

ARIZONA CORPORATION COMMISSION
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1 SHAPIRO LAW FIRM, P.C.
Jay L. Shapiro (No. 014650)
2 1819 E. Morten Avenue, Suite 280
Phoenix, Arizona 85020
3 Telephone (602) 559-9575

4 Attorneys for Quail Creek Water Company, Inc.

5
6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

7
8 IN THE MATTER OF THE APPLICATION
OF QUAIL CREEK WATER COMPANY,
9 INC., AN ARIZONA CORPORATION,
FOR A DETERMINATION OF THE FAIR
10 VALUE OF ITS UTILITY PLANTS AND
PROPERTY AND FOR INCREASES IN
11 ITS WATER RATES AND CHARGES FOR
UTILITY SERVICE BASED THEREON.

DOCKET NO: W-02514A-14-0343

**NOTICE OF FILING REBUTTAL
TESTIMONY**

12 Quail Creek Water Company, Inc. hereby submits this Notice of Filing Rebuttal
13 Testimony in the above-referenced matter. Specifically filed herewith are the following
14 testimonies, along with supporting schedules and/or attachments:

- 15 1. Rebuttal Testimony of Ray L. Jones;
16 2. Rebuttal Testimony of Thomas J. Bourassa – Rate Base, Income Statement and
17 Rate Design; and
18 3. Rebuttal Testimony of Thomas J. Bourassa – Cost of Capital.

19
20 RESPECTFULLY SUBMITTED this 3rd day of June, 2015.

21 SHAPIRO LAW FIRM, P.C.

22
23 By 
24 Jay L. Shapiro
Attorneys for Quail Creek Water Company, Inc.

1 ORIGINAL and thirteen (13) copies
of the foregoing were filed
2 this 3rd day of June, 2015, with:

3 Docket Control
Arizona Corporation Commission
4 1200 W. Washington Street
Phoenix, AZ 85007
5

6 COPY of the foregoing was hand-delivered & e-mailed
this 3rd day of June, 2015, to:

7 Jane Rodda, ALJ
8 Hearing Division
Arizona Corporation Commission
9 1200 W. Washington Street
Phoenix, AZ 85007

10 Wes Van Cleve
11 Brian Smith
Legal Division
12 Arizona Corporation Commission
1200 W. Washington Street
13 Phoenix, AZ 85007

14

15 By: Whitney Birk

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SHAPIRO LAW FIRM, P.C.
Jay L. Shapiro (No. 014650)
1819 E. Morten Avenue, Suite 280
Phoenix, Arizona 85020
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DOCKET NO: W-02514A-14-0343

**REBUTTAL TESTIMONY OF
RAY L. JONES**

JUNE 3, 2015

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1 **I. INTRODUCTION, PURPOSE AND SUMMARY OF TESTIMONY.**
2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**
3 A. My name is Ray L. Jones, P.E. My business address is 18835 North Thompson Peak
4 Parkway, Suite 215, Scottsdale, Arizona 85255.
5 **Q. ARE YOU THE SAME RAY L. JONES THAT FILED DIRECT TESTIMONY**
6 **IN THIS PROCEEDING?**
7 A. Yes.
8 **Q. HAS ANYTHING CHANGED WITH RESPECT TO YOUR EMPLOYMENT**
9 **OR RESPONSIBILITIES?**
10 A. No, I am still owner and principal of ARICOR Water Solutions LC, and I am
11 testifying on behalf of the Applicant Quail Creek Water Company, Inc. ("QCW" or
12 "Company"). Additionally, as of December 15, 2014, in addition to my consulting
13 practice, I am the Executive Director of the Water Utilities Association of Arizona
14 ("WUAA"). Founded in 1961, WUAA is a non-profit association representing
15 Arizona's private, regulated water and wastewater utilities.
16 **Q. HAVE YOU REVIEWED THE DIRECT FILING MADE BY STAFF?**
17 A. Yes.
18 **Q. WHAT WILL YOU ADDRESS IN THIS REBUTTAL TESTIMONY?**
19 A. I will address Staff's recommended treatment of the costs associated with Well 16
20 and set forth QCW's response. I will also address the Staff recommendation
21 regarding Best Management Practices.
22 ...
23 ...
24 ...
25 ...
26

1 **II. REBUTTAL TO DIRECT TESTIMONY OF JOHN A. CASSIDY.**

2 **A. Well 16 Costs.**

3 **Q. WHAT IS YOUR UNDERSTANDING OF MR. CASSIDY'S**
4 **RECOMMENDATION REGARDING THE COSTS INCURRED FOR WELL**
5 **16?**

6 A. Mr. Cassidy is recommending disallowance of \$510,205 in costs associated with the
7 development and construction of Well 16. Mr. Cassidy recommends three
8 adjustments to remove the costs from the Company's rate base. Staff Rate Base
9 Adjustment No. 1 reduces plant in service (NARUC 307) by removing \$249,432 in
10 well drilling costs. Staff Rate Base Adjustment No. 2 reduces plant in service
11 (NARUC 307) by removing \$2,552 in capitalized interest.¹ Lastly, Staff Rate Base
12 Adjustment No. 4 decreases accumulated depreciation by \$258,221 by reversing the
13 recorded retirement of Well 16 pumping equipment costs. The cumulative effect of
14 these adjustments is to reduce rate base by \$510,205.² The adjustment also reduces
15 the Company's depreciation expense.³

16 **Q. WILL YOU PROVIDE A BRIEF SUMMARY OF THE DEVELOPMENT**
17 **AND CONSTRUCTION OF WELL 16?**

18 A. The following provides a timeline and summary of the development of Well 16.
19

20 ¹ QCW recorded the capitalized interest in error and does not dispute Staff Rate Base
21 Adjustment No. 2. See Rebuttal Testimony of Thomas J. Bourassa – Rate Base, Income
Statement and Rate Design at 3.

22 ² Note: The actual impact to rate base is reduced by the effect of intervening depreciation
23 of the plant in service balance. Those rate base impacts are fall out calculation impacts
24 captured in Mr. Cassidy's recalculation of accumulated depreciation using Staff's
recommended plant balances. Since the recalculation of accumulated depreciation is
mathematical in nature and will self-correct based on the underlying plant adjustment
adopted, the fall out impact to rate base is omitted from this discussion for clarity.

25 ³ Note: Since the impact to depreciation expense is mathematical in nature and will self-
26 correct based on the underlying plant adjustment adopted, the impact to depreciation
expense is omitted from this discussion for clarity.

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- A previous owner of the property that now makes up the Quail Creek development originally drilled Well 16 in 1962. The well was never utilized by any QCW affiliate.
- As early as 2001, QCW began the process of conducting hydrogeological evaluations of Well 16 and planning to place the well into service as a potable well.
- In 2004, hydrogeological well design and engineering plans were completed.
- February 2005, Approval to Construct was issued by Pima County.
- In 2005 and 2006, QCW caused Well 16 to be developed and equipped for potable water use. The well was rehabilitated and upgraded to meet potable water standards, including the installation of a new well casing inside of the original well casing, electrical equipment, pumping equipment and needed piping. As with all QCW construction projects, the work was performed by an affiliate, Robson Ranch Quail Creek, LLC.
- In June 2006, Engineer's Certificate of Completion submitted to Pima County.
- After completion of construction, Well 16 was tested to obtain water quality samples necessary for obtaining new source approval. The testing of the well indicated that Well 16 met all regulatory requirements for potable water use.
- In October 2006, New Source Approval submitted and approved by Pima County.
- Although Well 16 met all regulatory requirements, the pump testing indicated that the well produced excessive amounts of sand, a condition that could have made the well unsuitable for potable use over the long-term. Well 16 was connected to the system and available for service at any time, however, because of the concern over sand production, QCW did not immediately place the well into use.

- 1 • In September 2009, QCW placed Well 16 into use and conducted an extended
2 operational test of the well to determine definitively if it could be used as a
3 potable well.
- 4 • In October 2009, the extended pump testing indicated that the sand production
5 did not abate with continued pumping and that continued sand production would
6 cause equipment damage and increased maintenance requirements. Given these
7 factors, QCW was forced to determine that the well was unsuitable for long-term
8 potable use and Well 16 was taken out of service in October 2009.
- 9 • 1st Quarter 2010, Engineering and hydrogeological well design begun on Well 12
10 as an alternative water supply to Well 16. Well 12 was ultimately placed in-
11 service May 2012.

12 **Q. MR. JONES, IN YOUR EXPERIENCED OPINION, WERE THE COSTS**
13 **RELATED TO WELL 16 REASONABLY AND PRUDENTLY INCURRED?**

14 A. Yes. The design and construction process was consistent with the process used by
15 water companies throughout Arizona to develop wells. Professional engineers and
16 hydrogeologists were engaged to evaluate and design Well 16. Reputable
17 contractors constructed the well. The entire project met all regulatory requirements
18 and regulatory approvals were obtained in a timely manner.

19 **Q. OKAY, BUT ISN'T IT UNUSUAL FOR A WELL TO BE TAKEN OUT OF**
20 **SERVICE SO SOON AFTER HAVING BEEN CONSTRUCTED?**

21 A. Not necessarily. Development of a new water supply in Arizona is not an easy task.
22 Water companies face many challenges when drilling and equipping wells. There
23 are regulatory constraints, such as well spacing regulations and water rights
24 constraints that limit where new wells can be developed. As a result, the
25 redevelopment of existing wells is often a desirable option. Once available wells or
26 well sites are located, they must be evaluated, and it is impossible to know with

1 certainty what will be encountered below ground during well drilling or
2 development. Sometimes wells are dry. Sometimes wells produce sand. Sometimes
3 the water quality is not acceptable. This is why professional engineers and
4 hydrogeologists are used in evaluating wells and well sites and developing water
5 supply plans for water companies. The goal is always to maximize the probability
6 of developing a useable well that produces water of acceptable quantity and quality.
7 However, despite the best efforts of all involved, sometimes the outcome is not ideal
8 and, as in this case with QCW, a water company has to move forward to an
9 alternative water supply project in order to meet the needs of its customers.

10 **Q. HOW DOES THE NARUC SYSTEM OF ACCOUNTS ADDRESS THE**
11 **TREATMENT OF COSTS RELATED TO WATER SUPPLY**
12 **DEVELOPMENT PROJECTS SUCH AS WELL 16?**

13 A. The NARUC *Uniform System of Accounts for Class A Water Utilities* (“NARUC
14 System of Accounts”) recognizes that the water utility business is not entirely
15 predictable and that water supply projects are especially difficult undertakings.
16 Specifically, the NARUC System of Accounts recognizes that water supply projects
17 may result in nonproductive wells and that all types of water utility assets may be
18 retired before they are fully depreciated.

19 **Q. WHAT DOES THE NARUC SYSTEM OF ACCOUNTS REQUIRE FOR**
20 **NONPRODUCTIVE WELLS, SUCH AS WELL 16?**

21 A. NARUC specifies the Wells and Springs plant account (NARUC 307) shall include
22 the cost of “wells, casings and appurtenances, including the cost of test wells and
23 nonproductive wells drilled as part of a project resulting in a source of water within
24 the same supply area.” [Emphasis added.]⁴

25
26 ⁴ NARUC, *Uniform System of Accounts for Class A Water Utilities*, p. 101.

1 **Q. HOW DID QCW ACCOUNT FOR THE COSTS OF WELL 16**
2 **ATTRIBUTABLE TO THE WELLS AND SPRINGS ACCOUNT (NARUC**
3 **307)?**

4 A. In accordance with the NARUC System of Accounts, QCW included \$249,432 of
5 Well 16 drilling costs in the cost for Well 12, which was the alternative water supply
6 developed in lieu of Well 16.

7 **Q. HOW IS A RETIREMENT OF UTILITY PLANT MADE UNDER THE**
8 **NARUC SYSTEM OF ACCOUNTS?**

9 A. NARUC requires that the full book cost of the plant be credited to the utility plant
10 account in which it is included and that the full book cost of the plant be debited to
11 the accumulated depreciation account applicable to the utility plant.

12 **Q. HOW DID QCW ACCOUNT FOR THE RETIREMENT OF THE COSTS OF**
13 **WELL 16 ATTRIBUTABLE TO OTHER THAN THE WELLS AND**
14 **SPRINGS ACCOUNT (NARUC 307)?**

15 A. In accordance with the NARUC System of Accounts, QCW credited the Pumping
16 Equipment Account (NARUC 311) and debited the Accumulated Depreciation
17 Account (NARUC 108) by the full book value of \$258,221 associated with the
18 retired plant.

19 **Q. DOES MR. CASSIDY DISAGREE WITH THE COMPANY'S**
20 **INTERPRETATION OF THE NARUC SYSTEM OF ACCOUNTS IN**
21 **MAKING HIS DISSALLOWANCE OF \$249,432 IN WELL DRILLING COSTS**
22 **AND \$258,221 OF PUMPING EQUIPMENT COSTS?**

23 A. No. Mr. Cassidy does not challenge the Company's interpretation of the NARUC
24 System of Accounts.

25 **Q. THEN WHAT IS THE BASIS OF MR. CASSIDY'S DISSALLOWANCE?**

26 A. Mr. Cassidy cites two reasons for his disallowance. First, he claims that the NARUC

1 System of Accounts does not apply because the Company paid for / assumed
2 ownership of Well 16 two years after the well was known to be unproductive.
3 Second, he states that the controlling accounting treatment is Section D and rule 3
4 [sic] of the NARUC produced *Guidelines for Cost Allocations and Affiliate*
5 *Transactions* (“Guidelines”).

6 **Q. DO YOU AGREE THAT SECTION D OF THE GUIDELINES IS**
7 **APPLICABLE IN THIS INSTANCE?**

8 A. No. I have attached a full copy of the Guidelines to my rebuttal testimony as **Exhibit**
9 **RLJ-RB1**. The Guidelines are generally intended to provide guidance in the
10 development of procedures and recording of transactions between a regulated entity
11 and affiliates.⁵ The Guidelines are not rules and do not contain rules. As stated,
12 “[t]hese Guidelines are not intended to be rules or regulations prescribing how cost
13 allocations and affiliate transactions are to be handled.” [Emphasis in the original.]
14 As such, the Guidelines should not be used to override accounting treatment called
15 for in specific provisions of the NARUC System of Accounts. More specifically,
16 the facts and circumstances relating to the Well 16 project are not contrary to the
17 prevailing premise of the Guidelines that “allocation methods should not result in
18 subsidization of non-regulated services or products by regulated entities.”⁶ There is
19 no evidence or allegation of subsidization or other harm to ratepayers here.
20 The Guidelines do not apply here, and certainly do not act as a prohibition on cost
21 recovery as Mr. Cassidy has sought to do.

22 **Q. YOU WOULD AGREE THAT AFFILIATE TRANSACTIONS SHOULD**
23 **RECEIVE HEIGHTENED SCRUTINY, WOULDN'T YOU MR. JONES?**

24 A. Yes, but heightened scrutiny should not have the disallowance of reasonable and

25 ⁵ NARUC, *Guidelines For Cost Allocations And Affiliate Transactions*, 1st paragraph, p. 1.

26 ⁶ *Id.*

1 prudent investment as its goal. Here, Staff's scrutiny would show that QCW uses a
2 cost allocation and affiliate transaction model that has been in use for many years by
3 the Robson affiliated utility companies regulated by the Arizona Corporation
4 Commission ("Commission"). The arrangement is well vetted over an extended
5 period of time and in many rate cases adjudicated before the Commission.
6 The model used for Well 16 is no different. QCW utilizes an affiliate to manage
7 construction of its various plant construction projects. The affiliate manages the
8 process and hires the necessary engineers, hydrogeologists, contractors and others
9 necessary to perform the work. The affiliate does this work at actual cost without
10 applying any overhead or markup to the actual cost of performing the work.
11 In effect, the affiliate is acting as a design-build contractor to QCW. Once work is
12 completed and approved by all regulatory agencies the completed project is available
13 for immediate use by QCW. The affiliate carries the cost of the project as an
14 accounts receivable, with no carrying cost, until such time QCW has available funds
15 to pay the affiliate for the design-build contracting service provided. As noted by
16 Mr. Cassidy, this payment for design-build services is often referred to, perhaps
17 imprecisely, as a "deferred plant purchase."

18 This arrangement between QCW and its affiliate allows QCW to design and
19 construct water utility plant without incurring the cost of directly employing project
20 managers, engineers, or accounting personnel that otherwise would be necessary.
21 Rather, an affiliate with extensive experience in construction that possesses
22 substantial resources to perform the work handles the task on an as needed basis at
23 the actual cost of providing the work without profit or markup. Further, the affiliate
24 finances the cost of the project, without charging any interest or carrying cost, and
25 allows QCW to pay the actual cost of the project when it has the funds available,
26 even if that payment occurs several years after the project is complete and placed

1 into service by QCW.

2 QCW could not possibly obtain design and construction of its water plant
3 facilities under these very favorable terms in an arms-length transaction with an
4 unaffiliated entity. Accordingly, there is no subsidy by QCW of the non-regulated
5 services and products its affiliate. If anything, QCW's affiliates are subsidizing the
6 utility's customers.

7 **Q. WHY DOES MR. CASSIDY BELIEVE THE GUIDELINES APPLY IN THIS**
8 **INSTANCE?**

9 A. Mr. Cassidy recasts the transaction to portray the Well 16 assets as being "sold" to a
10 regulated utility by a non-regulated affiliate in 2011, two years after the well was
11 known to be nonproductive and at a time when the value of the asset should be
12 considered to be zero.⁷ From there Mr. Cassidy argues that NARUC system of
13 accounts cannot be applied "after the fact to capital projects undertaken years earlier
14 by an unregulated affiliate."⁸ Mr. Cassidy states that the Guidelines require assets
15 "to be transferred at the lower of cost or market value," which he has determined to
16 be zero.⁹

17 **Q. WAS WELL 16 SOLD TO QCW TWO YEARS AFTER THE WELL WAS**
18 **KNOWN TO BE NON PRODUCTIVE AS STATED BY MR. CASSIDY?**

19 A. No, I think that characterization over simplifies the underlying transaction. Again,
20 the affiliate acts as a design-build contractor for the work, and at the time the work
21 is completed and approved by all regulatory agencies the completed project is
22 available for immediate use by QCW. The affiliate carries the cost of the project on
23 its books as an accounts receivable, rather than as a capital asset, until such time

24 ⁷ Direct Testimony of John A. Cassidy ("Cassidy Dt.") at 11-15.

25 ⁸ Cassidy Dt. at 14.

26 ⁹ Cassidy Dt. at 15.

1 QCW has available funds to pay the affiliate for the facility. The affiliate takes no
2 depreciation expense because it does not consider itself to own the asset. At the time
3 the project is complete, QCW accepts all risk of loss related to the asset, operates the
4 asset, maintains the asset and performs all other functions of the owner of the facility.
5 Given the accounting treatment of the affiliate and the ownership responsibilities
6 undertaken by QCW, ownership of the facility transfers upon completion of the
7 project and the affiliate's recording of an Account Receivable from QCW.

8 **Q. BUT HASN'T THE COMPANY USED THE TERM "DEFERRED PLANT**
9 **PURCHASE" TO DESCRIBE THE PAYMENT TO ITS AFFILIATE FOR**
10 **ASSETS CONSTRUCTED BY THE AFFILIATE?**

11 A. Yes, the Company has used the term as I did in my direct testimony. It was used as
12 a convenient method of describing the payments, but upon reflection the Company's
13 use of the term "deferred asset purchase" or of a payment to its affiliate as a
14 "purchase" generally mischaracterizes the transaction. Since the transfer of
15 ownership of the assets or "purchase" occurs upon recording the Accounts
16 Receivable, the payment should be referred to as a payment for construction services
17 as you would characterize a payment to any contractor constructing facilities for
18 QCW.

19 **Q. IS YOUR CONCLUSION REGARDING THE DATE FOR THE TRANSFER**
20 **OF OWNERSHIP CONSISTENT WITH THE ACCOUNTING**
21 **TREATMENT APPROVED BY THE COMMISSION FOR THESE PLANT**
22 **TRANSACTIONS?**

23 A. Yes, it is. In the recent Lago Del Oro rate case, the issue of how to account for the
24 assets purchased from affiliates was addressed. The Company and Staff agreed and
25 the Commission ordered that all of the assets "purchased" from the affiliate be
26 depreciated by Lago Del Oro as of the date the construction was completed and they

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were placed into service rather than the date the assets were paid for by Lago Del Oro. The end result is exactly the same as if the “purchase” had been recorded as of the date the construction was completed and the plant was placed into service. In effect, the Commission considered the date of purchase to be the date the construction was completed and the plant was placed into service. So my conclusion regarding the true date of the transfer of ownership is entirely consistent with the accounting treatment in the Lago Del Oro rate case. Furthermore, in this case, QCW has proposed the same depreciation treatment for all “deferred purchase assets,” and, with the single exception of Well 16, Staff is in agreement with the accounting treatment.

Q. WAS WELL 16 PLACED INTO SERVICE?

A. Yes. QCW took possession of Well 16 in October 2006 upon issuance of new Source Approval by Pima County. The well was connected to the system and available for use by QCW at any time, if needed. Absent the affiliated transaction discussed above, this would have undoubtedly been the plant in service date recorded for Well 16. Additionally, in September 2009, QCW placed the well into use and conducted an extended operational test of the well to determine definitively if sand production would prevent the well from being used over the long-term for potable well purposes. The water was pumped into the Company’s water distribution system, delivered to and paid for by its customers. The well was most certainly in service. And then, after considering the extended operational testing, the Company concluded that the well was only marginally operationally useful and that development of an alternative water supply to replace the nonproductive Well 16 was appropriate.

1 **Q. THANK YOU MR. JONES. WOULD YOU PLEASE SUMMARIZE THE**
2 **COMPANY'S POSITION CONCERNING THE COST OF WELL 16?**

3 A. The NARUC System of Accounts clearly provides that the costs of nonproductive
4 water supply projects are properly included in rate base. The Company's proposed
5 treatment of Well 16 costs is consistent with the NARUC System of Accounts.
6 The Company's treatment of Well 16 costs is consistent with past Commission
7 decisions and is consistent with Staff's recommend treatment of all other assets
8 constructed by the Company's affiliate.

9 In contrast, Staff's disallowance of Well 16 costs is based on the strained
10 premise that the Guidelines supersede the NARUC System of Accounts in this
11 instance. The Company doesn't agree. The Guidelines should not be used to
12 override accounting treatment when specific provisions of the NARUC System of
13 Accounts apply. More specifically, the facts and circumstances relating to the Well
14 16 project are not contrary to the prevailing premise of the Guidelines that
15 "allocation methods should not result in subsidization of non-regulated services or
16 products by regulated entities." Mr. Cassidy seems to be going out of his way to
17 find a basis to recommend disallowance but the fact is the guidelines he relies upon
18 simply do not apply in the manner suggested.

19 **B. Staff Recommendation for Written Contract and Bids.**

20 **Q. WHAT IS QCW'S RESPONSE TO STAFF'S RECOMMENDATION THAT**
21 **THE COMPANY ENTER INTO WRITTEN CONTRACTS AND OBTAIN**
22 **BIDS FOR PROJECTS THAT EXCEED \$100,000?**

23 A. That Staff's recommendation is unnecessary. The arrangement using an affiliate to
24 construct projects on a design-build basis is beneficial to the Company and its
25 customers. The Company does not believe that bidding this work to other design-
26 build contractors would be effective or workable. There is simply too much

1 coordination required between the various Robson affiliates involved in the
2 development of the various subdivisions and projects to allow a third-party to
3 effectively oversee the projects without burdening QCW and its ratepayers with
4 increased costs and risk.

5 **Q. BUT WOULDN'T A WRITTEN CONTRACT HELP REDUCE CONFUSION**
6 **WITH PLANT TRANSFERS?**

7 A. Yes, and QCW will enter into a written contract with its affiliate governing the
8 design and construction of utility plant facilities.

9 **III. BEST MANAGEMENT PRACTICES.**

10 **Q. DOES STAFF MAKE A RECOMMENDATION REGARDING BEST**
11 **MANAGEMENT PRACTICES?**

12 A. Yes. Staff recommends that QCW file seven Best Management Practices (“BMPs”)
13 that were approved by ADWR for implementation by QCW that substantially
14 conform to the templates created by Staff for the Commission’s consideration.¹⁰

15 **Q. DOES QCW SUPPORT STAFF’S RECOMMENDATION?**

16 A. No. Staff’s recommendation is duplicative and excessive, taking the Company
17 beyond what is required by ADWR, the agency that regulates QCW’s use of
18 groundwater. As detailed in my direct testimony, QCW does not have an issue with
19 non-account water, and already has a water conservation program as mandated by
20 ADWR. QCW is enrolled as a regulated Tier II municipal provider in the Arizona
21 Department of Water Resources’ (“ADWR”) Modified Non Per Capita Conservation
22 Program (“NPCCP”). As a part of the NPCCP, QCW is required to have a public
23 education program and to implement five BMPs in its service area. QCW must file
24 reports with ADWR on its water conservation efforts.

25
26 ¹⁰ Direct Testimony of Michael S. Thompson, Exhibit MST-1 at 13-14.

1 **Q. IS THE COMPANY'S POSITION CONSISTENT WITH RECENT**
2 **COMMISSION DECISIONS?**

3 A. Yes, it is, in Decision Nos. 73573 and 74564 for QCW's sister companies, Pima
4 Utility Company and Lago Del Oro Water Company, respectively. The Commission
5 found, respectively, as follows:

6 Pima is located in the Phoenix Active Management Area
7 ("AMA"). The state's groundwater protection laws are already
8 in place and enforced by ADWR. We do not find duplicative
9 regulation to be in the public interest. We agree with Pima and
10 will not require the filing of BMPs.

11 LDO is located in the Tucson AMA. The state's groundwater
12 protection laws are already in place and enforced by ADWR.
13 We do not find duplicative regulation to be in the public
14 interest. We agree with LDO and will not require the filing of
15 BMP tariffs.

16 **Q. IS THE COMMISSION'S REJECTION OF STAFF'S BMP POLICY**
17 **LIMITED TO DECISIONS FOR QCW AFFILIATES?**

18 A. No. In *New River Utility Company*, Decision No. 74294 (January 29, 2014), the
19 Commission also rejected Staff's BMP recommendation, finding as follows:

20 New River is located in the Phoenix AMA. The state's
21 groundwater protection laws are already in place and enforced
22 by ADWR. We do not find duplicative regulation to be in the
23 public interest. We agree with New River and will not require
24 the filing of BMPs.

25 Staff must have its reasons for continuing to make recommendations that the
26 Commission keeps rejecting. Nevertheless, the Commission should reject Staff's
recommendation for BMPs again in this case.

27 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

28 A. Yes.

EXHIBIT RLJ-RB1

Guidelines for Cost Allocations and Affiliate Transactions:

The following Guidelines for Cost Allocations and Affiliate Transactions (Guidelines) are intended to provide guidance to jurisdictional regulatory authorities and regulated utilities and their affiliates in the development of procedures and recording of transactions for services and products between a regulated entity and affiliates. The prevailing premise of these Guidelines is that allocation methods should not result in subsidization of non-regulated services or products by regulated entities unless authorized by the jurisdictional regulatory authority. These Guidelines are not intended to be rules or regulations prescribing how cost allocations and affiliate transactions are to be handled. They are intended to provide a framework for regulated entities and regulatory authorities in the development of their own policies and procedures for cost allocations and affiliated transactions. Variation in regulatory environment may justify different cost allocation methods than those embodied in the Guidelines.

The Guidelines acknowledge and reference the use of several different practices and methods. It is intended that there be latitude in the application of these guidelines, subject to regulatory oversight. The implementation and compliance with these cost allocations and affiliate transaction guidelines, by regulated utilities under the authority of jurisdictional regulatory commissions, is subject to Federal and state law. Each state or Federal regulatory commission may have unique situations and circumstances that govern affiliate transactions, cost allocations, and/or service or product pricing standards. For example, The Public Utility Holding Company Act of 1935 requires registered holding company systems to price "at cost" the sale of goods and services and the undertaking of construction contracts between affiliate companies.

The Guidelines were developed by the NARUC Staff Subcommittee on Accounts in compliance with the Resolution passed on March 3, 1998 entitled "Resolution Regarding Cost Allocation for the Energy Industry" which directed the Staff Subcommittee on Accounts together with the Staff Subcommittees on Strategic Issues and Gas to prepare for NARUC's consideration, "Guidelines for Energy Cost Allocations." In addition, input was requested from other industry parties. Various levels of input were obtained in the development of the Guidelines from the Edison Electric Institute, American Gas Association, Securities and Exchange Commission, the Federal Energy Regulatory Commission, Rural Utilities Service and the National Rural Electric Cooperatives Association as well as staff of various state public utility commissions.

In some instances, non-structural safeguards as contained in these guidelines may not be sufficient to prevent market power problems in strategic markets such as the generation market. Problems arise when a firm has the ability to raise prices above market for a sustained period and/or impede output of a product or service. Such concerns have led some states to develop codes of conduct to govern relationships between the regulated utility and its non-regulated affiliates. Consideration should be given to any "unique" advantages an incumbent utility would have over competitors in an emerging market such as the retail energy market. A code of conduct should be used in conjunction with guidelines on cost allocations and affiliate transactions.

A. DEFINITIONS

1. Affiliates - companies that are related to each other due to common ownership or control.
2. Attestation Engagement - one in which a certified public accountant who is in the practice of public accounting is contracted to issue a written communication that expresses a conclusion about the reliability of a written assertion that is the responsibility of another party.

3. Cost Allocation Manual (CAM) - an indexed compilation and documentation of a company's cost allocation policies and related procedures.
4. Cost Allocations - the methods or ratios used to apportion costs. A cost allocator can be based on the origin of costs, as in the case of cost drivers; cost-causative linkage of an indirect nature; or one or more overall factors (also known as general allocators).
5. Common Costs - costs associated with services or products that are of joint benefit between regulated and non-regulated business units.
6. Cost Driver - a measurable event or quantity which influences the level of costs incurred and which can be directly traced to the origin of the costs themselves.
7. Direct Costs - costs which can be specifically identified with a particular service or product.
8. Fully Allocated costs - the sum of the direct costs plus an appropriate share of indirect costs.
9. Incremental pricing - pricing services or products on a basis of only the additional costs added by their operations while one or more pre-existing services or products support the fixed costs.
10. Indirect Costs - costs that cannot be identified with a particular service or product. This includes but not limited to overhead costs, administrative and general, and taxes.
11. Non-regulated - that which is not subject to regulation by regulatory authorities.
12. Prevailing Market Pricing - a generally accepted market value that can be substantiated by clearly comparable transactions, auction or appraisal.
13. Regulated - that which is subject to regulation by regulatory authorities.
14. Subsidization - the recovery of costs from one class of customers or business unit that are attributable to another.

B. COST ALLOCATION PRINCIPLES

The following allocation principles should be used whenever products or services are provided between a regulated utility and its non-regulated affiliate or division.

1. To the maximum extent practicable, in consideration of administrative costs, costs should be collected and classified on a direct basis for each asset, service or product provided.
2. The general method for charging indirect costs should be on a fully allocated cost basis. Under appropriate circumstances, regulatory authorities may consider incremental cost, prevailing market pricing or other methods for allocating costs and pricing transactions among affiliates.
3. To the extent possible, all direct and allocated costs between regulated and non-regulated services and products should be traceable on the books of the applicable regulated utility to the applicable Uniform System of Accounts. Documentation should be made available to the appropriate regulatory authority upon request regarding transactions between the regulated utility and its affiliates.
4. The allocation methods should apply to the regulated entity's affiliates in order to prevent

subsidization from, and ensure equitable cost sharing among the regulated entity and its affiliates, and vice versa.

5. All costs should be classified to services or products which, by their very nature, are either regulated, non-regulated, or common to both.

