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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

- SUSAN BITTER SMITH - CHAIRMAN
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- DOUG LITTLE
- TOM FORESE

DOCKET NO. WS-01303A-14-0010

IN THE MATTER OF THE APPLICATION OF EPCOR WATER ARIZONA, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BY ITS MOHAVE WATER DISTRICT, PARADISE VALLEY WATER DISTRICT, SUN CITY WATER DISTRICT, TUBAC WATER DISTRICT, AND MOHAVE WASTEWATER DISTRICT.

STAFF'S NOTICE OF FILING
SURREBUTTAL TESTIMONY

ORIGINAL

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") hereby files the Direct Testimony of Staff witnesses Michael Thompson, Mary J. Rimback, Christine L. Payne, John A. Cassidy and Britton Baxter, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 26th day of February, 2015.

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 Attorneys, Legal Division
 Arizona Corporation Commission
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Original and thirteen (13) copies of the foregoing filed this 26th day of February, 2015, with:

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 Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED

FEB 26 2015

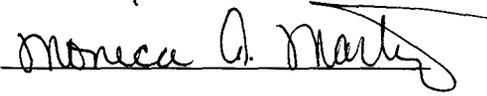
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26
27
28 

BEFORE THE ARIZONA CORPORATION COMMISSION

SUSAN BITTER SMITH
Chairman
BOB STUMP
Commissioner
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IN THE MATTER OF THE APPLICATION OF)
EPCOR WATER ARIZONA, INC., AN)
ARIZONA CORPORATION, FOR A)
DETERMINATION OF THE CURRENT FAIR)
VALUE OF ITS UTILITY PLANT AND)
PROPERTY AND FOR INCREASES IN ITS)
RATES AND CHARGES FOR UTILITLY)
SERVICE BY ITS MOHAVE WATER DISTRICT,)
PARADISE VALLEY WATER DISTRICT, SUN)
CITY WATER DISTRICT, TUBAC WATER)
DISTRICT, AND MOHAVE WASTEWATER)
DISTRICT.)
_____)

DOCKET NO. WS-01303A-14-0010

SURREBUTTAL

TESTIMONY

OF

MICHAEL S. THOMPSON, P. E.

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

FEBRUARY 26, 2015

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1 **INTRODUCTION**

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

3 A. My name is Michael Thompson. My business address is 1200 West Washington Street,
4 Phoenix, Arizona 85007.

5
6 **Q. By whom and in what position are you employed?**

7 A. I am employed by the Arizona Corporation Commission (“Commission” or “ACC”) as a
8 Utilities Engineer - Water/Wastewater in the Utilities Division.

9
10 **Q. Did you submit Direct Testimony on behalf of the ACC Utilities Division Staff**
11 **(“Staff”) in this case?**

12 A. Yes.

13
14 **PURPOSE OF TESTIMONY**

15 **Q. What is the purpose of your Surrebuttal Testimony?**

16 A. To respond to the Rebuttal Testimony filed by Jeffrey W. Stuck on behalf of EPCOR Water
17 Arizona, Inc. (“EWAZ”). My testimony addresses Mr. Stuck’s comments regarding the
18 Paradise Valley Water District Tank Maintenance Expense.

19
20 **PARADISE VALLEY WATER DISTRICT TANK MAINTENANCE EXPENSE**

21 **Q. Did Staff exclude the exterior coating of the Stone Canyon tank?**

22 A. Yes. However, the exterior of the Stone Canyon tank was coated on May 12, 2012 at a cost
23 of \$8,784. Since the tank had recently been coated, it was excluded from Staff’s original tank
24 maintenance estimate and remains as such.

1 **Q. Has Staff revised its original estimated tank maintenance expense?**

2 A. Yes. Staff revised the exterior ladder replacement estimates of four (4) of the Paradise Valley
3 Water District storage tanks. Storage tank photos taken during the site inspection were
4 reviewed. Based on the review, it was determined that the ladders on four (4) of the nine (9)
5 storage tanks should be replaced. The four (4) tanks included with the expense revisions are
6 the Club Estates, Country Club No. 1, Country Club No.2, and the Racquet Club tanks.
7

8 **Q. Has Staff made other revisions to its estimated tank maintenance expense?**

9 A. No. However, Mr. Stuck included the exterior coating expense of \$15,000 of the Clearwater
10 Hill No. 2 tank in his expense spreadsheet, Exhibit JWS-1, submitted with his Rebuttal
11 Testimony. The exterior of the Clearwater Hill No. 2 tank was coated on May 8, 2013 at a
12 cost of \$10,988.75. Due to the recent exterior coating of the tank, the expense was excluded
13 from Staff's original tank maintenance estimate and remains as such.
14

15 **Q. What is the effect of the adjustments on Staff's original tank maintenance expense?**

16 A. Staff's original estimate totaled \$1,707,208 for a fourteen (14) year period, or \$121,943
17 annually. The total revised cost for the fourteen (14) year period is \$1,731,208 or \$123,658
18 annually. Staff's revised tank maintenance expense spreadsheet, attached to this testimony, is
19 shown on Exhibit MST-1.
20

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

22 A. Yes, it does.

Paradise Valley Water District
Storage Tank Maintenance Costs (Staff Revised Estimate)
February 23, 2015

	Tank Name	60th Street	Clearwater Hills #1	Clearwater Hills #2	Clearwater Hills #3	Club Estates	Country Club #1	Country Club #2	Racquet Club	Stone Canyon	Total
	Tank Capacity (Gallons)	200,000	102,000	100,000	20,000	30,000	500,000	360,000	102,000	90,000	
No.	Item										
	Clean & Paint Exterior:										
1	Epoxy/Polyurethane System	\$24,100	\$15,800	\$0	\$6,100	\$7,300	\$43,700	\$35,000	\$15,800	\$0	\$147,800
2	Containment (Lead)	\$40,100	\$26,200	\$0	\$10,200	\$12,200	\$72,800	\$58,300	\$26,200	\$0	\$246,000
	Clean & Paint Interior:										
3	3 - Coat Epoxy System	\$92,800	\$37,200	\$55,800	\$13,000	\$24,100	\$126,000	\$96,700	\$37,200	\$35,200	\$518,000
4	Cathodic Protection	\$10,000	\$9,000	\$9,000	\$6,000	\$6,000	\$12,000	\$11,000	\$9,000	\$8,000	\$80,000
5	Miscellaneous Chipping & Grinding	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
6	Seam Sealing	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
7	Pit Repair	\$17,100	\$5,800	\$8,700	\$2,300	\$3,100	\$28,000	\$20,100	\$5,800	\$5,400	\$96,300
8	Exterior Flexible Piping Connections (2)	\$12,000	\$6,120	\$6,000	\$1,200	\$1,800	\$30,000	\$21,600	\$6,120	\$5,400	\$90,240
9	Overflow Pipe & Install Check Valve	\$12,000	\$6,120	\$6,000	\$1,200	\$1,800	\$30,000	\$21,600	\$6,120	\$5,400	\$90,240
10	Exterior Ladder Well Removal	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
11	Exterior Ladder Replacement	\$0	\$0	\$0	\$0	\$6,000	\$6,000	\$6,000	\$6,000	\$0	\$24,000
12	Exterior Ladder Safe-Climbing Device	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$18,000
13	Vandal Deterent - Safety Cage Door	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$9,000
14	Additional Roof Safety Railing Installation	\$4,000	\$4,000	\$4,000	\$4,000	\$4,000	\$4,000	\$4,000	\$4,000	\$4,000	\$36,000
15	Existing Roof Safety Railing Modifications	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$18,000
16	Additional Shell Manhole	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$135,000
17	Additional Roof Manhole	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
18	Clog-Resistant Vent Installation	\$7,500	\$7,500	\$7,500	\$7,500	\$7,500	\$7,500	\$7,500	\$7,500	\$7,500	\$67,500
18	Contingency Items	\$23,960	\$13,774	\$11,700	\$7,150	\$8,780	\$37,400	\$29,500	\$13,774	\$9,090	\$155,128
	Total Cost (Each Storage Tank)	\$263,560	\$151,514	\$128,700	\$78,650	\$102,580	\$417,400	\$331,300	\$157,514	\$99,990	\$1,731,208

BEFORE THE ARIZONA CORPORATION COMMISSION

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EPCOR WATER ARIZONA, INC., AN)
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DETERMINATION OF THE CURRENT FAIR)
VALUE OF ITS UTILITY PLANT AND)
PROPERTY AND FOR INCREASES IN ITS)
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FOR UTILITY SERVICE BY ITS MOHAVE)
WATER DISTRICT, PARADISE VALLEY)
WATER DISTRICT, SUN CITY WATER)
DISTRICT, TUBAC WATER DISTRICT AND)
MOHAVE WASTEWATER DISTRICT)

DOCKET NO. WS-01303A-14-0010

SURREBUTTAL

TESTIMONY

OF

MARY J. RIMBACK

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

FEBRUARY 26, 2015

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Rate Base Adjustment No.1 Adjust Balances.....	MJR-5
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Rate Base Original Cost.....	MJR-3
Summary of Original Cost Rate Base Adjustments.....	MJR-4
Rate Base Adjustment No.1 Adjust Balances.....	MJR-5
Rate Base Adjustment No.2 Reverse AFUDC 24 Month Deferral.....	MJR-6
Rate Base Adjustment No.3 Working Capital.....	MJR-7
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Rate Base Original Cost.....	MJR-3
Summary of Original Cost Rate Base Adjustments.....	MJR-4
Rate Base Adjustment No.1 Adjust Balances.....	MJR-5
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**EXECUTIVE SUMMARY
EPCOR WATER ARIZONA, INC.
DOCKET NO. WS-01303A-14-0010**

EPCOR Arizona Water, Inc. ("EWAZ" or "Company") is a certificated Arizona public service corporation that provides water and wastewater services in various communities throughout the state. This case includes the districts of Mohave Water, Mohave Wastewater, Paradise Valley Water, Sun City Water, and Tubac Water.

The Company filed an application for a permanent rate increase based upon a test year ending June 30, 2013. The Surrebuttal testimony of Ms. Mary J. Rimback herein is to present the Staff recommended rate base valuation and the depreciation and amortization expense for all five districts in the application.

The specific issues listed below are discussed in this Surrebuttal testimony.

Negative Plant Balances – Staff response to Company Rebuttal testimony.

Debit Accumulated Depreciation – Staff response to Company Rebuttal testimony.

Depreciation/Amortization Expense – Staff recommends the removal of fully depreciated plant from the calculation of depreciation expense. Staff agrees to increases for certain, amortization expenses proposed by the Company.

Allowance for Funds used During Construction ("AFUDC") – Staff response to Company Rebuttal testimony.

Construction Work In Progress ("CWIP") developer funded Contribution in Aid of Construction ("CIAC") – Staff agrees with the Company position based on the Company representations provided in the application.

Cash Working Capital – Staff response to Company rebuttal testimony.

Water Treatment Equipment-Media – Staff adjusts this to an operating expense rather than an item of rate base.

Mohave Water Retirements – Staff now includes retirements as noted in the Company response to RUCO data request DR 32.01.

Accumulated Deferred Income Taxes – Staff has been unable to analyze the effect of the Company's response to RUCO data request 30.1 indicating that the Company has recorded additional Accumulated Deferred Income Taxes ("ADIT") not included in the application.

Following is a summary of Company proposed and Staff recommended rate bases and depreciation/amortization expense.

Mohave Water

The Company proposes for Mohave Water District, a rate base of \$23,496,515; Staff recommends \$22,434,124, a decrease of \$1,062,391. The Company proposes depreciation/amortization expense of \$1,331,139; Staff recommends \$1,273,747, a decrease of \$57,392.

Mohave Wastewater

The Company proposes for Mohave Wastewater District, a rate base of \$5,305,083; Staff recommends \$4,863,141, a decrease of \$441,942. The Company proposes depreciation/amortization expense of \$257,946; Staff recommends \$253,779, a decrease of \$4,167.

Paradise Valley Water

The Company proposes for Paradise Valley Water District, a rate base of \$39,380,442; Staff recommends \$37,188,547, a decrease of \$2,191,894. The Company proposes depreciation/amortization expense of \$1,608,655; Staff recommends \$1,533,204, a decrease of \$75,451.

Sun City Water

The Company proposes for Sun City Water district, a rate base of \$26,409,286; Staff recommends \$25,639,023, a decrease of \$770,262. The Company proposes depreciation/amortization expense of \$1,916,821; Staff recommends \$1,714,309, a decrease of \$202,512.

Tubac Water

The Company proposes for Tubac Water district, a rate base of \$1,607,775; Staff recommends \$1,340,780, a decrease of \$266,966. The Company proposes depreciation/amortization expense of \$238,395; Staff recommends \$160,846, a decrease of \$77,549.

1 **I. INTRODUCTION**

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

3 A. My name is Mary J. Rimback. I am a Public Utilities Analyst with the Arizona Corporation
4 Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business
5 address is 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Are you the same Mary J. Rimback who previously submitted direct testimony in this
8 case?**

9 A. Yes, I am.

10
11 **Q. What is the scope of your surrebuttal testimony in this case?**

12 A. I am presenting Staff's surrebuttal analysis and recommendations regarding EPCOR Water
13 Arizona, Inc. ("EWAZ" or "Company") rate base and related depreciable plant for the five
14 districts presented in this rate case.

15
16 **II. PURPOSE OF SURREBUTTAL TESTIMONY**

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

18 A. The purpose of my surrebuttal testimony in this proceeding is to respond, on behalf of Staff
19 to the rebuttal testimony of Ms. Sheryl L. Hubbard, Mr. Shawn Bradford, and Mr. John
20 Guastella, filed on behalf of EWAZ for the five operating districts in this rate application
21 regarding negative plant balances, debit accumulated depreciation reserve balances,
22 depreciation and amortization expense, Allowance for funds used during construction
23 ("AFUDC"), construction work in progress ("CWIP"), the Company's cash working capital
24 allowance, water treatment media investments and costs, Mohave water treatment equipment
25 – media, and accumulated deferred income taxes.

1 **Q. Do you attempt to address every issue raised by the Company in its rebuttal**
2 **testimony?**

3 A. No. I limit my discussion to certain issues as outlined below. My silence on any particular
4 issue raised in the Company's rebuttal testimony does not indicate that Staff agrees with the
5 Company's stated rebuttal position on the issue. I rely on my Direct Testimony unless
6 modified by this surrebuttal testimony.

7

8 **III. SUMMARY OF RATE BASE ADJUSTMENTS BY DISTRICT**

9 **Q. Please summarize Staff's recommended adjustments to rate base as shown on**
10 **Surrebuttal Schedules MJR-3 and MJR-10.**

11 A. Following is a summary of Surrebuttal Schedules MJR-3 and MJR-10.

12

13 *Mohave Water*

14 The Company proposes for Mohave Water District, a rate base of \$23,496,515; Staff
15 recommends \$22,434,124, a decrease of \$1,062,391.

16

17 *Mohave Wastewater*

18 The Company proposes for Mohave Wastewater District, a rate base of \$5,305,083; Staff
19 recommends \$4,863,141, a decrease of \$441,942.

20

21 *Paradise Valley Water*

22 The Company proposes for Paradise Valley Water District, a rate base of \$39,380,442; Staff
23 recommends \$37,188,547, a decrease of \$2,191,894.

24

1 *Sun City Water*

2 The Company proposes for Sun City Water district, a rate base of \$26,409,286; Staff
3 recommends \$25,639,023, a decrease of \$770,262.

4
5 *Tubac*

6 The Company proposes for Tubac Water district, a rate base of \$1,607,775; Staff
7 recommends \$1,340,780, a decrease of \$266,996.

8
9 **IV. DEPRECIATION AND AMORTIZATION EXPENSES**

10 **Q. Did Staff review the Company's rebuttal testimony concerning the adjustment for**
11 **Depreciation and Amortization Expense proposed by Staff?**

12 A. Yes.

13
14 **Q. Please summarize the depreciation and amortization expense-related points raised by**
15 **the Company in its rebuttal testimony.**

16 A. First, in the rebuttal testimony of Company witness Mr. Guastella, the Company made two
17 important commitments that will have prospective application. These commitments are to
18 cease recording depreciation expense once the underlying plant investments are fully
19 depreciated, and the Company has agreed to track plant assets by vintage year. These were
20 major issues raised by Staff and the Company's commitments will help assure that the
21 Company is not over depreciating assets going forward.

22
23 **Q. Please continue.**

24 A. The Company raised issues related to the ongoing amortization of Y2K costs, the
25 amortization of the Mummy Mountain acquisition, and the amortization of the Sun City Fire
26 Flow project. Staff now agrees with the Company with regards to these three issues.

1 **Q. Does Staff agree with the Company's remaining rebuttal positions?**

2 A. Staff continues to disagree as to recovery of the additional 24 – month Allowance for Funds
3 Used During Construction (“AFUDC”), but accepts with certain amounts discussed in the
4 following.

5
6 **Q. Please specify the additional amortization amounts Staff is recommending be
7 included in the depreciation and amortization expense?**

8 A.	Mohave Water	Amortization of Y2K project	\$2,795
9	Mohave Wastewater	Amortization of Y 2K project	\$ 476
10	Paradise Valley	Amortization of Mummy Mountain Acquisition	\$5,256
11	Sun City Water	Amortization of Sun City Fire Flow project	\$5,904
12		Amortization of Y 2K project	\$4,105
13	Tubac	Amortization of Y2K project	\$ 284

14
15 **Q. Please summarize Staff's Surrebuttal adjustments to depreciation expense and related
16 amortization of Contributions in Aid of Construction (“CIAC”) as shown in
17 Surrebuttal Schedule CLP-13.**

18 A. Following is a table which specifies the amounts by district as shown in Surrebuttal Schedule
19 CLP-13:

<u>District</u>	<u>Company Proposed</u>	<u>Staff Recommended</u>	<u>Difference</u>
Mohave Water	\$1,331,139	\$1,273,747	\$57,392
Mohave Wastewater	257,946	253,779	4,167
Paradise Valley Water	1,608,655	1,533,204	75,451
Sun City Water	1,916,821	1,714,309	202,512
Tubac Water	238,395	160,846	77,549

1 **V. RATE BASE ADJUSTMENTS MULTIPLE SYSTEMS**

2 *Rate Base Adjustment No.1 – Removal of Negative plant balances and phantom assets resulting from Debit*
3 *Accumulated Depreciation (all Districts)*

4 Staff response to rebuttal testimony of Sheryl L. Hubbard

5 **Q. Did Staff review the testimony of Ms. Hubbard concerning negative plant balances?**

6 A. Yes.

7
8 **Q. Please summarize the Company's position concerning the negative plant balances?**

9 A. Ms. Hubbard suggests that some corrections are in order for amounts recorded in the wrong
10 plant accounts and these mis-postings can be corrected.

11
12 **Q. Please summarize the basis of Staff's position regarding the negative plant balances**
13 **noted on the Company's books and records?**

14 A. Staff noted in its direct case, instances where plant asset balances showed negative investment
15 levels. Such negative investments levels should not exist on the Company's books and
16 records.

17
18 **Q. Does Staff agree with the Rebuttal testimony of Ms. Hubbard concerning negative**
19 **plant balances?**

20 A. Not completely. Staff agrees that if the Company has found instances when plant additions
21 or deletions were recorded in the wrong National Association of Regulatory Utility
22 Commissioners ("NARUC") account, the plant account balances should be corrected. The
23 Company has agreed to post these corrections, but details regarding the Company's
24 commitment to this effort remain unclear.

25

1 **Q. Why is it important for Staff to receive more clarity from the Company with regards to**
2 **the specific amounts and account numbers that the Company intends to address?**

3 A. Providing specific amounts and account numbers are critical to Staff understanding the
4 corrections needed. Accounts for all of the adjustments need to be identified by the
5 Company. Staff notes that these corrections should not be recorded as retirements, which
6 can lead to recording phantom assets. The plant additions and associated accumulated
7 depreciation reserves just need to be recorded in the correct accounts. Only one specific
8 account correction to plant balances is mentioned in the Company's testimony. The
9 Company discussed the need to correct Account 304330 Computer Software Other and
10 Account 340300 Computer software in the Paradise Valley District. The Company has not
11 been specific as to the corrections it plans to make to these plant accounts, and whether the
12 Company is also making a commitment to also correcting the related accumulated
13 depreciation accounts.

14
15 As mentioned in Staff's Direct Testimony, part of the audit of plant accounts is tracking the
16 accumulated depreciation by NARUC account. Different depreciation rates are
17 recommended by the Commission and verifying the Company calculations for depreciation
18 expenses and accumulated depreciation is part of Staff's audit procedures. Without detailed
19 information regarding the corrections the Company intends to make, Staff will not be able to
20 complete this step of its auditing procedures.

21
22 Staff Response to Rebuttal testimony of John F. Guastella

23 **Q. Did the Staff review the testimony of Mr. Guastella concerning debit accumulated**
24 **depreciation?**

25 A. Yes.

26

1 **Q. Please summarize Mr. Guastella rebuttal comments concerning the debit**
2 **accumulated depreciation balances?**

3 A. On pages 2 and 3 of his rebuttal testimony, Mr. Guastella discusses the “reasonableness” of
4 the Company’s debit accumulated depreciation reserve balance by referencing the NARUC
5 Uniform System of Accounts (“USOA”). This basic reasoning was also used by the
6 Company in the response to data requests submitted by Staff.

7
8 **Q. Is a limited focus on the NARUC retirement accounting discussion really pertinent to**
9 **the Staff concern with debit accumulated depreciation or phantom assets, which were**
10 **included in the Company rate base schedules?**

11 A. No. The plant retirement accounting being discussed by Mr. Guastella is not the real issue.
12 Staff recognizes that under NARUC plant accounting, plant that is retired is reversed out of
13 both the original plant account and the related accumulated depreciation reserve. The
14 amount of the reversals are equal to the original cost of the investments (plus or minus
15 salvage considerations or insurance receipts if the retirement is due to and insurable loss).

16
17 However, correcting plant account mis-postings are not retirements, so Mr. Guastella’s
18 discussion regarding NARUC plant retirements is only one aspect of plant accounting. Stated
19 another way, the NARUC plant accounting guide related to retirements does not apply to
20 corrections or plant account transfers. The issues being raised by Staff here are just
21 corrections and the NARUC plant retirement accounting guides do not apply.

22
23 **Q. Are there other important considerations that need to be evaluated before booking a**
24 **plant retirement by simply reversing the original cost?**

25 A. Yes. It is not appropriate for ratemaking purposes to effectively allow the recording of
26 phantom assets without giving full consideration to all issues leading up to the early

1 retirement. Such issues could include insurable losses, management prudence related to the
2 performance of required maintenance, and whether or not third party neglect was a cause of
3 the early retirement. The Company has failed to acknowledge that correcting plant account
4 mis-postings are not retirements and that many of the instances before us were just
5 corrections. Further, to the extent that there were actual early retirements, the Company has
6 failed to address the reasons for the early retirements.

7
8 Recurring instances on a utility's books and records where the early plant retirement are
9 necessary could be an indication that the depreciation rates being used are inappropriate or do
10 not accurately reflect the expected economic life of the underlying assets. This would need to
11 be explained by the Company and investigated by Staff before allowing rate base to be
12 inflated by phantom assets that result from early retirements, or before asking the
13 Commission to consider the extraordinary treatments as suggested on page 5 of Mr.
14 Guastella's rebuttal testimony.

15
16 **Q. Ms. Rimback, you use the term phantom assets in your discussion regarding early**
17 **retirements. Can you briefly explain this concept and what that term represents?**

18 **A.** Yes. When a plant asset is retired the proper accounting is to credit the original cost of the
19 asset to the respective USOA plant account, and debit the same amount to the accumulated
20 depreciation reserve associated with this asset. While this step effectively reverses the original
21 cost out of the plant account, to the extent that the plant has not been fully depreciated, the
22 debit to the accumulated depreciation reserve will be greater than the balance in this reserve
23 account since the balance in the reserve account will reflect less than the full original cost of
24 the asset. This will leave a debit balance in the accumulated depreciation reserve account –
25 thus representing a phantom debit balance or a phantom asset. As previously noted, the
26 contributing factors driving this early retirement need to fully understood or explained by the

1 Company and investigated by Staff before either allowing this phantom asset to be included
2 in rate base or before establishing this phantom asset as a separate item to be subject to rate-
3 recognized amortization of this balance.
4

5 **Q. Ms. Rimback, am I correct that Staff's position is that the Company has not provided**
6 **and/or otherwise supported the contributing factors leading up to the recurring**
7 **instances where debit balances in accumulated depreciation reserve exist on the**
8 **Company's books and records?**

9 A. Yes.

10
11 **Q. Are there other references in NARUC, that Staff believes need to be brought to the**
12 **Commission's attention to help clarify the above issues?**

13 A. Yes, Staff attaches such references Surrebuttal Exhibit MJR-A NARUC Instruction No. 29
14 Transfer of Assets and Surrebuttal Exhibit MJR-B NARUC Description of Accumulated
15 Depreciation accounts page 55-56. These guides have relevance to explain how asset
16 transfers, and other accounting entries such as corrections, should be accounted for on a
17 regulated utility's books and records. Staff's point again is that NARUC plan retirement
18 accounting does not have relevance in such instances and the focus should not be exclusively
19 on plant retirements.
20

21 *Rate Base Adjustment No. 2 Reverse AFUDC 24 month Deferral for Post in Service AFUDC (all Districts)*

22 **Q. Did Staff review the Company Rebuttal testimony of Sheryl L. Hubbard concerning**
23 **the Company's request for a 24-month deferral of post in service AFUDC?**

24 A. Yes.
25

1 **Q. Is Staff changing its position from the position it supported in its direct testimony?**

2 A. No, Staff continues to recommend that continuing to calculate additional AFUDC on
3 construction projects that are complete and in service or available for service is inappropriate
4 and not consistent with traditional ratemaking principles. The Company has calculated a pro-
5 forma adjustment to the Company books for ratemaking purposes only. The Company is
6 requesting that not only the AFUDC on construction be allowed, but also the amount should
7 continue beyond the construction period. The Company is not accounting for this on its
8 own books in this manner; it requires a pro-forma adjustment for ratemaking purposes only.

9
10 The emphasis the Company places on the need for this additional deferral/cost of
11 construction amount hinges on the existence of regulatory lag. Regulatory lag is a reality for a
12 regulated utility, but eliminating regulatory lag in all instances should not be an absolute goal
13 within the ratemaking process. Continuing to accrue AFUDC after the plant has been placed
14 into service has been rejected by the Commission in the past and, as just noted, it is not in
15 keeping with NARUC ratemaking guidelines. The Company generally controls the timing of
16 capital expenditures and it generally controls the timing of rate cases.

17
18 **Q. Did the Company revise the amount of deferred AFUDC requested in the direct
19 testimony in the Company rebuttal testimony?**

20 A. Yes, the Company adjusted this request to:

21
22

	<u>Rebuttal</u>	<u>Increases/(Decrease) from</u>
	<u>Testimony</u>	<u>Direct Testimony</u>
24 Mohave Water	\$763,868	(\$42,994)
25 Mohave Wastewater	\$ 89,523	\$60,806
26 Paradise Valley Water	\$397,156	(\$ 30,441)
27 Sun City Water	\$392,361	\$167,250
28 TubacWater	\$ 23,381	(\$ 4,596)

29

1 **Q. Did the Company explain these adjustments from its direct testimony to the proposed**
2 **amounts in its rebuttal testimony?**

3 A. Yes.
4

5 **Q. How did the Company explain the adjustment?**

6 A. The revised additional AFUDC level is attributable to the difference between rate base
7 amounts in the Company direct testimony and the revised amounts provided in the
8 Company's revised schedules on October 14, 2014. The Company's AFUDC calculations are
9 impacted by the level of the underlying construction projects. Original amounts of AFUDC
10 requested as a pro-forma addition to rate base were:

11		
12	Mohave Water	\$806,861
13	Mohave Wastewater	\$ 28,717
14	Paradise Valley Water	\$427,598
15	Sun City Water	\$225,112
16	Tubac Water	\$ 27,978

17

18 **Q. Is Staff still opposed to the Company's proposal to recognize an additional 24-month**
19 **deferral of AFUDC?**

20 A. Yes.
21

22 *Rate Base Adjustment No 3 Working Capital (all Districts)*

23 **Q. Did Staff review the rebuttal testimony of Ms. Sheryl Hubbard concerning cash**
24 **working capital?**

25 A. Yes.
26

1 **Q. Did Ms. Hubbard disagree with Staff on the calculation of the Company's cash**
2 **working capital allowance?**

3 A. Yes, but only in one aspect. Staff removed rate case expense from the calculation of cash
4 working capital allowance calculation.

5
6 **Q. What is Staff's response to this disagreement?**

7 A. Staff's rate case expense is historically termed a normalization of rate case expense and was
8 appropriately referred to as normalized expense in Staff witness Ms. Christine Payne's direct
9 testimony, Operating Expense Adjustment No. 7 Rate Case Expense. As such, it is an
10 expense normalized over a period of years, not amortized, for recovery through rates. This
11 normalization of expenses has been accepted as an exclusion from cash working capital
12 calculations by the Commission in previous rate cases.

13
14 **Q. What amounts of rate case expense does Staff recommend be excluded from the cash**
15 **working capital calculation?**

16 A. Staff recommends the following amounts of rate case expense be excluded from the cash
17 working capital calculations:

18
19 Mohave Water \$ 70,438
20 Mohave Wastewater \$ 11,993
21 Paradise Valley Water \$ 66,802
22 Sun City Water \$101,188
23 Tubac \$ 7,261

24
25 These are the amounts the Company included in its cash working capital calculations, not the
26 rate case expense Staff is recommending.

1 **Q. What is Staff's recommendation for Working Capital?**

2	A. Mohave Water	\$115,714
3	Mohave Wastewater	\$ 17,235
4	Paradise Valley Water	\$ 14,817
5	Sun City Water	\$ 44,181
6	Tubac	\$ 5,039

7 As shown on Surrebuttal Schedules MJR-7

8

9 *Rate Base Adjustment No. 4 Reverse Contributions in Aid of Construction ("CIAC") removed attributed to*
10 *Construction Work in Progress ("CWIP") (all Districts)*

11 **Q. Did Staff review the rebuttal testimony of Ms. Sheryl L. Hubbard concerning CIAC**
12 **removed which is attributable to CWIP?**

13 A. Yes, the Company asserts that it has received CIAC for plant not yet completed and reflected
14 in its rate base. The Company further states that since the CIAC removed is for developer-
15 funded projects still in CWIP, which is not an addition to rate base, then related CIAC should
16 not be a reduction in the rate base calculation.

17

18 **Q. Did the Company provide a schedule of the developer -funded project still in CWIP at**
19 **the end of the test year and therefore deducted from the test year CIAC?**

20 A. Yes, the Company's original application included a schedule for removed CIAC; this schedule
21 is attached as Surrebuttal Exhibit MJR-C Removed CIAC.

22

23 **Q. What does Staff now recommend?**

24 A. Staff recommends that the amount of developer funded CIAC funds which the Company
25 asserts are in CWIP at the end of the test year (including post-test year plant) be excluded
26 from the CIAC balances used to calculate a reduction to rate base. The adjustments to rate
27 base are:

28

1	Mohave Water	\$ 69,169
2	Mohave Wastewater	\$227,674
3	Paradise Valley Water	\$ 43,632
4	Sun City Water	\$845,933
5	Tubac Water	\$ 74,010

6

7 *Rate Base Adjustment No. 4A Mohave Water Retirements*

8 **Q. Did the Company respond to a RUCO Data Request related to the retirement of**
9 **certain wells in the Mohave Water district?**

10 A. Yes.

11

12 **Q. Did Staff revise the rate base for Mohave Water to include additional retirements in its**
13 **Surrebuttal testimony?**

14 A. Yes, based on Surrebuttal Exhibit Data Request RUCO 32.01 part b, the Company states that
15 certain wells in the Mohave Water district were not retired by the Company. The amount of
16 \$46,307 was deducted from NARUC account 307 Wells and Springs and from Accumulated
17 Depreciation. This information was not available at the time of the filing of Staff's direct
18 testimony

19

20 *Rate Base Adjustment No. 6 Tubac Arsenic Media Replacement*

21 Staff response to Rebuttal testimony of Mr. Shawn Bradford

22 **Q. Did Staff review the testimony of Mr. Shawn Bradford concerning the Arsenic Media**
23 **replacement in the Tubac Water District?**

24 A. Yes.

25

26 **Q. Did Staff change its position from the position advocated in its direct testimony**
27 **concerning the arsenic media replacement?**

28 A. Yes.

1 **Q. Please explain the change in Staff's position concerning the arsenic media**
2 **replacement.**

3 A. Staff previously recommended that arsenic media replacement be treated as a capitalized item
4 and recovered through depreciation expense. Based on Mr. Bradford's testimony, Staff
5 agrees with the Company that this is more appropriately accounted for as an operating
6 expense. Staff is providing, in the Surrebuttal testimony of Staff witness Ms. Christine Payne,
7 an allowance for chemical expense to cover the cost of the arsenic media on an annual basis.

8
9 **Q. Did Staff recommend any other adjustments to the accounting for arsenic media**
10 **replacement in the Tubac Water District?**

11 A. Yes, specifically, Staff notes that the Company's application has two accounts related to the
12 Water Treatment Equipment.

13
14 Account 320100 Water Treatment Equipment non-media
15 Gross Plant \$1,696,187
16 Accumulated Depreciation \$ 387,736

17
18 Account 320200 Water Treatment Equipment – Media
19 Gross Plant \$249,315
20 Accumulated Depreciation \$ 70,762

21
22 The Company is proposing that account 320200 have a ten-year life with depreciation
23 expense calculated at 10 per cent per year or \$24,931. To continue to include this in rate
24 base and collect as an operating expense will result in an unwarranted additional recovery of
25 the Water Treatment Equipment media.

26
27 Staff recommends that the net amount of \$178,533 (\$249,315-\$70,762) currently included in
28 the account 320200 Water Treatment equipment-Media be removed from the rate base
29 entirely.

1 *Accumulated Deferred Income Taxes ("ADIT")*

2 **Q. Did the Company provide a response to a RUCO data request related to bonus**
3 **depreciation?**

4 A. Yes.

5
6 **Q. Can you explain the concept of bonus depreciation and how this can impact rate**
7 **base?**

8 A. In brief, bonus depreciation is occasionally allowed for income tax purposes, generally to
9 support or to promote economic spending. For tax purposes the company purchasing a
10 qualifying asset is allowed to recognize an accelerated tax depreciation which may allow the
11 company to write off 50 percent or 100 percent of the initial investment in the tax year the
12 investment was made. For a regulated utility bonus depreciation can greatly increase the
13 utility's balance of accumulated deferred income taxes. A liability for ADIT is reduced from
14 rate base, which lowers the utility revenue requirement. The Company has acknowledged
15 that bonus depreciation has been taken, qualifying for test year plant additions, but the
16 resulting impact on the Company's ADIT savings is not reflected in the Company's ADIT
17 balance. When this is properly captured, a reduction to rate base is anticipated.

18
19 **Q. Did the Staff review the Company's response to RUCO data request 30.1?**

20 A. Yes.

21
22 **Q. Based on the Company response, does Staff anticipate additional rate base**
23 **adjustments will be recommended by Staff related to bonus depreciation?**

24 A. Yes. Based on the Company response to RUCO Data Request 30.1 concerning bonus
25 depreciation, it is likely that an adjustment to rate base will be recommended by Staff. The
26 Company response to RUCO Data Request 30.1 is attached as an Exhibit to this surrebuttal

1 testimony. Specifically, the Company admitted in the data request that additional bonus tax
2 depreciation was taken on the 2013 federal tax return. The Company states that this decision
3 was not made until 2014 and therefore is not included in the ADIT calculations for the water
4 districts in the instant rate case. Staff did not adjust the rate base in Surrebuttal testimony as
5 the information was received too late to complete an analysis. However, Staff will be
6 reviewing this information and making a specific recommendation regarding this matter
7 during the upcoming Commission hearing related to this docket.

8

9 **Q. Does this conclude your Surrebuttal testimony?**

10 **A. Yes, it does.**

RATE BASE - ORIGINAL COST

LINE NO.	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED	
1	Plant in Service	\$46,731,133	(\$46,307)	\$46,684,826
2	Less: Accumulated Depreciation	15,934,125	233,337	16,167,462
3	Net Plant in Service	<u>\$30,797,008</u>	<u>(\$279,644)</u>	<u>\$30,517,364</u>
4				
5	<u>LESS:</u>			
6				
7	Contributions in Aid of Construction (CIAC)	\$570,329	\$0	\$570,329
8	Less: Accumulated Amortization	89,194	-	89,194
9	Net CIAC	<u>\$481,135</u>	<u>\$0</u>	<u>\$481,135</u>
10				
11	Advances in Aid of Construction (AIAC)	\$7,012,710	-	\$7,012,710
12				
13	Customer Meter Deposits	8,257	-	8,257
14	Deferred Income Tax Credits (Debits)	696,852	-	696,852
15	Investment Tax Credits	-	-	-
16	Regulatory Liabilities	106,450	(106,450)	-
18				
19				
20	<u>ADD:</u>			
21				
22	Working Capital	131,008	(15,294)	115,714
29				
30	Deferred Debits	873,903	(873,903)	-
31				
33				
34	Original Cost Rate Base	<u>\$23,496,515</u>	<u>(\$1,062,391)</u>	<u>\$22,434,124</u>

References:

Column [A]: Company Schedule B-1

Column [B]: Schedule MJR-4

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

EPICOR Water Arizona - Mohave Water District
 Docket No. WS-01503A-14-0010
 Test Year Ended June 30, 2013

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	COMPANY AS FILED	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]
				ADJ #1	ADJ #2	ADJ #3	ADJ #4A	ADJ #5	ADJ #6	STAFF	
				Adjust Balance	Rev AFUDC 24 Mo. Diff	Working Capital	Well Retirements	Rev Liability	Deferred Debits		
	Ref. Sch. AJR-5	Ref. Sch. AJR-6	Ref. Sch. AJR-7	Ref. Sch. AJR-8	Ref. Sch. AJR-8A	Ref. Sch. AJR-9	ADJUSTED				
		PLANT IN SERVICE:									
1	301990	Other Intangible Plant	\$ 34,004	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$34,004
2	302000	Franchises	37,061								37,061
3	303200	Land and Land Rights Supply	528,700								528,700
4	303300	Land and Land Rights Pumping	2,351								2,351
5	303400	Land & Land Rights Treatment	-								-
6	303500	Land & Land Rights TR&D	9,609								9,609
7	303600	Land & Land Rights General	47,358								47,358
8	304100	Structures and Improvements - Supply	475,826								475,826
9	304200	Structures and Improvements - Pumping	31,201								31,201
10	304300	Structures and Improvements - Treatment	47,846								47,846
11	304400	Structures & Improvements Trans & Dist	43,546								43,546
12	304500	Structures & Improvements General	43,231								43,231
13	304600	Structures and Improvements - Offices	449,617								449,617
14	304620	Struct & Imp Leasehold	-								-
15	304700	Structures & Improvements Storm, Shop, Gge	29,223								29,223
16	304800	Structures & Improvements Miscellaneous	-								-
17	305000	Collect & Impounding	663,944					(46,307)			663,944
18	307000	Collect & Impounding	6,589,253								6,589,253
19	309000	Supply Mains	93,481								93,481
20	310000	Power Production Equipment	30,355								30,355
21	311000	Pumping Equipment Steam	409,521								409,521
22	311200	Pumping Equipment Electric	2,782,896								2,782,896
23	311300	Pumping Equipment Diesel	-								-
24	311400	Pumping Equipment Hydraulic	-								-
25	311500	Pumping Equipment Other	1,009								1,009
26	311530	Pumping Equipment Water Treatment	-								-
27	320100	Water Treatment Equipment Non-Media	96,933								96,933
28	320200	Water Treatment Equipment Filter Media	360,547								360,547
29	330000	Distribution Reservoirs & Standpipes	2,832,819								2,832,819
30	330100	Elevated tank and Standpipes	-								-
31	331001	TD Mains Not Classified by Size	269,444								269,444
32	331100	TD Mains 4in & Less	12,008,818								12,008,818
33	331200	TD Mains 6in to 8in	3,693,499								3,693,499
34	331300	TD Mains 10in to 16in	1,484,810								1,484,810
35	331400	TD Mains 18in & Grtr	76,265								76,265
36	332000	Fire Mains	7,853,908								7,853,908
37	333000	Services	2,638,551								2,638,551
38	334100	Meters	276,354								276,354
39	334200	Meter Installations	-								-
40	334300	Meter Vaults	185,402								185,402
41	335000	Hydrants	82,583								82,583
42	339200	Other P/E-Supply	-								-
43	339500	Other P/E-TD	186,826								186,826
44	339600	Other P/E-CPS	101,669								101,669
45	340100	Office Furniture & Equipment	109,956								109,956
46	340200	Computers & Periph Equipment	3,521								3,521
47	340300	Computer Software	-								-
48	340330	Computer Software Other	-								-
49	340325	Computer Software Customized	-								-
50	340500	Other Office Equipment	99,015								99,015
51	341100	Transportation Equip Light Duty Trucks	72,088								72,088
52	341200	Transportation Equip Heavy Duty Trucks	59,848								59,848
53	341400	Transportation Equipment Other	1,420								1,420
54	342000	Stores Equipment	221,155								221,155
55	343000	Tools, Shop, Garage Equipment	7,623								7,623
56	344000	Laboratory Equipment	171,959								171,959
57	345000	Power Operated Equipment	188,877								188,877
58	346100	Communication Equipment Non-Telephone	880,738								880,738
59	346190	Remote Control & Instrument	-								-
60	346200	Communication Equipment Telephone	-								-
61	346300	Communication Equipment Other	5,111								5,111
62	347000	Miscellaneous Equipment	-								-
63	304500	Structures & Imp General	9,553								9,553
64	304600	Structures & Improvements Offices	(676)								(676)
65	304620	Structures & Improvements Leasehold	1,950								1,950
66	334100	Meters	1,151								1,151
67	339200	Other P/E CPS	35,759								35,759
68	340100	Office Furniture & Equipment	123,778								123,778
69	340200	Computer & Peripheral Eqn	82,275								82,275
70	340300	Computer Software	55,124								55,124
71	340330	Transportation Equipment Other	624								624
72	341400	Transportation Equipment Other	11,409								11,409
73	343000	Tools, Shop, Garage Equipment	1,531								1,531
74	344000	Laboratory Equipment	1,693								1,693
75	346100	Communication Equipment non-telephone	18,236								18,236
76	346190	Remote Control & Instrument	1,489								1,489
77	346200	Communication Equipment Telephone	7,077								7,077
78	346300	Communication Equip Other	480								480
79	347000	Miscellaneous Equip	39,906								39,906
80	399000	Allocated Corporate Plant	-								-
81		Rounding/Reconciling	3								3
82		Total Plant in Service	\$ 46,731,133	\$0	\$0	\$0	\$0	(\$46,307)	\$0	\$0	\$46,684,826
83		Accumulated Depreciation	15,934,125	279,644				(46,307)			16,167,462
84		Net Plant in Service (L58 - L 59)	\$30,797,008	(279,644)							\$30,517,364
86		LIAB.									
87		Contributions in Aid of Construction (CIAC)	570,329								570,329
88		Less: Accumulated Amortization	89,124								89,124
89		Net CIAC (L63 - L64)	\$481,135								481,135
90		Advances in Aid of Construction (AIAC)	7,612,710								7,612,710
91		Customer Meter Deposits	8,257								8,257
92		Deferred Income Tax Credits (Debits)	696,852								696,852
93		Investment Tax Credits	0								0
94		Regulatory Liabilities	106,450						(106,450)		0
95		ADD:									
96		Working Capital Allowance	131,008				(15,294)			(67,042)	115,214
97		Deferred Debits	873,203		(806,861)					(67,042)	22,434,124
98		Original Cost Rate Base	\$23,496,516	(279,644)	(806,861)	(15,294)		106,450	(67,042)		\$22,434,124

References:

- Column [A] Company Schedules
- Column [B] AJR Testimony
- Column [C] AJR Testimony
- Column [D] AJR Testimony
- Column [E] AJR Testimony
- Column [F] AJR Testimony

