to 3.0 percent. Beyond 2014, economists see GDP growth to remain modest at no more than 3.0 percent to 3.2 percent. Based upon a review of the Value Line Selection and Opinion – Quarterly Economic Review (May 24, 2013), economists view the modest growth in the economy since the recession with inflation remaining in check as a sign that the present recovery may be fairly long and uninterrupted.

Possible headwinds to economic growth remain and include the drag on the economy from automatic spending cuts by the government, expiring federal stimulus spending, further reductions to discretionary spending, the recession in Europe, China's economic slowing and rising inflation, and the continued turmoil in the Middle East.

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

A. That depends on the day of the question and your definition of "recent." The stock market has recovered from the lows of 2008 recession and has even reached new record highs. Improved earnings, low inflation, modest but sustained economic growth, and a highly supportive Federal Reserve ("Fed") are considered key forces in the rise in the markets over the past several years and in keeping the markets advances in place. In the first seven months of 2013, for example, the DJIA was up by over 18 percent. The gains in the stock market have been spurred on by a highly support Fed over the past several years. The Fed's easy money programs have pushed up assets prices and kept interest rates low in an attempt to spur spending and hiring in the broader economy. However, recent comments by the Fed that it may begin curtailing its asset purchases as the economy improves have caused Treasury yields to rise and stock market sell-offs as investors try to gauge how soon the Fed will act. In June, the three major indexes (DJIA, NASDAQ, S&P 500) lost 4-5 percent of value in a matter of weeks after the Fed indicated it could begin reducing its asset purchases by the end of the year or in early 2014. Then, after the Fed clarified its statements on the curtailment of its asset purchases, the stock market rose again to new highs in late July 2013. Most recently (August 15, 2013), the three major market indicators each lost about 2-4 percent of value in a matter of a few weeks. This was after recent positive economic news

that the job market was improving. Ironically, this news also reinforced investor's fears that Fed may decide that the economy is strong enough it to begin reducing its asset purchases as early as September.[1]

Q. WHAT ABOUT INTEREST RATES?

A. With respect to interest rates, the Federal Open Market Committee ("FOMC") lowered the Federal Funds target rate to near zero during the depths of the 2008-2009 recession where it continues to stand at zero to .25 percent. While the move to lower interest rates may have been necessary at the time, the FOMC was left with little latitude to affect new monetary moves going forward. The FOMC took several extraordinary actions to provide additional support to the economic recovery. The FOMC implemented several programs,[2] called Quantitative Easing

[1] "Stock's Surge Showing Cracks," Wall Street Journal, August 16, 2013.

[2] The following is a brief description and timeline of the FOMC's actions from Wikipedia.org:

Quantitative Easing 1 (QE1, December 2008 to March 2010) - On November 25, 2008, the Fed announced that it would purchase up to $600 billion in agency mortgage-backed securities (MBS) and agency debt. On December 1, Chairman Bernanke provided further details in a speech. On December 16, the program was formally launched by the FOMC. On March 18, 2009, the FOMC announced that the program would be expanded by an additional $750 billion in purchases of agency MBS and agency debt and $300 billion in purchases of Treasury securities.

Quantitative Easing 2 (QE2, November 2010 to June 2011) - On November 3, 2010, the Fed announced that it would purchase $600 billion of longer dated treasuries, at a rate of $75 billion per month. That program, popularly known as "QE2," concluded in June 2011.

Operation Twist (2011) - The FOMC concluded its September 21, 2011 meeting by announcing the implementation of Operation Twist. This is a plan to purchase $400 billion of bonds with maturities of 6 to 30 years and to sell bonds with maturities less than 3 years, thereby extending the average maturity of the Fed's own portfolio. This is an attempt to do what Quantitative Easing (QE) tried to do, without printing more money and without expanding the Fed's balance sheet, therefore hopefully avoiding the inflationary pressure associated with QE. This announcement brought a bout of risk aversion in the equity markets and strengthened the US Dollar, whereas QE I had weakened the USD and supported the equity markets. Further, on June 20, 2012 the FOMC announced an extension to the Twist program by adding additionally $267 billion thereby extending it throughout 2012.

Quantitative Easing 3 (QE3) - On September 13, 2012, the Fed announced a third round of quantitative easing (QE3). This new round of quantitative easing provided for an open-ended commitment to purchase $40 billion agency mortgage-backed securities per month until the labor market improves "substantially."

Quantitative Easing 4 (QE4) - The FOMC voted to order a fourth round of quantitative easing (QE4) on December 12, 2012. This round authorized up to $40 billion worth of agency mortgage-backed securities per month, and $45 billion worth of longer-term Treasury securities.

("QE"), which were meant to stimulate the economy and bring unemployment down.

The Fed's bond buying programs were meant to drive down borrowing costs, push-up asset prices, and encourage more spending and hiring in the broader economy. Utilities, REITS, and other sectors have benefited from the Fed's aggressive bond-buying program, which has kept longer term interest rates low.[3] The Fed's extraordinary stimulus policies have not only kept longer-term interest rates low, while pumping billions of dollars into the financial markets over the past several years. This caused investors to seek out stocks that paid high dividends, pumping up the value of these investment assets. As recently noted in a Wall Street Journal article describing a recent sell-off of dividend paying stocks, stocks that have benefited from very low interest rates are taking a hit from rising bond yields.[4]

Even more recently, the author of a Wall Street Journal article noted that the financial markets, enlivened by the fuel of the Fed's easy-money policies have begun to pull back as the FOMC announced it could start winding down its $85 billion a month bond buying program later this year and end it by mid-2014.[5] According to the author, the FOMC is "setting up a high stakes test to see if the economy and the financial markets can stand on their own."[6] This test is currently being played out in the markets. It's anyone's guess how bumpy the road forward is going to be.

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[3] "Dividend Stocks Fall Victim to Fed," The Wall Street Journal, June 3, 2013.

[4] *Id.*

[5] "Markets Flinch as Fed Eyes Easy-Money End," The Wall Street Journal, June 20, 2013.

[6] *Id.*

Q. IF I UNDERSTAND YOU CORRECTLY MR. BOURASSA, THE FACT THAT THE FED HAS DRIVEN DOWN LONGER TERM INTEREST RATES TO HISTORICAL LOWS AND PUMPED UP THE FINANCIAL MARKET IS CAUSE FOR CONCERN.

A. Yes. On the one hand, the Fed is suggesting the U.S. economy may be strong enough to stand on its own. Other the other hand, investors are beginning to price the uncertainty over whether the Fed is correct. In other words, it is not whether the Fed will withdraw its financial stimulus, but rather, can it. Adding to this uncertainty is not only whether the Fed can continue its extraordinary stimulus but also whether continued financial stimulus will be effective. All this adds to the difficulty in estimating a cost of equity at the present time.

Q. PLEASE EXPLAIN.

A. The Fed's extraordinary efforts to stimulate the economy will eventually come to an end. Current assessments of equity costs may be far lower than the true longer-term costs. But all of this has been artificial, and when it is gone, the financial market values will likely pull back further as investors reassess their appetite for risk. We are already beginning to see this happen. The major market indexes have pulled back from record highs and may continue to do so. Over the long term interest rates will rise. Bond values have already started to drop and yields have begun to rise. The yields on longer term U.S. Treasuries have risen significantly over the past year. The average monthly 10 year U.S. Treasury yield reached a low of 1.53 percent in July of 2012 and increased to 2.58 percent in July of 2013 – an increase of 103 basis points. Similarly, the average monthly 30 year U.S. Treasury yield reached a low of 2.59 percent in July of 2012 and increased to 3.61 percent in July of 2013 – an increase of 102 basis points. It appears that as the Fed's extraordinary stimulus programs come to an end interest rates will return to historic

norms, which will result in considerable increases form where interest rates are now.[7]

Q. THANK YOU. CAN YOU EXPLAIN THE RELATIONSHIP BETWEEN THE COST OF EQUITY AND INTEREST RATES?

A. Yes. All things being equal, the cost of equity moves in the same direction as interest rates. Lower interest rates on U.S Treasuries ("risk-free" rate) imply lower equity returns and visa versa. However, as indicated by Equation [1] above, the risk premium required to compensate investors also impacts the cost of equity. Higher risk premiums required by investors imply higher equity costs and vice versa. Risk premiums are impacted by uncertainty not only with respect to future interest rates, but uncertainty with respect to business and economic conditions, and inflation (or deflation). Risk premiums also reflect other risk factors such as business and operation risk, regulatory risk, financial risk, construction risk, and liquidity risk.

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

A. Of course. First, all investors are impacted by economic uncertainty including the Company's investors. As the federal government takes away the ladders that pulled us out of the Great Recession, no one knows whether the economy will be able to stand on its own. Every investor, every person with a paycheck, every consumer will feel these impacts, good or bad. Second, smaller utilities like VSF generally feel the negative impacts worse because of their size, small customer base, limited service territory, and a general fact that the water and wastewater industry is very capital intensive. Smaller utilities have a limited ability, and

[7] 10 year average annual yield for 10 year U.S. Treasury is 3.67 percent. 10 year average annual yield for 20 year U.S. Treasury is 4.32 percent. Note there is incomplete data for the 30 year U.S. Treasury.

sometimes an inability to attract capital.

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

A. On the whole, the water and wastewater utility industry is expected to continue to confront increasing need for infrastructure upgrades and replacement, as well as possible additional demand. *Value Line Investment Survey* (July 19, 2013) continues to stress that many water utilities have facilities that are decades old and in need of significant maintenance and, in some cases, massive renovation and replacement. As infrastructure costs continue to climb, many smaller companies are at a serious disadvantage. *Value Line* notes that investors in water utilities should always focus on how much of a utility will have to spend relative to its size, and how it will finance these expenditures. *Value Line* also notes that most of the companies in this sector lack the finances necessary to fund improvements on their own. This will require outside financing largely from more debt and higher associated interest expense, which will thwart share-earnings and dilute shareholder gains. Finally, *Value Line* focuses attention to the role of regulators and the challenge that utilities face. As *Value Line* points out, a utility is always at risk of spending prudently but then being denied the right to earn a fair return on its investments.

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

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

Business risk, the basic risk associated with any business undertaking, is the uncertainty associated with the enterprise's day-to-day operations. In essence, it is a function of the normal day-to-day business environment, both locally and

nationally. Business risks include the condition of the economy and capital markets, the state of labor markets, regional stability, government regulation, technological obsolescence, and other similar factors that may impact demand for the business product and its cost of production. For utilities, business risk also includes the volatility of revenues due to abnormal weather conditions, degree of operational leverage, regulation, and regulatory climate. Regulation, for example, can compound the business risk if it is unpredictable in reacting to cost increases both in terms of the time lag and magnitude for recovery of such increases. Regulatory lag makes it difficult to earn a reasonable return, particularly in an inflationary environment and/or when there is significant lag between the timing of investment in capital projects and its recognition in rates. Put simply, the greater the degree of uncertainty regarding the various factors affecting a company's business, the greater the risk of an investment in that company and the greater the compensation required by the investor.

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

An important component of financial risk is construction risk. Construction risk refers to the magnitude of a company's capital budget. If a company has a large construction budget relative to internally generated cash flows it will require external financing. It is important that companies have access to capital funds on

reasonable terms and conditions. Utilities are more susceptible to construction risk for two reasons. First, water and wastewater utilities generally have high capital requirements to build plant to serve customers. Second, utilities have a mandated obligation to serve leaving less flexibility both in the timing and discretion of scheduling capital projects. This is compounded by the limited ability to wait for more favorable market conditions to raise the capital necessary to fund the capital projects. The possibility that the Commission will order VSF to build additional discharge related facilities is a good example of this type of situation.[8]

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

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

A. The Commission's returns on equity for water and sewer utilities over the past decade plus have almost entirely ignored the additional business risk inherent with smaller firms. In almost every case of which I am aware, the cost of equity is almost entirely a reflection of the utility's financial risk relative to the large publicly traded water companies as illustrated by the narrowly tailored results of financial models. I respectfully disagree that this plug and play approach to the

[8] Direct Testimony of Jason Williamson at 3.

cost of equity results in a fair and reasonable return that is commensurate with other similar entities of like risk. As a result, I continue to testify that the models, the DCF and the CAPM, are part of a tool-kit of useful tools to determine an ROE, but not sufficient tools alone to complete the task of setting just and reasonable rates of return. Informed judgment requires more.

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

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

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

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

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

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

320 U.S. at 603.

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

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

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

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

Q. HAVE THESE CRITERIA BEEN APPLIED IN REGULATORY PROCEEDINGS?

A. Yes, but the application of the "reasonableness" criteria laid down by the Supreme Court has resulted in controversy. The typical method of computing the overall cost of capital is quite straightforward: it is the composite, weighted cost of the various classes of capital (debt, preferred stock, and common equity) used by the utility. The weighting is done by calculating the proportion that each class of capital bears to total capital.

However, as should be obvious from my testimony so far, there is no consensus regarding the best method of estimating the cost of equity capital. The increasing regulatory use of market-based finance models in equity return determination has not led to a universally accepted means of estimating the ROE. In addition, the market-based results, particularly from the DCF model, are used and applied to a book-value investment base, which, as I will discuss, understates

the return expected by investors who invest in real markets based on market values.

V. THE ESTIMATED COST OF EQUITY FOR VSF

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

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

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

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

A. No, nor are they readily comparable on an indirect basis given the huge difference in size and scope of service territory. But, they are utilities for which market data is available. All of them are regulated, some provide both water and wastewater services, and their primary source of revenues is from regulated services. Therefore, they provide a useful starting point for developing a cost of equity for the Company.

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

A. The comparable earnings standard set forth in the *Hope* and *Bluefield* decisions require the rate of return afforded to utilities be similar to the return in businesses

with similar or comparable risks. A proxy group of companies with comparable risk is therefore the starting point in a cost of capital analysis.

There are two broad approaches to choosing a proxy group.[9] The first approach consists of selecting pure-play companies that are directly comparable in risk to the subject utility. The companies are chosen using strict criteria with an attempt to identify companies with the same investment risk as the subject utility. There are several qualitative measures that influence investors' assessment of risk that can be used to screen companies. These include SIC classification, bond ratings, beta risk, business risk scores, size, percentage of revenues from regulated operations, common equity ratio, geographical location, etc.[10]

The second approach is to select as large a group of utilities as possible that is representative of the utility industry average and make adjustments for any differences between the subject utility and the industry average. Whether one employs the direct approach or the indirect approach, the selection of companies for a proxy group always raises the question of whether it is possible to select a group that are of comparable risk. Further, there is always the question of identifying any differences in investment risk. The electric, natural gas, and water utility industries have witnessed numerous takeovers, restructuring, corporate reorganizations, unbundling, and increased competition over the last decade or so, all of which has made selections of proxy groups more difficult.[11]

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

[9] Roger A. Morin, *New Regulatory Finance* (2006) at 400.
[10] *Id.*
[11] *Id.*

90 percent of the revenues from regulated activities. These companies were also chosen because they are publicly traded, are not in financial distress, and there is a sufficiently long financial and market history from which to perform an analysis.

The bottom line is that the water utility companies in my proxy group are considered representative of the average of the industry, and, as I have stated throughout my testimony, any resulting analysis must take into account the real and practical differences in investment risk compared to the subject utility, VSF in this case.

Q. SO THE MARKET DATA PROVIDED BY THE WATER PROXY GROUP DOESN'T CAPTURE ALL OF THE MARKET RISKS THAT VSF MIGHT FACE IF IT WERE PUBLICLY TRADED?

A. In my opinion, no. As I stated, there is no comparable market data for utility companies the size of VSF. The average revenue of the water utility sample companies is nearly 200 times that of VSF, and the average net plant of the water utility sample companies is over 140 times that of VSF. Even the smallest company in the sample group, Connecticut Water, has nearly 48 times the net plant of VSF, and nearly 45 times the revenues.

Putting aside the size aspect, an investment in the Company is not a liquid investment. If an investor invests in any of the publicly traded utilities and is not happy with the returns, he/she may sell his/her stock within minutes while liquidating an investment in VSF could take years. This is liquidity risk. Liquidity risk is a significant risk to an investment in non-publicly traded companies like VSF. Some researchers believe that the size premium phenomenon for smaller companies in the public markets is, in part, a reflection of liquidity risk.[12]

[12] *Risk Premium Report 2013*, Duff and Phelps, LLC, at 39.

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

A. Schedule D-4.2 lists the current operating revenues and net plant for the six water utilities as reported by AUS Utility Reports (formerly C.A. Turner Utility Reports) and VSF, respectively. The six sample companies may be generally described as follows:

(1) American States Water (AWR) primarily serves the California market through Golden State Water Company, which provides water services to nearly 256,000 customers within 75 communities in ten counties in the State of California, primarily in Los Angeles, San Bernardino, and Orange counties. AWR also owns an electric utility service provider with over 23,000 customers, but approximately 72 percent of its revenues were derived from commercial and residential water customers. Revenues for AWR were nearly $467 million in 2012 and net plant was nearly $918 million at the end of 2012.

(2) Aqua America (WTR) owns regulated utilities in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and Virginia serving nearly 931,000 customers at the end of 2012. WTR's utility base is diversified among residential water, commercial water, fire protection, industrial water, other water, and wastewater customers. Total revenues for WTR were nearly $758 million in 2012 and net plant was over $3.9 billion at the end of 2012.

(3) California Water Service Group (CWT) owns subsidiaries in California, New Mexico, Washington, and Hawaii, serving nearly 501,000 customers. Revenues for CWT were over $559 million in

2012 and net plant nearly $1.5 billion at the end of 2012.

(4) Connecticut Water Services (CTWS) owns subsidiaries in Connecticut, Maine, Massachusetts, and Rhode Island, serving nearly 122,000 customers. Revenues for CTWS were nearly $84 million in 2012 and net plant nearly $448 million at the end of 2012.

(5) Middlesex Water (MSEX) owns subsidiaries in New Jersey, Delaware and Pennsylvania, serving over 112,000 customers, and provides water service under contract to municipalities in central New Jersey serving a population of over 303,000. Revenues for MSEX were over $110 million in 2012 and net plant was over $435 million at the end of 2012.

(6) SJW Corp. (SJW) owns San Jose Water, which provides water service in a 138 square mile area in San Jose, California, and surrounding communities serving nearly 238,000 customers. Revenues for SJW were nearly $262 million in 2012 and net plant was nearly $832 million at the end of 2012.

Q. HOW DOES VSF COMPARED TO THE SAMPLE WATER UTILITIES?

A. It is much smaller. At the end of the test year, the Company had approximately 950 wastewater customers. Its revenues totaled approximately $540,000, and net plant-in-service was approximately $880,000. VSF is located in Yavapai County, Arizona, and has a very small service territory compared to the sample water companies.

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

A. Yes. Water and sewer utilities are also capital intensive and typically have relatively large construction budgets. As I have previously discussed in this testimony, firms with large capital budgets face construction risk (a form of financial risk). The size of a utility's capital budget relative to the size of the utility itself often increases construction risk. Large utilities are more able to fund their capital budgets from their earnings, cash flows, and short-term and long-term borrowings. Publicly traded utilities can issue new stock to raise capital. For smaller utilities like VSF, the ability to fund relatively large capital budgets from earnings, cash flows, and short-term debt is difficult, if not impossible, without reliance upon additional outside capital or long-term debt, which may not be easy to attract.

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

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

Business risk, or the uncertainty of earnings, is a direct reflection of these and the other factors I have discussed. There are two quantitative measures for measuring business risk. The first is the co-efficient of variance of earnings and the second is operating leverage.

The co-efficient of variance of earnings is a reflection of the distributions of earnings. It is meaningful when measured against the distribution of earnings of

alternative investments, like the water utilities in my water proxy group. The co-efficient of variance of earnings can be quantified using a relatively simple formula: [13]

[1] Co-efficient of Variance of Earnings = Standard Deviation of Operating Income[14]/Mean of Operating Income

Using this measure, the greater the co-efficient of variance of earnings, the greater the risk to investors of not receiving expected returns.[15] Below are the computed co-efficient of variance of earnings results using the most recent 5 years of historical data for my water proxy group and VSF:

Company	Symbol	Business Risk Coefficient of variance of earnings
American States	AWR	0.282
Aqua America	WTR	0.144
California Water	CWT	0.055
Connecticut Water	CTWS	0.211
Middlesex	MSEX	0.127
SJW Corp.	SJW	0.171
Average of Water Utilities		0.165
VSF		0.422

[13] Tuller, Lawrence W., *The Small Business Valuation Book*, Adams Media Corporation, 1994, at p.89.
[14] Operating income is defined as earnings before interest and taxes (EBIT).
[15] *Tuller* at 89.

What these results show is that when using the co-efficient of variance of earnings as a measure of business risk, VSF carries approximately 2.6 times the risk compared to the average water utility in my proxy group (0.422 divided by 0.165).

The second method of measuring business risk, or operating leverage, reflects both the sales fluctuations and the impact of operating costs on earnings. Operating leverage is expressed as: [16]

[2] Operating leverage = Percent Change in Operating Income[17]/ Percent Change in Sales

Using this measure, the greater the operating leverage, the greater the business risk.[18] Below are the computed operating leverage results using the most recent 5 years of historical data for my water proxy group and VSF:

Company	Symbol	Operating Leverage
American States	AWR	2.58
Aqua America	WTR	0. 44
California Water	CWT	0.51
Connecticut Water	CTWS	2.01
Middlesex	MSEX	4.06
SJW Corp.	SJW	1.92
Average of Water Utilities		1.92
VSF		135.12

[16] *Id.*

[17] Operating income is defined as earnings before interest and taxes (EBIT).

[18] *Tuller* at 90-91.

To interpret these results, with respect to the water proxy group, a 1.0 percent change in sales revenue results in a 1.92 percent change in operating income. In contrast, for VSF a 1.0 percent change in sales results in a 135.12 percent change in operating income. What these results show is that the operating leverage of VSF creates a greater business risk compared to the average water utility in my proxy group.

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

A. Correct. Besides the obvious difference in size, constraints on the rate making process in Arizona, coupled with lower returns over the past decade than most states, make it difficult to obtain approval of rates that allow Arizona water and wastewater utilities to recover their costs of service let alone their authorized returns. As a result, risks are higher for VSF compared to the sample companies that do not operate in Arizona and the required return on equity should be higher too.

That's why the sample companies must be viewed as proxies. The criteria established by the Supreme Court in decisions such as *Hope* and *Bluefield Water Works* require the use of comparable companies, i.e., companies that would be viewed by investors as having similar risks. A rational investor would not regard VSF as having the same level of risk as WTR or even CTWS - even with VSF's somewhat lower financial risk - because of the previously mentioned higher business risks due to its small size and the regulatory constraints in Arizona. Consequently, the results produced by the DCF and CAPM methodologies, utilizing data for the sample utilities, often understate the appropriate return on equity for a regulated water and wastewater utility provider such as VSF. This is why I have testified that those results must be put into a larger analysis and not just

at the end of the equation.

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

A. Yes. Generally speaking, when a firm engages in debt financing, it exposes itself to greater risk. Once debt becomes significant relative to the total capital structure, the risk increases in a geometric fashion compared to the linear percentage increase in the debt ratio itself. This risk is illustrated by considering the effect of leverage on net earnings. For example, as leverage increases, the equity ratio falls. This creates two adverse effects. First, equity earnings decline rapidly and may even disappear. Second, the "cushion" of equity protection for debt falls. A decline in the protection afforded debt holders, or the possibility of a serious decline in debt protection, will act to increase the cost of debt financing. Therefore, one may conclude that each new financing, whether through debt or equity, impacts the marginal cost of future financing by any alternative method. For a firm already perceived as being over-leveraged, this additional borrowing would cause the marginal cost of both equity and debt to increase. On the other hand, if the same firm instead successfully employed equity funding, this could actually reduce the real marginal cost of additional borrowing, even if the particular equity issuance occurred at a higher unit cost than an equivalent amount of debt.

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

A. They all have much more debt. But it is unrealistic to expect small companies like VSF to carry significant debt levels.

Q. DOES THE DIFFERENCE IN DEBT LEVELS IMPACT THE COST OF EQUITY FOR VSF?

A. Having less debt in its capital structure implies that VSF has less financial risk than the sample water utilities. But the higher business risks of VSF more than offset the lower financial risk. Smaller utilities face higher business and operational risk, as compared to larger utilities, which can magnify the financial risk of higher debt levels in their capital structures.

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

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

A. These two broad approaches:

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

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

The CAPM is an example of a method falling into the second general approach. It uses information on all securities rather than a small subset. I will also explain the CAPM in more detail below. For now, the CAPM is a risk-return

relationship, often depicted graphically as the CML. The CAPM is the sum of a risk-free return and a risk premium.

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

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

c. <u>Explanation of the DCF Model and Its Inputs</u>

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

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

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

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

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

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

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

Equation [3] is a Market Price version of the DCF model. As with the general form of the DCF model in equation [2], in the Market Price approach the current stock price (P_0) is the present value of the expected cash inflows. The cash flows are comprised of dividends and the final selling price of the stock. The estimated cost of equity (k) is the rate of return investors expect if they bought the stock at today's price, held the stock and received dividends through the transition period, and then sold it for price (P_t).

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

A. Yes. Assume an investor buys a share of common stock for $40. If the expected dividend during the coming year is $2.00, then the expected dividend yield is 5 percent ($2.00/$40 = 5.0 percent). If the stock price is also expected to increase

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

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

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

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

where CF_1/P_0 is the expected dividend yield and g is the expected long-term dividend (price) growth rate ("g"). The expected dividend yield is computed as the ratio of next period's expected dividend ("CF_1") divided by the current stock price ("P_0"). This form of the DCF model is known as the constant growth DCF model and recognizes that investors expect to receive a portion of their total return in the form of current dividends and the remainder through future dividends and capital (price) appreciation. A key assumption of this form of the model is that investors expect that same rate of return (k) every year and that market price grows at the same rate as dividends. This has not been historically true for the water utility sample, as shown by the data in Schedule D-4.4 and Schedule D.4.5. As a result, estimates of long-term growth rates (g) should take this into account.

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

A. There are a number of reasons why caution must be used when applying the DCF model to utility stocks. First, the stock price and dividend yield components may

be unduly influenced by structural changes in the industry, such as mergers and acquisitions, which influence investor expectations. Second, the DCF model is based on a number of assumptions that may not be realistic given the current capital market environment. The traditional DCF model assumes that the stock price, book value, dividends, and earnings all grow at the same rate. This has not been historically true for the sample water utility companies, and there is much uncertainty looking forward. Third, the application of the DCF model produces estimates of the cost of equity that are consistent with investor expectations only when the market price of a stock and the stock's book value are approximately the same. The DCF model will understate the cost of equity when the market-to-book ratio exceeds 1.0 and conversely will overstate the cost of equity when the market-to-book ratio is less than 1.0. The reason for this is that the market-derived return produced by the DCF is often applied to book value rate base by regulators. Fourth, the assumption of a constant growth rate may be unrealistic, and there may be difficulty in finding an adequate proxy for the growth rate. Historical growth rates can be downward biased as a result of the impact of anemic historical growth rates in earnings, mergers and acquisitions, restructuring, unfavorable regulatory decisions, and even abnormal weather patterns. Further, by placing too much emphasis on the past, the estimation of future growth becomes circular.

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

A. First, I computed a current dividend yield (CF_0/P_0). The expected dividend yield (CF_1/P_0) is the current dividend yield (CF_0/P_0) times one plus the growth rate (g). I used the 60 day average stock price for each of the stocks of the water utilities in the sample group on as reported by the *Yahoo Finance* for P_0. The current

dividend (CF_0) is the current dividend as reported by Value Line. In my schedules, the current dividend yield is denoted as (D_0/P_0), where D_0 is the current dividend and P_0 is the spot stock price. (D_1/P_0) is used to denote the expected dividend yield in the schedules.

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

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

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

A. The DCF model requires estimates of growth that investors expect in the future and not past estimates of growth that have already occurred. Accordingly, I use analysts' forecasts of growth as a primary estimate of growth. Logically, in estimating future growth, financial institutions and analysts have taken into account all relevant historical information on a company as well as other more recent information.[19] To the extent that past results provide useful indications of future

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

growth prospects, analysts' forecasts would already incorporate that information. In addition, a stock's current price reflects known historic information on that company, including its past earnings history. Any further recognition of the past will double count what has already occurred. Therefore, forward-looking growth rates should be used.

Q. WHAT OTHER ESTIMATES OF GROWTH DID YOU USE?

A. I use the 5-year historical average growth rates in the stock price, book value per share ("BVPS"), earnings per share ("EPS") and dividends per share ("DPS") along with the average of analyst expectations. Using the historical average of growth in price, BVPS, EPS, and DPS is reasonable because investors know that, in equilibrium, common stock prices, BVPS, EPS and DPS will all grow at the same rate and would take information about changes in stock prices and growth in BVPS into account when they price utilities' stocks. As I stated either, a basic assumption of the DCF model is that the stock price, BVPS, EPS and DPS all grow at the same rate. While I believe the use of historical growth rates gives added recognition to the past that is already incorporated into analyst estimates of growth, I have been criticized in the past for not giving direct consideration to past growth rates in my estimate of growth. So, I have endeavored to remove any basis for the criticism in this case. However, I still agree that the empirical evidence indicates that analyst estimates of growth for utility stocks are the best measure of growth for use in the DCF for utility stocks.[20]

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because analysts would take into account such past growth as indicators of future growth as well as any new information.

[20] Gordon, Gordon, and Gould.

Q. HAVE YOU USED ANALYST ESTMATES OF DPS GROWTH?

A. No. While I did not use analyst estimates of DPS growth, the average projected DPS growth rate of 5.17 percent is higher than the historical DPS growth rate of 3.33 percent. Putting this aside, I did not use analyst estimates of dividend growth for primarily because only one source (*Value Line*) provides DPS growth estimates. The wide availability of earnings growth estimates compared to dividend growth estimates indicates a greater reliance by investors on earnings rather than dividends for their investment decisions.

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

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

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

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

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

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

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

Q. WHAT IS THE RISK-FREE RATE?

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

Q. WHAT IS BETA AND WHAT DOES IT MEASURE?

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

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

There are computational problems surrounding beta. It depends on the return data, the time period used, its duration, the choice of the market index, and whether annual, monthly, or weekly return figures are used. Betas are estimated with error. Based on empirical evidence, high betas will tend to have a positive error (risk is overestimated) and low betas will have a negative error (risk is underestimated).[21]

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

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

A. I used the average beta of the sample water utility companies. Betas were obtained from *Value Line Investment Analyzer* (August 5, 2013). *Value Line* is the source for estimated betas that I regularly employ, along with Staff, and it is widely accepted by financial analysts. The average beta as shown on Schedule D-4.9 is 0.71. I should note that because VSF is not publicly traded, VSF has no beta. I believe that VSF, if it were publicly traded, would have a higher beta than the sample water utility companies.

Q. WHY WOULD VSF HAVE A HIGHER BETA?

A. As previously indicated, smaller companies are inherently more risky than larger companies. In Chapter 7 of Morningstar's *Ibbotson SBBI 2013 Valuation Yearbook*, for example, Ibbotson reports that when betas (a measure of market risk) are properly estimated, betas are larger for small companies than for larger companies. As I will explain later, Ibbotson also finds that even after accounting for differences in beta risk, small firms require an additional risk premium over and above the added risk premium indicated by differences in beta risk.

Q. PLEASE EXPLAIN THE MARKET RISK PREMIUM.

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

Since expected returns are not directly observable, historical realized returns are often used as a proxy for expected returns on the basis that the historical market risk premium follows what is known in statistics as a "random walk." If the historical risk premium does follow the random walk, then one should expect the risk premium to remain at its historical mean. Based on this argument, the best

estimate of the future market risk premium is the historical mean. Morningstar's *SBBI Valuation Edition 2013 Yearbook* provides historical market returns for various asset classes from 1926 to 2012. This publication also provides market risk premiums over U.S. Treasury bonds, which make it an excellent source for historical market risk premiums.

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

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

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

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

A. I used the Morningstar's *Ibbotson SBBI 2013 Valuation Yearbook* measure of the average premium of the market over long-term treasury securities from 1926 through 2012. The average historical market risk premium over long-term treasury securities is 6.7 percent.

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

A. I derived a market risk premium by, first, using the DCF model to compute an expected market return for each of the past 12 months using *Value Line's*

projections of the median dividend yield and median 3-5 year price appreciation (growth) on the *Value Line* 1700 Composite Index. I then subtracted the average 30-year Treasury yield for each month from the expected market returns to arrive at the expected market risk premiums. Finally, I averaged the computed market risk premiums to determine the current market risk premium. The data and computations are shown on Schedule D-4.11. The recent 6 month average current market risk premium is 8.61 percent. Estimates of the current market risk premium have ranged from 8.11 percent to 13.41 percent over the past 12 months averaging 10.11 percent. My 6-month average estimate at 8.61 percent is near the bottom of the 12 month range.

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

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

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

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

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

A. I use long-term expected Treasury bond rates as the measure of the risk-free return for use with both CAPM cost of equity estimates from two sources: the *Blue Chip Financial Forecast* and *Value Line*. Morningstar's *Ibbotson SBBI 2013 Valuation Yearbook* explains on page 55 that the appropriate choice for the risk-free rate is the expected return for long-term Treasury securities. Thus, when determining an estimate of the risk-free rate, it is appropriate to adopt a return that is no less than the expected return on the long-term Treasury bond rate. Both of my CAPM estimates are based on expected interest rates using a recent monthly average estimate (July 2013) and projected estimates of the long-term treasury rates for 2014 and 2015 (from *Blue Chip Financial Forecasts* and *Value Line Selection and Opinion – Quarterly Economic Forecast*). The 2014 to 2015 timeframe is the period when new rates will be in effect for the Company.

e. Explanation of the Build-Up Method and Its Inputs

Q. PLEASE EXPLAIN THE BUILD-UP RISK PREMIUM METHODOLOGY FOR ESTIMATING THE COST OF EQUITY.

A. As I already indicated, like the CAPM, the Build-up Method is a type of risk premium methodology. This is a common and effective method used by appraisers and valuation experts.[22] The Build-up Method is an additive model in which the return on a security is the sum of a risk-free rate and one or more risk premia. Each premium represents the reward an investor receives for taking on a specific risk. An attractive feature of the Build-up Method is that it does not require an estimate of market beta, which is problematic for non-publicly traded companies such as VSF. The Build-up Method can be stated as follows:

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

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

where k = the expected return

R_f = risk-free rate

RP_m = equity risk premium for the market

RP_s = equity risk premium for size

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

Or alternatively as:

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

where k = the expected return

R_f = risk-free rate

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

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

The data for the equity risk premium for the market (RP_m), the equity risk premium for size (RP_s), and the company specific or industry risk premium (RP_u) can be readily obtained from *Morningstar* and/or other size premium studies such as the *Duff & Phelps* study.[23] *Morningstar* quantifies the size premium separate from the market risk premium by market capitalization as a measure of size whereas *Duff & Phelps* study quantifies the risk premium (RP_{m+s}) (market premium (RP_m) plus the size premium (RP_s)) by book value of common equity, 5 year average net income, market value of invested capital, total assets (as reported on balance sheet), 5-year average of earnings before interest, income taxes, depreciation and amortization (EBITDA), sales, and number of employees in

[23] *Risk Premium Report 2013,* Duff & Phelps LLC.

addition to market capitalization – all of which have been shown to be highly correlated with market returns. I should note that the authors of the *Duff & Phelps* study conclude that, by whatever measures of size are used, the results are clear that there is an inverse relationship between size and historical equity returns – small companies have higher returns than larger companies.[24]

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

A. Yes. First, as I mentioned earlier, the Build-up Method does not require a market beta estimate, which is not available for non-public firms. I used the average beta of the large publicly traded water utilities as a proxy for the beta of VSF. However, as I also discussed, there are computation problems surrounding beta and empirical financial data show that beta does not account for all of the risks associated with smaller firms. Second, each of the risk premia used in the Build-up Method can be quantified using data from the equity markets. Third, the various measures of size including fundamental accounting measures have a practical benefit of eliminating the need to make a "guesstimate" of size for comparative purposes where market data for determining market value measures of size is not available, particularly for non-public firms.

Q. HAVE YOU PREPARED ANY ESTIMATES THAT HELP TO SERVE AS A CHECK ON YOUR COST OF EQUITY RECOMMENDATION FOR VSF?

A. Yes. I prepared two alternative estimates. The first uses the Build-up Method and employs *Morningstar* data. I estimate the cost of equity for VSF to be at least 10.6 percent and up to 14.3 percent. These results are based upon the data from

[24] Duff & Phelps at 26.

Morningstar as contained Table C-1 (the risk-rate would be 2.8 percent,[25] the equity risk premium would be 6.7 percent[26], the small company risk premium of 6.1 percent[27]) and data contained in Table 3-5 – Industry Premia Estimates (negative 4.8 for the water supply industry SIC code 494). The calculation is shown as follows:

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

[2] $k = 2.8\% + 6.7\% + 6.0\% - 4.9\%$

[3] $k = 10.6\%$

The computed 10.6 percent is at the low end. Using more refined data provided by *Morningstar* with respect to the 10th decile firm size based upon market value, the indicated cost of equity would be 14.3 percent for VSF.[28]

The second estimate for VSF uses the *Duff & Phel*ps data and employs the same Build-up Method I employed for my analysis of my water proxy group. The result is 15.72 percent; well above my recommendation of 11.0 percent.

These two checks indicate a cost of equity in the range of 10.6 percent to 15.72 percent with a mid-point of 13.2 percent. Accordingly, I find my recommendation of 11.0 percent conservative, as I mentioned in the introduction to this testimony.

[25] Long-term (20 year) U.S. Treasury Bond Yield as of May 24, 2013.

[26] Long-horizon historical equity risk premium – Table A-1 1928-2012.

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

[28] *Morningstar* splits the 10th decile portfolio into two groups; Decile 10a (up to $253761 million in market capitalization) and Decile 10b (up to $165,600 in market capitalization). If publicly traded, VSF would likely fall into the latter group (10b) which has an indicated size premium of 9.7 percent (see Appendix C). Substituting the 9.7 percent size premium for the 6.0 percent in the build-up formula the result would be 14.3 percent (2.8%+6.7%+9.7%-4.9%).

VI. SUMMARY AND CONCLUSIONS

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

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

In the first part of my analysis, I applied two versions of the constant growth DCF model. One uses analyst estimates of growth and the other uses historical growth and analyst expectations. *See* Schedules D-4.8. The DCF models produce an indicated equity cost of 8.5 percent.

In the second part of my analysis, I applied two versions of the CAPM – a historical risk premium CAPM and a current market risk premium CAPM. The CAPM analyses appear in Schedule D-4.12 and produce an indicated cost of equity 9.6 percent.

In the third part of my analysis, I applied the Build-up Method using the Duff and Phelps risk premium study data. The Build-up Method analysis appears on Schedule D-4.18 and produces an indicated cost of equity of 11.7 percent.

In the fourth part of my analysis, I prepared cost of equity estimates for VSF that serve a check of my recommendation of 11.0 percent. Those estimates are in the range of 10.6 percent to 15.72 percent with a mid-point of 13.2 percent.

The range of results of my DCF, CAPM, and Build-up analyses and other risk adjustments is 8.5 percent to 11.7 percent, with a mid-point of 10.1 percent. After a consideration of the risks associated with VSF compared to the publicly traded utility companies, I conclude the required cost of equity is above the median of 10.1 percent and that 11.0 percent is conservative.

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

A. Yes.

VERDE SANTA FE WASTEWATER CO., INC.

DIRECT TESTIMONY OF
THOMAS J. BOURASSA

COST OF CAPITAL

AUGUST 30, 2013

D SCHEDULES

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Summary of Cost of Capital

Exhibit
Schedule D-1
Page 1
Witness: Bourassa

Consolidated Capital Structure

Line No.	Item of Capital	Adjusted End of Test Year Dollar Amount	Adjusted End of Test Year Percent of Total	Adjusted End of Test Year Cost Rate	Adjusted End of Test Year Weighted Cost	Projected Capital Structure Dollar Amount	Projected Capital Structure Percent of Total	Projected Capital Structure Cost Rate	Projected Capital Structure Weighted Cost
1	Long-Term Debt	-	0.00%	0.00%	0.00%	-	0.00%	0.00%	0.00%
2									
3	Stockholder's Equity	330,308	100.00%	11.00%	11.00%	330,050	100.00%	11.00%	11.00%
4									
5	Totals	330,308	100.00%		11.00%	330,050	100.00%		11.00%
6									
7									
8									
9									
10									
11									
12									
13									
14									
15									
16									
17									
18									
19									
20									
21									
22	SUPPORTING SCHEDULES:					RECAP SCHEDULES:			
23	D-1					A-3			
24	D-3								
25	D-4								
26	E-1								
27									
28	Testimony								
29									
30									

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Cost of Long Term Debt

Exhibit
Schedule D-2
Page 1
Witness: Bourassa

Line No.	Description of Debt	End of Test Year Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost	End of Projected Year Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost
1									
2			-	0.000%	0.000%		-	0.000%	0.000%
3			-	0.000%	0.000%		-	0.000%	0.000%
4			-	0.000%	0.000%		-	0.000%	0.000%
5			-	0.000%	0.000%		-	0.000%	0.000%
6			-	0.000%	0.000%		-	0.000%	0.000%
7			-	0.000%	0.000%		-	0.000%	0.000%
8			-	0.000%	0.000%		-	0.000%	0.000%
9			-	0.000%	0.000%		-	0.000%	0.000%
10			-	0.000%	0.000%		-	0.000%	0.000%
11									
12									
13	Totals	$ -	-		0.000%	$ -	-		0.000%
14									
15									
16	Supporting Schdules:								
17	E-1								
18	E-2								
19									
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Cost of Preferred Stock

Exhibit
Schedule D-3
Page 1
Witness: Bourassa

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

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Cost of Common Equity

Exhibit
Schedule D-4
Page 1
Witness: Bourassa

Line No.		
1		
2	The Company is proposing a cost of common equity of	11.00% .
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
18	E-1	D-1
19	D-4.1 to D-4.16	
20		

Verde Santa Fee Wastewater Company
Summary of Results

Exhibit
Schedule D-4.1
Witness: Bourassa

Line No.	Method	Median Result
6	DCF Constant Growth Estimates[1]	8.5%
8	Historical CAPM Estimates[2]	9.6%
10	Build-up Method Estimates[3]	11.7%
12	Mid-point	10.1%
16	Recommended Cost of Equity[4]	11.0%

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

Verde Santa Fee Wastewater Company
Selected Characteristics of Sample Group of Water Utilities

Exhibit
Schedule D-4.2
Witness: Bourassa

Line No.	Company[1]	% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating	Allowed ROE (%)
1	1. American States	59%	$ 470.8	$ 929.5	A+	A2	9.99
2	2. Aqua America	96%	$ 780.3	$ 3,971.2	AA-	NR	10.33
3	3. California Water	100%	$ 554.7	$ 1,468.6	AA-	NR	9.99
4	4. Connecticut Water	100%	$ 85.0	$ 449.6	A	NR	9.75
5	5. Middlesex	88%	$ 113.9	$ 437.6	A	NR	10.15
6	6. SJW Corp.	96%	$ 260.5	$ 829.4	A	NR	9.99
7							
8	Average	90%	$ 377.5	$ 1,347.7			10.03
9							
10	Verde Santa Fee Wastewater Company	100%	$ 0.5	$ 0.9	NR	NR	
11	(Adjusted as of December 31, 2012)						

[1]AUS Utility Reports (July 2013).

Verde Santa Fee Wastewater Company
Capital Structures

Exhibit
Schedule D-4.3
Witness: Bourassa

No.	Company	Book Value[1] Long-Term Debt	Book Value[1] Common Equity	Market Value[1] Long-Term Debt	Market Value[1] Common Equity
1	American States	42.2%	57.8%	23.5%	76.5%
2	Aqua America	52.7%	47.3%	25.5%	74.5%
3	California Water	51.7%	48.3%	36.2%	63.8%
4	Connecticut Water	53.2%	46.8%	34.6%	65.4%
5	Middlesex	42.0%	58.0%	29.2%	70.8%
6	SJW Corp.	55.0%	45.0%	40.1%	59.9%
7	Average	49.5%	50.5%	31.5%	68.5%
8	Verde Santa Fee Wastewater Company (Proforma)	0.0%	100.0%	N/A	N/A

[1] Value Line Analyzer Data (Aug 5, 2013)
[2] Adjusted Per Schedule D-1

Verde Santa Fee Wastewater Company
Comparisons of Past and Future Estimates of Growth

Exhibit
Schedule D-4.4
Witness: Bourassa

Line No.	Company	[1] Price[1]	[2] Book Value[2]	[3] EPS[2]	[4] DPS[2]	[5] Average Col 1-4	[6] Average Future Growth[3]	[7] Average of Future and Historical Growth Col 5-6
		Five-year historical average annual changes						
8	1. American States	9.12%	5.50%	11.50%	4.50%	7.66%	3.00%	5.33%
9	2. Aqua America	5.40%	6.00%	7.50%	7.50%	6.60%	6.07%	6.33%
10	3. California Water	2.03%	5.00%	5.00%	1.00%	3.26%	5.83%	4.55%
11	4. Connecticut Water	7.90%	3.00%	4.00%	1.50%	4.10%	5.33%	4.72%
12	5. Middlesex	4.56%	4.00%	2.50%	1.50%	3.14%	3.35%	3.24%
13	6. SJW Corp.	NMF	3.50%	NMF	4.00%	3.75%	10.75%	7.25%
16	GROUP AVERAGE	5.80%	4.50%	6.10%	3.33%	4.75%	5.72%	5.24%
17	GROUP MEDIAN	5.40%	4.50%	5.00%	2.75%	3.93%	5.58%	5.02%

[1] Average of changes in annual stock prices ending on December 31 through 2012. Data from Yahoo Finance website.
[2] Value Line Analyzer Data, Aug 5, 2013
[3] See Schedule D-4.6.

Verde Santa Fee Wastewater Company
Comparisons of Past and Future Estimates of Growth

Exhibit
Schedule D-4.5
Witness: Bourassa

Line No.	Company	[1] Price[1]	[2] Book Value[2]	[3] EPS[2]	[4] DPS[2]	[5] Average Col 1-4	[6] Average Future Growth[3]	[7] Average of Future and Historical Growth Col 5-6
		Ten-year historical average annual changes						
1	American States	10.41%	5.00%	6.50%	3.00%	6.23%	3.00%	4.61%
2	Aqua America	7.70%	8.50%	7.00%	7.50%	7.68%	6.07%	6.87%
3	California Water	6.27%	5.00%	4.00%	1.00%	4.07%	5.83%	4.95%
4	Connecticut Water	4.80%	4.00%	0.50%	1.50%	2.70%	5.33%	4.02%
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%
7	GROUP AVERAGE	6.88%	5.42%	4.25%	3.25%	4.95%	5.72%	5.34%
8	GROUP MEDIAN	6.63%	5.00%	4.00%	2.25%	4.72%	5.58%	4.78%

[1] Average of changes in annual stock prices ending December 31, 2012. Data from Yahoo Finance website.
[2] Value Line Analyzer Data, Aug 5, 2013.
[3] See Schedule D-4.6.

