



0000155742

BEFORE THE ARIZONA CORPORATION COMMISSION

- 1
- 2 BOB STUMP
CHAIRMAN
- 3 GARY PIERCE
COMMISSIONER
- 4 BRENDA BURNS
COMMISSIONER
- 5 BOB BURNS
COMMISSIONER
- 6 SUSAN BITTER SMITH
COMMISSIONER

2014 SEP -4 P 3:15

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

ORIGINAL

7
8 IN THE MATTER OF THE APPLICATION OF
9 UTILITY SOURCE, LLC, AN ARIZONA
10 CORPORATION, FOR A DETERMINATION
11 OF THE FAIR VALUE OF ITS UTILITY
12 PLANTS AND PROPERTY AND FOR
13 INCREASES IN ITS WATER AND
14 WASTEWATER RATES AND CHARGES
15 FOR UTILITY SERVICE BASED THEREON.

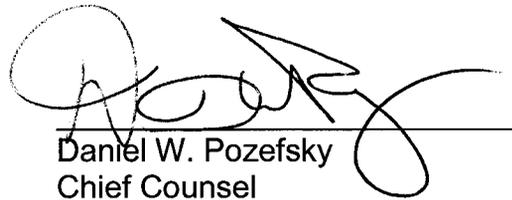
Docket No. WS-04235A-13-0331

NOTICE OF FILING

16
17 The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the
18 Direct Testimony of Robert Mease and Jeffrey Michlik, in the above-referenced matter.

19 RESPECTFULLY SUBMITTED this 4th day of September, 2014.

20
21
22
23
24



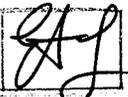
Daniel W. Pozefsky
Chief Counsel

20 AN ORIGINAL AND THIRTEEN COPIES
21 of the foregoing filed this 4th day
22 of September, 2014 with:

22 Docket Control
23 Arizona Corporation Commission
24 1200 West Washington
Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED

SEP 4 2014

DOCKETED BY 

1 COPIES of the foregoing hand delivered/
2 mailed this 4th day of September, 2014 to:

3 Sarah Harpring
4 Administrative Law Judge
5 Hearing Division
6 Arizona Corporation Commission
7 1200 West Washington
8 Phoenix, Arizona 85007

9 Wes Van Cleve
10 Matthew Laudone
11 Legal Division
12 Arizona Corporation Commission
13 1200 West Washington
14 Phoenix, Arizona 85007

15 Steven M. Olea, Director
16 Utilities Division
17 Arizona Corporation Commission
18 1200 West Washington
19 Phoenix, Arizona 85007

20 Steve Wene
21 Moyes Sellers & Hendricks Ltd.
22 1850 N. Central Ave., Suite 1100
23 Phoenix, Arizona 85004
24 Attorneys for Utility Source, LLC

25 Terry Fallon
26 4561 Bellemont Springs Dr.
27 Bellemont, Arizona 86015

28 Erik Nielsen
29 4680 N. Alpine Dr.
30 P.O. Box 16020
31 Bellemont, Arizona 86015

32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50

By Cheryl Fraulob
Cheryl Fraulob

UTILITY SOURCE, LLC
DOCKET NO. WS-04235A-13-0331

DIRECT TESTIMONY
OF
ROBERT B. MEASE
ON
COST OF CAPITAL

ON BEHALF OF
THE
RESIDENTIAL UTILITY CONSUMER OFFICE

SEPTEMBER 4, 2014

TABLE OF CONTENTS

1

2

3 **EXECUTIVE SUMMARY ii**

4

5 **INTRODUCTION 1**

6

7 **SUMMARY OF TESTIMONY AND RECOMMENDATIONS 2**

8

9 **GENERAL ECONOMIC CONDITIONS 4**

10

11 **PROXY GROUP SELECTED 7**

12

13 **COST OF EQUITY CAPITAL ANALYSIS 8**

14

15 **DCF ANALYSIS 8**

16

17 **CAPM ANALYSIS 11**

18

19 **COMPARABLE EARNINGS ANALYSIS (“CE”) 14**

20

21

22

23

24

1 **INTRODUCTION**

2 **Q. Please state your name, position, employer and address.**

3 **A.** My name is Robert Mease and I'm Chief of Accounting and Rates for the Residential
4 Utility Consumer Office. ("RUCO") My business address is 1110 W. Washington Street,
5 Suite 220, Phoenix, AZ.

6
7 **Q. Please state your educational background and qualifications in the utility
8 regulation field.**

9 **A.** Attachment 1, which is attached to this testimony, describes my educational
10 background, work experience and regulatory matters in which I have participated. In
11 summary, I joined RUCO in October of 2011. I graduated from Morris Harvey College in
12 Charleston, WV and attended Kanawha Valley School of Graduate Studies. I am a
13 Certified Public Accountant and currently licensed in the state of West Virginia. I also
14 have the professional designation, Certified Rate of Return Analyst ("CRRRA") issued by
15 the Society of Utility Regulatory Financial Analysts. The CRRRA designation is awarded
16 based on experience and the successful completion of a written examination. My years
17 of work experience include serving as Vice President and Controller of Energy West,
18 Inc. a public utility and Energy Company located in Great Falls, Montana. While with
19 Energy West I had responsibility for all utility filings and participated in several rate case
20 filings on behalf of the utility. As Energy West was a publicly traded company listed on
21 the NASDAQ Exchange I also had responsibility for all filings with the Securities and
22 Exchange Commission.

23
24

1 **Q. Please state the purpose of your testimony.**

2 A. The purpose of my testimony is to present RUCO's recommendations for the
3 establishment of a fair value rate of return. The Company has chosen to use its
4 original cost rate base as its fair value rate base for the purpose of establishing a
5 fair value rate of return on its invested capital.

6
7 **Q. Will RUCO also provide direct testimony on the rate base, operating income
8 and rate design issues in this proceeding?**

9 A. Yes. RUCO witness Jeffrey M. Michlik will address the rate base and operating
10 income issues associated with the case. Mr. Michlik will also file testimony on
11 RUCO's rate design.

12
13 **SUMMARY OF TESTIMONY AND RECOMMENDATIONS**

14 **Q. Briefly summarize how your cost of capital testimony is organized.**

15 A. My cost of capital testimony is organized into several different sections. First, the
16 introduction I have just presented and second, a summary of my testimony and
17 recommendations that I am proposing. In the third section I will provide a brief
18 overview of the current economic climate within which the Company operates and in
19 the fourth section, I will present the findings of my cost of equity capital analysis. I
20 have prepared both a discounted cash flow ("DCF") model and the capital asset
21 pricing model ("CAPM"). These are the two methods that RUCO and ACC Staff
22 have consistently used for calculating the cost of equity capital in rate case
23 proceedings in the past, and are the methodologies that the ACC has given the
24 most weight to in setting allowed rates of return for utilities that operate in the

1 Arizona jurisdiction. In addition, I prepared a Comparable Earnings analysis and
2 included in my final determination of my final cost of capital.

3
4 **Q. Please summarize the recommendations and adjustments that you will**
5 **address in your testimony.**

6 A. Based on the results of my analysis, I am making the following recommendations:

7 **Weighted Average Cost of Capital** – I am recommending that the Commission
8 adopt a 9.25 percent cost of capital. The 9.25 percent that I am recommending is
9 the average of the DCF model and the CAPM model that I have prepared. In
10 addition, I also included a Comparable Earnings analysis in my determination of
11 cost of capital. RUCO's proposed cost of capital compares to the 11 percent rate of
12 return that the Company has proposed.

13
14 **Q. In looking at the average of the three components that you used in you**
15 **calculations it appears that the recommended weighted average cost of**
16 **capital is approximately 40 basis points higher than the average calculated.**
17 **Can you explain the difference?**

18 A. Yes. When reviewing the input data, particularly the comparable earnings review, I
19 saw that the proxy company's returns were significantly higher than the DCF and
20 the CAPM reviews. The highest returns for the proxy company's ranged from 10
21 percent to a low of 9 percent. Based on the returns of my selected proxy
22 company's it was decided that at a minimum the recommended weighted average
23 cost of capital should approximate the returns of the company's used in my
24

1 analysis. Consequently, the minor increase in my final proposed weighted average
2 cost of capital.

3
4 **Q. Isn't your recommended weighted average cost of capital the same as what**
5 **RUCO is proposing as its cost of common equity?**

6 A. Yes. The Company has no long term or short-term debt, nor does the Company
7 have any preferred stock. In other words, the Company's capital structure is the
8 same as common equity in this case.

9
10 **GENERAL ECONOMIC CONDITIONS**

11 **Q. Can you please explain the importance between the general economic and**
12 **financial conditions as compared to the determination of the cost of capital**
13 **for a public utility?**

14 A. Yes. The cost of capital, in this case the cost of equity, is determined in part by the
15 current and future economic and financial conditions. The level of economic activity;
16 the stage of the business cycle; the trend in interest rates, and the level of inflation
17 all play an important factor in determining the cost of capital. While there are other
18 factors involved these are the most important and at any point in time each can
19 have an influence on the cost of capital.

20
21 **Q. Can you describe the recent trends in economic conditions and their impact**
22 **on capital costs over the past thirty years?**

23 A. Yes. Since the early 1980's through the end of 2007 the United States economy
24 had been relatively stable. This period had been characterized by longer economic

1 expansions, small contractions, low and/or declining inflation, and declining interest
2 rates and other capital costs. This decline was described as the worst financial
3 crisis since the Great Depression and has been referred to as the "Great
4 Recession." Since 2008, the U.S. and other governments have implemented
5 unprecedented actions to attempt to correct or minimize the scope and effects of
6 this worldwide recession.

7
8 The recession bottomed out in mid-2009 and the economy began to slowly expand
9 again, initially at a slow rate but has escalated at a much quicker rate in recent
10 months. This is evidenced by the unemployment rate declining from 7.0 percent at
11 the end of 2013 to 6.2 percent at the end of July, 2014.

12
13 **Q. Can you please describe the economic and financial conditions, both past**
14 **and today and their impact on the cost of capital?**

15 **A. Schedule 3 pages 1 and 2** identifies relevant economic data such as Gross
16 Domestic Product ("GDP"), Industrial Production Growth, Unemployment,
17 Consumer Price Index ("CPI") and Producer Price Index. These schedules also
18 show that 2007 was the sixth year of economic expansion and the economy entered
19 into a significant decline as indicated in the GDP negative expansion for year 2008
20 and the increase in unemployment rates. Since 2010, when the economy began to
21 rebound, economic growth has been lower than the initial period of prior
22 expansions.

1 Since 2008, the CPI has been 3 percent or lower, with 2012 being only 1.7 percent.
2 It is readily apparent that the rate of inflation has generally been declining over the
3 past several business cycles. Current levels of inflation are at the lowest levels over
4 the past 35 years and are indicative of lower capital costs.

5
6 **Q. What have been the trends in interest rates over the four prior business
7 cycles and at the current time?**

8 **A. Schedule 3 pages 3 and 4** shows that interest rates rose sharply to record levels in
9 1975-1981 when the inflation rate was high and generally rising. Interest rates
10 declined substantially as did inflation rates during the remainder of the 1980s and
11 throughout the 1990s. Interest rates declined even further from 2000-2005 and for
12 the years 2009 through 2013, interest rates have been the lowest since prior to
13 1975.

14
15 Since 2008, the Federal Reserve has lowered the Federal Funds rate and as seen
16 on page 4 of Schedule 3, in 2012 both U.S. and corporate bond yields declined to
17 their lowest levels in more than 35 years. Interest rates have risen from those lows
18 since the beginning of 2013. Even with the recent increases, both government and
19 corporate lending rates remain at historically low levels, again reflective of lower
20 capital costs.

21
22 **Q. What does this schedule show for trends of common share prices?**

23 **A. Schedule 2 pages 5 and 6** show that stock prices were essentially stagnant during
24 the high inflation/high interest rate environment of the late 1970s and early 1980s.

1 Beginning in 1983 a significant upward trend in stock prices began. However, the
2 beginning of the recent financial crisis saw stock prices decline significantly and
3 stock prices in 2008 and early 2009 were down significantly from peak 2007 levels,
4 reflecting the financial/economic crisis. Beginning in the second quarter of 2009,
5 prices have recovered substantially and have ultimately reached and exceeded the
6 levels achieved prior to the beginning of the "crash" and the DOW Jones industrial
7 average has reached all-time highs.

8
9 **Q. What conclusions do you draw from your discussion of economic and**
10 **financial conditions?**

11 A. I believe that the most recent downturn in the economy has resulted in a decline in
12 the investor expectation of returns. This is evident in several ways: 1) lower
13 interest rates on bank deposits; 2) lower interest rates on U.S. Treasury and
14 corporate bonds; and, 3) lower increases in Social Security cost of living benefits.
15 Finally, as noted above, utility bond interest rates are currently at levels below those
16 prevailing prior to the financial crisis of late 2008 to early 2009 and are near the
17 lowest levels in the past 35 years.

18
19 **PROXY GROUP SELECTED**

20 **Q. How have you estimated the cost of equity for Utility Sources, LLC?**

21 A. The Company is not a publicly-traded company. However, in cost of capital
22 analyses, it is customary to analyze groups of comparison, or "proxy," companies
23 as a substitute for Utility Source to determine its cost of equity. I have selected
24 seven companies for comparison to Utility Source. This proxy group is selected

1 from the group of nine water utilities included in Value Line Investment Survey. This
2 basically is the same proxy group used by Utility Sources Cost of Capital expert
3 witness Mr. Thomas Bourassa, with the exception of one additional company that I
4 have included in my analysis.

5
6 **COST OF EQUITY CAPITAL ANALYSIS**

7 **Q. How did you calculated the cost of equity in performing your analysis?**

8 **A.** I utilized two separate models in my calculations. First, I prepared the DCF model
9 and computed the cost of equity capital and then calculated the cost of equity using
10 the CAPM.

11
12 **DCF ANALYSIS**

13 **Q. What is the theory and methodological basis of the DCF model?**

14 **A.** Basically the DCF model is based on the "dividend discount model" of financial
15 theory, which maintains that the value (price) of any security or commodity is the
16 discounted present value of all future cash flows. The most common variant of the
17 DCF model assumes that dividends are expected to grow at a constant rate and the
18 following formula would will generate the cost of capital.

19
20
$$K = \frac{D}{P} + g$$

21 where: P = current price
22 D = current dividend rate
23 K = discount rate (cost of capital)
24 g = constant rate of expected growth

1 This formula essentially recognizes that the return expected, or required, by
2 investors is comprised of two factors: the dividend yield (current income) and
3 expected growth in dividends (future income).

4
5 **Q. Please explain how you calculated the cost of equity capital using the DCF**
6 **model.**

7 A. I use the constant growth DCF model. In doing so, I combine the current dividend
8 yield for each group of proxy utility stocks described in the previous section with
9 several indicators of expected dividend growth.

10
11 **Q. How did you calculate the dividend yield component of the DCF equation?**

12 A. While there are several methods that can be used to calculate dividend yield I
13 believe the most appropriate dividend yield component is a quarterly compounding
14 variant expressed as follows:

$$Yield = \frac{D_0(1 + 0.5g)}{P_0}$$

15
16
17 This dividend yield component recognizes the timing of dividend payments and
18 dividend increases.

19
20 The P_0 in my yield calculation is the average of the high and low stock price for
21 each proxy company for the most recent three month period (September-November
22 2013). The D_0 is the current annualized dividend rate for each proxy company.

1 **Q. How do you estimate the dividend growth component of the DCF equation?**

2 A. The DCF model's dividend growth rate component is usually the most crucial and
3 controversial element involved in using this methodology. A critical assumption in
4 this analysis is that investors do not always have the same investment objective. A
5 wide array of indicators exists for estimating investors' growth expectations. As a
6 result, it is evident that investors do not always use one single indicator of growth. It
7 therefore, is necessary to consider alternative dividend growth indicators in deriving
8 the growth component of the DCF model. I have considered four indicators of
9 growth in my DCF analyses. These are:

- 10
- 11 1. Years 2009-2013 (5-year average) earnings retention, or fundamental
12 growth;
 - 13 2. Five-year average of historic growth in earnings per share (EPS),
14 dividends per share (DPS), and book value per share (BVPS);
 - 15 3. Years 2014, 2015 and 2017-2019 projections of earnings retention
16 growth (per Value Line);
 - 17 4. Years 2011-2013 to 2017-2019 projections of EPS, DPS, and BVPS
18 (per Value Line).

19

20 This combination of growth indicators is a representative and appropriate set with
21 which to begin the process of estimating investor expectations of dividend growth
22 for the groups of proxy companies. In addition, these growth indicators reflect the
23 types of information that investors would normally consider in making their
24 investment decisions.

1 **Q. What do you conclude from your DCF analyses?**

2 A. The DCF rates resulting from the analysis of the proxy group falls into a wide range
3 between 7.4 percent and 8.7 percent. The highest DCF rates are 8.7 percent. I
4 calculated the average cost of equity of 8.3 percent for Utility Sources and have
5 included in my overall analysis.

6

7 **CAPM ANALYSIS**

8 **Q. Can you please describe the CAPM and the benefits of preparing this**
9 **analysis?**

10 A. The CAPM describes the relationship between a security's investment risk and its
11 market rate of return. This relationship identifies the rate of return which investors
12 expect a security to earn so that its market return is comparable with the market
13 returns earned by other securities that have similar risk. The relationship is
14 specified by the Security Market Line (SLM) that indicates the relationship between
15 each security or portfolio's "beta" and its resulting return. Beta is an indicator of
16 investment risk. It is a measure of the expected amount of change in a security's
17 variability of return relative to the return variability of the overall capital market. The
18 general form of the CAPM is:

19
$$K = R_f + \beta (R_m - R_f)$$

20 Where: R_f = risk free rate

21 R_m = return on market

22 β = beta

23 $R_m - R_f$ = market risk premium

24

1 **Q. Can you please identify the strengths of using the CAPM model in your**
2 **analysis?**

3 A. The CAPM is cited as having the following strengths (1) it is based on the concept
4 of risk and return; (2) it is company specific as it relates to the specific beta's within
5 the industry; (3) it has widespread use as it recognizes that investors can and do
6 diversify; (4) it's highly structured and easy to apply when using the assumptions of
7 the model; (5) the model is formulistic and the data used in the computations is
8 readily available; (6) it is a forward looking concept; and (7) it is a method for
9 converting changes in interest rates to the cost of equity.

10
11 **Q. What do you use for the risk-free rate?**

12 A. In CAPM applications, the risk-free rate is generally recognized by use of U.S.
13 Treasury securities. Two general types of U.S. Treasury securities are most often
14 used as the risk free (R_f) component, short-term U.S. Treasury bills and long-term
15 I performed CAPM calculations using the three-month average yield (September-
16 November 2013) for 20-year U.S. Treasury bonds. I use the yields on long-term
17 Treasury bonds since this matches the long-term perspective of the cost of equity
18 analyses. Over this three-month period, these bonds had an average yield of 3.47
19 percent.

20
21 **Q. What betas do you employ in your CAPM?**

22 A. Once again, beta is a measure of the relative volatility, or risk, of a particular stock
23 in relation to the overall market. Betas less than 1 are considered less risky than
24 the market, whereas betas greater than 1 are more risky. Utility stocks traditionally

1 have had betas below 1. The most recent Value Line betas have been used in my
2 analysis for each company in my proxy group.

3
4 **Q. How do you estimate the market risk premium component?**

5 A. The market risk premium component ($R_m - R_f$) represents the investor-expected
6 premium of common stocks over the risk-free rate, or government bonds. For the
7 purpose of estimating the market risk premium, I considered alternative measures
8 of returns of the S&P 500 (a broad-based group of large U.S. companies) and 20-
9 year U.S. Treasury bonds.

10
11 First, I compared the actual annual returns on equity of the S&P 500 with the actual
12 annual yields of U.S. Treasury bonds. Schedule 6 shows the return on equity for
13 the S&P 500 group for the period 1978-2012 (all available years reported by S&P).
14 This schedule also indicates the annual yields on 20-year U.S. Treasury bonds and
15 the annual differentials (*i.e.* risk premiums) between the S&P 500 and U.S. Treasury
16 20-year bonds. Based upon these returns, I conclude that the risk premium from
17 this analysis is 6.6 percent.

18
19 I next considered the total returns (*i.e.* dividends/interest plus capital gains/losses)
20 for the S&P 500 group as well as for long-term government bonds, as tabulated by
21 Morningstar (formerly Ibbotson Associates), using both arithmetic and geometric
22 means. I considered the total returns for the entire 1926-2012 period, which are as
23 follows:
24

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

	S&P 500	L-T Gov't Bonds	Risk Premium
Arithmetic	11.8%	6.1%	5.7%
Geometric	9.8%	5.7%	4.1%

I conclude from this analysis that the expected risk premium is about 5.47 percent (i.e. average of all three risk premiums: 6.6 percent from Schedule 6; 5.7 percent arithmetic and 4.1 percent geometric from Morningstar). I believe that a combination of arithmetic and geometric means is appropriate since investors have access to both types of means and presumably, both types are reflected in investment decisions and thus, stock prices and the cost of capital.

Q. What is your conclusion concerning the CAPM COE?

A. My calculations using the CAPM results in a 7.2 percent to 7.3 percent for the group of proxy utilities. I conclude that an appropriate cost of equity estimation for Utility Source is 7.25 percent using the CAPM analysis.

COMPARABLE EARNINGS ANALYSIS ("CE")

Q. Please describe the basis of the CE methodology.

A. The CE method is designed to measure the returns expected to be earned on the original cost book value of similar risk enterprises, in this case the proxy company's. Thus, it provides a direct measure of the fair return, since it translates into practice the competitive principle upon which regulation rests. While Utility Source is not a

1 public company as is the proxy group, it still provides additional support that the
2 company will be earning a fair rate of return.

3
4 **Q. What time periods do you examine in your CE analysis?**

5 A. My CE analysis considers the experienced equity returns of the proxy group of
6 utilities for the period 1992-2013 (*i.e.* the last twenty-two years). Longer periods of
7 time are required in order to determine trends in earnings over at least a full
8 business cycle.

9
10 **Q. What was the result of your calculation?**

11 A. When completing the CE review and calculating various averages of the proxy
12 group earnings since 1992, the CE average used in this case will be 9.8 percent.

13
14 **Q. Mr. Mease, does this conclude your testimony on cost of capital and rate of
15 return for Utility Source, LLC?**

16 A. Yes it does. However, as stated in my Executive Summary, additional adjustments
17 are possible based on Utility Source completing their responses to RUCO's data
18 requests.

19
20
21
22
23
24

ATTACHMENT 1

ATTACHMENT 1

ROBERT B. MEASE, CPA Education and Professional Qualifications

EDUCATION

Bachelors Degree Business Administration / Accounting - Morris Harvey College.

Attended West Virginia School of Graduate Studies and studied Accounting and Public Administration

Attended numerous courses and seminars for Continuing Professional Educational purposes.

WORK EXPERIENCE

Controller

Knives of Alaska, Inc., Diamond Blade, LLC, and Alaska Expedition Company.

Financial Manager / CFO

All Saints Camp & Conference Center

Energy West, Inc.