RATE BASE ADJUSTMENT NO. 1 - DEBIT ACCUMULATED DEPRECIATION

		[A]	[B]	[C]
1 ACCT.		Debit Accum	Phantom	Staff
2 NO.	DESCRIPTION	Depreciation	Assets	Recommended
3				
4	<u>PLANT IN SERVICE:</u>			
5	303300 Land and Land Rights Pumping	(10)	(10)	-
6	304200 Structures and Improvements - Pumping	(225)	(225)	-
7	340100 Office Furniture & Equipment	(5,919)	(5,919)	-
8	340200 Computer & Periphel Equipment	(254,621)	(254,621)	-
9	346190 Remote Control Instr(corp alloc plant)	(289)	(289)	-
10	346200 Communication Equipment Telephone	(10,833)	(10,833)	-
11	346300 Communication Equipment Other	(6,235)	(6,235)	-
12	347000 Misc Equip (corp alloc plant)	(1,512)	(1,512)	-
13	Total Plant in Service	\$ (279,644)	\$ (279,644)	\$ -
14				
15				

16 References:

- 17 Column [A] Company Schedules
- 18 Column [B] MJR Testimony
- 19 Column [C] Column A minus Column B

EPCOR Water Arizona - Mohave Water District
Docket No. WS-01303A-14-0010
Test Year Ended June 30, 2013

Supplemental Schedule MJR-6

RATE BASE ADJUSTMENT NO. 2 - REVERSAL OF AFUDC AND DEFERRED DEPRECIATION DEFERRAL

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Deferred Debits	<u>\$873,903</u>	<u>(\$806,861)</u>	<u>\$67,042</u>

REFERENCES:

Columns [A]: Company schedules
Column [B]: Column [C] less Column [A]
Column [C]: See testimony MJR

RATE BASE ADJUSTMENT NO. 3 - WORKING CAPITAL

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] LEAD/LAG FACTOR COMPANY	Divide by 365 days	[E] B-6, page 1 CASH WORKING CAPITAL REQ COMPANY	[F] CASH WORKING CAPITAL REQ STAFF
1	Labor	\$1,389,973	(\$31,653)	\$1,358,320	10.507	0.0288	\$ 40,012	\$ 39,101
2	Purchased Water	26,831	(0)	26,831	(71.940)	(0.1971)	(5,288.28)	(5,288)
3	Fuel & Power	546,720	(0)	546,720	(9.302)	(0.0255)	(13,933.12)	(13,933)
4	Chemicals	10,916	0	10,916	34.140	0.0935	1,021.02	1,021
5	Waste Disposal	7,886	0	7,886	9.045	0.0248	195.42	195
6	Intercompany Support Services	950	0	950	10.723	0.0294	27.91	28
7	Corporate Allocation	347,018	(23,597)	323,421	10.720	0.0294	10,191.87	9,499
8	Outside Services	192,587	0	192,587	8.807	0.0241	4,646.89	4,647
9	Group Insurance	425,293	¹ (6,694)	418,599	51.856	0.1421	69,421.90	59,471
10	Pensions		6,694	6,694	51.856	0.1421	-	951
11	Regulatory Expense	85,438	² (85,438)	0	74.238	0.2034	17,377.39	-
12	Insurance Other Than Group	101,045	0	101,045	(23.761)	(0.0651)	(6,577.89)	(6,578)
13	Customer Accounting	596,154	(25,100)	571,054	(8.686)	(0.0238)	(14,186.83)	(13,590)
14	Rents	16,923	0	16,923	1.575	0.0043	73.02	73
15	General Office Expense	247,950	(21,737)	226,213	8.570	0.0235	5,821.73	5,311
16	Miscellaneous	50,657	5,023	55,680	15.193	0.0416	2,108.58	2,318
17	Maintenance Expense	377,160	0	377,160	(4.494)	(0.0123)	(4,643.72)	(4,644)
18	General Taxes-Property	180,165	(3,282)	176,883	(172.110)	(0.4715)	(84,953.97)	(83,406)
19	Taxes Payroll	97,538	³ 0	97,538	14.738	0.0404	3,938.40	3,938
20	General Taxes-Other	52,291	³ 0	52,291	171.732	0.4705	24,602.84	24,603
21	Income Taxes	628,363	(106,751)	521,612	(0.610)	(0.0017)	(1,050.14)	(872)
22	Interest	601,511	⁴ (18,224)	583,287	(33.360)	(0.0914)	(54,976.46)	(53,311)
23	Total Operating Expenses	\$5,983,369	(\$310,759)	\$5,672,610				
24								
25	CASH WORKING CAPITAL REQUIREMENT						(15,171)	(30,465)
26								
27								
28								
29	Company As Filed Cash Working Capital Co Schedule B-6, Staff Col F	\$ (15,171)	\$ (15,294)	\$ (30,465)				
30	Company as filed material and Supplies Inventories B-5	\$110,557	\$ -	\$110,557				
31	Company as Filed Prepayments B-5	\$35,622	\$ -	\$35,622				
32								
33	Working Capital	\$131,008	(\$15,294)	\$115,714				
34								
35								
36								
37								
38	¹ Company did not breakdown Lead/Lag B-6 between group insurance and pensions							
39	² Staff removed Regulatory expense from lead lag estimates							
40	³ Staff accepts Company breakdown between payroll taxes and other taxes.							
41	⁴ Staff Cost of Capital Testimony							
42	⁵ Staff calculates property and income taxes based on Staff's recommended revenue requirement.							
43	⁶ Water Testing included in miscellaneous charges							
43	References:							
44	Column [A]: Company Schedule B-6							
45	Column [B]: Staff adjustments to expenses, See Testimony CLP							
46	Column [C]: Column [A] + Column [B]							
47	Column [D]: Company provided Lead/Lag Factor							
48	Column [E]: Column [A] * Column [D]							
49	Column [F]: Column [C] * Column [D]							

RATE BASE ADJUSTMENT NO. 4A - WELL RETIREMENTS

ACCT		[A] COMPANY AS <u>FILED</u>	[B] STAFF ADJUSTMENTS	[C] STAFF AS <u>ADJUSTED</u>
<u>NO.</u>	<u>Description</u>			
307	Wells & springs	<u>\$590,903</u>	<u>(\$46,307)</u>	<u>\$544,596</u>

Accumulated Depreciation

Columns [A]: Company schedules
 Column [B]: Column [C] less Column [A]
 Column [C]: See testimony MJR

EPCOR Water Arizona - Mohave Water District
Docket No. WS-01303A-14-0010
Test Year Ended June 30, 2013

Surrebuttal Schedule MJR-8A

**RATE BASE ADJUSTMENT NO. 5 - REVERSAL OF REGULATORY LIABILITY FOR LOW INCOME TARIFF
OVER-COLLECTION**

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Regulatory Liability	<u>\$106,450</u>	<u>(\$106,450)</u>	<u>\$0</u>

REFERENCES:

Columns [A]: Company schedules
Column [B]: Column [C] less Column [A]
Column [C]: See testimony MJR

RATE BASE ADJUSTMENT NO. 6 - REVERSAL OF DEFERRED DEBITS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Deferred Debits	\$67,042	¹ (\$67,042)	\$0

REFERENCES:
Column [A]: Company schedules
Column [B]: Column [C] less Column [A]
Column [C]: See testimony MJR

¹ Amount Reduced by 24 month deferral adjustment

RATE BASE - ORIGINAL COST

LINE NO.	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED	
1	Plant in Service	\$8,866,427	\$0	\$8,866,427
2	Less: Accumulated Depreciation	693,460	\$413,326	1,106,786
3	Net Plant in Service	<u>\$8,172,967</u>	<u>(\$413,326)</u>	<u>\$7,759,641</u>
4				
5	<u>LESS:</u>			
6				
7	Contributions in Aid of Construction (CIAC)	\$1,242,320	\$0	\$1,242,320
8	Less: Accumulated Amortization	307,248	-	307,248
9	Net CIAC	<u>\$935,072</u>	<u>\$0</u>	<u>\$935,072</u>
10				
11	Advances in Aid of Construction (AIAC)	\$1,916,421	-	\$1,916,421
12				
13	Customer Meter Deposits	5	-	5
14	Deferred Income Tax Credits (Debits)	62,236	-	62,236
15	Investment Tax Credits	-	-	-
16	Regulatory Liabilities	-	-	-
17				
18				
19				
20	<u>ADD:</u>			
21				
22	Working Capital Allowance	17,134	101	17,235
23				
30	Deferred Debits	28,717	(28,717)	-
31				
33				
34	Original Cost Rate Base	<u>\$5,305,083</u>	<u>(\$441,942)</u>	<u>\$4,863,141</u>

References:

Column [A], Company Schedule B-1

Column [B]: Schedule MJR-4

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

RATE BASE ADJUSTMENT NO. 1 - DEBIT ACCUMULATED

LINE NO.	NARUC Acct	DESCRIPTION	[A]	[B]	[C]
			Debit Accum Depreciation	Phantom Assets	Staff Recommended
1					
2					
3	355400	Power Generation Equipment Treatment	(14,910)	(14,910)	-
4	360000	Collection Sewers - Forced	(15,840)	(15,840)	-
5	380100	TD Equipment Sed Tanks/Acc	(371,356)	(371,356)	-
6	380600	TD Equipment Other Disp	(1,235)	(1,235)	-
7	397000	Miscellaneous Equipment	(9,824)	(9,824)	-
8	346190	Remote Control & Instrument	(26)	(26)	-
9	347000	Miscellaneous Equip	(135)	(135)	-
10		Subtotal	\$ (413,326)	\$ (413,326)	\$ -

EPCOR Water Arizona - Mohave Wastewater District
Docket No. WS-01303A-14-0010
Test Year Ended June 30, 2013

Surrebuttal Schedule MJR-6

RATE BASE ADJUSTMENT NO. 2 REVERSAL OF AFUDC AND DEFERRED DEPRECIATION DEFERRAL

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Deferred Debits	<u>\$28,717</u>	<u>(\$28,717)</u>	<u>\$0</u>

REFERENCES:

Columns [A]: Company schedules
Column [B]: Column [C] less Column [A]
Column [C]: See testimony MJR.

R Water Arizona - Mohave Wastewater District
: No. WS-01303A-14-0010
ear Ended June 30, 2013

Surrebuttal Schedule MJR-8

RATE BASE ADJUSTMENT NO. 4 - NOT USED

ACCT NO.	Description	[A] COMPANY AS FILED \$0	[B] STAFF ADJUSTMENTS \$0	[C] STAFF AS ADJUSTED \$0
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Columns [A]: Company schedules
Column [B]: Column [C] less Column [A]
Column [C]: See testimony BAB

RATE BASE - ORIGINAL COST

LINE NO.	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Plant in Service	\$73,128,007	\$73,136,640
2	Less: Accumulated Depreciation	23,455,384	24,872,157
3	Net Plant in Service	<u>\$49,672,623</u>	<u>\$48,264,483</u>
4			
5	<u>LESS:</u>		
6			
7	Contributions in Aid of Construction (CIAC)	\$18,123,892	\$18,123,892
8	Less: Accumulated Amortization	8,864,120	8,864,120
9	Net CIAC	<u>\$9,259,772</u>	<u>\$9,259,772</u>
10			
11	Advances in Aid of Construction (AIAC)	\$1,554,766	\$1,554,766
12			
13	Customer Meter Deposits	23,819	23,819
14	Deferred Income Tax Credits (Debits)	212,749	212,749
15	Investment Tax Credits	39,646	39,646
16			
17			
18			
19			
20	<u>ADD:</u>		
21			
22	Working Capital Allowance	19,885	14,817
23			
30	Deferred Debits	778,686	-
31			
33			
34	Original Cost Rate Base	<u>\$39,380,442</u>	<u>\$37,188,547</u>

References:

Column [A]: Company Schedule B-1

Column [B]: Schedule MJR-4

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

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS									
LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY AS FILED	[B]	[C]	[D]	[E]	[F]	[G]
				ADJ #1 Adjust Assets Ref. Sch. MJR-5	ADJ #2 Rev AFUDC 24 Mo Def Ref. Sch. MJR-6	ADJ #3 Working Capital Ref. Sch. MJR-7	ADJ #4 Reverse CLAC Removed Ref. Sch. MJR-8	ADJ #5 Reverse Def Debits Ref. Sch. MJR-9	STAFF ADJUSTED
PLANT IN SERVICE									
1	301000	Other Intangible Plant	51,831	\$0	\$0	\$0	\$0	\$0	\$1,831
2	302000	Franchises	-	-	-	-	-	-	-
3	303200	Land and Land Rights Supply	-	-	-	-	-	-	-
4	303300	Land and Land Rights Pumping	-	-	-	-	-	-	-
5	303400	Land & Land Rights Treatment	-	-	-	-	-	-	-
6	303500	Land & Land Rights T&D	8,324	-	-	-	-	-	8,324
7	303600	Land & Land Rights General	-	-	-	-	-	-	-
8	304100	Structures and Improvements - Supply	158,547	-	-	-	-	-	158,547
9	304200	Structures and Improvements - Pumping	1,282,693	-	-	-	-	-	1,282,693
10	304300	Structures and Improvements - Treatment	20,737,611	-	-	-	-	-	20,737,611
11	304400	Structures & Improvements Trans & Dist	23,764	-	-	-	-	-	23,764
12	304500	Structures & Improvements General	26,113	-	-	-	-	-	26,113
13	304600	Structures and Improvements - Offices	-	-	-	-	-	-	-
14	304620	Structures & Imp Leasehold	-	-	-	-	-	-	-
15	304700	Structures & Improvements Store, Shop, Ggc	4,629	-	-	-	-	-	4,629
16	304800	Structures & Improvements Miscellaneous	(8,633)	8,633	-	-	-	-	-
17	307000	Wells & springs	2,639,547	-	-	-	-	-	2,639,547
18	309000	Supply Mains	373,503	-	-	-	-	-	373,503
19	310000	Power Production Equipment	230,827	-	-	-	-	-	230,827
20	310100	Power Generation Equip Other	554,631	-	-	-	-	-	554,631
21	311200	Pumping Equipment Electric	3,893,762	-	-	-	-	-	3,893,762
22	311300	Pumping Equipment Diesel	190	-	-	-	-	-	190
23	311400	Pumping Equipment Hydraulic	-	-	-	-	-	-	-
24	311500	Pumping Equipment Other	-	-	-	-	-	-	-
25	311530	Pumping Equipment Water Treatment	358,319	-	-	-	-	-	358,319
26	320100	Water Treatment Equipment Non-Media	10,628,952	-	-	-	-	-	10,628,952
27	320200	Water Treatment Equipment Filter Media	702,862	-	-	-	-	-	702,862
28	330000	Distribution Reservoirs & Standpipes	2,400,280	-	-	-	-	-	2,400,280
29	330200	Ground Level Tanks	-	-	-	-	-	-	-
30	331001	TD Mains Not Classified by Size	3,911,448	-	-	-	-	-	3,911,448
31	331100	TD Mains 4in & Less	364,519	-	-	-	-	-	364,519
32	331200	TD Mains 6in to 8in	5,987,202	-	-	-	-	-	5,987,202
33	331300	TD Mains 10in to 16in	9,380,895	-	-	-	-	-	9,380,895
34	331400	TD Mains 18in & Grtr	547,004	-	-	-	-	-	547,004
35	332000	Fire Mains	14,058	-	-	-	-	-	14,058
36	333000	Services	3,818,826	-	-	-	-	-	3,818,826
37	334100	Meters	1,426,811	-	-	-	-	-	1,426,811
38	334200	Meter Installations	177,916	-	-	-	-	-	177,916
39	334300	Meter Vaults	-	-	-	-	-	-	-
40	335000	Hydrants	1,384,297	-	-	-	-	-	1,384,297
41	339200	Other P/E-Supply	-	-	-	-	-	-	-
42	339600	Other P/E-CPS	180,523	-	-	-	-	-	180,523
43	340100	Office Furniture & Equipment	61,561	-	-	-	-	-	61,561
44	340200	Computer & Peripheral Equipment	38,077	-	-	-	-	-	38,077
45	340300	Computer Software	37,405	(6,528)	-	-	-	-	30,877
46	340330	Computer Software Other	(6,528)	6,528	-	-	-	-	-
47	340325	Computer Software Customized	-	-	-	-	-	-	-
48	340500	Other Office Equipment	321	-	-	-	-	-	321
49	341100	Transportation Equip Light Duty Trucks	-	-	-	-	-	-	-
50	341300	Transportation Equip Light Duty Trucks	-	-	-	-	-	-	-
51	341400	Transportation Equipment Other	194,855	-	-	-	-	-	194,855
52	342000	Stores Equipment	1,943	-	-	-	-	-	1,943
53	343000	Tools, Shop, Garage Equipment	294,430	-	-	-	-	-	294,430
54	344000	Laboratory Equipment	17,620	-	-	-	-	-	17,620
55	345000	Power Operated Equipment	32,228	-	-	-	-	-	32,228
56	346100	Communication Equipment Non-Telephone	456,755	-	-	-	-	-	456,755
57	346190	Remote Control & Instrument	609,765	-	-	-	-	-	609,765
58	346200	Communication Equipment Telephone	-	-	-	-	-	-	-
59	346300	Communication Equipment Other	58,841	-	-	-	-	-	58,841
60	347000	Miscellaneous Equipment	-	-	-	-	-	-	-
61	304500	Structures & Imp General	2,917	-	-	-	-	-	2,917
62	304600	Structures & Improvement Offices	132	-	-	-	-	-	132
63	304620	Structures & Improvements Leasehold	256	-	-	-	-	-	256
64	334100	Meters	351	-	-	-	-	-	351
65	339600	Other P/E CPS	10,917	-	-	-	-	-	10,917
66	340100	Office furniture & Equipment	37,790	-	-	-	-	-	37,790
67	340200	Computer & Peripheral Equ	25,119	-	-	-	-	-	25,119
68	340300	Computer Software	16,829	-	-	-	-	-	16,829
69	340300	Computer Software	191	-	-	-	-	-	191
70	341400	Transportation Equipment Other	3,483	-	-	-	-	-	3,483
71	343000	Tools, Shop, Garage Equipment	467	-	-	-	-	-	467
72	344000	Laboratory Equipment	517	-	-	-	-	-	517
73	346100	Communication Equipment non-telephone	5,567	-	-	-	-	-	5,567
74	346190	Remote Control & Instrument	455	-	-	-	-	-	455
75	346200	Communication Equipment Telephone	2,161	-	-	-	-	-	2,161
76	346300	Communication Equip Other	147	-	-	-	-	-	147
77	347000	Miscellaneous Equip	12,183	-	-	-	-	-	12,183
78			-	-	-	-	-	-	-
79			-	-	-	-	-	-	-
80		Rounding	1	-	-	-	-	-	1
81		Total Plant in Service	73,128,007	8,633	-	-	-	-	73,136,640
82			-	-	-	-	-	-	-
83		Less: Accumulated Depreciation	23,455,384	1,416,773	-	-	-	-	24,872,157
84		Net Plant in Service (L58 - L 59)	\$49,672,623	(\$1,408,140)	\$0	\$0	\$0	\$0	\$48,264,483
85			-	-	-	-	-	-	-
86		LESS:							
87	1	Contributions in Aid of Construction (CLAC)	\$18,123,892	-	\$0	\$0	\$0	\$0	\$18,123,892
88	1	Less: Accumulated Amortization	8,864,120	-	-	-	-	-	8,864,120
89		Net CLAC (L63 - L64)	\$9,259,772	-	\$0	\$0	\$0	\$0	\$9,259,772
90		Advances in Aid of Construction (AIAC)	1,554,766	-	-	-	-	-	1,554,766
91		Meter Deposits	23,819	-	-	-	-	-	23,819
92		Deferred Income Tax Credits (Debits)	212,749	-	-	-	-	-	212,749
93		Investment Tax Credits	39,646	-	-	-	-	-	39,646
94			-	-	-	-	-	-	-
95		ADD:							
96		Working Capital Allowance	19,885	-	-	(3,068)	-	-	11,817
97		Pumping Power	-	-	-	-	-	-	-
98		Purchase Wastewater Treatment Charges	-	-	-	-	-	-	-
99		Material and Supplies Inventory	-	-	-	-	-	-	-
100		Prepayments	-	-	-	-	-	-	-
101		Projected Capital Expenditures	-	-	-	-	-	-	-
102		Deferred Debits	778,686	-	(427,598)	-	-	(351,088)	(1)
103		Rounding	(1)	-	-	-	-	-	(1)
104		Original Cost Rate Base	\$39,390,431	(\$1,408,140)	(\$427,598)	(\$5,068)	\$0	(\$351,088)	\$37,188,547

References:
 Column [A] Company Schedules
 Column [B] MJR Testimony
 Column [C] MJR Testimony
 Column [D] MJR Testimony
 Column [E] MJR Testimony
 Column [F] MJR Testimony
 Column [G] Sum of Columns A thru F

RATE BASE ADJUSTMENT NO. 1 - DEBIT ACCUMULATED DEPRECIATION ACCUMUALTED DEPRECIATION AND NEGATIVE PLANT BALANCES

LINE NO	ACCT.	DESCRIPTION	[A] Debit Accum Depreciation	[B] Phantom Assets	[C] Staff Recommended
1	NO.				
2					
3		<i>PLANT IN SERVICE:</i>			
4	301000	Other Intangible Plant	(\$477,283)	(\$477,283)	\$ -
5	304200	Structures and Improvements - Pumping	(83,586)	(83,586)	-
6	304500	Structures & Improvements General	(704)	(704)	-
7	304700	Structures & Improvements Store,Shop,Gge	(17,912)	(17,912)	-
8	304800	Structures & Improvements Miscellaneous	(133,751)	(133,751)	-
9	311300	Pumping Equipment Diesel	(62,413)	(62,413)	-
10	339600	Other P/E-CPS	(573,526)	(573,526)	-
11	340330	Computer Software Other	(9,129)	(9,129)	-
12	340500	Other Office Equipment	(14,473)	(14,473)	-
13	345000	Power Operated Equipment	(43,446)	(43,446)	-
14	346190	Remote Control & Instrument	(88)	(88)	-
15	347000	Miscellaneous (Corp alloc plant)	(462)	(462)	-
16		Subtotal	(1,416,773)	(1,416,773)	-
17					
18					
19		Negative Plant Balances			
20	304800	Structures and Improvements miscellaneous	\$ (8,633)	\$ 8,633	\$ -
21					
22					
		Rebuttal adjustment			
	340330		\$ (6,528)	\$ 6,528	\$ -
	340300		\$ 37,405	\$ (6,528)	\$ 30,877
			\$ 30,877	\$ -	

25

26 **References:**

- 27 Column [A] Company Schedules
- 28 Column [B] MJR Testimony
- 29 Column [C] Column A minus Column B

RATE BASE ADJUSTMENT NO. 2 - REVERSAL OF AFUDC AND DEFERRED DEPRECIATION DEFERRAL

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS AMOUNT	[C] STAFF AS ADJUSTED
1	Deferred Debits	778,686	(\$427,598)	\$351,088
2				

REFERENCES:

Columns [A]: Amount reflected on Co Schedule B-2, page 1
Column [B]: Col [C] less Col [A]
Column [C]: Per Testimony MJR

RATE BASE ADJUSTMENT NO. 3 - WORKING CAPITAL

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] LEAD/LAG FACTOR COMPANY	[E] DOLLAR DAYS COMPANY	[F] DOLLAR DAYS STAFF
1	Labor	\$1,205,431	(\$28,673)	\$1,176,758	10.492	0.0267	\$34,650 \$ 33,826
2	Purchased Water	0	0	0	41.125	0.1127	-
3	Fuel & Power	1,329,578	0	1,329,578	(8.303)	(0.0227)	(30,245) (30,245)
4	Chemicals	58,805	0	58,805	25.125	0.0688	4,048 4,048
5	Waste Disposal	15,320	0	15,320	(19.739)	(0.0541)	(828) (828)
6	Intercompany Support Services	860	0	860	10.708	0.0293	25 25
7	Corporate Allocation	314,349	(21,375)	292,974	10.705	0.0293	9,219 8,593
8	Outside Services	233,418	0	233,418	(10.148)	(0.0278)	(6,490) (6,490)
9	Group Insurance	325,846	¹ (3,881)	321,965	51.841	0.1420	46,280 45,729
10	Regulatory Expense	66,802	² (66,802)	0	74.419	0.2039	13,620 -
11	Pensions	0	0	3,881	51.841	0.1420	0 551
12	Insurance Other Than Group	138,645	0	138,645	(13.794)	(0.0378)	(5,240) (5,240)
13	Customer Accounting	199,658	(21,192)	178,466	(8.709)	(0.0239)	(4,764) (4,258)
14	Rents	30,456	0	30,456	9.486	0.0260	792 792
15	General Office Expense	132,498	(19,691)	112,807	6.821	0.0187	2,476 2,108
16	Miscellaneous	91,440	⁶ 954	92,394	10.776	0.0295	2,700 2,728
17	Maintenance Expense	512,882	(63,908)	448,974	(9.321)	(0.0255)	(13,097) (11,465)
18	Property Taxes	345,590	⁵ (8,718)	336,872	(172.125)	(0.4716)	(162,972) (158,861)
19	Taxes - Payroll	85,375	0	85,375	14.723	0.0403	3,444 3,444
20	Taxes -Other	35,401	³ 0	35,401	170.591	0.4674	16,545 16,545
21	Income Tax	1,053,144	⁵ (188,480)	864,664	(0.625)	(0.0017)	(1,803) (1,481)
22							
23	Interest	\$1,008,139	⁴ (41,237)	\$966,902	(33.375)	(0.0914)	(92,183) (88,412)
24		\$7,183,635	(\$463,002)	\$6,724,514			
25							
26	WORKING CASH REQUIREMENT						(\$183,822) \$ (188,891)
27							
28							
29							
30	Company As Filed Cash Working Capital Co Schedule B-6, Staff Col F	(\$183,822)	(\$5,069)	(\$188,891)			
31	Company as filed material and Supplies						
32	Inventories B-5	\$159,515		\$159,515			
33	Company as Filed Prepayments B-5	\$44,192		\$44,192			
34	Working Capital	\$19,885	(\$5,068)	\$14,817			
35							
36							
37							
38							
39	¹ Company did not breakdown Lead/Lag B-6 between group insurance and pensions						
40	² Staff removed Regulatory expense of \$66,802 from lead lag estimates						
41	³ Staff accepts Company breakdown between payroll taxes and other taxes.						
42	⁴ Staff Cost of Capital Testimony						
43	⁵ Staff calculates property and income taxes based on Staff's recommended revenue requirement.						
44	⁶ Includes water testing expense						
45	No lead lag factor provided for water testing or pensions						
46							
47	References:						
48	Column [A]: Company Schedule B-6						
49	Column [B]: Staff adjustments to expenses, See Testimony CLP						
50	Column [C]: Column [A] + Column [B]						
51	Column [D]: Company provided Lead/Lag Factor						
52	Column [E]: Column [A] * Column [D]						
53	Column [F]: Column [C] * Column [D]						
54							

RATE BASE ADJUSTMENT NO. 4 - Not used

<u>DESCRIPTION</u>	<u>[A] COMPANY AS FILED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF AS ADJUSTED</u>
Contributions in Aid of Construction	<u>\$18,123,892</u>	<u>\$0</u>	<u>\$18,123,892</u>

REFERENCES:

Columns [A]: Company schedules

Column [B]: Column [C] less Column [A]

Column [C]: See testimony MJR

EPCOR Water Arizona - Paradise Valley Water District
 Docket No. WS-01303A-14-0010
 Test Year Ended June 30, 2013

Surrebuttal Schedule MJR-9

RATE BASE ADJUSTMENT NO. 5 -REVERSE DEFERRED DEBITS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Deferred Debits	<u>\$351,088</u>	¹ <u>(\$351,088)</u>	² <u>\$0</u>

REFERENCES:

- Columns [A]: Company schedules
- Column [B]: Column [C] less Column [A]
- Column [C]: See testimony MJR

¹ Amount reduced by 24 month deferral adjustment

² Company adjustment DR 12.2

RATE BASE - ORIGINAL COST

LINE NO.		[A] COMPANY AS FILED	[B] STAFF STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Plant in Service	\$76,011,241	98,493	76,109,734
2	Less: Accumulated Depreciation	26,280,898	715,283	26,996,181
3	Net Plant in Service	<u>\$49,730,343</u>	<u>(616,790)</u>	<u>49,113,553</u>
4				
5	<u>LESS:</u>			
6				
7	Contributions in Aid of Construction (CIAC)	\$17,500,750	-	17,500,750
8	Less: Accumulated Amortization	<u>1,375,475</u>	-	<u>1,375,475</u>
9	Net CIAC	\$16,125,275	-	16,125,275
10				
11	Advances in Aid of Construction (AIAC)	\$6,374,283	-	6,374,283
12				
13	Customer Meter Deposits	4,903	-	4,903
14	Deferred Income Tax Credits (Debits)	1,014,247	-	1,014,247
15	Investment Tax Credits			
16	Regulatory Liabilities	90,329	(90,329)	-
17				
18				
19				
20	<u>ADD:</u>			
21				
22	Working Capital Allowance	62,870	(18,689)	44,181
23				
30	Deferred Debits	225,112	(225,112)	-
31				
33				
34	Original Cost Rate Base	<u>\$26,409,286</u>	<u>(770,262)</u>	<u>25,639,023</u>

References:

Column [A]: Company Schedule B-1
Column [B]: Schedule MJR-4
Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 1 - DEBIT ACCUMULATED DEPRECIATION AND NEGATIVE PLANT VALUES

LINE NO.	ACCT. NO.	DESCRIPTION	[A]	[B]	[C]
			Debit Accum Depreciation	Phantom Assets	Staff Recommended
1	303200	Land & Land Rights SS	(60)	(60)	-
2	334200	Meter Installations	(137,217)	(137,217)	-
3	339600	Other P/E CPS	(62,988)	(62,988)	-
4	340200	Comp & Periph Equip	(833,278)	(833,278)	-
5	340500	Other Office Equipment	(3,387)	(3,387)	-
6	344000	Laboratory Equipment	(5,932)	(5,932)	-
7	346190	Remote Control & Instrument	(420)	(420)	-
8	347000	Miscellaneous Equipment	(2,201)	(2,201)	-
9	304100	Structures and Improvements Supply	\$ 330,200	330,200	-
10		Subtotal	(715,283)	(715,283)	-

11
12
13
14
15
16
17
18
19
20
21
22
23
24

[A]	[B]	[C]
Negative Plant Depreciation	Phantom Assets	Staff Recommended
\$ (98,493)	98,493	-

- 25 References:
 26 Column [A] Company Schedules
 27 Column [B] MJR Testimony
 28 Column [C] Column A minus Column B
 29
 30

RATE BASE ADJUSTMENT NO. 2 - REVERSAL OF AFUDC AND DEFERRED DEPRECIATION DEFERRAL

<u>LINE</u> <u>NO.</u>	<u>DESCRIPTION</u>	[A] COMPANY AS <u>FILED</u>	[B] STAFF ADJUSTMENTS <u>AMOUNT</u>	[C] STAFF AS <u>ADJUSTED</u>
1	Deferred Debits	225,112	(\$225,112)	\$0
2				

REFERENCES:

Columns [A]: Amount reflected on Co Schedule B-2, page 1

Column [B]: Col [C] less col [A]

Column [C]: Per Testimony MJR

R Water Arizona - Sun City Water District
: No. WS-01303A-14-0010
ear Ended June 30, 2013

Surrebuttal Schedule MJR -8

RATE BASE ADJUSTMENT NO. 4 - not used

ACCT NO.	Description	[A] COMPANY AS <u>FILED</u>	[B] STAFF ADJUSTMENTS	[C] STAFF AS <u>ADJUSTED</u>
CIAC		<u>\$17,500,750</u>	<u>\$0</u>	<u>\$17,500,750</u>

Columns [A]: Company schedules
Column [B]: Column [C] less Column [A]
Column [C]: See testimony MJR

EPCOR Water Arizona - Sun City Water District
Docket No. WS-01303A-14-0010
Test Year Ended June 30, 2013

Surrebuttal Schedule MJR-9

RATE BASE ADJUSTMENT NO. 5 - REVERSAL OF REGULATORY LIABILITY FOR LOW INCOME
TARIFF OVER-COLLECTION

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS AMOUNT	[C] STAFF AS ADJUSTED
1	Regulatory Liability	90,329	(\$90,329)	\$0
2				

REFERENCES:

Columns [A]: Amount reflected on Co Schedule B-2, page 1
Column [B]: Col [C] less col [A]
Column [C]: Per Testimony MJR

RATE BASE - ORIGINAL COST

LINE NO.	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED	
1	Plant in Service	\$6,467,719	(\$249,315)	\$6,218,404
2	Less: Accumulated Depreciation	1,942,238	(\$68,885)	1,873,353
3	Net Plant in Service	<u>\$4,525,481</u>	<u>(\$180,430)</u>	<u>\$4,345,051</u>
4				
5	<u>LESS:</u>			
6				
7	Contributions in Aid of Construction (CIAC)	\$1,076,185	\$0	\$1,076,185
8	Less: Accumulated Amortization	45,823	\$ -	45,823
9	Net CIAC	<u>1,030,362</u>	<u>\$0</u>	<u>\$1,030,362</u>
10				
11	Advances in Aid of Construction (AIAC)	\$1,952,127	-	\$1,952,127
12				
13	Customer Meter Deposits	517	-	517
14	Deferred Income Tax Credits (Debits)	26,304	-	26,304
15	Investment Tax Credits	-	-	-
16	Regulatory Liability	-	-	-
17				
18				
19	<u>ADD:</u>			
20				
21	Working Capital Allowance	8,215	(3,176)	5,039
28				
29	Deferred Debits	83,390	(83,390)	-
30				
32				
33	Original Cost Rate Base	<u>\$1,607,775</u>	<u>(\$266,996)</u>	<u>\$1,340,780</u>

References:

Column [A]: Company Schedule B-1
Column [B]: Schedule MJR-4
Column [C]: Column [A] + Column [B]

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B]	[C]	[D]	[E]	[F]	[G]
				ADJ #1 Adjust Balances Ref. Sch MJR-4A	ADJ #2 Rev. AFUDC Deferral Ref. Sch MJR-6	ADJ #3 Working Capital Ref. Sch MJR-7	ADJ #4 Not Used Ref. Sch MJR-8	ADJ #5 Arsenic Media Ref. Sch MJR-9	[G] STAFF ADJUSTED
<i>PLANT IN SERVICE:</i>									
1	301000	Other Intangible Plant	5567	\$0	\$0	\$0	\$0	\$0	\$ 567
2	302000	Franchises	2,030	-	-	-	-	-	2,030
3	303200	Land and Land Rights Supply	61,190	-	-	-	-	-	61,190
4	303300	Land and Land Rights Pumping	50	-	-	-	-	-	50
5	303400	Land & Land Rights Treatment	50	-	-	-	-	-	50
6	303500	Land & Land Rights T&D	422	-	-	-	-	-	422
7	303600	Land & Land Rights General	2,755	-	-	-	-	-	2,755
8	304100	Structures and Improvements - Supply	25,292	-	-	-	-	-	25,292
9	304200	Structures and Improvements - Pumping	14,608	-	-	-	-	-	14,608
10	304300	Structures and Improvements - Treatment	302	-	-	-	-	-	302
11	304400	Structures & Improvements Trans & Dist	156	-	-	-	-	-	156
12	304500	Structures & Improvements General	0	-	-	-	-	-	0
13	304600	Structures and Improvements - Offices	498	-	-	-	-	-	498
14	304620	Structures & Imp Leasehold	0	-	-	-	-	-	0
15	304700	Structures & Imp Store, Shop, Gge	44,598	-	-	-	-	-	44,598
16	305000	Collect & Impounding	0	-	-	-	-	-	0
17	307000	Wells & springs	236,074	-	-	-	-	-	236,074
18	309000	Supply Mains	0	-	-	-	-	-	0
19	310000	Power Production Equipment	20,225	-	-	-	-	-	20,225
20	311000	Pumping Equipment Steam	0	-	-	-	-	-	0
21	311200	Pumping Equipment Electric	279,401	-	-	-	-	-	279,401
22	311300	Pumping Equipment Diesel	879	-	-	-	-	-	879
23	311400	Pumping Equipment Hydraulic	0	-	-	-	-	-	0
24	311500	Pumping Equipment Other	403,824	-	-	-	-	-	403,824
25	311530	Pumping Equipment Water Treatment	0	-	-	-	-	-	0
26	320100	Water Treatment Equipment Non-Media	1,696,187	-	-	-	-	(249,315)	1,696,187
27	320200	Water Treatment Equipment Filter Media	249,315	-	-	-	-	-	249,315
28	330000	Distribution Reservoirs & Standpipes	210,840	-	-	-	-	-	210,840
29	330200	Ground Level Tanks	0	-	-	-	-	-	0
30	331001	TD Mains Not Classified by Size	364,469	-	-	-	-	-	364,469
31	331100	TD Mains 4in & Less	886,119	-	-	-	-	-	886,119
32	331200	TD Mains 6in to 8in	896,807	-	-	-	-	-	896,807
33	331300	TD Mains 10in to 16in	37,161	-	-	-	-	-	37,161
34	331400	TD Mains 18in & Grtr	0	-	-	-	-	-	0
35	332000	Fire Mains	0	-	-	-	-	-	0
36	333000	Services	617,549	-	-	-	-	-	617,549
37	334100	Meters	194,260	-	-	-	-	-	194,260
38	334200	Meter Installations	22,040	-	-	-	-	-	22,040
39	334300	Meter Vaults	0	-	-	-	-	-	0
40	335000	Hydrants	136,093	-	-	-	-	-	136,093
41	339200	Other P/E-Supply	0	-	-	-	-	-	0
42	339600	Other P/E-CPS	461	-	-	-	-	-	461
43	340100	Office Furniture & Equipment	5,453	-	-	-	-	-	5,453
44	340200	Computer & Periph Equipment	1,336	-	-	-	-	-	1,336
45	340300	Computer Software	0	-	-	-	-	-	0
46	340510	Computer Software Mainframe	0	-	-	-	-	-	0
47	340325	Computer Software Customized	0	-	-	-	-	-	0
48	340500	Other Office Equipment	0	-	-	-	-	-	0
49	341100	Transportation Equip Light Duty Trucks	17,166	-	-	-	-	-	17,166
50	341200	Transportation Equip Heavy Duty Trucks	0	-	-	-	-	-	0
51	341400	Transportation Equipment Other	0	-	-	-	-	-	0
52	341400	Transportation Equipment Other	0	-	-	-	-	-	0
53	342000	Stores Equipment	0	-	-	-	-	-	0
54	343000	Tools,Shop,Garage Equipment	22,179	-	-	-	-	-	22,179
55	344000	Laboratory Equipment	0	-	-	-	-	-	0
56	345000	Power Operated Equipment	0	-	-	-	-	-	0
57	346100	Communication Equipment Non-Telephone	1,932	-	-	-	-	-	1,932
58	346190	Remote Control & Instrument	0	-	-	-	-	-	0
59	346200	Communication Equipment Telephone	0	-	-	-	-	-	0
60	346300	Communication Equipment Other	659	-	-	-	-	-	659
61	347000	Miscellaneous Equipment	0	-	-	-	-	-	0
62	304500	Structures & Imp General	361	-	-	-	-	-	361
63	304600	Structures & Improvement Offices	0	-	-	-	-	-	0
64	304620	Structures & Improvements Leasehold	74	-	-	-	-	-	74
65	334100	Meters	43	-	-	-	-	-	43
66	339600	Other P/E CPS	1,350	-	-	-	-	-	1,350
67	340100	Office furniture & Equipemnt	4,672	-	-	-	-	-	4,672
68	340200	Computer & Peripheral Equ	3,028	-	-	-	-	-	3,028
69	340300	Computer Software	56	-	-	-	-	-	56
70	340300	Computer Software-Other	2,228	-	-	-	-	-	2,228
71	341400	Transportation Equipment Other	431	-	-	-	-	-	431
72	343000	Tools,Shop,Garage Equipment	0	-	-	-	-	-	0
73	344000	Laboratory Equipment	64	-	-	-	-	-	64
74	346100	Communication Equipment non-telephone	688	-	-	-	-	-	688
75	346190	Remote Control & Instrument	56	-	-	-	-	-	56
76	346200	Communication Equipment Telephone	197	-	-	-	-	-	197
77	346300	Communication Equip Other	18	-	-	-	-	-	18
78	347000	Miscellaneous Equip	1,506	-	-	-	-	-	1,506
79			0	-	-	-	-	-	0
80		Roundng	0	-	-	-	-	-	0
81		District Subtotal	\$ 6,467,719	0	0	0	0	(249,315)	6,218,404
82		Accumulated Depreciation	1,042,238	1,877	-	-	-	(70,762)	1,833,353
83		Net Plant in Service (7.58 - 1.59)	\$4,525,481	(\$1,877)	\$0	\$0	\$0	(\$178,557)	\$4,345,051
84									
85		LESS:							
86		Contributions in Aid of Construction (CIAC)	\$1,076,185	-	-	-	-	-	1,076,185
87		Less: Accumulated Amortization	45,823	-	-	-	-	-	45,823
88		Net CIAC (1.63 - 1.64)	\$1,030,362	\$0	\$0	\$0	\$0	\$0	1,030,362
89		Advances in Aid of Construction (AIAC)	1,952,127	-	-	-	-	-	1,952,127
90		Meter Deposits	517	-	-	-	-	-	517
91		Deferred Income Tax Credits (Debits)	26,304	-	-	-	-	-	26,304
92		Investment Tax Credits	-	-	-	-	-	-	-
93		Regulatory Liability	-	-	-	-	-	-	-
94		ADDD:							
95		Working Capital Allowance	8,215	-	-	(3,176)	-	-	5,039
96		Deferred Debits	83,390	-	(27,978)	-	-	(55,412)	57,412
97		Original Cost Rate Base	\$1,607,775	(\$1,877)	(\$27,978)	(\$3,176)	\$0	(\$233,765)	\$1,340,780
98									
99									
100		References:							
101		Column [A] Company Schedules							
102		Column [B] MJR Testimony							
103		Column [C] MJR Testimony							
104		Column [D] MJR Testimony							
105		Column [E] MJR Testimony							
106		Column [F] MJR Testimony							
107		Column [G] Sum of Columns A thru F							

RATE BASE ADJUSTMENT NO. 1 - PLANT IN SERVICE AND DEBIT ACCUMULATED DEPRECIATION

LINE NO.	ACCT. NO.	DESCRIPTION	[A]	[B]	[C]
			Debit Accum Depreciation	Phantom Assets	Staff Recommended Value
1	303500	Land & Land Rights T&D	(117)	(117)	-
2	342000	Stores Equipment	(1,760)	(1,760)	-
3		District Subtotal	\$ (1,877)	(\$1,877)	\$ -
4					
5					
6					
7					
8	References:				
9	Column [A]	Company Schedules			
10	Column [B]	MJR Testimony			
11	Column [C]	Column A minus Column B			

RATE BASE ADJUSTMENT NO. 2 - REVERSAL OF AFUDC AND DEFERRED DEPRECIATION DEFERRAL

LINE		[A] COMPANY	[B] STAFF	[C] STAFF
<u>NO.</u>	<u>DESCRIPTION</u>	<u>AS</u>	<u>ADJUSTMENTS</u>	<u>AS</u>
		<u>FILED</u>	<u>AMOUNT</u>	<u>ADJUSTED</u>
1	Deferred Debits	83,390	(\$27,978)	\$55,412
2				
3				
4	REFERENCES:			
5	Columns [A]: Amount reflected on Co Schedule B-2, page 1			
6	Column [B]: Col [C] less col [A]			
7	Column [C]: Per Testimony MJR			
8				
9				
10				

RATE BASE ADJUSTMENT NO. 3 - WORKING CAPITAL

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] LEAD/LAG FACTOR COMPANY	[E] B-6, page 1 CASH WORKING CAPITAL REQ COMPANY	[F] CASH WORKING CAPITAL REQ STAFF
1							
2	Labor	\$179,440	(3,175)	\$176,265	10.377	0.0284 \$ 5,102	5,011
3	Purchased Water	\$0	0	\$0	41.010	0.1124	-
4	Fuel & Power	\$33,324	0	\$33,324	(6.603)	(0.0181)	(603)
5	Chemicals	\$98,934	(32,592)	\$66,342	41.010	0.1124	11,116
6	Waste Disposal	\$811	0	\$811	(30.828)	(0.0845)	(68)
7	Intercompany Support Services	\$95	0	\$95	10.593	0.0290	3
8	Corporate Allocation	\$34,814	(2,367)	\$32,447	10.590	0.0290	1,010
9	Outside Services	\$26,870	0	\$26,870	7.238	0.0198	533
10	Group Insurance	\$38,250	(429)	\$37,821	51.726	0.1417	5,421
11	Pensions			\$430	51.726	0.1417	61
12	Regulatory Expense	\$7,261	(7,261)	\$0	89.656	0.2456	1,784
13	Insurance Other Than Group	\$12,198	0	\$12,198	(23.808)	(0.0652)	(796)
14	Customer Accounting	\$22,882	(3,871)	\$19,011	(8.819)	(0.0242)	(555)
15	Rents	\$7,566	0	\$7,566	24.051	0.0659	499
16	General Office Expense	\$28,204	(2,181)	\$26,023	7.926	0.0217	612
17	Miscellaneous	\$6,577	(1,958)	\$4,619	15.824	0.0434	285
18	Maintenance Expense	\$38,435	0	\$38,435	(10.043)	(0.0275)	(1,058)
19	Property Taxes	\$37,502	(3,143)	\$34,359	(172.2400)	(0.4719)	(17,697)
20	Taxes - Payroll	\$13,897	0	\$13,897	14.6080	0.0400	556
21	Taxes - Other	\$2,260	0	\$2,260	176.8240	0.4844	1,095
22	Income Tax	\$42,897	(10,902)	\$31,995	(0.7400)	(0.0020)	(87)
23							
24	Interest	\$41,320	(10,482)	\$30,838	(33.4900)	(0.0918)	(3,791)
25	Total Operating Expenses	\$673,537	(\$78,361)	\$595,606	109	\$ 3,362	\$186
26							
27	CASH WORKING CAPITAL REQUIREMENT					3,362	186
28					16,157		
29							
30	Company As Filed Cash Working Capital Co Schedule B-6, Staff Col F	\$3,362	(\$3,176)	\$ 186			
31	Company as filed material and Supplies Inventories B-5	\$0		\$0			
32	Company as Filed Prepayments B-5	\$4,853		\$4,853			
33							
34	Working Capital	\$8,215	(\$3,176)	\$5,039			
35							
36							
37							
38							
39	¹ Company did not breakdown Lead/Lag B-6 between group insurance and pensions						
40	² Staff removed Regulatory expense of from lead lag estimates						
41	³ Staff accepts Company breakdown between payroll taxes and other taxes.						
42	⁴ Staff Cost of Capital Testimony						
43	⁵ Staff Calculates property and income taxes based on Staff's recommended revenue requirement						
44	⁶ Water testing included in miscellaneous						
45	* No amount shown for Taxes payroll on income statement, Staff used lead lag factor for property taxes for taxes other.						
46	Column [A]: Company Schedule B-6						
47	Column [B]: Staff adjustments to expenses, See Testimony CLP						
48	Column [C]: Column [A] + Column [B]						
49	Column [D]: Company provided Lead/Lag Factor						
50	Column [E]: Column [A] * Column [D]						
51	Column [F]: Column [C] * Column [D]						
52							
53							

EPCOR Water Arizona - Tubac Water District
Docket No. WS-01303A-14-0010
Test Year Ended June 30, 2013

Supplemental Schedule MJR-8

Not used

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS AMOUNT	[C] STAFF AS ADJUSTED
1				
2				
3				
4	REFERENCES:			
5	Columns [A]: Amount reflected on Co Schedule B-2, page 1			
6	Column [B]: Col [C] less col [A]			
7	Column [C]: Per Testimony MJR			
8				
9				
10				

RATE BASE ADJUSTMENT NO. 5 - ARSENIC MEDIA

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS AMOUNT	[C] STAFF AS ADJUSTED
1	Reverse Deferred Debits	\$ 55,412	¹ (55,412)	\$ -
	Plant accounts			
3	320200 Remove existing deferred in plant	249,315	(249,315)	-
	Accumulated Depreciation	70,762	(70,762)	-

- 4 REFERENCES:
 5 Columns [A]: Amount reflected on Co Schedule B-2, page 1
 6 Column [B]: Col [C] less col [A]
 7 Column [C]: Per Testimony MJR and DR STF BAB 12.2 Revised
 8
 9
 10

Depreciation/Amortization All Districts

LINE NO. DESCRIPTION	[A] Company Proposed	[B] Adjustment	[C] Staff Recommended
1 Mohave Water	\$ 1,331,139	\$ (57,392)	\$ 1,273,747
2 Mohave Wastewater	\$ 257,946	\$ (4,167)	\$ 253,779
3 Paradise Valley Water	\$ 1,608,655	\$ (75,451)	\$ 1,533,204
4 Sun City Water	\$ 1,916,821	\$ (202,512)	\$ 1,714,309
5 Tubac Water	\$ 238,395	\$ (77,549)	\$ 160,846

6
7
8
9

10 REFERENCES:

- 11 Columns [A]: Amount reflected on Co Schedule C-2
- 12 Column [B]: Col [C] less col [A]
- 13 Column [C]: Per Testimony MJR
- 14
- 15
- 16

Surrebuttal Exhibit MJR-A
NARUC Instruction No. 29 Transfer of Assets

ACCOUNTING INSTRUCTIONS

A

28. Utility Plant - Work Order and Property Record System Required

A. Each utility shall record all construction and retirements of utility plant by means of work orders or job orders. Separate work orders may be opened for additions to and retirements of utility plant or the retirements may be included with the construction work order, provided, however, that all items relating to the retirements shall be kept separate from those relating to construction and provided, further, that any maintenance costs involved in the work shall likewise be segregated.