6. The primary cost driver of common costs, or a relevant proxy in the absence of a primary cost driver, should be identified and used to allocate the cost between regulated and non-regulated services or products.

7. The indirect costs of each business unit, including the allocated costs of shared services, should be spread to the services or products to which they relate using relevant cost allocators.

C. COST ALLOCATION MANUAL (NOT TARIFFED)

Each entity that provides both regulated and non-regulated services or products should maintain a cost allocation manual (CAM) or its equivalent and notify the jurisdictional regulatory authorities of the CAM's existence. The determination of what, if any, information should be held confidential should be based on the statutes and rules of the regulatory agency that requires the information. Any entity required to provide notification of a CAM(s) should make arrangements as necessary and appropriate to ensure competitively sensitive information derived therefrom be kept confidential by the regulator. At a minimum, the CAM should contain the following:

1. An organization chart of the holding company, depicting all affiliates, and regulated entities.
2. A description of all assets, services and products provided to and from the regulated entity and each of its affiliates.
3. A description of all assets, services and products provided by the regulated entity to non-affiliates.
4. A description of the cost allocators and methods used by the regulated entity and the cost allocators and methods used by its affiliates related to the regulated services and products provided to the regulated entity.

D. AFFILIATE TRANSACTIONS (NOT TARIFFED)

The affiliate transactions pricing guidelines are based on two assumptions. First, affiliate transactions raise the concern of self-dealing where market forces do not necessarily drive prices. Second, utilities have a natural business incentive to shift costs from non-regulated competitive operations to regulated monopoly operations since recovery is more certain with captive ratepayers. Too much flexibility will lead to subsidization. However, if the affiliate transaction pricing guidelines are too rigid, economic transactions may be discouraged.

The objective of the affiliate transactions' guidelines is to lessen the possibility of subsidization in order to protect monopoly ratepayers and to help establish and preserve competition in the electric generation and the electric and gas supply markets. It provides ample flexibility to accommodate exceptions where the outcome is in the best interest of the utility, its ratepayers and competition. As with any transactions, the burden of proof for any exception from

the general rule rests with the proponent of the exception.

1. Generally, the price for services, products and the use of assets provided by a regulated entity to its non-regulated affiliates should be at the higher of fully allocated costs or prevailing market prices. Under appropriate circumstances, prices could be based on incremental cost, or other pricing mechanisms as determined by the regulator.

2. Generally, the price for services, products and the use of assets provided by a non-regulated affiliate to a regulated affiliate should be at the lower of fully allocated cost or prevailing market prices. Under appropriate circumstances, prices could be based on incremental cost, or other pricing mechanisms as determined by the regulator.

3. Generally, transfer of a capital asset from the utility to its non-regulated affiliate should be at the greater of prevailing market price or net book value, except as otherwise required by law or regulation. Generally, transfer of assets from an affiliate to the utility should be at the lower of prevailing market price or net book value, except as otherwise required by law or regulation. To determine prevailing market value, an appraisal should be required at certain value thresholds as determined by regulators.

4. Entities should maintain all information underlying affiliate transactions with the affiliated utility for a minimum of three years, or as required by law or regulation.

E. AUDIT REQUIREMENTS

1. An audit trail should exist with respect to all transactions between the regulated entity and its affiliates that relate to regulated services and products. The regulator should have complete access to all affiliate records necessary to ensure that cost allocations and affiliate transactions are conducted in accordance with the guidelines. Regulators should have complete access to affiliate records, consistent with state statutes, to ensure that the regulator has access to all relevant information necessary to evaluate whether subsidization exists. The auditors, not the audited utilities, should determine what information is relevant for a particular audit objective. Limitations on access would compromise the audit process and impair audit independence.

2. Each regulated entity's cost allocation documentation should be made available to the company's internal auditors for periodic review of the allocation policy and process and to any jurisdictional regulatory authority when appropriate and upon request.

3. Any jurisdictional regulatory authority may request an independent attestation engagement of the CAM. The cost of any independent attestation engagement associated with the CAM, should be shared between regulated and non-regulated operations consistent with the allocation of similar common costs.

4. Any audit of the CAM should not otherwise limit or restrict the authority of state regulatory authorities to have access to the books and records of and audit the operations of jurisdictional utilities.

5. Any entity required to provide access to its books and records should make arrangements as necessary and appropriate to ensure that competitively sensitive information derived therefrom be kept confidential by the regulator.

F. REPORTING REQUIREMENTS

1. The regulated entity should report annually the dollar amount of non-tariffed transactions

associated with the provision of each service or product and the use or sale of each asset for the following:

a. Those provided to each non-regulated affiliate.

b. Those received from each non-regulated affiliate.

c. Those provided to non-affiliated entities.

2. Any additional information needed to assure compliance with these Guidelines, such as cost of service data necessary to evaluate subsidization issues, should be provided.

1 SHAPIRO LAW FIRM, P.C.
Jay L. Shapiro (No. 014650)
2 1819 E. Morten Avenue, Suite 280
Phoenix, Arizona 85020
3 Telephone (602) 559-9575

4 Attorneys for Quail Creek Water Company, Inc.

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION
OF QUAIL CREEK WATER COMPANY,
INC., AN ARIZONA CORPORATION,
FOR A DETERMINATION OF THE FAIR
VALUE OF ITS UTILITY PLANTS AND
PROPERTY AND FOR INCREASES IN
ITS WATER RATES AND CHARGES FOR
UTILITY SERVICE BASED THEREON.

DOCKET NO: W-02514A-14-0343

**REBUTTAL TESTIMONY OF
THOMAS J. BOURASSA
RATE BASE, INCOME STATEMENT AND RATE DESIGN**

JUNE 3, 2015

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

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

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

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

6 A. I am testifying on behalf of the Applicant Quail Creek Water Company, Inc.
7 ("QCW" or "Company").

8 **Q. ARE YOU THE SAME THOMAS J. BOURASSA THAT FILED DIRECT
9 TESTIMONY IN THIS PROCEEDING?**

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

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

14 A. Yes.

15 **Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?**

16 A. To rebut Staff's direct testimony filed on May 6 and 13, 2015 in this rate case.
17 More specifically, this first volume of my rebuttal testimony relates to rate base,
18 income statement and rate design for QCW. In a second, separate volume of my
19 rebuttal testimony, I present an update to the Company's requested cost of capital as
20 well as provide responses to Staff's testimony on the cost of capital, the rate of return
21 applied to the fair value rate base, and the determination of operating income.

22 **II. SUMMARY OF THE COMPANY'S REBUTTAL POSITION.**

23 **Q. WHAT IS THE REVENUE INCREASE THAT QCW IS PROPOSING IN
24 THIS REBUTTAL TESTIMONY?**

25 A. QCW proposes a total revenue requirement of \$1,247,640, which constitutes an
26 increase in revenues of \$402,921, or 47.70 percent over adjusted test year revenues.

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

2 A. In its direct filing, QCW requested a total revenue requirement of \$1,256,504, which
3 required an increase in revenues of \$411,785, or 48.75%. So it's very close.

4 **Q. WHAT IS DIFFERENT BETWEEN THE COMPANY'S DIRECT AND**
5 **REBUTTAL REVENUES?**

6 A. In its rebuttal filing, QCW has adopted a number of adjustments recommended by
7 Staff, as well as has proposed certain adjustments of its own. The net result of these
8 adjustments is: (1) the Company's proposed operating expenses have decreased by
9 \$6,717, from \$725,756 in the direct filing to \$719,039; and (2) a net decrease in rate
10 base of \$3,913, from the direct filing of \$3,678,863 to \$3,674,950. The Company
11 continues to recommend a cost of equity of 10.0 percent and a weighted cost of
12 capital of 10.0 percent.

13 **Q. WHAT ARE THE PROPOSED REVENUE REQUIREMENTS AND RATE**
14 **INCREASES FOR QCW AND STAFF AT THIS STAGE OF THE**
15 **PROCEEDING?**

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

| | <u>Revenue Requirement</u> | <u>Revenue Incr.</u> | <u>% Increase</u> |
|-----------------|----------------------------|----------------------|-------------------|
| 17 QCW-Direct | \$1,256,504 | \$411,785 | 48.75% |
| 18 Staff | \$1,133,173 | \$288,454 | 34.15% |
| 19 QCW-Rebuttal | \$1,247,640 | \$402,921 | 47.70% |

20
21 The difference between QCW and Staff is due primarily to the different rate
22 base recommendations, depreciation expense, and recommended rate of return.

23 ...

24 ...

25 ...

26

1 **III. RATE BASE.**

2 **Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE**
3 **BASE RECOMMENDATIONS?**

4 A. Yes, the rate bases proposed by QCW and Staff are as follows:

| | <u>OCRB</u> | <u>FVRB</u> |
|----------------|--------------|--------------|
| 5 QCW-Direct | \$ 3,678,863 | \$ 3,678,863 |
| 6 Staff | \$ 3,196,580 | \$ 3,196,580 |
| 7 QCW-Rebuttal | \$ 3,674,950 | \$ 3,674,950 |

8
9 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**
10 **ORIGINAL COST RATE BASE?**

11 A. Yes. Rebuttal Schedule B-2, pages 1 and 2, summarize the Company's proposed
12 adjustments and the rebuttal OCRB. The Company's rebuttal rate base adjustments
13 OCRB are detailed on rebuttal schedules B-2, pages 3 through 5.

14 **A. PLANT-IN-SERVICE (PIS).**

15 **Q. PLEASE DISCUSS THE COMPANY'S PROPOSED PIS ADJUSTMENTS.**

16 A. Rebuttal B-2 adjustment 1, as summarized on Rebuttal Schedule B-2, page 2, reflects
17 the Company's proposed adjustments to PIS. There are 4 adjustments labeled as
18 "A," "B," "C," and "D" on Rebuttal Schedule B-2, page 3.

19 Adjustment A reduces PIS for the removal of capitalized interest from certain
20 PIS accounts that were recorded in the past totaling \$2,752. This adjustment reflects
21 the adoption of Staff's recommendation concerning capitalized interest.¹

22 Adjustment B increases PIS for capitalized initial well testing costs totaling
23 \$4,013. This adjustment reflects the adoption the Staff recommendations concerning
24 capitalized well testing costs.²

25 ¹ See Direct Testimony of John A. Cassidy ("Cassidy Dt.") at 16.

26 ² Cassidy Dt. at 17.

1 Adjustment C increases PIS by \$4,590, reflecting a correction to the reported
2 retirements for account 311- Pumping Equipment in 2011 and related to Well #16.
3 The Company discovered the need for this correction during its work on this rebuttal
4 filing.

5 Adjustment D reflects the reconciliation adjustments to PIS necessary to
6 match the reconstructed PIS found on Rebuttal Schedule B-2, pages 3.5 to 3.21.

7 **1. Differences Between the Parties on the PIS Balance.**

8 **Q. PLEASE DISCUSS THE DIFFERENCE BETWEEN THE RECOMMENDED**
9 **PIS BALANCES OF QCW AND STAFF.**

10 A. The Company recommends a PIS balance of \$7,825,043, whereas Staff recommends
11 a PIS balance of \$7,571,022 – a difference of \$254,021. There are two reasons for
12 the difference. The first reason is that Staff has removed \$249,432 (net of capitalized
13 interest) related to capitalized Well #16 drilling costs.³ The second reason is that
14 Staff's PIS balance does not reflect the retirement correction of \$4,590 that the
15 Company recommends (see Rebuttal B-2 Adjustment 1-C).

16 **Q. PLEASE EXPLAIN THE WELL #16 COSTS.**

17 A. As Mr. Jones testified in his direct testimony, Well #16 was constructed by an
18 affiliate at a cost of \$510,205 in 2009 and subsequently transferred to QCW.⁴
19 The affiliate recorded the cost of Well #16 as a receivable (due from QCW to the
20 affiliate) up to and until QCW paid the receivable in 2011.⁵ The timing of the
21 payment, as with all similar affiliate transactions, depended upon QCW's ability to
22 pay for the plant that was transferred.

23
24

³ Cassidy Dt. at 15.

25 ⁴ See Direct Testimony of Ray L. Jones ("Jones Dt.") at 10.

26 ⁵ Rebuttal Testimony of Ray L. Jones ("Jones Rb.") at 9-10.

1 **Q. IS THIS FRAMEWORK FOR FINANCING AND CONSTRUCTING PLANT**
2 **ADDITIONS A STANDARD PRACTICE FOR QCW AND ITS**
3 **AFFILIATES?**

4 A. Yes, the construction of plant by an affiliate and subsequent transfer to the utility is
5 and has been the standard practice for this group of Arizona utilities. This framework
6 was open and apparent in the recent rate case for QCW's affiliate Lago Del Oro
7 Water Company ("LDO"). Plant was constructed by an affiliate and subsequently
8 transferred to LDO. In some cases the plant was paid for many years after the plant
9 was placed into service.

10 **Q. IS THIS FRAMEWORK A BENEFIT TO THE UTILITY AND ITS**
11 **RATEPAYERS?**

12 A. Yes. This method of financing plant additions allows the utility to have the plant
13 constructed and placed into service before the utility is able to pay for it. In essence,
14 the affiliate acts as a conduit for construction financing. Plant constructed by the
15 affiliate is "at cost" with no affiliate overhead. There are also no financing costs or
16 carrying charges. This results in lower capital costs benefitting both the utility and
17 customer. I presume this is why neither Staff nor the Commission has expressed any
18 concern with this framework in prior Commission proceedings, including the recent
19 rate case for LDO.

20 **Q. IS THE PLANT CONSTRUCTED BY THE AFFILIATE ALWAYS**
21 **DEPRECIATED BY THE UTILITY IN THE YEAR IT WAS PLACED INTO**
22 **SERVICE?**

23 A. Yes. The only real issue in the LDO case was when to begin depreciating the plant—
24 the year placed into service or the date of payment. In the LDO case, the utility and
25 Staff both agreed that the plant should begin depreciating on the date it was placed
26

1 into service and not on the payment date.⁶ In the case of QCW, all transferred plant
2 has been depreciated from the date it was placed into service and not the date it was
3 paid for by QCW.⁷

4 **Q. THANK YOU. PLEASE CONTINUE WITH THE BACKGROUND AND**
5 **ACCOUNTING OF THE WELL #16 COSTS.**

6 A. Well #16 was approved for potable water use in October of 2006 and connected to
7 the QCW system. Well 16 was placed into service in 2009 for two months during
8 an operational testing phase. Tests ultimately determined that the well was non-
9 productive and so it was taken out of service in 2009. In 2011, Well #16 was paid
10 for by QCW and the cost was recorded on the books. Because the well was non-
11 productive, QCW retired some of the equipment for Well #16 with costs totaling
12 \$258,211. QCW also capitalized certain other Well #16 plant costs totaling
13 \$251,984⁸ in accordance with the National Association of Regulatory Utility
14 Commissioners (“NARUC”) Uniform System of Accounts (“USOA”). NARUC
15 USOA allows for the capitalizing of non-productive wells drilled as part of a project
16 resulting in a source of water within the same supply area.⁹ In this instant case, that
17 was the new well (Well #12), which was drilled and constructed to replace Well #16.

18 **Q. HOW HAS STAFF TREATED THE WELL #16 COSTS?**

19 A. Staff does not recognize the plant addition of \$510,205 or the plant retirement of
20 \$258,211 or the capitalization of \$251,984.¹⁰ In other words, Staff’s proposed PIS

21 ⁶ See Rebuttal Testimony of Thomas J. Bourassa (filed February 18, 2014 in Docket No.
22 W-01944A-13-0215) at 5.

23 ⁷ See Jones Dt. at 10.

24 ⁸ This amount reflects the drilling and related costs for Well #16 which are now capitalized
25 as part of the new Well #12 which was drilled to replace Well #16. The net cost is \$249,432
26 after the removal of capitalized interest totaling \$2,552.

⁹ NARUC USOA, p. 101.

¹⁰ Cassidy Dt. at 15, 19.

1 balance does not reflect the \$251,984 (\$249,432 net of capitalized interest) of
2 capitalized Well #16 costs as part of Well #12, and Staff's proposed A/D balance
3 does not reflect the reduction to A/D of \$258,211 due to the retirement.

4 **Q. WHY DID STAFF DISALLOW THE WELL #16 COSTS?**

5 A. Mr. Cassidy testifies that because the well was non-productive on the date of transfer,
6 the costs should be disallowed (because they have zero value).¹¹ To support his
7 reasoning for zero value, he cites the NARUC Guidelines for Cost Allocations and
8 Affiliate Transactions.¹²

9 **Q. DO THE NARUC GUIDELINES APPLY HERE AS MR. CASSIDY**
10 **TESTIFIES?**

11 A. Not in my opinion. Under the framework described above, the affiliate merely acts
12 as a conduit for constructing plant facilities and for construction financing.
13 The market value of the plant at the time of payment is totally immaterial.
14 Put simply, QCW owed the affiliate for the costs the affiliate incurred on QCW's
15 behalf to construct plant that it just could not pay for it at the time. The affiliate
16 never intended to own and operate the plant as its own plant asset and then
17 subsequently "sell" the asset to QCW, which is the scenario Mr. Cassidy paints in
18 his application of the NARUC Guideline. As with all affiliate constructed plant,
19 QCW took the responsibility of ownership. Mr. Jones discusses Mr. Cassidy's
20 misuse of the NARUC guideline further in his rebuttal testimony.¹³

21 **Q. WHAT ABOUT MR. CASSIDY'S ASSERTION THAT AFFILIATE**
22 **TRANSACTIONS REQUIRE EXTRA SCRUTINY?**

23 A. I agree. But the goal of heightened scrutiny should be to ensure that ratepayers are

24

¹¹ Cassidy Dt. at 15.

25 ¹² *Id.*

26 ¹³ Jones Rb. at 7-10.

1 not left paying higher costs than they otherwise would in the same transactions with
2 non-affiliates. In other words, regulators are looking to eliminate things like affiliate
3 profit or subsidization by ratepayers of other businesses. The goal of the regulation
4 should not be to find some way if at all possible, no matter how strained, to disallow
5 costs. Consider this: had a non-affiliate company constructed the plant, the
6 guideline couldn't even be considered applicable. Of course, a non-affiliate would
7 likely never have agreed to a delay in payment, and QCW would have had to finance
8 the plant at higher cost.

9 **Q. IS THERE ANY THING ELSE THAT IS NOT REFLECTED IN THE STAFF**
10 **RECOMMENDATIONS?**

11 A. Yes. Staff does not recognize the depreciation since 2009 on the capitalized Well
12 #16 costs. This additional depreciation totals \$45,796 (\$249,432 times 4.08% times
13 4.5 years). So, Mr. Cassidy has reduced the Company's revenue requirement by a
14 total of over \$82,000 annually as a result of his adjustments related to Well #16.¹⁴
15 That's a high price to pay for doing nothing but contradict a non-binding guideline
16 that on its face does not even apply.¹⁵

17 **B. ACCUMULATED DEPRECIATION (A/D).**

18 **Q. PLEASE DISCUSS THE COMPANY'S PROPOSED A/D ADJUSTMENTS.**

19 A. Rebuttal B-2 adjustment 2, as summarized on Rebuttal Schedule B-2, page 2, reflects
20 the Company's proposed adjustments to A/D which consist of 6 adjustments labeled
21 as "A," "B," "C," "D," "E," and "F" on Rebuttal Schedule B-2, page 4.

22
23 ¹⁴ Difference in rate base of \$461,857 is difference PIS of \$249,432 plus A/D of \$212,425
24 (not including the reduction in ADIT of approximately \$92,000 which Staff does not
25 recognize). Applying Staff 9.5% ROR to \$461,857 equals \$43,876. With the gross-up for
income taxes the amount is \$73,826 (\$43,826 times 1.6826). Finally, the depreciation
expense on the PIS of \$249,432 is \$8,306 (\$249,432 times 3.33%). The total impact is
\$82,132 (\$73,826 plus \$8,306).

26 ¹⁵ See Jones Rb. at 7.

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Adjustment A reduces PIS for the removal of A/D associated with the capitalized interest discussed above for Rebuttal B-2 Adjustment 1-A.

Adjustment B increases A/D for the additional capitalized well testing costs discussed above for Rebuttal B-2 Adjustment 1-B.

Adjustment C removes A/D associated with account 301 – Organizational costs. This adjustment is similar to the Staff proposed adjustment.¹⁶ Staff and the Company are in agreement that the A/D balance for this account should be zero.

Adjustment D increases A/D and reflects a correction to the reconstructed depreciation expense for 1998. During a review of both the Company and Staff reconstructed A/D balances, it was discovered that the Company’s direct filing reconstructed depreciation expense for 1998 contained errors. These errors are now corrected.

Adjustment E increases A/D and reflects a correction to A/D of \$5,058 due to retirements for account 311 – Electric Pumping Equipment in 2011. This adjustment is associated with the Rebuttal Adjustment 1-C discussed above.

Adjustment F reflects the reconciliation adjustments to A/D necessary to match the reconstructed PIS detail found on Rebuttal Schedule B-2, pages 3.5 to 3.21.

1. Difference Between the Parties on the A/D Balance.

Q. PLEASE DISCUSS THE DIFFERENCE BETWEEN THE RECOMMENDED A/D BALANCES OF THE COMPANY AND STAFF.

A. The Company recommends an A/D balance of \$2,370,517, whereas Staff recommends an A/D balance of \$2,586,909 – a difference of \$216,392. There are several reasons for the difference.

¹⁶ Cassidy Dt. at 20.

1 One reason is that Staff employs a 5 percent depreciation rate instead of 4.08
2 percent for computing depreciation during the first 15 months subsequent to the last
3 test year end.¹⁷ Staff's use of the higher depreciation rate results in additional
4 depreciation of about \$10,008.

5 **Q. WHY DID STAFF USE THIS HIGHER DEPRECIATION RATE?**

6 A. Staff claims it could not find documentation that the 4.08 percent rate was the
7 approved depreciation rate for plant prior to the last decision so Staff used what it
8 believed was the customary composite depreciation rate used by the Commission at
9 that time.¹⁸

10 **Q. IS THE USE OF A 5 PERCENT DEPRECIATION RATE FOR THE FIRST**
11 **15 MONTHS FOLLOWING THE END OF THE LAST TEST YEAR**
12 **APPROPRIATE?**

13 A. No. The depreciation rate used to true-up the A/D balance in the last rate case was
14 4.08 percent.¹⁹ By adopting a trued-up A/D balance reflecting a 4.08 percent
15 depreciation rate in the last rate case, the Commission essentially adopted a
16 4.08 percent depreciation rate for all years up to and including the last test year
17 (December 31, 1997). In other words, the 4.08 percent rate was, by default, the
18 previously approved depreciation rate. I believe this means Mr. Cassidy is wrong in
19 asserting that the 4.08 percent rate was never established by the Commission.²⁰
20 The 4.08 percent is actually appropriate rate to be used subsequent to the end of the
21 last test year and for the 15-month period up to the date of the last decision.
22

23 ¹⁷ Cassidy Dt. at 19.

24 ¹⁸ Cassidy Dt. at 18-19.

25 ¹⁹ See Revised Staff Report (filed February 11, 1999 in Docket No. 02514A-98-0655),
Schedule 2 page 3 of 3, and Decision No. 61611 adopting the Staff recommendations.

26 ²⁰ Cassidy Dt. at 18.

1 **Q. THANK YOU. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE**
2 **REASONS FOR THE DIFFERENCE IN THE PARTIES' RESPECTIVE A/D**
3 **BALANCE RECOMMENDATIONS.**

4 A. The second reason for the difference is that Staff increases the A/D balance by
5 \$258,221, effectively reversing the Company's reduction to A/D for 2011
6 retirements to account 311- Pumping Equipment for Well #16 related costs.²¹
7 Staff's position is related to Mr. Cassidy's disallowance of the Well #16 costs, and
8 I have discussed the issue above.²²

9 A third reason is that, because Staff does not recognize the Well #16 drilling
10 costs totaling \$249,432, Staff's A/D balance does not include approximately \$45,796
11 of depreciation on these costs.²³

12 Finally, Staff's A/D balance does not reflect the A/D correction of \$5,058
13 (see Rebuttal B-2 Adjustment 2-E). Because Mr. Cassidy disagrees with the
14 recording of any retirement amounts for Well #16,²⁴ I have to assume Staff would
15 also disagree with the Company's correction to A/D of \$5,058.

16 In any event, the net of these four items is \$217,375 (\$10,008 plus \$258,211
17 minus 45,796 minus \$5,058).

18 **Q. WHAT MAKES UP THE REMAINING DIFFERENCE?**

19 A. The final remaining difference in A/D of \$983 (\$217,375 minus \$216,392) is A/D
20 Staff removes for A/D related to what Staff claims is fully depreciated plant from
21 the last rate case. Staff's adjustment relies on deviating from the broad group
22 procedure for depreciating plant that the Company employs. Staff selectively
23

24 ²¹ Cassidy Dt. at 19.

25 ²² See page 7-8, *supra*.

26 ²³ See *id*.

²⁴ Cassidy Dt. at 19.

1 applied a vintage group procedure (just for account 334- Meters) to come up with its
2 \$983 adjustment.

3 **Q. UNDER THE BROAD GROUP PROCEDURE IS THERE ANY REASON TO**
4 **ADJUST THE COMPANY'S A/D BALANCE FOR FULLY DEPRECIATED**
5 **PLANT?**

6 A. No.

7 **Q. DO THE COMPANY'S SISTER UTILITIES USE THE BROAD GROUP**
8 **PROCEDURE FOR DEPRECIATING PLANT?**

9 A. Yes, Pima Utility Company ("Pima") and LDO do, and both have had fairly recent
10 rate cases.²⁵ In its last rate case, LDO used the broad group procedure and Staff used
11 a vintage group procedure and proposed to adjust the A/D balance for fully
12 depreciated plant. The Commission adopted LDO's position in that case.²⁶ I believe
13 it should do so again here, though I am loath to bicker with Mr. Cassidy over an
14 adjustment of less than \$1,000 that has little impact in the determination of revenues.

15 **C. ACCUMULATED DEFERRED INCOME TAX (ADIT).**

16 **Q. PLEASE DISCUSS QCW'S PROPOSED ADIT ADJUSTMENTS.**

17 A. Rebuttal B-2 adjustment 3, as summarized on Rebuttal Schedule B-2, page 2, reduces
18 the Company proposed ADIT by \$2,534 and reflects the Company proposed
19 adjustment to PIS and A/D. The details of the ADIT adjustment are shown on
20 Rebuttal Schedule B-2, page 5.

21 **Q. HAS STAFF PROPOSED ANY ADJUSTMENT TO THE COMPANY'S**
22 **DIRECT FILING ADIT BALANCE?**

23 A. No, and I do not understand why not.

24 _____
25 ²⁵ *Pima Utility Company*, Decision No. 73573 (November 21, 2012); *Lago Del Oro Water*
Company, Decision No. 74564 (June 20, 2014).

26 ²⁶ Decision No. 74564, Finding of Fact No. 45.

1 **Q. WHY DO YOU BELIEVE STAFF SHOULD HAVE MADE AN**
2 **ADJUSTMENT?**

3 A. Assuming all of Staff's PIS and A/D recommendations are taken into account, Staff's
4 ADIT balance should be approximately \$964,000, which is over \$107,000 lower
5 than Staff's recommended balance of \$1,071,554.²⁷ And, because Staff's ADIT
6 balance is over-stated by approximately \$92,000, Staff's rate base is understated by
7 over \$92,000. Attached as **Exhibit TJB-RB1** is an exhibit showing the ADIT
8 calculation based upon the Staff recommendations.

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

10 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**
11 **ADJUSTMENTS TO REVENUES AND EXPENSES AND IDENTIFY ANY**
12 **ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF?**

13 A. The Company's rebuttal adjustments to revenues and/or expenses are detailed on
14 Rebuttal Schedule C-2, pages 1-8. The rebuttal income statement with adjustments
15 is summarized on Rebuttal Schedule C-1, page 1-2.

16 Rebuttal adjustment 1 reflects the annualized depreciation and amortization
17 expense based on the Company's rebuttal proposed PIS and CIAC balances.
18 The Staff recommended depreciation and amortization expense level is lower
19 primarily because of Staff's recommendation to reduce PIS for drilling costs related
20 to Well #16 as I discussed above.

21 Rebuttal adjustment number 2 reflects property tax expense at the Company's
22 rebuttal proposed revenue level. Staff and the Company agree on the methodology
23 for computing property taxes and agree on the assessment ratio and property tax
24

25
26 ²⁷ See Staff Schedule JAC-3.

1 rate.²⁸ The difference between each of the parties' respective property tax expense
2 recommendations is due to the difference in proposed revenues between the parties.

3 Rebuttal adjustment number 3 reduced Contractual Services – Testing
4 expense by \$5,256. This adjustment reflects the adoption of Staff's proposed
5 adjustment to Contractual Services – Testing.²⁹

6 Rebuttal adjustment number 4 reduces Transportation expense by \$2,136 and
7 reflects the adoption of the Staff recommendation of \$10,931 for this expense.³⁰

8 Rebuttal adjustment number 5 reduces Miscellaneous expense by \$4,787 and
9 reflects the adoption of the Staff recommendation of \$7,954 for this expense.³¹

10 Rebuttal adjustments 6 and 7 are intentionally left blank.

11 Rebuttal adjustment 8 adjusts income taxes to reflect the Company proposed
12 adjusted test year revenues and expenses.

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

14 **A. PROPOSED RATES.**

15 **Q. WHAT ARE QCW'S PROPOSED RATES FOR WATER SERVICE?**

16 **A.** The Company's proposed rates are shown on Rebuttal Schedule H-3, pages 1 and 2.

17 **Q. WHAT WILL BE THE AVERAGE 5/8X3/4 INCH METERED CUSTOMER**
18 **AVERAGE MONTHLY BILL UNDER THE COMPANY'S REBUTTAL**
19 **PROPOSED RATES?**

20 **A.** As shown on Schedule H-2, page 1, the average monthly bill under proposed rates
21 for a 5/8x3/4 inch metered customer using an average 5,725 gallons is \$43.33 –
22 a \$12.30 increase over the present monthly bill or a 39.64 percent increase.

23 _____
24 ²⁸ Cassidy Dt. at 23.

25 ²⁹ Cassidy Dt. at 21.

26 ³⁰ Cassidy Dt. at 21-22.

³¹ Cassidy Dt. at 22.

1 Q. HAS THE COMPANY MODIFIED ITS PROPOSED RATE DESIGN FROM
2 ITS DIRECT FILING?

3 A. No.

4 B. REBUTTAL TO STAFF DIRECT TESTIMONY ON RATE DESIGN.

5 Q. DO YOU HAVE ANY REBUTTAL TO STAFF'S PROPOSED RATE
6 DESIGN?

7 A. Like the Company, Staff is proposing an inverted tier rate design. However, there
8 are some differences. The Company is proposing a 3-tier design for the ¾ inch and
9 smaller metered residential customers and a 2-tier design for the ¾ inch and smaller
10 metered non-residential customers (commercial and irrigation classes). Staff is
11 proposing a 3-tier design for the ¾ inch and smaller metered residential and
12 commercial customers while it proposes a 2-tier design for the ¾ inch and smaller
13 metered irrigation customers. Both the Company and Staff proposed 2-tier designs
14 for the 1 inch and larger meters for all classes.

15 Q. WHY DOES THE COMPANY PROPOSE A 2-TIER RATE DESIGN FOR
16 THE ¾ INCH AND SMALLER METERED COMMERCIAL CUSTOMERS?

17 A. Because a 2-tier rate design for ¾ inch metered commercial customers reflects the
18 rate designs adopted by the Commission for QCW's sister utilities, Pima and LDO.³²
19 I see no reason to deviate from this design in the instant case without a compelling
20 reason to do so.