Vice President, Controller

- Led team that succeeded in obtaining a \$1.5 million annual utility rate increase
- Coached accountants for proper communication techniques with Public Service Commission, supervised 9 professional accountants
- Developed financial models used to negotiate an \$18 million credit line
- Responsible for monthly, quarterly and annual financial statements for internal and external purposes, SEC filings on a quarterly and annual basis, quarterly presentations to Board of Directors and shareholders during annual meetings, coordinated annual audit
- Communication with senior management team, supervised accounting staff and resolved all accounting issues, reviewed expenditures related to capital projects
- Monitored natural gas prices and worked with senior buyers to ensure optimal price obtained

Junkermier, Clark, Campanella, Stevens

Consulting Staff

- Established a consulting practice that generated approximately \$160k the first year of existence
- Prepared business plan and projections for inclusion in clients financing documents
- Prepared written reports related to consulting engagements performed
- Developed models used in financing documents and made available for other personnel to use
- Performed Profit Enhancement engagements
- Participated during audit of large manufacturing client for two reporting years

Prior to 1999, held various positions: TMC Sales, Inc. as **Vice President / Controller**, with American Agri-Technology Corporation as **Vice President / CFO** and with Union Carbide Corporation as **Accounting Manager**. (**Union Carbide was a multi-national Fortune 500 Company that was purchased by Dow Chemical**)

PROFESSIONAL AFFILIATIONS

Member - Institute of Management Accountants

Member - American Institute of CPA's

Member – Society of Utility and Regulatory Financial Analysts

Past Member –WV Society of CPA's and Montana Society of CPA's

RESUME OF RATE CASE AND REGULATORY PARTICIPATION WITH RUCO

<u>Utility Company</u>	<u>Docket No.</u>
Arizona Water Company (Eastern Group)	W-01445A-11-0310
Pima Utility Company	W-02199A-11-0329 et al.
Tucson Electric Power Company	E-01933A-12-0291
Arizona Water Company (Northern Group)	W-01445A-12-0348
UNS Electric	E-04204A-12-0504
Global Water	W-01212A-12-0309 et al.
LPSCO	SW-01428A-13-0042 et al.
Johnson Utilities	WS-02987A-13-0477
APS	E-01345A-11-0224

ATTACHMENT 2

AMER. STATES WATER NYSE-AWR				RECENT PRICE	32.29	P/E RATIO	20.2 (Trailing: 21.0 Median: 21.0)	RELATIVE P/E RATIO	1.07	DIV'D YLD	2.7%	VALUE LINE																																																																																																																																																																																																																	
TIMELINESS 3 Lowered 5/16/14	High: 14.5	13.4	17.3	21.9	23.1	21.0	19.4	19.8	18.2	24.1	33.1	34.0																																																																																																																																																																																																																	
SAFETY 2 Raised 7/20/12	Low: 10.8	10.4	12.2	15.1	16.8	13.5	14.9	15.6	15.3	17.0	24.0	27.0																																																																																																																																																																																																																	
TECHNICAL 2 Lowered 7/11/14	LEGENDS — 1.25 x Dividends p sh divided by Interest Rate ... Relative Price Strength 3-for-2 split 6/02 2-for-1 split 9/13 Options: Yes Shaded area indicates recession																																																																																																																																																																																																																												
BETA .70 (1.00 = Market)	2017-19 PROJECTIONS Price Gain Ann'l Total High 45 (+40%) 11% Low 35 (+10%) 5%																																																																																																																																																																																																																												
Insider Decisions	<table border="1"> <tr><th>Month</th><th>A</th><th>S</th><th>O</th><th>N</th><th>D</th><th>J</th><th>F</th><th>M</th><th>A</th></tr> <tr><td>to Buy</td><td>0</td><td>1</td><td>0</td><td>0</td><td>0</td><td>0</td><td>0</td><td>0</td><td>0</td><td>0</td><td>0</td><td>0</td></tr> <tr><td>Options</td><td>0</td><td>0</td><td>0</td><td>1</td><td>0</td><td>0</td><td>0</td><td>0</td><td>1</td><td>0</td><td>0</td><td>0</td></tr> <tr><td>to Sell</td><td>0</td><td>0</td><td>0</td><td>2</td><td>0</td><td>0</td><td>0</td><td>1</td><td>0</td><td>0</td><td>0</td><td>0</td></tr> </table>												Month	A	S	O	N	D	J	F	M	A	to Buy	0	1	0	0	0	0	0	0	0	0	0	0	Options	0	0	0	1	0	0	0	0	1	0	0	0	to Sell	0	0	0	2	0	0	0	1	0	0	0	0																																																																																																																																																																
Month	A	S	O	N	D	J	F	M	A																																																																																																																																																																																																																				
to Buy	0	1	0	0	0	0	0	0	0	0	0	0																																																																																																																																																																																																																	
Options	0	0	0	1	0	0	0	0	1	0	0	0																																																																																																																																																																																																																	
to Sell	0	0	0	2	0	0	0	1	0	0	0	0																																																																																																																																																																																																																	
Institutional Decisions	<table border="1"> <tr><th>3Q2013</th><th>4Q2013</th><th>1Q2014</th></tr> <tr><td>to Buy</td><td>72</td><td>79</td><td>79</td></tr> <tr><td>to Sell</td><td>90</td><td>72</td><td>72</td></tr> <tr><td>Hld's(000)</td><td>23953</td><td>23188</td><td>23233</td></tr> </table>												3Q2013	4Q2013	1Q2014	to Buy	72	79	79	to Sell	90	72	72	Hld's(000)	23953	23188	23233																																																																																																																																																																																																		
3Q2013	4Q2013	1Q2014																																																																																																																																																																																																																											
to Buy	72	79	79																																																																																																																																																																																																																										
to Sell	90	72	72																																																																																																																																																																																																																										
Hld's(000)	23953	23188	23233																																																																																																																																																																																																																										
<table border="1"> <tr><th>Year</th><th>1998</th><th>1999</th><th>2000</th><th>2001</th><th>2002</th><th>2003</th><th>2004</th><th>2005</th><th>2006</th><th>2007</th><th>2008</th><th>2009</th><th>2010</th><th>2011</th><th>2012</th><th>2013</th><th>2014</th><th>2015</th></tr> <tr><td>Revenues per sh</td><td>5.51</td><td>6.45</td><td>6.08</td><td>6.53</td><td>6.89</td><td>6.99</td><td>6.81</td><td>7.03</td><td>7.88</td><td>8.75</td><td>9.21</td><td>9.74</td><td>10.71</td><td>11.12</td><td>12.12</td><td>12.19</td><td>12.50</td><td>13.35</td></tr> <tr><td>"Cash Flow" per sh</td><td>1.02</td><td>1.13</td><td>1.10</td><td>1.26</td><td>1.27</td><td>1.04</td><td>1.11</td><td>1.32</td><td>1.45</td><td>1.65</td><td>1.69</td><td>1.70</td><td>2.11</td><td>2.13</td><td>2.48</td><td>2.65</td><td>2.75</td><td>2.80</td></tr> <tr><td>Earnings per sh</td><td>.54</td><td>.60</td><td>.64</td><td>.67</td><td>.67</td><td>.39</td><td>.53</td><td>.66</td><td>.67</td><td>.81</td><td>.78</td><td>.81</td><td>1.11</td><td>1.12</td><td>1.41</td><td>1.61</td><td>1.60</td><td>1.65</td></tr> <tr><td>Div'd Decl'd per sh</td><td>.42</td><td>.43</td><td>.43</td><td>.43</td><td>.44</td><td>.44</td><td>.44</td><td>.45</td><td>.46</td><td>.48</td><td>.50</td><td>.51</td><td>.52</td><td>.55</td><td>.64</td><td>.76</td><td>.84</td><td>.92</td></tr> <tr><td>Cap'l Spending per sh</td><td>1.56</td><td>2.15</td><td>1.51</td><td>1.59</td><td>1.34</td><td>1.88</td><td>2.51</td><td>2.12</td><td>1.95</td><td>1.45</td><td>2.23</td><td>2.09</td><td>2.12</td><td>2.13</td><td>1.77</td><td>2.52</td><td>2.30</td><td>2.25</td></tr> <tr><td>Book Value per sh</td><td>5.74</td><td>5.91</td><td>6.37</td><td>6.61</td><td>7.02</td><td>6.98</td><td>7.51</td><td>7.86</td><td>8.32</td><td>8.77</td><td>8.97</td><td>9.70</td><td>10.13</td><td>10.84</td><td>11.80</td><td>12.72</td><td>12.90</td><td>13.35</td></tr> <tr><td>Common Shs Outst'g</td><td>26.87</td><td>26.87</td><td>30.24</td><td>30.24</td><td>30.36</td><td>30.42</td><td>33.50</td><td>33.60</td><td>34.10</td><td>34.46</td><td>34.60</td><td>37.06</td><td>37.26</td><td>37.70</td><td>38.53</td><td>38.72</td><td>38.00</td><td>37.50</td></tr> <tr><td>Avg Ann'l P/E Ratio</td><td>15.5</td><td>17.1</td><td>15.9</td><td>16.7</td><td>18.3</td><td>31.9</td><td>23.2</td><td>21.9</td><td>27.7</td><td>24.0</td><td>22.6</td><td>21.2</td><td>15.7</td><td>15.4</td><td>14.3</td><td>17.2</td><td>17.2</td><td>17.2</td></tr> <tr><td>Relative P/E Ratio</td><td>.81</td><td>.97</td><td>1.03</td><td>.86</td><td>1.00</td><td>1.82</td><td>1.23</td><td>1.17</td><td>1.50</td><td>1.27</td><td>1.36</td><td>1.41</td><td>1.00</td><td>.97</td><td>.91</td><td>.91</td><td>.97</td><td>.97</td></tr> <tr><td>Avg Ann'l Div'd Yield</td><td>5.0%</td><td>4.2%</td><td>4.2%</td><td>3.9%</td><td>3.6%</td><td>3.5%</td><td>3.6%</td><td>3.1%</td><td>2.5%</td><td>2.5%</td><td>2.9%</td><td>2.9%</td><td>3.0%</td><td>3.2%</td><td>3.1%</td><td>2.7%</td><td>2.7%</td><td>2.7%</td></tr> </table>													Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Revenues per sh	5.51	6.45	6.08	6.53	6.89	6.99	6.81	7.03	7.88	8.75	9.21	9.74	10.71	11.12	12.12	12.19	12.50	13.35	"Cash Flow" per sh	1.02	1.13	1.10	1.26	1.27	1.04	1.11	1.32	1.45	1.65	1.69	1.70	2.11	2.13	2.48	2.65	2.75	2.80	Earnings per sh	.54	.60	.64	.67	.67	.39	.53	.66	.67	.81	.78	.81	1.11	1.12	1.41	1.61	1.60	1.65	Div'd Decl'd per sh	.42	.43	.43	.43	.44	.44	.44	.45	.46	.48	.50	.51	.52	.55	.64	.76	.84	.92	Cap'l Spending per sh	1.56	2.15	1.51	1.59	1.34	1.88	2.51	2.12	1.95	1.45	2.23	2.09	2.12	2.13	1.77	2.52	2.30	2.25	Book Value per sh	5.74	5.91	6.37	6.61	7.02	6.98	7.51	7.86	8.32	8.77	8.97	9.70	10.13	10.84	11.80	12.72	12.90	13.35	Common Shs Outst'g	26.87	26.87	30.24	30.24	30.36	30.42	33.50	33.60	34.10	34.46	34.60	37.06	37.26	37.70	38.53	38.72	38.00	37.50	Avg Ann'l P/E Ratio	15.5	17.1	15.9	16.7	18.3	31.9	23.2	21.9	27.7	24.0	22.6	21.2	15.7	15.4	14.3	17.2	17.2	17.2	Relative P/E Ratio	.81	.97	1.03	.86	1.00	1.82	1.23	1.17	1.50	1.27	1.36	1.41	1.00	.97	.91	.91	.97	.97	Avg Ann'l Div'd Yield	5.0%	4.2%	4.2%	3.9%	3.6%	3.5%	3.6%	3.1%	2.5%	2.5%	2.9%	2.9%	3.0%	3.2%	3.1%	2.7%	2.7%	2.7%
Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015																																																																																																																																																																																																											
Revenues per sh	5.51	6.45	6.08	6.53	6.89	6.99	6.81	7.03	7.88	8.75	9.21	9.74	10.71	11.12	12.12	12.19	12.50	13.35																																																																																																																																																																																																											
"Cash Flow" per sh	1.02	1.13	1.10	1.26	1.27	1.04	1.11	1.32	1.45	1.65	1.69	1.70	2.11	2.13	2.48	2.65	2.75	2.80																																																																																																																																																																																																											
Earnings per sh	.54	.60	.64	.67	.67	.39	.53	.66	.67	.81	.78	.81	1.11	1.12	1.41	1.61	1.60	1.65																																																																																																																																																																																																											
Div'd Decl'd per sh	.42	.43	.43	.43	.44	.44	.44	.45	.46	.48	.50	.51	.52	.55	.64	.76	.84	.92																																																																																																																																																																																																											
Cap'l Spending per sh	1.56	2.15	1.51	1.59	1.34	1.88	2.51	2.12	1.95	1.45	2.23	2.09	2.12	2.13	1.77	2.52	2.30	2.25																																																																																																																																																																																																											
Book Value per sh	5.74	5.91	6.37	6.61	7.02	6.98	7.51	7.86	8.32	8.77	8.97	9.70	10.13	10.84	11.80	12.72	12.90	13.35																																																																																																																																																																																																											
Common Shs Outst'g	26.87	26.87	30.24	30.24	30.36	30.42	33.50	33.60	34.10	34.46	34.60	37.06	37.26	37.70	38.53	38.72	38.00	37.50																																																																																																																																																																																																											
Avg Ann'l P/E Ratio	15.5	17.1	15.9	16.7	18.3	31.9	23.2	21.9	27.7	24.0	22.6	21.2	15.7	15.4	14.3	17.2	17.2	17.2																																																																																																																																																																																																											
Relative P/E Ratio	.81	.97	1.03	.86	1.00	1.82	1.23	1.17	1.50	1.27	1.36	1.41	1.00	.97	.91	.91	.97	.97																																																																																																																																																																																																											
Avg Ann'l Div'd Yield	5.0%	4.2%	4.2%	3.9%	3.6%	3.5%	3.6%	3.1%	2.5%	2.5%	2.9%	2.9%	3.0%	3.2%	3.1%	2.7%	2.7%	2.7%																																																																																																																																																																																																											
CAPITAL STRUCTURE as of 3/31/14 Total Debt \$356.3 mill. Due in 5 Yrs \$7.6 mill. LT Debt \$326.0 mill. LT Interest \$21.0 mill. (LT interest earned: 5.7 x: total interest coverage: 5.4 x) (40% of Cap'l) Leases, Uncapitalized: Annual rentals \$2.2 mill. Pension Assets-12/13 \$127.5 mill. Oblig. \$152.7 mill. Pfd Stock None. Common Stock 38,778,608 shs. as of 5/5/14																																																																																																																																																																																																																													
MARKET CAP: \$1.3 billion (Mid Cap)																																																																																																																																																																																																																													
CURRENT POSITION																																																																																																																																																																																																																													
<table border="1"> <tr><th>Cal-endar</th><th>Mar.31</th><th>Jun.30</th><th>Sep.30</th><th>Dec.31</th><th>Full Year</th></tr> <tr><td>Cash Assets</td><td>23.5</td><td>38.2</td><td>74.9</td><td>160.5</td><td>153.4</td></tr> <tr><td>Other</td><td>184.0</td><td>191.6</td><td>213.2</td><td>406.6</td><td>49.8</td></tr> <tr><td>Current Assets</td><td>40.6</td><td>49.8</td><td>42.6</td><td>3.3</td><td>6.3</td></tr> <tr><td>Accts Payable</td><td>49.8</td><td>44.8</td><td>46.2</td><td>93.7</td><td>100.9</td></tr> <tr><td>Debt Due</td><td>488.8</td><td>531.0</td><td>533.0</td><td></td><td></td></tr> <tr><td>Other</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>Current Liab.</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>Fix. Chg. Gov.</td><td></td><td></td><td></td><td></td><td></td></tr> </table>													Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year	Cash Assets	23.5	38.2	74.9	160.5	153.4	Other	184.0	191.6	213.2	406.6	49.8	Current Assets	40.6	49.8	42.6	3.3	6.3	Accts Payable	49.8	44.8	46.2	93.7	100.9	Debt Due	488.8	531.0	533.0			Other						Current Liab.						Fix. Chg. Gov.																																																																																																																																																																
Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year																																																																																																																																																																																																																								
Cash Assets	23.5	38.2	74.9	160.5	153.4																																																																																																																																																																																																																								
Other	184.0	191.6	213.2	406.6	49.8																																																																																																																																																																																																																								
Current Assets	40.6	49.8	42.6	3.3	6.3																																																																																																																																																																																																																								
Accts Payable	49.8	44.8	46.2	93.7	100.9																																																																																																																																																																																																																								
Debt Due	488.8	531.0	533.0																																																																																																																																																																																																																										
Other																																																																																																																																																																																																																													
Current Liab.																																																																																																																																																																																																																													
Fix. Chg. Gov.																																																																																																																																																																																																																													
ANNUAL RATES																																																																																																																																																																																																																													
<table border="1"> <tr><th>Cal-endar</th><th>Mar.31</th><th>Jun.30</th><th>Sep.30</th><th>Dec.31</th><th>Full Year</th></tr> <tr><td>Revenues</td><td>94.3</td><td>109.8</td><td>119.9</td><td>95.3</td><td>419.3</td></tr> <tr><td>"Cash Flow"</td><td>107.6</td><td>114.3</td><td>133.5</td><td>111.5</td><td>466.9</td></tr> <tr><td>Earnings</td><td>110.6</td><td>120.7</td><td>130.9</td><td>109.9</td><td>472.1</td></tr> <tr><td>Dividends</td><td>101.9</td><td>125</td><td>133.1</td><td>115</td><td>475</td></tr> <tr><td>Book Value</td><td>120</td><td>130</td><td>135</td><td>115</td><td>500</td></tr> </table>													Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year	Revenues	94.3	109.8	119.9	95.3	419.3	"Cash Flow"	107.6	114.3	133.5	111.5	466.9	Earnings	110.6	120.7	130.9	109.9	472.1	Dividends	101.9	125	133.1	115	475	Book Value	120	130	135	115	500																																																																																																																																																																													
Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year																																																																																																																																																																																																																								
Revenues	94.3	109.8	119.9	95.3	419.3																																																																																																																																																																																																																								
"Cash Flow"	107.6	114.3	133.5	111.5	466.9																																																																																																																																																																																																																								
Earnings	110.6	120.7	130.9	109.9	472.1																																																																																																																																																																																																																								
Dividends	101.9	125	133.1	115	475																																																																																																																																																																																																																								
Book Value	120	130	135	115	500																																																																																																																																																																																																																								
QUARTERLY REVENUES (\$ mill.)																																																																																																																																																																																																																													
<table border="1"> <tr><th>Cal-endar</th><th>Mar.31</th><th>Jun.30</th><th>Sep.30</th><th>Dec.31</th><th>Full Year</th></tr> <tr><td>2011</td><td>.19</td><td>.34</td><td>.42</td><td>.17</td><td>1.12</td></tr> <tr><td>2012</td><td>.27</td><td>.40</td><td>.49</td><td>.26</td><td>1.41</td></tr> <tr><td>2013</td><td>.35</td><td>.43</td><td>.53</td><td>.30</td><td>1.61</td></tr> <tr><td>2014</td><td>.28</td><td>.42</td><td>.55</td><td>.30</td><td>1.60</td></tr> <tr><td>2015</td><td>.30</td><td>.45</td><td>.58</td><td>.32</td><td>1.65</td></tr> </table>													Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year	2011	.19	.34	.42	.17	1.12	2012	.27	.40	.49	.26	1.41	2013	.35	.43	.53	.30	1.61	2014	.28	.42	.55	.30	1.60	2015	.30	.45	.58	.32	1.65																																																																																																																																																																													
Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year																																																																																																																																																																																																																								
2011	.19	.34	.42	.17	1.12																																																																																																																																																																																																																								
2012	.27	.40	.49	.26	1.41																																																																																																																																																																																																																								
2013	.35	.43	.53	.30	1.61																																																																																																																																																																																																																								
2014	.28	.42	.55	.30	1.60																																																																																																																																																																																																																								
2015	.30	.45	.58	.32	1.65																																																																																																																																																																																																																								
EARNINGS PER SHARE																																																																																																																																																																																																																													
<table border="1"> <tr><th>Cal-endar</th><th>Mar.31</th><th>Jun.30</th><th>Sep.30</th><th>Dec.31</th><th>Full Year</th></tr> <tr><td>2011</td><td>.13</td><td>.13</td><td>.13</td><td>.13</td><td>.52</td></tr> <tr><td>2012</td><td>.13</td><td>.14</td><td>.14</td><td>.14</td><td>.55</td></tr> <tr><td>2013</td><td>.14</td><td>.14</td><td>.1775</td><td>.1775</td><td>.64</td></tr> <tr><td>2014</td><td>.1775</td><td>.1775</td><td>.2025</td><td>.2025</td><td>.76</td></tr> <tr><td>2015</td><td>.2025</td><td>.2025</td><td></td><td></td><td></td></tr> </table>													Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year	2011	.13	.13	.13	.13	.52	2012	.13	.14	.14	.14	.55	2013	.14	.14	.1775	.1775	.64	2014	.1775	.1775	.2025	.2025	.76	2015	.2025	.2025																																																																																																																																																																																
Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year																																																																																																																																																																																																																								
2011	.13	.13	.13	.13	.52																																																																																																																																																																																																																								
2012	.13	.14	.14	.14	.55																																																																																																																																																																																																																								
2013	.14	.14	.1775	.1775	.64																																																																																																																																																																																																																								
2014	.1775	.1775	.2025	.2025	.76																																																																																																																																																																																																																								
2015	.2025	.2025																																																																																																																																																																																																																											
QUARTERLY DIVIDENDS PAID																																																																																																																																																																																																																													
<table border="1"> <tr><th>Cal-endar</th><th>Mar.31</th><th>Jun.30</th><th>Sep.30</th><th>Dec.31</th><th>Full Year</th></tr> <tr><td>2010</td><td>.13</td><td>.13</td><td>.13</td><td>.13</td><td>.52</td></tr> <tr><td>2011</td><td>.13</td><td>.14</td><td>.14</td><td>.14</td><td>.55</td></tr> <tr><td>2012</td><td>.14</td><td>.14</td><td>.1775</td><td>.1775</td><td>.64</td></tr> <tr><td>2013</td><td>.1775</td><td>.1775</td><td>.2025</td><td>.2025</td><td>.76</td></tr> <tr><td>2014</td><td>.2025</td><td>.2025</td><td></td><td></td><td></td></tr> </table>													Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year	2010	.13	.13	.13	.13	.52	2011	.13	.14	.14	.14	.55	2012	.14	.14	.1775	.1775	.64	2013	.1775	.1775	.2025	.2025	.76	2014	.2025	.2025																																																																																																																																																																																
Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year																																																																																																																																																																																																																								
2010	.13	.13	.13	.13	.52																																																																																																																																																																																																																								
2011	.13	.14	.14	.14	.55																																																																																																																																																																																																																								
2012	.14	.14	.1775	.1775	.64																																																																																																																																																																																																																								
2013	.1775	.1775	.2025	.2025	.76																																																																																																																																																																																																																								
2014	.2025	.2025																																																																																																																																																																																																																											
BUSINESS: American States Water Co. operates as a holding company. Through its principal subsidiary, Golden State Water Company, it supplies water to more than 250,000 customers in 75 communities in 10 counties. Service areas include the greater metropolitan areas of Los Angeles and Orange Counties. The company also provides electric utility services to nearly 23,250 customers in the city of Big Bear Lake and in areas of San Bernardino County. Sold Chaparral City Water of Arizona (6/11). Has 728 employees. Officers & directors own 2.9% of common stock (4/12 Proxy). Chairman: Lloyd Ross, President & CEO: Robert J. Sprowls, Inc. CA. Addr: 630 East Foothill Boulevard, San Dimas, CA 91773. Tel: 909-394-3600. Internet: www.aswater.com.																																																																																																																																																																																																																													
Severe drought conditions in California should not have a material impact on American States Water's main subsidiary. State regulators have established mechanisms that allow Golden Gate Water Co. (GGWC) to pass through higher costs to consumers resulting from the drought. To date, conservation efforts have proved successful in lowering the demand for water and easing any rate shock over the higher monthly bills. GGWC will continue to pump and collect as much of its own water as possible because purchasing water (about 35% of total) on the California market is more expensive.																																																																																																																																																																																																																													
Share earnings will likely remain flat through 2015. GGWC is earning close to the maximum allowed by state regulators. Thus, we don't expect much growth in utility operations in the near term. Due to solid cash generation, however, annual dividend hikes should remain healthy.																																																																																																																																																																																																																													
Longer term, nonregulated activities are a major plus. American States Utility Services (ASUS) operates the water systems at nine U.S. Army bases. Currently, this segment accounts for 22% of net income. Over the next few years, we expect profits from this segment to increase as the government continues to privatize the water services at more bases. This also represents a relatively low-risk opportunity for the company to earn a greater return on equity than permitted by regulators.																																																																																																																																																																																																																													
American States has the strongest balance sheet in the industry. The equity-to-total capital ratio has recently been in the 60% neighborhood as the company has been retiring outstanding debt. As a result, American States is the sole company in the industry with an A Financial Strength rating. Moreover, a 1.25 million share-buyback program through mid-2016 was just announced.																																																																																																																																																																																																																													
These shares have been on a roll. Over the past month, the price has risen about 18%, versus 5% for the broader market averages. And, while this run-up has diminished some of the equity's luster over the 2017-2019 time frame, it still offers better total return potential than others in the water group because of its solid dividend growth prospects.																																																																																																																																																																																																																													
<i>James A. Flood</i> July 18, 2014																																																																																																																																																																																																																													

(A) Primary earnings. Excludes nonrecurring gains/(losses): '04, 7¢; '05, 13¢; '06, 3¢; '08, (14¢); '10, (23¢); '11, 10¢. Next earnings report due early August. Quarterly earnings may not add due to rounding. (B) Dividends historically paid in early March, June, September, and December. ■ Div'd reinvestment plan available. (C) In millions, adjusted for splits.

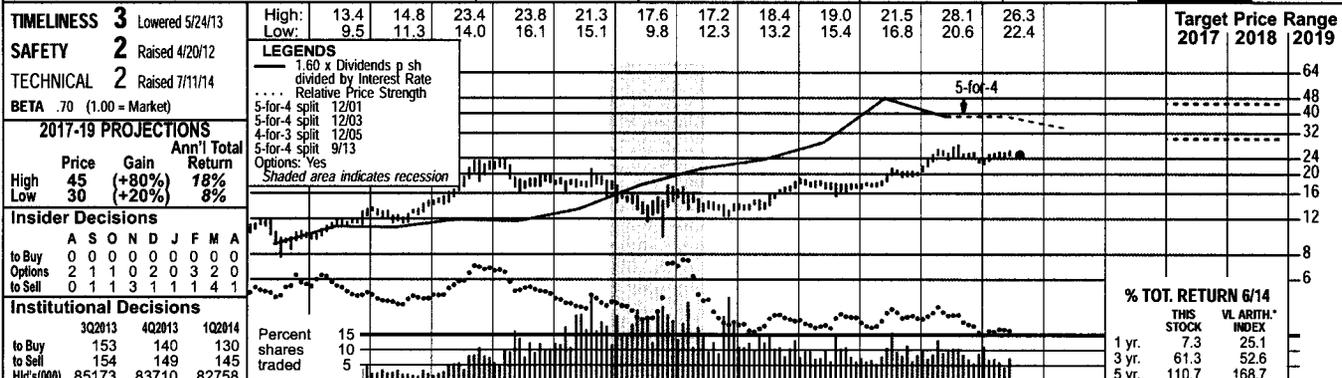
Company's Financial Strength	A
Stock's Price Stability	90
Price Growth Persistence	75
Earnings Predictability	90

To subscribe call 1-800-833-0046.