B. Each utility shall keep its work order system so as to show the nature of each addition to or retirement of utility plant, the total cost thereof, the source or sources of costs, and the utility plant account or accounts to which charged or credited. Work orders covering jobs of short duration may be cleared monthly.

C. Each utility shall maintain records in which, for each plant account, the amounts of the annual additions and retirements are classified so as to show the number and the cost of the various retirement units or other appropriate record units included therein.

29. Utility Plant - Transfers of Property

A. When property is transferred from one utility plant account to another, from one utility department to another, such as from water to wastewater, from one operating division or area to another, to or from accounts 101 - Utility Plant in Service, 102 - Utility Plant Leased to Others and 103 - Property Held for Future Use, the transfer shall be recorded by transferring the original cost thereof from the one account, department, or location to the other. Any related amounts carried in the accounts for accumulated depreciation or amortization shall be transferred in accordance with the segregation of such accounts.

B. When depreciable property is transferred from the utility plant accounts to account 121 - Nonutility Property, the transfer shall be accomplished by crediting the utility plant accounts and charging the accumulated depreciation with the book cost of the item transferred; the accumulated depreciation shall then be credited and account 121 - Nonutility Property, concurrently charged with the market value of the property transferred. If the property is sold within a relatively short time, a debit or credit shall be made to the accumulated depreciation to adjust the estimated salvage to the amount actually realized.

Surrebuttal Exhibit MJR-B
NARUC Accumulated Depreciation

BALANCE SHEET ACCOUNTS

B

B. Work orders shall be cleared from this account as soon as practicable after completion of the job. Further, if a project, such as pumping station or treatment plant, is designed to consist of two or more units which may be placed in service at different dates, any expenditures which are common to and which will be used in the operation of the project as a whole shall be included in utility plant in service upon the completion and the readiness for service of the first unit. Any expenditures which are identified exclusively with units of property not yet in service shall be included in this account.

C. Expenditures on research and development projects for construction of utility facilities are to be included in a separate subdivision in this account. Records must be maintained to show separately each project along with complete detail of the nature and purpose of the research and development project together with the related costs.

106. Completed Construction Not Classified

At the end of the year or such other date as a balance sheet may be required by the Commission, this account shall include the total of the balances of work orders for utility plant which has been completed and placed in service but which work orders have not been classified for transfer to the detailed utility plant accounts.

Note:--For the purpose of reporting to the Commission, the classification of utility plant in service by accounts is required. The utility shall also report the balance in this account tentatively classified as accurately as practicable according to prescribed account classifications. The purpose of this provision is to avoid any significant omissions in reported amounts of utility plant in service.

108. Accumulated Depreciation

A. This account shall reflect the depreciation accumulated on plant used in water utility service.

B. The utility shall maintain separate subaccounts corresponding with the depreciable plant accounts, in which the accumulated depreciation total is segregated.

C. The following subaccounts shall be maintained:

108.1 Accumulated Depreciation of Utility Plant in Service

A. This account shall be credited with the following:

BALANCE SHEET ACCOUNTS

(1) Amounts charged to account 403 - Depreciation Expense, to account 416 - Costs and Expenses of Merchandising, Jobbing and Contract Work, or to clearing accounts for current depreciation expense (excludes contributed plant).

(2) Amounts of depreciation applicable to utility properties acquired as operating units or systems (See Accounting Instruction 21).

(3) Amounts charged to account 182 - Extraordinary Property Losses, when authorized by the Commission.

(4) Amounts equal to those concurrently charged to account 272 - Accumulated Amortization of Contributions in Aid of Construction, if such amortization is recognized by the Commission.

Note:--See Accounting Instruction 8 and account 439 regarding adjustments for past accrued depreciation.

B. At the time of retirement of depreciable utility plant in service, this account shall be charged with the book cost of the property retired plus the cost of removal, and shall be credited with the salvage value and any other amounts recovered, such as insurance. When retirement, cost of removal and salvage are entered originally in retirement work orders, the net total of such work orders may be included in a separate sub-account hereunder. Upon completion of the work order, the proper distribution to subdivisions of this account shall be made as provided in the following paragraph.

C. When transfers of plant are made from one utility plant account to another, or from or to another utility department, or from or to nonutility property, the accounting for the related accumulated depreciation shall be as provided in Accounting Instruction 29.

D. The utility is restricted in its use of this accumulated depreciation account to the purposes set forth above. It shall not divert any portion of this account or make any other use thereof without authorization by the Commission. ✓

Surrebuttal Exhibit MJR-C
Company Schedule of CIAC Not Included in Rate
Base

TOTAL CIAC NOT INCLUDED IN RATE BASE

SUN CITY WATER \$845,933
 SUN CITY WASTEWATER \$43,991
 MOHAVE WATER \$69,169
 MOHAVE WASTEWATER \$227,674
 PARADISE VALLEY WATER \$43,632
 TUBAC WATER \$74,010

<u>Un</u>	<u>Res</u>	<u>Proj</u>	<u>Proj Name</u>	<u>Actv</u>	<u>Act Name</u>	<u>Loc</u>	<u>Account</u>	<u>Interco</u>	<u>ID I/S ex Acct599YTD I/S Acct 5999</u>	<u>YTD Actual Total</u>
78	45	281107	Banner Boswell Med	1330	Distribution Ma	840		0	11,179.90	11,179.90
78	45	281107	Banner Boswell Med	1999	Capital Overhea	840		0	1,038.26	1,038.26
78	45	281107	Banner Boswell Med	1330	Distribution Ma		1800			721.14
78	45	389600	Meters new	1056	Meters Conventi	840		0	11,072.18	(10,256.04)
78	45	389600	Meters new	1999	Capital Overhea	840		0	809.51	(770.06)
78	45	389602	Meters Up/Downsize	1056	Meters Conventi	840		0	395.60	(395.60)
78	45	389601	Services new	1371	Services-Propor	840		0	734.33	(734.33)
78	45	389601	Services new	1999	Capital Overhea	840		0	151.03	(151.03)
78	45	289603	TDR water - Meters	1056	Meters Conventi	840		0	6,528.28	(6,528.28)
78	45	289603	TDR water - Meters	1999	Capital Overhea	840		0	1,055.08	(1,055.08)
78	45	281200	Tierra Del Rio #12	1005	Water Supply	840		0	7,884.90	7,884.90
78	45	281200	Tierra Del Rio #12	1999	Capital Overhea	840		0	903.74	903.74
78	45	281200	Tierra Del Rio #12	1005	Water Supply		1800			
78	45	381220	Tierra del Rio 99t	1330	Distribution Ma	840		0	457,827.71	28,145.25
78	45	381220	Tierra del Rio 99t	1340	Transmissions M	840		0	36,001.56	457,827.71
78	45	381220	Tierra del Rio 99t	1999	Capital Overhea	840		0	49,382.94	36,001.56
78	45	381209	Tierra del Rio Par	1330	Distribution Ma	840		0	2,002.08	49,382.94
78	45	381209	Tierra del Rio Par	1999	Capital Overhea	840		0	168.81	2,002.08
78	45	381215	Tierra del Rio Par	1330	Distribution Ma	840		0	202.58	168.81
78	45	381215	Tierra del Rio Par	1999	Capital Overhea	840		0	20.26	202.58
78	45	381217	Tierra del Rio Par	1330	Distribution Ma	840		0	646.40	20.26
78	45	381217	Tierra del Rio Par	1999	Capital Overhea	840		0	60.09	646.40
78	45	381211	Tierra del Rio Par	1330	Distribution Ma	840		0	1,354.20	60.09
78	45	381211	Tierra del Rio Par	1999	Capital Overhea	840		0	134.78	1,354.20
78	45	381212	Tierra del Rio Par	1330	Distribution Ma	840		0	1,209.56	134.78
78	45	381212	Tierra del Rio Par	1999	Capital Overhea	840		0	112.21	1,209.56
78	45	381216	Tierra del Rio Par	1330	Distribution Ma	840		0	340.88	112.21
78	45	381216	Tierra del Rio Par	1999	Capital Overhea	840		0	26.85	340.88

7B	45	381213	Tierra del Rio Par	1330 Distribution Ma	840	0	1,196.05	-	1,196.05
7B	45	381213	Tierra del Rio Par	1999 Capital Overhea	840	0	109.35	-	109.35
7B	45	281207	Tierra del Rio Par	1330 Distribution Ma	840	0	117,685.81	-	117,685.81
7B	45	281207	Tierra del Rio Par	1999 Capital Overhea	840	0	11,755.34	-	11,755.34
7B	45	281207	Tierra del Rio Par	1330 Distribution Ma	1800	0	-	-	825.80
7B	45	381214	Tierra del Rio Par	1330 Distribution Ma	840	0	631.25	-	631.25
7B	45	381214	Tierra del Rio Par	1999 Capital Overhea	840	0	47.13	-	47.13
7B	45	381210	Tierra del Rio Par	1330 Distribution Ma	840	0	1,626.33	-	1,626.33
7B	45	381210	Tierra del Rio Par	1999 Capital Overhea	840	0	135.17	-	135.17
7B	45	281206	Tierra Del Rio Par	1320 Reservoirs and	1800	0	-	-	2,018.74
7B	45	281208	Tierra del Rio Par	1330 Distribution Ma	840	0	3,848.66	-	3,848.66
7B	45	281208	Tierra del Rio Par	1999 Capital Overhea	840	0	366.48	-	366.48
7B	45	281208	Tierra del Rio Par	1330 Distribution Ma	1800	0	-	-	294.44
7B	45	381218	Tierra del Rio PS	1330 Distribution Ma	840	0	73,041.55	-	73,041.55
7B	45	381218	Tierra del Rio PS	1999 Capital Overhea	840	0	7,292.70	-	7,292.70
7B	45	281219	Youngtown Fire Flo	1330 Distribution Ma	840	0	2,897.10	-	2,897.10
7B	45	281219	Youngtown Fire Flo	1999 Capital Overhea	840	0	270.09	-	270.09
7B	45	281219	Youngtown Fire Flo	1330 Distribution Ma	1800	0	-	-	28,082.84
7B		Acct 3331-3339							(8,606.45)
7B	0	281107	Banner Boswell Medical Cc	0	0	0	2,195.33	-	2,195.33
									845,933.40
									Total CIAC to Remove
7D	45	389600	Meters new	1056 Meters Conventi	840	0	1,201.98	(479.76)	722.22
7D	45	389600	Meters new	1999 Capital Overhea	840	0	98.36	(46.15)	52.21
7D	45	389602	Meters Up/Downsize	1056 Meters Conventi	840	0	2,445.90	(2,098.86)	347.04
7D	45	389602	Meters Up/Downsize	1999 Capital Overhea	840	0	(9.00)	-	(9.00)
7D	45	280001	Misc. Fire Line Fe	1330 Distribution Ma	840	0	738.02	-	738.02
7D	45	280001	Misc. Fire Line Fe	1371 Services-Proper	840	0	10,707.00	-	10,707.00
7D	45	284086	New Dawn Assisted	1320 Reservoirs and	1800	0	-	-	12,215.93
7D	45	289604	SCW water - Meters	1056 Meters Conventi	840	0	489.30	(489.30)	-
7D	45	289604	SCW water - Meters	1999 Capital Overhea	840	0	143.52	(143.52)	-
7D	45	289617	SCW water - Servic	1371 Services-Proper	840	0	(11,445.02)	-	(11,445.02)
7D	45	284087	U-Haul Center on W	1330 Distribution Ma	840	0	163.87	-	163.87
7D	45	284087	U-Haul Center on W	1999 Capital Overhea	840	0	15.23	-	15.23
7D	45	284087	U-Haul Center on W	1320 Reservoirs and	1800	0	-	-	10,961.32
7D	0	284086	New Dawn Assisted Living	0	0	0	-	-	16,448.18
7D	0	284087	U-Haul Center	0	0	0	-	-	3,074.12
									43,991.12
									Total CIAC to Remove

7M	45	289606	Bullhead City wate	1056 Meters Conventi	850	1800	0	450.05	(450.05)	-
7M	45	289606	Bullhead City wate	1999 Capital Overhea	850	1800	0	72.17	(72.17)	-
7M	45	289608	Camp Mohave water	1056 Meters Conventi		1800		-	-	(941.84)
7M	45	281101	EZ Stor Mini Stora	1330 Distribution Ma		1800		-	-	765.20
7M	45	389600	Meters new	1056 Meters Conventi	850		0	1,749.43	(1,199.40)	550.03
7M	45	389600	Meters new	1999 Capital Overhea	850		0	3.06	(8.92)	(5.86)
7M	45	289013	Pegasus Ranch Unit	1320 Reservoirs and	850		0	-	-	1,499.62
7M	45	389601	Services new	1371 Services-Proper	850		0	2,851.87	(2,132.78)	719.09
7M	45	389601	Services new	1999 Capital Overhea	850		0	318.99	(267.09)	51.90
7M	45	289081	St. Margaret Mary'	1330 Distribution Ma		1800		-	-	34,174.33
7M	0	289013	Pegasus Ranch Unit 4 Tract	0	0	1883	0	-	-	14,899.61
7M	0	289026	Hillcrest Park Phase 2 Unit	0	0	1883	0	-	-	13,498.91
7M	0		Accts 3331-3339					-	-	(15,000.00)
7M	0	289061	Chaparral Greens Tract 51	0	0	1883	0	-	-	18,958.47
								Total CIAC to Remove		69,169.46

7N	45	289517	All Pro Hydrogetti	1330 Distribution Ma	1800			-	-	1,514.55
7N	45	289518	Effluent Line to L	1330 Distribution Ma	1800			-	-	1,928.58
7N	0	289514	Valley Springs Estates Tra	0	0	1883	0	-	-	74,608.76
7N	0	289515	Brett Canyon Estates Tract	0	0	1883	0	-	-	150,406.66
7N	0		Acct 3331-3339					-	-	(785.00)
								Total CIAC to Remove		227,673.55

7P	45	287419	Broadstone on Linc	1330 Distribution Ma	850			8,437.82	-	8,437.82
7P	45	287419	Broadstone on Linc	1371 Services-Proper	850			182.81	-	182.81
7P	45	287419	Broadstone on Linc	1999 Capital Overhea	850			732.41	-	732.41
7P	45	287419	Broadstone on Linc	1330 Distribution Ma		1800		-	-	8,019.37
7P	45	389600	Meters new	1056 Meters Conventi	850		0	5,207.04	(4,664.17)	542.87
7P	45	389600	Meters new	1999 Capital Overhea	850		0	353.55	(367.55)	(14.00)
7P	45	389602	Meters Up/Downsize	1056 Meters Conventi	850		0	193.96	(193.96)	-
7P	45	289638	PV water - Meter U	1056 Meters Conventi	850		0	208.64	(208.64)	-
7P	45	289638	PV water - Meter U	1999 Capital Overhea	850		0	19.40	(19.40)	-
7P	45	389601	Services new	1371 Services-Proper	850		0	200.63	(103.26)	97.37
7P	45	389601	Services new	1999 Capital Overhea	850		0	16.33	(9.59)	6.74
7P	0	287418	Ritz Carlton at 7000 E. Linc	0	0	1883		-	-	23,865.16
7P	0		Acct 3331-3339					-	-	(5,000.00)
7P	0	287420	Fairview Development Hyc	0	0	1883		-	-	6,761.00

Data Request Exhibit
RUCO 32.01 Retired Wells

COMPANY: EPCOR Water Arizona Inc.
DOCKET NO: WS-01303A-14-0010

Response provided by: Sheryl L. Hubbard
Title: Director, Regulatory & Rates

Address: 2355 W. Pinnacle Peak Road, Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 32.01

Page 1 of 2

Q: Plant Not Used and Useful – In the direct testimony of Staff's Engineer Michal Thompson, he identified the following plant items as not being used and useful.

The Mohave water system has five (5) inactive wells, listed under Table A, which have been disconnected, capped, and abandoned. Staff concludes that the wells are not used and useful to the District's provision of service.

The Camp Mohave water system has one (1) inactive well, listed under Table B, which has been disconnected, capped, and abandoned. Staff concludes that the well is not used and useful to the District's provision of service.

The Lake Mohave water system has one (1) inactive well, listed under Table C, which has been disconnected from the water system. Staff concludes that the well is not used and useful to the District's provision of service.

The Desert Foothills water system has one (1) inactive well, listed under Table A, which has been disconnected from the water system. Staff concludes that the well is not used and useful to the District's provision of service.

Please provide the following information:

- a. When each of the plant items identified above was placed into service (date), and the original plant cost of the plant items identified above. In addition, please provide the supporting documentation for the plant items identified above (e.g. invoice).
- b. When each of the items identified above was taken out of service (date).
- c. The funding source of any of the plant items listed above (e.g. debt, AIAC, or CIAC). In addition, please provide the supporting documentation for the funding source.

- A:
- a. Please see file attached labeled "RUCO 32.01 Mohave Wells.xlsx" for in-service dates, and original cost of the wells. As shown on attachment, the subject wells were placed in service in 1947-1961 except for two which were placed in service in 1995 or 1996. The invoices supporting these plant additions that were the subject of several previously-litigated rate proceedings are no longer available.
 - b. It does not appear from our analysis of asset listings that the wells noted on attachment labeled "RUCO 32.01 Mohave Wells.xlsx" have been retired.

COMPANY: EPCOR Water Arizona Inc.
DOCKET NO: WS-01303A-14-0010

Response provided by: Sheryl L. Hubbard
Title: Director, Regulatory & Rates

Address: 2355 W. Pinnacle Peak Road, Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 32.01 Page 2 of 2

- c. The funding sources of these wells that have gone through at least 3 acquisitions is not readily retrievable in the accounting system, and the accounting for these wells has been accepted by the Commission in previous rate case decisions involving the Mohave Water district.

EPCOR Water Arizona
 Docket No. WS-01303A-14-0010

Response to Data Request No. RUCO 32.01

ADWR Well ID	Retired?	Asset # in OFA	In Service Date	Cost
Mohave Water				
55-603415	NO	55108	1-Jan-47	\$ 3,100.00
55-603474	NO	54951	1-Jan-59	9,500.00
55-603476	NO	55007	1-Jan-60	1,500.00
55-603478	(1)			
55-603479	NO	54959	1-Jan-63	2,743.00
Camp Mohave				
55-603416	NO	55111	1-Jan-64	2,934.00
Lake Mohave Highlands				
55-551125	NO	55025	1-Jan-96	21,106.22
Desert Foothills				
55-548414	NO	54981	1-Jan-96	5,423.62
TOTALS				\$ 46,306.84

(1) - Not included in current (or prior) asset listings; assumed to have been retired.

C:\Users\mrimback\AppData\Local\Microsoft\Windows\Temporary Internet Files\Content.Outlook\WPLQ4O6F\RUCO 32.01 - Mohave Wells [DR 32.01 DATA]

Data Request Exhibit
RUCO 30.1 and RUCO 27.1 Accumulated Deferred
Income Taxes

COMPANY: EPCOR Water Arizona Inc.
DOCKET NO: WS-01303A-14-0010

Response provided by: Greg Barber
Title: Controller

Address: 2355 W. Pinnacle Peak Road, Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 30.1

Page 1 of 3

- Q: Refer to the response to RUCO 27.1.
- a. Does the \$15,079,357 amount in account 2902 ADIT-liability at 6/30/2014 fully reflect the impact of all tax depreciation, including 2013 bonus tax depreciation, that was reflected for EWAZ on the EPCOR Water (USA) Inc. and Subsidiaries 2013 federal income tax return?
 1. If not, explain fully why not, and identify additional amounts of 2013 tax depreciation taken on the 2013 federal income tax return that were not yet reflected in the 6/30/2014 ADIT balance of 15,079,357.
 - b. Show in detail all vintages of tax depreciation (e.g., 2012 bonus tax depreciation, 2012 MACRS, 2013 bonus tax depreciation, and 2013 MACRS, and other) that are included in the derivation of the \$15,079,357 amount in account 2902 ADIT-liability at 6/30/2014.
 - c. Also, show what state and federal tax rates were applied to the tax-book depreciation differences and other tax-book differences to derive each component of the 6/30/2014 ADIT balances in accounts 1587 and 2902.
 - d. Show in detail all vintages of tax depreciation (e.g., 2012 bonus tax depreciation, 2012 MACRS, 2013 bonus tax depreciation, and 2013 MACRS, and other) that are included in the derivation of the \$14,469,205 amount in account 2902 ADIT-liability at 12/31/2013.
 - e. Show in detail what state and federal tax rates were applied to the tax-book depreciation differences and other tax-book differences to derive each component of the 12/31/2013 ADIT balances in accounts 1587 and 2902.

A:

- a. The \$15,079,357 amount in account 2902 ADIT-liability at 6/30/2014 is an estimate of the half-year tax depreciation from 1/1/2014 to 6/30/2014. It does not include 2013 bonus tax depreciation that was reflected for EWAZ on the EPCOR Water (USA) Inc. and Subsidiaries 2013 federal income tax return. The decision to use bonus tax depreciation was not made until just prior to the tax return filing date in September of 2014. ✓

COMPANY: EPCOR Water Arizona Inc.
DOCKET NO: WS-01303A-14-0010

Response provided by: Greg Barber
Title: Controller

Address: 2355 W. Pinnacle Peak Road, Suite 300
 Phoenix, AZ 85027

Company Response Number: RUCO 30.1

Page 2 of 3

- b. See the detail for tax depreciation that is included in the derivation of the \$15,079,357 amount in account 2902 ADIT-liability at 6/30/2014.

ADIT Liability Balance		Account 2902 6/30/2014		\$15,079,357	
Depreciation ADIT within acct 2902				\$9,218,951	
Tax Return Form 4562 Classification				Estimated	Estimated
		2012	2013	6/30/2014	Total
Special depreciation-Bonus		\$7,302,683	\$5,321,209		\$12,623,892
ACRS-Other		\$47,544	\$19,193		\$66,737
3yr	MACRS	\$0			\$0
5yr	MACRS	\$18,443			\$18,443
7yr	MACRS	\$13,858,962			\$13,858,962
25yr	MACRS	\$13,389,536	\$51,488		\$13,441,024
39yr	MACRS	\$66,828	\$3,323		\$70,151
Pior year MACRS property			\$28,315,398		\$28,315,398
Estimated 2014 tax depreciation x 50%				\$12,481,367	\$12,481,367
Tax Depreciation		\$34,683,996	\$33,710,611	\$12,481,367	\$80,875,974
Reg/Book Depreciation		\$22,623,504	\$20,856,405	\$13,712,341	\$57,192,250
Difference		\$12,060,492	\$12,854,206	(\$1,230,974)	\$23,683,724
Accumulated Difference		\$12,060,492	\$24,914,698	\$23,683,724	
Deferred	Tax @ 38.925%			\$9,218,890	\$9,218,890

- c. The net effective state tax rate used was 3.925% and a federal tax rate of 35% were applied to the tax-book depreciation differences and other tax-book differences to derive each component of the 6/30/2014 ADIT balances in accounts 1587 and 2902.

COMPANY: EPCOR Water Arizona Inc.
DOCKET NO: WS-01303A-14-0010

Response provided by: Greg Barber
Title: Controller

Address: 2355 W. Pinnacle Peak Road, Suite 300
 Phoenix, AZ 85027

Company Response Number: RUCO 30.1

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- d. See below for the detail of tax depreciation included in the derivation of the \$14,469,205 amount in account 2902 ADIT-liability at 12/31/2013.

ADIT Liability Balance	Account 2902 12/31/2013		\$14,469,205	
	Depreciation ADIT within acct 2902		\$10,841,521	
	Tax Return Form 4562 Classification		Estimated	
		2012	2013	Total
	Special depreciation-Bonus	\$7,302,683	\$5,321,209	\$12,623,892
	ACRS-Other	\$47,544	\$19,193	\$66,737
	3yr MACRS	\$0		\$0
	5yr MACRS	\$18,443		\$18,443
	7yr MACRS	\$13,858,962		\$13,858,962
	25yr MACRS	\$13,389,536	\$51,488	\$13,441,024
	39yr MACRS	\$66,828	\$3,323	\$70,151
	Pior year MACRS property		\$31,253,034	\$31,253,034
	Tax Depreciation	\$34,683,996	\$36,648,247	\$71,332,243
	Reg/Book Depreciation	\$22,623,504	\$20,856,405	\$43,479,909
	Difference	\$12,060,492	\$15,791,842	\$27,852,334
	Accumulated Difference	\$12,060,492	\$27,852,334	
Deferred	Tax @ 38.925%		\$10,841,521	\$10,841,521

- e. The net effective state tax rate used was 3.925% and a federal tax rate of 35% that was applied to the tax-book depreciation differences and other tax-book differences to derive each component of the 6/30/2013 ADIT balances in accounts 1587 and 2902.

COMPANY: EPCOR Water Arizona Inc.
DOCKET NO: WS-01303A-14-0010

Response provided by: Greg Barber
Title: Controller

Address: 2355 W. Pinnacle Peak Road, Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 27.1

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Q: Refer to the response to RUCO 18.1 and to the Excel attachment to that response which was provided on 12/31/2014. Concerning accounting for the Internal Revenue Code §338(h)(10) election, for each EWAZ utility, and to the ADIT balances that EPCOR has reflected in rate base for each utility:

- a. Has the Company reflected as the ADIT amounts for rate base for each utility, the 6/30/2013 balances that were listed in the Excel file (and reproduced below):

6/30/2013		(384,558)	(6,726,112)
	Factor	Acct 1587 - FIT Asset	Acct 2902 - FIT Liability
Mohave Wastewater	1.3356%	(5,136)	(89,834)
Sun City Water	11.6066%	(44,634)	(780,673)
Tubac Water	0.7922%	(3,046)	(53,284)
Mohave Water	7.8964%	(30,366)	(531,121)
Paradise Valley Water	7.1530%	(27,507)	(481,119)

- b. If not, explain fully why not, and show in detail the ADIT amounts used by EPCOR in its proposed rate base for each utility, and show in detail how each of those ADIT amounts were developed.
- c. Are negative amounts for accounts 1587 and 2902 indicative of credit balances in each of those accounts as of 6/30/2013?
1. If not, explain fully what the credit balances in each of these accounts represent.
- d. Explain the decrease in the Account 2902 ADIT from \$1,040,359 at 12/31/2011 to \$113,631 at 1/31/2012.
- e. Explain the zero balances in account 2902 and 1587 at 2/29/2012.
- f. Show in detail how the \$384,558 in account 1587 is derived, including all book-tax differences and the income tax rates applied to each difference.
- g. Show in detail how the \$6,726,112 in account 2902 is derived, including all book-tax differences and the income tax rates applied to each difference.
- h. Why doesn't the \$6,726,112 amount in account 2902 change at all from 12/31/2012 to 6/30/2012? Explain fully.
- i. Provide the ADIT balance, by account, in total and on each utility's books as of each of the following dates:
1. 12/31/2013
 2. 06/30/2014

COMPANY: EPCOR Water Arizona Inc.
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Response provided by: Greg Barber
Title: Controller

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3. 12/31/2014 (provide the Company's best estimates if actuals are not yet available)
- j. Is the Company aware that bonus tax depreciation was recently extended for 2014 by the US Congress and signed into law by President Obama?
1. If not, explain fully why not.
 2. If so, explain fully the Company's awareness of the availability of 2014 bonus tax depreciation.
- k. Has or will EPCOR utilize 2014 bonus tax depreciation?
1. If not, explain fully why not.
 2. If so, show the calculations including the estimated impacts on ADIT from using 2014 bonus depreciation.

A:

- a. No.
- b. The correct ADIT amounts for rate base for each district are reflected in the table below. The factors used in the table provided in response to data request number RUCO 18.1 were based on the 4-factor allocation method and are incorrect. The correct allocation factors are reflected in the table below and are based on the general metered customer allocation:

6/30/2013		(\$384,558)	(\$6,726,112)
	Factor	Acct 1587 - FIT Asset	Acct 2902 - FIT Liability
Mohave Wastewater	0.8752%	(\$3,366)	(\$58,867)
Sun City Water	14.2637%	(\$54,852)	(\$959,392)
Tubac Water	0.3699%	(\$1,422)	(\$24,880)
Mohave Water	9.8001%	(\$37,687)	(\$659,166)
Paradise Valley Water	2.9920%	(\$11,506)	(\$201,245)

The calculation for the ADIT amounts is shown on Company workpaper labeled "EUSA TB by BU_131101_Sch E.xlsx" which was provided as part of the Company's original workpapers in this case.

- c. Yes, the negative amounts for accounts 1587 and 2902 are indicative of credit balances.

COMPANY: EPCOR Water Arizona Inc.
DOCKET NO: WS-01303A-14-0010

Response provided by: Greg Barber
Title: Controller

Address: 2355 W. Pinnacle Peak Road, Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 27.1

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- d. The decrease in the debit balance for account 2902 ADIT from \$1,040,359 at 12/31/2011 to \$113,631 at 1/31/2012, was mainly due to the increase in the deferred tax liability generally caused by tax depreciation exceeding book depreciation.
- e. The zero balances in account 2902 and 1587 at 2/29/2012 were caused by the Company not making an income tax provision calculation during that interim period.
- f. The detailed calculations for the \$384,558 in account 1587 were prepared by the Company's outside tax consultants. We have requested those files from our consultants and once received the Company will provide them to RUCO.
- g. The detailed calculations for the \$6,726,112 in account 2902 were prepared by the Company's outside tax consultants. We have requested those files from our consultants and once received the Company will provide them to RUCO.
- h. The \$6,726,112 amount in account 2902 did not change at all from 12/31/2012 to 6/30/2012 because the Company did not prepare an income tax provision calculation during these periods.
- i. The ADIT balance, by account, in total and on each district's books as of each of the following dates are presented in the tables below:

i. 12/31/2013:

12/31/2013	General Metered		
	Customer	4,274,820	(14,469,205)
	Factor	Acct 1587 - FIT Asset	Acct 2902 - Liability
Mohave Wastewater	0.8752%	37,415	(126,642)
Sun City Water	14.2637%	609,749	(2,063,849)
Tubac Water	0.3699%	15,813	(53,524)
Mohave Water	9.8001%	418,936	(1,417,994)
Paradise Valley Water	2.9920%	127,901	(432,915)

ii. 06/30/2014:

COMPANY: EPCOR Water Arizona Inc.
DOCKET NO: WS-01303A-14-0010

Response provided by: Greg Barber
Title: Controller

Address: 2355 W. Pinnacle Peak Road, Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 27.1

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6/30/2014	General Metered		
	Customer	996,509	(15,079,357)
	Factor	Acct 1587 - FIT Asset	Acct 2902 - Liability
Mohave Wastewater	0.8752%	8,722	(131,982)
Sun City Water	14.2637%	142,139	(2,150,879)
Tubac Water	0.3699%	3,686	(55,781)
Mohave Water	9.8001%	97,659	(1,477,790)
Paradise Valley Water	2.9920%	29,815	(451,170)

- iii. 12/31/2014 – we are unable to provide an accurate estimate due to the fact the actuals are not yet available to be input into our income tax provisioning process.
- j. Yes, the Company is aware that bonus tax depreciation was recently extended for 2014 by the US Congress and signed into law by President Obama. On December 16, 2014, Congress passed a tax extender package which included an extension of 50% bonus depreciation through the end of 2014. Thus, 50% bonus depreciation is available for qualifying personal business property placed in service during 2014. In addition, the new law allows 50% bonus depreciation through 2015 for certain property with a longer production period and certain aircraft. The Company intends to do a thorough analysis of these rules for its 2014 Income Tax Returns.
- k. The Company intends to do a thorough analysis of the bonus tax depreciation rules to determine if it will use these rules.

BEFORE THE ARIZONA CORPORATION COMMISSION

SUSAN BITTER SMITH
Chairman
BOB STUMP
Commissioner
BOB BURNS
Commissioner
DOUG LITTLE
Commissioner
TOM FORESE
Commissioner

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. WS-01303A-14-0010
EPCOR WATER ARIZONA INC., AN ARIZONA)
CORPORATION, FOR A DETERMINATION OF)
THE FAIR VALUE OF ITS UTILITY PLANT AND)
PROPERTY AND FOR INCREASES IN ITS)
RATES AND CHARGES FOR UTILITY SERVICE)
BY ITS MOHAVE WATER DISTRICT,)
PARADISE VALLEY WATER DISTRICT,)
SUN CITY WATER DISTRICT, TUBAC)
WATER DISTRICT AND MOHAVE)
WASTEWATER DISTRICT.)
_____)

SURREBUTTAL

TESTIMONY

OF

CHRISTINE L. PAYNE

PUBLIC UTILITIES ANALYST III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

FEBRUARY 26, 2015

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SCHEDULES

Mohave Water District:

Revenue Requirement.....	Schedule CLP-1
Gross Revenue Conversion Factor.....	Schedule CLP-2
Operating Income Statement - Test Year and Staff Recommended.....	Schedule CLP-10
Summary of Operating Income Adjustments - Test Year.....	Schedule CLP-11
Operating Income Adjustment No. 1 –	Schedule CLP-12
Operating Expense Adjustment No. 2 – Depreciation Expense.....	Schedule CLP-13
Operating Expense Adjustment No. 3 – Property Tax.....	Schedule CLP-14
Operating Expense Adjustment No. 4 – Income Taxes.....	Schedule CLP-15
Operating Expense Adjustment No. 5 – Corporate Allocation.....	Schedule CLP-16
Operating Expense Adjustment No. 6 – Bad Debts Expense.....	Schedule CLP-17

Mohave Wastewater District:

Revenue Requirement.....	Schedule CLP-1
Gross Revenue Conversion Factor.....	Schedule CLP-2
Operating Income Statement - Test Year and Staff Recommended.....	Schedule CLP-10
Summary of Operating Income Adjustments - Test Year.....	Schedule CLP-11
Operating Income Adjustment No. 1 – Not Used.....	Schedule CLP-12
Operating Expense Adjustment No. 2 – Depreciation Expense.....	Schedule CLP-13

Operating Expense Adjustment No. 3 – Property Tax.....	Schedule CLP-14
Operating Expense Adjustment No. 4 – Income Taxes.....	Schedule CLP-15
Operating Expense Adjustment No. 5 – Corporate Allocation.....	Schedule CLP-16
Operating Expense Adjustment No. 6 – Bad Debts Expense.....	Schedule CLP-17

Paradise Valley Water District:

Revenue Requirement.....	Schedule CLP-1
Gross Revenue Conversion Factor.....	Schedule CLP-2
Operating Income Statement - Test Year and Staff Recommended.....	Schedule CLP-10
Summary of Operating Income Adjustments - Test Year.....	Schedule CLP-11
Operating Income Adjustment No. 1 – Not Used.....	Schedule CLP-12
Operating Expense Adjustment No. 2 – Depreciation Expense.....	Schedule CLP-13
Operating Expense Adjustment No. 3– Property Tax.....	Schedule CLP-14
Operating Expense Adjustment No. 4 – Income Taxes.....	Schedule CLP-15
Operating Expense Adjustment No. 5 – Corporate Allocation.....	Schedule CLP-16
Operating Expense Adjustment No. 6 – Bad Debts Expense.....	Schedule CLP-17

Sun City Water District:

Revenue Requirement.....	Schedule CLP-1
Gross Revenue Conversion Factor.....	Schedule CLP-2
Operating Income Statement - Test Year and Staff Recommended.....	Schedule CLP-10
Summary of Operating Income Adjustments - Test Year.....	Schedule CLP-11
Operating Income Adjustment No. 1 – Schedule CLP-12	
Operating Expense Adjustment No. 1 – Depreciation Expense.....	Schedule CLP-13
Operating Expense Adjustment No. 2 – Property Tax.....	Schedule CLP-14
Operating Expense Adjustment No. 3 – Income Taxes.....	Schedule CLP-15
Operating Expense Adjustment No. 4 – Corporate Allocation.....	Schedule CLP-16
Operating Expense Adjustment No. 5 – Bad Debts Expense.....	Schedule CLP-17

Tubac Water District:

Revenue Requirement.....	Schedule CLP-1
Gross Revenue Conversion Factor.....	Schedule CLP-2
Operating Income Statement - Test Year and Staff Recommended.....	Schedule CLP-10
Summary of Operating Income Adjustments - Test Year.....	Schedule CLP-11
Operating Income Adjustment No. 1 – Not Used.....	Schedule CLP-12
Operating Expense Adjustment No. 1 – Depreciation Expense.....	Schedule CLP-13
Operating Expense Adjustment No. 2 – Property Tax.....	Schedule CLP-14
Operating Expense Adjustment No. 3 – Income Taxes.....	Schedule CLP-15
Operating Expense Adjustment No. 4 – Corporate Allocation.....	Schedule CLP-16
Operating Expense Adjustment No. 5 – Bad Debts Expense.....	Schedule CLP-17
Operating Expense Adjustment No. 6 – Chemicals.....	Schedule CLP-18

EXHIBIT

Corporate Allocation Worksheet in response to EPCOR Data Request No. 1.....	A
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**EXECUTIVE SUMMARY
EPCOR WATER ARIZONA, INC.
DOCKET NO. WS-01303A-14-0010**

The surrebuttal testimony of Christine L. Payne addresses the following issues:

Revenue Requirement – The following table presents Staff's surrebuttal recommended revenue compared to the EPCOR Water Arizona, Inc.'s ("Company") proposed revenue in dollars for each district:

<u>District</u>	Staff's Recommended <u>Revenue</u>	Company's Proposed <u>Revenue</u>	<u>Dollar Difference</u>
Mohave Water	\$ 7,870,575	\$ 8,327,207	\$ 456,632
Mohave Wastewater	\$ 1,402,026	\$ 1,509,477	\$ 107,451
Paradise Valley Water	\$ 9,737,684	\$ 10,489,588	\$ 751,904
Sun City Water	\$ 11,219,958	\$ 11,871,945	\$ 651,987
Tubac Water	\$ 816,004	\$ 977,682	\$ 161,678
Totals	\$ 31,046,247	\$ 33,175,899	\$ 2,129,652

Test Year Operating Income – The following table presents Staff's recommended operating income and the Company's proposed operating income in dollars by district:

<u>District</u>	Staff's Recommended <u>Op.Income</u>	Company's Proposed <u>Op.Income</u>	<u>Difference</u>
Mohave Water	\$ 1,435,784	\$ 1,614,211	\$ 178,427
Mohave Wastewater	\$ 311,241	\$ 364,459	\$ 53,218
Paradise Valley Water	\$ 2,380,067	\$ 2,705,436	\$ 325,369
Sun City Water	\$ 1,640,897	\$ 1,814,318	\$ 173,421
Tubac Water	\$ 83,128	\$ 110,454	\$ 27,326
Totals	\$ 5,851,117	\$ 6,608,878	\$ 757,761

The primary differences in operating income for Staff and the Company relate to corporate allocations. Property taxes and income taxes are conforming as a result of changes in revenues. The Company concurs with Staff's adjusted test year revenues recommended in its direct testimony and has made the proper adjustments in its rebuttal schedules.