Verde Santa Fee Wastewater Company
Analysts Forecasts of Earnings Per Share Growth

Exhibit
Schedule D-4.6
Witness: Bourassa

Line No.		[1]	[2]	[3]	[4]
1					
2					
3					
4		ESTIMATES OF EARNINGS GROWTH			Average
5				Value	Growth (G)
6	Company	Yahoo[1]	Zacks[1]	Line[1]	(Cols 1-3)[2]
7	1. American States	2.00%	2.00%	5.00%	3.00%
8	2. Aqua America	4.90%	5.30%	8.00%	6.07%
9	3. California Water	6.00%	6.00%	5.50%	5.83%
10	4. Connecticut Water	5.00%	5.00%	6.00%	5.33%
11	5. Middlesex	2.70%		4.00%	3.35%
12	6. SJW Corp.	14.00%		7.50%	10.75%
13					
14					
15	GROUP AVERAGE	5.77%	4.58%	6.00%	5.72%
16	GROUP MEDIAN				5.58%
17					
18					
19	[1] Data as of August 5, 2013				
20	[2] Where no data available or single estimate, average of other utilities assumed to estimate for utility.				
21					
22					
23					
24					
25					
26					
27					
28					

Verde Santa Fee Wastewater Company
Current Dividend Yields for Water Utility Sample Group

Exhibit
Schedule D-4.7
Witness: Bourassa

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]
6	1. American States	$ 56.10	$ 1.27	2.26%	3.15%
7	2. Aqua America	$ 32.12	$ 0.67	2.09%	2.80%
8	3. California Water	$ 20.33	$ 0.62	3.05%	3.36%
9	4. Connecticut Water	$ 29.00	$ 0.94	3.24%	3.62%
10	5. Middlesex	$ 20.21	$ 0.74	3.66%	3.96%
11	6. SJW Corp.	$ 26.85	$ 0.71	2.64%	2.95%
13	Average			2.82%	3.31%
14	Median			2.85%	3.26%

[1] Yahoo Finance. 60 day average of stock prices as of Aug 5, 2013.

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

Verde Santa Fee Wastewater Company
Discounted Cash Flow Analysis
DCF Constant Growth

Exhibit
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=Div Yld + g (Cols 2+3)
8	DCF - Past and Future Growth	2.82%	2.97%	5.24% [3]	8.2%
10	DCF - Future Growth	2.82%	2.99%	5.72% [4]	8.7%
13	Average	2.82%	2.98%	5.48%	8.5%
15	Median	2.82%	2.98%	5.48%	8.5%

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

Verde Santa Fee Wastewater Company
Market Betas

Exhibit
Schedule D-4.9
Witness: Bourassa

Line No.		Company	Beta (β)[1]
1		Company	Beta (β)[1]
2	1.	American States	0.70
3	2.	Aqua America	0.60
4	3.	California Water	0.65
5	4.	Connecticut Water	0.75
6	5.	Middlesex	0.70
7	6.	SJW Corp.	0.85
8			
9		Average	**0.71**
10			
11			
12			

13 [1] Value Line Investment Analyzer data (Aug 5, 2013)

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

20

Verde Santa Fee Wastewater Company
Forecasts of Long-Term Interest Rates

Exhibit
Schedule D-4.10
Witness: Bourassa

Line No.	Description	Average Jul-13	2014	2015	Average
1					
2					
3					
4					
5					
6	Blue Chip Consensus Forecasts[1]	3.60% [1]	4.20% [2]	4.80% [2]	4.50%
7					
8	Value Line[2]	3.60% [1]	3.60% [3]	4.00% [3]	3.80%
9					
10	Average				4.15%
11					
12					
13					
14	[1] Federal Reserve Monthly Average 30 Year U.S. Treasury				
15	[2] June 2013 Blue Chip Financial Forecasts consensus long-term forecast of 30 Year U.S.Treasury				
16	[3] Value Line Quarterly forecast, dated May 24, 2013, Long-term Treasury				
17					
18					
19					
20					
21					
22					
23					
24					

Verde Santa Fee Wastewater Company
Computation of Current Market Risk Premium

Exhibit
Schedule D-4.11
Witness: Bourassa

Line No.	Month	Dividend Yield (D_0/P_0)[1]	Expected Dividend Yield (D_1/P_0)[2]	+	Growth (g)[3]	=	Expected Market Return (k)	-	Monthly Average 30 Year Treasury Rate[4]	=	Market Risk Premium (MRP)
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%
25	Recommended	2.13%	2.33%	+	9.51%	=	11.84%	-	3.23%	=	8.61%
27	Short-term Trends										
28	Recent Twelve Months Avg	2.20%	2.44%	+	10.73%	=	13.17%	-	3.06%	=	10.11%
29	Recent Nine Months Avg	2.16%	2.38%	+	9.97%	=	12.35%	-	3.13%	=	9.22%
30	Recent Six Months Avg	2.13%	2.33%	+	9.51%	=	11.84%	-	3.23%	=	8.61%
31	Recent Three Months Avg	2.08%	2.26%	+	8.83%	=	11.09%	-	3.37%	=	7.72%

34 [1] Median Current Dividend Yield (D_0/P_0) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks
35 [2] Expected Dividend Yield (D_1/P_0) equals average current dividend yield (D_0/P_0) times one plus growth rate(g).
36 [3] Median 3-5 year price appreciation (annualized). Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks
37 [4] Monthly average 30 year U.S. Treasury. Federal Reserve.
38

Verde Santa Fee Wastewater Company
Traditional Capital Asset Pricing Model (CAPM)

Exhibit
Schedule D-4.12
Witness: Bourassa

Line No.										
1		Rf[1]	+	beta[2]	x	RP_M		+	=	k
2										
3	Historical Market Risk Premium CAPM	4.15%	+	0.71	x	6.70%	[3]	+	=	8.9%
4										
5	Current Market Risk Premium CAPM	4.15%	+	0.71	x	8.61%	[4]	+	=	10.3%
6										
7	Average									9.6%
8										
9	Median									9.6%
10										
11										
12	[1] Forecasts of long-term treasury yields. See Schedule D-4.10.									
13	[2] Value Line Investment Analyzer data. See Schedule D-4.9.									
14	[3] Historical Market Risk Premium from (Rp) MorningStar SBBI 2013 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2012.									
15	[4] Computed using DCF constant growth method to determine current market return onValue Line 1700 stocks									
16	and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Schedule D-4.11.									
17										
18										
19										
20										

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

Exhibit
Schedule D.4.13
Witness: Bourassa

	Company	Symbol	Measures of size (Millions) MV Equity[1]	Book Equity[1]	MVIC[1]	5 Yr Avg. Net Income	Total Assets[2]	5 Yr Avg. EBITDA[3]
1.	American States	AWR	$ 1,083	$ 455	$ 1,415	$ 37	$ 1,281	$ 130
2.	Aqua America	WTR	$ 4,507	$ 1,385	$ 6,051	$ 133	$ 4,859	$ 422
3.	California Water	CWT	$ 850	$ 450	$ 1,332	$ 41	$ 1,996	$ 140
4.	Connecticut Water	CTWS	$ 255	$ 119	$ 391	$ 11	$ 579	$ 24
5.	Middlesex	MSEX	$ 319	$ 181	$ 451	$ 13	$ 562	$ 38
6.	SJW Corp.	SJW	$ 502	$ 275	$ 838	$ 21	$ 1,087	$ 89
	Verde Santa Fee Wastewater Company	Proforma	NA	$ 9.5	NA	$ 0.0	$ 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

Net Income Data ($ millions)

Company	Symbol	2012	2011	2010	2009	2008	Average
American States	AWR	$ 54.0	$ 45.9	$ 33.2	$ 29.5	$ 22.0	$ 36.9
Aqua America	WTR	$ 197.0	$ 143.1	$ 124.0	$ 104.4	$ 97.9	$ 133.3
California Water	CWT	$ 49.0	$ 37.7	$ 37.7	$ 40.6	$ 39.8	$ 40.9
Connecticut Water	CTWS	$ 14.0	$ 11.3	$ 9.8	$ 10.2	$ 9.4	$ 10.9
Middlesex	MSEX	$ 14.0	$ 13.4	$ 14.3	$ 10.0	$ 12.2	$ 12.8
SJW Corp.	SJW	$ 22.0	$ 20.9	$ 24.4	$ 15.2	$ 21.5	$ 20.8
Verde Santa Fee Wastewater Company		(0.01)	0.00	0.00	(0.01)	0.04	$ 0.0

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

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

EBITDA Data ($ millions)

Company	Symbol	2012	2011	2010	2009	2008	Average
American States	AWR	$ 154.0	$ 133.3	$ 134.4	$ 122.6	$ 105.9	$ 130.0
Aqua America	WTR	$ 439.0	$ 397.8	$ 473.2	$ 415.2	$ 384.7	$ 422.0
California Water	CWT	$ 151.0	$ 143.3	$ 155.7	$ 125.5	$ 122.1	$ 139.5
Connecticut Water	CTWS	$ 30.0	$ 24.2	$ 22.5	$ 20.3	$ 21.1	$ 23.6
Middlesex	MSEX	$ 39.0	$ 34.6	$ 43.3	$ 34.6	$ 38.6	$ 38.0
SJW Corp.	SJW	$ 90.0	$ 87.1	$ 75.4	$ 93.5	$ 99.7	$ 89.1
Verde Santa Fee Wastewater Company		$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.1	0.42

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

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

Exhibit
Schedule D.4.14
Witness: Bourassa

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

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

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

MRP_{m+s} (unlevered)

	Company	Symbol	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
1.	American States	AWR	8.76%	8.72%	8.70%	9.24%	8.68%	9.09%	8.87%
2.	Aqua America	WTR	6.78%	7.50%	6.70%	7.79%	7.07%	7.70%	7.26%
3.	California Water	CWT	9.09%	8.73%	8.79%	9.12%	8.15%	9.01%	8.81%
4.	Connecticut Water	CTWS	10.76%	10.20%	10.48%	10.61%	9.65%	11.11%	10.47%
5.	Middlesex	MSEX	10.45%	9.73%	10.28%	10.43%	9.68%	10.54%	10.19%
6.	SJW Corp.	SJW	9.82%	9.27%	9.43%	9.89%	8.88%	9.54%	9.47%
	Average (unlevered)		9.28%	9.03%	9.06%	9.51%	8.68%	9.50%	9.18%
	Verde Santa Fee Wastewater Company		NA	12.98%	NA	NMF	14.44%	15.86%	14.43%

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

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

Exhibit
Schedule D.4.15
Witness: Bourassa

	Company	Symbol	Unlevered Portfolio Beta (β_u)						
			(Table C-1)	(Table C-2)	(Table C-4)	(Table C-3)	(Table C-5)	(Table C-6)	Average
1.	American States	AWR	0.94	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
	Verde Santa Fee Wastewater Company		NA	0.98	NA	1.01	1.05	1.03	1.02

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

Exhibit
Schedule D.4.16
Witness: Bourassa

MRP Estimates Using Duff & Phelps Study (Relevered)
Relevered Realized Risk Premium

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

Where β_u = unlevered portfolio beta

β_d = debt beta, assumed to be 0.1
W_d = percentage of debt in capital structure
W_e = percentage of equity in capital structure
$RP_{unlevered}$ = unlevered realized risk premium from Table 2
RP_{market} = general equity risk premium for the market since 1963.

	Company	Symbol	W_d/W_e	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
			MRP_{m+s} (Relevered)							
1.	American States	AWR	30.7%	9.92%	9.91%	9.88%	10.41%	9.89%	10.27%	10.04%
2.	Aqua America	WTR	34.3%	7.97%	8.71%	7.87%	8.99%	8.19%	8.81%	8.43%
3.	California Water	CWT	56.7%	11.34%	10.93%	10.95%	11.29%	10.29%	11.20%	11.00%
4.	Connecticut Water	CTWS	53.0%	12.81%	12.30%	12.55%	12.69%	11.77%	13.32%	12.57%
5.	Middlesex	MSEX	41.2%	12.05%	11.40%	11.91%	12.05%	11.33%	12.19%	11.82%
6.	SJW Corp.	SJW	66.8%	12.47%	11.92%	12.07%	12.56%	11.50%	12.09%	12.10%
	Average MRP (Relevered)		47.11%	11.09%	10.86%	10.87%	11.33%	10.49%	11.32%	10.99%
	Verde Santa Fee Wastewater Company		0.00%	NA	12.98%	NA	NMF	14.44%	15.86%	14.43%

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

Exhibit
Schedule D.4.17
Witness: Bourassa

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

[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 Schedule D-4.16)	10.99%	
[5] MRP (relevered) for publicly traded water companies (RP_{m+s}) ([3] + [4])	11.49%	
[6] Equity Risk Premium Adjustment ([3])	0.50%	
[7] Average MRP (relevered) for subject utility company (from Table 4)	14.43%	
[8] MRP (relevered) for subject utility company (RP_{m+s}) ([6] + [7])	14.93%	
[9] Industry Risk Premium (From *Ibbotson* for SIC 494 Water Supply Industry Table 3-5)	-4.92%	
[10] Adjustment Factor to Industry Risk Premium ([2] / 6.7%[1])	0.7463	
[11] Adjusted Industry Risk Premium (R_i) ([9] x [10])	-3.67%	
[12] Risk Free Rate (R_f)[2]	3.42%	

[1] From Duff and Phelps Risk Premium Report 2013.
[2] Yield on 20 Yr U.S. Treasury August 5, 2013 (Federal Reserve)

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

Exhibit
Schedule D.4.18
Witness: Bourassa

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

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

Where:

- $E(R_i)$ = Expected (indicated) rate of return
- R_f = Risk-free rate of return. See Schedule D-4.17.
- RP_{m+s} = Market risk premium including size premium. See Schedule D-4.16.
- RP_i = Industry risk premium (adjusted). See Schedule D-4-17.
- RP_u = Company-specific risk premium

	Sample Publicly Traded Water Utilities	Verde Santa Fee Wastewater Company
R_f =	3.42%	3.42%
RP_{m+s} =	See Sched. D-4.16	
RP_i =	-3.67%	-3.67%
RP_u =	0.00%	0.00%

Indicated COE $E(R_i)$

	Company	Symbol	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
1.	American States	AWR	10.17%	10.16%	10.13%	10.66%	10.13%	10.52%	10.29%
2.	Aqua America	WTR	8.22%	8.96%	8.12%	9.24%	8.44%	9.06%	8.67%
3.	California Water	CWT	11.59%	11.17%	11.20%	11.54%	10.54%	11.45%	11.25%
4.	Connecticut Water	CTWS	13.06%	12.55%	12.80%	12.93%	12.02%	13.57%	12.82%
5.	Middlesex	MSEX	12.29%	11.65%	12.16%	12.30%	11.58%	12.44%	12.07%
6.	SJW Corp.	SJW	12.72%	12.17%	12.32%	12.81%	11.75%	12.34%	12.35%
	Average COE estimate		11.34%	11.11%	11.12%	11.58%	10.74%	11.56%	11.24%
	Median COE Estimate		11.94%	11.41%	11.68%	11.92%	11.06%	11.90%	11.66%
	Verde Santa Fee Wastewater Company		NA	13.23%	NA	NMF	14.69%	16.11%	14.67%

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

Attorneys for Verde Santa Fe Wastewater Co., Inc.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF VERDE SANTA FE WASTEWATER CO., INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-03437A-13-0292

REBUTTAL TESTIMONY OF THOMAS J. BOURASSA

March 13, 2014

EXHIBIT
A-6
ADMITTED

Table of Contents

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8978421.1/026985.0002

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND ADDRESS.

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

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

A. I am testifying on behalf of the Verde Santa Fe Wastewater Co., Inc., ("VSF" or the "Company").

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

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

Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?

A. I will provide rebuttal testimony in response to the direct filing by Staff, however, my rebuttal testimony is just one volume.

II. THE COMPANY'S REBUTTAL POSITION

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

A. The Company proposes a total revenue requirement of $517,202, which constitutes an increase in revenues of $35,651, or 7.85 percent over adjusted test year revenues.

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

A. It is lower. In the direct filing, the Company requested a total revenue requirement of $544,674, which required an increase in revenues of $65,213, or 13.60 percent.

Q. WHAT'S DIFFERENT?

A. In its rebuttal filing, VSF has adopted all of the revenue/expense adjustments recommended by Staff, and proposed adjustments of its own based on a known and measurable change to the test year. The net result of these adjustments is the Company's proposed operating expenses have decreased by $14,894, from $481,501 in the direct filing to $468,607. There is no change in rate base from the direct filing of $421,337.

Q. SO IF STAFF ADOPTS THE COMPANY'S PROPOSED REBUTTAL ADJUSTMENT, THE TWO PARTIES WILL HAVE THE SAME REVENUE REQUIREMENT?

A. Yes, as Mr. Williamson explains in his rebuttal testimony, the Company has elected not to dispute any of Staff's recommended adjustments.

Q. HAVE YOU PREPARED REBUTTAL SCHEDULES?

A. Yes. These schedules are attached to this testimony. Rebuttal Schedule B-2, pages 1 and 2, summarizes the Company's rebuttal OCRB.

The Company rebuttal adjustments to revenues and/or expenses are detailed on Rebuttal Schedule C-2, pages 1-7. The rebuttal income statement with adjustments is summarized on Rebuttal Schedule C-1, page 1-2.

Rebuttal adjustment 1 reflects the annualized depreciation and amortization expense based on the Company proposed PIS and CIAC balances. There is no change to depreciation and amortization expense at this stage because the Company is not proposing changes to either its PIS or CIAC balances. The Staff recommended depreciation and amortization expense level is the same as the Company's.

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

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

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

A. Yes.[1]

Q. THANK YOU. PLEASE CONTINUE.

A. Rebuttal adjustment number 3 reduces Salaries and Wages expense for director's wages by $18,529. This adjustment reflects the adoption of the Staff proposed adjustment to Salaries and Wages expense.[2] Adoption of the Staff recommendation by the Company is made to help eliminate issues between the parties.

Rebuttal adjustment number 4 reduces Rent expense by $11,256. This adjustment reflects the adoption of the Staff proposed adjustment to Rent expense that is related to the Company's lease of wastewater treatment equipment.[3] Adoption of the Staff recommendation by the Company is made to help eliminate issues between the parties.

Rebuttal adjustment number 5 increases sludge removal expense by $12,079 for known and measurable changes to the test year.

Q. PLEASE EXPLAIN.

A. The Company's recommended adjustment consists of two parts. The first part reflects a known and measurable increase of $6,741 to the annual sludge removal

[1] Direct Testimony of Crystal S. Brown ("Brown Dt.") at 13.
[2] Brown Dt. at 8.
[3] Brown Dt. at 12.

expense as a result of upgrades to the Company's sludge bagging process. The second part reflects the annualized portion of effluent pond clean-up costs or $5,338.[4] Mr. Williamson explains the additional sludge removal costs in his rebuttal testimony.

Q. THANK YOU. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE COMPANY'S REBUTTAL PROPOSED ADJUSTMENTS TO REVENUES AND EXPENSES.

A. Adjustment 6 adjusts income taxes to reflect the Company proposed adjusted test year revenues and expenses.

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

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

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

A. Yes.

Q. PLEASE DISCUSS THE COMPANY'S RECOMMENDED RETURN ON EQUITY AND RETURN ON RATE BASE.

A. To eliminate issues between the parties, the Company has adopted the Staff recommended return on equity of 9.6 percent and return on rate base of 9.6 percent reflecting a 100 percent equity capital structure.[5]

...

...

...

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[4] The total cost of effluent pond cleaning in 2013 was $10,676 which is expected to occur every 2 years.

[5] Direct Testimony of John A. Cassidy at 31.

III. RATE DESIGN (H SCHEDULES)

Q. WHAT ARE THE COMPANY'S PROPOSED RATES?

A. The Company's proposed rates are:

MONTHLY SERVICE CHARGES

Residential	$43.24
Commercial	$43.24 times SFE[6]
Effluent (per 1,000 gallons)	$ 0.23

Q. WHAT IS THE IMPACT OF THE COMPANY PROPOSED RATES ON RESIDENTIAL CUSTOMERS?

A. As shown on Schedule H-2, page 1, the monthly bill under proposed rates for a residential customer is $43.24 – a $3.24 increase over the present monthly bill or a 8.1 percent increase.

Q. DOES STAFF AGREE WITH THE $0.23 PER 1,000 GALLONS FOR EFFLUENT?

A. Yes.[7]

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

A. Yes.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

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[6] One SFE is defined as 10 fixtures (sinks and/or toilets and/or showers, etc.). The SFE for a commercial customer will be equal to the number of fixtures divided by 10. If the computed SFE is less than 1.0, the factor will be 1.0, which provides that a commercial customer pays no less than a residential customer.

[7] Brown Dt. 15.

REBUTTAL SCHEDULES

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Rebuttal Schedule A-1
Page 1
Witness: Bourassa

Line No.			
1	Fair Value Rate Base	$	421,336
2			
3	Adjusted Operating Income		10,944
4			
5	Current Rate of Return		2.60%
6			
7	Required Operating Income	$	40,448
8			
9	Required Rate of Return		9.60%
10			
11	Operating Income Deficiency	$	29,504
12			
13	Gross Revenue Conversion Factor		1.2761
14			
15	Increase in Gross Revenue		
16	Requirement	$	37,651
17			
18	Adjusted Test Year Revenues	$	479,551
19	Increase in Gross Revenue Revenue Requirement	$	37,651
20	Proposed Revenue Requirement	$	517,202
21	% Increase		7.85%
22			

23	**Customer**		**Present**	**Proposed**	**Dollar**	**Percent**
24	**Classification**		**Rates**	**Rates**	**Increase**	**Increase**
25	Residential		$ 450,680	$ 487,185	$ 36,505	8.10%
26						
27	Commercial	VSF Community Center	$ 1,056	$ 1,142	$ 86	8.10%
28	Commercial	Amante Club House	1,536	1,660	124	8.10%
29	Commercial	VSF Golf Course	3,300	3,567	267	8.10%
30	Commercial	Highlands Resort	3,408	3,684	276	8.10%
31						
32						
33	Effluent	VSF Golf Course	$ 65,453	$ 7,527	$ (57,926)	-88.50%
34					-	0.00%
35	Revenue Annualization		$ 2,440	$ 2,638	$ 198	8.10%
36	**Subtotal**		$ 527,873	$ 507,403	$ (20,470)	-3.88%
37						
38	C-2 Revenue Adjustment		(57,926)	-	57,926	-100.00%
39	Other Water Revenues		9,624	9,624	-	0.00%
40	Reconciling Amount		(20)	175	195	-975.00%
41	Rounding					0.00%
42	**Total of Water Revenues**		$ 479,551	$ 517,202	$ 37,651	7.85%
43						
44						
45	SUPPORTING SCHEDULES:					
46	B-1					
47	C-1					
48	C-3					
49	H-1					

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Summary of Rate Base

Exhibit
Rebuttal Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 1,555,530	$ 1,555,530
3	Less: Accumulated Depreciation	658,177	658,177
4			
5	Net Utility Plant in Service	$ 897,353	$ 897,353
6			
7	Less:		
8	Advances in Aid of Construction	-	-
9			
10	Contributions in Aid of Construction	978,305	978,305
11			
12	Accumulated Amortization of CIAC	(502,287)	(502,287)
13			
14	Customer Meter Deposits	-	-
15	Deferred Income Taxes & Credits	-	-
16			
17			
18			
19	Plus:		
20	Unamortized Finance		
21	Charges	-	-
22	Prepayments	-	-
23	Materials and Supplies	-	-
24	Allowance for Cash Working Capital	-	-
25			
26			
27	Rounding	1	1
28	Total Rate Base	$ 421,336	$ 421,336
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			
41			
42			
43	SUPPORTING SCHEDULES:		
44	B-2		
45	B-3		
46	B-5		
47			
48			
49			
50			
51			
52			

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 1
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Proforma Adjustment	Rebutttal Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	$ 1,555,530	-	$ 1,555,530
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	658,177	-	658,177
7				
8				
9	Net Utility Plant			
10	in Service	$ 897,353		$ 897,353
11				
12	**Less:**			
13	Advances in Aid of			
14	Construction	-	-	-
15				
16	Contributions in Aid of			
17	Construction - Gross	978,305	-	978,305
18				
19	Accumulated Amortization of CIAC	(502,287)	-	(502,287)
20				
21	Customer Meter Deposits	-		-
22	Accumulated Deferred Income Tax	-	-	-
23				-
24				-
25				
26	**Plus:**			
27	Unamortized Finance			
28	Charges	-	-	-
29	Prepayments	-	-	-
30	Materials and Supplies	-	-	-
31	Allowance for Cash Working Capital	-	-	-
32				-
33	Rounding	1		1
34	Total	$ 421,336		$ 421,336
35				
36				
37				
38				
39				
40				
41				
42				
43				
44				
45	SUPPORTING SCHEDULES:			RECAP SCHEDULES:
46	B-2, pages 2			B-1
47	E-1			
48				
49				
50				

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 2
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Proforma Adjustments 1 Plant-in-Service	2 Accumulated Depreciation	3 CIAC	4 Intentionally Left Blank	5 Intentionally Left Blank	Rebuttal Adjusted at end of Test Year
1	Gross Utility							
2	Plant in Service	$ 1,555,530	-					$ 1,555,530
3								
4	Less:							
5	Accumulated							
6	Depreciation	658,177		-				658,177
7								
8								
9	Net Utility Plant							
10	in Service	$ 897,353	$ -	$ -	$ -	$ -	$ -	$ 897,353
11								
12	Less:							
13	Advances in Aid of							
14	Construction	-						-
15								
16	Contributions in Aid of							
17	Construction (CIAC)	978,305						978,305
18								
19	Accumulated Amort of CIAC	(502,287)			-			(502,287)
20								
21	Customer Meter Deposits	-						-
22	Accumulated Deferred Income Taxes	-						-
23								
24								
25	Plus:							
26	Unamortized Finance							
27	Charges	-						-
28	Prepayments	-						-
29	Materials and Supplies	-						-
30	Allowance for Cash Working Capital	-			-			-
31								
32	Total	$ 421,335	$ -	$ -	$ -	$ -	$ -	$ 421,335
33								
34								
35								
36	SUPPORTING SCHEDULES:						RECAP SCHEDULES:	
37	B-2, pages 3-5						B-1	
38								
39								
40								

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1

Exhibit
Rebuttal Schedule B-2
Page 3
Witness: Bourassa

Plant-in-Service

Line No.	Acct. No.	Description	Adjusted Orginal Cost	A Adjustments Required to Reconcile to Reconstruction	B Intentionally Left Blank	C Intentionally Left Blank	D Intentionally Left Blank	E Intentionally Left Blank	Rebuttal Adjusted Original Cost
				Adjustments					
6	351	Organization Cost	30,909	-					30,909
7	352	Franchise Cost	-	-					-
8	353	Land and Land Rights	45,400	-					45,400
9	354	Structures & Improvements	108,242	-					108,242
10	355	Power Generation Equipment	-	-					-
11	360	Collection Sewers - Force	-	-					-
12	361.1	Collection Sewers - Gravity	328,735	-					328,735
13	361.2	Manholes & Cleanouts	-						-
14	362	Special Collecting Structures	-	-					-
15	363	Servcies to Customers	73,179	-					73,179
16	364	Flow Measuring Devices	12,958	-					12,958
17	365	Flow Measuring Installations	-	-					-
18	366	Reuse Services	-	-					-
19	367	Reuse Meters and Meter Installation:	-	-					-
20	370	Receiving Wells	-	-					-
21	371.1	Pumping Equipment - Lift Stations	0	-					-
22	371.2	Other Pumping Equipment	0						-
23	371.3	Pumping Equipment - Recharge Wel	0						-
24	374	Reuse Distribution Reserviors	-	-					-
25	375	Reuse Transmission and Distributior	-	-					-
26	380	Treatment & Disposal Equipment	865,491	-					865,491
27	381	Plant Sewers	-	-					-
28	382	Outfall Sewer Lines	-	-					-
29	389	Other Plant & Misc Equipment	-	-					-
30	390	Office Furniture & Equipment	5,803	-					5,803
31	390.1	Computers & Software	-	-					-
32	391	Transportation Equipment	-	-					-
33	392	Stores Equipment	-	-					-
34	393	Tools, Shop & Garage Equipment	4,676	-					4,676
35	394	Laboratory Equipment	630	-					630
36	395	Power Operated Equipment	-	-					-
37	396	Communication Equipment	-	-					-
38	397	Miscellaneous Equipment	-	-					-
	398	Other Tangible Plant	79,507	-					79,507
39		Rounding		-					-
40		TOTALS	$ 1,555,530	$ -	$ -	$ -	$ -	$ -	$ 1,555,530
41									
42	Plant-in-Service per Books								$ 1,555,530
43									
44	Increase (decrease) in Plant-in-Service								$ -
45									
46	Adjustment to Plant-in-Service								$ -
47									
48	SUPPORTING SCHEDULES								
49	B-2, pages 3.1								
50									

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 -A

Exhibit
Rebuttal Schedule B-2
Page 3.1
Witness: Bourassa

Line No.	Acct. No.	Description	Recorded Orginal Cost	Plant Per Reconstruction	Adjustment Required
1					
2					
3					
6	351	Organization Cost	30,909	30,909	-
7	352	Franchise Cost	-	-	-
8	353	Land and Land Rights	45,400	45,400	-
9	354	Structures & Improvements	108,242	108,242	-
10	355	Power Generation Equipment	-	-	-
11	360	Collection Sewers - Force	-	-	-
12	361.1	Collection Sewers - Gravity	328,735	328,735	-
13	361.2	Manholes & Cleanouts	-	-	-
14	362	Special Collecting Structures	-	-	-
15	363	Servcies to Customers	73,179	73,179	-
16	364	Flow Measuring Devices	12,958	12,958	-
17	365	Flow Measuring Installations	-	-	-
18	366	Reuse Services	-	-	-
19	367	Reuse Meters and Meter Installatior	-	-	-
20	370	Receiving Wells	-	-	-
21	371.1	Pumping Equipment - Lift Stations	-	-	-
22	371.2	Other Pumping Equipment	-	-	-
23	371.3	Pumping Equipment - Recharge W	-	-	-
24	374	Reuse Distribution Reserviors	-	-	-
25	375	Reuse Transmission and Distributio	-	-	-
26	380	Treatment & Disposal Equipment	865,491	865,491	-
27	381	Plant Sewers	-	-	-
28	382	Outfall Sewer Lines	-	-	-
29	389	Other Plant & Misc Equipment	-	-	-
30	390	Office Furniture & Equipment	5,803	5,803	-
31	390.1	Computers & Software	-	-	-
32	391	Transportation Equipment	-	-	-
33	392	Stores Equipment	-	-	-
34	393	Tools, Shop & Garage Equipment	4,676	4,676	-
35	394	Laboratory Equipment	630	630	-
36	395	Power Operated Equipment	-	-	-
37	396	Communication Equipment	-	-	-
38	397	Miscellaneous Equipment	-	-	-
39	398	Other Tangible Plant	79,507	79,507	-
40		Rounding			-
41		TOTALS	$ 1,555,530	$ 1,555,530	$ -
42					
43					
44	SUPPORTING SCHEDULE				
45	B-2, pages 3.2 - 3.16				
46					

Verde Snata Fe Wastewater Company, Inc.
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.2
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate[1]	NARUC Plant at 12/31/1997	Accum. Deprec. At 12/31/1997	1998 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%	-	-	30,909		30,909			-		-	30,909	-
2	352	Franchise Cost	0.00%	-	-			-			-		-	-	-
3	353	Land and Land Rights	0.00%	-	-	45,400		45,400			-		-	45,400	-
4	354	Structures & Improvements	5.00%	-	-			-			-		-	-	-
5	355	Power Generation Equipment	5.00%	-	-			-			-		-	-	-
6	360	Collection Sewers - Force	5.00%	-	-			-			-		-	-	-
7	361.1	Collection Sewers - Gravity	5.00%	-	-			-			-		-	-	-
8	361.2	Manholes & Cleanouts	5.00%	-	-			-			-		-	-	-
9	362	Special Collecting Structures	5.00%	-	-			-			-		-	-	-
10	363	Services to Customers	5.00%	-	-			-			-		-	-	-
11	364	Flow Measuring Devices	5.00%	-	-			-			-		-	-	-
12	365	Flow Measuring Installations	5.00%	-	-			-			-		-	-	-
13	366	Reuse Services	5.00%	-	-			-			-		-	-	-
14	367	Reuse Meters and Meter Installations	5.00%	-	-			-			-		-	-	-
15	370	Receiving Wells	5.00%	-	-			-			-		-	-	-
16	371.1	Pumping Equipment - Lift Stations	5.00%	-	-			-			-		-	-	-
17	371.2	Other Pumping Equipment	5.00%	-	-			-			-		-	-	-
18	371.3	Pumping Equipment - Recharge Wells	5.00%	-	-			-			-		-	-	-
19	374	Reuse Distribution Reservoirs	5.00%	-	-			-			-		-	-	-
20	375	Reuse Transmission and Distribution	5.00%	-	-			-			-		-	-	-
21	380	Treatment & Disposal Equipment	5.00%	-	-	209,412		209,412			-		5,235	209,412	5,235
22	381	Plant Sewers	5.00%	-	-			-			-		-	-	-
23	382	Outfall Sewer Lines	5.00%	-	-			-			-		-	-	-
24	389	Other Plant & Misc Equipment	5.00%	-	-			-			-		-	-	-
25	390	Office Furniture & Equipment	5.00%	-	-			-			-		-	-	-
26	390.1	Computers & Software	5.00%	-	-			-			-		-	-	-
27	391	Transportation Equipment	5.00%	-	-			-			-		-	-	-
28	392	Stores Equipment	5.00%	-	-			-			-		-	-	-
29	393	Tools, Shop & Garage Equipment	5.00%	-	-			-			-		-	-	-
30	394	Laboratory Equipment	5.00%	-	-			-			-		-	-	-
31	395	Power Operated Equipment	5.00%	-	-			-			-		-	-	-
32	396	Communication Equipment	5.00%	-	-			-			-		-	-	-
33	397	Miscellaneous Equipment	5.00%	-	-			-			-		-	-	-
34	398	Other Tangible Plant	5.00%	-	-			-			-		-	-	-
35															
36		Sub Total		-	-	285,721	-	285,721	-	-	-	-	5,235	285,721	5,235
37															
38															
39															
40		TOTAL		-	-	285,721	-	285,721	-	-	-	-	5,235	285,721	5,235
41		[1] Decision 60779													

Verde Snata Fe Wastewater Company, Inc.
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.3
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate[1]	1999 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%			-			-		-	30,909	-
2	352	Franchise Cost	0.00%			-			-		-	-	-
3	353	Land and Land Rights	0.00%			-			-		-	45,400	-
4	354	Structures & Improvements	5.00%			-			-		-	-	-
5	355	Power Generation Equipment	5.00%			-			-		-	-	-
6	360	Collection Sewers - Force	5.00%			-			-		-	-	-
7	361.1	Collection Sewers - Gravity	5.00%			-			-		-	-	-
8	361.2	Manholes & Cleanouts	5.00%			-			-		-	-	-
9	362	Special Collecting Structures	5.00%			-			-		-	-	-
10	363	Servcies to Customers	5.00%			-			-		-	-	-
11	364	Flow Measuring Devices	5.00%			-			-		-	-	-
12	365	Flow Measuring Installations	5.00%			-			-		-	-	-
13	366	Reuse Services	5.00%			-			-		-	-	-
14	367	Reuse Meters and Meter Installations	5.00%			-			-		-	-	-
15	370	Receiving Wells	5.00%			-			-		-	-	-
16	371.1	Pumping Equipment - Lift Stations	5.00%			-			-		-	-	-
17	371.2	Other Pumping Equipment	5.00%			-			-		-	-	-
18	371.3	Pumping Equipment - Recharge Wells	5.00%			-			-		-	-	-
19	374	Reuse Distribution Reserviors	5.00%			-			-		-	-	-
20	375	Reuse Transmission and Distribution	5.00%			-			-		10,471	209,412	15,706
21	380	Treatment & Disposal Equipment	5.00%			-			-		-	-	-
22	381	Plant Sewers	5.00%			-			-		-	-	-
23	382	Outfall Sewer Lines	5.00%			-			-		-	-	-
24	389	Other Plant & Misc Equipment	5.00%	2,892		2,892			-		72	2,892	72
25	390	Office Furniture & Equipment	5.00%			-			-		-	-	-
26	390.1	Computers & Software	5.00%			-			-		-	-	-
27	391	Transportation Equipment	5.00%			-			-		-	-	-
28	392	Stores Equipment	5.00%	2,322		2,322			-		58	2,322	58
29	393	Tools, Shop & Garage Equipment	5.00%			-			-		-	-	-
30	394	Laboratory Equipment	5.00%			-			-		-	-	-
31	395	Power Operated Equipment	5.00%			-			-		-	-	-
32	396	Communication Equipment	5.00%			-			-		-	-	-
33	397	Miscellaneous Equipment	5.00%			-			-		-	-	-
34	398	Other Tangible Plant	5.00%			-			-		-	-	-
35													
36		Sub Total		5,214	-	5,214	-	-	-	-	10,601	290,935	15,836
37													
38													
39													
40		TOTAL		5,214	-	5,214	-	-	-	-	10,601	290,935	15,836
41		[1] Decision 60779											

Verde Snata Fe Wastewater Company, Inc.
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.4
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate[1]	2000 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%			-			-		-	30,909	-
2	352	Franchise Cost	0.00%			-			-		-	-	-
3	353	Land and Land Rights	0.00%			-			-		-	45,400	-
4	354	Structures & Improvements	5.00%	229		229			-		6	229	6
5	355	Power Generation Equipment	5.00%			-			-		-	-	-
6	360	Collection Sewers - Force	5.00%			-			-		-	-	-
7	361.1	Collection Sewers - Gravity	5.00%			-			-		-	-	-
8	361.2	Manholes & Cleanouts	5.00%			-			-		-	-	-
9	362	Special Collecting Structures	5.00%			-			-		-	-	-
10	363	Servcies to Customers	5.00%			-			-		-	-	-
11	364	Flow Measuring Devices	5.00%			-			-		-	-	-
12	365	Flow Measuring Installations	5.00%			-			-		-	-	-
13	366	Reuse Services	5.00%			-			-		-	-	-
14	367	Reuse Meters and Meter Installations	5.00%			-			-		-	-	-
15	370	Receiving Wells	5.00%			-			-		-	-	-
16	371.1	Pumping Equipment - Lift Stations	5.00%			-			-		-	-	-
17	371.2	Other Pumping Equipment	5.00%			-			-		-	-	-
18	371.3	Pumping Equipment - Recharge Wells	5.00%			-			-		-	-	-
19	374	Reuse Distribution Reservior	5.00%			-			-		-	-	-
20	375	Reuse Transmission and Distribution	5.00%			-			-		-	-	-
21	380	Treatment & Disposal Equipment	5.00%	1,280		1,280			-		10,503	210,692	26,209
22	381	Plant Sewers	5.00%			-			-		-	-	-
23	382	Outfall Sewer Lines	5.00%			-			-		-	-	-
24	389	Other Plant & Misc Equipment	5.00%			-			-		-	-	-
25	390	Office Furniture & Equipment	5.00%			-			-		145	2,892	217
26	390.1	Computers & Software	5.00%			-			-		-	-	-
27	391	Transportation Equipment	5.00%			-			-		-	-	-
28	392	Stores Equipment	5.00%			-			-		-	-	-
29	393	Tools, Shop & Garage Equipment	5.00%			-			-		118	2,322	174
30	394	Laboratory Equipment	5.00%			-			-		-	-	-
31	395	Power Operated Equipment	5.00%			-			-		-	-	-
32	396	Communication Equipment	5.00%			-			-		-	-	-
33	397	Miscellaneous Equipment	5.00%			-			-		-	-	-
34	398	Other Tangible Plant	5.00%			-			-		-	-	-
35													
36		Sub Total		1,509	-	1,509	-	-	-	-	10,769	292,444	26,605
37													
38													
39													
40		TOTAL		1,509	-	1,509	-	-	-	-	10,769	292,444	26,605
41		[1] Decision 60779											

Verde Snata Fe Wastewater Company, Inc.
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.5
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate[1]	2001 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%			-			-		-	30,909	-
2	352	Franchise Cost	0.00%			-			-		-	-	-
3	353	Land and Land Rights	0.00%			-			-		-	45,400	-
4	354	Structures & Improvements	5.00%	212		212			-		17	441	22
5	355	Power Generation Equipment	5.00%			-			-		-	-	-
6	360	Collection Sewers - Force	5.00%			-			-		-	-	-
7	361.1	Collection Sewers - Gravity	5.00%	328,735		328,735			-		8,218	328,735	8,218
8	361.2	Manholes & Cleanouts	5.00%			-			-		-	-	-
9	362	Special Collecting Structures	5.00%			-			-		-	-	-
10	363	Servcies to Customers	5.00%	73,179		73,179			-		1,829	73,179	1,829
11	364	Flow Measuring Devices	5.00%			-			-		-	-	-
12	365	Flow Measuring Installations	5.00%			-			-		-	-	-
13	366	Reuse Services	5.00%			-			-		-	-	-
14	367	Reuse Meters and Meter Installations	5.00%			-			-		-	-	-
15	370	Receiving Wells	5.00%			-			-		-	-	-
16	371.1	Pumping Equipment - Lift Stations	5.00%			-			-		-	-	-
17	371.2	Other Pumping Equipment	5.00%			-			-		-	-	-
18	371.3	Pumping Equipment - Recharge Wells	5.00%			-			-		-	-	-
19	374	Reuse Distribution Reservlors	5.00%			-			-		-	-	-
20	375	Reuse Transmission and Distribution	5.00%			-			-		-	-	-
21	380	Treatment & Disposal Equipment	5.00%	177		177			-		10,539	210,869	36,748
22	381	Plant Sewers	5.00%			-			-		-	-	-
23	382	Outfall Sewer Lines	5.00%			-			-		-	-	-
24	389	Other Plant & Misc Equipment	5.00%			-			-		-	-	-
25	390	Office Furniture & Equipment	5.00%	29		29			-		145	2,921	362
26	390.1	Computers & Software	5.00%			-			-		-	-	-
27	391	Transportation Equipment	5.00%			-			-		-	-	-
28	392	Stores Equipment	5.00%			-			-		-	-	-
29	393	Tools, Shop & Garage Equipment	5.00%			-			-		116	2,322	290
30	394	Laboratory Equipment	5.00%			-			-		-	-	-
31	395	Power Operated Equipment	5.00%			-			-		-	-	-
32	396	Communication Equipment	5.00%			-			-		-	-	-
33	397	Miscellaneous Equipment	5.00%			-			-		-	-	-
34	398	Other Tangible Plant	5.00%			-			-		-	-	-
35													
36		Sub Total		402,332	-	402,332	-	-	-	-	20,865	694,776	47,470
37													
38													
39													
40		TOTAL		402,332	-	402,332	-	-	-	-	20,865	694,776	47,470
41		[1] Decision 60779											

Verde Shata Fe Wastewater Company, Inc.
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.6
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate[1]	2002 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%			-			-		-	30,909	-
2	352	Franchise Cost	0.00%			-			-		-	-	-
3	353	Land and Land Rights	0.00%			-			-		-	45,400	-
4	354	Structures & Improvements	5.00%			-			-		22	441	45
5	355	Power Generation Equipment	5.00%			-			-		-	-	-
6	360	Collection Sewers - Force	5.00%			-			-		-	-	-
7	361.1	Collection Sewers - Gravity	5.00%			-			-		16,437	328,735	24,655
8	361.2	Manholes & Cleanouts	5.00%			-			-		-	-	-
9	362	Special Collecting Structures	5.00%			-			-		-	-	-
10	363	Servcies to Customers	5.00%			-			-		3,659	73,179	5,488
11	364	Flow Measuring Devices	5.00%			-			-		-	-	-
12	365	Flow Measuring Installations	5.00%			-			-		-	-	-
13	366	Reuse Services	5.00%			-			-		-	-	-
14	367	Reuse Meters and Meter Installations	5.00%			-			-		-	-	-
15	370	Receiving Wells	5.00%			-			-		-	-	-
16	371.1	Pumping Equipment - Lift Stations	5.00%			-			-		-	-	-
17	371.2	Other Pumping Equipment	5.00%			-			-		-	-	-
18	371.3	Pumping Equipment - Recharge Wells	5.00%			-			-		-	-	-
19	374	Reuse Distribution Reserviors	5.00%			-			-		-	-	-
20	375	Reuse Transmission and Distribution	5.00%			-			-		-	-	-
21	380	Treatment & Disposal Equipment	5.00%	88,506		88,506			-		12,756	299,375	49,504
22	381	Plant Sewers	5.00%			-			-		-	-	-
23	382	Outfall Sewer Lines	5.00%			-			-		-	-	-
24	389	Other Plant & Misc Equipment	5.00%			-			-		-	-	-
25	390	Office Furniture & Equipment	5.00%			-			-		146	2,921	508
26	390.1	Computers & Software	5.00%			-			-		-	-	-
27	391	Transportation Equipment	5.00%			-			-		-	-	-
28	392	Stores Equipment	5.00%			-			-		-	-	-
29	393	Tools, Shop & Garage Equipment	5.00%			-			-		116	2,322	406
30	394	Laboratory Equipment	5.00%			-			-		-	-	-
31	395	Power Operated Equipment	5.00%			-			-		-	-	-
32	396	Communication Equipment	5.00%			-			-		-	-	-
33	397	Miscellaneous Equipment	5.00%			-			-		-	-	-
34	398	Other Tangible Plant	5.00%			-			-		-	-	-
35													
36		Sub Total		88,506	-	88,506	-	-	-	-	33,136	783,282	80,606
37													
38											-	-	-
39													
40		TOTAL		88,506	-	88,506	-	-	-	-	33,136	783,282	80,606
41		[1] Decision 60779											

Verde Santa Fe Wastewater Company, Inc.
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.7
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate[1]	2003 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%			-			-		-	30,909	-
2	352	Franchise Cost	0.00%			-			-		-	-	-
3	353	Land and Land Rights	0.00%			-			-		-	45,400	-
4	354	Structures & Improvements	5.00%			-			-		22	441	67
5	355	Power Generation Equipment	5.00%			-			-		-	-	-
6	360	Collection Sewers - Force	5.00%			-			-		-	-	-
7	361.1	Collection Sewers - Gravity	5.00%			-			-		16,437	328,735	41,092
8	361.2	Manholes & Cleanouts	5.00%			-			-		-	-	-
9	362	Special Collecting Structures	5.00%			-			-		-	-	-
10	363	Servcies to Customers	5.00%			-			-		3,659	73,179	9,147
11	364	Flow Measuring Devices	5.00%			-			-		-	-	-
12	365	Flow Measuring Installations	5.00%			-			-		-	-	-
13	366	Reuse Services	5.00%			-			-		-	-	-
14	367	Reuse Meters and Meter Installations	5.00%			-			-		-	-	-
15	370	Receiving Wells	5.00%			-			-		-	-	-
16	371.1	Pumping Equipment - Lift Stations	5.00%			-			-		-	-	-
17	371.2	Other Pumping Equipment	5.00%			-			-		-	-	-
18	371.3	Pumping Equipment - Recharge Wells	5.00%			-			-		-	-	-
19	374	Reuse Distribution Reservoirs	5.00%			-			-		-	-	-
20	375	Reuse Transmission and Distribution	5.00%			-			-		-	-	-
21	380	Treatment & Disposal Equipment	5.00%			-			-		14,969	299,375	64,472
22	381	Plant Sewers	5.00%			-			-		-	-	-
23	382	Outfall Sewer Lines	5.00%			-			-		-	-	-
24	389	Other Plant & Misc Equipment	5.00%			-			-		-	-	-
25	390	Office Furniture & Equipment	5.00%			-			-		146	2,921	654
26	390.1	Computers & Software	5.00%			-			-		-	-	-
27	391	Transportation Equipment	5.00%			-			-		-	-	-
28	392	Stores Equipment	5.00%			-			-		-	-	-
29	393	Tools, Shop & Garage Equipment	5.00%			-			-		116	2,322	522
30	394	Laboratory Equipment	5.00%			-			-		-	-	-
31	395	Power Operated Equipment	5.00%			-			-		-	-	-
32	396	Communication Equipment	5.00%			-			-		-	-	-
33	397	Miscellaneous Equipment	5.00%			-			-		-	-	-
34	398	Other Tangible Plant	5.00%			-			-		-	-	-
35													
36		Sub Total		-	-	-	-	-	-	-	35,349	783,282	115,955
37													
38											-	-	-
39													
40		TOTAL		-	-	-	-	-	-	-	35,349	783,282	115,955
41		[1] Decision 60779											