21 Q. HAS STAFF EXPLAINED WHY IT IS RECOMMENDING A 3-TIER RATE
22 DESIGN FOR THE ¾ INCH AND SMALLER METERED COMMERCIAL
23 CUSTOMERS?

24 A. No, Mr. Cassidy's testimony does not contain any sort of explanation for deviating
25

26 ³² See Decision No. 73573 at 43-44; Decision No. 74564 at 17-18.

1 from what I did in my rate design based on these prior cases.

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

3 A. Another difference in the rate designs is that Staff is proposing lower break-over
4 points than the Company for the ¾ inch and smaller metered residential customers.
5 For example, the Company proposes a 1st tier break-over point of 4,000 gallons and
6 a 2nd tier break-over point of 10,000 gallons for the ¾ inch and smaller metered
7 residential customers, whereas Staff proposes break-over points of 3,000 gallons and
8 9,000 gallons respectively.

9 **Q. HOW WERE THE COMPANY'S PROPOSED BREAK-OVER POINTS**
10 **DETERMINED FOR THE ¾ INCH AND SMALLER METERED**
11 **RESIDENTIAL CUSTOMERS?**

12 A. The break-over points of 4,000 gallons and 10,000 gallons on the 1st and 2nd tier,
13 respectively, for the ¾ inch and smaller metered residential customers, are the same
14 as those adopted in recent cases for Pima and LDO.³³ The break-over point for the
15 ¾ inch and smaller metered non-residential customers (commercial and irrigation)
16 is set equal to the 2nd tier break-over point for the ¾ inch and smaller metered
17 residential customers, just as it was for Pima and LDO.³⁴

18 **Q. WHAT ABOUT THE 1 INCH AND LARGER METERS?**

19 A. Staff recommends some break-over points that are lower than those proposed by the
20 Company and some that are higher. For example, the Company proposes a break-
21 over point of 17,000 gallons for 1 inch and larger metered customers, whereas
22 Mr. Cassidy proposes 15,000 gallons. Similarly, the Company proposes a break-
23 over point of 100,000 gallons for 3 inch metered customers whereas Mr. Cassidy
24 proposes 80,000 gallons. On the other hand, the Company proposes a break-over

25 ³³ *Id.*

26 ³⁴ *Id.*

1 point of 33,000 gallons for a 1½ inch metered customer, and he proposes 35,000
2 gallons.

3 **Q. HOW WERE THE COMPANY'S PROPOSED BREAK-OVER POINTS FOR**
4 **THE 1 INCH AND LARGER METERED RESIDENTIAL CUSTOMERS**
5 **DETERMINED?**

6 A. The break-over points for the 1 inch and larger metered customers are scaled on the
7 relative flows of a ¾ inch meter. In my significant experience, the scaling approach
8 is typical of rate designs that are changed from a single tier design to a multi-tier
9 design. The reason for scaling based upon flows is because the larger metered
10 customers pay higher monthly minimums, and their commodity charges start at the
11 2nd tier higher priced commodity rate of the smaller metered residential customers.
12 In other words, the larger metered customers are being charged more for water, not
13 only because of higher minimums, but also because of the higher priced commodity
14 rate. And again, absent a compelling reason to deviate from scaling the break-over
15 points for the 1 inch and larger meters based upon the relative meter flows of the
16 ¾ inch and smaller residential meters, I see no reason to deviate from this practice.

17 **Q. ARE QCW'S PROPOSED MONTHLY MINIMUMS FOR THE 1 INCH AND**
18 **LARGER METERS SCALED ON THE RELATIVE FLOWS OF A ¾ INCH**
19 **METER USING THE PROPOSED ¾ INCH MONTHLY MINIMUM?**

20 A. Yes.

21 **Q. HAS MR. CASSIDY EXPLAINED THE REASONING BEHIND HIS**
22 **DIFFERENT BREAK-OVER POINT RECOMMENDATIONS?**

23 A. No.

24 **Q. HOW DOES THE REVENUE RECOVERY FROM THE MONTHLY**
25 **MINIMUMS AND COMMODITY RATES COMPARE?**

26 A. While there are some differences in how the Company and the Staff rate designs

1 recover the revenues through the monthly minimums and commodity rates, the
2 differences are not major. Attached as **Exhibit TJB-RB2** are schedules showing the
3 revenue recovery from the monthly minimums and the commodity rates under the
4 Company and the Staff proposed rate designs. The percentage recovery from the
5 monthly minimums for the Company and Staff are 44.73 percent and 44.89 percent,
6 respectively. The percentage revenue recovery at the highest commodity rate is
7 lower under the Company's rate design than under Staff's. The Company's rate
8 design recovers 4.44 percent at the highest commodity rate while the Staff rate
9 design recovers 5.93 percent.

10 **C. MISCELLANEOUS CHARGES.**

11 **Q. ARE STAFF AND QCW IN AGREEMENT ON THE COMPANY**
12 **PROPOSED MISCELLANEOUS SERVICE CHARGES?**

13 A. Yes.

14 **D. SERVICE LINE AND METER INSTALLATION CHARGES.**

15 **Q. ARE STAFF AND QCW IN AGREEMENT ON THE COMPANY**
16 **PROPOSED SERVICE LINE AND METER INSTALLTION CHARGES?**

17 A. Yes.

18 **E. PURCHASED POWER ADJUSTMENT MECHANISM (PPAM).**

19 **Q. DOES STAFF SUPPORT THE COMPANY'S PROPOSED PPAM?**

20 A. Yes, subject to a compliance filing of a Plan of Administration or POA after
21 Commission approval.³⁵

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

23 A. Yes.

24

25

26

³⁵ Rate Design Direct Testimony of John A. Cassidy at 6.

EXHIBIT TJB-RB1

Quail Creek Water Company
 Test Year Ended December 31, 2013
 Staff Accumulated Deferred Income Taxes

Exhibit
 Page 2

Line
 No.

1 Per Staff.

2 Computation of Net Tax Value December 31, 2013

Based on 2013 Tax Depreciation report (December 31, 2013)

Unadjusted Cost at December 31, 2013 per federal and state tax depr. report

Reconciling Items not on tax report:

Proposed Plant Adjustments

Net Unadjusted Cost tax Basis at December 31, 2013

Reductions

Accumulated Depreciation 2013 and prior per federal and state tax depr. report

Tax Depreciation Related to Proposed Plant Adjustments

Net Reductions through December 31, 2013

Net tax value of plant-in-service at December 31, 2013

3 CIAC (including impact of change to probability of realization)

Gross CIAC per adjusted book balances

CIAC reductions/additions

A.A per adjusted book balances

Net CIAC before unrealized AIAC

Unrealized AIAC Component

AIAC per adjusted book balances

Adjusted Net AIAC (see footnote 5 below)

Unrealized AIAC Component % (1-Realized AIAC Component)

Total realizable CIAC

4 AIAC (including impact of change in probability of realization)

AIAC per adjusted book balances

Less: Unrealized AIAC (from Note 3, above)

Subtotal

Meter and Service Line Installation Charges per adjusted book balances

Total realizable AIAC

5 Staff's effective tax rates as shown on Staff Schedule JAC-2.

| | FEDERAL | STATE |
|--|----------------|----------------|
| | \$ 7,545,070 | \$ 7,545,070 |
| | (248,171) | (248,171) |
| | | |
| | \$ 7,296,899 | \$ 7,296,899 |
| | | |
| | \$ (5,521,695) | \$ (5,521,695) |
| | 31,867 | 31,867 |
| | | |
| | | |
| | \$ (5,489,828) | \$ (5,489,828) |
| | 1,807,071 | 1,807,071 |
| | | |
| | \$ (284,447) | \$ (284,447) |
| | | |
| | \$ 820,205 | |
| | (284,447) | |
| | | |
| | \$ 535,758 | |
| | | |
| | \$ - | |
| | 70.0% | |
| | | |
| | \$ - | |
| | | |
| | \$ 535,758 | |
| | | |
| | \$ - | |
| | | |
| | \$ 180,221 | |
| | | |
| | \$ 180,221 | |

| | |
|--|------------|
| | \$ 820,205 |
| | (284,447) |
| | \$ 535,758 |
| | |
| | \$ - |
| | 70.0% |
| | \$ - |
| | \$ 535,758 |
| | |
| | \$ - |
| | \$ 180,221 |
| | \$ 180,221 |

48

49

EXHIBIT TJB-RB2

Quail Creek Water Company
 Metered Revenue Breakdown Summary
 Company Proposed Rates

Exhibit
 Page 1

| | | Present | Commodity | Commodity | Commodity | Total |
|---------------------------|--|------------|------------|-------------|------------|--------------|
| | | Monthly | First Tier | Second Tier | Third Tier | |
| | | Mins | | | | |
| 5/8x3/4 Inch Residential | | \$ 454,385 | \$ 258,923 | \$ 183,248 | \$ 55,128 | \$ 951,685 |
| 3/4 Inch Residential | | - | - | - | - | - |
| 1 Inch Residential | | 54,761 | 41,463 | 1,584 | - | 97,808 |
| 1 1/2 Inch Residential | | - | - | - | - | - |
| 2 Inch Residential | | 1,358 | 2,419 | 2,048 | - | 5,825 |
| Subtotal | | \$ 510,504 | \$ 302,805 | \$ 186,880 | \$ 55,128 | \$ 1,055,318 |
| | | 41.14% | 24.40% | 15.06% | 4.44% | 85.05% |
| 5/8x3/4 Inch Commercial | | \$ 14,518 | \$ 12,484 | \$ 7,745 | \$ - | \$ 34,748 |
| 3/4 Inch Commercial | | - | - | - | - | - |
| 1 Inch Commercial | | 3,821 | 4,229 | 16,159 | - | 24,209 |
| 1 1/2 Inch Commercial | | 2,547 | 2,280 | 13,840 | - | 18,667 |
| 2 Inch Commercial | | 10,867 | 12,785 | 22,468 | - | 46,120 |
| 3 Inch Commercial | | - | - | - | - | - |
| 6 Inch Commercial | | - | - | - | - | - |
| Subtotal | | \$ 31,753 | \$ 31,779 | \$ 60,212 | \$ - | \$ 123,743 |
| | | 2.56% | 2.56% | 4.85% | 0.00% | 9.97% |
| 5/8x3/4 Inch Irrigation | | \$ 2,802 | \$ 2,712 | \$ 13,484 | \$ - | \$ 18,998 |
| 3/4 Inch Irrigation | | - | - | - | - | - |
| 1 Inch Irrigation | | 1,274 | 806 | 2,616 | - | 4,696 |
| 1 1/2 Inch Irrigation | | 1,698 | 2,898 | 6,160 | - | 10,756 |
| 2 Inch Irrigation | | 2,717 | 3,025 | 10,811 | - | 16,553 |
| 3 Inch Irrigation | | - | - | - | - | - |
| 4 Inch Irrigation | | 4,245 | 4,822 | 1,713 | - | 10,780 |
| Golf Course Irrigation | | - | - | - | - | - |
| Subtotal | | \$ 12,735 | \$ 14,263 | \$ 34,785 | \$ - | \$ 61,782 |
| | | 1.03% | 1.15% | 2.80% | 0.00% | 4.98% |
| 5/8x3/4 Inch Construction | | - | - | - | - | - |
| | | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| TOTALS | | \$ 554,991 | \$ 348,846 | \$ 281,877 | \$ 55,128 | \$ 1,240,843 |
| Percent of Total | | 44.73% | 28.11% | 22.72% | 4.44% | 100.00% |
| Cummulative % | | 44.73% | 72.84% | 95.56% | 100.00% | |

Quail Creek Water Company
 Metered Revenue Breakdown Summary
 Staff Proposed Rates

Exhibit
 Page 2

| | | Present | Commodity | Commodity | Commodity | Total |
|---------------------------|--------------|-------------------|-------------------|-------------------|------------------|---------------------|
| | | Monthly | First Tier | Second Tier | Third Tier | |
| | | Mins | | | | |
| 5/8x3/4 Inch Residential | Residential | \$ 385,344 | \$ 174,495 | \$ 208,253 | \$ 66,842 | \$ 834,934 |
| 3/4 Inch Residential | Residential | - | - | - | - | - |
| 1 Inch Residential | Residential | 69,660 | 35,336 | 2,160 | - | 107,156 |
| 1 1/2 Inch Residential | Residential | - | - | - | - | - |
| 2 Inch Residential | Residential | 1,728 | 2,162 | 1,840 | - | 5,730 |
| Subtotal | | \$ 456,732 | \$ 211,992 | \$ 212,253 | \$ 66,842 | \$ 947,819 |
| | | 40.52% | 18.81% | 18.83% | 5.93% | 84.09% |
| 5/8x3/4 Inch Commercial | Commercial | \$ 12,312 | \$ 10,340 | \$ 7,931 | \$ - | \$ 30,584 |
| 3/4 Inch Commercial | Commercial | - | - | - | - | - |
| 1 Inch Commercial | Commercial | 4,860 | 3,366 | 15,676 | - | 23,902 |
| 1 1/2 Inch Commercial | Commercial | 3,240 | 2,082 | 12,940 | - | 18,262 |
| 2 Inch Commercial | Commercial | 13,824 | 11,382 | 20,798 | - | 46,004 |
| 3 Inch Commercial | Commercial | - | - | - | - | - |
| 6 Inch Commercial | Commercial | - | - | - | - | - |
| Subtotal | | \$ 34,236 | \$ 27,171 | \$ 57,346 | \$ - | \$ 118,752 |
| | | 3.04% | 2.41% | 5.09% | 0.00% | 10.54% |
| 5/8x3/4 Inch Irrigation | Irrigation | \$ 2,376 | \$ 2,181 | \$ 12,975 | \$ - | \$ 17,532 |
| 3/4 Inch Irrigation | Irrigation | - | - | - | - | - |
| 1 Inch Irrigation | Irrigation | 1,620 | 616 | 2,583 | - | 4,819 |
| 1 1/2 Inch Irrigation | Irrigation | 2,160 | 2,640 | 5,643 | - | 10,443 |
| 2 Inch Irrigation | Irrigation | 3,456 | 2,702 | 10,107 | - | 16,265 |
| 3 Inch Irrigation | Irrigation | - | - | - | - | - |
| 4 Inch Irrigation | Irrigation | 5,400 | 3,230 | 2,889 | - | 11,519 |
| Golf Course Irrigation | Irrigation | - | - | - | - | - |
| Subtotal | | \$ 15,012 | \$ 11,369 | \$ 34,198 | \$ - | \$ 60,579 |
| | | 1.33% | 1.01% | 3.03% | 0.00% | 5.37% |
| 5/8x3/4 Inch Construction | Construction | - | - | - | - | - |
| | | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| TOTALS | | \$ 505,980 | \$ 250,532 | \$ 303,796 | \$ 66,842 | \$ 1,127,150 |
| Percent of Total | | 44.89% | 22.23% | 26.95% | 5.93% | 100.00% |
| Cumulative % | | 44.89% | 67.12% | 94.07% | 100.00% | |

A-C & H
SCHEDULES

Quail Creek Water Company
 Test Year Ended December 31, 2013
 Computation of Increase in Gross Revenue
 Requirements As Adjusted

Exhibit
 Rebuttal Schedule A-1
 Page 1
 Witness: Bourassa

Line
No.

| | | |
|----|---|--------------|
| 1 | Fair Value Rate Base | \$ 3,674,950 |
| 2 | | |
| 3 | Adjusted Operating Income | 125,680 |
| 4 | | |
| 5 | Current Rate of Return | 3.42% |
| 6 | | |
| 7 | Required Operating Income | \$ 367,495 |
| 8 | | |
| 9 | Required Rate of Return on Fair Value Rate Base | 10.00% |
| 10 | | |
| 11 | Operating Income Deficiency | \$ 241,815 |
| 12 | | |
| 13 | Gross Revenue Conversion Factor | 1.6662 |
| 14 | | |
| 15 | Increase in Gross Revenue Requirement | \$ 402,921 |
| 16 | | |
| 17 | | |
| 18 | Adjusted Test Year Revenues | \$ 844,719 |
| 19 | Increase in Gross Revenue Revenue Requirement | \$ 402,921 |
| 20 | Proposed Revenue Requirement | \$ 1,247,640 |
| 21 | % Increase | 47.70% |
| 22 | | |

| Customer Classification | <u>Present Rates</u> | <u>Proposed Rates</u> | <u>Dollar Increase</u> | <u>Percent Increase</u> |
|-----------------------------------|----------------------|-----------------------|------------------------|-------------------------|
| 25 5/8x3/4 Inch Residential | \$ 654,321 | \$ 937,763 | \$ 283,442 | 43.32% |
| 26 3/4 Inch Residential | - | - | - | 0.00% |
| 27 1 Inch Residential | 64,595 | 97,874 | 33,279 | 51.52% |
| 28 1 1/2 Inch Residential | - | - | - | 0.00% |
| 29 2 Inch Residential | 3,424 | 5,825 | 2,401 | 70.14% |
| 30 | | | | |
| 31 5/8x3/4 Inch Commercial | \$ 20,007 | \$ 32,272 | \$ 12,264 | 61.30% |
| 32 3/4 Inch Commercial | - | - | - | 0.00% |
| 33 1 Inch Commercial | 11,118 | 20,627 | 9,509 | 85.53% |
| 34 1 1/2 Inch Commercial | 9,942 | 18,667 | 8,725 | 87.75% |
| 35 2 Inch Commercial | 28,157 | 49,080 | 20,922 | 74.30% |
| 36 3 Inch Commercial | - | - | - | 0.00% |
| 37 6 Inch Commercial | - | - | - | 0.00% |
| 38 | | | | |
| 39 5/8x3/4 Inch Irrigation | \$ 10,246 | \$ 19,096 | \$ 8,850 | 86.38% |
| 40 3/4 Inch Irrigation | - | - | - | 0.00% |
| 41 1 Inch Irrigation | 2,514 | 4,451 | 1,937 | 77.04% |
| 42 1 1/2 Inch Irrigation | 3,957 | 7,121 | 3,164 | 79.96% |
| 43 2 Inch Irrigation | 9,033 | 16,553 | 7,520 | 83.25% |
| 44 3 Inch Irrigation | - | - | - | 0.00% |
| 45 4 Inch Irrigation | 6,753 | 10,780 | 4,027 | 59.62% |
| 46 | | | | |
| 47 Revenue Annualization | \$ 13,906 | \$ 20,735 | 6,829 | 49.11% |
| 48 | | | | |
| 49 | | | | |
| 50 | | | | |
| 51 Subtotal | \$ 837,974 | \$ 1,240,843 | \$ 402,869 | 48.08% |
| 52 | | | | |
| 53 Other Water Revenues | \$ 7,353 | \$ 7,353 | \$ - | 0.00% |
| 54 Reconciling Amount | (608) | (556) | 52 | -8.55% |
| 55 Rounding | - | - | - | 0.00% |
| 56 Total of Water Revenues | \$ 844,719 | \$ 1,247,640 | \$ 402,921 | 47.70% |
| 57 | | | | |

58
 59 SUPPORTING SCHEDULES:
 60 B-1
 61 C-1
 62 C-3
 63 H-1

Quail Creek Water Company
 Test Year Ended December 31, 2013
 Summary of Rate Base

Exhibit
 Rebuttal Schedule B-1
 Page 1
 Witness: Bourassa

| <u>Line No.</u> | <u>Original Cost</u> <u>Rate base</u> | <u>Fair Value</u> <u>Rate Base</u> |
|-----------------|--|---------------------------------------|
| 1 | | |
| 2 | \$ 7,825,043 | \$ 7,825,043 |
| 3 | Less: Accumulated Depreciation | |
| 4 | 2,370,517 | 2,370,517 |
| 5 | Net Utility Plant in Service | |
| 6 | \$ 5,454,526 | \$ 5,454,526 |
| 7 | <u>Less:</u> | |
| 8 | Advances in Aid of Construction | - |
| 9 | | |
| 10 | Contributions in Aid of Construction | 820,205 |
| 11 | | |
| 12 | Accumulated Amortization of CIAC | (284,447) |
| 13 | | |
| 14 | Customer Meter Deposits | 180,221 |
| 15 | Customer Security Deposits | - |
| 16 | Accumulated Deferred Income Tax | 1,063,597 |
| 17 | | |
| 18 | | |
| 19 | <u>Plus:</u> | |
| 20 | | |
| 21 | Deferred Regulatory Assets | - |
| 22 | Deferred Tax Assets | - |
| 23 | Allowance for Working Capital | - |
| 24 | | |
| 25 | | |
| 26 | Total Rate Base | |
| 27 | \$ 3,674,950 | \$ 3,674,950 |
| 28 | | |
| 29 | | |
| 30 | | |
| 31 | | |
| 32 | | |
| 33 | | |
| 34 | | |
| 35 | | |
| 36 | | |
| 37 | | |
| 38 | | |
| 39 | | |
| 40 | | |
| 41 | <u>SUPPORTING SCHEDULES:</u> | |
| 42 | B-2 | |
| 43 | B-3 | |
| 44 | B-5 | |
| 45 | | |
| 46 | | |
| 47 | | |
| 48 | | |
| 49 | | |
| 50 | | |

Quail Creek Water Company
 Test Year Ended December 31, 2013
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Rebuttal Schedule B-2
 Page 1
 Witness: Bourassa

| Line No. | | Adjusted at End of <u>Test Year</u> | Proforma <u>Adjustment</u> | Rebuttal Adjusted at end of <u>Test Year</u> |
|-------------|----------------------------------|--|-------------------------------|--|
| 1 | Gross Utility | | | |
| 2 | Plant in Service | \$ 7,819,192 | 5,851 | \$ 7,825,043 |
| 3 | | | | |
| 4 | Less: | | | |
| 5 | Accumulated | | | |
| 6 | Depreciation | 2,352,796 | 17,720 | 2,370,517 |
| 7 | | | | |
| 8 | | | | |
| 9 | Net Utility Plant | | | |
| 10 | in Service | \$ 5,466,396 | | \$ 5,454,526 |
| 11 | | | | |
| 12 | Less: | | | |
| 13 | Advances in Aid of | | | |
| 14 | Construction | - | - | - |
| 15 | | | | |
| 16 | Contributions in Aid of | | | |
| 17 | Construction - Gross | 820,205 | - | 820,205 |
| 18 | | | | |
| 19 | Accumulated Amortization of CIAC | (284,447) | - | (284,447) |
| 20 | | | | |
| 21 | Customer Meter Deposits | 180,221 | - | 180,221 |
| 22 | Custmer Security Deposits | - | - | - |
| 23 | Accumulated Deferred Income Tax | 1,071,725 | (8,128) | 1,063,597 |
| 24 | | | | |
| 25 | | | | |
| 26 | | | | |
| 27 | Plus: | | | |
| 28 | | | | |
| 29 | Deferred Regulatory Assets | - | | - |
| 30 | Prepayments | - | | - |
| 31 | Materials and Supplies | - | | - |
| 32 | Working capital | - | - | - |
| 33 | | | | |
| 34 | | | | |
| 35 | Total | \$ 3,678,692 | | \$ 3,674,950 |

46 SUPPORTING SCHEDULES:
 47 B-2, pages 2

RECAP SCHEDULES:
 B-1

48
 49
 50
 51

Quail Creek Water Company
 Test Year Ended December 31, 2013
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Rebuttal Schedule B-2
 Page 2
 Witness: Bourassa

| Line No. | Description | Proforma Adjustments | | | | | Rebuttal Adjusted at end of Test Year |
|----------|---|-----------------------------------|-----------------------|-------------------------------|-------------------------------|-------------------------------|---------------------------------------|
| | | 1 Adjusted at End of Test Year | 2 Plant-in-Service | 3 Accumulated Depreciation | 4 Intentionally Left Blank | 5 Intentionally Left Blank | |
| 1 | Gross Utility | | | | | | |
| 2 | Plant in Service | \$ 7,819,192 | 5,851 | | | | \$ 7,825,043 |
| 3 | | | | | | | |
| 4 | Less: | | | | | | |
| 5 | Accumulated Depreciation | 2,352,796 | 17,720 | | | | 2,370,517 |
| 6 | | | | | | | |
| 7 | | | | | | | |
| 8 | | | | | | | |
| 9 | Net Utility Plant in Service | \$ 5,466,396 | \$ 5,851 | \$ (17,720) | \$ - | \$ - | \$ 5,454,526 |
| 10 | | | | | | | |
| 11 | | | | | | | |
| 12 | Less: | | | | | | |
| 13 | Advances in Aid of Construction | - | | | | | - |
| 14 | | | | | | | |
| 15 | | | | | | | |
| 16 | Contributions in Aid of Construction (CIAC) | 820,205 | | | | | 820,205 |
| 17 | | | | | | | |
| 18 | | | | | | | |
| 19 | Accumulated Amort of CIAC | (284,447) | | | | | (284,447) |
| 20 | | | | | | | |
| 21 | Customer Meter Deposits | 180,221 | | | | | 180,221 |
| 22 | Customer Security Deposits | - | | | | | - |
| 23 | Accumulated Deferred Income Taxes (ADIT) | 1,071,725 | | (8,128) | | | 1,063,597 |
| 24 | | | | | | | |
| 25 | | | | | | | |
| 26 | Plus: | | | | | | |
| 27 | | | | | | | |
| 28 | Deferred Regulatory Assets | | | | | | |
| 29 | Prepayments | | | | | | |
| 30 | Materials and Supplies | | | | | | |
| 31 | Allowance for Cash Working Capital | | | | | | |
| 32 | | | | | | | |
| 33 | Total | \$ 3,678,692 | \$ 5,851 | \$ (17,720) | \$ 8,128 | \$ - | \$ 3,674,950 |
| 34 | | | | | | | |
| 35 | | | | | | | |
| 36 | | | | | | | |
| 37 | SUPPORTING SCHEDULES: | | | | | | |
| 38 | B-2, pages 3-5 | | | | | | |
| 39 | | | | | | | |
| 40 | | | | | | | |
| 41 | | | | | | | |

RECAP SCHEDULES:
 B-1

Quail Creek Water Company
 Test Year Ended December 31, 2013
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 1

| Line No. | Acct. Description | Plant-in-Service | | | | | Adjusted Original Cost |
|----------|-------------------|---|-------------------------------|----------------------------|--|--------------------------|------------------------|
| | | A | B | C | D | E | |
| | | Remove Capitalized Interest | Capitalize New Source Testing | Retirement Correction 1998 | Adjustments to Reconcile Plant to Reconstruction | Intentionally Left Blank | |
| 1 | | | | | | | |
| 2 | | | | | | | |
| 3 | | | | | | | |
| 4 | | | | | | | |
| 5 | 301 | Organization Cost | | | | | 37,295 |
| 6 | 302 | Franchise Cost | | | | | |
| 7 | 303 | Land and Land Rights | | | | | |
| 8 | 304 | Structures and Improvements | | | | | 92,895 |
| 9 | 305 | Collecting and Impounding Res. | (18) | | | | 75,424 |
| 10 | 306 | Lake River and Other Intakes | | | | | |
| 11 | 307 | Wells and Springs | | | | | |
| 12 | 308 | Infiltration Galleries and Tunnels | (2,561) | 4,013 | | | 835,700 |
| 13 | 309 | Supply Mains | | | | | |
| 14 | 310 | Power Generation Equipment | | | | | |
| 15 | 311 | Electric Pumping Equipment | | | | | 37,618 |
| 16 | 320 | Water Treatment Equipment | (173) | | 4,590 | | 1,141,692 |
| 17 | 320.1 | Water Treatment Plant | | | | | |
| 18 | 320.2 | Chemical Solution Feeders | | | | | |
| 19 | 330 | Dist. Reservoirs & Standpipe | | | | | |
| 20 | 330.1 | Storage tanks | | | | | |
| 21 | 330.2 | Pressure Tanks | | | | | 856,574 |
| 22 | 331 | Trans. and Dist. Mains | | | | | 32,236 |
| 23 | 333 | Services | | | | | 3,194,161 |
| 24 | 334 | Meters | | | | | 891,232 |
| 25 | 335 | Hydrants | | | | | 90,315 |
| 26 | 336 | Backflow Prevention Devices | | | | | 477,182 |
| 27 | 339 | Other Plant and Misc. Equip. | | | | | |
| 28 | 340 | Office Furniture and Fixtures | | | | | 2,071 |
| 29 | 340.1 | Computers and Software | | | | | |
| 30 | 341 | Transportation Equipment | | | | | |
| 31 | 342 | Stores Equipment | | | | | |
| 32 | 343 | Tools and Work Equipment | | | | | |
| 33 | 344 | Laboratory Equipment | | | | | 2,399 |
| 34 | 345 | Power Operated Equipment | | | | | |
| 35 | 346 | Communications Equipment | | | | | |
| 36 | 347 | Miscellaneous Equipment | | | | | 57,194 |
| 37 | 348 | Other Tangible Plant | | | | | |
| 38 | | Loss on Plant Disposition | | | | | 1,056 |
| 39 | | TOTALS | (2,752) | 4,013 | 4,590 | | |
| 40 | | | | | | | |
| 41 | | | | | | | |
| 42 | | Adjusted Plant-in-Service | | | | | 7,825,043 |
| 43 | | Increase (decrease) in Plant-in-Service | | | | | 7,819,192 |
| 44 | | | | | | | |
| 45 | | Adjustment to Plant-in-Service | | | | | 5,851 |
| 46 | | | | | | | |
| 47 | | SUPPORTING SCHEDULES | | | | | 5,851 |
| 48 | | B-2, pages 3.1 to 3.4 | | | | | |
| 49 | | | | | | | |
| 50 | | | | | | | |

Quail Creek Water Company
Test Year Ended December 31, 2013
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - A

Exhibit
Rebuttal Schedule B-2
Page 3.1
Witness: Bourassa

Line
No.

| | | | |
|----|------------------------------------|-----------------------------|-------------|
| 1 | <u>Remove Capitalized Interest</u> | | |
| 2 | | | |
| 3 | | | |
| 4 | Acct. | | Original |
| 5 | <u>No.</u> | <u>Description</u> | <u>Cost</u> |
| 6 | 304 | Structures and Improvements | (18) |
| 7 | 307 | Wells and Springs | (2,561) |
| 8 | 311 | Electric Pumping Equipment | (173) |
| 9 | | | |
| 10 | | TOTALS | \$ (2,752) |
| 11 | | | |
| 12 | | | |
| 13 | | | |
| 14 | | | |
| 15 | | | |
| 16 | | | |
| 17 | | | |
| 18 | <u>SUPPORTING SCHEDULE</u> | | |
| 19 | Testimony | | |
| 20 | Staff Schedule JAC-5b | | |

Quail Creek Water Company
Test Year Ended December 31, 2013
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - B

Exhibit
Rebuttal Schedule B-2
Page 3.2
Witness: Bourassa

Line

No.

1 Capitalize New Source Water Testing

2

3

4

Acct.

Original

5

No. Description

Cost

6

307 Wells and Springs

4,013

7

8

9

10

11

12

13

14

15

TOTALS

\$ 4,013

16

17

18

SUPPORTING SCHEDULE

19

Testimony

20

Staff Schedule JAC-5c

Quail Creek Water Company
Test Year Ended December 31, 2013
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - B

Exhibit
Rebuttal Schedule B-2
Page 3.3
Witness: Bourassa

Line

No.