1 **INTRODUCTION**

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

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

6
7 **Q. Are you the same Christine L. Payne who filed direct testimony in this case?**

8 A. Yes.
9

10 **PURPOSE OF SURREBUTTAL TESTIMONY**

11 **Q. What issues will you address in surrebuttal testimony?**

12 A. I will be providing Staff’s responses to portions of EPCOR Water Arizona, Inc.’s (“EWAZ”
13 or “Company”) rebuttal testimony. Specifically, I will be responding to EWAZ’s rebuttal
14 testimony in regards to recommendations regarding operating expenses in my direct
15 testimony. Listed below are the issues that are discussed in this surrebuttal testimony:
16

17 Operating Income Statement Adjustments

- 18 1. Depreciation Expense
19 2. Property Taxes
20 3. Income Taxes
21 4. Corporate Allocation
22 a. Labor Expense
23 b. Corporate Allocation
24 c. Outside Services
25 d. Pensions
26 e. Regulatory Expense
27 f. Customer Accounting
28 g. General Office Expense
29 h. Miscellaneous Expense
30 5. Chemicals (Tubac only)
31 6. Bad Debts Expense

1 **Q. Did you attempt to address every issue raised by EWAZ in its rebuttal testimony?**

2 A. No. I limited my discussion to certain issues as discussed later in this surrebuttal testimony.
3 My silence on any particular issue raised in the Company's rebuttal testimony does not
4 indicate that I agree with the Company's stated rebuttal position on the issue. Rather, where I
5 do not respond, I rely on my direct testimony.

6
7 **SUMMARY OF PROPOSED REVENUES**

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

9 A. Staff recommends a total revenue increase for the five districts in this rate of \$31,046,247 or
10 an 11.00 percent increase over Staff's adjusted test year revenues of \$27,968,723 for the five
11 districts in this rate proceeding: Mohave Water, Mohave Wastewater, Paradise Valley Water,
12 Sun City Water and Tubac Water districts. Staff's total annual recommended revenue of
13 \$31,046,247 produces an operating income of \$5,851,117 or a 6.40 percent rate of return on a
14 Staff adjusted original cost rate base of \$91,465,615 (*with the exception of Tubac's rate of return at*
15 *6.20 percent*).

16
17 Revenue Requirement – The following table presents Staffs recommended revenue versus the
18 Company's proposed revenue in dollars for each district for surrebuttal testimony:
19

20

<u>District</u>	<u>Staff's Recommended Revenue</u>	<u>Company's Proposed Revenue</u>	<u>Dollar Difference</u>
Mohave Water	\$7,870,575	\$8,327,207	\$456,632
Mohave Wastewater	\$1,402,026	\$1,509,477	\$107,451
Paradise Valley Water	\$9,737,684	\$10,489,588	\$751,904
Sun City Water	\$11,219,958	\$11,871,945	\$651,987
Tubac Water	\$816,004	\$977,682	\$161,678
Totals	\$31,046,247	\$33,175,899	\$2,129,652

21
22
23
24
25

1 **Q. How does Staff's total recommended revenue compare to the recommended revenue**
2 **level in Staff's direct testimony for the five districts in this rate proceeding?**

3 A. Staff's recommended total revenue increased by \$577,042 from \$30,469,205 in direct
4 testimony to \$31,046,247 in surrebuttal testimony due primarily to adjustments in corporate
5 allocation as shown on surrebuttal schedules CLP-16.

6
7 **OPERATING INCOME AND EXPENSE ADJUSTMENTS**

8 *Operating Income Adjustment No. 1 (Mohave Water and Sun City Water districts only)*

9 **Q. Did Staff review the Company's rebuttal testimony concerning Staff's adjustments to**
10 **water revenue for the Mohave Water and Sun City Water's districts?**

11 A. Yes.

12
13 **Q. Does Staff agree with the Company's treatment for the adjustments Staff made in its**
14 **direct testimony to water revenue for the Mohave Water and Sun City Water's**
15 **districts?**

16 A. Yes. Staff does not object to the Company refunding the over collection of revenue to the
17 residential and commercial customers that paid the surcharge through the highest tier rates.

18
19 *Operating Expense Adjustment No. 2 - Depreciation Expense*

20 **Q. Did Staff review the Company's rebuttal testimony concerning depreciation expense?**

21 A. Yes.

22
23 **Q. Does the Company agree with Staff's recommendation for depreciation and**
24 **amortization expense?**

25 A. Only in part. EWAZ agrees with Staff's corporate allocation Adjustment No. 5e made in
26 Staff's direct testimony to regulatory expense for the amortization of year 2000 software costs

1 should be recorded as depreciation/amortization expense instead of being recorded through
2 corporate allocations. Staff reversed the corporate allocation Adjustments No. 5e on
3 surrebuttal schedules CLP-16 for all five districts for a total of \$24,699. Staff's witness Mary
4 Rimback will discuss the treatment of the \$24,699 amortization in her direct testimony when
5 she discusses Staff's recommended changes to depreciation and amortization expense. The
6 \$24,699 reversal for this adjustment is shown on the corporate allocation page 11,
7 Adjustment No. 5e- regulatory expense by district.

8
9 **Q. What are the major differences in Staff's recommended depreciation expense and the**
10 **Company's proposed depreciation expense?**

11 A. Staff's adjustments to depreciation expense are reflected on surrebuttal schedule CLP-12.
12 Ms. Rimback will discuss the adjustments to specific plant accounts and the related
13 depreciation expense accounts.

14
15 *Operating Expense Adjustment No. 3- Income Tax Expense*

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

17 A. Yes. EWAZ agreed that the correct state income tax rate to be used in the calculation of
18 income taxes is 6.0 percent. The Company reflected this updated tax rate in its rebuttal
19 testimony.

20
21 **Q. Does Staff agree with the Company?**

22 A. Yes.
23

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

2 A. Staff's recommendation for income tax expense is shown on surrebuttal schedules CLP-15
3 and CLP-2 for all districts.

4

5 *Operating Expense Adjustment No. 4 – Property Taxes*

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

7 A. Yes. Changes in property taxes are typically due to conforming changes in recommended
8 revenues. As previously discussed, EWAZ accepted Staff's adjustments to test year revenues
9 for the Mohave Water and Sun City Water districts. Also, EWAZ stated that Staff did not
10 include 10 percent of Construction Work in Progress ("CWIP") on the property tax expense
11 worksheet for Tubac (CLP-14).

12

13 **Q. Does Staff agree with the Company?**

14 A. Yes. Property tax expense changed as a result of changes to revenues. Staff also updated the
15 property tax expense schedule as shown on surrebuttal schedule CLP-14 to include the 10
16 percent of CWIP for the Tubac water district. Staff and EWAZ are in agreement in the
17 treatment of property tax expense. Any differences in Staff's and EWAZ's calculation of
18 property tax expense are a direct result of differences in Staff's revenue recommendations and
19 EWAZ's proposed revenues.

20

21 *Operating Expense Adjustment No. 5 – Corporate Cost Allocations*

22 **Q. Did Staff review EWAZ's rebuttal testimony regarding the adjustments Staff made to
23 expense accounts that were allocated using the 4-factor allocation method?**

24 A. Yes.

25

1 **Q. Does Staff agree with EWAZ's proposed expense accounts that were allocated**
2 **through the corporate cost pool using the 4-factor allocation method?**

3 A. Only in part. EWAZ proposed various operating expenses that were allocated through the
4 corporate allocation cost pool using the 4-factor cost allocation method. Staff has been
5 working with the Company on differences between the Company's numbers and Staff's to
6 determine the cause of major discrepancies as it relates to the income statement. Most of
7 EWAZ's concern had to do with Staff's adjustment to labor for their short-term incentive
8 plan ("STIP") and the corporate allocation expense account for the Canadian items allocated
9 in the corporate cost pool allocations. By working with the Company, Staff was able to come
10 to an agreement on most of the errors and/or miscalculations that were made. Further, Staff
11 is recommending that EWAZ be allowed to recover 50 percent of the amounts that were
12 disallowed in Staff's direct testimony. Staff made the appropriate adjustments to the
13 corporate allocation schedules for each district as warranted shown on surrebuttal schedules
14 CLP-16 (adjustments 5a- 5h)¹. An explanation of each expense adjustment is provided below.
15

16 Corporate Allocation -Labor Expense – (adjustment 5a)

17 **Q. Please explain the adjustments Staff made to the labor expense accounts (adjustment**
18 **a) allocated through the corporate cost pool for all five districts.**

19 A. EWAZ provided Staff with metrics used for the target payout under its STIP and the
20 Company voluntarily removed 10 percent of incentive compensation based on financial
21 performance. The Company's rebuttal worksheets were updated to reflect these changes.
22 Staff is in agreement with the changes that EWAZ made in removing 10 percent of the
23 incentive compensation that was based on financial performance.
24

¹ Staff did not adjust depreciation and amortization expense on the corporate allocation schedule because this adjustment is captured on schedule CLP-13 (depreciation and amortization adjustment no 2).

1 Furthermore, Staff now recommends the sharing of the remaining STIP costs so that rate
2 payers and shareholders are each responsible for 50 percent of the STIP cost.

3
4 **Q. What is Staff's recommendation for STIP recorded in the labor expense (adjustment
5 5a)?**

6 A. Staff's recommendation for labor expense through the corporate cost pool for STIP expense
7 is \$400,855 as shown on the table below and on surrebuttal schedules CLP-16.²

8

	<u>Mohave Water</u>	<u>Mohave WW</u>	<u>Paradise Valley</u>	<u>Sun City</u>	<u>Tubac</u>	<u>Remaining 8 Districts</u>	<u>Total adjustment</u>
STIP Expense	\$31,653	\$5,354	\$28,673	\$46,525	\$3,176	\$285,474	\$400,855

9
10 **Q. How does Staff's recommendation for STIP compare to the recommendation for
11 STIP in Staff's direct testimony?**

12 A. Staff's recommendation for the disallowance in direct testimony for STIP expense has been
13 reduced by \$400,855 from \$810,710 in direct testimony to \$400,855 in surrebuttal testimony
14 as shown on surrebuttal schedules CLP-16 and the table above.

15
16 Corporate Allocation – Corporate Allocation (Canadian) (adjustment 5b)

17 **Q. Please explain the adjustments Staff made to the corporate allocation Canadian
18 accounts (adjustment b) allocated through the corporate cost pool for all five districts.**

19 A. EWAZ made an adjustment of \$422,296 reducing the corporate allocation account in its
20 direct testimony that Staff did not recognize in Staff's direct testimony.³ Staff corrected the
21 error on surrebuttal schedules CLP-16 for all districts using the 4-factor allocation factor for

² Staff discovered late that EWAZ reduced the Canadian corporate allocation account by \$315,793 (Adj. SLH-11R) in its rebuttal testimony. Staff recommended 50% of the total disallowed STIP (\$597,657* 50%=\$298,828) shown on surrebuttal schedule CLP-16).

³ Adjustment No. SM-18 was entered on EWAZ's schedule revised C-2 revised schedules.

1 that district. After making this correction, Staff reduced the corporate allocation expense
2 account by 50 percent for the same reasons as explained in adjustment 5a above.

3
4 **Q. What is Staff's surrebuttal recommendation for the corporate allocation account**
5 **(adjustment 5b)?**

6 **A.** Staff's recommendation for the corporate allocation account through the corporate cost pool
7 using the 4-factor allocation method is \$298,829 as shown on the table below and on
8 surrebuttal schedule CLP-16.

9

	<u>Mohave Water</u>	<u>Mohave WW</u>	<u>Paradise Valley</u>	<u>Sun City</u>	<u>Tubac</u>	<u>Remaining 8 Districts</u>	<u>Total adjustment</u>
Corporate Allocation	\$23,597	\$3,991	\$21,375	\$34,684	\$2,367	\$212,815	\$298,829

10
11 **Q. How does Staff's surrebuttal recommendation for the corporate allocation account**
12 **compare to the recommendation for the corporate allocation account in Staff's direct**
13 **testimony?**

14 **A.** Staff reduced the adjustment of \$996,118 by \$697,289 in Staff's direct testimony to \$298,829,
15 as shown on surrebuttal schedules CLP-16 and the table above.

16
17 Corporate Allocation -Outside Services – (adjustment 5c)

18 **Q. Please explain the adjustments Staff made to outside services (adjustment c) allocated**
19 **through the corporate cost pool for all five districts.**

20 **A.** Staff made an adjustment of \$67,011 in its direct testimony for costs related to lobbying
21 expenses and legal expenses related to Thunder Mountain. Although the amounts are in
22 EWAZ's general ledger (which is where Staff obtained the description and amount of
23 \$67,011), EWAZ did not seek recovery of lobbying expenses and legal expenses in its rate

1 application. Therefore, Staff reversed the \$67,011 for the five districts in this rate proceeding
2 as shown on surrebuttal schedule CLP-16.

3
4 **Q. What amounts were reversed for each district for outside services on the corporate
5 allocation surrebuttal schedule CLP-16?**

6 A. The table below reflects the amounts that were adjusted in Staff's direct testimony that is now
7 reversed in surrebuttal testimony:

8

	<u>Mohave Water</u>	<u>Mohave WW</u>	<u>Paradise Valley</u>	<u>Sun City</u>	<u>Tubac</u>	<u>Remaining 8 Districts</u>	<u>Total adjustment</u>
Outside Services	\$5,291	\$895	\$4,793	\$7,778	\$531	\$47,723	\$67,011

9
10 **Q. What is Staff's surrebuttal recommendation for outside services (adjustment 5c)?**

11 A. Staff's recommendation for outside services expense account is \$767,998.

12
13 **Q. How does Staff's surrebuttal recommendation for outside services compare to the
14 recommendation for outside services in Staff's direct testimony?**

15 A. Staff's direct testimony reduced outside services by \$67,011 from \$767,998 to \$700,987.
16 Staff's surrebuttal testimony position for outside services is now the same as EWAZ's
17 adjusted test year amount.

18
19 Corporate Allocation- Pensions – (adjustment 5d)

20 **Q. Please explain the adjustments Staff made to pensions (adjustment 5d) allocated
21 through the corporate cost pool for all five districts.**

22 A. Staff made an adjustment of \$54,262 in pensions in its direct testimony for relocation
23 expenses posted to the pensions account. Staff is now convinced that the amounts should

1 not be part of the rate application and has reversed the adjustments that were recommended
2 in direct testimony.

3
4 **Q. What amounts were reversed for each district for pensions on the corporate allocation**
5 **surrebuttal schedule CLP-16?**

6 A. The table below reflects the amounts that were adjusted in Staff's direct testimony that Staff
7 reversed in surrebuttal:

8

	<u>Mohave</u> <u>Water</u>	<u>Mohave</u> <u>WW</u>	<u>Paradise</u> <u>Valley</u>	<u>Sun</u> <u>City</u>	<u>Tubac</u>	<u>Remaining</u> <u>8 Districts</u>	<u>Total</u> <u>adjustment</u>
Pensions	\$4,285	\$725	\$3,881	\$6,298	\$430	\$38,643	\$54,262

9
10 **Q. How does Staff's surrebuttal recommendation for pensions compare to the**
11 **recommendation for pensions services in Staff's direct testimony?**

12 A. Staff's direct testimony reduced pensions from \$18,029 to \$2,410. Staff's surrebuttal
13 testimony reversed the adjustment of \$15,619 to \$18,029.

14
15 Regulatory Expense – (adjustment 5e)

16 **Q. Please explain the adjustments Staff made to regulatory expense allocated through**
17 **the corporate cost pool for all five districts.**

18 A. In its direct testimony, Staff recommended that \$24,699 regulatory expense for amortization
19 of year 2000 software costs be disallowed. EWAZ accepted this adjustment. However,
20 EWAZ pointed out that the \$24,699 adjustment should be made to depreciation and
21 amortization expense.

22

1 **Q. Does Staff agree with EWAZ that the \$24,699 should be captured in the depreciation**
2 **and amortization account instead of the regulatory expense account in the corporate**
3 **allocation cost pool?**

4 A. Yes, staff concurs with EWAZ that this amortization cost belongs on the depreciation and
5 amortization schedules for each district. Staff made the following reversals on surrebuttal
6 schedule CLP-16 for each district.

	Mohave Water	Mohave WW	Paradise Valley	Sun City	Tubac	Remaining 8 Districts	Total adjustment
Regulatory Expense	\$1,950	\$330	\$1,767	\$2,867	\$196	\$17,590	\$24,699

8
9 **Q. How does Staff's recommendation for regulatory expense in surrebuttal testimony**
10 **compare to the recommendation for regulatory expense in Staff's direct testimony?**

11 A. Staff recommends increasing regulatory expense by \$15,619 from \$249,536 in direct
12 testimony to \$272,683 in surrebuttal testimony for all five districts in this rate proceeding, as
13 shown on surrebuttal schedule CLP-16. Staff also recommends that this expense adjustment
14 should be captured in the depreciation/amortization expense account.

15
16 Customer Accounting – (adjustment 5f)

17 **Q. Did Staff review EWAZ's rebuttal testimony regarding the adjustments made to**
18 **customer accounting?**

19 A. Yes. EWAZ agreed that the \$266,016 Staff adjustment for customer accounting in the
20 corporate cost pool was allocated incorrectly. Instead of calculating bad debts expense on a
21 per district basis, EWAZ was calculating bad debts expense on a connection method
22 allocation.

1 **Q. How does Staff's recommendation for customer accounting expense in surrebuttal**
2 **testimony compare to the recommendation for customer accounting in Staff's direct**
3 **testimony?**

4 A. Staff did not make any changes to its recommended customer accounting expense recoveries.
5

6 General Office Expense (adjustment 5g)

7 **Q. Did Staff review rebuttal testimony regarding the adjustments Staff made to general**
8 **office expense allocated through the corporate cost pool for all five districts?**

9 A. Yes.
10

11 **Q. Did Staff agree with EWAZ's rebuttal testimony regarding the general office expense**
12 **adjustment that was part of the corporate cost pool allocation?**

13 A. No. Staff adjusted \$275,278 of general office expense in the corporate cost pool in its direct
14 testimony for costs such as promotions, advertising, donations, etc. EWAZ requested in data
15 request No. 1 to Staff, a worksheet with a breakdown of the disallowed items. Staff
16 responded by sending the corporate allocations worksheet to EWAZ that showed a
17 breakdown of the items in the general office expense pool (Exhibit A).
18

19 **Q. How does Staff's recommendation for general office expense in surrebuttal testimony**
20 **compare to the recommendation for general office expense in Staff's direct testimony?**

21 A. Staff did not make any changes for general office expense that are different from Staff's direct
22 testimony.
23

1 Miscellaneous Expense – (adjustment 5h)

2 **Q. Did Staff make an adjustment in surrebuttal testimony that was different from Staff's**
3 **direct testimony.**

4 A. No. EWAZ concurred with the adjustment Staff made for \$6,485 made to miscellaneous
5 expense that was made in its direct testimony so no adjustment was needed.

6
7 *Operating Expense Adjustment No. 6 – Bad Debts Expense*

8 **Q. Did Staff make an adjustment for bad debts expense in its direct testimony?**

9 A. Yes. Staff removed \$266,016 from the Company's allocable expense which resulted in a
10 reduction in the following bad debt expense included by way of Corporate Allocations for
11 each system.

12

	<u>Mohave Water</u>	<u>Mohave WW</u>	<u>Paradise Valley</u>	<u>Sun City</u>	<u>Tubac</u>	<u>Total Reduction to Bad Debts Exp.</u>
Decrease to Bad Debt Exp.	\$21,006	\$3,553	\$19,028	\$30,875	\$2,107	\$76,569

13
14 **Q. What adjustments did Staff make to bad debts expense in surrebuttal testimony?**

15 A. Staff started with ~~made~~ the same adjustments in its surrebuttal schedules as it did in its direct
16 testimony. However, further refinement to these recommended adjustments was required.

17
18 **Q. Please explain these additional adjustments to Bad Debt Expense?**

19 A. In its rebuttal testimony, the Company provided its actual bad debt expense amounts for each
20 system during the test year. Staff is now accepting those revised amounts for each system.
21 Accordingly, Staff will effectively reverse the adjustments (by no longer removing the
22 \$266,016 from the allocable Customer Accounting expenses on Schedule CLP-16) and adjust
23 from the Company's proposed amounts in its application to the revised amounts reflected in
24 the Company's rebuttal schedules. The additional adjustment to each system will be:

	<u>Mohave Water</u>	<u>Mohave WW</u>	<u>Paradise Valley</u>	<u>Sun City</u>	<u>Tubac</u>	<u>Total Reduction to Bad Debts Exp.</u>
Change to expense	\$50,387	\$483	\$(4,492)	\$(32,098)	\$(1,682)	\$12,598

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Q. So am I correct that Staff's surrebuttal bad debt expense recommendations for each district is the total of these two amounts?

A. Yes. The net increase to the Bad Debt expense as reflected in this surrebuttal testimony will be:

	<u>Mohave Water</u>	<u>Mohave WW</u>	<u>Paradise Valley</u>	<u>Sun City</u>	<u>Tubac</u>	<u>Total Bad Debts Exp.</u>
Bad Debts Expense	\$71,393	\$4,036	\$14,536	\$(1,223)	\$425	\$89,167

Q. What is the net result of the adjustments made to bad debt debts expense?

A. The net effect is to accept the Company's final proposed amounts for Bad Debt expense in its rebuttal schedules.

	<u>Mohave Water</u>	<u>Mohave WW</u>	<u>Paradise Valley</u>	<u>Sun City</u>	<u>Tubac</u>	<u>Total Bad Debts Exp.</u>
Bad Debts Expense	\$96,650	\$6,333	\$22,236	\$35,358	\$1,363	\$161,940

Q. Are there any additional comments you would like to make regarding Staff's bad debt expense recommendations?

A. Yes. Staff is evaluating a possible minor refinement to its uncollectible expense calculation shown on line 43 of surrebuttal schedule CLP-2 for the Mohave Water Division and for the Sun City Water Division. Staff will continue its review and may be making a specific recommendation regarding the matter during the upcoming Commission hearing related to this docket.

1 *Operating Expense Adjustment 7 – Chemicals (Tubac only)*

2 **Q. Did Staff review the Company's rebuttal testimony concerning Staff's adjustments to**
3 **the arsenic media replacement costs?**

4 A. Yes.

5
6 **Q. Does Staff agree with EWAZ's position on the arsenic media replacement?**

7 A. Yes. Staff concurs with EWAZ that that an on-going media replacement cost of \$46,000 is
8 reasonable and that this expense level should be included on the income statement as an
9 operating expense. Staff made a pro-forma adjustment of \$46,000 on surrebuttal schedule
10 CLP-17. Staff also agreed with EWAZ that that the Company should be able to recover the
11 \$101,712 deferral for media cost from 2011 and 2012.

12
13 **Q. How does Staff's recommendation for the arsenic media costs in surrebuttal**
14 **testimony compare to the recommendation for customer accounting in Staff's direct**
15 **testimony?**

16 A. In Staff's direct testimony \$98,934 was deducted from chemicals expense and added to plant.
17 Staff's surrebuttal testimony recommended a pro-forma adjustment of \$46,000 annually, and
18 Staff's surrebuttal recommendation now reflects the \$101,712 of deferred costs normalized
19 over five years.

20
21 **Q. What is Staff's recommendation for the arsenic media replacement costs?**

22 A. Staff recommends a total of \$66,342 total for the arsenic media replacement costs (\$46,300
23 plus \$20,242 (\$101,712/5) as shown on surrebuttal schedule CLP-17. ⁴

24

⁴ Staff discovered that an adjustment of \$2,034 for chemicals for the arsenic media was addressed in Staff's engineering report.

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

2 **A. Yes, it does.**

EPCOR Water Arizona - Mohave Water District
 Docket No. WS-01303A-14-0010
 Test Year Ended June 30, 2013

Surrebuttal Schedule CLP-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST	[B] STAFF ORIGINAL COST
1	Adjusted Rate Base	\$23,496,515	\$22,432,336
2	Adjusted Operating Income (Loss)	\$416,266	\$538,569
3	Current Rate of Return (L2 / L1)	1.77%	2.40%
4	Required Rate of Return	6.87%	6.40%
5	Required Operating Income (L4 * L1)	\$1,614,211	\$1,435,669
6	Operating Income Deficiency (L5 - L2)	\$1,197,945	\$897,101
7	Gross Revenue Conversion Factor	1.6469	1.6377
8	Required Revenue Increase (L7 * L6)	\$1,972,914	\$1,469,143
9	Adjusted Test Year Revenue	\$6,354,293	\$6,389,776
10	Proposed Annual Revenue (L8 + L9)	\$8,327,207	\$7,858,919
11	Required Increase in Revenue (%)	31.05%	22.99%

References:

Column [A]: Company Schedule A-1

Column [B]: Staff Schedules CLP-2, MJR-3, and CLP-10

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	[A]	[B]	[C]
<i>Calculation of Gross Revenue Conversion Factor:</i>				
1	Revenue	100.0000%		
2	Uncollectible Factor (Line 13)	0.4517%		
3	Revenues (L1 - L2)	99.5483%		
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	38.4880%		
5	Subtotal (L3 - L4)	61.0604%		
6	Revenue Conversion Factor (L1 / L5)	1.637724		
7				
<i>Calculation of Uncollectible Factor:</i>				
9	Unity	100.0000%		
10	Combined Federal and State Tax Rate (Line 21)	37.9600%		
11	One Minus Combined Income Tax Rate (L9 - L10)	62.0400%		
12	Uncollectible Rate	0.7281%		
13	Uncollectible Factor (L11 * L12)		0.4517%	
14				
<i>Calculation of Effective Tax Rate:</i>				
16	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%		
17	Arizona State Income Tax Rate	6.0000%		
18	Federal Taxable Income (L16 - L17)	94.0000%		
19	Applicable Federal Income Tax Rate (Line 68)	34.0000%		
20	Effective Federal Income Tax Rate (L18 x L19)	31.9600%		
21	Combined Federal and State Income Tax Rate (L17 + L20)		37.9600%	
22				
<i>Calculation of Effective Property Tax Factor:</i>				
24	Unity	100.0000%		
25	Combined Federal and State Income Tax Rate (L21)	37.9600%		
26	One Minus Combined Income Tax Rate (L24 - L25)	62.0400%		
27	Property Tax Factor (CLP-14, L25)	0.8510%		
28	Effective Property Tax Factor (L26 x L27)		0.5280%	
29	Combined Federal and State Income Tax and Property Tax Rate (L21 + L28)			38.4880%
30				
31				
32	Required Operating Income (Schedule CLP-1, Line 5)	\$1,435,784		
33	Adjusted Test Year Operating Income (Loss) (Schedule CLP-10, Line 32)	531,603		
34	Required Increase in Operating Income (L33 - L34)		\$904,181	
35				
36	Income Taxes on Recommended Revenue (Col. [C], L62)	\$521,612		
37	Income Taxes on Test Year Revenue (Col. [A], L62)	(31,624)		
38	Required Increase in Revenue to Provide for Income Taxes (L36 - L37)		\$553,235	
39				
40	Recommended Revenue Requirement (Schedule CLP-1, Line 10)	\$7,870,575		
41	Uncollectible Rate (Line 12)	0.7281%		
42	Uncollectible Expense on Recommended Revenue (L40 x L41)	\$57,302		
43	Adjusted Test Year Uncollectible Expense	46,521		
44	Required Increase in Revenue to Provide for Uncollectible Exp.		\$10,781	
45				
46	Property Tax with Recommended Revenue (CLP-14, L20)	\$176,883		
47	Property Tax on Test Year Revenue (CLP-14, Col [A], L16)	164,282		
48	Increase in Property Tax Due to Increase in Revenue (L46 - L47)		\$12,602	
49				
50	Total Required Increase in Revenue (L34 + L38 + L44 + L48)		<u>\$1,480,799</u>	
51				
52				
<i>Calculation of Income Tax:</i>				
54	Revenue (Sch CLP-10, Col. [C] L5, CLP-1, Col. [C] L10)	\$6,389,776		\$7,870,575
55	Operating Expenses Excluding Income Taxes	5,889,797		5,913,179
56	Synchronized Interest (L71)	583,287		583,287
57	Arizona Taxable Income (L54 - L55 - L56)	(\$83,308)		\$1,374,109
58	Arizona State Income Tax Rate	6.0000%		6.0000%
59	Arizona Income Tax (L57 x L58)	(\$4,998)		\$82,447
60	Federal Taxable Income (L57 - L59)	(78,310)		1,291,662
61	Total Federal Income Tax	(26,625)		439,165
62	Combined Federal and State Income Tax (L59 + L61)	(\$31,624)		\$521,612
63				
64				
65	Effective Tax Rate			34.0000%
66				
67				
<i>Calculation of Interest Synchronization:</i>				
69	Rate Base (Schedule MJR-3, Col. [C], Line 34)			\$22,434,124
70	Weighted Average Cost of Debt			2.6000%
71	Synchronized Interest (L69 x L70)			\$583,287

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
1	Water Revenues	\$6,132,996	\$35,483	\$6,168,479	\$1,480,799	\$7,649,278
2	Other Revenues	221,297	0	221,297	0	221,297
3	Other	0	0	0	0	0
4	Total Operating Revenues	<u>\$6,354,293</u>	<u>\$35,483</u>	<u>\$6,389,776</u>	<u>\$1,480,799</u>	<u>\$7,870,575</u>
5	Labor	\$1,389,973	(31,653)	\$1,358,320	\$0	\$1,358,320
6	Purchased Water	26,831	0	26,831	0	26,831
7	Fuel & Power	546,720	0	546,720	0	546,720
8	Chemicals	10,916	0	10,916	0	10,916
9	Waste Disposal	7,886	0	7,886	0	7,886
10	Intercompany Support Services	950	0	950	0	950
11	Corporate Allocation	347,018	(23,597)	323,421	0	323,421
12	Outside Services	192,587	0	192,587	0	192,587
13	Group Insurance	418,599	0	418,599	0	418,599
14	Pensions	6,694	0	6,694	0	6,694
15	Regulatory Expense	85,438	(13,717)	71,721	0	71,721
16	Insurance Other Than Group	101,045	0	101,045	0	101,045
17	Customer Accounting	581,279	(21,006)	560,273	10,781	571,054
18	Water Testing Expense	0	32,262	32,262	0	32,262
19	Rents	16,923	0	16,923	0	16,923
20	General Office Expense	247,950	(21,737)	226,213	0	226,213
21	Miscellaneous	50,657	(27,239)	23,418	0	23,418
22	Maintenance Expense	377,160	0	377,160	0	377,160
23	Depreciation & Amortization	1,331,139	(57,392)	1,273,747	0	1,273,747
24	General Taxes-Property	163,376	906	164,282	12,601	176,883
25	General Taxes-Other	149,829	0	149,829	0	149,829
26	Income Taxes	(114,941)	83,317	(31,624)	553,235	521,612
27	Total Operating Expenses	<u>\$5,938,028</u>	<u>(\$79,855)</u>	<u>\$5,858,173</u>	<u>\$576,618</u>	<u>\$6,434,791</u>
28	Operating Income (Loss)	<u>\$416,265</u>	<u>\$115,338</u>	<u>\$531,603</u>	<u>\$904,181</u>	<u>\$1,435,784</u>

References:

- Column [A]: Company Schedule C-1
- Column [B]: Schedule CLP-11
- Column [C]: Column [A] + Column [B]
- Column [D]: Schedules CLP 2, Lines 34 and 50
- Column [E]: Column [C] + Column [D]

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	[A] COMPANY AS FILED	[B] Water Revenue ADJ #1 Ref: Sch CLP-12	[C] Depreciation Exp. ADJ #2 Ref: Sch CLP-13	[D] Property Taxes ADJ #3 Ref: Sch CLP-14	[E] Income Taxes ADJ #4 Ref: Sch CLP-15	[F] Corporate Allocation ADJ #5 Ref: Sch CLP-16	[G] Water Testing ADJ #6 Ref: Sch CLP-17	[H] Rate Case Expense ADJ #7 Ref: Sch CLP-18	[I] STAFF ADJUSTED
1	Water Revenues	\$6,132,996	\$0	\$0	\$0	\$0	\$0	\$0	\$6,168,479
2	Other Revenues	221,297	0	0	0	0	0	0	221,297
3	Other	0	0	0	0	0	0	0	0
4	Total Operating Revenues	\$6,354,293	\$0	\$0	\$0	\$0	\$0	\$0	\$6,389,776
5	Labor	\$1,389,973	\$0	\$0	\$0	(\$31,653)	\$0	\$0	\$1,358,320
6	Purchased Water	26,831	0	0	0	0	0	0	\$26,831
7	Fuel & Power	546,720	0	0	0	0	0	0	\$546,720
8	Chemicals	10,916	0	0	0	0	0	0	\$10,916
9	Waste Disposal	7,886	0	0	0	0	0	0	\$7,886
10	Intercompany Support Services	950	0	0	0	0	0	0	\$950
11	Corporate Allocation	347,018	0	0	0	(23,597)	0	0	\$323,421
12	Outside Services	192,587	0	0	0	0	0	0	\$192,587
13	Group Insurance	418,599	0	0	0	0	0	0	\$418,599
14	Pensions	6,694	0	0	0	0	0	0	\$6,694
15	Regulatory Expense	85,438	0	0	0	0	0	0	\$85,438
16	Insurance Other Than Group	101,045	0	0	0	0	(13,717)	0	\$87,328
17	Customer Accounting	581,279	0	0	0	0	0	0	\$581,279
18	Water Testing Expense	0	0	0	0	(21,006)	0	0	(\$21,006)
19	Rents	16,923	0	0	0	0	0	0	\$16,923
20	General Office Expense	247,950	0	0	0	0	0	0	\$247,950
21	Miscellaneous	50,657	0	0	0	0	0	0	\$50,657
22	Maintenance Expense	377,160	0	0	0	(21,737)	0	0	\$355,423
23	Depreciation & Amortization	1,331,139	(57,392)	0	0	(512)	(26,727)	0	\$1,277,320
24	General Taxes-Property	163,376	0	0	0	0	0	0	\$163,376
25	General Taxes-Other	149,829	0	906	0	0	0	0	\$150,735
26	Income Taxes	(114,941)	0	0	0	0	0	0	(\$114,941)
27	Total Operating Expenses	\$5,938,027	(\$57,392)	\$906	\$83,317	(\$98,504)	\$5,535	(\$13,717)	\$5,858,173
28	Operating Income (Loss)	\$416,266	\$57,392	(\$906)	(\$83,317)	\$98,504	(\$5,535)	\$13,717	\$531,603

OPERATING INCOME ADJUSTMENT NO. 1 - WATER REVENUE

LINE ACCT NO. NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Water Revenue	<u>\$6,132,996</u>	<u>\$35,483</u>	<u>\$6,168,479</u>

References:

Column [A]: Company Revised Schedule C-2

Column [B]: Testimony CLP

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

OPERATING INCOME ADJUSTMENT NO. 2 - DEPRECIATION EXPENSE

LINE NO.	ACCT. NO.	DESCRIPTION	(A) PLANT BALANCE	(B) Non-Depreciable/ Fully Depreciated	(C) DEPRECIATION RATE Staff Recommended	(D) DEPRECIATION EXPENSE
1		PLANT IN SERVICE:				
2	301000	Other Intangible Plant	\$34,004	\$ 34,004	0.00%	\$0
3	302000	Franchises	37,061	37,061	0.00%	-
4	303200	Land and Land Rights Supply	528,700	528,700	0.00%	-
5	303300	Land and Land Rights Pumping	2,351	2,351	0.00%	-
6	303400	Land & Land Rights Treatment	-	-	0.00%	-
7	303500	Land & Land Rights T&D	9,609	9,609	0.00%	-
8	303600	Land & Land Rights General	47,358	47,358	0.00%	-
9	304100	Structures and Improvements - Supply	475,826	-	2.50%	11,896
10	304200	Structures and Improvements - Pumping	31,201	-	2.00%	624
11	304300	Structures and Improvements - Treatment	47,846	-	2.00%	957
12	304400	Structures & Improvements Trans & Dist	43,546	-	2.00%	871
13	304500	Structures & Improvements General	43,231	-	2.50%	1,081
14	304600	Structures and Improvements - Offices	449,617	-	2.50%	11,240
15	304630	Struct & Imp Leasehold	-	-	2.50%	-
16	304700	Structures & Improvements Store, Shop, Gge	29,223	-	2.50%	731
17	304800	Structures & Improvements Miscellaneous	-	-	2.50%	-
18	305000	Collect & Impounding	663,944	-	1.67%	11,088
19	307000	Wells & Springs	6,542,946	-	2.50%	163,574
20	309000	Supply Mains	93,481	-	1.67%	1,561
21	310000	Power Production Equipment	30,355	-	3.33%	1,677
22	311000	Pumping Equipment Steam	409,521	-	4.00%	16,381
23	311200	Pumping Equipment Electric	2,782,896	-	4.00%	111,516
24	311300	Pumping Equipment Diesel	-	-	4.00%	-
25	311400	Pumping Equipment Hydraulic	-	-	4.00%	-
26	311500	Pumping Equipment Other	1,009	-	4.00%	40
27	311550	Pumping Equipment Water Treatment	-	-	4.00%	-
28	320100	Water Treatment Equipment Non-Media	96,933	96,933	5.00%	-
29	320200	Water Treatment Equipment Filter Media	363,547	-	10.00%	36,055
30	330000	Distribution Reservoirs & Standpipes	2,832,819	-	1.54%	43,625
31	330100	Elevated tank and Standpipes	-	-	1.54%	-
32	331001	TD Mains Not Classified by Size	269,444	-	2.00%	5,389
33	331100	TD Mains 4in & Less	12,008,818	-	1.43%	171,726
34	331200	TD Mains 6in to 8in	3,693,499	-	1.43%	52,817
35	331300	TD Mains 10in to 16in	1,484,810	-	1.43%	21,233
36	331400	TD Mains 18in & Grtr	76,265	-	1.43%	1,091
37	332000	Fire Mains	-	-	1.43%	-
38	333000	Services	7,853,908	-	2.50%	196,348
39	334100	Meters	2,638,551	-	8.33%	219,791
40	334200	Meter Installations	276,354	-	2.50%	6,909
41	334300	Meter Vaults	-	-	2.50%	-
42	335000	Hydrants	185,402	-	2.00%	3,708
43	339200	Other P/E-Supply	82,583	-	3.33%	2,750
44	339500	Other P/E-TD	-	-	0.00%	-
45	339600	Other P/E-CPS	186,826	-	3.33%	6,221
46	340100	Office Furniture & Equipment	101,669	-	4.50%	4,575
47	340200	Computer & Peripheral Equipment	109,956	-	10.00%	10,996
48	340300	Computer Software	3,521	-	20.00%	704
49	340350	Computer Software Other	-	-	20.00%	-
50	340325	Computer Software Customized	-	-	20.00%	-
51	340500	Other Office Equipment	-	-	0.00%	-
52	341100	Transportation Equip Light Duty Trucks	99,015	99,015	20.00%	-
53	341200	Transportation Equip Heavy Duty Trucks	72,088	-	14.29%	10,301
54	341400	Transportation Equipment Other	59,848	-	16.67%	9,977
55	342000	Stores Equipment	1,420	1,420	4.00%	-
56	343000	Tools, Shop, Garage Equipment	221,155	-	4.00%	8,846
57	344000	Laboratory Equipment	7,623	7,623	4.00%	-
58	345000	Power Operated Equipment	171,939	171,939	5.00%	-
59	346100	Communication Equipment Non-Telephone	188,877	-	10.00%	18,888
60	346190	Remote Control & Instrument	880,738	-	10.00%	88,074
61	346200	Communication Equipment Telephone	-	-	10.00%	-
62	346300	Communication Equipment Other	5,111	-	10.00%	511
63	347000	Miscellaneous Equipment	-	-	6.25%	-
64	304500	Structures & Imp General	9,553	-	2.50%	239
65	304600	Structures & Improvements Offices	(670)	-	2.50%	(17)
66	304620	Structures & Improvements Leasehold	1,950	-	2.50%	49
67	331100	Meters	1,151	-	8.33%	96
68	339600	Other P/E-CPS	35,739	-	3.33%	1,191
69	340100	Office furniture & Equipment	123,778	-	4.50%	5,570
70	340200	Computer & Peripheral Eqp	82,275	-	10.00%	8,228
71	340300	Computer Software	55,124	1,477	20.00%	10,729
72	340330	Transportation Equipment Other	624	-	20.00%	125
73	341400	Transportation Equipment Other	11,409	-	16.67%	1,902
74	343000	Tools, Shop, Garage Equipment	1,531	-	4.00%	61
75	344000	Laboratory Equipment	1,693	-	4.00%	68
76	346100	Communication Equipment non-telephone	18,236	-	10.00%	1,824
77	346190	Remote Control & Instrument	1,480	-	10.00%	149
78	346200	Communication Equipment Telephone	7,077	-	10.00%	708
79	346300	Communication Equip Other	480	-	10.00%	48
80	347000	Miscellaneous Equip	39,906	-	6.25%	2,494
81						
82	0	Rounding/Reconciling				
83						
84	0	Rounding	3			
85					0.00%	
86		Total Plant in Service	46,684,826	1,037,510		\$ 1,287,032
87						
88		Less: Non Depreciable Plant	1,037,510			
89						
90						
91		Net Depreciable Plant and Depreciation Amounts	\$45,647,316			\$0
92						
93						
94						
95						
96						
97		Composite Depreciation Rate			2.82%	
98		Less				
99		Amortization of CIAC at Composite Rate				
100		CIAC	\$570,320			\$570,320
101		Staff Recommended Depreciation Expense/CIAC Amortization				\$1,270,952
102		Y2K amortization				\$2,795
103		Staff Recommended Depreciation Expense/Amortization				\$1,273,747
104		Company Proposed Depreciation Expense				1,333,139
105		Staff Adjustment				(\$57,392)
106						
107						
108						
109						
110						
111		References:				
112	Col A	Schedule MJR-4				
113	Col B	Fully Depreciated Plant from Company G-5 Schedules				
114	Col C	Rates Staff Engineering Report				

OPERATING ADJUSTMENT NO. 3 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]
		STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$6,389,776	\$6,389,776
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	12,779,552	12,779,552
4	Staff Recommended Revenue, Per Schedule CLP-1	6,389,776	7,870,575
5	Subtotal (Line 4 + Line 5)	19,169,328	20,650,127
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	6,389,776	6,883,376
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	12,779,552	13,766,751
10	Plus: 10% of CWIP	90,135	90,135
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	12,869,687	13,856,886
13	Assessment Ratio	18.50%	18.50%
14	Assessment Value (Line 12 * Line 13)	2,380,892	2,563,524
15	Composite Property Tax Rate - Obtained from ADOR	6.90%	6.90%
16	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$164,282	
17	Company Proposed Property Tax	\$163,376	
18	Staff Test Year Adjustment (Line 16 - Line 17)	\$906	
19	Property Tax on Staff Recommended Revenue (Line 14 * Line 15)		\$176,883
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$164,282
21	Increase in Property Tax Due to Increase in Revenue Requirement		\$12,602
22	Increase in Property Tax Due to Increase in Revenue Requirement (Line 21)		\$12,602
23	Increase in Revenue Requirement		\$1,480,799
24	Increase in Property Tax Per Dollar Increase in Revenue (Line 22 / Line 23)		0.85100%

REFERENCES:

- Line 15: Composite Tax Rate obtained from Arizona Department of Revenue
- Line 17: Company Revised Schedule C-1, Line 24
- Line 21: Line 19 - Line 20
- Line 23: Schedule CLP-1, Line 8

OPERATING INCOME ADJUSTMENT NO. 4 - INCOME TAXES

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1		Income Taxes	<u>(\$114,941)</u>	<u>\$83,317</u>	<u>(\$31,624)</u>

References:

Column [A]: Company Revised Schedule C-2

Column [B]: Testimony CLP

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

Tax Rates & Tax Calculation- Schedule 2 - GRCF

OPERATING INCOME ADJUSTMENT NO. 5 - CORPORATE ALLOCATION

LINE ACCT NO. NO.	DESCRIPTION	[A] COMPANY PROPOSED ALLOCATIONS	[B] COMPANY ADJ. TY OP. EXPENSES	[C] COMPANY ALLOCATION RATE	[D] STAFFS UNALLOWABLE EXPENSES	[E] STAFF ADJUSTMENTS Col. [D] x Col. [C]	[F] STAFF RECOMMENDED Col. [E] - Col. [D]
						5a	
1	Labor	\$558,760	\$1,389,973	7.8964%	(\$400,855)	(\$1,653)	\$527,107
2	Purchased Water	0	26,831	7.8964%		0	0
3	Fuel & Power	3,602	546,720	7.8964%		0	3,602
4	Chemicals	86	10,916	7.8964%		0	86
5	Waste Disposal	185	7,886	7.8964%		0	185
6	Intercompany Support Services	(4,501)	950	7.8964%		0	(4,501)
7	Corporate Allocation	399,688	347,018	7.8964%	(298,829)	(23,597)	376,091
8	Outside Services	47,723	192,587	7.8964%	0	0	47,723
9	Group Insurance	101,716	418,599	7.8964%		0	101,716
10	Pensions	(9,742)	6,694	7.8964%		0	(9,742)
11	Regulatory Expense	22,771	85,438	7.8964%		0	22,771
12	Insurance Other Than Group	14,212	101,045	7.8964%		0	14,212
13	Customer Accounting	28,999	581,279	7.8964%		0	28,999
14	Rents	22,872	16,923	7.8964%	(266,016)	(21,006)	7,993
15	General Office Expense	74,538	247,950	7.8964%		0	74,538
16	Miscellaneous	16,073	50,657	7.8964%	(275,278)	(21,737)	52,801
17	Maintenance Expense	70,081	377,160	7.8964%	(6,485)	(512)	15,561
18	Depreciation & Amortization	158,997	1,331,139	7.8964%		0	158,997
19	General Taxes-Property	0	163,376	7.8964%	(1,317,140)	[2]	0
20	General Taxes-Other	54,978	149,829	7.8964%		0	54,978
21	Income Taxes	(199,964)	(114,941)	7.8964%		0	(199,964)
22	Total Operating Expenses	\$1,361,074	\$5,938,028		(\$2,564,602)	(\$98,504)	\$1,103,573

[1] Column [C] represents Staff's total unallowable Corporate Allocation for all 21 districts. Each district's expense is multiplied by Epcor's 4-factor cost allocation.
 [2] Staff is not recommending adjusting the depreciation & amortization expense on this schedule because this adjustment is being captured on Schedule CLP-13.
 and discussed in Ms. Rinback's testimony who is covering Rate Base, Plant and Depreciation.