Verde Snata Fe Wastewater Company, Inc.
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.8
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate[1]	2004 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%			-			-		-	30,909	-
2	352	Franchise Cost	0.00%			-			-		-	-	-
3	353	Land and Land Rights	0.00%			-			-		-	45,400	-
4	354	Structures & Improvements	5.00%			-			-		22	441	89
5	355	Power Generation Equipment	5.00%			-			-		-	-	-
6	360	Collection Sewers - Force	5.00%			-			-		-	-	-
7	361.1	Collection Sewers - Gravity	5.00%			-			-		16,437	328,735	57,529
8	361.2	Manholes & Cleanouts	5.00%			-			-		-	-	-
9	362	Special Collecting Structures	5.00%			-			-		-	-	-
10	363	Services to Customers	5.00%			-			-		3,659	73,179	12,806
11	364	Flow Measuring Devices	5.00%			-			-		-	-	-
12	365	Flow Measuring Installations	5.00%			-			-		-	-	-
13	366	Reuse Services	5.00%			-			-		-	-	-
14	367	Reuse Meters and Meter Installations	5.00%			-			-		-	-	-
15	370	Receiving Wells	5.00%			-			-		-	-	-
16	371.1	Pumping Equipment - Lift Stations	5.00%			-			-		-	-	-
17	371.2	Other Pumping Equipment	5.00%			-			-		-	-	-
18	371.3	Pumping Equipment - Recharge Wells	5.00%			-			-		-	-	-
19	374	Reuse Distribution Reservoirs	5.00%			-			-		-	-	-
20	375	Reuse Transmission and Distribution	5.00%			-			-		-	-	-
21	380	Treatment & Disposal Equipment	5.00%	4,093		4,093			-		15,071	303,468	79,543
22	381	Plant Sewers	5.00%			-			-		-	-	-
23	382	Outfall Sewer Lines	5.00%			-			-		-	-	-
24	389	Other Plant & Misc Equipment	5.00%			-			-		-	-	-
25	390	Office Furniture & Equipment	5.00%	615		615			-		161	3,536	816
26	390.1	Computers & Software	5.00%			-			-		-	-	-
27	391	Transportation Equipment	5.00%			-			-		-	-	-
28	392	Stores Equipment	5.00%			-			-		-	-	-
29	393	Tools, Shop & Garage Equipment	5.00%	2,365		2,365			-		175	4,687	698
30	394	Laboratory Equipment	5.00%			-			-		-	-	-
31	395	Power Operated Equipment	5.00%			-			-		-	-	-
32	396	Communication Equipment	5.00%			-			-		-	-	-
33	397	Miscellaneous Equipment	5.00%			-			-		-	-	-
34	398	Other Tangible Plant	5.00%			-			-		-	-	-
35													
36		Sub Total		7,073	-	7,073	-	-	-	-	35,525	790,355	151,480
37													
38											-	-	-
39													
40		TOTAL		7,073	-	7,073	-	-	-	-	35,525	790,355	151,480
41		[1] Decision 60779											

Verde Snata Fe Wastewater Company, Inc.
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.9
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate[1]	2005 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%			-			-		-	30,909	-
2	352	Franchise Cost	0.00%			-			-		-	-	-
3	353	Land and Land Rights	0.00%			-			-		-	45,400	-
4	354	Structures & Improvements	5.00%	1,041		1,041			-		48	1,482	137
5	355	Power Generation Equipment	5.00%			-			-		-	-	-
6	360	Collection Sewers - Force	5.00%			-			-		-	-	-
7	361.1	Collection Sewers - Gravity	5.00%			-			-		16,437	328,735	73,965
8	361.2	Manholes & Cleanouts	5.00%			-			-		-	-	-
9	362	Special Collecting Structures	5.00%			-			-		-	-	-
10	363	Servcies to Customers	5.00%			-			-		3,659	73,179	16,465
11	364	Flow Measuring Devices	5.00%	9,458		9,458			-		236	9,458	236
12	365	Flow Measuring Installations	5.00%			-			-		-	-	-
13	366	Reuse Services	5.00%			-			-		-	-	-
14	367	Reuse Meters and Meter Installations	5.00%			-			-		-	-	-
15	370	Receiving Wells	5.00%			-			-		-	-	-
16	371.1	Pumping Equipment - Lift Stations	5.00%			-			-		-	-	-
17	371.2	Other Pumping Equipment	5.00%			-			-		-	-	-
18	371.3	Pumping Equipment - Recharge Wells	5.00%			-			-		-	-	-
19	374	Reuse Distribution Reservlors	5.00%			-			-		-	-	-
20	375	Reuse Transmission and Distribution	5.00%			-			-		-	-	-
21	380	Treatment & Disposal Equipment	5.00%	30,389		30,389			-		15,933	333,857	95,477
22	381	Plant Sewers	5.00%			-			-		-	-	-
23	382	Outfall Sewer Lines	5.00%			-			-		-	-	-
24	389	Other Plant & Misc Equipment	5.00%			-			-		-	-	-
25	390	Office Furniture & Equipment	5.00%	2,267		2,267			-		233	5,803	1,049
26	390.1	Computers & Software	5.00%			-			-		-	-	-
27	391	Transportation Equipment	5.00%			-			-		-	-	-
28	392	Stores Equipment	5.00%			-			-		-	-	-
29	393	Tools, Shop & Garage Equipment	5.00%	(11)		(11)			-		234	4,676	932
30	394	Laboratory Equipment	5.00%			-			-		-	-	-
31	395	Power Operated Equipment	5.00%			-			-		-	-	-
32	396	Communication Equipment	5.00%			-			-		-	-	-
33	397	Miscellaneous Equipment	5.00%			-			-		-	-	-
34	398	Other Tangible Plant	5.00%			-			-		-	-	-
35													
36		Sub Total		43,144	-	43,144	-	-	-	-	36,781	833,499	188,261
37													
38											-	-	-
39													
40		TOTAL		43,144	-	43,144	-	-	-	-	36,781	833,499	188,261
41		[1] Decision 60779											

Verde Snata Fe Wastewater Company, Inc.
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.10
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate[1]	2006 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%			-			-		-	30,909	-
2	352	Franchise Cost	0.00%			-			-		-	-	-
3	353	Land and Land Rights	0.00%			-			-		-	45,400	-
4	354	Structures & Improvements	5.00%	98,958		98,958			-		2,548	100,440	2,685
5	355	Power Generation Equipment	5.00%			-			-		-	-	-
6	360	Collection Sewers - Force	5.00%			-			-		-	-	-
7	361.1	Collection Sewers - Gravity	5.00%			-			-		16,437	328,735	90,402
8	361.2	Manholes & Cleanouts	5.00%			-			-		-	-	-
9	362	Special Collecting Structures	5.00%			-			-		-	-	-
10	363	Services to Customers	5.00%			-			-		3,659	73,179	20,124
11	364	Flow Measuring Devices	5.00%	3,500		3,500			-		560	12,958	797
12	365	Flow Measuring Installations	5.00%			-			-		-	-	-
13	366	Reuse Services	5.00%			-			-		-	-	-
14	367	Reuse Meters and Meter Installations	5.00%			-			-		-	-	-
15	370	Receiving Wells	5.00%			-			-		-	-	-
16	371.1	Pumping Equipment - Lift Stations	5.00%			-			-		-	-	-
17	371.2	Other Pumping Equipment	5.00%			-			-		-	-	-
18	371.3	Pumping Equipment - Recharge Wells	5.00%			-			-		-	-	-
19	374	Reuse Distribution Reservoirs	5.00%			-			-		-	-	-
20	375	Reuse Transmission and Distribution	5.00%			-			-		-	-	-
21	380	Treatment & Disposal Equipment	5.00%	380,075		380,075			-		26,195	713,932	121,671
22	381	Plant Sewers	5.00%			-			-		-	-	-
23	382	Outfall Sewer Lines	5.00%			-			-		-	-	-
24	389	Other Plant & Misc Equipment	5.00%			-			-		-	-	-
25	390	Office Furniture & Equipment	5.00%			-			-		290	5,803	1,339
26	390.1	Computers & Software	5.00%			-			-		-	-	-
27	391	Transportation Equipment	5.00%			-			-		-	-	-
28	392	Stores Equipment	5.00%			-			-		-	-	-
29	393	Tools, Shop & Garage Equipment	5.00%			-			-		234	4,676	1,166
30	394	Laboratory Equipment	5.00%			-			-		-	-	-
31	395	Power Operated Equipment	5.00%			-			-		-	-	-
32	396	Communication Equipment	5.00%			-			-		-	-	-
33	397	Miscellaneous Equipment	5.00%			-			-		-	-	-
34	398	Other Tangible Plant	5.00%	76,394		76,394			-		1,910	76,394	1,910
35													
36		Sub Total		558,927	-	558,927	-	-	-	-	51,833	1,392,426	240,094
37													
38											-	-	-
39													
40		TOTAL		558,927	-	558,927	-	-	-	-	51,833	1,392,426	240,094
41		[1] Decision 60779											

Verde Snata Fe Wastewater Company, Inc.
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.11
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate[1]	2007 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%			-			-		-	30,909	-
2	352	Franchise Cost	0.00%			-			-		-	-	-
3	353	Land and Land Rights	0.00%			-			-		-	45,400	-
4	354	Structures & Improvements	5.00%	4,698		4,698			-		5,139	105,138	7,824
5	355	Power Generation Equipment	5.00%			-			-		-	-	-
6	360	Collection Sewers - Force	5.00%			-			-		-	-	-
7	361.1	Collection Sewers - Gravity	5.00%			-			-		16,437	328,735	106,839
8	361.2	Manholes & Cleanouts	5.00%			-			-		-	-	-
9	362	Special Collecting Structures	5.00%			-			-		-	-	-
10	363	Services to Customers	5.00%			-			-		3,659	73,179	23,783
11	364	Flow Measuring Devices	5.00%		(648)	(648)			-		632	12,310	1,429
12	365	Flow Measuring Installations	5.00%			-			-		-	-	-
13	366	Reuse Services	5.00%			-			-		-	-	-
14	367	Reuse Meters and Meter Installations	5.00%			-			-		-	-	-
15	370	Receiving Wells	5.00%			-			-		-	-	-
16	371.1	Pumping Equipment - Lift Stations	5.00%			-			-		-	-	-
17	371.2	Other Pumping Equipment	5.00%			-			-		-	-	-
18	371.3	Pumping Equipment - Recharge Wells	5.00%			-			-		-	-	-
19	374	Reuse Distribution Reservions	5.00%			-			-		-	-	-
20	375	Reuse Transmission and Distribution	5.00%			-			-		-	-	-
21	380	Treatment & Disposal Equipment	5.00%	17,801		17,801			-		38,142	731,733	157,813
22	381	Plant Sewers	5.00%			-			-		-	-	-
23	382	Outfall Sewer Lines	5.00%			-			-		-	-	-
24	389	Other Plant & Misc Equipment	5.00%			-			-		-	-	-
25	390	Office Furniture & Equipment	5.00%			-			-		290	5,803	1,630
26	390.1	Computers & Software	5.00%			-			-		-	-	-
27	391	Transportation Equipment	5.00%			-			-		-	-	-
28	392	Stores Equipment	5.00%			-			-		-	-	-
29	393	Tools, Shop & Garage Equipment	5.00%			-			-		234	4,676	1,399
30	394	Laboratory Equipment	5.00%			-			-		-	-	-
31	395	Power Operated Equipment	5.00%			-			-		-	-	-
32	396	Communication Equipment	5.00%			-			-		-	-	-
33	397	Miscellaneous Equipment	5.00%			-			-		-	-	-
34	398	Other Tangible Plant	5.00%	1,353		1,353			-		3,854	77,747	5,763
35													
36		Sub Total		23,852	(648)	23,204	-	-	-	-	66,386	1,415,630	306,480
37													
38											-	-	-
39													
40		TOTAL		23,852	(648)	23,204	-	-	-	-	66,386	1,415,630	306,480
41		[1] Decision 60779											

Verde Snata Fe Wastewater Company, Inc.
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.12
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate[1]	2008 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%			-			-		-	30,909	-
2	352	Franchise Cost	0.00%			-			-		-	-	-
3	353	Land and Land Rights	0.00%			-			-		-	45,400	-
4	354	Structures & Improvements	5.00%	1,868		1,868			-		5,304	107,006	13,128
5	355	Power Generation Equipment	5.00%			-			-		-	-	-
6	360	Collection Sewers - Force	5.00%			-			-		-	-	-
7	361.1	Collection Sewers - Gravity	5.00%			-			-		16,437	328,735	123,276
8	361.2	Manholes & Cleanouts	5.00%			-			-		-	-	-
9	362	Special Collecting Structures	5.00%			-			-		-	-	-
10	363	Servcies to Customers	5.00%			-			-		3,659	73,179	27,442
11	364	Flow Measuring Devices	5.00%		648	648			-		632	12,958	2,060
12	365	Flow Measuring Installations	5.00%			-			-		-	-	-
13	366	Reuse Services	5.00%			-			-		-	-	-
14	367	Reuse Meters and Meter Installations	5.00%			-			-		-	-	-
15	370	Receiving Wells	5.00%			-			-		-	-	-
16	371.1	Pumping Equipment - Lift Stations	5.00%			-			-		-	-	-
17	371.2	Other Pumping Equipment	5.00%			-			-		-	-	-
18	371.3	Pumping Equipment - Recharge Wells	5.00%			-			-		-	-	-
19	374	Reuse Distribution Reservlors	5.00%			-			-		-	-	-
20	375	Reuse Transmission and Distribution	5.00%			-			-		-	-	-
21	380	Treatment & Disposal Equipment	5.00%	11,682		11,682			-		36,879	743,415	194,692
22	381	Plant Sewers	5.00%			-			-		-	-	-
23	382	Outfall Sewer Lines	5.00%			-			-		-	-	-
24	389	Other Plant & Misc Equipment	5.00%			-			-		-	-	-
25	390	Office Furniture & Equipment	5.00%			-			-		290	5,803	1,920
26	390.1	Computers & Software	5.00%			-			-		-	-	-
27	391	Transportation Equipment	5.00%			-			-		-	-	-
28	392	Stores Equipment	5.00%			-			-		-	-	-
29	393	Tools, Shop & Garage Equipment	5.00%	630		630			-		250	5,306	1,649
30	394	Laboratory Equipment	5.00%			-			-		-	-	-
31	395	Power Operated Equipment	5.00%			-			-		-	-	-
32	396	Communication Equipment	5.00%			-			-		-	-	-
33	397	Miscellaneous Equipment	5.00%			-			-		-	-	-
34	398	Other Tangible Plant	5.00%			-			-		3,887	77,747	9,651
35													
36		Sub Total		14,180	648	14,828	-	-	-	-	67,337	1,430,458	373,817
37											-	-	-
38													
39													
40		TOTAL		14,180	648	14,828	-	-	-	-	67,337	1,430,458	373,817
41		[1] Decision 60779											

Verde Snata Fe Wastewater Company, Inc.
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.13
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate[1]	2009 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%			-			-		-	30,909	-
2	352	Franchise Cost	0.00%			-			-		-	-	-
3	353	Land and Land Rights	0.00%			-			-		-	45,400	-
4	354	Structures & Improvements	5.00%	1,236		1,236			-		5,381	108,242	18,509
5	355	Power Generation Equipment	5.00%			-			-		-	-	-
6	360	Collection Sewers - Force	5.00%			-			-		-	-	-
7	361.1	Collection Sewers - Gravity	5.00%			-			-		16,437	328,735	139,712
8	361.2	Manholes & Cleanouts	5.00%			-			-		-	-	-
9	362	Special Collecting Structures	5.00%			-			-		-	-	-
10	363	Services to Customers	5.00%			-			-		3,659	73,179	31,101
11	364	Flow Measuring Devices	5.00%			-			-		648	12,958	2,708
12	365	Flow Measuring Installations	5.00%			-			-		-	-	-
13	366	Reuse Services	5.00%			-			-		-	-	-
14	367	Reuse Meters and Meter Installations	5.00%			-			-		-	-	-
15	370	Receiving Wells	5.00%			-			-		-	-	-
16	371.1	Pumping Equipment - Lift Stations	5.00%			-			-		-	-	-
17	371.2	Other Pumping Equipment	5.00%			-			-		-	-	-
18	371.3	Pumping Equipment - Recharge Wells	5.00%			-			-		-	-	-
19	374	Reuse Distribution Reservoirs	5.00%			-			-		-	-	-
20	375	Reuse Transmission and Distribution	5.00%			-			-		-	-	-
21	380	Treatment & Disposal Equipment	5.00%	39,092		39,092			-		38,148	782,507	232,840
22	381	Plant Sewers	5.00%			-			-		-	-	-
23	382	Outfall Sewer Lines	5.00%			-			-		-	-	-
24	389	Other Plant & Misc Equipment	5.00%			-			-		-	-	-
25	390	Office Furniture & Equipment	5.00%			-			-		290	5,803	2,210
26	390.1	Computers & Software	5.00%			-			-		-	-	-
27	391	Transportation Equipment	5.00%			-			-		-	-	-
28	392	Stores Equipment	5.00%			-			-		-	-	-
29	393	Tools, Shop & Garage Equipment	5.00%		(630)	(630)			-		250	4,676	1,898
30	394	Laboratory Equipment	5.00%		630	630			-		16	630	16
31	395	Power Operated Equipment	5.00%			-			-		-	-	-
32	396	Communication Equipment	5.00%			-			-		-	-	-
33	397	Miscellaneous Equipment	5.00%			-			-		-	-	-
34	398	Other Tangible Plant	5.00%	1,760		1,760			-		3,931	79,507	13,582
35													
36		Sub Total		42,088	-	42,088	-	-	-	-	68,760	1,472,546	442,576
37													
38											-	-	-
39													
40		TOTAL		42,088	-	42,088	-	-	-	-	68,760	1,472,546	442,576
41		[1] Decision 60779											

Verde Snata Fe Wastewater Company, Inc.
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.14
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate[1]	2010 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%			-			-		-	30,909	-
2	352	Franchise Cost	0.00%			-			-		-	-	-
3	353	Land and Land Rights	0.00%			-			-		-	45,400	-
4	354	Structures & Improvements	5.00%			-			-		5,412	108,242	23,921
5	355	Power Generation Equipment	5.00%			-			-		-	-	-
6	360	Collection Sewers - Force	5.00%			-			-		-	-	-
7	361.1	Collection Sewers - Gravity	5.00%			-			-		16,437	328,735	156,149
8	361.2	Manholes & Cleanouts	5.00%			-			-		-	-	-
9	362	Special Collecting Structures	5.00%			-			-		-	-	-
10	363	Servcies to Customers	5.00%			-			-		3,659	73,179	34,760
11	364	Flow Measuring Devices	5.00%			-			-		648	12,958	3,356
12	365	Flow Measuring Installations	5.00%			-			-		-	-	-
13	366	Reuse Services	5.00%			-			-		-	-	-
14	367	Reuse Meters and Meter Installations	5.00%			-			-		-	-	-
15	370	Receiving Wells	5.00%			-			-		-	-	-
16	371.1	Pumping Equipment - Lift Stations	5.00%			-			-		-	-	-
17	371.2	Other Pumping Equipment	5.00%			-			-		-	-	-
18	371.3	Pumping Equipment - Recharge Wells	5.00%			-			-		-	-	-
19	374	Reuse Distribution Reserviors	5.00%			-			-		-	-	-
20	375	Reuse Transmission and Distribution	5.00%			-			-		-	-	-
21	380	Treatment & Disposal Equipment	5.00%	30,459		30,459			-		39,887	812,966	272,727
22	381	Plant Sewers	5.00%			-			-		-	-	-
23	382	Outfall Sewer Lines	5.00%			-			-		-	-	-
24	389	Other Plant & Misc Equipment	5.00%			-			-		-	-	-
25	390	Office Furniture & Equipment	5.00%			-			-		290	5,803	2,500
26	390.1	Computers & Software	5.00%			-			-		-	-	-
27	391	Transportation Equipment	5.00%			-			-		-	-	-
28	392	Stores Equipment	5.00%			-			-		-	-	-
29	393	Tools, Shop & Garage Equipment	5.00%			-			-		234	4,676	2,132
30	394	Laboratory Equipment	5.00%			-			-		32	630	47
31	395	Power Operated Equipment	5.00%			-			-		-	-	-
32	396	Communication Equipment	5.00%			-			-		-	-	-
33	397	Miscellaneous Equipment	5.00%			-			-		-	-	-
34	398	Other Tangible Plant	5.00%			-			-		3,975	79,507	17,557
35													
36		Sub Total		30,459	-	30,459	-	-	-	-	70,573	1,503,005	513,150
37													
38											-	-	-
39													
40		TOTAL		30,459	-	30,459	-	-	-	-	70,573	1,503,005	513,150
41		[1] Decision 60779											

Verde Snata Fe Wastewater Company, Inc.
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.15
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate[1]	2011 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%			-			-		-	30,909	-
2	352	Franchise Cost	0.00%			-			-		-	-	-
3	353	Land and Land Rights	0.00%			-			-		-	45,400	-
4	354	Structures & Improvements	5.00%			-			-		5,412	108,242	29,333
5	355	Power Generation Equipment	5.00%			-			-		-	-	-
6	360	Collection Sewers - Force	5.00%			-			-		-	-	-
7	361.1	Collection Sewers - Gravity	5.00%			-			-		16,437	328,735	172,586
8	361.2	Manholes & Cleanouts	5.00%			-			-		-	-	-
9	362	Special Collecting Structures	5.00%			-			-		-	-	-
10	363	Servcies to Customers	5.00%			-			-		3,659	73,179	38,419
11	364	Flow Measuring Devices	5.00%			-			-		648	12,958	4,004
12	365	Flow Measuring Installations	5.00%			-			-		-	-	-
13	366	Reuse Services	5.00%			-			-		-	-	-
14	367	Reuse Meters and Meter Installations	5.00%			-			-		-	-	-
15	370	Receiving Wells	5.00%			-			-		-	-	-
16	371.1	Pumping Equipment - Lift Stations	5.00%			-			-		-	-	-
17	371.2	Other Pumping Equipment	5.00%			-			-		-	-	-
18	371.3	Pumping Equipment - Recharge Wells	5.00%			-			-		-	-	-
19	374	Reuse Distribution Reservlors	5.00%			-			-		-	-	-
20	375	Reuse Transmission and Distribution	5.00%			-			-		-	-	-
21	380	Treatment & Disposal Equipment	5.00%	20,885		20,885			-		41,170	833,851	313,897
22	381	Plant Sewers	5.00%			-			-		-	-	-
23	382	Outfall Sewer Lines	5.00%			-			-		-	-	-
24	389	Other Plant & Misc Equipment	5.00%			-			-		-	-	-
25	390	Office Furniture & Equipment	5.00%			-			-		290	5,803	2,790
26	390.1	Computers & Software	5.00%			-			-		-	-	-
27	391	Transportation Equipment	5.00%			-			-		-	-	-
28	392	Stores Equipment	5.00%			-			-		-	-	-
29	393	Tools, Shop & Garage Equipment	5.00%			-			-		234	4,676	2,366
30	394	Laboratory Equipment	5.00%			-			-		32	630	79
31	395	Power Operated Equipment	5.00%			-			-		-	-	-
32	396	Communication Equipment	5.00%			-			-		-	-	-
33	397	Miscellaneous Equipment	5.00%			-			-		-	-	-
34	398	Other Tangible Plant	5.00%			-			-		3,975	79,507	21,533
35													
36		Sub Total		20,885	-	20,885	-	-	-	-	71,857	1,523,890	585,007
37													
38											-	-	-
39													
40		TOTAL		20,885	-	20,885	-	-	-	-	71,857	1,523,890	585,007
41		[1] Decision 60779											

Verde Snata Fe Wastewater Company, Inc.
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.16
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate[1]	2012 Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%			-			-		-	30,909	-
2	352	Franchise Cost	0.00%			-			-		-	-	-
3	353	Land and Land Rights	0.00%			-			-		-	45,400	-
4	354	Structures & Improvements	5.00%			-			-		5,412	108,242	34,745
5	355	Power Generation Equipment	5.00%			-			-		-	-	-
6	360	Collection Sewers - Force	5.00%			-			-		-	-	-
7	361.1	Collection Sewers - Gravity	5.00%			-			-		16,437	328,735	189,023
8	361.2	Manholes & Cleanouts	5.00%			-			-		-	-	-
9	362	Special Collecting Structures	5.00%			-			-		-	-	-
10	363	Servcies to Customers	5.00%			-			-		3,659	73,179	42,078
11	364	Flow Measuring Devices	5.00%			-			-		648	12,958	4,652
12	365	Flow Measuring Installations	5.00%			-			-		-	-	-
13	366	Reuse Services	5.00%			-			-		-	-	-
14	367	Reuse Meters and Meter Installations	5.00%			-			-		-	-	-
15	370	Receiving Wells	5.00%			-			-		-	-	-
16	371.1	Pumping Equipment - Lift Stations	5.00%			-			-		-	-	-
17	371.2	Other Pumping Equipment	5.00%			-			-		-	-	-
18	371.3	Pumping Equipment - Recharge Wells	5.00%			-			-		-	-	-
19	374	Reuse Distribution Reservions	5.00%			-			-		-	-	-
20	375	Reuse Transmission and Distribution	5.00%			-			-		-	-	-
21	380	Treatment & Disposal Equipment	5.00%	31,640		31,640			-		42,484	865,491	356,380
22	381	Plant Sewers	5.00%			-			-		-	-	-
23	382	Outfall Sewer Lines	5.00%			-			-		-	-	-
24	389	Other Plant & Misc Equipment	5.00%			-			-		-	-	-
25	390	Office Furniture & Equipment	5.00%			-			-		290	5,803	3,080
26	390.1	Computers & Software	5.00%			-			-		-	-	-
27	391	Transportation Equipment	5.00%			-			-		-	-	-
28	392	Stores Equipment	5.00%			-			-		-	-	-
29	393	Tools, Shop & Garage Equipment	5.00%			-			-		234	4,676	2,600
30	394	Laboratory Equipment	5.00%			-			-		32	630	110
31	395	Power Operated Equipment	5.00%			-			-		-	-	-
32	396	Communication Equipment	5.00%			-			-		-	-	-
33	397	Miscellaneous Equipment	5.00%			-			-		-	-	-
34	398	Other Tangible Plant	5.00%			-			-		3,975	79,507	25,508
35													
36		Sub Total		31,640	-	31,640	-	-	-	-	73,170	1,555,530	658,177
37													
38											-	-	-
39													
40		TOTAL		31,640	-	31,640	-	-	-	-	73,170	1,555,530	658,177
41		[1] Decision 60779											

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2

Exhibit
Rebuttal Schedule B-2
Page 4
Witness: Bourassa

Accumulated Depreciation

Line No.	Acct. No.	Description	Per Books Accum. Depr.	A Adjustments Required to Reconcile to Reconstruction	B Intentionally Left Blank	C Intentionally Left Blank	D Intentionally Left Blank	E Intentionally Left Blank	Adjusted Accum. Depr.
				Adjustments					
6	351	Organization Cost	-	-					-
7	352	Franchise Cost	-	-					-
8	353	Land and Land Rights	-	-					-
9	354	Structures & Improvements	34,745	-					34,745
10	355	Power Generation Equipment	-	-					-
11	360	Collection Sewers - Force	-	-					-
12	361.1	Collection Sewers - Gravity	189,023	-					189,023
13	361.2	Manholes & Cleanouts		-					-
14	362	Special Collecting Structures	-	-					-
15	363	Servcies to Customers	42,078	-					42,078
16	364	Flow Measuring Devices	4,652	-					4,652
17	365	Flow Measuring Installations	-	-					-
18	366	Reuse Services	-	-					-
19	367	Reuse Meters and Meter Installations	-	-					-
20	370	Receiving Wells	-	-					-
21	371.1	Pumping Equipment - Lift Stations	-	-					-
22	371.2	Other Pumping Equipment		-					-
23	371.3	Pumping Equipment - Recharge Wells		-					-
24	374	Reuse Distribution Reserviors	-	-					-
25	375	Reuse Transmission and Distribution	-	-					-
26	380	Treatment & Disposal Equipment	356,380	-					356,380
27	381	Plant Sewers	-	-					-
28	382	Outfall Sewer Lines	-	-					-
29	389	Other Plant & Misc Equipment	-	-					-
30	390	Office Furniture & Equipment	3,080	-					3,080
31	390.1	Computers & Software	-	-					-
32	391	Transportation Equipment	-	-					-
33	392	Stores Equipment	-	-					-
34	393	Tools, Shop & Garage Equipment	2,600	-					2,600
35	394	Laboratory Equipment	110	-					110
36	395	Power Operated Equipment	-	-					-
37	396	Communication Equipment	-	-					-
38	397	Miscellaneous Equipment	-	-					-
39	398	Other Tangible Plant	25,508	-					25,508
40		Rounding	-	-					-
41		TOTALS	$ 658,177	$ -	$ -	$ -	$ -	$ -	$ 658,177
42									
43	Accumulated Depreciation per Books								$ 658,177
44									
45	Increase (decrease) in Accumulated Depreciation								$ -
46									
47	Adjustment to Accumulated Depreciation								$ -
48									
49	SUPPORTING SCHEDULES								
50	B-2, pages 4.1								
51									

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2-A

Exhibit
Rebuttal Schedule B-2
Page 4.1
Witness: Bourassa

Line No.	Acct. No.	Description	Recorded Accumulated Depreciation	Accumulated Depreciation Per Plant Reconstruction	Adjustment Required
1					
2					
3					
4					
5					
6	351	Organization Cost	-	-	-
7	352	Franchise Cost	-	-	-
8	353	Land and Land Rights	-	-	-
9	354	Structures & Improvements	34,745	34,745	-
10	355	Power Generation Equipment	-	-	-
11	360	Collection Sewers - Force	-	-	-
12	361.1	Collection Sewers - Gravity	189,023	189,023	-
13	361.2	Manholes & Cleanouts	-	-	
14	362	Special Collecting Structures	-	-	-
15	363	Servcies to Customers	42,078	42,078	-
16	364	Flow Measuring Devices	4,652	4,652	-
17	365	Flow Measuring Installations	-	-	-
18	366	Reuse Services	-	-	-
19	367	Reuse Meters and Meter Installatior	-	-	-
20	370	Receiving Wells	-	-	-
21	371.1	Pumping Equipment - Lift Stations	-	-	-
22	371.2	Other Pumping Equipment	-	-	
23	371.3	Pumping Equipment - Recharge We	-	-	
24	374	Reuse Distribution Reserviors	-	-	-
25	375	Reuse Transmission and Distributio	-	-	-
26	380	Treatment & Disposal Equipment	356,380	356,380	-
27	381	Plant Sewers	-	-	-
28	382	Outfall Sewer Lines	-	-	-
29	389	Other Plant & Misc Equipment	-	-	-
30	390	Office Furniture & Equipment	3,080	3,080	-
31	390.1	Computers & Software	-	-	-
32	391	Transportation Equipment	-	-	-
33	392	Stores Equipment	-	-	-
34	393	Tools, Shop & Garage Equipment	2,600	2,600	-
35	394	Laboratory Equipment	110	110	-
36	395	Power Operated Equipment	-	-	-
37	396	Communication Equipment	-	-	-
38	397	Miscellaneous Equipment	-	-	-
39	398	Other Tangible Plant	25,508	25,508	
40		Rounding	-	-	-
41		TOTALS	#REF!	$ 658,177	$ -
42					
43					
44	SUPPORTING SCHEDULE				
45	B-2, pages 3.2 - 3.16				
46					

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 3

Exhibit
Rebuttal Schedule B-2
Page 5.0
Witness: Bourassa

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

Line No.		Gross CIAC	Accumulated Amortization
1			
2			
3			
4			
5	Computed balance at end of test year	$ 978,305	$ 502,287
6			
7	Adjusted balance at end of test year	$ 978,305	$ 502,287
8			
9	Increase (decrease)	$ -	$ -
10			
11			
12	Adjustment to CIAC/AA CIAC	$ -	$ -
13	Label	3a	3b
14			
15			
16			
17			
18			
19	SUPPORTING SCHEDULES		
20	E-1		
21	B-2, page 5.1		
22			
23			
24			
25			
26			
27			
28			
29			
30			
31			
32			
33			
34			
35			
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37			
38			
39			
40			

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Contributions-in-aid of Construction (CIAC)

Exhibit
Schedule B-2
Page 5.1
Witness: Bourassa

Line No.		Balance 12/31/1997	1998 Additions	1998 Balance	1999 Additions	1999 Balance	2000 Additions	2000 Balance	2001 Additions	2001 Balance	2002 Additions	2002 Balance
5	CIAC	-	77,550	77,550	76,000	153,550	(100)	153,450	401,915	555,365	-	555,365
7	Amortization	-										
8	Amortization Rate			5.0000%		5.0000%		5.0000%		5.0000%		5.0000%
9	Amortization (1/2 yr convention)			1,939		5,778		7,675		17,720		27,768
10	Accumulated Amortization			1,939		7,716		15,391		33,112		60,880
12	Net CIAC	-	77,550	75,611	76,000	145,834	(100)	138,059	401,915	522,253	-	494,485

Line No.		2003 Additions	2003 Balance	2004 Additions	2004 Balance	2005 Additions	2005 Balance	2006 Additions	2006 Balance	2007 Additions	2007 Balance
20	CIAC	-	555,365	-	555,365	-	555,365	422,940	978,305	-	978,305
24	Amortization Rate		5.0000%		5.0000%		5.0000%		5.0000%		5.0000%
25	Amortization (1/2 yr convention)		27,768		27,768		27,768		38,342		48,915
26	Accumulated Amortization		88,648		116,416		144,185		182,526		231,442
28	Net CIAC	-	466,717	-	438,949	-	411,180	422,940	795,779	-	746,863

Line No.		2008 Additions	2008 Balance	2009 Additions	2009 Balance	2010 Additions	2010 Balance	2011 Additions	2011 Balance	2012 Additions	2012 Balance
37	CIAC	-	978,305	-	978,305	-	978,305	-	978,305	-	978,305
40	Amortization Rate		5.0000%		5.0000%		5.0000%		5.0000%		5.0000%
41	Amortization (1/2 yr convention)		48,915		48,915		48,915		48,915		48,915
42	Accumulated Amortization		280,357		329,272		378,187		427,103		476,018
44	Net CIAC	-	697,948	-	649,033	-	600,118	-	551,202	-	502,287

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Computation of Working Capital

Exhibit
Schedule B-5
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	43,711
3	Pumping Power (1/24 of Pumping Power)		1,540
4	Purchased Water (1/24 of Purchased Water)		1,540
5			
6			
7			
8			
9	Total Working Capital Allowance	$	46,792
10			
11			
12	**Cash Working Capital Requested**	$	-
13			
14			
15			
16			
17		Adjusted Test Year	
18	Total Operating Expense	$	468,607
19	Less:		
20	Income Tax	$	2,826
21	Property Tax		20,114
22	Depreciation		22,039
23	Purchased Water		36,970
24	Pumping Power		36,970
25	Allowable Expenses	$	349,688
26	1/8 of allowable expenses	$	43,711
27			
28			
29	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
30	E-1	B-1	
31			
32			
33			
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37			
38			
39			
40			

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 1
Witness: Bourassa

Line No.		Adjusted Book Results	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	**Revenues**					
2	Flat Rate Revenues	$ 462,400	$ -	$ 462,400	$ 37,651	$ 500,051
3	Unmetered Water Revenues	7,527	-	7,527		7,527
4	Other Water Revenues	9,624	-	9,624		9,624
5		$ 479,551	$ -	$ 479,551	$ 37,651	$ 517,202
6	**Operating Expenses**					
7	Salaries and Wages	$ 31,683	(18,529)	$ 13,154		$ 13,154
8	Purchased Wastewater Treatment	-	-	-		-
9	Sludge Removal	21,328	12,079	33,407		33,407
10	Purchased Power	36,970	-	36,970		36,970
11	Chemicals	13,584	-	13,584		13,584
12	Materials and Supplies	5,772	-	5,772		5,772
13	Office Supplies and Expense	-	-	-		-
14	Contractual Services - Accounting	-	-	-		-
15	Contractual Services - Professional	5,130	-	5,130		5,130
16	Contractual Services - Maintenance	-	-	-		-
17	Contractual Services - Other	227,098	-	227,098		227,098
18	Water Testing	9,784	-	9,784		9,784
19	Rents	31,055	(11,256)	19,799		19,799
20	Transportation Expenses	4,103	-	4,103		4,103
21	Insurance - General Liability	5,108	-	5,108		5,108
22	Insurance - Health and Life	-	-	-		-
23	Reg. Comm. Exp. - Other	2,355	-	2,355		2,355
24	Reg. Comm. Exp. - Rate Case	25,000	-	25,000		25,000
25	Miscellaneous Expense	22,364	-	22,364		22,364
26	Bad Debt Expense	-	-	-		-
27	Depreciation and Amortization Expense	22,039	-	22,039		22,039
28	Taxes Other Than Income	-	-	-		-
29	Property Taxes	21,173	(1,059)	20,114	526	20,641
30	Income Tax	(1,045)	3,871	2,826	7,620	10,446
31			-	-		-
32	**Total Operating Expenses**	$ 483,501	$ (14,894)	$ 468,607	$ 8,146	$ 476,753
33	**Operating Income**	$ (3,950)	$ 14,894	$ 10,944	$ 29,504	$ 40,448
34	**Other Income (Expense)**					
35	Interest Income	-	-	-		-
36	Other income	3,726	-	3,726		3,726
37	Interest Expense	-	-	-		-
38	Other Expense	(34)	-	(34)		(34)
39		-	-	-		-
40	**Total Other Income (Expense)**	$ 3,692	$ -	$ 3,692	$ -	$ 3,692
41	**Net Profit (Loss)**	$ (258)	$ 14,894	$ 14,636	$ 29,504	$ 44,140
42						
43	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
44	C-1, page 2				A-1	
45	E-2					
46						

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 2
Witness: Bourassa

Line No.		LABEL>>>>> Adjusted Book Results	1 Depreciation	2 Property Taxes	3 Director's Salaries	4 Rent Expense	5 Sludge Removal	6 Income Taxes	Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	**Revenues**								$ 462,400	$ 37,651	$ 500,051
2	Flat Rate Revenues	$ 462,400							7,527		7,527
3	Measured Revenues	7,527							9,624		9,624
4	Other Revenues	9,624									
5		$ 479,551	$ -	$ -	$ -	$ -	$ -		$ 479,551	$ 37,651	$ 517,202
6	**Operating Expenses**								$ 13,154		$ 13,154
7	Salaries and Wages	$ 31,683			(18,529)				-		-
8	Purchased Wastewater Treatment	-					12,079		33,407		33,407
9	Sludge Removal	21,328							36,970		36,970
10	Purchased Power	36,970							13,584		13,584
11	Chemicals	13,584							5,772		5,772
12	Materials and Supplies	5,772							-		-
13	Office Supplies and Expense	-							-		-
14	Contractual Services - Accounting	-							5,130		5,130
15	Contractual Services - Professional	5,130							-		-
16	Contractual Services - Maintenance	-							227,098		227,098
17	Contractual Services - Other	227,098							9,784		9,784
18	Water Testing	9,784							19,799		19,799
19	Rents	31,055				(11,256)			4,103		4,103
20	Transportation Expenses	4,103							5,108		5,108
21	Insurance - General Liability	5,108							-		-
22	Insurance - Health and Life	-							2,355		2,355
23	Reg. Comm. Exp. - Other	2,355							25,000		25,000
24	Reg. Comm. Exp. - Rate Case	25,000			-				22,364		22,364
25	Miscellaneous Expense	22,364							-		-
26	Bad Debt Expense	-							22,039		22,039
27	Deprec. and Amort. Exp.	22,039	-						-		-
28	Taxes Other Than Income	-							20,114	526	20,641
29	Property Taxes	21,173		(1,059)				3,871	2,826	7,620	10,446
30	Income Tax	(1,045)									
31											
32	**Total Operating Expenses**	$ 483,501	$ -	$ (1,059)	$ (18,529)	$ (11,256)	$ 12,079	$ 3,871	$ 468,607	$ 8,146	$ 476,753
33	**Operating Income**	$ (3,950)	$ -	$ 1,059	$ 18,529	$ 11,256	$ (12,079)	$ (3,871)	$ 10,944	$ 29,504	$ 40,448
34	**Other Income (Expense)**								-		-
35	Interest Income	-							3,726		3,726
36	Other income	3,726							-		-
37	Interest Expense	-							(34)		(34)
38	Other Expense	(34)							-		-
39		-									
40	**Total Other Income (Expense)**	$ 3,692	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,692	$ -	$ 3,692
41	**Net Profit (Loss)**	$ (258)	$ -	$ 1,059	$ 18,529	$ 11,256	$ (12,079)	$ (3,871)	$ 14,636	$ 29,504	$ 44,140
42											
43	SUPPORTING SCHEDULES:								RECAP SCHEDULES:		
44	C-2								C-1, page 1		
45	E-2										

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Adjustments to Revenues and Expenses

Exhibit
Rebuttal Schedule C-2
Page 1
Witness: Bourassa

Line No.		Adjustments to Revenues and Expenses						
		1	2	3	4	5	6	Subtotal
		Depreciation Expense	Property Taxes	Director's Salaries	Rent Expense	Sludge Removal	Income Taxes	
4	Revenues							-
6	Expenses	-	(1,059)	(18,529)	(11,256)	12,079	3,871	(14,894)
8 9	Operating Income	-	1,059	18,529	11,256	(12,079)	(3,871)	14,894
11 12	Interest Expense						-	-
13 14 15	Other Income / Expense							-
17	Net Income	-	1,059	18,529	11,256	(12,079)	(3,871)	14,894

		Adjustments to Revenues and Expenses						
		7	8	9	10	11	12	Subtotal
		Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	
25	Revenues							-
27	Expenses	-	-	-	-	-	-	(14,894)
29 30	Operating Income	-	-	-	-	-	-	14,894
32 33	Interest Expense							-
34 35 36	Other Income / Expense							-
38	Net Income	-	-	-	-	-	-	14,894

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Adjustments to Revenues and Expenses
Adjustment Number 1

Exhibit
Rebuttal Schedule C-2
Page 2
Witness: Bourassa

Depreciation Expense

Line No.	Acct. No.	Description	Original Cost	Non-depreciable/ Fully Depreciated	Adjusted Original Cost	Proposed Rates	Depreciation Expense
5	351	Organization Cost	30,909	(30,909)	-	0.00%	-
6	352	Franchise Cost	-	-	-	0.00%	-
7	353	Land and Land Rights	45,400	(45,400)	-	0.00%	-
8	354	Structures & Improvements	108,242		108,242	3.33%	3,604
9	355	Power Generation Equipment	-		-	5.00%	-
10	360	Collection Sewers - Force	-		-	2.00%	-
11	361.1	Collection Sewers - Gravity	328,735		328,735	2.00%	6,575
12	361.2	Manholes & Cleanouts	-			2.00%	-
13	362	Special Collecting Structures	-		-	2.00%	-
14	363	Servcies to Customers	73,179		73,179	2.00%	1,464
15	364	Flow Measuring Devices	12,958		12,958	10.00%	1,296
16	365	Flow Measuring Installations	-		-	10.00%	-
17	366	Reuse Services	-		-	2.00%	-
18	367	Reuse Meters and Meter Installations	-		-	8.33%	-
19	370	Receiving Wells	-		-	3.57%	-
20	371.1	Pumping Equipment - Lift Stations	-		-	10.00%	-
21	371.2	Other Pumping Equipment	-		-	10.00%	-
22	371.3	Pumping Equipment - Recharge Well	-		-	10.00%	-
23	374	Reuse Distribution Reserviors	-		-	2.50%	-
24	375	Reuse Transmission and Distribution	-		-	2.00%	-
25	380	Treatment & Disposal Equipment	865,491		865,491	5.00%	43,275
26	381	Plant Sewers	-	-	-	5.00%	-
27	382	Outfall Sewer Lines	-		-	3.33%	-
28	389	Other Plant & Misc Equipment	-		-	6.67%	-
29	390	Office Furniture & Equipment	5,803		5,803	6.67%	387
30	390.1	Computers & Software	-		-	20.00%	-
31	391	Transportation Equipment	-		-	20.00%	-
32	392	Stores Equipment	-		-	4.00%	-
33	393	Tools, Shop & Garage Equipment	4,676		4,676	10.00%	468
34	394	Laboratory Equipment	630		630	10.00%	63
35	395	Power Operated Equipment	-		-	5.00%	-
36	396	Communication Equipment	-		-	10.00%	-
37	397	Miscellaneous Equipment	-		-	10.00%	-
38	398	Other Tangible Plant	79,507		79,507	10.00%	7,951
41					-	10.00%	-
42		TOTALS	$ 1,555,530	$ (76,309)	$ 1,479,221		$ 65,081

	Gross CIAC	Amort. Rate	
45 Less: Amortization of Contributions	$ 978,305	4.3997%	$ (43,043)
46 Total Depreciation Expense			$ 22,039
48 Adjusted Test Year Depreciation Expense			22,039
50 Increase (decrease) in Depreciation Expense			-
52 Adjustment to Revenues and/or Expenses			$ -

54 SUPPORTING SCHEDULE
55 B-2, page 3

*Fully Depreciated

Verde Santa Fe Wastewater Company, Inc.
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 2

Exhibit
Rebuttal Schedule C-2
Page 3
Witness: Bourassa

Property Taxes

Line No.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	$ 479,551	$ 479,551
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	959,102	959,102
4	Company Recommended Revenue	479,551	517,202
5	Subtotal (Line 4 + Line 5)	1,438,653	1,476,304
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	479,551	492,101
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	959,102	984,203
10	Plus: 10% of CWIP (intentionally excluded)	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	959,102	984,203
13	Assessment Ratio	19.0%	19.0%
14	Assessment Value (Line 12 * Line 13)	182,229	186,998
15	Composite Property Tax Rate - Obtained from ADOR	11.0379%	11.0379%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	$ 20,114	$ 20,641
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	$ 20,114	
19	Adjusted Test Year Property Taxes	$ 21,173	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	**$ (1,059)**	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		$ 20,641
23	Company Test Year Adjusted Property Tax Expense (Line 18)		$ 20,114
24	Increase in Property Tax Due to Increase in Revenue Requirement		**$ 526**
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		$ 526
27	Increase in Revenue Requirement		$ 37,651
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		1.39813%
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Rebuttal Schedule C-2
Page 4
Witness: Bourassa

Director's Salaries and Wages

Line No.			
1			
2	Director's Fees per Staff	$	13,154
3			
4	Test Year Directors Fees	$	31,683
5			
6	Adjustment to Salaries and Wages	$	(18,529)
7			
8			
9	Adjustment to Revenues and/or Expenses	$	(18,529)
10			
11			
12			
13			
14			
15			
16	Reference		
17	Staff Adjustment No. 1		
18	Testimony		
19			
20			

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Rebuttal Schedule C-2
Page 5
Witness: Bourassa

Rent Expense

Line No.			
1			
2	Rent Expense on WW Treatment Facilities per Staff	$	19,799
3			
4	Test Year Rent Expense on WW Treeatment Facilities	$	31,055
5			
6	Adjustment to Rent Expense	$	(11,256)
7			
8	Adjustment to Revenues and/or Expenses	$	(11,256)
9			
10			
11			
12			
13			
14			
15			
16	Reference		
17	Staff Adjustment No. 1		
18	Testimony		
19			
20			

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Rebuttal Schedule C-2
Page 6
Witness: Bourassa