© 2014 Value Line Publishing LLC. All rights reserved. Factual material is obtained from sources believed to be reliable and is provided without warranties of any kind. THE PUBLISHER IS NOT RESPONSIBLE FOR ANY ERRORS OR OMISSIONS HEREIN. This publication is strictly for subscriber's own, non-commercial, internal use. No part of it may be reproduced, resold, stored or transmitted in any printed, electronic or other form, or used for generating or marketing any printed or electronic publication, service or product.

AQUA AMERICA NYSE-WTR

RECENT PRICE **25.01** P/E RATIO **20.8** (Trailing: 21.9 Median: 24.0) RELATIVE P/E RATIO **1.11** DIV'D YLD **2.6%** VALUE LINE



1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	© VALUE LINE P.B. LLC	17-19
1.67	1.93	1.97	2.16	2.28	2.38	2.78	3.08	3.23	3.61	3.71	3.93	4.21	4.10	4.32	4.32	4.60	4.90	Revenues per sh	5.60
.49	.58	.61	.69	.76	.77	.87	.97	1.01	1.10	1.14	1.29	1.42	1.45	1.51	1.82	1.95	2.00	"Cash Flow" per sh	2.90
.32	.33	.37	.41	.43	.46	.51	.57	.56	.57	.58	.62	.72	.83	.87	1.16	1.20	1.30	Earnings per sh ^A	1.55
.20	.22	.23	.24	.26	.28	.29	.32	.35	.38	.41	.44	.47	.50	.54	.58	.63	.69	Div'd Decl'd per sh ^B	.90
.65	.72	.93	.87	.96	1.06	1.23	1.47	1.64	1.43	1.58	1.66	1.89	1.90	1.98	1.73	1.90	1.95	Cap'l Spending per sh	1.95
2.57	2.74	3.08	3.32	3.49	4.27	4.71	5.04	5.57	5.85	6.26	6.50	6.81	7.21	7.90	8.63	8.85	9.05	Book Value per sh	11.00
90.25	133.50	139.78	142.47	141.49	154.31	158.97	161.21	165.41	166.75	169.21	170.61	172.46	173.60	175.43	177.93	174.00	171.00	Common Shs Outst'g ^C	170.00
22.5	21.2	18.2	23.6	23.6	24.5	25.1	31.8	34.7	32.0	24.9	23.1	21.1	21.3	21.9	21.2	21.2	21.2	Avg Ann'l P/E Ratio	24.0
1.17	1.21	1.18	1.21	1.29	1.40	1.33	1.69	1.87	1.70	1.50	1.54	1.34	1.34	1.39	1.19	1.19	1.19	Relative P/E Ratio	1.50
2.9%	3.0%	3.3%	2.5%	2.5%	2.5%	2.3%	1.8%	1.8%	2.1%	2.8%	3.1%	3.1%	2.8%	2.8%	2.4%	2.4%	2.4%	Avg Ann'l Div'd Yield	2.4%

CAPITAL STRUCTURE as of 3/31/14		2012	2013	3/31/14	2012	2013	3/31/14
Total Debt	\$1623.7 mill. Due in 5 Yrs \$324.6 mill.	442.0	496.8	533.5	602.5	627.0	670.5
LT Debt	\$1498.0 mill. LT Interest \$70.0 mill.	80.0	91.2	92.0	95.0	97.9	104.4
(Total interest coverage: 3.9x) (49% of Cap'l)		39.4%	38.4%	39.6%	38.9%	39.7%	39.4%

Pension Assets-12/13 \$232.4 mill.		2012	2013	3/31/14
Oblig. \$281.2 mill.		50.0%	52.0%	51.6%
Pfd Stock None		50.0%	48.0%	48.4%
Common Stock 177,060,756 shares as of 4/23/14		50.0%	48.0%	48.4%
MARKET CAP: \$4.4 billion (Mid Cap)		50.0%	48.0%	48.4%

CURRENT POSITION (\$MILL.)		2012	2013	3/31/14
Cash Assets		5.5	5.1	17.5
Receivables		92.9	95.4	89.9
Inventory (AvgCst)		11.8	11.4	11.8
Other		150.7	59.8	94.4
Current Assets		260.9	171.7	213.6
Accts Payable		55.5	65.8	31.5
Debt Due		125.4	123.0	125.7
Other		93.3	78.1	94.0
Current Liab.		274.2	266.9	251.2
Fix. Chg. Cov.		413%	388%	389%

BUSINESS: Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately three million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and five other states. Acquired AquaSource, 7/03; Consumers Water, 4/99; and others. Water supply revenues '13: residential, 60.3%; commercial, 15.8%; industrial & other, 23.9%. Officers and directors own .8% of the common stock; Vanguard Group, 6.6%; State Street Capital Corp., 6.3%; Blackrock, Inc, 6.1% (4/14 Proxy). Chairman & Chief Executive Officer: Nicholas DeBenedictis. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Telephone: 610-525-1400. Internet: www.aquaamerica.com.

ANNUAL RATES of change (per sh)		Past 10 Yrs.	Past 5 Yrs.	Est'd '11-'13
Revenues		6.5%	4.0%	4.5%
"Cash Flow"		8.0%	8.0%	10.0%
Earnings		8.5%	11.0%	8.5%
Dividends		7.5%	7.0%	9.0%
Book Value		8.0%	6.0%	5.5%

Cal-endar	QUARTERLY REVENUES (\$mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2011	163.6	178.3	197.3	172.7	712.0
2012	164.0	191.7	214.6	187.5	757.8
2013	180.0	195.7	204.3	188.6	768.6
2014	182.7	205	210	202.3	800
2015	195	210	220	210	835

Cal-endar	EARNINGS PER SHARE ^A				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2011	.18	.22	.24	.19	.83
2012	.15	.24	.29	.19	.87
2013	.26	.30	.36	.24	1.16
2014	.24	.30	.40	.26	1.20
2015	.27	.32	.40	.31	1.30

Cal-endar	QUARTERLY DIVIDENDS PAID ^B				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2010	.116	.116	.116	.124	.47
2011	.124	.124	.124	.132	.50
2012	.132	.132	.132	.14	.54
2013	.14	.14	.152	.152	.58
2014	.152	.152			

Aqua America is continuing to expand via acquisitions. A very high percentage of water systems in the U.S. is owned by small towns and cities. Aqua America has been benefiting from this environment by making deals with financially strapped government entities that do not have the wherewithal to upgrade their antiquated water systems. In May, the utility agreed to purchase Illinois-based North Maine Utilities for \$22 million and to invest an additional \$10 million into improving the system. Aqua made 15 acquisitions last year and is expected to match that figure in 2014.

A promising new market has stumbled of late. When a new oil or gas site is being drilled using the hydraulic fracturing method, five million gallons of water is required for each well. Aqua realized that drillers are willing to pay a premium to have a water company extend its pipelines into their oil fields. Aqua has installed new pipelines in the Marcellus Shale, as a result. Drilling activity has been less than expected, however, due to low natural gas prices. This has led to Aqua posting losses in this sector in the latest quarter. Over the long term, we remain very optimistic about this operation as Aqua has identified 575 wells yet to be tapped.

Capital outlays will remain large. The company expects to spend close to \$1 billion over the next three years, mostly to upgrade its existing facilities. Since Aqua's finances have improved significantly over the previous four years, the balance sheet should be able to take on more debt and still remain healthy.

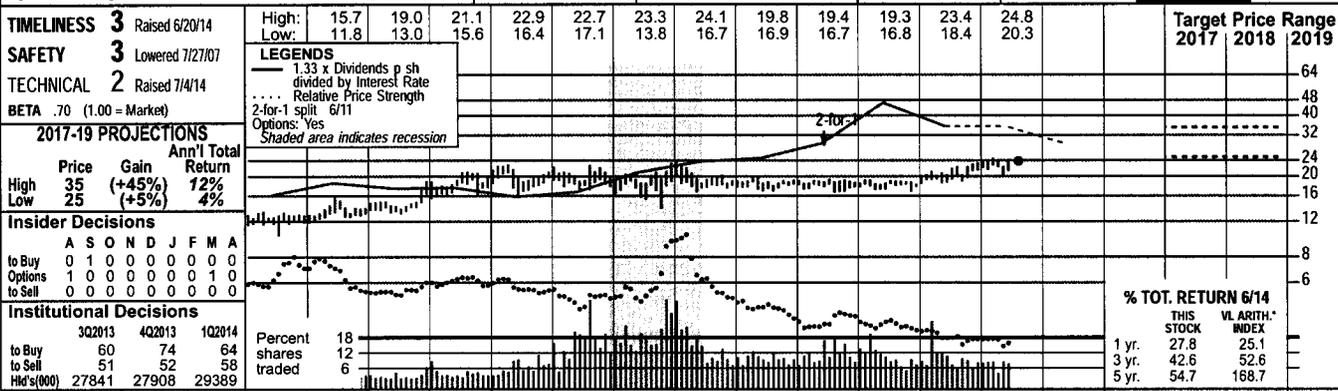
Dividend growth prospects are encouraging. Even with its large construction program, we think that Aqua will be able to maintain hikes in the annual payout in the 8% to 10% range over the long pull.

Aqua shares offer attractive total return potential over the next three-to-five-year period. Recently, the yield spread between high- and low-quality water utilities has been very compressed. This means that investors only have to sacrifice a minimum amount of current yield for the strong dividend growth prospects that this stock offers.

James A. Flood July 18, 2014

CALIFORNIA WATER NYSE-CWT

RECENT PRICE **23.82** P/E RATIO **23.8** (Trailing: 26.5 Median: 20.0) RELATIVE P/E RATIO **1.27** DIV'D YLD **2.8%** VALUE LINE



1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	© VALUE LINE PUB. LLC	17-19
7.38	7.98	8.08	8.13	8.67	8.18	8.59	8.72	8.10	8.88	9.90	10.82	11.05	12.00	13.34	12.23	12.60	13.25	Revenues per sh	16.50
1.30	1.37	1.26	1.10	1.32	1.26	1.42	1.52	1.36	1.56	1.86	1.93	1.93	2.07	2.32	2.21	2.20	2.40	"Cash Flow" per sh	3.00
.73	.77	.66	.47	.63	.61	.73	.74	.67	.75	.95	.98	.91	.86	1.02	1.02	1.00	1.20	Earnings per sh A	1.50
.54	.54	.55	.56	.56	.56	.57	.57	.58	.58	.59	.59	.60	.62	.63	.64	.65	.68	Div'd Decl'd per sh B	.94
1.37	1.72	1.23	2.04	2.91	2.19	1.87	2.01	2.14	1.84	2.41	2.66	2.97	2.83	3.04	2.58	2.65	3.35	Cap'l Spending per sh	3.20
6.69	6.71	6.45	6.48	6.56	7.22	7.83	7.90	9.07	9.25	9.72	10.13	10.45	10.76	11.28	12.54	12.90	13.30	Book Value per sh C	15.10
25.24	25.87	30.29	30.36	30.36	33.86	36.73	36.78	41.31	41.33	41.45	41.53	41.67	41.82	41.98	47.74	48.00	48.00	Common Shs Outst'g D	50.00
17.8	17.8	19.6	27.1	19.8	22.1	20.1	24.9	29.2	26.1	19.8	19.7	20.3	21.3	17.9	20.1	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	20.0
.93	1.01	1.27	1.39	1.08	1.26	1.06	1.33	1.58	1.39	1.19	1.31	1.29	1.34	1.14	1.13			Relative P/E Ratio	1.25
4.2%	4.0%	4.3%	4.4%	4.5%	4.2%	3.9%	3.1%	2.9%	3.0%	3.1%	3.1%	3.2%	3.4%	3.5%	3.1%			Avg Ann'l Div'd Yield	3.1%
CAPITAL STRUCTURE as of 3/31/14																			
Total Debt \$497.6 mill. Due in 5 Yrs \$89.3 mill.																			
LT Debt \$425.7 mill. LT Interest \$28.0 mill.																			
(LT interest earned: 3.4x; total int. cov.: 3.2x)																			
(42% of Cap'l)																			
Pension Assets-12/13 \$266.2 mill. Oblig. \$383.2 mill.																			
Pfd Stock None																			
Common Stock 47,803,849 shs. as of 4/27/14																			
MARKET CAP: \$1.1 billion (Mid Cap)																			
CURRENT POSITION (\$ MILL.)																			
Cash Assets 38.8 27.5 21.7																			
Other 107.8 112.0 108.4																			
Current Assets 146.6 139.5 130.1																			
Accts Payable 46.8 55.1 50.7																			
Debt Due 136.3 54.7 71.9																			
Other 59.7 56.8 69.6																			
Current Liab. 242.8 166.6 192.2																			
Fix. Chg. Cov. 296% 301% 299%																			
ANNUAL RATES																			
of change (per sh) 10 Yrs. Past 5 Yrs. Past Est'd '11-'13 to '17-'19																			
Revenues 4.0% 7.0% 4.5%																			
"Cash Flow" 6.0% 6.5% 5.5%																			
Earnings 5.5% 4.0% 7.5%																			
Dividends 1.0% 1.5% 7.0%																			
Book Value 5.5% 4.5% 4.5%																			
QUARTERLY REVENUES (\$ mill.)																			
Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year														
2011	98.1	131.4	169.3	103.0	501.8														
2012	116.8	143.6	178.1	121.5	560.0														
2013	111.4	154.6	184.4	133.7	584.1														
2014	110.5	155	195	144.5	605														
2015	125	160	200	150	635														
EARNINGS PER SHARE A																			
Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year														
2011	.03	.29	.50	.04	.86														
2012	.03	.31	.56	.12	1.02														
2013	.01	.28	.61	.12	1.02														
2014	d.11	.27	.66	.18	1.00														
2015	.05	.30	.67	.18	1.20														
QUARTERLY DIVIDENDS PAID B																			
Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year														
2010	.149	.149	.149	.149	.60														
2011	.154	.154	.154	.154	.62														
2012	.1575	.1575	.1575	.1575	.63														
2013	.16	.16	.16	.16	.64														
2014	.1625	.1625																	

BUSINESS: California Water Service Group provides regulated and nonregulated water service to roughly 471,900 customers in 83 communities in California, Washington, New Mexico, and Hawaii. Main service areas: San Francisco Bay area, Sacramento Valley, Salinas Valley, San Joaquin Valley & parts of Los Angeles. Acquired Rio Grande Corp; West Hawaii Utilities (9/08). Revenue

breakdown, '13: residential, 70%; business, 19%; public authorities, 5%; industrial, 5%; other 1%. '13 reported depreciation rate: 3.8%. Has 1,131 employees. President, Chairman, and Chief Executive Officer: Peter C. Nelson, Inc.: Delaware. Address: 1720 North First Street, San Jose, California 95112-4598. Telephone: 408-367-8200. Internet: www.calwatergroup.com.

State regulators still have not ruled on California Water's petition for higher rates. In early July 2012, the utility filed a rate case with the California Public Utility Commission (CPUC) seeking increases in customers' bills of \$92.7 million, \$17.2 million and \$16.9 million, in 2014, 2015, and 2016, respectively. Due to the size of the hikes, California Water worked with six different entities affected by the hikes, including the Office of Ratepayers Advocates. After lengthy negotiations, an agreement was reached with all parties involved in the discussions. According to the deal, annual rates would be raised by \$45 million, \$10 million, and \$10 million over the 2014-2016 period. An administrative law judge has also recently signed off on the settlement. **The utility's fate continues to be in hands of regulators.** Despite all of California Water's efforts, the CPUC has the final authority and is not bound by the recommendations mentioned above. Indeed, we are surprised by the delay in the final ruling. **Meanwhile, the first quarter was a major disappointment.** Without the full

rate relief, California Water lost \$0.11 a share in the March period. And, while the increased costs should eventually be recovered, the time frame appears to now be 12 to 24 months, instead of collected over the remainder of 2014. **We are slashing our earnings estimate for 2014.** Due to the CPUC's delay, we now expect the company's share earnings to only reach \$1.00, \$0.20 less than our previous number. We are also reducing our forecast for 2015 by \$0.10, to \$1.20. **Severe drought conditions in California should not have a near-term impact on the company.** That's because mechanisms are in place that permit any increased costs related to the water shortage to be passed along to customers. **California Water shares hold modest appeal at this juncture.** Investors might want to steer clear of this stock until the CPUC issues a final ruling. Moreover, the company's recent annual dividend increase of 1.6% was extremely unimpressive. For those insisting on owning a water utility, there are much better selections available in the group, in our opinion. *James A. Flood July 18, 2014*

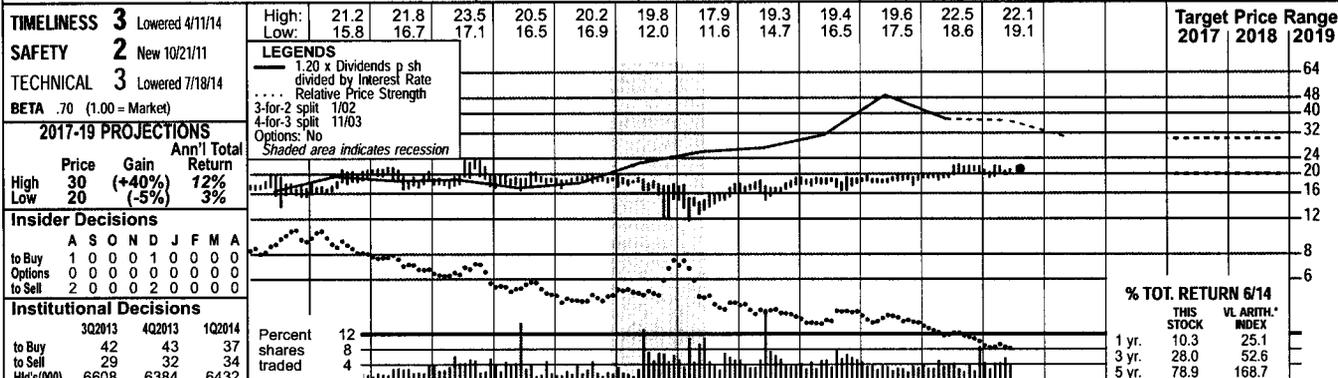
(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (4¢); '01, 2¢; '02, 4¢; '11, 4¢. Next earnings reports report due mid-August. (B) Dividends historically paid in late Feb., May, Aug., and Nov. (C) Div'd reinvestment plan available. (D) In millions, adjusted for splits. (E) Excludes non-reg. rev. Company's Financial Strength 8++ Stock's Price Stability 100 Price Growth Persistence 50 Earnings Predictability 90

© 2014 Value Line Publishing LLC. All rights reserved. Factual material is obtained from sources believed to be reliable and is provided without warranties of any kind. THE PUBLISHER IS NOT RESPONSIBLE FOR ANY ERRORS OR OMISSIONS HEREIN. This publication is strictly for subscriber's own, non-commercial, internal use. No part of it may be reproduced, resold, stored or transmitted in any printed, electronic or other form, or used for generating or marketing any printed or electronic publication, service or product.

To subscribe call 1-800-833-0046.

MIDDLESEX WATER NDQ-MSEX

RECENT PRICE **21.14** P/E RATIO **19.2** (Trailing: 20.5 Median: 21.0) RELATIVE P/E RATIO **1.02** DIV'D YLD **3.6%** VALUE LINE



Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Price	4.39	5.35	5.39	5.87	5.98	6.12	6.25	6.44	6.16	6.50	6.79	6.75	6.60	6.50	6.98	7.19	7.75	8.00
Gain	1.02	1.19	.99	1.18	1.20	1.15	1.28	1.33	1.33	1.49	1.53	1.40	1.55	1.46	1.56	1.72	1.80	1.85
Return	.71	.76	.51	.66	.73	.61	.73	.71	.82	.87	.89	.72	.96	.84	.90	1.03	1.10	1.15
Div'd	.58	.60	.61	.62	.63	.65	.66	.67	.68	.69	.70	.71	.72	.73	.74	.75	.76	.77
Cap'l Spndg	2.68	2.33	1.32	1.25	1.59	1.87	2.54	2.18	2.31	1.66	2.12	1.49	1.90	1.50	1.36	1.26	1.95	2.00
Book Value	6.80	6.95	6.98	7.11	7.39	7.60	8.02	8.26	9.52	10.05	10.03	10.33	11.13	11.27	11.48	11.82	12.10	12.60
Common Shs	9.82	10.00	10.11	10.17	10.36	10.48	11.36	11.58	13.17	13.25	13.40	13.52	15.57	15.70	15.82	15.96	16.10	16.25
Avg Ann'l P/E	15.2	17.6	28.7	24.6	23.5	30.0	26.4	27.4	22.7	21.6	19.8	21.0	17.8	21.7	20.8	19.7	19.7	19.7
Relative P/E	.79	1.00	1.87	1.26	1.28	1.71	1.39	1.46	1.23	1.15	1.19	1.40	1.13	1.36	1.32	1.11	1.11	1.11
Div'd Yield	5.4%	4.4%	4.2%	3.8%	3.7%	3.5%	3.4%	3.5%	3.7%	3.7%	4.0%	4.7%	4.2%	4.0%	4.0%	3.7%	3.7%	3.7%

Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues (\$mill)	71.0	74.6	81.1	86.1	91.0	91.2	102.7	102.1	110.4	114.8	125	130	155	155	155	155	155	155
Cash Flow (\$mill)	1.02	1.19	.99	1.18	1.20	1.15	1.28	1.33	1.33	1.49	1.53	1.40	1.55	1.46	1.56	1.72	1.80	1.85
Earnings (\$mill)	.71	.76	.51	.66	.73	.61	.73	.71	.82	.87	.89	.72	.96	.84	.90	1.03	1.10	1.15
Div'd (\$mill)	.58	.60	.61	.62	.63	.65	.66	.67	.68	.69	.70	.71	.72	.73	.74	.75	.76	.77
Cap'l Spndg (\$mill)	2.68	2.33	1.32	1.25	1.59	1.87	2.54	2.18	2.31	1.66	2.12	1.49	1.90	1.50	1.36	1.26	1.95	2.00
Book Value (\$mill)	6.80	6.95	6.98	7.11	7.39	7.60	8.02	8.26	9.52	10.05	10.03	10.33	11.13	11.27	11.48	11.82	12.10	12.60
Common Shs	9.82	10.00	10.11	10.17	10.36	10.48	11.36	11.58	13.17	13.25	13.40	13.52	15.57	15.70	15.82	15.96	16.10	16.25
Avg Ann'l P/E	15.2	17.6	28.7	24.6	23.5	30.0	26.4	27.4	22.7	21.6	19.8	21.0	17.8	21.7	20.8	19.7	19.7	19.7
Relative P/E	.79	1.00	1.87	1.26	1.28	1.71	1.39	1.46	1.23	1.15	1.19	1.40	1.13	1.36	1.32	1.11	1.11	1.11
Div'd Yield	5.4%	4.4%	4.2%	3.8%	3.7%	3.5%	3.4%	3.5%	3.7%	3.7%	4.0%	4.7%	4.2%	4.0%	4.0%	3.7%	3.7%	3.7%

CAPITAL STRUCTURE as of 3/31/14
 Total Debt \$161.9 mill. Due in 5 Yrs \$56.4 mill.
 LT Debt \$129.0 mill. LT Interest \$5.0 mill.
 (LT interest earned: 6.0x)

Pension Assets-12/13 \$46.4 mill.
 Oblig. \$56.0 mill.

Pfd Stock \$2.9 mill. Pfd Div'd: \$1 mill.

Common Stock 15,986,792 shs.
 as of 4/30/14

MARKET CAP: \$350 million (Small Cap)

Year	2011	2012	2013	3/31/14
Cash Assets	3.0	4.8	5.9	5.9
Other	21.6	21.0	19.9	19.9
Current Assets	24.6	25.8	25.7	25.7
Accts Payable	3.8	6.3	5.6	5.6
Debt Due	11.1	33.8	32.9	32.9
Other	41.1	12.6	14.0	14.0
Current Liab.	56.0	52.7	52.5	52.5
Fix. Chg. Cov.	554%	697%	695%	695%

Year	2011	2012	2013	2014	2015
Revenues	1.5%	1.0%	5.0%	5.0%	5.0%
"Cash Flow"	3.0%	1.5%	7.0%	7.0%	7.0%
Earnings	3.5%	1.5%	4.5%	4.5%	4.5%
Dividends	1.5%	1.5%	2.0%	2.0%	2.0%
Book Value	4.5%	3.0%	2.5%	2.5%	2.5%

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	24.0	26.1	28.7	23.3	102.1
2012	23.5	27.4	32.4	27.1	110.4
2013	27.0	29.1	31.3	27.4	114.8
2014	27.1	31.9	35.0	31.0	125
2015	30.0	33.0	37.0	30.0	130

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	.11	.23	.32	.12	.84
2012	.11	.23	.38	.17	.90
2013	.20	.28	.36	.19	1.03
2014	.20	.30	.40	.20	1.10
2015	.20	.32	.43	.20	1.15

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.180	.180	.180	.183	.72
2011	.183	.183	.183	.185	.73
2012	.185	.185	.185	.1875	.74
2013	.1875	.1875	.1875	.19	.753
2014	.19	.19			

Business: Middlesex Water Company engages in the ownership and operation of regulated water utility systems in New Jersey, Delaware, and Pennsylvania. It also operates water and wastewater systems under contract on behalf of municipal and private clients in NJ and DE. Its Middlesex System provides water services to 60,000 retail customers, primarily in Middlesex County, New Jersey. In 2013, the Middlesex System accounted for 60% of operating revenues. At 12/31/13, the company had 279 employees. Incorporated: NJ. President, CEO, and Chairman: Dennis W. Doll. Officers & directors own 3.3% of the common stock; BlackRock, 7.4%; Vanguard 3.3%. (4/14 proxy). Add.: 1500 Ronson Road, Iselin, NJ 08830. Tel.: 732-634-1500. Internet: www.middlesexwater.com.