References:

- Column [A]: Company Revised Schedule C-1
- Column [D]: Column [A] + Column [B] + Column [C]
- Column [F]: Staff Schedule CLP-15 page 2
- Column [G]: Column [E] * Column [F]
- Column [H]: Column [B] + Column [G]

DESCRIPTION	DETAILS	AMOUNT
Labor	STIP pay	(\$400,855)
Corporate Allocation	At-Risk Compensation	(298,829)
Outside Services	Unbilled Legal Accrual Thunder Mountain Bankruptcy Case	0
Pensions	Relocation Expenses	0
Regulatory Expense	2009 Rate Case-Corporate	
	Y2K Costs	0
	Regulatory Expense Total	0
Customer Accounting	Bad Debt expense	
General Office Expense	Promotion	(\$102,421)
	Recognition	(87,430)
	Training - Fees/Tuition	(44,119)
	Meals/Entertainment	(34,534)
	Donations	(4,133)
	Stationary, Printing & Other O	(2,345)
	Accommodation, Other Travel	(298)
	General Office Expense Total	(275,278)
Miscellaneous		(6,485)
Depreciation & Amortization	Amortization of Utility Plant Acquisition Adjustment	(\$1,000,110)
	Amortization of AFUDC	(317,030)
	Depr. & Amortization Expense Total	(1,317,140)
	Total	<u><u>(\$2,564,602)</u></u>

EPCOR Water Arizona - Mohave Wastewater District Surrebuttal Schedule CLP-1
Docket No. WS-01303A-14-0010
Test Year Ended June 30, 2013

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST	[B] STAFF ORIGINAL COST
1	Adjusted Rate Base	\$5,305,083	\$4,863,141
2	Adjusted Operating Income (Loss)	\$90,799	\$101,363
3	Current Rate of Return (L2 / L1)	1.71%	2.08%
4	Required Rate of Return	6.87%	6.40%
5	Required Operating Income (L4 * L1)	\$364,459	\$311,241
6	Operating Income Deficiency (L5 - L2)	\$273,660	\$209,878
7	Gross Revenue Conversion Factor	1.6577	1.6495
8	Required Revenue Increase (L7 * L6)	\$453,638	\$346,187
9	Adjusted Test Year Revenue	\$1,055,839	\$1,055,839
10	Proposed Annual Revenue (L8 + L9)	\$1,509,477	\$1,402,026
11	Required Increase in Revenue (%)	42.96%	32.79%

References:

Column [A]: Company Schedule A-1

Column [B]: Staff Schedules CLP-2, MJR-3, and CLP-10

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	[A]	[B]	[C]
<i>Calculation of Gross Revenue Conversion Factor:</i>				
1	Revenue	100.0000%		
2	Uncollectible Factor (Line 13)	0.3721%		
3	Revenues (L1 - L2)	99.6279%		
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.0023%		
5	Subtotal (L3 - L4)	60.6256%		
6	Revenue Conversion Factor (L1 / L5)	1.649468		
7				
<i>Calculation of Uncollectible Factor:</i>				
8	Unity	100.0000%		
9	Combined Federal and State Tax Rate (Line 21)	37.9600%		
10	One Minus Combined Income Tax Rate (L9 - L10)	62.0400%		
11	Uncollectible Rate	0.5997%		
12	Uncollectible Factor (L11 * L12)		0.3721%	
13				
<i>Calculation of Effective Tax Rate:</i>				
14	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%		
15	Arizona State Income Tax Rate	6.0000%		
16	Federal Taxable Income (L16 - L17)	94.0000%		
17	Applicable Federal Income Tax Rate (Line 68)	34.0000%		
18	Effective Federal Income Tax Rate (L18 x L19)	31.9600%		
19	Combined Federal and State Income Tax Rate (L17 + L20)		37.9600%	
20				
<i>Calculation of Effective Property Tax Factor:</i>				
21	Unity	100.0000%		
22	Combined Federal and State Income Tax Rate (L21)	37.9600%		
23	One Minus Combined Income Tax Rate (L24 - L25)	62.0400%		
24	Property Tax Factor (CLP-14, L25)	1.6801%		
25	Effective Property Tax Factor (L26 x L27)		1.0423%	
26	Combined Federal and State Income Tax and Property Tax Rate (L21 + L28)			39.0023%
27				
28	Required Operating Income (Schedule CLP-1, Line 5)	\$311,241		
29	Adjusted Test Year Operating Income (Loss) (Schedule CLP-10, Line 32)	101,363		
30	Required Increase in Operating Income (L33 - L34)		\$209,878	
31				
32	Income Taxes on Recommended Revenue (Col. (C), L62)	\$113,072		
33	Income Taxes on Test Year Revenue (Col. (A), L62)	(15,345)		
34	Required Increase in Revenue to Provide for Income Taxes (L36 - L37)		\$128,417	
35				
36	Recommended Revenue Requirement (Schedule CLP-1, Line 10)	\$1,402,026		
37	Uncollectible Rate (Line 12)	0.5997%		
38	Uncollectible Expense on Recommended Revenue (L40 x L41)	\$8,408		
39	Adjusted Test Year Uncollectible Expense	6,332		
40	Required Increase in Revenue to Provide for Uncollectible Exp.		\$2,076	
41				
42	Property Tax with Recommended Revenue (CLP-14, L20)	\$59,476		
43	Property Tax on Test Year Revenue (CLP-14, Col [A], L16)	53,660		
44	Increase in Property Tax Due to Increase in Revenue (L46 - L47)		\$5,816	
45				
46	Total Required Increase in Revenue (L34 + L38 + L44 + L48)		\$346,187	
47				
<i>Calculation of Income Tax:</i>				
48	Revenue (Sch CLP-10, Col. [C] L5, CLP-1, Col. [C] 10)	\$1,055,839		\$1,402,026
49	Operating Expenses Excluding Income Taxes	969,820		977,713
50	Synchronized Interest (L71)	126,442		126,442
51	Arizona Taxable Income (L54 - L55 - L56)	(\$40,424)		\$297,871
52	Arizona State Income Tax Rate	6.0000%		6.0000%
53	Arizona Income Tax (L57 x L58)	(\$2,425)		\$17,872
54	Federal Taxable Income (L57 - L59)	(37,998)		279,999
55	Total Federal Income Tax	(12,919)		95,200
56	Combined Federal and State Income Tax (L59 + L61)	(\$15,345)		\$113,072
57				
58				34.0000%
59	Effective Tax Rate			
60				
61				
<i>Calculation of Interest Synchronization:</i>				
62	Rate Base (Schedule M]R-3, Col. [C], Line 34)			\$4,863,141
63	Weighted Average Cost of Debt			2.6000%
64	Synchronized Interest (L69 x L70)			\$126,442

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
1	Wastewater Revenues	\$1,052,210		\$1,052,210	\$346,187	\$1,398,397
2	Other Revenues	3,629	0	3,629	0	3,629
3	Other	0	0	0	0	0
4	Total Operating Revenues	<u>\$1,055,839</u>	<u>\$0</u>	<u>\$1,055,839</u>	<u>\$346,187</u>	<u>\$1,402,026</u>
5	Labor	\$268,572	(\$5,354)	\$263,218	\$0	\$263,218
6	Purchased Water	0	0	0	0	0
7	Fuel & Power	46,241	0	46,241	0	46,241
8	Chemicals	12,000	0	12,000	0	12,000
9	Waste Disposal	34,306	0	34,306	0	34,306
10	Intercompany Support Services	161	0	161	0	161
11	Corporate Allocation	58,694	(3,991)	54,703	0	54,703
12	Outside Services	34,425	0	34,425	0	34,425
13	Group Insurance	53,082	0	53,082	0	53,082
14	Pensions	725	0	725	0	725
15	Regulatory Expense	11,993	(2,320)	9,673	0	9,673
16	Insurance Other Than Group	14,658	0	14,658	0	14,658
17	Customer Accounting	53,827	(3,553)	50,274	2,076	52,350
18	Water Testing Expense	0	11,889	11,889	0	11,889
19	Rents Expense	8,199	0	8,199	0	8,199
20	General Office Expense	20,902	(3,677)	17,225	0	17,225
21	Miscellaneous	84	(11,976)	(11,892)	0	(11,892)
22	Maintenance Expense	51,102	0	51,102	0	51,102
23	Depreciation & Amortization	257,946	(4,167)	253,779	0	253,779
24	General Taxes-Property	53,660	0	53,660	5,816	59,476
25	General Taxes-Other	12,392	0	12,392	0	12,392
26	Income Taxes	(27,928)	12,583	(15,345)	128,417	113,072
27	Total Operating Expenses	<u>\$965,040</u>	<u>(\$10,565)</u>	<u>\$954,476</u>	<u>\$136,309</u>	<u>\$1,090,785</u>
28	Operating Income (Loss)	<u>\$90,799</u>	<u>\$10,565</u>	<u>\$101,363</u>	<u>\$209,878</u>	<u>\$311,241</u>

References:

- Column [A]: Company Schedule C-1
- Column [B]: Schedule CLP-11
- Column [C]: Column [A] + Column [B]
- Column [D]: Schedules CLP 2, Lines 29 and 37
- Column [E]: Column [C] + Column [D]

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Wastewater Revenue Ref. Sch CLP-12	[C] ADJ #2 Depreciation Exp. Ref. Sch CLP-13	[D] ADJ #3 Property Taxes Ref. Sch CLP-14	[E] ADJ #4 Income Taxes Ref. Sch CLP-15	[F] ADJ #5 Corporate Allocation Ref. Sch CLP-16	[G] ADJ #6 Water Testing Ref. Sch CLP-17	[H] ADJ #7 Rate Case Expense Ref. Sch CLP-18	[I] STAFF ADJUSTED
1	Wastewater Revenues	\$1,052,210	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,052,210
2	Other Revenues	3,629	0	0	0	0	0	0	0	\$3,629
3	Other	0	0	0	0	0	0	0	0	0
4	Total Operating Revenues	\$1,055,839	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,055,839
5	Labor	\$268,572	\$0	\$0	\$0	\$0	(\$5,354) 5a	\$0	\$0	\$263,218
6	Purchased Water	0	0	0	0	0	0	0	0	\$0
7	Fuel & Power	46,241	0	0	0	0	0	0	0	\$46,241
8	Chemicals	12,000	0	0	0	0	0	0	0	\$12,000
9	Waste Disposal	34,306	0	0	0	0	0	0	0	\$34,306
10	Intercompany Support Services	161	0	0	0	0	0	0	0	\$161
11	Corporate Allocation	58,694	0	0	0	0	(3,991) 5b	0	0	\$54,703
12	Outside Services	34,425	0	0	0	0	0 5c	0	0	\$34,425
13	Group Insurance	53,082	0	0	0	0	0	0	0	\$53,082
14	Pensions	725	0	0	0	0	0	0	0	\$725
15	Regulatory Expense	11,993	0	0	0	0	0 5d	0	0	\$9,673
16	Insurance Other Than Group	14,658	0	0	0	0	0 5e	0	(2,320)	\$14,658
17	Customer Accounting	53,827	0	0	0	0	(3,553) 5f	0	0	\$50,274
18	Water Testing Expense	0	0	0	0	0	0	0	0	\$0
19	Rent Expense	8,199	0	0	0	0	0	11,889	0	\$11,889
20	General Office Expense	20,902	0	0	0	0	0	0	0	\$8,199
21	Miscellaneous	84	0	0	0	0	(3,677) 5g	0	0	\$17,225
22	Maintenance Expense	51,102	0	0	0	0	(87) 5h	(11,889)	0	(\$11,892)
23	Depreciation & Amortization	257,946	0	(4,167)	0	0	0	0	0	\$51,102
24	General Taxes-Property	53,660	0	0	0	0	0	0	0	\$253,779
25	General Taxes-Other	12,392	0	0	0	0	0	0	0	\$53,660
26	Income Taxes	(27,928)	0	0	0	12,583	0	0	0	\$12,392
27	Total Operating Expenses	\$965,040	\$0	(\$4,167)	\$0	\$12,583	(\$16,661)	\$0	(\$2,320)	\$954,476
28	Operating Income (Loss)	\$90,799	\$0	\$4,167	\$0	(\$12,583)	\$16,661	(\$0)	\$2,320	\$101,363

OPERATING ADJUSTMENT NO. 2 - DEPRECIATION EXPENSE						
LINE NO.	ACCT. NO.	DESCRIPTION	[A] PLANT BALANCE	Non-Depreciable/ Fully Depreciated	[B] DEPRECIATION RATE	[C] DEPRECIATION EXPENSE
Staff Recommended						
1	<i>PLANT IN SERVICE:</i>					
2	335000	Hydrants	0	0	2.99%	\$ -
3	351000	Organization	\$0	\$	0.00%	-
4	352000	Franchises	364	364	0.00%	-
5	353000	Land	-	-	0.00%	-
6	354200	Structures & Improvements Collection	196,581	-	3.33%	6,546
7	354400	Structures & Improvements Treatment	1,047,352	-	2.00%	20,947
8	355400	Power Generation Equipment Treatment	142,907	-	2.00%	2,858
9	360000	Collection Sewers - Forced	5,385	-	1.43%	77
10	361100	Collecting Mains	2,721,870	-	1.43%	38,923
11	362000	Special Collecting Structures	138,063	-	3.33%	4,597
12	363000	Services to Customer	530,251	-	2.00%	10,605
13	364000	Flow Measuring Devices	218,748	-	6.67%	14,590
14	371100	Pumping Equipment Electric	82,445	-	5.00%	4,122
15	371200	Manholes	-	-	0.00%	-
16	380000	Treatment and Disposal Equipment	1,013,752	-	5.00%	50,688
17	380050	TD Equipment Grit Removal	135,165	-	5.00%	6,758
18	380100	TD Equipment Sed Tanks/Acc	336,115	-	5.00%	16,806
19	380300	TD Equipment Sludge Dry/Filt	39,113	-	5.00%	1,956
20	380500	TD Equipment Chemical Treatment Plant	232,909	-	5.00%	11,645
21	380600	TD Equipment Other Disp	28,914	-	5.00%	1,446
22	380625	TD Equipment Gen Treatment	1,818,565	-	5.00%	90,928
23	389600	WW Other Pj/E - CPS	3,549	-	3.33%	118
24	390200	Computers & Peripherals	10,496	-	10.00%	1,050
25	391000	Transportation Equip	-	-	0.00%	-
26	393000	Tool Shop & Garage Equipment	71,567	-	4.00%	2,863
27	394000	Laboratory Equipment	14,336	-	4.00%	573
28	395000	Power Operating Equipment	16,703	-	5.00%	835
29	396000	Communication Equipment	26,322	-	10.00%	2,632
30	304500	Structures & Imp General	853	-	2.50%	21
31	304600	Structures & Improvement Offices	39	-	2.50%	1
32	304620	Structures & Improvements Leasehold	75	-	2.50%	2
33	334100	Meters	103	-	8.33%	9
34	339600	Other P/E CPS	3,194	-	3.33%	106
35	340100	Office furniture & Equipemnt	11,055	-	4.50%	497
36	340200	Computer & Peripheral Equ	7,348	-	10.00%	735
37	340300	Computer Software	4,923	-	20.00%	985
38	340330	Computer Software Other	56	-	20.00%	11
39	341400	Transportation Equipment Other	1,019	-	16.67%	170
40	343000	Tools,Shop,Garage Equipment	137	-	4.00%	5
41	344000	Laboratory Equipemnt	151	-	4.00%	6
42	346100	Communication Equipment non-telephone	1,629	-	10.00%	163
43	346190	Remote Control & Instrument	133	-	10.00%	13
44	346200	Communication Equipment Telephone	632	-	10.00%	63
45	346300	Communication Equip Other	43	-	10.00%	4
46	347000	Miscellaneous Equip	3,564	-	6.25%	223
47		Staff Rounding	1	-	-	-
48	0	Total Plant in Service	\$8,866,427	\$364	-	\$ 294,579
49		Less Non Depreciable Plant	\$ 364	-	-	-
50						
51		Net Depreciable Plant and Depreciation Amounts	\$8,866,063	-	-	294,579
52						
53		Composite Depreciation Rate			3.32%	
54		Less				
55		Amortization of CIAC at Composir Rate				\$ 41,277
56		CIAC	\$1,242,320			
57		Staff Recommended Depreciation Expense/CIAC Amortization				\$253,303
58		Amortization of Y2K				\$476
59		Staff Recommended Depreciation/Amortization Expense				\$253,779
60		Company Proposed Depreciation Expense				257,946
61		Staff Adjustment				(\$4,167)
62						
63						
64						
65						
66						
67						
68						
69						
70						
71						
72						
73						
74	Col A	References:				
75	Col B	Schedule A				
76	Col C	Staff Recommended Plant				
77	Col D	Staff Recommended Depreciation Expense				

OPERATING ADJUSTMENT NO. 3 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$1,055,839	\$1,055,839
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	2,111,677	2,111,677
4	Staff Recommended Revenue, Per Schedule CLP-1	1,055,839	1,402,026
5	Subtotal (Line 4 + Line 5)	3,167,516	3,513,703
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	1,055,839	1,171,234
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	2,111,677	2,342,469
10	Plus: 10% of CWIP	21,457	21,457
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	2,133,134	2,363,926
13	Assessment Ratio	18.50%	18.50%
14	Assessment Value (Line 12 * Line 13)	394,630	437,326
15	Composite Property Tax Rate - Obtained from ADOR	13.60%	13.60%
16	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$53,670	
17	Company Proposed Property Tax	\$53,660	
18	Staff Test Year Adjustment (Line 16 - Line 17)	<u>\$10</u>	[1]
19	Property Tax on Staff Recommended Revenue (Line 14 * Line 15)		\$59,476
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		<u>\$53,660</u>
21	Increase in Property Tax Due to Increase in Revenue Requirement		<u>\$5,816</u>
22	Increase in Property Tax Due to Increase in Revenue Requirement (Line 21)		\$5,816
23	Increase in Revenue Requirement		\$346,187
24	Increase in Property Tax Per Dollar Increase in Revenue (Line 22 / Line 23)		1.68012%

[1] Staff did not make an adjust to test year property tax expense because the adjustment would have been de minimis.

REFERENCES:

Line 15: Composite Tax Rate obtained from Arizona Department of Revenue

Line 17: Company Revised Schedule C-1, Line 24

Line 21: Line 19 - Line 20

Line 23: Schedule CLP-1, Line 8

OPERATING INCOME ADJUSTMENT NO. 4 - INCOME TAXES

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1		Income Taxes	<u>(\$27,928)</u>	<u>\$12,583</u>	<u>(\$15,345)</u>

References:

Column [A], Companyvised Schedule C-2

Column [B]: Testimony CLP

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

OPERATING INCOME ADJUSTMENT NO. 5 - CORPORATE ALLOCATION

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED ALLOCATIONS	[B] COMPANY ADJ. TY OP. EXPENSES	[C] COMPANY ALLOCATION RATE	[D] STAFF'S UNALLOWABLE EXPENSES	[1] Col. [D] x Col. [C]	[E] STAFF ADJUSTMENTS	[F] STAFF RECOMMENDED
					(\$400,855)		(\$5,354)	Col. [A] - Col. [E]
							5a	5a
1	Labor	\$99,538	\$268,572	1.3356%				\$94,185
2	Purchased Water	0	0	1.3356%			0	0
3	Fuel & Power	609	46,241	1.3356%			0	609
4	Chemicals	15	12,000	1.3356%			0	15
5	Waste Disposal	31	34,306	1.3356%			0	31
6	Intercompany Support Services	(319)	161	1.3356%			0	(319)
7	Corporate Allocation	67,603	58,694	1.3356%	(298,829)	(3,991)		63,612
8	Outside Services	11,763	34,425	1.3356%	0			11,763
9	Group Insurance	17,493	53,082	1.3356%				17,493
10	Pensions	(510)	725	1.3356%				(510)
11	Regulatory Expense	3,851	11,993	1.3356%				3,851
12	Insurance Other Than Group	2,411	14,658	1.3356%				2,411
13	Customer Accounting	5,075	53,827	1.3356%				5,075
14	Rents Expense	4,012	8,199	1.3356%				4,012
15	General Office Expense	14,343	20,902	1.3356%	(266,016)	(3,553)		13,789
16	Miscellaneous	3,017	84	1.3356%				3,017
17	Maintenance Expense	11,868	51,102	1.3356%				11,868
18	Depreciation & Amortization	26,893	257,946	1.3356%	(275,278)	(3,677)		23,216
19	General Taxes-Property	0	53,660	1.3356%	(6,485)	(87)		0
20	General Taxes-Other	9,308	12,392	1.3356%	(1,317,140)			9,308
21	Income Taxes	(33,822)	(27,928)	1.3356%				(33,822)
22	Total Operating Expenses	\$243,177	\$965,040	1.3356%	(\$2,564,602)	(\$16,661)		\$226,516

[1] Column [D] represents Staff's total unallowable Corporate Allocation for all 21 districts. Each district's expense is multiplied by Epcor's 4-factor cost allocation.
 [2] Staff is not recommending adjusting the depreciation & amortization expense on this schedule because this adjustment is being captured on Schedule CLP-13.

References:

- Column [A, B & E]: Company response to DR BAB-1.2, electronic work paper titled "June 2013 Rolling 12 Months by BU"
- Column [C]: Company Schedule C-1
- Column [D]: Column [A] + Column [B] + Column [C]
- Column [F]: Staff Schedule CLP-15 page 2
- Column [G]: Column [E] * Column [F]
- Column [H]: Column [B] + Column [G]

EPCOR Water Arizona - Mohave Wastewater District
 Docket No. WS-01303A-14-0010
 Test Year Ended June 30, 2013

DESCRIPTION	DETAILS	AMOUNT
Labor	STIP pay	(\$400,855)
Corporate Allocation	At-Risk Compensation	(298,829)
Outside Services	Unbilled Legal Accrual Thunder Mountain Bankruptcy Case	0
Pensions	Relocation Expenses	0
Regulatory Expense	2009 Rate Case-Corporate	
	Y2K Costs	0
	Regulatory Expense Total	(266,016)
Customer Accounting	Bad Debt expense	
General Office Expense	Promotion	(\$102,421)
	Recognition	(87,430)
	Training - Fees/Tuition	(44,119)
	Meals/Entertainment	(34,534)
	Donations	(4,133)
	Stationary, Printing & Other O	(2,345)
	Accommodation, Other Travel	(298)
	General Office Expense Total	(275,278)
Miscellaneous		(6,485)
Depreciation & Amortization	Amortization of Utility Plant Acquisition Adjustment	(\$1,000,110)
	Amortization of AFUDC	(317,030)
	General Office Expense Total	(1,317,140)
		(\$2,564,002)

OPERATING INCOME ADJUSTMENT NO. 6 - BAD DEBT EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Bad Debt Expense	\$ 6,332	\$ (6,332)	
2				
3				
4				
5			Bad Debt	
6			Expense	
7			Month	Write-off
8			July-12	\$ 364.00
9			Aug-12	\$ 897.00
10			Sep-12	\$ 77.00
11			Oct-12	\$ 155.00
12			Nov-12	\$ 1,190.00
13			Dec-12	\$ 2,132.00
14			Jan-13	\$ 113.00
15			Feb-13	\$ 147.00
			Mar-13	\$ 319.00
			Apr-13	\$ 293.00
			May-13	\$ 177.00
			Jun-13	\$ 468.00
			Total	\$ 6,332.00
				\$ 1,055,839 Test Year Revenue
				0.5997% Average write-off rate

References:

- Column A: Company Rebuttal Schedule C-2
- Column B: Testimony, CLP
- Column C: Column [A] + Column [B]

EPCOR Water Arizona - Paradise Valley Water District Surrebuttal Schedule CLP-1
 Docket No. WS-01303A-14-0010
 Test Year Ended June 30, 2013

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST	[B] STAFF ORIGINAL COST
1	Adjusted Rate Base	\$39,380,442	\$37,188,547
2	Adjusted Operating Income (Loss)	\$2,193,723	\$2,325,347
3	Current Rate of Return (L2 / L1)	5.57%	6.25%
4	Required Rate of Return	6.87%	6.40%
5	Required Operating Income (L4 * L1)	\$2,705,436	\$2,380,067
6	Operating Income Deficiency (L5 - L2)	\$511,713	\$54,720
7	Gross Revenue Conversion Factor	1.6442	1.6344
8	Required Revenue Increase (L7 * L6)	\$841,337	\$89,433
9	Adjusted Test Year Revenue	\$9,648,251	\$9,648,251
10	Proposed Annual Revenue (L8 + L9)	\$10,489,588	\$9,737,684
11	Required Increase in Revenue (%)	8.72%	0.93%

References:

Column [A]: Company Revised Schedule A-1

Column [B]: Staff Schedules CLP-2, MJR-3, and CLP-10

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	[A]	[B]	[C]
<i>Calculation of Gross Revenue Conversion Factor</i>				
1	Revenue	100.0000%		
2	Uncollectible Factor (Line 13)	0.1430%		
3	Revenues (L1 - L2)	99.8570%		
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	38.6722%		
5	Subtotal (L3 - L4)	61.1848%		
6	Revenue Conversion Factor (L1 / L5)	1.634393		
7				
<i>Calculation of Uncollectible Factor</i>				
9	Unity	100.0000%		
10	Combined Federal and State Tax Rate (Line 21)	37.9600%		
11	One Minus Combined Income Tax Rate (L9 - L10)	62.0400%		
12	Uncollectible Rate	0.2305%		
13	Uncollectible Factor (L11 * L12)		0.1430%	
14				
<i>Calculation of Effective Tax Rate</i>				
16	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%		
17	Arizona State Income Tax Rate	6.0000%		
18	Federal Taxable Income (L16 - L17)	94.0000%		
19	Applicable Federal Income Tax Rate (Line 68)	34.0000%		
20	Effective Federal Income Tax Rate (L18 x L19)	31.9600%		
21	Combined Federal and State Income Tax Rate (L17 + L20)		37.9600%	
22				
<i>Calculation of Effective Property Tax Factor</i>				
24	Unity	100.0000%		
25	Combined Federal and State Income Tax Rate (L21)	37.9600%		
26	One Minus Combined Income Tax Rate (L24 - L25)	62.0400%		
27	Property Tax Factor (CLP-14, L25)	1.1480%		
28	Effective Property Tax Factor (L26 x L27)		0.7122%	
29	Combined Federal and State Income Tax and Property Tax Rate (L21 + L28)			38.6722%
30				
31				
32	Required Operating Income (Schedule CLP-1, Line 5)	\$2,380,067		
33	Adjusted Test Year Operating Income (Loss) (Schedule CLP-10, Line 32)	2,325,347		
34	Required Increase in Operating Income (L33 - L34)		\$54,720	
35				
36	Income Taxes on Recommended Revenue (Col. [C], L62)	\$864,664		
37	Income Taxes on Test Year Revenue (Col. [A], L62)	831,183		
38	Required Increase in Revenue to Provide for Income Taxes (L36 - L37)		\$33,481	
39				
40	Recommended Revenue Requirement (Schedule CLP-1, Line 10)	\$9,737,684		
41	Uncollectible Rate (Line 12)	0.2305%		
42	Uncollectible Expense on Recommended Revenue (L40 x L41)	\$22,442		
43	Adjusted Test Year Uncollectible Expense	22,236		
44	Required Increase in Revenue to Provide for Uncollectible Exp.		\$206	
45				
46	Property Tax with Recommended Revenue (CLP-14, L20)	\$336,872		
47	Property Tax on Test Year Revenue (CLP-14, Col [A], L16)	335,846		
48	Increase in Property Tax Due to Increase in Revenue (L46 - L47)		\$1,026	
49				
50	Total Required Increase in Revenue (L34 + L38 + L44 + L48)		\$89,433	
51				
52				
<i>Calculation of Income Tax</i>				
54	Revenue (Sch CLP-10, Col. [C] L5, CLP-1, Col. [C] 10)	\$9,648,251	\$9,737,684	Incr in Revs \$89,433
55	Operating Expenses Excluding Income Taxes	6,491,721	6,492,953	RR Inc \$89,433
56	Synchronized Interest (L71)	966,902	966,902	
57	Arizona Taxable Income (L54 - L55 - L56)	\$2,189,628	\$2,277,829	
58	Arizona State Income Tax Rate	6.0000%	6.0000%	
59	Arizona Income Tax (L57 x L58)	\$131,378	\$136,670	
60	Federal Taxable Income (L57 - L59)	2,058,250	2,141,159	
61	Total Federal Income Tax	699,805	727,994	
62	Combined Federal and State Income Tax (L59 + L61)	\$831,183	\$864,664	
63				
64				
65	Effective Tax Rate			34.0000%
66				
67				
<i>Calculation of Interest Synchronization</i>				
69	Rate Base (Schedule MJR-3, Col. [C], Line 34)		\$37,188,547	
70	Weighted Average Cost of Debt		2.6000%	
71	Synchronized Interest (L69 x L70)		\$966,902	

Lead Lag Rate Base
 Lead Lag Interest

\$37,188,547
 2.6000%
 966,902

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A]	[B]	[C]	[D]	[E]
		COMPANY TEST YEAR AS FILED	STAFF TEST YEAR ADJUSTMENTS	STAFF TEST YEAR AS ADJUSTED	STAFF RECOMMENDED CHANGES	STAFF RECOMMENDED
1	Water Revenues	\$9,589,273	\$0	\$9,589,273	\$89,433	\$9,678,706
2	Other Revenues	58,978	0	58,978	0	58,978
3	Other	0	0	0	0	0
4	Total Operating Revenues	<u>\$9,648,251</u>	<u>\$0</u>	<u>\$9,648,251</u>	<u>\$89,433</u>	<u>\$9,737,684</u>
5	Labor	\$1,205,431	(\$28,673)	\$1,176,758	\$0	\$1,176,758
6	Purchased Water	0	0	0	0	0
7	Fuel & Power	1,329,578	0	1,329,578	0	1,329,578
8	Chemicals	58,805	0	58,805	0	58,805
9	Waste Disposal	15,320	0	15,320	0	15,320
10	Intercompany Support Services	860	0	860	0	860
11	Corporate Allocation	314,349	(21,375)	292,974	0	292,974
12	Outside Services	233,418	0	233,418	0	233,418
13	Group Insurance	321,965	0	321,965	0	321,965
14	Pensions	3,881	0	3,881	0	3,881
15	Regulatory Expense	66,802	0	66,802	0	66,802
16	Insurance Other Than Group	138,643	0	138,643	0	138,643
17	Customer Accounting	197,288	(19,028)	178,260	206	178,466
18	Water Testing Expense	0	13,152	13,152	0	13,152
19	Rents	30,456	0	30,456	0	30,456
20	General Office Expense	132,498	(19,691)	112,807	0	112,807
21	Miscellaneous	91,440	(12,198)	79,242	0	79,242
22	Maintenance Expense	512,882	(63,908)	448,974	0	448,974
23	Depreciation & Amortization	1,608,655	(75,451)	1,533,204	0	1,533,204
24	General Taxes-Property	335,846	0	335,846	1,026	336,872
25	General Taxes-Other	120,776	0	120,776	0	120,776
26	Income Taxes	735,635	95,548	831,183	33,481	864,664
27	Total Operating Expenses	<u>\$7,454,528</u>	<u>(\$131,624)</u>	<u>\$7,322,904</u>	<u>\$34,713</u>	<u>\$7,357,617</u>
28	Operating Income (Loss)	<u>\$2,193,723</u>	<u>\$131,624</u>	<u>\$2,325,347</u>	<u>\$54,720</u>	<u>\$2,380,067</u>

References:

- Column [A]: Company Revised Schedule C-1
- Column [B]: Schedule CLP-11
- Column [C]: Column [A] + Column [B]
- Column [D]: Schedules CLP-2, Lines 29 and 37
- Column [E]: Column [C] + Column [D]

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Water Revenue Ref: Sch CLP-12	[C] ADJ #2 Depreciation Exp. Ref: Sch CLP-13	[D] ADJ #3 Property Taxes Ref: Sch CLP-14	[E] ADJ #4 Income Taxes Ref: Sch CLP-15	[F] ADJ #5 Corporate Allocation Ref: Sch CLP-16	[G] ADJ #6 Water Testing Ref: Sch CLP-17	[H] ADJ #7 Tank Maintenance Ref: Sch CLP-18	[I] STAFF ADJUSTED
1	Water Revenues	\$9,589,273	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$9,589,273
2	Other Revenues	58,978	0	0	0	0	0	0	0	58,978
3	Other	0	0	0	0	0	0	0	0	0
4	Total Operating Revenues	\$9,648,251	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$9,648,251
5	Labor	\$1,205,431	\$0	\$0	\$0	\$0	(\$28,673)	\$0	\$0	\$1,176,758
6	Purchased Water	0	0	0	0	0	0	0	0	0
7	Fuel & Power	1,329,578	0	0	0	0	0	0	0	1,329,578
8	Chemicals	58,805	0	0	0	0	0	0	0	58,805
9	Waste Disposal	15,320	0	0	0	0	0	0	0	15,320
10	Intercompany Support Services	860	0	0	0	0	0	0	0	860
11	Corporate Allocation	314,349	0	0	0	0	(21,375)	0	0	292,974
12	Outside Services	233,418	0	0	0	0	0	0	0	233,418
13	Group Insurance	321,965	0	0	0	0	0	0	0	321,965
14	Pensions	3,881	0	0	0	0	0	0	0	3,881
15	Regulatory Expense	66,802	0	0	0	0	0	0	0	66,802
16	Insurance Other Than Group	138,643	0	0	0	0	0	0	0	138,643
17	Customer Accounting	197,288	0	0	0	0	(19,028)	0	0	178,260
18	Water Testing Expense	0	0	0	0	0	0	13,152	0	13,152
19	Rents	30,456	0	0	0	0	0	0	0	30,456
20	General Office Expense	132,498	0	0	0	0	0	0	0	132,498
21	Miscellaneous	91,440	0	0	0	0	0	0	0	91,440
22	Maintenance Expense	512,882	0	0	0	0	(19,691)	0	0	493,191
23	Depreciation & Amortization	1,608,655	0	0	0	0	(464)	(11,734)	(63,908)	1,544,753
24	General Taxes-Property	335,846	0	(75,451)	0	0	0	0	0	260,395
25	General Taxes-Other	120,776	0	0	0	0	0	0	0	120,776
26	Income Taxes	735,635	0	0	0	0	0	0	0	735,635
27	Total Operating Expenses	\$7,454,528	\$0	(\$75,451)	\$0	\$95,548	\$89,231	\$1,418	\$63,908	\$7,322,904
28	Operating Income (Loss)	\$2,193,723	\$0	\$75,451	\$0	(\$95,548)	\$89,231	(\$1,418)	\$63,908	\$2,325,347

LINE NO.	ACCT. NO.	DESCRIPTION	(A) PLANT BALANCE	(B) Non-Depreciable Fully Depreciated	(C) DEPRECIATION RATE Staff Recommended	(D) DEPRECIATION EXPENSE
1		PLANT IN SERVICE:				
2	301000	Other Intangible Plant	\$1,831	\$ 1,831	0.00%	\$0
3	302000	Franchises	-	-	0.00%	-
4	303200	Land and Land Rights Supply	-	-	0.00%	-
5	303300	Land and Land Rights Pumping	-	-	0.00%	-
6	303400	Land & Land Rights Treatment	-	-	0.00%	-
7	303500	Land & Land Rights T&D	8,324	8,324	0.00%	-
8	303600	Land & Land Rights General	-	-	0.00%	-
9	304100	Structures and Improvements - Supply	158,547	158,547	2.50%	-
10	304200	Structures and Improvements - Pumping	1,282,693	-	2.00%	25,654
11	304300	Structures and Improvements - Treatment	20,737,611	-	2.00%	414,752
12	304400	Structures & Improvements Trans & Dist	23,764	-	2.00%	475
13	304500	Structures & Improvements General	26,113	-	2.50%	653
14	304600	Structures and Improvements - Offices	-	-	2.50%	-
15	304620	Structures & Imp Leasehold	-	-	2.50%	-
16	304700	Structures & Improvements Store,Shop,Gage	4,629	-	2.50%	116
17	304800	Structures & Improvements Miscellaneous	-	-	2.50%	-
18	307000	Wells & springs	2,639,547	-	2.50%	65,989
19	309000	Supply Mains	373,503	-	1.67%	6,238
20	310000	Power Production Equipment	230,827	-	3.33%	7,687
21	310100	Power Generation Equip Other	554,631	-	3.33%	18,469
22	311200	Pumping Equipment Electric	3,893,762	-	4.00%	155,750
23	311300	Pumping Equipment Diesel	190	-	4.00%	8
24	311400	Pumping Equipment Hydraulic	-	-	4.00%	-
25	311500	Pumping Equipment Other	-	-	4.00%	-
26	311530	Pumping Equipment Water Treatment	358,319	-	4.00%	14,333
27	320100	Water Treatment Equipment Non-Media	10,628,952	-	5.00%	531,448
28	320200	Water Treatment Equipment Filter Media	702,862	-	10.00%	70,286
29	330000	Distribution Reservoirs & Standpipes	2,400,280	-	1.54%	36,964
30	330200	Ground Level Tanks	-	-	1.54%	-
31	331001	TD Mains Not Classified by Size	3,911,448	-	2.00%	78,229
32	331100	TD Mains 4in & Less	364,519	-	1.43%	5,213
33	331200	TD Mains 6in to 8in	5,987,202	-	1.43%	85,617
34	331300	TD Mains 10in to 16in	9,380,895	-	1.43%	134,147
35	331400	TD Mains 18in & Grtr	547,004	-	1.43%	7,822
36	332000	Fire Mains	14,058	-	1.43%	201
37	333000	Services	3,818,826	-	2.50%	95,471
38	334100	Meters	1,426,811	-	8.33%	118,853
39	334200	Meter Installations	177,916	-	2.50%	4,448
40	334300	Meter Vaults	-	-	2.50%	-
41	335000	Hydrants	1,384,297	-	2.00%	27,686
42	339200	Other P/E-Supply	-	-	3.33%	-
43	339600	Other P/E-CPS	180,523	-	3.33%	6,011
44	340100	Office Furniture & Equipment	61,561	-	4.50%	2,770
45	340200	Computer & Peripheral Equipment	38,077	38,077	10.00%	-
46	340300	Computer Software	30,877	37,405	20.00%	(1,306)
47	340330	Computer Software Other	-	-	20.00%	-
48	340325	Computer Software Customized	-	-	20.00%	-
49	340500	Other Office Equipment	321	-	6.67%	21
50	341100	Transportation Equip Light Duty Trucks	-	-	0.00%	-
51	341300	Transportation Equip Light Duty Trucks	-	-	20.00%	-
52	341400	Transportation Equipment Other	194,855	-	16.67%	32,482
53	342000	Stores Equipment	1,943	-	4.00%	78
54	343000	Tools,Shop,Garage Equipment	294,430	-	4.00%	11,777
55	344000	Laboratory Equipment	17,620	-	4.00%	705
56	345000	Power Operated Equipment	32,228	-	5.00%	1,611
57	346100	Communication Equipment Non-Telephone	456,755	456,755	10.00%	-
58	346190	Remote Control & Instrument	609,765	-	10.00%	60,977
59	346200	Communication Equipment Telephone	-	-	10.00%	-
60	346300	Communication Equipment Other	58,841	-	10.00%	5,884
61	347000	Miscellaneous Equipment	-	-	6.25%	-
62	304500	Structures & Imp General	2,917	-	2.50%	73
63	304600	Structures & Improvement Offices	132	-	2.50%	3
64	304620	Structures & Improvements Leasehold	256	-	2.50%	6
65	334100	Meters	351	-	8.33%	29
66	339600	Other P/E CPS	10,917	-	3.33%	364
67	340100	Office furniture & Equipment	37,790	-	4.50%	1,701
68	340200	Computer & Peripheral Equ	25,119	-	10.00%	2,512
69	340300	Computer Software	16,829	-	20.00%	3,366
70	340300	Computer Software	191	-	20.00%	38
71	341400	Transportation Equipment Other	3,483	-	16.67%	581
72	343000	Tools,Shop,Garage Equipment	467	-	4.00%	19
73	344000	Laboratory Equipment	517	-	4.00%	21
74	346100	Communication Equipment non-telephone	5,567	-	10.00%	557
75	346190	Remote Control & Instrument	455	-	10.00%	46
76	346200	Communication Equipment Telephone	2,161	-	10.00%	216
77	346300	Communication Equip Other	147	-	10.00%	15
78	347000	Miscellaneous Equip	12,183	-	6.25%	761
79	0	0.00	-	-	-	-
80	0	0	-	-	0.00%	-
81		Rounding	1	-	-	-
82		subtotal	\$ 73,136,640	\$ 700,939	-	\$ 2,037,825
83						
84						
85		Less Non Depreciable Plant	\$ 700,939			
86						
87		Net Depreciable Plant and Depreciation Amounts	\$ 72,435,701			\$ 2,037,825
88						
89		Composite Depreciation Rate			2.81%	
90		Less				
91		Contribution in Aid of Construction	\$18,123,892			
92		Amortization of CIAC at Composite Rate				509,877
93		Staff Recommended Depreciation/CIAC Amortization				\$1,527,948
94		Amortization of Mummy Mountain Acquisition				\$5,256
95		Staff Recommended Depreciation/Amortization Expense				\$1,533,204
96		Company Proposed Depreciation Expense				1,608,655
97		Staff Adjustment				(875,451)
98						
99						
100						
101						
102						
103						
104						
105						
106						

OPERATING INCOME STATEMENT ADJUSTMENT NO. 3 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$9,648,251	\$9,648,251
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	19,296,502	19,296,502
4	Staff Recommended Revenue, Per Schedule CLP-1	9,648,251	9,737,684
5	Subtotal (Line 4 + Line 5)	28,944,753	29,034,186
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	9,648,251	9,678,062
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	19,296,502	19,356,124
10	Plus: 10% of CWIP	36,119	36,119
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	19,332,621	19,392,243
13	Assessment Ratio	18.50%	18.50%
14	Assessment Value (Line 12 * Line 13)	3,576,535	3,587,565
15	Composite Property Tax Rate - Obtained from ADOR	9.39%	9.39%
16	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$335,837	
17	Company Proposed Property Tax	\$335,846	
18	Staff Test Year Adjustment (Line 16 - Line 17)	(\$9)	
19	Property Tax on Staff Recommended Revenue (Line 14 * Line 15)		\$336,872
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$335,846
21	Increase in Property Tax Due to Increase in Revenue Requirement		\$1,027
22			
23	Increase in Property Tax Due to Increase in Revenue Requirement (Line 21)		\$1,027
24	Increase in Revenue Requirement		\$89,433
25	Increase in Property Tax Per Dollar Increase in Revenue (Line 22 / Line 23)		1.14804%

[1] Staff did not make an adjust to test year property tax expense because the adjustment would have been de minimis.