Sludge Removal Expense

Line No.					
1					
2	Sludge Removal Assocaited with Effluent Ponds	$	10,676		
3					
4	Annualization Period (years)		2		
5					
6	Annualized expense			$	5,338
7					
8	Additional Cost of sludge bagging process				6,741
9					
10	Total Adjustment to Sludge Removal Expense			$	12,079
11					
12					
13					
14					
15	Adjustment to Revenues and/or Expenses			$	12,079
16					
17					
18					
19					
20					
21					
22					
23					
24					
25					
26	SUPPORTING SCHEDULES				
27	Testimony				
28					

Verde Santa Fe Wastewater Company, Inc.
Test Year Ended December 31, 2012
Adjustment to Revenues and/or Expenses
Adjustment Number 6

Exhibit
Rebuttal Schedule C-2
Page 7
Witness: Bourassa

Line No.		Test Year at Present Rates	Test Year at Proposed Rates
1	Income Taxes		
2			
3			
4	Compauted Income Tax	$ 1,905	$ 7,041
5	Test Year Income tax Expense	-	1,905
6	Adjustment to Income Tax Expense	$ 1,905	$ 5,136
7			
8			
9			
10			
11			
12			
13	SUPPORTING SCHEDULE		
14	C-3, page 2		
15			
16			
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Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Computation of Gross Revenue Conversion Factor

Exhibit
Rebuttal Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Combined Federal and State Effective Income Tax Rate	20.525%
2		
3	Property Taxes	1.111%
4		
5		
6	Total Tax Percentage	21.636%
7		
8	Operating Income % = 100% - Tax Percentage	78.364%
9		
10		
11		
12		
13	1 = Gross Revenue Conversion Factor	
14	Operating Income %	1.2761
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
26	C-3, page 2	A-1
27		
28		
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37		
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39		
40		

Verde Santa Fe Wastewater Company, Inc.
Test Year Ended December 31, 2012

Exhibit
Rebuttal Schedule C-3
Page 2
Witness: Bourassa

GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	[E]	[F]
	Calculation of Gross Revenue Conversion Factor:						
1	Revenue	100.0000%					
2	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)	21.6362%					
5	Subtotal (L3 - L4)	78.3638%					
6	**Revenue Conversion Factor (L1 / L5)**	1.276099					
	Calculation of Uncollectible Factor:						
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (L17)	20.5250%					
9	One Minus Combined Income Tax Rate (L7 - L8)	79.4750%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
	Calculation of Effective Tax Rate:						
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	6.5000%					
14	Federal Taxable Income (L12 - L13)	93.5000%					
15	Applicable Federal Income Tax Rate (L55 Col F)	15.0000%					
16	Effective Federal Income Tax Rate (L14 x L15)	14.0250%					
17	Combined Federal and State Income Tax Rate (L13 +L16)		20.5250%				
	Calculation of Effective Property Tax Factor						
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	20.5250%					
20	One Minus Combined Income Tax Rate (L18-L19)	79.4750%					
21	Property Tax Factor	1.3981%					
22	Effective Property Tax Factor (L20*L21)		1.1112%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			21.6362%			
24	Required Operating Income	$ 40,448					
25	AdjustedTest Year Operating Income (Loss)	$ 10,944					
26	Required Increase in Operating Income (L24 - L25)		$ 29,504				
27	Income Taxes on Recommended Revenue (Col. (F), L52)	$ 10,446					
28	Income Taxes on Test Year Revenue (Col. (C), L52)	$ 2,826					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		$ 7,620				
30	Recommended Revenue Requirement	$ 517,202					
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	$ 20,641					
36	Property Tax on Test Year Revenue	$ 20,114					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		$ 526				
38	Total Required Increase in Revenue (L26 + L29 + L37)		$ 37,651				

		(A)	(B)	(C)	(D)	[E]	[F]
		Test Year			Company Recommended		
		Total		Wastewater	Total		Wastewater
	Calculation of Income Tax:						
39	Revenue	$ 479,551		$ 479,551	$ 517,202		$ 517,202
40	Operating Expenses Excluding Income Taxes	465,781		465,781	466,307		466,307
41	Synchronized Interest (L47)	-		-	-		-
42	Arizona Taxable Income (L39 - L40 - L41)	$ 13,770		$ 13,770	$ 50,894		$ 50,894
43	Arizona State Effective Income Tax Rate (see work papers)	6.5000%		6.5000%	6.5000%		6.5000%
44	Arizona Income Tax (L42 x L43)	$ 895		$ 895	$ 3,308		$ 3,308
45	Federal Taxable Income (L42- L44)	$ 12,875		$ 12,875	$ 47,586		$ 47,586
46							
47	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ 1,931	$ -	$ 1,931	$ 7,138	$ -	$ 7,138
48	Federal Tax on Second Income Bracket ($50,001 - $75,000) @ 25%	$ -	$ -	$ -	$ -	$ -	$ -
49	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ -	$ -	$ -	$ -	$ -	$ -
50	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ -	$ -	$ -	$ -	$ -	$ -
51	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ -	$ -	$ -	$ -	$ -	$ -
52							
53	Total Federal Income Tax	$ 1,931		$ 1,931	$ 7,138		$ 7,138
54	Combined Federal and State Income Tax (L35 + L42)	$ 2,826		$ 2,828	$ 10,446		$ 10,446

55 COMBINED Applicable Federal Income Tax Rate [Col. [D], L53 - Col. [A], L53 / [Col. [D], L45 - Col. [A], L45] 15.0000%
56 WASTEWATER Applicable Federal Income Tax Rate [Col. [E], L53 - Col. [B], L53] / [Col. [E], L45 - Col. [B], L45]
57 WATER Applicable Federal Income Tax Rate [Col. [F], L53 - Col. [C], L53] / [Col. [F], L45 - Col. [C], L45] 15.0000%

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Summary of Cost of Capital

Exhibit
Rebuttal Schedule D-1
Page 1
Witness: Bourassa

Consolidated Capital Structure

Line No.	Item of Capital	Adjusted End of Test Year Dollar Amount	Adjusted End of Test Year Percent of Total	Adjusted End of Test Year Cost Rate	Adjusted End of Test Year Weighted Cost	Projected Capital Structure Dollar Amount	Projected Capital Structure Percent of Total	Projected Capital Structure Cost Rate	Projected Capital Structure Weighted Cost
1	Long-Term Debt	-	0.00%	0.00%	0.00%	-	0.00%	0.00%	0.00%
2									
3	Stockholder's Equity	330,308	100.00%	9.60%	9.60%	344,944	100.00%	9.60%	9.60%
4									
5	Totals	330,308	100.00%		9.60%	344,944	100.00%		9.60%
6									
7									
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9									
10									
11									
12									
13									
14									
15									
16									
17									
18									
19									
20									
21									
22	SUPPORTING SCHEDULES:					RECAP SCHEDULES:			
23	D-1								
24	D-3								
25	D-4								
26	Testimony								
27									
28									
29									
30									

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Cost of Long Term Debt

Exhibit
Rebuttal Schedule D-2
Page 1
Witness: Bourassa

Line No.	Description of Debt	End of Test Year Amount Outstanding	End of Test Year Annual Interest	End of Test Year Interest Rate	End of Test Year Weighted Cost	End of Projected Year Amount Outstanding	End of Projected Year Annual Interest	End of Projected Year Interest Rate	End of Projected Year Weighted Cost
1									
2			-	0.000%	0.000%		-	0.000%	0.000%
3			-	0.000%	0.000%		-	0.000%	0.000%
4			-	0.000%	0.000%		-	0.000%	0.000%
5			-	0.000%	0.000%		-	0.000%	0.000%
6			-	0.000%	0.000%		-	0.000%	0.000%
7			-	0.000%	0.000%		-	0.000%	0.000%
8			-	0.000%	0.000%		-	0.000%	0.000%
9			-	0.000%	0.000%		-	0.000%	0.000%
10			-	0.000%	0.000%		-	0.000%	0.000%
11									
12									
13	Totals	$ -	-		0.000%	$ -	-		0.000%
14									
15									
16	Supporting Schdules:								
17	E-1								
18	E-2								
19									
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Cost of Preferred Stock

Exhibit
Rebuttal Schedule D-3
Page 1
Witness: Bourassa

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

Verde Santa Fe Watewater Company, Inc.
Test Year Ended December 31, 2012
Cost of Common Equity

Exhibit
Rebuttal Schedule D-4
Page 1
Witness: Bourassa

Line No.		
1		
2	The Company is proposing a cost of common equity of	9.60% .
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
18	Testimony	D-1
19		
20		

Verde Santa Fe Wastewater Company, Inc.
Revenue Summary
Test Year Ended December 31, 2012

Exhibit
Rebuttal Schedule H-1
Page 1
Witness: Bourassa

Line No.	Classification		Total Revenues at Present Rates	Total Revenues at Proposed Rates	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	Residential		$ 450,680	$ 487,185	$ 36,505	8.10%	93.98%	94.20%
2								
3	Commercial	VSF Community Center	1,056	1,142	86	8.10%	0.22%	0.22%
4	Commercial	Amante Club House	1,536	1,660	124	8.10%	0.32%	0.32%
5	Commercial	VSF Golf Course Club House	3,300	3,567	267	8.10%	0.69%	0.69%
6	Commercial	Highlands Resort	3,408	3,684	276	8.10%	0.71%	0.71%
7								
8								
9	Effluent	VSF Golf Course	65,453	7,527	(57,926)	-88.50%	13.65%	1.46%
10								
11								
12	**Subtotals of Revenues**		$ 525,433	$ 504,765	$ (20,667)	-3.93%	109.57%	97.60%
13	**Revenue Annualizations:**							
14								
15	Residential		$ 2,440	$ 2,638	$ 198	8.10%	0.51%	0.51%
16								
17								
16								
17								
18	**Subtotal Revenue Annualization**		2,440	2,638	198	8.10%	0.51%	0.55%
19								
20	**Total Revenues w/ Annualization**		$ 527,873	$ 507,403	$ (20,470)	-3.88%	110.08%	98.11%
21								
22	**C-2 Revenue Adjustments**		$ (57,926)	$ -	$ 57,926	-100.00%	-12.08%	0.00%
23	**Misc Revenues**		9,624	9,624	-	0.00%	2.01%	1.86%
24	**Reconciling Amount**		(20)	175	195	-975.00%	0.00%	0.03%
25	**Total Revenues**		$ 479,551	$ 517,202	$ 37,651	7.85%	100.00%	100.00%
26								
27								

Verde Santa Fe Wastewater Company, Inc.
Analysis of Revenue by Detailed Class
Test Year Ended December 31, 2012

Exhibit
Rebuttal Schedule H-2
Page 1
Witness: Bourassa
Revised

Line No.		Customer Classification	Average Number of Customers at 12/31/2012	Average Consumption	Average Bill Present Rates	Average Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount	Percent of Customers
1	Residential		939	-	$ 40.00	$ 43.24	$ 3.24	8.10%	99.58%
2									
3	Commercial	VSF Community Center	1	-	88.00	95.13	7.13	8.10%	0.11%
4	Commercial	Amante Club House	1	-	128.00	138.37	10.37	8.10%	0.11%
5	Commercial	VSF Golf Course Club House	1	-	275.00	297.28	22.28	8.10%	0.11%
6	Commercial	Highlands Resort	-	-	284.00	307.00	23.00	8.10%	0.00%
7									
8	Effluent	VSF Golf Course	1	2,727,194	$ 5,454.39	$ 627.25	$ (4,827.13)	-88.50%	0.11%
9									
10									
11									
12									
13									
14									
15									
16	Totals		943						100.00%
17									
18	Actual Year End Number								
19	of Customers:		949						
20									
21									
22									
23									

Verde Santa Fe Wastewater Company, Inc.
Analysis of Revenue by Detailed Class
Test Year Ended December 31, 2012

Exhibit
Rebuttal Schedule H-2
Page 2
Witness: Bourassa
Revised

Line No.	Customer Classification		Average Number of Customers at 12/31/2012	Median Consumption	Median Bill Present Rates	Median Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount	Percent of Customers
1	Residential		939	-	$ 40.00	$ 43.24	$ 3.24	8.10%	99.47%
2									
3	Commercial	VSF Community Center	1	-	88.00	95.13	7.13	8.10%	0.11%
4	Commercial	Amante Club House	1	-	128.00	138.37	10.37	8.10%	0.11%
5	Commercial	VSF Golf Course	1	-	275.00	297.28	22.28	8.10%	0.11%
6	Commercial	Highlands Resort	1	-	284.00	307.00	23.00	8.10%	0.11%
7									
8	Effluent	VSF Golf Course	1	2,696,615	$ 5,393.23	$ 620.22	$ (4,773.01)	-88.50%	0.11%
9									
10									
11									
12									
13									
14									
15	Totals		944						100.00%
16									
17	Actual Year End Number								
18	of Customers:		949						
19									
20									
21									
22									

Verde Santa Fe Wastewater Company, Inc.
Test Year Ended December 31, 2012
Present and Proposed Rates

Exhibit
Rebuttal Schedule H-3
Page 1

Line No.	Monthly Usage Charge for:		Present Rates		Proposed Rates		Change	Percent Change
1								
2	Residential		$ 40.00		$ 43.24		$ 3.24	8.10%
2	Commercial		40.00	xSFE (see Note 1)	43.24	xSFE (see Note 2)	3.24	8.10%
3								
4								
5								
6								
7	Effluent (all meter sizes)	All gallons	$ 2.00	per 1,000 gallons	$ 0.23	per 1,000 gallons	(1.77)	-88.50%
8								
9								
10								
11								

12 Note 1: If a commercial flat rate is necessary, it will be calculated for each commercial customer by dividing the expected design daily flow rate (as prescribed by
13 the Ten State Standards) by one SFE (single family equivalent). One SFE will equal 262 gallons per day (the approved design flow rate per single family unit by ADEQ.
14 The resulting factor will be multiplied by the approved residential flat rate to get the commercial monthly flat rate.
15
16 Note 2: One SFE is defined as 10 fixtures (sinks and/or toilets and/or showers, etc). The SFE for a commercial customer will be equal to the number of fixtures
17 divided by 10. If the computed SFE is less than 1.0, the factor will be 1.0; which provides that a commercial customer pays no less than a residential customer.
18
19
20
21
22
23
24
25

Verde Santa Fe Wastewater Company, Inc.
Present and Proposed Rates
Test Year Ended December 31, 2012

Exhibit
Rebuttal Schedule H-3
Page 2
Witness: Bourassa

Line No.		Present Rates	Proposed Rates
7	Service Line Charge	n/a	Cost

Other Charges:

	Present Rates	Proposed Rates
Establishment	$ 25.00	$ 25.00
Reconnection (Delinquent)	$ 30.00	$ 30.00
Deposit	(a)	(a)
Deposit Interest (annual effective rate)	3.50%	3.50%
Re-establishment (Within 12 months)	(b)	(b)
Deferred Payment, per month	NT	1.5%
Late Payment Penalty	1.5%	1.5%
NSF Check	$ 25.00	$ 25.00
After hours service charge	NT	$ 35.00

(a) Per Rule AAC R14-2-603.B
(b) Per Rule AAC R14-2-603.D

Verde Sante Fe Wastewater
Capital Lease vs Operating Lease

A capital lease meets one of the following criteria:
1) Lease term is 75% or more of the estimiated economic life of the property.
2) Lease contains an option to purchase at less than the fair market value.
3) Ownership of property is transferred to the lessee at end of the lease.
4) Net present value of lease payments is more than 90% of the fair market value of the property.

Facts:

Lease Term (years)		10
Cost of Equipment	$	250,000
Residual Value	$	50,000
Capital Reduction (Capital Financed)	$	200,000
Monthly Payment	$	2,587.95
Total Annual Payments	$	31,055.41
Internal ROR		9.50%

Evaluation of Capital Lease Criteria:

1) Lease term is 75% or more of the estimiated economic life of the property

Analysis:

Estimated Economic Life (years)	20
Lease Tems(yrs)/Economic Life(yrs)	50%

Capital Lease Criteria 1 Met? NO

2) Lease contains an option to purchase at less than the fair market value.

Analysis:
Lease provision states that Lessee has option to purchase at FMV.
FMV shall not be less than 20% of the Lessor's cost.

Capital Lease Criteria 2 Met? NO

3) Ownership of property is transferred to the lessee at end of the lease.

Analysis:
Lease does not contain a provision to transfer ownership.

Capital Lease Criteria 3 Met? NO

4) Net present value of lease payments is more than 90% of the fair marke value of the property.

Net Present Value (NPV) of Lease Payments	$	200,000
NPV Lease Pmts/FMV		80%

Capital Lease Criteria 4 Met? NO

Conclusion:

The lease is NOT a capital lease.

EXHIBIT
A-9
ADMITTED

Verde Sante Fe Water Company
Impact of Transferring Ownership of Leased Plant

Assumptions:

Original Cost	$ 250,000
NARUC Depreication rate for Acct 380 - Treatment Equipment	5%
Prior Depreciation - half-year convention (yrs)	6.5
Accumulated Depreciation	$ 81,250
Net Book Value	$ 168,750
Remaining Life (yrs) of Plant	13
Adjusted Depreciation Rate	7.7%
Assumed New Loan Amt for Purchase	$ 168,750
Assumed Interest Rate on New Loan	5%
Assumed Term for New Loan (yrs)	13
Monthly Payments	$ 1,473
Total Annual Payments	$ 17,964

New Weighted Average Cost of Capital (WACC)

	%	Cost	Wtd Cost
Debt	33.8%	5.0%	1.7%
Equity	66.2%	9.6%	6.4%
Total	100.0%		8.1%

Impact on Rate Base	
Company Proposed Rate Base	$ 421,335
Net increase in rate base	$ 168,750
New Adjusted Rate Base	$ 590,085
Impact on Depreciation Expense	
Original Cost	$ 250,000
Depreciation Rate	5.0%
Depreciation Expense	$ 12,500
Less: Change in CIAC Amortization(1)	-
Net Additional Depreciation Expense	$ 12,500
Impact on Operating Expenses	
Remove Adjusted Lease Expense	(19,799)
Add Additional Depreciation Expense	12,500
Net Change in Adjusted Property Taxes	-
Net Change in Adjusted Income Taxes	(561)
Net Change in Operating Expenses	$ (7,860)
Impact on Operating Income	
Company Proposed Adjusted Operating Income	$ 10,944
Net Change in Operating Expenses	7,860
New Adjusted Operating Income	$ 18,804

Computation of Increase in Gross Revenue Requirement Assuming Leased Plant Transferred

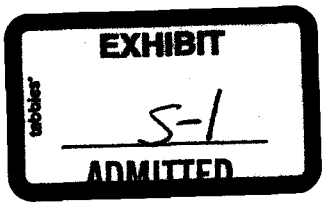
New Fair Value Rate Base	$ 590,085
Adjusted Operating Income	$ 18,804
Current Rate of Return	3.19%
Required Operating Income	$ 47,797
Required Rate of Return	8.1%
Operating Income Deficiency	$ 28,993
Gross Revenue Conversion Factor	1.2761
Increase in Gross Revenue Requirement	$ 36,998
Company Proposed Increase in Gross Revenue Requirement	$ 37,651
Net Change in Revenue Requirement	$ (652)

(1) Leased plant not funded by CIAC so there is no net change in CIAC Amortization

EXHIBIT
A-10
ADMITTED

BEFORE THE ARIZONA CORPORATION COMMISSION

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



IN THE MATTER OF THE APPLICATION OF VERDE SANTA FE WASTEWATER CO., INC. AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON	)	DOCKET NO. SW-03437A-13-0292

DIRECT

TESTIMONY

OF

KATRIN STUKOV

UTILITIES ENGINEER

ARIZONA CORPORATION COMMISSION

UTILITIES DIVISION

FEBRUARY 24, 2014

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EXHIBITS

Engineering Report ..... Exhibit KS

INTRODUCTION

Q. Please state your name, place of employment and job title.

A. My name is Katrin Stukov. My place of employment is the Arizona Corporation Commission ("Commission"), Utilities Division ("Staff"), 1200 West Washington Street, Phoenix, Arizona 85007. My job title is Utilities Engineer.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since June 2006.

Q. Please list your duties and responsibilities.

A. As a Utilities Engineer, specializing in water and wastewater engineering, I inspect and evaluate water and wastewater systems, obtain data, prepare reports, suggest corrective action, provide technical recommendations on water and wastewater system deficiencies, and provide written and oral testimony on rate and other cases before the Commission.

Q. How many cases have you analyzed for the Utilities Division?

A. I have analyzed over 80 cases covering various responsibilities for the Utilities Division.

Q. What is your educational background?

A. I graduated from the Moscow University of Civil Engineering with a Bachelor of Science degree in Civil Engineering with a concentration in water and wastewater systems.

Q. Briefly describe your pertinent work experience.

A. Prior to my employment with the Commission, I was a design review environmental engineer with the Arizona Department of Environmental Quality ("ADEQ") for twenty years. My responsibilities with ADEQ included review of projects for the construction of

water and wastewater facilities. Prior to that, I worked as a civil engineer in several engineering and consulting firms, including Bechtel, Inc. and Brown & Root, Inc., in Houston, Texas.

PURPOSE OF TESTIMONY

Q. Were you assigned to provide the Staff's engineering analysis and recommendations for this Verde Santa Fe Wastewater Company ("VSF" or "Company") rate case proceeding?

A. Yes. I reviewed the Company's application and responses to data requests, and I visited the wastewater system. This testimony and its attachment present Staff's engineering evaluation.

ENGINEERING REPORT

Q. Please describe the attached Engineering Report, Exhibit KS.

A. Exhibit KS presents VSF's wastewater system details and Staff's analysis and findings, and is attached to this Direct Testimony. Exhibit KS contains the following major topics: (1) a description of the wastewater system, (2) analysis of the wastewater system, (3) growth, (4) compliance with the rules of ADEQ, (5) depreciation rates and (6) Staff's conclusions and recommendations.

Q. Please summarize Staff's engineering conclusions and recommendations.

A. Such a summary is provided at the front of Exhibit KS.

Q. Does this conclude your Direct Testimony?

A. Yes, it does.

ENGINEERING REPORT FOR
VERDE SANTA FE WASTEWATER CO., INC.
RATE APPLICATION
DOCKET NO. SW-03437A-13-0292

December 18, 2013

SUMMARY

CONCLUSIONS

1. The Arizona Department of Environmental Quality ("ADEQ") reported that based on the latest self-reported data, ADEQ finds that the Verde Santa Fe Wastewater Co., Inc.'s ("VSF" or "Company") Wastewater Treatment Plant is not currently in violation at a level at which ADEQ will take an action or issue a Notice of Opportunity to Correct or Notice of Violation.

2. Based on the wastewater flow data for the test year, Arizona Corporation Commission ("ACC") Utilities Division Staff ("Staff") concludes that the VSF wastewater system is adequate to serve the present customer base and reasonable growth.

3. The Company has no outstanding ACC compliance issues.

RECOMMENDATIONS

1. Staff recommends the depreciation rates delineated in Table A.

2. Staff recommends the acceptance of the Company's requested Service Lateral Installation Charges at cost.

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A. INTRODUCTION AND LOCATION OF COMPANY

On August 30, 2013, Verde Santa Fe Wastewater Co., Inc. ("VSF" or "Company") filed a wastewater rate application with the Arizona Corporation Commission ("ACC" or "Commission"). The Company provides wastewater service to customers in a master-planned development ("Development") near the City of Cottonwood in Yavapai County.

The plant facilities were visited on November 20, 2013, by Katrin Stukov, Commission Utilities Division Staff ("Staff") Engineer, accompanied by Pat Carpenter, the Company's system operator.

Figure 1 shows the location of the Company within Yavapai County and Figure 2 delineates the approximate 0.7 square miles or 450 acres of certificated area.

Figure1

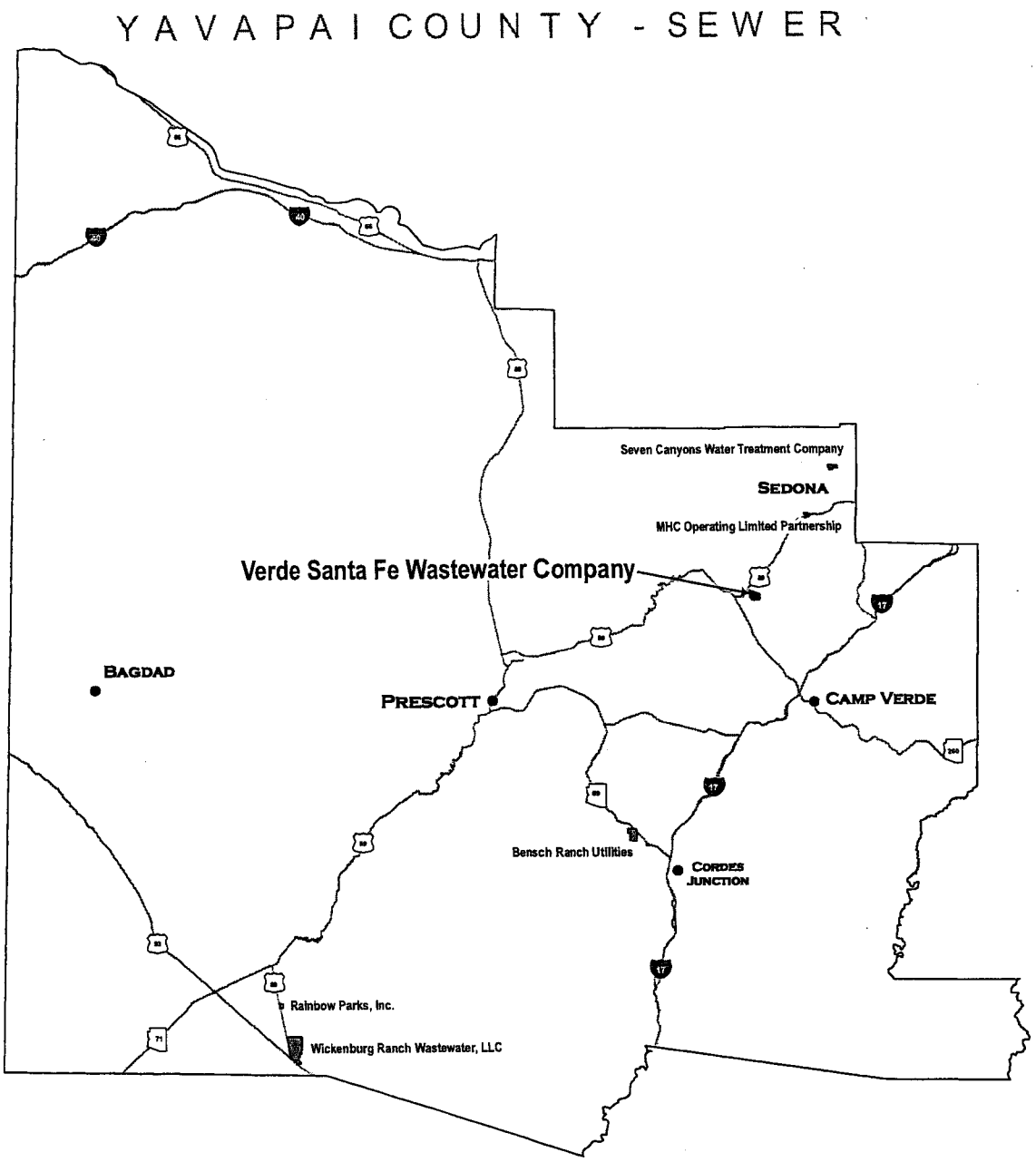
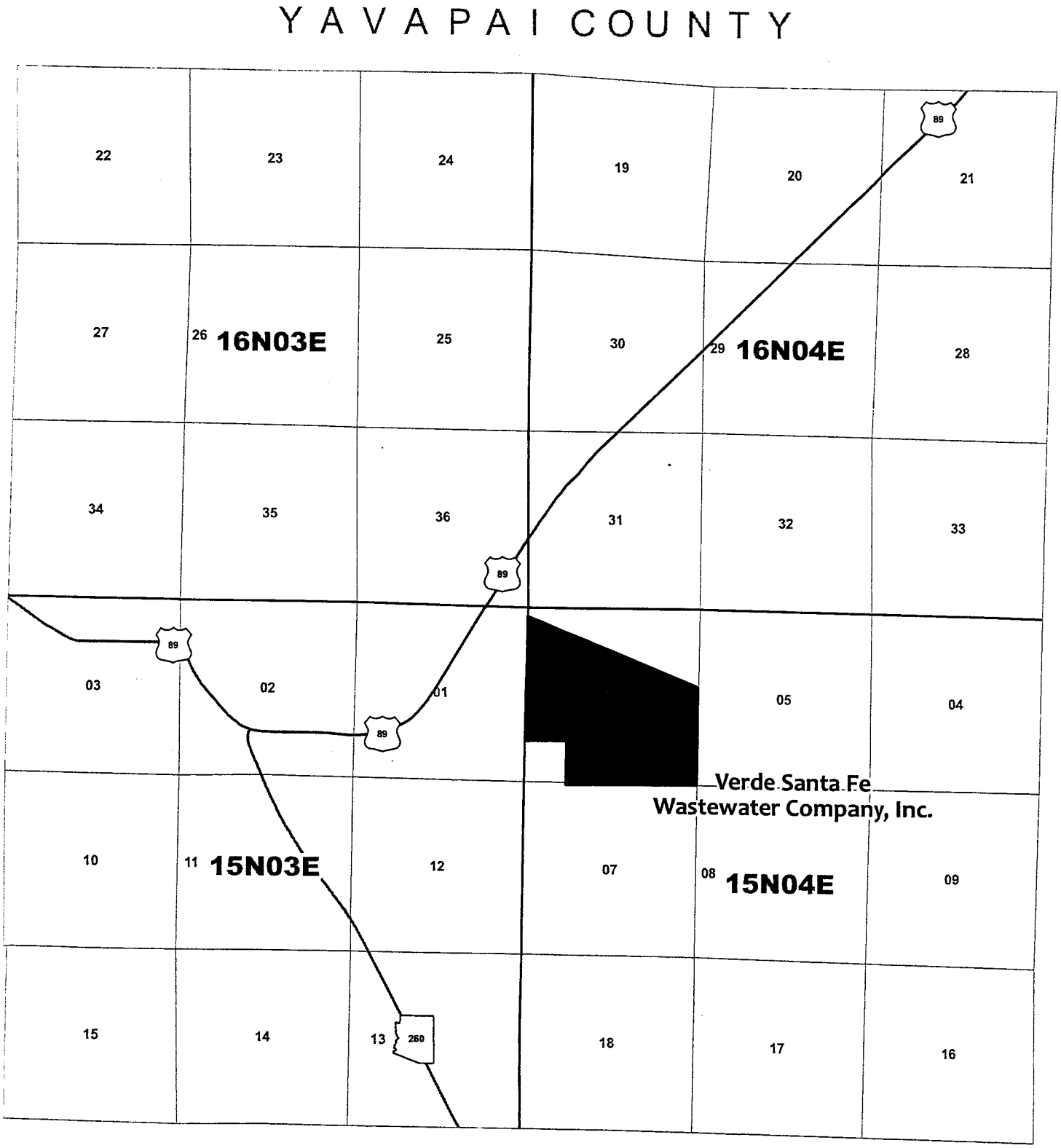

YAVAPAI COUNTY - SEWER
Seven Canyons Water Treatment Company
SEDONA
MHC Operating Limited Partnership
Verde Santa Fe Wastewater Company
BAGDAD
PRESCOTT
CAMP VERDE
Bensch Ranch Utilities
CORDES JUNCTION
Rainbow Parks, Inc.
Wickenburg Ranch Wastewater, LLC

Figure 2


YAVAPAI COUNTY
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Verde Santa Fe
Wastewater Company, Inc.
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B. DESCRIPTION OF THE WASTEWATER SYSTEM

During the test-year, ending December 31, 2012, VSF served over 950 customers, including several commercial customers and one effluent (reclaimed water) customer, the Verde Santa Fe Golf Course ("Golf Course").

The Company's sewer collection system consists of a combination of gravity and force mains and two lift stations. The current operation of the wastewater treatment facilities includes a Santec 100,000 gallon per day ("GPD") wastewater treatment plant ("WWTP"), a 40,000 gallon flow equalization basin, grit and solid removal, sludge treatment and handling, disinfection, influent lift stations and effluent lift stations.

The effluent from the WWTP is pumped into the Golf Course's effluent holding ponds for reuse on the Golf Course. The Company has not developed a contingency plan for effluent disposal in the event the Golf Course refuses to accept VSF's effluent.

Figure 3 provides a process schematic for the wastewater system and the plant facilities summary is tabulated below:

Wastewater Treatment Facility[1]

Type of Treatment	Modified extended aeration with nutrient removal process, treating to Class B+ effluent. Includes 2 anoxic tanks* and 2 aeration tanks*.
Capacity	100,000 GPD
Solid Processing and Handling Facilities	Inlet comminutor*, grit chamber, bar screen. Sludge digester/ settling tank* and Driamad 6-bag sludge bagging unit
Disinfection Equipment	Liquid Chlorine feed system Chlorine contact tank*
Air Filtration and Odor Control Equipment	Forced air carbon filtration system in sludge bagging room
Structures	Block fence around site and landscape berm. Operations and equipment buildings
Others	Standby diesel power generator*, 4 back-up pumps, confined space safety equipment, laboratory and process control equipment

[1] * Indicates leased equipment per the Company Response CSB 3.5 a.

Lift Stations

Location	Pumps			Wet Well Capacity (gallons)	Meters
	Quantity	Horsepower per pump (HP)	Capacity per pump (GPM)		
Sewer lift station No.1 (at 4400 W. Hogan Road)	2	2	60	1,000	
Sewer lift station No.2 (Amante- near water plant site)	2	17	150	2,500	
Influent lift station at WWTP site	2	15	620	1,814	2" Flow Meter
Effluent lift station at WWTP site	2	26	356	4,681	6" Flow Meter

Force Mains

Size	Location	Material	Length (in feet)
2-inch	Force main from sewer lift station No. 1 to WWTP	PVC	6,690
4-inch	Force main from sewer lift station No.2 to WWTP	PVC	1,722
6-inch	Effluent (Reuse) force main to holding ponds	PVC	5,447

Collection Mains

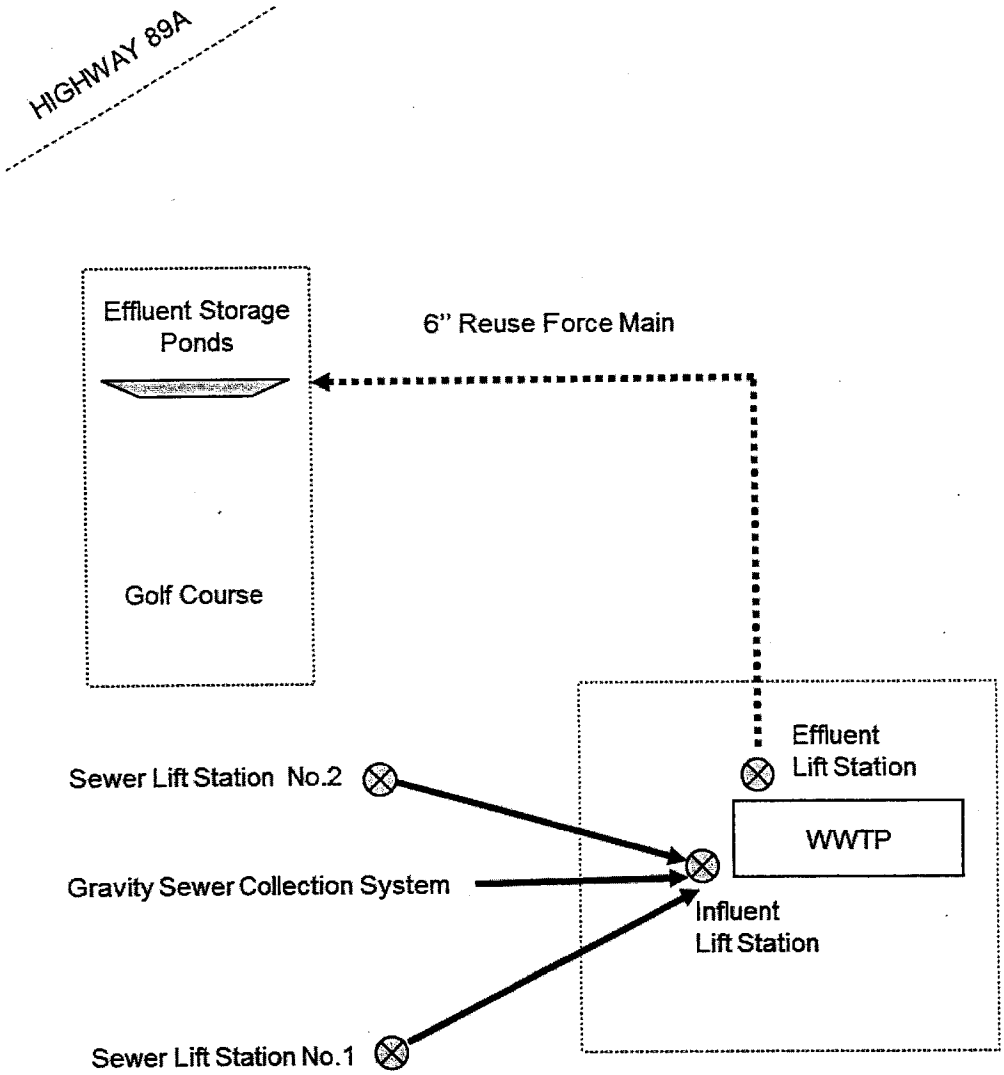
Size (in inches)	Material	Length (in feet)
3	PVC	2,265
4	PVC	3,651
6	PVC	22,954

Services

Size (in inches)	Material	Quantity
2	PVC	353
4	PVC	607
6	PVC	4
	Total	964

Manholes		Cleanouts
Type	Quantity	Quantity
Standard	154	31

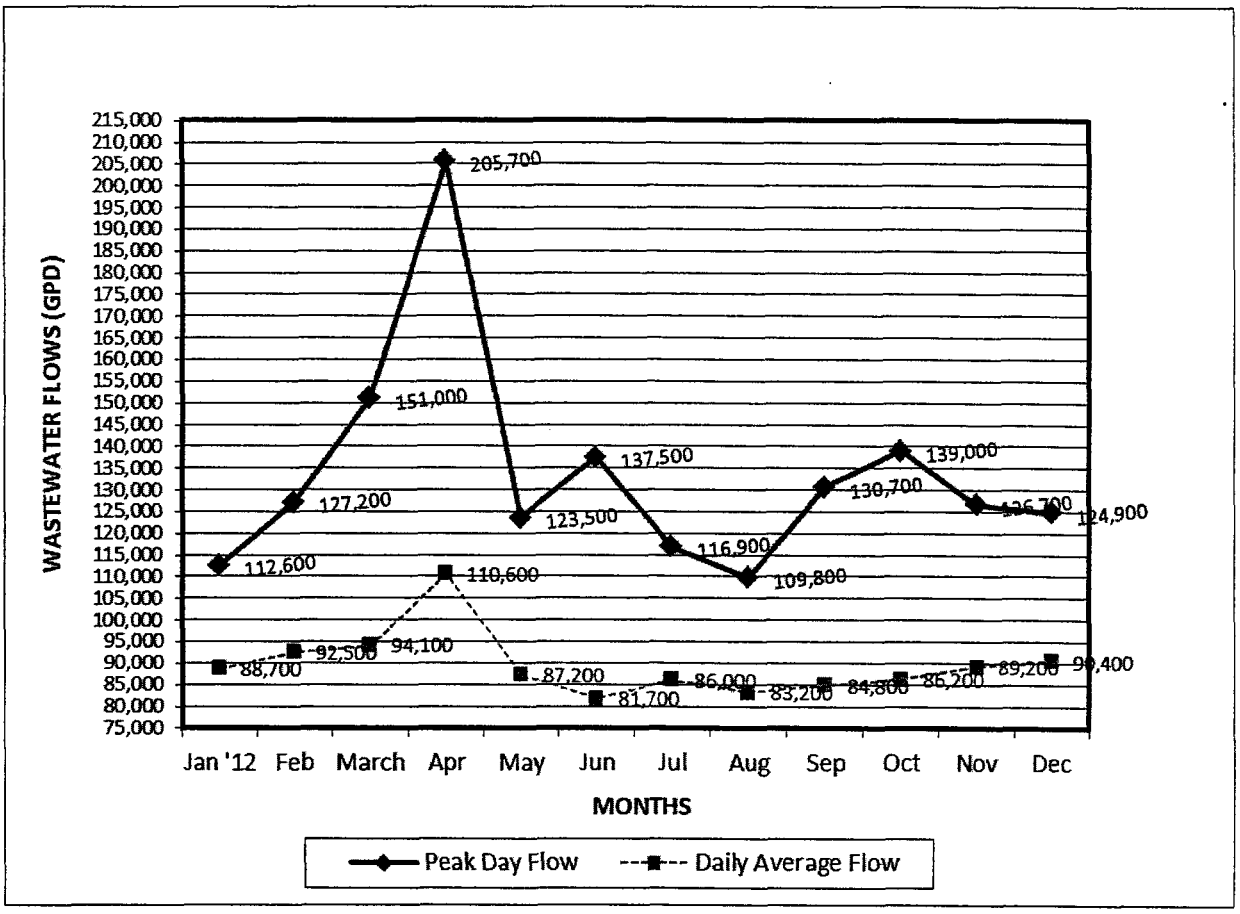
Figure 3
System Schematic



C. WASTEWATER SYSTEM ANALYSIS

Figure 4 represents the monthly wastewater flows based on the wastewater flow data provided by the Company for the test year ending December 31, 2012. Based on the current Arizona Department of Environmental Quality ("ADEQ") Aquifer Protection Permit ("APP") number 103173 issued on April 22, 2008, the Company is authorized to operate a WWTP with a maximum average monthly flow of 264,000 gallon per day ("GPD"). For the average daily flows, April 2012 experienced the highest flow of 110,600 GPD. For the peak day flows, April 2012 had the highest flow when 205,700 gallons were recorded in one day. The Company attributed this high flow to the fact that a resort emptied their pool on that day.[2] The Company asserts that because the WWTP is equipped with a flow equalization basin and a series of pumps that regulate the influent flow rate, the wastewater system is capable of absorbing this peak day flow. Based on the average day-peak month flow of 110,600 gallons, or 116 GPD per sewer lateral, Staff concludes that the WWTP's current capacity is adequate to serve the present customer base and reasonable growth.

Figure 4 Wastewater Flows



[2] According to the VSF's e-mail, dated September 24, 2013

D. GROWTH

According to the Company, VSF's existing certificated area currently does not have much additional land or parcels to be developed. Consequently, the VSF wastewater system is expected to experience minimal growth. A listing of the number of services at the end of each year from 2008 to 2012 is tabulated below[3]:

2008	2009	2010	2011	2012
935	949	951	946	955

E. ADEQ COMPLIANCE

On November 8, 2013, ADEQ reported that based on the Company's latest self-reported data available through the second quarter of 2013 ending June 30, 2013, ADEQ finds that the VSF WWTP is not currently in violation at a level at which ADEQ will take an action or issue a Notice of Opportunity to Correct or Notice of Violation.

F. ACC COMPLIANCE

A check with Utilities Division Compliance Section showed that there are currently no delinquent compliance items for the Company[4].

G. DEPRECIATION RATES

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table A. Staff recommends that the Company adopt Staff's typical and customary depreciation rates in the accounts listed in Table A.

[3] Based on customer data provided by the Company in its Annual Reports
[4] Per ACC Compliance status check dated September 10, 2012.

TABLE A

WASTEWATER DEPRECIATION RATES

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
354	Structures & Improvements	30	3.33
355	Power Generation Equipment	20	5.00
360	Collection Sewers – Force	50	2.0
361	Collection Sewers- Gravity	50	2.0
362	Special Collecting Structures	50	2.0
363	Services to Customers	50	2.0
364	Flow Measuring Devices	10	10.0
365	Flow Measuring Installations	10	10.00
366	Reuse Services	50	2.00
367	Reuse Meters & Meter Installations	12	8.33
370	Receiving Wells	30	3.33
371	Pumping Equipment	8	12.50
374	Reuse Distribution Reservoirs	40	2.50
375	Reuse Transmission & Distribution System	40	2.50
380	Treatment & Disposal Equipment	20	5.0
381	Plant Sewers	20	5.0
382	Outfall Sewer Lines	30	3.33
389	Other Plant & Miscellaneous Equipment	15	6.67
390	Office Furniture & Equipment	15	6.67
390.1	Computers & Software	5	20.0
391	Transportation Equipment	5	20.0
392	Stores Equipment	25	4.0
393	Tools, Shop & Garage Equipment	20	5.0
394	Laboratory Equipment	10	10.0
395	Power Operated Equipment	20	5.0
396	Communication Equipment	10	10.0
397	Miscellaneous Equipment	10	10.0
398	Other Tangible Plant	---	---

NOTE: Acct. 398, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

H. OTHER ISSUES

Service Lateral Installation Charges

The Company currently does not have a tariff for service lateral installation charges. The Company requested that service lateral installation be charged at cost. Staff recommends the acceptance of the Company's requested Service Lateral Installation Charges at cost.

ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY

1110 West Washington Street • Phoenix, Arizona 85007
(602) 771-2300 • www.azdeq.gov

Janice K. Brewer
Governor

Henry R. Darwin
Director

EXHIBIT
S-2
ADMITTED

November 8, 2013

Arizona Corporation Commission
Ms. Katrin Stukov, Utilities Engineer
1200 W. Washington
Phoenix, Arizona 85007

RE: Compliance Status for Verde Santa Fe Wastewater Treatment Plant, Aquifer Protection Permits (APP) Inventory number 103173, Place ID 5110, Licensing Time Frame (LTF) number 40321.

Dear Ms. Stukov,

On October 8, 2013, the Arizona Department of Environmental Quality sent to your attention a compliance status letters for the Verde Santa Fe Wastewater Treatment Plan. The letter listed all of the self-reported monitoring violations for the period of 7/1/2012 through 6/30/2013.

As background, the majority of violations reported to ADEQ on a Self-Monitoring Report Form (SMRF), which is required by a facility's Aquifer Protection Permit and due quarterly, are resolved through informal compliance assurance tools and do not constitute taking an action against the permittee. Rather, ADEQ provides the opportunity for all permitted facilities to correct missing and/or deficient self-reported data through re-submittal of the missing and/or deficient data. Permit limit exceedances are evaluated by ADEQ to make a determination if they meet the criteria for significant non-compliance, the level at which ADEQ would take an informal enforcement action.

As of the date of this letter and based upon the latest self-reported data available through the 2nd quarter of 2013 ending 6/30/2013, ADEQ finds that the Verde Santa Fe Wastewater Treatment Plant is not currently in violation at a level at which ADEQ will take an action or issue a Notice of Opportunity to Correct or Notice of Violation.

Should you have any questions or require further information regarding the compliance status letter dated October 8, 2013, for Verde Santa Fe Wastewater Treatment Plant, I can be reached at 602-771-4651 or by email at mrc@azdeq.gov.

Sincerely,

Marcia Colquitt

Marcia Colquitt, Manager
Water Quality Data and Enforcement Unit

Cc: Facility File

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF VERDE SANTA FE WASTEWATER CO., INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	)	DOCKET NO. SW-03437A-13-0292

DIRECT

TESTIMONY

OF

JOHN A. CASSIDY

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

FEBRUARY 24, 2014

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EXECUTIVE SUMMARY
VERDE SANTA FE WASTEWATER COMPANY
DOCKET NO. SW-03437A-13-0292

The direct testimony of Staff witness John A. Cassidy addresses the following issues:

Capital Structure – Staff recommends that the Commission adopt a capital structure for Verde Santa Fe Wastewater Company ("Company") for this proceeding consisting of 0.0 percent debt and 100.0 percent equity.