1 Correction to Retirement in 2011

2

3

4 Acct.

Per

Per

PIS

5

No. Description

Year

Direct

Rebuttal

Adjustment

6

311 Electric Pumping Equipment

2011

303,221

298,631

4,590

7

8

9

10

11

12

TOTALS

\$ 4,590

13

14

15

16

17

18 SUPPORTING SCHEDULE

19 Testimony

20

Quail Creek Water Company
 Test Year Ended December 31, 2013
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 1 - D

Exhibit
 Rebuttal Schedule B-2
 Page 3.4
 Witness: Bourassa

Line
 No.

| | | Adjusted | B-2 | Adjusted | Plant | Plant |
|----|--|--------------|-------------|--------------|----------------|------------|
| | | Cost | | Cost | Per | Plant |
| 1 | <u>Reconciliation of Plant to Plant Reconstruction</u> | | | | | |
| 2 | | | | | | |
| 3 | | | | | | |
| 4 | Acct. | | | | | |
| 5 | No. Description | per Direct | Adjustments | per Rebuttal | Reconstruction | Adjustment |
| 6 | 301 Organization Cost | \$ 37,295 | \$ - | \$ 37,295 | \$ 37,295 | \$ - |
| 7 | 302 Franchise Cost | - | - | - | - | - |
| 8 | 303 Land and Land Rights | 92,895 | - | 92,895 | 92,895 | - |
| 9 | 304 Structures and Improvements | 75,442 | (18) | 75,424 | 75,424 | - |
| 10 | 305 Collecting and Impounding Res. | - | - | - | - | - |
| 11 | 306 Lake River and Other Intakes | - | - | - | - | - |
| 12 | 307 Wells and Springs | 834,248 | 1,452 | 835,700 | 835,700 | - |
| 13 | 308 Infiltration Galleries and Tunnels | - | - | - | - | - |
| 14 | 309 Supply Mains | - | - | - | - | - |
| 15 | 310 Power Generation Equipment | 37,618 | - | 37,618 | 37,618 | - |
| 16 | 311 Electric Pumping Equipment | 1,137,275 | 4,417 | 1,141,692 | 1,141,692 | - |
| 17 | 320 Water Treatment Equipment | - | - | - | - | - |
| 18 | 320.1 Water Treatment Plant | - | - | - | - | - |
| 19 | 320.2 Chemical Solution Feeders | - | - | - | - | - |
| 20 | 330 Dist. Reservoirs & Standpipe | - | - | - | - | - |
| 21 | 330.1 Storage tanks | 856,574 | - | 856,574 | 856,574 | - |
| 22 | 330.2 Pressure Tanks | 32,236 | - | 32,236 | 32,236 | - |
| 23 | 331 Trans. and Dist. Mains | 3,194,161 | - | 3,194,161 | 3,194,161 | - |
| 24 | 333 Services | 891,232 | - | 891,232 | 891,232 | - |
| 25 | 334 Meters | 90,315 | - | 90,315 | 90,315 | - |
| 26 | 335 Hydrants | 477,182 | - | 477,182 | 477,182 | - |
| 27 | 336 Backflow Prevention Devices | - | - | - | - | - |
| 28 | 339 Other Plant and Misc. Equip. | - | - | - | - | - |
| 29 | 340 Office Furniture and Fixtures | 2,071 | - | 2,071 | 2,071 | - |
| 30 | 340.1 Computers and Software | - | - | - | - | - |
| 31 | 341 Transportation Equipment | - | - | - | - | - |
| 32 | 342 Stores Equipment | - | - | - | - | - |
| 33 | 343 Tools and Work Equipment | 2,399 | - | 2,399 | 2,399 | - |
| 34 | 344 Laboratory Equipment | - | - | - | - | - |
| 35 | 345 Power Operated Equipment | - | - | - | - | - |
| 36 | 346 Communications Equipment | 57,194 | - | 57,194 | 57,194 | - |
| 37 | 347 Miscellaneous Equipment | - | - | - | - | - |
| 38 | 348 Other Tangible Plant | 1,056 | - | 1,056 | 1,056 | - |
| 39 | Plant Held for Future Use | - | - | - | - | - |
| 40 | TOTALS | \$ 7,819,192 | \$ 5,851 | \$ 7,825,043 | \$ 7,825,043 | \$ - |

43 SUPPORTING SCHEDULE

44 B-2, pages 3.1 through 3.3

45 B-2, pages 3.5 through 3.21

Quail Creek Water Company

Test Year Ended December 31, 2013

Reconciliation of Plant Additions, Retirements and Accumulated Depreciation
After Consideration of Deferred Purchases

Exhibit
Rebuttal Schedule B-2
Page 3.5
Witness: Jones/Bourassa

| Line No. | NARUC Account No. | Description | Per Decision No. 61611 - 04/01/1999 | | | | Current Books | | | | |
|----------|-------------------|--------------------------------------|-------------------------------------|---------------------------------|-------------------------------------|---|-----------------------------|---------------------------------|------------------------------|-----------------------------|---------|
| | | | (1) Book Plant at 12/31/1997 | (2) Dec. 61611 Adjust- ments | (3) Adjusted Plant at 12/31/1997 | (4) Dec. 61611 Accum Depr 12/31/1997 | (5) Net Plant 12/31/1997 | (6) Book Plant at 12/31/1997 | (7) Accum Depr 12/31/1997 | (8) Net Plant 12/31/1997 | |
| 1 | 301 | Organization Cost | 37,295 | | 37,295 | 12,434 | 24,861 | 12,434 | 12,434 | 12,434 | 24,861 |
| 2 | 302 | Franchise Cost | | | | | | | | | |
| 3 | 303 | Land and Land Rights | | | | | | | | | |
| 4 | 304 | Structures & Improvements | 65,000 | | 65,000 | | 65,000 | | 65,000 | | 65,000 |
| 5 | 305 | Collecting & Impounding Reservoirs | | | | | | | | | |
| 6 | 306 | Lake, River, Canal Intakes | | | | | | | | | |
| 7 | 307 | Wells & Springs | | | | | | | | | |
| 8 | 308 | Infiltration Galleries | 162,035 | | 162,035 | 55,689 | 106,346 | 162,035 | 55,689 | 106,346 | 106,346 |
| 9 | 309 | Raw Water Supply Mains | | | | | | | | | |
| 10 | 310 | Power Generation Equipment | | | | | | | | | |
| 11 | 311 | Pumping Equipment | 55,410 | | 55,410 | 49,974 | 5,436 | 55,410 | 49,974 | 5,436 | 5,436 |
| 12 | 320 | Water Treatment Equipment | | | | | | | | | |
| 13 | 320.1 | Water Treatment Plants | | | | | | | | | |
| 14 | 320.2 | Solution Chemical Feeders | | | | | | | | | |
| 15 | 330 | Distribution Reservoirs & Standpipes | | | | | | | | | |
| 16 | 330.1 | Storage Tanks | 180,280 | | 180,280 | 37,566 | 142,714 | 180,280 | 37,566 | 142,714 | 142,714 |
| 17 | 330.2 | Pressure Tanks | | | | | | | | | |
| 18 | 331 | Transmission & Distribution Mains | | | | | | | | | |
| 19 | 333 | Services | 446,017 | | 446,017 | 109,957 | 336,060 | 446,017 | 109,957 | 336,060 | 336,060 |
| 20 | 334 | Meters | 3,171 | | 3,171 | 1,322 | 1,849 | 3,171 | 1,322 | 1,849 | 1,849 |
| 21 | 335 | Hydrants | 1,698 | | 1,698 | 1,698 | - | 1,698 | 1,698 | - | 1,698 |
| 22 | 336 | Backflow Prevention Devices | 23,325 | | 23,325 | 6,482 | 16,843 | 23,325 | 6,482 | 16,843 | 16,843 |
| 23 | 339 | Other Plant & Misc Equipment | | | | | | | | | |
| 24 | 340 | Office Furniture & Equipment | | | | | | | | | |
| 25 | 340.1 | Computers & Software | | | | | | | | | |
| 26 | 341 | Transportation Equipment | | | | | | | | | |
| 27 | 342 | Stores Equipment | 6,000 | | 6,000 | 6,000 | - | 6,000 | 6,000 | - | 6,000 |
| 28 | 343 | Tools, Shop & Garage Equipment | | | | | | | | | |
| 29 | 344 | Laboratory Equipment | | | | | | | | | |
| 30 | 345 | Power Operated Equipment | | | | | | | | | |
| 31 | 346 | Communication Equipment | | | | | | | | | |
| 32 | 347 | Miscellaneous Equipment | | | | | | | | | |
| 33 | 348 | Other Tangible Plant | 1,056 | | 1,056 | 352 | 704 | 1,056 | 352 | 704 | 704 |
| 34 | | | | | | | | | | | |
| 35 | | TOTAL | 981,285 | - | 981,285 | 281,474 | 699,811 | 981,285 | 281,474 | 699,811 | 699,811 |

Quail Creek Water Company

Test Year Ended December 31, 2013

Reconciliation of Plant Additions, Retirements and Accumulated Depreciation
After Consideration of Deferred Purchases

Exhibit
Rebuttal Schedule B-2
Page 3.6
Witness: Jones/Bourassa

| Line No. | NARUC Account No. | Description | Allowed Deprec. Rate | 1998 | | Depreciation (Calculated) | Salvage A/D Only | Plant Balance | Accum. Deprec. | Net Plant |
|----------|-------------------|--------------------------------------|----------------------|-----------------|----------------------------|---------------------------|------------------|---------------|----------------|-----------|
| | | | | Plant Additions | Adjusted Plant Retirements | | | | | |
| 1 | 301 | Organization Cost | 4.08% | - | - | - | - | 37,295 | 13,956 | 23,340 |
| 2 | 302 | Franchise Cost | 0.00% | - | - | - | - | - | - | - |
| 3 | 303 | Land and Land Rights | 0.00% | - | - | - | - | 65,000 | - | 65,000 |
| 4 | 304 | Structures & Improvements | 4.08% | - | - | - | - | - | - | - |
| 5 | 305 | Collecting & Impounding Reservoirs | 4.08% | - | - | - | - | - | - | - |
| 6 | 306 | Lake, River, Canal Intakes | 4.08% | - | - | - | - | - | - | - |
| 7 | 307 | Wells & Springs | 4.08% | - | - | - | - | - | - | - |
| 8 | 308 | Infiltration Galleries | 4.08% | - | - | - | - | - | - | - |
| 9 | 309 | Raw Water Supply Mains | 4.08% | - | - | - | - | 162,035 | 62,300 | 99,735 |
| 10 | 310 | Power Generation Equipment | 4.08% | - | - | - | - | - | - | - |
| 11 | 311 | Pumping Equipment | 4.08% | - | - | - | - | - | - | - |
| 12 | 320 | Water Treatment Equipment | 4.08% | - | - | - | - | 55,410 | 52,235 | 3,175 |
| 13 | 320.1 | Water Treatment Plants | 4.08% | - | - | - | - | - | - | - |
| 14 | 320.2 | Solution Chemical Feeders | 4.08% | - | - | - | - | - | - | - |
| 15 | 330 | Distribution Reservoirs & Standpipes | 4.08% | - | - | - | - | - | - | - |
| 16 | 330.1 | Storage Tanks | 4.08% | - | - | - | - | - | - | - |
| 17 | 330.2 | Pressure Tanks | 4.08% | - | - | - | - | 180,280 | 44,921 | 135,359 |
| 18 | 331 | Transmission & Distribution Mains | 4.08% | - | - | - | - | - | - | - |
| 19 | 333 | Services | 4.08% | - | - | - | - | - | - | - |
| 20 | 334 | Meters | 4.08% | - | - | - | - | 446,017 | 128,155 | 317,862 |
| 21 | 335 | Hydrants | 4.08% | - | - | - | - | 3,171 | 1,451 | 1,719 |
| 22 | 336 | Backflow Prevention Devices | 4.08% | - | - | - | - | 1,598 | 1,598 | - |
| 23 | 339 | Other Plant & Misc Equipment | 4.08% | - | - | - | - | 23,325 | 7,434 | 15,891 |
| 24 | 340 | Office Furniture & Equipment | 4.08% | - | - | - | - | - | - | - |
| 25 | 340.1 | Computers & Software | 4.08% | - | - | - | - | - | - | - |
| 26 | 341 | Transportation Equipment | 4.08% | - | - | - | - | - | - | - |
| 27 | 342 | Stores Equipment | 4.08% | - | - | - | - | 6,000 | 6,000 | - |
| 28 | 343 | Tools, Shop & Garage Equipment | 4.08% | - | - | - | - | - | - | - |
| 29 | 344 | Laboratory Equipment | 4.08% | - | - | - | - | - | - | - |
| 30 | 345 | Power Operated Equipment | 4.08% | - | - | - | - | - | - | - |
| 31 | 346 | Communication Equipment | 4.08% | - | - | - | - | - | - | - |
| 32 | 347 | Miscellaneous Equipment | 4.08% | - | - | - | - | - | - | - |
| 33 | 348 | Other Tangible Plant | 4.08% | - | - | - | - | - | - | - |
| 34 | | TOTAL | | - | - | 43 | - | 1,056 | 395 | 660 |
| 36 | | | | - | - | 37,070 | - | 981,285 | 318,544 | 662,741 |
| 37 | | | | - | - | - | - | - | - | - |
| 38 | | | | - | - | - | - | - | - | - |

Quail Creek Water Company
 Test Year Ended December 31, 2013
 Reconciliation of Plant Additions, Retirements and Accumulated Depreciation
 After Consideration of Deferred Purchases

Exhibit
 Rebuttal Schedule B-2
 Page 3.7
 Witness: Jones/Bourassa

| Line No. | NARUC Account No. | Description | Allowed Deprac. Rate | 1999 | | Depreciation (Calculated) | Plant Balance | Accum. Deprac. | Net Plant |
|----------|-------------------|--------------------------------------|----------------------|-----------------|----------------------------|---------------------------|---------------|----------------|-----------|
| | | | | Plant Additions | Adjusted Plant Retirements | | | | |
| 1 | 301 | Organization Cost | 4.08% | - | - | 1,522 | 37,295 | 15,477 | 21,918 |
| 2 | 302 | Franchise Cost | 0.00% | - | - | - | - | - | - |
| 3 | 303 | Land and Land Rights | 0.00% | - | - | - | - | - | - |
| 4 | 304 | Structures & Improvements | 4.08% | - | - | - | 65,000 | - | 65,000 |
| 5 | 305 | Collecting & Impounding Reservoirs | 4.08% | - | - | - | - | - | - |
| 6 | 306 | Lake, River, Canal Intakes | 4.08% | - | - | - | - | - | - |
| 7 | 307 | Wells & Springs | 4.08% | - | - | - | - | - | - |
| 8 | 308 | Infiltration Galleries | 4.08% | - | - | 6,611 | 162,035 | 88,911 | 93,124 |
| 9 | 309 | Raw Water Supply Mains | 4.08% | - | - | - | - | - | - |
| 10 | 310 | Power Generation Equipment | 4.08% | - | - | - | - | - | - |
| 11 | 311 | Pumping Equipment | 4.08% | - | - | - | - | - | - |
| 12 | 320 | Water Treatment Equipment | 4.08% | - | - | 2,261 | 55,410 | 54,495 | 915 |
| 13 | 320.1 | Water Treatment Plants | 4.08% | - | - | - | - | - | - |
| 14 | 320.2 | Solution Chemical Feeders | 4.08% | - | - | - | - | - | - |
| 15 | 330 | Distribution Reservoirs & Standpipes | 4.08% | - | - | - | - | - | - |
| 16 | 330.1 | Storage Tanks | 4.08% | - | - | - | - | - | - |
| 17 | 330.2 | Pressure Tanks | 4.08% | - | - | 7,355 | 180,280 | 52,277 | 128,003 |
| 18 | 331 | Transmission & Distribution Mains | 4.08% | - | - | - | - | - | - |
| 19 | 333 | Services | 4.08% | - | - | 18,198 | 446,017 | 146,352 | 299,665 |
| 20 | 334 | Meters | 4.08% | - | - | 129 | 3,171 | 1,581 | 1,590 |
| 21 | 335 | Hydrants | 4.08% | - | - | - | 1,698 | 1,698 | - |
| 22 | 336 | Backflow Prevention Devices | 4.08% | - | - | 952 | 23,325 | 8,385 | 14,939 |
| 23 | 339 | Other Plant & Misc Equipment | 4.08% | - | - | - | - | - | - |
| 24 | 340 | Office Furniture & Equipment | 4.08% | - | - | - | - | - | - |
| 25 | 340.1 | Computers & Software | 4.08% | - | - | - | - | - | - |
| 26 | 341 | Transportation Equipment | 4.08% | - | - | - | - | - | - |
| 27 | 342 | Stores Equipment | 4.08% | - | - | - | - | - | - |
| 28 | 343 | Tools, Shop & Garage Equipment | 4.08% | - | - | - | - | - | - |
| 29 | 344 | Laboratory Equipment | 4.08% | - | - | - | - | - | - |
| 30 | 345 | Power Operated Equipment | 4.08% | - | - | - | - | - | - |
| 31 | 346 | Communication Equipment | 4.08% | - | - | - | - | - | - |
| 32 | 347 | Miscellaneous Equipment | 4.08% | 1,750 | - | 36 | 1,750 | 36 | 1,714 |
| 33 | 348 | Other Tangible Plant | 4.08% | - | - | - | - | - | - |
| 34 | | | | - | - | 43 | 1,056 | 438 | 617 |
| 35 | | TOTAL | | 1,750 | 6,000 | 37,106 | 977,035 | 349,650 | 627,385 |
| 36 | | | | - | - | - | - | - | - |
| 37 | | | | - | - | - | - | - | - |

Quail Creek Water Company
 Test Year Ended December 31, 2013
 Reconciliation of Plant Additions, Retirements and Accumulated Depreciation
 After Consideration of Deferred Purchases

| Line No. | NARUC Account No. | Description | Allowed Deprec. Rate | Plant Additions | Plant Adjustments | Adjusted Plant Additions | Plant Retirements | Adjusted Plant Retirements | Salvage A/D Only | Depreciation (Calculated) | Plant Balance | Accum. Deprec. | Net Plant |
|----------|-------------------|--------------------------------------|----------------------|-----------------|-------------------|--------------------------|-------------------|----------------------------|------------------|---------------------------|---------------|----------------|-----------|
| | | | | | | | | | | | | | |
| 1 | 301 | Organization Cost | 4.08% | - | - | - | - | - | - | 1,522 | 37,295 | 18,521 | 18,775 |
| 2 | 302 | Franchise Cost | 0.00% | - | - | - | - | - | - | - | - | - | - |
| 3 | 303 | Land and Land Rights | 0.00% | - | - | - | - | - | - | - | 65,000 | - | 65,000 |
| 4 | 304 | Structures & Improvements | 4.08% | - | - | - | - | - | - | 200 | 4,894 | 299 | 4,594 |
| 5 | 305 | Collecting & Impounding Reservoirs | 4.08% | - | - | - | - | - | - | - | - | - | - |
| 6 | 306 | Lake, River, Canal Intakes | 4.08% | - | - | - | - | - | - | - | - | - | - |
| 7 | 307 | Wells & Springs | 4.08% | - | - | - | - | - | - | 6,611 | 162,035 | 82,133 | 79,902 |
| 8 | 308 | Infiltration Galleries | 4.08% | - | - | - | - | - | - | - | - | - | - |
| 9 | 309 | Raw Water Supply Mains | 4.08% | - | - | - | - | - | - | - | - | - | - |
| 10 | 310 | Power Generation Equipment | 4.08% | - | - | - | - | - | - | - | - | - | - |
| 11 | 311 | Pumping Equipment | 4.08% | - | - | - | - | - | - | - | - | - | - |
| 12 | 320 | Water Treatment Equipment | 4.08% | 8,924 | - | 8,924 | 14,337 | 14,337 | - | 3,071 | 72,554 | 30,950 | 41,604 |
| 13 | 320.1 | Water Treatment Plants | 4.08% | - | - | - | - | - | - | - | - | - | - |
| 14 | 320.2 | Solution Chemical Feeders | 4.08% | - | - | - | - | - | - | - | - | - | - |
| 15 | 330 | Distribution Reservoirs & Standpipes | 4.08% | - | - | - | - | - | - | - | - | - | - |
| 16 | 330.1 | Storage Tanks | 4.08% | - | - | - | - | - | - | - | - | - | - |
| 17 | 330.2 | Pressure Tanks | 4.08% | - | - | - | - | - | - | 7,355 | 180,280 | 66,988 | 113,292 |
| 18 | 331 | Transmission & Distribution Mains | 4.08% | - | - | - | - | - | - | - | - | - | - |
| 19 | 333 | Services | 4.08% | - | - | - | - | - | - | 18,198 | 446,017 | 182,747 | 263,270 |
| 20 | 334 | Meters | 4.08% | - | - | - | - | - | - | 129 | 3,171 | 1,839 | 1,331 |
| 21 | 335 | Hydrants | 4.08% | 228 | - | 228 | - | - | - | 122 | 3,109 | 1,913 | 1,195 |
| 22 | 336 | Backflow Prevention Devices | 4.08% | - | - | - | - | - | - | 952 | 23,325 | 10,289 | 13,036 |
| 23 | 339 | Other Plant & Misc. Equipment | 4.08% | - | - | - | - | - | - | - | - | - | - |
| 24 | 340 | Office Furniture & Equipment | 4.08% | - | - | - | - | - | - | - | - | - | - |
| 25 | 340.1 | Computers & Software | 4.08% | - | - | - | - | - | - | - | - | - | - |
| 26 | 341 | Transportation Equipment | 4.08% | - | - | - | - | - | - | - | - | - | - |
| 27 | 342 | Stores Equipment | 4.08% | - | - | - | - | - | - | - | - | - | - |
| 28 | 343 | Tools, Shop & Garage Equipment | 4.08% | - | - | - | - | - | - | - | - | - | - |
| 29 | 344 | Laboratory Equipment | 4.08% | - | - | - | - | - | - | - | - | - | - |
| 30 | 345 | Power Operated Equipment | 4.08% | - | - | - | - | - | - | - | - | - | - |
| 31 | 346 | Communication Equipment | 4.08% | 6,315 | - | 6,315 | - | - | - | - | - | - | - |
| 32 | 347 | Miscellaneous Equipment | 4.08% | - | - | - | - | - | - | 237 | 8,962 | 362 | 8,600 |
| 33 | 348 | Other Tangible Plant | 4.08% | - | - | - | - | - | - | - | - | - | - |
| 34 | | | | 15,468 | - | 15,468 | 14,337 | 14,337 | - | 43 | 1,056 | 524 | 531 |
| 35 | | TOTAL | | | | | | | | 38,439 | 1,007,697 | 396,566 | 611,131 |

Quail Creek Water Company
 Test Year Ended December 31, 2013
 Reconciliation of Plant Additions, Retirements and Accumulated Depreciation
 After Consideration of Deferred Purchases

| Line No. | NARUC Account No. | Description | Allowed Deprac. Rate | 2007 | | Adjusted Plant Retirements | Salvage A/D Only | Depreciation (Calculated) | Plant Balance | Accum. Deprac. | Net Plant |
|----------|-------------------|--------------------------------------|----------------------|-----------------|----------------------------|----------------------------|------------------|---------------------------|---------------|----------------|-----------|
| | | | | Plant Additions | Adjusted Plant Retirements | | | | | | |
| 1 | 301 | Organization Cost | 4.08% | - | - | - | - | 37,295 | 27,651 | 9,645 | |
| 2 | 302 | Franchise Cost | 0.00% | - | - | - | - | - | - | - | |
| 3 | 303 | Land and Land Rights | 0.00% | - | - | - | - | - | - | - | |
| 4 | 304 | Structures & Improvements | 4.08% | - | - | - | - | 92,895 | - | 92,895 | |
| 5 | 305 | Collecting & Impounding Reservoirs | 4.08% | - | - | - | - | 28,453 | 6,150 | 22,303 | |
| 6 | 306 | Lake, River, Canal Intakes | 4.08% | - | - | - | - | - | - | - | |
| 7 | 307 | Wells & Springs | 4.08% | - | - | - | - | - | - | - | |
| 8 | 308 | Infiltration Galleries | 4.08% | - | - | - | - | 189,604 | 127,986 | 61,618 | |
| 9 | 309 | Raw Water Supply Mains | 4.08% | - | - | - | - | - | - | - | |
| 10 | 310 | Power Generation Equipment | 4.08% | - | - | - | - | - | - | - | |
| 11 | 311 | Pumping Equipment | 4.08% | 1,691 | - | - | - | 32,994 | 4,611 | 28,384 | |
| 12 | 320 | Water Treatment Equipment | 4.08% | - | - | - | - | 728,309 | 155,469 | 572,840 | |
| 13 | 320.1 | Water Treatment Plants | 4.08% | - | - | - | - | - | - | - | |
| 14 | 320.2 | Solution Chemical Feeders | 4.08% | - | - | - | - | - | - | - | |
| 15 | 330 | Distribution Reservoirs & Standpipes | 4.08% | - | - | - | - | - | - | - | |
| 16 | 330.1 | Storage Tanks | 4.08% | - | - | - | - | - | - | - | |
| 17 | 330.2 | Pressure Tanks | 4.08% | - | - | - | - | - | - | - | |
| 18 | 331 | Transmission & Distribution Mains | 4.08% | 431,026 | - | - | - | 856,574 | 207,695 | 648,879 | |
| 19 | 333 | Services | 4.08% | 192,670 | - | - | - | 32,236 | 4,603 | 27,633 | |
| 20 | 334 | Meters | 4.08% | 9,439 | - | - | - | 2,580,502 | 517,350 | 2,063,152 | |
| 21 | 335 | Hydrants | 4.08% | 70,900 | - | - | - | 563,101 | 55,668 | 507,433 | |
| 22 | 336 | Backflow Prevention Devices | 4.08% | - | - | - | - | 78,856 | 9,834 | 69,022 | |
| 23 | 339 | Other Plant & Misc Equipment | 4.08% | - | - | - | - | 335,957 | 48,282 | 287,676 | |
| 24 | 340 | Office Furniture & Equipment | 4.08% | 1,416 | - | - | - | - | - | - | |
| 25 | 340.1 | Computers & Software | 4.08% | - | - | - | - | 1,416 | 29 | 1,387 | |
| 26 | 341 | Transportation Equipment | 4.08% | - | - | - | - | - | - | - | |
| 27 | 342 | Stores Equipment | 4.08% | - | - | - | - | - | - | - | |
| 28 | 343 | Tools, Shop & Garage Equipment | 4.08% | - | - | - | - | - | - | - | |
| 29 | 344 | Laboratory Equipment | 4.08% | - | - | - | - | 707 | 159 | 549 | |
| 30 | 345 | Power Operated Equipment | 4.08% | - | - | - | - | - | - | - | |
| 31 | 346 | Communication Equipment | 4.08% | 4,980 | - | - | - | - | - | - | |
| 32 | 347 | Miscellaneous Equipment | 4.08% | - | - | - | - | 40,116 | 6,616 | 33,500 | |
| 33 | 348 | Other Tangible Plant | 4.08% | - | - | - | - | - | - | - | |
| 34 | | | | - | - | - | - | 1,056 | 783 | 273 | |
| 35 | | TOTAL | | 712,122 | - | - | - | 5,600,073 | 1,172,885 | 4,427,188 | |
| 36 | | | | - | - | - | - | 210,166 | - | 210,166 | |
| 37 | | | | - | - | - | - | - | - | - | |
| 38 | | | | - | - | - | - | - | - | - | |

Quail Creek Water Company

Test Year Ended December 31, 2013
 Reconciliation of Plant Additions, Retirements and Accumulated Depreciation
 After Consideration of Deferred Purchases

Exhibit
 Rebuttal Schedule B-2
 Page 3.18
 Witness: Jones/Bourassa

| Line No. | NARUC Account No. | Description | Allowed Deprec. Rate | 2010 | | Adjusted Plant Retirements | Salvage A/D Only | Depreciation (Calculated) | Plant Balance | Accum. Deprec. | Net Plant |
|----------|-------------------|--------------------------------------|----------------------|-----------------|----------------------------|----------------------------|------------------|---------------------------|---------------|----------------|-----------|
| | | | | Plant Additions | Adjusted Plant Retirements | | | | | | |
| 1 | 301 | Organization Cost | 4.08% | - | - | - | - | 37,295 | 32,215 | 5,080 | |
| 2 | 302 | Franchise Cost | 0.00% | - | - | - | - | - | - | - | |
| 3 | 303 | Land and Land Rights | 0.00% | - | - | - | - | - | - | - | |
| 4 | 304 | Structures & Improvements | 4.08% | - | - | - | - | 92,895 | - | 92,895 | |
| 5 | 305 | Collecting & Impounding Reservoirs | 4.08% | - | - | - | - | 32,778 | 10,074 | 22,704 | |
| 6 | 306 | Lake, River, Canal Intakes | 4.08% | - | - | - | - | - | - | - | |
| 7 | 307 | Wells & Springs | 4.08% | - | - | - | - | - | - | - | |
| 8 | 308 | Infiltration Galleries | 4.08% | - | - | - | - | 439,035 | 166,458 | 272,577 | |
| 9 | 309 | Raw Water Supply Mains | 4.08% | - | - | - | - | - | - | - | |
| 10 | 310 | Power Generation Equipment | 4.08% | - | - | - | - | - | - | - | |
| 11 | 311 | Pumping Equipment | 4.08% | - | - | - | - | 37,618 | 8,932 | 28,686 | |
| 12 | 320 | Water Treatment Equipment | 4.08% | 13,723 | - | 76,170 | - | 989,136 | 140,934 | 848,202 | |
| 13 | 320.1 | Water Treatment Plants | 4.08% | - | - | - | - | - | - | - | |
| 14 | 320.2 | Solution Chemical Feeders | 4.08% | - | - | - | - | - | - | - | |
| 15 | 330 | Distribution Reservoirs & Standpipes | 4.08% | - | - | - | - | - | - | - | |
| 16 | 330.1 | Storage Tanks | 4.08% | - | - | - | - | - | - | - | |
| 17 | 330.2 | Pressure Tanks | 4.08% | - | - | - | - | - | - | - | |
| 18 | 331 | Transmission & Distribution Mains | 4.08% | - | - | - | - | 856,574 | 312,540 | 544,034 | |
| 19 | 333 | Services | 4.08% | - | - | - | - | 32,236 | 8,549 | 23,687 | |
| 20 | 334 | Meters | 4.08% | - | - | - | - | 123,724 | 875,690 | 2,156,761 | |
| 21 | 335 | Hydrants | 4.08% | 5,224 | - | - | - | 750,491 | 141,974 | 608,517 | |
| 22 | 336 | Backflow Prevention Devices | 4.08% | - | - | - | - | 3,324 | 19,593 | 64,488 | |
| 23 | 339 | Other Plant & Misc Equipment | 4.08% | - | - | - | - | 17,286 | 97,444 | 326,286 | |
| 24 | 340 | Office Furniture & Equipment | 4.08% | - | - | - | - | - | - | - | |
| 25 | 340.1 | Computers & Software | 4.08% | - | - | - | - | - | - | - | |
| 26 | 341 | Transportation Equipment | 4.08% | - | - | - | - | - | - | - | |
| 27 | 342 | Stores Equipment | 4.08% | - | - | - | - | 1,416 | 202 | 1,214 | |
| 28 | 343 | Tools, Shop & Garage Equipment | 4.08% | - | - | - | - | - | - | - | |
| 29 | 344 | Laboratory Equipment | 4.08% | - | - | - | - | 29 | 245 | 462 | |
| 30 | 345 | Power Operated Equipment | 4.08% | - | - | - | - | - | - | - | |
| 31 | 346 | Communication Equipment | 4.08% | 3,937 | - | - | - | - | - | - | |
| 32 | 347 | Miscellaneous Equipment | 4.08% | - | - | - | - | 1,957 | 12,158 | 37,771 | |
| 33 | 348 | Other Tangible Plant | 4.08% | - | - | - | - | 43 | 912 | 144 | |
| 34 | | | | - | - | - | - | 1,056 | - | - | |
| 35 | | TOTAL | | 22,884 | - | 76,170 | - | 277,243 | 1,827,921 | 5,033,507 | |
| 36 | | | | - | - | - | - | 6,861,428 | - | - | |
| 37 | | | | - | - | - | - | - | - | - | |
| 38 | | | | - | - | - | - | - | - | - | |