REFERENCES:

- Line 15: Composite Tax Rate obtained from Arizona Department of Revenue
- Line 17: Company Schedule Revised C-1, Line 24
- Line 21: Line 19 - Line 20
- Line 23: Schedule CLP-1, Line 8

OPERATING INCOME STATEMENT ADJUSTMENT NO. 4 - INCOME TAXES

LINE ACCT NO. NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Income Taxes	<u>\$735,635</u>	<u>\$95,548</u>	<u>\$831,183</u>

References:

Column [A]: Company Revised Schedule C-2

Column [B]: Testimony CLP

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

DESCRIPTION	DETAILS	AMOUNT
Labor	STIP pay	(\$400,855)
Corporate Allocation	At-Risk Compensation	(298,829)
Outside Services	Unbilled Legal Accrual Thunder Mountain Bankruptcy Case	0
Pensions	Relocation Expenses	0
Regulatory Expense	2009 Rate Case-Corporate	
	Y2K Costs	0
	Regulatory Expense Total	0
Customer Accounting	Bad Debt expense	
General Office Expense	Promotion	(\$102,421)
	Recognition	(87,430)
	Training - Fees/Tuition	(44,119)
	Meals/Entertainment	(34,534)
	Donations	(4,133)
	Stationary, Printing & Other O	(2,345)
	Accommodation, Other Travel	(298)
	General Office Expense Total	(275,278)
Miscellaneous		(6,485)
Depreciation & Amortization	Amortization of Utility Plant Acquisition Adjustment	(\$1,000,110)
	Amortization of AFUDC	(317,030)
	Depr. & Amortization Expense Total	(1,317,140)
	Total	(\$2,564,602)

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST	[B] STAFF ORIGINAL COST
1	Adjusted Rate Base	\$26,409,286	\$25,639,023
2	Adjusted Operating Income (Loss)	\$843,695	\$1,077,517
3	Current Rate of Return (L2 / L1)	3.19%	4.20%
4	Required Rate of Return	6.87%	6.40%
5	Required Operating Income (L4 * L1)	\$1,814,318	\$1,640,897
6	Operating Income Deficiency (L5 - L2)	\$970,623	\$563,381
7	Gross Revenue Conversion Factor	1.6550	1.6406
8	Required Revenue Increase (L7 * L6)	\$1,606,392	\$924,295
9	Adjusted Test Year Revenue	\$10,265,553	\$10,295,663
10	Proposed Annual Revenue (L8 + L9)	\$11,871,945	\$11,219,958
11	Required Increase in Revenue (%)	15.65%	8.98%

References:

Property Tax Factor (CLP-143, L25)

Column [B]: Staff Schedules CLP-2, MJR-3, and CLP-10

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	[A]	[B]	[C]
<i>Calculation of Gross Revenue Conversion Factor:</i>				
1	Revenue	100.0000%		
2	Uncollectible Factor (Line 13)	0.2137%		
3	Revenues (L1 - L2)	99.7863%		
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	38.8338%		
5	Subtotal (L3 - L4)	60.9525%		
6	Revenue Conversion Factor (L1 / L5)	1.640622		
7				
<i>Calculation of Uncollectible Factor:</i>				
8	Unity	100.0000%		
9	Combined Federal and State Tax Rate (Line 21)	37.9600%		
10	One Minus Combined Income Tax Rate (L9 - L10)	62.0400%		
11	Uncollectible Rate	0.3444%		
12	Uncollectible Factor (L11 * L12)		0.2137%	
13				
<i>Calculation of Effective Tax Rate:</i>				
14	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%		
15	Arizona State Income Tax Rate	6.0000%		
16	Federal Taxable Income (L16 - L17)	94.0000%		
17	Applicable Federal Income Tax Rate (Line 68)	34.0000%		
18	Effective Federal Income Tax Rate (L18 x L19)	31.9600%		
19	Combined Federal and State Income Tax Rate (L17 + L20)		37.9600%	
20				
<i>Calculation of Effective Property Tax Factor:</i>				
21	Unity	100.0000%		
22	Combined Federal and State Income Tax Rate (L21)	37.9600%		
23	One Minus Combined Income Tax Rate (L24 - L25)	62.0400%		
24	Property Tax Factor (CLP-143, L25)	1.4085%		
25	Effective Property Tax Factor (L26 x L27)		0.8738%	
26	Combined Federal and State Income Tax and Property Tax Rate (L21 + L28)			38.8338%
27				
28	Required Operating Income (Schedule CLP-1, Line 5)	\$1,640,897		
29	Adjusted Test Year Operating Income (Loss) (Schedule CLP-10, Line 32)	1,077,517		
30	Required Increase in Operating Income (L33 - L34)		\$563,381	
31				
32	Income Taxes on Recommended Revenue (Col. [C], L62)	\$596,128		
33	Income Taxes on Test Year Revenue (Col. [A], L62)	251,416		
34	Required Increase in Revenue to Provide for Income Taxes (L36 - L37)		\$344,712	
35				
36	Recommended Revenue Requirement (Schedule CLP-1, Line 10)	\$11,219,958		
37	Uncollectible Rate (Line 12)	0.3444%		
38	Uncollectible Expense on Recommended Revenue (L40 x L41)	\$38,645		
39	Adjusted Test Year Uncollectible Expense	35,462		
40	Required Increase in Revenue to Provide for Uncollectible Exp.		\$3,184	
41				
42	Property Tax with Recommended Revenue (CLP-14, L20)	\$448,437		
43	Property Tax on Test Year Revenue (CLP-14, Col [A], L16)	435,418		
44	Increase in Property Tax Due to Increase in Revenue (L46 - L47)		\$13,018	
45				
46	Total Required Increase in Revenue (L34 + L38 + L44 + L48)		\$924,295	\$0
47				
48				
<i>Calculation of Income Tax:</i>				
49	Revenue (Sch CLP-10, Col. [C] L5, CLP-1, Col. [C] L10)	\$10,295,663		
50	Operating Expenses Excluding Income Taxes	8,966,730		
51	Synchronized Interest (L71)	666,615		
52	Arizona Taxable Income (L54 - L55 - L56)	\$662,318		
53	Arizona State Income Tax Rate	6.0000%		
54	Arizona Income Tax (L57 x L58)	\$39,739		
55	Federal Taxable Income (L57 - L59)	622,579		
56	Total Federal Income Tax	211,677		
57	Combined Federal and State Income Tax (L59 + L61)	\$251,416		
58				
59				
60	Effective Tax Rate		34.0000%	
61				
62				
<i>Calculation of Interest Synchronization:</i>				
63	Rate Base (Schedule MJR-3, Col. [C], Line 34)		\$25,639,023	
64	Weighted Average Cost of Debt		2.60%	
65	Synchronized Interest (L69 x L70)		\$666,614.61	
66				
67				
68				
69				
70				
71				

Lead Lag Interest
Rate Base
Synchronized Interest

\$25,639,023
2.60%
\$666,614.61

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A]	[B]	[C]	[D]	[E]
		COMPANY TEST YEAR AS FILED	STAFF TEST YEAR ADJUSTMENTS	STAFF TEST YEAR AS ADJUSTED	STAFF RECOMMENDED CHANGES	STAFF RECOMMENDED
1	Water Revenues	\$10,103,166	\$30,110	\$10,133,276	\$924,295	\$11,057,571
2	Other Revenues	162,387	0	162,387	0	162,387
3	Other	0	0	0	0	0
4	Total Operating Revenues	\$10,265,553	\$30,110	\$10,295,663	\$924,295	\$11,219,958
5	Labor	\$1,711,461	(\$46,525)	\$1,664,936	\$0	\$1,664,936
6	Purchased Water	0	0	0	0	0
7	Fuel & Power	1,557,580	0	1,557,580	0	1,557,580
8	Chemicals	34,119	0	34,119	0	34,119
9	Waste Disposal	4,661	0	4,661	0	4,661
10	Intercompany Support Services	1,396	0	1,396	0	1,396
11	Corporate Allocation	510,069	(34,684)	475,386	0	475,386
12	Outside Services	280,698	0	280,698	0	280,698
13	Group Insurance	490,722	0	490,722	0	490,722
14	Pensions	6,298	0	6,298	0	6,298
15	Regulatory Expense	101,188	0	101,188	0	101,188
16	Insurance Other Than Group	288,791	0	288,791	0	288,791
17	Customer Accounting	834,153	(30,875)	803,278	3,184	806,461
18	Water Testing Expense	30,180	25,080	55,260	0	55,260
19	Rents	45,805	0	45,805	0	45,805
20	General Office Expense	212,603	(31,950)	180,653	0	180,653
21	Miscellaneous	432,512	(30,933)	401,579	0	401,579
22	Maintenance Expense	205,746	0	205,746	0	205,746
23	Depreciation & Amortization	1,916,821	(202,512)	1,714,309	0	1,714,309
24	General Taxes-Property	434,142	1,276	435,418	13,018	448,437
25	General Taxes-Other	218,906	0	218,906	0	218,906
26	Income Taxes	104,004	147,412	251,416	344,712	596,128
27	Total Operating Expenses	\$9,421,858	(\$203,711)	\$9,218,146	\$360,914	\$9,579,060
28	Operating Income (Loss)	\$843,695	\$233,821	\$1,077,517	\$563,381	\$1,640,897

References:

- Column [A]: Company Schedule C-1
- Column [B]: Schedule CLP-11
- Column [C]: Column [A] + Column [B]
- Column [D]: Schedules CLP-2, Lines 29 and 37
- Column [E]: Column [C] + Column [D]

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Water Revenue Ref: Sch CLP-12	[C] ADJ #2 Depreciation Exp. Ref: Sch CLP-13	[D] ADJ #3 Property Taxes Ref: Sch CLP-14	[E] ADJ #4 Income Taxes Ref: Sch CLP-15	[F] ADJ #5 Corporate Allocation Ref: Sch CLP-16	[G] ADJ #6 Water Testing Ref: Sch CLP-17	[H] ADJ #7 Rate Case Ref: Sch CLP-19	[I] STAFF ADJUSTED
1	Water Revenues	\$10,103,166	\$30,110	\$0	\$0	\$0	\$0	\$0	\$0	\$10,133,276
2	Other Revenues	162,387	0	0	0	0	0	0	0	162,387
3	Other	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
4	Total Operating Revenues	\$10,265,553	\$30,110	\$0	\$0	\$0	\$0	\$0	\$0	\$10,295,663
5	Labor	\$1,711,461	\$0	\$0	\$0	\$0	(\$46,525)	\$0	\$0	\$1,664,936
6	Purchased Water	0	0	0	0	0	0	0	0	\$0
7	Fuel & Power	1,557,580	0	0	0	0	0	0	0	\$1,557,580
8	Chemicals	34,119	0	0	0	0	0	0	0	\$34,119
9	Waste Disposal	4,661	0	0	0	0	0	0	0	\$4,661
10	Intercompany Support Services	1,396	0	0	0	0	0	0	0	\$1,396
11	Corporate Allocation	510,069	0	0	0	0	(34,684)	0	0	\$475,386
12	Outside Services	280,698	0	0	0	0	0	0	0	\$280,698
13	Group Insurance	490,722	0	0	0	0	0	0	0	\$490,722
14	Pensions	6,298	0	0	0	0	0	0	0	\$6,298
15	Regulatory Expense	101,188	0	0	0	0	0	0	0	\$101,188
16	Insurance Other Than Group	288,791	0	0	0	0	0	0	(60,485)	\$288,791
17	Customer Accounting	834,153	0	0	0	0	(30,875)	0	0	\$803,278
18	Water Testing Expense	30,180	0	0	0	0	0	25,080	0	\$55,260
19	Rents	45,805	0	0	0	0	0	0	0	\$45,805
20	General Office Expense	212,603	0	0	0	0	0	0	0	\$212,603
21	Miscellaneous	432,512	0	0	0	0	(31,950)	0	0	\$400,562
22	Maintenance Expense	205,746	0	0	0	0	(753)	(30,180)	0	\$175,613
23	Depreciation & Amortization	1,916,821	0	(202,512)	0	0	0	0	0	\$1,714,309
24	General Taxes-Property	434,142	0	0	1,276	0	0	0	0	\$435,418
25	General Taxes-Other	218,906	0	0	0	0	0	0	0	\$218,906
26	Income Taxes	104,004	0	0	0	147,412	0	0	0	\$251,416
27	Total Operating Expenses	\$9,421,858	\$0	(\$202,512)	\$1,276	\$147,412	(\$144,788)	(\$5,100)	0	\$9,218,146
28	Operating Income (Loss)	\$843,695	\$30,110	\$202,512	(\$1,276)	(\$147,412)	\$144,788	\$5,100	(\$60,485)	\$921,814
									\$60,485	\$1,071,517

OPERATING INCOME ADJUSTMENT NO. 1 - WATER REVENUE

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1		Water Revenue	<u>\$10,265,553</u>	<u>\$30,110</u>	<u>\$10,295,663</u>

Adjustment for over collection of water revenue from the Low-Income Program miscoded as a Regulatory Liability on Company's Schedule B-1 & B-2

References:

Column [A]: Company Revised Schedule C-2

Column [B]: Testimony CLP

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

OPERATING INCOME STATEMENT ADJUSTMENT NO. 2 - DEPRECIATION EXPENSE

LINE NO.	ACCT. NO.	DESCRIPTION	PLANT BALANCE	Non-Depreciable/ Fully DEPRECIATED	DEPRECIATION RATE Staff Recommended	DEPRECIATION EXPENSE	
1		<u>PLANT IN SERVICE</u>					
2	301000	Organization	\$471	\$	471	0.00%	\$0
3	302000	Franchises				0.00%	
4	303200	Land & Land Rights SS	268,738	268,738		0.00%	
5	303300	Land & Land Rights P	8,456			0.00%	
6	303500	Land & Land Rights TD	10,493	10,493		0.00%	
7	303600	Land & Land Rights AG	2,125			0.00%	
8	304100	Struct & Imp SS				2.50%	
9	304200	Struct & Imp P	4,467,063			2.00%	89,341
10	304300	Struct & Imp WT	128,815			2.00%	2,536
11	304400	Struct & Imp TD	34,162			2.00%	683
12	304500	Struct & Imp AG	374,292			2.00%	7,486
13	304600	Struct & Imp Offices	47,528			2.50%	1,188
14	304620	Struct & Imp Leasehold				2.50%	
15	304800	Struct & Imp Misc	1,383,151			2.50%	34,579
16	305000	Collect & Impounding	314			1.67%	5
17	307000	Wells & Springs	3,812,341			2.50%	95,309
18	309000	Supply Mains	787,835			1.67%	13,157
19	310000	Power Generation Equip	1,430,917			3.33%	47,650
20	311000	Pumping Equip Steam				4.00%	
21	311100	Other Power Production	4,473			4.00%	179
22	311200	Pump Equip Electric	11,150,383			4.00%	446,015
23	311300	Pump Equip Diesel	213,446			4.00%	8,538
24	311400	Pump Equip Hydraulic	16,219			4.00%	649
25	311500	Pump Equip Other	210,066			4.00%	8,400
26	311530	Pumping Equip Water Trmt	35,035			4.00%	1,401
27	320100	WT Equip Non-Media	881,711			5.00%	44,086
28	320200	Solution Chemical Feeders	120,791			10.00%	12,079
29	330000	Dist Reservoirs & Standpipe	5,621,455			1.54%	86,570
30	330200	Pressure Tank	88,435			1.54%	1,362
31	331001	TD Mains Not Classified by Size	1,128,336			2.00%	22,567
32	331100	TD Mains 4in & Less	13,290,123			1.43%	190,049
33	331200	TD Mains 6in to 8in	4,576,963			1.43%	65,451
34	331300	TD Mains 10in to 16in	5,251,696			1.43%	75,099
35	331400	TD Mains 18in & Grtr	152,237			1.43%	2,177
36	332000	Fire Mains				1.43%	
37	333000	Services	6,609,463			2.50%	165,237
38	334100	Meters	6,145,033			8.33%	511,881
39	334200	Meter Installations	660,094			2.50%	16,502
40	334300	Meter Vaults	952			2.50%	24
41	335000	Hydrants	2,941,652			2.00%	58,833
42	336000	Backflow Preventors	7,036			6.67%	469
43	339500	Other P/E TD	523			3.33%	17
44	339600	Other P/E CPS	179,653			3.33%	5,982
45	340100	Office Furniture & Equip	779,242			4.50%	35,066
46	340200	Comp & Periph Equip	223,286			10.00%	22,329
47	340300	Computer Software	43,402	43,402		20.00%	
48	340310	Computer Software	9,105			20.00%	1,821
49	340325	Computer Software Custom	16,914			20.00%	3,383
50	340500	Other Office Equipment	3,854			6.67%	257
51	341100	Trans Equip Lt Duty Trks	976,241	976,241		20.00%	
52	341200	Trans Equip Hvy Duty Trks	54,958	54,958		14.29%	
53	341400	Trans Equip Other	85,411			16.67%	14,238
54	342000	Stores Equipment	20,135			4.00%	805
55	343000	Tools,Shop,Garage Equip	376,007			4.00%	15,040
56	344000	Laboratory Equipment	107,428			4.00%	4,297
57	345000	Power Operated Equipment	151,899			5.00%	7,595
58	346100	Comm Equip Non-Telephone	218,768	218,768		10.00%	
59	346190	Remote Control & Instrument	396,433			10.00%	39,643
60	346200	Comm Equip Telephone	1,126			10.00%	113
61	346300	Comm Equip Other	174,797			10.00%	17,480
62	347000	Misc Equipment	10,219			6.25%	639
63	304500	Structures & Imp General	13,904			2.50%	348
64	304600	Structures & Improvements Offices	(982)			2.50%	(25)
65	304620	Structures & Improvements Leaseh	2,838			2.50%	71
66	334100	Meters	1,675			8.33%	140
67	339600	Other P/E CPS	52,046			3.33%	1,733
68	340100	Office furniture & Equipmnt	180,156			4.50%	8,107
69	340200	Computer & Peripheral Equ	119,750			10.00%	11,975
70	340300	Computer Software	80,229			20.00%	16,046
71	340330	Computer Software Other	909			20.00%	182
72	341400	Transportation Equipment Other	16,606			16.67%	2,768
73	343000	Tools,Shop,Garage Equipment				4.00%	
74	344000	Laboratory Equipmnt	4,692			4.00%	188
75	346100	Communication Equipment non-te	26,542			10.00%	2,654
76	346190	Remote Control & Instrument	2,168			10.00%	217
77	346200	Communication Equipment Teleph	10,300			10.00%	1,030
78	346300	Communication Equip Other	699			10.00%	70
	347000	Miscellaneous Equipment	58,082			6.25%	3,630
79	0	Youngtown	(149,497)			0.00%	
80	0	Rounding	(4)				
81	0	Total Plant in Service	76,109,734	1,583,652			2,227,340
82							
83			76,109,734				
84			0				
85		Less Non Depreciable Plant	\$ 74,526,082				
86							
87							
88		Net Depreciable Plant and Depreci	\$ 74,526,082				\$ 2,227,340
89							
90		¹ From Company Schedule C-2, page 16					
91		² From Company Schedule C-2, page 17					
92							
93							
94		Composite Depreciation Rate				2.99%	
95		Less					
96		Amortization of CLAC at Composite rate					
97		CLAC	\$17,500,750				523,040
98		Staff Recommended Depreciation Expense/CLAC Amortization					\$1,704,300
		Amortization of Sun City Fuelflow					45,904
		Amortization of Y2K					44,105
		Staff Recommended Depreciation/Amortization Expense					\$1,714,309
99		Company Proposed Depreciation Expense					1,916,821
100		Staff Adjustment					(8202,512)
101							
102							
103							
104							
105							
106		References:					
107	Col A	Schedule MJR 4					
108	Col B	Fully Depreciated Plant from Company Schedules					

OPERATING INCOME STATEMENT ADJUSTMENT NO. 3 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]
		STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$10,295,663	\$10,295,663
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	20,591,326	20,591,326
4	Staff Recommended Revenue, Per Schedule BAB-1	10,295,663	11,219,958
5	Subtotal (Line 4 + Line 5)	30,886,989	31,811,284
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	10,295,663	10,603,761
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	20,591,326	21,207,523
10	Plus: 10% of CWIP	18,237	18,237
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	20,609,563	21,225,760
13	Assessment Ratio	18.50%	18.50%
14	Assessment Value (Line 12 * Line 13)	3,812,769	3,926,766
15	Composite Property Tax Rate - Obtained from ADOR	11.42%	11.42%
16	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$435,418	
17	Company Proposed Property Tax	\$434,142	
18	Staff Test Year Adjustment (Line 16 - Line 17)	<u>\$1,276</u>	
19	Property Tax on Staff Recommended Revenue (Line 14 * Line 15)		\$448,437
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		<u>\$435,418</u>
21	Increase in Property Tax Due to Increase in Revenue Requirement		<u>\$13,018</u>
22	Increase in Property Tax Due to Increase in Revenue Requirement (Line 21)		\$13,018
23	Increase in Revenue Requirement		\$924,295
24	Increase in Property Tax Per Dollar Increase in Revenue (Line 22 / Line 23)		1.40847%

REFERENCES:

- Line 15: Composite Tax Rate obtained from Arizona Department of Revenue
- Line 17: Company Schedule C-1, Line 24
- Line 21: Line 19 - Line 20
- Line 23: Schedule BAB-1, Line 8

OPERATING INCOME STATEMENT ADJUSTMENT NO. 4 - INCOME TAXES

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1		Income Taxes	<u>\$104,004</u>	<u>\$147,412</u>	<u>\$251,416</u>

References:

Column [A]: Company Revised Schedule C-2

Column [B]: Testimony CLP

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

EPCOR Water Arizona - Sun City Water District
 Docket No. WS-01303A-14-0010
 Test Year Ended June 30, 2013

DESCRIPTION	DETAILS	AMOUNT
Labor	STP pay	(\$400,855)
Corporate Allocation	At-Risk Compensation	(298,829)
Outside Services	Unbilled Legal Accrual Thunder Mountain Bankruptcy Case	0
Pensions	Relocation Expenses	0
Regulatory Expense	2009 Rate Case-Corporate	0
	Y2K Costs	0
	Regulatory Expense Total	(266,016)
Customer Accounting	Bad Debt expense	0
General Office Expense	Promotion	(\$102,421)
	Recognition	(87,430)
	Training - Fees/Tuition	(44,119)
	Meals/Entertainment	(34,534)
	Donations	(4,133)
	Stationary, Printing & Other O	(2,345)
	Accommodation, Other Travel	(298)
	General Office Expense Total	(275,278)
Miscellaneous		(6,485)
Depreciation & Amortization	Amortization of Utility Plant Acquisition Adjustment	(\$1,000,110)
	Amortization of AFUDC	(317,030)
	Depr. & Amortization Expense Total	(1,317,140)
	Total	(\$2,564,602)

EPCOR Water Arizona - Tubac Water District
 Docket No. WS-01303A-14-0010
 Test Year Ended June 30, 2013

Surrebuttal Schedule CLP-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST	[B] STAFF ORIGINAL COST
1	Adjusted Rate Base	\$1,607,775	\$1,340,780
2	Adjusted Operating Income (Loss)	(\$129,752)	(\$60,886)
3	Current Rate of Return (L2 / L1)	-8.07%	-4.54%
4	Required Rate of Return	6.87%	6.20%
5	Required Operating Income (L4 * L1)	\$110,454	\$83,128
6	Operating Income Deficiency (L5 - L2)	\$240,206	\$144,015
7	Gross Revenue Conversion Factor	1.6589	1.6443
8	Required Revenue Increase (L7 * L6)	\$398,488	\$236,810
9	Adjusted Test Year Revenue	\$579,194	\$579,194
10	Proposed Annual Revenue (L8 + L9)	\$977,682	\$816,004
11	Required Increase in Revenue (%)	68.80%	40.89%

References:

Column [A]: Company Schedule A-1

Column [B]: Staff Schedules CLP-2, MJR-3, and CLP-10

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	[A]	[B]	[C]
<i>Calculation of Gross Revenue Conversion Factor:</i>				
1	Revenue	100.0000%		
2	Uncollectible Factor (Line 13)	0.1460%		
3	Revenues (L1 - L2)	99.8540%		
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.0396%		
5	Subtotal (L3 - L4)	60.8144%		
6	Revenue Conversion Factor (L1 / L5)	1.644348		
7				
8	<i>Calculation of Uncollectible Factor:</i>			
9	Unity	100.0000%		
10	Combined Federal and State Tax Rate (Line 21)	37.9600%		
11	One Minus Combined Income Tax Rate (L9 - L10)	62.0400%		
12	Uncollectible Rate	0.2353%		
13	Uncollectible Factor (L11 * L12)		0.1460%	
14				
15	<i>Calculation of Effective Tax Rate:</i>			
16	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%		
17	Arizona State Income Tax Rate	6.0000%		
18	Federal Taxable Income (L16 - L17)	94.0000%		
19	Applicable Federal Income Tax Rate (Line 68)	34.0000%		
20	Effective Federal Income Tax Rate (L18 x L19)	31.9600%		
21	Combined Federal and State Income Tax Rate (L17 + L20)		37.9600%	
22				
23	<i>Calculation of Effective Property Tax Factor:</i>			
24	Unity	100.0000%		
25	Combined Federal and State Income Tax Rate (L21)	37.9600%		
26	One Minus Combined Income Tax Rate (L24 - L25)	62.0400%		
27	Property Tax Factor (CLP-14, L25)	1.7402%		
28	Effective Property Tax Factor (L26 x L27)		1.0796%	
29	Combined Federal and State Income Tax and Property Tax Rate (L21 + L28)			39.0396%
30				
31				
32	Required Operating Income (Schedule CLP-1, Line 5)	\$83,128		
33	Adjusted Test Year Operating Income (Loss) (Schedule CLP-10, Line 32)	(60,886)		
34	Required Increase in Operating Income (L33 - L34)		\$144,015	
35				
36	Income Taxes on Recommended Revenue (Col. [C], L62)	\$31,995		
37	Income Taxes on Test Year Revenue (Col. [A], L62)	(56,123)		
38	Required Increase in Revenue to Provide for Income Taxes (L36 - L37)		\$88,117	
39				
40	Recommended Revenue Requirement (Schedule CLP-1, Line 10)	\$816,004		
41	Uncollectible Rate (Line 12)	0.2353%		
42	Uncollectible Expense on Recommended Revenue (L40 x L41)	\$1,920		
43	Adjusted Test Year Uncollectible Expense	1,363		
44	Required Increase in Revenue to Provide for Uncollectible Exp.		\$557	
45				
46	Property Tax with Recommended Revenue (CLP-14, L20)	\$34,359		
47	Property Tax on Test Year Revenue (CLP-14, Col [A], L16)	30,238		
48	Increase in Property Tax Due to Increase in Revenue (L46 - L47)		\$4,121	
49				
50	Total Required Increase in Revenue (L34 + L38 + L44 + L48)		\$236,810	
51				
52				
53	<i>Calculation of Income Tax:</i>			
54	Revenue (Sch CLP-10, Col. [C] L5, CLP-1, Col. [C] 10)	\$579,194		\$816,004
55	Operating Expenses Excluding Income Taxes	696,203		700,881
56	Synchronized Interest (L71)	30,838		30,838
57	Arizona Taxable Income (L54 - L55 - L56)	(\$147,847)		\$84,285
58	Arizona State Income Tax Rate	6.0000%		6.0000%
59	Arizona Income Tax (L57 x L58)	(\$8,871)		\$5,057
60	Federal Taxable Income (L57 - L59)	(138,976)		79,228
61	Total Federal Income Tax	(47,252)		26,937
62	Combined Federal and State Income Tax (L59 + L61)	(\$56,123)		\$31,995
63				
64				
65	Effective Tax Rate			34.0000%
66				
67				
68	<i>Calculation of Interest Synchronization:</i>			
69	Rate Base (Schedule MJR-3, Col. [C], Line 34)			\$1,340,780
70	Weighted Average Cost of Debt			2.3000%
71	Synchronized Interest (L69 x L70)			\$30,838

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
1	Water Revenues	\$574,204	\$0	\$574,204	\$236,810	\$811,014
2	Other Revenues	4,990	0	4,990	0	4,990
3	Other	0	0	0	0	0
4	Total Operating Revenues	<u>\$579,194</u>	<u>\$0</u>	<u>\$579,194</u>	<u>\$ 236,810</u>	<u>\$ 816,004</u>
5	Labor	\$179,440	(\$3,176)	\$176,265	\$0	\$176,265
6	Purchased Water	\$0	0	0	0	-
7	Fuel & Power	\$33,324	0	33,324	0	33,324
8	Chemicals	\$98,934	(32,592)	66,342	0	66,342
9	Waste Disposal	\$811	0	811	0	811
10	Intercompany Support Services	\$95	0	95	0	95
11	Corporate Allocation	\$34,814	(2,367)	32,447	0	32,447
12	Outside Services	\$26,870	0	26,870	0	26,870
13	Group Insurance	\$37,821	0	37,821	0	37,821
14	Pensions	\$430	0	430	0	430
15	Regulatory Expense	\$7,261	0	7,261	0	7,261
16	Insurance Other Than Group	\$12,198	0	12,198	0	12,198
17	Customer Accounting	\$20,561	(2,107)	18,454	557	19,011
18	Rents	\$7,566	0	7,566	0	7,566
19	Water Testing Expense	\$0	2,175	2,175	0	2,175
20	General Office Expense	\$28,204	(2,181)	26,023	0	26,023
21	Miscellaneous	\$4,536	(2,092)	2,444	0	2,444
22	Maintenance Expense	\$38,435	0	38,435	0	38,435
23	Depreciation & Amortization	\$238,395	(77,549)	160,846	0	160,846
24	General Taxes-Property	\$30,506	(268)	30,238	4,121	34,359
25	General Taxes-Other	\$16,157	0	16,157	0	16,157
26	Income Taxes	(\$107,414)	51,291	(56,123)	88,117	31,995
27	Total Operating Expenses	<u>\$708,946</u>	<u>(\$68,866)</u>	<u>\$640,080</u>	<u>\$92,796</u>	<u>\$732,876</u>
28	Operating Income (Loss)	<u>(\$129,752)</u>	<u>\$68,866</u>	<u>(\$60,886)</u>	<u>\$144,015</u>	<u>\$ 83,128</u>

References:

- Column [A]: Company Schedule C-1
- Column [B]: Schedule CLP-11
- Column [C]: Column [A] + Column [B]
- Column [D]: Schedules CLP 2, Lines 29 and 37
- Column [E]: Column [C] + Column [D]

OPERATING ADJUSTMENT NO. 2 - DEPRECIATION EXPENSE

LINE NO.	ACCT. NO.	DESCRIPTION	[A] PLANT BALANCE	[B] Non-Depreciable Fully Depreciated	[C] DEPRECIATION RATE	[D] DEPRECIATION EXPENSE
1		PLANT IN SERVICE:				
2	301000	Other Intangible Plant	\$567	\$ 567	0.00%	\$ -
3	302000	Franchises	2,030	2,030	0.00%	-
4	303200	Land and Land Rights Supply	61,190	61,190	0.00%	-
5	303300	Land and Land Rights Pumping	50	50	0.00%	-
6	303400	Land & Land Rights Treatment	50	50	0.00%	-
7	303500	Land & Land Rights T&D	422	422	0.00%	-
8	303600	Land & Land Rights General	2,755	2,755	0.00%	-
9	304100	Structures and Improvements - Supply	25,292	-	2.50%	632
10	304200	Structures and Improvements - Pumping	14,608	-	2.00%	292
11	304300	Structures and Improvements - Treatment	302	-	2.00%	6
12	304400	Structures & Improvements Trans & Dist	156	-	2.00%	3
13	304500	Structures & Improvements General	0	-	2.50%	-
14	304600	Structures and Improvements - Offices	498	-	2.50%	12
15	304620	Structures & Imp Leasehold	0	-	2.50%	-
16	304700	Structures & Imp Store, Shop, Gge	44,598	-	2.00%	892
17	305000	Collect & Impounding	0	-	0.00%	-
18	307000	Wells & springs	236,074	-	2.50%	5,902
19	309000	Supply Mains	0	-	0.00%	-
20	310000	Power Production Equipment	20,225	-	3.33%	673
21	311000	Pumping Equipment Steam	0	-	0.00%	-
22	311200	Pumping Equipment Electric	279,401	-	4.00%	11,176
23	311300	Pumping Equipment Diesel	879	-	4.00%	35
24	311400	Pumping Equipment Hydraulic	0	-	0.00%	-
25	311500	Pumping Equipment Other	403,824	-	4.00%	16,153
26	311530	Pumping Equipment Water Treatment	0	-	0.00%	-
27	320100	Water Treatment Equipment Non-Media	1,696,187	-	5.00%	84,809
28	320200	Water Treatment Equipment Filter Media	0	-	10.00%	-
29	330000	Distribution Reservoirs & Standpipes	210,840	-	1.54%	3,247
30	330200	Ground Level Tanks	0	-	0.00%	-
31	331001	TD Mains Not Classified by Size	364,469	-	2.00%	7,289
32	331100	TD Mains 4in & Less	886,119	-	1.43%	12,672
33	331200	TD Mains 6in to 8in	896,807	-	1.43%	12,824
34	331300	TD Mains 10in to 16in	37,161	-	1.43%	531
35	331400	TD Mains 18in & Grtr	0	-	0.00%	-
36	332000	Fire Mains	0	-	0.00%	-
37	333000	Services	617,549	-	2.50%	15,439
38	334100	Meters	194,260	-	8.33%	16,182
39	334200	Meter Installations	22,040	-	2.50%	551
40	334300	Meter Vaults	0	-	0.00%	-
41	335000	Hydrants	136,093	-	2.00%	2,722
42	339200	Other P/E-Supply	0	-	0.00%	-
43	339600	Other P/E-CPS	461	-	3.33%	15
44	340100	Office Furniture & Equipment	5,453	-	4.50%	245
45	340200	Computer & Peripheral Equipment	1,336	1,336	10.00%	-
46	340300	Computer Software	0	-	20.00%	-
47	340310	Computer Software Mainframe	0	-	0.00%	-
48	340325	Computer Software Customized	0	-	0.00%	-
49	340500	Other Office Equipment	0	-	0.00%	-
50	341100	Transportation Equip Light Duty Trucks	17,166	17,166	20.00%	-
51	341200	Transportation Equip Heavy Duty Trucks	0	-	0.00%	-
52	341400	Transportation Equipment Other	0	-	16.67%	-
53	341400	Transportation Equipment Other	0	-	3.59%	-
54	342000	Stores Equipment	0	-	4.00%	-
55	343000	Tools,Shop,Garage Equipment	22,179	-	4.00%	887
56	344000	Laboratory Equipment	0	-	0.00%	-
57	345000	Power Operated Equipment	0	-	10.00%	-
58	346100	Communication Equipment Non-Telephone	1,932	-	10.00%	193
59	346190	Remote Control & Instrument	0	-	10.00%	-
60	346200	Communication Equipment Telephone	0	-	10.00%	-
61	346300	Communication Equipment Other	659	-	6.25%	41
	347000	Miscellaneous Equipment	0	-	-	-
	304500	Structures & Imp General	361	-	2.50%	9
	304600	Structures & Improvement Offices	0	-	2.50%	-
	304620	Structures & Improvements Leasehold	74	-	2.50%	2
	334100	Meters	43	-	8.33%	4
	339600	Other P/E CPS	1,350	-	3.33%	45
	340100	Office furniture & Equipmnt	4,672	-	4.50%	210
	340200	Computer & Peripheral Equ	3,028	-	10.00%	303
	340300	Computer Software	56	-	20.00%	11
	340300	Computer Software-Other	2,228	-	20.00%	446
	341400	Transportation Equipment Other	431	-	20.00%	86
	343000	Tools,Shop,Garage Equipment	0	-	4.00%	-
	344000	Laboratory Equipment	64	-	4.00%	3
	346100	Communication Equipment non-telephone	688	-	10.00%	69
	346190	Remote Control & Instrument	56	-	10.00%	6
	346200	Communication Equipment Telephone	197	-	10.00%	20
	346300	Communication Equip Other	18	-	10.00%	2
	347000	Miscellaneous Equip	1,506	-	6.25%	94
62					0.00%	-
63						
64		District Subtotal	6,218,404	85,566		194,734
65						
66						
67						
68		Less Non Depreciable Plant	\$ 85,566			
69						
70		Net Depreciable Plant and Depreciation Amounts	\$ 6,132,838			\$ -
71						
72		Composite Depreciation Rate			3.18%	
73		Less				
74		Contribution in Aid of Construction	\$1,076,185			
75		Amortization of CIAC at Composite Rate				34,172
76		Staff Recommended Depreciation Expense/CIAC Amortization				\$160,562
		Amortization Y2K				\$384
		Staff Recommended Depreciation/Amortization				\$160,846
77		Company Proposed Depreciation Expense				238,395
78		Staff Adjustment				(\$77,549)
79						
80						
81						
82						
83						
84						
85						
86						
87						
88						
89						
90						
91		References:				
92	Col A					

OPERATING ADJUSTMENT NO. 3 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2007	\$579,194	\$579,194
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	1,158,388	1,158,388
4	Staff Recommended Revenue	579,194	816,004
5	Subtotal (Line 4 + Line 5)	1,737,582	1,974,392
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	579,194	658,131
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	1,158,388	1,316,262
10	Plus: 10% of CWIP - 2005	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	1,158,388	1,316,262
13	Assessment Ratio	18.50%	18.50%
14	Assessment Value (Line 12 * Line 13)	214,302	243,508
15	Composite Property Tax Rate - Obtained from ADOR	14.11%	14.11%
16	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$30,238	
17	Company Proposed Property Tax	\$30,506	
18	Staff Test Year Adjustment (Line 16 - Line 17)	<u>(\$268)</u>	
19	Property Tax on Staff Recommended Revenue (Line 14 * Line 15)		\$34,359
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$30,238
21	Increase in Property Tax Due to Increase in Revenue Requirement		<u>\$4,121</u>
22	Increase in Property Tax Due to Increase in Revenue Requirement (Line 21)		\$4,121
23	Increase in Revenue Requirement		\$236,810
24	Increase in Property Tax Per Dollar Increase in Revenue (Line 22 / Line 23)		1.74023%

REFERENCES:

- Line 15: Composite Tax Rate obtained from Arizona Department of Revenue
- Line 17: Company Schedule C-1, Line 24
- Line 21: Line 19 - Line 20
- Line 23: Schedule BAB-1, Line 8

OPERATING INCOME ADJUSTMENT NO. 4 - INCOME TAXES

LINE	ACCT		[A]	[B]	[C]
NO.	NO.	DESCRIPTION	COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1		Income Taxes	<u>(\$107,414)</u>	<u>\$51,291</u>	<u>(\$56,123)</u>

References:

Column [A]: Company Revised Schedule C-2

Column [B]: Testimony CLP

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

OPERATING INCOME ADJUSTMENT NO. 5 - CORPORATE ALLOCATION

LINE ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED ALLOCATIONS	[C] COMPANY PROPOSED PRO-FORMA	[B] COMPANY PROPOSED	[C] COMPANY ALLOCATION RATE	[D] STAFFS DISALLOWED EXPENSES	[1] Col. [D] x Col. [C]	[E] STAFF ADJUSTMENTS	[F] STAFF RECOMMENDED
NO.									Col. [A] x Col. [E]
1	Labor	\$59,989	(\$851)	\$179,440	0.7922%	(\$400,855)		(\$3,176)	\$56,814
2	Purchased Water	0	0	0	0.7922%	0		0	0
3	Fuel & Power	361	1,302	33,324	0.7922%	0		0	361
4	Chemicals	9	95,904	98,934	0.7922%	0		0	9
5	Waste Disposal	19	0	811	0.7922%	0		0	19
6	Intercompany Support Services	(106)	0	95	0.7922%	0		0	(106)
7	Corporate Allocation	40,098	(5,284)	34,814	0.7922%	(298,829)		(2,367)	37,731
8	Outside Services	7,673	(302)	26,870	0.7922%	0		0	7,673
9	Group Insurance	10,430	0	37,821	0.7922%	0		0	10,430
10	Pensions	(88)	0	430	0.7922%	0		0	(88)
11	Regulatory Expense	2,284	5,963	7,261	0.7922%	0		0	2,284
12	Insurance Other Than Group	1,432	4,696	12,198	0.7922%	0		0	1,432
13	Customer Accounting	3,042	(3,027)	20,561	0.7922%	(266,016)		(2,107)	935
14	Rents	2,407	78	7,566	0.7922%	0		0	2,407
15	General Office Expense	8,835	194	28,204	0.7922%	0		0	8,835
16	Miscellaneous	1,846	(1,305)	4,536	0.7922%	(275,278)		(2,181)	6,654
17	Maintenance Expense	7,042	0	38,435	0.7922%	(6,485)		(51)	1,794
18	Depreciation & Amortization	15,951	22,839	238,395	0.7922%	(1,317,140)	[2]	0	15,951
19	General Taxes-Property	0	3,468	30,506	0.7922%	0		0	0
20	General Taxes-Other	5,522	1,550	16,157	0.7922%	0		0	5,522
21	Income Taxes	(20,061)	(89,895)	(107,414)	0.7922%	0		0	(20,061)
22	Total Operating Expenses	\$146,685	\$35,330	\$708,946		(\$2,564,602)		(\$9,882)	\$136,803

[1] Column [D] represents Staff's total unallowable Corporate Allocation for all 21 districts. Each district's expense is multiplied by Epcor's 4-factor cost allocation. Staff is not recommending adjusting the depreciation & amortization expense on this schedule because this adjustment is being captured on Schedule CLP-13. and discussed in Ms. Rinback's testimony who is covering Rate Base, Plant and Depreciation.

[2] Staff is not recommending adjusting the depreciation & amortization expense on this schedule because this adjustment is being captured on Schedule CLP-13.