Cost of Equity – Staff recommends that the Commission adopt a 9.6 percent return on equity ("ROE") for the Company. Staff's estimated ROE for the Company is based on the 9.0 percent average of its discounted cash flow method ("DCF") cost of equity methodology estimates for the sample companies of 8.6 percent for the constant-growth DCF model and 9.4 percent for the multi-stage DCF model. Staff's recommended ROE includes an upward economic assessment adjustment of 60 basis points (0.6 percent).

Cost of Debt – The Company has no debt in its capital structure.

Overall Rate of Return – Staff recommends that the Commission adopt a 9.0 percent overall rate of return.

Mr. Bourassa's Testimony – The Commission should reject the Company's proposed 11.0 percent ROE for the following reasons:

Mr. Bourassa's primary Future Growth DCF estimates rely exclusively on analysts' forecasts of earnings per share growth. Effectively, Mr. Bourassa's overall DCF estimate is weighted 75 percent by his Future Growth DCF estimates. The current market risk premium in Mr. Bourassa's current MRP CAPM model is not reflective of current market conditions and serves to overstate his CAPM cost of equity estimate. Mr. Bourassa's proposed ROE has been inflated by an implicit upward adjustment for financial risk and small company risk premium.

I. INTRODUCTION

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

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

Q. Briefly describe your responsibilities as a Public Utilities Analyst.

A. I am responsible for the examination of financial and statistical information included in utility rate applications and other financial matters, including studies to estimate the cost of capital component in rate filings used to determine the overall revenue requirement, and for preparing written reports, testimonies and schedules to present Staff's recommendations to the Commission on these matters.

Q. Please describe your educational background and professional experience.

A. I hold a Bachelor of Arts degree in History from Arizona State University, a Master of Library Science degree from the University of Arizona, and a Master of Business Administration degree with an emphasis in Finance from Arizona State University. While pursuing my MBA degree, I was inducted into Beta Gamma Sigma, the National Business Honor Society. I have passed the CPA exam, but opted not to pursue certification. I have worked professionally as a librarian, financial consultant and tax auditor and served as Staff's cost of capital witness in rate case evidentiary proceedings in my current as well as in a past tenure as a Commission employee.

Q. What is the scope of your testimony in this case?

A. My testimony provides Staff's recommended capital structure, return on equity ("ROE") and overall rate of return ("ROR") for establishing the revenue requirements for Verde

Santa Fe Wastewater Company ("VSF" or "Company") in the Company's pending water rate application.

Q. Please provide a brief description of VSF.

A. VSF is a Class "C" Arizona public service corporation engaged in providing wastewater utility services in portions of Yavapai County, Arizona, pursuant to a certificate of convenience and necessity granted by the Commission. During the test year ending December 31, 2012, VSF served approximately 950 wastewater connections.

Summary of Testimony and Recommendations

Q. Briefly summarize how Staff's cost of capital testimony is organized.

A. Staff's cost of capital testimony is presented in ten sections. Section I is this introduction. Section II discusses the concept of weighted average cost of capital ("WACC"). Section III presents the concept of capital structure and presents Staff's recommended capital structure for VSF in this proceeding. Section IV presents Staff's cost of debt for VSF. Section V discusses the concepts of ROE and risk. Section VI presents the methods employed by Staff to estimate VSF's ROE. Section VII presents the findings of Staff's ROE analysis. Section VIII presents Staff's final cost of equity estimates for VSF. Section IX presents Staff's ROR recommendation. Finally, Section X presents Staff's comments on the direct testimony of the Company's witness, Mr. Thomas J. Bourassa.

Q. Have you prepared any exhibits to accompany your testimony?

A. Yes. I prepared nine schedules (JAC-1 to JAC-9) which support Staff's cost of capital analysis.

Q. What is Staff's recommended rate of return for VSF?

A. Staff recommends a 9.6 percent overall ROR, as shown in Schedule JAC-1. Staff's ROR recommendation is based on the following: (1) a capital structure composed of 0.0 percent debt and 100.0 percent equity; and (2) a cost of equity of 9.6 percent, calculated as the simple average of the two cost of equity estimates for the sample companies derived from Staff's discounted cash flow ("DCF") estimation methodologies (8.6 percent from Staff's constant growth DCF model and 9.4 percent from Staff's multi-stage DCF model), plus the adoption of a 60 basis point upward economic assessment adjustment.

Staff continues to develop and analyze the indicated cost of equity estimates derived from the two capital asset pricing model ("CAPM") estimation methodologies historically considered and relied upon by Staff. However, at the present time Staff is recommending that the Commission de-emphasize the CAPM driven results due to the continuing divergence of the CAPM-indicated cost of equity results relative to those derived by the DCF model.

Q. Mr. Cassidy, briefly explain why the cost of equity estimates derived from the CAPM have become problematic in today's economic environment.

A. In an effort to recover from the economic recession of 2008, the United States Federal Reserve ("the Fed") initiated a monetary policy intended to stimulate economic growth and reduce unemployment by keeping the federal funds rate at a level between 0 to ¼ percent.[1] The federal funds rate is the central bank's key tool to spur the economy and a low rate is thought to encourage spending by making it cheaper to borrow money. In addition, in an effort to put downward pressure on longer-term interest rates, the Fed

[1] The federal funds rate is the interest rate charged to banks by the Fed for overnight transfers of funds.

initiated a policy of quantitative easing[2] wherein the U.S. central bank would purchase U.S. Treasury mortgage-backed securities by reinvesting the principal payments from its holdings of agency debt and agency mortgage-backed securities, and of rolling over maturing Treasury securities at auction.[3] As a consequence, the low interest rate environment engineered by the Fed has compelled investors to seek out higher yields on investment wherever they may be found, resulting in the equity markets having recently achieved new all-time highs[4] and forecasted dividend yields reaching new lows.[5] At present, these factors, in combination with one another, have led to abnormally low cost of equity estimates being obtained from the CAPM model. Accordingly, in Staff's judgment the cost of equity estimates derived from the CAPM should not be given their traditional weighting for purposes of setting rates until such time that market conditions change.

VSF's Proposed Overall Rate of Return

Q. Briefly summarize VSF's proposed capital structure, cost of debt, ROE and overall ROR for this proceeding.

A. Table 1 summarizes the Company's proposed capital structure, cost of debt, ROE and overall ROR in this proceeding:

[2] Quantitative easing is an unconventional monetary policy in which a central bank purchases government securities or other securities from the market in order to lower interest rates and increase the money supply. Quantitative easing increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity. Quantitative easing is considered when short-term interest rates are at or approaching zero, and does not involve the printing of new banknotes.

[3] Beginning in February 2014, the Committee will add to its holdings of agency mortgage-backed securities at a pace of $30 billion per month rather than $35 billion per month, and will add to its holdings of longer-term Treasury securities at a pace of $35 billion per month rather than $40 billion per month. (http://www.federalreserve.gov/newsevents/press/monetary/20140129a.htm)

[4] The Dow Jones Industrial Average closed above 16,000 for the first time ever on November 27, 2013 (16,097.33), and reached an all-time intra-day high of 16,588.25 on December 31, 2013. Similarly, the S&P 500 Index recently reached a new all-time high of 1,849.44, and closed at 1837.88 on January 7, 2014 (Source: CNNMoney).

[5] As reported in the *Value Line Investment Survey, Summary & Index*, the median estimated dividend yield (next 12 months) of all dividend paying stocks under its review recently reached a low of 1.9 percent, and is currently at 2.0 percent (*Value Line*, February 21, 2014 issue).

Table 1

	Weight	Cost	Weighted Cost
Long-term Debt	0.0%	0.0%	0.0%
Common Equity	100.0%	11.0%	11.0%
Cost of Capital/ROR			**11.0%**

VSF is proposing an overall rate of return of 11.0 percent.

II. THE WEIGHTED AVERAGE COST OF CAPITAL

Q. Briefly explain the cost of capital concept.

A. The cost of capital is the opportunity cost of choosing one investment over others with equivalent risk. In other words, the cost of capital is the return that stakeholders expect for investing their financial resources in a determined business venture over another business venture.

Q. What is the overall cost of capital?

A. The cost of capital to a company issuing a variety of securities (i.e., stock and indebtedness) is an average of the cost rates on all issued securities adjusted to reflect the relative amounts for each security in the company's entire capital structure. Thus, the overall cost of capital to a firm is its weighted average cost of capital ("WACC").

Q. How is the WACC calculated?

A. The WACC is calculated by adding the weighted expected returns of a firm's securities. The WACC formula is:

Equation 1.

$$WACC = \sum_{i=1}^{n} W_i * r_i$$

In this equation, W_i is the weight given to the ith security (the proportion of the ith security relative to the portfolio) and r_i is the expected return on the ith security.

Q. Can you provide an example demonstrating application of Equation 1?

A. Yes. For this example, assume that an entity has a capital structure composed of 60 percent debt and 40 percent equity. Also, assume that the embedded cost of debt is 6.0 percent and the expected return on equity, i.e., the cost of equity, is 10.5 percent. Calculation of the WACC is as follows:

$$WACC = (60\% * 6.0\%) + (40\% * 10.5\%)$$

$$WACC = 3.60\% + 4.20\%$$

$$WACC = 7.80\%$$

The weighted average cost of capital in this example is 7.80 percent. The entity in this example would need to earn an overall rate of return of 7.80 percent to cover its cost of capital.

III. CAPITAL STRUCTURE

Background

Q. Please explain the capital structure concept.

A. The capital structure of a firm is the relative proportions of each type of security: short-term debt, long-term debt (including capital leases), preferred stock and common stock that are used to finance the firm's assets.

Q. How is the capital structure expressed?

A. The capital structure of a company is expressed as the percentage of each component of the capital structure (capital leases, short-term debt, long-term debt, preferred stock and common stock) relative to the entire capital structure.

As an example, the capital structure for an entity that is financed by $20,000 of short-term debt, $85,000 of long-term debt (including capital leases), $15,000 of preferred stock and $80,000 of common stock is shown in Table 2.

Table 2

Component			%
Short-Term Debt	$20,000	($20,000/$200,000)	10.0%
Long-Term Debt	$85,000	($85,000/$200,000)	42.5%
Preferred Stock	$15,000	($15,000/$200,000)	7.5%
Common Stock	$80,000	($80,000/$200,000)	40.0%
Total	$200,000		100%

The capital structure in this example is composed of 10.0 percent short-term debt, 42.5 percent long-term debt, 7.5 percent preferred stock and 40.0 percent common stock.

VSF's Capital Structure

Q. What capital structure does VSF propose for purposes of this proceeding?

A. The Company proposes a capital structure composed of 0.0 percent debt and 100 percent equity. VSF's proposed capital structure reflects the Company's actual capital structure as of the December 31, 2012 test-year end.[6]

[6] *See* Bourassa Direct, p. 2, lines 10-11, and Schedule D-1.

Q. How does VSF's proposed capital structure compare to the capital structures of publicly-traded water utilities?

A. Schedule JAC-4 shows the capital structures of seven publicly-traded water companies ("sample water companies" or "sample water utilities") as of December 2012. The average capital structure for the sample water utilities is comprised of approximately 50.3 percent debt and 49.7 percent equity.

Q. Explain why Staff is not recommending a hypothetical Capital Structure.

A. Staff is not recommending a hypothetical Capital Structure in this case because the Company does not have access to the capital markets.

Staff's Capital Structure

Q. What is Staff's recommended capital structure for VSF?

A. Staff recommends a capital structure composed of 0.0 percent debt and 100.0 percent equity. Staff's recommended capital structure reflects the Company's actual capital structure as of the December 31, 2012 test-year end.

IV. COST OF DEBT

Q. What is the cost of debt proposed by the Company in this proceeding?

A. Because the Company's capital structure consists of 100.0 percent equity capital, the cost of debt is 0.0 percent.

V. RETURN ON EQUITY

Background

Q. Please define the term "cost of equity capital."

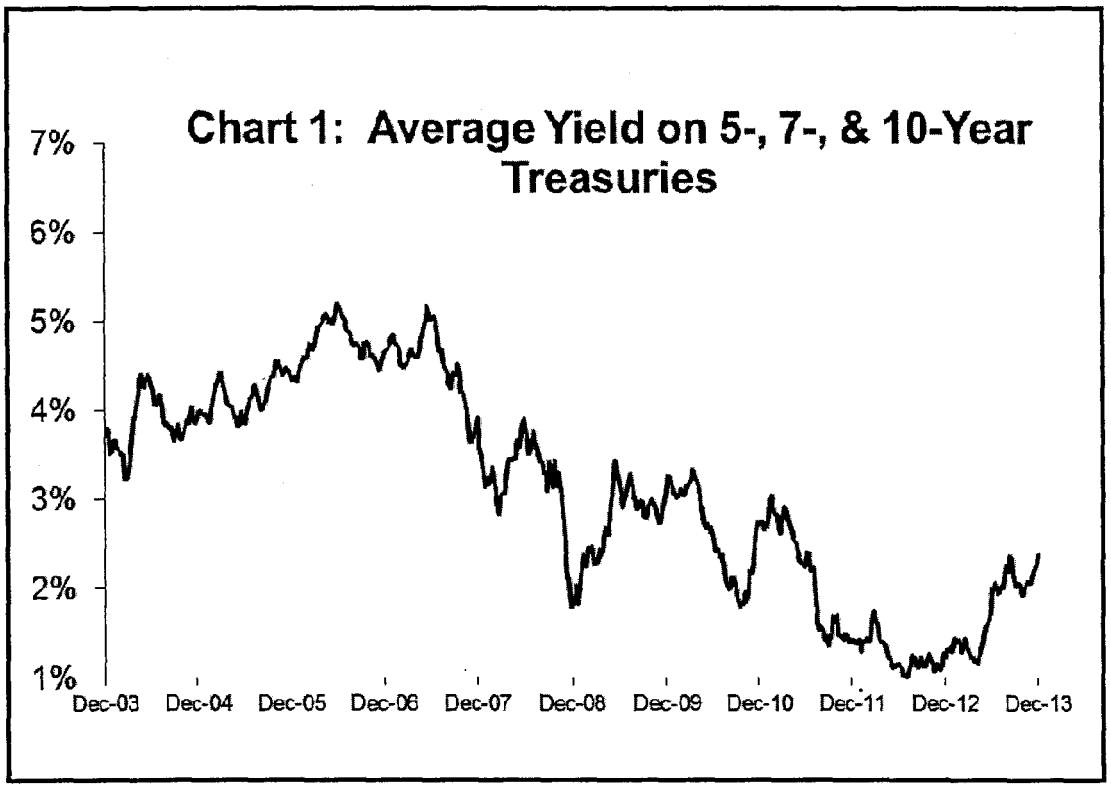
A. The cost of equity is the rate of return that investors expect to earn on their investment in a business entity given its risk. In other words, the cost of equity to the entity is the investors' expected rate of return on other investments of similar risk. As investors have a wide selection of stocks to choose from, they will choose stocks with similar risks but higher returns. Therefore, the market determines the entity's cost of equity.

Q. Is there a correlation between interest rates and the cost of equity?

A. Yes, there is a positive correlation between interest rates and the cost of equity, as the two tend to move in the same direction.

Q. What has been the general trend of interest rates in recent years?

A. A chronological chart of interest rates is a good tool to show interest rate history and identify trends. Chart 1 graphs intermediate U.S. treasury rates from December 26, 2003 to December 27, 2013.

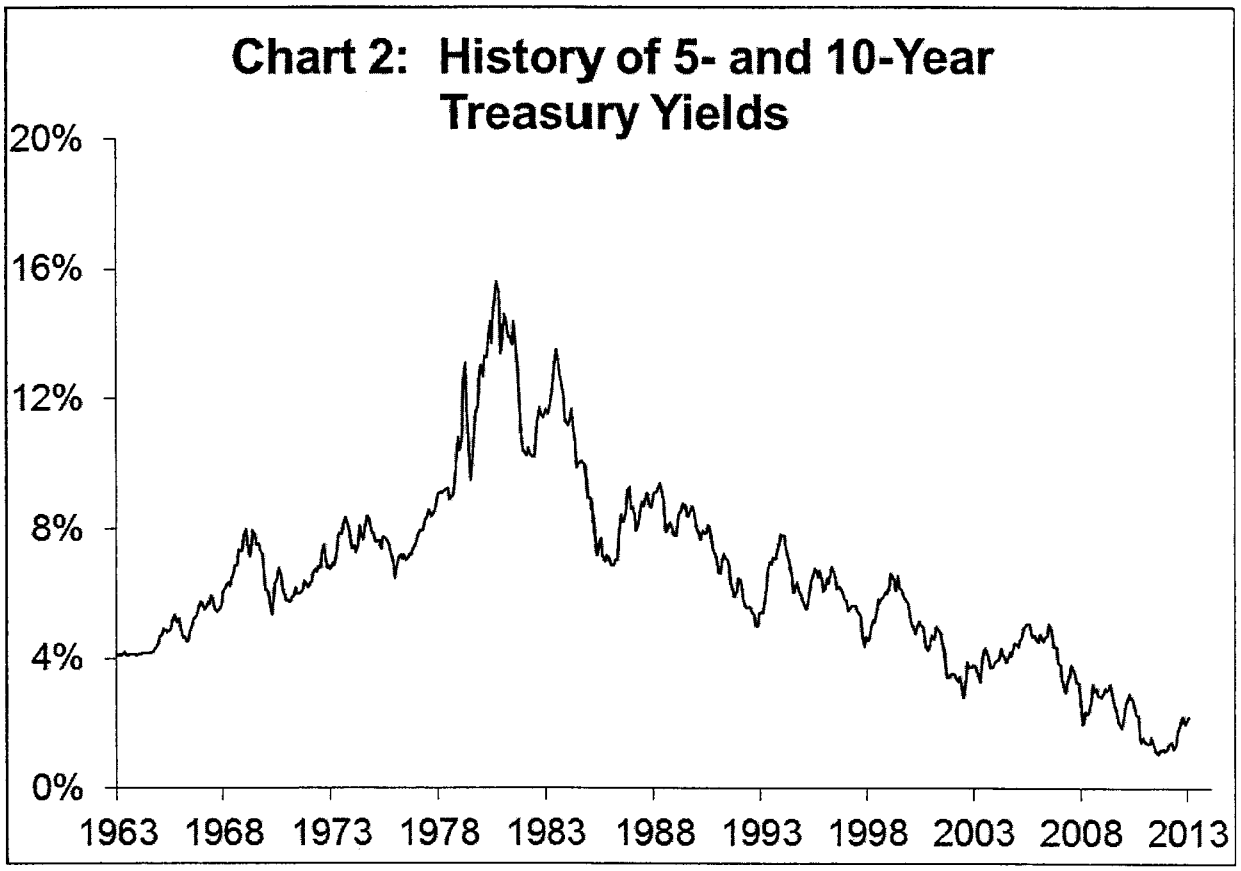


As shown in Chart 1, intermediate-term interest rates trended up from 2004 through mid-2007, trended downward through 2012, and have trended upward since that time.

Q. What has been the general trend in interest rates longer term?

A. U.S. Treasury rates from December 1963-December 2013 are shown in Chart 2. The chart shows that over this 50-year period of time, interest rates trended upward for the first twenty years, and have generally trended downward since that time, with the yield on 5- and 10-year Treasury instruments having risen since reaching all-time lows in July 2012.[7]

[7] U.S. Department of the Treasury, Federal Reserve System (http://www.federalreserve.gov/releases/h15/data.htm)



Source: Federal Reserve

Q. Do these trends have relevance to the cost of equity?

A. Yes. As previously noted, interest rates and the cost of equity tend to move in the same direction; therefore, it can be concluded that the cost of equity has declined over the 30-year period, 1984-2013.

Q. Do actual returns represent the cost of equity?

A. No. The cost of equity represents investors' *expected* returns and not realized returns.

Risk

Q. Please define risk in relation to cost of capital.

A. Risk, as it relates to an investment, is the variability or uncertainty of the returns on a particular security. Investors are risk averse and require a greater potential return to invest in relatively greater risk opportunities, i.e., investors require compensation for taking on additional risk. Risk is generally separated into two components. Those components are market risk (systematic risk) and non-market risk (diversifiable risk or firm-specific risk).

Q. What is market risk?

A. Market risk, or systematic risk, is the risk associated with an investment that cannot be reduced through diversification. Market risk stems from factors that affect all securities, such as recessions, war, inflation and high interest rates. These factors affect the entire market. However, market risk does not impact each security to the same degree.

Q. Please define business risk.

A. Business risk is the fluctuation of earnings inherent in a firm's operations and environment, such as competition and adverse economic conditions, which may impair its ability to provide returns on investment. Companies in the same or similar line of business tend to experience the same fluctuations in business cycles.

Q. Please define financial risk.

A. Financial risk is the fluctuation of earnings inherent in the use of debt financing that may impair a firm's ability to provide adequate returns; the higher the percentage of debt in a company's capital structure, the greater its exposure to financial risk.

Q. Do business risk and financial risk affect the cost of equity?

A. Yes.

Q. Is a firm subject to any other risk?

A. Yes. Firms are also subject to unsystematic or firm-specific risk. Examples of unsystematic risk include losses caused by labor problems, nationalization of assets, loss of a big client or weather conditions. However, investors can eliminate firm-specific risk by holding a diverse portfolio; thus, it is not of concern to diversified investors.

Q. How does VSF's financial risk exposure compare to that of Staff's sample group of water companies?

A. JAC-4 shows the capital structures of the seven sample water companies as of December 2012, and VSF's capital structure as of the test year ending December 31, 2012. As shown, the sample water utilities were capitalized with approximately 50.3 percent debt and 49.7 percent equity, while VSF's capital structure consists of 0.0 percent debt and 100.0 percent equity. Thus, because VSF has no debt in its capital structure, it has no exposure to financial risk, while Staff's sample companies do have exposure to financial risk.

Q. Is the cost of equity affected by firm-specific risk?

A. No. Since firm-specific risk can be eliminated through diversification, it does not affect the cost of equity.

Q. Can investors expect additional returns for firm-specific risk?

A. No. Investors who hold diversified portfolios can effectively eliminate firm-specific risk and, consequently, do not require any additional return. Since investors who choose to be

less than fully-diversified must compete in the market with fully-diversified investors, the former cannot expect to be compensated for unique risk.

VI. ESTIMATING THE COST OF EQUITY

Introduction

Q. Did Staff directly estimate the cost of equity for VSF?

A. No. Since VSF is not a publicly-traded company, Staff is unable to directly estimate its cost of equity due to the lack of firm-specific market data. Instead, Staff estimated the Company's cost of equity indirectly, using a representative sample group of publicly-traded water utilities as a proxy, taking the average of the sample group to reduce the sample error resulting from random fluctuations in the market at the time the information is gathered.

Q. What sample companies did Staff select as proxies for VSF?

A. Staff's sample consists of the following seven publicly-traded water utilities: American States Water, California Water, Aqua America, Connecticut Water Service, Middlesex Water, SJW Corporation and York Water. Staff selected these companies because they are publicly-traded and receive the majority of their earnings from regulated operations.

Q. What models did Staff implement to estimate VSF's cost of equity?

A. Staff used two variations of the DCF model, both of which are market-based, to estimate the cost of equity for VSF: the constant-growth DCF model and the multi-stage DCF model.

Q. Please explain why Staff chose the DCF model.

A. Staff chose to use the DCF model because it is a widely-recognized market-based model and has been used extensively to estimate the cost of equity. For the reasons noted earlier, Staff has not incorporated estimates derived from the CAPM into its cost of equity analysis for VSF. An explanation of the DCF model is provided below.

Discounted Cash Flow Model Analysis

Q. Please provide a brief summary of the theory upon which the DCF method of estimating the cost of equity is based.

A. The DCF method of stock valuation is based on the theory that the value of an investment is equal to the sum of the future cash flows generated from the aforementioned investment discounted to the present time. This method uses expected dividends, market price and dividend growth rate to calculate the cost of capital. Professor Myron Gordon pioneered the DCF method in the 1960s. The DCF method has become widely used to estimate the cost of equity for public utilities due to its theoretical merit and its simplicity. Staff used the financial information for the relevant seven sample companies in the DCF model and averaged the results to determine an estimated cost of equity for the sample companies.

Q. Does Staff use more than one version of the DCF?

A. Yes. Staff uses two versions of the DCF model: the constant-growth DCF and the multi-stage or non-constant growth DCF. The constant-growth DCF assumes that an entity's dividends will grow indefinitely at the same rate. The multi-stage growth DCF model assumes the dividend growth rate will change at some point in the future.

The Constant-Growth DCF

Q. What is the mathematical formula used in Staff's constant-growth DCF analysis?

A. The constant-growth DCF formula used in Staff's analysis is:

Equation 2:

$$K = \frac{D_1}{P_0} + g$$

where:

K	=	the cost of equity
D_1	=	the expected annual dividend
P_0	=	the current stock price
g	=	the expected infinite annual growth rate of dividends

Equation 2 assumes that the entity has a constant earnings retention rate and that its earnings are expected to grow at a constant rate. According to Equation 2, a stock with a current market price of $10 per share, an expected annual dividend of $0.45 per share and an expected dividend growth rate of 3.0 percent per year has a cost of equity to the entity of 7.5 percent reflected by the sum of the dividend yield ($0.45/ $10 = 4.5 percent) and the 3.0 percent annual dividend growth rate.

Q. How did Staff calculate the expected dividend yield (D_1/P_0) component of the constant-growth DCF formula?

A. Staff calculated the expected yield component of the DCF formula by dividing the expected annual dividend (D_1) by the spot stock price (P_0) after the close of market on January 15, 2014, as reported by *MSN Money*.

Q. Why did Staff use the January 15, 2014, spot price rather than a historical average stock price to calculate the dividend yield component of the DCF formula?

A. The current, rather than historic, market price is used in order to be consistent with financial theory. In accordance with the Efficient Market Hypothesis, the current stock price is reflective of all available information on a stock, and as such reveals investors' expectations of future returns.

Q. How did Staff estimate the dividend growth (g) component of the constant-growth DCF model represented by Equation 2?

A. The dividend growth component used by Staff is determined by the average of six different estimation methods, as shown in Schedule JAC-8. Staff calculated historical and projected growth estimates on dividend-per-share ("DPS"),[8] earnings-per-share ("EPS")[9] and sustainable growth bases.

Q. Why did Staff examine EPS growth to estimate the dividend growth component of the constant-growth DCF model?

A. Historic and projected EPS growth are used because dividends are related to earnings. Dividend distributions may exceed earnings in the short run, but cannot continue indefinitely. In the long term, dividend distributions are dependent on earnings.

Q. How did Staff estimate historical DPS growth?

A. Staff estimated historical DPS growth by calculating a compound annual DPS growth rate for each of its sample companies over the 10-year period, 2003-2013. As shown in Schedule JAC-5, the average historical DPS growth rate for the sample was 3.7 percent.

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[8] Derived from information provided by *Value Line.*
[9] Derived from information provided by *Value Line.*

Q. How did Staff estimate projected DPS growth?

A. Staff calculated an average of the projected DPS growth rates for the sample water utilities from *Value Line* through the period, 2016-2018. The average projected DPS growth rate is 6.1 percent, as shown in Schedule JAC-5.

Q. How did Staff estimate historical EPS growth rate?

A. Staff estimated historical EPS growth by calculating a compound annual EPS growth rate for each of its sample companies over the 10-year period, 2003-2013. As shown in Schedule JAC-5, the average historical EPS growth rate for the sample was 6.5 percent.

Q. How did Staff estimate projected EPS growth?

A. Staff calculated an average of the projected EPS growth rates for the sample water utilities from *Value Line* through the period, 2016-2018. The average projected EPS growth rate is 6.1 percent, as shown in Schedule JAC-5.

Q. How does Staff calculate its historical and projected sustainable growth rates?

A. Historical and projected sustainable growth rates are calculated by adding their respective retention growth rate terms (br) to their respective stock financing growth rate terms (vs), as shown in Schedule JAC-6.

Q. What is retention growth?

A. Retention growth is the growth in dividends due to the retention of earnings. The retention growth concept is based on the theory that dividend growth cannot be achieved unless the company retains and reinvests a portion of its earnings. The retention growth is used in Staff's calculation of sustainable growth shown in Schedule JAC-6.

Q. What is the formula for the retention growth rate?

A. The retention growth rate is the product of the retention ratio and the book/accounting return on equity. The retention growth rate formula is:

Equation 3:

$$\text{Retention Growth Rate} = br$$

where: b = the retention ratio (1 – dividend payout ratio)
r = the accounting/book return on common equity

Q. How did Staff calculate the average historical retention growth rate (br) for the sample water utilities?

A. Staff calculated the mean of the 10-year average historical retention rate for each sample company over the period, 2002-2012. As shown in Schedule JAC-6, the historical average retention (br) growth rate for the sample is 2.7 percent.

Q. How did Staff estimate its projected retention growth rate (br) for the sample water utilities?

A. Staff used the retention growth projections for the sample water utilities for the period, 2016-2018, from *Value Line.* As shown in Schedule JAC-6, the projected average retention growth rate for the sample companies is 4.0 percent.

Q. When can retention growth provide a reasonable estimate of future dividend growth?

A. The retention growth rate is a reasonable estimate of future dividend growth when the retention ratio is reasonably constant and the entity's market price to book value ("market-to-book ratio") is expected to be 1.0. The average retention ratio has been reasonably

constant in recent years. However, the market-to-book ratio for the sample water utilities is 2.2, notably higher than 1.0, as shown in Schedule JAC-7.

Q. Is there any financial implication of a market-to-book ratio greater than 1.0?

A. Yes. A market-to-book ratio greater than 1.0 implies that investors expect an entity to earn an accounting/book return on its equity that exceeds its cost of equity. The relationship between required returns and expected cash flows is readily observed in the fixed securities market. For example, assume an entity contemplating issuance of bonds with a face value of $10 million at either 6 percent or 8 percent and, thus, paying annual interest of $600,000 or $800,000, respectively. Regardless of investors' required return on similar bonds, investors will be willing to pay more for the bonds if issued at 8 percent than if the bonds are issued at 6 percent. For example, if the current interest rate required by investors is 6 percent, then they would bid $10 million for the 6 percent bonds and more than $10 million for the 8 percent bonds. Similarly, if equity investors require a 9 percent return and expect an entity to earn accounting/book returns of 13 percent, the market will bid up the price of the entity's stock to provide the required return of 9 percent.

Q. How has Staff generally recognized a market-to-book ratio exceeding 1.0 in its cost of equity analyses in recent years?

A. Staff has assumed that investors expect the market-to-book ratio to remain greater than 1.0. Given that assumption, Staff has added a stock financing growth rate (vs) term to the retention ratio (br) term to calculate its historical and projected sustainable growth rates.

Q. Do the historical and projected sustainable growth rates Staff uses to develop its DCF cost of equity in this case continue to include a stock financing growth rate term?

A. Yes.

Q. What is stock financing growth?

A. Stock financing growth is the increase in an entity's dividends attributable to the sale of stock by that entity. Stock financing growth is a concept derived by Myron Gordon and discussed in his book *The Cost of Capital to a Public Utility.*[10] Stock financing growth is the product of the fraction of the funds raised from the sale of stock that accrues to existing shareholders (v) and the fraction resulting from dividing the funds raised from the sale of stock by the existing common equity (s).

Q. What is the mathematical formula for the stock financing growth rate?

A. The mathematical formula for stock financing growth is:

Equation 4:

$$\text{Stock Financing Growth} = vs$$

where: v = Fraction of the funds raised from the sale of stock that accrues to existing shareholders

s = Funds raised from the sale of stock as a fraction of the existing common equity

[10] Gordon, Myron J. *The Cost of Capital to a Public Utility*. MSU Public Utilities Studies, Michigan, 1974. pp 31-35.

Q. How is the variable *v* presented above calculated?

A. Variable *v* is calculated as follows:

Equation 5:

$$v = 1 - \left(\frac{book\ value}{market\ value} \right)$$

$$v = 1 - \left(\frac{30}{45} \right)$$

For example, assume that a share of stock has a $30 book value and is selling for $45. Then, to find the value of *v*, the formula is applied:

In this example, *v* is equal to 0.33.

Q. How is the variable *s* presented above calculated?

A. Variable *s* is calculated as follows:

Equation 6:

$$s = \frac{\text{Funds raised from the issuance of stock}}{\text{Total existing common equity before the issuance}}$$

For example, assume that an entity has $150 in existing equity, and it sells $30 of stock. Then, to find the value of *s*, the formula is applied:

$$s = \left(\frac{30}{150} \right)$$

In this example, *s* is equal to 20.0 percent.

Q. What is the *vs* term when the market-to-book ratio is equal to 1.0?

A. A market-to-book ratio of 1.0 reflects that investors expect an entity to earn a book/accounting return on their equity investment equal to the cost of equity. When the market-to-book ratio is equal to 1.0, none of the funds raised from the sale of stock by the entity accrues to the benefit of existing shareholders, i.e., the term *v* is equal to zero (0.0). Consequently, the *vs* term is also equal to zero (0.0). When stock financing growth is zero, dividend growth depends solely on the *br* term.

Q. What is the effect of the *vs* term when the market-to-book ratio is greater than 1.0?

A. A market-to-book ratio greater than 1.0 reflects that investors expect an entity to earn a book/accounting return on their equity investment greater than the cost of equity. Equation 5 shows that, when the market-to-book ratio is greater than 1.0, the *v* term is also greater than zero. The excess by which new shares are issued and sold over book value per share of outstanding stock is a contribution that accrues to existing stockholders in the form of a higher book value. The resulting higher book value leads to higher expected earnings and dividends. Continued growth from the *vs* term is dependent upon the continued issuance and sale of additional shares at a price that exceeds book value per share.

Q. What *vs* estimate did Staff calculate from its analysis of the sample water utilities?

A. Staff estimated an average stock financing growth of 2.4 percent for the sample water utilities, as shown in Schedule JAC-6.

Q. What would occur if an entity had a market-to-book ratio greater than 1.0 as a result of investors expecting earnings to exceed its cost of equity, and subsequently experienced newly-authorized rates equal only to its cost of equity?

A. Holding all other factors constant, one would expect market forces to move the company's stock price lower, closer to a market-to-book ratio of 1.0, to reflect investor expectations of reduced expected future cash flows.

Q. If the average market-to-book ratio of Staff's sample water utilities were to fall to 1.0 due to authorized ROEs equaling their cost of equity, would inclusion of the vs term be necessary to Staff's constant-growth DCF analysis?

A. No. As discussed above, when the market-to-book ratio is equal to 1.0, none of the funds raised from the sale of stock by the entity accrues to the benefit of existing shareholders because the *v* term equals to zero and, consequently, the *vs* term also equals zero. When the market-to-book ratio equals 1.0, dividend growth depends solely on the *br* term. Staff's inclusion of the *vs* term assumes that the market-to-book ratio continues to exceed 1.0 and that the water utilities will continue to issue and sell stock at prices above book value with the effect of benefitting existing shareholders.

Q. What are Staff's historical and projected sustainable growth rates?

A. Staff's estimated historical sustainable growth rate is 5.2 percent based on an analysis of earnings retention for the sample water companies. Staff's projected sustainable growth rate is 6.4 percent based on retention growth projected by *Value Line.* Schedule JAC-6 presents Staff's estimates of the sustainable growth rate.

Q. What is Staff's expected infinite annual growth rate in dividends?

A. Staff's expected dividend growth rate (g) is 5.7 percent, which is the average of historical and projected DPS, EPS, and sustainable growth estimates. Staff's calculation of the expected infinite annual growth rate in dividends is shown in Schedule JAC-8.

Q. What is Staff's constant-growth DCF estimate for the sample utilities?

A. Staff's constant-growth DCF estimate is 8.6 percent, as shown in Schedule JAC-3.

The Multi-Stage DCF

Q. Why did Staff implement the multi-stage DCF model to estimate VSF's cost of equity?

A. Staff generally uses the multi-stage DCF model to consider the assumption that dividends may not grow at a constant rate. The multi-stage DCF uses two stages of growth; the first stage (near-term) having a duration of four years, followed by a second stage (long-term) of constant growth.

Q. What is the mathematical formula for the multi-stage DCF?

A. The multi-stage DCF formula is shown in the following equation:

Equation 7:

$$P_0 = \sum_{t=1}^{n} \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K-g_n}\left[\frac{1}{(1+K)}\right]^n$$

Where:
P_0 = current stock price
D_t = dividends expected during stage 1
K = cost of equity
n = years of non – constant growth
D_n = dividend expected in year n
g_n = constant rate of growth expected after year n

Q. What steps did Staff take to implement its multi-stage DCF cost of equity model?

A. First, Staff projected future dividends for each of the sample water utilities using near-term and long-term growth rates. Second, Staff calculated the rate (cost of equity) which equates the present value of the forecasted dividends to the current stock price for each of the sample water utilities. Lastly, Staff calculated an overall sample average cost of equity estimate.

Q. How did Staff calculate near-term (stage-1) growth?

A. The stage-1 growth rate is based on *Value Line*'s projected dividends for the next twelve months, when available, and on the average dividend growth (g) rate of 5.7 percent, calculated in Staff's constant DCF analysis for the remainder of the stage.

Q. How did Staff estimate long-term (stage-2) growth?

A. Staff calculated the stage-2 growth rate using the arithmetic mean rate of growth in Gross Domestic Product ("GDP") from 1929 to 2012.[11] Using the GDP growth rate assumes that the water utility industry is expected to grow at the same rate as the overall economy.

Q. What is the historical GDP growth rate that Staff used to estimate stage-2 growth?

A. Staff used 6.5 percent to estimate the stage-2 growth rate.

Q. What is Staff's multi-stage DCF estimate for the sample utilities?

A. Staff's multi-stage DCF estimate is 9.4 percent, as shown in Schedule JAC-3.

Q. What is Staff's overall DCF estimate for the sample utilities?

A. Staff's overall DCF estimate is 9.0 percent. Staff calculated the overall DCF estimate by averaging the constant growth DCF (8.6%) and multi-stage DCF (9.4%) estimates, as shown in Schedule JAC-3.

VII. SUMMARY OF STAFF'S COST OF EQUITY ANALYSIS

Q. What is the result of Staff's constant-growth DCF analysis to estimate the cost of equity for the sample water utilities?

A. Schedule JAC-3 shows the result of Staff's constant-growth DCF analysis. The result of Staff's constant-growth DCF analysis is as follows:

$$k = 2.9\% + 5.7\%$$

$$k = \mathbf{8.6\%}$$

[11] www.bea.doc.gov.

Staff's constant-growth DCF estimate of the cost of equity for the sample water utilities is 8.6 percent.

Q. What is the result of Staff's multi-stage DCF analysis to estimate of the cost of equity for the sample utilities?

A. Schedule JAC-9 shows the result of Staff's multi-stage DCF analysis. The result of Staff's multi-stage DCF analysis is:

Company	**Equity Cost Estimate (k)**
American States Water	9.3%
California Water	9.4%
Aqua America	9.1%
Connecticut Water	9.3%
Middlesex Water	10.3%
SJW Corp	9.1%
York Water	9.2%
Average	**9.4%**

Staff's multi-stage DCF estimate of the cost of equity for the sample water utilities is 9.4 percent.

Q. What is Staff's overall DCF estimate of the cost of equity for the sample utilities?

A. Staff's overall DCF estimate of the cost of equity for the sample utilities is 9.0 percent. Staff calculated an overall DCF cost of equity estimate by averaging Staff's constant growth DCF (8.6 percent) and Staff's multi-stage DCF (9.4 percent) estimates, as shown in Schedule JAC-3.

VIII. FINAL COST OF EQUITY ESTIMATES FOR VSF

Q. Please compare VSF's capital structure to that of Staff's seven sample companies.

A. The average capital structure for the sample water utilities is composed of 50.3 percent debt and 49.7 percent equity, as shown in Schedule JAC-4. In contrast, VSF's capital structure is composed of 0.0 percent debt and 100.0 percent equity. Since the VSF does not employ debt capital to fund its rate base, VSF's stockholders bear *less* financial risk than do equity shareholders of the sample utilities.

Q. Does VSF's decreased financial risk affect its cost of equity?

A. Yes. As previously discussed, financial risk is a component of market risk and investors require compensation for market risk. Since VSF's financial risk exposure is less than that of the average sample water companies, its cost of equity is lower than that of the sample water companies.

Q. Is Staff recommending a downward financial risk adjustment to the Company's cost of equity to recognize its lower financial risk?

A. No. Staff normally applies two criteria in assessing whether application of a downward financial risk adjustment is appropriate. The first consideration is whether the utility has a reasonably economical capital structure. Staff considers a capital structure composed of no more than 60 percent equity to meet this condition. If equity exceeds 60 percent, as it does for VSF, Staff considers application of a downward financial risk adjustment to be appropriate if the utility meets the second criteria. The second condition is whether the utility has access to equity capital markets. Although VSF's equity exceeds 60 percent, it does not have access to the equity capital markets; accordingly, Staff is not recommending a downward financial risk adjustment to the Company's cost of equity. Staff's methodology for applying a downward financial risk adjustment encourages a utility with

access to the equity capital markets to use that access to manage its capital structure with economic efficiency and encourages a utility that lacks access to the equity capital markets to maintain a healthy capital structure.

Q. Did Staff consider factors other than the results of its technical models in its cost of equity analysis?

A. Yes. In consideration of the relatively uncertain status of the economy and the market that currently exists, Staff is proposing an upward economic assessment adjustment to the cost of equity. In this case, Staff recommends a 60 basis point (0.6 percent) upward economic assessment adjustment, as shown in Schedule JAC-3.

Q. What is Staff's ROE estimate for VSF?

A. Staff determined an ROE estimate of 9.0 percent for VSF based on cost of equity estimates for the sample companies of 8.6 percent for the constant-growth DCF model and 9.4 percent for the multi-stage DCF model. Staff recommends adoption of a 60 basis point upward economic assessment adjustment, resulting in a 9.6 percent Staff-recommended cost of equity, as shown in Schedule JAC-3.

IX. RATE OF RETURN RECOMMENDATION

Q. What overall rate of return did Staff determine for VSF?

A. Staff determined a 9.6 percent ROR for the Company, as shown in Schedule JAC-1 and the following table:

Table 3

	Weight	Cost	Weighted Cost
Long-term Debt	0.0%	0.0%	0.0%
Common Equity	100.0%	9.6%	9.6%
Overall ROR			**9.6%**

X. STAFF RESPONSE TO COMPANY'S COST OF CAPITAL WITNESS MR. THOMAS J. BOURASSA

Q. Please summarize Mr. Bourassa's analyses and recommendations.

A. Mr. Bourassa recommends an 11.0 percent ROE based on estimates derived from two constant growth DCF analyses (median estimate 8.5%), two CAPM analyses (median estimate 9.6%), and two Build-up risk premium models (median estimate 11.7%) designed as a check for reasonableness to his DCF and CAPM results, using a proxy sample of six publicly-traded water companies. He proposes a capital structure consisting of 0.0 percent debt and 100.0 percent equity. Mr. Bourassa determined that the cost of equity for publicly traded water utilities lies within the range of 8.5 percent to 11.7 percent, with the mid-point of his range being 10.1 percent. Mr. Bourassa makes no explicit adjustments to his 10.1 percent mid-point cost of equity estimate; however, in arriving at his recommended 11.0 percent cost of equity figure he gives consideration to (a) prospective economic conditions, (b) VSF's exposure to financial risk,[12] (c) VSF's small size, and (d) VSF's business risk relative to his sample companies.[13] His overall recommended rate of return for the Company is 11.0 percent.

[12] In his direct testimony (p. 3, lines 24-25), Mr. Bourassa makes reference to the "financial risks associated with the Company's pro forma capital structure." However, VSF has proposed its actual capital structure, and because that capital structure contains no debt, the Company has no exposure to financial risk.
[13] *See* Bourassa Direct, pp. 3-4 @ 23 – 1.

For purposes of his constant growth DCF analyses, Mr. Bourassa gives a 50 percent weight to the estimates derived from his Future Growth DCF model and a 50 percent weight to the estimates derived from his Past and Future Growth DCF Model. In his primary Future Growth DCF model, Mr. Bourassa relies exclusively on analysts' forecasts of EPS growth to estimate the dividend growth (g) component (See TJB Schedule D-4.6). In his Past and Future Growth DCF model, Mr. Bourassa estimates his dividend growth (g) rate by giving 50 percent weight to historical measures of growth in annual share price, book value, EPS and DPS over a five-year period, and 50 percent weight to the dividend growth rate obtained from his primary Future Growth DCF model (See TJB Schedule D-4.4). Thus, for purposes of the overall dividend growth (g) rate used in his constant growth DCF analyses, Mr. Bourassa effectively gives a 75 percent weight to the results obtained from analysts forecasts' for EPS growth and only a 25 percent weight to the results obtained from historical measures of dividend growth (See TJB Schedule D-4.8). In each of his two constant growth DCF analyses, Mr. Bourassa uses a 60-day average stock price to calculate the current dividend yield (D_0/P_0) (See TJB Schedule D-4.7).

For purposes of his CAPM analyses, Mr. Bourassa presents estimates based upon both historical and current market risk premia. In both, he uses a 4.15 percent forecasted risk free (R_f) rate based, in part, upon estimates from Value Line and Blue Chip Consensus Forecasts for the 30-year long-term Treasury yield covering the period, 2013-2015 (See TJB Schedule D-4.10).

Q. Does Staff have any comments on Mr. Bourassa's sole reliance on analysts' forecasts of EPS growth rates to estimate dividend growth rate (g) in his Future Growth DCF analysis?

A. Yes. Exclusive reliance on analysts' forecasts of earnings growth to forecast DPS is inappropriate because it assumes that investors do not look at other relevant information such as historical dividend and earnings growth. Generally, analysts' forecasts are known to be overly optimistic. Sole use of analysts' forecasts to calculate the expected dividend growth rate, (g), serves to inflate that component of the DCF model and, consequently, the estimated cost of equity. The appropriate growth rate to use in the DCF model is the dividend growth rate expected by *investors*, not by analysts. Investors are assumed to be rational, and as such will want to take into consideration all relevant available information prior to making an investment decision. Therefore, it is reasonable to assume that investors would consider both historical measures of past growth, as well as analysts' forecasts of future growth.

Q. Does the narrative of Mr. Bourassa's direct testimony state that he relies exclusively on analysts' forecasts of EPS growth to estimate the expected dividend growth rate (g) in his Future Growth DCF model?

A. No. Mr. Bourassa states only that "I have used analyst growth forecasts, where available,"[14] and that "I use analysts' forecasts of growth as a primary estimate of growth."[15] Only when referring to TJB Schedule D-4.6 does one learn that he has relied exclusively on analysts' forecasts of EPS growth to estimate the dividend growth (g) rate in his Future Growth DCF model.

[14] *See* Bourassa Direct, page 34, lines 6-7.
[15] *See* Bourassa Direct, page 34, lines 18-19.

Q. Does Staff have evidence to support its assertion that exclusive reliance on analysts' forecasts of earnings growth in the DCF model would result in inflated cost of equity estimates?

A. Yes. Experts in the financial community have commented on the optimism in analysts' forecasts of future earnings.[16] A study cited by David Dreman in his book *Contrarian Investment Strategies: The Next Generation* found that *Value Line* analysts were optimistic in their forecasts by 9 percent annually, on average for the 1987 – 1989 period. Another study conducted by David Dreman found that between 1982 and 1997, analysts overestimated the growth of earnings of companies in the S&P 500 by 188 percent.

Burton Malkiel, of Princeton University, conducted a study of the 1- and 5-year earnings forecasts made by some of the most respected names in the investment business. His results showed that when compared with actual earnings growth rates, the 5-year forecasts made by professional analysts were far less accurate than estimates derived from several naïve forecasting models, such as the long-run growth rate in national income. In the following excerpt from his book, A Random Walk Down Wall Street, Professor Malkiel discusses the results of his study:

> When confronted with the poor record of their five-year growth estimates, *the security analysts honestly, if sheepishly, admitted that five years ahead is really too far in advance to make reliable projections*. They protested that although long-term projections are admittedly important, they really ought to be judged on their ability to project earnings changes one year ahead. Believe it or not, it turned out that their one-year forecasts were even worse than their five-year projections.