Middlesex Water was recently granted rate relief. On June 18th, the New Jersey State Board of Public Utilities (BPU) permitted the utility to raise customers' bills by 6.34%. Middlesex had originally sought a hike of 15.9%, but eventually lowered that figure to 12.1%. The ruling could have been more generous, but the 9.75% allowed return on equity was a positive, in our opinion.

Earnings growth will probably be decent for this year and next. In addition to the increase in New Jersey, Middlesex was granted higher rates in Delaware in February. These new revenues should enable the utility to more than compensate for the loss of sales resulting from the closing of a large oil refinery owned by Hess Corp and the expiration of a contract to supply water to the borough of Sayreville. All told, we think the company's share net will increase by 7% in 2014, and 5%, in 2015.

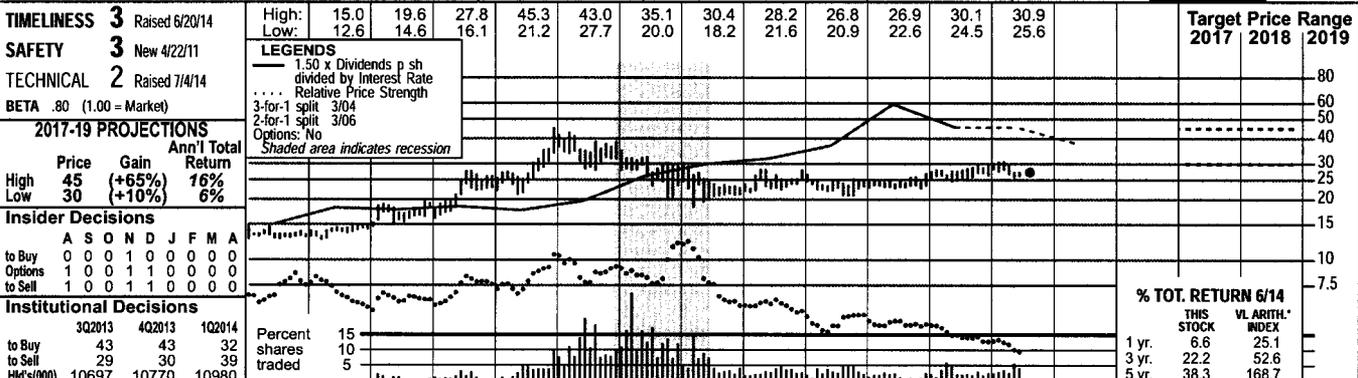
Annual dividend hikes should remain subpar, however. We think that 2014 will mark the seventh straight year in which the company raises the yearly payout by only \$0.01. Though this streak could be broken next year, we estimate the hike will only average 2.0% through 2017-2019, well short of the norm for a water utility.

Capital expenditures are expected to spike this year and next. Like most of its peers, Middlesex has to invest heavily to upgrade and repair an outmoded infrastructure. Spending is expected to average \$32 million in 2014 and 2015 compared to the \$20 million required in 2013. The utility currently has a relatively low debt-to-total capital ratio, which means that its balance sheet is strong enough to withstand an increase in the debt load.

When it comes to yield, appearances can be deceiving. Middlesex continues to have the highest yield in the industry. This is not a positive, however, as it reflects investors' negative views regarding the company's dividend growth prospects. Hence, the market is demanding more current income as compensation. Even with the high current yield, we do not find the stock attractive in the year ahead nor over the next three- to five-year period.

SJW CORP. NYSE: SJW

RECENT PRICE **27.30** P/E RATIO **21.8** (Trailing: 25.3 Median: 24.0) RELATIVE P/E RATIO **1.16** DIV'D YLD **2.8%** VALUE LINE



Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Price	5.58	6.40	6.74	7.45	7.97	8.20	9.14	9.86	10.35	11.25	12.12	11.68	11.62	12.85	14.01	13.73	14.30	14.55	16.75
Gain	1.26	1.43	1.23	1.49	1.55	1.75	1.89	2.21	2.38	2.30	2.44	2.21	2.38	2.80	2.97	2.90	3.40	3.45	3.85
Return	.76	.87	.58	.77	.78	.91	.87	1.12	1.19	1.04	1.08	.81	.84	1.11	1.18	1.12	1.25	1.40	1.70
Ann'l Total	.39	.40	.41	.43	.46	.49	.51	.53	.57	.61	.65	.66	.68	.69	.71	.73	.75	.77	.94

Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenues per sh	166.9	180.1	189.2	206.6	220.3	216.1	215.6	239.0	261.5	276.9	300	320	320	320	320	320	320	320	385
"Cash Flow" per sh	16.0	20.7	22.2	19.3	20.2	15.2	15.8	20.9	22.3	23.5	26.0	31.0	26.0	31.0	26.0	31.0	26.0	31.0	39.0
Earnings per sh	42.1%	41.6%	40.8%	39.4%	39.5%	40.4%	38.8%	41.1%	41.1%	38.7%	41.0%	40.0%	41.0%	40.0%	41.0%	40.0%	41.0%	40.0%	40.0%
Div'd Decl'd per sh	2.1%	1.6%	2.1%	2.7%	2.3%	2.0%	--	--	2.0%	--	1.0%	1.5%	1.0%	1.5%	1.0%	1.5%	1.0%	1.5%	3.0%
Cap'l Spending per sh	43.7%	42.6%	41.8%	47.7%	46.0%	49.4%	53.7%	56.6%	55.0%	51.1%	51.0%	52.0%	51.0%	52.0%	51.0%	52.0%	51.0%	52.0%	53.5%
Book Value per sh	56.3%	57.4%	58.2%	52.3%	54.0%	50.6%	46.3%	43.4%	45.0%	48.9%	49.0%	48.0%	49.0%	48.0%	49.0%	48.0%	49.0%	48.0%	46.5%
Common Shs Outs'tg	328.3	341.2	391.8	453.2	470.9	499.6	550.7	607.9	610.2	656.2	730	835	730	835	730	835	730	835	1035
Avg Ann'l P/E Ratio	456.8	484.8	541.7	645.5	684.2	718.5	785.5	756.2	831.6	898.7	960	1025	960	1025	960	1025	960	1025	1200
Relative P/E Ratio	6.5%	7.6%	7.0%	5.7%	5.8%	4.4%	4.3%	4.9%	5.0%	5.0%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	6.0%
Avg Ann'l Div'd Yield	8.7%	10.6%	9.7%	8.2%	8.0%	6.0%	6.2%	7.9%	8.1%	7.3%	7.5%	8.0%	8.1%	7.3%	7.5%	8.0%	8.1%	7.3%	8.0%
Retained to Com Eq	8.7%	10.6%	9.7%	8.2%	8.0%	6.0%	6.2%	7.9%	8.1%	7.3%	7.5%	8.0%	8.1%	7.3%	7.5%	8.0%	8.1%	7.3%	8.0%
All Div's to Net Prof	3.6%	5.6%	5.2%	3.5%	3.3%	1.2%	1.2%	3.1%	3.3%	2.8%	3.0%	3.5%	3.3%	2.8%	3.0%	3.5%	3.3%	2.8%	3.5%
	58%	47%	46%	57%	59%	80%	80%	61%	59%	62%	60%	55%	59%	62%	60%	55%	59%	62%	55%

CAPITAL STRUCTURE as of 3/31/14
 Total Debt \$372.4 mill. Due in 5 Yrs \$21.2 mill.
 LT Debt \$334.9 mill. LT Interest \$18.7 mill.
 (Total interest coverage: 2.9x) (51% of Cap'l)

Leases, Uncapitalized: Annual rentals \$5.5 mill.

Pension Assets \$91.4 mill. **Oblig.** \$128.7 mill.

Pfd Stock None.

Common Stock 20,203,134 shs. as of 4/25/14

MARKET CAP: \$550 million (Small Cap)

CURRENT POSITION

2012	2013	3/31/14
2.5	2.3	3.1
40.4	37.4	37.7
42.9	39.7	40.8
8.5	12.6	10.7
20.7	23.0	37.5
19.9	23.6	23.7
49.1	59.2	71.9
317%	268%	270%

ANNUAL RATES

Past 10 Yrs	Past 5 Yrs	Est'd '11-'13
5.5%	4.0%	3.5%
6.0%	4.0%	4.5%
3.5%	5.7%	7.0%
4.5%	3.5%	5.0%
5.5%	2.5%	6.0%

QUARTERLY REVENUES (\$ mill.)

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	43.7	59.0	73.9	62.4	239.0
2012	51.1	65.6	82.4	62.4	261.5
2013	50.1	74.2	85.2	67.4	276.9
2014	54.6	75.4	95.0	75.0	300
2015	60.0	80.0	100	80.0	320

EARNINGS PER SHARE

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	.03	.29	.44	.35	1.11
2012	.06	.28	.53	.31	1.18
2013	.07	.37	.44	.24	1.12
2014	.04	.40	.51	.30	1.25
2015	.10	.43	.55	.32	1.40

QUARTERLY DIVIDENDS PAID

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.17	.17	.17	.17	.68
2011	.173	.173	.173	.173	.69
2012	.1775	.1775	.1775	.1775	.71
2013	.1825	.1825	.1825	.1825	.73
2014	.1875	.1875			

BUSINESS: SJW Corporation engages in the production, purchase, storage, purification, distribution, and retail sale of water. It provides water service to approximately 228,000 connections that serve a population of approximately one million people in the San Jose area and 11,000 connections that serve approximately 36,000 residents in a service area in the region between San Antonio and

SJW's fate remains in the hands of state regulators. Two and one-half years ago, the utility filed a petition seeking rate relief with the California Public Utility Commission (CPUC). Higher rates were sought for the three-year period from 2013 to 2015. Since the increases petitioned for were so sizable, at 21.5%, 4.9%, and 12.6%, respectively, the final decision will have a major impact on SJW. We think the company has made a reasonable case for the hikes, but the CPUC is under political pressure to not raise water bills too high. On a positive note, the CPUC earlier allowed SJW recovery of the \$62 million that will be invested to upgrade a waste facility.

The severe drought could possibly put more pressure on regulators. Prices are rising for the water that the utility has to purchase from another entity to meet the needs of the service area. SJW is allowed to pass these costs through to customers. Still, with water bills at such levels, the CPUC is under greater political pressure to keep citizens' (i.e., voters') rates from skyrocketing. On the other hand, if regulators don't provide utilities with a fair re-

turn on investment, funds won't be available to upgrade the aging systems.

The capital budget is large. SJW has been forced to plow back most of its internally generated funds into modernizing the existing water infrastructure. Additional capital is also required for SJW to meet the demand for water from its growing service area, which includes the prosperous Silicon Valley.

The balance sheet will probably weaken. With large projected capital outlays, the company will be forced to depend on external funds for financing. As a result, debt as a percent of total capital should rise in the years ahead.

Dividend growth prospects are below average for a water utility. The last hike averaged only 2.7% on an annual basis. We think this will be the trend through 2017-2019 as increases in the pay-out will be held back by the need to fund the large construction program.

These shares do not stand out for relative year-ahead performance. Moreover, the stock's potential total returns are close to average over the next 3 to 5 years.

Austin, Texas. The company offers nonregulated water-related services, including water system operations, cash remittances, and maintenance contract services. SJW also owns and operates commercial real estate investments. Has about 379 employees. Chrm.: Charles J. Toeniskoetter, Inc.: CA. Address: 110 W. Taylor Street, San Jose, CA 95110. Tel.: (408) 279-7800. Int: www.sjwater.com.

James A. Flood July 15, 2014

(A) Diluted earnings. Excludes nonrecurring losses: '03, \$1.97; '04, \$3.78; '05, \$1.09; '06, \$16.36; '08, \$1.22; '10, 46¢. Next earnings report due early August. Quarterly egs. may not add due to rounding. (B) Dividends historically paid in early March, June, September, and December. = Div'd reinvestment plan available. (C) In millions, adjusted for stock splits.

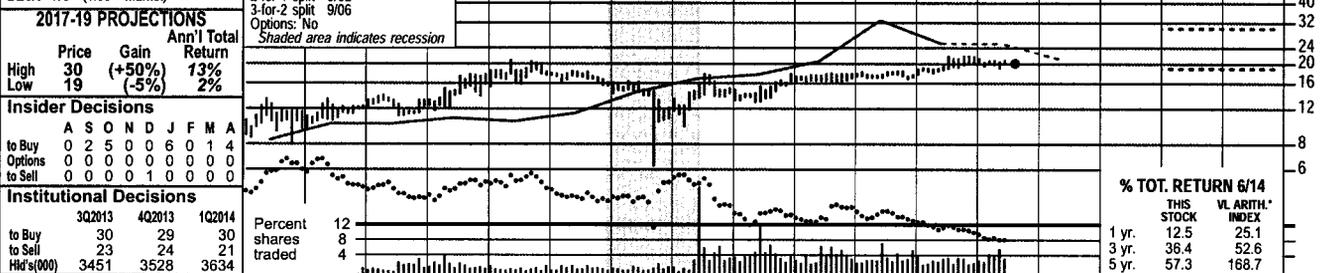
Company's Financial Strength B+
 Stock's Price Stability 85
 Price Growth Persistence 45
 Earnings Predictability 80

To subscribe call 1-800-833-0046.

YORK WATER NDQ:YORW

RECENT PRICE **20.19** P/E RATIO **22.4** (Trailing: 27.3 Median: 25.0) RELATIVE P/E RATIO **1.19** DIV'D YLD **2.9%** VALUE LINE

TIMELINESS 4 Raised 3/28/14	High: 13.5	14.0	17.9	21.0	18.5	16.5	18.0	18.0	18.1	18.5	22.0	21.5		Target Price Range 2017 2018 2019
SAFETY 2 New 7/19/13	Low: 9.3	11.0	11.7	15.3	15.5	6.2	9.7	12.8	15.8	16.8	17.6	19.0		
TECHNICAL 3 Lowered 7/18/14	LEGENDS 1.10 x Dividends p sh divided by Interest Rate Relative Price Strength 2-for-1 split 5/02 3-for-2 split 9/06 Options: No Shaded area indicates recession													
BETA .75 (1.00 = Market)														



1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	© VALUE LINE PUB. LLC	17-19
--	--	--	2.05	2.05	2.17	2.18	2.58	2.56	2.79	2.89	2.95	3.07	3.18	3.21	3.27	3.65	3.95	Revenues per sh	4.65
--	--	--	.59	.57	.65	.65	.79	.77	.86	.88	.95	1.07	1.09	1.12	1.19	1.35	1.45	"Cash Flow" per sh	1.75
--	--	--	.43	.40	.47	.49	.56	.58	.57	.57	.64	.71	.71	.72	.75	.90	.95	Earnings per sh ^A	1.10
--	--	--	.34	.35	.37	.39	.42	.45	.48	.49	.51	.52	.53	.54	.55	.57	.59	Div'd Decl'd per sh ^B	.74
--	--	--	.75	.66	1.07	2.50	1.69	1.85	1.69	2.17	1.18	.83	.74	.94	.76	.90	.85	Cap'l Spending per sh	1.00
--	--	--	3.79	3.90	4.06	4.65	4.85	5.84	5.97	6.14	6.92	7.19	7.45	7.73	7.98	7.95	8.20	Book Value per sh	8.90
--	--	--	9.46	9.55	9.63	10.33	10.40	11.20	11.27	11.37	12.56	12.69	12.79	12.92	12.98	12.60	12.20	Common Shs Outst'g ^C	11.80
--	--	--	17.8	26.9	24.5	25.7	26.3	31.2	30.3	24.6	21.9	20.7	23.9	24.4	26.3	26.3	26.3	Avg Ann'l P/E Ratio	22.0
--	--	--	.91	1.47	1.40	1.36	1.40	1.68	1.61	1.48	1.46	1.32	1.50	1.55	1.48	1.48	1.48	Relative P/E Ratio	1.40
--	--	--	4.4%	3.3%	3.2%	3.1%	2.9%	2.5%	2.8%	3.5%	3.6%	3.5%	3.1%	3.1%	2.8%	2.8%	2.8%	Avg Ann'l Div'd Yield	3.0%

CAPITAL STRUCTURE as of 3/31/14		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Revenues (\$mill)
Total Debt \$84.9 mill.	Due in 5 Yrs \$19.5 mill.	22.5	26.8	28.7	31.4	32.8	37.0	39.0	40.6	41.4	42.4	46.0	48.0	55.0
LT Debt \$84.9 mill.	LT Interest \$5.2 mill.	4.8	5.8	6.1	6.4	6.4	7.5	8.9	9.1	9.3	9.7	11.5	12.0	13.0
(Total interest coverage: 4.0x)		36.7%	36.7%	34.4%	36.5%	36.1%	37.9%	38.5%	35.3%	37.6%	37.0%	36.0%	36.0%	37.0%
(45% of Cap'l)		--	--	7.2%	3.6%	10.1%	--	1.2%	1.1%	1.1%	.8%	1.0%	1.0%	1.5%
Pension Assets 12/13 \$27.1 mill.	Oblig. \$32.1 mill.	42.5%	44.1%	48.3%	46.5%	54.5%	45.7%	48.3%	47.1%	46.0%	45.1%	47.5%	49.5%	50.0%
		57.5%	55.9%	51.7%	53.5%	45.5%	54.3%	51.7%	52.9%	54.0%	54.9%	52.5%	50.5%	50.0%
Pfd Stock None		83.6	90.3	126.5	125.7	153.4	160.1	176.4	180.2	184.8	190	195	195	210
Common Stock 12,944,260 shs. as of 5/6/14		140.0	155.3	174.4	191.6	211.4	222.0	228.4	233.0	240.3	244.2	250	255	270
MARKET CAP: \$250 million (Small Cap)		7.6%	8.4%	6.2%	6.7%	5.7%	6.2%	6.5%	6.4%	6.4%	6.5%	7.5%	7.5%	7.5%
CURRENT POSITION	2012	2013	3/31/14	10.0%	11.6%	9.3%	9.5%	9.2%	8.6%	9.8%	9.5%	9.3%	9.3%	11.5%
Cash Assets	4.0	7.6	5.7	10.0%	11.6%	9.3%	9.5%	9.2%	8.6%	9.8%	9.5%	9.3%	9.3%	11.5%
Accounts Receivable	6.4	3.8	3.4	10.0%	11.6%	9.3%	9.5%	9.2%	8.6%	9.8%	9.5%	9.3%	9.3%	11.5%
Other	1.2	3.8	4.3	10.0%	11.6%	9.3%	9.5%	9.2%	8.6%	9.8%	9.5%	9.3%	9.3%	11.5%
Current Assets	11.6	15.2	13.4	10.0%	11.6%	9.3%	9.5%	9.2%	8.6%	9.8%	9.5%	9.3%	9.3%	11.5%
Accts Payable	1.1	1.8	1.6	10.0%	11.6%	9.3%	9.5%	9.2%	8.6%	9.8%	9.5%	9.3%	9.3%	11.5%
Debt Due	.1	--	--	10.0%	11.6%	9.3%	9.5%	9.2%	8.6%	9.8%	9.5%	9.3%	9.3%	11.5%
Other	4.3	6.0	6.5	10.0%	11.6%	9.3%	9.5%	9.2%	8.6%	9.8%	9.5%	9.3%	9.3%	11.5%
Current Liab.	5.5	7.8	8.1	10.0%	11.6%	9.3%	9.5%	9.2%	8.6%	9.8%	9.5%	9.3%	9.3%	11.5%
Fix. Chg. Cov.	414%	417%	417%	10.0%	11.6%	9.3%	9.5%	9.2%	8.6%	9.8%	9.5%	9.3%	9.3%	11.5%

BUSINESS: The York Water Company is the oldest investor-owned regulated water utility in the United States. It has operated continuously since 1816. As of December 31, 2013, the company's average daily availability was 35.0 million gallons and its service territory had an estimated population of 190,000. Has more than 63,000 customers. Residential customers accounted for 63% of 2013 revenues; commercial and industrial (29%); other (8%). It also provides sewer billing services. Incorporated: PA. York had 105 full-time employees at 12/31/13. President/CEO: Jeffrey R. Hines. Officers/directors own 1.1% of the common stock (3/14 proxy). Address: 130 East Market Street York, Pennsylvania 17401. Telephone: (717) 845-3601. Internet: www.yorkwater.com.

We are maintaining our 2014 earnings estimate for York Water. First-quarter results were a disappointment, coming in at \$0.16 a share, \$0.03 a share less than the consensus number. The period had a few unexpected expenses, plus the poor weather resulted in higher-than-budgeted maintenance costs. Since these charges probably won't recur, we think that per-share earnings can break out of their rut and increase 20% this year. (Share net was between \$0.71 and \$0.75 from 2010 to 2013.) Fueling the bottom line will be the higher rates that state regulators allowed the utility to implement on February 28th. **The bottom line will most likely rise modestly next year.** Higher rates will be in effect for the full year, versus only 10 months in 2014. Together with better cost controls, this should result in at least a 5% share-net gain. Our estimates for both years could prove conservative should the company change tack and decide to execute its stock-buyback program in a shorter period of time (see below). **The share-repurchase program has still not gained any traction.** In March 2013, management announced plans to repurchase 1.2 million shares, or over 9% of the company's outstanding equity. Sixteen months later and the number of shares outstanding have only been reduced by 40,000. **Dividend growth prospects are average at best.** Compared to other water utilities, York has a high dividend-to-net profit ratio. This means that there is not a substantial amount of room for dividends to increase. And, though this percentage is on the decline, it most likely won't go low enough for annual dividends hikes to surpass the industry average. **Finances are adequate.** Despite the need to spend to upgrade an aging infrastructure, capital expenditures should be manageable in the years ahead. Indeed, York should be able to fund the outlays without having to issue any new bonds. So, the debt-to-total equity ratio should remain close to a healthy 50% level. **York shares are rated to underperform the broader market averages over the next six- to 12-month period.** Moreover, total return potential through 2017-2019 is below average, as well.

Cal-endar	QUARTERLY REVENUES (\$mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2011	9.6	10.5	10.5	10.0	40.6
2012	9.6	10.4	11.0	10.4	41.4
2013	10.1	10.7	10.9	10.7	42.4
2014	10.6	11.5	12.1	11.8	46.0
2015	11.0	12.0	12.5	12.5	48.0

Cal-endar	EARNINGS PER SHARE ^A				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2011	.17	.19	.19	.16	.71
2012	.15	.17	.22	.18	.72
2013	.17	.18	.19	.21	.75
2014	.16	.24	.25	.25	.90
2015	.20	.25	.25	.25	.95

Cal-endar	QUARTERLY DIVIDENDS PAID ^B				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2010	.128	.128	.128	.128	.512
2011	.131	.131	.131	.131	.524
2012	.134	.134	.134	.134	.536
2013	.138	.138	.138	.138	.552
2014	.1431	.1431			

(A) Diluted earnings. Next earnings report due early August. (C) In millions, adjusted for splits.
 (B) Dividends historically paid in mid-January, April, July, and October.

Company's Financial Strength	B+
Stock's Price Stability	85
Price Growth Persistence	65
Earnings Predictability	100

Utility Source, LLC
Test Year Ending December 31, 2012
Docket No. WS-04235A-13-0331

TABLE OF CONTENTS

**Schedule
Number**

RBM - 1	Weighted Average Cost of Capital
RBM - 2	Cost of Capital Summary Calculations
RBM - 3	Economic Indicators
RBM -4	Discounted Cash Flow Model
RBM - 5	Capital Asset Pricing Model
RBM - 6	Comparable Earnings Comparison

WEIGHTED AVERAGE COST OF CAPITAL

Line No	DESCRIPTION	CAPITALIZATION PER COMPANY	RUCO ADJUSTMENTS	RUCO ADJUSTED CAPITALIZATION	CAPITAL RATIO	COST	WEIGHED COST
1	Long Tern Debt	\$ -	\$ -	\$ -	\$ -	-	\$ -
2							
3	Common Equity	\$3,722,209	\$ -	\$3,722,209	100%	9.25%	9.25%
4							
5	TOTAL CAPITALIZATION	\$3,722,209	\$0	\$3,722,209	100%	9.25%	9.25%
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							

Cost of Capital Summary Calculations

<u>Line No</u>		
1	<u>DCF METHODOLOGY</u>	
2		
3	DCF - Water Company Single Stage Constant Growth Model Est	8.68%
4		
5	<u>CAPM METHODOLOGY</u>	
6		
7	CAPM - Water Company Estimate	7.24%
8		
9	<u>COMPARABLE EARNINGS</u>	9.80%
10		
11	FINAL COST OF EQUITY / WEIGHTED AVERAGE COST OF CAPITAL	9.25%
12	(See Testimony)	
13		
14		
15		
16		

ECONOMIC INDICATORS

Line No	Year	Real GDP Growth	Industrial Production Growth	Unemployment Rate	Consumer Price Index	Producer Price Index
1	1975	-1.1%	-8.9%	8.5%	7.0%	6.6%
2	1976	5.4%	10.8%	7.7%	4.8%	3.7%
3	1977	5.5%	5.9%	7.0%	6.8%	6.9%
4	1978	5.0%	5.7%	6.0%	9.0%	9.2%
5	1979	2.8%	4.4%	5.8%	13.3%	12.8%
6	1980	-0.2%	-1.9%	7.0%	12.4%	11.8%
7	1981	1.8%	1.9%	7.5%	8.9%	7.1%
8	1982	-2.1%	-4.4%	9.5%	3.8%	3.6%
9	1983	4.0%	3.7%	9.5%	3.8%	0.6%
10	1984	6.8%	9.3%	7.5%	3.9%	1.7%
11	1985	3.7%	1.7%	7.2%	3.8%	1.8%
12	1986	3.1%	0.9%	7.0%	1.1%	-2.3%
13	1987	2.9%	4.9%	6.2%	4.4%	2.2%
14	1988	3.8%	4.5%	5.5%	4.4%	4.0%
15	1989	3.5%	1.8%	5.3%	4.6%	4.9%
16	1990	1.8%	-0.2%	5.6%	6.1%	5.7%
17	1991	-0.5%	-2.0%	6.8%	3.1%	-0.1%
18	1992	3.0%	3.1%	7.5%	2.9%	1.6%
19	1993	2.7%	3.4%	6.9%	2.7%	0.2%
20	1994	4.0%	5.5%	6.1%	2.7%	1.7%
21	1995	3.7%	4.8%	5.6%	2.5%	2.3%
22	1996	4.5%	4.3%	5.4%	3.3%	2.8%
23	1997	4.5%	7.3%	4.9%	1.7%	-1.2%
24	1998	4.2%	5.8%	4.5%	1.6%	0.0%
25	1999	3.7%	4.5%	4.2%	2.7%	2.9%
26	2000	4.1%	4.0%	4.0%	3.4%	3.6%
27	2001	1.1%	-3.4%	4.7%	1.6%	-1.6%
28	2002	1.8%	0.2%	5.8%	2.4%	1.2%
29	2003	2.8%	1.2%	6.0%	1.9%	4.0%
30	2004	3.8%	2.3%	5.5%	3.3%	4.2%
31	2005	3.4%	3.2%	5.1%	3.4%	5.4%
32	2006	2.7%	2.2%	4.6%	2.5%	1.1%
33	2007	1.8%	2.5%	4.6%	4.1%	6.2%
34	2008	-0.3%	-3.4%	5.8%	0.1%	-0.9%
35	2009	-2.8%	-11.3%	9.3%	2.7%	4.3%
36	2010	2.5%	5.7%	9.6%	1.5%	3.8%
37	2011	1.8%	3.4%	8.9%	3.0%	4.7%
38	2012	2.8%	3.6%	8.1%	1.7%	1.4%
39	2013	2.6%	3.5%	8.1%	1.5%	4.4%

Source: Council of Economic Advisors, Economic Indicators, various issues.