Quail Creek Water Company
 Test Year Ended December 31, 2013
 Reconciliation of Plant Additions, Retirements and Accumulated Depreciation
 After Consideration of Deferred Purchases

Exhibit
 Rebuttal Schedule B-2
 Page 3.19
 Witness: Jones/Bourassa

| Line No. | NARUC Account No. | Description | Allowed Deprec. Rate | Plant Additions | Plant Adjustments | Adjusted Plant Additions | Plant Retirements | Plant Retirement Adjustments | Adjusted Retirements | Salvage A/D Only | Depreciation (Calculated) | Plant Balance | Accum. Deprec. | Net Plant |
|----------|-------------------|--------------------------------------|----------------------|-----------------|-------------------|--------------------------|-------------------|------------------------------|----------------------|------------------|---------------------------|---------------|----------------|-----------|
| 1 | 301 | Organization Cost | 4.08% | - | - | - | - | - | - | - | 1,522 | 37,295 | 33,737 | 3,558 |
| 2 | 302 | Franchise Cost | 0.00% | - | - | - | - | - | - | - | - | - | - | - |
| 3 | 303 | Land and Land Rights | 0.00% | - | - | - | - | - | - | - | - | - | - | - |
| 4 | 304 | Structures & Improvements | 4.08% | 15,263 | - | 15,263 | - | - | - | - | - | 92,895 | - | 92,895 |
| 5 | 305 | Collecting & Impounding Reservoirs | 4.08% | - | - | - | - | - | - | - | 1,549 | 48,041 | 11,723 | 36,318 |
| 6 | 306 | Lake, River, Canal Intakes | 4.08% | - | - | - | - | - | - | - | - | - | - | - |
| 7 | 307 | Wells & Springs | 4.08% | - | - | - | - | - | - | - | - | - | - | - |
| 8 | 308 | Infiltration Galleries | 4.08% | 469,316 | (76,564) | 392,652 | - | - | - | - | 25,923 | 831,667 | 192,381 | 639,306 |
| 9 | 309 | Raw Water Supply Mains | 4.08% | - | - | - | - | - | - | - | - | - | - | - |
| 10 | 310 | Power Generation Equipment | 4.08% | - | - | - | - | - | - | - | - | - | - | - |
| 11 | 311 | Pumping Equipment | 4.08% | - | - | - | - | - | - | - | 1,535 | 37,618 | 10,467 | 27,151 |
| 12 | 320 | Water Treatment Equipment | 4.08% | 298,688 | - | 298,688 | 510,205 | (211,574) | 298,631 | - | 40,358 | 989,193 | (117,340) | 1,106,532 |
| 13 | 320.1 | Water Treatment Plants | 4.08% | - | - | - | - | - | - | - | 192 | - | 192 | (192) |
| 14 | 320.2 | Solution Chemical Feeders | 4.08% | - | - | - | - | - | - | - | - | - | - | - |
| 15 | 330 | Distribution Reservoirs & Standpipes | 4.08% | - | - | - | - | - | - | - | - | - | - | - |
| 16 | 330.1 | Storage Tanks | 4.08% | - | - | - | - | - | - | - | - | - | - | - |
| 17 | 330.2 | Pressure Tanks | 4.08% | - | - | - | - | - | - | - | - | - | - | - |
| 18 | 331 | Transmission & Distribution Mains | 4.08% | - | - | - | - | - | - | - | 34,948 | 856,574 | 347,488 | 509,086 |
| 19 | 333 | Services | 4.08% | - | - | - | - | - | - | - | 1,315 | 32,236 | 9,864 | 22,372 |
| 20 | 334 | Meters | 4.08% | 1,664 | - | 1,664 | - | - | - | - | 123,724 | 3,032,451 | 999,414 | 2,033,037 |
| 21 | 335 | Hydrants | 4.08% | - | - | - | - | - | - | - | 30,654 | 752,155 | 172,628 | 579,527 |
| 22 | 336 | Backflow Prevention Devices | 4.08% | - | - | - | - | - | - | - | 3,430 | 84,080 | 23,023 | 61,057 |
| 23 | 339 | Other Plant & Misc Equipment | 4.08% | - | - | - | - | - | - | - | 17,288 | 423,730 | 114,733 | 308,997 |
| 24 | 340 | Office Furniture & Equipment | 4.08% | - | - | - | - | - | - | - | - | - | - | - |
| 25 | 340.1 | Computers & Software | 4.08% | - | - | - | - | - | - | - | - | - | - | - |
| 26 | 341 | Transportation Equipment | 4.08% | - | - | - | - | - | - | - | - | - | - | - |
| 27 | 342 | Stores Equipment | 4.08% | - | - | - | - | - | - | - | 58 | 1,416 | 260 | 1,156 |
| 28 | 343 | Tools, Shop & Garage Equipment | 4.08% | - | - | - | - | - | - | - | - | - | - | - |
| 29 | 344 | Laboratory Equipment | 4.08% | - | - | - | - | - | - | - | - | - | - | - |
| 30 | 345 | Power Operated Equipment | 4.08% | - | - | - | - | - | - | - | 29 | 707 | 274 | 433 |
| 31 | 346 | Communication Equipment | 4.08% | - | - | - | - | - | - | - | - | - | - | - |
| 32 | 347 | Miscellaneous Equipment | 4.08% | 8,461 | - | 8,461 | - | 4,980 | 4,960 | - | - | - | - | - |
| 33 | 348 | Other Tangible Plant | 4.08% | - | - | - | - | - | - | - | 2,108 | 53,410 | 9,286 | 44,124 |
| 34 | | | | - | - | - | - | - | - | - | 43 | 1,056 | 955 | 101 |
| 35 | | TOTAL | | 793,392 | (76,564) | 716,728 | 510,205 | (206,594) | 303,611 | - | 284,776 | 7,274,545 | 1,809,085 | 5,465,460 |

Quail Creek Water Company
 Test Year Ended December 31, 2013
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 2

| Line No. | Acct. No. | Description | Per Books Accum. Depr. | A Capitalized Interest | B Capitalized Water Testing Exp. | C Non-Depr Plant | D Correction To Depreciation in 1998 | E Correction To Retirements in 2011 | F Adjustments to Reconcile A/D to Recon. | Adjusted Accum. Depr. |
|----------|-----------|---|------------------------|------------------------|----------------------------------|------------------|--------------------------------------|-------------------------------------|--|-----------------------|
| 1 | | | \$ 36,273 | | | | 507 | | | 0 |
| 2 | | | - | | | | | | | |
| 3 | | | - | | | | | | | |
| 4 | | | - | | | | | | | |
| 5 | 301 | Organization Cost | - | | | | | | | |
| 6 | 302 | Franchise Cost | - | | | | | | | |
| 7 | 303 | Land and Land Rights | - | | | | | | | |
| 8 | 304 | Structures and Improvements | 16,734 | (8) | | | | | | 16,725 |
| 9 | 305 | Collecting and Impounding Res. | - | | | | | | | |
| 10 | 306 | Lake River and Other Intakes | - | | | | | | | |
| 11 | 307 | Wells and Springs | 258,516 | (473) | 82 | 2,204 | | (0) | | 260,329 |
| 12 | 308 | Infiltration Galleries and Tunnels | - | | | | | | | |
| 13 | 309 | Supply Mains | - | | | | | | | |
| 14 | 310 | Power Generation Equipment | 13,537 | | | | | | | |
| 15 | 311 | Electric Pumping Equipment | (39,241) | (81) | | | 754 | 5,058 | | 13,537 |
| 16 | 320 | Water Treatment Equipment | - | | | | | | | |
| 17 | 320.1 | Water Treatment Plant | - | | | | | | | |
| 18 | 320.2 | Chemical Solution Feeders | - | | | | | | | |
| 19 | 330 | Dist. Reservoirs & Standpipe | - | | | | | | | |
| 20 | 330.1 | Storage tanks | - | | | | | | | |
| 21 | 330.2 | Pressure Tanks | 377,367 | | | | 37,566 | | (37,566) | |
| 22 | 331 | Trans. and Dist. Mains | 12,495 | | | | 2,452 | | 37,566 | 417,384 |
| 23 | 333 | Services | 1,244,095 | | | | | | | 12,495 |
| 24 | 334 | Meters | 237,169 | | | | 6,066 | | | 1,250,160 |
| 25 | 335 | Hydrants | 30,053 | | | | 43 | | | 237,212 |
| 26 | 336 | Backflow Prevention Devices | 150,082 | | | | 317 | | | 30,053 |
| 27 | 339 | Other Plant and Misc. Equip. | - | | | | | | | 150,399 |
| 28 | 340 | Office Furniture and Fixtures | - | | | | | | | |
| 29 | 340.1 | Computers and Software | 416 | | | | | | (0) | 416 |
| 30 | 341 | Transportation Equipment | - | | | | | | | |
| 31 | 342 | Stores Equipment | - | | | | | | | |
| 32 | 343 | Tools and Work Equipment | 399 | | | | | | | |
| 33 | 344 | Laboratory Equipment | - | | | | | | | |
| 34 | 345 | Power Operated Equipment | - | | | | | | | 399 |
| 35 | 346 | Communications Equipment | - | | | | | | | |
| 36 | 347 | Miscellaneous Equipment | 13,876 | | | | | | | 13,876 |
| 37 | 348 | Other Tangible Plant | - | | | | | | | |
| 38 | | Loss on Plant Disposition | 1,027 | | | | 14 | | | 1,041 |
| 39 | | TOTALS | \$ 2,352,796 | \$ (562) | \$ 82 | \$ (36,780) | \$ 49,923 | \$ 5,058 | \$ 0 | \$ 2,370,517 |
| 40 | | Adjusted Accumulated Depreciation | | | | | | | | \$ 2,352,796 |
| 41 | | Increase (decrease) in Accumulated Depreciation | | | | | | | | \$ 17,720 |
| 42 | | Adjustment to Accumulated Depreciation | | | | | | | | \$ 17,720 |

Quail Creek Water Company
 Test Year Ended December 31, 2013
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 2 - A

Exhibit
 Rebuttal Schedule B-2
 Page 4.1
 Witness: Bourassa

Line

No.

1 Adjustment to A/D for Capitalized Interest Removal

2

3

4

5

6

7

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11

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15

16

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18

19

20

| Acct. <u>No.</u> | <u>Description</u> | <u>Adjustment</u> | <u>Year</u> | <u>Rate</u> | <u>No. of Years</u> | <u>A/D Adjustment</u> |
|---------------------|-----------------------------|-------------------|-------------|-------------|-------------------------|---------------------------|
| 304 | Structures and Improvements | (18) | 2002 | 4.08% | 11.50 | \$ (8) |
| 307 | Wells and Springs | (9) | 2002 | 4.08% | 11.50 | (4) |
| 307 | Wells and Springs | (2,552) | 2009 | 4.08% | 4.50 | (469) |
| 311 | Electric Pumping Equipment | (173) | 2002 | 4.08% | 11.50 | (81) |
| TOTALS | | \$ (2,752) | | | | \$ (562) |

SUPPORTING SCHEDULE

Quail Creek Water Company
 Test Year Ended December 31, 2013
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 2 - B

Exhibit
 Rebuttal Schedule B-2
 Page 4.2
 Witness: Bourassa

Line

No.

1 Adjustment to A/D for Capitalized Water Testing Expense

2

3

4

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20

| <u>Acct.</u> | <u>Description</u> | <u>Adjustment</u> | <u>Year</u> | <u>Rate</u> | <u>No. of</u> <u>Years</u> | <u>A/D</u> <u>Adjustment</u> |
|--------------|--------------------|-------------------|-------------|-------------|-------------------------------|---------------------------------|
| 307 | Wells and Springs | 4,013 | 2013 | 4.08% | 0.50 | 82 |
| TOTALS | | \$ 4,013 | | | | \$ 82 |

SUPPORTING SCHEDULE

Quail Creek Water Company
Test Year Ended December 31, 2013
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - C

Exhibit
Rebuttal Schedule B-2
Page 4.3
Witness: Bourassa

Line

No.

1 Remove A/D for Non-Depreciable Accounts

2

3

4

Acct.

5

No.

6

7

8

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19

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21

Description
301 Organization Cost

A/D
Adjustment
(36,780)

TOTALS

\$ (36,780)

SUPPORTING SCHEDULE

Quail Creek Water Company
 Test Year Ended December 31, 2013
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 2 - D

Exhibit
 Rebuttal Schedule B-2
 Page 4.4
 Witness: Bourassa

| | | | | |
|------------|--|-----------------|---------------|-------------------|
| Line | | | | |
| <u>No.</u> | | | | |
| 1 | <u>Correction to Depreciation Expense 1998</u> | | | |
| 2 | | | | |
| 3 | | | | |
| 4 | Acct. | Per | Per | A/D |
| 5 | <u>No.</u> <u>Description</u> | <u>Rebuttal</u> | <u>Direct</u> | <u>Adjustment</u> |
| 6 | 301 Organization Cost | 1,522 | 1,014 | 507 |
| 7 | 302 Franchise Cost | - | - | - |
| 8 | 303 Land and Land Rights | - | - | - |
| 9 | 304 Structures and Improvements | - | - | - |
| 10 | 305 Collecting and Impounding Res. | - | - | - |
| 11 | 306 Lake River and Other Intakes | - | - | - |
| 12 | 307 Wells and Springs | 6,611 | 4,407 | 2,204 |
| 13 | 308 Infiltration Galleries and Tunnels | - | - | - |
| 14 | 309 Supply Mains | - | - | - |
| 15 | 310 Power Generation Equipment | - | - | - |
| 16 | 311 Electric Pumping Equipment | 2,261 | 1,507 | 754 |
| 17 | 320 Water Treatment Equipment | - | - | - |
| 18 | 320.1 Water Treatment Plant | - | - | - |
| 19 | 320.2 Chemical Solution Feeders | - | - | - |
| 20 | 330 Dist. Reservoirs & Standpipe | - | (37,566) | 37,566 |
| 21 | 330.1 Storage tanks | 7,355 | 4,904 | 2,452 |
| 22 | 330.2 Pressure Tanks | - | - | - |
| 23 | 331 Trans. and Dist. Mains | 18,198 | 12,132 | 6,066 |
| 24 | 333 Services | 129 | 86 | 43 |
| 25 | 334 Meters | - | - | - |
| 26 | 335 Hydrants | 952 | 634 | 317 |
| 27 | 336 Backflow Prevention Devices | - | - | - |
| 28 | 339 Other Plant and Misc. Equip. | - | - | - |
| 29 | 340 Office Furniture and Fixtures | - | - | - |
| 30 | 340.1 Computers and Software | - | - | - |
| 31 | 341 Transportation Equipment | - | - | - |
| 32 | 342 Stores Equipment | - | - | - |
| 33 | 343 Tools and Work Equipment | - | - | - |
| 34 | 344 Laboratory Equipment | - | - | - |
| 35 | 345 Power Operated Equipment | - | - | - |
| 36 | 346 Communications Equipment | - | - | - |
| 37 | 347 Miscellaneous Equipment | - | - | - |
| 38 | 348 Other Tangible Plant | 43 | 29 | 14 |
| 39 | | | | |
| 40 | TOTALS | \$ 35,549 | \$ (13,867) | \$ 49,416 |
| 41 | | | | |
| 42 | <u>SUPPORTING SCHEDULE</u> | | | |
| 43 | Testimony | | | |
| 44 | Work papers | | | |

Quail Creek Water Company
 Test Year Ended December 31, 2013
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 2 - E

Exhibit
 Rebuttal Schedule B-2
 Page 4.5
 Witness: Bourassa

Line

No.

1 Correction to A/D for Retirement Correction in 2011

2

3

4

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6

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| <u>Acct. No.</u> | <u>Description</u> | | <u>Per Direct</u> | <u>Per Rebuttal</u> | <u>A/D Adjustment</u> |
|------------------|----------------------------|--------------|-------------------|---------------------|-----------------------|
| 311 | Electric Pumping Equipment | Retirement | 303,221 | 298,631 | 4,590 |
| | | | <u>Depr Rate</u> | <u>Years</u> | |
| 311 | Electric Pumping Equipment | Depreciation | 2011 | 4.08% | 2.50 |
| | | | | | 468 |
| | | | | | \$ 5,058 |

SUPPORTING SCHEDULE

B-2, page 3.3

Quail Creek Water Company
 Test Year Ended December 31, 2013
 Original Cost Rate Base Proforma Adjustments
 Adjustment Number 2 - F

Exhibit
 Rebuttal Schedule B-2
 Page 4.6
 Witness: Bourassa

| Line No. | Acct. No. | Description | A/D Adjusted per Direct | B-2 Adjustments | A/D Adjusted Per Rebuttal | A/D Per Reconstruction | A/D Adjustment |
|----------|-----------|--|-------------------------|-----------------|---------------------------|------------------------|----------------|
| 1 | | <u>Reconciliation of A/D to A/D Reconstruction</u> | | | | | |
| 2 | | | | | | | |
| 3 | | | | | | | |
| 4 | | | | | | | |
| 5 | 301 | Organization Cost | 36,273 | (36,273) | 0 | 0 | (0) |
| 6 | 302 | Franchise Cost | - | - | - | - | - |
| 7 | 303 | Land and Land Rights | - | - | - | - | - |
| 8 | 304 | Structures and Improvements | 16,734 | (8) | 16,725 | 16,725 | 0 |
| 9 | 305 | Collecting and Impounding Res. | - | - | - | - | - |
| 10 | 306 | Lake River and Other Intakes | - | - | - | - | - |
| 11 | 307 | Wells and Springs | 258,516 | 1,813 | 260,329 | 260,329 | (0) |
| 12 | 308 | Infiltration Galleries and Tunnels | - | - | - | - | - |
| 13 | 309 | Supply Mains | - | - | - | - | - |
| 14 | 310 | Power Generation Equipment | 13,537 | - | 13,537 | 13,537 | - |
| 15 | 311 | Electric Pumping Equipment | (39,241) | 5,731 | (33,510) | (33,510) | 0 |
| 16 | 320 | Water Treatment Equipment | - | - | - | - | - |
| 17 | 320.1 | Water Treatment Plant | - | - | - | - | - |
| 18 | 320.2 | Chemical Solution Feeders | - | - | - | - | - |
| 19 | 330 | Dist. Reservoirs & Standpipe | - | 37,566 | 37,566 | - | (37,566) |
| 20 | 330.1 | Storage tanks | 377,367 | 2,452 | 379,818 | 417,384 | 37,566 |
| 21 | 330.2 | Pressure Tanks | 12,495 | - | 12,495 | 12,495 | - |
| 22 | 331 | Trans. and Dist. Mains | 1,244,095 | 6,066 | 1,250,160 | 1,250,160 | - |
| 23 | 333 | Services | 237,169 | 43 | 237,212 | 237,212 | - |
| 24 | 334 | Meters | 30,053 | - | 30,053 | 30,053 | - |
| 25 | 335 | Hydrants | 150,082 | 317 | 150,399 | 150,399 | - |
| 26 | 336 | Backflow Prevention Devices | - | - | - | - | - |
| 27 | 339 | Other Plant and Misc. Equip. | - | - | - | - | - |
| 28 | 340 | Office Furniture and Fixtures | 416 | - | 416 | 416 | (0) |
| 29 | 340.1 | Computers and Software | - | - | - | - | - |
| 30 | 341 | Transportation Equipment | - | - | - | - | - |
| 31 | 342 | Stores Equipment | - | - | - | - | - |
| 32 | 343 | Tools and Work Equipment | 399 | - | 399 | 399 | - |
| 33 | 344 | Laboratory Equipment | - | - | - | - | - |
| 34 | 345 | Power Operated Equipment | - | - | - | - | - |
| 35 | 346 | Communications Equipment | 13,876 | - | 13,876 | 13,876 | - |
| 36 | 347 | Miscellaneous Equipment | - | - | - | - | - |
| 37 | 348 | Other Tangible Plant | 1,027 | 14 | 1,041 | 1,041 | - |
| 38 | | Loss on Plant Disposition | - | - | - | - | - |
| 39 | | TOTALS | \$ 2,352,796 | \$ 17,720 | \$ 2,370,517 | \$ 2,370,517 | \$ 0 |
| 40 | | | | | | | |
| 41 | | | | | | | |
| 42 | | | | | | | |
| 43 | | <u>SUPPORTING SCHEDULE</u> | | | | | |
| 44 | | B-2, pages 4.1 through 4.2 | | | | | |
| 45 | | B-2, pages 3.5 through 3.21 | | | | | |

Quail Creek Water Company
 Test Year Ended December 31, 2013
 Original Cost Rate Base Proforma Adjustments
 Adjustment 4

| Line No. | Deferred Income Tax as of December 31, 2013 | Water & Sewer Adjusted Book Value | Water & Sewer Tax Value | Probability of Realization of Future Tax Benefit | Deductible TD (Taxable TD) Expected to be Realized | Effective Tax Rate | Future Tax Asset Current | Future Tax Asset Non Current | Future Tax Liability Current | Future Tax Liability Non Current |
|----------|---|-----------------------------------|---------------------------|--|--|--------------------|--------------------------|------------------------------|------------------------------|----------------------------------|
| 1 | | | | | | | | | | |
| 2 | | | | | | | | | | |
| 3 | | | | | | | | | | |
| 4 | | | | | | | | | | |
| 5 | | | | | | | | | | |
| 6 | | | | | | | | | | |
| 7 | Plant-in-Service | \$ 7,825,043 ¹ | | | | | | | | |
| 8 | Accum. Deprec. CIAC | (2,370,517) ¹ | | | | | | | | |
| 9 | Fed. Fixed Assets | \$ 4,918,768 | \$ 2,025,324 ² | 100.0% | \$ (2,893,444) | 34.30% | | | | (992,466) |
| 10 | State Fixed Assets | \$ 4,918,768 | \$ 2,025,324 ² | 100.0% | \$ (2,893,444) | 4.90% | | | | (141,779) |
| 11 | | | | | | | | | | |
| 12 | | | | | | | | | | |
| 13 | Fed & State AIAC | | 180,221 ⁴ | 100.0% | \$ 180,221 ⁴ | 39.20% | | \$ 70,648 | | |
| 14 | | | | | | | | | | |
| 15 | | | | | | | | | | |
| 16 | | | | | | | | | | |
| 17 | Net Asset (Liability) | | | | | | \$ - | \$ 70,648 | \$ - | \$ (1,134,245) |
| 18 | | | | | | | | | | |
| 19 | | | | | | | | | | |
| 20 | DIT Asset (Liability) per Direct | | | | | | \$ (1,063,597) | | | |
| 21 | Adjustment to DIT | | | | | | \$ (1,071,725) | | | |
| 22 | | | | | | | | | | |
| 23 | | | | | | | | | | |
| 24 | | | | | | | | | | |
| 25 | | | | | | | | | | |
| 26 | | | | | | | | | | |
| 27 | | | | | | | | | | |
| 28 | | | | | | | | | | |
| 29 | | | | | | | | | | |
| 30 | | | | | | | | | | |
| 31 | | | | | | | | | | |
| 32 | | | | | | | | | | |
| 33 | | | | | | | | | | |
| 34 | | | | | | | | | | |
| 35 | | | | | | | | | | |
| 36 | | | | | | | | | | |
| 37 | | | | | | | | | | |

Footnotes - See page 5.1

Line
 No.

| | FEDERAL | STATE |
|----|--------------|--------------|
| 1 | \$ 7,545,070 | \$ 7,545,070 |
| 2 | 1,261 | 1,261 |
| 3 | | |
| 4 | | |
| 5 | | |
| 6 | | |
| 7 | | |
| 8 | | |
| 9 | | |
| 10 | | |
| 11 | | |
| 12 | | |
| 13 | | |
| 14 | | |
| 15 | | |
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| 20 | | |
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| 23 | | |
| 24 | | |
| 25 | | |
| 26 | | |
| 27 | | |
| 28 | | |
| 29 | | |
| 30 | | |
| 31 | | |
| 32 | | |
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| 34 | | |
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| 36 | | |
| 37 | | |
| 38 | | |
| 39 | | |
| 40 | | |
| 41 | | |
| 42 | | |
| 43 | | |
| 44 | | |
| 45 | | |
| 46 | | |
| 47 | | |

¹ Per adjusted book balances

² Computation of Net Tax Value December 31, 2013
 Based on 2013 Tax Depreciation report (December 31, 2013)
 Unadjusted Cost at December 31, 2013 per federal and state tax depr. report
 Reconciling Items not on tax report.
 Proposed Plant Adjustments

Net Unadjusted Cost tax Basis at December 31, 2013

Reductions
 Accumulated Depreciation 2013 and prior per federal and state tax depr. report

Tax Depreciation Related to Proposed Plant Adjustments

Net Reductions through December 31, 2013
 Net tax value of plant-in-service at December 31, 2013

³ CIAC (including impact of change to probability of realization)
 Gross CIAC per adjusted book balances \$ 820,205
 CIAC reductions/additions
 A.A per adjusted book balances (284,447)
 Net CIAC before unrealized AIAC \$ 535,758

Unrealized AIAC Component
 AIAC per adjusted book balances \$ -
 Adjusted Net AIAC (see footnote 5 below) 70.0%
 Unrealized AIAC Component % (1-Realized AIAC Component) \$ 535,758
 Total realizable CIAC

⁴ AIAC (including impact of change in probability of realization)
 AIAC per adjusted book balances \$ -
 Less: Unrealized AIAC (from Note 3, above) \$ -
 Subtotal \$ -
 Meter and Service Line Installation Charges per adjusted book balances \$ 180,221
 Total realizable AIAC \$ 180,221

Quail Creek Water Company
 Test Year Ended December 31, 2013
 Computation of Working Capital

Exhibit
 Rebuttal Schedule B-5
 Page 1
 Witness: Bourassa

Line
No.

| | | | |
|----|---|-------------------------|---------------------------|
| 1 | Cash Working Capital (1/8 of Allowance | | |
| 2 | Operation and Maintenance Expense) | \$ | 31,762 |
| 3 | Pumping Power (1/24 of Pumping Power) | | 3,033 |
| 4 | Purchased Water (1/24 of Purchased Water) | | - |
| 5 | Prepaid Expenses | | |
| 6 | | | |
| 7 | | | |
| 8 | | | |
| 9 | Total Working Capital Allowance | \$ | 34,796 |
| 10 | | | |
| 11 | | | |
| 12 | Working Capital Requested | \$ | - |
| 13 | | | |
| 14 | | | |
| 15 | | | |
| 16 | | | |
| 17 | | | <u>Adjusted Test Year</u> |
| 18 | Total Operating Expense | \$ | 719,039 |
| 19 | Less: | | |
| 20 | Income Tax | \$ | 62,095 |
| 21 | Property Tax | | 35,106 |
| 22 | Depreciation | | 294,940 |
| 23 | Purchased Water | | - |
| 24 | Pumping Power | | 72,800 |
| 25 | Allowable Expenses | \$ | 254,098 |
| 26 | 1/8 of allowable expenses | \$ | 31,762 |
| 27 | | | |
| 28 | | | |
| 29 | <u>SUPPORTING SCHEDULES:</u> | <u>RECAP SCHEDULES:</u> | |
| 30 | E-1 | B-1 | |
| 31 | | | |
| 32 | | | |
| 33 | | | |
| 34 | | | |
| 35 | | | |
| 36 | | | |
| 37 | | | |
| 38 | | | |
| 39 | | | |
| 40 | | | |

Quail Creek Water Company
 Test Year Ended December 31, 2013
 Income Statement

Exhibit
 Rebuttal Schedule C-1
 Page 1
 Witness: Bourassa

| Line No. | | Adjusted Book Results | Adjustment | Rebuttal Adjusted Results | Proposed Rate Increase | Rebuttal Adjusted with Rate Increase |
|-------------|---------------------------------------|-----------------------------|-------------------|---------------------------------|------------------------------|---|
| 1 | Revenues | | | | | |
| 2 | Metered Water Revenues | \$ 837,366 | \$ - | \$ 837,366 | \$ 402,921 | \$ 1,240,287 |
| 3 | Unmetered Water Revenues | - | - | - | | - |
| 4 | Other Water Revenues | 7,353 | - | 7,353 | | 7,353 |
| 5 | | <u>\$ 844,719</u> | <u>\$ -</u> | <u>\$ 844,719</u> | <u>\$ 402,921</u> | <u>\$ 1,247,640</u> |
| 6 | Operating Expenses | | | | | |
| 7 | Salaries and Wages | \$ 85,321 | - | \$ 85,321 | | \$ 85,321 |
| 8 | Employee Pensions and Benefits | 21,254 | - | 21,254 | | 21,254 |
| 9 | Purchased Water | - | - | - | | - |
| 10 | Purchased Power | 72,800 | - | 72,800 | | 72,800 |
| 11 | Fuel For Power Production | - | - | - | | - |
| 12 | Chemicals | 6,454 | - | 6,454 | | 6,454 |
| 13 | Materials and Supplies | 23,693 | - | 23,693 | | 23,693 |
| 14 | Office Supplies and Expense | 20,818 | - | 20,818 | | 20,818 |
| 15 | Contractual Services - Engineering | - | - | - | | - |
| 16 | Contractual Services - Accounting | 380 | - | 380 | | 380 |
| 17 | Contractual Services - Legal | 468 | - | 468 | | 468 |
| 18 | Contractual Services - Other | 17,777 | - | 17,777 | | 17,777 |
| 19 | Contractual Services - Testing | 12,864 | (5,256) | 7,608 | | 7,608 |
| 20 | Rents | 566 | - | 566 | | 566 |
| 21 | Transportation Expenses | 13,067 | (2,136) | 10,931 | | 10,931 |
| 22 | Insurance - Vehicle | 524 | - | 524 | | 524 |
| 23 | Insurance - General Liability | 9,483 | - | 9,483 | | 9,483 |
| 24 | Reg. Comm. Exp. - Other | 425 | - | 425 | | 425 |
| 25 | Reg. Comm. Exp. - Rate Case | 40,000 | - | 40,000 | | 40,000 |
| 26 | Bad Debt Expense | 442 | - | 442 | | 442 |
| 27 | Miscellaneous Expense | 12,741 | (4,787) | 7,954 | | 7,954 |
| 28 | Depreciation and Amortization Expense | 294,340 | 600 | 294,940 | | 294,940 |
| 29 | Taxes Other Than Income | - | - | - | | - |
| 30 | Property Taxes | 35,106 | - | 35,106 | 5,195 | 40,301 |
| 31 | Income Tax | 57,233 | 4,862 | 62,095 | 155,910 | 218,005 |
| 32 | | - | - | - | | - |
| 33 | Total Operating Expenses | <u>\$ 725,756</u> | <u>\$ (6,717)</u> | <u>\$ 719,039</u> | <u>\$ 161,105</u> | <u>\$ 880,145</u> |
| 34 | Operating Income | <u>\$ 118,963</u> | <u>\$ 6,717</u> | <u>\$ 125,680</u> | <u>\$ 241,815</u> | <u>\$ 367,495</u> |
| 35 | Other Income (Expense) | | | | | |
| 36 | Interest Income | - | - | - | | - |
| 37 | Other income | - | - | - | | - |
| 38 | Interest Expense | - | - | - | | - |
| 39 | Other Expense | - | - | - | | - |
| 40 | | - | - | - | | - |
| 41 | Total Other Income (Expense) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| 42 | Net Profit (Loss) | <u>\$ 118,963</u> | <u>\$ 6,717</u> | <u>\$ 125,680</u> | <u>\$ 241,815</u> | <u>\$ 367,495</u> |