[16] Seigel, Jeremy J. Stocks for the Long Run. 2002. McGraw-Hill. New York. p. 100. Dreman, David. Contrarian Investment Strategies: The Next Generation. 1998. Simon & Schuster. New York. pp. 97-98. Malkiel, Burton G. A Random Walk Down Wall Street. 2003. W.W. Norton & Co. New York. p. 175.
Testimony of Professors Myron J. Gordon and Lawrence I. Gould, consultant to the Trial Staff (Common Carrier Bureau), FCC Docket 79-63, p. 95.

> The analysts fought back gamely. They complained that it was unfair to judge their performance on a wide cross section of industries, because earnings for high-tech firms and various "cyclical" companies are notoriously hard to forecast. *"Try us on utilities," one analyst confidently asserted. At the time they were considered among the most stable group of companies because of government regulation. So we tried it and they didn't like it. Even the forecasts for the stable utilities were far off the mark.*[17] (Emphasis added)

Q. Are investors aware of the problems related to analysts' forecasts?

A. Yes. In addition to books, there are numerous published articles appearing in *The Wall Street Journal* and other financial publications that cast doubt on the accuracy of research analysts' forecasts.[18] Investors, being keenly aware of these inherent biases in forecasts, will use other methods to assess future growth.

Q. Should DPS growth be considered in a DCF analysis?

A. Yes. As previously stated in section VI of this testimony, the current market price of a stock is equal to the present value of all expected future dividends, not future earnings. Professor Jeremy Siegel from the Wharton School of Finance stated:

> Note that the price of the stock is always equal to the present value of all future *dividends* and not the present value of future earnings. Earnings not paid to investors can have value only if they are paid as dividends or other cash disbursements at a later date. Valuing stock as the present discounted value of future earnings is manifestly wrong and greatly overstates the value of the firm.[19]

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[17] Malkiel, Burton G. A Random Walk Down Wall Street. 2003. W.W. Norton & Co. New York. p. 175

[18] Smith, Randall & Craig, Suzanne. "Big Firms Had Research Ploy: Quiet Payments Among Rivals." *The Wall Street Journal*. April 30, 2003. Brown, Ken. "Analysts: Still Coming Up Rosy." *The Wall Street Journal*. January 27, 2003. p. C1. Karmin, Craig. "Profit Forecasts Become Anybody's Guess." *The Wall Street Journal*. January 21, 2003. p. C1. Gasparino, Charles. "Merrill Lynch Investigation Widens." *The Wall Street Journal*. April 11, 2002. p. C4. Elstein, Aaron. "Earnings Estimates Are All Over the Map." *The Wall Street Journal*. August 2, 2001. p. C1. Dreman, David. "Don't Count on those Earnings Forecasts." *Forbes*. January 26, 1998. p. 110.

[19] Seigel, Jeremy J. Stocks for the Long Run. 2002. McGraw-Hill. New York. P. 93.

For valuation purposes, therefore, earnings paid out in the form of a dividend have paramount relevancy to investors. Dividends, unlike earnings, cannot be manipulated or overstated. Thus, historical DPS growth should receive appropriate consideration when estimating the market cost of equity in the DCF model.

Q. How does Mr. Bourassa calculate the expected dividend growth (g) rate used in his Past and Future Growth DCF model?

A. As shown in TJB Schedule D-4.4, Mr. Bourassa estimates the expected dividend growth (g) rate in his Past and Future Growth DCF model[20] by providing a 50 percent weight[21] to historical measures of growth in average annual share price, book value, EPS and DPS for his sample companies over a five-year period[22] and a 50 percent weight[23] to the average of analysts' forecasts for EPS growth derived from his Future Growth DCF model.

Q. For purposes of his overall DCF estimate, what percentage weight does Mr. Bourassa allocate to the dividend growth (g) component derived from analysts' forecasts of EPS growth in his Future Growth DCF model?

A. Effectively, for purposes of his overall DCF estimate Mr. Bourassa allocates a 75 percent weight to the results derived from analysts' forecasts of EPS growth in his Future Growth DCF Model. As noted above, TJB Schedule D-4.4 presents the results of Mr. Bourassa's Past and Future Growth DCF model, which provides for an equal weighting (i.e., 50 percent) between historical and projected measures of dividend growth. However, as shown in TJB Schedule D-4.8, for purposes of his overall dividend growth (g) estimate,[24]

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[20] *See* TJB Schedule D-4.4, Column 7.
[21] *See* TJB Schedule D-4.4, Column 5.
[22] In TJB Schedule D-4.5, Mr. Bourassa presents this same dividend growth information over a ten-year period, but elects not to use it for purposes of his recommended cost of equity.
[23] *See* TJB Schedule D-4.4, Column 6.
[24] *See* TJB Schedule D-4.8, Column 3.

Mr. Bourassa combines the average of his Past and Future Growth DCF estimate[25] with his average Future Growth DCF estimate.[26] In so doing, Mr. Bourassa effectively gives a 75 percent weight to the dividend growth (g) estimate derived from analysts' forecasts of EPS growth in his Future Growth DCF model and only a 25 percent weight to the dividend growth estimate derived from historical measures of growth in his Past and Future Growth DCF model.

Q. Does Staff have any comment on Mr. Bourassa's use of growth in average annual share price to estimate the expected dividend growth (g) component in his Past and Future Growth DCF model?

A. Yes. In and of itself, share price appreciation is not a determinant of dividend growth, and for this reason Staff considers its use as a growth parameter to be inappropriate. However, as Mr. Bourassa has utilized it as a growth parameter by which to estimate dividend growth, Staff would point out that in both his five- and ten-year historical growth DCF analyses, share price growth has exceeded that of dividend growth. Specifically, in his five-year historical growth analysis (See TJB Schedule D-4.4), average share price growth (5.80%) exceeds average DPS growth (3.33%) by 74.2 percent (((.0580/.0333) – 1) = 74.2%), and in his ten-year historical growth analysis (See TJB Schedule D-4.5), average share price growth (6.88%) exceeds average DPS growth (3.25%) by 111.7 percent (((.0688/.0325) – 1) = 111.7%).

[25] *See* TJB Schedule D-4.8, Line 8.
[26] *See* TJB Schedule D-4.8, Line 10.

Q. As it relates to the cost of equity, what is the significance of Mr. Bourassa's sample water companies having experienced share price growth in excess of DPS growth over both the last five- and ten-year periods?

A. Simply stated, it is an indication that the cost of equity for publicly-traded water utilities has fallen over each of the last 5- and 10-year periods. When the market price per share of common stock for a given firm rises faster than does the dividend paid on a per share basis, the dividend yield falls. As dividend yields fall, investors pay more for an equivalent unit of return on their investment, resulting in a lower cost of equity. Markets are efficient, and because prices for publicly traded stocks can rise only if investors are willing to bid up the share price, when share price growth exceeds DPS growth over a five- or ten-year period, the willingness of investors to continue to bid up share prices is reflective of investor expectations that market returns have fallen. Thus, Mr. Bourassa's use of share price growth increases his cost of equity estimate at a time when share price growth actually reflects a decrease in cost of equity. This incongruous outcome is the result of choosing an inappropriate parameter for dividend growth in the DCF model.

Q. Turning to Mr. Bourassa's CAPM analyses, does Staff consider the 8.61 percent[27] current market risk premium component in his current MRP CAPM model to be reflective of current market conditions?

A. No. As an input into his current market risk premium CAPM model, Mr. Bourassa employs *Value Line's* median 3-5 year price appreciation potential estimate to compute the market risk premium (MRP) component.[28] As shown in TJB Schedule D-4.11, Mr. Bourassa presents historical data covering the period December 2011-July 2013, and for purposes of his recommended 8.61 current MRP value, elects to use a 6-month average

[27] *See* TJB Schedule D-4.12, line 5.
[28] *See* TJB Schedule D-4.11, footnote 3.

estimate covering the period, February 2013-July 2013.[29] Staff conducted a check of *Value Line* data and found that during the 6-month period, February 2013-July 2013, the *Value Line* median 3-5 year price appreciation potential estimate averaged 46.4 percent. However, over the next 6-month period (i.e., August 2013-January 2014) *Value Line's* price appreciation potential estimate fell to an average of 33.7 percent. At present, *Value Line's* median price appreciation potential estimate sits at 35.0 percent.[30] Thus, given the methodology employed by Mr. Bourassa, the 8.61 percent market risk premium value used in his current MRP CAPM model appears to be overstated, and is not reflective of current market conditions.

Q. Would Staff care to comment further on Mr. Bourassa's CAPM results?

A. Yes, but only to point out that since filing his direct testimony, *Value Line* has issued its quarterly update for the water utility industry, and the sample average beta value for Mr. Bourassa's six sample companies has fallen from 0.71, to 0.70.[31]

Q. Although Mr. Bourassa makes no explicit adjustments to his 10.1 percent midpoint cost of equity estimate in arriving at his recommended 11.0 percent ROE, does Staff have any comment on the implicit upward adjustments he makes for financial risk and small size?

A. Yes. First, because VSF has no debt in its capital structure, the Company has no exposure to financial risk; hence, an upward adjustment for financial risk is unwarranted.[32] Second, while Staff would agree with the general proposition that smaller companies are riskier

[29] *See* TJB Schedule D-4.11, lines 25 and 30.
[30] *Value Line*, February 21, 2014.
[31] *Value Line*, January 17, 2014.
[32] *See* Bourassa Direct, p.3, lines 24-25, and Schedule D-1.

than larger companies, empirical research has demonstrated that a small company risk premium adjustment to the cost of equity is unwarranted for regulated utilities. Annie Wong, of Western Connecticut State University, conducted a study on utility stocks to determine if the so-called size effect exists in the utility industry, and she writes as follows:

> The fact that the two samples show different, though weak, results indicates that utility and industrial stocks do not share the same characteristics. First, given firm size, utility stocks are consistently less risky than industrial stocks. Second, industrial betas tend to decrease with firm size but utility betas do not. These findings may be attributed to the fact that all public utilities operate in an environment with regional monopolistic power and regulated financial structure. As a result, the business and financial risks are very similar among the utilities regardless of their size. Therefore, utility betas would not necessarily be expected to be related to firm size.
>
> The object of this study is to examine if the size effect exists in the utility industry. After controlling for equity values, there is some weak evidence that firm size is a missing factor from the CAPM for the industrial but not for the utility stocks. *This implies that although the size phenomenon has been strongly documented for industrials, the findings suggest that there is no need to adjust for the firm size in utility regulations.* [emphasis added].[33]

To underscore this point, Paschall and Hawkins write as follows:

> A size premium does not automatically apply in every case. Each privately held company should be analyzed to determine if a size premium is appropriate in its particular case. There can be unusual circumstances where a small company has risk characteristics that make it far less risky than the average company, warranting the use of a very low equity risk premium. One possible example of this is a private water utility (monopoly situation, very low risk, near-guarantee of payments).[34]

[33] Annie Wong, "Utility Stock and the Size Effect: An Empirical Analysis," *Journal of the Midwest Finance Association*, (1993), p.98.
[34] Michael A. Paschall and George B. Hawkins, "Do Smaller Companies Warrant a Higher Discount Rate for Risk?: The 'Size Effect' Debate," *CCH Business Valuation Alert*, Vol. 1, Issue No. 2, December 1999.

Q. Has the Commission previously ruled on the issue of firm size and whether it warrants a risk premium adjustment to the cost of equity?

A. Yes. The Commission previously ruled in Decision No. 64282[35] for Arizona Water that firm size does not warrant recognition of a risk premium stating, "We do not agree with the Company's proposal to assign a risk premium to Arizona Water based on its size relative to other publicly traded water utilities…." The Commission confirmed its previous ruling in Decision No. 64727[36] for Black Mountain Gas agreeing with Staff that "the 'firm size phenomenon' does not exist for regulated utilities, and that therefore there is no need to adjust for risk for small firm size in utility regulation." All companies have firm-specific risks; therefore, the existence of unique risks for a company does not lead to the conclusion that its total risk is greater than other entities. Moreover, as previously discussed, investors cannot expect compensation for firm-specific risk since it can be eliminated through diversification.

XI. CONCLUSION

Q. Please summarize Staff's recommendations.

A. Staff recommends that the Commission adopt a 9.6 percent overall rate of return for the Company based on a capital structure composed of 0.0 percent debt and 100.0 percent equity, Staff's 9.0 percent cost of equity estimate, and Staff's 60 basis point (0.60 percent) upward economic assessment adjustment.

Q. Does this conclude your direct testimony?

A. Yes, it does.

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[35] Dated December 28, 2001.
[36] Dated April 17, 2002.

Verde Santa Fe Wastewater Company Cost of Capital Calculation
Capital Structure
And Weighted Average Cost of Capital
Staff Recommended and Company Proposed

[A]	[B]	[C]	[D]
Description	Weight (%)	Cost	Weighted Cost
Staff Recommended Structure			
Debt	0.0%	0.0%	0.0%
Common Equity	100.0%	9.6%	9.6%
Weighted Average Cost of Capital			9.6%
Company Proposed Structure			
Debt	0.00%	0.00%	0.00%
Common Equity	100.00%	11.00%	11.00%
Weighted Average Cost of Capital			11.00%

[D] : [B] x [C]

Supporting Schedules: JAC-2, JAC-3 and JAC-4.

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Verde Santa Fe Wastewater Company Cost of Capital Calculation
Final Cost of Equity Estimates
Sample Water Utilities

[A]	[B]	[C]	[D]		[E]
DCF Method		D_1/P_0 [1]	+	g [2]	=	k
Constant Growth DCF Estimate		2.9%	+	5.7%	=	8.6%
Multi-Stage DCF Estimate					=	9.4%
Average DCF Estimate						**9.0%**
		Staff's Estimated Cost of Equity				**9.0%**
		Economic Assessment Adjustment				0.6%
		Sub-Total				**9.6%**
		Financial Risk Adjustment				0.0%
		Total				**9.6%**

1 MSN Money and Value Line

2 Schedule JAC-8

Verde Santa Fe Wastewater Company Cost of Capital Calculation
Average Capital Structure of Sample Water Utilities

[A]	[B]	[C]	[D]
Company	Debt	Common Equity	Total
American States Water	43.3%	56.7%	100.0%
California Water	54.2%	45.8%	100.0%
Aqua America	55.2%	44.8%	100.0%
Connecticut Water	55.3%	44.7%	100.0%
Middlesex Water	43.1%	56.9%	100.0%
SJW Corp	56.2%	43.8%	100.0%
York Water	45.0%	55.0%	100.0%
Average Sample Water Utilities	**50.3%**	**49.7%**	**100.0%**
Verde Santa Fe - Actual Capital Structure	**0.0%**	**100.0%**	**100.0%**

Source:
Sample Water Companies from Value Line

Verde Santa Fe Wastewater Company Cost of Capital Calculation
Growth in Earnings and Dividends
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
Company	Dividends Per Share 2003 to 2013 DPS[1]	Dividends Per Share Projected DPS[1]	Earnings Per Share 2003 to 2013 EPS[1]	Earnings Per Share Projected EPS[1]
American States Water	5.6%	7.1%	14.8%	3.8%
California Water	1.3%	8.9%	4.5%	10.2%
Aqua America	7.6%	10.2%	9.6%	6.0%
Connecticut Water	1.7%	3.4%	3.7%	2.9%
Middlesex Water	1.5%	1.5%	5.1%	3.6%
SJW Corp	4.1%	5.4%	2.8%	7.5%
York Water	4.1%	6.1%	4.8%	8.8%
Average Sample Water Utilities	**3.7%**	**6.1%**	**6.5%**	**6.1%**

1 Value Line

Verde Santa Fe Wastewater Company Cost of Capital Calculation
Sustainable Growth
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]
Company	Retention Growth 2002 to 2012 br	Retention Growth Projected br	Stock Financing Growth vs	Sustainable Growth 2002 to 2012 br + vs	Sustainable Growth Projected br + vs
American States Water	3.8%	5.2%	1.5%	5.3%	6.8%
California Water	2.6%	3.4%	1.7%	4.2%	5.1%
Aqua America	4.0%	5.2%	1.8%	5.8%	7.0%
Connecticut Water	2.0%	3.6%	4.2%	6.2%	7.8%
Middlesex Water	1.3%	2.8%	3.0%	4.2%	5.7%
SJW Corp	3.3%	3.8%	0.1%	3.5%	3.9%
York Water	2.2%	3.7%	4.6%	6.8%	8.3%
Average Sample Water Utilities	**2.7%**	**4.0%**	**2.4%**	**5.2%**	**6.4%**

[B]: Value Line
[C]: Value Line
[D]: Value Line, MSN Money, and Form 10-Ks filed with the Securities and Exchange Commission (http://www.sec.gov/)
[E]: [B]+[D]
[F]: [C]+[D]

Verde Santa Fe Wastewater Company Cost of Capital Calculation
Selected Financial Data of Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Company	Symbol	Spot Price 1/15/2014	Book Value	Mkt To Book	*Value Line* Beta β	Raw Beta βraw
American States Water	AWR	**27.42**	11.98	2.3	**0.65**	0.45
California Water	CWT	**22.49**	11.78	1.9	**0.60**	0.37
Aqua America	WTR	**22.78**	8.08	2.8	**0.60**	0.37
Connecticut Water	CTWS	**34.93**	14.08	2.5	**0.75**	0.60
Middlesex Water	MSEX	**20.48**	12.14	1.7	**0.75**	0.60
SJW Corp	SJW	**29.04**	15.38	1.9	**0.85**	0.75
York Water	YORW	**20.87**	8.28	2.5	**0.70**	0.52
Average				**2.2**	**0.70**	**0.52**

[C]: Msn Money
[D]: Value Line
[E]: [C] / [D]
[F]: Value Line
[G]: (-0.35 + [F]) / 0.67

Verde Santa Fe Wastewater Company Cost of Capital Calculation
Calculation of Expected Infinite Annual Growth in Dividends
Sample Water Utilities

[A]	[B]
Description	g
DPS Growth - Historical[1]	3.7%
DPS Growth - Projected[1]	6.1%
EPS Growth - Historical[1]	6.5%
EPS Growth - Projected[1]	6.1%
Sustainable Growth - Historical[2]	5.2%
Sustainable Growth - Projected[2]	6.4%
Average	**5.7%**

1 Schedule JAC-5

2 Schedule JAC-6

Verde Santa Fe Wastewater Company Cost of Capital Calculation
Multi-Stage DCF Estimates
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]
Company	Current Mkt. Price (P_o)[1] 1/15/2014	Projected Dividends[2] (Stage 1 growth) (D_t) d_1	d_2	d_3	d_4	Stage 2 growth[3] (g_n)	Equity Cost Estimate (K)[4]
American States Water	27.4	0.78	0.82	0.87	0.92	6.5%	9.3%
California Water	22.5	0.68	0.71	0.76	0.80	6.5%	9.4%
Aqua America	22.8	0.60	0.63	0.67	0.71	6.5%	9.1%
Connecticut Water	34.9	1.01	1.06	1.12	1.19	6.5%	9.3%
Middlesex Water	20.5	0.78	0.83	0.88	0.93	6.5%	10.3%
SJW Corp	29.0	0.77	0.82	0.86	0.91	6.5%	9.1%
York Water	20.9	0.58	0.61	0.65	0.68	6.5%	9.2%
						Average	**9.4%**

$$P_0 = \sum_{t=1}^{n} \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K-g_n}\left[\frac{1}{(1+K)}\right]^n$$

Where : P_0 = current stock price
D_t = dividends expected during stage 1
K = cost of equity
n = years of non – constant growth
D_n = dividend expected in year n
g_n = constant rate of growth expected after year n

1 [B] see Schedule JAC-7

2 Derived from Value Line Information

3 Average annual growth in GDP 1929 - 2012 in current dollars.

4 Internal Rate of Return of Projected Dividends

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF VERDE SANTA FE WASTEWATER CO., INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	)	DOCKET NO. W-03437A-13-0292

EXHIBIT
S-4
ADMITTED

DIRECT

TESTIMONY

OF

CRYSTAL S. BROWN

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

FEBRUARY 24, 2014

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EXECUTIVE SUMMARY
VERDE SANTA FE WASTEWATER CO., INC.
DOCKET NO. W-03437A-13-0292

Verde Santa Fe Wastewater Company, Inc. ("Verde Santa Fe" or "Company") is an Arizona Class C utility engaged in the business of providing wastewater service in portions of Yavapai, Arizona. Verde Santa Fe serves approximately 950 customers.

The Company proposes a $65,213, or 13.60 percent revenue increase from $479,551 to $544,764. The proposed revenue increase would produce an operating income of $46,347 for an 11.00 percent rate of return on an original cost rate base ("OCRB") of $421,336. The Company's proposed rates would increase the typical residential bill from $40.00 to $45.68, for an increase of $5.68 or 14.2 percent.

Staff recommends a $25,400 or 5.30 percent revenue increase from $479,551 to $504,951. Staff's recommended revenue increase would produce an operating income of $40,448 for a 9.6 percent rate of return on an OCRB of $421,336 as shown on Schedule CSB-1. Staff's recommended rates would increase the typical residential bill from $40.00 to $42.12, for an increase of $2.12 or 5.3 percent.

INTRODUCTION

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

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

Q. Briefly describe your responsibilities as a Public Utilities Analyst V.

A. I am responsible for the examination and verification of financial and statistical information included in utility rate applications. In addition, I develop revenue requirements, prepare written reports, testimonies, and schedules that include Staff recommendations to the Commission. I am also responsible for testifying at formal hearings on these matters.

Q. Please describe your educational background and professional experience.

A. I received a Bachelor of Science Degree in Business Administration from the University of Arizona and a Bachelor of Science Degree in Accounting from Arizona State University.

Since joining the Commission in August 1996, I have participated in numerous rate cases and other regulatory proceedings involving electric, gas, water, and wastewater utilities. I have testified on matters involving regulatory accounting and auditing. Additionally, I have attended utility-related seminars sponsored by the National Association of Regulatory Utility Commissioners ("NARUC") on ratemaking and accounting designed to provide continuing and updated education in these areas.

Q. What is the scope of your testimony in this case?

A. I am presenting Staff's analysis and recommendations in the areas of rate base and operating revenues, expenses, and rate design regarding the Verde Santa Fe Water Company, Inc. ("Verde Santa Fe" or "Company") application for a permanent rate increase. Staff witness, John Cassidy, is presenting Staff's cost of capital recommendations. Staff witness, Katrin Stukov, is presenting Staff's engineering analysis and recommendations.

Q. What is the basis of your recommendations?

A. I performed a regulatory audit of the Company's application to determine whether sufficient, relevant, and reliable evidence exists to support the Company's requested rate increase. The regulatory audit consisted of examining and testing the financial information, accounting records, and other supporting documentation and verifying that the accounting principles applied were in accordance with the Commission-adopted NARUC Uniform System of Accounts ("USoA").

BACKGROUND

Q. Please provide a brief description of Verde Santa Fe and the service it provides.

A. Verde Santa Fe is an Arizona Class C utility engaged in the business of providing wastewater service in portions of Yavapai County, Arizona. Verde Santa Fe serves approximately 950 customers. Verde Santa Fe's current rates were approved in Decision No. 60779, dated April 8, 1998.

Q. What are the primary reasons for Verde Santa Fe's requested permanent rate increase?

A. According to the Company, the primary reasons for the requested increase is to recover increased operating expenses, to earn an 11 percent rate of return and to address the effluent rates that the golf course pays.

CONSUMER SERVICE

Q. Please provide a brief history of customer complaints received by the Commission regarding Verde Santa Fe.

A. A review of the Commission's Consumer Services database from January 1, 2011 to February 10, 2014 revealed the following:

- 2011 to 2014: Zero Complaints;
- 2013: One opinion was filed opposing the rate case.

COMPLIANCE

Q. Please provide a summary of the compliance status of Verde Santa Fe.

A. A check of the Compliance database indicates that there are currently no delinquencies for Verde Santa Fe.

SUMMARY OF PROPOSED REVENUES

Q. Please summarize the Company's filing.

A. The Company proposes a $65,213, or 13.60 percent revenue increase from $479,551 to $544,764. The proposed revenue increase would produce an operating income of $46,347 for an 11.00 percent rate of return on an original cost rate base ("OCRB") of $421,336. The Company's proposed rates would increase the typical residential bill from $40.00 to $45.68, for an increase of $5.68 or 14.20 percent.

Q. Please summarize Staff's recommended revenue.

A. Staff recommends a $25,400 or 5.30 percent revenue increase from $479,551 to $504,951. Staff's recommended revenue increase would produce an operating income of $40,448 for a 9.6 percent rate of return on an OCRB of $421,336 as shown on Schedule CSB-1. Staff's recommended rates would increase the typical residential bill from $40.00 to $42.12, for an increase of $2.12 or 5.3 percent.

Q. What test year did Verde Santa Fe utilize in this filing?

A. Verde Santa Fe's test year is based on the twelve months ended December 31, 2012.

Q. Please summarize Staff's rate base and operating income adjustments for Verde Santa Fe.

A. Staff made no adjustments to rate base. Staff's adjustments to operating revenue and expenses address the following:

Operating Income Adjustments

Salaries and Wages, Directors – This adjustment decreases salaries and wages expense by $18,529 to reflect Staff's calculation of a reasonable level of salary expense for the Company's three directors.

Rents Expense – This adjustment decreases rents expense by $11,256 in order to be consistent with the NARUC Guidelines for Cost Allocations and Affiliate Transactions which prescribe that the use of assets provided by a non-regulated affiliate should be at the lower of fully allocated cost or prevailing market prices.

Property Tax Expense – This adjustment decreases property tax expense by $1,059 to reflect Staff's calculation of the Company's property tax expense.

Income Tax Expense – This adjustment increases income tax expenses by $6,351 to reflect the income tax calculation on Staff's adjusted test year operating income.

RATE BASE

Fair Value Rate Base

Q. Did the Company prepare schedules showing the elements of Reconstruction Cost New Rate Base?

A. No, the Company did not. The Company's filing treats the OCRB the same as the fair value rate base.

Rate Base Summary

Q. Please summarize Staff's recommendation for Verde Santa Fe's rate base shown on Schedules CSB-3 and CSB-4.

A. Staff audited the Company's rate base and found that the amounts reported therein were supported with adequate cost documentation. Therefore, Staff recommends a rate base of $421,336 which is the same as the Company's proposed rate base.

OPERATING INCOME

Operating Income Summary

Q. What are the results of Staff's analysis of test year revenues, expenses and operating income?

A. As shown on Schedules CSB-5 and CSB-6, Staff's analysis resulted in test year revenues of $479,551, expenses of $459,007 and an operating income of $20,544.

Operating Income Adjustment No. 1 – Salaries and Wages

Q. What is the Company proposing for employee salary and wages expense?

A. The Company is proposing $31,683 which represents stipends paid to three directors (CSB 2.11) during the test year. Stipends are a form of salary.

Q. Does the Company have any employees overseen by the three directors?

A. No, according to the Company's response to data request CSB 2.11, the Company has no employees. Verde Santa Fe contracts with businesses that specialize in managing and operating water and wastewater companies in order to provide service to its customers.

Q. Are the contract services providers experienced, well qualified, and require little, if any, oversight?

A. Yes. Verde Santa Fe contracts with Pivotal Utility Management, LLC ("Pivotal") to provide management and administrative services. It contracts with A Quality Water Company to provide operations services. During the test year, Verde Santa Fe paid $215,254 for management and operations contractual services (CSB 2.15):

Amount Verde Santa Fe Paid to Contract Service Providers In Test Year		
Pivotal (An affiliate)	Management & Admin.	$121,054
A Quality Water Co.	Operations	$ 94,200
		$215,254

Q. Are the director salaries supported by time sheets?

A. No. The directors' salaries are not supported by time sheets (CSB 2.11).

Q. What are Staff's concerns about the hours and/or rates reflected in the proposed director salaries?

A. Staff has several concerns. Staff is concerned that some of the work reflected in the cost for the directors may be duplicative of work performed by the contract service providers and, as such, does not benefit customers. Pivotal manages and operates several companies (see Attachment A) which includes Payson Water Company. Staff is concerned that some of the time reflected in the cost may not be for work performed solely for Verde Santa Fe and, therefore, is over-stated.

Further, Staff notes that in Pima Utility Company's last rate case (Docket No. SW-02199A-11-0330), the Commission included the cost of only one director in operating expenses, as compared to the three directors that Verde Santa Fe is proposing, in its operating expenses. Further still, Staff notes that Pivotal proposed no costs for directors in Payson Water Company's rate case that is currently before the Commission (Docket No. W-03514A-13-0111). Therefore, Staff is concerned that including stipends for the number of directors proposed by Verde Santa Fe is excessive.

Q. Did Staff calculate a reasonable level of directors' salary expense to be used for ratemaking purposes?

A. Yes. Staff calculated $13,154 for the directors' salary expense. The amount was calculated by multiplying an hourly rate of $45.67 by 288 total annual hours. Staff will discuss how each component of the calculation was derived.

Q. How did Staff determine the $45.67 hourly rate?

A. Staff utilized a director salary of $95,000. This amount was slightly higher than that used for the director in the Pima Utility case that was mentioned earlier. The resulting hourly rate is $45.67 ($95,000 / 2,080 annual hours).

Q. How did Staff determine the 288 annual hours?

A. Staff's salary expense calculation recognizes that there are no time sheets for the directors and that Pivotal owns and/or operates approximately 10 different companies (CSB 2.9); that Verde Santa Fe has no employees the directors would need to oversee; that Verde Santa Fe is managed and operated by well qualified contract service providers; that the directors may occasionally perform other miscellaneous activities but that the primary activity that directors would provide is long-term strategic planning; and that long-term strategic planning is not performed on a monthly basis. Taking into account the aforementioned, Staff estimated 8 hours a month for miscellaneous and strategic planning activities for each director. This equates to 24 hours per month for all directors which, in turn, equates to 288 total annual hours (24 hours per month x 12 months) for all directors.

Q. For future rate cases, does Staff recommend that Verde Santa Fe support directors salaries expense with time sheets or a time study with underlying time sheets.

A. Yes. Staff recommends that the Company maintain time sheets or a time study with underlying time sheets for the three directors in order to recover salaries expense for the directors in any future rate case.

Q. What is Staff's recommendation?

A. Staff recommends decreasing salaries and expense by $18,529 as shown on Schedules CSB-6 and CSB-7.

Operating Income Adjustment No. 2 – Rents Expense, Verde Santa Fe Expansion

Q. Is Verde Santa Fe affiliated with Pivotal?

A. Yes. Verde Santa Fe and Pivotal have the same owner, Jason Williamson.

Q. Are the rents that Verde Santa Fe pays to its unregulated affiliate, Pivotal, a related-party transaction?

A. Yes.

Q. What is a related party transaction?

A. In general, a related party transaction refers to a company and any other party with which the company may deal where one party has the ability to influence the other to the extent *that one party of the transaction may not pursue its own separate best interest.* It is not an arm's-length bargaining of parties of opposing interests.

Q. What equipment does Verde Santa Fe rent from Pivotal?

A. According to the Company's response to CSB 2.16, Verde Santa Fe leases the following equipment:

EQUIPMENT LEASED FROM AFFILIATE		
Quantity	**Description**	**Lessor's Cost**
1	Horizontal Cylindrical Fiberglass Sludge Holding Tank	$19,480
1	Vertical Cylindrical Chlorine Contact Tank	$12,377
1	Olympian D150PL 150kW Standby Generator	$48,572
1	Inline Franklin Miller SS6000 comminutor	$25,815
2	Horizontal Cylindrical Fiberglass Anoxic Holding Tanks	$44,656
2	Horizontal Cylindrical Fiberglass Aeration Tanks	$99,100
		$250,000

Q. What are the terms of the related party lease agreement?

A. The monthly lease amount is $2,587.95 or $31,055.40 annually for 10 years at which time Verde Santa Fe can buy the equipment at fair market value if it chooses or continue renting the equipment. The Company was in the seventh year[1] of the lease during the test year.

[1] The lease was signed on June 15, 2005.

Q. Are these terms consistent with the NARUC Guidelines for Cost Allocations and Affiliate Transactions?

A. No they are not. The NARUC Guidelines for Cost Allocations and Affiliate Transactions states that:

> Generally, the prices for services, products and use of assets provided by a non-regulated affiliate to a regulated affiliate should be at the lower of fully allocated cost or market value.

Q. Assuming that the Company had obtained Commission approval for a $250,000 loan to purchase rather than lease the plant, what does Staff estimate the annual cost to be?

A. Assuming a 20-year[2] $250,000 amortizing loan with a five percent interest rate[3], Staff estimates the annual cost to be $19,799 as compared to the $31,055 annual lease payment proposed by the Company. At the end of such a loan the assets would be owned and Verde Santa Fe would not be required to pay an additional acquisition fee.

Q. Has the Company indicated the terms associated with the development of its current lease agreement?

A. Yes. In response to Staff data request CSB 2.16 and CSB 3.5, the Company indicated that the lease was structured around a 10-year term, an initial asset investment of $250,000, and an assumed interest rate of approximately nine percent. The Company also provided a list of the underlying assets, which were provided through Pivotal, an affiliated Company. While the costs associated with the individual items are priced down to the dollar, the total of these six assets just happens to equal $250,000. See list on page nine of my testimony.

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[2] Treatment and Disposal Equipment (Acct No. 380) have a 20 year useful life.

[3] Staff recognizes that if the Company had received a Commission-approved loan (rather than a lease) from the parent company, then Staff's recommended WACC (composed 100% of equity) would likely have been lower as the capital structure would have included $250,000 in debt.

Staff attempted to duplicate the resulting annualized lease payment based upon the lease terms provided by Verde Santa Fe, and was not able to recalculate the lease payment identified by the Company of $31,055.

Q. So what is Staff's conclusion with regards to the Company's lease calculation?

A. Staff believes that the math suggests that the cost of the underlying investment would need to be closer to $220,000 than $250,000 in order to calculate the $31,055 annual lease amount proposed by the Company. Based upon the fact that the assets were provided through an affiliated company, it is possible that the $250,000 value of these assets could be overstated if the other lease terms are accurate. However, Staff believes that there are two critical rate making considerations.

First, the lease payments are based upon a ten year lease arrangement. The wastewater treatment assets are expected to have a useful life of 20 years, therefore, Staff believes that imputing an annual lease or financing cost based upon a 20 year loan would be more reasonable and fair to the ratepayers since there would be no disconnect between the financing terms associated with the acquisition of these assets and the useful life of the assets.

Second, the terms of the related party transaction would cause Verde Santa Fe to over-pay for the wastewater treatment assets. Pivotal would presumably be fully reimbursed for the $250,000 cost of the assets over the 10 year lease term. In addition to the $250,000 paid over the 10 years, the lease agreement requires Verde Santa Fe to pay the fair market value to Pivotal at the end of this ten year period in order for Verde Santa Fe to obtain ownership of the wasterwater treatment assets.

Q. Is rental of the $250,000 in equipment from Pivotal in the public interest?

A. No, it is not. The 10 year term of the related party lease agreement is not consistent with the 20 year useful life of the assets; the requirement that Verde Santa Fe pay the fair market value for the assets would cause overpayment of the assets; and the $250,000 in equipment is not protected from Pivotal's creditors should the owner file for bankruptcy or die. The resulting legal and financial problems could threaten or possibly cause disruption of wastewater service for Verde Santa Fe's customers.

Q. What is Staff recommending concerning the rental of the $250,000 in equipment plant?

A. Staff recommends that that the Company develop a plan that results in the transfer of the leased plant from the affiliate to Verde Santa Fe. The plan is to be subject to Staff approval and filed in Docket within 90 days of the Decision date resulting in this matter.

Q. What is Staff's recommendation concerning Rents Expense?

A. Staff recommends decreasing the Rents Expense by $11,256, as shown on Schedules CSB-6 and CSB-8. The resulting annual cost would be $19,799 which is consistent with an assumed 20-year loan.

Operating Income Adjustment No. 3 – Property Taxes

Q. Did Staff review the Company's property tax calculation?

A. Yes.

Q. What assessment ratio did the Company use in the calculation of property tax?

A. The Company used a 21percent assessment ratio.

Q. Does Staff agree with the Company?

A. No, the correct assessment ratio to be used in the calculation of property taxes is 19 percent.

Q. Why is 19 percent correct and 21 percent not correct?

A. According to the Arizona Revised Statute 42-15001, the assessment ratio is 19 percent from and after December 31, 2013 through December 31, 2014.

Q. What is Staff's recommendation?

A. Staff recommends decreasing property tax expense by $1,059 as shown on Schedules CSB-6 and CSB-9.

Operating Income Adjustment No. 4 – Income Taxes

Q. What is Verde Santa Fe proposing for test year income tax expense?

A. Verde Santa Fe is proposing a negative $1,045 for income tax expense.

Q. Did Staff make any adjustments to test year income tax expense?

A. Yes. Staff's adjustment reflects Staff's calculation of the income tax expense based upon Staff's adjusted test year taxable income.

Q. What is Staff's recommendation?

A. Staff recommends increasing income tax expense by $6,351 as shown on Schedules CSB-6 and CSB-10.

RATE DESIGN

Q. Has Staff prepared a schedule summarizing the present, Company proposed, and Staff recommended rates and service charges?

A. Yes. Schedule CSB-11 provides a summary of the Company's present, Company's proposed, and Staff's recommended rates.

Q. Please summarize the present rate design for Verde Santa Fe.

A. For residential customers, the present monthly customer charge is $40.00.

For commercial customers, the present monthly charge is $40 x one Single Family Equivalent ("SFE"). If a commercial flat rate is necessary, it will be calculated for each commercial customer by dividing the expected design daily flow.rate (as prescribed by the Ten State Standards) by one SFE. One SFE will equal 262 gallons per day (the approved design flow rate per single family unit by ADEQ). The resulting factor is multiplied by the approved residential flat rate to get the commercial monthly flat rate.

Effluent customers pay $2.00 per 1,000 gallons.

Q. Please summarize the Company's proposed rate design.

A. For residential customers, the proposed monthly customer charge is $45.68.

For commercial customers, the monthly charge is $45.68 x one SFE. One SFE is defined as 10 fixtures (sinks, toilets, showers, etc.). The SFE for a commercial customer will be equal to the number of fixtures divided by 10. If the computed SFE is less than 1.0, the factor will be 1.0, which provides that a commercial customer pays no less than a residential customer.

Effluent customers pay $0.23 per 1,000 gallons.

Q. Please summarize Staff's recommended rate design.

A. For residential customers, the recommended monthly customer charge is $42.12.

For commercial customers, the monthly charge is $42.12 x one SFE. One SFE is defined as 10 fixtures. The SFE for a commercial customer will be equal to the number of fixtures divided by 10. If the computed SFE is less than 1.0, the factor will be 1.0; which provides that a commercial customer pays no less than a residential customer.

Effluent customers pay $0.23 per 1,000 gallons.

Q. What is the background of the Company proposed effluent rate?

A. On October 14, 2009, Verde Santa Fe Wastewater Co., Inc. filed an application for approval of a revised tariff reducing the commodity rate for effluent sales (Docket No. SW-03437A-09-0493). In that docket, the Company proposed to reduce the rate for effluent sales from $2.00 per 1,000 gallons to $0.40 per 1,000 gallons. Staff did not have adequate time to review the application to determine whether or not the proposed tariff revision was revenue neutral. Consequently, Decision No. 71429 suspended the tariff for 120 days. Mr. Williamson stated in his direct testimony that Staff and the Commission urged the Company to file a rate application to address the issue. The Company has done so in the instant application.

Q. Why has Staff adopted the Company proposed effluent rate of $0.23 per 1,000 gallons?

A. As discussed in the direct testimony of Jason Williamson, the Company has requested to lower the effluent rate from $2.00 per 1,000 gallons to $0.23 per 1,000 as this is the

maximum that the golf course, which purchases all of the Company's effluent, is willing to pay. Mr. Williamson further stated that it would be more costly to dispose of the effluent in some other place. Staff is in agreement.

Q. Did the Company propose to add a charge for Service Lines?

A. Yes, Staff recommends approval. Both the Company proposed and the Staff recommended Service Line charges are shown on Schedule CSB-11 and are also discussed in the testimony of Staff witness, Katrin Stukov.

Service Charges

Q. Did the Company propose any changes to its service charges?

A. Yes. The Company proposes to add a deferred payment charge of 1.50 percent per month. The Company also proposes to add a $35 after hours charge.

Q. Does Staff agree with the Company-proposed deferred payment charge?

A. Yes. The proposed charge is reasonable and customary.

Q. Does Staff agree with the Company-proposed $35 after hours charge?

A. Yes.

Q. Does Staff have any recommendations concerning the Company's Reconnection (Delinquent) Charge?

A. Yes. Verde Santa Fe has proposed no increase to the Reconnection (Delinquent) Charge of $30. Staff recommends approval of a Reconnection (Delinquent) at Cost with a foot note that defines cost as follows: Actual cost of physical disconnection and reconnection (if same customer) and there shall be no charge if there is no physical work performed.

Q. Does Staff have any other recommendations concerning the Company's Service Charges?

A. Yes. Staff recommends the following:

Deposit and Deposit Interest – Staff recommends adding a reference to Rule Arizona Administrative Code ("AAC") R14-2-603.B. to the Deposit and Deposit Interest service charge.

Re-Establishment (within 12 months) – Staff recommends adding a reference to the Months off the system times the monthly minimum per AAC R14-2-603.D to the Re-Establishment (within 12 months) service charge.

Q. Does this conclude Staff's direct testimony?

A. Yes, it does.

Attachment A

DATA REQUEST RESPONSE CSB 2.9

ORGANIZATIONAL CHART

PIVOTAL/JW WATER HOLDINGS AFFILIATED ENTITIES CHART

JW WATER HOLDINGS (est. 2013)

- Managing Partner: Jason Williamson
- 7 other financial partners/ investors (none of whom have any other water/ wastewater ownership experience/ investments)
- Employees: 2 certified operators (based in Payson)/ 1 half-time office administrator
- Holding Company: Owns shares of 3 AZ water companies listed below:

Payson Water Company
(Regulated Water Company)

- 8 water systems centered around Payson, AZ
- 1113 Customers

Tonto Basin Water Co.
(Regulated Water Co.)

- 4 water systems around Lake Roosevelt, 1 system South of Florence, AZ
- 887 Customers

Navajo Water Company
(Regulated Water Company)

- 3 water systems around Show Low, AZ
- 304 Customers

SHARED FACILITIES

- JW Water Holdings and Pivotal Utility Management share a small (4 offices) executive/ administrative space at 7581 E Academy Blvd. Suite 229, Denver, CO 80230. JW Water pays Pivotal a monthly rental / use fee, and reimburses Pivotal for any direct expenses Pivotal incurs on behalf of JWW. The current monthly rental/ use fee is approximately $1000.
- There are no other shared facilities.