ECONOMIC INDICATORS

Line No	Year	Real GDP* Growth	Industrial Production Growth	Unemployment Rate	Consumer Price Index	Producer Price Index
1	2002					
2	1st Qtr.	2.7%	-3.8%	5.6%	2.8%	4.4%
3	2nd Qtr.	2.2%	-1.2%	5.9%	0.9%	-0.5%
4	3rd Qtr.	2.4%	0.8%	5.8%	2.4%	1.2%
5	4th Qtr.	0.2%	1.4%	5.9%	1.6%	0.4%
6	2003					
7	1st Qtr.	1.2%	1.1%	5.8%	4.8%	5.6%
8	2nd Qtr.	3.5%	-0.9%	6.2%	0.0%	-0.5%
9	3rd Qtr.	7.5%	-0.9%	6.1%	3.2%	3.2%
10	4th Qtr.	2.7%	1.5%	5.9%	-0.3%	2.8%
11	2004					
12	1st Qtr.	3.0%	2.8%	5.6%	5.2%	5.2%
13	2nd Qtr.	3.5%	4.9%	5.6%	4.4%	4.4%
14	3rd Qtr.	3.6%	4.6%	5.4%	0.8%	0.8%
15	4th Qtr.	2.5%	4.3%	5.4%	3.6%	7.2%
16	2005					
17	1st Qtr.	4.1%	3.8%	5.3%	4.4%	5.6%
18	2nd Qtr.	1.7%	3.0%	5.1%	1.6%	-0.4%
19	3rd Qtr.	3.1%	2.7%	5.0%	8.8%	14.0%
20	4th Qtr.	2.1%	2.9%	4.9%	-2.0%	4.0%
21	2006					
22	1st Qtr.	5.4%	3.4%	4.7%	4.8%	-0.2%
23	2nd Qtr.	1.4%	4.5%	4.6%	4.8%	5.6%
24	3rd Qtr.	0.1%	5.2%	4.7%	0.4%	-4.4%
25	4th Qtr.	3.0%	3.5%	4.5%	0.0%	3.6%
26	2007					
27	1st Qtr.	0.9%	2.5%	4.5%	4.8%	6.4%
28	2nd Qtr.	3.2%	1.6%	4.5%	5.2%	6.8%
29	3rd Qtr.	2.3%	1.8%	4.6%	1.2%	1.2%
30						
31	2008					
32	1st Qtr.	-1.8%	1.9%	4.9%	2.8%	9.6%
33	2nd Qtr.	1.3%	0.2%	5.3%	7.6%	14.0%
34	3rd Qtr.	-3.7%	-3.0%	6.0%	2.8%	-0.4%
35	4th Qtr.	-8.9%	6.0%	6.9%	-13.2%	-28.4%
36	2009					
37	1st Qtr.	-5.3%	-11.6%	8.1%	2.4%	-0.4%
38	2nd Qtr.	-0.3%	-12.9%	9.3%	3.2%	9.2%
39	3rd Qtr.	1.4%	-9.3%	9.6%	2.0%	-0.8%
40	4th Qtr.	4.0%	-4.5%	10.0%	2.5%	8.8%
41	2010					
42	1st Qtr.	1.6%	2.7%	9.7%	0.9%	6.5%
43	2nd Qtr.	3.9%	6.5%	9.7%	-1.2%	-2.4%
44	3rd Qtr.	2.8%	6.9%	9.6%	2.8%	4.0%
45	4th Qtr.	2.8%	6.2%	9.6%	2.8%	9.2%
46	2011					
47	1st Qtr.	-1.3%	5.4%	9.0%	4.8%	9.6%
48	2nd Qtr.	3.2%	3.6%	9.0%	3.2%	3.6%
49	3rd Qtr.	1.4%	3.3%	9.1%	2.4%	6.4%
50	4th Qtr.	4.9%	4.0%	8.7%	0.4%	-1.2%
51	2012					
52	1st Qtr.	3.7%	4.5%	8.3%	3.2%	2.0%
53	2nd Qtr.	1.2%	4.7%	8.2%	0.0%	-2.8%
54	3rd Qtr.	2.8%	3.4%	8.1%	4.0%	9.6%
55	4th Qtr.	0.1%	2.8%	7.8%	0.0%	-3.6%
56	2013					
57	1st Qtr.	1.1%	2.5%	7.7%	2.0%	1.2%
58	2nd Qtr.	2.5%	2.0%	7.6%	0.8%	2.4%
59	3rd Qtr.	2.8%	2.5%	7.3%	2.0%	80.0%
60	4th Qtr.	3.0%				

*GDP=Gross Domestic Product

2.4%

Source: Council of Economic Advisors, Economic Indicators, various issues.

INTEREST RATES

Line No	Year	Prime Rate	US Treasury	US Treasury	Utility	Utility	Utility	Utility
			T Bills 3 Month	T Bonds 10 Year	Bonds Aaa	Bonds Aa	Bonds A	Bonds Baa
1	1975	7.86%	5.84%	7.99%	9.03%	9.44%	10.09%	10.96%
2	1976	6.84%	4.99%	7.61%	8.63%	8.92%	9.29%	9.82%
3	1977	6.83%	5.27%	7.42%	8.19%	8.43%	8.61%	9.06%
4	1978	9.06%	7.22%	8.41%	8.87%	9.10%	9.29%	9.62%
5	1979	12.67%	10.04%	9.44%	9.86%	10.22%	10.49%	10.96%
6	1980	15.27%	11.51%	11.46%	12.30%	13.00%	13.34%	13.95%
7	1981	18.89%	14.03%	13.93%	14.64%	15.30%	15.95%	16.60%
8	1982	14.86%	10.69%	13.00%	14.22%	14.79%	15.86%	16.45%
9	1983	10.79%	8.63%	11.10%	12.52%	12.83%	13.66%	14.20%
10	1984	12.04%	9.58%	12.44%	12.72%	13.66%	14.03%	14.53%
11	1985	9.93%	7.48%	10.62%	11.68%	12.06%	12.47%	12.96%
12	1986	8.33%	5.98%	7.68%	8.92%	9.30%	9.58%	10.00%
13	1987	8.21%	5.82%	8.39%	9.52%	9.77%	10.10%	10.53%
14	1988	9.32%	6.69%	8.85%	10.05%	10.26%	10.49%	11.00%
15	1989	10.87%	8.12%	8.49%	9.32%	9.56%	9.77%	9.97%
16	1990	10.01%	7.51%	8.55%	9.45%	9.65%	9.86%	10.06%
17	1991	8.46%	5.42%	7.86%	8.85%	9.09%	9.36%	9.55%
18	1992	6.25%	3.45%	7.01%	8.19%	8.55%	8.69%	8.86%
19	1993	6.00%	3.02%	5.87%	7.29%	7.44%	7.59%	7.91%
20	1994	7.15%	4.29%	7.09%	8.07%	8.21%	8.31%	8.63%
21	1995	8.83%	5.51%	6.57%	7.68%	7.77%	7.89%	8.29%
22	1996	8.27%	5.02%	6.44%	7.48%	7.57%	7.75%	8.16%
23	1997	8.44%	5.07%	6.35%	7.43%	7.54%	7.60%	7.95%
24	1998	8.35%	4.81%	5.26%	6.77%	6.91%	7.04%	7.26%
25	1999	8.00%	4.66%	5.65%	7.21%	7.51%	7.62%	7.88%
26	2000	9.23%	5.85%	6.03%	7.88%	8.06%	8.24%	8.36%
27	2001	6.91%	3.44%	5.02%	7.47%	7.59%	7.78%	8.02%
28	2002	4.67%	1.62%	4.61%		[1] 7.19%	7.37%	8.02%
29	2003	4.12%	1.01%	4.01%		6.40%	6.58%	6.84%
30	2004	4.34%	1.38%	4.27%		6.04%	6.16%	6.40%
31	2005	6.19%	3.16%	4.29%		5.44%	5.65%	5.93%
32	2006	7.96%	4.73%	4.80%		5.84%	6.07%	6.32%
33	2007	8.05%	4.41%	4.63%		5.94%	6.07%	6.33%
34	2008	5.09%	1.48%	3.66%		6.18%	6.53%	7.25%
35	2009	3.25%	0.16%	3.26%		5.75%	6.04%	7.06%
36	2010	3.25%	0.14%	3.22%		5.24%	5.46%	5.96%
37	2011	3.25%	0.06%	2.78%		4.78%	5.04%	5.57%
38	2012	3.25%	0.09%	1.80%		3.83%	4.13%	4.86%
39	2013	3.25%	0.09%	2.50%				

[1] Note: Moody's has not published Aaa utility bond yields since 2001.

Sources: Council of Economic Advisors, Economic Indicators; Moody's Bond Record; Federal Reserve Bulletin; various issues.

INTEREST RATES

Line No	Prime Rate	US Treasury T Bills 3 Month	US Treasury T Bonds 10 Year	Utility Bonds Aa	Utility Bonds A	Utility Bonds Baa	
1	2007						
2	Jan	8.25%	4.96%	4.76%	5.78%	5.96%	6.16%
3	Feb	8.25%	5.02%	4.72%	5.73%	5.90%	6.10%
4	Mar	8.25%	4.97%	4.56%	5.66%	5.85%	6.10%
5	Apr	8.25%	4.88%	4.69%	5.83%	5.97%	6.24%
6	May	8.25%	4.77%	4.75%	5.86%	5.99%	6.23%
7	June	8.25%	4.63%	5.10%	6.18%	6.30%	6.54%
8	July	8.25%	4.84%	5.00%	6.11%	6.25%	6.49%
9	Aug	8.25%	4.34%	4.67%	6.11%	6.24%	6.51%
10	Sept	7.75%	4.01%	4.52%	6.10%	6.18%	6.45%
11	Oct	7.50%	3.97%	4.53%	6.04%	6.11%	6.36%
12	Nov	7.50%	3.49%	4.15%	5.87%	5.97%	6.27%
13	Dec	7.25%	3.08%	4.10%	6.03%	6.16%	6.51%
14	2008						
15	Jan	6.00%	2.86%	3.74%	5.87%	6.02%	6.35%
16	Feb	6.00%	2.21%	3.74%	6.04%	6.21%	6.60%
17	Mar	5.25%	1.38%	3.51%	5.99%	6.21%	6.68%
18	Apr	5.00%	1.32%	3.68%	5.99%	6.29%	6.82%
19	May	5.00%	1.71%	3.88%	6.07%	6.27%	6.79%
20	June	5.00%	1.90%	4.10%	6.19%	6.38%	6.93%
21	July	5.00%	1.72%	4.01%	6.13%	6.40%	6.97%
22	Aug	5.00%	1.79%	3.89%	6.09%	6.37%	6.98%
23	Sept	5.00%	1.46%	3.69%	6.13%	6.49%	7.15%
24	Oct	4.00%	0.84%	3.81%	6.95%	7.56%	8.58%
25	Nov	4.00%	0.30%	3.53%	6.83%	7.60%	8.98%
26	Dec	3.25%	0.04%	2.42%	5.93%	6.54%	8.13%
27	2009						
28	Jan	3.25%	0.12%	2.52%	6.01%	6.39%	7.90%
29	Feb	3.25%	0.31%	2.87%	6.11%	6.30%	7.74%
30	Mar	3.25%	0.25%	2.82%	6.14%	6.42%	8.00%
31	Apr	3.25%	0.17%	2.93%	6.20%	6.48%	8.03%
32	May	3.25%	0.15%	3.29%	6.23%	6.49%	7.76%
33	June	3.25%	0.17%	3.72%	6.13%	6.20%	7.30%
34	July	3.25%	0.19%	3.56%	5.63%	5.97%	6.87%
35	Aug	3.25%	0.18%	3.59%	5.33%	5.71%	6.36%
36	Sept	3.25%	0.13%	3.40%	5.15%	5.53%	6.12%
37	Oct	3.25%	0.08%	3.39%	5.23%	5.55%	6.14%
38	Nov	3.25%	0.05%	3.40%	5.33%	5.64%	6.18%
39	Dec	3.25%	0.07%	3.59%	5.52%	5.79%	6.26%
40	2010						
41	Jan	3.25%	0.06%	3.73%	5.55%	5.77%	6.16%
42	Feb	3.25%	0.10%	3.69%	5.69%	5.87%	6.25%
43	Mar	3.25%	0.15%	3.73%	5.64%	5.84%	6.22%
44	Apr	3.25%	0.15%	3.85%	5.62%	5.81%	6.19%
45	May	3.25%	0.16%	3.42%	5.29%	5.50%	5.97%
46	June	3.25%	0.12%	3.20%	5.22%	5.46%	6.18%
47	July	3.25%	0.16%	3.01%	4.99%	5.26%	5.98%
48	Aug	3.25%	0.15%	2.70%	4.75%	5.01%	5.55%
49	Sept	3.25%	0.15%	2.65%	4.74%	5.01%	5.53%
50	Oct	3.25%	0.13%	2.54%	4.89%	5.10%	5.62%
51	Nov	3.25%	0.13%	2.76%	5.12%	5.37%	5.85%
52	Dec	3.25%	0.15%	3.29%	5.32%	5.56%	6.04%

INTEREST RATES

Line No	Prime Rate	US Treasury T Bills 3 Month	US Treasury T Bonds 10 Year	Utility Bonds Aa	Utility Bonds A	Utility Bonds Baa	
53	2011						
54	Jan	3.25%	0.15%	3.39%	5.29%	5.57%	6.06%
55	Feb	3.25%	0.14%	3.58%	5.42%	5.68%	6.10%
56	Mar	3.25%	0.11%	3.41%	5.33%	5.56%	5.97%
57	Apr	3.25%	0.06%	3.46%	5.32%	5.55%	5.98%
58	May	3.25%	0.04%	3.17%	5.08%	5.32%	5.74%
59	June	3.25%	0.04%	3.00%	5.04%	5.26%	5.67%
60	July	3.25%	0.03%	3.00%	5.05%	5.27%	5.70%
61	Aug	3.25%	0.05%	2.30%	4.44%	4.69%	5.22%
62	Sept	3.25%	0.02%	1.98%	4.24%	4.48%	5.11%
63	Oct	3.25%	0.02%	2.15%	4.21%	4.52%	5.24%
64	Nov	3.25%	0.01%	2.01%	3.92%	4.25%	4.93%
65	Dec	3.25%	0.02%	1.98%	4.00%	4.33%	5.07%
66	2012						
67	Jan	3.25%	0.02%	1.97%	4.03%	4.34%	5.06%
68	Feb	3.25%	0.08%	1.97%	4.02%	4.36%	5.02%
69	Mar	3.25%	0.09%	2.17%	4.16%	4.48%	5.13%
70	Apr	3.25%	0.08%	2.05%	4.10%	4.40%	5.11%
71	May	3.25%	0.09%	1.80%	3.92%	4.20%	4.97%
72	June	3.25%	0.09%	1.62%	3.79%	4.08%	4.91%
73	July	3.25%	0.10%	1.53%	3.58%	3.93%	4.85%
74	Aug	3.25%	0.11%	1.68%	3.65%	4.00%	4.88%
75	Sept	3.25%	0.10%	1.72%	3.69%	4.02%	4.81%
76	Oct	3.25%	0.10%	1.75%	3.68%	3.91%	4.54%
77	Nov	3.25%	0.11%	1.65%	3.60%	3.84%	4.42%
78	Dec	3.25%	0.08%	1.72%	3.75%	4.00%	4.56%
79	2013						
80	Jan	3.25%	0.07%	1.91%	3.90%	4.15%	4.66%
81	Feb	3.25%	0.10%	1.98%	3.95%	4.18%	4.74%
82	Mar	3.25%	0.90%	1.96%	3.90%	4.15%	4.66%
83	Apr	3.25%	0.60%	1.76%	3.74%	4.00%	4.49%
84	May	3.25%	0.50%	1.93%	3.91%	4.17%	4.65%
85	June	3.25%	0.50%	2.30%	4.27%	4.53%	5.08%
86	July	3.25%	0.40%	2.58%	4.44%	4.68%	5.21%
87	Aug	3.25%	0.40%	2.74%	4.53%	4.73%	5.28%
88	Sept	3.25%	0.20%	2.81%	4.58%	4.80%	5.31%
89	Oct	3.25%	0.60%	2.62%	4.48%	4.70%	5.17%
90	Nov	3.25%			4.56%	4.77%	5.24%
91	Dec	3.25%					

[1] Note: Moody's has not published Aaa utility bond yields since 2001.

Sources: Council of Economic Advisors, Economic Indicators; Moody's Bond Record; Federal Reserve Bulletin; various issues.

STOCK PRICE INDICATORS

Line No	Year	S&P Composite	NASDAQ Composite	DJIA	S&P D/P	S&P E/P
1	1975			802.49	4.31%	9.15%
2	1976			974.92	3.77%	8.90%
3	1977			894.63	4.62%	10.79%
4	1978			820.23	5.28%	12.03%
5	1979			844.40	5.47%	13.46%
6	1980			891.41	5.26%	12.66%
7	1981			932.92	5.20%	11.96%
8	1982			884.36	5.81%	11.60%
9	1983			1,190.34	4.40%	8.03%
10	1984			1,178.48	4.64%	10.02%
11	1985			1,328.23	4.25%	8.12%
12	1986			1,792.76	3.49%	6.09%
13	1987			2,275.99	3.08%	5.48%
14	1988			2,060.82	3.64%	8.01%
15	1989	322.84		2,508.91	3.45%	7.41%
16	1990	334.59		2,678.94	3.61%	6.47%
17	1991	376.18	491.69	2,929.33	3.24%	4.79%
18	1992	415.74	\$599.26	3,284.29	2.99%	4.22%
19	1993	451.21	715.16	3,522.06	2.78%	4.46%
20	1994	460.42	751.65	3,793.77	2.82%	5.83%
21	1995	541.72	925.19	4,493.76	2.56%	6.09%
22	1996	670.50	1,164.96	5,742.89	2.19%	5.24%
23	1997	873.43	1,469.49	7,441.15	1.77%	4.57%
24	1998	1,085.50	1,794.91	8,625.52	1.49%	3.46%
25	1999	1,327.33	2,728.15	10,464.88	1.25%	3.17%
26	2000	1,427.22	2,783.67	10,734.90	1.15%	3.63%
27	2001	1,194.18	2,035.00	10,189.13	1.32%	2.95%
28	2002	993.94	1,539.73	9,226.43	1.61%	2.92%
29	2003	965.23	1,647.17	8,993.59	1.77%	3.84%
30	2004	1,130.65	1,986.53	10,317.39	1.72%	4.89%
31	2005	1,207.23	2,099.32	10,547.67	1.83%	5.36%
32	2006	1,310.46	2,263.41	11,408.67	1.87%	5.78%
33	2007	1,477.19	2,578.47	13,169.98	1.86%	5.29%
34	2008	1,220.04	2,161.65	11,252.62	2.37%	3.54%
35	2009	948.05	1,845.38	8,876.15	2.40%	1.86%
36	2010	1,139.97	2,349.89	10,662.80	1.98%	6.04%
37	2011	1,268.89	2,677.44	11,966.36	2.05%	6.77%
38	2012	1,379.35	2,965.56	12,967.08	2.24%	6.20%
39	2013					

Source: Council of Economic Advisors, Economic Indicators, various issues.

STOCK PRICE INDICATORS

Line No		S&P Composite	NASDAQ Composite	DJIA	S&P D/P	S&P E/P
1	2004					
2	1st Qtr.	1,133.29	2,041.95	10,488.43	1.64%	4.62%
3	2nd Qtr.	1,122.87	1,984.13	10,289.04	1.71%	4.92%
4	3rd Qtr.	1,104.15	1,872.90	10,129.85	1.79%	5.18%
5	4th Qtr.	1,162.07	2,050.22	10,362.25	1.75%	4.83%
6						
7	2005					
8	1st Qtr.	1,191.98	2,056.01	10,648.48	1.77%	5.11%
9	2nd Qtr.	1,181.65	2,012.24	10,382.35	1.85%	5.32%
10	3rd Qtr.	1,225.91	2,144.61	10,532.24	1.83%	5.42%
11	4th Qtr.	1,262.07	2,246.09	10,827.79	1.86%	5.60%
12						
13	2006					
14	1st Qtr.	1,283.04	2,287.97	10,996.04	1.85%	5.61%
15	2nd Qtr.	1,281.77	2,240.46	11,188.84	1.90%	5.86%
16	3rd Qtr.	1,288.40	2,141.97	11,274.49	1.91%	5.88%
17	4th Qtr.	1,389.48	2,390.26	12,175.30	1.81%	5.75%
18						
19	2007					
20	1st Qtr.	1,425.30	2,444.85	12,470.97	1.84%	5.85%
21	2nd Qtr.	1,496.43	2,552.37	13,214.26	1.82%	5.65%
22	3rd Qtr.	1,490.81	2,609.68	13,488.43	1.86%	5.15%
23	4th Qtr.	1,494.09	2,701.59	13,502.95	1.91%	4.51%
24						
25	2008					
26	1st Qtr.	1,350.19	2,332.91	12,383.86	2.11%	4.55%
27	2nd Qtr.	1,371.65	2,426.26	12,508.59	2.10%	4.05%
28	3rd Qtr.	1,251.94	2,290.87	11,322.40	2.29%	3.94%
29	4th Qtr.	909.80	1,599.64	8,795.61	2.98%	1.65%
30						
31	2009					
32	1st Qtr.	809.31	1,485.14	7,774.06	3.00%	0.86%
33	2nd Qtr.	892.23	1,731.41	8,327.83	2.45%	0.82%
34	3rd Qtr.	996.68	1,985.25	9,229.93	2.16%	1.19%
35	4th Qtr.	1,088.70	2,162.33	10,172.78	1.99%	4.57%
36						
37	2010					
38	1st Qtr.	1,121.60	2,274.88	10,454.42	1.94%	5.21%
39	2nd Qtr.	1,135.25	2,343.40	10,570.54	1.97%	6.51%
40	3rd Qtr.	1,096.39	2,237.97	10,390.24	2.09%	6.30%
41	4th Qtr.	1,204.00	2,534.62	11,236.02	1.95%	6.15%
42						
43	2011					
44	1st Qtr.	1,302.74	2,741.01	12,024.62	1.85%	6.13%
45	2nd Qtr.	1,319.04	2,766.64	12,370.73	1.97%	6.35%
46	3rd Qtr.	1,237.12	2,613.11	11,671.47	2.15%	7.69%
47	4th Qtr.	1,225.65	2,600.91	11,798.65	2.25%	6.91%
48						
49	2012					
50	1st Qtr.	1,347.44	2,902.90	12,839.80	2.12%	6.29%
51	2nd Qtr.	1,350.39	2,928.62	12,765.58	2.30%	6.45%
52	3rd Qtr.	1,402.21	3,029.86	13,118.72	2.27%	6.00%
53	4th Qtr.	1,418.21	3,001.69	13,142.91	2.28%	6.07%
54						
55	2013					
56	1st Qtr.	1,514.41	3,177.10	14,000.30	2.21%	5.59%
57	2nd Qtr.	1,609.77	3,369.49	14,961.28	2.15%	5.66%
58	3rd Qtr.	1,675.31	3,643.63	15,255.25	2.14%	5.65%
	4th Qtr.					