43
 44 SUPPORTING SCHEDULES:
 45 C-1, page 2
 46
 47

RECAP SCHEDULES:
 A-1

Quail Creek Water Company
 Test Year Ended December 31, 2013
 Income Statement

Exhibit
 Rebuttal Schedule C-1
 Page 2
 Witness: Bourassa

| Line No. | Revenues | 1 Adjusted Book Results | 2 Depreciation | 3 Property Taxes | 4 Water Testing Expense | 5 Transportation Expense | 6 Misc Expense | 7 Intentionally Left Blank | 8 Income Taxes | 9 Rebuttal Adjusted Results | 10 Proposed Rate Increase | 11 Rebuttal Adjusted with Rate Increase |
|----------|---------------------------------------|----------------------------|-------------------|---------------------|----------------------------|-----------------------------|-------------------|-------------------------------|-------------------|--------------------------------|------------------------------|--|
| 1 | Metered Water Revenues | \$ 837,366 | | | | | | | | \$ 837,366 | \$ 402,921 | \$ 1,240,287 |
| 2 | Unmetered Water Revenues | 7,353 | | | | | | | | 7,353 | | 7,353 |
| 3 | Other Water Revenues | \$ 844,719 | | | | | | | | \$ 844,719 | \$ 402,921 | \$ 1,247,640 |
| 4 | Operating Expenses | | | | | | | | | | | |
| 5 | Salaries and Wages | \$ 85,321 | | | | | | | | \$ 85,321 | | \$ 85,321 |
| 6 | Employee Pensions and Benefits | 21,254 | | | | | | | | 21,254 | | 21,254 |
| 7 | Purchased Water | 72,800 | | | | | | | | 72,800 | | 72,800 |
| 8 | Fuel For Power Production | - | | | | | | | | - | | - |
| 9 | Chemicals | 6,454 | | | | | | | | 6,454 | | 6,454 |
| 10 | Materials and Supplies | 23,693 | | | | | | | | 23,693 | | 23,693 |
| 11 | Office Supplies and Expense | 20,818 | | | | | | | | 20,818 | | 20,818 |
| 12 | Contractual Services - Engineering | - | | | | | | | | - | | - |
| 13 | Contractual Services - Accounting | 380 | | | | | | | | 380 | | 380 |
| 14 | Contractual Services - Legal | 468 | | | | | | | | 468 | | 468 |
| 15 | Contractual Services - Other | 17,777 | | | | | | | | 17,777 | | 17,777 |
| 16 | Contractual Services - Testing | 12,864 | | | (5,256) | | | | | 7,608 | | 7,608 |
| 17 | Rents | 566 | | | | | | | | 566 | | 566 |
| 18 | Transportation Expenses | 13,067 | | | (2,136) | | | | | 10,931 | | 10,931 |
| 19 | Insurance - Vehicle | 524 | | | | | | | | 524 | | 524 |
| 20 | Insurance - General Liability | 9,483 | | | | | | | | 9,483 | | 9,483 |
| 21 | Reg. Comm. Exp. - Other | 425 | | | | | | | | 425 | | 425 |
| 22 | Reg. Comm. Exp. - Rate Case | 40,000 | | | | | | | | 40,000 | | 40,000 |
| 23 | Bad Debt Expense | 442 | | | | | | | | 442 | | 442 |
| 24 | Miscellaneous Expense | 12,741 | | | | | (4,787) | | | 7,954 | | 7,954 |
| 25 | Depreciation and Amortization Expense | 294,340 | 600 | | | | | | | 294,940 | | 294,940 |
| 26 | Taxes Other Than Income | - | | | | | | | | - | | - |
| 27 | Property Taxes | 35,106 | | | | | | | 4,862 | 35,106 | 5,195 | 40,301 |
| 28 | Income Tax | 57,233 | | | | | | | | 62,095 | 155,910 | 218,005 |
| 29 | Total Operating Expenses | \$ 725,756 | \$ 600 | | \$ (5,256) | \$ (2,136) | \$ (4,787) | | \$ 4,862 | \$ 719,039 | \$ 161,105 | \$ 880,145 |
| 30 | Operating Income | \$ 118,963 | \$ (600) | | \$ 5,256 | \$ 2,136 | \$ 4,787 | | \$ (4,862) | \$ 125,680 | \$ 241,815 | \$ 367,495 |
| 31 | Other Income (Expense) | | | | | | | | | | | |
| 32 | Interest Income | - | | | | | | | | - | | - |
| 33 | Other Income | - | | | | | | | | - | | - |
| 34 | Interest Expense | - | | | | | | | | - | | - |
| 35 | Other Expense | - | | | | | | | | - | | - |
| 36 | Total Other Income (Expense) | \$ - | | | | | | | | \$ - | | \$ - |
| 37 | Net Profit (Loss) | \$ 118,963 | \$ (600) | | \$ 5,256 | \$ 2,136 | \$ 4,787 | | \$ (4,862) | \$ 125,680 | \$ 241,815 | \$ 367,495 |

RECAP SCHEDULES:
 C-1, page 1

SUPPORTING SCHEDULES:
 C-2

Quail Creek Water Company
 Test Year Ended December 31, 2013
 Adjustments to Revenues and Expenses

Exhibit
 Rebuttal Schedule C-2
 Page 1
 Witness: Bourassa

| Line No. | <u>Adjustments to Revenues and Expenses</u> | | | | | | <u>Subtotal</u> |
|----------|---|-----------------------|------------------------------|-------------------------------|---------------------|---------------------------------|-----------------|
| | <u>1</u> | <u>2</u> | <u>3</u> | <u>4</u> | <u>5</u> | <u>6</u> | |
| | <u>Depreciation</u> | <u>Property Taxes</u> | <u>Water Testing Expense</u> | <u>Transportation Expense</u> | <u>Misc Expense</u> | <u>Intentionally Left Blank</u> | |
| 1 | | | | | | | |
| 2 | | | | | | | |
| 3 | | | | | | | |
| 4 | Revenues | | | | | | - |
| 5 | | | | | | | |
| 6 | Expenses | 600 | - | (5,256) | (2,136) | (4,787) | (11,579) |
| 7 | | | | | | | |
| 8 | Operating Income | (600) | - | 5,256 | 2,136 | 4,787 | 11,579 |
| 9 | | | | | | | |
| 10 | Interest Expense | | | | | | - |
| 11 | | | | | | | |
| 12 | Other Income / Expense | | | | | | - |
| 13 | | | | | | | |
| 14 | | | | | | | |
| 15 | | | | | | | |
| 16 | | | | | | | |
| 17 | Net Income | (600) | - | 5,256 | 2,136 | 4,787 | 11,579 |
| 18 | | | | | | | |
| 19 | | | | | | | |
| 20 | | | | | | | |
| 21 | | | | | | | |
| 22 | | | | | | | |
| 23 | | | | | | | |
| 24 | | | | | | | |
| 25 | Revenues | | | | | | - |
| 26 | | | | | | | |
| 27 | Expenses | - | 4,862 | - | - | - | (6,717) |
| 28 | | | | | | | |
| 29 | Operating Income | - | (4,862) | - | - | - | 6,717 |
| 30 | | | | | | | |
| 31 | | | | | | | |
| 32 | Interest Expense | | | | | | - |
| 33 | | | | | | | |
| 34 | Other Income / Expense | | | | | | - |
| 35 | | | | | | | |
| 36 | | | | | | | |
| 37 | | | | | | | |
| 38 | Net Income | - | (4,862) | - | - | - | 6,717 |
| 39 | | | | | | | |

Quail Creek Water Company
 Test Year Ended December 31, 2013
 Adjustments to Revenues and Expenses
 Adjustment Number 1

Exhibit
 Rebuttal Schedule C-2
 Page 2
 Witness: Bourassa

Depreciation Expense

Line

No.

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| Acct. | Original Cost | Non-Depr. or Fully Depr. Plant | Adjusted Original Cost | Proposed Rates | Depreciation Expense |
|--|---------------------|--------------------------------|------------------------|----------------|----------------------|
| 301 Organization Cost | \$ 37,295 | | \$ 37,295 | 0.00% | \$ - |
| 302 Franchise Cost | - | - | - | 0.00% | - |
| 303 Land and Land Rights | 92,895 | (92,895) | - | 0.00% | - |
| 304 Structures and Improvements | 75,424 | | 75,424 | 3.33% | 2,512 |
| 305 Collecting and Impounding Res. | - | | - | 2.50% | - |
| 306 Lake River and Other Intakes | - | | - | 2.50% | - |
| 307 Wells and Springs | 835,700 | | 835,700 | 3.33% | 27,829 |
| 308 Infiltration Galleries and Tunnels | - | | - | 6.67% | - |
| 309 Supply Mains | - | | - | 2.00% | - |
| 310 Power Generation Equipment | 37,618 | | 37,618 | 5.00% | 1,881 |
| 311 Electric Pumping Equipment | 1,141,692 | | 1,141,692 | 12.50% | 142,711 |
| 320 Water Treatment Equipment | - | | - | 3.33% | - |
| 320.1 Water Treatment Plant | - | | - | 3.33% | - |
| 320.2 Chemical Solution Feeders | - | | - | 20.00% | - |
| 330 Dist. Reservoirs & Standpipe | - | | - | 2.22% | - |
| 330.1 Storage tanks | 856,574 | | 856,574 | 2.22% | 19,016 |
| 330.2 Pressure Tanks | 32,236 | | 32,236 | 5.00% | 1,612 |
| 331 Trans. and Dist. Mains | 3,194,161 | | 3,194,161 | 2.00% | 63,883 |
| 333 Services | 891,232 | | 891,232 | 3.33% | 29,678 |
| 334 Meters | 90,315 | | 90,315 | 8.33% | 7,523 |
| 335 Hydrants | 477,182 | | 477,182 | 2.00% | 9,544 |
| 336 Backflow Prevention Devices | - | | - | 6.67% | - |
| 339 Other Plant and Misc. Equip. | - | | - | 6.67% | - |
| 340 Office Furniture and Fixtures | 2,071 | | 2,071 | 6.67% | 138 |
| 340.1 Computers and Software | - | | - | 20.00% | - |
| 341 Transportation Equipment | - | | - | 20.00% | - |
| 342 Stores Equipment | - | | - | 4.00% | - |
| 343 Tools and Work Equipment | 2,399 | | 2,399 | 5.00% | 120 |
| 344 Laboratory Equipment | - | | - | 10.00% | - |
| 345 Power Operated Equipment | - | | - | 5.00% | - |
| 346 Communications Equipment | 57,194 | | 57,194 | 10.00% | 5,719 |
| 347 Miscellaneous Equipment | - | | - | 10.00% | - |
| 348 Other Tangible Plant | 1,056 | | 1,056 | 10.00% | 106 |
| TOTALS | \$ 7,825,043 | \$ (92,895) | \$ 7,732,147 | | \$ 312,272 |

Less: Amortization of Contributions

| | Gross CIAC | Amort. Rate | |
|----------------------------|------------|-------------|-------------|
| 331 Trans. and Dist. Mains | \$ 663,178 | 2.00% | \$ (13,264) |
| 333 Services | \$ 69,718 | 3.33% | (2,322) |
| 335 Hydrants | \$ 87,308 | 2.00% | (1,746) |
| Total CIAC | \$ 820,205 | | \$ (17,331) |

Total Depreciation Expense \$ 294,940

Adjusted Test Year Depreciation Expense 294,340

Increase (decrease) in Depreciation Expense \$ 600

Adjustment to Revenues and/or Expenses \$ 600

SUPPORTING SCHEDULE

B-2, page 3

Quail Creek Water Company
 Test Year Ended December 31, 2013
 Adjustment to Revenues and Expenses
 Adjustment Number 2

Exhibit
 Rebuttal Schedule C-2
 Page 3
 Witness: Bourassa

Property Taxes

| Line | | Test Year | Company |
|------------|---|--------------------|--------------------|
| <u>No.</u> | <u>DESCRIPTION</u> | <u>as adjusted</u> | <u>Recommended</u> |
| 1 | Company Adjusted Test Year Revenues | \$ 844,719 | \$ 844,719 |
| 2 | Weight Factor | <u>3</u> | <u>2</u> |
| 3 | Subtotal (Line 1 * Line 2) | 2,534,157 | 1,689,438 |
| 4 | Company Recommended Revenue | | 1,247,640 |
| 5 | Subtotal (Line 4 + Line 5) | 2,534,157 | 2,937,078 |
| 6 | Number of Years | 3 | 3 |
| 7 | Three Year Average (Line 5 / Line 6) | 844,719 | 979,026 |
| 8 | Department of Revenue Multiplier | 2 | 2 |
| 9 | Revenue Base Value (Line 7 * Line 8) | 1,689,438 | 1,958,052 |
| 10 | Plus: 10% of CWIP (intentionally excluded) | - | - |
| 11 | Less: Net Book Value of Licensed Vehicles | - | - |
| 12 | Full Cash Value (Line 9 + Line 10 - Line 11) | 1,689,438 | 1,958,052 |
| 13 | Assessment Ratio | 18.0% | 18.0% |
| 14 | Assessment Value (Line 12 * Line 13) | 304,099 | 352,449 |
| 15 | Composite Property Tax Rate - Obtained from ADOR | 10.7445% | 10.7445% |
| 16 | Test Year Adjusted Property Tax Expense (Line 14 * Line 15) | \$ 32,674 | \$ 37,869 |
| 17 | Tax on Parcels | <u>2,432</u> | <u>2,432</u> |
| 18 | Total Property Taxes (Line 16 + Line 17) | <u>\$ 35,106</u> | |
| 19 | Test Year Property Taxes | <u>\$ 35,106</u> | |
| 20 | Adjustment to Test Year Property Taxes (Line 18 - Line 19) | <u>\$ -</u> | |
| 21 | | | |
| 22 | Property Tax on Company Recommended Revenue (Line 16 + Line 17) | | <u>\$ 40,301</u> |
| 23 | Company Test Year Adjusted Property Tax Expense (Line 18) | | <u>\$ 35,106</u> |
| 24 | Increase in Property Tax Due to Increase in Revenue Requirement | | <u>\$ 5,195</u> |
| 25 | | | |
| 26 | Increase in Property Tax Due to Increase in Revenue Requirement (Line 24) | | \$ 5,195 |
| 27 | Increase in Revenue Requirement | | \$ 402,921 |
| 28 | Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27) | | 1.28934% |
| 29 | | | |
| 30 | | | |
| 31 | | | |
| 32 | | | |
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Quail Creek Water Company
Test Year Ended December 31, 2013
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Rebuttal Schedule C-2
Page 4
Witness: Bourassa

Water Testing Expense

Line
No.

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Staff Reccommended Water Testing Expense

\$ 7,608

Test Year Water Testing Expense

12,864

Increase (decrease) in Water Testing Expense

\$ (5,256)

Adjustment to Revenue and/or Expense

\$ (5,256)

Reference

Staff Schedule JAC-9

Quail Creek Water Company
Test Year Ended December 31, 2013
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Rebuttal Schedule C-2
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Witness: Bourassa

Transportation Expense

Line
No.

| | | |
|----|---|--------------------------|
| 1 | | |
| 2 | Staff Recommended Transportation Expense | \$ 10,931 |
| 3 | | |
| 4 | Test Year Transportation Expense | <u>13,067</u> |
| 5 | | |
| 6 | Increase (decrease) in Transportation Expense | <u>\$ (2,136)</u> |
| 7 | | |
| 8 | | |
| 9 | Adjustment to Revenue and/or Expense | <u><u>\$ (2,136)</u></u> |
| 10 | | |
| 11 | | |
| 12 | | |
| 13 | | |
| 14 | | |
| 15 | <u>Reference</u> | |
| 16 | Staff Schedule JAC-10 | |
| 17 | | |
| 18 | | |
| 19 | | |
| 20 | | |

Quail Creek Water Company
Test Year Ended December 31, 2013
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Rebuttal Schedule C-2
Page 6
Witness: Bourassa

Miscellaneous Expense

Line
No.

| | | |
|----|--|-------------------|
| 1 | | |
| 2 | Staff Reccommended Miscellaneous Expense | \$ 7,954 |
| 3 | | |
| 4 | Test Year Miscellaneous Expense | <u>12,741</u> |
| 5 | | |
| 6 | Increase (decrease) in Miscellaneous Expense | <u>\$ (4,787)</u> |
| 7 | | |
| 8 | | |
| 9 | Adjustment to Revenue and/or Expense | <u>\$ (4,787)</u> |
| 10 | | |
| 11 | | |
| 12 | | |
| 13 | | |
| 14 | | |
| 15 | <u>Reference</u> | |
| 16 | Staff Schedule JAC-11 | |
| 17 | | |
| 18 | | |
| 19 | | |
| 20 | | |

Quail Creek Water Company
Test Year Ended December 31, 2013
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Rebuttal Schedule C-2
Page 7
Witness: Bourassa

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Quail Creek Water Company
Test Year Ended December 31, 2013
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Rebuttal Schedule C-2
Page 8
Witness: Bourassa

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Quail Creek Water Company
Test Year Ended December 31, 2013
Adjustment to Revenues and/or Expenses
Adjustment Number 8

Exhibit
Rebuttal Schedule C-2
Page 9
Witness: Bourassa

Line

No.

1 Income Taxes

2

3

4 Computed Income Tax

5 Test Year Income tax Expense

6 Adjustment to Income Tax Expense

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13 SUPPORTING SCHEDULE

14 C-3, page 2

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| | <u>Test Year</u> <u>at Present Rates</u> | <u>Test Year</u> <u>at Proposed Rates</u> |
|--|---|--|
| | \$ 62,095 | \$ 218,005 |
| | <u>57,233</u> | <u>62,095</u> |
| | <u>\$ 4,862</u> | <u>\$ 155,910</u> |

Quail Creek Water Company
 Test Year Ended December 31, 2013
 Computation of Gross Revenue Conversion Factor

Exhibit
 Rebuttal Schedule C-3
 Page 1
 Witness: Bourassa

| Line No. | <u>Description</u> | Percentage of Incremental Gross <u>Revenues</u> |
|-------------|--|---|
| 1 | Combined Federal and State Effective Income Tax Rate | 39.201% |
| 2 | | |
| 3 | Property Taxes | 0.784% |
| 4 | | |
| 5 | | |
| 6 | Total Tax Percentage | 39.984% |
| 7 | | |
| 8 | Operating Income % = 100% - Tax Percentage | 60.016% |
| 9 | | |
| 10 | | |
| 11 | | |
| 12 | | |
| 13 | 1 | |
| 14 | Operating Income % = Gross Revenue Conversion Factor | 1.6662 |
| 15 | | |
| 16 | | |
| 17 | | |
| 18 | | |
| 19 | | |
| 20 | | |
| 21 | | |
| 22 | | |
| 23 | | |
| 24 | | |
| 25 | <u>SUPPORTING SCHEDULES:</u> | <u>RECAP SCHEDULES:</u> |
| 26 | C-3, page 2 | A-1 |
| 27 | | |
| 28 | | |
| 29 | | |
| 30 | | |
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GROSS REVENUE CONVERSION FACTOR

| Line No. | Description | (A) | (B) | (C) | (D) | (E) | (F) |
|--|---|-----------|----------|----------|-----|-----|-----|
| <i>Calculation of Gross Revenue Conversion Factor:</i> | | | | | | | |
| 1 | Revenue | 100.0000% | | | | | |
| 2 | Uncollectible Factor (Line 11) | 0.0000% | | | | | |
| 3 | Revenues (L1 - L2) | 100.0000% | | | | | |
| 4 | Combined Federal and State Income Tax and Property Tax Rate (Line 23) | 39.9844% | | | | | |
| 5 | Subtotal (L3 - L4) | 60.0156% | | | | | |
| 6 | Revenue Conversion Factor (L1 / L5) | 1.666234 | | | | | |
| <i>Calculation of Uncollectible Factor:</i> | | | | | | | |
| 7 | Unity | 100.0000% | | | | | |
| 8 | Combined Federal and State Tax Rate (L17) | 39.2005% | | | | | |
| 9 | One Minus Combined Income Tax Rate (L7 - L8) | 60.7995% | | | | | |
| 10 | Uncollectible Rate | 0.0000% | | | | | |
| 11 | Uncollectible Factor (L9 * L10) | | 0.0000% | | | | |
| <i>Calculation of Effective Tax Rate:</i> | | | | | | | |
| 12 | Operating Income Before Taxes (Arizona Taxable Income) | 100.0000% | | | | | |
| 13 | Arizona State Income Tax Rate | 4.9000% | | | | | |
| 14 | Federal Taxable Income (L12 - L13) | 95.1000% | | | | | |
| 15 | Applicable Federal Income Tax Rate (L55 Col F) | 36.0678% | | | | | |
| 16 | Effective Federal Income Tax Rate (L14 x L15) | 34.3005% | | | | | |
| 17 | Combined Federal and State Income Tax Rate (L13 + L16) | | 39.2005% | | | | |
| <i>Calculation of Effective Property Tax Factor</i> | | | | | | | |
| 18 | Unity | 100.0000% | | | | | |
| 19 | Combined Federal and State Income Tax Rate (L17) | 39.2005% | | | | | |
| 20 | One Minus Combined Income Tax Rate (L18-L19) | 60.7995% | | | | | |
| 21 | Property Tax Factor | 1.2893% | | | | | |
| 22 | Effective Property Tax Factor (L20*L21) | | 0.7839% | | | | |
| 23 | Combined Federal and State Income Tax and Property Tax Rate (L17+L22) | | | 39.9844% | | | |

| | | | | | | | |
|----|--|--------------|------------|--|--|--|--|
| 24 | Required Operating Income | \$ 367,495 | | | | | |
| 25 | Adjusted Test Year Operating Income (Loss) | \$ 125,680 | | | | | |
| 26 | Required Increase in Operating Income (L24 - L25) | | \$ 241,815 | | | | |
| 27 | Income Taxes on Recommended Revenue (Col. (F), L52) | \$ 218,005 | | | | | |
| 28 | Income Taxes on Test Year Revenue (Col. (C), L52) | \$ 62,095 | | | | | |
| 29 | Required Increase in Revenue to Provide for Income Taxes (L27 - L28) | | \$ 155,910 | | | | |
| 30 | Recommended Revenue Requirement | \$ 1,247,640 | | | | | |
| 31 | Uncollectible Rate (Line 10) | 0.0000% | | | | | |
| 32 | Uncollectible Expense on Recommended Revenue (L24 * L25) | \$ - | | | | | |
| 33 | Adjusted Test Year Uncollectible Expense | \$ - | | | | | |
| 34 | Required Increase in Revenue to Provide for Uncollectible Exp. | | \$ - | | | | |
| 35 | Property Tax with Recommended Revenue | \$ 40,301 | | | | | |
| 36 | Property Tax on Test Year Revenue | \$ 35,106 | | | | | |
| 37 | Increase in Property Tax Due to Increase in Revenue (L35-L36) | | \$ 5,195 | | | | |
| 38 | Total Required Increase in Revenue (L26 + L29 + L37) | | \$ 402,921 | | | | |

| | (A) | | | (B) | | | (C) | | | (D) | | | (E) | | | (F) | | | |
|----|---|--------------------------|-------|-------------|--------------------------|------------|--------------|--------------------------|--------------|--------------|--------------------------|--------------|-------------|--------------------------|-------|-------------|--------------------------|-------|----------|
| | Total Water | Intentionally Left Blank | Water | Total Water | Intentionally Left Blank | Water | Total Water | Intentionally Left Blank | Water | Total Water | Intentionally Left Blank | Water | Total Water | Intentionally Left Blank | Water | Total Water | Intentionally Left Blank | Water | |
| 39 | Revenue | \$ 844,719 | | \$ 844,719 | | \$ 844,719 | \$ 1,247,640 | | \$ 1,247,640 | \$ 1,247,640 | | \$ 1,247,640 | | | | | | | |
| 40 | Operating Expenses Excluding Income Taxes | 656,945 | | 656,945 | | 656,945 | 662,140 | | 662,140 | 662,140 | | 662,140 | | | | | | | |
| 41 | Synchronized Interest (L47) | | | | | | | | | | | | | | | | | | |
| 42 | Arizona Taxable Income (L39 - L40 - L41) | \$ 187,775 | | \$ 187,775 | | \$ 187,775 | \$ 585,501 | | \$ 585,500 | \$ 585,500 | | \$ 585,500 | | | | | | | |
| 43 | Arizona State Income Tax Rate | 4.9000% | | 4.9000% | | 4.9000% | 4.9000% | | 4.9000% | 4.9000% | | 4.9000% | | | | | | | |
| 44 | Arizona Income Tax (L42 x L43) | \$ 9,201 | | \$ 9,201 | | \$ 9,201 | \$ 28,690 | | \$ 28,690 | \$ 28,690 | | \$ 28,690 | | | | | | | |
| 45 | Federal Taxable Income (L42- L44) | \$ 178,574 | | \$ 178,574 | | \$ 178,574 | \$ 556,812 | | \$ 556,811 | \$ 556,811 | | \$ 556,811 | | | | | | | |
| 46 | | | | | | | | | | | | | | | | | | | |
| 47 | Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15% | \$ 7,500 | | \$ 7,500 | | \$ 7,500 | \$ 7,500 | | \$ 7,500 | \$ 7,500 | | \$ 7,500 | | | | | | | |
| 48 | Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25% | \$ 6,250 | | \$ 6,250 | | \$ 6,250 | \$ 6,250 | | \$ 6,250 | \$ 6,250 | | \$ 6,250 | | | | | | | |
| 49 | Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34% | \$ 8,500 | | \$ 8,500 | | \$ 8,500 | \$ 8,500 | | \$ 8,500 | \$ 8,500 | | \$ 8,500 | | | | | | | |
| 50 | Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39% | \$ 30,844 | | \$ 30,844 | | \$ 30,844 | \$ 91,650 | | \$ 91,650 | \$ 91,650 | | \$ 91,650 | | | | | | | |
| 51 | Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34% | \$ - | | \$ - | | \$ - | \$ 75,416 | | \$ 75,416 | \$ 75,416 | | \$ 75,416 | | | | | | | |
| 52 | | | | | | | | | | | | | | | | | | | |
| 53 | Total Federal Income Tax | \$ 52,894 | | \$ 52,894 | | \$ 52,894 | \$ 189,316 | | \$ 189,316 | \$ 189,316 | | \$ 189,316 | | | | | | | |
| 54 | Combined Federal and State Income Tax (L35 + L42) | \$ 62,095 | | \$ 62,095 | | \$ 62,095 | \$ 218,005 | | \$ 218,005 | \$ 218,005 | | \$ 218,005 | | | | | | | |
| 55 | COMBINED Applicable Federal Income Tax Rate [Col. (D), L53 - Col. (A), L53 / [Col. (D), L45 - Col. (A), L45] | | | | | | 36.0678% | | | | | | | | | | | | |
| 56 | WASTEWATER Applicable Federal Income Tax Rate [Col. (E), L53 - Col. (B), L53] / [Col. (E), L45 - Col. (B), L45] | | | | | | | | | | | | 0.0000% | | | | | | |
| 57 | WATER Applicable Federal Income Tax Rate [Col. (F), L53 - Col. (C), L53] / [Col. (F), L45 - Col. (C), L45] | | | | | | | | | | | | | | | | | | 36.0678% |

Calculation of Interest Synchronization:

| | | |
|----|-----------------------------------|--------------|
| 58 | Rate Base | \$ 3,674,950 |
| 59 | Weighted Average Cost of Debt | 0.0000% |
| 60 | Synchronized Interest (L59 X L60) | \$ - |

| Line No. | Monthly Usage Charge for: | Present Rates | Proposed Rates | Change | Percent Change |
|----------|----------------------------------|---------------|----------------|---------|----------------|
| 1 | Meter Size (All Classes): | | | | |
| 2 | 5/8x3/4 Inch | \$ 15.00 | \$ 21.23 | \$ 6.23 | 41.50% |
| 3 | 3/4 Inch | 20.00 | 28.30 | 8.30 | 41.50% |
| 4 | 1 Inch | 25.00 | 35.38 | 10.38 | 41.50% |
| 5 | 1 1/2 Inch | 50.00 | 70.75 | 20.75 | 41.50% |
| 6 | 2 Inch | 80.00 | 113.20 | 33.20 | 41.50% |
| 7 | 3 Inch | 150.00 | 212.25 | 62.25 | 41.50% |
| 8 | 4 Inch | 250.00 | 353.75 | 103.75 | 41.50% |
| 9 | 6 Inch | 500.00 | 707.50 | 207.50 | 41.50% |
| 10 | Standpipe | | | | |
| 11 | Gallons In Minimum (all classes) | | | | NM |

Commodity Rates (per 1,000 gallons)

| Line No. | Block | Present Rate | Proposed Rate |
|----------|----------------------------------|--------------|---------------|
| 21 | 5/8x3/4 Inch (all classes) | \$ 2.80 | |
| 22 | Over Minimum | | |
| 23 | 1 gallons to 4,000 gallons | \$ 3.53 | |
| 24 | 4,001 gallons to 10,000 gallons | \$ 4.63 | |
| 25 | over 10,000 gallons | \$ 5.73 | |
| 26 | | | |
| 27 | 5/8x3/4 Inch - Non-residential | | |
| 28 | 1 gallons to 10,000 gallons | \$ 4.63 | |
| 29 | over 10,000 gallons | \$ 5.73 | |
| 30 | 3/4 Inch Meter (all classes) | | |
| 31 | Over Minimum | \$ 2.80 | |
| 32 | 3/4 Inch Meter - Residential | | |
| 33 | 1 gallons to 4,000 gallons | \$ 3.53 | |
| 34 | 4,001 gallons to 10,000 gallons | \$ 4.63 | |
| 35 | over 10,000 gallons | \$ 5.73 | |
| 36 | 3/4 Inch Meter - Non-residential | | |
| 37 | 1 gallons to 10,000 gallons | \$ 4.63 | |
| 38 | over 10,000 gallons | \$ 5.73 | |
| 39 | | | |
| 40 | | | |
| 41 | | | |
| 42 | | | |
| 43 | NM = not meaningful | | |
| 44 | NT = No Tariff | | |
| 45 | | | |

| Line No. | Commodity Rates (per 1,000 gallons) | Block | Present Rate | Proposed Rate |
|----------|-------------------------------------|---|--------------|---------------|
| 1 | 1 Inch Meter (all classes) | Over Minimum | \$ 2.80 | |
| 2 | 1 Inch Meter (all classes) | 1 gallons to 17,000 gallons over 17,000 gallons | \$ 4.63 | \$ 5.73 |
| 3 | 1.5 Inch Meter (all classes) | Over Minimum | \$ 2.80 | |
| 4 | 1.5 Inch Meter - (all classes) | 1 gallons to 33,000 gallons over 33,000 gallons | \$ 4.63 | \$ 5.73 |
| 5 | 2 Inch Meter (all classes) | Over Minimum | \$ 2.80 | |
| 6 | 2 Inch Meter - (all classes) | 1 gallons to 53,000 gallons over 53,000 gallons | \$ 4.63 | \$ 5.73 |
| 7 | 3 Inch Meter (all classes) | Over Minimum | \$ 2.80 | |
| 8 | 3 Inch Meter - (all classes) | 1 gallons to 100,000 gallons over 100,000 gallons | \$ 4.63 | \$ 5.73 |
| 9 | 4 Inch Meter (all classes) | Over Minimum | \$ 2.80 | |
| 10 | 4 Inch Meter (all classes) | 1 gallons to 167,000 gallons over 167,000 gallons | \$ 4.63 | \$ 5.73 |
| 11 | 6 Inch Meter - (all classes) | 1 gallons to 334,000 gallons over 334,000 gallons | \$ 4.63 | \$ 5.73 |
| 12 | Standpipe* | All gallons | \$ 2.80 | \$ 5.73 |

* Includes hydrant or construction water.
 NT = No Tariff

Quail Creek Water Company
 Present and Proposed Rates
 Test Year Ended December 31, 2013

Exhibit
 Rebuttal Schedule H-3
 Page 3
 Witness: Bourassa

Line

No.