References:

- Column [A, B & E]: Company response to DR BAB-1.2, electronic work paper titled "June 2013 Rolling 12 Months by BU"
- Column [C]: Company Schedule C-1
- Column [D]: Column [A] + Column [B] + Column [C]
- Column [F]: Staff Schedule CLP-15 page 2
- Column [G]: Column [E] * Column [F]
- Column [H]: Column [B] + Column [G]

DESCRIPTION	DETAILS	AMOUNT
Labor	STIP pay	(\$400,855)
Corporate Allocation	At-Risk Compensation	(298,829)
Outside Services	Unbilled Legal Accrual Thunder Mountain Bankruptcy Case	0
Pensions	Relocation Expenses	0
Regulatory Expense	2009 Rate Case-Corporate	
	Y2K Costs	0
	Regulatory Expense Total	(266,016)
Customer Accounting	Bad Debt expense	
General Office Expense	Promotion	(\$102,421)
	Recognition	(87,430)
	Training - Fees/Tuition	(44,119)
	Meals/Entertainment	(34,534)
	Donations	(4,133)
	Stationary, Printing & Other O	(2,345)
	Accommodation, Other Travel	(298)
	General Office Expense Total	(275,278)
Miscellaneous		(6,485)
Depreciation & Amortization	Amortization of Utility Plant Acquisition Adjustment	(\$1,000,110)
	Amortization of AFUDC	(317,030)
	Depr & Amortization Expense Total	(1,317,140)
	Total	<u>(\$2,564,602)</u>

OPERATING INCOME ADJUSTMENT NO. 6 - BAD DEBT EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS (Col C - Col A)	STAFF AS ADJUSTED
1	Bad Debt Expense	\$ 1,363	\$ (1,363)	
2				
3				
4				
5			Bad Debt	
6			Expense	
7			Month	Write-off
8			July-12	\$ -
9			Aug-12	\$ 215.00
10			Sep-12	\$ -
11			Oct-12	\$ 342.00
12			Nov-12	\$ -
13			Dec-12	\$ -
14			Jan-13	\$ 792.00
15			Feb-13	\$ -
			Mar-13	\$ -
			Apr-13	\$ -
			May-13	\$ -
			Jun-13	\$ 14.00
			Total	\$ 1,363.00

\$ 579,194 Test Year Revenue
 0.2353% Average write-off rate

References:

- Column A: Company Rebuttal Schedule C-2
- Column B: Testimony, CLP
- Column C: Column [A] + Column [B]

EXHIBIT A

EPCOR- CORPORATE ALLOCATIONS
WS-01303a-14-0010

	6U	7A	Total	Mohave Water	Mohave WW	Paradise Valley	Sun City	Tubac
Labor	\$95,314	\$305,541	\$400,855	\$0	\$0	\$0	\$0	\$0
Purchased Water	0	0	0	0	0	0	0	0
Fuel & Power	0	0	0	0	0	0	0	0
Chemicals	0	0	0	0	0	0	0	0
Waste Disposal	0	0	0	0	0	0	0	0
Intercompany Support Services	0	0	0	0	0	0	0	0
Corporate Allocation	0	0	298,829	0	0	0	0	0
Outside Services	15,011	52,000	0	0	0	0	0	0
Group Insurance	0	0	0	0	0	0	0	0
Pensions	57,332	(3,070)	0	0	0	0	0	0
Regulatory Expense	0	24,699	0	0	0	0	0	0
Insurance Other Than Group	0	0	0	0	0	0	0	0
Customer Accounting	0	266,016	266,016	0	0	0	0	0
Rents	0	0	0	0	0	0	0	0
General Office Expense	90,508	184,770	275,278	0	0	0	0	0
Miscellaneous	326	6,160	6,485	0	0	0	0	0
Maintenance Expense	0	0	0	0	0	0	0	0
Depreciation & Amortization	0	0	0	0	0	0	0	0
General Taxes-Property	0	0	0	0	0	0	0	0
General Taxes-Other	0	0	0	0	0	0	0	0
Income Taxes	0	0	0	0	0	0	0	0
Total Operating Expenses	\$258,490	\$836,117	\$1,247,463	\$0	\$0	\$0	\$0	\$0

General Office Expense:

Promotion	\$102,421
Recognition	\$87,430
Training - Fees/Tuition	\$44,119
Meals/Entertainment	\$34,534
Donations	\$4,133
Stationary, Printing & Other O	\$2,345
Accommodation, Other Travel	\$298
Gen. Ofc. Expense Total	\$275,278

Mislabeled, should be included with meals/entertainment

Corporate Allocation

Public and Government Affairs	\$528,078	\$422,296	SM-18
At-Risk Compensation	\$890,336	\$298,829	
Corp. Allocation Total	\$1,418,414	\$721,125	

Depreciation & Amortization

Amort-UPAA	\$1,000,110
Amort-AFUDC	\$317,030
Depr. & Amort. Total	\$1,317,140

Settlement discussion STIP at 45%

	6U	7A	Total	Mohave Water	Mohave WW	Paradise Valley	Sun City	Tubac
Labor	\$47,657	\$152,771	\$200,427	\$0	\$0	\$0	\$0	\$0
Corporate Allocation			\$149,414	0	0	0	0	0
			\$349,842					

\$941,349 Change in position

BEFORE THE ARIZONA CORPORATION COMMISSION

SUSAN BITTER SMITH
Chairman
BOB STUMP
Commissioner
BOB BURNS
Commissioner
DOUG LITTLE
Commissioner
TOM FORESE
Commissioner

IN THE MATTER OF THE APPLICATION OF)
EPCOR WATER ARIZONA INC., AN ARIZONA)
CORPORATION, FOR A DETERMINATION)
OF THE CURRENT FAIR VALUE OF ITS)
UTILITY PLANT AND PROPERTY AND FOR)
INCREASES IN ITS RATES AND CHARGES)
FOR UTILITY SERVICE BY ITS MOHAVE)
WATER DISTRICT, PARADISE VALLEY)
WATER DISTRICT, SUN CITY WATER)
DISTRICT, TUBAC WATER DISTRICT, AND)
MOHAVE WASTEWATER DISTRICT.)
_____)

DOCKET NO. WS-01303A-14-0010

SURREBUTTAL

TESTIMONY

OF

JOHN A. CASSIDY

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

FEBRUARY 26, 2015

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**EXECUTIVE SUMMARY
EPCOR WATER ARIZONA, INC.
DOCKET NO. WS-01303A-14-0010**

The surrebuttal testimony of Staff witness John A. Cassidy addresses the following issues:

Capital Structure – For four of the EPCOR Water Arizona, Inc. (“Company”) districts (Mohave Water, Mohave Wastewater, Paradise Valley Water and Sun City Water) in this proceeding, Staff continues to recommend that the Commission adopt a capital structure mix consisting of 59.76 percent debt and 40.24 percent equity. For the Tubac Water district, Staff continues to recommend that the Commission adopt a capital structure mix consisting of 58.53 percent debt and 41.47 percent equity.

Cost of Equity – Staff continues to recommend that the Commission adopt a 9.5 percent cost of equity for the Company.

Cost of Debt – Staff recommends that the Commission adopt a 4.3 percent cost of debt for the Mohave Water, Mohave Wastewater, Paradise Valley Water and Sun City Water districts, and a 4.0 percent cost of debt for the Tubac Water district.

Overall Rate of Return – Staff continues to recommend that the Commission adopt a 6.4 percent overall rate of return for the Mohave Water, Mohave Wastewater, Paradise Valley Water and Sun City Water districts, and a 6.2 percent overall rate of return for the Tubac Water district.

Ms. Ahern’s Testimony – The Commission should reject the Company’s proposed 10.55 percent return on equity (“ROE”) for the following reasons:

Ms. Ahern’s primary cost of equity estimation model is the Predictive Risk Premium ModelTM (“PRPMTM”), and the PRPMTM derived cost of equity metrics permeate her entire analysis. Cost of equity estimates obtained from the PRPMTM model overstate the market cost of equity; thus, use of PRPMTM derived metrics in Ms. Ahern’s Risk Premium Model using an Adjusted Total Market Approach, Capital Asset Pricing Model (“CAPM”) and Empirical Capital Asset Pricing Model (“ECAPM”) overstate cost of equity estimates obtained from these models, as well. No weight should be given to cost of equity estimates obtained from the PRPMTM model as (i) the critical values input into Ms. Ahern’s model have been hardcoded into the excel file, and (ii) Ms. Ahern makes an invalid assumption concerning the date the common stock of at least five of her nine sample companies initially became publicly traded. In Ms. Ahern’s CAPM and ECAPM models the cost of equity is overstated by use of a forecasted risk free rate. In Ms. Ahern’s Risk Premium Model using a Total Market Approach, the cost of equity is overstated by use of a forecasted ‘Aaa’ corporate bond yield. Ms. Ahern’s ECAPM cost of equity results should be given no weight as they are overstated by means of an unnecessary and redundant beta adjustment. Further, Ms. Ahern’s proposed 10.55 percent cost of equity is inflated by means of both a 24 basis point upward credit risk adjustment and a 30 basis point upward business risk adjustment.

1 **I. INTRODUCTION**

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

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

6

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

8 A. Yes, I am.

9

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

11 A. The purpose of my surrebuttal testimony is to report on Staff's updated cost of capital
12 analysis for EPCOR Water Arizona, Inc. ("EPCOR," "EWAZ," or "Company"), and to
13 respond to the cost of capital rebuttal testimony of Company witness, Pauline M. Ahern
14 ("Ms. Ahern's Rebuttal").

15

16 **Q. Did Staff's updated cost of capital analysis for the Company result in a change to the
17 9.5 percent cost of equity recommended by Staff in direct testimony?**

18 A. No. As shown in Surrebuttal Schedule JAC-3, Staff continues to recommend a cost of equity
19 for the Company of 9.5 percent, based on an 8.9 percent average (i.e., arithmetic mean) cost
20 of equity estimate obtained from Staff's two discounted cash flow ("DCF") cost of equity
21 estimation models, combined with an upward 60 basis point (0.6 percent) economic
22 assessment adjustment.¹

¹ It should be noted that while the cost of equity estimate obtained from Staff's updated constant growth DCF model—8.6 percent—remained unchanged from the level in direct testimony, there was a downward change to the cost of equity estimate obtained from Staff's multi-stage DCF model. Specifically, as shown in Surrebuttal Schedule JAC-3, Staff's updated multi-stage cost of equity estimate is 9.1 percent, 10 basis points *lower* than the 9.2 percent multi-stage DCF cost of equity estimate in Staff's direct testimony (*See Cassidy Direct, Schedule JAC-3*). For purposes of its cost of equity recommendations, Staff rounds to a single digit (i.e., to the tenth, rather than the hundredth place), and it is for this reason that Staff's updated recommended cost of equity for EWAZ remained unchanged $((8.6\% + 9.1\%)/2 = 8.85\%$; or 8.9% when rounded).

1 **Q. Please explain how Staff's surrebuttal testimony is organized.**

2 A. Staff's surrebuttal testimony is presented in three sections. Section I is this introduction.
3 Section II presents Staff's comments on the rebuttal testimony of the Company's cost of
4 capital witness, Ms. Ahern. Lastly, Section III presents Staff's recommendations.

5
6 **II. STAFF RESPONSE TO COMPANY'S COST OF CAPITAL WITNESS MS. PAULINE**
7 **M. AHERN**

8 **Q. For purposes of her rebuttal testimony, did Ms. Ahern update her proposed cost of**
9 **equity and overall rate of return for the Company?**

10 A. Yes. In rebuttal testimony, Ms. Ahern now proposes a cost of equity for EWAZ of 10.55
11 percent. Ms. Ahern's updated cost of equity for the Company is 9.72 percent, based on cost
12 of equity estimates obtained from her DCF (8.52 percent), Risk Premium Model ("RPM")
13 (10.97 percent) and Capital Asset Pricing Model ("CAPM") (9.72 percent) models. To this
14 9.72 percent indicated cost of equity Ms. Ahern adds an upward 24 basis point credit risk
15 adjustment and an upward 30 basis point business risk adjustment. Ms. Ahern's
16 recommended cost of equity is 10.25 percent. To this cost of equity cost rate she adds a 60
17 basis point economic assessment adjustment, for a range of 10.25 percent to 10.85 percent.
18 Ms. Ahern's proposed 10.55 percent cost of equity represents the mid-point of this range.

19
20 **Q. In Rebuttal (pp. 2-3, lines 23:2), Ms. Ahern cites to pages 29-33 and 46-52 of Staff's**
21 **direct testimony, stating that Mr. Cassidy, "believes that there is a direct relationship**
22 **between earned returns on book common equity, the allowed return on book common**
23 **equity and market-to-book ratios." How does Staff respond?**

24 A. Ms. Ahern's assertion is unwarranted. A review of pages 29-33 my direct testimony
25 demonstrates that I lay the foundation for why Staff incorporates a stock financing growth
26 rate (vs) term into its constant growth DCF model. Staff acknowledges that market-to-book

1 (“M:B”) ratios for Staff’s sample companies continues to remain above 1.0, and with the
2 expectation that M:B ratios for publicly traded water companies will remain above 1.0, Staff
3 has included a vs term into its sustainable growth DCF analysis.
4

5 **Q. In Rebuttal (p. 11, lines 10-22), Ms. Ahern states that use of multiple common equity**
6 **cost rate models adds reliability when arriving at a recommended common equity**
7 **cost rate. She points out that in direct testimony, Mr. Cassidy agreed with the need to**
8 **reduce “the sample error resulting from random fluctuations in the market at the time**
9 **the information is gathered,” yet did not apply this concept when relying exclusively**
10 **on the DCF model. How does Staff respond?**

11 A. Ms. Ahern is mistaken as regards the gathering of data used in Staff’s cost of equity
12 estimation models.² While it is true that Staff’s recommended cost of equity is based on
13 estimates derived from its constant growth DCF and multi-stage DCF models, when
14 gathering the input data used in those models Staff also gathers inputs for use in Staff’s
15 historical- and current market risk premium CAPM models. For reasons noted in Staff’s
16 direct testimony,³ Staff has determined that cost of equity estimates derived from the CAPM
17 should not be given their traditional weighting for purposes of setting rates, as estimates
18 derived from the CAPM continue at unusually low levels.
19

20 **Q. Has Staff prepared an exhibit which would demonstrate why Staff believes reliance**
21 **upon cost of equity estimates obtained from the CAPM are not appropriate for**
22 **purposes of setting rates at this time?**

23 A. Yes. Staff has prepared a pro forma restatement of Surrebuttal Schedule JAC-3 for this
24 purpose. As shown in Surrebuttal Exhibit JAC-A, Staff presents the cost of equity estimates
25 for the Company as if they were derived from estimates obtained from Staff’s two DCF

² See Cassidy Direct, pp. 3-4, 25:1.

³ See Cassidy Direct, pp. 4-5, 5:5.

1 models and Staff's two CAPM models. As can be seen, Staff's average DCF cost of equity
2 estimate for the Company is 8.9 percent, while Staff's average CAPM cost of equity estimate
3 for the Company is 7.1 percent; a figure 180 basis points *lower* than Staff's 8.9 percent DCF
4 estimate. Had Staff incorporated its CAPM estimates into its analysis utilizing its traditional
5 weighting allocations (i.e., 50 percent DCF/50 percent CAPM), doing so would have resulted
6 in an arithmetic mean estimated cost of equity for EWAZ of 8.0 percent $((8.9 \text{ percent} + 7.1$
7 $\text{percent})/2 = 8.0 \text{ percent})$; a figure 90 basis points *lower* than Staff's 8.9 percent DCF estimate.
8 Finally, after making provision for Staff's upward 60 basis point economic assessment
9 adjustment, Staff's overall recommended cost of equity for the Company would be 8.6
10 percent; once again, a figure 90 basis points *lower* than Staff's recommended 9.5 percent cost
11 of equity estimate for EWAZ and based upon cost of equity estimates derived from Staff's
12 two DCF models.

13
14 **Q. In light of the above, does Staff believe the assertion made by Ms. Ahern that Staff has**
15 **relied exclusively on the results of its DCF models for purposes of its recommended**
16 **cost of equity for the Company to be without merit?**

17 A. Yes, as Staff obtained cost of equity estimates from its two CAPM models simultaneous to
18 having obtained cost of equity estimates from its two DCF models. However, after having
19 obtained its CAPM cost of equity estimates, Staff determined that it would be inappropriate
20 to incorporate those estimates into its recommended cost of equity for EWAZ.

21

1 Q. In Rebuttal (p. 18, footnote 14), in regard to the historical and projected dividends per
2 share (“DPS”) and earnings per share (“EPS”) estimates presented in Schedule JAC-5
3 filed in Staff’s direct testimony, Ms. Ahern asserts that, “[a]lthough sourced as
4 coming from *Value Line*, Mr. Cassidy did not use the historical and projected growth
5 rates published for each water company in its *Value Line Ratings & Report*, but
6 rather calculated them himself.” How does Staff respond?

7 A. Ms. Ahern’s assertion is without merit. While Staff does compute the growth rates used in its
8 historical and projected DPS and EPS estimates presented in Schedule JAC-5, it does so
9 utilizing data obtained from *Value Line*, as sourced. Specifically, in the computation of its
10 historical 10-year DPS and EPS growth rates for each sample company, Staff utilizes the
11 historical DPS and EPS *values* for each sample company as reported by *Value Line Ratings &*
12 *Reports*. For example, as shown in Schedule JAC-5, Staff determined the 10-year historical
13 DPS growth rate for American States Water over the period, 2003-2013, to be 5.6 percent.
14 Staff’s calculation of this growth rate involved dividing the 2013 DPS *value* (\$0.76) by the
15 2003 DPS *value* (\$0.44), raising that quantity to the 1/10 power, and subtracting 1.⁴ As for the
16 calculation of Staff’s projected DPS and EPS estimates for the sample companies, Staff once
17 again utilizes actual per share *values* made available by *Value Line*. For example, as shown in
18 Schedule JAC-5, for American States Water Staff determined the 5-year projected dividend
19 growth rate to be 8.6 percent over the period, 2013-2018. This was done by dividing Value
20 Line’s projected DPS *value* (\$1.15) for the period 2017-2019 by the reported 2013 DPS *value*
21 (\$0.76), raising that quantity to the 1/5 power, and subtracting 1.⁵ Staff believes the
22 methodology it employs in the computation of historical and projected measures of DPS and
23 EPS growth in its constant growth DCF model to be appropriate, as it incorporates the actual
24 historical/projected DPS and EPS *values* reported by *Value Line*, thereby allowing for greater
25 precision in the Value Line sourced estimate obtained.

⁴ $((.76/.44)^{1/10}-1) = 5.6\%$ (rounded).

⁵ $((1.15/.76)^{1/5}-1) = 8.6\%$ (rounded).

1 Q. In Rebuttal (p. 25, lines 3-24), Ms. Ahern again raises the issue of Staff electing to
2 calculate DPS, EPS and sustainable growth rates in its DCF cost of equity analysis
3 rather than adopting the growth rates published by *Value Line*. How does Staff
4 respond?

5 A. Staff responds by citing to the discussion noted above.

6
7 Q. The historical price and dividend input data used by Ms. Ahern in the PRPM™ is
8 provided by the Center for Research in Securities Prices (“CRSP®”). In Rebuttal (pp.
9 48, lines 2-4), Ms. Ahern justifies use of CRSP® data on grounds that it is “a well-
10 known and well respected data source widely used in peer-reviewed academic
11 financial research.” How does Staff respond?

12 A. Staff has every confidence that the historical market data made available by CRSP® is worthy
13 of the respect and high regard Ms. Ahern ascribes to it in rebuttal testimony. That said, the
14 question as to whether the CRSP® data used by Ms. Ahern in the PRPM™ is highly regarded
15 is *not* the relevant issue. As noted in Staff’s direct testimony,⁶ the relevant concern relates to
16 whether historical market data has been excluded from Ms. Ahern’s PRPM™ time series for
17 the sample companies by virtue of the data not yet having been made available by CRSP®. As
18 was further noted in Staff’s direct testimony,⁷ this appears to be the case for at least five of
19 her nine sample companies: York Water, American States Water, SJW Corporation, California
20 Water and Middlesex Water.

21

⁶ See Cassidy Direct, pp. 66-67, lines 19:7.

⁷ See Cassidy Direct, pp. 68-69, lines 1:10; and Exhibit JAC-D.

1 **Q. In Rebuttal (p. 48, lines 4-7), Ms. Ahern states that CRSP® makes available historical**
2 **market data on approximately eighty publicly-traded utilities and, “to the best of [her]**
3 **knowledge, covered the trading history which CRSP® deemed appropriate.” How**
4 **does Staff respond?**

5 A. As a cost of capital witness filing testimony in this proceeding, Ms. Ahern has elected to
6 utilize CRSP® historical market data in her PRPM™ cost of equity analysis. Accordingly,
7 Staff believes that it is Ms. Ahern, and not CRSP®, who should determine whether the data
8 made available by CRSP® is deemed to be appropriate for that purpose.

9
10 **Q. The nine publicly traded utilities included in Ms. Ahern’s proxy group are listed either**
11 **on the New York Stock Exchange (“NYSE”) or the National Association of Securities**
12 **Dealers Automated Quotations (“NASDAQ”).⁸ For the publicly traded stocks listed**
13 **on these exchanges, when does the historical market data provided by CRSP® begin?**

14 A. All CRSP® data series for NYSE exchange listed securities begins on December 31, 1925,
15 while all data series for NASDAQ exchange listed securities begins on December 14, 1972.⁹

16
17 **Q. This would suggest that had York Water been listed on the NASDAQ exchange as of**
18 **December 14, 1972, historical market trading data for the common shares of York**
19 **water would be available from CRSP® going back to that date, correct?**

20 A. Yes, and had this been the case, there is every reason to believe that Ms. Ahern would have
21 incorporated that historical market data into her PRPM™ time series for York Water. As
22 noted in Staff’s direct testimony,¹⁰ a review of the work papers supporting Ahern Exhibit
23 PMA-DT 2, Schedule 7 (Page 2) indicated that Ms. Ahern gave *equal weight* to all observed

⁸ The NYSE listed companies in Ms. Ahern’s sample include American States Water, American Water Works, Aqua America, California Water and SJW Corporation; the NASDAQ listed companies in her sample include Artesian Resources, Connecticut Water, Middlesex Water and York Water.

⁹ <http://www.crsp.com/products/research-products/crsp-us-stock-databases>

¹⁰ See Cassidy Direct, p. 60, lines 19-26.

1 monthly variances in the time series, as the average variance for each sample company
2 represented the arithmetic mean of all monthly variances in the time series. Thus, Staff found
3 no evidence of Ms. Ahern having excluded from her PRPMTM time series any historical
4 monthly trading data made available by CRSP[®]. Instead, the historical market data excluded
5 from Ms. Ahern's PRPMTM analysis is that which predates the data made available by CRSP[®]
6 for York Water, American States Water, SJW Corporation, California Water and Middlesex
7 Water.

8
9 **Q. When was York Water listed on the NASDAQ exchange?**

10 A. The common shares of York Water were listed on the NASDAQ exchange on January 16,
11 2001. Prior to that date, York's common stock was traded over-the-counter.¹¹

12
13 **Q. And this explains why the PRPMTM time series for York Water in Ms. Ahern's analysis
14 does not begin until February 2001, correct?**

15 A. Yes.
16

¹¹ York Water Company, 2001 Form 10-K filed with the U.S. Securities and Exchange Commission
<http://www.sec.gov/Archives/edgar/data/108985/000010898502000007/yr2001.txt>

1 Q. When explaining the PRPM™ in direct testimony, Ms. Ahern noted that the PRPM™
2 was developed from the work of Mr. Robert F. Engle, a Nobel Prize winning
3 economist. Specifically, she states that “Engle discovered that the volatility in prices
4 and returns also clusters over time, *making it highly predictable and available to*
5 *predict future levels of risk and risk premiums (emphasis added).”¹² In reviewing the*
6 *work papers supporting Ahern Exhibit PMA-DT 2 Schedule 7 (Page 2) relating to*
7 *York Water, did Staff find evidence which appears to contradict the above statement?*

8 A. Yes. Utilizing the monthly variance values from the PRPM™ time series for York Water
9 contained in the work papers supporting Ahern Exhibit PMA-DT 2 Schedule 7 (Page 2),
10 Staff has prepared an analysis to show what the average annual monthly variance figures
11 would be from one year to the next covering a full 12-year period (plus eight months of an
12 additional thirteenth year) from, February 2001 – September 2013. As shown in Surrebuttal
13 Exhibit JAC-B, the highest average annual monthly variance for York Water (1.70 percent)
14 occurred in year 1 (the period February 2001-January 2002), with the second and third highest
15 average annual monthly variance figures coming in years two (0.63 percent) and three (0.46
16 percent). Since that time, the annual average variance figures in Ms. Ahern’s PRPM™
17 analysis have gone down fairly consistently from year to year, reaching a low of 0.25 percent
18 in year 12 (the period February 2012-January 2013). As can further be seen, over the first
19 three years, Ms. Ahern’s average annual variance for York was 0.93 percent, while the average
20 annual variance for years 4-13 was much lower, 0.32 percent. Nevertheless, due to the annual
21 variance figures for York being much higher in years 1-3, the overall average variance used in
22 Ms. Ahern’s PRPM™ analysis has been skewed upward to 0.46 percent. Thus, rather than
23 being **predictive** of “future levels of risk and risk premiums,” the early (i.e., years 1-3,
24 February 2001 – January 2004) predicted variances obtained in Ms. Ahern’s PRPM™ analysis

¹² See Ahern Direct, pp. 27-28, lines 18:1.

1 for York appear to exceed those obtained over the most recent 9-year plus period (i.e., years
2 4-13, February 2004 – September 2013) by a factor of 2.9 (0.93 percent/0.32 percent = 2.9).

3
4 **Q. Did Staff perform an analysis to determine if York's 1.70 percent annual average**
5 **monthly variance in the first 12-months (i.e., February 2001-January 2002) of PRPM™**
6 **time series data was representative of that of the other eight utilities in Ms. Ahern's**
7 **proxy group of sample companies?**

8 A. Yes. Staff prepared such an analysis, and determined that the monthly variances reported for
9 York in the first 12-months were clearly **not** representative of those of the other sample
10 companies in the comparable first 12-month period. As shown in Surrebuttal Exhibit JAC-C,
11 the average annual monthly variance for all nine sample companies in the first 12-months of
12 PRPM™ time series data was 0.41 percent. However, when excluding York Water from the
13 computation, the average annual monthly variance for the other eight sample companies was
14 shown to be 0.25 percent. What this suggests is that York's 1.70 percent initial 12-month
15 average PRPM™ monthly variance exceeds that of the other eight sample companies by a
16 factor of 6.8 (1.70 percent/0.25 percent = 6.8).

17
18 **Q. Does Staff have reason to believe that this 1.70 percent average annual monthly**
19 **variance is an aberration which serves to significantly overstate Ms. Ahern's PRPM™**
20 **derived cost of equity estimate for York Water?**

21 A. Yes. As shown in Surrebuttal Exhibit JAC-C, among the monthly variances reported in
22 York's initial 12-month PRPM™ time series (i.e., February 2001-January 2002), the variances
23 in the first four months all exceeded 2.0 percent (the 2.73 percent monthly variance for
24 February 2001 being the highest), followed by six consecutive months with variances in
25 excess of 1.0 percent, with the final two months having variances above 0.90 percent.
26 Furthermore, in reviewing the work papers supporting Ahern Exhibit PMA-DT 2 Schedule 7

1 (Page 2), Staff determined that no other sample company had even one monthly variance in
2 excess of 2.0 percent, with the single highest reported monthly variance among Ms. Ahern's
3 other eight sample companies being a 1.40 percent monthly variance for Aqua America. As
4 can be seen in Surrebuttal Exhibit JAC-C, however, the monthly variances in each of the first
5 seven months of York's initial 12-month PRPMTM time series all exceed this 1.40 percent
6 level.

7
8 **Q. In light of the above, does Staff believe this to be an additional reason why historical**
9 **market trading data for York Water should not be excluded from Ms. Ahern's**
10 **PRPMTM time series?**

11 A. Yes.

12
13 **Q. In Rebuttal (p. 48, lines 11-16), Ms. Ahern acknowledges that Yahoo! Finance makes**
14 **available a historical time series of market return data for York Water dating back to**
15 **May, 1999. However, she appears to dismiss the significance of this market data on**
16 **grounds that York's shares are thinly traded. Specifically, Ms. Ahern states that upon**
17 **close review of that return data, it showed that "York Water was not traded every day,**
18 **and sometimes not traded for several days in a row. *It is my understanding that the***
19 ***CRSP[®] return data only contained data on continuously publicly traded stocks***
20 **(emphasis added)." How does Staff respond?**

21 A. Staff conducted a review of the 21-month period of market return data (i.e., May 3, 1999-
22 January 31, 2001) available on the Yahoo! Finance website predating that used in Ms. Ahern's
23 PRPMTM time series for York. Staff determined average daily trading volume in York
24 common shares over this 21-month period to be 4,183 shares, and that there were both
25 individual days and consecutive days in which there was no trading volume in York common
26 shares. Staff then conducted a review of the market return data for York Water on this same

1 Yahoo! Finance website covering the initial 12-month period included in Ms. Ahern's
2 PRPMTM time series for York Water (i.e., February 1, 2001-January 31, 2002). In doing so,
3 Staff determined average daily trading volume in York common stock over this 12-month
4 period to be 6,509 shares, and that there were both individual days and consecutive days in
5 which there was no trading volume in York common shares. Thus, Ms. Ahern's stated
6 understanding that CRSP[®] return data is provided only for "continuously publicly traded
7 stocks" appears to be inaccurate.

8
9 **Q. In closing on this point, in Rebuttal (page 48, lines 16-24) Ms. Ahern states that**
10 **"[s]ince the PRPMTM is a predicted variance model, equities that are not frequently**
11 **traded produce distorted volatility because of the infrequency of trading. This**
12 **distorted actual volatility would translate into distorted predicted volatility, which**
13 **would produce inaccurate predicted equity risk premiums. Thus, the lack of the**
14 **entire trading histories of the stocks when they are infrequently traded would not**
15 **adversely affect the results of the PRPMTM." How does Staff respond?**

16 **A.** First, as evidenced by the above, Ms. Ahern clearly acknowledges/implies that she has
17 excluded a portion of the historical market trading data from her PRPMTM analysis. Second,
18 the above statement gives rise to the question as to whether the PRPMTM can rightly be
19 considered a "market-based" model. This issue is particularly significant in view of the fact
20 that in direct testimony,¹³ Ms. Ahern identified "the historical [monthly] returns on the
21 common shares of each company in the proxy group" as a necessary input to obtain a
22 PRPMTM derived equity risk premium. Third, the above statement suggests that the potential
23 exists for the PRPMTM to obtain distorted and/or inaccurate predicted equity risk premiums.
24 For the reasons noted above, Staff believes this to be an additional reason why cost of equity
25 estimates derived from the PRPMTM should be given no weight in this proceeding.

¹³ See Ahern Direct, p. 28, lines 11-12.

1 **Q. In Rebuttal, Ms. Ahern proposes a 24 basis point upward credit risk adjustment to the**
2 **cost of equity. How does Staff respond?**

3 A. Ms. Ahern's proposed credit risk adjustment has no merit, as a 1994 study by S. Brooks
4 Marshall which investigated the relationship between equity risk and bond risk concluded that
5 bond ratings fail to explain a large portion of total equity risk (defined as equity risk premiums
6 and beta). Specifically, the author concluded:

7
8 "These data show that using a bond rating as the sole measure for selecting a
9 set of comparable companies for a cost-of-equity determination will not
10 necessarily produce a group of companies that have similar equity risk. Most
11 of this risk is explained by characteristics other than bond ratings."¹⁴

12
13 Accordingly, the proposed 24 basis point credit risk adjustment should be denied.

14
15 **Q. Is Staff aware of an additional consideration as to why it would be inappropriate to**
16 **provide an upward credit risk adjustment to the cost of equity for the Company?**

17 A. Yes. In conducting research on EWAZ and its ultimate parent, EPCOR Utilities, Inc., Staff
18 located a news release issued by the Reuters news service relating to a Standard & Poor's
19 credit downgrade of EPCOR Power L.P. which took place on May 7, 2007.¹⁵ In that news
20 release, it was reported that a positive outlook or rating uplift for EPCOR Power L.P. by S&P
21 was "unlikely, given the non-amortizing nature of the company's long-term debt." As noted
22 in Staff's direct testimony,¹⁶ EWAZ has total long-term debt of \$231,761,134, and of this total
23 99.67 percent (\$231,000,000) is non-amortizing debt. Thus, it appears that credit rating
24 agencies take into consideration the nature of the long-term debt used to fund a utility's
25 assets, with the presence of non-amortizing debt in the capital structure being viewed

¹⁴ Marshall, S. Brooks. "Bond Ratings: A Poor Predictor of Equity Risk," *Public Utilities Fortnightly*, Oct. 15, 1994, pp. 27-28.

¹⁵ <http://uk.reuters.com/article/2007/05/07/idUKWNA262020070507>

¹⁶ See Cassidy Direct, p. 39, footnote 31.

1 unfavorably, rather than favorably. For this reason, Staff believes the provision of an upward
2 credit risk adjustment to the Company's cost of equity is unwarranted due to the significant
3 presence of non-amortizing debt in the EWAZ capital structure.
4

5 **Q. But don't many of the publicly traded utilities in Staff's proxy group of companies**
6 **utilize non-amortizing debt to fund their assets?**

7 A. Yes, they do. However, by virtue of being publicly traded entities these utilities have access
8 to the equity capital markets, whereas EWAZ and its ultimate parent, EPCOR Utilities, Inc.,
9 do not. In response to data requests issued by Staff, the Company provided credit rating
10 reports issued by both S&P and the Dominion Bond Rating Service ("DBRS"), the two credit
11 rating agencies who issue credit ratings for EPCOR Utilities, Inc. In reviewing the credit
12 reports issued by DBRS, that rating agency has consistently identified the lack of access to the
13 equity markets as being a credit weakness for the company. EPCOR Utilities, Inc. is a closely
14 held entity, with its entire three shares of outstanding common stock being owned by the City
15 of Edmonton. Thus, unlike the publicly traded utilities in Staff's sample group of companies
16 who do have access to the equity capital markets and an additional source of capital to service
17 its obligations on maturing long-term non-amortizing debt, EWAZ and its ultimate parent do
18 not.
19

20 **Q. In Rebuttal, Ms. Ahern continues to advocate for a 30 basis point upward business**
21 **risk adjustment to the cost of equity. How does Staff respond?**

22 A. For the reasons noted in Staff's direct testimony,¹⁷ it is Staff's position that there is no
23 justification for such an adjustment.
24

¹⁷ See Cassidy Direct, pp. 82-84, 16:12.

1 **III. CONCLUSION**

2 **Q. Please summarize Staff's recommendations.**

3 A. For the four EWAZ districts (Mohave Water, Mohave Wastewater, Paradise Valley Water and
4 Sun City Water) Staff recommends that the Commission adopt a consolidated 6.4 percent
5 overall rate of return ("ROR") for the Company based on a capital structure composed of
6 59.76 percent debt and 40.24 percent equity, Staff's 8.9 percent average DCF cost of equity
7 estimate, and Staff's 60 basis point (0.60 percent) upward economic assessment adjustment.
8 For the Company's Tubac Water district, Staff recommends that the Commission adopt a 6.2
9 percent overall rate of return ("ROR") for the Company based on a capital structure
10 composed of 58.53 percent debt and 41.47 percent equity, Staff's 8.9 percent average DCF
11 cost of equity estimate, and Staff's 60 basis point (0.60 percent) upward economic assessment
12 adjustment.

13
14 **Q. Does this conclude your surrebuttal testimony?**

15 A. Yes, it does.

EPCOR Water Arizona, Inc. Cost of Capital Calculation
 Capital Structure
 And Weighted Average Cost of Capital
 Staff Recommended and Company Proposed

[A]	[B]	[C]	[D]
<u>Description</u>	<u>Weight (%)</u>	<u>Cost</u>	<u>Weighted Cost</u>
Staff Recommended Structures			
<u>Four Districts - Consolidated</u>			
Debt	59.76%	4.3%	2.6%
Common Equity	40.24%	9.5%	<u>3.8%</u>
Weighted Average Cost of Capital			6.4%
<u>Tubac Water - Stand Alone Basis</u>			
Debt	58.53%	4.0%	2.3%
Common Equity	41.47%	9.5%	<u>3.9%</u>
Weighted Average Cost of Capital			6.2%
Company Proposed Structure			
Debt	59.76%	4.29%	2.56%
Common Equity	40.24%	10.55%	<u>4.24%</u>
Weighted Average Cost of Capital			6.81%
<u>Mohave Wastewater</u>			
Debt	59.76%	4.29%	2.56%
Common Equity	40.24%	10.55%	<u>4.25%</u>
Weighted Average Cost of Capital			6.81%
<u>Mohave Water</u>			
Debt	59.76%	4.29%	2.56%
Common Equity	40.24%	10.55%	<u>4.25%</u>
Weighted Average Cost of Capital			6.81%
<u>Paradise Valley Water</u>			
Debt	59.76%	4.29%	2.56%
Common Equity	40.24%	10.55%	<u>4.25%</u>
Weighted Average Cost of Capital			6.81%
<u>Sun City Water</u>			
Debt	59.76%	4.29%	2.56%
Common Equity	40.24%	10.55%	<u>4.25%</u>
Weighted Average Cost of Capital			6.81%
<u>Tubac Water</u>			
Debt	59.84%	4.29%	2.57%
Common Equity	40.16%	10.55%	<u>4.24%</u>
Weighted Average Cost of Capital			6.80%
[D] : [B] x [C]			
Supporting Schedules: JAC-3 and JAC-4.			

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EPCOR Water Arizona, Inc. Cost of Capital Calculation
Average Capital Structure of Sample Water Utilities

[A]	[B]	[C]	[D]
<u>Company</u>	<u>Debt</u>	<u>Common Equity</u>	<u>Total</u>
American States Water	40.8%	59.2%	100.0%
California Water	47.2%	52.8%	100.0%
Aqua America	52.0%	48.0%	100.0%
Connecticut Water	48.4%	51.6%	100.0%
Middlesex Water	45.9%	54.1%	100.0%
SJW Corp	54.7%	45.3%	100.0%
York Water	<u>44.2%</u>	<u>55.8%</u>	<u>100.0%</u>
 Average Sample Water Utilities	 47.6%	 52.4%	 100.0%
 EWAZ - Four Districts (Consolidated)	 59.76%	 40.24%	 100.0%
 EWAZ - Tubac Water (Stand Alone)	 59.84%	 40.16%	 100.0%

Source:

Sample Water Companies from Value Line

EPCOR Water Arizona, Inc. Cost of Capital Calculation
 Growth in Earnings and Dividends
 Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
Company	Dividends Per Share 2003 to 2013 <u>DPS¹</u>	Dividends Per Share Projected <u>DPS¹</u>	Earnings Per Share 2003 to 2013 <u>EPS¹</u>	Earnings Per Share Projected <u>EPS¹</u>
American States Water	5.6%	8.6%	15.2%	4.4%
California Water	1.3%	8.2%	4.9%	8.9%
Aqua America	7.6%	9.0%	9.7%	6.0%
Connecticut Water	1.7%	4.1%	3.7%	5.3%
Middlesex Water	1.5%	2.0%	5.4%	3.9%
SJW Corp	4.1%	6.5%	2.1%	8.7%
York Water	<u>4.1%</u>	<u>6.3%</u>	<u>4.8%</u>	<u>8.0%</u>
 Average Sample Water Utilities	 3.7%	 6.4%	 6.5%	 6.5%

1 Value Line

EPCOR Water Arizona, Inc. Cost of Capital Calculation
Sustainable Growth
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]
<u>Company</u>	Retention Growth 2003 to 2013 <u>br</u>	Retention Growth Projected <u>br</u>	Stock Financing Growth <u>vs</u>	Sustainable Growth 2003 to 2013 <u>br + vs</u>	Sustainable Growth Projected <u>br + vs</u>
American States Water	4.1%	5.4%	1.8%	6.0%	7.3%
California Water	2.6%	3.5%	3.0%	5.7%	6.6%
Aqua America	4.2%	6.0%	1.8%	6.0%	7.8%
Connecticut Water	2.1%	4.5%	3.1%	5.2%	7.6%
Middlesex Water	1.3%	3.2%	3.1%	4.4%	6.3%
SJW Corp	3.2%	3.3%	1.0%	4.3%	4.4%
York Water	<u>2.2%</u>	<u>4.1%</u>	<u>4.8%</u>	<u>6.9%</u>	<u>8.8%</u>
Average Sample Water Utilities	2.8%	4.3%	2.7%	5.5%	7.0%

[B]: Value Line

[C]: Value Line

[D]: Value Line, MSN Money, and Form 10-Ks filed with the Securities and Exchange Commission (<http://www.sec.gov/>)

[E]: [B]+[D]

[F]: [C]+[D]

EPCOR Water Arizona, Inc. Cost of Capital Calculation
 Selected Financial Data of Sample Water Utilities

[A] [B] [C] [D] [E] [F] [G]

[A]	[B]	[C]	[D]	[E]	[F]	[G]
<u>Company</u>	<u>Symbol</u>	<u>Spot Price</u> 2/11/2015	<u>Book Value</u>	<u>Mkt To</u> <u>Book</u>	<i>Value Line</i> Beta <i>b</i>	Raw Beta <i>braw</i>
American States Water	AWR	39.06	13.01	3.0	0.70	0.52
California Water	CWT	24.12	12.48	1.9	0.70	0.52
Aqua America	WTR	26.19	8.75	3.0	0.70	0.52
Connecticut Water	CTWS	36.11	19.55	1.8	0.65	0.45
Middlesex Water	MSEX	22.20	12.23	1.8	0.70	0.52
SJW Corp	SJW	32.93	15.81	2.1	0.85	0.75
York Water	YORW	22.80	8.44	2.7	0.65	0.45
Average				2.3	0.71	0.53

[C]: Msn Money

[D]: Value Line

[E]: [C] / [D]

[F]: Value Line

[G]: (-0.35 + [F]) / 0.67

EPCOR Water Arizona, Inc. Cost of Capital Calculation
 Calculation of Expected Infinite Annual Growth in Dividends
 Sample Water Utilities

[A]	[B]
<u>Description</u>	g
DPS Growth - Historical ¹	3.7%
DPS Growth - Projected ¹	6.4%
EPS Growth - Historical ¹	6.5%
EPS Growth - Projected ¹	6.5%
Sustainable Growth - Historical ²	5.5%
<u>Sustainable Growth - Projected²</u>	<u>7.0%</u>
Average	5.9%

1 Schedule JAC-5

2 Schedule JAC-6

EPCOR Water Arizona, Inc. Cost of Capital Calculation
 Multi-Stage DCF Estimates
 Sample Water Utilities

[A] Company	[B] Current Mkt. Price (P_0) ¹ 2/11/2015	[C] [D] [E] [F] Projected Dividends ² (Stage 1 growth) (D_t)				[G] Stage 2 growth ³ (g_n)	[H] Equity Cost Estimate (K) ⁴
		d ₁	d ₂	d ₃	d ₄		
American States Water	39.1	0.86	0.91	0.96	1.02	6.5%	8.6%
California Water	24.1	0.69	0.73	0.77	0.82	6.5%	9.3%
Aqua America	26.2	0.65	0.69	0.73	0.78	6.5%	8.9%
Connecticut Water	36.1	1.04	1.10	1.17	1.24	6.5%	9.3%
Middlesex Water	22.2	0.80	0.84	0.89	0.95	6.5%	10.0%
SJW Corp	32.9	0.79	0.84	0.89	0.94	6.5%	8.8%
York Water	22.8	0.60	0.64	0.68	0.72	6.5%	9.1%

$$P_0 = \sum_{t=1}^n \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K-g_n} \left[\frac{1}{(1+K)} \right]^n$$

Average 9.1%

- Where : P_0 = current stock price
 D_t = dividends expected during stage 1
 K = cost of equity
 n = years of non – constant growth
 D_n = dividend expected in year n
 g_n = constant rate of growth expected after year n

1 [B] see Schedule JAC-7

2 Derived from Value Line Information

3 Average annual growth in GDP 1929 - 2012 in current dollars.

4 Internal Rate of Return of Projected Dividends

Consumer Price Index History, 1913 - 2014
 Annual Historical Rates of Inflation as measured by the Consumer Price Index (CPI)
 (1982-84=100, unless otherwise noted)

Year	Annual Change to CPI Index	Annual Rate of Inflation as measured by CPI	Average Inflation in 5-Year Increments	Year	Annual Change to CPI Index	Annual Rate of Inflation as measured by CPI	Average Inflation in 5-Year Increments
1913	9.9 %	- %					
1914	10.0	1.00					
1915	10.1	2.00		1965	31.5 %	1.90 %	
1916	10.9	13.00		1966	32.4	3.50	
1917	12.8	18.00		1967	33.4	3.00	
1918	15.1	20.00		1968	34.8	4.70	
1919	17.3	15.00	13.60 %	1969	36.7	6.20	
1920	20.0	3.00		1970	38.8	5.60	3.86 %
1921	17.7	1.10		1971	40.5	3.30	
1922	16.8	-2.30		1972	41.8	3.40	
1923	17.1	2.40		1973	44.4	8.70	
1924	17.1	0.00	0.84 %	1974	49.3	12.30	
1925	17.5	3.50		1975	53.8	6.90	
1926	17.7	-1.10		1976	56.9	4.90	
1927	17.4	-2.30		1977	60.6	6.70	
1928	17.1	-1.20		1978	65.2	9.00	
1929	17.1	0.60	-0.10 %	1979	72.6	13.30	
1930	16.7	-6.40		1980	82.4	12.50	8.16 %
1931	15.2	-9.30		1981	90.9	8.90	
1932	13.7	-10.30		1982	96.5	3.80	
1933	13.0	0.80		1983	99.6	3.80	
1934	13.4	1.50	-4.74 %	1984	103.9	3.90	
1935	13.7	3.00		1985	107.6	3.80	
1936	13.9	1.40		1986	109.6	1.10	
1937	14.4	2.90		1987	113.6	4.40	
1938	14.1	-2.80		1988	118.3	4.40	
1939	13.9	0.00	0.90 %	1989	124.0	4.60	
1940	14.0	0.70		1990	130.7	6.10	3.66 %
1941	14.7	9.90		1991	136.2	3.10	
1942	16.3	9.00		1992	140.3	2.90	
1943	17.3	3.00		1993	144.5	2.70	
1944	17.6	2.30	4.98 %	1994	148.2	2.70	
1945	18.0	2.20		1995	152.4	2.50	3.50 %
1946	19.5	18.10		1996	156.9	3.30	
1947	22.3	8.80		1997	160.5	1.70	
1948	24.1	3.00		1998	163.0	1.60	
1949	23.8	-2.10	6.00 %	1999	166.6	2.70	
1950	24.1	5.90		2000	172.2	3.40	2.36 %
1951	26.0	6.00		2001	177.1	1.60	
1952	26.5	0.80		2002	179.9	2.40	
1953	26.7	0.70		2003	184.0	1.90	
1954	26.9	-0.70	2.54 %	2004	188.9	3.30	
1955	26.8	0.40		2005	195.3	3.40	2.52 %
1956	27.2	3.00		2006	201.6	2.50	
1957	28.1	2.90		2007	207.342	4.10	
1958	28.9	1.80		2008	215.303	0.10	
1959	29.1	1.70	1.96 %	2009	214.537	2.70	
1960	29.6	1.40		2010	218.056	1.50	2.56 %
1961	29.9	0.70		2011	224.939	3.00	
1962	30.2	1.30		2012	229.594	1.70	
1963	30.6	1.60		2013	232.957	1.50	
1964	31.0 %	1.00 %	1.20 %	2014	236.736 %	0.80 %	1.70 %
Average annual rate of inflation (CPI), 1914-1964		2.68 %		Average annual rate of inflation (CPI), 1965-2014		4.16 %	
Average rate of inflation, 1915-1964, in 5-year increments			2.72 %	Average rate of inflation, 1965 - 2014, in 5-year increments			4.16 %
				Average annual rate of inflation in the United States (CPI), 1914 - 2014			3.41 %

Source: Table 24. Historical Consumer Price Index for All Urban Consumers (CPI-U): U. S. city average, U.S. Department of Labor, Bureau of Labor Statistics
<http://www.bls.gov/cpi/cpid1412.pdf>

Monthly Variances in the PRM™ Time Series for York Water
 As Presented in the Work Papers Supporting Aherm Exhibit PMA-DT 2 Schedule 7 (Page 2 of 11)
 Arranged in Twelve Month (i.e., Annual) Increments beginning February 2001 through September 2013

Month	Year 1 Feb. 2001 - Jan. 2002	Year 2 Feb. 2002 - Jan. 2003	Year 3 Feb. 2003 - Jan. 2004	Year 4 Feb. 2004 - Jan. 2005	Year 5 Feb. 2005 - Jan. 2006	Year 6 Feb. 2006 - Jan. 2007	Year 7 Feb. 2007 - Jan. 2008	Year 8 Feb. 2008 - Jan. 2009	Year 9 Feb. 2009 - Jan. 2010	Year 10 Feb. 2010 - Jan. 2011	Year 11 Feb. 2011 - Jan. 2012	Year 12 Feb. 2012 - Jan. 2013	Year 13 Feb. 2013 - Sept. 2013
February	2.73%	0.85%	0.56%	0.33%	0.34%	0.45%	0.35%	0.28%	0.33%	0.46%	0.31%	0.27%	0.26%
March	2.41%	0.70%	0.51%	0.32%	0.32%	0.42%	0.35%	0.28%	0.33%	0.46%	0.29%	0.27%	0.26%
April	2.66%	0.88%	0.65%	0.36%	0.36%	0.39%	0.32%	0.25%	0.34%	0.37%	0.29%	0.29%	0.29%
May	2.27%	0.72%	0.69%	0.29%	0.30%	0.36%	0.31%	0.26%	0.33%	0.33%	0.27%	0.26%	0.26%
June	1.99%	0.64%	0.54%	0.28%	0.30%	0.35%	0.30%	0.26%	0.33%	0.33%	0.27%	0.26%	0.26%
July	1.79%	0.64%	0.69%	0.35%	0.28%	0.45%	0.29%	0.27%	0.35%	0.35%	0.27%	0.26%	0.26%
August	1.48%	0.61%	0.48%	0.29%	0.39%	0.47%	0.28%	0.26%	0.41%	0.41%	0.26%	0.26%	0.26%
September	1.11%	0.59%	0.44%	0.29%	0.39%	0.45%	0.27%	0.27%	0.42%	0.42%	0.26%	0.26%	0.26%
October	1.19%	0.53%	0.41%	0.28%	0.41%	0.41%	0.27%	0.34%	0.48%	0.37%	0.30%	0.26%	0.26%
November	1.25%	0.49%	0.40%	0.28%	0.46%	0.38%	0.26%	0.33%	0.46%	0.39%	0.29%	0.26%	0.26%
December	0.90%	0.45%	0.37%	0.38%	0.51%	0.49%	0.28%	0.34%	0.41%	0.39%	0.29%	0.26%	0.26%
January	0.93%	0.56%	0.55%	0.35%	0.47%	0.37%	0.27%	0.35%	0.38%	0.32%	0.26%	0.26%	0.26%
Average Annual Monthly Variance	1.79%	0.63%	0.46%	0.31%	0.37%	0.41%	0.29%	0.29%	0.38%	0.33%	0.28%	0.25%	0.26%
Annual Monthly Variance - Average of First 3 Years			0.93%					0.29%					
Annual Monthly Variance - Average of All Remaining Years (Years 4-13)			0.32%										
Annual Monthly Variance - Average of All 13 Years			0.46%										

Source: Monthly variances for York Water Company as reported in the work papers supporting Aherm Exhibit PMA-DT 2 Schedule 7 (Page 2 of 11).