Source: Council of Economic Advisors, Economic Indicators, various issues.

PROXY GROUP -- PER SHARE GROWTH RATES

Line No	COMPANY	5-Year Historic Growth Rates				Est'd '11-'13 to '17-'19 Growth Rates			
		EPS	DPS	BVPS	Average	EPS	DPS	BVPS	Average
1									
2	American States Water Co.	13.0%	6.5%	6.5%	8.7%	6.0%	9.0%	4.5%	6.5%
3	Aqua America, Inc.	11.0%	7.0%	6.0%	8.0%	8.5%	9.0%	5.5%	7.7%
4	California Water Service Group	4.0%	1.5%	4.5%	3.3%	7.5%	7.0%	4.5%	6.3%
5	Connecticut Water Service, Inc.	8.0%	2.0%	8.0%	6.0%	5.0%	3.0%	5.5%	4.5%
6	Middlesex Water	1.5%	1.5%	3.0%	2.0%	4.5%	2.0%	2.5%	3.0%
7	SJW Corporation	-0.5%	3.5%	2.5%	1.8%	7.0%	5.0%	6.0%	6.0%
8	York Water Company	5.0%	2.5%	5.0%	4.2%	7.0%	5.5%	2.5%	5.0%
9									
10									
11					4.9%				5.6%
12									
13									
14									
15									
16									
17									
18									
19									
20									
21									
22									
23									

24 Source: AUS Utility Reports and Value Line Investment Survey. (Attachment 2)

Line No	COMPANY	(A) RISK-FREE RATE	(B) BETA	(C) Risk Premium	(D) CAPM Rates	(E) CAPM COST OF EQUITY CAPITAL	
1	American States Water Co.	3.33%	0.70 X	5.47%	=	3.83%	7.16%
2	Aqua America, Inc.	3.33%	0.70 X	5.47%	=	3.83%	7.16%
3	California Water Service Group	3.33%	0.70 X	5.47%	=	3.83%	7.16%
4	Connecticut Water Service, Inc.	3.33%	0.65 X	5.47%	=	3.56%	6.89%
5	Middlesex Water	3.33%	0.70 X	5.47%	=	3.83%	7.16%
6	SJW Corporation	3.33%	0.80 X	5.47%	=	4.38%	7.71%
7	York Water Company	3.33%	0.75 X	5.47%	=	4.10%	7.43%

8

9 Mean 7.24%

10

11 Median 7.16%

12

13

14

15

16 **REFERENCES**

17 Column (A) - Federal Reserve Selected Interest Rates (Weekly) - H.15 - Treasury Constant Maturities 20-year

18 Column (B) - Value Line Investment Survey Ratings and Reports July 18, 2014

19 Column (C) - See testimony

20

PROXY UTILITIES
 RATES OF RETURN ON AVERAGE COMMON EQUITY

COMPANY	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	1992-2001 Average	2002-2008 Average	2009-2012 Average	2013	2014	2015-2018
	American States Water Co.	14.0%	11.7%	9.5%	10.0%	10.0%	9.4%	9.5%	10.2%	9.6%	10.5%	9.8%	5.6%	8.0%	10.4%	8.7%	9.3%	7.2%	8.8%	9.0%	11.7%	11.8%	10.4%	8.3%	10.3%	12.5%	12.0%
Aqua America Inc.	11.0%	11.4%	12.5%	12.0%	11.8%	12.5%	14.2%	13.8%	13.0%	14.0%	13.6%	12.3%	11.4%	11.6%	11.0%	10.0%	9.6%	9.6%	10.9%	11.8%	13.0%	12.6%	11.4%	11.3%	12.0%	12.0%	12.5%
California Water Service Group	10.4%	12.6%	10.6%	10.0%	12.6%	14.5%	11.0%	11.4%	10.3%	7.5%	9.6%	8.7%	9.8%	9.3%	7.6%	4.9%	10.1%	7.4%	8.8%	8.5%	9.5%	11.1%	8.6%	8.6%	7.0%	8.0%	8.5%
Connecticut Water Service, Inc.	12.1%	12.6%	12.6%	12.7%	12.4%	12.3%	12.2%	12.4%	11.8%	13.3%	11.6%	11.2%	11.4%	12.0%	7.5%	8.6%	9.2%	9.7%	8.8%	9.7%	11.2%	12.4%	10.3%	10.3%	9.0%	9.5%	8.5%
Middlesex Water	11.7%	12.6%	12.1%	12.0%	10.3%	11.2%	10.7%	10.2%	6.5%	9.0%	9.8%	8.2%	8.3%	8.4%	8.6%	8.8%	8.8%	7.0%	8.0%	7.6%	7.5%	10.6%	8.7%	7.8%	8.0%	8.5%	9.0%
SJW Corporation	11.6%	11.6%	9.5%	10.3%	10.2%	12.0%	11.6%	11.1%	9.6%	9.5%	9.4%	8.5%	11.3%	11.5%	10.2%	8.2%	11.2%	6.0%	8.0%	8.0%	8.6%	11.4%	11.4%	8.6%	8.0%	8.5%	9.0%
Towk Water Company	11.9%	12.6%	11.7%	10.7%	11.1%	10.9%	10.2%	10.3%	11.5%	11.3%	10.7%	11.7%	12.2%	11.6%	10.5%	9.7%	9.4%	9.0%	10.0%	9.7%	9.1%	11.5%	11.7%	9.6%	9.5%	10.0%	10.0%
Mean	11.8%	12.2%	11.0%	11.2%	12.1%	11.8%	11.4%	11.3%	10.4%	10.6%	11.5%	9.6%	10.3%	10.7%	10.2%	8.6%	9.4%	8.3%	9.4%	9.6%	10.1%	11.4%	10.0%	9.4%	9.5%	9.5%	9.9%
Median	11.8%	12.5%	11.2%	10.8%	11.6%	12.0%	11.0%	11.1%	10.3%	10.5%	9.8%	9.8%	11.3%	11.5%	8.6%	8.9%	9.4%	8.8%	9.0%	9.7%	9.8%	11.3%	9.9%	9.3%	9.0%	9.5%	9.5%

Source: AUS Utility Reports and Value Line Investment Survey.

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. WS-04235A-13-0331
UTILITY SOURCE, LLC, AN ARIZONA)
CORPORATION FOR A DETERMINATION)
OF THE CURRENT FAIR VALUE OF ITS)
UTILITY PLANT AND PROPERTY AND FOR)
INCREASES IN ITS WATER AND)
WASTEWATER RATES AND CHARGES FOR)
UTILITY SERVICE BASED THEREON.)

DIRECT

TESTIMONY OF

JEFFREY M. MICHLIK

PUBLIC UTILITIES ANALYST V

RESIDENTIAL UTILITY CONSUMER OFFICE

SEPTEMBER 4, 2014

TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. BACKGROUND	3
III. SUMMARY OF FILING, RECOMMENDATIONS, AND ADJUSTMENTS.....	6
IV. RATE BASE.....	8
Rate Base Summary.....	8
V. OPERATING INCOME	8
Operating Income Summary	8
<i>Operating Income Adjustment No. 1 – Depreciation Expense</i>	8
<i>Operating Income Adjustment No. 2 – Property Tax Expense</i>	9
<i>Operating Income Adjustment No. 3 – Income Tax Expense</i>	11
VI. RATE DESIGN.....	11
VII. OTHER ISSUES	16

**EXECUTIVE SUMMARY
UTILITY SOURCE, LLC
DOCKET NO. WS-042535A-13-0331**

Utility Source, LLC ("Company") is an Arizona limited liability company. The water and wastewater utility is located in Coconino County. The Company's system is located just north of highway 40 in Bellemont, Arizona. The Company served approximately 326 customers during the test year ended December 12, 2012. The Company's current rates were approved in Decision No. 70140, dated January 23, 2008.

Rate Application:

Water Division

The Company-proposed rates, as filed, produce total operating revenue of \$436,451, an increase of \$228,447 or 109.83 percent, over adjusted test year revenue of \$208,004. The Company-proposed revenue will provide operating income of \$172,320 and an 11.00 percent rate of return on its proposed \$1,566,542 fair value rate base ("FVRB") which is its original cost rate base ("OCRB").

The Residential Utility Consumer Office ("RUCO") recommends rates that produce total operating revenue of \$363,609, an increase of \$155,605 or 74.81 percent, from the RUCO-adjusted test year revenue of \$208,004. RUCO's recommended revenue will provide operating income of \$144,905 and a 9.25 percent return on the \$1,566,542 RUCO-adjusted FVRB and OCRB.

Wastewater Division

The Company-proposed rates, as filed, produce total operating revenue of \$318,044, an increase of \$196,760 or 162.23 percent, over adjusted test year revenue of \$121,284. The Company-proposed revenue will provide operating income of \$91,404 and an 11.00 percent rate of return on its proposed \$830,945 FVRB and OCRB.

RUCO recommends rates that produce total operating revenue of \$285,358 an increase of \$164,074 or 135.28 percent, from the RUCO-adjusted test year revenue of \$121,284. RUCO's recommended revenue will provide operating income of \$76,862 and a 9.25 percent return on the \$830,945 RUCO-adjusted FVRB and OCRB.

Rate Design:

Water Division

The Company proposes an inverted three-tier rate design for 5/8-inch and 3/4-inch residential customers, and an inverted two-tier rate design for residential and commercial customers with a meter size of 1-inch or greater, and flat commodity rate per 1,000 gallons for irrigation meters, standpipe/bulk and construction. The typical 3/4-inch meter residential bill with an average usage of 4,123 gallons would increase by \$37.42, or 97.01 percent, from \$38.58 to \$76.00.

RUCO recommends an inverted three-tier rate design for 5/8-inch and 3/4-inch residential customers, and an inverted two-tier rate design for residential and commercial customers with a

meter size of 1-inch or greater, and flat commodity rate per 1,000 gallons for irrigation meters, standpipe/bulk and construction. The recommended rate structure conforms to those regularly adopted by the Commission in recent years. The typical 3/4-inch meter residential bill with median usage of 4,123 gallons would increase by \$24.30, or 62.99 percent, from \$38.58 to \$62.88.

Wastewater Division

The Company proposes a monthly minimum charge based on customer meter size, and varying commodity charges per 1,000 gallons for Residential; Carwashes; Laundromats, Commercial, Manufacturing; Hotels and Motels; Restaurants; Industrial Laundries; Waste Haulers; Restaurant Grease; and Treatment Plant Sludge. The typical 3/4-inch meter residential bill with an average usage of 4,123 gallons would increase by \$50.83, or 211.13 percent, from \$24.08 to \$74.91.

RUCO recommends a varying commodity charges per 1,000 gallons for Residential; Carwashes; Laundromats, Commercial, Manufacturing; Hotels and Motels; Restaurants; Industrial Laundries; Waste Haulers; Restaurant Grease; and Treatment Plant Sludge. The typical 3/4-inch meter residential bill with an average usage of 4,123 gallons would increase by \$34.19, or 142 percent, from \$24.08 to \$58.27.

1 **I. INTRODUCTION**

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

3 A. My name is Jeffrey M. Michlik. I am a Public Utilities Analyst V employed by the
4 Arizona Residential Utility Consumer Office ("RUCO"). My business address is
5 1110 West Washington Street, Suite 220, Phoenix, Arizona 85007.

6
7 **Q. Briefly describe your responsibilities as a Public Utilities Analyst V.**

8 A. In my capacity as a Public Utilities Analyst V, I analyze and examine accounting,
9 financial, statistical and other information and prepare reports based on my
10 analyses that present RUCO's recommendations to the Arizona Corporation
11 Commission ("Commission") on utility revenue requirements, rate design and other
12 matters. I also provide expert testimony on these same issues.

13
14 **Q. Please describe your educational background and professional experience.**

15 A. In 2000, I graduated from Idaho State University, receiving a Bachelor of Business
16 Administration Degree in Accounting and Finance, and I am a Certified Public
17 Accountant with the Arizona State Board of Accountancy. I have attended the
18 National Association of Regulatory Utility Commissioners' ("NARUC") Utility Rate
19 School, which presents general regulatory and business issues. I have also
20 attended various other NARUC sponsored events.

21
22 I joined RUCO as a Public Utilities Analyst V in September of 2013. Prior to my
23 employment with RUCO, I worked for the Arizona Corporation Commission in the
24 Utilities Division as a Public Utilities Analyst for a little over seven years. Prior to
25 employment with the Commission, I worked one year in public accounting as a

1 Senior Auditor, and four years for the Arizona Office of the Auditor General as a
2 Staff Auditor.

3
4 **Q. What is the scope of your testimony in this case?**

5 A. I am presenting RUCO's analysis and recommendations regarding Utility Source,
6 LLC's ("Company") application for a permanent rate increase. I am also presenting
7 testimony schedules addressing, rate base, operating revenues and expenses,
8 revenue requirement, and rate design. Mr. Robert Mease is presenting RUCO's
9 Cost of Capital.

10

11 **Q. What is the basis of your testimony in this case?**

12 A. I performed a regulatory audit of the Company's application and records. The
13 regulatory audit consisted of examining and testing financial information,
14 accounting records, and other supporting documentation and verifying that the
15 accounting principles applied were in accordance with the Commission-adopted
16 NARUC Uniform System of Accounts ("USOA").

17

18 **Q. How is your testimony organized?**

19 A. My testimony is presented in seven sections. Section I is this introduction. Section
20 II provides a background of the Company. Section III is a summary of the
21 Company's filing and RUCO's rate base and operating income adjustments.
22 Section IV presents RUCO's rate base recommendations. Section V presents
23 RUCO's operating income recommendations. Section VI presents RUCO's rate
24 design. Section VII presents RUCO's recommendations on other issues identified
25 during our review.

26

1 **II. BACKGROUND**

2 **Q. Please review the background of this application.**

3 A. Utility Source, LLC ("Company") is an Arizona limited liability company. The water
4 and wastewater utility is located in Coconino County. The Company's water system
5 is located just north of highway 40 in Bellemont, Arizona. The Company served
6 approximately 326 customers during the test year ended December 12, 2012. The
7 Company's current rates were approved in Decision No. 70140, dated January 23,
8 2008.

9
10 **Q. Please provide a more detailed background about this Company's troubled**
11 **history and lack of regard for Commission rules and regulations?**

12 A. On page 3 of Decision No. 70140, dated January 23, 2008, it was noted that:
13 "Utility Source began as a homeowners' association, controlled by the developer.
14 The homeowners' association installed utility facilities, provided water and utility
15 services, and established rates without first having obtained authority from the
16 Commission to do so. Decision No. 67446 imposed a penalty of \$20,000, and
17 ordered that all assets used in the provision of utility service be transferred to the
18 Company. Decision No. 67446 found that increasing rates to a level commensurate
19 with the Company's projected revenues, expenses, and number of customers at
20 the end of five years of operations, as is customary with new CC&N applications,
21 would result in an unconscionable increase for existing customers (Decision No.
22 67446 at 16, Findings of Fact No. 31). Decision No. 67446 also found that
23 customers had not been provided notice in the CC&N proceeding that higher rates
24 might result (Id. At 16, Findings of Fact No. 32). Decision No. 67446 therefore
25 authorized the Company to continue charging the water and sewer rates that the
26 homeowners' association had been charging, findings that "[t]he initial rates for

1 Utility Source should therefore be set at the current level until an investigation can
2 be undertaken in a full rate case to determine the cost of plant that is used and
3 useful in the provision of service to customers, as well as an appropriate level of
4 revenues and expenses (Decision No. 67446 at 16, Findings of Fact, No. 32). While
5 granting CC&Ns usually order the Company to file rate case at the end of the first
6 five year period of operations, Decision No. 67446 ordered the Company to file a
7 rate application based on a 2005 test year within 17 months, due to the interim
8 nature of the initial rates authorized by the Decision (Decision No. 67446 at 18,
9 Findings of Fact No. 37).”
10

11 **Q. Are you familiar with the Company’s last rate case filing and Decision No.**
12 **70140, dated January 23, 2008?**

13 A. Yes.
14

15 **Q. Did the Company in that case agree to use 350 homes that were currently**
16 **under construction in its revenue requirement determination?**

17 A. Yes, in exchange Staff included \$736,583 in plant related to deep well number four
18 that was not needed to serve the 350 future customers. In addition, the Company
19 threatened to remove the inclusion of the 350 customers in its revenue requirement
20 unless Staff included the deep well number that the Company agreed was not used
21 and useful.
22

23 **Q. Is the Company proposing the same in this case?**

24 A. No. The Company is not proposing to use the 350 future customers in determination
25 of its revenue requirement. However, the Company is proposing to remove deep

1 well number four and any subsequent additions since the last rate case to deep
2 well number four.

3
4 **Q. As a benefit to ratepayers did the Commission also authorize a lower Rate of**
5 **Return on Rate Base (“ROR”) for the Company’s water division?**

6 A. Yes, the Commission in Decision No. 70140 lowered the ROR from 8.9 percent to
7 6.23 percent for the Company’s water division only. The Commission determined
8 this rate to be fair based the Company’s history of using artificially low and
9 unauthorized rates, including plant that was not used and useful, the concept of
10 gradualism, and the hybrid nature of the case.¹

11
12 **Q. What was the percentage increase in Commission Decision No. 70140 for the**
13 **typical residential 3/4-inch water and wastewater customer?**

14 A. Commission Decision No. 70140 authorized an increase of \$19.89 or 116.14
15 percent from \$23.10 to \$42.99, based on average water usage of 4,740 gallons for
16 the water division; and an increase of \$14.75 or 114 percent from \$12.94 to \$27.69,
17 based on average water usage of 4,740 gallons for the wastewater division.

18
19 **Q. And now the Company is proposing another increase over 100 percent for**
20 **both its water and wastewater divisions in this case?**

21 A. Yes.

22
23
24
25

¹ See Decision No. 70140 (Docket No. WS-04235A-06-0303), page 16 line 3.

1 **III. SUMMARY OF FILING, RECOMMENDATIONS, AND ADJUSTMENTS.**

2 **Q. Please summarize the Company's proposals for both the water and**
3 **wastewater divisions in this filing.**

4 A. The Company-proposed rates for its water division, as filed, will produce total
5 operating revenue of \$436,451, an increase of \$228,447 or 109.83 percent, over
6 adjusted test year revenue of \$208,004. The Company-proposed revenue will
7 provide operating income of \$172,320 and an 11.00 percent rate of return on its
8 proposed \$1,566,542 fair value rate base ("FVRB") which is its original cost rate
9 base ("OCRB").

10
11 The Company-proposed rates for its wastewater division, as filed, produce total
12 operating revenue of \$318,044, an increase of \$196,760 or 162.23 percent, over
13 adjusted test year revenue of \$121,284. The Company-proposed revenue will
14 provide operating income of \$91,404 and an 11.00 percent rate of return on its
15 proposed \$830,945 FVRB and OCRB.

16
17 **Q. Please summarize RUCO's recommendations for both the water and**
18 **wastewater divisions in this filing.**

19 A. The Residential Utility Consumer Office ("RUCO") recommends rates for the water
20 division that produce total operating revenue of \$363,609, an increase of \$155,605
21 or 74.81 percent, from the RUCO-adjusted test year revenue of \$208,004. RUCO's
22 recommended revenue will provide operating income of \$144,905 and a 9.25
23 percent return on the \$1,566,542 RUCO-adjusted FVRB and OCRB.

24
25 RUCO recommends rates for the wastewater division that produce total operating
26 revenue of \$285,358 an increase of \$164,074 or 135.28 percent, from the RUCO-

1 adjusted test year revenue of \$121,284. RUCO's recommended revenue will
2 provide operating income of \$80,112 and a 9.25 percent return on the \$830,945
3 RUCO-adjusted FVRB and OCRB.
4

5 **Q. What test year did the Company use in this filing?**

6 A. The Company's rate filing is based on the twelve months ended December 31, 2012
7 ("test year").
8

9 **Q. Please summarize the rate base adjustments addressed in your testimony.**

10 A. There are no rate base adjustments to be addressed in my testimony at this time.
11

12 **Q. Please summarize the operating revenue and expense adjustments
13 addressed in your testimony.**

14 A. My testimony addresses the following issues:

15 Depreciation Expense – This adjustment only pertains to water division, and
16 decreases depreciation expense by \$624.

17 Property Tax Expense – This adjustment applies to both the water and wastewater
18 division and decreases property taxes by \$706 for the water division and by \$420
19 for the wastewater division to adjust property taxes to RUCO's adjusted test year
20 amount.

21 Income Tax Expense – This adjustment increases income tax expense by \$2,064
22 for the water division and \$13,545 for the wastewater division to reflect the fact that
23 the Company does not pay income taxes, as it is classified by the Internal Revenue
24 Service as a pass-through entity.
25
26

1 **IV. RATE BASE**

2 **Fair Value Rate Base**

3 **Q. Did the Company prepare a schedule showing the elements of**
4 **Reconstruction Cost New Rate Base?**

5 A. No, the Company did not. The Company's filing treats the OCRB the same as the
6 FVRB.

7
8 ***Rate Base Summary***

9 **Q. Please summarize RUCO's adjustments to the Company's rate base.**

10 A. RUCO has made no adjustments to rate base at this time.

11
12 **V. OPERATING INCOME**

13 ***Operating Income Summary***

14 **Q. What are the results of RUCO's analysis of test year revenues, expenses, and**
15 **operating income?**

16 A. RUCO's analysis resulted in adjusted test year operating revenues for the water
17 division of \$363,609, operating expenses of \$218,704 and operating income of
18 \$144,905, as shown on RUCO schedules 5 and 6; and RUCO's analysis resulted
19 in adjusted test year operating revenues for the wastewater division of \$285,358,
20 operating expenses of \$208,496 and operating income of \$80,112, as shown on
21 RUCO schedules 5 and 6. RUCO made three adjustments to operating expenses.

22
23 ***Operating Income Adjustment No. 1 – Depreciation Expense***

24 **Q. Did RUCO make an adjustment to depreciation expense for the water**
25 **division?**

26 A. Yes, this adjustment was only made to the water division.

1 **Q. What adjustment did RUCO make?**

2 A. RUCO excluded plant that was fully depreciated in its calculation of the composite
3 depreciation rate.

4
5 **Q. What is RUCO's recommendation?**

6 A. RUCO recommends decreasing depreciation expense by \$624 from \$57,728 to
7 \$57,104, as shown in Schedule JMM-7.

8
9 ***Operating Income Adjustment No. 2 – Property Tax Expense***

10 **Q. What method has the Commission typically adopted to determine property**
11 **tax expense for ratemaking purposes for Class C and above water utilities?**

12 A. The Commission's practice in recent years has been to use a modified Arizona
13 Department of Revenue ("ADOR") methodology for water and wastewater utilities.

14
15 **Q. Did RUCO calculate property taxes using the modified ADOR method?**

16 A. Yes. As shown on Schedule JMM-8, RUCO calculated property tax expense using
17 the modified ADOR method for both test year and RUCO-recommended revenues.
18 Since the modified ADOR method is revenue dependent, the property tax is
19 different for test year and recommended revenues. RUCO has included a factor
20 for property taxes in the gross revenue conversion factor that adjusts the revenue
21 requirement for changes in revenue in the same way that income taxes are adjusted
22 for changes in operating income.

23
24
25
26

1 **Q. Has RUCO also made an adjustment to the property tax assessment ratio?**

2 A. Yes. Based on House Bill 2001, RUCO has adjusted the property tax assessment
3 ratio to 18.125 percent. The Company in its filing used an 20.00 percent
4 assessment ratio.

5
6 **Q. How did RUCO derive its property tax assessment ratio?**

7 A. Based on *known and measureable* rates from House Bill 2001, and the
8 methodology that was approved in Decision No. 74568 (dated June 20, 2014).

9
10 **Q. Please explain the methodology used in Decision No. 74568?**

11 A. In that case an average of known and measurable property taxes assessment rates
12 were used to derive a property tax assessment ratio.

13
14 **Q. Does RUCO propose a similar methodology in this case?**

15 A. Yes. Based on the revised procedural order issued by the hearing division, new
16 rates will not likely go into effect until after March 30, 2015. The Property tax rate is
17 18.5 percent after December 31, 2014 and 18.0 percent after December 31, 2015.
18 Assuming three years between rate cases, the average is 18.125 percent (i.e. 9
19 months at 18.5 percent and 27 months at 18.0 percent).

20
21 **Q. What does RUCO recommend for test year property tax expense?**

22 A. RUCO recommends decreasing test year property tax expense by \$706 for the
23 water division from \$7,530 to \$6,824; and by \$420 for the waste water division from
24 \$4,476 to \$4,056, as shown in schedule JMM-8.

25

1 ***Operating Income Adjustment No. 3 – Income Tax Expense***

2 **Q. Did RUCO make an adjustment to income tax expense?**

3 A. Yes.

4
5 **Q. What adjustment did RUCO make and why?**

6 A. RUCO's adjustment removes the Company's pro forma adjustment and increases
7 income taxes by \$2,064 for the water division and \$13,545 for the wastewater
8 division to zero out the negative income taxes in the adjusted test year. RUCO
9 removed income taxes because the Company is classified as a limited liability
10 company and, therefore, does not report income taxes at the corporate level, but
11 passes this income through to its shareholders. RUCO's adjustment is shown on
12 Schedule JMM-9.

13
14 **Q. What is RUCO's recommendation?**

15 A. RUCO recommends the removal of all income tax expense. Since RUCO
16 recommends the removal of all income taxes, the Gross Revenue Conversion
17 Factor for income taxes has also been removed.