PIVOTAL UTILITY MGMT. (est. 1999)

- Managing Partner: Jason Williamson
- 2 Partners Dwight Zemp and John Clingman
- 3 employees: 2 full time and one half-time – all administrative/ bookkeeping
- Management Company only – does not have ownership in any other assets.
- Manages regulated and non-regulated utilities listed below:

Pivotal-Managed Utilities whose shares are also owned by JW, DZ, and JC:

- **Coronado Utilities**, San Manuel, AZ
  - AZ Regulated Sewer Utility
  - 1600 sewer services/ 1325 customers
- **Verde Santa Fe Wastewater Co.**, Cottonwood, AZ
  - AZ Regulated Sewer Utility
  - 990 services/ 950 customers
- **Pine Meadows Utilities**, Star Valley, AZ
  - AZ Regulated Sewer Utility
  - 125 sewer services/ customers
- **Bensch Ranch Utilities**, Cordes Jct., AZ
  - AZ Regulated Sewer Utility
  - 23 services/ customers

Pivotal-Managed Regulated Utilities who are owned by unaffiliated 3rd Parties:

- **Escapees North Ranch Utilities**, Congress, AZ
  - AZ Regulated Water & Sewer Utility
  - 410 water services/ customers
  - 409 sewer services/ customers
- **Links at Coyote Wash Utilities**, Wellton, AZ
  - AZ Regulated Sewer Utility
  - 410 services/ customers

Pivotal-Managed Unregulated Utilities who are owned by unaffiliated 3rd Parties:

- **Bison Ranch Wastewater System**, Overgaard, AZ
  - Contract operator/ manager for Sewer System owned by Bison Ranch HOA
  - Approx. 300 sewer services

SANTEC CORPORATION – Castle Rock, CO (owned by Dwight Zemp & John Clingman) Engineering and Mfg. Company who designs and builds wastewater treatment plants and supplies equipment (to all of the sewer systems above including Verde Santa Fe

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-03437A-13-0292
Test Year Ended December 31, 2012

Schedule CSB-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY FAIR VALUE	(B) STAFF FAIR VALUE
1	Adjusted Rate Base	$ 421,336	$ 421,336
2	Adjusted Operating Income (Loss)	$ (3,950)	$ 20,544
3	Current Rate of Return (L2 / L1)	-0.94%	4.88%
4	Required Rate of Return	11.00%	9.60%
5	Required Operating Income (L4 * L1)	$ 46,347	$ 40,448
6	Operating Income Deficiency (L5 - L2)	$ 50,297	$ 19,905
7	Gross Revenue Conversion Factor	1.2966	1.2761
8	Required Revenue Increase (L7 * L6)	$ 65,213	**$ 25,400**
9	Adjusted Test Year Revenue	$ 479,551	$ 479,551
10	Proposed Annual Revenue (L8 + L9)	$ 544,764	$ 504,951
11	Required Increase in Revenue (%)	13.60%	5.30%

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-03437A-13-0292
Test Year Ended December 31, 2012

Schedule CSB-2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	Calculation of Gross Revenue Conversion Factor:				
1	Revenue	100.0000%			
2	Uncollecible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	21.6362%			
5	Subtotal (L3 - L4)	78.3638%			
6	**Revenue Conversion Factor (L1 / L5)**	1.276099			
	Calculation of Uncollecttible Factor:				
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 23)	20.5250%			
9	One Minus Combined Income Tax Rate (L7 - L8)	79.4750%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
	Calculation of Effective Tax Rate:				
12	Operating Income Before Taxes	100.0000%			
13	Arizona State Income Tax Rate	6.5000%			
14	Federal Taxable Income (L12 - L13)	93.5000%			
15	Applicable Federal Income Tax Rate (Line 55)	15.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	14.0250%			
17	Combined Federal and State Income Tax Rate (L13 +L16)		20.5250%		
	Calculation of Effective Property Tax Factor				
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	20.5250%			
20	One Minus Combined Income Tax Rate (L18-L19)	79.4750%			
21	Property Tax Factor	1.3981%			
22	Effective Property Tax Factor (L20*L21)		1.1112%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			21.6362%	
24	Required Operating Income (Schedule CSB-1, Line 5)	$ 40,448			
25	AdjustedTest Year Operating Income (Loss)	20,544			
26	Required Increase in Operating Income (L24 - L25)		$ 19,905		
27	Income Taxes on Recommended Revenue (Col. [E], L52)	$ 10,446			
28	Income Taxes on Test Year Revenue (Col. [B], L52)	5,306			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		5,141		
30	Recommended Revenue Requirement (Schedule CSB-1)	$ 504,951			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncolllectible Expense on Recommended Revenue (L30*L31)	$ -			
33	Adjusted Test Year Uncollectible Expense	$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)		-		
35	Property Tax with Recommended Revenue	$ 20,469			
36	Property Tax on Test Year Revenue	20,114			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		355		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		$ 25,400		

		Test Year		Staff Recommended
	Calculation of Income Tax:			
39	Revenue	$ 479,551	$ 25,400	$ 504,951
40	Operating Expenses Excluding Income Taxes	$ 453,702	$ 355	$ 454,057
41	Synchronized Interest (L56)	$ -		$ -
42	Arizona Taxable Income (L39 - L40 - L41)	$ 25,849		$ 50,894
43	Arizona State Income Tax Rate	6.5000%		6.5000%
44	Arizona Income Tax (L42 x L43)	$ 1,680		$ 3,308
45	Federal Taxable Income (L42 - L44)	$ 24,169		$ 47,586
46	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ 3,625		$ 7,138
47	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	$ -		$ -
48	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ -		$ -
49	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ -		$ -
50	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ -		$ -
51	Total Federal Income Tax	$ 3,625		$ 7,138
52	Combined Federal and State Income Tax (L44 + L51)	$ 5,306		$ 10,446
53	Applicable Federal Income Tax Rate [Col. [E], L51 - Col. [B], L51] / [Col. [E], L45 - Col. [B], L45]			15.0000%
	Calculation of Interest Synchronization:			
54	Rate Base	$ 421,336		
55	Weighted Average Cost of Debt			
56	Synchronized Interest (L45 X L46)	$ -		

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-03437A-13-0292
Test Year Ended December 31, 2012

Schedule CSB-3

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	Adj. No.	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 1,555,530	$ -		$ 1,555,530
2	Less: Accumulated Depreciation	658,177	-		658,177
3	Net Plant in Service	$ 897,353	$ -		$ 897,353
	LESS:				
4	Contributions in Aid of Construction (CIAC)	$ 978,305	$ -		$ 978,305
5	Less: Accumulated Amortization	502,287	-		$ 502,287
6	Net CIAC	476,018	-		$ 476,018
7	Advances in Aid of Construction (AIAC)	-	-		-
8	Customer Deposits	-	-		-
9	Deferred Income Tax Credits	-	-		-
	ADD:				
9	Deferred Regulatory Assets	-	-		-
10	Cash Working Capital	-	-		-
11	Prepayments	-	-		-
12	**Original Cost Rate Base**	$ 421,336	$ -		$ 421,336

References:
Column (A), Company Schedule B-1
Column (B): Schedule MEM-4
Column (C): Column (A) + Column (B)

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-03437A-13-0292
Test Year Ended December 31, 2012

Schedule CSB-4

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.		[A]	[B]	[C]
PLANT IN SERVICE:			COMPANY	Staff	STAFF
1		DESCRIPTION	AS FILED	Adjustments	ADJUSTED
2	351	Organization	$ 30,909	$ -	$ 30,909
3	352	Franchises	-	-	-
4	353	Land and Land Rights	45,400	-	45,400
5	354	Structures and Improvements	108,242	-	108,242
6	355	Power Generation Equipment	-	-	-
7	360	Collection Services - Force	328,735	-	328,735
8	361	Collection Services - Gravity	-	-	-
9	362	Special Collecting Structures	-	-	-
10	363	Services to Customers	73,179	-	73,179
11	364	Flow Measuring Devices	12,958	-	12,958
12	365	Flow Measuring Installations	-	-	-
13	370	Receiving Wells	-	-	-
14	371	Effluent Pumping Equipment	-	-	-
15	380	Treatment and Disposal Equipment	865,491	-	865,491
16	381	Plant Sewers	-	-	-
17	382	Outfall Sewer Lines	-	-	-
18	389	Other Plant & Misc. Equipment	-	-	-
19	390	Office Furniture & Equipment	5,803	-	5,803
20	391	Transportation Equipment	-	-	-
21	393	Tools, Shop & Garage Equipment	4,676	-	4,676
22	394	Labratory Equipment	630	-	630
23	395	Power Operated Equipment	-	-	-
24	396	Communication Equipment	-	-	-
25	398	Other Tangible Plant	79,507	-	79,507
26			-	-	-
27					
28		Total Plant in Service	$ 1,555,530	$ -	$ 1,555,530
29		Less: Accumulated Depreciation	658,177	-	658,177
30			-	-	-
31		Net Plant in Service (L59 - L 60)	$ 897,353	$ -	$ 897,353
32					
33		*LESS:*			
34		Contributions in Aid of Construction (CIAC)	$ 978,305	$ -	$ 978,305
35		Less: Accumulated Amortization	502,287	-	502,287
36		Net CIAC (L25 - L26)	476,018	-	476,018
37		Advances in Aid of Construction (AIAC)	-	-	-
38		Customer Deposits	-	-	-
39		Deferred Income Taxes	-	-	-
40			-	-	-
41					
42		*ADD:*			
43		Deferred Reg Asset	-	-	-
44		Cash Working Capital	-	-	-
45		Prepayments	-	-	-
46		**Original Cost Rate Base**	$ 421,336	$ -	$ 421,336

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-03437A-13-0292
Test Year Ended December 31, 2012

Schedule CSB-5

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	Adj. No.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	*REVENUES:*						
2	Flat Rate Revenues	$ 462,400	$ -		$ 462,400	$ 25,400	$ 487,800
3	Unmetered Revenues	7,527	-		7,527	-	7,527
4	Other Wastewater Revenues	9,624	-		9,624	-	9,624
6	**Total Operating Revenues**	$ 479,551	$ -		$ 479,551	$ 25,400	$ 504,951
7							
8	*OPERATING EXPENSES:*						
9	Salaries and Wages	$ 31,683	$ (18,529)		$ 13,154	$ -	$ 13,154
10	Purchased Wastewater Trmnt	-	-		-	-	-
11	Sludge Removal Expense	21,328	-		21,328	-	21,328
12	Purchased Power	36,970	-		36,970	-	36,970
13	Fuel for Power Production	-	-		-	-	-
14	Chemicals	13,584	-		13,584	-	13,584
15	Materials & Supplies	5,772	-		5,772	-	5,772
16	Contractural Services, Accounting	-	-		-	-	-
17	Contractural Services, Professional	5,130	-		5,130	-	5,130
18	Contractural Services, Maintenance	-	-		-	-	-
19	Contractural Services - Other	227,098	-		227,098	-	227,098
20	Water Testing	9,784	-		9,784	-	9,784
21	Rents	31,055	(11,256)		19,799	-	19,799
22	Transportation Expenses	4,103	-		4,103	-	4,103
23	Insurance - General Liability	5,108	-		5,108	-	5,108
24	Insurance - Health and Life	-	-		-	-	-
25	Reg Comm Expense - Other	2,355	-		2,355	-	2,355
26	Reg Comm Expense - Rate Case	25,000	-		25,000	-	25,000
27	Miscellaneous Expense	22,364	-		22,364	-	22,364
28	Bad Debt Expense	-	-		-	-	-
29	Depreciation and Amortization Expense	22,039	-		22,039	-	22,039
30	Taxes other than Income	-	-		-	-	-
31	Property Taxes	21,173	(1,059)		20,114	355	20,469
32	Income Taxes	(1,045)	6,351		5,306	5,141	10,446
33		-	-		-	-	-
34	**Total Operating Expenses**	$ 483,501	$ (24,494)		$ 459,007	$ 5,496	$ 464,503
35	**Operating Income (Loss)**	$ (3,950)	$ 24,494		$ 20,544	$ 19,905	$ 40,448

References:
Column (A): Company Schedule C-1
Column (B): Schedule MEM-13
Column (C): Column (A) + Column (B)
Column (D): Schedules MEM-1 and MEM-2
Column (E): Column (C) + Column (D)

Schedule CSB-6

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-03437A-13-0292
Test Year Ended December 31, 2012

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Salaries and Wages, Directors ADJ #1	[C] Rents Expense Verde Santa Fe Expansion ADJ #2	[D] Property Tax Expense ADJ #4	[E] Income Tax Expense ADJ #5	[F] STAFF ADJUSTED
			Ref: Sch CSB-7	Ref: Sch CSB-8	Ref: Sch CSB-9	Ref: Sch CSB-10	
1	*REVENUES:*						
2	Flat Rate Revenues	$ 462,400	$ -	$ -	$ -	$ -	$ 462,400
3	Unmetered Revenues	7,527	-	-	-	-	7,527
4	Other Wastewater Revenues	9,624	-	-	-	-	9,624
5	**Total Operating Revenues**	$ 479,551	$ -	$ -	$ -	$ -	$ 479,551
6							
7	*OPERATING EXPENSES:*						
8	Salaries and Wages	$ 31,683	$ (18,529)	$ -	$ -	$ -	$ 13,154
9	Purchased Wastewater Trmnt	-	-	-	-	-	-
10	Sludge Removal Expense	21,328	-	-	-	-	21,328
11	Purchased Power	36,970	-	-	-	-	36,970
12	Fuel for Power Production	-	-	-	-	-	-
13	Chemicals	13,584	-	-	-	-	13,584
14	Materials & Supplies	5,772	-	-	-	-	5,772
15	Contractural Services, Accounting	-	-	-	-	-	-
16	Contractural Services, Professional	5,130	-	-	-	-	5,130
17	Contractural Services, Maintenance	-	-	-	-	-	-
18	Contractural Services - Other	227,098	-	-	-	-	227,098
19	Water Testing	9,784	-	-	-	-	9,784
20	Rents	31,055	-	(11,256)	-	-	19,799
21	Transportation Expenses	4,103	-	-	-	-	4,103
22	Insurance - General Liability	5,108	-	-	-	-	5,108
23	Insurance - Health and Life	-	-	-	-	-	-
24	Reg Comm Expense - Other	2,355	-	-	-	-	2,355
25	Reg Comm Expense - Rate Case	25,000	-	-	-	-	25,000
26	Miscellaneous Expense	22,364	-	-	-	-	22,364
27	Bad Debt Expense	-	-	-	-	-	-
28	Depreciation and Amortization Expense	22,039	-	-	-	-	22,039
29	Taxes other than Income	-	-	-	-	-	-
30	Property Taxes	21,173	-	-	(1,059)	-	20,114
31	Income Taxes	(1,045)	-	-	-	6,351	5,306
32		-	-	-	-	-	-
33	**Total Operating Expenses**	$ 483,501	$ (18,529)	$ (11,256)	$ (1,059)	$ 6,351	$ 459,007
34	**Operating Income (Loss)**	$ (3,950)	$ 18,529	$ 11,256	$ 1,059	$ (6,351)	$ 20,544

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-03437A-13-0292
Test Year Ended December 31, 201

Schedule CSB-7

OPERATING INCOME ADJUSTMENT NO. 1 - SALARIES & WAGES, DIRECTORS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Salaries & Wages, Directors	$ 31,683	$ (18,529)	$ 13,154
2				
3				
4				
5				
6				

7	[D]	[E]		[F]		[G]	
8 9 10	Employee	Total Hours Worked per Month for All Directors		Number of Months Each Director Works		Total Annual Hours Worked for Each Director	
11	Director 1	8	x	12	=	96	
12	Director 2	8	x	12	=	96	
13	Director 3	8	x	12	=	96	
14		24		36		$ 288	
15				Multiplied by		$ 46	From Line 20
16		**Salaries & Wages, Directors - Per Staff**				**$ 13,154**	
17							
18				Director Salary		$ 95,000	
19				Divided by Annual Work Hours		2,080	
20				Hourly Rate		$ 45.67	

References:

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

OPERATING INCOME ADJUSTMENT NO. 2 - RENTS EXPENSE, VERDE SANTA FE EXPANSION

LINE NO.		[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED	
1	Rents Expense, Verde Santa Fe Expansion	$ 31,055	$ (11,256)	$ 19,799	From Sch CSB-8, P.2

References:

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

OPERATING INCOME ADJUSTMENT NO. 2 - RENTS EXPENSE, VERDE SANTA FE EXPANSION
CONTINUED

Loan Amount Requested	$250,000		
Down Payment:	$0		
Amount Financed:	$250,000		
Number of years:	20	Compounding Periods:	12
Interest rate (r):	5.00%	APR:	5.12%

LOAN AMORTIZATION SCHEDULE

Period	Loan payment (1)	Beginning-of-month principal (2)	Payments: Interest [r * (2)] (3)	Payments: Principal [(1) - (3)] (4)	End-of-month principal [(2) - (4)] (5)	Annual Interest (6)	Annual Principal (7)	Annual Debt Payment (8)
1	$1,649.89	$250,000.00	$1,041.67	$608.22	$249,391.78			
2	1,649.89	249,391.78	1,039.13	610.76	248,781.02			
3	1,649.89	248,781.02	1,036.59	613.30	248,167.72			
4	1,649.89	248,167.72	1,034.03	615.86	247,551.86			
5	1,649.89	247,551.86	1,031.47	618.42	246,933.44			
6	1,649.89	246,933.44	1,028.89	621.00	246,312.44			
7	1,649.89	246,312.44	1,026.30	623.59	245,688.85			
8	1,649.89	245,688.85	1,023.70	626.19	245,062.66			
9	1,649.89	245,062.66	1,021.09	628.79	244,433.87			
10	1,649.89	244,433.87	1,018.47	631.41	243,802.45			
11	1,649.89	243,802.45	1,015.84	634.05	243,168.41			
12	1,649.89	243,168.41	1,013.20	636.69	242,531.72	12,330.39	7,468.28	19,798.67

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-03437A-13-0292
Test Year Ended December 31, 2012

Schedule CSB-9

OPERATING INCOME ADJUSTMENT No. 3 - Property Tax Expense

LINE NO.	Property Tax Calculation	STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	$ 479,551	$ 479,551
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	959,102	$ 959,102
4	Staff Recommended Revenue, Per Schedule CSB-1	479,551	$ 504,951
5	Subtotal (Line 4 + Line 5)	1,438,653	1,464,053
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	479,551	$ 488,018
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	959,102	$ 976,035
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	959,102	$ 976,035
13	Assessment Ratio	19.0%	19.0%
14	Assessment Value (Line 12 * Line 13)	182,229	$ 185,447
15	Composite Property Tax Rate (Per Company Schedule C-2)	11.0379%	11.0379%
			$ -
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	$ 20,114	
17	Company Proposed Property Tax	21,173	
18	Staff Test Year Adjustment (Line 16-Line 17)	$ (1,059)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		$ 20,469
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		$ 20,114
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		$ 355
22	Increase to Property Tax Expense		$ 355
23	Increase in Revenue Requirement		25,400
24	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		1.398134%

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-02519A-06-0015
Test Year Ended October 31, 2005

Schedule CSB-10

OPERATING INCOME ADJUSTMENT NO. 4 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION		Test Year
	Calculation of Income Tax:		
1	Revenue (Schedule CSB-11)	$	479,551
2	Operating Expenses Excluding Income Taxes	$	453,702
3	Synchronized Interest (L17)	$	-
4	Arizona Taxable Income (L1 - L2 - L3)	$	25,849
5	Arizona State Income Tax Rate		6.5000%
6	Arizona Income Tax (L4 x L5)	$	1,680
7	Federal Taxable Income (L4 - L6)	$	24,169
8	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$	3,625
9	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	$	-
10	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$	-
11	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$	-
12	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$	-
13	Total Federal Income Tax	$	3,625
14	Combined Federal and State Income Tax (L44 + L51)	$	5,306
	Calculation of Interest Synchronization:		
15	Rate Base (Schedule CSB-13, Col. (C), Line 16)	$	421,336
16	Weighted Average Cost of Debt		0.00%
17	Synchronized Interest (L16 x L17)	$	-
18	Income Tax - Per Staff	$	5,306
19	Income Tax - Per Company	$	(1,045)
20	**Staff Adjustment**	**$**	**6,351**

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-03437A-13-0292
Test Year Ended December 31, 2012

RATE DESIGN

	Present	Company Proposed	Staff Recommended
Residential	$ 40.00	$ 45.68	$ 42.12
Commercial	$ 40.00 xSFE (See Note 1)	$ 45.68 xSFE (See Note 2)	$ 42.12 xSFE (See Note 2)
Effluent Sales (All Meter Sizes) Charge per 1,000 gallons	$ 2.00	$ 0.23	$ 0.23

Note 1: If a commercial flat rate is necessary, it will be calculated for each commercial customer by dividing the expected design daily flow rate (as prescribed by the Ten State Standards) by one SFE (single family equivalent). One SFE will equal 262 gallons per day (the approved design flow rate per single family unit by ADEQ. The resulting factor will be multiplied by the approved residential flat rate to get the commercial monthly flat rate.

Note 2: One SFE is defined as 10 fixtures (sinks and/or toilets and/or showers, etc). The SFE for a commercial customer will be equal to the number of fixtures divided by 10. If the computed SFE is less than 1.0, the factor will be 1.0; which provides that a commercial customer pays no less than a residential customer.

Service Line Charge	NT	Cost	Cost
Service Charges			
Establishment	$ 25.00	$ 25.00	$ 25.00
Reconnection (Delinquent)	$ 30.00	$ 30.00	Cost (a)
Deposit	Per Rule	Per Rule	Per Rule**
Deposit Interest (Annual Effective Rate)	3.50%	3.50%	3.50%
Reestablishment (within 12 months)	Per Rule	Per Rule	Per Rule*
Deferred payment (per month)	NT	1.50%	1.50%
Late payment Penalty (per month)***	1.50%	1.50%	1.50%
NSF check	$ 25.00	$ 25.00	$ 25.00
After Hours Service Charge (At the Customer's Request)	NT	$ 35.00	$ 35.00

* Number of months off the system times the applicable sewer charge.
** Per Commission Rule R14-2-603.B.7 and 603.B.3
*** Late payment charge based upon balance owing at the end of the billing cycle which is added to next bill.
NT = No Tariff
(a) Actual cost of physical disconnection and reconnection (if same customer) and there shall be no charge if there is no physical work performed.

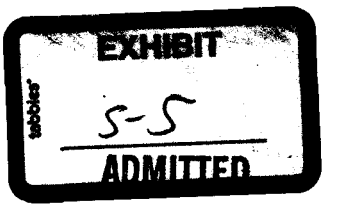
Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-03437A-13-0292
Test Year Ended December 31, 2012

Schedule CSB-12

TYPICAL BILL ANALYSIS
Residential Service

	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Company	$ 40.00	$ 45.68	$5.68	14.2%
Staff	$ 40.00	$ 42.12	$2.12	5.3%

BEFORE THE ARIZONA CORPORATION COMMISSION



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

IN THE MATTER OF THE APPLICATION OF VERDE SANTA FE WASTEWATER CO., INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. SW-03437A-13-0292

SURREBUTTAL

TESTIMONY

OF

CRYSTAL S. BROWN

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

APRIL 14, 2014

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EXECUTIVE SUMMARY
VERDE SANTA FE WASTEWATER CO., INC.
DOCKET NO. SW-03437A-13-0292

Staff's surrebuttal testimony responds to Verde Santa Fe Wastewater Company, Inc. ("Verde Santa Fe" or "Company") rebuttal testimony concerning the issue of sludge removal expense. Staff also elaborates on its recommended Reconnection Delinquent service charge.

Staff recommends a revenue increase of $37,651 or 7.85 percent increase over test year revenue of $479,551. The total annual revenue of $517,202 produces an operating income of $40,448 or a 9.60 percent rate of return on an original cost rate base of $421,336.

INTRODUCTION

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

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

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

A. Yes.

PURPOSE OF SURREBUTTAL TESTIMONY

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

A. The purpose of my surrebuttal testimony in this proceeding is to respond, on behalf of Staff, to the rebuttal testimony of Mr. Jason Williamson and Mr. Thomas Bourassa, witnesses for Verde Santa Fe Wastewater Company, Inc. ("Verde Santa Fe" or "Company").

Q. What issues will you address?

A. I will address the issue of sludge removal expense discussed in the rebuttal testimony of Mr. Bourassa and Mr. Williamson. I will also provide additional information regarding Staff's recommended Reconnection Delinquent service charge.

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

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

SUMMARY OF PROPOSED REVENUES

Q. Please summarize Staff's recommended revenue.

A. Staff recommends a revenue increase of $37,651 or 7.85 percent increase over test year revenue of $479,551. The total annual revenue of $517,202 produces an operating income of $40,448 or a 9.60 percent rate of return on an original cost rate base of $421,336.

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

A. Staff's recommended revenue has increased by $12,251, from $504,951 in its direct testimony to $517,202 in this testimony.

RATE BASE

Q. What is Staff's recommended rate base?

A. Staff's recommended rate base is $421,336 as shown on Surrebuttal Schedule CSB-3.

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

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

OPERATING INCOME

Operating Income Adjustment No. 2 – Sludge Removal Expense

Q. Did Staff review the Company's rebuttal testimony concerning sludge removal expense?

A. Yes.

Q. Does Staff agree?

A. Yes, and Staff has changed its schedules accordingly. Staff's adjustment to reflect the additional $12,079 in sludge removal expense is shown on Surrebuttal schedules CSB-6 and CSB-8.

Q. What is Staff's recommendation?

A. Staff recommends sludge removal expense of $33,407 which is the same amount proposed by the Company.

Q. How does Staff's recommendation for sludge removal expense compare to the recommendation for sludge removal expense in Staff's direct testimony?

A. Staff's recommendation for sludge removal expense has increased by $12,079, from $21,328 in Staff's direct testimony to $33,407 in its surrebuttal testimony.

Operating Income Adjustment No. 5 – Income Taxes

Q. Did Staff make any adjustment to the income tax expense?

A. Yes. Staff's adjustment reflects the income tax obligation on Staff's adjusted test year taxable income.

Q. What is Staff's recommendation?

A. Staff recommends an income tax expense of $2,826.

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

A. Staff's recommendation for income tax expense has decreased by $2,480, from $5,306 in Staff's direct testimony to $2,826 in Staff's surrebuttal testimony as shown on Surrebuttal Schedule CSB-6.

SERVICE CHARGES

Q. What amount has the Company proposed for the Reconnection (Delinquent) service charge?

A. The Company has proposed $30 which is the same as the Company's present rate.

Q. What is Staff's recommendation?

A. Staff recommends approval of a Reconnection (Delinquent) charge at cost with a foot note that defines cost as follows: Actual cost of physical disconnection and reconnection (if same customer) and there shall be no charge if there is no physical work performed.

Q. Why is Staff recommending a different charge?

A. Staff has learned from the Company that the Company does not actually disconnect customers. Rather, the Company places a lien against the customer's property and assesses late fees.

Q. Has the Commission adopted Staff's recommended Reconnection (Delinquent) charge in another rate proceeding?

A. Yes, the Commission, in Decision No. 72491, dated July 25, 2011, approved Staff's recommended Reconnection (Delinquent) charge in the rate proceeding for The Links at Coyote Wash Utilities.

Q. Does this conclude Staff's surrebuttal testimony?

A. Yes, it does.

Verde Santa Fe Wastewater Company, Inc.
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Surrebuttal Schedule CSB-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY FAIR VALUE	(B) STAFF FAIR VALUE
1	Adjusted Rate Base	$ 421,336	$ 421,336
2	Adjusted Operating Income (Loss)	$ (3,950)	$ 10,944
3	Current Rate of Return (L2 / L1)	-0.94%	2.60%
4	Required Rate of Return	11.00%	9.60%
5	Required Operating Income (L4 * L1)	$ 46,347	$ 40,448
6	Operating Income Deficiency (L5 - L2)	$ 50,297	$ 29,504
7	Gross Revenue Conversion Factor	1.2966	1.2761
8	Required Revenue Increase (L7 * L6)	$ 65,213	**$ 37,651**
9	Adjusted Test Year Revenue	$ 479,551	$ 479,551
10	Proposed Annual Revenue (L8 + L9)	$ 544,764	$ 517,202
11	Required Increase in Revenue (%)	13.60%	7.85%

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Surrebuttal Schedule CSB-2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	Calculation of Gross Revenue Conversion Factor:				
1	Revenue	100.0000%			
2	Uncollecible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	21.6362%			
5	Subtotal (L3 - L4)	78.3638%			
6	**Revenue Conversion Factor (L1 / L5)**	1.276099			
	Calculation of Uncollecttible Factor:				
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 23)	20.5250%			
9	One Minus Combined Income Tax Rate (L7 - L8)	79.4750%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
	Calculation of Effective Tax Rate:				
12	Operating Income Before Taxes	100.0000%			
13	Arizona State Income Tax Rate	6.5000%			
14	Federal Taxable Income (L12 - L13)	93.5000%			
15	Applicable Federal Income Tax Rate (Line 55)	15.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	14.0250%			
17	Combined Federal and State Income Tax Rate (L13 +L16)		20.5250%		
	Calculation of Effective Property Tax Factor				
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	20.5250%			
20	One Minus Combined Income Tax Rate (L18-L19)	79.4750%			
21	Property Tax Factor	1.3981%			
22	Effective Property Tax Factor (L20*L21)		1.1112%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			21.6362%	
24	Required Operating Income (Schedule CSB-1, Line 5)	$ 40,448			
25	AdjustedTest Year Operating Income (Loss)	10,944			
26	Required Increase in Operating Income (L24 - L25)		$ 29,504		
27	Income Taxes on Recommended Revenue (Col. [E], L52)	$ 10,446			
28	Income Taxes on Test Year Revenue (Col. [B], L52)	2,826			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		7,620		
30	Recommended Revenue Requirement (Schedule CSB-1)	$ 517,202			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L30*L31)	$ -			
33	Adjusted Test Year Uncollectible Expense	$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)		-		
35	Property Tax with Recommended Revenue	$ 20,641			
36	Property Tax on Test Year Revenue	20,114			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		526		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		$ 37,651		

		Test Year		Staff Recommended
	Calculation of Income Tax:			
39	Revenue	$ 479,551	$ 37,651	$ 517,202
40	Operating Expenses Excluding Income Taxes	$ 465,781	$ 526	$ 466,307
41	Synchronized Interest (L56)	$ -		$ -
42	Arizona Taxable Income (L39 - L40 - L41)	$ 13,770		$ 50,894
43	Arizona State Income Tax Rate	6.5000%		6.5000%
44	Arizona Income Tax (L42 x L43)	$ 895		$ 3,308
45	Federal Taxable Income (L42 - L44)	$ 12,875		$ 47,586
46	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ 1,931		$ 7,138
47	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	$ -		$ -
48	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ -		$ -
49	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ -		$ -
50	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ -		$ -
51	Total Federal Income Tax	$ 1,931		$ 7,138
52	Combined Federal and State Income Tax (L44 + L51)	$ 2,826		$ 10,446
53	Applicable Federal Income Tax Rate [Col. [E], L51 - Col. [B], L51] / [Col. [E], L45 - Col. [B], L45]			15.0000%
	Calculation of Interest Synchronization:			
54	Rate Base	$ 421,336		
55	Weighted Average Cost of Debt			
56	Synchronized Interest (L45 X L46)	$ -		

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Surrebuttal Schedule CSB-3

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	Adj. No.	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 1,555,530	$ -		$ 1,555,530
2	Less: Accumulated Depreciation	658,177	-		658,177
3	Net Plant in Service	$ 897,353	$ -		$ 897,353
	LESS:				
4	Contributions in Aid of Construction (CIAC)	$ 978,305	$ -		$ 978,305
5	Less: Accumulated Amortization	502,287	-		$ 502,287
6	Net CIAC	476,018	-		$ 476,018
7	Advances in Aid of Construction (AIAC)	-	-		-
8	Customer Deposits	-	-		-
9	Deferred Income Tax Credits	-	-		-
	ADD:				
9	Deferred Regulatory Assets	-	-		-
10	Cash Working Capital	-	-		-
11	Prepayments	-	-		-
12	**Original Cost Rate Base**	$ 421,336	$ -		$ 421,336

References:
Column (A), Company Schedule B-1
Column (B): Schedule MEM-4
Column (C): Column (A) + Column (B)

Verde Santa Fe Wastewater Company, Inc.
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Surrebuttal Schedule CSB-4

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.		[A]	[B]	[C]
PLANT IN SERVICE:			COMPANY	Staff	STAFF
1		DESCRIPTION	AS FILED	Adjustments	ADJUSTED
2	351	Organization	$ 30,909	$ -	$ 30,909
3	352	Franchises	-	-	-
4	353	Land and Land Rights	45,400	-	45,400
5	354	Structures and Improvements	108,242	-	108,242
6	355	Power Generation Equipment	-	-	-
7	360	Collection Services - Force	328,735	-	328,735
8	361	Collection Services - Gravity	-	-	-
9	362	Special Collecting Structures	-	-	-
10	363	Services to Customers	73,179	-	73,179
11	364	Flow Measuring Devices	12,958	-	12,958
12	365	Flow Measuring Installations	-	-	-
13	370	Receiving Wells	-	-	-
14	371	Effluent Pumping Equipment	-	-	-
15	380	Treatment and Disposal Equipment	865,491	-	865,491
16	381	Plant Sewers	-	-	-
17	382	Outfall Sewer Lines	-	-	-
18	389	Other Plant & Misc. Equipment	-	-	-
19	390	Office Furniture & Equipment	5,803	-	5,803
20	391	Transportation Equipment	-	-	-
21	393	Tools, Shop & Garage Equipment	4,676	-	4,676
22	394	Labratory Equipment	630	-	630
23	395	Power Operated Equipment	-	-	-
24	396	Communication Equipment	-	-	-
25	398	Other Tangible Plant	79,507	-	79,507
26			-	-	-
27					
28	Total Plant in Service		$ 1,555,530	$ -	$ 1,555,530
29	Less: Accumulated Depreciation		658,177	-	658,177
30			-	-	-
31	Net Plant in Service (L59 - L 60)		$ 897,353	$ -	$ 897,353
32					
33	*LESS:*				
34	Contributions in Aid of Construction (CIAC)		$ 978,305	$ -	$ 978,305
35	Less: Accumulated Amortization		502,287	-	502,287
36	Net CIAC (L25 - L26)		476,018	-	476,018
37	Advances in Aid of Construction (AIAC)		-	-	-
38	Customer Deposits		-	-	-
39	Deferred Income Taxes		-	-	-
40			-	-	-
41					
42	*ADD:*				
43	Deferred Reg Asset		-	-	-
44	Cash Working Capital		-	-	-
45	Prepayments		-	-	-
46	**Original Cost Rate Base**		$ 421,336	$ -	$ 421,336

Verde Santa Fe Wastewater Company, Inc.
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Surrebuttal Schedule CSB-5

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	Adj. No.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	*REVENUES:*						
2	Flat Rate Revenues	$ 462,400	$ -		$ 462,400	$ 37,651	$ 500,051
3	Unmetered Revenues	7,527	-		7,527	-	7,527
4	Other Wastewater Revenues	9,624	-		9,624	-	9,624
6	**Total Operating Revenues**	$ 479,551	$ -		$ 479,551	$ 37,651	$ 517,202
7							
8	*OPERATING EXPENSES:*						
9	Salaries and Wages	$ 31,683	$ (18,529)		$ 13,154	$ -	$ 13,154
10	Purchased Wastewater Trmnt	-	-		-	-	-
11	Sludge Removal Expense	21,328	12,079		33,407	-	33,407
12	Purchased Power	36,970	-		36,970	-	36,970
13	Fuel for Power Production	-	-		-	-	-
14	Chemicals	13,584	-		13,584	-	13,584
15	Materials & Supplies	5,772	-		5,772	-	5,772
16	Contractural Services, Accounting	-	-		-	-	-
17	Contractural Services, Professional	5,130	-		5,130	-	5,130
18	Contractural Services, Maintenance	-	-		-	-	-
19	Contractural Services - Other	227,098	-		227,098	-	227,098
20	Water Testing	9,784	-		9,784	-	9,784
21	Rents	31,055	(11,256)		19,799	-	19,799
22	Transportation Expenses	4,103	-		4,103	-	4,103
23	Insurance - General Liability	5,108	-		5,108	-	5,108
24	Insurance - Health and Life	-	-		-	-	-
25	Reg Comm Expense - Other	2,355	-		2,355	-	2,355
26	Reg Comm Expense - Rate Case	25,000	-		25,000	-	25,000
27	Miscellaneous Expense	22,364	-		22,364	-	22,364
28	Bad Debt Expense	-	-		-	-	-
29	Depreciation and Amortization Expense	22,039	-		22,039	-	22,039
30	Taxes other than Income	-	-		-	-	-
31	Property Taxes	21,173	(1,059)		20,114	526	20,641
32	Income Taxes	(1,045)	3,871		2,826	7,620	10,446
33		-	-		-	-	-
34	**Total Operating Expenses**	$ 483,501	$ (14,894)		$ 468,607	$ 8,146	$ 476,753
35	**Operating Income (Loss)**	$ (3,950)	$ 14,894		$ 10,944	$ 29,504	$ 40,448

References:
Column (A): Company Schedule C-1
Column (B): Schedule MEM-13
Column (C): Column (A) + Column (B)
Column (D): Schedules MEM-1 and MEM-2
Column (E): Column (C) + Column (D)

Verde Santa Fe Wastewater Company, Inc.
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Surrebuttal Schedule CSB-6

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Salaries and Wages, Directors ADJ #1	[C] Sludge Removal Expense ADJ #2	[D] Rents Expense Verde Santa Fe Expansion ADJ #3	[E] Property Tax Expense ADJ #4	[F] Income Tax Expense ADJ #5	[G] STAFF ADJUSTED
			Ref: Sch CSB-7	Ref: Sch CSB-8	Ref: Sch CSB-9	Ref: Sch CSB-10	Ref: Sch CSB-11	
1	*REVENUES:*							
2	Flat Rate Revenues	$ 462,400	$ -	$ -	$ -	$ -	$ -	$ 462,400
3	Unmetered Revenues	7,527	-	-	-	-	-	7,527
4	Other Wastewater Revenues	9,624	-	-	-	-	-	9,624
5	**Total Operating Revenues**	$ 479,551	$ -	$ -	$ -	$ -	$ -	$ 479,551
6								
7	*OPERATING EXPENSES:*							
8	Salaries and Wages	$ 31,683	$ (18,529)	$ -	$ -	$ -	$ -	$ 13,154
9	Purchased Wastewater Trmnt	-	-	-	-	-	-	-
10	Sludge Removal Expense	21,328	-	12,079	-	-	-	33,407
11	Purchased Power	36,970	-	-	-	-	-	36,970
12	Fuel for Power Production	-	-	-	-	-	-	-
13	Chemicals	13,584	-	-	-	-	-	13,584
14	Materials & Supplies	5,772	-	-	-	-	-	5,772
15	Contractural Services, Accounting	-	-	-	-	-	-	-
16	Contractural Services, Professional	5,130	-	-	-	-	-	5,130
17	Contractural Services, Maintenance	-	-	-	-	-	-	-
18	Contractural Services - Other	227,098	-	-	-	-	-	227,098
19	Water Testing	9,784	-	-	-	-	-	9,784
20	Rents	31,055	-	-	(11,256)	-	-	19,799
21	Transportation Expenses	4,103	-	-	-	-	-	4,103
22	Insurance - General Liability	5,108	-	-	-	-	-	5,108
23	Insurance - Health and Life	-	-	-	-	-	-	-
24	Reg Comm Expense - Other	2,355	-	-	-	-	-	2,355
25	Reg Comm Expense - Rate Case	25,000	-	-	-	-	-	25,000
26	Miscellaneous Expense	22,364	-	-	-	-	-	22,364
27	Bad Debt Expense	-	-	-	-	-	-	-
28	Depreciation and Amortization Expense	22,039	-	-	-	-	-	22,039
29	Taxes other than Income	-	-	-	-	-	-	-
30	Property Taxes	21,173	-	-	-	(1,059)	-	20,114
31	Income Taxes	(1,045)	-	-	-	-	3,871	2,826
32		-	-	-	-	-	-	-
33	**Total Operating Expenses**	$ 483,501	$ (18,529)	$ 12,079	$ (11,256)	$ (1,059)	$ 3,871	$ 468,607
34	**Operating Income (Loss)**	$ (3,950)	$ 18,529	$ (12,079)	$ 11,256	$ 1,059	$ (3,871)	$ 10,944

Verde Santa Fe Wastewater Company, Inc.
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Test Year Ended December 31, 201

Surrebuttal Schedule CSB-7

OPERATING INCOME ADJUSTMENT NO. 1 - SALARIES & WAGES, DIRECTORS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Salaries & Wages, Directors	$ 31,683	$ (18,529)	$ 13,154
2				
3				
4				
5				
6				

7	[D]	[E]		[F]		[G]	
8 9 10	Employee	Total Hours Worked per Month for All Directors		Number of Months Each Director Works		Total Annual Hours Worked for Each Director	
11	Director 1	8	x	12	=	96	
12	Director 2	8	x	12	=	96	
13	Director 3	8	x	12	=	96	
14		24		36		$ 288	
15				Multiplied by		$ 46	From Line 20
16		**Salaries & Wages, Directors - Per Staff**				**$ 13,154**	
17							
18				Director Salary		$ 95,000	
19				Divided by Annual Work Hours		2,080	
20				Hourly Rate		$ 45.67	

References:

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

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Surrebuttal Schedule CSB-8

OPERATING INCOME ADJUSTMENT NO. 2 - SLUDGE REMOVAL EXPENSE

		[A]	[B]	[C]
LINE NO.		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Sludge Removal Expense	$ 21,328	$ 12,079	$ 33,407

References:

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

OPERATING INCOME ADJUSTMENT NO. 3 - RENTS EXPENSE, VERDE SANTA FE EXPANSION

LINE NO.		[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED	
1	Rents Expense, Verde Santa Fe Expansion	$ 31,055	$ (11,256)	$ 19,799	From Sch CSB-9, P.2

References:

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

OPERATING INCOME ADJUSTMENT NO. 3 - RENTS EXPENSE, VERDE SANTA FE EXPANSION CONTINUED

Loan Amount Requested	$250,000		
Down Payment:	$0		
Amount Financed:	$250,000		
Number of years:	20	Compounding Periods:	12
Interest rate (r):	5.00%	APR:	5.12%

LOAN AMORTIZATION SCHEDULE

Period	Loan payment (1)	Beginning-of-month principal (2)	Payments: Interest [r * (2)] (3)	Payments: Principal [(1) - (3)] (4)	End-of-month principal [(2) - (4)] (5)	Annual Interest (6)	Annual Principal (7)	Annual Debt Payment (8)
1	$1,649.89	$250,000.00	$1,041.67	$608.22	$249,391.78			
2	1,649.89	249,391.78	1,039.13	610.76	248,781.02			
3	1,649.89	248,781.02	1,036.59	613.30	248,167.72			
4	1,649.89	248,167.72	1,034.03	615.86	247,551.86			
5	1,649.89	247,551.86	1,031.47	618.42	246,933.44			
6	1,649.89	246,933.44	1,028.89	621.00	246,312.44			
7	1,649.89	246,312.44	1,026.30	623.59	245,688.85			
8	1,649.89	245,688.85	1,023.70	626.19	245,062.66			
9	1,649.89	245,062.66	1,021.09	628.79	244,433.87			
10	1,649.89	244,433.87	1,018.47	631.41	243,802.45			
11	1,649.89	243,802.45	1,015.84	634.05	243,168.41			
12	1,649.89	243,168.41	1,013.20	636.69	242,531.72	12,330.39	7,468.28	19,798.67

Verde Santa Fe Wastewater Company, Inc.
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Test Year Ended December 31, 2012

Surrebuttal Schedule CSB-10

OPERATING INCOME ADJUSTMENT No. 4 - Property Tax Expense

LINE NO.	Property Tax Calculation	STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	$ 479,551	$ 479,551
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	959,102	$ 959,102
4	Staff Recommended Revenue, Per Schedule CSB-1	479,551	$ 517,202
5	Subtotal (Line 4 + Line 5)	1,438,653	1,476,304
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	479,551	$ 492,101
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	959,102	$ 984,202
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	959,102	$ 984,202
13	Assessment Ratio	19.0%	19.0%
14	Assessment Value (Line 12 * Line 13)	182,229	$ 186,998
15	Composite Property Tax Rate (Per Company Schedule C-2)	11.0379%	11.0379%
			$ -
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	$ 20,114	
17	Company Proposed Property Tax	21,173	
18	Staff Test Year Adjustment (Line 16-Line 17)	$ (1,059)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		$ 20,641
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		$ 20,114
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		$ 526
22	Increase to Property Tax Expense		$ 526
23	Increase in Revenue Requirement		37,651
24	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		1.398134%

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-02519A-06-0015
Test Year Ended October 31, 2005

Surrebuttal Schedule CSB-11

OPERATING INCOME ADJUSTMENT NO. 5 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION		Test Year
	Calculation of Income Tax:		
1	Revenue (Schedule CSB-11)	$	479,551
2	Operating Expenses Excluding Income Taxes	$	465,781
3	Synchronized Interest (L17)	$	-
4	Arizona Taxable Income (L1 - L2 - L3)	$	13,770
5	Arizona State Income Tax Rate		6.5000%
6	Arizona Income Tax (L4 x L5)	$	895
7	Federal Taxable Income (L4 - L6)	$	12,875
8	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$	1,931
9	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	$	-
10	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$	-
11	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$	-
12	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$	-
13	Total Federal Income Tax	$	1,931
14	Combined Federal and State Income Tax (L44 + L51)	$	2,826
	Calculation of Interest Synchronization:		
15	Rate Base (Schedule CSB-13, Col. (C), Line 16)	$	421,336
16	Weighted Average Cost of Debt		0.00%
17	Synchronized Interest (L16 x L17)	$	-
18	Income Tax - Per Staff	$	2,826
19	Income Tax - Per Company	$	(1,045)
20	**Staff Adjustment**	**$**	**3,871**

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-03437A-13-0292
Test Year Ended December 31, 2012

Surrebuttal Schedule CSB-12

RATE DESIGN

	Present		Company Proposed		Staff Recommended	
Residential	$ 40.00		$ 45.68		$43.24	
Commercial	$ 40.00	xSFE (See Note 1)	$ 45.68	xSFE (See Note 2)	$43.24	xSFE (See Note 2)
Effluent Sales (All Meter Sizes)						
Charge per 1,000 gallons	$ 2.00		$ 0.23		$ 0.23	

Note 1: If a commercial flat rate is necessary, it will be calculated for each commercial customer by dividing the expected design daily flow rate (as prescribed by the Ten State Standards) by one SFE (single family equivalent). One SFE will equal 262 gallons per day (the approved design flow rate per single family unit by ADEQ. The resulting factor will be multiplied by the approved residential flat rate to get the commercial monthly flat rate.

Note 2: One SFE is defined as 10 fixtures (sinks and/or toilets and/or showers, etc). The SFE for a commercial customer will be equal to the number of fixtures divided by 10. If the computed SFE is less than 1.0, the factor will be 1.0; which provides that a commercial customer pays no less than a residential customer.

Service Line Charge	NT	Cost	Cost
Service Charges			
Establishment	$ 25.00	$ 25.00	$ 25.00
Reconnection (Delinquent)	$ 30.00	$ 30.00	Cost (a)
Deposit	Per Rule	Per Rule	Per Rule**
Deposit Interest (Annual Effective Rate)	3.50%	3.50%	3.50%
Reestablishment (within 12 months)	Per Rule	Per Rule	Per Rule*
Deferred payment (per month)	NT	1.50%	1.50%
Late payment Penalty (per month)***	1.50%	1.50%	1.50%
NSF check	$ 25.00	$ 25.00	$ 25.00
After Hours Service Charge (At the Customer's Request)	NT	$ 35.00	$ 35.00

* Number of months off the system times the applicable sewer charge.
** Per Commission Rule R14-2-603.B.7 and 603.B.3
*** Late payment charge based upon balance owing at the end of the billing cycle which is added to next bill.
NT = No Tariff
(a) Actual cost of physical disconnection and reconnection (if same customer) and there shall be no charge if there is no physical work performed.

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-03437A-13-0292
Test Year Ended December 31, 2012

Surrebuttal Schedule CSB-13

TYPICAL BILL ANALYSIS
Residential Service

	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Company	$ 40.00	$ 45.68	$5.68	14.2%
Staff	$ 40.00	$ 43.24	$3.24	8.1%

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

2014 MAY -2 P 4: 40

AZ CORP COMMISSION
DOCKET CONTROL

EXHIBIT
S-6
ADMITTED

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

IN THE MATTER OF THE APPLICATION OF VERDE SANTA FE WASTEWATER CO., INC. AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO. SW-03437A-13-0292 **STAFF RESPONSE**

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") files this response to several of the questions raised by Administrative Law Judge Sarah Harpring at the prehearing conference held April 29, 2014. Staff will also present testimony on these matters during the hearing.

RESPECTFULLY SUBMITTED this 2nd day of May, 2014.

Robin R. Mitchell, Attorney
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
602) 542-3402

Original and thirteen (13) copies of the foregoing filed this 2nd day of May, 2014 with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85006

Copy of the foregoing emailed this 2nd day of May, 2014 to:

Jay L. Shapiro
FENNEMORE CRAIG, P.C.
2394 E. Camelback Road, Suite 600
Phoenix, AZ 85016
Attorneys for Verde Santa Fe Wastewater Co., Inc.

Ashley Hodge

ARIZONA CORPORATION COMMISSION
STAFF'S RESPONSES TO
QUESTIONS SET FORTH BY ADMINISTRATIVE LAW JUDGE

DOCKET NO. W-03437A-13-0292

May 2, 2014

1. Plan to Transfer the $250,000 in Plant From Pivotal to Verde Santa Fe
   a. What process did Staff contemplate for the transference of the ownership of the plant from Pivotal to Verde Santa Fe?
   b. What would be Staff's considerations in the approval of such a plan?

Staff Response:

Staff contemplates that Pivotal would issue a note receivable to Verde Santa Fe in the amount of $168,750 for the book value of the plant ($250,000 original cost - $81,250 accumulated depreciation for 6.5 years).[1] The term of the note receivable would be 14 years (the remaining life of the plant at the end of the test year) with a 5% interest rate.

Since the $168,750 note receivable would represent a long-term debt financial obligation for Verde Santa Fe, Commission authorization would be necessary. The financing application for the note receivable would be filed within 90 days of the date of Decision resulting from this matter. Further, Staff contemplates being able to review source documents in support of the $250,000 in plant.

Staff's considerations in approval of the plan would be similar to a review of any other financing application.

Staff would make a filing in the docket upon the completion of its review.

[1] The NARUC Guidelines for cost allocations and Affiliate Transactions states that the transfer price of assets from an unregulated affiliate to a regulated utility should be the lower of the prevailing market price or net book value.

2. Capital vs. Operating Lease - Is the $250,000 lease a capital or operating lease?

Staff Response:

Staff considered the following four criteria identified by what was originally the Financial Accounting Standards Board ("FASB") No. 13 "Accounting for Leases" assessing whether or not a lease is a capital lease:

- **The lease transfers ownership of the property to the lessee by the end of the lease term. Based upon a review of the terms of the lease agreement, Staff found that there was no transfer of the asset without payment.**
- **The lease contains a bargain purchase. Based upon a review of the terms of the lease agreement, Staff found no bargain purchase option.**
- **The lease term is equal to 75 percent or more of the estimated economic life of the leased property. Based upon a review of the terms of the contract, Staff found that the term of the lease was 10 years whereas the estimated useful life of the asset was 20 years. Therefore, the lease term was less than 75% of the asset's useful life.**
- **The present value at the beginning of the lease term of the minimum lease payments equals or exceeds 90 percent of the excess of the fair value of the leased property. Based upon Staff analysis, the present value of the lease payments was less than 90% of the total original cost of the equipment.**

Based upon a review of the terms of the lease agreement, the lease did not meet any of the above criteria, and therefore is an operating lease, not a capital lease.

3. $250,000 Lease Treated As Debt - Provide the revenue requirement supported by schedules showing how the revenue requirement would be different if the $250,000 were treated as debt rather than an operating lease.

Staff Response:

The revenue requirement is $530,140 when the $250,000 lease is treated as debt (see attached schedules). This is an increase of $12,938 from the $517,202 revenue requirement that Staff recommended in its surrebuttal testimony.