1 Meter and Service Line Charges

| | Present Service Line Charge | Present Meter Install- ation Charge | Total Present Charge | Proposed Service Line Charge ¹ | Proposed Meter Install- ation Charge ¹ | Total Proposed Charge ¹ |
|----|--------------------------------------|---|----------------------------|--|---|--|
| 7 | 5/8 x 3/4 Inch | | \$ 350.00 | \$ 385.00 | \$ 135.00 | \$ 520.00 |
| 8 | 3/4 Inch | | \$ 400.00 | 415.00 | 205.00 | 620.00 |
| 9 | 1 Inch | | \$ 470.00 | 465.00 | 265.00 | 730.00 |
| 10 | 1 1/2 Inch | | \$ 695.00 | 520.00 | 475.00 | 995.00 |
| 11 | 2 Inch Turbo | | \$ 1,225.00 | 800.00 | 995.00 | 1,795.00 |
| 12 | 2 Inch, Compound | | \$ 1,820.00 | 800.00 | 1,840.00 | 2,640.00 |
| 13 | 3 Inch Turbo | | \$ 1,735.00 | 1,015.00 | 1,620.00 | 2,635.00 |
| 14 | 3 Inch, compound | | \$ 2,410.00 | 1,135.00 | 2,495.00 | 3,630.00 |
| 15 | 4 Inch Turbo | | \$ 2,700.00 | 1,430.00 | 2,570.00 | 4,000.00 |
| 16 | 4 Inch, compound | | \$ 3,455.00 | 1,610.00 | 3,545.00 | 5,155.00 |
| 17 | 6 Inch Turbo | | \$ 5,115.00 | 2,150.00 | 4,925.00 | 7,075.00 |
| 18 | 6 Inch, compound | | \$ 6,650.00 | 2,270.00 | 6,820.00 | 9,090.00 |

21 ¹ Based on ACC Staff Engineering Memo dated February 21, 2008

23 Other Charges:

| | | | |
|----|----------------------------------|----------------|----------------|
| 25 | Establishment | \$ 25.00 | \$ 25.00 |
| 26 | Establishment (after hours) | \$ 45.00 | Remove |
| 27 | Reestablishment within 12 months | ** | ** |
| 28 | Reconnection/Delinquent | \$ 25.00 | \$ 25.00 |
| 29 | Meter Test (if correct) | \$ 25.00 | \$ 25.00 |
| 30 | Meter Re-read (if correct) | \$ 15.00 | \$ 15.00 |
| 31 | Deposit | * | * |
| 32 | Deposit Interest | * | * |
| 33 | NSF Check | \$ 15.00 | \$ 15.00 |
| 34 | Deferred Payment, per month | 1.5% per month | 1.5% per month |
| 35 | Late Payment Fee (per month) | *** | *** |
| 36 | After hours service charge | NT | \$ 50.00 |

38 Monthly Service Charge of Fire Sprinklers

| | | | |
|----|-----------------|------|------|
| 39 | 4" or Smaller | **** | **** |
| 40 | 6" | **** | **** |
| 41 | 8" | **** | **** |
| 42 | 10" | **** | **** |
| 43 | Larger than 10" | **** | **** |

45 * Per Commission Rule A.A.C R-14-2-403(b)

46 ** Number of months off the system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).

47 *** 1.5% per month or a minimum of \$3.50.

48 **** 1% of monthly minimum for a comparable sized meter connection, but no less than \$5.00 per month (requires separate service line).

50 NT = No Tariff

1 SHAPIRO LAW FIRM, P.C.
Jay L. Shapiro (No. 014650)
2 1819 E. Morten Avenue, Suite 280
Phoenix, Arizona 85020
3 Telephone (602) 559-9575

4 Attorneys for Quail Creek Water Company, Inc.

5

6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

7

8

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

DOCKET NO: W-02514A-14-0343

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14

15

REBUTTAL TESTIMONY OF

16

THOMAS J. BOURASSA

17

COST OF CAPITAL

18

19

JUNE 3, 2015

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

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

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

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

6 A. I am testifying on behalf of the Applicant Quail Creek Water Company, Inc.
7 (“QCW” or “Company”).

8 **Q. HAVE YOU ALSO PREPARED REBUTTAL TESTIMONY ON RATE BASE
9 ISSUES IN THIS DOCKET?**

10 A. Yes, my rebuttal testimony on rate base, income statement, revenue requirement and
11 rate design is being filed in a separate volume concurrently with this testimony.
12 In this volume, I present my cost of capital rebuttal testimony.

13 **Q. WHAT IS THE PURPOSE OF THIS PORTION OF YOUR REBUTTAL
14 TESTIMONY?**

15 A. I will provide updates of my cost of capital analysis and recommended rate of return
16 using more recent financial data. I also will provide rebuttal in response to the direct
17 testimony of Staff cost of capital witness, John Cassidy.

18 **II. SUMMARY OF REBUTTAL TESTIMONY AND THE PROPOSED COST
19 OF CAPITAL FOR THE COMPANY.**

20 **A. SUMMARY OF QCW’S REBUTTAL RECOMMENDATION.**

21 **Q. WHAT IS YOUR RECOMMENDED COST OF CAPITAL?**

22 A. I recommend a return on equity of 10.0 percent, which is below the mid-point of the
23 range of my DCF, Risk Premium, and CAPM analyses of 10.1 percent for the
24 publicly traded water utilities (“water proxy group”). 10.0 percent is also well below
25 the mid-point of the range of 10.5 percent for QCW, which takes into account a
26 downward financial risk adjustment of 60 basis points, and which recognizes the

1 Company's lower financial risk compared to the water proxy group, and an upward
2 risk adjustment for QCW of 100 basis points to recognize the higher risk of an
3 investment in QCW compared to the water proxy group.¹ I also recommend a capital
4 structure consisting of 0 percent debt and 100 percent equity. Based on these
5 recommendations, the weighted average cost of capital ("WACC") is 10.0 percent.
6 Therefore, I recommend a return of at least 10.0 percent be applied to QCW's fair
7 value rate base ("FVRB").

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

9 A. Yes, although the results of my updated analysis are not significantly different from
10 those in my direct testimony. The range of my rebuttal DCF, Risk Premium, and
11 CAPM analyses for the water proxy group is 9.8 percent to 10.4 percent with a mid-
12 point of 10.1 percent. The range of my rebuttal DCF, Risk Premium, and CAPM
13 analyses for QCW is 10.2 percent to 10.8 percent with a mid-point of 10.5 percent.
14 My direct DCF, Risk Premium, and CAPM analyses for the water proxy group was
15 9.8 percent to 10.3 percent with a mid-point of 10.1 percent. My direct DCF, Risk
16 Premium, and CAPM analyses for QCW was 10.2 percent to 10.7 percent with a
17 mid-point of 10.5 percent. My opinion that a return on equity of at least 10.0 percent
18 is required for QCW given its greater risk compared to the public traded water
19 utilities has not changed.

20 **Q. HAVE YOU CHANGED ANY OF YOUR METHODS?**

21 A. No. I have not changed my methods, and the inputs have been updated with more
22 recent data. Staff notes that some of my schedules referred to American Water
23 Works, but my data was for American States Water.² I apologize for the mislabeling
24 and have corrected this in the rebuttal schedules.

25 ¹ See QCW Direct Schedule D-4.1.

26 ² See Direct Testimony of John A. Cassidy – Cost of Capital ("Cassidy COC Dt.") at 34.

1 **B. SUMMARY OF THE STAFF RECOMMENDATIONS.**

2 **Q. PLEASE SUMMARIZE THE RECOMMENDATIONS OF STAFF FOR THE**
3 **RATE OF RETURN ON FAIR VALUE RATE BASE.**

4 A. Staff is recommending a capital structure consisting of 0 percent debt and
5 100 percent equity.³ Mr. Cassidy determined a cost of equity of 9.5 percent based
6 on the average cost of equity produced by Staff's DCF models of 8.9 percent and an
7 economic assessment adjustment (EAA) of 60 basis points.⁴ Mr. Cassidy used a
8 sample of seven publicly traded water utilities that are the same as those I used in
9 my analysis.⁵ Mr. Cassidy did not consider firm size or firm-specific risks in his
10 analysis. Staff's resulting WACC for QCW is 9.5 percent.⁶

11 **Q. STAFF DID NOT ADJUST ITS RECOMMENDED RETURN ON EQUITY**
12 **FOR THE DIFFERENCES IN FINANCIAL RISK BETWEEN THE WATER**
13 **PROXY GROUP AND QCW?**

14 A. No. Staff has found QCW's 100% capital structure to be appropriate at this time.⁷
15 I would note that Staff typically does not propose financial risk adjustments when a
16 utility does not have access to the capital markets.⁸ QCW is not publicly traded and
17 does not have access to the capital markets, so Staff is being consistent in this regard.
18 However, Staff recommends the Company be required to rebalance its capital
19 structure prior to filing its next rate case.⁹

21

22 ³ *Id.* at 3.

23 ⁴ *Id.* at 28-29.

24 ⁵ Staff has added York Water (YORW) to its proxy group.

25 ⁶ Cassidy COC Dt. at 40.

26 ⁷ *Id.* at 29-30.

⁸ *Id.* at 29.

⁹ *Id.* at 30.

1 Q. DOES STAFF SUGGEST WHAT THE MIX OF DEBT AND EQUITY
2 SHOULD BE IN ORDER TO BE "BALANCED"?

3 A. No.

4 Q. DOES THE COMPANY AGREE WITH THE STAFF
5 RECOMMENDATION?

6 A. No. It should be left to management to decide the best mix of debt and equity given
7 the circumstances, including the ability to raise both equity and debt capital as well
8 as the over-all risk of QCW.

9 Q. DOES QCW'S SMALL SIZE HAVE AN IMPACT ON THE APPROPRIATE
10 EQUITY RATIO?

11 A. Yes. A study by Scott and Martin found statistically significant results for
12 unregulated firms in twelve industries that "smaller equity ratios (higher leverage
13 use) are generally associated with larger companies."¹⁰ One should expect
14 unregulated enterprises to seek the best balance between debt and equity to obtain
15 the lowest overall cost of capital. The findings of Scott and Martin suggest smaller
16 firms found it prudent to *offset higher business risks related to being small by*
17 *reducing financial risk*. This evidence suggests the least cost equity ratio for QCW
18 may be bigger than the average equity ratio for the benchmark water proxy group.
19 This Commission has consistently failed to recognize the additional risks of smaller
20 utilities, so it should not be surprising that smaller utilities seek to maintain higher
21 equity ratios to help offset the higher business risks.

22 ...

23 ...

24

25

26

¹⁰ Scott, D.F. and J.D. Martin, "Industry Influence on Financial Structure," *Financial Management*, Spring 1975, at 67-71.

1 of the proxies used to validate the theory. It follows that
2 more than one methodology should be employed in
3 arriving at a judgment on the cost of equity and that these
methodologies should be applied across a series of
comparable risk companies.¹²

4 **Q. IS THE DCF A SUPERIOR METHODOLOGY?**

5 A. No. Again, I concur with Dr. Morin who states:

6 While it is certainly appropriate to use the DCF
7 methodology to estimate the cost of equity, there is no
8 proof that the DCF produces a more accurate estimate of
9 the cost of equity than other methodologies. Sole
10 reliance on the DCF model ignores the capital market
11 evidence and financial theory formalized in the CAPM
12 and other risk premium methods. The DCF model is one
13 of many tools to be employed in conjunction with other
14 methods to estimate the cost of equity. *It is not a
superior methodology that supplants other financial
theory and market evidence. The broad usage of the
DCF methodology in regulatory proceedings in contrast
to its virtual disappearance in academic textbooks does
not make it superior to other methods. The same is true
of the Risk Premium and CAPM methodologies.*
[Emphasis added.]¹³

15 **Q. DOES THE DCF TEND TO UNDERSTATE THE INVESTORS' REQUIRED**
16 **RETURN?**

17 A. Yes, when the market value of assets is significantly higher or lower than book value,
18 a market-based DCF cost rate applied to the book value of common equity will not
19 produce investors' expected returns. Dr. Morin also provides an explanation for this
20 flaw in the DCF:

21 The third reason and perhaps most important for caution
22 and skepticism is that application of the DCF model
23 produces estimates of common equity cost that are
24 consistent with investors' expected return only when
stock price and book value are reasonably similar, that is

25 ¹² Morin, Roger A. (2006). *New Regulatory Finance*. Vienna, VA: Public Utility Reports,
Inc. ("Morin") at 428-429.

26 ¹³ *Id.* at 431.

1 when the market-to-book ratio (M/B) is close to unity.
2 As shown below, application of the standard DCF model
3 to utility stocks understates the investor's expected
4 return when the M/B ratio of a given stock exceeds unity.
5 This was particularly relevant in the capital market
6 environment of the 1990s and 2000s where utility stocks
7 were trading at M/B ratios well above unity and have
8 been for nearly two decades. The converse is also true,
9 that is the DCF model overstates the investor's return
10 when the M/B ratio is less than unity. The reason for the
11 distortion is that the DCF market return is applied to a
12 book value rate base by the regulator, that is, a utility's
13 earnings are limited to earnings on a book value rate
14 base.¹⁴

9 We should be especially concerned with the DCF model's applicability under
10 current market conditions. Staff admits that the Federal Reserve's bond buying
11 programs have kept longer-term bond yields low.¹⁵ Interest rates are expected to
12 rise,¹⁶ but in the meantime, and because bond yields are still very low, investors are
13 "chasing yields" and driving up the stock prices of companies that pay dividends,
14 like utilities. The April 17, 2015 Value Line report for the water industry notes:

15 Low bond yields seem to have driven many income-
16 oriented investors into the equity markets. All this
17 money chasing income has brought down the yield on
18 water utilities, relative to the average stock. Currently,
19 the yield of a typical water utility is only about 60 to 65
20 basis points higher than the average stock. This spread
21 is very low, on an historical basis.

20 Consider that while dividend yields for the water proxy group have been decreasing,
21 the 1-year, 3-year, and 5-year annualized total returns for the water proxy group are
22 16.85 percent, 15.83 percent, and 11.98 percent, respectively, which are all
23 significantly higher than Mr. Cassidy's estimated 8.9 percent DCF estimate of the

24 ¹⁴ *Id.* at 434.

25 ¹⁵ Cassidy COC Dt. at 4.

26 ¹⁶ *Blue Chip Financial Forecasts*, April 2015.

1 cost of equity.¹⁷ In fact, the water utility proxy group has outperformed the S&P 500
2 over the past year.¹⁸ The expected equity returns suggested by the market based
3 DCF model does not line up with recent experience in the markets. As Dr. Morin
4 notes,

5 To the extent that increase (decreases) in relative market
6 valuation are anticipated by investors, especially
7 myopic investors with short-term investment horizons,
8 the standard DCF model will understate (overstate) the
9 cost of equity.

10 Another way of stating this point is that the DCF model
11 does not account for the ebb and flow of investor
12 sentiments over the course of the business cycle. The
13 problem was particularly acute in the mid 1990's and
14 mid 2000's where investors, faced with very low returns
15 on short-term fixed-income securities and an uncertain
16 market outlook, sought higher yields offered by utility
17 stocks in a so-called flight to quality, boosting their stock
18 price and lowering the dividend yield.¹⁹

19 **Q. WOULD QCW HAVE ANY OPPORTUNITY TO ACTUALLY EARN**
20 **MR. CASSIDY'S DCF MARKET BASED RETURN?**

21 **A.** No. At Mr. Cassidy's average DCF estimate of 8.9 percent, QCW would have no
22 realistic opportunity to actually earn Mr. Cassidy's market-based rate of return.
23 For example, the average market price per share of the water proxy group is \$28.44²⁰
24 and the average book value per share is \$12.50.²¹ Under these circumstances,
25 Mr. Cassidy's 8.9 percent market-based cost rate implies an annual return per share
26

27 ¹⁷ *Value Line* Anlayzer data from May 14, 2015.

28 ¹⁸ Total 1-year return for the S&P 500 as reported by *Value Line* was 13.94 percent
29 compared to the water proxy group of 16.85 percent.

30 ¹⁹ Morin at 433.

31 ²⁰ Average of stock prices for Cassidy proxy group at May 22, 1015.

32 ²¹ Average of book value per share as of December 31, 2013, as reported by *Value Line*.

1 of \$2.53²² consisting of \$0.77 in dividends²³ and \$1.76 in growth (market-price
2 appreciation).²⁴ However, application of an 8.9 percent return rate to book value per
3 share (\$12.50) produces an opportunity to earn a total annual return of just \$1.11.²⁵
4 With annual dividends of \$0.77,²⁶ the utility could reasonably expect market-price
5 appreciation of just \$0.34,²⁷ or only 1.19 percent.²⁸

6 As should be evident from the above example, the application of the DCF
7 model produces estimates of the cost of equity that are consistent with investor
8 expectations *only* when the market price of a stock and the stock's book value are
9 approximately the same.²⁹ This is because in a regulatory setting the return is applied
10 to book value, not market value. An underlying assumption of the standard DCF is
11 that the stock price, book value, dividends, and earnings all grow at the same rate.³⁰
12 None of these assumptions have been historically true for the sample utility
13 companies. Thus, one must be careful in the application of the DCF model in a cost
14 of equity analysis, particularly when it is the only method employed.

15 **Q. PLEASE COMMENT ON STAFF'S ECONOMIC RISK ASSESSMENT, OR**
16 **EAA.**

17 **A.** I can't, at least not in any meaningful way. Staff does not really explain the basis
18

19 ²² 8.9 percent times 28.44.

20 ²³ Average adjusted dividend yield (D_0) for Cassidy proxy group of 2.7 percent times the
average stock price of \$28.44.

21 ²⁴ Implied growth of 6.2 percent (the return of 8.9 percent less adjusted dividend yield of
2.7 percent) times the average stock price of \$28.44.

22 ²⁵ 8.9 percent times \$12.50.

23 ²⁶ \$1.11 times average payout ratio of 60 percent.

24 ²⁷ \$1.11 minus \$0.77.

25 ²⁸ \$0.34 divided by \$28.44.

26 ²⁹ Morin at 435.

³⁰ *Id.* at 292.

1 for this adjustment in its testimony except to say that its EAA reflects the uncertain
2 status of the economy and the market.³¹ But Staff provides no analysis, study or
3 authoritative reference upon which Mr. Cassidy's judgment rests for me to consider.
4 Of course, I agree with Staff that the current economic environment supports
5 increased ROEs. Interest rates are expected to increase as the Federal Reserve
6 curtails its easy money policies.³² Yet, I have never seen an adjustment of this type
7 from Staff or anyone else until the past couple of years. When economic conditions
8 were far worse in 2008 through 2010, Staff never advanced an EAA. I am left a bit
9 perplexed by the whole thing, but my skepticism, and the fact that the EAA has
10 popped into existence out of nowhere, leads me to conclude that it is an ill-considered
11 band-aid to cover up an unreasonably low ROE. Recall that without the EAA, Staff's
12 DCF results would be only 8.9 percent (9.5 percent average of Staff's models less
13 EAA of 60 basis points).³³

14 **D. RESPONSES TO CRITICISMS OF THE COMPANY'S COST OF**
15 **CAPITAL ANALYSIS.**

16 **Q. DO YOU AGREE WITH MR. CASSIDY'S STATEMENT ON PAGE 35 OF**
17 **HIS TESTIMONY THAT SHARE PRICE GROWTH OF THE WATER**
18 **UTILITY STOCKS REFLECTS A DECREASE IN THE COST OF EQUITY?**

19 **A.** No. Putting aside the quotes from Dr. Morin and the 1-year, 3-year, and 5-year total
20 returns for the water proxy group discussed on page 8, a recent Wall Street Journal
21 article notes that estimates of the equity risk premium for the S&P 500 as of the end
22 of April 2015 was one of the highest estimates going back to 1960.³⁴ This evidence

23 ³¹ Cassidy COC Dt. at 30.

24 ³² *Blue Chip Financial Forecasts*, April 2015.

25 ³³ Cassidy COC Dt. at 28. Staff's constant growth DCF produces an indicated return of just
26 8.6 percent.

³⁴ Lahart, Justin, "Lower Yields May Be Stocks' Real Threat," *The Wall Street Journal*

1 suggests the cost of capital is not decreasing as Mr. Cassidy suggests.

2 **Q. HASN'T STAFF USED SHARE PRICE GROWTH IN A DCF MODEL IN**
3 **THE PAST WHEN ESTIMATING ITS CURRENT MARKET RISK**
4 **PREMIUM FOR ITS CAPM?**

5 A. Yes.³⁵ I find Mr. Cassidy's comment that use of share price growth in the DCF
6 produces an "incongruous outcome" perplexing given Staff's past practices.³⁶

7 **Q. DOES A DROP IN THE DIVIDEND YIELD NECESSARILY MEAN THAT**
8 **THE COST OF EQUITY IS FALLING?**

9 A. No. Growth rates (including expected share price growth) influence the prices
10 investors will pay for stocks and thus impact the dividend yields. The dividend
11 yields change until the sum of the dividend yield plus the growth rate equals
12 investors' perceived cost of equity. If the growth forecasts should be lower – as
13 Mr. Cassidy suggests they should be – the stock prices would be lower and dividend
14 yields would be higher, but there would not necessarily be any difference in the
15 ultimate estimate of the cost of equity.

16 **Q. ON PAGE 36 OF HIS TESTIMONY, MR. CASSIDY STATES THE YOU**
17 **IMPROPERLY USED A 30-YEAR U.S. TREASURY RATE IN YOUR RISK**
18 **PREMIUM ANALYSIS. PLEASE COMMENT.**

19 A. Mr. Cassidy fundamentally misunderstands risk premium method. The risk
20 premium method directly measures the risk premium for the water proxy group by
21 computing the difference between the annual realized returns of the water proxy

22
23

(WSJ.com) (May 17, 2015).

24 ³⁵ Direct Testimony of Juan C. Manrique (Docket No. SW-01428A-09-0103) at 30; Direct
25 Testimony of Juan C. Manrique (Docket No. WS-02676A-09-0257) at 29; Direct
26 Testimony of Juan C. Manrique (Docket No. W-03718A-09-0359) at 29; Direct Testimony
of Pedro M. Chaves (Docket No. W-02113A-07-0551) at 30.

³⁶ Cassidy COC Dt. at 35.

1 group and a bond yield. I use the annual 30-year U.S. Treasury yields as a
2 benchmark as endorsed by Dr. Morin.³⁷

3 **Q. IF YOU HAD USED CORPORATE BOND YIELDS AS A BENCHMARK,**
4 **WOULD YOUR COST OF EQUITY ESTIMATES BE MUCH DIFFERENT?**

5 A. No. Had I used annual Aaa corporate bond yields, my risk premium method would
6 have produced a cost of equity estimate of 10.5 percent; just 10 basis points lower
7 than my rebuttal risk premium method result of 10.6 percent. Had I used annual Baa
8 corporate bond yields, my risk premium method would have produced a cost of
9 equity estimate of 10.6 percent, the same as my rebuttal risk premium method result.

10 **Q. MR. CASSIDY ALSO CRITICISES YOU FOR USING A FORECASTED**
11 **INTEREST RATE IN YOUR RISK PERMIUM METHOD. PLEASE**
12 **COMMENT.**

13 A. By nature, the cost of capital is an opportunity cost – the prospective return available
14 to investors from alternative investments of similar risk. In addition, we are setting
15 rates that will be in effect for some future time period, the cost of capital estimation
16 must be forward-looking. Since the cost of capital is prospective in nature it
17 necessarily requires the use of a forward-looking bond yield.

18 **Q. MR. CASSIDY SUGGESTS (AT PAGE 37) THAT USING PROJECTED EPS**
19 **AND DPS INPUTS IN A DCF MODEL TO ESTIMATE THE CURRENT**
20 **MARKET RISK PREMIUM (MRP) FOR THE CAPM IS SELF-SERVING**
21 **AND ARE NOT REFLECTIVE OF CURRENT MARKET CONDITIONS.**
22 **DO YOU WISH TO RESPOND?**

23 A. I have a few responses. First, the projected EPS and DPS growth rates I use are
24 Value Line projected 3-5 year growth rates. These reflect analysts' estimates, which
25

26 ³⁷ Morin at 112-113.

1 consider current market conditions and fit the so-called “3-5 year holding period”
2 upon which Mr. Cassidy asserts the current MRP should be based.³⁸ Second, the
3 DCF method and the inputs I use to estimate the current MRP are based upon a
4 methodology recommended by Dr. Morin for computing the current MRP.³⁹ Third,
5 using EPS and DPS inputs is more consistent with the DCF method used to estimate
6 the current MRP than are Staff’s past practices of only considering the 3-5 year price
7 appreciation. Just as important is that I have found using EPS growth and DPS
8 growth inputs in the MRP estimation approach is less volatile than is using the 3-5
9 year price appreciation, which I have noted in past testimony concerning its use in
10 estimating the current MRP.⁴⁰

11 **Q. MR. CASSIDY ALSO CRITICIZES YOU FOR USING A FORECASTED**
12 **INTEREST RATE IN YOUR CAPM. PLEASE RESPOND.**

13 A. As I discussed earlier,⁴¹ since the cost of capital is prospective in nature it necessarily
14 requires the use of a forward-looking bond yield. As Dr. Morin states:

15 At the conceptual level, given that ratemaking is a
16 forward-looking process, interest rate forecasts are
17 preferable. Moreover, the conceptual models used in
18 the determination of the cost of equity, like the CAPM,
are prospective in nature and require expectational
inputs.⁴²

19 **Q. TO REBUT ANY IMPACT OF SIZE OR COMPANY SPECIFIC RISK FOR**
20 **UTILITY COMPANIES, MR. CASSIDY REFERENCES A STUDY BY**
21

22 ³⁸ Cassidy COC Dt. at 37.

23 ³⁹ Morin at 165-166; *see also* Direct Testimony of Thomas J. Bourassa – Cost of Capital
24 (“Bourassa COC Dt.”) at 36-37.

24 ⁴⁰ Direct Testimony of Thomas J. Bourassa (Docket No. W-03718A-09-0359) at 34;
25 Direct Testimony of Thomas J. Bourassa (Docket No. W-02113A-07-0551) at 37.

25 ⁴¹ *See* page 12, *supra*.

26 ⁴² Morin at 172.

1 **ANNIE WONG (AT PAGE 38). HAS MS. WONG DISPROVED THE**
2 **EXISTENCE OF A SIZE PREMIUM FOR SMALL UTILITY STOCKS?**

3 A. No. Actually, Ms. Wong's study has been criticized soundly: "[her] weak evidence
4 provides little support for a small firm effect existing or not existing in *either* the
5 industrial *or* the utility sector."⁴³ Dr. Zepp found that Ms. Wong's empirical results
6 were not strong enough to conclude that beta risk of utilities is unrelated to size.
7 He found that her use of monthly, weekly, and daily data may be the cause of her
8 inability to find a relationship. And he found other studies that show trading
9 infrequency to be a powerful cause of bias in beta risk when time intervals of a month
10 or less are used to estimate beta's for small stocks.⁴⁴ The studies relied on in Mr.
11 Zepp's published paper found that "when a stock is thinly traded, its stock price does
12 not reflect the movement of the market, which drives down the covariance with the
13 market and creates an artificially low beta estimate."⁴⁵ Thus, Ms. Wong's weak
14 results were due to a flawed analysis.

15 **Q. DON'T PASCHALL AND HAWKINS (QUOTED BY MR. CASSIDY ON**
16 **PAGE 39) SUPPORT MS. WONG'S AND MR. CASSIDY'S VIEW THAT**
17 **SMALLER WATER UTILITIES ARE *NOT* MORE RISKY THAN LARGER**
18 **WATER UTILITIES?**

19 A. No, the authors do not argue against a small company risk premium for small water
20 utilities. Instead, they merely suggest that the small company risk premium may be
21 lower than the average company for the reasons they state.⁴⁶ A very low risk

22 ⁴³ Zepp, Thomas M., "Utility Stocks and the Size Effect – Revisited," *The Quarterly Review*
23 *Economics and Finance*, Vol. 43, Issue 3, Autumn 2003 ("Zepp") at 578-582.

24 ⁴⁴ *Id.* at 579.

25 ⁴⁵ *Id.*

26 ⁴⁶ Paschall, Michael A. and George B. Hawkins, "Do Smaller Companies Warrant a Higher
 Discount Rate for Risk: The 'Size Effect' Debate," *CCH Business Valuation Alert*, Vol. 1,
 Issue No. 2, December 1999 ("Paschall").

1 premium for QCW compared to the average company is exactly what I recommend
2 in this case.

3 According to the empirical financial market data provided by Duff & Phelps,
4 the indicated size premium over for a company the size of QCW would be 11.98
5 percent over the average company the size of QCW.⁴⁷ A size premium analysis
6 provided on Schedule D-4 indicates a size premium in the range of 99 to 325 basis
7 points over the water proxy group. My risk premium is just 100 basis points, which
8 is about 8 percent of the indicated small company risk premium for an average
9 company the size of QWC based on Duff & Phelps market data, and well at the
10 bottom end of the range of the indicated additional risk premium over my water
11 proxy group. Therefore, I think Paschall and Hawkins support my analysis, not
12 Mr. Cassidy's. That's true with respect to both, whether size matters, and whether
13 my recommended 10.0 return is conservative.

14 **Q. DO YOU FIND ANY FURTHER SUPPORT IN PASCHALL AND**
15 **HAWKINS?**

16 **A.** Yes, as a matter of fact, I do. One of the main points of the authors' discussion was
17 that the use of small company risk premium without consideration of the specific
18 risks of the subject company could be subject to challenge. Recognition of the
19 additional risk associated with an investment in QCW compared to his water proxy
20 group is something Mr. Cassidy fails to do.

21 That said, a great deal of my direct testimony was devoted to comparing the
22 differences between the large publicly traded company and QCW, which would
23 reflect differences in risk, and which is exactly what the authors would recommend.
24 As Paschall and Hawkins conclude:

25
26 ⁴⁷Duff & Phelps, *2015 Valuation Handbook*. Exhibit 7.3, Decile 10z.

1 Failing to consider the additional risk associated with
2 most smaller companies, however, is to fail to
3 acknowledge reality. Measured properly, small
4 company stocks have proven to be more risky over a
5 long period of time than have larger company stock.
6 This makes sense due to the various advantages that
7 larger companies have over smaller companies.
8 Investors looking to purchase a riskier company will
9 require a greater return on investment to compensate for
10 that risk.⁴⁸

7 **Q. DO PASCHALL AND HAWKINS REFERENCE ANY STUDIES TO**
8 **SUPPORT THE PROPOSITION THAT A PRIVATELY HELD SMALL**
9 **WATER UTILITY HAS THE SAME RISK AS A LARGE PUBLICLY**
10 **TRADED UTILITY?**

11 A. No.

12 **Q. ARE THERE ANY STUDIES THAT CONTRADICT MS. WONG'S**
13 **FINDINGS?**

14 A. Yes. Besides basic business sense, I am aware of two other studies that support the
15 conclusion that small utilities are more risky than larger utilities. The first, a study
16 conducted by the California Public Utilities Commission ("CPUC"), looked at
17 58 water utilities.⁴⁹ Based on that study, the CPUC Staff concluded that smaller
18 water utilities are more risky and require higher equity returns than larger water
19 utilities. This position was adopted by the CPUC.⁵⁰ A second study, conducted by
20 Dr. Zepp, showed that, on average, the smaller water utilities in his study had a
21 99 basis point higher cost of equity.⁵¹

22
23 _____
24 ⁴⁸ Paschall, *supra*.

25 ⁴⁹ *Id.* at 580.

26 ⁵⁰ Zepp, *supra*.