18
19 **VI. RATE DESIGN**

20 ***Water Division***

21 **Q. Please briefly describe the current rate design structure for the water**
22 **division?**

23 A. There are currently four customer classifications; residential, commercial, irrigation,
24 and bulk/construction. The present rate design is based on monthly minimum
25 charges that increase by meter size. Residential and commercial customers have
26 tiered commodity rate charges per one-thousand gallons consumed. Only the 5/8-

1 inch and 3/4-inch residential and commercial customers have a three-tier
2 commodity rate design. The larger size residential and commercial customers have
3 a two-tier commodity rate design, while irrigation and bulk/construction customers
4 have a flat commodity rate per one-thousand gallons consumed.

5
6 **Q. Has either the Company or RUCO altered this general rate structure for the**
7 **water division?**

8 A. I do not believe so.

9
10 **Q. Have you prepared schedules summarizing the present, Company-proposed,**
11 **and RUCO-recommended rates and charges for the water division?**

12 A. Yes. RUCO has presented the Company and its recommended rates in RUCO
13 Schedule JMM-10A for the water division.

14
15 **Q. Would you please summarize the present rate design for the typical 3/4-inch**
16 **residential water customer?**

17 A. The present monthly minimum charge for a 3/4-inch residential customer is \$18.50.
18 No gallons are included in the monthly minimum charge. The residential water
19 commodity rate for the 3/4-inch residential customer is \$4.80 per thousand gallons
20 for 1 to 4,000 gallons, \$7.16 per thousand gallons for 4,001 to 9,000 gallons, and
21 \$8.60 per thousand gallons for any consumption over 9,000 gallons.

22
23 **Q. Would you please summarize the Company's proposed rate design for the**
24 **3/4-inch residential customer?**

25 A. The Company-proposed monthly minimum charge for a 3/4-inch residential
26 customer is \$41.07. No gallons are included in the monthly minimum charge. The

1 residential water commodity rate for the 3/4-inch residential customer is \$8.25 per
2 thousand gallons for 1 to 4,000 gallons, \$15.75 per thousand gallons for 4,001 to
3 9,000 gallons, and \$21.75 per thousand gallons for any consumption over 9,000
4 gallons.

5
6 **Q. Would you please summarize RUCO's recommended rate design for the 3/4-**
7 **inch residential customer?**

8 A. RUCO recommends a monthly minimum charge for a 3/4-inch residential customer
9 of \$30.00. No gallons are included in the monthly minimum charge. RUCO
10 recommends the residential water commodity rate for the 3/4-inch residential
11 customer of \$7.79 per thousand gallons for 1 to 4,000 gallons, \$14.00 per thousand
12 gallons for 4,001 to 9,000 gallons, and \$18.50 per thousand gallons for any
13 consumption over 9,000 gallons.

14
15 **Q. What is the rate impact on a typical 3/4-inch meter residential customer?**

16 A. The Company-proposed rates would increase the monthly bill for a typical 3/4-inch
17 meter residential customer, with an average usage of 4,123 gallons, by \$37.42
18 percent or 97.01 percent, from \$38.58 to \$76.00. Under the RUCO-recommended
19 rate design for permanent rates, the monthly bill for a typical residential 3/4-inch
20 residential customer, with an average usage of 4,123 gallons, would increase by
21 \$24.30 or 62.99 percent, from \$38.58 to \$62.88.

22
23 A typical bill analysis is provided on RUCO Schedule JMM-11A.
24
25
26

1 **Wastewater Division**

2 **Q. Please briefly describe the current rate design structure for the wastewater**
3 **division?**

4 A. The present rates per 1,000 gallons of water usage by customer category are as
5 follows: residential \$5.84; car washes, laundromats, commercial, and
6 manufacturing \$5.71; hotels and motels \$7.66; restaurants \$9.46; industrial
7 laundries \$8.39; waste haulers \$171.20; restaurant grease \$149.80; treatment plant
8 sludge \$171.20; and mud sump waste \$535.00.

9
10 **Q. Is the Company proposing any changes to the general rate design structure**
11 **of the wastewater division?**

12 A. Yes. The Company now proposes a monthly charge based on meter size for all its
13 customers.

14
15 **Q. Is RUCO recommending any changes to the general rate design structure of**
16 **wastewater division?**

17 A. No.

18
19 **Q. Have you prepared schedules summarizing the present, Company-proposed,**
20 **and RUCO-recommended rates and charges for the wastewater division?**

21 A. Yes. RUCO has presented the Company and its recommended rates in RUCO
22 Schedule JMM-10B for the wastewater division.

23
24
25

1 **Q. Would you please summarize the present rate design for the typical**
2 **residential wastewater customer?**

3 A. The present monthly minimum charge for the residential customer is \$0.00. No
4 gallons are included in the monthly minimum charge. The residential wastewater
5 commodity rate for the residential customer is \$5.8400 per thousand gallons.

6
7 **Q. Would you please summarize the Company's proposed rate design for the**
8 **residential wastewater customer?**

9 A. The Company-proposed monthly minimum charge for the residential customer is
10 \$53.00. No gallons are included in the monthly minimum charge. The proposed
11 commodity rate for the residential customer is \$5.3144 per thousand gallons.

12
13 **Q. Would you please summarize RUCO's recommended rate design for the**
14 **residential wastewater customer?**

15 A. RUCO recommends no monthly minimum charge for the residential customer.
16 RUCO recommends a commodity rate for the residential customer of \$14.1328 per
17 thousand gallons.

18
19 **Q. What is the rate impact on a typical residential wastewater customer?**

20 A. The Company-proposed rates would increase the monthly bill for a typical
21 residential customer, with an average usage of 4,123 gallons, by \$50.83 or 211.13
22 percent, from \$24.08 to \$74.91. Under the RUCO-recommended rate design for
23 permanent rates, the monthly bill for a typical residential customer would increase
24 by \$34.19 or 142 percent, from \$24.08 to \$58.27.

25
26

A typical bill analysis is provided on RUCO Schedule JMM-11B.

1 **Q. Is RUCO working on some alternative rate designs to help mitigate the rate**
2 **shock that would result?**

3 A. Yes, and they will be presented in RUCO's surrebuttal testimony.
4

5 **VII. OTHER ISSUES**

6 **Q. Has RUCO made a determination of other revenue that the Company maybe**
7 **receiving through the use of its standpipe?**

8 A. No, not at this juncture. However, the Company did state in a reply to a Staff data
9 request that its standpipe would be used and useful on September 1, 2014. In
10 addition the Company was unwilling to speculate on future revenue streams. As a
11 result RUCO reserves the right to make additional adjustment(s) as more
12 information becomes available.

13
14 **Q. Has RUCO received responses to all of its outstanding data request at this**
15 **time?**

16 A. No, and as a result reserves the right to make additional adjustment(s) in its
17 surrebuttal testimony.

18
19 **Q. Does this conclude your direct testimony?**

20 A. Yes, it does.
21

Utility Source, LLC - Water Division
Docket No. WS-04235A-13-0331
Test Year Ended: December 31, 2012

Direct Schedules of Jeffrey M. Michlik

TABLE OF CONTENTS TO SCHEDULES

<u>SCH #</u>	<u>TITLE</u>
JMM-1	REVENUE REQUIREMENT
JMM-2	RATE BASE - ORIGINAL COSTS
JMM-3	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
JMM-4	ORIGINAL COST RATE BASE ADJUSTMENT # 1 - NOT USED
JMM-5	OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND RUCO RECOMMENDED
JMM-6	SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR
JMM-7	OPERATING INCOME ADJUSTMENT # 1 - DEPRECIATION EXPENSE
JMM-8	OPERATING INCOME ADJUSTMENT # 2 - PROPERTY TAX EXPENSE
JMM-9	OPERATING INCOME ADJUSTMENT # 3 - TEST YEAR INCOME TAXES
JMM-10A	RATE DESIGN
JMM-11A	TYPICAL BILL

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY FAIR VALUE	(B) RUCO FAIR VALUE
1	Adjusted Rate Base	\$ 1,566,542	\$ 1,566,542
2	Adjusted Operating Income (Loss)	\$ (8,265)	\$ (8,998)
3	Current Rate of Return (L2 / L1)	-0.53%	-0.57%
4	Required Rate of Return	11.00%	9.25%
5	Required Operating Income (L4 * L1)	\$ 172,320	\$ 144,905
6	Operating Income Deficiency (L5 - L2)	\$ 180,584	\$ 153,904
7	Gross Revenue Conversion Factor	1.2650	1.0111 *
8	Required Revenue Increase (L7 * L6)	\$ 228,447	\$ 155,605
9	Adjusted Test Year Revenue	\$ 208,004	\$ 208,004
10	Proposed Annual Revenue (L8 + L9)	\$ 436,451	\$ 363,609
11	Required Increase in Revenue (%)	109.83%	74.81%

References:

Column (A): Company Schedule A-1

Column (B): RUCO Schedules JMM-2 and JMM-5

* RUCO includes a property tax revenue conversion factor

Utility Source, LLC - Water Division
Docket No. WS-04235A-13-0331
Test Year Ended: December 31, 2012

Schedule JMM-2

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) RUCO ADJUSTMENTS	(C) RUCO AS ADJUSTED
1	Plant in Service	\$ 2,496,640	\$ 2,496,640
2	Less: Accumulated Depreciation	726,406	726,406
3	Net Plant in Service	<u>\$ 1,770,234</u>	<u>\$ 1,770,234</u>
4			
5	<u>LESS:</u>		
6			
7	Contributions in Aid of Construction (CIAC)	\$ 294,745	\$ 294,745
8	Less: Accumulated Amortization	96,938	96,938
9	Net CIAC	<u>197,807</u>	<u>\$ 197,807</u>
10			
11	Advances in Aid of Construction (AIAC)	-	-
12			
13	Customer Meter Deposits	5,885	5,885
14	Customer Deposits	-	-
15	Deferred Income Taxes & Credits	-	-
17	FHSD Settlement	-	-
18			
19	<u>ADD:</u>		
20			
21			
22	Deferred Debits	-	-
23			
24	Working Capital Allowance	-	-
25			
26			
27	Original Cost Rate Base	<u>\$ 1,566,542</u>	<u>\$ 1,566,542</u>

References:

Column [A]: Company as Filed

Column [B]: Schedule JMM-3

Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.		[A]	[B]	[C]
				ADJ #1	
				Not	
				Used	
			COMPANY	Ref: Sch JMM-4	RUCO
		DESCRIPTION	AS FILED		ADJUSTED
1	301	Organization Cost	\$ -	\$ -	\$ -
2	302	Franchise Cost	-	-	-
3	303	Land and Land Rights	210,000	-	210,000
4	304	Structures and Improvements	72,997	-	72,997
5	305	Collecting and Impounding Res.	-	-	-
6	306	Lake River and Other Intakes	-	-	-
7	307	Wells and Springs	1,353,539	-	1,353,539
8	308	Infiltration Galleries and Tunnels	-	-	-
9	309	Supply Mains	-	-	-
10	310	Power Generation Equipment	89,125	-	89,125
11	311	Electric Pumping Equipment	158,711	-	158,711
12	320.0	Water Treatment Equipment	5,487	-	5,487
13	320.1	Water Treatment Plant	-	-	-
14	320.2	Chemical Solution Feeders	-	-	-
15	330	Dist. Reservoirs & Standpipe	321,452	-	321,452
16	330.1	Storage tanks	-	-	-
17	330.2	Pressure Tanks	-	-	-
18	331	Trans. and Dist. Mains	161,632	-	161,632
19	333	Services	86,250	-	86,250
20	334	Meters	-	-	-
21	335	Hydrants	34,500	-	34,500
22	336.0	Backflow Prevention Devices	-	-	-
23	339	Other Plant and Misc. Equip.	-	-	-
24	340	Office Furniture and Fixtures	2,947	-	2,947
25	340	Computers and Software	-	-	-
26	341	Transportation Equipment	-	-	-
27	342	Stores Equipment	-	-	-
28	343	Tools and Work Equipment	-	-	-
29	344	Laboratory Equipment	-	-	-
30	345	Power Operated Equipment	-	-	-
31	346	Communications Equipment	-	-	-
32	347	Miscellaneous Equipment	-	-	-
33	348	Other Tangible Plant	-	-	-
51		Total Plant in Service	\$ 2,496,640	\$ -	\$ 2,496,640
52		Less: Accumulated Depreciation	726,406	-	726,406
53			-	-	-
54		Net Plant in Service	\$ 1,770,234	\$ -	\$ 1,770,234
55					
56		<u>LESS:</u>			
57		Contributions in Aid of Construction (CIAC)	\$ 294,745	\$ -	\$ 294,745
58		Less: Accumulated Amortization	96,938	-	96,938
59		Net CIAC (L25 - L26)	197,807	-	197,807
60		Advances in Aid of Construction (AIAC)	-	-	-
61		Customer Deposits	5,885	-	5,885
62			-	-	-
63			-	-	-
64			-	-	-
66		<u>ADD:</u>			
67		Deferred Debits	-	-	-
68		Working Capital Allowance	-	-	-
69			-	-	-
70		Original Cost Rate Base	\$ 1,566,542	\$ -	\$ 1,566,542

Utility Source, LLC - Water Division
Docket No. WS-04235A-13-0331
Test Year Ended: December 31, 2012

Schedule JMM-4

RATE BASE ADJUSTMENT NO. 1 - NOT USED

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	RUCO ADJUSTMENTS	RUCO RECOMMENDED
1			\$ -	\$ -	\$ -

REFERENCES:

Column [A]: Company Filing

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND RUCO RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] RUCO TEST YEAR ADJUSTMENTS	[C] RUCO TEST YEAR AS ADJUSTED	[D] RUCO PROPOSED CHANGES	[E] RUCO RECOMMENDED
1	REVENUES:					
2	Metered Water Sales	\$ 202,743	\$ -	\$ 202,743	\$ 155,605	\$ 358,348
3	Water Sales-Unmetered	-	-	-	-	-
4	Other Operating Revenue	5,261	-	5,261	-	5,261
5	Intentionally Left Blank	-	-	-	-	-
6	Total Operating Revenues	<u>\$ 208,004</u>	<u>\$ -</u>	<u>\$ 208,004</u>	<u>\$ 155,605</u>	<u>\$ 363,609</u>
7						
8	OPERATING EXPENSES:					
9	Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -
10	Purchased Water	-	-	-	-	-
11	Purchased Power	66,787	-	66,787	-	66,787
12	Fuel For Power Production	-	-	-	-	-
13	Chemicals	1,460	-	1,460	-	1,460
14	Materials and Supplies	12,257	-	12,257	-	12,257
15	Office Supplies and Expense	2,399	-	2,399	-	2,399
16	Contractual Services - Accounting	20,253	-	20,253	-	20,253
17	Contractual Services - Professional	9,651	-	9,651	-	9,651
18	Contractual Services - Maintenance	-	-	-	-	-
19	Contractual Services - Other	-	-	-	-	-
20	Water Testing	8,107	-	8,107	-	8,107
21	Rents	-	-	-	-	-
	Transportation Expenses	-	-	-	-	-
22	Insurance - General Liability	2,186	-	2,186	-	2,186
23	Insurance - Health and Life	-	-	-	-	-
24	Reg. Comm. Exp. - Other	-	-	-	-	-
25	Reg. Comm. Exp. - Rate Case	10,000	-	10,000	-	10,000
26	Miscellaneous Expense	19,976	-	19,976	-	19,976
27	Bad Debt Expense	-	-	-	-	-
	Depreciation and Amortization Expense	57,728	(624)	57,104	-	57,104
28	Taxes Other Than Income	-	-	-	-	-
29	Property Taxes	7,530	(706)	6,824	1,702	8,526
30	Income Tax	(2,064)	2,064	(0)	-	(0)
31	Interest on Customer Deposits	-	-	-	-	-
32	Total Operating Expenses	<u>\$ 216,269</u>	<u>\$ 734</u>	<u>\$ 217,003</u>	<u>\$ 1,702</u>	<u>\$ 218,704</u>
33	Operating Income (Loss)	<u>\$ (8,265)</u>	<u>\$ (734)</u>	<u>\$ (8,998)</u>	<u>\$ 153,904</u>	<u>\$ 144,905</u>

References:

- Column (A): Company Schedule C-1
- Column (B): Schedule JMM-6
- Column (C): Column (A) + Column (B)
- Column (D): Schedule JMM-8
- Column (E): Column (C) + Column (D)

Utility Source, LLC - Water Division
 Docket No. WS-04235A-13-0331
 Test Year Ended: December 31, 2012

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Depreciation Expense ADJ #1 Ref: Sch JMM-7	[C] Property Tax Expense ADJ #2 Ref: Sch JMM-8	[D] Income Tax Expense ADJ #3 Ref: Sch JMM-9	[E] RUCO ADJUSTED
1	<u>REVENUES:</u>					
2	Metered Water Sales	\$ 202,743	-	-	-	202,743
3	Water Sales-Unmetered	-	-	-	-	-
4	Other Operating Revenue	5,261	-	-	-	5,261
5	Intentionally Left Blank	-	-	-	-	-
6	Total Operating Revenues	\$ 208,004	\$ -	\$ -	\$ -	208,004
7						
8	<u>OPERATING EXPENSES:</u>					
9	Salaries and Wages	-	-	-	-	-
10	Purchased Water	-	-	-	-	-
11	Purchased Power	66,787	-	-	-	66,787
12	Fuel For Power Production	-	-	-	-	-
13	Chemicals	1,460	-	-	-	1,460
14	Materials and Supplies	12,257	-	-	-	12,257
15	Office Supplies and Expense	2,399	-	-	-	2,399
16	Contractual Services - Accounting	20,253	-	-	-	20,253
17	Contractual Services - Professional	9,651	-	-	-	9,651
18	Contractual Services - Maintenance	-	-	-	-	-
19	Contractual Services - Other	-	-	-	-	-
20	Water Testing	8,107	-	-	-	8,107
21	Rents	-	-	-	-	-
22	Transportation Expenses	-	-	-	-	-
23	Insurance - General Liability	2,186	-	-	-	2,186
24	Insurance - Health and Life	-	-	-	-	-
25	Reg. Comm. Exp. - Other	-	-	-	-	-
26	Reg. Comm. Exp. - Rate Case	10,000	-	-	-	10,000
27	Miscellaneous Expense	19,976	-	-	-	19,976
28	Bad Debt Expense	-	(624)	-	-	-
29	Depreciation and Amortization Expense	57,728	-	-	-	57,104
30	Taxes Other Than Income	-	-	(706)	-	-
31	Property Taxes	7,530	-	-	-	6,824
32	Income Tax	(2,064)	-	-	2,064	(0)
33	Interest on Customer Deposits	-	-	-	-	-
34	Total Operating Expenses	\$ 216,269	(624)	(706)	2,064	217,002
35	Operating Income (Loss)	\$ (8,265)	\$ 624	\$ 706	\$ (2,064)	\$ (8,997)

OPERATING INCOME ADJUSTMENT NO. 1 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]	[D]	[E]
			PLANT In SERVICE Per RUCO	NonDepreciable or Fully Depreciated PLANT	DEPRECIABLE PLANT (Col A - Col B)	DEPRECIATION RATE	DEPRECIATION EXPENSE (Col C x Col D)
1	301	Organization Cost	\$ -	\$ -	\$ -	0.00%	\$ -
2	302	Franchise Cost	\$ -	\$ -	\$ -	0.00%	\$ -
3	303	Land and Land Rights	\$ 210,000	\$ 210,000	\$ -	0.00%	\$ -
4	304	Structures and Improvements	\$ 72,997	\$ -	\$ 72,997	3.33%	\$ 2,431
5	305	Collecting and Impounding Res.	\$ -	\$ -	\$ -	2.50%	\$ -
6	306	Lake River and Other Intakes	\$ -	\$ -	\$ -	2.50%	\$ -
7	307	Wells and Springs	\$ 1,353,539	\$ -	\$ 1,353,539	3.33%	\$ 45,073
8	308	Infiltration Galleries and Tunnels	\$ -	\$ -	\$ -	6.67%	\$ -
9	309	Supply Mains	\$ -	\$ -	\$ -	2.00%	\$ -
10	310	Power Generation Equipment	\$ 89,125	\$ -	\$ 89,125	5.00%	\$ 4,456
11	311	Electric Pumping Equipment	\$ 158,711	\$ 158,711	\$ -	12.50%	\$ -
12	320.0	Water Treatment Equipment	\$ 5,487	\$ -	\$ 5,487	3.33%	\$ 183
13	320.1	Water Treatment Plant	\$ -	\$ -	\$ -	3.33%	\$ -
14	320.2	Chemical Solution Feeders	\$ -	\$ -	\$ -	20.00%	\$ -
15	330	Dist. Reservoirs & Standpipe	\$ 321,452	\$ -	\$ 321,452	2.22%	\$ 7,136
16	330.1	Storage tanks	\$ -	\$ -	\$ -	2.22%	\$ -
17	330.2	Pressure Tanks	\$ -	\$ -	\$ -	5.00%	\$ -
18	331	Trans. and Dist. Mains	\$ 161,632	\$ -	\$ 161,632	2.00%	\$ 3,233
19	333	Services	\$ 86,250	\$ -	\$ 86,250	3.33%	\$ 2,872
20	334	Meters	\$ -	\$ -	\$ -	8.33%	\$ -
21	335	Hydrants	\$ 34,500	\$ -	\$ 34,500	2.00%	\$ 690
22	336.0	Backflow Prevention Devices	\$ -	\$ -	\$ -	6.67%	\$ -
23	339	Other Plant and Misc. Equip.	\$ -	\$ -	\$ -	6.67%	\$ -
24	340	Office Furniture and Fixtures	\$ 2,947	\$ -	\$ 2,947	6.67%	\$ 197
25	340	Computers and Software	\$ -	\$ -	\$ -	20.00%	\$ -
26	341	Transportation Equipment	\$ -	\$ -	\$ -	20.00%	\$ -
27	342	Stores Equipment	\$ -	\$ -	\$ -	4.00%	\$ -
28	343	Tools and Work Equipment	\$ -	\$ -	\$ -	5.00%	\$ -
29	344	Laboratory Equipment	\$ -	\$ -	\$ -	10.00%	\$ -
30	345	Power Operated Equipment	\$ -	\$ -	\$ -	5.00%	\$ -
31	346	Communications Equipment	\$ -	\$ -	\$ -	10.00%	\$ -
32	347	Miscellaneous Equipment	\$ -	\$ -	\$ -	10.00%	\$ -
33	348	Other Tangible Plant	\$ -	\$ -	\$ -	10.00%	\$ -
34		Total Plant	\$ 2,496,640	\$ 368,711	\$ 2,127,929		\$ 66,270
35							
36		Composite Depreciation Rate:					3.11%
37		Contributions in Aid of Construction ("CIAC"):					\$ 294,745
38		Amortization of CIAC:					\$ 9,167
39							
40		Depreciation Expense before Amortization of CIAC:					\$ 66,270
41		Less Amortization of CIAC:					\$ 9,167
42		Test Year Depreciation Expense - RUCO					\$ 57,104
43							
44		Depreciation Expense - Company					\$ 57,728
45							
46		RUCO's Adjustment to Depreciation Expense					\$ (624)

References:
Column [A]: Schedule JMM-3
Column [B]: From Column [A]
Column [C]: Column [A] - Column [B]
Column [D]: Company Engineering Depreciation Rates
Column [E]: Column [C] x Column [D]

OPERATING INCOME ADJUSTMENT NO. 2 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] RUCO AS ADJUSTED	[B] RUCO RECOMMENDED
1	RUCO Adjusted Test Year Revenues	\$ 208,004	\$ 208,004
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	416,008	\$ 416,008
4	RUCO Recommended Revenue, Per Schedule JMM-1	208,004	\$ 363,609
5	Subtotal (Line 4 + Line 5)	624,012	779,618
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	208,004	\$ 259,873
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	416,008	\$ 519,745
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	\$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	416,008	\$ 519,745
13	Assessment Ratio	18.125%	18.125%
14	Assessment Value (Line 12 * Line 13)	75,402	\$ 94,204
15	Composite Property Tax Rate (Per Company Schedule)	9.0503%	9.0503%
16			
17	RUCO Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 6,824	
18	Company Proposed Property Tax	7,530	
19			
20	RUCO Test Year Adjustment (Line 16-Line 17)	\$ (706)	
21			
22	Property Tax - RUCO Recommended Revenue (Line 14 * Line 15)		\$ 8,526
23	RUCO Test Year Adjusted Property Tax Expense (Line 16)		\$ 6,824
24	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 1,702
25			
26	Increase to Property Tax Expense		\$ 1,702
27	Increase in Revenue Requirement		155,605
28	Increase to Property Tax per Dollar Increase in Revenue (Line 19/Line 20)		1.093577%
29			
30	Property Tax Conversion Factor = 1 / (1 - .01093577)		1.0111

REFERENCES:

Column [A]: Company Filing
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Utility Source, LLC - Water Division
Docket No. WS-04235A-13-0331
Test Year Ended: December 31, 2012

Schedule JMM-9

OPERATING INCOME ADJUSTMENT NO. 3 - INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY PROPOSED	RUCO ADJUSTMENTS	RUCO RECOMMENDED
1	Income Tax Expense	\$ (2,064)	\$ 2,064	\$ (0)

REFERENCES:

Column [A]: Company Filing
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Rate Design