Comparison of First 12-Months of Monthly Variances in the PRPM Times Series for each of Ms. Ahern's Sample Companies
As Presented in the Work Papers Supporting Ahern Exhibit PMA-DT 2 Schedule 7 (Page 2 of 11)

York Water			American States Water			American Water Works			Aqua Amertca			Artesian Resources			California Water			Connecticut Water			Middlesex Water			SIW Corporation														
Time Period	Monthly Variance		Time Period	Monthly Variance		Time Period	Monthly Variance		Time Period	Monthly Variance		Time Period	Monthly Variance		Time Period	Monthly Variance		Time Period	Monthly Variance		Time Period	Monthly Variance		Time Period	Monthly Variance													
2001M02	2.73%		1973M01	0.44%		2008M05	0.76%		1971M08	0.25%		1996M06	0.10%		1973M01	0.09%		1975M07	0.28%		1973M01	0.07%		1973M03	0.10%		1973M03	0.10%										
2001M03	2.41%		1973M02	0.17%		2008M06	0.78%		1971M09	0.25%		1996M07	0.11%		1973M02	0.10%		1975M08	0.26%		1973M02	0.09%		1973M04	0.12%		1973M04	0.12%		1973M04	0.12%							
2001M04	2.60%		1973M03	0.18%		2008M07	0.82%		1971M10	0.25%		1996M08	0.12%		1973M03	0.11%		1975M09	0.28%		1973M03	0.10%		1973M05	0.13%		1973M05	0.13%		1973M05	0.13%		1973M05	0.13%				
2001M05	2.27%		1973M04	0.19%		2008M08	0.64%		1971M11	0.24%		1996M09	0.14%		1973M04	0.13%		1975M10	0.36%		1973M04	0.11%		1973M06	0.14%		1973M06	0.14%		1973M06	0.14%		1973M06	0.14%				
2001M06	1.96%		1973M05	0.20%		2008M09	0.46%		1971M12	0.24%		1996M10	0.15%		1973M05	0.13%		1975M11	0.31%		1973M05	0.12%		1973M07	0.12%		1973M07	0.12%		1973M07	0.12%		1973M07	0.12%				
2001M07	1.70%		1973M06	0.21%		2008M10	0.43%		1972M01	0.23%		1996M11	0.16%		1973M06	0.15%		1975M12	0.39%		1973M06	0.12%		1973M08	0.13%		1973M08	0.13%		1973M08	0.13%		1973M08	0.13%				
2001M08	1.48%		1973M07	0.22%		2008M11	0.40%		1972M02	0.40%		1996M12	0.16%		1973M07	0.16%		1976M01	0.32%		1973M07	0.13%		1973M09	0.14%		1973M09	0.14%		1973M09	0.14%		1973M09	0.14%				
2001M09	1.31%		1973M08	0.23%		2008M12	0.42%		1972M03	0.54%		1997M01	0.18%		1973M08	0.16%		1976M02	0.26%		1973M08	0.14%		1973M10	0.17%		1973M10	0.17%		1973M10	0.17%		1973M10	0.17%		1973M10	0.17%	
2001M10	1.14%		1973M09	0.25%		2009M01	0.44%		1972M04	0.46%		1997M02	0.18%		1973M09	0.20%		1976M03	0.23%		1973M09	0.14%		1973M11	0.18%		1973M11	0.18%		1973M11	0.18%		1973M11	0.18%		1973M11	0.18%	
2001M11	1.02%		1973M10	0.28%		2009M02	0.45%		1972M05	0.48%		1997M03	0.20%		1973M10	0.21%		1976M04	0.22%		1973M10	0.17%		1973M12	0.18%		1973M12	0.18%		1973M12	0.18%		1973M12	0.18%		1973M12	0.18%	
2001M12	0.90%		1973M11	0.28%		2009M03	0.34%		1972M06	0.46%		1997M04	0.21%		1973M11	0.21%		1976M05	0.20%		1973M11	0.19%		1973M01	0.19%		1973M01	0.19%		1973M01	0.19%		1973M01	0.19%		1973M01	0.19%	
2002M01	0.93%		1973M12	0.41%		2009M04	0.35%		1972M07	0.41%		1997M05	0.20%		1973M12	0.23%		1976M06	0.20%		1973M12	0.21%		1973M02	0.21%		1973M02	0.21%		1973M02	0.21%		1973M02	0.21%		1973M02	0.21%	
Average	1.70%			0.23%			0.52%			0.35%			0.16%			0.16%				0.27%			0.14%			0.14%			0.16%			0.16%						

Average Monthly Variance for All 9 Sample Companies - First 12-Months **0.41%**
 Average Monthly Variance when Excluding York Water - First 12-Months **0.25%**

Source: Monthly variances as reported in the work papers supporting Ahern Exhibit PMA-DT 2 Schedule 7 (Page 2 of 11).

BEFORE THE ARIZONA CORPORATION COMMISSION

SUSAN BITTER SMITH
Chairman
BOB BURNS
Commissioner
BOB STUMP
Commissioner
DOUG LITTLE
Commissioner
TOM FORESE
Commissioner

IN THE MATTER OF THE APPLICATION OF)
EPCOR WATER ARIZONA INC. FOR A)
DETERMINATION OF THE CURRENT)
FAIR VALUE OF ITS UTILITY PLANT AND)
PROPERTY AND FOR AN INCREASES IN)
ITS RATES AND CHARGES FOR UTILITY)
SERVICE BY ITS MOHAVE WATER DISTRICT,)
PARADISE VALLEY WATER DISTRICT, SUN)
CITY WATER DISTRICT, TUBAC WATER)
DISTRICT AND MOHAVE WASTEWATER)
DISTRICT)
_____)

DOCKET NO. WS-01303A-14-0010

RATE DESIGN
SURREBUTTAL
TESTIMONY
OF
BRITON BAXTER
PUBLIC UTILITIES ANALYST IV
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

FEBRUARY 26, 2015

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**EXECUTIVE SUMMARY
EPCOR WATER ARIZONA INC.
DOCKET NO. WS-01303A-14-0010**

The surrebuttal testimony of Staff witness Briton A. Baxter addresses the rate design and bill impact changes for the four water and one wastewater districts included in the current EPCOR Water Arizona Inc. ("EPCOR" or "Company") rate application. These changes are a result of Staff's updated recommendations as discussed in the surrebuttal testimony filed by Staff witnesses Mary J. Rimback and Christine L. Payne. This surrebuttal testimony also responds to the rebuttal testimony of Mr. Thomas J. Bourassa, witness for the Company.

Water Districts

Mohave Water District:

The Company's proposed rates would increase the typical 5/8-inch meter residential bill with median usage of 5,000 gallons from \$17.32 to \$25.19, for an increase of \$7.87 or 45.44 percent. Staff's recommended rates would increase the typical 5/8-inch meter residential bill with a median usage of 5,000 gallons from \$17.32 to \$20.97, for an increase of \$3.65 or 21.05 percent.

Paradise Valley Water District:

The Company's proposed rates would increase the typical 5/8-inch meter residential bill with median usage of 10,000 gallons from \$36.65 to \$39.76, for an increase of \$3.11 or 8.50 percent. Staff's recommended rates would result in no change for the typical 5/8-inch meter residential with a median usage of 10,000 gallons.

Sun City Water District:

The Company's proposed rates would increase the typical 5/8-inch meter residential bill with median usage of 6,000 gallons from \$15.72 to \$19.17, for an increase of \$3.45 or 21.98 percent. Staff's recommended rates would increase the typical 5/8-inch meter residential bill with a median usage of 6,000 gallons from \$15.72 to \$17.15, for an increase of \$1.43 or 9.52 percent.

Tubac Water District:

The Company's proposed rates would increase the typical 5/8-inch meter residential bill with median usage of 5,000 gallons from \$36.40 to \$77.89, for an increase of \$41.49 or 113.98 percent. Staff's recommended rates would increase the typical 5/8-inch meter residential bill with a median usage of 5,000 gallons from \$36.40 to \$52.55, for an increase of \$16.15 or 44.35 percent.

Wastewater District

Mohave Wastewater District

The Company's proposed rates would increase the monthly bill (per equivalent residential unit) for a residential customer under the flat monthly fee rate by \$25.05, or 44.30 percent, from

\$56.55 to \$81.60. Staff's recommended rates would increase the monthly bill for a residential customer under the flat monthly fee rate by \$19.44, or 34.38 percent, from \$56.55 to \$75.99.

Staff recommends approval of its recommended rates and charges for all districts as shown on the attached schedules.

1 **INTRODUCTION**

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

3 A. My name is Briton A. Baxter. I am a Public Utilities Analyst IV employed by the Arizona
4 Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My
5 business address is 1200 West Washington Street, Phoenix, Arizona 85007.

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

8 A. I am responsible for the examination and verification of financial and statistical information
9 included in utility rate cases and other applications. In addition, I develop revenue
10 requirements, and prepare written reports, testimonies, and schedules that include Staff
11 recommendations to the Commission. I am also responsible for testifying at formal hearings
12 on these matters.

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

15 A. In 2003, I graduated from Northern Arizona University, receiving a Bachelor of Science
16 degree in Accountancy with a public accounting certificate. Prior to joining the Commission
17 in 2013, I spent 10 years with the Arizona Office of the Auditor General. I have experience
18 conducting performance audits of school districts and preparing statewide reports on
19 classroom spending which required a large amount of data collection, validation and analysis.
20 Since joining the Commission in October of 2013, I have completed three water rate cases
21 and a prudency review for a regulated natural gas company to build a Liquid Natural Gas
22 facility. I have also attended various trainings on rate making topics, including the National
23 Association of Regulatory Utility Commissioners ("NARUC") Utility Rate School in May of
24 2014.

25

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

2 A. The purpose of my surrebuttal testimony in this proceeding is to respond, on behalf of Staff,
3 to the rebuttal testimony of Mr. Thomas J. Bourassa and to present Staff's surrebuttal
4 position regarding rate design issues.

5
6 **Q. Do you attempt to address every issue raised by the Company in its rebuttal
7 testimony?**

8 A. No. My silence on any particular issue raised in the Company's rebuttal testimony does not
9 indicate that Staff agrees with the Company's rebuttal position on that issue. I rely on the
10 direct testimony of Staff witness Ms. Phan Tsan unless modified by this surrebuttal
11 testimony.

12
13 **Q. What is the scope of your testimony in this case?**

14 A. I am presenting Staff's recommended rate designs for EPCOR Water Arizona, Inc.
15 ("EPCOR" or "Company") applications for permanent increases in its rates and charges in its
16 Mohave Water District, Paradise Valley Water District, Sun City Water District, Tubac Water
17 District and Mohave Wastewater District. Staff has updated the rate design to reflect the
18 revised recommended revenue requirement for each water and wastewater district.

19
20 **Q. Why are you testifying on rate design in Staff's surrebuttal testimony when you did
21 not file any direct testimony?**

22 A. I am testifying on surrebuttal rate design because Ms. Tsan will be out of the office for an
23 extended period of time and I served on the Staff team that performed a regulatory audit of
24 the Company's application.

1 **RATE DESIGN**

2 **Q. Did Staff change the rate design from its direct testimony?**

3 A. No, Staff left the fundamental rate design as in its direct testimony, adjusting for the change
4 in recommended revenues.

5
6 **Q. Did Staff include the rate design and typical bill analysis in surrebuttal schedules?**

7 A. Yes.

8
9 **Q. The Company's rebuttal testimony suggested that Staff's rate design did not generate
10 the targeted revenue requirement. Does Staff's rate design generate the appropriate
11 revenue requirement?**

12 A. Yes.

13
14 **Q. What is the basis for the Company's position that Staff's rate design does not generate
15 the targeted revenue requirement?**

16 A. In reviewing the Company's position, Staff determined that the discrepancies as identified by
17 the Company were related to the treatment of the declining usage adjustment and the over
18 collection for the low income programs in Mohave Water and Sun City. Staff's revenue
19 requirement already factors in these adjustments in establishing the overall revenue
20 requirement. The Company's position is that these adjustments should also be accounted for
21 within rate design. Staff's position is that to address them in rate design after adjusting for
22 these two items in calculating the revenue requirement would represent recognition of these
23 items twice.

24

1 **BILL IMPACT**

2 **Q. What is the rate impact on a typical 5/8 x 3/4-inch meter residential customer in**
3 **Mohave Water?**

4 A. The Company's proposed rates would increase the typical 5/8-inch meter residential bill with
5 median usage of 5,000 gallons from \$17.32 to \$25.19, for an increase of \$7.87 or 45.44
6 percent. Staff's recommended rates would increase the typical 5/8-inch meter residential bill
7 with a median usage of 5,000 gallons from \$17.32 to \$20.97, for an increase of \$3.65 or 21.05
8 percent.

9
10 **Q. What is the rate impact on a typical 5/8 x 3/4-inch meter residential customer in**
11 **Paradise Valley Water?**

12 A. The Company's proposed rates would increase the typical 5/8-inch meter residential bill with
13 median usage of 10,000 gallons from \$36.65 to \$39.76, for an increase of \$3.11 or 8.50
14 percent. Staff's recommended rates would result in no change for the typical 5/8-inch meter
15 residential with a median usage of 10,000 gallons.

16
17 **Q. What is the rate impact on a typical 5/8 x 3/4-inch meter residential customer in Sun**
18 **City Water?**

19 A. The Company's proposed rates would increase the typical 5/8-inch meter residential bill with
20 median usage of 6,000 gallons from \$15.72 to \$19.17, for an increase of \$3.45 or 21.98
21 percent. Staff's recommended rates would increase the typical 5/8-inch meter residential bill
22 with a median usage of 6,000 gallons from \$15.72 to \$17.15, for an increase of \$1.43 or 9.12
23 percent.

24

1 **Q. What is the rate impact on a typical 5/8 x 3/4-inch meter residential customer in**
2 **Tubac Water?**

3 A. The Company's proposed rates would increase the typical 5/8-inch meter residential bill with
4 median usage of 5,000 gallons from \$36.40 to \$77.89, for an increase of \$41.49 or 113.98
5 percent. Staff's recommended rates would increase the typical 5/8-inch meter residential bill
6 with a median usage of 5,000 gallons from \$36.40 to \$52.55, for an increase of \$16.15 or
7 44.35 percent.

8
9 **Q. What is the rate impact on a typical 5/8 x 3/4-inch meter residential customer in**
10 **Mohave Wastewater?**

11 A. The Company's proposed rates would increase the monthly bill (per equivalent residential
12 unit) for a residential customer under the flat monthly fee rate by \$25.05, or 44.30 percent,
13 from \$56.55 to \$81.60. Staff's recommended rates would increase the monthly bill for a
14 residential customer under the flat monthly fee rate by \$19.44, or 34.38 percent, from \$56.55
15 to \$75.99.

16
17 **Q. Does this conclude your direct testimony?**

18 A. Yes, it does.

RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
<u>Meter Size (All Classes):</u>			
5/8 x 3/4" Meter	\$11.00	\$15.35	\$13.00
3/4" Meter	11.00	15.35	19.50
1" Meter	27.50	38.36	32.50
1 1/2" Meter	55.00	76.73	65.00
2" Meter	88.00	122.76	104.00
3" Meter	176.00	245.52	208.00
4" Meter	275.00	383.63	325.00
6" Meter	550.00	767.25	650.00
8" Meter	880.00	1,227.60	1,040.00
10" Meter	1,265.00	1,764.68	1,495.00
12" Meter	2,365.00	3,299.18	2,795.00
BHC Veterans	11.00	15.35	13.00
Fire 2"	\$5.00	\$5.99	\$6.03
Fire 4"	10.00	11.98	12.07
Fire 6"	15.00	17.96	18.10
Fire 8"	20.00	23.95	24.13
Fire 10"	25.00	29.94	30.16
Private Hydrant	12.32	14.75	14.86
Public Hydrant	12.32	14.75	14.83
Public Sprinkler Head	0.73	0.87	0.88
Commodity Rates-Per 1,000 Gallons			
5/8 x 3/4" & 3/4" Meter (Residential)			
First 3,000 Gallons	\$0.8800	\$1.5300	\$1.1220
From 3,001 to 10,000 Gallons	1.8400	2.4800	2.3000
Over 10,000 Gallons	3.0000	3.2050	3.7600
5/8 x 3/4" & 3/4" Meter (Apartment, Commercial & Industrial)			
First 10,000 Gallons	\$1.8400	\$2.4800	\$2.3000
Over 10,000 Gallons	3.0000	3.2050	\$3.7600
1" Meter (Res., Apt., Comm., & Ind.)			
First 15,000 Gallons	\$1.8400	\$2.4800	\$2.3000
Over 15,000 Gallons	3.0000	3.2050	\$3.7600
1 1/2" Meter (Res., Apt., Comm., & Ind.)			
First 30,000 Gallons	\$1.8400	\$2.4800	\$2.3000
Over 30,000 Gallons	3.0000	3.2050	\$3.7600
2" Meter (Res., Apt., Comm., & Ind.)			
First 50,000 Gallons	\$1.8400	\$2.48	\$2.3000
Over 50,000 Gallons	3.0000	3.2050	\$3.7600
3" Meter (Res., Apt., Comm., & Ind.)			
First 100,000 Gallons	\$1.8400	\$2.4800	\$2.3000
Over 100,000 Gallons	3.0000	3.2050	3.7600
4" Meter (Res., Apt., Comm., & Ind.)			
First 150,000 Gallons	\$1.8400	\$2.4800	\$2.3000
Over 150,000 Gallons	3.0000	3.2050	3.7600
6" Meter (Res., Apt., Comm., & Ind.)			
First 300,000 Gallons	\$1.8400	\$2.4800	\$2.3000
Over 300,000 Gallons	3.0000	3.2050	3.7600
8" Meter (Res., Apt., Comm., & Ind.)			
First 500,000 Gallons	\$1.8400	\$2.4800	\$2.3000
Over 500,000 Gallons	3.0000	3.2050	3.7600
10" Meter (Res., Apt., Comm., & Ind.)			
First 750,000 Gallons	\$1.8400	\$2.4800	\$2.3000
Over 750,000 Gallons	3.0000	3.2050	3.7600
12" Meter (Res., Apt., Comm., & Ind.)			
First 1,400,000 Gallons	\$1.8400	\$2.4800	\$2.3000
Over 1,400,000 Gallons	3.0000	3.2050	3.7600

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

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	6,800	\$20.63	\$29.69	\$9.06	43.90%
Median Usage	5,000	\$17.32	\$25.19	\$7.87	45.44%
Staff Recommended					
Average Usage	6,800	\$20.63	\$25.11	\$4.47	21.68%
Median Usage	5,000	\$17.32	\$20.97	\$3.65	21.05%

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

Gallons	Present	Company Proposed	Staff Recommended
Minimum Charge	\$11.00	Minimum Charge \$15.54	Minimum Charge \$13.00
1st Tier Rate	0.8800	1st Tier Rate 1.5500	1st Tier Rate 1.1220
1st Tier Breakover	3,000	1st Tier Breakover 3,000	1st Tier Breakover 3,000
2nd Tier Rate	1.8400	2nd Tier Rate 2.5000	2nd Tier Rate 2.3000
2nd Tier Breakover	10,000	2nd Tier Breakover 10,000	2nd Tier Breakover 10,000
3rd Tier Rate	3.0000	3rd Tier Rate 3.2250	3rd Tier Rate 3.7600

Consumption	Rates	Rates	Increase	Rates	Increase
-	\$11.00	\$15.54	41.27%	\$13.00	18.18%
1,000	11.88	17.09	43.86%	14.12	18.87%
2,000	12.76	18.64	46.08%	15.24	19.47%
3,000	13.64	20.19	48.02%	16.37	19.99%
4,000	15.48	22.69	46.58%	18.67	20.58%
5,000	17.32	25.19	45.44%	20.97	21.05%
6,000	19.16	27.69	44.52%	23.27	21.43%
7,000	21.00	30.19	43.76%	25.57	21.74%
8,000	22.84	32.69	43.13%	27.87	22.01%
9,000	24.68	35.19	42.59%	30.17	22.23%
10,000	26.52	37.69	42.12%	32.47	22.42%
11,000	29.52	40.92	38.60%	36.23	22.72%
12,000	32.52	44.14	35.73%	39.99	22.96%
13,000	35.52	47.37	33.35%	43.75	23.16%
14,000	38.52	50.59	31.33%	47.51	23.33%
15,000	41.52	53.82	29.61%	51.27	23.47%
16,000	44.52	57.04	28.12%	55.03	23.60%
17,000	47.52	60.27	26.82%	58.79	23.71%
18,000	50.52	63.49	25.67%	62.55	23.80%
19,000	53.52	66.72	24.65%	66.31	23.89%
20,000	56.52	69.94	23.74%	70.07	23.97%
25,000	71.52	86.07	20.34%	88.87	24.25%
30,000	86.52	102.19	18.11%	107.67	24.44%
35,000	101.52	118.32	16.54%	126.47	24.57%
40,000	116.52	134.44	15.38%	145.27	24.67%
45,000	131.52	150.57	14.48%	164.07	24.75%
50,000	146.52	166.69	13.77%	182.87	24.81%
75,000	221.52	247.32	11.64%	276.87	24.98%
100,000	296.52	327.94	10.60%	370.87	25.07%

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

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	19,271	\$52.30	\$56.76	\$4.47	8.54%
Median Usage	10,000	\$36.65	\$39.76	\$3.11	8.50%
Staff Recommended					
Average Usage	19,271	\$52.30	\$52.30	\$0.00	0.00%
Median Usage	10,000	\$36.65	\$36.65	\$0.00	0.00%

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

Gallons	Present	Company Proposed	%	Staff Recommended	%
	Minimum Charge \$25.15	Minimum Charge \$27.27		Minimum Charge \$25.15	
	1st Tier Rate \$1.0500	1st Tier Rate \$1.1408		1st Tier Rate \$1.0500	
	1st Tier Breakover 5,000	1st Tier Breakover 5,000		1st Tier Breakover 5,000	
	2nd Tier Rate \$1.2500	2nd Tier Rate \$1.3581		2nd Tier Rate \$1.2500	
	2nd Tier Breakover 15,000	2nd Tier Breakover 15,000		2nd Tier Breakover 15,000	
	3rd Tier Rate \$2.2000	3rd Tier Rate \$2.3903		3rd Tier Rate \$2.2000	
	3rd Tier Breakover 40,000	3rd Tier Breakover 40,000		3rd Tier Breakover 40,000	
	4th Tier Rate \$2.7500	4th Tier Rate \$2.9879		4th Tier Rate \$2.7700	
	4th Tier Breakover 80,000	4th Tier Breakover 80,000		4th Tier Breakover 80,000	
	5th Tier Rate \$3.2300	5th Tier Rate \$3.5049		5th Tier Rate \$3.3010	

Consumption	Rates	Rates	Increase	Rates	Increase
-	\$25.15	\$27.27	8.43%	\$25.15	0.00%
1,000	26.20	28.41	8.44%	26.20	0.00%
2,000	27.25	29.55	8.45%	27.25	0.00%
3,000	28.30	30.69	8.45%	28.30	0.00%
4,000	29.35	31.83	8.46%	29.35	0.00%
5,000	30.40	32.97	8.47%	30.40	0.00%
6,000	31.65	34.33	8.47%	31.65	0.00%
7,000	32.90	35.69	8.48%	32.90	0.00%
8,000	34.15	37.05	8.49%	34.15	0.00%
9,000	35.40	38.41	8.49%	35.40	0.00%
10,000	36.65	39.76	8.50%	36.65	0.00%
11,000	37.90	41.12	8.50%	37.90	0.00%
12,000	39.15	42.48	8.51%	39.15	0.00%
13,000	40.40	43.84	8.51%	40.40	0.00%
14,000	41.65	45.20	8.52%	41.65	0.00%
15,000	42.90	46.56	8.52%	42.90	0.00%
16,000	45.10	48.95	8.53%	45.10	0.00%
17,000	47.30	51.34	8.53%	47.30	0.00%
18,000	49.50	53.73	8.54%	49.50	0.00%
19,000	51.70	56.12	8.54%	51.70	0.00%
20,000	53.90	58.51	8.55%	53.90	0.00%
25,000	64.90	70.46	8.56%	64.90	0.00%
30,000	75.90	82.41	8.58%	75.90	0.00%
35,000	86.90	94.36	8.59%	86.90	0.00%
40,000	97.90	106.31	8.59%	97.90	0.00%
45,000	108.90	118.26	8.60%	108.90	0.00%
50,000	119.90	130.22	8.60%	119.90	0.00%
75,000	174.90	189.97	8.62%	174.90	0.00%
100,000	229.90	249.73	8.63%	229.90	0.00%

Monthly Usage Charge	RATE DESIGN		
	Present	Company Proposed Rates	Staff Recommended Rates
<u>Meter Size (All Classes):</u>			
5/8 x 3/4" Meter	\$8.76	\$10.42	\$9.50
3/4" Meter	8.76	10.42	14.25
1" Meter	21.89	26.06	23.75
1½" Meter	43.78	52.12	47.50
2" Meter	70.05	83.40	76.00
3" Meter	140.10	166.79	152.00
4" Meter	218.90	260.61	237.50
6" Meter	437.81	521.22	475.00
8" Meter	700.50	833.95	760.00
Public Interruptible - Peoria	8.16	9.97	10.00
Irrigation - 2"	77.59	92.33	85.00
Irrigation - Raw	-	-	-
Private Fire 3"	9.73	10.65	10.81
Private Fire 4"	9.73	10.65	10.81
Private Fire 6"	9.73	10.65	10.81
Private Fire 8"	14.01	5.34	15.57
Private Fire 10"	20.14	22.05	22.38
Private Hydrant - Peoria	8.22	9.00	9.13

<u>Commodity Charge-Per 1,000 gallons</u>			
<u>All Meter Size (residential)</u>			
First 1,000 gallons	\$0.7297	N/A	N/A
From 1,001 to 3,000 gallons	1.0702	N/A	N/A
From 3,001 to 9,000 gallons	1.3621	N/A	N/A
From 9,001 to 12,000 gallons	1.6539	N/A	N/A
Over 12,000 gallons	1.9896	N/A	N/A
<u>5/8 x 3/4" , 3/4" & 1 " Meter (Residential)</u>			
First 1,000 gallons	\$0.7297	\$0.7336	\$0.7500
From 1,001 to 3,000 gallons	1.0702	1.3602	1.2000
From 3,001 to 9,000 gallons	1.3621	1.6302	1.5000
From 9,001 to 12,000 gallons	1.6539	1.8002	1.9000
Over 12,000 gallons	1.9896	2.0102	2.2621
<u>5/8 x 3/4" & 3/4" (Commercial)</u>			
First 9,000 gallons	\$1.3621	\$1.8002	\$1.5000
Over 9,000 gallons	1.9896	2.0102	2.2621
<u>1" Meter (Commercial)</u>			
First 20,000 gallons	\$1.3621	\$1.8002	\$1.5000
Over 20,000 gallons	1.9896	2.0102	2.2621
<u>1½" Meter (Commercial)</u>			
First 40,000 gallons	\$1.3621	\$1.8002	\$1.5000
Over 40,000 gallons	1.9896	2.0102	2.2621
<u>2" Meter (Commercial)</u>			
First 64,000 gallons	\$1.3621	\$1.8002	\$1.5000
Over 64,000 gallons	1.9896	2.0102	2.2621
<u>3" Meter (Commercial)</u>			
First 131,000 gallons	\$1.3621	\$1.8002	\$1.5000
Over 131,000 gallons	1.9896	2.0102	2.2621
<u>4" Meter (Commercial)</u>			
First 205,000 gallons	\$1.3621	\$1.8002	\$1.5000
Over 205,000 gallons	1.9896	2.0102	2.2621
<u>6" Meter (Commercial)</u>			
First 415,000 gallons	\$1.3621	\$1.8002	\$1.5000
Over 415,000 gallons	1.9896	2.0102	2.2621
<u>8" Meter (Commercial)</u>			
First 670,000 gallons	\$1.3621	\$1.8002	\$1.5000
Over 670,000 gallons	1.9896	2.0102	2.2621

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

Company Propose	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	7,203	\$17.36	\$21.17	\$3.81	21.97%
Median Usage	6,000	\$15.72	\$19.17	\$3.45	21.98%
Staff Recommended					
Average Usage	7,203	\$17.36	\$18.95	\$1.60	9.22%
Median Usage	6,000	\$15.72	\$17.15	\$1.43	9.12%

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

Gallons	Present		Company Proposed			
	Minimum Charge	\$8.76	Minimum Charge	\$10.70	Minimum Charge	\$9.50
1st Tier Rate	\$0.7297	1st Tier Rate	\$0.7500	1st Tier Rate	\$0.7500	
1st Tier Breakover	1,000	1st Tier Breakover	1,000	1st Tier Breakover	1,000	
2nd Tier Rate	\$1.0702	2nd Tier Rate	\$1.3702	2nd Tier Rate	\$1.2000	
2nd Tier Breakover	3,000	2nd Tier Breakover	3,000	2nd Tier Breakover	3,000	
3rd Tier Rate	\$1.3621	3rd Tier Rate	\$1.6602	3rd Tier Rate	\$1.5000	
3rd Tier Breakover	9,000	3rd Tier Breakover	9,000	3rd Tier Breakover	9,000	
4th Tier Rate	\$1.6239	4th Tier Rate	\$1.9002	4th Tier Rate	\$1.9000	
4th Tier Breakover	12,000	4th Tier Breakover	12,000	4th Tier Breakover	12,000	
5th Tier Rate	\$1.9896	5th Tier Rate	\$2.1202	5th Tier Rate	\$2.2621	

Consumption	Rates	Rates	Increase	Rates	Increase
-	\$8.76	\$10.70	22.15%	\$9.50	8.45%
1,000	9.49	11.45	20.66%	10.25	8.01%
2,000	10.56	12.82	21.40%	11.45	8.43%
3,000	11.63	14.19	22.01%	12.65	8.77%
4,000	12.99	15.85	22.00%	14.15	8.91%
5,000	14.35	17.51	21.99%	15.65	9.03%
6,000	15.72	19.17	21.98%	17.15	9.12%
7,000	17.08	20.83	21.97%	18.65	9.20%
8,000	18.44	22.49	21.97%	20.15	9.27%
9,000	19.80	24.15	21.96%	21.65	9.33%
10,000	22.50	27.42	21.89%	24.75	10.02%
11,000	25.19	30.69	21.84%	27.85	10.56%
12,000	27.89	33.96	21.80%	30.95	10.99%
13,000	30.94	37.45	21.03%	34.41	11.20%
14,000	34.00	40.94	20.41%	37.87	11.38%
15,000	37.06	44.43	19.88%	41.34	11.53%
16,000	40.12	47.92	19.44%	44.80	11.65%
17,000	43.18	51.41	19.06%	48.26	11.76%
18,000	46.24	54.91	18.73%	51.72	11.85%
19,000	49.30	58.40	18.44%	55.18	11.93%
20,000	52.36	61.89	18.19%	58.65	12.00%
25,000	67.66	79.34	17.26%	75.96	12.26%
30,000	82.96	96.79	16.67%	93.27	12.42%
35,000	98.26	114.24	16.26%	110.58	12.54%
40,000	113.56	131.69	15.97%	127.89	12.62%
45,000	128.86	149.15	15.74%	145.20	12.68%
50,000	144.16	166.60	15.57%	162.51	12.73%
75,000	220.65	253.86	15.05%	249.06	12.88%
100,000	297.15	341.12	14.80%	335.61	12.95%

RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
<u>Meter Size (All Classes):</u>			
5/8 x 3/4" Meter	\$24.70	\$42.36	\$31.75
3/4" Meter	24.70	42.36	47.63
1" Meter	74.10	105.90	79.38
1 1/2" Meter	144.38	211.80	158.75
2" Meter	230.53	338.88	254.00
3" Meter	461.00	677.77	508.00
4" Meter	722.00	1,059.01	793.75
6" Meter	1,440.00	2,118.03	1,587.50
8" Meter	2,305.00	3,388.84	2,540.00
10" Meter	3,320.00	4,871.46	3,651.25
12" Meter	6,208.00	9,107.51	6,826.25
<u>Commodity Rates-Per 1,000 Gallons</u>			
5/8 x 3/4" & 3/4" Meter (Residential)			
First 3,000 Gallons	\$1.9000	\$4.7500	\$3.3350
From 3,001 to 10,000 Gallons	3.0000	6.1000	5.3950
From 10,001 to 20,000 Gallons	4.0000	7.1500	7.8500
Over 20,000 Gallons	6.0000	7.9500	9.5380
5/8 x 3/4" & 3/4" Meter (Commercial)			
First 20,000 Gallons	\$4.0000	\$6.7000	\$7.8500
Over 20,000 Gallons	6.0000	7.9500	9.5380
1" Meter (Res. & Comm.)			
First 35,000 Gallons	\$4.0000	\$6.7000	\$7.8500
Over 35,000 Gallons	6.0000	7.9500	9.5380
1 1/2" Meter (Res. & Comm.)			
First 85,000 Gallons	\$4.0000	\$6.7000	\$7.8500
Over 85,000 Gallons	6.0000	7.9500	9.5380
2" Meter (Res. & Comm.)			
First 150,000 Gallons	\$4.0000	\$6.7000	\$7.8500
Over 150,000 Gallons	6.0000	7.9500	9.5380
3" Meter (Res. & Comm.)			
First 175,000 Gallons	\$4.0000	\$6.7000	\$7.8500
Over 175,000 Gallons	6.0000	7.9500	9.5380
4" Meter (Res. & Comm.)			
First 250,000 Gallons	\$4.0000	\$6.7000	\$7.8500
Over 250,000 Gallons	6.0000	7.9500	9.5380
6" Meter (Res. & Comm.)			
First 350,000 Gallons	\$4.0000	\$6.7000	\$7.8500
Over 350,000 Gallons	6.0000	7.9500	9.5380
8" Meter (Res. & Comm.)			
First 900,000 Gallons	\$4.0000	\$6.7000	\$7.8500
Over 900,000 Gallons	6.0000	7.9500	9.5380
10" Meter (Res. & Comm.)			
First 1,500,000 Gallons	\$4.0000	\$6.7000	\$7.8500
Over 1,500,000 Gallons	6.0000	7.9500	9.5380
12" Meter (Res. & Comm.)			
First 2,250,000 Gallons	\$4.0000	\$6.7000	\$7.8500
Over 2,250,000 Gallons	6.0000	7.9500	9.5380

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

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	8,348	\$46.44	\$100.76	\$54.31	116.94%
Median Usage	5,000	\$36.40	\$77.89	\$41.49	113.98%
Staff Recommended					
Average Usage	8,348	\$46.44	\$70.61	\$24.16	52.03%
Median Usage	5,000	\$36.40	\$52.55	\$16.15	44.35%

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

Gallons	Present		Company Proposed			
	Minimum Charge	\$24.70	Minimum Charge	\$48.24	Minimum Charge	\$31.75
1st Tier Rate	\$1.9000	1st Tier Rate	\$5.3300	1st Tier Rate	\$3.3350	
1st Tier Breakover	3,000	1st Tier Breakover	3,000	1st Tier Breakover	3,000	
2nd Tier Rate	\$3.0000	2nd Tier Rate	\$6.8300	2nd Tier Rate	\$5.3950	
2nd Tier Breakover	10,000	2nd Tier Breakover	10,000	2nd Tier Breakover	10,000	
3rd Tier Rate	\$4.0000	3rd Tier Rate	\$8.1800	3rd Tier Rate	\$7.8500	
3rd Tier Breakover	20,000	3rd Tier Breakover	20,000	3rd Tier Breakover	20,000	
4th Tier Rate	\$6.0000	4th Tier Rate	\$9.3800	4th Tier Rate	\$9.5380	

Consumption	Rates	Rates	Increase	Rates	Increase
-	\$24.70	\$48.24	95.30%	\$31.75	28.54%
1,000	26.60	53.57	101.39%	35.09	31.90%
2,000	28.50	58.90	106.67%	38.42	34.81%
3,000	30.40	64.23	111.28%	41.76	37.35%
4,000	33.40	71.06	112.75%	47.15	41.17%
5,000	36.40	77.89	113.98%	52.55	44.35%
6,000	39.40	84.72	115.03%	57.94	47.06%
7,000	42.40	91.55	115.92%	63.34	49.38%
8,000	45.40	98.38	116.70%	68.73	51.39%
9,000	48.40	105.21	117.38%	74.13	53.15%
10,000	51.40	112.04	117.98%	79.52	54.71%
11,000	55.40	120.22	117.00%	87.37	57.71%
12,000	59.40	128.40	116.16%	95.22	60.30%
13,000	63.40	136.58	115.43%	103.07	62.57%
14,000	67.40	144.76	114.78%	110.92	64.57%
15,000	71.40	152.94	114.20%	118.77	66.34%
16,000	75.40	161.12	113.69%	126.62	67.93%
17,000	79.40	169.30	113.22%	134.47	69.36%
18,000	83.40	177.48	112.81%	142.32	70.65%
19,000	87.40	185.66	112.43%	150.17	71.82%
20,000	91.40	193.84	112.08%	158.02	72.89%
25,000	121.40	240.74	98.30%	205.71	69.45%
30,000	151.40	287.64	89.99%	253.40	67.37%
35,000	181.40	334.54	84.42%	301.09	65.98%
40,000	211.40	381.44	80.44%	348.78	64.99%
45,000	241.40	428.34	77.44%	396.47	64.24%
50,000	271.40	475.24	75.11%	444.16	63.66%
75,000	421.40	709.74	68.42%	682.61	61.99%
100,000	571.40	944.24	65.25%	921.06	61.19%

RATE DESIGN

Monthly Service Charge	Present	Company Proposed Rates	Staff Recommended Rates
Residential (per ERU)	\$56.55	\$81.60	\$75.99
Commercial (per ERU)	56.55	81.60	75.99
OPA (per ERU)	56.55	81.60	75.99
Large Commercial	72.89	105.18	93.99
Commodity Charge - Per 1,000 Gallons			
Residential (per ERU)	-	-	-
Commercial (per ERU)	-	-	-
OPA (per ERU)	-	-	-
Large Commercial	\$2,280.00	\$3,290.00	\$2,988.00
Effluent (Per Acre Foot)			
0 to 24	\$227.79	\$227.79	\$227.79
25 to 99	227.79	227.79	227.79
200 to 199	227.79	227.79	227.79
200 & Above	227.79	227.79	227.79
Other Service Charges			
Establishment or Reestablishment of Service			\$35.00
Regular Hours	\$20.00	\$35.00	Remove from Tariff
After Hours	\$30.00	\$65.00	Remove from Tariff
Reconnection of Service (Delinquent)	\$30.00		\$35.00
Regular Hours	N/A	\$35.00	Remove from Tariff
After Hours	N/A	\$65.00	Remove from Tariff
Deposit	(a)	(a)	(a)
Deposit Interest	(a)	(a)	(a)
NSF Check	\$25.00	\$25.00	\$25.00
Deferred Payment (per month)	N/A	1.5% per month	1.5% per month
Late Payment Fee (per month)	1.5% per month	1.5% per month	1.5% per month
After hour service charge (b)	N/A	N/A	\$30.00

(a) Per Commission Rules (R14-2-603.B)

(b) After Hours Service : After regular working hours, on Saturdays, Sundays or holidays if at the customer's request or for the customer's convenience.

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per commission rule 14-2-609D(5).

Service Line Connection Charges

	Current Charges	Proposed Charges	Staff Recommended Charges
Residential	Actual Cost	Actual Cost	Actual Cost
Commercial	Actual Cost	Actual Cost	Actual Cost
School	Actual Cost	Actual Cost	Actual Cost
Multiple Dwelling	Actual Cost	Actual Cost	Actual Cost
Mobile Home park	Actual Cost	Actual Cost	Actual Cost
Effluent	Actual Cost	Actual Cost	Actual Cost

Treatment Plant Hook-Up Fee

	Current Charges	Proposed Charges	Staff Recommended Charges
4 Inch Connection	\$785.00	\$785.00	\$785.00
6 Inch Connection	1,570.00	1,570.00	1,570.00
8 Inch Connection	2,748.00	2,748.00	2,748.00

EPCOR Water Arizona, Inc.
Docket No. WS-01303A-14-0010
Test Year Ended June 30, 2013.
Mohave Wastewater District

Surrebuttal Schedule BAB-2

Typical Bill Analysis
Residential

<u>Company Proposed</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
	\$56.55	\$81.60	\$25.05	44.30%
<u>Staff Recommended</u>				
	\$56.55	\$75.99	\$19.44	34.38%