⁵¹ *Id.*

1 **Q. DOES MR. CASSIDY DISPUTE YOUR ASSESSMENTS OF THE**
2 **RELATIVE BUSINESS RISK BETWEEN THE PUBLICLY TRADED**
3 **UTILITIES AND QCW?**

4 A. No. As shown in my direct testimony, QCW is nearly 4 times more risky than the
5 publicly traded utilities as measured by the co-efficient of variation of earnings.⁵²
6 QCW is roughly 1.3 times risky as measured by operating leverage.⁵³ These are
7 quantitative measures of relative business risk and not simply an opinion.

8 **Q. IS FIRM SIZE A UNIQUE RISK THAT CAN BE ELIMINATED THROUGH**
9 **DIVERSIFICATION AS MR. CASSIDY SUGGESTS ON PAGE 40?**

10 A. No. The firm size is a systematic risk factor and is an adjustment to the pure
11 CAPM.⁵⁴

12 **Q. DOES THIS CONCLUDE YOUR REBUTTAL COST OF CAPITAL**
13 **TESTIMONY?**

14 A. Yes.

15

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24

⁵² Bourassa COC Dt. at 18.

25

⁵³ *Id.* at 26.

26

⁵⁴ *Id.* at 32.

D SCHEDULES

Quail Creek Water Company
 Test Year Ended December 31, 2013
 Summary of Cost of Capital

Exhibit
 Rebuttal Schedule D-1
 Page 1
 Witness: Bourassa

End of Test Year

| Line No. | Item of Capital | Percent of Total | Cost Rate | Weighted Cost |
|----------|----------------------|------------------|-----------|---------------|
| 1 | Long-Term Debt | 0.00% | 0.00% | 0.00% |
| 2 | | | | |
| 3 | Stockholder's Equity | 100.00% | 10.00% | 10.00% |
| 4 | | | | |
| 5 | Totals | 100.00% | | 10.00% |
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SUPPORTING SCHEDULES:

- D-1
- D-3
- D-4
- Testimony

Quail Creek Water Company
 Test Year Ended December 31, 2013
 Cost of Long Term Debt

Exhibit
 Rebuttal Schedule D-2
 Page 1
 Witness: Bourassa

| Line No. | Description of Debt | End of Test Year | | | End of Projected Year | | |
|----------|---------------------|--------------------|-----------------|-------------------------|-----------------------|-----------------|-------------------------|
| | | Amount Outstanding | Annual Interest | Effective Interest Rate | Amount Outstanding | Annual Interest | Effective Interest Rate |
| 1 | | | | | | | |
| 2 | | - | - | 0.00% | - | - | 0.00% |
| 3 | | - | - | 0.00% | - | - | 0.00% |
| 4 | | - | - | 0.00% | - | - | 0.00% |
| 5 | | - | - | 0.00% | - | - | 0.00% |
| 6 | | - | - | 0.00% | - | - | 0.00% |
| 7 | | - | - | 0.00% | - | - | 0.00% |
| 8 | | - | - | 0.00% | - | - | 0.00% |
| 9 | | - | - | 0.00% | - | - | 0.00% |
| 10 | | - | - | 0.00% | - | - | 0.00% |
| 11 | | - | - | 0.00% | - | - | 0.00% |
| 12 | | - | - | 0.00% | - | - | 0.00% |
| 13 | Totals | \$ - | - | | \$ - | - | |
| 14 | | | | 0.00% | | | 0.00% |
| 15 | | | | | | | |

Supporting Schedules:
 E-1
 E-2

Quail Creek Water Company
Test Year Ended December 31, 2013
Cost of Preferred Stock

Exhibit
Rebuttal Schedule D-3
Page 1
Witness: Bourassa

Line
No.
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| | <u>End of Test Year</u> | | | <u>End of Projected Year</u> | | |
|--|-------------------------|--------------------|-------------|------------------------------|--------------------|-------------|
| Description of Issue | Shares Outstanding | Dividend Amount | Requirement | Shares Outstanding | Dividend Amount | Requirement |
| NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING | | | | | | |

SUPPORTING SCHEDULES:
E-1

RECAP SCHEDULES:
D-1

Quail Creek Water Company
Test Year Ended December 31, 2013
Cost of Common Equity

Exhibit
Rebuttal Schedule D-4
Page 1
Witness: Bourassa

Line
No.

1
2 The Company is proposing a cost of common equity of 10.00% .
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17 SUPPORTING SCHEDULES:

18 E-1
19 D-4.1 to D-4.15
20

RECAP SCHEDULES:

D-1

Quail Creek Water Company
 Summary of Results

Exhibit
 Schedule D-4.1
 Witness: Bourassa

| Line No. | | <u>Indicated Cost of Equity for Water Sample Group</u> | | <u>Indicated Cost of Equity for Quail Creek Water Company</u> | |
|----------|--|--|----------|---|----------|
| 1 | DCF Constant Growth - Table 8 | 9.4% | to 9.7% | 10.4% | to 10.7% |
| 2 | Risk Premium Model - Table 10 | | 10.6% | | 11.6% |
| 3 | CAPM - Table 12 | 9.4% | to 11.0% | 10.4% | to 12.0% |
| 4 | Range of Cost of Equity Estimates | 9.8% | to 10.4% | 10.8% | to 11.4% |
| 5 | Financial Risk Adjustment - Table 16 | | 0.0% | | -0.60% |
| 6 | Adjusted Range of Cost of Equity Estimates | 9.8% | to 10.4% | 10.2% | to 10.8% |
| 7 | Mid-point | | 10.1% | | 10.5% |
| 8 | Cost of Equity Recommendation | | | | 10.0% |

Notes:

¹Estimates include an equity risk premium of 100 basis points based on comparative risk study. See Testimony.

**Exhibit
Schedule D-4.2**
Witness: Bourassa

**Quail Creek Water Company
Selected Characteristics of Sample Group of Water Utilities**

| Line No. | Company | Symbol | % Water Revenues ¹ | Operating Revenues (millions) ¹ | Net Plant (millions) ¹ | S&P Bond Rating ¹ | Moody's Bond Rating ¹ | Allowed ROE (%) ¹ | Value Line Beta ² | Market Capitalization ² | Size Category ³ |
|----------|---------------------------|--------|-------------------------------|--|-----------------------------------|------------------------------|----------------------------------|------------------------------|------------------------------|------------------------------------|----------------------------|
| 1 | 1. American States Water | AWR | 70% | \$ 465.8 | \$ 998.9 | A+ | A2 | 9.75 | 0.70 | \$ 1,471.5 | Low-Cap |
| 2 | 2. Aqua America | WTR | 97% | \$ 779.9 | \$ 4,402.0 | AA- | NR | 9.79 | 0.75 | \$ 4,667.4 | Mid cap |
| 3 | 3. California Water | CWT | 100% | \$ 597.5 | \$ 1,571.7 | AA- | NR | 9.43 | 0.75 | \$ 1,142.6 | Low-Cap |
| 4 | 4. Connecticut Water | CTWS | 100% | \$ 94.8 | \$ 494.6 | A/A- | NR | 9.63 | 0.70 | \$ 391.0 | Micro-cap |
| 5 | 5. Middlesex | MSEX | 86% | \$ 117.1 | \$ 465.4 | A | NR | 9.75 | 0.75 | \$ 356.4 | Micro-cap |
| 6 | 6. SJW Corp. | SJW | 96% | \$ 319.7 | \$ 943.7 | A | NR | 9.43 | 0.80 | \$ 609.4 | Micro-cap |
| 7 | 7. York Water Company | YORW | 100% | \$ 45.9 | \$ 250.5 | A- | NR | NM | 0.75 | \$ 297.2 | Micro-cap |
| 8 | Average | | 93% | \$ 345.8 | \$ 1,303.8 | | | 9.63 | 0.74 | \$ 1,276.5 | |
| 9 | Quail Creek Water Company | | 100% | \$ 0.9 | \$ 5.9 | NR | NR | - | | | |

Notes:

- ¹ AUS Utility Reports (April 2015).
- ² Value Line Analyzer Data (Weekly as of May 14, 2015)
- ³ See Schedule D-4.15 for definitions of size category

Quail Creek Water Company
Capital Structures

Exhibit
Schedule D-4.3
Witness: Bourassa

| Line No. | Company | Symbol | Book Value ¹ | | Market Value ¹ | |
|----------|---------------------------|--------|-------------------------|---------------|---------------------------|---------------|
| | | | Long-Term Debt | Common Equity | Long-Term Debt | Common Equity |
| 1 | American States Water | AWR | 39.8% | 60.2% | 18.1% | 81.9% |
| 2 | Aqua America | WTR | 48.9% | 51.1% | 23.9% | 76.1% |
| 3 | California Water | CWT | 41.6% | 58.4% | 27.2% | 72.8% |
| 4 | Connecticut Water | CTWS | 47.0% | 53.0% | 30.9% | 69.1% |
| 5 | Middlesex | MSEX | 40.7% | 59.3% | 26.7% | 73.3% |
| 6 | SJW Corp. | SJW | 51.0% | 49.0% | 35.5% | 64.5% |
| 7 | York Water Company | YORW | 45.0% | 55.0% | 22.2% | 77.8% |
| 8 | Average | | 44.9% | 55.1% | 26.4% | 73.6% |
| 9 | Quail Creek Water Company | | 100.0% | 0.0% | N/A | N/A |

¹ Value Line Analyzer Data (Weekly as of May 14, 2015)

Quail Creek Water Company
Comparisons of Past and Future Estimates of Growth

Exhibit
Schedule D-4.4
 Witness: Bourassa

| Line No. | [1] Company | [2] Price ¹ | [3] EPS ² | [4] DPS ² | [5] Average Historical Growth | [6] Value Line Projected Growth ² | [7] Average of Historical and Proj. Grwth |
|----------|--------------------------|---|-------------------------|-------------------------|----------------------------------|---|--|
| | | [2] <u>Five-year historical average annual changes</u> | | | | | |
| | | Book | Value ² | | | | |
| 1 | 1. American States Water | 16.07% | 6.50% | 13.00% | 10.52% | 6.50% | 8.51% |
| 2 | 2. Aqua America | 11.70% | 6.00% | 11.00% | 8.92% | 8.00% | 8.46% |
| 3 | 3. California Water | 4.27% | 4.50% | 4.00% | 3.57% | 7.00% | 5.28% |
| 4 | 4. Connecticut Water | 12.77% | 8.00% | 8.00% | 7.69% | 6.50% | 7.10% |
| 5 | 5. Middlesex | 8.36% | 3.00% | 1.50% | 3.59% | 5.50% | 4.55% |
| 6 | 6. SJW Corp. | 4.38% | 2.50% | NMF | 3.46% | 6.50% | 4.98% |
| 7 | 7. York Water Company | 8.44% | 5.00% | 5.00% | 5.23% | 7.00% | 6.12% |
| 8 | GROUP AVERAGE | 9.43% | 5.07% | 7.08% | 6.14% | 6.71% | 6.43% |

Notes:

¹ Average of changes in annual stock prices ending on December 31 through 2013. Data from Yahoo Finance website.

² Value Line Analyzer, weekly as of May 14, 2015.

**Exhibit
Schedule D-4.5
Witness: Bourassa**

**Quail Creek Water Company
Comparisons of Past and Future Estimates of Growth**

| Line No. | [1] Company | [2] Price ¹ | [2] Book Value ² | [3] EPS ² | [4] DPS ² | [5] Average Col.1-4 | [6] Value Line Growth ² | [7] Average of Historical and Proj. Grwth |
|----------|--------------------------|---|--------------------------------|-------------------------|-------------------------|------------------------|---------------------------------------|--|
| | | <u>Ten-year historical average annual changes</u> | | | | | | |
| 1 | 1. American States Water | 12.91% | 5.50% | 9.00% | 4.00% | 7.85% | 6.50% | 7.18% |
| 2 | 2. Aqua America | 10.31% | 8.00% | 8.50% | 7.50% | 8.58% | 8.00% | 8.29% |
| 3 | 3. California Water | 10.19% | 5.50% | 5.50% | 1.00% | 5.55% | 7.00% | 6.27% |
| 4 | 4. Connecticut Water | 6.58% | 6.00% | 2.50% | 1.50% | 4.14% | 6.50% | 5.32% |
| 5 | 5. Middlesex | 4.38% | 4.50% | 3.50% | 1.50% | 3.47% | 5.50% | 4.48% |
| 6 | 6. SJW Corp. | 12.91% | 5.50% | 3.50% | 4.50% | 6.60% | 6.50% | 6.55% |
| 7 | 7. York Water Company | 8.21% | 7.00% | 5.50% | 4.50% | 6.30% | 7.00% | 6.65% |
| 8 | GROUP AVERAGE | 9.35% | 6.00% | 5.43% | 3.50% | 6.07% | 6.71% | 6.39% |

Notes:

- ¹ Average of changes in annual stock prices ending December 31, 2013. Data from Yahoo Finance website.
- ² Value Line Analyzer Data, weekly as of May 14, 2015.

**Quail Creek Water Company
Current Dividend Yields for Water Utility Sample Group**

**Exhibit
Schedule D-4.6
Witness: Bourassa**

| Line No. | Company | [1] Stock Price (P ₀) ¹ | [2] Current Dividend (D ₀) ¹ | [3] Current Dividend Yield (D ₀ /P ₀) | [4] Average Annual Dividend Yield (D _n /P _n) ^{1,2} |
|----------|--------------------------|---|--|---|---|
| 1 | 1. American States Water | \$ 38.66 | \$ 0.88 | 2.28% | 2.75% |
| 2 | 2. Aqua America | \$ 26.56 | \$ 0.70 | 2.64% | 2.36% |
| 3 | 3. California Water | \$ 24.01 | \$ 0.67 | 2.79% | 3.12% |
| 4 | 4. Connecticut Water | \$ 35.16 | \$ 1.07 | 3.04% | 3.21% |
| 5 | 5. Middlesex | \$ 21.79 | \$ 0.78 | 3.58% | 3.71% |
| 6 | 6. SJW Corp. | \$ 30.11 | \$ 0.79 | 2.62% | 2.68% |
| 7 | 7. York Water Company | \$ 22.76 | \$ 0.61 | 2.68% | 2.80% |
| 8 | GROUP AVERAGE | | | 2.80% | 2.95% |

Notes:

¹ Stock prices as of May 22, 2015. Indicated Dividend from Value Line Analyzer weekly as of May 14, 2015.

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

Quail Creek Water Company
 Discounted Cash Flow Analysis
 DCF Constant Growth

Exhibit
 Schedule D-4.7 (page 1)
 Witness: Bourassa

| Line No. | [1] Dividend Yield (D_0/P_0) ¹ | [2] Expected Dividend Yield (D_1/P_0) ² | [3] Value Line Projected Growth (g) ³ | [4] Indicated Cost of Equity (COE) $k = \text{Div Yld} + g$ (Cols 2+3) |
|----------|--|---|---|---|
| 1 | 2.28% | 2.42% | 6.50% | 8.92% |
| 2 | 2.64% | 2.85% | 8.00% | 10.85% |
| 3 | 2.79% | 2.99% | 7.00% | 9.99% |
| 4 | 3.04% | 3.24% | 6.50% | 9.74% |
| 5 | 3.58% | 3.78% | 5.50% | 9.28% |
| 6 | 2.62% | 2.79% | 6.50% | 9.29% |
| 7 | 2.68% | 2.87% | 7.00% | 9.87% |
| 8 | Average | 2.99% | 6.71% | 9.71% |

Notes:

- ¹ Spot Dividend Yield = D_0/P_0 . See Schedule D-4.6.
- ² Expected Dividend Yield = $D_1/P_0 = D_0/P_0 * (1+g)$.
- ³ Value Line Growth rate (g). See Schedule D-4.5, Col. 6.

Quail Creek Water Company
Discounted Cash Flow Analysis
DCF Constant Growth

Exhibit
Schedule D-4.7 (page 2)
Witness: Bourassa

| Line No. | [1] Dividend Yield (D_0/P_0) ¹ | [2] Expected Dividend Yield (D_1/P_0) ² | [3] Average of Historical and Proj. Grwth. ³ | [4] Indicated Cost of Equity (COE) $k = \text{Div Yield} + g$ (Cols 2+3) |
|----------|--|---|--|---|
| 1 | American States Water 2.28% | 2.47% | 8.51% | 10.98% |
| 2 | Aqua America 2.64% | 2.86% | 8.46% | 11.32% |
| 3 | California Water 2.79% | 2.94% | 5.28% | 8.22% |
| 4 | Connecticut Water 3.04% | 3.26% | 7.10% | 10.36% |
| 5 | Middlesex 3.58% | 3.74% | 4.55% | 8.29% |
| 6 | SJW Corp. 2.62% | 2.75% | 4.98% | 7.73% |
| 7 | York Water Company 2.68% | 2.84% | 6.12% | 8.96% |
| 8 | Average | | | 9.41% |

Notes:

¹ Spot Dividend Yield = D_0/P_0 . See Table 7.

² Expected Dividend Yield = $D_1/P_0 = D_0/P_0 * (1+g)$.

³ Historical Growth rate (g). See Schedule D-4.5 Col. 7.

**Quail Creek Water Company
Forecasts of Long-Term Interest Rates**

**Exhibit
Schedule D-4.8
Witness: Bourassa**

| Line No. | | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>Average</u> |
|-------------|--|-------------|-------------|-------------|----------------|
| 1 | Long-term Treasury Rates | | | | |
| 2 | Blue Chip Consensus Forecasts ¹ | 3.70% | 4.30% | 4.70% | |
| 3 | Value Line ² | 3.60% | 4.20% | 4.40% | 4.2% |
| 4 | Average | | | | |
| 5 | Aaa Corporate Bonds | | | | |
| 6 | Blue Chip Consensus Forecasts ¹ | 4.70% | 5.40% | 5.80% | |
| 7 | Value Line ² | 4.60% | 5.50% | 5.30% | 5.2% |
| 8 | Average | | | | |
| 9 | Baa Corporate Bonds | | | | |
| 10 | Blue Chip Consensus Forecasts ¹ | 5.60% | 6.10% | 6.60% | |
| 11 | Value Line ² | | | | 6.1% |
| 12 | Average | | | | |

Notes:

¹ Blue Chip consensus forecasts (June 2015).

² Value Line Quarterly forecasts dated May 23, 2014.

**Quail Creek Water Company
Risk Premium Analysis Based on Total Returns**

**Exhibit
Schedule D-4.9**
Witness: Bourassa

| Line No. | Year | Annual Total Return ¹ | Treasury Bond Rates ² | Annual Risk Premiums |
|----------|------|--|----------------------------------|----------------------|
| 1 | 1999 | 26.28% | 5.87% | 20.41% |
| 2 | 2000 | 2.70% | 5.94% | -3.24% |
| 3 | 2001 | 16.00% | 5.49% | 10.51% |
| 4 | 2002 | -4.16% | 5.42% | -9.58% |
| 5 | 2003 | 23.72% | 5.05% | 18.67% |
| 6 | 2004 | 13.78% | 5.12% | 8.66% |
| 7 | 2005 | 19.02% | 4.56% | 14.46% |
| 8 | 2006 | 15.86% | 4.91% | 10.95% |
| 9 | 2007 | -2.71% | 4.84% | -7.55% |
| 10 | 2008 | -1.87% | 4.28% | -6.15% |
| 11 | 2009 | -0.20% | 4.08% | -4.28% |
| 12 | 2010 | 15.26% | 4.25% | 11.01% |
| 13 | 2011 | 1.52% | 3.91% | -2.39% |
| 14 | 2012 | 15.08% | 2.92% | 12.16% |
| 15 | 2013 | 20.34% | 3.45% | 16.89% |
| 16 | 2014 | 14.98% | 2.59% | 12.39% |
| 17 | | 16-Year Average | 4.5% | 6.4% |
| 18 | | Expected Long-term Treasury Bond Rate ³ | | 4.2% |
| 19 | | Projected Returns on Equity for Sample | | 10.6% |

Notes:

¹ Composite of average total returns for water utilities. Data from Value Line Analyzer software.

² As reported by the Federal Reserve.

³ Source is Schedule D-4.8.

Quail Creek Water Company
Estimation of Current Market Risk Premium
Using DCF Analysis

Exhibit
Schedule D-4.10
Witness: Bourassa

| Line No. | Month | Dividend Yield (D_t/P_t) ¹ | Expected Dividend Yield (D_t/P_t) ² | Expected Growth (g) ³ | Expected Market Return (k) | Monthly Average 30 Year Treasury Rate ⁴ | Expected Market Risk Premium (MRP) |
|----------|--------------------------|---|--|----------------------------------|----------------------------|--|------------------------------------|
| 1 | May 2014 | 2.37% | 2.59% | + 9.42% | = 12.01% | = 3.39% | = 8.62% |
| 2 | June | 2.34% | 2.56% | + 9.33% | = 11.89% | = 3.42% | = 8.47% |
| 3 | July | 2.42% | 2.65% | + 9.50% | = 12.15% | = 3.33% | = 8.82% |
| 4 | Aug | 2.38% | 2.61% | + 9.50% | = 12.11% | = 3.20% | = 8.91% |
| 5 | Sept | 2.82% | 3.10% | + 9.83% | = 12.93% | = 3.26% | = 9.67% |
| 6 | Oct | 2.45% | 2.68% | + 9.50% | = 12.18% | = 3.04% | = 9.14% |
| 7 | Nov | 2.38% | 2.61% | + 9.67% | = 12.27% | = 3.04% | = 9.23% |
| 8 | Dec | 2.44% | 2.67% | + 9.67% | = 12.34% | = 2.83% | = 9.51% |
| 9 | Jan 2015 | 2.45% | 2.68% | + 9.50% | = 12.18% | = 2.46% | = 9.72% |
| 10 | Feb | 2.38% | 2.61% | + 9.50% | = 12.11% | = 2.57% | = 9.54% |
| 11 | Mar | 2.42% | 2.64% | + 9.17% | = 11.81% | = 2.63% | = 9.18% |
| 12 | Apr | 2.40% | 2.61% | + 9.00% | = 11.61% | = 2.59% | = 9.02% |
| 13 | Recommended | 2.40% | 2.62% | + 9.22% | = 11.84% | = 2.60% | = 9.25% |
| 14 | Short-term Trends | | | | | | |
| 15 | Recent Twelve Months Avg | 2.44% | 2.67% | + 9.47% | = 12.13% | = 2.98% | = 9.15% |
| 16 | Recent Nine Months Avg | 2.46% | 2.69% | + 9.48% | = 12.17% | = 2.85% | = 9.32% |
| 17 | Recent Six Months Avg | 2.41% | 2.64% | + 9.42% | = 12.05% | = 2.69% | = 9.37% |
| 18 | Recent Three Months Avg | 2.40% | 2.62% | + 9.22% | = 11.84% | = 2.60% | = 9.25% |

Notes:

- ¹ Average Dividend Yield (D_t/P_t) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks
- ² Expected Dividend Yield (D_t/P_t) equals current average dividend yield (D_t/P_t) times one plus growth rate(g).
- ³ Median of Projected EPS, Projected DPS Growth and Projected BV Growth for VL 1700 stocks. Data from Value Line Investment Analyzer Software.
- ⁴ Monthly average 30 year U.S. Treasury. Federal Reserve.

**Quail Creek Water Company
Traditional Capital Asset Pricing Model (CAPM)**

**Exhibit
Schedule D-4.11
Witness: Bourassa**

| Line No. | R_f^1 | + | β^2 | x | RP_M | = | k |
|-------------|-------------------------------------|------|-----------|------|--------|-------|----------------------|
| 1 | Historical Market Risk Premium CAPM | 4.2% | + | 0.74 | x | 7.00% | ³ = 9.4% |
| 2 | Current Market Risk Premium CAPM | 4.2% | + | 0.74 | x | 9.25% | ⁴ = 11.0% |
| 3 | Average | | | | | | 10.2% |

Notes:

- ¹ Forecasts of long-term treasury yields. See Schedule D-4.8.
- ² Value Line Investment Analyzer data. See Schedule D-4.3.
- ³ Historical Market Risk Premium Duff & Phelps 2015 Valuation Handbook, Appendix 3, Long-Horizon ERP.
- ⁴ See Table 11.

Exhibit
 Schedule D-4.12
 Witness: Bourassa

Quail Creek Water Company
 Financial Risk Computation
 Unlevered Beta

| Line No. | Company | VL Beta β_L^1 | Raw Beta $\frac{Raw \beta_L^2}{Raw \beta_L^2}$ | Tax Rate t^3 | MV Debt $\frac{D^4}{E^4}$ | MV Equity $\frac{E^4}{E^4}$ | Unlevered Raw Beta β_{UL}^5 |
|----------|-------------------------|---------------------|--|----------------|---------------------------|-----------------------------|-----------------------------------|
| 1 | American Water Worl | 0.70 | 0.55 | 36.3% | 18.1% | 81.9% | 0.48 |
| 2 | Aqua America | 0.75 | 0.63 | 10.0% | 23.9% | 76.1% | 0.49 |
| 3 | California Water | 0.75 | 0.63 | 30.3% | 27.2% | 72.8% | 0.50 |
| 4 | Connecticut Water | 0.70 | 0.55 | 28.0% | 30.9% | 69.1% | 0.42 |
| 5 | Middlesex | 0.75 | 0.63 | 34.1% | 26.7% | 73.3% | 0.51 |
| 6 | SJW Corp. | 0.80 | 0.70 | 38.7% | 35.5% | 64.5% | 0.52 |
| 7 | York Water | 0.75 | 0.63 | 37.6% | 22.2% | 77.8% | 0.53 |
| 13 | Sample Water Utilities: | 0.74 | 0.62 | 30.7% | 26.4% | 73.6% | 0.49 |

¹ Value Line Investment Analyzer data. See Schedule D-4.1.
 Value Line uses the historical data of the stock, but assumes that a security's beta moves toward the market average over time. The formula is as follows:
 Adjusted beta = $.33 + (.67) * Raw \beta$
² Raw Beta = $(VL \beta - .33) / (.67)$
³ Effective tax rates for year ended December 31, 2013.
⁴ See Schedule D-4.2.
⁵ Raw $\beta_{UL} = Raw \beta_L / (1 + (1-t)D/E)$

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

Quail Creek Water Company
Financial Risk Computation
Relevered Beta

Exhibit
Schedule D-4.13
Witness: Bourassa

| Line No. | Unlevered Raw Beta β_{UL}^1 | MV Book Debt BD^2 | MV Equity Capital EC^2 | Tax Rate t_c^3 | Relevered Raw Beta $\beta_{RL} = \beta_{UL} (1 + (1-t_c)BD/EC)$ | Adjusted Relevered Beta $\beta_{BL} = .33 + .67(\text{Raw Beta})$ |
|----------|-----------------------------------|---------------------|--------------------------|------------------|---|---|
| 4 | 0.49 | 0.0% | 100.0% | 39.20% | 0.49 | 0.66 |

Quail Creek Water Company

¹ Unlevered Beta from Unlevered Beta tab in WP.
² Proforma Capital Structure of Company per D-1

| | BV (in Thousands) | MV (in Thousands) | MV % |
|--------------------|----------------------|----------------------|--------|
| 17 Long-term Debt | \$ - | \$ - | 0.00% |
| 18 Preferred Stock | \$ - | \$ - | 0.00% |
| 19 Common Stock | \$ 5,778 | \$ 13,688 | 100.0% |
| 20 Total Capital | \$ 5,778 | \$ 13,688 | 100.0% |

³ Current market-to-book ratio of sample water utilities. See work papers.

³ Current Tax rate based on test year ending 12/31/2013. See Schedule C-5.

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Quail Creek Water Company
Financial Risk Computation

Exhibit
Schedule D-4.14
Witness: Bourassa

| | | | | | | | | | |
|----------|-------------------------------------|----------------|---|------|---|-------------------|---|-------|--------------|
| Line No. | | | | | | | | | |
| 1 | <u>CAPM</u> | | | | | | | | |
| 2 | | R _f | + | β | x | (R _p) | = | k | |
| 3 | Historical Market Risk Premium | 4.2% | 1 | 0.74 | 2 | 7.00% | 3 | 9.4% | |
| 4 | Current Market Risk Premium | 4.2% | 1 | 0.74 | 2 | 9.25% | 4 | 11.0% | |
| 5 | | | | | | | | | |
| 6 | Average | | | | | | | | 10.2% |
| 7 | | | | | | | | | |
| 8 | | | | | | | | | |
| 9 | <u>CAPM Relevered Beta</u> | | | | | | | | |
| 10 | | R _f | + | β | x | (R _p) | = | k | |
| 11 | Historical Market Risk Premium | 4.2% | 1 | 0.66 | 5 | 7.00% | 3 | 8.8% | |
| 12 | Current Market Risk Premium | 4.2% | 1 | 0.66 | 5 | 9.25% | 4 | 10.3% | |
| 13 | | | | | | | | | |
| 14 | Average | | | | | | | | 9.6% |
| 15 | | | | | | | | | |
| 16 | Indicated Financial Risk Adjustment | | | | | | | | <u>-0.6%</u> |
| 17 | | | | | | | | | |

1 Forecast of long-term treasury yields. See Schedule D-4.8.
 2 Value Line Investment Analyzer data. See Schedule D-4.1.
 3 Historical Market Risk Premium from (Rp) Duff & Phelps 2015 Valuation Handbook Appendix3 Long-Horizon ERP 1926-2013.
 4 Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Schedule D-4.10.
 5 Relevered beta found on Relevered Beta. See Schedule D-4.15.

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Quail Creek Water Company
Risk Premium¹

Exhibit
Schedule D-4.15
Witness: Bourassa

| Line No. | Beta(β) | Size Premium | Risk Premium for Small Water Utilities ⁷ |
|----------|---------|--------------|---|
| 1 | 1.12 | 1.07% | |
| 2 | 1.22 | 1.80% | |
| 3 | 1.35 | 3.74% | |
| 4 | 1.40 | 5.78% | 3.25% |
| 5 | | | Risk Premium for Small Water Utilities 0.99% |
| 6 | | | 0.80% to 1.10% |

¹ Data from Table 4-7 of Duff & Phelps, 2015 Valuation Handbook Guide to Cost of Capital.

² Mid-Cap companies includes companies with market capitalization between \$2,552 million and \$10,106 million.

³ Low-Cap companies includes companies with market capitalization between \$549 million and \$2,552 million.

⁴ Micro-Cap companies includes companies with market capitalization less than \$549 million.

⁵ Decile 10 includes companies with market capitalization less than \$301 million.

⁶ From Table 2, Thomas M. Zepp, "Utility Stocks and the Size Effect Revisited," *The Quarterly Review of Economics and Finance*, 43 (2003), 578-582.

⁷ Computed as the weighted differences between the Micro-Cap risk premium and the indicated risk premiums for the sample water utilities as shown below. Excludes risk due to differences in beta.

| Market Cap. (Millions) | Class | Size Premium | Difference to Decile 10 | Weight | Weighted Size Premium |
|------------------------|-----------|--------------|-------------------------|------------|--------------------------------------|
| \$ 1,472 | Low-Cap | 1.80% | 3.98% | 0.14285714 | 0.57% |
| \$ 4,667 | Mid-Cap | 1.07% | 4.71% | 0.14285714 | 0.67% |
| \$ 1,143 | Low-Cap | 1.80% | 3.98% | 0.14285714 | 0.57% |
| \$ 391 | Micro-Cap | 3.74% | 2.04% | 0.14285714 | 0.29% |
| \$ 356 | Micro-Cap | 3.74% | 2.04% | 0.14285714 | 0.29% |
| \$ 609 | Micro-Cap | 1.80% | 3.98% | 0.14285714 | 0.57% |
| \$ 297 | Micro-Cap | 3.74% | 2.04% | 0.14285714 | 0.29% |
| Average | | | | 2.53% | Wghtd Size Prem. for Small Utilities |
| | | | | | 3.25% |

⁸ Results of Comparative Risk Study. See work papers.