The capital structure of the Company would change if the lease were treated as debt. For purposes of this request, the debt component of the capital structure is based on a $168,750 net book value of the plant associated with the $250,000 equipment lease ($250,000 - $81,250 of A/D). The 1.7% weighted cost of debt assumes a cost of debt

of 5.0%; the 8.1% overall ROR assumes the net plant is accounted for as a capital lease:

	Weight (%)	Cost	Weighted Cost
Long-Term Debt	33.8%	5.0%	1.7%
Common Equity	66.2%	9.6%	6.4%
Weighted Average COC			8.1%

4. Rate Case Expense - The Company stated that it would be filing rate cases every 3 years but normalized rate case expense using 4 years. Explain why this is appropriate.

Staff Response:

It is appropriate to normalize rate case expense using 4 years when the Company stated that it expects to file rate cases every 3 years. The additional year reflects the time it takes to process the rate application (i.e. 3 years out + 1 year to process case).

5. Compliance Issue - Staff indicated that there were no compliance issues. However, Decision No. 60779 stated that the Company was to file for a rate case within 36 months of operation.

Staff Response:

Decision No. 60779 ordered the Company to file for a *rate review* not a rate application. Staff found that the Company filed its rate review as ordered by the Commission and, therefore, is in compliance.

6. Miscellaneous Service Charge, Disconnection of Service - Staff indicated that the Company does not actually disconnect sewer service. Rather, the Company places a lien against the customer's home. What other companies place liens against customers' homes.

Staff Response:

Staff does not know of any other company that places liens against customers' homes.

7. Discuss the treatment of the bad debt of the golf course. The golf course was not paying the tariffed rate, were any adjustments made.

Staff Response:

Yes, the Company made a pro forma adjustment to remove $63,411 in revenue that was billed to the golf course. Accordingly, the Company made a pro forma adjustment to remove $63,411 in bad debt expense attributable to the golf course. Staff accepted the Company's adjustment.

8. In Ms. Stukov's testimony, at p. 9 of the engineering report, it states that the Company is not currently in violation at a level at which ADEQ will take action. Please provide clarification.

Staff Response:

This ADEQ statement indicates that ADEQ considers Verde Santa Fe, to be for all practical purposes, to be in compliance with ADEQ regulations, but is not in full technical compliance due to any number of minor (non-safety related) deficiencies.

9. The Status of Docket No. 09-0493—Golf Course Alternative Effluent Disposal

Staff Response:

On October 14, 2009, the Company filed with the Commission, an application for a reduction in the commodity rate for effluent sales. On October 29, 2009, Staff requested a suspension of the time clock to evaluate this tariff filing. On December 8, 2009, the Commission issued Decision No. 71429 suspending the filing through March 10, 2010. At the March 3, 2010, Open Meeting to consider the proposed recommended opinion and order, the Commission elected to defer a decision to allow Staff and the Company time to explore effluent disposal alternatives resulting from the existing recipient's unwillingness to pay the authorized tariff. On April 13, 2010, Staff filed a Staff memo detailing its recommendations resulting from its further review of the matter and a proposed order. The matter was placed on the agenda for the April 27, 2010 Open Meeting and the matter was pulled from the Agenda by the Commission.

Staff was concerned that because of the unwillingness of the effluent recipient to pay the authorized tariff rate, that in the event the recipient would no longer take the effluent, a potential health and safety risk existed. Now that Staff has recommended that the rate for effluent be set at the rate the golf course is willing to pay, which

would remove the threat that the golf course would refuse to take the effluent, Staff believes there is no longer a health and safety issue. Staff would also note that the disposal of effluent is governed by the Arizona Department of Environmental Quality, under a company's Aquifer Protection Permit ("APP"). The Company's APP does not require an alternative method of disposal.

Exhibit 1

Schedules

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-03437A-13-0292
Test Year Ended December 31, 2012

Hearing Surrebuttal Schedule CSB-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY FAIR VALUE	(B) STAFF FAIR VALUE
1	Adjusted Rate Base	$ 421,336	$ 752,586
2	Adjusted Operating Income (Loss)	$ (3,950)	$ 22,072
3	Current Rate of Return (L2 / L1)	-0.94%	2.93%
4	Required Rate of Return	11.00%	8.10%
5	Required Operating Income (L4 * L1)	$ 46,347	$ 60,959
6	Operating Income Deficiency (L5 - L2)	$ 50,297	$ 38,888
7	Gross Revenue Conversion Factor	1.2966	1.3009
8	Required Revenue Increase (L7 * L6)	$ 65,213	$ 50,589
9	Adjusted Test Year Revenue	$ 479,551	$ 479,551
10	Proposed Annual Revenue (L8 + L9)	$ 544,764	$ 530,140
11	Required Increase in Revenue (%)	13.60%	10.55%

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-03437A-13-0292
Test Year Ended December 31, 2012

Hearing Surrebuttal Schedule CSB-2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	Calculation of Gross Revenue Conversion Factor:				
1	Revenue	100.0000%			
2	Uncollecible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	23.1294%			
5	Subtotal (L3 - L4)	76.8706%			
6	**Revenue Conversion Factor (L1 / L5)**	1.300887			
	Calculation of Uncollecttible Factor:				
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 23)	22.0394%			
9	One Minus Combined Income Tax Rate (L7 - L8)	77.9606%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
	Calculation of Effective Tax Rate:				
12	Operating Income Before Taxes	100.0000%			
13	Arizona State Income Tax Rate	6.5000%			
14	Federal Taxable Income (L12 - L13)	93.5000%			
15	Applicable Federal Income Tax Rate (Line 55)	16.6197%			
16	Effective Federal Income Tax Rate (L14 x L15)	15.5394%			
17	Combined Federal and State Income Tax Rate (L13 +L16)		22.0394%		
	Calculation of Effective Property Tax Factor				
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	22.0394%			
20	One Minus Combined Income Tax Rate (L18-L19)	77.9606%			
21	Property Tax Factor	1.3981%			
22	Effective Property Tax Factor (L20*L21)		1.0900%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			23.1294%	
24	Required Operating Income (Schedule CSB-1, Line 5)	$ 60,959			
25	AdjustedTest Year Operating Income (Loss)	22,072			
26	Required Increase in Operating Income (L24 - L25)		$ 38,888		
27	Income Taxes on Recommended Revenue (Col. [E], L52)	$ 13,390			
28	Income Taxes on Test Year Revenue (Col. [B], L52)	2,396			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		10,994		
30	Recommended Revenue Requirement (Schedule CSB-1)	$ 530,140			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L30*L31)	$ -			
33	Adjusted Test Year Uncollectible Expense	$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)		-		
35	Property Tax with Recommended Revenue	$ 20,822			
36	Property Tax on Test Year Revenue	20,114			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		707		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		$ 50,589		

		Test Year		Staff Recommended
	Calculation of Income Tax:			
39	Revenue	$ 479,551	$ 50,589	$ 530,140
40	Operating Expenses Excluding Income Taxes	$ 455,083	$ 707	$ 455,791
41	Synchronized Interest (L56)	$ 12,794		$ 12,794
42	Arizona Taxable Income (L39 - L40 - L41)	$ 11,674		$ 61,555
43	Arizona State Income Tax Rate	6.5000%		6.5000%
44	Arizona Income Tax (L42 x L43)	$ 759		$ 4,001
45	Federal Taxable Income (L42 - L44)	$ 10,915		$ 57,554
46	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ 1,637		$ 7,500
47	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	$ -		$ 1,888
48	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ -		$ -
49	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ -		$ -
50	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ -		$ -
51	Total Federal Income Tax	$ 1,637		$ 9,388
52	Combined Federal and State Income Tax (L44 + L51)	$ 2,396		$ 13,390
53	Applicable Federal Income Tax Rate [Col. [E], L51 - Col. [B], L51] / [Col. [E], L45 - Col. [B], L45]			16.6197%
	Calculation of Interest Synchronization:			
54	Rate Base	$ 752,586		
55	Weighted Average Cost of Debt	1.7000%		
56	Synchronized Interest (L45 X L46)	$ 12,794		

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-03437A-13-0292
Test Year Ended December 31, 2012

Hearing Surrebuttal Schedule CSB-3

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	Adj. No.	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 1,555,530	$ 250,000		$ 1,805,530
2	Less: Accumulated Depreciation	658,177	-		658,177
3	Net Plant in Service	$ 897,353	$ 250,000		$ 1,147,353
	LESS:				
4	Contributions in Aid of Construction (CIAC)	$ 978,305	$ -		$ 978,305
5	Less: Accumulated Amortization	502,287	81,250		$ 583,537
6	Net CIAC	476,018	(81,250)		$ 394,768
7	Advances in Aid of Construction (AIAC)	-	-		-
8	Customer Deposits	-	-		-
9	Deferred Income Tax Credits	-	-		-
	ADD:				
9	Deferred Regulatory Assets	-	-		-
10	Cash Working Capital	-	-		-
11	Prepayments	-	-		-
12	**Original Cost Rate Base**	$ 421,336	$ 331,250		$ 752,586

References:
Column (A), Company Schedule B-1
Column (B): Schedule CSB-4

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-03437A-13-0292
Test Year Ended December 31, 2012

Hearing Surrebuttal Schedule CSB-4

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.		[A]	[B]	[H]	[C]
PLANT IN SERVICE:		DESCRIPTION	COMPANY AS FILED	Treatment & Disposal Plant	Accumulated Depreciation	STAFF ADJUSTED
2	351	Organization	$ 30,909	$ -	$ -	$ 30,909
3	352	Franchises	-	-	-	-
4	353	Land and Land Rights	45,400	-	-	45,400
5	354	Structures and Improvements	108,242	-	-	108,242
6	355	Power Generation Equipment	-	-	-	-
7	360	Collection Services - Force	328,735	-	-	328,735
8	361	Collection Services - Gravity	-	-	-	-
9	362	Special Collecting Structures	-	-	-	-
10	363	Services to Customers	73,179	-	-	73,179
11	364	Flow Measuring Devices	12,958	-	-	12,958
12	365	Flow Measuring Installations	-	-	-	-
13	370	Receiving Wells	-	-	-	-
14	371	Effluent Pumping Equipment	-	-	-	-
15	380	Treatment and Disposal Equipment	865,491	250,000	-	1,115,491
16	381	Plant Sewers	-	-	-	-
17	382	Outfall Sewer Lines	-	-	-	-
18	389	Other Plant & Misc. Equipment	-	-	-	-
19	390	Office Furniture & Equipment	5,803	-	-	5,803
20	391	Transportation Equipment	-	-	-	-
21	393	Tools, Shop & Garage Equipment	4,676	-	-	4,676
22	394	Labratory Equipment	630	-	-	630
23	395	Power Operated Equipment	-	-	-	-
24	396	Communication Equipment	-	-	-	-
25	398	Other Tangible Plant	79,507	-	-	79,507
26			-	-	-	-
27						
28		Total Plant in Service	$ 1,555,530	$ 250,000	$ -	$ 1,805,530
29		Less: Accumulated Depreciation	658,177	-	-	658,177
30			-	-	-	-
31		Net Plant in Service (L59 - L 60)	$ 897,353	$ 250,000	$ -	$ 1,147,353
32						
33		*LESS:*				
34		Contributions in Aid of Construction (CIAC)	$ 978,305	$ -	$ -	$ 978,305
35		Less: Accumulated Amortization	502,287	-	81,250	583,537
36		Net CIAC (L25 - L26)	476,018	-	(81,250)	394,768
37		Advances in Aid of Construction (AIAC)	-	-	-	-
38		Customer Deposits	-	-	-	-
39		Deferred Income Taxes	-	-	-	-
40			-	-		-
41						
42		*ADD:*				
43		Deferred Reg Asset	-	-		-
44		Cash Working Capital	-	-	-	-
45		Prepayments	-	-	-	-
46		**Original Cost Rate Base**	$ 421,336	$ 250,000	$ 81,250	$ 752,586

Calculation of Accumulated Depreciation	
$ 250,000	
x 0.05	Acct No. 380 Depr Rate
$ 12,500	
6.5	Yrs (See Note 1)
$ 81,250	

Note 1: The $250,000 equipment lease was in its 7th year at the end of the test year. Staff calculated depreciation expense using the half-year convention.

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-03437A-13-0292
Test Year Ended December 31, 2012

Hearing Surrebuttal Schedule CSB-5

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	Adj. No.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	*REVENUES:*						
2	Flat Rate Revenues	$ 462,400	$ -		$ 462,400	$ 50,589	$ 512,989
3	Unmetered Revenues	7,527	-		7,527	-	7,527
4	Other Wastewater Revenues	9,624	-		9,624	-	9,624
6	**Total Operating Revenues**	$ 479,551	$ -		$ 479,551	$ 50,589	$ 530,140
7							
8	*OPERATING EXPENSES:*						
9	Salaries and Wages	$ 31,683	$ (18,529)	1	$ 13,154	$ -	$ 13,154
10	Purchased Wastewater Trmnt	-	-		-	-	-
11	Sludge Removal Expense	21,328	12,079	2	33,407	-	33,407
12	Purchased Power	36,970	-		36,970	-	36,970
13	Fuel for Power Production	-	-		-	-	-
14	Chemicals	13,584	-		13,584	-	13,584
15	Materials & Supplies	5,772	-		5,772	-	5,772
16	Contractural Services, Accounting	-	-		-	-	-
17	Contractural Services, Professional	5,130	-		5,130	-	5,130
18	Contractural Services, Maintenance	-	-		-	-	-
19	Contractural Services - Other	227,098	-		227,098	-	227,098
20	Water Testing	9,784	-		9,784	-	9,784
21	Rents	31,055	(31,055)	3	-	-	-
22	Transportation Expenses	4,103	-		4,103	-	4,103
23	Insurance - General Liability	5,108	-		5,108	-	5,108
24	Insurance - Health and Life	-	-		-	-	-
25	Reg Comm Expense - Other	2,355	-		2,355	-	2,355
26	Reg Comm Expense - Rate Case	25,000	-		25,000	-	25,000
27	Miscellaneous Expense	22,364	-		22,364	-	22,364
28	Bad Debt Expense	-	-		-	-	-
29	Depreciation and Amortization Expense	22,039	9,101	6	31,140	-	31,140
30	Taxes other than Income	-	-		-	-	-
31	Property Taxes	21,173	(1,059)	4	20,114	707	20,822
32	Income Taxes	(1,045)	3,441	5	2,396	10,994	13,390
33	Rounding	-	-		-	-	-
34	**Total Operating Expenses**	$ 483,501	$ (26,022)		$ 457,479	$ 11,701	$ 469,180
35	**Operating Income (Loss)**	$ (3,950)	$ 26,022		$ 22,072	$ 38,888	$ 60,959

References:
Column (A): Company Schedule C-1
Column (B): Schedule MEM-13
Column (C): Column (A) + Column (B)
Column (D): Schedules MEM-1 and MEM-2
Column (E): Column (C) + Column (D)

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-03437A-13-0292
Test Year Ended December 31, 2012

Hearing Surrebuttal Schedule CSB-6

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Salaries and Wages, Directors ADJ #1	[C] Sludge Removal Expense ADJ #2	[D] Rents Expense Verde Santa Fe Expansion ADJ #3	[E] Property Tax Expense ADJ #4	[F] Income Tax Expense ADJ #5	[G] Depreciation Expense ADJ #6	[H] STAFF ADJUSTED
			Ref: Sch CSB-7	Ref: Sch CSB-8	Ref: Sch CSB-9	Ref: Sch CSB-10	Ref: Sch CSB-11	Ref: Sch CSB-12	
1	*REVENUES:*								
2	Flat Rate Revenues	$ 462,400	$ -	$ -	$ -	$ -	$ -	$ -	$ 462,400
3	Unmetered Revenues	7,527	-	-	-	-	-	-	7,527
4	Other Wastewater Revenues	9,624	-	-	-	-	-	-	9,624
5	**Total Operating Revenues**	$ 479,551	$ -	$ -	$ -	$ -	$ -	$ -	$ 479,551
6									
7	*OPERATING EXPENSES:*								
8	Salaries and Wages	$ 31,683	$ (18,529)	$ -	$ -	$ -	$ -	$ -	$ 13,154
9	Purchased Wastewater Trmnt	-	-	-	-	-	-	-	-
10	Sludge Removal Expense	21,328	-	12,079	-	-	-	-	33,407
11	Purchased Power	36,970	-	-	-	-	-	-	36,970
12	Fuel for Power Production	-	-	-	-	-	-	-	-
13	Chemicals	13,584	-	-	-	-	-	-	13,584
14	Materials & Supplies	5,772	-	-	-	-	-	-	5,772
15	Contractural Services, Accounting	-	-	-	-	-	-	-	-
16	Contractural Services, Professional	5,130	-	-	-	-	-	-	5,130
17	Contractural Services, Maintenance	-	-	-	-	-	-	-	-
18	Contractural Services - Other	227,098	-	-	-	-	-	-	227,098
19	Water Testing	9,784	-	-	-	-	-	-	9,784
20	Rents	31,055	-	-	(31,055)	-	-	-	-
21	Transportation Expenses	4,103	-	-	-	-	-	-	4,103
22	Insurance - General Liability	5,108	-	-	-	-	-	-	5,108
23	Insurance - Health and Life	-	-	-	-	-	-	-	-
24	Reg Comm Expense - Other	2,355	-	-	-	-	-	-	2,355
25	Reg Comm Expense - Rate Case	25,000	-	-	-	-	-	-	25,000
26	Miscellaneous Expense	22,364	-	-	-	-	-	-	22,364
27	Bad Debt Expense	-	-	-	-	-	-	-	-
28	Depreciation and Amortization Expense	22,039	-	-	-	-	-	9,101	31,140
29	Taxes other than Income	-	-	-	-	-	-	-	-
30	Property Taxes	21,173	-	-	-	(1,059)	-	-	20,114
31	Income Taxes	(1,045)	-	-	-	-	3,441	-	2,396
32		-	-	-	-	-	-	-	-
33	**Total Operating Expenses**	$ 483,501	$ (18,529)	$ 12,079	$ (31,055)	$ (1,059)	$ 3,441	$ 9,101	$ 448,378
34	**Operating Income (Loss)**	$ (3,950)	$ 18,529	$ (12,079)	$ 31,055	$ 1,059	$ (3,441)	$ (9,101)	$ 31,173

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-03437A-13-0292
Test Year Ended December 31, 201

Hearing Surrebuttal Schedule CSB-7

OPERATING INCOME ADJUSTMENT NO. 1 - SALARIES & WAGES, DIRECTORS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Salaries & Wages, Directors	$ 31,683	$ (18,529)	$ 13,154
2				
3				
4				
5				
6				

7	[D]	[E]		[F]		[G]	
8 9 10	Employee	Total Hours Worked per Month for All Directors		Number of Months Each Director Works		Total Annual Hours Worked for Each Director	
11	Director 1	8	x	12	=	96	
12	Director 2	8	x	12	=	96	
13	Director 3	8	x	12	=	96	
14		24		36		$ 288	
15				Multiplied by		$ 46	From Line 20
16		**Salaries & Wages, Directors - Per Staff**				**$ 13,154**	
17							
18				Director Salary		$ 95,000	
19				Divided by Annual Work Hours		2,080	
20				Hourly Rate		$ 45.67	

References:

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

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-03437A-13-0292
Test Year Ended December 31, 2012

Hearing Surrebuttal Schedule CSB-8

OPERATING INCOME ADJUSTMENT NO. 2 - SLUDGE REMOVAL EXPENSE

LINE NO.		[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Sludge Removal Expense	$ 21,328	$ 12,079	$ 33,407

References:

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

Verde Santa Fe Wastewater Company, Inc.
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Hearing Surrebuttal Schedule CSB-9

OPERATING INCOME ADJUSTMENT NO. 3 - RENTS EXPENSE, VERDE SANTA FE EXPANSION

		[A]	[B]	[C]
LINE NO.		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Rents Expense, Verde Santa Fe Expansion	$ 31,055	$ (31,055)	$ -

References:

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

Verde Santa Fe Wastewater Company, Inc.
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Hearing Surrebuttal Schedule CSB-10

OPERATING INCOME ADJUSTMENT No. 4 - Property Tax Expense

LINE NO.	Property Tax Calculation	STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	$ 479,551	$ 479,551
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	959,102	$ 959,102
4	Staff Recommended Revenue, Per Schedule CSB-1	479,551	$ 530,140
5	Subtotal (Line 4 + Line 5)	1,438,653	1,489,242
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	479,551	$ 496,414
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	959,102	$ 992,828
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	959,102	$ 992,828
13	Assessment Ratio	19.0%	19.0%
14	Assessment Value (Line 12 * Line 13)	182,229	$ 188,637
15	Composite Property Tax Rate (Per Company Schedule C-2)	11.0379%	11.0379%
			$ -
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	$ 20,114	
17	Company Proposed Property Tax	21,173	
18	Staff Test Year Adjustment (Line 16-Line 17)	$ (1,059)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		$ 20,822
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		$ 20,114
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		$ 707
22	Increase to Property Tax Expense		$ 707
23	Increase in Revenue Requirement		50,589
24	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		1.398134%

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-02519A-06-0015
Test Year Ended October 31, 2005

Hearing Surrebuttal Schedule CSB-11

OPERATING INCOME ADJUSTMENT NO. 5 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION		Test Year
	Calculation of Income Tax:		
1	Revenue (Schedule CSB-11)	$	479,551
2	Operating Expenses Excluding Income Taxes	$	455,083
3	Synchronized Interest (L17)	$	12,794
4	Arizona Taxable Income (L1 - L2 - L3)	$	11,674
5	Arizona State Income Tax Rate		6.5000%
6	Arizona Income Tax (L4 x L5)	$	759
7	Federal Taxable Income (L4 - L6)	$	10,915
8	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$	1,637
9	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	$	-
10	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$	-
11	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$	-
12	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$	-
13	Total Federal Income Tax	$	1,637
14	Combined Federal and State Income Tax (L44 + L51)	$	2,396
	Calculation of Interest Synchronization:		
15	Rate Base (Schedule CSB-13, Col. (C), Line 16)	$	752,586
16	Weighted Average Cost of Debt		1.70%
17	Synchronized Interest (L16 x L17)	$	12,794
18	Income Tax - Per Staff	$	2,396
19	Income Tax - Per Company	$	(1,045)
20	**Staff Adjustment**	**$**	**3,441**

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Test Year Ended December 31, 2012

Hearing Surrebuttal Schedule CSB-12

Operating Income Adjustment No. 6 - Depreciation Expense

LINE NO.	ACCT. NO.	DESCRIPTION	[A] Plant In Service Per Staff	[B] NonDepreciable & Fully Depreciated Plant	[C] Depreciable Plant (Col A - Col B)	[D] Depreciation Rate	[E] Depreciation Expense (Col C x Col D)
PLANT IN SERVICE:							
2	351	Organization	$ 30,909	$ (30,909)	$ -	0.00%	$ -
3	352	Franchises	-	-	-	0.00%	-
4	353	Land and Land Rights	45,400	-	45,400	0.00%	-
5	354	Structures and Improvements	108,242	-	108,242	3.33%	3,604
6	355	Power Generation Equipment	-	-	-	5.00%	-
7	360	Collection Services - Force	328,735	-	328,735	2.00%	6,575
8	361	Collection Services - Gravity	-	-	-	2.00%	-
9	362	Special Collecting Structures	-	-	-	2.00%	-
10	363	Services to Customers	73,179	-	73,179	2.00%	1,464
11	364	Flow Measuring Devices	12,958	-	12,958	10.00%	1,296
12	365	Flow Measuring Installations	-	-	-	10.00%	-
13	370	Receiving Wells	-	-	-	3.33%	-
14	371	Effluent Pumping Equipment	-	-	-	12.50%	-
15	380	Treatment and Disposal Equipment	1,115,491	-	1,115,491	5.00%	55,775
16	381	Plant Sewers	-	-	-	5.00%	-
17	382	Outfall Sewer Lines	-	-	-	3.33%	-
18	389	Other Plant & Misc. Equipment	-	-	-	6.67%	-
19	390	Office Furniture & Equipment	5,803	-	5,803	6.67%	387
20	391	Transportation Equipment	-	-	-	20.00%	-
21	393	Tools, Shop & Garage Equipment	4,676	-	4,676	5.00%	234
22	394	Labratory Equipment	630	-	630	10.00%	63
23	395	Power Operated Equipment	-	-	-	5.00%	-
24	396	Communication Equipment	-	-	-	10.00%	-
25	398	Other Tangible Plant	79,507	-	79,507	-	-
26			-	-	-	-	-
		Total Plant in Service	$ 1,805,530	$ (30,909)	$ 1,774,621		$ 69,397

Composite Depreciation Rate (Depr Exp / Depreciable Plant):		3.91%
Gross CIAC:	$	978,305
Amortization of CIAC (Line 28 x Line 29):	$	38,257
Depreciation Expense Before Amortization of CIAC:	$	69,397
Less Amortization of CIAC:	$	38,257
Test Year Depreciation Expense - Staff:	$	31,140
Depreciation Expense - Company:		22,039
Staff's Total Adjustment:	**$**	**9,101**

Exhibit 2

Revised Capital Structure

Verde Santa Fe Wastewater Company Cost of Capital Calculation
Capital Structure
And Weighted Average Cost of Capital

Restated as per Administrative Law Judge Request

[A]	[B]	[C]	[D]
Description	Weight (%)	Cost	Weighted Cost
Debt	33.8%	5.0%	1.7%
Common Equity	66.2%	9.6%	6.4%
Weighted Average Cost of Capital			8.1%

	Surrebuttal	Difference	Hearing
Required Operating Income	$40,448	$7,349	$47,797
Expenses	$468,607	($10,561)	$458,046
Property & Income Taxes	$8,146	($887)	$7,259
		($4,099)	
Revenue Requirement	$517,202	($4,099)	$513,103

EXHIBIT
S-6A
ADMITTED

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-03437A-13-0292
Test Year Ended December 31, 2012

Hearing Surrebuttal Schedule CSB-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY FAIR VALUE	(B) STAFF FAIR VALUE
1	Adjusted Rate Base	$ 421,336	$ 590,086
2	Adjusted Operating Income (Loss)	$ (3,950)	$ 21,505
3	Current Rate of Return (L2 / L1)	-0.94%	3.64%
4	Required Rate of Return	11.00%	8.10%
5	Required Operating Income (L4 * L1)	$ 46,347	$ 47,797
6	Operating Income Deficiency (L5 - L2)	$ 50,297	$ 26,292
7	Gross Revenue Conversion Factor	1.2966	1.2761
8	Required Revenue Increase (L7 * L6)	$ 65,213	$ 33,552
9	Adjusted Test Year Revenue	$ 479,551	$ 479,551
10	Proposed Annual Revenue (L8 + L9)	$ 544,764	$ 513,103
11	Required Increase in Revenue (%)	13.60%	7.00%

Verde Santa Fe Wastewater Company, Inc.
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Hearing Surrebuttal Schedule CSB-2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	Calculation of Gross Revenue Conversion Factor:				
1	Revenue	100.0000%			
2	Uncollecible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	21.6362%			
5	Subtotal (L3 - L4)	78.3638%			
6	**Revenue Conversion Factor (L1 / L5)**	1.276099			
	Calculation of Uncollecttible Factor:				
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 23)	20.5250%			
9	One Minus Combined Income Tax Rate (L7 - L8)	79.4750%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
	Calculation of Effective Tax Rate:				
12	Operating Income Before Taxes	100.0000%			
13	Arizona State Income Tax Rate	6.5000%			
14	Federal Taxable Income (L12 - L13)	93.5000%			
15	Applicable Federal Income Tax Rate (Line 55)	15.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	14.0250%			
17	Combined Federal and State Income Tax Rate (L13 +L16)		20.5250%		
	Calculation of Effective Property Tax Factor				
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	20.5250%			
20	One Minus Combined Income Tax Rate (L18-L19)	79.4750%			
21	Property Tax Factor	1.3981%			
22	Effective Property Tax Factor (L20*L21)		1.1112%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			21.6362%	
24	Required Operating Income (Schedule CSB-1, Line 5)	$ 47,797			
25	AdjustedTest Year Operating Income (Loss)	21,505			
26	Required Increase in Operating Income (L24 - L25)		$ 26,292		
27	Income Taxes on Recommended Revenue (Col. [E], L52)	$ 9,753			
28	Income Taxes on Test Year Revenue (Col. [B], L52)	2,963			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		6,790		
30	Recommended Revenue Requirement (Schedule CSB-1)	$ 513,103			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncolllectible Expense on Recommended Revenue (L30*L31)	$ -			
33	Adjusted Test Year Uncollectible Expense	$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)		-		
35	Property Tax with Recommended Revenue	$ 20,583			
36	Property Tax on Test Year Revenue	20,114			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		469		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		$ 33,552		

		Test Year		Staff Recommended
	Calculation of Income Tax:			
39	Revenue	$ 479,551	$ 33,552	$ 513,103
40	Operating Expenses Excluding Income Taxes	$ 455,083	$ 469	$ 455,552
41	Synchronized Interest (L56)	$ 10,031		$ 10,031
42	Arizona Taxable Income (L39 - L40 - L41)	$ 14,436		$ 47,519
43	Arizona State Income Tax Rate	6.5000%		6.5000%
44	Arizona Income Tax (L42 x L43)	$ 938		$ 3,089
45	Federal Taxable Income (L42 - L44)	$ 13,498		$ 44,430
46	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ 2,025		$ 6,664
47	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	$ -		$ -
48	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ -		$ -
49	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ -		$ -
50	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ -		$ -
51	Total Federal Income Tax	$ 2,025		$ 6,664
52	Combined Federal and State Income Tax (L44 + L51)	$ 2,963		$ 9,753
53	Applicable Federal Income Tax Rate [Col. [E], L51 - Col. [B], L51] / [Col. [E], L45 - Col. [B], L45]			15.0000%
	Calculation of Interest Synchronization:			
54	Rate Base	$ 590,086		
55	Weighted Average Cost of Debt	1.7000%		
56	Synchronized Interest (L45 X L46)	$ 10,031		

Verde Santa Fe Wastewater Company, Inc.
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Hearing Surrebuttal Schedule CSB-3

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	Adj. No.	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 1,555,530	$ 250,000		$ 1,805,530
2	Less: Accumulated Depreciation	658,177	81,250		739,427
3	Net Plant in Service	$ 897,353	$ 168,750		$ 1,066,103
	LESS:				
4	Contributions in Aid of Construction (CIAC)	$ 978,305	$ -		$ 978,305
5	Less: Accumulated Amortization	502,287	-		$ 502,287
6	Net CIAC	476,018	-		$ 476,018
7	Advances in Aid of Construction (AIAC)	-	-		-
8	Customer Deposits	-	-		-
9	Deferred Income Tax Credits	-	-		-
	ADD:				
9	Deferred Regulatory Assets	-	-		-
10	Cash Working Capital	-	-		-
11	Prepayments	-	-		-
12	**Original Cost Rate Base**	$ 421,336	$ 168,750		$ 590,086

References:
Column (A), Company Schedule B-1
Column (B): Schedule CSB-4

Verde Santa Fe Wastewater Company, Inc.
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Test Year Ended December 31, 2012

Hearing Surrebuttal Schedule CSB-4

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.		[A]	[B]	[H]	[C]
PLANT IN SERVICE:			COMPANY	Treatment &	Accumulated	STAFF
1		DESCRIPTION	AS FILED	Disposal Plant	Depreciation	ADJUSTED
2	351	Organization	$ 30,909	$ -	$ -	$ 30,909
3	352	Franchises	-	-	-	-
4	353	Land and Land Rights	45,400	-	-	45,400
5	354	Structures and Improvements	108,242	-	-	108,242
6	355	Power Generation Equipment	-	-	-	-
7	360	Collection Services - Force	328,735	-	-	328,735
8	361	Collection Services - Gravity	-	-	-	-
9	362	Special Collecting Structures	-	-	-	-
10	363	Services to Customers	73,179	-	-	73,179
11	364	Flow Measuring Devices	12,958	-	-	12,958
12	365	Flow Measuring Installations	-	-	-	-
13	370	Receiving Wells	-	-	-	-
14	371	Effluent Pumping Equipment	-	-	-	-
15	380	Treatment and Disposal Equipment	865,491	250,000	-	1,115,491
16	381	Plant Sewers	-	-	-	-
17	382	Outfall Sewer Lines	-	-	-	-
18	389	Other Plant & Misc. Equipment	-	-	-	-
19	390	Office Furniture & Equipment	5,803	-	-	5,803
20	391	Transportation Equipment	-	-	-	-
21	393	Tools, Shop & Garage Equipment	4,676	-	-	4,676
22	394	Labratory Equipment	630	-	-	630
23	395	Power Operated Equipment	-	-	-	-
24	396	Communication Equipment	-	-	-	-
25	398	Other Tangible Plant	79,507	-	-	79,507
26			-	-	-	-
27						
28		Total Plant in Service	$ 1,555,530	$ 250,000	$ -	$ 1,805,530
29		Less: Accumulated Depreciation	658,177	-	81,250	739,427
30			-	-	-	-
31		Net Plant in Service (L59 - L 60)	$ 897,353	$ 250,000	$ (81,250)	$ 1,066,103
32						
33		*LESS:*				
34		Contributions in Aid of Construction (CIAC)	$ 978,305	$ -	$ -	$ 978,305
35		Less: Accumulated Amortization	502,287	-	-	502,287
36		Net CIAC (L25 - L26)	476,018	-	-	476,018
37		Advances in Aid of Construction (AIAC)	-	-	-	-
38		Customer Deposits	-	-	-	-
39		Deferred Income Taxes	-	-	-	-
40			-	-		-
41						
42		*ADD:*				
43		Deferred Reg Asset	-	-		-
44		Cash Working Capital	-	-	-	-
45		Prepayments	-	-	-	-
46		**Original Cost Rate Base**	$ 421,336	$ 250,000	$ (81,250)	$ 590,086

Calculation of Accumulated Depreciation

$	250,000	
x	0.05	Acct No. 380 Depr Rate
$	12,500	
	6.5	Yrs (See Note 1)
$	81,250	

Note 1: The $250,000 equipment lease was in its 7th year at the end of the test year. Staff calculated depreciation expense using the half-year convention.

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Hearing Surrebuttal Schedule CSB-5

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	Adj. No.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	*REVENUES:*						
2	Flat Rate Revenues	$ 462,400	$ -		$ 462,400	$ 33,552	$ 495,952
3	Unmetered Revenues	7,527	-		7,527	-	7,527
4	Other Wastewater Revenues	9,624	-		9,624	-	9,624
6	**Total Operating Revenues**	$ 479,551	$ -		$ 479,551	$ 33,552	$ 513,103
7							
8	*OPERATING EXPENSES:*						
9	Salaries and Wages	$ 31,683	$ (18,529)	1	$ 13,154	$ -	$ 13,154
10	Purchased Wastewater Trmnt	-	-		-	-	-
11	Sludge Removal Expense	21,328	12,079	2	33,407	-	33,407
12	Purchased Power	36,970	-		36,970	-	36,970
13	Fuel for Power Production	-	-		-	-	-
14	Chemicals	13,584	-		13,584	-	13,584
15	Materials & Supplies	5,772	-		5,772	-	5,772
16	Contractural Services, Accounting	-	-		-	-	-
17	Contractural Services, Professional	5,130	-		5,130	-	5,130
18	Contractural Services, Maintenance	-	-		-	-	-
19	Contractural Services - Other	227,098	-		227,098	-	227,098
20	Water Testing	9,784	-		9,784	-	9,784
21	Rents	31,055	(31,055)	3	-	-	-
22	Transportation Expenses	4,103	-		4,103	-	4,103
23	Insurance - General Liability	5,108	-		5,108	-	5,108
24	Insurance - Health and Life	-	-		-	-	-
25	Reg Comm Expense - Other	2,355	-		2,355	-	2,355
26	Reg Comm Expense - Rate Case	25,000	-		25,000	-	25,000
27	Miscellaneous Expense	22,364	-		22,364	-	22,364
28	Bad Debt Expense	-	-		-	-	-
29	Depreciation and Amortization Expense	22,039	9,101	6	31,140	-	31,140
30	Taxes other than Income	-	-		-	-	-
31	Property Taxes	21,173	(1,059)	4	20,114	469	20,583
32	Income Taxes	(1,045)	4,008	5	2,963	6,790	9,753
33	Rounding	-	-		-	-	-
34	**Total Operating Expenses**	$ 483,501	$ (25,455)		$ 458,046	$ 7,259	$ 465,306
35	**Operating Income (Loss)**	$ (3,950)	$ 25,455		$ 21,505	$ 26,292	$ 47,797

References:
Column (A): Company Schedule C-1
Column (B): Schedule MEM-13
Column (C): Column (A) + Column (B)
Column (D): Schedules MEM-1 and MEM-2
Column (E): Column (C) + Column (D)

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-03437A-13-0292
Test Year Ended December 31, 2012

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Salaries and Wages, Directors ADJ #1 Ref: Sch CSB-7	[C] Sludge Removal Expense ADJ #2 Ref: Sch CSB-8	[D] Rents Expense Verde Santa Fe Expansion ADJ #3 Ref: Sch CSB-9	[E] Property Tax Expense ADJ #4 Ref: Sch CSB-10	[F] Income Tax Expense ADJ #5 Ref: Sch CSB-11	[G] Depreciation Expense ADJ #6 Ref: Sch CSB-12	[H] STAFF ADJUSTED
1	*REVENUES:*								
2	Flat Rate Revenues	$ 462,400	$ -	$ -	$ -	$ -	$ -	$ -	$ 462,400
3	Unmetered Revenues	7,527	-	-	-	-	-	-	7,527
4	Other Wastewater Revenues	9,624	-	-	-	-	-	-	9,624
5	**Total Operating Revenues**	$ 479,551	$ -	$ -	$ -	$ -	$ -	$ -	$ 479,551
6									
7	*OPERATING EXPENSES:*								
8	Salaries and Wages	$ 31,683	$ (18,529)	$ -	$ -	$ -	$ -	$ -	$ 13,154
9	Purchased Wastewater Trmnt	-	-	-	-	-	-	-	-
10	Sludge Removal Expense	21,328	-	12,079	-	-	-	-	33,407
11	Purchased Power	36,970	-	-	-	-	-	-	36,970
12	Fuel for Power Production	-	-	-	-	-	-	-	-
13	Chemicals	13,584	-	-	-	-	-	-	13,584
14	Materials & Supplies	5,772	-	-	-	-	-	-	5,772
15	Contractural Services, Accounting	-	-	-	-	-	-	-	-
16	Contractural Services, Professional	5,130	-	-	-	-	-	-	5,130
17	Contractural Services, Maintenance	-	-	-	-	-	-	-	-
18	Contractural Services - Other	227,098	-	-	-	-	-	-	227,098
19	Water Testing	9,784	-	-	-	-	-	-	9,784
20	Rents	31,055	-	-	(31,055)	-	-	-	-
21	Transportation Expenses	4,103	-	-	-	-	-	-	4,103
22	Insurance - General Liability	5,108	-	-	-	-	-	-	5,108
23	Insurance - Health and Life	-	-	-	-	-	-	-	-
24	Reg Comm Expense - Other	2,355	-	-	-	-	-	-	2,355
25	Reg Comm Expense - Rate Case	25,000	-	-	-	-	-	-	25,000
26	Miscellaneous Expense	22,364	-	-	-	-	-	-	22,364
27	Bad Debt Expense	-	-	-	-	-	-	-	-
28	Depreciation and Amortization Expense	22,039	-	-	-	-	-	9,101	31,140
29	Taxes other than Income	-	-	-	-	-	-	-	-
30	Property Taxes	21,173	-	-	-	(1,059)	-	-	20,114
31	Income Taxes	(1,045)	-	-	-	-	4,008	-	2,963
32		-	-	-	-	-	-	-	-
33	**Total Operating Expenses**	$ 483,501	$ (18,529)	$ 12,079	$ (31,055)	$ (1,059)	$ 4,008	$ 9,101	$ 448,945
34	**Operating Income (Loss)**	$ (3,950)	$ 18,529	$ (12,079)	$ 31,055	$ 1,059	$ (4,008)	$ (9,101)	$ 30,606

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-03437A-13-0292
Test Year Ended December 31, 201

Hearing Surrebuttal Schedule CSB-7

OPERATING INCOME ADJUSTMENT NO. 1 - SALARIES & WAGES, DIRECTORS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Salaries & Wages, Directors	$ 31,683	$ (18,529)	$ 13,154
2				
3				
4				
5				
6				

7	[D]	[E]		[F]		[G]	
8 9 10	Employee	Total Hours Worked per Month for All Directors		Number of Months Each Director Works		Total Annual Hours Worked for Each Director	
11	Director 1	8	x	12	=	96	
12	Director 2	8	x	12	=	96	
13	Director 3	8	x	12	=	96	
14		24		36		$ 288	
15				Multiplied by		$ 46	From Line 20
16		**Salaries & Wages, Directors - Per Staff**				**$ 13,154**	
17							
18				Director Salary		$ 95,000	
19				Divided by Annual Work Hours		2,080	
20				Hourly Rate		$ 45.67	

References:

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

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-03437A-13-0292
Test Year Ended December 31, 2012

Hearing Surrebuttal Schedule CSB-8

OPERATING INCOME ADJUSTMENT NO. 2 - SLUDGE REMOVAL EXPENSE

LINE NO.		[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Sludge Removal Expense	$ 21,328	$ 12,079	$ 33,407

References:

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

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-03437A-13-0292
Test Year Ended December 31, 2012

Hearing Surrebuttal Schedule CSB-9

OPERATING INCOME ADJUSTMENT NO. 3 - RENTS EXPENSE, VERDE SANTA FE EXPANSION

LINE NO.		[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Rents Expense, Verde Santa Fe Expansion	$ 31,055	$ (31,055)	$ -

References:

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

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-03437A-13-0292
Test Year Ended December 31, 2012

Hearing Surrebuttal Schedule CSB-10

OPERATING INCOME ADJUSTMENT No. 4 - Property Tax Expense

LINE NO.	Property Tax Calculation	STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	$ 479,551	$ 479,551
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	959,102	$ 959,102
4	Staff Recommended Revenue, Per Schedule CSB-1	479,551	$ 513,103
5	Subtotal (Line 4 + Line 5)	1,438,653	1,472,205
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	479,551	$ 490,735
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	959,102	$ 981,470
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	959,102	$ 981,470
13	Assessment Ratio	19.0%	19.0%
14	Assessment Value (Line 12 * Line 13)	182,229	$ 186,479
15	Composite Property Tax Rate (Per Company Schedule C-2)	11.0379%	11.0379%
			$ -
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	$ 20,114	
17	Company Proposed Property Tax	21,173	
18	Staff Test Year Adjustment (Line 16-Line 17)	$ (1,059)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		$ 20,583
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		$ 20,114
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		$ 469
22	Increase to Property Tax Expense		$ 469
23	Increase in Revenue Requirement		33,552
24	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		1.398134%

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-02519A-06-0015
Test Year Ended October 31, 2005

Hearing Surrebuttal Schedule CSB-11

OPERATING INCOME ADJUSTMENT NO. 5 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION		Test Year
	Calculation of Income Tax:		
1	Revenue (Schedule CSB-11)	$	479,551
2	Operating Expenses Excluding Income Taxes	$	455,083
3	Synchronized Interest (L17)	$	10,031
4	Arizona Taxable Income (L1 - L2 - L3)	$	14,436
5	Arizona State Income Tax Rate		6.5000%
6	Arizona Income Tax (L4 x L5)	$	938
7	Federal Taxable Income (L4 - L6)	$	13,498
8	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$	2,025
9	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	$	-
10	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$	-
11	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$	-
12	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$	-
13	Total Federal Income Tax	$	2,025
14	Combined Federal and State Income Tax (L44 + L51)	$	2,963
	Calculation of Interest Synchronization:		
15	Rate Base (Schedule CSB-13, Col. (C), Line 16)	$	590,086
16	Weighted Average Cost of Debt		1.70%
17	Synchronized Interest (L16 x L17)	$	10,031
18	Income Tax - Per Staff	$	2,963
19	Income Tax - Per Company	$	(1,045)
20	**Staff Adjustment**	**$**	**4,008**

Verde Santa Fe Wastewater Company, Inc.
Docket No. SW-03437A-13-0292
Test Year Ended December 31, 2012

Hearing Surrebuttal Schedule CSB-12

Operating Income Adjustment No. 6 - Depreciation Expense

LINE NO.	ACCT. NO.	DESCRIPTION	[A] Plant In Service Per Staff	[B] NonDepreciable & Fully Depreciated Plant	[C] Depreciable Plant (Col A - Col B)	[D] Depreciation Rate	[E] Depreciation Expense (Col C x Col D)
PLANT IN SERVICE:							
1							
2	351	Organization	$ 30,909	$ (30,909)	$ -	0.00%	$ -
3	352	Franchises	-	-	-	0.00%	-
4	353	Land and Land Rights	45,400	-	45,400	0.00%	-
5	354	Structures and Improvements	108,242	-	108,242	3.33%	3,604
6	355	Power Generation Equipment	-	-	-	5.00%	-
7	360	Collection Services - Force	328,735	-	328,735	2.00%	6,575
8	361	Collection Services - Gravity	-	-	-	2.00%	-
9	362	Special Collecting Structures	-	-	-	2.00%	-
10	363	Services to Customers	73,179	-	73,179	2.00%	1,464
11	364	Flow Measuring Devices	12,958	-	12,958	10.00%	1,296
12	365	Flow Measuring Installations	-	-	-	10.00%	-
13	370	Receiving Wells	-	-	-	3.33%	-
14	371	Effluent Pumping Equipment	-	-	-	12.50%	-
15	380	Treatment and Disposal Equipment	1,115,491	-	1,115,491	5.00%	55,775
16	381	Plant Sewers	-	-	-	5.00%	-
17	382	Outfall Sewer Lines	-	-	-	3.33%	-
18	389	Other Plant & Misc. Equipment	-	-	-	6.67%	-
19	390	Office Furniture & Equipment	5,803	-	5,803	6.67%	387
20	391	Transportation Equipment	-	-	-	20.00%	-
21	393	Tools, Shop & Garage Equipment	4,676	-	4,676	5.00%	234
22	394	Labratory Equipment	630	-	630	10.00%	63
23	395	Power Operated Equipment	-	-	-	5.00%	-
24	396	Communication Equipment	-	-	-	10.00%	-
25	398	Other Tangible Plant	79,507	-	79,507	-	-
26			-	-	-	-	-
		Total Plant in Service	$ 1,805,530	$ (30,909)	$ 1,774,621		$ 69,397

Composite Depreciation Rate (Depr Exp / Depreciable Plant):	3.91%
Gross CIAC:	$ 978,305
Amortization of CIAC (Line 28 x Line 29):	$ 38,257
Depreciation Expense Before Amortization of CIAC:	$ 69,397
Less Amortization of CIAC:	$ 38,257
Test Year Depreciation Expense - Staff:	$ 31,140
Depreciation Expense - Company:	22,039
Staff's Total Adjustment:	**$ 9,101**

08C

COMPLIANCE MEMORANDUM

EXHIBIT
S-7
ADMITTED

TO: Docket Control Center

FROM: Patrick C. Williams
Manager, Compliance and Enforcement
Utilities Division

Arizona Corporation Commission
DOCKETED
MAY 02 2000
DOCKETED BY

DATE: May 02, 2000

UTILITY: Verde Santa Fe Wastewater Company, Inc.

DOCKET NO. SW-03437A-97-0498 **DECISION NO.** 60779

This Memorandum to the Docket will certify that compliance, as described below, has been met for the utility referenced above.

COMPLIANCE:

File for a rate review within 36 months from the date upon which it commences operations.

DUE DATE: 5/1/00 ✓ **COMPLIED** **COMPLIANCE DATE:** 5/1/00

COMPLIANCE:

File with the Director of the Utilities Division notification of the date upon which it first provides wastewater service.

DUE DATE: ✓ **COMPLIED** **COMPLIANCE DATE:** 5/5/98

cc: Verde Santa Fe Wastewater Company, Inc.
11593 South Fortuna Road
Yuma, AZ 85367