Monthly Usage Charge	Present	Company Proposed Rates	RUCO Recommended Rates
Meter Size (All Classes):			
5/8x3/4 Inch	\$ 18.50	\$ 41.07	\$ 30.00
3/4 Inch	18.50	41.07	30.00
1 Inch	46.50	102.68	75.00
1 1/2 Inch	92.50	205.35	150.00
2 Inch	148.00	328.56	240.00
3 Inch	296.00	657.12	480.00
4 Inch	462.50	1,026.75	750.00
6 Inch	925.00	2,053.50	1,500.00
8 Inch	N/A	N/A	2,400.00
10 Inch	N/A	N/A	3,450.00
12 Inch	N/A	N/A	6,450.00
Commodity Charge - Per 1,000 Gallons			
<u>5/8x3/4 and 3/4" Meter (Residential)</u>			
First 4,000 gallons	\$ 4.80	\$ 8.25	\$ 7.79
4,001 to 9,000 gallons	7.16	15.75	14.00
Over 9,000 gallons	8.60	21.75	18.50
<u>5/8x3/4 and 3/4" Meter (Commercial)</u>			
First 4,000 gallons	4.80	N/A	N/A
4,001 to 9,000 gallons	7.16	N/A	N/A
Over 9,000 gallons	8.60	N/A	N/A
First 9,000 gallons	N/A	15.75	14.00
Over 9,000 gallons	N/A	21.75	18.50
<u>1" Meter (Residential, Commercial)</u>			
First 27,000 gallons	4.80	N/A	N/A
Over 27,000 gallons	7.16	N/A	N/A
First 18,000 gallons	N/A	N/A	14.00
Over 18,000 gallons	N/A	N/A	18.50
<u>1.5" Meter (Residential, Commercial)</u>			
First 57,000 gallons	4.80	15.75	N/A
Over 57,000 gallons	7.16	21.75	N/A
First 33,000 gallons	N/A	N/A	14.00
Over 33,000 gallons	N/A	N/A	18.50
<u>2" Meter (Residential, Commercial)</u>			
First 94,000 gallons	4.80	15.75	N/A
Over 94,000 gallons	7.16	21.75	N/A
First 52,000 gallons	N/A	N/A	14.00
Over 52,000 gallons	N/A	N/A	18.50
<u>3" Meter (Residential, Commercial)</u>			
First 195,000 gallons	4.80	15.75	N/A
Over 195,000 gallons	7.16	21.75	N/A
First 104,000 gallons	N/A	N/A	14.00
Over 104,000 gallons	N/A	N/A	18.50
<u>4" Meter (Residential, Commercial)</u>			
First 309,000 gallons	4.80	15.75	N/A
Over 309,000 gallons	7.16	21.75	N/A
First 160,000 gallons	N/A	N/A	14.00
Over 160,000 gallons	N/A	N/A	18.50

Rate Design

6" Meter (Residential, Commercial)

First 615,000 gallons	4.80	15.75	N/A
Over 615,000 gallons	7.16	21.75	N/A

First 325,000 gallons	N/A	N/A	14.00
Over 325,000 gallons	N/A	N/A	18.50

8" Meter (Residential, Commercial)

First 524,000 gallons	N/A	N/A	14.00
Over 524,000 gallons	N/A	N/A	18.50

10" Meter (Residential, Commercial)

First 750,000 gallons	N/A	N/A	14.00
Over 750,000 gallons	N/A	N/A	18.50

12" Meter (Residential, Commercial)

First 1,400,000 gallons	N/A	N/A	14.00
Over 1,400,000 gallons	N/A	N/A	18.50

Irrigation

All Usage	9.26	21.75	18.50
-----------	------	-------	-------

Bulk/Construction

All Usage	10.35	21.75	18.50
-----------	-------	-------	-------

Typical Bill Analysis
General Service 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	4,123	\$ 38.58	\$ 76.00	\$ 37.42	97.01%
Median Usage	3,500	35.30	69.95	\$ 34.65	98.14%
RUCO Recommended					
Average Usage	4,123	\$ 38.58	\$ 62.88	\$ 24.30	62.99%
Median Usage	3,500	35.30	57.27	\$ 21.97	62.22%

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

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	RUCO Recommended Rates	% Increase
-	\$ 18.50	\$ 41.07	122.00%	\$ 30.00	62.16%
1,000	\$ 23.30	\$ 49.32	111.67%	\$ 37.79	62.19%
2,000	\$ 28.10	\$ 57.57	104.88%	\$ 45.58	62.21%
3,000	\$ 32.90	\$ 65.82	100.06%	\$ 53.37	62.22%
4,000	\$ 37.70	\$ 74.07	96.47%	\$ 61.16	62.23%
5,000	\$ 44.86	\$ 89.82	100.22%	\$ 75.16	67.54%
6,000	\$ 52.02	\$ 105.57	102.94%	\$ 89.16	71.40%
7,000	\$ 59.18	\$ 121.32	105.00%	\$ 103.16	74.32%
8,000	\$ 66.34	\$ 137.07	106.62%	\$ 117.16	76.61%
9,000	\$ 73.50	\$ 152.82	107.92%	\$ 131.16	78.45%
10,000	\$ 82.10	\$ 174.57	112.63%	\$ 149.66	82.29%
11,000	\$ 90.70	\$ 196.32	116.45%	\$ 168.16	85.40%
12,000	\$ 99.30	\$ 218.07	119.61%	\$ 186.66	87.98%
13,000	\$ 107.90	\$ 239.82	122.26%	\$ 205.16	90.14%
14,000	\$ 116.50	\$ 261.57	124.52%	\$ 223.66	91.98%
15,000	\$ 125.10	\$ 283.32	126.47%	\$ 242.16	93.57%
16,000	\$ 133.70	\$ 305.07	128.18%	\$ 260.66	94.96%
17,000	\$ 142.30	\$ 326.82	129.67%	\$ 279.16	96.18%
18,000	\$ 150.90	\$ 348.57	130.99%	\$ 297.66	97.26%
19,000	\$ 159.50	\$ 370.32	132.18%	\$ 316.16	98.22%
20,000	\$ 168.10	\$ 392.07	133.24%	\$ 334.66	99.08%
25,000	\$ 211.10	\$ 500.82	137.24%	\$ 427.16	102.35%
30,000	\$ 254.10	\$ 609.57	139.89%	\$ 519.66	104.51%
35,000	\$ 297.10	\$ 718.32	141.78%	\$ 612.16	106.05%
40,000	\$ 340.10	\$ 827.07	143.18%	\$ 704.66	107.19%
45,000	\$ 383.10	\$ 935.82	144.28%	\$ 797.16	108.08%
50,000	\$ 426.10	\$ 1,044.57	145.15%	\$ 889.66	108.79%
75,000	\$ 641.10	\$ 1,588.32	147.75%	\$ 1,352.16	110.91%
100,000	\$ 856.10	\$ 2,132.07	149.04%	\$ 1,814.66	111.97%

Utility Source, L.L.C. - Wastewater Division

Docket No. WS-04235A-13-0331

Test Year Ended: December 31, 2012

Direct Schedules of Jeffrey M. Michlik

TABLE OF CONTENTS TO SCHEDULES

<u>SCH #</u>	<u>TITLE</u>
JMM-1	REVENUE REQUIREMENT
JMM-2	RATE BASE - ORIGINAL COSTS
JMM-3	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
JMM-4	ORIGINAL COST RATE BASE ADJUSTMENT # 1 - NOT USED
JMM-5	OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND RUCO RECOMMENDED
JMM-6	SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR
JMM-7	OPERATING INCOME ADJUSTMENT # 1 - DEPRECIATION EXPENSE
JMM-8	OPERATING INCOME ADJUSTMENT # 2 - PROPERTY TAX EXPENSE
JMM-9	OPERATING INCOME ADJUSTMENT # 3 - TEST YEAR INCOME TAXES
JMM-10B	RATE DESIGN
JMM-11B	TYPICAL BILL

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY FAIR VALUE	(B) RUCO FAIR VALUE
1	Adjusted Rate Base	\$ 830,945	\$ 830,945
2	Adjusted Operating Income (Loss)	\$ (72,257)	\$ (85,383)
3	Current Rate of Return (L2 / L1)	-8.70%	-10.28%
4	Required Rate of Return	11.00%	9.25%
5	Required Operating Income (L4 * L1)	\$ 91,404	\$ 76,862
6	Operating Income Deficiency (L5 - L2)	\$ 163,661	\$ 162,245
7	Gross Revenue Conversion Factor	1.2022	1.0113 *
8	Required Revenue Increase (L7 * L6)	\$ 196,760	\$ 164,074
9	Adjusted Test Year Revenue	\$ 121,284	\$ 121,284
10	Proposed Annual Revenue (L8 + L9)	\$ 318,044	\$ 285,358
11	Required Increase in Revenue (%)	162.23%	135.28%

References:

Column (A): Company Schedule A-1

Column (B): RUCO Schedules JMM-3 and JMM-5

* RUCO includes a property tax revenue conversion factor

Utility Source, L.L.C. - Wastewater Division
Docket No. WS-04235A-13-0331
Test Year Ended: December 31, 2012

Schedule JMM-2

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) RUCO ADJUSTMENTS	(C) RUCO AS ADJUSTED
1	Plant in Service	\$ 1,397,271	\$ 1,397,271
2	Less: Accumulated Depreciation	455,064	455,064
3	Net Plant in Service	<u>\$ 942,206</u>	<u>\$ 942,207</u>
4			
5	<u>LESS:</u>		
6			
7	Contributions in Aid of Construction (CIAC)	\$ 197,973	\$ 197,973
8	Less: Accumulated Amortization	86,711	86,711
9	Net CIAC	<u>111,262</u>	<u>\$ 111,262</u>
10			
11	Advances in Aid of Construction (AIAC)	-	-
12			
13	Customer Meter Deposits	-	-
14	Customer Deposits	-	-
15	Deferred Income Taxes & Credits	-	-
16			
17			
18			
19	<u>ADD:</u>		
20			
21			
22	Deferred Debits	-	-
23			
24	Working Capital Allowance	-	-
25			
26			
27	Original Cost Rate Base	<u>\$ 830,945</u>	<u>\$ 830,945</u>

References:

Column [A]: Company as Filed

Column [B]: Schedule JMM-3

Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.		[A]	[B]	[C]
				ADJ #1	
				Not Used	
			COMPANY	Ref: Sch JMM-4	RUCO
			AS FILED		ADJUSTED
<u>PLANT IN SERVICE:</u>					
1		DESCRIPTION			
2	351	Organization Cost	\$ -	\$ -	\$ -
3	352	Franchise Cost	-	-	-
4	353	Land and Land Rights	105,000	-	105,000
5	354	Structures & Improvements	56,350	-	56,350
6	355	Power Generation Equipment	2,879	-	2,879
7	360	Collection Sewers - Force	-	-	-
8	361	Collection Sewers - Gravity	260,553	-	260,553
9	362	Special Collecting Structures	-	-	-
10	363	Servcies to Customers	60,375	-	60,375
11	364	Flow Measuring Devices	-	-	-
12	365	Flow Measuring Installations	-	-	-
13	366	Reuse Services	3,450	-	3,450
14	367	Reuse Meters and Meter Installations	-	-	-
15	370	Receiving Wells	-	-	-
16	371	Pumping Equipment	-	-	-
17	374	Reuse Distribution Reserviors	-	-	-
18	375	Reuse Transmission and Distribution	-	-	-
19	380	Treatment & Disposal Equipment	903,992	-	903,992
20	381	Plant Sewers	-	-	-
21	382	Outfall Sewer Lines	-	-	-
22	389	Other Plant & Misc Equipment	-	-	-
23	390	Office Furniture & Equipment	4,672	-	4,672
24	390.1	Computers & Software	-	-	-
25	391	Transportation Equipment	-	-	-
26	392	Stores Equipment	-	-	-
27	393	Tools, Shop & Garage Equipment	-	-	-
28	394	Laboratory Equipment	-	-	-
	395	Power Operated Equipment	-	-	-
29	396	Communication Equipment	-	-	-
30	397	Miscellaneous Equipment	-	-	-
31	398	Other Tangible Plant	-	-	-
32		Total Plant in Service - Sub Total	1,397,271	-	1,397,271
35		Less: Accumulated Depreciation	455,064	-	455,064
36			-	-	-
37		Net Plant in Service	\$ 942,207	\$ -	\$ 942,207
38					
39		<u>LESS:</u>			
40		Contributions in Aid of Construction (CIAC)	\$ 197,973	\$ -	\$ 197,973
41		Less: Accumulated Amortization	86,711	-	86,711
42		Net CIAC (L25 - L26)	111,262	-	111,262
43		Advances in Aid of Construction (AIAC)	-	-	-
44		Customer Meter Deposits	-	-	-
45		Customer Deposits	-	-	-
46		Deferred Income Taxes & Credits	-	-	-
47			-	-	-
48			-	-	-
49		<u>ADD:</u>			
50		Deferred Debits	-	-	-
51		Working Capital Allowance	-	-	-
52			-	-	-
53		Original Cost Rate Base	\$ 830,945	\$ -	\$ 830,945

RATE BASE ADJUSTMENT NO. 1 - NOT USED

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	RUCO ADJUSTMENTS	RUCO RECOMMENDED
1			\$ -	\$ -	\$ -

REFERENCES:

- Column [A]: Company Filing
- Column [B]: Testimony JMM
- Column [C]: Column [A] + Column [B]

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND RUCO RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] RUCO TEST YEAR ADJUSTMENTS	[C] RUCO TEST YEAR AS ADJUSTED	[D] RUCO PROPOSED CHANGES	[E] RUCO RECOMMENDED
1	<u>REVENUES:</u>					
2	Flat Rate Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
3	Unmetered Water Revenues	116,023	-	116,023	164,074	280,097
4	Other Water Revenues	5,261	-	5,261	-	5,261
5	Intentionally Left Blank	-	-	-	-	-
6	Total Operating Revenues	<u>\$ 121,284</u>	<u>\$ -</u>	<u>\$ 121,284</u>	<u>\$ 164,074</u>	<u>\$ 285,358</u>
7						
8	<u>OPERATING EXPENSES:</u>					
9	Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -
10	Purchased Water	-	-	-	-	-
11	Purchased Power	26,213	-	26,213	-	26,213
12	Sludge Removal	12,659	-	12,659	-	12,659
13	Chemicals	5,400	-	5,400	-	5,400
14	Materials and Supplies	7,187	-	7,187	-	7,187
15	Office Supplies and Expense	2,446	-	2,446	-	2,446
16	Contractual Services - Accounting	20,135	-	20,135	-	20,135
17	Contractual Services - Professional	1,920	-	1,920	-	1,920
18	Contractual Services - Maintenance	-	-	-	-	-
19	Contractual Services - Other	46,650	-	46,650	-	46,650
20	Water Testing	5,669	-	5,669	-	5,669
21	Rents	-	-	-	-	-
22	Transportation Expenses	3,250	-	3,250	-	3,250
23	Insurance - General Liability	2,186	-	2,186	-	2,186
24	Insurance - Health and Life	-	-	-	-	-
25	Reg. Comm. Exp. - Other	-	-	-	-	-
26	Reg. Comm. Exp. - Rate Case	10,000	-	10,000	-	10,000
27	Miscellaneous Expense	13,152	-	13,152	-	13,152
28	Bad Debt Expense	-	-	-	-	-
29	Depreciation and Amortization Expense	45,744	-	45,744	-	45,744
30	Taxes Other Than Income	-	-	-	-	-
31	Property Taxes	4,476	(420)	4,056	1,829	5,885
32	Income Tax	(13,545)	13,545	0	-	0
33	Interest on Customer Deposits	-	0	0	-	0
34		-	-	-	-	-
35	Total Operating Expenses	<u>\$ 193,541</u>	<u>\$ 13,126</u>	<u>\$ 206,666</u>	<u>\$ 1,829</u>	<u>\$ 208,496</u>
36	Operating Income (Loss)	<u>\$ (72,257)</u>	<u>\$ (13,126)</u>	<u>\$ (85,383)</u>	<u>\$ 162,245</u>	<u>\$ 76,862</u>

References:

Column (A): Company Schedule C-1
Column (B): Schedule JMM-6
Column (C): Column (A) + Column (B)
Column (D): Schedule JMM-8
Column (E): Column (C) + Column (D)

Utility Source, L.L.C. - Wastewater Division
 Docket No. WS-04235A-13-0331
 Test Year Ended: December 31, 2012

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Depreciation Expense ADJ #1 Ref: Sch JMM-7	[C] Property Tax Expense ADJ #2 Ref: Sch JMM-8	[D] Income Tax Expense ADJ #3 Ref: Sch JMM-9	[E] RUCO ADJUSTED
1	<u>REVENUES:</u>					
2	Flat Rate Revenues	\$ -	\$ -	\$ -	\$ -	-
3	Unmetered Water Revenues	116,023	-	-	-	116,023
4	Other Water Revenues	5,261	-	-	-	5,261
5	Intentionally Left Blank	-	-	-	-	-
6	Total Operating Revenues	\$ 121,284	\$ -	\$ -	\$ -	121,284
7						
8	<u>OPERATING EXPENSES:</u>					
9	Salaries and Wages	-	\$ -	\$ -	\$ -	-
10	Purchased Water	-	-	-	-	-
11	Purchased Power	26,213	-	-	-	26,213
12	Sludge Removal	12,659	-	-	-	12,659
13	Chemicals	5,400	-	-	-	5,400
14	Materials and Supplies	7,187	-	-	-	7,187
15	Office Supplies and Expense	2,446	-	-	-	2,446
16	Contractual Services - Accounting	20,135	-	-	-	20,135
17	Contractual Services - Professional	1,920	-	-	-	1,920
18	Contractual Services - Maintenance	-	-	-	-	-
19	Contractual Services - Other	46,650	-	-	-	46,650
20	Water Testing	5,669	-	-	-	5,669
21	Rents	-	-	-	-	-
22	Transportation Expenses	3,250	-	-	-	3,250
23	Insurance - General Liability	2,186	-	-	-	2,186
24	Insurance - Health and Life	-	-	-	-	-
25	Reg. Comm. Exp. - Other	-	-	-	-	-
26	Reg. Comm. Exp. - Rate Case	10,000	-	-	-	10,000
27	Miscellaneous Expense	13,152	-	-	-	13,152
28	Bad Debt Expense	-	-	-	-	-
29	Depreciation and Amortization Expense	45,744	-	-	-	45,744
30	Taxes Other Than Income	-	-	(420)	-	-
31	Property Taxes	4,476	-	-	-	4,476
32	Income Tax	(13,545)	-	-	13,545	0
33	Interest on Customer Deposits	-	-	(420)	-	-
34	Total Operating Expenses	\$ 193,541	\$ -	\$ (420)	\$ 13,545	\$ 206,665
35	Operating Income (Loss)	\$ (72,257)	\$ -	\$ 420	\$ (13,545)	\$ (85,383)

Utility Source, L.L.C. - Wastewater Division
Docket No. WS-04235A-13-0331
Test Year Ended: December 31, 2012

Schedule JMM-7

OPERATING INCOME ADJUSTMENT NO. 1 - NOT USED

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY PROPOSED	RUCO ADJUSTMENTS	RUCO RECOMMENDED
1		\$ -	\$ -	\$ -

REFERENCES:

Column [A]: Company Filing

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 2 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A]		[B]	
		AS ADJUSTED	RUCO	RUCO	RECOMMENDED
1	RUCO Adjusted Test Year Revenues	\$	121,284	\$	121,284
2	Weight Factor		2		2
3	Subtotal (Line 1 * Line 2)		242,568	\$	242,568
4	RUCO Recommended Revenue, Per Schedule JMM-1		121,284	\$	285,358
5	Subtotal (Line 4 + Line 5)		363,851		527,925
6	Number of Years		3		3
7	Three Year Average (Line 5 / Line 6)		121,284	\$	175,975
8	Department of Revenue Multiplier		2		2
9	Revenue Base Value (Line 7 * Line 8)		242,568	\$	351,950
10	Plus: 10% of CWIP -		-		-
11	Less: Net Book Value of Licensed Vehicles		-	\$	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)		242,568	\$	351,950
13	Assessment Ratio		18.125%		18.125%
14	Assessment Value (Line 12 * Line 13)		43,965	\$	63,791
15	Composite Property Tax Rate (Per Company Schedule)		9.2262%		9.2262%
16					
17	RUCO Test Year Adjusted Property Tax (Line 14 * Line 15)	\$	4,056		
18	Company Proposed Property Tax		4,476		
19					
20	RUCO Test Year Adjustment (Line 16-Line 17)	\$	(420)		
21					
22	Property Tax - RUCO Recommended Revenue (Line 14 * Line 15)			\$	5,885
23	RUCO Test Year Adjusted Property Tax Expense (Line 16)			\$	4,056
24	Increase in Property Tax Expense Due to Increase in Revenue Requirement			\$	1,829
25					
26	Increase to Property Tax Expense			\$	1,829
27	Increase in Revenue Requirement				164,074
28	Increase to Property Tax per Dollar Increase in Revenue (Line 19/Line 20)				1.114829%
29					
30	Property Tax Conversion Factor = 1 / (1 - .01114829)				1.011274

REFERENCES:

Column [A]: Company Filing
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Utility Source, L.L.C. - Wastewater Division
Docket No. WS-04235A-13-0331
Test Year Ended: December 31, 2012

Schedule JMM-9

OPERATING INCOME ADJUSTMENT NO. 3 - INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY PROPOSED	RUCO ADJUSTMENTS	RUCO RECOMMENDED
1	Income Taxes	\$ (13,545)	\$ 13,545	\$ 0

REFERENCES:

Column [A]: Company Filing

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

Rate Design

Monthly Usage Charge	Present	Company Proposed Rates	RUCO Recommended Rates
<u>Meter Size (All Classes):</u>			
5/8x3/4 Inch	\$ -	\$ 53.00	\$ -
3/4 Inch	-	53.00	-
1 Inch	-	132.50	-
1 1/2 Inch	-	265.00	-
2 Inch	-	424.00	-
3 Inch	-	848.00	-
4 Inch	-	1,325.00	-
6 Inch	-	2,650.00	-
8 Inch	N/A	N/A	-
10 Inch	N/A	N/A	-
12 Inch	N/A	N/A	-
<u>Commodity Charge - Per 1,000 Gallons of Water Usage</u>			
Residential	\$ 5.8400	\$ 5.3144	\$ 14.1328
Commercial and Industrial			
Car washes, laundromats, Commercial, Manufacturing	5.7100	5.1961	13.8182
Hotels, Motels	7.6600	6.9706	18.5372
Restaurants	9.4600	8.6086	22.8932
Industrial Laundries	8.3900	7.6349	20.3038
Waste Haulers	171.2000	155.7920	414.3040
Restaurant Grease	149.8000	136.3180	362.5160
Treatment Plant Sludge	171.2000	155.7920	414.3040
Mud Sump Waste	535.0000	486.8500	1,294.7000

Typical Bill Analysis
 General Service 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	4,123	\$ 24.08	\$ 74.91	\$ 50.83	211.13%
Median Usage	3,500	20.44	71.60	\$ 51.16	250.30%
RUCO Recommended					
Average Usage	4,123	\$ 24.08	\$ 58.27	\$ 34.19	142.00%
Median Usage	3,500	20.44	49.46	\$ 29.02	142.00%

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

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	RUCO Recommended Rates	% Increase
-	\$ -	\$ 53.00	#DIV/0!	\$ -	#DIV/0!
1,000	\$ 5.84	\$ 58.31	898.53%	\$ 14.13	142.00%
2,000	\$ 11.68	\$ 63.63	444.77%	\$ 28.27	142.00%
3,000	\$ 17.52	\$ 68.94	293.51%	\$ 42.40	142.00%
4,000	\$ 23.36	\$ 74.26	217.88%	\$ 56.53	142.00%
5,000	\$ 29.20	\$ 79.57	172.51%	\$ 70.66	142.00%
6,000	\$ 35.04	\$ 84.89	142.26%	\$ 84.80	142.00%
7,000	\$ 40.88	\$ 90.20	120.65%	\$ 98.93	142.00%
8,000	\$ 46.72	\$ 95.52	104.44%	\$ 113.06	142.00%
9,000	\$ 52.56	\$ 100.83	91.84%	\$ 127.20	142.00%
10,000	\$ 58.40	\$ 106.14	81.75%	\$ 141.33	142.00%
11,000	\$ 64.24	\$ 111.46	73.50%	\$ 155.46	142.00%
12,000	\$ 70.08	\$ 116.77	66.63%	\$ 169.59	142.00%
13,000	\$ 75.92	\$ 122.09	60.81%	\$ 183.73	142.00%
14,000	\$ 81.76	\$ 127.40	55.82%	\$ 197.86	142.00%
15,000	\$ 87.60	\$ 132.72	51.50%	\$ 211.99	142.00%
16,000	\$ 93.44	\$ 138.03	47.72%	\$ 226.12	142.00%
17,000	\$ 99.28	\$ 143.34	44.38%	\$ 240.26	142.00%
18,000	\$ 105.12	\$ 148.66	41.42%	\$ 254.39	142.00%
19,000	\$ 110.96	\$ 153.97	38.76%	\$ 268.52	142.00%
20,000	\$ 116.80	\$ 159.29	36.38%	\$ 282.66	142.00%
25,000	\$ 146.00	\$ 185.86	27.30%	\$ 353.32	142.00%
30,000	\$ 175.20	\$ 212.43	21.25%	\$ 423.98	142.00%
35,000	\$ 204.40	\$ 239.00	16.93%	\$ 494.65	142.00%
40,000	\$ 233.60	\$ 265.58	13.69%	\$ 565.31	142.00%
45,000	\$ 262.80	\$ 292.15	11.17%	\$ 635.98	142.00%
50,000	\$ 292.00	\$ 318.72	9.15%	\$ 706.64	142.00%
75,000	\$ 438.00	\$ 451.58	3.10%	\$ 1,059.96	142.00%
100,000	\$ 584.00	\$ 584.44	0.08%	\$ 1,413.28	142.00%